RUBIX COUNTRY INSIGHTS

HONG KONG SAR

After a moderate improvement in 2023, Hong Kong's economy is expected to slow down on the back of cyclic and structural factors and global economic imbalances.

EXECUTIVE SUMMARY

- Despite a brief resurgence following the pandemic, Hong Kong's economic recovery has faltered, falling short of expectations.
- In 2023, growth was primarily fuelled by a resurgence in domestic demand, particularly in private consumption, buoyed by a gradual return of tourism.
- The momentum is expected to wane from 2024, as a mix of cyclical and structural factors, including the international monetary policy, may pose serious challenges to its growth.
- Compounding these challenges are the looming threats of a global economic downturn, exacerbated by China's slowing growth trajectory, persistent high interest rates, and escalating geopolitical tensions.
- Declining imports and exports over the past three years have also raised concerns about Hong Kong's position as a premier financial hub bridging the East and the West.
- The city's heavy dependence on China for both imports and exports, particularly in critical sectors like electronics, introduces further risks, especially amid escalating tensions between China and the United States.
- Hong Kong enjoys a very low debt-to-GDP ratio which provides the government the fiscal flexibility to borrow without serious economic consequences.
- To get the economy back on track, the 2024-25 budget unveiled a series of measures aimed at bolstering the economy. These include issuing bonds worth HKD 120 billion, introducing an Integrated Fund Platform, and extending subsidies for electric vehicles. Additionally, targeted support for Micro, Small, and Medium Enterprises (MSMEs) in areas such as credit, technology, and marketing, aims to stimulate growth and resilience in the face of ongoing challenges.

Key Economic Indicators: Summary

Indicator	2021	2022	2023 (E)	2024 (F)	2025 (F)	Forecast
GDP, current prices (USD Billion)	368.95	358.7	376.97	406.78	427.78	↑
Real GDP growth (%)	6.50	-3.70	3.20	2.90	2.70	↓
GDP per capita, current prices (USD '000)	49.85	48	50.03	53.61	56.05	↑
Inflation rate, average consumer prices (%)	1.6	1.9	2.1	2.3	2.3	↔
General government gross debt (% of GDP)	1.9	4.3	6.5	9	11.2	↓
Current account balance (% of GDP)	11.8	10.2	9.4	8.8	8.3	↓

Note: The forecast icons/arrows are with reference to the respective indicator's impact on the country's economy. All figures are rounded off.
Source: International Monetary Fund

Overview of Hong Kong's Business Landscape

Hong Kong has long been recognised as one of the world's leading financial centres due to its strategic location, strong legal system, efficient infrastructure, and business-friendly environment. Historically, it has served as a gateway for international trade and investment into China and the broader Asia-Pacific region. However, the business and economic landscape of Hong Kong has undergone significant changes, and it has faced multiple challenges in recent years.

Hong Kong SAR continues to be a key financial hub, home to numerous multinational corporations, banks, and financial institutions. Its stock exchange, the Hong Kong Stock Exchange (HKEX), is one of the largest in the world in terms of market capitalisation.

Hong Kong's economy relies heavily on trade and logistics. The city serves as a major trans-shipment hub for goods moving in and out of China, thanks to its world-class port and airport facilities. However, competition from other regional ports and the impact of geopolitical tensions can affect its role in global trade.

Tourism has traditionally been a significant contributor to Hong Kong's economy. The city attracts millions of visitors every year with its vibrant culture, shopping, and culinary scene. However, political unrest and the COVID-19 pandemic have severely impacted the tourism industry in recent times.

Hong Kong is known for its expensive property market. Limited land availability and strong demand from both domestic and international investors have led to sky-high property prices.

The political landscape in Hong Kong has become increasingly tense in recent years, particularly following the introduction of the National Security Law by China in 2020. This has raised concerns among investors about the city's autonomy and status as a global business hub.

