

# 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. 5** and Asia **No.2** by market capitalisation (end-June 2021)
- **IPO funds raised:** World **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 **No. 20** (US\$49,040) [IMF’s World Economic Outlook (April 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 remained on track for recovery in the second quarter of 2021, with real GDP continuing to grow notably by 7.6% over a year earlier alongside the improving global economic conditions and receding local epidemic. For the first half of 2021 as a whole, real GDP grew by 7.8% year-on-year. Yet the economic recovery remained uneven, with exports of goods surpassing the high recorded in the same period of 2018 by a considerable margin while inbound tourism remaining frozen. Consumption-related activities revived further but were still far below their pre-recession levels.

- Total exports of goods grew strongly by 20.2% year-on-year in real terms in the second quarter, underpinned by the revival of external demand and vibrant production activity in the region. Exports of services resumed modest growth of 2.6% in real terms from a low base of comparison.
- Domestically, consumption and investment demand gathered further steam. Private consumption expenditure grew by 6.8% year-on-year in real terms in the second quarter on the back of the receding local epidemic and improving labour market situation. Overall investment expenditure saw accelerated growth of 23.8% year-on-year in real terms, reflecting improved business sentiment and a low base of comparison.
- The labour market showed further improvement as the economy continued to recover alongside the stabilisation of local epidemic situation and the improved external environment. The seasonally adjusted unemployment rate fell to 5.0% in May – July 2021.
- Underlying consumer price inflation rate went up to 1.0% in July 2021, mainly reflecting a low base of comparison a year earlier caused by the third wave of local epidemic and the extra MTR fare discount. Pressures on major CPI components remained modest.
- The fiscal deficit for 2020-21 is \$232.5 billion (about US\$29.8 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 \$897.3 billion (about US\$115 billion) as at June 30, 2021.

### **Economic outlook**

- The global economy has continued to recover, thanks to the rollout of mass vaccinations and strong fiscal and monetary support in many major economies. The reviving external demand should continue to support Hong Kong's exports of goods in the rest of the year, though there may be some moderation from the exceptionally strong growth in the first half. Services exports should likewise sustain growth. Nevertheless, the more infectious Delta variant has been raging around the world of late, posing a threat to the global economy. Other major risk factors such as China-US relations, geopolitical tensions and the evolving monetary policy stance of major central banks also warrant attention.
- Domestically, consumption and business sentiments turned more positive in recent months amid the global economic recovery and the stabilised local epidemic situation. The improving labour market, coupled with the boost from the Consumption Voucher Scheme, will help stimulate consumption sentiment and lend support to consumption-related sectors.
- Barring any abrupt worsening in global economic conditions due to the pandemic developments, the Hong Kong economy should stay on the path to recovery in the rest of 2021. Considering the robust real GDP outturn in the first half of the year and the support from the Consumption Voucher Scheme, the real GDP growth forecast for 2021 as a whole is revised upwards to 5.5% - 6.5%.
- The forecast rates of underlying and headline consumer price inflation for 2021 are maintained at 1% and 1.6% respectively as the developments so far have been largely in line with expectations.

(Revision date: August 30, 2021)

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**AUGUST 2021**