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Moderate Growth with Fresh Drivers
—— 2025 Hong Kong Economic Outlook

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Driven by strong commodity trade, Hong Kong's economy continued the recovery momentum in 2024, with an expected annual growth rate of 2.5%. Looking into 2025, opportunities and challenges coexist. The global political and economic landscape is undergoing new changes, and factors such as weakened external demand bring uncertainties to Hong Kong's economy. However, lower interest rates and Hong Kong's further integration into China's development all accumulate new economic driving forces. We anticipate that Hong Kong's economic growth will maintain positive in 2025, with the total volume reaching a record high.

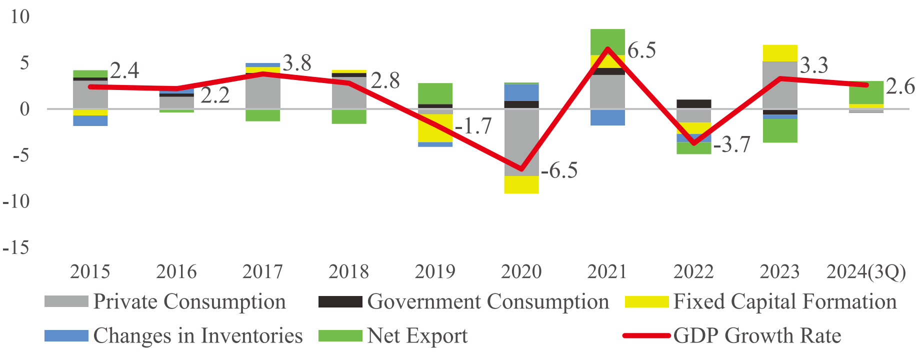
I. 2024 Economic Review

In early 2023, Hong Kong achieved border reopening with the outside, marking a new phase of economic development. Driven by the merchandise trade, Hong Kong's economy continued the recovery momentum of 2023 in 2024, exhibiting several important characteristics as follows.

1. Steady economic recovery with a growth rate of around 2.5%

After suffering three years of the COVID-19 pandemic, Hong Kong's economy rebounded in 2023, recording a GDP growth rate of 3.3% and start afresh in the post-pandemic era. In 2024, Hong Kong's economy continued the recovery momentum, with the first three quarters showing a year-on-year GDP growth rate of 2.6%. Private consumption decreased by 0.56% year-on-year, while the total gross fixed capital formation increased by 2.69%. Merchandise exports and

Figure 1: Hong Kong GDP Growth Rate and Contributions of Each Part



Source: Wind, BOCHK Financial Research Institute service outputs rose by 5.75%, while merchandise imports and service inputs increased by 4.34%. We expect Hong Kong's economy to achieve a growth rate of 2.5% in 2024, which is roughly comparable to the average level of the decade before the pandemic. However, in terms of total volume, it may still be about 0.3% lower than the pre-pandemic economic total in 2018.

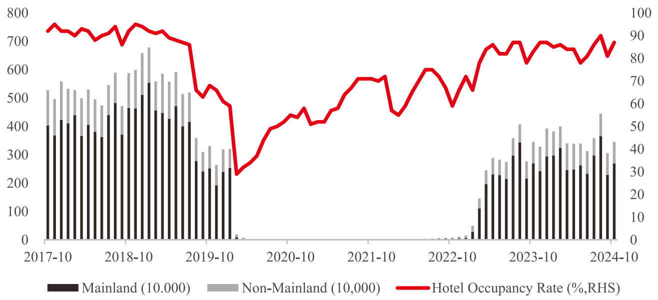
2. Strong merchandise trade is the main driver

Benefiting from favorable conditions such as a low base in the previous period and strong external demand, Hong Kong's merchandise trade recorded rapid growth in 2024. In the first 10 months, the value of exports increased by 9.9% year-on-year, while the value of imports rose by 6.8%. The growth rate of exports significantly outpaced that of imports, leading to an increase in net exports. In the first three quarters of 2024, net exports contributed 2.49 percentage points to Hong Kong's GDP growth, accounting for a remarkable 96% of the GDP growth rate, making it the most important driver in 2024. Meanwhile, service trade showed significant divergence during the year. In the first three quarters of 2024, Hong Kong's service imports increased by 12.7% year-on-year, maintaining a high-speed growth, while service exports recorded only a 4.3% increase. Compared to the same period in 2018, service imports in the first three quarters of 2024 had recovered to 96%, while service exports had only recovered to 76%.

