

CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

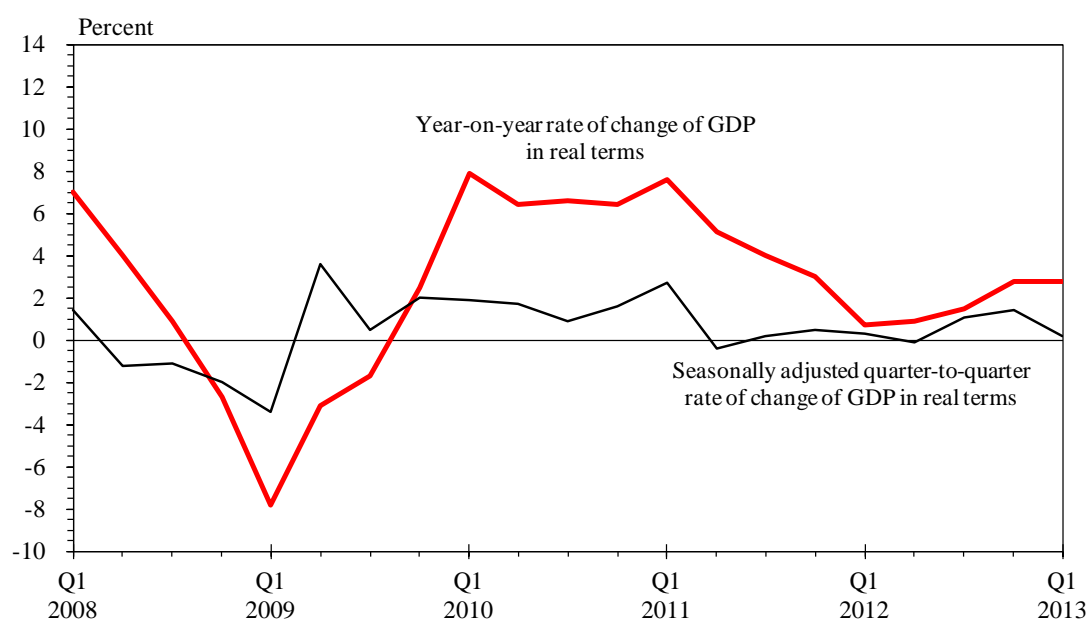
- *The Hong Kong economy grew moderately in the first quarter of 2013, by 2.8% in real terms over a year earlier, same as the growth pace in the preceding quarter. While the external sector still faced an unsteady global economic environment, the domestic sector remained relatively resilient.*
- *The external environment turned less steady after some relative improvement in the latter part of 2012, as highlighted by the bailout for Cyprus, fiscal consolidation in the US and heightened geopolitical tensions. Given the recession-struck eurozone, a stagnant Japanese economy, and a slow-growing US economy, production and export activities in many Asian economies still lacked momentum. The Mainland economy nevertheless expanded solidly further. Against this backdrop and boosted by a surge in exports of non-monetary gold, Hong Kong's total exports of goods posted a faster growth in the first quarter, while exports of services also picked up, on vibrant inbound tourism and increased financial market activity.*
- *Domestic demand largely held firm. Private consumption expenditure grew strongly, on the back of broadly supportive labour market conditions. Investment expenditure however fell back modestly from the distinctly high level last year.*
- *The labour market held largely steady in the first quarter. Reflecting the strength in labour demand, total employment maintained steady momentum, rising to successive new highs during the quarter. Yet the seasonally adjusted unemployment rate edged up to 3.5% over the period, albeit still at a relatively low level. Job opportunities remained abundant at end-2012, while wages and earnings saw further improvement over the past year.*
- *Local stock prices continued its uptrend on entering 2013, only to give back the gains in the latter half of the quarter amid increased uncertainty in the global economic environment. Local property market heated up again in early 2013, but quietened down visibly after the Government's introduction of further demand-management and macro-prudential measures in late February.*
- *Inflation held stable in the first quarter, having eased successively over the course of 2012. Price pressures on the external front remained tame. Locally, wages also moderated in growth, while the pick-up in fresh-letting rentals over the past year had yet to fully feed through to inflation.*

