



2001 Economic Background

Government of the Hong Kong
Special Administrative Region

2001 ECONOMIC BACKGROUND

ECONOMIC ANALYSIS DIVISION
FINANCIAL SERVICES BUREAU
GOVERNMENT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION

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CALENDAR OF EVENTS OF SIGNIFICANCE TO THE HONG KONG ECONOMY IN 2001

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CHAPTER 1 : OVERALL VIEW

Overall situation

1.1 The Hong Kong economy underwent a distinct slow-down over the course of 2001, amidst a worsening external environment prompted by the downturn in the US economy, and with the situation aggravated by the tragic event in the United States on 11 September. In the external sector, total exports of goods still maintained some growth in the early part of the year. But as the slump in global demand deepened, exports of goods to all the major markets successively receded. Exports of services fared better in the first half of the year, bolstered by sustained growth in offshore trade and inbound tourism. But with the 911 incident hitting severely the travel industry worldwide and the demand for trade-related and other business services in the region, exports of services likewise moderated towards the year-end. As imports of both goods and services came down in tandem with the setback in exports of goods and services, the combined visible and invisible trade account still yielded a further sizeable surplus for 2001 as a whole.

1.2 In the domestic sector, consumer spending grew steadily further in the first half of 2001, upon increased household income on account of the robust economic performance in 2000. Yet the rise in unemployment began to dampen consumer spending in July, and with the shock from the 911 incident, consumer spending moderated distinctly in the third quarter and more so in the fourth quarter. Investment spending slackened off abruptly after the first quarter of 2001, as the dim business outlook deterred machinery and equipment intake, and as building and construction output stayed weak amidst the subdued property market and the large cut-back in public housing production.

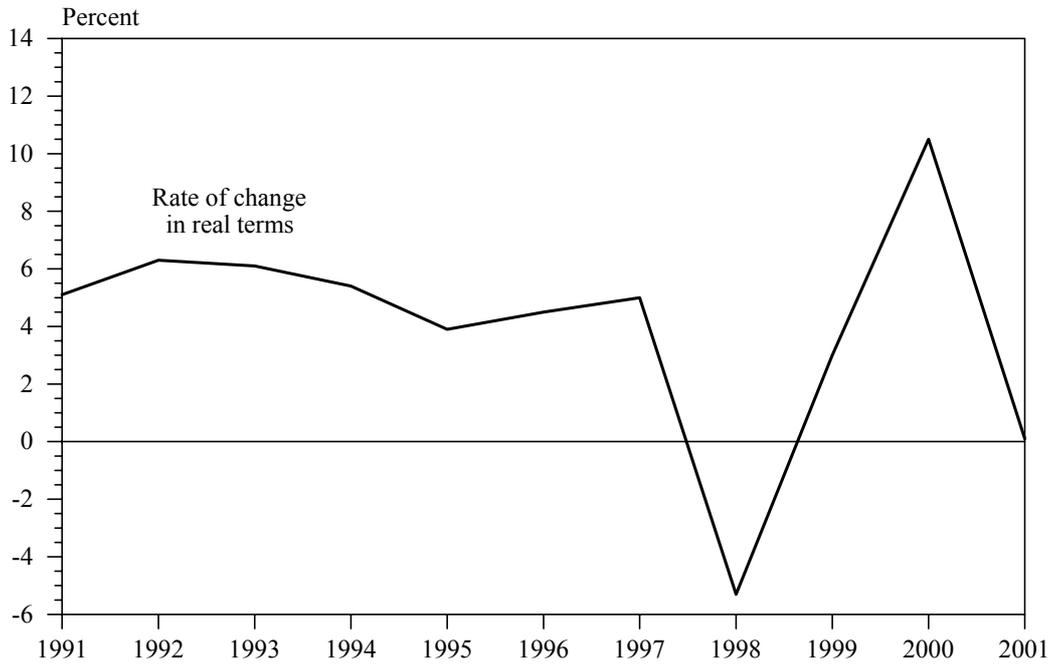
1.3 Overall, the *Gross Domestic Product (GDP)*⁽¹⁾ decelerated sharply in growth, from 10.5% in real terms in 2000 to a mere 0.1% in 2001. GDP still registered increases by 2.2% and 0.8% respectively in real terms in the first and second quarters of 2001 over a year earlier, before receding to declines of 0.4% in the third quarter and 1.6% in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, GDP was down by 0.5 % and 1.4% respectively in real terms in the first and second quarters of 2001, then rose back by 0.3% in the third quarter, but dropped again by 0.2% in the fourth quarter.

/Diagram 1.1

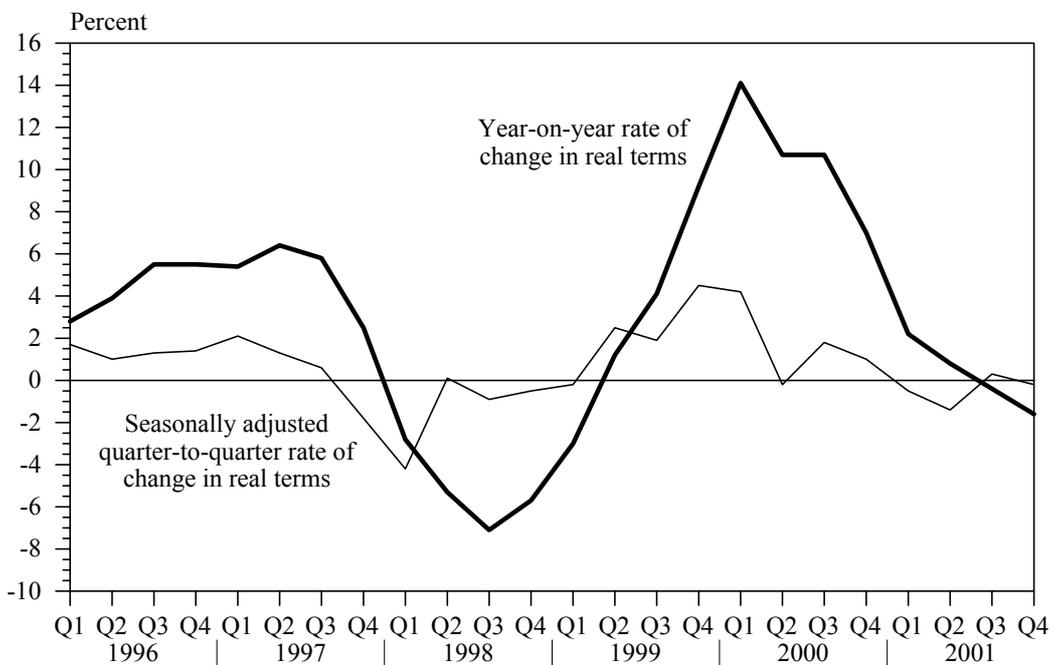
Diagram 1.1

Gross Domestic Product

(a) Annual profile



(b) Quarterly profile



/Table 1.1

Table 1.1

**Gross Domestic Product and its main expenditure components
and the main price indicators
(year-on-year rate of change (%))**

	<u>2000[#]</u>	<u>2001⁺</u>		<u>2000</u>				<u>2001</u>			
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4⁺</u>	
<i>Change in real terms of GDP and its main expenditure components (%)</i>											
Private consumption expenditure	5.4	2.0	8.7	5.1	5.6	2.7	3.0	3.5	1.2	0.3	
Government consumption expenditure	2.1	5.1	3.7	2.7	2.5	-0.6	3.9	4.1	6.2	6.1	
Gross domestic fixed capital formation	9.8	2.1	5.7	5.4	14.8	13.1	11.5	1.2	3.2	-6.4	
<i>of which :</i>											
Building and construction	-7.7	-2.5	-14.9	-10.8	-1.3	-2.3	-1.2	1.8	-7.8	-2.6	
Real estate developers' margin	-9.4	-1.9	-19.5	-17.5	-2.4	4.0	-5.7	4.3	-6.3	0.5	
Machinery and equipment	25.8	5.2	32.9	21.2	27.3	23.4	22.6	0.3	9.4	-8.5	
Total exports of goods	17.1	-3.0	20.7	17.7	17.7	13.3	4.2	-1.9	-4.0	-8.8	
Domestic exports	7.5	-11.0	16.2	8.3	8.2	-0.8	-12.8	-8.5	-12.4	-10.4	
Re-exports	18.5	-2.0	21.4	19.1	19.0	15.2	6.5	-1.0	-3.0	-8.6	
Imports of goods ^(a)	18.1	-2.4	22.9	18.8	18.4	13.4	5.3	-0.7	-3.4	-9.1	
Exports of services	14.1	3.5	15.8	18.2	14.0	9.5	6.3	6.3	1.6	0.5	
Imports of services	2.1	0.1	-0.9	3.3	3.4	2.7	3.9	1.0	-2.0	-2.3	
Gross Domestic Product	10.5	0.1	14.1	10.7	10.7	7.0	2.2	0.8	-0.4	-1.6	
GDP at current market prices (\$ billion)	1,267	1,263	302	308	327	330	304	309	324	326	
GDP at constant (1990) market prices (\$ billion)	893	895	209	213	235	236	213	215	234	233	
Change in inventories at constant (1990) market prices (\$ billion)	15	-2	5	4	4	2	1	1	-1	-3	
<i>Change in the main price indicators (%)</i>											
GDP deflator	-6.5	-0.5	-7.2	-7.5	-6.3	-5.4	-1.7	-0.6	-0.2	0.5	
Composite Consumer Price Index^{(b)(c)}	-3.8	-1.6	-5.1	-4.5	-2.8	-2.5	-2.0	-1.3	-1.0	-2.1	
Consumer Price Index (A) ^{(b)(c)}	-3.0	-1.7	-4.1	-3.4	-2.0	-2.2	-2.0	-1.1	-0.7	-2.8	

Notes : (#) Revised figures.

(+) Preliminary figures.

(a) Including an estimate of imports of gold for industrial use.

(b) From the fourth quarter of 2000 onwards, the year-on-year rates of change in the Consumer Price Indices are computed from the 1999/2000-based CPI series. Before then, the year-on-year rates of change are computed from the 1994/95-based CPI series. Splicing has been applied to the indices to maintain continuity.

(c) Final figures.

/Table 1.2

Table 1.2

**Gross Domestic Product and its main expenditure components
and the main price indicators
(seasonally adjusted quarter-to-quarter rate of change (%))**

	<u>2000</u>				<u>2001</u>			
	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	3.4	-0.5	1.0	-0.5	2.3	0.5	-1.0	-0.8
Government consumption expenditure	0.4	-2.2	0.1	0.5	5.4	-1.7	2.0	0.4
Gross domestic fixed capital formation	N.A.							
Total exports of goods	5.7	4.2	4.0	-0.8	-2.4	-2.8	1.5	-6.4
Domestic exports	10.8	-5.3	0.7	-5.1	-2.8	-1.5	-3.3	-4.1
Re-exports	5.0	5.5	4.5	-0.3	-2.4	-2.9	2.1	-6.7
Imports of goods ^(a)	6.2	2.7	5.3	-0.9	-1.3	-3.7	2.4	-8.0
Exports of services	2.5	2.9	5.4	-2.8	0.4	2.1	1.6	-2.0
Imports of services	-1.5	3.8	1.1	-0.5	0.4	*	-2.4	-0.6
Gross Domestic Product[^]	4.2	-0.2	1.8	1.0	-0.5	-1.4	0.3	-0.2
<i>Change in the main price indicators (%)</i>								
GDP deflator	-1.4	-2.7	-0.8	-0.8	2.9	-2.1	-0.1	-0.1
Composite Consumer Price Index^{(b)(c)}	-1.2	-0.7	-0.6	-0.1	-0.6	*	-0.4	-1.1
Consumer Price Index (A) ^{(b)(c)}	-1.2	-0.7	-0.5	*	-0.8	0.3	-0.2	-2.2

Notes : (#) Revised figures.

(+) Preliminary figures.

N.A. Not applicable, as no clear seasonal pattern is found in gross domestic fixed capital formation, due to the presence of considerable short-term fluctuations.

(^) As gross domestic fixed capital formation does not exhibit a clear seasonal pattern, the seasonally adjusted series of GDP is compiled separately at the overall level.

(*) Change of less than 0.05%.

(a) Including an estimate of imports of gold for industrial use.

(b) From the first quarter of 2000 onwards, the quarter-to-quarter rates of change in the seasonally adjusted Consumer Price Indices are computed from the 1999/2000-based CPI series.

(c) Final figures.

/1.4

1.4 Along with the economic slow-down, *labour market* conditions slackened considerably over the course of 2001. As employment was unable to match the growth in labour supply amidst more widespread corporate downsizing and lay-offs, the seasonally adjusted unemployment rate surged from 4.5% in both the first and second quarters to 5.3% in the third quarter and 6.1% in the fourth quarter. The underemployment rate likewise rose distinctly, to 3.0% in the fourth quarter.

1.5 In the *residential property market*, sentiment was generally weak during most of 2001. The substantially reduced mortgage rate and considerably improved affordability did not render much stimulus to the market, as potential home buyers were restrained by concern over job security and income instability. The ample supply of new flats in the pipeline also affected buying interest. Then towards the end of the third quarter, sentiment was hit further by the shock from the 911 incident. In a move to boost sales, property developers stepped up their promotion and offered more flexible financing packages together with more attractive purchase terms. Trading in the primary market turned more active towards the year-end, but the secondary market largely remained quiet. Notwithstanding a modest pick-up in trading activity for the year as a whole, flat prices fell distinctly further, on average by 13% during 2001. The rental market likewise came under downward pressure, with rentals falling on average by 7% during 2001.

1.6 In the *financial market*, local interest rates came down markedly during 2001, matching closely the aggressive US interest rate cuts. The Hong Kong dollar held remarkably stable under the linked exchange rate system, despite volatilities in the global financial markets immediately after the 911 incident. With Hong Kong dollar loans reverting to a decline amidst the slow-down in economic activity, but with Hong Kong dollar deposits growing slightly further, the Hong Kong dollar loan-to-deposit ratio fell to a record low at end-2001. Much gyrations occurred in the local stock market, along with generally reduced trading volume. The Hang Seng Index plunged to a near three-year low of 8 934 on 21 September, yet rebounded swiftly to above the 10 000 mark by 4 October. The Index closed 2001 at 11 397, 24% below the level at the end of 2000.

/1.7

1.7 On *consumer prices*, there was a continued fall in the Composite Consumer Price Index, averaging at 1.6% in 2001, although it was somewhat lessened from the 3.8% drop in 2000. Some resurrection of domestic price pressure was apparent in the early part of the year, upon the moderate increase in wages and dissipation of the effect of the earlier rental decreases. But as the local resource balance loosened again amidst the economic slow-down, the price pressure subsided thereafter. External price pressure concurrently eased, with import prices showing an enlarged decline over the course of the year along with the slump in global demand and sustained strength of the US dollar. Together with the relief from the waiver of public housing rentals in December, the year-on-year rate of decline in the Composite CPI, having relatively improved at 2.0%, 1.3% and 1.0% respectively in the first three quarters of 2001, widened again to 2.1% in the fourth quarter.

1.8 Statistics on the *Gross National Product (GNP)*⁽³⁾ are available up to the third quarter of 2001. Both factor income inflow and outflow declined in the third quarter of 2001 over a year earlier. But with factor income inflow falling to a significantly lesser extent than factor income outflow, there was a distinct rise in net factor income inflow in that quarter. GNP thus went up by 1.9% in real terms in the third quarter of 2001 over a year earlier, as against a 0.4% fall in GDP in the same quarter. Net inflow of both portfolio investment income and other investment income fell in the third quarter of 2001 over a year earlier, amidst setback in the regional and local economies and markedly reduced interest rates. Nevertheless, net outflow of direct investment income was reduced markedly over the same period, with the inflow being bolstered by a surge in direct investment income from the mainland of China (the Mainland). For the first three quarters of 2001 as a whole, GNP recorded a 1.3% growth in real terms over a year earlier, slightly higher than the 0.8% growth in GDP in that period.

/Table 1.3

Table 1.3

Gross National Product and external factor income flows

	<u>2000</u>					<u>2001</u>			
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
<i>Year-on-year rate of change in money terms (%)</i>									
Total external factor income flow ^(a)									
Inflow	14.2	28.8	18.2	14.1	-1.1	-4.7	-7.0	-3.3	-3.8
Outflow	19.7	31.7	17.1	22.3	9.9	-6.5	-11.8	4.3	-12.0
Net external factor income flow at current market prices (\$ billion)	22	8	10	4	*	26	12	2	12
GDP at current market prices (\$ billion) [#]	1,267 (3.2)	302 (5.9)	308 (2.4)	327 (3.7)	330 (1.2)	937 (**)	304 (0.4)	309 (0.2)	324 (-0.6)
GNP at current market prices (\$ billion) ^{#(b)}	1,288 (2.1)	310 (5.7)	318 (3.1)	331 (2.0)	330 (-1.8)	963 (0.4)	316 (1.7)	311 (-2.3)	336 (1.8)
<i>Year-on-year rate of change in real terms (%)</i>									
Gross National Product[#]	9.3	13.9	11.4	8.9	3.9	1.3	3.5	-1.7	1.9

Notes : (#) Revised figures.

(a) External factor income comprises direct investment income, portfolio investment income, other investment income, and compensation of employees.

(b) GNP is equal to GDP plus net external factor income flow.

() Figures in brackets represent the year-on-year rates of change in money terms in GDP and GNP respectively.

(*) Less than \$0.5 billion.

(**) Change of less than 0.05%.

The external sector

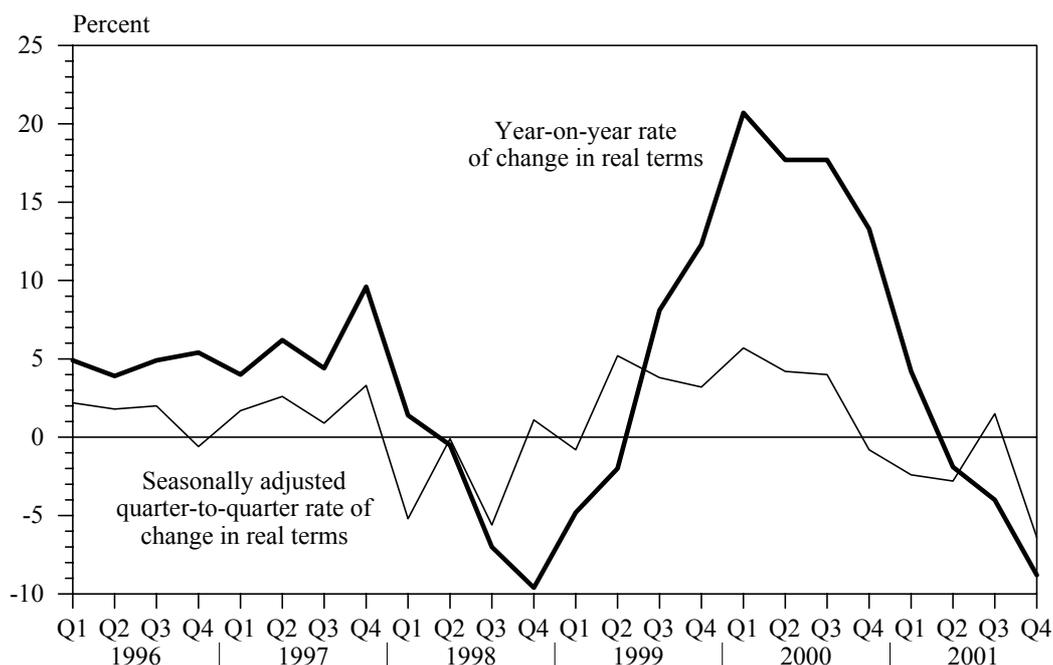
1.9 With a significant worsening in the external economic environment hitting Hong Kong's merchandise exports, *total exports of goods* (comprising re-exports and domestic exports) fell by 3.0% in real terms in 2001, in contrast to a highly robust growth of 17.1% in 2000. On a year-on-year comparison, total exports of goods, which already slowed to a growth of only 4.2% in real terms in the first quarter of 2001, began to fall by 1.9% in the second quarter. The decline enlarged to 4.0% in the third quarter, and further to 8.8% in the fourth quarter,

/as

as the impact of the 911 incident filtered through. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods fell by 2.4% and 2.8% respectively in real terms in the first and second quarters of 2001, yet rose back by 1.5% in the third quarter, before coming down by 6.4% in the fourth quarter (paragraph 2.7).

Diagram 1.2

Total exports of goods



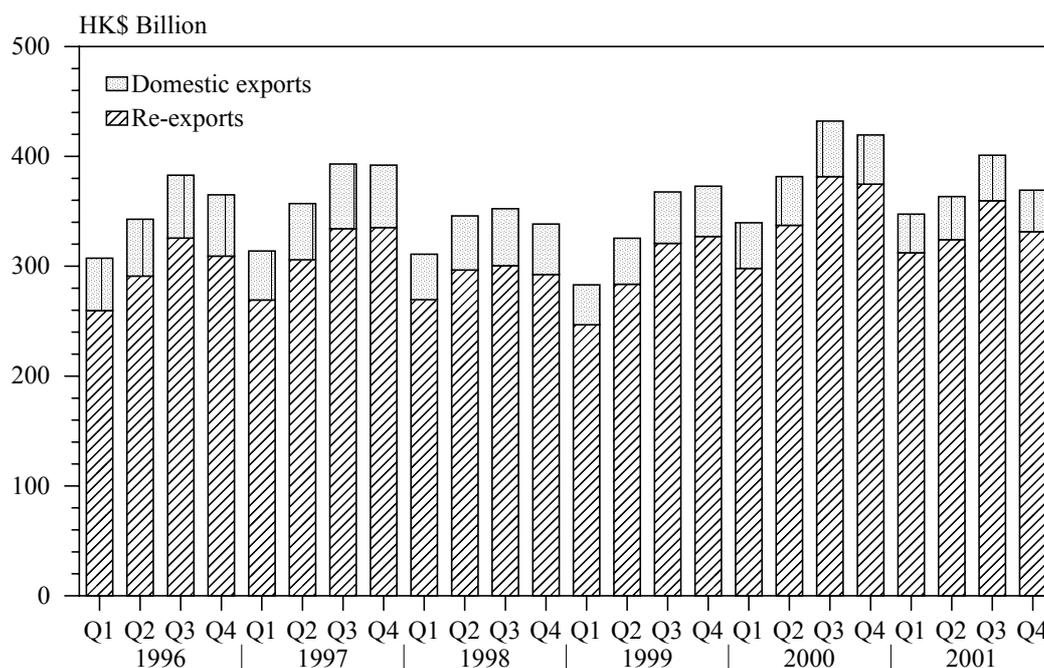
1.10 Within total exports of goods, *re-exports* fell by 2.0% in real terms in 2001, also markedly down from the 18.5% growth in 2000. Re-exports still had a 6.5% increase in real terms in the first quarter of 2001 over a year earlier, but this was followed by enlarging declines of 1.0%, 3.0% and 8.6% respectively in the ensuing three quarters. On a seasonally adjusted quarter-to-quarter comparison, re-exports fell by 2.4% and 2.9% respectively in real terms in the first and second quarters of 2001, then rebounded to a 2.1% rise in the third quarter, but slackened again to a 6.7% fall in the fourth quarter (paragraph 2.8).

/1.11

1.11 *Domestic exports* plummeted more sharply, by 11.0% in real terms in 2001, the largest annual decline recorded since the respective statistical series was available from 1962. This contrasted sharply with a 7.5% increase in 2000. Domestic exports registered year-on-year declines throughout the four quarters of 2001, at 12.8%, 8.5%, 12.4% and 10.4% respectively in real terms. Apart from the slump in global demand, the plunge in domestic exports could have also been caused by the continued structural shift towards re-exports trade. The share of domestic exports in the total value of exports of goods shrank further, to 10% in 2001, from 12% in 2000 and 30% a decade ago. On a seasonally adjusted quarter-to-quarter comparison, domestic exports were on a downtrend throughout the four quarters of 2001, with declines of 2.8%, 1.5%, 3.3% and 4.1% respectively in real terms (paragraph 2.9).

Diagram 1.3

Composition of total exports of goods



1.12 Analysed by *region*, the slackening in merchandise exports in 2001 was most distinct in the US and EU markets, while the East Asian market as a whole held up better. Exports of goods to *East Asia* as a whole still had a 2% growth in

/real

real terms in 2001, though sharply down from the 20% surge in 2000. Performance varied widely amongst the constituent markets, with exports to Japan and the Mainland still having modest increases, but with exports to Singapore, Taiwan and most of the other East Asian economies all falling markedly. Exports of goods to the *United States* fell by 9% in real terms in 2001, being the first decline since the respective series in real terms was available in 1991, and in stark contrast to the 14% increase in 2000. This largely mirrored the fall-off in US import demand during the year, amidst the significant downturn in the US economy. Exports of goods to the *European Union* were much dampened by waning import demand in the EU area as well as the weak euro. In 2001, these exports fell by 8% in real terms, reversing sharply the 13% rise in 2000 (paragraphs 2.16 to 2.18).

1.13 *Imports of goods* likewise shrank, by 2.3% in real terms in 2001. This was markedly down from the 18.1% growth in 2000. The trend of slackening was evident over the course of the year, with growth already moderated to 5.3% in real terms in the first quarter of 2001 over a year earlier, before going into enlarging declines of 0.7%, 3.4% and 9.1% respectively in the ensuing three quarters. The setback in imports of goods mirrored the downturn in both re-export trade and imports for local use. Specifically, *retained imports* had a 3.2% decline in real terms in 2001, in stark contrast to the 17.0% rise in 2000. Again reflecting the trend of slackening during the year, retained imports still had a 2.3% increase in real terms in the first quarter of 2001 over a year earlier, before coming down to a 0.1% growth in the second quarter and further to declines of 4.5% and 10.5% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, imports of goods fell by 1.2% and 3.7% respectively in real terms in the first and second quarters of 2001, followed by a brief rebound to a 2.5% rise in the third quarter and then a relapse to an 8.0% decline in the fourth quarter. As to retained imports, they rose by 1.9% and 3.6% respectively in real terms in the first and third quarters of 2001, but dropped by 6.0% and 11.7% respectively in the second and fourth quarters (paragraph 2.10).

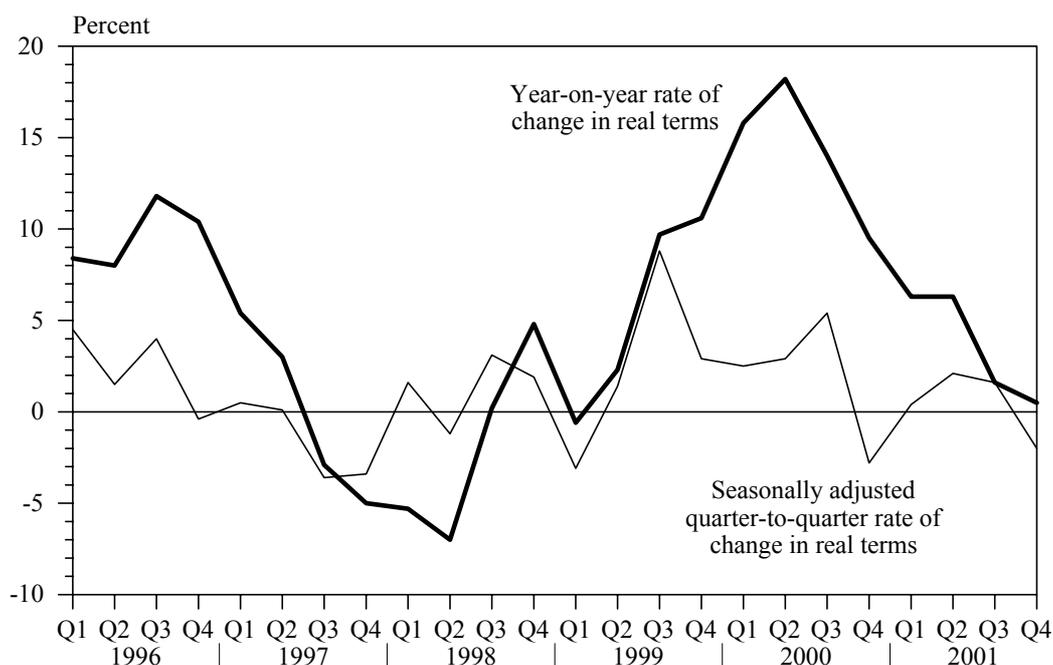
1.14 As the value of total exports of goods fell slightly faster than the value of imports of goods, the *visible trade deficit* widened somewhat, to \$87.2 billion or 5.6% of the value of imports of goods in 2001, from \$85.3 billion or 5.1% in 2000 (paragraph 2.11).

/1.15

1.15 On invisible trade, *exports of services* similarly slowed, but still recorded a modest increase of 3.5% in real terms in 2001. While this was also markedly down from the double-digit growth of 14.1% in 2000, exports of services had generally held up better than exports of goods during the year. In particular, exports of services still had a notable growth at 6.3% in real terms in both the first and second quarters of 2001 over a year earlier, though also decelerating distinctly to growth of only 1.6% in the third quarter and 0.5% in the fourth quarter. Amidst the slump in global trade, there was a setback in both regional business demand and exports of transportation services. The fall-off in inbound tourism after the 911 incident worsened the situation. On a seasonally adjusted quarter-to-quarter comparison, exports of services rose by 0.4%, 2.1% and 1.6% respectively in real terms in the first three quarters of 2001, before turning to a 2.0% decline in the fourth quarter (paragraph 2.12).

Diagram 1.4

Exports of services



1.16 *Imports of services* recorded a marginal growth of 0.1% in real terms in 2001, as against a 2.1% rise in 2000. Following increases of 3.9% and 1.0% respectively in real terms in the first and second quarters of 2001 over a year earlier, imports of services receded to declines of 2.0% and 2.3% respectively in the third and fourth quarters. In tandem with the fall-off in merchandise trade,

/imports

imports of trade-related services came down visibly. Imports of travel services showed a distinctly weaker performance in the latter part of the year, upon the impact of the 911 incident. On a seasonally adjusted quarter-to-quarter comparison, imports of services rose by 0.4% in real terms in the first quarter of 2001, stayed flat in the second quarter, and then fell by 2.4% and 0.6% respectively in the third and fourth quarters (paragraphs 2.13 and 2.47).

1.17 As exports of services rose slightly while imports of services were virtually flat in value, the *invisible trade surplus* increased further, to \$156.8 billion or 87.6% of the value of imports of services in 2001, from \$149.3 billion or 83.2% in 2000. This more than offset the widened visible trade deficit, thus giving a combined surplus (including an estimate of imports of gold for industrial use) of \$67.1 billion, equivalent to 3.8% of the total value of imports of goods and services, in 2001, up from \$60.6 billion or 3.3% in 2000 (paragraph 2.14).

Domestic demand

1.18 Retail business still held up quite well in the first half of 2001, supported by higher household income in the local economy as well as sustained robust growth in inbound tourism. But faced with a worsening global economic downturn, local consumer spending eased off thereafter. Then upon the impact of the 911 incident, local consumer spending moderated even more, while inbound tourism was severely hit. Reflecting these adversities, the volume of *retail sales*, which still rose appreciably by 2.5% and 4.8% in the first and second quarters of 2001 over a year earlier, slowed markedly to only a 0.5% increase in the third quarter and further to a 2.9% decline in the fourth quarter. For 2001 as a whole, the volume of retail sales was up by 1.2%, much more modest than the 8.3% rise in 2000. On a seasonally adjusted quarter-to-quarter comparison, the volume of retail sales went up by 4.1% and 2.3% respectively in the first and second quarters of 2001, but came down visibly by 5.9% in the third quarter and further by 2.8% in the fourth quarter.

1.19 Mirroring closely the quarterly profile of retail sales, *private consumption expenditure (PCE)* still registered appreciable growth at 3.0% and 3.5% respectively in real terms in the first and second quarters of 2001 over a year earlier. The growth then slowed distinctly to 1.2% in the third quarter, and further to 0.3% in the fourth quarter. For 2001 as a whole, PCE with a 2.0% rise

/in

in real terms was much moderated from the 5.4% increase in 2000. On a seasonally adjusted quarter-to-quarter comparison, PCE went up by 2.3% in real terms in the first quarter of 2001 and further by 0.5% in the second quarter, before falling by 1.0% and 0.8% respectively in the third and fourth quarters.

1.20 Analysed by broad category of consumer spending, expenditure on durable goods posted the fastest increase in 2001, on the back of the large purchases of motor vehicles and electrical appliances in the early part of the year. Spending on both foodstuffs and services also rose further. Yet spending on non-durable goods had a modest decline. Spending by Hong Kong residents abroad picked up to a small growth.

Table 1.4

**Local consumer and visitor spending in the local market
(year-on-year rate of change in real terms (%))**

		<u>Retail sales^(a)</u>	<u>Consumer spending by major component^(a)</u>					<u>Visitor spending</u>	
			<u>Food</u>	<u>Durables</u>	<u>Non-durables</u>	<u>Services</u>	<u>Residents' expenditure abroad</u>	<u>Total</u>	
2000	Annual	8.3	5	19	5	5	-3	6	10
	H1	12.4	8	25	9	5	-6	8	15
	H2	4.5	2	14	2	4	*	4	6
	Q1	14.3 (5.7)	7	34	11	6	-8	8	5
	Q2	10.5 (0.2)	9	17	8	5	-2	7	26
	Q3	5.9 (-2.6)	*	18	5	6	-1	6	7
	Q4	3.1 (0.5)	3	11	-1	2	1	3	5
2001	Annual	1.2	3	7	-1	2	2	2	5
	H1	3.6	3	12	1	2	4	4	8
	H2	-1.2	2	3	-3	2	*	1	2
	Q1	2.5 (4.1)	4	10	*	1	6	3	6
	Q2	4.8 (2.3)	3	14	2	3	1	4	11
	Q3	0.5 (-5.9)	3	7	-2	2	-1	1	3
	Q4	-2.9 (-2.8)	2	-1	-4	2	2	*	*

Notes : (a) Retail sales and consumer spending by major component include both local consumer and visitor spending, which are not separable from the survey data.

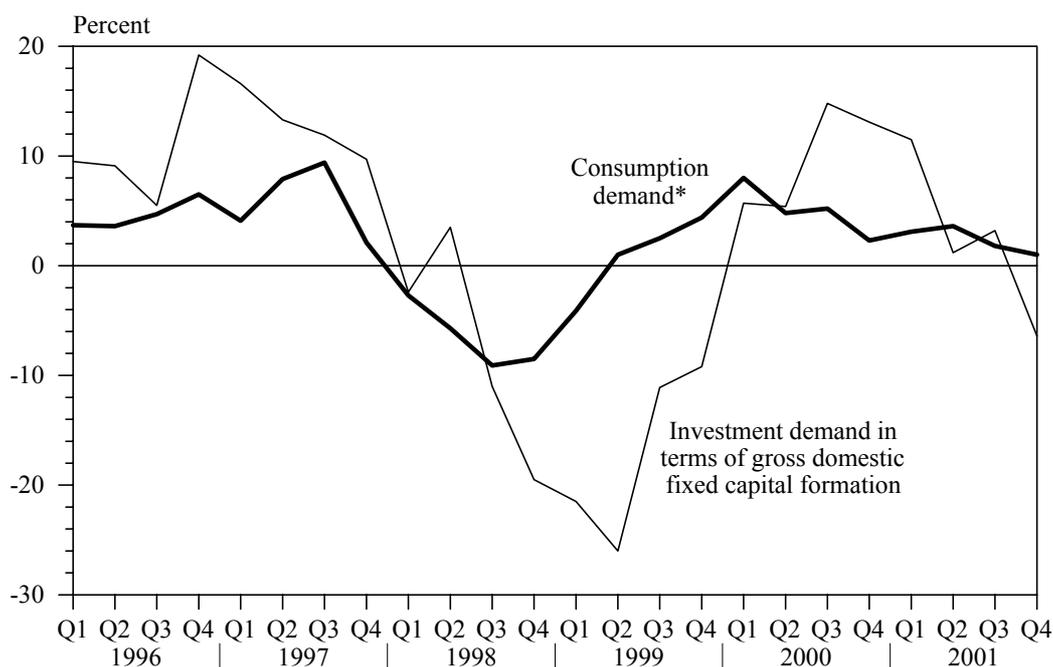
() Figures in brackets represent the seasonally adjusted quarter-to-quarter % changes in real terms.

(*) Change of less than 0.5%.

/Diagram 1.5

Diagram 1.5

**Domestic demand
(year-on-year rate of change in real terms)**



Note : (*) Comprising private consumption expenditure and government consumption expenditure.

1.21 *Government consumption expenditure (GCE)* reckoned on a national accounts basis⁽⁴⁾ showed faster growth at 6.2% and 6.1% respectively in real terms in the third and fourth quarters of 2001 over a year earlier, as compared to the growth of 3.9% and 4.1% in the first and second quarters. For 2001 as a whole, the growth at 5.1% in real terms was up from that of 2.1% in 2000. This pick-up was partly associated with the payments made for voluntary retirement of civil servants. On a seasonally adjusted quarter-to-quarter comparison, GCE, after surging by 5.4% in real terms in the first quarter of 2001, fell back by 1.7% in the second quarter, and then resumed growth at 2.0% and 0.4% respectively in the third and fourth quarters.

1.22 Overall investment spending, as represented by *gross domestic fixed capital formation (GDFCF)*, had a mere 2.1% growth in real terms in 2001, after a 9.8% leap in 2000. Continuing the upsurge in 2000, GDFCF sustained double-digit growth at 11.5% in real terms in the first quarter of 2001 over a year earlier. But it eased sharply to increases of 1.2% and 3.2% respectively in the second and third quarters. It then weakened further to a decline of 6.4% in the fourth quarter.

/1.23

1.23 The distinct weakening in overall investment spending during 2001 was largely driven by the fall-off in *expenditure on machinery and equipment*. It posted a further robust growth in the first quarter, upon the delivery of capital goods ordered earlier. It then slackened markedly thereafter, as the business outlook worsened along with the global economic downturn. The intake of aircraft rendered only a temporary lift in the third quarter. For 2001 as a whole, expenditure on machinery and equipment, whilst still up by 5.2% in real terms, fared distinctly less well than the 25.8% surge in 2000.

1.24 As to *expenditure on building and construction*, it continued to shrink in 2001, signifying the fourth consecutive year of decline. The slump was much related to the protracted downturn in the residential property market, causing a dearth of new projects in the private sector. In addition, there was a heavy scale-back in the Public Housing Programme. These more than offset the sustained strong increase in output from the Priority Railway Projects and also the pick-up in output from other Government projects. With activity in both the public and the private sector contracting further, expenditure on building and construction fell further by 2.5% for 2001 as a whole, following a 7.7% fall in 2000.

1.25 Along with the sluggish private sector building activity, *real estate developers' margin*⁽⁵⁾ likewise came down further, by 1.9% in real terms in 2001, though much less than the 9.4% decline in 2000.

1.26 Following the substantial build-up in 2000, there was a further accumulation of *inventories* in the first half of 2001. Yet the run-down in inventories in the second half of the year resulted in a reduction for 2001 as a whole, reflecting the slackening overall demand in the economy.

Implications of the preliminary GDP figure for the economy

1.27 Along with the marked deceleration in economic growth, *per capita GDP* declined by 1.2% in money terms to \$187,748 in 2001. Yet taking into account the higher real purchasing power rendered by a lower price level, *per capita GDP* fell slightly less, by 0.7% in real terms in 2001.

/1.28

1.28 *Total final demand*, excluding re-exports but with the re-export margin retained, fell back by 0.9% in real terms in 2001. Against a 0.1% growth in real terms in GDP, this suggested that the impact of the economic downturn was partly absorbed by downward adjustment on the import front.

1.29 Moreover, it could be seen that the setback in total final demand occurred largely in *external demand*. After a 16.7% surge in real terms in 2000, external demand fell by 2.1% in 2001, with exports of goods and services both slackening. Yet *domestic demand*, at only a marginal growth of 0.2% in real terms in 2001, also moderated distinctly from the 10.0% rise in 2000. Within domestic demand, *private sector demand* was down by 0.1% in real terms in 2001, taking into account the run-down in inventories during the year, while *public sector demand* rose moderately by 2.8% in real terms, supported by the solid growth in government consumption expenditure. Having regard also to differential price movements, the share of the public sector in GDP, reckoned on a national accounts basis and expressed in nominal terms, thus edged up to 14.8% in 2001, from 14.2% in 2000.

The property market

1.30 During 2001, the sales market for *residential property* was characterised by a sustained decline in flat prices, but a pick-up in transaction volume towards the year-end. In the first four months of the year, market sentiment was affected by a host of negative factors, including in particular the slow-down in economic activity, sharp correction in share prices, and abundant supply of new flats coming on stream. Trading was subdued, as potential home buyers mostly stayed on the sideline. In May and June, some renewed acquisition interest emerged, upon the successive and sizeable cuts in local interest rates (by a total of 2.5 percentage points in the first half of the year), as well as the more intense sales promotion pursued by property developers. Trading activity however tapered again in the ensuing few months, amidst greater worries about the worsening economic situation and larger increase in unemployment. The 911 incident dampened buyer confidence even further, bringing the sales market nearly to a standstill in late September and early October. This far outweighed the effects of an announcement in early September for suspension of flat sales under the Home Ownership Scheme/Private Sector Participation Scheme up to mid-2002, and of further cuts in local interest rates (by another 1.5 percentage

/points

points up to end-October). In response, property developers stepped up their sales promotion further, by offering heavier discounts on flat prices and more attractive financing arrangements to buyers. This helped stimulate a distinct rebound in sales in the primary market towards the year-end. Yet activity in the secondary market remained subdued (paragraph 3.8).

1.31 On a quarter-to-quarter comparison, flat prices largely followed a downtrend in 2001. Apart from nil change in the second quarter, flat prices went lower in the first, third and fourth quarters, on average by 4%, 3% and 7% respectively. For 2001 as a whole, flat prices on average fell by 13% (paragraph 3.9).

1.32 The rental market for private residential flats, having held broadly stable in the first three quarters of 2001, weakened noticeably in the fourth quarter upon a fall-off in lease demand amidst the economic downturn, concurrent with an increased supply of flats for lease from those hitherto for sale. On a quarter-to-quarter comparison, flat rentals on average fell by 1% each in the first three quarters of 2001, and then by 4% in the fourth quarter, giving a cumulative decline of 7% for the whole year (paragraph 3.10).

1.33 On *commercial property*, the rental market for *office space* slackened visibly in 2001, amidst more extensive corporate downsizing and restructuring upon the impact of the economic downturn. Further dampening demand was continued consolidation of the information technology sector. Trading activity quietened particularly after the 911 incident. This had prompted many landlords to lower rent and extend the rent-free period in a move to improve occupancy. The sales market for office space was weak for most of the year, as acquisition interest waned amidst the economic downturn and an uncertain business outlook. The rental market for *shopping space* was subdued throughout 2001, amidst the moderation in retail business especially in the wake of the 911 incident. In order to boost occupancy, landlords were generally inclined to grant greater rental concessions and more flexible lease terms. On the sales market for shopping space, activity remained rather limited during the year, with acquisition interest concentrated in well-managed shopping arcades in more popular locations. On *industrial property*, the rental market stayed in the doldrums for most of 2001, amidst the weak performance of external trade and continued relocation of manufacturing processes outside the territory. Also relevant was the dissipated demand for modern industrial premises to be used as data centres and back-up

/service

service centres, upon further consolidation of the information technology sector. The sales market for industrial property was likewise quiet (paragraphs 3.13 to 3.15).

1.34 *Planned developments* of all types of property in the private sector, as indicated by the total usable floor area on building plans with consent to commence work, fell substantially further by 25% in 2001, after a 16% drop in 2000. Decreases of varying magnitudes were observed in all types of property. Specifically, planned developments of residential property dipped by 12% both in terms of units and in terms of total usable floor area in 2001, after decreases of 30% and 32% respectively in 2000. Planned developments of commercial property, industrial property, and property in the “others” category also plummeted, by 21%, 65% and 69% respectively in terms of total usable floor area in 2001. Yet this was partly due to a higher base of comparison in 2000, when planned developments of these three types of property surged by 17%, 52% and 91% (paragraph 3.18).

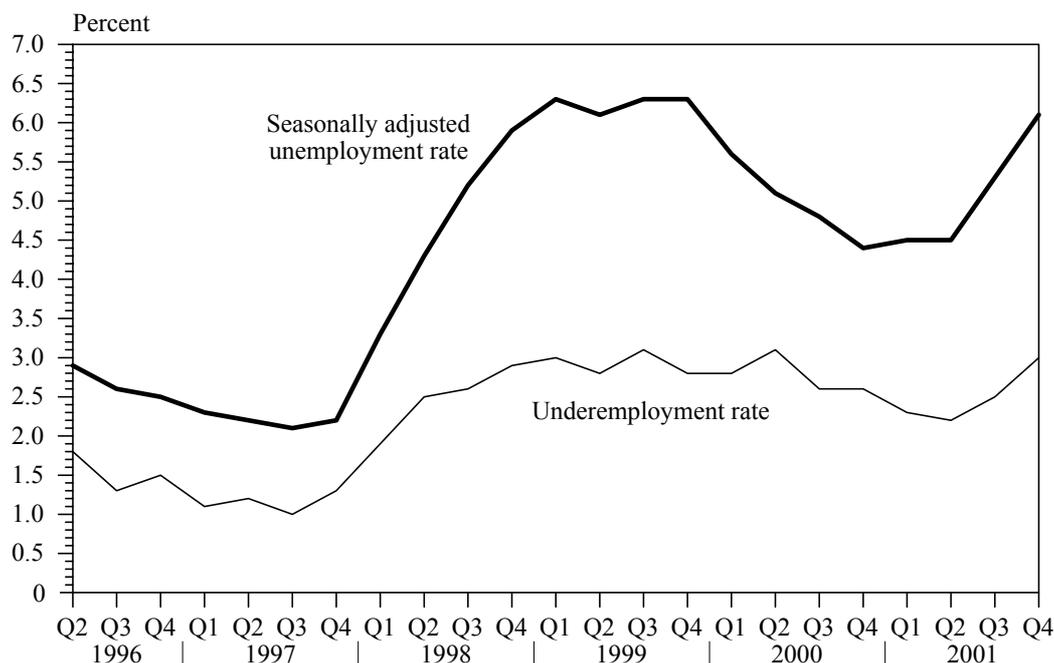
The labour market

1.35 After a year of relative tightening in 2000, the local labour market slackened distinctly in 2001. Consequential to the economic setback and increased corporate downsizing, labour demand moderated markedly over the course of the year, especially in the wake of the 911 incident. Yet labour supply continued to rise. The *seasonally adjusted unemployment rate*, having edged higher from 4.4% in the fourth quarter of 2000 to 4.5% in both the first and second quarters of 2001, surged to 5.3% in the third quarter and further to 6.1% in the fourth quarter. Furthermore, the median duration of unemployment lengthened from 78 days to 82 days, while the proportion of persons unemployed for three months or more went up from 42% to 45%. The *underemployment rate* also rose appreciably, from 2.6% in the fourth quarter of 2000 to 3.0% in the fourth quarter of 2001. The increase again occurred predominantly in the latter part of the year, upon the impact of the 911 incident. For persons still in employment, work effort generally accentuated. The proportion of employed persons working for 50 hours or more per week went up further, from 34% in the fourth quarter of 2000 to 35% in the fourth quarter of 2001. For those working for 60 hours or more per week, the proportion showed a slightly larger rise, from 19% to 21%. The median hours of work stayed high during the year, mostly at 48 hours per week (paragraphs 5.1 to 5.3).

/Diagram 1.6

Diagram 1.6

Unemployment and underemployment rates*



Note : (*) From the second quarter of 1996 onwards, the seasonally adjusted unemployment rate and underemployment rate are compiled on the basis of the new series of labour force statistics, which has adopted the “resident population” definition and incorporated the results of the 2001 Population Census.

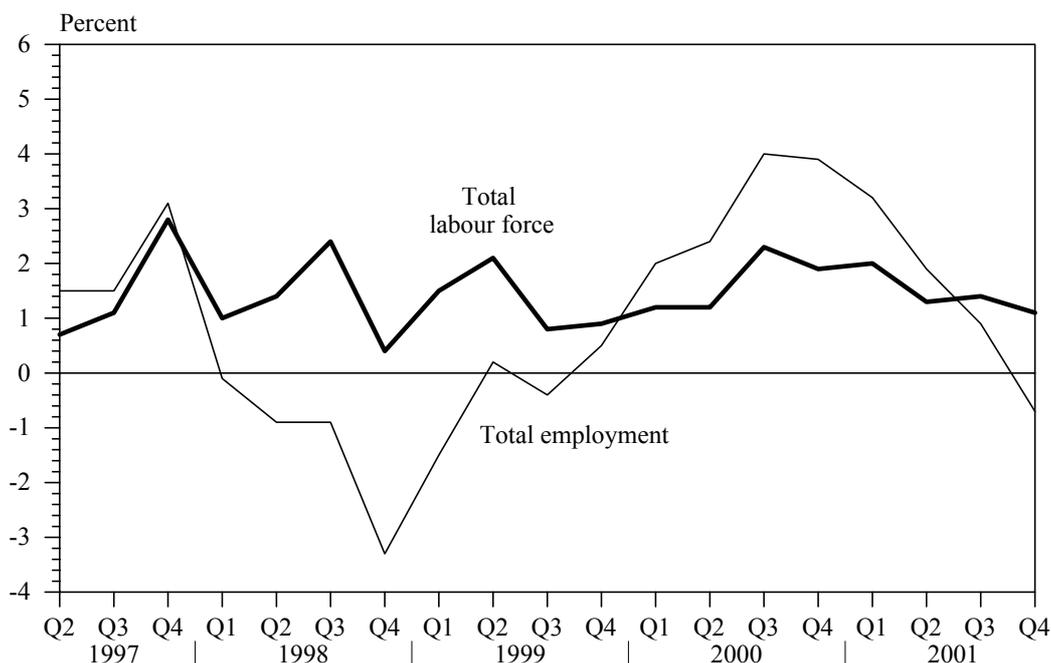
The seasonally adjusted unemployment rate is now computed on the basis of the X-11 ARIMA method, which adjusts for the influences of all seasonal factors, as distinct from the former series which adjusts only for variations in the proportion of first-time job-seekers.

1.36 On the overall manpower resource balance, *total employment* as enumerated from households had a marked slow-down, with the year-on-year growth rate moderating from 3.2% in the first quarter of 2001 to -0.7% in the fourth quarter. Meanwhile, a moderation yet to a lesser extent was observed in the year-on-year growth rate of *total labour force*, from 2.0% to 1.1%. These differential growth rates likewise reflected a clear slackening in the labour market (paragraph 5.4).

/Diagram 1.7

Diagram 1.7

**Total labour force and total employment
(year-on-year rate of change)**



Note : The year-on-year rates of change are compiled from the new series of labour force statistics, which has adopted the “resident population” definition and incorporated the results of the 2001 Population Census. As the new series is backdated to the second quarter of 1996, year-on-year rate of change is available as from the second quarter of 1997.

1.37 Labour income was slightly higher in the first three quarters of 2001 than a year earlier. Yet this was attributable to the pay increase effected in the early part of 2001, on the basis of improved business conditions in 2000. On a year-on-year comparison, overall *earnings* rose by 2% in money terms in the third quarter of 2001, and overall *wages* slightly less, by 1% in money terms in September 2001. Netting out the decline in consumer prices, earnings and wages gained by 3% and 2% respectively in real terms. These more recent increases were smaller than those seen at the beginning of the year (paragraph 5.5).

/Prices

Prices

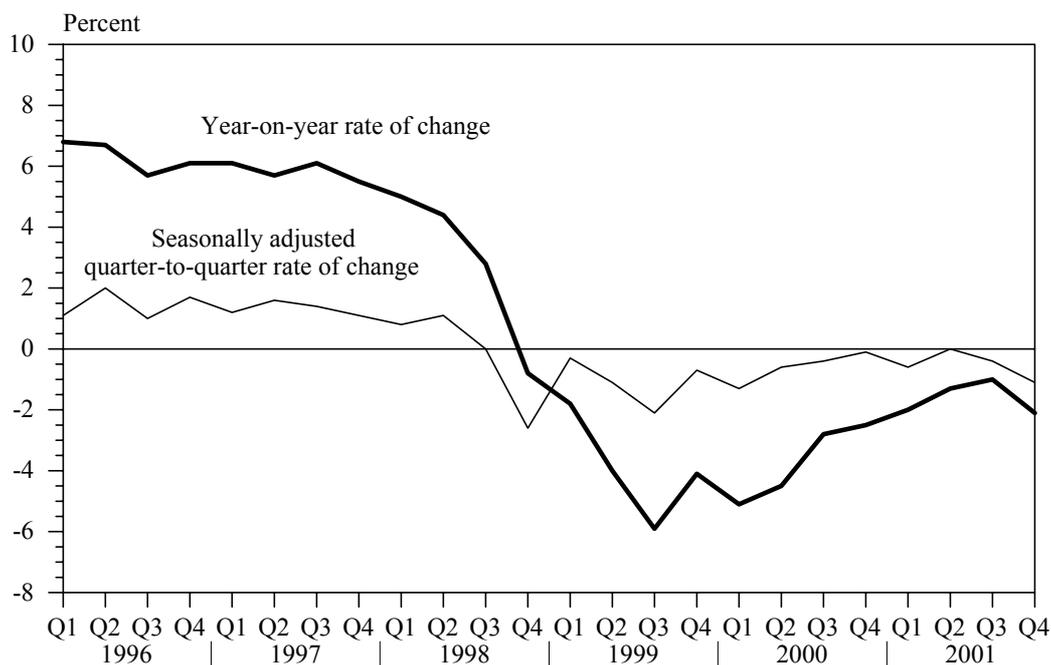
1.38 Overall consumer prices fell for the third consecutive year in 2001, though to a distinctly smaller degree than in the preceding two years. A narrowing rate of decline was observed in the first seven months of 2001, when there was some resurrection in domestically generated price pressure along with a modest increase in labour wages and earnings as well as upward adjustments in certain Government fees and public utility charges, partly offsetting the effect of lower import prices. But the rate of decline widened again in the rest of the year, as local price pressure subsided amidst more instances of pay freeze or pay cuts as well as further easing in property rentals. Concurrently, import prices went even lower, due to the US dollar strengthening against the currencies of most of the major supplier economies and world commodity prices plummeting after the 911 incident. Furthermore, in face of moderated consumer spending, local retailers generally offered greater price discounts in order to promote sales. Certain public transport operators also began to grant concessions on their fares. Thus the negative inflation persisted (paragraph 6.1).

1.39 For 2001 as a whole, the *Composite Consumer Price Index* was lower by 1.6%, considerably reduced from the 3.8% fall in 2000. The year-on-year decrease narrowed progressively, from 2.0% in the first quarter of 2001 to 1.3% in the second quarter and further to 1.0% in the third quarter, along with lesser declines in food prices and housing cost. Yet the year-on-year decrease widened again, to 2.1% in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI fell by 0.6% in the first quarter of 2001, held steady in the second quarter, but went down again in the third and fourth quarters, by 0.4% and 1.1% respectively. The distinctly larger decline in the fourth quarter on both comparisons was primarily due to the waiver of public housing rentals in December (paragraphs 6.2 and 6.4).

/Diagram 1.8

Diagram 1.8

Composite Consumer Price Index*



Note : (*) From the fourth quarter of 2000 onwards, the rates of change are computed from the 1999/2000-based Composite CPI series. Before then, the rates of change are computed from the 1994/95-based Composite CPI series. Splicing has been applied to the indices to maintain continuity.

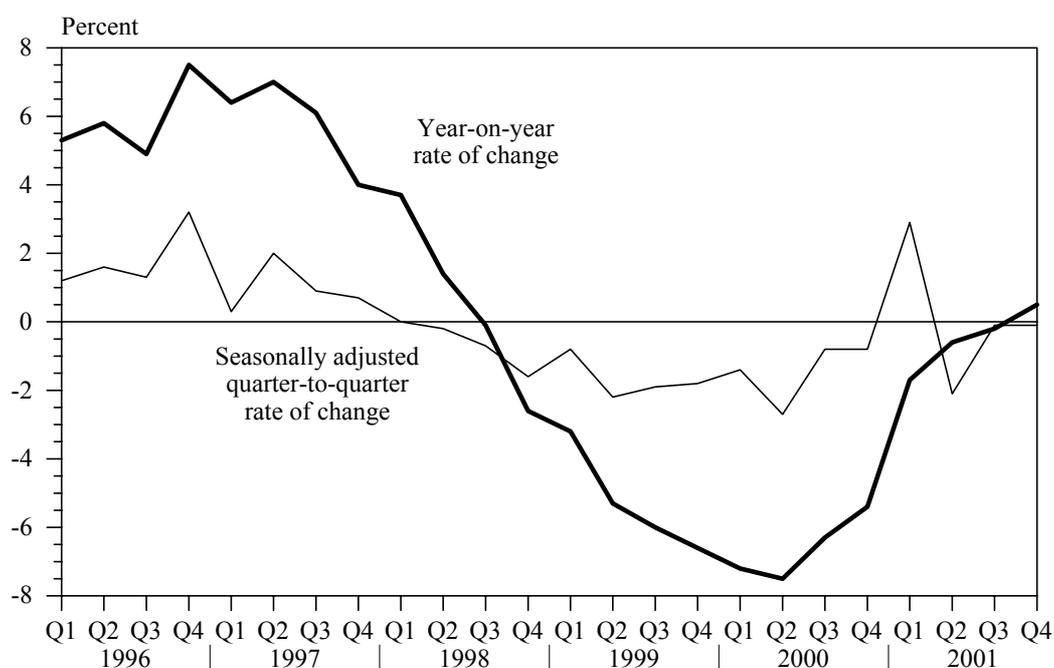
1.40 The *GDP deflator*, as a broad measure of overall price change in the economy, rebounded to a 0.5% rise in the fourth quarter of 2001 over a year earlier, after declining at a narrowing rate by 1.7%, 0.6% and 0.2% respectively in the first three quarters. This small rebound was almost entirely due to an improvement in the terms of trade. For 2001 as a whole, the *GDP deflator* fell by 0.5%, much reduced from the 6.5% decrease in 2000. This was mainly attributable to moderated decline in the price deflator for private consumption expenditure and rebound in the price deflator for government consumption expenditure. While the price deflator for exports of goods and services registered a widening decline over the course of the year, this was more than offset by an even larger decline in the price deflator for imports of goods and services. Within the *GDP deflator*, the *total final demand deflator* and the *domestic demand deflator* fell by 1.7% and 1.1% respectively in 2001, also reduced from the decreases of 3.1% and 5.6% in 2000. On a seasonally adjusted quarter-to-quarter

/comparison

comparison, the GDP deflator bounced back with a 2.9% rise in the first quarter of 2001, yet resumed decline in the ensuing three quarters, at 2.1%, 0.1% and 0.1% respectively (paragraph 6.16).

Diagram 1.9

GDP deflator



The financial sector

1.41 In 2001, the Hong Kong dollar exchange and money markets held broadly stable, notwithstanding the marked deterioration in the global and regional economic environment during the year. The spot *exchange rate of the Hong Kong dollar* against the US dollar remained close to the linked rate throughout 2001, moving within a narrow range of 7.796 to 7.800 during the year. However, the spread between the twelve-month Hong Kong dollar forward rate and the spot rate against the US dollar reversed from a discount of 167 pips (each pip equivalent to HK\$0.0001) at end-2000 to a premium of 235 pips at end-2001, amidst deepening financial crisis in Argentina and a significant depreciation of the Japanese yen towards the year-end (paragraphs 4.1 and 4.2).

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1.42 Tracking closely the movements in the US dollar under the linked exchange rate system, the Hong Kong dollar appreciated against almost all the major currencies during 2001. The US dollar was still taken as a favoured currency amidst the synchronised global economic downturn. Specifically, the Hong Kong dollar rose by 2.9% against the pound sterling, 6.2% against the euro, and more significantly by 14.8% against the Japanese yen during 2001. Overall, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* rose from 102.9 at end-2000 to 105.9 at end-2001 (paragraphs 4.3 to 4.6).

1.43 In the money market, local *interest rates* eased markedly along with the successive cuts in US interest rates, with the three-month HIBOR falling from 5.8% at end-2000 to 1.9% at end-2001. Upon the full interest rate deregulation on 3 July 2001, individual banks are free to set the savings deposit rate and indeed all the deposit interest rates. Nevertheless, interest rates in the local banking sector still followed the US interest rate cuts rather closely. The average savings deposit rate was reduced from 4.75% at end-2000 to 0.15% at end-2001, while the best lending rate offered by the major banks came down from 9.50% to 5.13%. The relatively larger decline in the savings deposit rate than in the best lending rate reflected ample liquidity in the local banking sector (paragraphs 4.7 and 4.8).

1.44 *Hong Kong dollar deposits* rose marginally by 0.2% during 2001, with time deposits falling throughout the four quarters whilst savings and demand deposits generally rising. On the other hand, *Hong Kong dollar loans* reverted to a slight decline of 0.3% during 2001, amidst the setback in business. Thus the Hong Kong dollar loan-to-deposit ratio fell to a record low of 89.0% at end-2001, from 89.4% at end-2000 (paragraphs 4.10, 4.11, 4.16 and 4.17).

1.45 The local *stock market* underwent wide fluctuations during 2001, being affected much by the movements in the US stock market. The local stock market rallied at the beginning of the year, upon an unexpected cut in US interest rates on 3 January. Expectations for further interest rate cuts then pushed the Hang Seng Index to a high of 16 164 on 1 February. But as prices of telecom and technology shares worldwide plunged in March, share prices in the local stock market also tumbled. Sentiment in the local stock market improved during April and May, with inflow of funds pushing up the prices of Mainland-related shares. Then, with the deeper-than-expected US economic downturn increasingly overshadowing the global economic outlook, share prices in all the major stock

/markets

markets resumed a downtrend in the summer months. The local stock market was likewise hit. Widespread anxieties in the global financial markets immediately after the 911 incident pushed down the Hang Seng Index further, to a near three-year low of 8 934 on 21 September, 14% lower than the pre-911 closing. It then swiftly recovered to above the 10 000 mark in early October and rose further towards the year-end, as the gyrations overseas gradually settled and as the US stock market regained some strength. Resurrection of some buying interest in the local residential property market also rendered support to the prices of property-related shares in the local stock market. The Hang Seng Index closed 2001 at 11 397, still 24% below the level of 15 096 at end-2000. Average daily turnover in the local stock market, at \$8.2 billion in 2001, was distinctly below that of \$12.7 billion in 2000 (paragraphs 4.30 to 4.32).

Notes :

- (1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is the sum of private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports less imports of goods and services.
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.

/(3)

- (3) The Gross National Product (GNP) is obtained by adding net external factor income flow, being the income inflow minus the corresponding income outflow, to GDP. External factor income inflow refers to income earned by residents from abroad, while external factor income outflow refers to income earned by non-residents from within the domestic territory. Hence GNP is an overall measure of income earned by the residents of an economy in a specified period, both domestically and from elsewhere. Factor income comprises direct investment income, portfolio investment income, other investment income, and compensation of employees.
- (4) Government consumption expenditure reckoned on a national accounts basis covers the recurrent expenditures on goods and services incurred by government departments. It also covers the recurrent expenditures of quasi-government non-profit bodies, such as the Hong Kong Trade Development Council, Hong Kong Productivity Council, Hong Kong Tourism Board (formerly Hong Kong Tourist Association), Consumer Council and Hospital Authority. On the other hand, it does not include the expenditures of those government departments and statutory entities engaged in the production of goods and services principally for sale to the public, such as the Housing Department and the Post Office, and such as the Mass Transit Railway Corporation Limited, Kowloon-Canton Railway Corporation and Airport Authority Hong Kong. Government subventions to the various organisations providing community and welfare services are also excluded, because such expenditures are in the nature of transfer payments and not direct resource consumption.
- (5) Real estate developers' margin measures the services rendered by developers through acquiring land, co-ordinating the work of architects, building contractors, engineers etc for project development, arranging finance for the project, and marketing the building units. It is not the same as developers' profits, which include not only the reward for the services rendered but also land value appreciation, if any, that is realised in their development projects.

CHAPTER 2 : THE EXTERNAL SECTOR

Major external influences

2.1 The global economic environment deteriorated markedly over the course of 2001, prompted by the abrupt downturn in the US economy and with the slack spreading over profoundly to Asia and Europe. The shock impact of the tragic event in the United States on 11 September exacerbated the situation. Amidst a synchronised downturn, the world economy grew by around 2% in real terms in 2001, the slowest in the past eight years, and also in stark contrast to the distinctly more robust growth of 5% in 2000. As the setback intensified, import demand in almost all of the major markets tapered from their earlier growth and began to fall in the second quarter, with the decline enlarging considerably in the latter part of the year.

2.2 Analysed by major region, the slow-down in the US economy which emerged in the earlier part of 2001 deepened further over the course of the year, as receding demand and piling inventories led to a sharp cutback in production, and as business investment shrank amidst reduced corporate earnings. The downturn was aggravated by the 911 incident, causing US economic growth to dip into negative territory in the third quarter, and to rebound only marginally in the fourth quarter.

2.3 Economic growth in the European Union likewise slowed distinctly over the course of 2001, as exports fell off upon the slump in global demand and as investment spending also shrank amidst a deteriorating business environment. By the second quarter of 2001, the EU economy had virtually flattened out. The spill-over effect from the 911 incident made the business environment worse.

/2.4

2.4 As to the East Asian economies, Japan entered into recession since the second quarter of 2001, marked by a depressed domestic demand and a distinct weakening in exports. The situation turned even bleaker in the wake of the 911 incident. Performance in the other East Asian economies was also badly hit by the fall-off in global demand, with the global electronic product slump imposing a further downdrag. The Mainland was the only bright spot, with economic growth in 2001 maintained at above 7% by virtue of a highly robust domestic demand greatly offsetting the setback in exports.

Table 2.1

**Gross Domestic Product of selected major economies
(year-on-year rate of change in real terms (%))**

		<u>United States</u>	<u>European Union</u>	<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea</u>
2000	Annual	4.1	3.3	8.0	2.4	5.9	9.9	8.8
	H1	4.7	3.7	8.2	3.4	6.5	9.1	11.1
	H2	3.6	3.0	7.8	1.4	5.3	10.7	6.8
	Q1	4.2 (0.6)	3.6 (0.8)	8.1	4.0 (2.0)	7.9	9.8 (3.1)	12.6 (1.6)
	Q2	5.2 (1.4)	3.8 (0.9)	8.3	2.7 (0.8)	5.1	8.4 (2.6)	9.7 (1.6)
	Q3	4.4 (0.3)	3.2 (0.5)	8.2	1.0 (-0.7)	6.7	10.3 (2.4)	9.2 (2.4)
	Q4	2.8 (0.5)	2.8 (0.6)	7.4	1.9 (0.3)	3.8	11.0 (2.5)	4.6 (-0.4)
2001	Annual	1.1	1.9*	7.3	0.1*	-1.9	-2.2	2.7*
	H1	1.9	2.1	7.9	0.4	-0.7	2.1	3.2
	H2	0.3	N.A.	6.7	N.A.	-3.0	-6.3	N.A.
	Q1	2.5 (0.3)	2.5 (0.5)	8.1	1.2 (1.0)	0.9	4.8 (-2.7)	3.7 (0.3)
	Q2	1.2 (0.1)	1.7 (0.1)	7.8	-0.4 (-1.2)	-2.4	-0.5 (-2.5)	2.7 (0.4)
	Q3	0.5 (-0.3)	1.4 (0.2)	7.0	-0.5 (-0.5)	-4.2	-5.6 (-2.9)	1.8 (1.2)
	Q4	0.1 (0.1)	N.A.	6.5	N.A.	-1.9	-7.0 (N.A.)	N.A.

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change. For the mainland of China and Taiwan, the seasonally adjusted series are not available.

(*) Figures refer to the year-on-year rates of change for the first three quarters of 2001 taken together, as the annual rates of change are not yet published.

N.A. Not yet available.

/Table 2.2

Table 2.2

**Import demand in Hong Kong's major markets
(year-on-year rate of change in US dollar terms (%))**

		<u>United States</u>	<u>European Union</u>	<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea</u>
2000	Annual	19	5	36	22	26	21	34
	H1	22	7	36	26	33	24	45
	H2	16	4	36	18	21	19	25
	Q1	23	6	41	24	26	25	52
	Q2	21	8	32	28	40	22	38
	Q3	19	5	43	21	35	22	36
	Q4	14	2	29	15	9	16	16
	2001	Annual	-6	-1 ^(a)	8	-8	-23	-14
H1		1	1	14	*	-17	-4	-8
H2		-13	-4 ^(a)	3	-15	-29	-22	-16
Q1		5	4	17	5	-10	6	-2
Q2		-3	-2	11	-4	-23	-12	-13
Q3		-11	-4	7	-12	-34	-20	-15
Q4		-15	-5 ^(a)	*	-19	-25	-24	-17

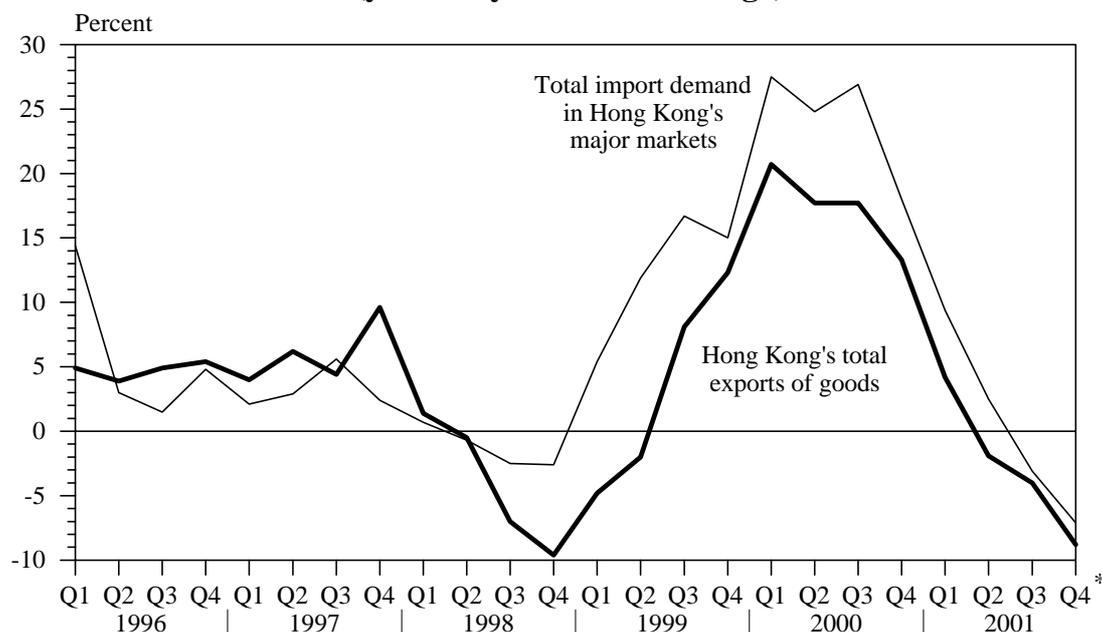
Notes : (a) Crude estimates only, as data on import demand in the European Union are available only up to November 2001.

(*) Change of less than 0.5%.

/Diagram 2.1

Diagram 2.1

**Hong Kong's total exports of goods
and total import demand in Hong Kong's major markets
(year-on-year rate of change)**



Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in East Asia, the United States and the European Union taken together.

(*) Total import demand for the fourth quarter of 2001 is only a crude estimate, as data on import demand in the European Union are available only up to November 2001.

2.5 Amidst such an austere global economic environment, Hong Kong's exports also slackened considerably over the course of 2001. Nevertheless, with exports to the Mainland market holding up better than those to the other major markets, this helped cushion Hong Kong's overall export performance. Moreover, with a lesser concentration on electronic products, the impact of the global electronic product slump on Hong Kong's overall export performance had not been so severe.

/Table 2.3

Table 2.3

**Performance of merchandise exports in Hong Kong
and in other selected East Asian economies
(year-on-year rate of change in US dollar terms (%))**

		<u>Hong Kong</u>	<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u> ^(a)	<u>Republic of Korea</u>
2000	Annual	16	28	15	22	10	20
	H1	18	38	21	23	12	25
	H2	15	20	8	21	8	15
	Q1	19	39	18	18	15	30
	Q2	17	38	23	28	8	21
	Q3	17	25	13	30	15	26
	Q4	12	15	3	13	2	6
2001	Annual	-6	7	-16	-17	-18	-13
	H1	-2	9	-11	-11	-7	-5
	H2	-10	5	-20	-23	-27	-19
	Q1	2	14	-7	-4	*	2
	Q2	-5	5	-16	-17	-14	-12
	Q3	-7	4	-19	-29	-30	-20
	Q4	-12	7	-21	-17	-23	-19

Notes : (a) Non-oil domestic exports.

(*) Change of less than 0.5%.

/2.6

2.6 On exchange rate movements, the US dollar held firm against the major currencies during most of 2001. Market anxiety immediately after the 911 incident had led to a brief weakening in the US dollar, but it soon rebounded back to the pre-911 level. Comparing the average level in 2001 with that in 2000, the US dollar was higher by 12.7% against the Japanese yen, by 3.2% against the euro, and by 5.2% against the pound sterling. The Hong Kong dollar likewise appreciated against these currencies. Yet broadening to more currencies and after adjusting for relative changes in prices, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar actually had a marginal decline, by 0.1% in 2001 over 2000. In general, flexible adjustments in Hong Kong's domestic costs and prices had helped cushion the effect of a stronger US dollar on Hong Kong's external price competitiveness during the year.

Table 2.4

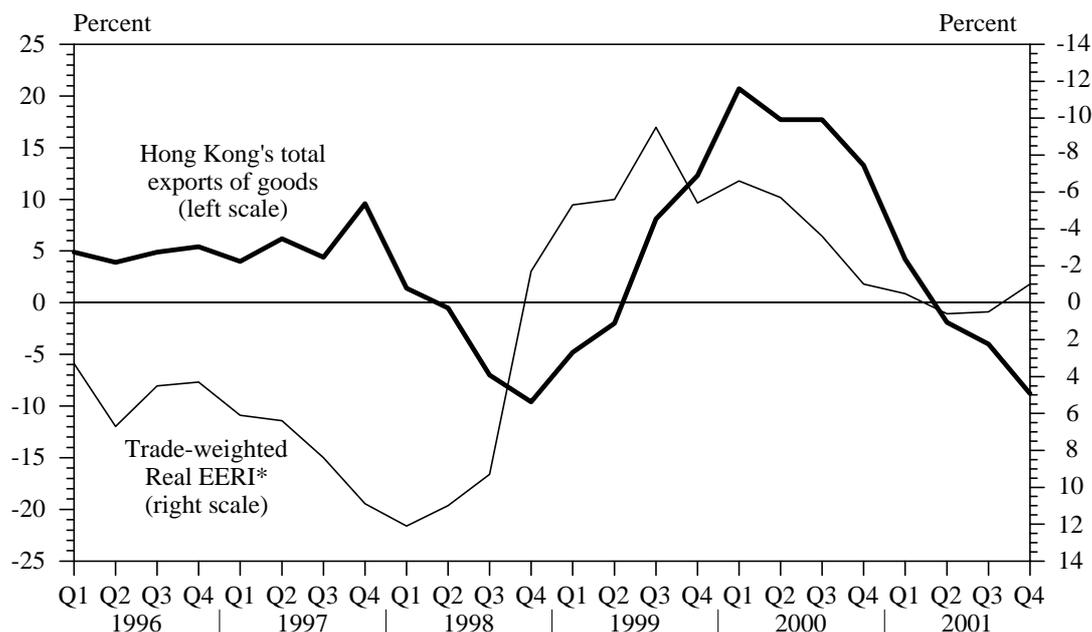
**Exchange rates of the major currencies
and of selected East Asian currencies against the US dollar**

		% change in terms of average in the quarter over the preceding quarter		Japanese		Pound	New	Singapore	Korean
				yen	Euro	sterling	Taiwan dollar	dollar	won
2000	Q1	-2.5	-4.9	-1.5	3.1	-1.5	4.1		
	Q2	0.3	-5.4	-4.6	0.1	-1.4	0.8		
	Q3	-0.9	-3.0	-3.5	-1.2	-0.6	0.1		
	Q4	-2.0	-4.0	-2.2	-4.3	-0.7	-4.4		
2001	Q1	-7.0	6.1	0.9	-0.3	-0.3	-8.3		
	Q2	-3.6	-5.4	-2.6	-2.7	-3.5	-2.6		
	Q3	0.8	2.0	1.1	-3.5	2.0	0.9		
	Q4	-1.7	0.5	0.4	0.2	-2.6	0.1		
% change in terms of average in 2001 over 2000		-11.3	-3.1	-5.0	-7.6	-3.8	-12.4		

/Diagram 2.2

Diagram 2.2

**Hong Kong's total exports of goods and exchange rate movements
(year-on-year rate of change in real terms)**



Note : (*) The Real Effective Exchange Rate Index of the Hong Kong dollar (Real EERI), as compiled by the Hong Kong Monetary Authority, is a weighted average of the exchange rates of the Hong Kong dollar against the currencies of 14 major trading partners after adjusting for relative movements in the respective seasonally adjusted consumer price indices, with the weights adopted being the shares of these 14 trading partners in the total trade value of Hong Kong.

Positive changes in the Real EERI denote appreciation of the Hong Kong dollar; and negative changes denote depreciation. For ease of comparison with the rate of change in Hong Kong's total exports of goods, the scale for the Real EERI is presented upside down, so that positive changes appear at the lower part and negative changes at the upper part of the diagram.

/Overall

Overall visible and invisible trade situation

2.7 With a significant worsening in the external economic environment hitting Hong Kong's merchandise exports, *total exports of goods* (comprising re-exports and domestic exports) fell by 6% in value terms to \$1,481.0 billion in 2001. After netting out the decline in prices, there was a decrease of 3% in real terms⁽¹⁾, in contrast to a highly robust growth of 17% in 2000. On a year-on-year comparison, total exports of goods, which already slowed to a growth of only 4% in real terms in the first quarter of 2001, began to fall, by 2% in the second quarter. The decline enlarged to 4% in the third quarter, and further to 9% in the fourth quarter, as the impact of the 911 incident filtered through. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods fell by 2% and 3% respectively in real terms in the first and second quarters of 2001, yet rose back by 1% in the third quarter, before coming down by 6% in the fourth quarter.

2.8 Within total exports of goods, *re-exports*⁽²⁾ were down by 5% in value terms to \$1,327.5 billion in 2001. After netting out the decline in prices, there was a 2% decrease in real terms, which was markedly down from the 18% growth in 2000. Re-exports still had a 7% increase in real terms in the first quarter of 2001 over a year earlier, but this was followed by enlarging declines of 1%, 3% and 9% respectively in the ensuing three quarters. On a seasonally adjusted quarter-to-quarter comparison, re-exports fell by 2% and 3% respectively in real terms in the first and second quarters of 2001, then rebounded to a 2% rise in the third quarter, but slackened again to a 7% fall in the fourth quarter.

2.9 *Domestic exports* plummeted more sharply, by 15% in value terms to \$153.5 billion in 2001. After netting out the decline in prices, there was an 11% drop in real terms, the largest annual decline recorded since the respective statistical series was available from 1962. This contrasted sharply with an 8% increase in 2000. Domestic exports registered year-on-year declines throughout the four quarters of 2001, at 13%, 8%, 12% and 10% respectively in real terms. Apart from the slump in global demand, the plunge in domestic exports could have also been caused by the continued structural shift towards re-exports. The share of domestic exports in the total value of exports of goods shrank further, to 10% in 2001, from 12% in 2000 and 30% a decade ago. On a seasonally adjusted quarter-to-quarter comparison, domestic exports were on a downtrend throughout the four quarters of 2001, with declines of 3%, 2%, 3% and 4% respectively in real terms.

/Table 2.5

Table 2.5**Total exports of goods, re-exports and domestic exports
(year-on-year rate of change (%))**

		<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2000	Annual	17	17	*	18	18	*	6	8	-1
	H1	19	19	*	20	20	*	10	12	-2
	H2	15	15	*	17	17	*	3	4	-1
	Q1	20	21	*	21	21	*	14	16	-2
	Q2	17	18	*	19	19	*	6	8	-1
	Q3	18	18	*	19	19	*	8	8	*
	Q4	13	13	-1	15	15	-1	-2	-1	-1
2001	Annual	-6	-3	-3	-5	-2	-2	-15	-11	-4
	H1	-1	1	-2	*	3	-2	-13	-11	-3
	H2	-10	-6	-3	-9	-6	-3	-17	-11	-6
	Q1	2	4	-2	5	7	-1	-15	-13	-3
	Q2	-5	-2	-2	-4	-1	-2	-11	-8	-4
	Q3	-7	-4	-3	-6	-3	-3	-18	-12	-5
	Q4	-12	-9	-3	-12	-9	-3	-16	-10	-6

Note : (*) Change of less than 0.5%.

Table 2.6**Total exports of goods, re-exports and domestic exports
(seasonally adjusted quarter-to-quarter
rate of change in real terms (%))**

		<u>Total exports of goods</u>		<u>Re-exports</u>		<u>Domestic exports</u>	
2000	Q1		6		5		11
	Q2		4		6		-5
	Q3		4		4		1
	Q4		-1		*		-5
2001	Q1		-2		-2		-3
	Q2		-3		-3		-2
	Q3		1		2		-3
	Q4		-6		-7		-4

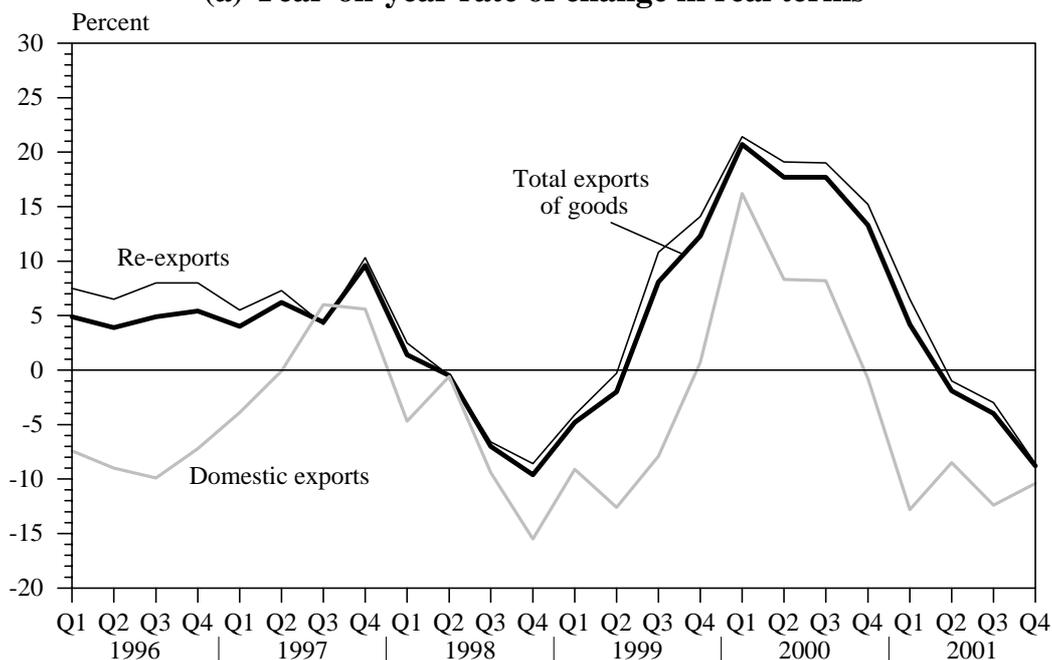
Note : (*) Change of less than 0.5%.

