



Decide with Confidence

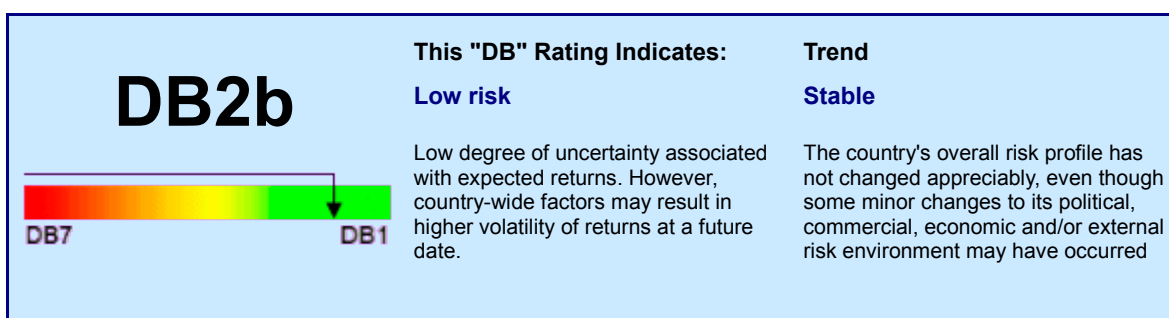
D&B Country RiskLine Report

HONG KONG (S.A.R.)

Region : Asia Pacific

Edition : June 2014

D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	7.2m
Surface area (sq km):	1,092
Mobile phones (per 1000 people):	2,100
Timezone:	GMT +08:00
Official languages:	Chinese (Cantonese), English
Head of state:	President of China Xi Jinping
GDP (USD):	274bn
GDP per capita (USD):	38,122
Life expectancy (years):	83
Literacy (% of adult pop.):	99.9

Country 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 regional financial centre and corporate headquarters. It has benefited from the growth of the Chinese economy but grappled with issues arising from the relocation of industry to the mainland.

Trade & Commercial Environment

Trade Terms

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.

Transfer Situation

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.

Trade & Commercial Environment

The fall-off in retail spending in April may qualify the outlook for retailers, who reported that they were expected to increase hiring in Q2 in the earlier *Quarterly Business Tendency Survey*; this may interrupt luxury-oriented retailers' plans. It is still too early to attribute primary causes to the change, but the 40% year-on-year drop in sales of jewellery, watches and valuable gifts in April may be due to anti-corruption efforts in the mainland, which are affecting spending by officials, gift-giving and conspicuous consumption in general. High-profile individuals have been detained or expelled from the protection of the Communist Party in China, and there has been a purge of boards of former officials; but the high base from the surge in retail purchases of gold in April 2013 may also be responsible.

Export Credit Agencies

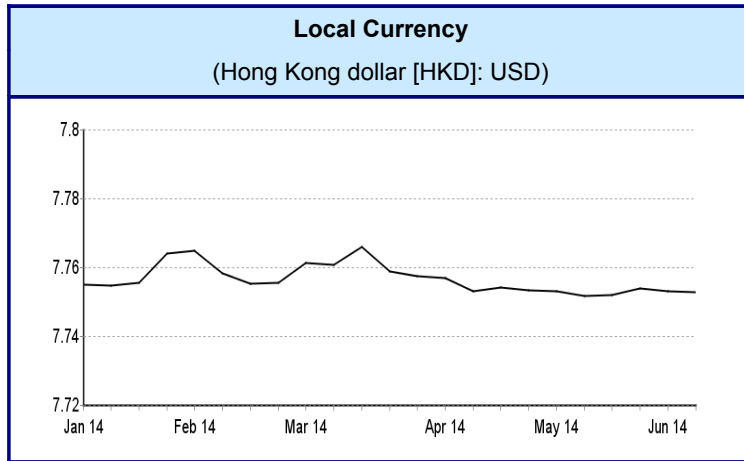
US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2011	2012	2013	2014f	2015f
Real GDP growth, %	4.8	1.5	3.0	2.4	3.4
Inflation, annual ave, %	5.3	4.1	4.3	4.1	1.9
Govt balance, % GDP	1.9	1.6	1.6	2.1	2.3
Unemployment, %	3.4	3.3	3.4	3.3	3.5
C/A balance, % GDP	5.6	1.6	1.9	1.5	1.6

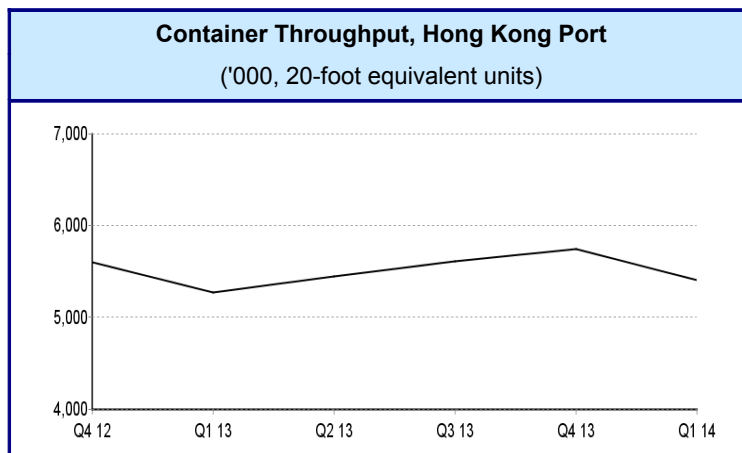
Currency Information

Exchange Rates	
(London, 02 Jun 14)	
EUR	10.5793
GBP	13.0045
JPY*	7.62
USD	7.753
*(x 100)	



