AMRO Country Report
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ASEAN +3 MACROECONOMIC RESEARCH OFFICE

AMRO Annual Consultation Report

Hong Kong, China - 2025

ASEAN+3 Macroeconomic Research Office (AMRO)

August 2025

Acknowledgments

1. This Annual Consultation Report on Hong Kong, China has been prepared in accordance with the functions of AMRO to monitor, assess and report on its members' macroeconomic status and financial soundness, to identify relevant risks and vulnerabilities, and to assist them in the timely formulation of policy to mitigate such risks (Article 3 (a) and (b) of the AMRO Agreement).

2. This Report is drafted on the basis of the Annual Consultation of AMRO with Hong Kong, China from May 12-23, 2025 (Article 5 (b) of the AMRO Agreement). The AMRO Mission team was headed by Dr Jae Young Lee, Group Head and Lead Economist. Members include Mr Jungsung Kim, Economist and Desk Economist for Hong Kong, China; Dr Fan Zhai, Senior Economist; Mr Suan Yong Foo, Senior Economist; Ms Vanne Khut, Economist; and Dr Chenxu Fu, Associate Economist. Former AMRO Director Dr Kouqing Li and former Chief Economist Dr Hoe Ee Khor also participated in key policy meetings with the authorities. This AMRO Annual Consultation Report on Hong Kong, China for 2025 was peer-reviewed by a group of economists from AMRO's country surveillance, financial surveillance, fiscal surveillance, and policy review teams; endorsed by Jiangyan Yu, Senior Economist, the Policy and Review Group; and approved by Dr Dong He, AMRO Chief Economist.

3. The analysis in this Report is based on information available up to June 10, 2025.

4. By making any designation of or reference to a particular territory or geographical area, or by using the term "member" or "country" in this Report, AMRO does not intend to make any judgments as to the legal or other status of any territory or area.

5. On behalf of AMRO, the Mission team wishes to thank the Hong Kong, China authorities for their comments on this Report, as well as their excellent meeting arrangements and hospitality during our visit.

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Executive Summary

1. Amid heightened uncertainty, Hong Kong, China's[1] economy is contending with a complex balance of headwinds and tailwinds. The most immediate and pressing concern stems from the city's sensitivity to global trade, particularly the tensions between the US and China and the associated slowdown in global trade. However, within this challenging environment, Hong Kong's unique role as a "super connector" between Mainland China and the rest of the world has come into sharper focus. This has supported a pickup in financial activity, offering a potential opportunity amid rising uncertainties.

2. Hong Kong's economy is expected to sustain steady but moderate growth, with projections of 2.1 percent in 2025 and 1.9 percent in 2026. The recovery in domestic consumption may remain subdued due to a shift in spending patterns among Hong Kong residents. Investment is expected to recover slowly amid weakness in the property sector. Externally, if trade tensions re-escalate, concerns over the outlook for Hong Kong's trade sector may intensify. A moderate economic expansion alongside low food inflation is expected to ease price pressures, with headline CPI projected to rise to 1.8 percent in 2025 and 1.6 percent in 2026.

3. While US-China tensions pose external risks, their direct impact on Hong Kong is likely limited, with related re-exports making up only around 6 percent. Hong Kong has traditionally served as a trade hub, bridging Mainland China and the rest of the world. As re-exports between the US and China routed through Hong Kong account for only around 6 percent of total exports, the direct negative impact on Hong Kong may be limited.

4. That said, trade tensions could have second-round effects on Hong Kong by dampening global demand for its services exports, particularly to Mainland China. Services exports accounted for 25.5 percent of Hong Kong's GDP in 2023, with Mainland China as the largest destination. Although services trade has not been directly targeted by President Trump's tariff measures, it remains susceptible to spillover impacts. As global trade volumes decline and business confidence deteriorates, demand for associated services—such as logistics, finance, legal consulting, and insurance—is also likely to weaken.

5. Domestically, cyclical factors—including subdued consumption and uncertainties in the property market—could weigh on the recovery. The changes in residents' spending patterns may constrain a rebound in domestic consumption. Weakness in the property market could weigh on both household and business sentiment, although the sector is showing signs of recovery, supported by government measures and the general decline in local interest rates. In the medium term, Hong Kong's vulnerability to broadened geoeconomic fragmentation, aging population, and climate change are major risks.

6. Despite mounting risks, Hong Kong is well positioned to navigate uncertainties and seize emerging opportunities. A renewed pickup in financial activity amid trade tension provides new opportunities for Hong Kong. Hong Kong plays a critical role as the most preferred offshore fundraising location for Mainland firms, particularly amid intensifying US-China tensions. With more Mainland companies potentially reconsidering US listings, Hong Kong is poised to benefit.

[1] Hong Kong, China will be referred to as Hong Kong hereafter.

7. The Linked Exchange Rate System (LERS) has remained stable, supported by the authorities' consistent efforts to maintain monetary and financial stability. Recently, the Hong Kong dollar has experienced heightened volatility. As fund-raising activities, including IPOs, picked up, the Hong Kong dollar touched the strong side of the convertibility band in May. It then depreciated toward the weak side of the band. The recent weakness primarily reflects abundant liquidity due to FX market intervention, which has led to a decline in HIBOR and widened interest rate differentials. Therefore, the increased volatility in the Hong Kong dollar is not abnormal but rather a reflection of market-driven capital flows.

8. The government should stand ready to deploy timely and targeted support measures to cushion the economy against rising risks. It would be prudent for the government to develop contingency fiscal measures that can be quickly refined, approved, and rolled out in the event of a sharp slowdown. With fiscal reserves declining, any contingency measures should be temporary and well-targeted, with a focus on supporting lower-income households, vulnerable groups, and affected sectors. At the same time, the authorities should continue efforts to prevent a disorderly adjustment in the property market.

9. AMRO welcomes the government's commitment to medium-term fiscal consolidation. To ensure successful fiscal consolidation, the government should consider reviewing its tax system with a view to diversifying and strengthening its revenue streams. By adopting a strategy that includes a mix of broadening the tax base, tapping alternative revenue sources, and implementing reforms gradually, Hong Kong can strengthen its fiscal position while maintaining its tax competitiveness.

10. Addressing labor market challenges and fostering new growth drivers are essential to ensuring sustainable economic growth. The government's ongoing efforts to attract skilled talent are an important step forward and should be sustained. In parallel, continued support for artificial intelligence (AI), fintech, and sustainable finance is vital to developing new growth drivers.

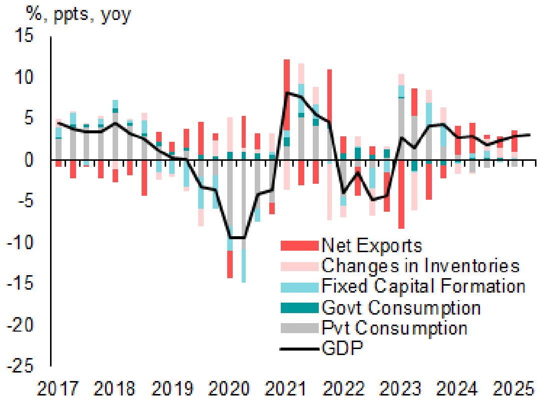
11. The government should continue to enhance Hong Kong's unique role as a "super connector" between Mainland China and the rest of the world. The ongoing revitalization of financial activity, even amid global trade tensions, underscores the strength of this policy direction. In the face of prolonged geopolitical tensions, Hong Kong will need to continue to diversify its economic relationships. Expanding trade partners and global linkages will be essential to maintaining its position as a leading international business and finance hub amid rising protectionism.

A. Recent Developments and Outlook

A.1 Real Sector Developments and Outlook

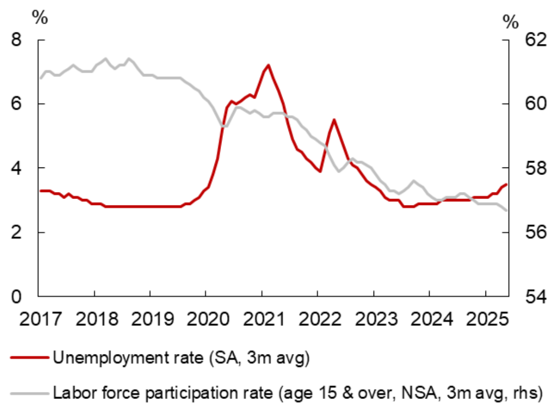
1. **Following a notable rebound in 2023, Hong Kong's economy maintained moderate growth in 2024, led by external trade.** Hong Kong's GDP rose by 3.2 percent in 2023 and stood at 2.5 percent in 2024 amid weakening domestic demand. Private consumption, which had expanded significantly in 2023, contracted by 0.7 percent (year-on-year) in 2024 due to weaker consumer sentiment and a shift in residents' spending pattern. Investment growth also slowed sharply to 1.9 percent (yoy) in 2024 from 11.4 percent in 2023, reflecting property sector weakness and tight financial conditions. Nonetheless, the recovery in the tech cycle and the subsequent expansion in external demand supported goods exports, partially offsetting the domestic slowdown. From April 2025, the imposition of high import tariffs by the US on China heightened concerns about a potential global trade slowdown and its adverse impact on the global economy and Hong Kong. These concerns eased following substantive positive developments arising from the US-China trade deal in mid-May. Despite the uncertain outlook, Hong Kong's GDP grew by 3.0 percent in the first half 2025, supported by front-loaded exports, steady external demand, increased inbound tourism and active cross-boundary financial activities supported by China's advancement in cutting-edge technology (Figure 1).

Figure 1. GDP Growth by Expenditure (Percentage Point Contribution)



Source: Census & Statistics Department (C&SD); Haver Analytics

Figure 2. Unemployment Rate and Labor Force Participation Rate



Source: C&SD; Haver Analytics

2. **The labor market showed continued improvement, but progress remained uneven across sectors.** The seasonally adjusted unemployment rate declined from its recent peak of 5.5 percent in February-April 2022 to 3.4 percent in the same period of 2025 (Figure 2). As the labor market tightened with an elevated ratio of job vacancies per unemployed persons,[2] wages continued to rise at a relatively high rate, averaging 3.6 percent (yoy) in 2023 and 3.7 percent in 2024. Total employment reached 3.7 million in February-April 2025 but remained 4.4 percent below the level recorded in Q4 2019 (Figure 3). As of 2024, the economically inactive population aged 15 and above in Hong Kong stood at 2.9 million (about 38.2 percent of the population), driven by an aging demographic. Among them, the population aged 60 and above accounted for 61.0 percent, marking a 13.1 percentage point increase compared to a

[2] The general increase in the ratio of job vacancies per unemployed persons (whole year, 2020 0.17 → 2021 0.25 → 2022 0.41 → 2023 0.69 → 2024 0.59) reflects ongoing hiring difficulties in the labor market.

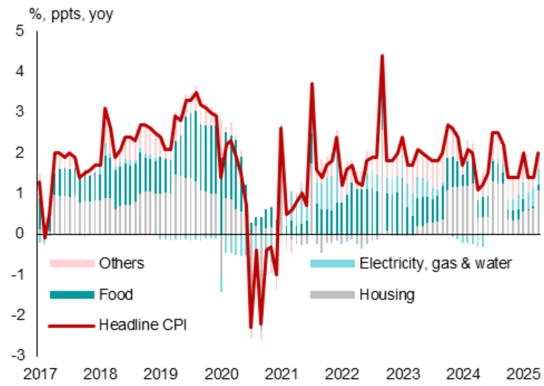
decade ago. Over the past years, many sectors have witnessed employment growth, with notable gains in public administration, social work activities, and human health activities. However, employment growth in sectors such as retail, accommodation services, manufacturing, and import and export trade has remained subdued.

3. **Despite the economic recovery, inflation has remained low.** The headline CPI increased by 2.1 percent in 2023, mainly driven by the prices of energy-related items, food, miscellaneous services, and housing. CPI inflation eased to 1.7 percent in 2024 and stayed at an average of 1.7 percent during the first four months in 2025 (Figure 4). Inflation in the housing component, which accounts for 40 percent of the composite CPI basket, rose from 1.0 percent (yoy) in 2023 to 2.1 percent in 2024. However, the moderation in food inflation and the decline in prices of durable goods helped contain overall CPI inflation, despite rising labor costs. With the stabilization of global oil prices, external price pressures were further alleviated.

Figure 3. Total Employment and Labor Force (3-month Average, NSA)

Source: C&SD; Haver Analytics

Figure 4. Contribution to Headline Inflation



Source: C&SD; Haver Analytics; AMRO staff calculations

4. **Looking ahead, Hong Kong economy is expected to see further moderate recovery despite external headwinds.** The services and tourism sectors are expected to remain robust, supported by easing cross-border travel and proactive government initiatives to attract tourists. However, the changes in residents' spending patterns may constrain a rebound in domestic consumption. Box A summarizes the government's initiatives to support retail and consumption. The recovery in investment is expected to slow amid an uncertain outlook for the real estate sector. Global trade uncertainty remains heightened following the US trade tariff hikes and China's countermeasures. The elevated uncertainty has raised concerns that the trade sector—which drove growth in 2024—could be under pressure, though renewed trade negotiations among major economies may offer some upside potential. As a result, GDP growth is expected to moderate to 2.1 percent in 2025, followed by 1.9 percent in 2026. Despite a tight labor market, the economic slowdown is expected to ease inflation, with headline inflation forecast at 1.8 percent in 2025 and 1.6 percent in 2026.

Box A. Revitalizing Hong Kong's Retail Sector: Some Recent Efforts and Initiatives[3]

Hong Kong authorities' recent efforts and initiatives to revitalize the city's retail sector reflect a recognition that sustained support for inbound tourism, targeted measures to retain domestic spending, and efforts to limit outbound leakage are needed. In addition to the Central Government's supportive measures such as expansion of Individual Visit Scheme (IVS) to 10 more cities and the reinstatement of multiple-entry IVS for Shenzhen residents, the authorities have implemented some important initiatives over the past two years, including; the hosting of mega-events and the revitalization of some tourist attractions of a historical or cultural nature, among others. Other support measures include the development of the "silver economy" and "green economy" as well as targeted government measures to incentivize retailers across the entire spectrum—from high-end luxury brands to start-ups offering niche products (Figure A1). The authorities also recognize that, to reduce outbound spending leakage, policies should aim to retain local consumption through providing seasonal domestic shopping incentives—such as time-limited retail vouchers or rebates during peak outbound travel periods—and the introduction of retail-linked loyalty points.

These efforts can help inject some vitality into Hong Kong's retail sector. The city has the infrastructure, creative talent, and global appeal to become the world's leading experiential retail destination. By blending cutting-edge tech, art, and cultural themes—and taking a comprehensive approach to address challenges related to inbound tourism, domestic spending, and outbound leakage, Hong Kong's retail sector can gain a new lease of life.

Figure A1. Boosting Hong Kong's Retail Sector: Some Key Efforts

Source: Hong Kong authorities; AMRO staff compilation

One factor that could affect the retail sector is the strength of the Hong Kong dollar. While the Hong Kong dollar exchange rate is market-driven within the controlled band of the LERS, the government can help support Hong Kong's competitiveness by providing rental or marketing support to tourism-facing retail districts. During periods of Hong Kong dollar strength, the authorities and retail sector could reinforce "value-for-money" messaging by highlighting Hong Kong's VAT-free advantage and enhancing the quality of retail services to maintain competitiveness. The authorities could also consider positioning Hong Kong as a niche retail shopping destination by developing interactive flagship stores, themed markets, and art-tech retail corridors that offer unique, experiential retail environments.

Preliminary outcomes from the retail revitalization initiatives, coupled with Hong Kong's continued global standing, reflect tentative progress in the retail sector's recovery. In the 2024 Global Cities Index (GCI), Hong Kong rose to ninth place globally, ahead of most Asian peers except Tokyo and Singapore, which are ranked fourth and fifth globally, respectively. Authorities and event organizers have coordinated a strong pipeline of mega events—over 90 scheduled for the first half of 2025, with approximately 840,000 tourists expected to participate and spend HKD3.3 billion in Hong Kong. The "silver" and "green" economies are also gaining momentum, with firms expanding offerings

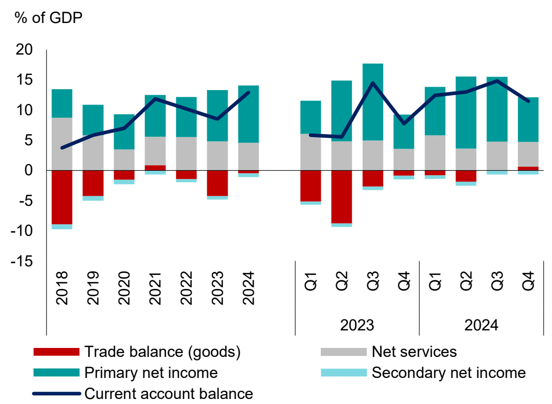
[3] Prepared by Suan Yong Foo and Vanne Khut

in elderly-friendly tech, health, home safety, and leisure. Luxury retail is showing signs of a comeback, attracting a new wave of Mainland Chinese middle-class shoppers. In a sign of returning confidence after years of contraction, prominent brands like Hermes, Dior, and Prada have secured high profile retail spaces, including an 8,000 square feet Prada store.

A.2 External Sector and the Balance of Payments

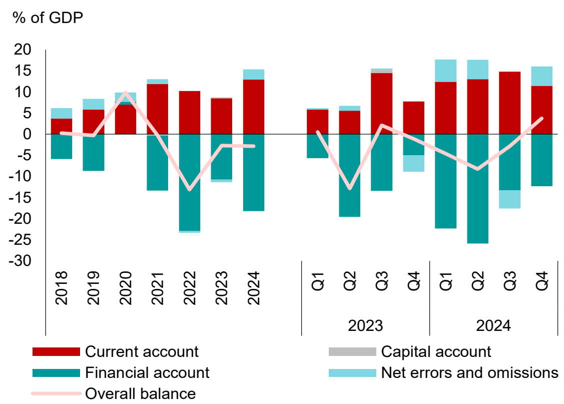
5. The external position remains strong, supported by a large current account surplus and substantial foreign reserves. Hong Kong's current account surplus rose significantly to 12.9 percent of GDP in 2024, from 8.5 percent in 2023, mainly driven by higher net primary income from increased investment earnings[4] and a smaller goods trade deficit (Figure 5). The net services surplus moderated slightly to 4.6 percent of GDP in 2024, from 4.8 percent in 2023, reflecting higher imports of services, particularly in travel and transport.[5] Meanwhile, the goods trade deficit narrowed to 0.5 percent of GDP, down from 4.2 percent in 2023, due to a surge in exports. However, the financial non-reserve account deficit widened by 7.4 percentage points, reaching 18.2 percent of GDP in 2024, attributable to increased portfolio investment outflows. As a result, the overall balance of payments deficit widened slightly to 2.8 percent of GDP in 2024 (Figure 6). This led to a moderate decline in Hong Kong's foreign reserves to USD412.5 billion as of March 2025, down from USD425.6 billion in December 2023, and equivalent to 37.6 months of retained goods imports.

Figure 5. Current Account Balance



Source: C&SD; Haver Analytics; AMRO staff calculations

Figure 6. Balance of Payments



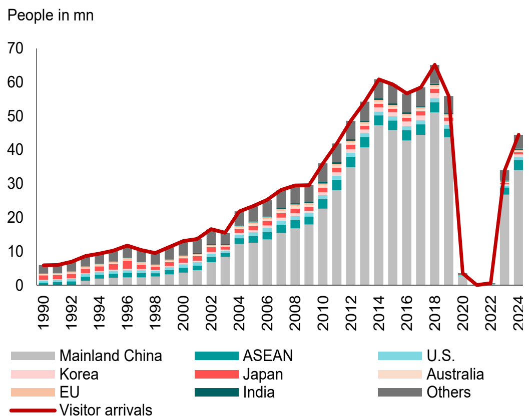
Source: C&SD; Haver Analytics; AMRO staff calculations
Note: Hong Kong's balance of payments follows BPM6. Financial account signs have been reversed for charting purposes and excludes reserve assets.

6. The tourism sector recovered strongly in 2024, but visitor arrivals and spending did not fully reach pre-pandemic levels. The number of tourist arrivals increased by 30.9 percent to 44.5 million in 2024, with 76.5 percent coming from Mainland China (Figure 7). Government initiatives, including promotional campaigns, hosting of major events such as Art Basel and the Hong Kong Sevens, and Mainland's travel facilitation for visitors to Hong Kong[6], helped stimulate inbound tourism. Consequently, hotel occupancy rates and business receipts

[4] These include portfolio investment income (mainly from interest), other investment income and income on reserves assets.
[5] This is due to the increase in outbound tourism, which grew faster than inbound arrivals, widening the tourism imbalance.
[6] This includes (i) expanding the Individual Visit Scheme (IVS) to 10 more cities, covering all provincial capitals, and (ii) resuming the multiple-entry IVS for Shenzhen permanent residents and expanding the multiple-entry IVS to Shenzhen residence permit holders. Prior to the resumption, Shenzhen only allowed its permanent residents to visit Hong Kong under a "one trip per week" IVS. The resumption of the multiple-entry IVS removed restrictions on the number of visits for eligible IVS holders.

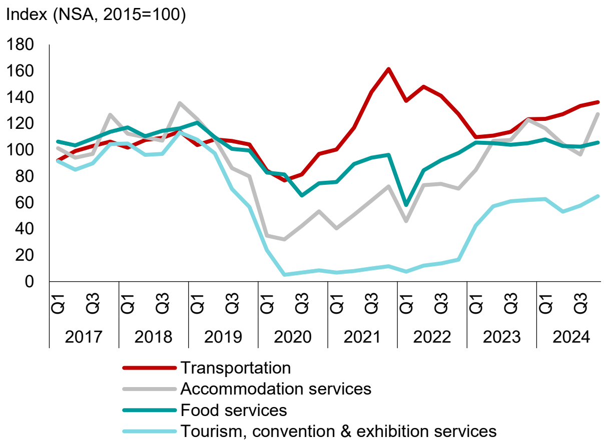
in tourism-related services improved[7], reflecting increased tourism spending[8] (Figure 8). This contributed to an increase in services exports to 26.7 percent of GDP in 2024, up from 25.5 percent in the previous year. However, total visitor arrivals in 2024 reached only 73.5 percent of their average level in 2018-19, attributable to a host of factors including stronger Hong Kong dollar, regional competition and the gradual recovery of outbound tourism from Mainland China. These factors have contributed to the weak performance of the retail sector in Hong Kong. Selected Issue 1 discusses the determinants of Hong Kong's retail sales and policy suggestions. The launch of the Development Blueprint for Hong Kong's Tourism Industry 2.0 in December 2024 represents a promising initiative and is expected to further support the sector's growth.[9]

Figure 7. Tourist Arrivals



Source: Hong Kong Tourism Board; AMRO staff calculations

Figure 8. Business Receipts Indices of Tourism-related Services



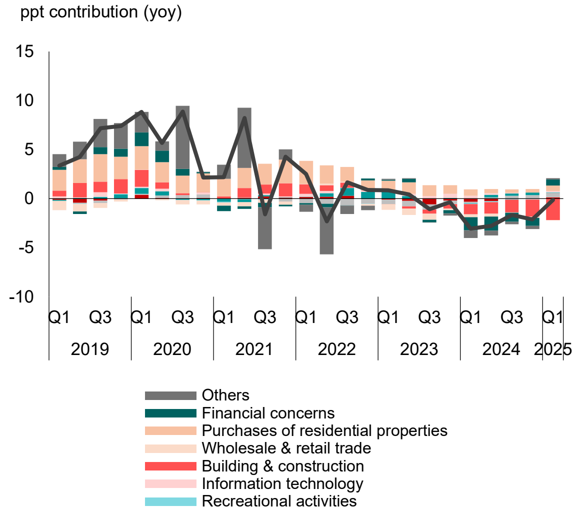
Source: C&SD

A.3 Monetary Conditions and the Financial Sector

7. Hong Kong's weak credit growth has recently shown nascent signs of stabilization, primarily supported by a steadying of trade finance and domestic lending. Loans for use in Hong Kong have started to stabilize from its prolonged downward trend since Q3 2023, although it remains in negative territory (Figure 9). Credit to the building and construction sector posted its fifth consecutive quarter of decline, representing the sharpest contraction among all sectors. Total property-related lending in Hong Kong, including mortgage loans, continued to contract—declining by 3.9 percent (yoy) in Q1 2025—yet it still accounted for around one-third of the total credit. Meanwhile, credit for use outside Hong Kong has continued declining since Q1 2022 and remains a drag on overall growth. The banking sector in Hong Kong has reduced its exposure to Mainland China (Figure 10).

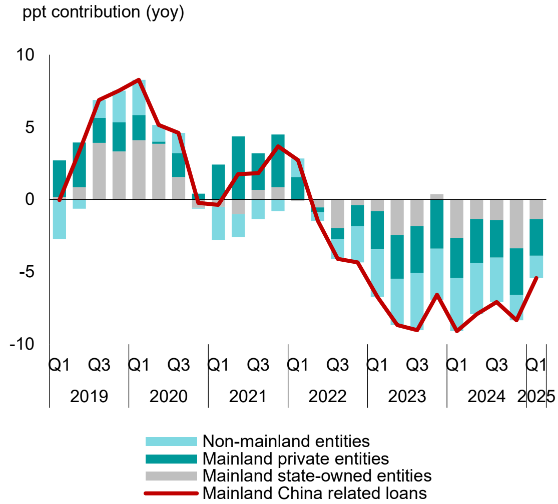
[7] Hotel occupancy rate increased to 85 percent in 2024 from 82 percent in 2023. Business receipts index of tourism, convention and exhibition services increased by 6.3 percent in 2024. Business receipts indices for transportation and accommodation services also increased by 13.8 percent and 5.3 percent, respectively, in 2024.
[8] The spending by same-day visitors and overnight visitors increased by 25.7 percent and 1.2 percent respectively in 2024.
[9] It is expected that in five years' time (i.e. 2029), the value added of the tourism industry will reach HKD120 billion and employment will increase to about 210 000.

