3. Domestic economy

The Hong Kong economy continued to grow moderately in the second half of 2024, with sequential improvements in exports of services. Looking ahead, merchandise exports are likely to face challenges from intensified trade conflicts, while inbound tourism should improve further on the back of various tourism-related supportive measures. Although domestic consumption may remain under pressure, the Mainland's proactive policies to boost its economy are expected to bolster business sentiment. The outlook is clouded by various external risks and uncertainties, particularly those related to global growth prospects, the US trade policy and the pace of the US Fed's interest rate cuts. Meanwhile, the unemployment rate has continued to stay low, indicating a resilient labour market. Inflation has remained mild despite some upward pressure from rising housing rentals.

3.1 Real activities

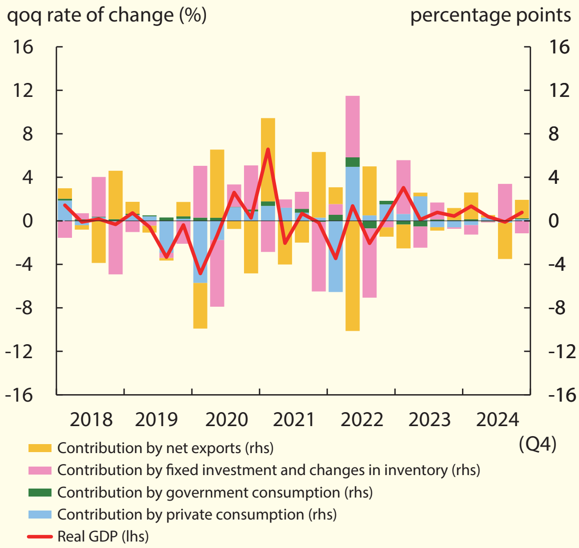
The Hong Kong economy maintained a moderate growth in the second half of 2024, with real GDP posting a year-on-year growth of 1.9% and 2.4% in the third and fourth quarters respectively (Table 3.A). On a seasonally adjusted quarter-on-quarter basis, real GDP experienced a mild contraction of 0.1% in the third quarter, followed by modest growth of 0.8% in the fourth quarter (Chart 3.1).

Table 3.A
Real GDP growth

		Year-on-year growth rate (%)	Seasonally adjusted quarter-on-quarter growth rate (%)
2023	Q1	+2.7	+3.1
	Q2	+1.6	+0.1
	Q3	+4.2	+0.8
	Q4	+4.3	+0.4
2024	Q1	+2.8	+1.3
	Q2	+3.1	+0.4
	Q3	+1.9	−0.1
	Q4	+2.4	+0.8

Source: Census and Statistics Department (C&SD).

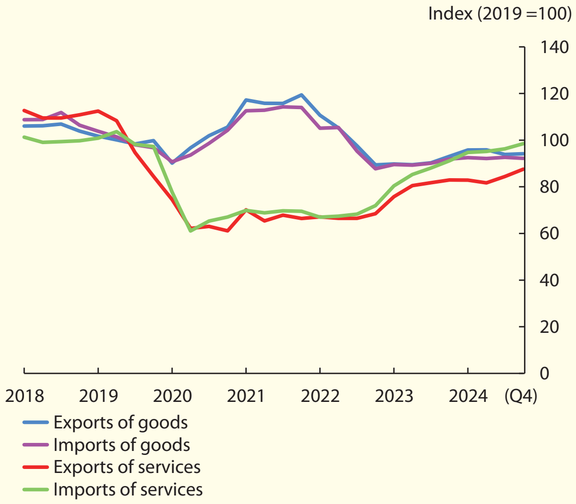
Chart 3.1
Real GDP growth and contributions by major expenditure components



Note: Growth rates are seasonally adjusted.
Sources: C&SD and HKMA staff estimates.

Externally, the second half of 2024 saw a pickup in exports of services, driven by strengthened cross-border financial activities and steady growth in visitor arrivals.[20] By contrast, exports of goods moderated alongside a softening economic environment in some major markets (Chart 3.2). Domestically, while showing signs of stabilisation in the fourth quarter, private consumption remained weak due to the ongoing impact of shifting consumption patterns among local residents. Investment spending showed an overall improvement in the second half of 2024, despite a modest decline in the fourth quarter driven mainly by a contraction in building and construction activities. For 2024 as a whole, real GDP increased by 2.5%, following the 3.2% growth recorded in the preceding year.

