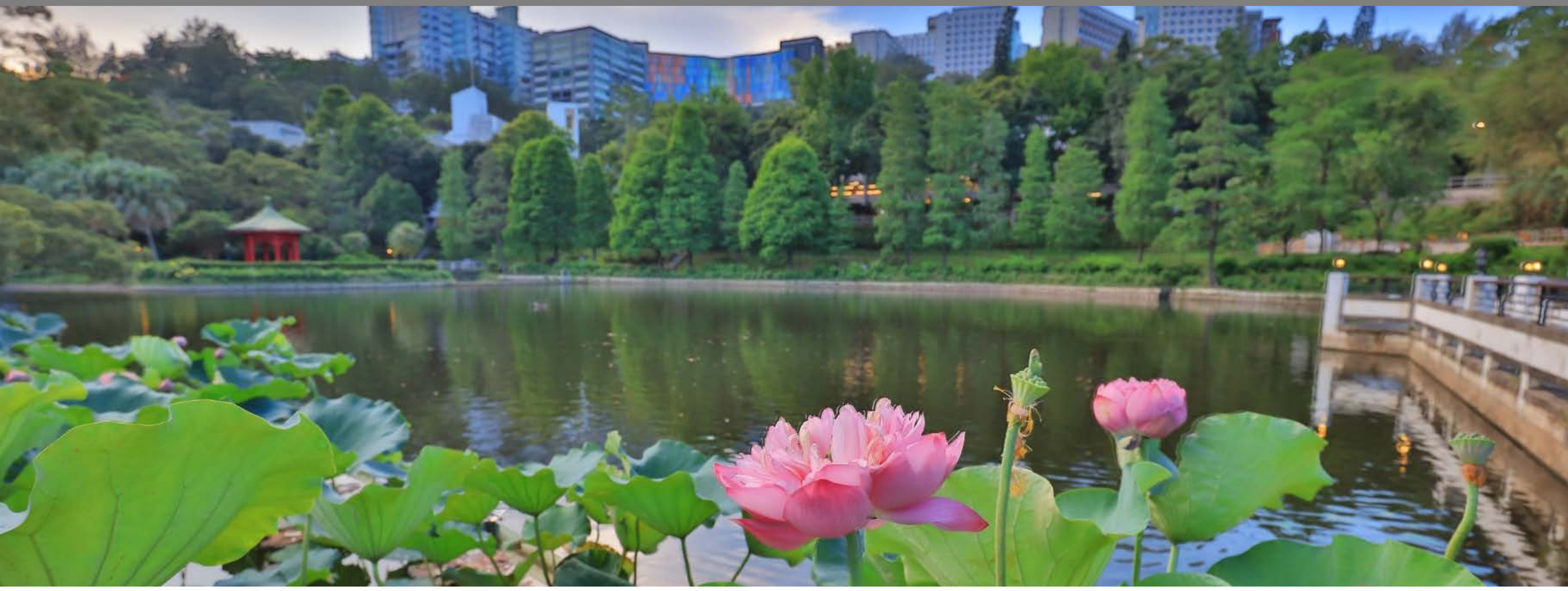
BEA 東亞銀行

Economic Research Department

March 2026

Market Monitor – Hong Kong

Robust exports and retail sales signal a solid start in 2026



- The 2026/27 Budget pledged to nurture new growth drivers, such as emerging industries, Northern Metropolis development, and artificial intelligence integration.
- Growth momentum of exports and retail sales remained robust in January.
- Inflation momentum remained stable, while the unemployment rate rose slightly.

2026/27 Budget to cultivate new drivers for high-quality and diversified growth

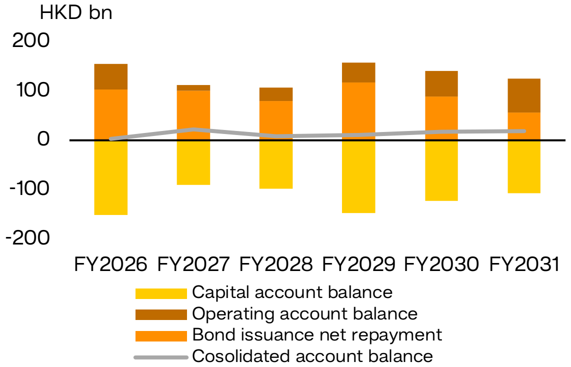
The 2026/27 Budget unveils the SAR Government's plan to cultivate new growth drivers. To strategically align with the national development blueprint, the Budget highlights Hong Kong's plan to formulate its own Five-Year Plan (FYP) for the first time. Furthermore, the Budget announces measures to support emerging industries, including the aerospace sector, the low-altitude economy, autonomous driving, new materials, RISC-V (technology of a new generation of chips), embodied AI and quantum technology. Meanwhile, the development of the Northern Metropolis (NM) will be significantly expedited, solidifying it as a primary engine for near-term public investment and economic growth. To facilitate artificial intelligence (AI) integration to drive transformation, various initiatives have been outlined, such as the establishment of a "Committee on AI+ and Industry Development Strategy" to formulate policies for industrial transformation and allocate resources to introduce leading technologies for accelerating digital intelligence transformation.

