

Country Insight Snapshot Hong Kong (S.A.R.)

November 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: Stable →

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 'one country, two systems' concept.
- 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

The mainland authorities' crackdown on localists is having repercussions for freedom of speech concerns in Hong Kong.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Stable →

Key Development has had a neutral 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 neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

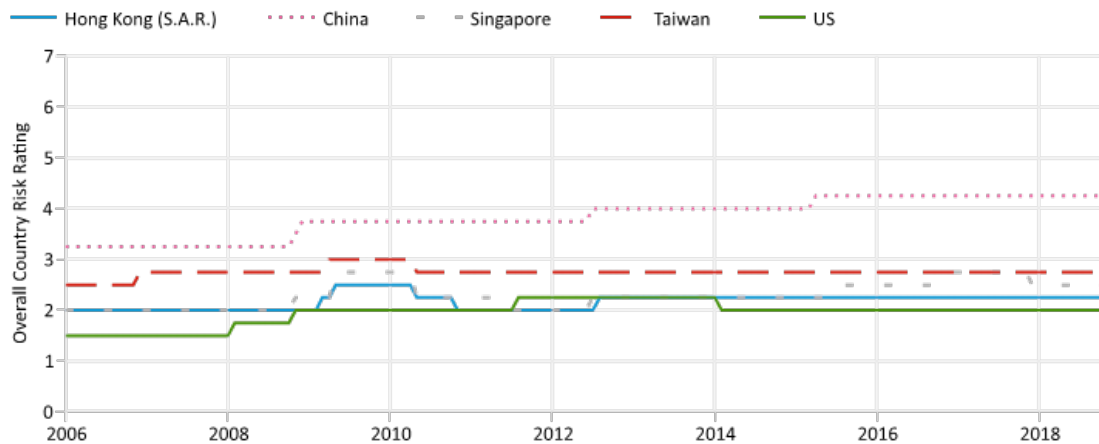
Trend: Deteriorating ↘

Key Development has had a negative impact on the outlook.