Chart 3.2
Export and import volumes



Note: The data are seasonally adjusted.
Source: C&SD.

Looking ahead, Hong Kong's economy is expected to maintain moderate growth. On the external front, the increasing risk of trade conflicts is likely to pose headwinds to merchandise exports growth, although ongoing demand for electronics may partly mitigate the impact.[21] Box 3 evaluates the potential economic impact of digitalising trade documents in Hong Kong, a move which could enhance the efficiency of Hong Kong's trade ecosystem and ultimately sustain its competitiveness as an international trading hub. Meanwhile, inbound tourism is expected to improve further on the back of strenuous efforts by the Government to revitalise Hong Kong's tourism industry[22] as well as other tourism-related support from the Mainland authorities.[23] On the domestic front, Mainland's proactive policies to boost its economy will help bolster Hong Kong's business sentiment,[24] thereby supporting private investment. However, changes in local residents' spending patterns may continue to restrain the recovery of private consumption, albeit with some offsetting support from a resilient labour market.

[20] Visitor arrivals into Hong Kong amounted to about 45 million persons in 2024, equivalent to 80% of the level in 2019. In 2024, Hong Kong resident departures amounted to about 105 million persons, exceeding the corresponding pre-pandemic numbers in 2019 by 11%.

[21] The Hong Kong Trade and Development Council has forecasted Hong Kong's merchandise exports to grow moderately by 4% in 2025.

[22] On 30 December 2024, the Government released the Development Blueprint for Hong Kong's Tourism Industry 2.0, outlining four major development strategies for the industry: (i) nurturing and developing tourism products and initiatives with local and international characteristics; (ii) developing a diversified portfolio of visitor source markets; (iii) promoting smart tourism; and (iv) enhancing service quality and support.

[23] On 1 December 2024, the Central Government resumed the multiple-entry Individual Visit Scheme (IVS) for Shenzhen permanent residents and expanded the new arrangement to include residence permit holders in Shenzhen.

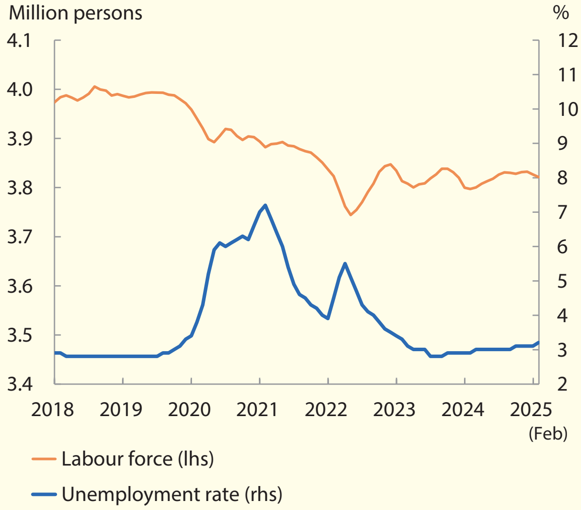
[24] The Purchasing Managers' Index (PMI) stayed in the expansionary zone (above 50) from October 2024 to January 2025 before falling to 49 in February 2025 amid rising trade tensions.

For 2025 as a whole, the Government forecasts real GDP growth in the range of 2% to 3%.[25] This growth outlook is subject to the risks and uncertainties discussed in previous chapters, particularly those associated with global growth prospects, the US trade policy, and the pace of the US Fed's interest rate cuts.

3.2 Labour market conditions

The labour market continued to be resilient, with the unemployment rate staying within a low range of 3.0%–3.2% since March 2024. The size of the labour force has also been broadly stable since August 2024, although it has remained below its pre-pandemic level (Chart 3.3). Looking ahead, labour demand is expected to be supported by ongoing economic growth, although some sectors may be adversely affected by escalating trade tensions. Meanwhile, the Government's various talent attraction initiatives and labour importation schemes[26] will continue to help address manpower demand from various sectors[27].

Chart 3.3
Labour market conditions



Source: C&SD.

