Economic and Financial Environment

The Hong Kong economy registered moderate growth in 2024, driven primarily by the rebound in goods exports amid improved external demand and the global tech cycle recovery. The labour market stayed solid, while inflation remained mild as external price pressures eased further. The local stock market experienced a significant turnaround, while the property market remained generally soft as persistently high interest rates continued to weigh on market sentiment. For 2025, the economy is expected to face a challenging external environment due to escalating trade tensions. Nevertheless, Mainland's proactive economic stimulus measures, together with the multifaceted support provided to local enterprises, are expected to reinforce business confidence. Hong Kong will also continue to strengthen international exchanges and deepen regional ties and co-operation.

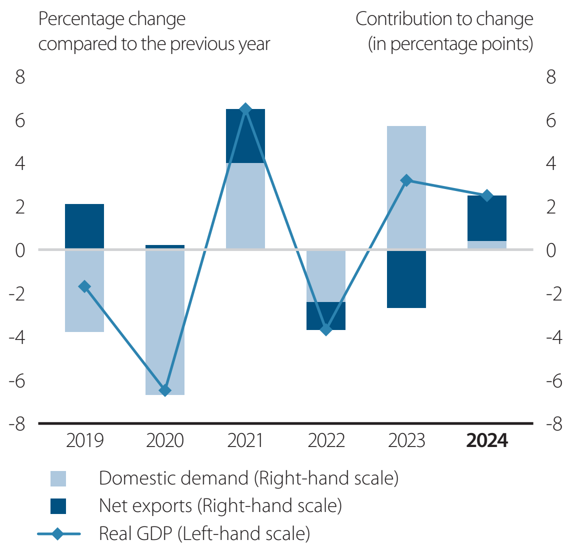
Economic and Financial Environment

The economy in review

Real activities

The Hong Kong economy expanded at a moderate pace in 2024, with its real gross domestic product (GDP) rising by 2.5% year on year, following growth of 3.2% in 2023 (Table 1 and Chart 1). Externally, exports of goods resumed positive growth on the back of improved external demand and the recovery of the global tech cycle, providing the major impetus for overall economic growth. Exports of services also grew further alongside the ongoing recovery of inbound tourism, as well as a surge in cross-border financial and fundraising activities during the second half of the year. Nevertheless, its positive impact on overall economic growth was more than offset by a substantial increase in imports of services, primarily driven by the continued increase in outbound tourism. Domestically, private consumption expenditure softened as local residents adjusted their consumption patterns. In contrast, overall investment expenditure experienced modest growth, supported by the increase in property transactions, as well as improved business sentiment in tandem with the gradually easing monetary conditions.

Chart 1 Real GDP growth by contribution



Source: Census and Statistics Department

Table 1 Real GDP growth by expenditure component (period-over-period)

(% Period-over-period, unless otherwise specified)	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2024	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2023
Gross Domestic Product	**1.3**	**0.4**	**(0.1)**	**0.8**	**2.5**	3.1	0.1	0.8	0.4	3.2
(year-on-year growth)	**2.8**	**3.1**	**1.9**	**2.4**		2.7	1.6	4.2	4.3	
Private consumption expenditure	**(0.6)**	**0.5**	**(0.3)**	**0.2**	**(0.6)**	0.9	3.3	(0.8)	(0.9)	6.8
Government consumption expenditure	**1.1**	**(0.5)**	**0.5**	**0.7**	**1.0**	(2.4)	(3.8)	0.9	0.5	(3.9)
Gross domestic fixed capital formation	**–**	**–**	**–**	**–**	**2.4**	–	–	–	–	11.4
Exports										
Exports of goods	**2.9**	**0.0**	**(2.0)**	**0.3**	**4.7**	0.4	(0.3)	0.9	3.1	(10.0)
Exports of services	**(0.1)**	**(1.4)**	**3.3**	**3.7**	**4.8**	10.6	6.3	1.6	1.4	19.5
Imports										
Imports of goods	**0.7**	**(0.4)**	**0.5**	**(0.4)**	**2.4**	2.0	(0.3)	0.9	2.0	(8.3)
Imports of services	**3.9**	**0.4**	**1.2**	**2.3**	**11.5**	11.7	6.1	3.2	3.5	25.6

Note: The seasonally adjusted quarter-on-quarter rates of change in the gross domestic fixed capital formation are not available.