Figure 9. Credit Growth Contribution



Source: HKMA; AMRO staff calculations

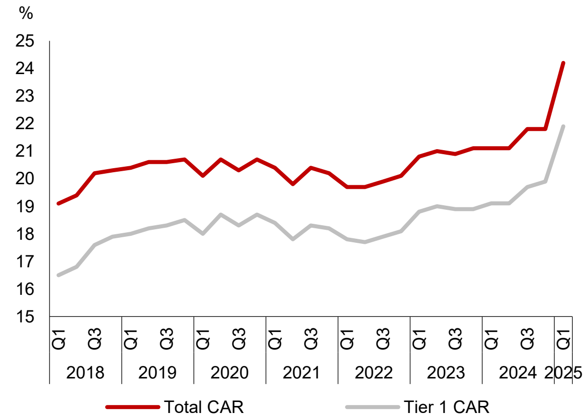
Figure 10. Mainland China related Loans



Source: HKMA; AMRO staff calculations

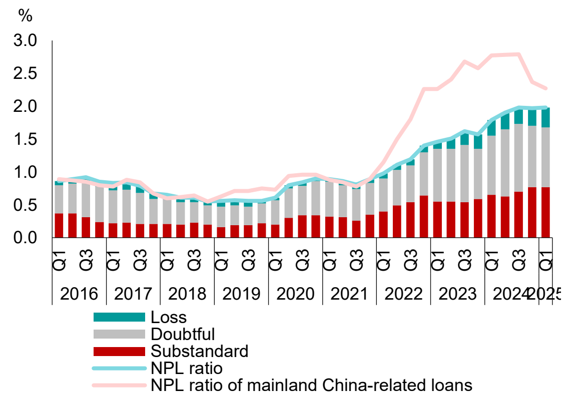
8. **Hong Kong's banking sector remains sound, underpinned by ample capital and liquidity buffers, and importantly, robust risk management.** Banks in Hong Kong are well-capitalized, with the Tier 1 Capital Adequacy Ratio (CAR) and Total CAR standing at 21.9 percent and 24.2 percent, respectively, in Q1 2025—well above the minimum regulatory requirements (Figure 11). On the liquidity front, both the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) rose to 182.5 percent and 143 percent, respectively, reaching near-historical highs. For Category 2 institutions, the Liquidity Maintenance Ratio (LMR) climbed to 67 percent in Q1 2025, further demonstrating strong liquidity buffers across the banking system sufficient to withstand potential shocks. Profitability remained relatively stable in 2024 and Q1 2025. Despite these strengths, the non-performing loan (NPL) ratio has been on a gradual upward trend since Q3 2021, reaching approximately 2 percent in Q1 2025, with special mention loans at 2.25 percent (Figure 12). The recent increase in special mention loans has been mainly attributed to the commercial real estate sector. Meanwhile, NPLs for Mainland China-related loans declined from 2.8 percent in the first three quarters of 2024 to 2.3 percent in Q1 2025.

Figure 11. Capital Adequacy Ratios



Source: HKMA; AMRO staff calculations

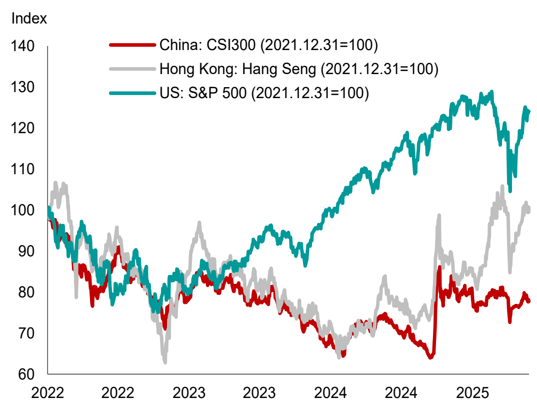
Figure 12. Non-Performing Loans of the Banking Sector



Source: HKMA; AMRO staff calculations

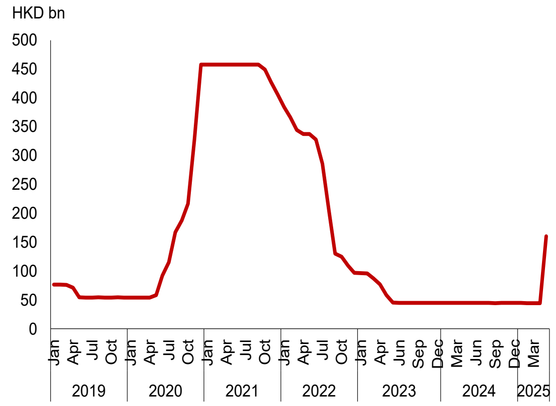
9. Hong Kong's financial markets have experienced heightened volatility amid rising trade policy uncertainties. Hong Kong's financial markets saw increased trading activity and a surge in equity funds raised to HKD235 billion in the first five months of 2025.[10] The Hang Seng Index (HSI) increased by 31.0 percent (yoy) in the same period, [11] signaling renewed investor confidence (Figure 13). Following the April 2 announcement of the "Liberation Day" tariffs, Hong Kong's financial markets turned highly volatile. On April 7, the Hang Seng Index recorded a steep decline of 14.5 percent,[12] in tandem with the sell-off in global equity markets, reflecting heightened uncertainty among investors. Despite recent market volatility,[13] the HSI notably outperformed many regional and global indices over the period from the Liberation Day to June 10, reflecting renewed investor confidence in the Hong Kong market. While there has been a gradual recovery following the 90-day suspension of the US reciprocal tariffs announced on April 9,[14] market volatility in Hong Kong is likely to remain heightened as investors continue to navigate the evolving trade environment.

Figure 13. Stock Market Indices



Source: Shanghai Stock Exchange; Hang Seng Indexes Company; Standard & Poor's

Figure 14. Aggregate Balance



Source: HKMA; Haver Analytics

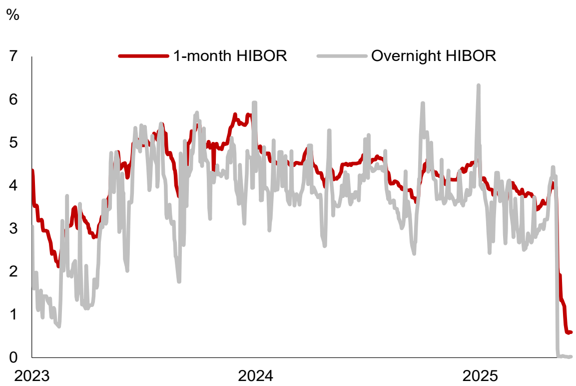
10. Despite increasing volatility in the financial markets, Hong Kong's financial system remains resilient, underpinned by the Linked Exchange Rate System (LERS). The LERS continues to function effectively, performing its role as an anchor of Hong Kong's financial stability. Under LERS, the Hong Kong Interbank Offered Rates (HIBOR) generally tracked the US interest rates, while also being affected by local supply and demand. In early May 2025 when HKD reached the strong side of the convertibility band at 7.75 HKD/USD, the HKMA sold HKD multiple times at 7.75 upon the request of banks, in accordance with the LERS mechanism. The convertibility undertakings were triggered on May 2, 5, and 6, leading to sizable injections of liquidity into the banking system.[15] As a result, the aggregate balance rose significantly from around HKD44.6 billion in April to around HKD174 billion on May 8. As HKD liquidity expanded rapidly, the 1-month and overnight HIBORs dropped respectively from an average of about 3.65 percent and 3.41 percent in April to 0.59 percent and 0.03 percent

[10] According to HKEX monthly economic highlights, the total equity funds raised in the first five months of 2025 were HKD235.1 billion, a rise of 383 percent compared with the same period of 2024. Equity funds raised include via initial public offers, placings, rights issues, etc.
[11] The recovery of Hang Seng Index appeared broad-based as of May 2025. However, the momentum varies—with telecommunications and financials leading the recovery, while properties and construction, materials, and utilities registered a slower recovery.
[12] This is a comparison of the index on April 7 against that on April 2.
[13] The latest Hang Seng Volatility Index (VHSI) as of May 2025 indicates that while volatility remained above pre-pandemic lows, the slight easing in the VHSI after the Liberation Day points to a more constructive risk environment, with investors recalibrating expectations in light of positive trade policy signals.
[14] The Hang Seng Index rose by an average of 0.45 percent from April 10 – 16.
[15] On May 2, the HKMA sold HKD46,539 million, followed by May 5 (HKD9,533 million, HKD60,543 million), and May 6 (HKD12,788 million).

at end-May (Figures 14, 15). No abnormalities in the usage of the Discount Window were observed.

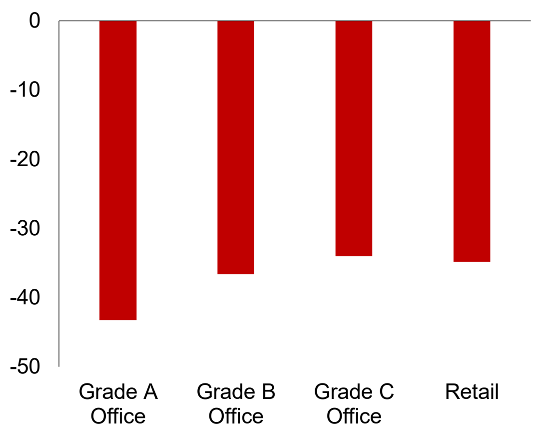
11. The property market remained generally subdued in 2024, but it has shown signs of stabilisation in 2025 so far. Residential prices declined by a cumulative 7.1 percent in 2024, bringing the total decline to approximately 24 percent below the end 2019 pre-pandemic levels. Nevertheless, prices have picked up in the second quarter of 2025 amid easing financial conditions. Meanwhile, the rental market was relatively buoyant throughout 2024 and the first few months of 2025. An influx of new talents into Hong Kong has supported demand for rental properties, lifting the rental index back to pre-pandemic levels. The market also saw increased home purchase transactions in 2024-25, potentially driven by the cancellation of all demand-side management measures for residential properties, reduced stamp duty for lower-value properties, the general decline in local interest rates and demand arising from various talent schemes.[16] In contrast, the commercial real estate sector is facing more challenges. Office prices fell by around 40 percent on average across all three office types from end-2018 to the end of 2024 (Figure 16). As for property developers, although profitability—measured by return on equity—has declined, with it even turning negative for some, they generally maintained sound current ratios and debt-to-equity levels as of 2024.

Figure 15. Hong Kong Interbank Rates



Source: HKMA

Figure 16. Commercial Real Estate Prices Change End 2018 to 2024 (Percent)



Source: Rating and Valuation Department; AMRO staff calculations

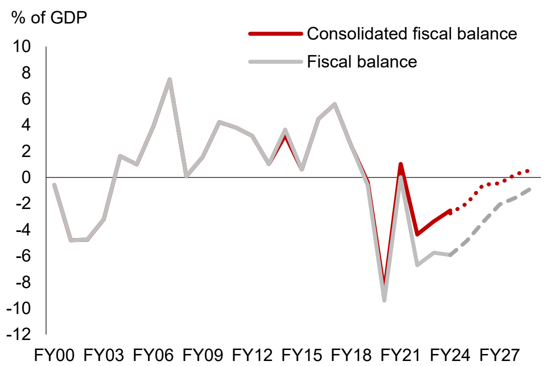
A.4 Fiscal Sector

12. After three consecutive years of fiscal deficits, the FY2025 budget has adopted a measured approach towards consolidation. Fiscal revenue grew modestly by 2.8 percent in FY2024 but was 10.8 percent short of the budget, primarily due to lower land premium and weakness in stamp duty revenue amid a sluggish real estate market. As a result, the consolidated fiscal deficit stood at 2.5 percent of GDP, while the overall fiscal deficit, excluding net proceeds from government bond issuance, reached 5.9 percent of GDP (Figure 17). The government aims to reduce the overall fiscal deficit while continuing to strengthen economic momentum and foster sustainable, high-quality growth in FY2025.

[16] In 2024, the Hong Kong SAR Government continued to implement the Top Talent Pass Scheme, introduced in late 2022, to attract high-income professionals and graduates from the world's top universities. The scheme offers streamlined visa processing and work rights, supporting Hong Kong's efforts to enhance its talent pool and global competitiveness.

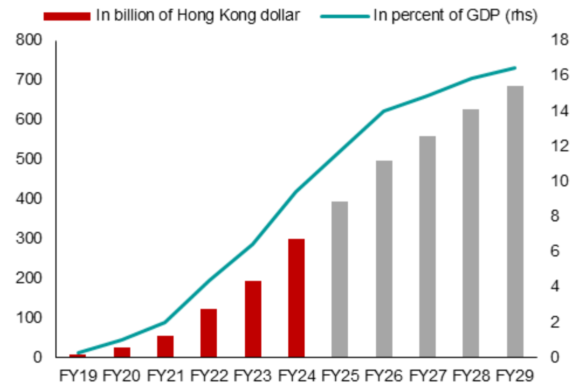
13. **Stronger revenue is expected to narrow the deficit, and the government will invest in tourism, SMEs, infrastructure, and AI.** Reflecting the government's positive growth outlook, fiscal revenue is projected to rise by 16.7 percent in FY2025, driven by higher earnings and profits tax, land premium, increased stamp duty receipts, and the transfer of unspent balances from funds outside the government's accounts.[17] Fiscal expenditure is projected to see a more moderate increase of 9.2 percent in FY2025. As a share of GDP, the revenue ratio is expected to rise by 1.8 percentage points to 19.6 percent, whereas the expenditure ratio is projected to increase by 0.7 percentage points to 24.4 percent, yielding a smaller consolidated deficit before the net proceeds from the issuance of government bonds of 4.8 percent of GDP. The government has allocated funds to revitalize the tourism sector, assist small and medium enterprises, and promote industry upgrades and infrastructure development. Additionally, the government has identified artificial intelligence (AI) as a future core industry and plans to support AI R&D centers while continuing support for traditional pillar industries such as tourism and real estate.

Figure 17. Fiscal Balance



Source: Financial Services and the Treasury Bureau, CEIC

Figure 18. Public Debt



Source: Financial Services and the Treasury Bureau, AMRO estimates

14. **The government will issue bonds to finance the capital projects.** The government plans to issue government bonds of HKD 150 billion (4.4 percent of GDP) in FY2025 to finance capital projects and refinance maturing short-term debt. After including the net proceeds, the consolidated fiscal deficit is projected at 2.0 percent of GDP. The government debt-to-GDP ratio, while still low at 9 percent in FY2024, is projected to rise to between 12 percent and 16 percent over the next five years (Figure 18).

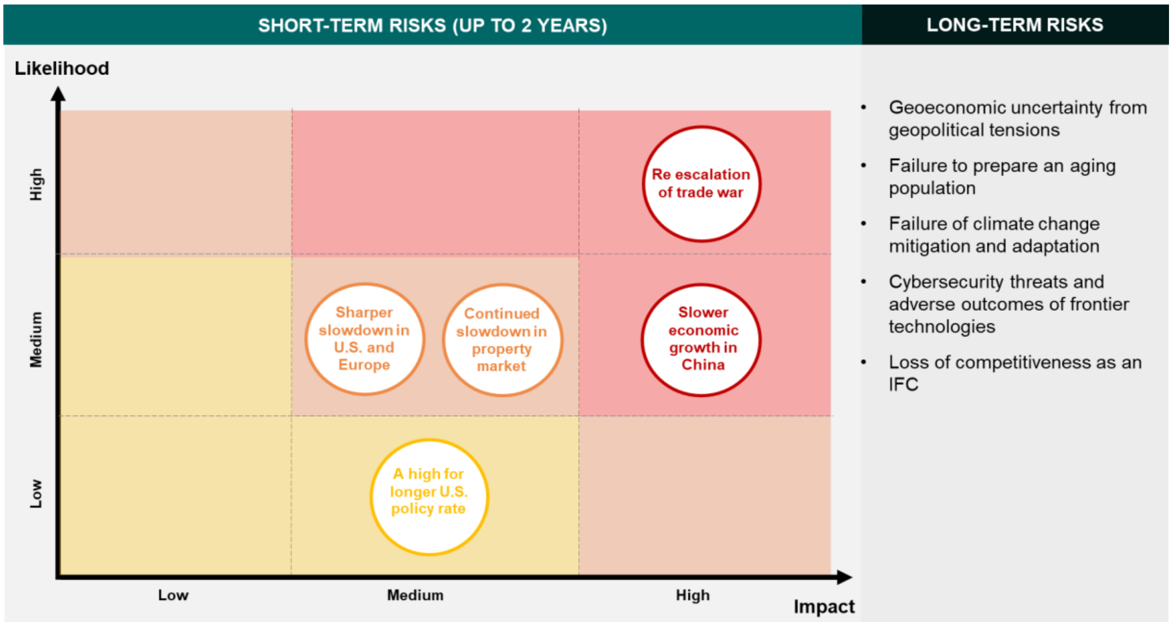
B. Risks, Vulnerabilities, and Challenges

15. **The economic outlook for Hong Kong remains highly uncertain, with the balance of risks tilted to the downside (Figure 19)**. Various factors could adversely impact Hong Kong's economic growth in the near term. These include heightened or even a re-escalation of trade conflicts or tensions among major economies, the risk of a weaker-than-expected economic recovery in Mainland China, recessions in the US and Europe, uncertain outlook in Hong Kong's property market, and a prolonged period of elevated U.S. Fed policy rate. Furthermore, there are structural challenges that may have lasting effects on Hong Kong's economic future over the medium to long term. Geopolitical tensions, population aging, and climate change represent key headwinds and structural challenges. Simulations by AMRO

[17] In FY2025, the government will transfer unspent balances totaling about HKD 62 billion (equivalent to 1.8 percent of GDP) from six seed capital funds outside the government's account back to its operating account. Excluding this one-off income, underlying revenue growth is a more modest 5.8 percent.

staff indicate that an economic slowdown in China and escalating trade policy uncertainty emanating from the US will have a relatively pronounced impact on Hong Kong's economy in 2025 and 2026.[18]

Figure 19. Risk Map for Hong Kong



Source: AMRO staff

B.1 Near-term Risks to the Macroeconomic Outlook

16. The prospect of a re-escalation of trade tensions weighing on Hong Kong's near-term outlook has eased somewhat following the recent US-China trade deal but the threat remains. Higher tariffs would directly impact the region's exports to the US and US-centric supply chains, including economies that are major exporters and trading hubs of the world, such as Mainland China and Hong Kong. The impact could worsen if the affected economies retaliate, triggering broader trade conflicts that would dampen global demand and disrupt regional supply chains. While Hong Kong's total exports to the US are relatively small (6.5 percent of total exports in 2024), a large share (59.0 percent) of Hong Kong's total exports were destined for Mainland China (Figure 20).[19] Protectionist policies could restrict China's access to the US market, thereby lowering its demand for exports from Hong Kong, which serves as a re-export hub for Chinese goods destined for the US. This would affect Hong Kong's logistics, shipping, and other trade-related services. Moreover, a re-escalation of trade tensions could weigh heavily on the financial markets, undermining both investor and consumer sentiment, although trade policy uncertainty has declined following the US-China deal in mid-May. Given Hong Kong's global trade linkages and close integration with Mainland China, the economic impact could be significant. In a worst-case scenario, where a tariff rate of 145 percent is imposed and China retaliates, Hong Kong's GDP growth could turn negative. Selected Issue 2 assesses the impact of Trump's trade war on Hong Kong's economy.

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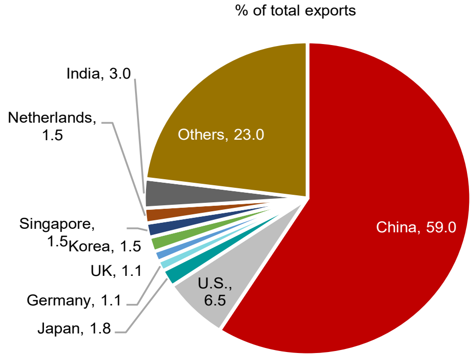
[18] The estimation is conducted using a Large Bayesian VAR (LBVAR) model, which is widely utilized by central banks. For the estimation, it is assumed that China's economy, US trade policy uncertainty index, and residential property prices each experience a one-standard-deviation shock to assess their impact on Hong Kong's economy. The LBVAR model is particularly useful as it allows for dynamic shock imposition and enables the estimation of Growth at Risk (GaR) at specific points in time, providing a more comprehensive assessment of downside risks. Refer to AMRO (2025) for more details.
[19] Re-exports to China also made up a big portion, comprising 59.3 percent of Hong Kong's total re-exports in 2024.

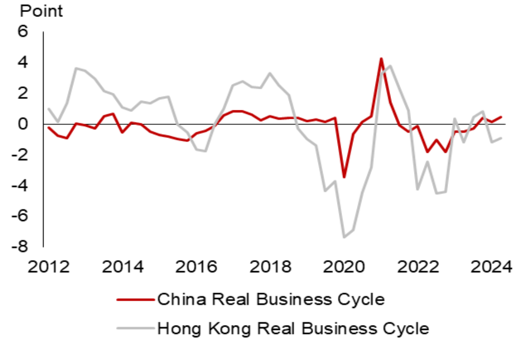
17. Slower economic recovery in Mainland China could dampen Hong Kong's economic rebound. As a key gateway connecting Mainland China with the global economy, Hong Kong has further deepened its trade, tourism, and financial ties with the Mainland. Indeed, the synchronization between the real economic cycles of Mainland China and Hong Kong has continued to strengthen (Figure 21).[20] In particular, the tourism sector—one of Hong Kong's key industries—relies heavily on inbound tourism from Mainland China. Financial linkages have been enhanced by various trading infrastructures, such as the stock and bond connect programs. Given these close linkages, Hong Kong is particularly affected by changes in Mainland China's economic growth. In this regard, if the Chinese economy slows not only due to a re-escalation of trade tensions but also due to domestic factors—such as a weak property market and subdued consumption—it could further weigh on Hong Kong's growth momentum.

Figure 20. Share of Hong Kong's Exports by Country, 2024



Source: C&SD; AMRO staff calculations

Figure 21. Business Cycle for Hong Kong and China



Source: AMRO staff estimations.
Note: The latest data is the third quarter of 2024. Real business cycles are estimated using principal analysis. AMRO (2025) provides more information.

18. Extended periods of elevated US policy rates might lead to sustained tight financial conditions in Hong Kong. While inflationary pressures have moderated in major economies, including the US, the Federal Reserve's stance on maintaining high interest rates for an extended period may lead to tighter financial conditions in Hong Kong. Since the Hong Kong dollar is pegged to the US dollar under the LERS, high US interest rates generally translate to elevated local rates, thereby dampening domestic investment and consumption. Even though inflation has moderated, high borrowing costs and a sluggish global economic recovery could weigh on Hong Kong's growth prospects. However, the associated risks are not expected to increase significantly, as Hong Kong interest rates declined sharply in recent months.

19. Should the US, Europe, or both enter a recession, Hong Kong's economic growth would be adversely impacted. In the US, the continued implementation of high tariffs could lead to higher inflation, potentially delaying interest rate cuts and weighing on consumer and investment sentiment. Global investment banks have assessed that the Trump administration's April 2 tariff hike announcement has increased the risk of a US recession—by about 10 percentage points.[21] In Europe, economic recovery could be derailed by re-escalating trade tensions with the US. The manufacturing PMI in the euro area has remained persistently below the 50 thresholds in recent years, indicating slower economic recovery

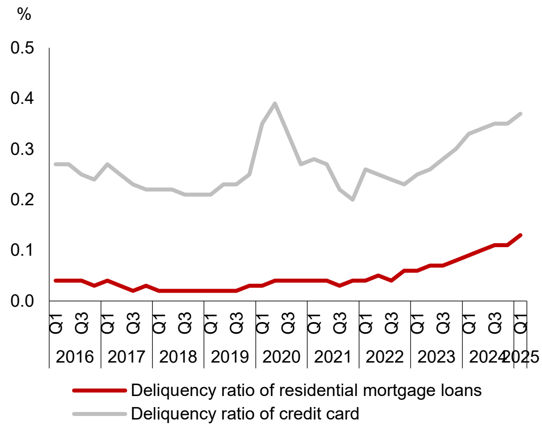
[20] Correlation between two cycles is increased from 0.4 in 2015 to 0.7 in 2024.
[21] JPMorgan raised its estimate of the possibility of a recession in the US from 40 percent to 60 percent following the April 2 tariff announcement, then lowered it to below 50 percent after the US-China trade talks in mid-May.

(Figure 22). A tariff-induced recession in these advanced economies would likely have a severe impact on global trade, which in turn could drag down Hong Kong's economy, potentially undermining its more robust growth.

Figure 22. Euro Area Manufacturing PMI

Source: JP Morgan/S&P Global; Haver Analytics

Figure 23. Household Delinquency Ratios



Source: HKMA; Haver Analytics

20. Weakness in the property market could weigh on both household and business sentiment, although the sector is showing signs of recovery. Further declines in property values posed pressure on debt delinquency and the balance sheets of borrowers who rely on real estate as collateral (Figure 23). The drop in office and retail property prices, and more importantly rents, has posed pressure on the financials of some property investors. Banks with high exposure to the commercial real estate sector could face increased credit risks, tighter profit margins, and potential asset quality deterioration. This could reduce lending capacity and risk appetite, weighing on overall credit growth. Moreover, the property market downturn could weaken developers' financial positions, further constraining their access to external financing and heightening concerns over high-yield bonds. Nevertheless, the overall credit risks associated with the banking sector's lending for local property development and investment are manageable, given there is no concentration risk at individual borrower level and banks have taken risk mitigating measures. Provisions set aside by banks also remain sufficient.