Overall situation

1.1 The Hong Kong economy saw a moderate expansion in the first quarter of 2013. The external environment, after some relative stabilisation in the latter part of 2012, turned more unsteady in the quarter, amid the inconclusive Italian election, the Cypriot bailout and the aggressive monetary easing in Japan. Import demand in the advanced economies remained weak, as the eurozone economy, saddled by the debt overhang, was still mired in recession, and as the US continued to see uneven growth, hampered by the payroll tax hike and automatic spending cuts. Geopolitical tensions in North Asia also increased. Against these headwinds, export and production activities in the newly industrialised Asian economies generally still lacked momentum. Yet the Mainland economy sustained solid growth, thereby lending notable support to Hong Kong's merchandise exports in the first quarter. Exports of services grew faster, thanks mainly to buoyant inbound tourism and improved financial activities. Domestic demand largely stayed firm, despite a slight fall-back in investment, mainly on account of solid private consumption amid a broadly stable labour market. Consumer price inflation, having tapered progressively during 2012, held steady in the first quarter.

1.2 In the first quarter of 2013, *Gross Domestic Product* (GDP)⁽¹⁾ grew by 2.8% in real terms over a year earlier, same as that in the fourth quarter of 2012, but faster than that of 1.5% for 2012 as a whole. On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, real GDP expanded by 0.2% in the first quarter, after a 1.4% growth in the preceding quarter.

Diagram 1.1 : The economy grew moderately in the first quarter of 2013



The external sector

1.3 *Total exports of goods* grew by 8.8% in real terms in the first quarter of 2013 over a year earlier, after re-accelerating to 6.7% growth in the preceding quarter. Yet such an appreciable growth was mainly boosted by a surge in exports of non-monetary gold in the quarter. Excluding this peculiar factor, merchandise export performance was actually rather modest. While the Mainland and some other Asian markets saw solid growth, the advanced markets remained the weak spots, with exports to the US, EU and Japan all posting year-on-year declines in the first quarter. In particular, exports of raw materials to some Asian economies stayed subdued, reflecting the sluggish intra-regional production activities and trade flows amid the weak final demand in the advanced economies.

1.4 *Exports of services* picked up to a 4.9% year-on-year growth in real terms in the first quarter of 2013, from the 2.9% growth in the fourth quarter. Exports of travel services continued to render the key impetus, growing notably further amid sustained double-digit growth in visitor arrivals. Those of financial and other business services showed moderate growth, thanks to improved financial market and commercial activities amid some stabilisation in global financial conditions. Yet held back by the generally still rather lacklustre trading environment, exports of trade-related services saw only modest growth, which in turn also dampened exports of transportation services.

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

	<u>2011</u> [#]	<u>2012</u> [#]	<u>2012</u>				<u>2013</u>
			<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [±]
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	9.0	3.2	5.7 (0.8)	2.6 (*)	1.9 (0.8)	2.8 (1.2)	7.0 (4.9)
Government consumption expenditure	2.5	3.7	3.2 (1.2)	4.2 (1.0)	4.0 (0.7)	3.3 (0.6)	2.0 (-0.3)
Gross domestic fixed capital formation	10.2	9.4	12.5	5.8	8.2	11.4	-2.2
<i>of which :</i>							
Building and construction	15.5	13.2	14.6	14.7	8.8	14.6	*
Machinery, equipment and intellectual property products	12.2	10.7	21.1	5.2	10.1	9.2	-4.0
Total exports of goods	3.4	1.8	-4.8 (1.3)	0.2 (-1.7)	4.5 (3.1)	6.7 (4.8)	8.8 (1.8)
Imports of goods	4.7	3.0	-1.8 (2.7)	1.2 (-1.0)	4.7 (1.6)	7.6 (5.2)	9.6 (3.1)
Exports of services	4.9	1.9	2.2 (0.4)	2.4 (1.2)	0.1 (-1.6)	2.9 (2.9)	4.9 (2.4)
Imports of services	3.5	0.4	3.0 (0.7)	0.9 (-1.3)	-1.5 (-2.0)	-0.8 (1.9)	1.2 (2.6)
Gross Domestic Product	4.9	1.5	0.7 (0.3)	0.9 (-0.1)	1.5 (1.1)	2.8 (1.4)	2.8 (0.2)
<i>Change in the main price indicators (%)</i>							
GDP deflator	3.9	3.9	3.9 (1.1)	3.0 (0.5)	4.3 (2.0)	4.3 (0.7)	1.2 (-2.0)
Composite CPI							
Headline	5.3	4.1	5.2 (1.2)	4.2 (0.8)	3.1 (-1.9)	3.8 (3.7)	3.7 (1.2)
Underlying[^]	5.3	4.7	5.9 (1.2)	5.1 (0.9)	4.0 (0.6)	3.8 (1.1)	3.8 (1.2)
Change in nominal GDP (%)	9.0	5.5	4.6	3.9	5.8	7.3	4.1

