BEA 東亞銀行

Economic Research Department

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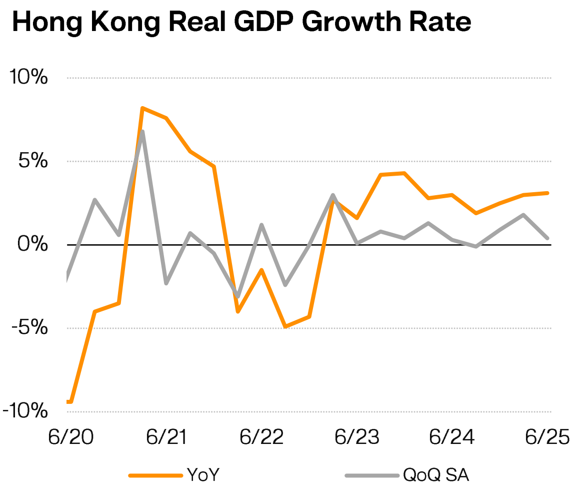
Economic QuickView

Hong Kong GDP: Strong growth momentum in Q2 driven by improving domestic demand

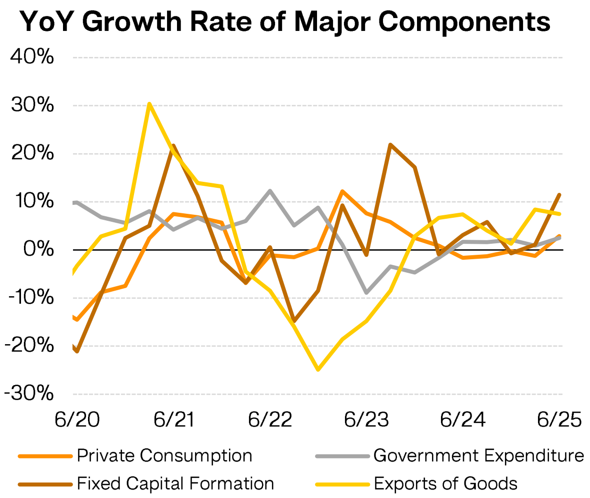
- The Hong Kong economy expanded solidly by 3.1% YoY in Q2, up from 3.0% YoY in Q1.
- In Q2, exports of goods saw accelerated growth despite tariff uncertainties. Exports of services and investment continued to expand steadily, while private consumption resumed growth after four consecutive quarters of contraction.
- Hong Kong is expected to maintain steady growth, supported by lower interest rates, solid domestic fundamentals, and resilient momentum of the Chinese Mainland.

Hong Kong's economy expanded solidly by 3.1% YoY in Q2 2025. Hong Kong's real Gross Domestic Product (GDP) grew by 3.1% year-on-year (YoY) in Q2, up from 3.0% YoY in Q1. This marks the economy's tenth consecutive quarter of expansion. In 1H 2025, economic growth is estimated to be around 3.0% YoY. On a quarter-on-quarter (QoQ) basis, growth slowed from 1.8% in Q1 to 0.4% in Q2. Improving domestic demand helped lift Hong Kong's economic growth in Q2. Private consumption emerged as a positive driver of growth in Q2, contributing 1.3 percentage points (ppt) to GDP, a notable turnaround from its 0.8 ppt drag in Q1. Additionally, net exports of services, private investment and government consumption contributed 0.3, 0.5, and 0.3 ppts to economic growth, respectively. Furthermore, changes in inventories also made a positive contribution, adding about 2.6 ppts. Meanwhile, net exports of goods reduced GDP growth by 2 ppts.

Merchandise trade remained resilient due to sustained external demand and front-loading. Real exports of goods sustained strong momentum, recording a growth of 11.5% YoY in Q2, up from 8.4% YoY in Q1. The robust export performance was driven by strong demand from the Chinese Mainland and other Asian markets and the front-loading of shipments in anticipation of tariff hikes. In the meantime, real imports of goods growth accelerated from 7.2% YoY in Q1 to 12.7% YoY in Q2. With import growth outpacing export growth, trade deficit widened in Q2 2025 compared to the same period last year. As a result, net exports became a drag to GDP growth in Q2. Moving forward, although Hong Kong's external trade is expected to face persistent headwinds from tariff uncertainties, its strengthened trade ties with non-US markets will help offset some of the tariff impact and stabilise export performance.



Source: Census and Statistics Department



Source: Census and Statistics Department

Exports of services continued to expand notably amid a robust tourism recovery. Driven by enhanced tourism offerings, such as a series of mega events, and a weaker HKD exchange rate, inbound tourist arrivals surged by 15.0% YoY to 11.4 million in Q2. In addition, steady economic expansion and technological breakthroughs in the Mainland and diversification away from US assets bolstered investor confidence and fuelled a resurgence in financial and fund-raising activities. Taken together, the revival of the inbound tourism and vibrant cross-border financial service activities supported the real exports of services to grow by 7.5% YoY in Q2, up from 6.3% YoY in Q1. On the other hand, the growth of real imports of services rose from 4.7% YoY in Q1 to 7.0% YoY in Q2, driven by strong outbound travel demand. Outbound trips by local residents were up by 17.7% YoY to 29.7 million in Q2. Looking ahead, Hong Kong's service exports are expected to maintain its recovery trajectory and serve as an important growth driver.

Private consumption resumed moderate growth after four consecutive quarters of contraction. Real private consumption rebounded by 1.9% YoY in Q2, the first increase since Q1 2024. Retail sales also returned to positive growth in May and June following 14 consecutive months of decrease, providing further evidence that private consumption is gradually bottoming out. Moving forward, lower interest rates and the revival of financial and property market activities are expected to bolster domestic demand and drive further recovery in private consumption.

Investment activities saw steady improvement. Real gross domestic fixed capital formation expanded by 2.9% YoY in Q2, up from a 1.1% YoY in Q1. This acceleration was likely supported by strong momentum in public investment. As outlined in the 2025/26 Budget, the SAR Government plans to raise annual capital works expenditure to around HKD 120 billion from 2025 to 2029, a substantial increase from the earlier estimate of HKD 90 billion per year for 2024-2028. In addition, the costs of ownership transfer also rose on the back of a markedly higher number of property transactions fuelled by stamp duty cuts and easing mortgage rules. Looking ahead, while uncertainties in global trade may prompt businesses to adopt a more cautious stance and delay certain investment decisions, the prevailing global monetary easing environment is expected to provide a supportive backdrop for sustained investment growth.

Hong Kong is poised to sustain steady growth underpinned by improving domestic fundamentals and resilient momentum of the Chinese Mainland. While tariff uncertainties continue to pose headwinds to Hong Kong's exports, the worst-case scenario of extreme tariff rates has been averted. In the meantime, multiple positive factors are set to strengthen Hong Kong's growth prospects. First, the Federal Reserve has pivoted after a prolonged period of tight monetary policy and is likely to resuming cutting interest rates in 2H 2025, which will boost financial and property market activities. Second, improving asset market performance will create positive wealth effects, thereby supporting private consumption. Third, bolstered by the government initiatives to enrich the tourist experience and the forthcoming implementation of the Guangdong southbound car scheme later this year, the tourism sector is expected to further recover and drive service export growth. Lastly, the Mainland's monetary and fiscal stimulus measures will yield positive spill-over effects on Hong Kong's economy. With these supportive factors in play, Hong Kong economic growth is on track to achieve the SAR Government's growth forecast of 2% to 3% for 2025.

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