Broadening recovery

Economic Monitor
HONG KONG

Q4 2025

- **We raise our 2025 GDP forecast to 3.2%, and expect 2026 growth to come in at 2.5%. The anticipated slowdown from 2025 primarily reflects easing external trade tailwinds, as the lift from front-loading diminishes and the base effect worsens.**

- **That said, domestic demand is set to extend its nascent rebound; a broadening of economic recovery will be key to rekindling 'animal spirits' among consumers and businesses.**

- **Hong Kong has benefitted from easy global liquidity conditions; the risk is that the rate-cutting cycles among most major and regional central banks are nearing completion.**

- **We see two more Fed cuts in 2026; this hinges on Powell's successor adopting a more dovish stance. HIBOR should edge lower in tandem, offering support to property sentiment.**

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Hong Kong Gross Domestic Product, by components, year on year %

	2025 Q1	2025 Q2	2025 Q3
GDP	3.0%	3.1%	3.8%
Consumption	-1.2%	1.9%	2.1%
Investment	1.1%	1.9%	4.3%
Government spending	0.9%	2.5%	1.9%
Exports of goods	8.4%	11.5%	12.1%
Imports of goods	7.2%	12.6%	11.7%
Exports of services	6.3%	8.6%	6.3%
Imports of services	4.7%	7.3%	2.6%

Source: Census & Statistics Department, Hang Seng Bank

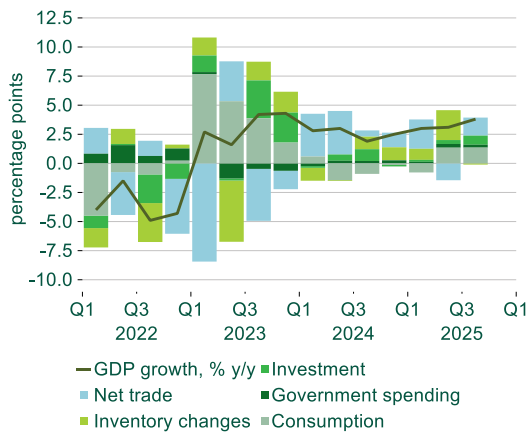
Rekindling animal spirits

We raise our GDP growth forecast to 3.2% from 2.5% for 2025. This adjustment reflects the economy's stronger-than-expected performance over the first three quarters, driven by a remarkably resilient export sector despite heightened tariff uncertainties and US-China tensions. Domestically, consumption has also been buoyed by a stabilising property market and a more active stock market. With Q4 growth on track to achieve approximately 3% year-on-year, Hong Kong is poised to enter 2026 with solid momentum.

For 2026, we anticipate GDP growth at 2.5%, in line with Bloomberg's consensus. The anticipated slowdown from 2025 primarily reflects easing external trade tailwinds, as the lift from front-loading diminishes and the base effect worsens. However, domestic consumption is likely to continue its nascent recovery. The labour market, which typically lags behind the broader cycle, is expected to turn the corner sometime in the first half of 2026. This, coupled with further Fed cuts and more pro-growth policies from the mainland, should create a decent floor for 2026 growth.

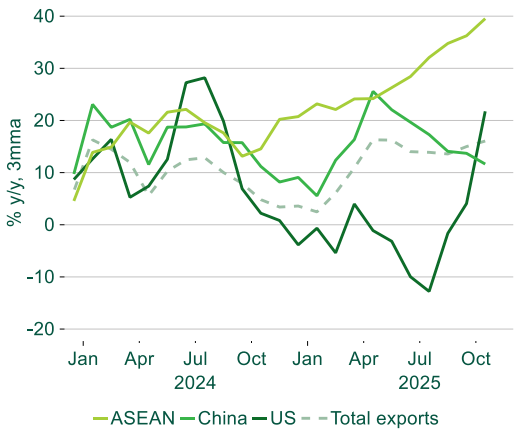
A year ago, Hong Kong faced weak growth expectations and battered sentiment, with rising doubts in the market about its ability to maintain fiscal prudence and long-term competitiveness. The economy has come a long way since, demonstrating its still-strong ability to ride on rising global trade and financial market tides. However, the current recovery remains too narrow to fully rekindle 'animal spirits' among consumers and businesses. A broadening of growth in 2026 should help address this issue.

