

# GLOBAL BUSINESS MONITOR

2019



# HONG KONG

POPULATION:



7.4M

NUMBER OF BUSINESSES:



340,000<sup>14</sup>

## SME MARKET OVERVIEW

There are about 340,000 small and medium enterprises (SMEs) in Hong Kong. They constitute over 98 per cent of Hong Kong's business establishments and employ around 45 per cent of the workforce in the private sector. The vitality and business performance of such SMEs are of crucial importance to the development of the economy.

Among the 13 economies surveyed, Hong Kong's SMEs are the least focused on domestic trade (60% versus an average of 86%) while they have the highest share in export business (48% versus an average of 28% across all countries/ regions surveyed). This makes them particularly vulnerable to the deceleration in global trade growth and the rising uncertainties with regard to trade tensions and protectionism.

Across the 2019 study, Hong Kong SMEs are the least optimistic about future economic growth, with 41 per cent expecting Hong Kong's economic performance to get worse in next 12 months. This compares to 28 per cent in the 2017 survey (also the least optimistic then), with the deterioration in Hong Kong and elsewhere clearly reflecting the worsened economic outlook, respectively.

Another challenge for Hong Kong SMEs, reflecting the experiences of SMEs in all countries/ regions surveyed this year, remains timely collection of payment from customers, with an increase to 48 per cent (versus 43% in 2017) saying this is the most problematic area in terms of cashflow management.

Second only to Singapore, Hong Kong SMEs have to wait the longest for payment from customers as of 2019 though the duration of their wait has improved significantly since 2017. More than a quarter (27%, unchanged from 2017) of Hong Kong SMEs surveyed have experienced bad debt over the past year.



**MARIA CHUNG, MANAGING DIRECTOR, BIBBY FINANCIAL SERVICES, HONG KONG**

## ECONOMIC PERSPECTIVE

Hong Kong's economy expanded modestly by 0.6 per cent year-on-year in real terms in the first half of 2019, a marked deceleration from 3.0 per cent in 2018 as a whole. The slowdown was broad-based. Private consumption increased by a meagre 0.7 per cent in H1 2019 and fixed investment dropped by -9.7 per cent. What's more, external trade activity declined - with exports of goods down by -4.7 per cent and imports by -5.9 per cent - reflecting shrinking demand from mainland China amid escalating U.S. - China trade tensions. Mainland China is Hong Kong's major trading partner, accounting for around 55 per cent of its exports and 46 per cent of its imports in 2018. Moreover, over 8 per cent of Hong Kong's exports are shipped to the U.S., making it the second most important export destination. Hence, the likely deceleration in global economic expansion and increasing uncertainties from the external environment do not bode well for the economic outlook. Nominal retail sales decreased by -7.6 per cent year-on-year in June 2019, marking the fifth consecutive month of decline, and are likely to remain subdued in the second half of 2019, dampened by ongoing anti-government protests. As consumer price inflation has also picked up to 3.3 per cent in June from a recent low of 2.1 per cent in March 2019, private consumption is likely to remain weak in H2 2019, even though the unemployment rate has remained at the lowest level in more than 20 years (seasonally adjusted 2.8% in Q2 2019). Overall, Euler Hermes forecasts Hong Kong's economy to grow by about 0.4 per cent in 2019 as a whole.

**MANFRED STAMER, SENIOR ECONOMIST FOR EMERGING EUROPE AND THE MIDDLE EAST, EULER HERMES**

## RESEARCH FINDINGS

Cashflow remains one of the key challenges for Hong Kong's SMEs despite improved government support. Hong Kong SMEs are the least optimistic of all the surveyed countries/ regions about future economic growth, with only 30 per cent expecting the local economy to grow over the next 12 months. This pessimism stems from a combination of both internal and external challenges facing SMEs in the region, including rising costs and cashflow problems, mentioned by 36 per cent and 30 per cent of Hong Kong SMEs respectively. Cost increases and cashflow problems are not restricted to Hong Kong as these two issues were also the two greatest challenges for Singaporean SMEs. Cashflow problems also emerged as the top challenge to growth identified by 42 per cent of SMEs across 13 countries/ regions surveyed. These are expected to remain the biggest challenges facing Hong Kong's SME for the near future, exacerbated by increasing pressure from a lack of demand.

