CHAPTER 2 : ECONOMIC OUTLOOK FOR 2025

AND THE MEDIUM TERM

***Summary***

* *The external environment is clouded by immense uncertainties in 2025, but there are also positive factors. Escalating trade protectionism will disrupt global trade and investment flows. Possible slower interest rate cuts in the US resulting from renewed inflationary pressures there may dampen global economic confidence. Nevertheless, further monetary easing across major economies should render support to global demand. The Mainland economy would also sustain stable growth thanks to its sound fundamentals and strong policy support by the Central Government. In mid-January, the International Monetary Fund (IMF) projected that the global economy would grow further by 3.3% in 2025, a slight pick-up from the 3.2% growth in 2024, despite remaining below the pre-pandemic average annual growth of 3.7%.*
* *While Hong Kong’s total exports of goods would be affected by the US’ trade protection measures, steady global economic growth would support these exports to grow further in 2025.*
* *On exports of services, increased convenience of cross-border travel alongside the Central Government’s measures and the SAR Government’s various initiatives should help bring more visitors to Hong Kong. Cross‑border financial and business activities would be supported by gradually easing financial conditions, while exports of trade-related services would benefit from continued growth of trade in goods.*
* *On domestic demand, improved economic sentiment alongside the Mainland’s more proactive policies to boost its economy, easing financial conditions, and the SAR Government’s various initiatives to promote economic growth and development should be supportive. This should be conducive to fixed asset investment, but uncertainties in the external environment may affect investor sentiment. The same set of factors, coupled with sustained growth of employment income, should boost private consumption, though the change in residents’ consumption pattern may constrain the pace of recovery.*
* *In sum, the Hong Kong economy is forecast to grow by 2% to 3% in 2025, after growing by 2.5% in 2024.*
* *Underlying consumer price inflation should remain moderate in 2025. Domestic costs may see some upward pressures as the Hong Kong economy continues to grow. External price pressures should remain contained, provided that trade conflicts and geopolitical tension would not push up prices significantly. Underlying Composite Consumer Price Index (CPI) inflation is forecast at 1.5% in 2025, compared with 1.1% in 2024.*
* *The medium-term outlook for the Hong Kong economy is bright. Further loosening of financial conditions amid the broad trend of monetary policy normalisation should support global demand in the coming years. Asia should remain as an important growth engine of the global economy. In particular, the Mainland will achieve economic transformation and upgrading and sustain steady growth. These developments will provide substantial opportunities for different segments of the Hong Kong economy.*
* *Hong Kong is the only place in the world where the global advantage and the China advantage come together. The Government is committed to harnessing Hong Kong’s institutional strengths under “One Country, Two Systems” to reinforce and enhance Hong Kong’s status as “three centres and a hub”, further enhancing our role as a “super connector” and “super value‑adder” connecting the Mainland with the world. The Government’s proactive efforts in expanding economic capacity, enhancing competitiveness, and developing strategic growth areas are bearing fruit, and will help Hong Kong achieve sustainable growth. The Hong Kong economy is expected to grow by 2.9% per annum from 2026 to 2029. The trend rate of underlying Composite CPI inflation is forecast at 2.5% per annum over the same period.*