Source: Census and Statistics Department

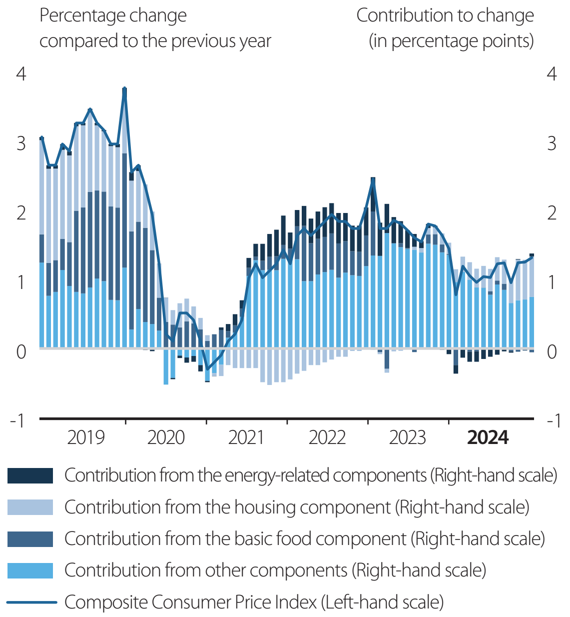
Economic and Financial Environment

Inflation and the labour market

Local inflation remained mild in 2024 as external price pressures eased further, while domestic cost pressures remained broadly in check despite the gradual feed-through of rising fresh-letting private residential rentals (Chart 2)[1]. For 2024 as a whole, the underlying and headline inflation rates were 1.1% and 1.7% respectively.

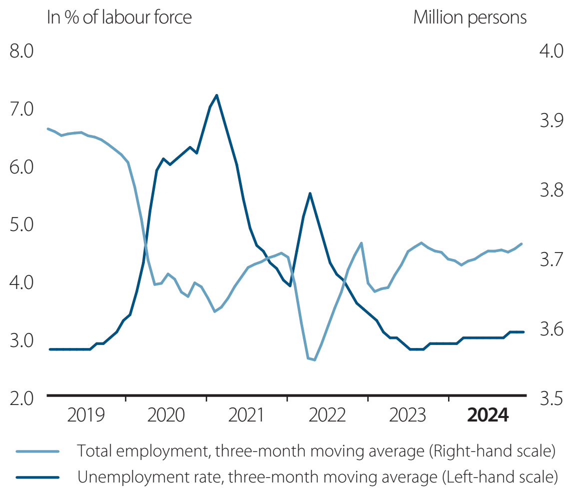
The labour market demonstrated resilience in 2024, with the unemployment rate staying within a low range of 2.9%–3.1% throughout the year[2] (Chart 3). Both labour demand and supply remained largely stable, as reflected respectively by the gradual increase in total employment (Chart 3) and the growth of the labour force since the first quarter. Meanwhile, nominal wages and labour earnings recorded solid increases alongside the ongoing economic growth[3]. In tandem, the Government announced further enhancements to Hong Kong's talent attraction schemes in the 2024 Policy Address[4,5], aiming to alleviate the manpower shortage across different industries and rejuvenate the local population by attracting more young people.

Chart 2 Underlying consumer price inflation



Source: *Census and Statistics Department*

Chart 3 Labour market conditions



Source: *Census and Statistics Department*

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1 Housing rentals increased by 3.4% year on year in 2024. On the commercial front, rentals for office spaces, private retail premises and flatted factories decreased by 5.1%, 6.7% and 3.2% year on year in 2024, respectively.

2 The three-month moving average underemployment rate edged up to 1.1% in December 2024 from 1.0% a year prior.

3 The year-on-year growth rate of nominal wages remained robust at 3.7% in 2024.

4 Following the announcement at the 2024 Policy Address, the Government enhanced the Top Talent Pass Scheme and the Quality Migrant Admission Scheme by expanding the list of eligible universities, extending the validity period of the visas and enhancing the assessment criteria. Furthermore, the Government has also temporarily exempted full-time non-local undergraduate students from the part-time work restriction.

5 As at the end of 2024, the various talent attraction schemes had received over 430,000 applications, with over 270,000 approvals. Notably, over 180,000 of these talents had arrived in Hong Kong, already surpassing the Government's target of attracting a total of 105,000 talents over the three-year period from 2023 to 2025.

