



Country outlook ***Hong Kong***





Hong Kong



Form of Government: Special administrative region (People's Republic of China)

Capital: Hong Kong

Official language: Cantonese Chinese, Mandarin Chinese, English

Population: 7 million inhabitants (2018)

Currency: Hong Kong dollar (HKD)

Exchange rate: 1 EUR = 8.74 HKD (31/10/2019)
1 USD = 7.84 HKD (31/10/2019)

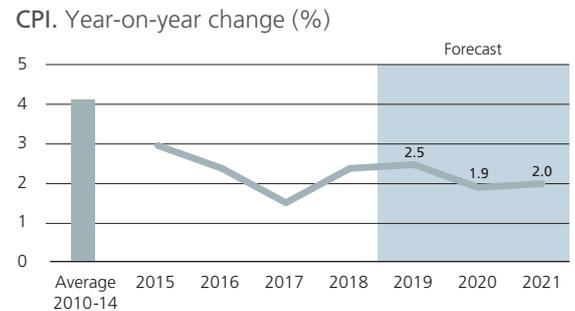
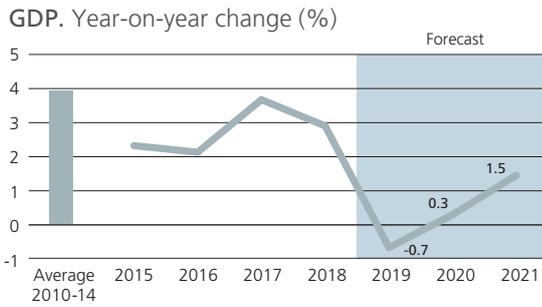
GDP: \$362 billion (0.3% of world GDP)

GDP per capita: \$48,451 (\$64,199 purchasing power parity)

Ease of doing business: 4th in the world out of 190 according to the World Bank (Doing Business)

Religion: Traditional Chinese religions (90%)

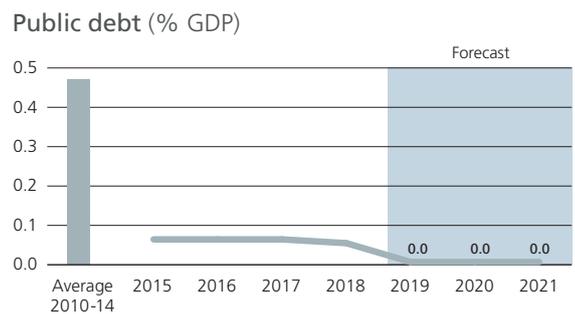
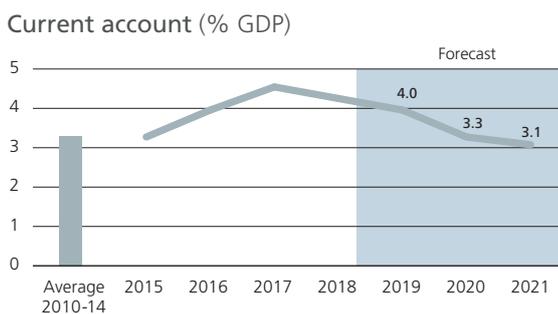
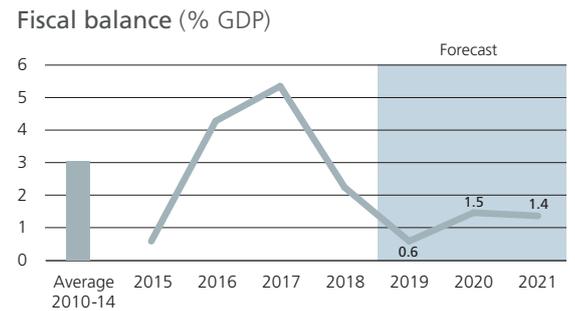
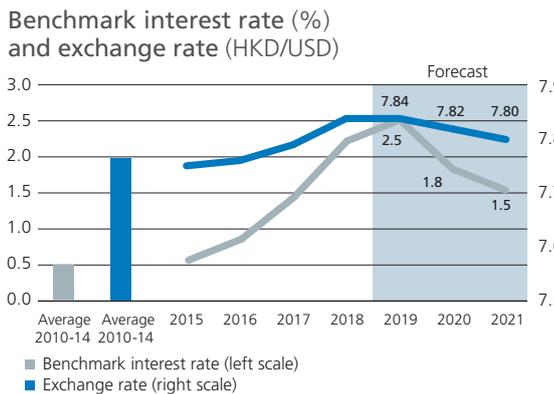
Economic forecast



