

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 among exchanges (end-August 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 improved in overall terms in the second quarter of 2022, but the extent of improvement was weaker than expected. Real GDP decreased at a moderated pace of 1.3% from a year earlier, after contracting by 3.9% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP reverted to an increase of 1.0%.
- Weakened global demand and continued cross-boundary transportation disruptions dragged heavily on export performance in the second quarter. Total exports of goods fell by 8.6% year-on-year in real terms, while exports of services reverted to a mild increase of 2.3% in real terms. The value of merchandise exports declined further from a year earlier in July.

- Domestic demand showed some improvement in the second quarter. Private consumption expenditure regained lost ground with marginal growth of 0.1% in real terms over a year earlier, thanks to the generally improved local epidemic situation and relaxed social distancing measures in tandem, as well as the Government's various support measures. Overall investment expenditure saw a narrowed decline of 3.0% in real terms along with improved business sentiment.
- The labour market improved further alongside the continued revival of domestic economic activities. The seasonally adjusted unemployment rate fell to 3.9% in July-September 2022 from 4.1% in June-August 2022.
- The underlying consumer price inflation rate rose by 1.9% over a year earlier in the first nine months of 2022. In September, while the headline inflation rate was notably higher, it was mainly due to the low base of comparison resulted from the waiver of public housing rentals by the Hong Kong Housing Authority in the same month last year. Prices of food as well as clothing and footwear continued to record relatively visible year-on-year increases, while those of energy-related items soared further. But price pressures on other major components were broadly in check.
- A fiscal surplus of \$29.4 billion (about US\$3.77 billion) is recorded for 2021-22.
- Fiscal reserves stood at \$704.2 billion (about US\$90.3 billion) as at September 30, 2022.

Economic outlook

- Looking forward, the markedly deteriorating external environment will weigh heavily on Hong Kong's export performance in the remainder of the year. Elevated inflation in the advanced economies and the aggressive tightening of monetary policy by many major central banks in response will further weaken the global growth momentum, though the expected revival of the Mainland economy should provide some offset. Risk factors including the evolving pandemic and heightened geopolitical tensions warrant close attention. Nonetheless, if cross-boundary logistics disruptions between the Mainland and Hong Kong show more visible easing, Hong Kong's external trade may get some relief. The latest adjustments to the quarantine and testing arrangements for inbound visitors should also help exports of services.
- Domestically, economic activities should revive further provided that the local epidemic situation remains under control. The Consumption Voucher Scheme will continue to support consumption demand, but tighter financial conditions may have some dampening effect on consumer sentiment and spending. Rising borrowing costs may also make businesses more cautious in undertaking fixed asset investment.
- Taking into account the worse-than-expected economic performance in the first half and the sharp deterioration of global economic prospects, the real GDP growth forecast for 2022 has been revised down to -0.5%-0.5%, from 1%-2% as announced in the May round of review.
- On inflation, external price pressures are expected to remain notable for some time amid elevated inflation in some major import sources. Yet, overall inflation should stay moderate in the near term as domestic cost pressures should continue to be mild. 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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