dun&bradstreet

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

September 2019

OVERVIEW

OVERALL COUNTRY RISK RATING: DB3a

Slight risk: Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

A

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.

- A battle is underway to maintain the spirit of the 'one country, two systems' in the face of Chinese encroachment; if it is lost, then Hong Kong's role as a global business centre will be threatened.

- The US-China trade war, and the risk of a sharp slowdown and debt crisis on the mainland, pose further threats to Hong Kong's economy.

- Long term, the city's rapidly-ageing population will trigger higher medical and pension contributions, forcing difficult policy decisions.

KEY DEVELOPMENT

Dun & Bradstreet downgrades Hong Kong's risk rating again as the protest movement deepens and intensifies, and China weighs up how to step in to reassert control.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Stable →

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

G

Trend: Stable →

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating ↘

Key Development has had a negative impact on the outlook.

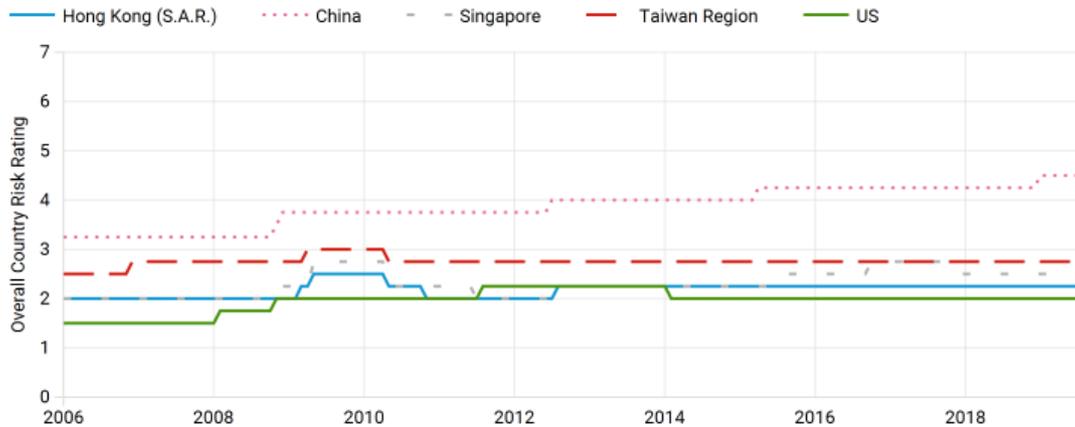## POLITICAL ENVIRONMENT OUTLOOK

A

Trend: Deteriorating rapidly ↓

Key Development has had a negative impact on the outlook.
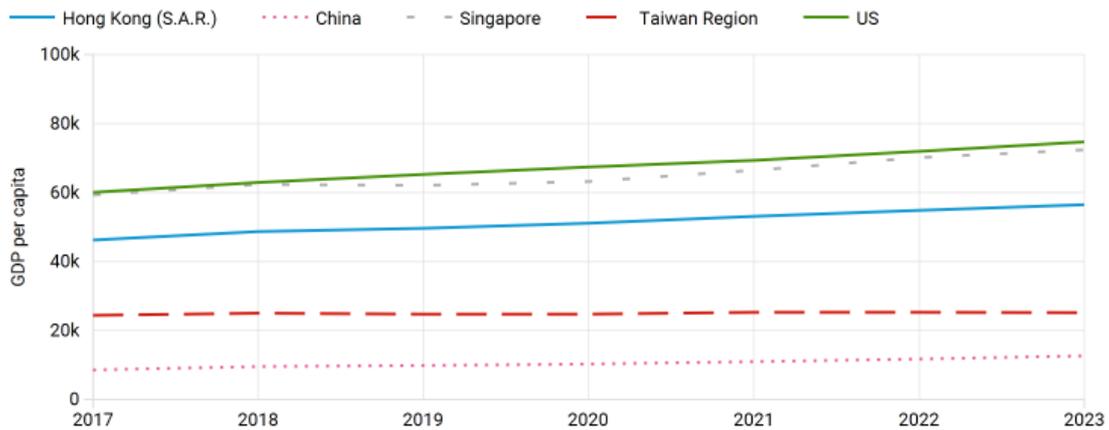
KEY INDICATORS

