

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. 7** and Asia **No. 4** by market capitalisation among exchanges (end 2021)
- **IPO funds raised:** World **No. 4** for IPO funds raised among exchanges in 2021
- **GDP per capita at current prices:** World **No. 21** (US\$51,900) [IMF’s World Economic Outlook (October 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 staged a visible recovery in 2021 and expanded by 6.4%, though its size was still about 2% below that of 2018 after two years of severe recession.
- Hong Kong’s total exports of goods surged by 19% in real terms in 2021, underpinned by the marked revival of import demand from major economies and vibrant regional trading and production activities. Exports of services grew mildly by 1.1% in real terms in 2021.
- Private consumption expenditure rose appreciably by 5.6% in real terms in 2021, though outbound tourism remained severely hindered. Overall investment expenditure saw a 10.1% rebound amid improved business outlook last year.

- However, the Hong Kong economy has been subject to immense pressure on entering 2022. The rampant local epidemic and necessary anti-epidemic measures have dealt a severe blow to a wide range of domestic economic activities, posing a significant drag on the overall economic performance.
- The labour market deteriorated sharply due to the fifth wave of local epidemic. The seasonally adjusted unemployment rate rose notably by 0.6 percentage point to 4.5% in December 2021 - February 2022.
- The underlying consumer price inflation rate edged up to 1.5% in January and February 2022 combined. Basic food prices showed an accelerated increase as the supply of fresh vegetables from the Mainland was temporarily affected by the epidemic-induced transport disruptions in the months.
- A fiscal surplus of \$18.9 billion (about US\$2.42 billion) is forecast for 2021-22.
- Fiscal reserves stood at \$1,000 billion (about US\$128.2 billion) as at February 28, 2022.

Economic outlook

- The Hong Kong economy should have inevitably slipped into contraction in the first quarter of 2022 amid the austere local epidemic situation. With that said, domestic activity should show a strong rebound once the local epidemic situation stabilises. In the meantime, the Government has rolled out various relief measures to support enterprises and preserve employment, paving the way for a speedy recovery once the local epidemic subsides.
- On the external front, the recent situation in Ukraine will likely pose a drag on global economic growth through elevating international energy and commodity prices and aggravating supply chain and transportation disruptions. This may affect Hong Kong's export performance in the near term. Meanwhile, the evolving pandemic, the pace of monetary policy tightening by some major central banks and the development of China-US relations remain major uncertainties surrounding the global economic outlook.
- Taking into account the fiscal support measures (including an enhanced Consumption Voucher Scheme as announced in the 2022-23 Budget), the economy is expected to fare better in the second half of 2022, and achieve growth of 2%-3.5% of the year as a whole.
- On inflation outlook, while the upward price pressures on the external front will remain, the austere local epidemic situation has dealt a severe blow to economic activities. This, coupled with the mild upward pressure on residential rentals, will likely keep domestic price pressures at bay in the near term. The resumption of stable food supply from the Mainland should also help contain the upward pressures on basic food prices. Overall, the underlying consumer price inflation should stay moderate in the near term, and is forecast at 2% for 2022 as a whole, up from 0.6% in 2021.
- The medium-term outlook for the Hong Kong economy is positive. The Eastward shift of global economic gravity will likely continue. Hong Kong, located strategically at the doorstep of the Mainland's huge and vibrant economy, is well-positioned to reap the enormous development opportunities brought about by this mega trend. The Government is committed to further enhancing the resilience of Hong Kong economy and enriching industrial development. The ecosystem of the innovation and technology (I&T) industry has become increasingly mature, enabling I&T to play a more prominent role in fostering economic growth and enhancing the competitiveness of the economy. The Government will also continue to make vigorous efforts to create land and devote resources in nurturing and attracting talents, so as to building more capacity for the future development of Hong Kong.

(Revision date: March 31, 2022)

MARCH 2022