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.

([^]) After netting out the effects of Government's one-off relief measures.

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

The domestic sector

1.5 The domestic sector stayed relatively resilient in the first quarter of 2013. With consumer sentiment underpinned by broadly supportive job conditions as well as improved incomes over the past year, *private consumption expenditure* (PCE) grew briskly by 7.0% in real terms over a year earlier, much faster than the 2.8% growth in the fourth quarter of 2012. *Government consumption expenditure* grew modestly by 2.0% in the first quarter.

**Table 1.2 : Consumer spending by major component^(a)
(year-on-year rate of change in real terms (%))**

		<i>Of which :</i>							
		<u>Total consumer spending in the domestic market^(a)</u>	<u>Food</u>	<u>Durables</u>	<u>Non- durables</u>	<u>Services</u>	<u>Residents' expenditure abroad</u>	<u>Visitor spending</u>	<u>Private consumption expenditure^(b)</u>
2012	Annual	4.3	1.0	19.3	4.0	2.0	4.6	10.5	3.2
	H1	4.8	*	26.8	5.1	1.6	6.5	10.4	4.1
	H2	3.7	2.0	13.5	2.9	2.4	2.8	10.5	2.3
	Q1	6.0	-1.0	32.3	7.5	2.1	7.0	8.3	5.7
	Q2	3.6	0.9	21.5	2.9	1.0	6.0	12.7	2.6
	Q3	2.7	2.7	10.2	1.5	1.6	4.9	8.2	1.9
	Q4	4.7	1.4	16.3	4.1	3.1	0.8	12.7	2.8
2013	Q1	8.4	3.3	31.1	9.2	3.6	5.3	14.4	7.0

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.

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

Diagram 1.2 : Private consumption expenditure grew briskly in the first quarter of 2013

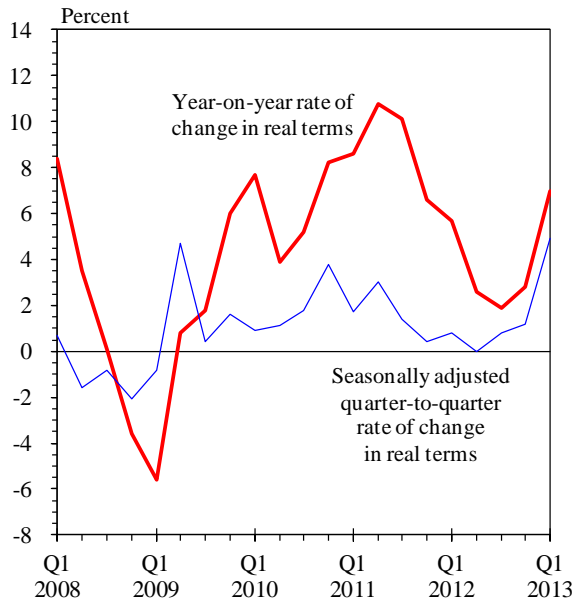
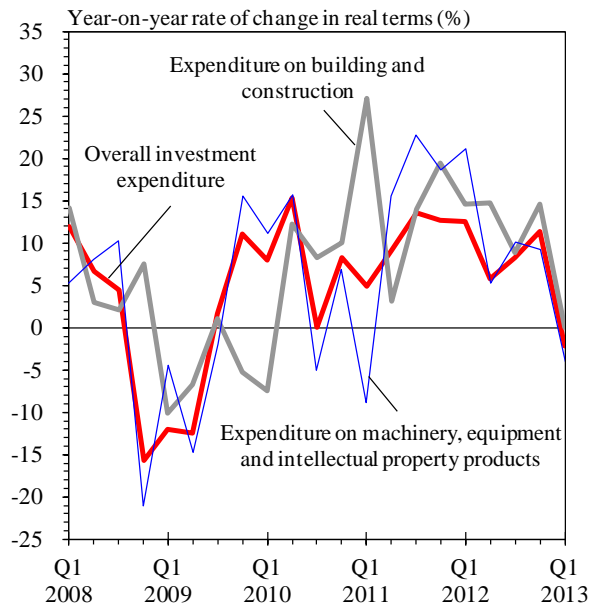