KEY INDICATORS

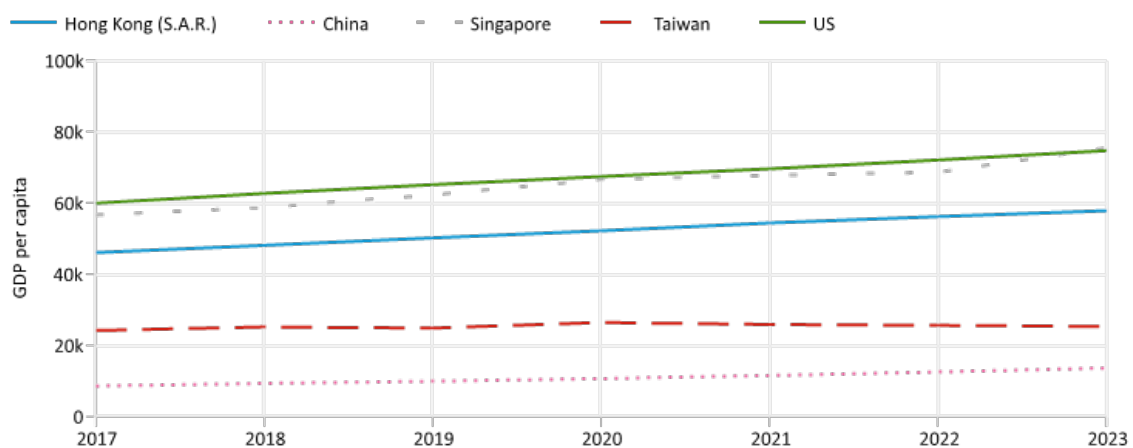
Rating History and Comparison



Source : Dun & Bradstreet

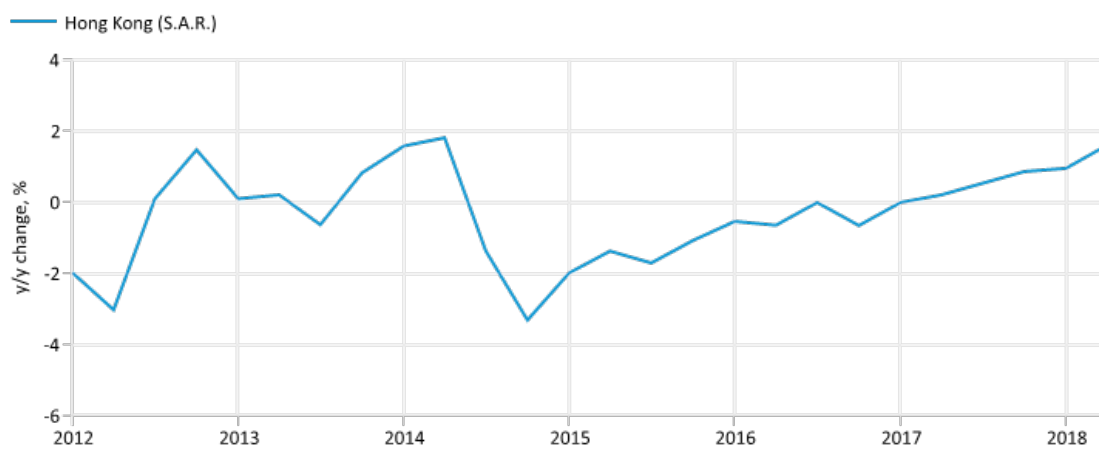
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2016	2017	2018f	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	4.0	4.3	4.6	4.0	4.0	3.7	3.0	2.6
Govt balance, % GDP	2.0	1.7	2.1	1.6	1.5	1.2	1.2	1.2
Inflation, annual avge %	2.4	1.5	2.4	2.1	2.2	2.3	1.8	1.8
Real GDP Growth, %	2.2	2.8	3.1	2.6	2.1	2.2	2.0	1.6
Unemployment, %	3.4	3.1	2.8	2.9	3.1	3.2	3.4	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 fourth in the World Bank's *Doing Business 2019* index, and seventh in the World Economic Forum's *Global Competitiveness Index 2018*, including second for infrastructure and the financial system. The 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. Meanwhile, rising interest rates are likely to dampen credit conditions, hurting the real estate sector, and the US-China trade war threatens re-exports.

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

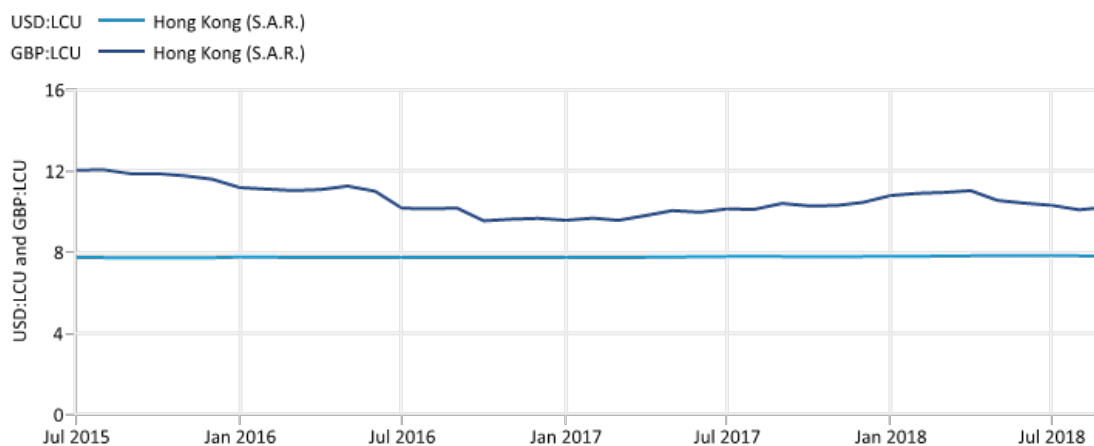
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