Hong Kong SMEs identified collecting payment from customers on time as the most problematic aspect of managing cashflow, reflecting a trend across SMEs. Hong Kong SMEs were also a standout territory in other aspects of the research, with 70 per cent of them (the largest cross-economy share) being concerned about global economic growth.

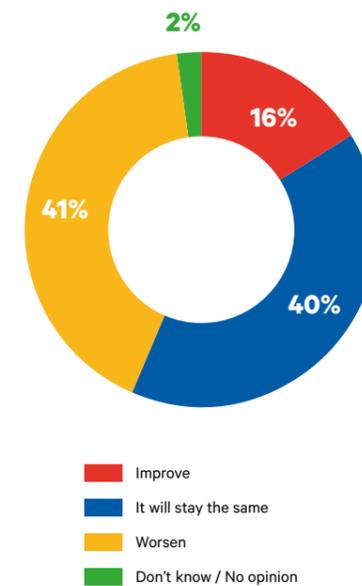
So, what is feeding this pessimism? Major concerns refer to worries shared with SMEs in other regions, including the political situation in the U.S. (54%), protectionism and declining international trade (32%) and slowing growth in China (32%), as in Singapore. Improvement has been seen in government support, with 16 per cent (up from 9% in 2017) saying that government policy is favourable to businesses like theirs. However, SMEs are calling for further support from government to increase funding available to them (38%).

Hong Kong SMEs are amongst the most open to considering innovative external sources of financing, with an increasing proportion (26% in 2019 versus 16% in 2017) using external finance, 32 per cent (as in 2017) saying that they would consider factoring as a potential source of finance for their business, and 29 per cent saying they would consider Peer-to-peer (P2P) lending.

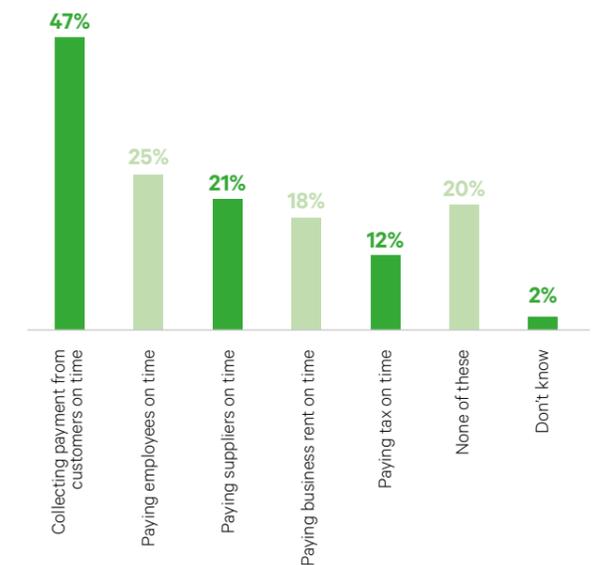
In common with SMEs around the world, a large proportion (48%) of Hong Kong SMEs identified documentation and paperwork as the main obstacles for SMEs seeking access to finance. Rejected applications for external finance have increased sharply in the last two years, doubling from 8 per cent in 2017 to 17 per cent in 2019.

Due to ongoing concerns about peer to peer data security and the lack of regulation of P2P, factoring was considered to be significantly more attractive.

## EXPECTATION OF HONG KONG'S ECONOMIC PERFORMANCE IN THE NEXT 12 MONTHS



## MOST PROBLEMATIC IN MANAGING CASHFLOW



<sup>14</sup> Trade and Industry Department, The Government of the Hong Kong Special Administrative Region, sourced Sept, 2019

## ABOUT BIBBY FINANCIAL SERVICES

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With over 40 operations in 14 countries spanning Asia, Europe and North America, BFS provides specialist and adaptable FX services, trade, asset and working capital finance, helping businesses to grow in domestic and international markets.

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In 2011, 2012, 2014, 2015, 2016, 2017, 2018 and 2019 the business was awarded a place in The Sunday Times 100 Best Companies to Work For, ranking 42nd in the most recent poll.

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