

## 3. Domestic economy

With sustained growth in merchandise exports and private consumption, the Hong Kong economy continued to recover in the second half of 2021, resuming positive annual growth for the first time since 2019. Moving into 2022, the new wave of local infections and the resultant tightening of social distancing measures exerted pressures on domestic economic activities. While economic recovery is expected to continue for the year as a whole, its strength and speed are subject to uncertainties and risks, especially those surrounding the pandemic and the US monetary policy normalisation path. These cross-currents may also affect the labour market outlook following visible improvement in 2021. Local inflation will likely edge up in the near term alongside rising import prices, but soft domestic rentals and labour costs should keep overall price pressures in check.

### 3.1 Real activities

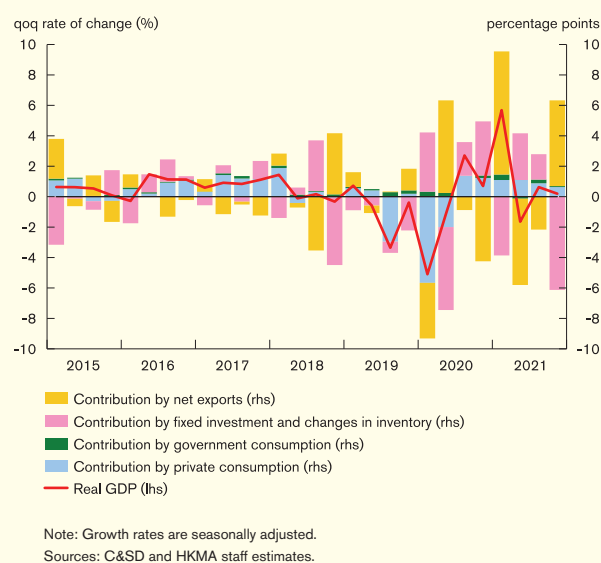
Hong Kong's economic recovery continued in the second half of 2021. Year on year, real GDP grew further by 5.5% in the third quarter and 4.8% in the fourth quarter (Table 3.A), albeit at a moderated pace compared to the first half of the year. For 2021 as a whole, real GDP expanded by 6.4%, marking the first annual growth since 2019.

**Table 3.A**  
Real GDP growth

		Year-on-year growth rate (%)	Seasonally adjusted quarter-on-quarter growth rate (%)
2020	Q1	-9.3	-5.1
	Q2	-9.4	-1.1
	Q3	-4.1	2.7
	Q4	-3.4	0.7
2021	Q1	8.0	5.7
	Q2	7.6	-1.6
	Q3	5.5	0.6
	Q4	4.8	0.2

Source: C&SD.

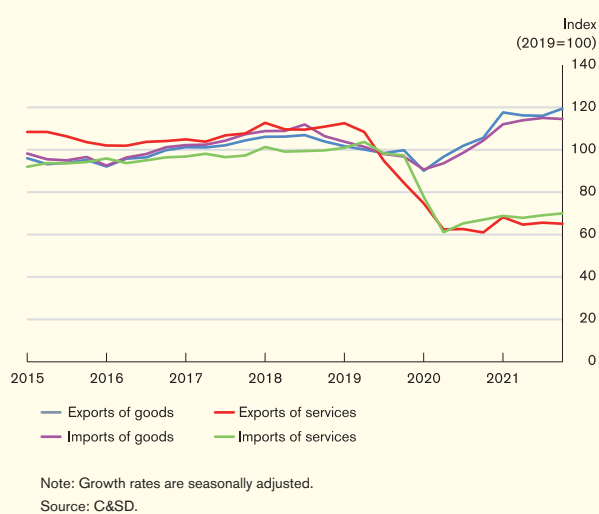
**Chart 3.1**  
Real GDP growth and contribution by major expenditure components



On a quarter-on-quarter basis, economic activities grew mildly by 0.6% and 0.2% in the third and fourth quarters respectively in 2021 (Chart 3.1). Domestically, private consumption powered ahead on the back of improved labour market conditions and the boost from the Government's Consumption Voucher Scheme. However, aggregate investment spending retreated in the final quarter following a strong

rebound in the preceding two quarters. Externally, Hong Kong's merchandise trade performance remained robust amid the continued global economic recovery, while trade in services stayed low partly because inbound tourism remained at a standstill (Chart 3.2).<sup>23</sup> On net, external trade dragged down GDP in the third quarter, but contributed positively to GDP growth in the fourth quarter.

