



# 2008 Economic Background and 2009 Prospects

Government of the Hong Kong  
Special Administrative Region



***2008 ECONOMIC BACKGROUND  
AND  
2009 PROSPECTS***

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FINANCIAL SECRETARY'S OFFICE  
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HONG KONG SPECIAL ADMINISTRATIVE REGION

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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE IN 2008

### *Summary*

- *The outbreak of the financial tsunami has completely derailed the upturn of the Hong Kong economy since 2003. The economy still held firm in the first half of 2008, but took an abrupt turn after September. For 2008 as a whole, GDP growth averaged at 2.5%, down from 6.4% in 2007. External demand slowed markedly towards the latter part of the year amid a deepening global economic downturn. Domestic demand also lost much of its momentum since the third quarter, along with weaker consumer and investor sentiments and tighter credit markets.*
- *The global financial crisis intensified distinctly in 2008, especially after September last year. The crisis quickly moved across assets, markets and economies in an increasingly integrated world. While the concerns about a global financial meltdown reduced following the unprecedented measures taken by various governments, the impact of the financial tsunami had translated into a synchronised global economic downturn.*
- *Local labour market held up well in the first half of the year when the economy still expanded at an above-trend pace. Yet the rapid deterioration in the business situation shortly following the abrupt escalation of the financial crisis led to a rise in the unemployment rate to 4.1% in the fourth quarter from a 10-year low of 3.2% in mid-2008.*
- *Local stock market was highly volatile during most of 2008, with a very sharp decline in the two months or so after the escalation of the crisis into a full-blown financial tsunami in September. The residential property market also began to falter in the second half of 2008, after a period of much vibrancy in the preceding one and a half years. The asset market corrections, and the associated negative wealth effect, put a notable drag on consumption spending in the latter part of the year.*
- *Inflationary pressures were elevated in the first half of 2008, but receded notably in the latter part of the year, along with the retreat of global food and energy prices, the dampening effect of the Government's one-off relief measures, as well as the weaker demand conditions.*

## Overall situation

1.1 The Hong Kong economy showed a rapid moderation in growth over the course of 2008, having expanded strongly in the preceding four years. External demand slowed markedly towards the latter part of the year amid a deepening global economic downturn. Domestic demand also lost much of its momentum since the third quarter, along with weaker consumer and investor sentiment on account of the worsened income prospects and business outlook, as well as the tighter credit conditions. The unemployment rate rose markedly towards the end of the year, after falling to a 10-year low in mid-2008. Inflationary pressures were elevated in the first half of 2008, but receded notably in the latter part of the year, along with the retreat of global food and energy prices, the dampening effect of the Government's one-off relief measures, as well as the weaker demand conditions.

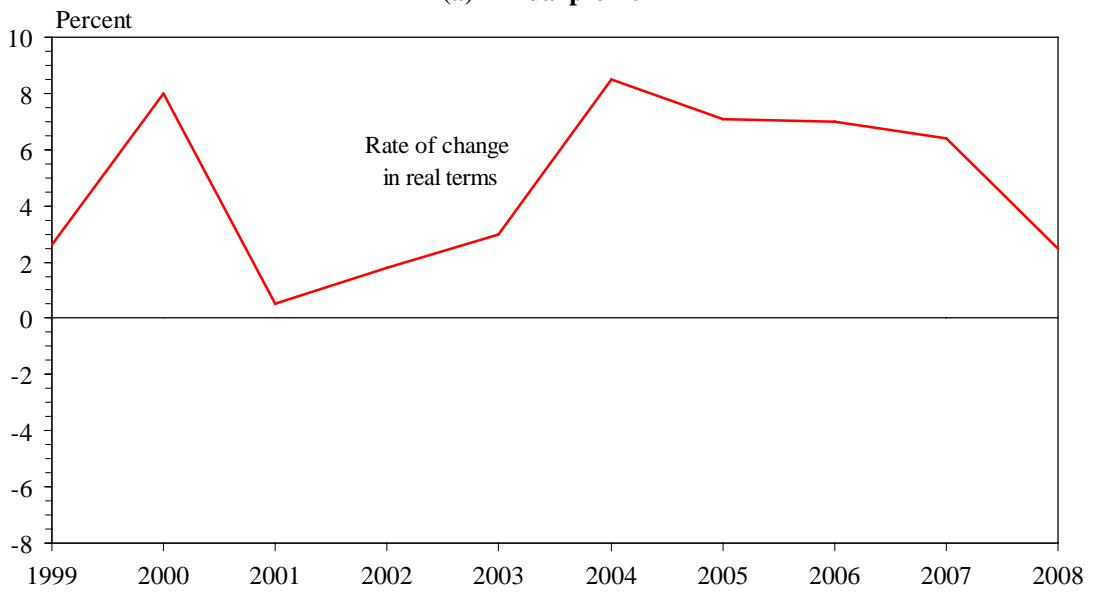
1.2 The global financial crisis, triggered by the US sub-prime mortgage problems in 2007, intensified distinctly in 2008, especially after the collapse of Lehman Brothers in September last year. The crisis quickly moved across assets, markets and economies in an increasingly integrated world. While the concerns about a global financial meltdown receded following the unprecedented measures taken by various governments, the impact of the financial tsunami on the real global economy began to emerge more distinctly in the latter half of last year. By the end of 2008, most advanced economies were already mired in recession, and the conditions of Asian economies also deteriorated rapidly, evolving into a synchronized global economic downturn. Being a small open economy, business activities in Hong Kong were inevitably affected.

1.3 For 2008 as a whole, the *Gross Domestic Product (GDP)*<sup>(1)</sup> grew by 2.5% in real terms, a rapid deceleration from the strong 6.4% growth in 2007. Indicative of the rapid slowdown of economic activity, the year-on-year rate of real GDP growth decelerated markedly from the strong 7.3% in the first quarter to 4.3% in the second quarter and further to 1.7% in the third quarter. As the global downturn deepened further, the Hong Kong economy registered a contraction of 2.5% in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, real GDP expanded strongly by 1.1% in the first quarter, before declining by 0.9%, 0.7% and 2.0% in the ensuing three quarters.

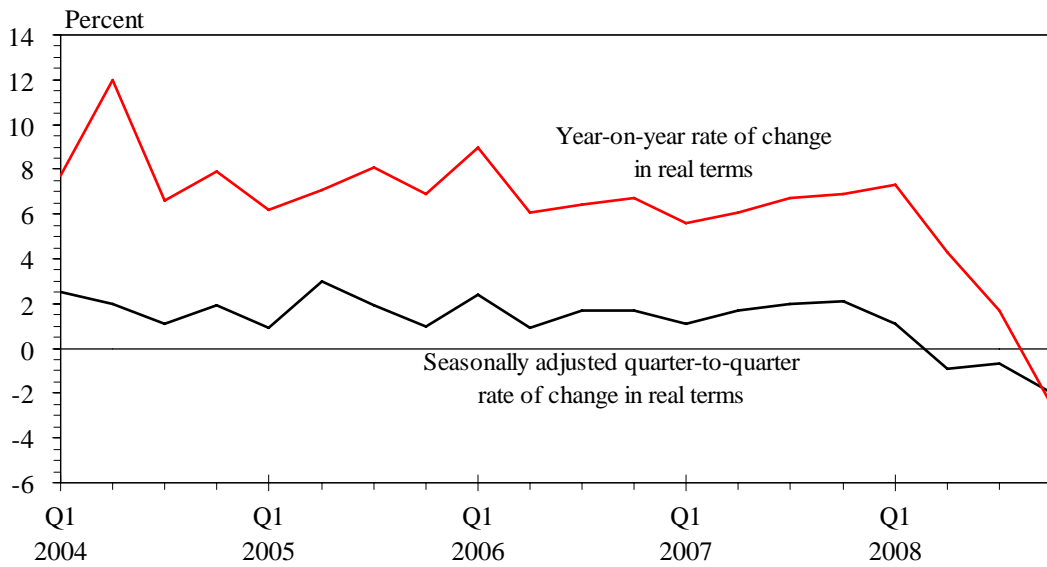


**Diagram 1.1 : Economy severely hit by the global financial tsunami during the year**

**(a) Annual profile**



**(b) Quarterly profile**



**Table 1.1 : Gross Domestic Product and its main expenditure components  
and the main price indicators  
(year-on-year rate of change (%))**

	<u>2007<sup>#</sup></u>	<u>2008<sup>#</sup></u>	<u>2007</u>				<u>2008</u>			
			<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>+</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>										
Private consumption expenditure	8.5	1.8	5.3 (2.0)	7.6 (3.2)	11.3 (2.7)	9.7 (1.6)	7.6 (-0.1)	3.5 (-0.8)	* (-0.9)	-3.2 (-1.4)
Government consumption expenditure	3.0	2.0	2.5 (2.2)	3.8 (-0.7)	2.4 (0.3)	3.3 (1.1)	0.6 (-0.2)	3.2 (1.6)	2.0 (-0.2)	2.6 (1.1)
Gross domestic fixed capital formation	3.4	-0.3	0.3	6.5	-1.1	8.0	10.1	4.9	3.2	-17.3
<i>of which :</i>										
Building and construction	-0.2	0.3	-3.5	5.7	-1.2	-1.6	9.1	-0.4	-4.1	-3.6
Machinery, equipment and computer software	3.0	0.6	0.4	6.2	-3.1	8.4	5.9	6.9	10.6	-18.7
Total exports of goods	7.0	2.0	6.5 (0.1)	10.0 (2.0)	6.2 (0.6)	5.7 (2.9)	8.3 (0.8)	4.4 (0.2)	1.4 (-1.8)	-4.9 (-4.4)
Imports of goods	8.8	1.9	7.1 (*)	11.5 (3.5)	8.1 (1.0)	8.5 (3.7)	8.4 (-1.6)	4.9 (1.9)	2.2 (-1.0)	-6.4 (-5.7)
Exports of services	14.1	5.6	14.7 (6.0)	11.9 (1.8)	15.3 (3.5)	14.1 (2.7)	10.2 (1.4)	8.2 (0.2)	5.1 (0.3)	-0.2 (-1.9)
Imports of services	12.1	3.2	12.7 (3.6)	11.3 (3.9)	11.9 (1.5)	12.5 (3.4)	10.2 (0.9)	3.8 (-2.0)	1.9 (-0.3)	-2.5 (-0.9)
<b>Gross Domestic Product</b>	<b>6.4</b>	<b>2.5</b>	<b>5.6 (1.1)</b>	<b>6.1 (1.7)</b>	<b>6.7 (2.0)</b>	<b>6.9 (2.1)</b>	<b>7.3 (1.1)</b>	<b>4.3 (-0.9)</b>	<b>1.7 (-0.7)</b>	<b>-2.5 (-2.0)</b>
<i>Change in the main price indicators (%)</i>										
<b>GDP deflator</b>	<b>2.9</b>	<b>1.4</b>	<b>1.3 (0.8)</b>	<b>1.7 (0.9)</b>	<b>3.7 (1.0)</b>	<b>4.7 (1.9)</b>	<b>2.4 (-1.2)</b>	<b>1.9 (0.3)</b>	<b>1.8 (0.7)</b>	<b>* (*)</b>
<b>Composite Consumer Price Index</b>	<b>2.0</b>	<b>4.3</b>	<b>1.7 (-0.1)</b>	<b>1.3 (0.4)</b>	<b>1.6 (0.8)</b>	<b>3.5 (2.4)</b>	<b>4.6 (0.9)</b>	<b>5.7 (1.5)</b>	<b>4.6 (-0.2)</b>	<b>2.3 (0.1)</b>
<b><u>Change in nominal GDP (%)</u></b>	<b>9.5</b>	<b>3.9</b>	<b>7.0</b>	<b>7.9</b>	<b>10.6</b>	<b>11.9</b>	<b>9.9</b>	<b>6.2</b>	<b>3.5</b>	<b>-2.6</b>

Notes : Figures are subject to revision later on as more data become available. Seasonally adjusted quarter-to-quarter rate of change is not applicable to gross domestic fixed capital formation, as no clear seasonal pattern is found for the category due to the presence of considerable short term fluctuations.

(#) Revised figures.

(+) Preliminary figures.

( ) Seasonally adjusted quarter-to-quarter rate of change.

(\*) Change of less than 0.05%.

## **The external sector**

1.4 The external trading environment worsened over the course of 2008. The advanced economies, especially the US and the euro area, being the epicenter of the global financial crisis, were the first to enter into recession. This had quickly translated into weaker demand for exports from the emerging and developing economies. As a result, the initial economic slowdown in the advanced economies had mutated into a synchronized global downturn, taking its toll on world trade. Hong Kong's exports to the advanced economies slackened during 2008, and those to the Asian markets, including the Mainland, also deteriorated distinctly in the latter part of the year. The return to strength of the US dollar since the middle of 2008 also did not help the price competitiveness of Hong Kong's exports. Against this backdrop, total exports of goods moderated in growth during the year and registered a year-on-year decrease of 4.9% in the fourth quarter. For 2008 as a whole, *total exports of goods* rose by 2.0% in real terms, a notable deceleration from the 7.0% increase in 2007.

1.5 Exports of services likewise slowed, but to a lesser extent, over the course of 2008. As the fund-raising activities and the trading volume in the local stock market shrank notably in 2008, particularly so after the abrupt escalation of the financial turmoil towards the end of the third quarter, exports of financial services slowed distinctly in 2008 after the surge in 2007. The vibrant growth in inbound tourism was also halted in the final quarter of 2008 as the global economic slowdown weighed on the demand for travel. The slowdown in inbound tourism also had a spill-over effect on exports of transportation services. While merchanting and other trade-related services (mainly offshore trade) still held up rather well during most of 2008, there was a conspicuous deterioration in the fourth quarter of 2008 as the flows of goods trade in the Asian region shrank notably in the final months of the year. Overall, *exports of services* rose by 5.6% in 2008, notably slower than the 14.1% growth in 2007.

## **The domestic sector**

1.6 Domestic demand held up relatively well in the first quarter, but slowed distinctly in the following three quarters of 2008. The deceleration in private consumption was particularly evident in the second half of the year, due to the negative wealth effect from the notable correction in the local asset markets, as well as the deterioration in job prospects. For 2008 as a whole,

private consumption expenditure (PCE) grew by 1.8% in real terms, in contrast to the robust 8.5% growth in 2007.

**Table 1.2 : Consumer spending by major components<sup>(a)</sup>  
(year-on-year rate of change in real terms (%))**

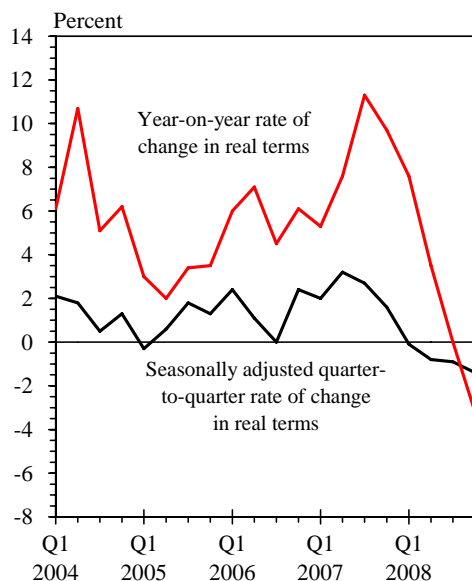
	Total consumer spending in the domestic market <sup>(a)</sup>	<i>Of which :</i>					Residents' expenditure abroad	Visitor spending	Private consumption expenditure <sup>(b)</sup>
		Food	Durables	Non- durables	Services				
2007 Annual	9.5	4.5	16.0	9.4	9.5	4.2	14.1	8.5	
Q1	6.2	6.1	7.5	6.0	6.1	0.6	9.4	5.3	
Q2	7.7	5.4	13.2	6.0	7.7	7.4	8.7	7.6	
Q3	12.6	7.4	22.5	11.0	12.5	3.9	15.5	11.3	
Q4	11.4	-0.2	20.3	14.0	11.5	5.1	21.7	9.7	
2008 Annual	2.5	0.8	10.7	4.8	0.7	-0.9	5.9	1.8	
Q1	7.7	3.4	18.7	11.4	5.5	6.8	8.1	7.6	
Q2	4.6	1.6	13.8	8.4	2.7	-3.7	7.9	3.5	
Q3	1.2	0.4	13.6	3.1	-1.4	-2.1	8.7	*	
Q4	-2.7	-1.9	-0.9	-2.1	-3.4	-4.1	0.2	-3.2	

Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

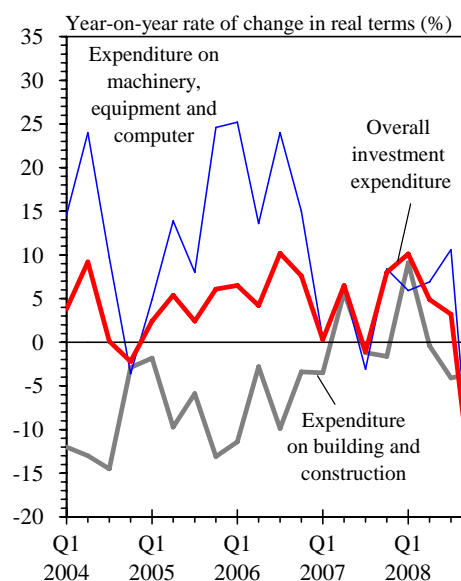
(b) Private consumption expenditure is obtained by deducting visitor spending from the total consumer spending in the domestic market, and adding back residents' expenditure abroad.

1.7 Overall investment posted a contraction of 0.3% in 2008, as compared to the 3.4% growth in 2007. Investment in machinery, equipment and software registered some notable growth during most of 2008, before showing a distinct decline in the fourth quarter. Meanwhile, construction activities remained sluggish. After recording a positive growth in the first quarter, expenditure on building and construction relapsed to decreases in the following three quarters. The costs of ownership transfer also trended downward as the local property market cooled down in the second half of the year. Business confidence ebbed in the latter half of the year, particularly in the face of the abrupt deepening of the global financial crisis. According to the Quarterly Business Tendency Survey conducted by the Census and Statistics Department during mid-December 2008 to mid-January 2009, large business establishments generally remained rather pessimistic on the near-term outlook.

**Diagram 1.2 : The deceleration in consumer spending was particular evident in the second half of 2008**



**Diagram 1.3 : Overall investment posted a marginal decline in 2008**



## The labour sector

1.8 Local labour market held up well in the first half of the year when the economy still expanded at an above-trend pace. Yet the rapid deterioration in the business situation shortly following the abrupt escalation of the financial crisis since September 2008 led to weakened demand for labour towards the end of 2008, with notable declines in vacancies in such sectors as real estate and construction, tourism and consumption-related sector, as well as trading and logistics. For 2008 as a whole, total employment increased by an average of 1.6%, slower than the 2.4% increase in 2007. Reflecting the changing economic conditions over the course of 2008, the seasonally adjusted unemployment rate, after falling to 3.2% in June-August 2008, the lowest in more than a decade, climbed up distinctly towards the end of the year as labour demand began to recede. Labour wages and earnings, on average, continued to rise in 2008.

## The asset markets

1.9 During 2008, the local stock market continued the downward adjustment that began in the latter part of 2007, as the turbulence that was triggered by the sub-prime mortgage crisis in the US in 2007 affected a wider spectrum of the global financial markets. The pace of downward adjustment was particularly acute in the two months or so after the global crisis turned into

a full-fledged financial tsunami in September. The Hang Seng Index had a nose-dive during the period, marking an annual low of 11 016 on 27 October 2008, a more than 65% fall as compared to the historic peak of 31 638 attained on 30 October 2007. The Hang Seng Index closed the year at 14 387, 48% lower than the level at end-2007, the largest annual decline since 1974. The average daily turnover shrank to \$72.1 billion in 2008, and stock market capitalisation to \$10.3 trillion at the end of the year. Fund-raising activities also receded in 2008 as the sentiments in the local stock market turned less optimistic.

1.10 The residential property market also faltered in the second half of 2008, after a period of much vibrancy in the preceding one and a half years. The much more treacherous environment in the major financial markets overseas, causing jitters in the local stock market, less optimistic job prospect, and less accommodative provision of mortgages, had contributed to the consolidation in the local property market. Transactions in residential properties tumbled sharply in the latter part of 2008, falling to 3 264 in November, the lowest in more than a decade, before moving up to 4 706 in December. For 2008 as a whole, the number of transactions in residential properties fell notably, by 22% from the stellar level in 2007. By December 2008, flat prices were around 18% off the peak in June 2008 and 12% lower than a year ago. As to rentals, they were on average 19% off the peak in July 2008 and 11% lower than in December 2007. Flat prices in December turned more stable after falling sharply in the preceding two months. It is worth noting that in terms of home purchase affordability and the extent of speculative activities, the situation in 2008 still compared favourably with that in the run-up to 1997.

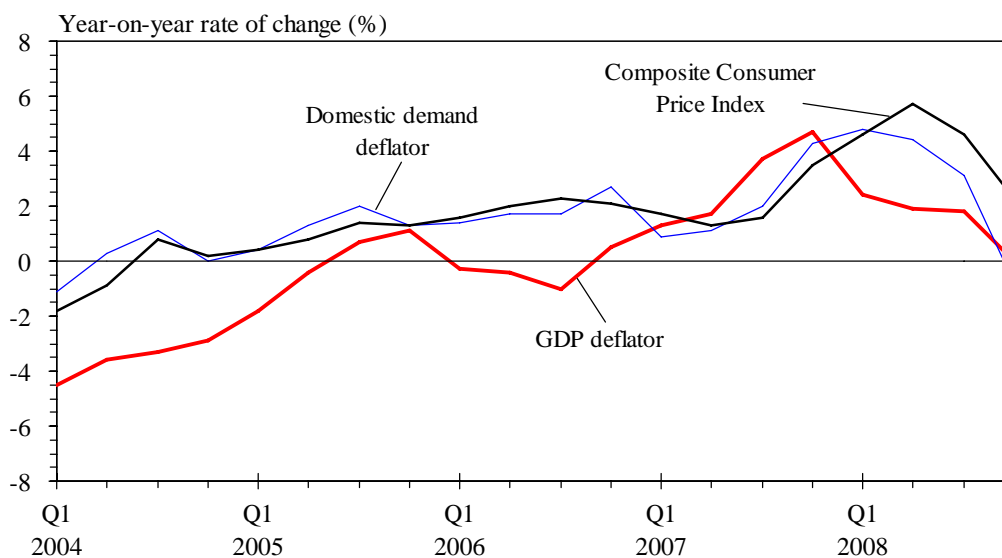
## **Inflation**

1.11 Underlying consumer price inflation continued to rise during the first half of 2008, reflecting the earlier surges in global food and energy prices and in local private residential rentals. Nevertheless, the collapse of the commodity prices in the international markets since the middle of 2008, together with the property market correction due to the financial tsunami, reduced the inflationary pressures, thereby leading to some notable easing of the underlying inflation in the latter part of 2008. The abrupt waning of consumer sentiments towards the end of the third quarter due to the negative wealth effect and the less optimistic labour market, resulting in a weaker consumption market, was also contributory. For 2008 as a whole, the underlying Composite Consumer Price Index rose by an average of 5.6%, up

from 2.8% in 2007. Headline inflation fell more notably, thanks to the various one-off relief measures introduced by the Government (i.e. rates concession, electricity subsidy, payment of public housing rentals on behalf of low-income households, and the waiving of re-training levy). The headline Composite Consumer Price Index rose by 4.3% in 2008, compared with an increase of 2.0% in 2007.

1.12 The GDP deflator rose by 1.4% in 2008, after an increase of 2.9% in 2007. The moderate increase in the GDP deflator was attributable to the deterioration in terms of trade on the back of a slower increase in export prices than import prices. Excluding the effect of terms of trade, the domestic demand deflator rose by 2.7% in 2008, after a 2.1% increase in 2007.

**Diagram 1.4 : Inflation pressures eased notably towards the end of 2008**



## Box 1.1

### Impact of financial tsunami on small and medium-sized enterprises

The abrupt escalation of the financial turbulence in September 2008 has led to a deepening synchronized global economic downturn. It is one of the priorities of the Government to support enterprises, especially the small and medium-sized enterprises (SMEs)<sup>1</sup>, which absorb around half of all the persons engaged in Hong Kong, in the midst of difficult times like this. To attain a better understanding on the impact of the financial tsunami on the business receipts, employment and credit situations of the SMEs, an ad-hoc weekly consultation exercise has been conducted by the Census and Statistics Department on behalf of the Economic Analysis and Business Facilitation Unit since late November 2008 on a sample panel of around 500 SMEs to solicit their relevant feedback information.

The consultation exercise covered ten economic sectors, including retail trade, import and export trades, restaurants, wholesale trade, transport services (mainly logistics), travel agents, financing institutions, insurance agents and brokers, real estate and construction, and business services.

According to the results of the consultation up till early February 2009, SMEs across different sectors reported significant declines in business receipts as compared with the normal situation (*Table 1*). Among the ten sectors surveyed, business situation in the logistics, real estate and construction, retail trade, import and export trades, and financing institutions had been severely hit. Results of the latest rounds suggested that business situation in logistics and import and export trades had deteriorated further, in line with the steep decline in external trade in the more recent months. But wholesale and retail trades showed some relative improvement in their business situation. The picture was in line with the recent figures on retail sales and inbound tourism.

It is worth noting that in order to minimise the respondents' burden and to compile the findings within the very short period (i.e. one week), the sampled SMEs are only asked to provide their crude assessment of the impact of financial tsunami on business receipts, employment and credit situation, without referring to their actual business data. A similar ad hoc survey on business receipts was conducted during the SARS crisis, and the reported declines from that survey when matched against the actual declines obtained from the regular survey with more comprehensive coverage indicate that the results of the ad hoc survey overstated the impact on business receipts by a considerable extent. Also, with the scope of the survey covering only the SMEs within a range of selected sectors which took up around 73% of SMEs' total employment, the results of the survey should not be treated as representing a complete picture of the business and employment situations in Hong Kong. Thus, the results of the current ad hoc survey should be interpreted with considerable caution, though they can serve as rough indicator to enable high frequency monitoring of SMEs' situations.

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(1) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as SMEs in Hong Kong.



**Box 1.1 (Cont'd)****Table 1 Impact on business receipts as compared with normal situation**

SMEs by sectors	% decline as compared with normal situation for the week ending:-								
	28 Nov	5 Dec	12 Dec	19 Dec	26 Dec and 2 Jan	9 Jan	16 Jan	23 Jan	30 Jan and 6 Feb
Wholesale trade	-24.7	-16.0	-16.4	-16.4	-10.8	-7.6	-8.5	-6.3	-7.2
Retail trade	-24.8	-23.8	-24.2	-22.9	-23.2	-22.4	-21.9	-20.4	-18.4
Import and export trades	-17.8	-19.4	-18.3	-16.9	-18.9	-19.3	-20.9	-21.9	-19.4
Restaurants	-13.9	-14.7	-13.9	-13.1	-12.1	-13.1	-12.0	-11.3	-12.2
Logistics	-29.7	-39.0	-34.7	-36.9	-33.5	-38.5	-40.6	-37.1	-47.2
Travel agents	-15.2	-11.4	-12.2	-12.1	-12.6	-11.9	-10.6	-11.5	-11.4
Financing institutions	-23.3	-24.1	-24.5	-23.2	-20.7	-18.9	-18.5	-16.1	-20.9
Insurance agents and brokers	-9.2	-9.6	-9.4	-9.7	-9.9	-9.5	-10.0	-9.3	-9.2
Real estate and construction	-32.5	-28.9	-31.7	-31.4	-30.6	-30.4	-31.6	-28.3	-31.7
Business services	-8.9	-7.6	-8.0	-11.4	-10.9	-10.3	-10.7	-10.6	-13.5
All the above sectors	-18.5	-19.3	-18.4	-17.3	-18.5	-18.5	-19.9	-20.3	-18.6

The financial tsunami also had a notable impact on employment. In the latest rounds, the SMEs surveyed on the whole reported a decline of slightly less than 2% in employment as compared with the normal situation. More notable declines in employment were reported by SMEs in real estate and construction, logistics, business services, and restaurants (*Table 2*). The SMEs surveyed generally expected some further decline in employment in the near term.

Regarding the credit access situation, the results of the consultation exercise showed some visible improvement in the credit market conditions in the latest rounds, especially for business services, wholesale trade, real estate and construction, and to some extent restaurants. In overall terms, the proportion of SMEs reporting very tight/tighter than usual credit access fell to about 10% in the more recent weeks from slightly above 12% in late November last year (*Table 3* and *Chart 1*). One of the important measures taken by the Government to support enterprises was the setting up of the Special Loan Guarantee Scheme, which has been in full effect since mid-December last year. This timely measure should help to ease the credit access situations facing many SMEs. Nevertheless, SMEs in some harder-hit sectors, especially import and export trades, and logistics, continued to face tighter access to credit amid the increasingly adverse trading environment.

**Box 1.1 (Cont'd)****Table 2 Impact on employment as compared with normal situation**

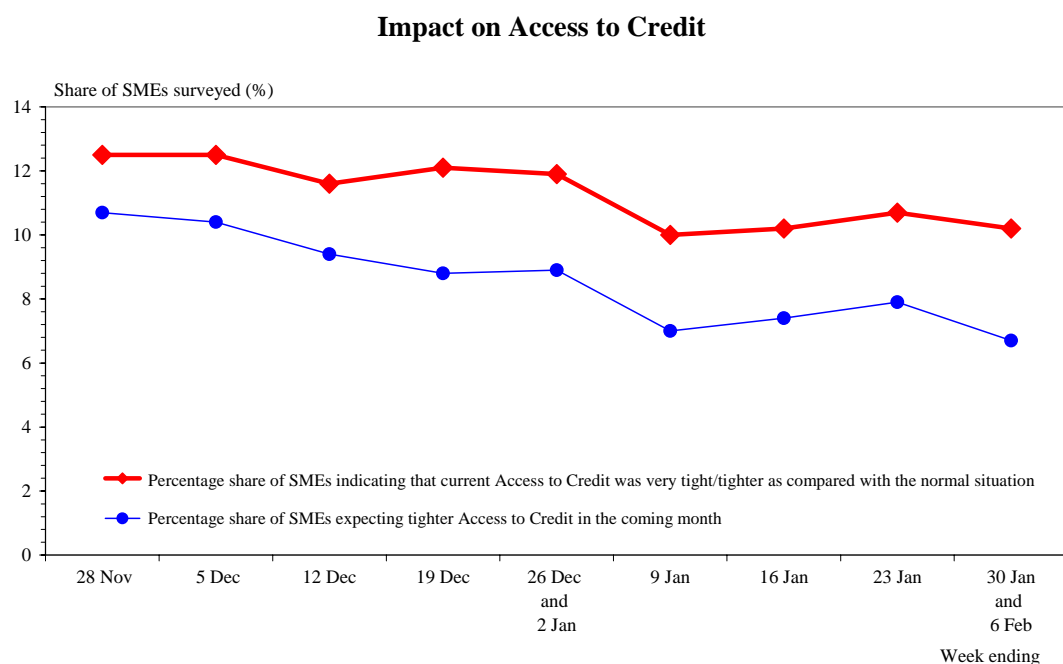
<u>SMEs by sectors</u>	% change as compared with normal situation for the week ending:-								
	<u>28 Nov</u>	<u>5 Dec</u>	<u>12 Dec</u>	<u>19 Dec</u>	<u>26 Dec and 2 Jan</u>	<u>9 Jan</u>	<u>16 Jan</u>	<u>23 Jan</u>	<u>30 Jan and 6 Feb</u>
Wholesale trade	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail trade	-0.6	-0.4	-0.8	-0.4	-0.6	-0.9	-0.4	-0.2	-0.7
Import and export trades	-2.3	-1.6	-0.8	-0.8	-0.9	-1.1	-0.7	-0.7	-1.1
Restaurants	-2.8	-3.1	-3.3	-2.8	-3.4	-2.9	-3.3	-3.0	-3.4
Logistics	-5.8	-6.0	-6.7	-6.7	-4.1	-4.1	-3.9	-2.8	-2.9
Travel agents	+0.5	+0.6	0.0	0.0	-0.4	0.0	0.0	0.0	0.0
Financing institutions	-0.3	-0.3	-1.0	-1.3	-0.7	-0.9	-0.7	-0.4	-1.2
Insurance agents and brokers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real estate and construction	-7.3	-6.2	-7.6	-8	-8.1	-8.4	-8.4	-7.8	-7.9
Business services	-4.5	-2.7	-3.1	-3.2	-3.1	-3.0	-2.8	-2.9	-3.9
All the above sectors	-2.4	-1.9	-1.8	-1.7	-1.7	-1.8	-1.6	-1.4	-1.8

**Table 3 Impact on assess to credit as compared with normal situation**

<u>SMEs by sectors</u>	% SMEs reporting very tight/tighter credit assess for the week ending:-								
	<u>28 Nov</u>	<u>5 Dec</u>	<u>12 Dec</u>	<u>19 Dec</u>	<u>26 Dec and 2 Jan</u>	<u>9 Jan</u>	<u>16 Jan</u>	<u>23 Jan</u>	<u>30 Jan and 6 Feb</u>
Wholesale trade	12.0	9.1	9.1	9.5	10.0	5.0	5.0	5.0	5.3
Retail trade	10.0	8.5	10.1	8.5	8.8	8.0	8.0	7.1	6.5
Import and export trades	17.1	17.1	15.8	17.0	17.0	15.6	15.4	16.3	15.7
Restaurants	19.0	15.3	13.6	14.3	10.7	10.5	14.8	13.0	11.8
Logistics	0.0	15.0	5.6	11.1	11.8	11.8	11.1	16.7	17.6
Travel agents	3.3	3.6	3.6	3.7	3.8	3.7	3.6	3.6	3.7
Financing institutions	12.5	12.5	12.5	13.2	10.8	10.8	10.3	11.1	7.9
Insurance agents and brokers	15.0	11.1	10.5	5.0	10.0	10.5	5.3	10.0	5.6
Real estate and construction	11.4	11.4	8.6	9.1	5.9	2.9	5.7	5.9	5.7
Business services	5.7	5.7	5.7	6.1	6.1	0.0	0.0	0.0	0.0
All the above sectors	12.5	12.5	11.6	12.1	11.9	10.0	10.2	10.7	10.2

## Box 1.1 (Cont'd)

**Chart 1 Assess to credit showed some relative improvement in the more recent weeks**



## GDP by economic activity

1.13 The financial tsunami had a widespread impact across the real economy. Latest available figures indicated that many service sectors saw notable deceleration in net output in the third quarter of 2008. With the sentiments in the financial markets weakened considerably due to the abrupt escalation of the global financial turmoil towards the end of the quarter, financing and insurance sector experienced further deterioration to a negative growth in the third quarter. Real estates and business services also registered a negative growth as the property market cooled down. Transport and storage sector likewise moderated as trade flows receded. The consumption-related sectors (i.e. restaurants and hotels, wholesale and retail) also expanded at a slower pace as the consumer sentiment being weighed heavily by the negative wealth effect towards the end of the third quarter. For the services sector as a whole, the growth rate of net output slowed further to 1.9% in the third quarter, from 6.8% and 4.0% respectively in the first and second quarters. As to industrial sectors, both manufacturing and construction sectors posted further declines in net output.

**Table 1.3 : GDP by economic activity<sup>(a)</sup>  
(year-on-year rate of change in real terms (%))**

	<u>2007</u>					<u>2008</u>		
	<u>2007</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Manufacturing	-1.5	-1.5	-2.3	-2.1	-0.3	-4.4	-4.1	-6.7
Construction	-1.1	-5.7	4.6	-1.3	-1.3	9.1	-0.6	-3.5
Services <sup>(b)</sup>	7.0	6.1	7.2	6.8	7.7	6.8	4.0	1.9
Wholesale, retail and import and export trades, restaurants and hotels	6.6	5.1	6.7	6.5	7.9	8.9	7.1	4.3
Import and export trade	6.0	4.6	6.4	5.7	7.1	9.6	7.7	4.9
Wholesale and retail trades	6.8	4.0	4.8	7.7	10.0	8.9	6.0	2.6
Restaurants and hotels	11.0	7.9	9.6	13.9	12.5	4.5	3.9	2.0
Transport, storage and communications	5.1	3.6	4.6	5.8	6.4	7.7	3.8	2.0
Transport and storage	5.1	3.1	4.0	6.1	7.0	8.4	3.7	1.4
Communications	5.3	6.0	7.0	4.5	3.9	4.3	4.5	4.5
Financing, insurance, real estate and business services	13.5	11.7	13.4	13.7	15.0	10.3	3.5	-0.6
Financing and insurance services	17.6	14.9	16.7	19.8	18.9	11.6	3.6	-0.8
Real estate and business services	6.4	6.2	6.6	4.5	8.3	7.8	3.3	-0.2
Community, social and personal services	1.7	2.1	1.4	1.7	1.7	0.7	1.5	1.6

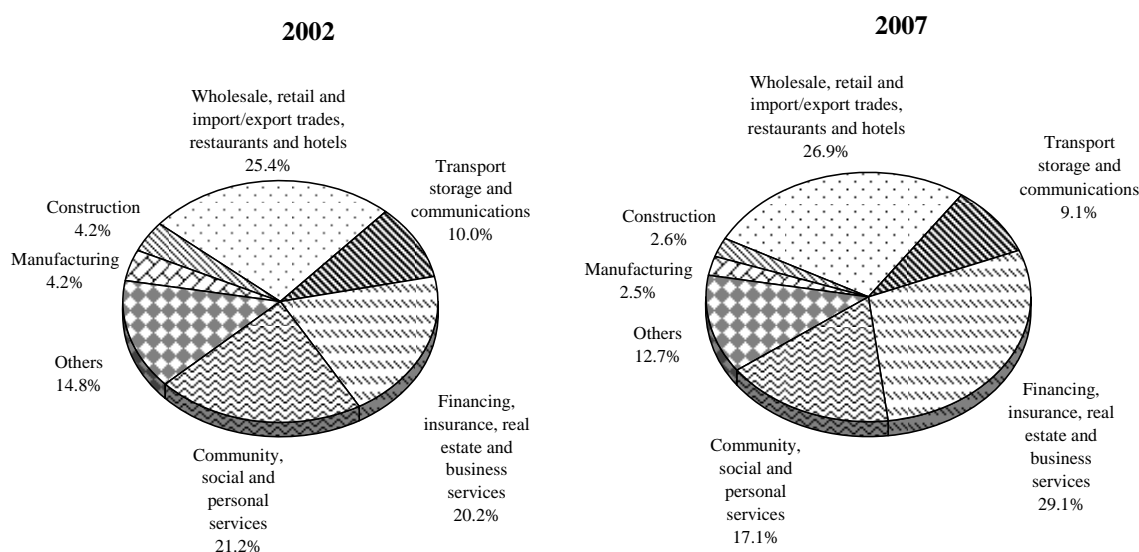
Notes : Figures are subject to revision later on as more data become available.

(a) The GDP figures shown in this table are compiled from the production approach, in parallel with those shown in Table 1.1 which are compiled from the expenditure approach. For details, see Note (1) to this chapter.

(b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity.

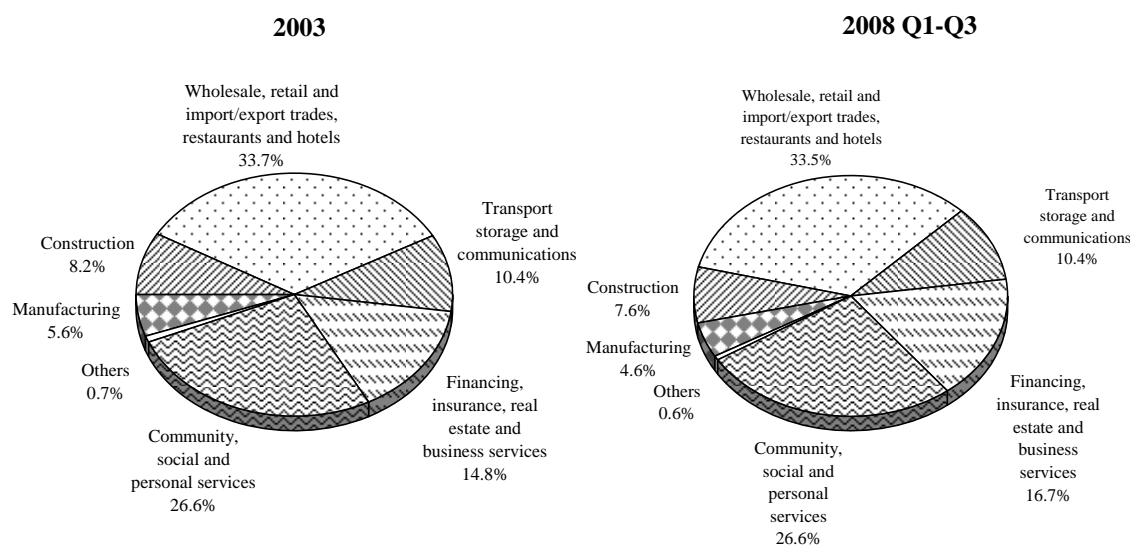
1.14 Over the past five years, the services sector continued to thrive. The on-going restructuring process towards a service-oriented economy allows Hong Kong to realize its comparative advantage, and to take advantage of the changing global economic environment as well as to meet the rising demand for high quality services from the Mainland economy and other parts of the world. Between 2002 and 2007, the contribution of the service sectors as a whole to GDP rose from 88.3% to 92.3%, while those of the manufacturing sector and the construction sector fell from 4.2% each to 2.5% and 2.6% respectively.

**Diagram 1.5 : Economy becoming highly service-oriented**



1.15 The Hong Kong economy has also been restructuring itself towards higher value-added and knowledge-based activities. A quality workforce which is capable of continuously upgrading the level of services remains a vital competitive edge for Hong Kong in face of the keen competition in the global marketplace. For the service sectors as a whole, the share in total employment enlarged from 85.5% in 2003 to 87.2% in the first three quarters of 2008, indicative of the flexibility of labour as Hong Kong is gearing towards a services-oriented economy. By comparison, the shares of the manufacturing sector and the construction sector shrank from 5.6% and 8.2% respectively to 4.6% and 7.6% over the same period. The transformation has been supported by the increased availability of skilled workers, as evidenced from the rise in the proportion of the workforce attaining tertiary education over the past five years from 27.2% to 31.2%.

**Diagram 1.6 : Service sectors now taking up 87% of total employment\***



Note : (\*) These are the Composite Employment Estimates, as derived from the basic data of the General Household Survey and the Quaterly Survey of Employment and Vacancies on business establishments. Figures for 2003 refer to the annual average, while the figures for 2008 refer to the average for the first three quarters of the year.

## Some highlights of economic policy

1.16 The Government is strongly committed to the principle of “Market Leads, Government Facilitates” as the guiding philosophy for its economic policy. This is well recognized by such research institute as the Heritage Foundation, which in January 2009 named Hong Kong as the freest economy in the world for the fifteenth consecutive year. In Hong Kong, the role of the Government is to create the most favourable environment so that the private enterprises can operate under a free, fair and competitive environment, enabling them to develop fully their entrepreneurship, to contribute to economic growth, to facilitate economic restructuring and to move up the value chain. This policy stance has long served Hong Kong well, and is the key factor contributing to the resilience and flexibility of the Hong Kong economy.

1.17 In response to the threat of inflation and the anticipation of an economic slowdown, the Government proactively introduced various relief measures, first in the 2008-09 Budget in February 2008 and then in mid-July 2008, with a view to reducing the burden on the livelihood of the lower income group and the less privileged arising from the run-up of inflation and to providing some stimulating impact on the economy at a time when the global economic environment was expected to worsen. These relief measures helped to lower the headline inflation effectively, especially in the latter part of the year.

1.18 Following the outbreak of the financial tsunami, the Government put forward a series of measures in the latter part of 2008 to stabilise the financial markets, support enterprises, and create employment. Indeed, the Government swiftly established the Task Force on Economic Challenges in October to assess the impact on the economy and to propose specific options to address the challenges.

1.19 In mid-October, the Financial Secretary announced two pre-emptive measures, which involved the use of Exchange Fund to guarantee repayment of all deposits held with all authorized institutions in Hong Kong, and the establishment of a Contingent Bank Capital Facility to provide addition capital to locally incorporated licensed banks when necessary. The Hong Kong Monetary Authority (HKMA) also pledged to provide liquidity assistance to licensed banks on their request through a number of temporary measures, proactively lowered the Base Rate on which the interest rates of the money borrowed by the licensed banks from the HKMA through the Discount Window are calculated, and injected Hong Kong dollar into the banking system. These actions had effectively attained the goal of stabilizing Hong Kong's financial system.

1.20 The Government also implemented measures to help ease the tight credit conditions facing the small and medium-sized enterprises (SMEs), amidst the global credit crunch. The SME Funding Schemes was expanded in October 2008. In early November, a time-limited Special Loan Guarantee Scheme was introduced, and the Scheme was substantially expanded following the announcement by the Chief Executive on 8 December 2008 after the second meeting of the Task Force on Economic Challenges. Under the expanded scheme, the Government's commitment was increased to \$100 billion, while maintaining the 70% loan guarantee.

1.21 On 8 December 2008, the Chief Executive also announced that over 60 000 jobs are to be provided through expediting infrastructure projects, advancing the recruitment of civil servants and creating temporary posts.

1.22 The Government has also worked relentlessly on the long-term development of the Hong Kong economy. It is important to raise the competitiveness of the Hong Kong economy, with a view to supporting the development of the nation, by restructuring towards higher-value-added activities, enhancing the role as an international financial centre, and further enhancing the integration with the Mainland economy, especially positioning Hong Kong strategically in the Pearl River Delta region.

1.23 The Supplement V to the Closer Economic Partnership Arrangement (CEPA) was signed in July 2008. Under the Supplement, the Central Government approved a string of services liberalization and facilitation measures for early and pilot implementation in Guangdong Province. This was echoed by the national plan issued by the National Reform and Development Commission in early January 2009, which announced that greater power of approval will be delegated to the Provincial Government of Guangdong to implement initiatives under CEPA. This should further bolster the economic integration between Hong Kong and the Pearl River Delta region.

1.24 The Central Government also rolled out a series of policy measures in helping Hong Kong to weather the financial tsunami. On 19 December 2008, the Central Government announced fourteen measures in various areas to shore up Hong Kong economy. These include: strengthening the financial co-operation between Hong Kong and the Mainland; speeding up the infrastructure projects linking the economies; spurring ahead the economic co-operation between Hong Kong and the Pearl River Delta region; providing relief to Hong Kong enterprises based in the Mainland; further liberalising the services sector in the Mainland for Hong Kong businesses; and further facilitating Mainland visitors to Hong Kong<sup>(3)</sup>.

1.25 The staunch support of the Central Government and the solid foundation of the Hong Kong economy should be supportive to Hong Kong in turning the current crisis into opportunities, and further fostering Hong Kong's status as an international financial centre and a business hub for the region.

**Notes :**

- (1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at



the overall level, rather than summing up from its main components.

- (3) Specifically, the 14 measures include: (1) Allow qualified enterprises to settle trade in Renminbi in Hong Kong; (2) Set up a currency swap arrangement between the People's Bank of China and the Hong Kong Monetary Authority; (3) Encourage Mainland enterprises to use Hong Kong as a financial services platform to start local and international businesses. Mainland organisations are also encouraged to set up or expand their branches in Hong Kong; (4) Support Mainland enterprises to list in Hong Kong; (5) Assist in speeding up the construction of Hong Kong-Zhuhai-Macao Bridge; (6) Support the speeding up of other selected cross-boundary infrastructure projects; (7) Endorse the "Outline of the Plan for the Development of Pearl River Delta Region" that would enhance cooperation among Guangdong, Hong Kong and Macao with a view to developing the region into a world-class metropolis circle; (8) Support Hong Kong enterprises to participate in the construction of Shenzhen Metro Line 4 with the Build-Operate-Transfer (BOT) mode; (9) Support the development of Shenzhen-Hong Kong border areas; (10) Consolidate Hong Kong's position as an international shipping centre; (11) Introduce policy measures to help SMEs, including Hong Kong-funded SMEs in the Mainland; (12) Expand further the Individual Travel Scheme; (13) Study further liberalisation measures with a view to the signing of CEPA VI as soon as possible; and (14) Ensure the stable supply of food, water, electricity and natural gas to Hong Kong.

## CHAPTER 2 : ECONOMIC OUTLOOK FOR 2009 AND THE MEDIUM TERM

### *Summary*

- *Being small, open and highly integrated with the rest of the world, Hong Kong's economic performance is closely tied to the demand conditions of its major economic partners, many of which are being paralysed by the global financial tsunami. The Hong Kong economy is forecast to contract by 2% to 3% in 2009. This projection is subject to considerable uncertainty, especially if the negative feedback loop between global economic weakness and financial stress continues to intensify to prolong and deepen the crisis.*
- *Given the severity of the global economic downturn and the knock-on effects on Asia, Hong Kong's external trade this year is bound to be severely hit.*
- *Local consumer spending will be depressed by heightened uncertainties, falling household wealth and rising unemployment. Investment will similarly stall until clearer signs of an economic recovery are in sight.*
- *The measures implemented by the Government to stabilise the financial markets, support enterprises and create employment, together with the further growth of the Mainland economy and the Central Government's support measures to Hong Kong, will provide some relief to the Hong Kong economy in difficult moments like this.*
- *Inflationary pressures will come down notably further in 2009. Headline consumer price inflation is forecast at 1.6%, and the underlying inflation at 1.5%.*
- *After the current global crisis has fully run its course, the medium and longer-term economic prospects for Hong Kong should 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. The trend GDP growth rate in real terms is forecast at 3.5% per annum from*

*2010 to 2013, and the trend rate of underlying consumer price inflation at 2%.*

## **Major external factors**

2.1 Being highly integrated with the rest of the world, the Hong Kong economy cannot avoid being significantly impacted by the global financial tsunami, the most severe economic crisis since the Great Depression. While the concern about a global financial meltdown has receded following the unprecedented government policy responses, the financial markets will likely remain turbulent in 2009. Advanced economies are mired in recession and emerging and developing economies have slowed sharply since the latter part of last year. The synchronised global downturn can be expected to get worse before getting better. The performance of the Hong Kong economy in 2009 will hinge much on how the financial crisis will play out and when the external environment will begin to improve.

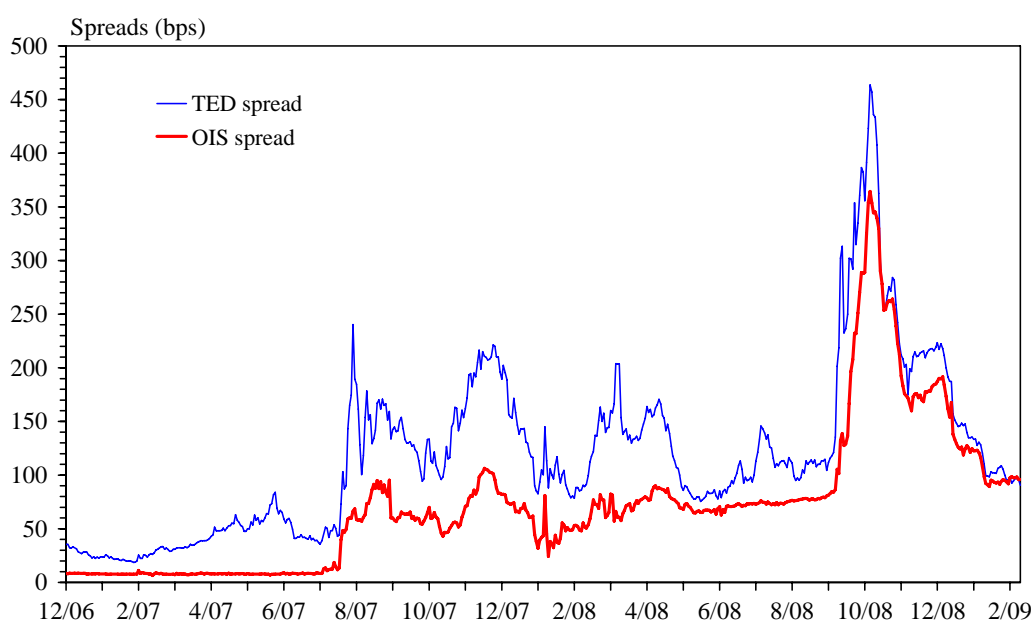
2.2 The global economic downswing and credit crunch have already dampened significantly the flows of trade, as evidenced by the double-digit declines in exports of many Asian economies in recent months. The external environment will remain extremely challenging going forward. There are significant uncertainties regarding the effectiveness of the aggressive fiscal and monetary measures being pursued by governments in the major economies, and hence the timing and vigour of the global economic recovery, particularly in the face of the negative feedback loop between financial market strains and global economic weakness. The uncertain direction of the US dollar movement, with its implications for the price competitiveness of Hong Kong's exports, will also complicate the picture. Yet inflationary pressures have and will continue to come down in 2009, along with the depressed commodity prices and weaker demand conditions.