Business Entities in Hong Kong

In 2023, there were 1,430,758 local companies on the Companies Register comprising 1,412,753 private, 959 public, and 17,046 guarantee companies[1]. As of March 31, 2023, 14,643 non-Hong Kong companies from 84 countries and regions were registered[2]. Also, 94,002 were either de-registered, struck off, or liquidated in 2023. In 2022, this figure was 88,232 while in 2021 this was significantly higher at 124,150[3]. Hong Kong offers a variety of business structures to suit different needs. Here's an overview of the most common company types[4]:

Limited Liability Company (LLC): The most popular choice, LLCs provide a critical benefit: limited liability. This means the owner's personal assets are shielded from business debts and obligations. LLCs can be either private (most common for small and medium businesses) or public (with more than 50 shareholders).

Sole Proprietorship: This is ideal for low-risk, small-scale ventures with a single owner. Sole proprietorships are simple to establish but offer no separation between business and personal finances. The owner bears full liability for all business debts.

Partnership: This structure allows two or more individuals to co-own and manage a business. Partners share profits and losses according to a predetermined agreement. There are two main types of partnerships in Hong Kong: general partnerships (where all partners have unlimited liability) and limited liability partnerships (offering some liability protection for some partners).

Foreign Company Office: Established foreign companies can set up a presence in Hong Kong through various options, including branch offices, subsidiaries, or representative offices. Each offers different levels of involvement in the local market.

[1] *Companies Registry - Statistics - Local Companies that have Remained Registered on the Companies Register (cr.gov.hk)*
[2] *Companies Registry, The Government of Hong Kong Special Administrative Region fact-e.pdf (cr.gov.hk)*
[3] *Companies Registry - Statistics - Dissolution (cr.gov.hk)*
[4] *GuidemeHongKong*

GDP

Economic rebound in 2023 driven by the increase in private consumption and resumption in inbound tourism

- Hong Kong had largely followed mainland China's policy to tackle the coronavirus, including attempts to eliminate it with a 'Zero-Covid' strategy. Consequently, tourism, one of the economy's cornerstones, was impacted greatly, resulting in the GDP contracting by 3.7% in 2022.

- However, in 2023, real GDP rebounded with a growth rate of 3.2%, driven primarily by two factors: 7% growth in private consumption in 2023[5] compared to 2022 as well as resumption in inbound tourism activities which grew at nearly 39% from March 2023 to March 2024[6].

Inflation

Moderation in inflation to continue with the US Federal Reserve's unchanged interest rate

- Unlike in the US, Hong Kong's inflation remains low, given the persisting slack in the economy.

- The overall inflation in Hong Kong remained moderate in 2023. The prices of individual items such as energy, clothing and footwear, as well as meals out and takeaway food rose visibly but the price pressures faced by other major components were largely contained.

- Since 1983, the Hong Kong Monetary Authority (HKMA) has followed the US Federal Reserve's rate decisions closely in order to maintain the Hong Kong Dollar's peg to the US Dollar under its linked exchange rate system. This is evident by both the HKMA and the Federal Reserve keeping their key lending rates at the current level since July 2023.

- Inflation is expected to remain stagnant considering the HKMA left its base rate unchanged in May 2024 for the sixth time in a row since July 2023.

Public

Lots of room to manoeuvre but a cautious approach is necessary to balance fiscal deficit

- Hong Kong enjoys a very low debt-to-GDP ratio compared to some of the other developed countries such as the US, UK, Singapore, etc. that have a debt-to-GDP ratio of more than 100%[7]. In effect, Hong Kong has plenty of room to borrow to improve its infrastructure by developing mega projects.

- However, there are concerns that more borrowings could lead to a higher fiscal deficit, which Hong Kong has been trying to control since 2019-20.