- After years of dynamic growth, Hong Kong is facing a recession towards the end of 2019 and in 2020 due to more adverse internal and external environments. Externally, growth will be hit by the slowdown in trade flows caused by trade tensions and slower Chinese growth. Domestically, the ongoing political protests will lead to a decline in private consumption and tourism. Thanks to the new infrastructure construction projects already underway, investment will be the main supporting factor to prevent an even greater slowdown in growth. As these shocks become less pronounced, the economy will recover very gradually.

- The pace of inflation will slow over the coming years, a factor that can be attributed to lower-than-average economic activity compared to recent years and the appreciation of the Hong Kong dollar relative to the yuan (half of the island's imports come from mainland China).

Economic policy

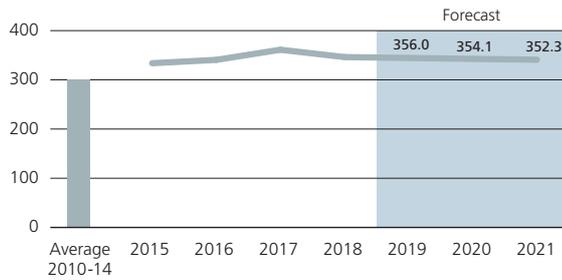


- Hong Kong has a balanced macroeconomic outlook: the fiscal balance is in surplus; public debt levels are very low; and the current account is also in surplus. In this context, the Hong Kong dollar's peg with the USD is expected to remain in place without too many problems; Hong Kong is well positioned to maintain it thanks to adequate foreign reserves (they double the monetary base in HKD) and liquidity management tools. Interventions to keep the currency within its band and the lowering of interest rates to align them with the latest measures by the Fed are set to continue in the near future.

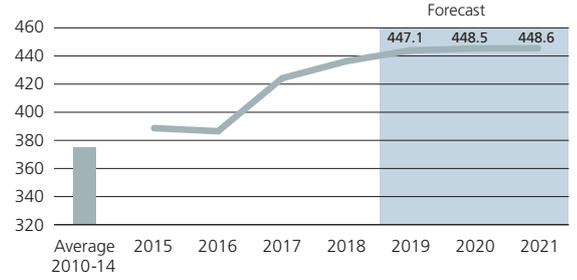
- Hong Kong will maintain its current account surplus in 2020-2021, although the difficult situation experienced by the island will erode that surplus significantly. On the one hand, the services sector will lose momentum, as the political tensions with China will reduce the number of visitors from mainland China (three quarters of tourists who visit Hong Kong are Chinese). On the other, the trade disputes between China and the US (over half of Hong Kong's trade is with these two markets) and the global economic slowdown will hit the island's exports. On the fiscal front, moderate stimulus is expected in the coming years in the form of increased public expenditure on housing, infrastructure, education and health and tax cuts to stave off an even greater slowdown.