### ***Financial crisis and credit crunch***

2.3 The global financial crisis triggered by the US subprime mortgage crisis deepened distinctly in 2008, particularly so after the collapse of the Lehman Brothers in September 2008, when confidence on the international financial system shrank to the lowest and the lending and borrowing activities among banks virtually came to a standstill as counterparty risks surged. The stability in the global financial system has since been restored following the unprecedented efforts by governments in advanced economies to tackle all aspects of the financial markets: liquidity, bad assets, shortage of capital, and especially confidence. Nevertheless, it will take time for the financial

institutions around the world, especially those in the advanced economies, to complete the process of de-leveraging, implying that global credit conditions will remain tight in 2009. Indeed, the prevailing yield spreads, particularly those for corporate credit risks in general and sovereign default risks for some developing economies, are high by historical standards. The tight credit conditions will directly restrain economic activities in every corner of the world. Emerging markets with high external debt, huge current account deficit or weak financial system would be particularly vulnerable to the credit crunch. This will also weigh on the already feeble world import demand, thereby further dampening international trade and hence Hong Kong's exports this year.

**Diagram 2.1 : Ted spread remains high by historical standards**

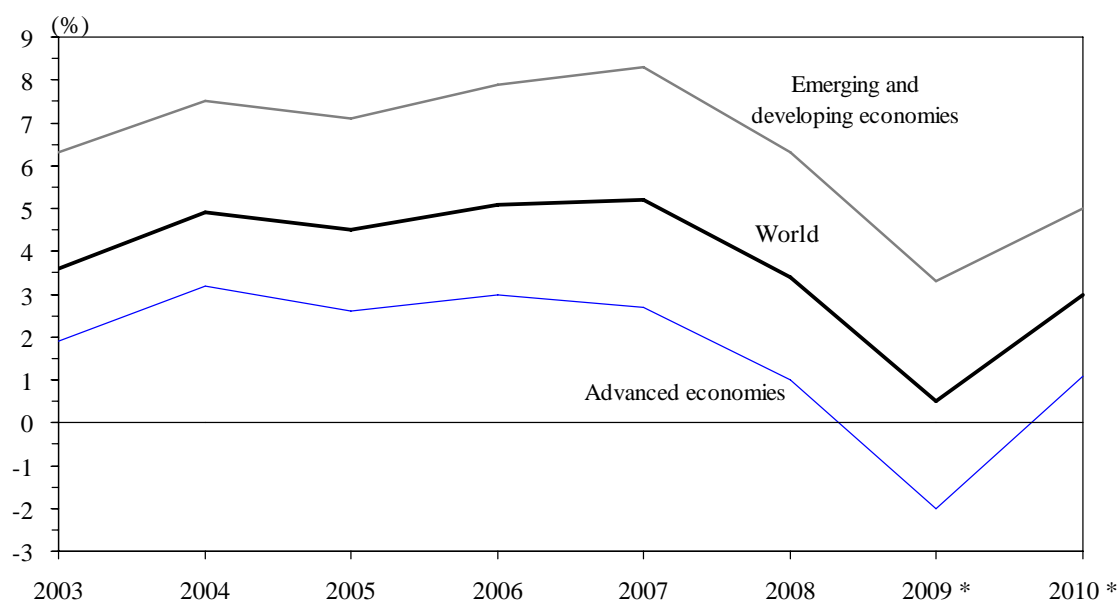


2.4 The substantial stock market corrections around the world over the past year or so, bringing with it significant negative wealth effects, will continue to weigh on consumption and import demand worldwide. In 2009, financial markets are likely to remain volatile in 2009, as investor sentiment remains fragile and sensitive to adverse news. Also, in recent months, major financial institutions in the US and Europe continued to report huge financial losses, and the risks of financial crisis intensifying again cannot be underestimated.

2.5 As an international financial centre, the financial markets and credit conditions in Hong Kong, and thus the real sectors of the Hong Kong economy, will inevitably be affected by the financial developments around the world. Nevertheless, the sound institutions and regulatory frameworks, on top of the pre-cautionary measures introduced by the Government in response to the global financial crisis have so far ensured financial stability in Hong Kong against the external shocks, a significant accomplishment especially when

viewed against the dire situations facing the banking sectors in the US and Western Europe.

**Diagram 2.2 : The global economy has entered a severe synchronised downturn**



Source: IMF World Economic Outlook Update January 2009.

(\*) Forecast from the IMF.

### ***Global economic outlook***

2.6 The global economy is now in an uncharted territory, with credit flows being severely blocked and monetary policy rates approaching the zero bound in many advanced economies. As a result, governments and central banks in the advanced economies have to resort to unconventional stimulus measures, the effectiveness of which is uncertain. The ramifications of the financial tsunami have translated into a synchronised global economic downturn since the latter part of last year. In the United States, job loss during 2008 was the largest since 1945, and the economy is still deep in recession. Also, the US housing market downturn, the trigger of the current financial crisis, has yet to bottom out. The fall in housing prices, if continued, could add to the strains in the financial markets and deepen the recession.

2.7 The economies in Europe worsened distinctly in the latter part of 2008. European financial institutions, being significant holders of impaired financial assets, have been hard hit. Economic situations in some European economies have also been impacted by the fallout from their property markets. Business sentiment in the euro area is at a record low. In Japan, the economic situation is likewise in doldrums, with exports, the driving force of its recent economic expansion, falling substantially in recent months and consumer and investor sentiments remaining subdued. In sum, the advanced economies are mired in

recession. According to the International Monetary Fund (IMF), GDP of the advanced economies as a whole is projected to contract by 2.0% in 2009, the most severe downturn during the post-war period. The timing and vigour of the recovery are highly uncertain. The prospects for a turnaround in the latter part of this year will depend very much on how the financial crisis will play out and whether the policy actions taken by these economies, including huge fiscal stimulus measures and aggressive monetary easing, can effectively attain their goals in kickstarting the economy.

2.8 Emerging economies in Asia, which are generally export-dependent, should likewise experience further sharp deceleration in 2009, as the global trade flows will continue to be halted by the faltered demand from the advanced economies. The difficult credit conditions amidst the stress on international financial markets will also restrain investment demand. This impact should particularly be pronounced for economies with sizeable current account deficits and those reliant on external financing. As to the commodity-exporting economies that were used to gain from the run-up in commodity prices until mid-2008, they will now face a sudden and sharp deterioration in their terms of trade, posing significant pressure on their domestic demand.

2.9 Specifically, the growth momentum of the Mainland economy, the hinterland featuring significantly in all aspects of the economic activities in Hong Kong, is likely to diminish somewhat in 2009. While the Mainland economy will face a challenging situation in the light of slackening exports and weakening industrial production on top of the cooling off in its asset markets, the series of government stimulus measures, including the RMB 4 trillion fiscal package announced last November, hikes in exports tax rebates, measures to assist small and medium sized enterprises, as well as the accommodative monetary policies, should render some firm support to its domestic demand and, to a lesser extent, its external sector. The developments in the Mainland should still be a positive factor to the Hong Kong economy, particularly when viewed against the dire situation elsewhere in the world.

**Table 2.1 : Growth forecasts for major economies in 2009**

	<b>2009</b>		
	<b>2008*</b> (%)	<b>IMF*</b> (%)	<b>Private sector forecast <sup>^</sup></b> (%)
World	3.4	0.5	-
Advanced economies	1.0	-2.0	-
US	1.1	-1.6	-2.1
Euro area	1.0	-2.0	-2.0
Japan	-0.3	-2.6	-3.8
Emerging market and developing economies	6.3	3.3	-
Developing Asia	7.8	5.5	-
Mainland China	9.0	6.7	7.0
India	7.3	5.1	5.4
Middle East	6.1	3.9	-

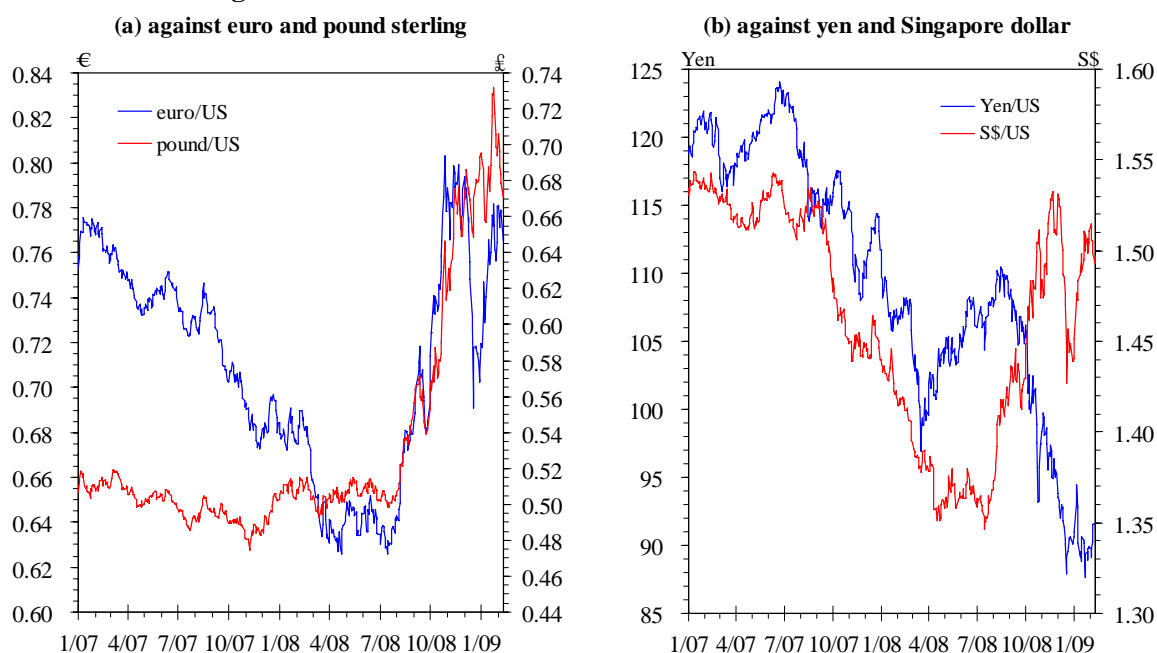
Notes :     (\*) World Economic Outlook Update, IMF, January 2009.  
           (^) Average forecast as in February 2009.  
           (-) Not available.

### *Exchange rates and price competitiveness*

2.10 The movement of exchange rates can affect Hong Kong's external competitiveness and thereby influence Hong Kong's external demand. Unlike previous years, given the dire situation in the advanced economies, the exchange rate factor is likely to feature less prominently in determining the demand for Hong Kong's exports in 2009, which will be more affected by the deteriorating income levels in the overseas markets. Since mid-2008, there has been a rebound of the US dollar against other major currencies, with the exception of Yen and Renminbi. This probably reflected the capital flights to safety assets, including the US Treasury bonds, amid the financial tsunami and the narrowing of the interest rate spreads across currencies following the aggressive interest rate cuts by major central banks around the world. Tracking closely to the US dollar, the Hong Kong dollar also strengthened against a basket of currencies of Hong Kong's trading partners, appreciating by 0.2% in December 2008 from a year earlier. As such, the recent exchange rate development should be less conducive to the external competitiveness of Hong Kong in the near term.

2.11 The outlook for US dollar, to which the Hong Kong dollar is linked, is subject to a large degree of uncertainty. The aggressive monetary and fiscal actions taken by the US Federal Reserve and US government in the recent past can be expected to increase government debt and budget deficit in the years to come. These expected repercussions could have implications on the future movements of the US dollar. Market sentiment can also easily reverse as the financial crisis continues to unfold. The unwinding of the global trade imbalances, which is now underway, will also complicate the picture. Thus the risk of experiencing more volatile exchange rate movements in 2009 has heightened, with its potential adverse effects on financial market stability and international trade flows.

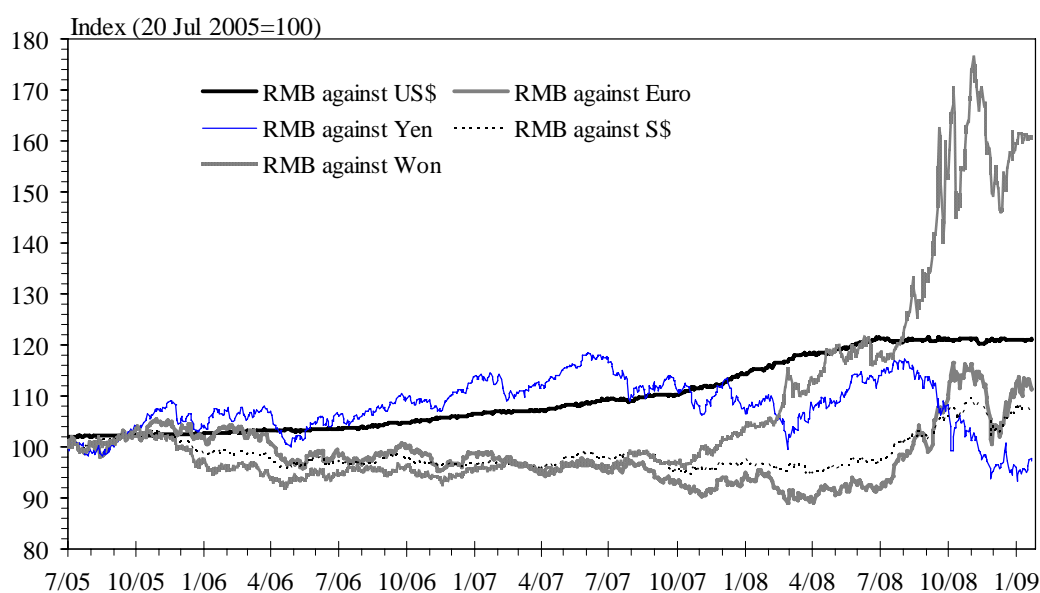
**Diagram 2.3 : Future direction of the US dollar is a source of risks**



2.12 As the Hong Kong economy is increasingly integrated with the Mainland, the value of the Renminbi against other major currencies can also affect Hong Kong’s external price competitiveness. The continuous appreciation of the Renminbi against the US dollar since July 2005 accelerated in the latter part of the 2007 and in early 2008, against the backdrop of the strong economic growth and rising trade surplus in the Mainland. In the latter part of 2008, the value of the Renminbi measured against the US dollar largely hovered within a narrow range, partly because of the strength of the US dollar against other major currencies. For 2008 as a whole, the Renminbi appreciated by an average of 9% against the US dollar. A more stable Renminbi, coupled with the measures by the Mainland authorities to help export-oriented enterprises, should be a supportive factor as far as the export competitiveness of Hong Kong-owned factories in the Mainland are concerned.



**Diagram 2.4 : Movements of renminbi against other currencies are also important to Hong Kong's trade performance**



Note : An increase in the index represents an appreciation of renminbi against the currency concerned.

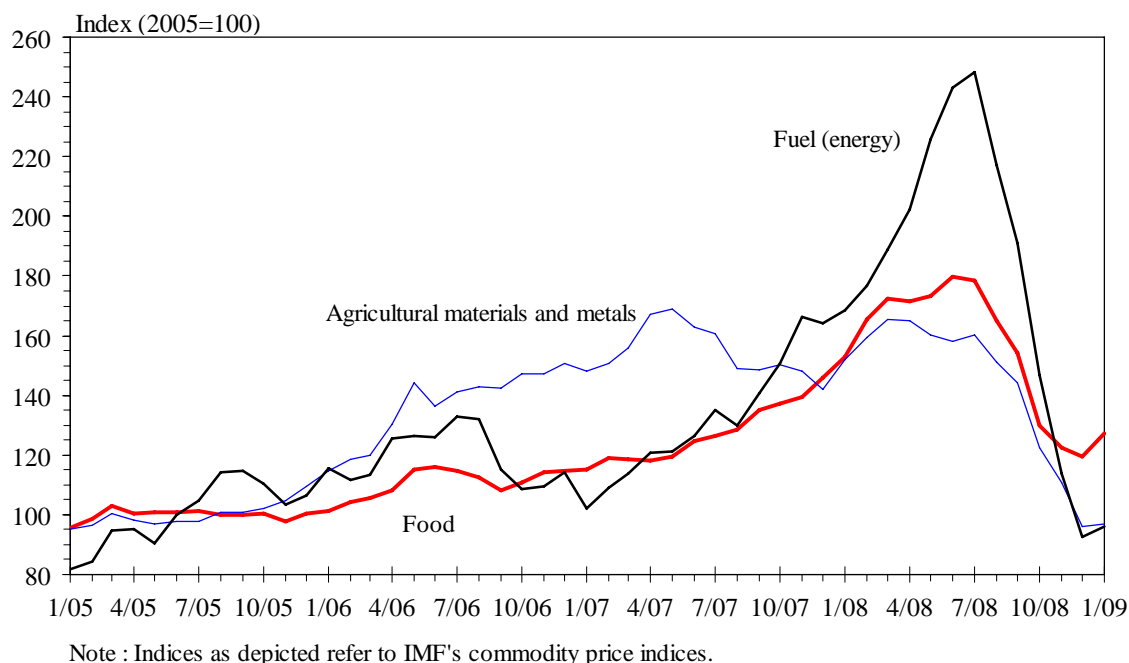
### ***World inflation and global commodity prices***

2.13 Inflation was a global concern during most of 2008. Consumer price inflation in many economies in the world continued to rise during the first half of 2008, on account of the surges in food and energy prices. Yet global inflationary pressures receded notably in the latter half of the year, along with the retreat of commodity prices and the deepening global economic downturn. Price pressures are likely to come down further during the course of 2009 on a global scale, considering the expected subdued demand conditions amid a synchronised global downturn. Efforts by central banks around the world have also shifted from containing inflation to avoiding a deep and lingering economic downturn.

2.14 Specifically on world commodity prices, the worsening economic conditions had precipitated significant corrections of these prices in the latter half of 2008. Crude oil prices fell to an average of around US\$40 per barrel in December, around 70% off its peak in July 2008 and down 56% from a year earlier. The prices remained low in January 2009. Food prices also came down notably by 33% in December 2008 as compared to the peak in June 2008, according to the statistics compiled by the IMF. A better supply-demand balance following the increase in food supply guided by the elevated prices earlier and the reduced demand for bio-fuels amid falling energy prices were all contributory to the fall in food prices. Prices of commodities for industrial uses also declined sharply in the latter part of 2008. In view of the sluggish demand outlook, commodity prices should remain depressed in 2009, though they can be

rather volatile from time to time. The weaker global inflationary pressures and the subdued commodity prices should help to lower inflation in Hong Kong during the course of 2009.

**Diagram 2.5 : Commodity prices likely to remain rather depressed in 2009 but can be volatile from time to time**



### ***Major sources of risks***

2.15 While governments in the major economies have and will continue to implement various unprecedented rescue and stimulus measures, the timing and strength of the global economic recovery are subject to a great deal of uncertainty. The effectiveness of these measures, given their unconventional nature, to shore up consumer and investor confidence and to avoid a deep and lingering global recession needs to be watched closely. On top of this, there are several other sources of risks to the external economic environment. First, the negative feedback loop between the downturn of the real economy, including the housing market corrections in the US and Europe, and financial market stress, if not well contained, can lead to a new wave of financial instability. Secondly, the US dollar movement can be rather volatile, given the concerns about the aftermaths of various aggressive policy measures. This can increase the volatility of the financial and foreign exchange markets. Thirdly, the unwinding of the global trade balances, already underway, can turn out to be disorderly, especially in this turbulent period. Fourthly, the economic downturn around the world could result in a rise in protectionist sentiments, restricting international trade and even international finance, and Hong Kong would suffer in the event. These downside risks can linger on beyond 2009.

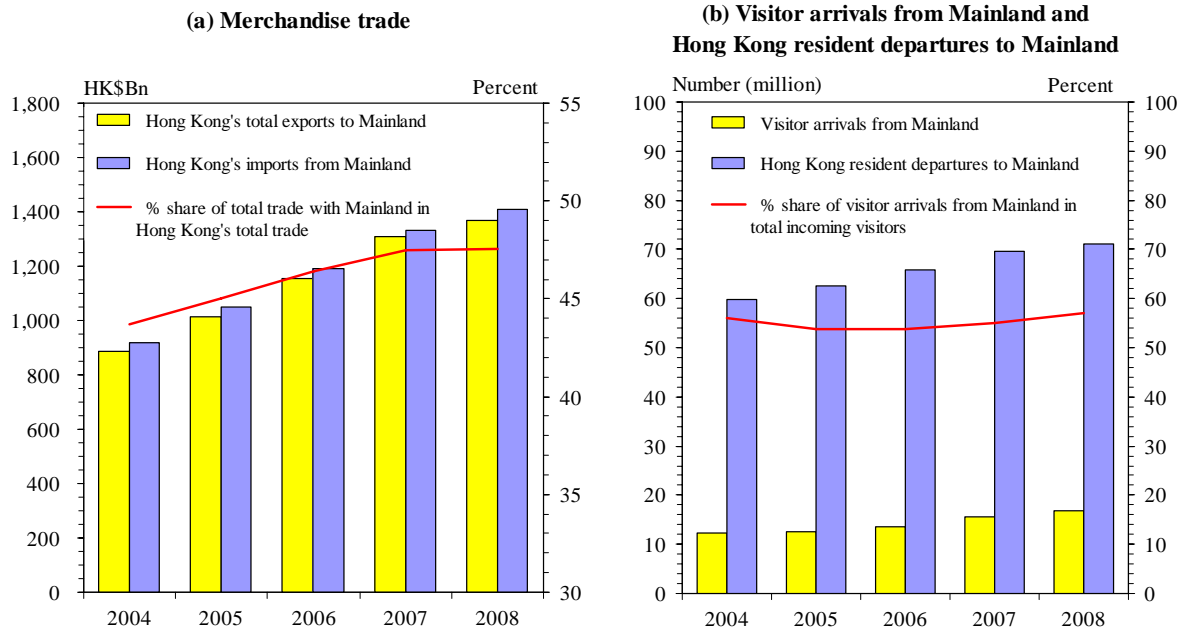
## Outlook for the Hong Kong economy in 2009

2.16 Hong Kong is a small open economy. The vicissitudes of the economy are closely tied to the demand conditions of its major economic partners. Given the sheer scale of the global financial crisis, advanced economies are now in their worst recession in decades, and Asian economies have also deteriorated rapidly since the latter part of last year. Hong Kong's economic performance in 2009 is bound to be severely affected. Nevertheless, the Government has already implemented a series of measures to stabilise the financial markets, ease credit conditions, support enterprises, accelerate public works, and create employment. Also, the sustained economic growth in the Mainland and particularly the 14 supportive measures to Hong Kong announced by the Central Government in December 2008 will render support to Hong Kong economy.

2.17 External environment will be extremely challenging going forward, with Hong Kong's major overseas markets deep in recession into 2009. Many export-dependent Asian economies should lose most of their growth momentum, putting a further drag on intra-regional trade. The strength of the US dollar in the past few months, with its lagged effects on Hong Kong's external price competitiveness, will also add to the strains on Hong Kong's exports in the near term. Overall, *total exports of goods* are likely to show a rather notable decline in most of 2009.

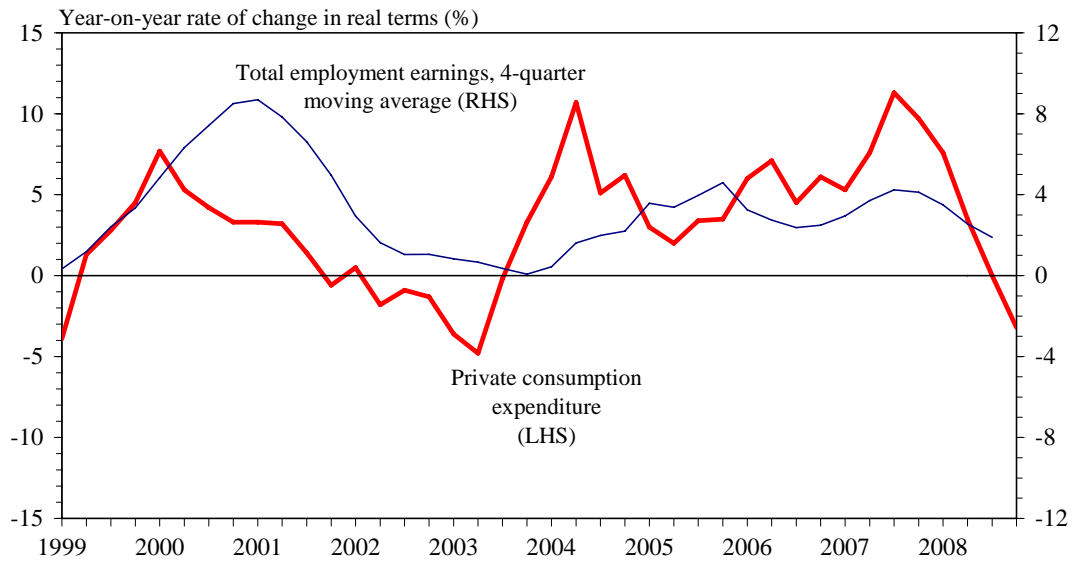
2.18 The outlook for *exports of services* is likewise not encouraging. Inbound tourism will be subject to the pressure from shrinkage in travel demand as the incomes of overseas tourists drop alongside the global economic downturn. In this regard, visitors from the Mainland, being relatively less affected by the crisis, will continue to play an important role in supporting the performance of inbound tourism. Hong Kong's offshore trade will also fall victim to the fallout from global trade flows. Exports of finance, business and other services, having expanded rapidly prior to the financial tsunami, should now turn very sluggish, as financial market and other commercial activities will continue to be dampened by the headwinds from the financial tsunami.

**Diagram 2.6 : Sustained growth in the Mainland economy will be a positive factor**



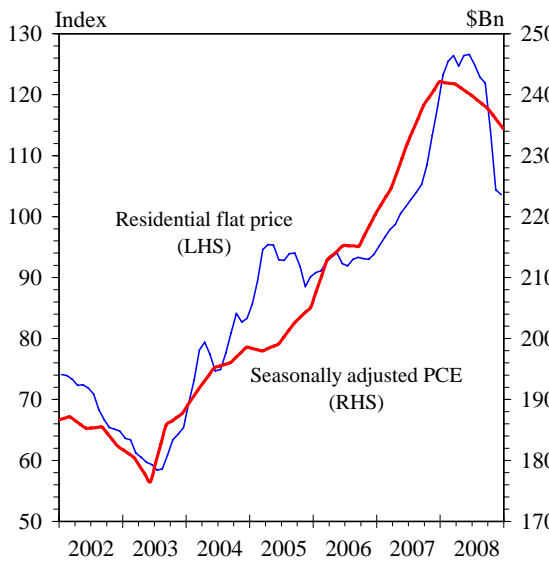
2.19 As to *domestic demand*, local consumer spending will be depressed by heightened uncertainties, falling household wealth and rising unemployment. Private sector investment will similarly stall until clearer signs of an economic recovery are in sight. The results of the latest Business Tendency Survey conducted by the Census and Statistics Department confirm that large companies surveyed were pessimistic about the near-term business outlook. Nevertheless, the fast-tracking of public sector works by the Government should provide some timely support. Measures to ease the credit tightness facing the small and medium-sized enterprises will also help to reduce their difficulties to some extent.

**Diagram 2.7 : Local consumer spending will remain depressed amid rising unemployment**

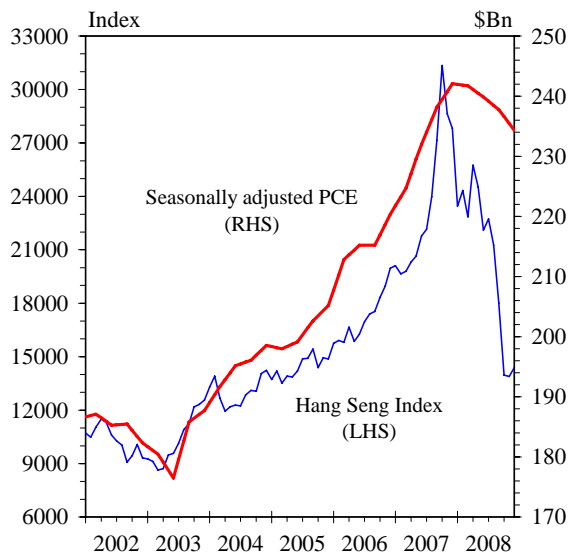


**Diagram 2.8 : Asset market correction has hurt consumer sentiment**

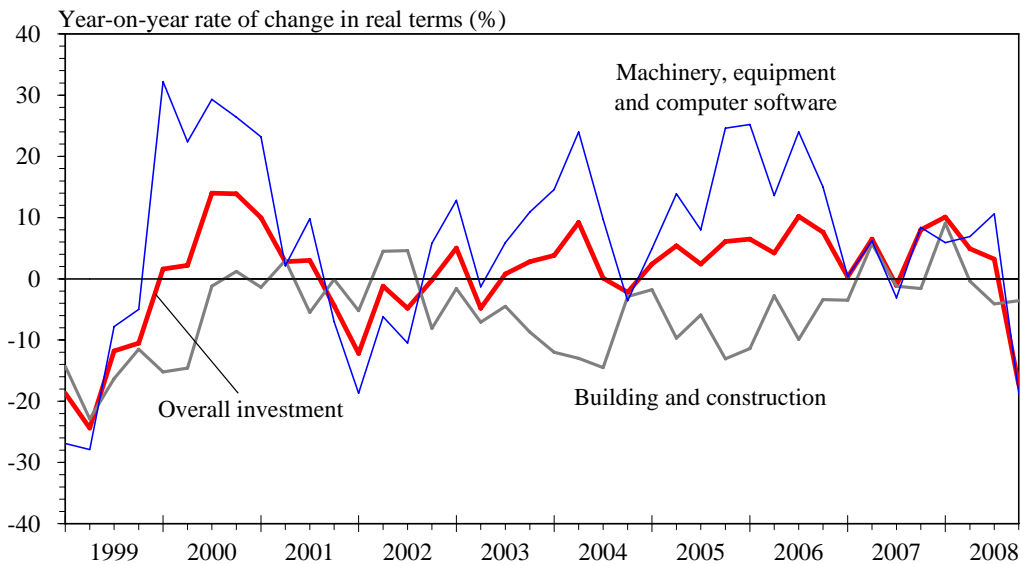
(a) Residential flat price



(b) Hang Seng Index (month-end figures)

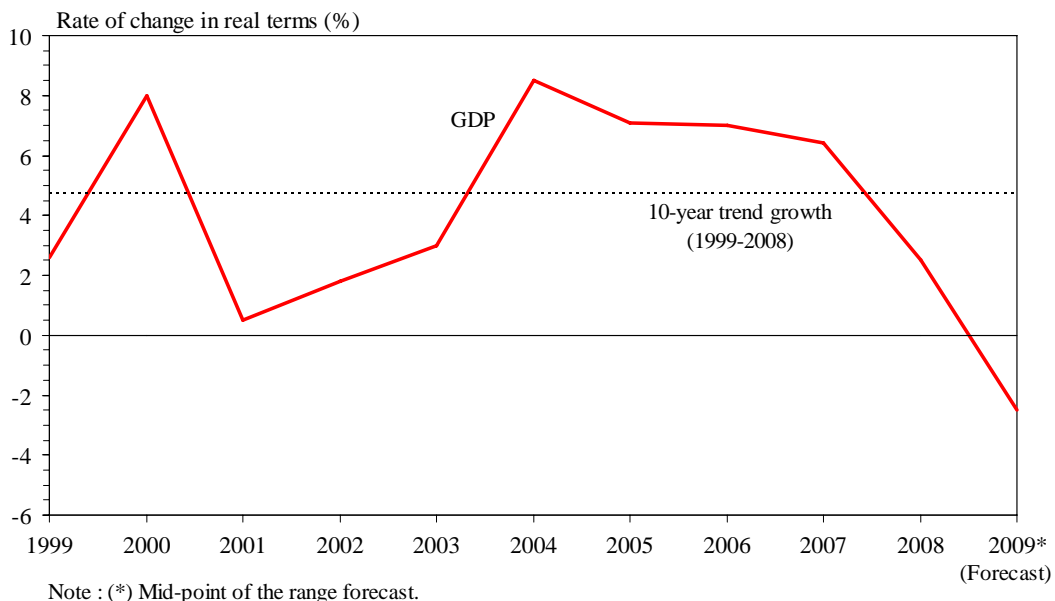


**Diagram 2.9 : Investment sentiment will turn more cautious**



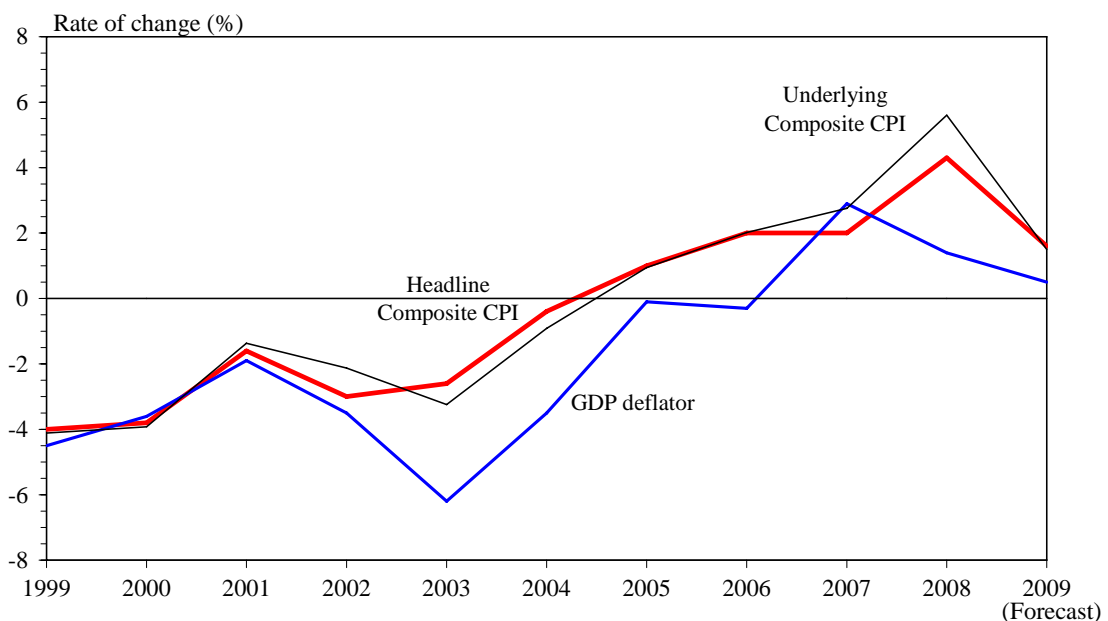
2.20 Taking all these developments together, the Hong Kong economy is likely to contract in 2009, by 2% to 3%, the first annual decline since 1998. The prospects for a turnaround will depend much on how the financial tsunami will play out and when the global economic environment will begin to improve. The forecast is broadly in line with the prevailing views by the private sector analysts, with their forecast rates of contraction averaging at around 2%. This projection is subject to considerable uncertainty, especially if the negative feedback loop between global economic weakness and financial stress continues to intensify to prolong and deepen the crisis.

**Diagram 2.10 : Economy set to face a contraction in 2009 amid the global recession**



2.21 Inflationary pressures have been receding notably since the latter part of 2008, as the deepening global downturn has precipitated subdued demand conditions worldwide. The earlier sharp declines in food and energy prices in the international markets have also contributed. The adjustment of the property market is also keeping the housing and commercial rents in check. Taking a broader perspective, global inflationary pressures are expected to come down further in 2009. Along with this global trend, underlying inflation in Hong Kong would also fall visibly during the course of 2009. Against this background, the *underlying Composite CPI* is forecast to increase by 1.5% in 2009 as a whole, down from the 5.6% increase in 2008. The one-off relief measures announced in the 2009-10 Budget will help to lower the Composite CPI, but the impact will be largely offset by the lower base effect created by those one-off relief measures introduced during 2008. Thus, for 2009 as a whole, the *headline Composite CPI* is forecast to increase by 1.6%. The *GDP deflator* is forecast to rise by 0.5%, largely reflecting the deceleration in the increase of domestic prices and also the more stagnant movement in export prices.

**Diagram 2.11 : Inflation will recede visibly over the coming 2009**



## Forecast rate of change in 2009 (%)

### Gross Domestic Product (GDP)

<i>Real GDP</i>	<b>-2 to -3</b>
<i>Nominal GDP</i>	-1.5 to -2.5
<i>Per capita GDP, in real terms</i>	-2.8 to -3.8
<i>Per capita GDP at current market prices</i>	HK\$232,500-234,900 (US\$29,800-30,100)

### Composite Consumer Price Index

<i>Headline</i>	<b>1.6</b>
<i>Underlying</i>	<b>1.5</b>

<b>GDP Deflator</b>	<b>0.5</b>
---------------------	------------

### Forecast on Hong Kong's GDP growth in 2009 recently made by other selected parties

	(%)
International Monetary Fund	-2.0
The University of Hong Kong	-3.0
The Hong Kong University of Science and Technology	-2.2
Average forecast by private sector analysts <sup>#</sup>	-2.1

Note: (#) Forecast GDP growth by private sector analysts mostly falls between -1% and -3%.

### Medium-term outlook for the Hong Kong economy

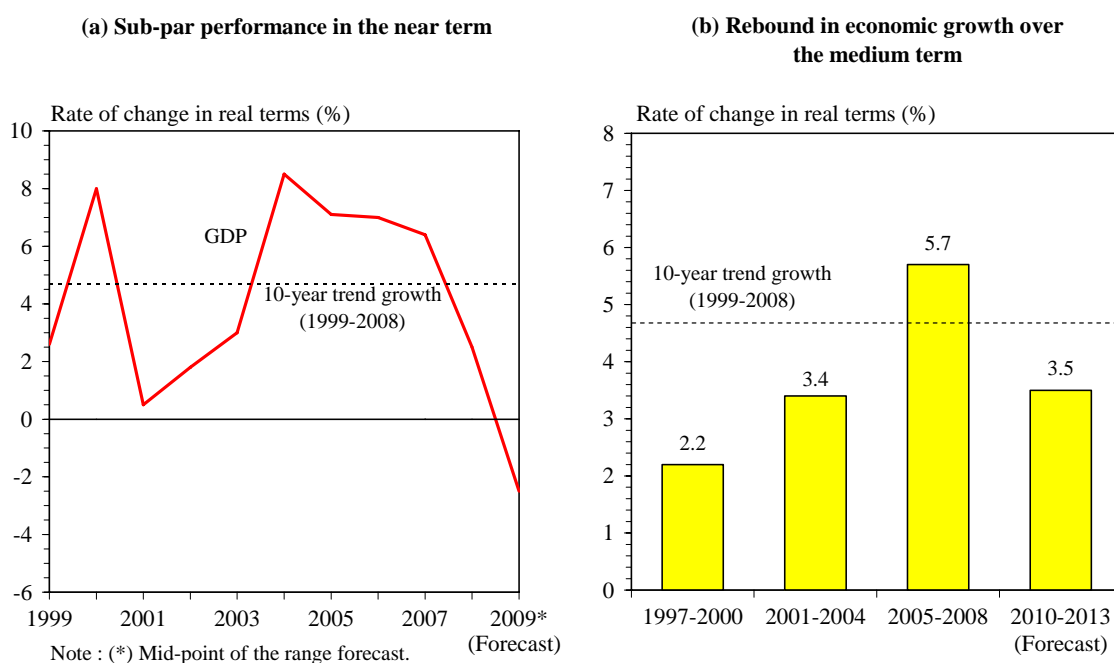
2.22 At this juncture, whether the massive and unprecedented government policy responses taken by the major economies are effective in reviving the global economy in a sustainable manner is still highly uncertain. Even if the global economy can recover in the course of 2010 as expected, the growth pace 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.



2.23 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.

2.24 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**



2.25 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.

## CHAPTER 3 : THE EXTERNAL SECTOR

### *Summary*

- *Hong Kong's external sector held up relatively well in the first half of 2008, but worsened notably in the second half as the initial slowdown in the advanced economies mutated into a synchronized global economic downturn amid the abruptly escalated financial crisis since September 2008.*
- *Total exports of goods to the advanced economies slackened during 2008, particularly so in the latter part of the year as they were increasingly mired in recession. Those to the Mainland and many other economies in Asia continued to grow sturdily in the first half of 2008, but likewise decelerated notably in the ensuing period as global trade flows were halted by the much faltered demand from the advanced economies. The renewed strength of the US dollar also did not augur well for the price competitiveness of Hong Kong's exports.*
- *Exports of services fared relatively better than merchandise exports in 2008, though there was also a sharp moderation in the second half of the year. The lower levels of financial activities amid the abrupt escalation of the financial turmoil weighed heavily on the exports of financial services. Exports of travel services and transportation services both showed notable deceleration, alongside the less vibrant performance of inbound tourism. Exports of trade-related services held up relatively well in the first three quarters of 2008, but turned almost stagnant in the fourth quarter as the Mainland's and the region's trade flows slowed.*
- *The Government continued to work relentlessly in strengthening Hong Kong's external competitiveness. The Supplement V to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed in July 2008, with particular liberalization measures for Hong Kong's service providers entering the Mainland markets. Several cross-boundary infrastructure projects were in the pipeline to increase the flow of people and goods between the Mainland and Hong Kong. The Government also stepped up the work on cultivating closer economic ties with other emerging market economies. All these will enhance the role of Hong Kong as an international business, trading and logistics centre.*

## Visible trade

### *Total exports of goods*

3.1 Merchandise exports displayed a trend of moderation over the course of 2008 as the external environment deteriorated. For the year as a whole, *total exports of goods* (comprising re-exports and domestic exports) grew by 2.9% in real terms<sup>(1)</sup>, after an increase of 8.3% in 2007. The advanced economies, which had already slowed down in the beginning of 2008, plunged into recession in the latter half of the year when the financial crisis initiated by the sub-prime mortgage problem in the United States escalated abruptly into the most dangerous financial tsunami since the late 1920s. In response to the crisis, many unprecedented measures had been implemented by the governments of these major economies. By the end of 2008, while the risk of a systemic meltdown in the financial market receded, the financial markets in these economies remained strained, and the impact on the real economy emerged distinctly, leading to significant contraction in economic activities, severe job losses and sharp cut back in import demand. In sum, the advanced economies were mired in recession<sup>(2)</sup>. With rapidly falling demand from the advanced economies, the pressure on the goods flows among the export-dependent Asian economies was also increasingly notable, particularly towards the final two months of 2008 when most of the Asian economies turning in double-digit declines in exports.

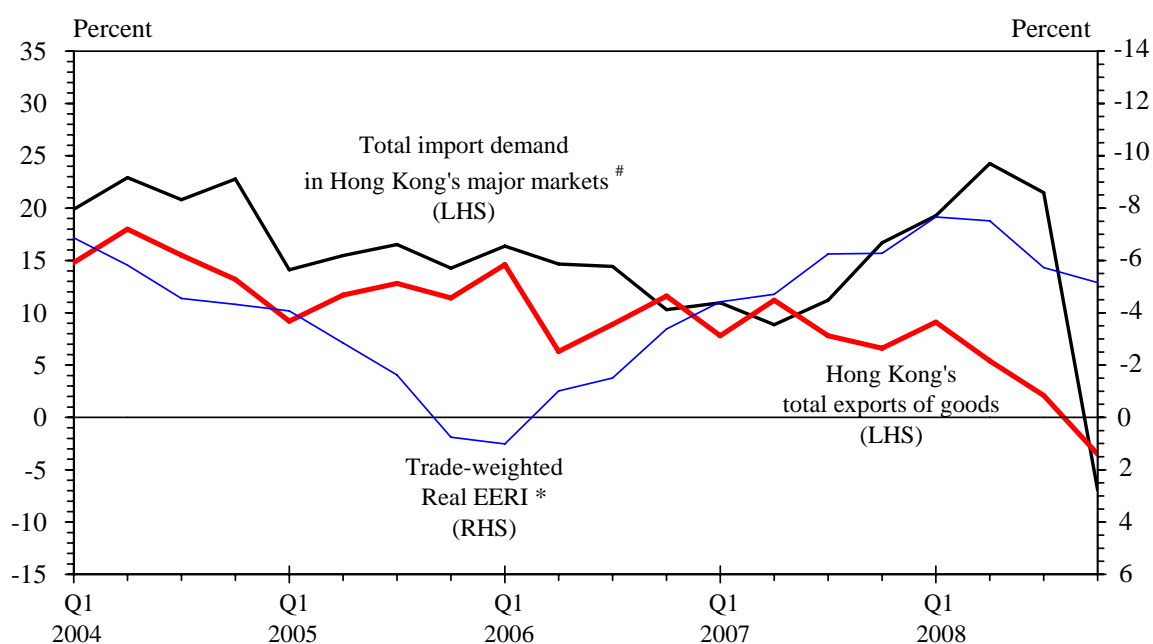
**Table 3.1 : Total exports of goods, re-exports and domestic exports  
(year-on-year rate of change (%))**

	<u>Total exports of goods</u>				<u>Re-exports</u>			<u>Domestic exports</u>				
	In value terms	In real terms	Change in prices	In value terms	In real terms	Change In prices	In value terms	In real terms	Change in prices			
2007 Annual	9.2	8.3	2.3	10.8	9.9	2.4	-18.9	-19.8	0.8			
Q1	9.0	7.8	(0.7)	2.7	11.8	10.6	(0.8)	2.8	-33.4	-33.5	(-2.3)	0.4
Q2	11.7	11.2	(1.7)	2.0	13.5	13.1	(1.5)	2.1	-18.4	-19.4	(6.8)	0.6
Q3	8.2	7.8	(1.3)	2.0	10.0	9.6	(1.6)	2.1	-20.9	-21.0	(-6.6)	0.8
Q4	8.2	6.6	(2.9)	2.7	8.6	7.1	(3.0)	2.8	-0.7	-3.4	(0.4)	1.0
2008 Annual	5.1	2.9	3.8	6.0	4.0	3.8	-16.8	-22.0	5.1			
Q1	10.5	9.1	(1.2)	2.6	10.9	9.6	(1.6)	2.6	0.3	-5.0	(-7.3)	3.3
Q2	7.8	5.4	(0.2)	3.9	8.8	6.6	(0.5)	3.9	-14.3	-20.0	(-9.5)	5.0
Q3	5.5	2.1	(-1.5)	4.8	6.5	3.3	(-1.1)	4.7	-17.8	-26.1	(-12.9)	6.4
Q4	-2.1	-3.5	(-3.7)	4.1	-0.9	-2.3	(-3.5)	4.0	-31.1	-32.8	(-8.2)	6.2

Note : ( ) Seasonally adjusted quarter-to-quarter rate of change.

3.2 The performance of Hong Kong's total exports of goods weakened notably over the course of 2008, with the year-on-year growth rate slowing from 9.1% in real terms in the first quarter to 5.4% and 2.1% respectively in the second and third quarters. As the synchronised global downturn took its toll on world trade, exports slipped into a decline of 3.5% in the fourth quarter. Within total exports of goods, *re-exports*<sup>(3)</sup> still accounted for an overwhelming proportion and showed a moderate increase in 2008 as a whole, while *domestic exports*, constituting a small share, continued to shrink.

**Diagram 3.1 : Merchandise exports slackened distinctly over the course of 2008 (year-on-year rate of change)**

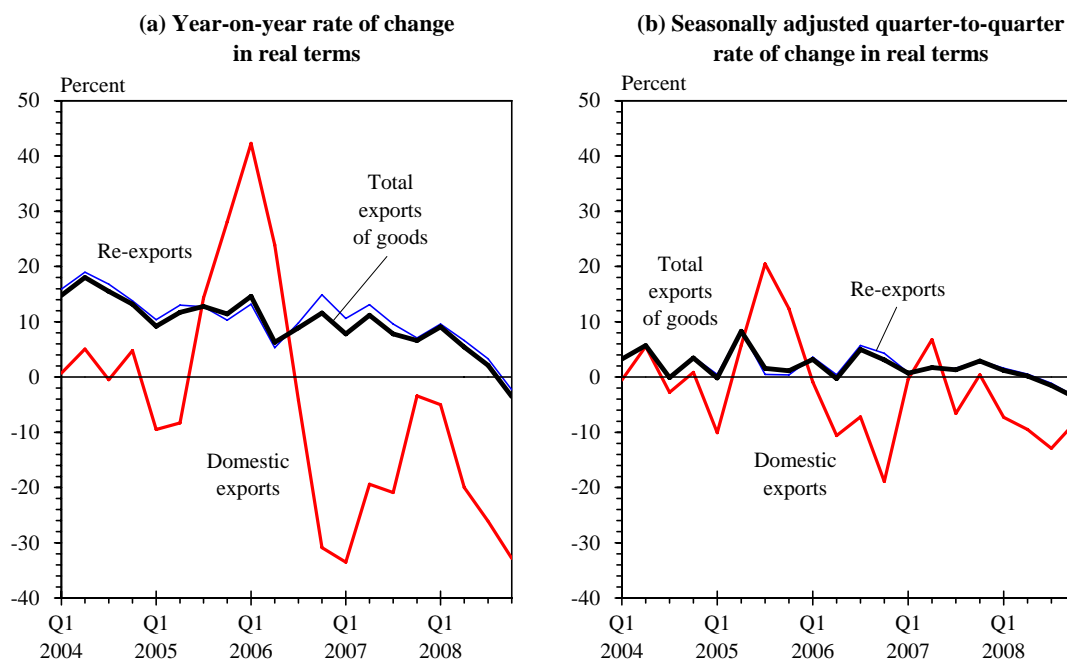


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in East Asia, the United States and the European Union taken together.

(\*) The real EERI in this graph is inverted in scale for easier comprehension. A positive change denotes real appreciation of the Hong Kong dollar.

(#) Import demand figure for the fourth quarter of 2008 is based on information available up to November 2008.

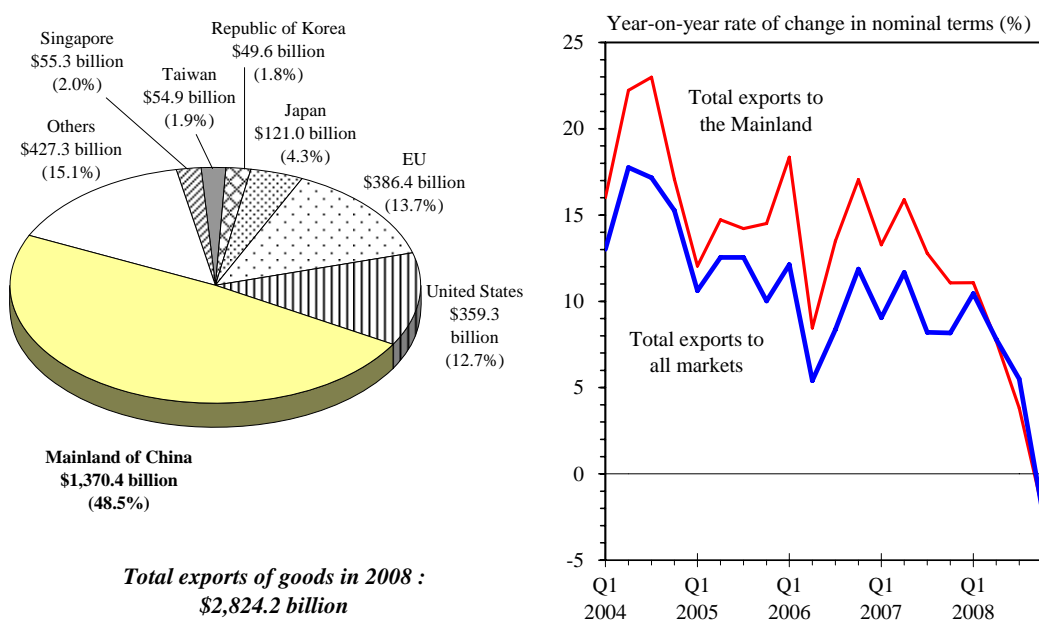
**Diagram 3.2 : The performance of total exports was driven by re-exports**



3.3 Analysed by market, Hong Kong's total exports to the advanced economies generally slackened during 2008. The main drag initially came from the U.S. market, but the slackening trend increasingly spread to other major markets in the aftershock of the global financial crisis. While the total exports to the European Union turned in some moderate increase in 2008 overall, there was a marked deterioration in the final quarter of the year as many of the constituent EU economies slipped into recession and the euro weakened distinctly since the middle of 2008.

3.4 Many emerging economies in Asia had held up well in the first half of 2008, so had Hong Kong's total exports to the Asian markets generally. However, economic conditions in Asia worsened rapidly in the latter part of the year. The return to strength of the US dollar since the middle of 2008 also did not bode well to the competitiveness of Hong Kong's exports. Total exports to the Mainland, the largest market for Hong Kong's total exports of goods, registered a much slower growth in the second half of 2008 as compared to the double-digit growth in the first half, as the contraction in the demand from the advanced economies began to weigh on the intra-regional trade in Asia. Exports to other Asian markets such as South Korea, Singapore and Taiwan showed a similar pattern. Exports to other emerging economies in the region also recorded notable slackening after their earlier surges.

