

2015 - 16 Budget

**Briefing for
the Consular Corps**

25 February 2015

2014 Performance

Salient features of economic performance in 2014

- Economy grew moderately by 2.3% for 2014 as a whole, compared to 2.9% in 2013
- Subdued external performance was the key drag; domestic sector still resilient with further growth
- Labour market remained in full employment; unemployment rate stayed low throughout the year (2014 year-end: 3.3%)
- Inflation eased for third consecutive year. Underlying inflation averaged at a benign 3.5% in 2014

Domestic sector remains the key driver of the HK economy

Contribution to HK's GDP growth

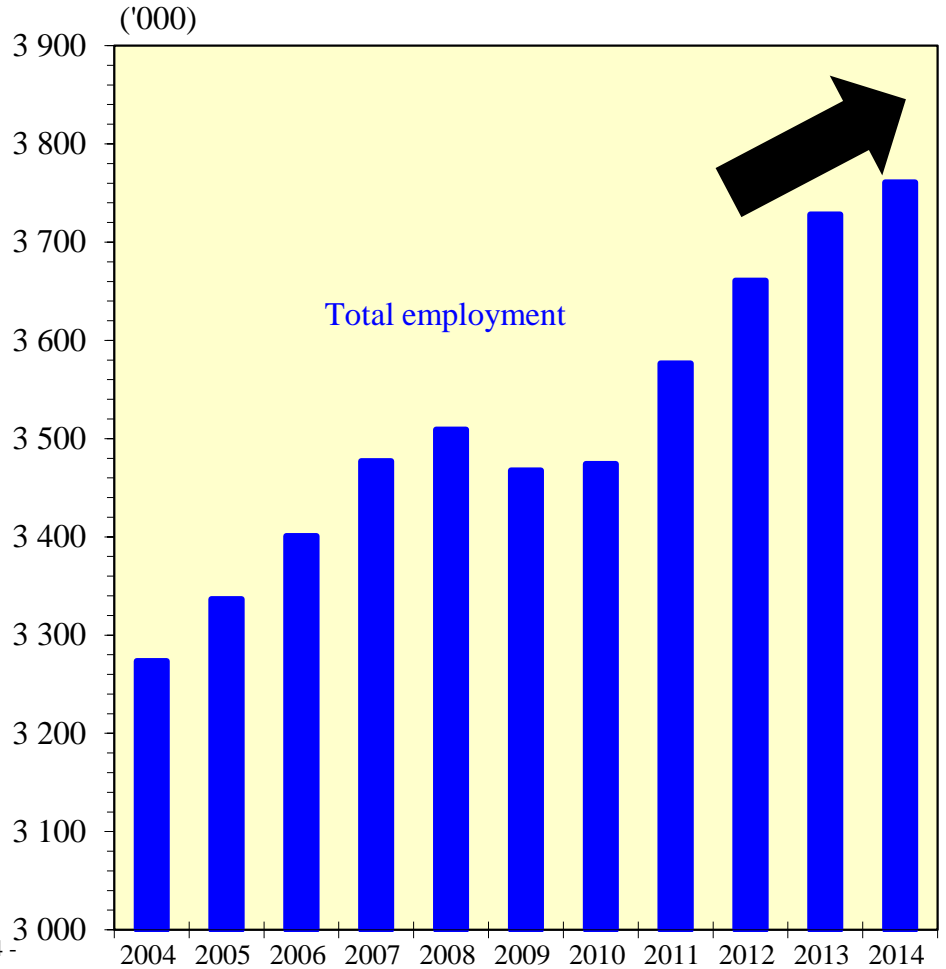
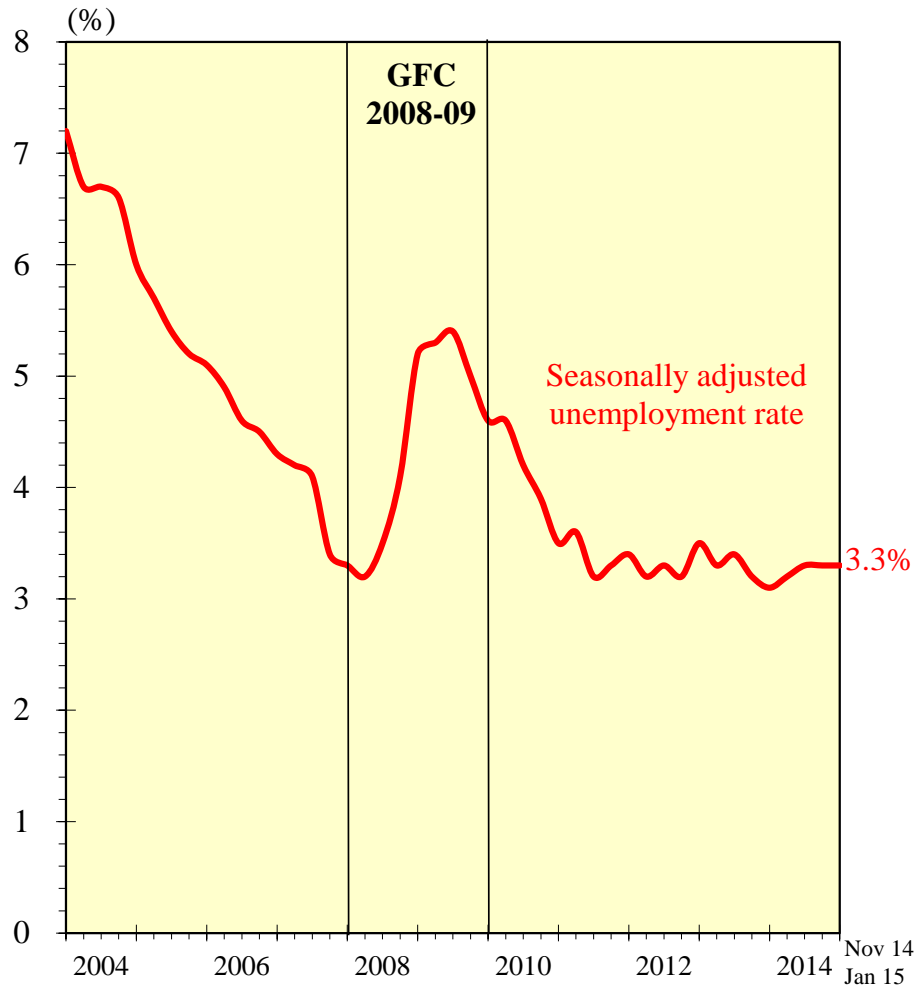
		(% points)		
		<u>Net exports^(#)</u>	<u>Domestic demand</u>	<u>GDP</u>
Before GFC	2004-2008	2.3	4.0	6.3
After GFC	2009-2013	-1.4	4.1	2.7
	2014	-0.4	2.8	2.3
	2014 Q1	0.2	2.4	2.6
	Q2	-0.6	2.4	1.8
	Q3	0.8	2.0	2.7
	Q4	-2.0	4.2	2.2

