

Economic performance and outlook

Overview

- Government philosophy:
 - Government not just a “regulator” but also “facilitator” and “promoter”.
 - Making bold investments to break through the development bottlenecks.
 - Proactively promoting economic development by providing favourable conditions for emerging industries to thrive on the one hand, and strengthening the competitiveness of existing pillar industries on the other.
- **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

- **Freest economy:** World’s **No.1** for 24 consecutive years (Heritage Foundation, USA)
- **Economic freedom:** World’s **No.1** since 1996 (Fraser Institute, Canada)
- **Business-friendly taxes:** World’s **No.1** most business-friendly tax system (PricewaterhouseCoopers LLP and the World Bank Group: Paying Taxes 2019)
- **Competitiveness:** World’s **No.2** (International Institute for Management Development (IMD) World Competitiveness Yearbook 2018)
- **Easiest place to do business:** World’s **No.4** (World Bank Doing Business Report published in October 2018)
- **Global Financial Centres Index:** World’s **No.3** behind New York and London, Asia’s **No.1**
- **Asset management:** Asia’s **No.1**, with \$12,824 billion under management (end-2016)
- **Stock market:** World’s **No. 6** and Asia’s **No.3** by market capitalisation (end-October 2018)
- **IPO funds raised:** World’s **No.1** for IPO funds raised in 2018 (HK ranked first for six out of the past 10 years since 2009 in terms of IPO funds raised (2009 to 2011, 2015 to 2016, and 2018)

Credit ratings

- Moody: Aa2; 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
 - flexible 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 GDP grew 2.9% year-on-year** in the third quarter of 2018 in real terms, albeit at a slower pace compared to 3.5% growth in the second quarter. This also marked the eighth consecutive quarter of growth above the trend growth of 2.7% per annum in the years between 2008 and 2017.
- Total **exports of goods grew strongly by 5%** year-on-year in the third quarter of 2018 in real terms (compiled under the GDP framework), and exports of services grew 3.1% in the same period.
- Domestic demand remained largely resilient. **Private consumption expenditure grew notably by 5.2%** year-on-year in real terms in the third quarter of 2018. Local consumer sentiment continued to be buttressed by favourable job and income conditions.
- Labour market remained tight. The seasonally adjusted **unemployment rate stayed at 20-year low** of 2.8% in the third quarter of 2018.
- **Inflation pressures** have generally been **moderate**. Underlying consumer price inflation rate was 2.6% in November 2018.
- The **fiscal reserves stood at HK\$1,056.9 billion** as at October 31, 2018 (US\$134.9 billion).

Economic outlook

- **Hong Kong's economic outlook** is subject to increasing downside risks. The global economy has lost some momentum of late, as evidenced by the slower growth in the EU and in many Asian economies in the third quarter. The US-Mainland trade conflicts have weighed on global economic sentiment, with possible repercussions on global trade and investment activities. The impacts on Hong Kong's external trade have begun to surface, and are likely to become more apparent in the near term.
- **Real GDP growth forecast for 2018 as a whole is 3.2%**, another year of above-trend growth if realised.
- The forecast rates of **underlying and headline consumer price inflation for 2018** as a whole are slightly revised upwards to 2.7% and 2.4% respectively, from previous forecasts of 2.5% and 2.2% as local costs have increased along with the sustained economic expansion.