



Notes of JFU CPA, Tax Advisors, and Digital Tools are prepared for sharing our thoughts on problems encountered in the course of our practice. Subscription is free. Questions and comments are welcome; feel free to write to the Editor, JFU Notes, enquiries@jfuconsultants.com



Hong Kong Economic Outlook: 2026-27 Budget Speech & Cycle Assessment

Source: JFU

25 February 2026

Contact Us

[Joseph Fu | Partner \(Tax and Risk Management\)](#)

[Candy Tuen | Partner \(Tax and Operation\)](#)

Following the Financial Secretary's delivery of the 2026-27 Budget Speech today, we have updated our assessment of Hong Kong's position within the current business cycle.

The Budget Speech confirms a distinct shift in the economic landscape. The government's data points to an economy that has successfully navigated the post-crisis recovery and is now entering a period of sustained expansion, driven largely by a "stellar" performance in the financial markets and a stabilizing property sector.

Below is a summary comparing the official government outlook with our internal assessment, which utilizes the frameworks from Lars Tvede's seminal publication, *Business Cycles*.

Executive Summary: The Transition to Mid-Cycle Expansion

Based on Tvede's *General Model* of economic cycles, Hong Kong appears to have exited the "Recovery" phase (Phase 1) and is firmly establishing itself in the **"Mid-Cycle Expansion" (Phase 2)**. This phase is typically characterized by rising corporate earnings, a broadening stock market rally, and the beginning of asset rotation from financial assets into real estate.

1. The Financial Engine (The "Leading Indicator")

- **Budget Speech:** Highlights a 28% rise in the Hang Seng Index for 2025 and record-breaking daily turnover (\$250 billion).
- **Our Cycle Assessment:** This confirms the "Financial Accelerator" is in full effect. As noted in *Business Cycles*, financial markets lead the real economy. The wealth generated here is the primary fuel for the next stage of the cycle.

2. The Property Market (The "Turning Point")

- **Budget Speech:** Confirms the residential market has "turned positive" with a 3.3% price increase in 2025 after three years of decline. Transaction volumes are at a 4-year high.
- **Our Cycle Assessment:** This aligns with Tvede's "Asset Rotation" theory. We are seeing the classic lag close: profits from the stock market are beginning to rotate into the "undervalued" property sector. We assess the property market has passed its cyclical trough (the "Clean-up" phase) and is entering early-stage recovery.

3. Economic Growth & Fiscal Policy

- **Budget Speech:** Forecasts 2.5%–3.5% GDP growth for 2026 and a return to fiscal surplus ahead of schedule.
- **Our Cycle Assessment:** The "Operating Leverage" of the economy is improving. The government's commitment to massive infrastructure spending (Northern Metropolis), funded by bonds rather than reserves, acts as a "CapEx Accelerator," further supporting the transition to a mid-cycle boom.

Critical Risk Factor: The Geopolitical Blind Spot

While the internal metrics are bullish, our assessment highlights a significant external risk not fully factored into the Budget's optimism: **Middle East Geopolitics**.

In our scenario planning, a potential escalation involving Iran could trigger an oil shock and force US interest rates higher. Under the Peg, Hong Kong would import this monetary tightness, which could act as a sudden brake on the current expansion. We continue to monitor this strictly as a "Circuit Breaker" risk.

Conclusion

Barring a major geopolitical shock, the convergence of government data and cycle theory suggests Hong Kong offers a compelling "Mid-Cycle" opportunity. The valuation gap between the booming stock market and the just-recovering property market represents a classic asset allocation window.

We are available to discuss how this cycle positioning impacts your specific strategy and operation.

Workings

Based on the **2026-27 Budget Speech** by Financial Secretary Paul MP Chan, here is the official assessment of Hong Kong's economic position, compared with our earlier theoretical assessment.

The Official Verdict: A "Mid-Cycle Expansion" Confirmed

The Budget Speech strongly validates the previous assessment that Hong Kong has exited the recovery phase and is now in a **sustained expansion phase**, characterized by a booming financial market, stabilizing property sector, and a strategic pivot toward "new quality productive forces" (I&T).

1. Economic Cycle Position: "Sustaining Momentum"

Our Earlier Assessment: Phase 2 (Mid-Cycle Expansion). Stocks are booming (+75%), property is bottoming/lagging, and GDP is normalizing.

