

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 and integrating with 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 establish its vital role in the economic development of our country. By end-2007, over 110 specific measures recommended by the Action Agenda have been implemented. These will also further deepen and broaden our economic and financial links with the Mainland under the CEPA framework and Pan-PRD cooperation, thereby bringing significant benefits to both sides. The Government is also building up further our links with other emerging markets, such as India and the Middle East. 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. The quality of Hong Kong's workforce has been improving in terms of educational attainments and skills. 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 2009-2012. The Government will also push ahead the major infrastructure projects, which will create jobs and bring benefits to the economy during the construction phase. When completed, these facilities will enhance the production capacity and efficiency of the Hong Kong economy and further our integration with the Mainland, thereby bringing significant benefits to the community over the longer run.

2.23 With sustained economic expansion, higher labour and housing costs, as well as price pressures from the external front, inflation will continue to be an issue that deserves close attention over the medium term. Indeed, higher inflationary pressures now appear to be a global phenomenon. Over the medium term, underlying composite CPI inflation is likely to remain at around 4% per annum. Apart from the issues of global inflation and the health of the US economy, several other challenges prevailing in the external environment will likely linger on over the medium term. The global trade imbalances, though tending to stabilise over the past year, are still alarmingly large. A disorderly and abrupt adjustment will entail unwelcome disruptions in the global economy. A related issue is the persistent protectionist sentiment from the US and EU against Mainland products, increasing the risk to Hong Kong's trade. The risks associated with the heightened volatility in financial and exchange rate markets may persist and cannot be ignored. Domestically, the structural shift of Hong Kong economy to knowledge-based activities, in response to the forces of globalisation, regional competition and the rapid

transformation of the Mainland economy, may lead to greater challenges for the lower-skilled workers. Also, the ageing population will have profound implications on our health care and social welfare systems, as well as on the public finance, over the medium and longer run. In view of all these challenges, it is important for the Government to maintain flexible markets and exercise prudence in its fiscal policy.

Diagram 2.11 : Medium-term economic outlook remains bright