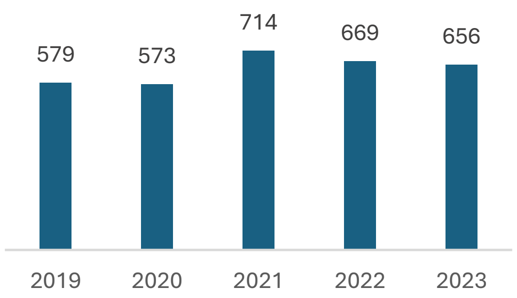
- The Hong Kong Government announced that it would issue infrastructure bonds to improve the cash flow needs of major projects. It has also promised to maintain the debt ratio below 10% to the end of the medium-range forecast period in 2027-28 (although as per the IMF forecast it could exceed by 1,000 basis points in 2025).

[5] *Hong Kong Budget 2024-25*
[6] *Hong Kong Tourism Board*
[7] *South China Morning Post*

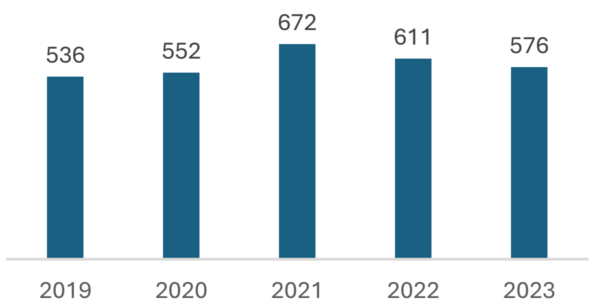
Cross-Border Trade Dynamics

Hong Kong's trade deficit has grown by more than 1.5 times since 2019.

Imports into Hong Kong (USD Billion), 2019–2023



Exports from Hong Kong (USD Billion), 2019–2023



Note: All figures are rounded off.
Source: International Trade Centre (ITC)

- Hong Kong's imports have grown at 3% CAGR from 2019 to 2023. On a y-o-y basis, imports declined by 2% in 2023.
- Hong Kong's exports have grown at 2% CAGR from 2019 to 2023. On a y-o-y basis, exports declined by 6% in 2023.
- Hong Kong's main structural vulnerability arises from the economy's geographical and sectoral concentration in terms of its trade structure. For instance, Hong Kong's high reliance on China for imports and exports makes it vulnerable to rising geopolitical tensions as well as cyclical swings in demand not just from China but all over the world.

Country-wise Trade

High reliance on China for external trade, especially in terms of exports, poses a significant risk.

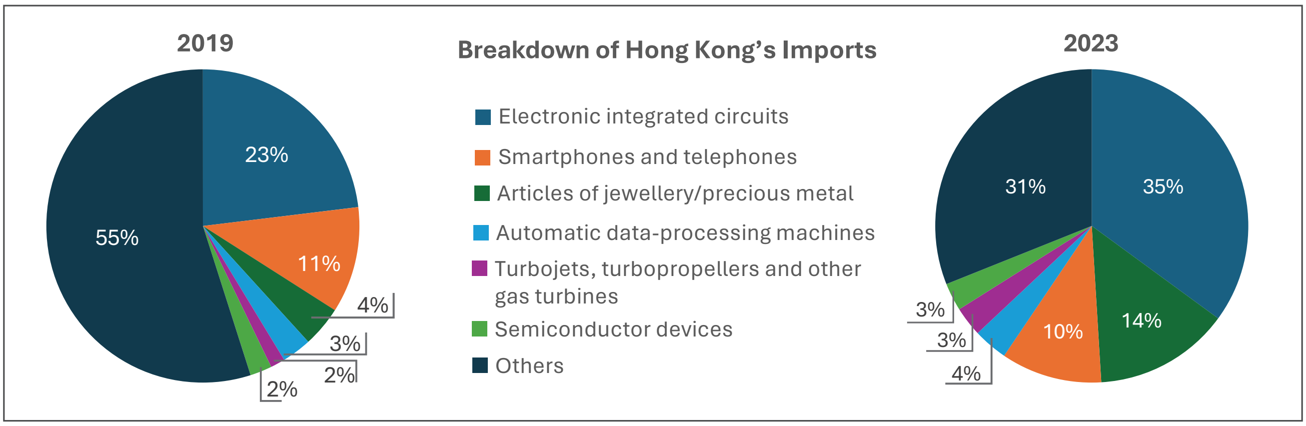
Top 5 Export Destinations for Hong Kong in 2023			Top 5 Countries from Which Hong Kong Imported in 2023		
Country	**Share in 2019**	**Share in 2023**	**Country**	**Share in 2019**	**Share in 2023**
China	46%	40%	China	57%	55%
Taiwan	7%	10%	USA	6%	7%
Singapore	7%	7%	India	4%	3%
Japan	6%	5%	Taiwan	3%	2%
South Korea	5%	4%	UAE	3%	2%
Others	30%	33%	Others	27%	31%
Total	100%	100%	Total	100%	100%