3. Changes in consumption habits put pressures on retail performance

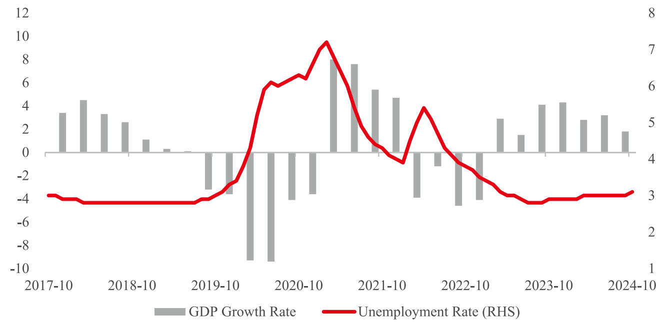
After the reopening, the number of visitors to Hong Kong rebounded quickly. In the first 10 months of 2024, the number of visitors increased by 37.0% year-on-year, with non-Mainland visitors rising by 53.5%, outpacing the 32.8% increase of Mainland visitors. However, the consumption habits of visitors have fundamentally changed compared to pre-pandemic times, shifting from a focus on eating, shopping, and entertainment to a greater interest in cultural and in-depth travel experiences. This has resulted in a slower-than-expected recovery in tourist consumption expenditure. At the same time, with cross-border travel becoming more convenient, there is a new trend of Hong Kong residents shopping in Mainland China, which will reduce local consumption expenditure, impacting Hong Kong's retail sector. In the first 10 months of 2024, the total sales value of Hong Kong's retail sector decreased by 7.1% year-on-year, with total retail sales amounting to HKD 312.3 billion, which is less than 80% of the sales total for the same period in 2018.

Figure 2: Visitors to Hong Kong and Hotel Occupancy Rates



Source: Wind, BOCHK Financial Research Institute

Figure 3: Hong Kong GDP Growth Rate and Unemployment Rate (%)



Source: Wind, BOCHK Financial Research Institute

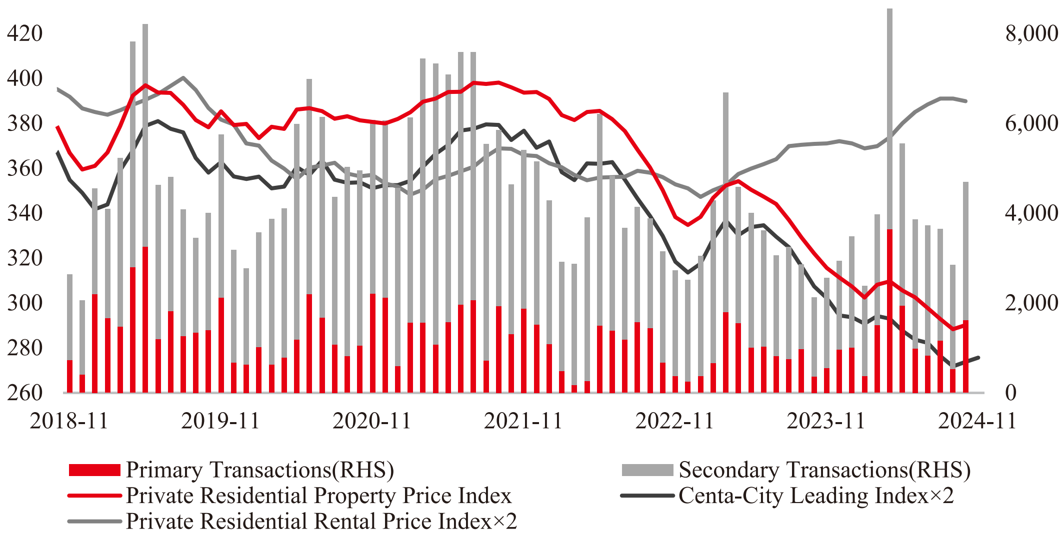
4.Tight labor market with inflation maintaining at low levels