**Chart 3.2**  
**Exports and imports in real terms**



At the start of 2022, a new wave of local COVID-19 infections and the resultant tightening of social distancing measures exerted pressures on domestic economic activities. In response, the Government introduced the fifth and sixth rounds of the Anti-epidemic Fund and additional countercyclical measures under the 2022/23 Budget to help support the economy.<sup>24</sup> To provide cash flow support, the 100% Personal Loan Guarantee Scheme and various guarantee products under the SME Financing Guarantee Scheme (SFGS) have been enhanced through higher maximum loan amounts and longer

application and repayment periods. The HKMA, together with the banking sector, also extended the Pre-approved Principal Payment Holiday Scheme to the end of October 2022.<sup>25</sup> The Scheme will also offer a one-year partial principal repayment option to the customers and the arrangement is also applicable to loans under SFGS.

For 2022 as a whole, Hong Kong's economic recovery is expected to continue, albeit at a slower pace compared to 2021, partly reflecting moderating global growth amid the lingering pandemic and a less favourable base effect. Specifically, Hong Kong's exports of goods will continue to benefit from the global economic expansion.<sup>26</sup> The various capital works and infrastructure projects to be taken forward by the Government will also lend support to the economy. The Government forecasts real GDP growth for 2022 in the range between 2.0% and 3.5%, and the growth estimates by international organisations and private sector analysts average 1.6%. However, the strength and speed of the economic recovery are subject to a number of uncertainties and risks as discussed in previous chapters. In particular, the recent pandemic developments, a faster pace of US monetary policy normalisation and the heightened geopolitical concerns (e.g. the Russia-Ukraine conflict) have clouded the near-term global economic outlook including Hong Kong. On the other hand, a sooner-than-expected resumption of quarantine-free travel with the Mainland could be an upside that boosts local economic growth.

<sup>23</sup> Tourist arrivals in 2021 remained dismal, plummeting by 97.4% year on year.

<sup>24</sup> These measures include, among others, a one-off provision of HK\$10,000 electronic consumption vouchers to each eligible resident and tax deduction for domestic rental expenses. The Government estimates that these countercyclical measures, together with the spending in infrastructure projects and other items, will boost economic growth by around 3 percentage points.

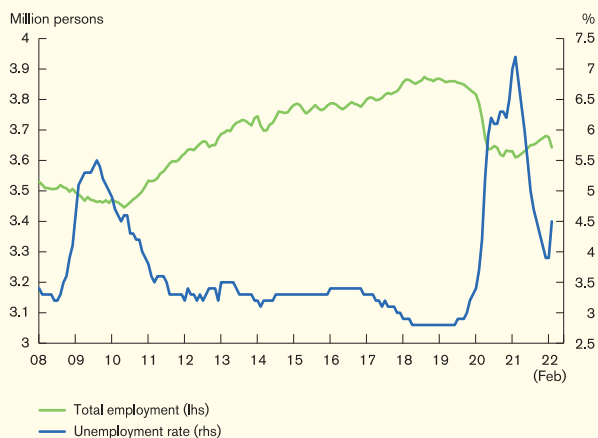
<sup>25</sup> The HKMA also announced on 11 January 2022 a further 90-day repayment deferment for trade facilities under the Pre-approved Principal Payment Holiday Scheme.

<sup>26</sup> In addition, as the Regional Comprehensive Economic Partnership among 10 members from The Association of Southeast Asian Nations (ASEAN) plus Mainland China, Australia, Japan, South Korea, and New Zealand entered into force on 1 January 2022, this largest free trade agreement in the world will facilitate regional trade flows and benefit Hong Kong's external trade.

### 3.2 Labour market conditions

Alongside the economic recovery, the labour market continued to improve in the second half of 2021, with the seasonally adjusted unemployment rate declining to 3.9% at year-end (Chart 3.3). Total employment in December 2021 also rebounded by 2.0% from a recent low in February 2021, albeit still below its pre-pandemic level. In early 2022, official data show that pressures on the labour market re-surfaced amid the new wave of local infections. Additionally, fewer new vacancies have become available, as suggested by the declining number of online job advertisements. In the near term, the new wave of local infections and the tightening of anti-epidemic restrictions will exert further pressures on the local labour market (especially the contact-intensive sectors). Further out, labour market conditions will depend on the state of the local epidemic and the pace of the domestic economic recovery.

**Chart 3.3**  
Labour market conditions

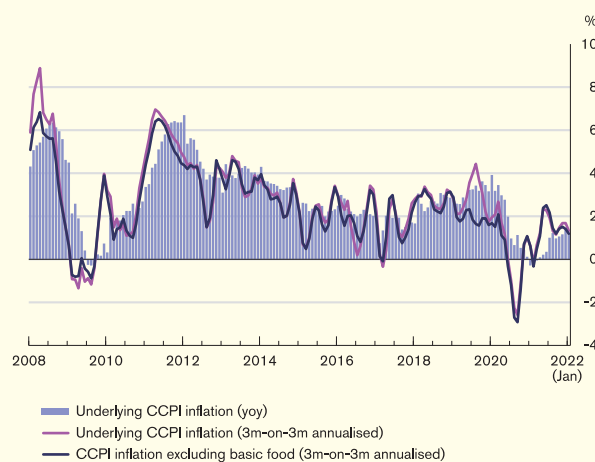


Source: C&SD.