Note: (#) Goods and services taken together.

Labour market in full employment

Latest unemployment rate at 3.3%

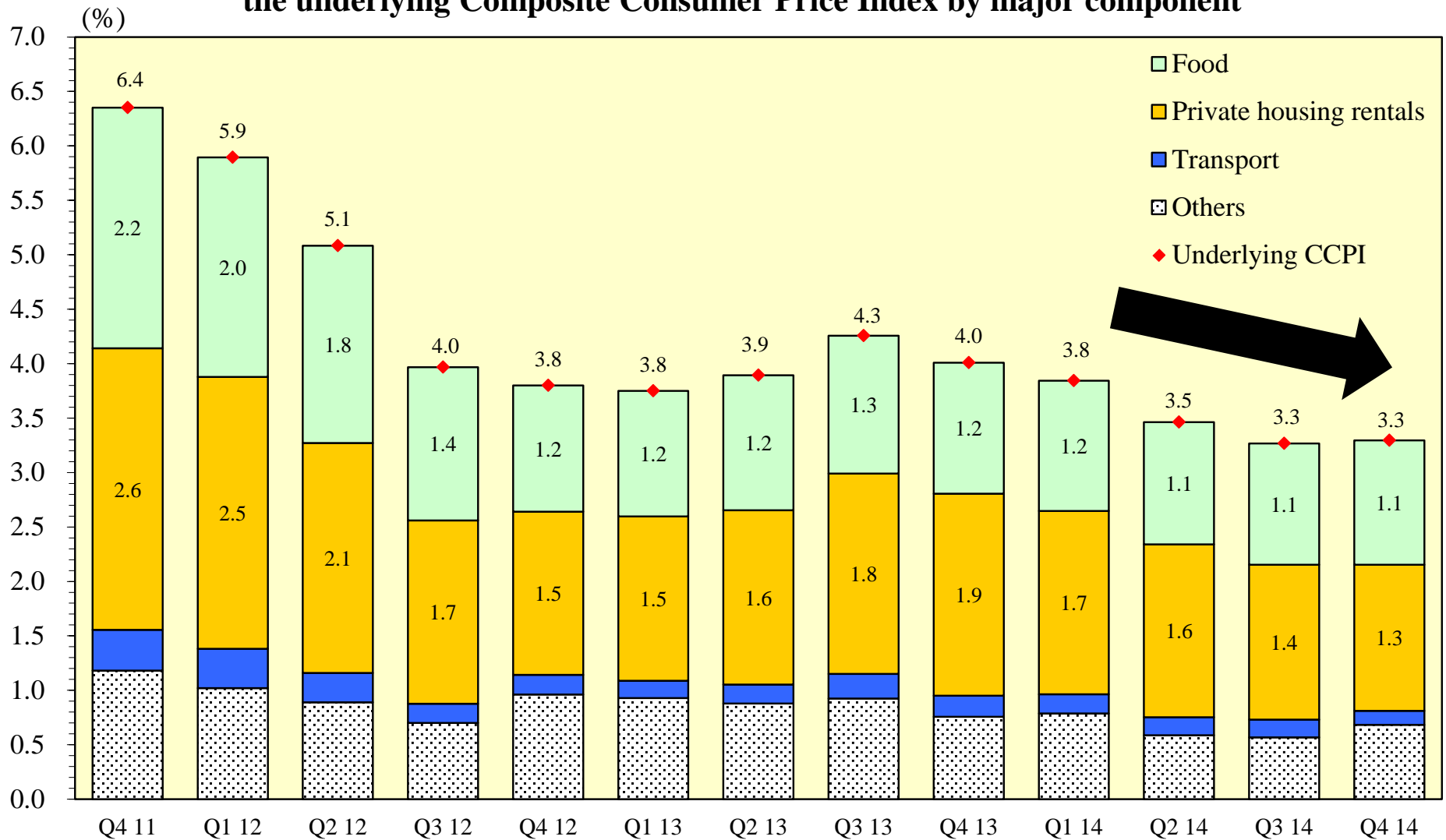
