

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

2.23 Looking beyond the current difficulties and uncertainties, the medium-term outlook for the Hong Kong economy is positive. Asia, blessed with the huge growth potential of the emerging market economies especially the Mainland, will remain a major engine of global economic growth in the coming decades, rendering huge development opportunities for Hong Kong. With strong competitive advantages and a premier geographical location, Hong Kong is well-positioned to benefit from the continuous Eastward shift of the centre of global economic gravity.

2.24 The Mainland is definitely the strongest support and backing force for the Hong Kong economy in the medium term. Under the “14th Five-Year Plan” for 2021-2025, our country’s increasing emphasis on reform and innovation as the fundamental driving forces for development and the new development pattern of “dual circulation”, which takes the domestic market as the mainstay while enabling internal and external markets to boost each other, will open up enormous business opportunities for Hong Kong to tap while contributing to the national development. The Guangdong-Hong Kong-Macao Greater Bay Area will be an important entry point for Hong Kong to participate in the domestic circulation. With our unique advantages under “One Country, Two Systems” and strong competitive edges in high-value added professional and business services, there will be ample opportunities for Hong Kong to seize by playing the role as an “intermediary” and “facilitator” in the development of our country’s external circulation.

2.25 As a small and open economy, Hong Kong must also get prepared for the challenges arising from the changing international economic landscape. In the face of rising protectionism and trade barriers, the Government is actively expanding its network of free trade agreements to ensure that Hong Kong’s goods and services can enter different markets with better conditions. At present, we are actively seeking to become one of the first batch of economies to join the Regional Comprehensive Economic Partnership Agreement (RCEP) after it enters into force. The closer economic relationship with developing Asian economies can unleash new commercial opportunities for Hong Kong enterprises.

2.26 Major advanced economies are expected to see faster growth in the early years of the medium term as they recover from the deep recession brought about by the pandemic, but their growth prospects in the subsequent years will hinge more on their efforts to address structural issues and mitigate policy uncertainties. Of particular note is the surge in public debts across many advanced and emerging market economies for financing the relief packages to

counter the impact of the COVID-19 pandemic, which may pose constraints on their future economic growth. The US economy will likely gradually move towards its long-run potential of moderate growth in the medium term, but its outlook will also depend on the future course of fiscal and monetary policies amid concerns about long-term debt sustainability. The euro area economy is likely to revert back to modest growth after fully recovering from the pandemic, as various structural issues including high government debts in some member economies will keep restraining its growth prospects. EU-UK economic relations in the post-Brexit era and deep-seated socio-political issues in some EU member countries also warrant monitoring. For Japan, its medium-term growth potential will remain capped by various structural issues such as population ageing and elevated public debts.

2.27 China-US relations will remain a key source of uncertainty over the medium term, hinging to a large extent on the policy stance adopted by the new US administration towards China. Until the two sides could satisfactorily resolve their differences on various issues including trade and technology, their evolving relations may weigh on global and local economic sentiments from time to time. Geopolitical tensions in various parts of the world also remain a concern.

