

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. 6** and **Asia No. 3** by market capitalisation among exchanges (end-April 2022)
- **IPO funds raised: World No. 4** for IPO funds raised among exchanges in 2021
- **GDP per capita at current prices: World No. 21** (US\$51,900) [IMF’s World Economic Outlook (October 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 saw a marked deterioration in the first quarter of 2022. Real GDP contracted by 4.0% year-on-year. On a seasonally adjusted quarter-to-quarter comparison, real GDP fell by 3.0%.
- Slower global demand growth and epidemic-induced cross-boundary transportation disruptions posed significant drags to exports in the first quarter. Total exports of goods fell by 4.5% year-on-year in real terms, while exports of services contracted by 2.8%. Merchandise exports showed some improvement in April and May as compared to March, though remaining generally weak.
- The fifth wave of local epidemic and resultant restrictive measures weighed heavily on a wide range of economic activities as well as economic sentiment in the first quarter. Private consumption expenditure

turned to a decline of 5.5% in real terms from a year earlier, and overall investment expenditure saw an enlarged decline of 8.4%. More recently in April and May, local consumption activities and business sentiment improved amid the moderated local epidemic and the gradual relaxation of social distancing measures.

- The labour market was under severe pressure in early 2022, but improved more recently with the seasonally adjusted unemployment falling by 0.3 percentage point from 5.4% in February – April to 5.1% in March – May along with the revival of domestic economic activities.
- The underlying consumer price inflation rate rose to 1.6% in the first five months of 2022. In May, price increases in clothing and footwear as well as meals out and takeaway food accelerated, while those in basic food prices moderated but remained visible. Prices of energy-related items continued to increase sharply. Price pressures on other major components stayed broadly in check.
- A fiscal surplus of \$29.4 billion (about US\$3.77 billion) is recorded for 2021-22.
- Fiscal reserves stood at \$910.3 billion (about US\$116.7 billion) as at April 30, 2022.

Economic outlook

- Looking forward, the worsened global economic prospects will continue to weigh on Hong Kong's export performance. Persisting tension in Ukraine will likely keep international energy and commodity prices elevated, and aggravate supply chain and transportation disruptions. Expedited monetary policy tightening by many major central banks to curb soaring inflation will further dampen global economic growth. The evolving global pandemic and development of China-US relations will add further uncertainties. Nonetheless, the gradual resumption of cross-boundary land transportation between the Mainland and Hong Kong will provide some relief to our external trade performance.
- Domestically, economic activities should revive further in the rest of 2022 provided that local epidemic remains under control. The new round of Consumption Voucher Scheme, the 2022 Employment Support Scheme and Temporary Unemployment Relief Scheme will render additional support to domestic demand.
- Taking into account the worse-than-expected economic performance in the first quarter and the deteriorating export outlook, but also considering the gradual revival trend of local economic activities, the real GDP growth forecast for 2022 has been revised down to 1%-2% in May.
- On inflation, external price pressures are expected to remain notable amid the rampant inflation in some major import sources. Yet, with domestic cost pressures remaining mild, overall inflation should stay moderate in the near term. The forecast rates of underlying and headline consumer price inflation for 2022 are maintained at 2% and 2.1% respectively.
- The medium-term outlook for the Hong Kong economy is positive. The Eastward shift of global economic gravity will continue. Hong Kong, located strategically at the doorstep of the Mainland's huge and vibrant economy, is well-positioned to reap the enormous development opportunities brought about by this mega trend. The 14th Five-Year Plan also sets out a clear positioning and direction for Hong Kong's economic development and supports Hong Kong for the development of the eight centres and emerging industries. The Government is committed to further enhancing the resilience of Hong Kong economy and enriching industrial development. In particular, the ecosystem of the innovation and technology (I&T) industry has become increasingly mature, enabling I&T to play a more prominent role in fostering economic growth and enhancing the competitiveness of the economy.

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