



Hong Kong SAR Government

2012 Economic Background and 2013 Prospects

27 February 2013

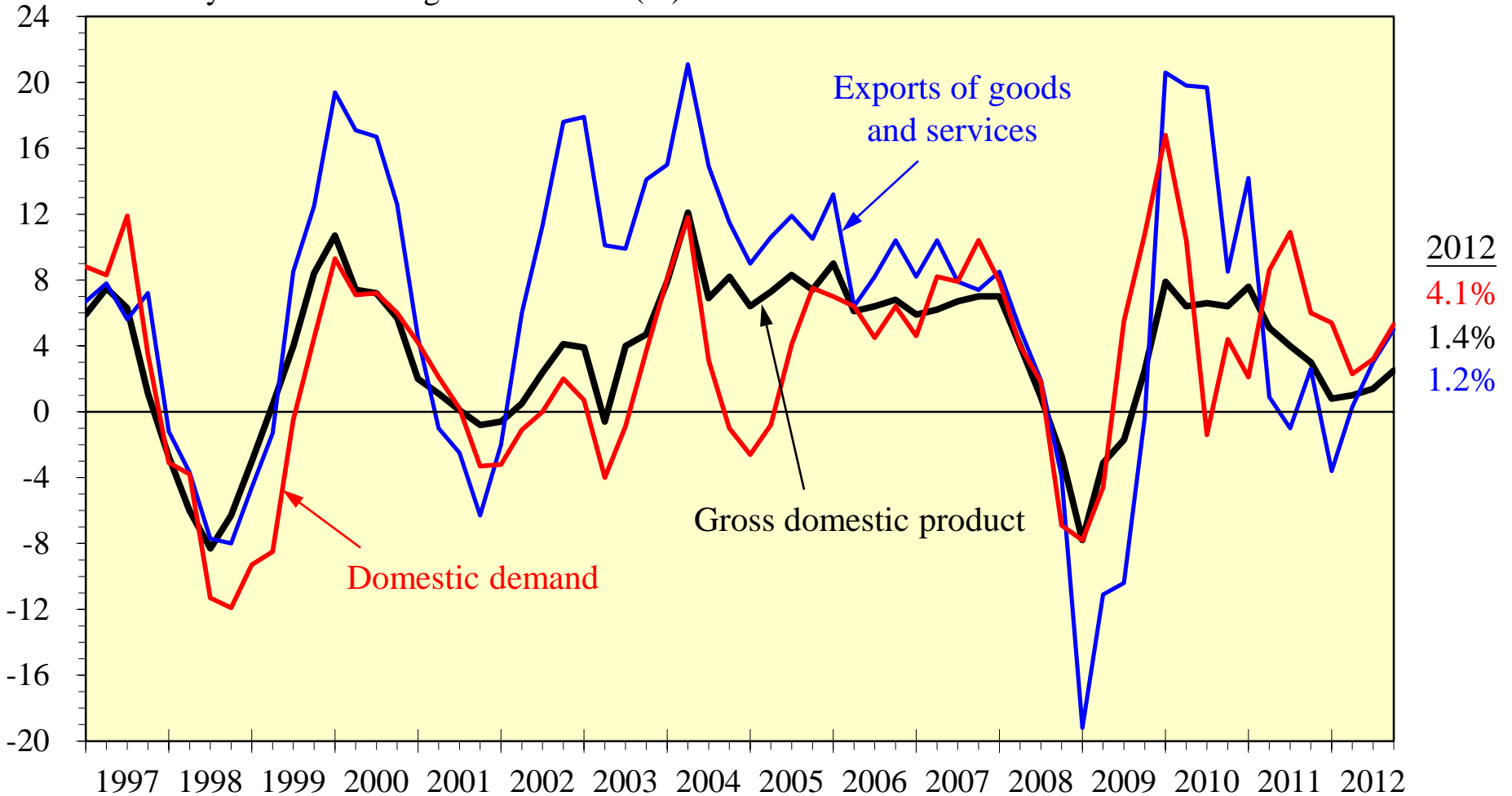
2012 Performance

Salient features of economic performance in 2012

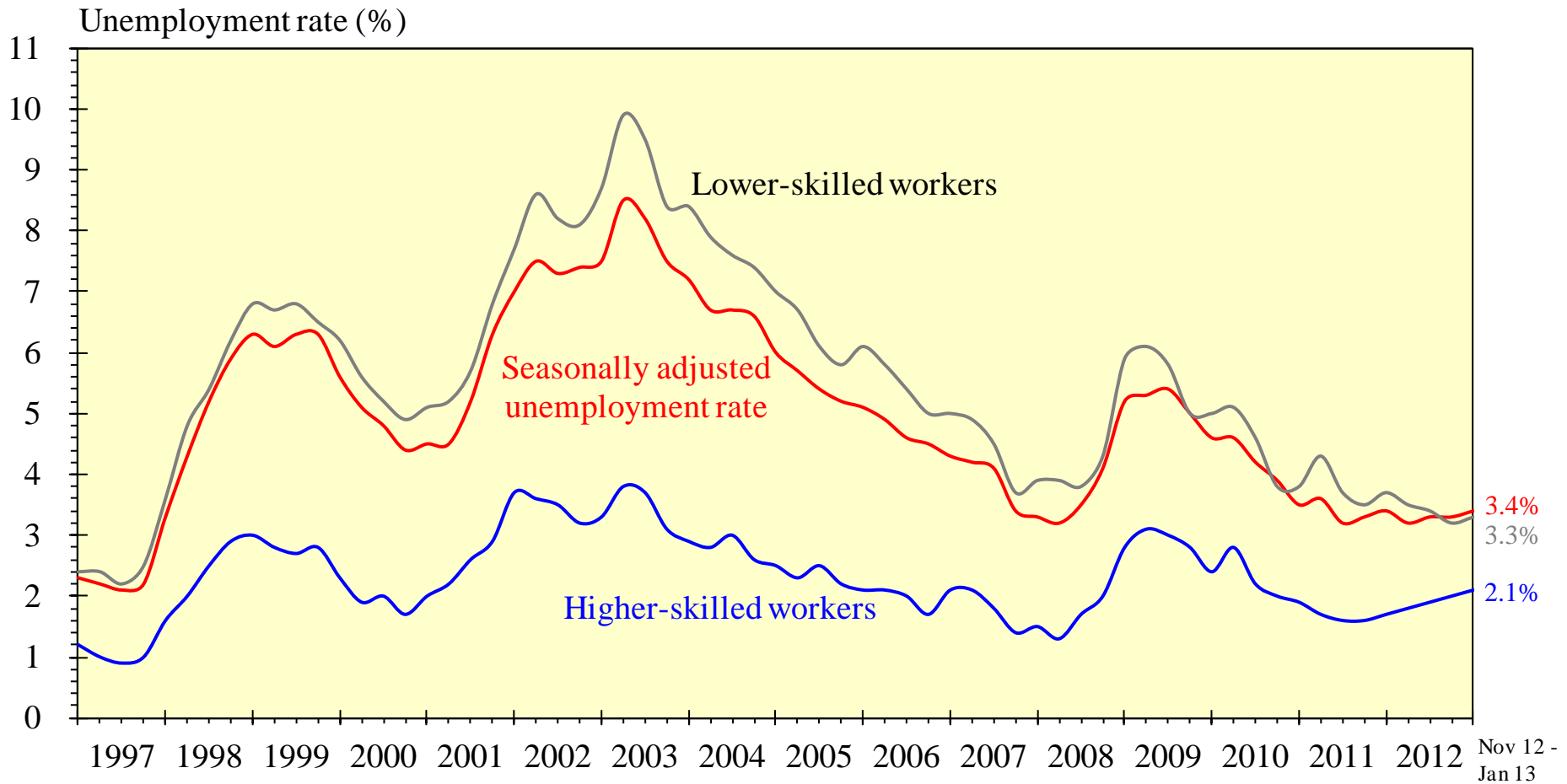
- Economy regained momentum towards late 2012 with a 2.5% growth in Q4, though a subpar growth of 1.4% for 2012 as a whole
- External environment: More difficult in 2012H1 with the headwinds from the US and Europe, then steadily improved during 2012H2 thanks to a vibrant Mainland economy and some stabilisation of the euro debt crisis
- Domestic sector resilient throughout the year. Labour market remained in full employment
- Inflation generally on an easing trend during the year. Underlying inflation rate averaged at 4.7% in 2012, down from 5.3% in 2011

Economy saw modest growth in 2012, largely held back by the weak external sector

Year-on-year rate of change in real terms (%)



