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MARKET FOCUS

Hong Kong: Strong fundamentals to ride out the downturn

By InvestHK, Hong Kong SAR Government

Amid the economic turmoil that has gripped the world, Hong Kong retains strong fundamentals that have been tested and fortified by earlier crises.

The city's financial system and government finances remain sound, which places Hong Kong economy in a good position to weather the crisis and bounce back when the upturn arrives.

Hong Kong's economic growth slowed down in 2008 after a long period of rapid expansion, averaging 7.2 percent annually between 2004 and 2007. Gross domestic product growth last year was forecast to be 3 to 3.5 percent.

At the same time, however, inflationary pressure has been receding, mainly because of the reduction in international food and energy prices, the stronger US dollar and weaker domestic demand conditions amidst an economic slowdown. Headline and underlying inflation for 2008 are forecast to be 4.2 percent and 5.5 percent, respectively.

Creating jobs is a government priority

The Hong Kong SAR Government, with the assistance of a blue ribbon advisory group, the Task Force on Economic Challenges, is developing and implementing policies to tackle the economic slowdown.

The first objective was to stabilise Hong Kong's currency and financial system --- which has proved effective --- while a recurring theme is to keep people gainfully employed.

For example, Hong Kong is launching 10 major infrastructure projects in 2010, generating 250,000 new jobs. The government has also guaranteed bank deposits for two years. Hong Kongers are benefiting from the world's third-lowest tax misery, paying only 16.5 percent profits tax and a maximum 15 percent income tax and no sales or tax on dividends.

Speaking after the second meeting of the Task Force on Economic Challenges, Chief Executive Donald Tsang said that helping small and medium enterprises (SMEs), which provide about 50 percent of private-sector jobs in Hong Kong, is the key to preventing job losses.

Under a special government loan guarantee scheme, SMEs may borrow up to HK\$6 million, compared with a maximum HK\$1 million in the past. Larger non-listed companies could also take advantage of the scheme, and HK\$3 million may be used for revolving credit. This will raise the government's commitment from HK\$1 billion to HK\$100 billion.



Beijing to help Hong Kong through the financial crisis

On 19 December 2008, China promised to help Hong Kong weather the global economic crisis by:

- ◆ providing more assistance to Hong Kong-owned companies on the Mainland
- ◆ granting more Hong Kong businesses in the services sector preferential access to the Mainland market under a 14-point plan to help the city ride out the downturn
- ◆ encouraging Mainland financial institutions to use Hong Kong as a platform to develop international financial services
- ◆ recommending that more Mainland firms to list on Hong Kong's stock market
- ◆ facilitating an earlier start to construction of the Hong Kong-Macau-Zhuhai bridge
- ◆ increasing the scope of China's individual visitor scheme, a system that gives Mainland tourists visas to visit Hong Kong, to help compensate for the expected downturn in overseas tourists

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Hong Kong's enduring business advantages

Hong Kong's strategic location, pro-international business environment, dynamic multi-lingual workforce and cosmopolitan lifestyle have made the city one of the most popular locations for international business, in terms of numbers and value of foreign direct investment.

With sound fundamentals and flexible market institutions, Hong Kong should be able to recover swiftly once the global economic environment improves. Longer term prospects remain bright, as the strategy of leveraging on Hong Kong's fast-growing economic hinterland pays off and as productivity grows in the restructuring process towards a more knowledge-based economy continues.

The major infrastructure projects currently being developed will further facilitate the economic integration between Hong Kong and the Mainland, significantly enlarge the production capacity and raise the efficiency of the Hong Kong economy. The Hong Kong SAR government will also establish stronger links with other emerging market economies to develop more business opportunities.

In sum, Hong Kong's four economic pillars, its status as an international financial centre and regional hub for trade, logistics, tourism and business will be further enhanced.

With the recession expected to continue during 2009, there will be tough times ahead for Hong Kong, China and the rest of the global economy. However the Honourable John Tsang, Financial Secretary of the Hong Kong SAR Government, predicts that Hong Kong's economy will bounce back in 2010 and be in an even better position to capitalise upon the territory's enduring and emerging business advantages.

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