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## Steady Recovery amidst Challenges — 2024 Hong Kong Economic Outlook

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In 2023, Hong Kong resumed customs clearance with the outside world, and recorded an unbalanced economic recovery. Looking into 2024, various challenges persist. The global economic slowdown and persistent high interest rates cast doubt on Hong Kong's economic prospects. However, Hong Kong's population growth returns to positive and the implementation of major projects in the Northern Metropolitan provides new economic engines. Hong Kong economic growth is anticipated to keep positive in 2024, breaking the cycle of recession and recovery alternation since the onset of the COVID-19 pandemic.

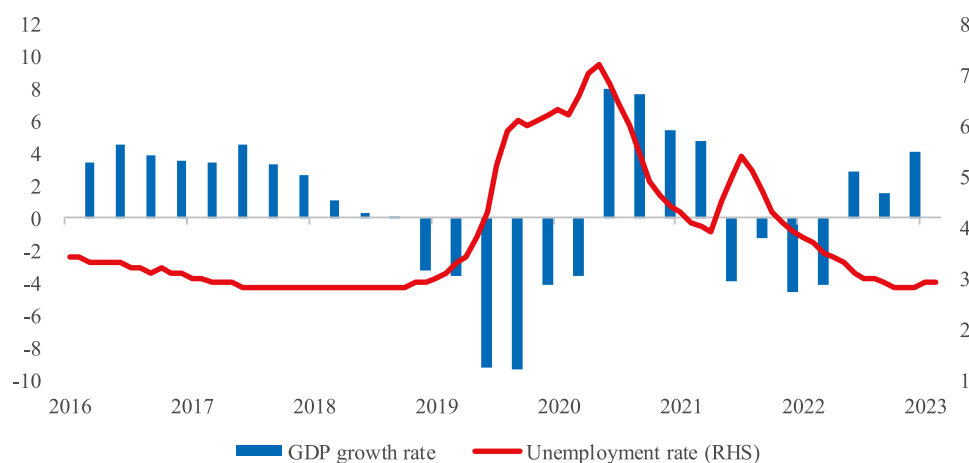
### I. 2023 Economic Review

In 2023, Hong Kong economy finally shook off the impact of the COVID-19 pandemic and embraced new developments in recovery. The economic performance in 2023 exhibited the following characteristics:

#### 1. The economic recovery was unbalanced

In early 2023, Hong Kong achieved full connectivity with the outside world, leading to a rapid increase in visitors, which drove the recovery of local industries such as hotels, restaurants, and retail. Although the weakening demand from the western countries in a high-interest-rate environment has posed challenges to Hong Kong economy, the lower base from the previous period and a significant reduction in the impact of the pandemic have allowed Hong Kong's economy to maintain an expanding trend. The GDP for the first three quarters of 2023 grew by 2.8% compared to the same period in 2022, and it is expected to achieve a growth rate of over 3% for the entire year. However, the economic output in 2023 may still be around 2.5% lower than the level of year 2018. Moreover, Hong Kong economic recovery in 2023 was unbalanced. Private consumption and fixed investment have shown impressive performances, with year-on-year increases of 8.9% and 8.2% in the first three quarters, respectively. Government counter-cyclical consumption expenditure declined, registering a cumulative decrease of 4.2% in the same period. Service exports and imports maintained rapid growth, while the merchandise trade displayed a sluggish trend.