Local Currency (Hong Kong dollar [HKD]: USD)						
	Jan 14	Feb 14	Mar 14	Apr 14	May 14	Jun 14
Week 1	7.755	7.765	7.761	7.757	7.753	7.753
Week 2	7.755	7.758	7.761	7.753	7.752	7.753
Week 3	7.755	7.755	7.766	7.754	7.752	
Week 4	7.764	7.756	7.759	7.753	7.754	
Week 5			7.757			

Container Throughput, Hong Kong Port



Data Table					
Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14
5594.0	5268.0	5448.0	5608.0	5745.0	5401.0

Risk Factor

Despite our 'Stable' ratings trend, concerns continue to focus on the risks generated by the Chinese economic slowdown to Hong Kong's economy. It is difficult to correctly assess the magnitude of any ongoing or ultimate downturn in China or to make a clear examination of its financial situation, given the suspicions about the transparency of the system. In any case, Hong Kong's economic welfare is linked (by a quite sizeable extent) to the Chinese economy through the reins of the property market and mainlanders' propensity to spend on luxury goods. In addition, and less visibly, over 40% of overseas loans (including those to mainland China) generated by Hong Kong's financial institutions have been injected into Chinese investments. An important part of these investments has inflated the property markets both in China and Hong Kong, such that any serious decline of the real estate sector in China combined with other negative shocks (such as a sudden fall in the mainland's international trade) would reverberate on bank profits, if not necessarily on Hong Kong's financial system solvency. Yuan-denominated business has also turned into a key business growth area for Hong Kong's financial sector and would be hit by a financial sector crunch or shock to the mainland.

In D&B's estimation, this remains an unlikely scenario and accordingly we expect Hong Kong's economy to experience a growth deceleration rather than a sharp downturn. China's housing market is at an inflection point but unlikely to crash, and we expect house prices to fall only 5-10% by end-2015 in real terms, at worst. The gathering slump in the northern provinces of China, with their coal-based industrial sectors, and the debt and construction overhang in the Yangtze River Delta, are serious, but will be offset somewhat by more dynamic performances in coastal provinces and new service sectors with enormous potential e.g. logistics and internet-based retailing. Thus, we are maintaining our DB2b indicator for Hong Kong, which is bolstered by a record-low unemployment rate (3.1% in Q1), solid financial and fiscal parameters, and by banks' prudence margins that are well above the required capital levels (Tier 1 ratios are at almost double the 7% minimum requirement). Regarding Hong Kong's own real estate sector, the steps to cool down an overheated property market have only reduced residential prices of properties of over 70 square metres in the last 12 months and only slightly at that. By end-2016, prices should have fallen 20% at most, a level manageable for Hong Kong's banks, which will also assuage concerns over a more severe bubble/crash dynamic.

However, retail sales fell by almost 10% in volume in year-on-year (y/y) terms in April, driven by a 40% y/y decline in luxury sales. This may owe to both volatile gold prices and newly-felt restraints on corruption on the mainland.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

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:

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:

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

Local Delays:

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

F/X Bank Delays:

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.

C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

© Copyright 2012-13 Dun & Bradstreet - Provided subject to the terms and conditions of your contract.

D&B Country Risk Services

For information relating to D&B's Country Risk Services.

UK

Telephone: 01628 492700
Fax: 01628 492929
Email: CountryRisk@dnb.com

USA Inquiry

Telephone: 1-800 234-3867 option 1, 1 and then 2
Email: CountryRiskServices@dnb.com

Rest of World

Telephone: +44 1628 492700
Email: CountryRisk@dnb.com

D&B Customer Services

For all other information or queries relating to D&B products and services.

UK

Telephone: 0870 243 2344 (UK) / 1 890 923296 (IR)
Email: CustomerHelp@dnb.com

USA

Telephone: 1-800 234-3867 option 1, 1 and then 2
Email: CustomerService@dnb.com

Rest of World

You can contact your local D&B Customer Services departments by clicking [here](#).

Whilst D&B attempts to ensure that the information provided is accurate and complete, by reason of the immense quantity of detailed matter dealt with in compiling the information and the fact that some of the data are supplied from sources not controlled by D&B which cannot always be verified, including information provided direct from the subject of enquiry as well as the possibility of negligence and mistake, D&B does not guarantee the correctness or the effective delivery of the information and will not be held responsible for any errors therein or omissions therefrom.

© Dun & Bradstreet Inc., 2012-13.



Decide with Confidence