

Medium-term outlook for the Hong Kong economy

2.22 The medium-term prospects for the Hong Kong economy are bright. For the global economy as a whole, growth impetus will mainly come from sustained strong growth in emerging Asia, in particular the Mainland, as the economic centre of gravity will continue to shift to the East. Indeed the Mainland has been the largest contributor to global economic growth in the recent past and will likely remain so over the medium term. The major advanced economies should also gradually emerge out of the shadows casted by the global financial crisis.

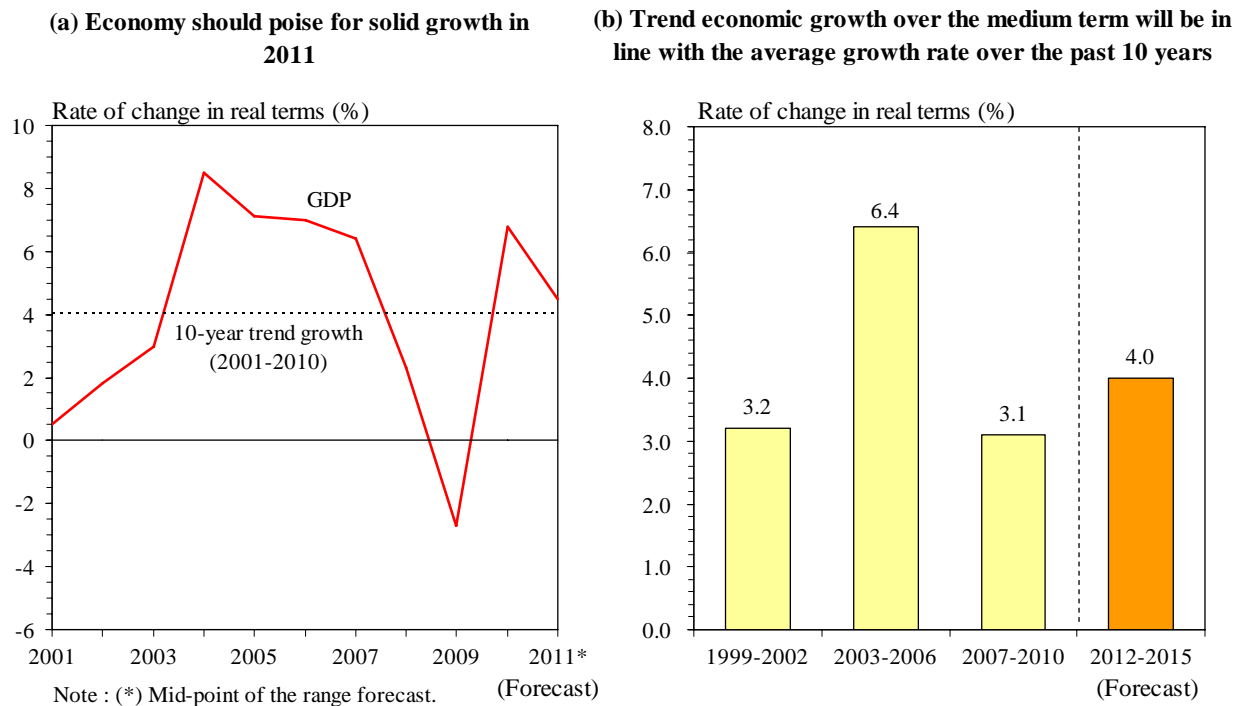
2.23 Hong Kong is in the best position to reap the benefits from the vibrant growth of Asia. The Government will continue to pursue a growth strategy focusing on the Mainland, promoting regional co-operations and the development of new markets and growth areas.

2.24 Hong Kong will enhance further its integration with the Mainland economy, particularly by leveraging its unique advantages and functions during the National 12th Five-Year Plan period. Hong Kong and Guangdong as well as other parts of the Mainland will also push ahead with co-operation in many areas. Of particular note will be financial services. Hong Kong will establish itself as a renminbi offshore centre and an asset management centre for the Mainland. The Government will also continue to help Hong Kong's service sectors, notably the six new industries and other professional services, to expand their presence in the Mainland markets. The various major cross-boundary infrastructure projects, when completed, will enhance the efficient flow of people and goods between Hong Kong and the Mainland. In the coming years the construction of these major infrastructure projects will also help to boost domestic demand.

2.25 The Government will also continue to facilitate Hong Kong's transformation into a knowledge-based, high value-added economy. Being a relatively mature economy, Hong Kong has to compete in the global and regional arenas in terms of quality. Hong Kong will continue to uphold its status as an international financial centre and a regional business hub.

2.26 Against this background, the trend GDP growth rate in real terms is forecast at 4% per annum from 2012 to 2015, in line with its trend rate over the past decade. Inflationary pressures are likely to persist beyond 2011, partly because the withdrawal of the massive liquidity in the global banking systems could be a gradual process. The trend rate of change in the underlying Composite CPI in Hong Kong over the medium term is forecast at 3.5% per annum.

Diagram 2.15 : Economic prospects are bright over the medium term



2.27 The Government is also mindful of the various challenges facing the global and local economy over the medium term. Globally, it becomes increasingly obvious that the global adjustment process in the aftermath of the global financial crisis could go beyond 2011, resulting in weaker global demand and higher inflation and asset bubble risks in Asia, Hong Kong included. European sovereign debt problems will continue to cast uncertainty as the issue of fiscal sustainability in the highly-indebted euro-zone economies is yet to be solved. The high national debt to GDP ratios in other major advanced economies, including the US and Japan, are also worrisome. Also, the persistence of global imbalances can lead to heightened tensions on trade and exchange rate fronts. This can be complicated by the political implications of persistently high unemployment in the US and Europe. Last but not the least, the period of high inflation could return if global liquidity remains abundant for too long and world commodity prices continue to surge. 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. The training and re-training needs of Hong Kong's workforce are bound to increase over time if it is to reduce the extent of mismatch between jobs and skills. Stronger efforts on environmental protection and other areas will be needed to improve the quality of life in Hong Kong. The ageing population will also have profound implications on Hong Kong's health care and social welfare systems, as well as on the sustainability of public finance, over the medium and longer run. Prudent fiscal policy is needed in view of these medium-term issues and long-term development needs.