

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-November 2021)
- **IPO funds raised:** World **No.4** for IPO funds raised in 2021
- **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

- The Hong Kong economy recovered further in the fourth quarter of 2021 thanks to robust export performance and improved private consumption. According to the advance estimates, real GDP grew by 4.8% in the fourth quarter of 2021 over a year earlier. For 2021 as a whole, real GDP expanded notably by 6.4%, reversing the declines in the previous two years. However, the still-frozen inbound tourism continued to pose a drag.
- Total exports of goods recorded an increase of 13.3% year-on-year in real terms in the fourth quarter, benefitted from the sharp revival of external demand. Exports of services rose by 5.7% year-on-year in real terms.

- Amid the stable epidemic situation, improved labour market conditions and the launch of Consumption Voucher Scheme, private consumption expenditure (PCE) increased by 6.0% year-on-year in real terms in the fourth quarter. For 2021 as a whole, PCE increased by 5.7% in real terms over 2020.
- Overall investment expenditure grew by 10.8% year-on-year in real terms in the third quarter of 2021 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 3.9% in October - December 2021.
- Underlying consumer price inflation rate went up to 1.4% in December 2021, mainly due to the enlarged increases in costs for meals out and takeaway food as well as electricity charges.
- 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 \$977.9 billion (about US\$125.4 billion) as at December 31, 2021.

Economic outlook

- The Hong Kong economy is expected to expand further in 2022, but the growth pace is subject to various uncertainties, especially those relating to the local epidemic development. The latest wave of epidemic and the tightened anti-epidemic measures have posed renewed pressures on economic activities and weighed on sentiment.
- The global economic recovery, which should render further support to Hong Kong's exports, is envisaged to slow in 2022. High inflation in some major economies may persist longer as a result of supply bottlenecks amid the evolving pandemic. While this development would increase pressure on local inflation, it could lead to a faster pace of monetary policy tightening by major central banks, with possible impacts on the global economy and financial market volatility. Developments of China-US relations and geopolitical tensions would also add uncertainties.
- External price pressures may increase further amid elevated global inflation and the pandemic-induced logistic disruptions. Yet, as the latest wave of local epidemic has weighed on some consumption-related activities and domestic cost pressures remain limited, the underlying inflation should stay broadly in check in the near term. .

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