Hong Kong & Mainland China News – May-2023

'Worst is over for Hong Kong's economy'

by news.rthk.hk
Tuesday, May 02, 2023

An economist on Tuesday said the worst time for Hong Kong's economy is over, while warning of a challenging recovery path ahead.

Advance government estimates showed that gross domestic product grew 2.7 percent year-on-year in the first quarter of this year, bouncing back from a 4.1 percent contraction in the last three months of 2022.

The government said the improvement was led by a strong recovery in inbound tourism and domestic demand which will continue to be the major drivers for economic growth this year.

"Visitor arrivals should recover further as transportation and handling capacity continue to catch up. The improving economic situation and prospects should boost domestic demand, though tight financial conditions will remain a constraint. The continued improvement of the labour market and the disbursement of a new round of consumption vouchers will render further support to private consumption," a spokesman said.

Gary Ng, a senior economist at Natixis, told RTHK that he ruled out a contraction this year, but the economic growth might not be so plain sailing.

"For Q2, the external sectors will probably continue to be quite a big drag, in terms of the trade in goods. However, the consumption will actually continue to support the recovery," Ng said.

"In the second half of the year, I think things will get better because the gradual reopening of Hong Kong will probably turn into something that is more solid in terms of growth. And also, if we do see interest rate environment that can be lowered in the future, then it will be positive for Hong Kong's consumption and investment."

Ng also estimated economic growth of up to four percent this year.

IMF raises Asia's economic forecast on China recovery

by news.rthk.hk
Tuesday, May 02, 2023

The International Monetary Fund (IMF) raised Asia's economic forecast on Tuesday as China's recovery underpinned growth, but warned of risks from persistent inflation and global market volatility driven by Western banking-sector woes.

The reopening of China's economy will be pivotal for the region with the spillover to Asia seen focused on consumption and service-sector demand rather than investment, the IMF said.

"Asia and Pacific will be the most dynamic of the world's major regions in 2023, predominantly driven by the buoyant outlook for China and India," the IMF said in its regional economic outlook report.

"As in the rest of the world, domestic demand is expected to remain the largest growth driver across Asia in 2023."

Asia's economy is expected to expand 4.6 percent this year after a 3.8 percent increase in 2022, contributing around 70 percent of global growth, the IMF said, upgrading its forecast by 0.3 of a percentage point from October.

China and India will be key drivers with an expansion of 5.2 percent and 5.9 percent, respectively, though growth in the rest of Asia is also expected to bottom out this year, the report said.

Thomas Helbling, deputy director of the IMF’s Asia and Pacific Department, said the mainland property market is a cause for concern.

"What remains to be addressed are the weaker developers which are still suffering, and also the status of the pre-sold and incomplete housing stock which is weighing on household confidence and on sentiment in the market," he said.

"And there we have argued that the government should more proactively support restructuring of weak developers and also of property that has been pre-sold but not yet completed."

The IMF cut next year's Asian growth forecast by 0.2 of a point to 4.4 percent, and warned of risks to the outlook such as stickier-than-expected inflation, slowing global demand as well as the impact of US and European banking-sector stress.

"While spillovers to the region from stress in US and European financial sectors have been relatively contained thus far, Asia remains vulnerable to tightening financial conditions and to sudden and disorderly repricing of assets," the IMF said.

And while Asia has strong capital and liquidity buffers to fend off market shocks, the region's highly leveraged corporate and household sectors are "significantly" more exposed to a sharp increase in borrowing costs, it added.

The IMF also urged central banks in Asia – excluding Japan and China – to keep monetary policy tight to bring down inflation, which could remain stubbornly high due in part to robust domestic demand.

On Hong Kong, the IMF is projecting GDP growth of 3.5 percent this year, 0.4 percentage points lower than its forecast last October.

"Overall, we see the recovery, the rebound on track," Helbling said. "With the reopening of the border, with the easing of mobility restrictions, there will be a strong rebound in consumption, in household-related activity, and that we still see on track."

Economy grows 2.7% in Q1

by news.gov.hk
Tuesday, May 02, 2023

Hong Kong's economy in the first quarter of 2023 grew 2.7% from a year earlier, ending four consecutive quarters of declines, the Census & Statistics Department announced today.

According to the advance estimates on gross domestic product (GDP) for the first quarter, on a seasonally adjusted quarter-to-quarter basis, GDP increased by 5.3% in real terms in the first quarter of this year compared with the preceding quarter.

Private consumption expenditure rose 12.5% in the first quarter year-on-year, much faster than the 1.7% increase in the fourth quarter of 2022. Government consumption expenditure grew by 0.5% year-on-year, after the 9.1% increase in the preceding quarter.

Gross domestic fixed capital formation rose 5.8% in the first quarter of 2023 over a year earlier, as against the 8.9% decrease in the fourth quarter of 2022.

Over the same period, total goods exports recorded a decline of 18.7% after the decrease of 24.9% in the fourth quarter of 2022. Goods Imports fell by 14.5% year-on-year, compared with the 22.9% decline in the fourth quarter of 2022.