**Global economic outlook**

1. The external environment is clouded by immense uncertainties in 2025, but there are also positive factors. In February, the US announced the imposition of a 10% additional tariff on imports from China, and 25% tariffs on all steel and aluminum imports. These trade protectionist measures, together with uncertainties about whether additional ones will be introduced, will disrupt global trade and investment flows. The US’ economic policies may also reignite inflationary pressures there and potentially slow the pace of interest rate cuts by the US Federal Reserve (Fed), dampening global economic confidence and increasing the vulnerability and volatility in financial markets. Nevertheless, the market still expects further monetary easing across major economies, which should render support to global economic growth. In mid‑January, the IMF projected that the global economy would grow further by 3.3% in 2025, a slight pick-up from the 3.2% growth in 2024, despite remaining below the pre‑pandemic average annual growth of 3.7%.
2. The Mainland economy grew further by 5.0% in 2024, with the momentum picking up visibly in the fourth quarter following the Central Government’s stepped-up policy support since late September. The annual Central Economic Work Conference held in December 2024 called for more proactive fiscal policy and accommodative monetary policy in 2025, with a view to boosting domestic demand and stabilising economic growth. Looking ahead, despite the challenging external environment, sound fundamentals and strong policy support should help the Mainland economy sustain stable growth in 2025.
3. As for the major advanced economies, the US economy posted solid growth of 2.8% in 2024, while the Fed cut interest rates three times by a total of 100 basis points during the year. Going into 2025, while growth momentum will likely sustain in the immediate future amid the expansionary fiscal measures, policy uncertainties may pose a drag. Inflation may stay elevated for longer, and the Fed may adopt a more prudent stance towards lowering interest rates. The IMF forecast that economic growth in the US would decelerate slightly to 2.7% in 2025. As for the euro area economy, it continued to record mild growth of 0.7% in 2024. The European Central Bank (ECB) cut its deposit facility rate by a total of 100 basis points in 2024, and further by 25 basis points in January 2025. Looking ahead, further interest rate cuts by the ECB should be conducive to domestic demand, though geopolitical tensions and trade conflicts would pose challenges. The IMF forecast the euro area economy to see a slight pick-up in growth to 1.0% in 2025.
4. Economic growth generally held up well in other Asian economies in 2024, supported by strong merchandise exports amid the global electronics and technology up-cycle and continued recovery of the tourism sector. Looking forward to 2025, while the regional trade outlook will be overshadowed by heightened trade tensions and geopolitical fragmentation, firm domestic demand is expected to underpin economic growth. The Asian Development Bank forecast in December 2024 that developing Asia (excluding the Mainland) will expand further by 5.1% in 2025, a notch higher than the estimated 5.0% growth in 2024.



Table 2.1 : Growth forecasts for major economies in 2025

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2024\*(%) | **2025** | | |
|  | IMF\*(%) | UN@ **(%)** | **Private sector** forecast^ **(%)** |
|  |  |  |  |  |
| World (PPP## weighted) | 3.2 | 3.3 | 2.8 | - |
| Advanced economies | 1.7 | 1.9 | - | - |
| US | 2.8# | 2.7 | 1.9 | 2.2 |
| Euro area | 0.7# | 1.0 | 1.1 | 0.9 |
| UK | 0.9# | 1.6 | 1.2 | 1.2 |
| Japan | 0.1# | 1.1 | 1.0 | 1.2 |
| Emerging market and developing economies |  |  |  |  |
| 4.2 | 4.2 | - | - |
| Emerging and developing Asia | 5.2 | 5.1 | - | - |
| Mainland China | 5.0# | 4.6 | 4.8 | 4.5 |
| India~ | 6.5 | 6.5 | 6.6 | 6.3 |
| ASEAN-5§ | 4.5 | 4.6 | - | - |
| Middle East and  Central Asia | 2.4 | 3.6 | - | - |

|  |  |  |  |
| --- | --- | --- | --- |
| Notes | : | (\*) | IMF World Economic Outlook Update, January 2025. |
|  |  | (@) | United Nations World Economic Situation and Prospects, January 2025. |
|  |  | (^) | Average forecasts as at 18 February 2025. |
|  |  | (-) | Not available. |
|  |  | (#) | Actual figures. |
|  |  | (##) | PPP refers to purchasing power parity. |
|  |  | (~)  (§) | India’s GDP growth refers to the fiscal year.  Includes Indonesia, Malaysia, the Philippines, Singapore and Thailand. |