Financial conditions

Private credit (% GDP)



Gross external debt (% GDP)



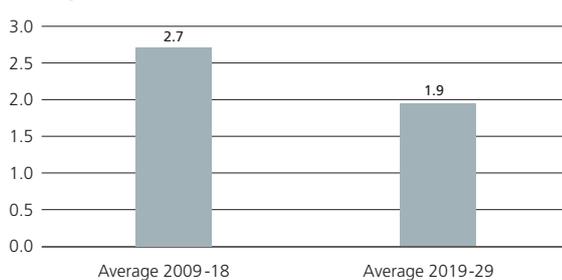
- The banking system remains sound, with appropriate levels of liquidity, profitability and capitalisation. Macro-financial conditions will continue to be accommodative, with interest rate cuts and policies designed to stimulate borrowing. In the short-term, uncertainty is expected to curb rising house prices, although it is unlikely that the sector will experience a sharp correction.
- Gross external debt is high, largely due to Hong Kong's role as a financial hub, although this is not a cause for concern since Hong Kong is one of the main net creditors in the world. It is potentially more concerning that, according to the IMF, 40% of the bank credit granted in Hong Kong is tied to China, which increases the vulnerability of banks in the face of possible solvency issues arising in the Asian giant. The island's growing corporate debt, jumping from 125% of GDP in 2010 to 170% currently, according to the IMF, is also worth noting.

Political situation

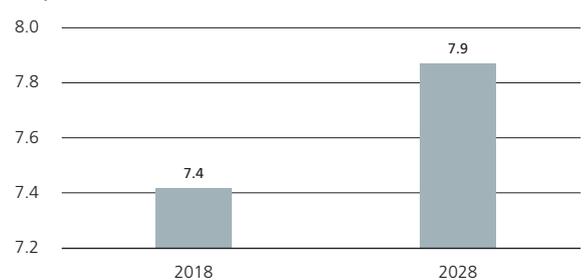
- The government in Beijing is expected to offer the island economic concessions to curb the protests and continue taking advantage of the considerable opportunities offered by Hong Kong's proximity to the dynamic cities of Shenzhen and Macau. In this regard, everything suggests that investment will continue in state-of-the-art infrastructure, to develop China's Greater Bay Area, an area with 70 million people which includes Hong Kong, Macau and nine cities in the Guangdong province.
- Although the intensity of the protests on the island may lessen, they are likely to persist in the coming years, since some of the demonstrators' demands (such as mechanisms to broaden political participation on the island) are unlikely to be accepted by Beijing. Consequently, stability is expected to return little by little, but with further tensions re-emerging relatively often. Moreover, the position of the Chief Executive of Hong Kong, Carrie Lam, has been weakened and she is not expected to stand again in 2022.

Long-term outlook

GDP growth (%)



Population (millions of inhabitants)



- Hong Kong will continue to gain importance as an international financial hub. A prime example of this is the linking of China and Hong Kong bond markets. The growing demand for financial services from mainland China will offset the lower growth in the trade in goods. The medium-term trend growth for the island is estimated at around 2.0%.
- The economy will have to cope with accelerated population ageing: according to the IMF, one in four people will be over 65 by 2030 (currently just one in six). As a result, the ageing of the population will hamper growth in the medium-term. One way to alleviate this problem would be to increase the rate of female participation in the workforce, which is currently 65% (80% for men), and to keep older workers in the labour market longer.

Country risk

	Rating	Last changed	Outlook	CDS* 5 years (basis points)	OECD credit risk rating (from 0 to 7, with 0 being the best)
STANDARD & POOR'S	AA+	22/09/17	Stable	41.8	2/7
MOODY'S	Aa2	16/09/19	Negative	41.4	
FitchRatings	AA	06/09/19	Negative		

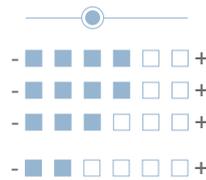
■ Indicates that the country has "investment grade".
□ Indicates that the country does not have "investment grade".

*Credit default swap: a measure of country risk that reflects the cost of insuring the default of the sovereign bond.

