

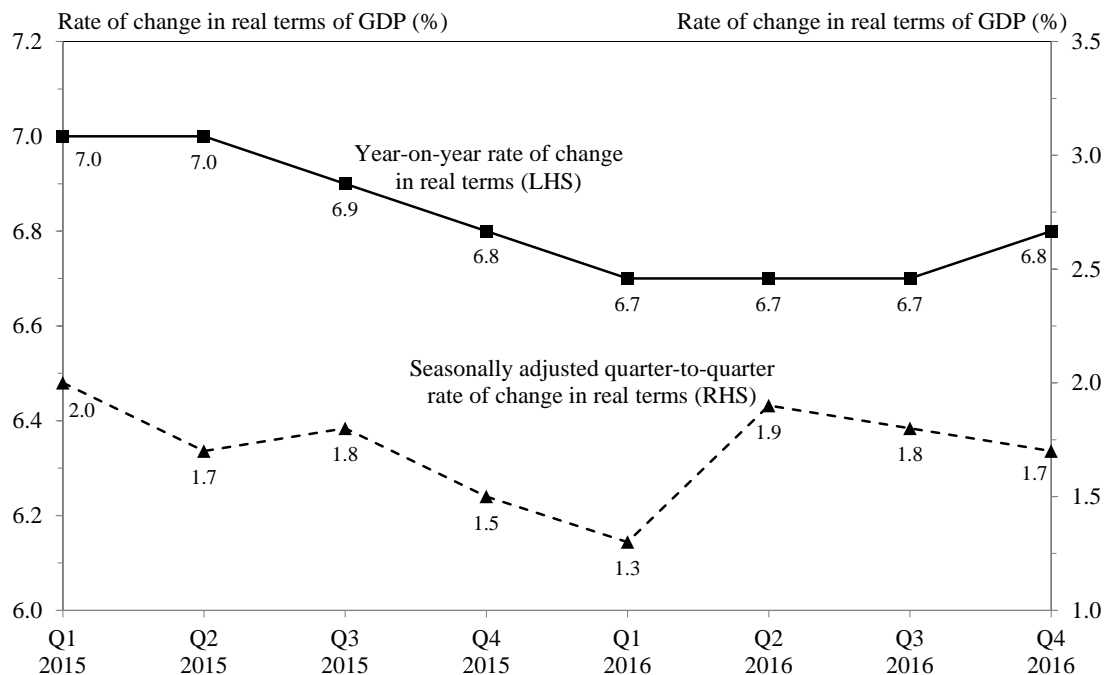
Box 2.2

Economic performance of the Mainland in 2016

Given its close economic ties with Hong Kong, the Mainland's economic development is highly important to our economy. This article briefly reviews the Mainland's macroeconomic performance in 2016, and some salient developments in its structural reform over the year.

In 2016, the Mainland economy maintained growth at a medium-high rate of 6.7% in real terms. Despite a slight deceleration by 0.2 percentage point as compared to 2015, the economic growth rate in 2016 met the annual growth target of 6.5-7% set by the Mainland authority early last year, surpassing what many had then expected⁽¹⁾. Analysed on a quarterly basis, the seasonally adjusted quarter-to-quarter growth rates had stabilised since the second quarter of 2016 (*Chart 1*). All in all, although the Mainland's economic growth in 2016 was somewhat slower as compared to recent years, it was still notably faster than many other major economies. Moreover, as the Mainland economy became much bigger in size⁽²⁾, its corresponding incremental growth volume in real terms was hence larger than those in the past.

Chart 1: The Mainland economy maintained steady growth



- (1) For instance, the International Monetary Fund (IMF) projected early last year that the Mainland economy would grow by 6.3% in real terms in 2016.
- (2) The Mainland economy grew at an average of 9% per annum in real terms for the 10 years from 2007 to 2016, indicating that the actual size of the Mainland economy had more than doubled in real terms over the period.

Box 2.2 (Cont'd)

Important structural changes in the Mainland economy were evidenced by the diverse developments in different economic segments. On the front of retail sales, the consumption demand in the Mainland remained resilient. Total retail sales of consumer goods recorded a real growth of 9.6% last year, slightly lower than that of 2015 but exceeding the overall economic growth rate notably. This shows that the overall economy of the Mainland was underpinned by the sustained resilience of its domestic demand. The enhanced role of consumption in economic growth also tied in with the Mainland's broad direction of enhancing its economic structure (see below for details).