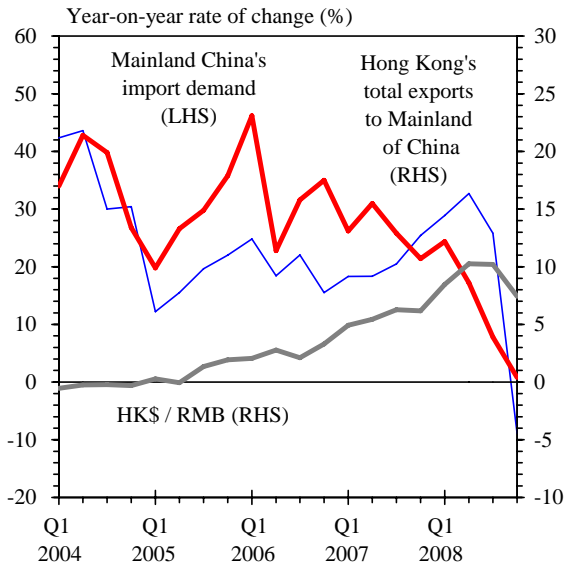
**Diagram 3.3 : The Mainland, the largest market for Hong Kong's total exports, also saw a notable slowdown during 2008**



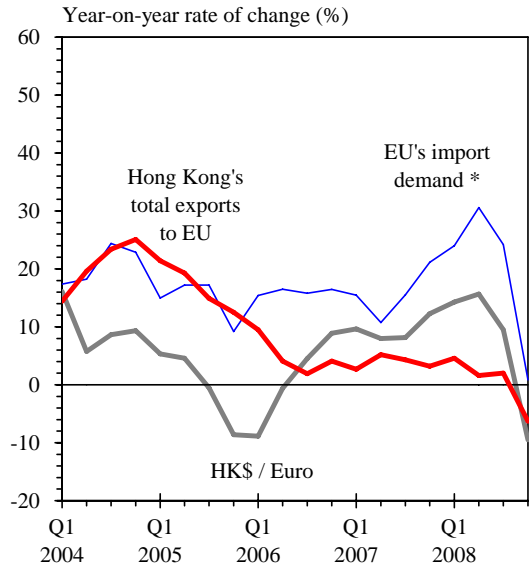
**Table 3.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))**

		<u>Mainland of China</u>	<u>United States</u>	<u>European Union</u>	<u>Japan</u>	<u>Republic of Korea</u>	<u>Taiwan</u>	<u>Singapore</u>
2007	Annual	12.9	-2.5	3.8	-0.8	0.0	-0.2	1.0
	Q1	13.1	0.7	2.7	0.6	-8.9	-1.4	0.7
	Q2	15.5	1.0	5.2	4.0	3.8	9.0	3.9
	Q3	12.9	-3.9	4.3	-5.9	0.2	-3.2	0.2
	Q4	10.7	-6.6	3.2	-1.6	5.2	-4.1	-0.2
2008	Annual	5.9	-8.5	0.2	-2.4	-8.2	-1.6	6.2
	Q1	12.2	-5.8	4.6	-3.2	2.8	-0.2	21.6
	Q2	8.6	-7.4	1.6	-4.1	-5.7	2.6	13.8
	Q3	3.9	-7.1	2.0	-1.2	-5.7	-2.5	-0.5
	Q4	0.4	-13.0	-6.3	-1.0	-23.2	-5.9	-7.2

**Diagram 3.4 : Exports to the Mainland decelerated sharply since mid-2008 as world trade faltered**

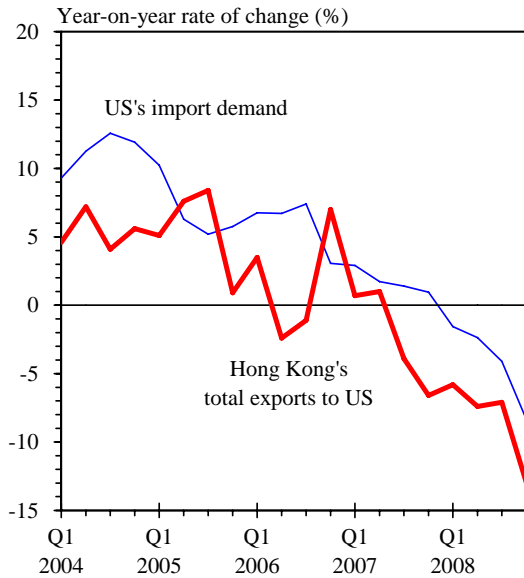


**Diagram 3.5 : Exports to EU slackened towards end-2008 as the EU economy was mired in recession**

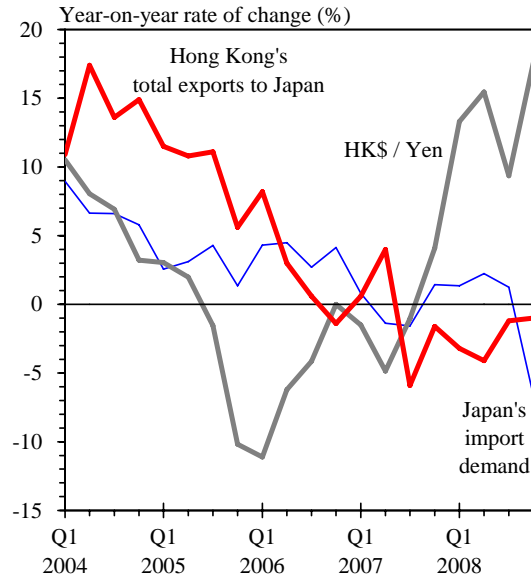


Note: (\*) Import demand figure for the fourth quarter of 2008 is based on information available up to November 2008.

**Diagram 3.6 : Exports to US contracted in all four quarters of 2008 as the economy slid into recession**

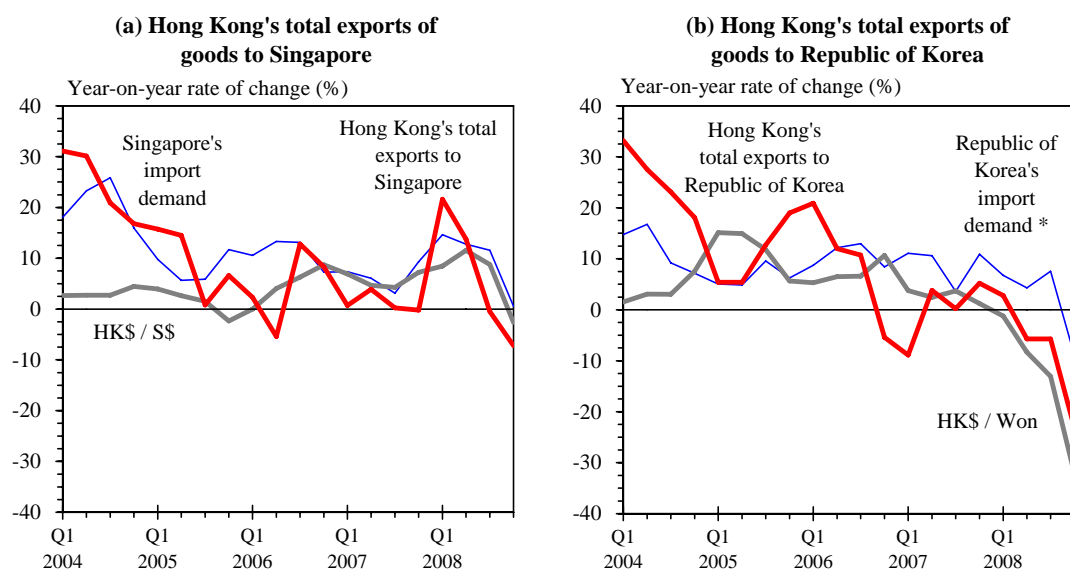


**Diagram 3.7 : Exports to Japan stayed sluggish in 2008 alongside its weakening domestic demand**





**Diagram 3.8 : Exports to Singapore and Korea both slowed notably in the latter part of 2008 on waning demand in advanced economies**



### ***Imports of goods***

3.5 *Imports of goods* recorded a much tamed growth of 2.6% in real terms in 2008, after the strong increase of 10.4% in 2007. Among total imports, those classified as *retained imports* (i.e. imports for domestic uses) showed little change in real terms in 2008, a considerable deceleration from the 11.7% increase in 2007. Analysed by end-use, retained imports of raw materials and semi-manufactures posted a substantial decrease in 2008, particularly so in the second half of the year when the global trade flows were severely dampened by the synchronized economic downturn. While retained imports of foodstuffs, consumer goods and capital goods all grew further in 2008 as a whole, there were declines in retained imports of consumer goods and capital goods in the fourth quarter amid worsening consumer and business sentiments. Retained imports of fuels posted a small decline in 2008 as a whole.

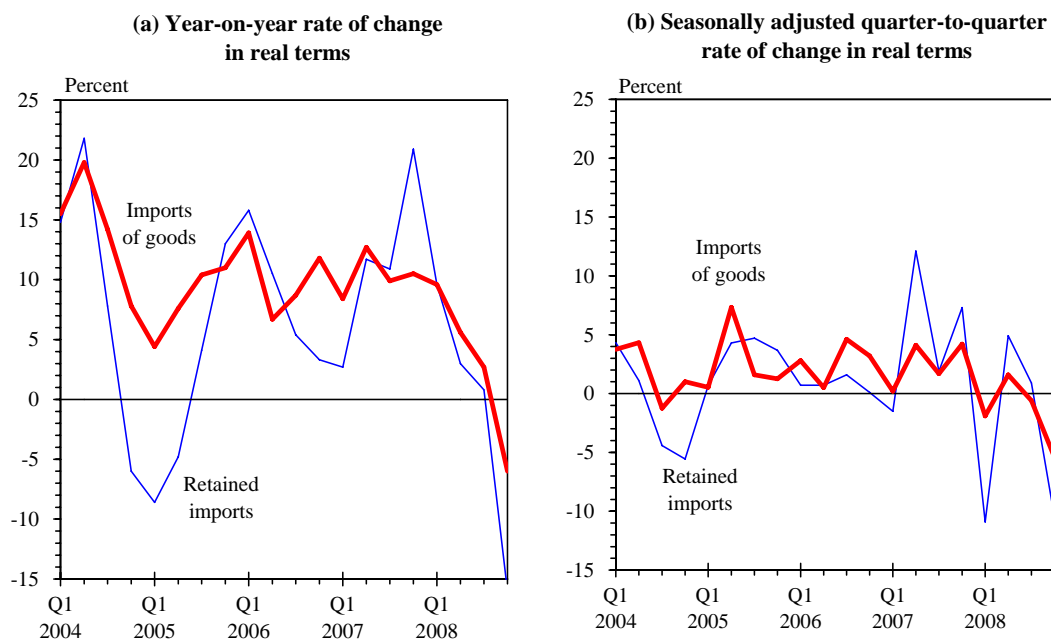
**Table 3.3 : Imports of goods and retained imports  
(year-on-year rate of change (%))**

		Imports of goods			Retained imports <sup>(a)</sup>			
		In value terms	In real terms	Change in prices	In value terms	In real terms	Change in prices	
2007	Annual	10.3	10.4	2.3	9.4	11.7	2.4	
	Q1	9.0	8.4	(0.2)	2.0	2.7	(-1.5)	2.5
	Q2	12.6	12.7	(4.1)	10.8	11.7	(12.1)	2.0
	Q3	9.1	9.9	(1.7)	7.2	10.9	(1.9)	1.6
	Q4	10.5	10.5	(4.2)	16.9	20.9	(7.3)	3.1
2008	Annual	5.5	2.6	4.4	3.9	-1.4	6.2	
	Q1	11.6	9.6	(-1.9)	13.7	9.6	(-10.9)	6.5
	Q2	9.1	5.6	(1.6)	10.1	3.0	(4.9)	7.6
	Q3	7.0	2.7	(-0.6)	8.5	0.8	(0.9)	8.5
	Q4	-4.2	-6.0	(-5.4)	-13.7	-16.0	(-10.5)	2.2

Notes : (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

( ) Seasonally adjusted quarter-to-quarter rate of change.

**Diagram 3.9 : Total imports recorded a much tamed growth**



**Table 3.4 : Retained imports by end-use category  
(year-on-year rate of change in real terms (%))**

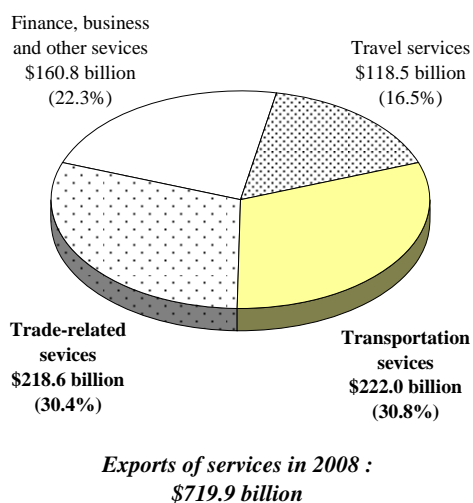
		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2007	Annual	6.4	6.6	11.1	18.5	8.5
	Q1	-1.0	4.4	6.4	-2.9	8.6
	Q2	2.3	3.5	14.2	16.1	24.4
	Q3	6.6	8.9	1.6	33.7	-0.8
	Q4	17.7	9.7	22.0	29.3	4.7
2008	Annual	12.4	13.3	7.5	-29.9	-3.9
	Q1	30.3	12.7	14.5	-11.7	-11.3
	Q2	16.2	19.0	11.2	-20.8	-7.0
	Q3	9.8	9.0	20.0	-35.4	0.9
	Q4	-3.3	12.6	-11.1	-47.9	1.9

## **Invisible trade**

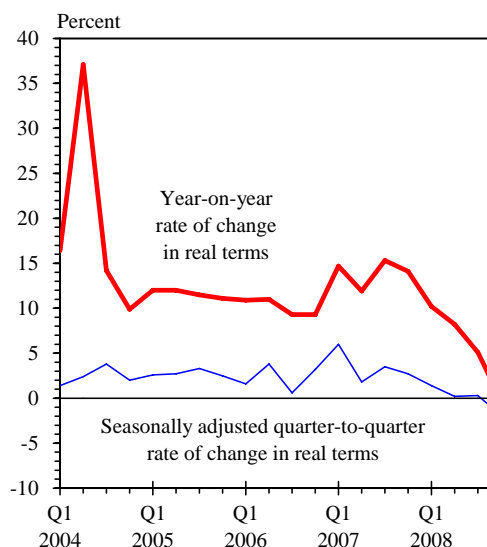
### *Exports of services*

3.6 *Exports of services* fared relatively better than exports of goods, though likewise slowed over the course of 2008. For 2008 as a whole, exports of services grew by 5.6% in real terms, following a surge of 14.1% in 2007. The rate of expansion in the first half of the year remained notable, yet the deceleration was steep in the second half along with the abrupt escalation of the global financial crisis and the much subdued intra-regional trade flows towards the end of the year. As fund-raising activities and trading volume in the local stock market shrank notably in 2008, particularly after the eruption of the financial tsunami in September, exports of financial services slowed distinctly during the year. Inbound tourism also turned in a much slower growth in the fourth quarter of 2008 as the global economic slowdown weighed on the demand for travel. The slowdown in inbound tourism also had a spill-over effect on exports of transportation services. While merchanting and other trade-related services (mainly offshore trade) still held up rather well during most of 2008, there was a conspicuous deterioration in the fourth quarter as the flows of goods trade in the Asian region shrank notably in the final months of the year.

**Diagram 3.10 : Trade-related and transportation services accounting for over 60% of service exports, reflecting the important role of Hong Kong as a trading hub**



**Diagram 3.11 : Exports of services decelerated over the course of 2008**



**Table 3.5 : Exports of services by major service group (year-on-year rate of change in real terms (%))**

*Of which :*

		Exports of services	Trade-related services <sup>(a)</sup>	Transportation services	Travel services <sup>(b)</sup>	Finance, business and other services
2007	Annual	14.1	9.0	12.5	14.1	23.5
	Q1	14.7	(6.0)	4.0	9.5	37.1
	Q2	11.9	(1.8)	7.9	8.7	13.6
	Q3	15.3	(3.5)	9.5	15.5	24.1
	Q4	14.1	(2.7)	13.1	21.8	19.3
2008	Annual	5.6	5.7	2.3	6.0	9.3
	Q1	10.2	(1.4)	9.6	8.1	17.4
	Q2	8.2	(0.2)	9.5	7.9	12.4
	Q3	5.1	(0.3)	6.0	8.7	6.4
	Q4	-0.2	(-1.9)	0.3	0.2	1.0

Notes : (a) Comprising mainly offshore trade.

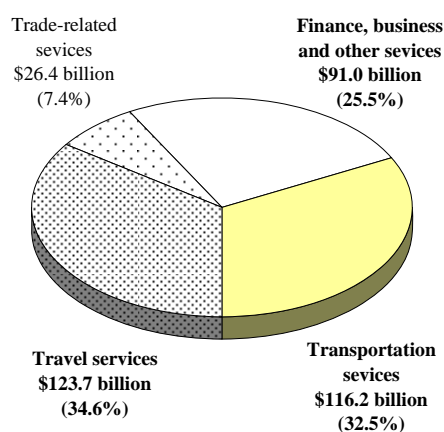
(b) Comprising mainly inbound tourism receipts.

( ) Seasonally adjusted quarter-to-quarter rate of change.

## Imports of services

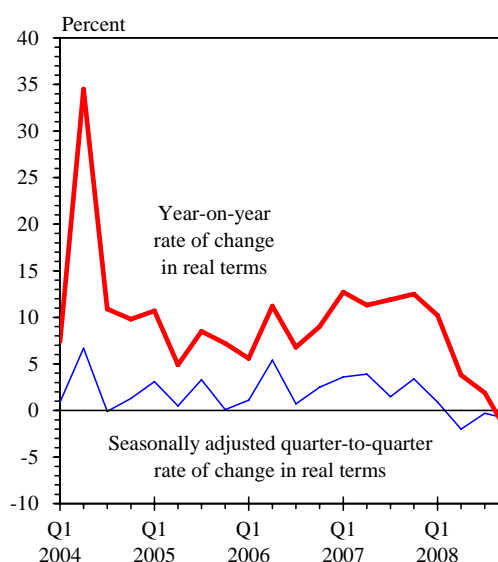
3.7 *Imports of services* posted a modest growth of 3.2% in real terms in 2008, down from 12.1% in 2007. The moderation was across all sectors. Imports of travel services dropped after the rapid increase in the first quarter of 2008, along with weaker consumer sentiment. Imports of transportation services similarly decelerated over the course of 2008. With financial market activities much battered after the global financial crisis, imports of financial, business and other services had a much slower growth in 2008 in contrast to the surge in 2007. As for the imports of trade-related services, a marked deterioration was also seen in the fourth quarter of 2008, again due to receding trade flows in the Asian region in the final months of the year.

**Diagram 3.12 : Travel service, transportation services, and services involving finance and business were the main components in imports of services**



**Imports of services in 2008 :**  
\$357.3 billion

**Diagram 3.13 : Imports of services also slowed**



**Table 3.6 : Imports of services by major service group  
(year-on-year rate of change in real terms (%))**

*Of which :*

		<u>Imports of services</u>		<u>Travel services<sup>(+)</sup></u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Finance, business and other services</u>
2007	Annual	12.1		4.2	16.1	14.5	18.7
	Q1	12.7	(3.6)	0.7	13.0	9.2	33.3
	Q2	11.3	(3.9)	5.8	17.3	12.1	11.7
	Q3	11.9	(1.5)	4.5	17.5	14.7	15.1
	Q4	12.5	(3.4)	5.8	16.1	19.8	15.6
2008	Annual	3.2		1.2	2.7	6.2	5.6
	Q1	10.2	(0.9)	9.7	11.0	10.2	10.0
	Q2	3.8	(-2.0)	-2.0	6.2	10.1	7.6
	Q3	1.9	(-0.3)	-0.7	1.7	6.5	4.4
	Q4	-2.5	(-0.9)	-1.6	-6.9	0.8	0.8

Notes : (+) Comprising mainly outbound travel spending.

( ) Seasonally adjusted quarter-to-quarter rate of change.

### **Visible and invisible trade balance**

3.8 With the surplus in the invisible trade account more than offsetting the deficit in the merchandise trade account, a sizeable surplus of \$182.5 billion was recorded in the combined visible and invisible trade balance in 2008, equivalent to 5.4% of the total value of imports of goods and services. This compared with the corresponding figures of \$174.8 billion and 5.5% in 2007. The continued sizeable surplus is a reflection of Hong Kong's resilience in meeting the challenges posed by the external shocks.

**Table 3.7 : Visible and invisible trade balance  
(\$ billion at current market prices)**

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>		
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>
2007	Annual	2,698.9	660.7	2,852.5	332.2	-153.7	328.5	174.8
	Q1	587.3	152.6	621.5	75.9	-34.2	76.7	42.5
	Q2	656.5	147.5	702.7	79.0	-46.2	68.5	22.3
	Q3	722.1	176.0	749.4	88.6	-27.4	87.4	60.1
	Q4	733.0	184.6	778.8	88.8	-45.9	95.8	49.9
2008	Annual	2,844.0	719.9	3,024.1	357.3	-108.1	362.6	182.5
	Q1	650.6	174.1	696.7	88.9	-46.1	85.2	39.1
	Q2	708.7	166.1	770.8	87.1	-62.0	79.0	17.0
	Q3	764.3	193.8	805.6	95.1	-41.4	98.7	57.3
	Q4	720.3	186.0	751.0	86.2	-30.7	99.7	69.1

Note : Figures may not add up exactly to the total due to rounding.

## **Trade policy and other developments**

3.9 Being a small economy closely integrated with the global economy, Hong Kong's external sector plays an important role in its overall economic developments. The Government has always been a strong advocate of free trade, and continuous effort has been made to strengthen Hong Kong's economic relations with its trading partners so as to create more favourable conditions for its exports of goods and services.

### ***Economic integration with the Mainland***

3.10 The Supplement V<sup>(4)</sup> to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed on 29 July 2008, with further liberalization measures for Hong Kong's service providers entering the Mainland markets. According to the 14 measures announced by the Central Government on 19 December 2008 to support the development of the Hong Kong economy, further liberalization measures will be studied with a view to the signing of Supplement VI to CEPA as soon as possible.

3.11 Also according to the 14 measures, the progress of the cross-boundary infrastructure projects will be speeded up. In particular, there will be capital injection from the Central Government for the construction of the Hong Kong-Zhuhai-Macao Bridge. In the national plan issued by the National Reform and Development Commission in early January 2009, co-operation

among Guangdong, Hong Kong and Macao will be enhanced with a view to developing the region into a world-class metropolis circle.

### *Other developments*

3.12 It is important for Hong Kong to cultivate closer economic ties with the emerging market economies in different parts of the world, which have been assuming an increasingly important role in the global economy. Over the past year, high-level Government delegations visited such emerging market economies as Middle East, Russia, Eastern Europe, India and Vietnam, with a view to bringing about more business opportunities for Hong Kong companies.

3.13 As a new initiative, the Government will strengthen Hong Kong-Taiwan exchanges proactively, and grasp the opportunities brought about by the enhanced cross-strait relations while maintaining Hong Kong's role on the cross-strait platform. The Government will also enhance co-operation with Macao in providing greater immigration convenience to the Macao residents.

### **Notes :**

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the constant price measures adopted for compiling the external trade quantum index numbers. They are not strictly comparable with the real trade aggregates under GDP (reported in Chapter 1) which are based on the chain volume measures using the preceding-year prices as weights for aggregating the components.
- (2) By the end of 2008, many major advanced economies were already deep in recession. The annualized quarter-to-quarter GDP growth rates of the EU and Japan turned negative starting from the second quarter of 2008 while the US began to experience negative growth in the third quarter of the year. Labour markets of the advanced economies worsened significantly. Job losses in the US during 2008 were the biggest since 1945 with the unemployment rate surging to 7.2% in December and the number of people getting unemployment benefits reaching a 26-year high. In the euro area, unemployment rate climbed to 8.0% in December 2008 and job losses are expected to increase further in the near future. In the midst of the global economic slowdown, the International Monetary Fund (IMF) revised downward its forecast on world economic growth sharply to only 0.5% in 2009.
- (3) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.



- (4) The Supplement V comprises of 29 liberalisation measures in 17 service sectors came into effect from 1 January 2009. A number of service liberalisation and facilitation measures for early and pilot implementation in Guangdong were also approved by the Central People's Government upon the signing of the Supplement V.

## CHAPTER 4 : DEVELOPMENTS IN SELECTED SECTORS

### *Summary*

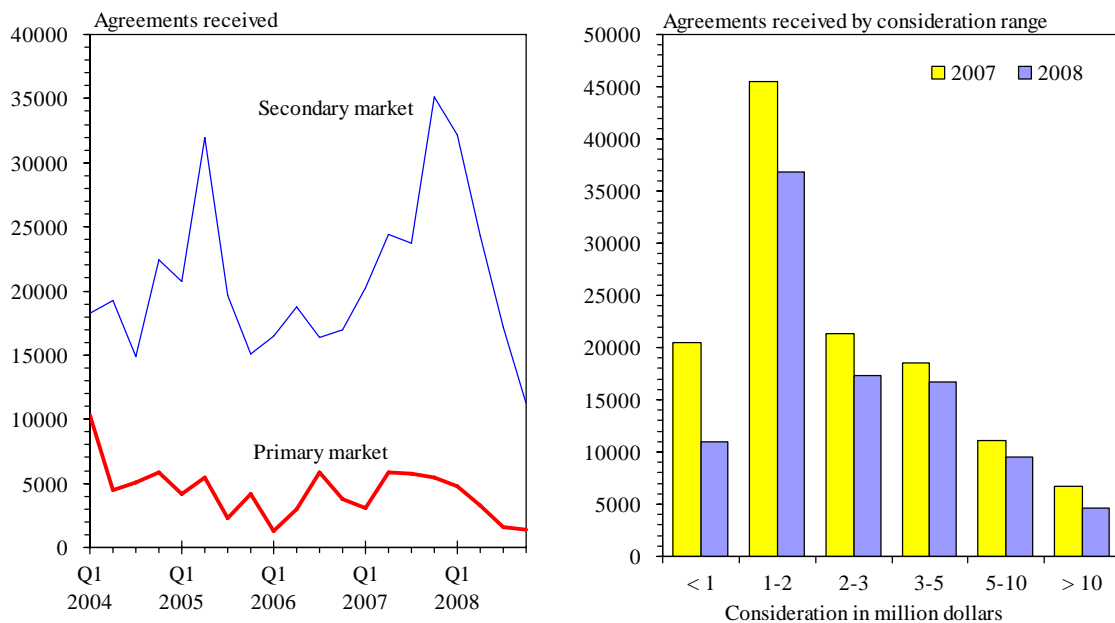
- *In face of the gloomy economic and employment outlook resulting from the global financial turmoil, the local property market showed a sharp correction in the second half of 2008. Both property prices and transactions started to fall around the middle of the year, and plummeted in October and November before stabilising somewhat towards the year end.*
- *Inbound tourism also suffered a decline in the latter part of 2008, as the impact of the rapidly deteriorating external environment fed through. Yet for the year as a whole, visitor arrivals still managed to post a modest gain, thanks to the sturdy growth of Mainland visitors.*
- *With the marked slowdown in external trade after the outbreak of the global financial crisis, container throughput started to fall in the fourth quarter of 2008. Air freight volume had an even more severe fall-off towards the year end, cumulating in a decline for the year as a whole.*
- *To maintain Hong Kong's position as a major business, logistics and tourism hub in the region, the Government has pushed forward an array of initiatives ranging from developing world-class tourism infrastructure to further expanding cross-boundary transportation capacity.*

### **Property**

4.1 After a generally buoyant performance in early 2008, the local residential property market turned quieter towards the mid year, and took an abrupt downturn after the outbreak of the global financial crisis in September. Selling pressures intensified in October and November, as prospective homebuyers and investors stayed on the sideline amid the rapidly deteriorating economic and employment outlook. The increasingly conservative stance of the banks towards extending mortgage loans, manifested in tighter property valuation and higher interest rates for new mortgages, also made financing more difficult.

4.2 Transaction volume began to fall in the second quarter of 2008, and plunged sharply further in the third and fourth quarters. For the year as a whole, the number of sale and purchase agreements for residential property received by the Land Registry fell by 22% to 95 931. Total consideration of these agreements fell by a similar extent of 21% to \$343.8 billion. Analysed by segment, the number of primary sales plummeted by 45% while that of secondary sales experienced a less severe but still significant drop of 18%.

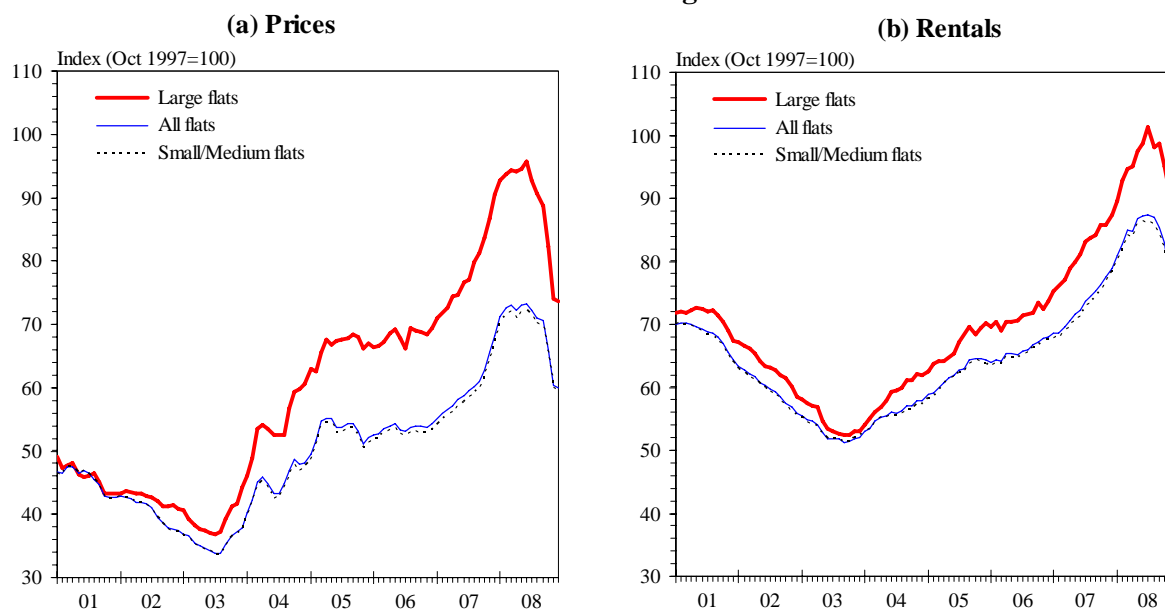
**Diagram 4.1 : Transaction volume for residential units shrank markedly**



4.3 As the market turned quieter after the mid year, residential property prices generally notched down after June. The decline was initially modest. Prices then plummeted in subdued trading after Lehman Brother’s collapse erupted into a global financial crisis. The market came under severe downward pressures in October and November. However, signs of stabilisation emerged in December amid some bargain hunting towards the year end. Still, residential property prices in December 2008 were 12% down from a year earlier. Downward pressures were more significant on prices of large flats, which on average dropped by 19% between December 2007 and December 2008. This was larger than the 11% fall in prices of small/medium flats over the same period. Compared with the recent peak in June 2008, prices of large flats and small/medium flats have fallen by 23% and 18% respectively.

4.4 The leasing market for residential property also felt the pinch. Overall flat rentals in December 2008 dropped by 19% from their recent peak in July, or 11% from a year earlier. Meanwhile, the rental yield stood at 4.1% in December 2008.

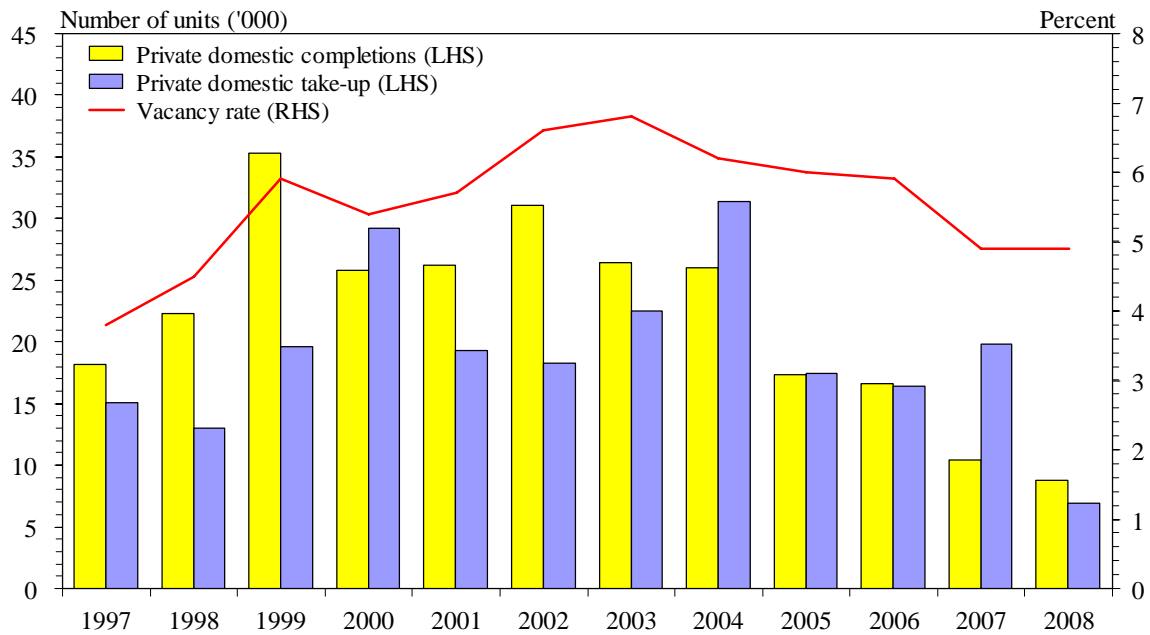
**Diagram 4.2 : Residential property prices and rentals suffered setbacks after the outbreak of the global financial crisis**



Note : Large flats refer to those with saleable area of 100 m<sup>2</sup> or above while small/medium flats refer to those with saleable area of less than 100 m<sup>2</sup>. The price indices pertain to secondary market transactions only.

4.5 Take-up<sup>(1)</sup> of private residential flats plunged by 65% to 6 900 units in 2008. As completions also fell, by 16% to 8 800 units, the vacancy rate held steady between end-2007 and end-2008 at 4.9%. Looking forward, completions in the near term are expected to be considerably lower than the annual average of 22 400 units over the past ten years. In regard to the potential supply of new private residential flats, it was estimated that the number of unsold completed flats and flats already under construction but not yet sold, together with the number of flats on disposed sites where construction has yet to commence, would be around 64 000 units in the next few years.

**Diagram 4.3 : Completions are expected to remain low  
in the near term**



Note : Village houses are included in the figures up to 2001 but excluded in the figures from 2002 onwards.

4.6 The local banks tightened their stance towards mortgage lending in the latter part of 2008. Since the outbreak of the financial tsunami, the major banks have raised the interest rates for new mortgages twice. Reportedly they have also adopted tighter valuation for the mortgaged properties. As an indication of the tighter mortgage lending stance, only 3.3% of the new mortgages approved in December 2008 were priced at more than 2.5% below the Best Lending Rate, compared with over 80% prior to the outbreak of the financial tsunami.

4.7 As companies held off their expansion plans or even downsized amid the economic downturn, the market for *office space* also turned more sluggish in the second half of 2008. Overall office prices fell by 19% from December 2007 to December 2008, as a result of a sharp 24% plunge from the peak in May. Grade A office prices registered a fall of 20% between December 2007 and December 2008, while those for Grade B and C both declined by 17% in the period.

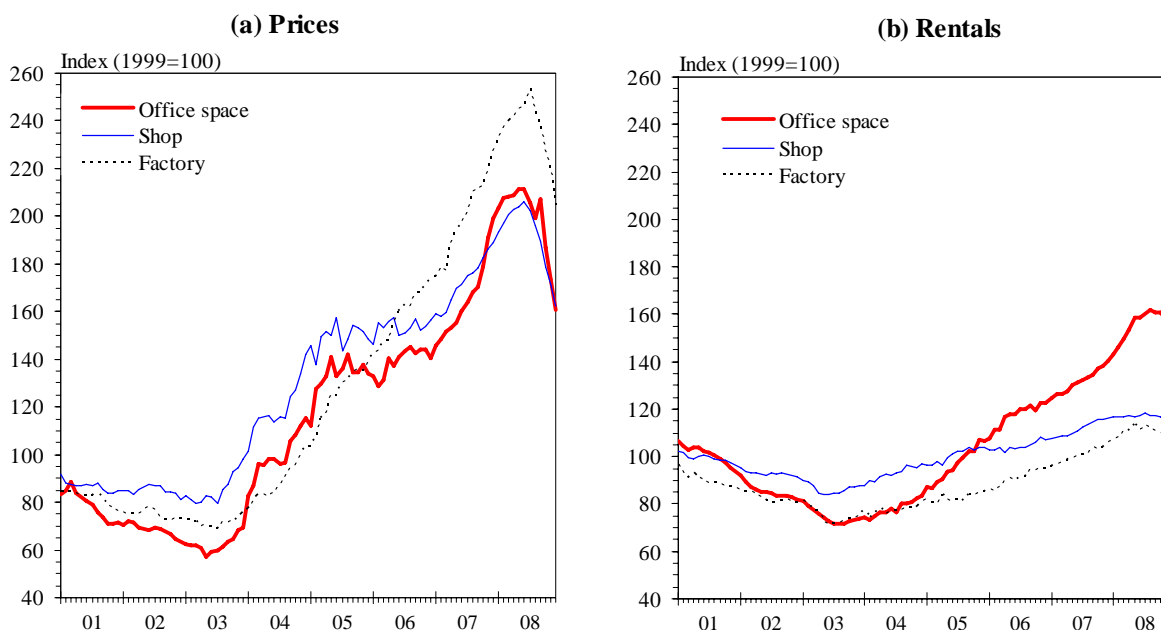
4.8 Nevertheless, rentals of office space started to fall only from September and by a smaller extent of 5% between the recent peak and December 2008. This could be partly attributable to the fact that tenancies commenced towards the end of the year actually reflected the rentals that were agreed earlier on. For the year as a whole, overall office rentals still posted a 10% increase, comprising increases of 11%, 9% and 4% for Grade A, B and C offices respectively. As a result, overall rental yield of offices jumped from 4.2% in December 2007 to 5.6% in December 2008.

4.9 Notwithstanding the abundant new supply of office space, at 341 000 m<sup>2</sup> in 2008 on top of the 320 000 m<sup>2</sup> in 2007, vacancy rate for office space fell from 8.9% at end-2007 to 8.4% at end-2008. This mainly reflected the huge take-up in the early part of the year. Moreover, the vacancy rate in the core districts remained lower than the market average, as the new supply has been mostly in the non-core districts.

4.10 The market for *shopping space* likewise waned in the second half of 2008 in tandem with the slowdown in retail business. Overall prices of shopping space in December 2008 dropped by 21% from the peak in June amid very thin trading. For the year as a whole, prices fell by 14%. Rentals, after staying fairly steady throughout most of 2008, fell notably towards the year end, leading to a 3% decline between December 2007 and December 2008. Hit by plunging demand, the vacancy rate for shopping space rose markedly from 8.1% at end-2007 to 8.7% at end-2008.

4.11 The market for flatted factory similarly suffered a setback in the latter part of 2008. Comparing December 2008 with December 2007, prices and rentals of flatted factory fell by 10% and 4% respectively. From their respective peaks in 2008, prices and rentals have plunged 19% and 10%. As take-up reverted into negative territory for the year, the vacancy rate for flatted factory rebounded from 6.2% at end-2007 to 6.5% at end-2008.

**Diagram 4.4 : Non-residential property markets also weakened in the second half of 2008**



## Land

4.12 As developers generally adopted a wait-and-see attitude in face of the gloomy property market outlook, land acquisition was rather quiet in 2008, especially in the second half of the year. There were only five land sites sold within the year, with one triggered from the *Application List* and four sold through public tender. These five plots of land together involved a total land area of 2.5 hectares and fetched \$1.1 billion of land premium.

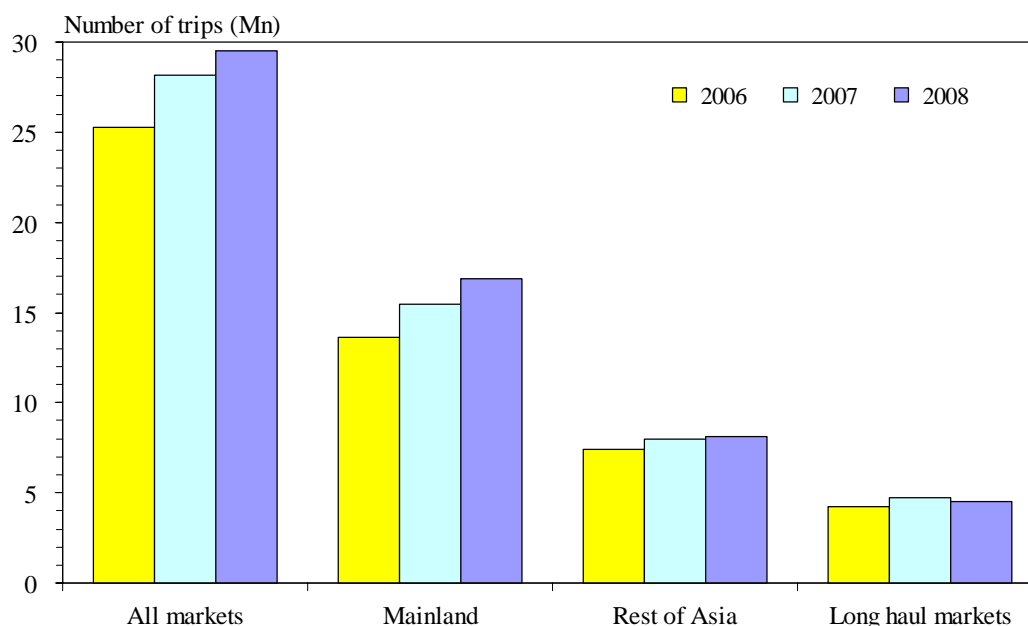
4.13 Regarding exchange of land in the private sector domain, 15 sites totalling 8.0 hectares were approved in 2008, as compared to the corresponding figures of 13 sites and 32.8 hectares in 2007. Within the approvals in 2008, 9 sites totalling 5.5 hectares and 6 sites totalling 2.4 hectares were designated for private residential and non-residential property developments respectively. As to lease modifications on existing developed and developable land, 169 sites were approved in 2008. Amongst them, 125 sites were for residential use and 44 were non-residential sites.

## Tourism

4.14 Inbound tourism also slowed towards the year end, as the impact of the global economic downturn was increasingly felt. The number of *incoming visitor arrivals* still increased mildly by 4.7% to 29.5 million for the year as a whole but this was mainly due to the growth in the first three quarters. Driven by their rising spending power, Mainland visitors were the major driver of Hong

Kong's tourism growth in 2008. Arrivals from the Mainland rose further by 8.9% in the year, of which visitors under the Individual Visit Scheme (IVS) recorded an even stronger growth of 11.9%. However, arrivals from other Asian markets increased by only 1.9% in 2008. Hit by the high fuel cost in the first half of 2008 and the rapid deterioration in global economic conditions, arrivals from long-haul markets recorded a 4.0% fall.

**Diagram 4.5 : The Mainland market provided the main support to inbound tourism**



4.15 Hotel room occupancy rate averaged at 85% in 2008, down from 86% in 2007. Nonetheless, average achieved hotel room rate edged up slightly by 0.6% to \$1,222<sup>(2)</sup>.

4.16 Various additional facilitation measures have been put in place to enhance convenience for Mainland residents to visit Hong Kong. Under a pilot scheme launched on 15 December 2008, non-permanent residents of Shenzhen can visit Hong Kong by joining group tours. On 19 December, the Central People's Government announced two more measures, namely implementing arrangements for non-Guangdong residents in Shenzhen to apply for IVS endorsements in Shenzhen to visit Hong Kong and allowing eligible Shenzhen residents to apply for IVS endorsements permitting multiple entry into Hong Kong within a year.

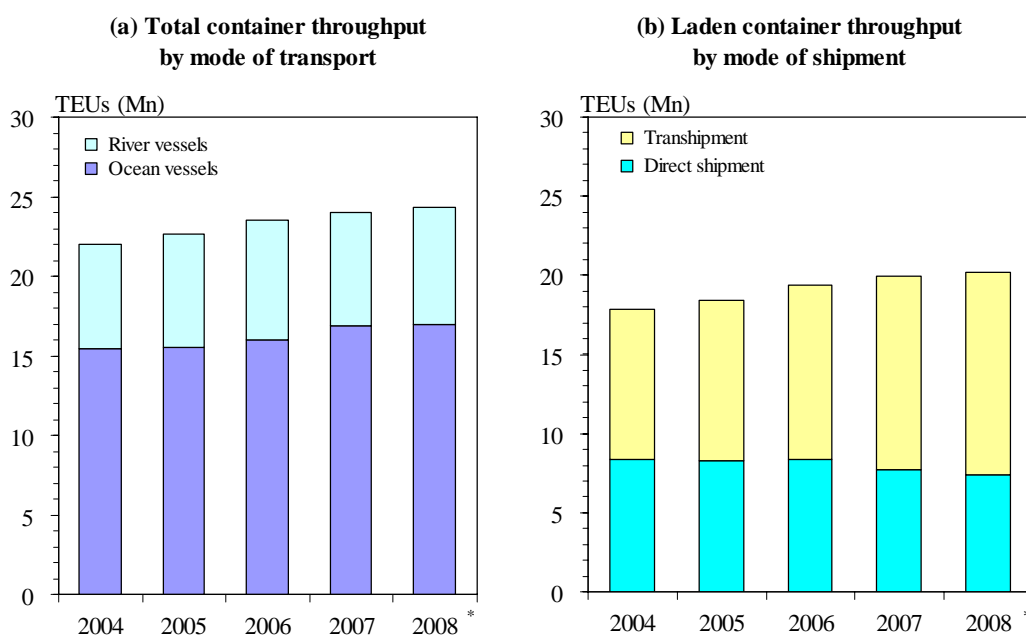


4.17 In order to develop Hong Kong into a regional cruise hub, in October 2008 the Government decided to finance the development of a new cruise terminal at Kai Tak. Meanwhile, the Government will continue to engage the cruise industry and travel trade for developing a cruise terminal which is modern and is able to meet market needs. The first berth is planned to commence operation in mid 2013.

## Logistics

4.18 Along with the slowing external trade, the logistics sector also moderated in the latter part of 2008. While total *container throughput* still expanded by 1.4% to 24.3 million TEUs for 2008 as a whole, a year-on-year drop of 10.3% was recorded in the fourth quarter. However, benefiting from Hong Kong's free port status, frequent shipping schedule and highly efficient port operations, transshipment throughput recorded a notable growth of 7.5% in the first eleven months of 2008.

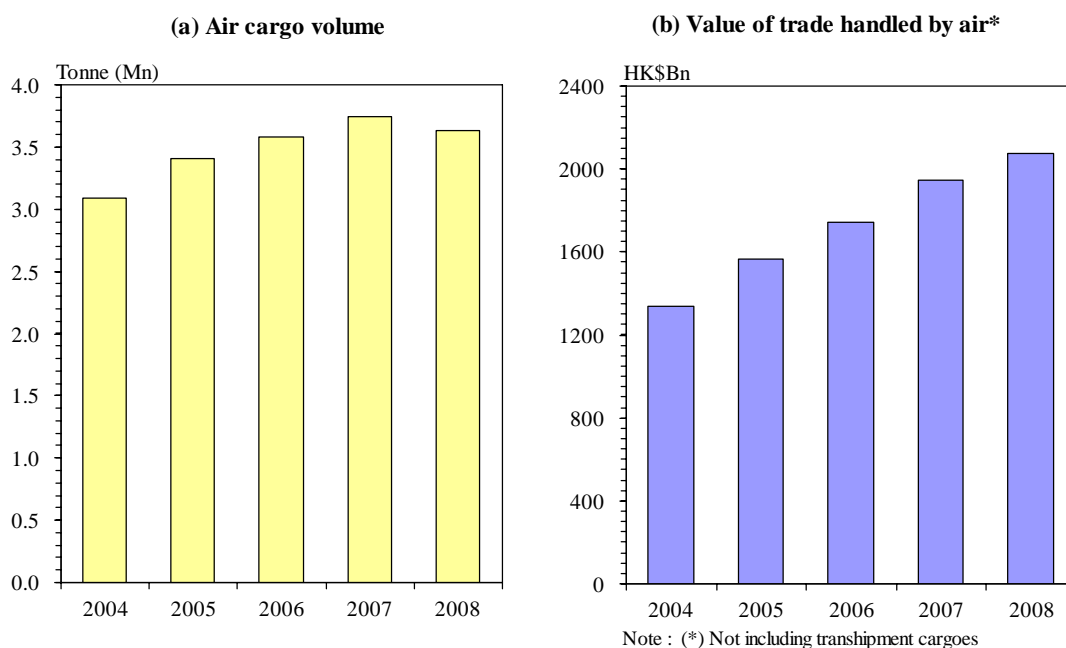
**Diagram 4.6 : Decent growth in transshipment continued to support container throughput**



Note : (\*) Total container throughput for 2008 is the preliminary estimate by Hong Kong Port Development Council. Its breakdowns by mode of transport and the laden container throughput by mode of shipment are crudely estimated from the profile in the first eleven months of 2008.

4.19 *Air freight throughput* likewise started to fall from August 2008 at a year-on-year rate of 3.8%, which enlarged to a decline of 28.2% by December, as the negative impact of the global financial crisis increasingly showed up. Despite a healthy growth of 6.8% in the first half of 2008, air cargo movements in the whole year declined by 3.1% to 3.6 million tonnes. Nonetheless, the value of air-borne trade still increased by 6.6%, raising its share in total trade slightly to 35.5% in 2008.

**Diagram 4.7 : Air freight throughput worsened noticeably in volume terms in the latter part of 2008**



## Transport

4.20 Cross-boundary land traffic grew further in 2008. Taking the year as a whole, two-way vehicular movements grew by 5.1% to 42 277 per day, and land-based passengers by 2.5% to 454 041 per day. Yet the momentum has slowed towards the end of the year.

4.21 The global economic downturn has serious impact on air transport. Air passenger traffic turned from a year-on-year growth of 10.5% in the first quarter to a decline of 4.1% in the fourth quarter. Taking 2008 as a whole, air passenger throughput recorded a marginal rise of 1.7%.

4.22 The feasibility study report for the Hong Kong-Zhuhai-Macao Bridge (HZMB) has been completed and submitted to Central People's Government in December 2008 for consideration. The governments of Guangdong Province, Hong Kong and Macao will further finalise on the financial arrangements for the HZMB Main Bridge, and the preliminary design for the HZMB Main Bridge is planned to commence in April 2009 so as to strive for early commencement of construction as soon as possible and no later than 2010.

4.23 The Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL) scheme was gazetted on 28 November 2008. Design work for the project has started, and construction work is expected to commence before end-2009 for completion by 2015. The XRL will not only improve the connection between Hong Kong and Shenzhen and Guangzhou significantly, but will also shorten the commute time from Hong Kong to Beijing and Shanghai through linking with the National High Speed Rail Network.

4.24 On local transport, works for both the Shatin to Central Link (SCL) and the Kwun Tong Line Extension are expected to commence in 2010. The SCL will link up several existing railway lines to create two distinctive east-west and north-south railway corridors. The Government plans to have the SCL completed in phases, with the Tai Wai to Hung Hom section by 2015 and the cross harbour section by 2019. The Kwun Tong Line Extension, which will serve the vicinities of Whampoa and Homantin, is scheduled for completion by 2015.

### **Creativity and innovation**

4.25 Cross-boundary co-operation with the Guangdong province in technology and innovation initiatives recorded significant development in 2008. In May, an internationally renowned chemical and new materials company announced to set up its global photovoltaic business headquarters and R&D centre in Hong Kong together with a supporting manufacturing base in Shenzhen, marking the first major technology co-operation project under the "Shenzhen-Hong Kong Innovation Circle". In addition, more than 80 applications have been received in 2008 under the "Guangdong-Hong Kong Technology Co-operation Funding Scheme" launched in 2004. In August, the governments of Hong Kong and Guangdong signed the "Co-operation Agreement on Setting up the Joint Platform for Co-operation in Innovation and Technology".

4.26 In the communications sector, the fifth 3G mobile network in Hong Kong, which utilises the CDMA2000 standard, was launched on 20 November 2008. As CDMA mobile communications standards have been widely deployed in the Mainland and overseas countries like the US, Canada, Japan and Korea, visitors to Hong Kong can now enjoy more convenient roaming services. Separately, the framework for development of mobile television (mobile TV) services was announced on 22 December, with the aim of promoting innovation, investment and competition of local mobile TV services for the benefit of consumers.

4.27 As to arts and cultural development, the West Kowloon Cultural District Authority (WKCDA) Bill was passed in July 2008, and the Legislative Council approved a one-off upfront endowment of \$21.6 billion to the WKCDA to cover the capital costs of the West Kowloon Cultural District (WKCD) project. Appointments to its Board were subsequently announced on 23 October. Six committees have also been established under the Board to kick start the implementation of the WKCD project. The Authority is in the process of setting up a consultation panel to gather public views. In its initial phase, one of the priority tasks of the WKCDA is to prepare a Development Plan for the WKCD.

