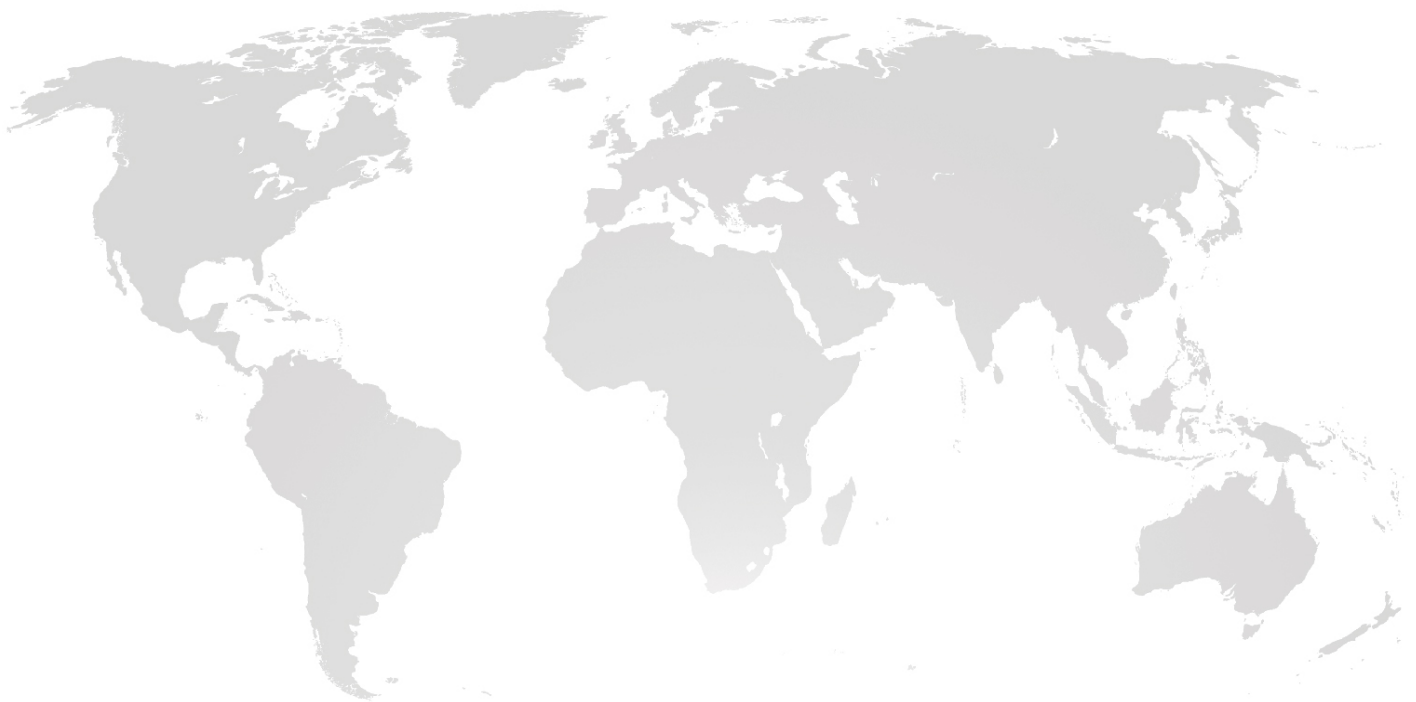




D&B Country Insight Snapshot: Hong Kong (S.A.R.)

May 2015



Written 8 May 2015

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.

Rating Outlook: Stable →

Core Outlook

+ Hong Kong is still benefiting from its role as a financial gateway to the world and a safe haven for mainland Chinese investment.

+ Few jurisdictions in the region besides Singapore can offer the institutional quality of Hong Kong and its commercial environment.

- Substantial political questions remain over 'one country, two systems' and the divergence in values between the mainland and Hong Kong's liberally-educated population.

- The city's rapidly ageing population will eventually trigger higher medical and pension contributions, forcing difficult policy decisions.

Key Development

The political situation has not been defused. Both the pro-Beijing establishment and the pro-democracy movement probably regard the end of the Occupy movement's street phase as a strategic withdrawal only.

