Economic Research

March 2023

Market Monitor – Hong Kong

The 2023-24 Budget Delivers a Timely Stimulus to HK Economy

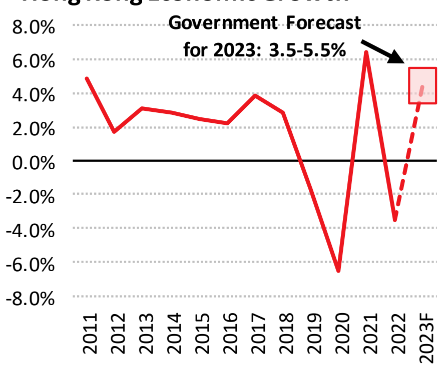
- The 2023-24 Budget proposed both immediate relief measures and long term investment plans to stimulate Hong Kong economy
- The domestic sector strengthened further, leading the overall recovery amid sluggish external demand
- Housing market showed further signs of stabilization

The 2023-24 Budget proposes another round of consumption vouchers and raises public investment ahead

The 2023-24 Budget offers a total of HK$ 59.3 billion of one-off relief measures to support a fledgling economic recovery. The Government decides to maintain a relatively expansionary fiscal stance in the 2023-24 Budget. In this connection, the Government unveils a new round of target support measures, with an aim to address the needs of households and relieve the burdens on businesses. The stimulus package includes HK$ 5,000 consumption vouchers (worth at HK$33.0 billion), a ceiling of HK$ 6,000 tax reductions for individuals and businesses (worth at HK$ 9.2 billion), and other fee reductions. Together, these one-off measures are estimated to boost Hong Kong's economic growth by 1.0 percentage point.

In addition, the Government will take active steps to boost Hong Kong's tourism-related sector and enhance Hong Kong's international image. With the full border reopening between the Mainland and Hong Kong and the lifting of local anti-pandemic measures, Hong Kong has witnessed a rapid surge of tourist arrivals. To further accelerate the pace of tourism sector's recovery, the Government proposes to set side around HK$ 600 million to organize mega events, international meetings, major conventions and exhibitions as well as other promotion activities in the coming year.

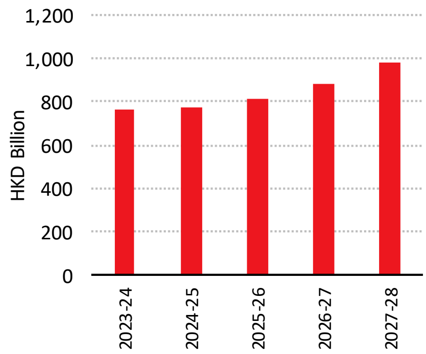
Hong Kong Economic Growth



Source: CEIC

The 2023-24 Budget also highlights the Government's commitment to various long-term investment. The Government continues to attach great importance to innovation and technology (I&T) development. Further details of I&T related infrastructure and new initiatives to foster new industries are revealed in the 2023-24 Budget. For instance, a consultation on the San Tin Technopole will be launched in Q2 2023 and additional financial resources will be allocated for enhancing research and development capabilities in new industries, like life and health technology, artificial intelligence, quantum technology, and Microelectronics. Moreover, the Government is actively making huge investment in infrastructure. Projections in the 2023-24 Budget indicates that the Government's average capital works expenditure from 2023-24 to 2026-27 is revised up to HK$ 121.9 billion per year, reflecting higher spending to develop new development areas, public housing projects and various infrastructure facilities in the next few years.

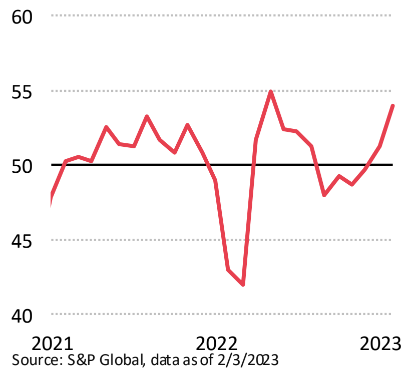
Fiscal Reserve



Source: Hong Kong SAR Government

The Government's fiscal position remains sound. For 2022-23, the fiscal deficit is estimated at HK$ 139.8 billion. For 2023-24, the Government expects a smaller fiscal deficit at HK$ 54.4 billion. Fiscal reserves are expected to be HK$ 817.3 billion by March 2023 and will decline to HK$ 762.9 billion by March 2024. Besides, no less than HK$ 50 billion of Silver Bond and HK$ 15 billion of Retail Green Bonds will be issued in 2023-24. To support higher levels of Government's spending, an infrastructure bond scheme will be established. Despite the reduction of fiscal reserves, the Government still has a strong balance sheet with low debt level. Overall, the 2023-24 Budget is considered as taking a balanced approach between securing a sustained economic recovery and maintaining a sound fiscal position. With Hong Kong's economy continuing to strengthen, fiscal reserves are expected to be gradually built back in the medium term.