/Diagram 2.3

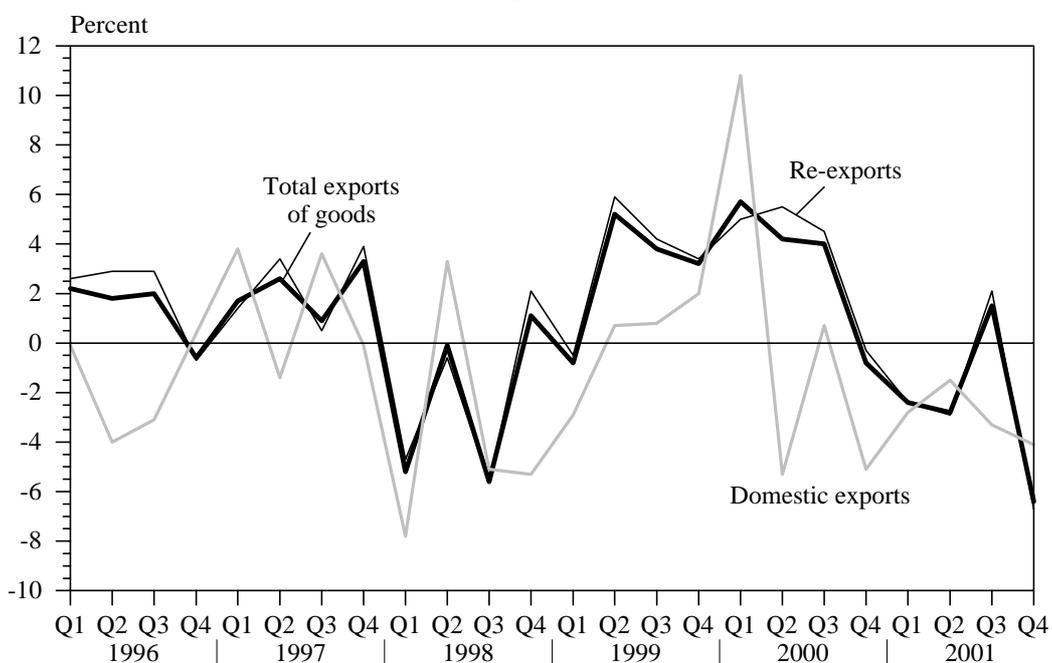
Diagram 2.3

Total exports of goods, re-exports and domestic exports

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



(b) Seasonally adjusted quarter-to-quarter rate of change in real terms



/2.10

2.10 *Imports of goods* likewise shrank, by 5% in value terms to \$1,568.2 billion in 2001. After netting out the decline in prices, there was a 2% decrease in real terms, also markedly down from the 18% growth in 2000. The trend of slackening was evident over the course of the year, with growth already moderated to 5% in real terms in the first quarter of 2001 over a year earlier, before going into enlarging declines of 1%, 3% and 9% respectively in the ensuing three quarters. The setback in imports of goods mirrored the downturn in both re-export trade and imports for local use. Specifically, *retained imports* had a 3% decline in real terms in 2001, in stark contrast to the 17% rise in 2000. Again reflecting the trend of slackening during the year, retained imports still had a 2% increase in real terms in the first quarter of 2001 over a year earlier, before coming down to virtually zero growth in the second quarter and further to declines of 4% and 11% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, imports of goods fell by 1% and 4% respectively in real terms in the first and second quarters of 2001, followed by a brief rebound to a 2% rise in the third quarter and then a relapse to an 8% decline in the fourth quarter. As to retained imports, they rose by 2% and 4% respectively in real terms in the first and third quarters of 2001, but dropped by 6% and 12% respectively in the second and fourth quarters.

/Table 2.7

Table 2.7

**Imports of goods and retained imports
(year-on-year rate of change (%))**

		<u>Imports of goods</u>			<u>Retained imports</u> ^(a)		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2000	Annual	19	18	1	23	17	5
	H1	22	21	1	27	22	5
	H2	17	16	1	20	13	5
	Q1	23	23	*	29	27	4
	Q2	20	19	1	26	18	6
	Q3	20	18	1	25	17	6
	Q4	14	13	*	16	8	3
	2001	Annual	-5	-2	-3	-7	-3
	H1	*	2	-2	-1	1	-2
	H2	-10	-6	-4	-13	-7	-8
	Q1	4	5	-2	1	2	-2
	Q2	-3	-1	-3	-3	*	-3
	Q3	-7	-3	-4	-8	-4	-6
	Q4	-13	-9	-5	-17	-11	-10

Notes : (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

(*) Change of less than 0.5%.

Table 2.8

**Imports of goods and retained imports
(seasonally adjusted quarter-to-quarter
rate of change in real terms (%))**

		<u>Imports of goods</u>	<u>Retained imports</u> ^(a)
2000	Q1	6	9
	Q2	3	-4
	Q3	5	8
	Q4	-1	-3
2001	Q1	-1	2
	Q2	-4	-6
	Q3	2	4
	Q4	-8	-12

Note : (a) See Note (a) to Table 2.7.

/Diagram 2.4

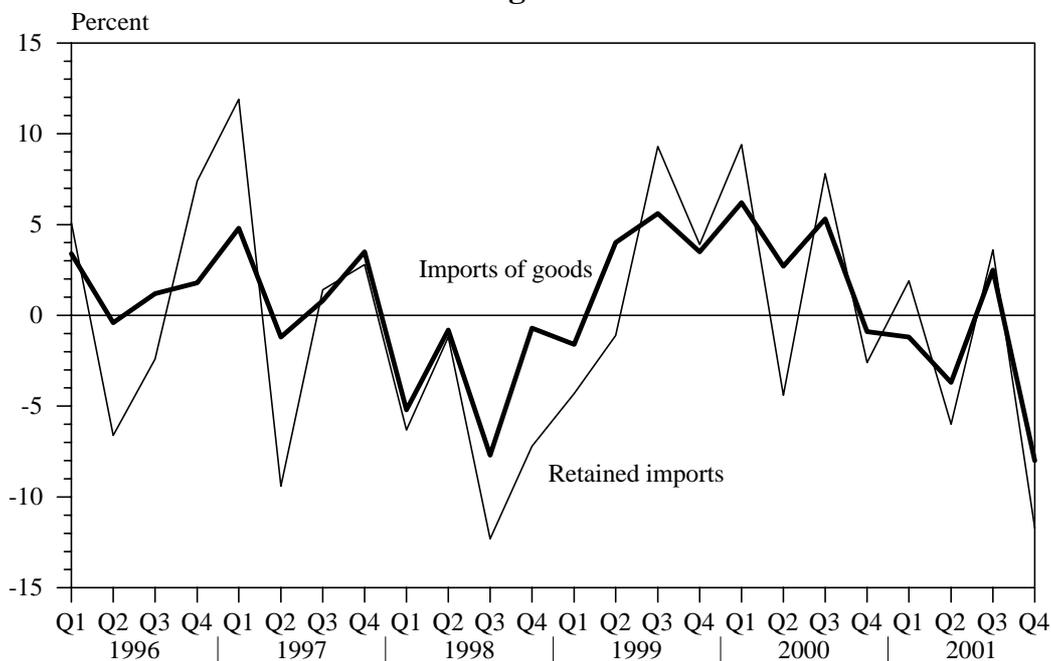
Diagram 2.4

Imports of goods and retained imports

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



(b) Seasonally adjusted quarter-to-quarter rate of change in real terms

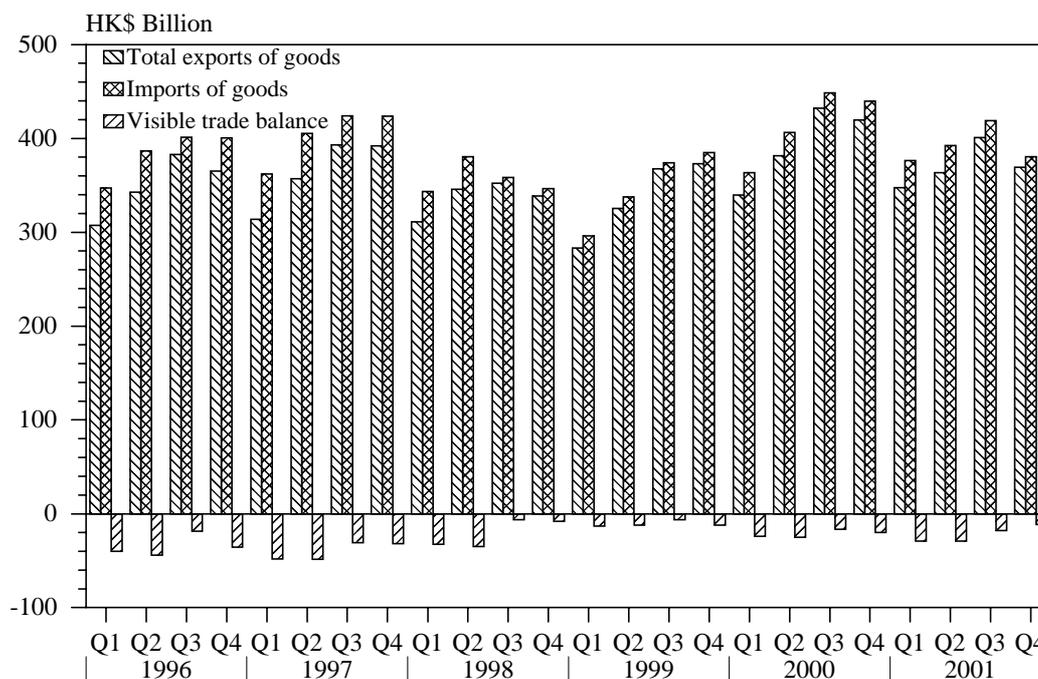


/2.11

2.11 As the value of total exports of goods fell slightly faster than the value of imports of goods, the *visible trade deficit* widened somewhat, to \$87.2 billion or 5.6% of the value of imports of goods in 2001, from \$85.3 billion or 5.1% in 2000.

Diagram 2.5

Value of Hong Kong's visible trade and the visible trade balance



2.12 On invisible trade, *exports of services* similarly slowed, but still recorded a modest increase of 2% in value terms to \$335.8 billion in 2001. After netting out the decline in prices, there was a 3% growth in real terms. While this was also markedly down from the double-digit growth of 14% in 2000, exports of services had generally held up better than exports of goods during the year. In particular, exports of services still had a notable growth of 6% in real terms in both the first and second quarters of 2001 over a year earlier, though also decelerating distinctly to only a 2% growth in the third quarter and virtually zero growth in the fourth quarter. Amidst the slump in global trade, there was a setback in both regional business demand and in exports of transportation services. The fall-off in inbound tourism after the 911 incident worsened the situation. On a seasonally adjusted quarter-to-quarter comparison, exports of services registered virtually no change in real terms in the first quarter of 2001, then rising by 2% in both the second and third quarters, before turning to a 2% decline in the fourth quarter.

/2.13

2.13 *Imports of services*, at \$178.9 billion in 2001, were virtually unchanged in value terms over 2000. With little change in prices, imports of services recorded virtually zero growth in real terms in 2001, as against a 2% rise in 2000. Following increases of 4% and 1% respectively in real terms in the first and second quarters of 2001 over a year earlier, imports of services receded to a decline of 2% in both the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, imports of services recorded virtually no change in real terms in both the first and second quarters of 2001, and then fell by 2% and 1% respectively in the third and fourth quarters.

Table 2.9

**Exports and imports of services
(year-on-year rate of change (%))**

	<u>Exports of services</u>			<u>Imports of services</u>		
	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2000 Annual	14	14	*	2	2	*
H1	16	17	-1	1	1	*
H2	12	12	*	3	3	*
Q1	15	16	-1	-1	-1	*
Q2	18	18	*	4	3	*
Q3	15	14	1	4	3	*
Q4	9	10	*	2	3	-1
2001 Annual	2	3	-1	*	*	*
H1	6	6	*	2	2	*
H2	-1	1	-2	-3	-2	*
Q1	6	6	*	4	4	*
Q2	5	6	-1	1	1	*
Q3	*	2	-2	-2	-2	*
Q4	-2	*	-2	-3	-2	-1

Note : (*) Change of less than 0.5%.

/Table 2.10

Table 2.10

**Exports and imports of services
(seasonally adjusted quarter-to-quarter
rate of change in real terms (%))**

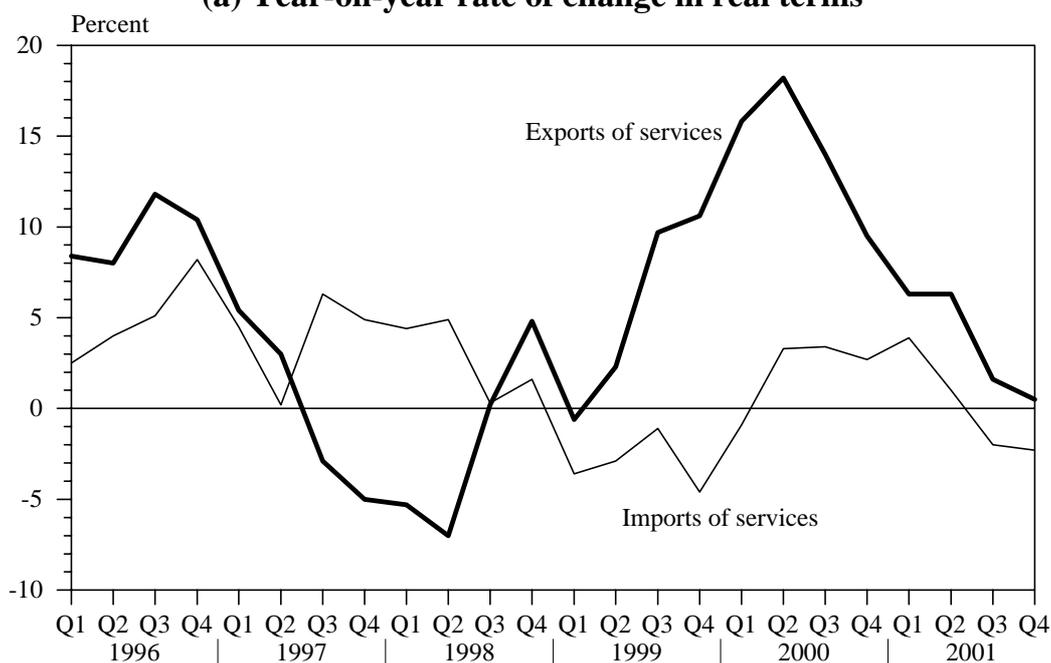
		<u>Exports of services</u>	<u>Imports of services</u>
2000	Q1	3	-2
	Q2	3	4
	Q3	5	1
	Q4	-3	-1
2001	Q1	*	*
	Q2	2	*
	Q3	2	-2
	Q4	-2	-1

Note : (*) Change of less than 0.5%.

Diagram 2.6

Exports and imports of services

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



/Diagram 2.6 (cont'd)

Diagram 2.6 (cont'd)

(b) Seasonally adjusted quarter-to-quarter rate of change in real terms

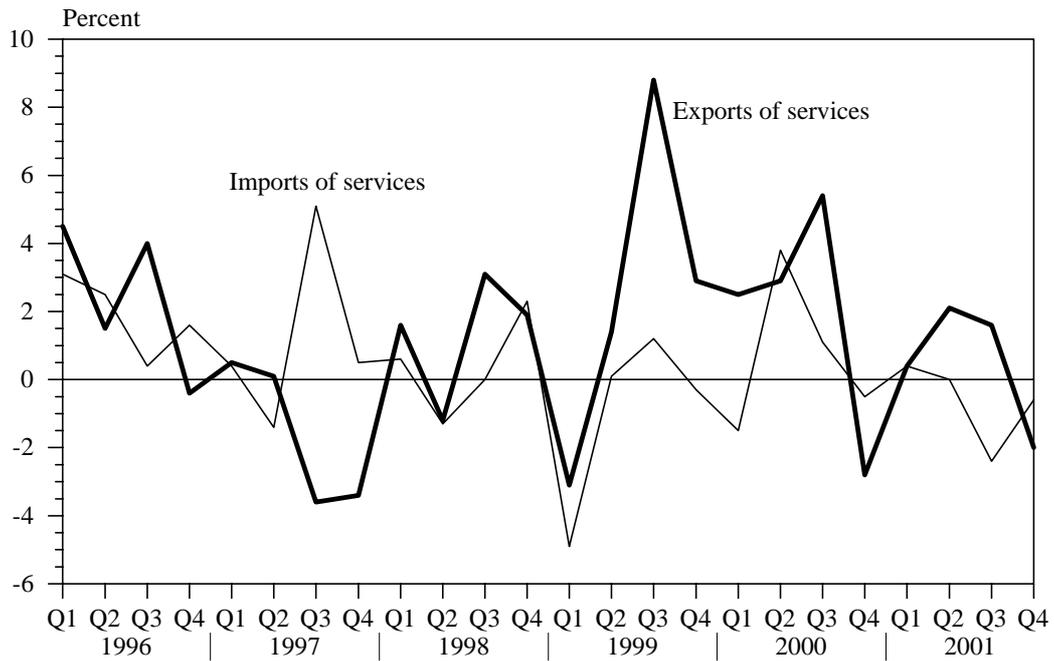
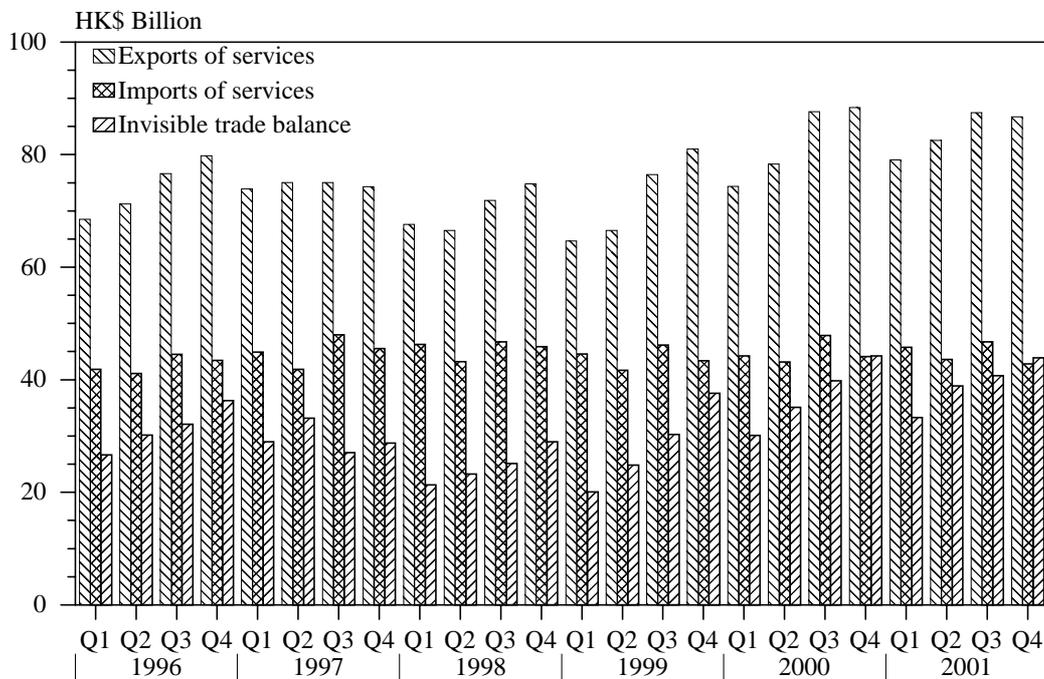


Diagram 2.7

Value of Hong Kong's invisible trade and the invisible trade balance

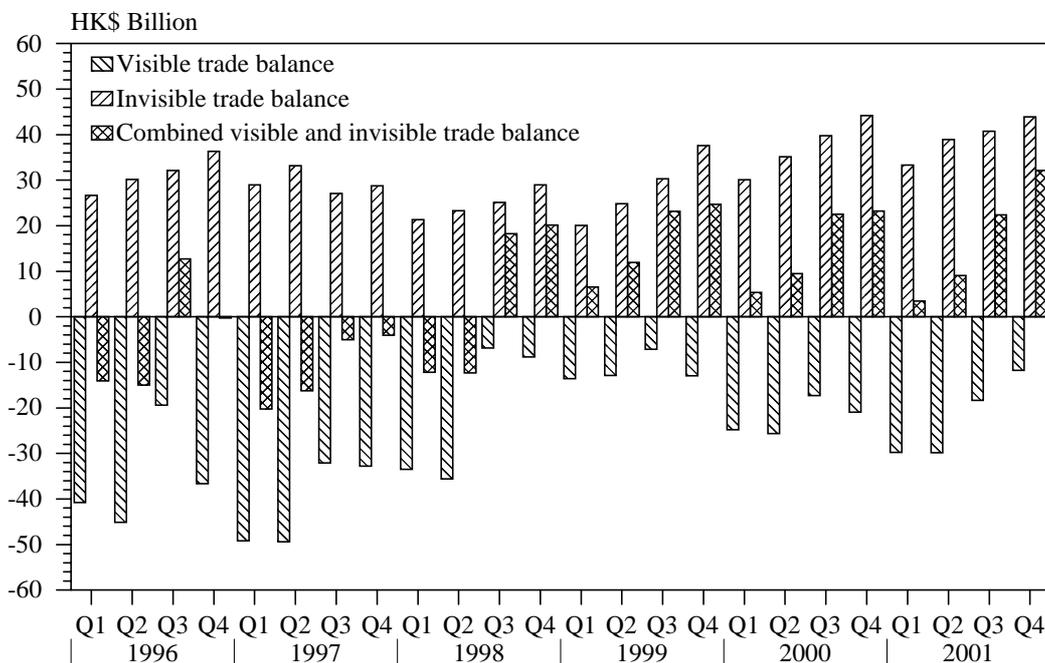


/2.14

2.14 As exports of services had a small increase while imports of services were flat in value, the *invisible trade surplus*⁽³⁾ increased further, to \$156.8 billion or 87.6% of the value of imports of services in 2001, from \$149.3 billion or 83.2% in 2000. This more than offset the slightly widened visible trade deficit, thus giving a combined surplus (including an estimate of imports of gold for industrial use) of \$67.1 billion, equivalent to 3.8% of the total value of imports of goods and services, in 2001, slightly up from \$60.6 billion or 3.3% in 2000.

Diagram 2.8

Visible and invisible trade balance



/Table 2.11

Table 2.11

**Visible and invisible trade balance
(\$ billion at current market prices)**

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>		
		<u>Goods</u>	<u>Services</u>	<u>Goods^(a)</u>	<u>Services</u>	<u>Goods^(a)</u>	<u>Services</u>	<u>Combined</u>
2000	Annual	1,572.7	328.6	1,661.4	179.4	-88.7	149.3	60.6
	H1	721.1	152.6	771.6	87.4	-50.5	65.2	14.8
	H2	851.5	176.0	889.8	92.0	-38.3	84.0	45.8
	Q1	339.6	74.3	364.4	44.2	-24.8	30.1	5.3
	Q2	381.6	78.3	407.2	43.2	-25.7	35.1	9.5
	Q3	432.1	87.6	449.4	47.8	-17.3	39.8	22.5
	Q4	419.5	88.4	440.4	44.1	-21.0	44.2	23.3
2001	Annual	1,481.0	335.8	1,570.8	178.9	-89.8	156.8	67.1
	H1	710.8	161.6	770.5	89.4	-59.6	72.2	12.6
	H2	770.2	174.2	800.3	89.5	-30.1	84.6	54.5
	Q1	347.4	79.1	377.2	45.8	-29.8	33.3	3.5
	Q2	363.4	82.5	393.3	43.6	-29.8	38.9	9.1
	Q3	401.0	87.5	419.4	46.7	-18.4	40.7	22.4
	Q4	369.2	86.7	380.9	42.8	-11.8	43.9	32.1

Notes : Figures may not add up exactly to the total due to rounding.

(a) Adjusted to include an estimate of imports of gold for industrial use.

Visible trade

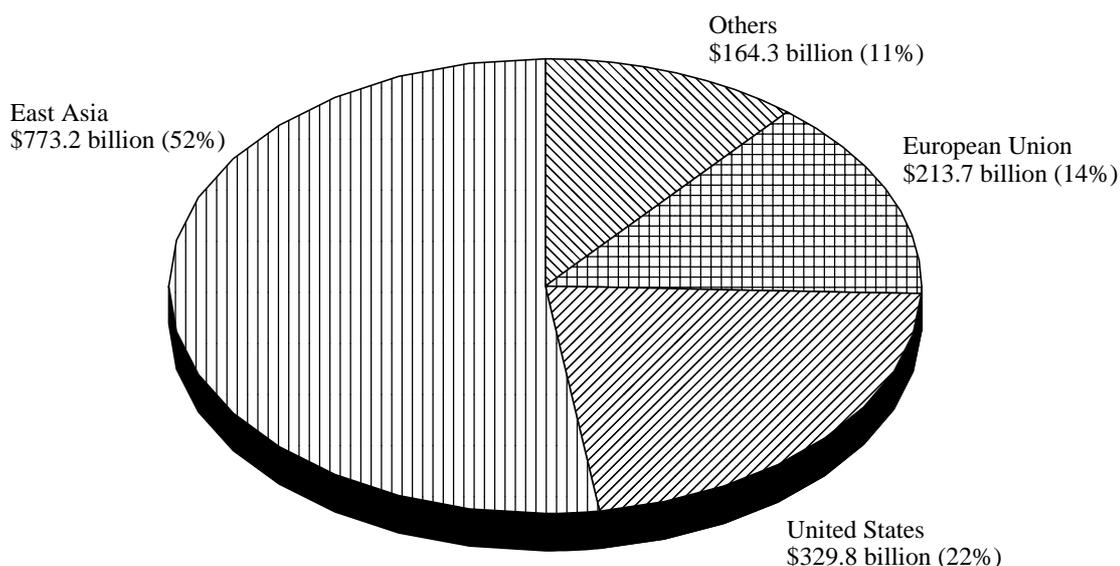
Total exports of goods

2.15 Reflecting its close trade relations with Hong Kong, East Asia⁽⁴⁾ continued to account for the largest share of Hong Kong's total exports of goods, at 52% by value in 2001. This was followed by the United States (with a share of 22%), and the European Union⁽⁵⁾ (14%).

/Diagram 2.9

Diagram 2.9

Total exports of goods by major region in 2001



Total exports of goods in 2001 : \$1,481.0 billion

2.16 Analysed by *region*, the slackening in merchandise exports in 2001 was most distinct in the US and EU markets, while the East Asian market as a whole held up better. Exports of goods to *East Asia* as a whole still had a 2% growth in real terms in 2001, though sharply down from the 20% surge in 2000. Performance varied widely amongst the constituent markets, with exports to Japan and the Mainland still having modest increases, but with exports to Singapore, Taiwan and most of the other East Asian economies all falling markedly.

2.17 Exports of goods to the *United States* fell by 9% in real terms in 2001, being the first decline since the respective series in real terms was available in 1991, and in stark contrast to the 14% increase in 2000. This largely mirrored the fall-off in US import demand during the year, amidst the significant downturn in the US economy.

2.18 Exports of goods to the *European Union* were much dampened by waning import demand in the EU area as well as the weak euro. In 2001, these exports fell by 8% in real terms, reversing sharply the 13% rise in 2000.

/Table 2.12

Table 2.12

**Total exports of goods by major region
(year-on-year rate of change in real terms (%))**

	<u>East Asia</u> ^{(a)(c)}	<u>United States</u>	<u>European Union</u> ^{(b)(c)}
2000 Annual	20	14	13
H1	21	16	18
H2	19	12	9
Q1	22	19	22
Q2	21	14	14
Q3	22	13	11
Q4	17	10	7
2001 Annual	2	-9	-8
H1	5	-5	-4
H2	-2	-12	-11
Q1	8	*	-1
Q2	3	-9	-8
Q3	2	-11	-11
Q4	-5	-13	-12

Notes : (a) For the coverage of East Asia, see Note (4).

(b) For the coverage of the European Union, see Note (5).

(c) For those constituent markets where separate quantum indices are not compiled, their levels of total exports of goods in real terms are estimated from an overall implicit price deflator covering those export markets for which separate unit value indices are not available.

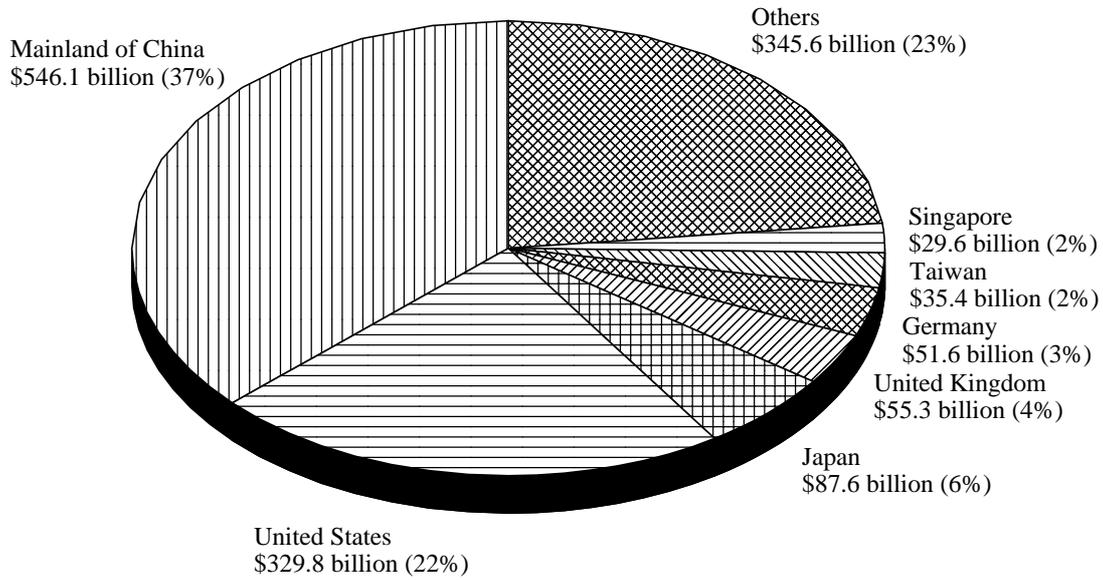
(*) Change of less than 0.5%.

2.19 The Mainland remained the largest single *market* for Hong Kong's exports of goods, accounting for 37% of the total value in 2001. This was followed by the United States (with a share of 22%), Japan (6%), the United Kingdom (4%), Germany (3%), Taiwan (2%), and Singapore (2%).

/Diagram 2.10

Diagram 2.10

Total exports of goods by major market in 2001



Total exports of goods in 2001 : \$1,481.0 billion

Table 2.13

Value of total exports of goods by market

	<u>2000</u>			<u>2001</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)
All markets	1,572.7	100	17	1,481.0	100	-6
Mainland of China	543.0	35	21	546.1	37	1
United States	365.5	23	14	329.8	22	-10
Japan	87.1	6	19	87.6	6	1
United Kingdom	63.0	4	13	55.3	4	-12
Germany	59.9	4	14	51.6	3	-14
Taiwan	39.8	3	21	35.4	2	-11
Singapore	36.7	2	13	29.6	2	-20
Rest of the world	377.6	24	14	345.6	23	-8

/Table 2.14

Table 2.14**Total exports of goods by major market
(year-on-year rate of change in real terms (%))**

		<u>Mainland of China</u>	<u>United States</u>	<u>Japan</u>	<u>United Kingdom</u>	<u>Germany</u>	<u>Taiwan^(a)</u>	<u>Singapore</u>
2000	Annual	19	14	23	15	17	24	19
	H1	20	16	23	24	25	27	23
	H2	18	12	23	9	10	22	17
	Q1	19	19	23	30	28	25	25
	Q2	20	14	22	20	23	28	21
	Q3	20	13	24	9	15	29	28
	Q4	16	10	22	8	6	16	7
2001	Annual	4	-9	3	-10	-12	-9	-15
	H1	7	-5	11	-8	-13	-4	-11
	H2	1	-12	-4	-12	-12	-13	-18
	Q1	9	*	16	-4	-4	-2	-6
	Q2	5	-9	7	-11	-20	-6	-16
	Q3	7	-11	-1	-11	-15	-19	-20
	Q4	-4	-13	-6	-13	-8	-7	-15

Notes : (a) Quantum indices of total exports of goods to Taiwan are currently not available. The figures shown here are crude estimates only.

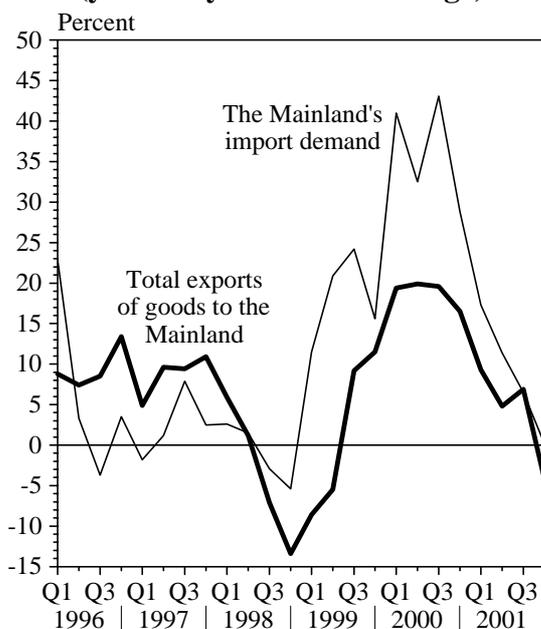
(*) Change of less than 0.5%.

/2.20

2.20 Total exports of goods to the *Mainland* still had an increase of 4% in real terms in 2001, though much moderated from the 19% rise in 2000. Growth was concentrated in the first three quarters of the year, with decline emerging in the fourth quarter. The slow-down was largely caused by a fall-off in exports of material inputs for production, as the Mainland's own exports were similarly affected by the slump in global demand, particularly after the 911 incident. Exports of consumer goods and capital goods were still robust for most of the year, yet also slackening distinctly towards the year-end. Consistent with this pattern, there was a marked slackening in total exports to the Mainland for outward processing in the first three quarters of 2001, but a sustained notable growth in total exports to the Mainland for meeting its own demand.

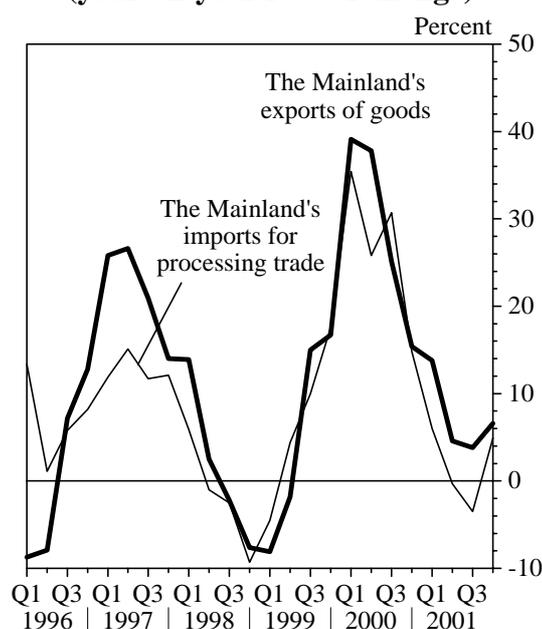
Diagram 2.11

Total exports of goods to the mainland of China and the Mainland's import demand (year-on-year rate of change)



Note : Total exports of goods to this market as depicted refer to the year-on-year rate of change in real terms, while import demand in this market refers to the year-on-year rate of change in US dollar terms.

The Mainland's exports of goods and its imports for processing trade (year-on-year rate of change)



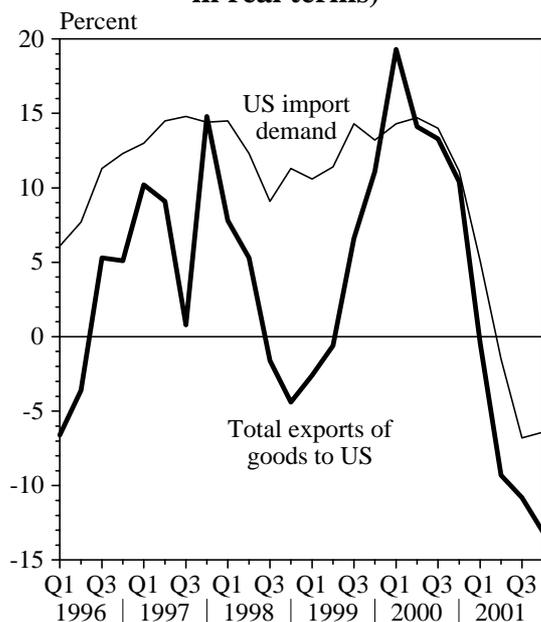
Note : Both refer to the year-on-year rate of change in US dollar terms.

/2.21

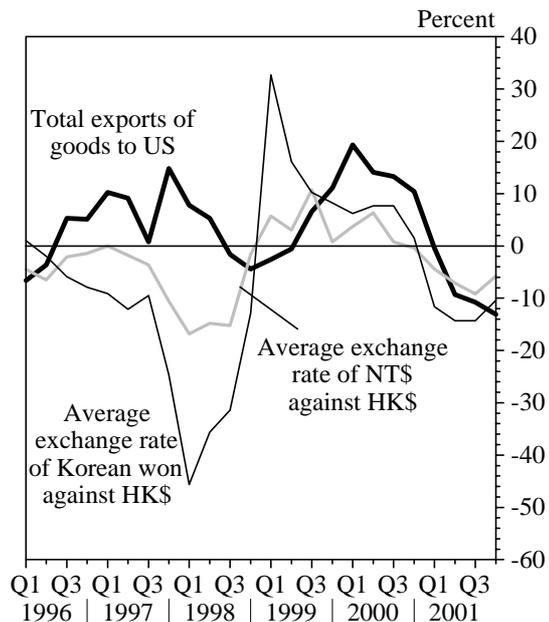
2.21 Total exports of goods to the *United States* were down by 9% in real terms in 2001, after a 14% increase in 2000. Exports in all the major end-use categories to this market shrank, reflecting the broad-based downturn in the US economy through the year. In the latter part of 2001, the setback in these exports was aggravated by the shock impact of the 911 incident.

Diagram 2.12

Total exports of goods to US and US import demand (year-on-year rate of change in real terms)



Total exports of goods to US and relative price competitiveness (year-on-year rate of change)



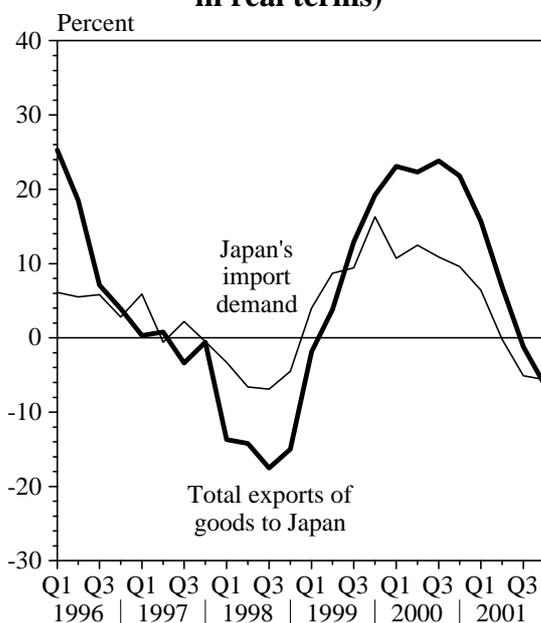
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ and Korean won against HK\$.

/2.22

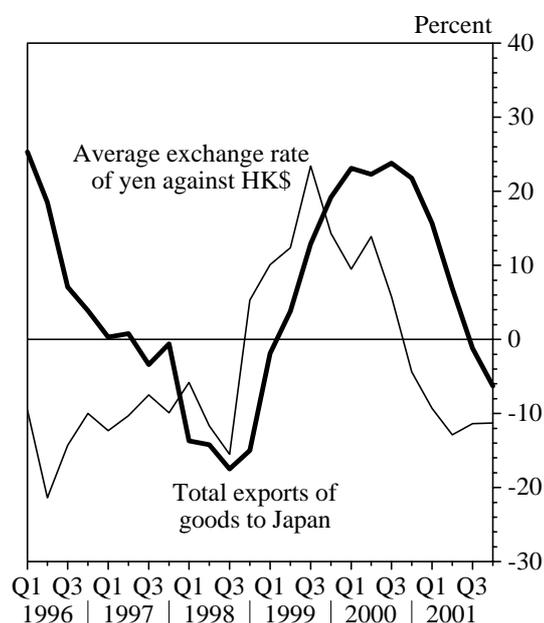
2.22 Total exports of goods to *Japan* grew by 3% in real terms in 2001, also markedly slower than the 23% surge in 2000. The increases in the first two quarters of 2001 were considerably offset by the declines in the third and fourth quarters. There was a distinct slow-down in exports of material inputs, in line with the fall-off in Japan's own exports. To a lesser extent, exports of consumer goods and capital goods also moderated, along with the subdued domestic demand in Japan.

Diagram 2.13

Total exports of goods to Japan and Japan's import demand (year-on-year rate of change in real terms)



Total exports of goods to Japan and the exchange rate factor (year-on-year rate of change)



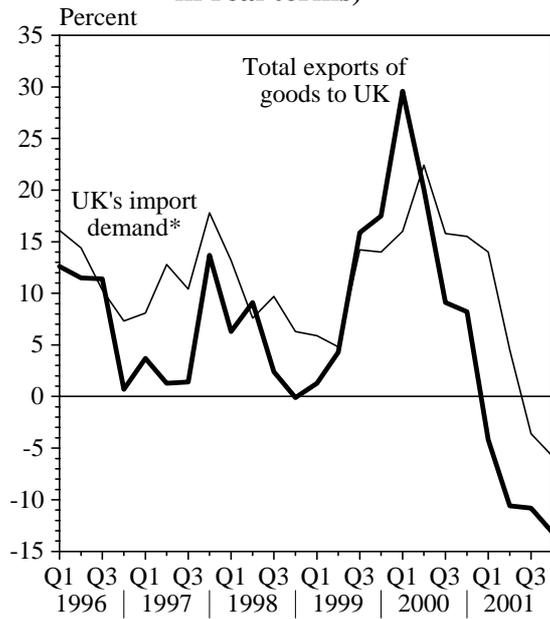
Note : (+) represents appreciation and (-) represents depreciation of the yen against HK\$.

/2.23

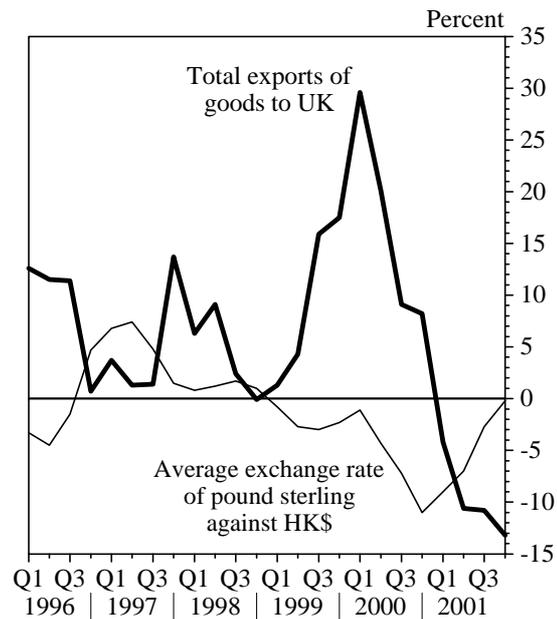
2.23 Total exports of goods to the *United Kingdom*, having leaped by 15% in real terms in 2000, dipped by 10% in 2001. While the fall-off in exports to this market was evident in all the major end-use categories, it was more severe for exports of material inputs and capital goods, upon the slow-down in the UK's industrial activity.

Diagram 2.14

Total exports of goods to UK and UK's import demand (year-on-year rate of change in real terms)



Total exports of goods to UK and the exchange rate factor (year-on-year rate of change)



Note : (*) UK's import demand as depicted refers to its imports sourced from outside the European Union.

Note : (+) represents appreciation and (-) represents depreciation of the pound sterling against HK\$.

/2.24

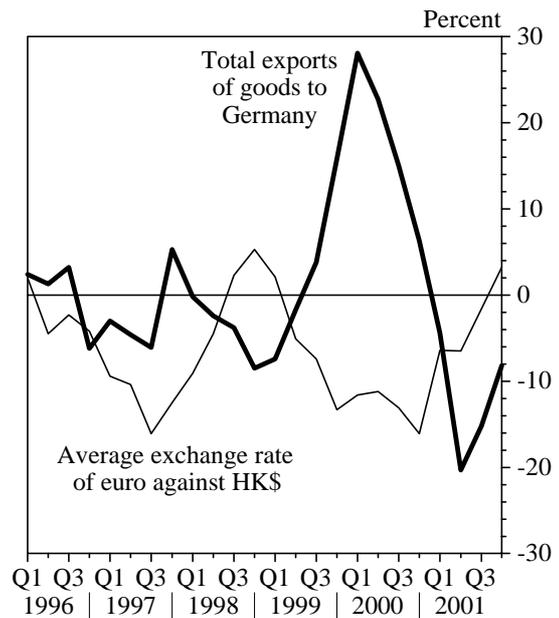
2.24 Total exports of goods to *Germany* plummeted even more, by 12% in real terms in 2001, in stark contrast to the 17% surge in 2000. Import demand in Germany was curtailed by its weak domestic demand and exports, as well as by the weak euro.

Diagram 2.15

Total exports of goods to Germany and Germany's import demand (year-on-year rate of change)



Total exports of goods to Germany and the exchange rate factor (year-on-year rate of change)



Note : Total exports of goods to this market as depicted refer to the year-on-year rate of change in real terms, while import demand in this market refers to the year-on-year rate of change in value terms, i.e. in terms of its local currency.

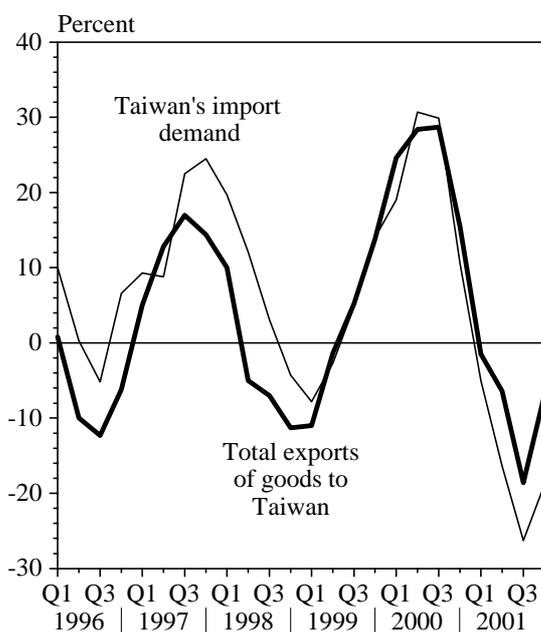
Note : (+) represents appreciation and (-) represents depreciation of the euro against HK\$.

/2.25

2.25 Total exports of goods to *Taiwan* fell by 9% in real terms in 2001, distinctly down from the 24% surge in 2000. Amongst the various major end-use categories, exports of material inputs and capital goods to this market were both hard hit by the distinct downturn in Taiwan's own exports and the sharp cut-back in its investment spending. Yet exports of consumer goods held up slightly better.

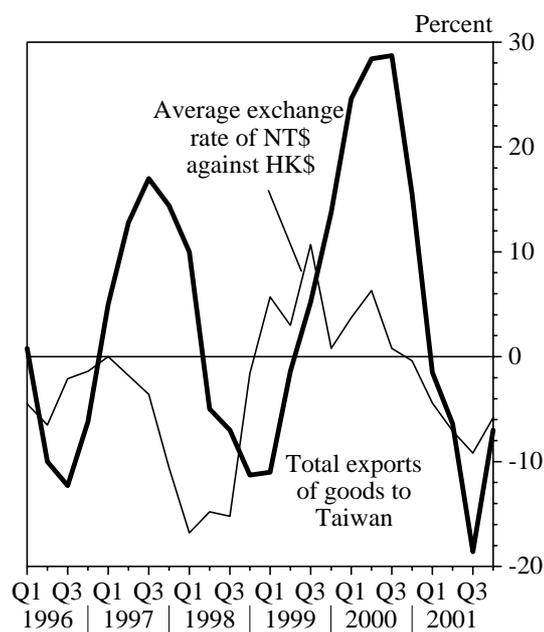
Diagram 2.16

Total exports of goods to Taiwan and Taiwan's import demand (year-on-year rate of change)



Note : See the footnote to Diagram 2.15.

Total exports of goods to Taiwan and the exchange rate factor (year-on-year rate of change)



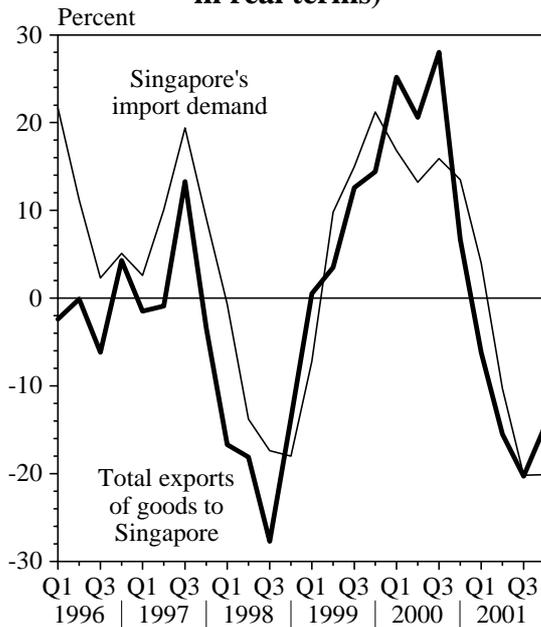
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ against HK\$.

/2.26

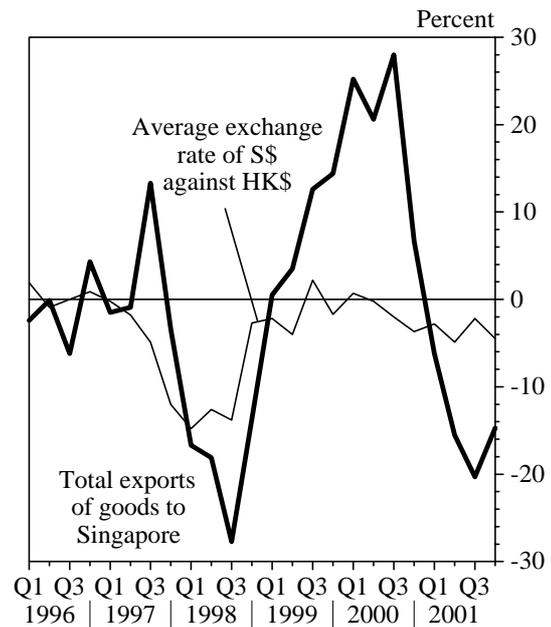
2.26 Total exports of goods to *Singapore* plunged even more, by 15% in real terms in 2001, which contrasted sharply with the 19% surge in 2000. Amidst the economic recession in Singapore, its import intake was sharply reduced, causing a severe slump in exports in all the major end-use categories to this market.

Diagram 2.17

Total exports of goods to Singapore and Singapore's import demand (year-on-year rate of change in real terms)



Total exports of goods to Singapore and the exchange rate factor (year-on-year rate of change)



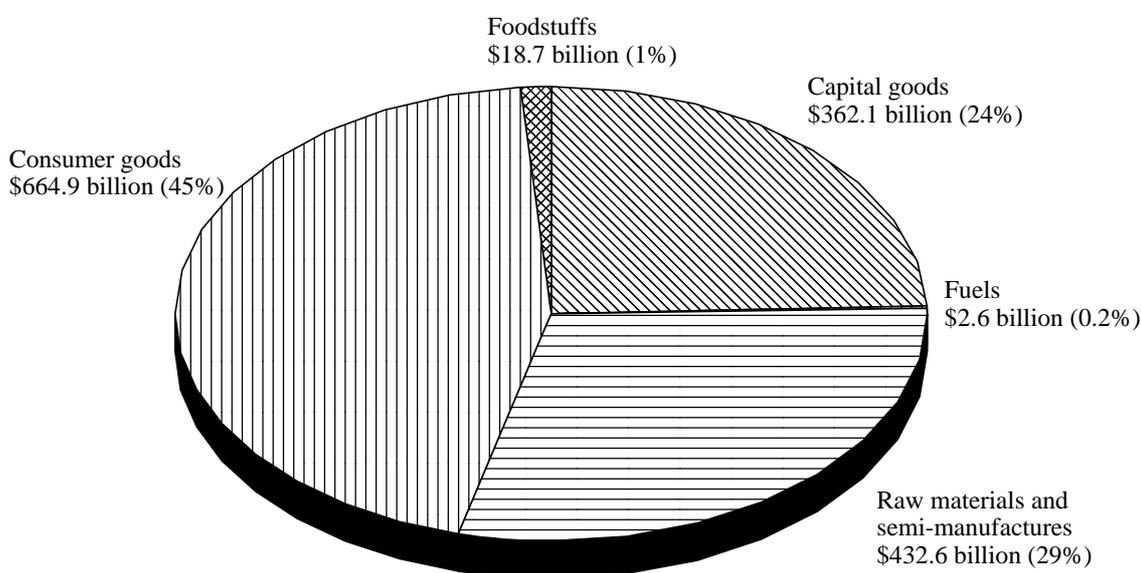
Note : (+) represents appreciation and (-) represents depreciation of the S\$ against HK\$.

/2.27

2.27 Analysed by *end-use category*, consumer goods continued to take up the largest share in Hong Kong's total exports of goods, accounting for 45% of the total value in 2001. This was followed by exports of raw materials and semi-manufactures and of capital goods, with respective shares of 29% and 24%. Total exports of goods to the Mainland and Taiwan comprised mainly raw materials and semi-manufactures for processing, while total exports of goods to most of the other major markets were mainly consumer goods. Exports in almost all the end-use categories were down in 2001, in line with the broad-based downturn in global demand.

Diagram 2.18

Total exports of goods by end-use category in 2001



Total exports of goods in 2001 : \$1,481.0 billion

/Table 2.15

Table 2.15

**Total exports of goods by end-use category
(year-on-year rate of change in value terms^(a) (%))**

		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2000	Annual	10	5	24	22	-14
	H1	11	6	26	26	-29
	H2	10	5	22	19	3
	Q1	15	*	23	27	-29
	Q2	8	12	28	26	-29
	Q3	10	12	26	25	-10
	Q4	9	-2	19	13	18
2001	Annual	-7	-12	*	-8	-15
	H1	-3	-8	5	-3	-7
	H2	-9	-15	-5	-13	-21
	Q1	-2	-3	14	*	1
	Q2	-5	-12	-2	-6	-14
	Q3	-7	-13	-4	-11	-12
	Q4	-13	-17	-7	-15	-29

Notes : (a) Quantum indices of total exports of goods by end-use category are currently not available. Yet given lower export prices, the declines in real terms in 2001 should have been less than those in value terms.

(*) Change of less than 0.5%.

2.28 Analysed by major *commodity group*, electronic components accounted for the largest share by value of Hong Kong's total exports of goods, at 14% in 2001. This was followed by clothing (with a share of 12%), telecommunications and sound recording and reproducing equipment (10%), textiles (6%), and office machines and equipment (4%). For most of these commodity groups with exports fallen in 2001, the decline was concentrated in the second half of the year. Exports of office equipment still attained a notable growth in 2001, comprising double-digit increases in the first three quarters yet a more moderate increase in the fourth quarter.

/Diagram 2.19

Diagram 2.19

Total exports of goods by major commodity group in 2001

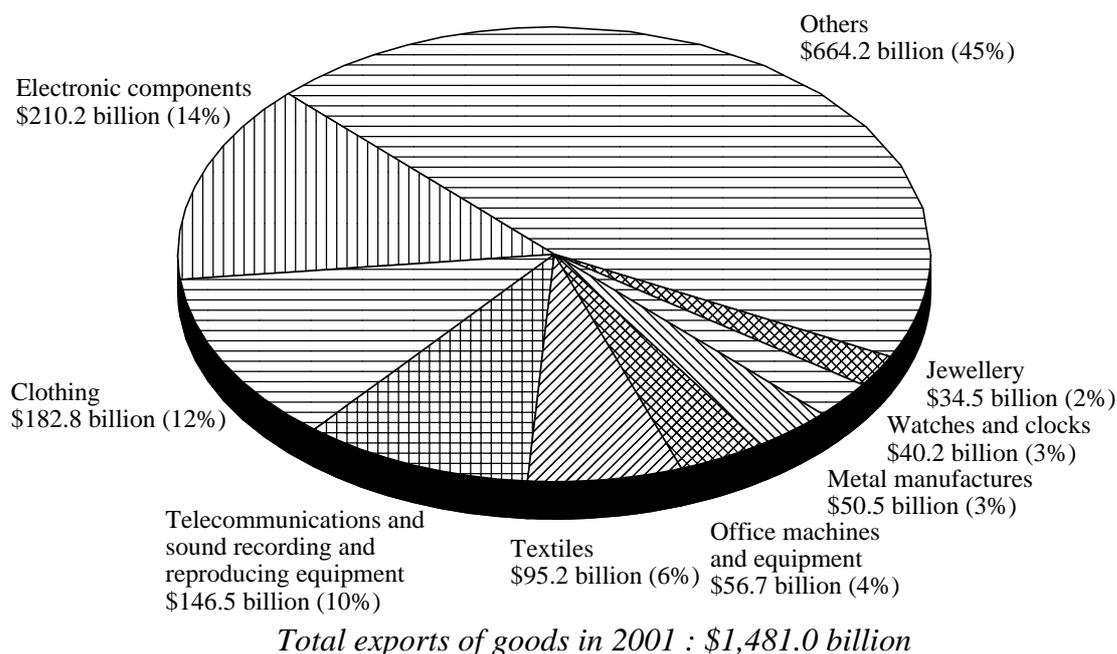


Table 2.16

Total exports of goods by major commodity group (year-on-year rate of change in value terms^(a) (%))

	<u>Electronic components</u>	<u>Clothing</u>	<u>Telecom- munications and sound recording and reproducing equipment</u>	<u>Textiles</u>	<u>Office machines and equipment</u>
2000 Annual	43	9	30	10	6
H1	50	7	28	11	7
H2	39	10	30	9	4
Q1	46	13	27	10	4
Q2	53	2	29	12	11
Q3	48	9	35	13	7
Q4	30	11	26	6	2
2001 Annual	*	-3	-5	-9	13
H1	9	1	1	-7	15
H2	-8	-6	-9	-11	11
Q1	12	-2	10	1	15
Q2	7	5	-6	-12	16
Q3	-7	-7	-13	-10	16
Q4	-10	-6	-5	-12	7

Notes : (a) Quantum indices of total exports of goods by commodity group are currently not available. Yet given lower export prices, the declines in real terms in 2001 should have been less than those in value terms.

(*) Change of less than 0.5%.

/Re-exports

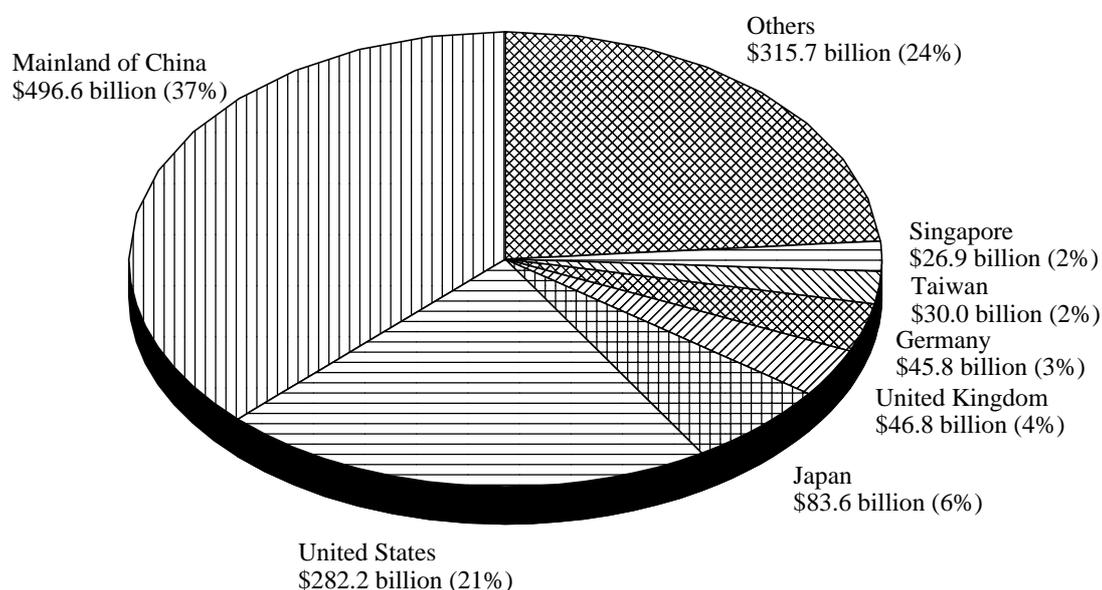
Re-exports

2.29 Re-exports continued to account for a predominant share in total exports of goods, at 90% by value in 2001, further up from 88% in 2000. Analysed by major *market*, for Hong Kong's re-exports, the Mainland remained the largest, taking up 37% of the total value in 2001. This was followed by the United States (with a share of 21%), Japan (6%), the United Kingdom (4%), Germany (3%), Taiwan (2%), and Singapore (2%).

2.30 There was an almost across-the-board slow-down in re-exports to the various major markets in 2001. Re-exports to the United States, the United Kingdom, Taiwan and Singapore were particularly hard hit, all recording double-digit declines in real terms in the second half of the year. Re-exports to Germany dipped by a slightly lesser extent. The Mainland and Japan were the only two major markets which still registered some growth in re-exports for the entire year, yet also with a distinct slackening in the fourth quarter.

Diagram 2.20

Re-exports by major market in 2001



Total re-exports in 2001 : \$1,327.5 billion

/Table 2.17

Table 2.17**Value of re-exports by market**

	<u>2000</u>			<u>2001</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)
All markets	1,391.7	100	18	1,327.5	100	-5
Mainland of China	488.8	35	22	496.6	37	2
United States	311.0	22	15	282.2	21	-9
Japan	82.1	6	22	83.6	6	2
United Kingdom	52.4	4	15	46.8	4	-11
Germany	50.6	4	15	45.8	3	-10
Taiwan	33.7	2	21	30.0	2	-11
Singapore	32.0	2	12	26.9	2	-16
Rest of the world	341.1	25	15	315.7	24	-7

Table 2.18**Re-exports by major market
(year-on-year rate of change in real terms (%))**

		<u>Mainland</u> <u>of China</u>	<u>United</u> <u>States</u>	<u>Japan</u>	<u>United</u> <u>Kingdom</u>	<u>Germany</u>	<u>Taiwan</u>	<u>Singapore</u>
2000	Annual	20	15	25	17	16	25	18
	H1	21	17	25	25	24	27	18
	H2	20	14	24	12	10	22	17
	Q1	20	20	26	30	26	28	20
	Q2	21	16	24	21	22	26	17
	Q3	21	14	25	12	13	30	27
	Q4	18	13	23	12	7	15	8
2001	Annual	4	-9	4	-9	-7	-8	-10
	H1	8	-5	13	-6	-7	-3	-7
	H2	1	-12	-3	-11	-6	-13	-13
	Q1	11	2	18	*	1	-2	-2
	Q2	6	-10	8	-11	-15	-4	-12
	Q3	7	-10	*	-9	-9	-19	-16
	Q4	-5	-14	-6	-14	-3	-8	-10

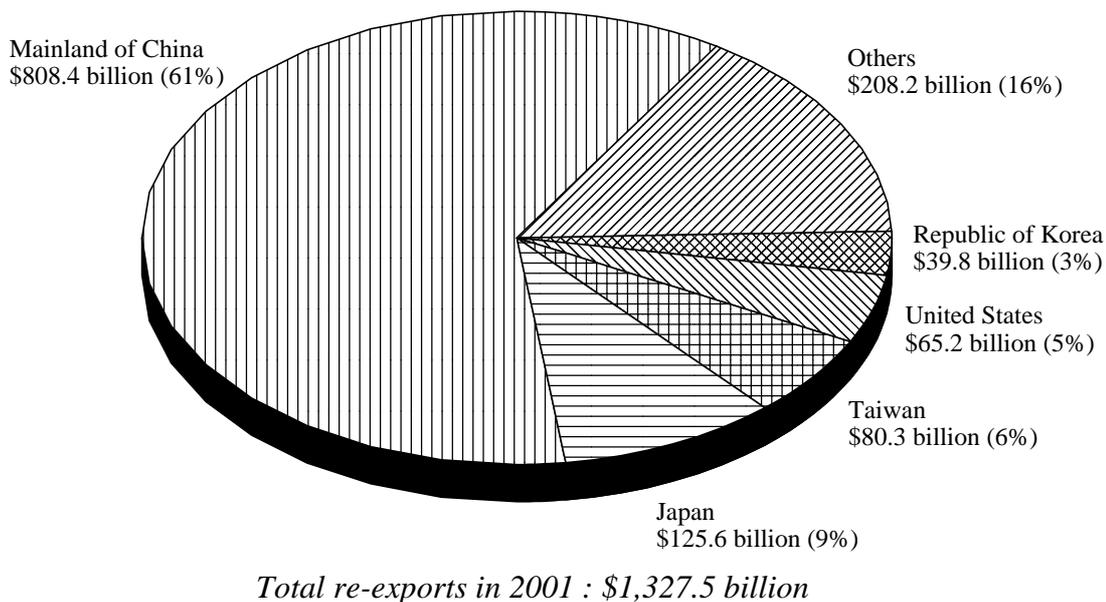
Note : (*) Change of less than 0.5%.

/2.31

2.31 The Mainland remained the largest *source* of Hong Kong's re-exports, supplying 61% by value of the goods re-exported through Hong Kong in 2001. Other major sources included Japan (with a share of 9%), Taiwan (6%), the United States (5%), and the Republic of Korea (3%). Re-exports from all these major sources recorded declines of various magnitudes in value terms in 2001.

Diagram 2.21

Re-exports by major source in 2001



/Table 2.19

Table 2.19**Value of re-exports by source**

	<u>2000</u>			<u>2001</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)
All sources	1,391.7	100	18	1,327.5	100	-5
Mainland of China	849.5	61	18	808.4	61	-5
Japan	137.3	10	13	125.6	9	-9
Taiwan	87.9	6	22	80.3	6	-9
United States	65.5	5	15	65.2	5	*
Republic of Korea	46.1	3	19	39.8	3	-14
Rest of the world	205.4	15	21	208.2	16	1

Note : (*) Change of less than 0.5%.

Domestic exports

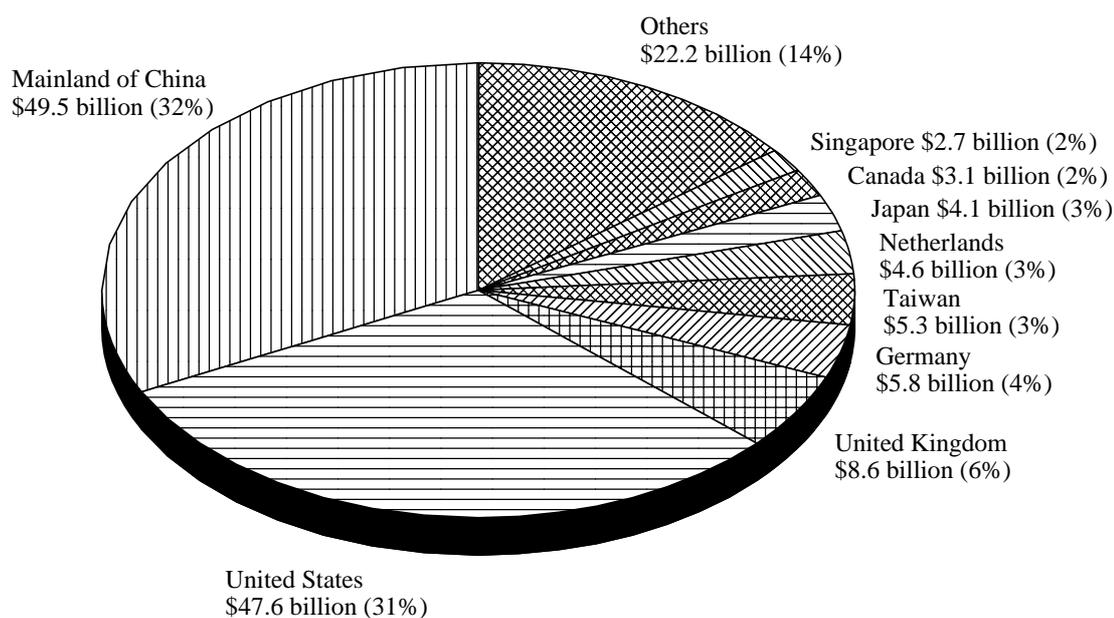
2.32 The Mainland was also the largest *market* for Hong Kong's domestic exports, accounting for 32% of the total value in 2001. This was followed by the United States (with a share of 31%), the United Kingdom (6%), Germany (4%), Taiwan (3%), the Netherlands (3%), Japan (3%), Canada (2%), and Singapore (2%).

2.33 Domestic exports to most of the major markets recorded double-digit declines in real terms in 2001. The exceptions were domestic exports to the Mainland, which had virtually zero growth, and domestic exports to the Netherlands and Canada, both of which went up.

/Diagram 2.22

Diagram 2.22

Domestic exports by major market in 2001



Total domestic exports in 2001 : \$153.5 billion

Table 2.20

Value of domestic exports by market

	2000			2001		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)
All markets	181.0	100	6	153.5	100	-15
Mainland of China	54.2	30	7	49.5	32	-9
United States	54.4	30	6	47.6	31	-13
United Kingdom	10.7	6	3	8.6	6	-20
Germany	9.3	5	9	5.8	4	-37
Taiwan	6.1	3	20	5.3	3	-12
Netherlands	3.9	2	-5	4.6	3	18
Japan	5.1	3	-7	4.1	3	-20
Canada	3.2	2	2	3.1	2	-4
Singapore	4.7	3	28	2.7	2	-44
Rest of the world	29.4	16	3	22.2	14	-24

/Table 2.21

Table 2.21

**Domestic exports by major market
(year-on-year rate of change in real terms (%))**

	<u>Mainland of China</u>	<u>United States</u>	<u>United Kingdom</u>	<u>Germany</u>	<u>Taiwan^(a)</u>	<u>Netherlands^(a)</u>	<u>Japan</u>	<u>Canada^(a)</u>	<u>Singapore</u>
2000 Annual	8	6	6	21	21	-5	-5	3	31
H1	12	11	22	29	23	-5	-8	-3	54
H2	4	2	-5	14	19	-5	-2	8	15
Q1	17	17	26	35	5	5	-10	-8	67
Q2	8	7	17	24	42	-14	-6	2	43
Q3	6	7	-2	23	19	-6	*	11	32
Q4	2	-3	-9	5	19	-4	-4	5	*
2001 Annual	*	-10	-15	-36	-10	32	-19	1	-40
H1	-3	-8	-15	-33	-11	41	-18	15	-34
H2	2	-12	-14	-38	-10	24	-20	-9	-46
Q1	-5	-12	-21	-26	-1	6	-19	16	-30
Q2	-1	-5	-9	-41	-19	81	-17	14	-37
Q3	3	-15	-17	-41	-18	20	-19	-1	-45
Q4	*	-9	-11	-36	-1	28	-20	-19	-46

Notes : (a) Quantum indices of domestic exports to Taiwan, the Netherlands and Canada are currently not available. The figures shown here are crude estimates only.

(*) Change of less than 0.5%.

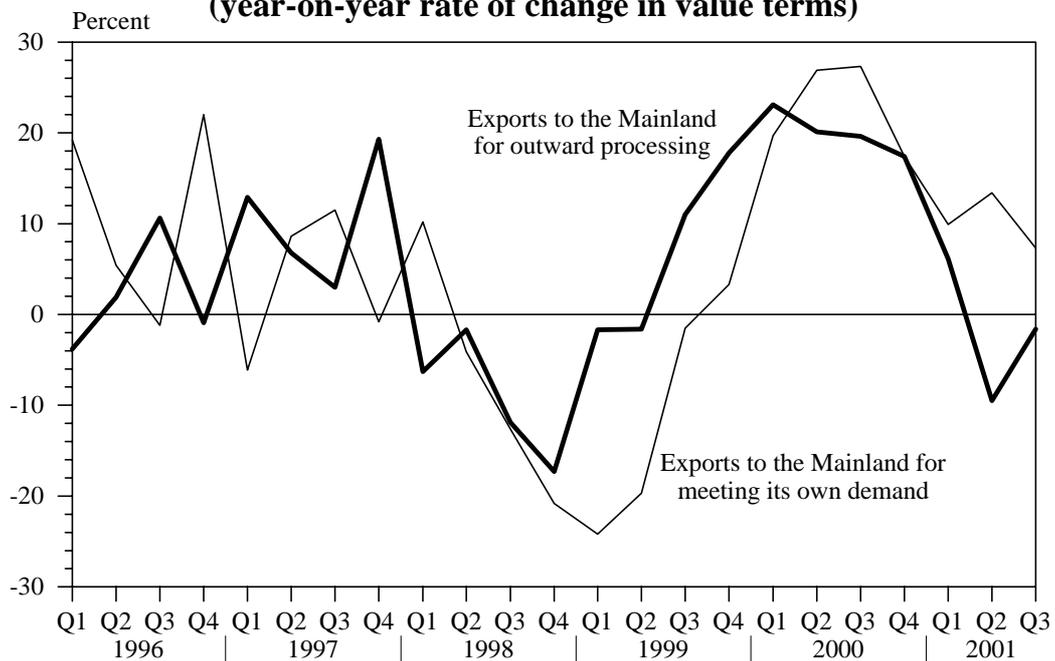
Outward processing trade

2.34 Outward processing trade⁽⁶⁾ continued to feature prominently in Hong Kong's merchandise trade. Yet with export processing activities in the Mainland being affected by the setback in global demand, the proportion of exports for outward processing in Hong Kong's total exports of goods to the Mainland fell, to 49% in the first three quarters of 2001, from 52% in the same period in 2000. As to re-exports after outward processing, the proportion in Hong Kong's overall re-exports from the Mainland likewise declined, to 83% in the first three quarters of 2001, from 85% in the same period in 2000. Yet the proportion of imports after outward processing in Hong Kong's imports of goods from the Mainland was broadly maintained, at 78% in the first three quarters of 2001, as compared to 79% in the same period in 2000.

/2.35

2.35 In the first three quarters of 2001, total exports of goods to the Mainland for outward processing fell by 2% in value terms over a year earlier to \$200.7 billion, sharply down from the strong growth of 20% in 2000. Total exports of goods to the Mainland for meeting its own demand nevertheless attained a further significant growth, at 10% in value terms over a year earlier to \$211.5 billion in the first three quarters of 2001, following a 23% surge in 2000.

Diagram 2.23
Exports to the mainland of China for outward processing
and for meeting its own demand
(year-on-year rate of change in value terms)



/Table 2.22

Table 2.22

**Total exports of goods to the mainland of China
for outward processing and for meeting its own demand
(year-on-year rate of change in value terms (%))**

		<i>of which :</i>		
		<u>Total exports of goods to the Mainland</u>	<u>Total exports of goods to the Mainland for outward processing</u>	<u>Total exports of goods to the Mainland for meeting its own demand</u>
2000	Annual	21	20	23
	H1	22	21	23
	H2	20	18	22
	Q1	21	23	20
	Q2	23	20	27
	Q3	23	20	27
	Q4	17	17	17
	2001	H1	4	-3
Q1-Q3		4	-2	10
Q1		8	6	10
Q2		1	-10	13
Q3		3	-2	7

2.36 Imports of goods from the Mainland after outward processing likewise slackened, to a 5% decline in value terms over a year earlier to \$396.8 billion in the first three quarters of 2001, having surged by 16% in 2000. Re-exports of Mainland origin after outward processing fell by 7% in value terms over a year earlier to \$439.1 billion in the first three quarters of 2001, as against a 14% rise in 2000.

/Table 2.23

Table 2.23

**Imports of goods from the mainland of China
and re-exports of Mainland origin
to overseas markets after outward processing
(year-on-year rate of change in value terms (%))**

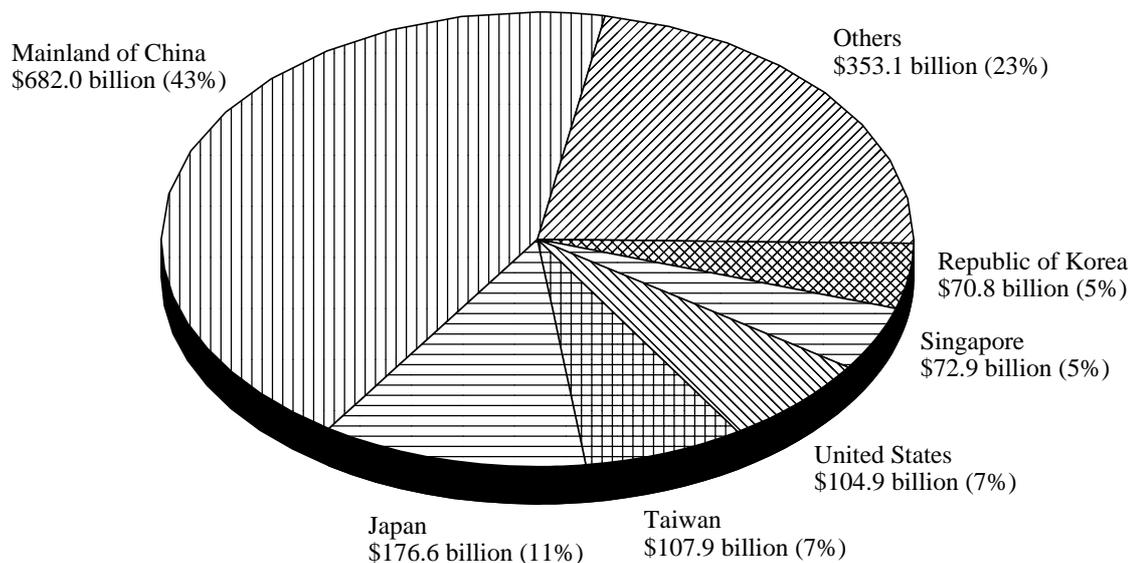
		<u>Imports of goods from the Mainland after outward processing</u>	<u>Re-exports of Mainland origin after outward processing</u>
2000	Annual	16	14
	H1	16	15
	H2	16	13
	Q1	15	13
	Q2	18	16
	Q3	23	14
	Q4	10	11
2001	H1	*	-4
	Q1-Q3	-5	-7
	Q1	5	1
	Q2	-4	-9
	Q3	-11	-11

Note : (*) Change of less than 0.5%.

Imports of goods

2.37 The Mainland continued to be the largest *source* of Hong Kong's imports of goods, accounting for 43% of the total value in 2001. The bulk of these imports was for re-export. Other major sources of imports included Japan (with a share of 11%), Taiwan (7%), and the United States (7%). Imports of goods from all these major sources fell in real terms in 2001, with the decline enlarging over the course of the year.

/Diagram 2.24

Diagram 2.24**Imports of goods by major source in 2001**

Total imports of goods in 2001 : \$1,568.2 billion

Table 2.24**Value of imports of goods by source**

	<u>2000</u>			<u>2001</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)
All sources	1,658.0	100	19	1,568.2	100	-5
Mainland of China	715.0	43	18	682.0	43	-5
Japan	199.0	12	22	176.6	11	-11
Taiwan	124.2	7	24	107.9	7	-13
United States	112.8	7	14	104.9	7	-7
Singapore	75.0	5	25	72.9	5	-3
Republic of Korea	80.6	5	23	70.8	5	-12
Rest of the world	351.4	21	18	353.1	23	*

Note : (*) Change of less than 0.5%.

/Table 2.25

Table 2.25

**Imports of goods by major source
(year-on-year rate of change in real terms (%))**

		<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>United States</u>
2000	Annual	19	18	18	14
	H1	23	23	20	16
	H2	17	15	16	13
	Q1	25	24	22	17
	Q2	21	22	20	14
	Q3	21	16	21	12
	Q4	13	15	12	14
2001	Annual	-3	-8	-8	-5
	H1	1	-1	-2	3
	H2	-6	-14	-13	-12
	Q1	6	*	*	3
	Q2	-4	-1	-4	3
	Q3	-6	-10	-10	-3
	Q4	-6	-18	-15	-20

Note : (*) Change of less than 0.5%.

Retained imports

2.38 The Mainland marginally surpassed Japan to become the largest *source* of Hong Kong's retained imports in 2001, accounting for about 14% of the total value in that year. Other major suppliers of retained imports included Japan (with a share of also about 14%), the United States (9%), the Republic of Korea (8%), Singapore (7%), and Taiwan (6%).

2.39 Analysed by *end-use category*, retained imports of consumer goods grew markedly, by 13% in real terms in 2001, having already risen by 15% in 2000. The robust growth was mainly underpinned by a surge in intake of certain durable goods including motor cars and electrical appliances, as their retail sales were bolstered by large price discounts and strong promotion by the respective dealers before the dip towards the year-end. Intake of ordinary consumer goods was however distinctly weaker, amidst the generally subdued local consumer demand. Retained imports of foodstuffs recorded a much more modest growth of 1% in real terms in 2001, after a 7% increase in 2000.

/2.40

2.40 Retained imports of capital goods, having soared by 38% in real terms in 2000, increased further by 5% in 2001. The growth in 2001 was however concentrated in the first quarter when the business environment was still relatively upbeat, and to a lesser extent, also in the third quarter when some aircraft ordered earlier arrived. In particular, intake of industrial machinery and office equipment went much weaker, after an upsurge in the early part of the year.

2.41 In tandem with the plunge in domestic exports, retained imports of raw materials and semi-manufactures plummeted by 16% in real terms in 2001, sharply reversing the 17% surge in 2000. Yet retained imports of fuels, having fallen markedly by 18% in real terms in 2000, recorded a small rise of 4% in 2001.

Table 2.26

**Retained imports by end-use category
(year-on-year rate of change in real terms (%))**

		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2000	Annual	15	7	38	17	-18
	H1	21	19	43	22	-19
	H2	8	-2	35	12	-17
	Q1	22	11	51	29	-7
	Q2	21	28	36	15	-27
	Q3	22	*	38	16	-24
	Q4	-4	-4	31	8	-9
2001	Annual	13	1	5	-16	4
	H1	9	-3	11	-7	3
	H2	17	5	-1	-24	4
	Q1	*	4	28	-10	5
	Q2	18	-9	-2	-4	2
	Q3	17	15	9	-25	-2
	Q4	18	-5	-11	-24	11

Notes : (*) Change of less than 0.5%.

Also see Note (a) to Table 2.7.

