

Country Insight Snapshot

Hong Kong (S.A.R.)

May 2018






OVERVIEW

OVERALL COUNTRY RISK RATING: DB2b

Low risk: Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.

G

Rating Outlook: Deteriorating 

CORE OUTLOOK


- + Hong Kong has exceptional resources to safeguard its economic stability, such as its fiscal surplus and currency board system.
- + Few jurisdictions in the region, besides Singapore, can offer the institutional quality of Hong Kong and its commercial environment.
- An increasingly assertive Chinese government is eroding the spirit of the concept of 'one country, two systems'.
- The city's rapidly-ageing population will eventually trigger higher medical and pension contributions, forcing difficult policy decisions.
- Hong Kong's business confidence and financial stability are at risk of being affected by China's unpredictable regulations.

KEY DEVELOPMENT

Hong Kong's interest rate differential versus the US is necessitating official intervention to support the currency peg, presaging higher local mortgage rates and downward pressure on house prices.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Stable 

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK


G

Trend: Stable 

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

G

Trend: Improving 

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

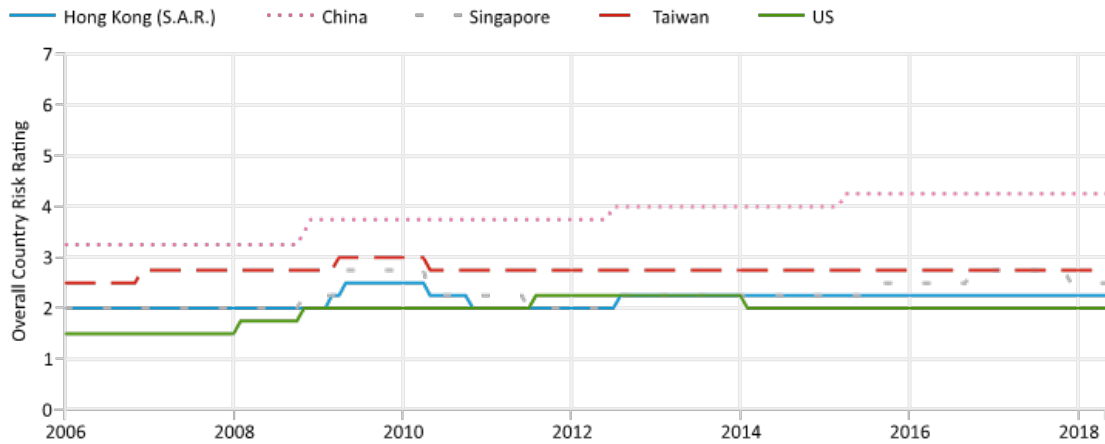
Trend: Deteriorating 

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

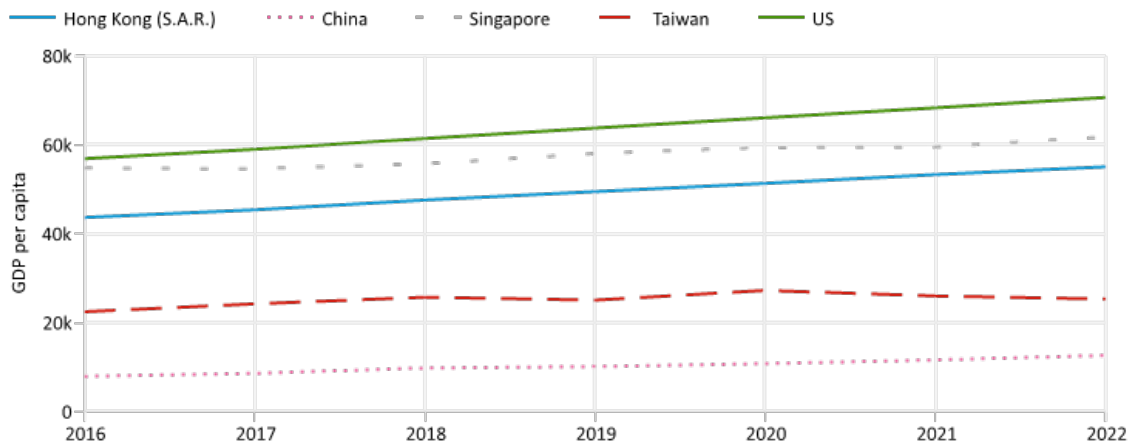
Rating History and Comparison



Source : Dun & Bradstreet

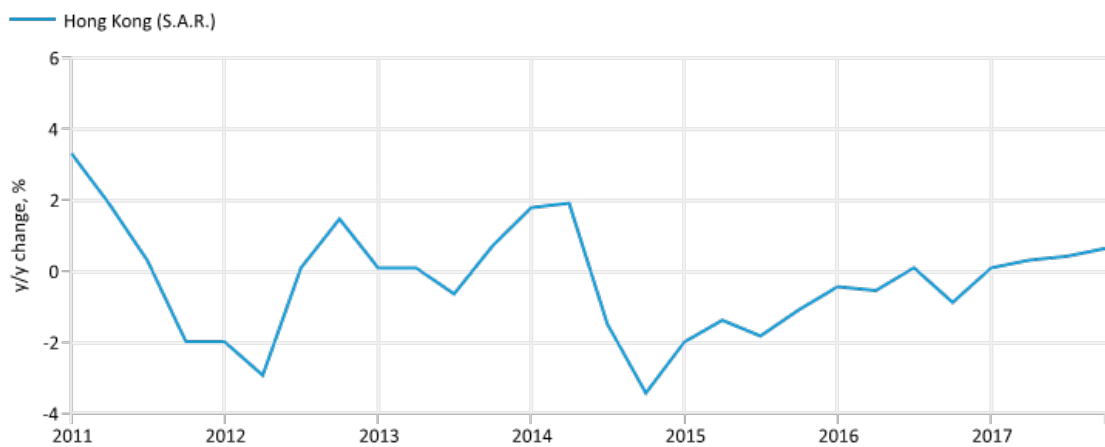
