CHAPTER 2 : ECONOMIC OUTLOOK FOR 2023

AND THE MEDIUM TERM

***Summary***

* *Global economic growth will likely slow further in 2023 as central banks in the advanced economies are expected to continue to raise interest rates then keep them high for some time. In late January, the International Monetary Fund (IMF) projected that the global economy would grow by 2.9% in 2023, lower than the 3.4% growth in 2022. It also warned of downside risks including tensions in Ukraine, debt distress in emerging market and developing economies amid tighter global financial conditions, and persistent inflationary pressures.*
* *While demand from the advanced economies will likely weaken further and weigh on Hong Kong’s exports of goods in 2023, the expected faster growth of the Mainland economy and the lifting of cross-boundary truck movement restrictions between Hong Kong and the Mainland should provide some support. 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.*
* *Domestically, an improved economic outlook in tandem with the return of economic activities from the epidemic to normalcy should render a boost to private consumption in 2023, with the expected further improvement of the labour market providing additional support. Private investment will also benefit despite the tight financial conditions. This, coupled with the Government’s continued efforts in pursuing infrastructure development and increasing housing supply, should help support fixed asset investment.*
* *In sum, the Hong Kong economy is expected to stage a visible rebound in 2023. Real GDP is forecast to grow by 3.5% to 5.5% in 2023, after a 3.5% contraction in 2022.*
* *Underlying consumer price inflation will likely pick up further, though remaining largely moderate in 2023. Domestic cost pressures may increase alongside the expected economic recovery. External price pressures will likely remain notable though moderating somewhat. Underlying Composite Consumer Price Index (Composite CPI) inflation is forecast at 2.5% in 2023, up from 1.7% in 2022.*
* *The medium-term outlook for the Hong Kong economy is bright. The Mainland will pursue high-quality development and maintain reasonable growth in the years to come. This, coupled with the huge growth potential of other emerging market economies in Asia, will provide ample opportunities for Hong Kong.*
* *The Government has adopted a more proactive approach to economic management, integrating a capable government and an efficient market. The Government will endeavour to build capacity for economic development through creating land, investing in infrastructure, and competing for enterprises and talents. It will also push forward the development of the innovation and technology industry to create new growth impetus for the economy. Moreover, the Government is striving to integrate further with the national development, strengthen economic relations with other Asian economies, and proactively promote high‑quality co‑operation with Belt and Road economies. All these efforts will yield results over time, and the Hong Kong economy is projected to grow at a trend rate of 3.7% per annum from 2024 to 2027. The trend rate of underlying Composite CPI inflation is projected at 2.5% per annum over the same period.*

**Global economic outlook**

1. Global economic growth will likely slow further in 2023. With inflation in the advanced economies remaining high, their central banks are expected to continue to raise interest rates then keep them high for some time, further dampening demand growth. Nonetheless, the Mainland economy is expected to record faster growth with activities returning from the epidemic to normal. In late January, the IMF forecast that the global economy would grow by 2.9% in 2023 after expanding by an estimated 3.4% in 2022. It also warned of downside risks including tensions in Ukraine, debt distress in emerging market and developing economies amid tighter global financial conditions, and persistent inflationary pressures.
2. The Mainland’s economic growth decelerated to 3.0% in 2022, dampened by slackened global economic growth and occasional increases in COVID-19 cases. Looking ahead into 2023, the deteriorating external environment will pile further pressure on the Mainland’s exports. Nonetheless, with the removal of almost all anti-epidemic measures and economic activities returning to normal, domestic demand will provide impetus for growth. The annual Central Economic Work Conference in late 2022 emphasised that expanding domestic demand would be the primary focus in 2023, with priority on restoring and expanding consumption. The various measures to support the economy introduced over the past year should increasingly yield results as the threat of the epidemic fades. The IMF forecast that the Mainland’s economic growth would accelerate to 5.2% in 2023.
3. Regarding the advanced economies, the US economy posted visibly decelerated growth of 2.1% in 2022 mainly due to weakened private consumption. As the labour market stayed largely resilient and inflation remained high, the Federal Reserve (Fed) indicated that it would raise interest rates further, and maintain a sufficiently restrictive policy stance to return inflation to 2% over time. This would continue to weigh on consumption and investment. The IMF forecast the US’ economic growth in 2023 at 1.4%. In Europe, the euro area economy grew by a moderated 3.5% in 2022 as high inflation and subsequent monetary policy tightening by the European Central Bank and concerns about energy supply amid geopolitical tensions dampened both economic activities and sentiment. Looking forward, the prevailing negative factors are expected to continue, and the IMF forecast that growth in the euro area economy would decelerate visibly to 0.7% in 2023.
4. Many other major Asian economies also saw softened growth in 2022. Looking ahead, the economic growth momentum in the region will likely moderate further in 2023, though the extent will vary among economies. Generally speaking, trading activities of most Asian economies will likely be constrained by weak demand from the advanced economies, though the expected faster growth of the Mainland economy should offset some of the negative effects. On the other hand, domestic demand should remain resilient.