/Table 2.27

Table 2.27**Retained imports of capital goods by broad type
(year-on-year rate of change in real terms (%))**

		<u>Industrial machinery for manufacturing use</u>	<u>Construction machinery</u>	<u>Office equipment</u>	<u>Other capital goods</u>
2000	Annual	38	28	20	44
	H1	46	39	140	29
	H2	31	19	-19	59
	Q1	16	27	463	35
	Q2	78	48	68	25
	Q3	68	38	-2	48
	Q4	*	5	-36	70
2001	Annual	-3	39	-20	11
	H1	10	46	-18	18
	H2	-13	32	-21	5
	Q1	15	73	18	31
	Q2	7	28	-46	7
	Q3	-24	18	-15	22
	Q4	3	47	-30	-11

Notes : (*) Change of less than 0.5%.

Also see Note (a) to Table 2.7.

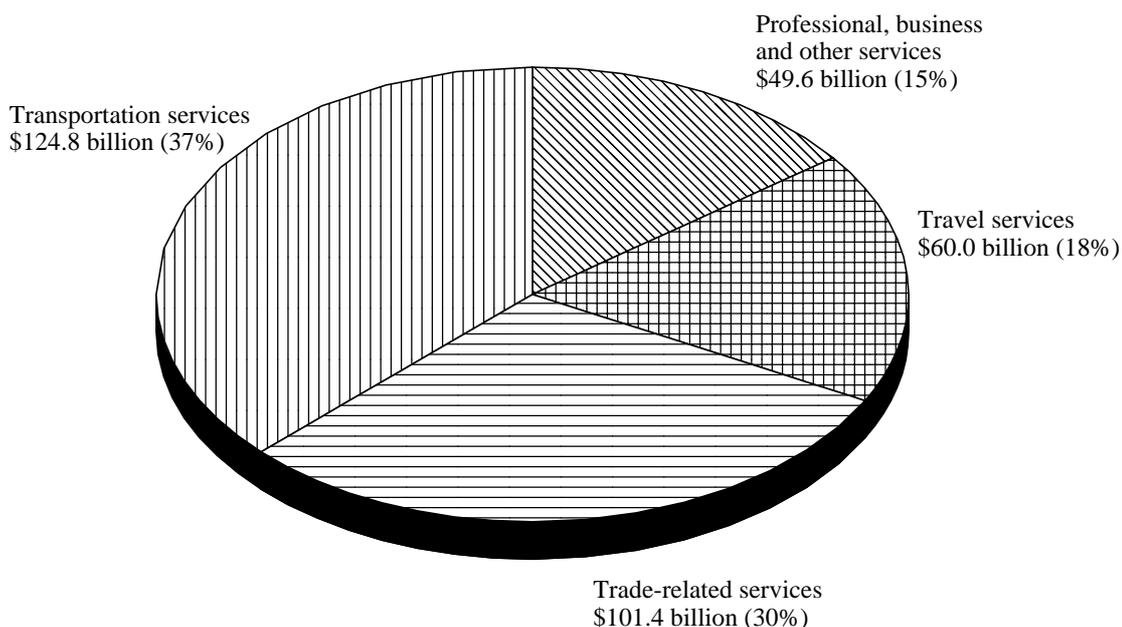
Invisible trade***Exports of services***

2.42 Transportation services continued to account for the largest share in Hong Kong's exports of services, at 37% by value in 2001. This was followed by exports of trade-related services (comprising mainly offshore trading) (with a share of 30%), travel services (18%), and professional, business and other services (15%).

/Diagram 2.25

Diagram 2.25

Exports of services by broad type in 2001



Exports of services in 2001 : \$335.8 billion

2.43 Exports of services still held up well in the first half of 2001, but likewise slowed considerably in the second half, amidst a much dimmer external environment particularly after the 911 incident. For 2001 as a whole, there was a modest growth of 3% in real terms, down from the 14% surge in 2000.

2.44 Within the total, exports of transportation services were hard hit by the fall-off in global trade particularly in the latter part of the year, so that for 2001 as a whole, there was only a 2% increase in real terms. Exports of professional, business and other services were dragged down by the setback in regional demand, with the growth likewise decelerating sharply, also to 2% in real terms in 2001. Exports of travel services, whilst still having a solid rise in the first half of 2001, slackened considerably towards the end of the third quarter and in the fourth quarter as inbound tourism fell off in the wake of the 911 incident. For 2001 as a whole, there was an appreciable growth of 5% in real terms. Exports of trade-related services, comprising mainly offshore trading, also held up better, though likewise with a weaker growth in the latter part of the year. For 2001 as a whole, there was also an appreciable increase of 5% in real terms.

/Table 2.28

Table 2.28

**Exports of services by broad category
(year-on-year rate of change in real terms (%))**

of which :

		<u>Exports of services</u>	<u>Transportation services</u>	<u>Trade-related services^(a)</u>	<u>Travel services^(b)</u>	<u>Professional, business and other services</u>
2000	Annual	14	11	16	10	24
	H1	17	12	17	15	33
	H2	12	10	16	6	16
	Q1	16	9	17	5	47
	Q2	18	15	16	26	20
	Q3	14	13	15	7	22
	Q4	10	6	17	5	11
	2001	Annual	3	2	5	5
	H1	6	6	8	8	2
	H2	1	-1	3	2	1
	Q1	6	8	11	5	-3
	Q2	6	4	5	11	8
	Q3	2	-1	4	3	2
	Q4	*	-1	3	*	*

Notes : (a) Comprising mainly offshore trading.

(b) Comprising mainly inbound tourism receipts.

(*) Change of less than 0.5%.

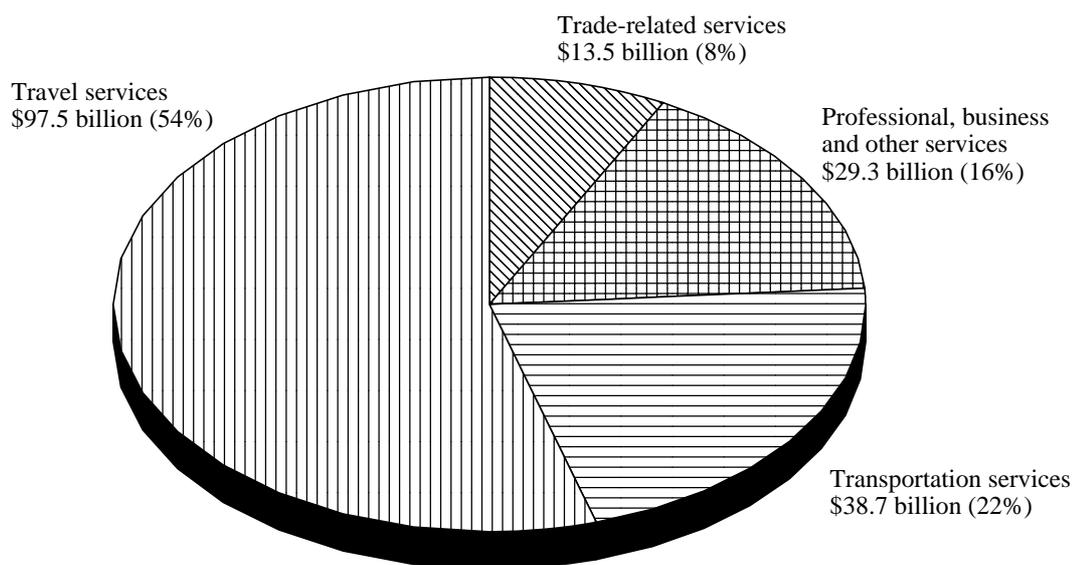
Imports of services

2.45 Travel services continued to take up the largest share in Hong Kong's imports of services, at 54% by value in 2001. This was followed by imports of transportation services (with a share of 22%), professional, business and other services (16%), and trade-related services (8%).

/Diagram 2.26

Diagram 2.26

Imports of services by broad type in 2001



Imports of services in 2001 : \$178.9 billion

2.46 With the growth in the early part of the year offset by the decline in the latter part, imports of services recorded virtually zero growth in real terms for 2001 as a whole. This came after only a 2% rise in 2000.

2.47 Within the total, imports of trade-related services were down by 3% in real terms in 2001, and imports of transportation services by 1%, in tandem with the fall-off in merchandise trade. Imports of professional, business and other services had only a 1% growth in real terms in 2001. Imports of travel services also grew by 1% in real terms in 2001, with a distinctly weaker performance in the third quarter upon the impact of the 911 incident.

/Table 2.29

Table 2.29

**Imports of services by broad category
(year-on-year rate of change in real terms (%))**

of which :

		<u>Imports of services</u>	<u>Travel services^(a)</u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Professional, business and other services</u>
2000	Annual	2	-5	4	7	18
	H1	1	-7	4	7	23
	H2	3	-2	4	6	14
	Q1	-1	-11	1	8	31
	Q2	3	-3	7	7	15
	Q3	3	-2	4	6	16
	Q4	3	-3	3	7	12
2001	Annual	*	1	-1	-3	1
	H1	2	2	3	-1	3
	H2	-2	-1	-4	-5	-1
	Q1	4	5	7	2	-1
	Q2	1	*	*	-3	7
	Q3	-2	-2	-2	-5	1
	Q4	-2	1	-6	-5	-2

Notes : (a) Comprising mainly outbound travel spending.

(*) Change of less than 0.5%.

Overall balance of payments⁽⁷⁾

2.48 The current account showed a larger surplus in the third quarter of 2001, being bolstered by a further rise in the invisible trade surplus, as well as by a surge in direct investment income notably from the Mainland. The surplus stood at \$32.4 billion, equivalent to 10.0% of GDP, in the third quarter. This well exceeded the surplus of \$8.1 billion, equivalent to 2.6% of GDP, in the second quarter.

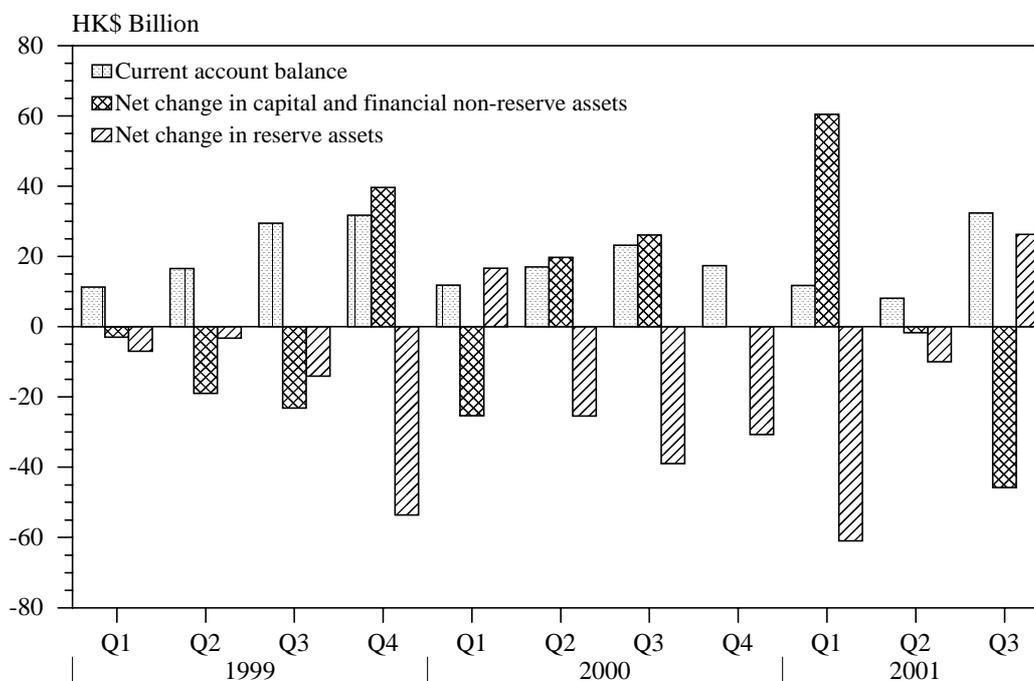
/2.49

2.49 In the capital and financial account, despite the further weakened global and regional economic conditions, the direct investment account still had a small net inflow of \$5.0 billion in the third quarter of 2001. Also, as inter-bank placements by resident banks to non-residents banks were reduced, the other investment account switched to a small net inflow of \$8.5 billion in the third quarter. But volatility in the global financial markets immediately after the 911 incident led to a substantial net outflow of \$71.3 billion in the portfolio investment account in the third quarter. Incorporating these and other flows, the financial non-reserve assets recorded a net outflow of \$42.9 billion in the third quarter of 2001, equivalent to 13.2% of GDP in that quarter. This contrasted with a net inflow of \$1.4 billion in the second quarter, equivalent to 0.5% of GDP in that quarter.

2.50 Overall, there was a balance of payments deficit of \$26.3 billion, equivalent to 8.1% of GDP, in the third quarter of 2001. Reserve assets decreased correspondingly by the same magnitude. Yet on the back of the substantial surplus in the first half of the year, there was still an overall balance of payments surplus of \$44.6 billion, equivalent to 4.8% of GDP, for the first three quarters of 2001 taken together.

Diagram 2.27

Major balances in Hong Kong's balance of payments



Note : A negative value for net change in reserve assets represents a net increase, and a positive value represents a net decrease.

/Table 2.30

Table 2.30**Hong Kong's balance of payments account
(\$ billion at current market prices)**

	<u>1999</u> [#]	<u>2000</u> [#]	<u>2000</u>				<u>2001</u>		
			<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]
Current account^(a)	89.1	69.5	11.8	17.0	23.2	17.4	11.7	8.1	32.4
Trade in goods	-24.5	-63.8	-17.2	-18.5	-10.7	-17.4	-24.6	-23.9	-11.4
Trade in services	90.8	124.5	24.7	28.8	33.0	38.1	28.1	33.0	35.1
External factor income flows	34.8	21.8	7.8	9.9	4.1	*	12.0	2.1	12.0
Current transfers	-11.9	-13.0	-3.4	-3.2	-3.2	-3.3	-3.7	-3.1	-3.4
Capital and financial account	-83.4	-57.9	-8.7	-5.6	-12.9	-30.6	-0.5	-11.6	-19.5
Net change in capital transfers	-13.8	-12.0	-2.1	-3.7	-3.7	-2.5	-1.4	-3.1	-2.9
Net change in financial non-reserve assets	8.3	32.5	-23.2	23.4	29.8	2.5	61.9	1.4	-42.9
<i>of which :</i>									
Direct investment	40.7	19.8	9.0	58.1	23.7	-71.1	59.1	37.4	5.0
Portfolio investment	256.8	190.8	61.4	6.6	8.3	114.5	-108.1	-52.3	-71.3
Financial derivatives	79.0	1.9	-37.7	17.5	-1.1	23.2	-9.2	21.1	15.1
Other investment	-368.2	-179.9	-55.9	-58.8	-1.1	-64.1	120.1	-4.8	8.5
Net change in reserve assets ^(b)	-77.9	-78.3	16.7	-25.4	-39.0	-30.6	-61.0	-9.9	26.3
Net errors and omissions	-5.7	-11.6	-3.1	-11.4	-10.3	13.2	-11.2	3.5	-12.9
Overall balance of payments	77.9	78.3	-16.7	25.4	39.0	30.6	61.0	9.9	-26.3

Notes : (#) Revised figures.

(a) According to the international statistical standard for compiling balance of payments (BoP) account, imports of goods are valued on free-on-board (f.o.b.) basis, which is different from the practice for merchandise trade statistics where imports are valued on cost, insurance and freight (c.i.f.) basis. In the BoP account, the insurance and freight costs related to merchandise imports are classified as imports of services.

(b) A negative value for net change in reserve assets represents a net increase, and a positive value represents a net decrease.

(*) Value of less than \$0.05 billion.

/Notes

Notes :

- (1) Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. Changes in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates.
- (2) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.
- (3) Exports of financial and banking services in the GDP account include commissions and fees for rendering financial and related ancillary services to non-residents. However, these do not include interest receipts from non-residents, which account for a major part of the external receipts of financial intermediaries in Hong Kong. Interest receipts from non-residents are correctly classified as investment income from abroad under GNP. The same situation applies, in an opposite direction, to interest payments to non-residents. Hence the trade in services component and the invisible trade surplus of Hong Kong would have been larger if such interest receipts and payments were classified to the services account.
- (4) East Asia here covers nine major markets in the region, namely the mainland of China, Japan, Taiwan, Singapore, the Republic of Korea, the Philippines, Thailand, Malaysia and Indonesia.
- (5) There are currently 15 member countries in the European Union, namely, the United Kingdom, Germany, the Netherlands, France, Sweden, Italy, Denmark, Spain, Finland, Belgium, Luxembourg, Ireland, Austria, Greece and Portugal.
- (6) Outward processing arrangements are made between Hong Kong companies and manufacturing entities in the Mainland under which the companies concerned sub-contract the whole or part of the production processes relating to their products to the Mainland entities. Raw materials or semi-manufactures are normally exported to the Mainland for such processing. The Mainland entity involved can be a local enterprise, a joint venture, or some other forms of business involving foreign investment.

There is no restriction on outward processing activities in general. However, outward processing on goods which claim Hong Kong origin status is strictly governed by the Hong Kong origin rules. The Trade and Industry Department operates an effective administrative arrangement whereby goods manufactured in Hong Kong but having undergone outward processing activities can be conferred Hong Kong origin status subject to the Hong Kong origin rules being fully met.

/(7)

- (7) A balance of payments (BoP) account is a statistical framework that systematically summarises the external transactions of an economy with the rest of the world in a specific time period. A complete BoP account comprises the current account and the capital and financial account. The current account records the flows of real resources, including exports and imports of goods and services, income received from and paid to abroad, and current transfers from and to abroad. The capital account records external capital transfers, and external acquisitions and disposals of non-produced and non-financial assets. The financial account records transactions in financial assets and liabilities between residents and non-residents, including direct investment, portfolio investment, financial derivatives, and other investment. Also included is net change in reserve assets.

CHAPTER 3 : THE DOMESTIC ECONOMY

Sectoral contributions to GDP and employment

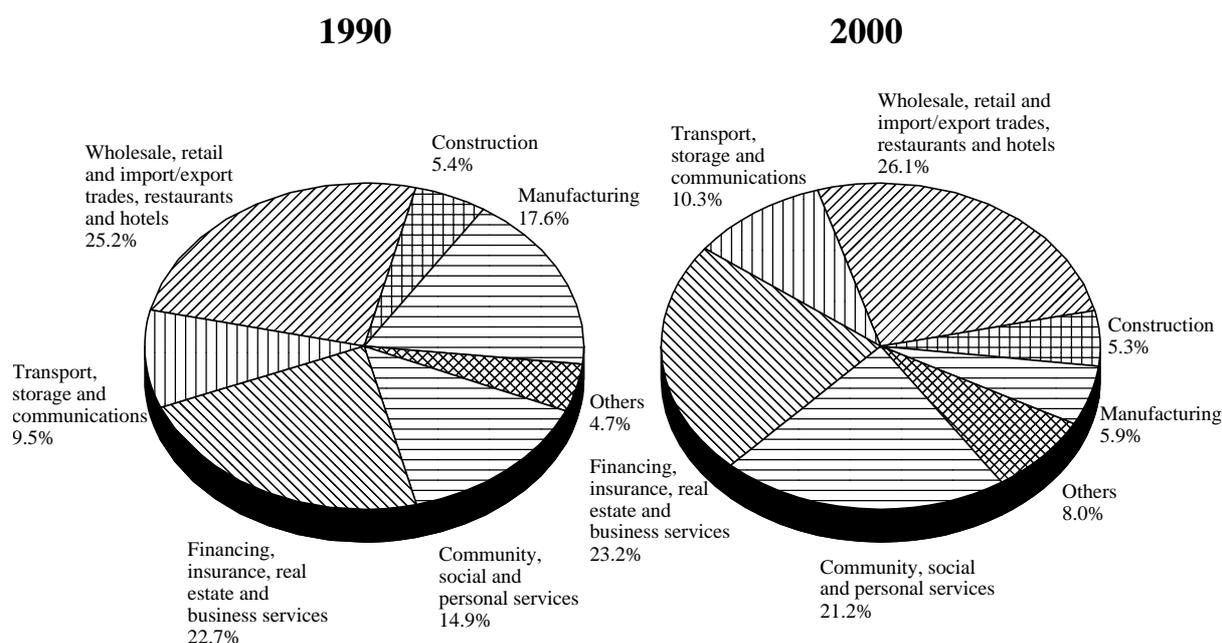
3.1 In 2000, net output or value-added for the service sectors as a whole⁽¹⁾ picked up by 4.0% in value terms, recouping part of the lost ground in 1998 and 1999 upon the impact of the Asian financial crisis. Compared with 1990, the service sectors taken together still had a robust growth in net output, at an average annual rate of 9.3% in value terms. Reflecting profound structural change, the contribution of the service sectors taken together to GDP rose markedly further, from 74% in 1990 to 86% in 2000. Yet growth performance varied amongst the major constituent sectors, which in turn affected their contributions to GDP over the decade. In 2000, the wholesale, retail and import/export trades, restaurants and hotels sector maintained its position as the largest contributor to GDP, with a share of 26%. This was followed by the financing, insurance, real estate and business services sector (at 23%), the community, social and personal services sector (21%), and the transport, storage and communications sector (10%).

3.2 Outside of the service sectors, the contribution of the local manufacturing sector to GDP shrank significantly further, from 18% in 1990 to 6% in 2000, amidst on-going relocation of manufacturing processes to the Mainland. Net output of the local manufacturing sector contracted at an average annual rate of 3.4% in value terms over the decade. This was notwithstanding a pick-up of 6.0% in 2000. As to the construction sector, the contribution to GDP was broadly stable at around 5% between 1990 and 2000. Over this period, net output of the construction sector grew at an average annual rate of 7.7% in value terms, largely reflecting its buoyant state up to 1997. In 2000, there was however a decrease of 4.5% in value terms, attributable to reduced activity in the property market.

/Diagram 3.1

Diagram 3.1

Gross Domestic Product by major sector*



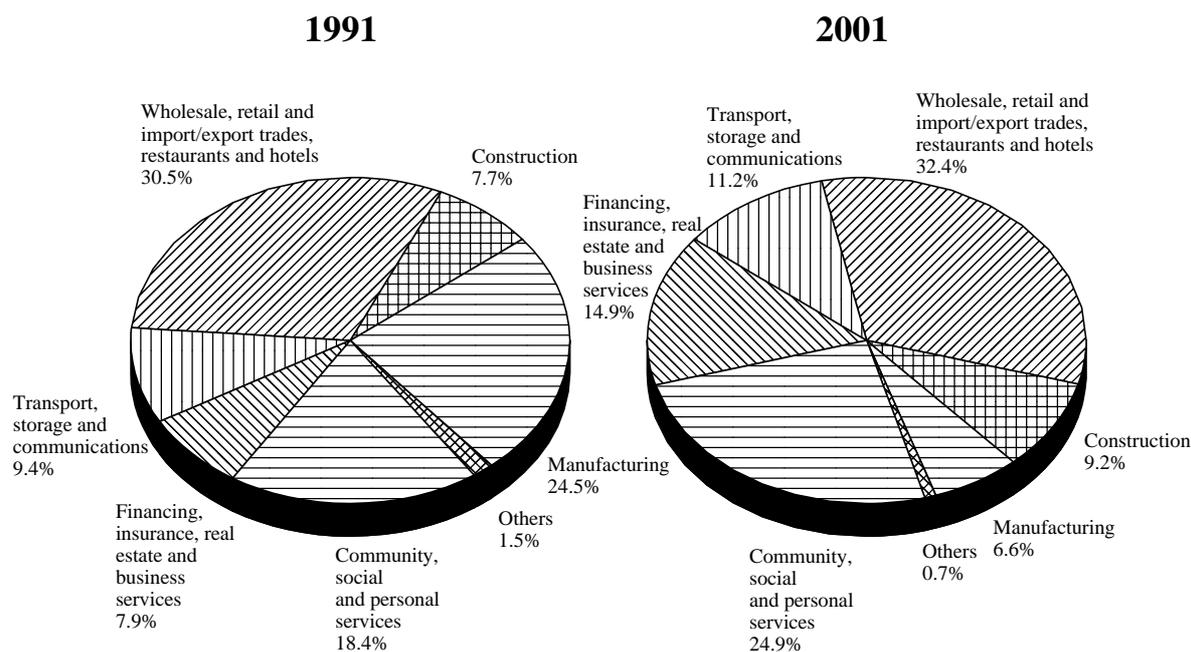
Note : (*) These are from the production-based GDP.

3.3 Also reflecting the profound structural change, there was a similar shift in employment over the past decade. For the service sectors as a whole, their combined share in total employment⁽²⁾ leaped from 66% in 1991 to 83% in 2001, while the share for the local manufacturing sector fell substantially, from 25% to 7%. The share for the construction sector was more stable, edging up from 8% to 9% over the same period. Meanwhile, there was growing demand for better educated and higher-skill workers, as the economy moved further into higher value-added and more knowledge-based activities. Indicating this, the share of managers, administrators, professionals and associate professionals in total employment increased markedly, from 24% in 1993 to 32% in 2001.

/Diagram 3.2

Diagram 3.2

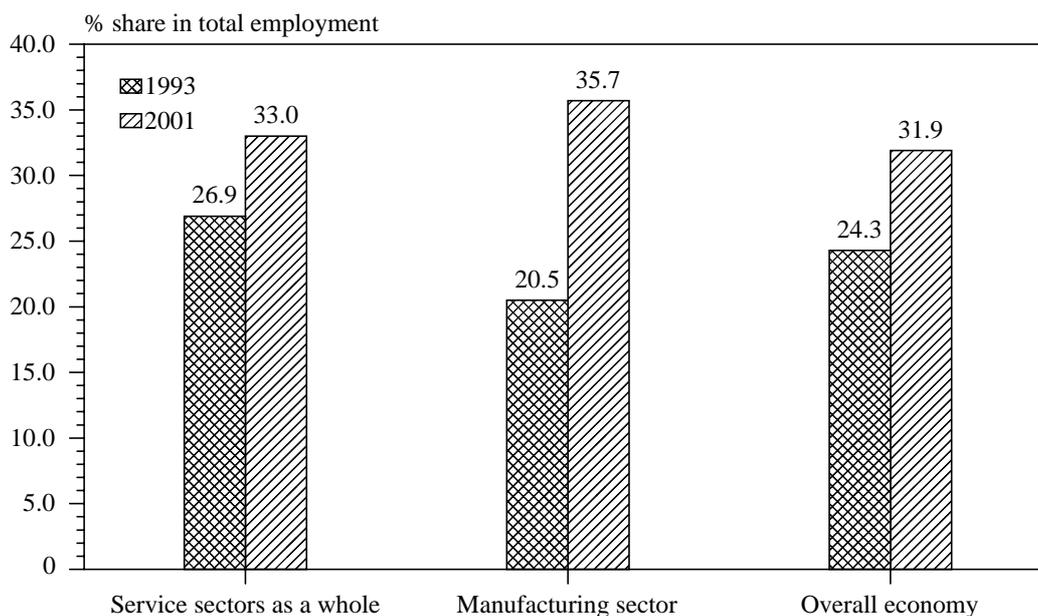
Employment by major sector*



Note : (*) These are the composite employment estimates, as derived from the basic data of the General Household Survey and the Quarterly Survey of Employment and Vacancies on business establishments. Figures for 1991 refer to the annual average, while figures for 2001 refer to the average for the first three quarters of the year.

Diagram 3.3

Share of managers, administrators, professionals and associate professionals in total employment



Local manufacturing output

3.4 After holding stable for a year or so, the volume of local manufacturing output, as measured by the Index of Industrial Production⁽³⁾, contracted distinctly by 7% in the third quarter of 2001 over a year earlier. This was mainly due to reduced demand in the major markets. Taking the first three quarters of 2001 together, local manufacturing output fell by 3% over a year earlier, enlarged from the 1% decline in 2000. Amongst the major constituent industries, output of the plastic products and the fabricated metal products industries fell the most, by 12% and 10% respectively in the first three quarters of 2001 over a year earlier. Output of the wearing apparel, the machinery and equipment, and the consumer electrical and electronics products industries decreased much more modestly, by 2%, 2% and 1% respectively. Output of the textiles and the paper products and printing industries held steady. On a seasonally adjusted quarter-to-quarter comparison, the volume of local manufacturing output likewise shrank distinctly, by 7% in the third quarter of 2001, having been up slightly by 1% in the first quarter and virtually flat in the second quarter.

/Table 3.1

Table 3.1

**Index of Industrial Production for the major local manufacturing industries
(year-on-year rate of change in volume (%))**

	2000						2001		
	Annual	Q1	Q2	Q3	Q4	Q1-Q3 [#]	Q1	Q2	Q3 [#]
Wearing apparel	3	2	4	3	3	-2	3	3	-10
Textiles	4	1	4	5	5	*	4	2	-3
Plastic products	-11	-12	-12	-9	-11	-12	-12	-11	-12
Consumer electrical and electronic products	-1	1	-1	-3	-1	-1	*	-2	*
Machinery and equipment	7	5	8	8	6	-2	6	4	-14
Fabricated metal products	-19	-15	-22	-16	-20	-10	-7	-9	-14
Paper products and Printing	2	4	-1	5	*	*	*	2	-3
Overall manufacturing	-1	-1	-1	*	*	-3	*	*	-7
		<3>	<*>	<-2>	<-1>		<1>	<*>	<-7>

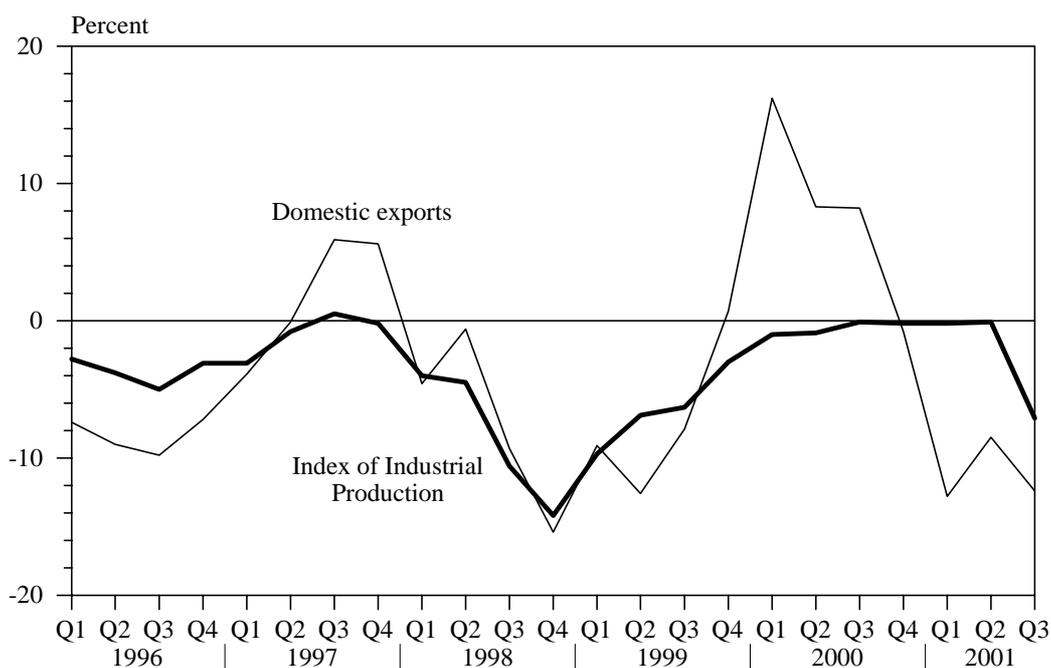
Notes : (#) Provisional figures.

(*) Change of less than 0.5%.

< > Seasonally adjusted quarter-to-quarter % change in volume.

Diagram 3.4

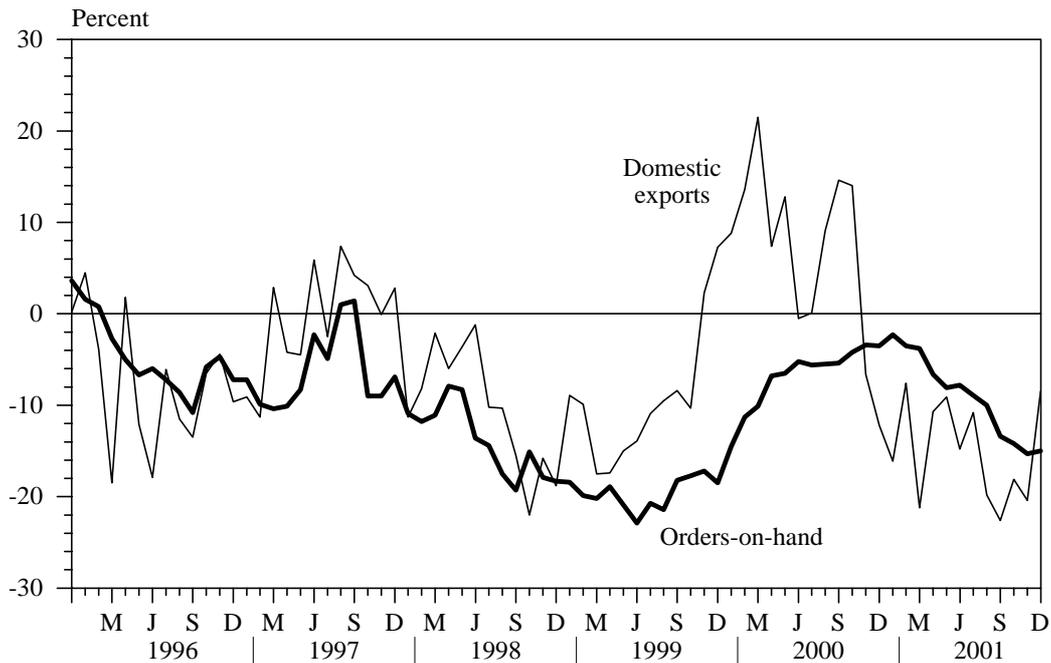
**Local manufacturing output and domestic exports
(year-on-year rate of change in real terms)**



3.5 Local manufacturing output was likely to have declined markedly further in the fourth quarter of 2001, in the light of continued weak performance of domestic exports and even more sluggish orders-on-hand⁽⁴⁾, along with a significant drop in retained imports of raw materials and semi-manufactures in that quarter.

Diagram 3.5

**Orders-on-hand and domestic exports
(year-on-year rate of change in value terms)**



/Table 3.2

Table 3.2**Orders-on-hand in the local manufacturing sector**

		<u>Value index of orders-on-hand</u> (1993=100)	<u>Year-on-year rate of change in value terms</u> (%)
2000	Mar	63.5	-10
	Jun	67.9	-5
	Sep	61.3	-5
	Dec	55.9	-3
2001	Mar	61.1	-4
	Jun	62.7	-8
	Sep	53.1	-13
	Dec [#]	47.5	-15

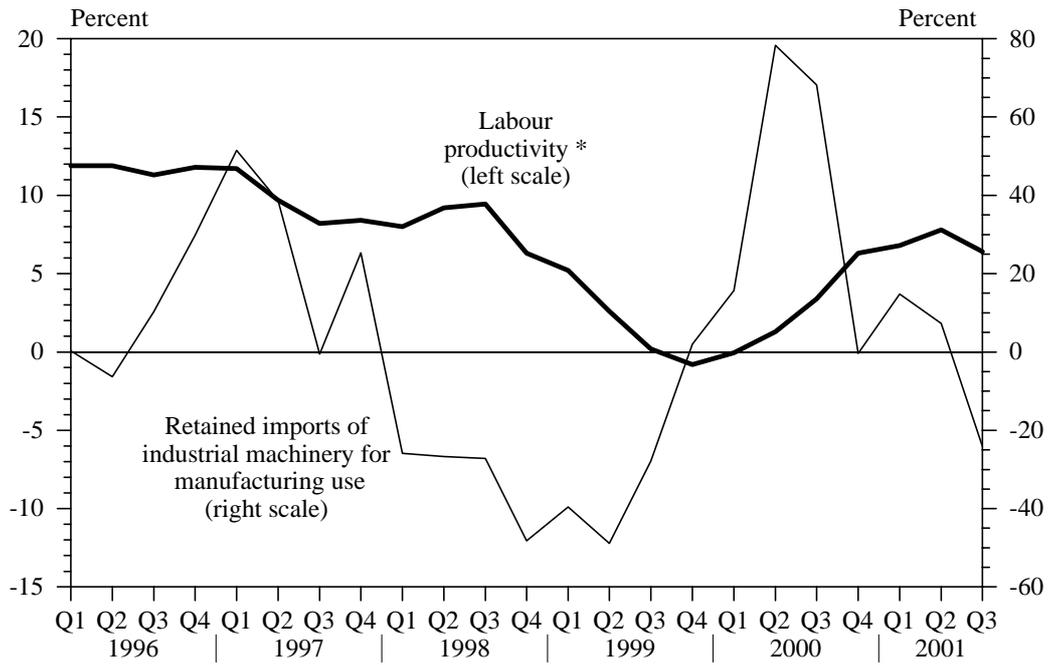
Note : (#) Provisional figures.

3.6 Labour productivity in the local manufacturing sector nevertheless sustained a notable growth, as the local production activities rendered a higher value-added content. As an indicator, the volume of local manufacturing output per person engaged on a moving average basis⁽⁵⁾ went up by 6% in the third quarter of 2001 over a year earlier, following increases of 7% and 8% in the first and second quarters. For the first three quarters of 2001 as a whole, there was an increase of 7%, well exceeding the 3% rise in 2000.

/Diagram 3.6

Diagram 3.6

**Labour productivity in the local manufacturing sector
(year-on-year rate of change in real terms)**



Note : (*) Four-quarter moving average.

/Service

Service sector receipts

3.7 Business receipts in most of the major service sectors diminished in the first three quarters of 2001, along with a general setback in economic activity. On a year-on-year comparison in value terms, business receipts in real estate plunged by 21% in the first three quarters of 2001, amidst a further distinct decline in property prices. Business receipts in communications dipped by 13%, affected in part by consolidation of the information technology sector. Business receipts in storage and import/export trade dropped by 13% and 12% respectively, in tandem with the downturn in external trade. Business receipts in the wholesale trade, hotels and restaurants were down by 12%, 2% and 2% respectively, while business receipts in the retail trade had zero growth, as all these sectors were hit by the moderation in both local consumer spending and inbound tourism. Business receipts in financing (except banking) slipped by 12%, on account of reduced trading in the stock market, though also affected by a high base of comparison a year earlier. Business receipts in business services and transport also came down, by 7% and 1% respectively. On the other hand, business receipts in film entertainment maintained a strong rise, by 14%, underpinned by robust sales of video compact discs and increased cinema ticket prices. Business receipts in insurance likewise leaped, by 14%, upon a further expansion in general insurance and life insurance revenue. Business receipts in banking had a more modest increase, by 2%.

/Table 3.3

Table 3.3

**Index of Business Receipts for the major service industries
(year-on-year rate of change in value terms (%))**

	<u>2000</u>					<u>2001</u>			
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Import/export trade	12	12	11	16	9	-12	-2	-14	-18
Wholesale trade	4	*	9	5	1	-12	-8	-13	-14
Retail trade	4	8	5	2	1	*	*	2	-2
Hotels	17	13	16	19	18	-2	3	2	-10
Restaurants	2	5	2	1	*	-2	*	-1	-4
Banking	1	12	-3	5	-9	2	-2	4	4
Financing (other than banking)	41	108	33	39	6	-12	-15	2	-23
Business services	2	-1	1	5	4	-7	-1	-7	-13
Insurance	13	4	10	11	27	14	4	25	14
Transport	21	17	27	24	16	-1	11	-2	-8
Storage	2	-4	3	7	1	-13	-8	-13	-17
Communications	9	11	14	7	3	-13	-11	-12	-16
Real estate	*	8	*	10	-17	-21	-22	-21	-18
Film entertainment	14	26	10	15	7	14	3	22	18

Note : (*) Change of less than 0.5%.

/Property

Property

3.8 During 2001, the sales market for *residential property* was characterised by a sustained decline in flat prices, but a pick-up in transaction volume towards the year-end. In the first four months of the year, market sentiment was affected by a host of negative factors, including in particular the slow-down in economic activity, sharp correction in share prices, and abundant supply of new flats coming on stream. Trading was subdued, as potential home buyers mostly stayed on the sideline. In May and June, some renewed acquisition interest emerged, upon the successive and sizeable cuts in local interest rates (by a total of 2.5 percentage points in the first half of the year), as well as the more intense sales promotion pursued by property developers. Trading activity however tapered again in the ensuing few months, amidst greater worries about the worsening economic situation and larger increase in unemployment. The 911 incident dampened buyer confidence even further, bringing the sales market nearly to a standstill in late September and early October. This far outweighed the effects of an announcement in early September for suspension of flat sales under the Home Ownership Scheme/Private Sector Participation Scheme (HOS/PSPS) up to mid-2002⁽⁶⁾, and of further cuts in local interest rates (by another 1.5 percentage points up to end-October). In response, property developers stepped up their sales promotion further, by offering heavier discounts on flat prices and more attractive financing arrangements to buyers⁽⁷⁾. This helped stimulate a distinct rebound in sales in the primary market towards the year-end. Yet activity in the secondary market remained subdued.

3.9 On a quarter-to-quarter comparison, flat prices largely followed a downtrend in 2001. Apart from nil change in the second quarter, flat prices went lower in the first, third and fourth quarters, on average by 4%, 3% and 7% respectively. For 2001 as a whole, flat prices on average fell by 13%. Against the peak level in the third quarter of 1997, flat prices in the fourth quarter of 2001 were down substantially, by an average of 57%.

/3.10

3.10 The rental market for private residential flats, having held broadly stable in the first three quarters of 2001, weakened noticeably in the fourth quarter upon a fall-off in lease demand amidst the economic downturn, concurrent with an increased supply of flats for lease from those hitherto for sale. On a quarter-to-quarter comparison, flat rentals on average fell by 1% each in the first three quarters of 2001, and then by 4% in the fourth quarter, giving a cumulative decline of 7% for the whole year. As compared to the peak level in the third quarter of 1997, flat rentals in the fourth quarter of 2001 were significantly lower, by an average of 34%.

3.11 On sale of Government-subsidised flats, nearly all of the 12 646 HOS units put onto the market in the first half of 2001 were sold. As to the 26 414 public rental flats put up for sale in February under Phase 4 of the Tenant Purchase Scheme (TPS), 47% were taken up by the sitting tenants by the year-end. In the second half of the year, there was no new sales programme for both HOS/PSPS flats and TPS flats. On home ownership loans, the quota set for the Home Purchase Loan Scheme for the financial year 2001/02 was lifted from 4 500 to 16 500 in October. This followed imposition of a ten-month moratorium on sale of HOS units in September. By the end of 2001, 13 230 applications had been received under the scheme. As to the Home Starter Loan Scheme, 21 777 applications were received in 2001, of which 9 264 applications were from family households and 12 513 applications from singleton households.

3.12 On supply of new private residential flats, completions picked up only slightly, by 2% to 26 262 units in 2001, after a 27% drop in 2000. As take-ups were reduced, the vacancy rate rose from 5.4% at end-2000 to 5.7% at end-2001. On the other hand, completions of Government-subsidised sale flats continued to rise, by 6% to 22 390 units in 2001, after a 25% leap in 2000. Of this total, 17 650 units were HOS flats and 4 740 units were PSPS flats.

/3.13

3.13 On *commercial property*, the rental market for *office space* slackened visibly in 2001, amidst more extensive corporate downsizing and restructuring upon the impact of the economic downturn. Further dampening demand was continued consolidation of the information technology sector. Trading activity quietened particularly after the 9/11 incident. This had prompted many landlords to lower rent and extend the rent-free period in a move to improve occupancy. On a quarter-to-quarter comparison, office rentals moved lower in the second to the fourth quarter of 2001, on average by 1%, 2% and 4% respectively, more than offsetting the 3% rise in the first quarter. For 2001 as a whole, office rentals on average declined by 5%. The sales market for office space was weak for most of the year, as acquisition interest waned amidst the economic downturn and an uncertain business outlook. On a quarter-to-quarter comparison, prices of office space on average went down by 1% in the first quarter of 2001, and then more appreciably by 4% in the second quarter, and further by 8% and 7% respectively in the third and fourth quarters. For 2001 as a whole, there was a cumulative decrease of 18%. Against their respective peak levels in 1997, prices and rentals of office space in the fourth quarter of 2001 dipped by an average of 69% and 39%. On supply of new office space, completions shrank further by 20% to 76 000 m² in 2001, after plummeting by 78% in 2000. Yet as new demand receded even more, the vacancy rate went up from 10.2% at end-2000 to 11.1% at end-2001.

3.14 The rental market for *shopping space* was subdued throughout 2001, amidst the moderation in retail business especially in the wake of the 9/11 incident. In order to boost occupancy, landlords were generally inclined to grant greater rental concessions and more flexible lease terms. On a quarter-to-quarter comparison, shop rentals on average drifted lower by 1% each in all the four quarters of 2001. For 2001 as a whole, there was a cumulative fall of 4%. On the sales market for shopping space, activity remained rather limited during the year, with acquisition interest concentrated in well-managed shopping arcades in more popular locations. On a quarter-to-quarter comparison, prices of shopping space were down in all the four quarters of 2001, on average by 3%, 2% 1% and 6% respectively, thus giving a 12% decrease for the whole year. Against their respective peak levels in the third quarter of 1997, prices and rentals of shopping space in the fourth quarter of 2001 plunged by an average of 58% and 21%. On supply of new shopping space, completions leaped by 105% to 132 000 m² in 2001. But this was largely due to a low base of comparison in 2000, when a sharp fall of 69% was recorded. Between end-2000 and end-2001, the vacancy rate for shopping space edged up from 7.5% to 7.7%.

/3.15

3.15 On *industrial property*, the rental market stayed in the doldrums for most of 2001, amidst the weak performance of external trade and continued relocation of manufacturing processes outside the territory. Also relevant was the dissipated demand for modern industrial premises to be used as data centres and back-up service centres, upon further consolidation of the information technology sector. On a quarter-to-quarter comparison, rentals of industrial space on average fell by 2% in both the first and second quarters of 2001, and by 3% and 2% respectively in the third and fourth quarters. For 2001 as a whole, there was on average a 9% decline. The sales market for industrial property was likewise quiet. On a quarter-to-quarter comparison, prices of industrial space on average declined by 4% 1%, 1% and 7% respectively in the four quarters of 2001, giving a 13% fall for the year as a whole. Against their respective peak levels in 1994, prices and rentals of industrial space in the fourth quarter of 2001 slumped by an average of 66% and 42%. On supply of new industrial property, completions of conventional flatted factory space jumped by 63% to 30 000 m² in 2001, following a surge of 368% in 2000 from a very low base. Coupled with reduced demand, this led to a rise in the vacancy rate for this type of industrial property from 8.5% at end-2000 to 10.9% at end-2001. On the other hand, completions of industrial-cum-office premises dwindled by 61% to 14 000 m² in 2001, following a 7% decrease in 2000. The vacancy rate for this type of industrial property hence moved lower, from 15.7% at end-2000 to 15.0% at end-2001.

/Table 3.4

Table 3.4**Indices of Property Prices and Rentals**

	<u>Residential flats</u>				<u>Office space</u>				<u>Shopping space</u>				<u>Conventional flatted factory space</u>			
	<u>Price index^(a)</u>		<u>Rental index^(b)</u>		<u>Price index</u>		<u>Rental index^(b)</u>		<u>Price index</u>		<u>Rental index^(b)</u>		<u>Price index</u>		<u>Rental index^(b)</u>	
	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)
2000 Q1	96.8	(2)	97.9	(*)	95.9	(-1)	95.3	(-2)	98.2	(2)	100.6	(-1)	95.0	(*)	96.3	(-2)
Q2	90.1	(-7)	98.4	(1)	91.9	(-4)	98.1	(3)	93.6	(-5)	100.8	(*)	91.7	(-3)	95.4	(-1)
Q3	87.3	(-3)	97.8	(-1)	85.8	(-7)	98.8	(1)	91.1	(-3)	101.3	(*)	90.0	(-2)	94.1	(-1)
Q4	84.2	(-4)	98.3	(1)	86.0	(*)	101.6	(3)	91.6	(1)	102.3	(1)	88.2	(-2)	95.8	(2)
2001 Q1	81.0	(-4)	97.7	(-1)	85.5	(-1)	104.6	(3)	89.1	(-3)	101.2	(-1)	84.4	(-4)	93.8	(-2)
Q2	81.2	(*)	96.9	(-1)	82.1	(-4)	103.2	(-1)	87.1	(-2)	99.9	(-1)	83.2	(-1)	91.5	(-2)
Q3 [^]	78.5	(-3)	95.6	(-1)	75.3	(-8)	100.7	(-2)	85.8	(-1)	99.4	(-1)	82.0	(-1)	88.8	(-3)
Q4 [^]	73.0	(-7)	91.3	(-4)	70.2	(-7)	96.7	(-4)	81.0	(-6)	98.2	(-1)	76.5	(-7)	87.4	(-2)

Notes : All rental indices shown in this table have been adjusted for changes in concessionary leasing terms such as provision of refurbishment, granting of rent-free periods, and waiver of miscellaneous charges, if known.

(a) Prices for residential property in this table cover all completed flats, but not pre-completion flats, in the entire residential property sub-sector.

(b) Rentals for residential property in this table cover only new tenancies for which rentals are freshly determined, while rentals for non-residential property cover also lease renewals upon which rentals may be revised.

() % change over the preceding quarter.

([^]) Provisional figures.

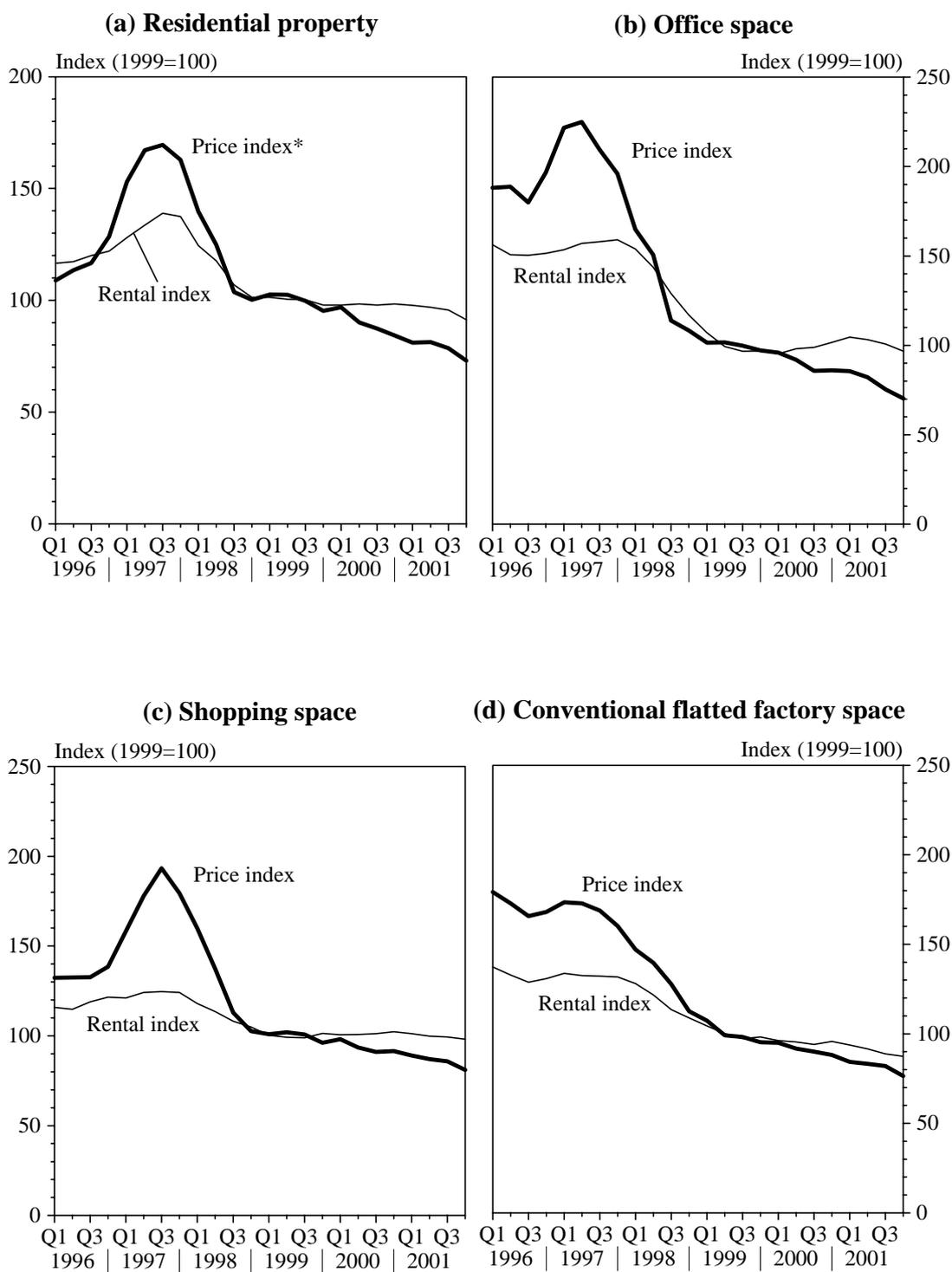
(*) Change of less than 0.5%.

Source : Rating and Valuation Department.

/Diagram 3.7

Diagram 3.7

Property prices and rentals



Note : (*) Prices for residential property in this diagram cover all completed flats, but not pre-completion flats, in the entire residential property sub-sector.

/Table 3.5

Table 3.5**Relationship between mortgage rate and monthly instalment payment**

		Average of the best lending rates quoted by the principal banks in Hong Kong (%)	Average of the effective mortgage rates charged on new mortgages by the principal banks in Hong Kong ^(a) (%)	Monthly instalment on \$100,000 mortgage loan charged according to the average effective mortgage rate with mortgage period of ^(b)		
				10 years	15 years	20 years
2000	Q1	8.64	8.14 ^(c)	1,221	964	845
	Q2	9.22	7.47	1,185	925	804
	Q3	9.50	7.58	1,191	932	811
	Q4	9.50	7.25	1,174	913	790
2001	Q1	8.70	6.44	1,133	868	742
	Q2	7.40	5.15	1,068	798	668
	Q3	6.59	4.34	1,029	757	624
	Q4	5.34	2.93	962	687	551
	Jan	9.11	6.86	1,154	891	767
	Feb	8.57	6.32	1,126	861	735
	Mar	8.40	6.15	1,118	852	725
	Apr	7.87	5.62	1,091	823	695
	May	7.32	5.07	1,064	794	664
	Jun	7.00	4.75	1,048	778	646
	Jul	6.77	4.52	1,037	766	634
	Aug	6.69	4.44	1,033	762	629
Sep	6.30	4.05	1,015	742	609	
Oct	5.55	3.30	980	705	570	
Nov	5.31	2.81	957	681	545	
Dec	5.17	2.67	950	675	538	

Notes : (a) Here the effective mortgage rate refers to the modal value, representing the rate most commonly charged amongst the banks.

Due to keener competition for mortgage business, the effective mortgage rates charged by the banks have come down to below the best lending rate since the early part of 2000.

(b) These figures are based on equal monthly repayments throughout the mortgage period.

(c) As from March 2000, calculation of the effective mortgage rate has also taken into account the option of a temporary further reduction in mortgage rate in the early part of the repayment period, as is being offered by many of the banks.

/Table 3.6

Table 3.6

**Completions of new property by the private sector
(^{'000}m² of internal floor area)**

		Residential property ^(a) (in units)	Commercial property			Industrial property ^(c)			Sub-total
			Office space	Other commercial premises ^(b)	Sub- total	Conventional flatted factory space	Storage premises ^(d)	Industrial- cum- office premises	
2000	Annual	25 790 (-27)	96 (-78)	64 (-69)	160 (-75)	19 (368)	6 (-96)	37 (-7)	62 (-67)
	Q1	6 980 (5)	8 (-95)	6 (-83)	14 (-93)	0 (-100)	5 (-92)	0 (-100)	5 (-94)
	Q2	6 663 (-38)	37 (54)	10 (-67)	47 (-14)	15 (--)	0 (-100)	0 (-100)	15 (-85)
	Q3	4 388 (-14)	24 (-78)	17 (-29)	41 (-69)	0 (--)	1 (--)	14 (--)	15 (--)
	Q4	7 759 -40	27 (-81)	31 (-73)	58 (-77)	4 (--)	0 (--)	23 (288)	27 (348)
2001 [^]	Annual	26 262 (2)	76 (-20)	132 (105)	208 (30)	30 (63)	0 (-100)	14 (-61)	45 (-28)
	Q1	6 528 (-6)	29 (252)	34 (472)	63 (345)	0 (--)	0 (-100)	0 (--)	0 (-100)
	Q2	6 206 (-7)	20 (-47)	37 (259)	57 (20)	0 (-100)	0 (--)	14 (--)	14 (-5)
	Q3	5 090 (16)	24 (2)	53 (210)	77 (89)	16 (--)	0 (-100)	0 (-100)	16 (5)
	Q4 [^]	8 438 (9)	4 (-87)	8 (-76)	11 (-81)	15 (306)	0 (--)	0 (-100)	15 (-46)

Notes : (a) These include all newly completed residential premises to which either temporary or full Occupation Permits have been granted, as well as village-type houses issued with Letters of Compliance. Property developments subject to a Consent Scheme will need a Certificate of Compliance, Consent to Assign or Consent to Lease in addition to an Occupation Permit before the premises can be individually assigned.

The figures shown here are in respect of private residential units, excluding units completed by the Hong Kong Housing Authority and Hong Kong Housing Society.

(b) These include shopping arcades in residential and commercial developments, as well as premises designed or adapted for commercial use other than offices, in the nature of non-domestic space on the podium floors of tenement apartment/commercial buildings. Car-parking space is excluded.

(c) Including industrial-cum-office premises but excluding specialised factory buildings, which are developed mainly for own use.

(d) Including storage premises at the container terminals and the airport.

() % change over a year earlier.

([^]) Provisional figures.

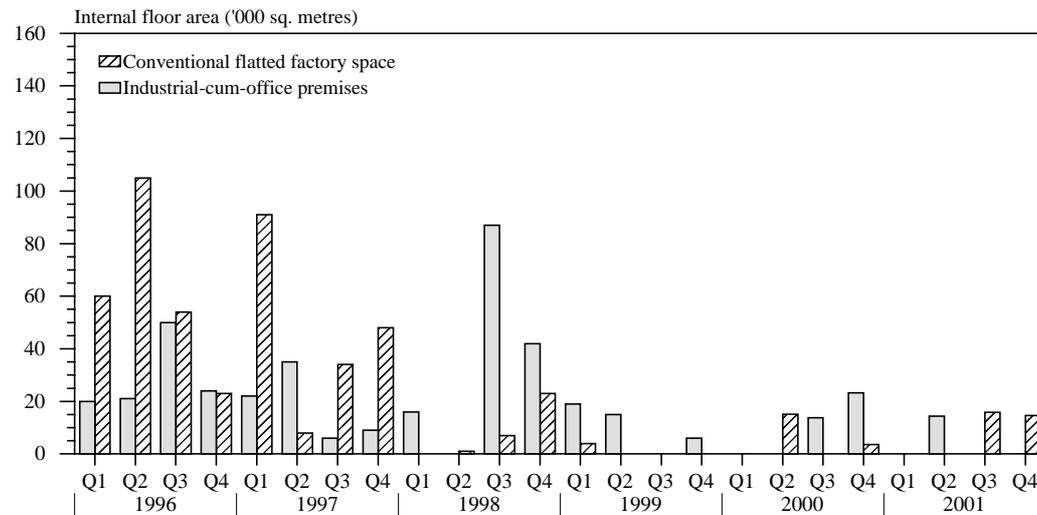
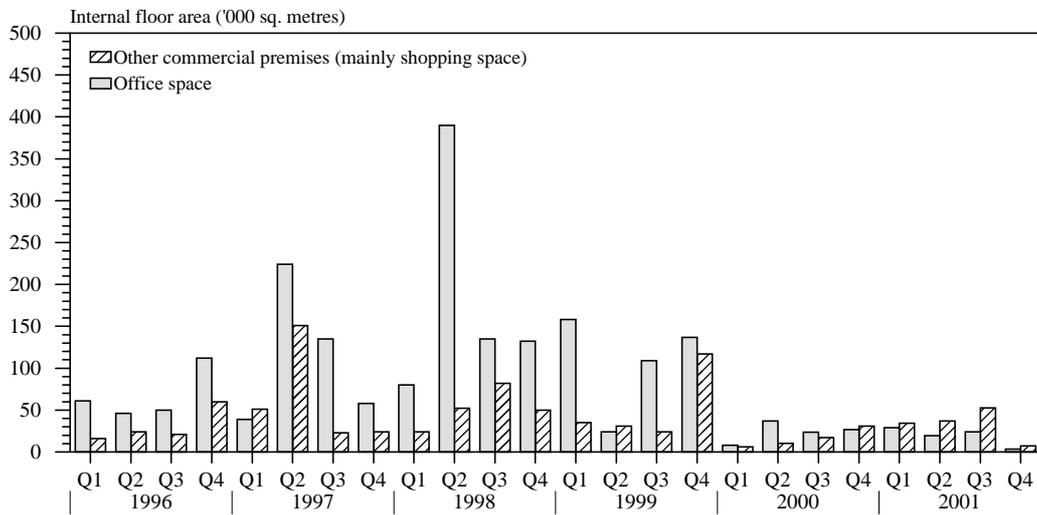
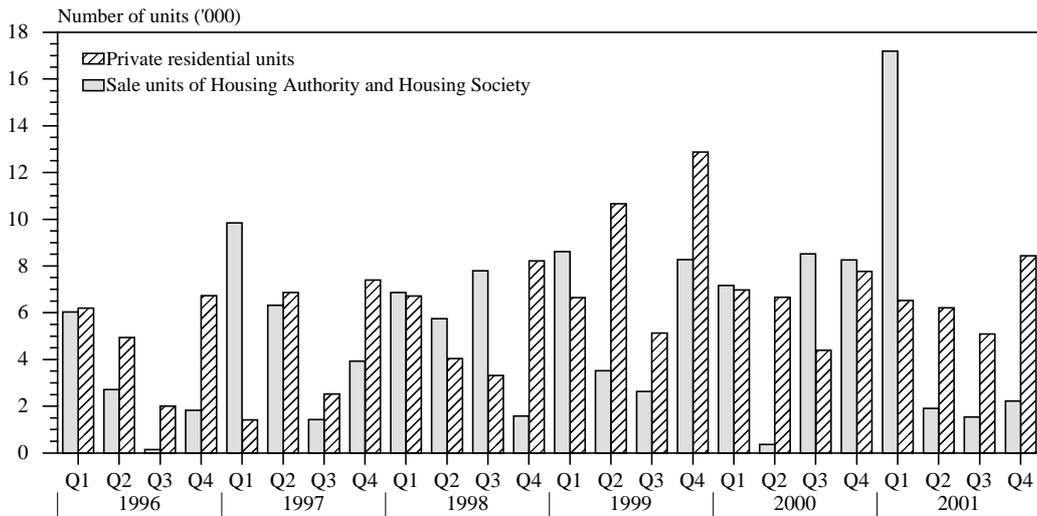
(--) Not applicable.

Source : Rating and Valuation Department.

/Diagram 3.8

Diagram 3.8

Completions of new property by major category



3.16 *Property transactions*, as measured by agreements for sale and purchase of property registered with the Land Registry, reverted to an increase of 3% in number in 2001, from a decrease of 13% in 2000. This was mainly attributable to a rebound in trading activity in both the second and fourth quarters of the year. Yet owing to the distinct fall in property prices, property transactions contracted further by 13% in total value in 2001, following a similar decrease in 2000. Analysed by main type of property, transactions in residential property went up by 7% in number in 2001, but declined by 10% in total value. This was due in part to lower flat prices and in part to a further shift in trading activity towards smaller flats. As to non-residential property, transactions shrank both in number and in total value, by 9% and 23% respectively.

3.17 Property transfer assignments fell in 2001, by 5% in number and 11% in total value. In 2000, property transfer assignments were up by 8% in number, but down by 9% in total value. As to mortgage arrangements, the number dropped by 14% in 2001, following a 1% rise in 2000. Underlying the fall was a reduction in mortgage re-financing arrangements on existing property.

/Table 3.7

Table 3.7**Agreements for sale and purchase of property**

		<u>Number</u>						<u>Total value (\$Bn)</u>					
		<u>Residential property^(a)</u>		<u>Non-residential property</u>		<u>Total</u>		<u>Residential property^(a)</u>		<u>Non-residential property</u>		<u>Total</u>	
2000	Annual	65 340	(-15)	20 404	(-5)	85 744	(-13)	168.4	(-21)	54.1	(21)	222.5	(-13)
	H1	30 497	(-33)	10 186	(-26)	40 683	(-31)	77.8	(-40)	28.2	(28)	105.9	(-30)
	H2	34 843	(10)	10 218	(34)	45 061	(14)	90.6	(11)	26.0	(15)	116.6	(12)
	Q1	15 295	(-25)	5 253	(-31)	20 548	(-27)	41.0	(-26)	14.1	(31)	55.1	(-17)
	Q2	15 202	(-39)	4 933	(-20)	20 135	(-35)	36.8	(-51)	14.0	(25)	50.8	(-41)
	Q3	19 348	(17)	6 809	(53)	26 157	(24)	46.2	(9)	16.7	(62)	62.9	(19)
	Q4	15 495	(2)	3 409	(7)	18 904	(3)	44.4	(13)	9.3	(-24)	53.7	(4)
2001	Annual	69 667	(7)	18 523	(-9)	88 190	(3)	150.9	(-10)	41.9	(-23)	192.8	(-13)
	H1	32 730	(7)	10 995	(8)	43 725	(7)	71.0	(-9)	23.2	(-18)	94.1	(-11)
	H2	36 937	(6)	7 528	(-26)	44 465	(-1)	79.9	(-12)	18.7	(-28)	98.7	(-15)
	Q1	15 105	(-1)	5 913	(13)	21 018	(2)	34.3	(-16)	11.0	(-22)	45.2	(-18)
	Q2	17 625	(16)	5 082	(3)	22 707	(13)	36.7	(*)	12.2	(-13)	48.9	(-4)
	Q3	18 164	(-6)	3 733	(-45)	21 897	(-16)	41.2	(-11)	8.7	(-48)	49.9	(-21)
	Q4	18 773	(21)	3 795	(11)	22 568	(19)	38.8	(-13)	10.0	(8)	48.7	(-9)
			<3>		<2>		<3>		<-6>		<15>		<-2>
	Jan	3 860	(-29)	785	(-49)	4 645	(-33)	9.5	(-34)	3.2	(-44)	12.7	(-37)
	Feb	4 014	(-15)	947	(-5)	4 961	(-13)	8.9	(-31)	2.3	(-22)	11.2	(-30)
	Mar	7 231	(40)	4 181	(54)	11 412	(45)	15.8	(16)	5.4	(*)	21.3	(12)
	Apr	5 000	(-23)	2 853	(7)	7 853	(-14)	10.9	(-32)	7.1	(34)	18.0	(-16)
	May	6 309	(31)	1 042	(-20)	7 351	(20)	12.2	(1)	2.2	(-60)	14.4	(-18)
	Jun	6 316	(62)	1 187	(23)	7 503	(54)	13.6	(58)	2.9	(-8)	16.5	(40)
	Jul	6 199	(5)	1 131	(-41)	7 330	(-6)	15.5	(18)	3.6	(-20)	19.1	(8)
	Aug	6 503	(-11)	1 330	(-57)	7 833	(-25)	14.3	(-21)	2.7	(-51)	17.1	(-28)
	Sep	5 462	(-10)	1 272	(-28)	6 734	(-14)	11.3	(-24)	2.4	(-64)	13.8	(-36)
	Oct	4 269	(-32)	914	(-31)	5 183	(-31)	8.3	(-52)	5.9	(103)	14.2	(-30)
	Nov	7 879	(52)	1 844	(60)	9 723	(53)	14.7	(25)	2.1	(-29)	16.8	(14)
	Dec	6 625	(63)	1 037	(11)	7 662	(53)	15.7	(3)	2.0	(-41)	17.7	(-5)

Notes : Figures may not add up exactly to the total due to rounding.

(a) It should be noted that primary sales of units under the Home Ownership Scheme (HOS) and the Tenants Purchase Scheme (TPS) are not covered in this table, as sale and purchase agreements are commonly not required for these transactions. Also sale and purchase agreements for primary sales of units under the Private Sector Participation Scheme (PSPS) are not included in the column on residential property, yet they are included in the column on non-residential property, and thus also in the total column.

() % change over a year earlier.

< > % change over the preceding quarter.

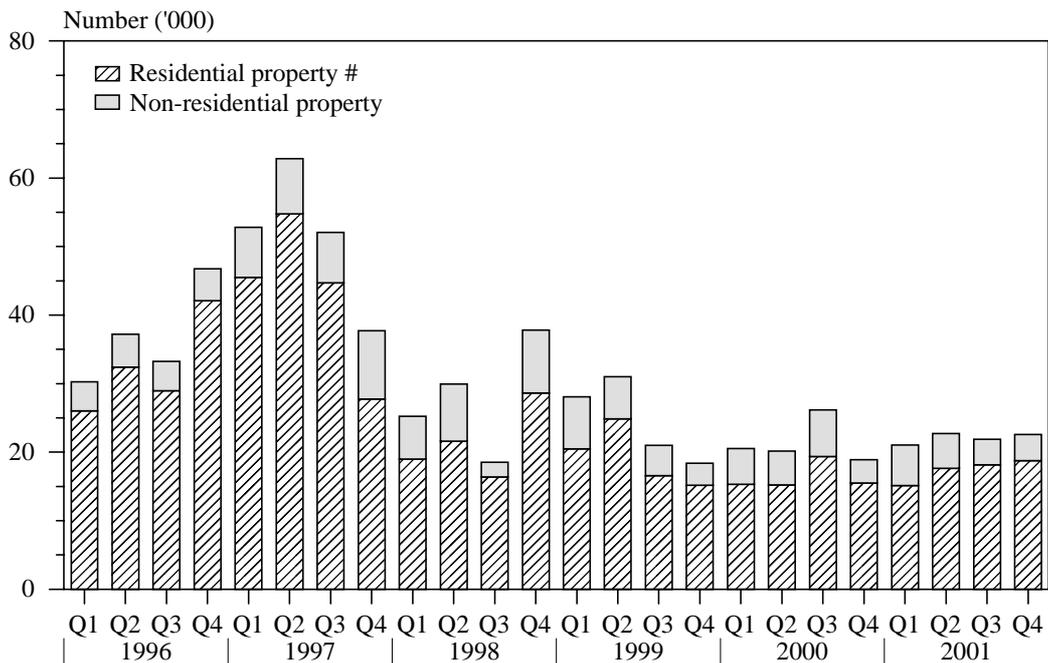
(*) change of less than 0.5%.

Source : Land Registry.

/Diagram 3.9

Diagram 3.9

Sale and purchase agreements by broad type of property



Note : (#) See Footnote (a) to Table 3.7.

/Table 3.8

Table 3.8**Property transfer assignments and mortgage arrangements**

		Property transfer assignments ^(a)				Mortgages other than building mortgages ^(b)	
		Number		Total value (\$Bn)		Number	
2000	Annual	152 022	(8)	273.0	(-9)	183 307	(1)
	H1	81 974	(14)	144.4	(-7)	98 854	(6)
	H2	70 048	(1)	128.7	(-11)	84 453	(-4)
	Q1	38 936	(8)	72.0	(-10)	49 575	(13)
	Q2	43 038	(21)	72.4	(-4)	49 279	(*)
	Q3	37 921	(2)	69.0	(-6)	48 610	(-3)
	Q4	32 127	(*)	59.7	(-16)	35 843	(-6)
2001	Annual	144 037	(-5)	243.5	(-11)	157 064	(-14)
	H1	75 756	(-8)	125.7	(-13)	79 953	(-19)
	H2	70 594	(1)	119.5	(-7)	79 559	(-6)
	Q1	39 315	(1)	63.5	(-12)	41 132	(-17)
	Q2	36 621	(-15)	62.2	(-14)	38 821	(-21)
	Q3	40 968	(8)	76.7	(11)	46 181	(-5)
	Q4	27 313	(-15)	41.1	(-31)	30 930	(-14)
			<-33>		<-46>		<-33>
	Jan	13 083	(3)	23.7	(-19)	13 717	(-15)
	Feb	13 865	(9)	21.3	(4)	14 414	(-12)
	Mar	12 187	(-10)	18.4	(-17)	13 001	(-24)
	Apr	8 111	(-31)	18.0	(-7)	8 783	(-40)
	May	15 513	(-1)	25.6	(2)	16 586	(-5)
	Jun	12 997	(-17)	18.6	(-33)	13 452	(-22)
	Jul	12 085	(-1)	27.6	(27)	14 232	(-8)
	Aug	15 531	(16)	28.1	(10)	17 173	(1)
	Sep	13 352	(8)	21.0	(-3)	14 776	(-9)
	Oct	9 060	(-2)	16.3	(-10)	10 728	(1)
	Nov	10 636	(-12)	14.3	(-42)	11 626	(-13)
	Dec	7 617	(-29)	10.5	(-39)	8 576	(-28)

Notes : (a) Figures on property transfer assignments do not necessarily tally with those on agreements for sale and purchase of property, for various reasons. These include possibly long time lag between the two documents, cancellation of transaction before its completion, and waiver of the agreement for sale and purchase of property subject to consent by the parties concerned.

(b) Most of these mortgages are related to the purchase of residential flats or of other premises. Building mortgages, on the other hand, are related to the financing of building projects under construction.

Figures on the total value of mortgage arrangements are not shown, as they are likely to be incomplete. This is because in many of the mortgage arrangements lodged for registration, the value of the mortgage loan is not stated in the mortgage deed but instead is separately notified by the bank to the mortgagor.

() % change over a year earlier.

< > % change over the preceding quarter.

(*) Change of less than 0.5%.

Source : Land Registry.

/3.18

3.18 *Planned developments* of all types of property in the private sector, as indicated by the total usable floor area on building plans with consent to commence work, fell substantially further by 25% in 2001, after a 16% drop in 2000. Decreases of varying magnitudes were observed in all types of property. Specifically, planned developments of residential property dipped by 12% both in terms of units and in terms of total usable floor area in 2001, after decreases of 30% and 32% respectively in 2000. Planned developments of commercial property, industrial property, and property in the “others” category also plummeted, by 21%, 65% and 69% respectively in terms of total usable floor area in 2001. Yet this was partly due to a higher base of comparison in 2000, when planned developments of these three types of property surged by 17%, 52% and 91%.

/Table 3.9

Table 3.9

**Building plans with consent to
commence work in the private sector
(^{'000}m² of usable floor area)**

		<u>Residential property</u> ^(a)		<u>Commercial property</u>	<u>Industrial property</u> ^(b)	<u>Other property</u>	<u>Total</u>
2000	Annual	1 143 (-32)	<30 039> (-30)	337 (17)	129 (52)	240 (91)	1 849 (-16)
	Q1	475 (-7)	<12 936> (-4)	46 (-73)	47 (406)	121 (345)	689 (-4)
	Q2	132 (70)	<2 481> (-40)	45 (208)	14 (-78)	13 (-38)	203 (17)
	Q3	261 (-58)	<8 242> (-41)	155 (132)	51 (--)	60 (5)	528 (-30)
	Q4	274 (-43)	<6 380> (-42)	91 (175)	18 (23)	46 (-126)	430 (-22)
2001	Annual	1 002 (-12)	<26 461> (-12)	265 (-21)	46 (-65)	75 (-69)	1 388 (-25)
	Q1	404 (-15)	<10 226> (-21)	33 (-28)	8 (-82)	47 (-61)	493 (-28)
	Q2	187 (42)	<5 013> (102)	149 (230)	3 (-79)	15 (21)	355 (75)
	Q3	122 (-53)	<3 449> (-58)	39 (-75)	* (-99)	8 (-86)	170 (-68)
	Q4	289 (5)	<7 773> (22)	43 (-53)	34 (-91)	4 (-92)	370 (-14)

Notes : (a) The classification of residential property has been revised to include developments under the Urban Improvement Scheme of the Hong Kong Housing Society, but to exclude developments under the Private Sector Participation Scheme.

(b) Including multi-purpose industrial premises designed also for office use.

<> Figures represent number of units.

() % change over a year earlier.

(*) Usable floor area of less than 500m²

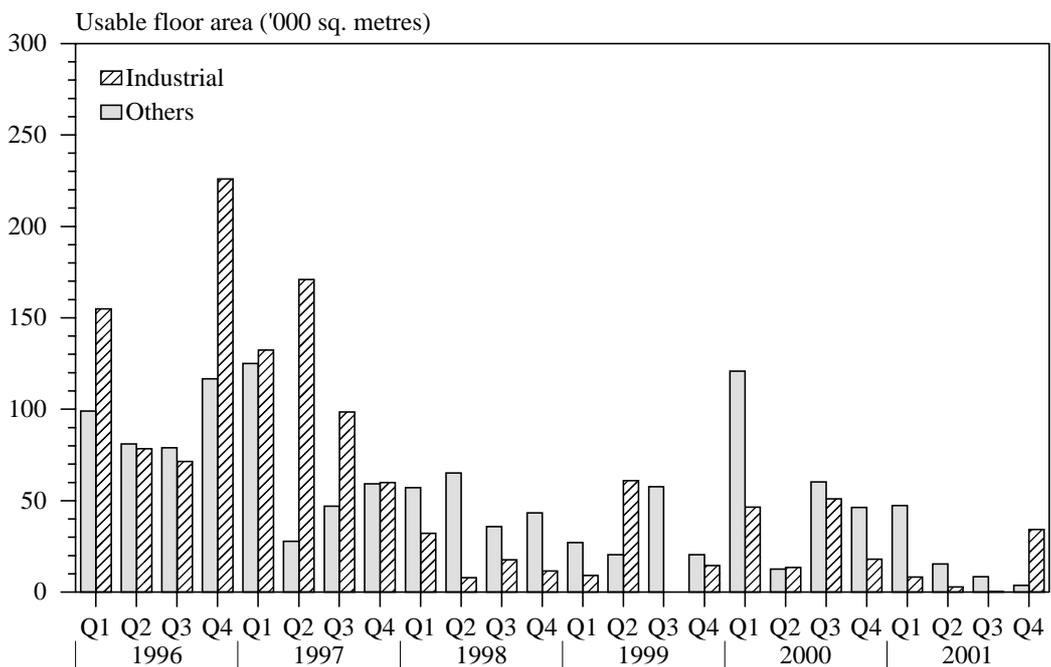
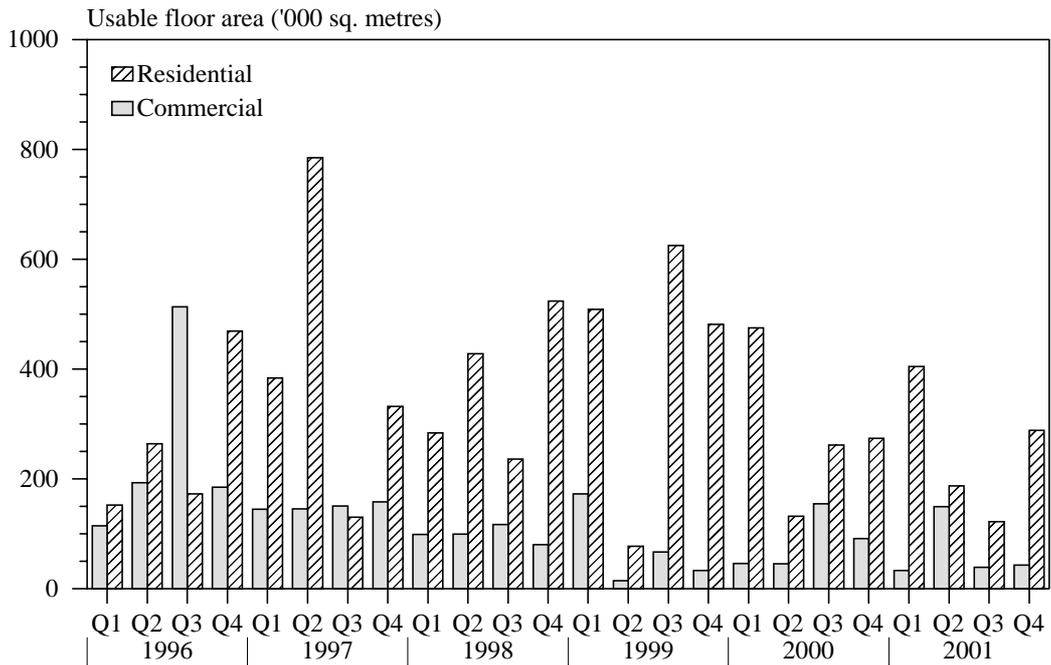
(--) Not applicable

Source : Buildings Department.

/Diagram 3.10

Diagram 3.10

**Building plans with consent to commence work
in the private sector by major category**



/Building

Building and construction

3.19 Building and construction activity slackened further in 2001. Reflecting this, overall expenditure on building and construction contracted further by 3% in real terms in 2001, following an 8% fall in 2000. The decline in 2001 was more apparent among public sector projects, mostly in the second half of the year.

3.20 Expenditure on building and construction by the private sector fell by 1% in real terms in 2001, smaller than the 7% fall in 2000. The decrease in 2001 was attributable entirely to a slow-down in private sector building activity, upon completion or winding down of several large residential development projects in West Kowloon, Tseung Kwan O and Hunghom, as well as of some commercial development projects in Central, Hunghom and Tung Chung. Moreover, there was a dearth of new building projects. These more than offset the robust growth in private sector civil engineering activity, brought about by intensive construction work at Container Terminal 9 and land formation work for the Cyberport.

3.21 Expenditure on building and construction by the public sector, having dropped by 9% in real terms in 2000, shrank further by 4% in 2001. The decline was again concentrated in building projects, consequential to the substantial scale-back in the Public Housing Programme, as well as completion or winding down of several public housing projects in Tin Shui Wai, Wong Tai Sin, Tung Chung, Ma On Shan and Tuen Mun. This outweighed the sustained pick-up in civil engineering work on certain Priority Railway Projects, specifically the KCR East Rail Extension and KCR West Rail.

