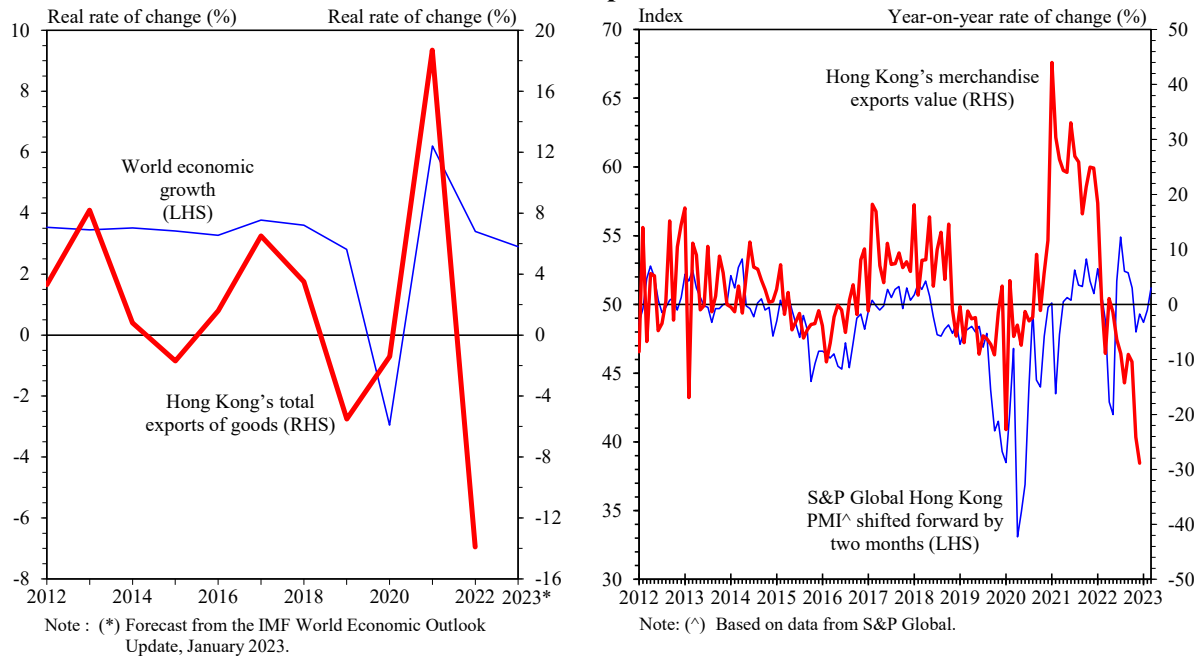


Outlook for the Hong Kong economy in 2023

2.8 The sharply deteriorated external environment and the disruptions to cross-boundary truck movements between Hong Kong and the Mainland dealt a heavy blow to Hong Kong’s goods exports in 2022. While demand from the advanced economies will likely weaken further and weigh on Hong Kong’s goods exports in 2023, the expected faster growth of the Mainland economy will provide some offset. The lifting of cross-boundary truck movement restrictions between Hong Kong and the Mainland should also help. Hong Kong’s exports of goods may see better performance in the latter part of the year as the recovery of the Mainland economy takes hold and interest rates in the advanced economies stabilise.

Diagram 2.4 : Hong Kong’s exports of goods may see better performance in the latter part of 2023



2.9 Exports of services declined slightly in 2022 alongside the difficult external environment, though inbound tourism showed some revival towards the end of the year. With the removal of quarantine arrangements for inbound visitors and the resumption of normal travel between Hong Kong and the Mainland, visitor arrivals should stage a strong rebound and constitute a main driver of economic growth in 2023. The expected faster growth of the Mainland economy should lend support to cross-border financial and business activities. Exports of trade-related services should also regain some momentum alongside the expected better performance of merchandise exports in the latter part of the year.

