



2002

Economic Background

Government of the Hong Kong
Special Administrative Region

2002 ECONOMIC BACKGROUND

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

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CALENDAR OF EVENTS OF SIGNIFICANCE TO THE HONG KONG ECONOMY IN 2002

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CHAPTER 1 : OVERALL VIEW

Overall situation

1.1 The Hong Kong economy, following a distinct slow-down in 2001, revived progressively under the impetus from the external sector over the course of 2002. Total exports of goods reverted from decline in the first quarter to positive growth in the second quarter, and then accentuated sharply in the third quarter and further in the fourth quarter. Within the total, exports to markets in East Asia, including notably the mainland of China (the Mainland), were particularly robust, attaining double-digit growth across many markets for the year as a whole. Exports to both the United States and the European Union picked up visibly in the latter part of the year. Exports of services had an even stronger performance than exports of goods, and the growth rate likewise accelerated through the year. There was a broad-based surge in inbound tourism, offshore trade and transportation services.

1.2 In the domestic sector, consumer spending fell in 2002, for the first time since 1998. Consumers were generally less willing to spend, amidst much concern over the prevailing employment and income conditions and with the distinct fall-off in the asset markets inflicting a negative wealth effect. Declines in consumer spending occurred through the four quarters of last year. Overall investment spending also shrank in 2002, mainly depressed by a plunge in machinery and equipment intake amidst an uncertain business outlook. Yet with machinery and equipment intake rebounding to positive growth towards the year-end, and even with building and construction activity concurrently showing a relapse, overall investment spending turned up to a modest rise in the fourth quarter.

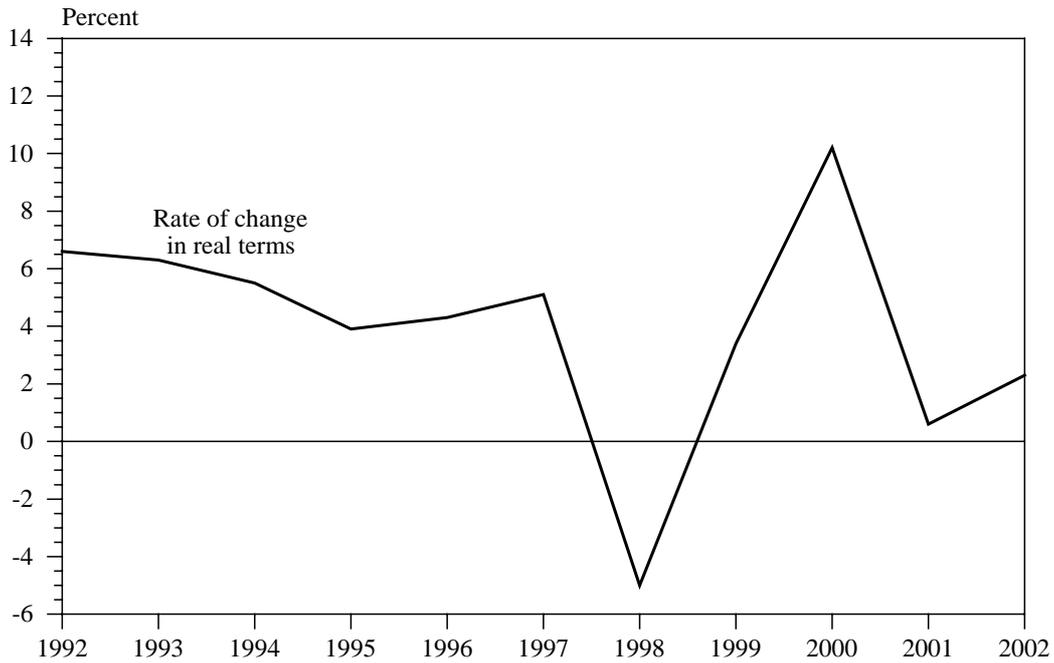
1.3 Overall, the *Gross Domestic Product (GDP)*⁽¹⁾ had a 2.3% growth in real terms in 2002, up from a 0.6% growth in 2001. With a generally subdued economic performance carried over from the preceding months, GDP was down by 0.5% in real terms in the first quarter of 2002 over a year earlier. Then, along with reviving external trade, GDP resumed positive growth at 0.8% in the second quarter, followed by distinctly faster growth at 3.3% in the third quarter and 5.0% in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, GDP went up through the four quarters of 2002, with increases of 0.3%, 1.0%, 1.9% and 1.7% respectively in real terms.

/Diagram 1.1

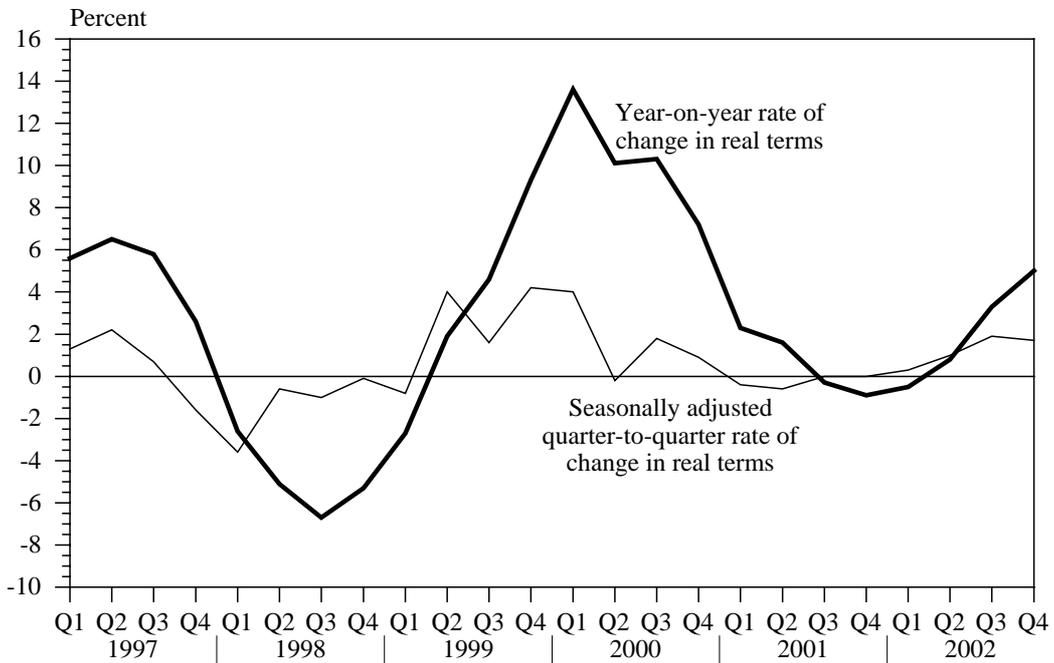
Diagram 1.1

Gross Domestic Product*

(a) Annual profile



(b) Quarterly profile



Note : (*) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

/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>2001</u>	<u>2002⁺</u>	<u>2001</u>				<u>2002</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	1.4	-1.6	2.8	2.8	1.3	-1.1	-0.3	-2.4	-1.5	-2.1
Government consumption expenditure	6.0	2.4	4.9	4.8	7.3	7.0	2.2	2.7	3.6	0.9
Gross domestic fixed capital formation	2.9	-4.4	10.2	3.0	3.2	-4.2	-12.3	-0.6	-5.0	0.5
<i>of which :</i>										
Building and construction ^(a)	-1.9	1.8	-2.4	2.3	-6.2	-1.0	-4.0	7.2	7.9	-2.7
Machinery, equipment and computer software	7.3	-9.6	24.5	3.2	10.7	-5.8	-20.1	-7.0	-12.9	2.4
Total exports of goods	-3.3	8.6	3.6	-2.2	-4.4	-8.8	-2.4	5.9	11.4	18.4
Domestic exports	-10.2	-11.2	-13.0	-7.4	-11.9	-8.3	-11.1	-13.6	-7.6	-12.9
Re-exports	-2.4	11.0	5.9	-1.6	-3.4	-8.9	-1.4	8.4	13.6	22.2
Imports of goods ^(b)	-1.9	7.9	5.7	-0.5	-2.8	-8.7	-4.0	6.0	10.8	18.2
Exports of services	5.9	12.1	7.4	7.6	3.7	5.3	7.7	8.6	14.1	17.2
Imports of services	-0.2	-0.8	3.3	1.5	-2.4	-2.8	-1.3	-4.0	1.0	0.9
Gross Domestic Product	0.6	2.3	2.3	1.6	-0.3	-0.9	-0.5	0.8	3.3	5.0
GDP at current market prices (\$ billion)	1,279	1,271	310	312	326	331	301	308	326	335
GDP at constant (2000) market prices (\$ billion)	1,297	1,326	312	316	332	337	310	318	343	354
Changes in inventories at constant (2000) market prices (\$ billion)	-3	4	1	2	-3	-4	-3	2	3	3
<i>Change in the main price indicators (%)</i>										
GDP deflator	-1.4	-2.7	-2.0	-1.7	-1.2	-0.8	-2.1	-2.1	-3.0	-3.8
Composite Consumer Price Index^(c)	-1.6	-3.0	-2.0	-1.3	-1.0	-2.1	-2.6	-3.2	-3.5	-2.9
Consumer Price Index (A) ^(c)	-1.7	-3.2	-2.0	-1.1	-0.7	-2.8	-2.8	-3.6	-4.1	-2.4

Notes : The GDP figures in this table are based on the revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002. For details, see the *Special Report on Gross Domestic Product*, published by the Census and Statistics Department in August 2002.

(+) Preliminary figures.

(a) Following a review of the presentation by the Census and Statistics Department, real estate developers' margin is now incorporated into private sector expenditure on building and construction, instead of being delineated separately in the expenditure components of GDP. For details, see Note (5).

(b) Here imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis as is the on-going practice for the merchandise trade statistics.

(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>2001</u>				<u>2002</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	0.6	0.9	-1.1	-0.7	0.4	-0.9	-0.3	-0.9
Government consumption expenditure	4.3	*	1.8	0.6	0.1	0.1	2.5	-1.4
Gross domestic fixed capital formation	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total exports of goods	-3.7	-2.7	0.3	-3.8	4.6	5.7	4.0	4.1
Domestic exports	-3.5	1.3	-5.8	-0.8	-5.5	-2.0	-0.8	-4.2
Re-exports	-3.7	-3.2	1.1	-4.1	5.8	6.6	4.4	4.8
Imports of goods ^(a)	-1.0	-4.9	1.2	-4.6	4.6	5.9	4.6	3.0
Exports of services	0.9	3.2	0.8	0.7	3.3	3.8	5.4	4.1
Imports of services	-1.0	1.7	-2.2	-1.1	0.6	-1.2	2.5	-0.7
Gross Domestic Product[^]	-0.4	-0.6	*	*	0.3	1.0	1.9	1.7
<i>Change in the main price indicators (%)</i>								
GDP deflator	0.8	-1.1	-0.3	-0.2	-0.6	-1.0	-1.1	-0.9
Composite Consumer Price Index^(b)	-0.6	*	-0.4	-1.1	-1.1	-0.6	-0.7	-0.6
Consumer Price Index (A) ^(b)	-0.8	0.3	-0.2	-2.2	-0.6	-0.6	-0.7	-0.6

Notes : The GDP figures in this table are based on the revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002. For details, see the *Special Report on Gross Domestic Product*, published by the Census and Statistics Department in August 2002.

(#) 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) Here imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis as is the on-going practice for the merchandise trade statistics.

(b) Final figures.

/1.4

1.4 The *labour market* slackened further in the first half of 2002, as corporate downsizing and rationalisation continued to take place, and this lifted the seasonally adjusted unemployment rate from 6.2% in the fourth quarter of 2001 to a record high of 7.8% in May - July 2002. Then, as total employment improved along with the turnaround in economic activity, the seasonally adjusted unemployment rate fell back somewhat in the second half of the year, to 7.2% in the fourth quarter. The underemployment rate hovered within the range of 2.8% to 3.2% during the past year. Even with some pick-up in the latter part of the year, total employment still fell by 0.6% for 2002 as a whole, as against a 1.8% growth in total labour force. Labour earnings drifted lower, by an average of 1.0% in money terms in the first three quarters of 2002 over a year earlier.

1.5 The *residential property market* slid further in 2002, as demand was curbed by high unemployment and moderated income, and as the abundant supply of new flats undermined buying interest. There was a brief pick-up in transactions in the second quarter, on the back of upbeat land auction results in April and June and the Government's announcement in early June to resume sale of subsidised sale flats yet in a cautious and orderly manner upon expiry of the ten-month moratorium. Trading activities soon faltered, upon the unemployment hike and with growing uncertainties in the external environment also dampening sentiment. But with the Government's announcement in mid-November of the nine measures to stabilise the housing market, coupled with improved employment conditions, the market was re-activated somewhat towards the year-end. Amidst a generally weak sales market, flat prices drifted successively lower during the year, cumulating to a distinct further decline of on average 13% for 2002 as a whole. The rental market likewise weakened, with flat rentals falling on average also by 13% for the year.

1.6 The local *financial markets* showed a mixed performance in 2002. The spot exchange rate of the Hong Kong dollar against the US dollar continued to stay close to the linked rate during 2002. As to the twelve-month Hong Kong dollar/US dollar forward rate against the spot rate, the premium held broadly stable in the early part of 2002. It then narrowed down in the summer months, yet widened distinctly after mid-September amidst renewed market concern over the protracted fiscal deficit, before shrinking back appreciably towards the year-end. Local inter-bank interest rates remained generally soft in 2002, largely following their US dollar counterparts. Hong Kong dollar loans fell modestly and Hong Kong dollar deposits slightly less so during 2002, giving a slightly lower Hong

/Kong

Kong dollar loan-to-deposit ratio at end-2002 than a year earlier. The local stock market in 2002 was affected much by gyrations in the US stock market, where investor sentiment was undermined by the hesitant pace of US economic recovery and a spate of US corporate frauds. In the latter part of the year, there was additional downward impact from heightened war pressure on Iraq. The Hang Seng Index plummeted to a four-year low of 8 859 in mid-October, and then rose back somewhat to close the year at 9 321, 18% below the level at end-2001. Average daily turnover in the market also fell.

1.7 Overall *consumer prices* fell for 50 consecutive months by December 2002. The Composite Consumer Price Index was on average down by 3.0% in 2002, after a 1.6% decrease in 2001. Part of the price decline in the past year was nevertheless due to the special relief measures announced in the 2001 Policy Address and the 2002/03 Budget, including two rounds of rates concession and the waiver of water and sewage charges, which had the combined effect of lowering the Composite CPI for the year by 1.1 percentage points. Apart from this discrete factor, local consumer prices were kept down by slack demand, keen competition in the retail market, and downward adjustments in labour wages and property rentals. Import prices were also soft, though with moderated decline towards the year-end along with a weaker US dollar and a pick-up in world commodity prices.

1.8 Statistics on the *Gross National Product (GNP)*⁽³⁾ are available up to the third quarter of 2002. Both external factor income inflow and outflow declined in the third quarter of 2002 over a year earlier, mainly attributable to a plunge in interest income into and out of Hong Kong amidst a distinctly low interest rate environment. Taken together, net external factor income inflow was considerably reduced, yet it still amounted to 2.5% of GDP in the third quarter. GNP rose by 1.2% in real terms in the third quarter of 2002 over a year earlier, following a 0.1% increase in the first quarter and a 0.1% decrease in the second quarter. For the first three quarters of 2002 as a whole, GNP grew by 0.4% in real terms over a year earlier, slower than the 1.3% growth in GDP in that period.

1.9 Within the net external factor income flow, net direct investment income outflow rose in the third quarter of 2002 over a year earlier, upon increased investment earnings from the local economy for investors abroad. Net portfolio investment income inflow fell slightly in the third quarter, attributable

/to

to less interest income from holding of non-resident debt securities as well as more dividend pay-outs by resident companies. Net income inflow from other investment plunged sharply in the third quarter, owing to reduced interest income from offshore loans and deposits placed by local banks, by much more than the reduction in interest income from placements here by foreign banks.

Table 1.3

Gross National Product and external factor income flows

	<u>2000</u>	<u>2001</u>	<u>2001</u>				<u>2002</u>		
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</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	-7.7	-5.9	0.5	-3.3	-23.1	-17.0	-28.4	-9.5
Outflow	19.7	-13.1	-12.3	5.3	-14.6	-30.3	-21.1	-26.8	-3.0
Net external factor income flow at current market prices (\$ billion)	22	41	14	5	15	7	15	2	8
GDP at current market prices (\$ billion) [#]	1,288 (3.4)	1,279 (-0.7)	310 (0.4)	312 (-0.1)	326 (-1.5)	331 (-1.6)	301 (-2.6)	308 (-1.3)	326 (0.2)
GNP at current market prices (\$ billion) ^{#(b)}	1,310 (2.3)	1,320 (0.8)	323 (2.2)	318 (-1.5)	341 (1.9)	338 (0.6)	316 (-2.1)	311 (-2.3)	335 (-1.8)
<i>Year-on-year rate of change in real terms (%)</i>									
Gross National Product[#]	9.0	2.2	4.2	0.1	3.1	1.3	0.1	-0.1	1.2

Notes : (#) Figures are revised, consequential to a technical revision to GDP as announced on 1 August 2002.

(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.

The external sector

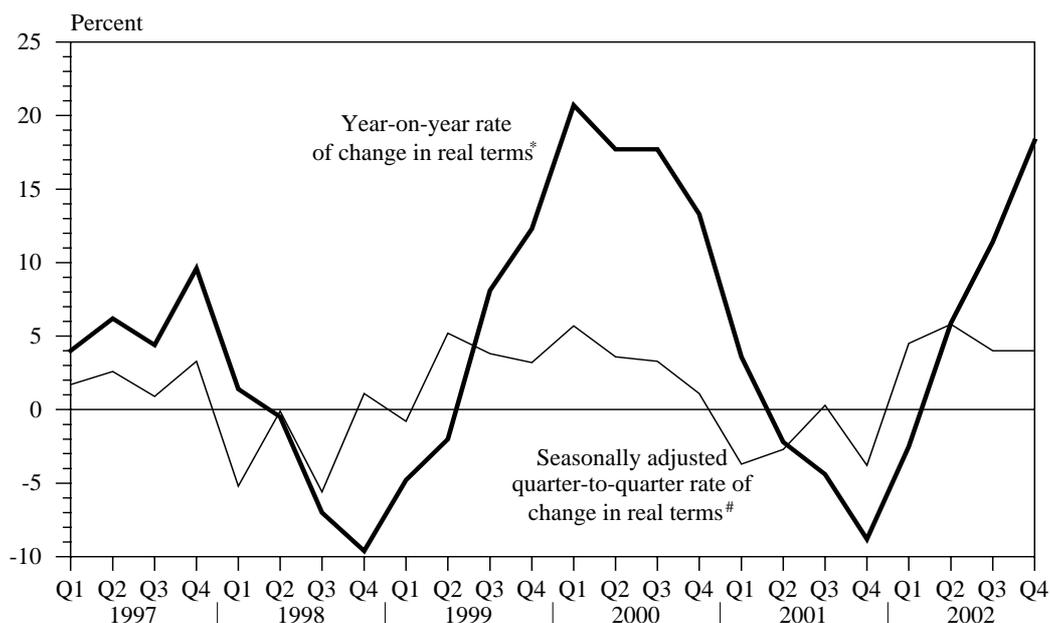
1.10 According to the merchandise trade statistics, Hong Kong's *total exports of goods* (comprising re-exports and domestic exports) registered notable

/growth

growth at 8.6% in real terms in 2002, representing a significant turnaround from the 3.3% fall in 2001. Total exports of goods showed distinct improvement over the course of the year. After a 2.5% decline in real terms in the first quarter of 2002 over a year earlier, they reverted to positive growth at 5.9% in the second quarter, and then picked up to double-digit growth at 11.4% and 18.3% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods recorded increase throughout the four quarters of 2002, by 4.5%, 5.8%, 4.0% and 4.0% respectively in real terms. Continued robust demand in the Mainland and resurgence in intra-regional trade, coupled with revived import absorption in the conventional overseas markets, was the key factor underpinning the sharp rebound in Hong Kong's exports in 2002. Improvement in Hong Kong's external price competitiveness brought about by a weaker US dollar rendered an additional boost (paragraphs 2.5 to 2.7).

Diagram 1.2

Total exports of goods



Notes : (*) From the first quarter of 2001 onwards, the rates of change are computed from the new 2000-based trade index series. Before then, the rates of change are computed from the old 1990-based series. Re-scaling using conversion factors as derived from the levels of the old and the new series in their overlapping period of 2000 has been applied to the indices to maintain continuity.

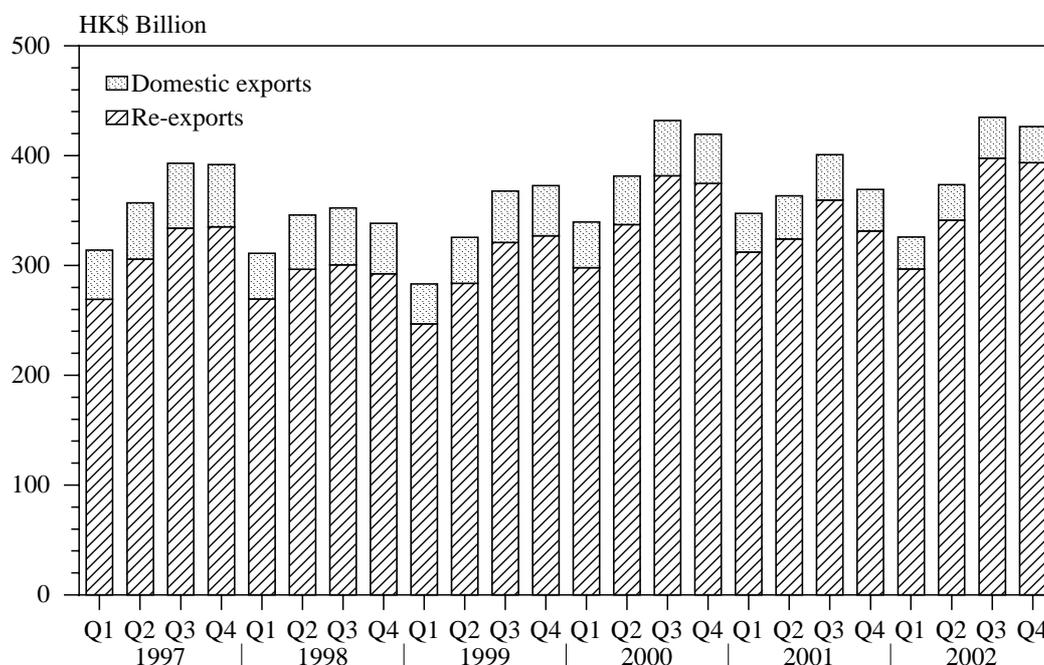
(#) From the second quarter of 2000 onwards, the rates of change are computed from the new 2000-based trade index series. Before then, the rates of change are computed from the old 1990-based series. Re-scaling using conversion factors as derived from the levels of the old and the new series in their overlapping period of 2000 has been applied to the indices to maintain continuity.

1.11 Within total exports of goods, *re-exports* remained the key driver of export performance, attaining double-digit growth at 10.9% in real terms in 2002, also representing a sharp turnaround from the 2.4% decrease in 2001. Having shown a mild contraction by 1.5% in real terms in the first quarter of 2002 over a year earlier, re-exports rebounded to a distinct growth at 8.3% in the second quarter, followed by even more robust growth at 13.6% and 22.1% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, re-exports surged throughout the four quarters of 2002, by 5.7%, 6.6%, 4.5% and 4.7% respectively in real terms (paragraph 2.8).

1.12 On the other hand, owing to the on-going structural shift towards re-exports and offshore trade, *domestic exports* shrank further, by 11.3% in real terms in 2002, slightly larger than the 10.2% dip in 2001. Domestic exports plummeted throughout the four quarters of 2002, with year-on-year declines by 11.2%, 13.7%, 7.6% and 12.9% respectively in real terms. On a seasonally adjusted quarter-to-quarter comparison, domestic exports also fell in all four quarters, by 5.6%, 2.0%, 0.7% and 4.3% respectively in real terms (paragraph 2.9).

Diagram 1.3

Composition of total exports of goods



/1.13

1.13 Total exports of goods to *East Asia* as a whole staged a sharp rebound, along with economic recovery in the region. There was a 13.4% surge in real terms in 2002, significantly up from the 1.8% increase in 2001. Exports to the Mainland, the Republic of Korea and Thailand were strong all through the four quarters of the year. Exports to Singapore and Malaysia also picked up distinctly after the first quarter. Exports to Japan were still weak in the first half of the year, yet improved distinctly towards the year-end. Total exports of goods to *North America* likewise regained strength, along with greater import intake in the United States and Canada, and helped further by better price competitiveness of Hong Kong's exports upon weakening of the US dollar. There was a 3.9% rise in real terms in 2002, in contrast to an 8.8% decline in 2001. Total exports of goods to the *European Union* were still held back by sluggish demand in the euro area and a relatively weak euro earlier on, yet there was also a distinct pick-up more recently, along with improved import demand and a stronger euro. A marginal decline of 0.4% in real terms was recorded in 2002, much narrowed from the 8.5% decrease in 2001 (paragraphs 2.16 to 2.18).

1.14 *Imports of goods* likewise rebounded, rising by 7.8% in real terms in 2002, also distinctly improved from the 2.0% decline in 2001. Mirroring the profile of pick-up in re-exports over the course of the year, imports of goods, after falling by 4.1% in real terms in the first quarter of 2002 over a year earlier, resumed positive growth at 5.7% in the second quarter, and then accelerated markedly to double-digit growth at 10.8% and 18.1% respectively in the third and fourth quarters. Imports retained for local use likewise revived during the year, though at a less robust pace than that of re-exports. Specifically, *retained imports* still had an 8.9% decline in real terms in the first quarter of 2002 over a year earlier, yet reverted to increase by 0.8% in the second quarter, followed by considerably faster increases by 5.2% and 10.0% respectively in the third and fourth quarters. For 2002 as a whole, retained imports grew by only 1.8% in real terms, having declined by 1.1% in 2001. On a seasonally adjusted quarter-to-quarter comparison, imports of goods rose by 4.5%, 5.8%, 4.8% and 2.9% respectively in real terms through the four quarters of 2002. Retained imports rose in the first three quarters of 2002, by 2.3%, 4.2% and 5.4% respectively in real terms, but fell back by 1.0% in the fourth quarter (paragraph 2.10).

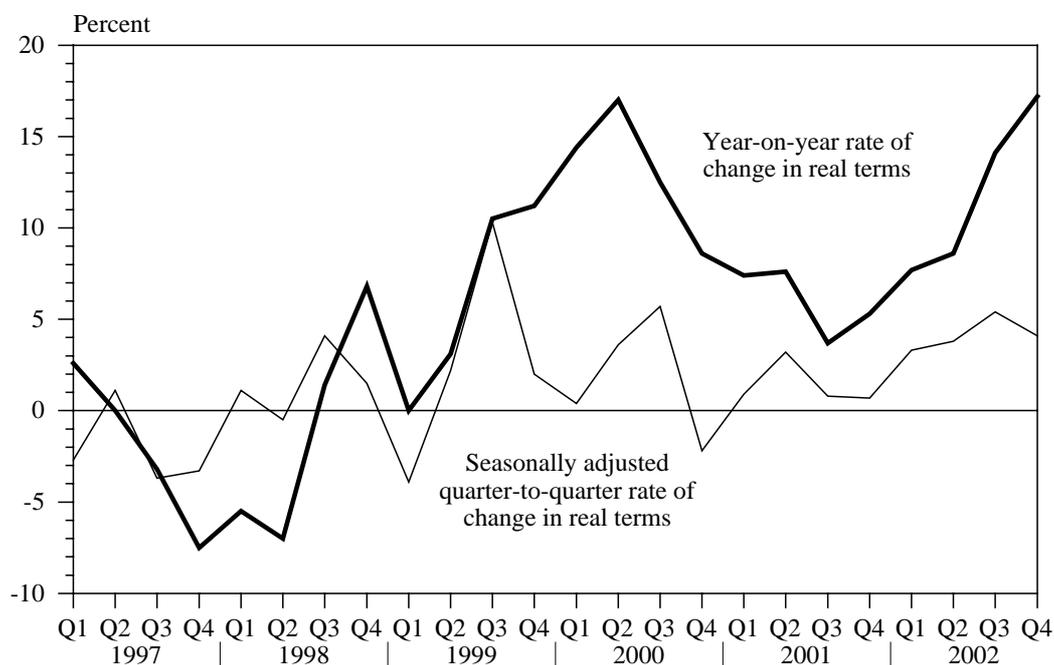
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1.15 As the value of total exports of goods rose faster than the value of imports of goods, the *visible trade deficit* reckoned on a BoP basis dwindled to \$40.0 billion or 2.5% of the value of imports of goods in 2002, from \$65.0 billion or 4.2% in 2001 (paragraph 2.11).

1.16 On invisible trade, *exports of services* continued to fare better than exports of goods, with double-digit growth at 12.1% in real terms in 2002, markedly better than the 5.9% growth in 2001. As with exports of goods, exports of services accelerated in growth over the course of the year. On a year-on-year comparison, growth was already rather robust at 7.7% and 8.6% respectively in real terms in the first and second quarters of 2002, yet followed by even stronger growth at 14.1% and 17.2% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, exports of services leaped throughout the four quarters of 2002, by 3.3%, 3.8%, 5.4% and 4.1% respectively in real terms (paragraph 2.12).

Diagram 1.4

Exports of services*



Note : (*) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

/1.17

1.17 Yet *imports of services* remained weak, with a decline of 0.8% in real terms in 2002, slightly worse than the 0.2% decrease in 2001. An improvement was nevertheless seen over the course of the year. On a year-on-year comparison, imports of services had decreases of 1.3% and 4.0% respectively in real terms in the first and second quarters of 2002, and then reverted to increase by 1.0% and 0.9% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, imports of services edged up by 0.6% in real terms in the first quarter of 2002, and then fell back by 1.2% in the second quarter, before bouncing up to increase by 2.5% in the third quarter, yet followed by a 0.7% decline in the fourth quarter (paragraph 2.13).

1.18 As exports of services leaped while imports of services fell marginally, the *invisible trade surplus* reckoned on a BoP basis expanded markedly, to \$163.4 billion or 86.6% of the value of imports of services in 2002, from \$133.5 billion or 70.4% in 2001. Together with a much reduced visible trade deficit, the combined surplus reckoned on a BoP basis surged to \$123.4 billion or 6.9% of the total value of imports of goods and services in 2002, from \$68.5 billion or 3.9% in 2001 (paragraph 2.14).

Domestic demand

1.19 Local consumer spending remained subdued in most of 2002, as consumers' willingness to spend was held back by high unemployment, moderated income, and weakness in asset prices. Even with the support of a sharp upsurge in inbound tourism in the year, the volume of *retail sales* still declined by 2.6% in 2002, after a 1.2% increase in 2001. A relative improvement in retail business nevertheless emerged in the latter part of the year, upon steadier employment conditions and an even stronger surge in incoming visitors. On a year-on-year comparison, the volume of retail sales fell by 1.8% in the first quarter of 2002, and more so by 4.5% in the second quarter. The decline then narrowed back, to 3.0% in the third quarter, and further to 1.1% in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison, the volume of retail sales rose markedly by 4.6% in the first quarter of 2002, and then fell back by 2.4% and 3.1% respectively in the second and third quarters, yet reverted to increase by 0.2% in the fourth quarter.

1.20 *Private consumption expenditure (PCE)* likewise fell in 2002, though to a lesser extent than the decline in retail sales, as the continued growth in spending

/on

on consumer services cushioned the setback in spending on goods. On a year-on-year comparison, PCE fell in all the four quarters of 2002, with declines by 0.3% in real terms in the first quarter, 2.4% in the second quarter, 1.5% in the third quarter, and 2.1% in the fourth quarter. For 2002 as a whole, PCE went down by 1.6% in real terms, having gone up by 1.4% in 2001. This was the first annual decline since 1998. Analysed by major category of consumer spending in 2002, spending on non-durable goods had a more distinct setback. Spending by Hong Kong residents travelling abroad likewise fell. Spending on durable goods resumed some increase in the latter part of the year, giving a marginal growth for the year as a whole. Spending on food was more stable. Spending on services sustained fairly solid growth. On a seasonally adjusted quarter-to-quarter comparison, PCE rose by 0.4% in real terms in the first quarter of 2002, and then fell back in the ensuing three quarters, by 0.9%, 0.3% and 0.9% respectively.

Table 1.4

**Local consumer and visitor spending in the domestic 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^(b)</u>
			<u>Food</u>	<u>Durables</u>	<u>Non-durables</u>	<u>Services</u>	<u>Residents' expenditure abroad</u>	<u>Total</u>	
2001	Annual	1.2	3	4	-1	2	1	2	8
	Q1	2.5 (3.5)	3	8	*	3	3	3	5
	Q2	4.8 (1.1)	3	12	2	3	1	3	10
	Q3	0.5 (-5.1)	3	4	-2	2	*	1	4
	Q4	-3.0 (-1.8)	2	-5	-4	2	1	*	11
2002	Annual	-2.6	*	*	-5	3	-4	*	21
	Q1	-1.8 (4.6)	1	*	-3	2	-4	*	8
	Q2	-4.5 (-2.4)	*	-4	-8	3	-6	-1	14
	Q3	-3.0 (-3.1)	-1	*	-7	4	-3	1	24
	Q4	-1.1 (0.2)	*	5	-4	3	-2	1	35

Notes : (#) Local consumer and visitor spending in the domestic market has incorporated the results of a technical revision to GDP as announced on 1 August 2002.

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

(b) This is a broad estimate of spending by non-residents in the domestic market, as a deduction item within private consumption expenditure amongst the expenditure components of GDP.

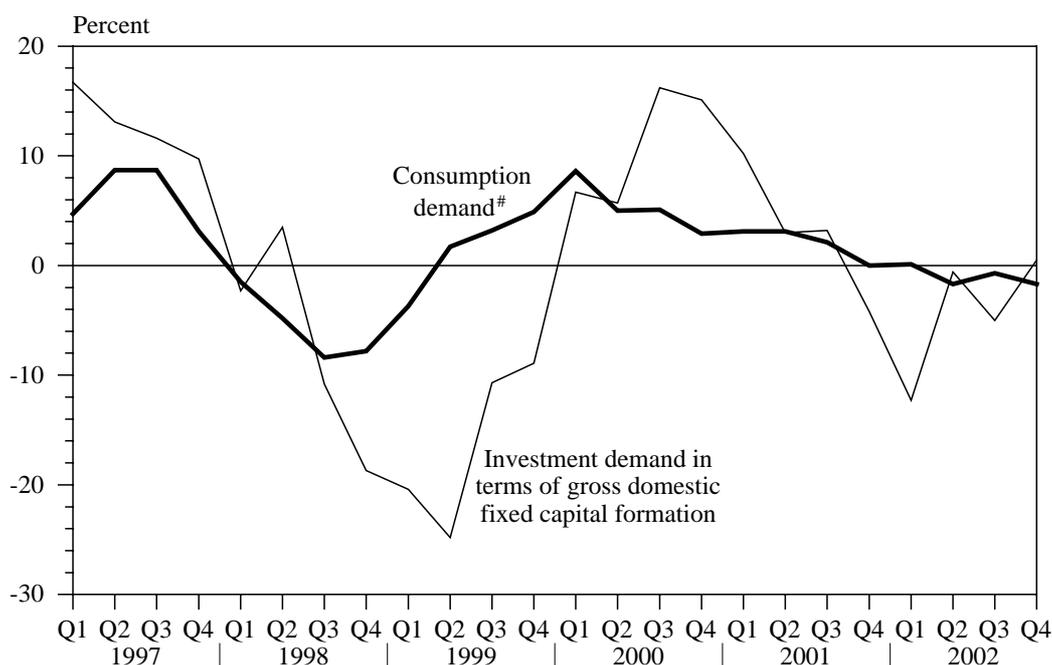
() Figures in brackets represent the seasonally adjusted quarter-to-quarter % changes in real terms.

(*) Change of less than 0.5%.

/Diagram 1.5

Diagram 1.5

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



Notes : (*) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

(#) Comprising private consumption expenditure and government consumption expenditure.

1.21 *Government consumption expenditure (GCE)* reckoned on a national accounts basis⁽⁴⁾ rose moderately throughout the four quarters of 2002, by 2.2%, 2.7%, 3.6% and 0.9% respectively in real terms over a year earlier. For 2002 as a whole, GCE went up by 2.4% in real terms, yet considerably slower than the 6.0% increase in 2001. On a seasonally adjusted quarter-to-quarter comparison, GCE had meagre growth at 0.1% in real terms in both the first and second quarters of 2002, accelerated to a 2.5% rise in the third quarter, and then eased back to a 1.4% decline in the fourth quarter.

1.22 Overall investment spending, as represented by *gross domestic fixed capital formation (GDFCF)*, remained weak in most of 2002. Continuing the setback towards the end of 2001, GDFCF plummeted by 12.3% in real terms in the first quarter of 2002 over a year earlier. This was followed by lesser declines

/of

of 0.6% and 5.0% respectively in the second and third quarters. It then turned up to a modest increase of 0.5% in the fourth quarter. For 2002 as a whole, GDPCF fell by 4.4% in real terms, after a 2.9% rise in 2001.

1.23 The relapse in overall investment spending in 2002 was mainly due to a sharp fall-off in *expenditure on machinery, equipment and computer software*, amidst an uncertain business outlook and an overhang of excess capacity. Such expenditure plummeted by 9.6% in real terms for 2002 as a whole, reversing the 7.3% increase in 2001. There were marked declines by 20.1%, 7.0% and 12.9% respectively in real terms in the first three quarters of 2002 over a year earlier, though followed by a rebound to a 2.4% increase in the fourth quarter as was helped in part by a low base a year earlier.

1.24 On the other hand, *expenditure on building and construction*⁽⁵⁾ turned up to a modest increase of 1.8% in real terms in 2002, having declined for four consecutive years. After a 4.0% decrease in real terms in the first quarter of 2002 over a year earlier, such expenditure turned up by 7.2% and 7.9% respectively in the ensuing two quarters, and then relapsed to a 2.7% fall in the fourth quarter. The pick-up in the second and third quarters was narrowly based, mainly driven by more intensive work on some major private sector projects. As work on these projects subsequently tapered, there was a fall-back in the fourth quarter. Public sector building and construction activity stayed weak in most of the past year, and was on a decline for three years in a row. The MTR Tseung Kwan O Extension was completed in August 2002, and work on the KCR West Rail had been tapering. Moreover, output under the Public Housing Programme continued to shrink. Yet work on Container Terminal No. 9 had been intensive.

