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-2020)
- **IPO funds raised:** World’s No.2 for IPO funds raised in 2020 (HK ranked first for seven out of the past 12 years since 2009 in terms of IPO funds raised)
- **GDP per capita at current prices:** World’s No. 18 (US$47,990) [IMF’s World Economic Outlook (October 2020)]

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
- Amid the COVID-19 pandemic, the Hong Kong economy contracted by 6.1% for 2020 as a whole, the largest annual decline on record.
- The economy showed some improvement in the second half of the year and recorded narrowed year-on-year contractions of 3.6% and 3.0% respectively in the third and fourth quarters, partly because of the recovery of the global economy and the sustained V-shaped rebound of the Mainland economy. However, the performance was highly uneven across sectors.
Total exports of goods picked up over the course of 2020, though it still fell mildly by 0.3% for the year as a whole. Exports of services saw a record annual decline of 36.8%, dragged by frozen inbound tourism since February 2020 and generally weak cross-boundary transport and business services.

As for domestic demand, private consumption expenditure recorded the steepest ever annual decline of 10.1%, as local consumption activities were severely disrupted by the pandemic, job and income conditions worsened and outbound tourism halted.

Overall investment expenditure fell noticeably by 11.5% for the year as a whole amid austere business environment and weak construction activity despite some rebound in the fourth quarter against a low base of comparison.

Labour market was under notable pressure. For 2020 as a whole, the seasonally adjusted unemployment rate was 5.9%, 3.0 percentage points higher than the preceding year. It rose further to 7.0% in November 2020 - January 2021, the highest in close to 17 years.

The underlying consumer price inflation for 2020 as a whole averaged 1.3%. It turned to a year-on-year decline of 0.5% in January, distorted by the fall in food prices against a high base of comparison last year when the Lunar New Year fell in January.

The fiscal deficit for 2020-21 is estimated at $257.6 billion (about US$33 billion), while the estimated deficit for 2021-22 is $101.6 billion (about US$13 billion), equivalent to 3.6% of GDP.

The deficit forecast for 2021-22 takes into account the counter-cyclical fiscal measures and continued increase in recurrent expenditure.

Fiscal reserves stood at $947 billion (about US$121 billion) as at January 31, 2021.

Economic outlook

The Hong Kong economy is expected to resume growth in 2021, but the breadth and strength of the recovery is subject to the high uncertainty associated with the pandemic.

Given the latest internal and external situations as well as the stimulus effect of the Government measures, Hong Kong’s economy is expected to grow by 3.5 per cent to 5.5 per cent in real terms in 2021.

The range forecast is predicated on the assumptions that the global and local epidemic situations would gradually improve over the course of 2021 along with the progress of mass vaccinations and that China-US tensions would not escalate significantly. Policy support from central banks and governments around the world, if continued, will also help fuel the recovery. Besides, the expected strong growth of the Mainland economy should continue to bode well for Asia’s production and trading activities, as well as Hong Kong’s merchandise exports.

The 2021-22 Budget introduces counter-cyclical measures costing over $120 billion to alleviate the pressure caused by the economic downturn and the epidemic. It is estimated that the 2021-22 Budget would have a stimulus effect on the Hong Kong economy of around 2% of GDP.

Price pressures from both external and domestic fronts should remain mild in the near term as global and local economic activities have yet to return to the pre-recession levels. Underlying consumer price inflation is forecast at 1% in 2021, down from 1.3% in 2020.

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