Diagram 1.3 : Investment spending however fell back modestly



1.6 Overall investment spending in terms of *gross domestic fixed capital formation* fell back modestly by 2.2% in real terms in the first quarter of 2013 from a year earlier, after sustaining notable growth throughout 2012 and up 9.4% for the year as a whole. The decline in the first quarter was mainly dragged by the usually volatile machinery and equipment investment, which contracted by 4.0% in the first quarter, though the high base after an exceptionally strong rise in 2012 was also relevant. The latest results of the Quarterly Business Tendency Survey nevertheless indicated that business sentiment among large enterprises turned somewhat more positive, though that among small and medium-sized enterprises (SMEs) was still rather cautious (see **Box 1.1** for details of the consultation on SMEs). Meanwhile, the expenditure on building and construction was virtually unchanged in real terms from a year earlier, with large-scale public infrastructure works moderating and private sector building activity falling back mildly after growing robustly over the past year.

Box 1.1

Diffusion indices on small and medium-sized enterprises (an update)

To gain a better understanding of the current situation of business receipts, employment and credit access for small and medium-sized enterprises (SMEs)⁽¹⁾, an ad-hoc 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 feedback. This note provides a further update of the results reported in *Box 1.2* in the *2012 Economic Background and 2013 Prospects*.

From June 2011 onwards, the industry coverage and questionnaire design for the exercise have been modified. Specifically, three sectors (viz. travel agents, financing institutions, and insurance agents and brokers) are dropped from the exercise, while questions on access to credit have been modified to gauge SMEs' views as to whether the current and expected credit access situation are "easy", "fair" or "tight", rather than in respect of a comparison with the normal times. The sample size of the panel has consequently been reduced to around 400.

A set of diffusion indices is compiled to indicate the general directions of change in the respondents' views on business receipts and employment versus the preceding month. While the findings should be interpreted with considerable caution given the coverage and nature of the consultation exercise, they can serve as a rough indicator to enable high frequency monitoring of SMEs' situation.

Business receipts of the SMEs surveyed, as depicted by the set of diffusion indices, showed that the overall situation remained weak in recent months (*Table 1*). In April 2013, the SMEs in import/export trades reported a weaker business situation after seeing some relative improvement in late 2012 and early 2013, indicating that the external trading environment remained unsteady. At the same time, SMEs in business services, wholesale and retail trades and restaurants also reported weaker readings, while the real estate sector deteriorated visibly since February, as the property market turned much quieter after the Government's rolling out of further demand-side management measures and some local banks' decision to raise mortgage rates. As to the employment situation, the feedback from SMEs indicated broadly stable development in recent months (*Table 2*).

Specifically for import and export trading firms, their views on new export orders were sought separately to gauge the export performance. In 2013, the diffusion index on new export orders rose from 49.1 in January to 50.5 in March, but fell back below the boom-bust dividing line to 49.0 in April 2013. This suggested that Hong Kong's export performance in the near term could still be rather unsteady, in view of the fragile demand in the advanced economies amid the fiscal consolidation in Europe and the US, as well as the uneven performance across the major Asian markets.