**Figure 1: Hong Kong GDP Growth and Unemployment Rates (%)**



Source: Wind, BOCHK Financial Research Institute

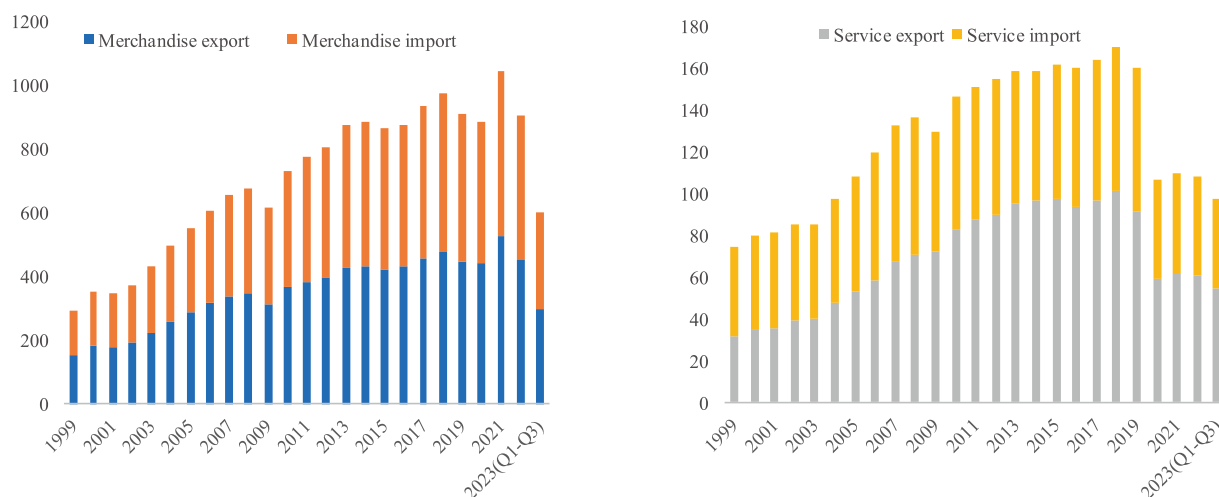
## 2. Tourism recovery drove a rapid growth in service trade

Since Hong Kong gradually resumed customs clearance with the outside world, the number of visitors increased rapidly. In the first 11 months of 2023, the number of visitors to Hong Kong exceeded 30 million, a year-on-year increase of over 66 times, driving the rapid growth of service trade. In the first three quarters of 2023, Hong Kong's service trade recorded a year-on-year increase of 24.8% in exports and 21.0% in imports. However, compared to the pre-pandemic peak in 2018, the number of visitors to Hong Kong in the first 11 months only recovered around 50%, and service trade has not yet reached 80% of its pre-pandemic level. Moreover, most of this recovery is attributed to Chinese tourists after the border reopening in February, while visitors from overseas shown a relatively slower recovery pace. It is also worth noting that the consumption patterns of visitors to Hong Kong have undergone significant changes after the pandemic, shifting from a focus on 'eating, shopping, and playing' to a greater interest in cultural-depth tourism, contributing less to the economic boost than before.

## 3. Weakness in merchandise trade throughout the year

In 2023, Hong Kong's goods trade experienced negative growth. In the first 11 months, the overall value of Hong Kong's goods exports decreased by 9.4% year-on-year, and imports decreased by 7.3%. Excluding price changes, the decline in the quantity of goods would be larger. As of September 2023, Hong Kong's overall goods export growth rate has been negative for 17 consecutive months, and the year-on-year negative growth in import value has reached 15 months. The main reason includes the global economic slowdown, persistently high interest rates, reduced external demand. The geopolitical tensions, as well as the economic and trade sanctions, also impacted Mainland China and Hong Kong's trade activities. Additionally, since the COVID-19, some manufacturing industries have shifted from the Mainland China to Southeast Asia, reshaping the global supply chain, also had adverse effects on Hong Kong's foreign trade. Benefiting from a lower base, Hong Kong's merchandise trade growth finally turned positive in October and November 2023. However, in the short term, Hong Kong's goods trade may remain weak.