/Table 3.10

Table 3.10

**Expenditure on building and construction
(year-on-year rate of change in real terms (%))**

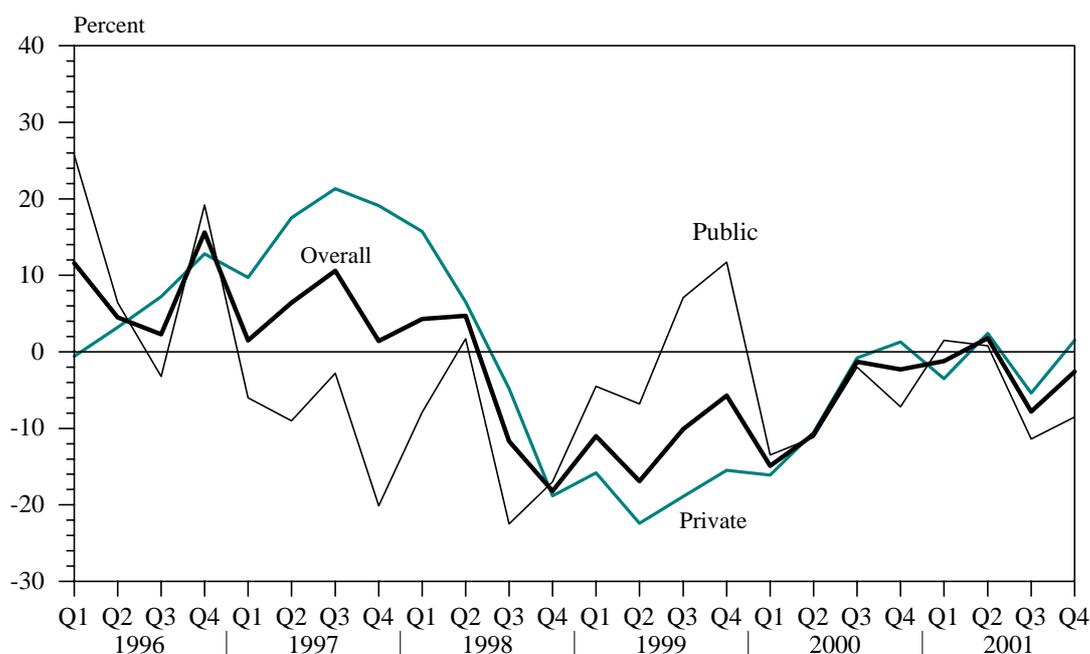
		<u>Private sector</u>	<u>Public sector</u>	<u>Total</u>
2000	Annual [#]	-7	-9	-8
	Q1 [#]	-16	-14	-15
	Q2 [#]	-10	-11	-11
	Q3 [#]	-1	-2	-1
	Q4 [#]	1	-7	-2
2001	Annual ⁺	-1	-4	-3
	Q1 [#]	-3	1	-1
	Q2 [#]	2	1	2
	Q3 [#]	-5	-11	-8
	Q4 ⁺	2	-8	-3

Notes : (#) Revised figures.

(+) Preliminary figures.

Diagram 3.11

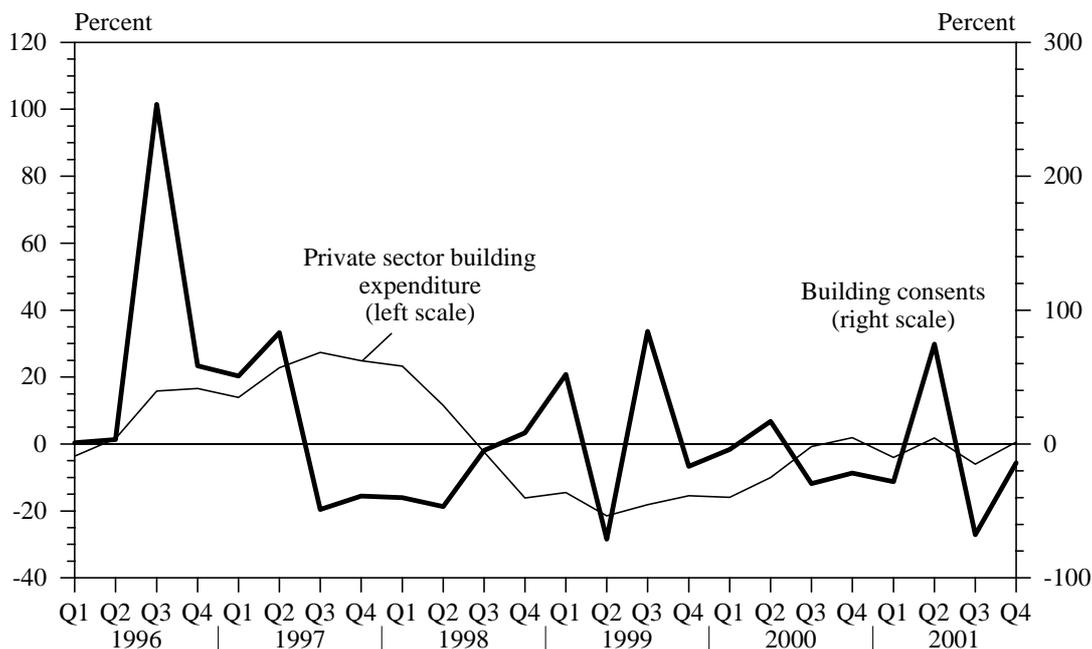
**Expenditure on building and construction
(year-on-year rate of change in real terms)**



/Diagram 3.12

Diagram 3.12

**Private sector building expenditure and building consents
(year-on-year rate of change in real terms)**



3.22 Retained imports of construction machinery nevertheless kept on growing strongly, by 39% in real terms in 2001, after a surge of 28% in 2000. Conceivably, this was due to intake of construction equipment for the hectic work on the civil engineering projects.

3.23 Labour cost in the building and construction sector, as measured by the Labour Cost Index, was virtually unchanged in the third quarter of 2001 over a year earlier. This represented a further moderation from the increases of 3% and 1% respectively in the first two quarters. For the first three quarters of 2001 as a whole, the increase averaged at 1%, slightly smaller than that of 2% in 2000. Building material cost, as measured by the Material Cost Index, was flat throughout the first three quarters of 2001, having risen by 1% in 2000. Taken together, the combined Labour and Material Cost Index had a marginal increase of 1% in the first three quarters of 2001 over a year earlier, after an already modest rise of 2% in 2000.

/Table 3.11

Table 3.11

**Labour and Material Cost Index for
the building and construction sector
(Feb 1970=100)**

		<u>Labour Index</u>		<u>Material Index</u>		<u>Combined Index</u>	
2000	Annual	3 562	(2)	761	(1)	1 752	(2)
	Q1	3 504	(*)	762	(2)	1 732	(1)
	Q2	3 538	(2)	761	(2)	1 743	(2)
	Q3	3 576	(2)	759	(1)	1 755	(2)
	Q4	3 629	(3)	764	(1)	1 777	(3)
2001	Q1-Q3	3 586	(1)	759	(*)	1 759	(1)
	Q1	3 600	(3)	762	(*)	1 765	(2)
	Q2	3 581	(1)	759	(*)	1 757	(1)
	Q3	3 579	(*)	757	(*)	1 755	(*)

Notes : () % change over a year earlier.

(*) Change of less than 0.5%.

Source : Architectural Services Department.

3.24 Tender prices remained on a distinct decline, amidst keen competition amongst the contractors for a reduced volume of building and construction work. Comparing the first three quarters of 2001 with a year earlier, the Tender Price Index (TPI) for public housing projects compiled by the Housing Department and the TPI for public sector building projects compiled by the Architectural Services Department both went down further, by 16% and 7% respectively. In 2000, the corresponding decreases were 12% and 13%.

/Diagram 3.13

Diagram 3.13

**Labour and Material Cost Index
(year-on-year rate of change)**

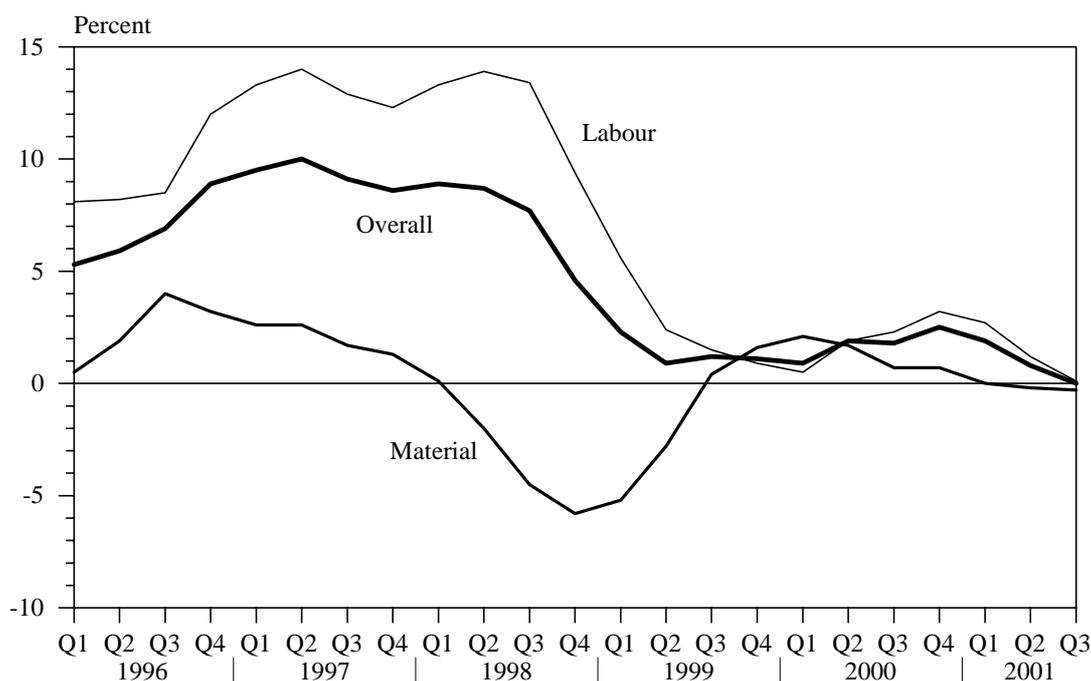


Table 3.12

Tender Price Indices (TPI) for public sector projects

	TPI for public housing projects ^(a) (Jan 1970=100)	TPI for public sector building projects ^(b) (Jan 1970=100)
2000 Annual	687 (-12)	884 (-13)
Q1	745 (-7)	959 (-6)
Q2	708 (-10)	873 (-15)
Q3	671 (-13)	858 (-16)
Q4	625 (-19)	844 (-15)
2001 Q1-Q3	594 (-16)	837 (-7)
Q1	612 (-18)	862 (-10)
Q2	611 (-14)	842 (-4)
Q3	558 (-17)	807 (-6)

Notes : (a) Compiled by the Housing Department.

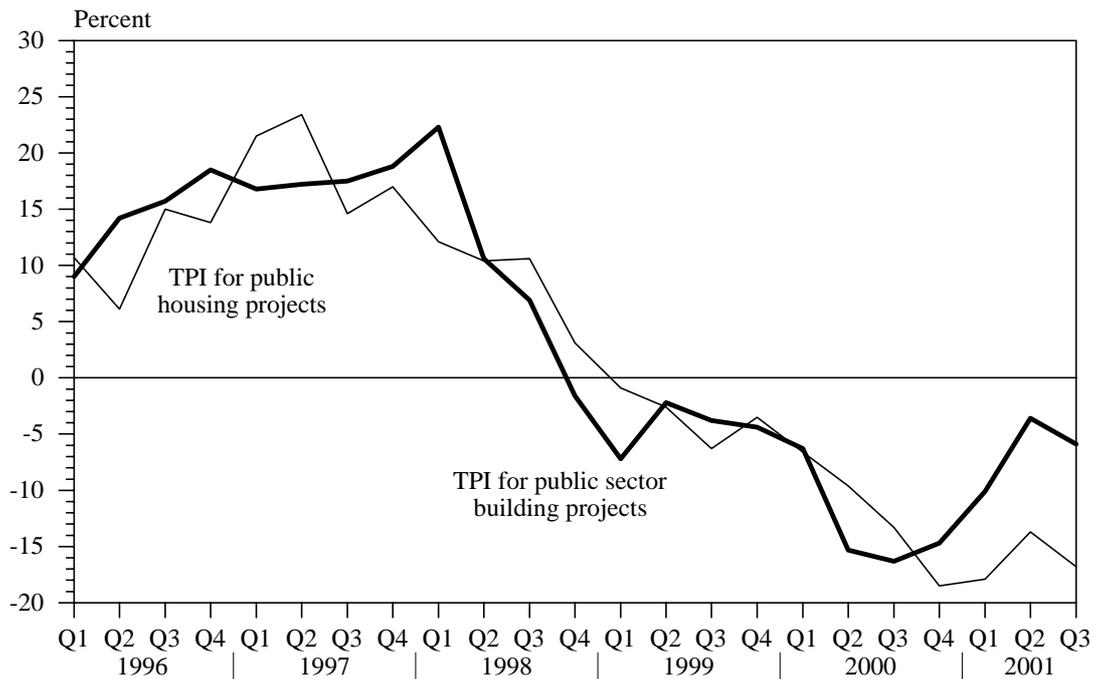
(b) Compiled by the Architectural Services Department.

() % change over a year earlier.

/Diagram 3.14

Diagram 3.14

**Tender Price Indices
(year-on-year rate of change)**



Land

3.25 In 2001, the Government disposed of 14 sites with a total area of 8.8 hectares. Within this total, nine residential sites, one residential-cum-commercial site and two commercial sites totalling 8.4 hectares were sold at auction, while two other sites totalling 0.4 hectare were sold by tender for shipyard usage. The two sites for commercial usage and the other two sites for shipyard usage were released for sale from the Government's Reserve List through applications by developers⁽⁸⁾. In overall terms, market response to the land sales was moderate, as property developers remained generally cautious about the near-term outlook for the property market.

/Table 3.13

Table 3.13

**Land sales at auction and by tender
by the Government (hectares)**

<u>Usage</u>	<u>2000</u>	<u>2001</u>
Residential	26.9	5.3
Commercial/residential	-	*
Commercial	-	3.0
Industrial	0.5	-
Others	<u>2.2</u>	<u>0.4</u>
Total	29.6	8.8

Notes : Figures may not add up exactly to the total due to rounding.

(*) Less than 0.05 hectare.

Source : Lands Department.

3.26 As to the industrial estates, the take-up rates in the Tai Po Industrial Estate and Tseung Kwan O Industrial Estate went up from 96.8% and 45.2% respectively at end-2000 to 99.0% and 48.6% at end-2001, with the sites rendered to new occupants more than offsetting those surrendered by the existing occupants/grantees. The take-up rate in the Yuen Long Industrial Estate also rose, from 93.8% at end-2000 to 95.8% at end-2001, as one additional site was rendered to a new occupant.

Electricity and gas

3.27 In 2001, *local electricity consumption* continued to rise, by 3% to 134 100 terajoules, albeit slightly smaller than the 4% increase in 2000. Within this total, commercial consumption and domestic consumption rose by 5% and 2% respectively while industrial consumption fell by 6% in 2001. Their shares in total local electricity consumption were 63%, 24% and 12% in 2001. Electricity exports to the Mainland sustained a highly robust growth, by 34% in 2001, after surging by 87% in 2000, amidst sustained strong economic growth in the Pearl River Delta region. Yet such electricity exports accounted for only around 4% of total electricity generated in Hong Kong.

/3.28

3.28 *Towngas consumption* went up by 2% to 26 600 terajoules in 2001, following a 6% rise in 2000. Within this total, domestic consumption and industrial consumption increased by 5% and 3% respectively while commercial consumption decreased by 1% in 2001. Their shares in total Towngas consumption were 55%, 4% and 42% in 2001.

Internal transport

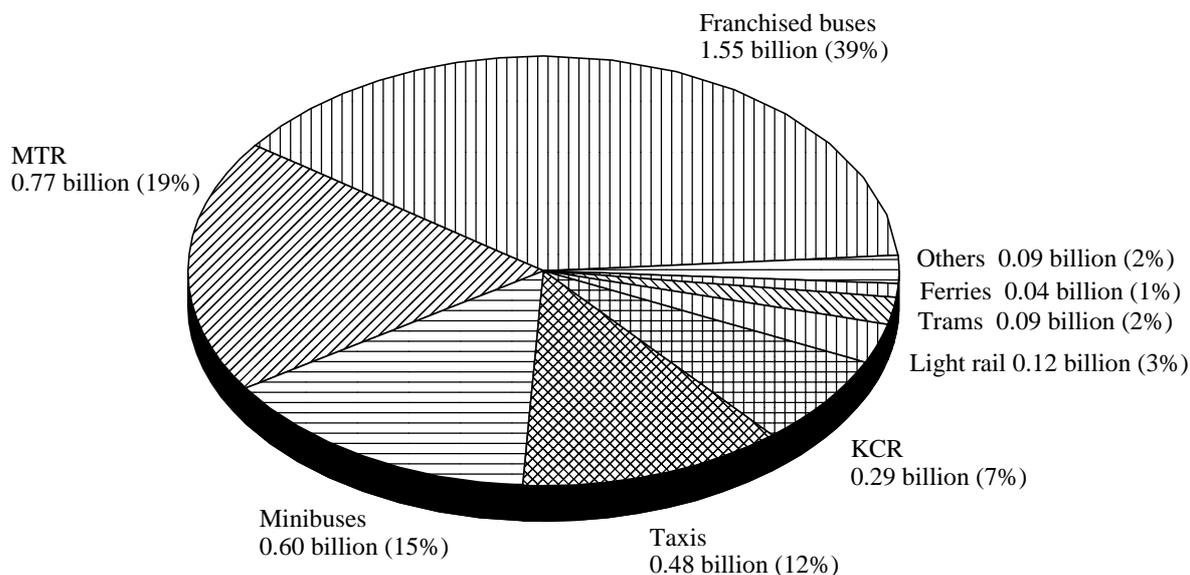
3.29 Total patronage on *public transport* edged up by 1% to 4.0 billion in 2001, after an increase of 2% in 2000. Analysed by mode of transport, patronage on franchised buses and trams both gained by 2%, and patronage on minibuses, the Kowloon-Canton Railway and ferries by 1% each. On the other hand, patronage on the Mass Transit Railway and the Light Rail both fell by 1%. Patronage on taxis held steady.

3.30 On *private transport*, the total number of newly registered private cars rose only slightly, by 1% to 34 900 in 2001, following an 18% leap in 2000. There was a distinct increase at around the middle of the year, when car sales surged upon further price cuts and other inducements offered by the vendors. Yet this was virtually offset by a distinct decline towards the year-end, along with the moderation in local consumer spending. Compared with a year earlier, the total number of registered private cars and licensed private cars rose moderately, both by 2% to 381 800 and 340 600 respectively at end-2001.

/Diagram 3.15

Diagram 3.15

Passenger journeys by mode of public transport in 2001



Total passenger journeys in 2001 : 4.02 billion

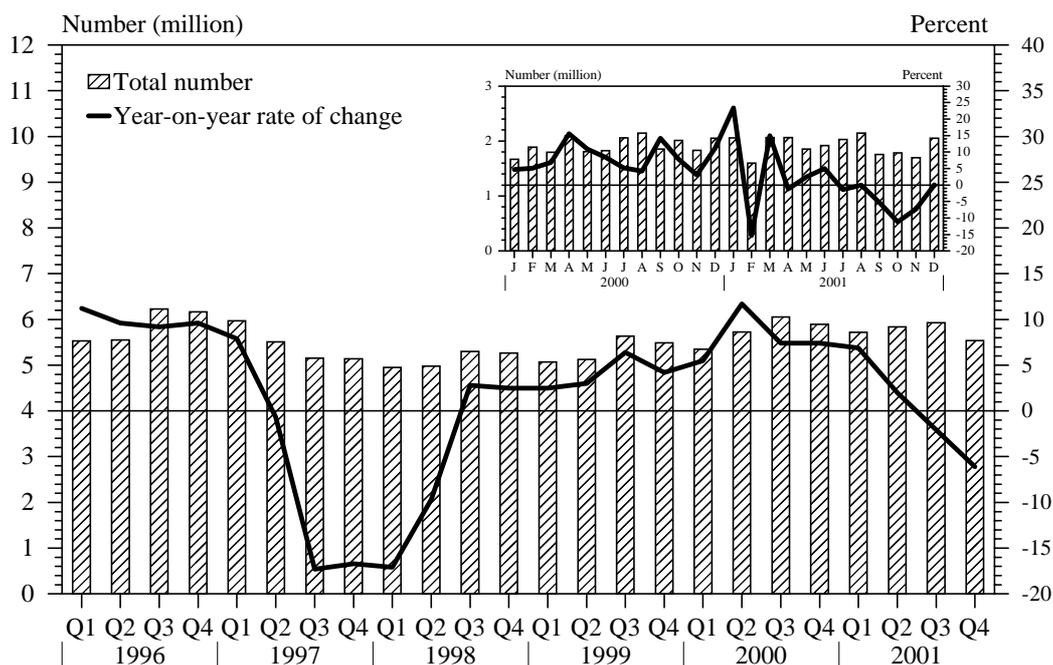
External transport

3.31 On *air transport*, total *air passenger movements* were almost flat at 23 million in 2001. This contrasted with an 8% rise in 2000. The sustained increase in the first half of 2001 was virtually offset by the decrease in the second half of the year. Within this total, air passenger arrivals and departures were both unchanged in 2001, at 12 million and 11 million respectively. Air passenger movements related to North America and Europe had a sharp fall, especially after the 911 incident. Air passenger arrivals from the Mainland nevertheless still had a small increase, by 1%, and air passenger departures to the Mainland a relatively larger increase, by 4%. As to aircraft movements (including passenger and cargo flights), there was an 8% rise to 197 000 in 2001, after that of 9% in 2000.

/Diagram 3.16

Diagram 3.16

Number of air passenger movement

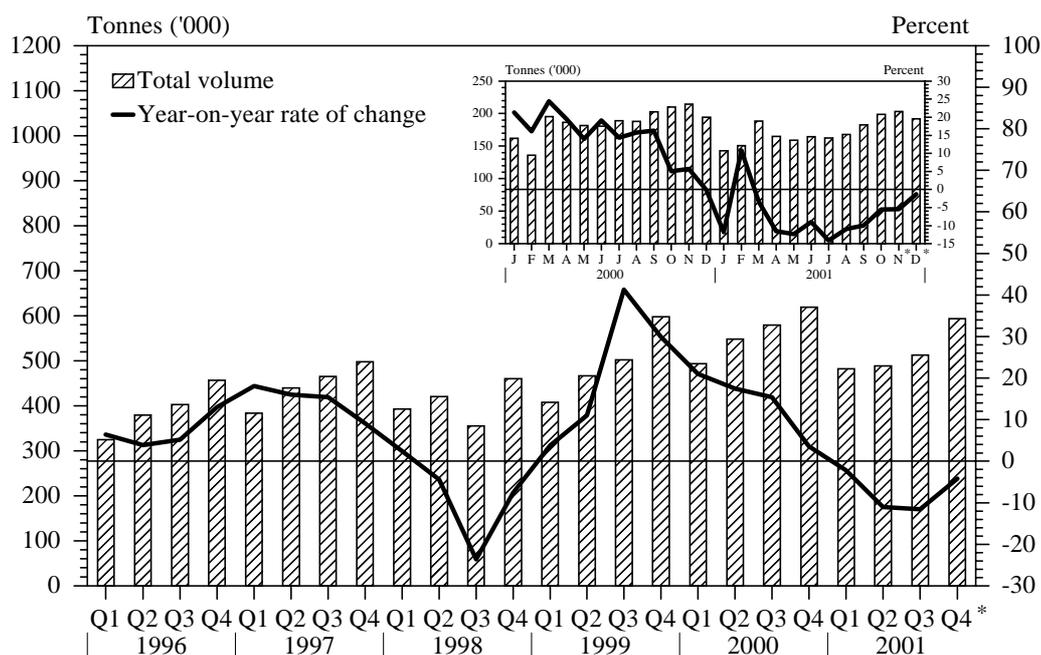


3.32 *Air cargo movements* were curbed by the deteriorating performance of external trade over the past year. Total air cargo movements fell by 7% to 2.1 million tonnes in 2001, representing a sharp reversal from the 13% rise in 2000. Within this total, inward air cargo shrank by 6% to 0.9 million tonnes in 2001, and outward air cargo even more by 8% to 1.2 million tonnes. In 2000, these two directions of air cargo movements had robust growth of 13% and 14% respectively.

/Diagram 3.17

Diagram 3.17

Cargo carried by air



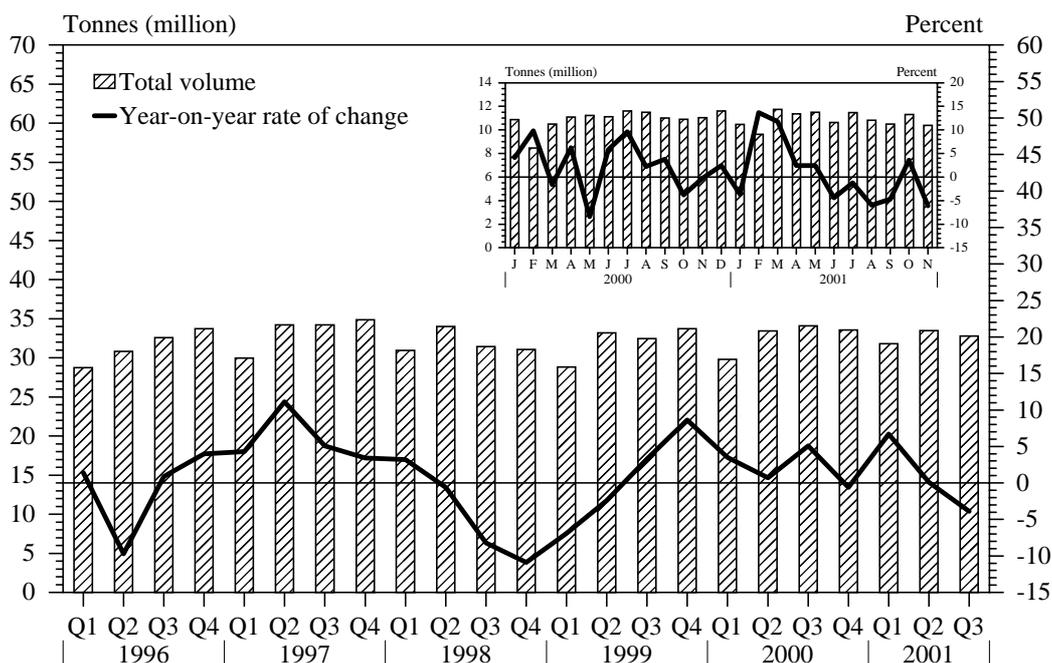
Note : (*) Provisional figures.

3.33 On *ocean transport*, total *ocean cargo movements* accounted to 119.8 million tonnes in the first eleven months of 2001, virtually unchanged from a year earlier. This came after a 2% increase in 2000. Within this total, direct shipment cargo fell noticeably, outweighing the sustained rise in transshipment cargo. Also, the decrease was concentrated in outward ocean cargo, which went down by 1% over a year earlier to 38.6 million tonnes in the first eleven months of 2001, while inward ocean cargo rose by 1% to 81.1 million tonnes.

/Diagram 3.18

Diagram 3.18

Cargo carried by sea

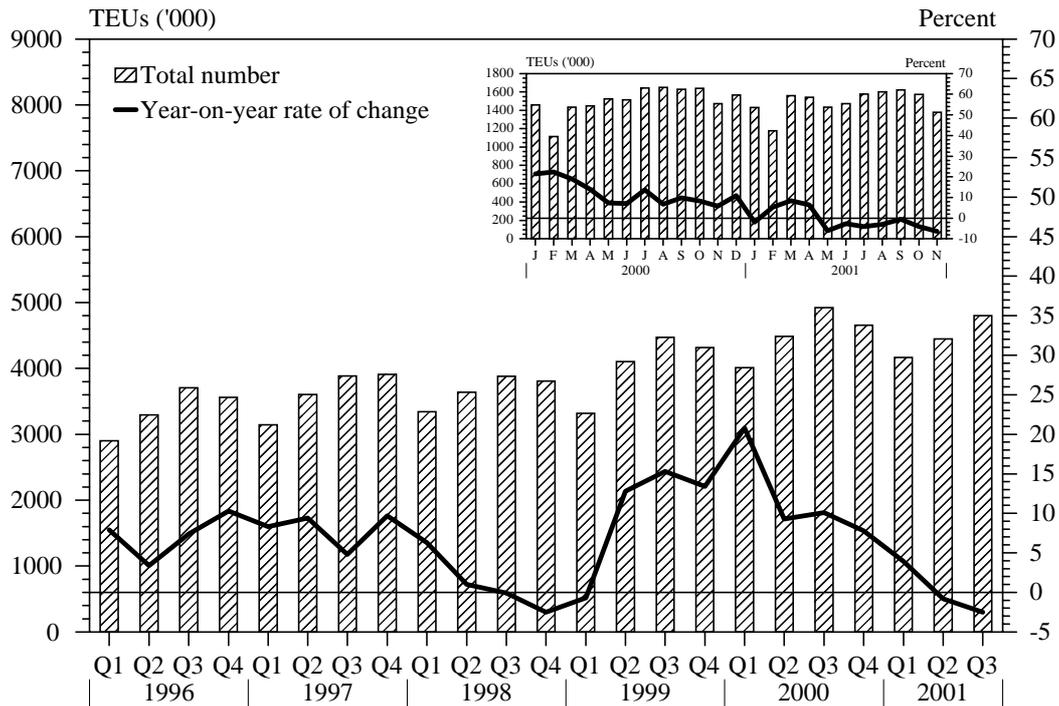


3.34 As to *container traffic*, total container throughput in terms of Twenty-foot Equivalent Units (TEUs) amounted to 16.4 million TEUs in the first eleven months of 2001, down by 1% from a year earlier. (According to a latest rough estimate, total container throughput amounted to about 18 million TEUs for 2001 as a whole, down by 1% over 2000.) This contrasted with a 12% rise in 2000. Within this total, inward and outward container throughput stood at 8.1 million TEUs and 8.3 million TEUs respectively in the first eleven months of 2001, also almost the same as the levels a year earlier. These were sharply moderated from the 12% and 11% growth in 2000. The downturn in external trade was the major underlying factor. Also contributed was the on-going trend of manufactured output being shipped out directly from the Mainland ports rather than indirectly through the Hong Kong port. As an indication, container throughput at the Yantian port continued to grow markedly, by 27% in the first eleven months of 2001 over a year earlier.

/Diagram 3.19

Diagram 3.19

Container throughput



Tourism

3.35 Inbound tourism sustained a solid growth in the first eight months of 2001, but suffered a decline in September and October upon the repercussions of the 911 incident, before picking up again in November and December . On a year-on-year comparison, the total number of *incoming visitors*, having risen by 8% and 7% respectively in the first two quarters of 2001, recorded more moderate growth of 4% and 2% in the third and fourth quarters. Visitors from the Mainland nevertheless kept a robust increase, at double-digit rate in all the four quarters. For 2001 as a whole, the total number of *incoming visitors* went up by 5% to 13.7 million, much decelerated from the 15% surge in 2000.

3.36 Analysed by major source, visitors from the Mainland were up strongly, by 18% in 2001. On the other hand, visitors from Taiwan were up only modestly, by 1%. Visitors from the Japan dropped by 3%, affected by the dismal economic performance in the country and the distinct weakening in the Japanese yen against the US dollar over the past year. Visitors from the United States decreased by 3%, mainly due to the precipitous fall in the latter part of the year upon the impact of the 911 incident. Visitors from the United Kingdom also fell, by 2%, while visitors from South and Southeast Asia held stable.

/Diagram 3.20

Diagram 3.20

Number of incoming visitors

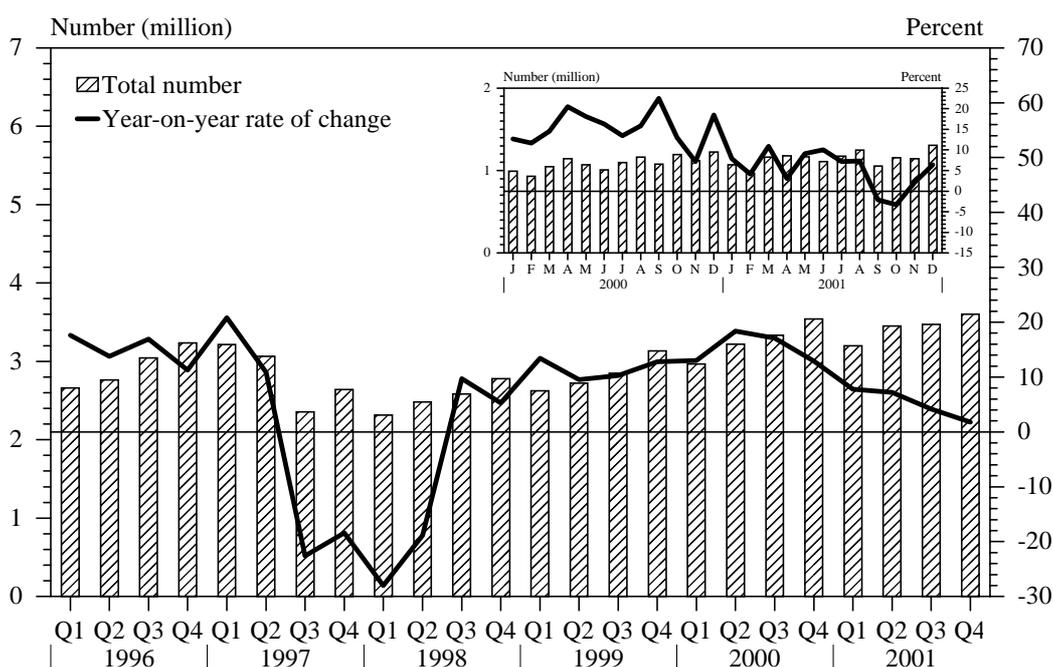


Table 3.14

**Number of incoming visitors by place of residence
(year-on-year rate of change (%))**

	<u>2000</u>					<u>2001</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
All sources	15	13	18	17	13	5	8	7	4	2
Mainland of China	18	11	23	22	16	18	10	13	17	29
Taiwan	16	14	19	17	12	1	8	6	-2	-5
South and Southeast Asia	16	19	13	20	12	*	3	2	-3	-2
Japan	18	23	24	14	13	-3	8	7	-5	-21
United States	12	7	16	14	13	-3	9	5	-2	-20
United Kingdom	10	5	20	7	9	-2	6	-4	-1	-7
Others	11	10	12	12	11	2	8	7	2	-6

Notes : Figures shown in this table include also non-Macau residents coming to Hong Kong via Macau.

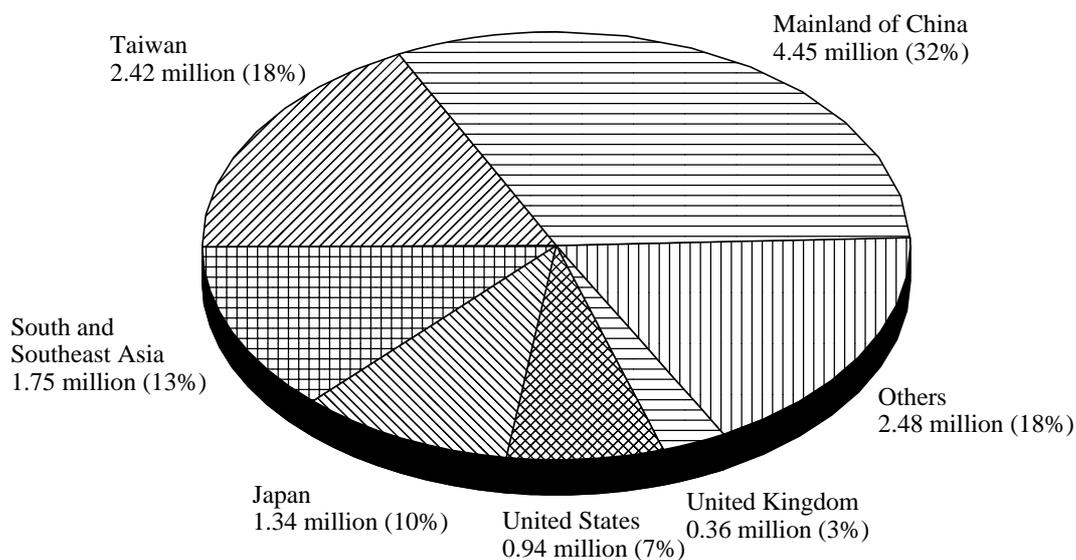
(*) Change of less than 0.5%.

Source : Hong Kong Tourism Board.

/Diagram 3.21

Diagram 3.21

Number of incoming visitors by source in 2001



Total number of incoming visitors in 2001 : 13.73 million

3.37 In 2001, the Mainland remained the largest source of visitors to Hong Kong, accounting for 32% of the total visitor arrivals. Taiwan stayed in the second place, with a share of 18%. Other major sources included South and Southeast Asia (at 13%), Japan (10%), the United States (7%), and the United Kingdom (3%).

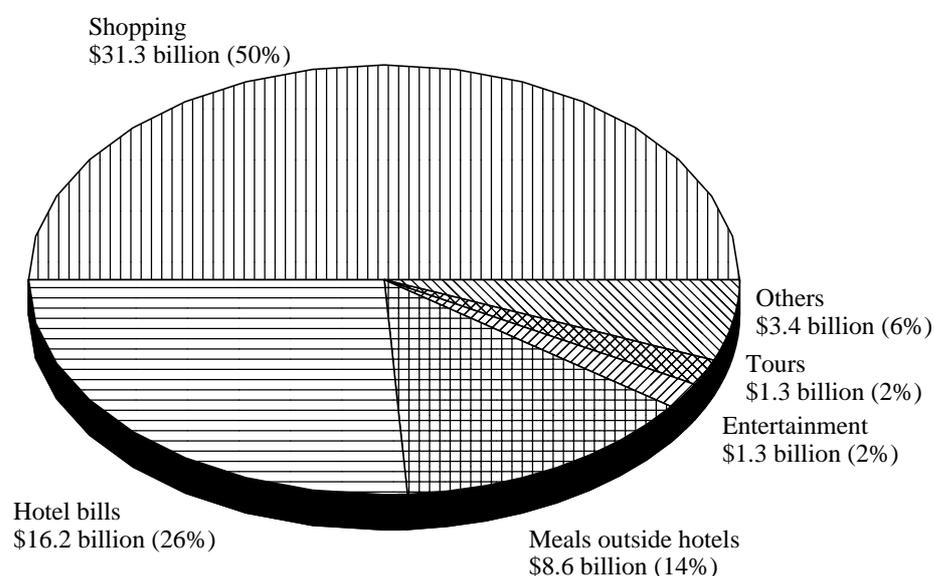
3.38 In line with the slow-down in visitor arrivals from the preceding year, total *visitor spending* went up more moderately, by 5% to \$62 billion in 2001, after a 9% rise in 2000. On a per capita basis, visitor spending nevertheless held steady, at \$4,532 in 2001, relatively improved from a decrease of 5% in 2000. To a large extent, this was attributable to a greater number of as well as a further rise in per capita spending of visitors from the Mainland.

/3.39

3.39 Analysed by expenditure category, shopping accounted for 50% of the total visitor spending in 2001, while hotel bills and meals outside hotels took up 26% and 14% respectively. Analysed by source, visitors from the Mainland constituted the largest spending group, accounting for 37% of the total visitor spending in 2001. Visitors from Taiwan came next, with a share of 17%. These were followed by visitors from North Asia (at 11%), South and Southeast Asia (11%), North America (9%), Europe (8%), and Australia and New Zealand (3%).

Diagram 3.22

Visitor spending by expenditure category in 2001*



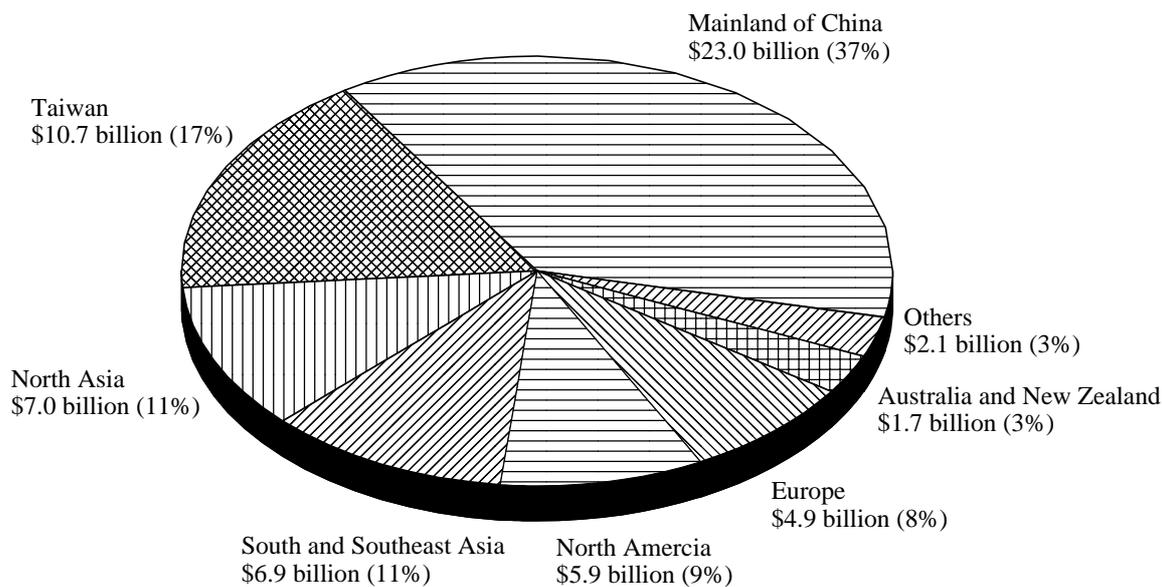
Total visitor spending in 2001 : \$62.2 billion

Note : (*) Provisional figures.

/Diagram 3.23

Diagram 3.23

Visitor spending by source in 2001*



Total visitor spending in 2001 : \$62.2 billion

Note : (*) Provisional figures.

3.40 The stock of *hotel rooms* in Hong Kong increased by 2% over a year earlier to 35 853 at end-2001. Yet with the flow of incoming visitors slackening, there was a fall in the *average hotel room occupancy rate*, from 87% in the fourth quarter of 2000 to 80% in the fourth quarter of 2001.

/Table 3.15

Table 3.15**Stock of hotel rooms and occupancy rate**

		Number of hotel rooms as at end of period		Average hotel room occupancy rate during the period (%)
2000	Annual	35 311	(*)	83
	Q1	35 420	(4)	81
	Q2	35 420	(1)	82
	Q3	35 324	(1)	83
	Q4	35 311	(*)	87
2001	Annual	35 853	(2)	79
	Q1	36 712	(4)	78
	Q2	36 971	(4)	79
	Q3	36 591	(4)	78
	Q4	35 853	(2)	80

Notes : These figures cover high-tariff hotels, medium-tariff hotels, hostels and guest houses which are members of the Hong Kong Tourism Board. Other premises which may have been used for accommodating visitors to Hong Kong are not included.

() % change over a year earlier.

(*) Change of less than 0.5%.

Source : Hong Kong Tourism Board.

3.41 On *Hong Kong residents travelling abroad*, the total number of resident departures rose by 4% to 61.1 million in 2001, much slower than the 11% increase in 2000. The slow-down was more visible in the second quarter, due to advancement of some of the outbound tours usually scheduled for the Easter Holidays to the special school holidays in March for conducting the 2001 Population Census, as well as in the third quarter, mainly due to a fall-off in outbound trips to the Americas and to a lesser extent also to Europe immediately after the 911 incident.

/3.42

3.42 Analysed by destination, resident departures to Taiwan, South and Southeast Asia, and the Mainland went up by 12%, 5% and 4% respectively in 2001, induced by more attractive travel packages to those places from the tour operators. Also relevant was depreciation of the currencies of some of those economies. Resident departures to North Asia, Australia and New Zealand, and Macau rose mildly, by 3%, 3% and 2% respectively. On the other hand, resident departures to the Americas fell by 6%. Resident departures to Europe held steady.

Table 3.16

**Number of Hong Kong resident departures by destination
(year-on-year rate of change (%))**

	<u>2000</u>					<u>2001</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
All destinations	11	9	13	15	7	4	8	1	1	5
Mainland of China	11	9	13	15	7	4	8	*	2	6
Macau	11	4	4	25	10	2	7	8	-5	-1
South and Southeast Asia	20	21	33	20	10	5	16	8	1	-5
North Asia	-5	-10	1	-9	-1	3	13	-3	-3	6
Americas ^(a)	*	-7	8	1	*	-6	7	5	-13	-21
Taiwan	12	4	8	6	33	12	8	9	12	19
Europe	5	2	8	9	*	*	4	3	-4	-2
Australia and New Zealand	1	-7	16	-3	3	3	4	3	6	-3
Others	9	-4	9	17	13	17	84	28	-3	-32

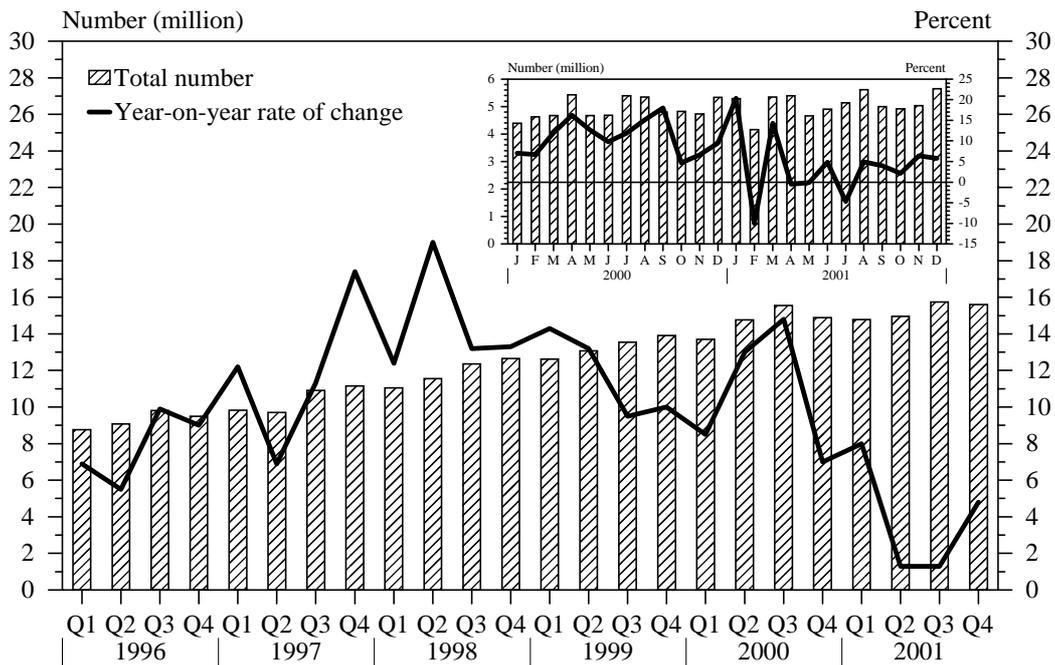
Notes : (a) This includes the United States, Canada, Central America and South America.

(*) Change of less than 0.5%.

Source : Hong Kong Tourism Board.

/Diagram 3.24

Diagram 3.24
Number of Hong Kong resident departures

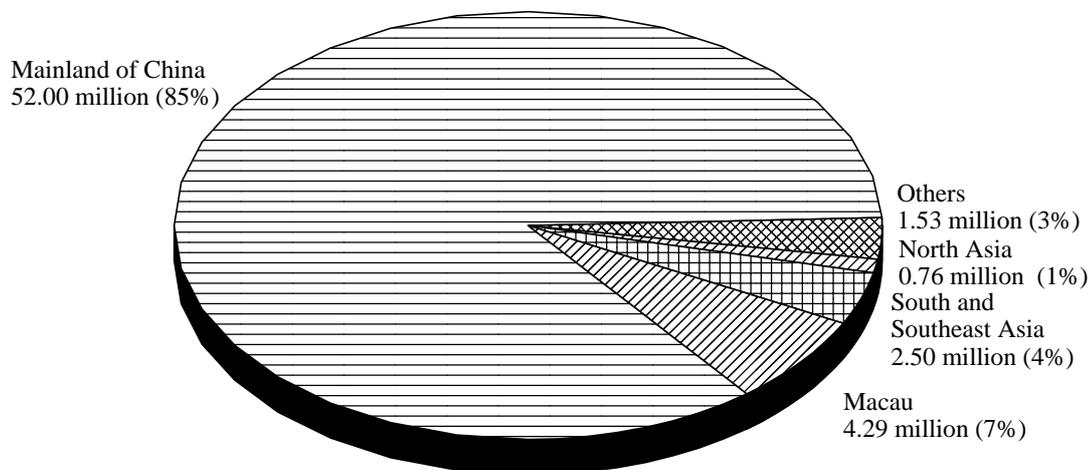


3.43 The Mainland continued to be the most popular destination for Hong Kong resident departures, accounting for 85% of the total outbound trips in 2001. Most of these trips were destined for Guangdong Province. Macau came second (with a share of 7%), followed by South and Southeast Asia (4%), and North Asia (1%).

/Diagram 3.25

Diagram 3.25

Number of Hong Kong resident departures by destination in 2001



Total number of resident departures in 2001 : 61.10 million

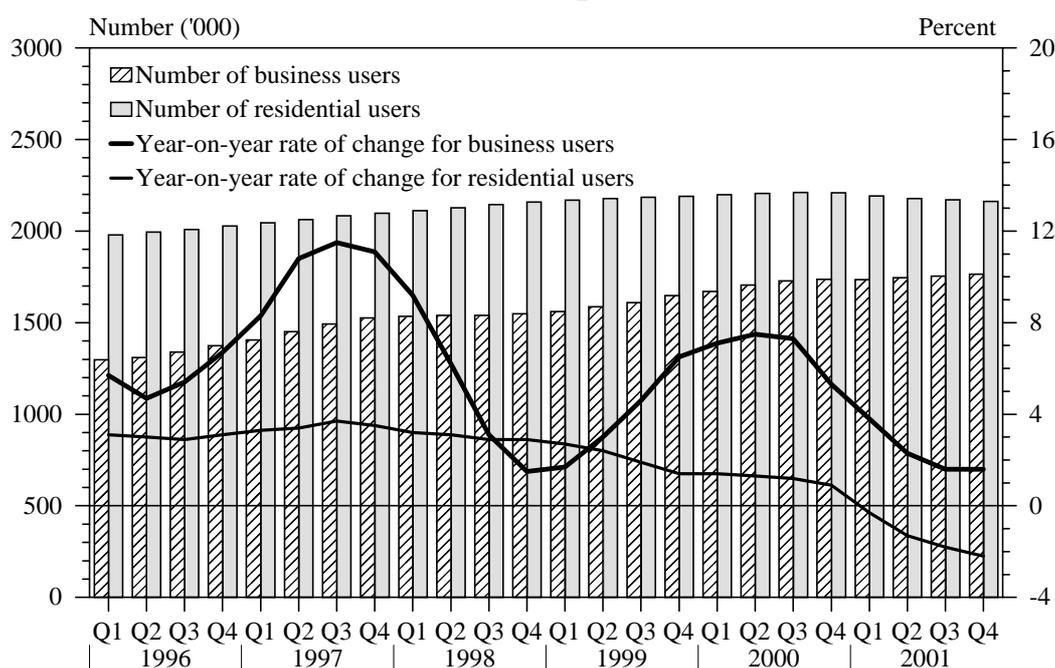
Telecommunications

3.44 The telecommunications sector developed further in 2001, receiving much impetus from the progressive liberalisation over the past several years. On *wireline services*, the number of fixed telephone lines stayed high at 3.93 million at end-2001, which was just 1% lower than a year earlier. Within this total, the number of lines for business customers rose by 2%, while the number of lines for residential customers fell by 2%. These two groups of customers accounted for 45% and 55% respectively of all the telephone lines at end-2001. Per capita tele-density in Hong Kong was estimated at 58 telephone lines per 100 inhabitants, one of the highest in Asia. As to facsimile lines, the number went up by 2% over a year earlier to 411 000 at end-2001. This gave 23 facsimile lines per 100 business telephone lines, again amongst the highest in Asia. On Internet usage, broadband services had become increasingly popular in an innovative and competitive market. Compared with a year earlier, the volume of traffic through broadband networks had a six-fold jump to 9 000 terabits in December 2001.

/Diagram 3.26

Diagram 3.26

**Number of direct exchange lines* by main user category
(as at end of quarter)**



Note : (*) Including facsimile lines.

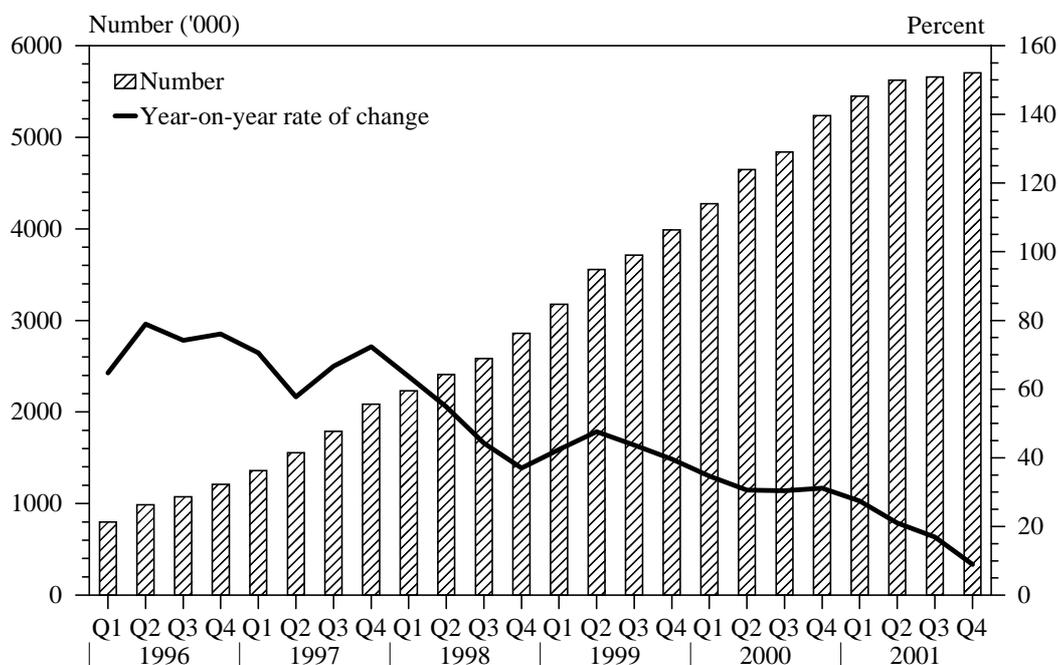
3.45 As a further step towards attaining full liberalisation of the local fixed telecommunications market in 2003, the Government conducted public consultation in October and November 2001 on the relevant implementation details. With a fully liberalised market, Hong Kong could attract more investment in infrastructure for the local Fixed Telecommunications Network Services (FTNS), conducive to upholding its position as a regional telecommunications and Internet hub. (On 11 January 2002, the Government, having received and considered all the feedback from the public consultation, announced the detailed arrangements for full liberalisation of the FTNS market as from 1 January 2003. There would not be any pre-set limit on the number of licences to be issued, nor any time limit for licence applications. In line with international practice, there would also be no performance bond or capital expenditure requirements.)

3.46 On *wireless services*, the mobile phone segment continued to fare strongly, though at an already much moderated pace. The number of mobile phone customers rose further by 9% over a year earlier to 5.7 million at end-2001⁽⁹⁾. This gave a mobile phone penetration rate of 85%, amongst the highest in the world. On the other hand, the paging segment remained on a decline, with the number of customers shrinking further by 23% over a year earlier to 253 000 at end-2001.

/3.47

3.47 Following two rounds of public consultation in 2000, the Government announced the licensing and regulatory framework for the third generation (3G) mobile services in February 2001. An Information Memorandum on licensing of 3G services was then issued in July to invite applications for licences, and in October four licences for a period of 15 years were granted. The successful licensees were each required to pay an annual spectrum utilisation fee of \$50 million for the first five years, and an amount equivalent to 5% of the network turnover subject to a minimum rising guaranteed payment for the ensuing ten years. Through the issue of 3G licences, Hong Kong should be able to enjoy 3G services at about the same time as the advanced economies overseas.

Diagram 3.27
Number of public mobile radiotelephone service customers*
(as at end of quarter)



Note : (*) Including all mobile phone service subscribers and the stock of pre-paid Subscribed Identity Module (SIM) cards already sold to customers.

/Notes

Notes :

- (1) The service sectors comprise the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communication; financing, insurance, real estate and business services; and community, social and personal services. In respect of contribution to GDP, the service sectors also include ownership of premises, which is analytically a service activity. On the other hand, charges of financial intermediation services are deducted.
- (2) In order to provide a more accurate picture of the distribution of employment by economic sector, a set of composite employment estimates is derived by reconciling under an integrated statistical framework the employment figures obtained from the General Household Survey and the Quarterly Survey of Employment and Vacancies. Accordingly, the shares of persons engaged in the various major sectors against the total employed population in the economy are based on these composite employment estimates.

The composite employment estimates as from 1996 are based on the “resident population” definition, with the results of the 2001 Population Census incorporated..
- (3) The Index of Industrial Production is intended to reflect the recent trend of net output in real terms in the various local manufacturing industries. Output from outward processing operations across the border is not included.
- (4) The Monthly Survey of Orders-on-hand covers manufacturing firms engaging 50 or more workers. Its main purpose is to provide a broad indicator of the orders position in value terms in the local manufacturing sector at monthly intervals. Orders for outward processing operations across the border are not included.
- (5) Abstracting from short-term fluctuations caused by factors unrelated to productivity changes, output per person engaged may be taken as a broad indicator of average labour productivity. To smooth out short-term fluctuations, a four-quarter moving average is used in computing output per person engaged. Besides the increase in the workers' own efficiency, average labour productivity also reflects the increased output brought about by investment in machinery and equipment, thereby resulting in a greater capital intensity per worker. An upward shift in the occupational mix also raises average labour productivity.
- (6) On 3 September 2001, the Chief Secretary for Administration announced that a moratorium would be imposed immediately on all sales of HOS/PSPS flats until end-June 2002, and that additional home ownership loans equal in number to the sale flats put on hold would be made available to eligible families. He also announced that the supply of new HOS/PSPS flats after the moratorium would not exceed 9 000 units a year up to the financial year 2005/06.

/(7)

- (7) Developers offered a variety of inducements pertaining to flexible payment terms, top-up loans, cash rebates, and mortgage subsidies in the early part of the repayment period. Flat buyers might opt for different combinations of these privileges, or else might seek a direct price discount. In effect, the acquisition cost initially and/or the mortgage cost in the ensuing few years for the flat buyers could be reduced considerably.

- (8) Since April 1999, the Government has been operating an Application System under the Land Sale Programme, whereby the Government sets aside additional sites on a Reserve List for open application by the developers. Provided that the deposit placed for the application reflects the prevailing market price, the site involved can be released from the Reserve List for open auction or tender. This helps ensure a flexible supply of Government land in response to market demand.

- (9) This figure includes all mobile phone service subscribers and the stock of pre-paid Subscribed Identity Module (SIM) cards already sold to customers.

CHAPTER 4: THE FINANCIAL SECTOR*

Overall financial market situation

4.1 In 2001, the Hong Kong dollar exchange and money markets held broadly stable, notwithstanding the marked deterioration in the global and regional economic environment during the year. The market exchange rate of the Hong Kong dollar against the US dollar stayed close to the linked rate throughout the year, but the spreads between the Hong Kong dollar forward rates and spot rates against the US dollar reversed from a small discount at end-2000 to a small premium at end-2001. Along with the successive cuts in US interest rates since the beginning of the year, local interest rates eased markedly. With Hong Kong dollar deposits rising slightly and Hong Kong dollar loans edging lower during the year, the Hong Kong dollar loan-to-deposit ratio fell to a new low at end-2001. The local stock market followed the downtrend carried over from the preceding year, and turned more volatile immediately after the 911 incident. The Hang Seng Index plunged to a near three-year low of 8 934 on 21 September. It then rebounded to above the 11 000 mark in mid-November, and closed 2001 at 11 397, still 24% below the level at the end of 2000.

Exchange rates

4.2 Despite volatilities in the global financial markets, the spot exchange rate of the Hong Kong dollar against the US dollar remained close to the linked rate throughout 2001, moving within a narrow range of 7.796 to 7.800 during the year. However, the spread between the twelve-month Hong Kong dollar forward rate and the spot rate against the US dollar reversed from a discount of 167 pips (each pip equivalent to HK\$0.0001) at end-2000 to a premium of 235 pips at end-2001, amidst deepening financial crisis in Argentina and a significant depreciation of the Japanese yen towards the year-end.

(*) **This chapter is jointly prepared by the Hong Kong Monetary Authority and the Economic Analysis Division.**

4.3 Under the linked exchange rate system⁽¹⁾, the movements in the exchange rates of the Hong Kong dollar against other major currencies follow closely those of the US dollar. During 2001, the US dollar was still taken as a favoured currency amidst the synchronised global economic downturn, hence its distinct strength notwithstanding the downturn in the US economy. Market anxiety induced by the 911 incident did weaken the US dollar briefly, but it had regained virtually all the lost ground against the major currencies by mid-October.

4.4 The Japanese yen was trending down against the US dollar during most of 2001, being dragged by the weakness in the Japanese economy. The Bank of Japan's continuous monetary easing and investors' perception of a weak-yen policy for supporting export growth and curbing deflation also contributed to the downtrend. Along with the decline in share prices in the Tokyo stock market, the yen-dollar exchange rate plunged to a 38-month low of 131.7 at end-2001. At this level, the yen was down by 15.2% from end-2000, the largest yearly fall since 1979. Affected by the yen's weakness, many of the other East Asian currencies, particularly the Singapore dollar and Korean won, likewise fell against the US dollar.

4.5 The euro also weakened against the US dollar during 2001, except for some firming up between July and September. The more distinct economic slow-down in the euro area and the perceived conservative stance of the European Central Bank contributed, although equally it mirrored the ascending trend of the US dollar. The euro-dollar exchange rate, at 0.889 at end-2001, was down by 5.6% from end-2000. As to the pound sterling, it fell against the US dollar to a 16-year low of US\$1.40 in early June, before rebounding somewhat in the ensuing months. At US\$1.45 at end-2001, there was still a 2.7% fall from the level at end-2000.

4.6 Mainly reflecting the strength of the US dollar, the trade-weighted Nominal Effective Exchange Rate Index⁽²⁾ of the Hong Kong dollar rose from 102.9 at end-2000 to 105.9 at end-2001. Yet after adjusting for relative movements in the consumer price indices corresponding to movements in the nominal exchange rates of Hong Kong's trading partners, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar fell, albeit only modestly, from 99.9 at end-2000 to 97.9 at end-2001.

/Table 4.1

Table 4.1

**Trade-weighted Effective Exchange Rate Index
of the Hong Kong dollar**

<u>As at the end of</u>	Trade-weighted Nominal EERI ^(a) (Jan 2000 = 100)	Trade-weighted Real EERI ^(b) (Jan 2000 = 100)
2000 Q1	100.7 (0.6)	100.1 (-0.7)
Q2	100.9 (0.2)	100.0 (-0.1)
Q3	102.4 (1.5)	99.9 (-0.1)
Q4	102.9 (0.5)	99.9 (*)
2001 Q1	105.4 (2.4)	99.9 (*)
Q2	105.9 (0.5)	101.5 (1.6)
Q3	104.4 (-1.4)	99.6 (-1.9)
Q4	105.9 (1.4)	97.9 (-1.7)

Notes : (a) The nominal Effective Exchange Rate Index of the Hong Kong dollar is a weighted average of the exchange rates of the Hong Kong dollar against the currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong.

As from 2 January 2002, a new series of nominal EERI replaces the old series, with the weights updated to reflect the average pattern of merchandise trade during 1999 and 2000, and with the base period brought up to January 2000.

The currency basket of the new series has also been updated to include the euro and the Philipino peso, and to exclude the five currencies pertaining to the participating countries of the euro.

- (b) The real Effective Exchange Rate Index is obtained by adjusting the nominal EERI for relative movements in the seasonally adjusted consumer price indices of the respective trading partners.
- () % change during the quarter.
- (*) Change of less than 0.05%.

/Diagram 4.1

Diagram 4.1

Exchange rate of Hong Kong dollar against US dollar

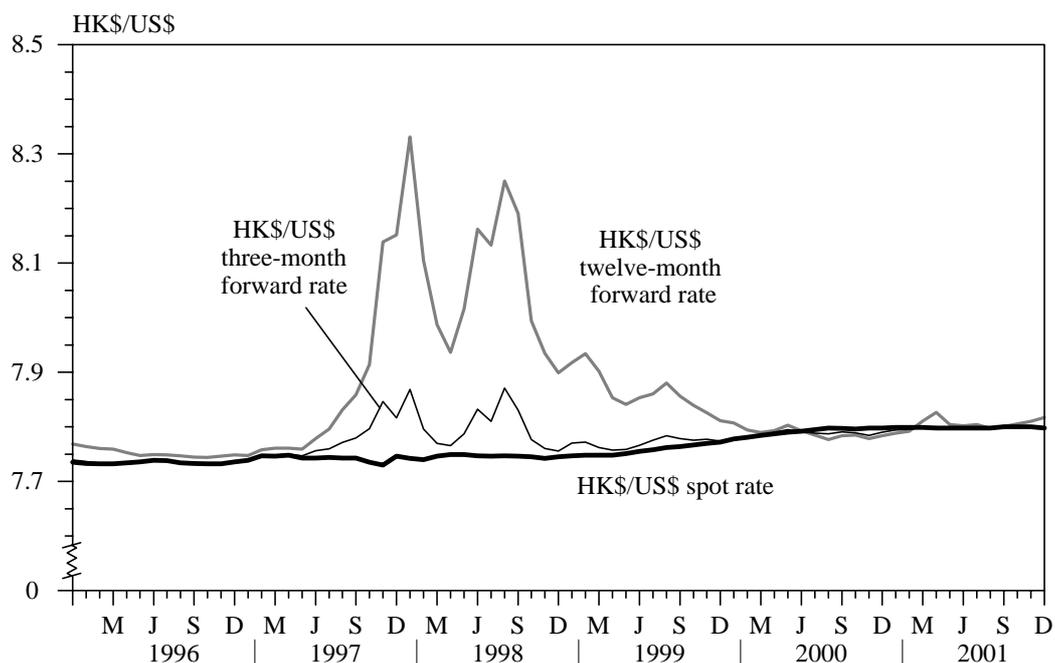
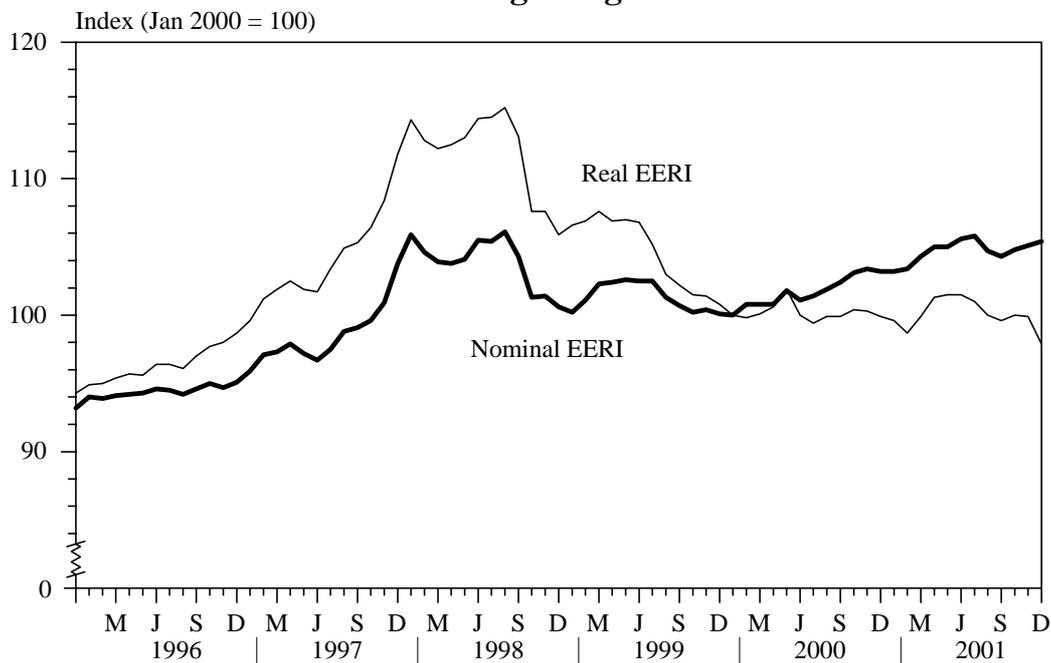


Diagram 4.2

Trade-weighted Effective Exchange Rate Index of the Hong Kong dollar



Note : See Notes (a) and (b) to Table 4.1.

/Interest

Interest rates

4.7 During 2001, the US Federal Reserve lowered the Fed Funds target rate by a total of 475 basis points in eleven moves, with a view to tempering the economic downturn. This brought US interest rates to a 40-year low. Largely tracking their US counterparts, local interest rates eased markedly, with the three-month HIBOR falling from 5.8% at end-2000 to 1.9% at end-2001. The spread between the three-month HIBOR and the corresponding Euro-dollar deposit rate was 5 basis points in favour of the Hong Kong dollar at end-2001, reversing from 53 basis points in favour of the US dollar at end-2000.

4.8 Changes in the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority matched fully those in the US Fed Funds target rate. The Base Rate was lowered from 8% at end-2000 to 3.25% at end-2001. Upon the full interest rate deregulation on 3 July 2001, individual banks are free to set the savings deposit rate and indeed all the deposit interest rates. Yet interest rates in the local banking sector still followed the US interest rate cuts rather closely. The average savings deposit rate was reduced from 4.75% at end-2000 to 0.15% at end-2001, while the best lending rate offered by the major banks came down from 9.50% to 5.13%. The relatively larger decline in the savings deposit rate than in the best lending rate reflected ample liquidity in the local banking sector. As another indication of ample liquidity, the average spread of the best lending rate over the three-month time deposit rate widened from 4.25 percentage points in 2000 to 4.62 percentage points in 2001.

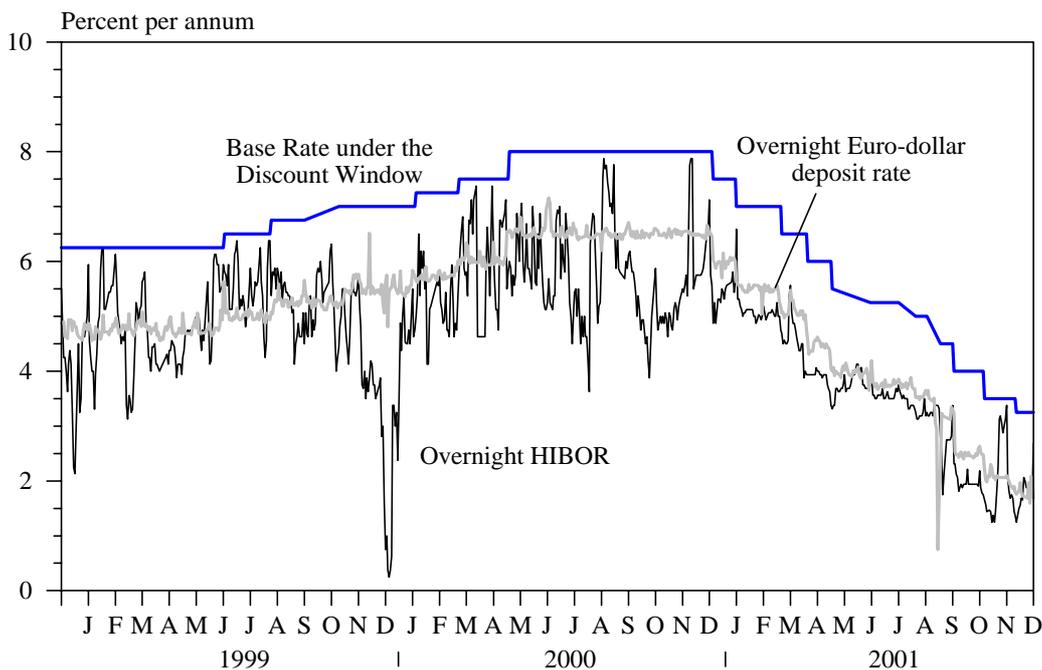
4.9 Meanwhile, competition amongst the banks for residential mortgage business remained intense. The proportion of new mortgage loans granted at more than two percentage points below the best lending rate rose significantly, from 62.3% at end-2000 to 87.2% at end-2001⁽³⁾.

/Diagram 4.3

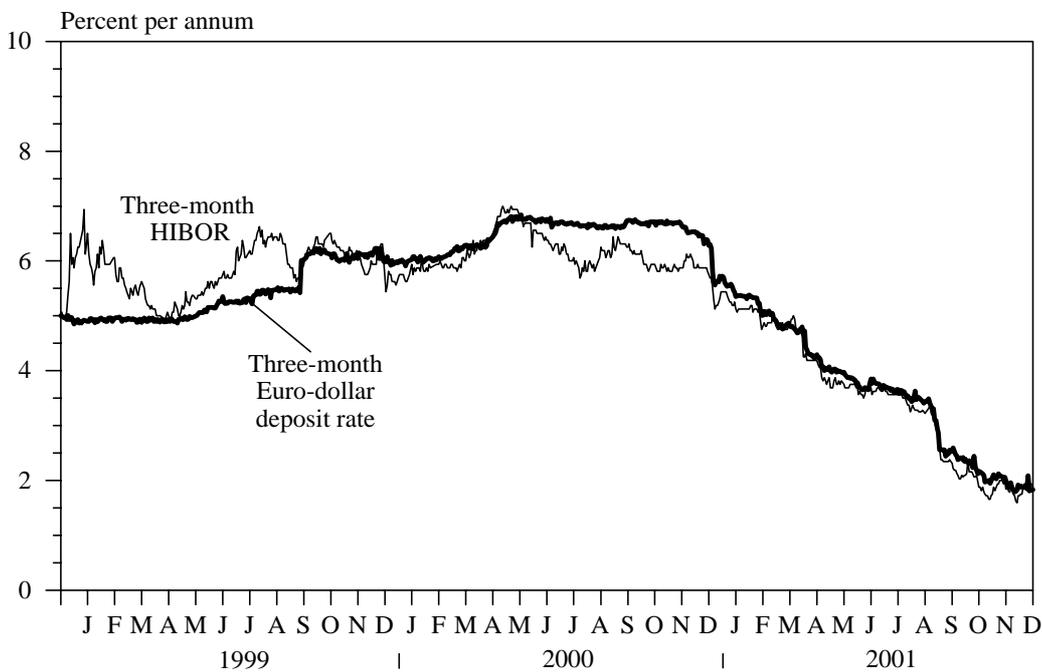
Diagram 4.3

Interest rates

(a) Base Rate under the Discount Window, and overnight HIBOR and Euro-dollar deposit rate



(b) Three-month HIBOR and Euro-dollar deposit rate



/Diagram 4.3 (cont'd)

Diagram 4.3 (cont'd)

(c) Twelve-month HIBOR and Euro-dollar deposit rate

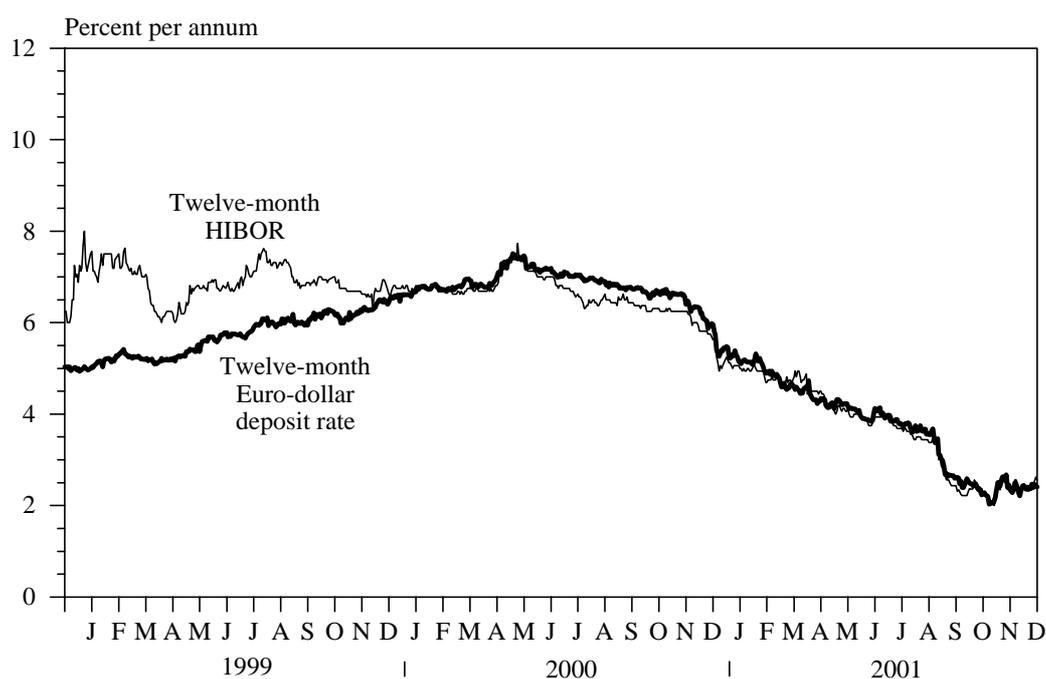


Table 4.2

**Hong Kong dollar inter-bank offer rates (HIBORs)
(% per annum, as monthly average)**

During the month		Overnight HIBOR		Three-month HIBOR		Twelve-month HIBOR	
2000	Mar	5.41	(-45)	5.93	(-23)	6.69	(-11)
	Jun	5.95	(-61)	6.58	(-18)	7.07	(-12)
	Sep	6.73	(22)	6.23	(-40)	6.49	(-30)
	Dec	6.26	(-25)	5.94	(-54)	5.92	(-27)
2001	Jan	5.41	(-59)	5.32	(-35)	5.14	(-23)
	Feb	5.08	(-44)	5.08	(-22)	4.94	(-18)
	Mar	4.94	(-39)	4.83	(-9)	4.74	(1)
	Apr	4.37	(-45)	4.57	(2)	4.69	(25)
	May	3.72	(-48)	3.84	(-19)	4.16	(-7)
	Jun	3.85	(-11)	3.67	(-12)	3.92	(-9)
	Jul	3.57	(-19)	3.63	(-8)	3.86	(-7)
	Aug	3.38	(-29)	3.36	(-16)	3.51	(-16)
	Sep	2.96	(-15)	2.84	(-11)	2.93	(-11)
	Oct	2.00	(-48)	2.12	(-22)	2.35	(-9)
	Nov	2.06	(-7)	1.84	(-22)	2.29	(-5)
	Dec	1.75	(-9)	1.81	(-6)	2.44	(6)

Note: () Figures in brackets represent the spread between the HIBOR and the corresponding Euro-dollar deposit rate in basis points. A positive value denotes a differential in favour of the Hong Kong dollar, while a negative value denotes a differential in favour of the US dollar.

/Table 4.3

Table 4.3

Hong Kong dollar interest rates
 (% per annum, as monthly average of the rates
 quoted by the major banks)

Time deposit rates for
deposits of less than HK\$100,000

	<u>During the month</u>	<u>One- week</u>	<u>One- month</u>	<u>Three- month</u>	<u>Six- month</u>	<u>Twelve- month</u>	<u>Savings deposit rate</u>	<u>Best lending rate</u>
2000	Mar	3.98	4.46	4.70	4.97	5.53	4.04	8.79
	Jun	4.64	5.22	5.51	5.66	5.78	4.75	9.50
	Sep	4.69	5.09	5.09	5.15	5.27	4.75	9.50
	Dec	4.60	5.00	4.91	4.88	5.05	4.75	9.50
2001	Jan	4.17	4.53	4.49	4.43	4.42	4.36	9.11
	Feb	3.68	3.98	3.96	3.90	3.90	3.82	8.57
	Mar	3.53	3.74	3.73	3.71	3.71	3.65	8.40
	Apr	3.04	3.31	3.31	3.31	3.39	3.12	7.87
	May	2.49	2.67	2.70	2.76	2.92	2.57	7.32
	Jun	2.22	2.41	2.46	2.52	2.73	2.25	7.00
	Jul	2.01	2.29	2.29	2.34	2.56	1.97	6.77
	Aug	1.90	2.09	2.08	2.16	2.34	1.88	6.69
	Sep	1.36	1.59	1.58	1.63	1.73	1.33	6.30
	Oct	0.51	0.87	0.87	0.87	1.02	0.58	5.55
	Nov	0.33	0.54	0.56	0.61	0.82	0.34	5.31
	Dec	0.22	0.51	0.51	0.63	1.04	0.20	5.17

Deposits and money supply

4.10 Hong Kong dollar deposits (adjusted to include foreign currency swap deposits⁽⁴⁾) rose marginally by 0.2% over a year earlier to \$1,851 billion at end-2001, following a 5.0% growth during 2000. They fell slightly by 0.4% during the first quarter of 2001, but reversed to modest growth of 0.2%, 0.3% and 0.1% respectively during the ensuing three quarters. The share of Hong Kong dollar deposits in total deposits increased to 55.1% at end-2001, from 53.1% at end-2000.

/4.11

4.11 Within the Hong Kong dollar deposits, time deposits fell during all the four quarters in 2001, while savings and demand deposits generally rose. This reflected a shift in deposit portfolio induced by the successive cuts in local interest rates during the year. Demand deposits rose by 14.4% over a year earlier to \$128 billion at end-2001, and savings deposits surged by 24.6% to \$614 billion, with both types of deposits growing faster at double-digit rates during the second half of the year. On the other hand, time deposits fell by 10.8% over a year earlier to \$1,109 billion at end-2001.

Table 4.4

Hong Kong dollar deposits with authorized institutions

% change during the quarter		<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u> ^{(a)(b)}	Total Hong Kong dollar deposits ^(a)
2000	Q1	1.7	1.1	-2.0	-1.0
	Q2	-4.4	-2.9	4.4	1.9
	Q3	1.5	-1.0	3.1	2.0
	Q4	7.5	12.2	-2.1	1.9
2001	Q1	-6.1	1.4	-0.6	-0.4
	Q2	0.9	8.3	-3.2	0.2
	Q3	5.9	4.4	-2.0	0.3
	Q4	14.0	8.7	-5.4	0.1
Total amount at the end of December 2001 (HK\$Bn)		128	614	1,109	1,851
% change over a year earlier		14.4	24.6	-10.8	0.2

Notes : (a) Adjusted to include foreign currency swap deposits.

(b) Time deposits with licensed banks plus deposits with restricted licence banks and deposit-taking companies.

/4.12

4.12 With US dollar and non-US dollar deposits both declining, total foreign currency deposits (adjusted to exclude foreign currency swap deposits) fell by 7.8% over a year earlier to \$1,506 billion at end-2001, in contrast to a 15.3% growth during 2000. The contraction during 2001 in non-US dollar deposits, at 10.8%, was larger than that in US dollar deposits, at 6.2%. On the quarterly profile, total foreign currency deposits declined by 5.3% during the first quarter of 2001, rose back by 2.7% during the second quarter, and then resumed decline during both the third and fourth quarters, by 0.3% and 5.0% respectively.