Risks

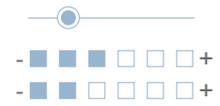
SHORT-TERM

- US swing towards protectionism
- Greater slowdown in China
- Domestic political uncertainty
- Increased tightening up of international financing



LONG-TERM

- Status within China
- Ageing population



Business environment

STRENGTHS

- Financial development.
- Infrastructures.
- Labour market.
- Education.
- Institutional environment.

WEAKNESSES

- Dependence on China.
- Dependence on the global market.
- High land prices.

Main sectors

EXPORTERS

- Electronic equipment; metals and precious stones; machinery; optical, photographic and medical devices; and plastics.

IMPORTERS

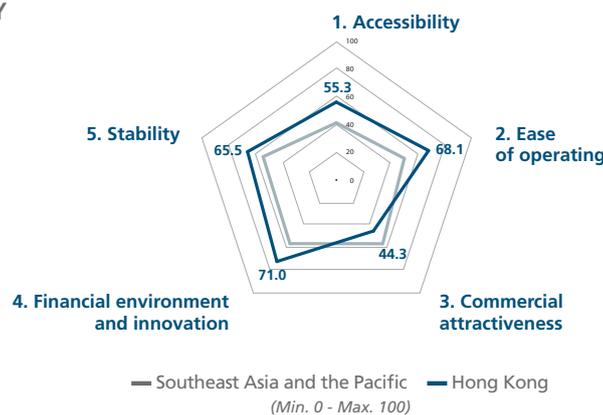
- Electronic equipment; metals and precious stones; machinery; optical, photographic and medical devices; and oils and plant products.

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POSITION IN COUNTRY RANKING



PILLARS



SUBPILLARS

- Top**
- Infrastructures
 - Easiness of operating a business
 - Credit and financial development
- Bottom**
- Distance, communications, and agreements with Spain
 - Similar tastes to Spain
 - Innovation capability

Taxation

Hong Kong's tax system is determined by the fact that only local income is subject to tax, as well as by the fact that it has some of the lowest tax rates in the world. Direct taxes are levied on corporate earnings (corporate tax), wages (corporate tax) and real estate. The corporate tax applies to any natural or legal person who practises a profession or holds a business in Hong Kong so any foreign company on the ground in the country must pay it. This is levied for the tax year (from 1 April to 31 March the following year) and the rate is 15%

for unincorporated businesses and 16.5% for companies set up as corporations, similar to Spanish limited companies. When calculating earnings (any profit from selling shares is exempt), companies can deduct the different costs incurred to achieve these, such as rent, bad debt costs, repairs, patent registration and purchase, expenses on research and innovation, employee insurance or loan interest payments. There is no value added tax (VAT) but taxes are levied on alcohol, tobacco and hydrocarbons.

Investment

In Hong Kong, direct foreign investment stood at 115.7 billion dollars in 2018, putting it in second place worldwide. This represents a 4.5% increase on 2017 (110.7 billion dollars) . It is the main port of entry to the Asian continent because of its low taxation system, legal security, excellent infrastructure as an international

logistics hub and the ease of doing business. Corporate holdings are the main recipients of investment, followed by the banking and financial system. The countries investing the most are: China, British Virgin Islands and the Netherlands.

Establishment

LOCAL COMPANY

Both Hong Kong companies and subsidiaries of international firms can be set up as a limited or unlimited company. Limited companies are similar to public limited companies and at least two shareholders are required, with a minimum share capital of 1,000 HKD, each share at a minimum nominal value of 1 HKD, the most normal being a nominal value of 10 HKD. In this kind of company, the foreign investor can hold any part of the company's

share capital since there are no restrictions. They must have a representative resident in Hong Kong and be entered in the Company Register, as well as the register of companies to pay taxes, namely the Business Registration Office of the Inland Revenue Department. The incorporation procedure for unlimited companies is the same as for limited companies but shareholders are personally liable for any losses.

