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Global Markets Research

Research Alert

Hong Kong expects sustained 2-3% GDP growth for 2025

4Q and 2024 GDP growth left unchanged at 2.4% y/y and 2.5% y/y respectively
Pick-up in 4Q growth driven by government spending, smaller decline in consumption
Underlying and headline inflation rate to average higher at 1.5% and 1.8% for 2025

Final print of 4Q and 2024 GDP growth left unchanged

No change to the final 4Q and 2024 GDP prints for Hong Kong. The economy grew at a faster pace in 4Q (+2.4% y/y & +0.8% q/q vs +1.9% y/y & -0.1% q/q), bringing full year growth to 2.5% (2023: 3.2%).

Pick-up in 4Q GDP due to government spending, exports of services and narrower decline to household spending

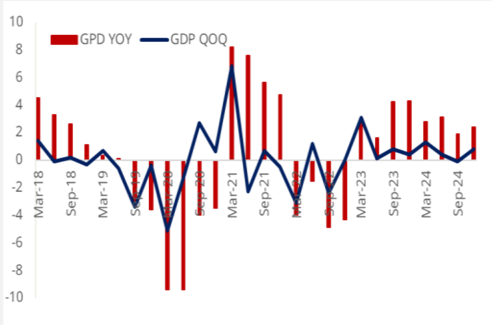
The acceleration during the quarter was driven by a narrower contraction in household spending (-0.2% y/y vs -1.3% y/y) and as government consumption picked up pace to +2.0% y/y from +1.7% y/y previously. Gross domestic fixed capital formation, on the other hand, fell 0.9% y/y (prior: +5.7% y/y), while trade numbers were broadly softer, with the exception of services. The latter was driven by further growth of visitor arrivals (+30% in 2024) and improvement in other cross-border economic activities.

Hong Kong expects steady growth of 2-3% GDP growth in 2025; inflation to remain low at 1.8%

With moderate growth of 2.5% in 2024, the Government is expecting the economy to hold steady and grow between 2-3% in 2025. This is in line with IMF's projection of 3.0% y/y, as well as consensus forecast's +2.2% y/y.

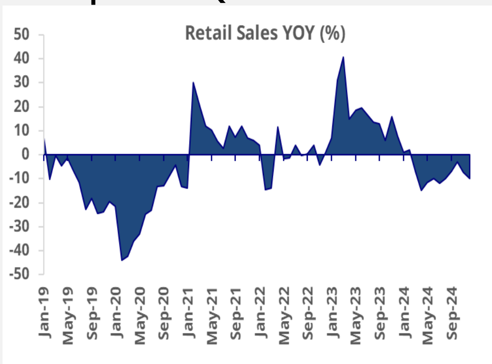
In our opinion, the GDP growth target for 2025 is achievable but is subject to high uncertainty, with risks tilted to the downside from: 1) Sharper-than-expected slowdown in China due to escalation of trade conflict and/or deeper and more protracted slump in the property market. 2) Tighter-for-longer monetary policy in the US which could weigh on growth. On the flipside, a meaningful and sustained improvement of consumer and business confidence in China could support stronger growth for Hong Kong.

Figure 1: Stronger y/y growth in 4Q as government spending picked up



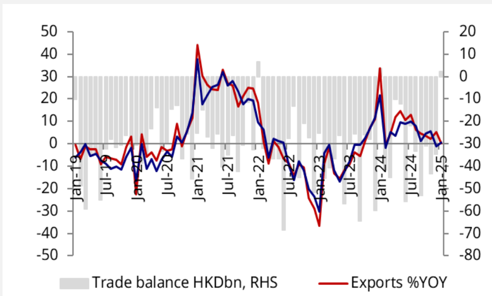
Source: Bloomberg

Figure 2: Retail sales slumped at a softer pace in 4Q



Source: Bloomberg

Figure 3: Trade numbers were softer, despite frontloading exports to the US



Source: Bloomberg

Meanwhile, the government is expecting underlying and headline inflation rate to average 1.5% and 1.8% (2024: 1.1% and 1.7%), with higher domestic cost pressures offset by lower and contained external price pressures for now.

Over a longer term, the government is also expecting the economy to grow an average of 2.9% for the period 2026-2029, while underlying inflation rate is forecast to average higher at 2.5%.

The 2025-26 Budget

In terms of Budget 2025-26, the government is forecasting consolidated deficit of $67.0bn and expects operating account to return to surplus within two years.

The aim of the budget appears to focus resources to support economic growth, promote the accelerated development of I&T industries, enhance public services and to increase capital works expenditure, including for the Northern Metropolis. To achieve its goals, the government will adhere to the principles of controlling government expenditure, supplemented by increasing revenue. All in all, we are neutral on this budget.

Some notable measures to contain government expenditure:

- Pay freeze for executive authorities, the legislature, the judiciary and Members of the District Councils
- Stepping up the Productivity Enhancement Programme
- Civil service establishment to be reduced by 2% each in 2026/27 and 2027/28. Reduction of about 10k positions in total by April 2027.
- An annual 2% reduction in funding for UGC-funded universities for the next 3 years
- Adjust the 2 transport subsidy schemes to reduce government expenditure.

Some notable measures to increase revenue:

- Starting from October 2025, increasing air passenger departure tax from $120 to $200
- Charge an application fee of $600 and raise visa fee to $600/ $1,300 based on the duration of limit of stay for various talent and capital investor admission schemes
- Review tolls of government tunnels and strategic routes, licence fees for electric private cars, parking meter charges and fixed penalties for traffic offences
- Explore boundary facilities fee on private cars departing via land boundary control points

- Implement global minimum tax proposal to address base erosion and profit shifting, i.e. BEPS 2.0, to bring in tax revenue of $15bn p.a.

Supportive measures for selected industries and the people include:

- Provide rates concession for domestic properties for the first quarter of 2025/26, subject to a ceiling of $500 for each rateable property.
- Provide rates concession for non-domestic properties for the first quarter of 2025/26, subject to a ceiling of $500 for each rateable property.
- Reduce salaries tax and tax under personal assessment for the year of assessment 2024/25 by 100%, subject to a ceiling of $1,500.
- Reduce profits tax for the year of assessment 2024/25 by 100%, subject to a ceiling of $1,500.
- Provide an allowance to eligible social security recipients, equal to one half of a month of the standard rate Comprehensive Social Security Assistance (CSSA) payments, Old Age Allowance, Old Age Living Allowance or Disability Allowance, while similar arrangements will also apply to recipients of the Working Family Allowance.
- To ease the burden on buyers of residential and non-residential properties at lower values, the maximum value of properties chargeable to a stamp duty of $100 will be raised from $3m to $4m, benefitting about 15% of property transactions.

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