2.10 Domestic demand was dampened first by the fifth wave of the local epidemic and then the tightened financial conditions in 2022. Nonetheless, private consumption has seen improvement since the second quarter alongside the stabilised local epidemic situation, improved labour market conditions and disbursement of consumption vouchers. As for 2023, an improved economic outlook in tandem with the return of economic activities from the epidemic to normalcy should render a boost to private consumption. The expected further improvement of the labour market will provide additional support. Private investment will also benefit though tight financial conditions may impose some constraints. This, coupled with the Government's continued efforts in pursuing infrastructure development and increasing housing supply, should help support fixed asset investment. The Government's policy initiatives and relief measures as unveiled in the 2023-24 Budget will give further support to the local economy.

Diagram 2.5 : The expected further improvement of the labour market should provide additional support to private consumption expenditure in 2023

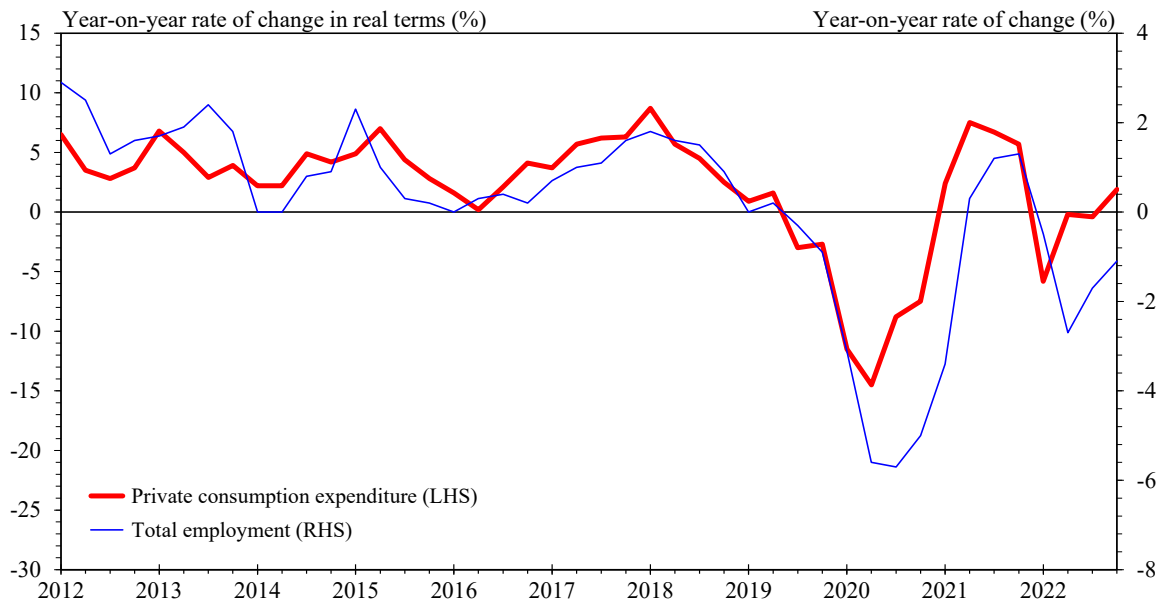


Diagram 2.6 : The tight financial conditions in 2023 may impose some constraints on the asset markets