Exhibit 1: Contribution to GDP growth, ppts



Note: data up to Q3 2025
Source: Macrobond, Hang Seng Bank

Exhibit 2: Exports to Selected Destinations, % y/y 3mma



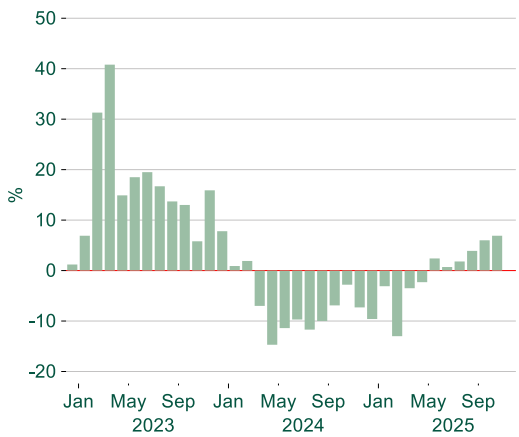
Note: data up to Oct 2025
Source: Macrobond, Hang Seng Bank

Ride the global trade tide

Exports grew 17.5% year-on-year in October, marking nine consecutive months of double-digit growth and boosting year-to-date growth to 13.8% year-on-year. This is no small feat, particularly given the disruptions from US reciprocal tariffs to the global trade order. Exports to non-US destinations (+14.6% year-on-year year-to-date) have demonstrated remarkable resilience, effectively offsetting an early bout of softer shipments to the US (3.1% year-on-year). Notably, exports to ASEAN rose 31.5% year-on-year over the same period (Exhibit 2). Hong Kong, as a re-export hub, has benefited from the rerouting and relocation of Chinese production offshore, alongside the emergence of the Global South as new markets. The recent US-China agreement to lower tariffs and extend the trade truce for a year is expected to provide further relief to exporters.

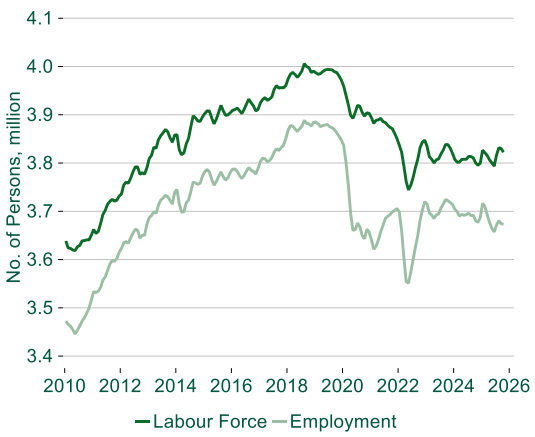
Despite these structural positives, we expect exports to moderate from 13% year-on-year this year to 4% year-on-year in 2026, as the previous boost from front-loading reverses. This looks to offset ongoing tailwinds from still-competitive China exports and robust global demand for AI products. Electronics account for over 70% of Hong Kong's merchandise exports, with two-thirds comprising electrical machinery and parts. These shares have been increasing in recent years, to a point where a global fallout from AI overinvestment, if it occurs, could disproportionately impact the highly open Hong Kong economy. Although this is not our primary scenario, it highlights the need to continue exploring growth avenues beyond trade.

Exhibit 3: Retail Sales Value, % y/y



Note: data up to Sep 2025
Source: Macrobond, Hang Seng Bank

Exhibit 4: Employment and Labour Force, mn persons



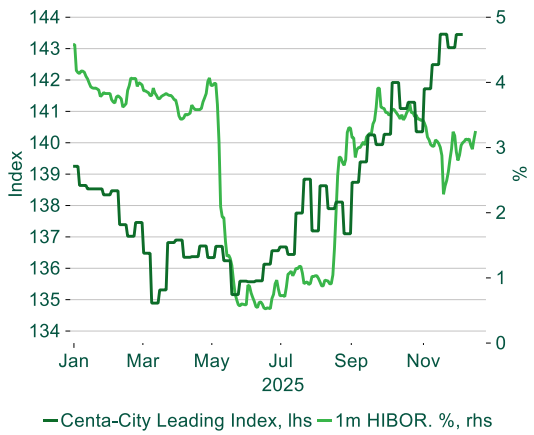
Note: data up to Oct 2025
Source: Macrobond, Hang Seng Bank