On investment, affected by factors such as excess capacity in some traditional industries and high inventory in property markets outside the first- and second-tier cities, investment in fixed assets increased by 8.8% in real terms last year, decelerated from the 12.0% increase in 2015. Nevertheless, investment in infrastructure continued to grow at a faster pace. The growth of investment was particularly notable in such industries as “management of water conservancy, environment and public facilities”, “education”, “health and social work” and “culture, sports and entertainment”. All these contributed to the further enhancement of the long-term economic development potential of various Mainland regions.

Relatively speaking, external demand remained weak, imposing greater downward pressure on the Mainland's external sector in 2016. Total goods exports in US dollar terms declined by 7.7%, a drop widened by 4.8 percentage points as compared with that in 2015. Export performance, however, stabilised in the late months of last year. Total goods exports in the fourth quarter of 2016 declined year-on-year by 5.2%, slightly narrower than the 8.6% drop in the first three quarters, indicating that the relevant downward pressure had eased slightly⁽³⁾. In fact, a similar trend was observed in the total value of goods re-exported through Hong Kong from the Mainland, which registered a 0.8% year-on-year increase in the fourth quarter of 2016, a reverse from the 5.1% year-on-year decline in the first three quarters.

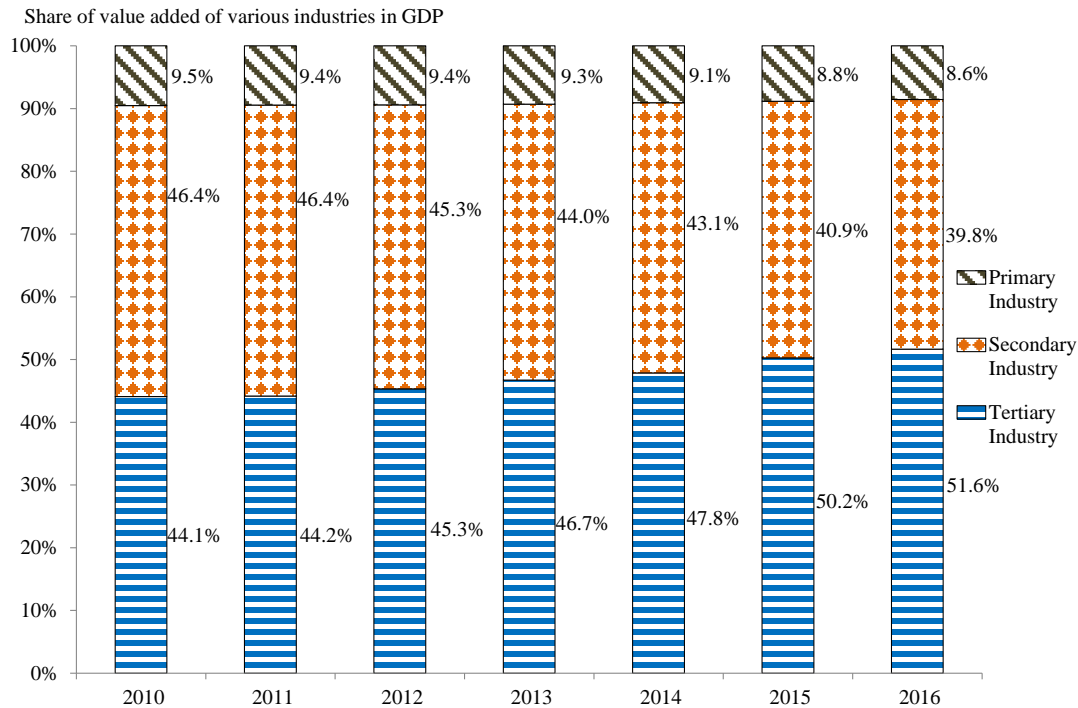
While maintaining a medium-high growth pace, the Mainland economy continued with its structural transformation and enhancement, and progressed steadily towards a development model based on domestic consumption and services, driven by innovation and technological upgrading. First of all, the role played by consumption in economic growth became more prominent. In 2016, the contribution of final consumption expenditure to GDP growth was 64.6%, 4.7 percentage points higher than that in 2015. The services industry also played a more vital role in the Mainland's economic development. The value added of the tertiary industry accounted for 51.6% of GDP in 2016, 1.4 percentage points higher as compared with last year⁽⁴⁾ (**Chart 2**). The tertiary industry grew by 7.8% in 2016, a rate faster than the overall economic growth. Moreover, the Mainland's industrial sector was moving towards high-tech-oriented development in 2016. The value added of the high-tech industry grew by 10.8% in real terms, 0.6 percentage point faster than in 2015 and visibly higher than the 6.0% real growth of the total value added of the industrial enterprises above the designated size over the same period. This indicated a development trend of industrial upgrading and transformation with more emphasis on technological enhancement. Investment relating to the high-tech industry also maintained double-digit growth last year, a sign of continuous improvement of investment structure conducive to the further upgrading of production technology.