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2015	2016	2017	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	3.3	3.8	2.9	3.0	2.5	2.4	2.2	1.5
Govt balance, % GDP	2.1	2.0	1.7	1.9	1.5	2.0	1.8	1.6
Inflation, annual avge %	3.0	2.4	1.5	2.0	2.1	2.2	2.3	1.8
Real GDP Growth, %	2.4	2.1	2.8	2.9	2.5	2.3	2.2	2.0
Unemployment, %	3.3	3.4	3.1	2.9	3.0	3.1	3.3	3.4

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Hong Kong has one of the world's best trade and commercial environments; maintaining its competitiveness as a regional entrepot and commercial hub is a government priority. It ranks fifth in the World Bank's *Doing Business 2018* index, and sixth in the World Economic Forum's *Global Competitiveness Index 2017-18*, including first for infrastructure and second for goods market efficiency. Hong Kong's business environment is heavily influenced by developments in mainland China, including: the yuan's value (as the HKD is pegged to the USD); economic growth; the strength of China's financial system (to which Hong Kong banks are exposed); and market volatility, given trading links to the mainland equity and bond markets. After the dip in 2015-16, the economy has enjoyed a strong recovery. However, an increasingly hard line from China will stir the social discontent that can hinder business. Higher interest rates may dampen credit conditions and slow the economy.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: OA

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: SD

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 month

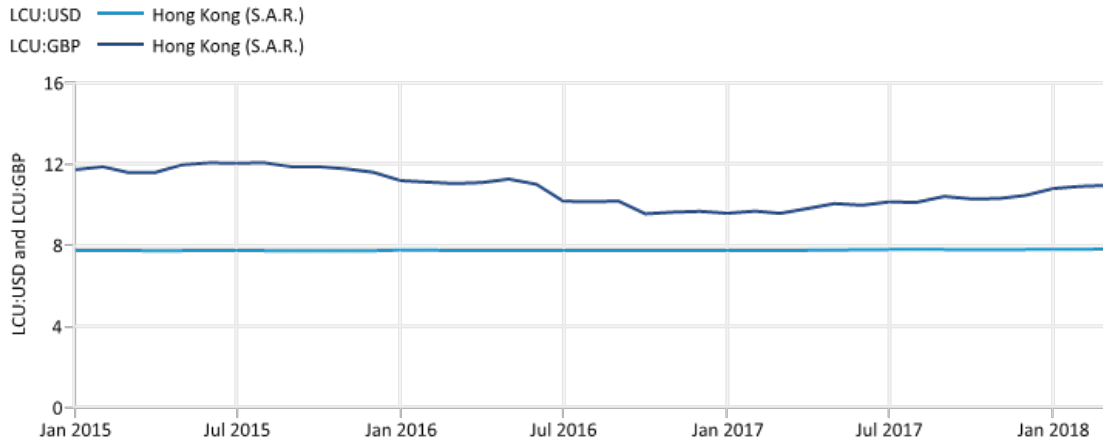
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