Domestic green shoots

Domestic demand has been steadily improving and is expected to maintain this momentum into 2026. Private consumption expenditure increased by 1.9% year-on-year in Q2 and 2.1% year-on-year in Q3, following four consecutive quarters of contraction. This growth contributed 1.4 percentage points to the notable 3.8% headline GDP growth in Q3, nearly matching the 1.6 percentage points contribution from net exports of goods and services. Recent retail sales figures have also been encouraging. By value, retail sales have been expanding year-on-year for six consecutive months as of October, reversing a 14-month contraction period (Exhibit 3). The wealth effect from a more active stock market and a stabilisation in residential property markets has supported consumer spending, offsetting challenges in the labour market.

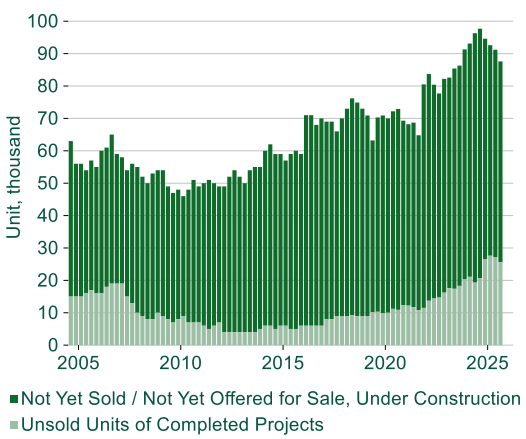
We anticipate retail sales to grow by 5.5% in 2026, accelerating from an estimated 1.8% rise this year. However, despite these positive projections, retail sales for the whole of 2026 are expected to remain approximately 1% below the 2023 total, or approximately 17% below the 2018 pre-COVID peak. Similarly, while it is encouraging to see the first month-on-month decline in the unemployment rate in October since it began rising from its 2.8% low in mid-2023, we expect the real peak to occur only in the first half of 2026, given the lagging nature of the labour market cycle. And even then, the sizes of employment and the labour force are likely to remain well below pre-COVID levels (Exhibit 4). All this points to a steady but modest domestic recovery.

Exhibit 5: Residential Property Price vs 1m HIBOR



Note: data up to early Dec 2025
Source: Macrobond, Hang Seng Bank

Exhibit 6: Residential Housing Inventory Overhang



Note: data up to Q3 2025
Source: Macrobond, Hang Seng Bank

Tail end of global easing

A significant risk to our growth forecast for Hong Kong is the sustainability of favourable global financial conditions. 2025 has been a year of synchronised monetary policy easing across central banks big and small, resulting in a global liquidity tide that has lifted all financial boats, including the Hang Seng Index and the city's IPO market. However, the liquidity story appears less compelling in 2026, as many of the major and regional central banks are nearing the end of their easing cycles. The Fed – being one of the biggest laggards in this rate-cutting cycle – could therefore exert an outsized influence on market sentiment and volatility short-term.

We now see two remaining Fed cuts: a 25 basis points cut in both Q2 and Q3 of 2026. This expectation hinges on Powell's successor adopting a more dovish stance and being prepared to act upon it once in office. Prior to Q2, we believe incoming data will remain too murky, and the Fed too divided, to reach a strong rate-cut consensus. Beyond Q3, the Fed's target rate should have fallen close enough to the terminal rate and is no longer perceived as restrictive; taking interest rates further lower from there would probably need a 2%-bound US inflation – a tall order, in our view.

Cautiously optimistic

In light of our latest Fed call, we expect HIBOR to follow its USD counterparts lower throughout much of the first half of 2026 before stabilising. Although HIBOR is unlikely to revisit its mid-2025 lows (the Aggregate Balance, a measure of interbank liquidity, has normalised since, from over HKD 170bn down to the current HKD 54bn), any degree of interest rate easing should still provide relief to businesses and bolster property sentiment.

After enjoying a reprieve during the mid-year HIBOR dip, the residential property market has continued to hold up surprisingly well since (Exhibit 5). Notably, monthly residential property transaction volumes consistently came in above 5,000 units from March to October, better than the approximately 4,000 average over the 24 months prior; this is also the first eight-month streak since Q3-2021, when the property market approached its record peak. That said, housing inventory overhang remains substantial after recent drawdowns, posing headwinds to further price gains (Exhibit 6). Property developers are likely keen to keep prices competitive to further reduce housing inventory on any upticks in home-buying activity.