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Stock market

The local stock market staged a notable turnaround in 2024, fuelled by a strong rebound from mid-September onwards. Specifically, market sentiment improved significantly alongside the US Federal Reserve (Fed)'s interest rate cuts and Mainland's proactive economic stimulus measures, driving the Hang Seng Index to a year-high daily close of 23,100 on 7 October (Chart 4). Nevertheless, the market experienced a slight retreat following the US presidential election in early November, which triggered concerns over the global economic outlook and the pace of the US Fed's monetary easing. Despite the setback, the Hang Seng Index concluded the year on a positive note, closing at 20,060. This marked a substantial increase of 17.7% from the end of 2023, ending a four-year streak of annual decline.

Chart 4 Asset prices

Sources: Rating and Valuation Department and Hong Kong Exchanges and Clearing Limited

Property market

The residential property market was generally soft in the first three quarters of 2024 before showing signs of stabilisation in the final quarter. Supported by relevant policy relaxations in late February and mid-October[6,7], as well as the initiation of the interest rate cut cycle in September[8], housing transactions surged by 23.5% from a record-low of 43,002 units in 2023 to 53,099 units in 2024. Nevertheless, the still-high mortgage rates and the accumulated inventories in the primary market[9] continued to exert downward pressure on housing prices. As a result, housing prices fell by 7.1% year on year in 2024, leading to a slight improvement in housing affordability, although it remained stretched.

The non-residential property markets remained subdued. Notably, the office segment continued to grapple with high vacancy rates[10] amid current ample supply, while the retail premises segment encountered challenges stemming from shifting consumption patterns among both visitors and local residents.

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6 The relevant Government policy included the cancellation of all the demand-side management measures for residential properties, and the inclusion of residential properties as a permissible investment under the Government's new Capital Investment Entrant Scheme. For details, see the Financial Secretary's 2024–25 Budget and the Chief Executive's 2024 Policy Address.

7 The HKMA suitably adjusted the countercyclical macroprudential measures for property mortgage loans and other related supervisory requirements on property loans throughout the year, taking into consideration the latest market developments and the stability of the banking system. The maximum loan-to-value ratio and the debt-servicing ratio limit are now standardised at 70% and 50% respectively for all properties, with relaxations allowed for eligible stage payment homebuyers who bought uncompleted residential properties from 2021 to 2023. The HKMA will continue to monitor market developments closely and ensure the proper risk management of property mortgage loans. For details, see the HKMA's circulars – "Prudential Measures for Property Mortgage Loans and Other Related Supervisory Requirements" issued on 28 February; "Refinements to Property Mortgage Lending Requirements" issued on 14 June; and "Prudential Measures for Property Mortgage Loans" issued on 16 October and 4 December respectively.

8 The effective mortgage interest rates decreased to a still-high level of 3.5% as of end-2024 from 4.125% a year prior.

9 According to data from the Housing Bureau, there were around 27,000 unsold units in completed projects as of end-2024.

10 The Rating and Valuation Department data indicate that the vacancy rate of private offices increased to 16.3% in 2024 from 14.9% a year prior.

Economic and Financial Environment

Outlook for the economy

Economic environment

The Hong Kong economy is expected to face a challenging external environment in 2025 due to escalating trade tensions that are likely to disrupt international trade and investment flows. Nevertheless, continued, multifaceted support by the authorities and the banking sector will strengthen the resilience of local enterprises. Mainland's proactive economic stimulus measures and significant breakthroughs in cutting-edge technologies should also provide support to business sentiment. Meanwhile, Hong Kong will further deepen its regional ties and increase its engagement with emerging markets. Inbound tourism is also anticipated to experience further growth on the back of the tourism-related policy support from Mainland authorities[11] as well as the Government's dedicated efforts to revitalise the tourism industry.

Inflation and the labour market

Local inflation is expected to stay mild in 2025. Domestic costs may face subtle upward pressure, driven by the gradual pass-through of rising housing rentals to consumer prices, while external price pressures may remain soft although uncertainties surrounding the global economic outlook have increased. Meanwhile, the labour market may face challenges stemming from escalating trade tensions. Yet, the various talent attraction schemes should continue to foster the build-up of a high-quality talent pool, supporting longer-term economic development.