Note: All figures are rounded off. Source: International Trade Centre (ITC)

> "The Government's financial situation remains healthy compared with many other jurisdictions. The Government is therefore still well positioned to make good use of its fiscal reserves to enhance Hong Kong's competitiveness and seize opportunities in the medium to long run. For example, encouraging the establishment of more regional headquarters in Hong Kong will help to boost the local economy, strengthen the city's global status and attract more high-quality talent."
>
> John Timpany, Head of Tax in Hong Kong, KPMG China,

Major Imports

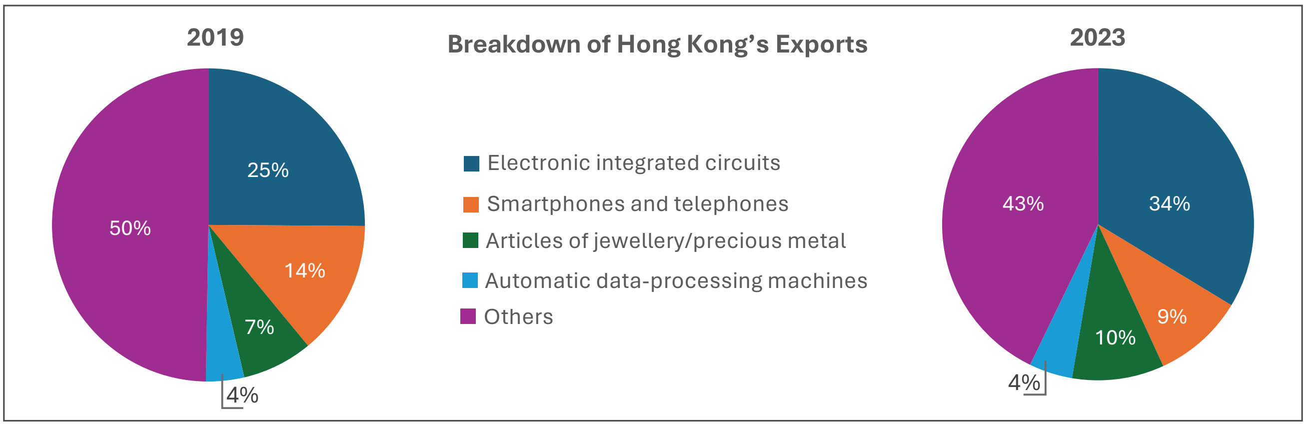
Demand for electronic integrated circuits has risen sharply in the last 5 years; its share in imports increased from 23% in 2019 to 35% in 2023.