1.25 In parallel with the pace of overall economic activity, *inventories* went down further in the first quarter of 2002, and then reverted to some build-up in the ensuing three quarters. This resulted in a modest increase in inventories equivalent to 0.3% of GDP for 2002 as a whole.

/Implications

Implications of the preliminary GDP figures for the economy

1.26 *Nominal GDP* had a marginal decline of 0.6% to \$1,271 billion in 2002, broadly similar to the decline of 0.7% in 2001. The decline last year was mainly due to a larger fall in overall prices as reflected by the GDP deflator, more than offsetting the pick-up in real GDP growth. As with the profile of real GDP, nominal GDP showed a progressive improvement over the course of the year, reverting from declines in the first and second quarters of 2002 to small increases in the third and fourth quarters.

1.27 *Per capita GDP* turned up to modest growth at 1.3% in real terms in 2002, after a 0.3% decline in 2001. Again, as there was a larger decline in the overall price level, per capita GDP was still down by 1.5% in nominal terms to \$187,300 in 2002, also broadly similar to the decline of 1.6% in 2001.

1.28 *Total final demand*, excluding re-exports but with the re-export margin retained, went up by 1.8% in real terms in 2002. While this represented an improvement from the meagre 0.2% growth in 2001, it was still slightly below the 2.3% growth in aggregate supply as denoted by GDP. Thus the overall demand/supply balance in the economy still tended to be loose.

1.29 The pick-up in total final demand was entirely driven by the sharp rebound in *external demand*. After a 1.8% fall in 2001, external demand revived markedly to a 9.3% growth in real terms in 2002, with exports of goods and services both yielding double-digit increase in the second half of the year. On the other hand, *domestic demand* slackened to a 1.4% decline in real terms in 2002, from an already meagre growth of 0.8% in 2001. Within it, *private sector demand* fell back by 1.8% in real terms in 2002, after a 0.4% rise in 2001. *Public sector demand* likewise moderated, yet still had a small increase of 0.7% in real terms in 2002, following a 3.1% rise in 2001.

The Government account

1.30 In the financial year 2002/03, the revised estimate of *government revenue* amounts to \$173.3 billion, down by 1.3% in money terms from the outturn of \$175.6 billion in the financial year 2001/02. Within the total for the financial year 2002/03, revenue from utilities, general rates, stamp duties and profits tax registered pronounced declines. The declines in revenue from utilities

/and

and general rates were mainly attributable to special relief measures in the form of one-off concessions announced in the 2001 Policy Address and the 2002/03 Budget.

1.31 The revised estimate of *total government spending* in the financial year 2002/03 amounts to \$243.4 billion, up by 1.9% in money terms over the outturn of \$238.9 billion in the financial year 2001/02. Within the total for the financial year 2002/03, operating expenditure rose by 1.9% to \$202.6 billion, while capital spending went up by 1.6% to \$40.8 billion.

1.32 The revised estimated *fiscal deficit* for the financial year 2002/03 amounts to \$70.0 billion, equivalent to 5.5% of GDP. This is larger than the fiscal deficit at \$63.3 billion in the financial year 2001/02, equivalent to 5.0% of GDP.

The property market

1.33 The property market as a whole underwent further consolidation in 2002. Acquisition and lease demand generally fell short of absorbing the abundant supply, both existing and in the pipeline, and this led to a continued softening in property prices and rentals. Yet the markets for different types of property faced somewhat different circumstances and difficulties (paragraph 3.8).

1.34 The sales market for *residential property* remained generally slack in 2002. While flat prices went down visibly further in 2002, there was a modest pick-up in transaction volume. The increase in trading activity was concentrated in the first half of the year, especially in the second quarter. Market sentiment was lifted by upbeat results of the two land auctions held in April and June, as well as the Government's announcement to resume sale of subsidised sale flats yet in a cautious and orderly manner after expiry of the ten-month moratorium at end-June. But acquisition interest dwindled during most of the ensuing months, amidst renewed concern about job security and income instability, falling share prices, and in particular the continued ample supply of new flats. The brief rebound in trading volume seen in September was mainly stimulated by a fresh round of intensive sales promotion by developers, through offering even larger price discounts and other more generous concessions to prospective purchasers. As a result, the primary market diverted the demand further and the secondary market was undermined even more. Towards the year-end, market

/activity

activity again showed some pick-up, conceivably spurred by the Government's promulgation of nine policy measures to stabilise the housing market (paragraph 3.9).

1.35 On a quarter-to-quarter comparison, flat prices went lower on average by 2%, 4% and 7% respectively in the second, third and fourth quarters of 2002, having shown nil change in the first quarter. For the year 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 2002 plummeted by an average of 62%. Following the marked decline in flat prices and successive cuts in mortgage rate, and notwithstanding reduced household income, there was a substantial improvement in home purchase affordability over the past several years (paragraph 3.10).

1.36 The rental market for private residential flats stayed subdued in 2002. Apart from lesser lease demand upon the impact of reduced salaries and housing allowances, there appeared to have been increased supply of flats for lease from those hitherto for sale. Flat rentals came under greater downward pressure in those areas with a lot of newly completed flats. On a quarter-to-quarter comparison, private housing rentals on average declined by 4%, 3%, 2% and 4% respectively in the four quarters of 2002. For the year as a whole, there was on average a drop of 13%. Against the peak level in the third quarter of 1997, private housing rentals were significantly down in the fourth quarter of 2002, by an average of 43%. Mainly consequential to the distinct fall in flat rentals, lease affordability likewise improved over the past several years (paragraph 3.11).

1.37 On *commercial property*, the rental market for *office space* weakened further in 2002, as demand continued to be dampened by on-going downsizing and rationalisation in the business sector. Grade A office space was additionally hit by an excess supply particularly in the central business district. Also relevant was the move by some companies to relocate their offices to secondary districts for saving costs. In order to uphold the occupancy rate, landlords generally offered larger rental cuts, longer rent-free period and other concessions to their tenants. The sales market for office space was stagnant in 2002. Reduced rental yield against the heavy capital investment up-front had led potential purchasers to stay on the sideline. The rental market for *shopping space* was moderate in 2002, as demand remained generally languid amidst continued setback in the retail trade. Space in well-managed shopping arcades and in the popular shopping districts was nevertheless better sought after. The sales market

/for

for shopping space stayed quiet in 2002, as investors continued to adopt a cautious attitude in face of the slack conditions in the retail trade and an uncertain near-term outlook. On *industrial property*, the rental market was inactive in 2002. Demand for conventional factory space was restrained by a further contraction in local manufacturing activity. Demand for modern industrial premises for use as data centres and back-up service centres was also on the wane, amidst further consolidation in the information technology sector. The sales market for industrial property was at a standstill in 2002, in the lack of buying interest (paragraphs 3.15 to 3.17).

1.38 *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 only slightly by 1% in 2002, after a 25% plunge in 2001. Analysed by main type of property, planned developments of private residential property were reduced by 35% in terms of units, distinctly enlarged from the 12% fall in 2001. In terms of total usable floor area, the decrease of 21% in 2002 also exceeded that of 12% in 2001. On the other hand, planned developments of non-residential property rose sharply in 2002, yet this was primarily due to the low base in 2001. Specifically, planned developments of commercial property, industrial property, and property in the “others” category leaped by 38%, 134% and 46% respectively in 2002, following the pronounced decreases of 21%, 65% and 69% in 2001 (paragraph 3.20).

The labour market

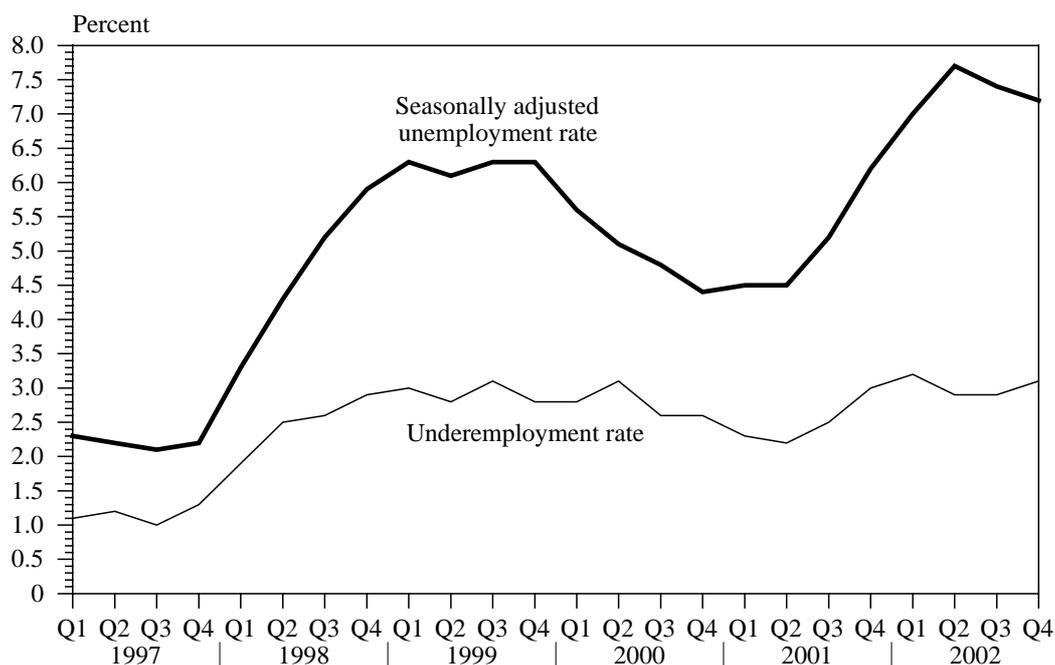
1.39 The labour market remained slack in overall terms in 2002. Yet some improvement was seen in the latter part of the year, mainly attributable to a pick-up in total employment upon an upturn in economic activity. For 2002 as a whole, the *unemployment rate* averaged at 7.3%, markedly up from 5.1% in 2001. The seasonally adjusted unemployment rate surged in the early part of the year, from 6.2% in the fourth quarter of 2001 to 7.0% and 7.7% respectively in the first two quarters of 2002, and further to a peak of 7.8% in May - July, amidst more extensive downsizing and lay-offs in the corporate sector. It then fell back somewhat in the latter part of the year, to 7.4% in the third quarter and 7.2% in the fourth quarter. The total number of unemployed persons (not seasonally adjusted) stood at 252 600 in the fourth quarter. On the median duration of unemployment, there was a distinct lengthening over the past year, from 82 days in the fourth quarter of 2001 to 90 days in the fourth quarter of 2002. As to the proportion of

/persons

persons unemployed for six months or more, it likewise went up visibly, from 24% to 30% (paragraph 5.1).

1.40 The *underemployment rate* also moved higher, averaging at 3.0% in 2002, as against 2.5% in 2001. It rose from 3.0% in the fourth quarter of 2001 to 3.2% in the first quarter of 2002, then declined to 2.9% in both the second and third quarters, but edged up again to 3.1% in the fourth quarter. The total numbers underemployed stood at 109 700 in the fourth quarter. For persons in employment, work intensity was high. The proportion of employed persons working for 50 hours or more per week rose visibly, from 35% in the fourth quarter of 2001 to 40% in the fourth quarter of 2002, as did the proportion of employed persons working for 60 hours or more per week, from 21% to 24%. Yet taking all the employed persons together, the median hours of work stayed at 48 hours per week for most of 2002 (paragraphs 5.2 and 5.3).

Diagram 1.6
Unemployment and underemployment rates

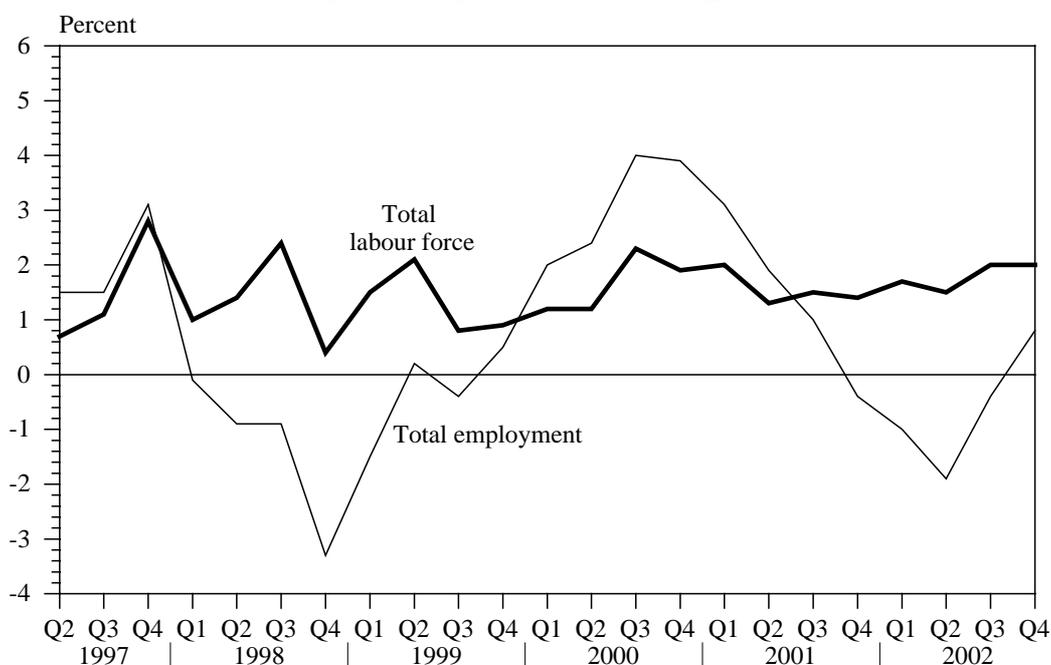


/1.41

1.41 *Total employment* as enumerated from households staged an upturn towards the end of last year, to a year-on-year increase of 0.8% in the fourth quarter, having worsened from a 1.0% decrease in the first quarter. It stood at 3.27 million in the fourth quarter of 2002. *Total labour force* had a faster growth over the past year, with the year-on-year increase picking up to 2.0% in the fourth quarter of 2002, from 1.7% in the first quarter. It stood at 3.52 million in the fourth quarter of 2002. The swing in the growth rate differential between total labour force and total employment pointed to a relative narrowing in the overall manpower resource balance, leading to lower unemployment rate in the latter part of last year (paragraph 5.4).

Diagram 1.7

**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, are available as from the second quarter of 1997.

1.42 Overall labour income had been moderating over the past year, amidst more incidents of pay freeze or cuts. *Labour earnings* went down by an average of 1.0% in money terms in the first three quarters of 2002 over a year earlier, albeit still up by 2.1% in real terms. This compared with the respective increases

/of

of 1.8% and 3.5% in 2001. *Labour wages* likewise fell, by an average of 1.1% in money terms in the first nine months of 2002 over a year earlier, yet still higher by 2.4% in real terms. This compared with the respective increases of 0.8% and 3.4% in 2001 (paragraph 5.5).

Prices

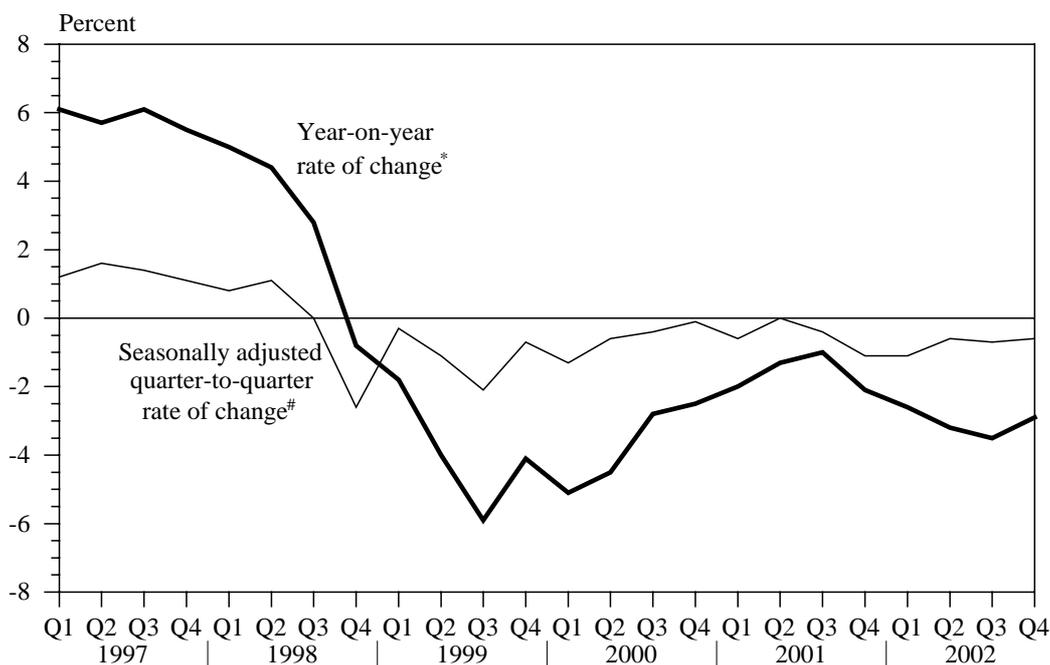
1.43 Overall consumer prices continued to decline in 2002. By December, overall consumer prices had fallen for 50 consecutive months. Though with some relative narrowing towards the year-end, the decrease for 2002 as a whole widened considerably from that in 2001. This reflected mostly the influence of domestic factors. In particular, there were the special relief measures of rates concession and waiver of water and sewage charges implemented by the Government during the year. Domestic cost pressure was lessened, by softening in both labour wages and property rentals. Also, local retailers reduced the prices of their goods and services further, in face of sluggish consumer demand and keen competition in the retail market. On the external front, while import prices stayed soft in overall terms, the decline moderated over the past year, upon a weaker US dollar and a rebound in world commodity prices (paragraph 6.1).

1.44 For 2002 as a whole, the *Composite Consumer Price Index* went down by 3.0%, nearly double the 1.6% fall in 2001. There was an enlargement in the year-on-year decrease for most of the year, from 2.6% in the first quarter of 2002 to 3.2% in the second quarter and further to 3.5% in the third quarter. To a large extent, this was due to the two rounds of rates concession as well as the waiver of water and sewage charges granted as from the early part of 2002. (Netting out the effect of these special relief measures, the decline widened only modestly over the period.) Also relevant were further reductions in the prices of basic foodstuffs and in the charges of such services items as mobile phone and other telecommunications services. The year-on-year decrease then narrowed to 2.9% in the fourth quarter of 2002. Yet this was mostly attributable to a low base of comparison a year earlier, caused by a waiver of public housing rentals by the Housing Authority and Housing Society in December 2001. On a quarter-to-quarter comparison, the seasonally adjusted Composite CPI went down by 1.1% in the first quarter of 2002, followed by more modest declines of 0.6-0.7% in the ensuing three quarters. The larger drop in the first quarter mainly reflected the dampening effects of the rates concession effected in January as well as the special one-off rebate of electricity charges granted by a power company in January and February (paragraphs 6.2 and 6.4).

/Diagram 1.8

Diagram 1.8

Composite Consumer Price Index



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

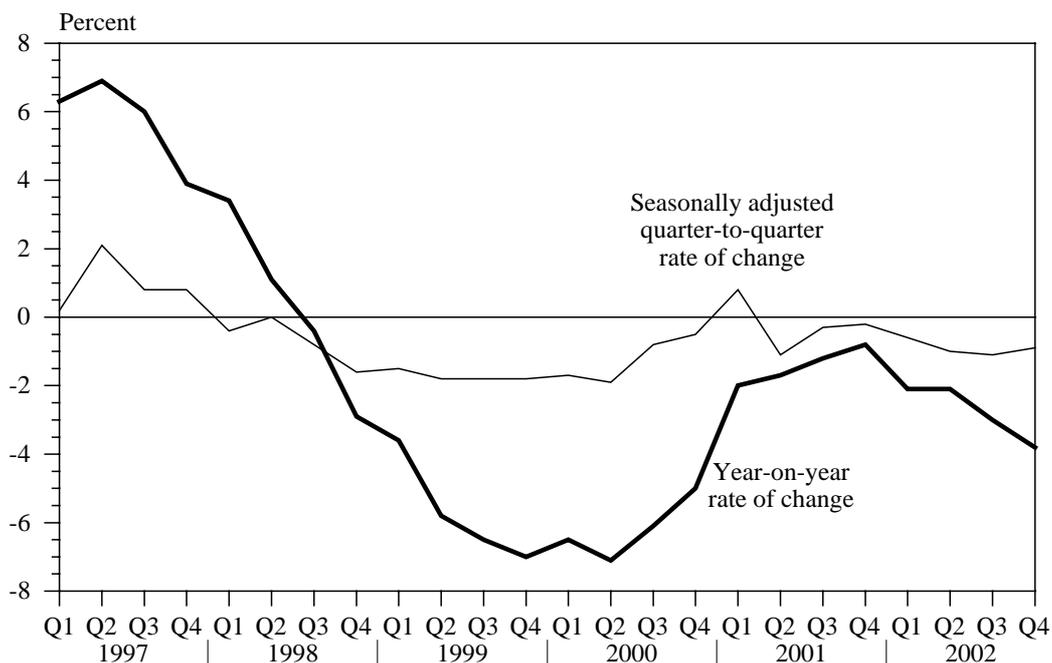
(#) From the first quarter of 2000 onwards, the quarter-to-quarter changes in the seasonally adjusted Composite CPI are computed from the new 1999/2000-based series. Before then, the quarter-to-quarter changes are computed from the old 1994/95-based series. Splicing has been applied to the indices to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

1.45 The *GDP deflator*, as a broad measure of overall price change in the economy, decreased by 3.8% in the fourth quarter of 2002 from a year earlier. This exceeded the declines of 2.1%, 2.1% and 3.0% respectively in the first three quarters. For 2002 as a whole, the GDP deflator went down by 2.7%, larger than the 1.4% fall in 2001. Within the GDP deflator, the *domestic demand deflator* and the *total final demand deflator* both showed larger decreases in 2002 than in 2001, by 4.2% and 3.4% respectively as against 1.8% and 2.4%. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator declined further by 0.9% in the fourth quarter of 2002, having fallen by 0.6%, 1.0% and 1.1% respectively in the first three quarters (paragraph 6.18).

/Diagram 1.9

Diagram 1.9

GDP deflator*



Note : (*) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

The financial sector

1.46 The performance of the local financial markets was mixed in 2002. The spot *exchange rate of the Hong Kong dollar* against the US dollar stayed close to the linked rate throughout 2002, moving within a narrow range of 7.796 to 7.800. As to the spread of the twelve-month forward rate against the spot rate, the premium held generally stable in the early part of 2002, except for a brief pick-up to above 250 pips (each pip equivalent to HK\$0.0001) in mid-March. It then narrowed distinctly in the ensuing months, to an eight-month low of merely one pip on 26 June. It widened after mid-September amidst market concern over the protracted fiscal deficit in Hong Kong, moving mostly in the range of 250 to 350 pips between mid-October and late November. Yet it shrank again towards the year-end, and closed 2002 at 169 pips, considerably reduced from that of 235 pips at end-2001 (paragraphs 4.1 and 4.2).

/1.47

1.47 Under the linked exchange rate system, the movements in the exchange rates of the Hong Kong dollar against other major currencies follow closely those in the US dollar. The US dollar remained strong at the beginning of 2002, but weakened against the major currencies since mid-April, due to uncertainties over the pace of US economic recovery and plausible military action on Iraq. The dollar - euro exchange rate, at an average of 0.946 in 2002, weakened by 5.6% from that of 0.896 in 2001. The dollar - pound sterling exchange rate also weakened, by 4.4% to an average of 1.504 in 2002, from that of 1.441 in 2001. The yen - dollar exchange rate, averaged at 125.2 in 2002, nevertheless went up by 3.0% from 121.5 in 2001, signifying relative strengthening in the US dollar. In 2002, most of the other major East Asian currencies appreciated to various extent against the US dollar. Taking these currency movements together, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* fell slightly by 0.7%, to an average of 104.0 in 2002, from 104.7 in 2001. After adjusting for relative movements in the respective consumer price indices, the trade-weighted *Real Effective Exchange Rate Index of the Hong Kong dollar* fell distinctly more by 3.9%, to an average of 96.1 in 2002, from 100.0 in 2001 (paragraphs 4.3 and 4.4).

1.48 In the money market, local short-term *interest rates* largely tracked their US dollar counterparts. They remained low during most of 2002, and eased further in the last two months of the year. The three-month HIBOR went down to 1.4% at end-2002, from 1.9% at end-2001. The average spread between the three-month HIBOR and the corresponding Euro-dollar deposit rate reversed from a discount of 6 basis points in December 2001 to a premium of 10 basis points in December 2002. Following the movement in the US Fed Funds target rate, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority was maintained at 3.25% until early November 2002, when it was reduced by 50 basis points to 2.75%. The best lending rate of the major commercial banks was lowered to 5.00% at end-2002, from 5.13% at end-2001. Savings deposit rates offered by the major banks were also trimmed, to an average of merely 0.03% at end-2002, from 0.15% at end-2001. The average spread of the best lending rate over the three-month time deposit rate widened slightly, to 4.71 percentage points in 2002, from 4.62 percentage points in 2001 (paragraphs 4.5 and 4.6).

1.49 *Hong Kong dollar deposits* fell modestly, by 1.6% during 2002, having risen marginally by 0.2% during 2001. *Hong Kong dollar loans* also declined

/modestly

modestly, by 1.9% during 2002, further to a 0.3% decrease during 2001. As the decline in Hong Kong dollar loans was slightly more than that in Hong Kong dollar deposits during 2002, the Hong Kong dollar loan-to-deposit ratio fell slightly further, to a new low of 88.5% at end-2002, from that of 88.8% at end-2001 (paragraphs 4.8, 4.15 and 4.16).

1.50 The local *stock market* exhibited much volatility over the course of 2002. There was a brief rally at the beginning of the year, upon a price surge in technology-related shares in the United States. With greater optimism about a sooner-than-expected recovery in the US economy, local share prices continued to hold up well in February and March. Fund inflows and market expectation for no imminent rise in US interest rates then pushed the Hang Seng Index to a high of 11 975 on 17 May (paragraph 4.29).

1.51 Local share prices soon drifted lower, with the Hang Seng Index falling to levels below 10 000 in late July. Apart from lacklustre corporate performance in the local economy, market sentiment was also weighed down by growing concern worldwide about the uncertain tempo of US economic recovery and the likely consequence of US corporate frauds. Then, looming war pressure on Iraq led to a further dip in share prices in September. The Hang Seng Index plunged to a four-year low of 8 859 on 10 October. Local share prices recovered some lost ground in November, upon the US interest rate cut and steadier employment conditions locally. But as war pressure on Iraq escalated and tension over nuclear control in North Korea broke out towards the year-end, local share prices were dampened again. The Hang Seng Index closed the year at 9 321, 18.2% lower than the level of 11 397 at end-2001. Share prices in the major stock markets overseas likewise plummeted during 2002, for some by even greater magnitudes than in the local market. Average daily turnover in the market fell distinctly, to \$6.7 billion in 2002, from \$8.2 billion in 2001 (paragraphs 4.30 and 4.31).

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)

- (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) 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. It distinguishes from GDP in that GDP is an overall measure of income earned by both residents and non-residents, from within the domestic territory in a specified period. 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 expenditure on goods and services incurred by government departments. It also covers the recurrent expenditure of quasi-government non-profit bodies, such as the Hong Kong Trade Development Council, Hong Kong Productivity Council, Hong Kong Tourism Board, Consumer Council and Hospital Authority. On the other hand, it does not include the expenditure 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, Post Office and Water Supplies Department, 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 expenditure is in the nature of transfer payments and not direct consumption of economic resources.
- (5) Following a review of the presentation by the Census and Statistics Department, real estate developers' margin is now incorporated into private sector expenditure on building and construction, instead of being delineated separately in the expenditure components of GDP. This amounts to bringing up the private sector investment in building and construction much closer to its overall output value, from its direct assessed physical construction cost. The change in presentation is in line with international statistical practice, and reflects the recognition that real estate developers' margin is an integral part of private sector investment in building and construction.

CHAPTER 2 : THE EXTERNAL SECTOR

Major external influences

2.1 After a seemingly robust turnaround in early 2002, the global economic environment weakened again in the ensuing period, amidst concern about the tempo of US economic recovery and jitters from the synchronised plunge in stock markets worldwide. While a progressive resurrection in import demand was seen over the course of the year, domestic demand in most of the major economies had yet to embark on a broader upturn. In the last few months of the year, a spate of terrorist activities, mounting war pressure on Iraq, and lately rising tension in North Korea dented sentiment further. For 2002 as a whole, the global economy grew by just around 3% in real terms, only modestly better than the 2% growth in 2001.

2.2 Of the major regions, the US economy had a solid start in 2002. But the pace of recovery had since moderated, as industrial activity lost momentum again after a robust initial pick-up, and as business investment was put back by the corporate accounting scandals, reduced business earnings, and the stock market plunge. Yet consumer spending still held up relatively well for most of the year, rendering a key support to the overall economic growth.

2.3 The EU economy, having undergone an abrupt downturn in 2001 and slackened more in early 2002, turned up mildly thereafter. Exports accentuated distinctly. But domestic demand was persistently weak, being held back by rising unemployment, subdued business sentiment, and relatively restrictive fiscal and monetary policies.

2.4 In East Asia, almost all the economies embarked on a solid recovery during 2002, benefiting from a turnaround in global demand for IT products and inventory replenishment in the United States. The Japanese economy, whilst still sluggish in early 2002, improved over the course of the year upon a pick-up in its exports. The Mainland economy was again the best performer in the region in 2002, with its overall economic growth picking up to 8.0%, and with its external trade, domestic demand and inward foreign direct investment all surging ahead. The other East Asian economies revived to various degrees in 2002, driven likewise by a sharp upturn in exports yet also with fairly steady domestic demand.

/Table 2.1

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>
2001	Annual	0.3	1.5	7.3	0.4	-2.2	-2.1	3.0
	H1	0.7	2.0	7.9	2.4	-1.3	1.9	3.3
	H2	-0.1	1.0	6.7	-1.5	-3.0	-5.7	2.8
	Q1	1.5 (-0.2)	2.4 (0.5)	8.1	3.7 (0.5)	0.6	4.3	3.7 (1.2)
	Q2	-0.1 (-0.4)	1.6 (*)	7.8	1.1 (-1.4)	-3.3	-0.5	2.9 (0.3)
	Q3	-0.4 (-0.1)	1.3 (0.2)	7.0	-0.5 (-1.1)	-4.4	-5.1	1.9 (1.3)
	Q4	0.1 (0.7)	0.6 (-0.1)	6.5	-2.3 (-0.4)	-1.6	-6.4	3.7 (1.6)
2002	Annual	2.4	N.A.	8.0	0.3	3.5	N.A.	N.A.
	H1	1.8	0.7	7.8	-1.6	2.6	0.9	6.1
	H2	3.0	N.A.	8.2	2.1	4.5	N.A.	N.A.
	Q1	1.4 (1.2)	0.5 (0.4)	7.6	-3.0 (0.1)	1.2	-1.7	5.8 (1.9)
	Q2	2.2 (0.3)	0.9 (0.4)	8.0	-0.2 (1.3)	4.0	3.4	6.4 (1.4)
	Q3	3.3 (1.0)	1.1 (0.4)	8.1	1.8 (0.7)	4.8	3.5	5.8 (1.3)
	Q4	2.8 (0.2)	N.A.	8.3	2.4 (0.5)	4.2	N.A.	N.A.

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

N.A. Not yet available.

(*) Change of less than 0.05%.

2.5 Notwithstanding the mixed tempo of economic recovery, there was a progressive revival in import intake in most of the major overseas markets over the course of the year. The pick-up in imports was most visible in the East Asian economies and the United States. Imports in Europe also improved towards the year-end. Continued robust demand in the Mainland and resurgence in intra-regional trade, coupled with revived import absorption in the conventional overseas markets, was the key factor underpinning the sharp rebound in Hong Kong's exports in 2002.

/Table 2.2

Table 2.2

**Total exports of goods of selected major economies
(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>
2001	Annual	-6.9	0.7	6.8	-15.9	-17.2	-17.7	-12.7
	H1	0.5	2.3	8.7	-11.4	-10.8	-7.0	-5.1
	H2	-14.0	-0.9	5.1	-20.1	-22.9	-26.8	-19.7
	Q1	4.3	5.3	13.8	-6.6	-3.6	0.4	2.2
	Q2	-3.1	-0.7	4.6	-16.0	-17.1	-14.0	-11.6
	Q3	-13.5	0.4	3.8	-19.2	-28.7	-30.2	-19.8
	Q4	-14.5	-2.2	6.5	-20.9	-17.0	-23.4	-19.6
2002	Annual	-5.0	4.5 ^(a)	22.3	3.2	6.3	2.1	8.2
	H1	-10.9	-1.4	14.1	-5.8	-1.1	-9.8	-3.2
	H2	1.6	11.9 ^(a)	29.6	13.3	14.1	15.3	21.1
	Q1	-15.1	-7.5	9.9	-13.3	-7.9	-18.8	-11.1
	Q2	-6.6	5.1	17.8	2.3	5.8	0.1	5.0
	Q3	1.1	11.7	28.7	9.3	18.9	17.5	16.6
	Q4	2.0	12.2 ^(a)	30.5	17.4	10.0	13.2	25.5

Notes : (#) Non-oil domestic exports.

(a) Crude estimate only, as data on exports in the European Union are available only up to November 2002.

Table 2.3

**Imports of goods of selected major economies
(year-on-year rate of change in US dollar terms (%))**

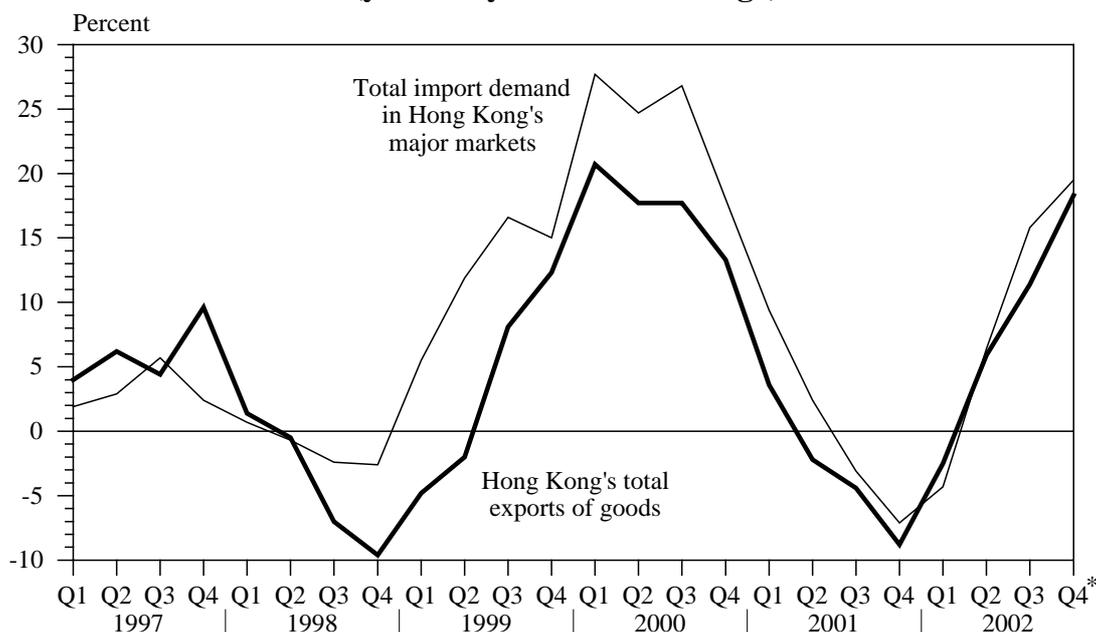
		<u>United States</u>	<u>European Union</u>	<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea</u>
2001	Annual	-6.4	-1.8	8.2	-8.1	-23.4	-13.9	-12.1
	H1	0.5	1.3	14.1	0.2	-17.0	-3.8	-7.7
	H2	-12.8	-4.8	3.3	-15.4	-29.5	-22.4	-16.3
	Q1	5.0	4.1	17.3	4.8	-10.2	5.8	-1.8
	Q2	-3.7	-1.5	11.4	-4.3	-22.9	-12.4	-13.4
	Q3	-11.4	-3.4	6.5	-11.8	-34.1	-20.4	-15.5
	Q4	-14.1	-6.2	0.2	-18.9	-24.6	-24.4	-17.1
2002	Annual	1.8	1.7 ^(a)	21.2	-3.5	5.0	0.5	7.7
	H1	-6.0	-5.0	10.4	-13.1	-6.4	-6.7	-2.3
	H2	10.1	9.9 ^(a)	31.1	7.2	17.7	8.1	18.5
	Q1	-12.6	-10.2	5.1	-18.3	-15.2	-16.2	-11.5
	Q2	0.8	0.6	15.0	-7.6	2.5	3.5	7.8
	Q3	7.7	8.7	29.3	4.1	23.0	6.6	13.5
	Q4	12.6	11.9 ^(a)	33.1	10.5	12.7	9.7	23.4

Note : (a) Crude estimate only, as data on imports in the European Union are available only up to November 2002.

/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 2002 is only a crude estimate, as data on imports in the European Union are available only up to November 2002.

2.6 On exchange rate movements, the US dollar weakened against the other major currencies after mid-April 2002, triggered by concern about sustainability of the US economic recovery, adverse US economic news, and tumbling US stock market. Towards the year-end, mounting war pressure on Iraq and tension in North Korea pulled the US dollar to a three-year low against the euro and a nearly three-year low against the pound sterling. The US dollar also fell against the yen, though by relatively less in face of possible intervention by the Japanese government. The US dollar likewise weakened during the year against most of the other East Asian currencies, most noticeably the Korean won, the Indonesian rupiah and the Thai baht. Comparing the average level in 2002 with that in 2001, the US dollar lost 5.3% against the

/euro

euro and 4.2% against the pound sterling, but gained 3.0% against the yen. It was still higher against the New Taiwan dollar and broadly unchanged against the Singapore dollar. Tracking closely the movements in the US dollar, and coupled with a larger price decline in Hong Kong than in its trading partners, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar in 2002 fell by an average of 3.9% over 2001, with a more distinct fall in the latter part of the year. The improvement in Hong Kong's external price competitiveness thus signified should have been another visible factor underpinning the rebound in Hong Kong's exports in 2002.