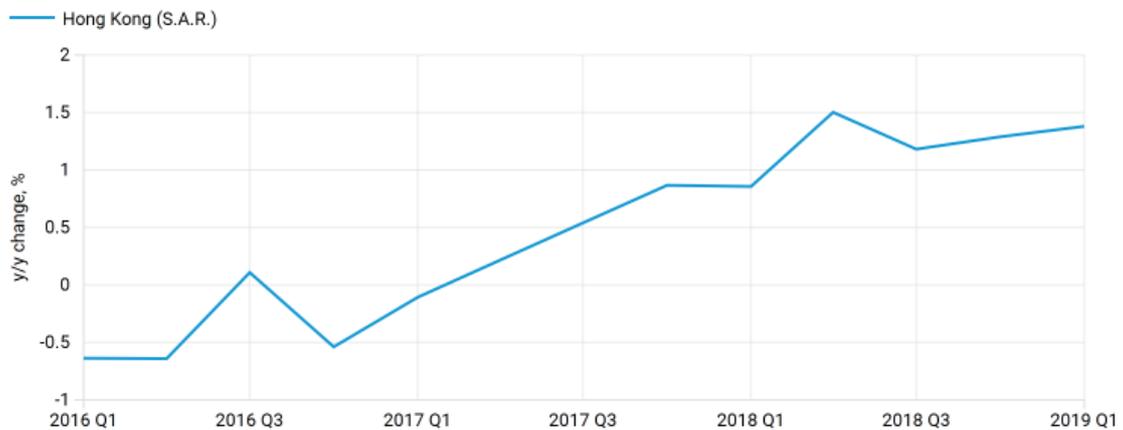### Rating History and Comparison

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	2018	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	4.0	4.6	4.3	3.3	3.4	3.2	2.5	2.1
Govt balance, % GDP	2.0	1.7	1.5	-0.4	0.6	0.4	0.8	0.7
Inflation, annual avge %	2.4	1.5	2.4	2.2	2.2	2.3	1.8	1.8
Real GDP Growth, %	2.2	3.8	3.0	0.0	1.0	2.0	2.3	2.1
Unemployment, %	3.4	3.1	2.8	3.1	3.4	3.5	3.4	3.3

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 4th in the World Bank's *Doing Business 2019* index, and 7th in the World Economic Forum's *Global Competitiveness Report 2018*, including 2nd for both 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.

Growth in the second quarter of 2019 was weak at 0.5% y/y, and we now expect a brief recession in H2 offsetting the growth in H1 - the weakest result in a decade. Private consumption was already close to a standstill before protests against the suspended extradition bill intensified, and the disruptions from three months of mass protests have further harmed commerce and discouraged tourists. The law would have been a long-term negative for the business environment, but if there is a hard-line Chinese backlash this could - in theory - still have an even-more-serious impact, and result in an enduring pattern of capital flight.