In 2024, Hong Kong's labor market remained strong, with the seasonally adjusted unemployment rate around 3.0% consistently and the underemployment rate stable at about 1.2%, both returning to pre-pandemic lows. Additionally, influenced positively by population inflows and talent attraction policies, Hong Kong's total labor force and total employment numbers showed signs of recovery. In terms of inflation, benefiting from the robust supply and price stabilization system in Mainland China, Hong Kong's overall consumer price index remained relatively moderate. In the first 11 months of 2024, the overall consumer price index increased by 1.8% year-on-year, and netting out the effects of all government's one-off relief measures, the year-on-year rate of increase in the composite CPI rose by 1.1%. Aside from significant increases in alcoholic drinks and tobacco prices due to higher tobacco taxes, the price increases for other consumer goods remained generally controllable.

5. The real estate prices decreased, while stock market rebounded from the bottom

In 2024, Hong Kong's real estate prices declined. In the first 11 months, the residential property price fell by 6.6%, a decrease of 26.9% from the historical high in September 2021, returning to levels seen at the end of 2016. The early 2024 Budget announced of removing all the property-related demand-side management measures, leading to a brief price jump in residential property market with a short-term increase in transaction volumes. However, three months after the announcement, property price returned to a downward trend, and transaction volume also dropped significantly. Commercial property prices and rents also declined throughout the year, with office and retail property prices decreasing by 19.2% and 15% respectively in the first 9 months of 2024. Conversely, the stock market showed positive signs, with the Hang Seng Index rising by a cumulative 13.9% in the first 11 months of 2024. The average daily turnover reached HKD 130.9 billion, a year-on-year increase of 24%, while the total amount raised through IPOs reached HKD 79 billion, a year-on-year growth of 109.7%, placing Hong Kong back among the top 4 globally for IPO fundraising.

Figure 4: Private Residential Price Index and Transaction Numbers



Source: Wind, BOCHK Financial Research Institute

II. Opportunities and Challenges

Looking into 2025, opportunities and challenges coexist. The global political and economic landscape is undergoing new changes, increasing the risk of economic downturns. Meanwhile, the new U.S. government's tariff policies and tendencies towards increasing government spending may trigger black swan events that could lead to financial and social crises, negatively impacting Hong Kong's economy. On the other hand, as inflationary pressures ease, major economies are expected to cut interest rates continuously, which would benefit consumption, investment, and other economic activities. Furthermore, as Mainland China continues to focus on cultivating new quality productive forces and deepening high-level openness, the Hong Kong government is actively aligning with national development strategies and measures, bringing Hong Kong new development opportunities.

1. Three major challenges

First, there is an increase in global economic uncertainties. The year 2024 marks a "super election year," with over 70 countries holding leadership or parliamentary elections, affecting more than half of the global population. This could lead to new changes in the global economic landscape, bringing more uncertainties to global economic growth in 2025. Structurally, global economic conditions in 2025 may exhibit synchronized declines in both aggregate demand and supply. Growth in global consumer spending may slow down, while challenges to business fixed asset investment and international trade may arise. The supply side is also expected to face significant pressures, with the service sector anticipated to return to normal growth levels after a rapid rebound post-pandemic. As a small but highly open economy, Hong Kong is closely linked to the world, and a global economic downturn will directly affect Hong Kong. Moreover, since the COVID-19 pandemic, profound changes have occurred in the global economy, including regionalization of supply chains and ongoing de-intermediation, presenting considerable challenges for Hong Kong's long-term economic development.