Credit Environment Outlook



Key Development has had a neutral impact on the outlook.

Supply Environment Outlook



Key Development has had a neutral impact on the outlook.

Market Environment Outlook



Key Development has had a negative impact on the outlook.

Political Environment Outlook

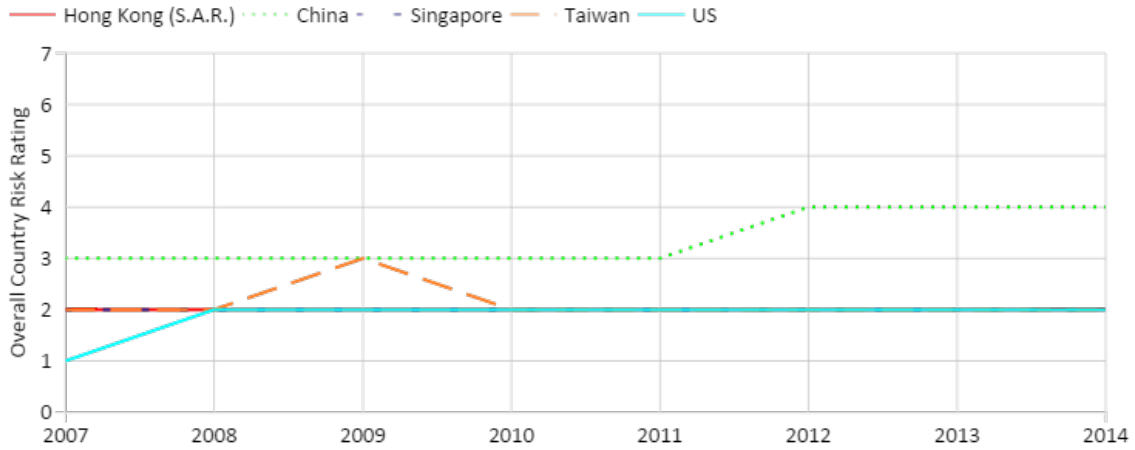


Key Development has had a neutral impact on the outlook.