(a) Housing wealth

(b) Equity wealth

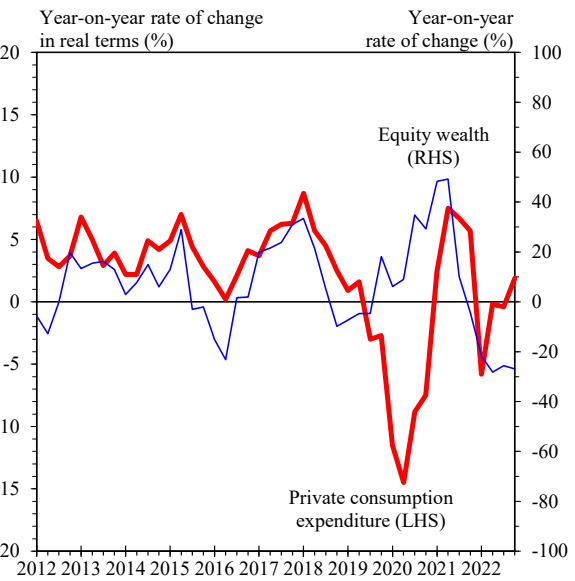
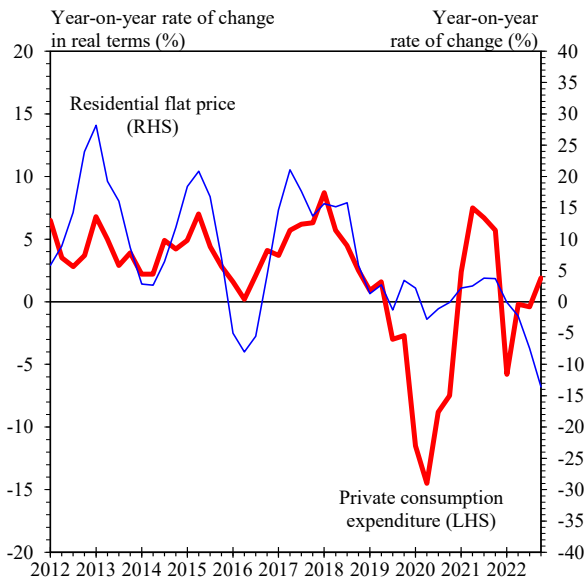
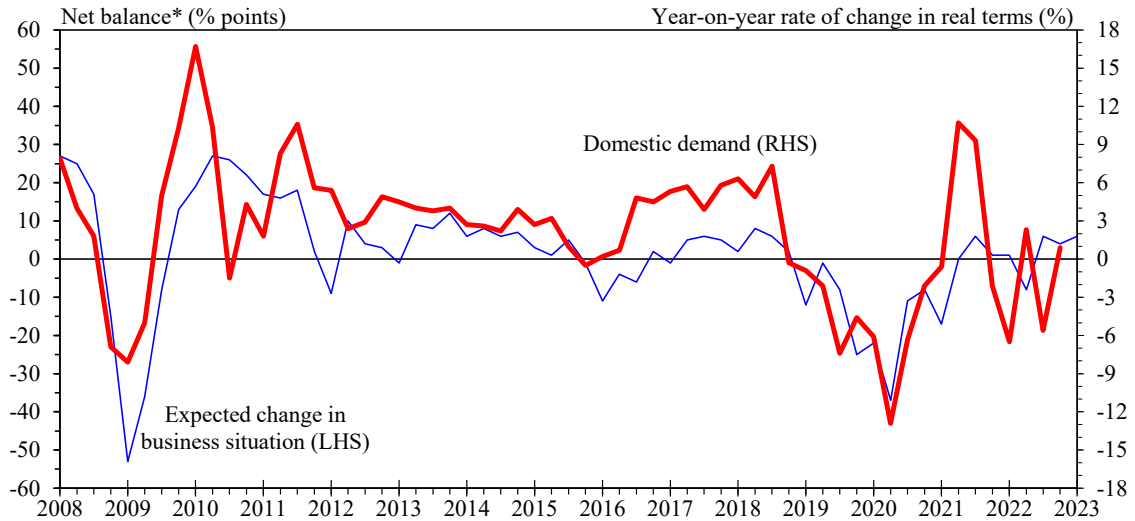
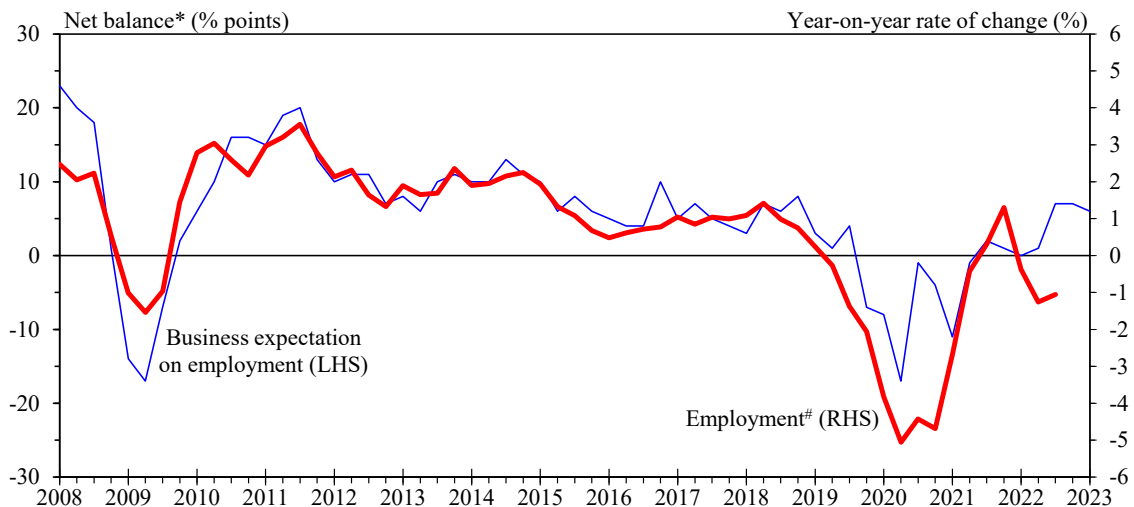