Authorities' View

21. *Looking ahead, the Hong Kong economy is forecast to grow by 2 to 3 percent in 2025, though uncertainty stays high in the external environment. There is still a high degree of uncertainty in the trade policy of the US, which continues to cloud the outlook of global trade and investment. Meanwhile, the impact of the US' tariff measures on their inflation and economic activities has yet to fully emerge, and the pace of its monetary policy easing going forward is still uncertain. Separately, the fiscal sustainability of the US government raises market concern from time to time. The ongoing geopolitical tension in the Middle East is another area to watch over. Depending on how these factors are going to evolve, global financial conditions and investment sentiment could be affected. Nonetheless, the sustained steady growth of the Mainland economy supported by more proactive fiscal policies and the moderately accommodative monetary policies should bode well for the performance of* *merchandise exports in Asia including Hong Kong. Alongside sustained international trade flows, coupled with increases in visitor arrivals, Hong Kong's exports of services are also expected to benefit. As for the local consumption-related sectors, they have been adapting to the change in consumption patterns. At the same time, the sustained increase in employment earnings and the Government's promotion of tourism and mega events would also help boost consumption sentiment.*

B.2 Longer-term Risks

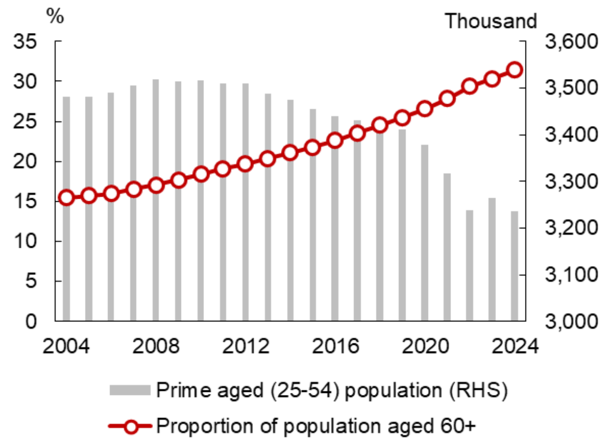
22. In the long term, Hong Kong's vulnerability to macroeconomic uncertainties from geopolitical tensions—particularly between the US and China—calls for a coherent strategy to diversify export markets and form more partnerships. As Hong Kong becomes more integrated with Mainland China, the possibility of the US extending certain policy measures to Hong Kong may increase, potentially disrupting economic activity, investment, and financing.[22] Geoeconomics is also likely to become more complicated given that the European Union (EU), emerging market economies (EMEs), and ASEAN+3 economies all need to tread carefully in response to changes in the dynamics and tone of US-China relations.

23. Population aging presents significant challenges to Hong Kong's long-term economic growth. The rapid pace of population aging (Figure 24) in Hong Kong may intensify downward pressure on the labor market by reducing labor force participation and shrinking the prime working-age population (Figure 25). Additionally, an increase in the elderly population, many of whom are retirees, could widen income inequality and exert pressure on the economy's potential growth. The property market could also be faced with structural supply-demand imbalances resulting from the trend of rapid aging. Additionally, an aging population will also impose an increasing fiscal burden due to the rising demand for healthcare, social services, and pension expenditures.

Figure 24. Hong Kong's Population Pyramid

Source: C&SD; CEIC

Figure 25. Prime working-age (25-54) Population in Hong Kong



Source: C&SD; CEIC

24. Other long-term challenges persist, including cybersecurity and climate change. Hong Kong's fast-growing fintech sector—driven by initiatives such as the Fintech 2025

[22] Some examples in recent years include sensitivities over Mainland China enterprises (seeking) listing(s) in Hong Kong or New York and increased scrutiny of Chinese ODI routed through Hong Kong to the US.

strategy and digital banks—requires greater attention to rising cyber risks. Over a longer horizon, climate change poses physical and transition risks to Hong Kong's economy. As a densely populated coastal city, Hong Kong is susceptible to rising sea levels and more frequent typhoons and heavy rainfall, potentially threatening infrastructure and economic activity. With the accumulation of experience in combating extreme weather events, Hong Kong has laid a solid foundation for strengthening the design of buildings and infrastructure facilities and enhancing drainage management and landslip preventive measures. Transitions to a low-carbon economy may bring regulatory and compliance challenges, although impacts could be limited given the small size of carbon-intensive sectors. Investment portfolios may shift toward greener assets, and policy uncertainty could affect business planning and investment decisions. Managing these risks will require proactive adaptation and alignment with international sustainability standards.

C. Policy Discussions and Recommendations

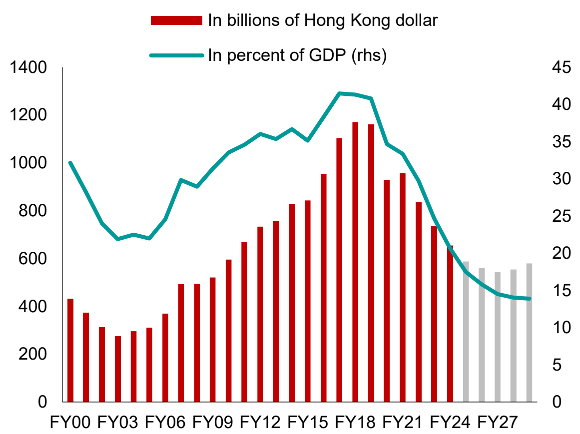
C.1 Calibrating Macroeconomic Policies to Fortify Fuller Recovery

25. While the current fiscal policy stance appropriately emphasizes long-term sustainability, the government should be ready to deploy timely, targeted support to cushion the economy against escalating external risks. The FY2025 budget adopts a moderately contractionary stance, while continuing to support vulnerable groups and high-growth sectors to sustain momentum. In light of declining fiscal reserves (Figure 26) and deficits—due to the pandemic's scarring effects and the property market downward trends—the government has decided to strictly contain the growth of government expenditure, review and reprioritise infrastructure investments, and introduce revenue-generating measures, signalling a commitment to long-term fiscal sustainability. That said, given the heightened US–China trade conflict and its impact on Hong Kong, the government should stand ready to implement more flexible and targeted fiscal measures to support the economy. Specifically, it would be prudent for the government to develop contingency fiscal measures—carefully designed and prepared in advance for various downside scenarios—that can be quickly refined, approved, and deployed in the event of a sharp slowdown. With fiscal reserves declining from over 40 percent of GDP in FY2019 to 20.6 percent in FY2024, fiscal space is now narrower than during previous downturns. Therefore, any contingency measures should be temporary and well-targeted. Drawing on lessons from the pandemic, policy tools could include temporary tax breaks for the sectors most adversely affected by the downturn and time-bound consumption support for lower-income households, and strengthening SME resilience, particularly in sectors vulnerable to external shocks.

26. The authorities could consider adopting a calibrated set of macroprudential measures aimed at strengthening credit support to sustain the recovery while safeguarding financial stability. In October last year, the HKMA lowered the Countercyclical Capital Buffer (CCyB) from 1 percent to 0.5 percent in response to moderating growth and weaknesses in key sectors, such as property and SMEs (Figure 27). This reduction in the CCyB released bank capital, enabling banks to lend more and support economic activity. Given Hong Kong's sound financial system, this adjustment should not pose significant short-term risks. Looking ahead, maintaining an appropriate CCyB will help sustain credit flows while reinforcing long-term financial resilience, highlighting the importance of continued vigilance.

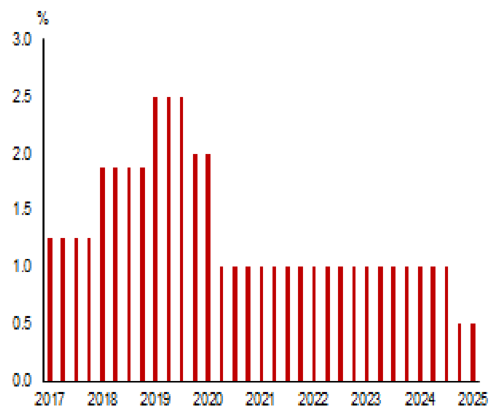
Following the "9+5" SME support measures[23] launched by the HKMA and the banking sector in 2024, additional measures were announced in April 2025 to further assist SMEs in obtaining bank financing and in their upgrade and transformation. Targeted support measures were introduced for sectors such as import and export, manufacturing, construction, and transport sectors. Future efforts could focus on expanding access for employment-intensive SME sectors, with schemes integrated into existing guaranteed programmes to reduce bank risks.

Figure 26. Fiscal Reserves



Source: Financial Services and the Treasury Bureau, CEIC

Figure 27. Countercyclical Capital Buffer



Source: HKMA, Haver Analytics

C.2 Preventing Disorderly Adjustment in the Property Sector

27. For the residential property market, a coordinated package of additional measures could be considered. The government cancelled all demand-side management measures for residential properties in 2024. Meanwhile, the HKMA adjusted the countercyclical macroprudential measures for property mortgage loans by standardising the maximum loan-to-value ratio and the debt servicing ratio limit at 70 percent and 50 percent respectively for all properties. (Figure 28). These measures have contributed to a moderate rebound in transaction volumes and market sentiment. However, issues of affordability persist, especially for first-time and lower-income homebuyers. Additional measures could be taken to improve access and housing choice. Meanwhile, sustained efforts under talent admission schemes, while primarily aimed at enhancing workforce competitiveness, could also indirectly support broader housing market activity. Ensuring long-term housing affordability across various income groups should remain a core policy priority.[24] These complementary efforts will help foster a more stable, inclusive, and resilient housing market over the longer term.

28. The commercial property segment continues to be weak and requires enhanced monitoring and increased policy attention. Both office and retail properties have experienced significant price declines since the pandemic. Given these trends, the government announced that it would not roll out any commercial sites for sale in the year of

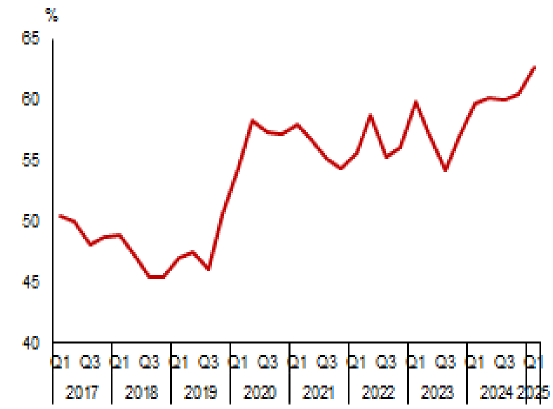
[23] The "9+5" SME support measures refer to initiatives jointly launched by the HKMA and the banking sector to enhance financing access, operational flexibility, and development capacity for SMEs. The original nine measures, announced in March 2024, focused on improving loan terms, ensuring fair treatment by banks, accelerating loan approvals under government guarantee schemes, promoting credit relief options, and enhancing SME bargaining power through transparency and interbank data sharing. In October 2024, five additional measures were introduced to support SMEs' transformation and competitiveness, including the release of bank capital, setup of HKD370 billion in dedicated SME loan funds, the launch of new credit for digital and green transformation, and extended partial principal repayment options.

[24] In October 2024, the Housing Bureau updated the Long-Term Housing Strategy for the next decade (i.e., 2025/26 to 2034/35), maintaining the public-private housing supply ratio at 70:30. The strategy also strengthened support for home ownership among young people and low to middle income groups through the enhancement of various schemes of subsidized sale flats.

2025-26 so as to allow the market to absorb the existing supply, as well as consider rezoning some of the commercial sites into residential use and allowing greater flexibility of land use. More proactive and targeted efforts are needed to stabilize the commercial property market and prevent disorderly adjustments that could jeopardize banking stability, especially given the banks' relatively high exposure to property-related lending. Policy measures could include providing more incentives to attract foreign businesses, such as family offices and fintech firms, to set up operations in Hong Kong. Additionally, the government could incentivize the repurposing of under-utilized office spaces into workspaces for startups, SMEs and student accommodations.

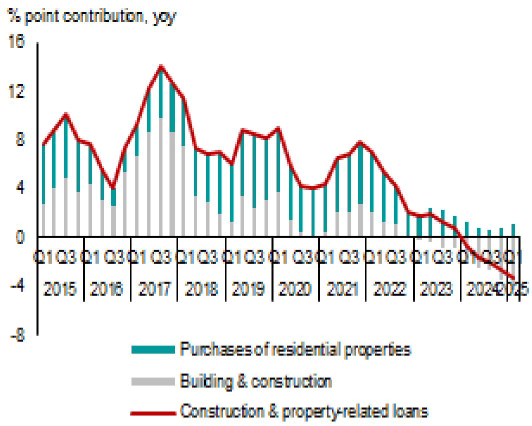
29. Although risks to the banking sector are generally limited, banks are encouraged to maintain adequate buffers to manage potential risks arising from the property sector. Ongoing financial distress among some property developers continues to raise credit risks that may spill over into the banking system and the broader economy if the property downturn persists. Property-related loans (Figure 29) should be subject to enhanced scrutiny, with NPL loan provisions adjusted as necessary to reflect further potential downturns in the market. This should continue to be supported by both micro- and macro-level bank stress testing. In this regard, the HKMA has been conducting both bottom-up and top-down stress tests regularly to assess banks' resilience under scenarios of significant decline in property prices and macroeconomic downturns. These measures serve as a safeguard to ensure that banks are sufficiently prepared to absorb potential defaults and to undertake swift restructuring actions if needed.

Figure 28. Loan-to-Value Ratio



Source: HKMA, Haver Analytics
Note: New loans approved basis.

Figure 29. Property related Loans



Source: HKMA, Haver Analytics

C.3 Achieving a Strong and Sustainable Fiscal Position in the Medium Term

30. The government's commitment to medium-term fiscal consolidation is commendable, and it should strike the right balance between increasing revenue and reducing expenditure in its strategy. The government aims to balance the budget by FY2028, which is commendable as it seeks to preserve fiscal buffers and enhance fiscal sustainability. The authorities' medium-term fiscal framework puts greater emphasis on expenditure reductions, targeting a cumulative reduction of 7 percent in government recurrent expenditure by FY2027 and deleting 10,000 civil service posts[25] within the current term of the government. However, as expenditures on social welfare and healthcare continue to rise due to the aging population, and public investment in infrastructure and economic transformation becomes increasingly crucial for long-term growth, the scope for further expenditure reductions may be limited.

31. To support fiscal consolidation, the government should consider reviewing its tax system with a view to diversifying and strengthening its revenue streams in the medium term. The Inland Revenue (Amendment) (Minimum Tax for Multinational Enterprise Groups) Bill 2024 was passed by the Legislative Council on 28 May 2025 for the implementation of the global minimum tax and the Hong Kong minimum top-up tax under BEPS 2.0 in Hong Kong from 1 January 2025. It is estimated that the new regimes will bring in an additional tax revenue of about HKD 15 billion per year from 2027-28 to Hong Kong, although the actual revenue impact will depend on any potential restructuring of the in-scope multinational enterprises and the evolving dynamics of global implementation. Introducing new taxes, such as a value-added tax (VAT) or a capital gains tax, could stabilize and diversify revenue sources. Additionally, enhancing the progressivity of the salaries tax could improve revenue collection while balancing fiscal responsibility with social equity. A mildly progressive salaries tax structure could be fine-tuned to increase contributions from high-income earners without unduly compromising Hong Kong's attractiveness to talent. By adopting a strategy that includes a mix of broadening the tax base, tapping alternative revenue sources, and gradually implementing reforms, Hong Kong can strengthen its fiscal position while maintaining its tax competitiveness and preserving its appeal as a global financial hub.

32. Enhancing the efficiency and effectiveness of public services and investment demonstrates the government's commitment to better governance and fiscal prudence. As part of its efforts, the government is reviewing the structure and levels of subsidies for public healthcare to strengthen fiscal sustainability while ensuring better-targeted support for patients. Additionally, it is enhancing the design, budgeting, and procurement of public construction projects to reduce costs and improve project efficiency. These measures will serve as prudent and necessary steps toward fiscal consolidation. To enhance the impact of spending reviews and institutionalize expenditure discipline, the government is encouraged to adopt regular spending reviews as part of the annual budget process, which allows recommendations from spending reviews to be incorporated into the government's fiscal management and appropriation decision. In the longer term, these measures must be complemented by structural reforms in the relevant sectors. For example, in the healthcare sector, reforms to reduce reliance on public hospitals—such as the greater use of health insurance, expanding primary care services to reduce hospital admissions, and adopting digital health technologies to improve efficiency and service delivery—would help ease fiscal burdens on Hong Kong's public healthcare system. By combining cost-control measures with structural reforms, Hong Kong can build a more fiscally sustainable and resilient public service system.

[25] The Government has implemented the zero-growth policy in the civil service establishment since 2021-22 with the civil service establishment being controlled at a level not exceeding that of 31 March 2021 (about 196,000 posts). The 2025-26 Budget announced that by 1 April 2027, about 10,000 posts are expected to be deleted from the overall civil service establishment within this term of Government. The expenditure to be saved will thus be counted towards the cumulative reduction of 7 percent in government recurrent expenditure as fore-mentioned.

C.4 Addressing Labor Market Challenges Amid an Aging Population

33. Amid population aging, expanding elderly and female labor participation can help mitigate workforce shortages and enhance growth potential. The share of individuals aged 60 and above in Hong Kong's total population has more than doubled, rising from 15.3 percent in 2004 to 30.9 percent in 2024. As of 2024, the labor force participation rate for those aged 60 and above in Hong Kong stood at 23.7 percent, lower than that of regional peers such as Korea (47 percent) and Japan (26 percent).[26] While the labor force participation rate of prime-age women (25–54) in Hong Kong has continuously increased over the past decade, it remains relatively low at 72.5 percent (excluding foreign domestic helpers) as of 2024, compared to those in OECD countries.[27] Proactive measures are necessary to boost workforce participation among women and the elderly.

34. Policies should support the re-employment of retirees, near-retirees, and females, while promoting an age- and gender-friendly work environment. In line with this, the government launched the Re-employment Allowance Pilot Scheme in July 2024, offering financial incentives to Hong Kong residents aged 40 or above to support their return to work. This initiative represents a critical step toward addressing labor market challenges associated with an aging population, but it may still fall short of addressing the underlying causes of relatively low participation among older workers, such as age-related health concerns and insufficient job flexibility. In addition, the authorities have established a working group to promote the silver economy as a way to leverage population aging as a new growth opportunity. The group announced a package of measures in May 2025 aimed at developing relevant silver industries.[28] To foster an inclusive work environment, flexible work arrangements—such as adjusted work hours and workload based on physical capacity—need to be expanded further. These opportunities can increase the willingness of older generations and women to remain employed, while helping reduce the social costs associated with elderly dependency. In addition, initiating a broad societal dialogue on extending the retirement age, which is currently set at 60 or 65 by many firms, would serve as a constructive starting point for addressing the challenges posed by population aging. Selected Issue 3 assesses inclusive economic growth in Hong Kong, taking into account socioeconomic factors.

35. Facilitating the inflow of skilled labor can enhance Hong Kong's international competitiveness. The Hong Kong Government's 2023 Manpower Projection estimates that the overall manpower shortage would be approximately 180,000 workers by 2028, with a shortage of approximately 60,000 in skilled labor. All key industries are projected to face varying degrees of shortages, with 10 key industries expecting shortage of over 10,000 workers each.[29] Skill mismatches further reduce workforce efficiency and hinder human capital development. In response, the government has implemented new and enhanced measures to proactively trawl for outside talents since late 2022, including the launch of Top Talent Pass Scheme which targets talents with high-income and graduates from top universities. As of end-2024, over 270,000 applications had been approved, bringing around

[26] For Japan, the reference age group is 65 and above.
[27] The female labor force participation rate in the prime age group is 76.2 percent across the OECD as of 2024, and almost all countries except Korea, Colombia, Italy, Costa Rica, Mexico and Turkiye have higher participation rates than Hong Kong.
[28] The working group announced 30 measures for promoting silver economy in five areas, namely: boosting "silver consumption", developing "silver industry", promoting "quality assurance of silver products", enhancing "silver financial and security arrangements", and unleashing "silver productivity"
[29] The estimated labor shortages for industries projected to have over 10,000 workers by 2028 are as follows: I&T (21,000), Aviation (21,000), Trade (14,000), Transportation (13,000), Construction (50,000), City Operation (42,000), Accommodation and Food (17,000), Health Services (16,000), Tourism (12,000) and Manufacturing (12,000).

180,000 talents to Hong Kong. These efforts ease skill mismatches in the labor market. To further strengthen its position in the global competition for top talent, Hong Kong could enhance existing schemes, by adopting more flexible income thresholds and offering enhanced retention incentives, such as tax relief. It could also benchmark policies such as Singapore's ONE Pass and Canada's Global Talent Stream. In parallel, training programs for local talent[30] should be strengthened to help them acquire globally competitive skills.

C.5 Harnessing New Growth Engines

36. Business support services, especially data and information security, should grow with fintech to support innovation, with Hong Kong enhancing this through local and global efforts. A critical component of this support infrastructure is ensuring data integrity and information security. Cybersecurity, in particular, must be recognized as a core professional service and an integral part of the digital infrastructure. The Hong Kong Government is committed to strengthening the local cybersecurity ecosystem through partnerships with key institutions such as HKCERT (Hong Kong Computer Emergency Response Team Coordination Centre) and HKIRC (Hong Kong Internet Registration Corporation). These efforts include free website assessments, cybersecurity training, and a 24/7 incident response hotline for local enterprises. Hong Kong also organizes and participates in various cybersecurity forums, including the "Cybersecurity Summit", "Cybersecurity Symposium" and the "World Internet Conference Wuzhen Summit". Beyond cybersecurity, professional services in law, accounting, data analytics, and AI advisory are also crucial. These sectors enable complex cross-border transactions, ensure compliance, support data-driven strategies, and drive technology adoption. As such, they are key enablers of both innovation and broader economic transformation. Supporting these areas holistically will strengthen Hong Kong's position as a digital and professional services hub.

37. Hong Kong should build on its artificial intelligence (AI) momentum by boosting support for talent, R&D, and regional collaboration. Cyberport and the Science Park now host over 800 AI and big data companies, including SenseTime, Biren Technology, and start-ups like Votee AI. To further develop AI and data science as growth drivers, Hong Kong could strengthen policy support. The Government has launched several initiatives, including the Artificial Intelligence Supercomputing Centre (AISC) in Cyberort, which began operations in December 2024 to meet strong local demand for computing power. To complement the use of the AISC, a HKD3 billion AI Subsidy Scheme was established in October 2024 for three years which subsidises local institutions, R&D centres, enterprises, etc., to leverage the computing power of AISC. On the R&D front, the Hong Kong Generative AI Research and Development Center (HKGAI) launched Hong Kong's first large language model, "HKGAI V1," in February 2025. and subsequently developed a series of generative AI application tools based on this model. The Government has also set aside HKD1 billion for the establishment of the Hong Kong Artificial Intelligence Research and Development Institute (AIRDI), targeted for operation in 2026-27 at the earliest, to spearhead and support Hong Kong's innovative R&D and industry applications of AI. To further support development, Hong Kong could expand funding for AI talent and university-industry collaboration. To boost global competitiveness, Hong Kong should promote international collaboration, especially with the Greater Bay Area, through research alliances and joint financing mechanisms. These steps

[30] Hong Kong has been promoting upskilling and employment of local talent through various initiatives, including the Study Subsidy Scheme for Designated Professions/Sectors (SSSDP, 2015), the Reindustrialization and Technology Training Program (RTTP, 2018), and the Greater Bay Area Youth Employment Scheme (2021).

would build on Hong Kong's robust infrastructure and reinforce its position as a regional innovation hub.

38. Hong Kong's proactive efforts to transition towards carbon neutrality by 2050 underscore the transition's potential as a dynamic growth engine within the framework of sustainable economic development. Hong Kong has taken significant strides in its transition toward achieving carbon neutrality by 2050. This progress has been enabled by several initiatives, including strategically developing green finance, promoting the adoption of electric vehicles, and decarbonizing the power generation mix by shifting to cleaner sources like importing zero-carbon electricity. In December 2024, the government unveiled a comprehensive roadmap on sustainability disclosure, aligning Hong Kong's sustainability reporting requirements with international standards, such as the International Financial Reporting Standards – Sustainability Disclosure Standards (ISSB Standards), which all publicly accountable entities will be required to fully adopt these standards by 2028. The FY2025-26 Budget also emphasized green finance, with the government extending the Pilot Green and Sustainable Finance Capacity Building Support Scheme to 2028.[31] Moreover, Hong Kong is fostering green technology through initiatives like the development of the GreenTech Hub, which supports over 200 green tech companies.[32] Other commendable initiatives include proactively promoting green shipping, offering tax exemptions for green methanol, and encouraging Sustainable Aviation Fuel (SAF) use at Hong Kong International Airport, with targets set for this year. These initiatives will help enhance Hong Kong's economic resilience and solidify its position as a leader in sustainability.

39. To build on this momentum, the government could further incentivize private sector participation in green and sustainable initiatives. This can be done through targeted subsidies, public-private partnerships, and streamlined approval processes for green infrastructure and technology projects. Financial regulators should lead in developing a taxonomy for sustainable finance to guide the market in identifying green and sustainable assets and investments. The taxonomy should strive to align with those of major capital and technology providers, to enhance cross-border interoperability, direct capital flow effectively, and strengthen Hong Kong's position as an international finance center and standard-setter in the region. In this way, Hong Kong can unlock new investment flows, reinforcing its competitiveness as a premier financial hub.

C.6 Elevating Hong Kong's Role as a Premier International Trade and Investment Hub

40. Further diversifying trade partners and expanding global linkages are essential to reinforce Hong Kong's position as a global trading hub amid rising protectionism. To strengthen Hong Kong's trade resilience, the authorities should continue to diversify export markets by expanding its trading partners and enhancing its global reach. These are being achieved by prioritizing trade negotiations with emerging economies and deepening collaboration with existing partners under trade agreements. Besides proactively seeking early accession to the Regional Comprehensive Economic Partnership (RCEP)[33] and enhancing

[31] The Pilot Green and Sustainable Finance Capacity Building Support Scheme subsidies up to 80 percent of program fees (capped at HKD10,000) for eligible Hong Kong residents undertaking approved green and sustainable finance training. Administered by the Centre for Green and Sustainable Finance, the scheme aims to strengthen local talent development and support Hong Kong's positioning as a regional green finance hub.
[32] The Green Tech Hub was launched on 11 March 2025, as part of the city's efforts to foster green technology innovation. The hub will help drive sustainable solutions and promote the development of clean technologies.
[33] Hong Kong lodged its formal application in January 2022 and has received positive responses from RCEP Members in general. The relevant procedures and preparation work in relation to accession are being finalized by RCEP Members, and accession of new members should commence thereafter. (Source: The Government of the Hong Kong Special Administrative Region)

existing Free Trade Agreements (FTAs) such as that with ASEAN,[34] Hong Kong has also been seeking to forge more FTAs and Investment Promotion and Protection Agreements (IPPAs) with other economies. The Hong Kong-Peru FTA, signed in November 2024, is one example of a significant effort to bolster bilateral trade, investment, and economic cooperation, and to improve market access for businesses and investors in both Hong Kong and partner economies.[35] Additional efforts include modernizing logistics infrastructure and upgrading customs processes to facilitate smoother trade flows. In addition, Hong Kong has substantially concluded negotiations on an IPPA with Qatar and is also exploring the signing of IPPAs with Saudi Arabia, Bangladesh, Egypt and Peru.