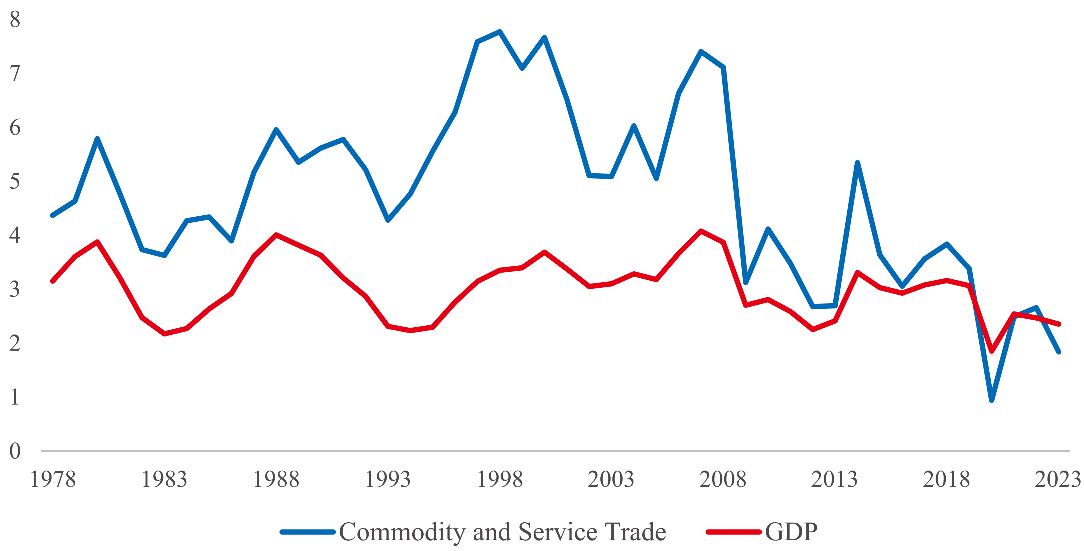
Table : Summary of International Organization Forecasts

		World		United States		Euro Area	
		2024	2025	2024	2025	2024	2025
World Bank	January 2024	2.4	2.7	1.6	1.7	0.7	1.6
	June 2024	2.6	2.7	2.5	1.8	0.7	1.4
IMF	April 2024	3.2	3.3	2.7	1.9	0.8	1.5
	July 2024	3.2	3.3	2.6	1.9	0.9	1.5
	October 2024	3.2	3.2	2.8	2.2	0.8	1.2
OECD	May 2024	3.1	3.2	2.6	1.8	0.7	1.5
	September 2024	3.2	3.2	2.6	1.6	0.7	1.3

Source: IMF, World Bank, OECD, BOCHK Financial Research Institute

Second, under the trend of deglobalization, international trade may weaken. In 2025, the risk of rising global trade protectionism is expected to increase. During his campaign for the U.S. presidency, Trump proposed a 10% baseline tariff on all imported goods, planned to revoke China's Most Favored Nation status and impose tariffs of at least 60% on Chinese goods. Regions such as China and the European Union have indicated they will take countermeasures in response to the U.S. trade protection policies, potentially leading to a new round of tariff policy disputes globally. Before the COVID-19 pandemic, global trade growth generally outpaced economic growth due to the globalization. However, in recent years, trade growth has significantly slowed down, and in 2025, global trade growth may decline further. As an international trade center, Hong Kong relies heavily on foreign trade, which accounted for 16.3% of its GDP in 2022. The intensification of deglobalization may negatively impact Hong Kong's foreign trade, dragging down economic growth.