(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)

The proportion of SMEs reporting tight credit access remained low, at 0.9% in April 2013, thanks to the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes.

Table 1 : Diffusion indices[^] on business receipts

	<u>2012</u>									<u>2013</u>			
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
<i>Local segments</i>													
Restaurants	48.1	49.1	49.1	49.1	51.0	47.1	49.0	48.0	48.4	49.2	48.4	48.3	45.8
Real estate	47.1	42.6	41.2	50.0	55.9	54.4	47.1	39.7	50.0	51.5	39.7	39.7	38.2
Retail trade	47.4	45.3	46.1	46.4	46.8	49.1	47.2	48.6	48.1	46.3	47.7	48.1	47.6
Wholesale trade	47.4	44.7	44.7	47.4	44.7	44.7	42.1	47.2	47.2	47.2	47.2	47.2	44.4
Business services	51.5	48.5	48.5	45.5	48.5	45.5	50.0	45.5	47.0	50.0	53.0	47.0	43.9
<i>External segments</i>													
Import/export trades	48.6	47.7	46.8	47.7	45.9	47.2	47.7	50.5	50.0	50.0	49.0	51.0	49.0
Logistics	44.4	47.1	50.0	50.0	38.2	44.1	41.2	43.8	45.0	50.0	44.7	47.4	47.4
All the above sectors*	48.2	46.7	46.6	47.5	46.9	47.6	47.2	48.2	48.7	48.9	48.2	48.6	47.0

Notes : (^) The diffusion index is computed by adding the percentage of SMEs reporting "up" to one half of the percentage of SMEs reporting "same". A diffusion index reading above 50 indicates that the business condition is generally favourable, whereas an index below 50 indicates otherwise. Respondents were requested to exclude seasonal effects in reporting their views.

(*) Weighted average using total number of SMEs in individual sectors as weights.

Table 2 : Diffusion indices on employment situation

	<u>2012</u>									<u>2013</u>			
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
<i>Local segments</i>													
Restaurants	48.1	49.1	49.1	50.0	50.0	48.1	50.0	48.0	48.4	49.2	49.2	49.2	49.2
Real estate	51.5	50.0	50.0	50.0	52.9	50.0	50.0	47.1	51.5	50.0	50.0	50.0	50.0
Retail trade	50.0	50.0	50.0	50.0	49.5	50.0	50.0	50.0	49.5	50.5	50.0	50.0	50.0
Wholesale trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Business services	50.0	48.5	50.0	50.0	50.0	50.0	53.0	51.5	48.5	50.0	54.5	53.0	51.5
<i>External segments</i>													
Import/export trades	50.0	49.5	49.1	50.0	49.5	50.0	50.0	49.1	50.0	49.1	50.0	50.5	50.0
Logistics	50.0	50.0	50.0	50.0	50.0	47.1	47.1	50.0	50.0	50.0	50.0	50.0	50.0
All the above sectors*	50.0	49.6	49.6	50.0	49.9	49.7	50.2	49.5	49.7	49.7	50.4	50.5	50.1

Note : (*) Weighted average using total number of SMEs in individual sectors as weights.

Table 3 : Diffusion index on current new export orders

	<u>2012</u>									<u>2013</u>			
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
Import/export trades	50.0	46.4	46.4	46.8	46.4	46.8	46.8	49.1	50.0	49.1	50.0	50.5	49.0

Table 4 : Percentage of SMEs reporting tight current access to credit

	<u>2012</u>									<u>2013</u>			
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
All selected sectors*	0.7	0.7	1.1	1.1	0.7	0.7	0.7	0.9	1.3	1.3	1.2	0.7	0.9

Note : (*) Weighted average using total number of SMEs in individual sectors as weights.

