

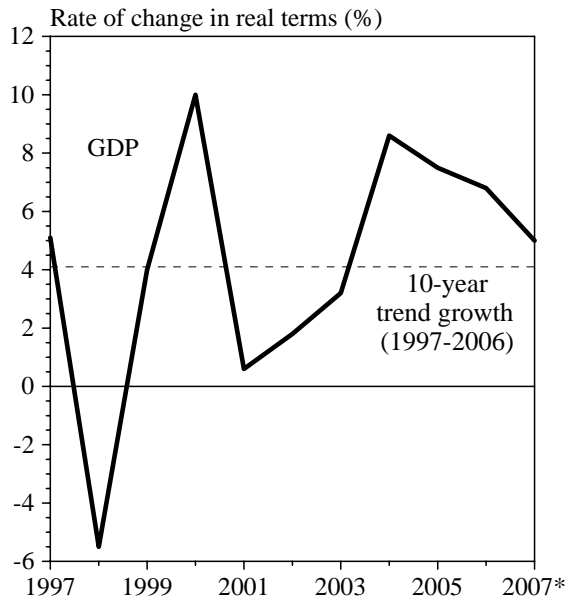
Medium-term outlook for the Hong Kong economy

2.22 The medium-term prospects for the economy remain bright, as the strategy of leveraging on our fast-growing economic hinterland continues to pay off. The action agenda from the Economic Summit on the National 11th Five-Year Plan will help Hong Kong to strengthen its vital role in the economic development of our country. These will also further enhance our continuous integration with the Mainland under the CEPA framework and Pan-PRD cooperation, thereby bringing significant benefits to both sides. On the supply side, the Hong Kong economy will continue to shift towards higher value-added services and knowledge-based activities in the coming years. Hong Kong will further enhance its status as an international financial centre and a regional hub for trade, logistics, tourism and business. The productivity growth achieved in the process will help the economy attain a 4.5% trend GDP growth over the next four years 2008-2011.

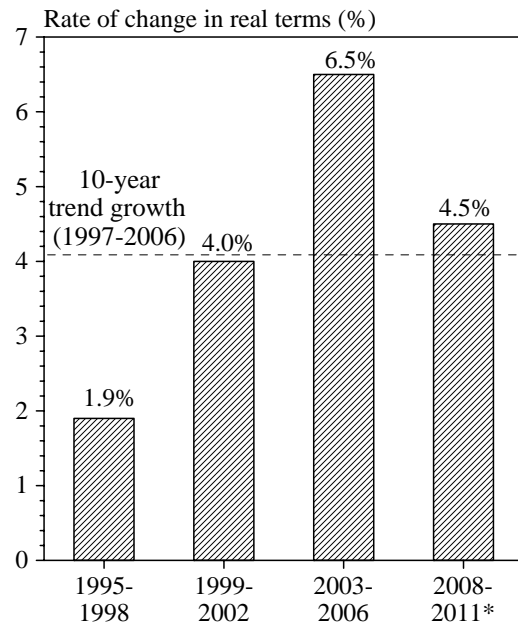
2.23 The external environment would still be clouded by some lingering uncertainties over the medium term. Of particular note are the evolving situation in the US economy and the persistent global trade imbalances. Although it is generally expected that the US economy would attain soft landing over the course of 2007, the possibility that it may show a sharper-than-expected downturn cannot be ruled out at this stage. Should this latter unfavourable scenario happen, there are bound to have more significant ramifications on the global economy over the coming years. The global trade imbalances, not only alarmingly large but also still growing, are yet to be resolved. Concerted efforts among the economies concerned are badly needed to ensure an orderly adjustment. The lingering protectionist sentiment from the US and EU against Mainland products and continuing pressure on the renminbi to appreciate would also pose risk to Hong Kong's trade. Domestically, the structural shift of the economy to knowledge-based activities, whilst a much needed development in response to the forces of globalisation and regional competition, may also present a challenging situation for some lower skilled workers. Furthermore, the increasingly ageing population will have profound implications on the health and social welfare systems, as well as on the public finance. Although inflation has remained well contained so far, there is risk of re-emergence of a higher inflation over the medium term, especially if the economy continues to grow at above-trend rate thereby exerting increasing pressures on the overall resource balance.

Diagram 2.11 : Medium-term economic outlook remains bright

(a) Another year of above-trend growth expected for 2007



(b) Medium-term outlook underpinned by integration with the Mainland and continuous shift forwards



Note : (*) Forecast.