

Growing with risks



General Information

GDP	USD310bn (World ranking 38, World Bank 2015)
Population	7.3mn (World ranking 100, World Bank 2015)
Form of state	Limited Democracy
Head of government	Leung Chun-ying
Next elections	2017, chief executive election



Strengths

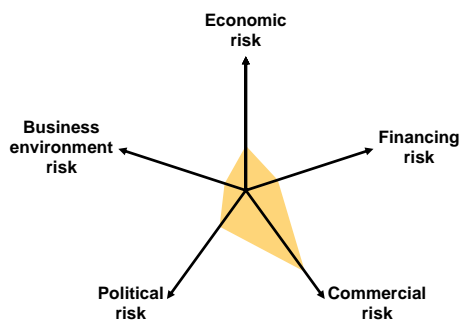
- Being a gateway to China and close ties help Hong Kong capitalize on competitive advantage in finance and services
- Good record of strong dynamic growth
- Strong external liquidity and public debt position
- Sound banking system and proven monetary policy framework
- Very strong business environment

Weaknesses

- Long-term competition from Mainland cities
- Sensitive to political developments in Mainland China
- As a small, very open and financially integrated economy, Hong Kong is highly sensitive to global economic and financial shocks
- Exposed to property sector price fluctuations

Country Rating

A2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	56% 1	47% China
United States	9% 2	6% Taiwan
Japan	3% 3	6% Japan
India	3% 4	6% Singapore
Vietnam	2% 5	6% United States

By product (% of total)

Exports	Rank	Imports
Electrical machinery, apparatus and appliances	29% 1	29% Electrical machinery, apparatus and appliances
Telecommunication and sound recording apparatus	19% 2	17% Telecommunication and sound recording apparatus
Office and automatic data processing machines	10% 3	8% Office and automatic data processing machines
Gold, non-monetary	9% 4	7% Gold, non-monetary
Miscellaneous manufactured articles	5% 5	5% Miscellaneous manufactured articles

Source: UNCTAD



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Economic Overview

Bouncing back but...

GDP growth decelerated once more in 2016 (1.9% from 2.4% in 2015) due to limited export opportunities and weak growth in domestic demand.

In 2017, the economy is set to bounce back (+2.2%) but remain below its long-term performance (+3.5%). Exports of goods and services are set to rise gradually. Reasons include: (i) demand growth in advanced economies strengthened, (ii) economic growth becomes more balanced in China, (iii) activity growth speeds up in the other emerging markets. Investment should also improve due to favorable fiscal policies.

In the longer term, the outlook is more uncertain. First, a more protectionist US, weaker growth in China or a stronger local currency (HKD) could hamper the fragile exports recovery. Second, a strong tightening of global financing conditions (due to more hawkish Fed, e.g.) or a rise in global risk aversion (Brexit) could act as a drag. Domestically, uncertainties stem from the change of chief executive and its policy direction. Against this backdrop, insolvencies are set to remain on an upward trend (+8% in 2017 after +7% in 2016).

Monetary policy: on a tightening mode

Monetary policy is determined by the currency board that pegs the HKD exchange rate to the USD. Therefore, interest rates mirror those of the U.S. In that respect, Hong Kong's monetary policy was tightened in line with the previous Fed hikes. Assuming the FED will continue to raise rates, this trend is set to continue. This will translate into tougher credit conditions for the private sector but also low inflationary pressures.

Public finances and external position at healthy levels

Hong Kong has built significant buffers over the past years. Fiscal reserves stand at 37% of GDP. Public debt is low and fiscal balance is in surplus.

The 2017-18 budget is expansionary. It includes tax cuts for households; allowances for senior citizens and the poor; supportive measures for targeted sectors such as travel agents, hotels and restaurants, aircraft leasing companies, construction; and public spending for youth development.

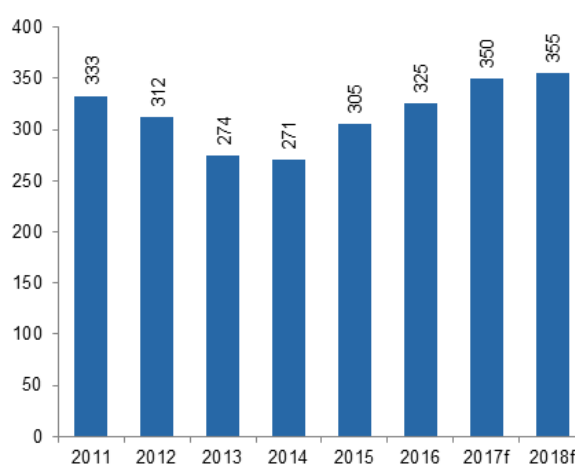
Furthermore, the external position is comfortable. Hong Kong continues to record large current account surplus, and maintain large reserves. The external debt is hefty but should not be a matter of concern in the short-run. Hong Kong benefits from a robust net creditor position: net external financial assets represent 357% of GDP.

Key economic forecasts

	2015	2016f	2017f	2018f
GDP growth (% change)	2.4	1.9	2.2	2.0
Inflation (% , year average)	3.0	2.4	2.2	2.4
Fiscal balance (% of GDP)	0.6	1.4	1.5	0.9
Public debt (% of GDP)	0.1	0.1	0.1	0.1
Current account (% of GDP)	3.1	4.3	3.7	3.8
External debt (% of GDP)	421	417	420	422

Sources: HKMA, IHS, IMF, Euler Hermes

Corporate insolvencies



Sources: IHS, Euler Hermes

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