The labour sector

1.7 The labour market remained rather tight during most of the first quarter of 2013. Amid keen labour demand on the back of buoyant local consumption, total employment maintained steady momentum, rising to a new high during the quarter. Labour supply, lured by the still largely favourable job and income conditions, also increased further, at a pace even slightly faster than that of job creation. As a result, the *seasonally adjusted unemployment rate* edged up from 3.3% in the final quarter of 2012 to 3.5% in the first quarter of 2013, albeit still at a relatively low level. The *underemployment rate* also edged up to 1.6%. With the labour market in rather good shape, labour wages and earnings saw continued improvement at end-2012. More recent indicators suggest that average employment earnings of full-time employees in the lowest decile rose further by 7.7% in nominal terms or 3.4% in real terms in the first quarter of 2013 over a year earlier.

The asset markets

1.8 The *local stock market* entered 2013 on a strong note, extending the rally since late 2012 upon the expanded monetary easing in the advanced economies and some stabilisation in global financial conditions. Yet the stock market experienced a correction in the latter part of the first quarter, amid fluidity in the euro debt situation stemming from the inconclusive Italian election and Cypriot banking crisis, as well as uncertainties surrounding the global growth prospects. The Hang Seng Index closed the first quarter at 22 300, down slightly by 2% from end-2012. Average daily turnover rose back to \$74.4 billion in the first quarter, but overall fund-raising activities stayed subdued.

1.9 Amid a low interest rate environment, *residential property market* heated up again in the first two months of 2013 after a brief calm following the demand management measures in late 2012. Yet the housing market turned much quieter after the Government introduced further demand management measures in late February to curb exuberance and some major local banks raised the mortgage rates in March. Trading volume plunged in the first quarter by 13% from a year ago. Residential property prices fell slightly by 0.1% during March 2013, reversing the average monthly increase of 1.9% during 2012. Yet by March 2013, overall flat prices had surpassed the 1997 historic peak by 38%, and the housing affordability ratio worsened further to 56% in the first quarter of 2013. Flat rentals concurrently eased, with only a marginal increase of 0.2% during the first quarter, following an 11% surge during 2012. As for non-residential property market, market activities have

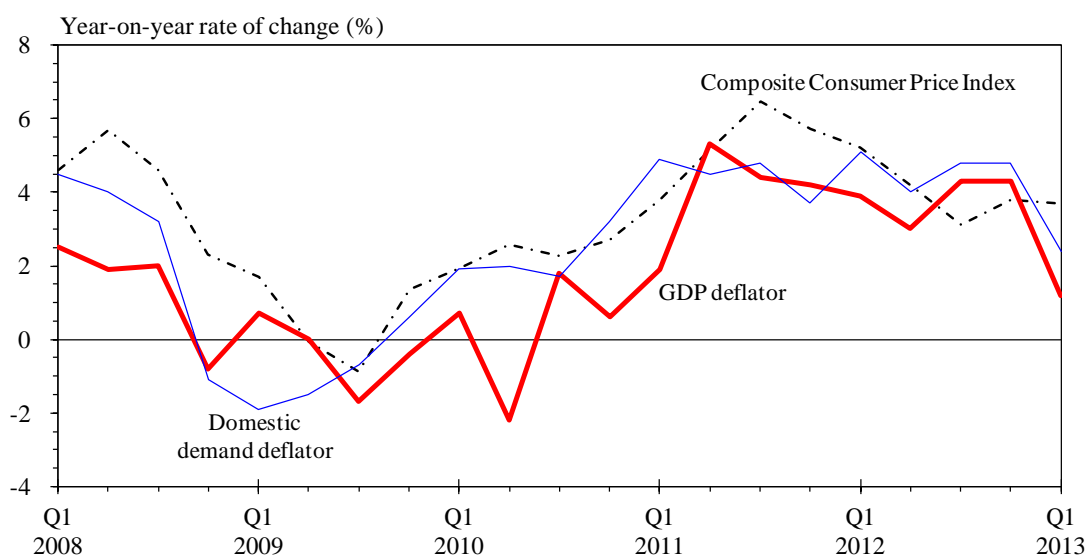
also cooled off lately. Upward pressures on shop and office rentals likewise eased, with gains of 1% and 3% respectively during the first quarter.

