Executive Summary

1. Hong Kong, China's[1] economic recovery has taken hold, with growth reaching 3.6 percent in 2025, supported by buoyant external trade, tourism and financial activities. Amid global trade tensions, Hong Kong's role as a bridge between the Chinese Mainland and the rest of the world has become an important source of resilience. However, the recovery remains uneven: externally oriented and financial sectors have outpaced other services, while residential property has begun to recover but commercial real estate remains subdued. Broadening growth momentum and fostering new growth drivers will therefore be key.

2. Hong Kong's economy is expected to maintain a steady growth trajectory, with projections of 3.4 percent and 3.0 percent growth in 2026 and 2027, respectively. Goods exports are expected to remain resilient, supported by the ongoing global technology upcycle. Government initiatives and the continued normalization of cross-boundary travel will underpin services exports. Domestically, despite a favorable interest rate environment, residents' shifting spending patterns will likely weigh on private consumption growth. Investment is expected to continue recovering, supported by the accelerated implementation of government infrastructure projects and a stronger recovery in the residential property market. A steady growth trajectory alongside low food inflation is expected to keep inflation in check, with headline CPI projected to increase by 2.0 percent in 2026 and 1.6 percent in 2027.

3. While the Middle East conflict poses the most imminent risk, the balance of risks to Hong Kong's economic outlook has improved relative to last year. While the direct impact is likely to be limited by Hong Kong's relatively low energy intensity and reliable energy supplies from the Chinese Mainland, a prolonged energy shock could delay US monetary easing and tighten domestic financial conditions through the LERS, weighing on credit, property activity, investment, and consumption. The indirect impact of Middle East tensions would likely transmit through global financial and monetary conditions, thereby warranting close monitoring.

4. Although unlikely to materialize, a reversal in the technology cycle and slower growth in the Chinese Mainland and other major economies could generate spillovers to the Hong Kong economy. A correction in technology valuations could weigh on the equity market, given Hong Kong's sizable technology listings, while weaker AI-related investment could dampen re-exports of electronics and semiconductors, as well as related logistics and professional services. A slowdown in the Chinese Mainland could further weigh on Hong Kong's growth momentum, given the city's deepened integration with the Chinese Mainland. In the US, the continued implementation of high tariffs and Middle East tensions may contribute to elevated inflation, potentially delaying interest rate cuts and dampening both consumer and investment sentiment.

5. Domestically, a renewed property market downturn, despite its low probability, would pose downside risks to domestic demand. Should residential property prices return to a downward trend, this could weaken household confidence and consumption through negative wealth and balance-sheet effects, while prolonged weakness in commercial real estate could strain investors and developers, tighten access to financing, and increase banks' credit risks. Nevertheless, risks to financial stability remain broadly contained, given limited borrower

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

concentration in banks' commercial property exposures and existing risk-mitigation measures such as higher provisioning buffers and portfolio rebalancing.

6. That said, policy calibration should focus on maintaining macroeconomic stability, preserving policy space, and facilitating structural adjustment. Fiscal policy continues to be supportive and plays an active role, with government expenditure remaining elevated relative to pre-pandemic levels. With global uncertainty still high and expenditure already elevated, fiscal policy should refrain from additional discretionary fiscal stimulus, while remaining prepared to provide temporary and targeted support should downside risks materialize. The authorities could maintain the current supportive macroprudential stance, alongside targeted financial support, to sustain credit conditions and facilitate economic transition.

7. AMRO supports the authorities' proactive fiscal policy stance, which places greater emphasis on public investment and targeted development initiatives aimed at securing new growth drivers. Large-scale commitments to innovation, artificial intelligence, and strategic development platforms—most notably the Northern Metropolis—signal a recalibration of fiscal policy toward supporting medium- to long-term economic transformation. As fiscal policy takes on a more active role, greater attention to policy design, governance, and implementation will become increasingly important.

8. Fostering new growth drivers is essential to ensuring sustainable economic growth. As Hong Kong embarks on longer-term strategic planning, industrial policy should remain disciplined and focused on addressing market failures, while facilitating private sector participation in strategic initiatives. At the same time, greater emphasis should be placed on preserving open and contestable markets. Together, these policies will be essential for broadening Hong Kong's growth base and fostering the development of additional high-value-added service sectors.

9. In the property market, sustaining the recovery momentum in the residential segment while safeguarding financial stability against the risk of a disorderly adjustment in the commercial sector remains important. The continuation of a supportive policy stance will help reinforce market confidence. At the same time, addressing housing needs is equally important. Ensuring adequate housing supply should therefore remain a policy priority. Persistent weakness in commercial real estate warrants continued vigilance, as a disorderly adjustment could amplify financial stability risks through adverse feedback between property valuations, bank balance sheets, and credit conditions.

10. Continued strengthening of financial market infrastructure and policy frameworks will be important for reinforcing Hong Kong's position as a super connector. Hong Kong is well placed to benefit from Asia's ongoing economic integration, which is generating sustained demand for efficient cross-border payment systems and diversified settlement currencies, including the offshore RMB. Deepening offshore RMB markets—through enhanced liquidity management tools, closer offshore–onshore connectivity, and the broader use of RMB in investment, financing, and risk management—would help Hong Kong capture growing demand for cross-border financial services.