Table 2.4

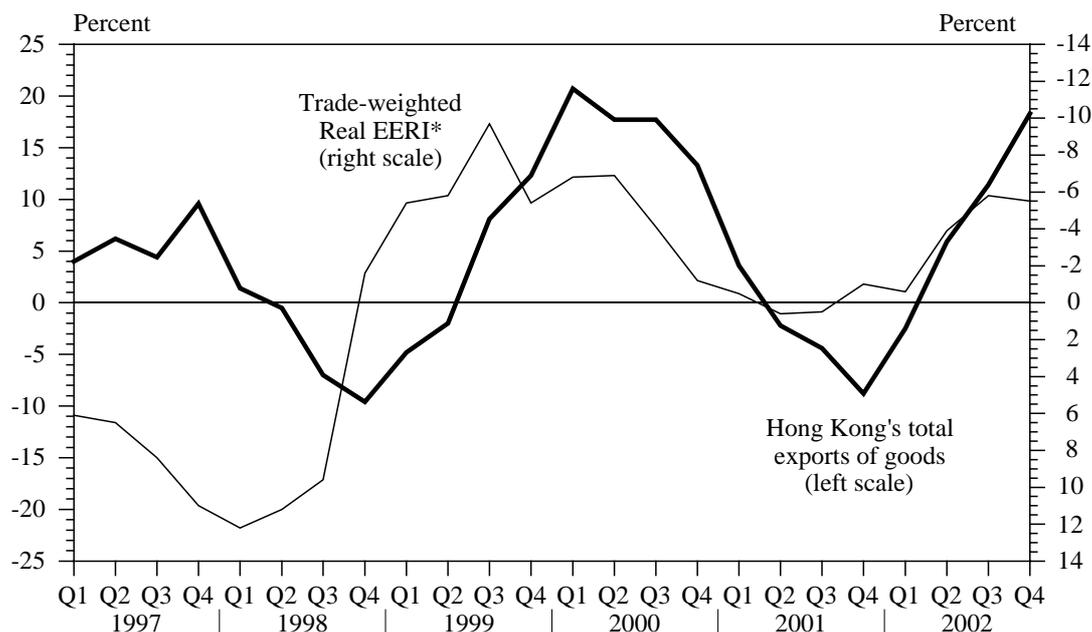
**Exchange rates of the major currencies
and of selected East Asian currencies against the US dollar**

% change in terms of average in the quarter over the preceding quarter		Japanese yen	Euro	Pound sterling	New Taiwan dollar	Singapore dollar	Korean won
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
2002	Q1	-6.6	-2.0	-1.1	-1.3	-0.4	-2.1
	Q2	4.3	4.7	2.5	1.7	1.6	4.0
	Q3	6.4	7.1	6.0	1.4	2.6	6.0
	Q4	-2.6	1.7	1.5	-2.5	-0.5	-1.9
% change in terms of average in 2002 over 2001		-2.9	5.6	4.4	-2.2	0.1	3.2

/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 overall value of Hong Kong's merchandise trade.

Positive changes in the Real EERI denote real appreciation of the Hong Kong dollar, and negative changes denote real 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 here upside down, so that positive changes appear at the lower part and negative changes at the upper part of the diagram.

Overall visible and invisible trade situation

2.7 On visible trade, Hong Kong's *total exports of goods* (comprising re-exports and domestic exports), at \$1,560.5 billion in 2002, reverted to positive growth at 5.4% in value terms. After netting out the decrease in prices, there was an 8.6% rise in real terms⁽¹⁾, representing a significant turnaround from the 3.3% fall in 2001. Total exports of goods showed distinct improvement over the course of the year. After a 2.5% decline in real terms

/in

in the first quarter of 2002 over a year earlier, they reverted to positive growth at 5.9% in the second quarter, and then picked up to double-digit growth at 11.4% and 18.3% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods recorded increase throughout the four quarters of 2002, by 4.5%, 5.8%, 4.0% and 4.0% respectively in real terms.

2.8 Within total exports of goods, *re-exports*⁽²⁾ remained the key driver of export performance, attaining growth at 7.7% in value terms to \$1,429.6 billion in 2002. After netting out the decrease in prices, re-exports had double-digit growth at 10.9% in real terms, also representing a sharp turnaround from the 2.4% decrease in 2001. Having shown a mild contraction by 1.5% in real terms in the first quarter of 2002 over a year earlier, re-exports rebounded to a distinct growth at 8.3% in the second quarter, followed by even more robust growth at 13.6% and 22.1% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, re-exports surged throughout the four quarters of 2002, by 5.7%, 6.6%, 4.5% and 4.7% respectively in real terms.

2.9 On the other hand, owing to the on-going structural shift towards re-exports and offshore trade⁽³⁾, *domestic exports* shrank further, by 14.7% in value terms to \$130.9 billion in 2002. After netting out the decrease in prices, the shrinkage was 11.3% in real terms, slightly larger than the 10.2% dip in 2001. Domestic exports plummeted throughout the four quarters of 2002, with year-on-year declines by 11.2%, 13.7%, 7.6% and 12.9% respectively in real terms. On a seasonally adjusted quarter-to-quarter comparison, domestic exports also fell in all four quarters, by 5.6%, 2.0%, 0.7% and 4.3% 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>
2001	Annual	-5.8	-3.3	-2.3	-4.6	-2.4	-2.0	-15.2	-10.2	-4.7
	H1	-1.4	0.5	-1.7	0.2	1.9	-1.5	-13.3	-10.1	-3.2
	H2	-9.6	-6.6	-2.8	-8.6	-6.1	-2.4	-16.8	-10.2	-6.1
	Q1	2.3	3.6	-1.1	4.8	5.9	-0.9	-15.3	-13.0	-2.5
	Q2	-4.7	-2.2	-2.3	-3.9	-1.6	-2.1	-11.4	-7.4	-3.8
	Q3	-7.2	-4.4	-2.6	-5.8	-3.4	-2.2	-17.9	-11.9	-5.8
	Q4	-12.0	-8.8	-3.0	-11.6	-8.9	-2.6	-15.6	-8.3	-6.5
2002	Annual	5.4	8.6	-2.7	7.7	10.9	-2.7	-14.7	-11.3	-3.3
	H1	-1.6	1.8	-3.1	0.2	3.5	-2.9	-17.7	-12.5	-4.4
	H2	11.8	14.7	-2.4	14.6	17.7	-2.4	-11.9	-10.2	-2.2
	Q1	-6.2	-2.5	-3.4	-5.0	-1.5	-3.2	-17.5	-11.2	-5.4
	Q2	2.8	5.9	-2.7	5.3	8.3	-2.6	-17.8	-13.7	-3.6
	Q3	8.5	11.4	-2.4	10.6	13.6	-2.3	-10.4	-7.6	-3.1
	Q4	15.5	18.3	-2.3	18.8	22.1	-2.4	-13.6	-12.9	-1.2

Note : New series of unit value indices and quantum indices using 2000 as the updated base are released as from June 2002 to replace the old 1990-based series. For the period prior to 2000, the unit value indices and quantum indices are obtained by re-scaling the previously released 1990-based series, using conversion factors as derived from the levels of the old and the new series in their overlapping period of 2000. There may be minor differences in some of the rates of change in the unit value indices and quantum indices for the period from the first quarter of 2001 to the first quarter of 2002.

/Table 2.6

Table 2.6

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

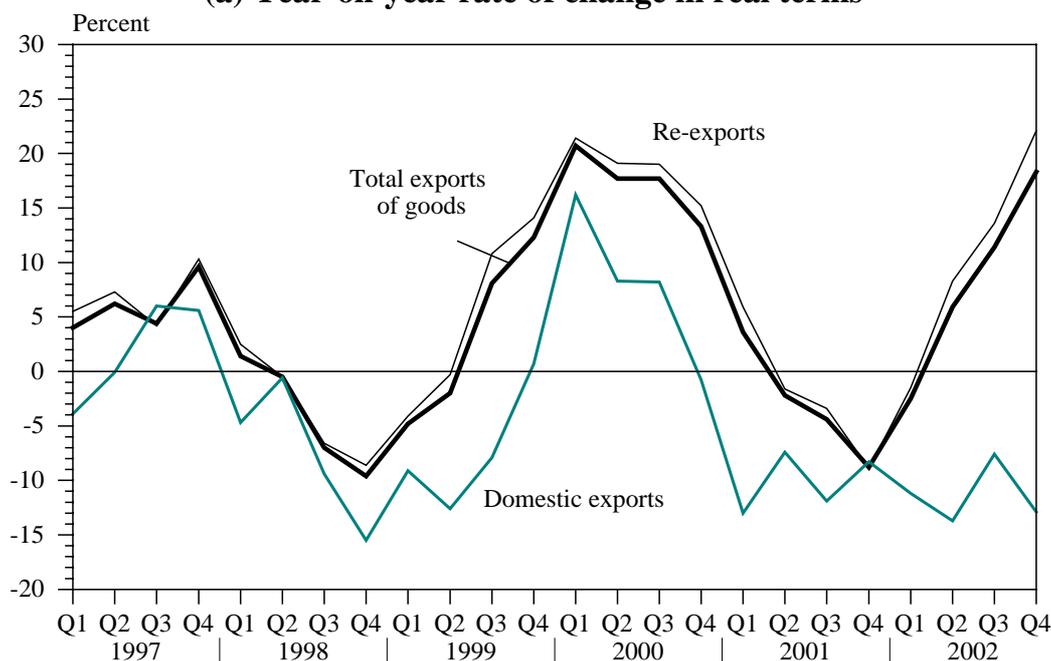
		<u>Total exports of goods</u>	<u>Re-exports</u>	<u>Domestic exports</u>
2001	Q1	-3.7	-3.7	-3.5
	Q2	-2.7	-3.2	1.3
	Q3	0.3	1.1	-5.8
	Q4	-3.8	-4.1	-0.8
2002	Q1	4.5	5.7	-5.6
	Q2	5.8	6.6	-2.0
	Q3	4.0	4.5	-0.7
	Q4	4.0	4.7	-4.3

Note : See the footnote to Table 2.5.

Diagram 2.3

Total exports of goods, re-exports and domestic exports

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

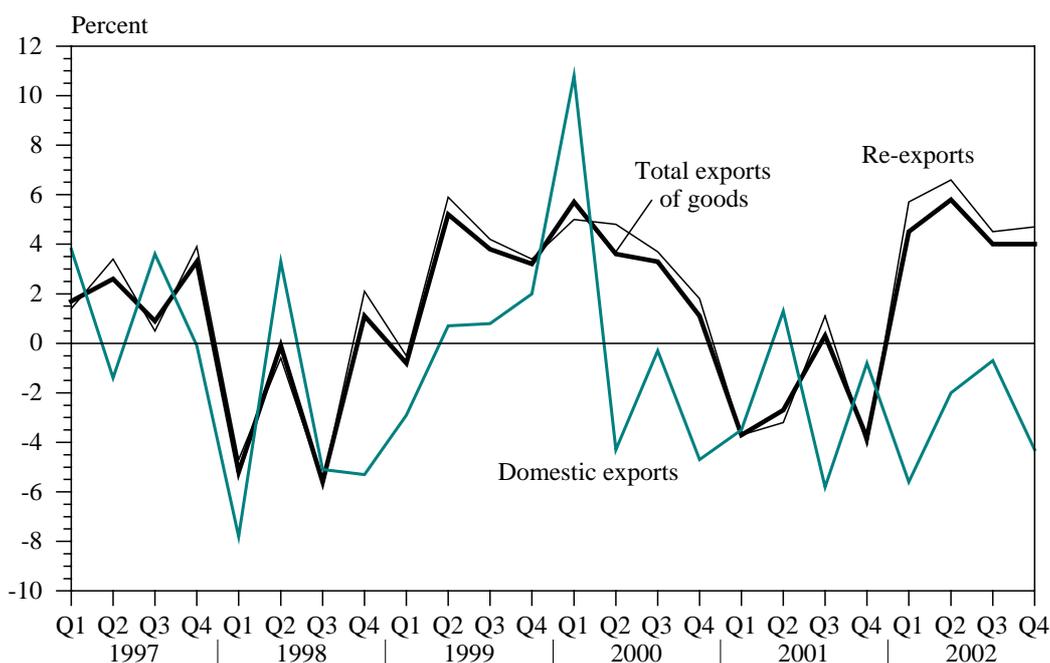


Note : From the first quarter of 2001 onwards, the rates of change are computed from the new 2000-based trade index series. Before then, the rates of change are computed from the old 1990-based series. Re-scaling using conversion factors as derived from the levels of the old and the new series in their overlapping period of 2000 has been applied to the indices to maintain continuity.

/Diagram 2.3 (cont'd)

Diagram 2.3 (cont'd)

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



Note : From the second quarter of 2000 onwards, the rates of change are computed from the new 2000-based trade index series. Before then, the rates of change are computed from the old 1990-based series. Re-scaling using conversion factors as derived from the levels of the old and the new series in their overlapping period of 2000 has been applied to the indices to maintain continuity.

2.10 *Imports of goods* likewise rebounded, rising by 3.3% in value terms to \$1,619.4 billion in 2002. After netting out the decrease in prices, there was a 7.8% rise in real terms, also distinctly improved from the 2.0% decline in 2001. Mirroring the profile of pick-up in re-exports over the course of the year, imports of goods, after falling by 4.1% in real terms in the first quarter of 2002 over a year earlier, resumed positive growth at 5.7% in the second quarter, and then accelerated markedly to double-digit growth at 10.8% and 18.1% respectively in the third and fourth quarters. Imports retained for local use likewise revived during the year, though at a less robust pace than that of re-exports. Specifically, *retained imports* still had an 8.9% decline in real terms in the first quarter of 2002 over a year earlier, yet reverted to increase by 0.8% in the second quarter, followed by considerably faster increases by 5.2% and 10.0% respectively in the third and fourth quarters. For 2002 as a whole,

/retained

retained imports grew by only 1.8% in real terms, having declined by 1.1% in 2001. On a seasonally adjusted quarter-to-quarter comparison, imports of goods rose by 4.5%, 5.8%, 4.8% and 2.9% respectively in real terms through the four quarters of 2002. Retained imports rose in the first three quarters of 2002, by 2.3%, 4.2% and 5.4% respectively in real terms, but fell back by 1.0% in the fourth quarter.

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>
2001	Annual	-5.4	-2.0	-3.1	-9.1	-1.1	-7.6
	H1	-0.1	2.4	-2.1	-2.8	3.2	-5.2
	H2	-10.0	-5.8	-4.1	-14.9	-5.1	-9.9
	Q1	3.6	5.6	-1.6	-0.8	5.0	-5.0
	Q2	-3.4	-0.5	-2.5	-4.6	1.5	-5.4
	Q3	-6.6	-2.9	-3.5	-10.5	-1.8	-8.4
	Q4	-13.5	-8.7	-4.8	-19.4	-8.4	-11.6
	2002	Annual	3.3	7.8	-3.9	-5.9	1.8
	H1	-4.2	0.9	-4.8	-12.9	-3.9	-8.9
	H2	10.5	14.3	-3.0	1.4	7.5	-4.3
	Q1	-9.1	-4.1	-4.9	-17.2	-8.9	-8.8
	Q2	0.4	5.7	-4.6	-8.9	0.8	-8.9
	Q3	6.5	10.8	-3.6	-2.6	5.2	-6.4
	Q4	14.9	18.1	-2.3	6.0	10.0	-2.0

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.

Also see the footnote to Table 2.5.

/Table 2.8

Table 2.8

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

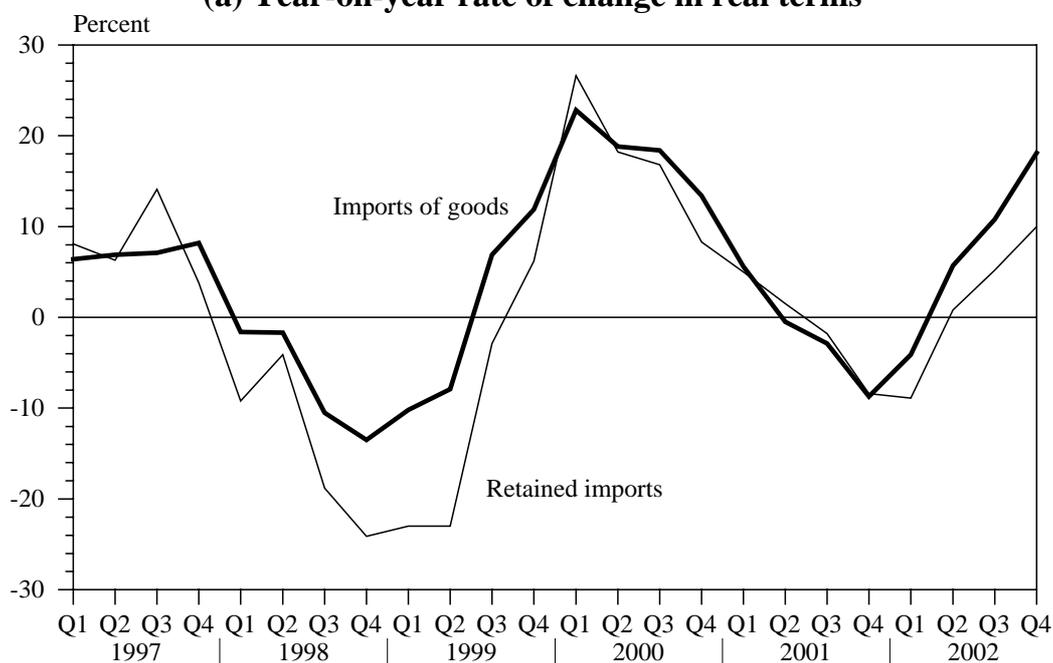
		<u>Imports of goods</u>	<u>Retained imports</u> ^(a)
2001	Q1	-1.0	4.4
	Q2	-4.8	-7.8
	Q3	1.1	1.1
	Q4	-4.7	-5.8
2002	Q1	4.5	2.3
	Q2	5.8	4.2
	Q3	4.8	5.4
	Q4	2.9	-1.0

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

Also see the footnote to Table 2.5.

Diagram 2.4

**Imports of goods and retained imports
(a) Year-on-year rate of change in real terms**

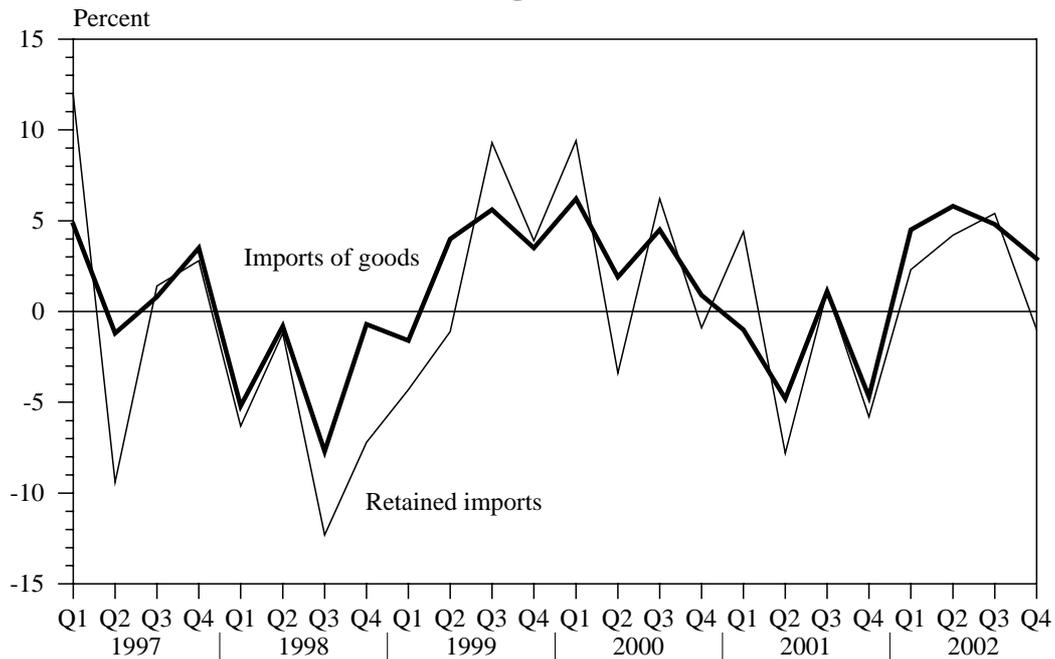


Note : See the footnote to Diagram 2.3 (a).

/Diagram 2.4 (cont'd)

Diagram 2.4 (cont'd)

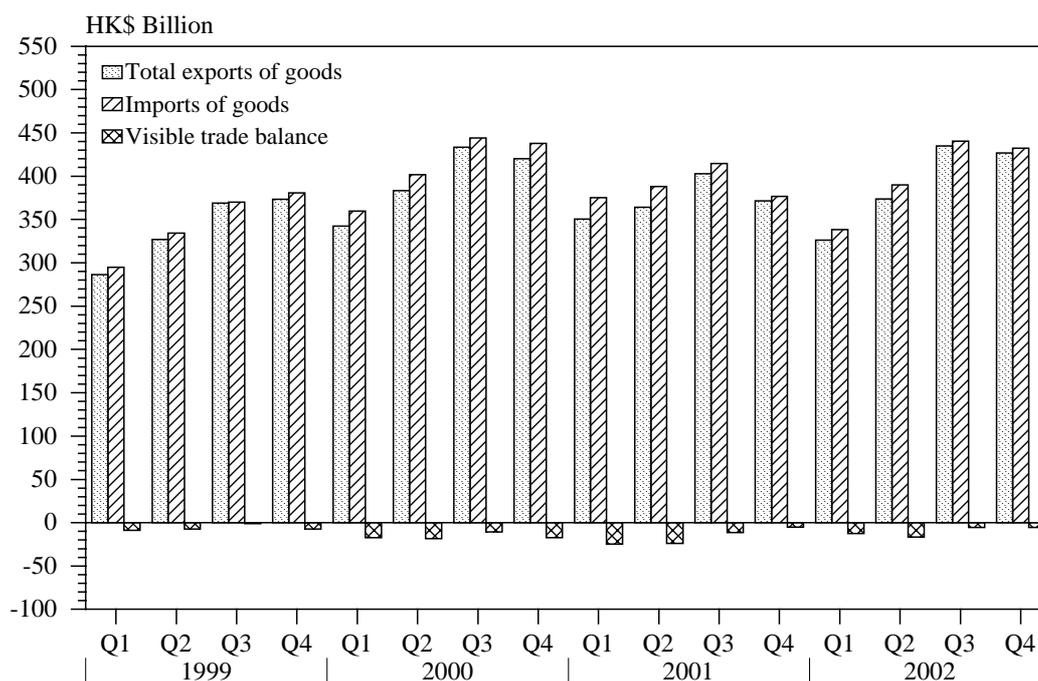
(b) Seasonally adjusted quarter-to-quarter rate of change in real terms



Note : See the footnote to Diagram 2.3 (b).

2.11 As the value of total exports of goods rose faster than the value of imports of goods, the *visible trade deficit* reckoned on a BoP basis ⁽⁴⁾ dwindled to \$40.0 billion or 2.5% of the value of imports of goods in 2002, from \$65.0 billion or 4.2% in 2001.

/Diagram 2.5

Diagram 2.5**Value of Hong Kong's visible trade and the visible trade balance**

2.12 On invisible trade, *exports of services* continued to fare better than exports of goods, with a 9.0% leap in value terms to \$352.2 billion in 2002. After netting out the decline in prices, there was double-digit growth at 12.1% in real terms, markedly better than the 5.9% growth in 2001. As with exports of goods, exports of services accelerated in growth over the course of the year. On a year-on-year comparison, growth was already rather robust at 7.7% and 8.6% respectively in real terms in the first and second quarters of 2002, yet followed by even stronger growth at 14.1% and 17.2% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, exports of services leaped throughout the four quarters of 2002, by 3.3%, 3.8%, 5.4% and 4.1% respectively in real terms.

2.13 *Imports of services* were however virtually flat, falling marginally by 0.4% in value terms to \$188.8 billion in 2002. With little change in prices, the decline in real terms was 0.8%, slightly worse than the 0.2% decrease in 2001. Yet a relative improvement was seen over the course of the year. On a year-on-year comparison, imports of services had decreases of 1.3% and 4.0% respectively in real terms in the first and second quarters of 2002, and then reverted to increase by 1.0% and 0.9% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, imports of services edged up by 0.6% in real terms in the first quarter of 2002, and then fell back by 1.2% in the second quarter, before bouncing up to increase by 2.5% in the third quarter, yet followed by a 0.7% decline in the fourth quarter.

/Table 2.9

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>
2001	Annual	1.7	5.9	-3.9	-1.0	-0.2	-0.8
	H1	5.2	7.5	-2.1	1.9	2.4	-0.5
	H2	-1.3	4.5	-5.6	-3.8	-2.6	-1.2
	Q1	6.4	7.4	-0.9	3.0	3.3	-0.3
	Q2	4.2	7.6	-3.1	0.8	1.5	-0.7
	Q3	-1.4	3.7	-4.8	-3.4	-2.4	-1.0
	Q4	-1.2	5.3	-6.3	-4.2	-2.8	-1.4
	2002	Annual	9.0	12.1	-2.8	-0.4	-0.8
	H1	3.6	8.2	-4.2	-3.6	-2.6	-1.0
	H2	14.0	15.7	-1.4	2.7	0.9	1.8
	Q1	2.5	7.7	-5.0	-3.3	-1.3	-2.0
	Q2	4.6	8.6	-3.7	-4.0	-4.0	-0.1
	Q3	11.3	14.1	-2.5	2.4	1.0	1.4
	Q4	16.7	17.2	-0.4	3.1	0.9	2.2

Note : Figures in this table are based on the revised GDP series, incorporating the results of a technical revision to GDP in August 2002.

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>
2001	Q1	0.9	-1.0
	Q2	3.2	1.7
	Q3	0.8	-2.2
	Q4	0.7	-1.1
2002	Q1	3.3	0.6
	Q2	3.8	-1.2
	Q3	5.4	2.5
	Q4	4.1	-0.7

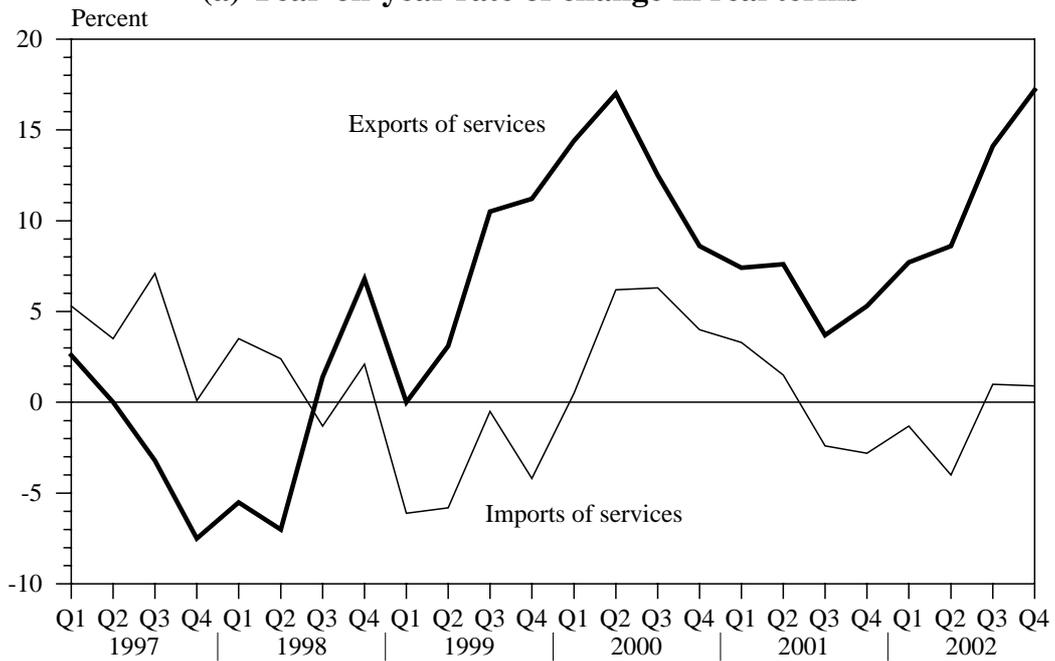
Note : See the footnote to Table 2.9.

/Diagram 2.6

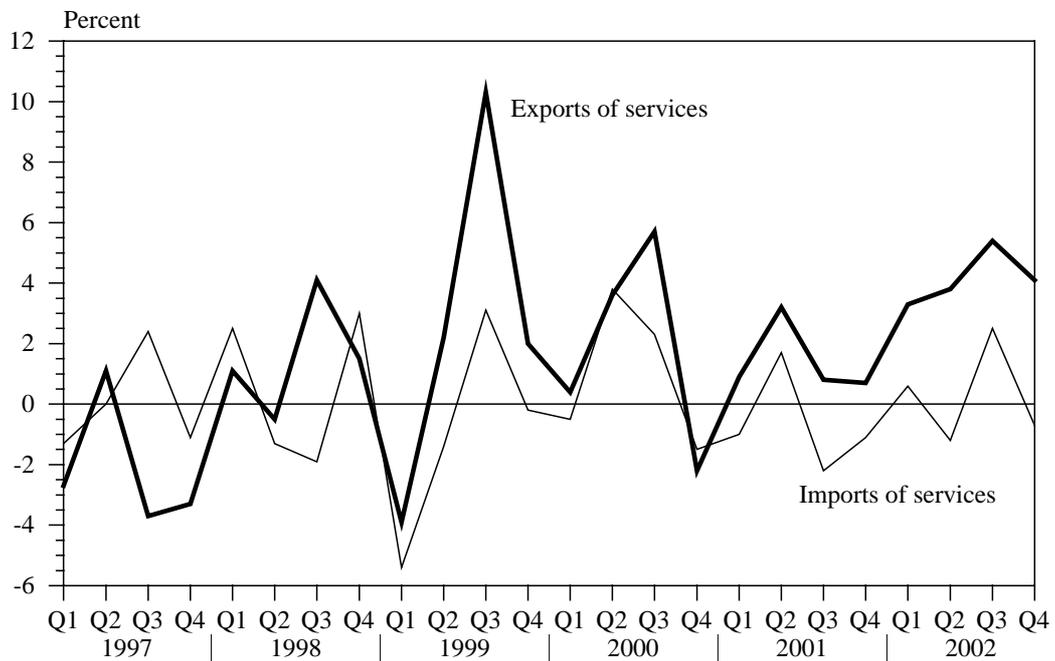
Diagram 2.6

Exports and imports of services

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



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

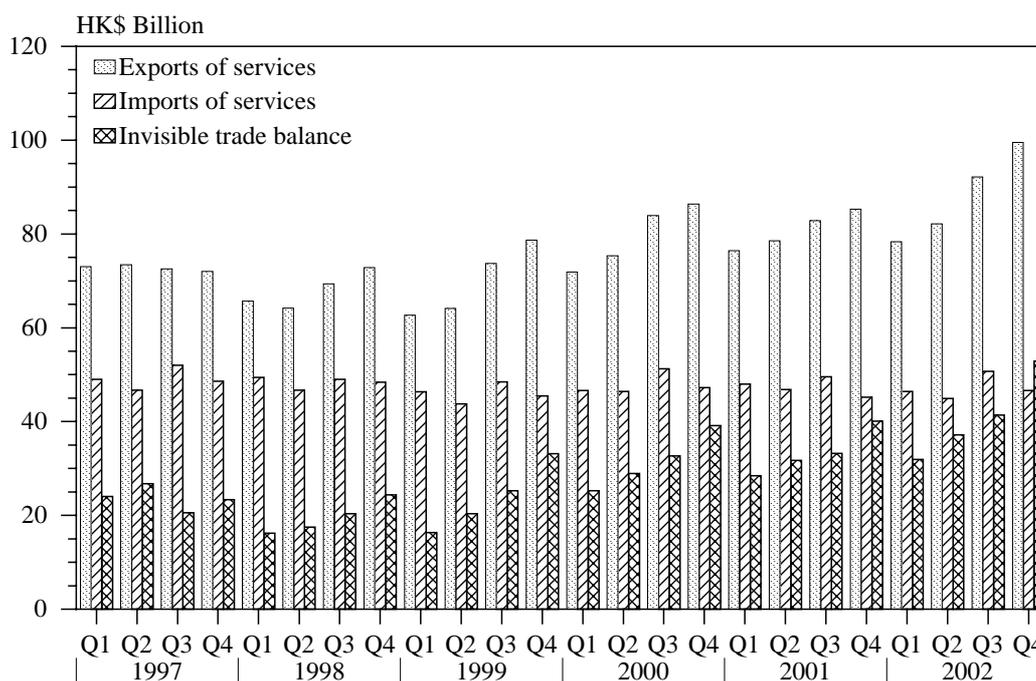


Note : See the footnote to Table 2.9.

/Diagram 2.7

Diagram 2.7

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



2.14 As exports of services leaped while imports of services fell marginally, the *invisible trade surplus*⁽⁵⁾ reckoned on a BoP basis expanded markedly, to \$163.4 billion or 86.6% of the value of imports of services in 2002, from \$133.5 billion or 70.4% in 2001. Together with a much reduced visible trade deficit, the combined surplus reckoned on a BoP basis surged to \$123.4 billion or 6.9% of the total value of imports of goods and services in 2002, from \$68.5 billion or 3.9% in 2001.

/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</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>
2001	Annual	1,489.0	323.1	1,554.0	189.6	-65.0	133.5	68.5
	H1	714.5	155.0	763.0	94.8	-48.5	60.1	11.6
	H2	774.5	168.1	790.9	94.8	-16.4	73.3	56.9
	Q1	350.4	76.5	375.1	48.0	-24.6	28.4	3.8
	Q2	364.1	78.5	388.0	46.8	-23.9	31.7	7.8
	Q3	403.0	82.8	414.4	49.6	-11.4	33.3	21.8
	Q4	371.5	85.3	376.5	45.2	-5.0	40.1	35.1
2002	Annual	1,561.5	352.2	1,601.5	188.8	-40.0	163.4	123.4
	H1	699.8	160.5	728.6	91.4	-28.8	69.1	40.3
	H2	861.7	191.7	872.9	97.4	-11.2	94.3	83.1
	Q1	326.1	78.3	338.5	46.4	-12.4	31.9	19.5
	Q2	373.7	82.2	390.1	44.9	-16.4	37.2	20.8
	Q3	434.9	92.2	440.5	50.7	-5.6	41.4	35.8
	Q4	426.8	99.5	432.4	46.6	-5.6	52.9	47.3

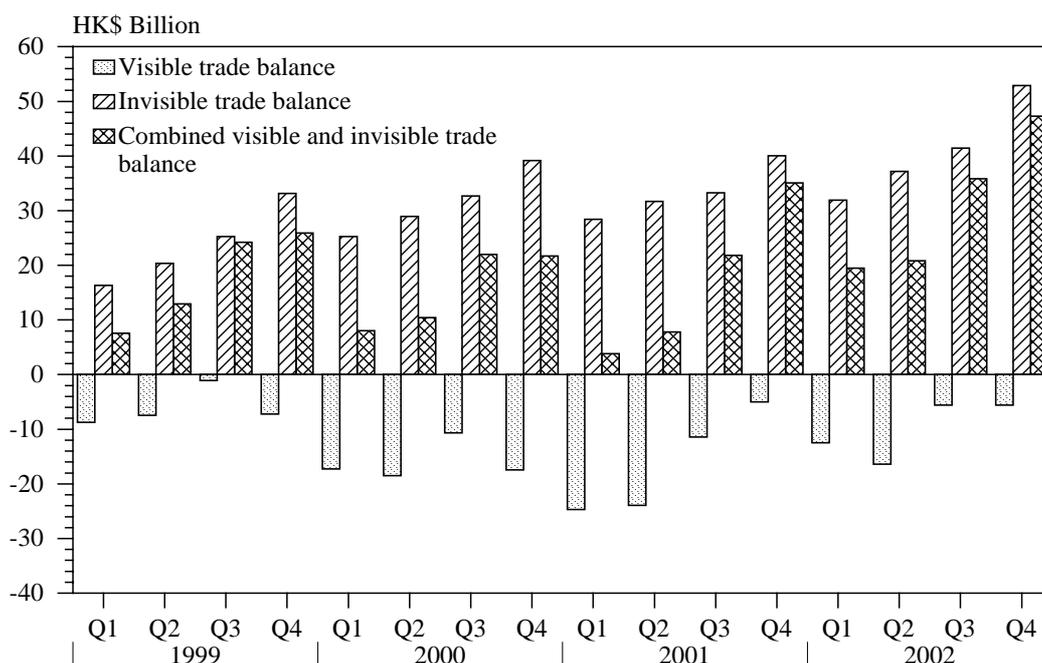
Notes : Figures in this table are reckoned on a BoP basis. Specifically, imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis as is still the on-going practice for the merchandise trade statistics.

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

/Diagram 2.8

Diagram 2.8

Visible and invisible trade balance



Note : See the first footnote to Table 2.11.