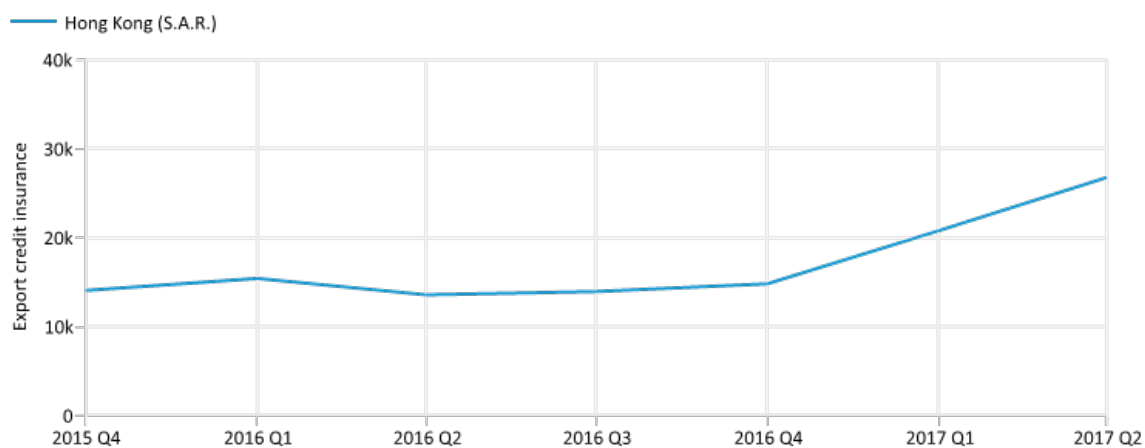
Exchange Rate



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

Political/Insecurity Risk

FT journalist ejected

On 6 October, Hong Kong denied a routine work visa renewal for Victor Mallet, the Financial Time's Asia editor. This is believed to have been the first time that a foreign correspondent has been denied a visa since Chinese rule was restored in Hong Kong in 1997. In August, Mallet had chaired an event at the Foreign Correspondents' Club at which Andy Chan, the head of the Hong Kong National Party (HKNP) spoke. The authorities have been cracking down on localist politics and on 23 September formally banned the HKNP under the colonial-era Societies Ordinance, also a first. The Chief Executive, Carrie Lam, said it was "pure speculation" that Mallet's visa denial was linked to this event, but she said the immigration department would not comment on its decision, and no official explanation has been given. The incident added to concerns about growing limits on freedom of speech in Hong Kong, prompting complaints from the British foreign secretary and Western diplomats in Hong Kong.

Short-Term Economic Outlook

Tariffs squeeze trade

The expansion of tariffs in the escalation US-China trade war has had a visible impact on Hong Kong trade. As happened when the first tariffs were implemented in mid-2018, trade surged in anticipation of the latest round (covering USD200bn in Chinese exports and USD60bn in US exports) and then fell sharply the next month. On a y/y basis, export growth slowed to 4.5% in September, from 13.1% in August, and import growth to 4.8% from 16.4%. It is not clear whether these are short-term shifts or whether the tariffs will reduce US-China trade and hence trade transit flows through Hong Kong. Meanwhile, another economic concern is looming as rising interest rates impact on the vital real estate sector. In August house prices dropped by 0.1%, according to the government's Ratings and Valuations department - the first decline since March 2016. Then, in September, key banks such as HSBC and Standard Chartered raised their prime lending rates, which drive mortgages, following the latest US interest rate hike.

Business Continuity

Bridge to Macau opens

On 22 October the Hong Kong-Zhuhai-Macau Bridge finally opened. The 37km bridge, the longest in the world, costing USD20bn, spans west across the Pearl River Delta to the enclave of Macau and the mainland city of Zhuhai. Together with the recently opened high-speed rail link that connects by land to the mainland in the north, the bridge increases the integration of Hong Kong with the Greater Bay Area. This should facilitate business and inflows of Chinese visitors, supporting the economy.



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)	341.5
GDP per capita (USD)	46,196
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	2014	2015	2016	2017	2018f
Real GDP growth (%)	2.8	2.4	2.2	2.8	3.1
Nominal GDP in USDbn	291	309	321	341	358
Nominal GDP in local currency (bn)	2,260	2,398	2,491	2,661	2,809
GDP per Capita in USD	40,310	42,430	43,737	46,196	48,235
Population (year-end, m)	7.2	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	4.1	10.3	12.7	14.7	16.4
Current Account (% of GDP)	1.4	3.3	4.0	4.3	4.6
FX reserves (year-end, USDbn)	328.5	358.8	386.3	431.4	454.9
Import Cover (months)	6.4	7.2	7.8	8.1	8.0
Inflation (annual avge, %)	4.4	3.0	2.4	1.5	2.4
Govt Balance (% GDP)	1.8	2.1	2.0	1.7	2.1

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	2.6	2.1	2.2	2.0	1.6
Nominal GDP in USDbn	376	393	411	427	441
Nominal GDP in local currency (bn)	2,942	3,070	3,208	3,329	3,443
GDP per Capita in USD	50,324	52,313	54,535	56,322	57,952
Population (year-end, m)	7.5	7.5	7.5	7.6	7.6
Exchange rate (yr avge, USD-LCU)	7.8	7.8	7.8	7.8	7.8
Current Account in USDbn	15.2	15.6	15.3	12.7	11.4
Current Account (% of GDP)	4.0	4.0	3.7	3.0	2.6
FX reserves (year-end, USDbn)	462.6	473.5	490.1	491.2	505.5
Import Cover (months)	7.8	7.7	7.7	7.5	7.5
Inflation (annual avge, %)	2.1	2.2	2.3	1.8	1.8
Govt Balance (% GDP)	1.6	1.5	1.2	1.2	1.2

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Hong Kong (S.A.R.)	China	Singapore	Taiwan	US
Income per Capita (USD)	48,235	9,418	58,913	25,295	62,824
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., 2019 - 2028)	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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