BEA東亞銀行

Economic Research **March 2025**

Market Monitor – Hong Kong

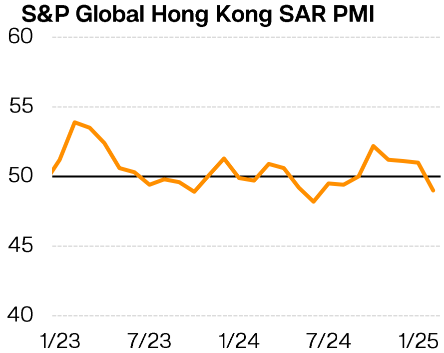
Hong Kong's growth momentum held up in early 2025

- Visitor arrivals grew at a solid pace in the first two months of 2025.
- The Budget rolled out initiatives to build new growth drivers and strengthen traditional pillar industries.
- The stock market staged a robust rally driven by the Chinese Mainland's technology development.

Growth momentum held up in early 2025

Hong Kong's tourism sector continued to expand. In the first two months of 2025, total visitor arrivals increased by 7.5% year-on-year (YoY), reflecting a continuation of the ongoing recovery trend in the tourism sector. The Hong Kong Tourism Board forecasts that visitor arrivals will reach 49 million in 2025, a 10% increase from the 44.5 million in 2024. The recent opening of the Kai Tak Sports Park, Hong Kong's largest sports infrastructure project comprising the 50,000-seat Kai Tak Stadium, along with a pipeline of mega events, is expected to help enhance Hong Kong's appeal as a top destination for tourism.

S&P Global Hong Kong SAR PMI



Source: S&P Global

The labour market remained stable while business surveys retreated somewhat. The unemployment rate was unchanged at 3.1% in the November-January period, which should underpin a gradual recovery in consumption. In January, retail sales were down by 3.2% YoY, and merchandise exports grew by 0.1%. Both were subject to seasonal influences due to the different timing of the Chinese New Year in 2024 and 2025. Meanwhile, the S&P Global Hong Kong PMI fell into contraction at 49.0 in February from 51.0 in January amid declining business activity and new orders. While a softer PMI was likely linked to tariff uncertainties, low unemployment conditions should continue to sustain Hong Kong's economic recovery momentum ahead.

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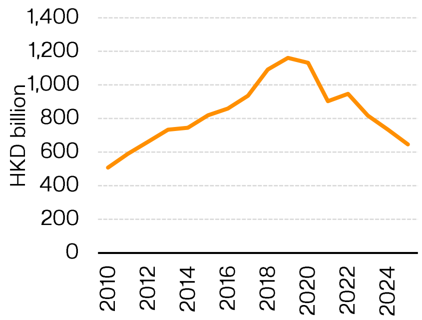
Policy initiatives to build new growth drivers

The 2025/26 Budget rolled out initiatives to build new growth drivers and strengthen traditional pillar industries. In the latest Budget, the SAR Government set out a well-rounded development plan. Notably, vast resources will be allocated for the development of the "Northern Metropolis" and innovation & technology sector, thereby enhancing Hong Kong's economic capability and diversity. The Budget also aligns with the national development strategies, with measures to advance RMB internationalisation, such as promoting the formation of an offshore RMB yield curve by regularly issuing RMB government bonds and setting up an RMB trading counter under the Southbound trading of Stock Connect. To promote cooperation within the Greater Bay Area, various cross-border initiatives are suggested, covering healthcare, finance, logistics, construction, and data exchange. These policies are aimed at strengthening Hong Kong's long-term competitiveness.

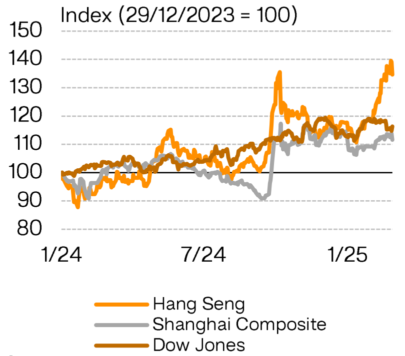
Hong Kong Fiscal Reserves



Source: CEIC

The SAR Government is reinforcing fiscal consolidation. The consolidated fiscal deficit is estimated to be HKD 87.2 billion and HKD 67.0 billion for fiscal years (FY) 24/25 and 25/26, respectively, with fiscal reserves expected to be HKD 580.3 billion by 31 March 2026. The SAR Government has adopted a more stringent approach in controlling spending by reducing its recurrent expenditure while raising fiscal resources via expanding revenues and increasing bond issuances. The fiscal balance is projected to return to a surplus in FY28/29. Regarding the economic outlook, the Government forecasts GDP growth of 2-3% for 2025, with headline inflation at 1.8%. In the medium term, the Government anticipates the Hong Kong economy to expand by 2.9% annually from 2026 to 2029.

Equity Indices



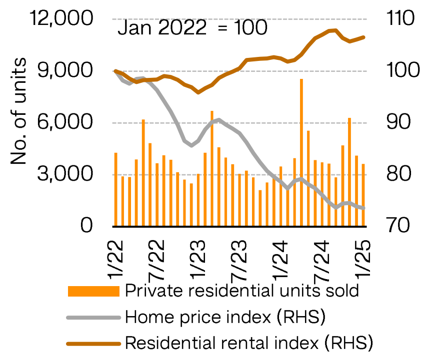
Source: Bloomberg

The stock market surged strongly

The stock market has staged a robust rally. The Hang Seng Index surged by 13.4% MoM in February. The surge in stock prices was driven by a series of positive drivers, including the optimism surrounding Chinese AI development, stronger-than-expected earnings by major technology companies, the Chinese Mainland's support for the private sector, and expectations for more stimulus measures to be announced in the National People's Congress in early March. Rising stock prices are expected to create positive wealth effects and help bolster consumer confidence and spending ahead.

Home prices continued to consolidate at low levels. The official residential property price index declined by 0.4% MoM in January, reaching its lowest level in nearly eight and a half years. In contrast, rental rates rose by 0.4% MoM in January. The strength in the rental market is supported by a large influx of talents and a stable job market.

Private residential sales and price



Source: Bloomberg

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