Visible trade

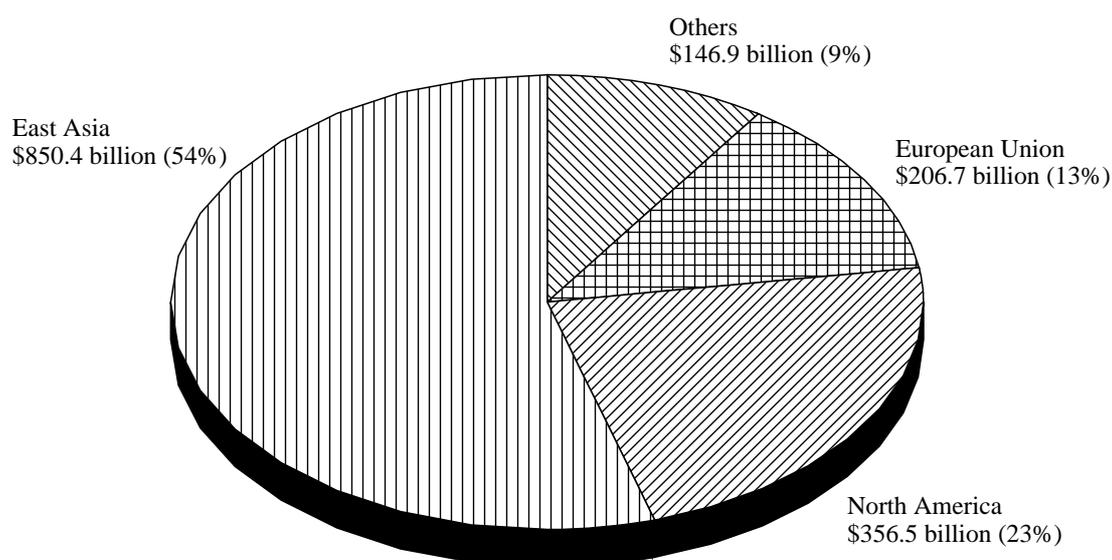
Total exports of goods

2.15 Reflecting the intimate trade linkages between Hong Kong and the region, East Asia⁽⁶⁾ continued to account for the largest share in Hong Kong's total exports of goods, at 54% by value in 2002. It was followed by North America⁽⁷⁾ (with a share of 23%) and the European Union⁽⁸⁾ (13%).

/Diagram 2.9

Diagram 2.9

Total exports of goods by major region in 2002



Total exports of goods in 2002 : \$1,560.5 billion

2.16 Total exports of goods to *East Asia* as a whole staged a sharp rebound, along with economic recovery in the region. There was a 13.4% surge in real terms in 2002, significantly up from the 1.8% increase in 2001. Exports to the Mainland, the Republic of Korea and Thailand were strong all through the four quarters of the year. Exports to Singapore and Malaysia also picked up distinctly after the first quarter. Exports to Japan were still weak in the first half of the year, yet improved distinctly towards the year-end.

2.17 Total exports of goods to *North America* likewise regained strength, along with greater import intake in the United States and Canada, and helped further by better price competitiveness of Hong Kong's exports upon weakening of the US dollar. After a rather weak start in the first quarter of 2002, exports to this area turned up to positive growth in the second quarter and accelerated further in the third and fourth quarters. There was a 3.9% rise in real terms in 2002, in contrast to an 8.8% decline in 2001.

/2.18

2.18 Total exports of goods to the *European Union* were still held back by sluggish demand in the euro area and a relatively weak euro earlier on, yet there was also a distinct pick-up more recently, along with improved import demand and a stronger euro. A marginal decline of 0.4% in real terms was recorded in 2002, much narrowed from the 8.5% decrease in 2001.

Table 2.12

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

		<u>East Asia</u> ^{(a)(d)}	<u>North America</u> ^(b)	<u>European Union</u> ^(c)
2001	Annual	1.8	-8.8	-8.5
	H1	5.4	-5.1	-4.7
	H2	-1.3	-11.7	-11.7
	Q1	8.0	-1.0	-1.4
	Q2	3.1	-8.7	-7.9
	Q3	2.0	-10.5	-11.3
	Q4	-4.7	-12.9	-12.1
2002	Annual	13.4	3.9	-0.4
	H1	7.1	-4.1	-8.1
	H2	19.2	10.8	6.6
	Q1	4.8	-12.4	-12.1
	Q2	9.3	3.5	-3.9
	Q3	14.7	9.5	3.6
	Q4	23.9	12.3	9.7

Notes : (a) For the coverage of East Asia, see Note (6).

(b) For the coverage of North America, see Note (7).

(c) For the coverage of the European Union, see Note (8).

(d) 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 aggregate implicit price deflator covering all those export markets in the Asia-Pacific region for which separate unit value indices are not available.

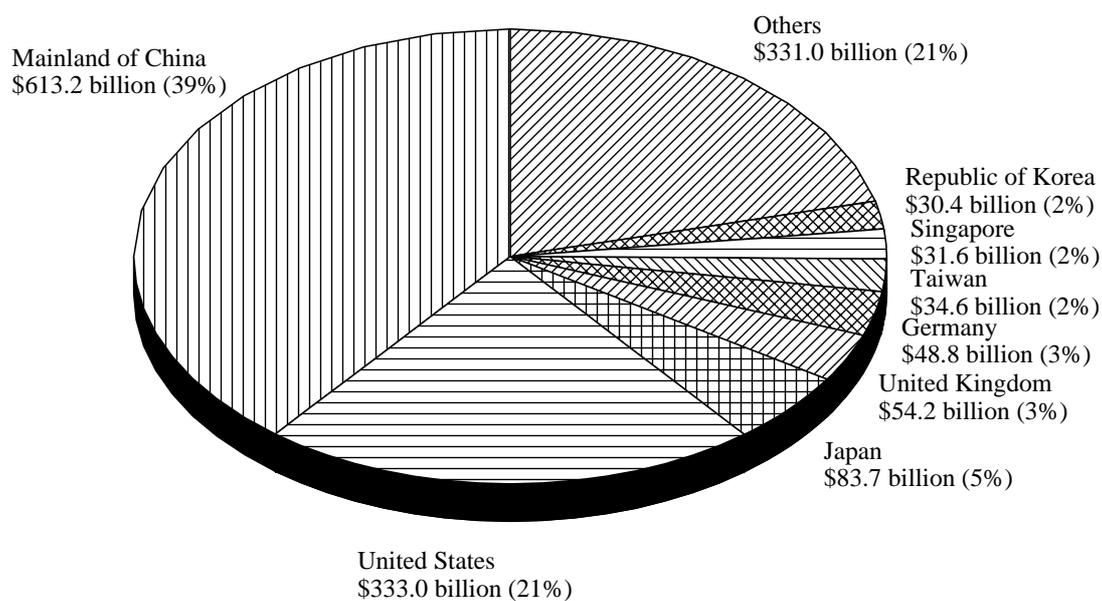
Also see the footnote to Table 2.5.

/2.19

2.19 The Mainland remained the largest single *market* for Hong Kong's total exports of goods, accounting for 39% of the total value in 2002. It was followed by the United States (with a share of 21%), Japan (5%), the United Kingdom (3%), Germany (3%), Taiwan (2%), Singapore (2%), and the Republic of Korea (2%).

Diagram 2.10

Total exports of goods by major market in 2002



Total exports of goods in 2002 : \$1,560.5 billion

/Table 2.13

Table 2.13**Value of total exports of goods by market**

	<u>2001</u>			<u>2002</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	1,481.0	100	-5.8	1,560.5	100	5.4
Mainland of China	546.1	37	0.6	613.2	39	12.3
United States	329.8	22	-9.8	333.0	21	1.0
Japan	87.6	6	0.5	83.7	5	-4.5
United Kingdom	55.3	4	-12.2	54.2	3	-2.0
Germany	51.6	3	-13.9	48.8	3	-5.3
Taiwan	35.4	2	-11.1	34.6	2	-2.2
Singapore	29.6	2	-19.5	31.6	2	6.8
Republic of Korea	25.9	2	-9.4	30.4	2	17.2
Rest of the world	319.7	22	-8.4	331.0	21	3.5

Table 2.14**Total exports of goods 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>	<u>Republic</u> <u>of Korea</u>
2001	Annual	4.2	-9.1	2.4	-10.1	-11.9	-6.9	-16.1	-5.9
	H1	7.0	-5.5	10.4	-7.4	-11.3	-3.3	-13.0	-2.7
	H2	1.8	-12.0	-4.3	-12.3	-12.5	-10.1	-18.8	-8.8
	Q1	9.3	-0.9	14.9	-3.8	-3.4	-1.3	-7.0	-2.3
	Q2	5.1	-9.3	5.9	-10.6	-18.8	-5.2	-18.5	-3.2
	Q3	7.1	-10.9	-1.4	-11.3	-15.4	-16.1	-22.0	-10.4
	Q4	-3.6	-13.2	-7.0	-13.4	-9.6	-4.1	-15.2	-7.4
2002	Annual	15.5	3.7	-1.0	0.7	-2.4	2.1	11.7	20.8
	H1	9.5	-4.5	-8.4	-6.0	-11.2	-3.7	8.5	16.0
	H2	20.8	10.8	6.0	6.4	5.3	7.8	14.7	25.5
	Q1	7.5	-13.1	-10.4	-10.7	-16.2	-5.2	3.4	16.7
	Q2	11.4	3.6	-6.1	-1.4	-5.4	-2.2	14.0	15.3
	Q3	14.8	9.9	1.6	5.2	3.9	14.9	11.4	22.4
	Q4	27.4	12.0	10.5	7.7	6.7	1.6	18.0	28.3

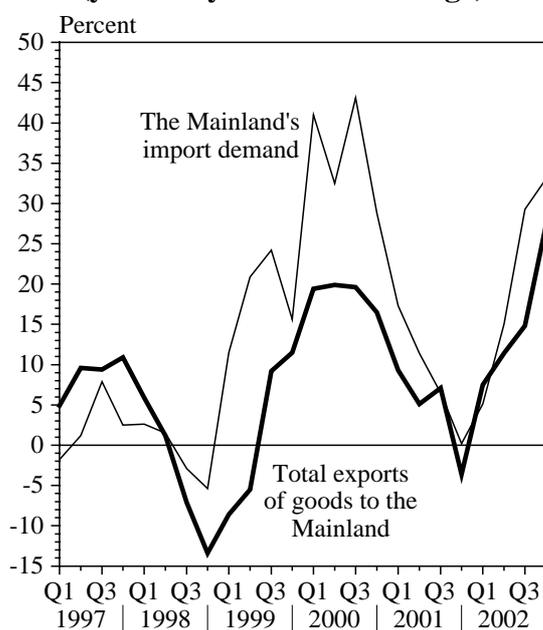
Note : See the footnote to Table 2.5.

/2.20

2.20 Total exports of goods to the *Mainland* attained highly robust growth, at 15.5% in real terms in 2002, markedly up from the moderate increase by 4.2% in 2001. Hong Kong's exports to the Mainland for meeting its own demand surged throughout the year, in line with the strong domestic demand there. Also, along with the sharp pick-up in the Mainland's exports, Hong Kong's exports to the Mainland for outward processing rebounded distinctly over the course of the year (paragraph 2.36).

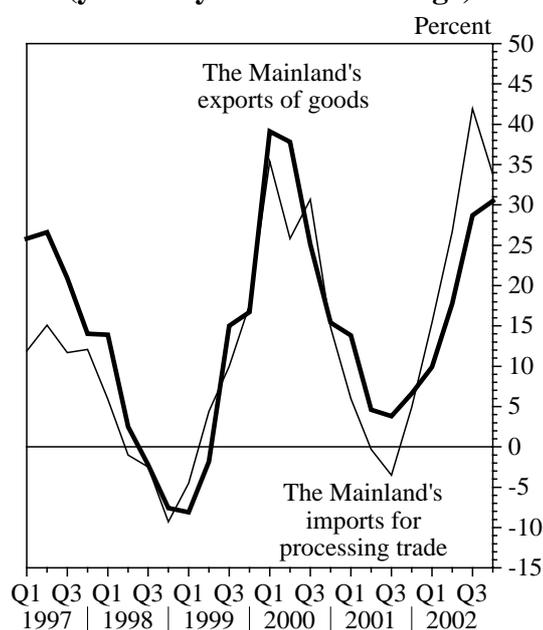
Diagram 2.11

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)



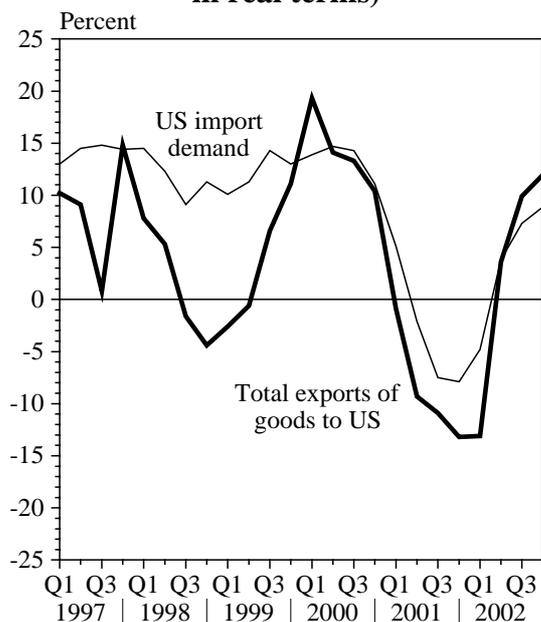
Note : Both refer to the year-on-year rate of change in US dollar terms.

/2.21

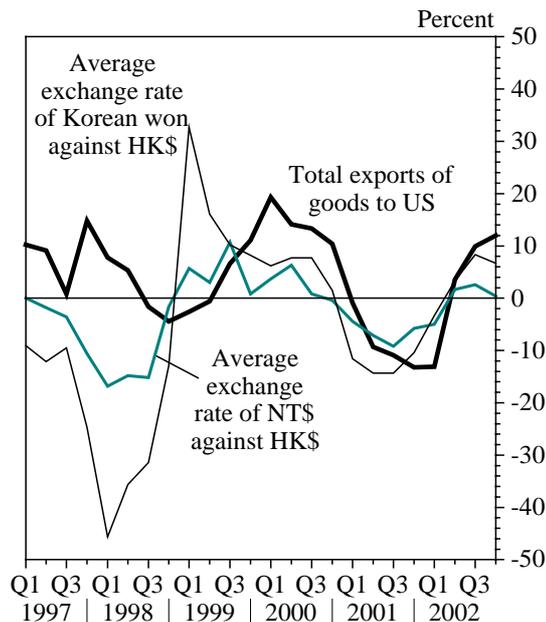
2.21 Total exports of goods to the *United States* turned up to a 3.7% growth in real terms in 2002, having fallen distinctly by 9.1% in 2001, as import demand in this market gradually revived over the course of the year. Apart from increased import intake, improvement in the price competitiveness of Hong Kong's exports also helped the rebound.

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)



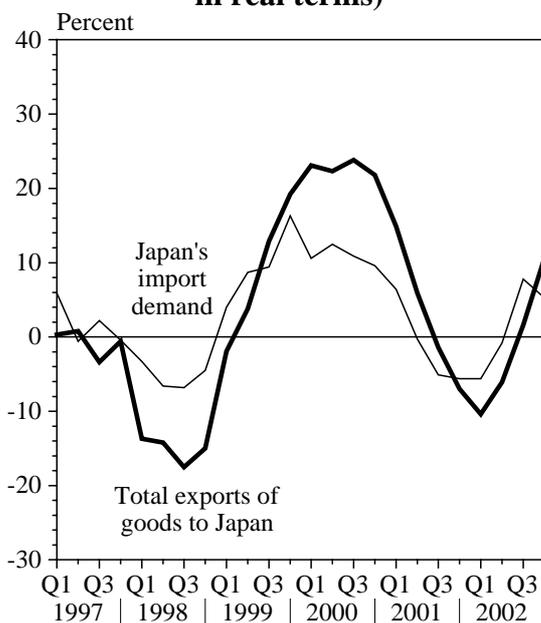
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ and Korean won against HK\$.

/2.22

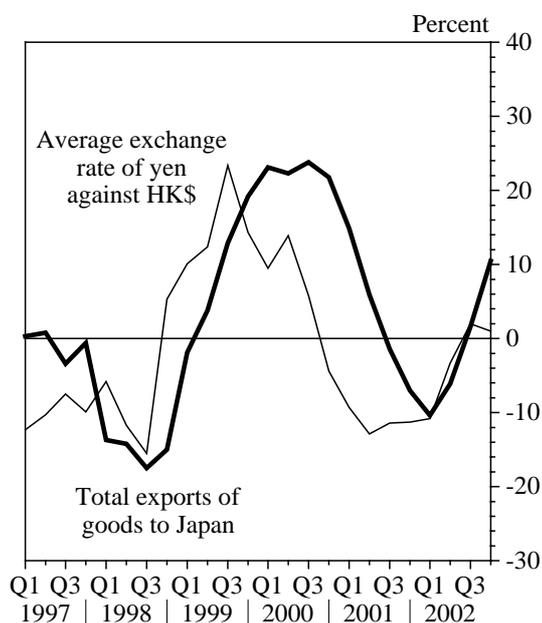
2.22 Total exports of goods to *Japan* were weak for most of 2002, yet surged to double-digit growth towards the year-end. This was attributable to improved economic performance in Japan, though the relative strengthening of the yen during the year also mattered. For 2002 as a whole, exports to Japan still recorded a small decline of 1.0% in real terms, down from the 2.4% rise in 2001.

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)



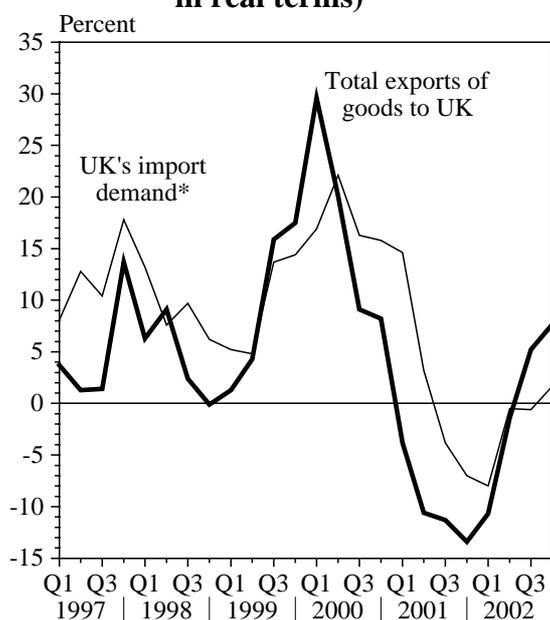
Note : (+) represents appreciation and (-) represents depreciation of the yen against HK\$.

/2.23

2.23 Total exports of goods to the *United Kingdom* were still distinctly weak in the first half of 2002. But as its import demand firmed up, exports of consumer goods and capital goods to this market progressively improved during the year, while exports of material inputs showed a lesser decline. For 2002 as a whole, exports to the United Kingdom had a meagre rise of 0.7% in real terms, yet already markedly improved from the 10.1% decline in 2001.

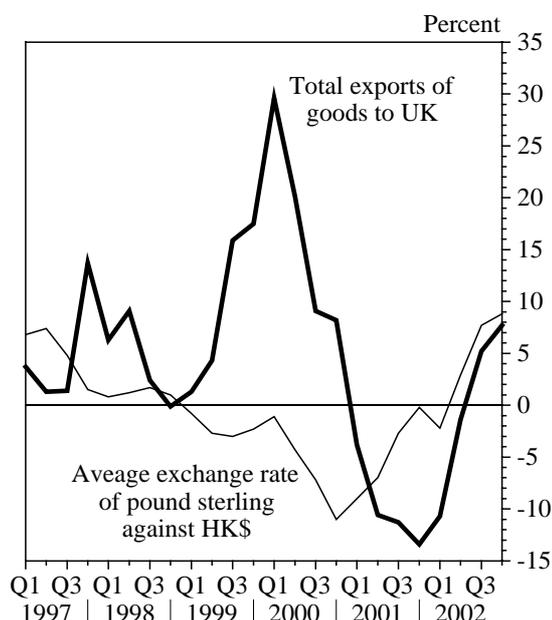
Diagram 2.14

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



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

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



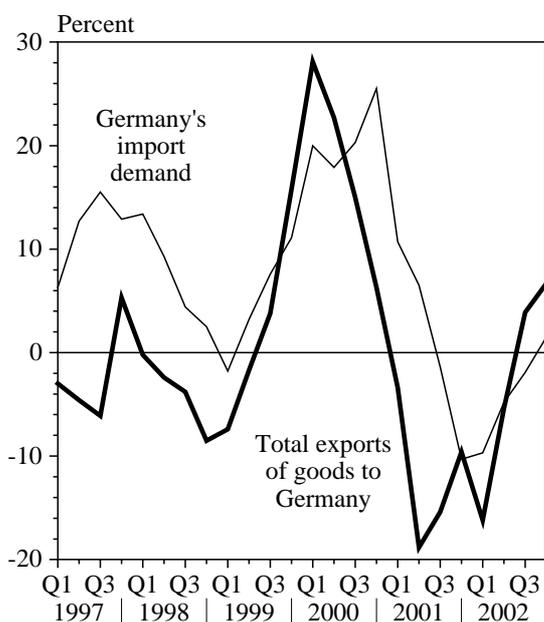
Note : (+) represents appreciation and (-) represents depreciation of the pound sterling against HK\$.

/2.24

2.24 Total exports of goods to *Germany* were still subdued in 2002, amidst the sluggish domestic demand there. Yet there was likewise a turnaround to positive growth in the second half of the year. A relative improvement in demand in this market and a stronger euro conceivably helped. Exports to Germany, with a 2.4% fall in real terms in 2002, was not as worse as the 11.9% decline in 2001.

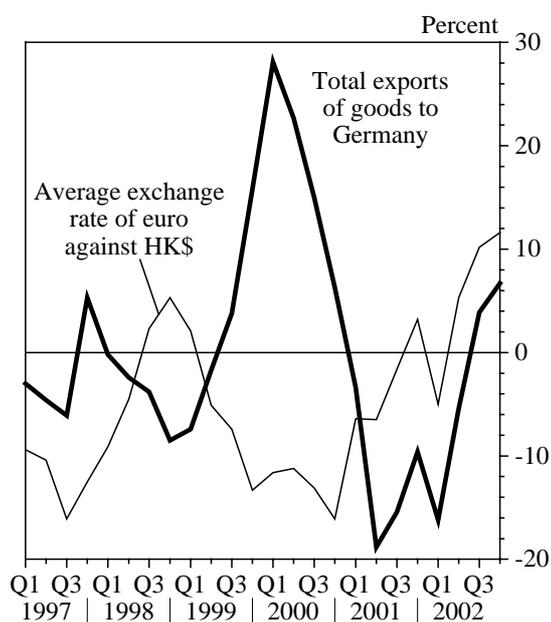
Diagram 2.15

Total exports of goods to Germany and Germany'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 value terms, i.e. in terms of its local currency.

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



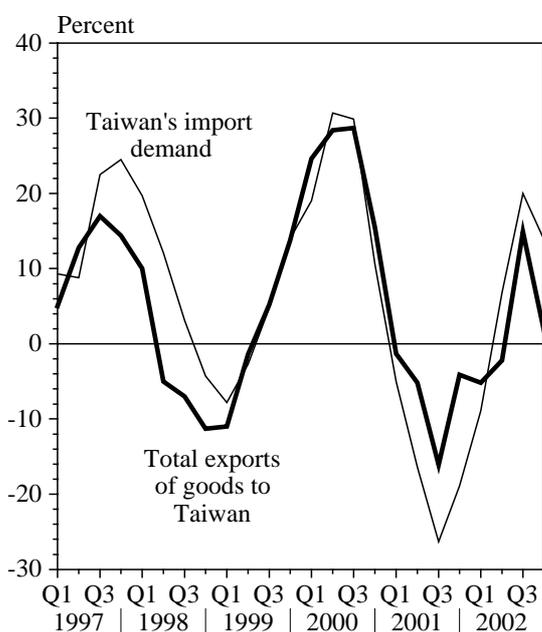
Note : (+) represents appreciation and (-) represents depreciation of the euro against HK\$.

/2.25

2.25 Total exports of goods to *Taiwan* reverted to positive growth at 2.1% in real terms in 2002, after a distinct decrease by 6.9% in 2001. The performance of exports to this market was however somewhat unsteady, with declines in the first two quarters followed by a sharp rebound in the third quarter and then a markedly slower growth in the fourth quarter. The relapse towards the year-end was due to a sharp fall-off in exports of material inputs, while exports of consumer goods also slackened visibly.

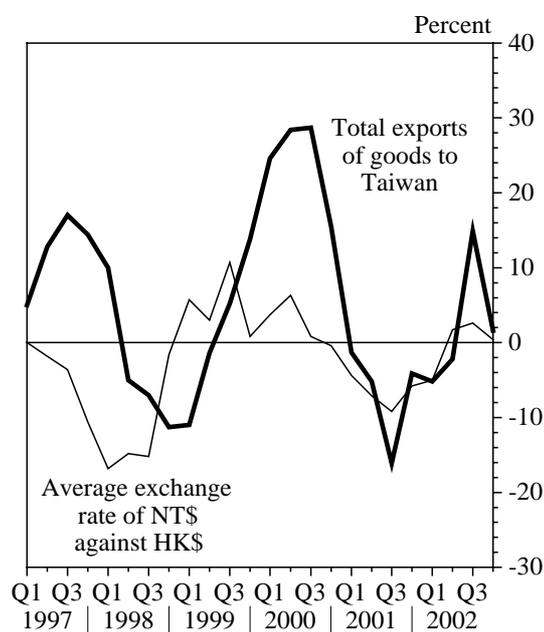
Diagram 2.16

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)



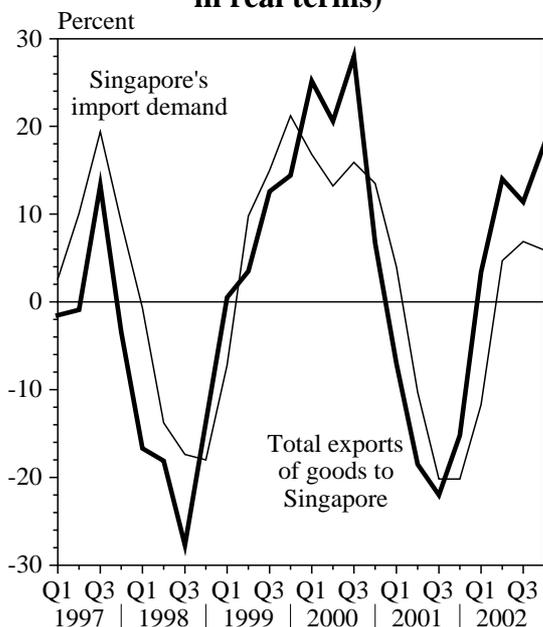
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ against HK\$.

/2.26

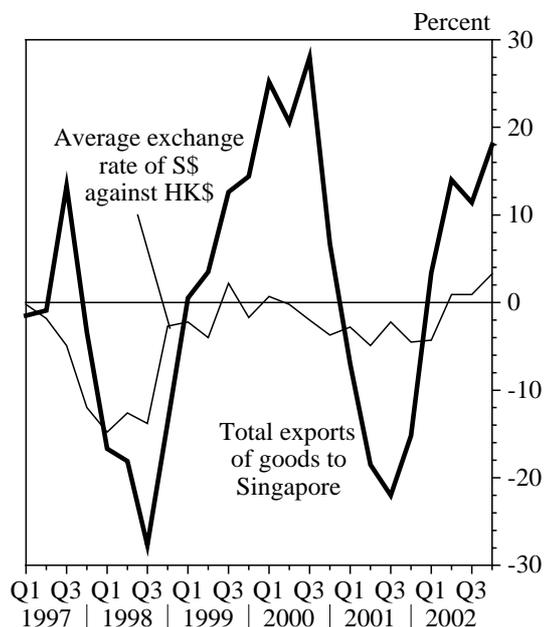
2.26 Total exports of goods to *Singapore* rebounded sharply over the course of 2002, as its import demand was resurrected after a distinct setback earlier. Following a modest growth in the first quarter, exports to this market were at double-digit growth for the rest of the year. Exports of consumer goods and capital goods were more robust, while exports of material inputs also improved. For 2002 as a whole, exports to this market surged by 11.7% in real terms, in stark contrast to the 16.1% slump in 2001.

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)

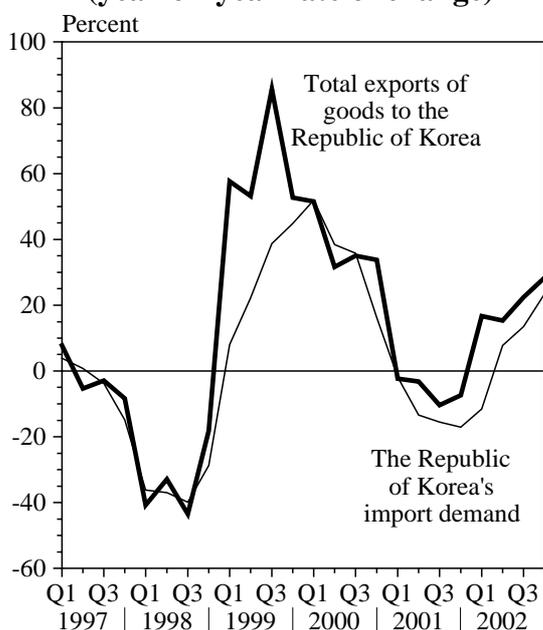


Note : (+) represents appreciation and (-) represents depreciation of the S\$ against HK\$.

/2.27

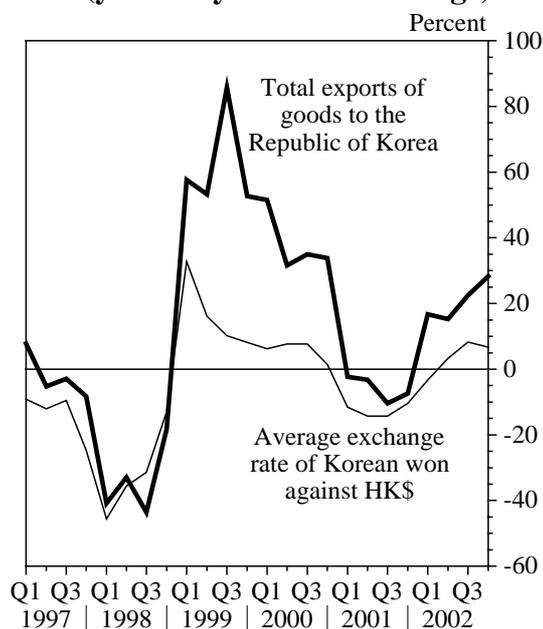
2.27 Total exports of goods to the *Republic of Korea* rebounded even more strongly in 2002, with double-digit growth attained in all quarters. The upsurge was particularly pronounced in the latter part of the year, consistent with the robust export performance of the country. There were leaps in exports to this market for almost all the major end-use categories. For 2002 as a whole, exports to this market soared by 20.8% in real terms. This contrasted with a 5.9% decline in 2001.

Diagram 2.18
Total exports of goods to the Republic of Korea and the Republic of Korea's import demand
 (year-on-year rate of change)



Note : See the footnote to Diagram 2.11.

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



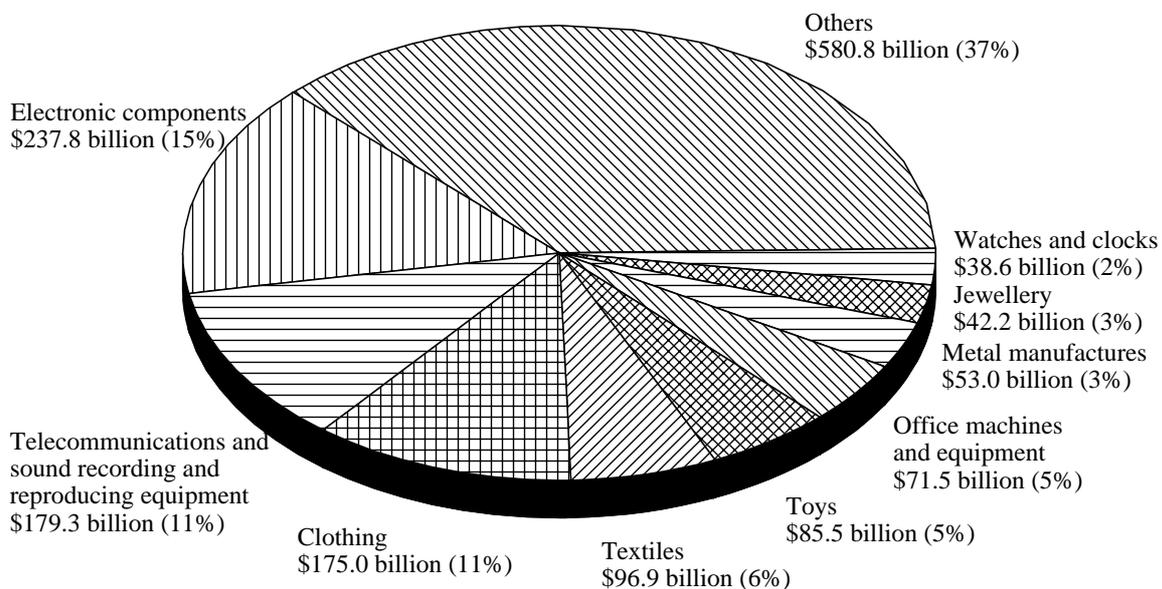
Note : (+) represents appreciation and (-) represents depreciation of the Korean won against HK\$.

/2.28

2.28 Analysed by major *commodity group*, electronic components continued to account for the largest share by value of Hong Kong's total exports of goods, at 15% in 2002. This was followed by telecommunications and sound recording and reproducing equipment (with a share of 11%), clothing (11%), textiles (6%), toys (5%), and office machines and equipment (5%). The rebound in export performance in 2002 was seen in almost all the major commodity groups, with particularly sharp surge in exports of office machines and equipment and of telecommunications products, and with also significant gain in exports of electronic components.

Diagram 2.19

Total exports of goods by major commodity group in 2002



Total exports of goods in 2002 : \$1,560.5 billion

/Table 2.15

Table 2.15**Total exports of goods by major commodity group
(year-on-year rate of change in real terms (%))**

		<u>Electronic components</u>	<u>Telecom -munications and sound recording and reproducing equipment</u>	<u>Clothing</u>	<u>Textiles</u>	<u>Toys</u>	<u>Office machines and equipment</u>
2001	Annual	4.7	-2.3	0.1	-7.0	-15.3	14.6
	H1	11.5	3.5	3.7	-5.2	-10.6	18.0
	H2	-1.0	-6.6	-2.6	-8.7	-18.3	11.8
	Q1	13.3	12.4	0.2	2.3	-0.5	16.8
	Q2	9.8	-4.1	7.2	-10.6	-18.1	19.2
	Q3	-0.3	-11.1	-3.5	-8.2	-10.7	16.8
	Q4	-1.8	-2.1	-1.6	-9.2	-27.5	7.2
2002	Annual	20.4	24.6	-1.1	5.5	1.4	31.1
	H1	9.4	10.7	-5.5	2.3	-5.2	36.4
	H2	30.9	36.3	2.4	8.6	6.0	26.4
	Q1	5.1	6.6	-7.7	-7.3	-12.6	37.8
	Q2	13.6	14.7	-3.6	10.3	1.5	35.0
	Q3	22.8	40.1	5.4	5.5	-1.8	18.7
	Q4	39.0	32.7	-0.9	11.9	17.5	33.9

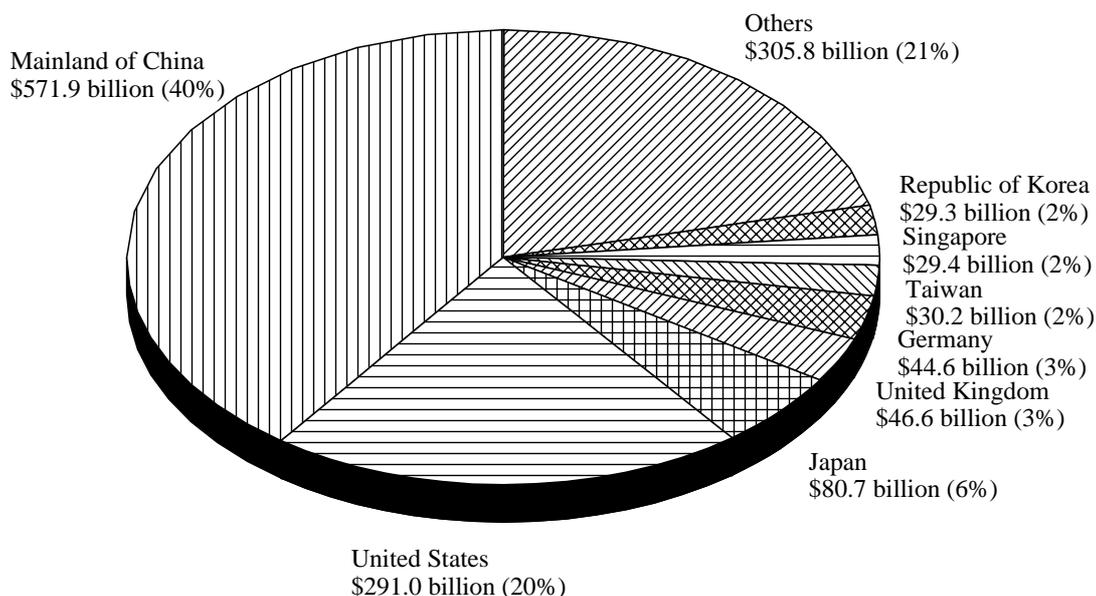
Re-exports

2.29 Re-exports continued to take up a predominant share of total exports of goods, at 92% by value in 2002, further up from 90% in 2001. Analysed by major *market*, the Mainland remained the largest market for Hong Kong's re-exports, accounting for 40% of the total value in 2002. It was followed by the United States (with a share of 20%), Japan (6%), the United Kingdom (3%), Germany (3%), Taiwan (2%), Singapore (2%), and the Republic of Korea (2%).

/Diagram 2.20

Diagram 2.20

Re-exports by major market in 2002



Total re-exports in 2002 : \$1,429.6 billion

Table 2.16

Value of re-exports by market

	2001			2002		
	Value (\$Bn)	Share in total (%)	Rate of change (%)	Value (\$Bn)	Share in total (%)	Rate of change (%)
All markets	1,327.5	100	-4.6	1,429.6	100	7.7
Mainland of China	496.6	37	1.6	571.9	40	15.2
United States	282.2	21	-9.3	291.0	20	3.1
Japan	83.6	6	1.8	80.7	6	-3.4
United Kingdom	46.8	4	-10.7	46.6	3	-0.3
Germany	45.8	3	-9.5	44.6	3	-2.6
Taiwan	30.0	2	-10.9	30.2	2	0.6
Singapore	26.9	2	-15.9	29.4	2	9.3
Republic of Korea	24.6	2	-8.7	29.3	2	18.8
Rest of the world	291.0	22	-7.4	305.8	21	5.1

/2.30

2.30 The pick-up in re-exports to the major markets in 2002 was almost across-the-board. Re-exports to many of the East Asian markets, including the Mainland, the Republic of Korea, Malaysia, Singapore and Thailand, attained double-digit growth in real terms in 2002, with the growth momentum accelerating even more markedly towards the end of the year. Re-exports to Japan, though also reviving distinctly over the course of the year, had virtually zero growth for 2002 as a whole. Re-exports to the United States reverted to positive growth in the second quarter, with growth picking up visibly further in the third and fourth quarters. Re-exports to the United Kingdom and Germany had a similar profile, though at a less rapid acceleration than those to the United States.