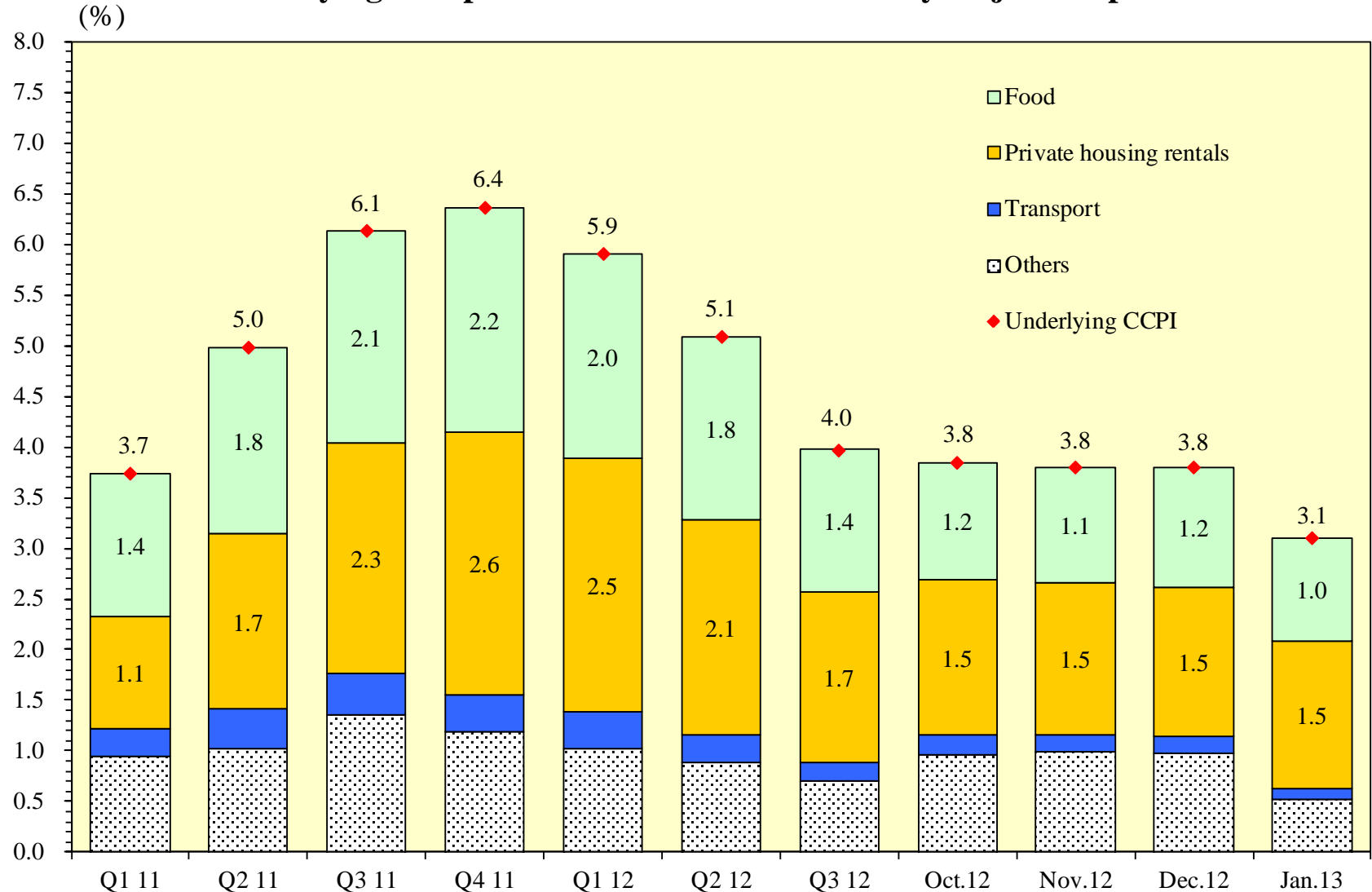
Labour market in full employment



Note : Unemployment rates for lower-skilled and higher-skilled workers are not seasonally adjusted.

Inflation generally on an easing trend in 2012

Contribution to the year-on-year rate of change in the underlying Composite Consumer Price Index by major component