## **Energy**

4.28 The Government approved in September and December 2008 respectively the new development plans submitted by the two local electricity companies under the new Scheme of Control Agreements signed in January 2008. In accordance with the approved plans which include, inter alia, the respective tariff adjustments with effect from 1 October 2008 and 1 January 2009, the two companies have reduced their average Basic Tariffs by 10.0% and 19.2% respectively. The average Net Tariffs, which also include the Fuel Clause Charge, have been lowered by 3.0% and 5.9% respectively.

4.29 In addition, the Government and the National Energy Administration signed the Memorandum of Understanding (MOU) on the continuous supply of nuclear electricity and natural gas to Hong Kong in the coming two decades. The MOU ensures a long-term and stable supply of clean energy to Hong Kong, thereby reducing the need for capital investment to build a liquefied natural gas terminal within Hong Kong's territory and thus alleviating the pressure for electricity tariff increases in the future.

**Notes :**

- (1) Take-up figures in respect of domestic premises represent the net increase in the number of units occupied in the year under review and for non-domestic premises, the net increase in occupied floor space in the year. The figures are derived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the years' demolition and the year end vacancy figures. Take-up should not be confused with the sales of new developments, and it bears no direct relationship to the number of units or amount of space sold by developers.
- (2) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.

## CHAPTER 5 : THE FINANCIAL SECTOR<sup>#</sup>

### *Summary*

- *The global financial markets endured a year of turbulence in 2008, especially following the outbreak of the financial tsunami triggered by an array of events including in particular the collapse of Lehman Brothers. The Hong Kong financial markets, being an integral part of the international nexus, were seriously hit.*
- *Hong Kong dollar interbank interest rates rose markedly in September and October on heightened credit and liquidity concerns in the face of the worsening global financial situation. The rates nevertheless eased back subsequently upon the Government's various measures to alleviate the liquidity stress in the banking sector.*
- *The Hong Kong dollar Nominal Effective Exchange Rate Index closely followed the movement in US dollar, strengthening notably in the second half of 2008 after declining in the earlier part of the year. Unwinding of carry trades and possibly some repatriation of funds back to Hong Kong led to strong demand for Hong Kong dollars after mid September, prompting the HKMA to sell Hong Kong dollars against US dollars to banks.*
- *Local stock prices and equity market activities weakened significantly over the course of 2008 alongside the financial turmoil and worsening economic backdrop. Fund raising activities also contracted sharply.*
- *Thanks to our prudent supervision of the financial sector, our financial system has remained relatively stable. Since the outbreak of the global financial tsunami, the relevant authorities have all stepped up their supervisory efforts with a view to ensuring resilience in this turbulent period.*

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(#) **This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.**

## **Overall situation**

5.1 The financial crisis originating in the United States has quickly spread to the global financial markets. Hong Kong as a major international financial centre was seriously hit. Interbank interest rates spiked between mid September and October before easing back upon the efforts of the authorities to provide liquidity to the banking sector. But bank lending to customers remained tight partly due to the banks' increased risk aversion amid the gloomy economic outlook. Alongside the marked drop in asset prices, activities dwindled in respect of a wide spectrum of financial activities including fund raising, share trading and asset management.

5.2 Nevertheless, thanks to our prudent supervision of the financial sector, the local financial system has remained relatively stable with little systemic risk. Since the outbreak of the global financial tsunami, the relevant authorities have all stepped up their supervisory efforts with a view to ensuring resilience and enhancing protection for investors in this turbulent period. Moreover, measures have been introduced to ease the liquidity pressures on the banks, stabilise the banks' deposit base and shore up confidence in the banking system. The Government has also taken initiatives to help the real economy to overcome the current credit crunch, for example, by enhancing the mortgage insurance programme of the Hong Kong Mortgage Corporation and supporting lending to small and medium enterprises.

## **Interest rates and exchange rates**

5.3 Interest rates trended lower in early 2008. The *Base Rate*<sup>(1)</sup> under the Discount Window operated by the HKMA was adjusted downward from 5.75% to 3.75% between January and March 2008, as the US Federal Funds Target Rate (FFTR) was lowered by a total of 200 basis points to 2.25%. *Hong Kong dollar interbank interest rates* also declined along with their US dollar counterparts. The overnight and three-month HIBORs dropped from 1.88% and 3.31% at end-2007 to 0.78% and 1.90% at end-March 2008 respectively, and then moved within a narrow range in the second quarter and most of the third quarter.

5.4 The interest rate environment took a sharp change when the global financial contagion and confidence crisis entered a new phase after US investment bank Lehman Brothers filed for bankruptcy in mid September. Due to heightened concern about the creditworthiness of counterparties and some stockpiling of liquidity for contingencies, banks globally began to hold back from lending to their counterparts in the unsecured interbank market. HIBORs surged alongside their corresponding US dollar rates, with interest rate volatility heightening and banks demanding more premium for longer-tenor lending. As a result, overnight and three-month HIBORs climbed from 1.58% and 2.19% at end-August respectively to as high as 2.88% for the former on 17 September and 4.30% for the latter on 10 October. To ease the stress in the money market, the authorities have implemented a number of measures since September, including direct liquidity injections, enhanced flexibility in liquidity and capital management, and temporary deposit guarantee (*Box 5.1*).

5.5 Following the introduction of these measures, the interbank credit market generally stabilised and local interbank interest rates moderated across the board. Efforts around the world to provide liquidity to the banking systems and improved market sentiment also helped alleviate the tension in local liquidity situation. At end-2008, the overnight and three-month HIBORs eased back to 0.23% and 0.89% respectively.



## Box 5.1

### Major financial measures undertaken since September 2008

18 and 25  
Sep, 23 and  
27 Oct 2008

A total of \$24.8 billion was injected into the banking system through within-zone foreign exchange operations.

Purpose : To address the credit crunch in the interbank market and the rising demand for Hong Kong dollar funds.

30 Sep 2008

HKMA announced five temporary measures to provide liquidity assistance to licensed banks in Hong Kong upon request, effective from 2 Oct 2008 to 31 Mar 2009:

- First, the eligible securities, for access by individual licensed banks to liquidity assistance through the Discount Window, will be expanded to include US dollar assets of credit quality acceptable to the HKMA.
- Second, the duration of liquidity assistance provided to individual licensed banks through the Discount Window will be extended, at the request of individual licensed banks and on a case-by-case basis, from overnight money only to maturities of up to three months.
- Third, the 50% threshold for the use of Exchange Fund paper as collateral for borrowing through the Discount Window at the HKMA Base Rate will be raised to 100%. In other words, the 5% premium (or penalty) over the Base Rate for the use of Exchange Fund paper beyond the 50% threshold, as collateral for borrowing through the Discount Window, will be waived.
- Fourth, the HKMA will, in response to requests from individual licensed banks and when it considers necessary, conduct foreign exchange swaps (between the US dollar and the Hong Kong dollar) of various durations with licensed banks.
- Fifth, the HKMA will, in response to requests from individual licensed banks and when it considers necessary, lend term money of up to one month to individual licensed banks against collateral of credit quality acceptable to the HKMA.

Purpose : To provide term liquidity to licensed banks upon request, against a range of collateral of acceptable quality, through or outside the Discount Window.

8 Oct 2008

HKMA announced an adjustment in the methodology for determining the Base Rate, effective from 9 Oct 2008 to 31 Mar 2009.

Purpose : To lower the cost for banks to obtain liquidity through the Discount Window.

## Box 5.1 (Cont'd)

14 Oct 2008 The Financial Secretary announced two pre-emptive measures to strengthen confidence in Hong Kong's banking system, namely a temporary 100% deposit guarantee and a Contingent Bank Capital Facility. The measures will remain in place until end-2010.

Purpose : To help stabilise banks' deposit base as a source of funding and provide comfort to banks on the availability of additional capital, thereby guarding against systemic failures in the financial sector, enhancing confidence in the local banking system and maintaining banking stability.

20 Oct and The Exchange Fund Bills and Notes Programme was expanded.

24 Nov 2008,

6 Jan 2009

Purpose : To meet the increased demand for Exchange Fund paper by banks for liquidity management purposes and to improve banks' access to the Discount Window and other liquidity facilities introduced by the HKMA, thereby enhancing banks' liquidity management capability.

6 Nov 2008 The measure of lending term money to individual licensed banks against collateral of acceptable credit quality, which was introduced on 30 September 2008, was further refined:

- First, the maximum tenor will be extended from one month to three months.
- Second, the HKMA will take into account the fact that such lending is secured by collateral in setting the applicable interest rate although the rate will continue to be determined with reference to market interest rates.

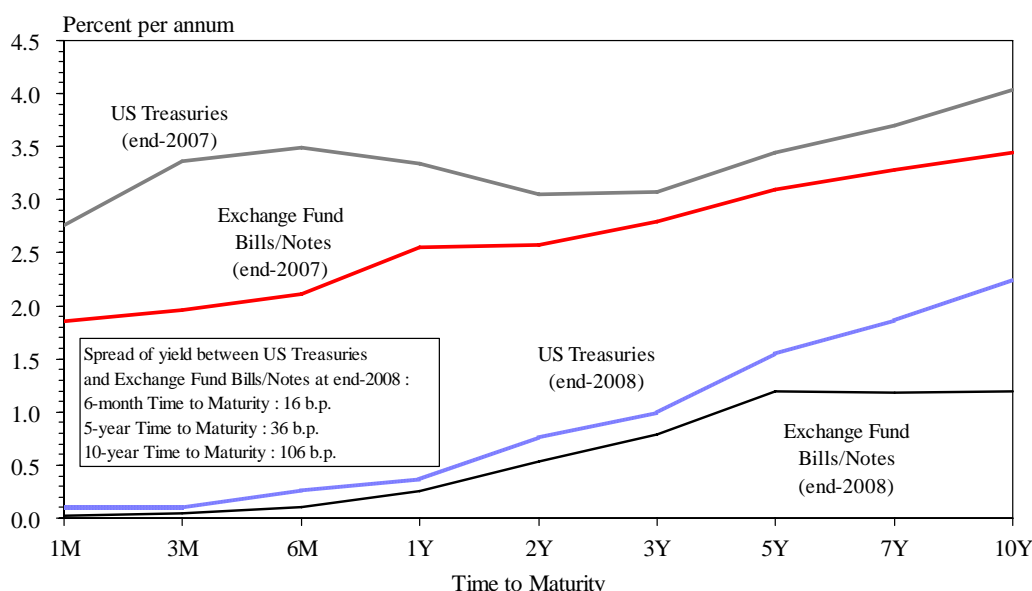
Purpose : To help banks to meet their demand for additional funding towards the year end, ensure adequate liquidity within the banking system and further ease pressures in the interbank market.

20 Jan 2009 The People's Bank of China and the HKMA signed an agreement for a RMB 200 billion (\$227 billion) currency swap facility.

Purpose : To provide short-term liquidity support to the Mainland operations of Hong Kong banks and the Hong Kong operations of Mainland banks in case of need, shoring up Hong Kong's financial stability.

5.6 The differentials between the Hong Kong dollar interbank rates and US dollar interest rates during 2008 were generally negative, with occasional deviations in September and October due to sharp fluctuations in interbank rates. Nevertheless, the discount of the three-month HIBOR over the corresponding Euro-dollar deposit rate narrowed for the year as a whole, from 144 basis points at end-2007 to 53 basis points at end-2008. The *Hong Kong dollar yield curve* shifted downward in 2008, particularly in the second half of the year, in line with general decreases in US Treasury yields. As heightened credit and liquidity concerns led to strong demand for Exchange Fund paper by banks for liquidity management purposes, implied yields for Exchange Fund bills with maturities of three months and below turned negative temporarily in late September and the first half of October.

**Diagram 5.1 : Hong Kong dollar yield curve shifted downward in 2008 alongside the aggressive monetary easing in the US**



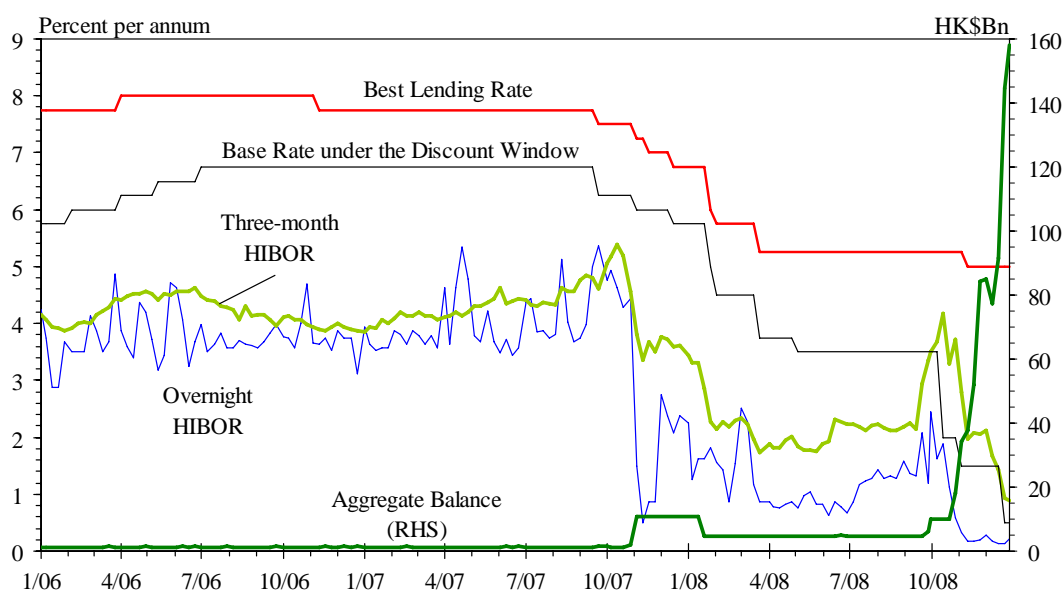
5.7 At the retail level, the two Best Lending Rates (BLRs) were cut from 6.75% and 7.00% at the beginning of the year to 5.25% and 5.50% in late March following the downward movements in US interest rates. While the Base Rate was slashed further from 3.75% to 0.50% between April and December following the cut in US' FFTR from 2.25% to 0-0.25% and the change in formula for determination of the Base Rate in October, the BLRs were lowered only once by 25 basis points in mid November to 5.00% and 5.25%. The average savings deposit interest rate quoted by major banks declined from 1.35% in December 2007 to 0.01% in December 2008. The average one-month time deposit interest rate also fell for the year as a whole, only shooting up briefly between mid September and October when banks

searched for more stable and lower-cost funding following sharp increases in HIBORs. The composite interest rate<sup>(2)</sup>, as an indication of the average cost of funds for banks, also dropped from 2.29% at end-2007 to 0.68% at end-2008, notwithstanding the brief rebound to 1.28% at end-October amid the stress in the money market.

5.8 In the face of the worsening global financial crisis and the potential risks associated with declining property prices, banks tightened the pricing for new mortgage loans in the last few months of 2008. The proportion of new loans approved at rates more than 2.5% below the BLR fell to 3.3% in December, from usually over 80% prior to October.

5.9 The Aggregate Balance declined from around \$11 billion at the beginning of 2008 to \$5 billion on 14 January 2008, as a result of an additional issue of Exchange Fund paper to meet increased demand for banks' intraday liquidity needs. Between late October and December, the strong-side Convertibility Undertaking (CU) was repeatedly triggered due to strong inflow of funds, prompting the HKMA to passively sell Hong Kong dollars against US dollars to banks. The Aggregate Balance soared to \$158 billion at end-2008, surpassing the previous record high of around \$55 billion in 2004.

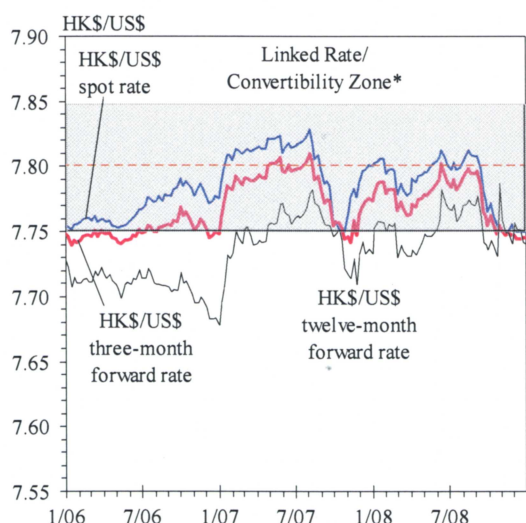
**Diagram 5.2 : Hong Kong dollar interbank interest rates spiked in September and October but eased back towards year-end  
(end for the week)**



5.10 The Hong Kong dollar spot exchange rate against the US dollar traded between 7.762 and 7.816 in the first three quarters of 2008. The exchange rate started to strengthen in September and the strong-side CU was repeatedly triggered between 31 October and 31 December. The strengthening of Hong Kong dollar exchange rate reflected some unwinding of carry trade positions due to tightened credit and heightened risk aversion, and possibly some repatriation of funds by domestic corporations back to Hong Kong. In line with broadly narrowing interest rate spreads, the discounts of *3-month* and *12-month Hong Kong dollar forward rate* over the spot rate shrank from 260 and 660 pips (each pip equivalent to HK\$0.0001) at end-2007 to 45 and 95 pips at end-2008 respectively.

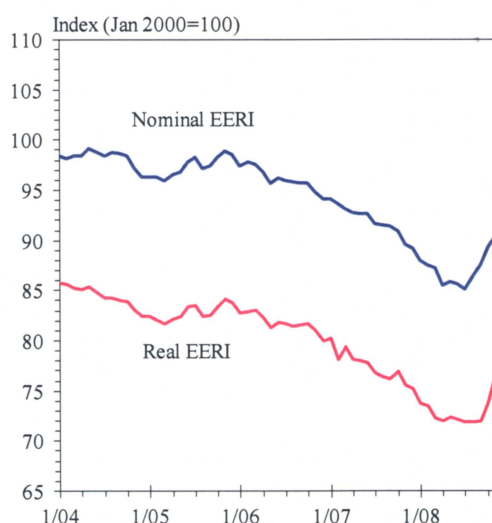
5.11 Under the Linked Exchange Rate system, movements in the exchange rate of the Hong Kong dollar against other currencies closely followed those in the US dollar. The collapse of Lehman Brothers in mid September worsened the global financial turmoil, making the currency market extremely volatile. Between July and November, the US dollar appreciated solidly against most of the major currencies partly due to the expectation of narrower interest rate differentials between the US dollar and other currencies. Increased risk aversion of investors amid the deteriorating global macroeconomic outlook also led to more fund flows to the US dollar. As a result, the trade-weighted *Hong Kong dollar Nominal Effective Exchange Rate Index* rebounded by 4.4% in the second half of 2008, after depreciating by 4.0% alongside a broadly weaker US dollar in the first half. The *Real Effective Exchange Rate Index* also rallied after August<sup>(3)</sup>.

**Diagram 5.3 : Forward spreads shrank as interest rate differentials narrowed (end for the week)**



Note : (\*) The shaded area represents the Convertibility Zone that was introduced in May 2005 as part of the three refinements to the Linked Exchange Rate System.

**Diagram 5.4 : Trade-weighted EERIs rebounded during the second half (average for the month)**

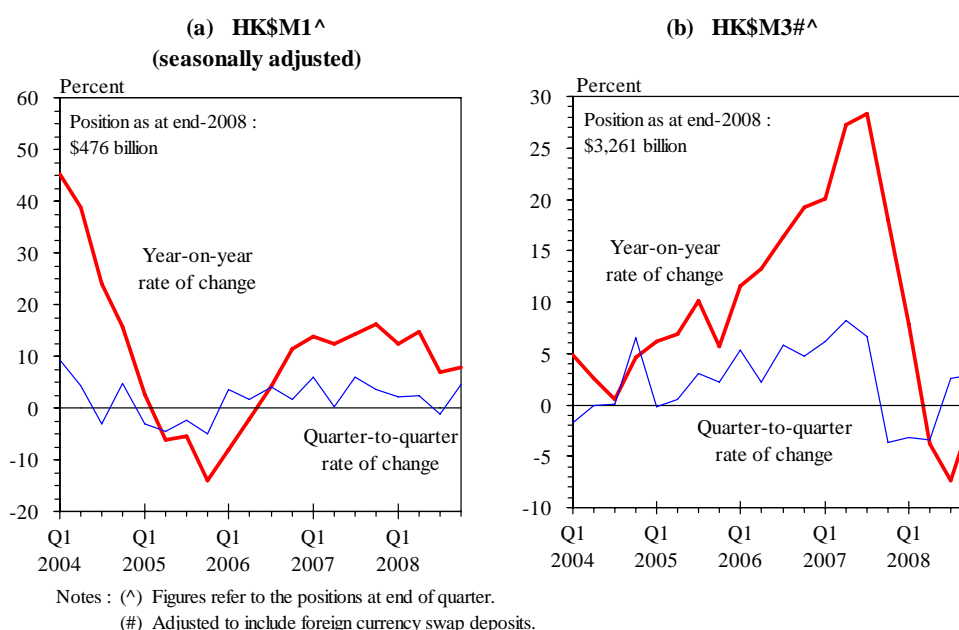


## Money supply and banking sector

5.12 Hong Kong dollar broad *money supply* (HK\$M3) declined during the first eight months of 2008<sup>(4)</sup>. Some depositors' decisions to shift their Hong Kong dollar deposits into foreign currency deposits, including renminbi deposits, put a drag on Hong Kong dollar money supply. Nevertheless, the HK\$M3 expanded markedly between September and December, possibly reflecting some inflow of funds into the Hong Kong dollar. For the year as a whole, the HK\$M3 contracted by 1.2%. The seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1) also recorded a notable increase in the fourth quarter of the year under a low interest rate environment, after a few quarters of moderated growth partly resulting from weaker transaction demand alongside an economic downturn. Compared with a year earlier, the HK\$M1 at end-2008 grew by 8.0%.

5.13 *Total deposits* with authorised institutions (AIs) grew by 3.2% during 2008<sup>(5)</sup>, sharply lower than the substantial 23.4% expansion in 2007. Total deposits stood at \$6,060 billion at end-2008, comprising Hong Kong dollar deposits of \$3,034 billion and foreign currency deposits of \$3,026 billion. The share of Hong Kong dollar deposits to total deposits declined from 52.4% at end-2007 to 50.1% at end-2008.

**Diagram 5.5 : Broad money supply rebounded in the latter part of 2008**



5.14 *Total loans and advances* rose by 10.9% during 2008, to \$3,284 billion (comprising Hong Kong dollar loans of \$2,355 billion and foreign

currency loans of \$930 billion). However, the quarter-to-quarter growth in loans gradually decelerated over the first three quarters and turned negative in the fourth quarter, against the background of markedly weakened domestic and external economic activities. An analysis of loans for use in Hong Kong by economic sector indicated that many types of loans showed a similar pattern. In line with shrinking trade flows, loans for trade finance registered a particularly sharp fall of 16.1% during the fourth quarter. Amid the setback of the stock market, loans to stockbrokers continued to contract through the year. On the other hand, loans to building, construction, property development and investment managed to grow through the year notwithstanding the downturn of the property market in the second half of the year. The Hong Kong dollar loan-to-deposit ratio rose from 71.0% at end-2007 to a high of 83.8% at end-August 2008 before declining to 77.6% at end-2008.

**Table 5.1 : Loans and advances**

All loans and advances for use in Hong Kong											
		Loans to :									
		Finance		Whole-	Building,	Purchase		All loans		Total	
		visible	Manu-	sale	construction,	of	Financial	Stock-	and advances	loans	
		trade	facturing	and	property	residential	concerns	brokers	for use	and	
%				retail	development	of			outside	advances	
change				trade	and	property <sup>(a)</sup>			Hong Kong <sup>(c)</sup>	and	
during					investment					advances	
the								Total <sup>(b)</sup>			
quarter											
2007	Q1	-1.0	3.5	1.9	1.0	-0.1	5.9	994.1	7.6	12.4	8.3
	Q2	12.2	7.4	4.0	6.2	1.2	10.2	35.6	6.4	10.7	7.0
	Q3	4.2	4.8	1.8	5.7	1.4	6.2	11.8	5.8	10.1	6.4
	Q4	4.1	1.7	2.8	4.2	2.2	9.5	-86.4	-4.5	7.7	-2.7
2008	Q1	8.4	16.1	16.6	6.2	2.4	7.2	-4.2	6.3	10.4	7.0
	Q2	15.2	4.9	15.5	4.6	2.7	1.4	-19.0	4.7	10.1	5.6
	Q3	-2.9	4.5	*	4.4	0.7	8.1	-20.6	2.7	0.6	2.3
	Q4	-16.1	-4.8	-3.3	1.9	-1.4	-5.4	-10.4	-3.5	-7.1	-4.1
Total amount at end-2008 (\$Bn)		186	148	152	687	650	283	10	2,711	573	3,284
% change over a year earlier		1.8	21.2	30.3	18.4	4.4	11.1	-44.7	10.3	13.7	10.9

Notes : Some loans have been reclassified. As such, the figures are not strictly comparable with those of previous quarters.

(a) Figures also include loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme, in addition to those for the purchase of private residential flats.

(b) Loans to individual sectors may not add up to all loans and advances for use in Hong Kong, as some sectors are not included.

(c) Also include loans where the place of use is not known.

(\*) Change of less than 0.05%

5.15 With a view to lessening the impact of the credit crunch on potential homebuyers, the Hong Kong Mortgage Corporation implemented an enhancement of the Mortgage Insurance Programme in December by lowering the threshold above which insurance will be made available from the current 70% loan-to-value (LTV) ratio to 60%, subject to a total LTV of 90% and a maximum loan amount of \$8 million. To provide greater support to small and medium enterprises (SMEs) in the midst of the global financial turmoil, the Government has implemented measures in the fourth quarter to facilitate lending to these companies. The existing SME Loan Guarantee Scheme has been enhanced in November, while a \$100 billion Special Loan Guarantee Scheme, under which the Government will provide 70% guarantee for loans granted by the participating lending institutions, was also set up in December.

5.16 Despite the recent global financial crisis, Hong Kong's banking system remained resilient. Under the capital adequacy framework promulgated by the Basel Committee on Banking Supervision for banks (commonly referred to as "Basel II", which was implemented on 1 January 2007), the capital adequacy ratio (CAR) for Hong Kong incorporated AIs remained strong, at an average of 13.8% at end-September 2008. All individual AIs' CARs have been above the statutory minimum ratios as required by the HKMA. To address the lessons learnt from the recent global financial crisis, the Basel Committee will issue for public consultation in 2009 proposals on Basel II enhancements and other guidance to strengthen risk management and controls of banks. The HKMA will monitor closely these proposals and will, where appropriate, incorporate relevant recommendations in its supervisory framework in consultation with the banking industry.

5.17 Asset quality of the local banking sector remained good. The ratio of classified loans to total loans of retail banks was at a low level, albeit increasing from 0.85% at end-2007 to 0.96% at end-September 2008. On the other hand, arrears for over three months in credit card repayment and delinquency ratio for residential mortgage loans declined from 0.35% and 0.11% at end-2007 to 0.34% and 0.05% at end-2008 respectively.



**Table 5.2 : Asset quality of retail banks\***

(as % of total loans)

<u>As at end of period</u>	<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2007 Q1	97.11	1.89	1.00
Q2	97.37	1.73	0.90
Q3	97.47	1.64	0.89
Q4	97.59	1.57	0.85
2008 Q1	97.72	1.47	0.81
Q2	97.75	1.38	0.88
Q3	97.61	1.43	0.96

Notes : Due to rounding, figures may not add up to 100.

(\*) Period-end figures relate to Hong Kong offices and overseas branches. Loans and advances are classified into the following categories: Pass, Special Mention, Substandard, Doubtful and Loss. Loans in the substandard, doubtful and loss categories are collectively known as “classified loans”.

5.18 In late September, circulation of telephone short messages questioning a local bank’s financial stability resulted in many customers queuing outside the bank’s branches to withdraw deposits. The unfounded rumours were cleared and the mini-run on the bank quickly subsided. The temporary 100% deposit protection arrangement and a new capital facility for banks, introduced on 14 October, helped instil further confidence in the local banking system.

5.19 Since February 2004, banks in Hong Kong have been offering renminbi services to customers including deposit taking, currency exchange and remittance. At end-2008, a total of 39 licensed banks engaged in this line of business, and outstanding renminbi deposits amounted to RMB56.1 billion, accounting for around 2.1% of total foreign currency deposits in Hong Kong. Between end-2007 and end-May 2008, renminbi deposits in Hong Kong surged by 133%, due to low interest rates in Hong Kong dollar deposits, expected valuation gain arising from the renminbi’s appreciating trend and investors seeking alternatives amid the local stock market correction. However, having stayed steady in June and July, renminbi deposits contracted by 27% during the last five months of 2008, partly reflecting bond issuers repatriating the proceeds to the Mainland. Increased uncertainty about the short-term direction of the renminbi exchange rate and higher transaction cost also reduced the demand for such deposits.

**Table 5.3 : Renminbi deposits in licensed banks**

<u>As at end of period</u>		<u>Interest rates on<sup>(a)</sup></u>					Number of licensed banks engaged in <u>RMB business</u>
		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Savings deposits<sup>(b)</sup></u> (%)	<u>Three-month time deposits<sup>(b)</sup></u> (%)	
2007	Q1	13,643	11,595	25,238	0.46	0.65	38
	Q2	17,228	10,391	27,618	0.46	0.65	38
	Q3	18,458	9,045	27,503	0.46	0.65	37
	Q4	22,539	10,861	33,400	0.46	0.65	37
2008	Q1	39,364	18,221	57,585	0.46	0.65	40
	Q2	51,242	26,398	77,640	0.46	0.65	40
	Q3	47,508	22,443	69,951	0.46	0.65	40
	Q4	38,119	17,942	56,061	0.46	0.64	39
% change over a year earlier		69.1	65.2	67.8	N.A.	N.A.	N.A.

Notes : (a) The interest rates are based on a survey conducted by the HKMA.

(b) Period average figures.

N.A. : Not available.

5.20 There has been substantial progress in enhancing financial co-operation between Hong Kong and the Mainland in 2008. Renminbi business in Hong Kong continued to develop steadily, including the issuance of renminbi bonds by Mainland financial institutions. Further to the three successful issues in 2007, there were four more renminbi bond issues in 2008, bringing the total amount of outstanding renminbi bonds in Hong Kong to RMB22 billion. In December 2008, the Central People's Government announced a further expansion of renminbi business in Hong Kong to allow eligible Mainland and Hong Kong enterprises to use renminbi to settle trade transactions. In servicing such activities, the capabilities of Hong Kong's financial system in handling renminbi-denominated transactions will be strengthened, thereby enhancing the status of Hong Kong as an international financial centre.

## The debt market

5.21 The *Hong Kong dollar debt market* contracted in 2008 due to stringent credit conditions and a fall in demand for debt securities as the global financial crisis deepened. Total outstanding amount of debt stood at \$716.6 billion at end-2008, representing a reduction of 6.2% from a year ago, with the size of private sector debt outstanding declining by 13.3% year-on-year<sup>(6)</sup>. The amount was equivalent to 22% of HK\$M3 or 18% of Hong Kong dollar-denominated assets of the entire banking sector<sup>(7)</sup>. Around 68% of the outstanding debts were accounted for by the private sector and Multilateral Development Banks, and the remaining by the public sector, including the Exchange Fund paper and debt securities issued by the Government and statutory bodies. Gross issuance of Hong Kong dollar debt securities in 2008 declined to \$424.4 billion, down by 4.6% from 2007. In particular, issuance by private sector plunged 44.5%, as fund raising via issuing bonds became increasingly difficult amid a re-appraisal of credit risks.

5.22 In a bid to strengthen Hong Kong's role as an international financial centre, the Government has continued to make efforts to promote the domestic debt market through facilitating the introduction of new instruments and enhancing market liquidity. In May 2008, the HKMA signed a Memorandum of Understanding with the Dubai International Financial Centre Authority to foster co-operation in developing the market for Sharia-compliant financial products in both jurisdictions.

5.23 In July 2008, Standard & Poor's raised the long-term issuer credit rating on Hong Kong from AA to AA+, citing "a further improvement in the credit strength of the Chinese central government" and Hong Kong's continued fiscal health as the main reasons behind the rating action<sup>(8)</sup>. The upgrade reflects Hong Kong's strong economic fundamentals and should help to lower the borrowing costs for Hong Kong corporations.

**Table 5.4 : New issuance and outstanding value of Hong Kong dollar debt securities (\$Bn)**

		Exchange Fund paper	Statutory bodies/govern ment-owned corporations	Govern- ment	Public sector total	AIs <sup>(a)</sup>	Local corporations	Non-MDBs overseas borrowers <sup>(b)</sup>	Private sector total	MDBs <sup>(b)</sup>	Total
<b>New issuance</b>											
2007	Annual	223.5	19.4	-	242.9	49.6	18.7	131.9	200.2	1.7	444.8
	Q1	55.0	4.0	-	59.0	12.9	5.4	38.3	56.6	1.5	117.1
	Q2	56.9	6.9	-	63.8	20.2	6.5	40.9	67.6	-	131.4
	Q3	56.1	1.5	-	57.6	6.7	5.7	18.7	31.1	-	88.7
	Q4	55.4	7.0	-	62.5	9.8	1.1	33.9	44.9	0.2	107.6
2008	Annual	285.9	24.3	-	310.2	45.2	14.3	51.6	111.2	3.0	424.4
	Q1	62.8	5.5	-	68.2	8.6	1.2	6.1	15.9	-	84.1
	Q2	77.2	8.7	-	85.9	15.4	8.4	22.3	46.2	-	132.0
	Q3	67.3	3.5	-	70.8	14.7	4.1	15.8	34.6	-	105.3
	Q4	78.6	6.7	-	85.3	6.5	0.6	7.5	14.5	3.0	102.8
% change in 2008 Q4 over 2007 Q4		41.9	-4.3	N.A.	36.5	-33.7	-45.5	-77.9	-67.7	1,400.0	-4.5
% change in 2008 over 2007		27.9	25.5	N.A.	27.7	-8.9	-23.5	-60.8	-44.5	76.5	-4.6
<b>Outstanding (as at end of period)</b>											
2007	Q1	133.0	54.6	7.7	195.3	147.4	54.3	335.7	537.3	16.5	749.1
	Q2	134.4	58.0	7.7	200.1	151.2	58.9	350.9	561.0	14.4	775.5
	Q3	135.6	57.2	7.7	200.5	140.3	62.9	339.3	542.4	13.4	756.3
	Q4	136.6	58.5	7.7	202.8	136.4	60.6	351.3	548.2	13.2	764.2
2008	Q1	143.3	60.3	7.7	211.3	121.4	60.8	320.7	502.9	12.5	726.7
	Q2	144.3	64.5	7.7	216.5	106.5	68.4	318.6	493.5	12.5	722.4
	Q3	145.0	62.7	5.0	212.7	103.8	67.5	320.2	491.6	12.4	716.6
	Q4	157.7	64.6	5.0	227.3	95.1	67.0	313.0	475.1	14.3	716.6
% change over a year earlier		15.4	10.5	-35.1	12.1	-30.3	10.5	-10.9	-13.3	8.3	-6.2

Notes : Figures may not add up to the corresponding totals due to rounding.

(a) AIs : Authorised institutions.

(b) MDBs : Multilateral Development Banks.

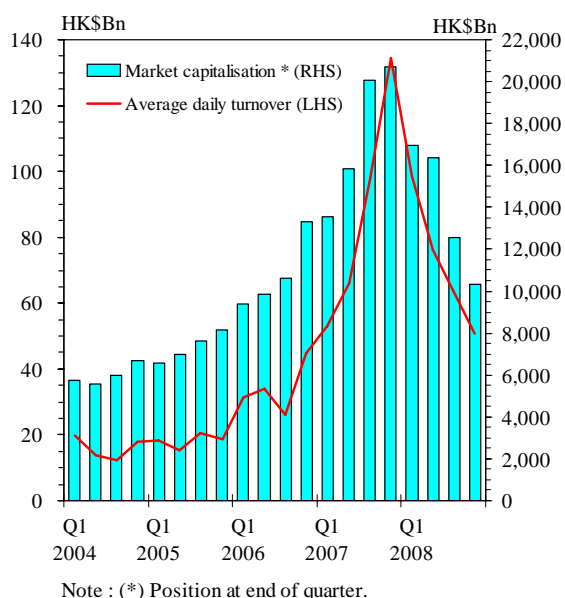
N.A. : Not available.

## The stock and derivatives markets

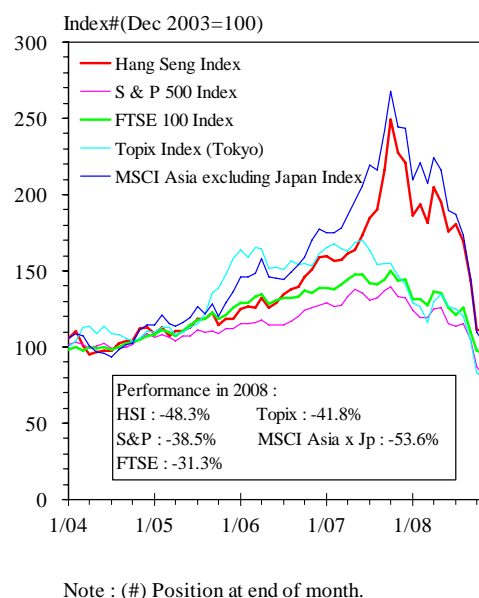
5.24 The *local stock market* suffered a significant setback in 2008, as liquidity tightened and companies' earnings outlook deteriorated owing to the weakening economic environment. The *Hang Seng Index (HSI)* plunged to an intra-day low of 10 676 on 27 October 2008 following the outbreak of the global financial tsunami. Closing the year at 14 387, it was 48.3% lower than a year earlier. As investors became more wary about the market outlook, trading volume contracted sharply over the course of 2008. For the year as a whole, *daily turnover* dropped by 18.2% to an average of \$72.1 billion.

5.25 As a result of plunging share prices, the *market capitalisation* plummeted from \$20.7 trillion at end-2007 to \$10.3 trillion at end-2008. Nevertheless, the Hong Kong stock market remained the seventh largest in the world and the third largest in Asia at end-2008 according to the *World Federation of Exchanges*<sup>(9)</sup>. Fund raising activities also turned much quieter, with *initial public offerings (IPOs)* almost dried up in 2008, especially in the second half. While total equity capital raised through new share flotation and post-listing activities on the Main Board and the GEM fell by a relatively less severe 27.9% to \$403.7 billion in 2008<sup>(10)</sup>, it was boosted by the issue of shares related to a mega merger deal which did not involve fresh funds from investors.

**Diagram 5.6 : The stock market slumped through 2008**



**Diagram 5.7 : All major stock markets tumbled**



5.26 Mainland enterprises continued to play an important role in the Hong Kong stock market. There were 465 Mainland enterprises (including 150 H-share companies, 93 “Red Chips” companies and 222 private enterprises) listed on the Hong Kong stock market at end-2008, accounting for 37% of the total number of listed companies and 60% of the total market capitalisation. In 2008, 71% of equity turnover in the market was attributable to Mainland-related stocks. These companies together raised \$287.0 billion in 2008, accounting for 71% of the total equity capital raised in the market in the period.

5.27 Notwithstanding the downturn of the stock market, trading of most types of *derivatives* was rather active in 2008, with enthusiastic participation from a wide range of investors and traders (**Box 5.2**). The average daily trading volume for futures and options contracts<sup>(11)</sup> expanded by 19.8% for the year as a whole, and remained steady in the second half despite the turbulent financial market conditions. Among the total, trading in Hang Seng Index futures and H-shares index futures recorded particularly impressive growth of 27.1% and 33.7% respectively for 2008 as a whole. On the other hand, trading in securitised derivatives declined by 5.7% in value terms. With trading of callable bull/bear contracts actually surging by about 14 times, the drop was due entirely to the plunge in trading of derivative warrants.

**Table 5.5 : Average daily turnover of derivative products  
of the Hong Kong market**

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	H-shares Index <u>futures</u>	Stock <u>options</u>	Total futures and options traded*	Derivative warrants (\$Mn)	Callable bull / bear contracts (\$Mn)	Total securitised derivatives traded (\$Mn)^
2007	Annual	69 760	30 407	44 091	186 923	357 665	19,081	290	19,371
	Q1	61 184	30 495	31 059	124 662	268 878	10,837	79	10,916
	Q2	62 301	31 774	34 783	137 742	285 315	11,662	91	11,754
	Q3	76 286	37 952	54 210	240 131	438 005	18,811	249	19,060
	Q4	78 803	21 353	55 698	241 918	433 668	34,659	733	35,391
2008	Annual	88 639	15 595	58 943	223 236	428 599	14,015	4,243	18,258
	Q1	88 938	14 946	60 579	263 980	468 118	26,851	1,395	28,247
	Q2	78 023	13 776	50 238	210 452	385 751	15,715	2,886	18,601
	Q3	95 335	18 381	58 217	220 110	435 527	8,964	6,394	15,359
	Q4	92 097	15 226	66 649	199 511	425 584	4,972	6,183	11,155
	% change in 2008 Q4 over 2007 Q4	16.9	-28.7	19.7	-17.5	-1.9	-85.7	744.1	-68.5
	% change in 2008 over 2007	27.1	-48.7	33.7	19.4	19.8	-26.5	1,362.3	-5.7

- Notes : (\*) Turnover figures for individual futures and options may not add up to the total futures and options traded, as some products are not included.  
(^) Including derivative warrants and callable bull / bear contracts.

## Box 5.2

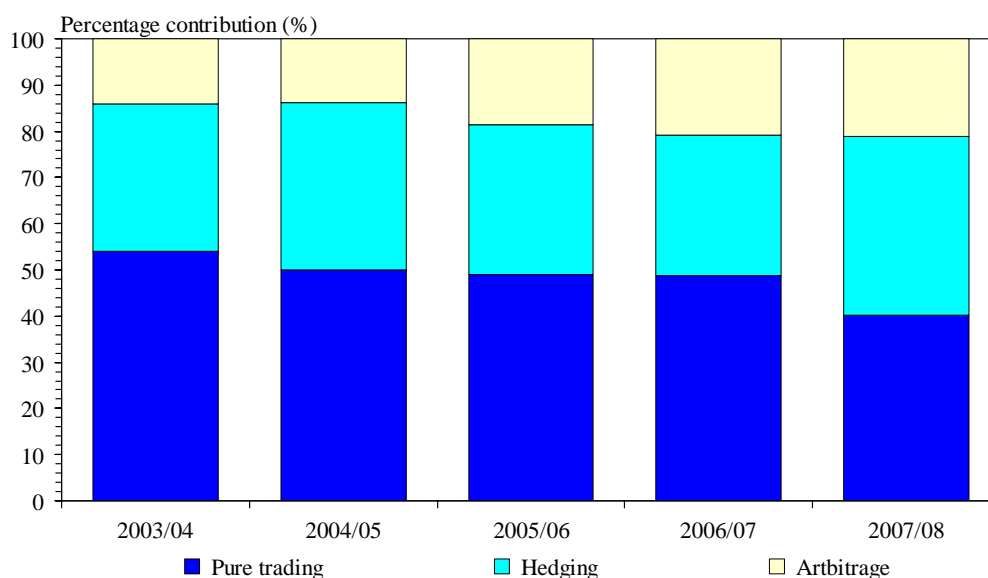
### Futures and options markets in Hong Kong

The Hong Kong Exchanges and Clearing Limited (HKEx) published its Derivatives Market Transaction Survey 2007/08 in November 2008. The main objective of the annual survey is to track trading composition by trading purpose and by investor type in HKEx's futures and options markets. The latest 2007/08 survey covered transactions during July 2007 to June 2008 (refer to as the year 2007/08 below).

#### Pure trading and hedging were the main purposes of transactions

During 2007/08, pure trading and hedging were the two main purposes of futures and options trading, accounting for 40% and 39% respectively of the total turnover. Arbitrage turnover accounted for the remainder, or 21%, of the market turnover in the period. Compared with the 2003/04 survey, the share of transactions for both hedging and arbitrage has increased by about seven percentage points each, while the proportion of pure trading has dropped by 14 percentage points. Moreover, increased share of hedging in transactions was observed in most HKEx's major products – Hang Seng Index (HSI) futures, HSI options and H-shares Index (HHI) futures.

#### Transaction purposes for overall futures and options markets



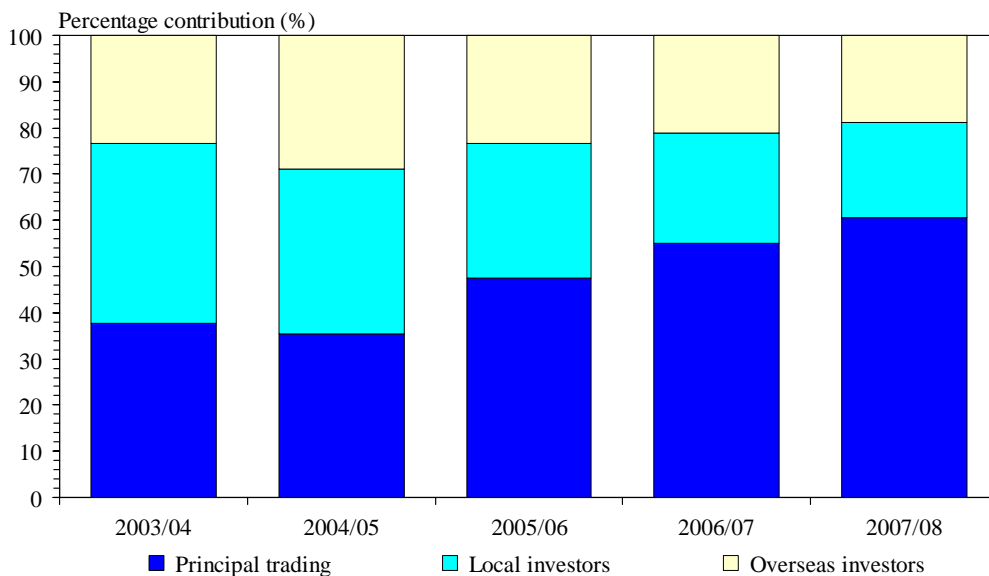


## Box 5.2 (Cont'd)

### Trading by investor type varied across different derivative products

Exchange participants (EPs)' principal trading accounted for 61% of the trading volume for futures and options in 2007/08. However, this was mainly due to the very high share of principal trading in the stock options market, at about 80% consistently (mostly for market making purpose). The split of futures and options turnover among EPs' principal trading, local investors and overseas investors varied significantly across the different products. For instance, overseas institutional investors made up almost half of the trading in HHI futures in 2007/08, whereas about 60% of the trading in mini-HSI futures was attributable to local retail investors.

**Distribution of futures and options trading by investor type**



5.28 With a view to building a more diversified market, the Hong Kong Exchanges and Clearing Limited continued to work towards widening product variety. For instance, the first batch of Market Access Products, which are cash-settled structured products based on non-Hong Kong underlying assets, was introduced in January 2008. Seven new Exchange Traded Funds (ETFs), including the first gold ETF, were listed within the year. In addition, gold futures were re-launched in October.

### **Fund management and investment funds**

5.29 The fund management business has been hard hit by the worsening financial markets. As retail investors' interest was seriously dampened by the poor performance of most unit trust products, gross retail sales of *mutual funds*<sup>(12)</sup> dived by 60.6% to US\$18.0 billion in 2008. The aggregate net asset value of the approved constituent funds under the *MPF schemes* shrank from \$265 billion at end-2007 to \$209 billion at end-2008<sup>(13)</sup>, as investment losses more than offset the new contributions from scheme participants. Retail hedge funds also experienced a challenging time<sup>(14)</sup>.

### **Insurance sector**

5.30 Gross premium income from new long-term business for the *insurance sector* slumped by 39.7% in the third quarter of 2008 over a year earlier<sup>(15)</sup>, led by the 57.7% plunge in premium from investment-linked plans amid the worsening financial markets. On the other hand, premium from non-linked business increased by 18.1% over a year earlier. Meanwhile, gross premium for general business rose by 13.9% over the same period. However, insurers recorded an underwriting loss in the quarter, mainly due to poor performance in motor vehicle and employment compensation businesses.

5.31 In view of the possible impact of the current financial turmoil on the insurance companies, the Insurance Authority (IA) has stepped up his monitoring of the financial and solvency position of all authorised insurers in Hong Kong. Where necessary, the IA will exercise his statutory power to take appropriate interventionary actions against insurers for the protection of policyholders.

**Table 5.6 : Insurance business in Hong Kong\* (\$Mn)**

		<u>General business :</u>				<u>Premium for long-term business<sup>^</sup> :</u>				
		<u>Gross premium</u>	<u>Net premium</u>	<u>Underwriting profit</u>	<u>Individual life and annuity (non-linked)</u>	<u>Individual life and annuity (linked)</u>	<u>Other individual business</u>	<u>Non-retirement scheme group business</u>	<u>All long-term business</u>	<u>Gross premium from long-term business and general business</u>
2007	Annual	24,057	17,008	2,301	20,314	60,040	261	162	80,777	104,834
	Q1	6,792	4,904	441	5,982	10,122	62	45	16,211	23,003
	Q2	6,156	4,451	598	3,307	13,189	62	50	16,608	22,764
	Q3	5,861	4,122	744	5,028	16,445	76	40	21,589	27,450
	Q4	5,248	3,531	518	5,997	20,284	61	27	26,369	31,617
2008	Q1	7,640	5,478	638	8,212	13,308	64	49	21,633	29,273
	Q2	6,618	4,773	188	6,089	13,345	67	58	19,559	26,177
	Q3	6,676	4,723	-12	5,937	6,949	63	73	13,022	19,698
	% change over a year earlier	13.9	14.6	-101.6	18.1	-57.7	-17.1	82.5	-39.7	-28.2

Notes : (\*) Figures are based on provisional statistics of the Hong Kong insurance industry.  
 (^) Figures refer to new businesses only. Retirement scheme businesses are excluded.

## Notes :

- (1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher. With effect from 9 October, this formula for determination of the Base Rate has been changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points and by removing the other leg relating to the moving averages of the relevant interbank interest rates. These changes will be reviewed by 31 March 2009.
- (2) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movement in various deposit rates, interbank and other interest rates to closely track the average cost of funds for banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector.
- (3) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against some 14 currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong during 1999 and 2000.

The Real EERI of the Hong Kong dollar is obtained by adjusting the Nominal EERI for relative movements in the seasonally adjusted consumer price indices of the respective trading partners.

- (4) The various definitions of the money supply are as follows:

M1 : Notes and coins with the public, plus customers' demand deposits with licensed banks.

M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks, held outside the monetary sector as well as short-term Exchange Fund placements of less than one month.

M3 : M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.

Among the various monetary aggregates, more apparent seasonal patterns are found in HK\$M1, currency held by the public, and demand deposits.

- (5) Authorised institutions include licensed banks, restricted licence banks and deposit-taking companies. At end-2008, there were 145 licensed banks, 27 restricted licence banks and 28 deposit-taking companies in Hong Kong. Altogether, 200 authorised institutions (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (6) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.

- (7) Assets of the banking sector include notes and coins, amount due from authorised institutions in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposits (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.
- (8) The agency also raised China's long-term sovereign credit rating from A to A+, and its short-term credit rating from A-1 to A-1+.
- (9) The ranking is made by the World Federation of Exchanges, a global trade association for the stock exchange industry. Its membership comprises 50 securities exchanges (as of 28 January 2009), covering almost all globally recognised stock exchanges.
- (10) At end-2008, there were 1 087 and 174 companies listed on the Main Board and GEM respectively.
- (11) At end-2008, there were 49 classes of stock options contracts and 42 classes of stock futures contracts.
- (12) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and covered only the active authorised funds that have responded to the survey. To provide a more accurate picture of the retail fund market in Hong Kong, the survey has been revamped, with effect from 2005, such that it would cover only retail transactions (including switching) and exclude institutional transactions. At end-2008, there were 1 287 authorised funds, according to the survey.
- (13) There were 19 approved trustees at end-2008. On MPF products, 34 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 340 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 238 000 employers, 2.18 million employees and 267 000 self-employed persons have participated in MPF schemes.
- (14) There were 14 SFC-authorised retail hedge funds with combined net asset size of US\$770 million at end-2008. This amount of net assets under management represented a 55.5% decrease from end-2007 level, but was around 5 times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (15) At end-2008, there were 175 authorised insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 110 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 23 countries and territories (including Hong Kong).

