

Medium-term outlook for the Hong Kong economy

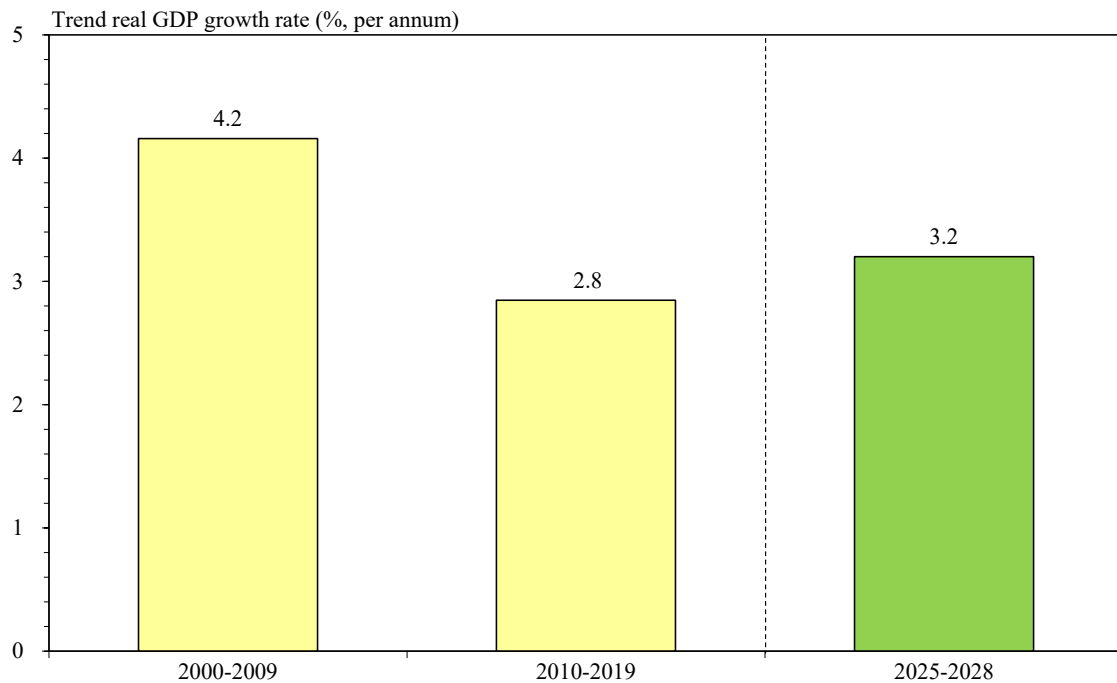
2.13 The medium-term outlook for the Hong Kong economy is bright. The external environment may see some improvements in the coming years, with Asia recording decent growth. Specifically, the Mainland will pursue high quality development through deepening reforms and further opening-up. These developments will provide enormous opportunities for Hong Kong. As for the advanced economies, the expected interest rate cuts in the coming few years should support a gradual recovery of demand. In Japan, the central bank noted that the inflation target is increasingly likely to be achieved and expected a virtuous economic cycle as a result, though economic growth will still be constrained by its ageing population and high government debts. Meanwhile, heightened geopolitical tensions as well as the increased vulnerabilities in the global economy and financial system warrant continued attention.

2.14 The Government has been proactive in economic management, integrating a capable government and an efficient market. To improve the longer-term growth momentum, the Government has been building capacity for economic development through pressing ahead with land development projects, developing infrastructure, attracting enterprises, and trawling for and retaining talents. With the efforts of the Office for Attracting Strategic Enterprises, 30 strategic enterprises from the Mainland and overseas are setting up or expanding their businesses in Hong Kong. Since the launch of the Top Talent Pass Scheme and enhancements of other admission schemes in December 2022, over 140 000 applications have been approved with about 100 000 talents having come to Hong Kong under these schemes as of end-January 2024. Moreover, the Government has been strengthening traditional industries where Hong Kong has competitive edges and promoting the development of emerging strategic areas where Hong Kong has potential with an industry-oriented approach. Innovation and technology is a priority area where the Government has made substantial investment, which should not only provide new growth impetus, but also enhance the overall competitiveness of the economy.

2.15 The Government's various initiatives will enable Hong Kong to withstand the keen competition from other economies and grasp the opportunities brought by the improving global demand. Taking the above-mentioned factors into account, the Hong Kong economy is expected to grow by 3.2% per annum from 2025 to 2028, compared with the average annual growth of 2.8% during the ten years before COVID-19 (2010-2019).

2.16 The inflation outlook for Hong Kong in the medium term will depend on various external and domestic factors. Externally, inflationary pressures are expected to soften as the tight monetary policies in the advanced economies continue to take effect and international commodity prices retreat. However, persisting geopolitical tensions may pose upside risks through affecting international commodity prices as well as the operation and location of supply chains. Locally, continued economic growth in the coming years will likely put some pressure on prices, but the Government's various initiatives to increase productive capacity and improve efficiency should help contain cost pressure. Taking all these factors into account, the trend rate of change in the underlying Composite CPI in Hong Kong from 2025 to 2028 is forecast at 2.5% per annum.

Diagram 2.9 : Medium-term trend growth forecast at 3.2% per annum



Note : The Hong Kong economy recorded the largest ever contraction amid the outbreak of the COVID-19 pandemic in 2020, rebounded sharply in 2021 and shrank again in 2022, 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, 2012 – 2021, or 2013 – 2022, is used to better illustrate the underlying growth trajectory in recent years.