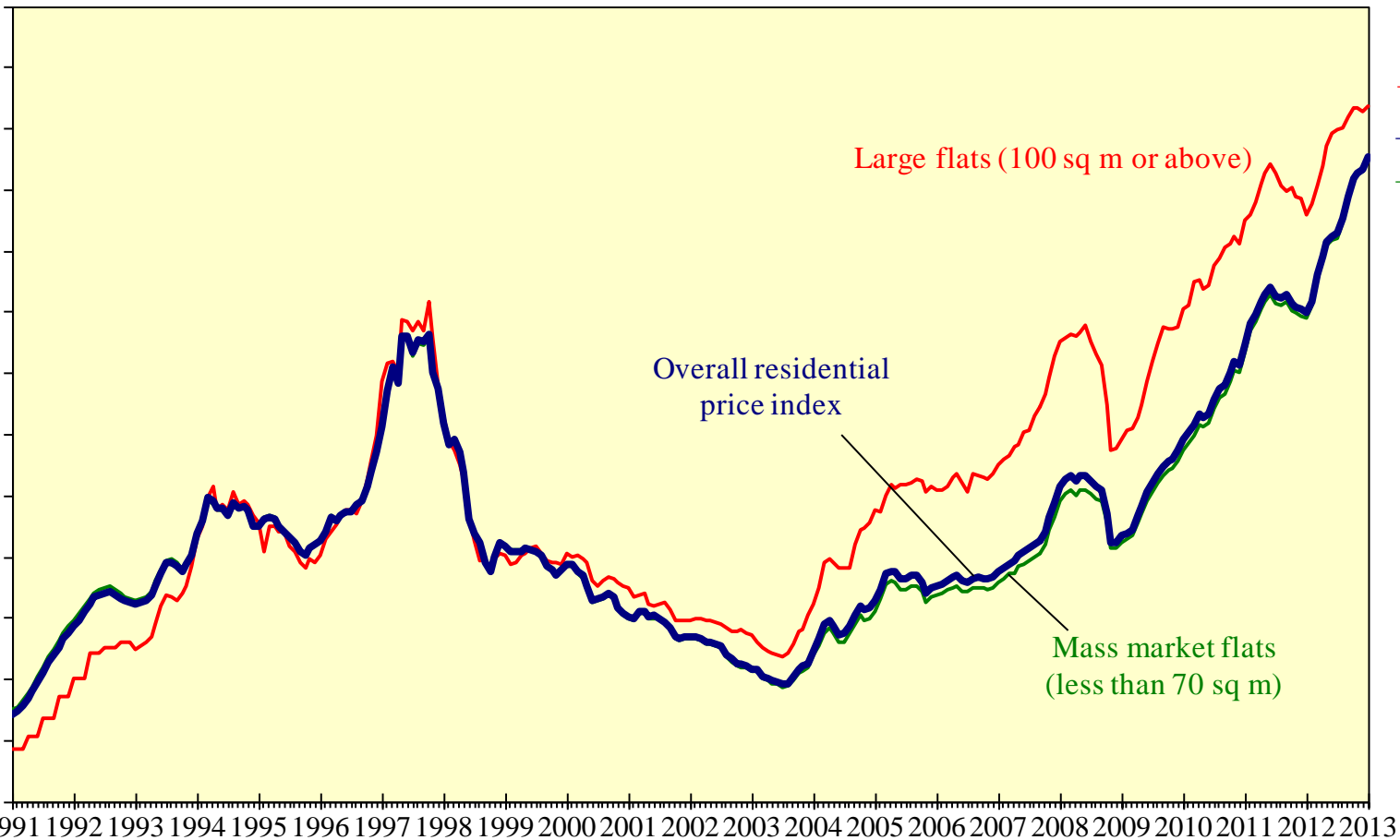
Housing market

Flat prices surged by 25% during 2012

Index (1999=100)

Increase during 2012	Jan 2013 v.s. 2008 trough
+13%	+83%
+25%	+120%
+27%	+124%

+13%	+83%
+25%	+120%
+27%	+124%



The Government always vigilant to housing bubble risks

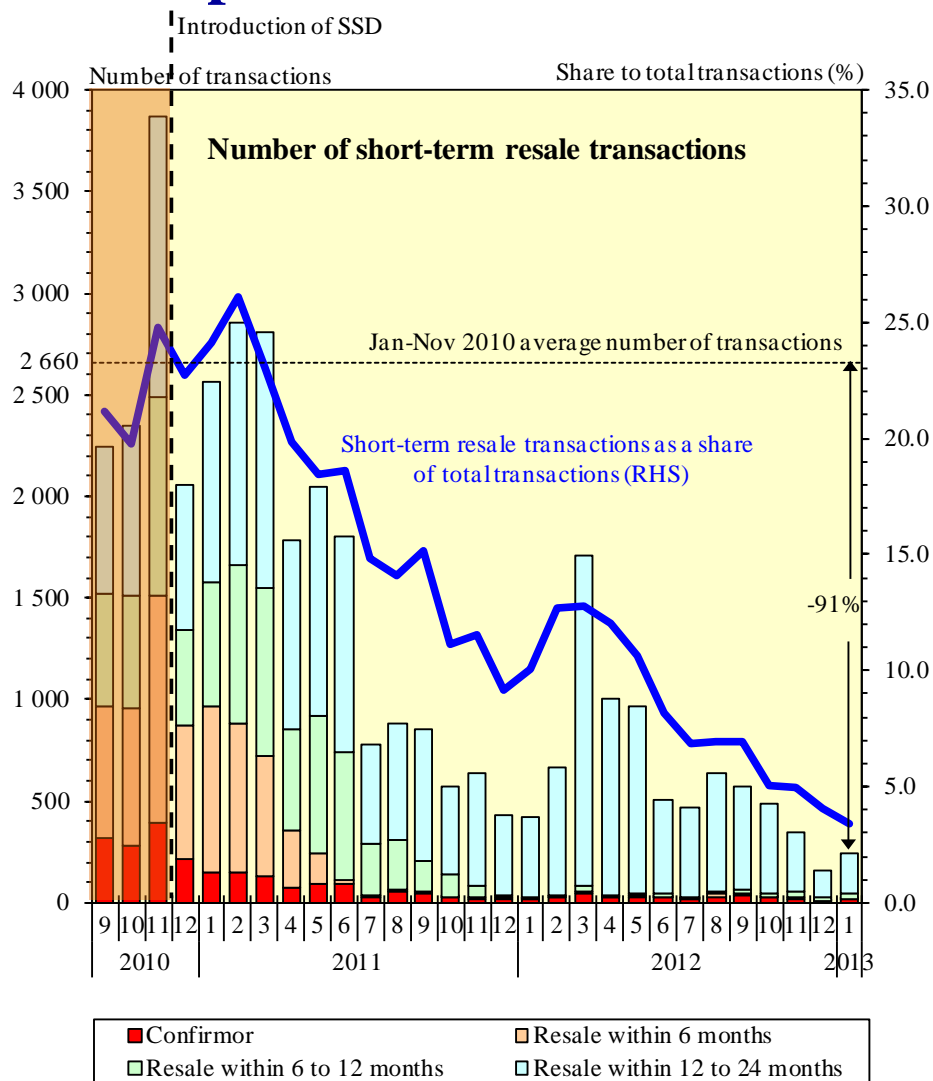
- **Raising flat supply through increasing land supply as top policy priority**
 - Quarterly land sale programme since 2011
 - Short, medium and long-term measures as announced in the 2013 Policy Address
- **Counter-cyclical measures to manage demand**
 - Special Stamp Duty (Nov-2010)
 - Enhanced SSD and Buyer's Stamp Duty (Oct-2012)
 - Across-the-board rise in ad valorem stamp duty on both residential and non-residential property (Feb-2013)
- **Safeguard financial stability from an exuberant property market**
 - Six rounds of macro-prudential measures on mortgage lending business since Oct-2009