## CHAPTER 6 : THE LABOUR SECTOR

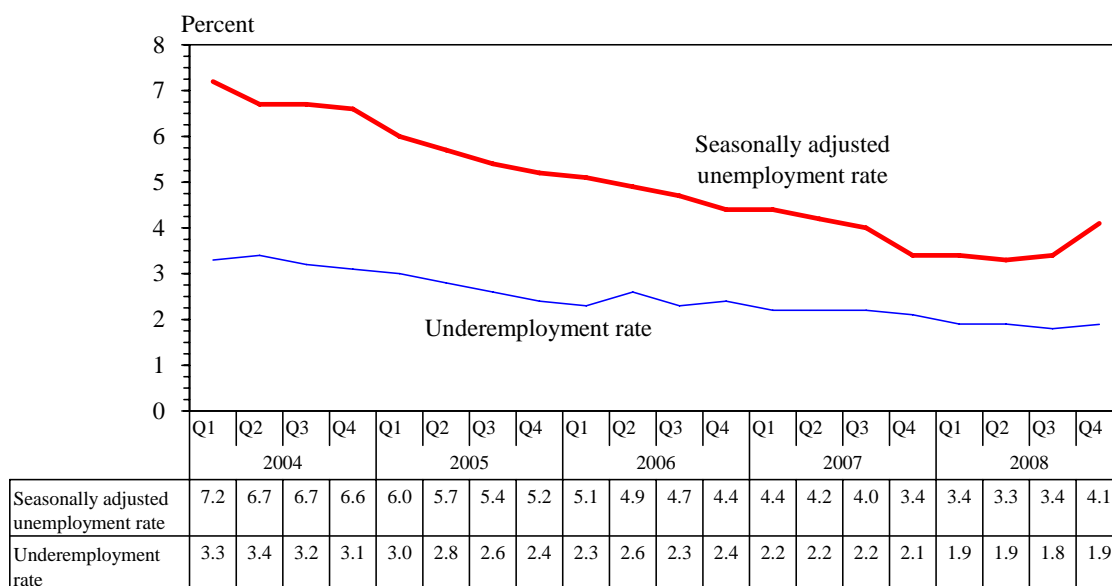
### *Summary*

- *The labour market continued to fare strongly during the first eight months of 2008, with the seasonally adjusted unemployment rate declining to a ten-year low of 3.2% in June - August. However, as the adverse impact of the global financial tsunami became increasingly apparent since September, the unemployment rate reversed course, surging to 4.1% at the year-end.*
- *While labour demand slackened off virtually across-the-board in the aftermath of the financial turmoil, the adjustments were more visible in the externally-oriented sectors like trading, logistics and financial services.*
- *Labour income growth, whilst still holding up in the first three quarters of 2008, likewise showed signs of moderation in the fourth quarter.*
- *With the gloomy business sentiment as seen from the latest business tendency survey and with the cut-back in private sector vacancies posted with the Labour Department, labour market conditions are likely to worsen further in the wake of the deepening global recession. It is thus the Government's priority to preserve employment and prevent job loss by supporting enterprises and creating more job opportunities to tackle the economic challenges ahead.*

### **Overall labour market situation**

6.1 In 2008, the labour market was characterised by sustained tightness through to August, but abrupt easing in the remainder of the year upon the impact of the global financial tsunami. As an indicator of the changing labour market conditions, the seasonally adjusted unemployment rate<sup>(1)</sup>, having declined from 3.4% at end-2007 to 3.2% in mid-2008, leapt to 4.1% at the end of the year. Whereas the labour supply growth held broadly stable on a year-on-year comparison, employment growth slowed down visibly in the latter period. Meanwhile, the underemployment rate<sup>(2)</sup> went down from 2.1% at end-2007 to 1.7% in August - October 2008, but rose back to 1.9% in October - December. Moreover, the number of private sector vacancies posted with the Labour Department fell by 4.8% year-on-year in the fourth quarter, reversing the uptrend seen in the earlier quarters. Along with the slackening labour demand, employment earnings exhibited signs of moderation especially among upper-end workers in the financial services sector.

**Diagram 6.1 : The unemployment rate jumped in the fourth quarter of 2008, reversing the declining trend prevalent since mid-2003**



## Total employment and labour supply

6.2 At 1.6%, *total employment*<sup>(3)</sup> growth for 2008 as a whole decelerated from that of 2.4% in 2007. This was attributable partly to the significant slowdown during the fourth quarter of 2008, when corporate downsizing and retrenchment were seen in many sectors for better cost economy under the precarious financial and economic conditions in this once-in-a-century global financial crisis. Specifically, overall employment grew by a meagre 0.7% on a year-on-year basis and was virtually flat on a quarter-to-quarter comparison in that period. A breakdown of occupation categories by economic sector showed that between the last two quarters of 2008, decreases in employment were found mainly among lower-skilled workers in restaurants and hotels, while larger declines were observed at the same time among higher-skilled workers in trading, logistics and financial services.

6.3 By comparison, the *labour force*<sup>(4)</sup> had a relatively steady performance, with a smaller deceleration in the growth pace from 1.6% in 2007 to 1.0% in 2008. As for the fourth quarter of 2008, growth was somewhat similar at 1.3% year-on-year. But on a quarter-to-quarter basis, the increase was just 0.2%. This slowdown was mainly attributable to a decline in the labour force participation rate especially for younger persons aged 15 - 29, conceivably due to their greater tendency to pursue further study in the face of the worsening economic and employment situation.

6.4 When matched against the labour supply growth of 1.0% in 2008, the expansion in total employment was still higher at 1.6%. Yet these annual figures concealed a notable shift in their growth differential over the course of 2008, from 1 percentage point in favour of the latter in the first quarter to 0.6 of a percentage point in favour of the former in the fourth quarter, which signified a distinct loosening in the manpower resource balance towards the end of the year.

**Table 6.1 : The labour force, and persons employed, unemployed and underemployed**

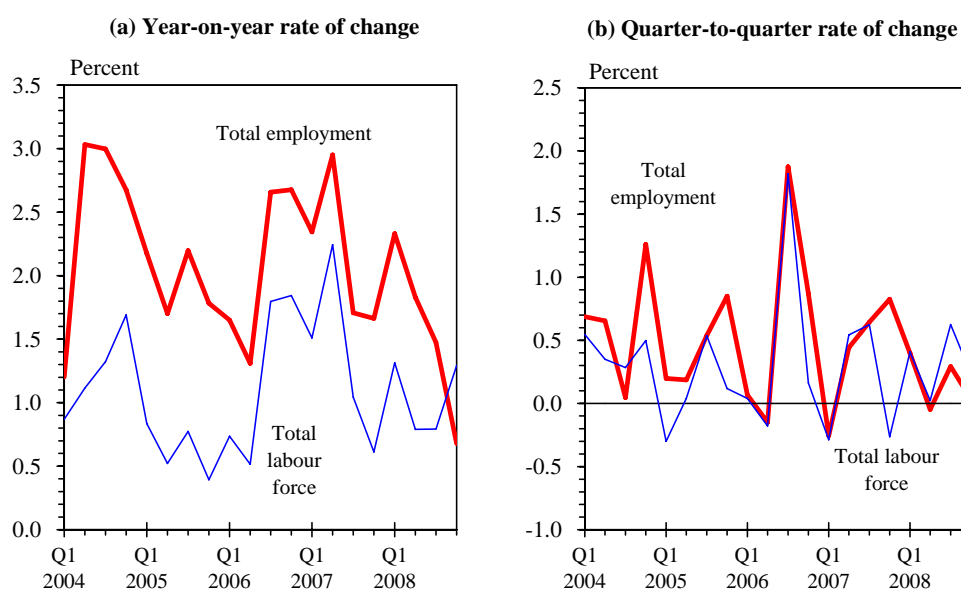
	<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed</u> <sup>(a)</sup>	<u>Persons underemployed</u>
2007 Annual	3 629 600 (1.6)	3 483 800 (2.4)	145 700	79 200
Q1	3 606 100 (1.5)	3 454 100 (2.3)	152 000	80 200
Q2	3 625 700 (2.2)	3 469 300 (3.0)	156 300	80 900
Q3	3 648 300 (1.0)	3 491 700 (1.7)	156 600	80 400
Q4	3 638 600 (0.6)	3 520 500 (1.7)	118 200	74 700
2008 Annual	3 667 600 (1.0)	3 538 700 (1.6)	128 900	68 600
Q1	3 653 500 (1.3)	3 534 500 (2.3)	119 000	70 500
Q2	3 654 300 (0.8)	3 532 800 (1.8)	121 500	67 800
Q3	3 677 200 (0.8)	3 543 100 (1.5)	134 000	66 300
Q4	3 685 700 (1.3)	3 544 300 (0.7)	141 300	69 800
	<0.2>	<*>		

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.  
 ( ) Year-on-year % change.  
 < > % change between Q3 and Q4.  
 \* Less than 0.05%.

Source : General Household Survey, Census and Statistics Department.



**Diagram 6.2 : While labour force growth was relatively stable, employment growth slowed over the course of 2008**

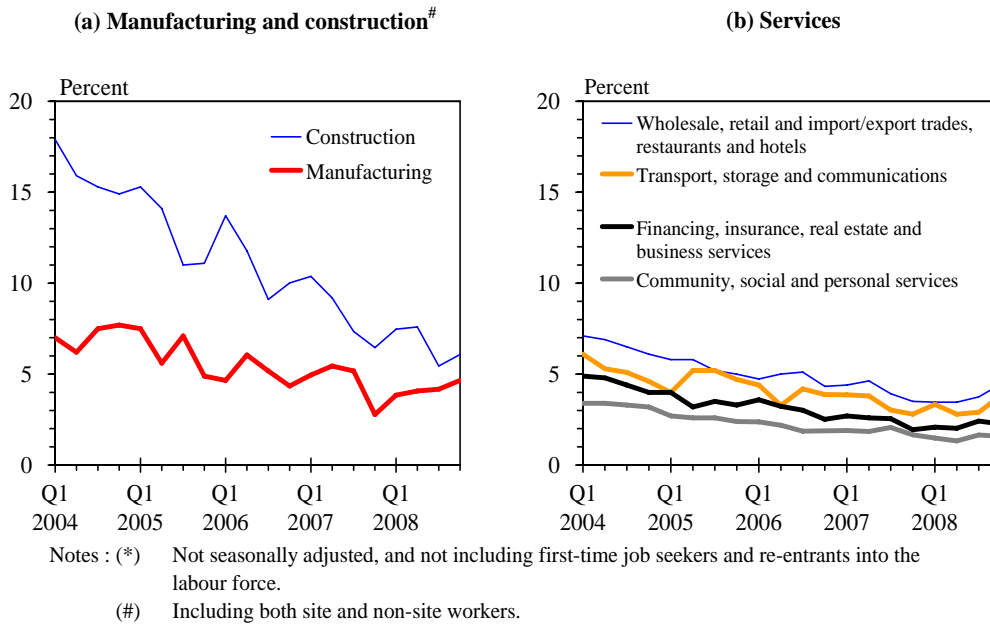


### Profile of unemployment

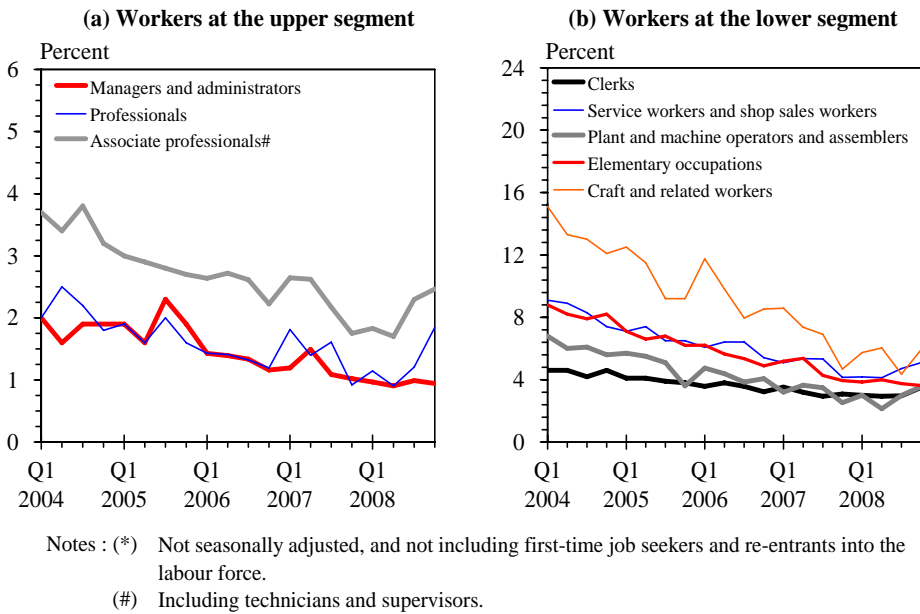
6.5 The overall unemployment situation as portrayed by the annual figures again remained broadly favourable, as borne out by the lower unemployment rate in 2008 than in 2007, at 3.5% as against 4.0%. The quarterly data, however, painted a less encouraging picture. Specifically, the numbers unemployed were on the increase for most of the year, reaching 141 300 by the year-end. The absolute numbers are however subject to the influence of seasonality.

6.6 After discounting the seasonal factor, the seasonally adjusted unemployment rate moved lower initially in 2008, basically extending the downtrend established since mid-2003. In the second quarter of 2008, the unemployment rate was down to 3.3%, markedly lower than 8.5% in the same quarter in 2003. The onset of the global financial tsunami since September 2008, however, led to a precipitous rise in the rate to 4.1% at the year-end. This upsurge occurred most visibly in the import/export trades, transport, retail, restaurants and hotels sectors (see **Box 6.1** for details), as well as among craft and related workers, professionals and clerks, persons in the age bracket of 15 - 39, and those with secondary education.

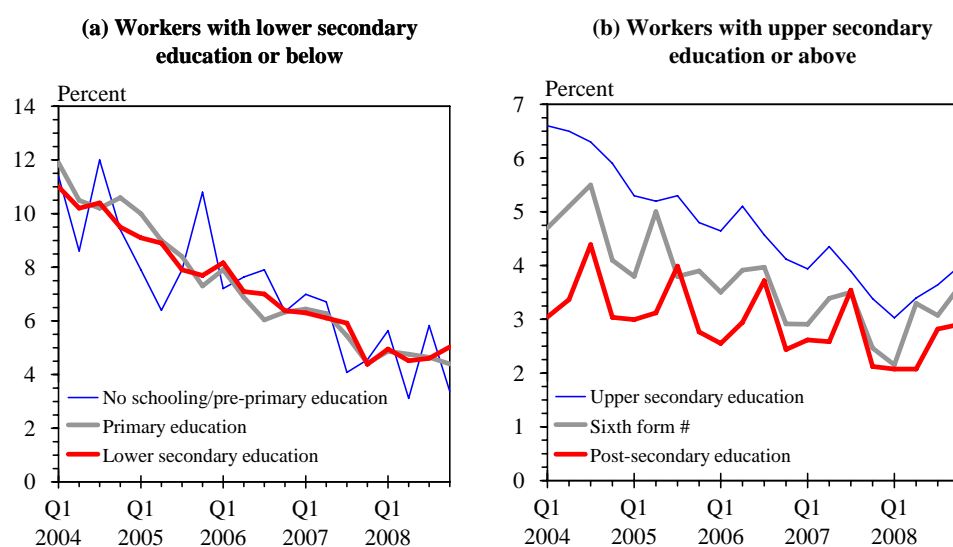
**Diagram 6.3 : Unemployment rate\* rose abruptly across almost all sectors in late 2008**



**Diagram 6.4 : Unemployment rate\* also increased extensively across most occupations in late 2008**



**Diagram 6.5 : Unemployment rates\* for workers with secondary education and above showed larger increases during the fourth quarter of 2008**



6.7 Meanwhile, the median duration of unemployment in 2008, at 66 days, was shortened from that in 2007, at 72 days. Also, the number of long-term unemployed (i.e. six months or longer) fell over the year to 27 200, with the long-term unemployment rate down to 0.7%, the lowest level since 1998. On the surface, these figures indicated lesser intensity of the unemployment problem over the past year, but the quarterly profile again pointed to a worsening in the unemployment situation during the final quarter. Furthermore, among those unemployed in the fourth quarter, 62% were found to have been dismissed or laid off, distinctly larger than the proportion of 54% in the third quarter.

### Profile of underemployment

6.8 In overall terms, the underemployment situation remained broadly stable. For 2008 as a whole, the underemployment rate averaged 1.9%, somewhat lower than 2.2% in 2007. As for the fourth quarter of these two years, the corresponding figures were similar at 1.9% and 2.1%.

6.9 On a quarter-to-quarter comparison, notable increases in underemployment rate were however observed in the sanitary services, construction and transport sectors during the fourth quarter of 2008. Analysed by economic sector, construction engaging a greater proportion of part-time and casual workers had the highest underemployment rate at 10.9%, followed by amusement and recreational services (3.2%), storage (3.1%), sanitary services (2.9%), transport (2.7%) and restaurants (2.2%).

## **Box 6.1**

### **Latest labour market conditions after the outbreak of financial tsunami**

The Hong Kong economy has been buffeted severely by the global financial tsunami since September 2008. Consequential to the slackened labour demand, the unemployment rate jumped by 0.9 of a percentage point in the aftermath of the turmoil to end the year at 4.1%, the highest level in 16 months. In response to this trying period, the Task Force on Economic Challenges (TFEC) has been established and chaired by the Chief Executive to continually monitor and assess the impact of the financial tsunami on the local and global markets. Four major sectors hard hit by the global financial turmoil were identified by TFEC, namely, trading and logistics, tourism and consumption-related services, real estate and construction, and financial services. This article analyses the labour market conditions of these four sectors.

#### **Trading and logistics sector**

The sector covers two major economic activities viz. trading and logistics. The former consists of the import/export and wholesale trades, while the latter includes freight transport, storage, postal and courier services. Taken together, trading and logistics account for as high as 24% (around 835 700) of the total workforce and 27% of GDP, reflecting Hong Kong's important position as a trading hub in the region.

With external demand sagging after the outbreak of the global financial turmoil, Hong Kong's total merchandise exports suffered a steeper decline of 11.4% in value terms in December 2008 over a year earlier, following a decline of 5.3% in November 2008. This led to a contraction of labour demand in the trading and logistics sector, as manifested by a reduction in employment of 12 100 or 1.4% between June - August and October - December. Concurrently, the respective unemployment rate soared from 2.5% to 3.6%, with a larger jump in that for lower-skilled workers from 3.4% to 4.9%.

#### **Tourism and consumption-related sector**

The tourism and consumption-related services sector comprises the retail trade, restaurants and hotels. It is a relatively labour-intensive sector, accounting for 16% (around 564 900) of the total employment but a mere 3.2% of GDP. Moreover, the sector has been rather sensitive to the cyclical ups and downs of the economy.

In 2008, the inbound tourism industry suffered a major setback towards the year-end, reflecting largely the negative effects of the global financial tsunami. On a year-on-year comparison, the number of visitor arrivals in November and December 2008 declined by 1.1% and 0.2% respectively, representing a sharp slowdown from the 11.6% leap in the year 2007. Coupled with weaker consumer spending, this led to a contraction in the volume of retail sales by 2.4% year-on-year in the fourth quarter 2008, reversing the uptrend seen during most of the preceding four years. Meanwhile, business receipts of the restaurants sector grew by only 2.6% in volume terms in the fourth quarter of 2008, markedly slower than the 6.6% in the third quarter. Consequently, the unemployment rate for the tourism and consumption-related services sector as a whole jumped from 4.5% in June - August to 5.8% in October - December. The increase was particularly noticeable among the lower-skilled workers, with the respective unemployment rate surging from 5.0% to 6.3%.

According to the Quarterly Business Tendency Survey for the first quarter of 2009, 80% of respondents in the accommodation and food services sector (mainly referring to restaurants and hotels) were found to have anticipated a further deterioration of business in the coming quarter. So, the prospects for the sector do not look promising in the near term.

## Box 6.1 (Cont'd)

Chart 1 : Trading and logistics sector

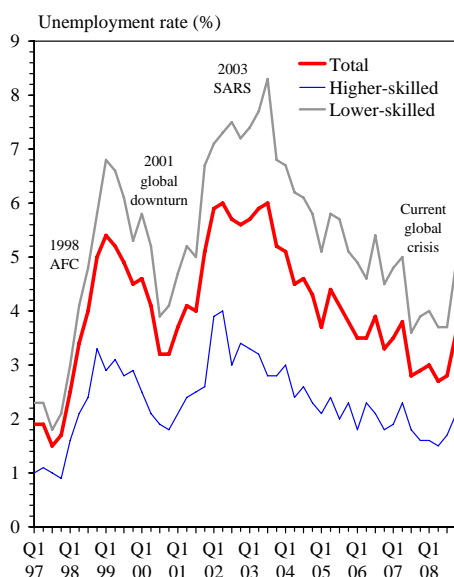
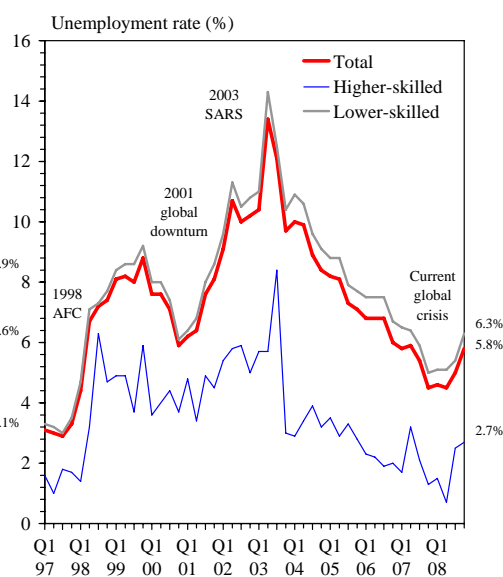


Chart 2 : Tourism and consumption-related sector



### Real estate and construction sector

The real estate and construction sector accounts for 12% (around 413 600) of the overall employment and 7% of GDP. For construction alone, performance has been sluggish throughout the past decade, apparently irrespective of the economic cycles. This was mainly due to the lack of sizeable infrastructure and property development projects during the period. Nevertheless, with the series of public sector infrastructure projects progressively coming on stream, this is expected to provide some boost to construction employment shortly.

As for real estate, the market quieted down considerably since mid-2008. Both property prices and transactions plummeted amid mounting concerns about the gloomy economic outlook and tightened bank mortgage policy. Residential prices went down by 12.1% in December 2008 over a year earlier, as did residential rentals by 10.5%. Employment in the real estate sector was reduced due to increased layoffs and downsizing among the real estate agents.

For the real estate and construction sector as a whole, the unemployment rate moved up to 5.1% in October - December 2008. Whereas a much higher rate was still observed for the lower-skilled workers at 6.1%, it was the higher-skilled workers (especially those engaged as property agents) that faced the sharpest rise in unemployment rate from 1.9% in June - August to 2.4% in October - December.

### Financial services sector

By comparison, the financial services sector is far less labour-intensive. This sector accounts for only 6% (around 199 400) of the total workforce but 16% of GDP, reflecting its high value-added contribution to the economy as well as the importance of Hong Kong as an international financial centre. The unemployment rate in the financial services sector declined slightly from 1.6% in June - August to 1.4% in October - December, but the unemployment rate for the higher-skilled workers actually rose from 1.3% to 1.6%. In absolute terms, there was a decrease in the sectoral employment by 11 400 or 5.4% since August. This was partly due to the staff retrenchment by some financial institutions in more recent months.

## Box 6.1 (Cont'd)

Chart 3 : Real estate and construction sector

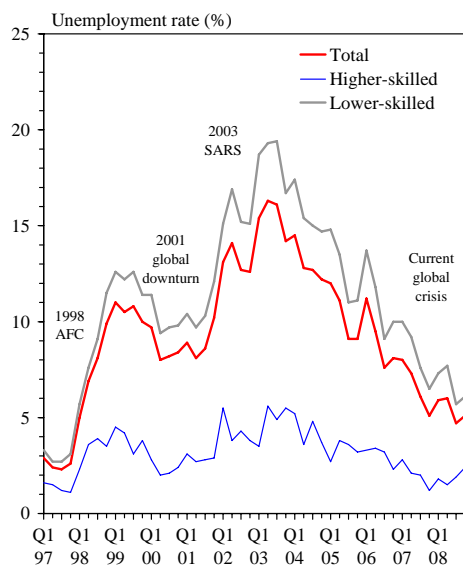
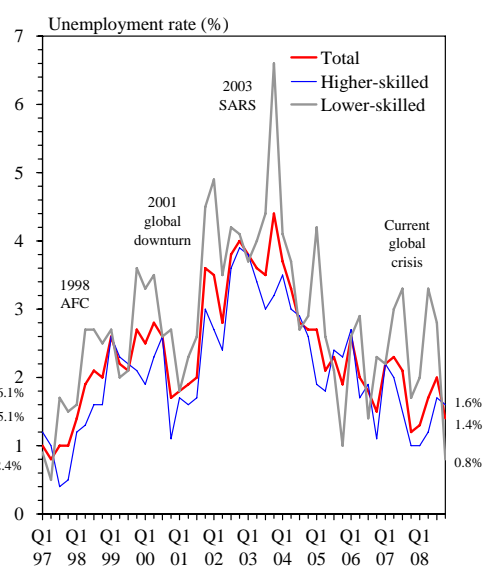


Chart 4 : Financial services sector



### Near term outlook

The general feedback from various business surveys and the statistics obtained thus far suggest that the aforementioned sectors are likely to face a difficult year ahead. It is however difficult to assess precisely at this juncture the impact of the global financial tsunami on employment in these sectors. Much will depend on the severity and duration of downward adjustment in the global and local economies. In any event, it is the Government's priority to preserve employment and prevent job loss by supporting enterprises to withstand the economic challenges ahead. Thus, additional measures have been introduced recently to enhance the support for small and medium enterprises (SMEs) as well as to stimulate the general economy. Also, increased public sector resources have been put into the community to create more job opportunities. Specifically, the Chief Executive announced a package of measures in December 2008, which aimed to provide over 60 000 new jobs in 2009-10. In January 2009, the Chief Executive further announced a series of measures to cope with the expected wave of staff layoffs and company closures after the Lunar New Year, and to assist school-leavers who will be entering the labour market in the middle of 2009. These measures should help ease the negative impact of the economic recession on the labour market.

## Profile of employment in establishments

6.10 The quarterly statistics collected from private sector establishments on employment, vacancies and wages are available after a longer time lag, with the latest figures being up to September 2008 only. Most of these figures therefore have yet to fully reflect the adverse impact of the global financial tsunami. This notwithstanding, attempts have been made where appropriate to bring the analysis more up-to-date, based on the information available from supplementary sources.

6.11 Comparing September 2008 with a year earlier, total employment in *private sector establishments* went up by 2.2%, little changed from the 2.1% growth in June. In terms of economic sectors, notable employment gains were seen in storage and communications (up 5.6%); financing, insurance, real estate and business services (4.7%); and water and air transport services (4.2%), more than offsetting the job losses in manufacturing (down 3.0%); construction sites<sup>(5)</sup> (2.1%) and the wholesale trade (1.8%). It should be noted that these gains were attained against the robust economic conditions prevailing then. In terms of establishment size, larger enterprises continued to be a more important source of job creation than small and medium-sized enterprises (SMEs)<sup>(6)</sup>, with the former contributing to 72% of the total new jobs created in the private sector. As regards the civil service, the number of employees rose by 0.4% in September 2008 over a year earlier to 154 300. This reversed the general declining trend seen in the past several years.

**Table 6.2 : Employment by major economic sector**

	2007					2008		
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>
Wholesale, import and export trades	587 600 (0.7)	587 500 (1.1)	588 200 (1.1)	586 500 (0.4)	588 200 (0.3)	587 200 (-0.1)	587 000 (-0.2)	583 500 (-0.5)
Retail trade	232 900 (2.0)	229 100 (1.4)	232 600 (1.5)	233 100 (2.0)	236 800 (3.2)	236 800 (3.3)	239 800 (3.1)	241 100 (3.4)
Restaurants and hotels	235 100 (3.8)	231 700 (4.4)	232 500 (3.0)	237 300 (4.9)	238 900 (3.1)	236 800 (2.2)	239 200 (2.9)	243 300 (2.5)
Transport and storage	159 500 (2.4)	155 900 (1.2)	160 100 (3.1)	160 000 (2.5)	162 000 (2.9)	163 500 (4.9)	165 400 (3.3)	164 900 (3.1)
Communications	29 900 (1.3)	30 300 (0.8)	30 100 (2.7)	29 800 (1.1)	29 600 (0.6)	30 500 (0.7)	30 700 (1.9)	31 300 (5.0)
Financing, insurance, real estate and business services	505 400 (5.5)	492 000 (5.1)	503 200 (5.7)	509 300 (6.0)	517 300 (5.2)	523 700 (6.4)	528 500 (5.0)	533 000 (4.7)
Community, social and personal services	466 600 (2.6)	464 200 (2.9)	467 900 (3.6)	465 400 (2.2)	469 100 (1.8)	477 200 (2.8)	480 500 (2.7)	484 500 (4.1)
Manufacturing	157 000 (-2.2)	158 700 (-1.7)	157 300 (-2.3)	156 000 (-2.6)	156 000 (-2.0)	153 100 (-3.6)	152 200 (-3.2)	151 200 (-3.0)
Building and construction sites	50 200 (-5.1)	50 400 (-8.3)	51 100 (-2.2)	49 200 (-7.7)	50 100 (-1.8)	50 500 (0.3)	49 600 (-3.0)	48 100 (-2.1)
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	2 432 300 (2.3)	2 407 800 (2.1)	2 430 900 (2.6)	2 434 500 (2.2)	2 455 900 (2.1)	2 467 200 (2.5)	2 480 800 (2.1)	2 488 900 (2.2)
		<0.4>	<0.8>	<0.4>	<0.6>	<0.7>	<0.4>	<0.6>
<i>Civil service<sup>(b)</sup></i>	153 800 (-0.4)	153 800 (-0.8)	153 700 (-0.5)	153 800 (-0.2)	153 900 (*)	153 500 (-0.2)	153 700 (*)	154 300 (0.4)

Notes : Employment figures enumerated from business establishments, as obtained from the Quarterly Survey of Employment and Vacancies, are somewhat different from those enumerated from households, as obtained from the General Household Survey. This is mainly due to difference in sectoral coverage: while the former survey covers selected major sectors, the latter survey covers all sectors in the economy.

(a) The total figures on private sector employment cover also employment in mining and quarrying and in electricity and gas supply, besides employment in the major sectors indicated above.

(b) These figures cover only those employed on civil service terms of appointment. Judges, judicial officers, ICAC officers, locally engaged staff working in Hong Kong Economic and Trade Offices abroad, and other Government employees such as non-civil service contract staff are not included.

( ) % change over a year earlier.

< > Seasonally adjusted quarter-to-quarter % change.

(\*) Less than 0.05%.

Sources : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.  
Quarterly Employment Survey of Construction Sites, Census and Statistics Department.



## **Vacancies**

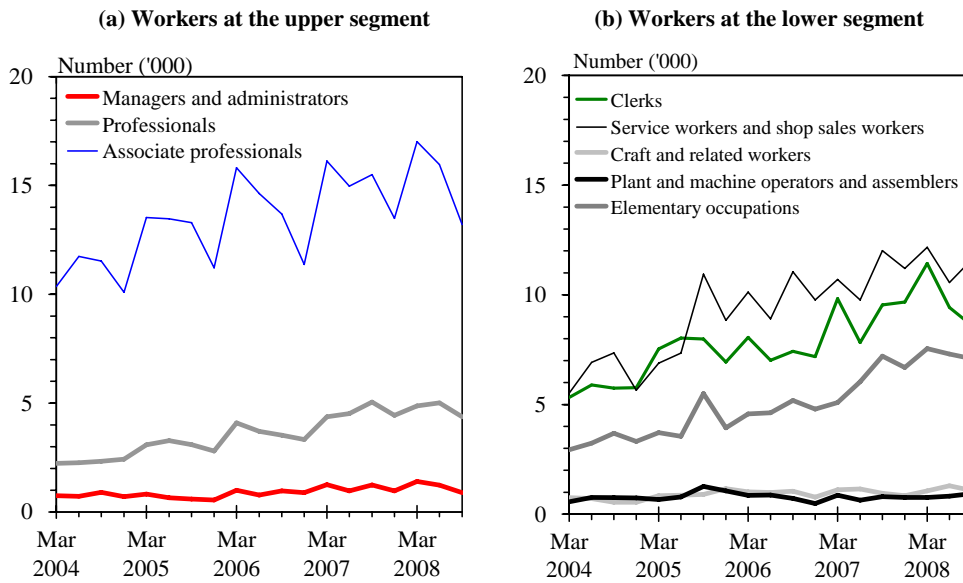
6.12 Relative to the employment data, the vacancy figures tend to be more sensitive to the evolving economic and labour market situation. Past experience showed that at the early stage of an economic downturn, employers generally had a greater tendency to cut back on job vacancies than to trim head-counts. So, in stark contrast to the employment uptrend, job vacancies in private sector establishments were slashed by 8.7% year-on-year to 47 800 in September 2008. While vacancies were cut almost across-the-board, larger decreases were observed in restaurants and hotels (down 19.3%), the wholesale and import/export trades (16.8%), and financing, insurance, real estate and business services (16.5%).

6.13 Analysed by occupation category, the reduction in vacancies was more noticeable among higher-skilled workers (down 15.3%) than lower-skilled ones (4.0%). This was hardly surprising as the financing, insurance and real estate and the import/export trade sectors with a larger proportion of higher-skilled employees had been hardest hit by the global financial turmoil. In terms of size of establishment, vacancies at SMEs were reduced by a greater magnitude (down 10.8%) than those at large enterprises (6.6%).

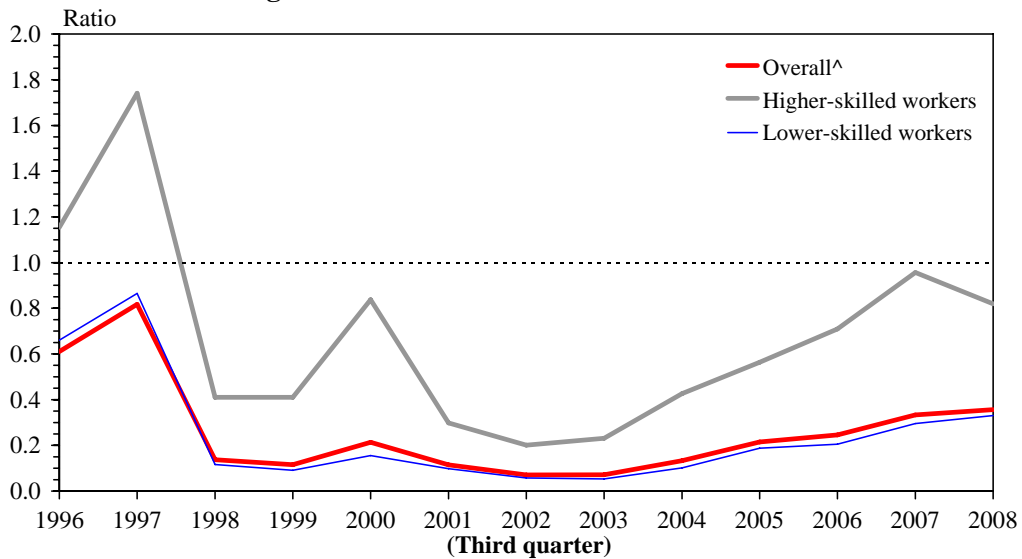
6.14 In a similar vein, the vacancy rate moved down to 1.9% in September 2008, from 2.0% in June. The decrease was most apparent in such sectors as financing, insurance, real estate and business services (from 2.6% to 2.3%), manufacturing (from 1.5% to 1.2%), and the wholesale and import/export trades (from 1.5% to 1.2%).

6.15 As regards the civil service, the total number of vacancies in September 2008 was 5 500, up markedly by 82% over a year earlier. This was partly due to the new posts created in 2008-09 and the complete fade-out of open recruitment freezes. Consequential to the Government's efforts to expedite and advance the recruitment of civil servants, the filling of vacancies in the civil service can be expected to speed up in the year to come.

**Diagram 6.6 : Vacancies in most occupations were slashed in the latter part of 2008**



**Diagram 6.7: While vacancy ratio\* continued to increase in overall terms, that for higher-skilled workers reverted to a decrease in 2008**



Notes: (\*) The vacancy ratio refers to the ratio of vacancies to unemployed persons.  
 (^) Including first-time job seekers and re-entrants into the labour force.

**Table 6.3 : Vacancies by major economic sector**

	<u>Number of vacancies</u>								Vacancy rate in Sep 2008 (%)
	<u>Annual average</u>	<u>2007</u>			<u>2008</u>				
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	
Wholesale, import and export trades	9 100 (9.2)	10 400 (-1.8)	9 000 (8.6)	8 800 (13.5)	8 300 (21.9)	9 900 (-4.3)	9 000 (-0.9)	7 300 (-16.8)	1.2
Retail trade	4 700 (9.7)	5 100 (5.5)	4 200 (10.3)	5 100 (17.3)	4 500 (6.0)	5 900 (15.3)	5 400 (27.6)	5 600 (9.8)	2.3
Restaurants and hotels	5 200 (24.0)	4 300 (6.8)	4 500 (12.7)	6 600 (31.5)	5 300 (44.8)	5 300 (25.2)	5 300 (19.5)	5 300 (-19.3)	2.1
Transport and storage	2 200 (13.9)	2 200 (7.1)	2 200 (-0.4)	2 300 (26.3)	2 200 (27.0)	2 400 (12.4)	2 000 (-7.5)	2 000 (-14.2)	1.2
Communications	800 (13.7)	800 (3.0)	800 (-3.8)	1 000 (51.9)	800 (9.3)	900 (17.8)	900 (10.3)	700 (-27.8)	2.3
Financing, insurance, real estate and business services	14 100 (14.5)	14 600 (7.7)	13 700 (11.8)	14 800 (16.2)	13 000 (24.6)	15 700 (7.5)	14 100 (2.6)	12 400 (-16.5)	2.3
Community, social and personal services	10 600 (23.3)	9 600 (22.3)	9 500 (16.6)	11 400 (23.6)	12 000 (29.9)	13 700 (42.1)	12 600 (33.4)	12 500 (9.2)	2.5
Manufacturing	2 100 (11.4)	2 400 (23.3)	2 000 (-1.6)	2 100 (11.7)	1 900 (12.8)	2 300 (-2.3)	2 300 (15.5)	1 800 (-15.2)	1.2
Building and construction sites	# (137.5)	# (660.0)	# (77.8)	# (160.0)	# (-6.3)	# (*)	# (87.5)	# (57.7)	0.1
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	<i>48 900 (15.5)</i>	<i>49 300 (8.3)</i>	<i>45 900 (10.5)</i>	<i>52 300 (19.9)</i>	<i>48 100 (24.6)</i>	<i>56 200 (14.0)</i>	<i>51 600 (12.5)</i>	<i>47 800 (-8.7)</i>	<i>1.9</i>
<i>Civil service<sup>(b)</sup></i>	<i>2 500 (*)</i>	<i>1 200 (-55.0)</i>	<i>3 200 (27.0)</i>	<i>3 000 (6.0)</i>	<i>2 700 (28.1)</i>	<i>5 500 (366.2)</i>	<i>6 200 (94.4)</i>	<i>5 500 (81.6)</i>	<i>3.5</i>

Notes : Vacancy rate refers to the ratio of vacancies to total employment opportunities (actual employment plus vacancies).

(a) The total figures on private sector vacancies cover also vacancies in mining and quarrying and in electricity and gas supply, besides vacancies in the major sectors indicated above.

(b) These figures cover only vacancies for those staff to be employed on civil service terms of appointment. A general open recruitment freeze to the civil service was imposed during the period from 1 April 2003 to 31 March 2007. The civil service vacancies during this period refer only to the number of vacant posts for which exemptions from open recruitment freeze have been granted.

( ) % change over a year earlier.

< > Seasonally adjusted quarter-to-quarter % change.

(#) Less than 50.

(\*) Less than 0.05%.

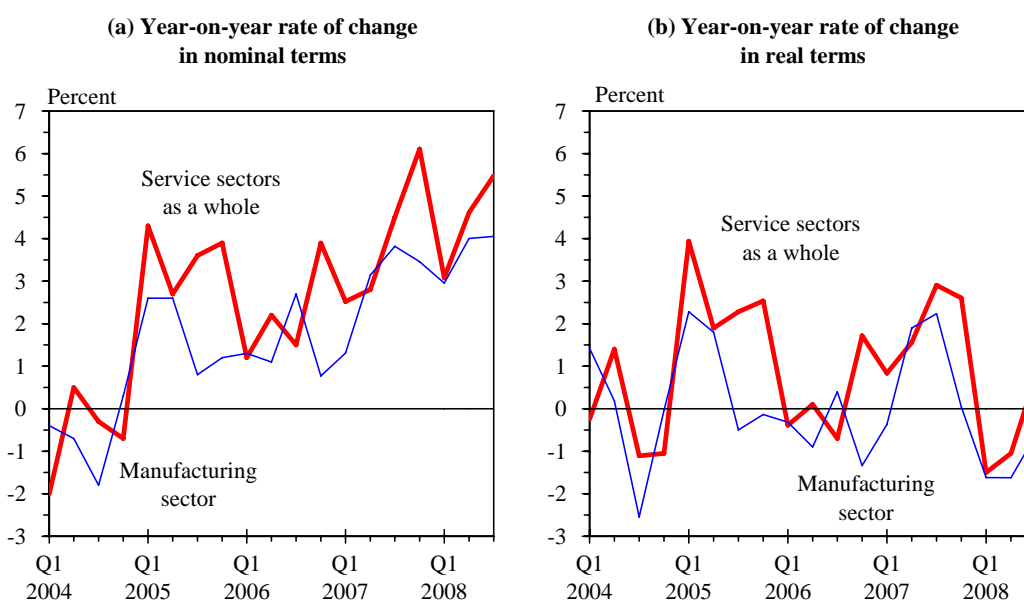
Sources : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.  
Quarterly Employment Survey of Construction Sites, Census and Statistics Department.

## Earnings and wages

6.16 *Labour earnings*<sup>(7)</sup>, as measured by payroll per person engaged in the private sector, rose by 5.2% in nominal terms in the third quarter of 2008 over a year earlier, in tandem with the robust economic performance and tight labour market prevailing then. However, after adjusting for the inflation, the increase was only 0.5% in real terms<sup>(8)</sup>. Taking the first three quarters of 2008 together, labour earnings were up by 4.2% in nominal terms, albeit down by 0.7% in real terms.

6.17 While nominal earnings showed an extensive increase both across sectors and occupations, the extent of pay rise varied, largely reflecting the different manpower demand and supply situation confronting those segments. In particular, workers in financial institutions had the largest upward adjustment in earnings in the first three quarters of 2008, by 12.4% year-on-year in nominal terms. A solid increase was also seen among workers in the wholesale, retail and import/export trades sector (up 4.7%).

**Diagram 6.8 : Nominal earnings remained on an uptrend in the third quarter of 2008 amid the still favourable labour market conditions prevailing then**



6.18 *Labour wages*, as a measure of regular payment to employees at the supervisory level or below, moved up by 3.9% in nominal terms (or 0.7% in real terms) in the first nine months of 2008 over a year earlier. Over the same period, the increase in nominal wages was more notable in the wholesale, retail and import/export trades (up 4.7%); financing, insurance, real estate and business services (4.5%), and restaurants and hotels (3.5%). In terms of occupation categories, operatives, clerical and secretarial workers, and

supervisory and technical workers were the ones enjoying larger wage hikes, by 4.8%, 4.5% and 4.4% respectively.

6.19 Latest statistics collected from the General Household Survey, though not strictly comparable to those gathered from business establishments, revealed that in the fourth quarter of 2008, the overall average monthly employment earnings<sup>(9)</sup> of employed persons (excluding foreign domestic helpers) rose by 0.3% over a year earlier, markedly moderating from the 4.8% rise in the third quarter. Earnings growth for the higher-skilled workers actually turned to negative 1.6% in the fourth quarter, as compared with the 5.1% gain in the previous quarter. In particular, more noticeable drops in earnings were observed among workers engaged in the upper segment in the financing, insurance, real estate and business services sector (down 4.7%) and the transport, storage and communications sector (4.1%) which were badly hit by the financial tsunami at that time. On the other hand, lower-skilled workers still recorded moderate earnings growth at 3.2%, as compared to the 3.5% rise in the preceding quarter.

### **Government policy measures to promote employment**

6.20 The Government's current priority is to preserve employment and support enterprises so that layoffs and business closures can be reduced. In addition to the facilitating measures to support SMEs throughout the year, a package of measures was announced in December 2008, which aimed at providing over 60 000 new jobs in 2009 to 2010, through expediting major and minor infrastructure projects, advancing the recruitment of civil servants and creating temporary positions. In January 2009, the Chief Executive proclaimed additional measures to promote employment. These included, in particular, creating additional research assistant and tutorship positions in universities; and internship opportunities (both in Hong Kong and on the Mainland) for university graduates. In parallel, the Special Loan Guarantee Scheme was introduced to facilitate local businesses to acquire the liquidity required to ride through the economic turmoil. These measures would help mitigate the negative impacts of the economic downturn brought about by the global financial tsunami.

6.21 In addition to regular employment and placement services, the Labour Department has organised large-scale and mini-job fairs at different locations to respond speedily to the recruitment needs of employers and offer convenient services to job seekers. In 2008, ten large-scale and 197 mini-job fairs were organised. The large-scale job fairs, making available about 16 000 vacancies,

were attended by over 22 000 job seekers while the mini-job fairs attracted some 25 400 job seekers. On youth employment, the Labour Department has pressed ahead with its Youth Pre-employment Training Programme and Youth Work Experience and Training Scheme. It has also set up two youth employment resources centres to enhance the employability of young people and facilitate their sustainable development in both employment and self-employment. Meanwhile, the Government has stepped up training and retraining efforts to help enhance the employability of the local workforce. The Employees Retraining Board has relaxed the eligibility criteria for the Employees Retraining Scheme to cover young people aged between 15 and 29 and people with education level at sub-degree or below with effect from December 2007.

6.22 Furthermore, the Government is striving for early implementation of infrastructure projects in 2009, including those major projects as announced in the 2007-08 Policy Address and minor works projects. These would help to provide additional employment opportunities for local workers, particularly those in the building and construction sector.

### **Notes :**

- (1) For a person aged 15 or above to be classified as unemployed, he or she should: (a) not have a job and not be performing any work for pay or profit during the reference period (i.e. seven days before enumeration); and (b) be available for work during the reference period; and (c) be seeking work during the 30 days before enumeration.

Notwithstanding the above, the following types of persons are also considered unemployed: (a) persons without a job, having sought work but not available for work because of temporary sickness; (b) persons without a job, available for work but not having sought work because they will take up new jobs or start business at a subsequent date, or expect to return to their original jobs; and (c) discouraged workers not having sought work because they believe work is not available to them.

Even at full employment, some frictional unemployment is bound to exist as workers move between jobs in order to obtain better terms of employment. The precise level of unemployment which can be described as purely frictional varies amongst economies, depending on the structure and characteristics of their labour markets.

Starting from May 2008, the seasonally adjusted unemployment rate is compiled by the X-12 ARIMA method to replace the previous X-11 ARIMA method. The seasonally adjusted unemployment rates since November 2006 – January 2007 have also been revised using the new method. The X-12 ARIMA method, being an update to the X11-ARIMA method, has now been a standard method used by statistical offices for performing seasonal adjustment of statistical series in many countries/territories. Since the two seasonal adjustment methods are indeed very similar, the revision made to the seasonally adjusted unemployment rate series due to the use of the new method is insignificant.

- (2) The main criteria for an employed person aged 15 or above to be classified as underemployed are: involuntarily working less than 35 hours during the reference period (i.e. seven days before enumeration), and either available for additional work during the reference period or seeking additional work during the 30 days before enumeration.

Following these criteria, employed persons taking no-pay leave due to slack work during the reference period are also classified as underemployed if they had worked less than 35 hours or were on leave for the entire reference period.

- (3) Figures enumerated from household data. The employed population is defined here to include those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (4) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (5) Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector actually decreased by 2.2% in 2008.

Employment for the construction sector as a whole is enumerated from the General Household Survey carried out by the Census and Statistics Department. Apart from site workers, it also includes non-site workers engaged in minor alteration and addition, repair, maintenance and interior decoration work on existing buildings. In addition, it includes professionals, administrative and other support personnel engaged in that sector, such as engineers, architects, surveyors and contract managers, as well as general clerical staff.

- (6) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as small and medium-sized enterprises (SMEs) in Hong Kong. Yet, establishments with the same main business registration number (BRN) and engaging in activities of the same industry sector are grouped into one business unit for the purpose of calculating the number of SMEs. Thus, a business with a lot of small chain stores each employing a small number of employees will be considered as a single large enterprise, instead of separate SMEs.
- (7) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (8) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the

middle to lower income groups, is taken as the price deflator for wages in respect of workers in occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.

- (9) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.



## CHAPTER 7 : PRICES

### *Summary*

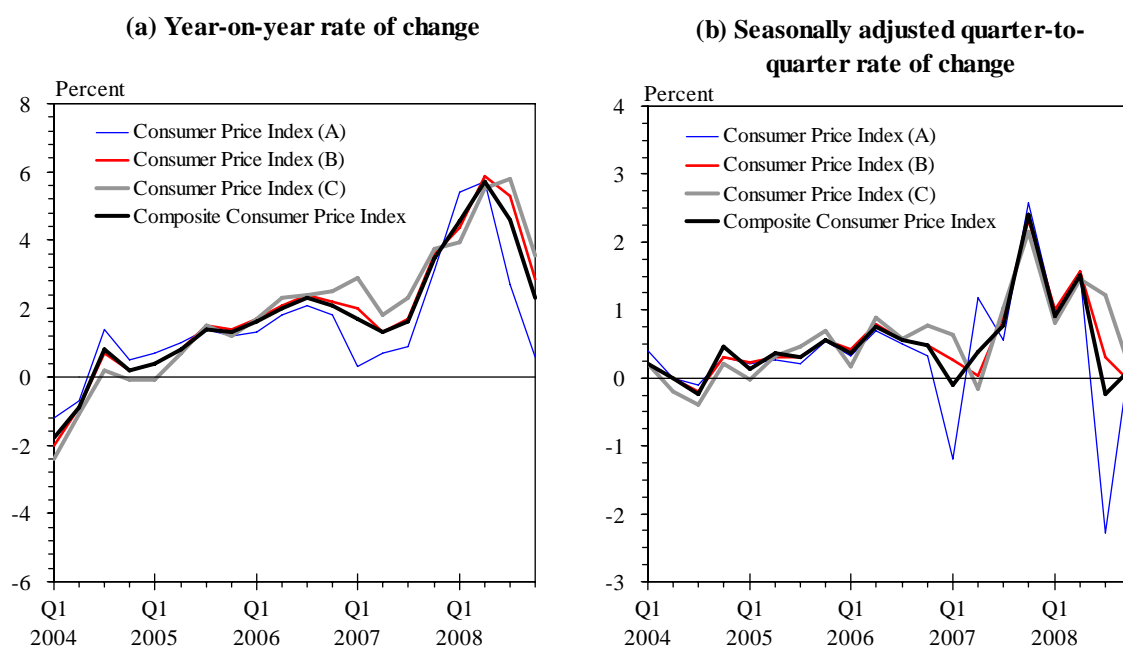
- *Global inflationary pressures rekindled notably in the first half of 2008, driven by the surges in commodity prices, especially food and energy prices, in the international markets. Yet with the retreat of commodity prices since mid-2008 and the deepening global economic downturn due to the escalation of the financial crisis, global inflationary pressures receded quickly towards the end of the year. Inflation in Hong Kong showed largely similar developments during the year.*
- *Consumer price inflation peaked in July 2008 before coming down in the ensuing months. For 2008 as a whole, the headline Composite Consumer Price Index increased by 4.3%, faster than the 2.0% increase in 2007. The rise in private housing rentals, as well as higher imported inflation amid the upsurge in food and energy prices and weaker US dollar, especially in the first half of 2008, largely accounted for the elevated inflationary pressures.*
- *The Government introduced various relief measures in 2008 to mitigate the impacts of higher inflation on the community, especially the lower income and the underprivileged groups. These measures successfully lowered the headline inflation. Netting out the effects of these one-off measures, the underlying inflation rate averaged at 5.6% in 2008, up from 2.8% in 2007.*
- *Local business cost crept up somewhat in 2008 as wages and commercial rentals enjoyed increases along with the brisk economic developments over the past few years. Yet, the improvement in labour productivity during most of 2008 helped keep the rise in unit labour cost in check. The increase in rental costs was also dampened towards the end of the year amid the weaker demand conditions.*
- *Looking ahead, with the international commodity prices retreating, US dollar displaying strength, and business conditions slackening, inflationary pressures will continue to recede. Consumer price inflation is expected to come down further over the course of 2009.*

## Consumer prices

7.1 Inflation was a global concern during most of 2008. The surges in food and energy prices, as well as the tightening capacity constraints brought about by strong economic growth in the past several years, had driven inflation in many economies to the highest seen in the last decade.<sup>(1)</sup> As a small open economy, price pressures in Hong Kong generally followed the global trend. The *Composite Consumer Price Index*<sup>(2)</sup> (Composite CPI) increased by 4.3% in 2008, markedly faster than the 2.0% recorded in both 2006 and 2007.

7.2 To mitigate the impacts of inflation, in particular high food prices on the underprivileged and lower-income groups, the Government had introduced various relief measures, including, among others, Government's payment of public housing rentals, rates concession and subsidy of household electricity charges. Taking out the effects of the one-off measures, the underlying consumer price inflation in 2008 was 5.6%, likewise faster than the 2.8% increase in 2007.