Table 2.1 : Growth forecasts for major economies in 2023

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2022\*(%) | **2023** | | |
|  | IMF\*(%) | UN@ (%) | **Private sector** forecast^ **(%)** |
|  |  |  |  |  |
| World (PPP## weighted) | 3.4 | 2.9 | 2.3 | - |
| Advanced economies | 2.7 | 1.2 | - | - |
| US | 2.1# | 1.4 | 0.4 | 0.6 |
| Euro area | 3.5# | 0.7 | 0.1 | 0.3 |
| UK | 4.0# | -0.6 | -0.8 | -0.7 |
| Japan | 1.1# | 1.8 | 1.5 | 1.3 |
| Emerging market and developing economies |  |  |  |  |
| 3.9 | 4.0 | - | - |
| Emerging and developing Asia | 4.3 | 5.3 | - | - |
| Mainland China | 3.0# | 5.2 | 4.8 | 5.1 |
| India~ | 6.8 | 6.1 | 6.0 | 7.0 |
| ASEAN-5§ | 5.2 | 4.3 | - | - |
| Middle East and  Central Asia | 5.3 | 3.2 | - | - |

|  |  |  |  |
| --- | --- | --- | --- |
| Notes | : | (\*) | IMF World Economic Outlook Update, January 2023. |
|  |  | (@) | United Nations World Economic Situation and Prospects, January 2023. |
|  |  | (^) | Average forecasts as at 14 February 2023. |
|  |  | (-) | Not available. |
|  |  | (#) | Actual figures. |
|  |  | (##) | PPP refers to purchasing power parity. |
|  |  | (~)  (§) | India’s GDP growth refers to fiscal year.  Includes Indonesia, Malaysia, the Philippines, Singapore and Thailand. |

***World inflation and global commodity prices***

1. Global inflation soared in 2022, and is expected to stay high in 2023 despite some likely moderation as a result of the sharp monetary policy tightening by major central banks and the easing of supply chain bottlenecks. In late January, the IMF forecast that global inflation would ease from 8.8% in 2022 to 6.6% in 2023, within which inflation in advanced economies from 7.3% to 4.6%.
2. International prices of energy, selected metals and food surged in 2022 upon the onset of conflicts in Ukraine, but their prices have generally come down to levels prior to the conflicts by early 2023. Looking ahead, while the slackening global growth momentum will pose downward pressure on commodity prices, uncertainties surrounding their outlook remain high. The continued tensions in Ukraine may affect energy and food supply in the region while the weather conditions in Europe may affect energy demand and thus their prices. The production decisions by oil-producing economies will also have a bearing on international oil prices.



