

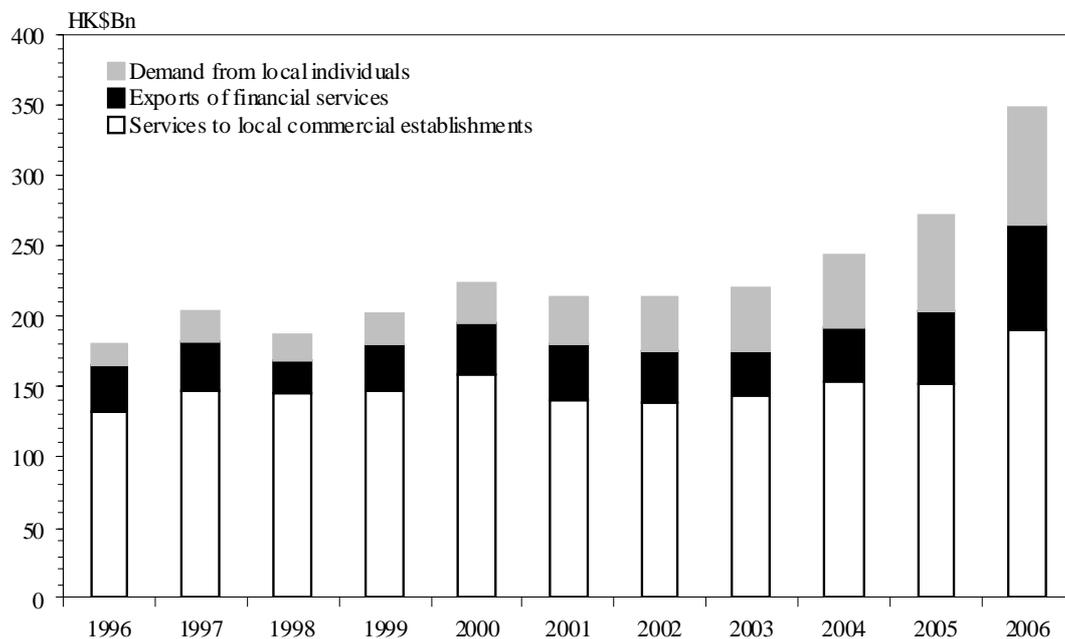
Box 4.1

Financial sector: Sources of growth and economic linkages

The financial sector, which comprises banks, non-bank financial institutions and insurance companies, has been a key growth spot in the economy. In 2006, the sector accounted for 15.9% of GDP, representing a notable expansion from the proportion of 10.3% in 1996. The latest statistics revealed that the value-added of the sector surged further in 2007, by 19.3% in real terms over a year earlier.

Over the past decade, wealth management services provided by financial institutions to the local households have emerged as a new growth centre on the financial scene. It is reckoned that in 2006, about a quarter of the gross output in the financial sector was targeted at local private individuals, significantly enlarged from the share of below 10% a decade ago. Among the main types of financial services, life insurance and subscription to other financial and wealth management products were distinctly in demand. More recently, the stock market boom gave an added boost to the demand for stockbroker services. On the external front, exports of financial and insurance services grew rapidly by more than 120% over the ten-year period to \$66.7 billion, corresponding to about 20% of the total gross output in the sector. In 2007, growth remained impressive at 34%. Hong Kong has been a major financial centre servicing the region generally and the Mainland in particular for fund-raising and wealth management activities.

Over the years, the focus of the financial sector has been shifting progressively from one of providing intermediation services to different commercial enterprises into that of servicing a more broad-based clientele. Even so, it is noted that the services rendered to the local enterprises, measured in terms of gross output, have staged a marked rebound in the past several years alongside the upturn of the local economy, indicating the still important function of financial services in rendering support to the other economic sectors. Apart from the real estate sector, which took up about a quarter of the loans for use in Hong Kong, the trade, business services, wholesale and retail trade sectors were also the major beneficiaries of the associated “forward linkage” activities. Thus, facilitating the smooth operation of the economy was still a vital function of the financial services sector.

Box 4.1 (Cont'd)**Gross output of financial sector**

At the same time, financial services are also the key to promoting wider economic growth through supporting input demand in other segments. In particular, business services, communications and real estate leasing have been the major recipients of businesses generated from this “backward linkage.” It is reckoned that every \$10 of gross output from the financial sector will translate into about \$1 of extra demand for these three sectors. All in all, given the economic benefits, including both the tangible (subsequent additions of demand) and intangible (supporting activities of other establishments) benefits, the sector’s contribution to the economy should be greater than what the GDP figures may have suggested.