3.3 Inflation

Consumer price inflation stayed mild over the past few months. On a year-on-year basis, the underlying composite consumer price index increased slightly by 1.1% and 1.2% in the third and fourth quarters of 2024 respectively, and by 1.3% in January and February 2025 combined (Chart 3.4). A breakdown of its components reveals that the housing rental component has continued to increase gradually, reflecting the feed-through of rising fresh-letting private residential rentals in previous quarters. Meanwhile, upward price pressure from food continued to dissipate, whereas prices of energy-related items remained well contained.

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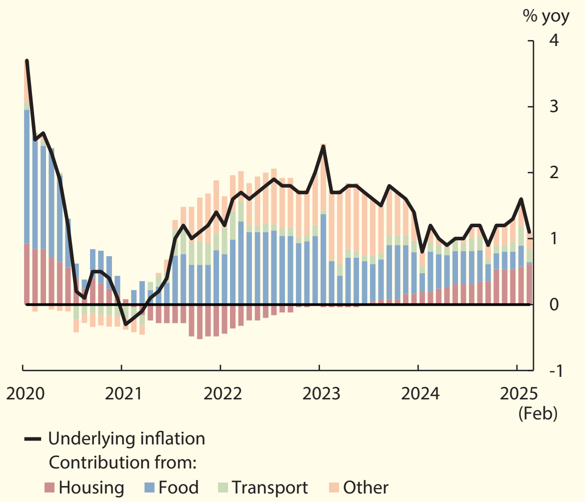
25 The private-sector analysts' consensus forecast on Hong Kong's real GDP growth for 2025 averaged at 2.2%.

26 Following the announcement in 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 part-time work restrictions. In the 2025–26 Budget, the Government announced further initiatives on talent attraction, including inviting top and leading talents to come to Hong Kong for development under the Quality Migrant Admission Scheme, and allowing eligible young non-degree talents to come to Hong Kong to join skilled trades facing manpower shortage through the Admission Scheme for Mainland Talents and Professionals and the General Employment Policy.

27 As at of the end of February 2025, over 450,000 applications under these schemes had been received. Over 290,000 applications have been approved, with over 196,000 of the approved applicants having arrived in Hong Kong with their families. This surpasses the Government's target of attracting 105,000 talents altogether over the three years from 2023 to 2025.

Looking ahead, overall inflation is expected to remain soft. External price pressures are likely to be contained despite uncertainties surrounding global commodity market developments, mitigating the upward pressure on domestic costs alongside ongoing economic growth. The Government projects the underlying and headline inflation rates to be 1.5% and 1.8% respectively in 2025.[28]

Chart 3.4
Underlying consumer price inflation and its drivers



Sources: C&SD and HKMA staff estimates.

[28] The market consensus forecasts for the headline inflation rate for 2025 is 1.8%.

Box 3
Assessing the potential economic impact of digitalising trade documents in Hong Kong

Introduction

The evolving supply chain landscape underscores the need for Hong Kong to maintain its competitive edge as an international financial and trade centre. Upgrading the trade ecosystem and lowering trade costs through the digitalisation of trade is widely recognised as a key strategy to promote trade growth. Nevertheless, trade processes, particularly in maritime shipping, remain highly paper-based, hindering the progress of trade digitalisation. This is largely because the existing legal framework does not currently consider the digital versions of negotiable documents as having the same legal status as their physical counterparts.[29] Consequently, a number of critical trade documents, such as the bill of lading (a legally binding document in shipping that confers ownership of the corresponding cargo on the holders), have to be physically delivered to various parties throughout the entire trade process.[30]

The United Nations Commission on International Trade Law (UNCITRAL) took an essential step towards trade digitalisation in 2017 by publishing the Model Law on Electronic Transferrable Records (MLETR) in 2017. This is a standardised legal framework that aims to facilitate the adoption of paperless trade by enabling the legal use of electronic records in negotiable documents. To align with this international standard, the Government announced in its 2025–26 Budget that it would consider legislative amendments with reference to MLETR, with the goal of introducing the proposed amendments to the Legislative Council within 2026.

Against this background, this box presents an assessment of the potential economic impact of digitalising trade documents in Hong Kong. Specifically, we attempt to quantify the immediate net savings in trade costs[31], and further estimate the potential increase in trade value arising from these net cost savings.