[11] On 1 December, the Central Government resumed the multiple-entry Individual Visit Scheme (IVS) for Shenzhen permanent residents and expanded the new arrangement to residence permit holders in Shenzhen. Earlier in 2024, the Central Government also increased the number of IVS applicable cities to 59 and raised the duty-free allowance for luggage articles brought into the Mainland from Hong Kong by Mainland visitors to RMB12,000 from RMB5,000.

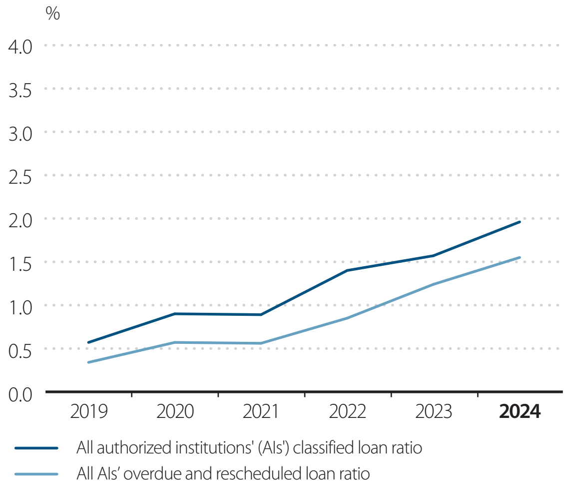
Performance of the banking sector

The Hong Kong banking sector continued to be safe and sound in 2024, underpinned by strong capital and liquidity positions of banks. Against the backdrop of a challenging macroeconomic environment, the credit risk faced by the banking sector increased during the year, although the overall asset quality of banks remained manageable. The profitability of retail banks improved compared to 2023 on the back of higher income from investments held for trading as well as income from fees and commissions.

Asset quality

The classified loan ratio of the banking sector increased to 1.96% at the end of 2024 from 1.57% at the end of 2023, with the overdue and rescheduled loan ratio increasing to 1.55% from 1.24% during the same period (Chart 5). The increase in the classified loan ratio was mainly due to downgrades of exposures to some Mainland property developers and small and medium-sized local property developers and investors. Nevertheless, the classified loan ratio of Mainland-related lending decreased to 2.38% at the end of 2024 from 2.58% at the end of 2023. Provisions set aside by banks remained sufficient. The provision coverage ratio (i.e. total provisions to classified loans) stood at about 65% at the end of 2024. Taking into account the market value of collateral held against the classified loans, the adjusted provision coverage ratio was about 145%. Meanwhile, the delinquency ratios of residential mortgage lending and credit card lending remained low, at 0.11% and 0.35% respectively, at the end of 2024 (Chart 6).

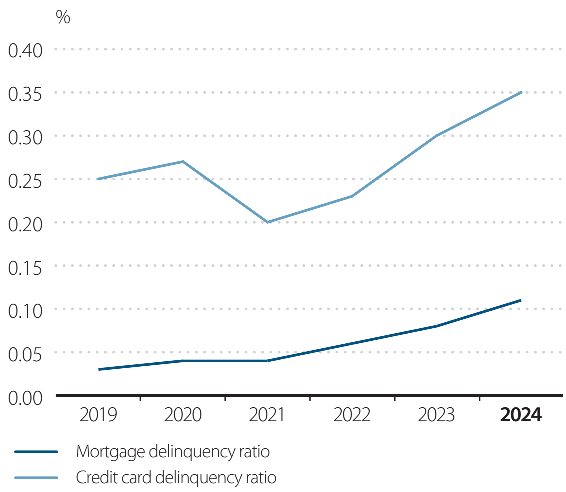
Chart 5 Asset quality of the banking sector



Note: Figures cover Hong Kong offices, branches and major subsidiaries outside Hong Kong