Supply side measures yielding positive results

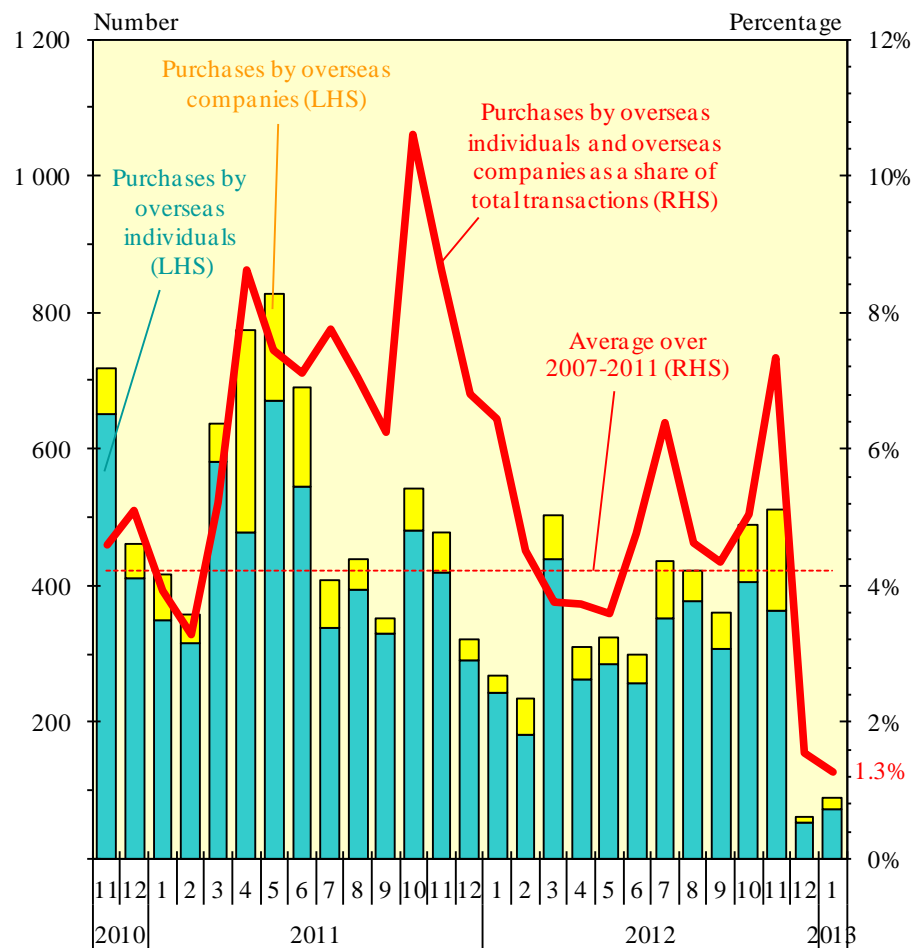
	<u>Consent to commence general building and superstructure work</u>	<u>Completions</u>	<u>Medium term supply (end-year)</u>
2009	10 300	7 157	53 000
2010	10 100	13 405	59 000
2011	14 100	9 449	62 000
2012	18 200	10 100	67 000
<hr/>			
2013 (F)	-	14 000	
2014 (F)	-	16 000	

Demand side measures

SSD has effectively stemmed speculative activities



BSD also effective in curbing overseas demand



Source: Inland Revenue Department.