Table 2.17

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

		Mainland of China	United States	Japan	United Kingdom	Germany	Taiwan	Singapore	Republic of Korea
2001	Annual	4.8	-8.9	3.7	-9.0	-8.1	-7.7	-12.6	-5.4
	H1	8.3	-5.0	12.4	-5.5	-7.0	-3.3	-9.6	-2.0
	H2	1.9	-12.1	-3.5	-11.7	-9.0	-11.6	-15.3	-8.4
	Q1	11.1	1.3	17.4	0.6	1.7	-2.4	-3.1	-1.4
	Q2	6.0	-10.2	7.5	-10.9	-15.2	-4.2	-15.6	-2.6
	Q3	7.8	-10.2	-0.3	-9.8	-11.4	-17.0	-18.9	-10.3
	Q4	-3.9	-14.2	-6.4	-13.6	-6.7	-6.1	-11.3	-6.6
2002	Annual	18.5	6.0	*	2.8	0.7	4.7	13.8	22.5
	H1	11.1	-2.6	-7.9	-2.7	-8.4	-3.8	12.0	18.2
	H2	25.1	13.5	7.6	7.4	8.6	13.2	15.4	26.7
	Q1	7.8	-12.2	-10.3	-8.4	-13.7	-6.0	7.1	19.5
	Q2	14.0	6.5	-5.3	2.9	-2.5	-1.7	17.2	16.8
	Q3	18.4	11.2	3.1	6.2	6.6	18.8	12.5	23.6
	Q4	32.5	16.1	12.1	8.7	10.4	8.2	18.1	29.7

Notes : See the footnote to Table 2.5.

(*) Change of less than 0.05%.

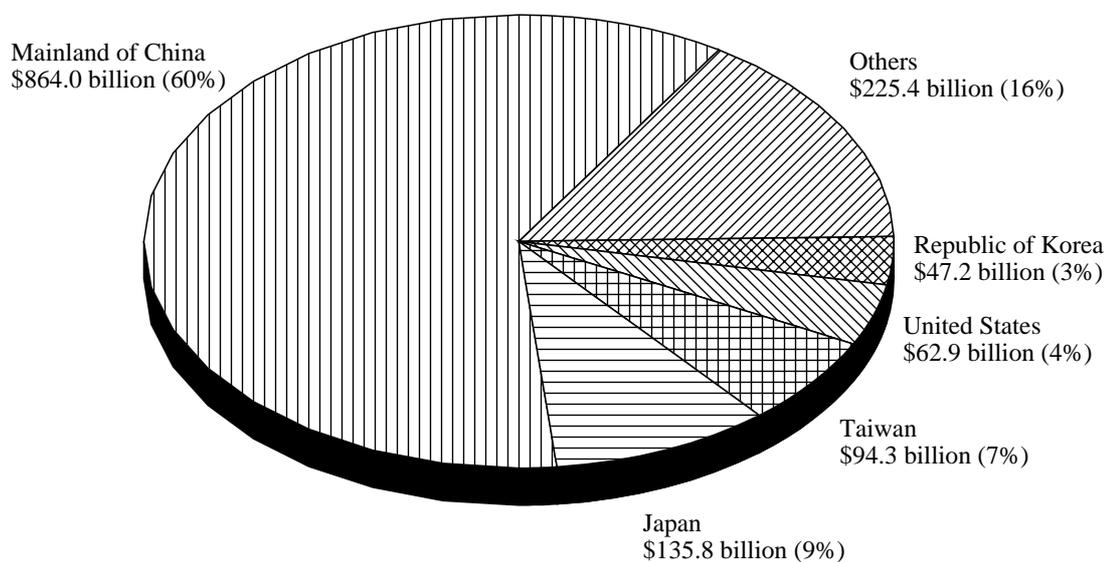
/2.31

2.31 The Mainland remained the largest *source* of Hong Kong's re-exports, supplying 60% by value of the goods re-exported through Hong Kong in 2002. Other major sources included Japan (with a share of 9%), Taiwan (7%), the United States (4%), and the Republic of Korea (3%).

2.32 Re-exports from almost all the major sources showed improvement albeit to different degrees in 2002. Re-exports sourced from Taiwan and the Republic of Korea had the most distinct growth. But re-exports sourced from the United States remained on a decline.

Diagram 2.21

Re-exports by major source in 2002



Total re-exports in 2002 : \$1,429.6 billion

/Table 2.18

Table 2.18**Value of re-exports by source**

	<u>2001</u>			<u>2002</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	1,327.5	100	-4.6	1,429.6	100	7.7
Mainland of China	808.4	61	-4.8	864.0	60	6.9
Japan	125.6	9	-8.5	135.8	9	8.1
Taiwan	80.3	6	-8.7	94.3	7	17.4
United States	65.2	5	-0.4	62.9	4	-3.5
Republic of Korea	39.8	3	-13.6	47.2	3	18.7
Rest of the world	208.2	16	1.3	225.4	16	8.3

Domestic exports

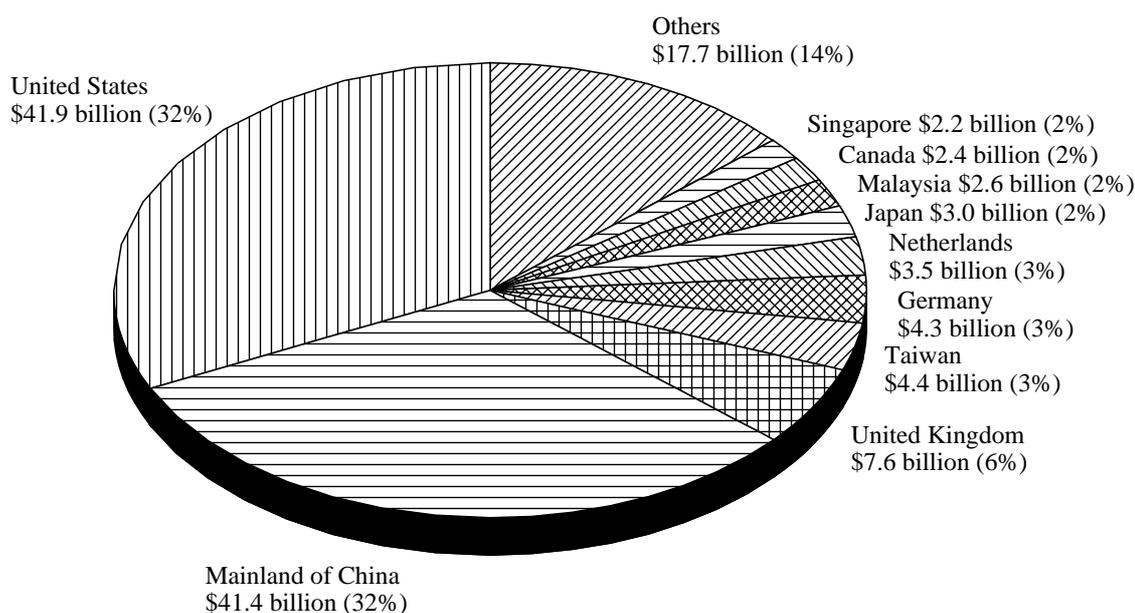
2.33 The Mainland and the United States were the largest *markets* for Hong Kong's domestic exports, both accounting for 32% of the total value in 2002. They were followed by the United Kingdom (with a share of 6%), Taiwan (3%), Germany (3%), the Netherlands (3%), Japan (2%), Malaysia (2%), Canada (2%), and Singapore (2%).

2.34 Domestic exports to nearly all of the major markets fell distinctly further in 2002, as the structural shift to re-exports and offshore trade continued. For domestic exports to the United Kingdom and Singapore, some relative improvement was nevertheless observed in the second half of the year. But domestic exports to most of the other major markets were weak all through the year.

/Diagram 2.22

Diagram 2.22

Domestic exports by major market in 2002



Total domestic exports in 2002 : \$130.9 billion

Table 2.19

Value of domestic exports by market

	<u>2001</u>			<u>2002</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	153.5	100	-15.2	130.9	100	-14.7
United States	47.6	31	-12.6	41.9	32	-11.9
Mainland of China	49.5	32	-8.5	41.4	32	-16.5
United Kingdom	8.6	6	-19.7	7.6	6	-11.5
Taiwan	5.3	3	-12.4	4.4	3	-17.9
Germany	5.8	4	-37.4	4.3	3	-26.6
Netherlands	4.6	3	18.1	3.5	3	-24.9
Japan	4.1	3	-20.1	3.0	2	-26.9
Malaysia	1.7	1	-35.7	2.6	2	53.6
Canada	3.1	2	-3.7	2.4	2	-22.0
Singapore	2.7	2	-43.8	2.2	2	-18.4
Rest of the world	20.5	13	-23.2	17.7	14	-13.4

/Table 2.20

Table 2.20

**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>Taiwan</u>	<u>Germany</u>	<u>Netherlands</u>	<u>Japan</u>	<u>Singapore</u>
2001	Annual	-1.6	-9.8	-15.7	-2.4	-32.8	36.3	-19.2	-39.3
	H1	-4.1	-8.2	-15.8	-3.3	-32.3	39.1	-19.6	-34.4
	H2	0.8	-11.1	-15.7	-1.5	-33.3	33.6	-19.0	-44.2
	Q1	-5.9	-12.8	-22.1	5.4	-27.8	3.4	-21.0	-30.9
	Q2	-2.5	-3.8	-9.2	-10.3	-36.8	79.6	-18.0	-37.9
	Q3	1.7	-14.8	-18.7	-10.5	-38.1	24.5	-18.6	-44.1
	Q4	-0.3	-6.8	-12.3	7.0	-27.9	43.4	-19.4	-44.3
2002	Annual	-13.5	-9.5	-10.2	-11.4	-25.7	-4.5	-22.0	-8.2
	H1	-5.9	-15.2	-22.8	-3.1	-29.7	7.0	-17.1	-21.9
	H2	-20.3	-4.5	1.0	-19.1	-21.4	-16.2	-26.5	7.6
	Q1	3.5	-18.1	-22.8	-0.8	-33.3	14.0	-12.9	-28.3
	Q2	-13.3	-12.7	-22.7	-5.3	-25.6	2.4	-21.4	-14.6
	Q3	-19.1	1.5	-0.5	-5.8	-17.6	-0.3	-27.2	0.1
	Q4	-21.7	-10.9	2.5	-29.6	-25.0	-30.9	-25.7	16.1

Note : See the footnote to Table 2.5.

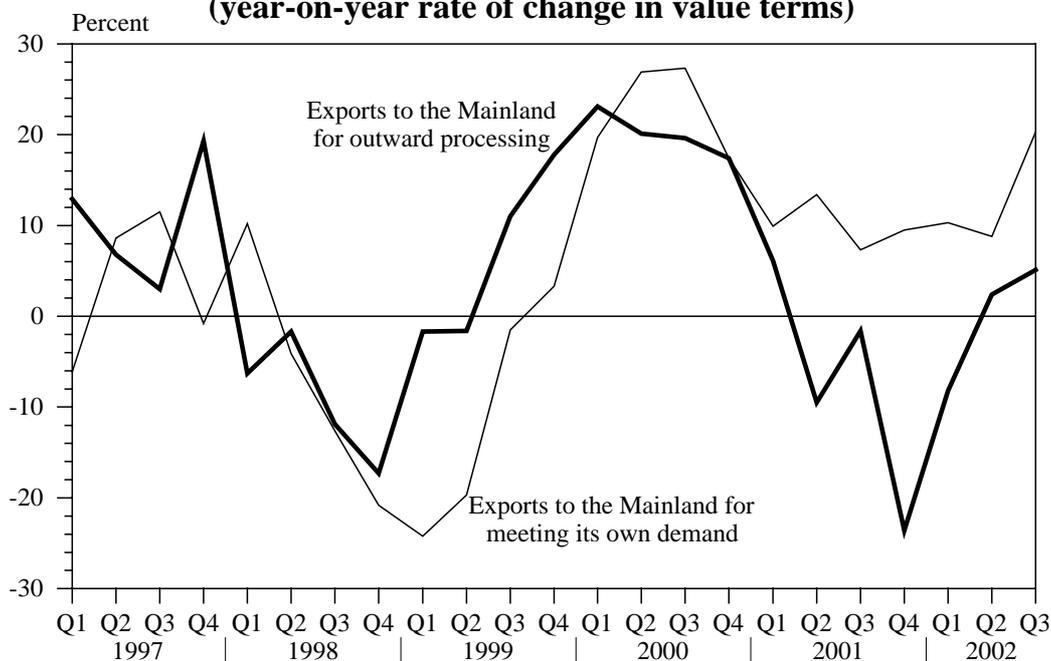
Outward processing trade

2.35 Reflecting the on-going structural shift from re-exports towards offshore trade and direct shipment from the Mainland, the prominence of outward processing trade⁽⁹⁾ in Hong Kong's total trade in goods was reduced over the course of 2002. The proportion of exports for outward processing in Hong Kong's total exports of goods to the Mainland fell to 46% in the first three quarters of 2002, from 49% in the same period in 2001. The proportion of imports after outward processing in Hong Kong's imports of goods from the Mainland also fell, to 74% in the first three quarters of 2002, from 78% in the same period in 2001. Yet the proportion of re-exports after outward processing in Hong Kong's re-exports of Mainland origin remained at 83% in the first three quarters of 2002, unchanged from that in the same period in 2001.

/2.36

2.36 Total exports of goods to the Mainland for outward processing improved progressively during the year, along with a stronger import intake in the Mainland for export processing. Yet because of a weak start, there was virtually no change in value terms for the first three quarters of 2002 taken together from a year earlier. This still represented a relative gain from the 8.0% decline in 2001. Total exports of goods to the Mainland for meeting its own demand were robust throughout, and more so in the third quarter. For the first three quarters of 2002 taken together, there was a 13.3% surge in value terms over a year earlier, up further from the 10.0% leap in 2001.

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 2.21

Table 2.21

**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>
2001	Annual	0.6	-8.0	10.0
	H1	4.4	-2.5	11.8
	H2	-2.7	-12.8	8.4
	Q1	8.0	6.1	9.9
	Q2	1.4	-9.5	13.4
	Q3	2.7	-1.6	7.3
	Q4	-8.0	-23.6	9.5
	2002	H1	3.6	-2.7
Q1-Q3		6.9	0.1	13.3
Q1		1.1	-8.2	10.3
Q2		5.8	2.4	8.8
Q3		12.8	5.1	20.3

2.37 Imports of goods from the Mainland after outward processing, though resuming growth in the third quarter, still had a 4.3% decrease in value terms for the first three quarters of 2002 taken together over a year earlier. This came after a 6.2% fall in 2001. Re-exports of Mainland origin after outward processing had a broadly similar profile, with resumed growth in the third quarter, yet still down by 2.6% in value terms in the first three quarters of 2002 taken together over a year earlier. This followed a 10.7% dip in 2001.

/Table 2.22

Table 2.22

**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 (%))**

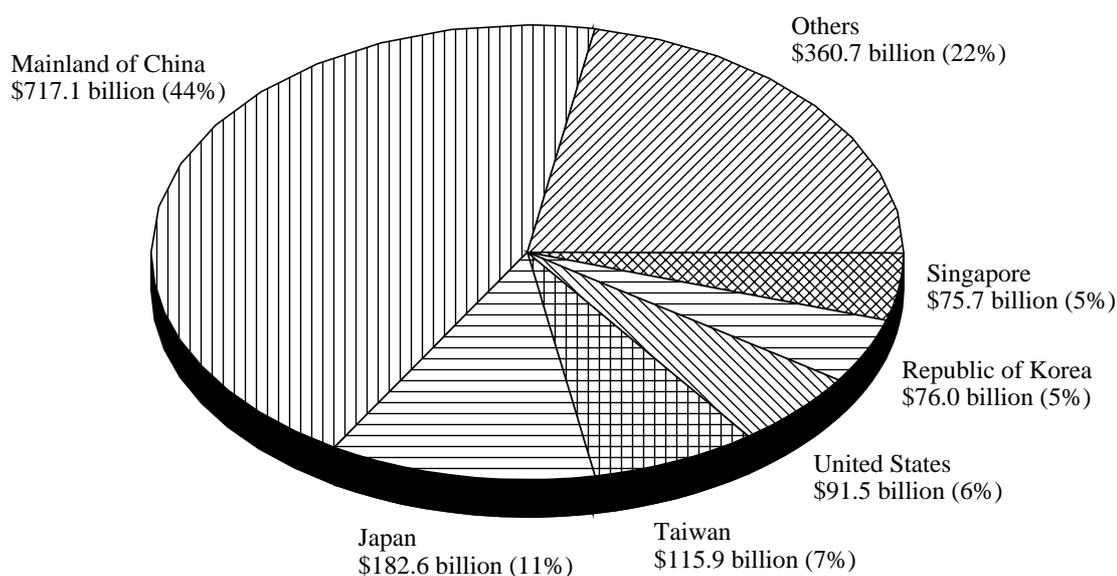
		<u>Imports of goods from the Mainland after outward processing</u>	<u>Re-exports of Mainland origin after outward processing</u>
2001	Annual	-6.2	-10.7
	H1	-0.2	-4.3
	H2	-11.0	-16.0
	Q1	4.6	0.8
	Q2	-4.1	-8.6
	Q3	-11.4	-11.2
	Q4	-10.6	-20.8
2002	H1	-10.4	-6.5
	Q1-Q3	-4.3	-2.6
	Q1	-10.9	-6.4
	Q2	-9.9	-6.7
	Q3	6.3	4.3

Imports of goods

2.38 The Mainland continued to be the largest *source* of Hong Kong's imports of goods, accounting for 44% of the total value in 2002. Other major sources of imports included Japan (with a share of 11%), Taiwan (7%), the United States (6%), the Republic of Korea (5%), and Singapore (5%).

2.39 Propelled by the resurgence in intra-regional trade, imports from all the East Asian economies reverted to positive growth in 2002. But imports from the United States had an enlarged decline.

/Diagram 2.24

Diagram 2.24**Imports of goods by major source in 2002**

Total imports of goods in 2002 : \$1,619.4 billion

Table 2.23**Value of imports of goods by source**

	<u>2001</u>			<u>2002</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> in total (%)	<u>Rate</u> of change (%)	<u>Value</u> (\$Bn)	<u>Share</u> in total (%)	<u>Rate</u> of change (%)
All sources	1,568.2	100	-5.4	1,619.4	100	3.3
Mainland of China	682.0	43	-4.6	717.1	44	5.1
Japan	176.6	11	-11.2	182.6	11	3.4
Taiwan	107.9	7	-13.1	115.9	7	7.4
United States	104.9	7	-7.0	91.5	6	-12.8
Republic of Korea	70.8	5	-12.2	76.0	5	7.3
Singapore	72.9	5	-2.8	75.7	5	3.9
Rest of the World	353.1	23	0.5	360.7	22	2.2

/Table 2.24

Table 2.24

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

		Mainland of China	Japan	Taiwan	United States	Republic of Korea	Singapore
2001	Annual	-2.9	-7.1	-7.1	-4.5	-5.3	2.4
	H1	0.7	-0.2	-0.8	3.6	1.6	5.5
	H2	-5.9	-13.2	-12.6	-11.7	-11.6	-0.3
	Q1	6.2	1.1	1.4	3.3	-2.5	11.3
	Q2	-4.0	-1.4	-2.7	3.8	5.9	0.5
	Q3	-5.9	-8.7	-11.0	-2.9	-8.7	0.8
	Q4	-5.9	-17.6	-14.3	-20.1	-14.4	-1.5
2002	Annual	9.0	7.7	12.0	-7.9	12.5	10.0
	H1	3.1	-3.0	3.3	-14.4	1.1	1.3
	H2	14.2	18.8	20.8	-1.2	24.3	18.5
	Q1	-2.7	-7.4	1.0	-16.4	-3.1	-1.0
	Q2	8.6	1.2	5.4	-12.5	5.2	3.4
	Q3	11.9	12.7	16.9	-8.0	24.6	9.8
	Q4	16.7	25.2	25.0	6.7	24.1	27.9

Note : See the footnote to Table 2.5.

Retained imports

2.40 Japan again overtook the Mainland to become the largest *source* of Hong Kong's retained imports in 2002, having been surpassed by the Mainland in 2001. They accounted for about 14% and 12% respectively of the total value of retained imports in 2002. Other major suppliers of retained imports included the Republic of Korea (with a share of 9%), Singapore (8%), the United States (7%), and Taiwan (6%).

2.41 Analysed by *end-use category*, retained imports of consumer goods rose more moderately by 5.7% in real terms in 2002, after a faster growth of 8.4% in 2001. The growth was more notable in electrical appliances and jewellery, yet more modest in clothing. Retained imports of foodstuffs had further moderate growth at 5.3% in real terms in 2002, having risen by 2.2% in 2001.

/2.42

2.42 Retained imports of capital goods plummeted by 13.6% in real terms in 2002, in stark contrast to an 8.1% growth in 2001. There was nevertheless a relative improvement towards the end of the year, helped in part by a low base of comparison a year earlier. The setback in 2002 was mainly concentrated in intake of office equipment and of capital goods in the “others” category. Intake of construction machinery nevertheless held up rather well for much of the year. Intake of industrial machinery had a lesser decline. Intake of telecommunications equipment fell slightly.

2.43 Retained imports of raw materials and semi-manufactures, having plunged by 14.5% in 2001, reverted to positive growth at 9.8% in real terms in 2002. There should have been some inventory replenishment following the draw-down in 2001. Retained imports of fuels picked up to a 4.8% rise in real terms in 2002, after a meagre increase of 0.2% in 2001.

Table 2.25

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

		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2001	Annual	8.4	2.2	8.1	-14.5	0.2
	H1	6.6	-1.6	14.7	-6.2	3.0
	H2	10.2	5.9	2.6	-22.2	-2.3
	Q1	1.3	2.2	28.3	-7.6	4.7
	Q2	11.8	-5.3	3.5	-4.8	1.5
	Q3	12.3	16.3	12.3	-23.2	-8.2
	Q4	8.0	-3.9	-7.0	-21.2	4.1
	2002	Annual	5.7	5.3	-13.6	9.8
	H1	0.7	9.7	-16.6	-2.1	0.7
	H2	10.7	1.2	-10.9	23.1	8.8
	Q1	-2.3	14.2	-23.0	-9.2	-3.3
	Q2	3.3	5.0	-10.1	4.4	4.4
	Q3	11.9	-8.9	-18.0	27.1	7.8
	Q4	9.3	12.7	-2.3	19.1	9.7

Note : See the footnote to Table 2.5 and Note (a) to Table 2.7.

/Table 2.26

Table 2.26**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>Tele- communications equipment</u>	<u>Other capital goods</u>
2001	Annual	-4.2	35.0	-10.0	27.7	31.1
	H1	3.7	23.9	-7.7	65.9	21.0
	H2	-11.1	47.9	-12.1	2.6	39.8
	Q1	6.8	36.1	17.3	77.8	30.2
	Q2	1.1	15.2	-26.0	55.3	12.7
	Q3	-15.2	40.6	3.1	23.3	52.3
	Q4	-6.2	55.2	-27.6	-12.0	26.1
2002	Annual	-1.5	11.1	-12.3	-2.5	-38.9
	H1	-6.0	14.7	-22.9	-10.5	-30.9
	H2	3.0	7.7	-2.4	6.1	-44.9
	Q1	-7.5	2.2	-43.5	-4.3	-36.2
	Q2	-4.6	25.3	1.0	-16.7	-25.2
	Q3	-5.3	19.8	-18.5	12.7	-50.0
	Q4	12.1	-3.3	21.0	-0.5	-38.2

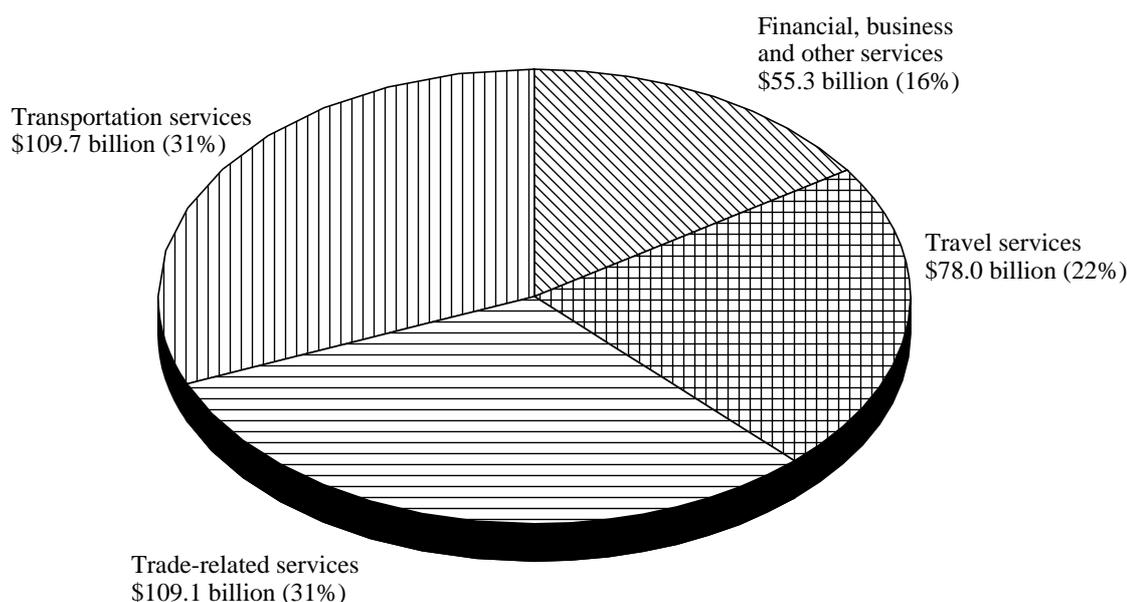
Note : See the footnote to Table 2.5 and Note (a) to Table 2.7.

Invisible trade*Exports of services*

2.44 Transportation services and trade-related services (comprising mainly offshore trade) both accounted for the largest shares in Hong Kong's exports of services, each at 31% by value in 2002. This was followed by exports of travel services (with a share of 22%), and financial, business and other services (16%).

/Diagram 2.25

Diagram 2.25
Exports of services by major service group in 2002



Exports of services in 2002 : \$352.2 billion

2.45 Exports of services accelerated in growth over the course of the year, giving a double-digit increase by 12.1% in real terms for 2002 as a whole. This was distinctly up from the 5.9% rise in 2001. Within the total, exports of travel services performed particularly well on the back of soaring incoming visitors, with a 21.1% growth in real terms in 2002. Exports of transportation services benefited from the distinct pick-up in external trade, with a 12.7% growth in real terms. Exports of trade-related services flourished, amidst the on-going shift towards offshore trading activities, with a 13.0% growth in real terms. But exports of financial, business and other services were generally subdued, with a 0.2% decline in real terms.

/Table 2.27

Table 2.27

**Exports of services by major service group
(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>Financial, business and other services</u>
2001	Annual	5.9	7.2	5.8	7.5	2.1
	H1	7.5	9.2	8.3	7.5	3.4
	H2	4.5	5.4	4.0	7.5	0.9
	Q1	7.4	9.9	11.3	4.7	0.9
	Q2	7.6	8.6	5.3	10.0	6.2
	Q3	3.7	5.1	3.7	3.4	1.7
	Q4	5.3	5.8	4.4	11.3	*
2002	Annual	12.1	12.7	13.0	21.1	-0.2
	H1	8.2	10.7	6.8	11.5	2.1
	H2	15.7	14.6	17.5	30.5	-2.3
	Q1	7.7	12.0	5.4	8.0	3.7
	Q2	8.6	9.4	8.3	14.4	0.3
	Q3	14.1	14.8	15.0	24.6	0.2
	Q4	17.2	14.4	19.8	35.6	-4.8

Notes : (a) Comprising mainly offshore trade.

(b) Comprising mainly inbound tourism receipts.

(*) Change of less than 0.05%.

Also see the footnote to Table 2.9.

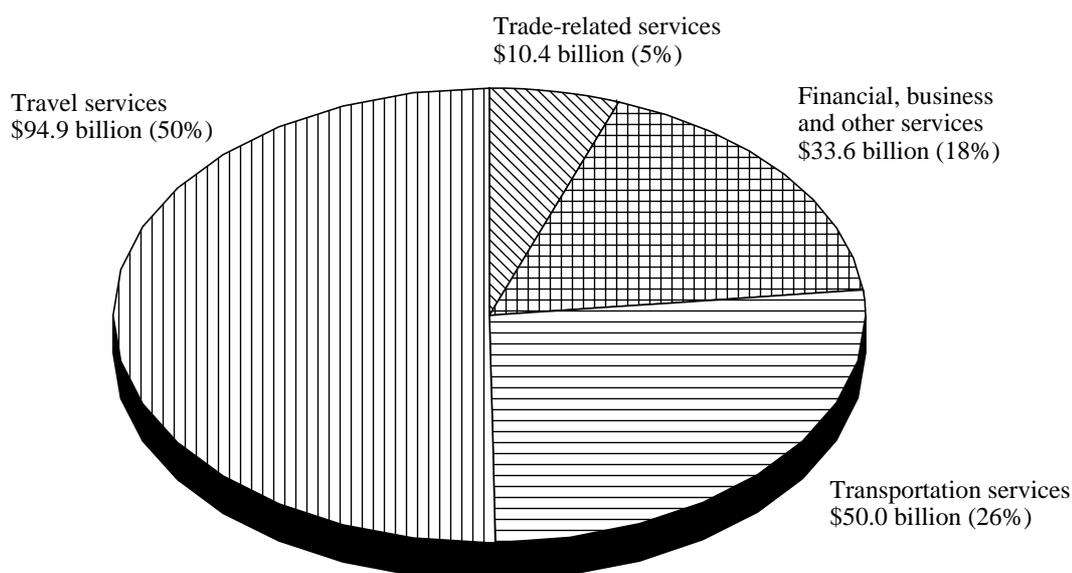
Imports of services

2.46 Travel services continued to account for the largest share in Hong Kong's imports of services, at 50% by value in 2002. This was followed by imports of transportation services (with a share of 26%), financial, business and other services (18%), and trade-related services (5%).

/Diagram 2.26

Diagram 2.26

Imports of services by major service group in 2002



Imports of services in 2002 : \$188.8 billion

2.47 With the decline in the early part of the year offset by the pick-up in the latter part, imports of services recorded a slight decline of 0.8% in real terms for 2002 as a whole, after a 0.2% decline in 2001. Within the total, imports of transportation services and trade-related services both reverted to positive growth at 1.5% and 2.5% respectively in real terms in 2002, along with the pick-up in merchandise trade. But imports of travel services and imports of financial, business and other services were both weak, falling by 2.2% and 1.1% respectively in real terms.

/Table 2.28

Table 2.28

**Imports of services by major service group
(year-on-year rate of change in real terms (%))**

		<i>Of which :</i>				Financial, business and other services
		<u>Imports of services</u>	<u>Travel services^(a)</u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Financial, business and other services</u>
2001	Annual	-0.2	0.9	-2.8	-2.9	1.3
	H1	2.4	2.3	2.6	-0.6	3.2
	H2	-2.6	-0.5	-7.9	-4.5	-0.4
	Q1	3.3	3.2	4.8	2.2	1.9
	Q2	1.5	1.3	0.8	-3.3	4.6
	Q3	-2.4	-0.9	-6.3	-4.8	-0.1
	Q4	-2.8	*	-9.6	-4.1	-0.6
	2002	Annual	-0.8	-2.2	1.5	2.5
	H1	-2.6	-3.7	-2.9	-1.9	0.9
	H2	0.9	-0.7	6.0	5.7	-3.0
	Q1	-1.3	-2.0	-2.1	-3.2	2.6
	Q2	-4.0	-5.6	-3.6	-0.6	-0.8
	Q3	1.0	-1.5	6.9	3.5	-1.3
	Q4	0.9	0.2	4.9	7.8	-4.6

Notes : (a) Comprising mainly outbound travel spending.

(*) Change of less than 0.05%.

Also see the footnote to Table 2.9.

Overall balance of payments⁽¹⁰⁾

2.48 In the third quarter of 2002, the current account remained in sizeable surplus, at \$40.1 billion, equivalent to 12.3% of GDP in that quarter. This was more than doubled the surplus at \$19.3 billion or 6.3% of GDP in the second quarter. The enlarged surplus was due to a distinct narrowing in the visible trade deficit, a further increase in the invisible trade surplus, as well as a larger net external factor income inflow.

2.49 In the capital and financial account, there was a net outflow of financial non-reserve assets in the third quarter of 2002, at \$62.8 billion,

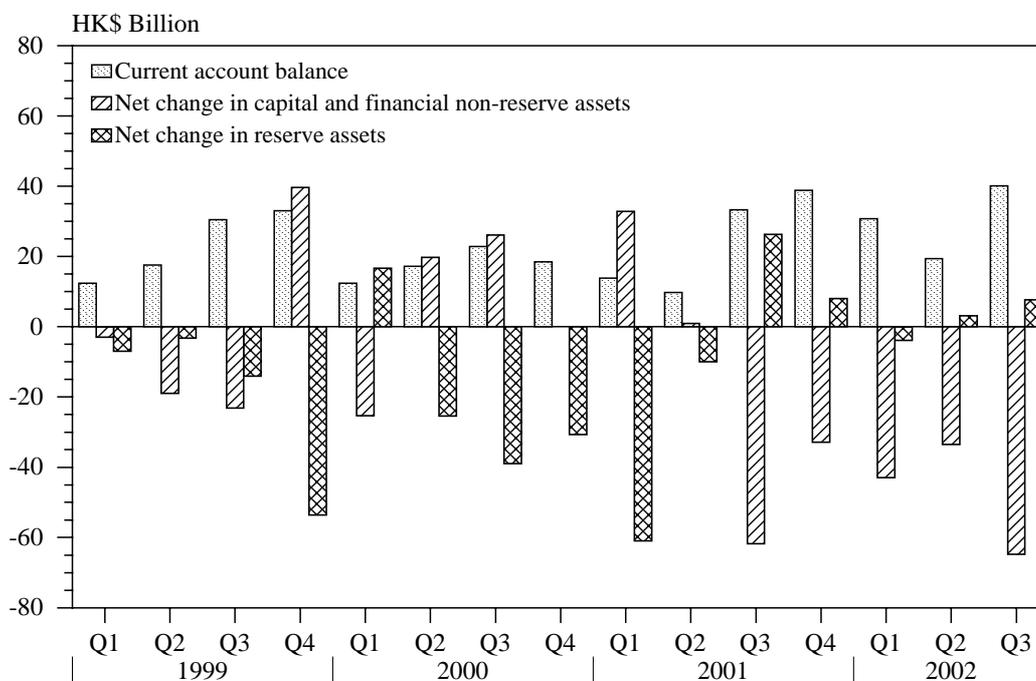
/equivalent

equivalent to 19.3% of GDP in that quarter. This was also more than doubled the net outflow at \$25.9 billion or 8.4% of GDP in the second quarter. Within the total, portfolio investment recorded a further large, albeit reduced, net outflow of \$82.5 billion in the third quarter. This was mainly attributable to a plunge in portfolio investment inflow amidst the volatile local stock market, as well as a surge in portfolio investment outflow to foreign equity securities. Direct investment switched to a net outflow of \$32.7 billion in the third quarter. Yet this was mainly due to a significant merger and acquisition activity conducted in that quarter. Other investment nevertheless had a further net inflow of \$58.1 billion in the third quarter. Also, there was a net cash settlement of financial derivatives, as net outflow at \$5.7 billion in the third quarter.

2.50 Overall, there was hence a balance of payments deficit at \$7.7 billion, equivalent to 2.4% of GDP, in the third quarter of 2002. Reserve assets decreased correspondingly by the same amount. Together with a surplus at \$0.7 billion in the first half of the year, there was an overall balance of payments deficit at \$7.0 billion, equivalent to 0.7% of GDP, in the first three quarters of 2002 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 2.29

Table 2.29**Hong Kong's balance of payments account
(\$ billion at current market prices)**

	<u>2000</u> [#]	<u>2001</u> [#]	<u>2001</u>				<u>2002</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)	71.0	95.8	13.8	9.8	33.3	38.9	30.8	19.3	40.1
Trade in goods	-63.8	-65.0	-24.6	-23.9	-11.4	-5.0	-12.4	-16.4	-5.6
Trade in services	126.0	133.5	28.4	31.7	33.3	40.1	31.9	37.2	41.4
External factor income flows	21.8	41.2	13.6	5.3	15.1	7.2	14.8	2.1	8.1
Current transfers	-13.0	-13.9	-3.6	-3.3	-3.6	-3.4	-3.5	-3.6	-3.8
Capital and financial account	-57.9	-97.4	-28.1	-9.0	-35.5	-24.8	-46.8	-30.4	-57.1
Net change in capital transfers	-12.0	-9.2	-1.5	-3.2	-2.9	-1.6	-3.0	-7.6	-1.9
Net change in financial non-reserve assets	32.5	-51.7	34.3	4.2	-58.9	-31.3	-40.0	-25.9	-62.8
<i>of which :</i>									
Direct investment	20.0	96.9	55.2	40.2	7.4	-5.9	-10.1	15.3	-32.7
Portfolio investment	190.8	-322.0	-111.4	-35.3	-82.4	-92.9	7.1	-117.8	-82.5
Financial derivatives	1.7	39.6	-7.2	12.8	25.3	8.6	12.3	6.1	-5.7
Other investment	-179.9	133.8	97.7	-13.6	-9.3	58.9	-49.2	70.6	58.1
Net change in reserve assets ^(b)	-78.3	-36.5	-61.0	-9.9	26.3	8.0	-3.9	3.1	7.7
Net errors and omissions	-13.1	1.6	14.3	-0.8	2.1	-14.1	16.0	11.0	17.0
Overall balance of payments	78.3	36.5	61.0	9.9	-26.3	-8.0	3.9	-3.1	-7.7

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 entered 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.