**Diagram 7.1 : Consumer price inflation came down notably towards the end of 2008**



**Table 7.1 : Consumer Price Indices**  
(year-on-year rate of change (%))

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>	
		<u>Underlying<sup>(a)</sup></u>	<u>Headline</u>				
2007	Annual	2.8	2.0	1.3	2.2	2.7	
	H1	2.4	1.5	0.5	1.7	2.3	
	H2	3.1	2.5	2.0	2.7	3.0	
	Q1	2.5	1.7 (-0.1)	0.3 (-1.2)	2.0 (0.3)	2.9 (0.6)	
	Q2	2.4	1.3 (0.4)	0.7 (1.2)	1.3 (*)	1.8 (-0.2)	
	Q3	2.7	1.6 (0.8)	0.9 (0.6)	1.7 (0.9)	2.3 (1.0)	
	Q4	3.5	3.5 (2.4)	3.1 (2.6)	3.6 (2.3)	3.7 (2.2)	
	2008	Annual	5.6	4.3	3.6	4.6	4.7
		H1	5.3	5.1	5.6	5.1	4.7
		H2	5.8	3.5	1.6	4.1	4.7
Q1		4.9	4.6 (0.9)	5.4 (1.0)	4.3 (1.0)	3.9 (0.8)	
Q2		5.7	5.7 (1.5)	5.7 (1.5)	5.9 (1.6)	5.5 (1.4)	
Q3		6.3	4.6 (-0.2)	2.7 (-2.3)	5.3 (0.3)	5.8 (1.2)	
Q4		5.4	2.3 (0.1)	0.6 (0.4)	2.9 (-0.1)	3.6 (0.1)	

Notes : (a) The underlying consumer price inflation rates are calculated by netting out the effects of all relevant one-off measures, including the lower base effect of public housing rental waiver in February 2007, rates concession in the second and third quarters of 2007 and in 2008, Government's payment of public housing rentals for August to October 2008, five-years' suspension of Employees Retraining Levy as from August 2008, and subsidies for household electricity charges as from September 2008.

Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

(\*) Change of less than 0.05%.

7.3 The two major components that accounted for the escalated consumer prices in 2008 were food and private housing rentals. Food inflation was a global phenomenon in 2008, as indicated by IMF's world food price index, which surged by an average of 23.4% over 2007. The food component in Hong Kong's Composite CPI increased by 10.1% in 2008, comprising a 5.9% increase in the prices of meals bought away from home and a 16.8% increase in prices of basic foodstuffs. Reflecting the vibrancy of the property market in 2007 and in the first half of 2008, private housing rentals in the Composite CPI continued to pick up during most of 2008, with an average increase of 6.8% for 2008 as a whole. On the other hand, public housing rentals were markedly

down by 27.2% in 2008, mainly due to the Government's relief measure on public housing rentals for lower-income households. Government's subsidy on household electricity charges also led to a fall in the price index for electricity, gas and water. Prices of durable goods continued to fall while those of clothing and footwear; miscellaneous services as well as alcoholic drinks and tobacco remained subdued. Prices of transport were up, mainly reflecting the higher fuel costs in most part of the year. The increases in import prices of consumer goods largely fed through into higher prices of miscellaneous goods.

**Table 7.2 : Composite Consumer Price Index by component  
(year-on-year rate of change (%))**

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2007</u>	<u>2008</u>	<u>Q1</u>	<u>2008</u>		
					<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Food	26.94	4.3	10.1	10.0	11.2	10.6	8.8
<i>Meals bought away from home</i>	16.86	2.5	5.9	5.4	6.3	6.4	5.6
<i>Other foodstuffs</i>	10.08	7.1	16.8	17.4	19.2	17.2	13.8
Housing <sup>(a)</sup>	29.17	2.0	4.1	3.9	5.9	3.9	2.7
<i>Private dwellings</i>	23.93	4.0	6.8	3.5	8.0	9.5	6.4
<i>Public dwellings</i>	2.49	-17.7	-27.2	14.4	-13.0	-63.6	-39.5
Electricity, gas and water	3.59	-0.7	-6.5	7.2	7.7	-5.3	-34.9
Alcoholic drinks and tobacco	0.87	-1.2	0.1	0.5	0.6	-0.2	-0.6
Clothing and footwear	3.91	4.1	0.8	1.6	1.6	0.7	-0.5
Durable goods	5.50	-4.7	-2.0	-3.5	-2.3	-1.0	-1.1
Miscellaneous goods	4.78	2.5	5.0	4.6	5.3	5.6	4.7
Transport	9.09	-0.1	2.5	1.3	2.5	4.0	2.1
Miscellaneous services	16.15	1.7	0.8	1.3	1.2	0.8	-0.3
All items	100.00	2.0	4.3	4.6	5.7	4.6	2.3

Note : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings is slightly less than the weighting of the entire housing component.

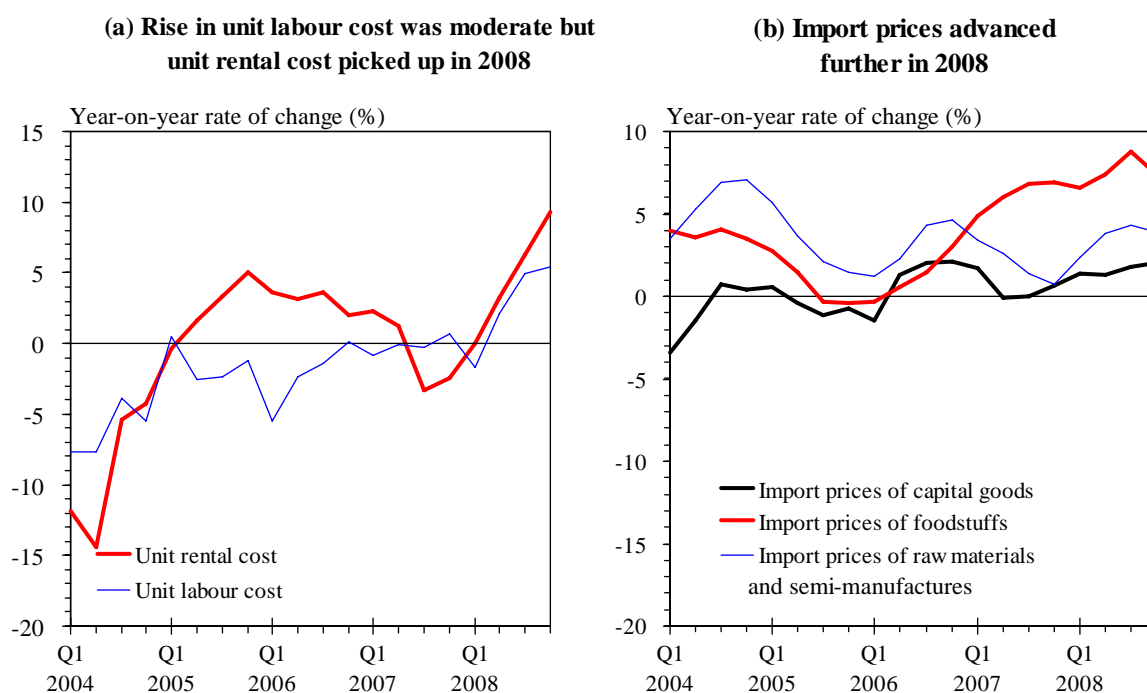
7.4 Inflationary pressures diminished notably towards the end of 2008. Underlying consumer price inflation came down from 6.3% in the third quarter of 2008 to 5.4% in the fourth quarter. Looking ahead, commodity prices in the

international markets will still be contained, as global demand is likely to remain weak amid the deepening global economic downturn. This, coupled with the strengthening of the US dollar, will reduce the upside risks to imported inflation. Domestically, inflationary pressures should likewise fall off significantly in 2009 as the economy slows down amidst the global recession.

## Costs of factor inputs and import prices

7.5 Wages and commercial rentals went higher in 2008, leading to some upward pressures on business costs during most of the year. Nevertheless, the increase in *unit labour cost*<sup>(3)</sup> was generally rather moderate, thanks to the improvement in labour productivity during most of 2008. However, unit rental costs went up more notably as commercial rentals rose at a faster pace than business turnovers. Although commercial rentals eased somewhat towards the end of the year, business volume also declined amid the economic downturn.

**Diagram 7.2 : Costs of factor inputs and import prices**



7.6 On the external front, import prices accelerated in 2008, amid the stronger global inflationary pressures in the first half of the year and the earlier weakness of the Hong Kong dollar. In tandem with the global trend of crude oil prices, import prices of fuels continued to surge through the first three quarters of 2008 before retreating sharply in the fourth quarter. Import prices of foodstuffs remained elevated throughout 2008, reflecting the earlier hike in global food prices and, to a lesser extent, the earlier weakness of the Hong Kong dollar. Increases in import prices of consumer goods and raw materials

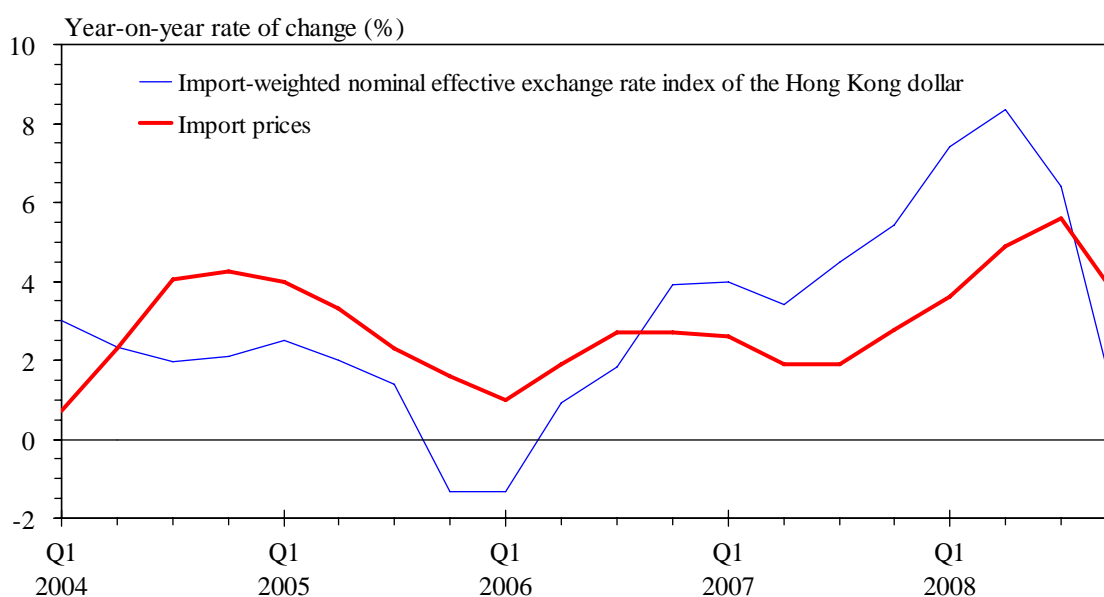
were relatively moderate, yet still higher than the rises recorded in 2007. Import prices of capital goods showed a modest increase.

**Table 7.3 : Prices of imports by end-use category  
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2007	Annual	6.2	3.3	2.0	11.2	0.5	2.3
	H1	5.4	2.8	3.0	0.3	0.7	2.2
	H2	6.9	3.7	1.1	22.2	0.3	2.3
	Q1	4.9	2.3	3.4	1.9	1.7	2.6
	Q2	6.0	3.2	2.6	-2.0	-0.1	1.9
	Q3	6.8	3.4	1.4	7.9	*	1.9
	Q4	6.9	4.0	0.7	37.1	0.7	2.8
	2008	Annual	7.5	4.8	3.6	33.0	1.6
H1		7.0	3.9	3.1	51.2	1.3	4.3
H2		8.0	5.8	4.1	18.1	1.9	4.6
Q1		6.6	3.7	2.3	41.5	1.4	3.6
Q2		7.4	4.1	3.8	59.3	1.3	4.9
Q3		8.8	6.1	4.3	49.0	1.8	5.6
Q4		7.4	5.6	3.9	-7.6	2.0	3.6

Note : (\*) Change of less than 0.05%

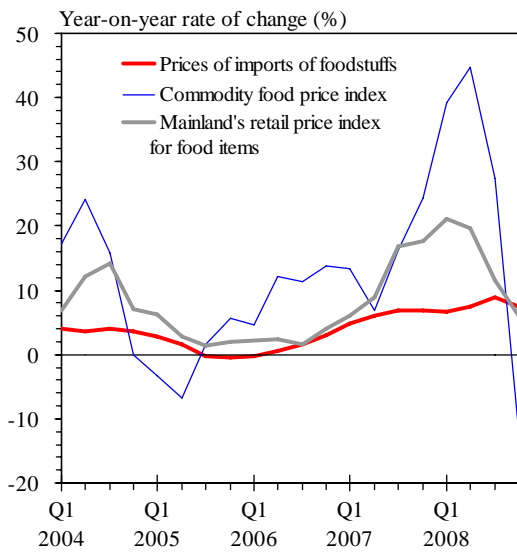
**Diagram 7.3 : Import prices rose further but Hong Kong dollar rebounded along with the US dollar since the second half of 2008**



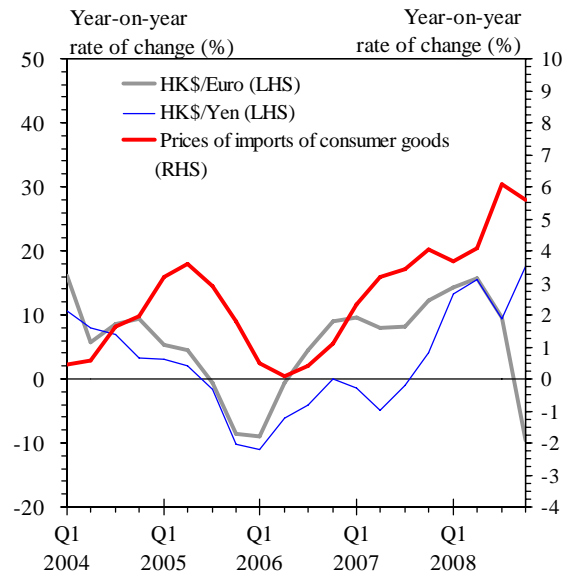
Note: The nominal EERI in this graph is inverted in scale for easier comprehension. An increase in the nominal EERI indicates weakening of the Hong Kong dollar.

## Diagram 7.4 : Prices of imports by end-use category

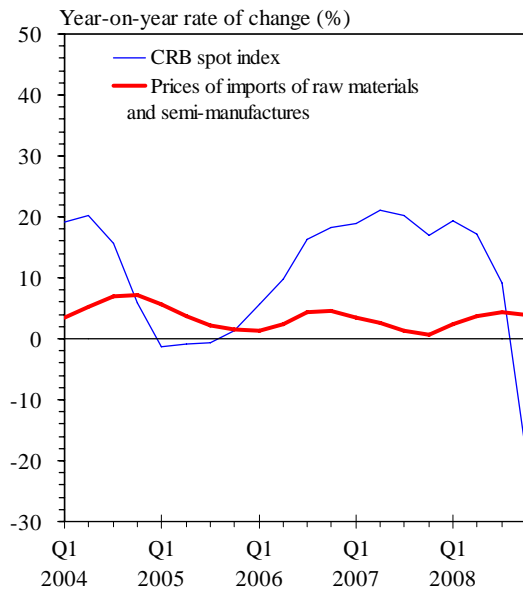
**(a) Increase in import prices of foodstuffs still notable**



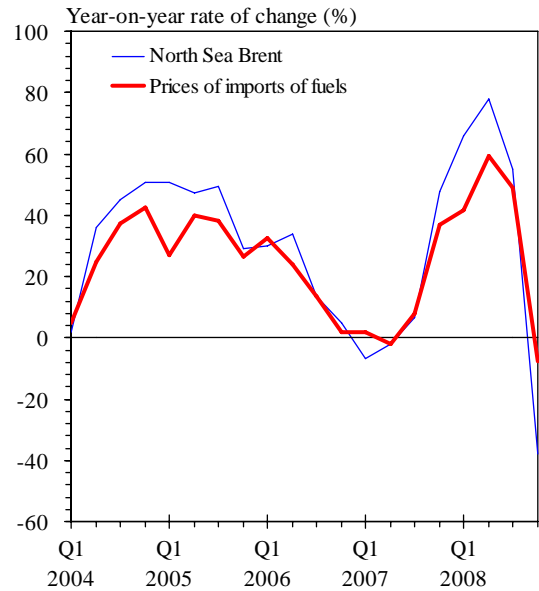
**(b) Import prices of consumer goods continued to pick up**



**(c) Import prices of raw materials rose moderately**



**(d) Fuel prices decelerated sharply in the fourth quarter**



## Output prices

7.7 Output prices, as measured by the *Producer Price Indices*<sup>(4)</sup>, continued to rise throughout the first three quarters of 2008 in most of the economic sectors. Prices of local manufacturing output advanced further, mainly reflecting the notable increases in prices for basic metals and fabricated metal products, as well as chemical, rubber, plastic and non-metallic mineral products. Among the service sectors, the most notable increase in output prices was recorded for hotels and boarding houses, as inbound tourism generally held up well in the earlier half of 2008. Output prices of air transport also surged in the second and third quarters, reflecting the higher fuel costs then. The only exception was telecommunications, where output prices had been trending down, as prices were suppressed as a result of keen competition and technological advancement in this sector.

**Table 7.4 : Producer Price Indices for the local manufacturing sector and selected service sectors**  
(year-on-year rate of change (%))

<u>Industry group</u>	<u>Annual</u>	<u>2007</u>				<u>2008</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u> <sup>@</sup>
Manufacturing	3.0	2.5	2.6	2.5	4.2	5.7	6.7	5.6
Selected services sector <sup>(a)</sup>								
Hotels and boarding houses	8.8	8.4	9.2	10.0	7.7	11.1	10.7	10.7
Land transport	*	-0.8	-0.4	0.2	0.9	0.5	0.8	0.6
Maritime transport	0.9	1.8	-0.8	0.1	2.3	5.2	3.2	3.6
Air transport	1.1	0.8	1.4	-0.5	2.7	3.3	8.8	9.0
Telecommunications	-2.7	-3.4	-3.8	-2.6	-1.1	-1.8	-2.0	-3.4
Miscellaneous communications services <sup>(b)</sup>	1.0	-0.3	-0.7	-0.4	5.6	3.9	4.4	4.1

Notes : (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the producers often do not charge their customers explicitly.

(b) "Miscellaneous communications services" mainly comprise local and international courier services.

(\*) Change of less than 0.05%.

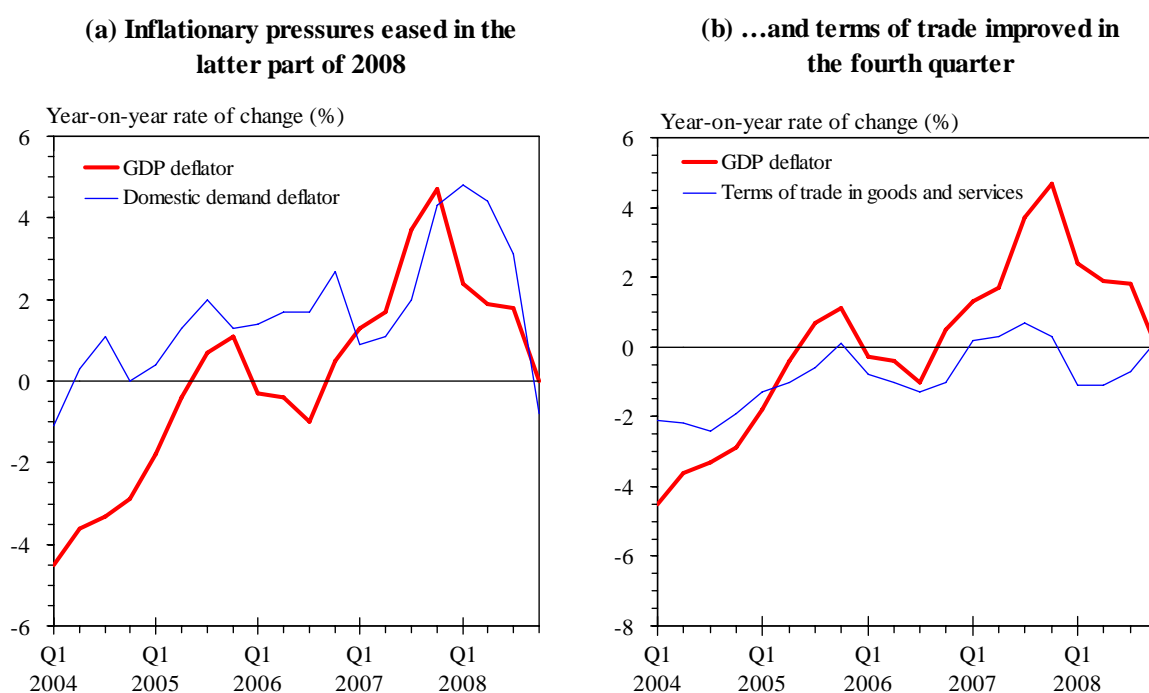
(<sup>@</sup>) Provisional figures except Manufacturing.



## GDP deflator

7.8 As a broad measure of the overall change in prices of the economy, the *GDP deflator*<sup>(5)</sup> increased by 1.4% in 2008. The moderate increase in the GDP deflator was mainly due to a deterioration in the terms of trade<sup>(6)</sup> during most of 2008, resulting from export prices rising at a slower pace than import prices. Taking out the external trade components, the increase in domestic demand deflator was higher, at 2.7% in 2008.

**Diagram 7.5 : GDP deflator**



**Table 7.5 : GDP deflator and the main expenditure component deflators  
(year-on-year rate of change (%))**

	<u>2007</u>					<u>2008</u>				
	<u>Annual</u> <sup>#</sup>	<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>#</sup>	<u>Q3</u> <sup>#</sup>	<u>Q4</u> <sup>#</sup>	<u>Annual</u> <sup>+</sup>	<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>#</sup>	<u>Q3</u> <sup>#</sup>	<u>Q4</u> <sup>+</sup>
Private consumption expenditure	3.7	1.8	2.2	3.9	6.6	2.8	5.1	5.1	3.1	-1.6
Government consumption expenditure	3.0	1.1	3.6	3.6	3.7	5.2	4.1	5.6	5.9	5.1
Gross domestic fixed capital formation	-2.5	-1.6	-3.3	-4.5	-0.9	0.9	4.7	-0.1	2.0	-2.4
Total exports of goods	2.2	2.4	1.7	1.9	2.7	3.3	2.3	3.4	4.4	3.3
Imports of goods	1.7	2.1	1.3	1.1	2.5	4.0	3.4	4.6	5.2	3.0
Exports of services	2.5	2.1	1.4	2.5	3.8	3.2	3.5	4.1	4.7	0.9
Imports of services	2.9	2.2	2.5	2.8	4.1	4.3	6.3	6.3	5.4	-0.4
<b>Gross Domestic Product</b>	<b>2.9</b>	<b>1.3</b> <0.8>	<b>1.7</b> <0.9>	<b>3.7</b> <1.0>	<b>4.7</b> <1.9>	<b>1.4</b>	<b>2.4</b> <-1.2>	<b>1.9</b> <0.3>	<b>1.8</b> <0.7>	<b>*</b> <*>
Total final demand	2.2	1.9	1.5	2.0	3.4	3.2	3.3	3.8	4.1	1.7
Domestic demand	2.1	0.9	1.1	2.0	4.3	2.7	4.8	4.4	3.1	-0.8

Notes : Figures are derived based on the new series of chain volume measures of GDP. They are subject to revision later on as more data become available.

(#) Revised figures.

(+) Preliminary figures.

< > Seasonally adjusted quarter-to-quarter % change.

(\*) Change of less than 0.05%.

## Notes :

- (1) The table below presents the year-on-year rates of consumer price inflation in selected economies. Global inflationary pressures receded notably in the latter part of 2008.

	<u>2007</u>	<u>2008</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
	<u>Annual</u>	<u>Annual</u>			
Selected developed economies					
US	2.9	3.8	3.7	1.1	0.1
Canada	2.2	2.3	2.6	2.0	1.2
EU	2.4	3.7	3.7	2.8	2.2
Japan	0.1	1.4	1.7	1.0	0.4
Major emerging economies					
Mainland China	4.8	5.9	4.0	2.4	1.2
Russia	9.0	14.1	14.2	13.8	13.3
India	6.4	8.3	10.4	10.4	9.7
Brazil	3.6	5.7	6.4	6.4	5.9
Selected Asian economies					
Hong Kong	2.0	4.3	1.8	3.1	2.1
Singapore	2.1	6.5	6.4	5.5	4.3
Taiwan	1.8	3.5	2.4	1.9	1.3
South Korea	2.5	4.7	4.8	4.5	4.1
Malaysia	2.0	5.4	7.6	5.7	4.4
Thailand	2.2	5.5	3.9	2.2	0.4
Indonesia	6.4	9.8	11.8	11.7	11.1
Philippines	2.8	9.3	11.2	9.9	8.0
Vietnam	8.3	23.1	26.7	24.2	19.9
Macao	5.6	8.6	8.8	7.5	6.2

- (2) The Consumer Price Indices (A), (B) and (C) are compiled by reference to the average expenditure patterns for different groups of households as obtained from the Household Expenditure Survey. Then, by aggregating the expenditure patterns of all the households covered by the above three indices, a Composite CPI is compiled.

The expenditure ranges of the households covered in the 2004/05-based CPIs are shown below:

	<u>Approximate proportion of households covered</u> (%)	<u>Average monthly expenditure range during Oct 2004 to Sep 2005</u> (\$)
CPI(A)	50	4,000 to 15,499
CPI(B)	30	15,500 to 27,499
CPI(C)	10	27,500 to 59,999

The weightings of the various components in the 2004/05-based CPIs are as follows:

<u>Expenditure Component</u>	<u>Composite CPI (%)</u>	<u>CPI(A) (%)</u>	<u>CPI(B) (%)</u>	<u>CPI(C) (%)</u>
Food	26.94	32.10	27.32	20.41
<i>Meals bought away from home</i>	16.86	18.63	17.65	13.74
<i>Other foodstuffs</i>	10.08	13.47	9.67	6.67
Housing	29.17	30.54	27.70	29.66
<i>Private dwellings</i>	23.93	22.07	23.89	26.11
<i>Public dwellings</i>	2.49	6.18	1.25	--
<i>Maintenance costs and other housing charges</i>	2.75	2.29	2.56	3.55
Electricity, gas and water	3.59	4.84	3.37	2.45
Alcoholic drinks and tobacco	0.87	1.35	0.79	0.42
Clothing and footwear	3.91	2.81	4.28	4.67
Durable goods	5.50	4.01	5.67	6.99
Miscellaneous goods	4.78	4.68	4.76	4.91
Transport	9.09	8.07	9.05	10.35
Miscellaneous services	16.15	11.60	17.06	20.14
All items	100.00	100.00	100.00	100.00

- (3) Unit labour cost represents the labour cost per unit of output produced. It differs from the nominal wage index in that it discounts the effect of labour productivity growth in arriving at the labour cost measure. Technically, it refers to the product of the nominal index of payroll per person engaged and the total employment, divided by the real GDP.
- (4) The Producer Price Index is designed to reflect changes in the prices of goods and services received by local producers. Producer prices refer to the transacted prices, net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.
- (5) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding chained-dollar figures. The rate of change in the GDP deflator may differ substantially from that in the Composite CPI over the same time span. The Composite CPI covers consumer price inflation in particular. Yet the GDP deflator is a much broader measure of inflation for the entire economy, and takes into account all the price changes related to consumption, investment, exports and imports. Also, the rate of change in the GDP deflator may differ appreciably from that in the total final demand deflator, depending on the movement in the prices of final demand and imports. Likewise, the rate of change in the GDP deflator may differ appreciably from that in the domestic demand deflator, depending on the movement in the prices of imports and exports.
- (6) The terms of trade is defined as the ratio of the prices of total exports to the prices of total imports.

## **Calendar of Events of Significance for the Hong Kong Economy in 2008**

- 1 Jan      The liberalisation measures under Supplement IV to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) came into effect. Hong Kong service suppliers enjoyed preferential access to the Mainland market in 38 service areas, which included 40 new liberalisation measures in 28 service areas. Moreover, the number of products with CEPA rules of origin agreed was increased to 1 502.
- The Central Government implemented a series of measures to stabilise the supply and prices of cereals and grain flour in the Mainland domestic market, including an export quota licence administration, and a temporary export tariff regime. Subsequently, the Mainland confirmed that no tariff would be levied on products for the consumption of Hong Kong, Macao and Taiwan.
- 2 Jan      The Companies Registry (CR) shortened the time span required for incorporation of local companies from 6 working days to 4 working days.
- 7 Jan      The Government signed the new post-2008 Scheme of Control Agreements (SCAs) with each of the two power companies. The new Agreements have a 10-year term with a Government option to extend for 5 years, depending on market readiness for open market. Under the new SCAs, the permitted rate of return of the power companies will be reduced from 13.5%-15% to 9.99% on their Average Net Fixed Assets, and linked to the power companies meeting the emission caps stipulated under the Air Pollution Control Ordinance. The new Agreements ensure continued supply of reliable, safe and efficient electricity supplies at reasonable prices.
- 11 Jan     The Finance Committee of the Legislative Council (LegCo FC) approved a sum of \$88.6 million for the Highways Department to engage consultants to undertake the investigation and preliminary design for the Tuen Mun-Chek Lap Kok Link (TM-CLKL) and Tuen Mun Western Bypass (TMWB). The TM-CLKL and TMWB will provide a strategic road network linking the Shenzhen Bay Bridge, Kong Shum Western Highway, Tuen Mun West, the Hong Kong International Airport (HKIA), and Hong Kong-Zhuhai-Maco Bridge (HKZMB) for the further development of the logistics industry and tourism.
- 14 Jan     The Hong Kong Monetary Authority (HKMA) launched a tap issue of 91-Day Exchange Fund Bills, totalling HK\$6 billion. The launch of the tap issue was primarily to address an increase in demand for Exchange Fund paper arising from the banks' intraday liquidity needs.
- 14-15 Jan  Co-organized by the Office of the Government Chief Information Officer (OGCIO), the Fifth Pearl River Delta Software Industry Forum was held in Hong Kong to promote the exchange of information industry of Hong Kong and the Pearl River Delta (PRD).
- 15 Jan     The HKMA and the Islamic Financial Services Board jointly organised the one-and-a-half-day Seminar on Islamic Finance in Hong Kong to promote discussion of the development of an Islamic financial platform in Hong Kong.

The Heritage Foundation and the Wall Street Journal released the 2008 Index of Economic Freedom. Hong Kong was rated the freest economy in the world for the 14th straight year, followed by Singapore and Ireland.

- 17 Jan The Task Force on Airport Co-operation between Hong Kong and Shenzhen held its first meeting to discuss initiatives to strengthen the co-operation of the two airports and commissioned a preliminary study on the feasibility and economic benefits of establishing a direct rail link between the two airports.
- 18 Jan The Government announced enhancements to the Quality Migrant Admission Scheme (QMAS) to cast a wider net for quality migrants. Relevant enhancements took immediate effect, which include lifting the age limit so that potential candidates aged 51 or above are eligible to apply; adjusting the marking scheme to make it possible for younger degree holders with less working experience to meet the passing mark for further assessment; and streamlining the extension of stay requirement for QMAS entrants admitted through the Achievement-based Points Test.
- 23 Jan The HKMA announced that the Base Rate was adjusted downward by 75 basis points to 5.00%.
- 25 Jan - 1 Feb The Chief Executive (CE) led a high-level business mission to Kuwait, Riyadh, Abu Dhabi and Dubai to promote Hong Kong's financial services.
- 28 Jan The Government signed a design and build contract for the Tamar Development Project. The project is expected to be completed in 2011.
- 31 Jan The HKMA announced that the Base Rate was adjusted downward by 50 basis points to 4.50%.
- 5 Feb The International Monetary Fund (IMF) released its Staff Report on Hong Kong for 2007. IMF reiterated its support for the authorities' commitment to the Linked Exchange Rate system, and concluded that the real value of the Hong Kong dollar was in line with fundamentals. IMF also recognised the Government's efforts in furthering Hong Kong's role as an international financial centre, including the authorities' proactive efforts in seeking ways for Hong Kong's developed financial platform to benefit the Mainland and the increased cross-boundary co-ordination with Mainland regulators.
- 27 Feb The Financial Secretary (FS) presented the Budget for the financial year 2008-09 to the Legislative Council (LegCo).

The FS proposed, among others, to: raise the personal allowances and lower the standard rate to their 2002-03 levels; reduce the corporate profits tax rate from 17.5% to 16.5%; widen the tax bands from \$35,000 to \$40,000; raise the deduction ceiling for charitable donations from 25% to 35% of assessable income or profits; provide tax deductions for capital expenditure on environment-friendly facilities; reduce hotel accommodation tax to 0%; and exempt duties on wine, beer and all other alcoholic beverages except spirits.

The FS also proposed, as one-off measures, to reduce 75% of the 2007-08 final tax in respect of salaries tax, profits tax, property tax and tax under personal assessment, subject to a ceiling of \$25,000 per case; waive business registration fees for the year 2008-09; and waive rates for the four quarters of the financial year 2008-09, subject to a ceiling of \$5,000 per quarter for each ratable tenement.

Moreover, the FS proposed to make a one-off injection of \$6,000 into the Mandatory Provident Fund (MPF) accounts of eligible members of MPF schemes / MPF Exempted Occupational Retirement Schemes (“ORSO schemes”) who each earns not more than \$10,000 a month to demonstrate the Government’s commitment to enhancing retirement protection and relieving the pressure on social welfare expenditure in the long run.

The 2007 Economic Background and 2008 Economic Prospects were published along with the 2008-09 Budget. On Hong Kong’s economic outlook for 2008, the Gross Domestic Product (GDP) growth was forecast at 4% to 5% in real terms. Meanwhile, headline and underlying Composite Consumer Price Indices (CCPI) for 2008 were forecast to increase by 3.4% and 4.5% respectively.

- 28 Feb At its eighth meeting, the HZMB Advance Work Co-ordination Group (AWCG) reached consensus on the project’s financial arrangement. The three sides also agreed that the three Governments would be responsible for the construction and operation of the boundary crossing facilities and the connecting roads to the bridge within their own territory. The HZMB Main Bridge would be tendered under a Build, Operate and Transfer arrangement.
- Feb HKIA was named the “Best Airport” among airports serving over 40 million passengers annually at the Airport Services Quality Awards 2007 run by the Airports Council International.
- 3 Mar The European Commission published its tenth annual report on the HKSAR. The report recognised that the co-operation between the European Union (EU) and Hong Kong had deepened in 2007. It re-affirmed the importance of Hong Kong as a partner for the EU; and the increasingly important role Hong Kong played in facilitating trade between the Mainland and Europe.
- 4-9 Mar With sponsorship from OGCIO, the Hong Kong Software Outsourcing Alliance co-organized with the Hong Kong Trade Development Council (HKTDC), HKPC and its Guangdong partner to set up a Joint Pavilion in CeBIT 2008, a trade fair in Germany, promoting the co-operation between Hong Kong and Guangdong in software outsourcing.
- 10 Mar The “Hong Kong-Shenzhen Joint Task Force on Boundary District Development” held its first meeting in Shenzhen, marking a start in joint study of boundary district development projects. The joint task force endorsed its terms of reference, organisation and composition. It was agreed that meetings would be held about every six months to discuss the work relating to the planning and development studies in respect of the boundary district.

- 11 Mar The Government announced that the MTR Corporation Limited would proceed with the further planning and design of the Shatin to Central Link and the Kwun Tong Line Extension.
- 11-12 Mar Hong Kong hosted the World Ports Summit at the Hong Kong Convention and Exhibition Centre. The ports of Shanghai, Singapore, Rotterdam, Shenzhen, Busan, Los Angeles, Seattle, Melbourne and Hong Kong participated in the Summit.
- 13 Mar The Government published the Healthcare Reform Consultation Document "Your Health, Your Life" to initiate the first-stage public consultation on a package of proposals for reforming the service structure and financing arrangements of our healthcare system, with a view to ensuring its long-term sustainability to provide healthcare protection and quality service for the population.
- 17-20 Mar Television and Entertainment Licensing Authority sponsored the HKTDC to organize the second edition of the "Locations World" pavilion in the Hong Kong International Film and TV Market (FILMART) 2008 on filming locations in the Mainland and Hong Kong being the choice filming location in Asia.
- 18 Mar The Airport Authority (AA) awarded the franchise to design, construct and operate a new cargo terminal at HKIA.
- 19 Mar The HKMA announced that the Base Rate was adjusted downward by 75 basis points to 3.75%.
- 21 Mar The open recruitment freeze imposed on grades included in the Second Voluntary Retirement Scheme expired. To address manpower needs and avoid succession problems, the Government decided not to extend the recruitment freeze.
- 27 Mar The Secretary for Commerce and Economic Development (SCED) officiated at the Government Wi-Fi Programme launching ceremony at the Hong Kong Central Library to inaugurate the rollout of free government Wi-Fi service for public use at some 30 popular government premises. The programme will progressively roll out the service to some 350 government premises by mid 2009. Alongside the launching ceremony, OGCIO organised the Symposium on Wireless and Mobile Services and Technology, which provided a platform for government officials, ICT industry and professional bodies to exchange views and incubate ideas on wider adoption of Wi-Fi and related technologies for building Hong Kong into a wireless city.

The United Kingdom (UK) Foreign and Commonwealth Office presented to UK parliament the 22nd Six-monthly Report on Hong Kong covering the period July to December 2007. The Report stated that the "One Country, Two Systems" principle had generally worked well and that the rights and freedoms promised to Hong Kong in the Joint Declaration had continued to be respected.



The China Insurance Regulatory Commission signed a regulatory cooperation agreement with the Securities and Futures Commission (SFC) to enable the use of Mainland insurance funds outside the Mainland. As a result, Hong Kong became the first destination for Mainland insurance funds wishing to invest overseas.

- 27-28 Mar Hong Kong hosted the 34th Asia-Pacific Economic Co-operation (APEC) Industrial Science and Technology Working Group Meeting at the Hong Kong Convention and Exhibition Centre. About 60 government officials and experts in the science and technology field in the Asia-Pacific region attended the meeting to discuss ways to assist the development and application of industrial science and technology in the region.
- 3 Apr The SFC signed a memorandum of understanding (MOU) with the Dubai Financial Services Authority for mutual cooperation on capacity building and human capital development in Islamic finance. This arrangement would enable Hong Kong to play a more active role in the development of Islamic finance.
- 8 Apr With sponsorship from OGCIO, Cyberport organised the Fifth Digital Entertainment Leadership Forum. Renowned overseas experts in digital entertainment shared their vision and experiences, and inspired the local digital entertainment industry on the trends and market potentials of immersive media technology.
- 12 Apr The CE attended the Boao Forum for Asia Annual Conference.
- 14-17 Apr The OGCIO collaborated with the HKTDC to organise the International ICT Expo 2008. The event was consisted of exhibition, conferences and forums which provided a platform for the industry to promote their ICT products and services. Business matching activities were also arranged for local, Mainland and overseas companies. The event attracted 585 exhibitors and over 27 000 visitors worldwide.
- 16 Apr The first meeting between the Tourism Commission and the Macao Government Tourist Office, with participation of the Hong Kong Tourism Board (HKTB) and the Travel Industry Council of Hong Kong, was held in Macao to facilitate exchanges between Hong Kong and Macao on tourism issues of mutual concern, and collaboration in tourism development and promotion.
- 17-20 Apr To explore technology co-operation opportunities between Hong Kong and Chongqing, the ITC, together with Hong Kong's Research and Development Centres, Hong Kong Science and Technology Parks and HKPC, participated and set up a "Hong Kong Pavilion" in the Eighth China Chongqing Hi-Tech Fair.
- 18 Apr The Government, in collaboration with Economic and Trade Commission of Guangdong Province, launched the five-year Cleaner Production Partnership Programme to encourage and facilitate Hong Kong-owned factories in the PRD region to adopt cleaner production technologies and practices with a view to reducing emissions and enhance energy efficiency.

- 22 Apr The Government announced that the MTR Corporation Limited would proceed with the further planning and design of the Hong Kong Section of the Guangzhou – Shenzhen – Hong Kong Express Rail Link under the concession approach.
- 25 Apr A high-level Central Coordinating Committee on Anti-Money Laundering and Counter Financing of Terrorism chaired by the FS held its first meeting. The objective of the Committee is to steer and coordinate the effort of Government departments and relevant financial regulators in the strategic development of the anti-money laundering and counter financing of terrorism regime in order to meet internationally recognized standards.
- 25-27 Apr The CE led a delegation of officials and business leaders to attend the Expo Central China 2008 held in Wuhan, Hubei.
- 28 Apr The Electronic Business System Phase 2 of the Marine Department was launched to speed up the submission and processing of port formalities and application of a ship's transcript anytime, anywhere without additional costs to shipping companies and ship agents.
- 2 May The HKMA announced that the Base Rate was adjusted downward by 25 basis points to 3.50%.
- 4 May The China Securities Regulatory Commission announced new measures to allow qualified fund management companies in the Mainland to set up operations in Hong Kong under CEPA, which would bring more Mainland fund management companies to Hong Kong.
- 5 May The second meeting of the “Steering Group on Shenzhen-Hong Kong Co-operation in Innovation and Technology” was held in Hong Kong. The meeting agreed to carry out more in-depth and comprehensive collaboration and exchanges in technology.

Hong Kong and Shenzhen launched the first major technology co-operation project under the “Shenzhen and Hong Kong Innovation Circle” to establish a Solar Energy Research and Industrial Platform in collaboration with DuPont. Under the project, a Solar Energy R&D Support Centre would be established at the Hong Kong Science Park to assist the development of solar energy and related technology in Hong Kong and the PRD region. DuPont would join the centre as the first anchor tenant by locating its Global Thin Film Photovoltaic business and R&D Centre in the Hong Kong Science Park. At the same time, Shenzhen would collaborate with Hong Kong to provide land and other facilities to support the downstream development and manufacturing of solar energy products.

The LegCo FC approved an allocation of \$208 million for the launching of the Qualifications Framework Support Schemes, which would provide financial assistance to education and training providers and employees to facilitate continuing education and lifelong learning.

- 9 May The LegCo FC approved a sum of \$2,407.5 million for the design and site investigation for the Shatin to Central Link.

To further facilitate the public in choosing energy efficient appliances and raise public awareness on energy saving, the Government introduced the mandatory Energy Efficiency Labelling Scheme (EELS) through the Energy Efficiency (Labelling of Products) Ordinance. Under the Scheme, energy label must be displayed on these prescribed products, before being supplied in Hong Kong. The implementation of the mandatory EELS would lead to electricity saving and reduction of carbon dioxide emission.

11-12 May The HKMA, Treasury Markets Association and HKTDC jointly presented the Hong Kong Showcase on Islamic Finance in a roadshow in the Middle East.

15-19 May The Commerce and Economic Development Bureau (CEDB), in collaboration with the HKTDC and the local creative industries, participated in the Fourth China (Shenzhen) International Cultural Industries Fair and set up a cross-sector “Creative HK” Exhibition which showcased Hong Kong’s accomplishments in various creative industries including architecture, advertising, design, film, culture and arts. The FS led a delegation of Hong Kong’s creative industries to attend the opening ceremony.

16 May The Government published the First Quarter Economic Report 2008. The Report pointed out that the Hong Kong economy expanded strongly by 7.1% in real terms over a year earlier, despite adversities in the external environment. Exports of both goods and services grew notably further amidst the buoyant Mainland and other emerging economies, and the notable growth of financial services, offshore trade and inbound tourism. Domestically, consumption and investment also expanded markedly further, amid strong consumer and investor confidence.

In the May update of the economic forecast for 2008, the forecast growth rate in real terms of GDP was maintained at 4% to 5%. Meanwhile, the forecast rates of increase in the headline and underlying Composite CPI were kept at 3.4% and 4.5% respectively.

20 May The HKMA and the Dubai International Financial Centre Authority signed a MOU aimed at fostering co-operation in the development of Sharia-compliant financial products and the financial infrastructures in their respective jurisdictions.

A \$1 billion “Building Maintenance Grant Scheme for Elderly Owners” was launched. The scheme provides financial assistance to elderly owner-occupiers aged 60 or above to repair and maintain their properties for improving building safety.

21 May The Development Bureau received 114 proposals from various non-profit-making organisations for revitalising the first batch of seven historic buildings under the Revitalising Historic Buildings Through Partnership Scheme.

24 May – 4 June The FS led a high-level mission to Slovenia, Austria and the Czech Republic to promote the opportunities that were available in Hong Kong to global partners.

- 27 May Stage 1 Public Engagement of the draft concept plan proposed in the consultancy study “Land Use Planning for the Closed Area” commenced for a period of two months. The Study aims at formulating a planning framework based on the sustainable development principles to guide the conservation and development of the area to be released from the Frontier Closed Area.
- 30 May The Secretary for Constitutional and Mainland Affairs, on behalf of the HKSAR, signed an agreement with the Bureau of Shanghai World Expo Coordination in the presence of the CE confirming HKSAR’s participation in the World Exposition 2010 Shanghai China to be held in Shanghai from 1 May to 31 October 2010. HKSAR’s participation in the event would help enhance our image, showcase our various strengths and attractions, promote our broader commercial interests to both the Mainland and international audience, and further strengthen our economic relations with the Mainland.
- 30 May - 1 Jun The CE visited Shanghai to strengthen link and enhance co-operation between the two places.
- 3 Jun The Hong Kong Mortgage Corporation Limited (HKMC) announced the launch of a new retail bond issue with four series of notes under the HK\$20 Billion Retail Bond Issuance Programme.
- 5 Jun The Tenth Pan-PRD Regional Co-operation IT Department Directors Joint Conference was held in Hong Kong for directors and representatives of Department of Information Industry of Pan-PRD provinces/regions to share experience and explore co-operation opportunities. A technical forum was held concurrently, enabling government and industry specialists to exchange experience on data centre management.
- 6 Jun In support of the development of Hong Kong into the regional trading and distribution centre of quality table wine, the administrative controls on wine and other duty exempted alcoholic beverages were removed to facilitate their import, export and storage.
- The LegCo FC approved \$86.9 million for the investigation and preliminary design for the HZMB Boundary Cross Facilities, and \$46.6 million for the preconstruction works for the HZMB.
- The “Arrangements for the Implementation of Clean Development Mechanism (CDM) Projects in the Hong Kong Special Administrative Region”, which set out the specific process and procedures for Hong Kong companies to collaborate with foreign institutions in conducting CDM projects in Hong Kong, was announced. These projects would help further reduce Hong Kong’s greenhouse gas emissions and support the sustainable development goal.
- 10 Jun The Government announced the freezing of water charges for 2008-09 and 2009-10 with an aim of relieving the burden of the public.

- 16 Jun The Planning Department and Civil Engineering and Development Department jointly commissioned consultants to undertake the “North East New Territories New Development Areas Planning and Engineering Study” (the Study). The Study will take about 30 months to complete. The overall objective of the Study is to establish planning and development frameworks for the Kwu Tung North, Fanling North and Ping Che/Ta Kwu Ling New Development Areas to meet long-term housing, social, economic and environmental needs, and to formulate implementation programmes.
- 18 Jun The Trade Descriptions (Amendment) Ordinance 2008 was enacted to strengthen the protection for consumers.
- Hong Kong ranked the first in the Enabling Trade Index 2008 published by the World Economic Forum for the first time.
- The Mandatory Provident Fund Schemes (Amendment) (No. 2) Ordinance 2007, covering proposals to enhance enforcement actions and penalties against non-compliant employers so as to better protect the interests of employees, was enacted by the LegCo.
- 20 Jun The SFC and the Hong Kong Exchanges and Clearing Limited (HKEx) jointly introduced measures to streamline the admission procedures for Exchange Participants and the registration and approval procedures for their staff members and substantial shareholders with a view to streamlining the operations of HKEx and Exchange Participants.
- 25 Jun The Hong Kong Mercantile Exchange announced its intention to create a commodities futures exchange in Hong Kong.
- 30 Jun The OGCIO launched a one-stop Procurement Portal under the e-Procurement Pilot Programme to share procurement-related information internally within Government and externally with suppliers.
- 1 Jul The 3% hotel accommodation tax was waived to further promote tourism and enhance the competitiveness of the hotel industry.
- HKEx launched the framework for the issuance of Hong Kong depositary receipts, providing an alternative listing route for issuers.
- 3 Jul The LegCo approved adjustments in the Trade Effluent Surcharge effective from 1 August 2008, including, among others, a reduction in the rates for the restaurant trade by around 19%.
- 3-11 Jul The West Kowloon Cultural District Authority (WKCD) Bill was passed by the LegCo, providing for the establishment of the WKCD to plan, develop and operate the facilities under its purview in the West Kowloon Cultural District (WKCD).

- 4 Jul The LegCo approved, a one-off upfront endowment of \$21.6 billion to the WKCDA to cover the capital costs of the WKCD project. The Home Affairs Bureau is assisting the WKCDA to press ahead with the preparation of the Development Plan for the WKCD and other strategic matters to bring the operation of the Authority into full swing.
- The third plenary meeting of the Hong Kong/Guangdong Expert Group on Co-operation in Informatisation under the Hong Kong/Guangdong Co-operation Joint Conference was held in Guangzhou to further promote co-operation in informatisation between the two places.
- 7 Jul The SFC signed a “declaration of mutual recognition” with the Australian Securities and Investments Commission to facilitate the sale of retail funds to investors in each other’s market. This arrangement would help Hong Kong fund managers tap opportunities in the Australian market and enhance the depth and breadth of Hong Kong’s fund management industry.
- 8 Jul The LegCo FC approved a sum of \$2,782.6 million for the design and site investigation for the Hong Kong Section of the Guangzhou – Shenzhen –Hong Kong Express Rail Link.
- 10 Jul The Mandatory Provident Fund Schemes (Amendment) (No. 3) Ordinance 2008 was enacted by the LegCo, providing a legal framework for the Mandatory Provident Fund Schemes Authority to implement the Government’s proposal to make a one-off injection of \$6,000 into the accounts of eligible members of MPF schemes and ORSO schemes to enhance their retirement protection.
- 11 Jul The HKMA and the TMA jointly organised the Asia Treasury Markets Summit in Hong Kong.
- The Financial Markets Association (ACI), a global association of wholesale financial market professionals based in Paris, France, established its first regional office in Asia, ACI Asia, in Hong Kong.
- The HKMA designated the Renminbi CHATS, the clearing and settlement system of RMB transactions in Hong Kong, and issued a certificate of finality to the system under the Clearing and Settlement Systems Ordinance. It brought the system under the oversight regime of the HKMA, as with other CHATS systems in Hong Kong.
- Streamlined provisions concerning incorporation of local companies in the Companies Ordinance (Cap.32) came into operation. The CR introduced new incorporation forms containing comprehensive information of new companies. Separate notifications reporting company details after incorporation would no longer be required.
- 14 Jul The concessionary duty rate on Euro V Diesel was further reduced from \$0.56 per litre to zero to help alleviate the impact of rising fuel costs on the transport and logistics industry.

To protect public health and further minimize the risk of human infection by avian influenza, the LegCo FC approved funding of \$1,123 million to offer a buyout package to the live poultry trade to further the policy objective of separating live poultry from humans.

The LegCo FC also approved the 2008-09 Civil Service Pay Adjustment, which took retrospective effect on 1 April 2008. The adjustment rates ranged from 5.29% to 6.30%.

HKIA was voted the “World’s Best Airport” for the seventh time in eight years in the annual Skytrax survey, which polled more than 8.2 million travellers of over 97 nationalities.

15 Jul The CE in Council approved the draft Urban Renewal Authority Kwun Tong Town Centre – Main Site Development Scheme Plan and Yuet Wah Street Site Development Scheme Plan. The project, when completed, will improve the living conditions of 4 500 existing residents in the project area.

16 Jul The CE announced a series of short-term relief measures totalling \$11 billion, which included, among others, extra payment of Old Age Allowance, Comprehensive Social Security Assistance and Disability Allowance, rent waiver for public housing, extension of electricity charge subsidy, freeze on livelihood-related government fees and charges, and suspension of Employees Retraining Levy on foreign domestic helpers.

Octopus Card Ltd. and Citibank jointly announced the issue of the first credit card by Citibank embedded with Octopus’ stored value function. The HKMA welcomed the launch of the co-branded card as it would enhance competition in the multi-purpose stored value card market in Hong Kong.

17 Jul The HKMA published the report on the review of its work on banking stability by the independent consultant, Mr David Carse. The report found that the Hong Kong banking system was in robust condition and that the HKMA was widely respected by the Hong Kong banking sector for its professionalism and effectiveness, and viewed by outside commentators as in the top flight of regulators internationally.

19 Jul A ceremony celebrating the 10th anniversary of the “No Fakes” Pledge Scheme was held. As at December, 584 retail merchants covering more than 4 700 outlets joined the Scheme.

19-26 Jul The CE led a business delegation to Heilongjiang, Jilin, and Liaoning.

23 Jul The AA announced the commissioning of the HKIA Master Plan 2030, a 20-year blueprint for the future development of the airport.