Key Indicators

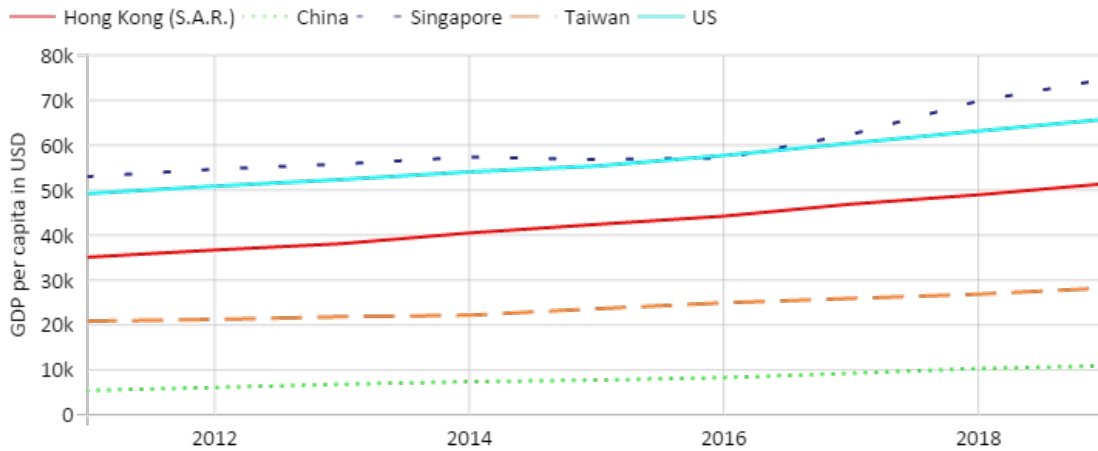
Rating History and Comparison



Source : D&B

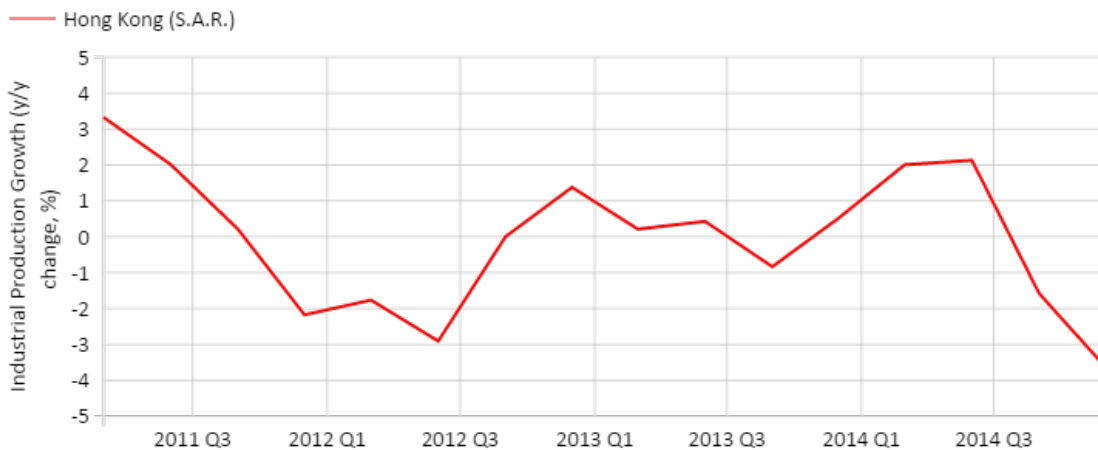
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : D&B

Chart of the Month



Source : National Statistical Offices / Haver Analytics

Economic Indicators

Indicator	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
C/A balance % GDP	1.6	1.8	1.5	0.8	1.3	1	0.3	0.2
Govt balance, % GDP	1.6	1.6	2.1	0.6	2	3.5	2	1.5
Inflation, annual avge %	4.2	4.2	4.4	2.4	2.1	2.9	3.3	1.8
Real GDP Growth, %	1.5	2.9	2.4	2.9	2.9	2.8	1.6	3.3
Unemployment, %	3.3	3.4	3.3	3.5	3.7	3.8	3.5	3.5

Source : Haver Analytics/D&B

Trade and Commercial Environment

According to payments performance data from Dun & Bradstreet Hong Kong, the payment situation in Hong Kong in 2014 did not show any significant change from recent years, with the share of firms paying punctually at 30.8%, down from 31.7% in 2013. Companies that paid more than 90 days over terms were 3.3% of the total, a decrease of 1.4 percentage points compared with the previous year. The wholesale sector paid punctually 34.0% of the time in 2014, and 90.9% of the time paid within 30 days over terms, being the best-performing sector. This compares to the construction and finance services sectors where 21.8% and 19.7% of companies, respectively, that paid between 30 and 90 days over terms. However, this relatively benign payments performance overall supports our minimum and recommended terms of OA and SD, respectively.

Trade Terms and Transfer Situation

Minimum Terms: OA

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

Recommended Terms: SD

D&B'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

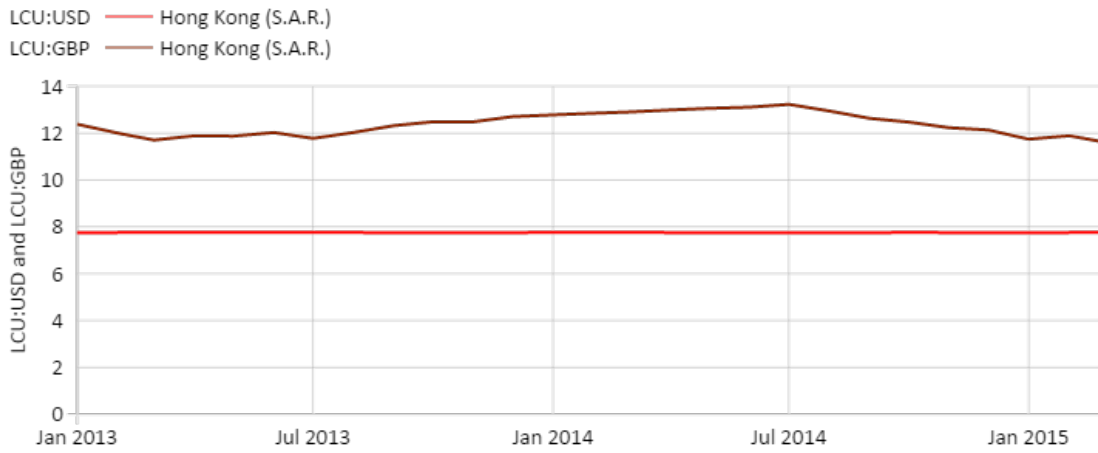
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