41. **Hong Kong benefits from the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA).** This arrangement offers preferential treatment for Hong Kong service suppliers across various sectors, as well as tariff-free treatment for all products[36] of Hong Kong fulfilling the mutually agreed CEPA rules of origin. The Second Agreement Concerning Amendment to the CEPA Agreement on Trade in Services ("Amendment Agreement II") was signed on 9 October 2024 to further opening up trade in services. New liberalisation measures are introduced across a number of services sectors where Hong Kong enjoys competitive advantages, such as financial services, construction and related engineering services. It also brings along institutional innovation and collaboration enhancement, including the addition of "allowing Hong Kong-invested enterprises to adopt Hong Kong law" and "allowing Hong Kong-invested enterprises to choose for arbitration to be seated in Hong Kong" as facilitation measures for Hong Kong investors; and removal of the period requirement on Hong Kong service suppliers to engage in substantive business operations in Hong Kong for three years in most services sectors. The Amendment Agreement II has been implemented since 1 March 2025. Foreign companies can leverage CEPA to gain greater access into the Mainland market through Hong Kong, making the city more appealing as a location for foreign investment and reinforcing Hong Kong's position as a global trading hub amid rising protectionism.

42. **The government's initiatives to fortify Hong Kong's global reach are proving effective, reinforcing its unique role as the "super connector" between China and the world.** Over the past few years, the government has deepened engagement with Middle Eastern countries to explore new trade and investment arrangements, encouraged foreign direct investments from those countries in key sectors such as finance and real estate, and unveiled SKYTOPIA—a visionary blueprint for Airport City—with the goal of transforming it into a world-class destination. At the same time, heightened geopolitical tensions among major economies present new opportunities for Hong Kong. Many overseas and Mainland enterprises are seeking to hedge against rising uncertainty, by expanding into more stable markets. This offers Hong Kong, as a super connector, a chance to attract more inward direct investment and turn uncertainties into opportunities. Further efforts include collaborating closely with Mainland China authorities to foster "new quality productive forces" and promote "new industrialization", as well as refining the financial regulatory regime to enhance

[34] The FTA between Hong Kong and ASEAN entered into force in full in 2021. Hong Kong and ASEAN signed the First Protocol to Amend the FTA in 2024 in order to update the Product Specific Rules (PSR) of origin under the FTA. Currently, the ASEAN bloc is Hong Kong's second largest trading partner, accounting for 8.7 percent share of Hong Kong's total exports in 2024 (up from 7.3 percent in 2017), following by the US (6.5 percent) and EU (6 percent). Hong Kong's trade with other Belt and Road countries also grew rapidly, albeit from a low base.

[35] The FTA covers areas such as trade in goods, services (including e-commerce), investment, and other related sectors.

[36] Not including those prohibited by the Mainland's rules and regulations and those prohibited as a result of the implementation of international treaties by the Mainland, as well as products that the Mainland has made special commitments in relevant international agreements.

competitiveness in a wide range of financial sector activities, including gold trading and over-the-counter (OTC) derivatives trading. To build on these efforts, the government could further diversify its international outreach by intensifying bilateral cooperation with untapped emerging markets, expanding sectoral investment promotion, and aligning regulatory enhancements with global best practices.

43. Financial integration between Mainland China and Hong Kong should continue to deepen further. The various Connect Schemes have expanded steadily, incorporating a broader range of financial instruments and enhancing operational efficiency in both directions. The recent inclusion of Real Estate Investment Trusts (REITs) under Stock Connect could help bolster the property market while offering Mainland investors access to more diversified investment products. Besides, the new policy measures jointly announced by the HKMA and the People's Bank of China in January 2025, including enhancements to Bond Connect, launch of HKMA RMB Trade Financing Liquidity Facility to support economic activities, and measures to facilitate residents' transactions, have been implemented progressively and operated in a smooth and orderly manner. These developments should collectively aim to reinforce Hong Kong's position as the leading offshore RMB hub amid growing global uncertainties. Demand for RMB trade finance and offshore settlement services is increasing, particularly as Mainland producers increasingly shift their production overseas to mitigate exposure to US tariffs. Against this backdrop, the HKMA launched the RMB Trade Financing Liquidity Facility in February 2025, providing banks in Hong Kong with a stable source of RMB funding to support trade finance services for corporate clients. Hong Kong is positioned well to seize these opportunities by offering a broader array of RMB-denominated products and financial services.

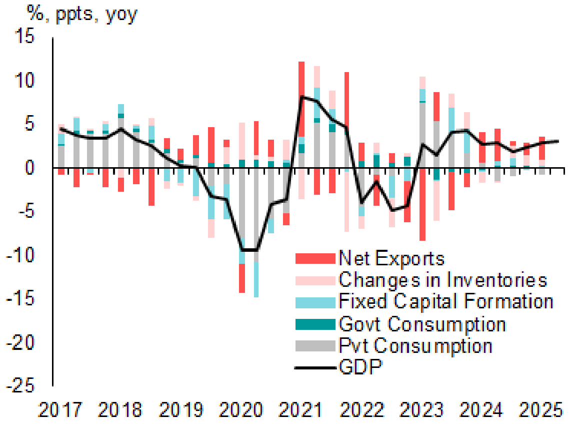
44. Enhancing Greater Bay Area (GBA) integration should remain a priority for Hong Kong in its efforts to strengthen its super-connector role. There have been several important initiatives recently in this respect. For example, in September 2024, the Hong Kong and Mainland China authorities signed the Co-operation Agreement on the Development of New Quality Productive Forces and the Promotion of New Industrialization; and in January 2025, the University of Hong Kong and the Greater Bay Area Low Altitude Economy Alliance launched a collaboration to explore opportunities for developing the low-altitude economy in GBA cities. Looking ahead, with Mainland China and Hong Kong both well past the post-pandemic economic reopening phase, the global tech race intensifying, and industrial policies gaining prominence, there are ample opportunities for Hong Kong to strengthen its China-World super connector role by working with partners in the GBA. For example, Hong Kong could leverage its expertise to improve connectivity, enhance the business environment, facilitate and expedite inward foreign investments, capitalize on its status as an aviation hub and its proximity to Shenzhen—a key GBA city—extend financing to GBA businesses through Hong Kong-based banks, and encourage Hong Kong(-based) insurers to cover large and speciality-line risks in the GBA.

Appendices

Appendix 1. Selected Figures for Major Economic Indicators

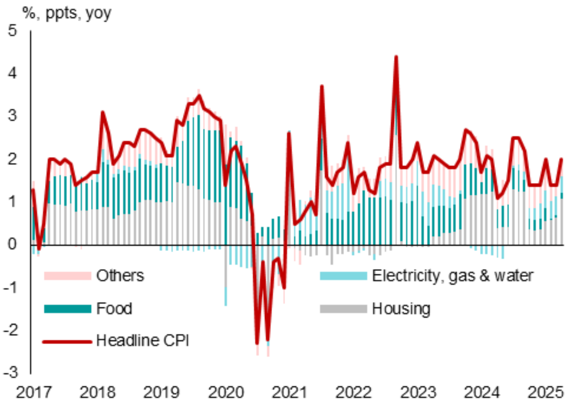
Figure 1.1 Real Sector

Hong Kong's economy has continued its modest recovery since 2023.



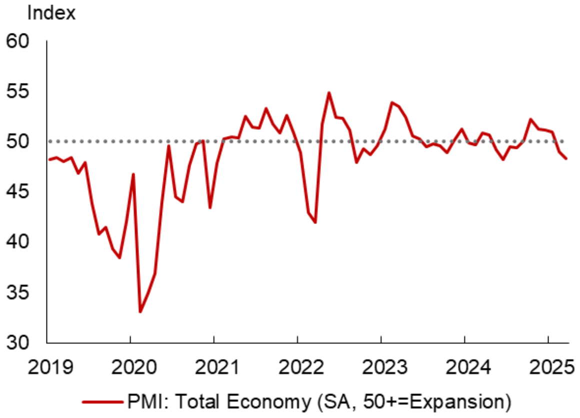
Source: C&SD; Haver Analytics

Despite the economic recovery, inflation has remained low.



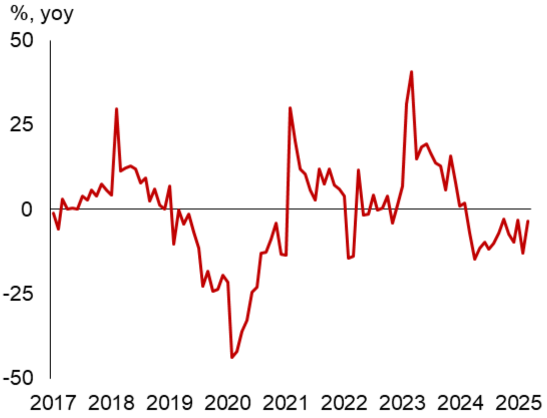
Source: C&SD; Haver Analytics; AMRO calculations

The PMI showed signs of a slowdown in economic recovery.



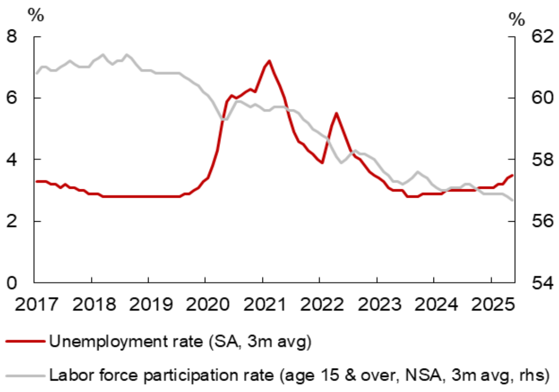
Source: S&P Global; Haver Analytics

Retail sales have contracted since early 2024.



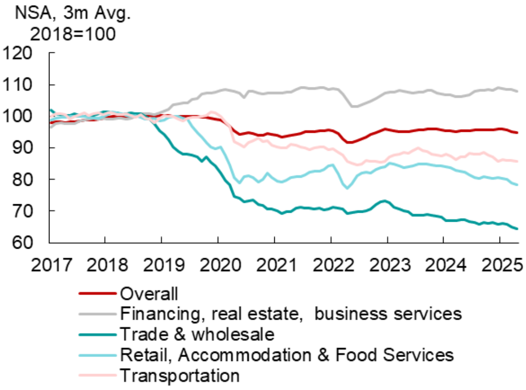
Source: C&SD; CEIC

Hong Kong's Labor market conditions remained resilient...



Source: C&SD; Haver Analytics

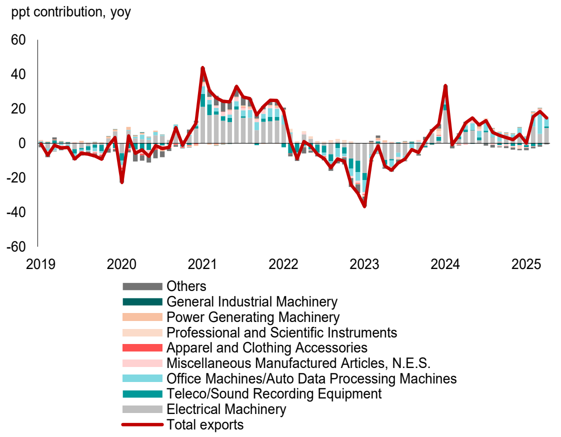
...but the employment recovery was uneven across sectors.



Source: C&SD; Haver Analytics

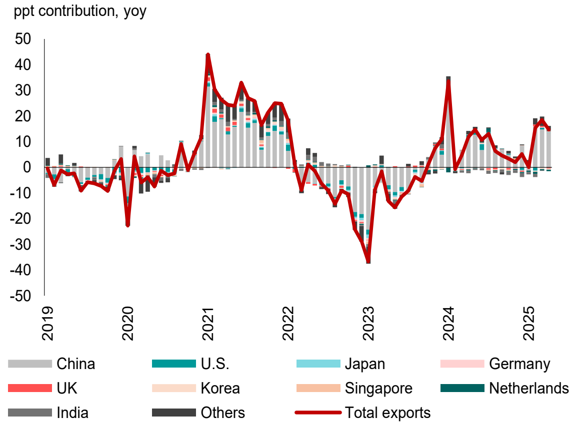
Figure 1.2. External Sector

Exports continued to increase in early 2025, reflecting frontloading ahead of the tariff implementation...



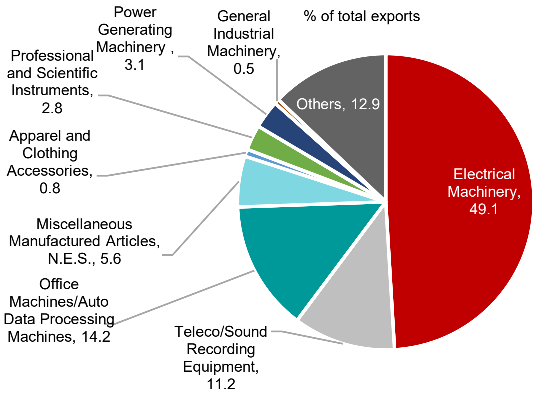
Source: C&SD; Haver Analytics

…, mostly to China.



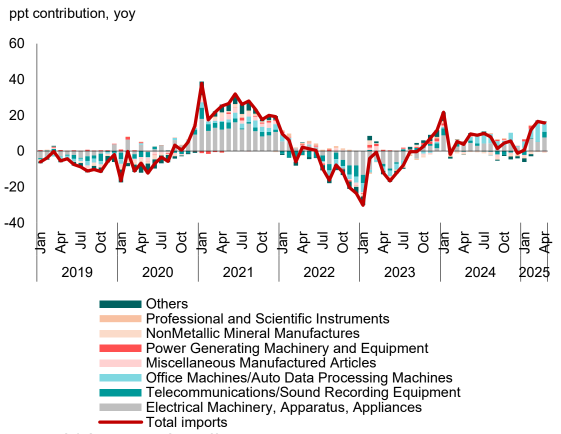
Source: C&SD; Haver Analytics

Electrical machinery remained the largest export category in April 2025.



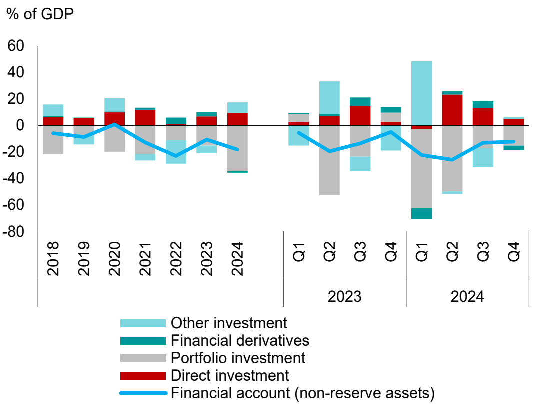
Source: C&SD; AMRO staff calculations

Imports also surged in line with exports.



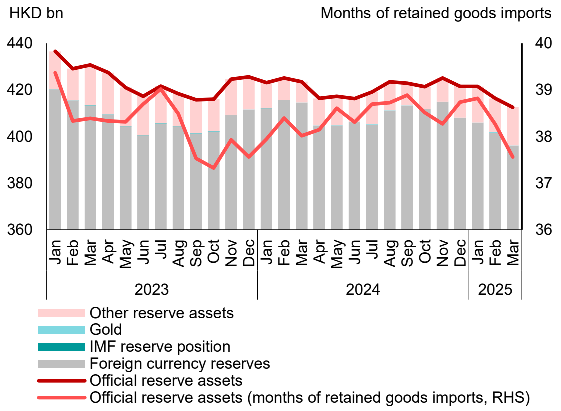
Source: C&SD; AMRO staff calculations

The financial account saw large outflows in 2024, mainly driven by portfolio outflows.



Source: C&SD; AMRO staff calculations
Note: The financial account excludes reserve assets.

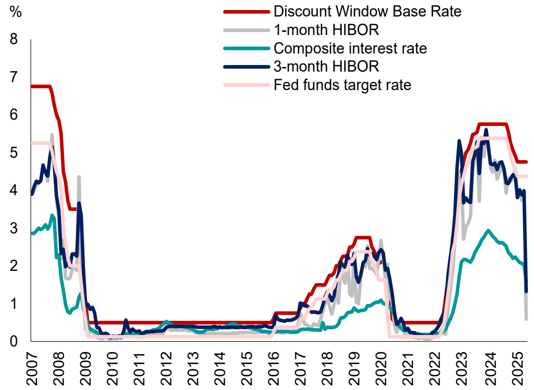
FX reserves remained ample, still covering about 38 months of retained imports.



Source: HKMA; Haver Analytics

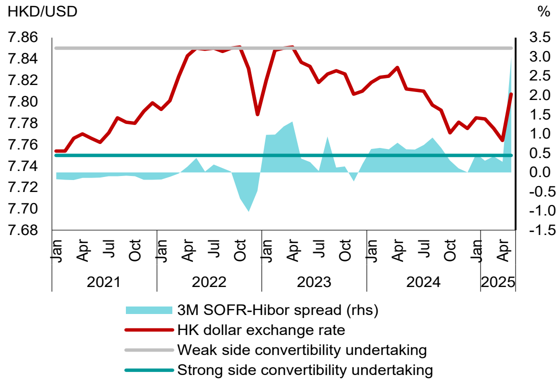
Figure 1.3. Monetary and Financial Markets

HKD interest rates have declined, reflecting a softer Fed funds rate and increased liquidity in the market.



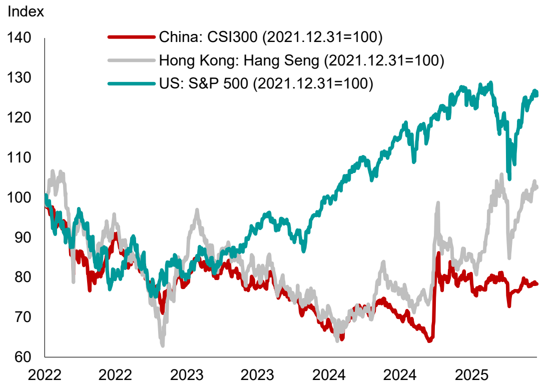
Source: HKMA; Federal Reserve Bank of New York

The HKD hit the strong side of the peg in May 2025, prompting HKMA to intervene and resulting in wide SOFR-HIBOR spread.



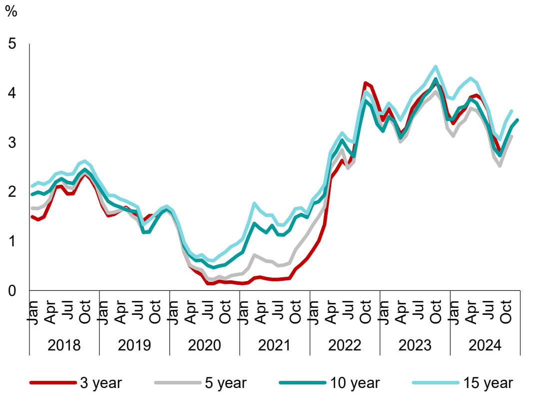
Source: HKMA; Chicago Mercantile Exchange; AMRO staff calculations

After gaining momentum in late 2024, the Hang Seng Index has exhibited heightened volatility since April 2025, driven by trade policy uncertainties.



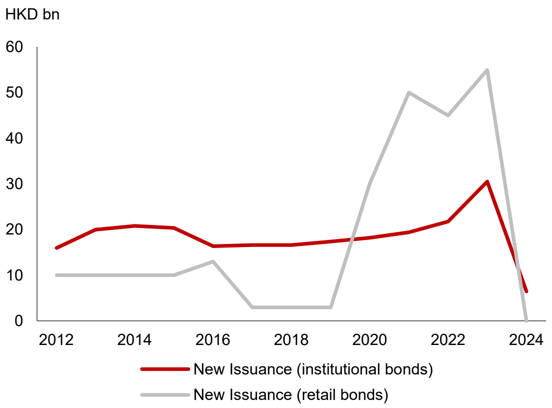
Source: Bloomberg

Yields of Hong Kong government bonds have fallen from their peaks in late 2023.



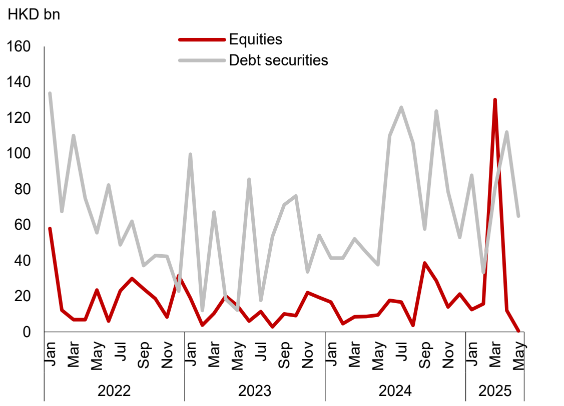
Source: HKMA; Haver Analytics

The government reduced bond issuances in 2024, mainly due to rate hike and end of COVID-19 period.



Source: HKMA; Haver Analytics

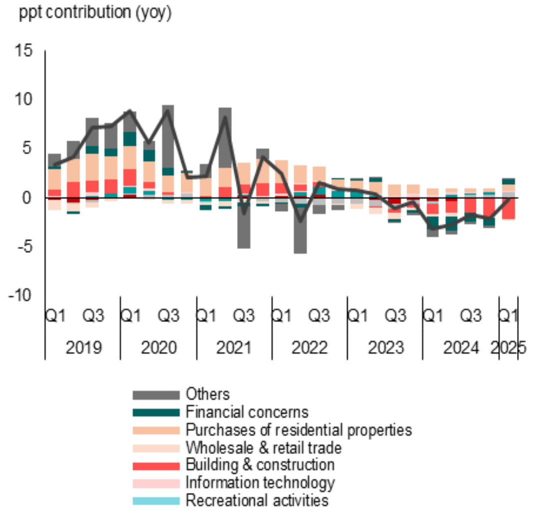
Hong Kong's fund raised (equities and debt securities) surged, going into 2025.



Source: CEIC; AMRO staff calculations

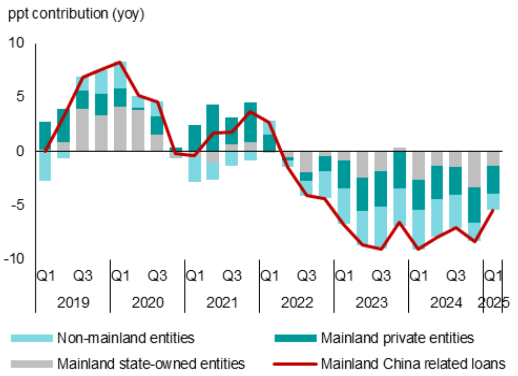
Figure 1.4. Banking Sector

Credit growth moderated, mainly due to a decline in building and construction loans.



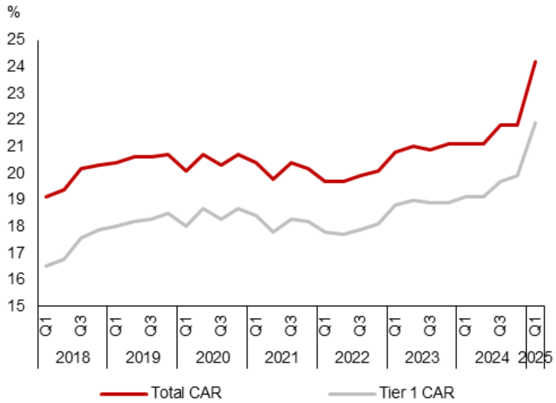
Source: HKMA; AMRO staff calculations

Banks continued to reduce exposure to Mainland China.



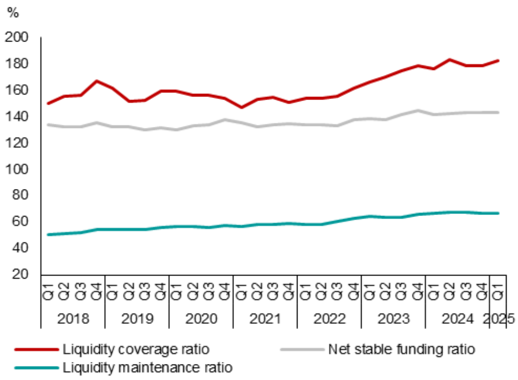
Source: HKMA; AMRO staff calculations

Hong Kong's banking sector continued to be well capitalized…



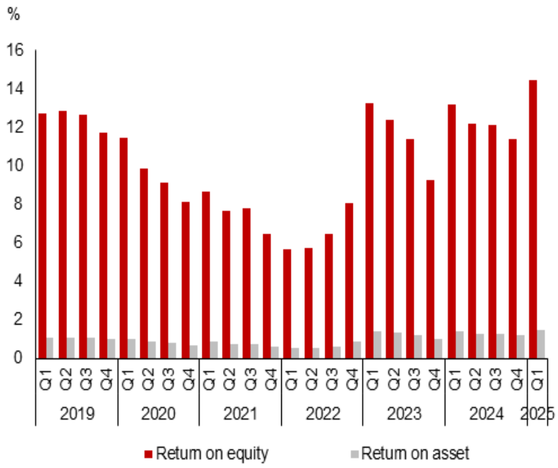
Source: HKMA

…with ample liquidity.



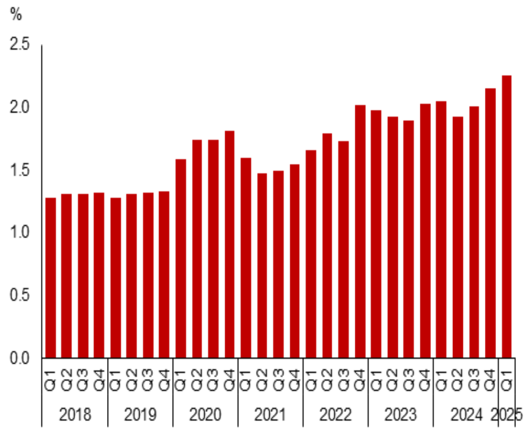
Source: HKMA

ROE and ROA recovered to pre-COVID levels, reflecting improved profitability.



Source: HKMA

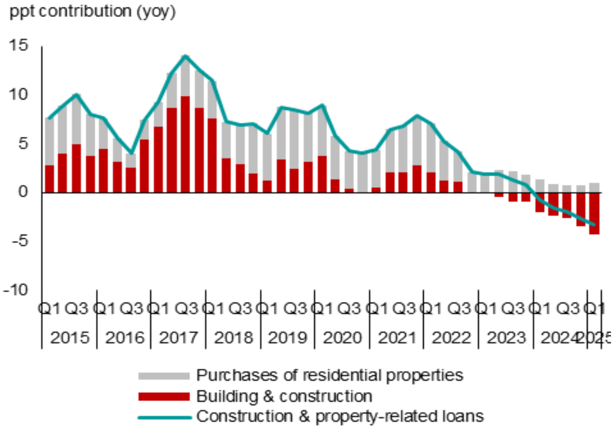
However, the special mention loan ratio is on the upward trend.