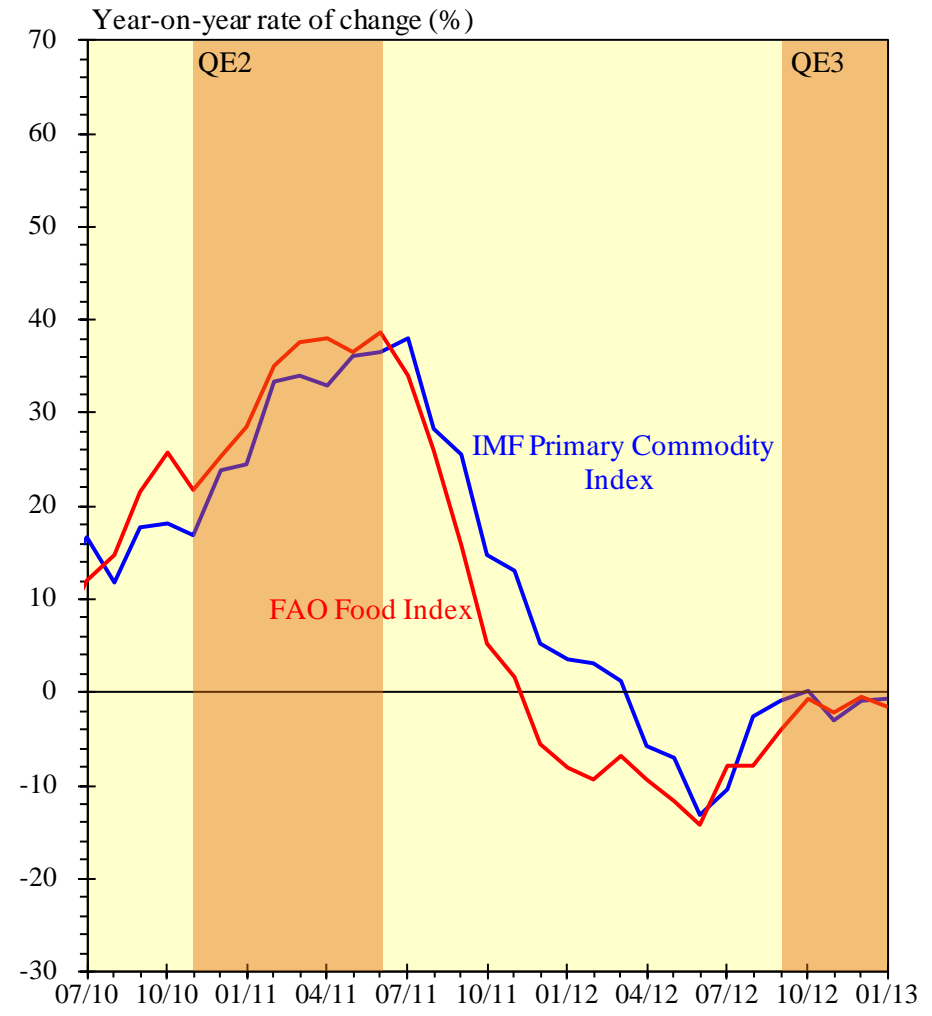
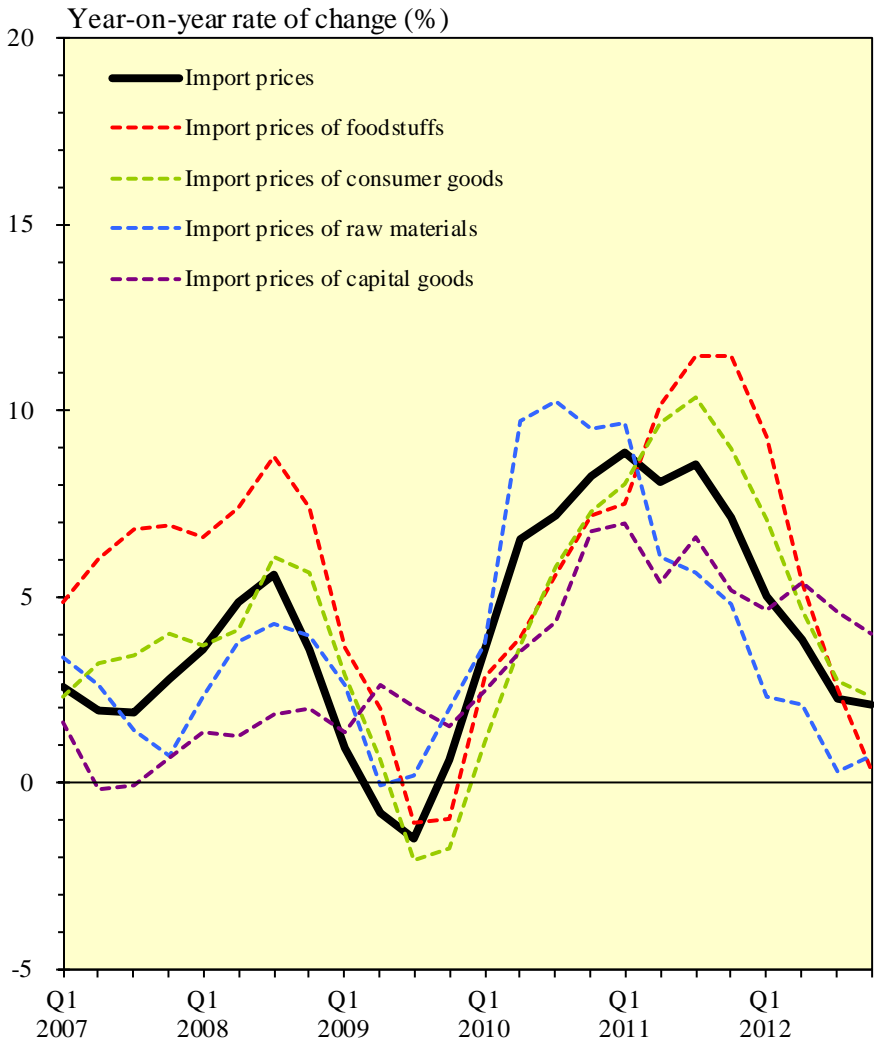
2013 Economic Outlook