**Figure 2: Hong Kong's Trade in Goods and Services (HK\$10 billion)**



Source: Wind, BOCHK Financial Research Institute

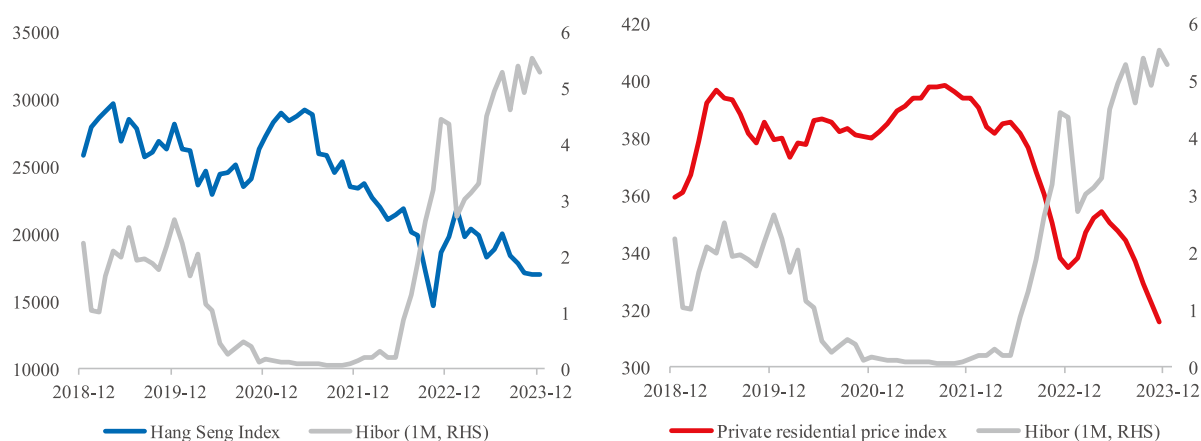
#### 4. Inflation maintained moderate and job market recorded a strong recovery

As Hong Kong's economy gradually recovers, consumer confidence increased. In the first 11 months of 2023, the overall consumer price index (CPI) in Hong Kong rose by 2.1% year-on-year. Netting out the effects of all Government's one-off relief measures, the underlying inflation rate was 1.7%, maintaining at a relatively moderate level. As a highly open but small economy, Hong Kong's inflation is influenced by both the western countries and Mainland China, with essential commodities primarily sourced from the Mainland. The robust supply and price stabilization system in Mainland China is a crucial factor in keeping prices in Hong Kong at a moderate level. With the diminishing impact of the COVID-19 pandemic, Hong Kong's total population began to rise. Both the total labor force and total employment shown upward trends within the year, increasing from 3.78 and 3.66 million in January 2023 to 3.82 and 3.71 million in November 2023, respectively. The seasonally adjusted unemployment rate in Hong Kong decreased gradually from 3.4% at the beginning of the year to below 3% in November, returning to the low level seen before the pandemic.

#### 5. Housing price retreated after increase, while stock market recorded a significant decline

In 2023, Hong Kong's residential property prices exhibited an inverted-V shaped trend. In the first four months, with border reopening and economic recovery prospects, the private residential price index increased by 5.3%. Due to high-interest rates and increased new house supply, Hong Kong's property market started to decline, with a cumulative decrease of about 11% from May to November. The office leasing market did not get rid of the pandemic, with transaction volume declining by 6.5% year-on-year in the first 10 months. Benefiting from the resumed customs clearance, the retail property market remained relatively stable. Meanwhile, the Hang Seng Index closed at 17,047 points in 2023, marking a 13.8% decline for the year. This represents a 45% decrease from the peak of 31,183 at the beginning of 2021. Moreover, trading volumes also recorded a significant decline compared to the previous years. Due to various adverse factors, the performance of Hong Kong IPO market was lackluster in 2023. The number of newly listed companies was 73 during the year, raising approximately HKD 46.3 billion, which is only 44% and 14% of the total fundraising in 2022 and 2021, respectively, marking a near-decade low.

**Figure 3: Hang Seng Index, Hong Kong Property Price Index, and Hibor**



Source: Wind, BOCHK Financial Research Institute

## II. Opportunities and Challenges

Looking into 2024, the road ahead remains challenging. There is a risk of further slowdown in global economic growth, international trade activities may keep weak, and interest rates may be higher for longer, which all pose significant challenges to Hong Kong economy. Additionally, amidst Sino-US strategic competition, it cannot be ruled out that the United States might implement additional sanctions against Hong Kong at critical junctures, potentially impairing external confidence in Hong Kong. Despite those challenges, Hong Kong government has prioritized efforts to stabilize the economy. A series of policies have been introduced to facilitate population growth returns to positive. The development and implementation of large-scale projects, such as the Northern Metropolitan, not only contribute to economic transformation but also effectively drive economic growth. Furthermore, the advancement of strategic initiatives such as the Guangdong-Hong Kong-Macao Greater Bay Area, the Belt and Road Initiative (BRI), and the Regional Comprehensive Economic Partnership (RCEP) brings new development opportunities.