Source: HKMA

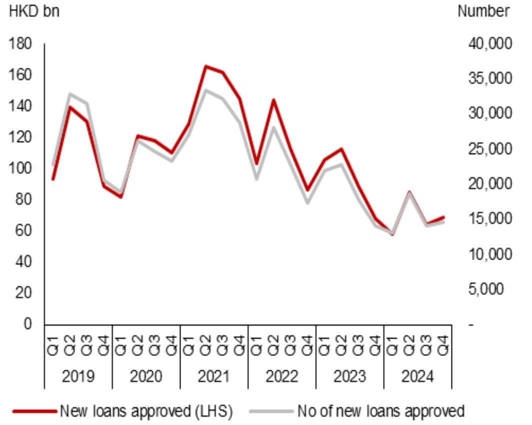
Figure 1.5. Property Sector

Construction and property loans continued to shrink, driven by lower building and construction credit.



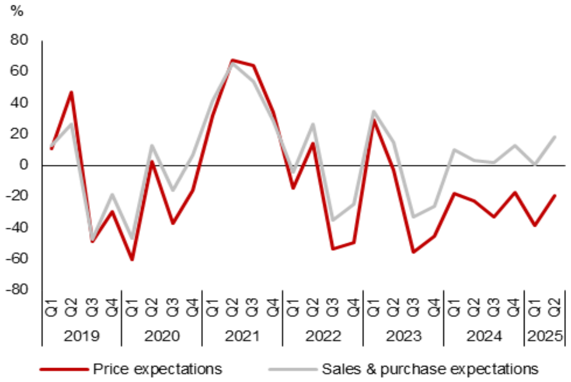
Source: HKMA; AMRO staff calculations
Note: Purchases of residential property loans is the combination of purchase of flats in the home ownership scheme and the purchase of other residential properties.

The recovery in mortgage loans has been modest so far.



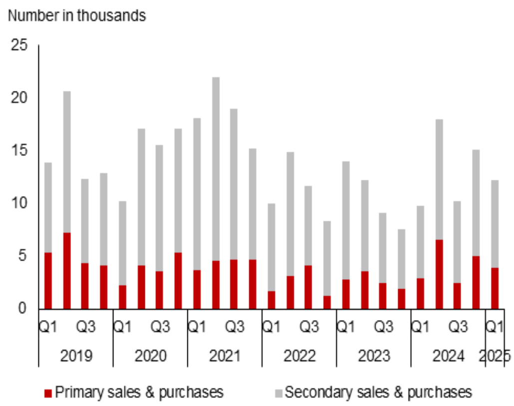
Source: HKMA; AMRO staff calculations

Nonetheless, expectations of property price and sales & purchases for the next 12 months also increased in Q2 2025.



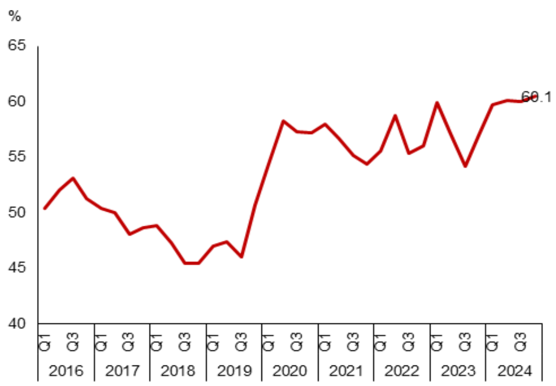
Source: RICS-SPACIOUS Hong Kong Residential Market Survey

This expectation aligns with the pickup in property transactions observed in 2024.



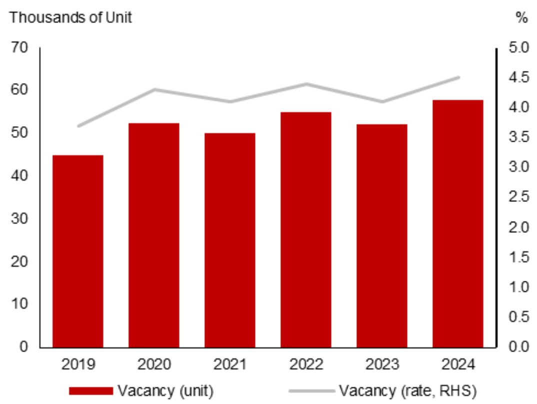
Source: Land Registry; AMRO staff calculations

The loan-to-value ratio of new mortgages inched up to 60.1% in Q4 2024.



Source: HKMA

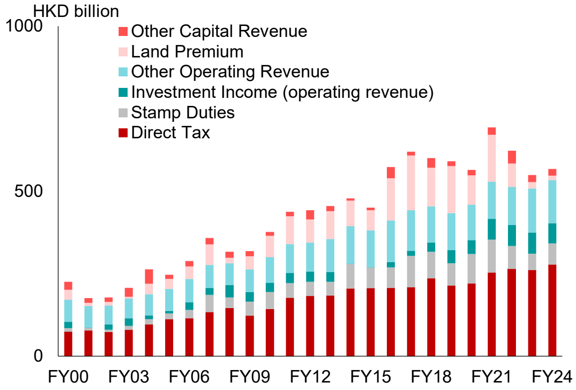
The vacancy rate of the private domestic property market remained stable in 2024.



Source: Hong Kong Rating and Valuation Department
Note: The vacancy rate is for the private domestic property market.

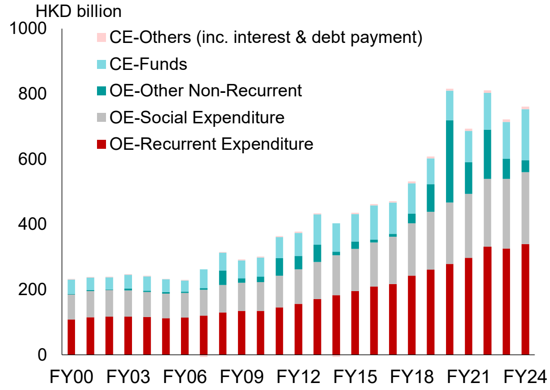
Figure 1.6. Fiscal Sector

Government revenue rose modestly in FY2024.



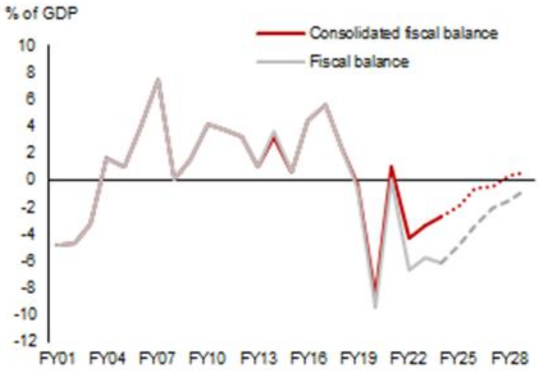
Source: Financial Services and the Treasury Bureau (FSTB); CEIC

Government expenditure increased in FY2024 driven by higher capital spending.



Source: FSTB; CEIC

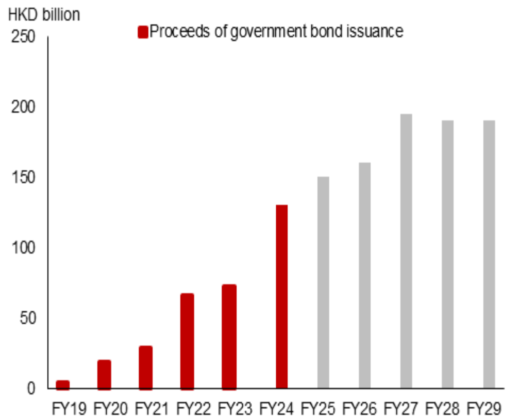
The fiscal stance is projected to gradually tighten and return to fiscal surplus in FY2028.



Source: FSTB; CEIC

Note: The dashed lines denote the government's medium-range forecasts announced in the 2025 February Budget Speech.

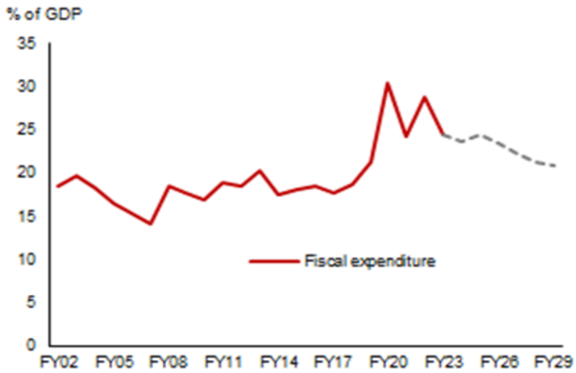
Bond issuance is set to accelerate to finance capital projects.



Source: FSTB; CEIC

Note: Bars in grey denote the government's medium-range forecasts announced in the 2025 February Budget Speech.

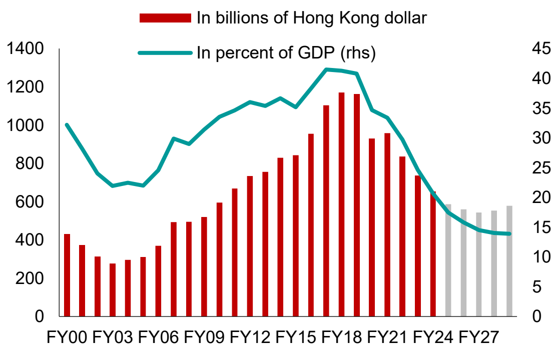
Fiscal expenditure as a percentage of GDP is projected to decline.



Source: FSTB; CEIC

Note: The dotted line in grey denotes the government's medium-range forecasts announced in the 2025 February Budget Speech.

Fiscal reserves are expected to decline by FY2028.



Source: FSTB; CEIC

Note: Bars in grey denote the government's medium-range forecasts announced in the 2025 February Budget Speech.

Appendix 2. Selected Economic Indicators for Hong Kong, China

	2021	2022	2023	2024 e/	2025 p/	2026 p/
Real Sector and Prices	(In annual percentage change)					
Real GDP	6.5	-3.7	3.2	2.5	2.1	1.9
Private consumption	5.6	-2.2	6.8	-0.7	-0.1	1.2
Government consumption	5.9	8.0	-3.9	0.9	1.2	2.5
Gross domestic fixed capital formation	8.3	-7.4	11.4	1.9	3.6	3.5
Exports	17.0	-12.5	-6.5	4.8	3.8	-0.7
Goods	18.7	-14.0	-10.0	4.7	3.5	-1.7
Services	3.4	-0.5	19.5	5.1	5.6	5.1
Imports	15.8	-12.2	-5.2	3.5	3.3	-0.8
Goods	17.2	-13.2	-8.3	2.4	3.0	-1.6
Services	2.5	-1.2	25.6	11.6	5.1	4.0
GDP deflator	0.7	1.7	2.9	3.8	2.3	2.1
Labor Market						
Unemployment rate (In percent, period average)	5.2	4.3	2.9	3.0	3.1	3.2
Prices						
Headline inflation (Period average)	1.6	1.9	2.1	1.7	1.8	1.7
Underlying inflation (Period average, netting out one-off govt relief measures)	0.6	1.7	1.7	1.1	1.1	0.9
External Sector	(In billions of U.S. dollares, unless otherwise specified)					
Current account balance (In percent of GDP)	11.8	10.2	8.5	12.9	12.5	11.0
Goods trade balance (In percent of GDP)	0.9	-1.4	-4.2	-0.5	-0.1	-0.3
Services trade balance (In percent of GDP)	4.7	5.5	4.8	4.6	4.7	4.4
Primary income (In percent of GDP)	6.9	6.6	8.5	9.5	8.4	7.5
Exports, f.o.b	674	614	576	631	575	565
Imports, cif	670	620	593	633	662	652
Overall balance	-1	-47	-10	-12	-12	-21
(In percent of GDP)	0	-13	-3	-3	-3	-5
Gross official reserves excluding net forward position	497	424	426	422	419	415
(In months of retained imports of goods)	44	40	38	39	37	36
Total external debt	1872	1782	1846	1910	2116	2181
Short-term external debt (% of international reserves)	248	271	267	271	270	270
Fiscal Sector (General Government)	(In percentage of GDP, fiscal year)					
Revenue	24.2	22.1	18.4	17.8	19.6	20.1
Expenditure	24.2	28.9	24.2	23.7	24.4	23.5
Net Issuance & Repayment of Gov Bonds & Notes	1.0	2.3	2.4	3.4	2.8	2.8
Consolidated budget balance	1.0	-4.4	-3.4	-2.5	-2.0	-0.6
Fiscal balance	0.0	-6.7	-5.8	-5.9	-4.8	-3.4
Public debt	2.0	4.4	6.5	9.4	11.7	14.0
Monetary and Financial Sector	(In annual percentage change, period end)					
Total loans	3.8	-3.0	-3.6	-2.8	-1.8	-0.8
Total loans (In percent of GDP)	379.8	376.3	341.6	312.0	293.3	279.8
Loan to deposit ratio (In percent)	71.7	68.5	62.8	57.0	59.9	58.5
Classified loan ratio (In percent)	0.8	1.4	1.7	2.2	2.2	2.3
Capital adequacy ratio (In percent)	20.2	20.1	21.1	21.8	22.8	23.8
Memorandum Items						
Exchange rate (LCY per USD, end-period)	7.80	7.80	7.81	7.76	7.75	7.75
GDP in billions of HKD	2868.0	2809.0	2983.4	3175.1	3317.3	3449.2
GDP in billions of U.S. dollars	368.9	358.7	381.0	406.9	428.0	445.1
GDP per capita (USD)	49,766	48,822	50,566	54,080	56,888	59,151
Interest rates (%, end-period)						
Three-month Hibor	0.3	5.0	5.2	4.4	4.2	4.0
10Y Govt' bond yield	1.5	3.6	3.2	3.7	3.5	3.5
Asset prices						
Hang Seng Index (end of period, 1964=100)	23,398	19,781	17,047	20,060		
(% yoy)	-14.1	-15.5	-13.8	17.7		
Residential property prices (end of period, 1999=100)	393.9	334.7	311.3	289.2		
(% yoy)	3.7	-15.0	-7.0	-7.1		

Source: Hong Kong authorities; IMF; Haver Analytics; CEIC; AMRO staff calculations and estimates

Note: 1) Fiscal balance excludes net issuance of government bonds and notes., 2) p/ denotes projections for 2025 and 2026. 3) Fiscal figures refer to fiscal year.

Appendix 3. Balance of Payments

	2021	2022	2023	2024
	(In percent of GDP)			
Current account	11.8	10.2	8.5	12.9
Goods	0.9	-1.4	-4.2	-0.5
Total exports of goods	182.6	171.3	151.2	155.1
Imports of goods	181.7	172.8	155.5	155.6
Services	4.7	5.5	4.8	4.6
Exports of services	21.4	23.2	25.5	26.7
Imports of services	16.7	17.6	20.7	22.1
Primary income	6.9	6.6	8.5	9.5
Secondary income	-0.7	-0.5	-0.6	-0.6
Capital account	-0.4	0.0	0.2	0.0
Financial account	12.7	9.9	8.1	15.3
Financial non-reserve assets	13.0	22.9	10.8	18.2
Direct investment	-11.9	-1.0	-6.8	-9.6
Portfolio investment	21.6	11.3	15.2	34.6
Financial derivatives	-1.6	-5.0	-3.4	1.0
Other investment	4.8	17.6	5.8	-7.9
Reserve assets	-0.3	-13.1	-2.7	-2.8
Net errors and omissions	1.2	-0.4	-0.6	2.5
Overall Balance of Payments	-0.3	-13.1	-2.7	-2.8

Source: C&SD; CEIC; AMRO staff calculations.

Appendix 4. Statement of Central/ General Government Operations

	2021/22	2022/23	2023/24	2024/25
	(In billions of HKD)			
Opening Balance	928	957	835	735
Consolidated Revenue	694	622	549	565
General Revenue	551	552	530	551
Operating Revenue	528	513	508	532
Direct Tax	253	264	262	279
Stamp Duties	100	70	49	64
Others	175	179	198	189
Capital Revenue	22	39	22	20
Land Premium	143	70	20	14
Conslidated Expenditure	693	810	721	753
Operating Expenditure	590	690	601	597
Capital Expenditure	103	121	120	157
Net Issuance & Repayment of Gov Bonds & Notes	29	66	72	108
Consolidated Surplus	29	-122	-100	-80
Closing Balance	957	835	735	654
	(In percent of GDP)			
Opening Balance	32.3	34.1	28.0	23.1
Consolidated Revenue	24.2	22.1	18.4	17.8
General Revenue	19.2	19.7	17.8	17.4
Operating Revenue	18.4	18.3	17.0	16.7
Direct Tax	8.8	9.4	8.8	8.8
Stamp Duties	3.5	2.5	1.6	2.0
Others	6.1	6.4	6.6	5.9
Capital Revenue	0.8	1.4	0.7	0.6
Land Premium	5.0	2.5	0.7	0.4
Consolidated Expenditure	24.2	28.9	24.2	23.7
Operating Expenditure	20.6	24.6	20.1	18.8
Capital Expenditure	3.6	4.3	4.0	4.9
Overall balance	0.0	-6.7	-5.8	-5.9
Primary balance	-2.8	-10.0	-8.1	-7.1
Net Issuance & Repayment of Gov Bonds & Notes	1.0	2.3	2.4	3.4
Consolidated Surplus	1.0	-4.4	-3.4	-2.5
Closing Balance	33.4	29.7	24.6	20.6
Memorandum Items:				
GDP in billions of HKD (Calendar Year)	2,868	2,809	2,983	3,175

Source: C&SD; CEIC; AMRO staff calculations

Appendix 5. Monetary Survey

	2022	2023	2024	2025*
	(In percent of change, period end)			
Total monetary base	-10.1	-1.1	3.3	1.3
Total money supply				
M1	-20.7	-6.2	5.8	4.7
M2	1.6	4.0	7.3	4.0
M3	1.6	4.0	7.4	4.0
Hong Kong dollar money supply				
Currency in circulation	0.9	-1.0	1.8	2.3
M1	-17.8	-10.3	1.3	4.1
M2	0.7	1.9	2.7	4.3
M3	0.6	1.9	2.8	4.3
Deposit				
Total	1.7	5.1	7.1	4.1
Hong Kong dollar	0.7	2.1	2.8	4.4
Foreign currency	2.6	7.9	10.9	3.8
Loans and advances				
Total	-3.0	-3.6	-2.8	0.5
Hong Kong dollar	2.8	-2.8	-5.8	-2.1
Foreign currency	-11.2	-5.0	2.4	4.6
Interest rates	(In percent, period average)			
Discount window base rate	2.1	5.5	5.6	4.8
HIBOR: 1 month	1.5	4.3	4.4	3.8
HIBOR: 3 month	2.2	4.6	4.5	3.9
Composite interest rate	0.8	2.4	2.5	2.1
HSBC's best lending rate	5.1	5.8	5.8	5.3

Source: HKMA; CEIC; AMRO staff calculations
* As of end-April 2025

Appendix 6. Data Adequacy for Surveillance

Criteria / Key Indicators for Surveillance	Data Availability (i)	Reporting frequency / timeliness (ii)	Data Quality (iii)	Consistency (iv)	Others if any (v)
National Account	(i) For expenditure components, yearly and quarterly data in nominal and real terms are available; (ii) for production components, yearly data in nominal terms are available, and yearly and quarterly data in real terms are available; and (iii) for income components, yearly data in nominal terms are available.	Quarterly, about 1 month for expenditure and about 2.5 months for production after the end of the reference quarter	-	-	-
Balance of Payments (BOP) and external position	Quarterly data are available	Quarterly, within three months after the end of the reference period	-	-	-
Central government budget / external debt	Monthly central government public finances are available, while quarterly external debt data are available in detail	Budget: monthly, within one month after the end of the reference period	-	-	-
Inflation, money supply and credit growth	Monthly inflation, money supply and credit growth data are available	Monthly data are released within one month after the end of the reference period	-	-	-
Financial sector soundess indicators	Available	Financial sector soundness indicators (FSIs) are available from the IMF website	-	-	-
Housing market indicators	Available	Monthly data are released within one month after the end of the reference period	-	-	-

Source: AMRO staff compilations. This preliminary assessment will form the "Supplementary Data Adequacy Assessment" in the ERPD Matrix.
Note:
(i) Data availability refers to whether official data is available for public access by any means.
(ii) Reporting frequency refers to the periodicity with which the available data is published. Timeliness refers to how up to date the published data is relative to the publication date.
(iii) Data quality refers to the accuracy and reliability of the available data, taking into account the data methodologies.
(iv) Consistency refers to both internal consistency within the data series itself and its horizontal consistency with other data series of either the same or different categories.
(v) Other criteria might also apply, if relevant. Examples include but are not limited to potential areas of improvement for data adequacy.

Appendix 7. Climate Clipboard—Risks, Responses, and Opportunities[37]

A. Physical risks

Exposure/ Sources of risk	Potential macro-financial impact
• Sea level rise (chronic) • Extreme rainstorms and tropical cyclones (acute) • Extreme droughts (acute) • Extreme heat (acute)	• Estimated direct economic losses: HKD4.6 billion (0.2% of GDP) due to Super Typhoon Mangkhut in 2018, 3.8 times higher than that of Super Typhoon Halo in 2017 • Trading in the financial markets delayed/ cancelled' business activities suspended in severe impact scenarios • Property and infrastructure damage from city-wide flash floods and landslides • Impact on agriculture sector: According to the Emergency Relief Fund in respect of primary producer grants, Super Typhoon Saola, Severe Typhoon Haikui and rainstorm associated with its remnant in September 2023 led to an estimated loss of over HKD1.7 million for pigs (involving two livestock farms with an estimated total loss of over 1500 pigs).

B. Transition risks

Sources of risk	Potential macro-financial impact
• Changes in climate policy, technological changes, or a change in market sentiment • Phasing out of coal-fired electricity generation plants • Phasing out of fuel-propelled vehicles • Regulatory and supervisory transition • Financial risk exposure • Systemic and liability risks	• Increase in spending on technology and infrastructure investment necessary for the development of and shift to renewable energy sources • Heightened credit risks, especially for emission-intensive firms in disorderly transition • Increase in government spending, via fiscal incentives/ subsidies, to promote private sector shift to renewable energy sources • Compliance costs for businesses, although the impact may be limited given the relatively small size of carbon-intensive sectors such as energy • Impact on lending and investment portfolios of financial institutions, as market preferences may shift toward greener assets. • Uncertainty around evolving regulatory standards and the pace of policy change that could impact business planning and investment decisions

C. Adaptation response framework and strategies

Adaptation framework	Key initiatives/strategies	Estimated financing need and sources	
• Hong Kong's Climate Action Plan 2050 (Chapter 5: Climate Change Adaptation and Resilience)	• Strengthen building and infrastructure design against extreme weather events (tropical cyclones, rainstorms) • Enhance drainage management and landslip prevention measures • Integrate water body revitalization with green and ecological conservation in drainage work • Develop policies/ plans to enhance Hong Kong's adaptive capacity based on climate science and international standards	• In the next 15 to 20 years, the government will allocate roughly HKD240 billion to implement various measures on climate change mitigation and adaptation. *Note: Separate budget for mitigation and adaptation is not available.*	
		Domestic	**External**
		• Annual budget	• N/A

D. Mitigation response framework and strategies

Nationally Determined Contribution (NDC)	National framework / Strategies	Estimated Financing and sources
• Reduce carbon emissions by 26 percent-36 percent by 2030 against the 2005 baseline **Long-term commitment** • Halve total carbon emissions from 2005 level by 2035 • Achieve carbon neutrality before 2050	• Hong Kong's Climate Action Plan 2030+ (Jan 2017), outlining strategies that include: ➢ Phasing down coal in favor of natural gas for electricity generation by 2030 ➢ Scaling up renewable energy sources ➢ Enhancing energy and carbon efficiency in buildings and infrastructure • Hong Kong's Climate Action Plan 2050 (Oct 2021), with four key decarbonization strategies: 1) Net-zero electricity generation 2) Energy saving and green buildings 3) Green transport 4) Waste reduction • Hong Kong Roadmap on Popularization of Electric Vehicles (Mar 2021) ➢ Provides key measures to achieve zero vehicular emissions by 2050 • Clean Air Plan for Hong Kong 2035 (Jun 2021) ➢ Outlines major areas of action to meet air quality targets from the World Health Organization's Air Quality Guidelines • Energy Saving Plan 2015–2025+ (May 2015) ➢ Assesses energy use in Hong Kong and establishes goals to reduce the city's energy intensity by 40 percent by 2025 • Waste Blueprint for Hong Kong 2035 (Feb 2021) ➢ Sets out key areas of action to achieve the vision of waste reduction, resources circulation and zero landfill • Climate Change Framework for Built Environment (Jun 2023) ➢ Supports building industry in achieving carbon neutrality ➢ Facilitates reporting of environmental, social and governance achievements ➢ Justifies green finance requirements ➢ Enables disclosure of climate risk strategies • The Strategy of Hydrogen Development in Hong Kong (Jun 2024) ➢ Set outs the four major strategies of improving legislations, establishing standards, aligning with the market, and advancing with prudence to create an environment conducive to the development of hydrogen energy in Hong Kong in a prudent and orderly manner	• As announced in the Hong Kong's Climate Action Plan 2050 promulgated in 2021, in the next 15 to 20 years, the government will allocate about HKD240 billion to implement various measures on climate change mitigation and adaptation. *Note: Separate budget for the mitigation and adaptation is not available.*

E. Enabling regulations for climate resilience

E.1. Supervisory requirement	E.3. Carbon pricing frameworks	E.4. Sustainable finance frameworks

[37] Prepared by Vanne Khut, Economist.

