CHAPTER 2 : ECONOMIC OUTLOOK FOR 2024

AND THE MEDIUM TERM

***Summary***

* *The external environment is rather complicated in 2024. On one hand, geopolitical tensions and the lagged effects of the sharp monetary tightening in the advanced economies over the past couple of years will continue to affect global economic growth as well as international trade and investment flows. On the other hand, major central banks are expected to cut interest rates later in the year, thereby lending some support to economic confidence and activities around the world, though the exact timing and magnitude of the cuts remain uncertain. In late January, the International Monetary Fund (IMF) projected that the global economy would grow by 3.1% in 2024, the same as in 2023 but well below the average annual growth rate of 3.8% during 2000 to 2019.*
* *Hong Kong’s exports of goods will thus remain under pressure in 2024, but the situation may improve later in the year if the advanced economies cut interest rates as expected. Meanwhile, exports of services should improve further as visitor numbers continue to increase along with the further recovery of handling capacity. The Government’s efforts to promote mega event economy should provide additional support.*
* *Domestically, economic confidence should gradually improve over the course of the year amid an expected easing of financial conditions. Rising household income and the Government’s initiatives in creating a happy atmosphere and boosting sentiment should bode well for private consumption. Fixed asset investment should expand further on the back of continued economic growth and the Government’s efforts in building infrastructure and increasing housing supply.*
* *In sum, the Hong Kong economy is forecast to grow by 2.5% to 3.5% in 2024, after 3.2% growth in 2023.*
* *Underlying consumer price inflation should remain moderate in 2024. Domestic costs may face some upward pressure as the Hong Kong economy continues to grow. Meanwhile, external price pressures should continue to ease in view of the disinflationary effect of monetary policy tightening in the advanced economies in the past two years, though international energy and food prices are subject to huge uncertainties. Underlying Composite Consumer Price Index (CPI) inflation is forecast at 1.7% in 2024, same as that in 2023.*
* *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. As for the advanced economies, the expected interest rate cuts in the coming few years should support a gradual recovery of demand.*
* *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. The Government has also 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. These initiatives will enable Hong Kong to withstand the keen competition from other economies and grasp the opportunities brought by the improving global demand. The Hong Kong economy is expected to grow by 3.2% per annum from 2025 to 2028. The trend rate of underlying Composite CPI inflation is forecast at 2.5% per annum over the same period.*

**Global economic outlook**

1. The external environment is rather complicated in 2024. On one hand, geopolitical tensions and the lagged effects of the sharp monetary tightening in the advanced economiesover the past couple of years will continue to affect global economic growth as well as international trade and investment flows. On the other hand, major central banks are expected to cut interest rates later in the year, thereby lending some support to economic confidence and activities around the world, though the exact timing and magnitude of the cuts remain uncertain. In late January, the IMF projected that the global economy would grow by 3.1% in 2024, the same as in 2023 but well below the average annual growth rate of 3.8% during 2000 to 2019.
2. The Mainland economy registered faster growth of 5.2% in 2023 following the removal of pandemic-related restrictions and on the back of enhanced policy support. Looking ahead to 2024, weak demand in the advanced economies and geopolitical factors would continue to put pressure on the Mainland’s export performance. Yet, strong economic fundamentals and policy support introduced since last year should help the economy sustain its growth momentum. In particular, the annual Central Economic Work Conference in December 2023 called for policies conducive to stabilising expectations, growth and employment, as well as concerted efforts to boost domestic demand. The IMF forecast that the Mainland economy would post solid growth of 4.6% in 2024.
3. As for the advanced economies, their central banks continued to tighten monetary policies in 2023. While the US economy stayed more resilient than expected and recorded growth of 2.5% in 2023, the lagged effects of monetary tightening may continue to surface in 2024. While the market widely expects the Federal Reserve (Fed) to start cutting interest rates by around the middle of the year, with the latest core Personal Consumption Expenditures (PCE) inflation remaining higher than the Fed’s target, its monetary policy would probably remain restrictive for some time, exerting pressure on economic activities. The IMF forecast that US economic growth would slow to 2.1% in 2024. For the euro area, the economy slowed notably to 0.5% in 2023. Relative improvement is expected in 2024, attributable to easing financial conditions and increasing real disposable income. Yet, inflation remained above the European Central Bank (ECB)’s target level, and the ECB President stated that interest rate decisions would be data-dependent. Meanwhile, the continued conflict in Ukraine remains a threat. The IMF forecast that growth in the euro area economy would only pick up slightly to 0.9% in 2024.
4. Other major Asian economies continued to grow in 2023. Looking ahead to 2024, robust domestic demand and further recovery in the tourism sector are expected to sustain growth in the region, though weak global demand would continue to constrain export performance. In December 2023, the Asian Development Bank forecast that economic growth of developing Asia excluding the Mainland would pick up from 4.5% in 2023 to 5.0% in 2024.