BRANCH

This does not have its own legal personality in Hong Kong as it does not need to be set up as a company but it does have the obligation to comply with all the formal requirements of a

company; i.e. entry in the Register and paying tax on earnings via corporate tax. The foreign parent company is liable for the branch's debt.

REPRESENTATIVE OFFICE

This does not have its own legal personality in Hong Kong and cannot invoice, so it cannot

carry out commercial activities that generate any income in this territory.

Alliances strategic

FREE TRADE ZONE

Hong Kong has the status of a free port and promotes the free movement of goods and

capital so the whole territory is considered a free trade zone (the biggest in the world).

JOINT VENTURE

The law allows foreign investors to establish themselves in Hong Kong through a new company or by buying shares in an already operational Hong Kong company, without

requiring any kind of prior authorisation. There are no limitations to foreign capital. There is also free repatriation of profits, capital, royalties and dividends.

Customs conditions**FREE TRADE AGREEMENTS**

There is no formal agreement of an economic nature between the EU and Hong Kong but there are direct commercial relations and the EU grants Hong Kong autonomous status in everything related to commercial regimes as it is

a former colony of the United Kingdom. However, there is a Customs Cooperation Agreement as Hong Kong is considered to be a separate customs territory, as well as for trade purposes.

FREE TRADE ZONE

Hong Kong's tariff rate is very close to 0%, no customs duties are charged and it has few non-tariff barriers as the requirements and certificates to import foreign products are

minimal. It also has an easy tax system that is characterised by an exemption both from VAT and tax on inheritance and dividends, interest or earnings on capital.

GENERALISED SYSTEM OF PREFERENCES (GSP)

Hong Kong does not benefit from the EU's Generalised Scheme of Preferences.

Negotiations and protocol**BUSINESS CULTURE**

The language used for business is English although knowledge of Cantonese is appreciated. The business climate is typically serious and formal, the main negotiation strategy being to establish a relationship of trust with the person

responsible for the Hong Kong company so personal contact is very important. For this reason breakfasts, lunches and other informal activities can be of help in building such relationships.

Top fairs

- Medical and Healthcare Devices and Supplies Fair.
- Asia Fruit Logistica.
- Build4Asia.
- Global Sources Electronic Show.
- Hong Kong International Furniture Fair.
- Vinexpo.
- Hong Kong Toys & Games Fair.
- Hong Kong International Diamonds, Gem & Pearl Show.
- Fashion Week for Spring / Summer.
- Hong Kong International Wine & Spirit Fair

Websites of interest

- Investing in Hong Kong: <http://www.investhk.gov.hk/>
- Hong Kong Trade Development Council: <http://www.hktdc.com/>
- Customs Agency: <http://www.customs.gov.hk>

Payment and charging methods**MEANS OF COLLECTION**

It is advisable to guarantee collection by using the usual international methods, principally documentary credit which is the method that offers most guarantees. Another option used

frequently when there is a consolidated commercial relationship with the local company are bank transfers through SWIFT.

MEANS OF PAYMENT

Documentary credit is the most widely used payment method with Hong Kong firms as, in spite of having an open economy and being

one of the world's main hubs for international trade, there are small and medium-sized local companies that only operate as traders.

EXCHANGE RATE INSURANCE

For some years now the Hong Kong Monetary Authority has managed to stabilise the currency's fluctuation and turn it into one of the most solid currencies on the Asian continent.

The US dollar is still used in many transactions and it is advisable to insure against exchange rate fluctuations.

