



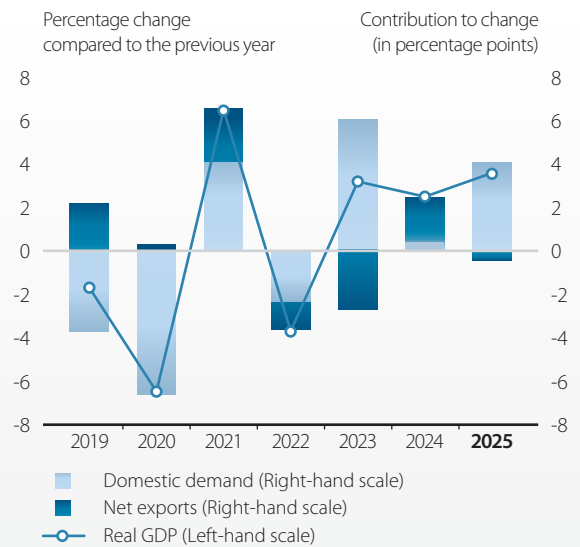
Economic and Financial Environment

The economy in review

Real activities

Hong Kong's real gross domestic product (GDP) expanded by 3.5% year on year in 2025, a notable acceleration from the 2.6% growth of 2024 (Table 1 and Chart 1). This economic growth was underpinned by a strong export performance, with surging goods exports driven by robust global demand for technology products as a result of the artificial intelligence investment boom, and services exports showing resilience on the back of vibrant cross-border financial activities and sustained growth in inbound tourism. Domestically, private consumption strengthened as asset prices rose, while private investment stabilised as trade tensions eased and financial conditions improved.

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)	2025					2024				
	Q1	Q2	Q3	Q4	2025	Q1	Q2	Q3	Q4	2024
Gross Domestic Product	1.1	0.8	0.9	1.0	3.5	0.6	0.6	0.4	1.0	2.6
(year-on-year growth)	3.1	3.2	3.7	3.8		2.9	3.0	2.1	2.5	
Private consumption expenditure	(0.7)	2.7	0.2	0.6	1.7	0.4	(0.4)	0.1	0.2	(0.2)
Government consumption expenditure	(0.3)	1.0	0.2	0.3	1.6	0.9	(0.7)	0.5	1.2	0.7
Gross domestic fixed capital formation	-	-	-	-	4.3	-	-	-	-	1.9
Exports										
Exports of goods	8.3	3.0	0.1	3.8	12.0	2.6	0.2	(0.8)	0.7	5.3
Exports of services	0.5	1.1	1.1	1.8	6.3	(0.3)	(1.3)	2.7	3.9	4.1
Imports										
Imports of goods	6.1	4.7	1.1	5.6	12.6	0.5	(0.3)	1.7	(0.2)	3.0
Imports of services	0.8	2.4	(1.8)	2.5	4.3	3.5	0.6	1.8	1.3	11.3

Note: Seasonally adjusted quarter-on-quarter rates of change for the gross domestic fixed capital formation are not available.

Source: Census and Statistics Department

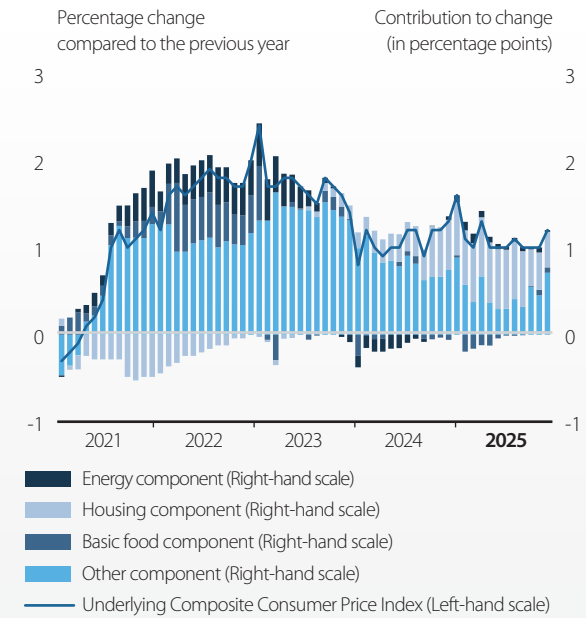
Economic and Financial Environment

Inflation and the labour market

Local inflation was modest in 2025, as external price pressures were mild, while domestic costs remained broadly in check despite rising housing rentals (Chart 2)¹. For the full year 2025, the underlying and headline inflation rates were 1.1% and 1.4% respectively.