Table 4.5

Foreign currency deposits with authorized institutions

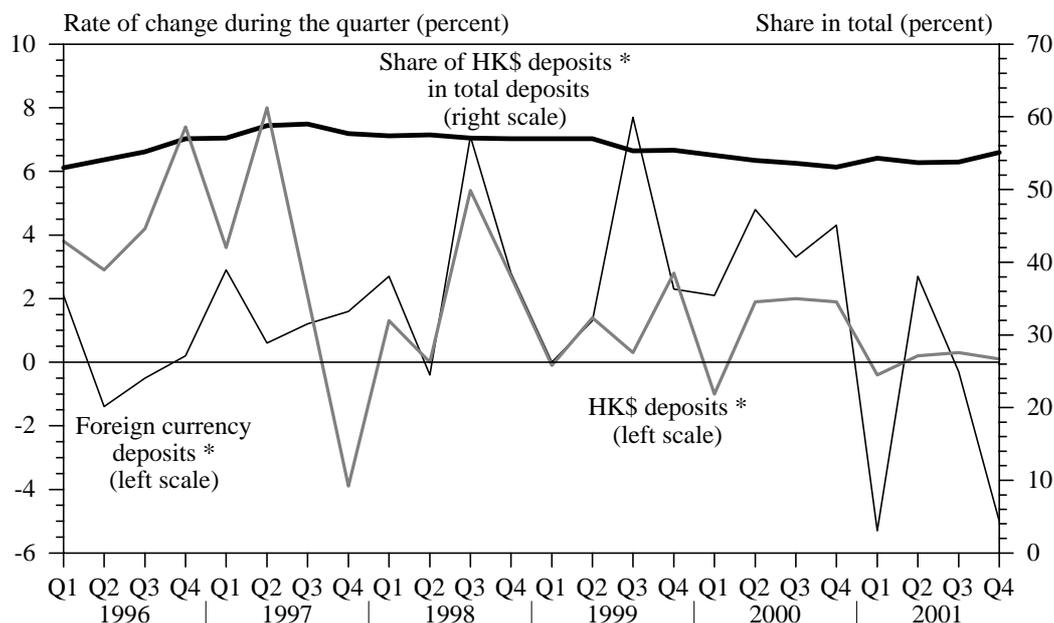
% change during the quarter		US\$ deposits ^(a)	Non-US\$ deposits ^(a)	Total foreign currency deposits ^(a)	Foreign currency swap deposits
2000	Q1	3.0	0.8	2.1	-3.3
	Q2	6.6	2.4	4.8	1.0
	Q3	7.9	-3.5	3.3	-82.6
	Q4	7.6	-1.1	4.3	-10.1
2001	Q1	-4.3	-7.0	-5.3	-10.3
	Q2	2.7	2.7	2.7	-20.4
	Q3	-0.6	0.3	-0.3	-7.4
	Q4	-4.0	-6.9	-5.0	-7.8
Total amount at the end of December 2001 (HK\$Bn)		987	519	1,506	3
% change over a year earlier		-6.2	-10.8	-7.8	-39.0

Note : (a) Adjusted to exclude foreign currency swap deposits.

/ **Diagram 4.4**

Diagram 4.4

**Deposits with authorized institutions
by currency denomination and
share of Hong Kong dollar deposits in total deposits**



Note : (*) Adjusted for foreign currency swap deposits.

4.13 Total deposits with authorized institutions in Hong Kong fell by 3.6% over a year earlier to \$3,357 billion at end-2001, having risen by 9.6% during 2000. The decrease in 2001 was due to declines of 2.7% and 2.3% respectively during the first and fourth quarters, which more than offset the 1.3% rise during the second quarter and virtually nil change during the third quarter. As the major component of total deposits, deposits with licensed banks had a similar quarterly profile of change as total deposits during 2001, falling by 2.8% and 2.3% respectively during the first and fourth quarters, rising by 1.4% during the second quarter, and staying flat during the third quarter. These led to a 3.7% decline in deposits with licensed banks for 2001 as a whole. On the other hand, deposits with restricted licence banks and deposit-taking companies rose significantly, by 6.3% and 12.3% respectively during 2001.

/Table 4.6

Table 4.6**Total deposits by major types of authorized institution**

		<u>With licensed banks</u>				<u>With restricted licence banks</u>	<u>With deposit-taking companies</u>	
<u>% change during the quarter</u>		<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u>	<u>Sub-total</u>	<u>Time deposits</u>	<u>Time deposits</u>	<u>Total</u>
2000	Q1	2.4	1.7	0.2	0.6	-16.2	-6.2	0.4
	Q2	-2.9	-2.8	5.3	3.3	-2.4	2.6	3.3
	Q3	4.3	0.1	3.1	2.6	0.7	6.1	2.6
	Q4	16.6	9.2	0.8	3.0	9.5	-5.1	3.0
2001	Q1	-13.0	0.8	-3.1	-2.8	4.7	5.5	-2.7
	Q2	0.6	7.3	-0.2	1.4	-3.2	-6.5	1.3
	Q3	6.7	4.3	-1.7	*	7.0	16.0	*
	Q4	10.3	8.5	-6.4	-2.3	-2.0	-1.9	-2.3
Total amount at the end of December 2001 (HK\$Bn)		157	851	2,309	3,317	33	6	3,357
% change over a year earlier		3.0	22.4	-11.1	-3.7	6.3	12.3	-3.6

Note : (*) Change of less than 0.05%.

4.14 Narrow money supply, HK\$M1⁽⁵⁾, rose distinctly, by 12.8% over a year earlier to \$230 billion at end-2001, reversing the 0.7% decline during 2000. After falling by 2.6% during the first quarter of 2001, HK\$M1 resumed positive growth at 1.0%, 5.1% and 9.0% respectively during the ensuing three quarters. This was attributable to reduced opportunity cost of holding currency and demand deposits after the large interest rate cuts. On a seasonally adjusted basis, HK\$M1 likewise reverted to increase in the latter part of the year, giving a surge of 11.4% during the second half of 2001, following a 1.1% rise during the first half⁽⁶⁾. By contrast, the broader definitions of money supply, HK\$M2 and HK\$M3 (adjusted to include currency swap deposits), rose much more modestly, by 0.5% and 0.7% respectively over a year earlier to \$1,995 billion

/and

and \$2,013 billion at end-2001, which were also slower than the corresponding increases of 3.9% and 4.0% during 2000. Both HK\$M2 and HK\$M3 declined modestly by 0.5% during the first quarter of 2001. HK\$M2 then resumed growth at 0.2%, 0.6% and 0.2% respectively during the ensuing three quarters, while HK\$M3 resumed growth at 0.3%, 0.7% and 0.2% respectively during those three quarters.

Table 4.7

Hong Kong dollar money supply and total money supply

% change during the quarter	<u>M1</u>		<u>M2</u>		<u>M3</u>		
	<u>HK\$</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	
2000 Q1	-2.9	(1.4)	-2.1	-1.0	0.4	-1.0	0.2
Q2	-3.1	(0.9)	-2.3	1.6	3.1	1.6	3.0
Q3	0.6	(0.4)	2.3	1.5	2.2	1.6	2.2
Q4	5.0	(2.3)	10.7	1.7	2.9	1.7	2.9
2001 Q1	-2.6	(-3.9)	-7.5	-0.5	-2.7	-0.5	-2.6
Q2	1.0	(5.3)	0.9	0.2	1.5	0.3	1.5
Q3	5.1	(5.2)	5.7	0.6	0.2	0.7	0.3
Q4	9.0	(6.0)	7.4	0.2	-1.9	0.2	-1.9
Total amount at the end of December 2001 (HK\$Bn)	230	(226)	258	1,995	3,501	2,013	3,545
% change over a year earlier	12.8	(12.7)	5.9	0.5	-2.9	0.7	-2.8

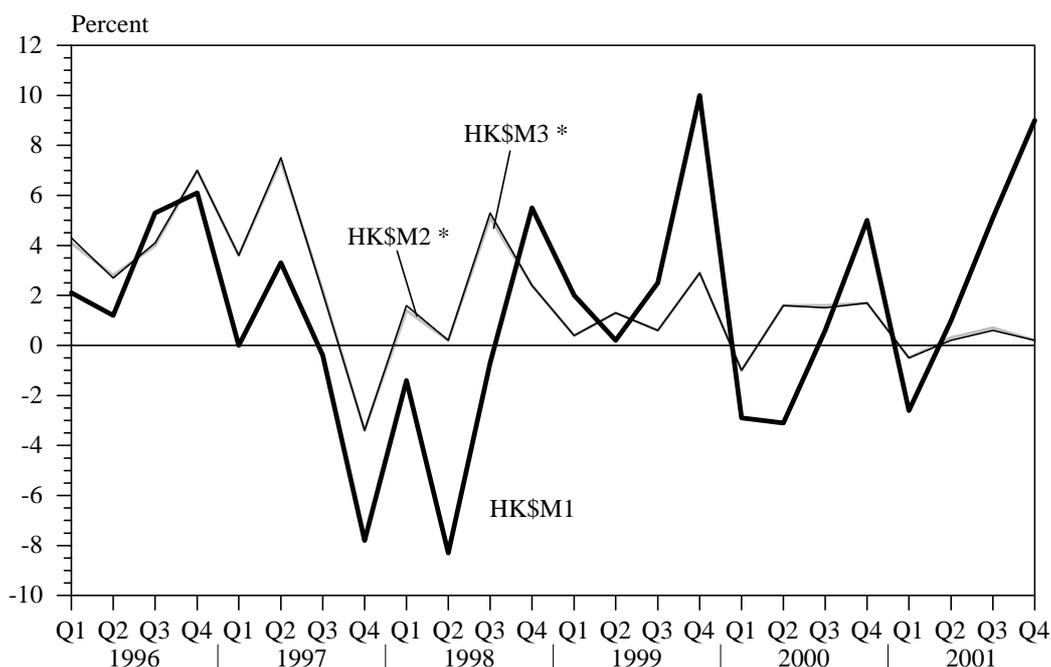
Notes : () Figures in brackets represent percentage changes on the basis of the seasonally adjusted series of HK\$M1. Seasonality is not apparent for the other monetary aggregates.

(a) Adjusted to include foreign currency swap deposits.

/Diagram 4.5

Diagram 4.5

**Hong Kong dollar money supply
(rate of change during the quarter)**



Note : (*) Adjusted to include foreign currency swap deposits.

Authorized institutions' Hong Kong dollar claims and liabilities against banks in the Mainland

4.15 The close economic relations between the Mainland and Hong Kong have led to the accumulation of a substantial amount of Hong Kong dollar funds from trading activities and inward investment in the Mainland. These funds are then placed with banks in the Mainland and subsequently channelled back to Hong Kong through the inter-bank market. As deposits from banks in the Mainland were reduced, Hong Kong dollar liabilities of Hong Kong's authorized institutions to banks in the Mainland fell markedly, by 37.0% over a year earlier to \$99 billion at end-November 2001, reversing the strong uptrend in 2000. These liabilities fell markedly by 26.5% during the first half of 2001, but the pace of the decline slowed during the second half. As lending to banks in the Mainland also dwindled, Hong Kong dollar claims of Hong Kong's authorized institutions on banks in the Mainland declined even more sharply, by 55.9% over a year earlier to \$19 billion at end-November 2001, following the downtrend in 2000. The contraction in Hong Kong dollar claims of Hong

/Kong's

Kong's authorized institutions on Mainland banks concentrated in the second quarter. Overall, net Hong Kong dollar liabilities of Hong Kong's authorized institutions to banks in the Mainland fell from \$115 billion at end-November 2000 to \$80 billion at end-November 2001.

Table 4.8

**Hong Kong dollar external claims and liabilities
involving banks in the mainland of China held by
Hong Kong's authorized institutions**

<u>As at the end of</u>		<u>Claims on banks in the Mainland</u> (HK\$Bn)		<u>Liabilities to banks in the Mainland</u> (HK\$Bn)		<u>Net liabilities to banks in the Mainland</u> (HK\$Bn)
2000	Q1	49	(-2.0)	119	(12.2)	70
	Q2	44	(-9.4)	123	(3.3)	79
	Q3	44	(-1.4)	133	(8.3)	90
	Q4	43	(-2.5)	157	(18.0)	115
2001	Q1	43	(-0.3)	141	(-10.3)	99
	Q2	19	(-55.4)	116	(-18.1)	97
	Q3	19	(-1.1)	111	(-3.5)	93
	Oct	19	(-0.7)	102	(-8.6)	83
	Nov	19	(-0.1)	99	(-2.9)	80
		<-55.9>		<-37.0>		

Notes : () % change during the period.

< > % change over a year earlier.

Loans and advances

4.16 Total loans and advances, at \$2,186 billion at end-2001, decreased by 11.2% over a year earlier, further to a 12.5% drop during 2000. This was the fourth consecutive year of decline. Largely reflecting the worsening business conditions amidst continued slow-down in the regional economy, total loans and advances declined throughout 2001, by 3.4%, 2.6%, 3.0% and 2.8% respectively during the four quarters. As in the past few years, the shrinkage was concentrated in foreign currency loans, which had a sharp fall of 33.6% over a year earlier to \$538 billion at end-2001, comprising decreases of 14.0%,

/7.7%

7.7%, 6.9% and 10.1% respectively during the four quarters. This was further to the similarly large fall of 32.9% during 2000. On the other hand, Hong Kong dollar loans fell only slightly, by 0.3% over a year earlier to \$1,648 billion at end-2001, having risen by 2.8% during 2000. In 2001, they rose slightly by 1.9% during the first quarter, but reversed to modest declines of 0.5%, 1.5% and 0.1% respectively during the ensuing three quarters.

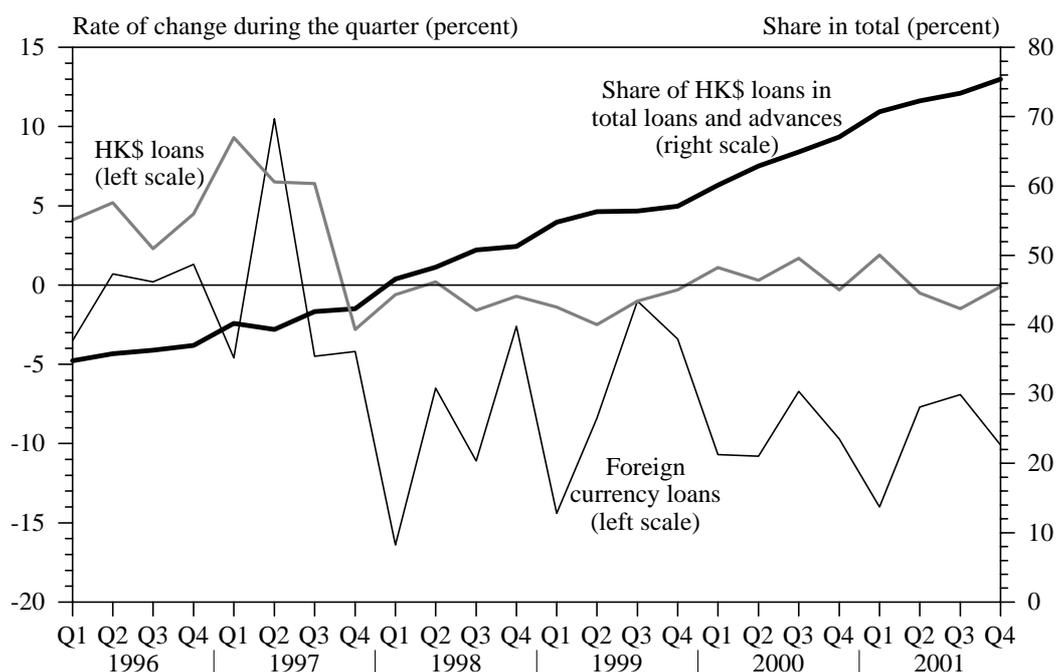
Table 4.9

Loans and advances by currency denomination

<u>% change during the quarter</u>		<u>Hong Kong dollar loans</u>	<u>Foreign currency loans</u>	<u>Total loans and advances</u>
2000	Q1	1.1	-10.7	-4.0
	Q2	0.3	-10.8	-4.1
	Q3	1.7	-6.7	-1.4
	Q4	-0.3	-9.7	-3.6
2001	Q1	1.9	-14.0	-3.4
	Q2	-0.5	-7.7	-2.6
	Q3	-1.5	-6.9	-3.0
	Q4	-0.1	-10.1	-2.8
Total amount at the end of December 2001 (HK\$Bn)		1,648	538	2,186
% change over a year earlier		-0.3	-33.6	-11.2

/Diagram 4.6

Diagram 4.6
Loans and advances by currency denomination
and share of Hong Kong dollar loans in total loans and advances



4.17 As Hong Kong dollar loans decreased slightly while Hong Kong dollar deposits increased slightly during 2001, the Hong Kong dollar loan-to-deposit ratio fell to a record low of 89.0% at end-2001, from 89.4% at end-2000. The ratio rose to 91.5% at the end of the first quarter, but fell back in the rest of the year.

Table 4.10

Hong Kong dollar loan-to-deposit ratio^(a)

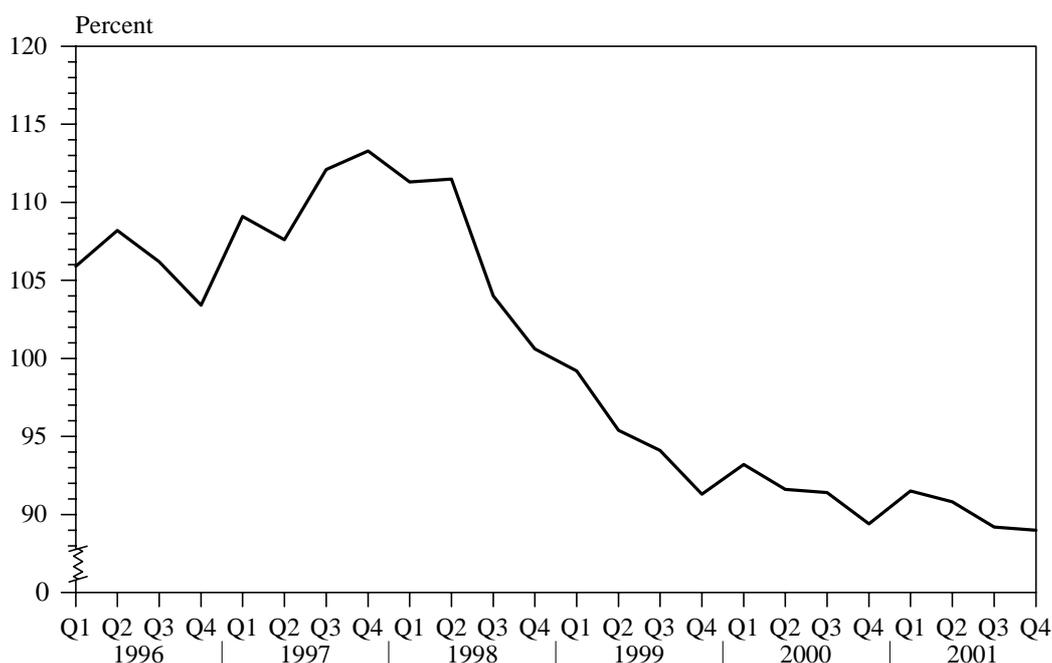
<u>As at the end of</u>		<u>%</u>
2000	Q1	93.2
	Q2	91.6
	Q3	91.4
	Q4	89.4
2001	Q1	91.5
	Q2	90.8
	Q3	89.2
	Q4	89.0

Note : (a) Hong Kong dollar deposits have been adjusted to include foreign currency swap deposits.

/Diagram 4.7

Diagram 4.7

Hong Kong dollar loan-to-deposit ratio*



Note : (*) See the footnote to Table 4.10.

4.18 Analysed by place of usage, loans for use in Hong Kong declined by 4.3% over a year earlier to \$1,881 billion at end-2001, having bounced back by 1.6% during 2000. This was in line with the slow-down in local business activity. Loans for use outside Hong Kong continued to contract sharply, reflecting in part the cut-back in Euro-yen Impact Loans⁽⁷⁾ and in part the general slackening in business activity within the region. Having plunged by 43.6% during 2000, these loans fell markedly further by 38.6% over a year earlier to \$305 billion at end-2001.

/Table 4.11

Table 4.11**Loans and advances by place of usage**

% change during the quarter		Loans for use in Hong Kong ^(a)	Loans for use outside Hong Kong ^(b)
2000	Q1	*	-12.7
	Q2	-0.2	-13.9
	Q3	3.6	-16.2
	Q4	-1.7	-10.4
2001	Q1	-0.9	-13.0
	Q2	-0.4	-12.5
	Q3	-1.7	-9.6
	Q4	-1.3	-10.6
Total amount at the end of December 2001 (HK\$Bn)		1,881	305
% change over a year earlier		-4.3	-38.6

Notes : (a) Including trade financing loans.

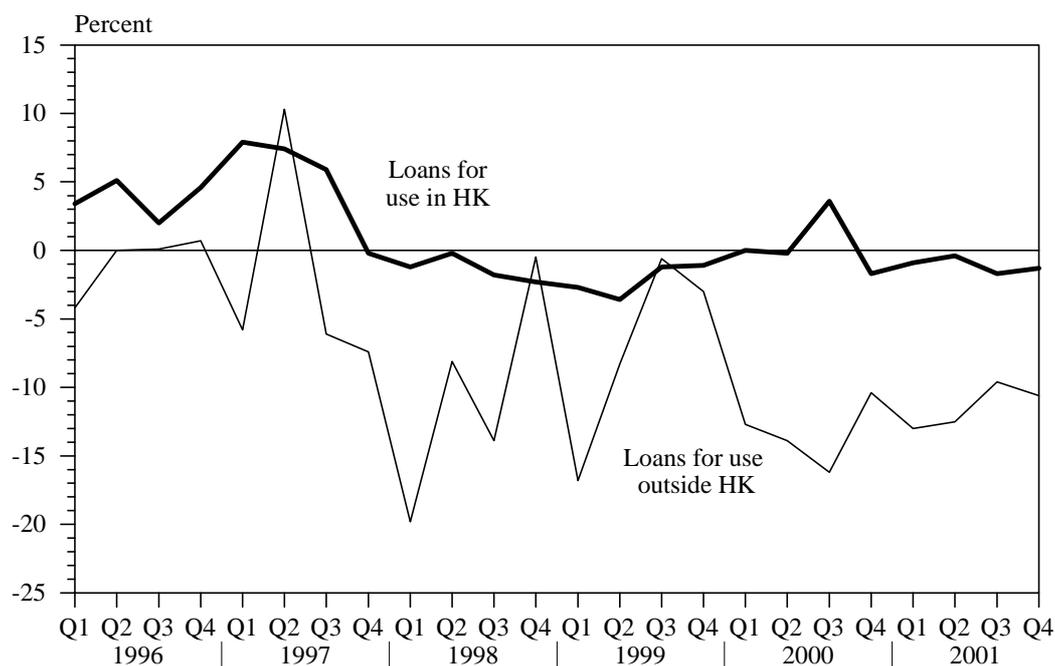
(b) Including loans where the place of usage is unknown.

(*) Change of less than 0.05%.

/Diagram 4.8

Diagram 4.8

**Loans and advances by place of usage
(rate of change during the quarter)**



4.19 Analysed by type of usage, the decline in domestic loans during 2001 was across-the-board, with the exception of residential mortgage loans and loans to stockbrokers. Along with the deteriorating performance of merchandise exports, loans for trade financing showed enlarged declines during the second half of the year, giving a decrease of 14.5% during 2001. Loans for the wholesale and retail trades also had an enlarged decline during the second half of the year as retail business slackened, giving a 15.6% decrease during 2001. Loans to financial concerns likewise fell markedly, by 14.8% during 2001. Loans for building, construction, property development and property investment were down by 2.4% during 2001, as building and construction activity turned more sluggish. Loans to the manufacturing sector rose during the first half of 2001, but reverted to a decline during the second half, giving a modest decrease of 1.7% for the year as a whole. But loans for residential mortgages grew further, by 3.0% during 2001, notwithstanding the subdued property market in most of the year. Loans to stockbrokers went up slightly by 0.6% during 2001, with a distinct surge during the second quarter.

/Table 4.12

Table 4.12**Loans and advances for use in Hong Kong by major usage^(a)**

		Loans to :							
% change during the quarter		Finance visible trade	Manu- facturing sector	Whole- sale and retail trades	Building, construction, property develop- ment and property investment	Purchase resi- dential property ^(b)	Financial concerns	Stock- brokers	Others
2000	Q1	-1.9	-1.3	-0.4	1.6	1.2	-3.6	7.4	-0.7
	Q2	4.2	-3.2	-5.4	1.2	0.4	-5.4	0.1	1.0
	Q3	-3.3	-0.9	-5.3	-0.3	0.2	7.1	68.7	15.9
	Q4	-7.6	-2.3	-5.8	1.0	1.0	-8.4	-16.2	-1.9
2001	Q1	-4.1	0.8	-2.5	2.0	0.7	-1.8	-12.0	-4.3
	Q2	2.0	2.9	-0.9	-3.2	1.0	-5.7	27.2	0.7
	Q3	-4.2	-5.7	-6.0	-2.2	0.8	-8.0	-2.0	-0.3
	Q4	-8.7	0.5	-7.0	0.9	0.5	*	-8.3	-3.5
Total amount at the end of December 2001 (HK\$Bn)		89	72	101	389	647	144	9	430
% change over a year earlier		-14.5	-1.7	-15.6	-2.4	3.0	-14.8	0.6	-7.3

Notes : (a) Statistics in this table are revised on a regular basis to incorporate subsequent amendments and loan re-classifications made by the authorized institutions concerned. The rates of change for the earlier quarters have been adjusted for the revisions known up to the latest reference quarter.

(b) Including loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme, and Tenants Purchase Scheme.

(*) Change of less than 0.05%.

4.20 The asset quality of the banks in Hong Kong continued to improve in overall terms, notwithstanding increased difficulties faced by the economy. Overdue and rescheduled loans accounted for 4.43% and classified loans 6.43%⁽⁸⁾ of the overall loan portfolio of the banks at end-September 2001, down from 5.47% and 7.22% respectively at end-2000. Arrears for over three months in mortgage repayments also decreased, to 1.22% at end-2001, from 1.32% at end-2000. However, arrears for over three months in credit card repayment rose, to 1.13% at end-September 2001, from 0.76% at end-2000. Local banks

/remained

remained well capitalised, with their consolidated capital adequacy ratio averaging at 18.3% at end-September 2001, well above the standard set by the Bank for International Settlements.

Banks and other deposit-taking institutions

4.21 The number of licensed banks decreased by seven over a year earlier to 147 at end-2001. The number of restricted licence banks increased by one to 49, while the number of deposit-taking companies fell by seven to 54. Altogether, 250 authorized institutions (excluding representative offices) from 31 countries and territories maintained a presence in Hong Kong at end-2001. Total assets of all the authorized institutions in Hong Kong decreased by 7.6% over the year to \$6,155 billion at end-2001.

4.22 Following the implementation of the final phase of interest rate deregulation on 3 July 2001, interest rates on all types of deposits have since been determined by competitive market forces and set freely by individual banks⁽⁹⁾. The prohibition of interest on current accounts has also been lifted at the same time. Banks' response to the deregulation has been varied, in terms of their charging policies for banking services, minimum balance requirements, and tiering of interest rates.

4.23 On enhancing deposit protection in Hong Kong, opinions obtained from public consultation indicate that there is broad support for the introduction of such a scheme in Hong Kong. In April 2001, the Administration approved in principle the establishment of a deposit insurance scheme in Hong Kong. More detailed work towards producing a set of final recommendations on the structure of the scheme followed. In September 2001, the Hong Kong Monetary Authority put out a discussion paper to seek views from the industry and the public on issues related to funding and premium assessment for the scheme. Other issues being studied include the mechanism for depositor compensation, legal structure and organisation of the scheme.

Insurance

4.24 At end-2001, the total number of insurance companies decreased by one over a year earlier to 204. Within this total, 45 were engaged wholly in long-term business, 140 wholly in general business, and 19 in composite business. Taken together, insurance companies from 26 countries and

/territories

territories maintained a presence in Hong Kong at end-2001. Benefited mostly from the robust life insurance business, the value of business receipts in the insurance industry rose by 14% in the first three quarters of 2001 over a year earlier, similar to the 13% increase in 2000.

The debt market

4.25 In 2001, a total of 115 issues of Exchange Fund paper were launched to replace the maturing issues⁽¹⁰⁾. The total market value of Exchange Fund paper outstanding rose by \$5.1 billion over a year earlier to \$113.8 billion at end-2001. Market response to the tenders of Exchange Fund paper continued to be favourable, with an average over-subscription rate of 4.9 times in 2001, up from 3.7 times in 2000. Trading in Exchange Fund paper, however, declined, with the average daily turnover falling from \$23.8 billion in 2000 to \$21.2 billion in 2001. The yield spread of five-year Exchange Fund Notes over the corresponding US Treasuries widened slightly, from 90 basis points at end-2000 to 92 basis points at end-2001.

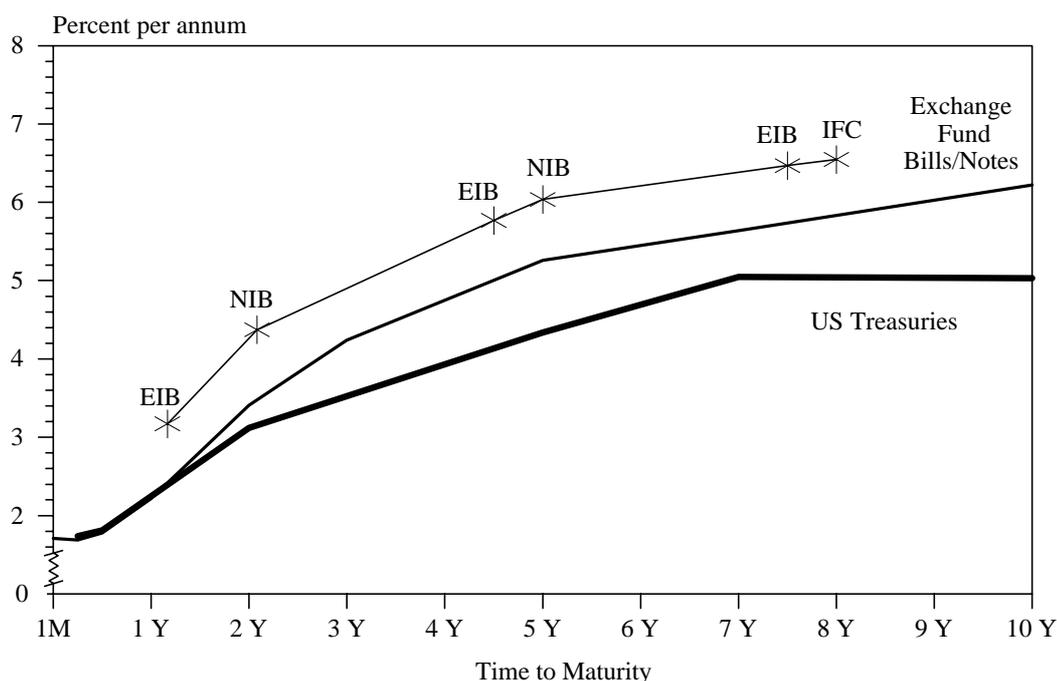
Table 4.13

Exchange Fund Bills and Notes issued by HKMA

		<u>Amount outstanding as at the end of the quarter</u> (HK\$Bn)	<u>Average daily turnover in the quarter</u> (HK\$Bn)
2000	Q1	103.5	23.4
	Q2	105.2	23.8
	Q3	106.8	24.0
	Q4	108.6	23.9
2001	Q1	110.1	21.5
	Q2	111.5	20.7
	Q3	112.7	19.7
	Q4	113.8	22.9

/Diagram 4.9

Diagram 4.9
Hong Kong dollar and US dollar yield curves
(as at the end of December 2001)



Note : AAA Hong Kong dollar debt issuers

EIB	European Investment Bank
IFC	International Finance Corporation
NIB	Nordic Investment Bank

4.26 The Hong Kong Mortgage Corporation (HKMC) has become one of the major issuers of debt securities in Hong Kong. In 2001, \$16.0 billion worth of HKMC notes was launched. At end-2001, the total outstanding value of debt securities issued by HKMC under its Note Issuance Programme and Debt Issuance Programme stood at \$10.5 billion and \$8.9 billion respectively, up from \$9.0 billion and \$2.6 billion at end-2000.

4.27 In 2001, \$84.0 billion worth of new negotiable certificates of deposit (NCDs) was launched, slightly higher than that of \$83.0 billion issued in 2000. Of the new issuance of NCDs in 2001, \$56.2 billion was denominated in Hong Kong dollars, down from \$78.5 billion in 2000. At end-2001, the total value of NCDs outstanding stood at \$172.3 billion, less than that of \$177.6 billion at end-2000. Within this total, \$134.9 billion was denominated in Hong Kong dollars at end-2001, down from \$151.4 billion at end-2000. The proportion of Hong Kong dollar denominated NCDs held by the local banking sector fell to 55.3% at end-2001, from 60.8% at end-2000.

/Table 4.14

Table 4.14**NCDs issued by authorized institutions in Hong Kong**

As at the <u>end of</u>		<u>Issued and outstanding</u> (HK\$Bn)		<u>Held by authorized institutions</u> (HK\$Bn)		<u>Held outside the local banking sector</u> (HK\$Bn)	
		<u>In HK\$</u>	<u>Total</u>	<u>In HK\$</u>	<u>Total</u>	<u>In HK\$</u>	<u>Total</u>
2000	Q1	174.0	202.8	105.7	117.3	68.4	85.5
	Q2	165.7	197.7	98.4	112.1	67.3	85.6
	Q3	158.4	185.5	95.7	109.0	62.7	76.5
	Q4	151.4	177.6	92.0	104.4	59.4	73.1
2001	Q1	146.7	172.8	90.4	102.9	56.4	69.9
	Q2	148.6	180.1	91.5	104.8	57.1	75.2
	Q3	147.4	179.7	86.0	98.6	61.4	81.1
	Q4	134.9	172.3	74.6	86.3	60.4	86.0

4.28 805 new issues of other Hong Kong dollar debt instruments, totalling \$96.5 billion, were launched by the private sector in 2001. These compared with 579 new issues for \$100.4 billion in 2000. Partly reflecting risk aversion by the debt issuers against interest rate volatility, issuance of fixed rate bonds by the private sector, at \$78.2 billion in 2001, continued to exceed substantially that of floating rate notes, at \$18.3 billion. At end-2001, outstanding Hong Kong dollar fixed rate bonds and floating rate notes from the private sector amounted to \$181.6 billion and \$53.3 billion respectively, giving a total of \$234.9 billion⁽¹¹⁾. These were higher than the corresponding figures of \$162.7 billion, \$41.0 billion and \$207.3 billion at end-2000. Meanwhile, there were 15 Hong Kong dollar debt papers issued by multilateral agencies in 2001, raising \$7.5 billion, as compared to 30 issues for \$19.3 billion in 2000.

4.29 Taking the public and private sectors together, the total value of Hong Kong dollar debt paper outstanding amounted to \$493.6 billion at end-2001⁽¹²⁾, higher than that of \$472.1 billion at end-2000. The size of the Hong Kong dollar debt market was equivalent to 24.5% of HK\$M3, or 18.2% of the Hong Kong dollar denominated assets of the entire banking sector.

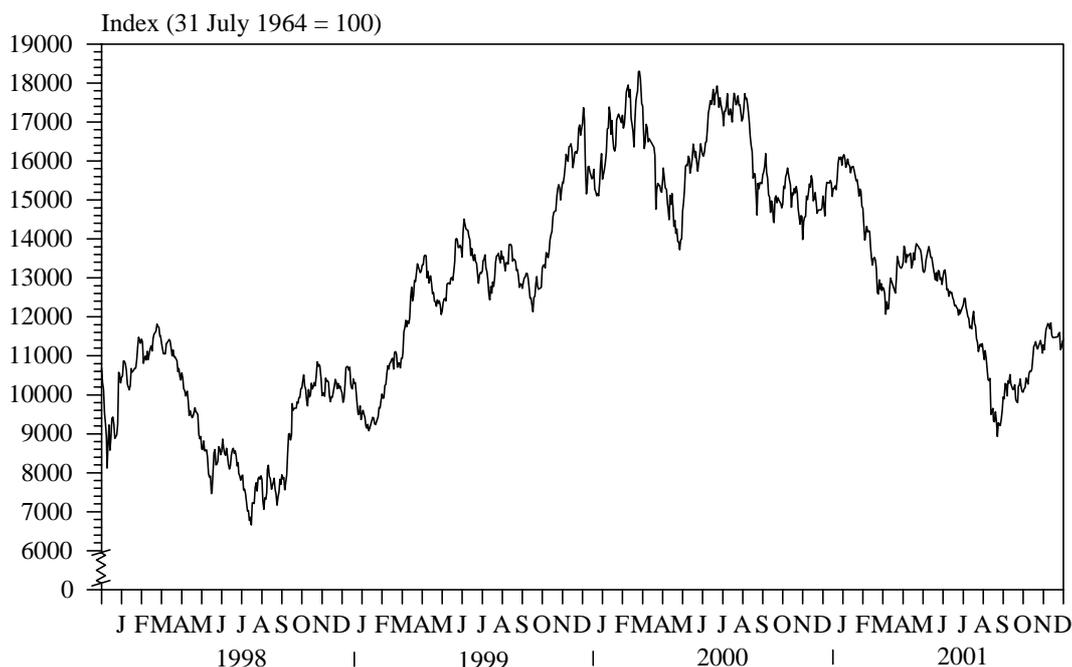
/The

The stock, futures and gold markets

4.30 The local stock market underwent wide fluctuations during 2001, being affected much by the movements in the US stock market. The local stock market rallied at the beginning of the year, upon an unexpected cut in US interest rates on 3 January. Expectations for further interest rate cuts then pushed the Hang Seng Index to a high of 16 164 on 1 February. But as prices of telecom and technology shares worldwide plunged in March, share prices in the local stock market also tumbled. Sentiment in the local stock market improved during April and May, with inflow of funds pushing up the prices of Mainland-related shares. Then, with the deeper-than-expected US economic downturn increasingly overshadowing the global economic outlook, share prices in all the major stock markets resumed a downtrend in the summer months. The local stock market was likewise hit. The two further interest rate cuts in June and August did not render any noticeable stimulus to the market.

4.31 Widespread anxieties in the global financial markets immediately after the 911 incident pushed down the Hang Seng Index further, to a near three-year low of 8 934 on 21 September, 14% lower than the pre-911 closing. The Index then swiftly recovered to above the 10 000 mark in early October and rose further towards the year-end, as the gyrations overseas gradually settled and as the US stock market regained some strength. Resurrection of some buying interest in the local residential property market also rendered support to prices of property-related shares in the local stock market. The Hang Seng Index closed 2001 at 11 397, still 25% below the closing of 15 096 at end-2000. Share prices in most of the major overseas stock markets also suffered declines during 2001.

/Diagram 4.10

Diagram 4.10**Hang Seng Index****Table 4.15**

**Movements in the Hang Seng Index and
in the share price indices in selected overseas markets
(index as at the last trading day of the quarter)**

		<u>Hang Seng Index</u>	<u>New York Dow Jones Industrial Average</u>	<u>Tokyo Nikkei Average</u>	<u>London Financial Times Index</u>	<u>Sydney All Ordinaries Index</u>	<u>Singapore Straits Times Index</u>
2000	Q1	17 407	10 922	20 337	6 540	3 133	2 133
	Q2	16 156	10 448	17 411	6 313	3 258	2 038
	Q3	15 649	10 651	15 747	6 294	3 246	1 997
	Q4	15 096	10 787	13 786	6 222	3 155	1 927
2001	Q1	12 761	9 879	13 000	5 634	3 097	1 674
	Q2	13 043	10 502	12 969	5 643	3 425	1 727
	Q3	9 951	8 848	9 775	4 903	2 988	1 320
	Q4	11 397	10 022	10 543	5 217	3 360	1 624
% change during 2001		-24.5	-7.1	-23.5	-16.2	6.5	-15.7

/4.32

4.32 Along with the marked decline in local share prices, total stock market capitalisation, covering both the Main Board and the Growth Enterprise Market (GEM)⁽¹³⁾, fell by 19% over a year earlier to \$3,946 billion at end-2001. Average daily turnover in the local stock market also fell distinctly, from \$12.7 billion in 2000 to \$8.2 billion in 2001.

Table 4.16

**Average daily turnover and total market capitalisation
of the Hong Kong stock market**

		Average daily turnover <u>in the quarter</u> (HK\$Bn)			Total market capitalisation <u>as at the end of quarter</u> (HK\$Bn)		
		Main Board	Growth Enterprise Market	Total	Main Board	Growth Enterprise Market	Total
2000	Q1	18.0	0.6	18.6	4,983	87	5,070
	Q2	10.6	0.2	10.8	4,807	56	4,863
	Q3	11.8	0.4	12.2	4,721	80	4,801
	Q4	8.8	0.1	8.9	4,795	67	4,862
2001	Q1	8.9	0.1	9.0	4,179	61	4,240
	Q2	9.7	0.3	10.0	4,450	70	4,520
	Q3	6.6	0.1	6.7	3,373	46	3,420
	Q4	7.0	0.2	7.2	3,885	61	3,946

4.33 In 2001, 88 new share flotations were launched on the Hong Kong Stock Exchange, raising a total equity capital of \$25.7 billion. These were lower than the corresponding figures of 90 and \$132.1 billion in 2000. Of these, 31 were listed on the Main Board and 47 on GEM, raising equity capital of \$21.6 billion and \$4.1 billion respectively. As to H shares, there were three such new issuance on the Main Board, and another five on GEM, raising equity capital of \$5.6 billion and \$0.8 billion respectively. In addition to new share flotations, around \$11.9 billion was raised through private placements by 129 companies, and \$4.1 billion through rights issues by 31 companies.

4.34 As to trading in derivatives on the Hong Kong Exchanges and Clearing Ltd – Derivative Unit, the average daily turnover of Hang Seng Index futures contracts increased by 12% to 18 220 contracts in 2001. The average daily turnover of Hang Seng Index options contracts rose more markedly, by 35% to 2 965 contracts in 2001. Yet the average daily turnover of Red-Chip

/Index

Index futures contracts shrank to only three contracts in 2001. There was no trading in Red-Chip Index options contracts in 2001.

Table 4.17

Average daily turnover of Hang Seng Index futures and options contracts on the Hong Kong futures market

<u>During the quarter</u>	<u>Hang Seng Index futures contracts</u> (no. of contracts)	<u>Hang Seng Index options contracts</u> (no. of contracts)
2000 Q1	16 727	2 470
Q2	14 709	1 874
Q3	16 814	2 031
Q4	16 809	2 424
2001 Q1	17 443	2 763
Q2	17 447	2 480
Q3	18 758	2 992
Q4	19 206	3 619

4.35 At end-2001, there were 31 classes of stock options contracts. The average daily turnover of these stock options contracts decreased by 2% to 16 567 contracts in 2001. Meanwhile, the average daily turnover of stock futures contracts increased to 29 contracts in 2001.

4.36 In 2001, the average daily turnover of three-month HIBOR futures contracts surged by 98% to 2 607 contracts, while that of Rolling Forex (currency futures) contracts fell by 31% to 17 contracts.

4.37 In the gold market, demand remained generally soft during 2001. The short-lived rebounds in the early part of the year were mainly related to speculative short covering in the forward market. There was also a rebound in August, as the US dollar weakened amidst growing concern about the slackening US economy. Then upon the shock inflicted by the 911 incident, gold prices soared. The price of loco-London gold rose to a 15-month high of US\$291.6 per troy ounce at end-September. As the financial jitters settled, it softened again during the fourth quarter, to US\$276.6 per troy ounce at end-2001, though still 1.4% higher than that of US\$272.7 at end-2000. Gold price at the Chinese Gold and Silver Exchange Society stood at \$2,572 per tael at end-2001, also slightly higher than that of \$2,537 at end-2000. Turnover on the Exchange rose to 4.3 million taels in 2001, from 2.3 million taels in 2000.

/Unit

Unit trusts and mutual funds

4.38 The total number of unit trusts and mutual funds (including sub-funds and umbrella funds) in Hong Kong rose to 1 893 at end-2001, from 1 776 at end-2000. Gross sales of mutual funds increased from US\$9.3 billion in 2000 to US\$9.5 billion in 2001. After netting out redemptions, net sales amounted to US\$4.1 billion in 2001, almost tripled that of US\$1.4 billion in 2000. Amongst the various types of mutual funds, equity funds continued to account for the largest share, at 64% of the total value of funds at end-2001. This was followed by bond funds, asset allocation funds and money market funds, with respective shares of 19%, 11% and 6%.

4.39 The Mandatory Provident Fund (MPF) System⁽¹⁴⁾ continues to generate a substantial amount of retirement fund assets which, in the course of time, should add impetus to further development of the local financial market. At end-2001, the aggregate net asset values of the approved constituent funds of MPF schemes stood at \$36.0 billion, markedly risen from that of \$4.4 billion at end-2000⁽¹⁵⁾. The surge in net asset values, coming about despite the general fall in prices of equity funds during the year, was mainly attributable to assets transferred from the Occupational Retirement Schemes Ordinance schemes, continuing contribution from the enrolled population, and better compliance. By end-2001, there were 20 approved corporate trustees. On MPF products, 47 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 308 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. About 209 000 employers, 1.75 million employees and 301 000 self-employed persons had enrolled in MPF schemes, with the compliance rates for employers, relevant employees and self-employed persons rising to 88%, 95% and 91% respectively.

Notes :

- (1) Under the linked exchange rate system established in October 1983, the note-issuing commercial banks are required to pay US dollars to the Hong Kong Monetary Authority (HKMA) for the account of the Exchange Fund at the fixed rate of HK\$7.8 to US\$1.0 in return for non-interest-bearing Certificates of Indebtedness (CIs), as backing for the issue of their Hong Kong dollar banknotes. As from September 1998, the HKMA has also provided an explicit undertaking to convert the Hong Kong dollar

/balances

balances held in the clearing accounts maintained by the banks with the HKMA at the Convertibility Undertaking Rate. This was set at the then market exchange rate of 7.750 when the convertibility undertaking was introduced. From 1 April 1999, the Convertibility Undertaking Rate for the Aggregate Balance was raised from 7.750 by 1 pip per calendar day, reaching 7.800 on 12 August 2000, where it has stayed.

- (2) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. These currencies are selected on account of their importance in Hong Kong's trade, and the weights reflect their relative importance in Hong Kong's visible trade.

As from 2 January 2002, a new series of nominal Effective Exchange Rate Index replaces the old series. The weights adopted for the new EERI series are based on the average pattern of merchandise trade during 1999 and 2000, as against that during 1991 to 1993 for the old series. The currency basket for the new series has also been updated to include the euro and the Philipino peso, and to exclude the five currencies pertaining to the participating countries of the euro. Thus the currency basket for the new series contains 14 currencies, instead of 17 currencies for the old series. The base period is changed from October 1983 to January 2000.

The corresponding Real EERI, which takes into account the relative movements in the seasonally adjusted consumer price indices of the respective economies, is revised accordingly, in line with the updated weights and the new base period of the nominal EERI.

It is important to note that the EERIs thus compiled adopt constant weights on the respective currencies, while the pattern of merchandise trade changes over time. In particular, Hong Kong's trade with the Mainland has shifted more towards re-exports, from domestic exports and retained imports. Also, with the Mainland being the largest source of Hong Kong's re-exports, movements in the exchange rate of the renminbi could have somewhat different implications for Hong Kong's export competitiveness, as against movements in the other currencies.

- (3) In the light of the changing market shares of individual authorized institutions (AIs) in the residential mortgage business, the coverage of the Monthly Survey on Residential Mortgage Lending conducted by HKMA has been expanded as from May 2001, in order to increase the proportion of business being covered by the survey. Altogether 38 Ais were so included immediately after the coverage expansion. The number of Ais has since fallen to 29 due to banking sector consolidation. The Ais currently covered together account for around 96% of the total business, as compared to 92% for the 32 Ais formerly covered. The outstanding amount of mortgage loans covered by the survey has also been lifted, by 8.8%.
- (4) Foreign currency swap deposits are deposits involving customers buying foreign currencies in the spot market and placing them as deposits with authorized institutions, whilst at the same time entering into a contract to sell such foreign

/currencies

currencies (principal plus interest) forward in line with the maturity of such deposits. For most analytical purposes, they should be regarded as Hong Kong dollar deposits.

(5) The various definitions of the money supply are as follows:

M1 : notes and coins with the public, plus customers' demand deposits with licensed banks.

M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks and held outside the monetary sector.

M3 : M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.

(6) Amongst the various monetary aggregates, more apparent seasonal patterns are found in HK\$M1, currency held by the public, and demand deposits. Seasonally adjusted data on these three series back-dated to January 1990 have been compiled. The deseasonalised data facilitate analysis of the underlying trends. For details, see the November 2000 issue of the HKMA Quarterly Bulletin.

(7) Euro-yen Impact Loans (EYIL) are loans made to customers in Japan by a domestic branch of a Japanese bank but booked in an overseas branch of the bank. Loans booked in this way generally have tax and funding cost advantages for customers. Reflecting a more cautious lending stance by the Japanese banks and the need to reduce the size of their balance sheets, EYIL has declined substantially since the second half of 1997.

(8) Overdue loans are defined here as those that have been overdue for more than three months. Rescheduled loans are those that have been restructured or renegotiated because of deterioration in the financial position of the borrower, or because of inability of the borrower to meet the original repayment schedule. Classified loans are those that have been classified as substandard, doubtful or loss. Of these categorisations, classified loans overlap to certain extent with overdue and rescheduled loans.

(9) As part of the overall plan to reform and further develop the banking sector, HKMA undertook to deregulate the Interest Rate Rules (IRRs) in two phases. The first phase of deregulation implemented on 3 July 2000 removed the IRRs on time deposits with a maturity of less than seven days (but not the IRR on savings deposits), and the prohibition on benefits for deposits (other than for Hong Kong dollar savings and current accounts). The second phase of deregulation, which removed the IRR on savings deposits and the remaining prohibitions, took effect on 3 July 2001.

(10)

- (10) As from 1 April 1999, interest payments on Exchange Fund paper are allowed for expanding the stock of outstanding Exchange Fund paper.
- (11) These figures may not represent a full coverage of all the Hong Kong dollar debt paper issued by the private sector.
- (12) Due to different sources for NCD data, the total value of Hong Kong dollar debt paper outstanding may not equal the sum of the outstanding values of Exchange Fund paper, HKMC debts, NCDs, and other Hong Kong dollar debt instruments issued by the private sector.
- (13) The Growth Enterprise Market was launched by the then Stock Exchange of Hong Kong Ltd in November 1999 as an alternative market to the Main Board, in order to give emerging growth companies easier access to the funds of the investing public. Although it is open to companies in all industries and of all sizes, it is expected to provide an efficient venue for fund raising by small and medium enterprises, particularly those engaged in technology-related businesses.
- (14) The Mandatory Provident Fund (MPF) System, launched on 1 December 2000, is a privately managed mandatory system of provident fund schemes covering members of the workforce aged 18 or above, subject to certain exceptions. It provides for joint contributions by the employer and the employee, each at 5% of the employee's relevant income, to a registered MPF trust scheme, subject to a maximum and a minimum level of income for MPF contribution purposes. The accrued benefits are fully vested in the scheme members and can be transferred from scheme to scheme when there is a change in employment. The Mandatory Provident Fund Schemes Authority (MPFA) is the statutory body tasked with the responsibility for prudential regulation and supervision of the MPF System and for ensuring compliance with the Mandatory Provident Fund Schemes Ordinance.

An MPF scheme may consist of one or more constituent funds each with its own investment policy. A constituent fund may maintain a portfolio of direct investment in equities, bonds or other debt instruments, or may invest in approved pooled investment funds which may be in the form of unit trusts authorized by the Securities and Futures Commission or insurance policies issued by authorized insurers. Both constituent funds and pooled investment funds have to be approved by MPFA, and be subject to investment standards applicable to MPF investment funds.

- (15) The aggregate net asset values of the approved constituent funds of MPF schemes include assets transferred from schemes under the Occupational Retirement Schemes Ordinance, which are exempted from the MPF System.

CHAPTER 5 : THE LABOUR SECTOR

Overall labour market situation⁽¹⁾

5.1 After a year of relative tightening in 2000, the local labour market slackened distinctly in 2001. Consequential to the economic setback and increased corporate downsizing, labour demand moderated markedly over the course of the year, especially in the wake of the 911 incident. Yet labour supply continued to rise. The *seasonally adjusted unemployment rate*⁽²⁾, having edged higher from 4.4% in the fourth quarter of 2000 to 4.5% in both the first and second quarters of 2001, surged to 5.3% in the third quarter and further to 6.1% in the fourth quarter. The total numbers unemployed (not seasonally adjusted) likewise leaped, from 149 600 in the fourth quarter of 2000 to 209 800 in the fourth quarter of 2001. Furthermore, the median duration of unemployment lengthened from 78 days to 82 days, while the proportion of persons unemployed for three months or more went up from 42% to 45%.

5.2 The *underemployment rate*⁽³⁾ also rose appreciably, from 2.6% in the fourth quarter of 2000 to 3.0% in the fourth quarter of 2001, as did the total numbers underemployed, from 88 700 to 104 300. The increase again occurred predominantly in the latter part of the year, upon the impact of the 911 incident.

5.3 For persons still in employment, work effort generally accentuated. The proportion of employed persons working for 50 hours or more per week went up further, from 34% in the fourth quarter of 2000 to 35% in the fourth quarter of 2001. For those working for 60 hours or more per week, the proportion showed a slightly larger rise, from 19% to 21%. The median hours of work stayed high during the year, mostly at 48 hours per week.

/Table 5.1

Table 5.1**Unemployment and underemployment rates**

		<u>Seasonally adjusted unemployment rate</u> ^(a) (%)	<u>Underemployment rate</u> (%)
2000	Annual	4.9	2.8
	Q1	5.6	2.8
	Q2	5.1	3.1
	Q3	4.8	2.6
	Q4	4.4	2.6
2001	Annual	5.1	2.5
	Q1	4.5	2.3
	Q2	4.5	2.2
	Q3	5.3	2.5
	Q4	6.1	3.0

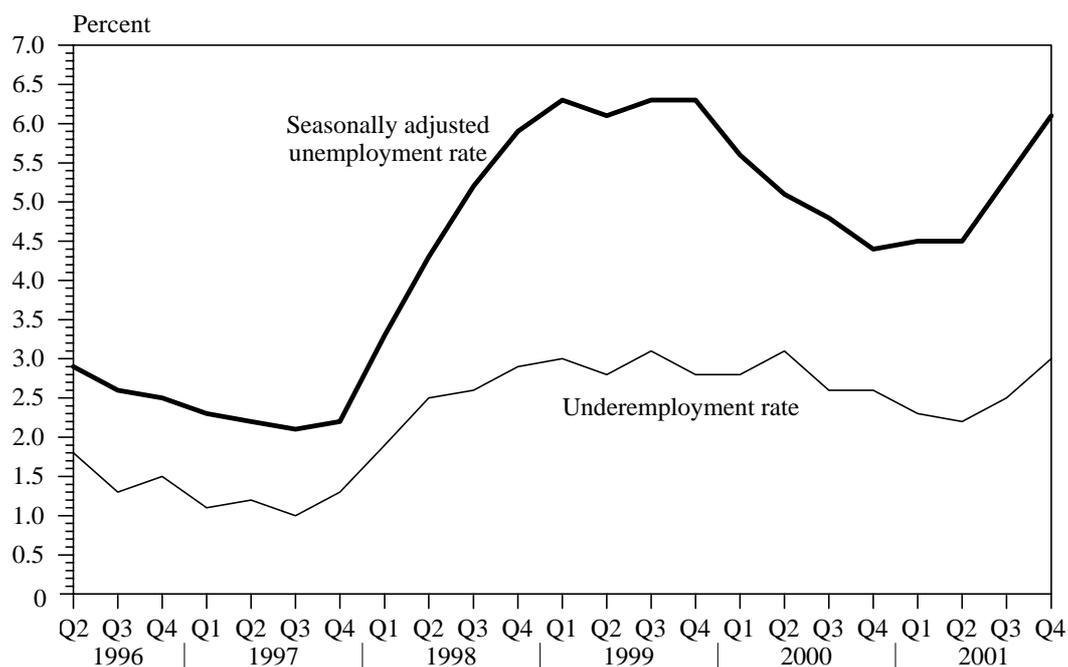
Note : (a) The new series of seasonally adjusted unemployment rate presented in Table 5.1 and Diagrams 5.1 and 5.10 has adopted the “resident population” definition and incorporated the results of the 2001 Population Census.

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.1

Diagram 5.1

Unemployment and underemployment rates



Notes : Diagrams 5.1-5.5 and 5.10 are compiled on the basis of the new series of labour force statistics, which has adopted the “resident population” definition and incorporated the results of the 2001 Population Census, back-dated to the second quarter of 1996.

Also see Note (a) to Table 5.1.

/Table 5.2

Table 5.2

**The labour force, and persons employed,
unemployed and underemployed**

		<u>Labour force</u>		<u>Persons employed</u>		<u>Persons unemployed^(a)</u>	<u>Persons underemployed</u>
2000	Annual	3 374 200	(1.6)	3 207 300	(3.1)	166 900	93 500
	Q1	3 337 100	(1.2)	3 154 500	(2.0)	182 600	93 300
	Q2	3 365 900	(1.2)	3 197 800	(2.4)	168 100	104 300
	Q3	3 391 600	(2.3)	3 224 400	(4.0)	167 200	87 800
	Q4	3 402 200	(1.9)	3 252 500	(3.9)	149 600	88 700
2001	Annual	3 423 500	(1.5)	3 249 100	(1.3)	174 400	85 400
	Q1	3 404 100	(2.0)	3 254 400	(3.2)	149 700	77 700
	Q2	3 410 100	(1.3)	3 257 500	(1.9)	152 600	75 100
	Q3	3 440 200	(1.4)	3 254 500	(0.9)	185 600	84 400
	Q4	3 439 900	(1.1)	3 230 100	(-0.7)	209 800	104 300
			<*>		<-0.8>		

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.

() % change over a year earlier.

< > % change over the preceding quarter.

(*) Change of less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

/Table 5.3

Table 5.3

**Median duration of unemployment and
proportion of the unemployed population
by duration of unemployment**

		Median duration of <u>unemployment</u> (Days)	<u>Proportion unemployed for :</u>		
			<u>Less than 3 months</u> (%)	<u>3 months to less than 6 months</u> (%)	<u>6 months or more</u> (%)
2000	Annual	77	58	18	24
	Q1	90	51	21	28
	Q2	74	60	17	23
	Q3	65	65	15	20
	Q4	78	58	18	23
2001	Annual	75	59	19	23
	Q1	75	58	20	22
	Q2	68	62	18	21
	Q3	72	61	16	23
	Q4	82	55	21	24

Note : Figures may not add up exactly to the total due to rounding.

Source : General Household Survey, Census and Statistics Department.

Table 5.4

**Median hours of work per week and
proportion of the employed population
working for 50 hours or more per week**

		Median hours of work per week for all <u>employed persons</u> (Hours)	<u>Proportion of employed persons working for :</u>		
			<u>50-59 hours per week</u> (%)	<u>60 hours or more per week</u> (%)	<u>50 hours or more per week</u> (%)
2000	Annual	48	15	18	33
	Q1	45	13	18	31
	Q2	48	14	18	32
	Q3	48	16	18	34
	Q4	48	15	19	34
2001	Annual	48	14	20	34
	Q1	48	14	19	33
	Q2	45	14	18	32
	Q3	48	15	20	36
	Q4	48	14	21	35

Note : Figures may not add up exactly to the total due to rounding.

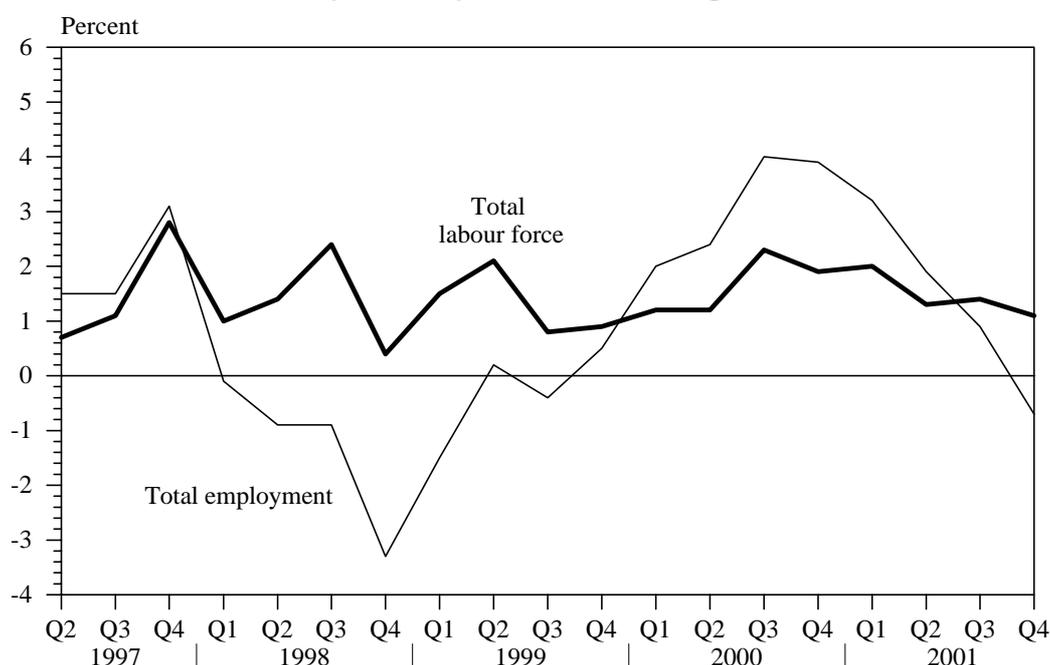
Source : General Household Survey, Census and Statistics Department.

/5.4

5.4 On the overall manpower resource balance, *total employment*⁽⁴⁾ as enumerated from households had a marked slow-down, with the year-on-year growth rate moderating from 3.2% in the first quarter of 2001 to -0.7% in the fourth quarter. Meanwhile, a moderation yet to a lesser extent was observed in the year-on-year growth rate of *total labour force*⁽⁵⁾, from 2.0% to 1.1%. These differential growth rates likewise reflected a clear slackening in the labour market.

Diagram 5.2

**Total labour force and total employment
(year-on-year rate of change)**



Note : Year-on-year rates of change from the new series of labour force statistics, which has adopted the “resident population” definition and incorporated the results of the 2001 Population Census, are available as from the second quarter of 1997.

5.5 Labour income was slightly higher in the first three quarters of 2001 than a year earlier. Yet this was attributable to the pay increase effected in the early part of 2001, on the basis of improved business conditions in 2000. On a year-on-year comparison, overall *earnings*⁽⁶⁾ rose by 2% in money terms in the third quarter of 2001, and overall *wages*⁽⁷⁾ slightly less, by 1% in money terms in September 2001. Netting out the decline in consumer prices, earnings and wages gained by 3% and 2% respectively in real terms. These more recent increases were smaller than those seen at the beginning of the year.

/Profile

Profile of unemployment and underemployment

5.6 Analysed by *economic sector*, the unemployment rate went up virtually across-the-board between the third and fourth quarters of 2001. The unemployment rates in manufacturing, the distributive trade, transport and financing services had more pronounced increases, being affected respectively by the subdued performance of external trade, retail business and the stock market. The unemployment rate in construction also moved up appreciably, amidst a further contraction in overall building and construction activity. As to the underemployment rate, the increase was concentrated in construction, manufacturing, transport, and restaurants and hotels. A broadly similar pattern of increase, though generally of a larger magnitude, was observed for the sectoral unemployment and underemployment rates in the fourth quarter of 2001 as compared to the same quarter in 2000.

Table 5.5

Unemployment rates by major economic sector (%)^(a)

	<u>2000</u>					<u>2001</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Wholesale, retail and import/export trades, restaurants and hotels	5.3	5.9	5.7	5.1	4.3	5.5	4.6	5.1	5.8	6.4
Transport, storage and communications	4.0	4.8	4.1	3.2	3.8	4.4	4.2	4.2	3.8	5.2
Financing, insurance, real estate and business services	2.6	3.0	2.5	2.7	2.3	3.0	2.7	2.5	3.1	3.9
Community, social and personal services	1.8	1.7	1.9	1.9	1.8	2.0	1.9	1.7	2.0	2.5
Manufacturing	5.4	6.7	5.0	4.9	4.9	5.3	4.0	4.9	5.6	6.8
Construction ^(b)	10.2	11.6	9.8	9.7	9.9	10.7	10.3	9.8	10.3	12.5

Notes : (a) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

(b) Including both site and non-site workers.

Source : General Household Survey, Census and Statistics Department.

/Table 5.6

Table 5.6**Underemployment rates by major economic sector (%)**

	<u>2000</u>					<u>2001</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Wholesale, retail and import/export trades, restaurants and hotels	1.4	1.6	1.6	1.2	1.2	1.3	1.1	1.1	1.3	1.5
Transport, storage and communications	3.2	3.7	3.7	2.8	2.5	2.7	2.4	2.6	2.6	3.1
Financing, insurance, real estate and business services	0.4	0.4	0.5	0.3	0.4	0.4	0.3	0.3	0.3	0.7
Community, social and personal services	1.6	1.7	1.8	1.3	1.4	1.4	1.3	1.2	1.3	1.7
Manufacturing	2.5	2.8	2.5	2.5	2.1	2.4	2.1	2.3	2.2	3.0
Construction ^(a)	13.2	11.7	14.4	12.9	13.6	12.5	11.7	10.7	12.3	15.2

Note : (a) Including both site and non-site workers.

Source : General Household Survey, Census and Statistics Department.

/Table 5.7

Table 5.7

**Unemployment and underemployment rates
by detailed economic sub-sector in the fourth quarter of 2001**

	Unemployment rate ^(a) (%)	Numbers unemployed ^(a)	Underemploy- ment rate (%)	Numbers underemployed
Wholesale, retail and import/export trades, restaurants and hotels	6.4	67 000	1.5	16 000
Wholesale/retail trade	7.3	25 300	1.8	6 100
Import/export trade	4.4	18 500	0.6	2 700
Restaurants and hotels	8.5	23 200	2.6	7 200
Transport, storage and communications	5.2	19 000	3.1	11 100
Transport	5.2	15 900	3.4	10 300
Storage	8.6	400	2.1	100
Communications	5.0	2 800	1.4	800
Financing, insurance, real estate and business services	3.9	19 600	0.7	3 400
Financing	3.6	5 100	0.4	600
Insurance	3.5	1 400	0.2	100
Real estate	3.5	4 100	0.8	900
Business services	4.4	900	0.9	1 800
Community, social and personal services	2.5	21 000	1.7	14 000
Public administration	0.6	800	0.2	200
Education, medical and other health and welfare services	2.0	6 000	1.0	3 100
Other services	3.6	14 200	2.7	10 600
Manufacturing	6.8	22 900	3.0	10 100
Food and beverages	6.4	1 500	0.4	100
Clothing and footwear	6.8	6 500	5.7	5 500
Paper and printing	7.2	4 500	0.8	500
Plastic products	8.0	1 500	3.5	700
Metal products	7.1	1 400	2.4	500
Electrical and electronic products	7.4	5 300	2.4	1 700
Other manufacturing industries	5.1	2 200	2.9	1 200
Construction	12.5	41 000	15.2	49 600
Foundation and superstructure	10.8	26 700	13.3	33 000
Decoration and maintenance	18.2	14 300	21.1	16 600

Notes : As the above figures are based on a sample survey, they are subject to sampling errors, more so for the finer breakdowns.

Figures may not add up exactly to the total due to rounding.

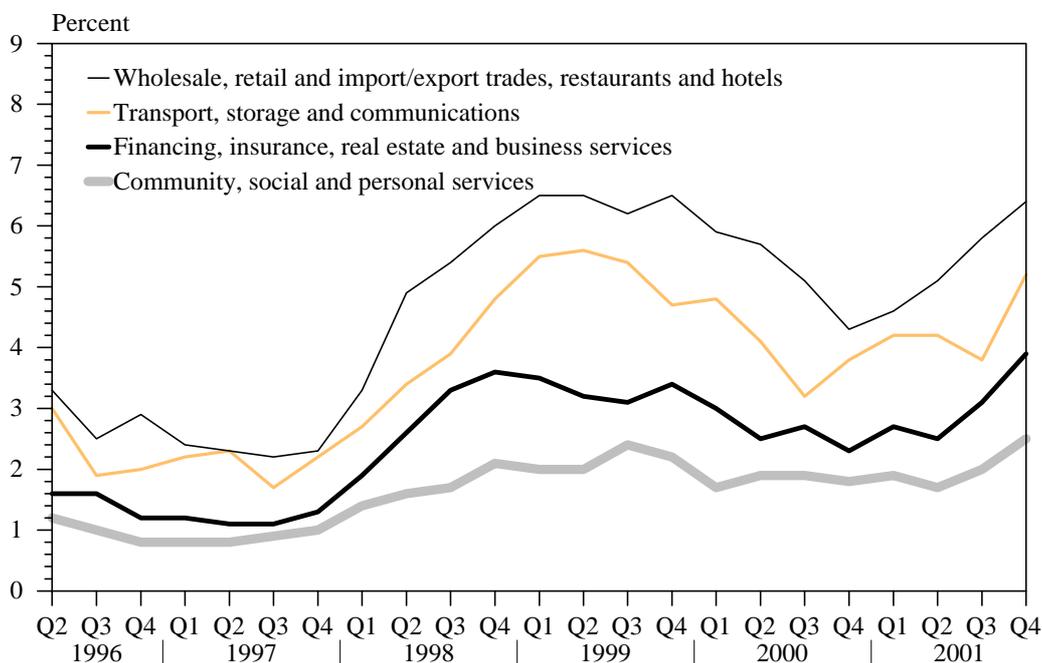
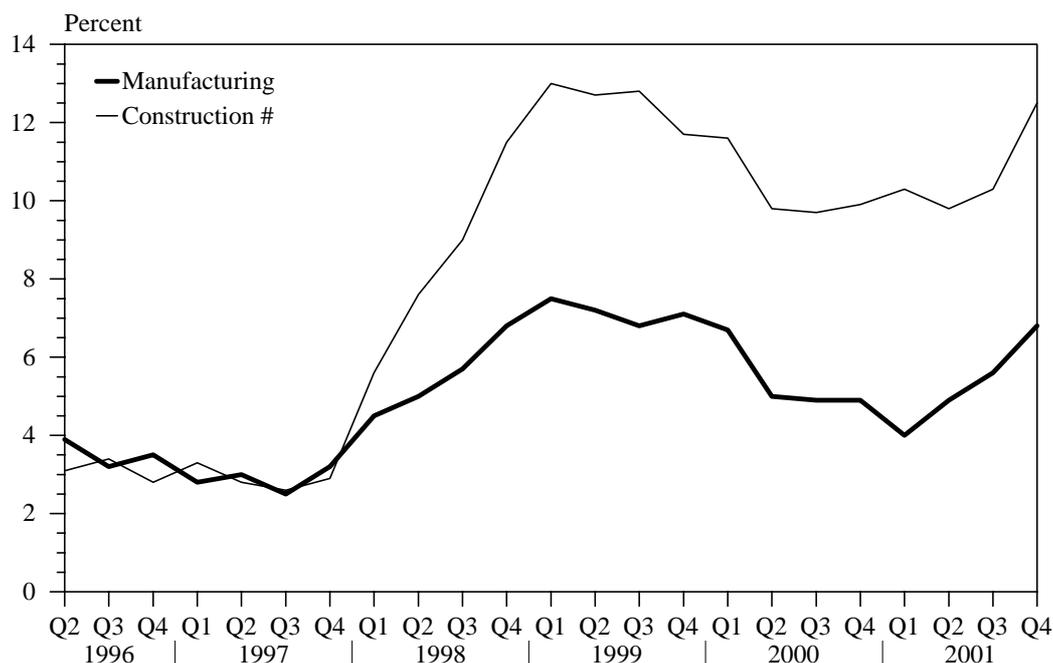
(a) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.3

Diagram 5.3

Unemployment rates by major economic sector*



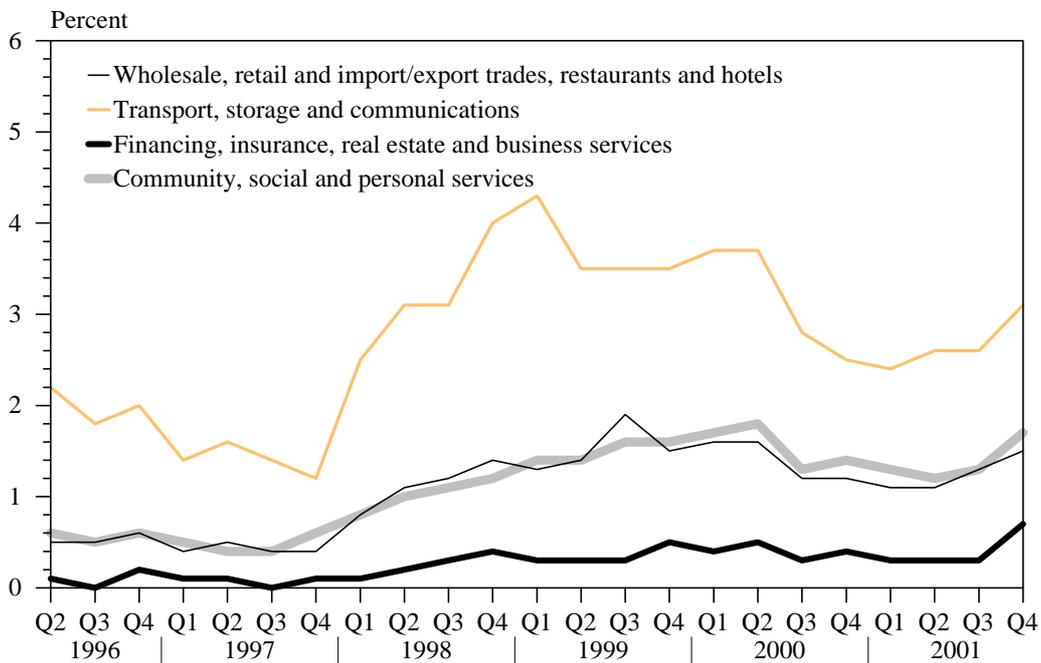
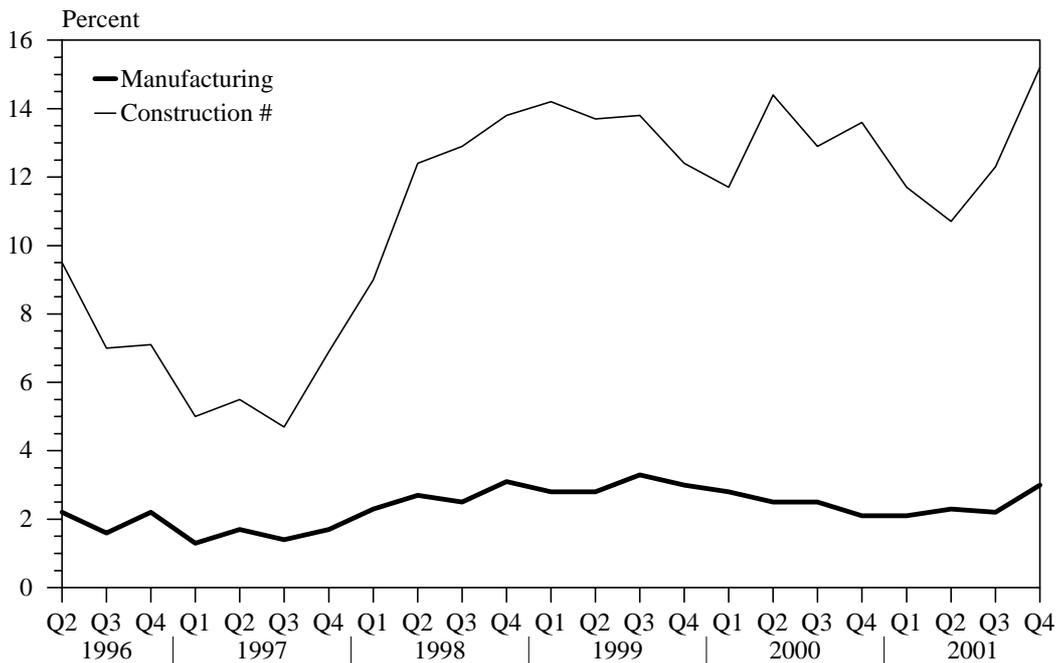
Notes : (*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

(#) Including both site and non-site workers.

/Diagram 5.4

Diagram 5.4

Underemployment rates by major economic sector



Note : (#) Including both site and non-site workers.

5.7 Analysed by *occupation category*, an extensive pick-up in unemployment rate was again observed between the third and fourth quarters of 2001. The unemployment rates for managers and administrators, professionals and associate professionals all registered visible increases, as the effect of corporate downsizing and lay-offs spread to the upper segment of the occupational hierarchy. As to those at the lower segment, larger increases were seen amongst craft and related workers, workers in elementary occupations, clerks, and plant and machine operators and assemblers. Workers in most of the latter segment likewise suffered a distinct rise in the underemployment rate. Comparing the fourth quarter of 2001 with the same quarter in 2000, the pattern of increase in the occupational unemployment and underemployment rates was broadly similar, though also generally of a larger magnitude.

Table 5.8

Unemployment rates by major occupation category (%)^(a)

	<u>2000</u>					<u>2001</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Managers and administrators	1.7	2.3	1.6	1.5	1.2	1.9	1.4	1.6	2.0	2.4
Professionals	1.1	0.9	0.8	1.6	1.2	1.9	1.2	1.5	2.2	2.6
Associate professionals ^(b)	2.4	2.7	2.3	2.4	2.1	2.9	2.6	2.6	3.0	3.4
Clerks	3.5	4.2	3.9	3.0	2.9	3.7	3.1	3.2	3.7	4.9
Service workers and shop sales workers	6.9	7.1	7.7	6.7	6.0	6.5	5.6	6.1	6.9	7.4
Craft and related workers	8.9	9.8	8.5	8.8	8.6	9.3	8.9	8.1	9.3	10.7
Plant and machine operators and assemblers	4.2	5.4	3.9	3.4	3.9	4.6	4.0	3.9	4.8	5.9
Elementary occupations	4.9	5.7	4.7	4.8	4.4	5.2	4.8	5.0	4.8	6.2
Others	2.7	3.5	2.1	2.0	3.3	3.1	1.2	8.0	1.6	1.3

Notes : (a) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

(b) Including technicians and supervisors.

Source : General Household Survey, Census and Statistics Department.

/Table 5.9

Table 5.9**Underemployment rates by major occupation category (%)**

	<u>2000</u>					<u>2001</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Managers and administrators	*	*	0	0	0	0.1	0.1	*	0.1	0.1
Professionals	0.3	0.3	0.5	0.2	0.2	0.2	0.2	0.3	0.1	0.3
Associate professionals ^(a)	0.5	0.4	0.6	0.4	0.6	0.5	0.5	0.5	0.5	0.5
Clerks	0.8	0.9	0.8	0.7	0.8	0.7	0.6	0.6	0.8	0.9
Service workers and shop sales workers	2.0	2.2	2.3	1.8	1.7	1.7	1.5	1.7	1.7	2.1
Craft and related workers	10.1	8.9	11.0	10.4	10.1	9.3	9.1	8.0	8.8	11.5
Plant and machine operators and assemblers	3.5	3.8	4.3	3.2	2.6	3.4	2.8	3.4	3.2	4.2
Elementary occupations	4.6	5.0	5.0	4.0	4.4	4.3	3.8	3.7	4.5	5.2
Others	3.3	0.8	2.2	9.7	0	3.3	0	3.8	8.9	1.3

Notes : (a) Including technicians and supervisors.

(*) Less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

/5.8

5.8 Analysed by *age group*, there was also a broad-based increase in unemployment rate between the third and fourth quarters of 2001, with a more distinct increase occurring amongst persons aged 30-49. As to persons in the younger age group, a noticeable rise in unemployment rate was observed amongst persons aged 15-19, yet accompanied by an appreciable fall amongst persons aged 20-24. Conceivably, this was related to the fact that job-seekers in the latter group had better education than those in the former group. A broadly similar pattern of increase was observed for the fourth quarter of 2001 as compared to the same quarter in 2000, except that persons aged 15-24 were the group having the largest rise in unemployment rate over the period.

Table 5.10

Unemployment rates by age group (%)^(a)

	<u>2000</u>					<u>2001</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
15-19	23.7	25.4	25.7	23.0	20.5	23.4	21.0	21.2	25.1	26.1
20-24	7.8	7.7	8.3	8.7	6.6	8.7	7.1	6.5	11.4	9.7
25-29	4.3	4.3	4.2	4.7	4.0	4.4	3.9	4.0	4.5	5.4
30-39	3.2	3.7	3.2	3.2	2.9	3.5	3.1	3.2	3.4	4.5
40-49	4.3	5.3	4.3	3.8	3.7	4.6	3.8	4.1	4.8	5.8
50-59	6.0	6.6	5.9	5.9	5.6	5.4	5.1	5.1	5.2	6.1
60 and above	2.9	3.8	3.0	2.3	2.6	2.7	2.7	2.3	2.5	3.1

Note : (a) Not seasonally adjusted, but including first-time job-seekers and re-entrants into the labour force.

Source : General Household Survey, Census and Statistics Department.

/5.9

5.9 Analysed by *educational attainment*, persons with secondary education and below were affected most by the rise in unemployment rate between the third and fourth quarters of 2001. By contrast, the unemployment rates for persons with matriculation education and above showed little change or even declined. Comparing the fourth quarter of 2001 with the same quarter in 2000, the unemployment rates for all the educational levels leaped, with the most pronounced increase for persons with primary education and below.

Table 5.11

Unemployment rates by educational attainment (%)^(a)

	<u>2000</u>					<u>2001</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
No schooling/kindergarten	6.1	8.2	4.9	6.3	4.9	5.6	2.8	5.3	4.7	9.6
Primary	6.2	7.6	5.9	5.8	5.5	6.4	5.9	5.9	6.2	7.6
Lower secondary	7.6	8.7	7.6	7.1	6.9	7.5	7.1	6.7	7.5	8.7
Upper secondary ^(b)	4.7	4.8	5.1	4.7	4.1	4.7	4.1	4.1	5.1	5.7
Matriculation	3.9	3.6	4.2	4.6	3.0	3.6	2.6	2.9	4.7	4.0
Tertiary	2.6	2.6	2.3	3.1	2.5	3.2	2.3	2.7	3.9	4.0
<i>of which :</i>										
Non-degree	3.3	3.5	3.2	3.5	3.0	3.9	2.6	3.5	4.7	4.8
Degree	2.2	2.1	1.8	2.8	2.1	2.8	2.0	2.2	3.5	3.5

Notes : (a) Not seasonally adjusted, but including first-time job-seekers and re-entrants into the labour force.

(b) Including craft courses.

Source : General Household Survey, Census and Statistics Department.

/Demand

Demand for and supply of labour

5.10 In 2001, total labour force, at an average of 3.42 million, expanded by 1.5%, which was slightly slower than the 1.6% growth in 2000. Also, there was a gradual slow-down in the year-on-year growth rate over the course of the year, from 2.0% in the first quarter of 2001 to 1.3% and 1.4% respectively in the second and third quarters, and further to 1.1% in the fourth quarter. The growth in 2001 was underpinned almost entirely by a sustained increase in the population of working age. The labour force participation rate⁽⁸⁾, averaging at 61.4% in 2001, was virtually unchanged in overall terms from that in 2000, with a rise in the rate for females especially those aged 30-49 being virtually offset by a decline in the rate for males.

5.11 Total employment, at an average of 3.25 million in 2001, had a much slower growth of 1.3% than in 2000, at 3.1%. Moreover, the year-on-year growth rate decelerated markedly, from 3.2% in the first quarter of 2001 to 1.9% in the second quarter, and further to 0.9% in the third quarter. In the fourth quarter, there was a contraction of 0.7%. In face of a more difficult economic situation especially in the wake of the 911 incident, employers were generally more stringent about staffing. Within the total workforce, younger persons aged 15-29, those with lower educational attainment, and those with lower skills were affected more by the fall-off in labour demand. With total employment growth going below the labour supply growth as from mid-2001 onwards, there was a distinct loosening in the overall manpower resource balance giving rise to a distinct pick-up in unemployment rate in the latter part of the year.

