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HONG KONG: EMULATING MAINLAND CHINA'S APPROACH, HONG KONG'S FULL REOPENING WILL IMPROVE ITS ECONOMIC OUTLOOK

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Event

In early February, Hong Kong completely ended its zero-Covid policy and partial isolation. The lifting of all restrictions is expected to boost economic prospects in 2023, particularly amid China's reopening.

Impact

In February 2022, Hong Kong was being hit hard by its worst Covid-19 wave of contaminations due to the omicron variant. One year later, after a gradual relaxation of Covid-related restrictions since mid-2022, the city-state has been the latest to put a complete end to its restrictive zero-Covid policy, in line with mainland China's approach. A full reopening of Hong Kong is expected to translate into a gradual economic boost, especially as it is occurring in the aftermath of China's border reopening. In 2019, Hong Kong was the favourite travel destination for Chinese tourists. However, as the past month has shown, patience will be required before witnessing a sharp revival in tourism. Indeed, it will take a long time for Hong Kong's inhabitants to go back to leading a normal life and to overcome three years of highly cautious behaviour. Still, the expected slow recovery in tourism and of the service sector in general will support the economy this year. Prior to the pandemic, tourism accounted for 15% of total current account receipts before tumbling to less than 1% in 2021. Therefore, and taking into account strong trade, economic and financial links with China, which is expected to grow more strongly in 2023, Hong Kong's economy is likely to rebound significantly this year and GDP might grow by more than 4% following last year's sharp contraction of -3.5%.

Hong Kong's complete reopening is welcome in the current difficult and turbulent international context. Tighter global monetary conditions, a global economic slowdown, weakening western demand and geopolitical tensions are affecting Hong Kong, a major financial centre and one of the world's most open economies. Its open economy is the reason why the exports of goods will continue to suffer in the coming months. Moreover, while private consumption is expected to benefit from the lifting of mobility restrictions, consumer confidence could remain affected by decreased property prices. This being said, Hong Kong has strong fundamentals to withstand those various shocks as it has a wide current account surplus, modest public debt and ample external liquidity. Indeed, foreign exchange reserves have been nearing pre-Covid levels and allow a cover of more than two years of imports. Hence, the ST political risk rating is expected to remain unchanged in the best category, 1/7. The business environment risk rating (C/G) has a stable outlook as well amid improved growth prospects, low inflation and a stable peg of the Hong Kong dollar to the US dollar.

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