The consolidated fiscal account is expected to return to surplus in FY2025/26. The consolidated fiscal balance (including government bond issuance and repayment) is estimated to record a surplus of HKD 2.9 billion for FY2025/26, compared to the originally projected deficit of HKD 67 billion. The operating account will record a surplus driven by robust stamp duty collections and profits tax amid a buoyant equity market and economic recovery. In contrast, the capital account will remain in deficit due to subdued revenue from land premiums and sustained high capital works expenditure for the NM development. To ensure sufficient financial resources for future investment, the SAR Government plans to issue HKD 160-220 billion in bonds annually from FY2025/26 to FY2030/31, and the Exchange Fund will transfer a total of HKD 150 billion to the Capital Works Reserve Fund over the next two years (HKD 75 billion per year).

Robust exports momentum, solid retail sales growth

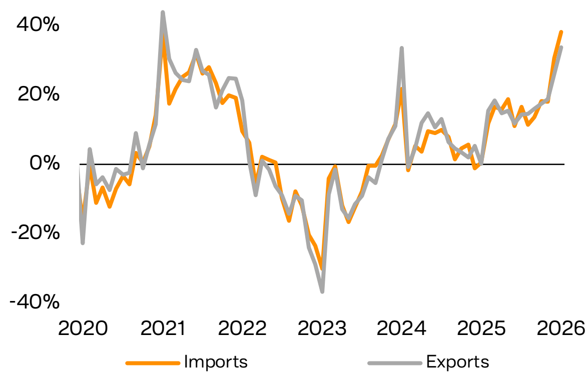
External trade rose further in January on strength of strong underlying momentum. Merchandise exports surged by 33.8% year-on-year (YoY) in January. While it was partly driven by seasonal factors from the different timing of the Chinese New Year holiday in 2025 and 2026, underlying momentum for exports has remained robust. Stripping out the Chinese New Year effects, the seasonally adjusted exports growth for November-January rose by 9.4%, up from 5.2% in the preceding three months. Meanwhile, imports growth soared by 38.1% YoY in January, with the seasonally adjusted 3-month growth accelerating to 10.9%.

HKSAR Government's fiscal position medium range forecast



Source: HKSAR Government

Import and Export YoY Growth

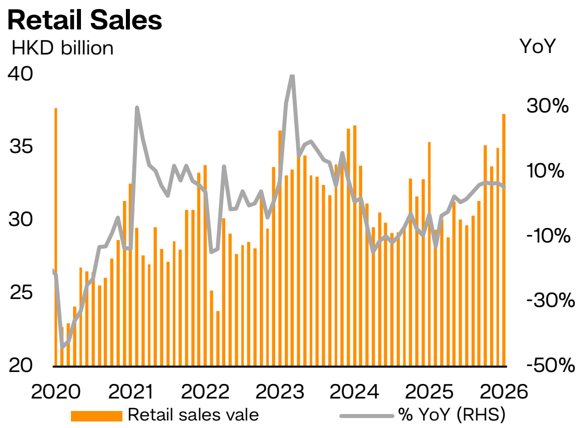


Source: CEIC

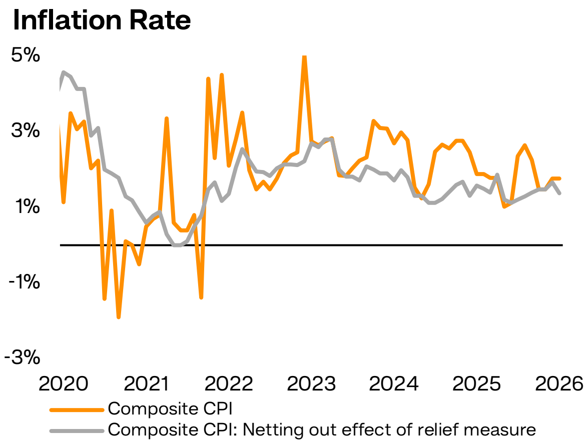
Retail sales growth held steady. Retail sales growth eased from 6.6% YoY in December 2025 to 5.5% in January 2026 amid the Chinese New Year effects. That said, underlying momentum remained strong, with the seasonally adjusted retail sales growth for November-January rising to 2.4%, up from 1.1% in the preceding three months. Looking ahead, buoyant tourist arrivals should mitigate the impacts of robust outbound travel by residents, while improving asset market performance and stable labour conditions should continue to support a further recovery in retail sales.

Steady inflation while the unemployment rate ticked up

Inflation remained stable and is set to pick up modestly. The composite CPI inflation grew by 1.1% YoY in January, down from 1.4% in December 2025. The underlying inflation rate (which nets out government's one-off relief measures) also eased from 1.3% to 1.0% YoY in January, possibly due to the high base effects from the Chinese New Year holiday last year. Coupled with a gradual rise in the Chinese Mainland inflation and a continued pass-through from previous rental hikes, Hong Kong inflation may pick up in the months ahead.