/Table 5.12

Table 5.12**Total labour force and total employment**

	<u>Labour force</u>	<u>Year-on-year % change</u>	<u>Persons employed</u>	<u>Year-on-year % change</u>
1997	3 234 800	1.5 ^(a)	3 163 600	2.0 ^(a)
1998	3 276 100	1.3	3 122 000	-1.3
1999	3 319 600	1.3	3 112 100	-0.3
2000	3 374 200	1.6	3 207 300	3.1
2001	3 423 500	1.5	3 249 100	1.3

Note : (a) This figure refers to the average change for the second, third and fourth quarters of 1997 taken together as compared to a year earlier, as the new series of labour force statistics, adopting the “resident population” definition and incorporating the results of the 2001 Population Census, is available only as from the second quarter of 1996.

Source : General Household Survey, Census and Statistics Department.

Table 5.13**Labour force participation rates by sex (%)**

	<u>Male</u>	<u>Female</u>	<u>Both sexes combined</u>
2000 Annual	73.5	49.9	61.4
Q1	73.3	49.5	61.1
Q2	73.6	49.9	61.4
Q3	73.8	50.1	61.6
Q4	73.6	50.0	61.4
2001 Annual	72.9	50.7	61.4
Q1	73.0	50.3	61.3
Q2	72.6	50.5	61.2
Q3	73.2	50.8	61.6
Q4	72.9	51.1	61.6

Source : General Household Survey, Census and Statistics Department.

/Table 5.14

Table 5.14**Labour force participation rates by sex and by age group (%)**

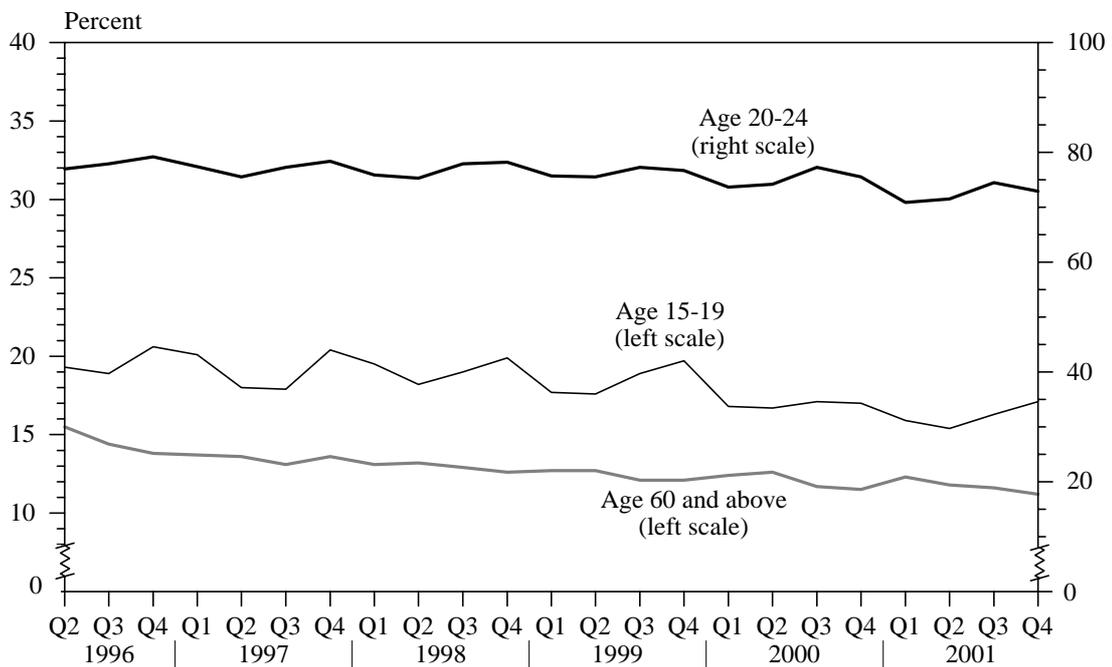
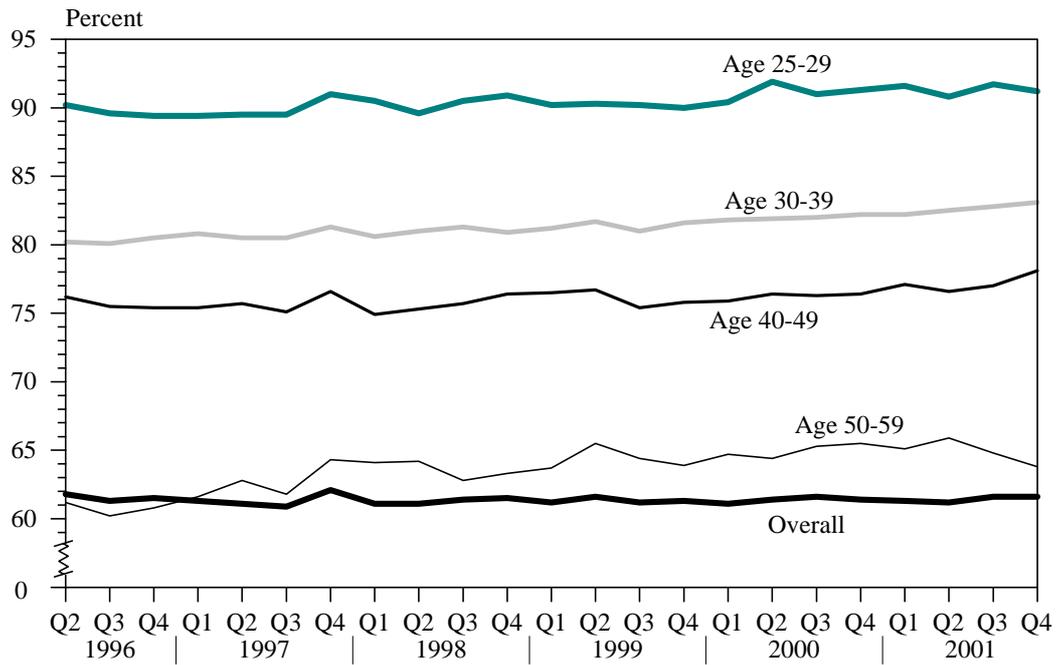
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<u>Male</u>					
15-19	21.2	20.0	20.2	18.0	17.0
20-24	77.8	77.8	76.5	75.8	72.3
25-29	97.1	97.3	97.1	96.6	96.3
30-39	98.2	98.1	97.9	97.7	97.4
40-49	97.1	97.1	96.5	96.4	96.3
50-59	85.5	85.3	85.7	86.0	85.6
60 and above	23.7	22.3	21.1	20.6	20.2
Overall	75.1	74.6	74.0	73.5	72.9
<u>Female</u>					
15-19	17.0	18.2	16.6	15.7	15.3
20-24	76.5	75.9	76.1	74.6	72.5
25-29	83.7	84.5	84.4	86.5	87.0
30-39	64.6	65.4	67.0	68.7	70.7
40-49	53.5	53.6	55.4	56.1	58.4
50-59	35.5	38.0	39.8	41.1	42.0
60 and above	4.2	4.3	4.3	4.0	3.8
Overall	47.9	48.5	49.2	49.9	50.7
<u>Both sexes combined</u>					
15-19	19.1	19.1	18.5	16.9	16.2
20-24	77.2	76.8	76.3	75.2	72.4
25-29	89.8	90.4	90.2	91.1	91.3
30-39	80.8	80.9	81.4	82.0	82.6
40-49	75.7	75.6	76.1	76.3	77.2
50-59	62.6	63.6	64.4	65.0	64.9
60 and above	13.5	12.9	12.4	12.0	11.7
Overall	61.3	61.3	61.3	61.4	61.4

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.5

Diagram 5.5

Labour force participation rates by age group



/Profile

Profile of employment

5.12 Employment as enumerated from establishments likewise contracted in overall terms, amidst more incidents of corporate restructuring and downsizing. For all the business establishments surveyed taken together, employment in the private sector was reduced by 1% in September 2001 over a year earlier, reversing the 1% rise seen in both March and June. On a seasonally adjusted quarter-to-quarter comparison, there was also a decrease of 1% in September 2001, having been stable in March and up by 1% in June.

5.13 Employment for all the *service sectors* surveyed as a whole⁽⁹⁾ nevertheless held steady in September 2001 as compared to a year earlier, although this still represented a slow-down from the small increases of 1% and 2% respectively in March and June. Conditions varied amongst the constituent sectors. Specifically, employment in the wholesale and import/export trades was down by 5% in September 2001 over a year earlier, in line with the downturn in external trade. Employment in storage and communications also shrank, by 3%, due in part to the slow-down in telecommunications services. On the other hand, employment in community, social and personal services went up visibly, by 8%, aided by the expansion in education and welfare services. Employment in the retail trade, in restaurants and hotels, and in water transport, air transport and services allied to transport had only modest increases, by 1-2%. Employment in financing, insurance, real estate and business services was static.

5.14 The local *manufacturing sector* faced a further marked reduction in employment, by 9% in September 2001 over a year earlier. This was even larger than the fall of 7% and 8% respectively in March and June. The slump in domestic exports and on-going relocation of manufacturing processes to the Mainland were the major contributory factors.

/5.15

5.15 Employment of manual workers at *building and construction sites* decreased by 5% in September 2001 over a year earlier, sharply reversing the increases of 18% in March and 1% in June. This was attributable entirely to the severe decline of 24% in employment at public sector sites, upon the completion or winding down of several major public housing projects and the further scale-back in the Public Housing Programme. It more than offset the 18% rise in employment at private sector sites, brought about by a pick-up in private sector building activity. Analysed by type of project, employment at building sites plummeted by 12% in September 2001 over a year earlier, with the decrease occurring predominantly amongst public sector projects. This outweighed the 16% leap in employment at civil engineering sites, amidst intensive construction activity on Container Terminal 9 and the Priority Railway Projects, as well as accelerating work on the Disneyland Project. Taking into account off-site workers and related professional and support staff, total employment in the building and construction sector as a whole⁽¹⁰⁾ contracted by 3% in the third quarter of 2001 over a year earlier, following a rise of 2% in the first quarter and a fall of 5% in the second quarter.

5.16 Employment in the *Civil Service* remained on a downtrend, falling by 4% in September 2001 over a year earlier, slightly larger than the 3% decline in both March and June. This was mainly due to the Government's move to contain the size of the Civil Service. In the financial year 2000/01, some 8 000 posts had already been deleted from the Civil Service establishment⁽¹¹⁾. Amidst further cuts in posts, the lifting of the recruitment freeze on the Civil Service as from April 2001 apparently had not much impact so far.

/Table 5.15

Table 5.15**Employment by major economic sector**

	<u>2000</u>					<u>2001</u>		
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>
Wholesale and import/export trades	597 900 (5)	602 000 (6)	603 100 (10)	609 600 (5)	577 000 (-1)	581 100 (-3)	581 500 (-4)	579 300 (-5)
Retail trade	214 100 (7)	207 300 (7)	211 200 (4)	223 000 (8)	215 000 (7)	215 400 (4)	228 300 (8)	225 000 (1)
Restaurants and hotels	219 600 (2)	218 500 (2)	222 100 (2)	220 600 (4)	217 100 (-1)	220 600 (1)	225 100 (1)	223 000 (1)
Water transport, air transport and services allied to transport	97 800 (3)	96 200 (1)	99 400 (2)	100 100 (6)	95 600 (3)	98 200 (2)	100 500 (1)	101 600 (2)
Storage and communications	43 200 (6)	41 200 (1)	43 300 (10)	45 000 (8)	43 300 (6)	44 600 (8)	46 000 (6)	43 700 (-3)
Financing, insurance, real estate and business services	428 800 (5)	414 800 (4)	429 300 (5)	437 000 (7)	434 100 (5)	428 900 (3)	442 500 (3)	437 300 (*)
Community, social and personal services	348 600 (3)	345 000 (3)	346 200 (2)	348 900 (3)	354 500 (5)	360 500 (4)	372 500 (8)	377 000 (8)
Manufacturing	232 000 (-6)	233 700 (-6)	238 800 (-6)	229 400 (-6)	226 200 (-8)	217 000 (-7)	218 700 (-8)	209 300 (-9)
Building and construction sites	79 600 (12)	74 500 (4)	79 300 (11)	80 700 (17)	83 900 (17)	87 800 (18)	80 300 (1)	76 500 (-5)
<i>All establishments surveyed in the private sector^(a)</i>	<i>2 308 500 (3)</i>	<i>2 280 500 (3) <1></i>	<i>2 319 100 (4) <1></i>	<i>2 341 300 (4) <1></i>	<i>2 293 200 (2) <-1></i>	<i>2 301 600 (1) <*></i>	<i>2 343 200 (1) <1></i>	<i>2 319 900 (-1) <-1></i>
<i>Civil Service^(b)</i>	<i>184 200 (-2)</i>	<i>185 900 (-2)</i>	<i>184 900 (-2)</i>	<i>183 400 (-2)</i>	<i>182 500 (-2)</i>	<i>181 000 (-3)</i>	<i>178 700 (-3)</i>	<i>176 700 (-4)</i>

Notes : Employment figures enumerated from business establishments, as obtained from the Quarterly Survey of Employment and Vacancies, are somewhat different from those enumerated from households, as obtained from the General Household Survey. This is mainly due to difference in coverage: the former survey covers employers, full-time employees and part-time employees in selected major sectors; the latter survey has a wider coverage, incorporating also the self-employed, and canvassing all sectors in the economy.

(a) The total figures on private sector employment cover also employment in mining and quarrying and in electricity and gas supply, besides employment in the major sectors indicated above.

(b) These figures cover only those employed on Civil Service terms of appointment. Judicial officers, ICAC officers, consultants, contract staff and temporary staff not appointed on Civil Service terms are not included.

() % change over a year earlier.

< > Seasonally adjusted quarter-to-quarter % change.

(*) Change of less than 0.5%.

Source : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

/Diagram 5.6

Diagram 5.6

Employment by broad economic sector

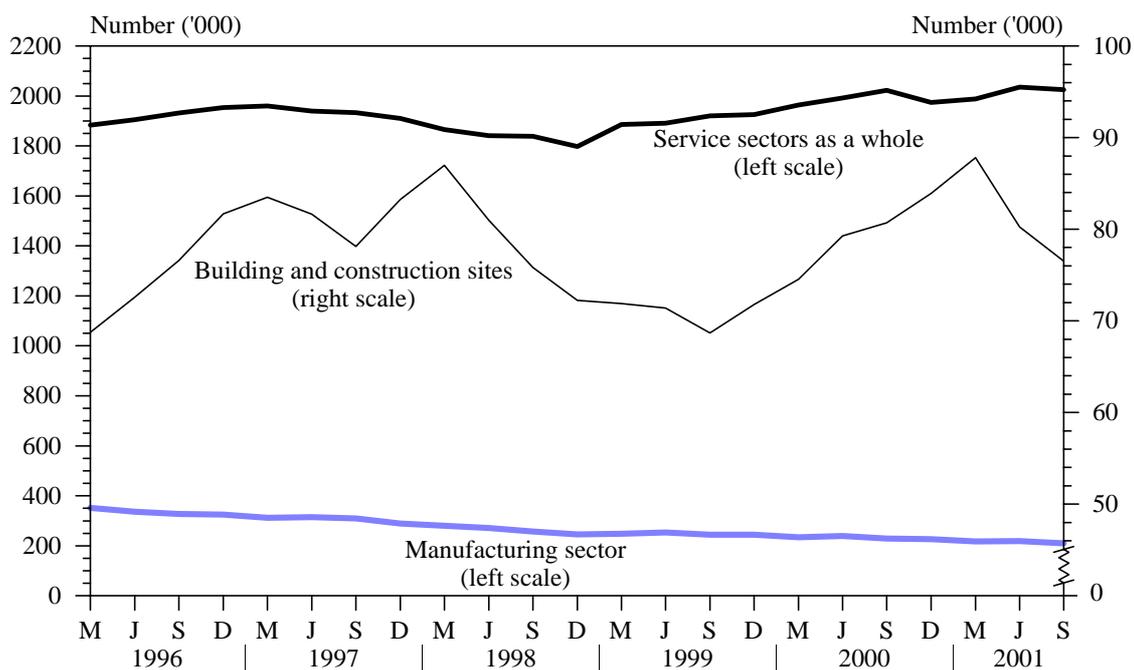
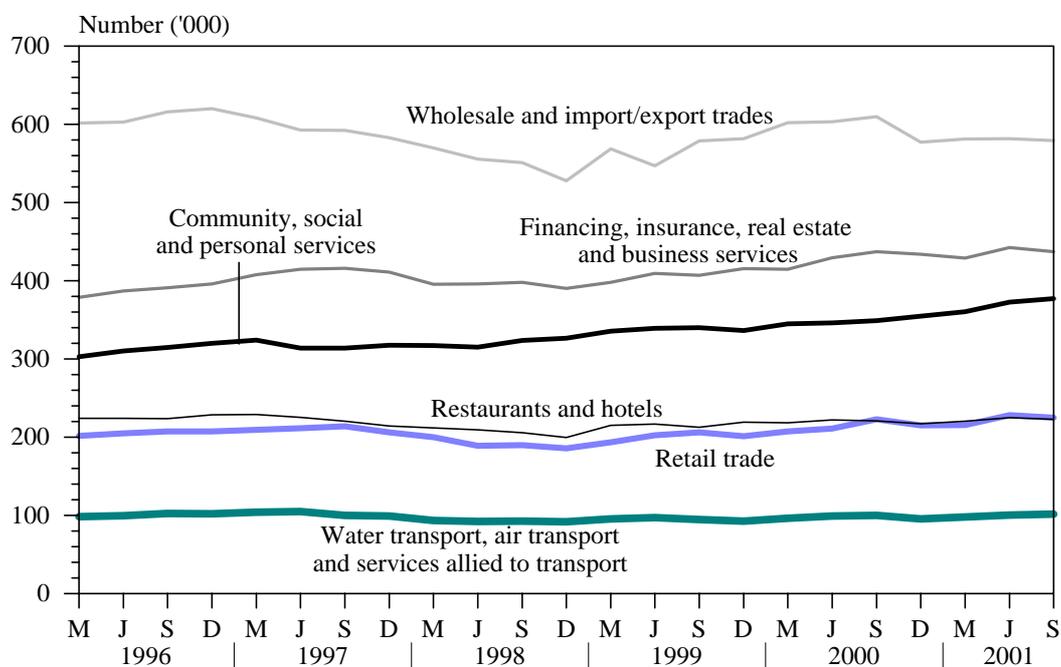


Diagram 5.7

Employment in the major service sectors



/Vacancies

Vacancies

5.17 As yet another indication of slackened labour demand, vacancies showed a markedly accelerated fall in the more recent months. For all the business establishments surveyed taken together, total vacancies in the private sector went down sharply, by 41% in September 2001 over a year earlier, much exceeding the decreases of 14% in March and 26% in June. On a seasonally adjusted quarter-to-quarter comparison, total vacancies in the private sector also plunged, by 20% in September 2001, much greater than the declines of 5% in March and 4% in June. As a result, the overall vacancy rate in the private sector was reduced to 0.9% in September, from 1.3% and 1.1% respectively in March and June.

5.18 Analysed by *economic sector*, vacancies for all the *service sectors* surveyed as a whole were slashed substantially, by 41% in September 2001 over a year earlier, distinctly larger than the decreases of 12% in March and 25% in June. Analysed by constituent sector and on a year-on-year comparison, vacancies in water transport, air transport and services allied to transport had the most significant fall, by 69% in September 2001 over a year earlier. This was followed by vacancies in the wholesale and import/export trades (down by 57%), in financing, insurance, real estate and business services (49%), in restaurants and hotels (36%), in storage and communications (23%), in the retail trade (20%), and in community, social and personal services (11%). As to the local *manufacturing sector*, vacancies were 38% fewer in September 2001 than a year earlier. This also exceeded the decreases in March and June, both at 34%. Vacancies for manual workers at *building and construction sites* shrank by 72% in September 2001 over a year earlier, slightly less than the 75% decrease in June but sharply down from the 3% increase in March. Vacancies in the *Civil Service* fell by 3% in September 2001 over a year earlier, after discounting the vacant posts emerging from the Voluntary Retirement Exercise which would be filled by in-service appointment later on. This was nevertheless distinctly smaller than the declines of 31% and 19% respectively in March and June.

/Table 5.16

Table 5.16

Vacancies by major economic sector

	<u>No. of vacancies</u>					<u>Vacancy rate (%)</u>					
	<u>Annual average</u>	<u>2000</u>				<u>2001</u>			<u>2001</u>		
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>
Wholesale and import/export trades	8 600 (53)	10 400 (85)	9 200 (91)	9 300 (50)	5 700 (-4)	7 400 (-29)	4 600 (-50)	4 000 (-57)	1.2	0.8	0.7
Retail trade	2 700 (21)	2 500 (-17)	2 600 (46)	3 000 (36)	2 500 (40)	2 400 (-3)	2 100 (-20)	2 400 (-20)	1.1	0.9	1.1
Restaurants and hotels	2 000 (24)	2 000 (15)	1 900 (60)	2 400 (80)	1 600 (-24)	2 200 (7)	1 300 (-30)	1 500 (-36)	1.0	0.6	0.7
Water transport, air transport and services allied to transport	1 000 (28)	900 (39)	1 000 (24)	1 300 (25)	800 (28)	900 (6)	800 (-24)	400 (-69)	0.9	0.7	0.4
Storage and communications	700 (21)	900 (25)	900 (89)	700 (26)	400 (-40)	600 (-29)	500 (-50)	500 (-23)	1.4	1.0	1.1
Financing, insurance, real estate and business services	9 200 (55)	9 400 (77)	10 000 (84)	10 300 (65)	7 100 (5)	8 200 (-13)	7 800 (-22)	5 300 (-49)	1.9	1.7	1.2
Community, social and personal services	5 600 (14)	5 400 (5)	5 600 (22)	6 100 (30)	5 100 (1)	5 700 (5)	6 500 (16)	5 500 (-11)	1.6	1.7	1.4
Manufacturing	2 400 (14)	2 900 (29)	2 900 (43)	2 200 (*)	1 700 (-15)	1 900 (-34)	1 900 (-34)	1 400 (-38)	0.9	0.9	0.6
Building and construction sites	300 (-30)	200 (11)	500 (-53)	300 (7)	200 (-18)	200 (3)	100 (-75)	100 (-72)	0.3	0.1	0.1
<i>All establishments surveyed in the private sector^(a)</i>	32 700 (34)	34 800 (39)	34 900 (57)	35 800 (44)	25 300 (*)	30 000 (-14)	25 700 (-26)	21 200 (-41)	1.3	1.1	0.9
<i>Civil Service^(b)</i>	2 000 (-38)	2 300 (-37)	2 100 (-25)	1 800 (-38)	1 600 (-51)	1 600 (-31)	1 700 (-19)	1 800 (-3)	0.9	0.9	1.0

Notes : Vacancy rate refers to the ratio of vacancies to total employment opportunities (actual employment plus vacancies).

(a) The total figures on private sector vacancies cover also vacancies in mining and quarrying and in electricity and gas supply, besides vacancies in the major sectors indicated above.

(b) These figures cover only vacancies for those staff to be employed on Civil Service terms of appointment. The figures for December 2000 to September 2001 have been adjusted by deducting the vacant posts emerging from the Voluntary Retirement Exercise, which will be filled subsequently by in-service appointment.

() % change over a year earlier.

< > Seasonally adjusted quarter-to-quarter % change.

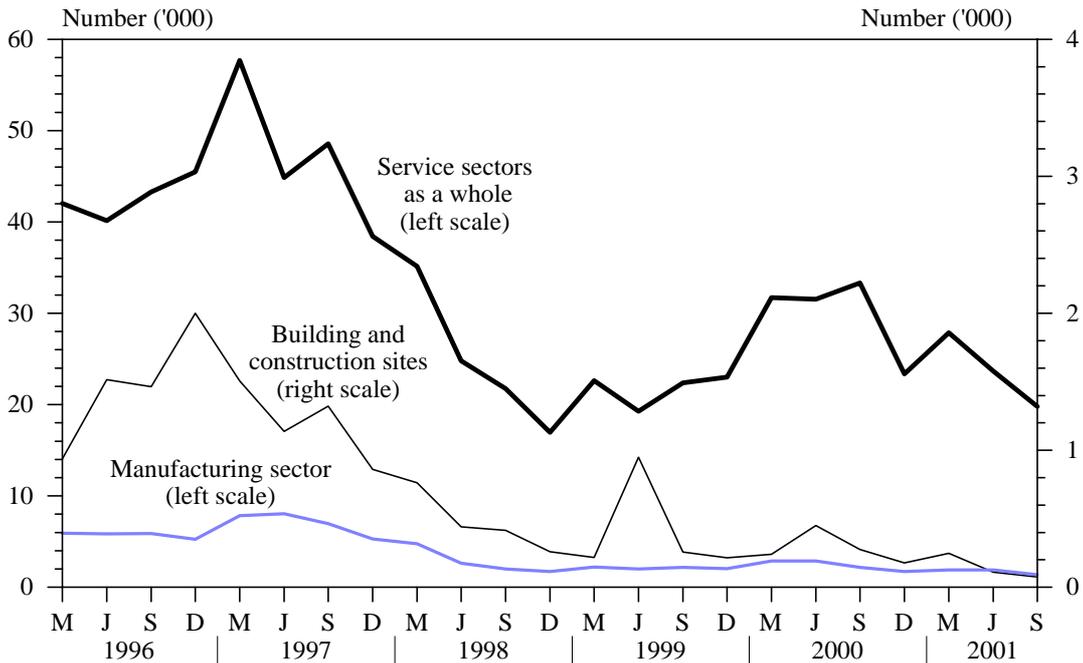
(*) Change of less than 0.5%.

Source : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

/Diagram 5.8

Diagram 5.8

Vacancies by broad economic sector



5.19 Analysed by *occupation category*, vacancies fell significantly across-the-board in September 2001 over a year earlier. Greater decreases were observed in vacancies for professionals, associate professionals, and managers and administrators, by 65%, 47% and 33% respectively, as those at the upper segment of the occupational hierarchy were increasingly affected by the recent wave of corporate restructuring and downsizing. As to the lower segment, vacancies were also much reduced, ranging from 26-30% for clerks, and service workers and shop sales workers to 38-43% for workers in elementary occupations, plant and machine operators and assemblers, and craft and related workers.

/Table 5.17

Table 5.17**Vacancies by major occupation category**

	<u>Annual average</u>	<u>2000</u>				<u>2001</u>		
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>
Managers and administrators	600 (26)	600 (25)	600 (41)	600 (9)	500 (34)	800 (35)	700 (5)	400 (-33)
Professionals	3 100 (53)	3 200 (66)	3 300 (77)	3 500 (78)	2 400 (1)	2 600 (-18)	2 300 (-30)	1 200 (-65)
Associate professionals	11 700 (47)	12 700 (76)	13 000 (75)	12 500 (56)	8 600 (-7)	9 600 (-25)	7 700 (-41)	6 700 (-47)
Clerks	6 200 (57)	6 800 (69)	6 200 (94)	6 300 (35)	5 500 (42)	7 100 (5)	6 700 (8)	4 700 (-26)
Service workers and shop sales workers	4 800 (22)	5 000 (13)	4 800 (45)	5 800 (47)	3 900 (-10)	4 900 (-2)	3 600 (-24)	4 000 (-30)
Craft and related workers	1 300 (-16)	1 300 (-44)	1 600 (-1)	1 300 (-2)	900 (6)	900 (-26)	700 (-57)	700 (-43)
Plant and machine operators and assemblers	1 200 (-8)	1 400 (3)	1 400 (5)	1 200 (2)	800 (-40)	800 (-41)	1 100 (-23)	700 (-41)
Elementary occupations	3 800 (21)	3 900 (15)	4 000 (30)	4 500 (45)	2 700 (-7)	3 300 (-15)	2 900 (-27)	2 800 (-38)

Note : () % change over a year earlier.

Source : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

/Earnings

Earnings and wages

5.20 Labour income registered a modest increase in the first nine months of 2001, mainly attributable to the pay rise made at the beginning of the year on the basis of improved business conditions in 2000. Overall *labour earnings* in the private sector, as measured by payroll per person engaged, were up by 2% in money terms in the third quarter of 2001 over a year earlier. This was roughly similar to the increases of 3% and 2% respectively in the first and second quarters. Amongst the business establishments surveyed in the third quarter of 2001, 41% reported a gain in average labour earnings over a year earlier, 22% reported nil change, and 37% reported a decrease. Netting out the decline in consumer prices in terms of the Composite CPI, overall labour earnings were 3% higher in real terms in the third quarter of 2001 than a year earlier, further moderated from the increases of 5% and 4% respectively in the first and second quarters. On a seasonally adjusted quarter-to-quarter comparison, overall labour earnings were virtually flat both in money terms and in real terms in the third quarter of 2001. This followed a 1% rise both in money terms and in real terms in the first quarter, and nil change in the second quarter.

5.21 Analysed by *economic sector*, labour earnings for all the *service sectors* surveyed taken together edged up by 2% in money terms or 3% in real terms in the third quarter of 2001 over a year earlier. Within this broad group, earnings in community, social and personal services recorded a gain of 3% in money terms or 4% in real terms, with the increase occurring mostly in medical and health services. Earnings in the wholesale, retail and import/export trades increased by 2% in money terms or 3% in real terms, mainly reflecting higher income in import/export trade. Earnings in transport, storage and communications also rose, by 2% in money terms or 3% in real terms. Yet earnings in restaurants and hotels, and in financing, insurance, real estate and business services edged lower by 1% in money terms, though unchanged in real terms. In the local *manufacturing sector*, earnings went up by 2% in money terms or 3% in real terms, with larger increases seen in the textiles and the printing and publishing industries.

/Table 5.18

Table 5.18

**Labour earnings by major economic sector
(year-on-year rate of change (%))**

	<u>Payroll per person engaged</u>									Average amount in Q3 2001 (\$)
	<u>2000</u>						<u>2001</u>			
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	
Wholesale, retail and import/export trades	2 (6)	1 (6)	2 (7)	4 (7)	3 (6)	2 (4)	3 (5)	2 (4)	2 (3)	11,800
									<*> {*}	
Restaurants and hotels	-2 (1)	-6 (-1)	-2 (3)	* (3)	-2 (1)	1 (2)	2 (4)	1 (3)	-1 (*)	8,600
									<-1> {-1}	
Transport, storage and communications	1 (5)	-1 (4)	1 (6)	2 (5)	2 (4)	2 (3)	3 (5)	1 (3)	2 (3)	17,800
									<1> {1}	
Financing, insurance, real estate and business services	1 (5)	* (5)	2 (7)	1 (4)	3 (6)	1 (3)	2 (5)	2 (3)	-1 (*)	17,500
									<-1> {-1}	
Community, social and personal services	* (4)	-1 (4)	1 (6)	-1 (2)	1 (4)	1 (3)	1 (3)	-1 (1)	3 (4)	20,700
									<2> {2}	
Manufacturing	1 (5)	1 (6)	2 (6)	1 (4)	3 (6)	3 (4)	3 (5)	2 (4)	2 (3)	11,300
									<*> {*}	
All sectors surveyed in the private sector	1 (5)	* (5)	2 (7)	2 (5)	2 (4)	2 (4)	3 (5)	2 (4)	2 (3)	14,700
		<*> {1}	<1> {2}	<1> {1}	<*> {1}		<1> {1}	<*> {*}	<*> {*}	

Notes : Figures not in brackets represent percentage changes in money terms, while those in round brackets represent percentage changes in real terms.

< > Seasonally adjusted quarter-to-quarter % change in money terms.

{ } Seasonally adjusted quarter-to-quarter % change in real terms.

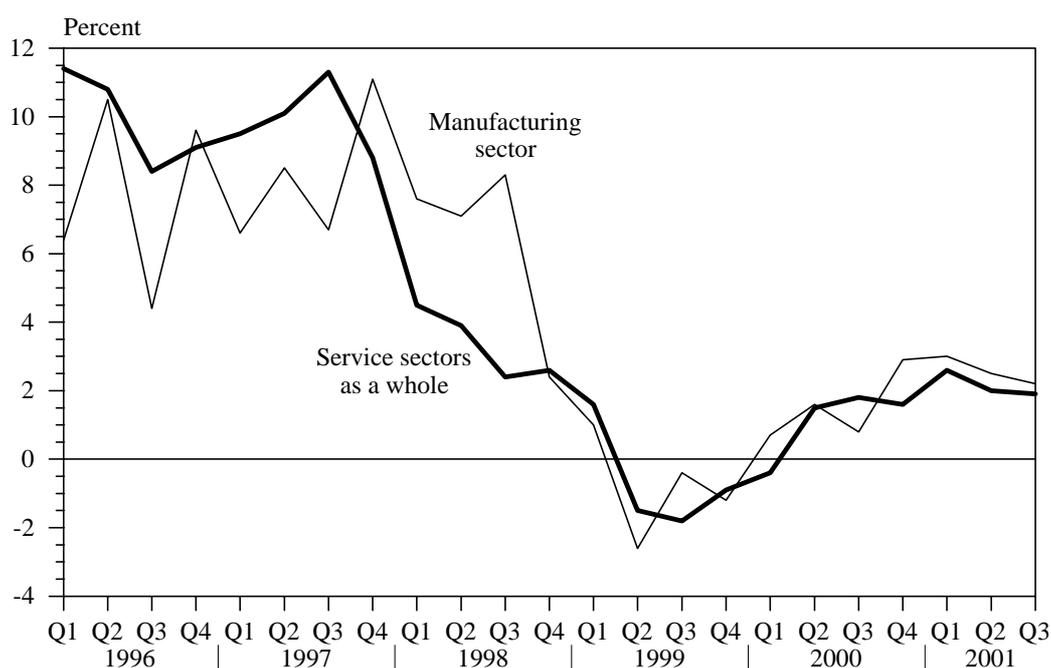
(*) Change of less than 0.5%.

Source : Labour Earnings Survey, Census and Statistics Department.

/Diagram 5.9

Diagram 5.9

**Earnings by broad economic sector
(year-on-year rate of change in money terms)**



5.22 Overall *labour wages* in the private sector likewise registered a modest increase in the first nine months of 2001. On a year-on-year comparison, the increases in March, June and September were all 1% in money terms. This was again attributable to the pay rise made at the beginning of 2001 upon the better business conditions in 2000. Amongst the business establishments surveyed in September 2001, 50% reported an increase in average wage rate over a year earlier, 9% reported nil change, and 41% reported a decline. Netting out the fall in consumer prices in terms of the CPI(A), overall labour wages were up by 2% in real terms in September 2001 over a year earlier, following increases of 4% and 2% respectively in March and June.

5.23 Analysed by *economic sector*, wages in manufacturing moved higher by 3% money terms or 4% in real terms in September 2001 over a year earlier. Wages in the wholesale, retail and import/export trades, in restaurants and hotels, and in personal services also rose, by 1% in money terms or 2% in real terms. Wages in transport services held steady in money terms, yet slightly up by 1% in real terms. On the other hand, wages in financing, insurance, real estate and business services fell both in money terms and in real terms, by 2% and 1% respectively.

/Table 5.19

Table 5.19**Wages by selected major economic sector
(year-on-year rate of change (%))**

	<u>By reference to the wage index</u>								
	<u>2000</u>					<u>2001</u>			
	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	
Wholesale, retail and import/export trades	2 (5)	* (5)	2 (6)	3 (5)	2 (4)	2 (4)	2 (2)	1 (2)	
Restaurants and hotels	-1 (2)	-1 (3)	* (3)	-1 (1)	-1 (1)	1 (3)	1 (1)	1 (2)	
Transport services	-3 (*)	-4 (*)	-3 (*)	-3 (-1)	-2 (*)	1 (3)	* (1)	* (1)	
Financing, insurance, real estate and business services	* (3)	-1 (3)	1 (5)	2 (4)	* (2)	1 (3)	* (1)	-2 (-1)	
Personal services	* (3)	* (4)	1 (5)	* (2)	* (2)	1 (4)	1 (2)	1 (2)	
Manufacturing	2 (5)	1 (6)	2 (6)	2 (5)	2 (4)	3 (5)	2 (2)	3 (4)	
All selected sectors surveyed in the private sector	1 (4)	* (4)	1 (5)	1 (4)	1 (3)	1 (4)	1 (2)	1 (2)	

Notes : Figures not in brackets represent percentage changes in money terms, while those in brackets represent percentage changes in real terms.

(*) Change of less than 0.5%.

Source : Labour Earnings Survey, Census and Statistics Department.

/5.24

5.24 Analysed by *occupation category*, wages for operatives increased by 3% in money terms or 4% in real terms in September 2001 over a year earlier. Wages for craftsmen, for miscellaneous non-production workers, and for clerical and secretarial workers rose somewhat less, by 1-2% in money terms or 1-3% in real terms. Wages for supervisory and technical workers were static in money terms, yet up by 1% in real terms. On the other hand, wages for service workers went down, by 1% both in money terms and in real terms.

Table 5.20

**Wages by selected major occupation category
(year-on-year rate of change (%))**

	<u>By reference to the wage index</u>								
	<u>2000</u>					<u>2001</u>			
	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	
Supervisory and technical workers	2 (5)	1 (5)	3 (6)	3 (5)	2 (4)	2 (4)	1 (2)	* (1)	
Clerical and secretarial workers	* (3)	-1 (3)	1 (4)	1 (3)	1 (3)	2 (4)	2 (2)	2 (3)	
Craftsmen	-1 (2)	-2 (2)	-1 (2)	-2 (1)	* (2)	1 (3)	1 (2)	1 (2)	
Operatives	1 (4)	-1 (3)	2 (6)	1 (4)	2 (4)	4 (7)	1 (1)	3 (4)	
Service workers	-1 (2)	-1 (3)	* (4)	-1 (1)	-1 (1)	-1 (1)	-1 (-1)	-1 (-1)	
Miscellaneous non-production workers	* (3)	-1 (3)	-1 (3)	* (3)	* (2)	1 (3)	2 (2)	1 (1)	
All selected occupations surveyed in the private sector	1 (4)	* (4)	1 (5)	1 (4)	1 (3)	1 (4)	1 (2)	1 (2)	

Notes : Figures not in brackets represent percentage changes in money terms, while those in brackets represent percentage changes in real terms.

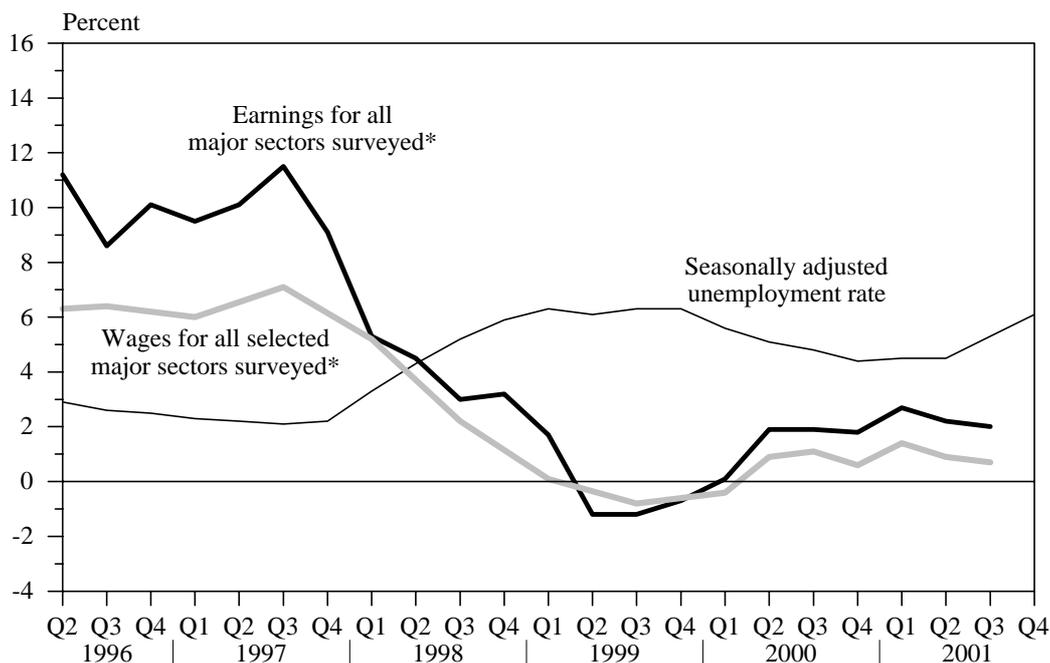
(*) Change of less than 0.5%.

Source : Labour Earnings Survey, Census and Statistics Department.

/Diagram 5.10

Diagram 5.10

Earnings, wages and the unemployment rate



Notes : (*) Depicted as year-on-year rates of change in money terms.

Also see Note (a) to Table 5.1.

5.25 Overall wage rates in the *construction sector* showed nil change in money terms in the third quarter of 2001 over a year earlier, following a 2% rise in the first quarter and a 1% decline in the second quarter. Analysed by major job category, wages for painters, plumbers, electricians (wiremen), truck drivers, fitters, plant operators and plasterers all went up, by 1-6% in money terms in the third quarter of 2001 over a year earlier. But wages for carpenters and joiners, steelbenders, and concretors/bricklayers/drainlayers fell, by 2-5%. Netting out the decline in consumer prices in terms of the Composite CPI, overall construction wages were 1% higher in real terms in the third quarter of 2001 than a year earlier, after increases of 4% in the first quarter and 1% in the second quarter.

/Table 5.21

Table 5.21**Construction wage rates by selected job category
(year-on-year rate of change (%))**

	<u>2000</u>						<u>2001</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Concretors/bricklayers/ Drainlayers	3	1	4	4	4	-1	3	-3	-2
Steelbenders	2	2	2	2	2	-1	1	-2	-3
Carpenters and joiners	-2	-4	1	-3	-1	-4	-1	-7	-5
Plumbers	6	*	3	9	13	8	11	9	5
Fitters	1	-1	1	2	2	3	1	4	2
Plasterers	2	-2	-2	2	11	7	11	9	1
Painters	2	3	2	2	2	6	4	7	6
Electricians (wiremen)	-2	-2	-1	-2	-2	*	-1	*	3
Plant operators	3	*	2	5	4	2	3	2	2
Truck drivers	4	2	5	5	4	2	2	*	3
All job categories in the construction sector ^(a)	2 (6)	* (5)	3 (8)	3 (6)	3 (6)	* (2)	2 (4)	-1 (1)	* (1)

Notes : Figures not in brackets represent percentage changes in money terms, while those in brackets represent percentage changes in real terms.

(a) Apart from the above selected job categories, this also covers such other job categories as masons, blacksmiths, terrazzo and granolithic workers, glaziers, heavy load coolies, pneumatic drillers, bamboo workers and scaffolders, structural steel erectors, divers and diver's linesmen. Yet as the employment involved in such job categories is much smaller, their respective wages are of lesser significance and are therefore not separately shown in the table.

(*) Change of less than 0.5%.

Source : Census and Statistics Department.

/5.26

5.26 Salaries in the Civil Service, having been frozen for two consecutive years, were adjusted upwards in the financial year 2001/02, by reference to the results of the pay trend survey conducted on private sector establishments in 2000/01. Comparing September 2001 with a year earlier, salaries for the directorate level and the upper pay band were raised by 4.99% in money terms, and those for the middle and lower pay bands by 2.38%. Netting out the decrease in consumer prices in terms of the Composite CPI, the respective increases in real terms were about 6% and 4%.

Notes :

- (1) On 17 September 2001, the Census and Statistics Department released a revised series of labour force statistics backdated to the second quarter of 1996, which are based on the “resident population” definition, with the results of the 2001 Population Census incorporated. While the resultant revisions to the total labour force, total employment, total numbers unemployed and total numbers underemployed are very small in magnitude, the effect on their respective rates of change are generally larger. For the unemployment and underemployment rates, which are ratios of these primary labour force statistics, the revisions are generally marginal.
- (2) For a person aged 15 or above to be classified as unemployed, he or she should: (a) not have a job and not be performing any work for pay or profit during the reference period (i.e. seven days before enumeration); and (b) be available for work during the reference period; and (c) be seeking work during the 30 days before enumeration.

Notwithstanding the above, the following types of persons are also considered as unemployed: (a) persons without a job, having sought work but not available for work because of temporary sickness; (b) persons without a job, available for work but not having sought work because they will take up new jobs or start business at a subsequent date, or expect to return to their original jobs; and (c) discouraged workers not having sought work because they believe work is not available to them.

Even at full employment, some frictional unemployment is bound to exist as workers move between jobs in order to obtain better terms of employment. The precise level of unemployment which can be described as purely frictional varies amongst economies, depending on the structure and characteristics of their labour markets.

In April 2001, the Census and Statistics Department put out a revised series of seasonally adjusted unemployment rate compiled by reference to the X-11 ARIMA method, which adjusts for all seasonal variations in employment and unemployment (i.e. the changes due to holiday effects, seasonally ups and downs in economic activity, seasonal variations in first-time job-seekers, etc). This replaces the former series which adjusts only for seasonal variations in the proportion of first-time job-seekers in the labour force. For more details, see Note (3) at the end of Chapter 5 of the Half-yearly Economic Report 2001.

/(3)

- (3) The main criteria for an employed person aged 15 or above to be classified as underemployed are: involuntarily working less than 35 hours during the reference period (i.e. seven days before enumeration), and either available for additional work during the reference period or seeking additional work during the 30 days before enumeration.
- (4) The employed population refers to those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (5) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (6) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (7) The wage data as collected have a more limited coverage than the corresponding earnings data. More specifically, the coverage of the service sectors in the wage data is far from complete, and the coverage of occupation categories in the wage data is only up to the supervisory and technical level.
- (8) The labour force participation rate is defined as the proportion of economically active population (i.e. those working or unemployed) in the population aged 15 or above.
- (9) The service sectors cover the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; financing, insurance, real estate and business services; and community, social and personal services.
- (10) Employment for the building and construction sector as a whole is enumerated from the General Household Survey carried out by the Census and Statistics Department. Apart from site workers, it also includes non-site workers engaged in minor alteration and addition, repair, maintenance and interior decoration work on existing buildings. In addition, it includes professional, administrative and other support personnel engaged in the building and construction sector, such as engineers, architects, surveyors and contract managers, as well as general clerical staff.
- (11) In his 2001/02 Budget, the Financial Secretary announced that 8 000 Civil Service posts had been deleted during 2000/01. Notwithstanding the lifting of the recruitment freeze as from April 2001, the Government aims to reduce its staff establishment further by 9 000 Civil Service posts in the ensuing two years up to 2002/03, through natural wastage, staff redeployment, and the Voluntary Retirement Scheme. By the end of 2002/03, the total Civil Service establishment is expected to come down to around 181 000.

CHAPTER 6 : PRICES

Consumer prices

6.1 Overall consumer prices fell for the third consecutive year in 2001, though to a distinctly smaller degree than in the preceding two years. A narrowing rate of decline was observed in the first seven months of 2001, when there was some resurrection in domestically generated price pressure along with a modest increase in labour wages and earnings as well as upward adjustments in certain Government fees and public utility charges, partly offsetting the effect of lower import prices. But the rate of decline widened again in the rest of the year, as local price pressure subsided amidst more instances of pay freeze or pay cuts as well as further easing in property rentals. Concurrently, import prices went even lower, due to the US dollar strengthening against the currencies of most of the major supplier economies and world commodity prices plummeting after the 911 incident. Furthermore, in face of moderated consumer spending, local retailers generally offered greater price discounts in order to promote sales. Certain public transport operators also began to grant concessions on their fares. Thus the negative inflation persisted.

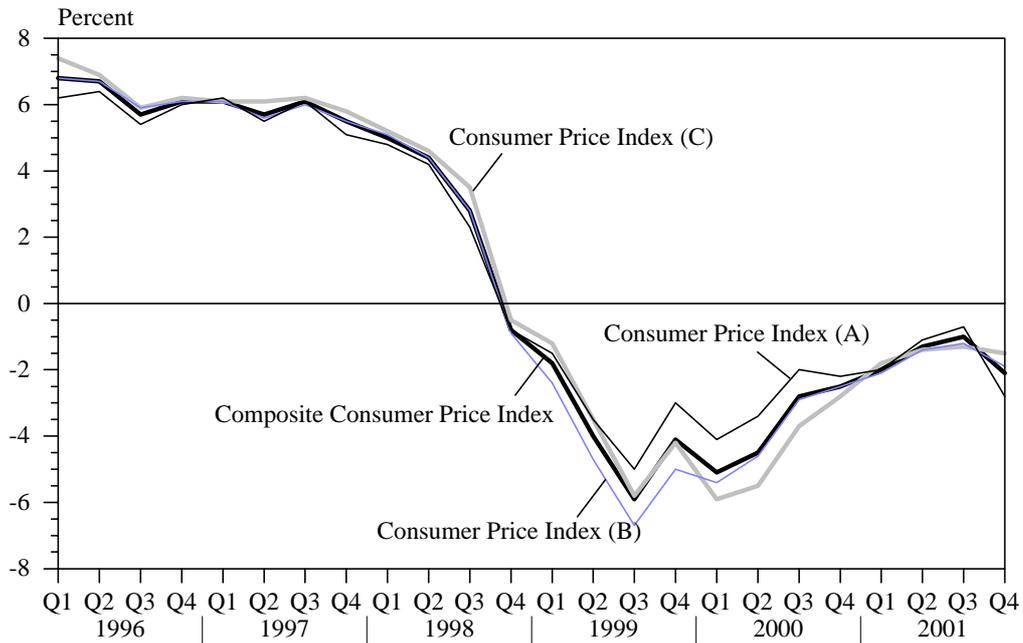
6.2 For 2001 as a whole, the *Composite Consumer Price Index*⁽¹⁾ was lower by 1.6%, considerably reduced from the 3.8% fall in 2000. The year-on-year decrease narrowed progressively, from 2.0% in the first quarter of 2001 to 1.3% in the second quarter and further to 1.0% in the third quarter, along with lesser declines in food prices and housing cost. Yet the year-on-year decrease widened again, to 2.1% in the fourth quarter, upon an abrupt drop in public housing cost brought about by a waiver of public housing rentals by the Housing Authority and Housing Society in December⁽²⁾. Also partly contributed were an enlarged decline in food prices and a downward adjustment in the charges for Towngas and liquefied petroleum gas.

6.3 A broadly similar profile was observed for all the sub-indices. On a year-on-year comparison, the decreases in the CPI(A), CPI(B) and CPI(C) likewise dwindled progressively, from 2.0%, 2.1% and 1.8% respectively in the first quarter of 2001 to 1.1%, 1.4% and 1.4% in the second quarter, and further to 0.7%, 1.2% and 1.3% in the third quarter. The decreases then widened again, to 2.8%, 1.9% and 1.5% in the fourth quarter. The waiver of public housing rentals had a larger dampening effect on the CPI(A) than on the CPI(B), yet with nil effect on the CPI(C)⁽³⁾. For 2001 as a whole, the three sub-indices were down by 1.7%, 1.6% and 1.5% respectively, all smaller than the declines of 3.0%, 3.9% and 4.5% in 2000.

/Diagram 6.1

Diagram 6.1

**Consumer Price Indices
(year-on-year rate of change)**



Note : From the fourth quarter of 2000 onwards, the year-on-year changes in the Consumer Price Indices are computed from the new 1999/2000-based CPI series. Before then, the year-on-year changes are computed from the old 1994/95-based CPI series. Splicing has been applied to the indices to maintain continuity.

/Table 6.1

Table 6.1

		Consumer Price Indices (year-on-year rate of change (%))			
		<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
2000	Annual	-3.8	-3.0	-3.9	-4.5
	H1	-4.8	-3.8	-5.0	-5.7
	H2	-2.7	-2.1	-2.7	-3.2
	Q1	-5.1	-4.1	-5.4	-5.9
	Q2	-4.5	-3.4	-4.6	-5.5
	Q3 ⁺	-2.8	-2.0	-2.9	-3.7
	Q4	-2.5	-2.2	-2.5	-2.8
2001	Annual	-1.6	-1.7	-1.6	-1.5
	H1	-1.7	-1.6	-1.7	-1.6
	H2	-1.5	-1.8	-1.5	-1.4
	Q1	-2.0	-2.0	-2.1	-1.8
	Q2	-1.3	-1.1	-1.4	-1.4
	Q3	-1.0	-0.7	-1.2	-1.3
	Q4	-2.1	-2.8	-1.9	-1.5
	Jan	-1.5	-1.4	-1.7	-1.4
	Feb ^{#*}	-2.4	-2.5	-2.5	-2.3
	Mar [#]	-1.9	-2.1	-2.0	-1.5
	Apr	-1.4	-1.2	-1.6	-1.4
	May	-1.5	-1.3	-1.6	-1.6
	Jun	-1.1	-0.7	-1.2	-1.3
	Jul	-0.9	-0.5	-1.1	-1.2
	Aug	-1.1	-0.9	-1.2	-1.2
	Sep	-1.2	-0.9	-1.3	-1.4
	Oct	-1.2	-1.1	-1.4	-1.3
	Nov	-1.4	-1.2	-1.5	-1.6
	Dec [^]	-3.6	-6.2	-2.6	-1.7

Notes : From the fourth quarter of 2000 onwards, the year-on-year changes in the Consumer Price Indices are computed from the new 1999/2000-based CPI series. Before then, the year-on-year changes are computed from the old 1994/95-based CPI series. Splicing has been applied to the indices to maintain continuity.

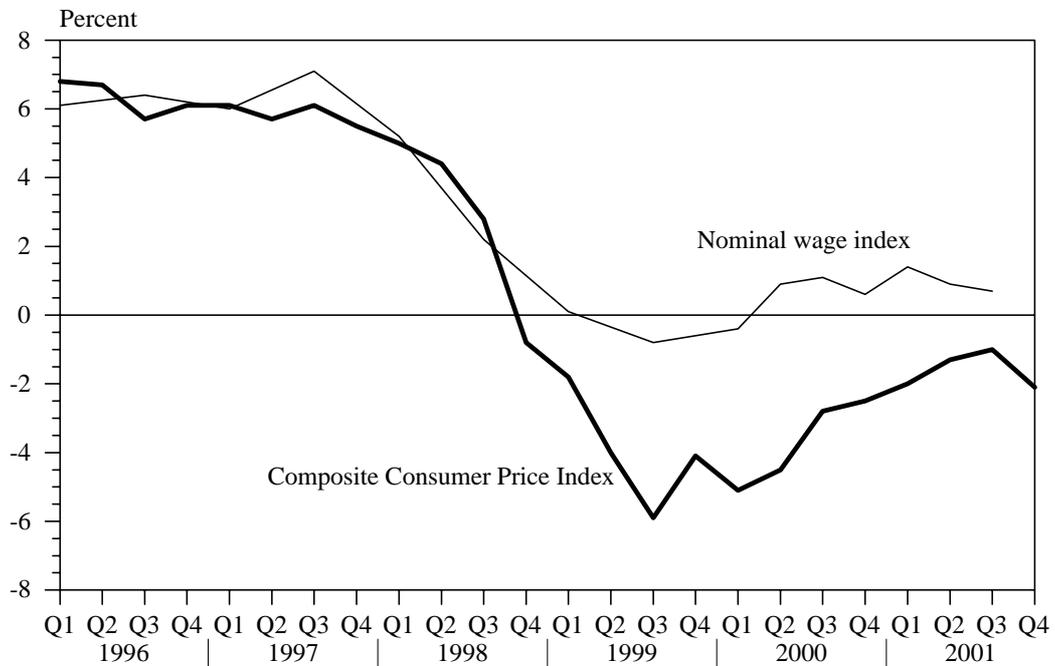
- (+) The lesser decline in the third quarter of 2000 was due in part to a lower base of comparison in the third quarter of 1999, caused by a 50% cut in the rates payable for that quarter.
- (#) The larger declines in February and March 2001 than in January were due in part to a special one-off rebate of electricity charges by a power company during February - March 2001.
- (*) The enlarged decline from January to February 2001 was due additionally to the sales period near the Lunar New Year Festival, which fell in January in 2001 but in February in 2000. Consumer prices tended to be boosted in that sales period, and eased after it was over.
- (^) The distinctly larger decline in December 2001, especially for the Composite CPI, CPI(A) and CPI(B), was mainly due to a waiver of public housing rentals for that month. This had the effect of dampening the Composite CPI by 2.0 percentage points in December 2001. The corresponding dampening effects on the three sub-indices were 4.9 percentage points for the CPI(A), 1.0 percentage point for the CPI(B), and nil for the CPI(C), the variations being the result of different weightings of the public housing component in the respective sub-indices.

/Diagram 6.2

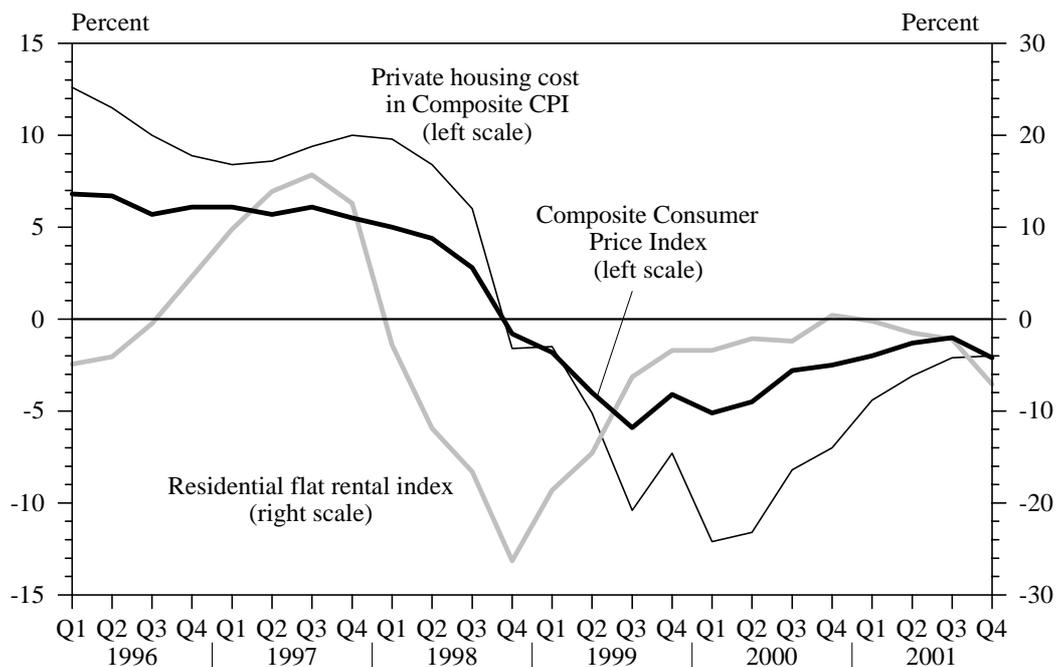
Diagram 6.2

**Composite Consumer Price Index vis-à-vis labour wages,
residential flat rentals, and prices of retained imports
(year-on-year rate of change)**

(a) Compared with labour wages



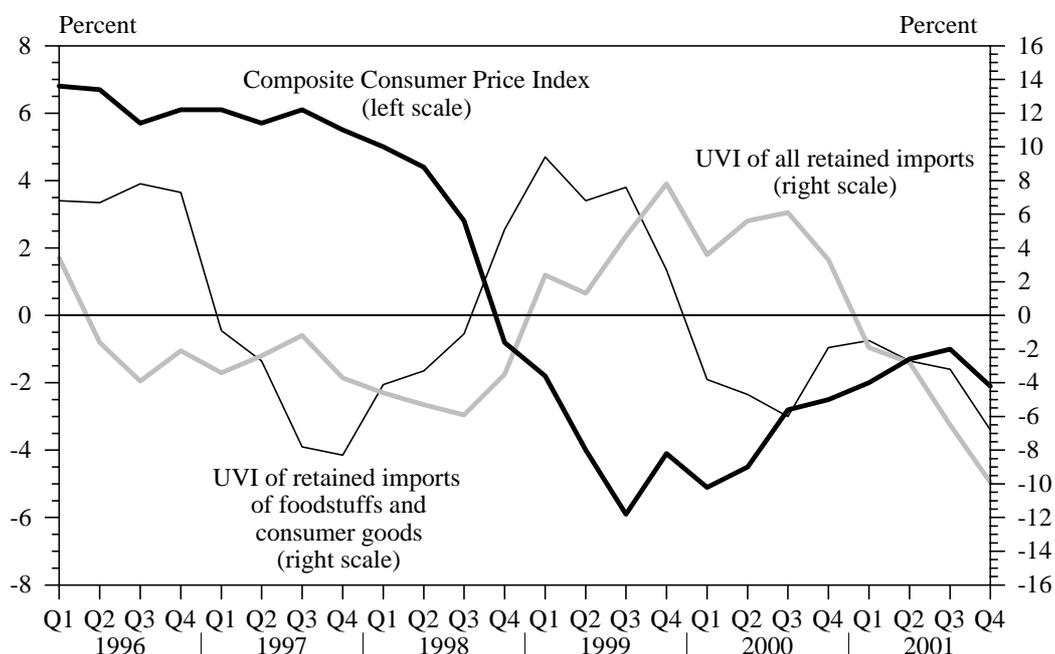
(b) Compared with residential flat rentals



/Diagram 6.2 (cont'd)

Diagram 6.2 (cont'd)

(c) Compared with the unit value index of retained imports



Note : See the footnote to Diagram 6.1.

6.4 On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI fell by 0.6% in the first quarter of 2001, held steady in the second quarter, but went down again in the third and fourth quarters, by 0.4% and 1.1% respectively. The distinctly larger decline in the fourth quarter was primarily due to the waiver of public housing rentals in December. Amongst the three sub-indices, the CPI(A) was affected more than the CPI(B) by this particular factor, yet the CPI(C) was not affected⁽⁴⁾. The decrease in the CPI(A) in the fourth quarter, at 2.2%, thus far exceeded those in the CPI(B) and CPI(C), at 0.8% and 0.4% respectively. In the first three quarters of 2001, these three sub-indices all showed fluctuating changes, at -0.8%, 0.3% and -0.2% for the CPI(A), -0.6%, -0.1% and -0.4% for the CPI(B), and -0.5%, -0.2% and -0.5% for the CPI(C).

/Table 6.2

Table 6.2

**Seasonally adjusted Consumer Price Indices
(quarter-to-quarter rate of change (%))**

		<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
2000	Q1	-1.2	-1.2	-1.1	-1.5
	Q2	-0.7	-0.7	-0.8	-0.5
	Q3	-0.6	-0.5	-0.7	-0.6
	Q4	-0.1	*	-0.1	-0.2
2001	Q1	-0.6	-0.8	-0.6	-0.5
	Q2	*	0.3	-0.1	-0.2
	Q3	-0.4	-0.2	-0.4	-0.5
	Q4 [#]	-1.1	-2.2	-0.8	-0.4

Notes : From the first quarter of 2000 onwards, the quarter-to-quarter changes in the seasonally adjusted Consumer Price Indices are computed from the new 1999/2000-based CPI series.

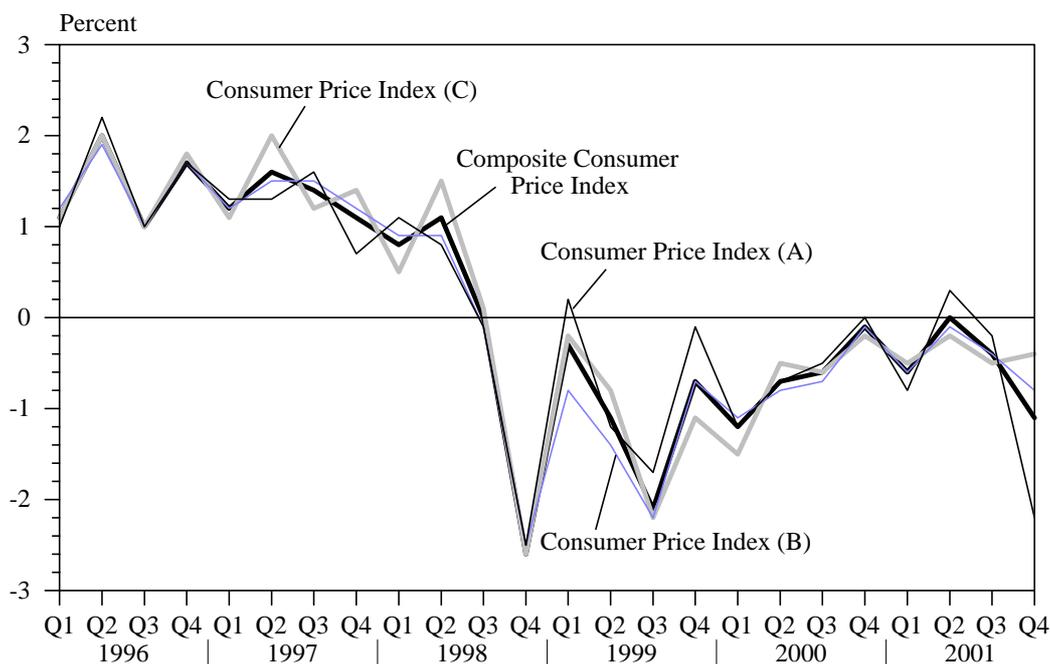
(#) The larger declines in the fourth quarter of 2001, more distinctly for the Composite CPI and CPI(A) and to a lesser extent also for the CPI(B), were largely a result of the waiver of public housing rentals in December. This had the effect of lowering the seasonally adjusted Composite CPI, CPI(A) and CPI(B) by 0.7, 1.7 and 0.3 of a percentage point respectively in the fourth quarter of 2001. The seasonally adjusted CPI(C) was unaffected.

(*) Change of less than 0.05%.

/Diagram 6.3

Diagram 6.3

**Seasonally adjusted Consumer Price Indices
(quarter-to-quarter rate of change)**



Note : From the first quarter of 2000 onwards, the quarter-to-quarter changes in the seasonally adjusted Consumer Price Indices are computed from the new 1999/2000-based CPI series. Before then, the quarter-to-quarter changes are computed from the old 1994/95-based CPI series. Splicing has been applied to the indices to maintain continuity.

6.5 Analysed by major *commodity group* in the Composite CPI, the prices of durable goods slid further, by 7.1% in 2001, after a 4.6% decline in 2000. This was mainly due to further price reductions for computer products and telecommunications equipment. The prices of clothing and footwear, basic foodstuffs and charges for meals at restaurants continued to fall, by 4.6%, 1.7% and 0.3% respectively in 2001, yet these were smaller than the decreases of 10.1%, 4.2% and 0.9% in 2000. The charges for electricity, gas and water were reduced by 1.9% in 2001, partly due to lower fuel cost variation charge for Towngas and partly due to a one-off rebate of electricity tariff by a power company in early 2001⁽⁵⁾. This followed an increase of 3.6% in 2000. Private housing cost was likewise on a moderated downtrend, falling by 9.8% and 2.9% respectively in 2000 and 2001, upon further dissipation of the lagged effect of

/the

the pronounced drop in market rentals for private housing over the past few years⁽⁶⁾. As to public housing cost, it turned from a 1.1% increase in 2000 to an 8.3% decrease in 2001, mainly reflecting the waiver of public housing rentals in December. On the other hand, the prices of alcoholic drinks and tobacco reverted from a fall of 0.9% in 2000 to a rise of 3.3% in 2001, on account of higher duty rates for tobacco and certain types of alcoholic drinks effected in early March 2001⁽⁷⁾. The prices of miscellaneous services also reverted from a decline of 0.2% in 2000 to an increase of 0.5% in 2001, consequential to upward adjustments in school fees and entertainment charges. The prices of miscellaneous goods were lifted by 1.3% in 2001, owing to higher prices of newspapers, textbooks and medical products. This was larger than the increase of 0.9% in 2000. The cost of transport, having gone higher by 1.0% in 2000, edged up further by 0.4% in 2001, upon fare rise by some of the public transport operators in the early part of the year.

6.6 On a year-on-year comparison, the declines in private housing cost and in the prices of basic foodstuffs moderated, from 3.8% and 2.1% respectively in the first half of 2001 to 2.0% and 1.4% in the second half of the year. The declines in the prices of clothing and footwear and in the charges for electricity, gas and water also became smaller between the two periods, from 5.0% and 3.1% respectively to 4.1% and 0.7%. On the other hand, the declines in public housing cost, in the prices of durable goods, and in the charges for meals at restaurants were enlarged between the two periods, from 0.4%, 6.9% and 0.2% respectively to 16.1%, 7.4% and 0.3%. As to the prices of alcoholic drinks and tobacco, the prices of miscellaneous goods, and the prices of miscellaneous services, they all recorded increases throughout 2001, by 2.3%, 1.8% and 0.6% respectively in the first half of the year and by 4.2%, 0.8% and 0.3% in the second half. The cost of transport however moderated from a 0.7% rise to nil change between the two periods.

/Table 6.3

Table 6.3**Consumer Price Indices by component
(year-on-year rate of change (%))****(a) In 2000 and 2001**

Expenditure Component	Composite CPI		CPI(A)		CPI(B)		CPI(C)	
	2000	2001	2000	2001	2000	2001	2000	2001
Food	-2.2	-0.8	-2.4	-1.0	-2.1	-1.0	-1.9	-0.2
<i>Meals bought away from home</i>	-0.9	-0.3	-0.8	-0.5	-0.9	-0.6	-0.9	0.8
<i>Other foodstuffs</i>	-4.2	-1.7	-4.3	-1.8	-4.3	-1.6	-4.2	-1.9
Housing [#]	-8.2	-3.1	-6.2	-3.6	-8.2	-2.8	-9.9	-2.8
<i>Private dwellings</i>	-9.8	-2.9	-8.8	-2.9	-9.5	-2.9	-10.9	-3.1
<i>Public dwellings</i>	1.1	-8.3	1.1	-8.2	1.1	-8.3	--	--
Electricity, gas and water	3.6	-1.9	3.9	-2.7	3.5	-1.7	3.0	-0.7
Alcoholic drinks and tobacco	-0.9	3.3	-0.8	3.6	-1.1	3.4	-1.1	1.6
Clothing and footwear	-10.1	-4.6	-11.9	-4.3	-11.9	-4.3	-5.8	-5.2
Durable goods	-4.6	-7.1	-4.2	-6.9	-5.0	-7.7	-4.4	-6.5
Miscellaneous goods	0.9	1.3	1.5	2.7	0.9	1.2	*	0.1
Transport	1.0	0.4	0.6	0.5	0.6	0.3	1.8	0.3
Miscellaneous services	-0.2	0.5	*	0.6	-0.4	0.4	-0.2	0.2
All items	-3.8	-1.6	-3.0	-1.7	-3.9	-1.6	-4.5	-1.5

(b) In the first and second half of 2001

Expenditure component	Composite CPI		CPI(A)		CPI(B)		CPI(C)	
	2001 H1	2001 H2	2001 H1	2001 H2	2001 H1	2001 H2	2001 H1	2001 H2
Food	-0.9	-0.7	-1.3	-0.8	-1.1	-0.8	*	-0.3
<i>Meals bought away from home</i>	-0.2	-0.3	-0.5	-0.5	-0.5	-0.7	0.9	0.8
<i>Other foodstuffs</i>	-2.1	-1.4	-2.4	-1.1	-2.1	-1.1	-1.5	-2.2
Housing [#]	-3.1	-3.0	-2.7	-4.6	-3.2	-2.4	-3.6	-1.9
<i>Private dwellings</i>	-3.8	-2.0	-3.6	-2.2	-3.6	-2.0	-4.2	-2.0
<i>Public dwellings</i>	-0.4	-16.1	-0.4	-16.1	-0.4	-16.1	--	--
Electricity, gas and water	-3.1	-0.7	-4.5	-0.9	-2.6	-0.8	-1.0	-0.3
Alcoholic drinks and tobacco	2.3	4.2	2.5	4.7	2.4	4.4	1.3	2.0
Clothing and footwear	-5.0	-4.1	-5.5	-3.1	-5.1	-3.4	-4.3	-6.1
Durable goods	-6.9	-7.4	-6.7	-7.1	-7.4	-8.0	-6.3	-6.7
Miscellaneous goods	1.8	0.8	3.5	1.8	1.7	0.7	0.2	-0.1
Transport	0.7	*	0.8	0.2	0.7	-0.1	0.7	-0.2
Miscellaneous services	0.6	0.3	0.7	0.5	0.5	0.4	0.5	*
All items	-1.7	-1.5	-1.6	-1.8	-1.7	-1.5	-1.6	-1.4

Notes : (#) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only.

(--) Not applicable.

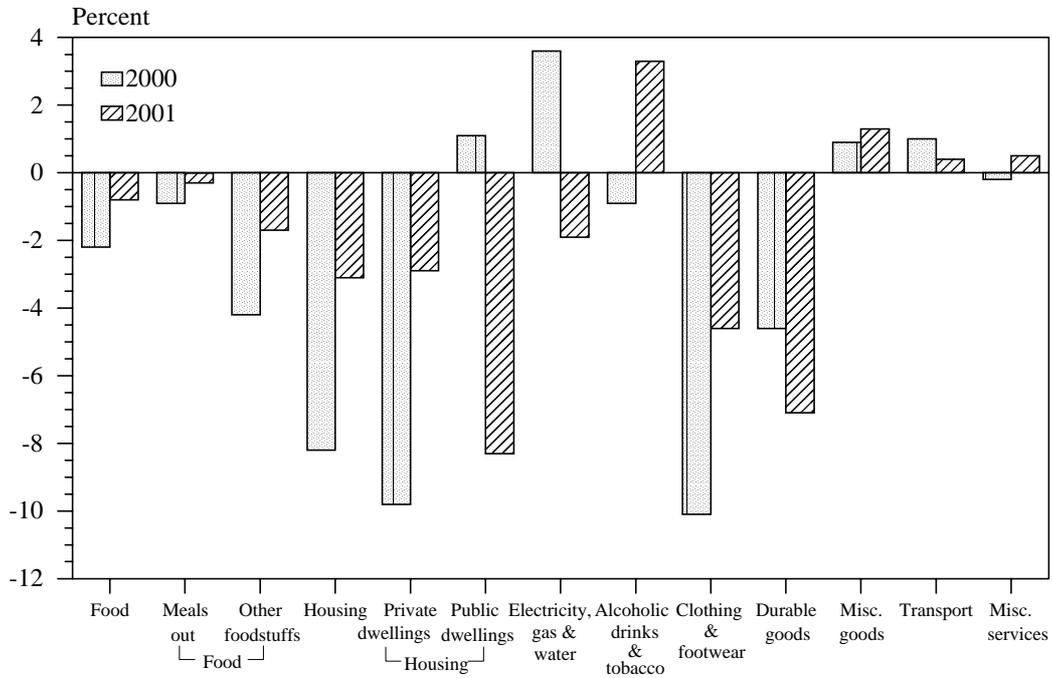
(*) Change of less than 0.05%.

/Diagram 6.4

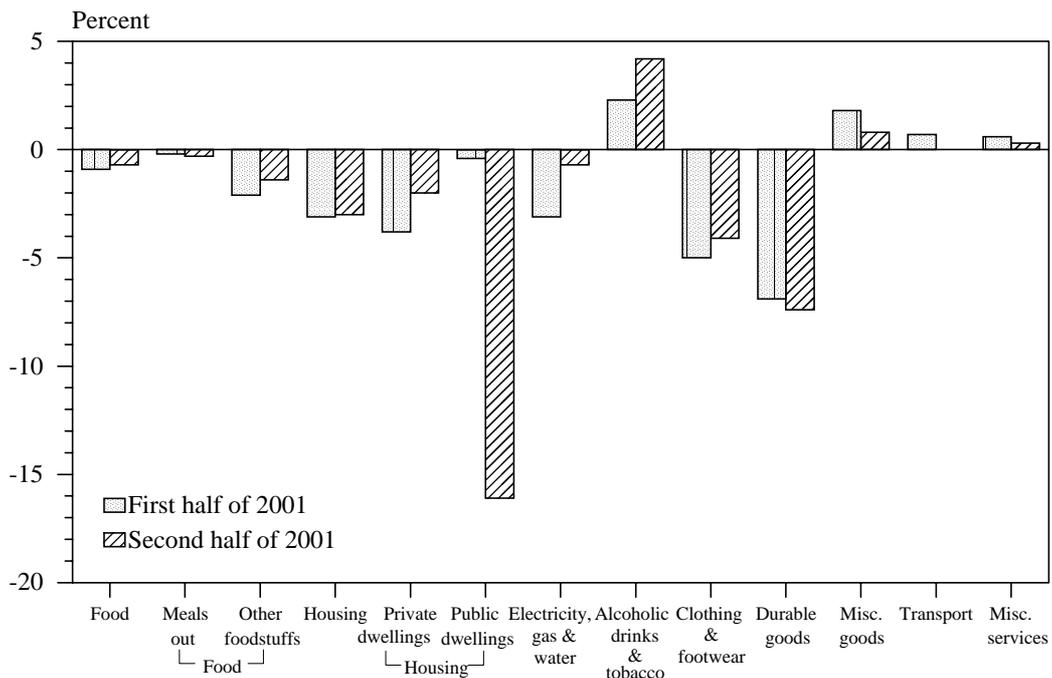
Diagram 6.4

**Composite Consumer Price Index by component
(year-on-year rate of change)**

(a) 2000 and 2001



(b) In the first and second half of 2001

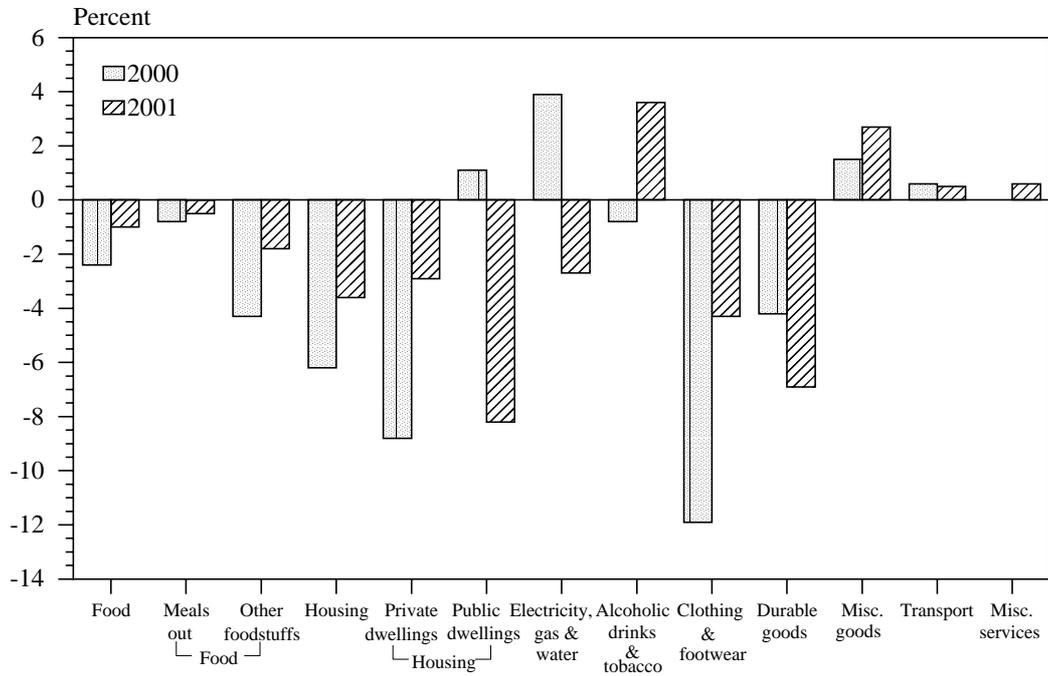


/Diagram 6.5

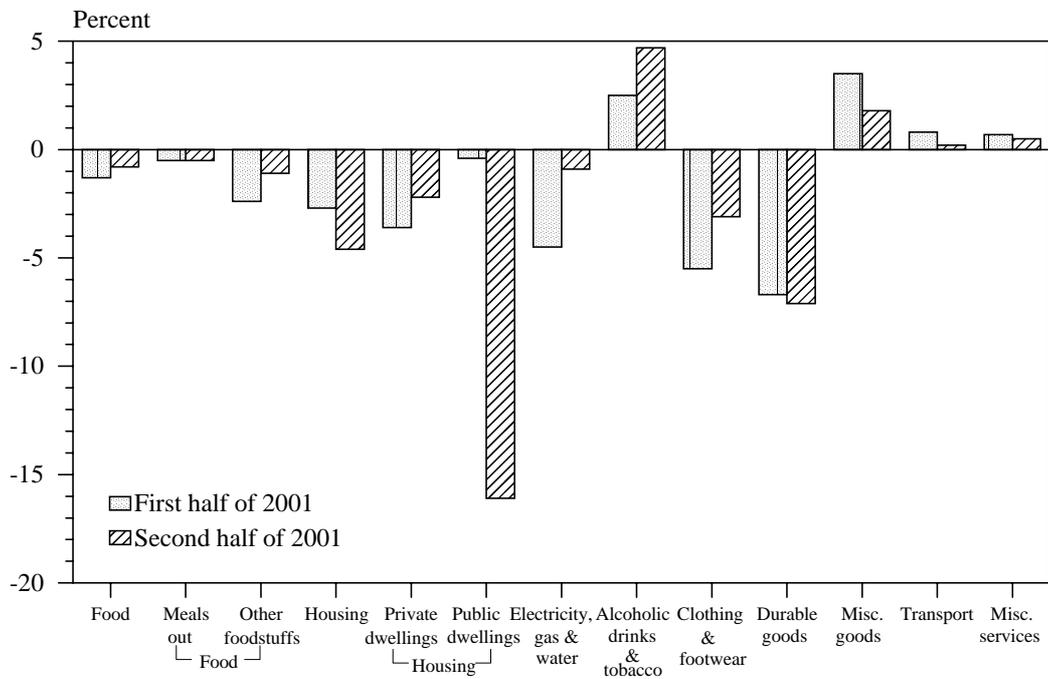
Diagram 6.5

**Consumer Price Index (A) by component
(year-on-year rate of change)**

(a) 2000 and 2001



(b) In the first and second half of 2001



/Import

Import prices

6.7 The *prices of imports of goods*, as measured by the unit value index of imports of goods, declined by 3% in 2001, reversing the increase of 1% in 2000. Moreover, there was a distinct enlargement in the year-on-year decrease during the year, from 2% in the first quarter of 2001 to 3% in the second quarter, 4% in the third quarter, and 5% in the fourth quarter. This was partly attributable to the US dollar strengthening against the currencies of most of the major supplier economies, including the Japanese yen and the New Taiwan dollar. Also relevant was an accelerated fall in world commodity prices amidst the slack global demand, particularly after the 911 incident.

6.8 Analysed by major *source*, the decrease in import prices was virtually across-the-board. The prices of imports from Taiwan and Japan fell most visibly, by 6% and 4% respectively in 2001, in contrast to increases of 2% and 3% in 2000. Depreciation in the respective currencies against the US dollar and subdued inflation in these two economies contributed. The prices of imports from the United States were lower by 2% in 2001, following nil change in 2000, while the prices of imports from the Mainland went down in both years, by 2% and 1% respectively.