Hong Kong Economic Statistics

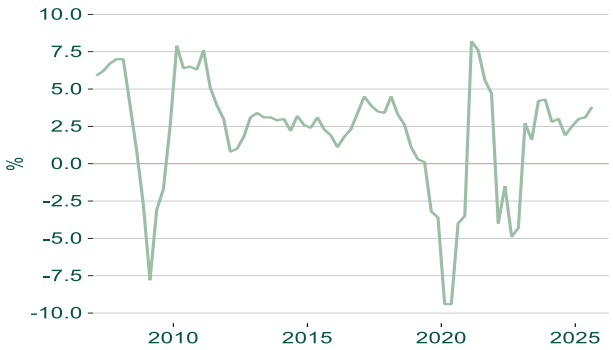
	GDP		Retail sales		Foreign trade					Unemployment rate (s.a.)	Inflation
					Exports		Imports		Trade balance		
	Nominal	Real	Value	Volume							
	HKD bn	yoy (%)	yoy (%)	yoy (%)	HKD bn	yoy (%)	HKD bn	yoy (%)	HKD bn	(%)	yoy (%)
2020	2,676	-6.5	-24.3	-25.5	3,933	-1.5	4,273	-3.3	-339.5	5.5	0.3
2021	2,868	6.5	8.1	6.5	4,968	26.3	5,311	24.3	-343.1	5.4	1.6
2022	2,809	-3.7	-0.8	-3.3	4,540	-8.6	4,930	-7.2	-389.9	4.3	1.9
2023	2,983	3.2	16.2	13.8	4,184	-7.8	4,649	-5.7	-464.6	3.0	2.1
2024	3,175	2.5	-7.3	-9.0	4,550	8.7	4,928	6.0	-378.2	3.0	1.7
Q1 2024	767	2.7	-1.3	-3.1	1,057	12.0	1,140	8.0	-83.0	2.9	1.9
Q2 2024	758	2.9	-11.9	-13.5	1,128	12.5	1,206	7.4	-78.1	3.0	1.2
Q3 2024	814	2.0	-9.6	-11.3	1,170	7.9	1,278	6.2	-108.2	3.0	2.4
Q4 2024	836	2.5	-6.6	-8.3	1,194	3.6	1,303	2.9	-108.9	3.1	1.4
Q1 2025	800	3.0	-6.5	-8.3	1,173	10.9	1,252	9.8	-79.6	3.2	1.6
Q2 2025	787	3.1	0.3	-0.5	1,286	14.0	1,389	15.1	-102.3	3.5	1.8
Q3 2025	854	3.9	3.9	3.1	1,345	15.0	1,455	13.8	-109.7	3.8	1.1
Jun 2025	NA	NA	0.7	-0.3	418	11.9	477	11.1	-58.9	3.5	1.5
Jul 2025	NA	NA	1.8	0.9	446	14.3	480	16.5	-34.1	3.7	1.0
Aug 2025	NA	NA	3.9	3.4	437	14.5	462	11.5	-25.4	3.7	1.1
Sep 2025	NA	NA	5.9	4.8	462	16.1	513	13.6	-50.2	3.9	1.1
Oct 2025	NA	NA	0.0	0.0	462	17.5	502	18.3	-39.9	3.8	1.2
YTD	NA	NA	-0.8	-1.9	4,266	13.9	4,597	13.5	-331.5	3.5	1.5

