

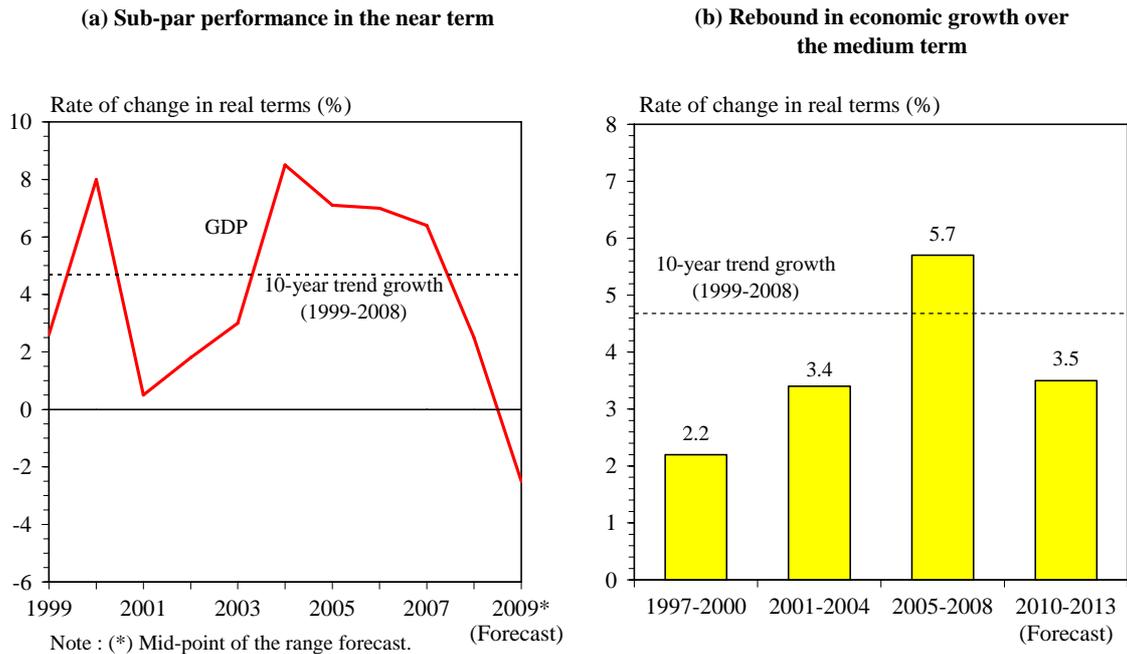
Medium-term outlook for the Hong Kong economy

At this juncture, whether the massive and unprecedented government policy responses taken by the major economies are effective in reviving the global economy in a sustainable manner is still highly uncertain. Even if the global economy can recover in the course of 2010 as expected, the growth pace is likely to be slow and sub-par in the initial stage of rebound, this will mean also sub-par growth in the Hong Kong economy. However, the Hong Kong economy looks set to stage a strong recovery once the global economy is back on the normal growth path. The intensification of construction of the major infrastructure projects will also help this recovery process. Taking cognizance of the sub-par growth in the early part of the medium term period, the average GDP growth rate in real terms is forecast at 3.5% per annum from 2010 to 2013.

Local inflationary pressures will recede rapidly and this trend may continue for a while. External price pressures will also ease off amid the current global economic slowdown, although food and energy prices may still show some volatility from time to time upon sudden supply shocks. Reflecting these expected developments, the trend rate of increase in the underlying Composite CPI over the medium term is likely to be moderate, at 2% per annum.

After the current global crisis has fully run its course, the medium and longer-term economic prospects for Hong Kong remain promising. The Government, together with the private sector, will continue to step up efforts to raise the competitiveness of the economy to complement the vibrant developments in the Mainland, by striving to restructure the economy towards knowledge-based, high value-added activities; by enhancing our roles as an international financial centre and a leading business hub; and by further strengthening our integration with the Mainland, especially positioning ourselves strategically in the PRD. Specifically on integration with the Mainland, the efforts to further expand CEPA, the supportive measures from the Central Government, and the initiatives to enhance greater cooperation with Guangdong and Shenzhen should continue to generate immense growth opportunities for Hong Kong to ride on.

Diagram 2.12 : Economy will recover strongly once the crisis is over



Apart from the issues regarding the timing and strength of a global economic recovery, there are several other challenges prevailing in the external environment over the medium term. The financial tsunami will lead to reforms in the global financial framework, to which Hong Kong will have to adjust and adapt quickly. The unwinding of global trade imbalances is now underway, and this could complicate the global economic recovery process. The aftermaths of the unprecedented policy responses by the US government can bring about a great deal of uncertainty over the movements of the US dollar in future, which can heighten volatility in financial and foreign exchange markets. Also, the political implications of higher unemployment in the advanced economies due to the current downturn cannot be ignored, as stronger protectionist sentiment from the US and EU against Mainland products may emerge, increasing the risk to Hong Kong's trade. Domestically, the structural shift of the Hong Kong economy to high value-added and knowledge-based activities would lead to greater variability in income and wealth distribution. Also, the ageing population will have profound implications on our health care and social welfare systems, as well as on public finance, over the medium and longer run. In view of these possible challenges, it is important to stick to a prudent fiscal policy.