Hong Kong Purchasing Managers' Index



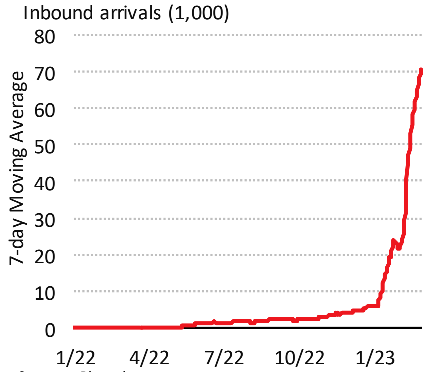
Source: S&P Global, data as of 2/3/2023

The domestic sector strengthened increasingly

Hong Kong's underlying economic fundamentals continued to show a strengthening trend. Boosted by the full reopening, Hong Kong's average daily visitor arrivals surged in February 2023, up by 224.9% from January. At present, cross-border transport services, like flights and high speed trains have not yet returned to their full capacities. With a further resumption of these transport services, a stronger acceleration in the tourism recovery is likely to be seen. The unemployment rate edged lower to 3.4% in November 2022 - January 2023, marking the 9th straight month of improvement. Moreover, the S&P Global Hong Kong PMI rose to 53.9 in February 2023, up from 51.2 in January. Other data were more volatile and subject to significant seasonal influences due to the difference in the timing of the Chinese New Year (January for 2023 and February for 2022). Real retail spending returned to growth in January 2023, up by 5.1% year-on-year (YoY). However, nominal export and import declined by 36.7% and 30.2% YoY respectively, due to gloomy external outlook and seasonality factor.

Hong Kong Visitor Arrivals

Inbound arrivals (1,000)



Sources: Bloomberg

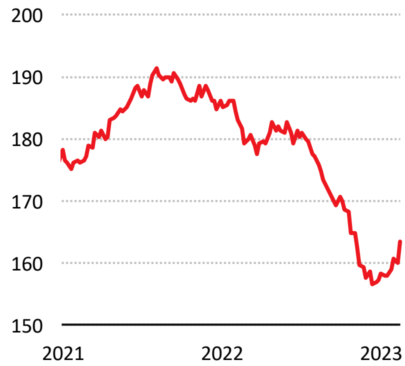
Looking ahead, the domestic sector is expected to be the primary growth engine for Hong Kong's economy. Domestic spending is likely to remain robust, driven by solid labour condition, a new round of consumption vouchers and improving business confidence. According to the 2023-24 Budget, the Government forecasts the 2023 GDP growth at 3.5-5.5%.

Housing market showed further signs of stabilization

Hong Kong's housing market reported a rebound in transaction volume and prices. Market sentiment continues to improve. Total residential property transactions increased to 4,282 units in February 2023, up from 3,051 units in January. For January and February 2023 taken together, total transactions were up by 2.0% YoY. House prices also went up by 0.6% in January 2023 from December 2022. Price gauges in the secondary market transactions indicated a further increase in February. Domestic liquidity condition remained ample, even though further US rate hike would add upward pressure on the Hong Kong dollar (HKD) interest rates. On balance, Hong Kong's housing market is likely to stabilize further, supported by stronger economic outlook and upbeat market sentiment.

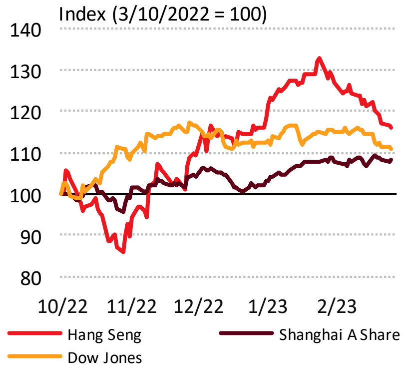
In February 2023, Hong Kong equity markets retreated as investors reassessed the global monetary outlook. Global financial markets saw a reversal in risk appetite, as resilient economic data and higher-than-expected inflation prints in advanced economies, like the US and the Eurozone, led investors to price in a more hawkish monetary stance that interest rates would stay higher for longer. As of 28th February 2023, the Hang Seng Index closed at 19,786, down 9.4% from the end of January 2022. During the period, the Shanghai A shares went up slightly by 0.7%, while the Dow Jones Industrial Average fell 8.4%.

Centaline Housing Price Index



Source: Centaline Property Agency Ltd., data as of 19/2/2023

Stock Market Indices



Source: Bloomberg, data as of 28/02/2023

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