• Supervisory Policy Manual for Climate Risk Management (Dec 2021) ➢ Provides guidance to authorized institutions (AIs) on key components of climate-related risk management ➢ Outlines the HKMA's approach and expectations for reviewing AIs' climate-related risk management **E.2. GHG accounting framework** • Guidelines to account for and report on greenhouse gas (GHG) emissions and removals for buildings (commercial, residential or institutional purposes) in Hong Kong (2010) ➢ Ensure accurate and fair reporting of GHG emissions and removals for commercial, residential, and institutional buildings, reflecting their GHG performance • ISO 14064 1 Greenhouse Gas Accounting and Verification (Mar 2022) ➢ Provides institutions with a framework for quantifying and reporting carbon emission performance to support sustainable development	• Conducted a feasibility study on carbon market opportunities for Hong Kong (Mar 2022) • Launched Core Climate (Oct 2022) ➢ Serves as an international carbon marketplace established by the Hong Kong Exchanges and Clearing Limited (HKEX) ➢ Provides effective and transparent trading of voluntary carbon credits and instruments across Asia and beyond	• Securities and Futures Commission's Strategic Framework for Green Finance (Sep 2018) with aims to: ➢ Enhance climate-related corporate disclosures aligned with recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) ➢ Develop policies and guidance for asset managers' disclosures and combat greenwashing ➢ Facilitate development of green-related investments ➢ Support investor awareness and capacity building in green finance ➢ Participate in international sustainability initiatives to promote Hong Kong as an international green finance center • Hong Kong Monetary Authority's Sustainable Finance Action Agenda (Oct 2024) with aims to facilitate sustainable fund flows and ensure that banks manage the risks associated with the net zero transition properly. It includes eight goals in four areas, namely • Banking for net zero • Investing in a sustainable future • Financing net zero Making sustainability more inclusive

E.5. Financial system

Initiatives	Guidelines	Status
1. Taxonomy	• Common Ground Taxonomy (CGT) – Climate Change Mitigation (Jun 2022)	• CGT Research Series Phase 1: Principles for advancing the adoption of the Common Ground Taxonomy in Hong Kong SAR and the Greater Bay Area) (June 2022) • CGT Research Series Phase 2: Understanding Use Cases of the Common Ground Taxonomy (Sep 2022) • CGT Research Series Phase 3: Operationalizing IPSF Common Ground Taxonomy in the Greater Bay Area (Sep 2023)
	• Hong Kong Taxonomy for Sustainable Finance (**May 2024**)	• In May 2024, the HKMA published Phase 1 of the Hong Kong Taxonomy for Sustainable Finance (Hong Kong Taxonomy), encompassing 12 economic activities under four sectors. Development of Phase 2 of the Hong Kong Taxonomy to expand the scope of sectors and activities covered is underway.
2. Risk management assessments	• Pilot Climate Risk Stress Test Report (2021) • Guidelines for Banking Sector Climate Risk Stress Test (Apr 2023) • Banking Sector Climate Risk Stress Test (2023 – 2024)	• Published the second round of sector-wide Climate Risk Stress test (CRST 2.0)
3. Climate-related financial disclosures	• Supervisory Policy Manual for Climate Risk Management (Dec 2021) • Roadmap on Sustainability Disclosure (December 2024) • HKFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (the HKFRS S1) (December 2024) • HKFRS S2 Climate-related Disclosures (the HKFRS S2) (December 2024)	• The Roadmap on Sustainability Disclosure in Hong Kong sets out Hong Kong's approach to require publicly accountable entities (PAEs) to adopt the ISSB Standards. It provides a well-defined pathway for large PAEs to fully adopt the ISSB Standards no later than 2028.
4. Data availability	• Launched a Physical Risk Assessment Platform for banks to assess the potential impact of physical risk on residential and commercial buildings in Hong Kong under different climate scenarios	• Latest updated data available on the websites
5. Capacity building	• Pilot Green and Sustainable Finance Capacity Building Support Scheme • **Sustainable Finance Internship Programme** for university students in sustainable finance disciplines	• Launched in FY2022 for a pilot period of three years (HKD200 million earmarked for the scheme) and extended in FY 2025 for three more years to 2028

F. Potential opportunities from the low-carbon transition

• Green economy • Green finance hub in the region • Premier financing platform for green projects and firms	• Carbon-neutral communities • Innovation and technology center for green and sustainable development • Research and development center for green and sustainable development	• Development of relevant support infrastructure for EVs, including charging facilities/ stations • Light manufacturing, e.g., producing spare parts for EVs, solar panels, etc.

Source: Hong Kong's authorities; media reports; AMRO staff
Note: The Common Ground Taxonomy (CGT) – Climate Change Mitigation is an instruction report issued by International Platform on Sustainable Finance (IPSF), while the CGT Research Series Phase 1-3 is a series of research done by Hong Kong Green Finance Association (HKGFA).

Annexes: Selected Issues

1. Hong Kong's Retail Sector: Key Drivers and Policy Implications [38]

1. **Hong Kong's vibrant retail sector, long known for its vibrancy, has grown only modestly in recent times.** Hong Kong's retail sector thrived for many years, supported by the city's role as a business, finance, and tourism hub. The large number of tourist arrivals—especially from Mainland China—has been a key driver of retail activity. In recent years, however, Hong Kong's retail landscape has faced unprecedented challenges, including social unrest, the COVID-19 pandemic, and evolving global economic conditions. Since the reopening of the economy post-pandemic and full relaxation of travel restrictions, the pace of retail growth has been more modest than anticipated, with both short-term and long-term factors seemingly at play. In response, Hong Kong authorities, retailers, and business associations have collaborated to introduce various measures to revitalize the sector. The early results—along with the nature of both cyclical and structural factors, and Hong Kong's continued attractiveness as a hub for working, living, and leisure—suggest that the outlook is reasonably bright. This Selected Issue reviews recent trends in Hong Kong's retail sector, focusing on key drivers such as tourist arrivals, credit conditions, and inflation. It concludes with the outlook and a few policy implications.

Background and Recent Developments in Hong Kong's Retail Sector

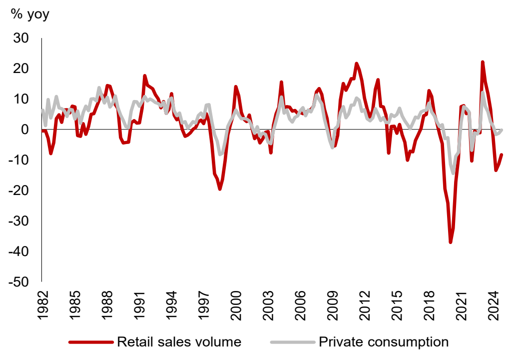
2. **While both retail sales and personal consumption expenditure (PCE) are important indicators of Hong Kong's economic activity, they capture different aspects of consumer spending.** Hong Kong's retail sales statistics are primarily intended to measure the sales receipts of goods sold by local retail establishments, serving as an indicator of the short-term business performance of the local retail sector. They cover both spending on goods by local households and tourists in Hong Kong. Retail sales statistics refer to consumer spending on goods bought from local retail establishments, but do not cover consumer spending on electricity, gas and water, and various services such as housing, transportation, education, medical and health care, recreation, entertainment, and personal services. PCE is a major component of GDP, compiled using a wide range of data sources, including retail sales data. It has a significantly broader scope than retail sales. It covers consumer spending on goods (purchased from all channels including online and traditional outlets) as well as spending on services by Hong Kong residents, whether domestically or abroad. Therefore, retail sales are not as comprehensive as PCE for gauging trends in local consumer spending. Still, trends in the expansion of retail sales, the nature of the retail sector's development, and an analysis of factors behind these trends may yield some interesting observations and provide a basis for developing policy ideas.

3. **The vibrancy of Hong Kong's retail sector over the years is closely linked to the city's robust economic growth and its status as a business, finance, and tourism hub.** Between 1982 and 1990, retail sales in Hong Kong increased at a double-digit pace in many years, supported by strong growth and rising wages (Figures A1.1, A1.2). From 1991 to 2000, economic growth remained robust despite being disrupted by the Asian Financial Crisis (AFC), with retail growth becoming more uneven as labor market and consumer confidence took time to recover (Figures A1.3). Between 2001 and 2010, a series of shocks—including the dotcom bubble, the SARS outbreak, and the Global Financial Crisis (GFC)—hit the region. Still, Hong

[38] Prepared by Vanne KHUT (Economist) and Suan Yong FOO (Senior Economist).

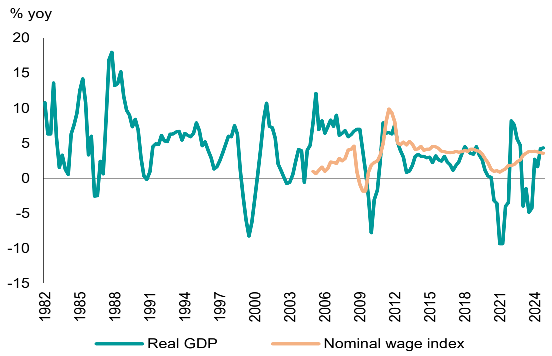
Kong's retail sales[39] grew by 4.6 percent annually on average, outpacing PCE growth of 3.1 percent, reflecting Hong Kong's attractiveness as a shopping destination (Figures A1.1, A1.2). Technological breakthroughs, such as the launch of the first iPhone and mobile apps, also supported retail resilience. From 2011 to 2020, Hong Kong's retail sector faced greater challenges, though a surge in Mainland Chinese tourists provided support (Figure A1.4). As the economy matured and GDP growth slowed, economic downturns (including those brought on by the eurozone debt crisis) and the COVID-19 pandemic further strained the sector. Nevertheless, retail sales remained strong for much of the decade, buoyed by Hong Kong's continued status as a business, finance, and tourism hub.

Figure A1.1. Retail Sales Volume vs Private Consumption Growth



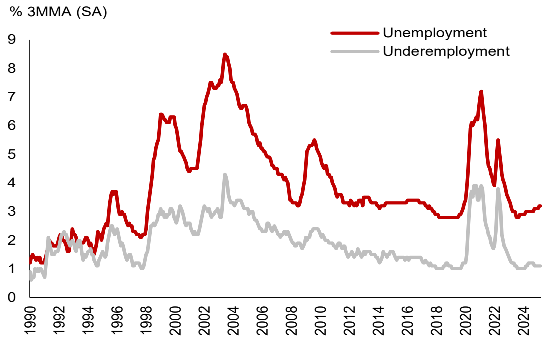
Source: Census and Statistics Department (C&SD); AMRO staff calculations

Figure A1.2. Real GDP and Wage Growth



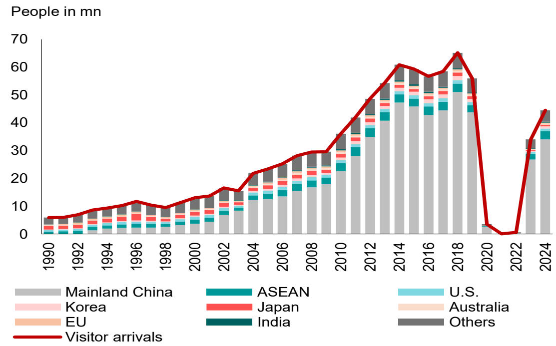
Source: C&SD; AMRO staff calculations

Figure A1.3. Unemployment Rate



Source: C&SD; AMRO staff calculations

Figure A1.4. Tourist Arrivals



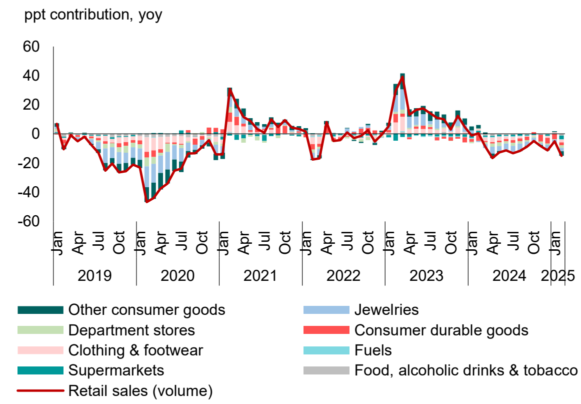
Source: Tourism Development Board; AMRO staff calculations

4. In recent years, the expansion and development of Hong Kong's retail sector have come under increasing pressure amid evolving and more challenging consumption patterns, the strength of the Hong Kong dollar, and an increase in outbound spending. As of February 2025, the retail sales volume index had declined for 12 consecutive months, with broad-based weakness particularly evident in supermarket sales, jewelry, clothing and footwear, and consumer durables (Figure A1.5). This subdued performance reflects a combination of factors. The gradual recovery in tourist arrivals, while ongoing,[40] has not fully translated into a strong rebound in retail spending, as visitor preferences have shifted towards experiences and more selective purchases of goods. At the same time, the strength of the Hong Kong dollar has reduced the price competitiveness of local goods, prompting both tourists and Hong Kong residents to seek more affordable alternatives elsewhere, including Shenzhen. Outbound travel by Hong Kong residents has also picked up alongside the

[39] This is referred to retail sales "volume" index.
[40] In the first quarter of 2025, tourist arrivals recovered to just 72.7 percent of the average of their 2018–2019 levels, but arrivals from Mainland China reached only 69.6 percent of pre-pandemic levels.

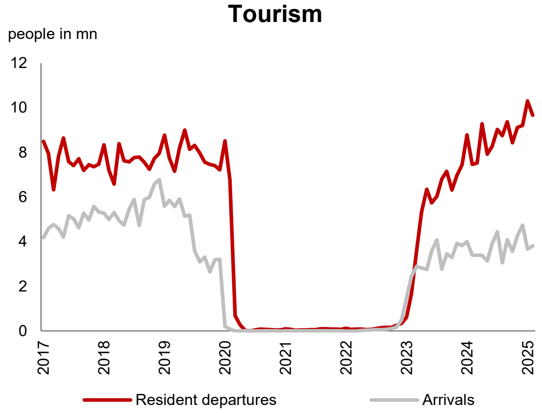
normalization of global travel, diverting some retail spending overseas (Figure A1.6). Despite government efforts to stimulate consumer spending and tourism, these challenges are likely to persist in the near term, and possibly into the medium term.

Figure A1.5. Hong Kong's Retail Sales Volume



Source: C&SD; AMRO staff calculations
Note: Given the absence of volume-based weights, the share of retail sales value is adopted as a proxy to estimate each component's contribution to retail sales volume growth.

Figure A1.6. Hong Kong's Inbound and Outbound Tourism



Source: Hong Kong Tourism Board; AMRO staff calculations

Key Determinants of Hong Kong's Retail Sales

5. Several key domestic and external factors play a central role in shaping the expansion and development of Hong Kong's retail market. AMRO's staff estimates using the Autoregressive Distributed Lag (ARDL) model (Table A1.1) provide insights into some likely key drivers of Hong Kong's retail sales growth (Figure A1.7). The retail sales volume index is used as the dependent variable, while the independent variables comprise several domestic and external factors. The domestic variables include lagged retail sales, inflation, and wages, while exchange rate (RMB per HKD) as well as inbound and outbound tourism represent external factors. The empirical results suggest that inbound tourism and wages have a positive and statistically significant impact on retail sales, reflecting the critical roles of external demand and household purchasing power in driving consumption. In contrast, HKD appreciation, rising inflation, and increasing outbound tourism are found to dampen retail sales, indicating sensitivity to currency competitiveness, cost of living, and cross-border spending leakage. The negative coefficient on lagged retail sales growth indicates a mean-reverting pattern, where strong sales in a previous period are followed by slower growth, and vice versa.

6. Both inbound and outbound tourism have long been key drivers of Hong Kong's retail sector. In terms of inbound tourism, foreign visitors, especially those from Mainland China, have traditionally been key contributors to sales in categories such as luxury goods (Cheng, 2024). When tourist arrivals increase, retail sales often receive a significant boost, as evident in the decomposition of retail sales growth (Figure A1.7). During periods of strong tourist inflows, such as the years leading up to 2019 and the post-pandemic reopening phase in 2023, tourist arrivals made positive contributions to retail sales growth. Conversely, during periods of crisis—most notably the COVID-19 pandemic from 2020 to 2022—tourist arrivals collapsed due to travel restrictions, and the impact on retail sales was immediate and severe, with negative contributions from this factor dominating overall sales performance. This underscores the retail sector's sensitivity to external demand shocks, particularly those related to cross-border travel. As Hong Kong gradually reopened in 2023 and 2024, tourist arrivals rebounded, and their contribution to retail sales turned positive again. In contrast, outbound tourism has contributed negatively to the retail sector. Outbound travel surged as borders reopened, and the HKD strengthened. Residents increasingly shopped across the border, significantly dragging down local retail sales (Figure A1.7). It is important to note that shifts in tourist preferences, including a greater focus on experiences over shopping and cross-border shopping for more affordable prices, have likely moderated the retail sales recovery compared to the pace seen during pre-pandemic years.

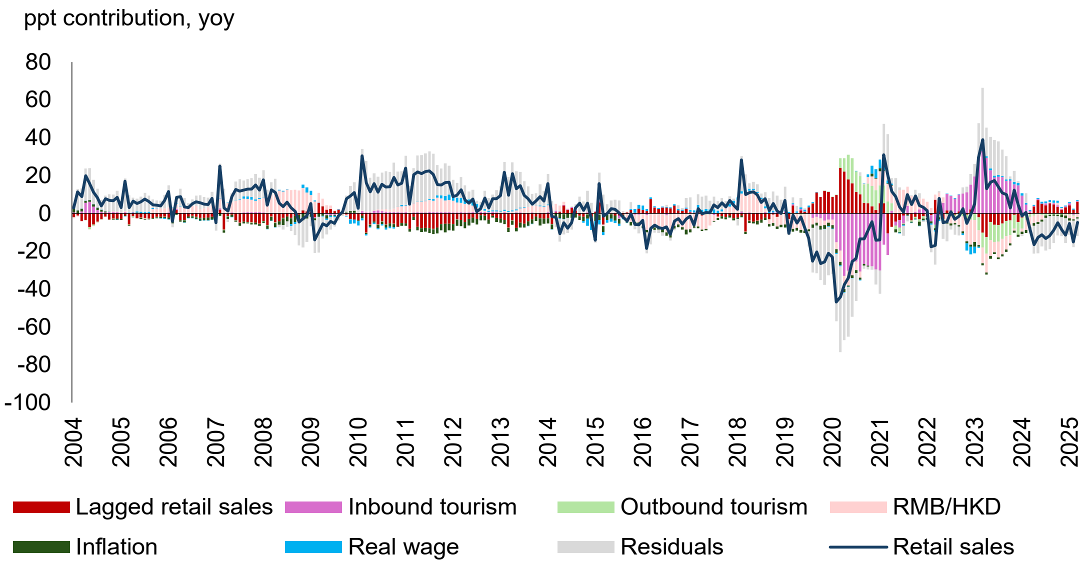
Table A1.1. ARDL Model and Empirical Results

$$\Delta\log(\boldsymbol{Retail\ Sales})_t = \beta_0 + \beta_1\Delta\log(\boldsymbol{Retail\ Sales})_{t-1} + \beta_2\,\Delta\log(\boldsymbol{Inbound\ tourism})_t + + \beta_5\,\Delta\log(\boldsymbol{RMB/HKD})_{t-1} + \beta_4\,\Delta\log(\boldsymbol{Inflation})_{t-4} + \beta_6\,\Delta\log(\boldsymbol{Outbound\ tourism})_{t-1} + \beta_7\,\Delta\log(\boldsymbol{Wage})_{t-4} + \boldsymbol{Dummy} + \varepsilon_t$$

Variable	Coefficient	Std. Error	t-Statistic	Prob.
$\Delta\log(\text{Retail Sales})_{t-1}$	-0.384***	0.067	-5.749	0.0000
$\Delta\log(\text{Inbound tourism})_t$	0.046***	0.016	2.855	0.0046
$\Delta\log(Outbound\ tourism)_{t-1}$	-0.021**	0.008	-2.590	0.0101
$\Delta\log(RMB/HKD)_{t-1}$	-1.233***	0.350	-3.526	0.0005
$\Delta\log(\text{Inflation})_{t-4}$	-0.591**	0.281	-2.104	0.0363
$\Delta log(Wage)_{t-4}$	0.640*	0.386	1.658	0.0985
Dummy	0.039	0.013	3.115	0.0020
Constant	-0.002	0.002	-0.908	0.3645
R-squared	0.325			
Adjusted R-squared	0.308			

Note: ***, ** and * denote significance at 1 percent, 5 percent and 10 percent level, respectively. Retail sales volume index is used as a dependent variable—especially when inflation is included as a regressor—to avoid double-counting price effects and enable a clearer estimation of inflation's impact on consumer demand. A different number of lags is applied to different variables. RMB/HKD (RMB per HKD) and outbound tourism are included with one-month lag to reflect a short delay in travel activity and impact of exchange rate changes on tourist spending. A four-month lag was imposed on inflation and real wages, reflecting realistic delay in how these factors influence consumer spending behavior. Nevertheless, no lag was applied to tourist arrivals to reflect the assumption that changes in visitor numbers have an immediate effect on retail sales. This is theoretically sound, as tourist spending tends to occur during the visit period and directly supports current retail activity. It should be noted that real wages are used instead of nominal wages because it reflects the actual purchasing power of households, which is what directly drives consumption and retail spending. All variables, except inflation, are seasonally adjusted using Census X-12 to smooth periodic swings in the data. To capture the true effect of price pressures on consumer spending, non-seasonally adjusted inflation is employed in the model. Some variables considered but eventually removed from the model include property rental given statistical insignificance as well as unemployment due to endogeneity issue confirmed by two tests: Durbin-Wu-Hausman (DWH) test and 2SLS with instrument validity checks. A dummy variable is included to capture the effect of Chinese New Year and government support measures, particularly the consumption vouchers rolled out in phases during 2021, 2022, and 2023.

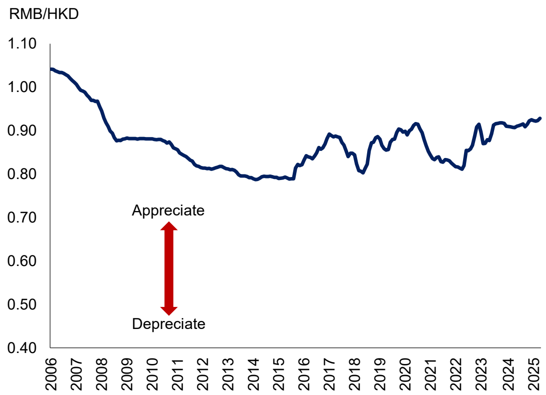
Figure A1.7. Drivers of Hong Kong's Retail Sales Growth



Source: C&SD; Hong Kong Tourism Board; HKMA; AMRO staff estimates

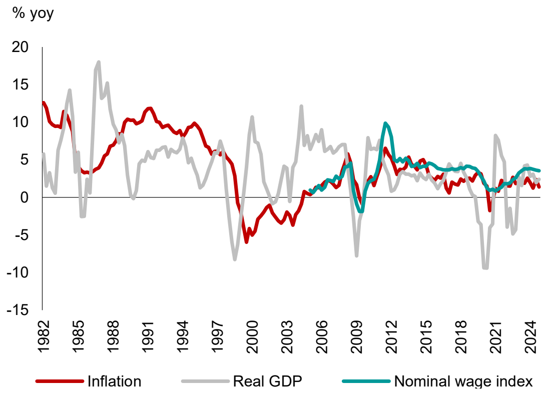
7. The contribution of the exchange rate to Hong Kong's retail sales has been significant, yet highly variable over time, reflecting changes in exchange rate competitiveness and the sensitivity of Mainland tourist spending to currency fluctuations. Between 2007 and 2009, the exchange rate (RMB/HKD) made a large and sustained positive contribution to retail sales growth, reflecting a period of Hong Kong dollar depreciation against the RMB (Figure A1.8), which boosted the purchasing power of Mainland Chinese tourists and made Hong Kong goods more affordable and highly attractive. From 2016 to 2018, the RMB/HKD contribution turned negative, as the Hong Kong dollar appreciated relative to the RMB (Figure A1.8). In 2019, the negative contribution from the exchange rate intensified, coinciding with HKD appreciation and broader retail disruptions due to social unrest. In 2023–2024, as borders reopened and the HKD appreciated, there was renewed downward pressure on retail sales. Overall, a stronger HKD reduces the city's price competitiveness, particularly for Mainland tourists.

Figure A1.8. Exchange Rate



Source: State Administration of Foreign Exchange

Figure A1.9. Inflation, Real GDP, Wages

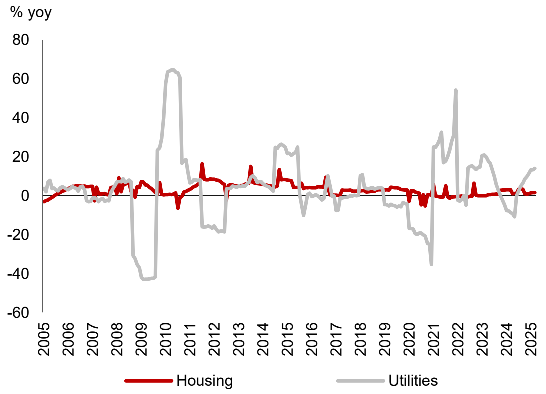


Source: C&SD; AMRO staff calculations

8. The contribution of inflation to retail sales has generally been negative, though the intensity of impact has varied over time (Figure A1.7)**.** The literature indicates that inflation negatively affects retail businesses and dampens consumer spending by raising operational costs, eroding purchasing power and weakening demand (Alldredge, Coggins, Drassinower & Nading, 2022). From 2007 to 2010, inflation had a negative but relatively moderate impact on retail sales, with the extent of the effect limited by a collapse in demand and broader economic downturn during the GFC (Figure A1.9). The negative contribution of inflation to retail sales growth became more pronounced during 2011–2016, when price pressures were more persistent and domestically driven as Hong Kong residents faced rising housing rents and utility costs, which pushed up the cost of living over this period, weighing more heavily on discretionary spending (Figure A1.10). In 2017–2019, the drag from inflation on retail sales eased, as price pressures moderated, and income growth remained steady (Figure A1.9). Moreover, while economic conditions were broadly stable from 2017 to early 2019, the second half of 2019 saw a significant deterioration due to social unrest. Therefore, the drag from inflation on retail sales remained limited during this period, as the retail downturn was primarily driven by non-inflationary factors, such as disruptions to social life and socioeconomic activities as well as a collapse in consumer and tourist demand (Figure A1.4). Throughout 2020-2024, inflation exerted a consistently negative but generally moderate drag on retail sales. While subdued inflation during the pandemic limited its impact in 2020–2021, the drag stabilized at modest levels during the recovery years. Even with higher global inflation in 2023–

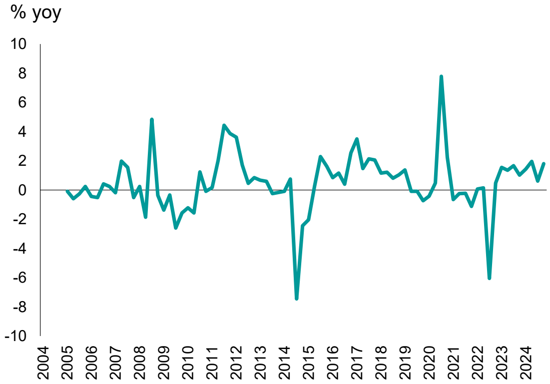
2024, its contribution remained contained as improving domestic conditions[41] partially offset the negative effects of inflation on consumer spending.