***Exchange rate movements***

1. Amid the aggressive monetary policy tightening by the Fed, the US dollar strengthened visibly against most currencies in 2022. Under the Linked Exchange Rate System, the Hong Kong dollar also appreciated sharply against the currencies of Hong Kong’s major trading partners as measured by the nominal trade-weighted effective exchange rate index. The direction of exchange rate movements in 2023 will, as always, be subject to various uncertainties, including the monetary policy decisions of major central banks, relative economic growth performance among major economies, and the geopolitical developments. Envisaging a slower pace of US interest rate hikes, the market expects that the US dollar will likely ease against other major currencies in 2023.



**Outlook for the Hong Kong economy in 2023**

1. 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.



1. 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. 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.









1. 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%.



1. 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%.



**Forecast rate of change in 2023 (%)**

|  |  |
| --- | --- |
| **Gross Domestic Product (GDP)** |  |
|  |  |
| *Real GDP* | **3.5 to 5.5** |
| *Nominal GDP* | 6.5 to 8.5 |
|  |  |
| *Per capita GDP in real terms* | 2.9 to 4.9 |
| *Per capita GDP at current market prices* 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%. | |

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

1. The medium-term outlook for the Hong Kong economy is bright. Global economic gravity will continue to shift eastward. The Mainland will pursue high-quality development through deepening reforms and opening-up, and maintain reasonable growth in the years to come. This, coupled with the huge growth potential of other emerging market economies in Asia, will provide ample opportunities for Hong Kong. While prospects of the advanced economies may not be as bright given their stage of economic development and various structural issues, growth is expected to gradually return to its long-run potential after the current downturn. The US economy should return to moderate growth in the medium term, with the exact pace dependent in part on the implementation and effect of its infrastructure investment plan. The euro area economy should converge back to a modest growth path given the high public debts in some member states and the threat of energy supply disruptions. The potential growth rate of Japan will continue to be constrained by population ageing and high government debts. Meanwhile, geopolitical tensions, in particular the evolving relationships between our country and some Western economies, will remain an issue that warrants attention.
2. The Government has adopted a more proactive approach to economic management, integrating a capable government and an efficient market. With a view to improving the longer-term growth prospects, the Government will endeavour to build capacity for economic development through creating land, investing in infrastructure, and competing for enterprises and talents. On top of reinforcing our traditional edges such as financial services, it will also push forward the development of the innovation and technology industry to create new growth impetus for the economy.
3. The Report to the 20th National Congress of the Communist Party of China fully demonstrates the Central Government’s support to Hong Kong, and gives full play to the strengths of Hong Kong for better integration into the national development. To grasp the ample opportunities that arise, Hong Kong will continue to play the role of an important node in the international circulation of our country while participating in the domestic circulation of the national economy. Moreover, the Hong Kong Special Administrative Region Government is striving to strengthen economic relations with other Asian economies, and proactively promote high‑quality co‑operation with Belt and Road economies in trade and commerce, professional services and cultural exchanges. Hong Kong is also actively pursuing accession to the Regional Comprehensive Economic Partnership.
4. The efforts mentioned above will yield results over time. Taking all the factors into account, the Hong Kong economy is expected to grow by 3.7% per annum from 2024 to 2027, faster than the forecast trend growth of 3% per annum for 2023 to 2026 as put out in the 2022-23 Budget. Apart from the secular developments, the continued return of economic activities to normalcy will also enable the Hong Kong economy to record above-trend growth in the early part of the medium-term period.

1. The inflation outlook for Hong Kong in the medium term will depend on various factors. Externally, inflationary pressures are expected to gradually subside from the current elevated level subsequent to the sharp tightening of monetary policy by major central banks. Yet, the rising trend of protectionism and de-globalisation, as well as geopolitical tensions may pose upside risks. Locally, while the expected faster economic growth in the coming years may put pressure on prices, 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 should expand our productive capacity, thereby helping keep cost pressures contained. Taking all these factors into account, the trend rate of underlying Composite CPI inflation in Hong Kong from 2024 to 2027 is forecast at 2.5% 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.