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.
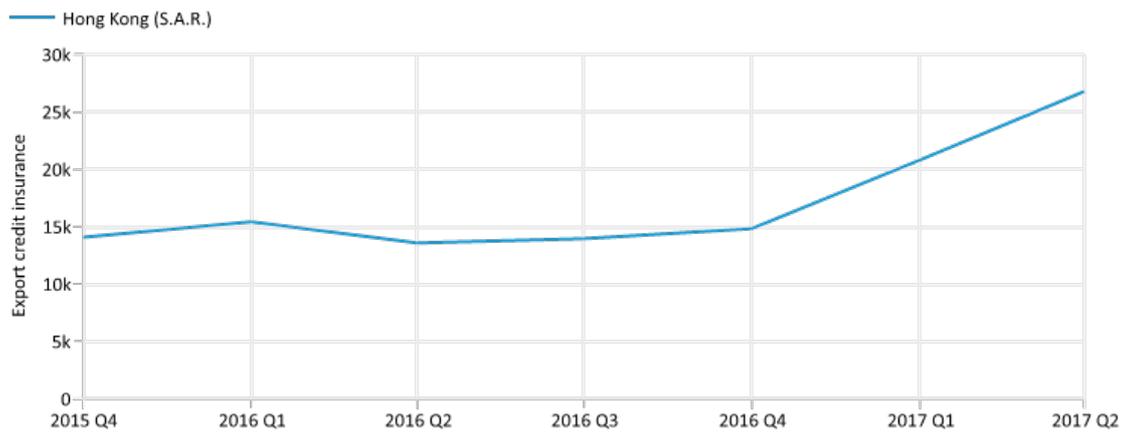
Exchange Rate
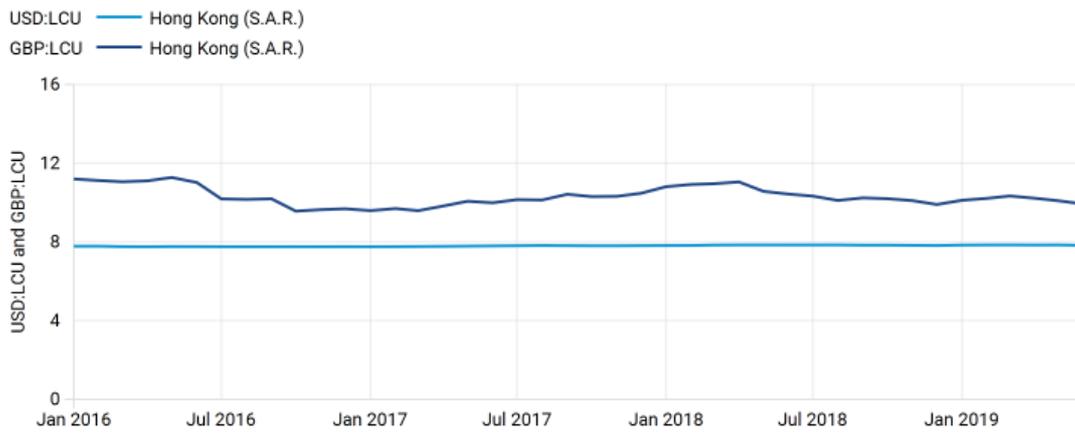
Source: International Monetary Fund/Dun & Bradstreet

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

Risk rating downgraded again

As protests continued for a third month, Dun & Bradstreet has cut the territory's risk rating a further two notches to DB3a (with a stable outlook). This follows a one-notch cut last month, when we indicated that the outlook was deteriorating rapidly making another downgrade likely. A concession to protesters, such as the resignation of Carrie Lam, the chief executive, or an enquiry into police tactics, might have been sufficient to mitigate tensions.

However, the Hong Kong government - urged on by China - has chosen not to give ground, hoping that exhaustion and the start of the new academic year would take the protesters off the streets. That has not happened yet and large numbers continue to turn out, including a rally in Victoria Park on 18 August, where organisers estimated up to 2m people turned out, and a 50km human chain on 23 August, deliberately mirroring a similar protest in the Baltic States against the Soviet Union in 1989.

Furthermore, there was also a general strike on 5 August and sit-ins which led to the airport's temporary closure on 12 August. There have also been several pro-government rallies, providing a reminder of the divisions within Hong Kong. Police tactics have stiffened, including the first use of water cannons on 25 August, and rumours have intensified about planning for a possible Chinese military intervention.

Short-Term Economic Outlook

Crisis harms tourism and manufacturing

The Q2 GDP release showed that growth had slowed further to 0.5% y/y, from 0.6% y/y in Q1, and was the slowest rate of growth in a decade. This is a sharp slowdown compared with 4.7% y/y growth in Q1 2018. The quarterly performance was also weak, declining -0.4% q/q, the weakest in over three years. The final month of the quarter included the period of protests which led to the suspension of the extradition bill in June, although it was not until June that the crisis broadened beyond this issue and became more violent on both sides.

Already in June tourism data showed a marked slowdown, with the total number of visitors dropping by -13% m/m, compared with only a -4% m/m seasonal decline in June 2018. The impact of the cyclical slowdown, combined with the protests, was visible in other recent indicators. The contraction in retail sales continued for a third month and deepened to -6.7% y/y in June, the most in three years (excluding months distorted by the lunar new year). Imports declined for an eighth consecutive month and by -8.7%, the most in over three years. The starkest change was in the Manufacturing Purchasing Managers Index (PMI) which dropped to 43.8, from 47.9. This was the lowest reading since March 2009, at the low point in the global recession, and also one of the sharpest monthly declines on record. Even unemployment, which has been steady for over a year and at a 20-year low, ticked up slightly to 2.9%.