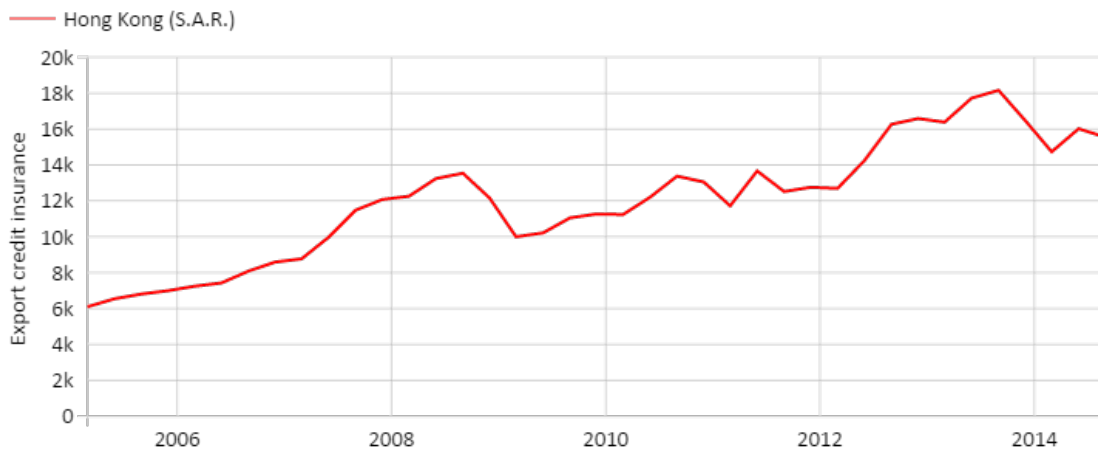
Exchange Rate



Source : IMF International Financial Statistics, National Statistical Offices

LCU = Local Currency Unit

Credit Conditions



Source : Haver

Insured export credit exposures, short-term, USDm

Risks and Opportunities

Insecurity/Civil Disorder Risk

The political situation has not been defused

Both the pro-Beijing establishment and the student-driven pro-democracy movement probably regard the end of the Occupy movement's street phase in December as a strategic withdrawal only. A small tent settlement of protestors is growing again in the high-profile Admiralty district, and campus politics at flagship institution Hong Kong University continue to feature accusations of betrayal from either side.

Beijing is seeking ways to manage the situation by defusing Hong Kong citizens' grievances without surrendering to the demands of the Occupy movement (for open nominations for the chief executive in a framework of universal suffrage). In April, the mainland authorities restricted Shenzhen's residents to one visit per week. This will reduce the number of mainland visitors from the 47m level of 2014, including the 4.6m in 2015 who visited more than once in a week. By addressing mundane but visceral concerns regarding mainlanders' retail habits, Beijing looks to allay the protest movement.

The Hong Kong government in April also unveiled a change to its electoral reform. Candidates for chief executive would be nominated by 120, down from a previous 150, of the 1,200-member nominating committee, dominated by pro-Beijing and business interests. They will nominate a shortlist of at least five candidates, of whom committee members will be able to select two or three in a second round. Those with 50% or more votes could stand for election by universal suffrage. While this offer has been greeted with derision by pro-democracy activists, and will be voted down by pro-democracy legislators, it could in theory bring electoral competition. Such a rare concession reflects Beijing's anxiety not to fuel any radical pro-democracy tendency that could fuel outright separatism. Hong Kong is a 'safety valve' for the mainland regime and economy, allowing regulated movement of capital in and out of the country, and providing a model for the re-integration of Taiwan. As such it is essential for China's strategic political vision and will continue to be treated delicately by Chinese standards.

