



Decide with Confidence

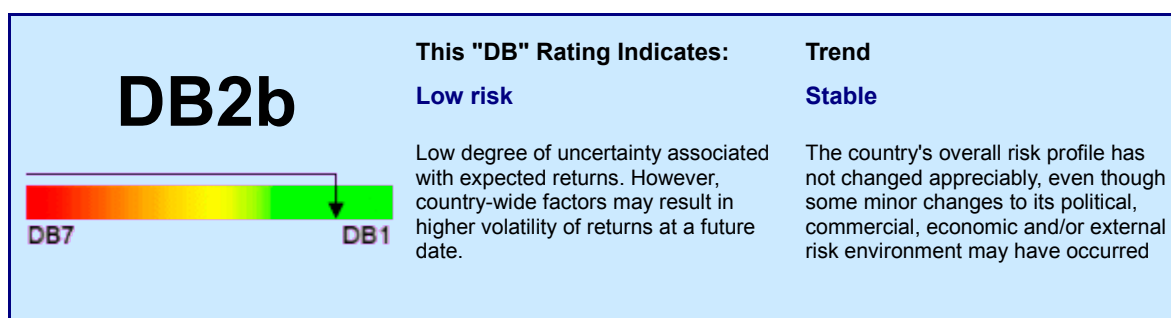
## D&B Country RiskLine Report

# HONG KONG (S.A.R.)

Region : Asia Pacific

Edition : June 2013

### 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

|                                         |                               |
|-----------------------------------------|-------------------------------|
| <b>Population:</b>                      | 7.1m                          |
| <b>Surface area (sq km):</b>            | 1,092                         |
| <b>Mobile phones (per 1000 people):</b> | 2,100                         |
| <b>Timezone:</b>                        | GMT +08:00                    |
| <b>Official languages:</b>              | Chinese (Cantonese), English  |
| <b>Head of state:</b>                   | President of China Xi Jinping |
| <b>GDP (USD):</b>                       | 258.9bn                       |
| <b>GDP per capita (USD):</b>            | 36,430                        |
| <b>Life expectancy (years):</b>         | 83                            |
| <b>Literacy (% of adult pop.):</b>      | 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

|                       |    |
|-----------------------|----|
| <b>Minimum Terms:</b> | 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.

|                           |    |
|---------------------------|----|
| <b>Recommended Terms:</b> | 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.

|                     |            |
|---------------------|------------|
| <b>Usual Terms:</b> | 30-90 days |
|---------------------|------------|

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

### Transfer Situation

|                      |           |
|----------------------|-----------|
| <b>Local Delays:</b> | 0-1 month |
|----------------------|-----------|

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

|                        |           |
|------------------------|-----------|
| <b>FX/Bank Delays:</b> | 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 Hong Kong Census and Statistics Department's Quarterly *Tendency Business Survey* showed that 21% of respondents (polled in April) expected business conditions to improve in Q2 2013, against only 12% expecting them to worsen. Financial services and insurance, and information and communications firms had a greater net optimism than other sectors, of 560 prominent Hong Kong business organisations surveyed. Meanwhile, despite uncertainty over the trend in trade volumes routed through Hong Kong (including that caused by the March-May 40-day strike in five out of nine container terminals) in Q1, trade finance volumes grew close to 3% year on year. Another positive sign has been a steady growth in yuan (mainland currency) traffic and deposits since Q4 2012.

### Export Credit Agencies

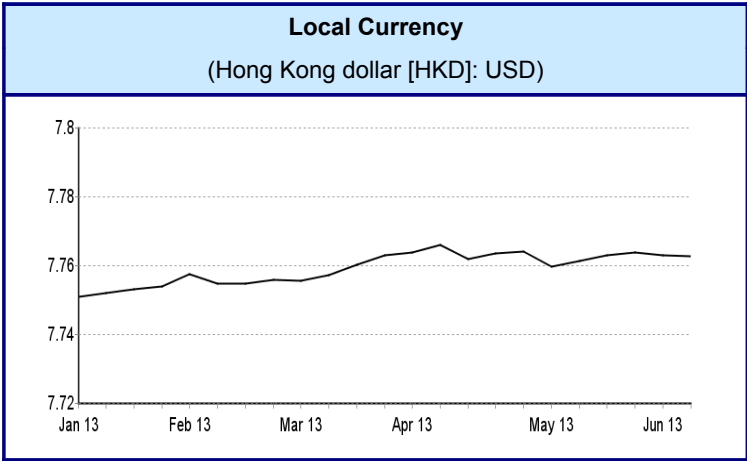
|                 |                         |
|-----------------|-------------------------|
|                 |                         |
| US Eximbank     | Full cover available    |
| Atradius        | Full cover available    |
| ECGD            | Full cover available    |
| Euler Hermes UK | Full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

### Economic Indicators

|                          | 2010 | 2011 | 2012 | 2013f | 2014f |
|--------------------------|------|------|------|-------|-------|
| Real GDP growth, %       | 6.8  | 4.9  | 1.4  | 2.8   | 2.2   |
| Inflation, annual ave, % | 2.4  | 5.3  | 4.1  | 3.9   | 3.2   |
| Govt balance, % GDP      | 1.5  | 3.9  | 1.5  | 1.7   | 2.1   |
| Unemployment, %          | 4.3  | 3.4  | 3.6  | 4.0   | 3.9   |
| C/A balance, % GDP       | 6.6  | 4.8  | 1.1  | 424.3 | 436.5 |