Exports of services rose significantly by 16.9% in the first quarter of 2023 over a year earlier, compared with the 0.6% increase in the preceding quarter. Imports of services increased 20.6%, after the 1.2% increase in the fourth quarter of 2022.

The Government said that Hong Kong's economy improved visibly in the first quarter this year, led by the strong recovery of inbound tourism and domestic demand. Private consumption expenditure showed notable growth as sentiment improved sharply along with the removal of anti-epidemic measures in both Hong Kong and the Mainland.

Looking ahead, inbound tourism and domestic demand will remain the major drivers of economic growth this year. Visitor arrivals should recover further as transportation and handling capacity continue to catch up.

Exports of goods will continue to face significant challenges, the Government said, adding that slower growth in the advanced economies will continue to weigh on external demand, though the faster recovery of the Mainland economy should provide some relief.

The revised GDP figures for the first quarter of 2023 and the whole year's forecast will be released on May 12.

Hong Kong retail sales sees record growth in March

by www.thestandard.com.hk
Thursday, May 04, 2023

Hong Kong's retail sales growth accelerated in March at the fastest pace on record as the economy bounced back and welcomed tourists after years of pandemic isolation.

Retail sales by value rose 40.9 percent from a year ago, the Census and Statistics Department said Thursday. That was nearly in line with the median estimate of a 41.1 percent jump in a Bloomberg survey of economists.

Sales by value gained 31.3 percent in February, already the fastest pace in more than a decade. March's figures surpassed that increase, marking the quickest jump dating back to the beginning of equivalent records in the early 2000s.

By volume, sales grew 39.4 percent from a year prior, slightly higher than expectations.

The jump in sales growth can be at least partially explained by base effects: The figures compare to a particularly dire March in 2022, when the city was in the midst of a deadly Covid wave. Sales by volume plunged 13.8 percent year-on-year that month.

The further recovery of the tourism industry, as well as private consumption, "should continue to benefit the retail sector," a government spokesperson said in a release accompanying the data. He added that a new round of consumption vouchers should "render further support."

The retail data covers consumer spending on goods but not services such as catering, medical care and entertainment. Those services account for over 50 percent of the total consumer spending.

Hong Kong's economy has waged a comeback after emerging from a recession in the first quarter of 2023 — its first three-month period of growth in more than a year. Gross domestic product expanded by 2.7 percent from a year prior, vastly exceeding expectations among economists.

An influx of tourists has boosted demand. Visitor arrivals surged to some 2.5 million in March, up 68 percent from February. That figure is expected to swell this month after the city received more than 625,000 visits from mainland Chinese travelers during the Labor Day holidays, local media reported, citing immigration data.

Optimistic Chan bets on higher growth

by www.thestandard.com.hk
Thursday, May 04, 2023

Hong Kong's economy may grow at a fast pace this year if the external political and economic situation does not deteriorate, says the Financial Secretary, Paul Chan Mo-po.

The remarks were made when the Legislative Council passed Chan's 2023/24 budget yesterday.

Chan predicted in his budget speech in February that the local economy would grow 3.5 percent to 5.5 percent this year after shrinking by 3.5 percent in 2022.

Chan said authorities are now updating the latest figures, which will be released by mid-May.

"If the external political-economic trend does not worsen, we have faith that the annual economic growth can tip toward the high end," he said.

Chan believed stronger tourism and private consumption would support the city's economic growth despite weak exports.

"Over the past few months, Hong Kong has welcomed many tours from the mainland and overseas since the full border reopening, as well as some business representatives," Chan said.

This came as Goldman Sachs lifted its full-year economy forecast for Hong Kong from 4.6 percent to 6 percent after the city posted better-than-expected economic growth in the first quarter.

With further growth in inbound tourism and a new round of consumption vouchers, Hong Kong's economy is expected to continue to recover in the second quarter, the investment bank said.

However, Switzerland-based private bank UBP maintained its forecast for Hong Kong's economy at 3 percent for this year as consumption may soften in the second half.

The bank believes financial services and the property sector will provide more support for the economy, while export will become a drag.

Chief Executive John Lee Ka-chiu revealed on Tuesday that Hong Kong's economy grew 2.7 percent in the first quarter of 2023, ending four consecutive quarters of contraction.

Lee noted the city's economy in the second quarter will be even better than the first quarter as faster economic growth in the mainland and the acceleration of local aviation capacity would provide further support.

Also Tuesday, the International Monetary Fund downgraded its full-year forecast for Hong Kong's economic growth to 3.5 percent this year, adding the main risks remain the weakening global economy.

IMF commends HK's fiscal policy

by news.gov.hk

Friday, May 05, 2023

The International Monetary Fund (IMF) Article IV Mission commended the Hong Kong Special Administrative Region Government's efforts to boost economic growth and safeguard financial stability.

The mission made the assessment in its Concluding Statement which was published today following the completion of the 2023 Article IV Consultation with the Hong Kong SAR.

The mission considers that Hong Kong's financial system remains resilient and the city continues to play its role as an international financial centre under the challenging global macro-financial environment.