Inflation

1.10 Consumer price inflation began to level off in the first quarter of 2013, having tapered progressively over the course of 2012. Both external and domestic price pressures remained contained in early 2013. Externally, imported inflation stayed moderate, partly because global food and commodity prices remained relatively soft. Locally, wages have moderated in growth, while the pick-up in fresh-letting rentals during the past year had yet to fully feed through to inflation. As such, *headline consumer price inflation* was 3.7% in the first quarter of 2013, slightly lower than the 3.8% in the preceding quarter. Netting out the effects of the Government’s relief measures, *underlying consumer price inflation* held stable at 3.8%. While the private housing rental component of consumer price inflation rose somewhat faster in the first quarter of 2013 than in the final quarter of 2012, the price increases of basic foodstuffs held steady and those of many other major components were moderate.

1.11 The *GDP deflator* rose modestly by 1.2% in the first quarter, mainly reflecting the smaller increase in domestic prices and a slight deterioration in the terms of trade.

Diagram 1.4 : Consumer price inflation held stable in the first quarter of 2013



GDP by major economic sector

1.12 The economy saw only sub-trend growth in 2012, although the performance of individual economic sectors varied. Net output of the services sector as a whole grew modestly by 1.8% in real terms in 2012, decelerating from the 5.2% growth in 2011. Among the major services sectors, wholesale and retail trades, transportation and storage, information and communications, accommodation and food services, and public administration, social and personal services still recorded solid growth, reflecting the more resilient domestic demand and vibrant inbound tourism. Real estate, which mainly reflects the net output of private sector developers and property agency activity, actually picked up appreciably alongside a buoyant property market. On the other hand, import and export trade grew tepidly under the drag of sluggish external trade flows, though seeing relative improvement in the second half of the year. Financing and insurance, and professional and business services also moderated visibly, amid subdued financial market and other commercial activities. As for the secondary sector, manufacturing output fell back slightly by 0.8%, while construction output leaped further by 11.3%, backed by the intensive public infrastructure works and faster growth in private building activity.

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

	<u>2011</u>	<u>2012</u>	<u>2011</u>				<u>2012</u>			
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Manufacturing	0.7	-0.8	3.5	2.0	0.2	-2.2	-1.6	-2.9	-0.1	1.3
Construction	18.1	11.3	33.8	8.9	13.6	17.5	13.1	10.1	5.2	16.1
Services ^(b)	5.2	1.8	7.8	5.6	4.3	3.4	1.4	1.2	1.9	2.7
Import/export, wholesale and retail trades	9.1	1.5	15.7	8.0	6.5	7.6	-0.4	0.3	1.6	3.8
Import and export trade	6.3	0.5	14.1	4.5	3.5	4.7	-2.6	-0.9	1.3	3.3
Wholesale and retail trades	22.2	5.8	22.6	24.4	22.1	20.4	9.1	5.8	3.0	5.9
Accommodation ^(c) and food services	8.3	2.2	5.1	7.2	10.4	10.7	-0.6	1.6	3.2	4.6
Transportation, storage, postal and courier services	7.2	3.0	10.7	5.3	7.3	5.8	4.7	0.5	2.7	3.9
Transportation and storage	7.3	2.8	10.5	5.1	7.4	6.3	4.7	0.4	2.5	3.3
Postal and courier services	5.6	8.1	11.5	10.5	1.8	0.6	4.6	3.3	9.2	14.2
Information and communications	2.8	2.8	4.0	2.4	1.9	3.0	0.8	1.4	4.1	4.6
Financing and insurance	6.9	1.1	11.3	11.1	6.7	-0.3	2.3	0.2	0.8	1.1
Real estate, professional and business services	2.6	3.6	3.6	1.8	2.3	2.6	3.6	5.1	3.8	2.2
Real estate	1.8	5.9	3.4	0.2	1.2	2.4	4.5	8.2	6.6	4.5
Professional and business services	3.3	1.4	3.9	3.3	3.3	2.6	2.2	2.1	1.3	0.2
Public administration, social and personal services	1.5	2.0	0.7	2.7	1.1	1.2	2.2	2.1	2.0	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.
- (c) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

Other economic developments

1.13 The year 2013 would still be a challenging one, in view of the fragile external demand conditions and potentially volatile global financial environment. In the 2013-14 Budget announced on 27 February, the Government proposed recurrent and one-off measures to cater to the needs of the people and support the enterprises, including a package of relief measures amounting to some \$33 billion. The Budget, estimated to have a stimulus effect of 1.3 percentage points on the economy, also set out a strategy to invest in the future and achieve long-term economic growth, through developing the industries, fostering economic integration with the Mainland, and strengthening our ties with other parts of the world.

