

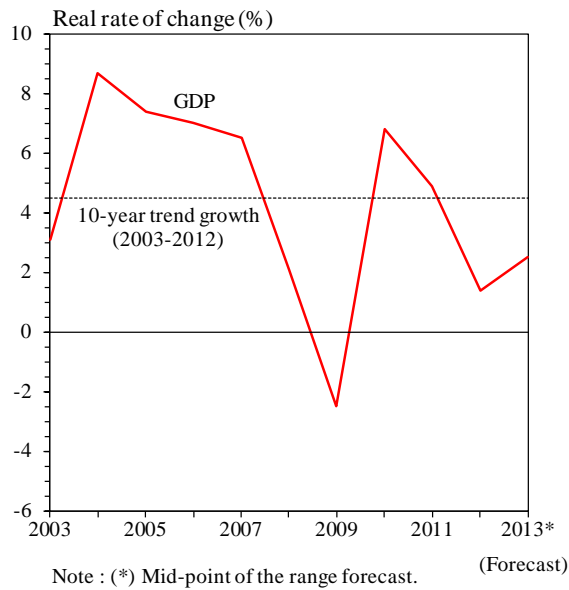
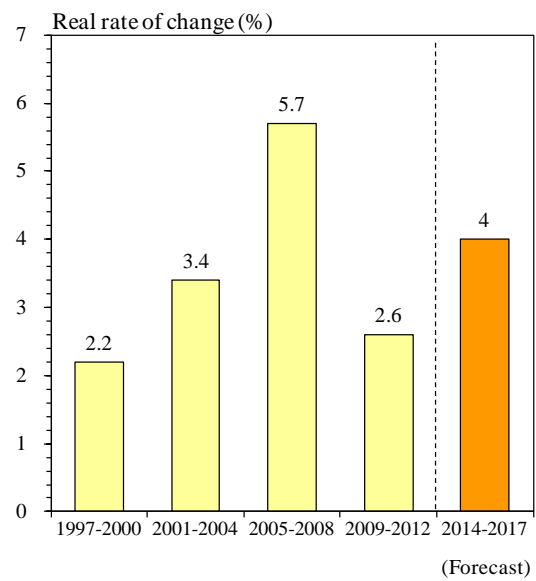
Medium-term outlook for the Hong Kong economy

2.28 Beyond the short-term volatilities in the external environment, the medium-term outlook for the Hong Kong economy remains positive. Hong Kong is in the best position to leverage on the economic strength of Asia, especially the Mainland, in moving towards a high value-added, knowledge-based economy. The ongoing large-scale infrastructure works will also help support domestic demand over the medium term and improve our economic efficiency and production capacity over the longer run.

2.29 Deepening our economic integration with the Mainland is an important part of our growth strategy. The nation's development strategy of growth rebalancing and fostering the service industry should offer ample opportunities for our service sectors, through the CEPA platform and other regional cooperation channels. The Government will strive to extend the "early and pilot implementation" arrangement beyond Guangdong to other provinces and municipalities in the Pan-Pearl River Delta region, in addition to exploring new and emerging markets overseas. Further, the development of Hong Kong into a premier offshore RMB business centre and asset management centre as laid out in the National 12th Five-Year Plan has been making good progress. We will continue to strengthen our pillar industries while nurturing new industries with growth potential. The newly established Economic Development Commission and Financial Services Development Council are precisely charged with identifying new engines for Hong Kong's economic growth so as to diversify its economic base while consolidating our competitive edge.

2.30 On the supply side, the Government will continue to upgrade our human capital and build on infrastructure to raise our productivity and competitiveness. The productivity growth achieved in the process will help the economy attain a 4% growth per annum from 2014 to 2017, broadly in line with the average annual growth rate that Hong Kong has achieved over the past decade.

2.31 While inflation pressures should remain moderate in the near term amid the earlier stabilisation of local and external price pressures, we shall stay alert to the upside risks to inflation over the medium term, in view of the super-loose monetary environment and volatile US dollar exchange rate and commodity prices. The continued productivity gain should nonetheless provide some offset to local cost pressures. Taking these factors together, the trend rate of change in the underlying CCPI in Hong Kong for the four years from 2014 to 2017 is forecast at 3.5% per annum.

Diagram 2.14 : Economic prospects remain positive over the medium term**(a) Economy expected to show faster but sub-trend growth in 2013****(b) Trend economic growth over the medium term will be broadly in line with the past trend**

2.32 Over the medium and longer term, there will be challenges on both the external and domestic fronts. Externally, the resolution of the euro debt crisis and fiscal problems in the advanced economies, as well as the withdrawal of the abundant global liquidity, could be long drawn-out processes, posing downside risks to the global economy. Also, the threat from geopolitical tensions in many parts of the world should not be underestimated. Domestically, the structural shift of the Hong Kong economy towards higher value-added and knowledge-based activities, though important to the sustainable development of our economy, has raised concerns in the community over the widening income and wealth disparities. At the same time, the issue of an ageing population and resulting labour shortage has become increasingly imminent, plus its profound ramifications on our healthcare and social welfare systems. In view of these challenges, it is important to exercise fiscal prudence, so as to preserve our ability and ensure sufficient public resources to invest in infrastructure and education to drive the economy and also to tackle the social issues through various programmes.