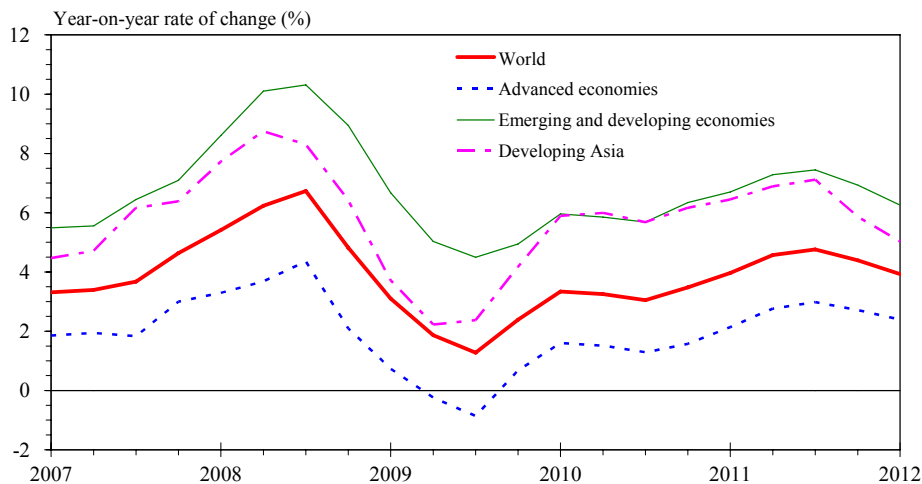


Box 6.1**Recent global inflation situation**

World inflation, having eased visibly in 2009 in the aftermath of the global financial tsunami, rebounded during 2010 and most of 2011, mainly on the back of the renewed surge in international commodity prices amid a highly accommodative global monetary environment and a number of adverse supply shocks. Yet the advanced economies, due to their continued slack, experienced a more modest increase in inflation compared with emerging economies where growth had been vibrant in 2010 and 2011. According to the IMF, world inflation went up from 2.2% in 2009 to 3.3% and 4.4% in 2010 and 2011 respectively. Within this, average inflation in the advanced economies rose from 0.1% in 2009 to 1.5% in 2010 and 2.7% in 2011, while the corresponding figures in developing Asia were notably higher, at 3.1%, 5.9% and 6.6% respectively.

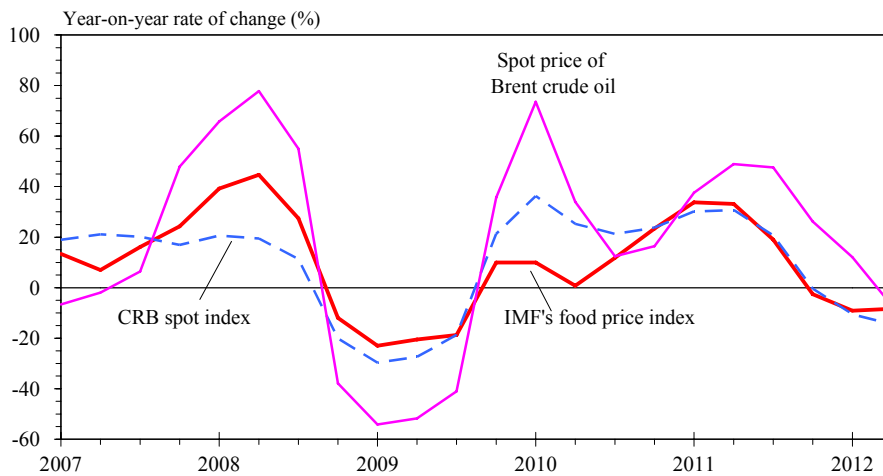
Movements in global inflation

Nevertheless, inflationary pressures have been gradually receding in many parts of the world over the past year or so. This is particularly evident in some major emerging economies. In the Mainland, for instance, the year-on-year increase in overall consumer prices eased visibly from the peak of 6.5% in July 2011 to a 29-month low of 2.2% in June 2012. Inflation in the advanced economies also receded, albeit less visibly so.

Several major developments have contributed to the recent easing in world inflation. Firstly, the sub-par growth in many advanced economies has resulted in generally tame supply-side cost pressures there, while emerging markets also saw some growth moderation as a result of sluggish final demand from the advanced economies. Secondly, a dimmer global economic outlook amid the euro debt crisis, coupled with some relative stabilisation in the geopolitical situation of the Middle East, led to receding international oil prices over the past few months. Thirdly, global food prices, while staying elevated, have progressively retreated from their peak in early 2011, thanks partly to some easing in the demand-supply balance.

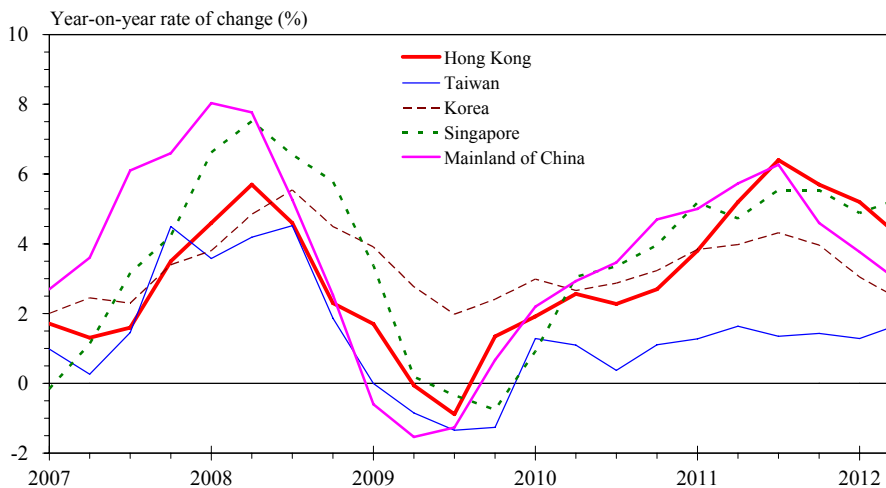
Box 6.1 (Cont'd)

Food, oil and other commodity prices



Hong Kong's inflation trend in the past few years broadly mirrored the developments in the rest of the world, especially other Asian economies. Local inflation accelerated almost uninterruptedly between the latter part of 2010 and the latter part of 2011, driven by surging global food and commodity prices as well as the notable increase in domestic cost pressures after a sustained period of above-trend economic growth. Yet in tandem with the receding global inflation and slower expansion of the local economy, consumer price inflation in Hong Kong eased back upon entering 2012 and is expected to come down further in the months ahead. It is also worth noting that, despite the differences in exchange rate regimes and some short-term variations, the movements of inflation in Hong Kong have been largely similar to those in Singapore, Korea and many other Asian economies.

Inflation in Asia



Notwithstanding the recent easing trend, upside risks to inflation continue to linger, given the exceptionally accommodative global monetary environment and the volatile nature of global food and commodity prices. As such, the Government will continue to closely monitor the inflation situation, particularly its impact on the lower-income people.