A cost-benefit analysis of digitalising trade documents

Benefits:

The major immediate benefit of digitalising trade documents lies in the reduction of trade costs, as the use of digital documents can streamline the administrative tasks at various stages of a trade (e.g. sales, insurance, payment and finance, customs).[32] In the context of Hong Kong, given that the legislative amendments affect the negotiable trade documents in shipping, we assume that only the costs associated with marine and river trade businesses would be reduced.

29 The key trade documents for airfreight and land transport (i.e. air waybill (AWB) and waybill) are non-negotiable in nature. Hence, their digitalisation is not restricted by the existing legal framework. Indeed, the digitalisation of AWBs began as early as 2010. According to the latest available data from the International Air Transport Association, the penetration rate of e-AWBs in Hong Kong had exceeded 80% by December 2020.

30 According to the International Chamber of Commerce, a typical shipping trade transaction involves approximately 40 types of trade documents, of which around 20% are negotiable and are therefore required to be presented in paper form. Some of these negotiable trade documents, such as bill of lading, bill of exchange, and promissory note, are widely used in various parts of a trade process. Other negotiable trade documents include ship's delivery order, warehouse receipt, mate's receipt, marine insurance policies and cargo insurance certificate.

31 Our methodology follows the study conducted by the Department for Digital, Culture, Media & Sport of the Government of the United Kingdom (2022), "Impact assessment of the Electronic Trade Documents Bill".

32 Based on the estimation of the United Nations electronic Trade Documents Project, paper-handling costs account for about 5–10% of total trade value, and at least 50% of these costs could be saved by digitalisation.

Other significant benefits highlighted by the trade and logistics industry as well as by several other studies[33] include more secure and efficient flows of trade finance payments, reduced risk of fraud and human error, enhanced customer experience, and environmental benefits arising from the reduced use of paper and courier services. However, these benefits are difficult to quantify at this stage and have therefore been excluded from this cost-benefit analysis.

Costs:

As with many other digital transformation processes, relevant firms will incur some transition costs as they shift to using digital trade documents. These costs comprise expenses related to the development of new internal processes, staff training, technology upgrades, and familiarisation with new regulations and guidelines.[34]

Net benefits:

The net benefits, i.e. the net cost savings, are estimated by comparing the monetised values of the aforementioned immediate benefits and costs based on a set of evidenced assumptions. We have further conducted a sensitivity analysis on the net benefits using two different sets of assumptions on the transition progress in Hong Kong, measured by the rate of businesses' adoption of the digital trade document system. Specifically, we assume the adoption rate to follow the pace as set out by the global industry target, increasing to 50% in 2031 and 100% in 2033 in the base-case scenario.[35] To account for a slower transition progress, we also consider an alternative scenario with the adoption rate reaching only half of the industry's targeted scenario.

The results, based on a 10-year appraisal period from 2027 to 2036 and a real social discount rate of 4%[36], are summarised in Table B3.1. Our estimation suggests that the digitalisation of trade documents enabled by the legal amendments could yield a total net cost savings of HK$16.4 billion–HK$34.9 billion at present value over the next decade[37], equivalent to 0.05–0.11% of GDP per year on average.

Table B3.1
Estimated net benefits of digitalising trade documents

Scenarios based on different transition progress	Total net cost savings over 2027–2036	As % of GDP per year on average
Industry's targeted scenario: reaching 50% in 2031 and 100% in 2033	HK$ 34.9 billion	0.11%
Alternative scenario with a slower transition progress: reaching 25% in 2031 and 50% in 2033	HK$ 16.4 billion	0.05%

Note: Net cost savings are measured in present value in 2025.
Source: HKMA staff estimates.

An estimation of the potential increase in trade flows

A lower trade cost could enhance the competitiveness of Hong Kong's ports and increase the access of small and medium-sized enterprises (SMEs) to the global market, thereby boosting the amount of trades flowing through Hong Kong. To estimate the potential increase in

33 Including (i) Asian Development Bank (2023), "ADB Briefs — Driving digitalisation of global trade: UNCITRAL Model Law on Electronic Transferable Records"; (ii) European Bank for Reconstruction and Development (2023), "Enabling digital trade through legal reform"; and (iii) Commonwealth Secretariat (2022), "Quantitative analysis of the move to paperless trade".