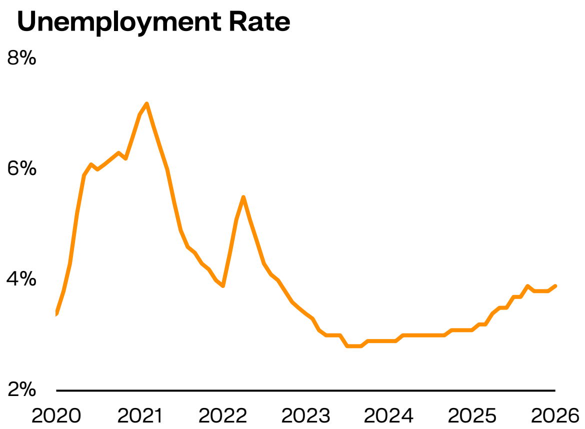


Source: CEIC

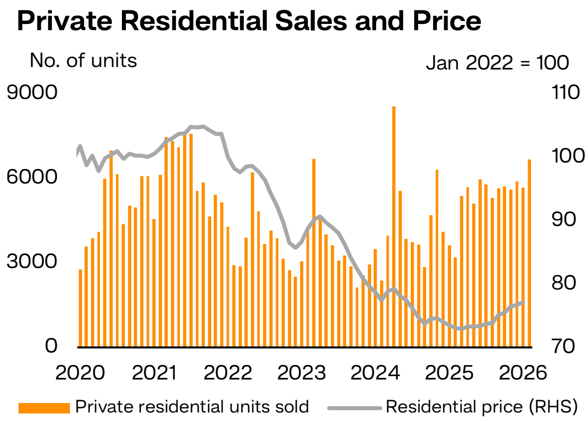


Source: CEIC

Unemployment rate edged higher. The unemployment rate for November-January reached 3.9%, up from 3.8% in the preceding three months. Multiple sectors recorded an uptick, such as construction (from 6.7% to 6.9%) and finance, insurance, and real estate (3.0% to 3.1%). Short-term volatility may persist due to ongoing economic rebalancing, but labour market pressure is likely to ease over time, underpinned by steady economic growth and improving business sentiment.



Sources: CEIC



Source: CEIC

The property market has extended its rising trend in 2026

Residential property prices continued their upward trajectory at the start of 2026. The official residential property price index rose by 0.5% month-on-month (MoM) in January, while rental prices also saw a 0.3% MoM increase. Residential property sales remained sturdy, reaching 6,669 units in February, marking the highest February sales in 15 years. Supported by expectations for further rate cuts, a robust and broad-based economic recovery, and sustained demand fuelled by an influx of new talent, residential prices are projected to achieve high single-digit growth in 2026.

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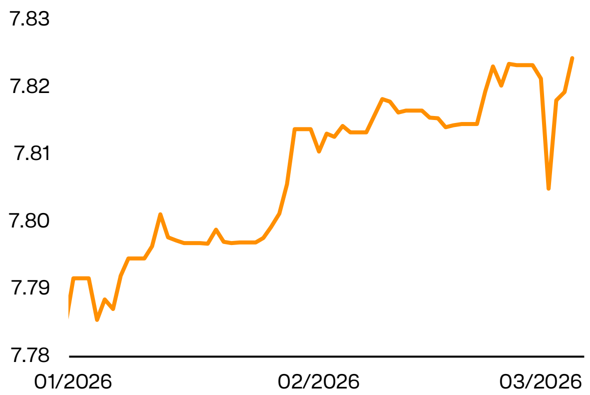
Market movement in FX and rates

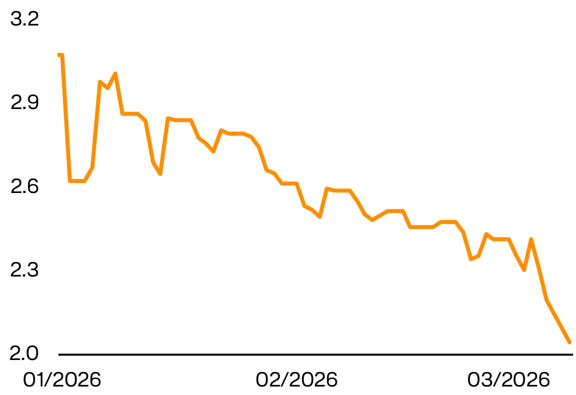
FX market exhibited volatility while lower HIBORs highlighted abundant liquidity conditions. On 4th March, the Hong Kong dollar exchange rate (USDHKD) once appreciated to 7.8, possibly driven by fund inflows amid escalating geopolitical tensions in the Middle East, which underscored Hong Kong dollar's status as a safe-haven currency. On the interest rates front, HIBORs continued their downward trend, with the 1-month HIBOR declining to 2.1% in early March, down from 2.4% in late February. The declines in funding rates reflected abundant liquidity conditions.

US dollar to HK dollar



Source: Bloomberg

1 Month HIBOR



Source: Bloomberg

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