***World inflation and global commodity prices***

1. Global inflation continued to ease in 2024 amid softening commodity and energy prices and the feeding through of monetary tightening in preceding years, though some stickiness was seen in services prices in some economies. The global disinflationary process is expected to continue in 2025, though there are upside risks stemming from escalating trade protectionism. Inflation levels in major economies are expected to approach or return to their central banks’ targets. In mid-January, the IMF forecast that global headline inflation would fall further from an average of 5.7% in 2024 to 4.2% in 2025, within which inflation in the advanced economies would ease from 2.6% to 2.1%.
2. International crude oil prices at end-2024 were lower than a year earlier, as supply concerns stemming from production cuts by major oil‑producing economies and escalated geopolitical conflicts were outweighed by weakening global demand. International prices of selected metals and food showed some uptick during the year, but remained well below their earlier peak levels. The outlook for international commodity prices will hinge on a host of demand-side and supply‑side factors. For oil prices in particular, the evolving geopolitical situation and the production decisions of major oil‑producing economies would be the major determining factors.



***Exchange rate movements***

1. The US dollar strengthened against all major currencies for 2024 as a whole, alongside market expectations for a slower pace of interest rate cuts. Following closely the movements of the US dollar, the Hong Kong dollar also appreciated against the currencies of our major trading partners. The nominal trade-weighted effective exchange rate index rose by 3% in December 2024 over a year earlier. The direction of exchange rate movements in 2025 will be subject to various uncertainties, including the monetary policy decisions of major central banks, relative economic growth performances of major economies, and geopolitical developments.



**Outlook for the Hong Kong economy in 2025**

1. Hong Kong’s total exports of goods resumed growth in 2024, supported by improved external demand for goods. Going forward, while the US’ trade protection measures would adversely affect its performance, steady global economic growth would support further growth in total exports of goods in 2025.



1. Exports of services saw a broad-based expansion in 2024. In 2025, increased convenience of cross-border travel alongside the Central Government’s measures benefitting Hong Kong and the SAR Government’s various initiatives to boost Hong Kong’s attractiveness as a tourist destination should help bring more visitors to Hong Kong, though relatively strong Hong Kong dollar would pose constraints on visitors’ spending. Cross-border financial and business activities would be supported by gradually easing financial conditions. Meanwhile, the performance of exports of trade‑related services would benefit from continued growth of trade in goods.
2. Growth in domestic demand moderated in 2024. Looking ahead, improved economic sentiment alongside the Mainland’s more proactive policies to boost its economy, easing financial conditions, and the SAR Government’s various initiatives to promote economic growth and development of Hong Kong should be supportive. This should be conducive to fixed asset investment, but uncertainties in the external environment may affect investor sentiment. The same set of factors, coupled with sustained growth of employment income, should boost private consumption which already showed signs of stabilisation towards the end of last year, though the change in residents’ consumption pattern may constrain the pace of recovery.





1. In sum, the Hong Kong economy is expected to grow moderately in 2025. Real GDP is forecast to grow by 2% to 3% in 2025, after growing by 2.5% in 2024. The forecast is predicated on the assumptions that the impacts of geopolitical tensions and trade conflicts would see no further significant deterioration, and the broad global monetary easing trend would continue. For comparison, the latest forecasts by private sector analysts for Hong Kong’s economic growth in 2025 range from 1.3% to 2.8%, averaging 2.2%. The IMF forecast made in October 2024 is 3.0%.



1. Underlying consumer price inflation in Hong Kong was mild in 2024. It should remain moderate in 2025. As the Hong Kong economy continues to grow, domestic costs such as rentals and labour costs may see some upward pressures. External price pressures should remain contained, provided that trade conflicts and geopolitical tension would not push up prices significantly. Underlying Composite CPI inflation is forecast at 1.5% in 2025, compared with 1.1% in 2024. The GDP deflator is forecast to rise by 3.5% in 2025. For reference, the latest forecasts for headline consumer price inflation in 2025 by private sector analysts average 1.9%, and the IMF forecast made in October 2024 is 2.3%.