/Table 6.4

Table 6.4

**World commodity prices
(year-on-year rate of change (%))**

		<u>Agricultural raw materials</u>	<u>Metals</u>	<u>All non-fuel commodities</u>	<u>Fuels</u>
2000	Annual	2	12	2	57
	H1	7	21	5	93
	H2	-3	5	-1	34
	Q1	7	27	5	129
	Q2	7	14	5	67
	Q3	*	9	1	46
	Q4	-6	1	-3	25
	2001	Annual	-7	-9	-6
	H1	-7	-4	-5	-1
	H2	-8	-15	-6	-25
	Q1	-7	-5	-5	-2
	Q2	-6	-4	-5	*
	Q3	-6	-15	-4	-16
	Q4	-10	-15	-8	-35

Note : (*) Change of less than 0.5%.

Source : IMF International Financial Statistics.

Table 6.5

**Unit value indices of imports of goods by major source
(year-on-year rate of change (%))**

		<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>United States</u>	<u>All sources</u>
2000	Annual	-1	3	2	*	1
	H1	-2	4	2	-1	1
	H2	*	3	2	1	1
	Q1	-2	3	*	-2	*
	Q2	-2	5	3	*	1
	Q3	-1	4	3	1	1
	Q4	*	1	1	1	*
	2001	Annual	-2	-4	-6	-2
	H1	-1	-2	-4	-1	-2
	H2	-2	-6	-8	-4	-4
	Q1	-1	-1	-3	-1	-2
	Q2	-1	-3	-6	-2	-3
	Q3	-2	-5	-7	-3	-4
	Q4	-3	-7	-8	-5	-5

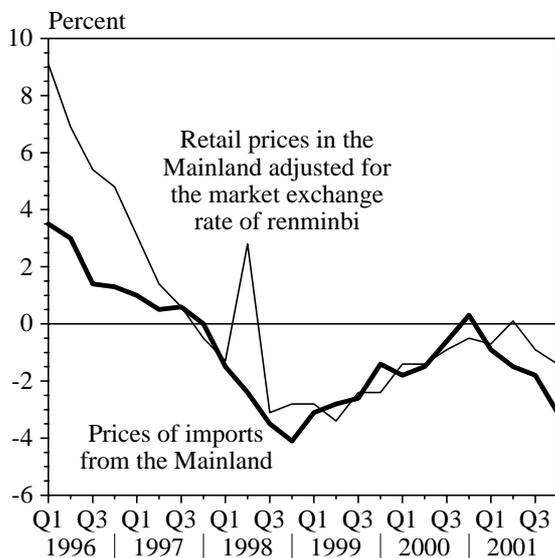
Note : (*) Change of less than 0.5%.

/Diagram 6.6

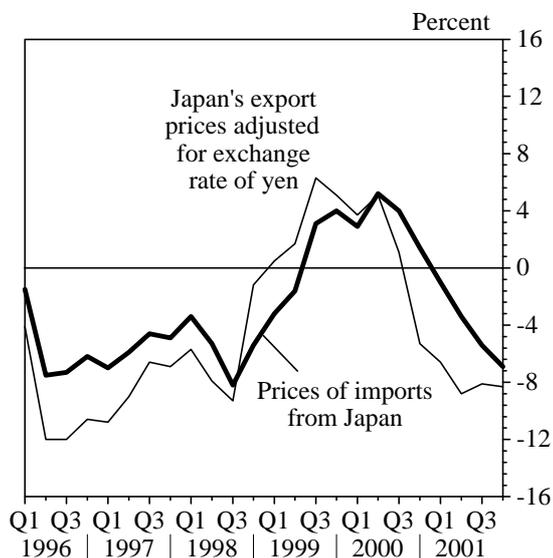
Diagram 6.6

**Prices of imports of goods by major source
(year-on-year rate of change)**

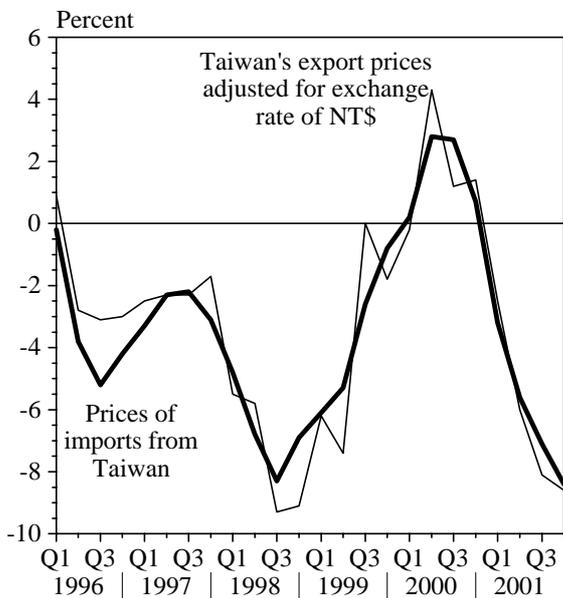
(a) For imports from the mainland of China



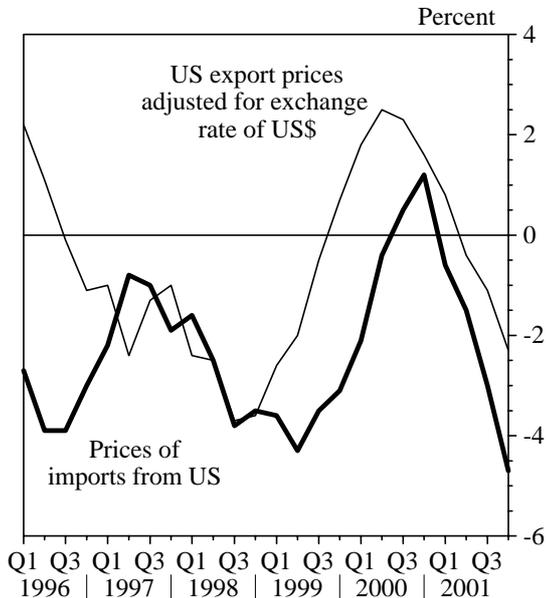
(b) For imports from Japan



(c) For imports from Taiwan



(d) For imports from the United States



6.9 The *prices of retained imports*, as measured by the unit value index of retained imports, fell by 5% in 2001, representing a significant downturn from the 5% rise in 2000. Also, there was a substantial widening in the year-on-year decrease during the year, from 2-3% in the first two quarters of 2001 to 6% in the third quarter and further to 10% in the fourth quarter.

6.10 Analysed by *end-use category*, the prices of retained imports again showed an extensive decrease. In particular, the prices of retained imports of fuels were slashed by 14% in 2001. Most of the fall took place in the second half of the year, when international oil prices plunged amidst a weak global demand. Also relevant was a high base of comparison in 2000, when the prices of retained imports of fuels leaped by 66%. The prices of retained imports of raw materials and semi-manufactures also dropped distinctly, by 7% in 2001, reversing the 7% increase in 2000. To a large extent, this was due to lower import prices of materials for industrial use, especially the prices of electronic parts, plastic resins and chemicals. The prices of retained imports of capital goods fell more modestly, by 2% in 2001, after a 1% rise in 2000. Lower import prices of industrial equipment were the major contributory factor. As to retained imports of consumer goods and foodstuffs, their prices were down by 3% and 4% respectively in 2001, upon lower import prices of such commodities from Japan and the Mainland. This came after the corresponding decreases of 4% each in 2000.

/Table 6.6

Table 6.6

**Unit value indices of retained imports by end-use category
(year-on-year rate of change (%))**

		<u>Food-</u> <u>stuffs</u>	<u>Consumer</u> <u>goods</u>	<u>Fuels</u>	<u>Raw</u> <u>materials</u> <u>and semi-</u> <u>manufactures</u>	<u>Capital</u> <u>goods</u>	<u>All</u> <u>categories</u>
2000	Annual	-4	-4	66	7	1	5
	H1	-6	-3	78	5	5	5
	H2	-2	-4	57	8	-2	5
	Q1	-7	-2	95	4	1	4
	Q2	-5	-4	67	7	7	6
	Q3	-3	-7	74	8	4	6
	Q4	-2	-2	37	7	-7	3
2001	Annual	-4	-3	-14	-7	-2	-5
	H1	-3	-2	1	-4	-3	-2
	H2	-5	-5	-25	-11	-2	-8
	Q1	-3	-1	-1	-3	-3	-2
	Q2	-4	-2	2	-5	-2	-3
	Q3	-5	-3	-18	-8	-2	-6
	Q4	-6	-7	-32	-13	-1	-10

Prices of key inputs

6.11 The prices of the major inputs all moderated in the latter part of 2001. On *labour cost*, overall earnings and wages rose by only 2% and 1% respectively in money terms in the third quarter of 2001 over a year earlier, and a more apparent easing was likely in the fourth quarter. On the *cost of material inputs*, the prices of retained imports of raw materials and semi-manufactures fell significantly, by 13% in the fourth quarter of 2001 over a year earlier, while the prices of retained imports of capital goods were down just slightly, by 1%. On *property cost*, the prices of office space, shopping space and conventional flatted factory space all declined markedly, by 18%, 12%, and 13% respectively in the fourth quarter of 2001 over a year earlier, as did the corresponding rentals, by 5%, 4% and 9%.

/Prices

Prices of local manufacturing output

6.12 The *prices of local manufacturing output*, as measured by the Producer Price Index⁽⁸⁾, edged lower by 2% in the first three quarters of 2001 over a year earlier, having shown virtually nil change in 2000. This went along with the generally much lower prices of retained imports of raw materials and semi-manufactures over the past year. Analysed by major industry group, output prices of the machinery and equipment industry fell by 3% in the first three quarters of 2001 over a year earlier. Output prices of the consumer electrical and electronic products industry decreased by 2%, while output prices of the textiles, plastic products and fabricated metal products industries all declined by 1%. Output prices of the wearing apparel and the paper products and printing industries were virtually flat.

Table 6.7

Producer Price Index for the local manufacturing sector (year-on-year rate of change (%))

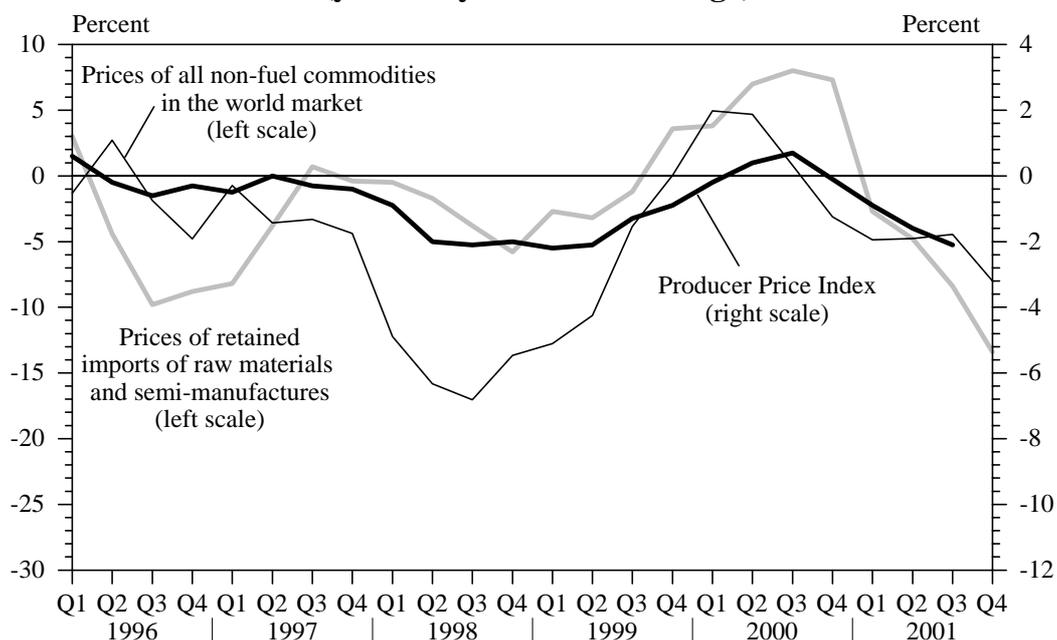
<u>Industry</u>	<u>2000</u>					<u>2001</u>			
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Wearing apparel	*	*	*	*	*	*	*	*	*
Textiles	-1	-1	-1	*	*	-1	*	-1	-2
Plastic products	-1	*	*	-2	-2	-1	-1	-2	*
Consumer electrical and electronic products	-6	-8	-7	-4	-7	-2	-2	-2	-2
Machinery and equipment	2	2	2	2	2	-3	-3	-2	-4
Fabricated metal products	1	-2	*	4	3	-1	1	*	-4
Paper products and printing	*	2	2	-1	-1	*	-1	*	*
Overall manufacturing	*	*	*	1	*	-2	-1	-2	-2

Note : (*) Change of less than 0.5%.

/Diagram 6.7

Diagram 6.7

Producer Price Index, world commodity prices, and prices of retained imports of raw materials and semi-manufactures (year-on-year rate of change)



Export prices

6.13 The *prices of total exports of goods*, as measured by the unit value index of total exports of goods, were down by 3% in 2001, having held broadly stable in 2000. The year-on-year decrease widened slightly over the course of 2001, from 2% in the first half of the year to 3% in the second half. Amidst subdued demand in the major overseas markets, there were greater price stringency from buyers and intensified competition from other export producers. Also relevant was a distinct fall in the cost of material inputs for production.

/6.14

6.14 Analysed by major *market*, the prices of total exports of goods to Singapore were trimmed further by 5% in 2001, after a 4% drop in 2000. This was mainly attributable to continued decline in the prices of semi-conductors and other electronic parts amidst sluggish demand in the world market. The prices of total exports of goods to the United Kingdom and Germany also registered larger decreases in 2001, by 3% and 2% respectively, than in 2000, by 2% and 1%. The prices of total exports of goods to Japan fell by 2% in 2001, similar to the decrease in 2000. The prices of total exports of goods to the Mainland fell back by 3% in 2001, following a 2% rise in 2000. The prices of total exports of goods to the United States, having registered nil change in 2000, moved lower by 1% in 2001.

Table 6.8

**Unit value indices of total exports of goods by major market
(year-on-year rate of change (%))**

		<u>United States</u>	<u>Mainland of China</u>	<u>Germany</u>	<u>United Kingdom</u>	<u>Japan</u>	<u>Singapore</u>	<u>All markets</u>
2000	Annual	*	2	-1	-2	-2	-4	*
	H1	*	2	-2	-2	-2	-4	*
	H2	1	2	-1	-1	-2	-3	*
	Q1	*	1	-2	-2	-2	-3	*
	Q2	*	3	-2	-2	-2	-5	*
	Q3	1	3	-1	-1	-1	-4	*
	Q4	*	1	-1	-2	-2	-3	-1
2001	Annual	-1	-3	-2	-3	-2	-5	-3
	H1	-1	-2	-1	-2	-1	-4	-2
	H2	-2	-4	-3	-3	-2	-6	-3
	Q1	*	-1	-1	-1	-1	-3	-2
	Q2	-1	-3	-2	-2	-2	-4	-2
	Q3	-2	-4	-3	-3	-1	-6	-3
	Q4	-2	-4	-3	-4	-3	-6	-3

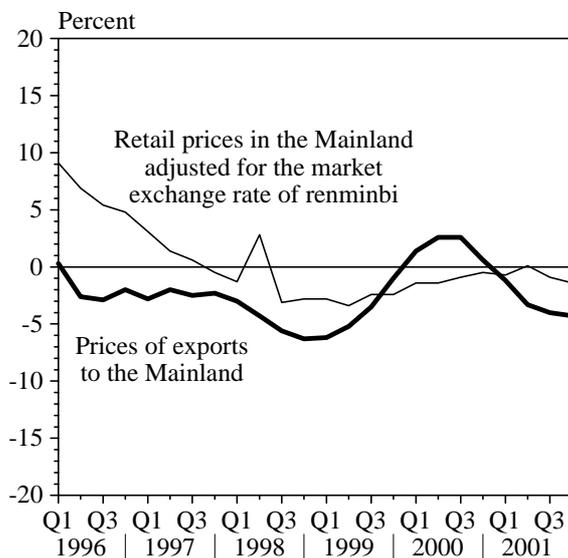
Note : (*) Change of less than 0.5%.

/Diagram 6.8

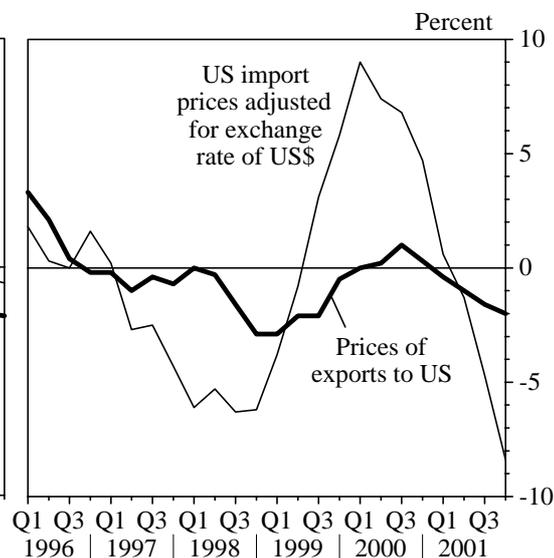
Diagram 6.8

**Prices of total exports of goods by major market
(year-on-year rate of change)**

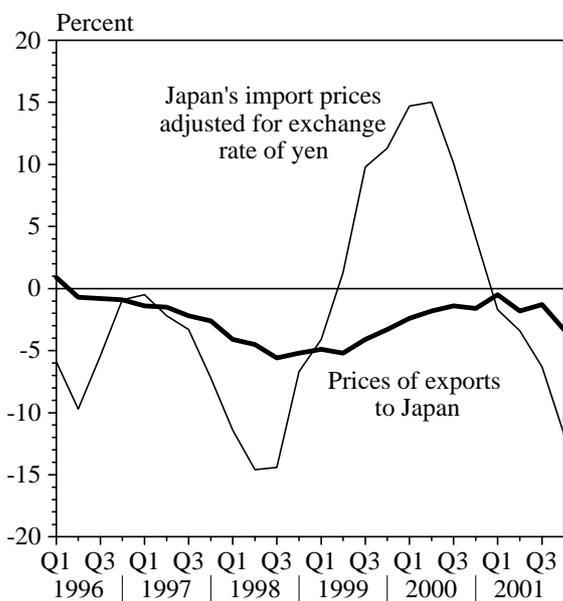
(a) For exports to the mainland of China



(b) For exports to the United States



(c) For exports to Japan



(d) For exports to Germany



/Terms

Terms of trade

6.15 As the prices of imports of goods fell slightly faster than the prices of total exports of goods, the terms of trade in goods for Hong Kong edged up by 1% in 2001. This followed a marginal decrease of 1% in 2000.

Table 6.9

		Terms of trade in goods	
		<u>Index on the terms of trade in goods</u> (1990 = 100)	<u>Year-on-year rate of change</u> (%)
2000	Annual	99.9	-1
	H1	100.2	-1
	H2	99.6	-1
	Q1	100.1	-1
	Q2	100.3	-1
	Q3	99.7	-1
	Q4	99.4	-1
	2001	Annual	100.6
H1		100.3	*
H2		101.0	1
Q1		100.2	*
Q2		100.4	*
Q3		100.6	1
Q4		101.4	2

Note : (*) Change of less than 0.5%.

/Diagram 6.9

Diagram 6.9

**Unit value indices of total exports of goods and imports of goods
(year-on-year rate of change)**

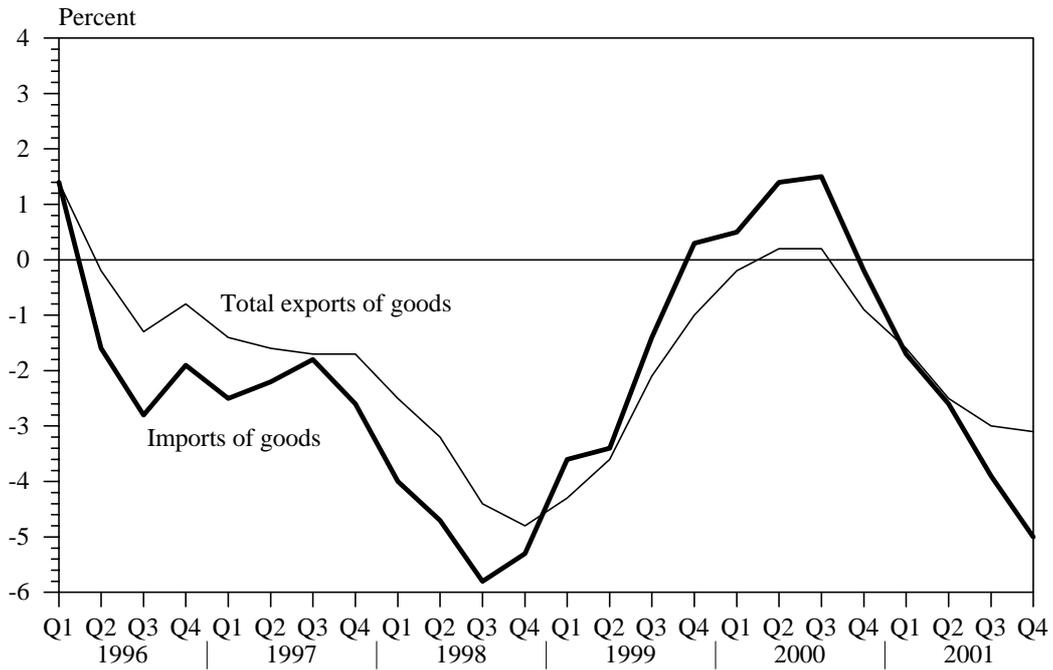
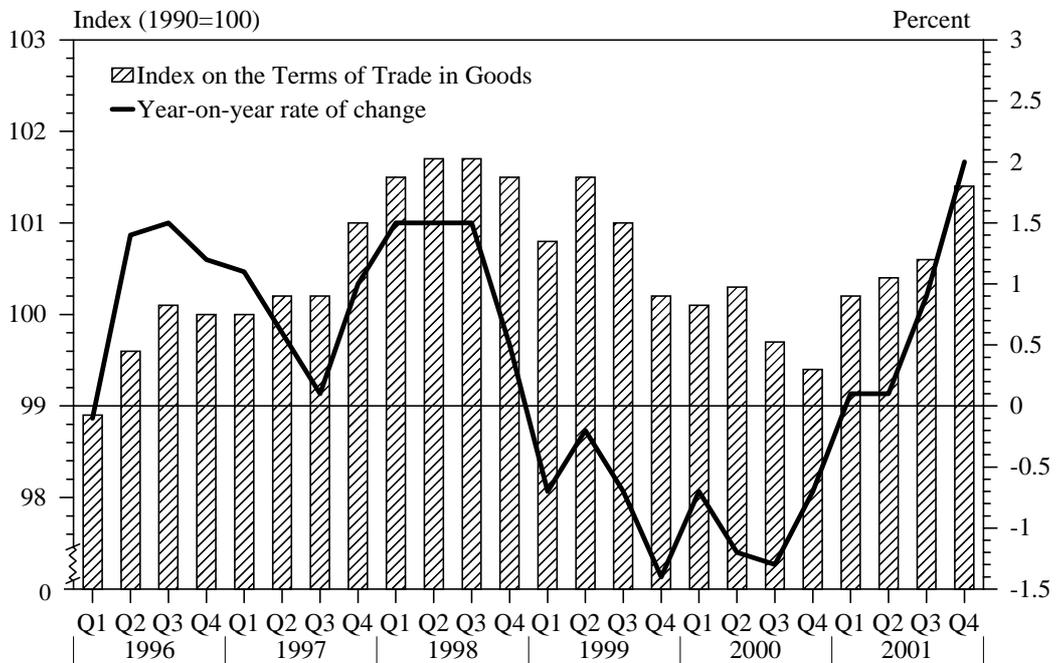


Diagram 6.10

Terms of trade in goods



/GDP

GDP deflator

6.16 The *GDP deflator*⁽⁹⁾, as a broad measure of overall price change in the economy, rebounded to a 0.5% rise in the fourth quarter of 2001 over a year earlier, after declining at a narrowing rate by 1.7%, 0.6% and 0.2% respectively in the first three quarters. This small rebound was almost entirely due to an improvement in the terms of trade. For 2001 as a whole, the GDP deflator fell by 0.5%, much reduced from the 6.5% decrease in 2000. This was mainly attributable to moderated decline in the price deflator for private consumption expenditure and rebound in the price deflator for government consumption expenditure. While the price deflator for exports of goods and services registered a widening decline over the course of the year, this was more than offset by an even larger decline in the price deflators for imports of goods and services. Within the GDP deflator, the *total final demand deflator* and the *domestic demand deflator* fell by 1.7% and 1.1% respectively in 2001, also reduced from the decreases of 3.1% and 5.6% in 2000. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator bounced back with a 2.9% rise in the first quarter of 2001, yet resumed decline in the ensuing three quarters, at 2.1%, 0.1% and 0.1% respectively.

/Table 6.10

Table 6.10**GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))**

	<u>1999[#]</u>	<u>2000[#]</u>	<u>2001⁺</u>	<u>2001</u>			
				<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4⁺</u>
Private consumption expenditure	-4.5	-4.8	-1.4	-1.3	-1.3	-1.0	-2.0
Government consumption expenditure	-0.2	-1.8	2.1	-0.9	2.9	3.4	3.3
Gross domestic fixed capital formation	0.8	-4.3	-4.1	-6.4	-3.2	-4.2	-2.9
Total exports of goods	-3.4	-0.5	-2.9	-1.8	-2.9	-3.3	-3.5
Imports of goods	-2.7	0.8	-3.2	-1.7	-2.7	-3.4	-4.9
Exports of services	-2.8	-0.2	-1.3	0.1	-0.9	-1.8	-2.4
Imports of services	-0.5	-0.1	-0.3	-0.3	0.1	-0.3	-0.6
Gross Domestic Product	-5.4	-6.5	-0.5	-1.7 <2.9>	-0.6 <-2.1>	-0.2 <-0.1>	0.5 <-0.1>
Total final demand	-3.5	-3.1	-1.7	-1.9	-1.6	-1.7	-1.8
Domestic demand	-1.8	-5.6	-1.1	-2.4	-1.0	-0.4	-0.7

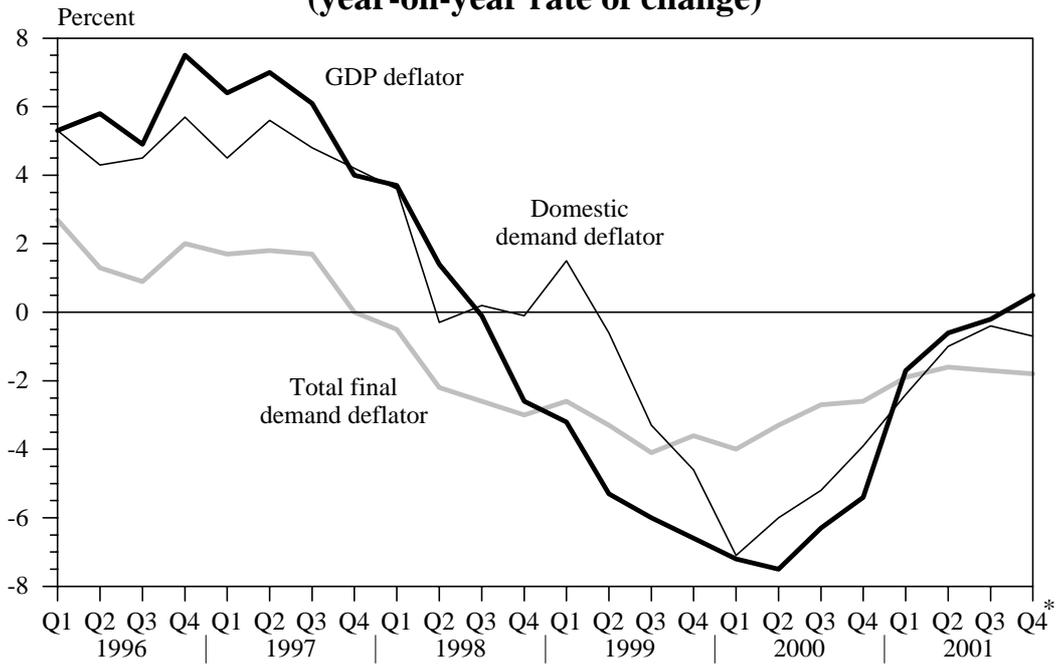
Notes : (#) Revised figures.

(+) Preliminary figures.

< > Seasonally adjusted quarter-to-quarter % change.

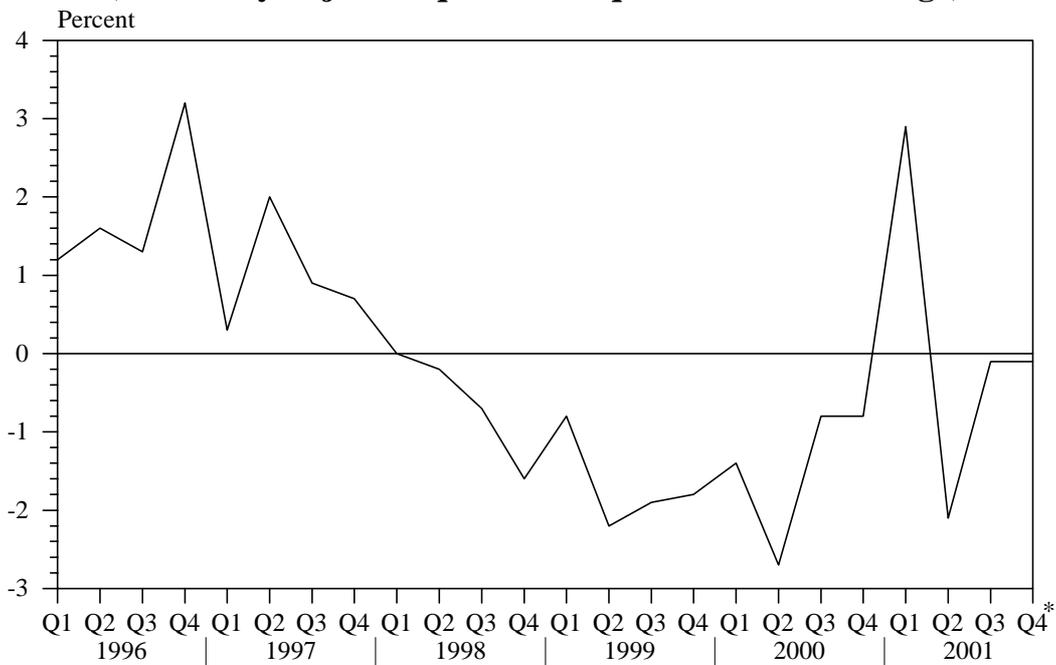
/Diagram 6.11

Diagram 6.11
GDP deflator, total final demand deflator
and domestic demand deflator
(year-on-year rate of change)



Note : (*) Preliminary figures.

Diagram 6.12
GDP deflator
(seasonally adjusted quarter-to-quarter rate of change)



Note : (*) Preliminary figure.

/Notes

Notes :

- (1) The Consumer Price Indices (A), (B) and (C) are compiled by reference to the average expenditure patterns for different groups of households as enumerated from the Household Expenditure Survey. Then, by aggregating the expenditure patterns of all the households covered by these three indices, a Composite CPI is compiled.

The expenditure ranges of the households covered in the 1999/2000-based CPIs are shown below:

	<u>Approximate proportion of households covered</u>	<u>Monthly expenditure range (at 1999/2000 prices)</u>
	(%)	(\$)
CPI(A)	50	4,500 to 18,499
CPI(B)	30	18,500 to 32,499
CPI(C)	10	32,500 to 65,999

The weightings of the various components in the 1999/2000-based CPIs are as follows:

<u>Expenditure component</u>	<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
	(%)	(%)	(%)	(%)
Food	26.67	31.88	25.94	21.38
<i>Meals bought away from home</i>	16.39	17.94	17.20	13.28
<i>Other foodstuffs</i>	10.28	13.94	8.74	8.10
Housing	29.91	29.13	29.68	31.22
<i>Private dwellings</i>	24.59	21.76	25.48	26.67
<i>Public dwellings</i>	2.07	5.08	1.03	--
<i>Maintenance costs and other housing charges</i>	3.25	2.29	3.17	4.55
Electricity, gas and water	2.98	3.99	2.81	2.02
Alcoholic drinks and tobacco	0.94	1.50	0.86	0.39
Clothing and footwear	4.13	3.36	4.47	4.55
Durable goods	6.24	4.96	6.93	6.73
Miscellaneous goods	5.70	5.25	5.58	6.43
Transport	9.01	8.23	9.05	9.94
Miscellaneous services	14.42	11.70	14.68	17.34
All items	100.00	100.00	100.00	100.00

- (2) The waiver of public housing rentals in December 2001 covered most of the public housing tenants, except those paying additional rents. This had the effect of lowering the Composite CPI by 0.6 of a percentage point in the fourth quarter of 2001, and by 0.2 of a percentage point for 2001 as a whole.

/(3)

- (3) Due to a larger weighting of public housing cost in the CPI(A) than in the CPI(B), the dampening effect on these two sub-indices brought about by the waiver of public housing rentals in December correspondingly differed. The CPI(A) and CPI(B) were dampened by 1.6 and 0.3 of a percentage point respectively in the fourth quarter of 2001, and by 0.4 and 0.1 of a percentage point respectively for 2001 as a whole. As to the CPI(C), the waiver had no effect, since public housing carried zero weighting in this sub-index.
- (4) The waiver of public housing rentals in December 2001 had the effect of lowering the seasonally adjusted Composite CPI by 0.7 of a percentage point in the fourth quarter of 2001. The corresponding dampening effects on the CPI(A) and CPI(B) were 1.7 and 0.3 of a percentage point. There was no dampening effect on the CPI(C).
- (5) The special one-off rebate of electricity charges granted by a power company in February and March 2001 had the effect of lowering the year-on-year change in the Composite CPI by 0.3 of a percentage point in the first quarter of 2001, and by 0.1 of a percentage point for 2001 as a whole.
- (6) In any particular period, only a small proportion of the tenancies of private dwellings are new lettings for which rentals are freshly determined, and lease renewals upon which rentals are revised. The majority of the tenancies are existing leases with rentals fixed until their expiry. Upon aggregation, the movements in private housing cost, as indicated in the various Consumer Price Indices, thus tend to be less responsive than the corresponding movements in market rentals, as reflected in the Rating and Valuation Department's rental index for private residential flats.
- (7) The 2001/02 Budget announced on 7 March 2001 lifted the tobacco duty by 5%, and the duty rate on liquors with an alcoholic content of 30% and below from 30% to 40%, with immediate effect. These increases were endorsed by the Legislative Council on 20 June 2001.
- (8) The Producer Price Index is designed to reflect changes in the prices of local manufacturing output. Producer prices refer to the actual prices plus any surcharges received by the manufacturers, but net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.
- (9) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding constant price figures. In compiling the constant price GDP at the finer sub-component level, a standard deflation approach is adopted whereby an appropriate price index is used to deflate each of the sub-components of GDP at current prices. Summing up the individually deflated sub-components gives the main expenditure components of GDP at constant prices. These are further aggregated to arrive at the overall GDP at constant prices. Then, by dividing the current price GDP with the corresponding constant price GDP at the overall level, the GDP deflator is implicitly obtained. Similarly, by dividing each of the main expenditure components of GDP at current prices with each of the corresponding measures at constant prices, the respective price deflators at the main expenditure component level are implicitly obtained. Hence as it stands, the implicit price deflators

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of GDP and its main expenditure components are not used as input for compiling the corresponding constant price measures. By the same token, the growth rates in real terms of GDP and its main expenditure components are not derived from their corresponding growth rates in money terms using the rates of change in the respective implicit price deflators. Rather, the growth rates in real terms are directly calculated by comparing the constant price measures at the two different periods.

The rate of change in the GDP deflator may differ substantially from that in the Composite CPI over the same time interval. The Composite CPI covers consumer price inflation in particular. Yet the GDP deflator is a much broader measure of inflation for the entire economy, and takes into account all the price changes related to consumption, investment, exports and imports. Also, as total final demand in the economy is equated to GDP plus imports, the rate of change in the GDP deflator may differ appreciably from that in the total final demand deflator, depending on the movement in the prices of imports. Likewise, as domestic demand in the economy is equated to GDP less exports, the rate of change in the GDP deflator may differ appreciably from that in the domestic demand deflator, depending on the movement in the prices of exports.

Calendar of Events of Significance to the Hong Kong Economy in 2001

- 1 Jan China's import tariffs were lowered from an average of 16.4% to 15.3%. The tariff reduction covered 3 462 items, accounting for around half of the import items subject to tariff.
- The mainland of China (the Mainland) implemented the new Customs Law. The law strengthens the control and scrutiny on imports and exports of goods, and expands the scope and power of enforcement by the China Customs on smuggling activities.
- The first batch of Voluntary Retirement (VR) takers left the Civil Service. Approval was given to about 9 000 civil servants to retire under the VR Scheme, and the majority of them left in 2001.
- 2 Jan Xiao San Tong between Taiwan's offshore islands of Kinmen, Matsu and Penghu, and Xiamen and Mawei in the Mainland commenced.
- 3 Jan The United States (US) Fed Funds target rate was reduced by 50 basis points to 6%.
- 8 Jan The best lending rate and savings deposit rate were reduced by 50 basis points to 9% and 4.25% respectively.
- 15 Jan The Government invited the Mass Transit Railway Corporation Limited (MTRCL) and the Kowloon-Canton Railway Corporation (KCRC) to submit bid proposals for the Shatin to Central Link, and also invited MTRCL to submit a project proposal for the Island Line Extensions and KCRC a project proposal for the Kowloon Southern Link. These three railway projects were estimated to cost a total of around \$55 billion at 1998 prices.
- The Hong Kong Monetary Authority (HKMA) released a finalised set of recommendations aimed at improving business practices in relation to credit card services. These recommended practices, drawn up in collaboration with the banking sector, help make the terms and conditions for credit card services fairer, more transparent and more consumer-friendly.
- 16 Jan The Penny's Bay Rail Link to the Hong Kong Disneyland was authorized. The project, to be completed in 2005, was estimated to cost around \$2.6 billion.
- 31 Jan The US Fed Funds target rate was reduced by 50 basis points to 5.5%.
- 1 Feb The Government launched the Re-employment Pilot Programme for the Middle-aged to help the long-term unemployed workers aged 40 and above to return to work. The Programme offers counselling services, pre-employment training, placement with induction training, and follow-up services to eligible job seekers.
- 5 Feb The best lending rate and savings deposit rate were reduced by 50 basis points to 8.5% and 3.75% respectively.

- 12 Feb The Government announced the Land Sale and Development Programmes for 2001/02 to 2005/06. In 2001/02, about six hectares of residential and non-residential land were scheduled to be put up for sale in regular land auctions and tenders, and another 39 hectares would be available for sale by application.
- Construction of the Tai Wai to Ma On Shan Rail Link officially began. This project, together with the Kowloon-Canton Railway Extension to Tsim Sha Tsui, was estimated to cost \$16.3 billion. Both projects are targeted for completion in 2004.
- 16 Feb The Broadcasting Authority (BA) promulgated the Competition Investigation Procedures and the Guidelines to the Application of the Competition Provisions of the Broadcasting Ordinance, after consultation with the industry and the public, with a view to providing guidance on how BA would enforce the statutory competition provisions in the Broadcasting Ordinance.
- The Government relaxed the anti-speculation measures on pre-completion sales of flats under the Consent Scheme, including suspension of the balloting requirement for sale of uncompleted flats and increase in the proportion of units reserved for internal sale.
- 17 Feb The Planning Department launched the Stage One public consultation on the “Hong Kong 2030: Planning Vision and Strategy” Study. The Study is aimed at formulating a long-term strategy for land use, transport and infrastructural development in Hong Kong, as well as for enhancement of synergy with the Pearl River Delta region.
- 19 Feb The China Securities Regulatory Commission announced the opening up of the B shares markets to domestic investors in the Mainland. Mainland residents with legitimate holdings of foreign exchange may open B share accounts for trading. However, trading by domestic institutional investors in the Mainland are still prohibited.
- 20 Feb The Securities and Futures Commission (SFC) and Hong Kong Exchanges and Clearing Limited (HKEx) signed a Memorandum of Understanding (MOU) to formalise SFC’s oversight of HKEx and its subsidiaries, the supervision of Exchange Participants, and market surveillance.
- 23 Feb HKEx introduced its Order Routing System (ORS) infrastructure and Online Trading Service. ORS is part of the Third Generation Automated Order Matching and Execution System (AMS/3), which enables investors to place stock market orders through Hongkong Post’s Public Key Infrastructure based Internet order placement at the HKEx Website, as well as through mobile phones and other electronic channels developed by Proprietary Network System vendors connecting to ORS.
- The Broadcasting (Licence Fees) Regulation came into operation. The rationalised licence fee scheme for television programme services prescribed by the Regulation provides predictability to both existing and prospective operators and enhances transparency in the regulatory regime.

- 28 Feb The public consultation on digital terrestrial broadcasting in Hong Kong ended. The Government would study the submissions against the broadcasting policy objectives, with a view to formulating the policy on broadcasting under a digital environment in 2002.
- 1 Mar The Hong Kong Export Credit Insurance Corporation (HKECIC) launched a new Internet-based service, "EC-link". This enables exporters to apply for HKECIC's insurance policies and check the details of their insurance policies on-line, thereby saving their time and costs.
- The Hong Kong Mortgage Corporation Limited (HKMC) approved an expansion of the Mortgage Insurance Programme (MIP) to include equitable mortgage loans secured on residential property under construction.
- 3 Mar The International Monetary Fund (IMF) gave a positive assessment of Hong Kong's economic performance and prospects, as well as its economic, monetary and fiscal policies in its Staff Report on the Hong Kong Special Administrative Region (HKSAR). IMF was impressed with Hong Kong's rapid economic recovery in 1999 and 2000 from the Asian financial crisis, attributing this to the flexibility of Hong Kong's markets and to pragmatic handling of fiscal policy by the Government during the recession.
- 5 Mar The synopsis of the Tenth Five-year Plan for National Economic and Social Development was presented at the Fourth Plenary Session of the Ninth National People's Congress (NPC). The synopsis set out the goals and strategies of China's economic and social development for 2001-2005. The Central People's Government (CPG) would strive to sustain high economic growth, and would continue to lay focus on restructuring and opening up of the economy, with an ultimate goal of raising the overall standard of living in the Mainland. The Tenth Five-year Plan was subsequently approved by NPC on 15 March 2001.
- 7 Mar The Financial Secretary presented the Budget for the financial year 2001/02 to the Legislative Council.
- In the Budget, more resources were devoted to addressing the needs of the community. New expenditures were geared towards providing support for the disabled, care for youth at risk, training for those with low educational attainment, and support for employers' staff training, as well as towards strengthening the role of the District Councils.
- On the revenue side, as an incentive to upgrade human capital, the maximum amount of deduction for self-education expenses under salaries tax was increased from \$30,000 to \$40,000. Also, to help foster the securities market, the stamp duty on stock transactions was reduced from 0.225% to 0.2%.
- In order to improve the fiscal position, the Budget proposed several revenue-raising measures that would not impact on economic growth or people's livelihood. These included increasing the tobacco duty by 5%; increasing the duty on alcoholic beverages, except wines and strong spirits, from 30% to 40%; and increasing the Air Passenger Departure Tax from \$50 to \$80 and extending its coverage to helicopter passengers.

The Budget also proposed measures for enhancing public sector productivity. The size of the Civil Service by the end of 2002/03 would shrink to a level well below that in 1994/95. On improvement in the management of Government assets, privatisation of the operation of Government tunnels was on the top of the agenda.

On economic outlook, the Gross Domestic Product (GDP) was forecast to grow by 4% in real terms in 2001, while the Composite Consumer Price Index (CPI) was forecast at virtually nil change.

The Work Report of CPG was presented at the Fourth Plenary Session of the Ninth NPC. The report set out the major tasks for 2001. These were: to continue to boost domestic demand and maintain a relatively rapid pace of economic growth; to continue with the pro-active fiscal policy and prudent monetary policy; to strengthen the position of agriculture and increase farmers' income; to carry out economic restructuring so as to raise economic efficiency; to buttress and expand reform of the state-owned enterprises; to expand employment and strengthen the social security system; to escalate opening up of the economy to a new level and prepare intensively for accession to the World Trade Organisation (WTO); to speed up development of the west; and to adhere to a strategy of developing China through science, technology and education.

15 Mar The Standing Committee of the Ninth NPC passed the amendments to the Law of the People's Republic of China on Joint Ventures with Chinese and Foreign Investment. The amended provisions included permission to set up labour associations, and removal of the requirements to procure raw materials from Mainland sources whenever possible and to purchase insurance policies from Mainland insurance companies.

The Justice and Home Affairs Council of the European Union adopted a Council Regulation granting visa-free access to, amongst others, HKSAR Passport holders with effect from 10 April 2001. The Regulation also applied to Norway and Iceland, which were Schengen Members, as from the same date.

15-27 Mar The Government conducted the 2001 Population Census. The comprehensive data thereby collected on the demographic and socio-economic characteristics of the resident population would provide essential inputs for Government planning and policy formulation.

16 Mar The Hongkong Post Certification Authority signed a MOU with the Korea Information Certificate Authority to foster co-operation between the two certification authorities in the establishment of a reliable and seamless cross-border certification system for the conduct of secure e-business.

21 Mar The US Fed Funds target rate was reduced by 50 basis points to 5%.

26 Mar The best lending rate and savings deposit rate were reduced by 50 basis points to 8% and 3.25% respectively.

- 30 Mar The Office of the US Trade Representative released the 2001 National Trade Estimate Report on Foreign Trade Barriers. The report commended Hong Kong for its strong legal system and its rigorously-enforced anti-corruption regime.
- HKMA announced the operating results of the Exchange Fund for the year 2000. At the end of December 2000, the Exchange Fund's assets grew by 2.1% over a year earlier to \$1,023 billion, and the accumulated surplus by 5.6% to \$307 billion.
- 1 Apr The recruitment freeze on the Civil Service, which had been in force since 1 April 1999, was lifted.
- The Hong Kong Tourism Board Ordinance became operational. It established the Hong Kong Tourism Board as a body corporate to replace the Hong Kong Tourist Association, and provides for its objects and powers.
- A new type of "carrier licence", as provided for under the Telecommunication (Amendment) Ordinance 2000, was introduced. This helps streamline the licensing procedure to cope with the rapid development of the telecommunications industry.
- The Intellectual Property (Miscellaneous Amendments) Ordinance 2000 came into effect. It imposes a criminal liability for the possession of pirated copies of copyright works in business. In addition, it prohibits video recording equipment to be brought into a cinema, theatre or concert hall without authorization.
- 3 Apr The Marine Cargo Terminal at the Hong Kong International Airport commenced operation. The Terminal provides one-stop clearance service to facilitate the movement of air transshipment cargo between the Pearl River Delta region and the Hong Kong International Airport by water transport link.
- 6 Apr The Planning and Lands Bureau launched the West Kowloon Reclamation Concept Plan Competition, to seek innovative and viable land-use planning and urban design ideas for the future development of this area into an integrated arts, cultural and entertainment district. This was in line with the Government's intention to develop Hong Kong into an international centre for cultural exchanges, and to put Hong Kong on the map as the Events Capital of Asia.
- 9 Apr The Government commissioned a consultancy study to examine the demand for cross-boundary and domestic helicopter services, and to formulate a strategy for development of heliport facilities in Hong Kong.
- 10 Apr An Ad Hoc Committee was set up under the Housing Authority (HA) to review the domestic rent policy for public rental housing, having regard to tenants' affordability and rational use of public housing resources. The public will be consulted on the findings and initial recommendations of the Committee.

Japan imposed restriction on imports of mushrooms, leeks and rushes from China. China retaliated in June, by imposing punitive tariffs on imports of automobiles, mobile phones and air conditioners from Japan.

17 Apr The Government issued a consultation paper on “Proposed Regulation of Mergers and Acquisitions Activities of Telecommunications Operators in Hong Kong”, aimed at ensuring competition in the telecommunications market.

The Government announced that Hong Kong would negotiate a Closer Economic Partnership Agreement with New Zealand. The negotiations would encompass a wide-ranging scope as agreed earlier between the two sides, with emphasis on trade and investment liberalisation and facilitation.

19 Apr The Cato Institute of the US, in conjunction with the Fraser Institute of Canada, released their 2001 annual report on economic freedom. Hong Kong was again ranked the freest in the world, followed by Singapore and New Zealand. Hong Kong also topped the list in respect of the Comprehensive Index and the Trade Openness Index, both followed by Singapore.

The US Fed Funds target rate was reduced by 50 basis points to 4.5%.

20 Apr Construction of the Kowloon-Canton Railway Extension to Tsim Sha Tsui officially began.

23 Apr The best lending rate and savings deposit rate were reduced by 50 basis points to 7.5% and 2.75% respectively.

The Government announced its plan to implement the Comprehensive Strategy for Building Safety and Timely Maintenance.

24 Apr Hong Kong Customs signed a MOU with four express industry associations, signifying its determination to establish close partnership with the industry for developing Hong Kong into an international and regional cargo hub.

Construction of the Tin Shui Wai Light Rail extensions officially began. These extensions, estimated to cost \$2.3 billion, will provide essential transport link for the rapidly-developing new town of Tin Shui Wai by 2003.

The introduction of a deposit insurance scheme in Hong Kong was approved in principle. HKMA is to undertake more detailed work, with a view to producing a set of final recommendations on how the scheme should be structured.

25 Apr The Tourism Commission invited detailed proposals for the financing, design, construction and operation of a cable car system linking Tung Chung and Ngong Ping on Lantau Island.

In its World Competitiveness Yearbook 2001, the International Institute for Management Development based in Switzerland ranked Hong Kong as the sixth most competitive economy in the world in 2001, up from the 12th place in 2000. Hong Kong showed notable improvement in the ranking on

economic performance, business efficiency and infrastructure, and continued to top the list in such aspects as flexibility in labour regulations and low corporate and individual tax rates.

26 Apr An Air Services Agreement (ASA) was signed between the Governments of HKSAR and Hungary.

27 Apr HKMC launched a new product under MIP to provide insurance cover for equitable mortgage loans with a loan-to-value ratio of up to 85%.

30 Apr An ASA was signed between the Governments of HKSAR and Estonia.

1 May The Urban Renewal Authority (URA) was set up to replace the Land Development Corporation (LDC) to undertake urban renewal. URA is responsible for taking forward a 20-year urban renewal programme consisting of 200 new projects, in addition to the 25 uncompleted projects of LDC.

The Merchant Shipping (Registration) (Amendment) Ordinance 2001 came into operation. It makes the Hong Kong Shipping Register more user-friendly to shipowners.

3 May The agreement on avoidance of double taxation on shipping income between Hong Kong and the United Kingdom entered into force.

4 May The Government announced the establishment of the Hong Kong Jockey Club Institute of Chinese Medicine Limited (HKJCICM) to take forward the vision to position Hong Kong as a world centre for the development of health food and pharmaceuticals based on Chinese medicine. HKJCICM is expected to perform a leading role in the commercialisation of Chinese medicine and the development of a Chinese medicine based industry in Hong Kong.

The 2001 Digital 21 Strategy, as the blueprint for Information Technology(IT) development in Hong Kong, was promulgated. The Strategy, having been updated from the first Digital 21 Strategy published in 1998, sets out five key result areas: enhancing e-business environment, building e-government, developing IT manpower, strengthening the community for digital exploitation, and exploiting enabling technologies. The objective is to position Hong Kong as a leading digital city in the globally connected world.

The Information Technology and Broadcasting Bureau promulgated a comprehensive e-government strategy. The main targets are to provide an e-option (the option to obtain service on-line) for 90% of the public services amenable to the electronic mode of service delivery, and to carry out 80% of Government procurement tenders through electronic means, both to be attained by end-2003.

The Government announced the results of the 1999/2000 Household Expenditure Survey, which updated the expenditure patterns of households covered by the CPIs. Accordingly, the various CPIs were re-based to October 1999 - September 2000. Compared with the results of the last

round of the survey in 1994/95, there was a decrease in the shares of household expenditure on food, and clothing and footwear, yet an increase in the shares of household expenditure on durable goods, miscellaneous services and transport.

- 7 May The Hong Kong Science and Technology Parks Corporation (HKSTPC) was established, by merging the former Provisional Hong Kong Science Park Company Limited, Hong Kong Industrial Estates Corporation and Hong Kong Industrial Technology Centre Corporation. It offers a one-stop service to cater for the needs of technology-based industries.
- 8-10 May Hong Kong hosted the seventh Fortune Global Forum. President of the People's Republic of China Jiang Zemin, former US President Clinton, and some 600 delegates attended the Forum.
- 11 May With financial support from the Government, four local professional design bodies set up the Hong Kong Design Centre Limited to take forward the establishment of the Hong Kong Design Centre. This is planned to be a multi-disciplinary design centre aimed at raising the profile of Hong Kong as an innovative and creative hub.
- The United Nations Committee on Economic, Social and Cultural Rights commended the Government for its efforts and achievements in providing adequate housing for Hong Kong residents. Particular appreciation was shown for the rehousing of all eligible residents in the old temporary housing areas, provision of interim housing for people rendered homeless, and provision of basic utilities and services for those living in self-built structures in squatter areas.
- 15 May The US Fed Funds target rate was reduced by 50 basis points to 4%.
- 16 May The Telecommunications (Amendment) Ordinance 2001 was enacted. It provides legal basis for the licensing of Third Generation (3G) mobile services.
- 17 May The Hong Kong Central Library opened for public use. It serves as a major information centre in the territory, and helps to enhance Hong Kong's competitiveness by promoting life-long learning and facilitating transition into a knowledge-based economy. A multimedia information system is installed for providing convenient public access to a wide range of audio-visual materials and over 1.3 million pages of digitised images and documents.
- 18 May Visa International signed a MOU with the Hongkong Post Certification Authority for co-operation in the development of multi-application smart Visa cards, which will adopt Open Platform technology and will support the use of Hongkong Post digital certificates. The development will provide an important infrastructure for secure e-payment in Hong Kong.
- 20-29 May The Chief Secretary for Administration led a HKSAR Delegation to the western region in the Mainland. The Delegation visited Xian, Beijing, Chengdu and Urumqi. There were more than 200 members in the Delegation, comprising Hong Kong's leading industrialists, entrepreneurs and

professionals, senior Government officials, representatives of business associations, and media staff. The visit provided good opportunities for the delegates to exchange information and views on the development of and business opportunities in the western region with the Mainland officials and entrepreneurs there.

21 May The best lending rate and savings deposit rate were reduced by 50 basis points to 7% and 2.25% respectively.

24-25 May The Hongkong Post Certification Authority and the Shanghai Electronic Certificate Authority Center Company Limited signed two MOU on cross-certification co-operation and development of a Chinese Certification Authority System. This will help promote electronic transactions and paperless trading between Hong Kong and Shanghai, and also help facilitate e-commerce development in both cities.

25 May The Government launched a public consultation on liberalisation of parallel importation of computer software under the Copyright Ordinance. It received overwhelming support from the public.

The Government published the First Quarter Economic Report 2001. The report pointed out that the Hong Kong economy slowed down further in the first quarter of 2001, mainly affected by deterioration in the external environment. Yet this was also influenced in part by a distinctly higher base of comparison in the first quarter of 2000, when GDP attained its fastest growth in the past 13 years. On a year-on-year comparison, GDP growth decelerated further to 2.5% in real terms in the first quarter of 2001, from 6.9% in the fourth quarter of 2000. Externally, exports of goods were hit by a fall-off in global demand upon the distinct setback in US demand. Exports of services nevertheless still held up relatively well, on the back of continued surge in offshore trade and further growth in inbound tourism. Locally, consumer spending maintained a modest growth, supported by some increase in labour income but also affected by the weakness in the asset markets. With the intake of machinery and equipment remaining intensive, overall investment spending put up a further double-digit growth.

In the May update of the economic forecast for 2001, the forecast growth rate in real terms of GDP was revised downward to 3%, from 4% in the Budget round. The forecast rate of change in the Composite CPI was revised downward to -1%, from zero change in the Budget round.

31 May The Government completed the clearance of all old-style Temporary Housing Areas. A total of 26 000 persons have been rehoused to public rental housing or modern style Interim Housing since 1997, and have their living conditions improved as a result.

1 Jun Implementation of new Internet domain name registration policies commenced. It allows registration of multiple domain names by a company, as well as transfer of domain names. This is in line with international development trends, and helps promote e-business in Hong Kong.

The Government launched the Admission of Mainland Professionals Scheme, covering professionals for the information technology and financial services sectors.

The US President announced his decision to renew China's Normal Trade Relations status unconditionally for another year.

- 4 Jun In view of further slow-down in the economy, the Financial Secretary announced that the four main categories of livelihood-related fees, namely water tariffs, sewage charges, school fees and medical fees, would continue to be frozen until the end of the current financial year, i.e. up to 31 March 2002.
- 12 Jun The State Council promulgated the "Provisional Measures for Unloading the State-owned Shares to Raise Funds for the Social Security System". The state-owned enterprises, in raising funds from the public, are thus required to sell state-owned shares equivalent to 10% of the capital raised, with the proceeds to be placed into a National Social Security Fund.
- 20 Jun The Government announced a further extension of the concessionary duty rate on ultra-low sulphur diesel, at \$1.11 per litre, for another nine months, i.e. from 1 July 2001 to 31 March 2002.
- The Copyright (Suspension of Amendments) Ordinance 2001 was enacted. It suspends the application of the Intellectual Property (Miscellaneous Amendments) Ordinance 2000 to the criminal provisions in the Copyright Ordinance except as they apply to computer programmes, movies, television dramas and music recordings.
- 27 Jun The Small and Medium Enterprises (SME) Committee produced a report containing about 30 recommendations to facilitate development of SMEs. The key recommendations were to set up four funding schemes enabling SMEs to raise loans to acquire business installations and equipment, expand overseas markets, enhance human resources, and improve overall competitiveness.
- The US Fed Funds target rate was reduced by 25 basis points to 3.75%.
- 28-29 Jun Hong Kong, China hosted the 2001 Asia-Pacific Economic Co-operation (APEC) Economic Outlook Symposium. The theme was "The relation between financial development and economic growth in APEC". Following the Symposium, Hong Kong, China co-ordinated the preparation of the 2001 APEC Economic Outlook Report, which was published in October 2001.
- 28-30 Jun At the 97th/98th sessions of the Customs Co-operation Council held in Brussels, Hong Kong Customs, in the name of Hong Kong, China, was re-elected as the World Customs Organisation (WCO) Vice Chairman representing the Asia-pacific region for another year till June 2002.
- 1 Jul Hong Kong, China was elected as Chairman of the Financial Action Task Force on Money Laundering for a term of one year. The Commissioner for Narcotics, as the coordinator of Hong Kong's anti-drug and anti-money-laundering policies, takes up this role.

- 3 Jul The final phase of interest rate deregulation covering Hong Kong dollar savings and current accounts took effect as scheduled. From then onwards, interest rates on all types of deposits are to be determined by competitive market forces.
- Members of the Hong Kong Aircrew Officers Association commenced industrial action against Cathay Pacific Airways over the dispute on pilot work-hours. In consequence, the affected flights were either cancelled or had to be operated using leased aircraft. The industrial action was suspended on 21 October 2001.
- The best lending rate was reduced by 25 basis points to 6.75%.
- 10 Jul The Government approved the setting up of the Civil Service Provident Fund Scheme and its design principles, taking into account the views received from a public consultation conducted during January to April 2001. The Scheme will apply to new recruits of the Civil Service under the new entry system on or after 1 June 2000 when they progress onto permanent terms. It is aimed to be in operation by mid-2003.
- 11 Jul The Chief Executive Election Ordinance was enacted, for coming into effect on 21 September 2001. It provides for the election of the Chief Executive in accordance with the Basic Law of HKSAR. In accordance with the Ordinance, the 2002 Chief Executive Election will be held on 24 March 2002.
- 13 Jul The Registration of Copyright Licensing Bodies Regulation, aimed at enhancing the transparency in the copyright licensing bodies, took effect.
- The International Olympic Committee, at its meeting in Moscow voted Beijing to be the hosting city of the 2008 Summer Olympics.
- 17-20 Jul Hong Kong Customs and WCO co-hosted the Asia Pacific Regional Seminar on Intellectual Property Rights Protection in Hong Kong.
- 18 Jul The Government invited applications for 3G mobile services licences under an innovative hybrid licensing approach. It consisted of a pre-qualification exercise, followed by a royalty auction scheme subject to minimum guaranteed payment. This would ease the financial burden of the operators and also allow the Government to share in the upside of 3G mobile services business in the future. Moreover, the Government spearheaded an open network access requirement, which would help ensure competition at the service and application levels.
- HKMC extended the product under MIP to provide insurance cover for equitable mortgage loans with a loan-to-value ratio of up to 90%.
- 20 Jul The Standing Committee on Company Law Reform issued a consultation paper on its first phase proposals to enhance Hong Kong's corporate governance regime.

- 22 Jul The State Council announced changes to the Law of the People's Republic of China on Joint Ventures with Chinese and Foreign Investment, thereby removing the requirements on foreign exchange balance, foreign capital arrangement, sales distribution, production and operation plan, etc., and simplifying the arrangements for business registration, acquisition or transfer of the land-use rights, payment of tariff and tax, labour management, etc.
- 25 Jul The Fourth Meeting of the Hong Kong/Guangdong Co-operation Joint Conference was held. The meeting reached consensus on a number of areas to further strengthen co-operation between Guangdong and Hong Kong, including boundary control points management, environmental protection, Dongjiang water quality, communications networking, and co-operation between the Hong Kong International Airport and the Zhuhai Airport. Then a letter of intent was signed between Guangdong and Hong Kong to jointly develop hi-tech industries as well as transport and logistics services in Nansha at the Pearl River Delta region. The two governments also agreed to jointly finance and construct the Shenzhen-Hong Kong Western Corridor, aimed for completion by 2005.
- The European Commission published its third report on Hong Kong. It acknowledged the successful implementation of the “One Country, Two Systems” principle, and concluded that Hong Kong remained a free society.
- 27 Jul SFC and HKEx announced that the two organisations had agreed in principle the proposed amendments to the Listing Rules of the Growth Enterprise Market to improve the quality of the listings. The new rules then came into effect on 1 October 2001.
- The Town Planning Board issued guidelines to expand the scope of uses permitted in the “Industrial” zone so as to cater for the information technology and telecommunications industries, as well as other relevant supporting activities.
- The Buildings Department announced the launch of the \$700 million Comprehensive Building Safety Improvement Loan Scheme. It provides financial assistance to applicants who are individual owners in private buildings for carrying out works to improve the safety of their buildings and the private slopes.
- 28 Jul The first Super Cyber Centre, jointly organised by the Home Affairs Department and the Information Technology Services Department, was inaugurated. It provides more than 100 personal computers connected to the Internet via broadband for free public use. It also provides training rooms for use by the Government or non-governmental organisations to run free IT courses for the public.
- 1 Aug A dedicated e-government Coordination Office was set up in the Information Technology and Broadcasting Bureau to drive and coordinate e-government initiatives.

- 6 Aug The integration of HKEx's derivatives trading was completed with the migration of stock options trading to the Hong Kong Futures Automated Trading System (HKATS). Trading in Hang Seng Index futures and options contracts had already been migrated from the open outcry system to HKATS in 2000.
- The Advisory Committee on New Broad-based Taxes issued a consultation document entitled "A Broader-based Tax System for Hong Kong?" seeking views from the public on 13 options to broaden the tax base.
- 7 Aug The US State Department published its fourth report on Hong Kong after the handover. It gave an overall positive assessment of the developments in Hong Kong during the 16 months ending July 2001, and recognised in categorical terms that Hong Kong's promised high degree of autonomy, in both economic and non-economic matters, had proved to be a reality.
- 21 Aug The Task Force on IT Manpower recommended in its report a package of immediate and longer-term measures to address the issue of IT manpower supply in Hong Kong.
- The US Fed Funds target rate was reduced by 25 basis points to 3.5%.
- 22 Aug The Ministry of Foreign Trade and Economic Co-operation, State Economic and Trade Commission and China Customs jointly announced the relaxation of grading criteria for Grade A enterprises engaged in processing trade in the Mainland. It enables more processing enterprises to be classified as Grade A enterprises and thus to enjoy the waiver of deposit requirement when importing raw materials into the Mainland for export processing.
- 24 Aug The best lending rate was reduced by 25 basis points to 6.5%.
- The "Tourism Hong Kong" exhibition was launched at the Hong Kong Cultural Centre. It showcased Hong Kong's tourism development in the coming years.
- 26 Aug Taiwan's Economic Development Advisory Council proposed measures to relax restrictions on Taiwan's economic links with the Mainland. These included replacing the "no haste and be patient" policy by "active opening and effective management", adopting a more flexible approach in approving Taiwan's investment in the Mainland, and allowing Taiwan's financial institutions to set up subsidiaries or branches in the Mainland. In the opposite direction, the Council suggested allowing direct investment from the Mainland in Taiwan's stock and property markets, and opening up Taiwan to Mainland residents for sightseeing.
- 27 Aug The first batch of courses under the Skills Upgrading Scheme was launched. The Scheme aims at providing focused skills training for in-service workers at secondary or lower education levels, so as to maintain their competitiveness in the labour market.

- 30 Aug HKEx announced that it would launch 20 international stock futures contracts and 20 international stock options contracts on 4 October. The underlying stocks for the international stock futures and options contracts are five stocks from each of the following markets: Japan, South Korea, Taiwan and the United States.
- The Chief Executive of HKSAR met with the Governor of Guangdong and agreed on a number of measures to promote tourism between Hong Kong and Guangdong. These included extending the opening hours at the Lowu boundary control point during public holidays, improving the infrastructural facilities at the control point, and permitting transient residents in Guangdong to apply for travel visa to visit Hong Kong.
- 31 Aug HKMA announced that agreement had been reached with the Guangzhou Branch of the People's Bank of China on extending the types of bills to be cleared under the joint operations of Hong Kong dollar bills clearing between Guangdong/Hong Kong and Shenzhen/Hong Kong to include also Hong Kong dollar cashier orders and demand drafts. Through the respective facilities, clearing and settlement of Hong Kong dollar bills presented in Guangdong or Shenzhen will take two working days only.
- The Government published the Half-yearly Economic Report 2001. The report pointed out that the sluggish global economic environment continued to weigh on the Hong Kong economy in the second quarter of 2001. On a year-on-year comparison, GDP rose by only 0.5% in real terms in the second quarter of 2001, further moderated from the 2.3% growth in the first quarter. Externally, the slump in global demand resulted in an almost across-the-board fall-off in exports of goods by market. Exports of services nevertheless held up better, on the back of sustained notable growth in offshore trade and inbound tourism. Locally, consumer spending picked up, upon increased household income and probably also helped by lower interest rates. But investment spending eased back sharply, as machinery and equipment acquisition slackened off and as overall building and construction output remained modest.
- In the August update of the economic forecast for 2001, the forecast of GDP growth was lowered further, to 1% in real terms, from 3% in the May update. The forecast rate of change in the Composite CPI was trimmed down slightly further to -1.3%, from -1% in the May update.
- 1 Sep The daily quota for Mainland visitors coming to Hong Kong for sightseeing under the "Hong Kong Travel" Group Tour Scheme was increased from 1 500 to 2 000. The number of designated Mainland travel agencies for arranging such tours was also increased from four to 17.
- 3 Sep The Employees Retraining Board (ERB) started to process applications for the Business Startup Assistance Scheme. It is aimed at helping those retrainees on ERB courses who want to start up a business or become self-employed. It allows individual retrainees to apply for a loan of up to \$100,000 from participating lending institutions to start up a small business. The Government will act as guarantor for 70% of the loan.

The Chief Secretary for Administration announced a moratorium on sales of subsidised flats until end-June 2002. HA would, over the same period, make available additional home ownership loans to eligible families equal to the number of sale flats being put on hold. During the moratorium period, the Administration would work with HA to address three long-term issues, namely the ratio between home ownership flats and loans, the eligibility criteria for subsidised home ownership, and the system for allocating land for Home Ownership Scheme (HOS) development. After the moratorium and up till 2005/06, the sales of subsidised flats would be capped at 9 000 units a year.

7 Sep HKMA released a discussion paper to seek views from the banking industry on funding and premium assessment for the deposit insurance scheme. It contained suggestions on how the appropriate size of a deposit insurance scheme fund might be set, how it could be built up and maintained, and how premium could be assessed for individual banks.

11 Sep Construction of Hong Kong Science Park Phase 1C, the last sub-phase of Phase 1, commenced. It comprises four buildings totalling about 62 000 square metres of gross floor area for lease to technology-based companies to carry out research and development work.

Hijacked commercial aircraft crashed into the World Trade Centre in New York and the Pentagon in Washington D.C. Wall Street exchanges and other US financial markets halted trading immediately after these terrorist attacks. This tragic event (the 911 incident) aggravated the slow-down already in train in the US economy, and henceforth also in the global economy.

12 Sep The Hong Kong securities and futures markets remained open and fully operational after the 911 incident. All trading, clearing and settlement functions operated normally and in an orderly manner. A total of 1 049 authorized mutual funds were however suspended due to the closure of stock markets in the United States and other countries. Yet they resumed trading after periods ranging from a single day to one week.

Stock markets in Taiwan, Thailand and Malaysia were closed to mitigate the shock inflicted by the 911 incident.

The Financial Services Bureau announced that consensus had been reached with the relevant Government parties and the banking industry on how to address the increasing concern over the issue of consumer debt and bankruptcy. Some immediate measures were to be implemented, and longer-term measures to be further considered.

17 Sep In order to provide ample short-term liquidity to meet credit needs in the aftermath of the 911 incident, the major central banks were in a concerted effort to relax monetary conditions. The US Federal Reserve and the European Central Bank lowered their key benchmark interest rates by 50 basis points just before the US stock market re-opened on 17 September 2001. The Bank of England cut its key lending rate by 25 basis points on 18 September 2001. The Bank of Japan also cut its official discount rate by 15 basis points on 18 September 2001, to only 0.1%.

- 18 Sep The tunnel option for construction of Sheung Shui to Lok Ma Chau Spur Line was endorsed. The entire project was thus estimated to cost around \$10 billion, \$2 billion above the cost for the overland option. Upon completion in mid-2007, it will provide the second cross-boundary rail link and relieve congestion at Lo Wu. The Spur Line railway scheme was henceforth gazetted on 7 December 2001.
- 19 Sep The best lending rate was reduced by 50 basis points to 6%.
- 21 Sep HKSTPC announced the expansion of its technology-based business incubation programme to provide enhanced services and support to nurture the growth of Hong Kong's technology industry.
- 24 Sep HA endorsed the Government's request for adjustment of HOS programme up to 2005-06, and approved a series of measures to dispose of the residual HOS flats.
- HA also agreed to provide 12 000 additional loans under the Home Purchase Loan Scheme, which was equivalent to the number of HOS flats being put on hold.
- 25 Sep Subsequent to the 911 incident, many insurance companies cancelled their war risk insurance coverage at short notice. As a contingency arrangement, the Government undertook to provide indemnities for third party liabilities arising out of war, terrorism or other perils for a number of parties including local airlines, Airport Authority Hong Kong (AAHK) and its various franchises for one month. The measure allowed more time for the relevant organisations to negotiate sufficient insurance coverage with insurance companies without affecting their daily operations. Finally, all three local airlines managed to secure the required insurance coverage and assistance from the Government was not required.
- 27 Sep HA decided to transfer a total of 8 396 HOS flats to public rental housing as one of the measures to reduce the stock of residual HOS flats resulting from the moratorium on sale of HOS flats.
- 1 Oct The Office of Telecommunications Authority reduced the interconnection charges over the network of PCCW-HKT for value-added services (including Internet services) from 2.3 cents per minute to 2.0 cents per minute, and those for mobile phone services from 5.1 cents per minute to 4.8 cents per minute.
- To enhance the efficiency of customs and immigration clearance for goods vehicles, a pilot scheme of "One-Stop-Shop" arrangement was launched at the Lok Ma Chau Control Point.
- China Customs accorded full value-added tax rebate to 2 000 major trading enterprises in the Mainland, which handled about 47% of the Mainland's total exports.
- 2 Oct The US Fed Funds target rate was reduced by 50 basis points to 2.5%.

- 3 Oct The Post Office took over from the Treasury the collection of rates, Government rent, taxes, water charges, fixed penalties for traffic offences, and other Government fees and charges.
- 4 Oct The best lending rate was reduced by 50 basis points to 5.5%.
- 8 Oct The Hongkong Post Certification Authority and the Diversinet Corp. of Toronto, Canada, jointly launched the “Hongkong Post Mobile e-Cert system”. This was the world’s first system to issue mobile digital certificates for community-wide adoption, placing Hong Kong at the forefront in secure mobile commerce.
- 9 Oct HKMA announced the results of a triennial survey of foreign exchange and derivatives market turnover in Hong Kong. The survey was coordinated by the Bank for International Settlements (BIS). Comparing April 1998 with April 2001, net daily turnover of foreign exchange transactions dropped by 14.9% to US\$66.8 billion. This was mainly due to a 38.8% decline in spot transactions to US\$19.0 billion. Over the same period, net daily turnover of forward transactions (outright forwards and foreign exchange swaps) increased by 0.6% to US\$47.9 billion. Despite the decline in overall turnover, according to the global results of BIS, Hong Kong remained seventh in ranking in the global foreign exchange market, and eighth in the global foreign exchange and over-the-counter derivatives market, unchanged from the 1998 survey.
- 10 Oct The Chief Executive delivered his 2001 Policy Address. He focused on five key areas, viz expanding investment in education and upgrading the quality of human resources in order to facilitate transformation to a knowledge-based economy; upgrading the hard and soft infrastructure and improving the business environment; enhancing the quality of the living environment; relieving hardship at the time of economic downturn; and improving the quality of Government administration in order to better respond to the demands in the community.
- Amongst the various measures to upgrade the quality of human resources, a \$5 billion Continuing Education Fund would be created to subsidise those adults wishing to pursue continuing education.
- To improve the business environment, the measures included, amongst other things, accepting all the recommendations of the SME Committee, in particular allocating \$1.9 billion for the setting up of four SME funding schemes; reaching agreement with the Mainland authorities to abolish the quota system for the Hong Kong Group Tour Scheme from January 2002; and establishing an Economic and Trade Office in Guangzhou in 2002 to strengthen business liaison between Hong Kong and Guangdong.
- To relieve hardship at the time of economic downturn, the measures included granting a one-off concession to all rate payers in 2002 equivalent to the lesser of \$2,000 or the actual rates payable in the 12-month period ending 31 December 2002 for each rateable tenement, and raising the tax deduction for home loan interest to \$150,000 per year for the 2001-02 and 2002-03 years of assessment. Also, the Government was to create over 30 000 job opportunities in the short term.

- HKMA issued a letter to all authorized institutions (AIs) stating that it would not object if AIs, should they judge it commercially desirable, were to depart from the 70% guideline in refinancing residential mortgage loans for home-owners in negative equity.
- 16 Oct The Government issued a consultation paper on “Implementation of the Full Liberalisation of the Local Fixed Telecommunications Network Services Market from 1 January 2003”.
- 17 Oct The agreement for avoidance of double taxation on shipping income between Hong Kong and the Netherlands entered into force.
- 17-18 Oct China hosted the 13th APEC Ministerial Meeting in Shanghai.
- 18 Oct In the 2001 Global Competitiveness Report released by the World Economic Forum based in Switzerland, Hong Kong was ranked 13th on the Growth Competitiveness Ranking, down from seventh in the preceding year. The relatively low ranking was largely due to Hong Kong’s less satisfactory performance in the aspect of technology. Nevertheless, Hong Kong was ranked favourably in the aspect of macroeconomic environment.
- 19 Oct SFC announced amendments to the Code on Takeovers and Mergers to bring the Code in line with market developments and international practice. The trigger threshold is reduced from 35% to 30% and the creeper from 5% to 2% in any 12-month period. Transitional provisions are put in place for ten years for shareholders with existing holdings of between 30% and 34.9%.
- 20-21 Oct The Chief Executive attended the Ninth APEC Economic Leaders' Meeting in Shanghai. Leaders expressed their strong support for the launch of a new round of multilateral trade negotiations under WTO, and agreed to sharpen APEC’s future vision in pursuit of the Bogor goals of trade and investment liberalisation.
- 22 Oct The Government awarded four 3G mobile services licences. The four licensees would pay a reserve price of 5% royalty, subject to a minimum flat payment of \$50 million in each of the first five years and a rising minimum guaranteed payment from the sixth year onwards. The Government also published the guidelines for application for Public Non-exclusive Telecommunications Services Licences for Mobile Virtual Network Operators (MVNOs), laying down a transparent and balanced regulatory regime for the operation of MVNOs.
- HKMC announced its launch of its debut bond issue under a new mechanism enabling retail investors to subscribe for the bonds through the banks appointed by HKMA as its placing agents. HKMC then signed the placing bank agreement with Dao Heng Bank.
- 23 Oct HA decided to provide a one-month rent waiver for all public housing domestic tenants in December 2001, and to embark on a voluntary rent re-assessment for commercial tenants upon the latest state of retail business for those tenants.

- 26 Oct SFC released a consultation paper on the Offering of Hedge Funds in a bid to facilitate product innovation and investor access to a wider range of investment choices, without compromising investor protection. This Consultation was part of an overall review of the Code on Unit Trusts and Mutual Funds.
- The Government announced the aggregate results of the 2001 Population Census. At mid-March 2001, the resident population was estimated at 6 708 400, representing an average annual growth rate of 0.9% over 1996. Over the same period, the median monthly household income went up from \$17,500 to \$18,700. There was a modest rise in the Gini Coefficient from 0.518 to 0.525.
- 29 Oct AAHK announced the Master Plan 2020 to guide development in the Hong Kong International Airport in the next 20 years.
- HKMA completed a comprehensive review of retail payment services in Hong Kong. It concluded that Hong Kong's retail payment systems generally functioned well, with a wide range of payment instruments, and the payment system providers were generally innovative.
- 1 Nov HA removed the 24-month restriction on property ownership for eligibility for public rental housing, thus enabling past flat owners facing financial hardship to apply for public rental housing.
- The Government published a consultation document to solicit views for improving certain provisions of the Copyright Ordinance.
- 2 Nov The Steering Committee on Logistics Development, chaired by the Financial Secretary for providing policy steer for logistics development, was established and met for the first time.
- HKMC announced an expansion of its MIP to increase the loan size ceiling for the mortgages so covered from \$5 million to \$8 million, initially on completed property with a loan-to-value ratio of up to 85%.
- 6 Nov The US Fed Funds target rate was reduced by 50 basis points to 2%.
- China and ten economies under the Association of Southeast Asian Nations (ASEAN) agreed to establish a free trade area within ten years.
- 7 Nov Taiwan's Mainland Affairs Council announced replacement of the "no haste and be patient" policy by "active opening and effective management" towards the Mainland. Taiwanese companies are hence allowed to directly invest in the Mainland. The US\$50 million ceiling on individual investment projects by Taiwanese companies in the Mainland is scrapped. Approval procedure for projects under US\$20 million is simplified.
- 8 Nov The Information Technology and Broadcasting Bureau and the Ministry of Information and Communication of the Government of the Republic of Korea signed a MOU on co-operation in information and communications technology.

The best lending rate was reduced by 25 basis points to 5.25%.

- 9-14 Nov The Fourth WTO Ministerial Conference was held in Doha, Qatar. Ministers agreed to launch a new round of multilateral trade negotiations covering trade in agricultural products, services, market access for non-agricultural products, and certain environment-related issues; as well as negotiations aimed at clarifying and improving existing WTO rules. Ministers aimed to conclude the new round of negotiations, called by some the “Doha Development Agenda”, by 1 January 2005. WTO membership for China and Chinese Taipei were also approved at the Ministerial Conference on 10 and 11 November 2001 respectively.
- 12 Nov The 2002 Index of Economic Freedom published by the US Heritage Foundation ranked Hong Kong the freest economy in the world for the eighth consecutive year.
- 16 Nov HKSTPC signed a co-operation agreement with the Bureau of Foreign Trade & Economic Co-operation of Guangzhou Municipality, to foster closer collaboration between the two parties on science and technology matters.
- 19 Nov HKEx, Shanghai Stock Exchange and Shenzhen Stock Exchange jointly launched the China Stock Markets Web, which was integrated into the existing websites of the three participants and contains information on the securities markets in Hong Kong, Shanghai and Shenzhen as well as companies listed in the three cities.
- 26 Nov The Business Cycle Dating Committee of the National Bureau of Economic Research announced that the US economy had already entered into recession as of March 2001. This was paralleled economic recession in Germany, Japan and some other East Asian economies, being the first synchronised global economic downturn since the oil crisis in the early 1970s.
- 28 Nov HKEx announced revision to the Listing Rules for derivative warrants, which require derivative warrant issuers to provide liquidity for the warrants that are listed. Some of the restrictions in the placing guidelines for derivative warrants were also eased. The new rules then became effective on 10 December 2001.
- Topping out of the first Cyberport office building took place.
- 28-30 Nov Hong Kong hosted the 14th General Meeting of the Pacific Economic Co-operation Council, with the theme of “Managing Globalisation in the 21st Century”. Key issues discussed included opportunities and challenges of globalisation, a new round of WTO negotiations, China’s accession to WTO, corporate governance and community building.
- 30 Nov HKMA removed the three-building condition attached to the licences of overseas-incorporated banks authorized in and after 1978 and overseas-incorporated restricted licence banks authorized in and after 1990. This was part of the Banking Sector Reform Programme announced by HKMA in 1999, aimed at promoting greater competition in the banking sector and strengthening the safety and soundness of the banking system.

The Government published the Third Quarter Economic Report 2001. The report pointed out that the Hong Kong economy continued to slow down in the third quarter of 2001, amidst a more difficult external environment and with local sentiment also hit by a further weakening in the asset markets and rising unemployment. Externally, total exports of goods showed an enlarged decline, as import intake plunged in almost all the major markets. Exports of services also showed slower growth. Locally, consumer spending slackened further from an already moderating trend upon the initial impact of the 911 incident. Yet investment spending had a somewhat faster growth, as the intake of aircraft ordered earlier bolstered machinery and equipment acquisition, even though building and construction output remained sluggish.

In the November update of the economic forecast for 2001, the forecast of GDP growth for 2001 as a whole was lowered further, to zero growth in real terms, from 1% in the August update. The forecast rate of change in the Composite CPI for 2001 as a whole was lowered further to -1.6%, from -1.3% in the August update.

1 Dec The validity period of multiple entry business visit endorsement for Mainland visitors entering Hong Kong was extended from six months to a maximum of three years, with a maximum of 14 days allowed for each visit.

To cope with the increasing passenger and vehicular flows between Hong Kong and Guangdong, three measures were implemented, including extending the operating hours of passenger clearance at the Lo Wu Control Point from 0630-2330 hours to 0630-2400 hours; aligning the operating hours for clearance of passengers and private cars at the Lok Ma Chau Control Point with those of the Lo Wu Control Point, i.e. 0630-2400 hours; and opening three additional southbound and one additional northbound lanes for goods vehicles as well as one lane in each direction for passenger vehicles during 2200-2400 hours at the Lok Ma Chau Control Point.

The Mandatory Provident Fund (MPF) System had been launched for a year, achieving enrolment rates of 88%, 95% and 91% respectively for employers, relevant employees and self-employed persons. As at end-November 2001, the aggregate net asset value of MPF amounted to \$33.5 billion, including assets transferred from schemes under the Occupational Retirement Schemes Ordinance.