Diagram 2.7 : Business sentiment saw some improvement on entering 2023



Note : (*) Net balance indicates the direction of expected change in business situation versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing “better” over that choosing “worse”. A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

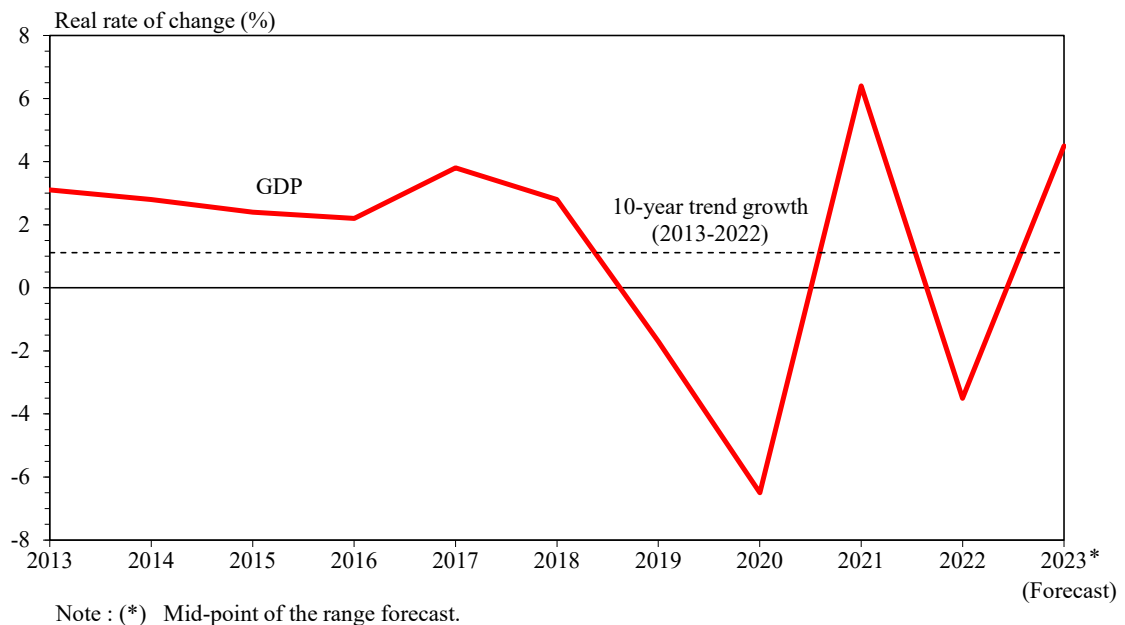
Diagram 2.8 : Overall hiring sentiment stayed positive on entering 2023



Notes : (*) Net balance indicates the direction of expected change in number of persons engaged versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing “up” over that choosing “down”. A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.
 (#) Employment in the private sector.