Source: HKMA

Chart 6 Delinquency ratios of residential mortgages and credit card lending



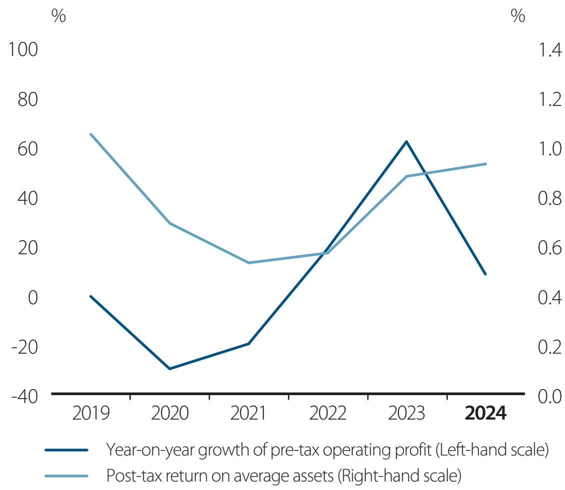
Source: HKMA

Economic and Financial Environment

Profitability trends

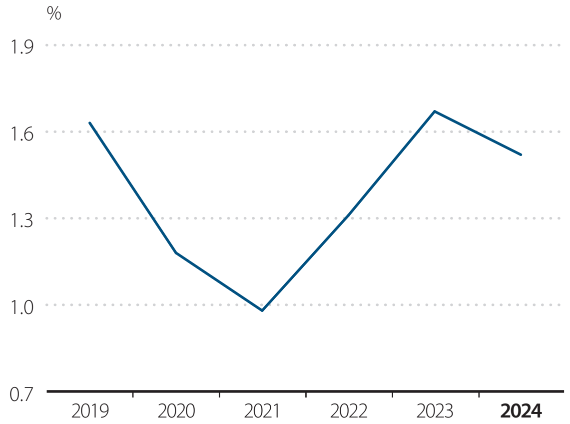
The aggregate pre-tax operating profit of retail banks increased by 8.4% in 2024, while the post-tax return on average assets rose to 0.93% from 0.88% during the same period (Chart 7). The profit growth was mainly driven by increases in income from investments held for trading (+97.0%) and income from fees and commissions (+15.4%), which were partly offset by a decrease in net interest income (-5.2%). The net interest margin of retail banks narrowed to 1.52% in 2024 from 1.67% a year ago (Chart 8). Meanwhile, retail banks' cost-to-income ratio edged up to 39.2% in 2024 from 38.9% in 2023 (Chart 9).

Chart 7 Retail banks' performance



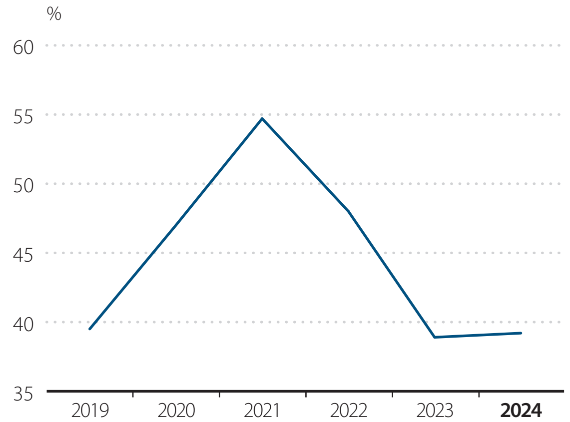
Source: HKMA

Chart 8 Retail banks' net interest margin



Source: HKMA

Chart 9 Retail banks' cost-to-income ratio



Source: HKMA

Economic and Financial Environment

Balance sheet trends

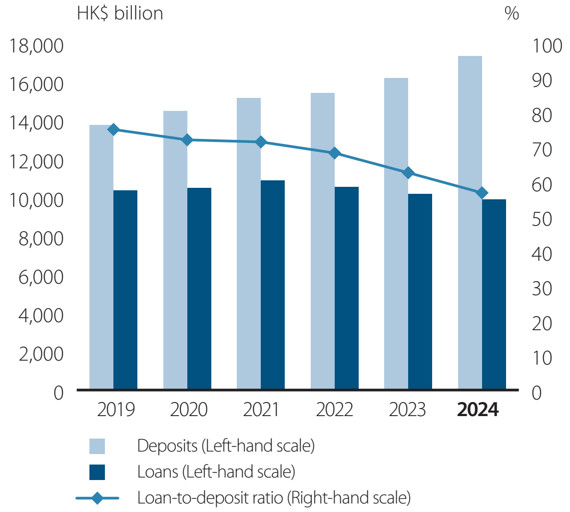
The banking sector's balance sheet grew by 4.3% in 2024, mainly due to an increase in negotiable debt instruments held (+13.4%). Given the subdued loan demand amid high borrowing costs, total loans decreased by 2.8% in 2024. Of the total loans, loans for use in Hong Kong and loans for use outside Hong Kong decreased by 2.1% and 5.7% respectively, while trade finance increased by 4.6%. Mainland-related lending decreased by 8.7% in 2024.