GDP Growth Prospect

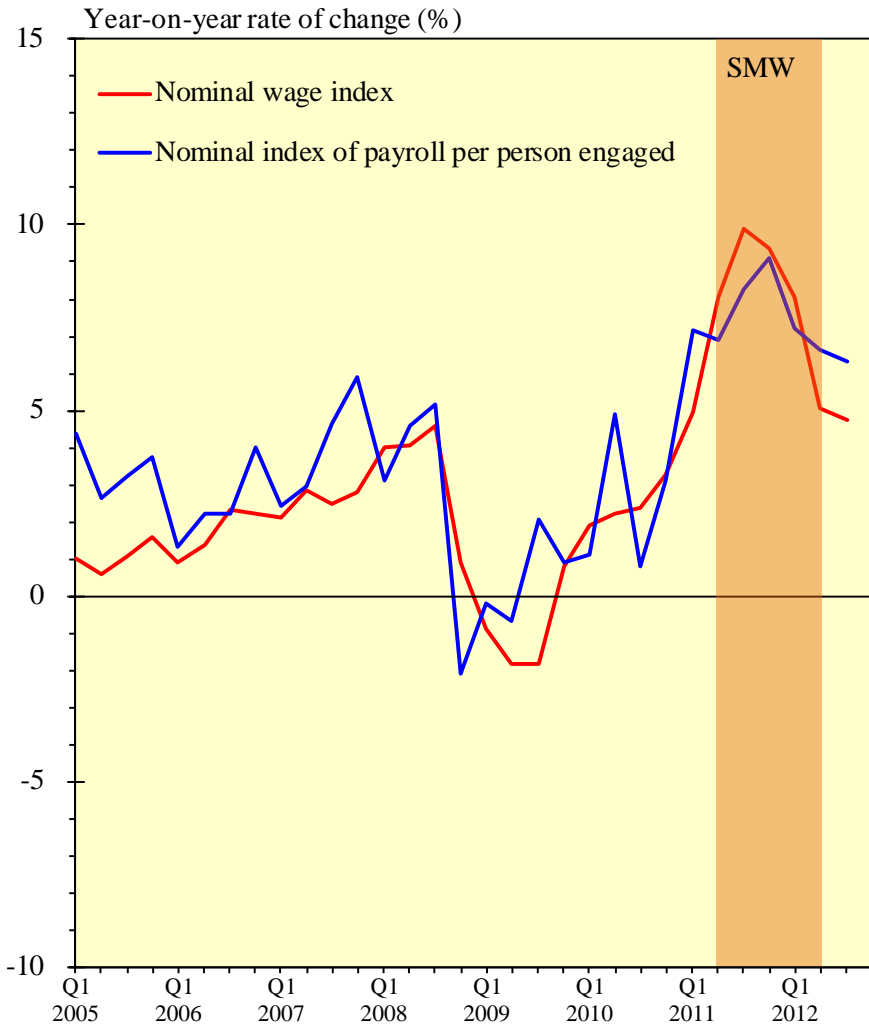
- HK's exports likely to see some relative improvement, granting no abrupt relapse in the external environment
- Domestic demand should remain relatively sanguine, underpinned by stable labour market conditions, intensive public infrastructure works and further pick-up in private building activity
- **GDP growth forecast for 2013 : 1.5% to 3.5%, v.s. 1.4% in 2012**

Import inflation largely moderated over the past year...

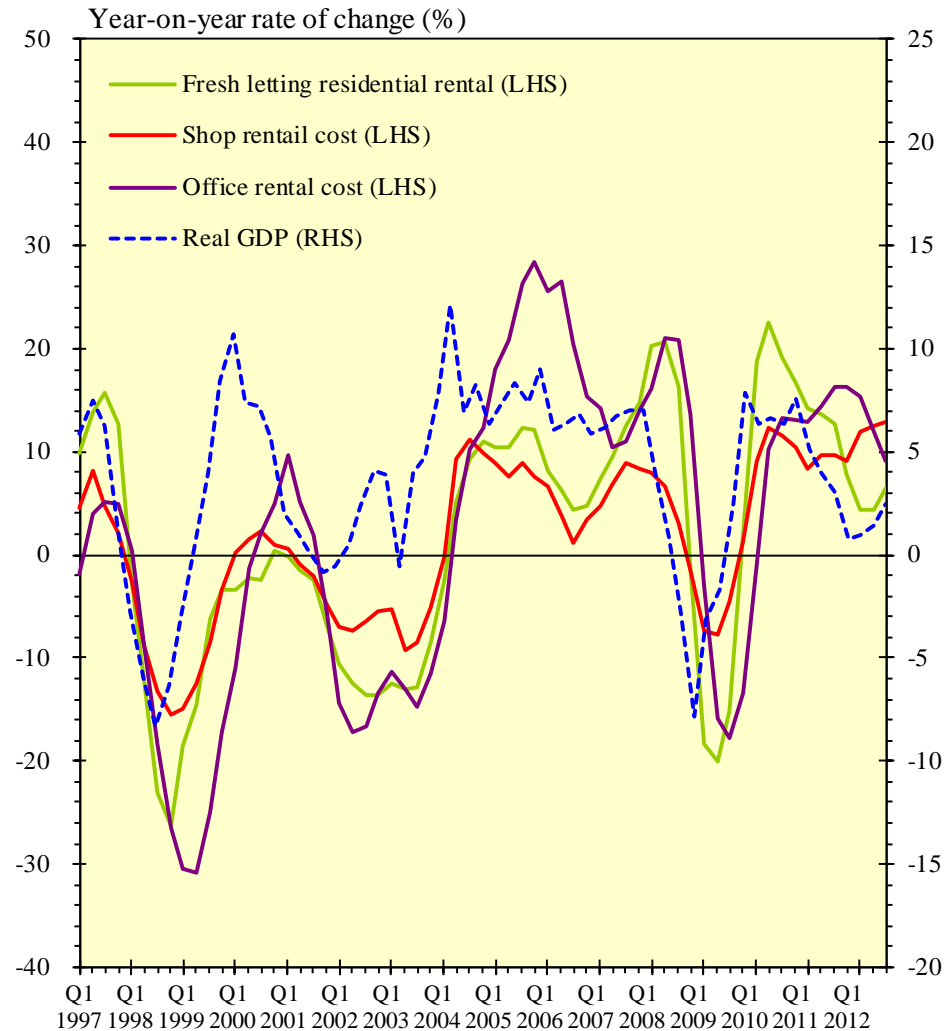
... yet global liquidity glut may fuel another round of commodity price surge



