Economic Research

March 2024

Market Monitor – Hong Kong

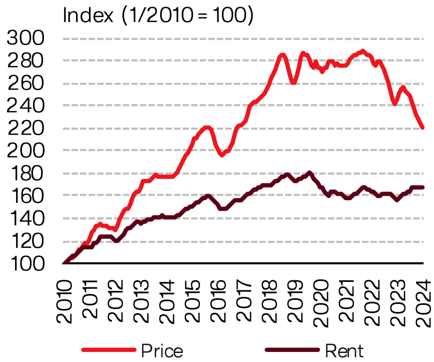
The Budget took measures to support the property market

- The 2024/25 Budget proposed timely and decisive measures to boost market confidence and ensure fiscal sustainability.
- Economic indicators pointed a steady recovery.
- Hong Kong stocks market rose on enhanced policy support by the Mainland authorities.

The Budget proposed timely measures to stabilise the property market downturn and cement the sustainability of public finance

Decisive measures were proposed to support steady property market. Over the past two years, the residential property market entered an orderly consolidation amid a high-interest-rate environment and heightened economic uncertainties. The official residential price index falling by 15% in 2022, another 7% in 2023 and another 1.6% in January 2024. The number of residential transactions also hit a record low in 2023. Against this backdrop, the Government lifted all demand-side management measures (Special Stamp Duty, Buyer's Stamp Duty and New Residential Stamp Duty) in the Budget 2024/25, followed by the Hong Kong Monetary Authority's revisions on the countercyclical macroprudential measures for property mortgage loans and other related supervisory requirements.

Housing Price and Rent Indices

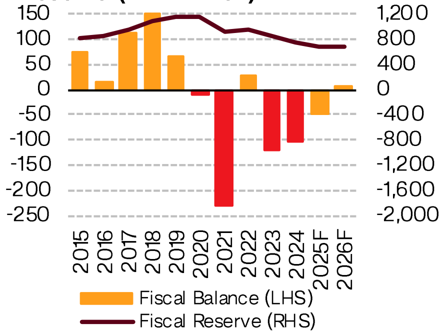


Source: Rating and Valuation Department

Lower taxes and transaction costs are set to unleash potential housing demand. Before the release of the Budget, market activity remained at low levels, with the total monthly residential property transactions declining to 2,375 units in February from the 3,477 units in January. This likely reflected that most of the potential homebuyers held a wait-and-see approach. In the week after the Budget, market activity showed visible signs of picking-up. In particular, there were some anecdotal reports of house purchases by investment demand. In fact, the lifting of demand-side management measures will greatly reduce the taxes and transaction costs for many potential homebuyers, like the existing homeowners with upgrade demand and incoming talents. Overall, the measures in the Budget 2024/25 should help stabilise property market sentiment. Along with the expected rate cuts by major central banks around mid-2024, Hong Kong's property market should see a gradual recovery in 2H 2024.

The Government adopts a fiscal consolidation strategy to restore fiscal balance. For the fiscal year 2023/24 (FY23/24), the fiscal deficit is estimated to be HKD 101.6 billion, with fiscal reserves expected to be HKD 733.2 billion at March 2024, down by nearly 40% from HKD 1,170.9 billion at March 2019. For FY24/25, it is expected to see a fiscal deficit of HKD 48.1 billion due to elevated government expenditure. In response, tax adjustments have been introduced to increase revenue, including a two-tiered standard rate regime for salary and personal taxes, a higher rate percentage charge for domestic properties over $550,000 in annual rateable value, and the Hotel Accommodation Tax at 3%. Moreover, the Government announced that the implementation schedule of capital works will be adjusted, which hints that the development of the Kau Yi Chau Artificial Islands project will depend on factors like public finance positions. And, there will be regular government bond issuances, with an expected amount of HKD 120 billion in FY24/25 and HKD 135 billion in the next 3 years from FY25/26.