24 Jul The Government commenced the "Green Hong Kong • Carbon Audit" campaign and launched first carbon audit guidelines for buildings in Hong Kong. At the same day, about 40 organisations from various sectors took lead to become the "Carbon Audit • Green Partners".

The SFC released its annual Fund Management Activities Survey which showed that the combined fund management business in Hong Kong recorded a 56.5% year-on-year increase to \$9,631 billion as at end 2007.

29 Jul The Government and the Central Government signed the Supplement V to the CEPA and announced the package of services liberalisation and facilitation measures to deepen Hong Kong's economic and trade co-operation with Guangdong. From 1 January 2009, the Mainland would implement 29 liberalisation measures in 17 service areas, including existing sectors such as conventions and exhibitions, banking, construction and related engineering services, social services, tourism, accounting, and medical and dental services, as well as two new sectors, services incidental to mining, and related scientific and technical consulting services. In addition, with effect from 1 July 2008, the number of products with CEPA rules of origin agreed was increased to 1 510.

A package of 25 services liberalisation and facilitation measures for early and pilot implementation in Guangdong would also be implemented, of which 17 had been included under CEPA.

Under the framework of "Trade and Investment Facilitation" in Supplement V to the CEPA, the Trademark Office of the State Administration for Industry and Commerce and the Intellectual Property Department of the Government set up a Trademark Working Co-ordination Group. This serves as a regular communication channel between the two sides for strengthening exchanges and co-operation in areas such as trademark registration and trademark protection.

31 Jul The first gold Exchange Traded Fund was listed on the Main Board of the Stock Exchange of Hong Kong Limited, widening product choice in the Hong Kong securities market.

Standard & Poor's upgraded Hong Kong's long-term foreign- and local-currency ratings to "AA+" from "AA", with "Stable" outlook.

Early Aug The two domestic free television broadcasters, Asia Television Limited and Television Broadcasts Limited extended the coverage of digital terrestrial television broadcasting to 75% of population of Hong Kong.

1 Aug HKIA won the Air Transport Research Society's "2008 Asia-Pacific Airport Efficiency Excellence Award".

The Ministry of Finance (MoF) and the State Administration of Taxation (SAT) adjusted the export tax rebate rates of certain commodities. The export tax rebate rates of textile products and garments were raised from 11% to 13%.

To facilitate the "Fixed-Mobile Convergence", the Government introduced the new Unified Carrier Licensing regime, enabling operators to provide different services (including fixed, mobile and converged services) under a single, flexible and harmonized licensing framework.

Suspension of the collection of the Employees Retraining Levy for a period of five years.



The SFC streamlined the pre-vetting of notices and advertisements of collective investment schemes authorized by the SFC under the Code on Unit Trusts and Mutual Funds, the Code on Investment-Linked Assurance Schemes, the Code on Pooled Retirement Funds and the Code on MPF Products, with a view to creating efficiency for the fund industry in Hong Kong.

4 Aug The FS attended the APEC Ministerial Meeting on Structural Reform held in Melbourne.

5 Aug The CE and the Governor of Guangdong Province co-chaired the 11th Plenary of the Hong Kong Guangdong Co-operation Joint Conference held in Guangzhou, Guangdong Province. Both agreed to further enhancing co-operation in areas which are closely related to people's livelihood, including major cross-boundary infrastructural projects and boundary control points, facilitation of people and cargo flow, economic and trade, environmental protection, safeguarding of food safety, innovation and technology, etc.

A consensus was reached on a new financing arrangement for the HZMB Main Bridge. The three sides further agreed to take up the responsibility for the construction of the Main Bridge. To demonstrate its full support for the HZMB, the Central Government decided to make contribution to the construction cost of the Main Bridge.

9-21 Aug The Beijing 2008 Olympic Equestrian Events were successfully held in Hong Kong. The events took place with a high regard for safety, and there were no fatalities or major injuries either to the athletes or the horses. Spectator participation was at a high level, and average attendance was 80%, which amounted to a “full house” according to the standards set by the Beijing Organising Committee for the Games of the XXIX Olympiad.

15 Aug The Government published the Half-yearly Economic Report 2008. The Report pointed out that the Hong Kong economy grew moderately by 4.2% in real terms in the second quarter over a year earlier. The slowdown reflected the moderation in exports of goods amid the increasingly challenging external environment. Locally, consumption spending also moderated, as the stock market correction, rising inflation and dimmer economic prospect weighed on consumer sentiments, while investment spending continued to expand further.

In the August update of the economic forecast for 2008, the forecast growth rate in real terms of GDP was kept unchanged at 4% to 5%. Meanwhile, the forecast rates of increase in the headline and underlying Composite CPI were revised upward to 4.2% and 5.5% respectively.

19 Aug A MOU on Co-operation in Wine-related Businesses was signed with France, covering wine-related trade and tourism, investment, education and counterfeits. Another MOU was signed on 7 October with Bordeaux, a wine-producing region of France. One important co-operation area under the Bordeaux MOU was the organisation of a wine cum gourmet festival in Hong Kong in the fall of 2009.

- 28 Aug The Government and the National Energy Administration signed the MOU on the continuous supply of nuclear electricity and natural gas to Hong Kong in the coming two decades. The MOU ensures a long-term and stable supply of clean energy to Hong Kong.
- Hong Kong was chosen for the publication of the Michelin guide, signifying Hong Kong's status as a capital for fine wine and good food. The guide was subsequently published in December 2008.
- 5 Sep The "2008 Guangdong-Hong Kong Technology Co-operation Funding Scheme" invited applications. Launched since 2004, the Scheme aims to enhance collaborations among research institutions and technology enterprises in Hong Kong and Guangdong.
- 7-11 Sep Hong Kong successfully staged the Beijing 2008 Paralympic Equestrian Events. The average attendance was close to 60% and the total attendance at the venue over the five days of the events was over thirty thousand people, which was a record for the Paralympic Equestrian Events.
- 10 Sep UK Foreign and Commonwealth Office presented to UK parliament the 23rd Six-monthly Report on Hong Kong covering the period January to June 2008. The Report stated that the "One Country, Two Systems" principle had generally worked well and that the rights and freedoms promised to Hong Kong in the Joint Declaration had continued to be respected.
- 15 Sep Lehman Brothers Holdings Inc. filed for bankruptcy protection in the United States (US).
- 16 Sep Hong Kong remained the freest economy in the world, according to the 2008 Annual Report on the Economic Freedom of the World jointly released by the Fraser Institute of Canada, CATO Institute of the US and 70 other research institutes around the world.
- 18 Sep Following the second meeting of the "Hong Kong-Shenzhen Joint Task Force on Boundary District Development", Hong Kong and Shenzhen Municipal Governments jointly announced the development of a new boundary control point at Liantang/Heung Yuen Wai to enhance cross-boundary transport infrastructures for long-term economic growth and further regional co-operation.
- 22 Sep The HKMA convened a meeting between representatives of investors who had purchased investment products related to Lehman Brothers, representatives of banks that had sold Lehman-Brothers-related products and the trustees who were holding the collateral for the investments. The aim of the meeting was to facilitate communication between the affected investors, the banks, the trustees and the HKMA.

- 23 Sep The CE in Council approved the Development Plan (DP) submitted by CLP Power Hong Kong Limited and Castle Peak Power Company Limited (CLP) for the period from October 2008 to December 2013 under the new SCA which covers, inter-alia, CLP's capital projects in the DP period and tariff adjustments effective from October 2008. In accordance with this approved DP, CLP reduced its average Basic Tariff and Net Tariff by 10.0% and 3.0% respectively on 1 October 2008.
- 24 Sep The FS asked the HKMA and the SFC to separately submit a report to him by the end of 2008 on the observations, lessons learned and issues identified during the process of investigating the complaints concerning the Lehman Brothers Minibonds, based on which the Government will further improve the regulatory framework and enhance investor protection.
- 25 Sep Hong Kong retained its position as Asia's second largest destination for foreign direct investment (FDI), according to the "World Investment Report 2008", released by the United Nations Conference on Trade and Development. FDI flows to Hong Kong in 2007 reached US\$59.9 billion. On a global scale, Hong Kong ranked the seventh in FDI inflows in 2007.
- Hong Kong entered into a co-operation arrangement with Guangdong, Shenzhen and Macau maritime authorities for adopting the "Regional Marine Oil Spill Response Plan for Pearl River Estuary" as the action guideline for regional co-operation on response to major maritime oil spills from ships.
- 26 Sep The Business Software Alliance (BSA) presented to the Government the "Government Best Practices: Asia Pacific" award, as a token of appreciation for its achievements in combating software piracy and in protecting intellectual property rights in general. The Government collaborated with BSA and other stakeholders to launch a Genuine Business Software Campaign from September 2006 to July 2008. Through the campaign, consultancy services were provided to help small and medium enterprises (SMEs) to develop best practices in managing software asset.
- HSBC announced to raise the interest rate for new mortgages by 50 basis points on 26 September, and other banks also increased their mortgage rates shortly after. The major local banks adjusted their mortgage interest rate upward again in November/December.
- 30 Sep The HKMA announced five temporary measures for providing liquidity assistance to licensed banks in Hong Kong. With effect from 2 October 2008 for a period of six months until the end of March 2009, the HKMA would provide liquidity assistance, on request from licensed banks through these measures.
- The Government announced its decision to finance the development of the new cruise terminal at Kai Tak by taking up the construction of the project, and leasing the facilities to a cruise terminal operator. The first berth would commence operation in mid-2013, and the cruise terminal building would be completed in 2014-15.

- 1 Oct The World Intellectual Property Organization (WIPO) Copyright Treaty (WCT) and WIPO Performances and Phonograms Treaty (WPPT) became applicable to the HKSAR. The treaties would cover the latest international standards for protection of copyright and related rights in the light of new developments in digital technology.
- 6 Oct The HKMA announced that it had opened investigations into complaints of alleged mis-selling of investment products related to Lehman Brothers.
- The 2008 Annual Survey of Companies in Hong Kong Representing Parent Companies Located outside Hong Kong conducted by Census and Statistics Department showed that Hong Kong remained a magnet for international companies to oversee their regional operations. The total number of regional headquarters and offices in Hong Kong reached all-time high, at 3 882.
- 8 Oct HKIA and Shenzhen International Airport (SZIA) jointly launched the Hong Kong-Shenzhen Airport Links, enabling passengers at HKIA or SZIA to check in and obtain boarding passes for connecting flights at either airport.
- The World Economic Forum released its Global Competitiveness Report 2008-2009. Hong Kong ranked the 11th, improved by one place over the last year.
- 9 Oct The HKMA adjusted the methodology for the determination of base rate by reducing the spread of 150 basis points above the prevailing US Federal Funds Target Rate to 50 basis points in Hong Kong. The Base Rate was adjusted downward to 2% according to this new pre-set formula.
- HKIA was voted the “Best Airport” for six consecutive years in the TTG Travel Awards.
- 10 Oct The standardized definition of “saleable area” became a requirement under the Lands Department’s Consent Scheme. Developers had to adopt the standardized definition for all uncompleted first-hand residential properties which were approved for pre-sale under the Consent Scheme.
- 13-17 Oct With sponsorship from OGCIO, HKTDC led a delegation to the International Film and Programme Market for TV, Video, Cable and Satellite 2008 in Cannes, France, and organised the Hong Kong Pavilion there to promote the digital entertainment products and services of Hong Kong.
- 14 Oct The FS announced two new precautionary measures to further strengthen confidence in Hong Kong's banking system, namely: the use of the Exchange Fund to guarantee the repayment of all customer deposits held with all Authorized Institutions in Hong Kong following the principles of the existing Deposit Protection Scheme; and the establishment of a Contingent Bank Capital Facility for the purpose of making available additional capital to locally incorporated licensed banks, should this become necessary. Both measures took immediate effect and would remain in force until the end of 2010, when a decision would be taken in the light of international financial conditions on whether they should be extended.

- 15 Oct The CE delivered his 2008-09 Policy Address. One of the major focuses is to help the Hong Kong economy overcome the financial crisis and turn it into new opportunities. The CE announced that he would establish and chair a task force to assess the impact of the financial tsunami on the economy and propose specific options to address the challenges.
- The Office of the Commissioner of Insurance, Hong Kong and the Federal Financial Supervisory Authority of Germany concluded a MOU to strengthen supervisory cooperation and exchange of information between the two regulators.
- 17 Oct The HKMA appointed PricewaterhouseCoopers as an independent adviser to review the process and strategy adopted by the distributing banks in implementing the buy-back proposal for the Lehman Minibonds.
- The HKMA referred to the SFC the first batch of 24 cases involving complaints of alleged misconduct in respect of Lehman-related products for further action.
- 18 Oct The Government announced the enhancement of the SME Funding Schemes by allowing greater flexibility in the loan amount under the SME Loan Guarantee Scheme (SGS), and by extending the guarantee period for the Working Capital Loan. The grant ceiling of the Export Marketing Fund (EMF) would be raised and the scope of reimbursable items extended, with a view to enabling SMEs to develop more new markets and engage in more export promotion activities. The enhanced measures to EMF and SGS were implemented on 3 and 6 November respectively.
- 20 Oct A formal agreement was signed to confirm the HKSAR's participation in the Urban Best Practices Area (UBPA) Exhibition of the Shanghai Expo to be held in 2010. HKSAR's exhibition, titled "Smart Card, Smart City, Smart Life", aims at showcasing the city's innovative and extensive application of smart card technology to improve our citizens' city life.
- The HKMA announced the additional offer of 3-month Exchange Fund Bills in two tenders, HK\$2,000 million each, on 28 October and 4 November 2008. The issuance of additional Exchange Fund paper helped meet the increased demand for the paper by banks for liquidity management purpose, it could also improve banks' access to the Discount Window and other liquidity facilities recently introduced by the HKMA.
- The total gross tonnage registered under the Hong Kong Shipping Register crossed the 39 million mark, up notably from 36 million at end-2007.
- HKEx relaunched the gold futures contract in its derivatives market, further expanding the product range.
- 23 Oct The SCED convened an SME Summit, at which participants gave comments and suggestions on ways to support SMEs amid the global financial turmoil.
- 24 Oct The HKMA and Bank Indonesia jointly announced the signing of a MOU for the establishment of a large-value payment system link between Indonesia and Hong Kong.

- 24-27 Oct The SCED led a business delegation to Chengdu, Sichuan to participate in the Ninth Western China International Economy and Trade Fair, and to visit various local business establishments to explore opportunities for industrial relocation and business co-operation.
- 27-29 Oct The 11th Pan-PRD Regional Co-operation IT Department Directors Joint Conference was held in Chongqing.
- 28 Oct The CE announced appointments to the Task Force on Economic Challenges (TFEC). TFEC would assess the impact of the global financial tsunami on the local economy, propose options to address the challenges, identify new business opportunities and enhance the competitiveness of Hong Kong.
- 28 Oct A MOU on co-operation in Wine-related Businesses was signed with Spain, covering promotion of trade in wine and related food items, wine-related tourism, investment, education and counterfeits.
- 29 Oct The largest joint investment promotion event in the year, “Hong Kong – Guangdong Business Conference in Madrid 2008” was held by Hong Kong and Guangdong governments to promote business opportunities in the Greater PRD, Hong Kong and Guangdong for companies in Spain. The SCED and the Governor of the People’s Government of Guangdong Province led high-level delegations to join this event.
- 30 Oct The HKMA announced that the Base Rate was adjusted downward by 50 basis points to 1.5%.
- 31 Oct The HKMA announced that it had made available mediation and arbitration services for helping resolve questions of compensation between investors in Lehman-Brothers-related products and distributing banks. The service was provided by the Hong Kong International Arbitration Centre. The HKMA would co-ordinate referrals and pay the share of the fee for these services on behalf of eligible investors.
- The Government and the Government of Japan jointly announced that the year 2009 would be designated the “Hong Kong-Japan Tourism Exchange Year”, creating a platform for the two places to promote tourism and enhance cultural exchanges.
- 1 Nov MoF and SAT adjusted the export tax rebate rates of some 3 000 commodities. The export tax rebate rates of textile products, garments and toys were raised to 14%, some plastic products to 9%, certain furniture to 11% and 13%.
- 1-4 Nov The Broadcasting Authority and the Office of the Telecommunications Authority co-hosted the 39th Annual Conference of the International Institute of Communications and the International Regulators Forum for the first time in Hong Kong. The forum and the conference provided an invaluable opportunity for regulators and industry players from 33 territories and jurisdictions to exchange views on key issues of the communications industry.

- 3 Nov The CE chaired the first meeting of the TEFC. The Task Force agreed to focus on the competitiveness and opportunities for the financial services, trade and logistics, tourism and consumption-related services, and real estate and construction sectors. Supporting Small and Medium Enterprises, preserving the confidence of Hong Kong people in the economy and promoting employment would top TFEC's priorities.
- 5 Nov Premier Wen Jiabao confirmed at the General Meeting of the State Council ten measures to expand domestic consumption and achieve steady and relatively fast economic growth. An amount of four trillion RMB was estimated to be invested by end 2010. Following this announcement, the Mainland rolled out a series of implementation measures including raising the export tax rebate rates, eliminating/suspending administrative fees and supporting SME financing. Hong Kong enterprises with operations in the Mainland would also benefit from these measures.
- 6 Nov The HKMA announced two refinements to the fifth of the five measures introduced on 30 September for providing liquidity assistance to licensed banks in Hong Kong. The refinements, which would remain in force until the end of March 2009, were aimed at further easing term funding pressures faced by licensed banks in Hong Kong and at providing assurances to the market about the availability of liquidity in anticipation of banks' greater demand for funding towards the year end.
- 10-14 Nov GCIO led a delegation from the ICT industry to visit Melbourne, Adelaide and Sydney in Australia. The visit aimed to foster ICT co-operation with Australia and raise Hong Kong's profile in the ICT area.
- 11 Nov In its Preliminary Conclusions, IMF Article IV Staff Mission welcomed the Government's various measures to safeguard the stability of the financial system and maintained its long-standing support for the Linked Exchange Rate system.
- 13 Nov The HKTB launched a dedicated office "Meetings and Exhibitions Hong Kong" to provide one-stop support for organisers of MICE events, step up global promotion, and enrich the travel experience of MICE participants in Hong Kong.

The Environmental Protection Department and the Shenzhen Environmental Protection Bureau signed a 'Co-operation Agreement on Cleaner Production between Hong Kong and Shenzhen' to strengthen co-operation efforts in promoting cleaner production. The two sides would jointly organize awareness promotion activities, experience sharing and demonstration projects, and would consider introducing further incentive measures.

Based on the principle of “co-study and co-development”, the Development Bureau and Shenzhen Municipal Government signed a co-operation agreement at the Hong Kong-Shenzhen Co-operation Meeting on commissioning a joint comprehensive planning and engineering study to explore the feasibility of developing the Lok Ma Chau Loop and the type of land uses that are of mutual benefits to the two cities. Both sides initially considered that higher education would be developed as the leading land use in the Loop with some elements of high-tech Research & Design facilities and creative industries. The idea would provide impetus for human resources development in the South China region and enhance the competitiveness of the Pearl River Delta, as well as benefit the long-term economic development of the two cities.

14 Nov The Government published the Third Quarter Economic Report 2008. The report pointed out that the Hong Kong economy slowed notably further, with GDP growing by 1.7% in real terms in the third quarter over a year earlier. Externally, exports moderated, as the impact of the global economic downturn increasingly set in. Locally, consumer spending also faltered amid the global financial tsunami and the plunge in local stock market, while investment expenditure still registered a modest growth.

In the November update of the economic forecast for 2008, the forecast growth rate of GDP in real terms was revised downward to 3% to 3.5%. Meanwhile, the forecast rates of increase in the headline and underlying Composite CPI were kept at 4.2% and 5.5% respectively.

15 Nov The FS and the Chief Executive of the HKMA attended the G20 Summit on Financial Markets and the World Economy held in Washington DC as members of the Chinese delegation. The Summit agreed on enhancing international cooperation on dealing with the financial crisis, strengthening economic growth, as well as principles for reform of financial systems to help to avoid similar crises in the future.

18-20 Nov The CE visited the United Kingdom to update the political and business leaders on the latest developments in Hong Kong and strengthen bilateral links.

19 Nov The Pacific Economic Co-operation Council published its State of the Region Report 2008-2009. The Composite Index of Economic Integration in the Asia Pacific of the Report recognised Hong Kong as the economy most highly integrated with the Asia Pacific region.

20 Nov A Co-operation Arrangement on Trade and Investment Facilitation was signed with the Government of the Republic of Peru.

An agreement was reached with the Government of the Republic of Chile to set up a Joint Feasibility Study Group to examine the proposal of entering into a bilateral free trade agreement between the two economies.

PCCW-HKT Telephone Limited launched the CDMA 2000 mobile services, the fifth 3G mobile network in Hong Kong, in addition to the four W-CDMA networks licensed in 2001. This would strengthen Hong Kong's strategic position as a world city as well as the gateway between the mainland China and the world.



- 21 Nov The HKMA announced a temporary measure for adopting a flexible approach towards the “premium” on capital adequacy ratio of individual banks to allow them more room to conduct lending business.
- The HKMA announced and implemented the arrangement with the People’s Bank of China for the provision of liquidity to Hong Kong banks operating on the Mainland. This would help Hong Kong corporations operating on the Mainland continue to obtain financing from Hong Kong banks on the Mainland.
- The Mainland announced that with effect from 1 December 2008, the requirement for actual payment of standing book deposit for over 2 000 tariff code items would be suspended for processing trade enterprises of categories A and B.
- 22-23 Nov The CE attended the 16th APEC Economic Leaders’ Meeting in Lima, Peru.
- 24 Nov The HKMA announced the offer of an additional Exchange Fund Bills, totalling HK\$8,000 million, in a tender on 2 December to meet increased demand for the paper from banks.
- 27 Nov At its ninth meeting, the HZMB AWCG endorsed the feasibility study of the project. The report was submitted by the Guangdong Province for the consideration of the Central Government on 31 December. As agreed by the three governments, the AWCG project office on the Mainland started inviting tenders on 1 December for the preliminary design and site investigation for the Main Bridge.
- 28 Nov The scheme of the Hong Kong Section of the Guangzhou – Shenzhen –Hong Kong Express Rail Link was gazetted under the Railways Ordinance (Cap. 519).
- 1 Dec The One Stop Centre for Warehouse Construction Permits (OSC) set up under the Efficiency Unit commenced operation, as one of the ongoing initiatives under the “Be the Smart Regulator” programme to enhance the business environment and competitiveness of Hong Kong. As a pilot scheme, the OSC would initially handle applications for two-storey warehouses. A review of the scope and effectiveness of the OSC would be subsequently conducted.
- MoF and SAT raised the export tax rebate rates of 3 770 labour-intensive products and other commodities.
- A Receipt and Despatch Centre operated by the Business Registration Office of the Inland Revenue Department was set up at the CR’s premises to provide one-stop service for company incorporation and business registration, enabling a company to submit an application for business registration immediately after obtaining a Certificate of Incorporation from the CR.
- 2 Dec The CE in Council approved the non-in-situ land exchange for the preservation of King Yin Lei at 45 Stubbs Road, Hong Kong, which was the first case of application of the new heritage conservation policy on economic incentives to facilitate conservation of privately-owned historic buildings.

- 3 Dec The Hong Kong Film Development Council launched a large-scale project “Hong Kong Film: New Action” to promote the long-term development of Hong Kong film industry. The project would help develop the markets for Hong Kong films in the Mainland and Southeast Asia (including Taiwan, Singapore and Malaysia) and to introduce to these markets the new generation of Hong Kong film directors.
- 8 Dec The second meeting of the TFEC was held. The CE announced that the Government would expand the Special Loan Guarantee Scheme. The total Government commitment for the scheme was substantially increased to \$100 billion. The Government would also make available over 60 000 employment opportunities in 2009 through expediting infrastructure projects, advancing recruitment of civil servants and creating temporary or other positions..
- The Central Economic Work Conference was convened from 8 to 10 December 2008. The Conference set out major economic tasks of the Mainland in 2009. These include strengthening and improving macro-control policies, adopting proactive fiscal policies and appropriately relaxed monetary policies; reinforcing the development of the rural economy, ensuring the efficient supply of agricultural products and sustainable income growth of the rural people; expediting the change of direction for economic development and spearheading strategic adjustments to economic structure; deepening reform and liberalization, improving the institutional set up and mechanism for scientific development; and safeguarding social stability.
- 9 Dec IMF released its Staff Report on Hong Kong for 2008 commending the Government’s measures to contain the contagious risks from the global financial turmoil, and attributed the resilience to the Government’s efforts over the past several years to the establishment of a more robust system of financial supervision and regulation and a sophisticated financial infrastructure. IMF reiterated its support for the Linked Exchange Rate system, and continued to find the real value of the Hong Kong dollar to be broadly in line with economic fundamentals.
- 9-12 Dec The OGCIO sponsored the hosting of Asian-Oceanian Computing Industry Organisation (ASOCIO) ICT Summit 2008 in Hong Kong. Over 400 government and industry delegates from 17 economies in the Asian-Oceania region participated.
- 10-17 Dec The FS led a business delegation to visit Nanning of Guangxi and Hanoi of Vietnam to enhance Hong Kong’s understanding of the economic situation and business environment of the two places.
- 11 Dec The HKMC announced an enhancement of the Mortgage Insurance Programme (MIP) by lowering the threshold above which insurance would be made available from the current 70% loan-to-value ratio (LTV) to 60% (up to a total LTV ratio of 90% for this product); refinement of the eligibility criteria for 95% LTV mortgages under the MIP; and an increase, from HK\$10 billion to HK\$30 billion, in the size of the Revolving Credit Facility offered by the Exchange Fund.

The second annual structured dialogue meeting between the European Commission and the Government was held in Brussels, Belgium. The two sides had extensive exchange on such issues as trade, competition policy, customs co-operation, environmental protection, aviation, food and product safety, education exchange and public health, and agreed to continue to strengthen co-operation in these areas.

A new Dong Jiang water supply agreement which would ensure a reliable water supply up to 2011 to support a wide range of economic activities of Hong Kong was signed.

12 Dec The LegCo FC approved an additional funding commitments of \$25.2 million for the Cyberport Digital Entertainment Incubation- cum-Training Programme (Phase 2).

13 Dec State Council's dossier on "Certain Views on the Current Financial Situation for Economic Development" dated 8 December was released. It set out a total of 30 measures to strengthen support for the financial market and encourage economic development at a steady yet faster pace. Among these measures, Measure No. 13 allowed Hong Kong companies or financial institutions with relatively substantial business in the Mainland to issue RMB bonds in Hong Kong. Measure No. 22 supported the development of the RMB business in Hong Kong and expansion of the scope of RMB currency swap for trading activities in the region so as to lower foreign exchange risk.

16 Dec The Government and the Government of the Socialist Republic of Vietnam signed an agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income.

The CE in Council approved the DP submitted by the Hongkong Electric Company Limited (HEC) for the period from January 2009 to December 2013 under the new SCA, which covers, inter-alia, HEC's capital projects in the DP period and the tariff adjustments effective from January 2009. In accordance with the approved DP, HEC reduced its average Basic Tariff and Net Tariff by 19.2% and 5.9% respectively on 1 January 2009.

17 Dec The HKMA announced that the Base Rate was adjusted downward to 0.5%.

18 Dec The Hong Kong-Guangdong Joint Working Group on Sustainable Development and Environmental Protection held its ninth annual meeting in Hong Kong. The meeting reviewed progress of environmental co-operation initiatives and noted that good progress had been made on various areas. For 2009, both sides would deepen co-operation to actively transform the PRD region into a Green and Quality Living Area.

19 Dec The Central Government announced two measures to facilitate Mainland residents to visit Hong Kong: non-Guangdong residents living in Shenzhen could apply for Individual Visit Scheme (IVS) endorsements in Shenzhen to visit Hong Kong; and eligible Shenzhen permanent residents could apply for an IVS endorsement which allows multiple entry into Hong Kong within one year.

- 22 Dec The CEDB announced the implementation framework for the development of mobile television services in Hong Kong. The framework aims to create an enabling environment that promotes innovation, investment and competition of local mobile TV services for the benefit of consumers.
- 29 Dec The MoF and the SAT announced that with effect from 1 January 2009, the export tax rebate rates would be increased for 553 mechanical and electrical products which were of high technological and value-added content.
- 30 Dec The Government enhanced competition in the provision of the Government Electronic Trading Services (GETS) by appointing a total of three service providers for the contract period from 2010 to 2016. Through GETS, the trading community can submit six commonly used trade documents to the Government electronically.
- 31 Dec MoC and General Administration of Customs promulgated the respective removal of 1 730 and 27 10-digit tariff code items from the Catalogue of Restricted Products and the Catalogue of Prohibited Products for Processing Trade, which took effect from 1 February 2009.

The Hong Kong stock market had been volatile in 2008. The total market capitalization at end-2008 was \$10.3 trillion, down 50% from end-2007.

## Statistical Appendix

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**Table 1 : Gross Domestic Product by expenditure component  
(at current market prices)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	(\$Mn)					
Private consumption expenditure	765,248	777,141	782,984	748,402	719,873	767,923
Government consumption expenditure	119,993	120,172	128,866	131,291	130,151	127,327
Gross domestic fixed capital formation	325,328	347,375	333,044	286,025	261,576	275,034
<i>of which:</i>						
Building and construction	171,930	155,441	142,659	131,757	116,628	107,692
Machinery, equipment and computer software	141,349	180,204	180,011	144,832	136,537	150,545
Changes in inventories	-10,612	14,399	-4,060	5,660	9,111	7,076
Total exports of goods	1,349,000	1,572,689	1,480,987	1,562,121	1,749,089	2,027,031
Imports of goods	1,373,500	1,636,711	1,549,222	1,601,527	1,794,059	2,099,545
Exports of services	276,385	315,012	320,799	347,836	362,420	429,584
Imports of services	185,174	192,427	194,180	202,494	203,400	242,507
<b>GDP</b>	<b>1,266,668</b>	<b>1,317,650</b>	<b>1,299,218</b>	<b>1,277,314</b>	<b>1,234,761</b>	<b>1,291,923</b>
<i>Per capita GDP (\$)</i>	<i>191,731</i>	<i>197,697</i>	<i>193,500</i>	<i>189,397</i>	<i>183,449</i>	<i>190,451</i>
<b>GNP</b>	<b>1,291,436</b>	<b>1,326,404</b>	<b>1,327,761</b>	<b>1,282,966</b>	<b>1,263,252</b>	<b>1,315,333</b>
<i>Per capita GNP (\$)</i>	<i>195,480</i>	<i>199,010</i>	<i>197,751</i>	<i>190,235</i>	<i>187,682</i>	<i>193,902</i>
Total final demand	2,825,342	3,146,788	3,042,620	3,081,335	3,232,220	3,633,975
Total final demand excluding re-exports <sup>(a)</sup>	1,886,157	2,048,719	1,983,301	1,923,623	1,896,483	2,062,142
Domestic demand	1,199,957	1,259,087	1,240,834	1,171,378	1,120,711	1,177,360
Private	1,014,313	1,078,515	1,053,973	986,542	939,104	1,001,588
Public	185,644	180,572	186,861	184,836	181,607	175,772
External demand	1,625,385	1,887,701	1,801,786	1,909,957	2,111,509	2,456,615

**Definitions of Terms :**

Total final demand	= private consumption expenditure + government consumption expenditure + gross domestic fixed capital formation + changes in inventories + total exports of goods + exports of services
Private sector domestic demand	= private consumption expenditure + gross domestic fixed capital formation by the private sector + changes in inventories
Public sector domestic demand	= government consumption expenditure + gross domestic fixed capital formation by the public sector
Domestic demand	= private sector domestic demand + public sector domestic demand
External demand	= total exports of goods + exports of services

**Table 1 : Gross Domestic Product by expenditure component  
(at current market prices) (Cont'd)**

	(\$Mn)							
	<u>2005</u>	<u>2006</u>	<u>2007<sup>#</sup></u>	<u>2008<sup>#</sup></u>		<u>2008</u>		
					Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>
Private consumption expenditure	804,936	863,591	971,555	1,016,220	250,413	260,747	250,766	254,294
Government consumption expenditure	121,435	123,033	130,438	139,973	35,864	33,345	34,806	35,958
Gross domestic fixed capital formation	289,170	322,691	325,366	327,511	85,723	85,603	83,913	72,272
<i>of which:</i>								
Building and construction	105,993	106,268	111,794	124,045	33,855	32,444	29,309	28,437
Machinery, equipment and computer software	163,287	199,631	189,075	178,615	42,631	45,736	49,456	40,792
Changes in inventories	-4,761	-2,129	12,841	12,293	-533	4,931	3,110	4,785
Total exports of goods	2,251,744	2,467,357	2,698,850	2,843,998	650,631	708,742	764,283	720,342
Imports of goods	2,311,091	2,576,340	2,852,522	3,024,089	696,708	770,762	805,638	750,980
Exports of services	495,394	565,054	660,728	719,908	174,063	166,104	193,787	185,954
Imports of services	264,237	287,900	332,240	357,300	88,868	87,122	95,099	86,211
<b>GDP</b>	<b>1,382,590</b>	<b>1,475,357</b>	<b>1,615,016</b>	<b>1,678,514</b>	<b>410,585</b>	<b>401,588</b>	<b>429,928</b>	<b>436,414</b>
<i>Per capita GDP (\$)</i>	<i>202,928</i>	<i>215,158</i>	<i>233,185</i>	<i>240,554</i>	--	--	--	--
<b>GNP</b>	<b>1,384,238</b>	<b>1,502,705</b>	<b>1,659,453</b>	<b>N.A.</b>	<b>428,547</b>	<b>423,623</b>	<b>454,198</b>	<b>N.A.</b>
<i>Per capita GNP (\$)</i>	<i>203,170</i>	<i>219,146</i>	<i>239,601</i>	<i>N.A.</i>	--	--	--	--
Total final demand	3,957,918	4,339,597	4,799,778	5,059,903	1,196,161	1,259,472	1,330,665	1,273,605
Total final demand excluding re-exports <sup>(a)</sup>	2,212,697	2,406,861	2,659,588	2,786,545	677,626	693,081	719,283	696,556
Domestic demand	1,210,780	1,307,186	1,440,200	1,495,997	371,467	384,626	372,595	367,309
Private	1,048,026	1,149,285	1,278,006	1,320,680	324,625	344,054	330,233	321,768
Public	162,754	157,901	162,194	175,317	46,842	40,572	42,362	45,541
External demand	2,747,138	3,032,411	3,359,578	3,563,906	824,694	874,846	958,070	906,296

Notes : (a) Re-export margin is nevertheless retained in the total final demand.

(#) Figures are subject to revision later on as more data become available.

(--) Not applicable.

N.A. Not yet available.

**Table 2 : Rates of change in chain volume measures of Gross Domestic Product  
by expenditure component (in real terms)**

(%)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Private consumption expenditure	1.2	5.1	1.8	-0.9	-1.3	7.0
Government consumption expenditure	3.1	2.0	6.0	2.4	1.8	0.7
Gross domestic fixed capital formation	-16.7	7.9	2.6	-4.7	0.9	2.5
<i>of which:</i>						
Building and construction	-16.4	-7.9	-1.1	-1.3	-5.4	-10.7
Machinery, equipment and computer software	-17.6	27.3	6.2	-7.6	7.0	10.3
Total exports of goods	3.6	16.9	-3.3	8.6	14.0	14.9
Imports of goods	-0.1	18.4	-1.9	7.9	13.1	13.7
Exports of services	8.9	13.4	6.4	11.1	7.6	18.0
Imports of services	-3.4	2.2	2.0	3.9	-2.2	14.6
<b>GDP</b>	<b>2.6</b>	<b>8.0</b>	<b>0.5</b>	<b>1.8</b>	<b>3.0</b>	<b>8.5</b>
<i>Per capita GDP</i>	<i>1.6</i>	<i>7.0</i>	<i>-0.2</i>	<i>1.4</i>	<i>3.2</i>	<i>7.6</i>
<b>GNP</b>	<b>2.6</b>	<b>6.6</b>	<b>2.0</b>	<b>0.1</b>	<b>4.9</b>	<b>7.9</b>
<i>Per capita GNP</i>	<i>1.6</i>	<i>5.6</i>	<i>1.3</i>	<i>-0.3</i>	<i>5.1</i>	<i>7.0</i>
Total final demand	0.9	12.6	-0.7	5.0	7.9	11.8
Total final demand excluding re-exports <sup>(a)</sup>	-1.3	9.8	0.3	2.0	3.1	8.9
Domestic demand	-3.6	7.7	0.9	-0.7	-0.2	5.0
Private	-4.6	9.5	0.5	-1.0	-0.5	6.2
Public	2.4	-2.1	3.3	1.1	1.4	-1.2
External demand	4.5	16.3	-1.7	9.0	12.8	15.4

Notes : (a) Re-export margin is nevertheless retained in the total final demand.

(#) Figures are subject to revision later on as more data become available.

(\*) Less than 0.05%.

(^) Average annual rate of change for the 10-year period 1997-2007.

(~) Average annual rate of change for the 5-year period 2002-2007.

(--) Not applicable.

N.A. Not yet available.



**Table 2 : Rates of change in chain volume measures of Gross Domestic Product by expenditure component (in real terms) (Cont'd)**

(%)

	<u>2005</u>	<u>2006</u>	<u>2007<sup>#</sup></u>	<u>2008<sup>#</sup></u>	<u>2008</u>				Average annual rate of change:	
					Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	10 years 1998 to 2008 <sup>#</sup>	5 years 2003 to 2008 <sup>#</sup>
Private consumption expenditure	3.0	5.9	8.5	1.8	7.6	3.5	*	-3.2	3.2	5.2
Government consumption expenditure	-3.2	0.3	3.0	2.0	0.6	3.2	2.0	2.6	1.8	0.5
Gross domestic fixed capital formation	4.1	7.1	3.4	-0.3	10.1	4.9	3.2	-17.3	0.4	3.3
<i>of which:</i>										
Building and construction	-7.6	-7.1	-0.2	0.3	9.1	-0.4	-4.1	-3.6	-5.9	-5.2
Machinery, equipment and computer software	12.8	19.2	3.0	0.6	5.9	6.9	10.6	-18.7	5.4	9.0
Total exports of goods	10.4	9.3	7.0	2.0	8.3	4.4	1.4	-4.9	8.2	8.6
Imports of goods	8.0	9.2	8.8	1.9	8.4	4.9	2.2	-6.4	7.7	8.3
Exports of services	11.6	10.1	14.1	5.6	10.2	8.2	5.1	-0.2	10.6	11.8
Imports of services	7.8	8.1	12.1	3.2	10.2	3.8	1.9	-2.5	4.7	9.1
<b>GDP</b>	<b>7.1</b>	<b>7.0</b>	<b>6.4</b>	<b>2.5</b>	<b>7.3</b>	<b>4.3</b>	<b>1.7</b>	<b>-2.5</b>	<b>4.7</b>	<b>6.3</b>
<i>Per capita GDP</i>	<b>6.6</b>	<b>6.3</b>	<b>5.3</b>	<b>1.7</b>	--	--	--	--	<b>4.0</b>	<b>5.5</b>
<b>GNP</b>	<b>5.3</b>	<b>8.8</b>	<b>7.4</b>	<b>N.A.</b>	<b>3.8</b>	<b>7.7</b>	<b>6.0</b>	<b>N.A.</b>	<b>4.1</b> ^	<b>6.8</b> ~
<i>Per capita GNP</i>	<b>4.8</b>	<b>8.1</b>	<b>6.3</b>	<b>N.A.</b>	--	--	--	--	<b>3.4</b> ^	<b>6.3</b> ~
Total final demand	7.7	8.4	8.2	2.2	8.2	4.6	2.0	-4.8	6.3	7.6
Total final demand excluding re-exports <sup>(a)</sup>	5.4	7.3	7.9	1.6	7.8	3.8	1.6	-5.8	4.4	6.2
Domestic demand	1.6	6.0	7.9	1.1	7.0	3.5	1.7	-6.9	2.5	4.3
Private	3.0	7.5	8.9	0.9	7.6	3.6	1.8	-8.3	2.9	5.2
Public	-6.2	-3.8	0.2	2.9	3.4	2.6	1.5	4.1	-0.3	-1.7
External demand	10.6	9.4	8.3	2.7	8.7	5.1	2.1	-3.9	8.6	9.2

**Table 3 : Gross Domestic Product by economic activity  
(at current prices)**

	2003		2004		2005		2006		2007 <sup>#</sup>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture and fishing	824	0.1	886	0.1	847	0.1	849	0.1	895	0.1
Mining and quarrying	116	*	72	*	100	*	93	*	114	*
Manufacturing	44,403	3.7	44,455	3.6	45,547	3.4	45,761	3.2	39,319	2.5
Electricity, gas and water	38,839	3.3	39,726	3.2	39,924	3.0	40,364	2.8	39,673	2.6
Construction	44,910	3.8	40,376	3.2	38,538	2.9	38,688	2.7	40,153	2.6
Services	1,062,714	89.2	1,119,304	89.9	1,207,873	90.6	1,297,545	91.2	1,431,333	92.3
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	<i>308,872</i>	<i>25.9</i>	<i>345,092</i>	<i>27.7</i>	<i>386,726</i>	<i>29.0</i>	<i>397,252</i>	<i>27.9</i>	<i>417,339</i>	<i>26.9</i>
<i>Transport, storage and communications</i>	<i>117,420</i>	<i>9.9</i>	<i>126,820</i>	<i>10.2</i>	<i>135,119</i>	<i>10.1</i>	<i>137,166</i>	<i>9.6</i>	<i>141,749</i>	<i>9.1</i>
<i>Financing, insurance, real estate and business services</i>	<i>251,085</i>	<i>21.1</i>	<i>266,855</i>	<i>21.4</i>	<i>294,260</i>	<i>22.1</i>	<i>356,371</i>	<i>25.0</i>	<i>450,989</i>	<i>29.1</i>
<i>Community, social and personal services</i>	<i>256,134</i>	<i>21.5</i>	<i>257,630</i>	<i>20.7</i>	<i>253,312</i>	<i>19.0</i>	<i>256,347</i>	<i>18.0</i>	<i>264,626</i>	<i>17.1</i>
<i>Ownership of premises</i>	<i>129,203</i>	<i>10.8</i>	<i>122,906</i>	<i>9.9</i>	<i>138,455</i>	<i>10.4</i>	<i>150,408</i>	<i>10.6</i>	<i>156,631</i>	<i>10.1</i>
<b>GDP at current factor cost</b>	<b>1,191,807</b>	<b>100.0</b>	<b>1,244,819</b>	<b>100.0</b>	<b>1,332,830</b>	<b>100.0</b>	<b>1,423,299</b>	<b>100.0</b>	<b>1,551,488</b>	<b>100.0</b>
Taxes on production and imports	48,057	--	58,729	--	62,891	--	71,071	--	93,981	--
Statistical discrepancy (%)	-0.4	--	-0.9	--	-0.9	--	-1.3	--	-1.9	--
<b>GDP at current market prices</b>	<b>1,234,761</b>	<b>--</b>	<b>1,291,923</b>	<b>--</b>	<b>1,382,590</b>	<b>--</b>	<b>1,475,357</b>	<b>--</b>	<b>1,615,016</b>	<b>--</b>

Notes : Figures may not add up exactly to the total due to rounding.

(#) Figures are subject to revision later on as more data become available.

(\*) Less than 0.05%.

(--) Not applicable.

**Table 4 : Rates of change in chain volume measures of Gross Domestic Product  
by economic activity (in real terms)**

	(%)									
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007<sup>#</sup></u>	<u>2007</u>	<u>2008</u>		
							Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
Agriculture and fishing	-1.1	-6.3	2.7	-1.0	-5.0	-6.4	-7.2	-20.1	-17.5	-11.9
Mining and quarrying	-11.3	2.3	-16.7	10.1	10.2	13.7	12.5	1.1	-3.2	-0.9
Manufacturing	-10.0	-10.3	1.7	2.1	2.2	-1.5	-0.3	-4.4	-4.1	-6.7
Electricity, gas and water	3.8	1.8	2.3	2.5	0.8	1.2	0.2	4.5	-3.4	-1.5
Construction	-1.9	-4.6	-9.3	-8.1	-9.4	-1.1	-1.3	9.1	-0.6	-3.5
Services	2.7	4.3	9.9	7.5	7.1	7.0	7.7	6.8	4.0	1.9
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	4.4	8.9	15.1	14.1	8.8	6.6	7.9	8.9	7.1	4.3
<i>Transport, storage and communications</i>	6.4	0.6	13.9	7.4	6.8	5.1	6.4	7.7	3.8	2.0
<i>Financing, insurance, real estate and business services</i>	2.7	5.5	13.4	8.6	12.2	13.5	15.0	10.3	3.5	-0.6
<i>Community, social and personal services</i>	-0.4	0.4	2.6	-0.1	1.3	1.7	1.7	0.7	1.5	1.6
<i>Ownership of premises</i>	1.8	2.8	1.5	2.9	2.4	3.3	3.0	2.1	1.7	1.8
Taxes on production and imports	-0.2	2.6	12.3	0.8	6.8	16.4	19.2	18.4	6.1	-4.0
<b>GDP in chained (2006) dollars</b>	<b>1.8</b>	<b>3.0</b>	<b>8.5</b>	<b>7.1</b>	<b>7.0</b>	<b>6.4</b>	<b>6.9</b>	<b>7.3</b>	<b>4.3</b>	<b>1.7</b>

Note : (#) Figures are subject to revision later on as more data become available.

**Table 5 : Balance of payments account by major component  
(at current prices)**

(\$Mn)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u> Q4	Q1 <sup>#</sup>	<u>2008</u> Q2 <sup>#</sup>	Q3 <sup>#</sup>
Current account	128,240	122,512	156,933	178,166	199,160	47,662	51,075	31,515	75,305
Goods	-44,970	-72,514	-59,347	-108,983	-153,672	-45,887	-46,077	-62,020	-41,355
Services	159,020	187,077	231,157	277,154	328,488	95,820	85,195	78,982	98,688
Income	28,491	23,410	1,648	27,348	44,437	2,639	17,962	22,035	24,270
Current transfers	-14,301	-15,461	-16,524	-17,353	-20,093	-4,909	-6,005	-7,483	-6,298
Capital and financial account	-179,086	-184,640	-182,431	-209,935	-259,247	-64,918	-33,762	-20,619	-92,360
Capital and financial non-reserve assets (net change)	-171,497	-159,155	-171,752	-163,199	-144,749	13,345	21,267	-10,356	-41,101
Capital transfers	-8,292	-2,561	-4,939	-2,900	10,338	968	2,650	1,835	8,104
Financial non-reserve assets (net change)	-163,205	-156,594	-166,812	-160,300	-155,086	12,376	18,617	-12,191	-49,205
<i>Direct investment</i>	63,372	-91,038	49,996	635	-52,577	-38,502	56,177	-80,172	32,443
<i>Portfolio investment</i>	-264,619	-306,368	-245,017	-207,879	-21,452	13,678	-186,885	23,685	80,852
<i>Financial derivatives</i>	78,288	44,319	30,502	25,925	43,534	104	10,705	11,663	32,769
<i>Other investment</i>	-40,247	196,492	-2,294	21,019	-124,592	37,096	138,621	32,633	-195,269
Reserve assets (net change) <sup>(a)</sup>	-7,589	-25,486	-10,679	-46,735	-114,498	-78,263	-55,029	-10,263	-51,259
Net errors and omissions	50,846	62,128	25,498	31,769	60,087	17,256	-17,313	-10,896	17,055
<b>Overall balance of payments</b>	<b>7,589</b>	<b>25,486</b>	<b>10,679</b>	<b>46,735</b>	<b>114,498</b>	<b>78,263</b>	<b>55,029</b>	<b>10,263</b>	<b>51,259</b>

Notes : Figures may not add up exactly to the total due to rounding.

(a) A negative value for net change in reserve assets represents a net increase, and a positive value represents a net decrease.

(#) Figures are subject to revision later on as more data become available.

**Table 6 : Visible and invisible trade  
(at current market prices)**

	(\$Mn)								
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007<sup>#</sup></u>	<u>2008<sup>#</sup></u>	<u>2008</u>			
						Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>
Total exports of goods	2,027,031	2,251,744	2,467,357	2,698,850	2,843,998	650,631	708,742	764,283	720,342
Imports of goods	2,099,545	2,311,091	2,576,340	2,852,522	3,024,089	696,708	770,762	805,638	750,980
<b>Visible trade balance</b>	<b>-72,514</b>	<b>-59,347</b>	<b>-108,983</b>	<b>-153,672</b>	<b>-180,091</b>	<b>-46,077</b>	<b>-62,020</b>	<b>-41,355</b>	<b>-30,638</b>
	<b>(-3.5)</b>	<b>(-2.6)</b>	<b>(-4.2)</b>	<b>(-5.4)</b>	<b>(-6.0)</b>	<b>(-6.6)</b>	<b>(-8.0)</b>	<b>(-5.1)</b>	<b>(-4.1)</b>
Exports of services	429,584	495,394	565,054	660,728	719,908	174,063	166,104	193,787	185,954
Imports of services	242,507	264,237	287,900	332,240	357,300	88,868	87,122	95,099	86,211
<b>Invisible trade balance</b>	<b>187,077</b>	<b>231,157</b>	<b>277,154</b>	<b>328,488</b>	<b>362,608</b>	<b>85,195</b>	<b>78,982</b>	<b>98,688</b>	<b>99,743</b>
	<b>(77.1)</b>	<b>(87.5)</b>	<b>(96.3)</b>	<b>(98.9)</b>	<b>(101.5)</b>	<b>(95.9)</b>	<b>(90.7)</b>	<b>(103.8)</b>	<b>(115.7)</b>
Exports of goods and services	2,456,615	2,747,138	3,032,411	3,359,578	3,563,906	824,694	874,846	958,070	906,296
Imports of goods and services	2,342,052	2,575,328	2,864,240	3,184,762	3,381,389	785,576	857,884	900,737	837,191
<b>Visible and invisible trade balance</b>	<b>114,563</b>	<b>171,810</b>	<b>168,171</b>	<b>174,816</b>	<b>182,517</b>	<b>39,118</b>	<b>16,962</b>	<b>57,333</b>	<b>69,105</b>
	<b>&lt;4.9&gt;</b>	<b>&lt;6.7&gt;</b>	<b>&lt;5.9&gt;</b>	<b>&lt;5.5&gt;</b>	<b>&lt;5.4&gt;</b>	<b>&lt;5.0&gt;</b>	<b>&lt;2.0&gt;</b>	<b>&lt;6.4&gt;</b>	<b>&lt;8.3&gt;</b>

Notes : Figures in this table are reckoned on GDP basis.

(#) Figures are subject to revision later on as more data become available.

( ) As a percentage of the total value of imports of goods/services.

< > As a percentage of the total value of imports of goods and services.

**Table 7 : Total exports of goods by market  
(in value terms)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>		<u>2008</u>			
	(% change)			(% change)		(\$Mn)	Q1	Q2	Q3	Q4
							(% change over a year earlier)			
<b>All markets</b>	<b>15.9</b>	<b>11.4</b>	<b>9.4</b>	<b>9.2</b>	<b>5.1</b>	<b>2,824,151</b>	<b>10.5</b>	<b>7.8</b>	<b>5.5</b>	<b>-2.1</b>
Mainland of China	19.7	14.0	14.2	13.2	4.7	1,370,445	11.1	7.7	3.8	-2.0
United States	5.4	5.6	2.9	-0.8	-2.4	359,255	-1.0	-1.5	0.5	-7.5
Japan	14.4	10.3	1.6	-0.7	1.2	120,952	-1.9	-0.6	3.5	3.7
Germany	11.9	15.6	4.0	7.2	15.8	93,942	17.5	14.6	22.7	9.0
United Kingdom	14.8	5.2	6.3	1.7	0.7	75,388	1.2	2.8	5.8	-6.1
Singapore	22.0	6.8	4.4	3.8	9.6	55,315	20.7	19.9	4.4	-3.5
Taiwan	16.2	2.7	3.3	1.6	3.8	54,943	3.2	6.9	4.6	0.7
Republic of Korea	24.0	9.5	7.5	2.0	-6.4	49,564	4.8	-2.5	-4.3	-22.1
Rest of the world	17.3	13.3	8.5	13.2	11.3	644,348	19.7	15.6	11.5	0.5

Note : Figures may not add up exactly to the total due to rounding.

**Table 8 : Imports of goods by source  
(in value terms)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>		<u>2008</u>			
	(% change)		(% change)		(\$Mn)	Q1	Q2	Q3	Q4	
						(% change over a year earlier)				
<b>All sources</b>	<b>16.9</b>	<b>10.3</b>	<b>11.6</b>	<b>10.3</b>	<b>5.5</b>	<b>3,025,288</b>	<b>11.6</b>	<b>9.1</b>	<b>7.0</b>	<b>-4.2</b>
Mainland of China	16.9	14.3	13.7	11.5	6.1	1,410,735	10.2	5.3	10.1	-0.2
Japan	19.7	0.1	4.5	7.2	3.6	297,552	8.9	9.3	4.6	-7.4
Singapore	22.5	21.8	21.9	18.2	0.1	194,951	10.0	5.1	-3.3	-9.3
Taiwan	22.8	9.4	15.9	5.2	-6.4	192,041	9.8	0.4	-9.3	-21.8
United States	13.4	6.5	3.6	12.3	8.6	150,738	7.7	18.4	16.0	-6.1
Republic of Korea	15.0	2.6	16.1	-0.2	-1.1	118,084	1.9	16.8	5.8	-24.7
Rest of the world	13.6	8.4	7.6	10.7	11.5	661,187	19.9	18.7	8.5	0.8

Note : Figures may not add up exactly to the total due to rounding.