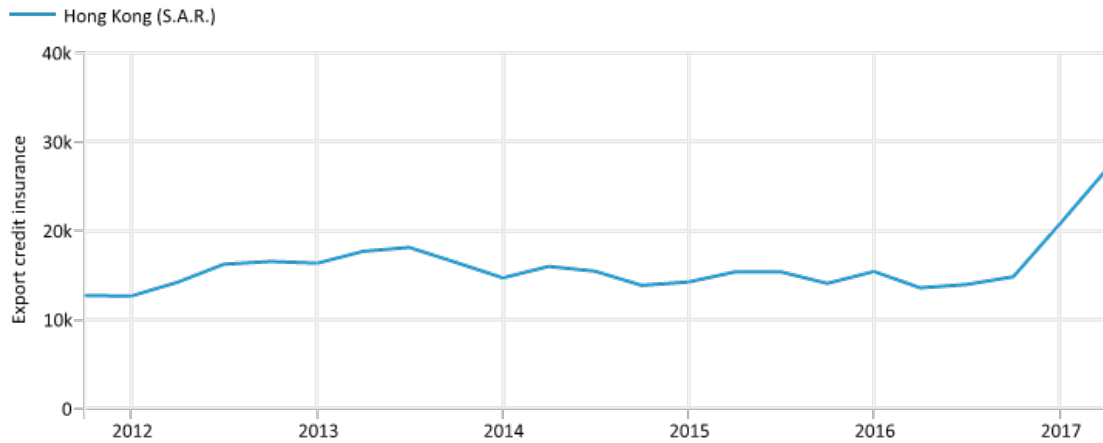
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Hong Kong dollar

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.



RISKS AND OPPORTUNITIES

FX Risk

HKMA supports HKD

On 12 April, in response to the HKD weakening to the very edge of its trading band of HKD7.75-7.85:USD1 - for the first time in 35 years - the Hong Kong Monetary Authority (HKMA) began a series of rare direct interventions. In one week, it intervened more than a dozen times, buying a total of around HKD51bn (USD6.5bn) of currency, equivalent to about a third of the market's excess liquidity. The interventions helped push the dollar back to nearly HK7.74 by 20 April, but by the start of May it had slipped again, back to nearly HKH7.75 - the bottom end of its trading band. Although HKMA has matched the US Federal Reserve's six rate hikes since 2015, high levels of liquidity locally, mainly due to capital inflows from China, have held down interbank rates.

The Hong Kong Interbank Bid-offer Rate (HIBOR) did pick up sharply - from 1.2% at the start of April to 1.6% at the end - but it still lags well behind US LIBOR, which is close to 2.4%. As long as a large differential persists there will be interest rate arbitrage pressure on the HKD, requiring ongoing interventions from the HKMA; an alternative policy would be to issue T-Bills to soak up some of the liquidity, as it did last August. The HKMA is clearly committed to defending the peg; mitigating FX risk, the upwards pressure on interest rates could deflate the property market bubble, which is partly mortgage-driven.

Business Regulatory Environment

Listing requirements eased

On 30 April the Hong Kong Stock Exchange eased its listing requirements in an effort to attract IPOs from mainland Chinese tech firms. The changes were spurred largely by the decision of Alibaba, China's largest online retailer, to choose New York rather than Hong Kong for its USD25bn IPO in 2014. The new rules permit secondary listings and dual-class share structures, enabling startup founders to maintain control of their companies with minority holdings. In response to the changes, another major Chinese tech firm, smart phone manufacturer Xiaomi, is understood to be filing for an IPO in Hong Kong in June, potentially raising around USD10bn. This and similar listings will support Hong Kong's financial sector and its ongoing role as the gateway to China.