**Forecast rate of change in 2025 (%)**

|  |  |
| --- | --- |
| **Gross Domestic Product (GDP)** |  |
|  |  |
| ***Real GDP*** | **2 to 3** |
| *Nominal GDP* | 5.5 to 6.5 |
|  |  |
| *Per capita GDP in real terms* | 1.6 to 2.6 |
| *Per capita GDP at current market prices* | HK$443,500 – 447,700  (US$56,900 – 57,400) |
| **Underlying Composite CPI** | **1.5** |
| **GDP Deflator** | **3.5** |

**Forecast on Hong Kong’s real GDP growth in 2025**

**recently made by other selected parties**

|  |  |  |
| --- | --- | --- |
|  | | (%) |
| Asian Development Bank (December 2024) | | 2.3 |
| IMF (October 2024) | | 3.0 |
| Average forecast by private sector analysts# | | 2.2 |
| Note : (#) | Real GDP growth forecasts by private sector analysts fall between 1.3% and 2.8%. | |

**Medium-term outlook for the Hong Kong economy**

1. The medium-term outlook for the Hong Kong economy is bright. Further loosening of financial conditions amid the broad trend of monetary policy normalisation should support global demand in the coming years. Asia should remain as an important growth engine of the global economy. In particular, the Mainland economy, through utilising innovation and technology to lead the development of new quality productive force, boosting domestic demand, and deepening reforms and further opening up, will achieve economic transformation and upgrading and sustain steady growth. These developments will provide substantial opportunities for different segments of the Hong Kong economy, though the tense China-US relations may pose challenges.
2. As the only place in the world where the global advantage and the China advantage come together, Hong Kong is well-positioned to capture these opportunities ahead. The Government is committed to, amongst others, harnessing Hong Kong’s institutional strengths under “One Country, Two Systems” to reinforce and enhance Hong Kong’s status as an international financial, shipping and trade centre, and to support Hong Kong in building itself into an international hub for high-calibre talent. Hong Kong will continue to play an active role as a “super connector” and “super value-adder” connecting the Mainland with the world, facilitating our country’s effort in going global while attracting foreign companies to the Mainland market.
3. In the face of keen competition and challenges in the external environment, the Government has been putting in proactive efforts in expanding economic capacity, enhancing competitiveness, and developing strategic growth areas. These measures are bearing fruit, and will help Hong Kong achieve sustainable growth. For example, the Office for Attracting Strategic Enterprises has already attracted 66 strategic enterprises to set up or expand their businesses in Hong Kong by the end of last year. Over 180 000 talents have arrived Hong Kong through various talent admission schemes launched by the Government since late 2022. The Three-runway System at the Hong Kong International Airport was commissioned last November, and the Kai Tak Sports Park will open in March.
4. Considering the above factors, the Hong Kong economy is expected to grow by 2.9% per annum in real terms from 2026 to 2029, compared with the average annual growth of 2.8% during the ten years before COVID-19 (2010‑2019).
5. The inflation outlook for Hong Kong in the medium term will hinge on a range of domestic and external factors. Domestic cost might pick up as the Hong Kong economy continues to expand in the years ahead. Nevertheless, the Government’s initiatives to increase productive capacity and raise productivity and efficiency of the economy should help contain the upward pressures. External price pressures should remain largely moderate, with the continued efforts by major central banks to rein in inflation. Yet, international commodity price fluctuations stemming from geopolitical tensions warrant attention. Taking all these factors into account, the trend rate of underlying Composite CPI inflation in Hong Kong from 2026 to 2029 is forecast at 2.5% per annum.



Note : The Hong Kong economy recorded the largest ever contraction amid the outbreak of the COVID‑19 pandemic in 2020, rebounded sharply in 2021 and shrank again in 2022, in stark contrast to the growth trend in the pre-pandemic years. Hence, the 10-year trend growth for the period 2010 – 2019 is used to better illustrate the underlying growth trajectory in recent years.