3 Dec Eight additional all-cargo aircraft parking stands commenced full operation at the Hong Kong International Airport, bringing the total to 21. Two of the new parking stands are able to accommodate the forthcoming New Large Aircraft.

All six mobile operators launched the Inter-operator Short Message Services in Hong Kong. This provided innovative and convenient data services to consumers.

4-5 Dec The Mainland and HKSAR Joint Commission on Commerce and Trade held its third meeting in Beijing. The two sides held in-depth discussions on issues of mutual interest in the areas of promoting and enhancing bilateral trade and investment.

- 10 Dec A topping-out ceremony was held to mark the successful completion of the Harbour Area Treatment Scheme Stage I, which was a major milestone in sewage treatment in Hong Kong for arresting and reversing the previous decline in water quality at Victoria Harbour.
- 11 Dec China formally became the 143rd member of WTO. The broad market opening commitments of China, together with its rights and obligations as provided under the WTO Agreements, are expected to contribute to a more liberal, transparent and predictable trading and investment environment in China as well as enriched business opportunities for the region.
- The US Fed Funds target rate was reduced by 25 basis points to 1.75%, bringing to a total of 11 cuts by altogether 475 basis points in the Fed Funds target rate for the year.
- 13 Dec HKEx announced that it was given a score of 8.3 (out of a maximum score of 10) by Standard and Poor's in the latter's corporate governance evaluation of HKEx, this being the first independent assessment of HKEx's corporate governance standards.
- The best lending rate was reduced by 12.5 basis points to 5.125%.
- 14 Dec To follow up with the initiatives announced in the 2001 Policy Address, the Trade and Industry Department launched the SME Business Installations and Equipment Loan Guarantee Scheme, the SME Export Marketing Fund, and the SME Development Fund, while the SME Training Fund would be launched in mid-January 2002. The Government's total commitment to these funding schemes is \$7.5 billion, with an expected maximum expenditure of \$1.9 billion.
- 17 Dec The newly-formed Hong Kong Logistics Development Council, headed by the Secretary for Economic Services, met for the first time to discuss plans to implement the policies set by the Steering Committee on Logistics Development.
- HKMA and Euroclear announced their agreement to develop a direct link between HKMA's Central Moneymarkets Unit (CMU) and the Brussels-based international central securities depository. This fully-automated real-time link enables investors in Hong Kong and in other parts of Asia to directly hold and settle Euroclear-eligible debt securities via their CMU accounts.
- 18 Dec In response to the indication by reinsurers that they would discontinue reinsurance coverage for terrorist activities on their treaty arrangements from January 2002 onwards as a result of the 911 incident, the Government decided to provide a facility of \$10 billion to ensure that direct insurers could continue to underwrite employee compensation insurance policies.
- The Government announced its decision to invite the Standing Commission on Civil Service Salaries and Conditions of Service, in conjunction with the Standing Committee on Disciplined Services Salaries and Conditions of Service and the Standing Committee on Directorate Salaries and Conditions of Service, to conduct a comprehensive review of the Civil Service pay

policy and system. The review will proceed in two phases. For the first phase, the Government has invited the three advisory bodies to conduct an analytical study on the latest developments in Civil Service pay administration in other governments. Based on the findings of the analytical study and taking into account the ensuing discussions with parties concerned, the advisory bodies are to make recommendations to the Government in the second half of 2002 on the scope of the review to be conducted under the second phase.

19 Dec Following a suggestion by the Chief Executive, the Central People's Government agreed to consider the establishment of an arrangement akin to a free trade area between the Mainland and HKSAR. The HKSAR Government would pursue further with the relevant Mainland authorities. This is now referred to as a proposed Mainland/Hong Kong Closer Economic Partnership Arrangement.

The Kowloon-Canton Railway Corporation (Amendment) Ordinance 2001 was enacted. It provides for separation of the functions and duties of the Chairman and the Chief Executive of the Corporation, as is intended to enhance corporate governance of KCRC.

The Banking (Amendment) Ordinance 2001 was enacted. The Ordinance would enable HKMA's supervisory regime to be kept abreast of developments in the banking industry, in particular those relating to electronic banking.

20 Dec The Government announced its proposals on the multi-application smart ID card scheme. This includes the option of providing a free digital certificate valid for one year to all citizens in Hong Kong so as to drive e-business development in Hong Kong. Other possible applications of the smart ID card include library card, driving licence related functions, change of address, and capacity for an electronic purse, all at the voluntary choice of citizens.

The Government issued a guidance note setting out the regulatory requirements and procedures to facilitate the introduction of direct-to-home broadcasting services in Hong Kong via the broadcasting-satellite service channels.

HKMC modified its Mortgage Purchasing Criteria to include mortgage loans refinanced at a loan-to-value ratio of greater than 70% and up to 100%. The maximum combined age of property and loan tenor had also been extended from 40 years to 50 years.

21 Dec China and Japan reached a deal to settle the trade dispute over Japan's imports of China's agricultural products. Japan agreed to lift its long-term curbs on imports of leeks, mushrooms and rushes from China, while China removed the punitive tariffs on imports of Japanese cars, mobile phones and air-conditioners.

27 Dec The US President issued a proclamation to grant Permanent Normal Trade Relations status to China with effect from 1 January 2002.

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Table 1 : Gross Domestic Product (GDP)

	<u>At current market prices</u>				<u>At constant (1990) market prices</u>			
	<u>Overall GDP</u>		<u>Per capita GDP^(a)</u>		<u>Overall GDP</u>		<u>Per capita GDP^(a)</u>	
	<u>\$Mn</u>	<u>% change</u>	<u>\$</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>	<u>\$</u>	<u>% change</u>
1991	668,512	14.8	116,223	13.8	612,016	5.1	106,401	4.2
1992	779,335	16.6	134,357	15.6	650,347	6.3	112,119	5.4
1993	897,463	15.2	152,087	13.2	690,223	6.1	116,967	4.3
1994	1,010,885	12.6	167,493	10.1	727,506	5.4	120,540	3.1
1995	1,077,145	6.6	174,972	4.5	755,832	3.9	122,778	1.9
1996	1,191,890	10.7	185,206	5.8	789,753	4.5	122,718	*
1997	1,323,862	11.1	204,007	10.2	829,017	5.0	127,751	4.1
1998	1,259,306	-4.9	192,446	-5.7	785,073	-5.3	119,974	-6.1
1999 [#]	1,226,983	-2.6	185,724	-3.5	808,656	3.0	122,403	2.0
2000 [#]	1,266,653	3.2	190,045	2.3	893,263	10.5	134,023	9.5
2001 ⁺	1,262,585	-0.3	187,748	-1.2	894,587	0.1	133,026	-0.7

Average annual growth rate:

1991-2001 (10 years)	6.6	4.9	3.9	2.3
1996-2001 (5 years)	1.2	0.3	2.5	1.6

Notes : (a) As from the second quarter of 1996 onwards, the population figures are compiled on the basis of the "resident population" definition and with the results of the 2001 Population Census incorporated. Per capita GDP figures from 1996 to 2000 have been revised accordingly.

(#) Revised figures.

(+) Preliminary figures.

(*) Change of less than 0.05%.

**Table 2 : Gross Domestic Product (GDP)
by main expenditure component
(at current market prices)**

	<u>1997</u>		<u>1998</u>		<u>1999</u> [#]		<u>2000</u> [#]		<u>2001</u> ⁺	
	<u>\$Mn change</u>	<u>%</u>	<u>\$Mn change</u>	<u>%</u>	<u>\$Mn change</u>	<u>%</u>	<u>\$Mn change</u>	<u>%</u>	<u>\$Mn change</u>	<u>%</u>
Private consumption expenditure	798,450	10.6	762,234	-4.5	732,821	-3.9	735,072	0.3	739,037	0.5
Government consumption expenditure	113,749	9.0	117,760	3.5	121,540	3.2	121,834	0.2	130,659	7.2
Gross domestic fixed capital formation	444,963	19.5	381,079	-14.4	316,960	-16.8	333,003	5.1	326,040	-2.1
Change in inventories	12,313	--	-15,651	--	-10,612	--	16,194	--	-207	--
Exports of goods	1,455,949	4.2	1,347,649	-7.4	1,349,000	0.1	1,572,689	16.6	1,480,987	-5.8
<i>Less</i> Imports of goods	1,619,468	5.2	1,432,423	-11.5	1,395,521	-2.6	1,661,404	19.1	1,570,754	-5.5
Exports of services	298,176	0.7	280,756	-5.8	288,609	2.8	328,625	13.9	335,757	2.2
<i>Less</i> Imports of services	180,270	5.5	182,098	1.0	175,814	-3.5	179,360	2.0	178,934	-0.2
Expenditure-based GDP	1,323,862	11.1	1,259,306	-4.9	1,226,983	-2.6	1,266,653	3.2	1,262,585	-0.3

Notes : Figures may not add up exactly to the total due to rounding.

(#) Revised figures.

(+) Preliminary figures.

(--) Not applicable.

**Table 3 : Gross Domestic Product (GDP)
by main expenditure component
(at constant (1990) market prices)**

	<u>1997</u>		<u>1998</u>		<u>1999[#]</u>		<u>2000[#]</u>		<u>2001⁺</u>	
	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>
Private consumption expenditure	501,015	6.2	463,695	-7.4	466,626	0.6	492,018	5.4	501,824	2.0
Government consumption expenditure	61,629	2.4	62,124	0.8	64,202	3.3	65,529	2.1	68,840	5.1
Gross domestic fixed capital formation	304,569	12.7	281,554	-7.6	232,397	-17.5	255,260	9.8	260,691	2.1
Change in inventories	10,927	--	-14,781	--	-10,805	--	14,791	--	-1,785	--
Exports of goods	1,404,124	6.1	1,343,716	-4.3	1,392,823	3.7	1,631,144	17.1	1,581,985	-3.0
<i>Less</i> Imports of goods	1,533,705	7.2	1,424,031	-7.2	1,425,939	0.1	1,683,831	18.1	1,644,220	-2.4
Exports of services	217,818	-0.1	213,892	-1.8	226,165	5.7	258,083	14.1	267,065	3.5
<i>Less</i> Imports of services	137,360	4.0	141,096	2.7	136,813	-3.0	139,731	2.1	139,813	0.1
Expenditure-based GDP	829,017	5.0	785,073	-5.3	808,656	3.0	893,263	10.5	894,587	0.1

Notes : Figures may not add up exactly to the total due to rounding.

(#) Revised figures.

(+) Preliminary figures.

(--) Not applicable.

**Table 4 : Gross Domestic Product (GDP) by economic activity
(at current market prices)**

	<u>1996</u>		<u>1997</u>		<u>1998</u>		<u>1999[#]</u>		<u>2000[#]</u>	
	<u>\$Mn</u>	<u>% share</u>	<u>\$Mn</u>	<u>% share</u>	<u>\$Mn</u>	<u>% share</u>	<u>\$Mn</u>	<u>% share</u>	<u>\$Mn</u>	<u>% share</u>
Agriculture and fishing	1,444	0.1	1,464	0.1	1,530	0.1	1,171	0.1	920	0.1
Industry	175,127	15.5	181,184	14.7	174,632	14.9	166,542	14.6	169,010	14.3
<i>Mining and quarrying</i>	311	*	272	*	301	*	307	*	241	*
<i>Manufacturing</i>	82,769	7.3	80,049	6.5	70,849	6.1	65,767	5.8	69,753	5.9
<i>Electricity, gas and water</i>	26,989	2.4	29,212	2.4	33,546	2.9	34,358	3.0	35,852	3.0
<i>Construction</i>	65,058	5.8	71,650	5.8	69,937	6.0	66,111	5.8	63,164	5.3
Services	953,642	84.4	1,050,386	85.2	992,902	84.9	971,798	85.3	1,010,758	85.6
<i>Wholesale, retail and import/export trades, restaurants and hotels</i>	301,277	26.7	313,270	25.4	288,081	24.6	282,194	24.8	308,410	26.1
<i>Transport, storage and communications</i>	111,087	9.8	112,829	9.2	107,958	9.2	108,957	9.6	121,104	10.3
<i>Financing, insurance, real estate and business services</i>	284,119	25.1	322,618	26.2	282,686	24.2	267,017	23.4	273,897	23.2
<i>Community, social and personal services</i>	198,967	17.6	220,451	17.9	232,963	19.9	245,722	21.6	250,555	21.2
<i>Ownership of premises</i>	147,547	13.1	171,383	13.9	170,660	14.6	162,488	14.3	152,737	12.9
<i>Adjustment for financial intermediation services indirectly measured</i>	-89,356	-7.9	-90,164	-7.3	-89,446	-7.7	-94,580	-8.3	-95,945	-8.1
Production-based GDP at factor cost	1,130,212	100.0	1,233,034	100.0	1,169,064	100.0	1,139,511	100.0	1,180,688	100.0
Taxes on production and imports	62,443		85,001		62,538		55,846		60,510	
Production-based GDP at current market prices	1,192,656		1,318,035		1,231,602		1,195,357		1,241,198	

Notes : Figures may not add up exactly to the total due to rounding.

(#) Revised figures.

(*) Share of less than 0.05%.

Table 5 : Gross National Product (GNP) and external factor income flows (EFIF) by income component (at current market prices)

Type of income component	1999		2000		Q1		Q2		Q3	
	\$Mn	%	\$Mn	%	\$Mn	%	\$Mn	%	\$Mn	%
		change		change		change		change		change
Direct investment income										
Inflow	136,454	9.2	153,848	12.7	36,376	-19.4	46,600	12.3	44,284	28.4
Outflow	197,094	44.5	266,324	35.1	62,320	-15.5	69,577	11.7	63,896	-5.7
Portfolio investment income										
Inflow	86,291	15.9	95,086	10.2	26,348	10.1	23,982	2.2	24,611	-3.9
Outflow	25,410	2.9	26,900	5.9	3,202	7.1	13,505	16.9	5,195	1.0
Other investment income										
Inflow	142,008	-12.8	167,787	18.2	35,428	-9.6	34,304	-9.2	29,910	-29.8
Outflow	107,472	-37.7	101,729	-5.3	20,679	-7.1	19,662	-12.7	17,686	-31.3
Compensation of employees										
Inflow	110	-69.7	53	-51.8	10	-50.0	11	-15.4	9	-10.0
Outflow	110	-69.7	53	-51.8	10	-50.0	11	-15.4	9	-10.0
Total EFIF										
Inflow	364,863	0.6	416,774	14.2	98,162	-9.3	104,897	2.1	98,814	-3.8
Outflow	330,086	-1.2	395,006	19.7	86,211	-13.0	102,754	6.6	86,786	-12.0
Net flow	34,777	--	21,768	--	11,951	--	2,142	--	12,028	--
GDP (\$Mn)[#]	1,226,983	-2.6	1,266,653	3.2	303,617	0.4	308,524	0.2	324,452	-0.6
Per capita GDP (\$) [#]	185,724	-3.5	190,045	2.3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
GNP (\$Mn)[#]	1,261,760	-2.0	1,288,421	2.1	315,568	1.7	310,666	-2.3	336,480	1.8
Per capita GNP (\$) [#]	190,988	-3.0	193,311	1.2	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

Notes : Figures may not add up exactly to the total due to rounding.

(#) Revised figures.

(--) Not applicable.

N.A. Not available.

Table 6 : Balance of payments account by major component

	<u>1999[#]</u>	<u>2000[#]</u>	<u>2001[#]</u>	<u>2001[#]</u>		
	<u>\$Mn</u>	<u>\$Mn</u>	<u>Q1-Q3</u> <u>\$Mn</u>	<u>Q1</u> <u>\$Mn</u>	<u>Q2</u> <u>\$Mn</u>	<u>Q3</u> <u>\$Mn</u>
Current account^(a)	89,088	69,471	52,218	11,741	8,117	32,360
Goods	-24,501	-63,832	-59,966	-24,646	-23,888	-11,432
Services	90,755	124,548	96,198	28,122	32,955	35,121
Factor income	34,777	21,768	26,121	11,951	2,142	12,028
Current transfers	-11,943	-13,013	-10,135	-3,686	-3,092	-3,357
Capital and financial account^(a)	-83,374	-57,863	-31,560	-504	-11,597	-19,459
Capital transfers	-13,812	-12,044	-7,481	-1,438	-3,116	-2,927
Direct investment	40,737	19,767	101,420	59,090	37,372	4,958
Portfolio investment	256,812	190,782	-231,678	-108,070	-52,268	-71,339
Financial derivatives	78,999	1,871	26,993	-9,209	21,147	15,054
Other investment	-368,243	-179,917	123,748	120,080	-4,807	8,476
Reserve assets (net change) ^(b)	-77,867	-78,321	-44,562	-60,958	-9,924	26,320
Net errors and omissions	-5,714	-11,609	-20,657	-11,236	3,480	-12,901
Overall balance of payments	77,867 (in surplus)	78,321 (in surplus)	44,562 (in surplus)	60,958 (in surplus)	9,924 (in surplus)	-26,320 (in deficit)

Notes : (a) In accordance with the balance of payments accounting rules, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. In the capital and financial account, a positive value for the balance figure indicates a net inflow and a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, a negative value for net change in reserve assets represents a net increase and a positive value represents a net decrease.

(b) The estimates on net change in reserve assets under the balance of payments framework are transaction figures. Effects from valuation changes (including price changes and exchange rate changes) and reclassifications are excluded.

(#) Revised figures.

**Table 7: Visible and invisible trade
(at current market prices)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	<u>\$Mn</u>	<u>\$Mn</u>	<u>\$Mn</u>	<u>\$Mn</u>	<u>\$Mn</u>
Total exports of goods	1,455,949	1,347,649	1,349,000	1,572,689	1,480,987
<i>of which :</i>					
Re-exports	1,244,539	1,159,195	1,178,400	1,391,722	1,327,467
Domestic exports	211,410	188,454	170,600	180,967	153,520
Unadjusted imports of goods	1,615,090	1,429,092	1,392,718	1,657,962	1,568,194
Adjusted imports of goods ^(a)	1,619,468	1,432,423	1,395,521	1,661,404	1,570,754
Unadjusted visible trade balance	-159,141 (-9.9)	-81,443 (-5.7)	-43,718 (-3.1)	-85,273 (-5.1)	-87,208 (-5.6)
Adjusted visible trade balance ^{(a)(b)}	-163,519 (-10.1)	-84,774 (-5.9)	-46,521 (-3.3)	-88,715 (-5.3)	-89,767 (-5.7)
Exports of services	298,176	280,756	288,609 [#]	328,625 [#]	335,757 ⁺
Imports of services	180,270	182,098	175,814 [#]	179,360 [#]	178,934 ⁺
Invisible trade balance ^(b)	117,906	98,658	112,795 [#]	149,265 [#]	156,823 ⁺
Unadjusted visible and invisible trade balance	-41,235 <-2.3>	17,215 <1.1>	69,077 [#] <4.4>	63,992 [#] <3.5>	69,615 ⁺ <4.0>
Adjusted visible and invisible trade balance	-45,613 <-2.5>	13,884 <0.9>	66,274 [#] <4.2>	60,550 [#] <3.3>	67,056 ⁺ <3.8>

Notes : (a) Adjusted to take into account an estimate of gold for industrial use.

(b) The visible trade balance in this table is derived from the merchandise trade statistics, with imports of goods valued on cost, insurance and freight (c.i.f.) basis. It is somewhat different from that in Table 6, in which imports of goods are valued on free-on-board (f.o.b.) basis, and the associated freight and insurance services provided by non-resident service providers are included as imports of services, in accordance with the international balance of payments standard. Hence the invisible trade balance in this table is also different from that in Table 6.

(#) Revised figures.

(+) Preliminary figures.

() As a percentage of the total value of imports of goods.

< > As a percentage of the total value of imports of goods and services.

Table 8 : Re-exports by market

	<u>1997</u>		<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>	
	\$Mn	% change								
All markets	1,244,539	5.0	1,159,195	-6.9	1,178,400	1.7	1,391,722	18.1	1,327,467	-4.6
Mainland of China	443,878	6.3	407,366	-8.2	399,188	-2.0	488,823	22.5	496,574	1.6
United States	261,372	7.9	259,856	-0.6	269,444	3.7	311,047	15.4	282,189	-9.3
Japan	77,724	-3.0	64,194	-17.4	67,506	5.2	82,050	21.5	83,551	1.8
United Kingdom	39,066	8.5	42,259	8.2	45,541	7.8	52,356	15.0	46,764	-10.7
Germany	46,336	-1.9	42,161	-9.0	44,122	4.7	50,599	14.7	45,774	-9.5
Taiwan	29,581	11.0	27,368	-7.5	27,859	1.8	33,696	21.0	30,021	-10.9
Singapore	29,385	3.5	25,625	-12.8	28,716	12.1	32,028	11.5	26,929	-15.9
Republic of Korea	19,310	-3.9	12,241	-36.6	19,793	61.7	26,978	36.3	24,640	-8.7
Rest of the world	297,887	3.7	278,125	-6.6	276,230	-0.7	314,146	13.7	291,025	-7.4

Note : Figures may not add up exactly to the total due to rounding.

Table 9 : Re-exports by source

	<u>1997</u>		<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>	
	\$Mn	% change								
All sources	1,244,539	5.0	1,159,195	-6.9	1,178,400	1.7	1,391,722	18.1	1,327,467	-4.6
Mainland of China	723,416	5.8	691,219	-4.5	720,126	4.2	849,517	18.0	808,370	-4.8
Japan	133,825	3.5	123,879	-7.4	121,265	-2.1	137,338	13.3	125,649	-8.5
Taiwan	83,341	1.4	71,782	-13.9	71,957	0.2	87,942	22.2	80,321	-8.7
United States	62,633	0.7	54,530	-12.9	56,737	4.0	65,465	15.4	65,193	-0.4
Republic of Korea	39,672	4.3	39,637	-0.1	38,822	-2.1	46,057	18.6	39,775	-13.6
Malaysia	19,806	16.8	17,473	-11.8	19,031	8.9	27,050	42.1	27,170	0.4
Germany	16,616	1.0	15,633	-5.9	15,558	-0.5	18,790	20.8	20,322	8.2
Singapore	27,869	9.4	20,175	-27.6	13,805	-31.6	14,991	8.6	14,650	-2.3
Rest of the world	137,361	4.3	124,867	-9.1	121,099	-3.0	144,572	19.4	146,017	1.0

Note : Figures may not add up exactly to the total due to rounding.

Table 10 : Re-exports by selected commodity group

	<u>1997</u>		<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>	
	\$Mn	% change								
All re-exports	1,244,539	5.0	1,159,195	-6.9	1,178,400	1.7	1,391,722	18.1	1,327,467	-4.6
Clothing	106,669	6.1	96,799	-9.3	99,308	2.6	111,268	12.0	110,609	-0.6
Thermionic transistors, etc.	48,409	13.8	43,218	-10.7	57,593	33.3	89,808	55.9	92,637	3.2
Electrical machinery	40,043	9.4	42,891	7.1	50,758	18.3	69,121	36.2	63,315	-8.4
Radios, television-sets, gramophones, records, tape recorders and amplifiers	58,732	-5.0	52,593	-10.5	45,730	-13.0	57,678	26.1	53,553	-7.2
Office machines	34,193	12.5	36,790	7.6	39,983	8.7	41,919	4.8	46,894	11.9
Footwear	65,619	0.6	51,913	-20.9	47,840	-7.8	50,534	5.6	45,938	-9.1
Plastic materials	37,689	3.9	34,042	-9.7	35,353	3.9	41,806	18.3	36,219	-13.4
Watches	23,629	2.6	23,528	-0.4	24,927	5.9	27,303	9.5	25,117	-8.0
Woven fabrics of man-made fibres	23,137	0.8	18,336	-20.8	16,592	-9.5	17,005	2.5	13,995	-17.7
Iron and steel	19,238	-4.9	17,046	-11.4	13,948	-18.2	14,602	4.7	11,575	-20.7
Others	787,180	5.5	742,040	-5.7	746,366	0.6	870,677	16.7	827,614	-4.9

Note : Figures may not add up exactly to the total due to rounding.

Table 11 : Domestic exports by market

	<u>1997</u>		<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>	
	\$Mn	% change								
All markets	211,410	-0.4	188,454	-10.9	170,600	-9.5	180,967	6.1	153,520	-15.2
Mainland of China	63,867	3.6	56,066	-12.2	50,414	-10.1	54,158	7.4	49,547	-8.5
United States	55,073	2.3	54,842	-0.4	51,358	-6.4	54,438	6.0	47,589	-12.6
United Kingdom	10,723	1.2	10,058	-6.2	10,392	3.3	10,681	2.8	8,578	-19.7
Germany	10,321	-9.4	9,805	-5.0	8,543	-12.9	9,294	8.8	5,818	-37.4
Taiwan	7,029	4.8	6,505	-7.5	5,101	-21.6	6,104	19.7	5,346	-12.4
Netherlands	5,138	9.9	4,736	-7.8	4,119	-13.0	3,910	-5.1	4,619	18.1
Japan	10,641	-6.1	6,435	-39.5	5,459	-15.2	5,084	-6.9	4,060	-20.1
Canada	3,872	-0.3	3,598	-7.1	3,151	-12.4	3,210	1.9	3,093	-3.7
Rest of the world	44,746	-7.0	36,410	-18.6	32,064	-11.9	34,087	6.3	24,870	-27.0

Note : Figures may not add up exactly to the total due to rounding.

Table 12 : Domestic exports by selected commodity group

	<u>1997</u>		<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>	
	<u>\$Mn</u>	<u>% change</u>								
All domestic exports	211,410	-0.4	188,454	-10.9	170,600	-9.5	180,967	6.1	153,520	-15.2
Articles of apparel and clothing accessories	72,228	4.0	74,874	3.7	74,251	-0.8	77,415	4.3	72,240	-6.7
Electronic components	26,972	6.3	23,586	-12.6	20,886	-11.4	24,267	16.2	17,489	-27.9
Textile fabrics	11,442	-6.5	9,651	-15.7	8,397	-13.0	8,064	-4.0	7,198	-10.7
Metal manufactures	5,202	-14.0	4,090	-21.4	3,823	-6.5	3,896	1.9	2,398	-38.4
Watches and clocks	10,798	-9.9	8,937	-17.2	5,040	-43.6	3,012	-40.2	2,354	-21.8
Metal ores and scrap	1,372	-8.6	1,161	-15.4	1,077	-7.3	1,185	10.1	1,274	7.5
Textile yarn and thread	1,070	-10.6	910	-14.9	852	-6.4	735	-13.7	613	-16.6
Textile made-ups and related articles	142	-45.0	205	44.7	239	16.3	364	52.4	382	4.9
Footwear	42	-17.4	25	-40.8	44	76.7	77	74.5	97	25.8
Radios	64	-60.2	31	-51.7	19	-39.9	23	25.3	14	-41.5
Others	82,077	-2.2	64,983	-20.8	55,972	-13.9	61,928	10.6	49,462	-20.1

Note : Figures may not add up exactly to the total due to rounding.

Table 13 : Imports of goods by source

	<u>1997</u>		<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>	
	<u>\$Mn</u>	<u>% change</u>								
All sources	1,615,090	5.2	1,429,092	-11.5	1,392,718	-2.5	1,657,962	19.0	1,568,194	-5.4
Mainland of China	608,372	6.6	580,614	-4.6	607,546	4.6	714,987	17.7	681,980	-4.6
Japan	221,646	6.4	179,947	-18.8	162,652	-9.6	198,976	22.3	176,599	-11.2
Taiwan	124,547	1.1	104,075	-16.4	100,426	-3.5	124,172	23.6	107,929	-13.1
United States	125,381	3.6	106,537	-15.0	98,572	-7.5	112,801	14.4	104,941	-7.0
Singapore	79,186	-2.8	61,457	-22.4	60,017	-2.3	74,998	25.0	72,898	-2.8
Republic of Korea	73,226	-0.1	68,836	-6.0	65,432	-4.9	80,600	23.2	70,791	-12.2
Rest of the world	382,733	7.0	327,626	-14.4	298,073	-9.0	351,430	17.9	353,057	0.5

Note : Figures may not add up exactly to the total due to rounding.

Table 14 : Imports of goods by end-use category

	<u>1997</u>		<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>	
	\$Mn	% change								
All imports of goods^(a)	1,615,090	5.2	1,429,092	-11.5	1,392,718	-2.5	1,657,962	19.0	1,568,194	-5.4
Foodstuffs	72,848	11.7	64,587	-11.3	57,214	-11.4	59,806	4.5	56,447	-5.6
Consumer goods ^(a)	586,995	2.4	511,253	-12.9	508,354	-0.6	566,898	11.5	542,636	-4.3
Fuels	29,971	-7.9	23,369	-22.0	27,362	17.1	34,006	24.3	30,362	-10.7
Raw materials and semi-manufactures	562,360	4.0	483,466	-14.0	471,854	-2.4	580,224	23.0	511,314	-11.9
Capital goods	362,916	12.0	346,417	-4.5	327,933	-5.3	417,028	27.2	427,435	2.5

Notes : Figures may not add up exactly to the total due to rounding.

(a) Including imports of water.

Table 15 : Exports and imports of services by component (at current market prices)

	<u>1996</u>		<u>1997</u>		<u>1998</u>		<u>1999[#]</u>		<u>2000[#]</u>	
	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change
Exports of services	296,188	11.5	298,176	0.7	280,756	-5.8	288,609	2.8	328,625	13.9
Transportation	100,555	4.3	101,532	1.0	98,527	-3.0	104,191	5.7	119,218	14.4
Travel	84,520	12.8	72,086	-14.7	55,250	-23.4	52,986	-4.1	58,392	10.2
Insurance	2,826	-23.6	2,825	*	3,369	19.3	3,463	2.8	3,917	13.1
Financial	19,032	16.5	20,131	5.8	18,022	-10.5	22,265	23.5	29,046	30.5
Trade-related	68,338	26.0	77,888	14.0	84,046	7.9	88,443	5.2	99,683	12.7
Other business	20,917	4.5	23,714	13.4	21,542	-9.2	17,261	-19.9	18,369	6.4
Imports of services	170,936	6.3	180,270	5.5	182,098	1.0	175,814	-3.5	179,360	2.0
Transportation	39,887	4.1	38,997	-2.2	35,964	-7.8	34,876	-3.0	37,673	8.0
Travel	88,640	9.2	98,155	10.7	104,361	6.3	101,889	-2.4	97,229	-4.6
Insurance	3,147	-32.4	3,213	2.1	3,553	10.6	3,741	5.3	4,450	19.0
Financial	6,266	2.6	6,931	10.6	7,886	13.8	8,042	2.0	10,633	32.2
Trade-related	13,880	11.7	13,880	*	13,318	-4.0	13,415	0.7	14,441	7.6
Other business	19,116	5.1	19,094	-0.1	17,016	-10.9	13,851	-18.6	14,934	7.8
Net exports of services	125,252	19.6	117,906	-5.9	98,658	-16.3	112,795	14.3	149,265	32.3

Notes : (#) Revised figures.

(*) Change of less than 0.05%.

Table 16 : Travel and tourism

	<u>Incoming visitors</u>		<u>Foreign visitors passing through Hong Kong to Mainland of China</u>		<u>Hong Kong residents travelling abroad</u>	
	<u>Number</u>	<u>% change over a year earlier</u>	<u>Number</u>	<u>% change over a year earlier</u>	<u>Number</u>	<u>% change over a year earlier</u>
	(<u>'000</u>)		(<u>'000</u>)		(<u>'000</u>)	
1997	11 273	-13.1	2 318	2.4	41 605	12.0
1998	10 160	-9.9	2 181	-5.9	47 594	14.4
1999	11 328	11.5	2 496	14.4	53 144	11.7
2000	13 059	15.3	3 001	20.2	58 901	10.8
2001	13 725	5.1	3 177	5.9	61 096	3.7
2001 Q1	3 197	7.8	729	11.7	14 791	8.0
Q2	3 453	7.2	842	10.1	14 967	1.3
Q3	3 474	4.2	784	5.0	15 742	1.3
Q4	3 602	1.8	822	-1.7	15 597	4.8

Note : Figures may not add up exactly to the total due to rounding.

Table 17 : Incoming visitors by source

	<u>1997</u>		<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>	
	<u>Number</u>	<u>% change</u>								
	(<u>'000</u>)		(<u>'000</u>)		(<u>'000</u>)		(<u>'000</u>)		(<u>'000</u>)	
All sources	11 273	-13.1	10 160	-9.9	11 328	11.5	13 059	15.3	13 725	5.1
Mainland of China	2 364	-1.1	2 672	13.0	3 206	20.0	3 786	18.1	4 449	17.5
Taiwan	1 920	-5.1	1 886	-1.8	2 063	9.4	2 386	15.6	2 419	1.4
South and Southeast Asia	1 627	-10.8	1 273	-21.7	1 511	18.6	1 747	15.6	1 747	*
Japan	1 624	-41.1	1 101	-32.2	1 174	6.7	1 382	17.7	1 337	-3.3
United States	861	3.4	828	-3.8	859	3.7	966	12.5	936	-3.1
United Kingdom	370	-16.9	353	-4.5	334	-5.3	368	10.2	361	-2.0
Others	2 507	-7.2	2 047	-18.3	2 181	6.5	2 424	11.2	2 479	2.2

Notes : Figures may not add up exactly to the total due to rounding.

(*) Change of less than 0.05%.

Table 18 : Hong Kong residents travelling abroad by destination

	<u>1997</u>		<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>	
	Number (‘000)	% change								
All destinations	41 605	12.0	47 594	14.4	53 144	11.7	58 901	10.8	61 096	3.7
Mainland of China	33 678	17.0	39 140	16.2	45 175	15.4	50 083	10.9	52 003	3.8
Macao	4 170	-14.9	4 257	2.1	3 794	-10.9	4 207	10.9	4 294	2.1
South and Southeast Asia	1 711	9.2	1 888	10.4	1 986	5.1	2 390	20.3	2 505	4.8
North Asia	623	30.9	880	41.1	778	-11.5	739	-5.0	762	3.1
Taiwan	363	1.0	381	4.8	420	10.3	469	11.6	526	12.1
Americas ^(a)	446	-3.1	432	-3.1	398	-7.9	399	0.2	377	-5.7
Europe	329	8.7	321	-2.5	307	-4.2	323	5.2	324	0.1
Australia and New Zealand	227	2.7	237	4.4	230	-2.7	232	0.5	237	2.6
Others	58	-1.5	58	-0.8	55	-5.5	60	8.8	70	17.0

Notes : Figures may not add up exactly to the total due to rounding.

(a) This includes the United States, Canada, Central America and South America.

**Table 19 : Private consumption expenditure by broad category
(at constant (1990) market prices)**

	<u>1997</u>		<u>1998</u>		<u>1999[#]</u>		<u>2000[#]</u>		<u>2001⁺</u>	
	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change
Private consumption expenditure	501,015	6.2	463,695	-7.4	466,626	0.6	492,018	5.4	501,824	2.0
Consumption expenditure in the domestic market	492,829	3.3	443,636	-10.0	448,594	1.1	479,977	7.0	490,951	2.3
<i>Food</i>	66,042	2.5	60,074	-9.0	60,687	1.0	63,725	5.0	65,474	2.7
<i>Consumer durables</i>	88,847	7.8	68,304	-23.1	66,757	-2.3	79,719	19.4	85,556	7.3
<i>Consumer non-durables</i>	123,343	-3.5	103,127	-16.4	102,402	-0.7	107,839	5.3	106,806	-1.0
<i>Services</i>	214,597	6.0	212,131	-1.1	218,748	3.1	228,694	4.5	233,115	1.9
Expenditure of residents abroad	54,145	5.3	59,142	9.2	59,235	0.2	57,459	-3.0	58,547	1.9
<i>Less</i> Expenditure of non-residents in the domestic market	45,959	-19.0	39,083	-15.0	41,203	5.4	45,418	10.2	47,674	5.0

Notes : (#) Revised figures.

(+) Preliminary figures.

Table 20 : Expenditure on building and construction

	<u>At current market prices</u>					<u>At constant (1990) market prices</u>					
	<u>Private sector</u>		<u>Public sector^(a)</u>		<u>Total</u>	<u>Private sector</u>		<u>Public sector^(a)</u>		<u>Total</u>	
	<u>\$Mn</u>	<u>% share</u>	<u>\$Mn</u>	<u>% share</u>	<u>\$Mn</u>	<u>\$Mn</u>	<u>% change over a year earlier</u>	<u>\$Mn</u>	<u>% change over a year earlier</u>	<u>\$Mn</u>	<u>% change over a year earlier</u>
1997	81,348	60	53,142	40	134,490	54,264	17.0	35,822	-9.7	90,086	4.7
1998	87,140	63	50,916	37	138,056	53,431	-1.5	31,651	-11.6	85,082	-5.6
1999 [#]	70,804	56	54,921	44	125,725	43,715	-18.2	31,985	1.1	75,700	-11.0
2000 [#]	64,707	56	51,239	44	115,946	40,753	-6.8	29,153	-8.9	69,906	-7.7
2001 ⁺	61,618	56	48,585	44	110,203	40,243	-1.3	27,902	-4.3	68,145	-2.5
2001 Q1 [#]	14,968	49	15,321	51	30,289	9,493	-3.5	8,678	1.5	18,171	-1.2
Q2 [#]	14,798	59	10,491	41	25,289	9,913	2.4	6,233	0.8	16,146	1.8
Q3 [#]	15,322	58	10,982	42	26,304	9,930	-5.4	6,258	-11.4	16,188	-7.8
Q4 ⁺	16,530	58	11,791	42	28,321	10,907	1.5	6,733	-8.5	17,640	-2.6

Notes : (a) Including the Mass Transit Railway Corporation Limited, the Kowloon-Canton Railway Corporation and the Airport Authority Hong Kong.

(#) Revised figures.

(+) Preliminary figures.

Table 21 : Property prices and rentals

	<u>Residential flats</u>				<u>Office space^(c)</u>				<u>Shopping space</u>				<u>Conventional flatted factory space</u>			
	<u>Price Index^(a)</u>		<u>Rental Index^(b)</u>		<u>Price Index</u>		<u>Rental Index^(b)</u>		<u>Price Index</u>		<u>Rental Index^(b)</u>		<u>Price Index</u>		<u>Rental Index^(b)</u>	
	(1999=100)	% change over a year earlier	(1999=100)	% change over a year earlier	(1999=100)	% change over a year earlier	(1999=100)	% change over a year earlier	(1999=100)	% change over a year earlier	(1999=100)	% change over a year earlier	(1999=100)	% change over a year earlier	(1999=100)	% change over a year earlier
1997	163.1	40	134.5	13	213.1	13	156.8	3	177.3	32	123.5	5	168.9	-1	132.5	*
1998	117.1	-28	112.6	-16	134.5	-37	135.9	-13	128.3	-28	111.2	-10	131.8	-22	118.1	-11
1999	100.0	-15	100.0	-11	100.0	-26	100.0	-26	100.0	-22	100.0	-10	100.0	-24	100.0	-15
2000	89.6	-10	98.1	-2	89.9	-10	98.5	-2	93.6	-6	101.3	1	91.2	-9	95.4	-5
2001 [^]	78.4	-12	95.4	-3	78.3	-13	101.3	3	85.7	-8	99.7	-2	81.5	-11	90.4	-5
2001 Q1	81.0	-16	97.7	*	85.5	-11	104.6	10	89.1	-9	101.2	1	84.4	-11	93.8	-3
Q2	81.2	-10	96.9	-2	82.1	-11	103.2	5	87.1	-7	99.9	-1	83.2	-9	91.5	-4
Q3 [^]	78.5	-10	95.6	-2	75.3	-12	100.7	2	85.8	-6	99.4	-2	82.0	-9	88.8	-6
Q4 [^]	73.0	-13	91.3	-7	70.2	-18	96.7	-5	81.0	-12	98.2	-4	76.5	-13	87.4	-9

Notes : (a) Prices for residential property in this table cover all completed flats, but not pre-completion flats, in the entire residential property sub-sector.

(b) Rentals for residential property in this table cover only new tenancies for which rentals are freshly determined, while rentals for non-residential property cover also lease renewals upon which rentals are revised.

(c) Since 2000, the price and rental indices for office space in the private sector have been recompiled according to the revised grading criteria for office space. Hence, the figures from 2000 onwards are not strictly comparable to those in the earlier years.

([^]) Provisional figures.

(*) Change of less than 0.5%.

Table 22 : Cost and price indices for the building and construction industry

	Labour and Material Cost Index (Feb 1970 = 100)						Tender Price Index for public sector building projects (Jan 1970 = 100)	Tender Price Index for public housing projects (Jan 1970 = 100)		
	<u>Labour Index</u>		<u>Material Index</u>		<u>Combined Index</u>					
		% change over a year <u>earlier</u>		% change over a year <u>earlier</u>		% change over a year <u>earlier</u>	% change over a year <u>earlier</u>	% change over a year <u>earlier</u>		
1997	3 028	13.1	787	2.0	1 580	9.3	976	17.6	741	18.9
1998	3 405	12.4	763	-3.0	1 698	7.5	1 064	9.1	808	9.0
1999	3 493	2.6	752	-1.5	1 721	1.4	1 017	-4.4	781	-3.3
2000	3 562	2.0	761	1.3	1 752	1.8	884	-13.1	687	-11.9
2001 Jan-No	3 582	0.7	758	-0.4	1 757	0.4	837 [^]	-6.7 [^]	594 [^]	-16.1 [^]

Note : (^) Figures for Jan-Sep 2001.

Table 23 : Expenditure on machinery and equipment

	<u>At current market prices</u>					<u>At constant (1990) market prices</u>					
	<u>Private sector</u>		<u>Public sector^(a)</u>		<u>Total</u>	<u>Private sector</u>		<u>Public sector^(a)</u>		<u>Total</u>	
	<u>\$Mn</u>	% <u>share</u>	<u>\$Mn</u>	% <u>share</u>	<u>\$Mn</u>	<u>\$Mn</u>	% <u>change</u>	<u>\$Mn</u>	% <u>change</u>	<u>\$Mn</u>	% <u>change</u>
1997	174,269	95	9,563	5	183,832	153,716	13.0	8,440	15.7	162,156	13.1
1998	149,016	95	8,509	5	157,525	140,871	-8.4	8,021	-5.0	148,892	-8.2
1999 [#]	124,267	93	8,714	7	132,981	112,155	-20.4	7,835	-2.3	119,990	-19.4
2000 [#]	161,151	96	7,321	4	168,472	144,365	28.7	6,573	-16.1	150,938	25.8
2001 ⁺	165,374	95	8,050	5	173,424	151,431	4.9	7,398	12.6	158,829	5.2

Notes : (a) Including the Mass Transit Railway Corporation Limited, the Kowloon-Canton Railway Corporation and the Airport Authority Hong Kong.

(#) Revised figures.

(+) Preliminary figures.

**Table 24 : Business receipts indices for service industries/domains
(year-on-year rate of change (%))**

	<u>Wholesale trade</u>	<u>Retail trade</u>	<u>Import/ export trade</u>	<u>Restaurants</u>	<u>Hotels</u>	<u>Transport[^]</u>	<u>Storage</u>	<u>Communications</u>
1997	-1.6	4.9	3.6	6.4	-8.5	3.3	-1.0	19.6
1998	-15.2	-16.7	-12.6	-4.1	-27.1	-11.5	-6.7	-2.8
1999	-13.7	-8.1	-13.9	0.4	-3.8	4.5	-20.7	-14.9
2000	3.6	3.8	12.0	2.1	16.7	20.8	2.0	8.7
2001 Q1	-8.3	-0.1	-2.1	0.1	3.3	11.3	-7.7	-11.0
Q2	-12.5	2.3	-13.7	-0.7	1.9	-2.4	-13.1	-11.7
Q3	-13.5	-2.0	-18.5	-4.5	-10.5	-8.2	-16.8	-16.0

	<u>Banking</u>	<u>Financing (other than banking)</u>	<u>Insurance</u>	<u>Real estate</u>	<u>Business services</u>	<u>Film entertainment</u>	<u>Tourism, convention and exhibition services</u>	<u>Computer and information services</u>
1997	3.9	33.7	10.8	13.8	9.2	7.3	-11.8	10.5
1998	-6.1	-35.5	4.6	-24.1	-6.6	-6.2	-28.5	-2.5
1999	6.6	3.1	4.0	-14.1	-10.1	-7.8	-1.7	5.6
2000	0.8	40.7	13.1	-0.1	2.4	14.4	16.9	24.6
2001 Q1	-1.7	-14.5	4.2	-22.0	-0.7	3.0	1.8	13.7
Q2	4.5	1.5	24.9	-21.4	-6.9	22.2	2.8	-9.7
Q3	3.6	-22.6	13.9	-18.1	-12.8	18.1	-8.0	-19.6

Note : (^) Including business receipts from the Airport Authority Hong Kong as from the third quarter of 1998.

Table 25 : Market exchange rate of the Hong Kong dollar against the US dollar and the Effective Exchange Rate Index

<u>Average for</u>	Market exchange rate of HK\$ against US\$	Effective Exchange Rate Index ^(a) (January 2000 = 100)		
		<u>Trade-weighted</u>	<u>Import-weighted</u>	<u>Export-weighted</u>
1997	7.742	98.0	97.9	98.1
1998	7.745	103.4	105.5	101.3
1999	7.758	100.9	101.4	100.4
2000	7.791	101.7	101.5	101.9
2001	7.799	104.7	105.1	104.3
2001 Jan	7.799	103.2	103.6	102.8
Feb	7.799	103.4	103.6	103.2
Mar	7.799	104.3	104.7	103.9
Apr	7.798	105.0	105.4	104.5
May	7.798	105.0	105.4	104.6
Jun	7.798	105.6	105.9	105.2
Jul	7.798	105.8	106.3	105.2
Aug	7.798	104.7	105.2	104.2
Sep	7.800	104.3	104.7	103.9
Oct	7.800	104.8	105.3	104.2
Nov	7.800	105.1	105.6	104.6
Dec	7.798	105.4	106.1	104.8

Note : (a) The Effective Exchange Rate Indices (EERIs) from January 2000 onwards are compiled based on the average merchandise trade pattern from 1999 to 2000. The EERIs for earlier periods are compiled based on old weights and have been re-scaled to the new base period for linking with the new index series.

Table 26 : Hong Kong dollar interest rates

<u>Average for</u>	<u>Hong Kong dollar inter-bank offered rates</u>			<u>Time deposit rates for deposits of less than HK\$100,000</u>			<u>Savings deposits rate</u>	<u>Best lending rate</u>	
	<u>Overnight</u>	<u>Three-month</u>	<u>Twelve-month</u>	<u>One-week</u>	<u>Three-month</u>	<u>Twelve-month</u>			
(Percent per annum)									
1997	6.03	7.12	7.47	5.03	6.20	6.40	4.08	8.83	
1998	5.56	8.06	9.31	5.60	7.35	8.32	5.19	9.94	
1999	4.81	5.84	6.88	3.77	4.85	5.76	3.74	8.49	
2000	5.54	6.11	6.63	4.39	4.97	5.40	4.47	9.22	
2001	3.58	3.56	3.73	2.10	2.36	2.53	2.16	7.00	
2001	Jan	5.41	5.32	5.14	4.17	4.49	4.42	4.36	9.11
	Feb	5.08	5.08	4.94	3.68	3.96	3.90	3.82	8.57
	Mar	4.94	4.83	4.74	3.53	3.73	3.71	3.65	8.40
	Apr	4.37	4.57	4.69	3.04	3.31	3.39	3.12	7.87
	May	3.72	3.84	4.16	2.49	2.70	2.92	2.57	7.32
	Jun	3.85	3.67	3.92	2.22	2.46	2.73	2.25	7.00
	Jul	3.57	3.63	3.86	2.01	2.29	2.56	1.97	6.77
	Aug	3.38	3.36	3.51	1.90	2.08	2.34	1.88	6.69
	Sep	2.96	2.84	2.93	1.36	1.58	1.73	1.33	6.30
	Oct	2.00	2.12	2.35	0.51	0.87	1.02	0.58	5.55
	Nov	2.06	1.84	2.29	0.33	0.56	0.82	0.34	5.31
	Dec	1.75	1.81	2.44	0.22	0.51	1.04	0.20	5.17

Table 27 : Deposits by major type of authorized institution

As at end of	<u>Licensed banks</u>			<u>Restricted licence banks and deposit- taking companies</u>			<u>All authorized institutions</u>		
	<u>HK\$^(a)</u>	<u>Foreign currency^(b)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Foreign currency^(b)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Foreign currency^(b)</u>	<u>Total</u>
(\$ billion)									
1997	1,522	1,076	2,598	16	51	66	1,538	1,127	2,664
1998	1,675	1,233	2,908	10	36	46	1,685	1,269	2,954
1999	1,751	1,387	3,137	10	31	41	1,761	1,417	3,178
2000	1,835	1,610	3,445	12	25	37	1,848	1,635	3,483
2001	1,834	1,483	3,317	16	23	40	1,851	1,506	3,357
2001 Q1	1,828	1,522	3,350	12	27	39	1,840	1,549	3,389
Q2	1,829	1,567	3,396	14	24	38	1,843	1,591	3,434
Q3	1,833	1,562	3,395	16	24	41	1,849	1,586	3,435
Q4	1,834	1,483	3,317	16	23	40	1,851	1,506	3,357
(Rate of change during the period (%))									
1997	9.9	6.1	8.3	5.6	16.5	13.7	9.8	6.5	8.4
1998	10.0	14.6	11.9	-34.0	-29.7	-30.7	9.6	12.6	10.9
1999	4.5	12.4	7.9	-1.6	-14.3	-11.4	4.5	11.7	7.6
2000	4.8	16.1	9.8	23.1	-19.4	-8.8	5.0	15.3	9.6
2001	-0.1	-7.9	-3.7	31.7	-5.2	7.2	0.2	-7.8	-3.6
2001 Q1	-0.4	-5.5	-2.8	-0.6	7.5	4.8	-0.4	-5.3	-2.7
Q2	0.1	2.9	1.4	11.5	-10.8	-3.7	0.2	2.7	1.3
Q3	0.2	-0.3	*	17.8	2.8	8.3	0.3	-0.3	*
Q4	0.1	-5.0	-2.3	0.8	-3.9	-2.0	0.1	-5.0	-2.3

Notes : Figures may not add up exactly to the total due to rounding.

(a) Adjusted to include foreign currency swap deposits.

(b) Adjusted to exclude foreign currency swap deposits.

(*) Change of less than 0.05%.

Table 28 : Money supply

As at end of	<u>M1</u>			<u>M2</u>			<u>M3</u>			
	<u>HK\$</u>	<u>Foreign currency</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Foreign currency^(b)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Foreign currency^(b)</u>	<u>Total</u>	
(\$ billion)										
1997	188	(186)	20	208	1,652	1,091	2,743	1,670	1,155	2,826
1998	178	(176)	19	198	1,814	1,252	3,066	1,826	1,296	3,122
1999	205	(191)	20	225	1,911	1,403	3,314	1,923	1,439	3,362
2000	204	(200)	40	244	1,985	1,620	3,604	1,999	1,648	3,648
2001	230	(226)	28	258	1,995	1,506	3,501	2,013	1,532	3,545
2001 Q1	199	(193)	27	226	1,975	1,532	3,507	1,990	1,562	3,552
Q2	201	(203)	27	228	1,979	1,581	3,560	1,995	1,609	3,604
Q3	211	(213)	29	240	1,991	1,578	3,569	2,009	1,606	3,615
Q4	230	(226)	28	258	1,995	1,506	3,501	2,013	1,532	3,545
(Rate of change during the period (%))										
1997	-5.1	(-5.4)	4.2	-4.3	9.9	6.0	8.3	9.9	5.9	8.2
1998	-5.2	(-5.4)	-2.8	-5.0	9.8	14.8	11.8	9.3	12.2	10.5
1999	15.2	(8.6)	2.1	13.9	5.3	12.0	8.1	5.3	11.0	7.7
2000	-0.7	(5.1)	101.2	8.3	3.9	15.5	8.8	4.0	14.6	8.5
2001	12.8	(12.7)	-29.3	5.9	0.5	-7.0	-2.9	0.7	-7.1	-2.8
2001 Q1	-2.6	(-3.9)	-32.5	-7.5	-0.5	-5.4	-2.7	-0.5	-5.2	-2.6
Q2	1.0	(5.3)	-0.3	0.9	0.2	3.2	1.5	0.3	3.0	1.5
Q3	5.1	(5.2)	9.6	5.7	0.6	-0.2	0.2	0.7	-0.2	0.3
Q4	9.0	(6.0)	-4.0	7.4	0.2	-4.6	-1.9	0.2	-4.6	-1.9

Notes : Figures may not add up exactly to the total due to rounding.

(a) Adjusted to include foreign currency swap deposits.

(b) Adjusted to exclude foreign currency swap deposits.

() Figures in brackets represent the corresponding level or change based on the seasonally adjusted series for HK\$M1.

Table 29 : Loans and advances extended by authorized institutions

<u>As at end of</u>	<u>Loans for use in Hong Kong^(a)</u>		<u>Loans for use outside Hong Kong</u>		<u>Others^(b)</u>		<u>Total loans and advances</u>	
	<u>HK\$</u>	<u>Foreign currency</u>	<u>HK\$</u>	<u>Foreign currency</u>	<u>HK\$</u>	<u>Foreign currency</u>	<u>HK\$</u>	<u>Foreign currency</u>
(\$ billion)								
1997	1,706	525	30	1,813	7	41	1,742	2,379
1998	1,665	444	26	1,141	4	24	1,695	1,609
1999	1,584	349	20	837	3	20	1,607	1,206
2000	1,626	339	22	455	4	15	1,652	809
2001	1,627	254	19	276	3	7	1,648	538
2001 Q1	1,657	291	23	390	3	15	1,683	696
Q2	1,650	289	22	344	2	9	1,675	642
Q3	1,628	278	20	311	2	9	1,649	598
Q4	1,627	254	19	276	2	7	1,648	538
(Rate of change during the period (%))								
1997	20.3	29.6	23.6	-10.6	10.2	19.1	20.4	-3.6
1998	-2.4	-15.3	-13.1	-37.1	-45.4	-42.1	-2.7	-32.4
1999	-4.9	-21.5	-23.1	-26.6	-26.8	-17.6	-5.2	-25.1
2000	2.6	-2.8	11.5	-45.7	43.1	-22.9	2.8	-32.9
2001	*	-25.1	-15.5	-39.3	-35.2	-52.2	-0.3	-33.6
2001 Q1	1.9	-14.4	3.0	-14.3	-17.2	2.5	1.9	-14.0
Q2	-0.4	-0.4	-3.1	-11.8	-23.7	-44.0	-0.5	-7.7
Q3	-1.3	-3.8	-12.2	-9.6	-17.4	-0.6	-1.5	-6.9
Q4	-0.1	-8.7	-3.6	-11.1	24.0	-16.3	-0.1	-10.1

Notes : Figures may not add up exactly to the total due to rounding.

(a) Including trade financing loans.

(b) Including mainly those loans for which the place of usage is not clearly known.

(*) Change of less than 0.05%.

Table 30 : Assets and liabilities of authorized institutions

	<i>As at end of :</i>									
	<u>1997</u>		<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>	
	<u>\$Bn</u>	<u>% change</u>	<u>\$Bn</u>	<u>% change</u>	<u>\$Bn</u>	<u>% change</u>	<u>\$Bn</u>	<u>% change</u>	<u>\$Bn</u>	<u>% change</u>
<u>Liabilities</u>										
Amount due to authorized institutions in Hong Kong	772	0.5	622	-19.5	529	-15.0	543	2.7	467	-14.1
Amount due to banks abroad	3,981	1.1	2,803	-29.6	2,202	-21.5	1,752	-20.4	1,459	-16.7
Deposits from customers	2,664	8.4	2,954	10.9	3,178	7.6	3,483	9.6	3,357	-3.6
NCDs outstanding	220	22.6	209	-4.9	199	-4.8	178	-10.9	172	-2.9
Other liabilities	760	34.7	665	-12.4	676	1.7	706	4.4	700	-0.9
Total liabilities	8,397	6.2	7,254	-13.6	6,784	-6.5	6,661	-1.8	6,155	-7.6
<u>Assets</u>										
Notes and coins	14	9.0	14	-1.6	27	96.8	15	-41.8	14	-10.0
Amount due from authorized institutions in Hong Kong	771	0.1	629	-18.4	536	-14.8	551	2.9	468	-15.1
Amount due from banks abroad	2,310	4.1	2,312	0.1	2,389	3.3	2,450	2.6	2,160	-11.9
NCDs held	173	22.5	144	-16.3	138	-4.2	135	-2.7	128	-5.3
Loans and advances to customers	4,122	5.3	3,304	-19.8	2,813	-14.9	2,461	-12.5	2,186	-11.2
Other assets	1,009	18.7	850	-15.7	882	3.7	1,048	18.9	1,200	14.5
Total assets	8,397	6.2	7,254	-13.6	6,784	-6.5	6,661	-1.8	6,155	-7.6

Note : Figures may not add up exactly to the total due to rounding.

Table 31 : Balance sheet of the Exchange Fund

	As at end of :									
	1997		1998		1999		2000		2001 [^]	
	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change
Assets										
Foreign currency assets	588,475	19.2	701,239	19.2	755,115	7.7	856,680	13.5	878,847	2.6
Hong Kong dollar assets	48,198	18.4	211,036	337.9	247,641	17.3	166,683	-32.7	101,717	-39.0
Total assets^(a)	636,673	19.1	912,275	43.3	1,002,756	9.9	1,023,363	2.1	980,564	-4.2
Liabilities										
Certificates of Indebtedness ^(b)	87,015	5.5	86,465	-0.6	118,195	36.7	99,265	-16.0	107,545	8.3
Coins in circulation	5,399	29.7	5,778	7.0	5,777	*	5,918	2.4	5,691	-3.8
Balance of banking system ^(c)	296	-37.6	2,527	753.7	7,960	215.0	669	-91.6	671	0.3
Exchange Fund Bills and Notes	89,338	7.0	98,334	10.1	101,828	3.6	109,288	7.3	118,157	8.1
Placements by other government funds ^(d)	237,629	62.9	424,562	78.7	392,206	-7.6	417,162	6.4	380,602	-8.8
Other liabilities ^(e)	26,770	-40.7	52,364	95.6	85,932	64.1	83,962	-2.3	65,154	-22.4
Total liabilities^(a)	446,447	23.4	670,030	50.1	711,898	6.2	716,264	0.6	677,820	-5.4
Accumulated Surplus	190,226	10.0	242,245	27.3	290,858	20.1	307,099	5.6	302,744	-1.4

Notes:

The balance sheet comprises the accounts of the Exchange Fund only and does not include those of the subsidiary companies.

- (a) (i) *Investments*
The Fund is invested in interest-bearing deposits with banks both in Hong Kong and outside Hong Kong and in a variety of financial instruments, including bonds, notes, treasury bills and equities.
- (ii) *Foreign currency assets distribution*
A large proportion of the Fund's foreign currency assets is held in US dollars. Apart from the US dollar, the Fund also holds assets denominated in other foreign currencies, including the Australian dollar, Canadian dollar, Danish krone, Deutschmark, Euro, Japanese yen, pound sterling, Swiss franc.
- (iii) *Location of assets*
The assets are held in deposit, trustee and safe-keeping accounts with banks, central banks and custodial organisations situated in Hong Kong and other major financial centres.
- (iv) *Valuation of assets and liabilities*
Financial assets and liabilities, which are traded in an active market, are valued in the accounts at market value at the balance sheet date. Fixed deposits, certificates of deposit, placements by other government funds for which interest is payable at predetermined fixed rates, placements by other statutory bodies and other borrowings are valued according to a price matrix of discounted cash flows using period end interest rates for discounting. The consequential change in value of the asset or liability is reflected in the carrying value of the relevant asset or liability in the Balance Sheet except in the case of placements by other government funds for which interest is payable at predetermined fixed rates, which are stated in the Balance Sheet at the principal amounts payable at the balance sheet date with the revaluation differences included in other liabilities. Placements by other government funds for which interest is payable at rates determined by reference to the investment income of the Fund are stated at the principal amounts payable at the balance sheet date.
- (v) *Translation of foreign currency assets and liabilities*
Assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange gains and losses on foreign currency assets and liabilities are included in the Income and Expenditure Account.
Certificates of Indebtedness which are denominated in Hong Kong dollars but are issued and redeemed in US dollars at the linked exchange rate of US\$1=HK\$7.80 are stated in the accounts at their Hong Kong dollar face value. At the balance sheet date the difference between their Hong Kong dollar face value and the market value of the US dollars required for their redemption is included in other assets.
- (b) As backing for their bank note issues, each note-issuing bank is required to hold a non-interest bearing Certificate of Indebtedness issued by the Financial Secretary. Payments for the issuance and redemption of notes against these Certificates are made in US dollars at a fixed rate of US\$1 = HK\$7.80.
- (c) Under the interbank payment system based on Real Time Gross Settlement principles, all licensed banks maintain a clearing account with the Monetary Authority for the account of the Exchange Fund. The aggregate balance in these accounts represents the total level of liquidity in the interbank market.
- (d) These represent placements by other government funds with the Exchange Fund. Until 31 March 1998, all placements by other government funds bore interest at predetermined fixed rates. With effect from 1 April 1998, the basis of interest payable on certain placements by other government funds was amended from predetermined fixed rates to rates determined by reference to the investment income of the Fund.
- (e) Other liabilities include placements by other institutions, interest payable on Exchange Fund Notes and placements by other government funds, other accrued expenses and the revaluation differences of placements by other government funds for which interest is payable at predetermined fixed rates.
- ([^]) Unaudited figures.
- (*) Change of less than 0.05%.

Table 32 : Labour force characteristics^(a)

<u>As in Q4 of</u>	<u>Population of working age</u>		<u>Labour force participation rate</u>		<u>Labour force</u>		<u>Persons employed</u>	
	<u>Number</u>	<u>% change over a year earlier</u>	<u>%</u>	<u>Number</u>	<u>% change over a year earlier</u>	<u>Number</u>	<u>% change over a year earlier</u>	
1997	5 308 100	1.8	62.1	3 296 900	2.8	3 221 300	3.1	
1998	5 379 700	1.3	61.5	3 309 600	0.4	3 115 000	-3.3	
1999	5 447 000	1.3	61.3	3 339 800	0.9	3 131 100	0.5	
2000	5 537 600	1.7	61.4	3 402 200	1.9	3 252 500	3.9	
2001 Q1	5 557 600	1.7	61.3	3 404 100	2.0	3 254 400	3.2	
Q2	5 572 100	1.6	61.2	3 410 100	1.3	3 257 500	1.9	
Q3	5 584 300	1.4	61.6	3 440 200	1.4	3 254 500	0.9	
Q4	5 583 700	0.8	61.6	3 439 900	1.1	3 230 100	-0.7	

<u>As in Q4 of</u>	<u>Persons unemployed</u>		<u>Seasonally adjusted unemployment rate</u>		<u>Persons underemployed</u>		<u>Under-employment rate</u>	
	<u>Number</u>	<u>% change over a year earlier</u>	<u>%</u>	<u>Number</u>	<u>% change over a year earlier</u>	<u>%</u>		
1997	75 600	-8.0	2.2	42 500	-13.6	1.3		
1998	194 600	157.3	5.9	96 300	126.2	2.9		
1999	208 700	7.2	6.3	93 500	-2.9	2.8		
2000	149 600	-28.3	4.4	88 700	-5.1	2.6		
2001 Q1	149 700	-18.0	4.5	77 700	-16.8	2.3		
Q2	152 600	-9.3	4.5	75 100	-27.9	2.2		
Q3	185 600	11.0	5.3	84 400	-4.0	2.5		
Q4	209 800	40.2	6.1	104 300	17.5	3.0		

Note : (a) The labour force statistics in this table are compiled on the basis of the “resident population” definition and with the results of the 2001 Population Census incorporated.

Table 33 : Employment in selected major economic sectors

As in September of:

<u>Major economic sector</u>	<u>1997</u>		<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>	
	<u>No.</u>	<u>% change over a year earlier</u>								
Manufacturing	309 200	-5.6	257 000	-16.9	244 500	-4.9	229 400	-6.2	209 300	-8.8
<i>of which :</i>										
Wearing apparel, except footwear	55 600	-15.9	44 900	-19.1	43 200	-3.9	37 000	-14.4	31 700	-14.1
Textiles	43 900	-11.0	35 100	-20.0	31 800	-9.5	29 400	-7.4	27 100	-8.0
Electronics	33 700	8.9	24 800	-26.5	25 500	2.9	26 100	2.6	20 900	-19.9
Plastic products	12 300	-5.0	8 700	-29.4	8 000	-8.1	6 800	-14.2	5 900	-13.1
Fabricated metal products, except machinery and equipment	19 000	-7.8	15 000	-20.7	12 500	-16.8	12 100	-3.4	9 800	-19.1
Wholesale, retail, import/export trades, restaurants and hotels	1 026 600	-1.9	946 600	-7.8	997 500	5.4	1 053 300	5.6	1 027 300	-2.5
<i>of which :</i>										
Wholesale, retail and import/export trades	806 000	-2.1	740 900	-8.1	784 900	5.9	832 600	6.1	804 300	-3.4
Restaurants and hotels	220 600	-1.4	205 600	-6.8	212 600	3.4	220 600	3.8	223 000	1.1
Transport, storage and communications	177 600	-1.2	169 600	-4.5	175 600	3.6	183 300	4.4	184 200	0.5
<i>of which :</i>										
Land transport	35 100	7.3	37 900	7.9	39 000	2.9	38 200	-2.1	38 800	1.8
Water transport	27 000	-9.5	26 900	-0.3	26 500	-1.5	29 000	9.2	28 800	-0.7
Services allied to transport	55 400	-0.9	48 300	-12.9	51 900	7.6	53 900	3.9	53 800	-0.2
Financing, insurance, real estate and business services	415 900	6.3	398 100	-4.3	406 900	2.2	437 000	7.4	437 300	0.1
<i>of which :</i>										
Financial institutions	143 700	6.2	128 400	-10.6	137 400	7.0	137 400	*	136 300	-0.8
Insurance	21 600	-21.7	26 500	22.5	27 100	2.4	25 400	-6.3	26 900	6.1
Real estate	85 200	12.4	78 800	-7.5	81 900	3.9	83 900	2.4	82 200	-1.9
Business services except machinery and equipment rental and leasing	164 100	8.2	163 000	-0.6	159 500	-2.2	189 200	18.6	190 800	0.9
Community, social and personal services	313 900	-0.2	323 900	3.2	340 000	5.0	348 900	2.6	377 000	8.1
<i>of which :</i>										
Sanitary and similar services	31 400	-20.7	37 300	18.5	42 800	14.9	42 600	-0.5	46 800	9.8
Education services	99 800	6.2	104 200	4.5	109 000	4.6	112 800	3.4	120 600	7.0
Medical, dental and other health services	62 300	1.3	67 000	7.6	68 200	1.7	68 200	*	71 700	5.2
Welfare institutions	26 900	14.4	28 300	5.2	29 600	4.6	35 900	21.5	41 000	14.0
Civil Service^(a)	184 200	0.2	188 400	2.3	188 000	-0.2	183 400	-2.4	176 700	-3.7

Notes : (a) These figures cover only those employed on Civil Service terms of appointment. Judicial officers, consultants, contract staff and temporary staff not appointed on Civil Service terms are not included.

(*) Change of less than 0.05%.

Table 34 : Reported vacancies in selected major economic sectors

Major economic sector	As in September of:										Vacancy rate in
	1997		1998		1999		2000		2001		Sep 2001
	No.	% change over a year earlier	No.	% change over a year earlier	No.	% change over a year earlier	No.	% change over a year earlier	No.	% change over a year earlier	%
Manufacturing	7 000	18.9	2 000	-71.2	2 200	8.6	2 200	*	1 400	-37.8	0.6
<i>of which :</i>											
Wearing apparel, except footwear	1 700	-13.6	700	-59.0	600	-14.7	500	-12.5	400	-24.2	1.2
Textiles	700	15.6	200	-76.4	200	-3.1	100	-28.5	100	-52.2	0.2
Electronics	1 000	129.6	200	-85.0	400	130.5	400	11.0	100	-68.3	0.6
Plastic products	200	40.1	100	-71.9	100	55.6	100	-28.6	#	-56.7	0.4
Fabricated metal products, except machinery and equipment	300	-1.1	100	-78.8	100	-20.3	#	-37.3	100	51.4	0.6
Wholesale, retail, import/export trades, restaurants and hotels	23 200	9.4	9 000	-61.1	9 700	7.7	14 700	51.1	8 000	-45.7	0.8
<i>of which :</i>											
Wholesale, retail and import/export trades	17 500	6.9	7 300	-58.3	8 400	14.5	12 300	46.6	6 400	-47.6	0.8
Restaurants and hotels	5 600	18.3	1 700	-70.0	1 300	-22.0	2 400	79.8	1 500	-35.9	0.7
Transport, storage and communications	3 800	17.2	1 600	-57.2	1 800	8.7	2 300	28.8	1 100	-50.1	0.6
<i>of which :</i>											
Land transport	800	89.8	400	-50.9	200	-45.0	300	54.1	200	-32.5	0.6
Water transport	400	96.8	100	-66.6	200	32.4	400	106.9	100	-73.3	0.4
Services allied to transport	900	32.8	400	-53.3	800	79.2	800	-1.8	300	-62.5	0.5
Financing, insurance, real estate and business services	13 400	25.5	6 200	-53.3	6 200	-0.1	10 300	64.9	5 300	-48.8	1.2
<i>of which :</i>											
Financial institutions	2 500	30.1	800	-68.6	1 200	55.3	2 300	88.0	1 500	-35.9	1.1
Insurance	1 400	-32.8	1 700	21.6	800	-54.2	1 400	83.3	600	-59.1	2.1
Real estate	4 100	72.6	1 900	-53.3	1 800	-5.7	2 200	21.1	1 300	-41.4	1.5
Business services except machinery and equipment rental and leasing	5 300	24.3	1 800	-65.3	2 400	31.2	4 300	78.5	1 900	-56.0	1.0
Community, social and personal services	8 300	0.1	4 900	-40.9	4 700	-3.4	6 100	30.2	5 500	-11.1	1.4
<i>of which:</i>											
Sanitary and similar services	600	-21.9	400	-44.6	400	5.7	700	95.2	300	-63.1	0.6
Education services	800	4.6	600	-27.4	400	-36.1	900	139.5	800	-14.1	0.6
Medical, dental and other health services	2 200	-1.8	2 100	-3.5	2 100	-0.1	2 200	4.3	1 900	-16.3	2.5
Welfare institutions	1 000	-19.2	700	-31.8	600	-14.9	700	20.8	800	11.7	1.9
Civil Service^(a)	5 100	22.9	4 400	-14.2	3 000	-32.5	1 800	-38.3	3 200	71.9	1.8

Notes : Vacancy rate refers to the ratio of vacancies to total employment opportunities (actual employment plus vacancies).

(a) As from June 1999, the definition of Civil Service vacancies is revised to exclude posts pending deletion, posts held by temporary staff, and posts reserved for other staff. Figures for 1996-98 have been revised accordingly to facilitate year-on-year comparison. As from December 2000, Civil Service vacancies also exclude voluntary retirements.

(*) Change of less than 0.05%.

(#) Less than 50.

Table 35 : Number of workers engaged at building and construction sites

As in September of	<u>Building sites</u>						<u>Civil engineering sites</u>						<u>Total</u>	
	<u>Private sector</u>		<u>Public sector^(a)</u>		<u>Sub-total</u>		<u>Private sector</u>		<u>Public sector^(a)</u>		<u>Sub-total</u>		<u>No.</u>	<u>% change over a year earlier</u>
	<u>No.</u>	<u>% change over a year earlier</u>	<u>No.</u>	<u>% change over a year earlier</u>	<u>No.</u>	<u>% change over a year earlier</u>	<u>No.</u>	<u>% change over a year earlier</u>	<u>No.</u>	<u>% change over a year earlier</u>	<u>No.</u>	<u>% change over a year earlier</u>		
1997	38 427	20.0	20 948	12.4	59 375	17.2	1 455	-22.2	17 276	-28.2	18 731	-27.8	78 106	2.0
1998	40 780	6.1	22 238	6.2	63 018	6.1	1 830	25.8	10 962	-36.5	12 792	-31.7	75 810	-2.9
1999	28 371	-30.4	28 124	26.5	56 495	-10.4	1 447	-20.9	10 741	-2.0	12 188	-4.7	68 683	-9.4
2000	35 060	23.6	26 691	-5.1	61 751	9.3	1 378	-4.8	17 562	63.5	18 940	55.4	80 691	17.5
2001 Mar	40 214	35.7	23 204	-20.8	63 418	7.6	3 041	90.8	21 354	52.9	24 395	56.7	87 813	17.8
Jun	41 155	20.7	17 464	-39.0	58 619	-6.5	2 469	79.6	19 181	26.5	21 650	30.9	80 269	1.3
Sep	40 551	15.7	14 042	-47.4	54 593	-11.6	2 484	80.3	19 447	10.7	21 931	15.8	76 524	-5.2

Note : (a) Including the Mass Transit Railway Corporation Limited, the Kowloon-Canton Railway Corporation and the Airport Authority Hong Kong.

Table 36 : Average labour earnings by major economic sector

<u>Major economic sector</u>	<i>As in Q3 of:</i>				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Wholesale, retail and import/export trades	11,100 (6) <-1>	11,500 (3) <1>	11,200 (-2) <4>	11,600 (4) <7>	11,800 (2) <3>
Restaurants and hotels	8,900 (6) <*>	9,000 (1) <-2>	8,600 (-4) <2>	8,600 (* <3>	8,600 (-1) <*>
Transport, storage and communications	17,700 (9) <2>	18,100 (2) <*>	17,100 (-5) <1>	17,500 (2) <5>	17,800 (2) <3>
Financing, insurance, real estate and business services	18,200 (14) <8>	17,700 (-3) <-5>	17,400 (-1) <5>	17,700 (1) <4>	17,500 (-1) <*>
Community, social and personal services	19,300 (12) <5>	20,200 (5) <2>	20,200 (* <7>	20,000 (-1) <2>	20,700 (3) <4>
Manufacturing	10,200 (7) <*>	11,100 (8) <5>	10,900 (* <6>	11,000 (1) <4>	11,300 (2) <3>
All sectors surveyed	14,000 (11) <5>	14,400 (3) <*>	14,200 (-1) <5>	14,400 (2) <5>	14,700 (2) <3>

Notes : () % change over a year earlier in money terms.
< > % change over a year earlier in real terms.
(*) Change of less than 0.5%.

**Table 37 : Wage indices by selected major economic sector
(year-on-year rate of change (%))**

As in September of :

Selected major economic sector	<u>1997</u>		<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>	
	In money terms	In real terms								
Wholesale, retail and import/export trades	8	3	2	*	-1	5	3	5	1	2
Restaurants and hotels	7	2	*	-2	*	5	-1	1	1	2
Transport services	7	2	4	2	-2	3	-3	-1	*	1
Financing, insurance, real estate and business services	7	2	4	2	-2	3	2	4	-2	-1
Personal services	6	*	4	1	*	5	*	2	1	2
Manufacturing	5	*	1	-1	-1	5	2	5	3	4
All sector surveyed	7	2	2	*	-1	4	1	4	1	2

Note : (*) Change of less than 0.5%.

**Table 38 : Composite Consumer Price Index
(year-on-year rate of change (%))**

Year/month	All items	<i>of which :</i>			<i>of which :</i>			Electricity, gas and water	Alcoholic drinks and tobacco (for home consumption)	Clothing and footwear	Durable goods	Miscellaneous goods	Transport	Miscellaneous services	
		Food	Meals bought away from home	Other food	Housing	Private dwellings	Public dwellings								
1997	5.8	3.6	4.0	3.0	9.2	9.1	13.5	5.0	5.6	8.4	2.2	5.4	4.0	4.5	
1998	2.8	1.9	2.2	1.5	4.7	5.5	-3.4	1.4	6.6	-0.8	0.2	2.6	3.9	2.7	
1999	-4.0	-1.8	-1.2	-2.8	-5.1	-6.1	1.4	-0.4	1.2	-20.6	-6.3	-0.7	0.5	-1.3	
2000	-3.8	-2.2	-0.9	-4.2	-8.2	-9.8	1.1	3.6	-0.9	-10.1	-4.6	0.9	1.0	-0.2	
2001	-1.6	-0.8	-0.3	-1.7	-3.1	-2.9	-8.3	-1.9	3.3	-4.6	-7.1	1.3	0.4	0.5	
2001	Jan	-1.5	-0.8	-0.1	-1.8	-4.2	-5.0	-0.5	2.3	*	-8.4	-6.1	2.6	1.8	2.2
	Feb	-2.4	-1.3	-0.3	-2.9	-3.6	-4.3	-0.5	-11.7	0.6	-8.7	-5.9	1.2	*	-0.3
	Mar	-1.9	-1.2	-0.2	-2.8	-3.4	-4.0	-0.5	-12.0	3.3	-1.6	-7.3	2.0	0.6	0.8
	Apr	-1.4	-1.0	-0.3	-2.1	-3.0	-3.6	-0.2	0.7	3.6	-1.9	-7.0	1.7	0.8	0.3
	May	-1.5	-1.2	-0.2	-2.7	-2.6	-3.1	-0.2	0.7	3.0	-4.4	-7.4	1.9	0.7	0.2
	Jun	-1.1	-0.1	-0.3	0.1	-2.1	-2.5	-0.2	0.9	3.3	-5.1	-7.4	1.3	0.7	0.2
	Jul	-0.9	0.4	-0.2	1.3	-2.0	-2.3	-0.2	1.2	2.8	-5.1	-7.3	1.1	0.2	0.5
	Aug	-1.1	-0.7	-0.1	-1.8	-1.7	-2.0	-0.2	0.6	2.7	-4.3	-7.5	1.3	*	0.6
	Sep	-1.2	-0.5	-0.2	-1.1	-1.8	-2.0	-0.2	-0.2	3.5	-5.1	-8.1	1.7	-0.1	0.5
	Oct	-1.2	-1.0	-0.3	-2.0	-1.7	-2.0	0.1	-1.1	5.5	-5.5	-7.0	1.6	*	0.6
	Nov	-1.4	-1.2	-0.5	-2.5	-1.8	-2.0	-0.2	-2.2	5.5	-3.0	-7.3	-0.3	-0.1	0.4
	Dec	-3.6	-1.1	-0.6	-2.0	-8.7	-2.1	-96.1	-2.7	5.5	-1.5	-7.0	-0.5	-0.2	-0.9

Notes : As from October 2000 onwards, the year-on-year rates of change are computed from the 1999/2000-based Consumer Price Indices series. For the earlier periods, the year-on-year rates of change are computed from the 1994/95-based CPI series.

(*) Change of less than 0.05%.

Table 39 : Consumer Price Index (A)
(year-on-year rate of change (%))

Year/month	All items	<i>of which :</i>			<i>of which :</i>				Electricity, gas and water	Alcoholic drinks and tobacco (for home consumption)	Clothing and footwear	Durable goods	Miscellaneous goods	Transport	Miscellaneous services
		Food	Meals bought away from home	Other food	Housing	Private dwellings	Public dwellings								
1997	5.7	3.7	4.3	2.9	9.1	8.1	13.5	5.0	5.7	9.1	2.3	7.2	3.9	4.9	
1998	2.6	1.9	2.5	1.1	3.1	4.9	-3.4	1.2	6.6	0.1	0.3	3.6	4.3	4.2	
1999	-3.3	-2.2	-1.4	-3.1	-4.5	-6.4	1.5	-0.6	1.1	-19.9	-5.2	-0.1	0.4	-0.6	
2000	-3.0	-2.4	-0.8	-4.3	-6.2	-8.8	1.1	3.9	-0.8	-11.9	-4.2	1.5	0.6	*	
2001	-1.7	-1.0	-0.5	-1.8	-3.6	-2.9	-8.2	-2.7	3.6	-4.3	-6.9	2.7	0.5	0.6	
2001	Jan	-1.4	-1.1	-0.3	-2.1	-3.8	-4.9	-0.5	2.3	0.2	-9.4	-5.9	4.1	1.6	2.0
	Feb	-2.5	-1.8	-0.5	-3.4	-3.2	-4.1	-0.5	-15.5	0.5	-9.7	-5.4	3.4	-0.1	0.1
	Mar	-2.1	-1.7	-0.5	-3.4	-2.9	-3.8	-0.5	-15.8	3.4	-2.9	-7.3	3.8	0.7	1.0
	Apr	-1.2	-1.4	-0.6	-2.5	-2.5	-3.3	-0.2	0.7	3.7	-2.4	-6.9	3.7	0.9	0.5
	May	-1.3	-1.6	-0.5	-3.1	-2.2	-2.8	-0.2	0.7	3.4	-3.9	-7.3	3.4	0.9	0.3
	Jun	-0.7	-0.2	-0.5	0.2	-1.9	-2.4	-0.2	0.9	3.7	-4.9	-7.2	3.0	0.9	0.3
	Jul	-0.5	0.6	-0.3	1.8	-1.7	-2.2	-0.2	1.1	3.2	-4.8	-7.2	2.7	0.4	0.8
	Aug	-0.9	-0.9	-0.3	-1.7	-1.7	-2.1	-0.2	0.5	3.1	-3.9	-7.4	2.9	0.2	0.9
	Sep	-0.9	-0.6	-0.4	-0.8	-1.7	-2.1	-0.2	-0.5	3.8	-4.0	-8.2	3.2	0.1	0.8
	Oct	-1.1	-1.1	-0.6	-1.9	-1.7	-2.2	0.1	-1.3	6.1	-5.6	-6.6	2.4	0.2	0.9
	Nov	-1.2	-1.5	-0.7	-2.5	-1.7	-2.2	-0.2	-2.4	5.9	-0.8	-6.6	0.1	0.2	0.8
	Dec	-6.2	-1.1	-0.8	-1.4	-18.9	-2.3	-96.1	-2.9	5.8	0.5	-6.4	*	0.1	-1.2

Notes : As from October 2000 onwards, the year-on-year rates of change are computed from the 1999/2000-based Consumer Price Indices series. For the earlier periods, the year-on-year rates of change are computed from the 1994/95-based CPI series.

(*) Change of less than 0.05%.

**Table 40 : Implicit price deflator of GDP and its main expenditure components
(year-on-year rate of change (%))**

	<u>1997</u>	<u>1998</u>	<u>1999</u> [#]	<u>2000</u> [#]	<u>2001</u> ⁺
Private consumption expenditure	4.1	3.1	-4.5	-4.8	-1.4
Government consumption expenditure	6.4	2.7	-0.2	-1.8	2.1
Gross domestic fixed capital formation	6.0	-7.4	0.8	-4.3	-4.1
Total exports of goods	-1.9	-3.3	-3.4	-0.5	-2.9
Imports of goods	-1.9	-4.7	-2.7	0.8	-3.2
Exports of services	0.7	-4.1	-2.8	-0.2	-1.3
Imports of services	1.3	-1.6	-0.5	-0.1	-0.3
Gross Domestic Product	5.8	0.4	-5.4	-6.5	-0.5
Total final demand	1.2	-2.1	-3.5	-3.1	-1.7
Domestic demand	4.8	0.7	-1.8	-5.6	-1.1

Notes : (#) Revised figures.

(+) Preliminary figures.