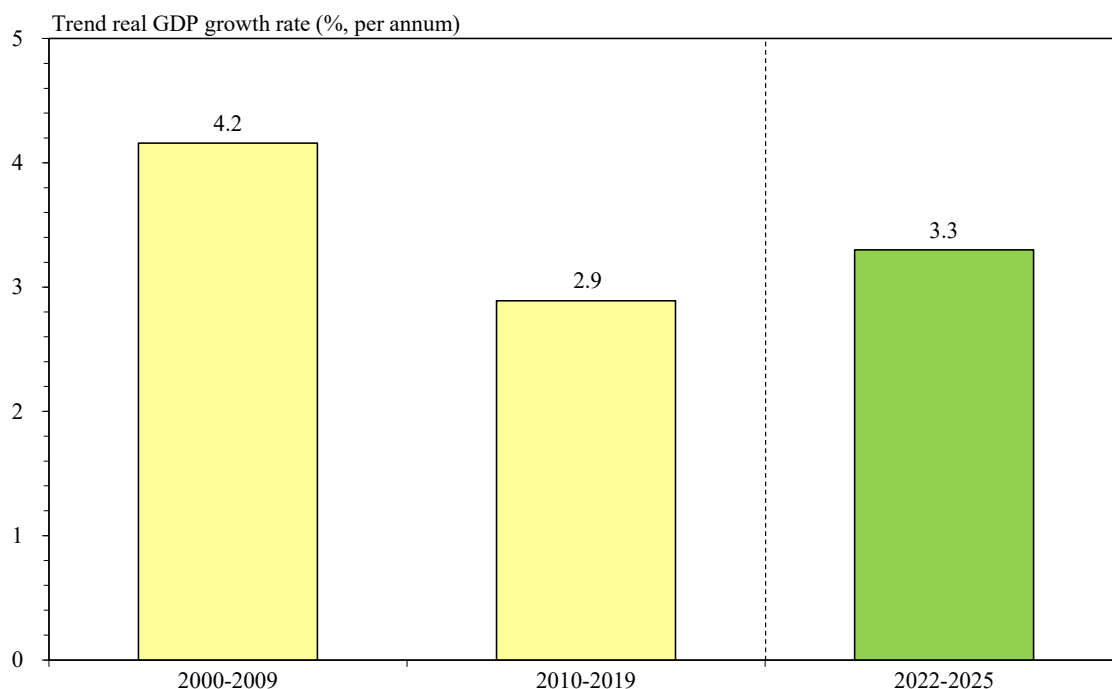
2.28 Locally, the National Security Law has contributed significantly to restoring Hong Kong's stability since its implementation, providing a stable and conducive environment for businesses to thrive and the overall economy to continue to prosper and develop. Local consumption activities might initially record some visible rebound from the lull caused by the epidemic before settling towards their longer-term growth trend. The planned infrastructure spending, if realised, should also render an additional boost to local demand in the coming years.

2.29 Over the medium term, the Government will strive to leverage our unique advantages under "One Country, Two Systems", integrate proactively into the national development, resolve the major bottlenecks of land and talents, facilitate the development of innovation and technology, and continue to invest in education and training. Meanwhile, we will further enhance our connections with the world to explore new opportunities. Apart from promoting free trade and enhancing our institutional strengths to support our market economy, the Government is committed to playing the role of a "facilitator" and "promoter". The Government will join hands with the private sector to explore new opportunities and assist our citizens and professional service providers to go beyond Hong Kong.

2.30 Having considered these external and domestic factors, the Hong Kong economy is expected to grow by 3.3% per annum from 2022 to 2025. This is slightly above the assumed trend growth of 2.8% per annum for 2021 to 2024 as put out a year earlier in the 2020-21 Budget. Apart from the positive factors elaborated above, that the economy should show further catch-up growth after the initial recovery in 2021 also provides support. The threat of the COVID-19 pandemic is expected to disappear over the medium term.

2.31 The inflation outlook for Hong Kong in the medium term will depend on various external and domestic factors. Externally, as the global economy will take time to recover from the deep recession brought about by the pandemic, inflation expectations of our major import sources should remain anchored at moderate levels. Locally, the productivity gain unleashed by the Government’s continued efforts in facilitating innovation and technology, nurturing human capital and stepping up land and housing supply should bolster our productive capacity, thus keeping local cost pressures at bay. Yet, international food and commodity prices, as well as exchange rate movements could be volatile amid abundant global liquidity. Taking these factors into account, the trend rate of underlying consumer price inflation in Hong Kong from 2022 to 2025 is forecast to stay moderate, at 2% per annum.

**Diagram 2.13 : Medium-term trend growth forecast at 3.3% per annum**



Note : The Hong Kong economy plunged into the deepest recession on record amid the pandemic in 2020, in stark contrast to the growth trend in the pre-pandemic years. Hence, the 10-year trend growth for the period 2010 – 2019, instead of 2011 – 2020, is used to better illustrate the underlying growth trajectory in recent years.