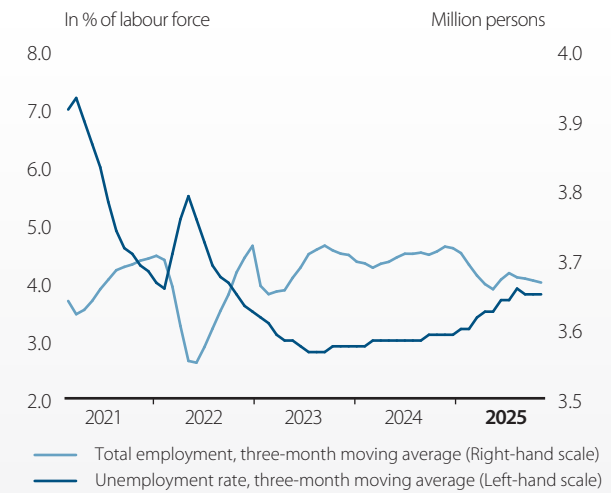
The labour market softened in 2025, with the unemployment rate rising to 3.8% in December from 3.1% a year earlier² (Chart 3). Overall labour demand weakened in early 2025, but gradually recovered toward year-end (Chart 3). Meanwhile, labour supply remained largely stable over the year³.

Chart 2 Underlying consumer price inflation



Source: Census and Statistics Department

Chart 3 Labour market conditions



Note: The unemployment rate is seasonally adjusted.

Source: Census and Statistics Department

1 Housing rentals increased by 4.2% year on year in December 2025. On the commercial front, rentals for office spaces, private retail premises and flatted factories in 2025 decreased by 2.9%, 4.0% and 2.8% year on year in December 2025, respectively.
 2 The three-month moving average underemployment rate increased to 1.7% in December 2025 from 1.1% a year prior.
 3 The size of the labour force increased marginally to 3.81 million persons at the end of 2025 from 3.80 million a year earlier.

Economic and Financial Environment

Stock market

The local stock market recorded robust performance in 2025. Although market sentiment softened in April 2025 following the US announcement of the reciprocal tariffs, investor confidence quickly recovered and remained strong throughout the rest of the year. The recovery was driven by an improving economic outlook for the Chinese Mainland, growing optimism around artificial intelligence developments, and the gradual rollback of US reciprocal tariff measures. This favourable environment lifted the Hang Seng Index to a year-high daily close of 27,287 on 2 October, before it receded slightly to conclude the year at 25,631 (Chart 4). Overall, the Hang Seng Index increased substantially by 27.8% year on year in 2025, marking its best performance since 2017.

Property market

The residential property market stabilised from the second quarter of 2025 onwards. As market sentiment became more positive in the face of improved domestic economic conditions and lowered mortgage rates⁴, housing transactions rose to 62,832 units in 2025, up 18.3% from 53,099 units in the previous year. In tandem, housing prices rose by 3.6% year on year, ending a three-year decline. The leasing market also remained active, with housing rentals rising by 4.2% year on year and surpassing pre-pandemic peak levels. In contrast, commercial real estate markets remained under pressure. Although transaction volumes increased compared to the previous year, prices and rentals of both office spaces and retail premises continued to adjust, partly reflecting persistently high vacancy rates across these segments⁵.

Chart 4 Asset prices



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

4 The effective mortgage interest rate of new loans approved decreased to 3.3% as of the end of 2025.

5 Rating and Valuation Department data indicates that the vacancy rates of office spaces and retail premises rose to 17.6% and 12.5% in 2025, compared to 16.3% and 11.8% in the previous year, respectively.

Economic and Financial Environment

Outlook for the economy

Economic environment

The Hong Kong economy is expected to grow at a moderate pace in 2026. Merchandise exports are expected to benefit from the ongoing artificial intelligence investment boom and the China-US trade truce. Services exports are projected to increase steadily, as financial services demand is likely to remain strong, while inbound tourism may continue to improve as a result of Hong Kong's hosting of mega events and sustained efforts by the Government to revitalise the tourism sector. On the domestic front, the pickup in business sentiment following the China-US trade truce and strengthened consumer confidence amid increased asset prices are expected to provide support to private investment and consumption activities. For 2026 as a whole, the Government projects real GDP to grow by 2.5–3.5%⁶.