34 This analysis excludes costs that are difficult to quantify, such as the potential revenue loss of the courier firms that are currently involved in the paper-based trading processes, and the environmental costs arising from the increased energy consumption by blockchain or other digital platforms.

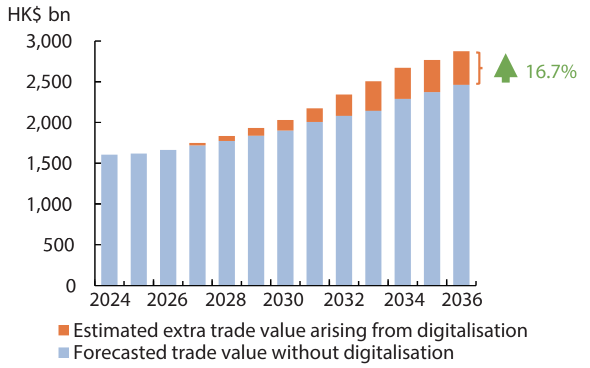
35 The nine major ocean carrier members of the Digital Container Shipping Association, a non-profit organisation driving standardisation and digital innovation in the container shipping sector, set an industry target in February 2023 to digitalise 50% of the bills of lading by 2028 and 100% by 2030.

36 The real social discount rate of 4% is generally used by government work projects in Hong Kong from 2018 to 2026. For details, see https://www.legco.gov.hk/yr07-08/english/fc/pwsc/papers/p08-31e.pdf; https://www.eeb.gov.hk/sites/default/files/en/node67/Study_on_the_Feed-in_Tariff_Rates_for_RE_in_HK.pdf

37 The estimated net cost savings for Hong Kong are comparable to those for the UK, which were estimated to be around £1,137 million over a 10-year appraisal period in the best-estimate scenario.

trade value, we follow a study conducted by the International Chamber of Commerce on the same issue[38] by using the concept of cost elasticity of trade, which measures the responsiveness of trade flows to changes in trade cost. According to the literature, the cost elasticity of trade is typically estimated to range from four to ten, depending on the data sources and estimation techniques employed.[39] With this estimated range, we follow the methodology adopted in the ESCAP-World Bank trade cost database and assume an elasticity of eight in our study. Our results indicate that the net reduction in trade costs resulting from the digitalisation of trade documents could increase the value of Hong Kong's shipping trade by 16.7% in 2036 in the base-case scenario (Chart B3.1).

Chart B3.1
Forecasted value of Hong Kong's shipping trade



Note: The forecasted values of Hong Kong's shipping trade without digitalisation of trade documents for the years up to 2029 are calculated based on the forecasted values from the Consensus Forecast and the International Monetary Fund. For the subsequent years, the forecasted values are calculated using the corresponding 10-year rolling average growth rates.

Source: HKMA staff estimates.

It is worth noting that our estimation provides only a conservative assessment of the direct quantifiable economic benefits that may result from the digitalisation of trade documents, without taking into account a range of significant indirect benefits that are difficult to quantify at this stage. These benefits include enhanced access to trade finance for SMEs facilitated by streamlined banks' credit assessment processes, the development of more innovative trade finance solutions driven by the adoption of Hong Kong's next-generation financial infrastructure (e.g. the Commercial Data Interchange), as well as seamless trade settlement empowered by the use of tokenisation under Project Ensemble.

Concluding remarks

Our study suggests that the digitalisation of the trade process in maritime shipping has the potential to unlock substantial direct and indirect benefits for the Hong Kong economy. This assessment is subject to certain limitations due to data constraints. In addition to excluding the aforementioned indirect benefits, this study also relies on a simplifying assumption that the cost savings are directly proportional to the value of the traded goods, rather than to the number of trades, due to the unavailability of data on the number of shipping trades handled by the ports in Hong Kong.

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38 International Chamber of Commerce (2021), "G7: Creating a modern digital system".

39 See (i) Simonovska and Waugh, "The elasticity of trade: Estimates and evidence", Journal of International Economics 92.1 (2014): 34–50; and (ii) ESCAP-World Bank Trade Cost Database: Explanatory Note for Users (July 2017).