Note: 4-digit HS codes have been considered for the analysis. All figures are rounded off.
Source: International Trade Centre (ITC)

Major Exports

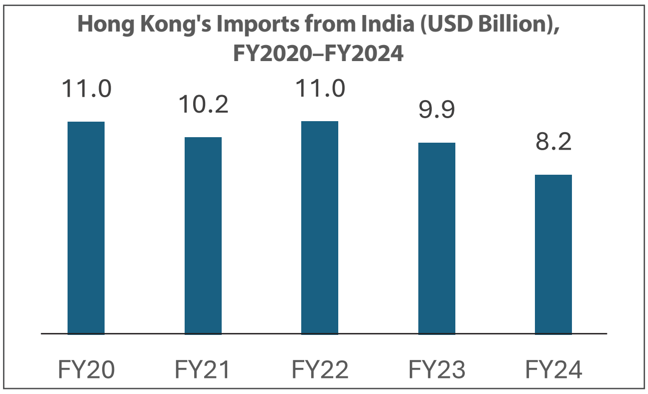
The top 4 export products accounted for nearly 57% share of the country's total exports in 2023, indicating high-risk concentration.

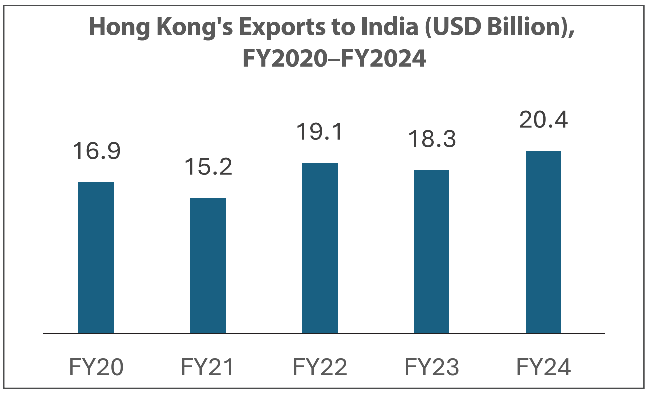


Note: 4-digit HS codes have been considered for the analysis. All figures are rounded off.
Source: As per the latest data from the International Trade Centre (ITC).

Cross-Border Trade With India

Hong Kong is a net exporter to India. It's exports to India stood at nearly 2.5 times its imports from India in FY2024.





Note: All figures are rounded off.
Source: Ministry of Commerce and Industry, Department of Commerce, Government of India.

Major Indian Products Imported by Hong Kong			Major Products Exported from Hong Kong to India		
Product	Share in FY2020	Share in FY2024	Product	Share in FY2020	Share in FY2024
Diamonds	59%	53%	Electronic integrated circuits	17%	24%
Jewellery	20%	23%	Diamonds	13%	15%
Electrical apparatus	1%	6%	Electrical apparatus	14%	8%
Synthetic semi-precious stone	2%	3%	Heterocyclic compounds with Nitrogen	1%	6%
Others	18%	15%	Others	55%	47%
Total	100%	100%	Total	100%	100%

Note: 4-digit HS codes have been considered for the analysis. All figures are rounded off.
Source: Ministry of Commerce and Industry, Department of Commerce, Government of India

In terms of imports, Hong Kong's reliance on India for diamonds has declined; in terms of exports, the share of electronic integrated circuits has increased between FY2020 and FY2024.

Brief Snapshot of Key Developments in Hong Kong: Impact Metrics

Key Developments	Impact		
	1–2 years	3–5 years	6–10 years
Extension of Green and Sustainable Finance Grant Scheme till 2027 with added benefits	High	High	Low
Bond issuance to overcome fiscal deficit and develop infrastructure projects	High	High	Medium
Comprehensive Avoidance of Double Taxation Agreements to encourage investment	High	High	High
Creation of a digital gateway with Thailand for ease of retail payments	High	Medium	Medium
Launch of an integrated fund platform	High	High	Medium
Subsidy extension for electric vehicles	Medium	Low	Low
Tax relief for businesses	High	Medium	Medium
Stamp duty exemption on the transfer of REIT units	High	Medium	Medium

Key Developments

1. Extension of Green and Sustainable Finance Grant Scheme till 2027 With Added Benefits

In May 2024, the HKMA unveiled the extension details of the Green and Sustainable Finance Grant Scheme (GSF Grant Scheme) initially introduced in May 2021. This scheme to support green and sustainable debt issuance in Hong Kong has been extended by 3 years to 2027 as per the proposal outlined in the 2024-25 Budget. Moreover, the scope of subsidies under the scheme has been broadened to include transition bonds and loans. This expansion is geared towards encouraging industries in the region to utilise Hong Kong's transition financing platform as they progress towards decarbonisation[8].