On the liability side, total deposits rose by 7.1% in 2024, compared with growth of 5.1% in 2023. As total loans declined while total deposits grew, the overall loan-to-deposit ratio decreased to 57.0% at the end of 2024 from 62.8% a year before (Chart 10).

Capital adequacy

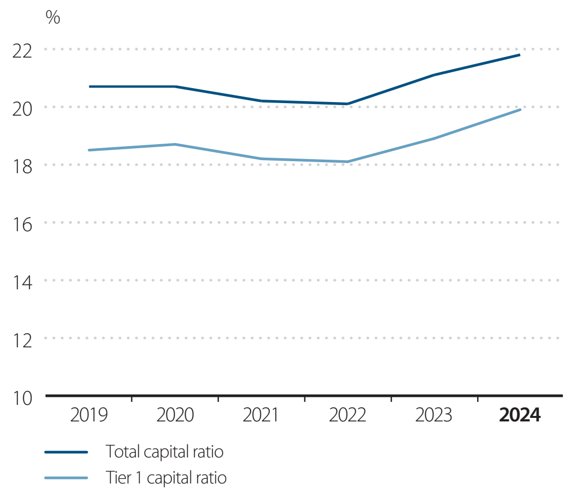
The banking sector remained well capitalised in 2024. The consolidated total capital ratio of locally incorporated authorized institutions (AIs) stood at 21.8% at the end of 2024, compared with 21.1% a year before. The Tier 1 capital ratio was 19.9% (Chart 11). Both ratios were well above their respective international minimum requirements. The Basel III leverage ratio was 8.0% at the end of 2024 (Chart 12).

Chart 10 Loans and deposits of the banking sector



Source: HKMA

Chart 11 Consolidated capital ratios of locally incorporated AIs



Source: HKMA

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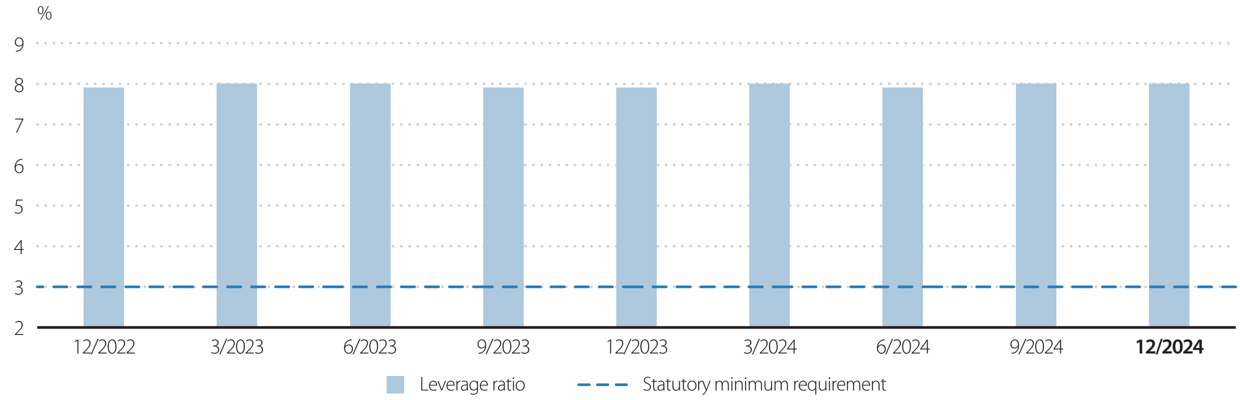
Chart 12 Consolidated leverage ratio of locally incorporated AIs



Source: HKMA

Liquidity conditions

The banking sector maintained a strong liquidity position. The quarterly average Liquidity Coverage Ratio (LCR) of category 1 institutions was 178.4% in the fourth quarter of 2024, and the quarterly average Liquidity Maintenance Ratio (LMR) of category 2 institutions was 67.0% (Chart 13). Customer deposits remained the main source of funding for the banking sector. The Net Stable Funding Ratio (NSFR) of category 1 institutions and the Core Funding Ratio (CFR) of category 2A institutions were 143.4% and 186.7% at the end of 2024 respectively (Chart 14). All four ratios were well above the statutory minimum requirements.