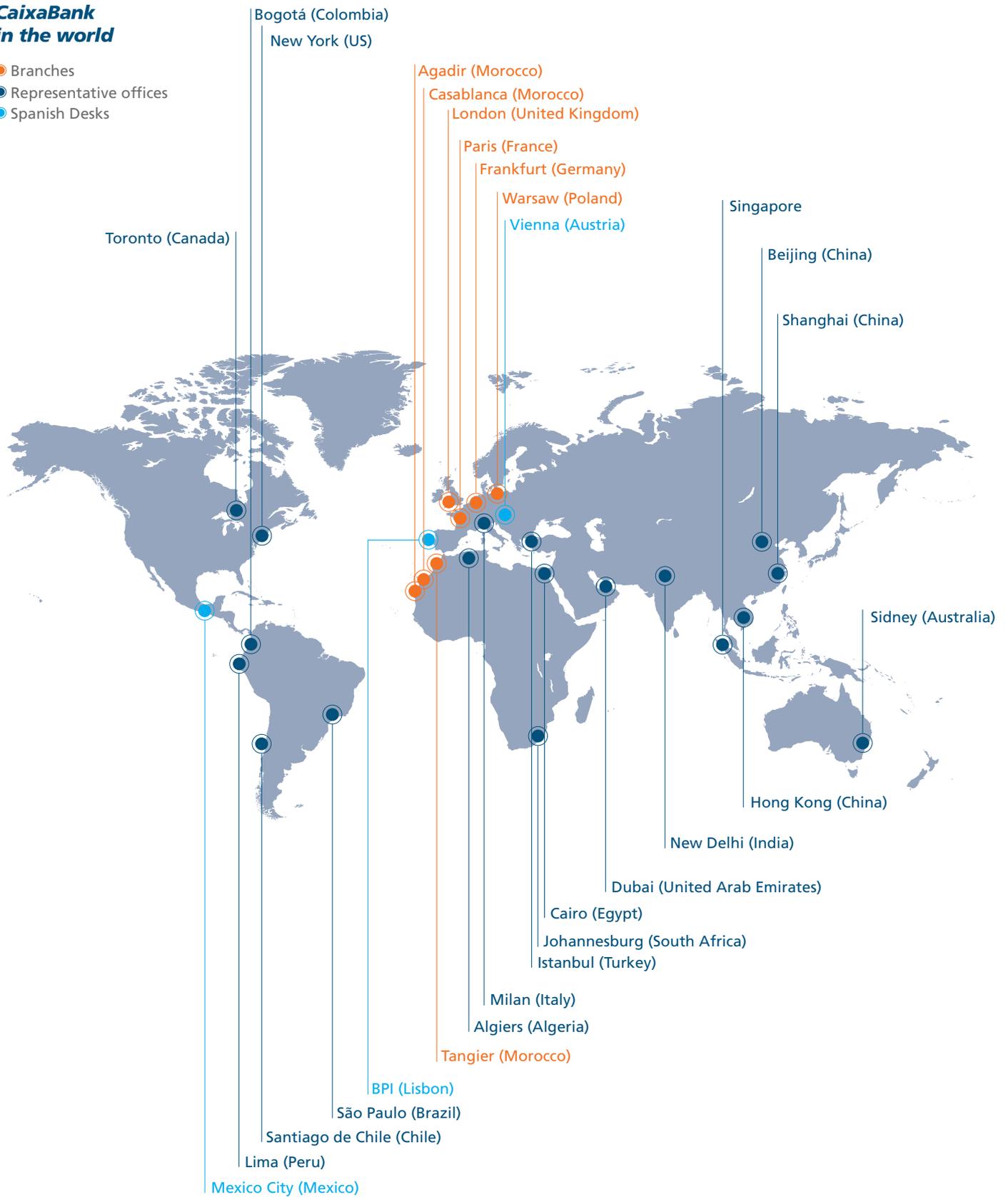
CaixaBank in the country

The main objective of the Hong Kong office is to improve communication channels with local financial institutions, supporting CaixaBank customers' activities in the country, whether

they are foreign trade or investment and deployment projects. They also offer consulting and accompany Spanish companies that wish to develop their business abroad.

**CaixaBank
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- Representative offices
- Spanish Desks



Hong Kong representative office

33 Des Voeux Road Unit 12a
Hong Kong

Director: Min Cai
Tel. 619 206 913