2. Bond Issuance to Overcome Fiscal Deficit as well as Develop Infrastructure Projects

In the latest Budget for 2024-25, the government unveiled a comprehensive strategy to address Hong Kong's fiscal challenges. Among the key initiatives, the issuance of HKD 120 billion worth of bonds takes centre stage, with HKD 70 billion earmarked for retail bonds. This includes HKD 50 billion for Silver Bonds and HKD 20 billion for green bonds and infrastructure bonds, targeting sustainable finance projects as well as bolstering the Infrastructure Bond Scheme for vital infrastructure endeavours.

[8] *Hong Kong Monetary Authority*

Furthermore, the government plans to issue bonds annually in the range of HKD 95 billion to HKD 135 billion over the next 5 years. This injection of capital aims to propel the development of the Northern Metropolis and other critical infrastructure projects, fostering long-term growth and resilience.

Hong Kong has grappled with financial deficits since 2019-20, with the shortfall reaching HKD 101.6 billion in 2023-24. Originally projected to persist until 2027-28, the issuance of bonds is expected to expedite deficit reduction.

3. Comprehensive Avoidance of Double Taxation Agreements to Encourage Investment

To encourage cross-border transactions, Hong Kong has established a network of Comprehensive Avoidance of Double Taxation Agreements (CDTAs) with its major trading and investment partners and emerging economies. As of March 2024, Hong Kong had signed CDTAs with 49 countries, such as India, Italy, Japan, UAE, the UK, and China, and negotiations were underway with Germany, Norway, Jordan, etc.

4. Creation of a Digital Gateway with Thailand for Ease of Retail Payments

In December 2023, the HKMA and the Bank of Thailand announced the launch of the FPS x PromptPay Link for cross-border QR payment between Hong Kong and Thailand, providing a fast, secure, and easily accessible cross-border retail payment service to people travelling between Hong Kong and Thailand.

5. Launch of an Integrated Fund Platform

The Stock Exchange of Hong Kong Limited announced plans for a new Integrated Fund Platform (IFP) expected to be operational by the end of 2024 to expand Hong Kong's fund distribution network, enhance market efficiency, and lower transaction costs. The first phase will focus on the Business to Business (B2B) front-to-back distribution lifecycle and operate inside Hong Kong only. It may eventually expand to include the Business to Customer (B2C) model.

6. Subsidy Extension for Electric Vehicles

The 2024-25 Budget announced an extension of the first registration tax concessions for Electric Vehicles (EVs), originally set to end in March 2024, by 2 years. However, tighter regulations will accompany this extension. Notably, concessions will be cut by 40%. For instance, under the "One-for-One Replacement" Scheme the maximum concessions for electric private cars and general electric private cars will be adjusted to HKD 172,500 (previously HKD 287,500) and HKD 58,500 (previously HKD 97,500), respectively.

7. Tax Relief for Businesses

The 2024-25 Budget retained a 100% reduction in profit tax for 2023-24, subject to a ceiling of HKD 3,000 (lower than the ceiling of HKD 6,000 for the previous year), and this reduction will be reflected in the final tax payable for the year of assessment 2023-24.

8. Stamp Duty Exemption on the Transfer of REIT Units

To bolster Hong Kong's Real Estate Investment Trust (REIT) market, various measures such as easing investment restrictions, expanding investor participation, and offering subsidies to eligible REITs are being pursued. In a bid to boost market competitiveness, the 2024-25 Budget revealed plans to exempt stamp duties on the transfer of REIT units.

