



****Coronavirus Covid-19 Update****

The risks associated with doing business are likely to be negatively impacted by the global coronavirus pandemic. Severe disruption to supply chains caused by lockdown procedures in many countries will affect country risk ratings. Demand will also be lower than initially anticipated as export earnings will be reduced amid a global economic slowdown and falls in both business and consumer confidence, as well as lower investment due to decreasing corporate earnings. We advise clients to monitor the containment efforts, as the adverse economic and supply chain effects will persist until the outbreak is controlled.

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

November 2020





OVERVIEW

OVERALL COUNTRY RISK RATING: DB3d

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

- + There are encouraging signs that Hong Kong's 'second wave' of Covid-19 has been brought under control. This has led to a reopening of the economy and an increase in economic activity.
- + A strong rebound in China is providing some support to Hong Kong's battered economy.
- The pandemic crisis has led to a collapse in tourism from China, prompting a sharp fall in retail spending in the territory.
- Hong Kong's special status as an international city is under threat following the Chinese government's decision to impose a controversial security law in the territory.
- Long term, the city's rapidly-ageing population will trigger higher medical and pension contributions, forcing difficult policy decisions.

KEY DEVELOPMENT

The city-state's tourism and hospitality sectors should receive a boost as Hong Kong (S.A.R.) looks to reopen its border to other countries that have contained the coronavirus.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Deteriorating

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

G

Trend: Deteriorating

Key Development has had a positive impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

R

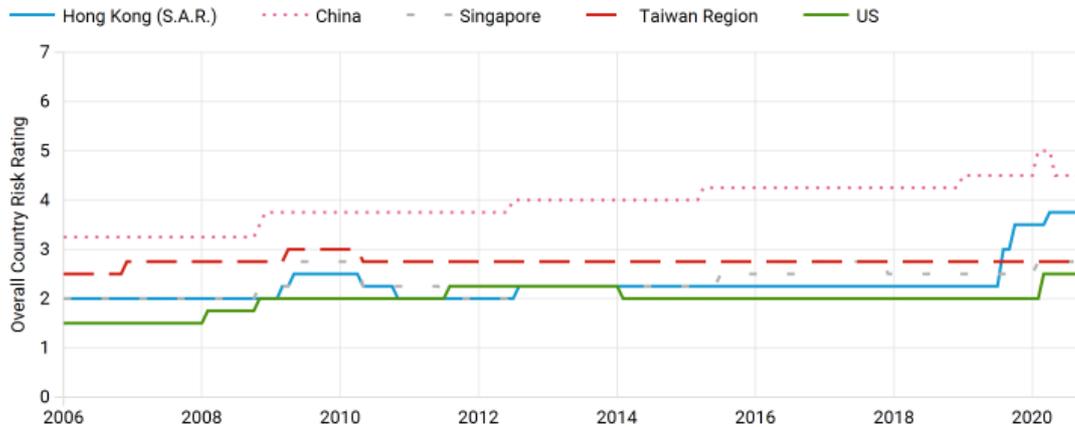
Trend: Deteriorating

Key Development has had a negative impact on the outlook.



