

# 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’s **No. 5** and Asia’s **No.3** by market capitalisation (end-June 2020)
- **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)
- **GDP per capita at current prices:** World’s **No. 15** (US\$49,334) [IMF’s World Economic Outlook (October 2019)]

## 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 recent 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 contracted notably by 9.0% in the second quarter amid the onslaught of COVID-19.
- Total exports of goods saw a visibly narrower decline of 2.4% in the second quarter despite the global recession, mainly reflecting the swift resumption of production and other economic activities in the Mainland. Exports of services plunged further by a record 46.1%, as inbound tourism was frozen by widespread travel restrictions, and as cross-boundary transport and commercial services plummeted.

- Domestic demand took a big hit, as local consumption activities were severely disrupted by the threat of COVID-19 and social distancing requirements throughout the quarter, and outbound tourism came to a halt amid stringent travel restrictions.
- The labour market remained austere, but the launch of the Employment Support Scheme has provided support. The seasonally adjusted unemployment was 6.1% in May - July 2020.
- Inflationary pressure subsided, with the underlying consumer price inflation rate averaging 2.1% for the first seven months of 2020 combined.
- A fiscal deficit for 2019-20 is \$10.6 billion (about US\$1.4 billion), while the deficit for 2020-21 could exceed \$280 billion (about US\$35.9 billion).
- The deficit forecast for 2020-21 takes into account the one-off relief measures announced in the 2020-21 Budget and two rounds of Anti-epidemic Fund relief measures.
- Fiscal reserves stood at \$976.6 billion (about US\$125.4 billion) as at July 31, 2020, and will drop to about \$800-\$900 billion – equivalent to 14-15 months of government expenditure – because of one-off relief measures.

### **Economic outlook**

- The challenging external environment will continue to cloud the near-term outlook for Hong Kong's exports. COVID-19 will remain a major downside risk to the global economy until an effective vaccine or treatment is widely available. The tense China-US relations and heightened geopolitical tensions have also added uncertainties. Meanwhile, with widespread travel restrictions in place, the tourism industry is unlikely to recover swiftly. On the bright side, the solid recovery of the Mainland economy should render some support.
- Locally, the outlook for private consumption will hinge critically on the local epidemic situation. This will also be a key factor affecting business sentiment. With the recent stabilisation of the local epidemic situation and relaxation of some social distancing measures, economic sentiment and consumption-related activities are expected to improve gradually.
- To preserve the vitality of the economy and relieve people's financial burdens, the Government has rolled out relief measures of unprecedented scale, including the [two] rounds of measures under the Anti-epidemic Fund and the massive package of countercyclical measures in the 2020-21 Budget, totalling \$290 billion (about US\$37 billion or around 10% of GDP).
- Considering the actual outturn in the first half of the year, the difficult and uncertain economic environment in the second half, but also the cushioning effects of the massive relief measures rolled out by the Government, Hong Kong's economic growth forecast for 2020 as a whole is -6% to -8%. If local infections remain under control, barring any further sharp deterioration in the external environment, economic performance for 2020 can hopefully fall within the upper half of the range forecast.
- Both external and internal price pressures should remain subdued in the rest of the year amid the weak global and local economic conditions. Underlying consumer price inflation is forecast to ease from 3.0% in 2019 to 1.8% in 2020.

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