Hong Kong Fiscal Balance and Reserve (HKD Billion)



Source: Hong Kong SAR Government, CEIC

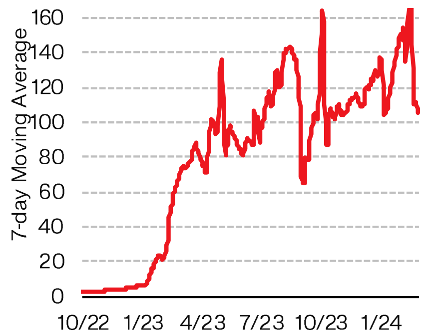
A calibrated package of stimulus will be implemented to cement the recovery. Even with reduced fiscal reserves, the Government continues to take various measures to support households and enterprises and promote growth, while maintaining its overall spending in check. Most notably, the Government is striking to promote mega events, with an aim to enrich Hong Kong's tourism offerings. Households and enterprises will continue to enjoy tax reductions, albeit at a lesser scale. Besides, there will be increased funding and new policies to promote green and digital economy.

Economic indicators pointed a steady recovery

Hong Kong's economic recovery persists steadily. Since the start of 2024, inbound tourism showed a steady uptrend. Taking January and February together, total visitor arrivals exceeded 7.8 million, accounting for around 72% of the pre-pandemic levels in 2018. Starting from March 2024, the Individual Visit Scheme will be expanded to cover Xi'an and Qingdao from March 2024, which could generate a further boost to inbound tourism. Besides, the unemployment rate stayed low at 2.9% from November 2023 to January 2024. Trade and retail sales data were more volatile due to the different timing of CNY in 2023 and 2024, as well as a more visible influence from base effects. In January 2024, merchandise exports and imports rose by 33.6% year-on-year (YoY) and 21.7%, respectively, while retail sales only reported a small gain of 0.9% YoY. Meanwhile, business sentiment remained soft, with the S&P Global Hong Kong SAR Purchasing Manager's Index edged down to 49.7 in February, from 49.9 in January.

Hong Kong Visitor Arrivals

Inbound arrivals (1000)



Sources: Bloomberg

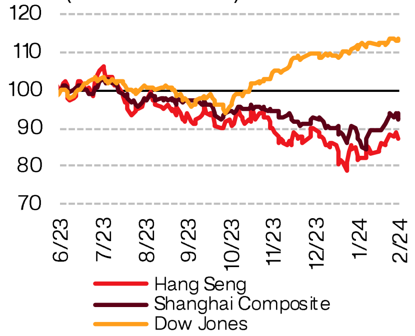
Economic Research

Market sentiment rebounded on enhanced policy support

Hong Kong stocks rebounded in February. The Hong Kong stock market rose, as the People's Bank of China stepped up monetary easing to support the economy by reducing the five-year Loan Prime Rate (LPR) by 25 basis points from 4.2% to 3.95% in 20th February. Rate-sensitive tech stocks outperformed and led the broader market, with Hang Seng TECH Index surging by 14.2% in February. A bullish US equity market also helped to buoy the market sentiment for Hong Kong stocks, as the three major US stock indices hit their historical highs during the month driven by strong corporate earnings. In February, the Hang Seng Index and Shanghai Composite Index rose by 6.6% and 8.1% MoM respectively, as compared to a 2.2% MoM increase for the Dow Jones Industrial Average.

Equity Indices

Index (30/6/2023 = 100)



Source: Bloomberg, data as of 29/02/2024

Economic Research

March 2024

Disclaimer

This material is prepared by The Bank of East Asia, Limited ("BEA") for customers' reference only. The content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are expressed solely as general market commentary, and do not constitute an offer of securities or investment, nor a solicitation, suggestion, investment advice, or guaranteed return in respect of such an offer. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This material has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this material, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down, and may become valueless. Past performance is not indicative of future performance. The investments mentioned in this material may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this material. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

This material is the property of BEA and is protected by relevant intellectual property laws. Without the prior written consent of BEA, the information herein is not allowed to be copied, transferred, sold, distributed, published, broadcast, circulated, modified, or developed commercially, in either electronic or printed forms, nor through any media platforms that exist now or are developed later.

For more information, please visit our webpage at https://www.hkbea.com/html/en/bea-about-bea-economic-research.html. For any enquiries, please contact the Economic Research Department of BEA (email: lerd@hkbea.com/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).