Figure A1.10. Housing and Utility CPI



Source: C&SD; AMRO staff calculations

Figure A1.11. Real Wage Index



Source: C&SD; AMRO staff calculations

9. **Wages have played a consistently supportive role in driving retail sales, shaped by labor market conditions and households' purchasing power.** The contribution of wages to Hong Kong's retail sales has been consistently positive, although relatively small (Figure A1.7). After the GFC, particularly from 2011 to 2013, wages rose by an average of 1.5 percent, up from -0.4 percent during 2008-2010. This boosted households' purchasing power, alongside a decrease in the unemployment rate (Figure A1.3). In contrast, wage contribution weakened during 2014–2016,[42] reflecting slower wage growth amid economic uncertainty. Nevertheless, real wages remained a stable underlying support for consumption, preventing deeper retail declines. During the COVID-19 period (2020–2022), wage support persisted even as overall retail sales contracted, suggesting that government income support measures, job retention and creation measures, and wage stability helped to cushion the drop in private consumption. In 2023–2024, as the economy reopened and labor demand strengthened, rising real wages—alongside improving consumer confidence—once again made a positive contribution to retail sales, helping to partially offset external headwinds from HKD appreciation and the sluggish tourism recovery (Figures A1.7, A1.11, A1.12).

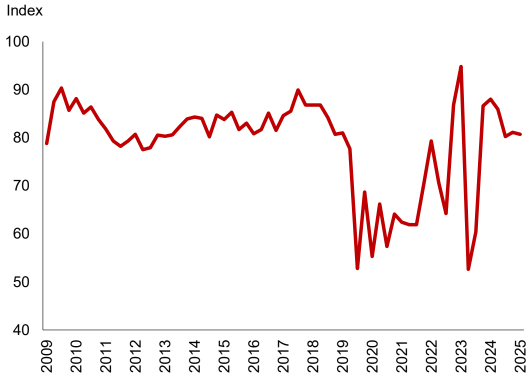
10. **While the factors discussed above explain a significant portion of retail sales movement, residuals—representing unexplained variations—are important.** These capture factors not explicitly included in the model, such as policy changes, some aspects of social unrest, and unexpected global events. For example, in times of crisis, such as the GFC and COVID-19 pandemic, residual contributions were large and negative, reflecting the severe and sudden drop in retail activity not fully explained by inflation, tourist arrivals, or credit growth alone. In contrast, during the post-pandemic reopening, residuals turned strongly positive, reflecting pent-up demand, policy support (such as consumption vouchers), and a consumer sentiment pick-up. The importance of residuals highlights the need to consider qualitative and structural factors alongside quantitative drivers when analyzing Hong Kong's retail sector.

11. **Finally, the relationship between lagged retail sales and retail sales growth appears to be mildly counter-cyclical.** Periods of strong retail sales tend to be followed by weaker

[41] Improving domestic conditions include a labor market recovery, inbound tourism revival, normalization of retail operations, and targeted government support (i.e., consumption vouchers, mega events and tourism campaigns, tax reductions, financial relief, etc.). The unemployment rate has declined to below 4 percent since October 2022, down from an average of 5.5 percent in 2020-2021.
[42] Real wage growth averaged -0.2 percent during 2014-2016.

growth, as indicated by negative contributions from lagged sales, while periods of weak sales tend to be followed by rebounds, reflected in positive lagged contributions. This suggests a self-correcting dynamic, where growth tends to moderate after strong expansions and rebounds following downturns.

Figure A1.12. Consumer Confidence Index



Source: City University

Policy Implications

12. The analysis finds that Hong Kong's retail sector remains sensitive to a mix of domestic and external factors. Inbound tourism and real wage growth have supported retail activity, while a strong Hong Kong dollar, rising outbound tourism, and inflation have weighed on performance. Tourist preferences are shifting toward experiences over goods, and local consumers are increasingly spending money across the border. These dynamics, along with broader structural changes, suggest that a return to pre-pandemic retail patterns is unlikely, calling for a more forward-looking and adaptive policy approach.

13. First, Hong Kong should continue to boost tourist appeal—especially for Mainland visitors—by easing access and aligning offerings with evolving preferences. Hong Kong authorities, industry bodies, and retailers deserve credit for their continued efforts to revitalize the retail sector and explore new avenues for long-term growth. Given inbound tourism's significant role in supporting retail performance, efforts to enhance the city's appeal as a shopping and leisure destination—especially for Mainland Chinese tourists— should continue. This should be done by improving visitor experience, easing cross-border mobility, and diversifying retail offerings to align with shifting tourist preferences. Coordinated promotion campaigns and the expanded use of digital platforms could also help attract a broader mix of travelers beyond traditional shopping-oriented segments.

14. Second, the persistent drag from outbound tourism and the strong Hong Kong dollar highlights the need for policies that strengthen domestic consumption and local competitiveness. Authorities may consider measures to retain local spending, such as neighborhood revitalization programs, "shop local" initiatives, and digital retail innovations that improve convenience and shopping experience. Incentivizing experiential retail and services—such as dining, wellness, and entertainment—can also help shift domestic consumption toward value-added activities that are less sensitive to price competition.

15. Third, the impact of inflation and wage growth on retail dynamics underscores the importance of maintaining real income support for households. While inflation appears to have had a moderate but negative effect, rising real wages have helped sustain retail activity. Policymakers should continue to promote inclusive wage growth, invest in upskilling to raise productivity and earnings potential, and ensure adequate social safety nets to stabilize consumer demand during economic downturns. More help may be provided to lower-income groups who are more vulnerable to cost-of-living pressures, and Hong Kong authorities should be commended for their continued policy efforts to support these households through targeted relief and social programs.

16. Finally, the analysis suggests that short-term volatility may obscure underlying structural shifts. Policymakers should avoid overreacting to short-term volatility and focus instead on building long-term sector resilience through digital transformation, cross-border e-commerce facilitation, and the better integration of retail with tourism, cultural, and logistics ecosystems. Continued monitoring of residual drivers—such as policy shocks, global events, or social sentiment—will also be essential in fine-tuning support measures in a timely and targeted manner.

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2. Assessing the Fallout: Trump's Trade War and its Impact on Hong Kong's Economy[43]

1. Given its role as a major trade gateway for Mainland China, Hong Kong is especially vulnerable to the fallout from the US-China trade war. In 2024, re-exports constituted 98.7 percent of Hong Kong's total merchandise exports, amounting to 141 percent of its GDP. Among these re-exports, Mainland China accounted for 59.3 percent as a destination and 43.8 percent as a source (Table A2.1). A majority of Hong Kong's re-exports either originate from or are destined for China, underscoring its strategic role as a conduit in China's external trade. Since re-exports between the US and China via Hong Kong account for only around 6 percent of Hong Kong's total re-exports, the direct impact of a decline in bilateral US-China trade may be limited. However, a broader slowdown in China's overall trade activities, triggered by the trade war, would likely have a more pronounced and enduring impact on Hong Kong's export performance.

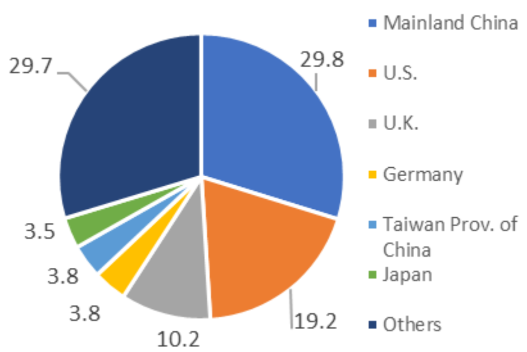
2. The trade war is also likely to indirectly affect Hong Kong's services exports, primarily through weaker global demand—particularly from Mainland China. Hong Kong is predominantly a service economy, with the services sector accounting for 91.4 percent of GDP in 2023. Services exports were equivalent to 25.5 percent of Hong Kong's GDP in 2023, with Mainland China as the top destination, followed by the US and the U.K. (Figure A2.1). Although services trade is not directly targeted by President Trump's tariff measures, it remains vulnerable to spillover effects. As global trade volumes contract and business confidence erodes, demand for related services—such as logistics, finance, legal consulting, and insurance—is also likely to weaken. Moreover, a broader slowdown in global economic activity, especially in Mainland China, could significantly dampen demand for Hong Kong's services exports, particularly in key categories such as tourism, transport, and financial services.

Table A2.1. Decomposition of Hong Kong's Re-exports by Region, 2024 (% of Total Re-exports)

Exporter \ Importer	Mainland China	U.S.	Rest of the World
Mainland China	18.9	3.3	21.6
U.S.	2.3		1.2
Rest of the World	38.1	3.2	11.4

Source: C&SD, AMRO staff calculations

Figure A2.1. Regional Distribution of Hong Kong's Services Exports, 2023 (%)



Source: C&SD

3. If the US dollar strengthens in the wake of the trade war, it could further weigh on Hong Kong's economy. Higher tariffs imposed by the US weaken its demand for imports, raising domestic prices in the US relative to foreign goods. Due to sluggish adjustments in domestic prices, the induced upward pressure on the real exchange rate often results in a nominal appreciation of the US dollar. Under Hong Kong's Linked Exchange Rate System (LERS), the Hong Kong dollar moves in tandem with the US dollar, leading to an appreciation against the RMB and many other regional currencies. This appreciation reduces the

[43] Prepared by Fan Zhai, Senior Economist.

competitiveness of Hong Kong's goods and services exports, adding further pressure on its externally oriented economy.

4. We employ two macroeconomic models to assess the impacts of the US-China trade war on Hong Kong under two scenarios—*"Escalated Trade War"* and *"Partial De-escalation"*—capturing changes in tariffs, external demand, and world prices. Both models are dynamic general equilibrium models featuring forward-looking expectations, price rigidities, and optimizing behavior by households and firms, in line with the new open macroeconomics literature. The first is a multi-region global model that encompasses three key regions—Mainland China, the US, and the rest of the world. The second is a single-region version of the global model, specifically calibrated for Hong Kong. Using the global model, we simulate two scenarios of Trump's trade war. The first, labeled "*Escalated Trade War*", captures the effects of Trump's tariff measures implemented in his second term up to the April 2 reciprocal tariff announcement. It also includes subsequent rounds of retaliatory tariffs, which ultimately raised US tariffs on Chinese goods to 145 percent and Mainland China's tariffs on US goods to 125 percent.[44] The second scenario—"*Partial De-escalation"*—builds on the first by incorporating a pause in reciprocal tariffs, as announced by Trump on April 9, and US-China Geneva agreement, which suspends 24 percentage points of mutual tariffs for a period of 90 days and cancels 91 percentage points of bilateral additional tariffs. to suspend mutual tariffs for 90 days. This scenario assumes that these suspension measures become permanent. Based on the simulation results of the global model, we calculate the changes in Hong Kong's merchandise re-exports, demand for its services exports, and world prices under both scenarios. These outcomes are then introduced into the Hong Kong-specific model as exogenous shocks, enabling an assessment of the trade war's macroeconomic impacts on Hong Kong.

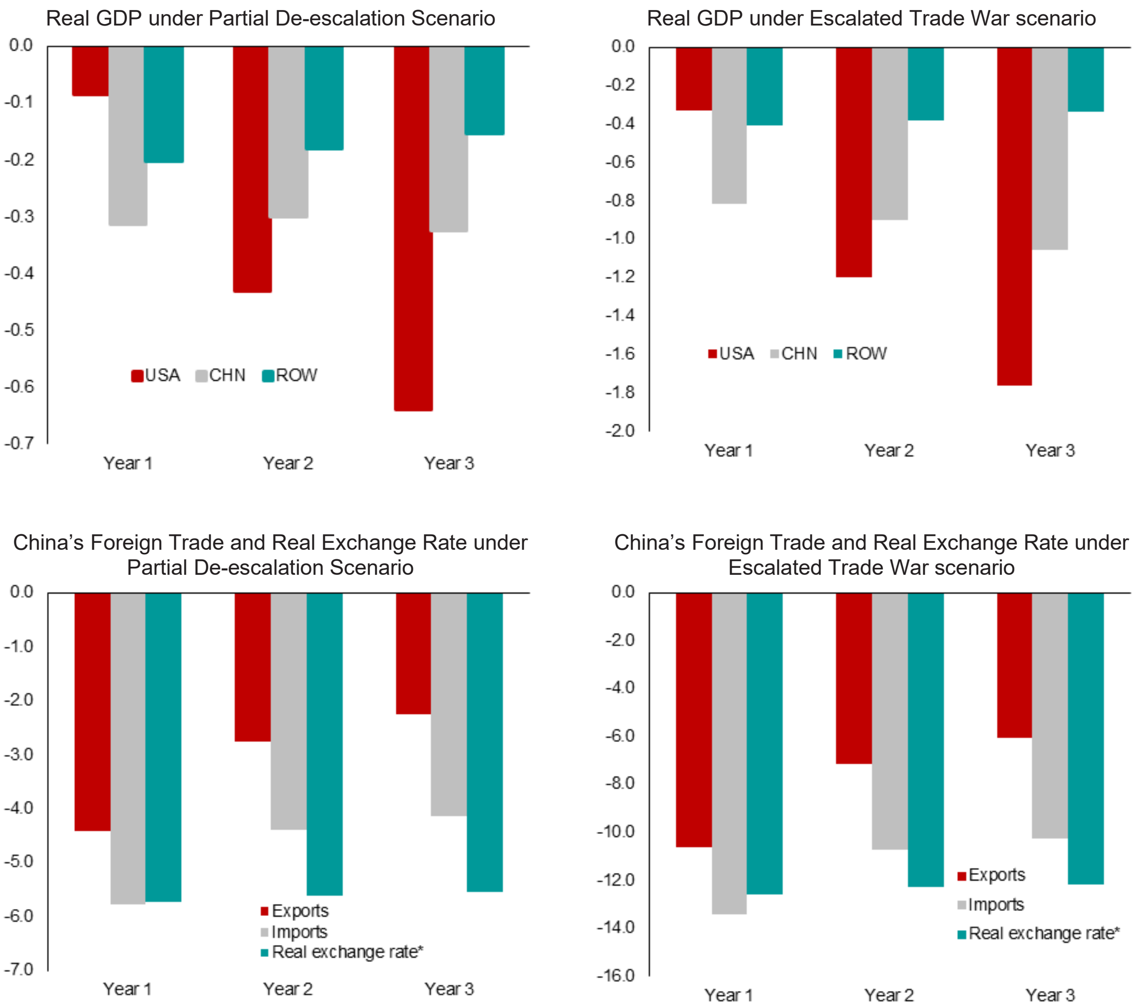
5. The trade war exerts limited adverse effects under the "Partial De-escalation" scenario but delivers a significant blow to the global economy in the "Escalated Trade War" scenario. Compared with the baseline, higher tariffs under the Partial De-escalation scenario reduce real GDP by approximately 0.3 percent in Mainland China and 0.4 percent in the US over the first three years, while real GDP in the rest of the world declines by nearly 0.2 percent (Figure A2.2). Mainland China's merchandise exports to the US fall by 33 percent, resulting in an overall export contraction of 4.4 percent in the first year. Its imports from the US declined by 25 percent, a smaller drop than exports to the US. Under the Escalated Trade War scenario, the economic impacts are significantly larger. US GDP losses rose to 0.3 percent, 1.2 percent and 1.8 percent in the first, second and third year, respectively. The impact on Mainland China is more severe, with GDP losses tripling to around 0.9 percent over the same period. Mainland China's total exports and imports register double-digit declines, and its real exchange rate depreciates by 12 percent. Bilateral trade between Mainland China and the US plunges by 80 percent, signaling a significant decoupling of the US–Mainland China trade relationship.

6. In the unlikely "Escalated Trade War" scenario, Hong Kong experiences a sharp GDP contraction. As a result of the collapse in bilateral trade between the US and Mainland China, together with a broad weakening of Mainland China's import demand, Hong Kong's re-exports are estimated to fall by 19.1 percent in the first year following the outbreak of an escalated trade war (Figure A2.2, right panel). However, despite weaker demand from Mainland China

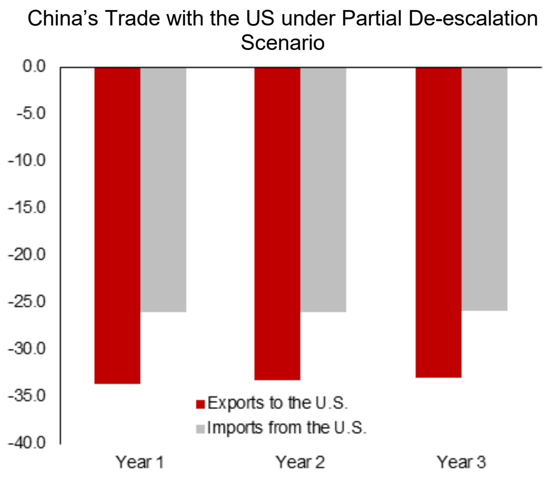
[44] See Zhai (2025) for a detailed description of the model structure and simulation designs.

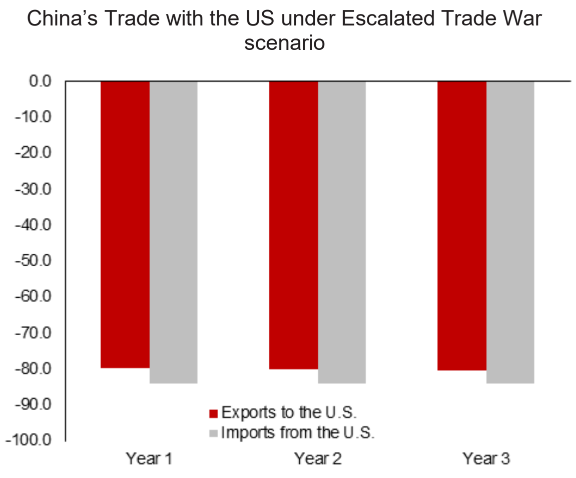
and other regions, Hong Kong's services exports remain relatively resilient, supported by a real depreciation of the Hong Kong dollar that helps preserve the price competitiveness of its services exports. Given the Hong Kong dollar's peg to the US dollar, real depreciation—estimated at 7.3 percent in the first year and exceeding 10 percent in subsequent years—is achieved primarily through domestic price deflation. Consumer price inflation falls sharply, with CPI inflation declining by 6.0 percent in the first year and 4.3 percent in the second. In addition to the steep contraction in exports, both private consumption and investment decline relative to the baseline, with investment particularly affected. Overall, real GDP contracts by approximately 6.0 percent in the first year following the onset of the trade war, with the contraction easing to 5.6 percent in the second year and 5.0 percent in the third.[45] In growth terms, this corresponds to a reduction of 6.1 percentage points in the GDP growth rate in the first year, followed by increases of 0.4 and 0.6 percentage points in the second and third years, respectively.

Figure A2.2. Global Impacts of the Trade War
(Percent Change Relative to the Baseline)



[45] Using a structural vector autoregression (SVAR) approach, Chong and Lo (2024) find that the 2018–19 US–China trade war contributed to a decline of approximately 4 percent in real GDP growth between Q3 2018 and Q4 2019 through the re-exports channel.

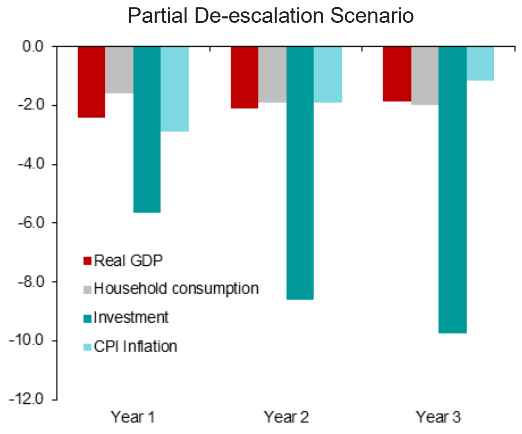


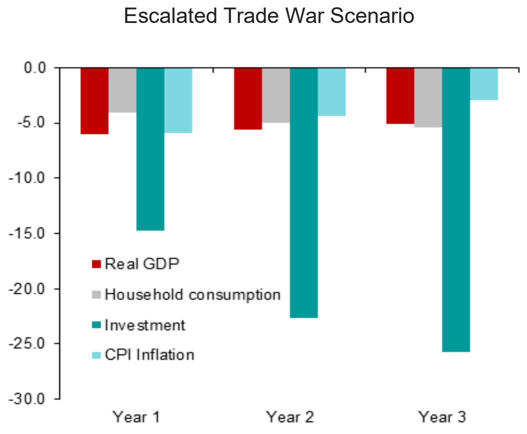


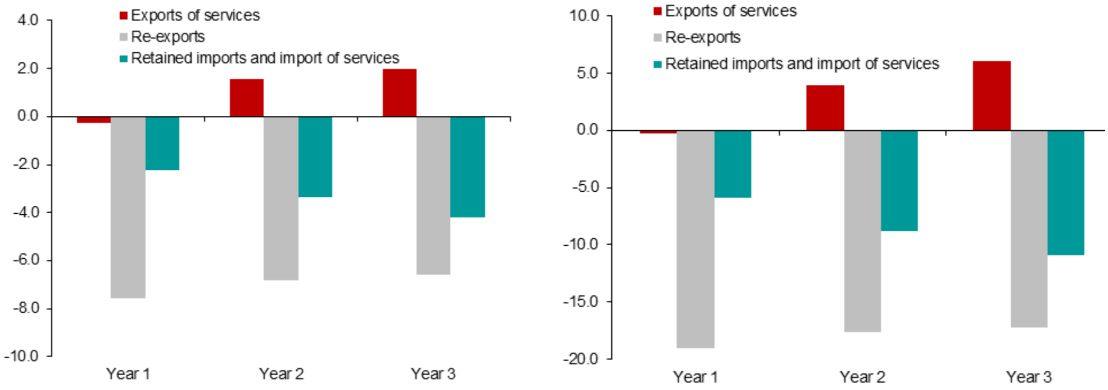
Source: Model simulations

7. The "Partial De-escalation" scenario, by contrast, substantially mitigates the negative impacts on Hong Kong's economy. In this scenario, Hong Kong's re-exports decline by a more moderate 7-8 percent, supported by the relatively milder tariff increases between Mainland China and the US, which help sustain China's trade with the US—including those routed through Hong Kong (Figure A2.3, left panel). Services exports post a modest increase relative to the baseline, reflecting the less severe external demand shock under this scenario. Hong Kong's real GDP contracts by 2.4 percent in the first year and 2.0 percent in the second year, representing a significantly smaller downturn compared to the "Escalated Trade War" scenario. Deflationary pressures are also notably reduced. Consumer price inflation declines by 2.9 percent in the first year, followed by smaller drops of 1.9 percent and 1.1 percent in the second and third years, respectively. These findings suggest that even partial and targeted tariff relief can meaningfully cushion Hong Kong's economy from the broader fallout of global trade tensions.

Figure A2.3. Impacts of the Trade War on Hong Kong
(Percent Change relative to the Baseline)







Source: Model simulations

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3. Advancing Inclusive and Sustainable Growth in Hong Kong[46]

1. **Inclusive growth has emerged as a central theme since the global financial crisis, amid rising unemployment and widening income inequality across countries.** The shift towards inclusive growth underscores the recognition that broad-based benefits from economic growth are crucial for sustained economic prosperity and social cohesion (Box A3). Against this backdrop, this Selected Issue examines indicators of inclusiveness in Hong Kong, considering its unique socio-economic characteristics. The analysis begins by assessing income inequality in Hong Kong, then considers various factors beyond income inequality, including female participation in the labor market, minimum wage, and housing affordability.

Box A3. Concept of Inclusive Growth

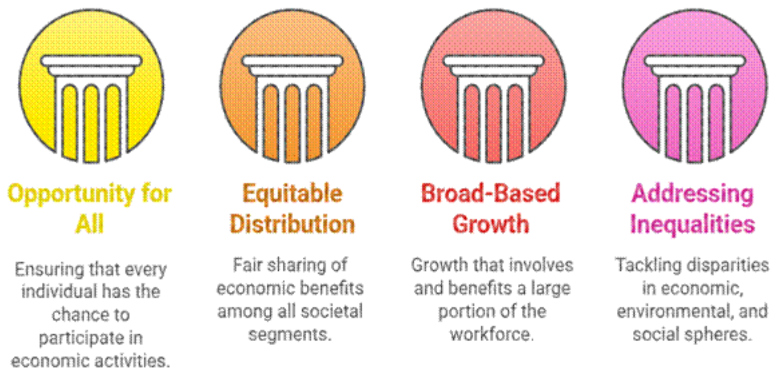
The concept of inclusive growth is centered on fostering an economy that benefits all members of society, particularly by reducing income disparities and ensuring equal opportunities in the labor market.

Table A3.1.1. Concept for Inclusive Growth

Institution	Concept
OECD (2013)	Economic growth creates **opportunity** for all segments of the population and distributes the dividends of **increased prosperity.**
IMF (2024)	An economic paradigm that not only accelerates **national wealth and well-being** but also ensures that the benefits of prosperity are **equitably shared across all segments of society.**
World Bank (2009)	Growth is **broad-based**, encompassing **most of the workforce**, while ensuring **economic opportunities and benefits are widely shared across society**.
UNDP (2017)	Addressing **economic, environmental, and social inequalities**.

Source: OECD, IMF, World Bank, and UNDP.

The image below illustrates the four key pillars of inclusive growth, reinforcing its multi-dimensional nature.