### 1. Four major challenges

**Firstly, global economic growth may slow down further.** Influenced by international geopolitical conflicts and the tightening monetary policies in developed economies such as Europe and the United States, both the global supply and demand sides have faced downward pressure in 2023. Economic growth declined significantly compare to 2022, while inflation remained persistently high, presenting a phenomenon of ‘quasi-stagflation’. The latest report from the IMF predicted a decrease in global economic growth from 3.5% in 2022 to 3% in 2023, and the World Bank also forecast a decline from 3% in 2022 to 2.6% in 2023. Looking into 2024, major economic organizations generally expect further slowdown in global economic growth, with increasing regional differentiations. Some countries in the Eurozone may record recessions, and economic prospects are full of risks, making the external environment for Hong Kong less optimistic.

**Secondly, international trade may keep weak due to the deglobalization.** In 2023, the reconstruction of global supply chain accelerated, with a heightened focus on supply chain localization. There were significant differences in the growth trends among major economies. Amidst the Sino-U.S. strategic competition, the flow of goods trade and foreign direct investment was significantly impaired. The World Trade Organization predicted a mere 0.8% increase in global trade growth in 2023. Hong Kong is a global trade center, and commerce trade has been a cornerstone in its economic development. Hong Kong plays the role of a bridge for Mainland China and the western world. Looking into 2024, intensified Sino-U.S. competition may further dampen global trade growth, posing a considerable challenge to Hong Kong’s trade. Additionally, because of the pandemic, many shipping companies redirected their cargo to nearby ports, and competition from neighboring ports may intensify in 2024.

**Thirdly, the interest rates may be higher for longer.** Because of the stubbornly high inflation, central banks in Europe and the United States have implemented comprehensive monetary policy tightening since 2022. By the end of 2023, the U.S. Federal Reserve had raised interest rates 11 times, pushing the federal funds rate to 5.25% ~ 5.50%. Hong Kong implements a linked exchange rate system that pegs HKD to USD. HKD interest rates increased along with the strengthening of the USD, leading to the poor performance in Hong Kong's property and stock markets in the past two years. The current resilience of inflation in western countries has reversed the dividends that played a crucial role in curbing inflation in the early two decades of this century. Coupled with the rising costs of energy transition and industrial chain reconstruction, the western countries might still need to endure higher inflation in 2024, and may not cut the interest rate until the second half of the year. The high-interest rate is anticipated to persist throughout 2024, posing challenges to fixed capital investment in Hong Kong.

**Fourthly, the United States may impose further sanctions on Hong Kong.** Since the implementation of the 'Hong Kong National Security Law' in June 2020, U.S. authorities have imposed multiple rounds of sanctions on Hong Kong, including sanctions on individuals, revocation of preferential treatment, issuing business advisories, and prohibiting specific investment in Hong Kong. These actions have weakened, eroded, or damaged Hong Kong's business environment, reputation, and credibility. The number of overseas regional headquarters in Hong Kong has decreased from 1,541 in 2019 to 1,336 in 2023. The employment in overseas regional headquarters in Hong Kong also decreased from 195,000 in 2019 to 132,000 in 2023. Looking into 2024, bilateral dialogues between China and the U.S. are expected to strengthen, but the U.S. stance of containment and suppression against China may not reverse. It is possible that the U.S. and other western countries may impose further sanctions on Hong Kong to undermine its economic and financial stability.