/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) Offshore trade is covered in exports of trade-related services within the broader component of exports of services in the Gross Domestic Product. It covers the services of both “merchanting” and “merchandising for offshore transactions”. Merchanting is defined as the services associated with trading of goods which are purchased from a party outside Hong Kong and then sold to another party outside Hong Kong, without the goods ever entering and leaving Hong Kong. Merchandising for offshore transactions is defined as the services of arranging on behalf of buyers/sellers outside Hong Kong the purchase/sale of goods according to their specifications. Earnings from offshore trade include the gross margin from merchanting and the commission from merchandising for offshore transactions.
- (4) Under the 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. The insurance and freight costs related to merchandise imports are entered as imports of services.
- (5) 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.
- (6) 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.
- (7) North America here comprises the United States and Canada.

/(8)

- (8) 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.
- (9) 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.

- (10) 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, factor 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.

Within the overall BoP account, the current account balance and the net change in capital and financial non-reserve assets taken together, which is deemed to represent the BoP position of the economy, matches exactly the net change in reserve assets, by virtue of the BoP accounting identity.

CHAPTER 3 : THE DOMESTIC ECONOMY

Net output or value added by economic activity

3.1 As indicated by the new data series on quarterly GDP by economic activity at constant prices⁽¹⁾, net output or value added for all the *service sectors* taken together⁽²⁾ was 4.2% higher in real terms in the third quarter of 2002 than a year earlier, further improved from nil change in the first quarter and a 1.8% increase in the second quarter. For the first three quarters of 2002 as a whole, there was a 2.1% rise in real terms, modestly exceeding the 1.4% increase in 2001. Analysed by constituent sector and on a year-on-year comparison in real terms, net output in transport, storage and communications rose by 3.2% in the first three quarters of 2002, underpinned by a further growth in international telephone and mobile phone traffic volumes, as well as by an expansion in cargo handling activity upon a rebound in external trade. Net output in the wholesale, retail and import/export trades, restaurants and hotels increased by 1.9%, along with a pick-up in trade-related services and inbound tourism. Net output in community, social and personal services went up by 0.9%, mostly attributable to increase in education and social welfare services. Net output in financing, insurance, real estate and business services edged up by 0.2% in real terms, as increased real estate and insurance businesses were virtually offset by reduced financing and business services.

3.2 On the other hand, net output in the local *manufacturing sector* continued to decline, by 6.4% in real terms in the third quarter of 2002 over a year earlier, although this was smaller than the reductions of 11.3% and 10.8% respectively in the first and second quarters. For the first three quarters of 2002 as a whole, there was a 9.4% decrease in real terms, further to a 8.6% fall in 2001. The weak performance of domestic exports and an on-going relocation of production processes outside Hong Kong were the major dampening factors. As to the *construction sector*, net output went up further by 2.4% in real terms in the third quarter of 2002 over a year earlier, having shrunk by 1.7% in the first quarter and rebounded by 3.2% in the second quarter. For the first three quarters of 2002 as a whole, there was a 1.2% increase in real terms, reversing a 4.3% fall in 2001. This was mainly attributable to more intensive work on some of the major private sector development projects during the year.

/Table 3.1

Table 3.1

GDP by economic activity^(a)
(year-on-year rate of change in real terms (%))

	<u>2001</u>					<u>2002</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>
Manufacturing	-8.6	-3.7	-4.0	-11.6	-13.8	-9.4	-11.3	-10.8	-6.4
Construction	-4.3	-6.7	-4.4	-8.3	1.6	1.2	-1.7	3.2	2.4
Services ^(b)	1.4	3.3	2.0	0.9	-0.3	2.1	*	1.8	4.2
<i>Of which :</i>									
Wholesale, retail and import/export trades, restaurants and hotels	-0.3	5.2	0.3	-0.6	-5.0	1.9	-2.8	1.0	6.8
Transport, storage and communications	2.1	7.7	1.2	0.6	-0.4	3.2	0.2	3.6	5.5
Financing, insurance, real estate and business services	-0.6	-3.3	3.5	-1.8	-0.5	0.2	-2.0	1.2	1.4
Community, social and personal services	3.9	6.7	2.5	4.4	2.6	0.9	1.1	0.6	1.2

Notes : (a) The GDP figures shown in this table are compiled from the production approach, in parallel with those shown in Table 1.1 which are compiled from the expenditure approach. For details, see Note (1) to this chapter.

(b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity. Also, charges of financial intermediation services are deducted.

(#) Revised figures.

(*) Change of less than 0.05%.

/3.3

3.3 There was a continued shift in the structure of the economy from manufacturing to services over the past years. Between 1991 and 2001, net output for the service sectors as a whole rose by an average of 8.0% per annum in value terms, whereas net output of the local manufacturing sector contracted by an average of 4.2% per annum in value terms. This led to a further distinct increase in the contribution of the service sectors as a whole to GDP from 76.6% to 86.5% over the period, concurrent with a distinct decrease in the contribution of the local manufacturing sector to GDP from 15.3% to 5.2%. Within the total for the service sectors in 2001, the wholesale, retail and import/export trades, restaurants and hotels continued to be the largest contributor to GDP, with a share of 26.7%. This was followed by financing, insurance, real estate and business services (22.6%), community, social and personal services (21.8%), and transport, storage and communications (10.2%). As to the construction sector, net output rose by an average of 5.4% per annum in value terms from 1991 to 2001. Its contribution to GDP however fell modestly over the period, from 5.4% to 4.8%.

3.4 The sectoral composition of employment exhibited a broadly similar shift as the sectoral contributions to GDP over the past decade. For the service sectors as a whole, the share in total employment⁽³⁾ had an even more distinct rise, from 69.0% in 1992 to 84.0% in 2002, in parallel with an even more distinct decline in the share for the local manufacturing sector from 21.5% to 6.1%. Concurrently, the share for the construction sector rose modestly, from 8.0% to 9.0%.

/Diagram 3.1

Diagram 3.1

Gross Domestic Product by economic sector

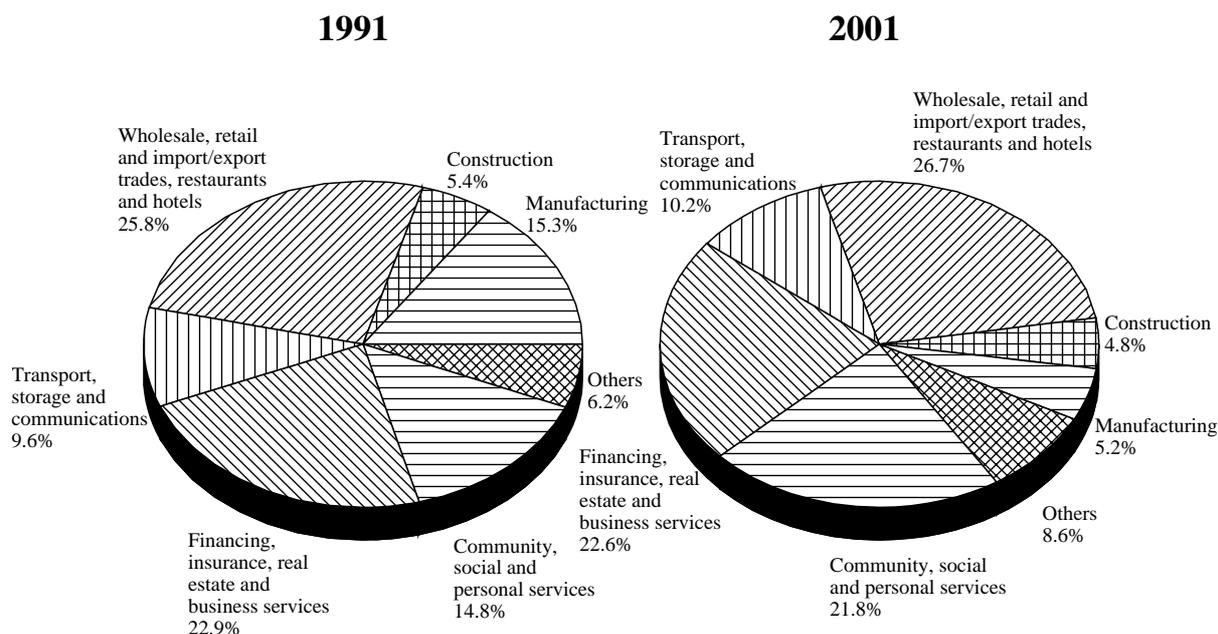
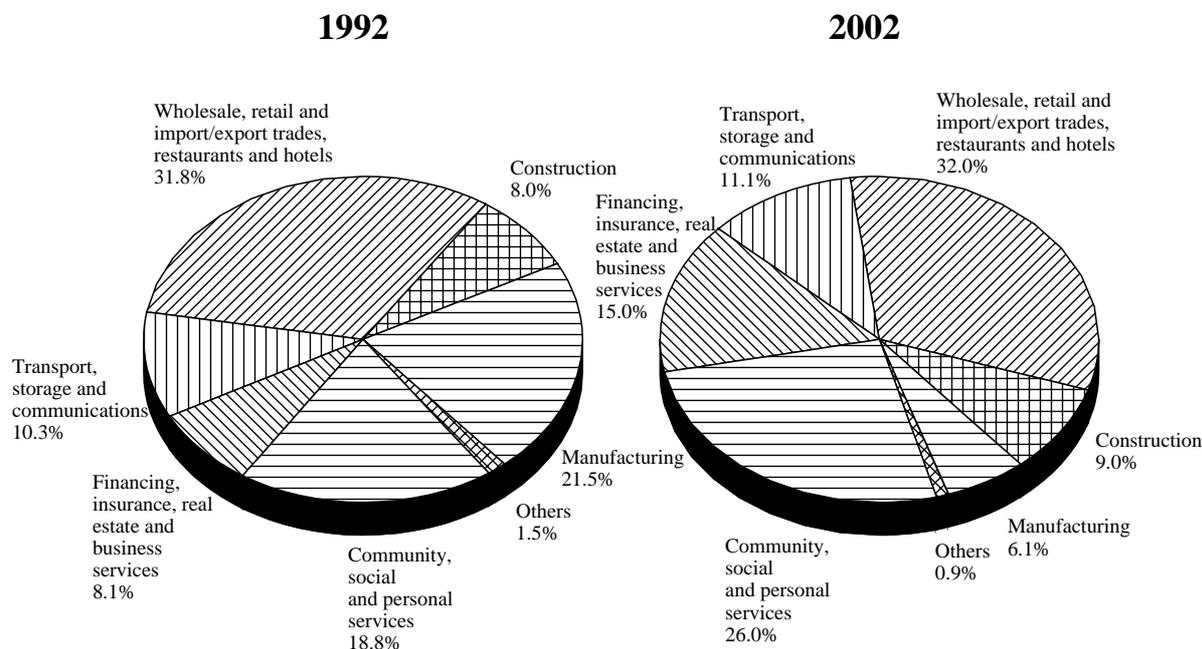


Diagram 3.2

Employment by economic 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 1992 refer to the annual average, while figures for 2002 refer to the average for the first three quarters of the year.

/Local

Local manufacturing output

3.5 The Index of Industrial Production⁽⁴⁾, as also reflecting output in the local manufacturing sector, fell by 11.6%, 11.2% and 7.3% respectively in volume in the first, second and third quarters of 2002 over a year earlier. For the first three quarters of 2002 as a whole, the Index shrank by 10.0% in volume over a year earlier, distinctly enlarged from the 4.4% drop in 2001. Analysed by major industry group and on a year-on-year comparison, output of the fabricated metal products, the consumer electrical and electronic products, and the machinery and equipment industries plummeted by 29.6%, 19.5% and 16.2% respectively in volume for the first three quarters of 2002 as a whole. Output of the plastic products, the textiles and the wearing apparel industries were also down visibly, by 11.9%, 7.5% and 6.4% in volume. Output of the paper products and printing industry had a more moderate decline, by 2.9% in volume. On a seasonally adjusted quarter-to-quarter comparison, the Index edged lower by 0.7% in volume in the third quarter of 2002, following decreases of 2.4 % and 1.3% respectively in the first and second quarters.

/Table 3.2

Table 3.2

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

	<u>2001</u>						<u>2002</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>
<u>Industry group</u>									
Wearing apparel	-0.1	3.1	3.4	-9.8	3.8	-6.4	-13.4	-10.5	4.0
Textiles	-0.3	3.5	1.7	-2.6	-2.0	-7.5	-10.6	-7.3	-5.9
Plastic products	-15.2	-12.4	-11.0	-12.0	-25.7	-11.9	-13.1	-7.4	-15.6
Consumer electrical and electronic products	*	-0.3	-2.0	-0.5	2.8	-19.5	-0.8	-29.6	-28.1
Machinery and equipment	-8.5	5.7	4.3	-13.7	-24.9	-16.2	-17.4	-19.7	-11.4
Fabricated metal products	-10.2	-7.0	-9.3	-14.5	-9.4	-29.6	-27.4	-30.7	-30.6
Paper products and printing	-1.2	0.2	2.0	-2.9	-4.2	-2.9	-10.5	1.0	0.1
Overall manufacturing	-4.4	-0.2	-0.1	-7.1	-9.3	-10.0	-11.6	-11.2	-7.3
		<1.4>	<-0.3>	<-7.3>	<-2.4>		<-2.4>	<-1.3>	<-0.7>

Notes : (#) Provisional figures.

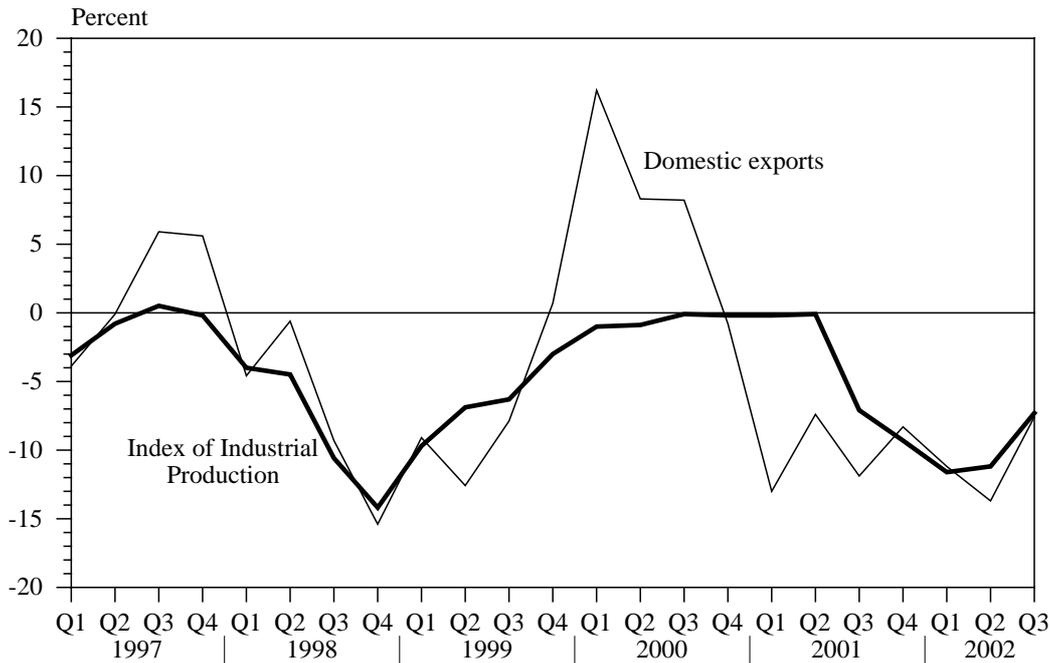
(*) Change of less than 0.05%.

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

/Diagram 3.3

Diagram 3.3

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



3.6 In the fourth quarter of 2002, domestic exports were still markedly lower in real terms than a year earlier, as were orders-on-hand in value terms in the local manufacturing sector⁽⁵⁾. These pointed to a further decrease in local manufacturing output in that quarter.

/Diagram 3.4

Diagram 3.4

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

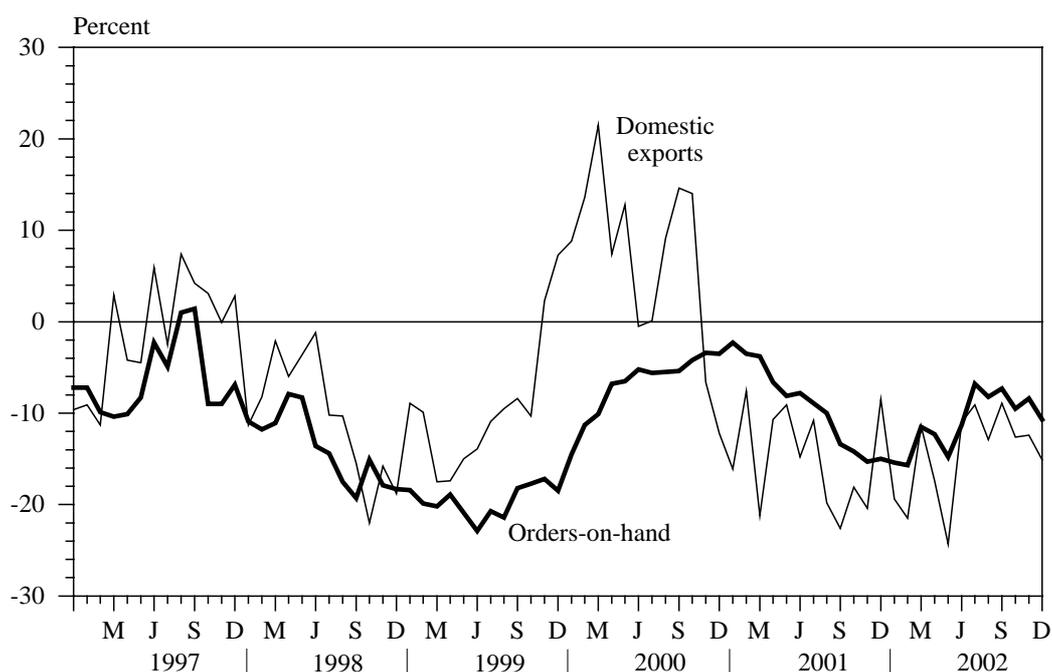


Table 3.3

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> (%)
2001	Mar	61.1	-3.8
	Jun	62.7	-7.7
	Sep	53.1	-13.4
	Dec	47.5	-15.0
2002	Mar	54.1	-11.5
	Jun	55.6	-11.3
	Sep	49.2	-7.3
	Dec [#]	42.4	-10.7

Note : (#) Provisional figures.

/Service

Service sector receipts

3.7 Business receipts declined extensively across most of the service sectors surveyed in the first three quarters of 2002, continuing the general downtrend observed since late 2000. Analysed by constituent sector and on a year-on-year comparison in value terms, business receipts in storage plunged by 23.2% for the first three quarters of 2002 as a whole, owing to a marked reduction in rental income amidst much vacant storage space. Business receipts in financing (except banking) dipped by 15.2%, mainly reflecting the effects of lower share prices and subdued trading. Business receipts in film entertainment contracted by 11.4%, on account of lower receipts from cinemas. Business receipts in the wholesale trade went down by 12.2%, and business receipts in restaurants and the retail trade by 5.3% and 4.6% respectively, being affected by sluggish consumer spending and larger price discounts by the business operators on their goods and services. Business receipts in hotels decreased by 7.5%, as the concessions offered on hotel tariffs more than offset the improvement in hotel room occupancy. Business receipts in business services declined by 6.5%, along with a general slow-down in commercial activities. Business receipts in the import/export trade and transport dropped by 5.3% and 0.5% respectively, with most of the decrease occurring in the early part of the year amidst the continued setback in external trade at that time. Business receipts in communications slid by 3.7%, consequential to a slash in charges for mobile phone and some other telecommunications services. Business receipts in banking were also reduced by 3.7%, with less interest income outweighing more income arising from commissions and service fees. Business receipts in real estate sank by 1.7%, as property prices and rentals continued to ease in moderate trading. Yet business receipts in insurance rose by 8.5%, in tandem with continued expansion in both general insurance and life insurance.

/Table 3.4

Table 3.4

**Index of Business Receipts for individual service sectors
(year-on-year rate of change in value terms (%))**

	<u>2001</u>						<u>2002</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>
<u>Service sector</u>									
Import/export trade	-14.1	-2.1	-13.7	-18.5	-20.0	-5.3	-15.4	-2.6	1.8
Wholesale trade	-12.0	-8.3	-12.5	-13.5	-13.3	-12.2	-14.7	-12.8	-8.9
Retail trade	-1.2	-0.1	2.3	-2.0	-5.3	-4.6	-3.7	-5.8	-4.3
Restaurants	-2.5	0.1	-0.7	-4.5	-4.8	-5.3	-5.4	-6.0	-4.5
Hotels	-7.6	3.3	1.9	-10.5	-21.3	-7.5	-12.5	-6.6	-2.5
Banking	2.7	-1.7	4.5	3.6	4.5	-3.7	-7.2	0.3	-4.2
Financing (other than banking)	-12.6	-14.5	1.5	-22.6	-13.5	-15.2	-25.2	-11.4	-6.9
Insurance	14.2	4.2	24.9	13.9	13.9	8.5	10.0	6.0	9.8
Real estate	-16.9	-22.0	-21.4	-18.1	-3.8	-1.7	-0.1	3.5	-8.4
Business services	-9.6	-0.7	-6.9	-12.8	-16.5	-6.5	-10.4	-4.0	-5.0
Transport	-2.4	11.3	-2.4	-8.2	-7.5	-0.5	-8.2	0.3	6.1
Storage	-14.9	-7.7	-13.1	-16.8	-22.0	-23.2	-21.7	-27.4	-20.4
Communications	-13.2	-11.0	-11.7	-16.0	-13.9	-3.7	-5.2	-4.3	-1.4
Film entertainment	15.2	3.0	22.2	18.1	17.6	-11.4	2.6	-15.5	-18.9

/Property

Property

3.8 The property market as a whole underwent further consolidation in 2002. Acquisition and lease demand generally fell short of absorbing the abundant supply, both existing and in the pipeline, and this led to a continued softening in property prices and rentals. Yet the markets for different types of property faced somewhat different circumstances and difficulties.

3.9 The sales market for *residential property* remained generally slack in 2002. While flat prices went down visibly further in 2002, there was a modest pick-up in transaction volume. The increase in trading activity was concentrated in the first half of the year, especially in the second quarter. Market sentiment was lifted by upbeat results of the two land auctions held in April and June, as well as the Government's announcement to resume sale of subsidised sale flats yet in a cautious and orderly manner after expiry of the ten-month moratorium at end-June⁽⁶⁾. But acquisition interest dwindled during most of the ensuing months, amidst renewed concern about job security and income instability, falling share prices, and in particular the continued ample supply of new flats. The brief rebound in trading volume seen in September was mainly stimulated by a fresh round of intensive sales promotion by developers, through offering even larger price discounts and other more generous concessions to prospective purchasers⁽⁷⁾. As a result, the primary market diverted the demand further and the secondary market was undermined even more. Towards the year-end, market activity again showed some pick-up, conceivably spurred by the Government's promulgation of nine policy measures to stabilise the housing market⁽⁸⁾.

3.10 On a quarter-to-quarter comparison, flat prices went lower on average by 2%, 4% and 7% respectively in the second, third and fourth quarters of 2002, having shown nil change in the first quarter. For the year 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 2002 plummeted by an average of 62%. Following the marked decline in flat prices and successive cuts in mortgage rate, and notwithstanding reduced household income, there was a substantial improvement in home purchase affordability over the past several years.

/3.11

3.11 The rental market for private residential flats stayed subdued in 2002. Apart from lesser lease demand upon the impact of reduced salaries and housing allowances, there appeared to have been increased supply of flats for lease from those hitherto for sale. Flat rentals came under greater downward pressure in those areas with a lot of newly completed flats. On a quarter-to-quarter comparison, private housing rentals on average declined by 4%, 3%, 2% and 4% respectively in the four quarters of 2002. For the year as a whole, there was on average a drop of 13%. Against the peak level in the third quarter of 1997, private housing rentals were significantly down in the fourth quarter of 2002, by an average of 43%. Mainly consequential to the distinct fall in flat rentals, lease affordability likewise improved over the past several years.

3.12 On the sale of government-subsidised flats, there was only one new round of sale of flats under the Home Ownership Scheme (HOS) in 2002, viz. HOS Phase 24A in July covering 2 451 new flats, following expiry of the ten-month moratorium on sale of subsidised sale flats at end-June 2002. By the year-end, 56% of these flats had been sold. As to the Tenant Purchase Scheme (TPS) for designated units in the public rental estates, a new batch of 25 728 flats was put out for sale under TPS Phase 5 in January. By the year-end, 50% of these flats had been sold to the sitting tenants.

3.13 On home ownership loans, 10 807 applications for the Home Purchase Loan Scheme (HPLS) were received in 2002, up substantially by 20% from those in 2001. Within this total, 6 601 applications were from Green Form applicants and 4 206 applications from White Form applicants. On the other hand, the number of applications for the Home Starter Loan Scheme (HSLs) went down substantially from those in 2001, by 72% to 6 186 in 2002, of which 2 449 applications were from family households and 3 737 applications from singleton households. As from January 2003, HPLS and HSLs were replaced by a new Home Assistance Loan Scheme (HALS), providing eligible households with either interest-free loans or mortgage loan subsidies⁽⁹⁾. HALS served to render greater flexibility and broader choice to eligible home purchasers, in line with the Government's move to stabilise the housing market as well as its policy to retreat from direct involvement in the market.

/3.14

3.14 On supply of new private residential flats, completions rose by 30% to 34 035 units in 2002, considerably accentuated from the 2% increase in 2001. Thus even with a concurrent rise in new take-ups, the vacancy rate moved up further, from 5.7% at end-2001 to 6.8% at end-2002. Completions of Government-subsidised flats fell sharply, by 48% to 11 658 units in 2002, after a 6% rise in 2001. Of this total, 9 188 units were HOS flats and 2 470 units were Private Sector Participation Scheme (PSPS) flats.

3.15 On *commercial property*, the rental market for *office space* weakened further in 2002, as demand continued to be dampened by on-going downsizing and rationalisation in the business sector. Grade A office space was additionally hit by an excess supply particularly in the central business district. Also relevant was the move by some companies to relocate their offices to secondary districts for saving costs. In order to uphold the occupancy rate, landlords generally offered larger rental cuts, longer rent-free period and other concessions to their tenants. On a quarter-to-quarter comparison, office rentals on average fell by 6%, 5%, 2% and 2% respectively in the four quarters of 2002. For the year as a whole, office rentals on average dipped by 14%. The sales market for office space was stagnant in 2002. Reduced rental yield against the heavy capital investment up-front had led potential purchasers to stay on the sideline. On a quarter-to-quarter comparison, prices of office space, having been static in the first quarter of 2002, moved lower on average by 3%, 2% and 5% respectively in the ensuing three quarters. For the year as a whole, there was on average a fall of 10%. Against their respective peak levels in 1997, prices and rentals of office space both plunged, by an average of 71% and 48% in the fourth quarter of 2002. On supply of new office space, completions soared by 117% to 166 000 m² in 2002, after decreasing by 20% in 2001. Together with a reduction in new take-ups, this resulted in a rise in the vacancy rate from 11.1% at end-2001 to 12.6% at end-2002.

/3.16

3.16 The rental market for *shopping space* was moderate in 2002, as demand remained generally languid amidst continued setback in the retail trade. Space in well-managed shopping arcades and in the popular shopping districts was nevertheless better sought after. On a quarter-to-quarter comparison, shop rentals on average went down by 3% and 1% respectively in the first two quarters of 2002, yet held steady in the third and fourth quarters. For the year as a whole, there was on average a 5% drop. The sales market for shopping space stayed quiet in 2002, as investors continued to adopt a cautious attitude in face of the slack conditions in the retail trade and an uncertain near-term outlook. On a quarter-to-quarter comparison, prices of shopping space, having on average held steady in the first and third quarters of 2002 and edged up by 3% in the second quarter, fell back by 7% in the fourth quarter. For the year as a whole, there was on average a decline of 3%. Yet against their respective peak levels in the third quarter of 1997, prices and rentals of shopping space both tumbled, by an average of 58% and 26% in the fourth quarter of 2002. On supply of new shopping space, completions increased further by 5% to 138 000 m² in 2002, after surging sharply by 105% in 2001. Together with a shrinkage in demand, this led to a rise in the vacancy rate for shopping space from 8.2% at end-2001 to 10.7% at end-2002.

3.17 On *industrial property*, the rental market was inactive in 2002. Demand for conventional factory space was restrained by a further contraction in local manufacturing activity. Demand for modern industrial premises for use as data centres and back-up service centres was also on the wane, amidst further consolidation in the information technology sector. On a quarter-to-quarter comparison, rentals of industrial space drifted lower in the first three quarters of 2002, on average by 2%, 3% and 2% respectively, and then edged up by 1% in the fourth quarter. For the year as a whole, rentals of industrial space on average slid by 6%. The sales market for industrial property was at a standstill in 2002, in the lack of buying interest. On a quarter-to-quarter comparison, prices of industrial space on average fell by 3% each in the first, third and fourth quarters of 2002, more than offsetting the 2% rise in the second quarter. For the year as a whole, there was on average a decrease of 7%. Against their respective peak levels in 1994, prices and rentals of industrial space both slumped, by an average of 68% and 46% in the fourth quarter of 2002. On supply of new industrial property, completions of conventional flatted factory space plummeted by 91% to 3 000 m² in 2002, and there was nil completion of industrial-cum-office space. Vacancy rate for these two types of industrial property declined, from 10.9% and 15.0% respectively at end-2001 to 10.5% and 12.5% at end-2002.

/Table 3.5

Table 3.5**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> (1999=100)		<u>Rental index^(b)</u> (1999=100)		<u>Price index</u> (1999=100)		<u>Rental index^(b)</u> (1999 =100)		<u>Price index</u> (1999=100)		<u>Rental index^(b)</u> (1999=100)		<u>Price index</u> (1999=100)		<u>Rental index^(b)</u> (1999=100)	
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	78.6	(-3)	95.4	(-2)	76.1	(-7)	100.6	(-3)	87.0	(*)	99.1	(-1)	82.8	(*)	88.5	(-3)
Q4	73.8	(-6)	91.4	(-4)	71.2	(-6)	95.6	(-5)	84.0	(-3)	97.4	(-2)	77.7	(-6)	87.4	(-1)
2002 Q1	73.8	(*)	87.4	(-4)	71.2	(*)	89.6	(-6)	84.4	(*)	94.0	(-3)	75.4	(-3)	85.5	(-2)
Q2	72.2	(-2)	84.8	(-3)	68.8	(-3)	85.4	(-5)	86.6	(3)	92.6	(-1)	76.9	(2)	83.0	(-3)
Q3 [^]	69.1	(-4)	82.7	(-2)	67.5	(-2)	84.0	(-2)	87.0	(*)	92.9	(*)	74.4	(-3)	81.2	(-2)
Q4 [^]	64.1	(-7)	79.3	(-4)	64.3	(-5)	82.6	(-2)	81.3	(-7)	92.6	(*)	71.9	(-3)	81.8	(1)

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 existing flats traded in the secondary market, but not new flats sold in the primary market.

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

() % change over the preceding quarter.

([^]) Provisional figures.

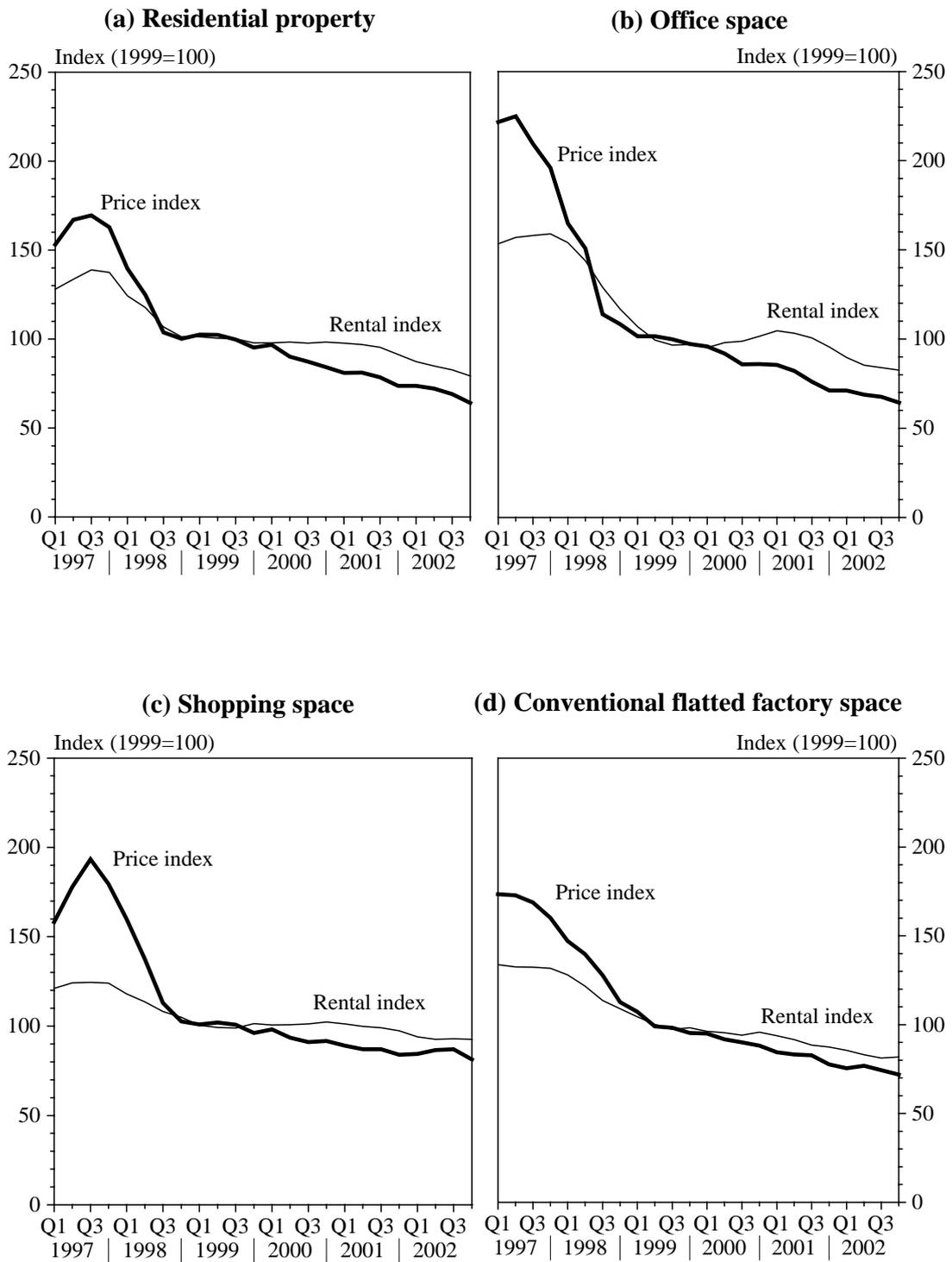
(*) Change of less than 0.5%.

Source : Rating and Valuation Department.

/Diagram 3.5

Diagram 3.5

Property prices and rentals



Note : See the footnotes to Table 3.5.

/Table 3.6

Table 3.6

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

		Average of the best lending rates quoted by the principal banks <u>in Hong Kong</u> (%)	Average of the effective mortgage rates charged on new mortgages by the principal banks <u>in Hong Kong</u> ^(a) (%)	Monthly instalment on \$100,000 mortgage loan charged according to the average effective mortgage rate with mortgage period of ^(b) (\$)		
				<u>10 years</u>	<u>15 years</u>	<u>20 years</u>
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
2002	Q1	5.13	2.63	949	673	536
	Q2	5.13	2.63	949	673	536
	Q3	5.13	2.63	949	673	536
	Q4	5.07	2.55	945	669	533
	Jan	5.13	2.63	949	673	536
	Feb	5.13	2.63	949	673	536
	Mar	5.13	2.63	949	673	536
	Apr	5.13	2.63	949	673	536
	May	5.13	2.63	949	673	536
	Jun	5.13	2.63	949	673	536
	Jul	5.13	2.63	949	673	536
	Aug	5.13	2.63	949	673	536
Sep	5.13	2.63	949	673	536	
Oct	5.13	2.63	949	673	536	
Nov	5.03	2.53	944	668	531	
Dec	5.00	2.50	943	667	530	

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

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

/Table 3.7

Table 3.7

**Completions of new property by the private sector
(^{'000m²} 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	
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)
2002	Annual [^]	34 035 (30)	166 (117)	138 (5)	304 (46)	3 (-91)	27 (--)	0 (-100)	29 (-35)
	Q1	3 356 (-49)	52 (79)	18 (-49)	69 (10)	3 (--)	0 (--)	0 (--)	3 (--)
	Q2	6 272 (1)	53 (171)	22 (-41)	75 (33)	0 (--)	0 (--)	0 (-100)	0 (-100)
	Q3	13 348 (162)	9 (-64)	41 (-23)	49 (-36)	0 (-100)	0 (--)	0 (--)	0 (-100)
	Q4 [^]	11 059 (31)	52 (1 389)	58 (671)	110 (899)	0 (-100)	27 (--)	0 (--)	27 (82)

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 the 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.