Figure 5: Global Trade and GDP Growth Rate (%; 5YMA)



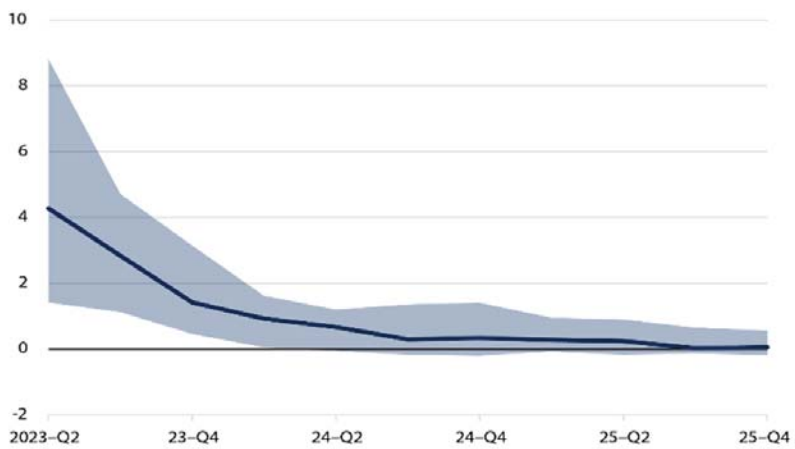
Source: World Bank, BOCHK Financial Research Institute

Third, a strong DXY may persist throughout the year, while global debt risks are rising. Historically, periods of U.S. interest rate cuts are often accompanied by a weakening DXY. However, starting in September 2024, the U.S. has entered a new cycle of interest rate cuts, yet the DXY has risen against this trend. Trump's economic policies may increase the risk of inflation in the U.S., potentially delaying the pace of interest rate cuts, which would keep the DXY strong in 2025, posing significant challenges to the stability of emerging market economic and financial systems. On the other hand, since the COVID-19 pandemic, global public debt levels have risen rapidly. The IMF projected that global public debt will exceed $100 trillion for the first time by the end of 2024, reaching 93% of global GDP. With interest rates and debt levels remaining high, government interest expenditures continue to climb, exacerbating domestic debt pressures and potentially triggering a new crisis. Should these risks materialize, they could impact Hong Kong's economic and financial stability through the global financial system.

2. Three positive factors

First, the trend in interest rates is favorable for consumption, investment, and other economic activities. In 2024, global inflation experienced a brief rebound but ultimately trended downwards. As inflation cooled, monetary policies in major economies began to shift towards a looser stance. Currently, both Europe and the U.S. have begun the process of cutting interest rates. The Federal Reserve announced a 50 basis points cut to the federal funds rate in September 2024, followed by two additional cuts of 25 basis points each in November and December, bringing the federal funds rate down to 4.25%-4.50%. The European Central Bank also announced a 0.25 percentage point reduction in the benchmark deposit rate to 3% on December 12, marking the fourth cut since the easing cycle began in June 2024. In 2025, as inflation trends downward in Europe and the U.S., interest rates in these regions are expected to decline further. Given that Hong Kong adopts the linked exchange rate system, the HKD interest rates will benefit from U.S. rate cuts, likely continuing to decline in 2025, which will support consumption, investment, and other economic activities.

Figure 6: Deviation of Inflation from Central Bank Targets (Percentage Points)



Source: IMF, BOCHK Financial Research Institute

Second, the growing population is beneficial for expanding the economic aggregate. After Hong Kong restored its borders with the outside world, many Hong Kong residents have turned back to Hong Kong, and individuals from Mainland China and overseas moving to Hong Kong through various programs. Starting in 2023, Hong Kong's total population has returned to an upward trend. By the end of 2023, the population surpassed 7.5 million, with an increase of 30,000 people compared to the end of 2022, representing a year-on-year growth of 0.4%. By mid-2024, Hong Kong's population further increased to 7.53 million. At the same time, Hong Kong government places a high priority on talent development. In the latest Policy Address, the government expanded the list of universities under the Top Talent Pass Scheme, enhanced the General Employment Policy and the Admission Scheme for Mainland Talents and Professionals, reformed various aspects of the talent admission regime. Moreover, Hong Kong government will assist in the retention of talents in Hong Kong to promote Hong Kong as an international hub for high-calibre talents. Hong Kong's total population is expected to grow in 2025, which is beneficial for expanding the economic aggregate.