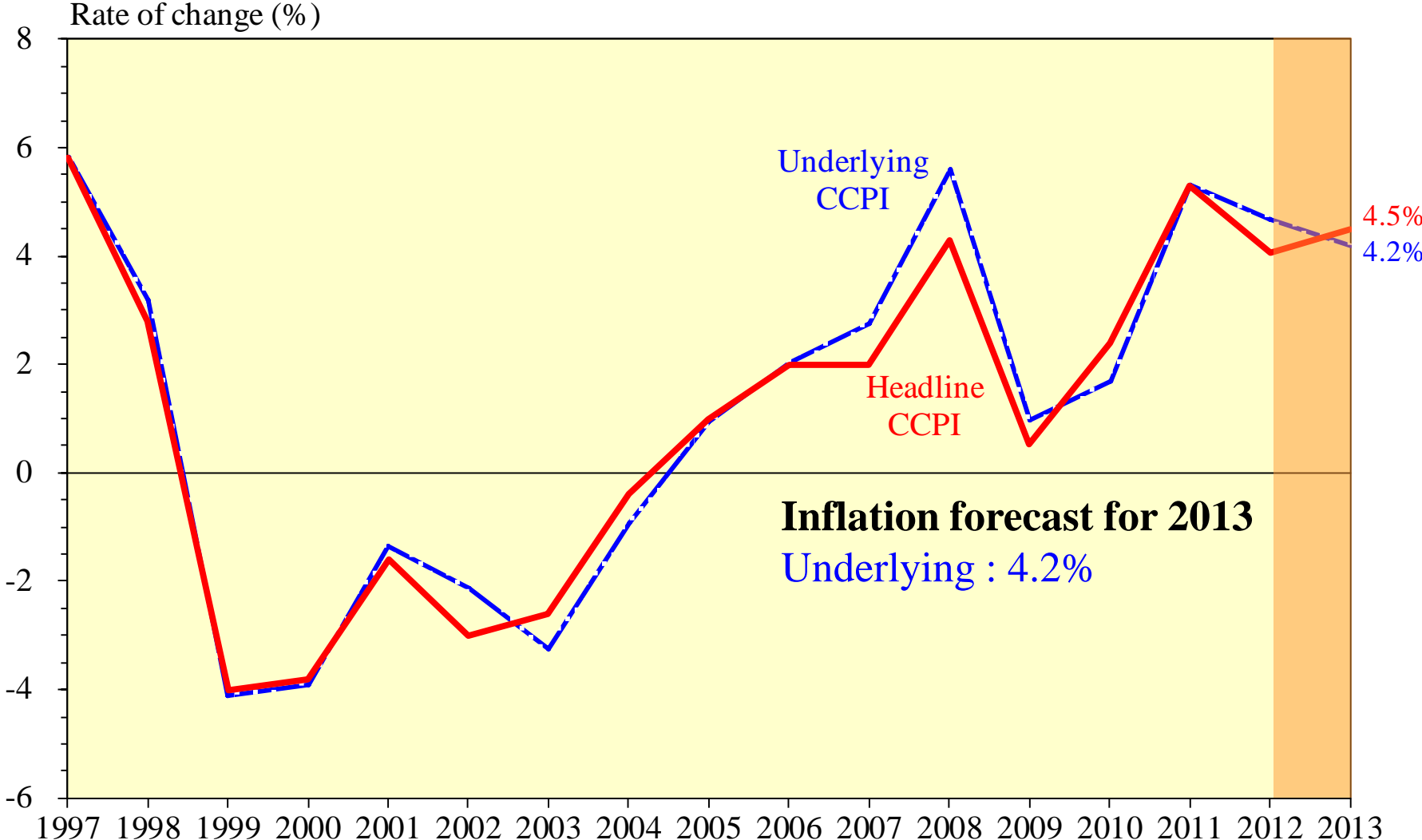
Wage pressures moderated as boost from SMW waned



Office rentals moderated, but renewed pick-up in housing rental a cause of concern



Inflationary pressure to remain contained in the near term, but with some upside risks in the course of 2013



Thank you

27 February 2013