**Table 9 : Retained imports of goods by end-use category  
(in value terms)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>		<u>2008</u>			
	(% change)		(% change)		(\$Mn)	Q1	Q2	Q3	Q4	
						(% change over a year earlier)				
<b>Overall</b>	<b>14.8</b>	<b>7.3</b>	<b>14.3</b>	<b>9.4</b>	<b>3.9</b>	<b>760,480</b>	<b>13.7</b>	<b>10.1</b>	<b>8.5</b>	<b>-13.7</b>
Foodstuffs	8.6	3.1	4.3	12.9	21.3	72,525	19.9	29.8	15.7	20.3
Consumer goods	7.4	5.5	3.1	11.4	7.2	157,402	32.4	10.2	0.1	-9.2
Raw materials and semi-manufactures	17.6	4.2	8.8	17.7	-5.3	261,833	3.4	-0.6	-4.9	-17.7
Fuels	37.5	23.5	22.8	20.1	26.5	106,268	25.5	49.2	53.1	-11.2
Capital goods	13.3	10.8	33.2	-8.3	0.5	165,262	6.3	4.6	19.0	-22.3

Note : Figures may not add up exactly to the total due to rounding.

**Table 10 : Exports and imports of services by component  
(at current market prices)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007<sup>#</sup></u>	<u>2008<sup>#</sup></u>		<u>2008</u>			
	(% change)			(% change)	(\$Mn)	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	
						(% change over a year earlier)				
<b>Exports of services</b>	<b>18.5</b>	<b>15.3</b>	<b>14.1</b>	<b>16.9</b>	<b>9.0</b>	<b>719,908</b>	<b>14.1</b>	<b>12.6</b>	<b>10.1</b>	<b>0.7</b>
Transportation	25.5	16.9	10.2	14.6	11.2	222,009	15.8	15.1	14.0	0.7
Travel	26.1	14.2	12.9	18.7	10.4	118,469	14.1	13.8	14.7	1.4
Trade-related	12.6	10.7	9.9	11.6	9.9	218,630	12.5	13.8	11.1	4.4
Other services	12.8	22.3	28.4	26.7	3.8	160,800	13.7	6.7	0.4	-5.5
<b>Imports of services</b>	<b>19.2</b>	<b>9.0</b>	<b>9.0</b>	<b>15.4</b>	<b>7.5</b>	<b>357,300</b>	<b>17.2</b>	<b>10.3</b>	<b>7.4</b>	<b>-2.9</b>
Transportation	29.4	20.3	10.9	20.4	7.0	116,232	17.1	12.1	6.6	-6.1
Travel	15.9	0.1	5.4	7.6	5.4	123,717	19.0	5.8	4.5	-5.7
Trade-related	3.2	12.8	12.6	15.9	8.6	26,378	12.2	12.9	9.5	2.6
Other services	19.7	10.5	11.2	21.2	11.0	90,973	16.0	13.9	12.1	3.0
<b>Net exports of services</b>	<b>17.6</b>	<b>23.6</b>	<b>19.9</b>	<b>18.5</b>	<b>10.4</b>	<b>362,608</b>	<b>11.0</b>	<b>15.3</b>	<b>12.9</b>	<b>4.1</b>

Notes : Figures may not add up exactly to the total due to rounding.

(#) Figures are subject to revision later on as more data become available.



**Table 11 : Incoming visitors by source**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>		<u>2008</u>		
						Q1	Q2	Q3	Q4
<u>('000)</u>									
<b>All sources</b>	<b>21 810.6</b>	<b>23 359.4</b>	<b>25 251.1</b>	<b>28 169.3</b>	<b>29 506.6</b>	<b>7 275.5</b>	<b>6 910.0</b>	<b>7 583.3</b>	<b>7 737.8</b>
Mainland of China	12 245.9	12 541.4	13 591.3	15 485.8	16 862.0	4 153.6	3 741.4	4 609.1	4 357.9
South and Southeast Asia	2 077.7	2 413.0	2 659.7	2 888.1	2 936.2	639.3	783.0	623.4	890.6
Taiwan	2 074.8	2 130.6	2 177.2	2 238.7	2 240.5	534.3	550.6	612.4	543.2
Europe	1 142.7	1 398.0	1 548.2	1 772.2	1 711.4	472.7	412.8	352.2	473.7
Japan	1 126.3	1 210.8	1 311.1	1 324.3	1 324.8	325.4	307.4	335.8	356.1
United States	1 051.7	1 143.1	1 159.0	1 230.9	1 146.4	298.3	303.8	247.0	297.3
Others	2 091.7	2 522.6	2 804.5	3 229.2	3 285.3	851.9	811.0	803.4	819.0
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>40.4</b>	<b>7.1</b>	<b>8.1</b>	<b>11.6</b>	<b>4.7</b>	<b>10.0</b>	<b>7.7</b>	<b>3.4</b>	<b>-0.9</b>
Mainland of China	44.6	2.4	8.4	13.9	8.9	9.9	12.6	9.4	4.4
South and Southeast Asia	52.8	16.1	10.2	8.6	1.7	12.9	4.5	-4.0	-3.5
Taiwan	12.0	2.7	2.2	2.8	0.1	1.6	1.9	0.7	-3.8
Europe	46.3	22.3	10.7	14.5	-3.4	14.2	-1.6	-14.8	-9.8
Japan	29.9	7.5	8.3	1.0	*	-3.5	0.7	0.7	2.3
United States	53.8	8.7	1.4	6.2	-6.9	7.5	-2.5	-13.4	-16.6
Others	37.1	20.6	11.2	15.1	1.7	18.8	5.9	-3.5	-10.4

Notes : Figures may not add up exactly to the total due to rounding.

(\*) Change within  $\pm 0.05\%$ .

**Table 12 : Property market**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Completion of new property by the private sector</b>							
<i>('000 m<sup>2</sup> of internal floor area)</i>							
Residential property <sup>(a)</sup> (in units)	35 322	25 790	26 262	31 052	26 397	26 036	17 321
Commercial property	634	160	208	304	417	371	145
<i>of which :</i>							
Office space	428	96	76	166	299	280	34
Other commercial premises <sup>(b)</sup>	206	64	132	138	118	91	111
Industrial property <sup>(c)</sup>	191	62	45	29	15	1	17
<i>of which :</i>							
Industrial-cum-office premises	40	37	14	0	15	0	4
Conventional flatted factory space	4	19	30	3	0	1	0
Storage premises <sup>(d)</sup>	147	6	0	27	0	0	13
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	26 733	40 944	47 590	20 154	13 705	20 614	24 691
Subsidized sales flats <sup>(e)</sup>	26 532	22 768	25 702	1 072	320	0	0
<b>Building plans with consent to commence work in the private sector</b>							
<i>('000 m<sup>2</sup> of usable floor area)</i>							
Residential property	1 692.8	1 142.7	1 002.5	790.0	1 038.4	530.0	550.7
Commercial property	287.5	337.5	265.0	365.3	200.0	161.3	481.9
Industrial property <sup>(f)</sup>	84.9	129.2	45.7	107.1	0.8	16.4	35.1
Other properties	125.8	240.2	75.0	109.3	444.2	407.1	408.0
Total	2 190.9	1 849.5	1 388.1	1 371.8	1 683.3	1 114.8	1 475.8
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(g)</sup>	77 087	65 340	69 667	72 974	71 576	100 630	103 362
Primary market	18 325	13 911	18 366	23 088	26 498	25 694	15 994
Secondary market	58 762	51 429	51 301	49 886	45 078	74 936	87 368
Selected types of non-residential properties <sup>(h)</sup>							
Office space	1 378	1 724	1 774	1 639	1 817	3 213	3 431
Other commercial premises	2 101	2 411	2 989	3 167	4 142	7 833	7 143
Flatted factory space	2 726	3 393	3 493	3 756	3 813	5 889	6 560

Notes : Figures may not add up exactly to the total due to rounding.

- (a) Figures before 2002 cover all completed residential premises to which either temporary or full Occupation Permits have been granted, as well as village type houses issued with Letters of Compliance. Property developments subject to a Consent Scheme need a Certificate of Compliance, Consent to Assign or Consent to Lease in addition to an Occupation Permit before the premises can be individually assigned. Village-type housing units are excluded as from 2002 and units issued with temporary Occupation Permits are also excluded as from 2004 onwards.

Residential premises here pertain to private residential units, excluding units built under the Private Sector Participation Scheme (PSPS), Home Ownership Scheme (HOS), Buy or Rent Option, Mortgage Subsidy Scheme, Sandwich Class Housing Scheme, Urban Improvement Scheme (UIS) and Flat-for-Sale Scheme. Figures from 2004 onwards also cover those private flats converted from subsidised flats.

- (b) These include retail premises and other premises designed or adapted for commercial use, with the exception of purpose-built offices. Car-parking space and commercial premises built by the Hong Kong Housing Authority and the Hong Kong Housing Society are excluded.
- (c) These include industrial-cum-office premises, but exclude specialised factory buildings which are developed mainly for own use.
- (d) These include storage premises at the container terminals and the airport.

**Table 12 : Property market (Cont'd)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>		<u>2008</u>		
				Q1	Q2	Q3	Q4
<b>Completion of new property by the private sector</b>							
<i>('000 m<sup>2</sup> of internal floor area)</i>							
Residential property <sup>(a)</sup> (in units)	16 579	10 471	8 776	958	678	1 404	5 736
Commercial property	291	503	524	117	59	194	20
<i>of which :</i>							
Office space	108	320	341	112	53	176	0
Other commercial premises <sup>(b)</sup>	183	183	183	5	6	19	20
Industrial property <sup>(c)</sup>	27	16	78	0	11	36	31
<i>of which :</i>							
Industrial-cum-office premises	0	0	4	0	0	4	0
Conventional flatted factory space	0	16	70	0	11	28	31
Storage premises <sup>(d)</sup>	27	0	4	0	0	4	0
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	4 430	4 795	22 759	13 726	5 866	0	3 167
Subsidized sales flats <sup>(e)</sup>	0	2 010	2 200	576	0	984	640
<b>Building plans with consent to commence work in the private sector</b>							
<i>('000 m<sup>2</sup> of usable floor area)</i>							
Residential property	706.7	956.1	530.0	168.6	189.0	128.4	44.0
Commercial property	468.4	327.5	147.7	106.9	39.5	0.9	0.3
Industrial property <sup>(f)</sup>	23.9	103.5	106.6	49.6	54.0	0.0	3.0
Other properties	199.2	207.7	212.8	74.1	52.9	16.7	69.1
Total	1 398.2	1 594.8	997.1	399.2	335.5	146.0	116.4
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(g)</sup>	82 472	123 575	95 931	36 917	27 533	18 792	12 689
Primary market	13 986	20 123	11 046	4 791	3 236	1 590	1 429
Secondary market	68 486	103 452	84 885	32 126	24 297	17 202	11 260
Selected types of non-residential properties <sup>(h)</sup>							
Office space	2 874	4 129	2 854	1 183	873	514	284
Other commercial premises	4 402	5 490	4 146	1 390	1 317	944	495
Flatted factory space	7 409	9 072	5 746	2 096	1 783	1 244	623

Notes (e) The series, sourced from the Housing Authority's housing production figures, exhaustively cover all housing production and to count projects (including surplus HOS projects) which undergo transfer of usage at the time of disposal and according to their actual usage. Moreover, surplus HOS courts and blocks pending disposal are excluded from production statistics until they are disposed. Rental and sales flats projects of the Housing Society are included.

(f) These include multi-purpose industrial premises designed also for office use.

(g) The figures are derived from sale and purchase agreements of domestic units received for registration for the relevant periods. They generally relate to transactions executed up to four weeks prior to their submission for registration. Sales of domestic units refer to sale and purchase agreements with payment of stamp duty. These statistics do not include sales of units under the Home Ownership Scheme, the Private Sector Participation Scheme and the Tenants Purchase Scheme except those after payment of premium. Primary sales generally refer to sales from developers. Secondary sales refer to sales from parties other than developers.

(h) Timing of the figures for non-residential properties is based on the date on which the S&P Agreement is signed, which may differ from the date on which the Agreement is received for registration.

**Table 13 : Property prices and rentals**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	100.0	89.6	78.7	69.9	61.6	78.0	92.0
Office space <sup>(b)</sup>	100.0	89.9	78.7	68.4	62.5	99.3	133.0
Shopping space	100.0	93.6	86.8	85.0	85.5	119.3	149.3
Flatted factory space	100.0	91.2	82.0	74.8	71.7	88.6	125.0
Property rental indices <sup>(c)</sup> :							
Residential flats	100.0	98.1	95.4	83.4	73.6	77.7	86.5
Office space <sup>(b)</sup>	100.0	98.5	101.0	85.4	74.6	78.1	96.4
Shopping space	100.0	101.3	99.4	92.9	86.4	92.8	100.5
Flatted factory space	100.0	95.4	90.3	82.7	74.9	77.3	82.6
<u>(% change)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	-14.6	-10.4	-12.2	-11.2	-11.9	26.6	17.9
Office space <sup>(b)</sup>	-25.7	-10.1	-12.5	-13.1	-8.6	58.9	33.9
Shopping space	-22.1	-6.4	-7.3	-2.1	0.6	39.5	25.1
Flatted factory space	-24.1	-8.8	-10.1	-8.8	-4.1	23.6	41.1
Property rental indices <sup>(c)</sup> :							
Residential flats	-11.2	-1.9	-2.8	-12.6	-11.8	5.6	11.3
Office space <sup>(b)</sup>	-26.4	-1.5	2.5	-15.4	-12.6	4.7	23.4
Shopping space	-10.1	1.3	-1.9	-6.5	-7.0	7.4	8.3
Flatted factory space	-15.3	-4.6	-5.3	-8.4	-9.4	3.2	6.9

Notes : (a) Figures pertain to prices of existing flats traded in the secondary market, but not new flats sold in the primary market.

(b) Since 2000, price and rental indices for office space in the private sector have been recompiled according to the revised grading criteria for office space. Hence, the figures from 2000 onwards are not strictly comparable to those in the earlier years.

(c) All rental indices shown in this table have been adjusted for concessionary leasing terms such as provision of refurbishment, granting of rent-free periods, and waiver of miscellaneous charges, if known. For residential property, changes in rentals cover only new tenancies for which rentals are freshly determined. For non-residential property, changes in rentals cover also lease renewals upon which rentals may be revised.

**Table 13 : Property prices and rentals (Cont'd)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>		<u>2008</u>		
				Q1	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	92.7	103.5	120.4	125.0	125.9	123.2	107.4
Office space <sup>(b)</sup>	139.3	165.5	198.7	206.4	210.4	204.0	173.7
Shopping space	153.5	172.5	192.0	197.2	204.2	195.9	170.8
Flatted factory space	158.5	199.5	235.6	236.5	244.4	244.7	216.9
Property rental indices <sup>(c)</sup> :							
Residential flats	91.6	101.8	115.8	115.4	120.2	120.5	107.1
Office space <sup>(b)</sup>	117.4	131.9	155.4	146.1	156.9	161.1	157.7
Shopping space	104.3	111.8	116.6	116.8	117.2	117.6	115.0
Flatted factory space	91.0	100.5	109.8	108.7	111.9	112.1	106.6
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	0.8	11.7	16.3	29.4	25.5	18.5	-5.1
Office space <sup>(b)</sup>	4.7	18.8	20.1	39.0	34.7	21.8	-8.4
Shopping space	2.8	12.4	11.3	24.2	21.0	10.9	-8.1
Flatted factory space	26.8	25.9	18.1	33.7	26.5	17.8	-1.4
Property rental indices <sup>(c)</sup> :							
Residential flats	5.9	11.1	13.8	20.2	20.7	16.2	-0.9
Office space <sup>(b)</sup>	21.8	12.4	17.8	16.1	21.1	20.7	13.7
Shopping space	3.8	7.2	4.3	8.0	6.6	3.6	-0.8
Flatted factory space	10.2	10.4	9.3	12.4	12.8	10.1	2.3

Notes (cont'd) : (#) Figures for non-residential property are provisional.

(+) Provisional figures.

**Table 14 : Monetary aggregates**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	205,339	203,966	229,841	259,411	354,752	412,629	348,248
M2 <sup>(a)</sup>	1,923,481	1,987,963	1,998,774	1,984,049	2,107,269	2,208,591	2,329,669
M3 <sup>(a)</sup>	1,935,471	2,002,358	2,016,635	2,004,225	2,122,861	2,219,557	2,345,838
Total money supply (\$Mn)							
M1	225,156	243,847	258,056	295,650	413,423	484,494	434,684
M2	3,386,196	3,649,492	3,550,060	3,518,326	3,813,442	4,166,706	4,379,057
M3	3,434,467	3,692,753	3,594,130	3,561,852	3,858,044	4,189,544	4,407,188
Deposit (\$Mn)							
HK\$	1,773,169	1,851,177	1,854,651	1,824,911	1,930,790	2,017,911	2,131,579
Foreign currency	1,477,448	1,676,670	1,551,852	1,492,631	1,636,227	1,848,145	1,936,322
Total	3,250,617	3,527,847	3,406,502	3,317,542	3,567,018	3,866,056	4,067,901
Loans and advances (\$Mn)							
HK\$	1,607,126	1,652,191	1,647,684	1,615,667	1,573,079	1,666,740	1,797,350
Foreign currency	1,205,784	809,259	537,301	460,659	462,000	488,964	514,637
Total	2,812,910	2,461,450	2,184,986	2,076,325	2,035,079	2,155,704	2,311,987
Nominal Effective Exchange Rate Indices							
(Jan 2000 = 100) <sup>(b)(c)</sup>							
Trade-weighted	100.9	101.7	104.7	104.0	100.7	98.3	97.4
Import-weighted	101.4	101.5	105.1	104.7	101.6	99.2	98.1
Export-weighted	100.4	101.9	104.3	103.3	99.8	97.3	96.7
<u>(% change)</u>							
Hong Kong dollar money supply :							
M1	15.2	-0.7	12.7	12.9	36.8	16.3	-15.6
M2 <sup>(a)</sup>	5.2	3.4	0.5	-0.7	6.2	4.8	5.5
M3 <sup>(a)</sup>	5.1	3.5	0.7	-0.6	5.9	4.6	5.7
Total money supply :							
M1	13.9	8.3	5.8	14.6	39.8	17.2	-10.3
M2	8.8	7.8	-2.7	-0.9	8.4	9.3	5.1
M3	8.4	7.5	-2.7	-0.9	8.3	8.6	5.2
Deposit							
HK\$	4.3	4.4	0.2	-1.6	5.8	4.5	5.6
Foreign currency	13.6	13.5	-7.4	-3.8	9.6	13.0	4.8
Total	8.4	8.5	-3.4	-2.6	7.5	8.4	5.2
Loans and advances							
HK\$	-5.2	2.8	-0.3	-1.9	-2.6	6.0	7.8
Foreign currency	-25.1	-32.9	-33.6	-14.3	0.3	5.8	5.3
Total	-14.9	-12.5	-11.2	-5.0	-2.0	5.9	7.2
Nominal Effective Exchange Rate Indices <sup>(b)(c)</sup>							
Trade-weighted	-2.4	0.8	2.9	-0.7	-3.2	-2.4	-0.9
Import-weighted	-3.9	0.1	3.5	-0.4	-3.0	-2.4	-1.1
Export-weighted	-0.9	1.5	2.4	-1.0	-3.4	-2.5	-0.6

Definition of Terms :

The Hong Kong Dollar Money Supply is the Hong Kong dollar component of the respective monetary aggregate. Starting from April 1997, money supply definition has been revised to include short-term Exchange Fund placements of less than one month in the monetary aggregates.

Total Money Supply:

- M1: Legal tender notes and coins with the public, plus customers' demand deposits with licensed banks.
- M2: M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit issued by licensed banks and held outside the monetary sector.
- M3: M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus negotiable certificates of deposit issued by such institutions and held outside the monetary sector.

**Table 14 : Monetary aggregates (Cont'd)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>		<u>2008</u>		
				Q1	Q2	Q3	Q4
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	387,918	454,363	491,103	457,628	452,884	447,627	491,103
M2 <sup>(a)</sup>	2,777,823	3,281,336	3,239,921	3,177,507	3,069,080	3,146,767	3,239,921
M3 <sup>(a)</sup>	2,795,688	3,300,820	3,261,370	3,197,955	3,089,298	3,170,167	3,261,370
Total money supply (\$Mn)							
M1	491,657	616,729	645,802	621,047	611,186	597,914	645,802
M2	5,054,475	6,106,667	6,269,804	5,984,628	5,907,432	6,052,619	6,269,804
M3	5,089,884	6,140,078	6,302,497	6,017,458	5,944,825	6,091,633	6,302,497
Deposit (\$Mn)							
HK\$	2,568,426	3,075,361	3,034,045	2,974,727	2,872,953	2,945,355	3,034,045
Foreign currency	2,188,993	2,793,856	3,025,685	2,787,220	2,832,158	2,901,760	3,025,685
Total	4,757,419	5,869,218	6,059,731	5,761,947	5,705,110	5,847,115	6,059,731
Loans and advances (\$Mn)							
HK\$	1,917,437	2,184,705	2,354,884	2,276,785	2,354,337	2,396,395	2,354,884
Foreign currency	550,392	776,971	929,501	893,127	994,228	1,029,176	929,501
Total	2,467,828	2,961,676	3,284,385	3,169,912	3,348,565	3,425,571	3,284,385
Nominal Effective Exchange Rate Indices (Jan 2000 =100) <sup>(b)(c)</sup>							
Trade-weighted	96.1	91.9	87.1	87.2	85.7	86.4	89.7
Import-weighted	96.8	92.5	87.1	87.3	85.7	86.3	89.7
Export-weighted	95.5	91.3	87.2	87.1	85.7	86.5	90.0
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	11.4	17.1	8.1	9.3	-10.3	-7.4	8.1
M2 <sup>(a)</sup>	19.2	18.1	-1.3	7.8	-3.9	-7.6	-1.3
M3 <sup>(a)</sup>	19.2	18.1	-1.2	7.8	-3.8	-7.4	-1.2
Total money supply :							
M1	13.1	25.4	4.7	16.2	-5.0	-5.5	4.7
M2	15.4	20.8	2.7	13.5	5.6	1.8	2.7
M3	15.5	20.6	2.6	13.5	5.7	1.9	2.6
Deposit							
HK\$	20.5	19.7	-1.3	8.7	-3.8	-8.1	-1.3
Foreign currency	13.0	27.6	8.3	24.6	20.9	16.5	8.3
Total	17.0	23.4	3.2	15.9	7.1	2.7	3.2
Loans and advances							
HK\$	6.7	13.9	7.8	10.0	6.5	2.7	7.8
Foreign currency	6.9	41.2	19.6	48.6	53.2	45.4	19.6
Total	6.7	20.0	10.9	18.7	17.1	12.6	10.9
Nominal Effective Exchange Rate Indices <sup>(b)(c)</sup>							
Trade-weighted	-1.3	-4.4	-5.2	-6.9	-7.6	-5.7	-0.2
Import-weighted	-1.3	-4.4	-5.8	-7.4	-8.3	-6.4	-0.8
Export-weighted	-1.2	-4.4	-4.5	-6.3	-6.8	-4.8	0.7

Notes : (a) Adjusted to include foreign currency swap deposits.

(b) Period average.

(c) The Effective Exchange Rate Indices (EERIs) from January 2000 onwards are compiled on the basis of the average merchandise trade pattern from 1999 to 2000. The EERIs for the earlier periods are compiled on the basis of the average merchandise trade pattern in a much earlier period from 1991 to 1993, and have been re-scaled to the new base period for linking up with the new index series.

**Table 15 : Rates of change in business receipts indices for service industries/domains**

(%)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>		
					Q1-Q3	Q4	Q1	Q2	Q3
Wholesale trade	4.7	5.6	7.9	10.4	11.3	15.5	9.6	14.1	10.1
Retail trade	10.8	6.8	7.3	12.8	16.5	17.7	17.5	14.4	10.4
Import/export trade	12.4	10.6	10.2	8.0	12.2	7.6	13.2	14.6	9.3
Restaurants	10.1	6.0	9.5	13.4	14.8	14.8	16.0	15.3	13.4
Hotels	39.4	22.1	13.7	15.2	8.5	16.5	9.9	9.6	5.9
Transport <sup>(a)</sup>	22.8	17.8	10.6	10.8	10.5	14.8	15.9	11.0	5.7
Storage	17.0	10.4	10.2	16.0	7.0	10.3	10.7	3.5	7.2
Communications	1.0	5.1	0.8	10.0	11.3	16.2	11.2	13.5	9.1
Banking	4.4	10.9	19.5	38.3	-5.0	45.0	6.4	-6.8	-13.1
Financing (other than banking)	33.2	14.3	47.9	68.8	-0.2	82.9	32.8	4.7	-27.2
Insurance	22.3	16.0	21.3	28.8	7.2	35.4	11.7	8.3	2.1
Real estate	13.5	16.0	-0.4	39.8	7.3	69.5	14.5	10.0	-1.9
Business services	8.3	4.9	19.6	13.2	9.3	14.0	11.5	10.3	6.3
Film entertainment	3.7	5.0	1.7	6.0	2.7	5.9	0.7	5.6	2.0
Tourism, convention and exhibition services	26.5	12.9	14.0	18.7	12.1	25.4	14.2	14.0	8.3
Computer and information services	20.5	23.4	9.7	6.7	11.8	15.5	18.5	16.5	2.6

Note : (a) Including business receipts from the Airport Authority Hong Kong.



**Table 16 : Labour force characteristics**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008<sup>+</sup></u>	<u>2008</u>			
						Q1	Q2	Q3	Q4 <sup>+</sup>
<u>(%)</u>									
Labour force participation rate	61.3	60.9	61.2	61.2	61.1	61.1	61.0	61.1	61.1
Seasonally adjusted unemployment rate	6.8	5.6	4.8	4.0	3.5	3.4	3.3	3.4	4.1
Underemployment rate	3.3	2.7	2.4	2.2	1.9	1.9	1.9	1.8	1.9
<u>('000)</u>									
Population of working age	5 733.6	5 800.7	5 832.2	5 928.4	6 003.9	5 974.7	5 992.1	6 014.5	6 034.3
Labour force	3 512.8	3 534.2	3 571.8	3 629.6	3 667.6	3 653.5	3 654.3	3 677.2	3 685.7
Persons employed	3 273.5	3 336.6	3 400.8	3 483.8	3 538.7	3 534.5	3 532.8	3 543.1	3 544.3
Persons unemployed	239.2	197.6	171.1	145.7	128.9	119.0	121.5	134.0	141.3
Persons underemployed	114.3	96.3	86.3	79.2	68.6	70.5	67.8	66.3	69.8
<u>(% change over a year earlier)</u>									
Population of working age	1.6	1.2	0.5	1.6	1.3	1.3	1.2	1.3	1.3
Labour force	1.4	0.6	1.1	1.6	1.0	1.3	0.8	0.8	1.3
Persons employed	2.6	1.9	1.9	2.4	1.6	2.3	1.8	1.5	0.7
Persons unemployed	-13.1	-17.4	-13.4	-14.8	-11.5	-21.8	-22.3	-14.4	19.6
Persons underemployed	-6.3	-15.7	-10.4	-8.2	-13.4	-12.1	-16.2	-17.5	-6.5

Note : (+) Provisional figures.

**Table 17 : Employment in selected major economic sectors**

Major economic sector	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>	<u>2008</u>			No.
	(% change)					<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	
<b>Manufacturing</b>	<b>-10.3</b>	<b>-3.0</b>	<b>-2.0</b>	<b>-2.5</b>	<b>-2.2</b>	<b>-2.0</b>	<b>-3.6</b>	<b>-3.2</b>	<b>-3.0</b>	<b>151 234</b>
<i>of which :</i>										
Printing, publishing and allied industries	-5.2	-1.2	-3.1	2.0	0.5	-0.6	-1.8	-2.0	-2.0	36 430
Food, manufacturing	-2.6	3.9	5.4	5.2	5.3	1.5	-3.0	0.9	-1.9	22 622
Wearing apparel, except footwear	-11.6	-0.8	-4.7	-10.5	-14.1	-9.1	-16.8	-13.7	-14.1	13 882
Textiles	-16.8	-11.1	0.5	-4.4	-4.8	-9.2	-11.0	-8.9	-13.4	15 463
Electronics	-18.9	-2.3	-4.7	-12.9	-6.1	-0.2	1.5	-3.9	-5.5	11 379
Transport equipment, manufacturing	-0.4	-3.3	8.6	3.6	5.7	4.0	0.8	-0.3	2.9	10 341
<b>Wholesale, retail, import/export trades, restaurants and hotels</b>	<b>-3.0</b>	<b>2.9</b>	<b>2.6</b>	<b>1.9</b>	<b>1.7</b>	<b>1.5</b>	<b>1.2</b>	<b>1.2</b>	<b>1.0</b>	<b>1 067 825</b>
<i>of which :</i>										
Wholesale, retail and import/export trades	-1.9	2.1	2.3	1.1	1.1	1.1	0.9	0.7	0.6	824 565
Restaurants and hotels	-7.3	6.0	3.6	5.1	3.8	3.1	2.2	2.9	2.5	243 260
<b>Transport, storage and communications</b>	<b>-4.4</b>	<b>3.7</b>	<b>2.6</b>	<b>1.1</b>	<b>2.2</b>	<b>2.5</b>	<b>4.2</b>	<b>3.1</b>	<b>3.4</b>	<b>196 260</b>
<i>of which :</i>										
Land transport	0.5	-2.2	-1.5	0.3	0.4	-0.2	-1.1	-2.0	-1.2	37 615
Water transport	-3.6	0.1	-0.3	-4.4	-1.0	1.6	8.2	6.5	9.6	28 076
Air transport	-0.4	5.2	6.2	5.4	4.5	4.9	6.8	3.9	2.6	30 724
Services incidental to transport	-4.0	11.3	8.0	3.1	4.2	4.0	6.1	4.4	2.7	61 916
<b>Financing, insurance, real estate and business services</b>	<b>-1.9</b>	<b>3.6</b>	<b>4.4</b>	<b>5.0</b>	<b>5.5</b>	<b>5.2</b>	<b>6.4</b>	<b>5.0</b>	<b>4.7</b>	<b>532 971</b>
<i>of which :</i>										
Financial institutions	-6.5	1.1	4.7	5.9	8.6	8.0	8.6	7.5	6.2	156 163
Insurance	1.2	2.4	5.9	-1.2	1.5	3.2	11.1	5.5	3.6	30 590
Real estate	0.7	2.2	6.8	5.3	4.3	5.4	5.9	2.6	3.2	105 921
Business services except machinery and equipment rental and leasing	-0.2	6.0	2.9	5.3	4.7	3.7	4.8	4.5	4.4	239 398
<b>Community, social and personal services</b>	<b>2.9</b>	<b>3.2</b>	<b>4.5</b>	<b>3.6</b>	<b>2.6</b>	<b>1.8</b>	<b>2.8</b>	<b>2.7</b>	<b>4.1</b>	<b>484 536</b>
<i>of which :</i>										
Sanitary and similar services	6.0	1.5	2.4	2.5	1.0	-3.9	-2.5	-2.4	1.9	59 160
Education services	2.9	1.8	1.8	4.9	3.0	1.3	4.0	3.4	5.6	149 836
Medical, dental and other health services	-0.3	2.5	1.6	4.0	5.6	6.1	6.6	4.6	5.1	88 781
Welfare institutions	13.9	2.1	-0.4	1.5	1.3	0.9	0.1	2.4	2.2	54 817
<b>Civil Service<sup>(a)</sup></b>	<b>-2.4</b>	<b>-3.8</b>	<b>-2.7</b>	<b>-1.3</b>	<b>-0.4</b>	<b>*</b>	<b>-0.2</b>	<b>*</b>	<b>0.4</b>	<b>154 319</b>

Notes : (a) These figures cover only those employed on Civil Service terms of appointment. Judicial officers, consultants, contract staff and temporary staff not appointed on Civil Service terms are not included.

(\*) Change within  $\pm 0.05\%$ .

**Table 18 : Number of workers engaged at building and construction sites**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u> Dec	Mar	<u>2008</u> Jun	Sep
<u>(number)</u>									
Building sites									
Private sector	33 892	33 619	31 556	30 993	29 240	29 722	29 919	29 192	28 305
Public sector <sup>(a)</sup>	16 183	13 325	10 135	7 643	7 767	7 990	8 491	7 102	7 714
Sub-total	50 074	46 944	41 690	38 636	37 007	37 712	38 410	36 294	36 019
Civil engineering sites									
Private sector	2 755	2 564	2 198	1 569	1 674	1 860	1 657	1 977	1 393
Public sector <sup>(a)</sup>	17 466	16 772	15 378	12 661	11 504	10 531	10 474	11 285	10 732
Sub-total	20 221	19 336	17 576	14 230	13 178	12 391	12 131	13 262	12 125
<b>Total</b>	<b>70 295</b>	<b>66 280</b>	<b>59 266</b>	<b>52 865</b>	<b>50 185</b>	<b>50 103</b>	<b>50 541</b>	<b>49 556</b>	<b>48 144</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-15.3	-0.8	-6.1	-1.8	-5.7	0.6	6.4	-3.0	-2.5
Public sector <sup>(a)</sup>	38.0	-17.7	-23.9	-24.6	1.6	16.6	1.2	-6.1	8.4
Sub-total	-3.2	-6.3	-11.2	-7.3	-4.2	3.6	5.2	-3.6	-0.3
Civil engineering sites									
Private sector	-4.0	-6.9	-14.3	-28.6	6.7	29.7	-1.0	11.9	-0.1
Public sector <sup>(a)</sup>	-6.2	-4.0	-8.3	-17.7	-9.1	-20.0	-14.0	-3.3	-7.8
Sub-total	-5.9	-4.4	-9.1	-19.0	-7.4	-15.1	-12.4	-1.3	-7.0
<b>Total</b>	<b>-4.0</b>	<b>-5.7</b>	<b>-10.6</b>	<b>-10.8</b>	<b>-5.1</b>	<b>-1.8</b>	<b>0.3</b>	<b>-3.0</b>	<b>-2.1</b>

Note : (a) Including the Mass Transit Railway Corporation Limited and the Airport Authority Hong Kong.

**Table 19 : Average monthly labour earnings by major economic sector**

(\$)

Major economic sector	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>	<u>2008</u>		
						Q4	Q1	Q2	Q3
Wholesale, retail and import/export trades	12,300 (-1.5) <1.1>	12,300 (0.4) <0.9>	13,200 (7.3) <6.3>	13,800 (4.1) <2.0>	14,100 (2.4) <0.4>	14,600 (3.5) <0.1>	16,300 (4.7) <0.1>	13,300 (4.0) <-1.6>	14,200 (5.3) <0.6>
Restaurants and hotels	8,100 (-6.2) <-3.7>	8,100 (-0.1) <0.4>	8,200 (1.9) <0.9>	8,500 (2.6) <0.6>	8,800 (3.8) <1.8>	8,900 (2.8) <-0.6>	9,300 (-0.4) <-4.8>	8,700 (4.2) <-1.5>	8,900 (5.3) <0.6>
Transport, storage and communications	18,500 (-1.7) <0.9>	18,300 (-1.3) <-0.9>	19,200 (5.0) <4.1>	19,600 (2.1) <0.1>	20,300 (3.3) <1.3>	22,100 (3.4) <*>	20,800 (1.0) <-3.5>	19,300 (1.0) <-4.5>	19,700 (2.7) <-1.9>
Financing, insurance, real estate and business services	18,600 (-1.4) <1.2>	18,500 (-0.1) <0.4>	19,100 (2.8) <1.8>	20,100 (5.6) <3.6>	21,200 (5.6) <3.5>	22,600 (6.6) <3.1>	25,600 (8.9) <4.0>	20,800 (5.1) <-0.6>	20,300 (6.2) <1.5>
Community, social and personal services	18,900 (-4.7) <-2.2>	18,400 (-2.6) <-2.2>	18,000 (-2.2) <-3.1>	17,900 (-0.1) <-2.0>	18,400 (2.4) <0.4>	18,900 (4.4) <0.9>	18,100 (1.6) <-2.9>	18,400 (3.4) <-2.2>	19,500 (2.4) <-2.2>
Manufacturing	11,400 (-3.0) <-0.4>	11,300 (-0.6) <-0.2>	11,600 (1.8) <0.9>	11,700 (1.4) <-0.6>	12,100 (2.9) <-0.1>	12,100 (3.5) <*>	13,400 (3.0) <-1.6>	12,200 (4.0) <-1.6>	11,800 (4.0) <-0.6>
<b>All sectors surveyed</b>	<b>15,000</b> <b>(-1.8)</b> <b>&lt;0.8&gt;</b>	<b>14,900</b> <b>(-0.7)</b> <b>&lt;-0.2&gt;</b>	<b>15,400</b> <b>(3.5)</b> <b>&lt;2.6&gt;</b>	<b>15,800</b> <b>(2.4)</b> <b>&lt;0.4&gt;</b>	<b>16,400</b> <b>(4.0)</b> <b>&lt;1.9&gt;</b>	<b>17,300</b> <b>(5.9)</b> <b>&lt;2.4&gt;</b>	<b>18,000</b> <b>(3.1)</b> <b>&lt;-1.5&gt;</b>	<b>16,000</b> <b>(4.6)</b> <b>&lt;-1.1&gt;</b>	<b>16,400</b> <b>(5.2)</b> <b>&lt;0.5&gt;</b>

Notes : ( ) % change over a year earlier in money terms.

&lt; &gt; % change over a year earlier in real terms.

The rates of change in real terms are derived from the Real Indices of Payroll per Person Engaged. As from 2006, the Indices are derived by deflating the Nominal Indices of Payroll per Person Engaged by the 2004/2005-based Composite CPI. To facilitate comparison, Real Indices of Payroll per Person Engaged prior to 2006 have been re-scaled using the 2004/2005-based Composite CPI.

(\*) Change within  $\pm 0.05\%$ .

**Table 20 : Rates of change in wage indices by  
selected major economic sector**

(%)

Selected major economic sector	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>	<u>2008</u>		
						Dec	Mar	Jun	Sep
<u>(in money terms)</u>									
Wholesale, retail and import/export trades	-1.7	-1.6	1.6	1.1	2.3	3.2	4.5	4.6	5.0
Restaurants and hotels	-4.1	-2.2	*	1.0	1.4	0.9	3.3	3.0	4.1
Transport services	-1.9	-1.0	1.0	-0.6	1.6	2.6	4.5	2.3	0.5
Financing, insurance, real estate and business services	-0.1	-0.5	*	3.2	3.2	3.2	3.8	4.7	4.9
Personal services	-3.1	1.3	-1.5	2.5	5.5	3.8	1.9	0.7	1.4
Manufacturing	-2.7	-1.3	1.2	2.9	2.0	2.0	0.7	4.5	3.1
<b>All sectors surveyed</b>	<b>-1.9</b>	<b>-1.1</b>	<b>0.8</b>	<b>1.5</b>	<b>2.4</b>	<b>2.7</b>	<b>3.8</b>	<b>3.9</b>	<b>4.0</b>
<u>(in real terms)</u>									
Wholesale, retail and import/export trades	0.4	-1.7	0.4	-0.6	0.4	-0.2	0.6	-1.4	5.3
Restaurants and hotels	-2.1	-2.3	-1.3	-0.8	-0.4	-2.4	-0.5	-2.9	4.4
Transport services	0.1	-1.0	-0.2	-2.3	-0.2	-0.8	0.5	-3.5	0.9
Financing, insurance, real estate and business services	2.0	-0.6	-1.2	1.5	1.3	-0.2	-0.1	-1.3	5.2
Personal services	-1.1	1.3	-2.7	0.7	3.6	0.4	-2.0	-5.0	1.7
Manufacturing	-0.7	-1.4	-0.1	1.1	0.1	-1.4	-3.1	-1.5	3.4
<b>All sectors surveyed</b>	<b>0.2</b>	<b>-1.2</b>	<b>-0.4</b>	<b>-0.3</b>	<b>0.5</b>	<b>-0.7</b>	<b>-0.1</b>	<b>-2.1</b>	<b>4.3</b>

Notes : The rates of change in real terms are compiled from the Real Wage Indices. As from 2006, the Indices are derived by deflating the Nominal Wage Indices by the 2004/2005-based CPI(A). To facilitate comparison, Real Wage Indices prior to 2006 have been re-scaled using the 2004/2005-based CPI(A).

(\*) Change within  $\pm 0.05\%$ .

**Table 21 : Rates of change in prices**

(%)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
GDP deflator	-4.5	-3.6	-1.9	-3.5	-6.2	-3.5	-0.1	-0.3
Domestic demand deflator	-3.1	-2.6	-2.3	-4.9	-4.2	0.1	1.2	1.9
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	-4.0	-3.8	-1.6	-3.0	-2.6	-0.4	1.0	2.0
CPI(A)	-3.3	-3.0	-1.7	-3.2	-2.1	*	1.1	1.7
CPI(B)	-4.7	-3.9	-1.6	-3.1	-2.7	-0.5	1.0	2.1
CPI(C)	-3.7	-4.5	-1.5	-2.8	-2.9	-0.9	0.8	2.2
Unit Value Indices :								
Domestic exports	-2.4	-1.0	-4.7	-3.3	0.2	1.5	2.2	-2.1
Re-exports	-2.8	-0.1	-2.0	-2.7	-1.5	1.1	1.2	1.1
Total exports of goods	-2.7	-0.2	-2.3	-2.7	-1.4	1.2	1.3	1.0
Imports of goods	-2.0	0.8	-3.1	-3.9	-0.4	2.9	2.7	2.1
Terms of Trade Index	-0.7	-1.0	0.9	1.2	-1.0	-1.7	-1.4	-1.1
Producer Price Index for all manufacturing industries	-1.6	0.2	-1.6	-2.7	-0.3	2.2	0.8	2.3
Tender Price Indices :								
Public sector building projects	-4.4	-13.1	-8.5	-11.7	-0.3	-1.5	1.4	5.0
Public housing projects	-3.3	-11.9	-15.1	-9.6	-10.0	3.5	7.7	11.2

Notes : (a) From October 2005 onwards, the year-on-year rates of change in the Consumer Price Indices are derived from the 2004/05-based CPI series. For the earlier periods, the year-on-year rates of change are derived from the CPIs with old base period.

(#) Figures are subject to revision later on as more data become available.

(\*) Change within  $\pm 0.05\%$ .

(^) Average annual rate of change for the 10-year period 1997-2007.

(~) Average annual rate of change for the 5-year period 2002-2007.

N.A. Not yet available.

**Table 21 : Rates of change in prices (Cont'd)**

	(%)							
	<u>2007</u>	<u>2008</u>	<u>2008</u>				<u>Average annual rate of change:</u>	
			Q1	Q2	Q3	Q4	10 years 1998 to 2008	5 years 2003 to 2008
GDP deflator	2.9 #	1.4 #	2.4 #	1.9 #	1.8 #	* #	-1.9 #	0.1 #
Domestic demand deflator	2.1 #	2.7 #	4.8 #	4.4 #	3.1 #	-0.8 #	-0.9 #	1.6 #
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	2.0	4.3	4.6	5.7	4.6	2.3	-0.6	1.8
CPI(A)	1.3	3.6	5.4	5.7	2.7	0.6	-0.6	1.5
CPI(B)	2.2	4.6	4.3	5.9	5.3	2.9	-0.7	1.9
CPI(C)	2.7	4.7	3.9	5.5	5.8	3.6	-0.6	1.9
Unit Value Indices :								
Domestic exports	0.8	5.1	3.3	5.0	6.4	6.2	-0.4	1.5
Re-exports	2.4	3.8	2.6	3.9	4.7	4.0	0.1	1.9
Total exports of goods	2.3	3.8	2.6	3.9	4.8	4.1	*	1.9
Imports of goods	2.3	4.4	3.6	4.9	5.6	3.6	0.5	2.9
Terms of Trade Index	0.1	-0.5	-0.9	-0.9	-0.8	0.5	-0.5	-0.9
Producer Price Index for all manufacturing industries	3.0	N.A.	5.7	6.7	5.6	N.A.	* ^	1.6 ~
Tender Price Indices :								
Public sector building projects	20.1	N.A.	36.2	51.9	N.A.	N.A.	-0.8 ^	4.7 ~
Public housing projects	19.7	N.A.	30.4	42.2	33.9	N.A.	-0.5 ^	6.0 ~

**Table 22 : Rates of change in Composite Consumer Price Index**

(%)

	Weight	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>All items</b>	<b>100.0</b>	<b>-4.0</b>	<b>-3.8</b>	<b>-1.6</b>	<b>-3.0</b>	<b>-2.6</b>	<b>-0.4</b>	<b>1.0</b>
Food	26.94	-1.8	-2.2	-0.8	-2.1	-1.5	1.0	1.8
<i>Meals bought away from home</i>	<i>(16.86)</i>	<i>-1.2</i>	<i>-0.9</i>	<i>-0.3</i>	<i>-1.5</i>	<i>-1.5</i>	<i>0.2</i>	<i>0.9</i>
<i>Food, excluding meals bought away from home</i>	<i>(10.08)</i>	<i>-2.8</i>	<i>-4.2</i>	<i>-1.7</i>	<i>-3.1</i>	<i>-1.7</i>	<i>2.5</i>	<i>3.2</i>
Housing <sup>(a)</sup>	29.17	-5.1	-8.2	-3.1	-5.7	-4.8	-5.2	0.1
<i>Private housing rent</i>	<i>(23.93)</i>	<i>-6.1</i>	<i>-9.8</i>	<i>-2.9</i>	<i>-6.5</i>	<i>-6.3</i>	<i>-6.6</i>	<i>-0.1</i>
<i>Public housing rent</i>	<i>(2.49)</i>	<i>1.4</i>	<i>1.1</i>	<i>-8.3</i>	<i>-2.7</i>	<i>9.1</i>	<i>2.5</i>	<i>0.2</i>
Electricity, gas and water	3.59	-0.4	3.6	-1.9	-7.0	1.4	11.4	4.1
Alcoholic drinks and tobacco	0.87	1.2	-0.9	3.3	2.4	0.1	*	0.4
Clothing and footwear	3.91	-20.6	-10.1	-4.6	0.7	-2.7	6.4	2.0
Durable goods	5.50	-6.3	-4.6	-7.1	-6.3	-6.4	-2.2	-3.2
Miscellaneous goods	4.78	-0.7	0.9	1.3	1.7	2.3	3.6	1.5
Transport	9.09	0.5	1.0	0.4	-0.6	-0.4	0.4	1.4
Miscellaneous services	16.15	-1.3	-0.2	0.5	-2.3	-3.2	-0.2	1.0

Notes : From October 2005 onwards, the year-on-year rates of change in the Composite Consumer Price Index are derived from the 2004/05-based CPI series. For the earlier periods, the year-on-year rates of change are derived from the CPIs with old base period. The weights quoted in this table correspond to that in the new series.

(a) Apart from "Private housing rent" and "Public housing rent", the "Housing" section also includes "Management fees and other housing charges" and "Materials for house maintenance".

(\*) Change within  $\pm 0.05\%$ .



**Table 22 : Rates of change in Composite Consumer Price Index (Cont'd)**

	Weight	(%)								
		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>				Average annual <u>rate of change:</u>	
					Q1	Q2	Q3	Q4	10 years 1998 to 2008	5 years 2003 to 2008
<b>All items</b>	<b>100.0</b>	<b>2.0</b>	<b>2.0</b>	<b>4.3</b>	<b>4.6</b>	<b>5.7</b>	<b>4.6</b>	<b>2.3</b>	<b>-0.6</b>	<b>1.8</b>
Food	26.94	1.7	4.3	10.1	10.0	11.2	10.6	8.8	1.0	3.7
<i>Meals bought away from</i>	<i>(16.86)</i>	<i>1.3</i>	<i>2.5</i>	<i>5.9</i>	<i>5.4</i>	<i>6.3</i>	<i>6.4</i>	<i>5.6</i>	<i>0.5</i>	<i>2.2</i>
<i>Food, excluding meals bought</i> <i>away from home</i>	<i>(10.08)</i>	<i>2.5</i>	<i>7.1</i>	<i>16.8</i>	<i>17.4</i>	<i>19.2</i>	<i>17.2</i>	<i>13.8</i>	<i>1.7</i>	<i>6.3</i>
Housing <sup>(a)</sup>	29.17	4.7	2.0	4.1	3.9	5.9	3.9	2.7	-2.2	1.1
<i>Private housing rent</i>	<i>(23.93)</i>	<i>5.6</i>	<i>4.0</i>	<i>6.8</i>	<i>3.5</i>	<i>8.0</i>	<i>9.5</i>	<i>6.4</i>	<i>-2.3</i>	<i>1.8</i>
<i>Public housing rent</i>	<i>(2.49)</i>	<i>0.1</i>	<i>-17.7</i>	<i>-27.2</i>	<i>14.4</i>	<i>-13.0</i>	<i>-63.6</i>	<i>-39.5</i>	<i>-4.7</i>	<i>-9.2</i>
Electricity, gas and water	3.59	2.1	-0.7	-6.5	7.2	7.7	-5.3	-34.9	0.5	1.9
Alcoholic drinks and tobacco	0.87	-3.7	-1.2	0.1	0.5	0.6	-0.2	-0.6	0.1	-0.9
Clothing and footwear	3.91	1.0	4.1	0.8	1.6	1.6	0.7	-0.5	-2.6	2.8
Durable goods	5.50	-6.4	-4.7	-2.0	-3.5	-2.3	-1.0	-1.1	-4.9	-3.7
Miscellaneous goods	4.78	1.7	2.5	5.0	4.6	5.3	5.6	4.7	2.0	2.9
Transport	9.09	0.7	-0.1	2.5	1.3	2.5	4.0	2.1	0.6	1.0
Miscellaneous services	16.15	1.9	1.7	0.8	1.3	1.2	0.8	-0.3	-0.2	1.0

**Table 23 : Rates of change in implicit price deflators of GDP  
and its main expenditure components**

(% )

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Private consumption expenditure	-5.0	-3.3	-1.1	-3.6	-2.5	-0.3	1.8
Government consumption expenditure	-0.2	-1.8	1.1	-0.5	-2.6	-2.9	-1.4
Gross domestic fixed capital formation	0.5	-1.0	-6.6	-9.9	-9.4	2.6	1.0
Total exports of goods	-3.4	-0.3	-2.6	-2.9	-1.8	0.9	0.6
Imports of goods	-2.4	0.7	-3.5	-4.2	-0.9	2.9	1.9
Exports of services	-3.2	0.5	-4.3	-2.4	-3.1	0.5	3.3
Imports of services	-1.3	1.7	-1.1	0.3	2.7	4.1	1.0
<b>Gross Domestic Product</b>	<b>-4.5</b>	<b>-3.6</b>	<b>-1.9</b>	<b>-3.5</b>	<b>-6.2</b>	<b>-3.5</b>	<b>-0.1</b>
Total final demand	-3.3	-1.1	-2.7	-3.6	-2.8	0.6	1.2
Domestic demand	-3.1	-2.6	-2.3	-4.9	-4.2	0.1	1.2

Notes : (#) Figures are subject to revision later on as more data become available.

(\*) Change within  $\pm 0.05\%$ .

**Table 23 : Rates of change in implicit price deflators of GDP  
and its main expenditure components (Cont'd)**

	(%)								
	<u>2006</u>	<u>2007<sup>#</sup></u>	<u>2008<sup>#</sup></u>	<u>2008</u>				<u>Average annual rate of change:</u>	
				Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	10 years 1998 to 2008 <sup>#</sup>	5 years 2003 to 2008 <sup>#</sup>
Private consumption expenditure	1.3	3.7	2.8	5.1	5.1	3.1	-1.6	-0.7	1.8
Government consumption expenditure	1.0	3.0	5.2	4.1	5.6	5.9	5.1	*	0.9
Gross domestic fixed capital formation	4.2	-2.5	0.9	4.7	-0.1	2.0	-2.4	-2.1	1.2
Total exports of goods	0.3	2.2	3.3	2.3	3.4	4.4	3.3	-0.4	1.5
Imports of goods	2.1	1.7	4.0	3.4	4.6	5.2	3.0	0.2	2.5
Exports of services	3.6	2.5	3.2	3.5	4.1	4.7	0.9	*	2.6
Imports of services	0.8	2.9	4.3	6.3	6.3	5.4	-0.4	1.5	2.6
<b>Gross Domestic Product</b>	<b>-0.3</b>	<b>2.9</b>	<b>1.4</b>	<b>2.4</b>	<b>1.9</b>	<b>1.8</b>	<b>*</b>	<b>-2.0</b>	<b>0.1</b>
Total final demand	1.2	2.2	3.2	3.3	3.8	4.1	1.7	-0.5	1.7
Domestic demand	1.9	2.1	2.7	4.8	4.4	3.1	-0.8	-0.9	1.6