### 3.3 Inflation

Local inflationary pressures have generally increased in recent months, but remained moderate. Year on year, the underlying consumer price inflation edged up to 1.1% and 1.2% in the third and fourth quarters of 2021 respectively, and stayed at 1.2% in January 2022 (Chart 3.4).<sup>27</sup> Inflation momentum, as measured by the annualised three-month-on-three-month underlying inflation rate, also broadly picked up in recent months. Specifically, prices of meals out and some energy-related items saw faster increases amid revived domestic demand and rising external prices (Chart 3.5). Meanwhile, the rental component of the Composite Consumer Price Index (CCPI) continued to decline in general, thereby restraining the overall inflation momentum (Chart 3.6). Real unit labour costs remained soft, despite slight increases in recent quarters, in part due to the improved real payroll per person (Chart 3.7).

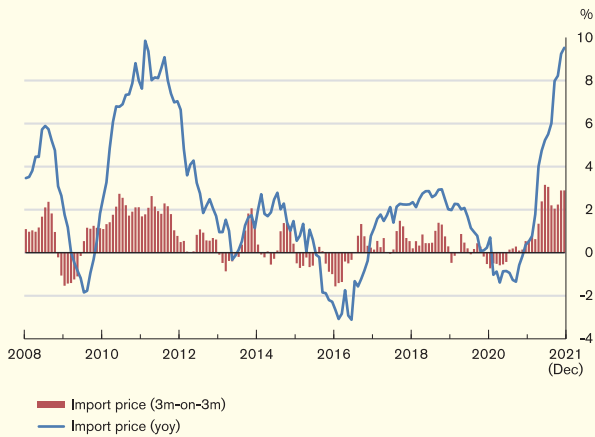
**Chart 3.4**  
Different measures of consumer price inflation



Sources: C&SD and HKMA staff estimates.

<sup>27</sup> Inclusive of the effects of the Government's relevant one-off relief measures, the year-on-year headline inflation rate was 2.3% and 2.0% in the third and fourth quarters of 2021, higher than an average of 1.6% in the first and second quarters of 2021.

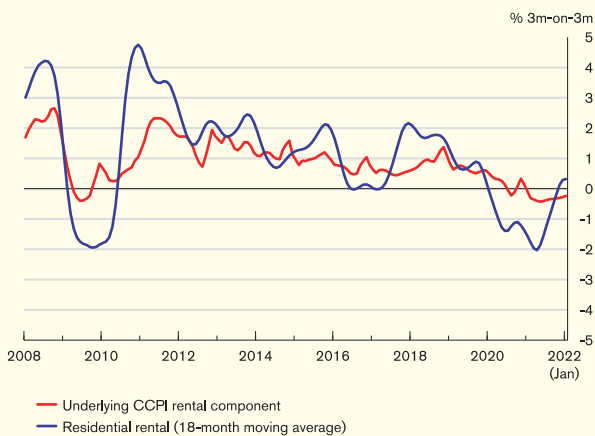
**Chart 3.5**  
Hong Kong's import prices



Source: C&SD.

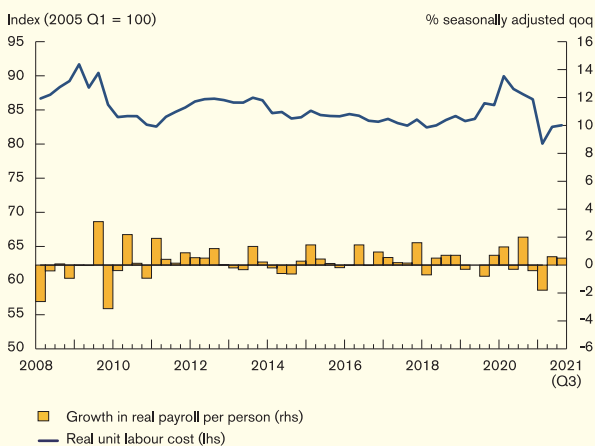
Looking ahead, alongside rising import prices and the pandemic-induced logistic disruptions, local inflation is expected to edge up in the near term, but should stay broadly in check due to soft rentals and mild local labour cost pressures. Market consensus forecasts the headline inflation rate for 2022 to reach 2.4%, and the Government projects the headline inflation rate to be 2.1% and the underlying inflation rate to be 2.0% in 2022.

**Chart 3.6**  
CCPI rental component and market rental



Sources: C&SD and Rating and Valuation Department.

**Chart 3.7**  
Unit labour cost



Sources: C&SD and HKMA staff estimates.