The outlook, however, is subject to uncertainties surrounding the evolving geopolitical tensions, the sustainability of the artificial intelligence investment boom, persistent uncertainty in global trade policies, and the path of the US policy rate. In the short term, the direct impact of the energy shock triggered by the Middle East conflict is expected to be manageable, given Hong Kong's service-oriented nature, low oil-intensity structure, and relatively low weight of energy components in the Consumer Price Index (CPI) basket. However, the ultimate impact hinges on the duration and scope of the conflict. A prolonged conflict could heighten financial market volatility and potentially disrupt global growth and trade, posing headwinds to the Hong Kong economy.

Inflation and the labour market

Local inflation is expected to remain contained in 2026. The increase in housing rentals in previous quarters will gradually feed through to inflation, while the energy shock triggered by the military conflict in the Middle East may exert upward pressure on import prices. However, the outlook for local inflation remains stable, as energy components account for a relatively small share of the CPI basket, and other domestic cost pressures are anticipated to remain mild. The Government projects headline inflation to be 1.8% and underlying inflation to be 1.7% for 2026⁷. Meanwhile, the labour market is expected to remain broadly stable in 2026, supported by sustained economic growth. Nevertheless, certain sectors may continue to be under pressure amid their challenging operating environments. To support ongoing economic transformation and address labour shortages in targeted industries, the Government will continue to undertake a range of initiatives aimed at enriching Hong Kong's talent pool.

6 The latest market consensus forecast for Hong Kong's real GDP growth in 2026 is 2.8%.

7 The latest market consensus forecast for Hong Kong's headline inflation rate in 2026 is 1.9%.

Economic and Financial Environment

Performance of the banking sector

The Hong Kong banking sector remained resilient in 2025, supported by strong capital and liquidity buffers. Despite uncertainties in the macroeconomic environment and a challenging credit risk landscape, the overall asset quality of the banking sector remained manageable. The aggregate pre-tax operating profit of retail banks grew moderately during the year.

Asset quality

The classified loan ratio of the banking sector edged up to 2.01% at the end of 2025, from 1.96% at the end of 2024, while the overdue and rescheduled loan ratio decreased to 1.54% from 1.55% during the same period (Chart 5). The increase in the classified loan ratio was mainly due to downgrades in the classification of exposures to some local property developers and investors. On the other hand, the classified loan ratio of Mainland-related lending decreased to 1.94% at the end of 2025 from 2.37% at the end of 2024. Provisions set aside by banks remained sufficient, with the provision coverage ratio (i.e. total provisions to classified loans) standing at about 65% at the end of 2025. When the market value of collateral held against the classified loans is taken into account, the adjusted provision coverage ratio was above 150%. Meanwhile, the delinquency ratios of residential mortgage lending and credit card lending at the end of 2025 remained low, at 0.14% and 0.35% respectively (Chart 6).

Chart 5 Asset quality of the banking sector

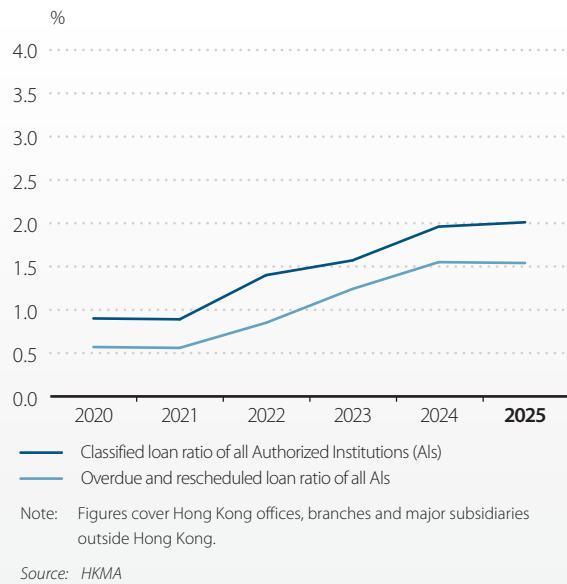
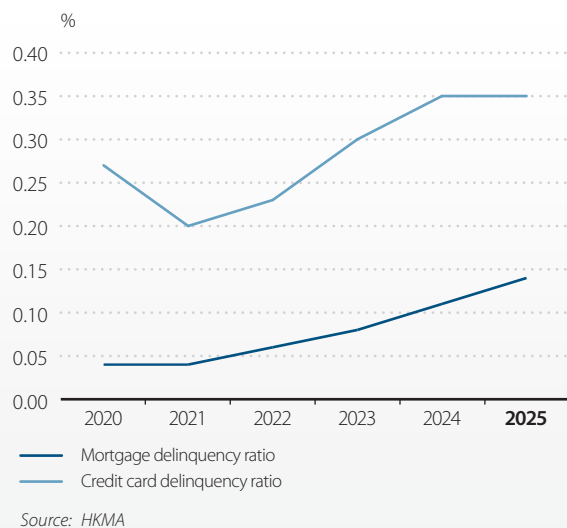