Third, Hong Kong is further integrating into the national development, accumulating new economic growth driving forces continuously. The Chief Executive's 2024 Policy Address mentioned to consolidate and enhance Hong Kong's status as an international financial, shipping, and trade center, develop new quality productive forces tailored to local conditions, take forward the Northern Metropolis as growth engines and deepen GBA cooperation. In 2025, Hong Kong plans to establish an international gold trading market, create a commodity trading ecosystem, set up internationally recognized metal warehouses, promote the development of high value-added maritime services, and advance the low-altitude economy, thereby accumulating new economic growth driving forces continuously. Additionally, Mainland China continues to focus on cultivating new quality productive forces and deepening high-level openness, further consolidating and enhancing economic development momentum. It is anticipated that in 2025, Hong Kong will benefit from a series of supportive measures from the central government, further integrating into the national development.

III. 2025 Economic Outlook

It is anticipated that in 2025, Hong Kong's economy will remain positive growth, and reach a historic high in total volume. The specific forecasts are as follows.

1. Economic growth remains positive, with the total volume reaching a record high

Since 2019, various challenges have emerged, including the outbreak of COVID-19 and exacerbation of geopolitical tensions, leading to three years of economic contraction in Hong Kong out of five. This situation is due to both cyclical factors and structural issues. However, the overall resilience of Hong Kong's economy remains strong. In the post-pandemic era, the world is entering a period of profound change unseen in a century, and Hong Kong's role as a super connector will become more prominent. Coupled with Hong Kong government's determination to attract talents, Hong Kong's total population is expected to grow continuously in 2025, which is beneficial to economic total volume. Our model indicates that under baseline conditions, Hong Kong's economy is expected to achieve a growth rate of around 2.5% in 2025, with total output surpassing the peak level of 2018.

2. Contribution of consumption shifts to positive, while contribution of commodity trade declines

Due to changes in the consumption patterns of visitors and residents, as well as the high exchange rate of HKD, the growth in service exports decreased in 2024, and growth of private consumption expenditure turned negative year-on-year. However, the external demand for goods remained relatively strong, serving as the most important driver of Hong Kong economic recovery in 2024. We anticipate that in 2025, the engine for Hong Kong's economic growth will shift. As the population increases and the marginal impact of resident consumption in the Mainland weakens, the contribution of consumption to economic growth will turn positive. At the same time, external demand may weaken in 2025, compounded by increasing global economic uncertainties, which will affect Hong Kong's foreign trade activities. It is expected that the contribution of commodity trade to economic growth will decline compared to 2024.

3. Inflation remains relatively stable, with the annual inflation rate centering around 1.5%

Hong Kong's inflation is influenced by both Mainland China and the United States. The largest components in Hong Kong's inflation weighting are housing and food, accounting for about 40% and 27%, respectively. Currently, Europe and the U.S. have entered a rate-cutting cycle, and it is anticipated that HKD interest rates will continue to trend downward in 2025, which may encourage tenants to shift from renting to buying, potentially cooling the rental market and lowering housing inflation. Moreover, the Mainland China's robust supply and price stabilization system has significantly mitigated external inflationary pressures on Hong Kong, with limited price increases expected for food, energy, and durable goods in 2025. We expect that CPI in Hong Kong will remain relatively stable in 2025, with the annual inflation rate likely centering around 1.5%.

