

Economic performance and outlook

Overview

- Government philosophy:
 - Government not just a “regulator” but also “facilitator” and “promoter”
 - Making bold investments to break through development bottlenecks
 - Proactively promoting economic development by providing favourable conditions for emerging industries to thrive, while strengthening the competitiveness of pillar industries
- **Sound fundamentals** include: robust regulatory regime; resilient banking system; strong fiscal position; trusted common law system and independent judiciary; low and simple tax regime; and a level playing field for business.

World rankings

- **Stock market:** World **No. 7** and Asia **No.4** by market capitalisation (end-September 2021)
- **IPO funds raised:** World **No.2** for IPO funds raised in 2020 (HK ranked first for seven out of the past 12 years since 2009 in terms of IPO funds raised)
- **GDP per capita at current prices:** World **No. 20** (US\$49,040) [IMF’s World Economic Outlook (April 2021)]

Credit ratings

- Moody’s: Aa3; S&P: AA+, Fitch: AA-
- **Superior credit ratings** because:
 - Prudent fiscal policy
 - Sizable fiscal reserves and external asset position
 - Sound regulatory framework
 - Market confident in the credit quality of corporate bond issuers; and
 - Flexible economy
- Citing the impact of the COVID-19 pandemic as well as the social unrest in Hong Kong in 2019, Fitch downgraded the city’s credit rating to AA- on April 20, 2020. Moody’s downgraded Hong Kong’s credit rating to Aa3 on January 20, 2020. The HKSAR Government rebutted the assessments of the two credit rating agencies, pointing out that Hong Kong’s institutional strengths and core competitiveness are unscathed and that “one country, two systems” was being successfully implemented and safeguarded under the Basic Law of Hong Kong. Hong Kong has also made a quick and effective response to tackle the epidemic and its impact on the local economy.

Key advantages

- Under “one country, two systems”, Hong Kong will benefit from deepening reform in the Mainland towards a consumption and services-oriented economy, and opportunities related to the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area, while maintaining a unique economic and legal system different from the Mainland of China.

Economic performance

- Hong Kong's economic recovery became more entrenched in the third quarter of 2021 alongside the further revival of global economic activity and stable local epidemic situation. Real GDP grew by 5.4% year-on-year. For the first three quarters of 2021 as a whole, real GDP grew by 7.0% over a year earlier. Yet, exports of travel services remained at a very low level as inbound tourism was virtually at a standstill, constraining the extent of the economic recovery.
- Total exports of goods grew notably by 14.2% year-on-year in real terms in the third quarter, supported by the continued revival of major economies and vibrant regional trade flows. Exports of services increased moderately by 4.2% year-on-year in real terms.

- Consumption and investment demand stayed on a firm recovery path in the third quarter. Private consumption expenditure rose appreciably by 7.1% year-on-year in real terms thanks to the stable local epidemic situation, improved labour market conditions and the Consumption Voucher Scheme. Overall investment expenditure grew by 10.8% year-on-year in real terms as business conditions improved and property transactions increased visibly over a year earlier.
- The labour market continued to improve amid the sustained economic recovery. The seasonally adjusted unemployment rate fell to 4.3% in August - October 2021.
- Underlying consumer price inflation rate edged up to 1.1% in October 2021, mainly due to the enlarged increases in electricity charges as well as the prices of fresh vegetables.
- The fiscal deficit for 2020-21 is \$232.5 billion (about US\$29.8 billion), while the estimated deficit for 2021-22 is \$101.6 billion (about US\$13 billion), equivalent to 3.6% of GDP.
- The deficit forecast for 2021-22 takes into account the counter-cyclical fiscal measures and continued increase in recurrent expenditure.
- Fiscal reserves stood at \$812.1 billion (about US\$104.1 billion) as at September 30, 2021.

Economic outlook

- The global economy has stayed on the recovery track, but the momentum has slowed somewhat in recent months amid the surge in Delta variant infections and supply bottlenecks in many places. This may weigh on the performance of Hong Kong's merchandise exports going forward. Moreover, elevated energy and commodity prices and higher inflation in the US and Europe have cast uncertainties over the future course of major central banks' monetary policies. Developments in China-US relations and geopolitical tensions also require attention.
- Domestically, business sentiment largely remained positive. The stable local epidemic situation has created favourable conditions for the further revival of domestic activity. The improving employment and income conditions along with the Consumption Voucher Scheme should also remain supportive to consumption-related sectors in the near term.
- The COVID-19 pandemic development across the world remains the key source of uncertainty surrounding the economic outlook. Provided that the local epidemic remains under control, a solid year-on-year growth in the fourth quarter should be attainable for the Hong Kong economy.
- Considering the actual outturn in the first three quarters of the year, the real GDP growth forecast for 2021 as a whole is revised to 6.4%.
- While overall inflationary pressures will likely increase in the near term alongside the economic recovery and rising import prices, the underlying inflation should remain in check in the rest of this year. The forecast rates of underlying and headline consumer price inflation for 2021 are 0.7% and 1.6% respectively.

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