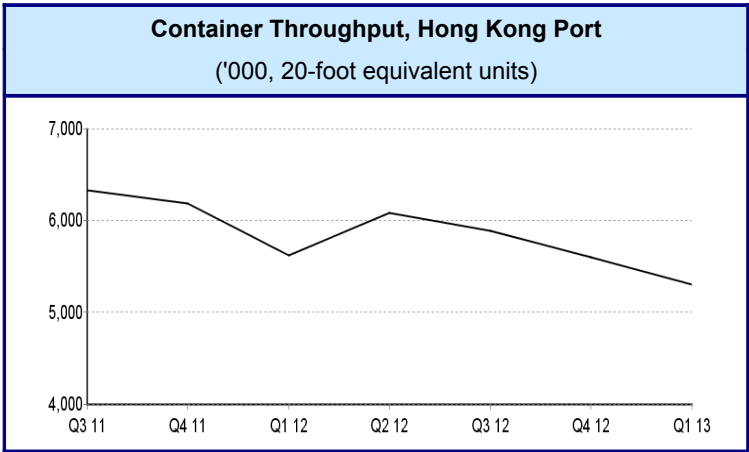
### Currency Information

| Exchange Rates      |         |
|---------------------|---------|
| (London, 10 Jun 13) |         |
| EUR                 | 10.2625 |
| GBP                 | 12.0619 |
| JPY*                | 7.971   |
| USD                 | 7.7626  |
| *(x 100)            |         |



| Local Currency<br>(Hong Kong dollar [HKD]: USD) |        |        |        |        |        |        |
|-------------------------------------------------|--------|--------|--------|--------|--------|--------|
|                                                 | Jan 13 | Feb 13 | Mar 13 | Apr 13 | May 13 | Jun 13 |
| Week 1                                          | 7.751  | 7.758  | 7.755  | 7.764  | 7.760  | 7.763  |
| Week 2                                          | 7.752  | 7.755  | 7.757  | 7.766  | 7.761  | 7.763  |
| Week 3                                          | 7.753  | 7.755  | 7.760  | 7.762  | 7.763  |        |
| Week 4                                          | 7.754  | 7.756  | 7.763  | 7.763  | 7.764  |        |
| Week 5                                          |        |        |        | 7.764  |        |        |

### Container Throughput, Hong Kong Port



| Data Table |        |        |        |        |        |        |
|------------|--------|--------|--------|--------|--------|--------|
| Q3 11      | Q4 11  | Q1 12  | Q2 12  | Q3 12  | Q4 12  | Q1 13  |
| 6326.0     | 6182.0 | 5616.0 | 6078.0 | 5890.0 | 5594.0 | 5301.0 |

## Risk Factor

Hong Kong's risk indicator remains on a 'stable' ratings trend as the territory looks set to enjoy stronger retail spending, moderating inflation, and any definitive end to the pattern of OECD central bank quantitative easing appears several quarters off, protecting the real estate sector's high valuations. Retail spending rose 20.7% year on year (y/y) in April and 19.4% y/y in volume terms, according to preliminary data from the Hong Kong Census and Statistics Department, buoyed by a 68.4% y/y rise in sales of jewellery, watches, clocks and valuable gifts. The April retail data may reflect quantitative easing-linked instability in the gold market in that month just as much as mainland Chinese tourist trends, given that the gold price dipped sharply early in Q2, spurring speculative retail buying throughout much of southern China. However, sales of consumer durable goods (up 44.8% y/y) and department store commodities (up 21.6% y/y) in turn attested to strong (possibly pent-up) demand in the wake of the lull in luxury spending in late 2012 during the political handover of power in the mainland. The official comment drew attention to the strong growth in inbound tourism and high employment, positive short-term factors, but also the potential for volatility.

With private consumption accounting for 69% of GDP in Q1 (up from 55% of GDP in, for example, Q2 2002, when Hong Kong was suffering from a prolonged period of deflation) it is more exposed than before to Chinese mainland tourists' spending patterns which, in line with seasonal and political factors, has seen y/y growth in real private consumption run between as little as 1.8% (in Q3 2012) to 7.0% (in Q1 2013 just past). By contrast, Hong Kong's seaport throughput has been steadily falling, with total cargo throughput falling 3% y/y in tonnes in Q1 and container volumes transiting down 8% y/y to 5.3m twenty-foot equivalent units. The corollary of this has been depressed demand, delayed payments and higher credit risks facing Hong Kong's manufacturers, many of who still locate physical operations along the Pearl River Delta and keep administrative-financial operations at their Hong Kong headquarters. In May, the vice-chairman of the Federation of Hong Kong Industries was quoted saying 40% of European customers were asking for longer payment terms; with Europe accounting for one-third of Federation members' business, this is having an effect on credit quality and accounts receivable. The slowdown in the parts of the Hong Kong economy not enjoying the tourist boom can also be seen in the 4.0% y/y decrease in investment in machinery, equipment and intellectual property in Q1.

Against this must be set the fact that Hong Kong is enjoying record low interest rates, growing tourist numbers, fiscal stimulus from projects and protections for the lower-paid, as well as manufacturing and logistics' small shares of GDP.

## Glossary & Definitions

### DEFINITIONS

#### Minimum Terms:

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#### 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                 |

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