Table 2.1 : Growth forecasts for major economies in 2024

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2023\*(%) | **2024** | | |
|  | IMF\*(%) | UN@ **(%)** | **Private sector** forecast^ **(%)** |
|  |  |  |  |  |
| World (PPP## weighted) | 3.1 | 3.1 | 2.4 | - |
| Advanced economies | 1.6 | 1.5 | - | - |
| US | 2.5# | 2.1 | 1.4 | 1.6 |
| Euro area | 0.5# | 0.9 | 1.1 | 0.5 |
| UK | 0.1# | 0.6 | 0.4 | 0.4 |
| Japan | 1.9# | 0.9 | 1.2 | 0.8 |
| Emerging market and developing economies |  |  |  |  |
| 4.1 | 4.1 | - | - |
| Emerging and developing Asia | 5.4 | 5.2 | - | - |
| Mainland China | 5.2# | 4.6 | 4.7 | 4.6 |
| India~ | 6.7 | 6.5 | 6.2 | 6.3 |
| ASEAN-5§ | 4.2 | 4.7 | - | - |
| Middle East and  Central Asia | 2.0 | 2.9 | - | - |

|  |  |  |  |
| --- | --- | --- | --- |
| Notes | : | (\*) | IMF World Economic Outlook Update, January 2024. |
|  |  | (@) | United Nations World Economic Situation and Prospects, January 2024. |
|  |  | (^) | Average forecasts as at 20 February 2024. |
|  |  | (-) | Not available. |
|  |  | (#) | Actual figures. |
|  |  | (##) | PPP refers to purchasing power parity. |
|  |  | (~)  (§) | India’s GDP growth refers to the fiscal year.  Includes Indonesia, Malaysia, the Philippines, Singapore and Thailand. |

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

1. Global inflation eased notably in 2023 from its earlier peak in 2022 amid moderated consumer demand, recovery of global supply chains, and lower energy, commodity and food prices. Looking forward, global inflation is expected to soften further in 2024, as the tightened monetary policies in the advanced economies in the past two years continue to take effect. Nonetheless, the pace of moderation may slow alongside the dissipation of the high base effect related to energy prices, or related pass-through effects. Neither the Fed nor the ECB expect inflation in their respective economies to come down to their targets by end-2024. In late January, the IMF forecast that global headline inflation would decline from an average of 6.8% in 2023 to 5.8% in 2024, with the pace of disinflation for the advanced economies being more pronounced, easing from 4.6% to 2.6%.
2. International prices of selected metals and food broadly fell in 2023 amid moderating demand, while oil prices exhibited volatility due to production cuts of the oil-producing economies and the conflict in Israel and Gaza. Looking ahead, while slow global economic growth should keep price pressures low, the outlook for international commodity prices in 2024 will hinge on various supply‑side factors. The evolving geopolitical developments would bring significant uncertainties to global energy and food supply and thus their prices. The production decisions of oil‑producing economies would also have important implications on international oil prices.



***Exchange rate movements***

1. After strengthening visibly against most currencies in 2022, the US dollar eased against the euro and pound sterling in 2023, but strengthened further against the renminbi and yen. Under the Linked Exchange Rate System, the Hong Kong dollar closely followed the movements of the US dollar. The nominal trade-weighted effective exchange rate index edged up by 1% in December 2023 over a year earlier. The direction of exchange rate movements in 2024 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 geopolitical factors.



