

Medium-term outlook for the Hong Kong economy

2.21 Looking beyond the prevailing difficulties and uncertainties, the medium-term outlook for the Hong Kong economy is positive. The Eastward shift of the global economic gravity will continue and Asia will be a major engine of global economic growth, fuelled by the huge growth potential of emerging market economies, especially the Mainland. 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.

2.22 Our country's economy will continue to forge ahead steadily and move towards high-quality development in the years to come, providing the strongest support for Hong Kong's prosperity and development. The National 14th Five-Year Plan provides a clear orientation on the direction of Hong Kong's development, and the development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) has become a major regional strategy during the 14th Five-Year Plan period, representing the best entry point for Hong Kong to participate in the national development. Under the country's "dual circulation" development pattern, Hong Kong, leveraging the Central Government's support, our unique advantages under "One Country, Two Systems" and strong competitive edges in high value-added professional and business services, can develop synergies with Mainland cities in the GBA to yield mutual benefits and actively help the Mainland economy to move towards high-end and high value-added development. Meanwhile, Hong Kong can further expand the huge business opportunities in the Mainland and develop new economic bright spots.

2.23 As a small and open economy, Hong Kong must prepare itself to adapt to the evolving global economic landscape. Amid rising protectionism and trade barriers, the Government is keen to foster closer commercial, trade and investment relations with developing Asian economies. In this connection, Hong Kong is also seeking to join the Regional Comprehensive Economic Partnership as soon as possible.

2.24 Major advanced economies are expected to return to growth rates on par with their potential as the pandemic subsides. Their growth prospects will depend on their efforts to mitigate policy uncertainties, address structural issues and handle higher debt burdens after rolling out unprecedented relief packages in response to the COVID-19 pandemic. In the medium term, the growth of the US economy is expected to moderate towards its long-run potential, and its outlook will also depend on the pace of monetary policy normalisation and support from fiscal policy. The euro area economy is likely to revert back to its

modest underlying trend growth, as high government debts in some member economies will likely restrain its growth prospects. Meanwhile, EU-UK economic relations in the post-Brexit era warrant monitoring. For Japan, the economy is envisaged to attain modest growth in the medium term, as its growth potential would be capped by structural issues such as population ageing and elevated public debts (See **Box 2.2**).

2.25 The relationship between our country and some Western countries especially the US will remain a source of uncertainty over the medium term. While the US administration acknowledged the importance of maintaining a healthy bilateral relationship, it has imposed various restrictions on some Chinese companies over the past year or so. As the Mainland and the US are the two largest economies in the world as well as Hong Kong's major trading partners, evolving China-US relations will inevitably sway economic and financial market sentiment from time to time. Geopolitical tensions in various parts of the world as well as the impacts of climate change also warrant concern.

2.26 Locally, the implementation of the National Security Law and the improvement to our electoral system have restored social stability and business confidence, creating a favourable environment for economic recovery and ushering in greater opportunities for development. The revival of inbound tourism will likely support further catch-up growth, though the pace of recovery is fraught with uncertainties. Meanwhile, the planned vast infrastructure spending, if realised, should also provide additional impetus to economic growth in the coming years.

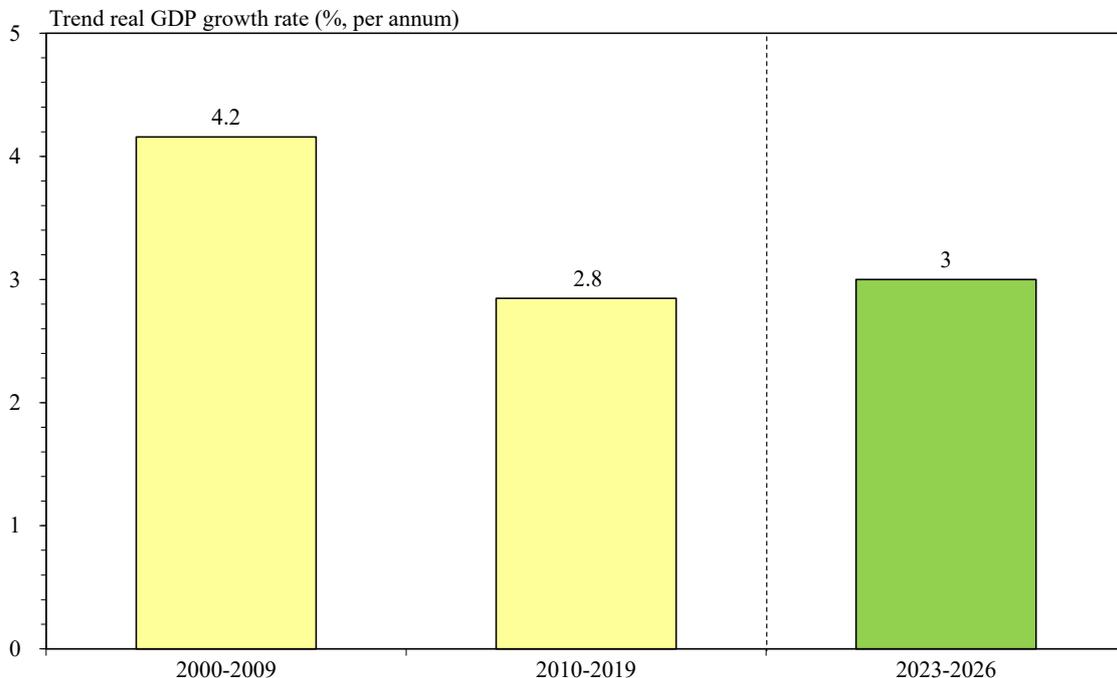
2.27 Over the medium term, the Government will strive to leverage our unique advantages under "One Country, Two Systems", support Hong Kong to integrate proactively into the national development and seize the opportunities from the development of GBA and the Belt and Road Initiative. Meanwhile, the Government is committed to resolving the major bottlenecks of land and manpower supply, promoting innovation and technology, and investing in quality education and training. The Government stresses the importance of playing the role of a "facilitator" and "promoter" to keep connecting with the world to open up markets and explore business opportunities for our enterprises.

2.28 Having considered these external and domestic factors, the Hong Kong economy is expected to grow by 3% per annum from 2023 to 2026. While this is slightly below the assumed trend growth of 3.3% per annum for 2022 to 2025 as put out a year earlier in the 2021-22 Budget, this is still above the trend growth of 2.8% during the decade before the COVID-19 pandemic. This reflects that besides the aforementioned positive factors, the economy

should show further catch-up growth considering the expected revival of inbound tourism.

2.29 The inflation outlook for Hong Kong in the medium term will hinge on both external and domestic developments. Externally, the waves of de-globalisation and protectionism will likely continue in the post-pandemic world, potentially adding to external price pressures. The sharp rebound in global commodity prices and the supply bottlenecks have pushed up inflation in our major import sources, and there is a possibility that medium-term inflation expectations in these economies could firm up. Locally, thanks to the productivity gains unleashed by the Government’s persistent efforts in promoting innovation and technology, nurturing human capital, attracting talents from around the world and stepping up land and housing supply, local cost pressures should stay largely in check. However, international food and commodity prices as well as exchange rate movements could be volatile amid the complicated external and monetary environment. Taking these factors into account, the trend rate of underlying consumer price inflation in Hong Kong from 2023 to 2026 is forecast at 2.5% per annum.

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



Note : The Hong Kong economy plunged into the deepest recession on record amid the outbreak of the pandemic in 2020 and rebounded sharply in 2021, 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 or 2012 – 2021, is used to better illustrate the underlying growth trajectory in recent years.