

## **Medium-term outlook for the Hong Kong economy**

2.21 Notwithstanding the prevailing challenges and uncertainties, the medium-term outlook for the Hong Kong economy is still positive. Asia, given the huge growth potential of the emerging market economies therein including notably the Mainland, will continue to be an important global growth driver in the years to come, providing enormous business opportunities for Hong Kong and the world at large. With strong competitive edges and superb geographical location in the heart of Asia, Hong Kong is well-positioned to capitalise on the development.

2.22 Hong Kong's deeper economic and financial ties with the Mainland are positive drivers for our medium-term development. The Mainland's shift to high-quality and sustainable development with deepening reforms and further opening-up should put it on a more balanced and sustainable growth path, unleashing huge opportunities for Hong Kong to tap and at the same time contribute to the national development. In particular, riding on the two national policies, namely the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Bay Area development, Hong Kong will further enhance its role as the business bridge between the Mainland and the rest of the world, and consolidate our status as a leading fund-raising centre, the world's largest offshore Renminbi business hub as well as a premier asset and wealth management hub.

2.23 Hong Kong is also well-prepared to seize the business opportunities emerging from other developing Asian economies, including the ASEAN markets. Over the past two years or so, Hong Kong has been actively expanding its market coverage to countries along the Belt and Road, and strengthened its trade and investment relations with the ASEAN economic partners through signing Free Trade Agreement and Investment Agreement. The closer economic ties with developing Asian economies could open up new business opportunities for Hong Kong enterprises.

2.24 Meanwhile, the advanced economies should continue to expand at a moderate pace beyond 2020, though their growth outlook will depend on their efforts to reduce policy uncertainties and tackle structural issues. The US economy is expected to gravitate toward its long-run potential of moderate growth, though the evolving trade relations with its major partners, the future course of fiscal and monetary policies, and the sustainability of public debt would cast uncertainties surrounding its outlook. Growth prospects of the euro area would still be constrained by structural issues including the high levels of government debt in some member economies. The EU's future economic relations with the UK in the post-Brexit era constitute a new source of uncertainty,

and deep-seated socio-political issues in Spain and France also warrant concerns. For Japan, its medium-term growth potential will remain capped by various structural issues such as population ageing and elevated public debts (see **Box 2.2**).

2.25 One key aspect of uncertainty that warrants close attention is how US-Mainland economic relations will evolve down the road. While their trade tensions eased somewhat after the conclusion of the Phase One trade agreement in mid-January 2020, given the thorny issues involved in their upcoming second-stage trade negotiations, their bilateral economic relations could remain unstable beyond the short term, with potentially notable repercussions on the global economy. Also, geopolitical tensions in the Middle East would remain a concern.

2.26 Locally, the social incidents involving violence, though causing severe disruptions to various economic activities in the second half of 2019, have not affected the effective implementation of “one country, two systems” in Hong Kong, and our core competitiveness has remained firmly in place. Hong Kong’s status as an international financial centre and one of the best places to do business in the world continues to be highly recognised, thanks to the Government’s staunch efforts to uphold the institutional strengths such as free movement of capital, goods, information and talents; a simple tax regime with low tax rates; sound regulatory system; and the rule of law and an independent judiciary.

2.27 Over the medium term, the constraints from an ageing population will become increasingly challenging. Yet, the Government will continue to play its role of “facilitator” and “promoter” in a proactive manner while maintaining our strong institutions and core competitiveness. To meet the challenges, the Government will spare no effort to increase land supply, invest in nurturing talent, spearhead innovation and technology, and improve the business environment with a view to fostering productivity increase, inclusive growth and sustainable development. Apart from giving continuous support to our four traditional pillar industries, the Government will strive to promote the development of emerging industries with clear growth potential such as innovation and technology, cultural and creative industries and environmental industries, so as to broaden our economic base. In parallel, the Government will capitalise on the opportunities brought about by the Belt & Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area, creating quality jobs for the younger generation and assisting Hong Kong’s enterprises and professional services to explore new markets.

2.28 Having considered the developments on the external and domestic fronts, the Hong Kong economy is expected to attain a trend growth of 2.8% per annum from 2021 to 2024, broadly in line with the trend growth in the past decade. The underlying assumptions are that the global economy will return to its normal growth path during the medium term, that the prevailing local social incidents will not have any profound and long-lasting impacts on our economy, and that the Government’s various economic policies will be successfully implemented. Nevertheless, if the prevailing external and domestic risk factors linger on or even escalate beyond 2020, the growth rate of the Hong Kong economy over the medium term may turn out to be weaker than expected.

2.29 The inflation outlook for Hong Kong in the medium term will hinge on both external and domestic developments. External prices pressures should remain in check, as inflation expectations of major import sources are largely anchored at modest to moderate levels. Local cost pressures should be contained in anticipation of the productivity gain through promotion of innovation and technology, continued vast investment in education and targeted measures to attract high quality talents from around the world. Moreover, the sustained efforts in raising land and housing supply should help alleviate rental cost pressures in the medium term. However, international food and commodity prices, as well as exchange rate movements, are usually volatile and would bring uncertainties to our inflation outlook. Taking these factors together, the trend rate of underlying consumer price inflation in Hong Kong from 2021 to 2024 is forecast to remain moderate, at 2.5% per annum.

**Diagram 2.13 : Medium-term trend growth forecast at 2.8% per annum**