Key Sectoral Insights

Film and Fashion

Initiatives to position HK as a driver of creative arts such as films, fashion, etc.

In 2024-25, the government plans to allocate approximately HKD 1.4 billion to the Film Development Fund and HKD 2.9 billion to the CreateSmart Initiative (CSI). These funds aim to bolster projects across multiple sectors, including film, arts, and design. A notable initiative within this framework is the annual organisation of the Hong Kong Fashion Design Week starting in 2024. The goal is to elevate this event into a premier Asian fashion extravaganza, positioning Hong Kong's fashion brands on the global stage.

New-age Technology

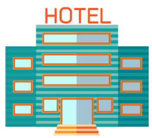
Robust investment for paving the way to a tech-driven economy

Hong Kong has reaffirmed its commitment to fostering innovation through a substantial investment of HKD 24 billion (USD3.07 billion) aimed at bolstering its technology-driven economy. A key component of this initiative is the introduction of the HKD 10 billion New Industrialisation Acceleration Scheme. This scheme will offer funding support of up to HKD 200 million on a matching basis to enterprises involved in various sectors, such as life and health technology, Artificial Intelligence (AI) and data science, advanced manufacturing, and new energy technology. These efforts coincide with recent moves by the US to tighten export regulations, particularly targeting China's access to cutting-edge computer chips and manufacturing equipment.

Tourism

Strategic approach to tap the potential of Middle Eastern tourists

Hong Kong Tourism Board (HKTB) has strategically targeted the Middle Eastern market, recognising its untapped potential and the growing interest in East Asian cultures among Middle Eastern travellers. Therefore, HKTB has tailored bespoke travel experiences catering to the unique preferences of Middle Eastern tourists. These experiences encompass luxury shopping tours, halal gastronomic journeys, and private cultural excursions, offering insights into Hong Kong's rich heritage and contemporary arts. By collaborating with key airlines, luxury hotels, and travel agencies, HKTB has crafted exclusive travel packages for Middle Eastern visitors, featuring luxury accommodations, direct flights from major Middle Eastern cities, and curated tours.



Hospitality

Resumption of the Hotel Accommodation Tax (HAT) to increase government revenue

To increase its revenue, the government has plans to reintroduce HAT at a rate of 3%, starting from January 1, 2025. The HAT applies to hotel and guesthouse accommodations and has been waived since July 1, 2008.

Key MSME Initiatives

Extension of the SME Financing Guarantee Scheme till March 2026

The revised SME Financing Guarantee Scheme will extend the application window for the 80% and 90% Guarantee Products until March 2026, originally slated to end in March 2024. Moreover, the scheme will see a boost of HKD 10 billion (USD 1.28 billion) in total guaranteed commitment.

Digital Transformation for SMEs in the F&B and Retail Segment

Small and Medium Enterprises (SMEs) within the food and beverage and retail sectors will be granted access to fundamental digital solutions via the Digital Transformation Support Pilot Programme. Subsidies will be available on a matching basis to facilitate the adoption of digital solutions, with emphasis on areas like digital payment systems, online marketing, and customer relationship management.

Expansion of the Dedicated Fund on Branding, Upgrading, and Domestic Sales (BUD Fund)

The fund was originally set up to help Hong Kong based companies seize opportunities in the Chinese Mainland. It has now expanded to all countries that have signed an Investment Promotion and Protection Agreement (IPPA) or Free Trade Agreement (FTA) with Hong Kong. The BUD Fund will receive HKD 500 million (USD 63.86 million) to help SMEs enhance competitiveness and expand into the Chinese Mainland and overseas markets. This includes support for e-commerce projects through the 'E-commerce Easy' initiative.