- On tackling the near-term challenges, measures were proposed to assist small and medium enterprises (SMEs) to raise capital and tap new markets. SMEs are an important pillar of the economy and employ half of the private sector workforce. The measures include waiving business registration fees for 2013-14, profits tax reduction, extending the application period for the special concessionary measures under the SME Financing Guarantee Scheme, increasing the cumulative grant amount under the SME Export Marketing Fund, and establishing more Design Galleries in Mainland cities through the Trade Development Council to provide platforms for Hong Kong enterprises to showcase their products and access the Mainland market.
- For the community at large, recurrent expenditures on welfare, education and medical services were the main focus of the Budget. Total government expenditure would increase by 15.6%, recurrent expenditure by 10.5%, and welfare expenditure by 33% to improve the quality of public services. In addition, one-off measures were proposed to ease the living burden on the people, including tax concessions, rates waiver, electricity subsidy, an extra month of allowances to various programmes, and two months' payment of public housing rentals. A \$15 billion injection into the Community Care Fund was also proposed to give flexibility in coping with issues outside the scope of existing policy measures.

1.14 Meanwhile, to forestall the build-up of property market exuberance amid a prolonged low interest rate environment, the Government rolled out further demand management measures and a sixth round of macro-prudential measures in late February, including raising the ad valorem stamp duty on both residential and non-residential property transactions (please see **Box 3.1** for details). Starting from 1 April, the application list system for land sale was

abolished to allow the Government to better control land supply in accordance with market demand. The property market showed visible signs of cooling after the measures.

1.15 On promoting long-term economic development, Hong Kong will develop the industries and explore new areas with growth potential to broaden its economic base. The newly established Economic Development Commission held its first meeting in March and identified some directions to increase Hong Kong's long-term competitiveness. It was also proposed that the Government could play a more active role in exploring the Mainland and overseas markets and invest directly in key industries if necessary. In addition, the Government will continue to invest in infrastructure, education and training, and improve the environment to raise the living standards. Sustained economic development is the foundation to addressing long-term challenges such as poverty, housing, population aging, and social upward mobility.

1.16 Further, Hong Kong will consolidate its strength in the existing pillar industries. On financial services in particular, Hong Kong and Shanghai enhanced financial co-operation on fostering offshore renminbi (RMB) business, strengthening fund and asset management, promoting international capital formation and helping Mainland enterprises "go out." The China Securities Regulatory Commission's expansion of the RMB qualified foreign institutional investor (RQFII) pilot scheme on 6 March to cover all Hong Kong-licensed asset management companies, together with relaxation of investment restriction, would be conducive to more innovative and diversified RMB investment products being launched in Hong Kong, thereby strengthening our capacity as an offshore RMB business centre.

1.17 In addition, we will capitalise on our competitive edge in market infrastructure and foster ties with other parts of the world. Indeed, Hong Kong was ranked by the Heritage Foundation as the world's freest economy for the 19th year in a row. In the first quarter, Hong Kong and Thailand signed a trade pact to promote economic co-operation in trade in goods and services, investment, trade-related rules and regulations, collaboration of SMEs, logistics and transport, tourism, information and communication technology, applied research and development, human resource development, intellectual property rights, and the creative economy's development. The Hong Kong Trade Development Council also organised an expo in Jakarta to promote bilateral co-operation on trade, business and tourism with Indonesia. Finally, an agreement between Hong Kong and Mexico for the avoidance of double taxation signed in last June came into effect in March.

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.