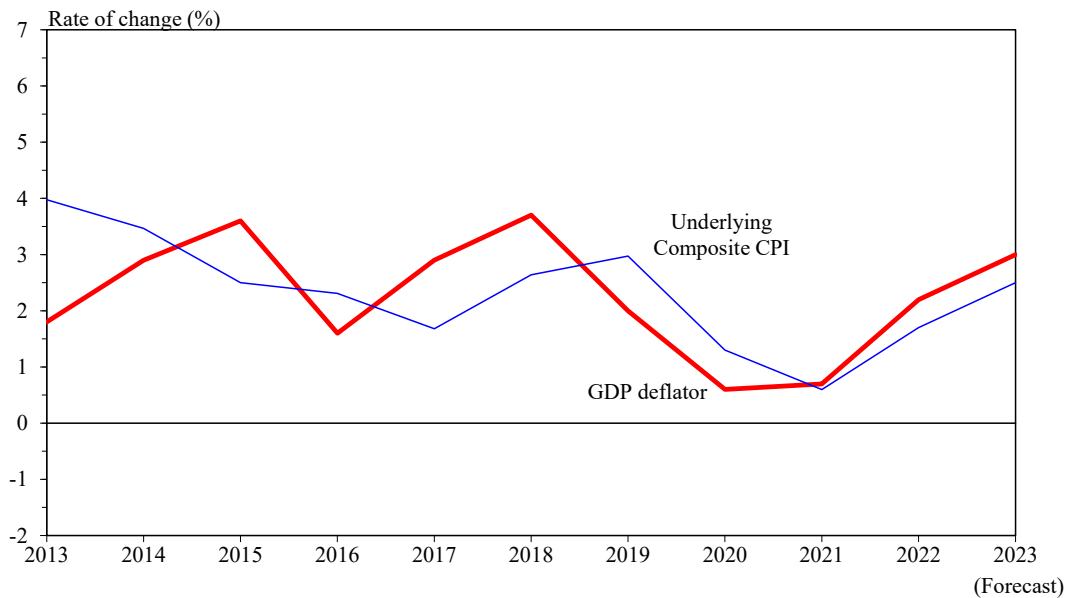
2.11 In sum, the Hong Kong economy is expected to stage a visible rebound in 2023, though substantial uncertainties remain. Real GDP is forecast to grow by 3.5% to 5.5% in 2023, after a 3.5% contraction in 2022. The forecast is predicated on the assumptions that economic activities in Hong Kong and the Mainland as well as economic exchanges between the two places will return from the epidemic to normal in a steady and progressive manner, US interest rates will stabilise by around mid-2023, and tensions in Ukraine will not escalate. For comparison, the latest forecasts by private sector analysts for Hong Kong’s economic growth in 2023 range from 1.4% to 6.5%, averaging 3.2%. The IMF forecast made in October 2022 is 3.9%.

Diagram 2.9 : Real GDP is forecast to grow by 3.5-5.5% in 2023



2.12 Underlying consumer price inflation in Hong Kong was largely moderate in overall terms in 2022. Looking ahead, it will likely pick up further, though remaining largely moderate in 2023. Domestically, commercial rentals and labour costs may increase alongside the expected economic recovery. The year-on-year decline in the private residential rental component of the CPI is expected to narrow further. While external price pressures are likely to see some moderation alongside the decelerating inflation in the major economies, they should remain notable for some time. Overall, underlying Composite CPI inflation is forecast at 2.5% in 2023, up from 1.7% in 2022. The GDP deflator is forecast to rise by 3% in 2023. For reference, the latest forecasts for consumer price inflation in 2023 by private sector analysts average 2.3%, and the IMF forecast made in October 2022 is 2.4%.

Diagram 2.10 : Underlying Composite CPI inflation is forecast to pick up to 2.5% in 2023



Forecast rate of change in 2023 (%)

Gross Domestic Product (GDP)

<i>Real GDP</i>	3.5 to 5.5
<i>Nominal GDP</i>	6.5 to 8.5
<i>Per capita GDP in real terms</i>	2.9 to 4.9
<i>Per capita GDP at current market prices</i>	HK\$407,300 – 415,000 (US\$52,200 – 53,200)

Underlying Composite CPI **2.5**

GDP Deflator **3**

**Forecast on Hong Kong's real GDP growth in 2023
recently made by other selected parties**

	(%)
Asian Development Bank (December 2022)	2.9
IMF (October 2022)	3.9
Average forecast by private sector analysts [#]	3.2

Note : (#) Real GDP growth forecasts by private sector analysts fall between 1.4% and 6.5%.