(3) When denominated in Renminbi (RMB), the Mainland's exports even recorded year-on-year growth in certain late months of 2016. The exports in November, for example, increased year-on-year by 4.2% in RMB terms.

(4) Almost 12 percentage points higher than the 39.8% growth in 2000.

Box 2.2 (Cont'd)

Chart 2: Tertiary industry took up an increasing share of GDP



As for prices, the Mainland's consumer price inflation remained steady throughout 2016. The Consumer Price Index (CPI) rose modestly, at an average annual rate of 2.0%. Some service components such as health care, education services and housing rental saw faster price increases, an indication of continuous transformation towards a service-based economy. As regards industrial prices, with a marked rise in prices of commodities such as coal and steel due to the cutting of excess capacity by individual sectors, the Producer Price Index for the Industrial Sector reverted to a year-on-year increase since September last year after registering year-on-year declines for 54 consecutive months. The index registered greater increases towards the end of the year, despite an average annual decline of 1.4% for the whole of 2016.

On promoting the supply-side structural reform, the main objectives of the Central Government in 2016 included cutting the excess capacity in certain industries, reducing inventory in the property market, preventing and controlling financial risks, lowering business costs and enhancing effective supply. These initiatives were gradually yielding results. On cutting excess capacity, substantive progress was made in the steel and coal industries, attaining the target set at the beginning of the year. On reducing property market inventory, the floor space of commercial buildings for sale decreased in 2016, while the inventory of residential buildings even recorded a double-digit decline. Besides, relevant authorities including the People's Bank of China, China Banking Regulatory Commission, China Securities Regulatory Commission and China Insurance Regulatory Commission stepped up prevention and control of financial risks, and further enhanced the risk surveillance and regulatory system on financial institutions. Furthermore, by adopting diversified monetary policy instruments, the People's Bank of China adjusted the liquidity of the financial markets with greater flexibility and precision. Separately, a market-oriented debt-for-equity swap programme was also implemented to reduce the debt leverage of certain enterprises. These initiatives also began to bear fruit. In 2016, the RMB broad money supply increased by 11.3%, a drop of 2.0 percentage points from 2015, while the increase in the stock of loans of non-financial enterprises also moderated.

Box 2.2 (Cont'd)

During the Central Economic Work Conference held in December last year, it was clearly stated that the Mainland government would continue to deepen the supply-side structural reform in 2017 so as to further enhance the Mainland's economic structure. Besides, in view of the exuberance in the property market of the first- and second-tier cities in the Mainland last year, it was also emphasised in the Conference that stable and healthy development of the property market should be promoted to fend off asset market bubble risks. On the other hand, it was also reiterated that efforts should be made to support the real economy, to raise the quality of economic development and to strengthen core competitiveness. Support was also pledged to foster strategic emerging industries and to upgrade the traditional industries by adopting new technologies.

Looking into 2017, it is expected that the Mainland economy, with the support of solid fundamentals, will continue to attain medium-high speed growth. Although external uncertainties will continue to put pressure on the Mainland's external sector, the resilient and robust domestic demand will provide significant anchor to the overall economy. Also, there are ample policy room and tools for the relevant Mainland authorities to stabilise economic development. In January 2017, the IMF projected that the Mainland economy would grow by 6.5% this year. With the continuous implementation of the aforementioned initiatives under the supply-side structural reform, the structural transformation and upgrading of the Mainland economy will advance, yielding an economic development with better quality and greater sustainability. Throughout this process, more development opportunities will also be created for various sectors of Hong Kong, to the benefit of its long-term economic development.