Chart 6 Delinquency ratios of residential mortgages and credit card lending



Economic and Financial Environment

Profitability trends

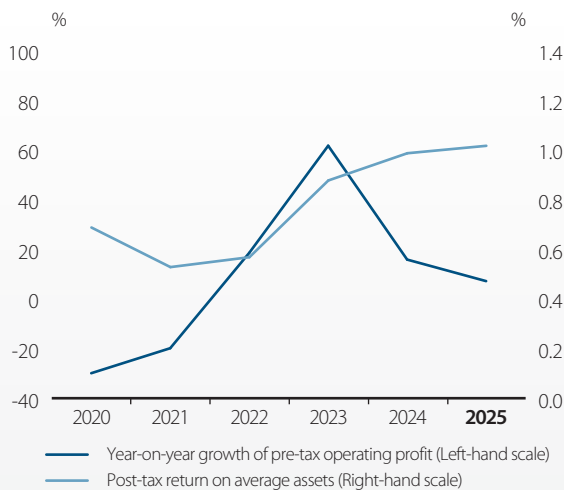
The aggregate pre-tax operating profit of retail banks increased by 7.3% in 2025, while the post-tax return on average assets rose to 1.02% from 0.99% over the same period (Chart 7). The profit growth was mainly due to increases in income from fees and commissions (+23.9%), net interest income (+5.6%) and income from foreign exchange and derivatives operations (+21.9%), partly offset by an increase in operating expenses (+6.3%). The net interest margin of retail banks for 2025 remained flat year on year at 1.52% (Chart 8). The cost-to-income ratio of retail banks edged up to 38.3% in 2025 from 38.2% in 2024 (Chart 9).

Balance sheet trends

The total assets of the banking sector grew by 7.7% in 2025, mainly due to an increase in negotiable debt instruments held (+14.9%). Total loans increased by 2.3% in 2025 after three consecutive years of contraction. Of the total loans, loans for use in Hong Kong, loans for use outside Hong Kong and trade finance increased by 1.9%, 3.4% and 2.5% respectively. Mainland-related lending increased by 2.3% in 2025.

On the liability side, total deposits rose by 11.8% in 2025, compared with growth of 7.1% in 2024. The overall loan-to-deposit ratio decreased to 52.2% at the end of 2025 from 57.0% a year before (Chart 10).