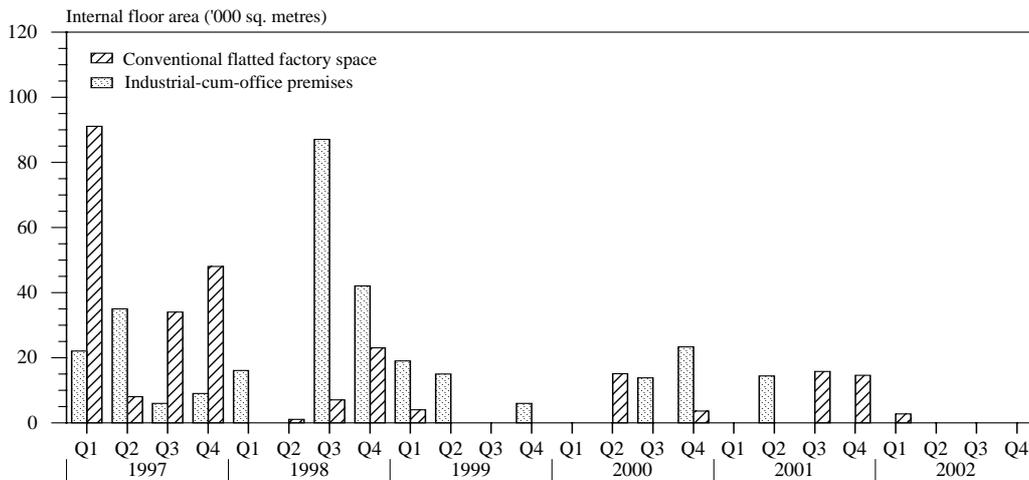
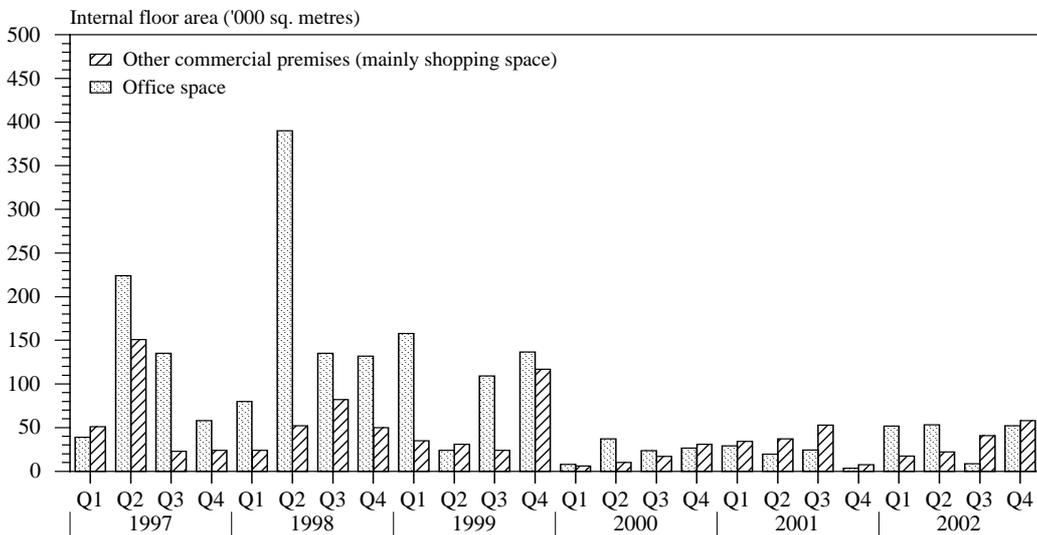
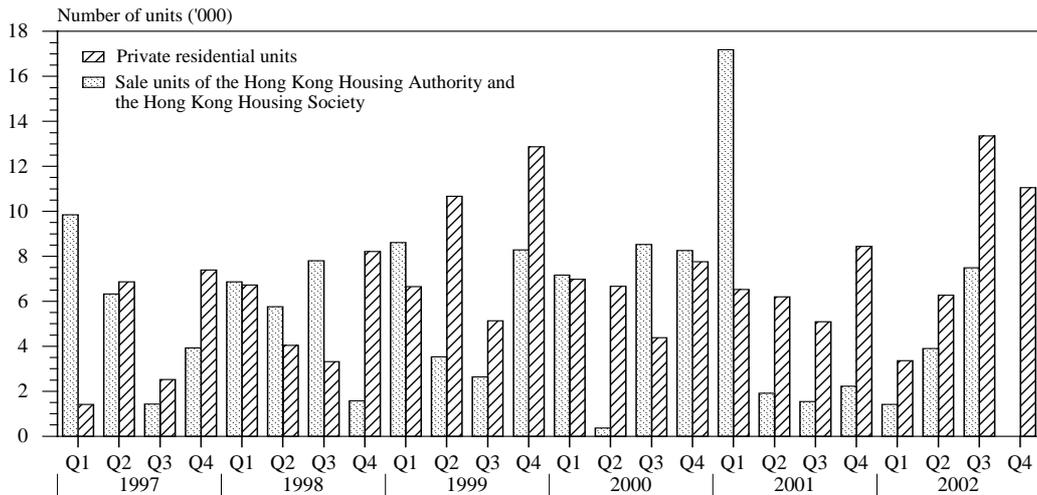
(--). Not applicable.

Source : Rating and Valuation Department.

/Diagram 3.6

Diagram 3.6

Completions of new property by major category



Note : See the footnotes to Table 3.7.

3.18 *Property transactions*, as measured by agreements for sale and purchase of property registered with the Land Registry, shrank by 3% in number in 2002. The decrease was concentrated in the second half of the year, outweighing the increase in the first half. In 2001, there was a rise of 3%. In total value, property transactions were also down, by 4% in 2002, which was nevertheless smaller than the 13% fall in 2001. Analysed by main type of property, transactions in residential property rose modestly, by 5% in number and 2% in total value in 2002. The increase occurred mainly in the first half of the year. By contrast, transactions in non-residential property contracted considerably, by 30% in number and 26% in total value in 2002. There was a much larger decline in the first half of the year than in the second half.

3.19 Property transfer assignments, being a lagging indicator of property transactions, fell by 17% in number and 19% in total value in 2002. These exceeded much the decreases of 5% and 11% in 2001. As to mortgage arrangements, there was likewise a more distinct drop in number in 2002 than in 2001, by 22% as against 14%. This was attributable to the fall-off in property transfer assignments, as well as reduced re-financing arrangements for existing property.

/Table 3.8

Table 3.8**Agreements for sale and purchase of property**

		<u>Number</u>						<u>Total value (\$Bn)</u>					
		Residential property ^(a)		Non-residential property		Total		Residential property ^(a)		Non-residential property		Total	
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)
2002	Annual	72 974	(5)	12 947	(-30)	85 921	(-3)	154.3	(2)	31.4	(-26)	185.4	(-4)
	H1	40 921	(25)	6 877	(-37)	47 798	(9)	89.9	(27)	14.4	(-38)	104.3	(11)
	H2	32 053	(-13)	6 070	(-19)	38 123	(-14)	64.4	(-19)	16.7	(-11)	81.1	(-18)
	Q1	18 992	(26)	3 569	(-40)	22 561	(7)	41.5	(21)	6.1	(-44)	47.7	(5)
	Q2	21 929	(24)	3 308	(-35)	25 237	(11)	48.3	(32)	8.3	(-32)	56.6	(16)
	Q3	16 120	(-11)	3 277	(-12)	19 397	(-11)	32.3	(-22)	11.9	(37)	44.2	(-11)
	Q4	15 933	(-15)	2 793	(-26)	18 726	(-17)	32.1	(-17)	4.8	(-52)	36.9	(-24)
			<-1>		<-15>		<-3>		<*>		<-60>		<-17>
	Jan	7 847	(103)	1 381	(76)	9 228	(99)	18.2	(91)	2.5	(-21)	20.7	(63)
	Feb	5 695	(42)	1 135	(20)	6 830	(38)	12.4	(39)	1.6	(-30)	14.0	(25)
	Mar	5 450	(-25)	1 053	(-75)	6 503	(-43)	11.0	(-31)	2.0	(-64)	13.0	(-39)
	Apr	7 409	(48)	1 047	(-63)	8 456	(8)	15.3	(40)	2.0	(-72)	17.3	(-4)
	May	7 325	(16)	1 145	(10)	8 470	(15)	16.9	(39)	3.4	(53)	20.3	(41)
	Jun	7 195	(14)	1 116	(-6)	8 311	(11)	16.1	(19)	2.9	(2)	19.0	(16)
	Jul	4 961	(-20)	1 205	(7)	6 166	(-16)	10.3	(-34)	5.5	(54)	15.8	(-17)
	Aug	4 881	(-25)	1 172	(-12)	6 053	(-23)	9.9	(-31)	3.6	(31)	13.4	(-21)
	Sep	6 278	(15)	900	(-29)	7 178	(7)	12.1	(7)	2.9	(19)	15.0	(9)
	Oct	5 863	(37)	944	(3)	6 807	(31)	11.7	(40)	1.8	(-69)	13.5	(-5)
	Nov	4 941	(-37)	867	(-53)	5 808	(-40)	9.1	(-38)	1.3	(-38)	10.4	(-38)
	Dec	5 129	(-23)	982	(-5)	6 111	(-20)	11.4	(-28)	1.6	(-18)	13.0	(-27)

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.

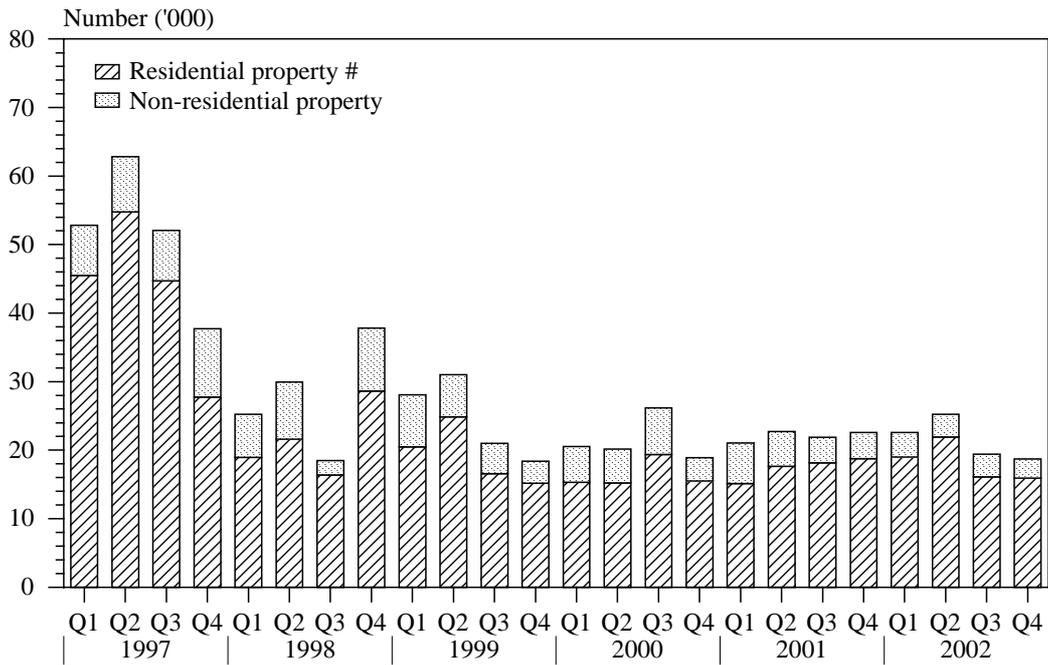
(*) Change of less than 0.5%.

Source : Land Registry.

/Diagram 3.7

Diagram 3.7

Sale and purchase agreements by broad type of property



Note : (#) See Footnote (a) to Table 3.8.

/Table 3.9

Table 3.9**Property transfer assignments and mortgage arrangements**

		<u>Property transfer assignments^(a)</u>				<u>Mortgages other than building mortgages^(b)</u>	
		<u>Number</u>		<u>Total value (\$Bn)</u>		<u>Number</u>	
2001	Annual	144 037	(-5)	243.5	(-11)	157 064	(-14)
	H1	75 756	(-8)	125.7	(-13)	79 953	(-19)
	H2	68 281	(-3)	117.8	(-8)	77 111	(-9)
	Q1	39 135	(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)
2002	Annual	119 734	(-17)	198.1	(-19)	121 791	(-22)
	H1	61 350	(-19)	100.5	(-20)	64 384	(-19)
	H2	58 384	(-14)	97.6	(-17)	57 407	(-26)
	Q1	31 512	(-19)	48.5	(-24)	33 650	(-18)
	Q2	29 838	(-19)	52.0	(-17)	30 734	(-21)
	Q3	30 998	(-24)	49.1	(-36)	30 721	(-33)
	Q4	27 386	(*)	48.5	(18)	26 686	(-14)
			<-12>		<-1>		<-13>
	Jan	12 048	(-8)	21.7	(-8)	13 332	(-3)
	Feb	8 346	(-40)	12.6	(-41)	9 282	(-36)
	Mar	11 118	(-9)	14.2	(-23)	11 036	(-15)
	Apr	9 190	(13)	16.9	(-6)	9 347	(6)
	May	8 932	(-42)	14.0	(-45)	8 982	(-46)
	Jun	11 716	(-10)	21.1	(13)	12 405	(-8)
	Jul	12 660	(5)	22.1	(-20)	13 194	(-7)
	Aug	10 361	(-33)	15.2	(-46)	9 932	(-42)
	Sep	7 977	(-40)	11.8	(-44)	7 595	(-49)
	Oct	10 301	(14)	22.9	(40)	10 884	(1)
	Nov	9 039	(-15)	13.5	(-5)	8 064	(-31)
	Dec	8 046	(6)	12.1	(16)	7 738	(-10)

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.

/3.20

3.20 *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 only slightly by 1% in 2002, after a 25% plunge in 2001. Analysed by main type of property, planned developments of private residential property were reduced by 35% in terms of units, distinctly enlarged from the 12% fall in 2001. In terms of total usable floor area, the decrease of 21% in 2002 also exceeded that of 12% in 2001. On the other hand, planned developments of non-residential property rose sharply in 2002, yet this was primarily due to the low base in 2001. Specifically, planned developments of commercial property, industrial property, and property in the “others” category leaped by 38%, 134% and 46% respectively in 2002, following the pronounced decreases of 21%, 65% and 69% in 2001.

/Table 3.10

Table 3.10

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

		Residential property ^(a)	Commercial property	Industrial property ^(b)	Other property	Total	
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)
2002	Annual	790 (-21)	<17 292> (-35)	365 (38)	107 (134)	109 (46)	1 372 (-1)
	Q1	126 (-69)	<2 889> (-72)	73 (119)	14 (66)	16 (-66)	229 (-54)
	Q2	327 (74)	<6 561> (31)	57 (-62)	18 (550)	16 (2)	428 (18)
	Q3	185 (51)	<4 150> (20)	136 (247)	* (9)	48 (466)	368 (117)
	Q4	153 (-47)	<3 692> (-53)	99 (130)	75 (118)	30 (705)	356 (-4)

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 of the Hong Kong Housing Authority.

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

< > Figures represent number of units.

() % change over a year earlier.

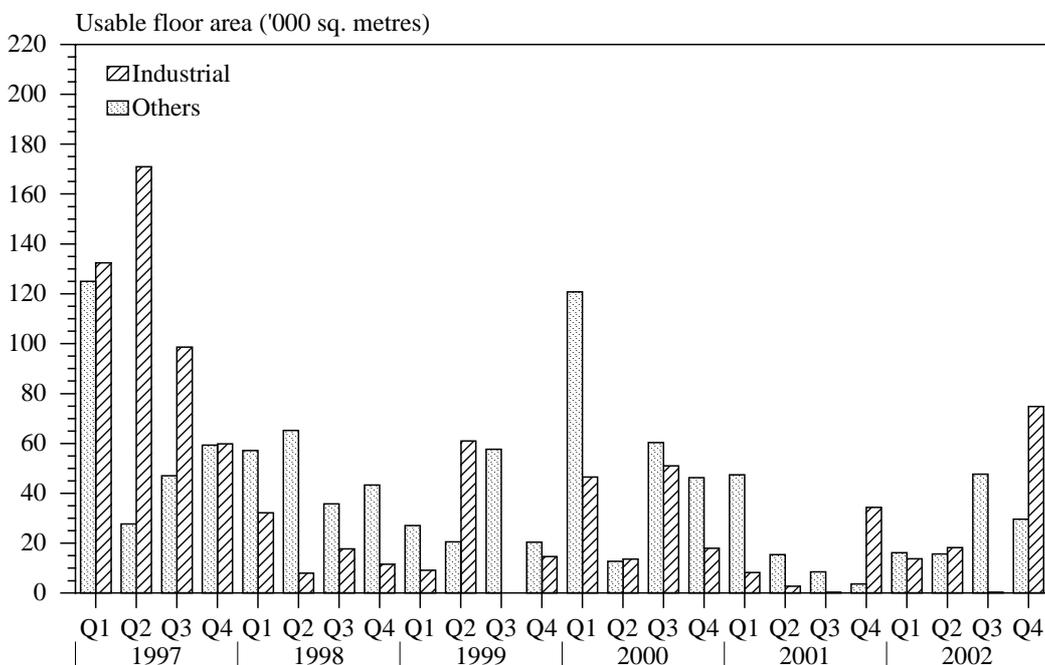
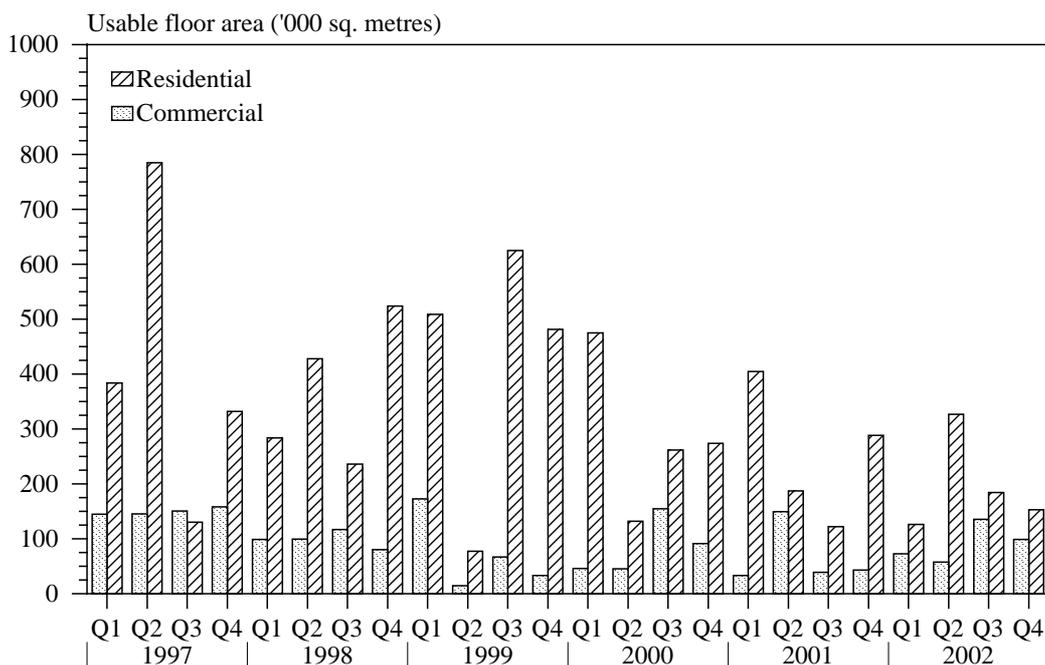
(*) Usable floor area of less than 500m².

Source : Buildings Department.

/Diagram 3.8

Diagram 3.8

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



Note : See the footnotes to Table 3.10.

Building and construction

3.21 Building and construction activity had a small rebound in overall terms in 2002. Total expenditure on building and construction edged up by 2% in real terms in 2002, with increased expenditure in the private sector outweighing reduced expenditure in the public sector. This came after a 2% decline in the total expenditure in 2001. On a year-on-year comparison and expressed in real terms, total expenditure on building and construction went up by 7% and 8% respectively in the second and third quarters of 2002, more than offsetting the decreases of 4% and 3% in the first and fourth quarters.

3.22 Expenditure on building and construction by the public sector was cut further by 6% in real terms in 2002, after a 5% fall in 2001. To a large extent, this was due to continued scale-back in the Public Housing Programme, upon completion or winding down of projects in Tin Shui Wai, Yau Tong and Ma On Shan. Also contributed were tapering in work on the KCR West Rail and completion of the MTR Tseung Kwan O Extension. Yet work on several major public sector projects continued apace, including superstructure for the Science Park in Pak Shek Kok and supporting infrastructure for the Hong Kong Disneyland in Penny's Bay.

3.23 Expenditure on building and construction by the private sector⁽¹⁰⁾ went up by 6% in real terms in 2002, after showing little change in 2001. It rose notwithstanding that overall building consents had been on a continuous decline for the past three years. Work on a number of private sector residential and commercial building projects intensified during the course of 2002.

/Table 3.11

Table 3.11

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

		<u>Private sector^(a)</u>	<u>Public sector</u>	<u>Total</u>
2001	Annual [#]	*	-5	-2
	H1 [#]	-1	1	*
	H2 [#]	*	-12	-4
	Q1 [#]	-5	1	-2
	Q2 [#]	3	*	2
	Q3 [#]	-4	-11	-6
	Q4 [#]	4	-12	-1
2002	Annual ⁺	6	-6	2
	H1 [#]	7	-10	1
	H2 ⁺	4	-2	2
	Q1 [#]	4	-18	-4
	Q2 [#]	9	2	7
	Q3 [#]	14	-6	8
	Q4 ⁺	-5	2	-3

Notes : (a) Following a review of the presentation by the Census and Statistics Department, real estate developers' margin is now incorporated into private sector expenditure on building and construction, instead of being delineated separately in the expenditure components of GDP. For details, see Note (10) to this chapter.

(#) Revised figures.

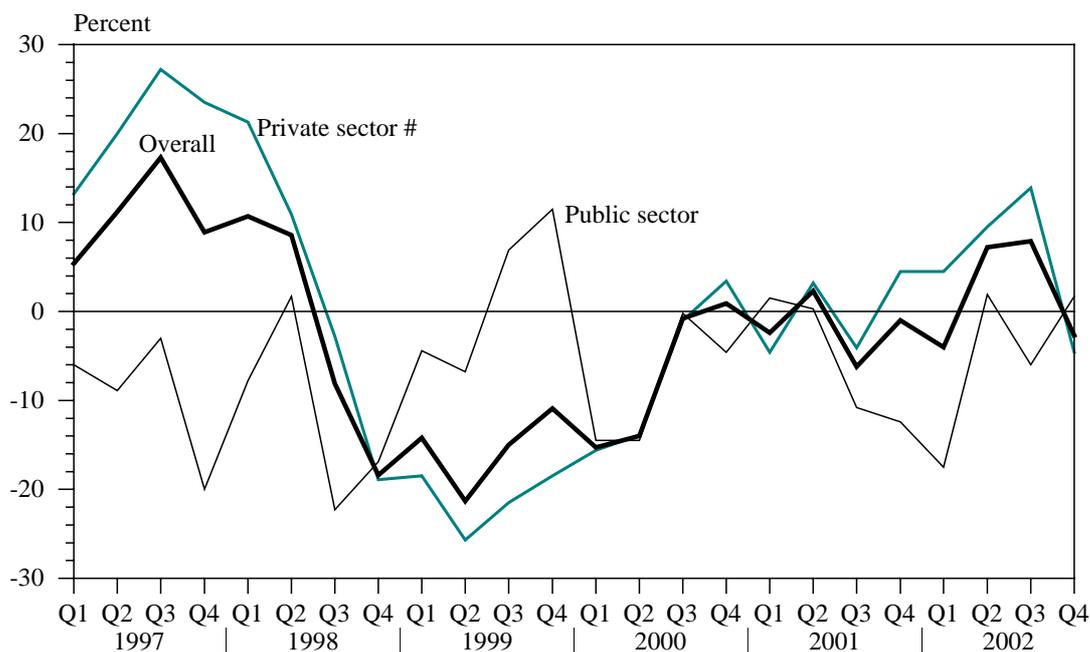
(+) Preliminary figures.

(*) Change of less than 0.5%.

/Diagram 3.9

Diagram 3.9

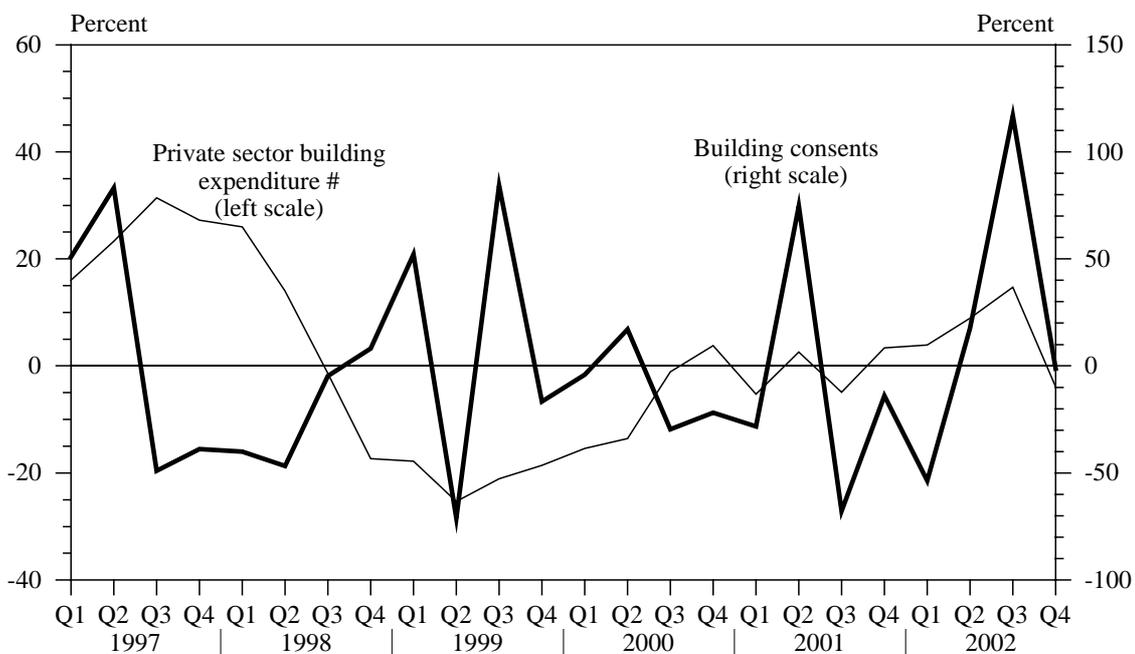
**Expenditure on building and construction
(year-on-year rate of change in real terms)**



Note : (#) See Footnote (a) to Table 3.11.

Diagram 3.10

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



Note : (#) See Footnote (a) to Table 3.11.

3.24 Retained imports of construction machinery continued to grow strongly, by 11% in real terms in 2002, after a 35% surge in 2001. The increase was concentrated in retained imports of construction equipment for civil engineering projects, such as mechanical shovels, shovel loaders and excavators.

3.25 Yet retained imports of construction materials contracted markedly further, by 10% in real terms in 2002, following a 6% drop in 2001. More distinct decreases were observed in retained imports of iron and steel, lime, cement, and some sundry building materials.

3.26 Labour cost in the building and construction sector, as measured by the Labour Cost Index, held broadly stable in the first three quarters of 2002 as compared to a year earlier. Building material cost, as measured by the Material Cost Index, declined slightly, by 1% over the same period. Taken together, the combined Labour and Material Cost Index was still virtually flat in the first three quarters of 2002 as compared to a year earlier, after showing nil change in 2001. On a quarter-to-quarter comparison, both the Labour Cost Index and the Material Cost Index were little changed in the third quarter of 2002. Thus the combined Labour and Material Cost Index was static in that quarter.

/Table 3.12

Table 3.12

**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>	
2001	Annual	3 581	(1)	758	(*)	1 756	(*)
	Q1	3 600	(3)	762	(*)	1 765	(2)
	Q2	3 581	(1)	759	(*)	1 757	(1)
	Q3	3 579	(*)	757	(*)	1 755	(*)
	Q4	3 564	(-2)	754	(-1)	1 748	(-2)
2002	Q1-Q3	3 580	(*)	753	(-1)	1 753	(*)
	Q1	3 570	(-1)	752	(-1)	1 749	(-1)
	Q2	3 588	(*)	753	(-1)	1 756	(*)
	Q3	3 583	(*)	755	(*)	1 755	(*)
			<*>		<*>		<*>

Notes : () % change over a year earlier.

< > % change over the preceding quarter.

(*) Change of less than 0.5%.

Source : Architectural Services Department.

3.27 Tender prices continued on a marked decline. On a year-on-year comparison, the Tender Price Index (TPI) for public housing projects compiled by the Housing Department and that for public sector building projects compiled by the Architectural Services Department fell further by 6% and 14% respectively in the third quarter of 2002, following decreases of 9% and 20% in the first quarter and of 13% and 12% in the second quarter. For the first three quarters of 2002 as a whole, these two indices were lower by 9% and 16% respectively, after the declines of 15% and 9% in 2001. On a quarter-to-quarter comparison, these two indices went down by 2% and 7% respectively in the third quarter of 2002.

/Diagram 3.11

Diagram 3.11

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

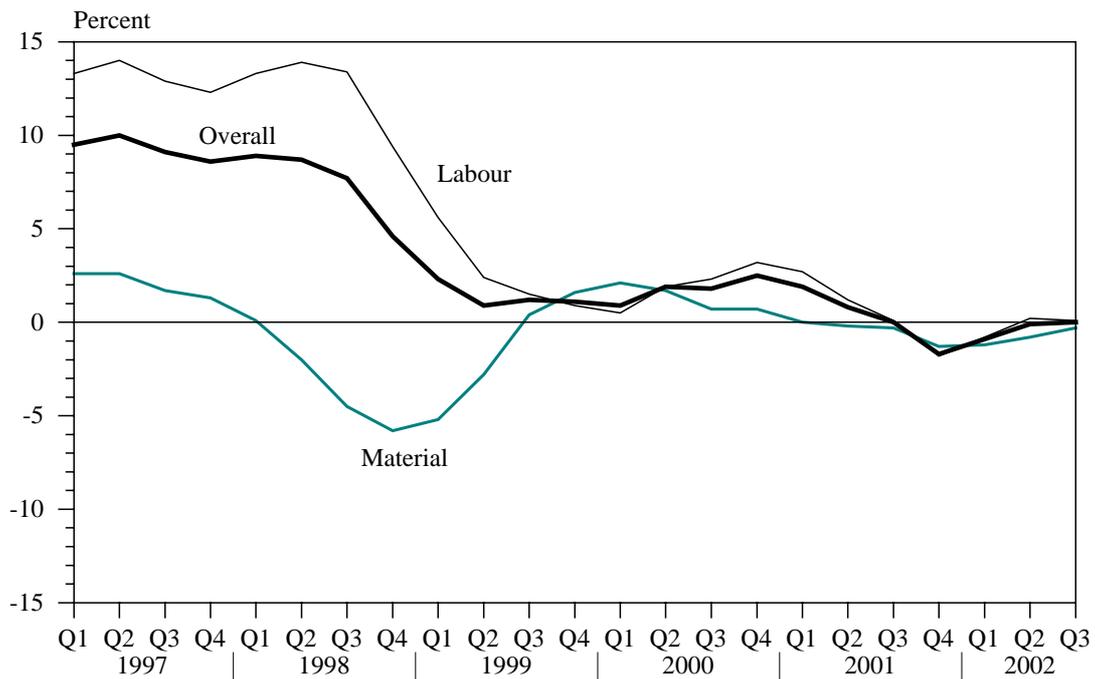


Table 3.13

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)
2001	Annual	584 (-15)	808 (-9)
	Q1	612 (-18)	862 (-10)
	Q2	611 (-14)	842 (-4)
	Q3	558 (-17)	807 (-6)
	Q4	553 (-12)	721 (-15)
2002	Q1-Q3	538 (-9)	707 (-16)
	Q1	556 (-9)	687 (-20)
	Q2	533 (-13)	742 (-12)
	Q3	525 (-6)	692 (-14)
		<-2>	<-7>

Notes : (a) Compiled by the Housing Department.

(b) Compiled by the Architectural Services Department.

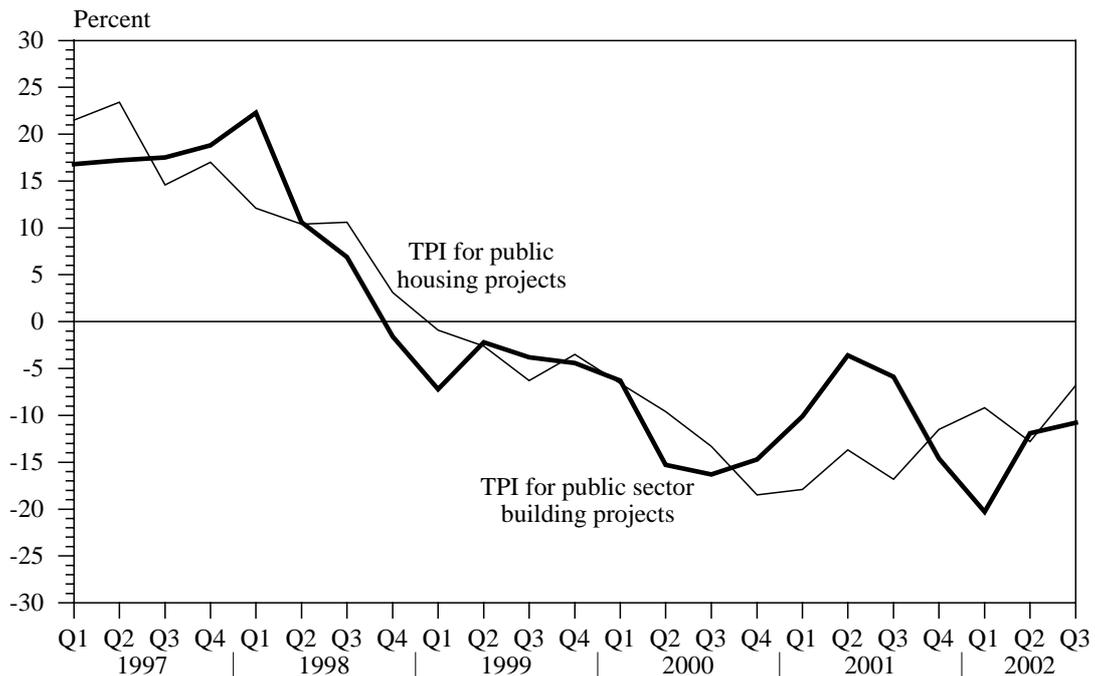
() % change over a year earlier.

<> % change over the preceding quarter.

/Diagram 3.12

Diagram 3.12

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



Land

3.28 The Government disposed of nine residential sites and one residential-cum-commercial site totalling 6.4 hectares in 2002, down from 8.8 hectares in 2001. These sites were sold at the three land auctions held in April, June and September 2002 respectively. Two of the sites were released from the Government's Application List⁽¹¹⁾. Meanwhile, no site was disposed of through tender. On 13 November 2002, the Government announced its decision to cancel the two scheduled land auctions in the remainder of the financial year 2002/03 and to suspend the Application List until December 2003, as part of the package of measures to stabilise the housing market.

/Table 3.14

Table 3.14**Land sales at auction and by tender
by the Government (hectares)**

<u>Usage</u>	<u>2001</u>	<u>2002</u>
Residential	5.3	6.4
Residential/commercial	*	0.1
Commercial	3.0	-
Industrial	-	-
Others	0.4	-
Total	<u>8.8</u>	<u>6.4</u>

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

Source : Lands Department.

3.29 On modification of lease on existing developed and developable land in the private sector domain⁽¹²⁾, 162 applications were approved by the Government in 2002, mostly in the first half of the year. Of this total, 63 applications were for residential development, 33 for education and community facilities, 18 for residential-cum-commercial development, 11 for commercial development, and six for industrial development. The remaining 31 applications were for other purposes such as development of telecommunications station and godown.

3.30 As to the industrial estates, there was no new take-up of sites in 2002. At the same time, two sites totalling 3.2 hectares in the Tai Po Industrial Estate, one site of 2.4 hectares in the Yuen Long Industrial Estate, and one site of 0.6 hectare in the Tseung Kwan O Industrial Estate were surrendered. As a result, the take-up rates in these three industrial estates fell from 99.0%, 95.8% and 48.6% respectively at end-2001 to 94.7%, 92.1% and 47.9% at end-2002.

/3.31

3.31 The Science Park in Pak Shek Kok was officially opened on 27 June 2002, upon completion of Phase 1a of the development project. By the end of the year, approvals were granted to 22 technology companies for admission into the Science Park. Most of them were engaged in the electronics, biotechnology, information technology and telecommunications, and precision engineering fields. The remainder of Phase 1 would be completed by mid-2004. As to Phase 2, construction work would commence in 2004.

Electricity and gas

3.32 *Local electricity consumption* continued to rise steadily, by 2% to 137 100 terajoules in 2002, broadly similar to the 3% increase in 2001. Analysed by main user type, domestic consumption and commercial consumption went up by 2% and 4% respectively in 2002, outweighing the fall in industrial consumption by 4%. Electricity exports to the Mainland, which accounted for 5% of the total electricity generated in Hong Kong, leaped further by 38% in 2002, after a 34% jump in 2001. This was attributable to a sustained surge in electricity demand in the Pearl River Delta region, in tandem with the rapid expansion in economic activities there.

3.33 *Towngas consumption* was little changed at 26 600 terajoules in 2002, after rising by 2% in 2001. Within this total, domestic consumption increased by 2%, virtually offsetting the decreases of 2% in both commercial and industrial consumption.

Internal transport

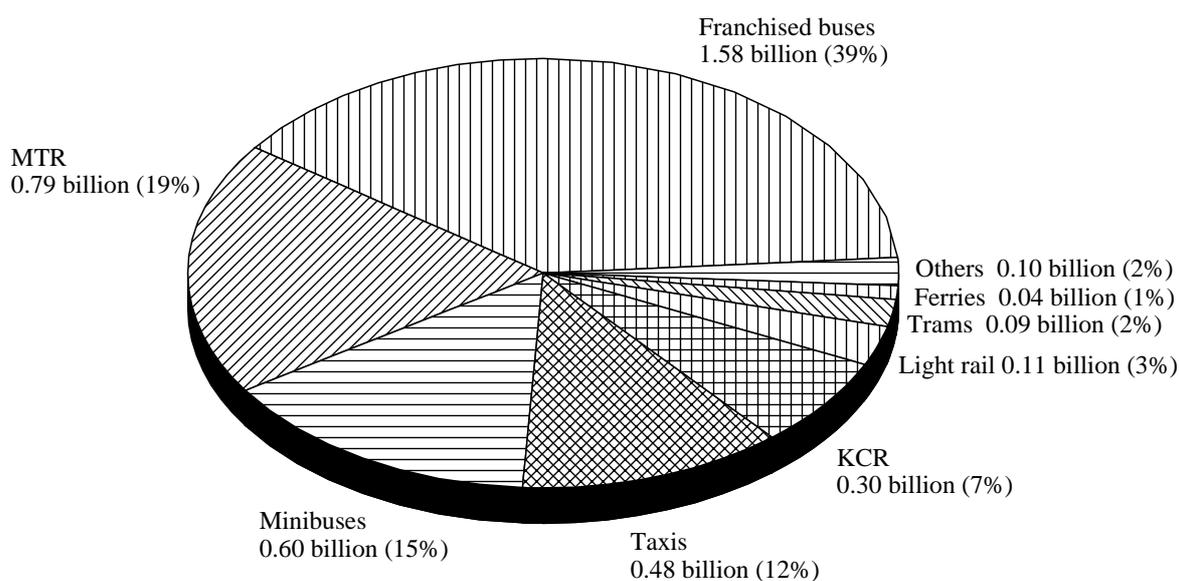
3.34 Total patronage on *public transport* edged up further by 2% to 4.1 billion in 2002, after a 1% rise in 2001. The increase might have been partly stimulated by the fare concessions offered by some of the public transport operators during the year. Also partly contributed was the opening of the MTR Tseung Kwan O Extension in August. Analysed by mode of transport, patronage on the Mass Transit Railway rose by 2% in 2002, with the increase being concentrated mostly in the last four months of the year. Patronage on franchised buses also went higher by 2% in 2002, while patronage on the Kowloon-Canton Railway, mini-buses and ferries increased by 1% each. Patronage on trams and taxis held steady. On the other hand, patronage on the Light Rail decreased marginally, by 2%.

