

Medium-term outlook for the Hong Kong economy

2.27 The global economy will likely continue to face a higher degree of uncertainty over the medium term, given that the sovereign debt problem in the eurozone and the fiscal issues in the US are of structural nature, which will take time to be fully resolved. Notwithstanding this, the medium-term prospects for the Hong Kong economy should remain bright and promising. The Asian region, in particular the Mainland, should continue to be the key driver of global economic growth given its sounder fundamentals and huge development potentials. Hong Kong, with its advantageous location at the doorstep of the Mainland and strategic positioning as an international financial centre and regional business, trade and tourist hub, is poised to leverage on the growing economic prowess of the region while continuing to shift towards a knowledge-based, high value-added economy.

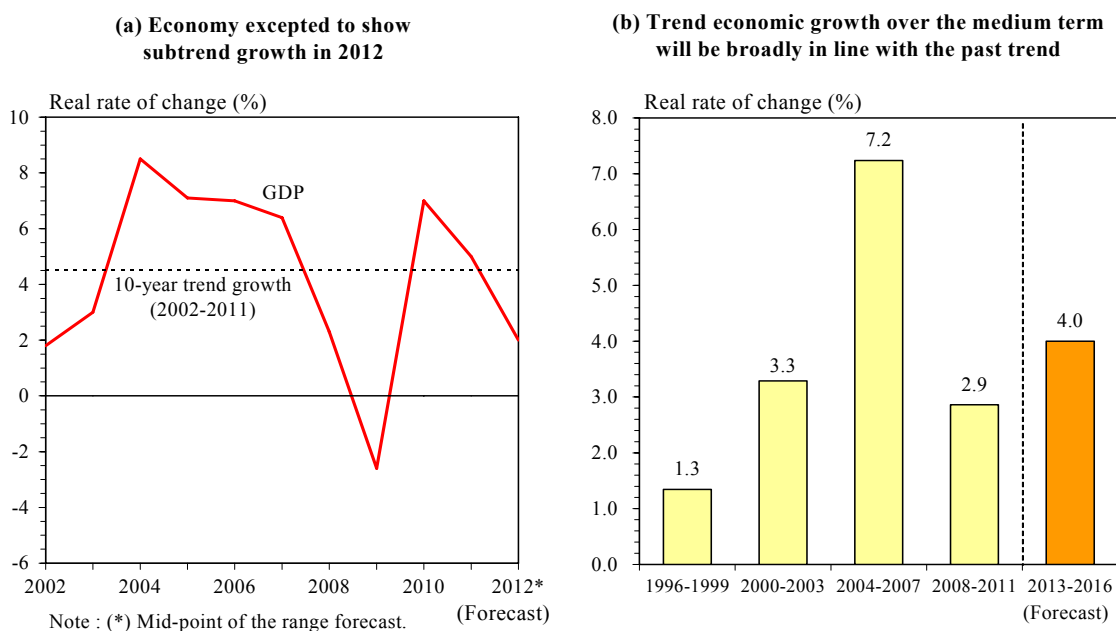
2.28 Specifically, Hong Kong will continue to deepen its integration with the hinterland through the CEPA and Pan-Pearl River Delta region platforms. With its long-established competitive advantage in financial and other services, Hong Kong will contribute to the nation's development in these areas while continuously propelling itself to move up the value chain. This is also a national strategy laid down in the National 12th Five-Year Plan. The process will open up vast opportunities for our professional services. In addition, Hong Kong will continue to broaden the local renminbi market and develop the asset management business in its strife to become a premier offshore RMB business centre, where it enjoys a first-mover advantage. Furthermore, the Government will also foster economic ties with new and emerging markets, and explore new growth areas such as the six industries where Hong Kong enjoys clear competitive advantage, in addition to the traditional four pillar industries in driving longer-term sustainable growth.

2.29 On the supply side, the Government will continue to upgrade our human capital and invest heavily on infrastructure to expand the production capacity and enhance efficiency. The productivity growth achieved in the process will help the economy attain a 4% growth per annum from 2013 to 2016, broadly in line with its past trend.

2.30 Inflationary pressures should come down gradually in the near term, but the upside risks to inflation over the medium term should not be underestimated at this juncture. Externally, upward pressures on global commodity prices should ease somewhat amid the expected demand slack in the advanced economies in the coming year or so. However, food and energy

prices may be subject to bouts of supply shocks, and the uncertain direction of the US dollar exchange rate and still-abundant global liquidity may also add further volatility to the global commodity price movements. Domestically, the continued productivity gain should provide some offset to local cost pressures. Taking into account the above factors, the trend rate of change in the underlying Composite CPI in Hong Kong over the medium term is forecast at 3.5% per annum.

Diagram 2.15 : Economic prospects remain bright over the medium term



2.31 The Government is mindful of the various challenges facing the global and local economy over the medium term. Globally, the fragile fundamentals of the advanced economies will continue to overshadow the growth prospects. The fiscal vulnerabilities of the advanced economies are rooted in structural problems that will take years to heal and meanwhile will undermine the real economy and increase financial market volatility. The economic drag and political discontent can also lead to increased protectionist sentiments on the trade and exchange rate fronts. How well the Asia region can withstand the drag with its relatively sound fundamentals will be crucial to the medium-term global economic outlook. Besides, the threat of inflationary pressures may still lurk in the background given the envisaged continuation of ultra-loose monetary stance in the advanced economies for some time. Locally, the structural shift of the Hong Kong economy to high value-added and knowledge-based activities could lead to wider income and wealth gaps, and would call for greater training and re-training needs of Hong Kong's workforce. Also, the ageing population will have profound implications on our public finance management over the medium to longer run, especially on the health care and social welfare fronts. In view of these medium-term issues and long-term development needs, it is therefore important for the Government to exercise prudence in deliberating its fiscal policy.