Chart 7 Performance of retail banks



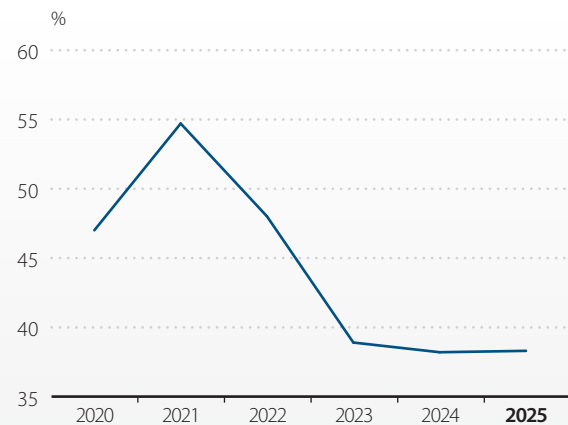
Source: HKMA

Chart 8 Net interest margin of retail banks



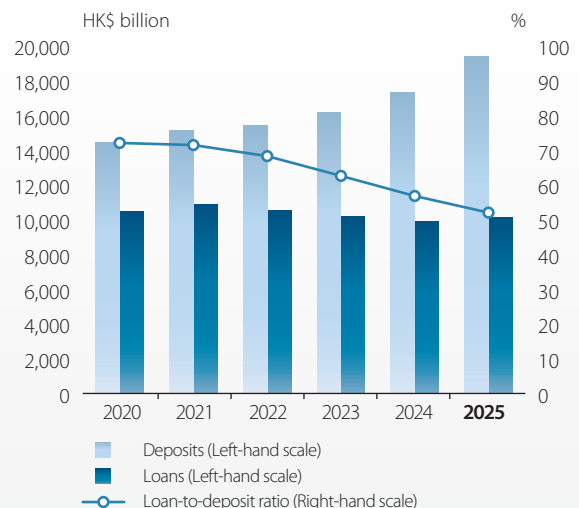
Source: HKMA

Chart 9 Cost-to-income ratio of retail banks



Source: HKMA

Chart 10 Loans and deposits of the banking sector



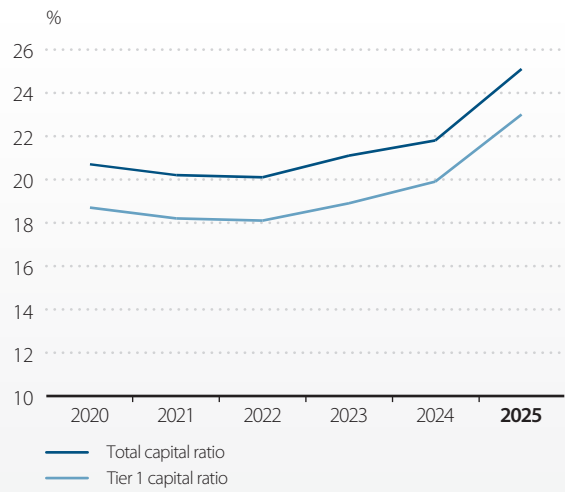
Source: HKMA

Economic and Financial Environment

Capital adequacy

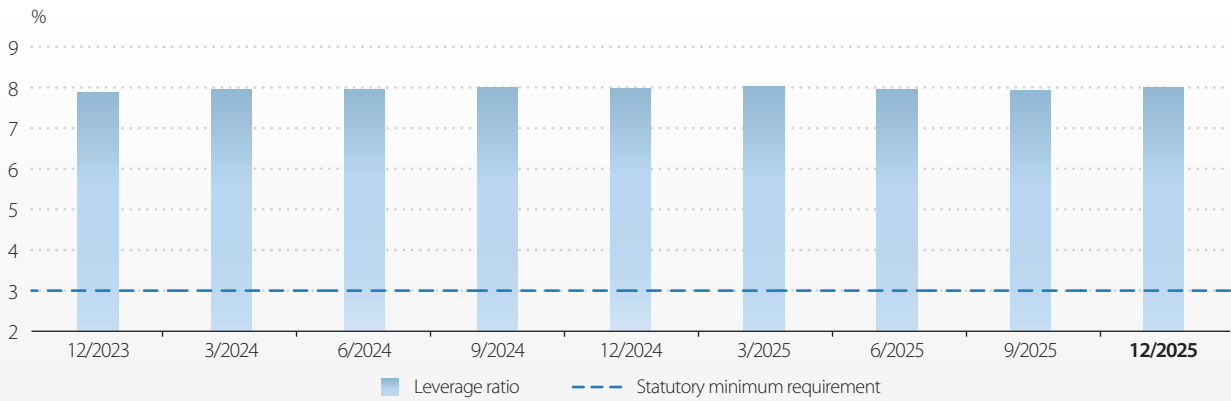
The banking sector remained well capitalised in 2025. The consolidated total capital ratio of locally incorporated authorized institutions (AIs) stood at 25.1% at the end of 2025, compared with 21.8% a year before, while the Tier 1 capital ratio was 23.0% (Chart 11). Both ratios were well above their respective international minimum requirements. The Basel III leverage ratio of locally incorporated AIs was 8.0% at the end of 2025 (Chart 12).