## **2. Three positive factors**

**Firstly, the population is recovering and its growth may keep positive.** Under the impact of the COVID-19, the inflow of population to Hong Kong decreased significantly, and residents who had left Hong Kong remained abroad. The acceleration of immigration and aging exacerbated the sharp decline in Hong Kong's population over the past few years. With its reopening to the outside world, some immigrations returned to Hong Kong. Additionally, a series of talent attraction policies implemented by the Hong Kong government have begun to work. By the end of November 2023, Hong Kong had received over 200,000 talent applications, with 120,000 cases successfully approved. The number of approved visa holders entering Hong Kong has exceeded 80,000. Moreover, with the settlement of these talents, a cumulative total of 68,000 dependents have arrived in Hong Kong within the year. These talents and their families not only contribute to the positive growth of Hong Kong's total population in 2023, but also benefit the city's population structure and labor market. In the post-pandemic era, Hong Kong's role of 'super connectors' will become more prominent. Coupled with Hong Kong government's determination of attracting talents, Hong Kong's total population growth is expected to keep positive in 2024.

**Secondly, the development of major projects such as the Northern Metropolis will effectively drive economic growth.** The Northern Metropolis is a top priority in Hong Kong. In October 2023, the 'Northern Metropolis Action Agenda 2023' was officially released, further clarifying the development strategy of the Northern Metropolis, listing the projects to be promoted in each district, and specifying a concrete timetable. This indicates feasible measures have gained extensive consensus, and efforts to promote the construction of the Northern Metropolis enter into a fast track. Large-scale infrastructure projects, represented by the Northern Metropolis, can effectively stimulate fixed asset investment in Hong Kong in the short term, driving economic growth. In the long run, it will also contribute to promoting the development of Hong Kong's industries and new industrialization, creating significant incremental value, supporting Hong Kong's transition to high-quality development, and serving as a driving force for the city's future development.

**Thirdly, the advancement of the Greater Bay Area strategy, the BRI, and the RCEP brings new opportunities for Hong Kong's development.** The Greater Bay Area is a crucial part in China's construction of a new development pattern. Continuously promoting rule alignment, mechanism integration, and industrial coordination within the region

provides an important hinterland for Hong Kong's future development, and expands Hong Kong's development space. Since the launch of the Belt and Road Initiative, Hong Kong has been an active participant, contributor, and beneficiary. With its global business network, Hong Kong will continue to play the role of a 'super connector' in assisting Mainland companies to connect with international markets. The implementation of RCEP significantly promotes trade and investment liberalization and facilitation in the region, providing abundant scenarios for the usage of the Renminbi and regional currency cooperation. Hong Kong officially submitted its application to join RCEP in January 2022 and may become a formal member in 2024. This will further enhance Hong Kong's pivotal role in transshipment trade, promoting the development of its professional fields such as finance and law service.

### **III. 2024 Economic Outlook**

Since the outbreak of the COVID-19 pandemic in 2020, Hong Kong economy has experienced recession and recovery alternations. Hong Kong economic growth is anticipated to keep positive in 2024, breaking this cycle. The specific predictions are as follows:

#### **1. The economic recovery will continue, with H2 outperforming H1**

After three years of the COVID-19 pandemic, Hong Kong economy experienced a recovery in 2023, although the overall strength and pace of recovery were below expectations. Looking into 2024, the challenging external environment and high interest rates will continue to impact Hong Kong's merchandise trade and investments. Business confidence is also expected to become more cautious. In 2024, the private consumption and service trade driven by inbound tourism will remain key drivers of economic growth, though their marginal contributions may decrease compared to those in 2023. It is expected that the overall economic performance in the second half of 2024 will be better than the first half. The economic recovery will continue in 2024, breaking the cycle of recession and recovery alternation since the onset of the COVID-19 pandemic, and the GDP growth rate may be around 2.6%, with the overall economic output returning approximately to pre-pandemic peak.

#### **2. Merchandise trade turns to positive, while service trade maintains high growth**

Although Hong Kong's service trade recorded rapid growth in 2023, there is still a gap of around 20% compared to the peak in 2018. Looking into 2024, with the implementation of policies to attract tourists and further enhancement of the capacity to receive visitors, the tourism industry is expected to continue its recovery. This is anticipated to drive Hong Kong's service trade to maintain double-digit growth rate. Due to weak global demand and a slowdown in China's economic recovery, Hong Kong's goods trade recorded a significant decline in 2023. Against the backdrop of a global economic slowdown and high-interest rates, Hong Kong's merchandise trade still faces considerable challenges in 2024. However, benefiting from the lower base in 2023 and the improvement in the interest rate environment in the second half of 2024, the growth rate of Hong Kong's goods trade is expected to turn positive, and achieve a low single-digit growth rate for the entire year.