The Budget Speech View:

- **GDP Growth:** The economy grew by **3.5% in 2025** (3rd consecutive year of expansion) and is forecast to grow **2.5% - 3.5% in 2026** (Paragraphs 8 & 22). This "normal" but sustained growth confirms the economy is no longer in recovery but in a steady expansion track.
- **The "Boom":** The speech explicitly references a **"booming economy and capital market"** (Paragraph 3) and notes that **"overall sentiment [is] steadily turning positive"** (Paragraph 28).
- **Medium Term:** Forecasts **3% annual real growth** from 2027-2030 (Paragraph 27), suggesting confidence in a long-wave upswing.

Difference/Nuance: The government is slightly more optimistic about the breadth of the recovery ("overall sentiment") than our "split economy" model, likely due to the "stellar" stock market performance masking some structural shifts.

2. Stock Market: The "Wealth Effect" Engine

Our Earlier Assessment: A "Raging Bull Market" (HSI ~27,000) acting as a leading indicator.

The Budget Speech View:

- **Validation:** The speech calls the stock market performance **"stellar"** (Paragraph 14).
- **Data:** HSI rose **28%** in 2025 alone. Daily turnover surged 90% to a historic high of **\$250 billion**. IPO capital raised ranked **1st globally** (Paragraph 14).
- **Cycle Implication:** This massive creation of financial wealth (\$50 trillion market cap, mentioned in Paragraph 28a) is officially recognized as a driver that has **"improved public finances sooner than expected"** (Paragraph 3).

Difference/Nuance: The speech confirms the "Financial Accelerator" (Lars Tvede's *Business Cycles*) is firing on all cylinders. The government is banking on this to drive the "Finance+" strategy.

3. Property Market: The Turning Point

Our Earlier Assessment: "Depression/Clean-up Phase" (-30% drop), bottoming out, awaiting asset rotation.

The Budget Speech View:

- **Stabilization Confirmed:** The speech notes the market has "**turned positive**" (Paragraph 28a).
- **Data:** Transaction volume hit a 4-year high (63,000 deals). Prices rose **3.3%** in 2025, *ending a three-year decline* (Paragraph 15).
- **Policy Signal:** The government is confident enough to **raise stamp duty** on luxury homes (>\$100M) from 4.25% to 6.5% (Paragraph 261a), signalling they believe the luxury market is strong enough to bear higher taxes. This is a classic "Phase 2" move—removing support wheels as the market self-sustains.

Difference/Nuance: Our earlier assessment was slightly more bearish ("Depression"). The Budget Speech suggests the "**Clean-up is over** and the "**Recovery (Phase 1 of Real Estate)** has just begun (prices rising 3.3% after a crash). The lag is closing faster than expected.

4. Strategic Pivot: From "Service Hub" to "Productive Force"

Our Earlier Assessment: HK is a service economy dependent on the Mainland.

The Budget Speech View:

- **New Engine:** The speech highlights "**New Industrialisation**" and "**AI+**". It mentions:
 - **\$10 billion** injection for San Tin Technopole (Paragraph 69).
 - **\$100 billion** for I&T development (various funds).
 - "**South-North dual engine**" (Finance + I&T) (Paragraph 28e).
 - **Cycle Implication:** This represents a deliberate attempt to trigger a "**Kondratieff Wave**" (Technological Innovation Cycle) to layer on top of the financial cycle.
-

5. Fiscal Cycle: "Consolidation to Balance"

The Budget Speech View:

- **Surprise Surplus:** The Operating Account returned to surplus in 2025-26, *ahead of schedule*, driven by the stock market boom (Paragraph 3).
 - **Debt Cycle:** The government plans to issue **\$160-\$220 billion** in bonds annually (Paragraph 268) for infrastructure (Northern Metropolis).
 - **Assessment:** The government is leveraging the "Balance Sheet" of the city (low debt) to fund the "CapEx Boom" (Phase 2).
-

Conclusion: Where is HK?

According to the 2026-27 Budget, Hong Kong has successfully transitioned:

- **From:** A "Recovery" struggling with post-COVID hangovers and high rates.
- **To:** A "**Mid-Cycle Expansion**" fuelled by:
 1. **A Financial Super-Cycle:** (IPO #1, Stock Turnover Record).
 2. **Asset Reflation:** Property prices ending their 3-year bear market.
 3. **Fiscal Expansion:** Massive infrastructure spending (Northern Metropolis) funded by debt.

Risk to Watch (The Blind Spot):

The speech is highly optimistic about "**global trade tensions moderating**" (Paragraph 16) and "**US rate cuts**" (Paragraph 7). In our "War Scenarios," if the geopolitical situation in the Middle East explodes, these two core assumptions of the Budget will collapse, potentially derailing this rosy "Mid-Cycle" projection.