**Outlook for the Hong Kong economy in 2024**

1. Hong Kong’s exports of goods fell further in 2023, dragged by falling global demand for goods amid heightened geopolitical tensions and tight financial conditions. Looking ahead to 2024, the complicated external environment will continue to put pressure on Hong Kong’s exports of goods, but the situation may improve later in the year if the advanced economies cut interest rates as expected.



1. Exports of services reverted to visible growth in 2023 thanks to the revival of visitor arrivals and spending. Looking ahead, visitor numbers should continue to increase as handling capacity, particularly air passenger capacity, recovers further. The Government’s efforts to promote mega event economy should provide additional support. Meanwhile, tight global financial conditions may continue to weigh on cross-border financial and business activities, though the economic backdrop may become more favourable later in the year if the advanced economies loosen monetary policies as expected. Exports of trade‑related services will be dependent on how the external trade situation unfolds.
2. Domestic demand rebounded strongly in 2023, following the removal of anti-epidemic measures and supported by improved labour market conditions and the Government’s various support initiatives. In 2024, economic confidence should gradually improve over the course of the year amid an expected easing of financial conditions. Rising household income and the Government’s initiatives in creating a happy atmosphere and boosting sentiment should bode well for private consumption. Fixed asset investment should expand further on the back of continued economic growth and the Government’s efforts in building infrastructure and increasing housing supply.





1. In sum, the Hong Kong economy is expected to grow further in 2024. Real GDP is forecast to grow by 2.5% to 3.5% in 2024, after 3.2% growth in 2023. The forecast is predicated on the assumptions that the impact of geopolitical tensions on the global economy would not significantly worsen, the advanced economies would start cutting interest rates around the middle of the year, and the global economy would register similar growth as in 2023. For comparison, the latest forecasts by private sector analysts for Hong Kong’s economic growth in 2024 range from 0.5% to 3.8%, averaging 2.7%. The IMF forecast made in October 2023 is 2.9%.



1. Underlying consumer price inflation in Hong Kong stayed moderate in overall terms in 2023, and should remain moderate in 2024. As the Hong Kong economy continues to grow, domestic costs including commercial rentals and labour costs may face some upward pressure. Meanwhile, external price pressures should continue to ease in view of the disinflationary effect of monetary policy tightening in the advanced economies in the past two years. However, international energy and food prices are subject to huge uncertainties stemming from geopolitical developments. Movement of exchange rates of import sources’ currencies will also have a bearing on local inflation outlook. Overall, underlying Composite CPI inflation is forecast at 1.7% in 2024, same as that in 2023. The GDP deflator is forecast to rise by 2.7% in 2024. For reference, the latest forecasts for consumer price inflation in 2024 by private sector analysts average 2.2%, and the IMF forecast made in October 2023 is 2.3%.



**Forecast rate of change in 2024 (%)**

|  |  |
| --- | --- |
| **Gross Domestic Product (GDP)** |  |
|  |  |
| ***Real GDP*** | **2.5 to 3.5** |
| *Nominal GDP* | 5.2 to 6.2 |
|  |  |
| *Per capita GDP in real terms* | 2.1 to 3.1 |
| *Per capita GDP at current market prices* | HK$416,000 – 419,900  (US$53,300 – 53,800) |
| **Underlying Composite CPI** | **1.7** |
| **GDP Deflator** | **2.7** |

**Forecast on Hong Kong’s real GDP growth in 2024**

**recently made by other selected parties**

|  |  |  |
| --- | --- | --- |
|  | | (%) |
| Asian Development Bank (December 2023) | | 3.3 |
| IMF (October 2023) | | 2.9 |
| Average forecast by private sector analysts# | | 2.7 |
| Note : (#) | Real GDP growth forecasts by private sector analysts fall between 0.5% and 3.8%. | |

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

1. 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. 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.
3. 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).
4. 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.



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.