



Decide with Confidence

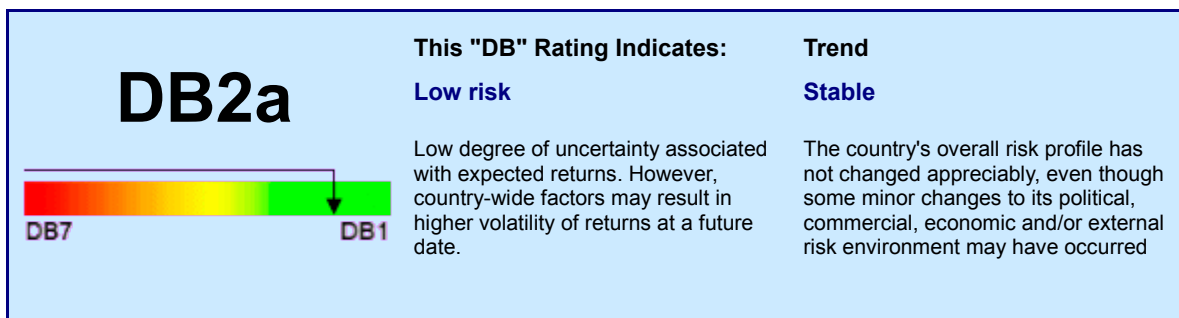
## D&B Country RiskLine Report

# HONG KONG (S.A.R.)

Region : Asia Pacific

Edition : January 2011

### 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>	7.0m
<b>Surface area (sq km):</b>	1,092
<b>Mobile phones (per 1000 people):</b>	1,252
<b>Timezone:</b>	GMT +08:00
<b>Official languages:</b>	Chinese (Cantonese), English
<b>Head of state:</b>	President of China HU Jintao
<b>GDP (USD):</b>	216.8bn
<b>GDP per capita (USD):</b>	30,666
<b>Life expectancy (years):</b>	82
<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
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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
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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
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Normal period of credit associated with transactions with companies in the stated country.

### Transfer Situation

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

We recommend SD terms for manufacturing business customers, but OA terms may be considered for other sectors, and for repeat and large customers. Firms with operations in the Pearl River Delta and headquartered in Hong Kong offer slightly greater credit risk because of the downturn in OECD markets since 2008, and difficulties with restraining wage costs and with recruitment; but, generally, confidence in Hong Kong is high, with personal bankruptcies (for example) at a ten-year low in October. Hong Kong's fiscal situation is also reassuring, with the deficit predicted for fiscal year (April-March) 2010/11 likely to become a surplus and Fitch Ratings upgrading its long-term foreign currency rating for Hong Kong from AA to AA+, with a stable outlook, in November.

### Export Credit Agencies

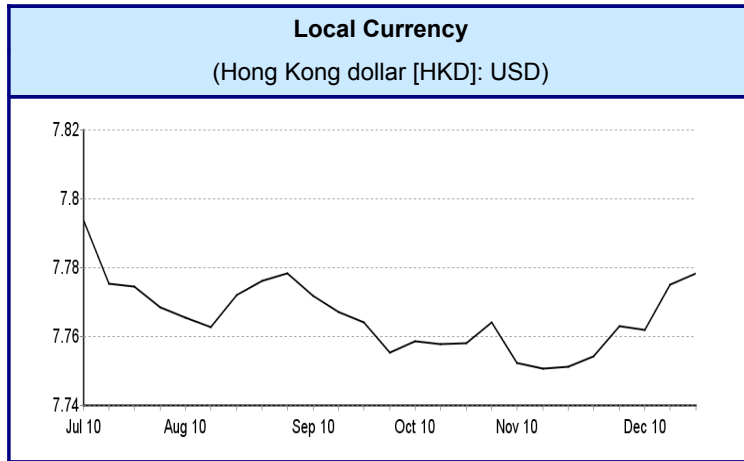
<b>US Eximbank</b>	Full cover available
<b>Atradius</b>	Full cover available
<b>ECGD</b>	Full cover available
<b>Euler Hermes UK</b>	Full ST cover available

### Economic Indicators

	2008	2009	2010e	2011f	2012f
<b>Real GDP growth, %</b>	2.1	-2.7	6.5	4.5	4.9
<b>Inflation, annual ave, %</b>	4.3	0.6	2.6	2.9	1.4
<b>Govt balance, % GDP</b>	3.5	-0.9	1.5	0.9	1.9
<b>Unemployment, %</b>	3.5	5.2	4.3	4.2	3.6
<b>C/A balance, % GDP</b>	13.8	8.9	4.2	5.3	6.5