Political/Insecurity Risk

Law professor criticised

Benny Tai, a professor of constitutional law at the University of Hong Kong, and a supporter of the 2014 student-led Occupy protests, has faced sharp criticism from China. This follows comments he made at a Taiwanese seminar where he suggested that one option for Hong Kong in the future would be independence, an idea advocated by many of the new cadre of localist activists. Wang Zhimin, the head of China's representative office said he "far exceeded the limits of so-called academic freedom". This added to ongoing concerns about encroachment on Hong Kong's freedoms. Meanwhile, staff at local subsidiaries of Huarong, a Chinese state-owned investment firm, were told by the company on 20 April to surrender their passports, something which violates Hong Kong's labour law, in the context of a corruption investigation into the firm's chairman.



COUNTRY PROFILE AND STATISTICS

Overview

Hong Kong is a special administrative region (SAR) of the People's Republic of China. Its Basic Law was agreed in bilateral negotiations between China and Britain, which returned the territory in 1997. The SAR retains its own customs arrangements, currency, British-style bureaucracy and legal system; its 1,000-square-kilometre territory on the South China Sea includes Hong Kong Island and the 'New Territories'.

China exercises indirect (but effectively absolute) powers of appointment over the post of SAR chief executive and enjoys strong influence over its business community, which nominates half the seats to the legislature. Chinese People's Liberation Army personnel are stationed in the SAR, but confined to barracks. Hong Kong moved from being a manufacturing hub in the 1970s to a global financial centre and regional hub for corporate headquarters. It has benefitted from the growth of the Chinese economy, but grappled with economic and political issues arising from the increasingly free movement of mainland citizens in Hong Kong as tourists and consumers, and the disjuncture between the national education systems of the mainland and Hong Kong.

Key Facts

Key Fact	Detail
Head of state	President of China Xi Jinping
Capital	Hong Kong (S.A.R.)
Timezone	GMT +08-00
Official languages	Chinese (Cantonese), English
Population (millions)	7.4
GDP (USD billions)	336.0
GDP per capita (USD)	45,457
Life expectancy (years)	83.7
Literacy (% of adult pop.)	99.9
Surface area (sq km)	1,092

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2013	2014	2015	2016	2017
Real GDP growth (%)	3.1	2.8	2.4	2.1	2.8
Nominal GDP in USDbn	276	291	309	321	336
Nominal GDP in local currency (bn)	2,138	2,260	2,398	2,491	2,619
GDP per Capita in USD	38,400	40,310	42,433	43,740	45,457
Population (year-end, m)	7.2	7.2	7.3	7.3	7.4
Exchange rate (yr avge, USD-LCU)	7.8	7.8	7.8	7.8	7.8
Current Account in USDbn	4.2	4.1	10.3	12.2	9.7
Current Account (% of GDP)	1.5	1.4	3.3	3.8	2.9
FX reserves (year-end, USDbn)	311.2	328.5	358.8	386.3	431.4
Import Cover (months)	6.1	6.4	7.2	7.8	8.1
Inflation (annual avge, %)	4.3	4.4	3.0	2.4	1.5
Govt Balance (% GDP)	1.6	1.8	2.1	2.0	1.7

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	2.9	2.5	2.3	2.2	2.0
Nominal GDP in USDbn	354	370	386	403	418
Nominal GDP in local currency (bn)	2,747	2,875	3,005	3,140	3,259
GDP per Capita in USD	47,657	49,553	51,401	53,381	55,127
Population (year-end, m)	7.4	7.5	7.5	7.5	7.6
Exchange rate (yr avge, USD-LCU)	7.8	7.8	7.8	7.8	7.8
Current Account in USDbn	10.5	9.2	9.4	8.9	6.1
Current Account (% of GDP)	3.0	2.5	2.4	2.2	1.5
FX reserves (year-end, USDbn)	454.0	461.7	472.7	489.2	490.3
Import Cover (months)	8.0	7.8	7.7	7.7	7.5
Inflation (annual avge, %)	2.0	2.1	2.2	2.3	1.8
Govt Balance (% GDP)	1.9	1.5	2.0	1.8	1.6

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Hong Kong (S.A.R.)	China	Singapore	Taiwan	US
Income per Capita (USD)	47,657	9,876	55,841	25,801	61,495
Country Population (m)	7.4	1,415.0	5.8	23.6	326.8
Internet users (% of population)	87.3	53.2	81.0	79.7	76.2
Real GDP Growth (% p.a., 2018 - 2027)	1.8 - 3.2	4.5 - 6.5	3.2 - 5.7	1.5 - 3.5	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



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