

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

- **Freest economy**: World’s **No.1** since 1996 (Fraser Institute, Canada); World’s **No.2** (US-based Heritage Foundation: 2020 Index of Economic Freedom)
- **Economic openness**: World’s **No.1** (Legatum Institute: Global Index of Economic Openness 2019)
- **Business-friendly taxes**: World’s **No.2** business-friendly tax system (PricewaterhouseCoopers LLP and the World Bank Group: Paying Taxes 2020)
- **Competitiveness**: World’s **No.2** (International Institute for Management Development: World Competitiveness Yearbook 2019); World’s **No.3** (World Economic Forum: Global Competitiveness Report 2019)
- **Financial system**: World’s **No.1** (World Economic Forum: Global Competitiveness Report 2019)
- **Global Financial Centres Index**: **World’s No.6** (Report published by Z/Yen and China Development Institute in 2020)
- **Stock market**: World’s **No. 5** and Asia’s **No.3** by market capitalisation (end 2019)
- **IPO funds raised**: World’s **No.1** for IPO funds raised in 2019 (HK ranked first for seven out of the past 11 years since 2009 in terms of IPO funds raised)
- **Easiest place to do business**: World’s **No.3** (World Bank: Doing Business 2020)

Credit ratings

- Moody: 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 protests in Hong Kong, Fitch downgraded the city’s credit rating to AA on September 6, 2019 while Moody’s downgraded to Aa3 on January 20, 2020. The HKSAR Government rejected the assessments, with the Financial Secretary Paul Chan pointing out that Hong Kong’s core competitiveness had not been adversely affected and that “one country, two systems” was being successfully implemented and safeguarded under the Basic Law of Hong Kong. The Government stated that the Moody’s rating was way out of line with Hong Kong’s sound credit fundamentals. Hong Kong’s fiscal performance and external positions have long been amongst the top-rated economies and serve as a strong buffer for Hong Kong’s economy to withstand external shocks.

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 contracted by 1.2% for 2019 as a whole (-2.9% in Q4 2019), the first annual decline since the recession in 2009.
- The weak economic performance in 2019 in part reflected softening global economic growth and elevated US-Mainland trade tensions. It also reflected the heavy toll of social unrest in the second half of the year.
- The labour market was increasingly under pressure as economic conditions stayed weak. The seasonally adjusted unemployment rate rose from 2.8% in Q2 2019 to 3.4% in Nov 2019 - Jan 2020.
- Overall price pressures remained largely moderate. Underlying consumer price inflation went up to 3.0% in 2019, largely due to the visible increase in pork prices amid reduced supply.
- A fiscal deficit of \$37.8 billion (US\$4.8 billion) is estimated for 2019-20, while a deficit of \$139.1 billion (US\$17.8 billion) is forecast for 2020-21.
- The deficit forecast for 2020-21 takes into account nearly \$120 billion (US\$15.4 billion) of one-off relief measures announced in the Budget (Feb 26, 2020).
- Total fiscal reserves of \$1,133.1 billion is forecast by 31 March 2020 (about US\$145 billion) – equivalent to 22 months of government expenditure.

Economic outlook

- The Hong Kong economy faces enormous challenges in 2020. The COVID-19 infection poses a serious threat to the global economy in the near term, and has caused severe disruptions to production and transportation activities in Asia including the Mainland. As such, Hong Kong's exports will face a very austere external trading environment in the near term. Uncertainties stemming from US-Mainland economic relations, geopolitical tensions in the Middle East and Brexit also warrant attention.
- Locally, the epidemic has severely disrupted a wide range of economic activities, notably tourism and consumption-related business. The possibility of local social unrest is also a source of concern.
- The 2020-21 Budget has rolled out counter-cyclical measures of a massive scale along the direction of "supporting enterprises, safeguarding jobs, stimulating the economy and reliving people's burden". This should help Hong Kong ride out the current economic difficulties and support the community during challenging times.
- In view of the extremely austere domestic and external environment, and having regard to the stimulus effect of the fiscal measures, Hong Kong's economy is forecast to contract/grow in the range of -1.5% to 0.5% in 2020.
- Despite challenges in the short-term outlook, Hong Kong's economic fundamentals remain solid and our core competitiveness will not be shaken. The economy should be able to recover once the epidemic is over.
- On inflation, mild external price pressures and subdued local economic conditions should help contain overall inflationary pressures. Underlying consumer price inflation is forecast to ease to 2.5% in 2020.