### Currency Information

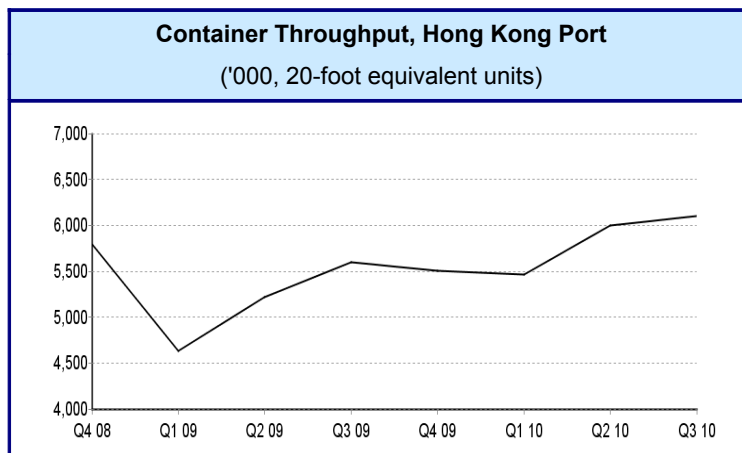
<b>Exchange Rates</b>	
(London, 13 Dec 10)	
EUR	10.2791
GBP	12.2788
JPY*	9.2634
USD	7.7748
*(x 100)	



**Local Currency**  
(Hong Kong dollar [HKD]: USD)

	Jul 10	Aug 10	Sep 10	Oct 10	Nov 10	Dec 10
<b>Week 1</b>	7.794	7.765	7.772	7.758	7.752	7.762
<b>Week 2</b>	7.775	7.763	7.767	7.758	7.751	7.775
<b>Week 3</b>	7.774	7.772	7.764	7.758	7.751	7.778
<b>Week 4</b>	7.768	7.776	7.755	7.764	7.754	
<b>Week 5</b>		7.778			7.763	

### Container Throughput, Hong Kong Port



**Data Table**

Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
4629.0	5221.0	5597.0	5510.0	5466.0	6003.0

## Risk Factor

We estimate that Hong Kong's economy grew 6.5% in 2010, and expect it to grow by 4.5% in 2011, with upside potential. The outlook is stable for our DB2a risk indicator, upgraded by one quartile in Q4 2010. Import-export volumes are back to pre-crisis levels and still growing, and business services in Hong Kong are in buoyant shape. Real GDP in Q3 2010 was up 5.3% in real, year-on-year (y/y) terms, and GNP, which includes net factor income flows (e.g. from funds repatriated by companies), was up 6.8%. Most flows are to and from the British Virgin Islands or China, and Hong Kong, in any case, continues to be a net beneficiary. Its economy is in the grip of a strong economic rebound from the trade slump of 2009, while enjoying unusually stimulative interest rates arising from the US Federal Reserve's de facto zero-interest rate policy, and ample liquidity in both US financial markets and in mainland China. This has driven the housing market close to its historic peak (or beyond for luxury properties) and has allowed the economy to enjoy favourable levels of demand and confidence. Accordingly, Q3 business receipts were up sharply in y/y terms, with the transportation sector's receipts up 32.2%, and import-export receipts up 20.4%.

The housing market is the one sector presenting short-term uncertainty. This is because of the government's bid to stop a housing bubble developing in 2011-12, which it fears could undermine Hong Kong's financial and macroeconomic stability. Since November, additional stamp duty of 5-15% has been imposed on homes re-sold within two years, while new caps on mortgage lending have been imposed, bringing the maximum ratio for homes worth over HKD12m (or just over USD1.5m) to 50%, from a previous 60%. Jones Lang LaSalle, the international property company, estimates that as a result residential transaction volumes could decline by over a third, from 11,000 a month in 2010 to average 7,000 a month in 2011. However, tight supply of housing should still support prices, which remained below their 1997 peak in the mass market segment, as of late 2010, and rental yields are still better than ultra-low deposit rates, suggesting that there will be no policy-induced collapse in the housing market in 2011, bringing on what policymakers were trying to avoid.

Otherwise, with consumer confidence at a two-year high in November, according to Nielsen & Co., and unemployment stable (staying at a rate of 4.2% on a three-month average basis during July-October), short-term prospects appear positive. Inflation was moderate at 2.6% y/y in October. One proviso is that food inflation is, as on the mainland, rising faster, having reached 5.6% y/y in October: Food and Health Secretary Chow Yat-Ngok told legislators that the authorities would introduce greater competition in food suppliers. Rapid mainland inflation is also a risk factor, with some goods in neighbouring Shenzhen already costlier than in Hong Kong.

## 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

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