It also noted that the resilient financial system is premised on Hong Kong's strong institutional frameworks, in particular the high-quality financial sector oversight, substantial capital and liquidity buffers, and the well-functioning Linked Exchange Rate System. As economic activity normalises, Hong Kong's economy is recovering strongly.

Financial Secretary Paul Chan welcomed the highly positive assessment of Hong Kong.

“The mission fully recognises that Hong Kong's economy is demonstrating momentum for a strong recovery, and commends that the Hong Kong SAR Government's fiscal policy has robustly led Hong Kong in navigating through the economic challenges in the past few years.

“Once again, the mission affirms that Hong Kong's high-quality financial sector oversight ensures the resilience of the financial system, while upholding Hong Kong's status as a premier international financial centre in the evolving global environment.

“The Concluding Statement commends the Government's multifarious efforts to boost economic growth, including the establishment of the Co-Investment Fund to support innovation and technological development, enhancement of the talent attraction programmes, adoption of a more co-ordinated approach to increase residential land and housing supply, etc.

“The mission's positive assessment is a reflection of our capability, determination and accomplishment in maintaining financial stability and economic growth.

“It also clearly shows that under our new policy vision of integrating a 'capable government' and a 'highly efficient market', we are leaping forward steadily and bolstering prosperity.”

Monetary Authority Chief Executive Eddie Yue also welcomed the mission's recognition of the city’s robust regulatory and supervisory frameworks, which have built up strong capital buffers and ample liquidity to safeguard financial stability amidst global and market uncertainties.

The mission visited Hong Kong from March 20 to 31 and held discussions with Government officials, financial regulators and private sector representatives year for the 2023 Article IV Consultation with the Hong Kong SAR.

The relevant full report will be discussed by the IMF Executive Board this month.

Hong Kong's new crypto rules no "light-touch regulation", says HKMA chief

by www.thestandard.com.hk
Tuesday, May 09, 2023

Hong Kong indicated that crypto companies drawn by the city's push to create a digital-asset hub should expect an exacting regulatory regime.

"Our regulation will be tight," Hong Kong Monetary Authority Chief Executive Eddie Yue Wai-man said in an interview at the Bloomberg Wealth Asia Summit on Tuesday. "We will let them create the ecosystem here and that actually brings a lot of excitement. But that doesn't mean light-touch regulation."

Hong Kong starts a new licensing regime for virtual-asset service providers on June 1 and plans to let retail investors trade major tokens like Bitcoin and Ether. The pivot toward fostering the digital-asset sector is part of a wider effort to restore the city's credentials as a cutting-edge financial center after Covid-related curbs and political unrest sparked a brain drain.

Further guidance for banks on servicing crypto clients is in the works, and the Securities and Futures Commission will soon announce the results of its deliberations on the scope of retail-investor participation, Yue said.

Regulators globally are grappling with how to handle the crypto industry following last year's market crash and a series of blowups headlined by the spectacular bankruptcy of the FTX exchange.

In the US, officials have cracked down on digital-asset businesses with enforcement actions and lawsuits that are pushing companies abroad.

Hong Kong's crypto guardrails were very tight in the last few years, Yue said. They have now been lowered to a "reasonable and sustainable level", but they won't allow the recurrence of any FTX-type event in the city, he added.

Aside from permits for virtual-asset platforms, a mandatory licensing regime for stablecoins — a type of crypto token that's meant to hold a constant value — is due by 2023-2024.

The legislative framework encoding crypto rules will bring transparency and clarity, Yue said, in response to a question about lingering concerns that officials could yet sour on their crypto pivot.

Family office tax relief passed

by news.gov.hk
Wednesday, May 10, 2023

The Government welcomed the passage of the Inland Revenue (Amendment) (Tax Concessions for Family-owned Investment Holding Vehicles) Bill 2022 by the Legislative Council today.

The bill amends the Inland Revenue Ordinance to provide profits tax concessions for eligible family-owned investment holding vehicles (FIHVs) managed by single family offices (SFOs) in Hong Kong.

Secretary for Financial Services & the Treasury Christopher Hui said: “We are committed to creating a conducive and competitive environment for the businesses of global family offices to thrive in Hong Kong.

“The Policy Statement on Developing Family Office Businesses in Hong Kong we issued in March sets out our stance and measures tailored to the holistic and unique needs of family offices and asset owners.”

Mr Hui pointed out that the tax concession regime under the bill will facilitate family offices to set up and operate in Hong Kong, create new business opportunities for the asset and wealth management sector, and generate demand for other related professional services.

“This would foster Hong Kong's position as a premier family office hub and an international asset and wealth management centre.”

The bill exempts an FIHV's assessable profits earned from qualifying transactions and incidental transactions from payment of profits tax.

To attain the policy objective of bringing investment management and related activities to Hong Kong, the FIHV shall be managed by an eligible SFO and fulfil the minimum asset threshold of $240 million and substantial activities requirement.

The bill as passed will become effective upon gazettal on May 19. The tax concession will be applicable to any years of assessment commencing on or after April 1, 2022.