The next week will see the release of July retail sales and tourism and the August PMI, all of which are likely to show further deterioration. Other impacts of the crisis include a delay to the planned dual listing of Alibaba, the Chinese e-commerce giant. We now expect a mild recession in the second half of the year, due to weak private consumptions and exports, resulting in no overall growth in 2019.

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)	7.5
GDP (USD billions)	362.7
GDP per capita (USD)	48,681
Life expectancy (years)	84.1
Literacy (% of adult pop.)	99.9
Surface area (sq km)	1,092

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018
Real GDP growth (%)	2.8	2.4	2.2	3.8	3.0
Nominal GDP in USDbn	291	309	321	342	363
Nominal GDP in local currency (bn)	2,260	2,398	2,491	2,663	2,843
GDP per Capita in USD	40,310	42,430	43,734	46,228	48,681
Population (year-end, m)	7.2	7.3	7.3	7.4	7.5
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	15.9	15.6
Current Account (% of GDP)	1.4	3.3	4.0	4.6	4.3
FX reserves (year-end, USDbn)	328.5	358.8	386.3	431.4	424.6
Import Cover (months)	6.4	7.2	7.8	8.1	7.5
Inflation (annual avge, %)	4.4	3.0	2.4	1.5	2.4
Govt Balance (% GDP)	1.8	2.1	2.0	1.7	1.5

Source: Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	0.0	1.0	2.0	2.3	2.1
Nominal GDP in USDbn	372	385	402	417	431
Nominal GDP in local currency (bn)	2,906	2,999	3,128	3,255	3,382
GDP per Capita in USD	49,626	51,097	53,093	54,825	56,472
Population (year-end, m)	7.5	7.5	7.6	7.6	7.6
Exchange rate (yr avge, USD-LCU)	7.8	7.8	7.8	7.8	7.8
Current Account in USDbn	12.2	13.2	12.9	10.3	9.1
Current Account (% of GDP)	3.3	3.4	3.2	2.5	2.1
FX reserves (year-end, USDbn)	395.9	406.5	432.8	451.5	471.0
Import Cover (months)	7.0	7.0	7.2	7.3	7.4
Inflation (annual avge, %)	2.2	2.2	2.3	1.8	1.8
Govt Balance (% GDP)	-0.4	0.6	0.4	0.8	0.7

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Hong Kong (S.A.R.)	China	Singapore	Taiwan Region	US
Income per Capita (USD)	49,626	9,831	62,072	24,734	65,259
Country Population (m)	7.5	1,433.8	5.8	23.6	329.1
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

LINKS

User Guide

Please click here to visit our online user guide.

Other Dun & Bradstreet Products and Services

Sales

Email: countryinsight@dnb.com
Telephone
UK: +44 (0)1628 492700
US: +1 800 234 3867
Rest of World
contact your local office
or call +44 1628 492700

Publisher

Dun & Bradstreet
Marlow International
Parkway
Marlow
Bucks SL7 1AJ
United Kingdom
Tel: 01628 492000
Fax: 01628 492929
Email: countryinsight@dnb.com

Dun & Bradstreet provides information relating to more than 285m companies worldwide. Visit www.dnb.com for details. Additional information relevant to country risk can be found in the online *International Risk & Payment Review*, which provides timely and concise economic, political and commercial information and analysis on 132 countries. This subscription-based service (www.dnbcountryrisk.com) carries essential information on payment terms and delays. It also includes the unique Dun & Bradstreet Country Risk Indicator to help monitor changing market conditions.

Legal and Copyright Notices

While the editors endeavour to ensure the accuracy of all information and data contained in this Country Insight Report, neither they nor Dun & Bradstreet Limited accept responsibility for any loss or damage (whether direct or indirect) whatsoever to the customer or any third party resulting or arising therefrom.

Disclaimer

Whilst Dun & Bradstreet attempts to ensure that the information provided in our country reports is as accurate and complete as possible, the quantity of detailed information used and the fact that some of the information (which cannot always be verified or validated) is supplied by third parties and sources not controlled by Dun & Bradstreet means that we cannot always guarantee the accuracy, completeness or originality of the information in some reports, and we are therefore not responsible for any errors or omissions in those reports. The recipients of these reports are responsible for determining whether the information contained therein is sufficient for use and shall use their own skill and judgement when choosing to rely upon the reports.