KEY INDICATORS

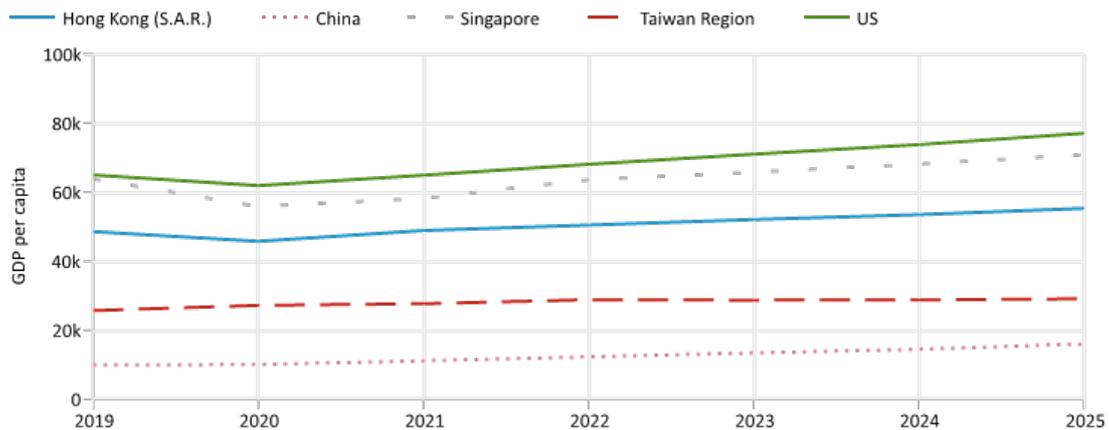
Rating History and Comparison



Source: Dun & Bradstreet

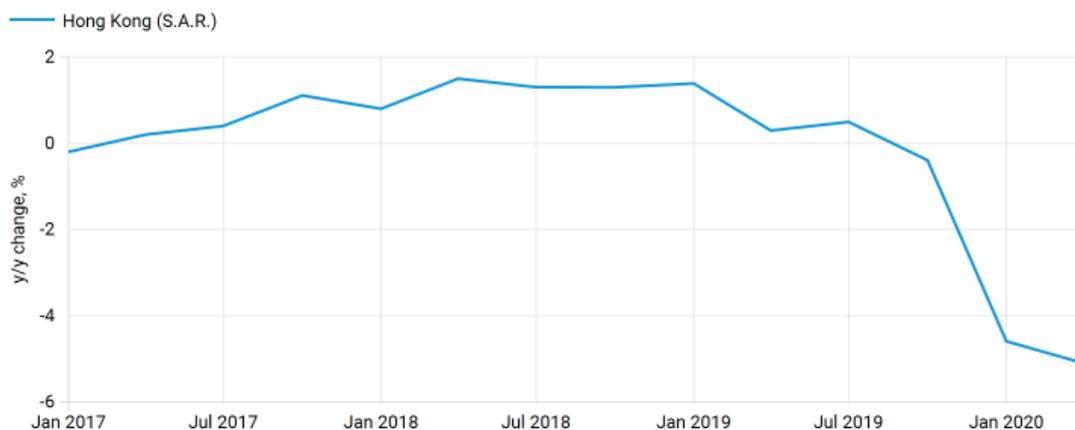
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2018	2019	2020f	2021f	2022f	2023f	2024f	2025f
C/A balance % GDP	3.7	6.1	7.0	6.9	6.1	5.8	5.8	5.4
Govt balance, % GDP	1.5	-2.6	-14.0	-10.0	-4.0	0.7	0.4	0.7
Inflation, annual avge %	2.4	2.9	1.0	1.5	1.8	1.8	1.4	1.8
Real GDP Growth, %	2.8	-1.2	-7.0	6.0	2.2	2.0	2.0	2.0
Unemployment (annual avge, %)	2.8	3.0	7.5	5.5	4.0	3.3	3.2	3.3

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Hong Kong (S.A.R.) is in the middle of a massive recession, but with Covid-19 infections in the territory falling, there are encouraging signs that economic activity is starting to improve. The territory experienced a 'second wave' of the coronavirus in July, but there are signs that the outbreak is being brought under control. The number of new cases has fallen from over 100 a day to single digits. In response, the restrictions on economic activity are being lifted and there are signs from the high-frequency data that economic activity is improving. Despite this, a collapse in tourism and a slump in global demand are still weighing heavily on the outlook. Overall, we think the economy will have contracted by 7% in 2020.

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

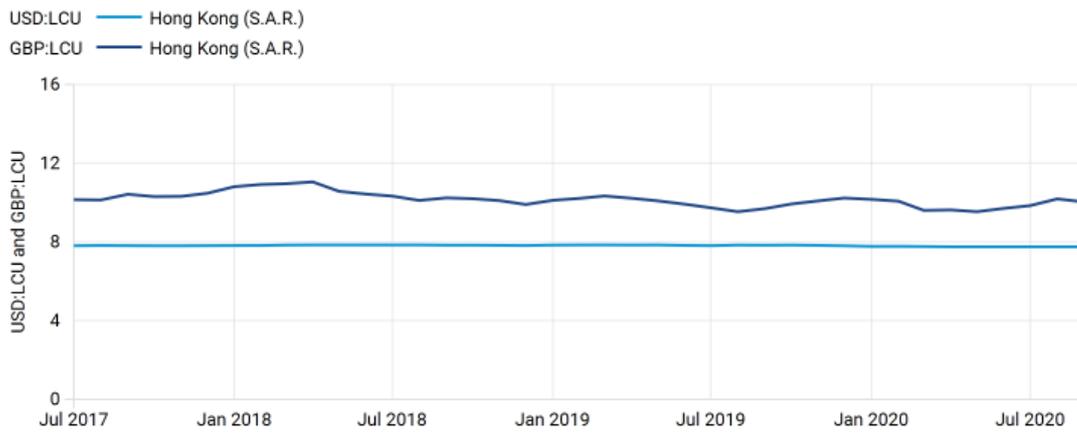
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: No delays expected

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

Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics



RISKS AND OPPORTUNITIES

Business Continuity

Plans to reopen the border will boost business continuity

Since the start of the pandemic, Hong Kong (S.A.R.) has found itself cut off from the rest of the world. The border has been effectively closed since March. In August (the latest month for which data is available) the territory received just 4,449 visitors. This compares with an average of over 4.5m monthly visitors in 2019. The collapse in visitor has hit the tourism and hospitality industry hard. But as one of the most open economies in the world, it has also handicapped other sectors. Executives have been unable to visit the territory to complete business deals and invest in the economy.