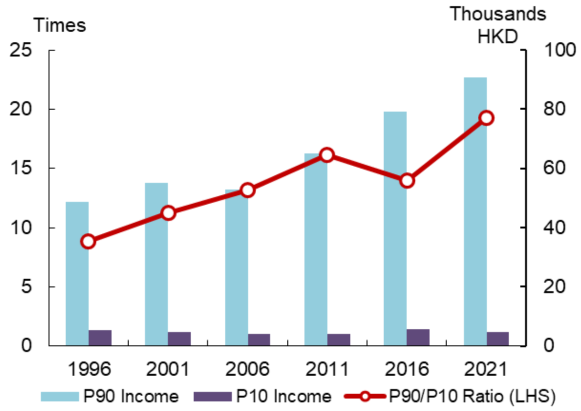
Source: AMRO staff illustration.

2. **Income inequality in Hong Kong has generally worsened based on the P90/P10 ratio.** The P90/P10 ratio—which measures the income of the top 10 percent relative to the bottom 10 percent—increased from 8.8 in 1996 to 19.3 in 2021 (Figure A3.1). This widening gap is driven by factors such as rapid population aging, a rising share of economically inactive

[46] Prepared by Jungsung Kim, Economist.

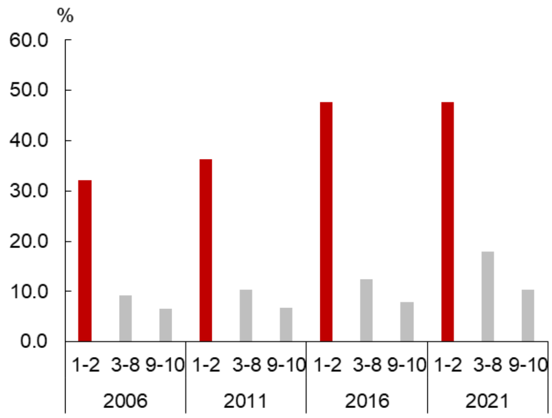
individuals, and low labor market participation among lower-income groups.[47] The economically inactive population (aged 15 and over) in Hong Kong grew from 2.07 million in 1998 to 2.88 million in 20243. The proportion of those aged 40 and above within this group rose from 62 percent in 1998 to 78 percent in 2024. Notably, the share of elderly individuals (65+) is significantly higher among low-income groups, reflecting that many of them are retirees, thereby pushing up the overall P90/P10 ratio (Figure A3.2). However, the P90/P10 ratio has limitations, as it does not fully capture the impact of government policies aimed at mitigating income disparity and is influenced by factors such as population aging and changes in household size. To capture a broader scope of income disparity, it is necessary to examine the Gini coefficient. Considering the redistributive policies implemented by the HKSAR Government, the post-tax and post-social transfer Gini coefficient (GC), calculated based on per capita household income of economically active households (including one-off relief measures), offers a more meaningful indicator of Hong Kong's income distribution. This coefficient stood at 0.376 in 2021, marking an improvement from 0.402 in 2016.

Figure A3.1. P90/P10 Ratio



Source: Household Income Distribution in Hong Kong, Census & Statistics Department (C&SD); AMRO staff calculations.

Figure A3.2. Proportion of Population Aged 65 and Over



Source: Household Income Distribution in Hong Kong, Census & Statistics Department (C&SD); AMRO staff calculations.

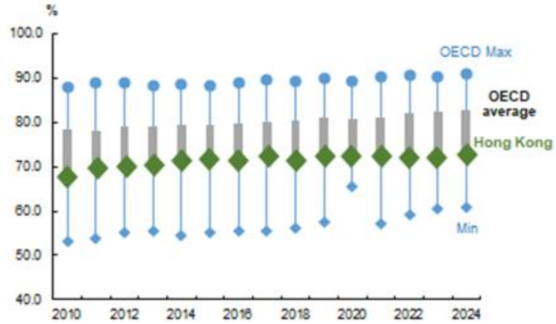
Prime Working-Age Female Labor Force Participation Rate

3. Traditional expectations of women's roles in household responsibilities and demanding working conditions are major factors contributing to relatively low labor force participation rate (LFPR) of prime working-age women in Hong Kong. As of 2024, the prime working-age (aged between 25-54) female LFPR stands at 72.5 percent, continuing an upward trend since 2000. However, compared to OECD economies, Hong Kong's prime working-age female LFPR consistently remains relatively low (Figure A3.3). Inadequate childcare services in Hong Kong are cited as a key barrier to women's participation in the labor market. The shortage of childcare centers and the high cost of childcare lead many women to choose caregiving over employment.[48] In addition, a rigid work environment further restricts women's labor force participation. When plotting weekly working hours against GDP per capita

[47] The labor force participation rate for the low-income group (1st–2nd deciles) declined from 28 percent in 2006 to 20 percent in 2021, while for the high-income group (9th–10th deciles), it increased from 74 percent to 75 percent over the same period.
[48] In 2022, Hong Kong had 37,100 childcare places for children under the age of three, covering 29.9 percent of the age group. However, fewer than 25 percent were government-subsidized, and even for subsidized services, the median monthly fee of HKD 3,521 was considered too high for lower-income families. Whereas in Singapore, there are 11,600 childcare places targeted for infants aged 1.5 years old and below. For young children aged from 1.5 to 6 years old, there are 179,000 childcare places, representing 86 percent of the children's population in that age group. To make childcare services more affordable, Singapore gives parents a non-means tested monthly subsidy of up to S$600 (HKD 3,390) for infant care and S$300 (HKD 1,695) for young children. For working mothers in low to middle income families, the government provides additional monthly subsidy of up to S$710 (HKD 4,012) (Research Office Legislative Council Secretariat, 2023).

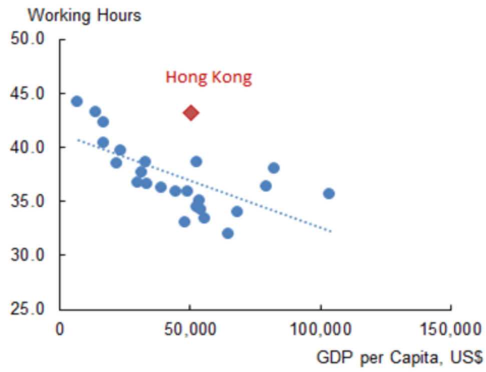
for OECD countries, a negative correlation is generally observed. However, Hong Kong deviates from this pattern, exhibiting both high GDP per capita and persistently long working hours (Figure A3.4).[49] The Government recognizes that women's participation in the labor force can be affected by a number of factors, including the supply of childcare services and family-friendly measures in the workplace. To enhance the support for parents in childcare, the HKSAR Government introduced the non-means tested Child Care Centre Parent Subsidy in February 2020 to partially subsidize CCC service fees payable by parents. It has increased from a maximum of HKD600 to HKD1,000 per month since April 2024 to strengthen support for working families in childbearing and to unleash labor force.

Figure A3.3. Comparison of Labor Force Participation Rate for Female (25-54 aged)



Source: OECD; C&SD; AMRO staff calculations.
Note: 1) Data for Hong Kong excludes foreign domestic helpers.

Figure A3.4. Working Hours and GDP per Capita



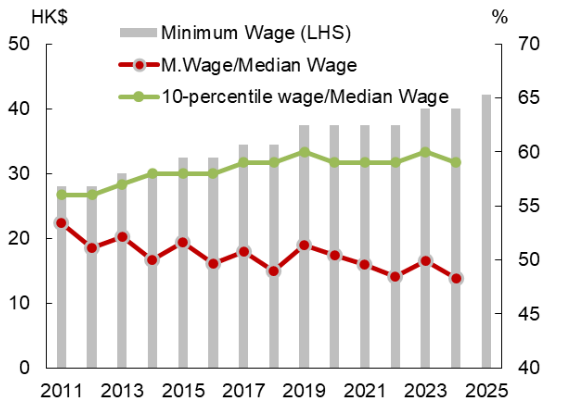
Source: World Bank, ILO; AMRO staff calculations
Note: 1) Data is as of 2023. The blue dotted line refers to a trend. Data mostly covers OECD countries.

Minimum Wage

4. Hong Kong's minimum wage has increased over time. Since its introduction in 2011, the minimum wage in Hong Kong has steadily risen from HKD 28 per hour in 2011 to HKD 42.1 per hour in 2025. Accordingly, the ratio of the 10th-percentile hourly wage to the median hourly wage has generally exhibited an upward trend. However, the ratio of the minimum wage to the median hourly wage has declined over time (Figure A3.5). While Hong Kong's minimum wage remains lower than that of other major economies with an hourly minimum wage scheme, international comparison on the minimum wage level is difficult without taking into account factors, such as cost of living (Figure A3.6) In 2024, the HKSAR Government accepted the recommendation of the Minimum Wage Commission to enhance the review mechanism of the Statutory Minimum Wage (SMW) whereby the SMW rate would be reviewed annually (instead of biennially) according to a formula. The new mechanism ensures that the rate of adjustment is not lower than the inflation rate and enables low-income employees to benefit from an SMW uprising that is suitably above inflation when the economy performs well. The first SMW rate derived under the new mechanism is expected to take effect on 1 May 2026.

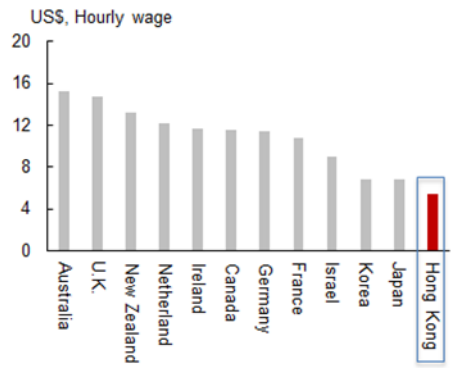
[49] A study by the Legislative Council in Hong Kong supports the view that long working hours may act as a barrier to women's participation in the labor market. The study citing a survey from C&SD indicates that at least 50,000 women would be willing to work if suitable jobs with flexible working hours were available (Research Office Legislative Council Secretariat, 2019).

Figure A3.5. Minimum Wage in Hong Kong



Source: Minimum Wage Commission, C&SD via Haver; AMRO staff calculations.

Figure A3.6. Comparison of Minimum Wage

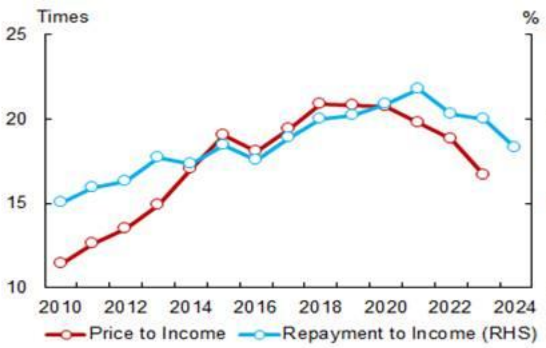


Source: National statistics Bureau, Minimum Wage Committees in each economy; AMRO staff calculations
Note: 1) The hourly minimum wage of major economies adopting the hourly minimum wage scheme is converted to USD at latest exchange rates. The data is as of 2024.

Housing Affordability

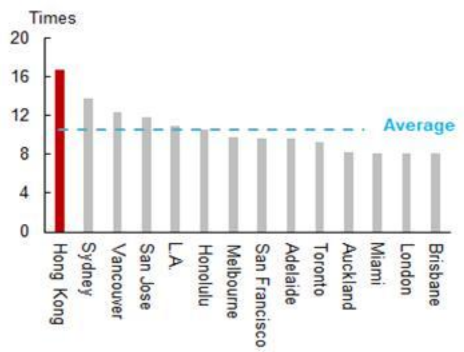
5. Housing is key to inclusive growth as housing is the largest household expenditure item and rising housing costs exacerbate inequalities between renters and homeowners (OECD, 2020).[50] Housing affordability in Hong Kong has been an issue. A key metric for affordability, the Price-to-Income Ratio (PIR), increased from 11.4 in 2010 to 16.7 in 2023, indicating that housing prices have outpaced income growth. The Mortgage Repayment to Income Ratio (RIP) has shown a similar trend (Figure A3.7). However, following a recent adjustment in housing prices, affordability has improved compared to the 2019 peak. A comparison with major global cities confirms that Hong Kong's housing prices remain high relative to income levels (Figure A3.8). However, it is noteworthy that the PIR, when public housing is considered, is estimated to be around 13 as of 2023.[51] Moreover, considering Hong Kong's generally high education level and corresponding income, the PIR calculated based on the 80th income percentile is estimated to be 11 as of 2021.

Figure A3.7. Price to Income and Repayment to Income Ratio in Hong Kong



Source: Demographia International Housing Affordability Survey; CentaData via Haver
Note: 1) The latest data for Price to Income is as of Q3 2023

Figure A3.8. Comparison of Price to Income Ratio



Source: Demographia International Housing Affordability Survey
Note: 1) The data is as of Q3 2023.

[50] According to the Hong Kong Household Expenditure Survey, housing accounts for the largest share of household spending. As of 2019/2020, households allocated 39.3 percent of total expenditure to housing-related expenses, up from 35.8 percent in 2014/2015. This is relatively higher compared to OECD countries.

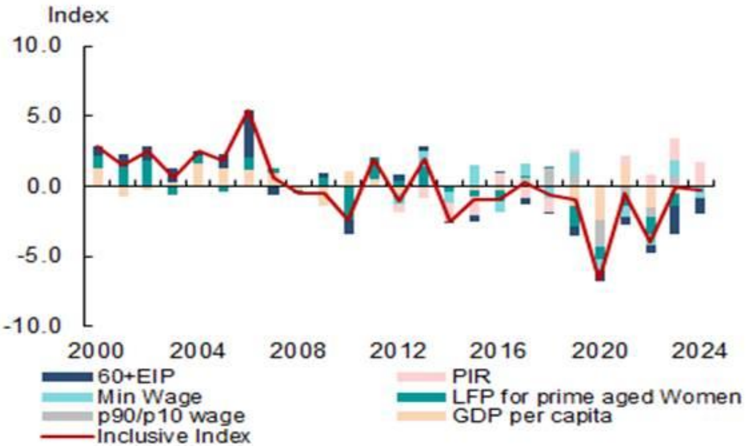
[51] This estimate is based on the following assumptions: The average price of subsidized flats is assumed to be HKD 2.8 million, based on local media reports. Household income is proxied by the income level of the bottom 30 percent of the distribution. The overall PIR is then calculated as a weighted average of the private housing PIR and the public housing PIR, using the housing composition weights of 54 percent for private and 46 percent for public housing.

6. In response to this challenge, the government has been making continued efforts to expand the supply of housing including public rental housing (PRH) and subsidized sale flats. Reflecting the Government's sustained efforts in raising flat supply, the total supply of first-hand flats in the private sector in the coming three to four years remained at a high level of 105,000 units as estimated at end-March 2025. As of Q2 2024, the proportion of domestic households living in public housing was approximately 46 percent. While low-income households that cannot afford private rental accommodation tend to prefer PRH, the composite waiting time for subsidized rental housing is still at a moderately high level of 5.3 years despite the waiting time for PRH has already dropped 0.8 years from the high level of 6.1 years back in end-March 2022.

Hong Kong Inclusiveness and Economic Growth

7. A composite index for inclusiveness shows improvement in Hong Kong. The index[52] indicates that inclusiveness in Hong Kong deteriorated sharply during the COVID-19 pandemic but has since shown signs of recovery. This improvement is primarily driven by better housing affordability (a decline in the PIR) and higher minimum wages. However, the continued rise in the economically inactive population aged 60+ remains a key constraint to further improving inclusiveness. Looking ahead, the 5.25-percent increase in the minimum wage from May 2025 is expected to contribute positively to enhancing inclusivity in Hong Kong's economy.

Figure A3.9. Inclusive Index in Hong Kong



Source: AMRO staff calculations.
Note: 1) 60+EIP refers to the growth rate of the population aged 60 and over that is economically inactive.2) All data is normalized with mean and standard deviation to remove effect from scale difference. 3) P90/P10 ratio for wage is available from 2016 and minimum wage is available from 2011.

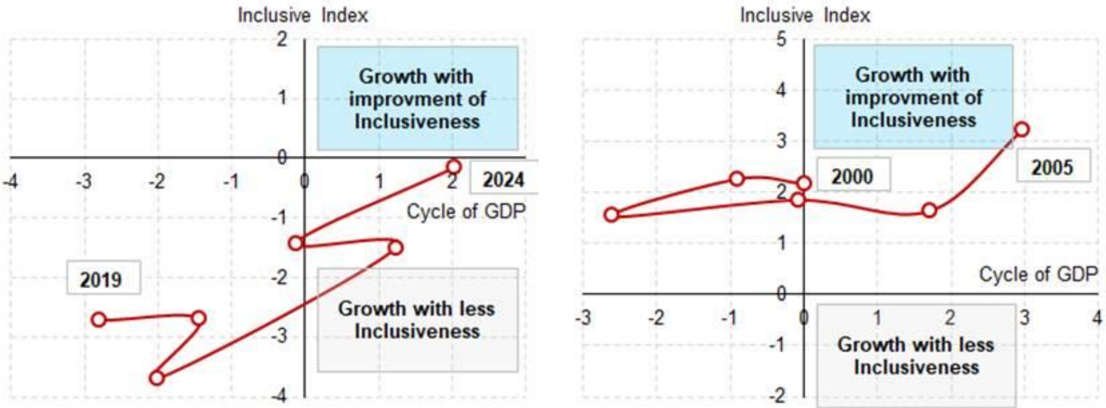
8. AMRO staff's analysis suggests that Hong Kong's post-COVID recovery has increasingly incorporated inclusiveness. An analytical approach to assessing whether economic growth improves inclusiveness involves plotting changes in growth and inclusiveness on a four-quadrant chart.[53] In the case of Hong Kong, as the economy recovered from the pandemic, rising minimum wages and improved housing affordability have

[52] The index follows the methodology of Anand et al. (2013) and is constructed using six key indicators including GDP per capita, wage inequality, demographic factors (growth in economically inactive population aged 60+), female LFPR, minimum wage, and housing affordability.
[53] Conceptually, the first quadrant represents a scenario where both economic growth and inclusiveness improve, while the fourth quadrant reflects a situation where inclusiveness deteriorates despite growth.

contributed to a shift toward a growth pattern that increasingly reflects inclusiveness (Figure A3.10).[54]

Figure A3.10. Change in Inclusiveness and GDP

(After COVID) (Early 2000s)



Source: AMRO staff estimations.
Note: 1) Data is based on a 3-year moving average. 2) GDP cycle is extracted through HP filtering.

Source: AMRO staff estimations.
Note: 1) Data is based on a 3-year moving average. 2) GDP cycle is extracted through HP filtering.

9. A preliminary empirical analysis suggests a significant impact of inclusiveness-related indicators on growth. Notably, both the prime-age female LFPR and the increase in the economically inactive population aged 60 and above have a statistically significant impact on Hong Kong's potential GDP growth55 (Eq.1 and Eq.2 in Table A3.1).

Table A3.1. Regression Results for Inclusiveness related Indicators on Growth

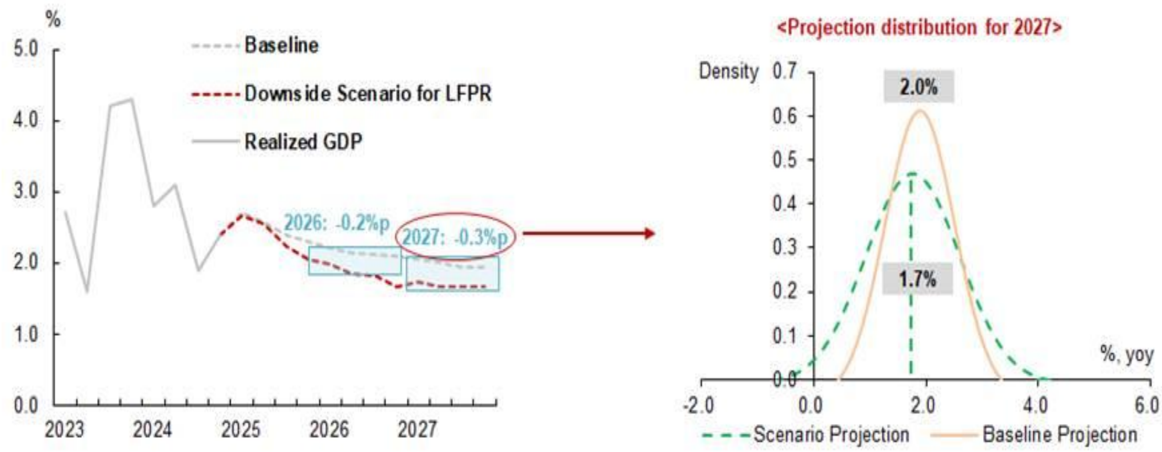
	Explanatory Var.						
Dependent Var.	**ΔW. LFP$_{t-1}$**	**Δ60+EIP$_{t-1}$**	**ΔTrade$_{t-1}$**	**ΔCapita$_{t-1}$**	**ΔCre$_{t-1}$**	**C**	Adj R^2
ΔY_t (Eq. 1)	**0.720***	**-0.337***	-0.014	**0.227****	-0.035	3.190***	0.551
ΔY_t (Eq. 2)	**0.724***	**-0.378****	-0.001	**0.173****	—	3.167***	0.527
ΔY_t (Eq. 3)	**0.692***	**-0.449****	0.045	—	—	3.663***	0.428

Source: AMRO staff estimations
Note: 1) ***, ** and * denote that null hypothesis is rejected at 1 percent, 5 percent, and 10 percent significant level, respectively. 2) Capita, Y, W.LFP, trade, and 60+EIP represent GDP per capita, potential GDP growth, labor force participation rate for prime aged women, global trade trend, and the growth rate of population aged 60 and over who is economically inactive respectively. Cre refers to credit growth in Hong Kong. 3) Δ denotes the lag difference. 5) The sample period is from 2000 to 2024. 3) Potential GDP, Y, is derived using HP filter.

10. This underscores the importance of enhancing labor market participation among women and the elderly to secure Hong Kong's long-term growth potential. Moreover, the overall decline in labor force participation due to aging could adversely affect medium-term growth prospects. A comparison between the baseline scenario—where LFPR continues to decline along its 10-year trend—and an adverse scenario—where LFPR declines by an additional 0.2 percentage points relative to the baseline—suggests that under the pessimistic outlook, trend growth could be 0.2 to 0.3 percentage points lower than the baseline (Figure A3.11).

[54] During the early 2000s, Hong Kong experienced simultaneous improvements in economic growth and inclusiveness, driven by a rise in the LFPR of prime-age women and a decline in the economically inactive population aged 60 and above. This past experience offers valuable insights for current policy considerations.
55 Data such as P90/P10 ratio and minimum wage cannot be used for the regression due to lack of time series.

Figure A3.11. GDP Path Based on LFPR Scenarios



Source: AMRO staff estimations using Large Bayesian VAR model.
Note: 1) 21 data including LFPR, GDP are used for the estimation. AMRO (2025) provides more details regarding estimation.

Policy Implications

11. Ongoing efforts by the Hong Kong authorities to foster inclusiveness are commendable. For example, the Working Family Allowance Scheme was introduced in 2018 to provide financial support to lower income working households who are not on Comprehensive Social Security Assistance (i.e. the safety net of last resort) and encourage self-reliance through employment. In the area of female labor force participation, the Neighborhood Support Child Care Project (NSCCP), was launched in 2008 to facilitate greater female participation in the labor market by providing flexible, accessible and community-based childcare services.[56] Regarding housing affordability, the authorities continue to optimize the housing ladder to address the housing needs of citizens of different income levels. This includes increasing and expediting the production of PRH as a safety net, encouraging home ownership and upward mobility through different forms of subsidized housing, reviewing the sales arrangements of different subsidized housing schemes from time to time, maintaining the healthy and steady development of the private residential property market.

12. Hong Kong is well-positioned to sustain economic growth while enhancing inclusiveness within its economy. Driving economic growth remains a key prerequisite for expanding overall economic opportunities and supporting greater inclusiveness. In this context, Hong Kong can consider the following measures:

- **Boosting Prime Working-Age Female LFPR:** Addressing the relatively low participation rate by maintaining and strengthening supportive policies. As regards expanded childcare support, the HKSAR Government has incorporated the population-based planning ratios into the Hong Kong Planning Standards and Guidelines in respect of aided standalone childcare centres (CCCs), with a view to reserving necessary sites and space for these facilities early in the planning process of new and redeveloped areas. The HKSAR Government also runs the Neighbourhood Support Child Care Project ("NSCCP") which provides parents in need with a flexible form of day child care service at the neighbourhood level and, at

[56] To attract more people to participate in NSCCP and enhance its service capacity, starting from April 2024, the incentive payment for home-based child carers has been significantly increased from a standard rate of HKD25 per hour to HKD60 for children aged 0-3 or special learning needs, and HKD40 for other children.

the same time, to foster mutual help and care in the community, and the number of service places under NSCCP has been doubled from 954 to about 2 000 starting from September 2024.

- **Continuously Refining the Minimum Wage Scheme:** [57] Aligning minimum wage growth with economic expansion to ensure fair wage distribution and considering sector-specific minimum wages while minimizing unintended consequences.
- **Enhancing Housing Affordability:** Continuing efforts to optimize the housing ladder, in particular the expansion of public housing to ensure better accessibility for lower-income groups. In this regard, the Hong Kong government's recent initiatives to increase public housing supply represent a positive policy direction.
- **Mitigating the Impact of Population Aging:** Expanding part-time job opportunities to provide greater work-hour flexibility, is particularly important for older workers and women, as they often require adaptable work schedules. Continuing efforts to attract top talent from abroad.

By pursuing these measures, Hong Kong can foster both economic growth and greater inclusiveness, ensuring a more equitable and sustainable economic future.

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[57] A carefully designed minimum wage policy can boost workers' income and improve long-term productivity (ESCAP, 2013). Minimum wages helped reduce wage inequality by compressing the lower half of the earnings distribution. For example, a 10 percent increase in the minimum wage reduced the p50/10 wage ratio by 4 percent in European countries (European Commission, 2023). However, steep and continuous increases may impose burdens on employers, potentially hindering job opportunities for low-income workers. Therefore, a cautious approach is necessary when setting the minimum wage to balance income growth and employment stability. Among OECD member countries, Switzerland, Ireland, and Belgium are notable examples that have adopted sector-specific minimum wage systems. Additionally, some ASEAN+3 countries are continuously refining their minimum wage policies to enhance effectiveness. For example, Malaysia increased the minimum wage to MYR1,200 in 40 autonomous regions, while maintaining it at MYR1,100 in all other areas (2020). Indonesia has adjusted its minimum wage growth based on the regional cost of living (2023).

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