Employment reaching new high



Note: Not seasonally adjusted.

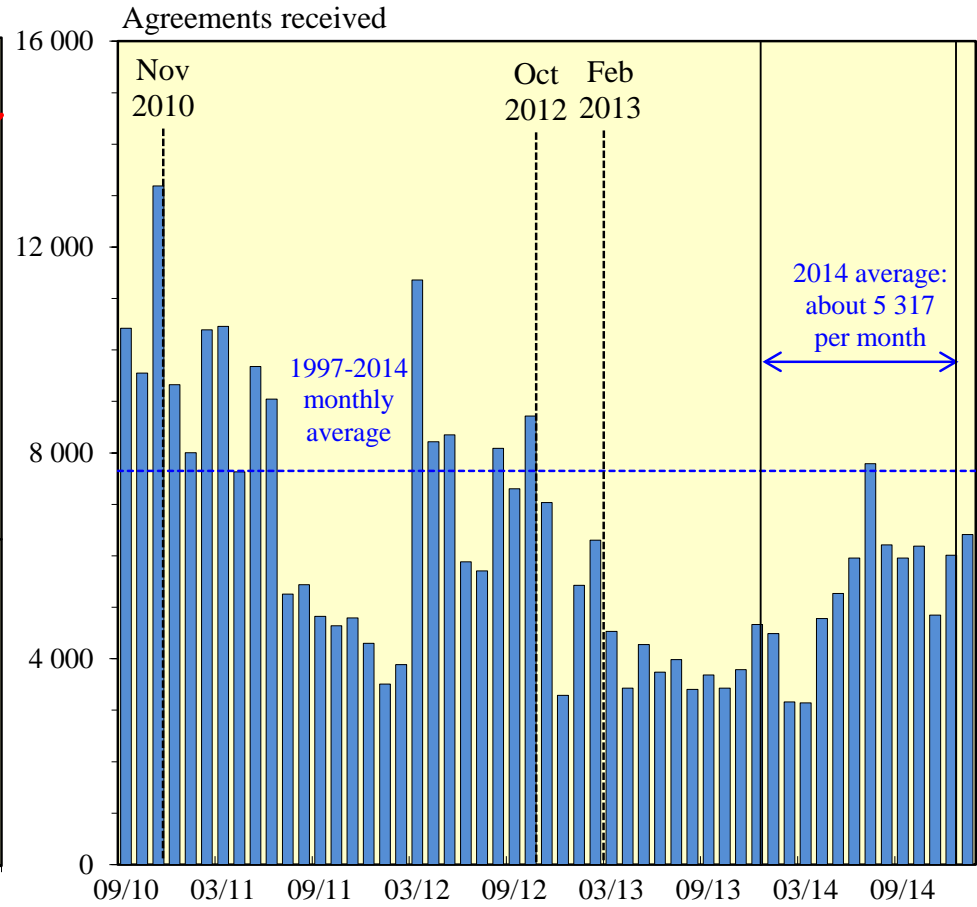
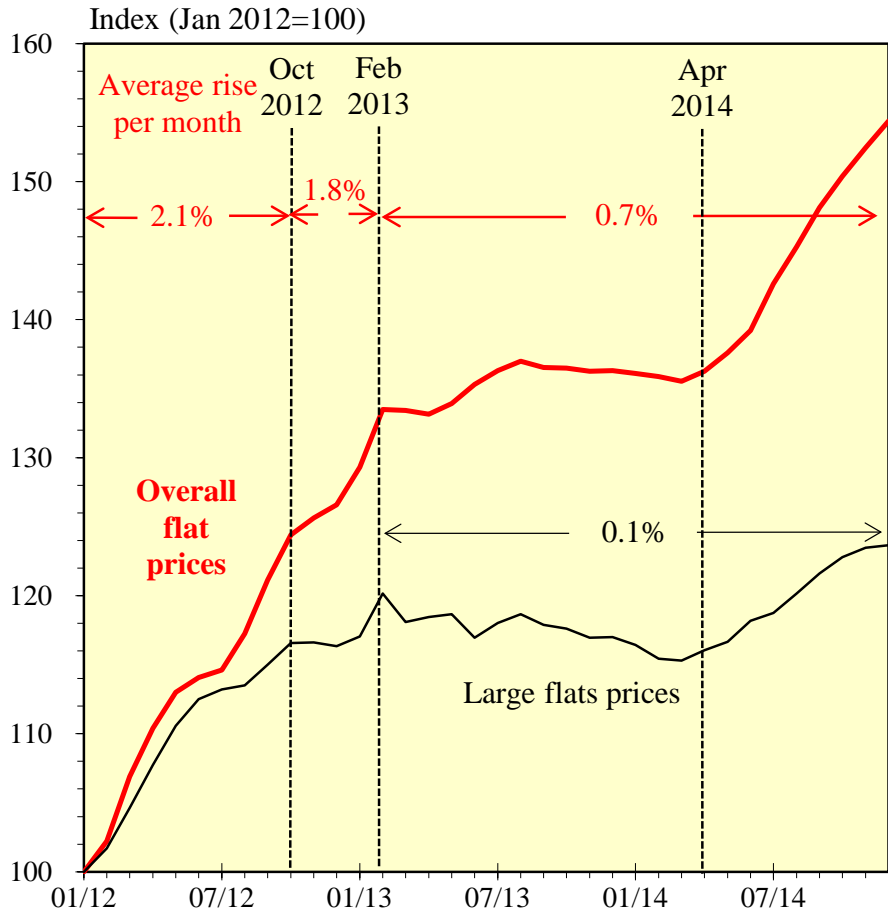
Underlying inflation went lower in 2014