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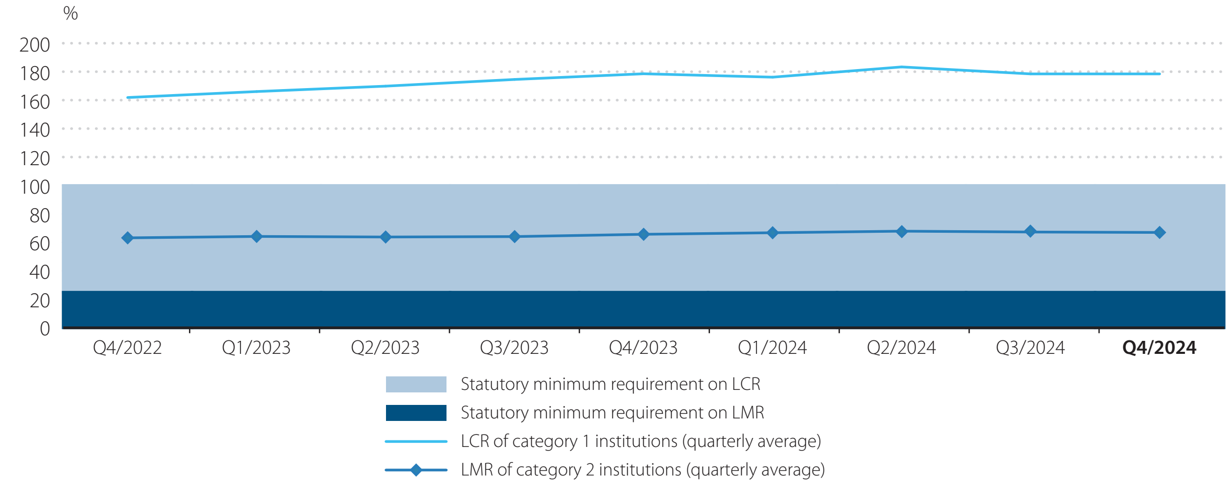
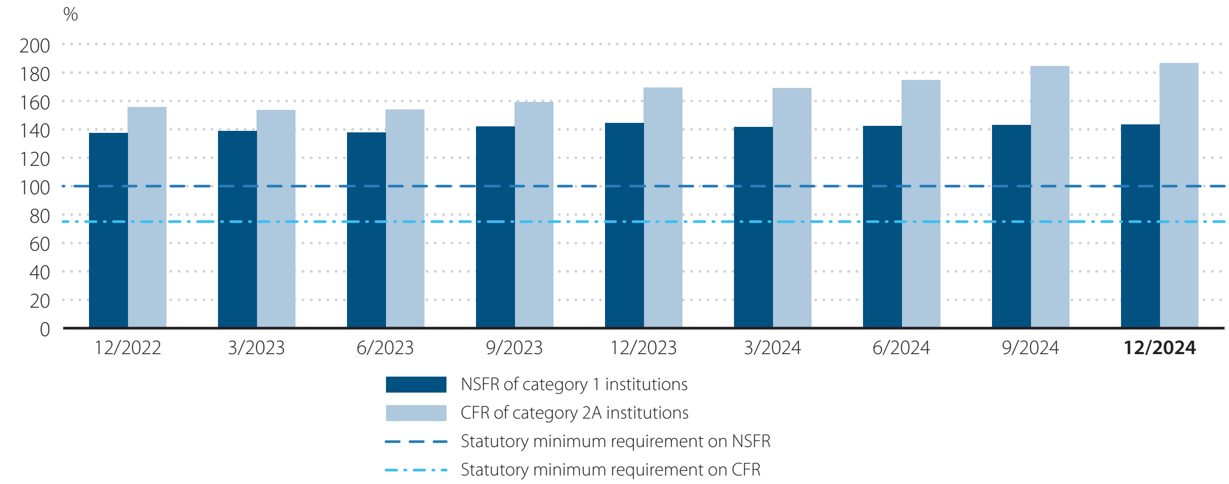
Chart 13 Liquidity ratios of designated AIs



Source: HKMA

Chart 14 Funding ratios of designated AIs



Source: HKMA