4. The labor market remains strong, with total labor force on an upward trend

After the reopening, many Hong Kong residents have turned back to Hong Kong. Meanwhile, a series of talent attraction policies implemented by the government since the end of 2022 have yielded substantial results. As of the end of November 2024, over 420,000 applications have been received for various talent programs, with more than 350,000 approved talents and their families having arrived in Hong Kong. These talents and their families not only contribute to a positive population growth in Hong Kong, but also have a positive impact on the demographic structure and labor market. Benefiting from this influx of talents, the labor market in Hong Kong is expected to remain strong in 2025, with the unemployment rate likely to stay at around 3%, and both the total labor force and employment figures are expected to trend upwards.

5. Commercial property price declines continuously, while residential property price stabilizes at the bottom

Due to the increase in the supply of office and commercial properties in recent years, there is an oversupply issue with high vacancy rates. Coupled with high interest rates expected to persist, the downward trend in the office and retail property markets is anticipated to be difficult to reverse in 2025. In contrast, in the residential market, as interest rates decline, the attractiveness of property investment gradually increases. Additionally, Hong Kong's economy recoveries steadily and residents' financial conditions remain healthy. Furthermore, the active entry of Mainland buyers into the market after removing all the property-related demand-side management measures, along with the counterintuitive rise in rents, indicates underlying support for the residential market. The negative impacts of high interest rates are expected to continue in the first half of 2025, while residential property prices are likely to stabilize at the bottom in the second half of 2025.

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主要經濟指標 (Key Economic Indicators)

一、本地生產總值 GDP	2022	2023	2024/Q2	2024/Q3
總量(億港元) GDP(HKD 100million)	28,090	29,010	7,165	7,479
同比增長率 (%) YoY change(%)	-3.7	3.3	3.3	1.8
二、對外商品貿易 External merchandize trade			**2024/10**	**2024/1-10**
外貿總值(億港元) Total trade(HKD 100million)				
總出口 Total exports	45,317	41,774	3,930	37,421
總進口 Total imports	49,275	46,450	4,240	40,438
貿易差額 Trade balance	-3,958	-4,676	-310	-3,017
年增長率 (%) YoY Growth(%)				
總出口 Total exports	-8.6	-7.8	3.5	9.9
總進口 Imports	-7.2	-5.7	4.5	6.8
三、消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	1.9	2.1	1.4	1.8
四、零售市場 Retail market				
零售額同比升幅 (%) Change in value of total sales YoY(%)	-0.9	16.2	-2.9	-7.1
五、訪港遊客 Visitors				
總人數(萬人次) Total arrivals(10 thousands)	60.5	3,400.0	409.0	3,667.9
年升幅 (%) YoY change(%)	561.5	5,523.8	18.3	37.0
六、勞動就業 Employment			**2024/8-2024/10**	**2024/9-2024/11**
失業人數(萬人) No. of unemployed(10 thousands)	16.3	11.3	12.1	12.0
失業率 (%) Unemployment rate(%)	4.3	2.9	3.1	3.1
就業不足率 (%) Underemployment rate(%)	2.3	1.1	1.1	1.1
七、住宅買賣 Domestic property sales and price index			**2024/9**	**2024/10**
合約宗數(宗) No. of agreements	45,050	43,002	2,848	4,697
住宅售價指數 (1999=100) Domestic price index	369.7	337.4	287.9	290.1
八、金融市場 Financial market			**2024/10**	**2024/11**
港幣匯價 (US$100=HK$) 期末值 HKD exchange rate (US$100 = HK$), end of period	780.8	781.1	777.3	778.4
銀行體系收市總結餘(億港元)期末值 Closing aggregate balance(HKD 100million), end of period	962.5	449.5	447.3	447.9
銀行總存款升幅 (%) Change in total deposits(%)	1.7	5.1	5.8	-
銀行總貸款升幅 (%) Change in total loans & advances(%)	-3.0	-3.6	-3.2	-
最優惠貸款利率 (%) 期末值 Best lending rate (%), end of period	5.6250	5.8750	5.6250	5.3750
恒生指數 Hang Seng Index	19,781	17,047	20,317	19,424