ECONOMIC PERFORMANCE IN 2022

1. Rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2022:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	-1.0
Government consumption expenditure	8.1
Gross domestic fixed capital formation	-8.5
<i>of which :</i>	
Building and construction	4.3
Machinery, equipment and intellectual property products	-16.1
Total exports of goods	-13.9
Imports of goods	-13.2
Exports of services	-0.9
Imports of services	-1.0
Gross Domestic Product (GDP)	-3.5
<i>Growth rate of per capita GDP in real terms</i>	-2.6
<i>Per capita GDP at current market prices</i>	HK\$384,800 (US\$49,100)
(b) Rates of change in:	
Underlying Composite Consumer Price Index	1.7
GDP Deflator	2.2
Government Consumption Expenditure Deflator	2.8
(c) Growth rate of nominal GDP	-1.4

2. Annual rates of change in total exports based on external merchandise trade index numbers:

	<i>Total exports</i>	
	<i>In value terms</i> (%)	<i>In real terms</i> (%)
2020	-2	-1
2021	26	20
2022	-9	-15

3. Annual rates of change in real terms of total exports by major market based on external merchandise trade quantum index numbers:

	<i>Total exports</i>					
	<i>Total</i> (%)	<i>The Mainland</i> (%)	<i>EU[#]</i> (%)	<i>US</i> (%)	<i>India</i> (%)	<i>Taiwan</i> (%)
2020	-1	5	-7	-13	-16	11
2021	20	18	20	20	33	35
2022	-15	-21	-11	-11	26	0

Note: [#] Exports to the EU exclude those to the UK, as the UK formally withdrew from the EU on 31 January 2020. Taking the UK and the EU together, exports decreased by 7% in real terms in 2020, increased by 25% in 2021 and decreased by 15% in 2022.

4. Annual rates of change in real terms of imports and retained imports based on external merchandise trade quantum index numbers:

	<i>Imports</i> (%)	<i>Retained imports</i> (%)
2020	-3	-9
2021	18	13
2022	-14	-10

5. Annual rates of change in real terms of exports of services by type:

	<i>Exports of services</i>				
	<i>Total</i> (%)	<i>Transport services</i> (%)	<i>Travel services</i> (%)	<i>Financial services</i> (%)	<i>Other services</i> (%)
2020	-35	-25	-90	2	-10
2021	3	6	-38	2	9
2022	-1	-3	65	-1	-3

6. Hong Kong's goods and services trade balance in 2022 reckoned on GDP basis:

	(HK\$ billion)
Total exports of goods	4,814.1
Imports of goods	4,859.3
<i>Goods trade balance</i>	-45.2
Exports of services	654.6
Imports of services	493.1
<i>Services trade balance</i>	161.4
<i>Combined goods and services trade balance</i>	116.2

7. Annual averages of the unemployment and underemployment rates and growth in labour force and total employment:

	<i>Unemployment rate (%)</i>	<i>Underemployment rate (%)</i>	<i>Growth in labour force (%)</i>	<i>Growth in total employment (%)</i>
2020	5.8	3.3	-1.7	-4.7
2021	5.2	2.6	-1.2	-0.6
2022	4.3	2.3	-2.3	-1.4

8. Annual rates of change in the Consumer Price Indices:

	<i>Composite CPI</i>		<i>CPI(A)</i>	<i>CPI(B)</i>	<i>CPI(C)</i>
	<i>Underlying (%)</i>	<i>Headline (%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
2020	1.3	0.3	-0.6	0.6	0.8
2021	0.6	1.6	2.9	1.0	0.9
2022	1.7	1.9	2.2	1.7	1.8

ECONOMIC PROSPECTS FOR 2023

Forecast rates of change in the Gross Domestic Product and main price indicators in 2023:

	(%)
Gross Domestic Product (GDP)	
<i>Real GDP</i>	3.5 to 5.5
<i>Nominal GDP</i>	6.5 to 8.5
<i>Growth rate of per capita GDP in real terms</i>	2.9 to 4.9
<i>Per capita GDP at current market prices</i>	HK\$407,300-415,000 (US\$52,200-53,200)
Composite Consumer Price Index	
<i>Underlying Composite Consumer Price Index</i>	2.5
<i>Headline Composite Consumer Price Index</i>	2.9
GDP Deflator	3