Contribution to the year-on-year rate of change in the underlying Composite Consumer Price Index by major component



Property Market

Property market revived since April 2014



Government will remain vigilant to housing bubble risks

- **Raising flat supply as top policy priority**
 - Supply of residential units over the next few years reaching a record high of 74 000
- **Demand-side management measures, including SSD (Nov 2010), enhanced SSD and BSD (Oct 2012), and across-the-board rise in ad valorem stamp duty rates (Feb 2013)**
 - Speculative activities and non-local demand down substantially
- **Six rounds of macro-prudential measures on mortgage lending business since Oct-2009 to safeguard financial stability**
- **Government remains vigilant and will take measures as necessary to forestall further build-up of bubble risks**

2015 Economic Outlook

Economic outlook

- HK's export growth expected to be modest at best in 2015 amid uncertain external environment
- Domestic demand still key driver of our economy: private consumption supported by steady labour market and income conditions; intensive public infrastructure works
- **Post GFC real GDP growth :**
 - 2009-2014: 2.6% p.a.**
 - 2015: 1-3% (F)**
- **Underlying inflation expected to go further lower:**
 - 2014: 3.5%**
 - 2015: 3% (F)**

Key sources of risks to economic forecast for 2015

- Subdued growth in some advanced economies
- Whether US can sustain growth momentum; timing and pace of first interest rate hike still uncertain
- Divergent monetary policy stances of major central banks, posing risks to global financial stability
- Emerging market economies with weaker fundamentals more vulnerable
- Huge swings in oil prices and exchange rates
- Elevated geopolitical risks in various regions

Hong Kong's medium term economic outlook

- “New norm” of advanced economies
- Subpar global growth with long recovery path; challenging external environment
- Importance of deepening economic integration with the Mainland
- **Trend growth of the Hong Kong economy at 3.5% per annum from 2016 to 2019, as compared to 10-year (2005-2014) trend growth at 3.9% p.a.**

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Thank you