Market Potential

Retail faces an adjustment

Retail sales were flat in price-adjusted, volume terms in Q1, and fell a modest 0.8% y/y in seasonally adjusted terms. However, the data were flattered by the release of new smartphone models, and the fall-off in inbound tourism was noticeable in department store sales' falling 3.9% y/y by volume and 2.8% by value in Q1.

Anecdotally, popular areas such as Causeway Bay have been emptier of tourists recently down not only to Hong Kong's fractious politics and episodes of hostility to mainland shoppers, but also to weaker currencies in destinations in Europe and Asia. Moreover, in April China's state council said it would cut customs tariffs on luxuries such as cosmetics, from current high levels of up to 100%, weakening the reason to shop in Hong Kong. Commercial rents in Hong Kong are likely to moderate in this context in 2015.

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 by bilateral negotiation between China and Britain, which returned the territory in 1997. The SAR retains its own custom 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.

Since light manufacturing exports accelerated in the 1970s, Hong Kong has transformed itself into a global financial centre and regional corporate headquarters. It has benefited 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)	7.2
GDP (USD billions)	293
GDP per capita (USD)	40,497
Life expectancy (years)	83
Literacy (% of adult pop.)	99.9
Surface area (sq km)	1,092

Source : UN / Haver Analytics / D&B

Historical Data

Metric	2010	2011	2012	2013	2014
Real GDP growth (%)	6.77	4.79	1.55	3	2.4
Nominal GDP in USDbn	229.83	248.28	262.63	274.03	289.59
Nominal GDP in local currency (bn)	1,786	1,933	2,037	2,125	2,250
GDP per Capita in USD	32,518	35,108	36,706	38,123	40,088
Population (year-end, m)	7.07	7.07	7.16	7.19	7.22
Exchange rate (yr avge, USD-LCU)	7.77	7.78	7.76	7.76	7.77
Current Account in USDbn	16.01	13.81	4.15	5.1	4.39
Current Account (% of GDP)	6.97	5.56	1.58	1.86	1.51
FX reserves (year-end, USDbn)	268.7	285.41	317.34	311.2	303.97
Import Cover (months)	7.07	6.59	6.75	6.1	5.6
Inflation (annual avge, %)	2.4	5.3	4.1	4.3	3.4
Govt Balance (% GDP)	2.1	1.9	1.6	1.6	2.1

Source : D&B

Forecasts

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	2.9	2.9	2.8	1.6	3.3
Nominal GDP in USDbn	308.3	323.3	344.5	361.6	379.8
Nominal GDP in local currency (bn)	2,392.3	2,511.7	2,677.1	2,809.4	2,950.7
GDP per Capita in USD	42,398	44,236	46,915	48,988	51,452
Population (year-end, m)	7.3	7.3	7.3	7.4	7.4
Exchange rate (yr avge, USD-LCU)	7.8	7.8	7.8	7.8	7.8
Current Account in USDbn	2.5	4.2	3.4	1	0.9
Current Account (% of GDP)	0.8	1.29	0.99	0.28	0.24
FX reserves (year-end, USDbn)	329.2	326.8	323.5	319.6	314.4
Import Cover (months)	5.73	5.52	5.1	4.73	4.51
Inflation (annual avge, %)	2.4	2.1	2.9	3.3	1.8
Govt Balance (% GDP)	0.6	2	3.5	2	1.5

Source : D&B

Comparative Market Indicators

Indicator	Hong Kong (S.A.R.)	China	Singapore	Taiwan	US
Income per Capita (USD)	40,497	7,434	57,395	22,206	54,086
Country Population (m)	7.2	1,393.8	5.5	23.4	322.6
Internet users (% of population)	74.2	45.8	73	80	84.2
Real GDP Growth (% p.a., 2015 - 2024)	1.8 - 3.3	5.5 - 7	4 - 5.5	2 - 3	1.5 - 3

Source : D&B

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