Chart 11 Consolidated capital ratios of locally incorporated AIs



Source: HKMA

Chart 12 Basel III consolidated leverage ratio of locally incorporated AIs



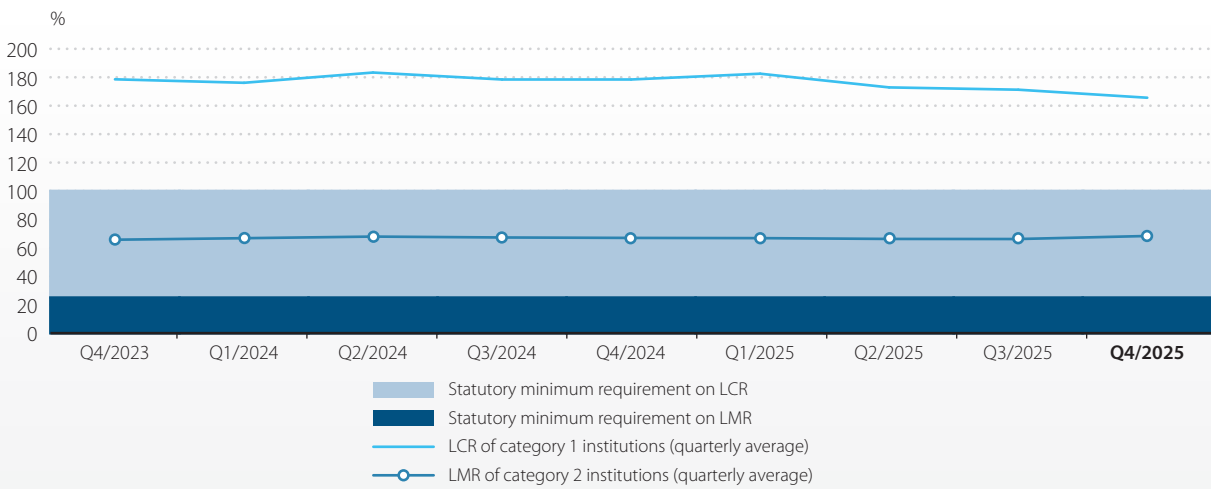
Source: HKMA

Economic and Financial Environment

Liquidity conditions

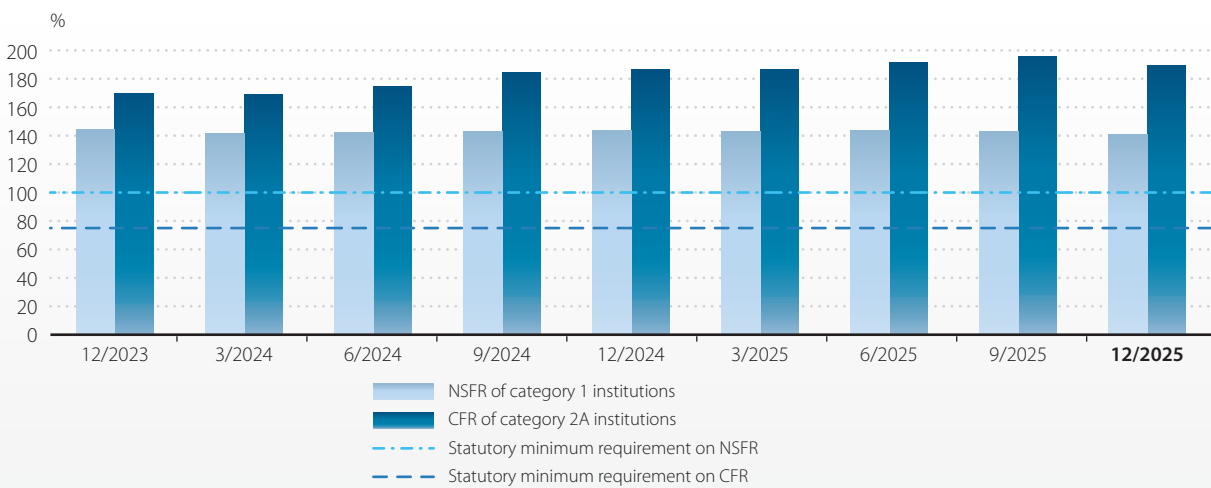
The banking sector maintained a strong liquidity position in 2025. The quarterly average Liquidity Coverage Ratio (LCR) of category 1 institutions stood at 165.6% in the fourth quarter of 2025, and the quarterly average Liquidity Maintenance Ratio (LMR) of category 2 institutions at 68.3% (Chart 13). The Net Stable Funding Ratio (NSFR) of category 1 institutions and the Core Funding Ratio (CFR) of category 2A institutions were 141.0% and 189.5% respectively at the end of 2025 (Chart 14). All four ratios were well above the statutory minimum requirements.

Chart 13 Liquidity ratios of designated AIs



Source: HKMA

Chart 14 Funding ratios of designated AIs



Source: HKMA