#### **3. Inflation increases steadily, and the job market remains robust**

As Hong Kong's economy gradually recovers, prices of clothing, shoes, dining out, and takeout food saw a slight increase in 2023, leading to a modest rise in inflation. Looking into 2024, due to talent attracting policies and the influx of Mainland professionals and graduates, rental prices are expected to trend upward, contributing to an increase in inflation. Overall, the inflation in Hong Kong is expected to stabilize with a moderate increase, and the annual inflation rate may reach around 2.5%. In terms of the job market, the government has launched several talent-related programs at the end of 2022, and have received positive responses, effectively alleviating labor shortages during the post-pandemic recovery period. It is anticipated that Hong Kong's labor market will remain robust in 2024, with the total labor force and total employment continuing to rise, and the unemployment rate is expected to stay at around 3%.



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# 主要經濟指標 (Key Economic Indicators)

	2021	2022	2023/Q2	2023/Q3
<b>一. 本地生產總值 GDP</b>				
總量 (億元) GDP(\$100 Million)	28,677	28,180	7,068	7,671
升幅 (%) Change(%)	6.4	-3.5	1.5	4.1
<b>二. 對外貿易 External Trade</b>			2023/11	2023/01-11
外貿總值 (億元) Total trade(\$100 Million)				
總出口 Total exports	52,360	48,138	3,866	37,979
進口 Total imports	52,113	48,586	4,146	42,026
貿易差額 Trade balance	247	-448	-279	-4,047
年增長率 (%) YOY Growth(%)				
總出口 Total exports	18.7	-13.9	7.4	-9.4
進口 Imports	17.2	-13.2	7.1	-7.2
<b>三. 消費物價 Consumer Price</b>				
綜合消費物價升幅 (%) Change in Composite CPI(%)	1.6	1.9	2.6	2.1
<b>四. 樓宇買賣 Sale &amp; Purchase of Building Units</b>				
合約宗數 (宗) No. of agreements	96,133	59,619	3,532	54,271
年升幅 (%) Change(%)	31.1	-38.0	-4.9	-3.2
<b>五. 勞動就業 Employment</b>			2023/08-2023/10	2023/09-2023/11
失業人數 (萬人) Unemployed(ten thousands)	20.3	16.3	11.6	11.2
失業率 (%) Unemployment rate(%)	5.2	4.3	3.0	2.9
就業不足率 (%) Underemployment rate(%)	2.6	2.3	1.0	1.0
<b>六. 零售市場 Retail Market</b>			2023/11	2023/01-11
零售額升幅 (%) Change in value of total sales(%)	8.1	-0.9	15.9	17.1
零售量升幅 (%) Change in volume of total sales(%)	6.5	-3.4	12.3	14.7
<b>七. 訪港遊客 Visitors</b>				
總人數 (萬人次) arrivals (ten thousands)	9.1	60.5	328.9	3,007.0
年升幅 (%) Change(%)	-97.4	561.5	2,791.0	6,672.7
<b>八. 金融市場 Financial Market</b>			2023/10	2023/11
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	779.8	780.8	782.5	780.8
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	8.0	-20.7	-15.4	-14.0
M2	4.3	1.6	3.3	4.0
M3	4.3	1.6	3.3	4.0
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	4.6	1.7	0	1.7
港元存款 In HK\$	1.4	0.7	-0.4	0.5
外幣存款 In foreign currency	7.9	2.6	0.4	2.9
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	3.8	-3.0	-0.5	-0.5
當地放款 use in HK	4.7	-0.2	-0.3	-0.1
海外放款 use outside HK	1.7	-10.0	-1.2	-1.5
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.6250	5.8750	5.8750
恒生指數 Hang Seng index	23,398	19,781	17,112	17,043