However, there are encouraging signs that the city-state is looking to cautiously reopen its border. The government has announced that from the start of November local residents who live in the mainland will be able to visit Hong Kong without the need to quarantine. The government is also planning to launch a travel bubble with Singapore, whereby compulsory quarantine will be replaced by coronavirus testing. Travel bubbles with other countries which appear to have eliminated the virus, including New Zealand, Vietnam and Thailand, are likely over the coming months.

While the moves should lead to a welcome increase in travel across Asia, with the pandemic in Europe getting worse, Hong Kong is reimposing restrictions for arrivals from parts of Europe. France has recently been placed on its list of high-risk countries, with Spain and Italy likely to be added soon. The upshot is that while small steps are being made to reopen the border, the situation remains far from normal, and businesses will struggle for some time to come.

Short-Term Economic Outlook

Market environment boosted by plans to further ease restrictions

A further easing of restrictions as infections continue to fall should provide a boost to sectors of the economy hardest hit by social distancing. Hong Kong looks to be on the verge of eliminating the coronavirus. In recent weeks, the financial hub has recorded single digit or no new daily cases of the virus. At the peak in late July the country was recording over 100 new cases every day. In response the government has announced a further easing of restrictions. While mass events are still banned, public beaches have been allowed to reopen, while the government has increased the amount of people allowed to sit together in bars and restaurants.

The easing of restrictions should provide a welcome boost to the economy and businesses which have been hit hard by the virus. The unemployment rate reached 6.3% in the three months to September – the highest rate since 2004. Retail sales were down by 13% y/y in August. Although this represents an improvement from the 44% fall recorded in February, retail sales have now been contracting for 19 consecutive months. And GDP data are likely to show that the economy contracted for a fifth consecutive quarter in Q3. There are also welcome signs that the strong recovery in China's economy is boosting Hong Kong: Chinese imports from the territory in September were up by 6% y/y, compared with a 43% fall in May.



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)	365.7
GDP per capita (USD)	48,716
Life expectancy (years)	84.4
Literacy (% of adult pop.)	99.9
Surface area (sq km)	1,092

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2016	2017	2018	2019	2020f
Real GDP growth (%)	2.2	3.8	2.8	-1.2	-7.0
Nominal GDP in USDbn	321	341	362	366	346
Nominal GDP in local currency (bn)	2,490	2,659	2,835	2,866	2,695
GDP per Capita in USD	43,729	46,164	48,543	48,716	45,919
Population (year-end, m)	7.3	7.4	7.5	7.5	7.5
Exchange rate (yr avge, USD-LCU)	7.8	7.8	7.8	7.8	7.8
Current Account in USDbn	12.7	15.6	13.5	22.5	24.3
Current Account (% of GDP)	4.0	4.6	3.7	6.1	7.0
FX reserves (year-end, USDbn)	386.3	431.4	424.6	441.4	437.6
Import Cover (months)	7.8	8.1	7.5	8.2	9.5
Inflation (annual avge, %)	2.4	1.5	2.4	2.9	1.0
Govt Balance (% GDP)	2.0	1.7	1.5	-2.6	-14.0

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2021f	2022f	2023f	2024f	2025f
Real GDP growth (%)	6.0	2.2	2.0	2.0	2.0
Nominal GDP in USDbn	372	386	400	413	429
Nominal GDP in local currency (bn)	2,898	3,014	3,128	3,233	3,356
GDP per Capita in USD	49,060	50,643	52,228	53,652	55,477
Population (year-end, m)	7.6	7.6	7.7	7.7	7.7
Exchange rate (yr avge, USD-LCU)	7.8	7.8	7.8	7.8	7.8
Current Account in USDbn	25.7	23.7	23.2	23.8	23.2
Current Account (% of GDP)	6.9	6.1	5.8	5.8	5.4
FX reserves (year-end, USDbn)	462.3	475.7	489.5	499.8	514.2
Import Cover (months)	9.0	9.0	9.0	9.0	9.0
Inflation (annual avge, %)	1.5	1.8	1.8	1.4	1.8
Govt Balance (% GDP)	-10.0	-4.0	0.7	0.4	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)	45,919	10,169	56,040	27,345	62,066
Country Population (m)	7.5	1,439.3	5.9	23.7	331.0
Internet users (% of population)	89.4	54.3	88.2	92.8	87.3
Real GDP Growth (% p.a., 2021 - 2030)	1.5 - 2.5	4.5 - 6.5	1.5 - 5.2	1.5 - 3.5	1.5 - 3.3

Source: Various sources/Dun & Bradstreet



LINKS

User Guide

Please click [here](#) to visit our online user guide.

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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.

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