	Total deposits		RMB deposits		Total loans		Money supply (M3)	Residential property price index		Tourist arrivals	
	HKD bn	yoy (%)	RMB bn	yoy (%)	HKD bn	yoy (%)	yoy (%)	Index	yoy (%)	'000	yoy (%)
2020	14,514	5.4	722	14.1	10,499	1.2	5.8	379.9	0.2	3,569	-93.6
2021	15,186	4.6	927	28.4	10,893	3.8	4.3	393.9	3.7	91	-97.4
2022	15,440	1.7	836	-9.8	10,571	-3.0	1.6	334.7	-15.0	605	561.5
2023	16,222	5.1	939	12.4	10,191	-3.6	4.0	311.3	-7.0	34,000	5,523.8
2024	17,373	7.1	927	-1.3	9,908	-2.8	7.4	289.2	-7.1	44,503	30.9
Q1 2024	16,197	4.4	945	19.0	10,088	-5.4	3.4	308.1	-12.5	11,229	154.3
Q2 2024	16,743	8.2	1,062	17.0	9,996	-5.0	7.4	302.5	-12.9	9,922	17.2
Q3 2024	17,163	8.7	1,016	6.7	9,976	-3.1	8.5	287.9	-12.5	11,438	9.6
Q4 2024	17,373	7.1	927	-1.3	9,908	-2.8	7.4	289.2	-7.1	11,914	11.6
Q1 2025	17,977	11.0	960	1.6	9,971	-1.2	10.8	284.9	-7.5	12,228	8.9
Q2 2025	18,698	11.7	882	-16.9	10,158	1.6	11.5	286.7	-5.2	11,408	15.0
Q3 2025	19,144	11.5	1,002	-1.4	10,069	0.9	11.1	293.1	1.8	12,836	12.2
Jun 2025	18,698	11.7	882	-16.9	10,158	1.6	11.5	286.7	-5.2	3,481	11.1
Jul 2025	18,727	11.2	938	-11.3	10,042	1.5	10.8	288.1	-3.2	4,391	12.0
Aug 2025	18,892	10.9	968	-4.6	10,004	0.8	10.4	288.7	-1.1	5,153	15.7
Sep 2025	19,144	11.5	1,002	-1.4	10,069	0.9	11.1	293.1	1.8	3,292	7.5
Oct 2025	-	-	-	-	-	-	-	294.3	1.1	4,589	12.2
YTD	19,144	11.5	1002	-1.4	10,069	0.9	11.1	294.3	1.1	41,060	12.0

NA: not available; yoy= year-on-year; ytd= year-to-date

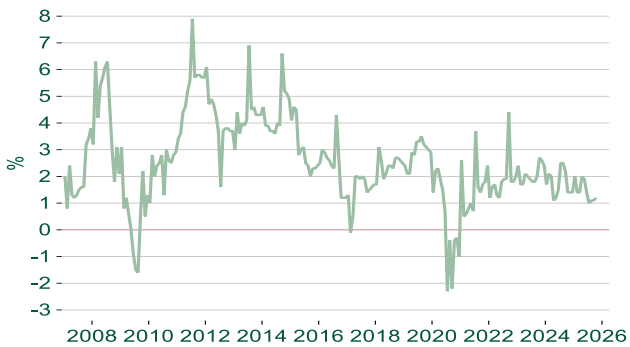
Source: Census & Statistics Dept., HKMA , Rating & Valuation Dept., Hong Kong Tourism Board, Macrobond, CEIC, Hang Seng Bank

GDP Growth



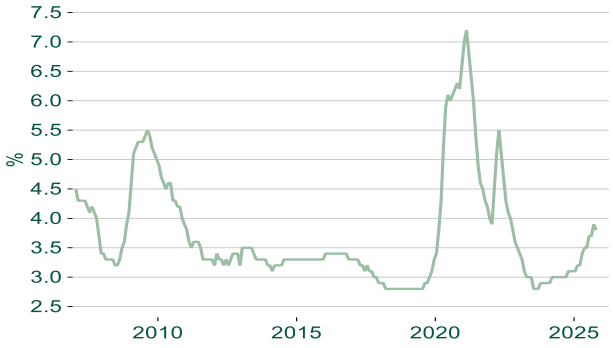
Source: Macrobond, Hang Seng Bank

Consumer Price Inflation



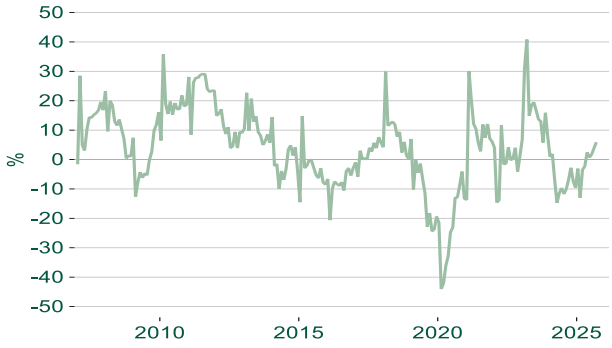
Source: Macrobond, Hang Seng Bank

Unemployment Rate (s.a.)



