

Medium-term outlook for the Hong Kong economy

2.22 Looking beyond the short-term challenges, the medium-term outlook for the Hong Kong economy is bright. Asia, given the huge growth potential of the emerging market economies in the region including notably the Mainland, will remain the fastest growing region and an important engine of global economic growth in the coming years. With our strong competitive edges in institutional framework, geographical location, global connectivity, and status as an international businesses and financial centre with professionals of high calibre, Hong Kong is well positioned to leverage on the continuous eastward shift of the global economic gravity.

2.23 Our nation has made remarkable achievements in its economic development and is now the world's second largest economy. The rebalancing and restructuring of the economy towards technology- and services-led growth has achieved notable progress over the years. Going forward, the Mainland will remain steadfast in deepening reforms and opening-up, and the resulting sustainable and high quality growth will be highly beneficial to the Hong Kong economy. In particular, the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area Development will bring about enormous opportunities especially considering our strength in the provision of higher-end services.

2.24 Many other developing Asian economies also possess huge growth potential in the medium term. With the Free Trade Agreement and the Investment Agreement forged between Hong Kong and ASEAN, Hong Kong is well-prepared to seize the business opportunities emerged from the rise of the ASEAN economies.

2.25 Meanwhile, the advanced economies should be able to attain moderate growth in the medium term, though their growth prospects will increasingly be constrained by structural issues. For the US economy, the fiscal boost from the tax reform will dissipate further and economic growth will gradually gravitate towards its potential growth rate. Other issues such as rising public debts and trade policy uncertainties could also hamper investment and productivity growth in the medium term. Growth prospects in the euro area would be contained by the high levels of government debts and unemployment rates in some member economies. Euro-skeptic sentiment could also be a possible hindrance to further economic cooperation and deeper integration of the euro area economies. Uncertainty surrounding Brexit and fiscal health of some member states could also extend into the medium term. For Japan, its long-term growth potential is still restrained by issues such as

public debt overhang and population ageing.

2.26 The Government will continue to strengthen its role as a “facilitator” and “promoter” in developing the economy, to enhance our core competitive edges, and to spare no effort in addressing the supply-side bottlenecks on land and human capital. In particular, the Government is determined to increase land supply and build a land reserve, and to nurture talent through investing in education and training. The Government will continue to enhance Hong Kong’s growth potential through spearheading innovation and technology and strengthening Hong Kong’s ties with other economies. The Government will also strive to develop new areas of economic growth, and continue to strengthen the competitiveness of the pillar industries.

2.27 Having considered the developments on the external and domestic fronts, the Hong Kong economy is expected to attain a trend growth of 3% per annum in real terms from 2020 to 2023. The medium-term projection is predicated on the assumption that the current adverse external developments will not significantly affect global economic growth beyond 2019. However, if the various existing external risk factors linger on or even intensify with repercussions on the global economy beyond the short term, the growth rate of the Hong Kong economy over the medium term could turn out to be lower than projected.

2.28 The outlook for inflation in the medium term will hinge on a host of factors. Externally, inflation expectations in the major economies are still well anchored. Locally, continued efforts in boosting productivity (through driving innovation and technology and raising human capital quality, for examples) should effectively expand our productive capacity, thereby helping to keep local cost pressures in check. The expected increase in land and housing supply will also help contain rental cost pressures. However, the movements of international food and commodity prices, which are usually volatile, would cause uncertainties about inflation outlook. Taking all these factors into account, the trend rate of underlying consumer price inflation in Hong Kong from 2020 to 2023 is forecast to stay moderate, at 2.5% per annum.

Diagram 2.13 : Medium-term trend growth forecast at 3% per annum