Reforms to the Growth Market Enterprise (GEM) Platform for Raising its Effectiveness

The Hong Kong Stock Exchange (HKEX) undertook a series of measures to reform the Growth Market Enterprise (GEM) in January 2024 to provide a more effective fundraising platform for SMEs. These measures include the introduction of a new financial eligibility test tailored for high-growth enterprises deeply involved in research and development endeavours. Additionally, a 'streamlined transfer mechanism' was implemented to expedite the transition of eligible GEM issuers to the Main Board, streamlining the process for market participants.

> "The issuance of Government bonds is conducive to the development of the bond market and allows the use of the capital raised from the market to drive green or sustainable and infrastructure projects."
>
> Paul Chan Mo-po, Finance Secretary, The Government of the Hong Kong Special Administrative Region (HKSAR)

OUTLOOK

Despite the cyclical upturn in 2023, Hong Kong's economy continues to grapple with formidable challenges from the fallout of COVID-19 policies, external pressures such as China's decelerating growth, and elevated interest rates. Structural issues like evolving consumer preferences and policy uncertainties in pivotal sectors like real estate and finance have impeded a sustained recovery, with the IMF forecasting 2.9% and 2.7% GDP growth for 2024 and 2025, respectively. Formulation of the vision document 'Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030', could help to alleviate the domestic issues related to land planning, urbanisation, environment, etc.

Potential rate reductions by the US Federal Reserve and a gradual return of tourists, could bring some relief in 2024. However, the city's economic resurgence remains subdued amidst lingering uncertainties. US and China relations could also play an important role in shaping Hong Kong's economy in the coming years.

The restoration of investor confidence, crucial for industries like finance and real estate, hinges on the clarity of monetary and fiscal policies. Moreover, enduring long-term challenges like domestic policy ambiguities, China's economic deceleration, and geopolitical uncertainties persist underscoring the need for a cohesive economic roadmap. Despite its inherent resilience, Hong Kong's trajectory will be determined by its adeptness in navigating these intricate dynamics in the years to come.

RECENT CREDIT RATINGS FOR HONG KONG

Date	Credit Rating Agency	Outlook	Brief Details
May 2024	S&P Global Ratings	AA+' long-term and 'A-1+' short-term	Economic growth is expected to slow down in 2024. However, the fiscal deficit is likely to narrow in the next 3 to 4 years as the economy recovers and the property market stabilises.
February 2024	Fitch Ratings, Inc.	AA- with a stable outlook	Fitch Ratings has affirmed Hong Kong's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'AA-' with a Stable Outlook basis strong credit fundamentals and sustained recovery in tourism but impacted by slower fiscal consolidation.
December 2023	Moody's	• Negative outlook • Aa3 (long-term issuer and senior unsecured ratings and its (P) Aa3 senior unsecured medium-term note programme ratings)	Moody's changed the outlook to negative from stable reflecting its assessment of tight political, institutional, economic and financial linkages between Hong Kong and the mainland. Affirmation of Hong Kong's Aa3 ratings, one notch above China, reflects Moody's assessment of its significant credit strengths, including its wealthy and competitive economy, substantial fiscal and external buffers, and track record of effective monetary and fiscal policy.

Source: S&P, Fitch, and Moody's country ratings

ABOUT RUBIX:

Rubix Data Sciences Pvt. Ltd. helps you to take prudent credit risks, build a robust supply chain and monitor compliance for your business partners in India and around the world. Rubix helps you collect payments in time from your debtors, helping generate predictable cash flows.

Set up by highly experienced Risk Professionals, the company has been recognised at the IMC Digital Technology Awards in 2020 for the Rubix ARMS™ platform, and in 2021 for the Rubix Early Warning System (EWS). Rubix has received the prestigious ET BFSI Exceller Award 2023 in recognition of its ground-breaking analytics initiative, 'SME Income Range Estimation and Financial Ratio Benchmarking.'

Rubix has been appointed as India's first Validation Agent for the Legal Entity Identifier (LEI) by Legal Entity Identifier India Ltd, the Local Operating Unit accredited by the Global Legal Entity Identifier Foundation (GLEIF), Switzerland.

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