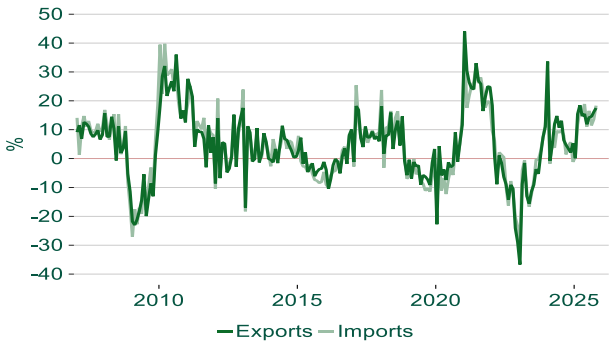
Source: Macrobond, Hang Seng Bank

Retail Sales Value



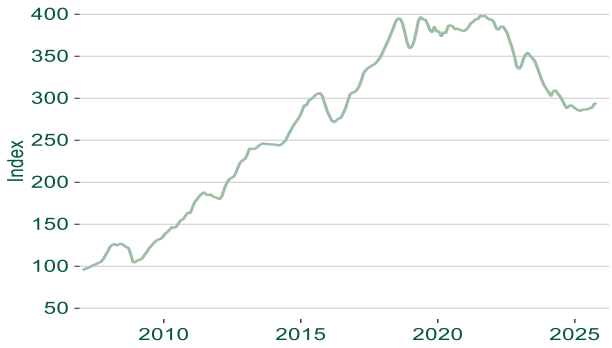
Source: Macrobond, Hang Seng Bank

Exports & Imports



Source: Macrobond, Hang Seng Bank

Residential Property Price Index



Source: Macrobond, Hang Seng Bank

Hong Kong Economic Data Forecasts

	2025	2026	2027
GDP	3.2%	2.5%	2.6%
Inflation	1.6%	1.9%	1.8%
Unemployment rate	3.8%	3.6%	3.3%
Retail sales value	1.8%	5.5%	5.0%
Retail sales volume	0.4%	4.0%	3.2%
Exports	13.0%	4.0%	7.0%
Imports	12.0%	3.0%	5.0%

Mainland China Economic Data Forecasts

	2025	2026	2027
GDP	4.9%	4.8%	4.7%
Inflation	0.1%	1.5%	2.0%
Industrial output	5.9%	5.5%	5.3%
Fixed asset investment	-2.6%	2.0%	3.5%
Retail sales	3.9%	5.5%	5.3%
Exports	5.4%	3.0%	4.0%
Imports	-0.3%	4.0%	5.0%

Source: Hang Seng Bank
Note 1: All figures are annual change, except unemployment rate
Note 2: forecasts by Global Markets, Hang Seng Bank

Central Bank Policy Rates Forecasts

(end period)	Nov 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026
North America					
US	3.75 – 4.00%	3.50 – 3.75%	3.50 – 3.75%	3.25 – 3.50%	3.00 – 3.25%
Canada	2.25%	2.25%	2.25%	2.25%	2.25%
Europe					
Eurozone	2.00%	2.00%	2.00%	2.00%	2.00%
UK	4.00%	3.75%	3.50%	3.25%	3.00%
Asia Pacific					
China	1.40%	1.40%	1.30%	1.30%	1.30%
Japan	0.50%	0.75%	0.75%	1.00%	1.00%
Australia	3.60%	3.60%	3.60%	3.85%	3.85%
New Zealand	2.25%	2.25%	2.25%	2.25%	2.25%

Exchange Rates Forecasts

(end period)	Nov 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026
North America					
USD / CAD	1.40	1.39	1.38	1.37	1.37
Europe					
EUR / USD	1.16	1.17	1.18	1.19	1.19
GBP / USD	1.32	1.33	1.33	1.34	1.34
Asia Pacific					
USD / CNY	7.07	7.10	7.10	7.10	7.10
USD / JPY	156.18	153.00	148.00	146.00	144.00
AUD / USD	0.65	0.66	0.67	0.68	0.69
NZD / USD	0.57	0.58	0.58	0.59	0.59

Source: Macrobond, Bloomberg, Hang Seng Bank
Note 1: China's policy rate refers to 7-day reverse repo rate
Note 2: forecasts by Global Markets, Hang Seng Bank

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