/3.35

3.35 On *private transport*, the total number of newly registered private cars fell distinctly, by 12% to 30 900 in 2002, having risen slightly by 1% in 2001. At end-2002, the total number of registered private cars was up by 1% over a year earlier to 384 900, while the total number of licensed private cars was virtually unchanged at 340 900.

Diagram 3.13

Passenger journeys by mode of public transport in 2002



Total passenger journeys in 2002 : 4.08 billion

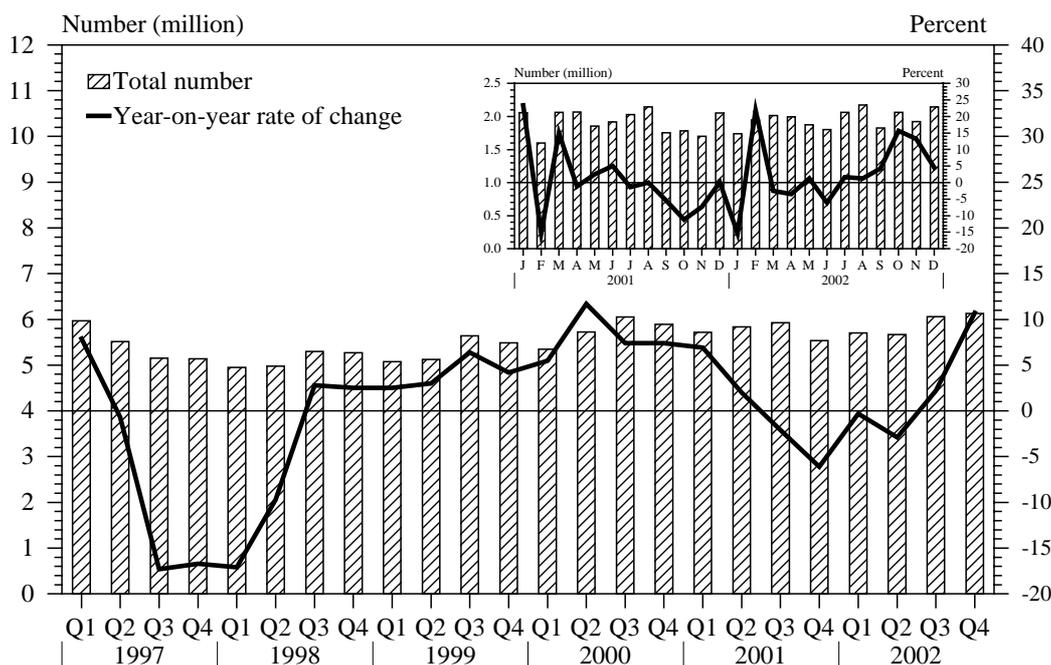
External transport

3.36 On *air transport*, total *air passenger movements* rose by 2% to 23.6 million in 2002, improved from zero growth in 2001. Within the total for 2002, air passenger arrivals increased by 3% to 11.8 million, and air passenger departures by 2% to 11.7 million. The major impetus to growth came from air passenger movements from and to the Mainland, with more distinct increases of 6% and 4% respectively. As to aircraft movements (including passenger and cargo flights), there was a further solid growth of 5% to 206 700 in 2002, yet this was slower than the 8% rise in 2001.

/Diagram 3.14

Diagram 3.14

Number of air passenger movements

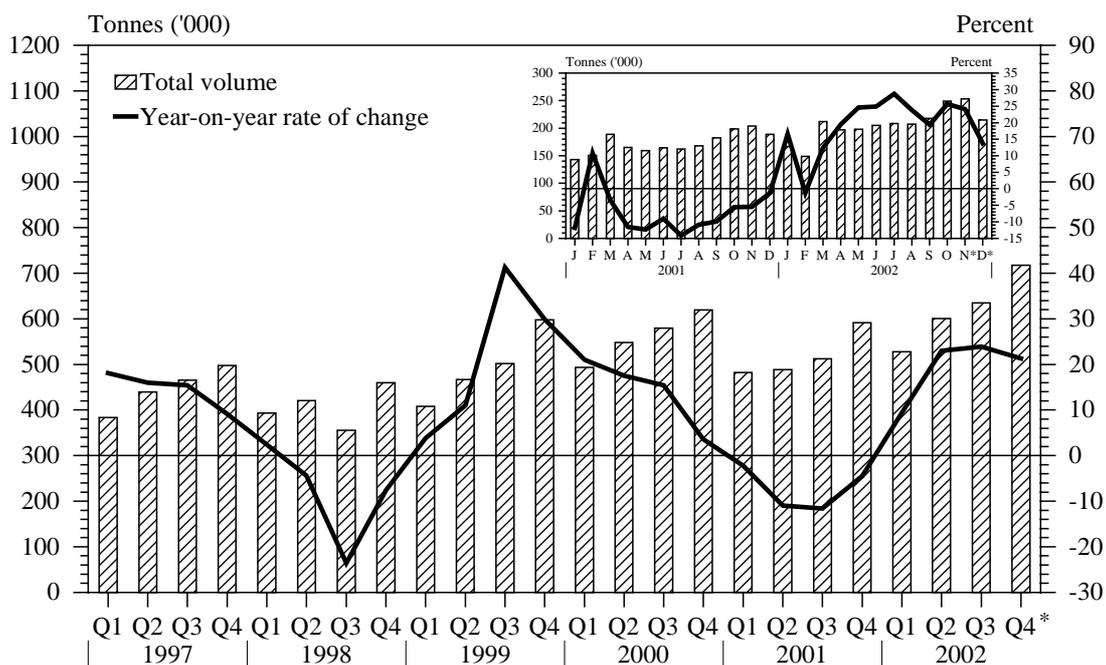


3.37 Total *air cargo movements* soared by 20% to 2.5 million tonnes in 2002, representing a significant turnaround from the 7% dip in 2001. This was underpinned by a pick-up in external trade in the second half of 2002. Also contributed was keener demand from local exporters for prompt delivery of higher-value products to cater for urgent orders, and in particular for meeting shipment deadlines amidst shut-down of the US West Coast ports in October. Within the total for 2002, inward air cargo leaped by 12% to 1.0 million tonnes, and outward cargo surged even more by 25% to 1.5 million tonnes. These contrasted with the decreases of 6% and 8% respectively in 2001.

/Diagram 3.15

Diagram 3.15

Cargo carried by air



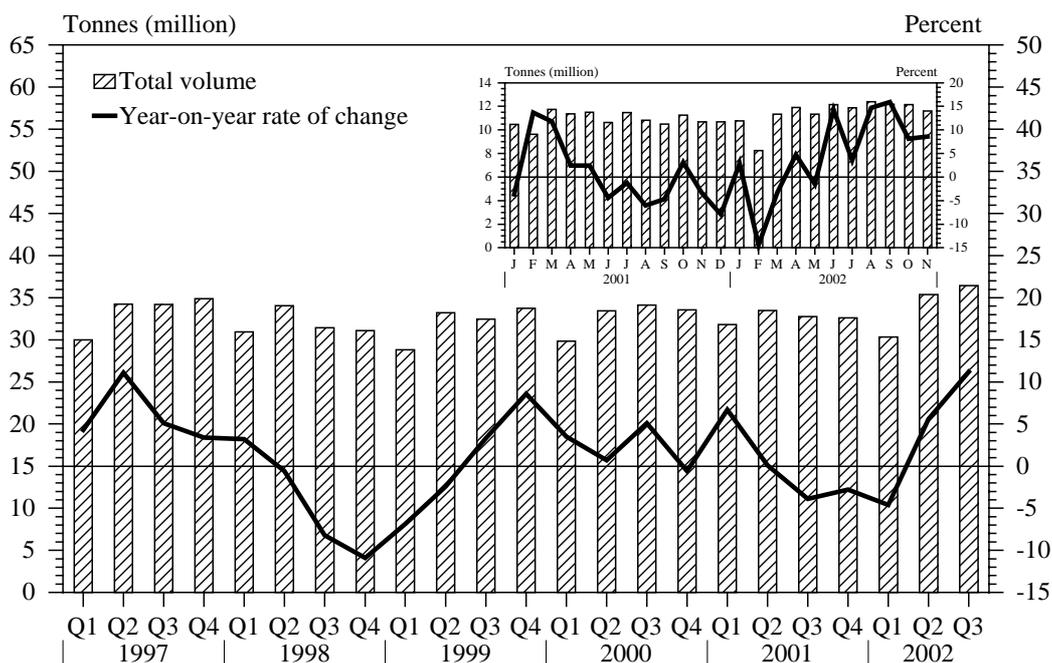
Note : (*) Provisional figures.

3.38 On *ocean transport*, total *ocean cargo movements* amounted to 125.9 million tonnes in the first eleven months of 2002, up 5% from a year earlier. This came after zero growth in 2001. Transshipment cargo continued to register a robust increase, while direct shipment cargo rose only marginally. Within the total for the first eleven months of 2002, inward and outward ocean cargo went up by 5% and 6% respectively over a year earlier, to 85.0 million tonnes and 40.9 million tonnes respectively. These fared better than the corresponding changes of 1% and -2% in 2001.

/Diagram 3.16.....

Diagram 3.16

Cargo carried by sea

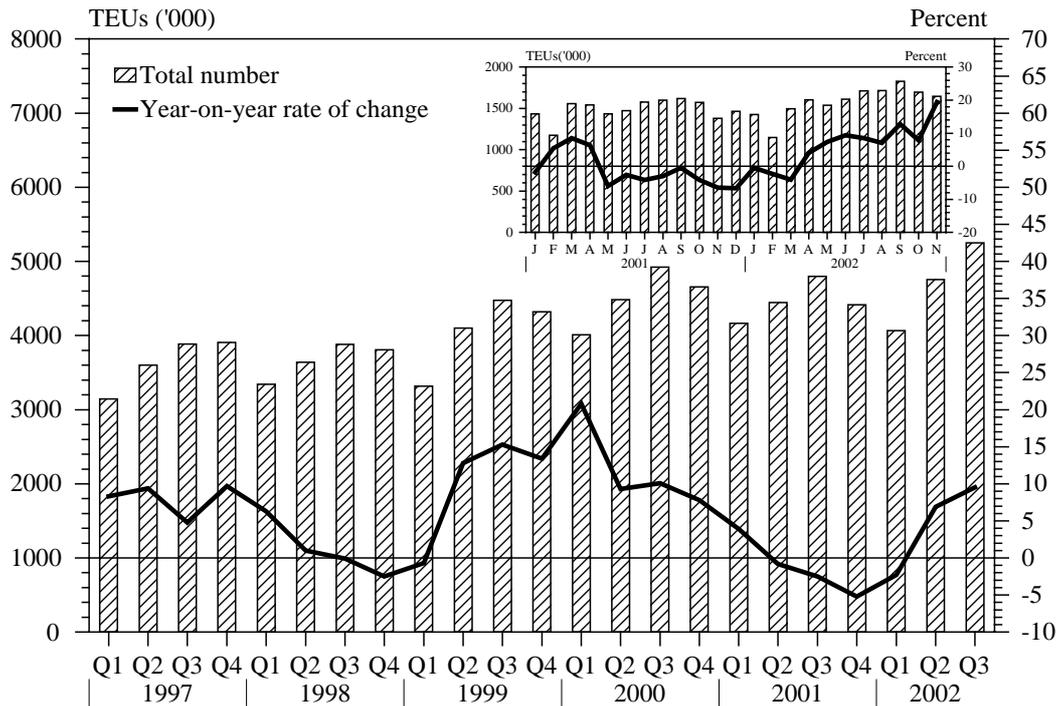


3.39 As to *container traffic*, total container throughput in terms of Twenty-foot Equivalent Units (TEUs) went up by 6% over a year earlier to 17.4 million TEUs in the first eleven months of 2002. (A latest estimate puts the total container throughput at around 19 million TEUs for 2002 as a whole, 7% more than that in 2001.) This was an appreciable rebound from the 1% fall in 2001. Within the total for the first eleven months of 2002, inward and outward container throughput moved up by 7% and 6% respectively over a year earlier to 8.6 million TEUs and 8.8 million TEUs, in contrast to the decreases of 2% and 1% in 2001. Concurrently, there was an on-going trend of manufactured products being shipped out directly from the nearby Mainland ports rather than indirectly through the Hong Kong port. Reflecting this, container throughput at the Yantian port soared by 56% in 2002, even faster than the 28% surge in 2001.

/Diagram 3.17

Diagram 3.17

Container throughput



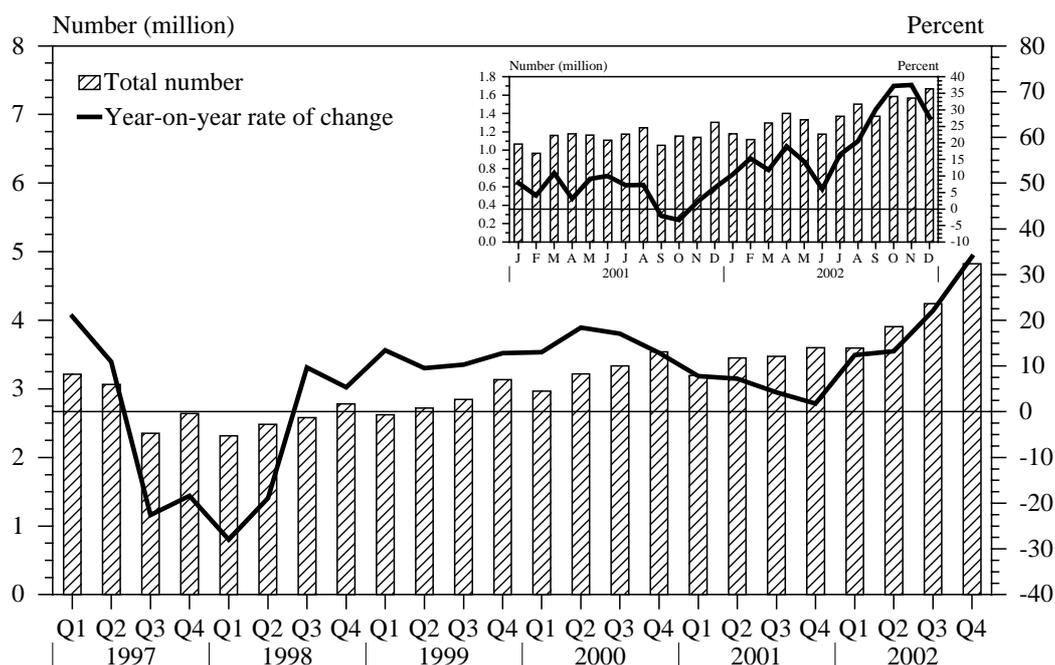
Tourism

3.40 The growth momentum in inbound tourism strengthened considerably. The total number of *incoming visitors* went up by 21% to 16.6 million in 2002, much exceeding the 5% rise in 2001⁽¹³⁾. This increase, whilst common to visitors from all the major sources, was most pronounced in respect of visitors from the Mainland. This was mainly boosted by abolition of the quota for Mainland visitors under the Hong Kong Group Tour Scheme in January 2002, as well as by extension of the effective period for multiple business visits endorsement for Mainland visitors as from December 2001⁽¹⁴⁾. On a year-on-year comparison, the growth in the total number of incoming visitors accelerated markedly, from 12% and 13% respectively in the first two quarters of 2002 to 22% in the third quarter, and further to 34% in the fourth quarter. Apart from the boost from Mainland visitors, it could have also been contributed by recovery of economies in the region, as well as by the weakening in the US dollar and hence the Hong Kong dollar over the year.

3.41 Analysed by major source, visitors from the Mainland were sharply up by 53% in 2002. Visitors from South and Southeast Asia also had a more significant rise, by 9%. Visitors from the United States and the United Kingdom rose by 7% and 5% respectively, with a more distinct increase in the fourth quarter owing to a low base a year earlier. Visitors from Japan rose more moderately, by 4%, while visitors from Taiwan held broadly stable.

Diagram 3.18

Number of incoming visitors



/Table 3.15

Table 3.15**Number of incoming visitors by place of residence
(year-on-year rate of change (%))**

	<u>2001</u>					<u>2002</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	5	8	7	4	2	21	12	13	22	34
Mainland of China	18	10	13	17	29	53	42	44	55	68
Taiwan	1	8	6	-2	-5	*	-1	-7	4	6
South and Southeast Asia	*	3	2	-3	-2	9	-2	5	12	18
Japan	-3	8	7	-5	-21	4	-8	-1	4	26
United States	-3	9	5	-2	-20	7	*	-1	5	25
United Kingdom	-2	6	-4	-1	-7	5	2	*	4	14
Others	2	8	7	2	-6	6	4	3	3	14

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

(*) Change of less than 0.5%.

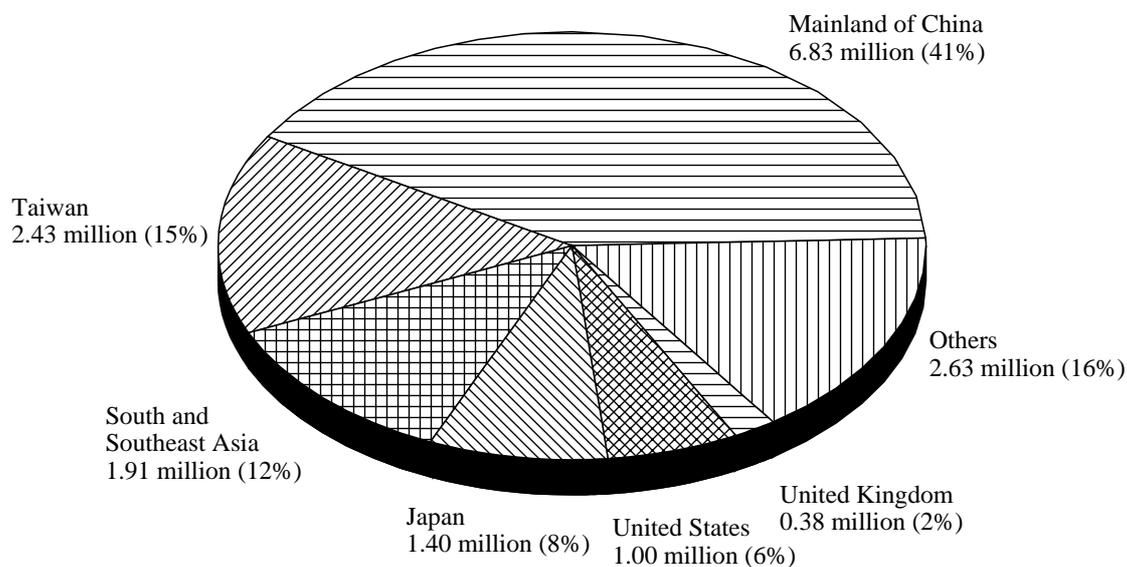
Source : Hong Kong Tourism Board.

3.42 Consequential to the sharp rise in 2002, visitors from the Mainland, as the largest group, took up an even more prominent share of the total, rising from 32% in 2001 to 41% in 2002. This was followed by visitors from Taiwan (with a share of 15% in 2002), South and Southeast Asia (12%), Japan (8%), the United States (6%), and the United Kingdom (2%).

/Diagram 3.19

Diagram 3.19

Number of incoming visitors by source in 2002



Total number of incoming visitors in 2002 : 16.57 million

3.43 As at end-2002, there were 43 634 *hotel rooms* in Hong Kong. Consequential to the large inflow of visitors, the *average hotel room occupancy rate* went up distinctly, to 89% in the fourth quarter of 2002, from 80% in the same quarter in 2001.

/Table 3.16

Table 3.16**Stock of hotel rooms and occupancy rate**

		Number of hotel rooms as at end of period*		Average hotel room occupancy rate during the period (%)
2001	Annual	35 999	(2)	79
	Q1	36 712	(4)	78
	Q2	36 971	(4)	79
	Q3	36 591	(4)	78
	Q4	35 999	(2)	80
2002	Annual	43 634	(--)	84
	Q1	41 829	(--)	81
	Q2	42 747	(--)	83
	Q3	42 758	(--)	83
	Q4	43 634	(--)	89

Notes : (*) For 2001, this covers only high-tariff hotels, medium-tariff hotels, hostels and guest houses which were members of the former Hong Kong Tourist Association (renamed as the Hong Kong Tourism Board as from April 2001). As from the first quarter of 2002, this has a wider coverage, including all hotels and tourist guest houses on the record of the Office of the Licensing Authority in the Home Affairs Department. As such, the data for the first quarter of 2002 onwards are not directly comparable to those in the earlier periods.

() % change over a year earlier.

(--) Not applicable.

Source : Hong Kong Tourism Board.

/3.44

3.44 On *Hong Kong residents travelling abroad*, the total number of resident departures rose further, by 6% to 64.5 million in 2002, faster than the 4% growth in 2001. This was partly stimulated by a further cut in charges for package tours, amidst intense competition in outbound tourism business. Analysed by major destination, resident departures to the Mainland and Europe both rose by 7% in 2002, while resident departures to North Asia and Taiwan had lesser increases, by 2% each. On the other hand, resident departures to Americas and to Australia and New Zealand declined, by 8% and 6% respectively. Resident departures to Macau and to South and Southeast Asia also fell, though more modestly, by 3% each.

Table 3.17

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

	<u>2001</u>					<u>2002</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	4	8	1	1	5	6	7	5	6	4
Mainland of China	4	8	*	2	6	7	9	7	7	5
Macau	2	7	8	-5	-1	-3	-3	-5	*	-2
South and Southeast Asia	5	16	8	1	-5	-3	-2	-11	1	-1
North Asia	3	13	-3	-3	6	2	5	-7	3	6
Americas ^(a)	-6	7	5	-13	-21	-8	-14	-20	-6	18
Taiwan	12	8	9	12	19	2	20	-10	-3	5
Europe	*	4	3	-4	-2	7	10	*	8	13
Australia and New Zealand	3	4	3	6	-3	-6	-8	-16	-2	2
Others	17	84	28	-3	-32	-16	-40	-24	-2	35

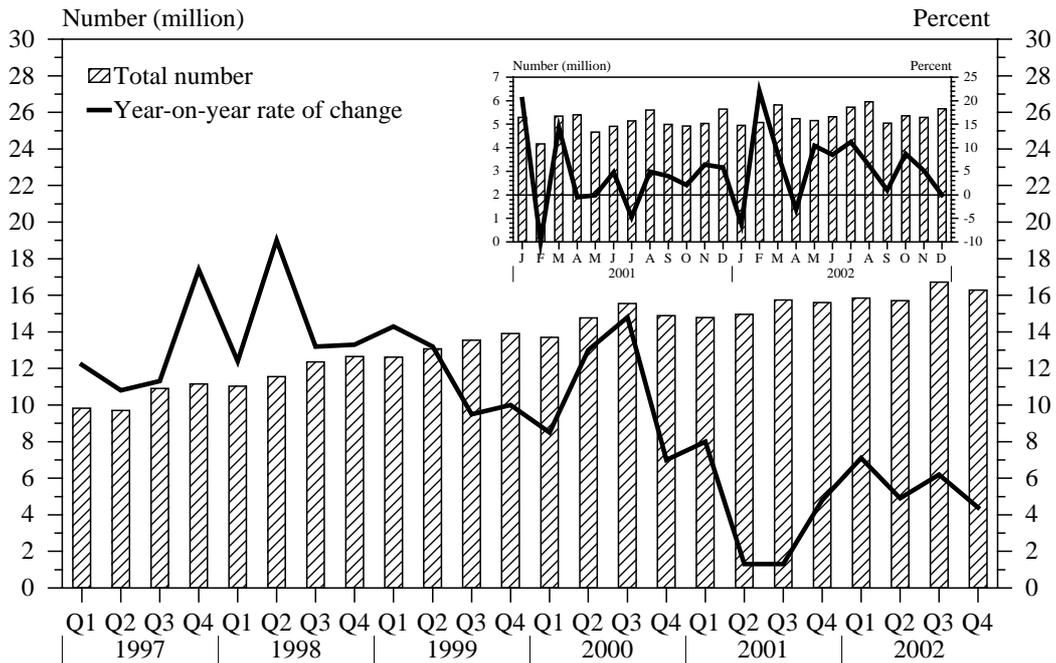
Notes : (a) This includes the United States, Canada, Central America and South America.

(*) Change of less than 0.5%.

Source : Hong Kong Tourism Board.

/Diagram 3.20

Diagram 3.20
Number of Hong Kong resident departures

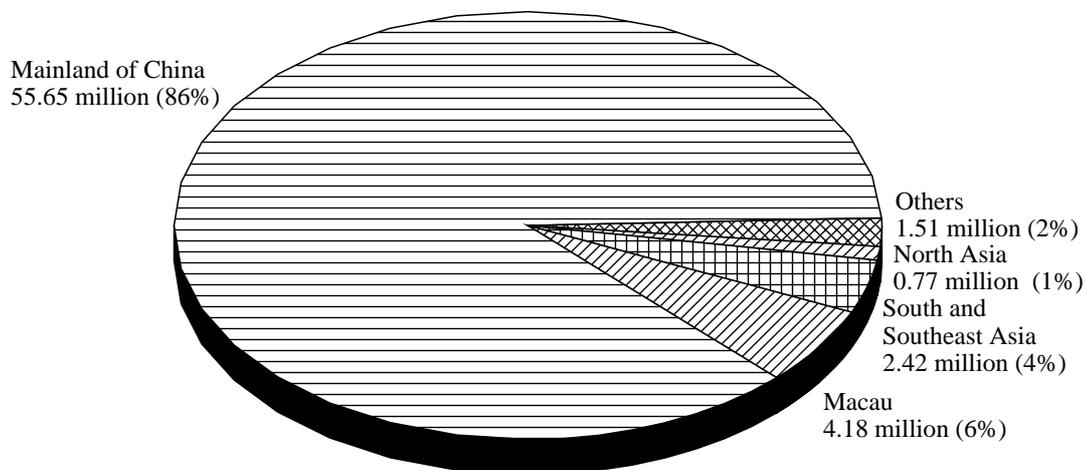


3.45 The Mainland continued to be the most popular destination for Hong Kong resident departures, accounting for a predominant share of 86% in the total outbound trips in 2002. Most of these trips were destined for Guangdong Province. Macau came next (with a share of 6%), followed by South and Southeast Asia (4%), and North Asia (1%).

/Diagram 3.21

Diagram 3.21

Number of Hong Kong resident departures by destination in 2002



Total number of resident departures in 2002 : 64.54 million

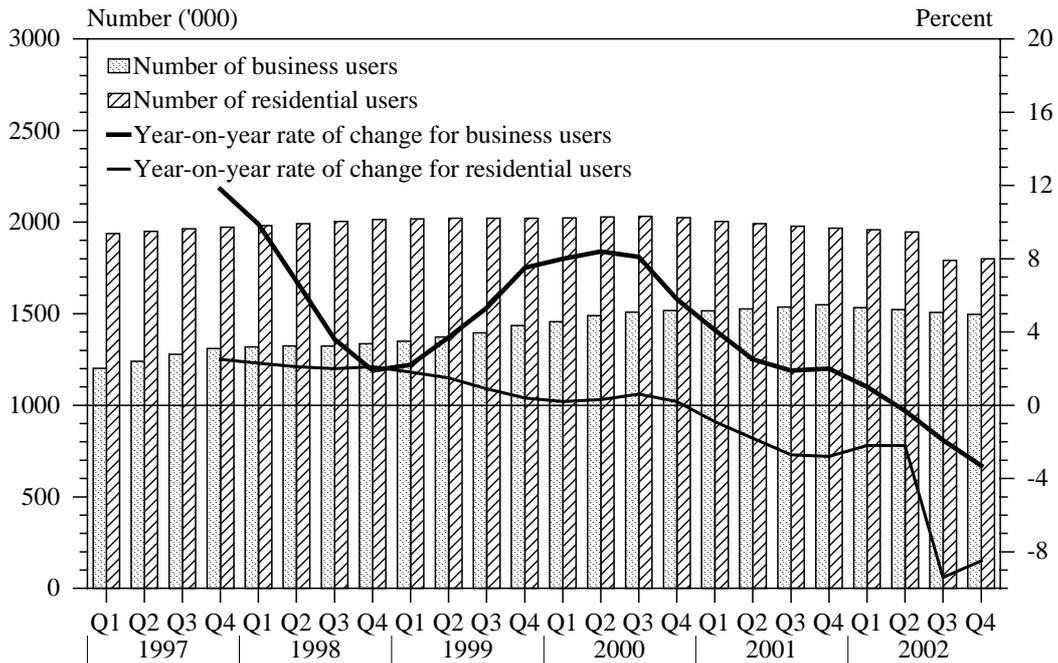
Telecommunications

3.46 The fixed-line segment of telecommunications had a mixed performance in 2002. On *wireline services*, the total number of direct exchange lines continued on a downtrend, falling by 2% over a year earlier to 3.84 million at end-2002. Within this total, the number of fixed telephone lines went down by 6% over a year earlier to 3.30 million at end-2002. It comprised falls in the number of lines for business customers and residential customers by 3% and 9% respectively to 1.50 million and 1.80 million. These two particular groups of customer accounted for 45% and 55% respectively of all the fixed telephone lines installed at the year-end. At 48 fixed telephone lines per 100 inhabitants, per capita tele-density in Hong Kong was amongst the highest in Asia. As regards the number of facsimile lines, it leaped by 33% over a year earlier to 546 300 at end-2002. This was mostly the result of active promotion by a major telephone operator in the middle of the year. At 32 facsimile lines per 100 business exchange lines, Hong Kong again ranked amongst the highest in Asia. On external telecommunications, external telephone traffic volume⁽¹⁵⁾ went up by 5% over a year earlier to 5.7 billion minutes in 2002. As to Internet usage, broadband services continued on a sharp uptrend, with the traffic volume surging by 192% to 215 300 terabits in 2002. There was a further profound shift in Internet usage away from the public switch telephone network, where the traffic volume plummeted by 50% to 5.5 billion minutes in 2002.

/Diagram 3.22

Diagram 3.22

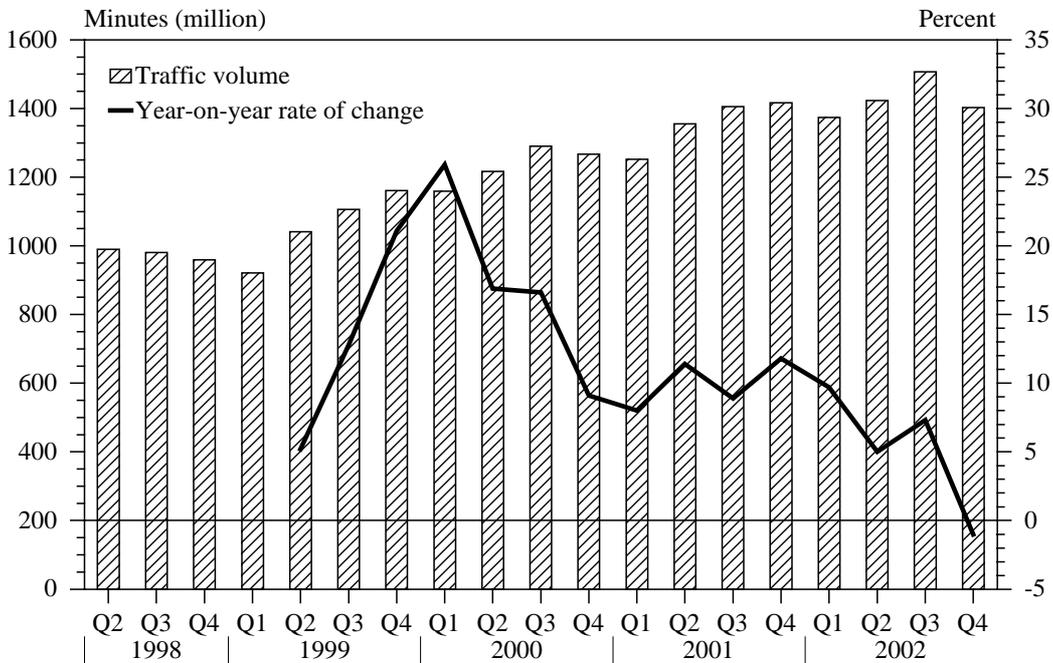
**Number of fixed telephone lines* by main user category
(as at end of quarter)**



Note : (*) Not including facsimile lines.

Diagram 3.23

**External telephone traffic volume*
(in the quarter)**



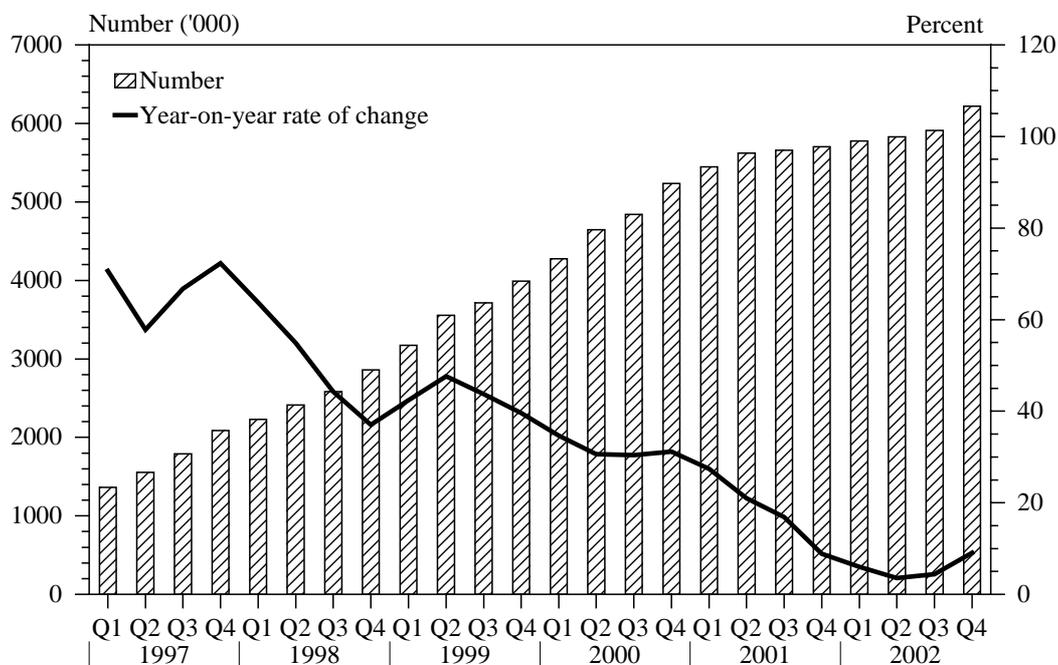
Notes : Data prior to the second quarter of 1998 are not available.

(*) Including access by international direct dialing (IDD) through telephone lines, facsimile lines and datel lines.

3.47 On *wireless services*, the mobile phone segment settled to a more moderate yet steadier growth pace, having undergone a marked expansion over the past several years. At end-2002, the number of mobile phone customers went up by 9% from a year earlier to 6.2 million⁽¹⁶⁾. This corresponded to a mobile phone penetration rate of 91%, which was one of the highest in the world. Meanwhile, the paging segment continued to shrink, with the number of paging customers at 197 400 at end-2002 dipping further by 22% from a year earlier.

3.48 Following finalisation of the implementation details, the local Fixed Telecommunications Network Services (FTNS) market is fully liberalised as from January 2003. There is no longer a pre-set limit on the number of licences issued. In addition, there is no requirement set for network rollout and capital expenditure. These measures are expected to promote development of the local FTNS market and enhance service provision to consumers. Together with the other liberalisation drives implemented in recent years, all segments of the telecommunications market are fully opened up for competition as from January 2003.

Diagram 3.24
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) On 1 August 2002, the Census and Statistics Department introduced a technical revision to the existing GDP series, as compiled from the expenditure approach. At the same time, a new data series on quarterly GDP by economic activity at constant prices, backdated to the first quarter of 2000, was released. This new GDP series, as compiled from the production approach, enables analysis to be done of the value-added contributions of the various economic sectors in real terms, in regard to their trend and relative significance.
- (2) The service sectors comprise 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. In respect of contribution to GDP, the service sectors also include ownership of premises, which is analytically a service activity. Charges of financial intermediation are however deducted.
- (3) 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 the Census and Statistics Department by reconciling under an integrated statistical framework the employment figures obtained from the General Household Survey and the Quarterly Survey of Employment and Vacancies on business establishments. Accordingly, the shares of persons engaged in the various economic 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.
- (4) 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 boundary is not included.
- (5) 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 to be met by outward processing across the boundary are not included.
- (6) On 5 June 2002, the Chief Secretary for Administration announced that the ten-month moratorium on the sale of subsidised sale flats would cease to apply upon its expiry at end-June 2002, and that their sale would resume in a cautious and considered manner thereafter. Two tranches of new subsidised sale flats totalling about 4 900 units would be put up for sale by the end of the financial year 2002/03, in compliance with the pre-set annual ceiling of 9 000 units up to the financial year 2005/06. He also announced that from the financial year 2006/07 onwards, the Government would move towards a level of sale at no more than 2 000 units a year as far as possible, with the cut-back in supply of flats being matched by an additional number of home ownership loans to the eligible families.

/(7)

- (7) Developers were offering a variety of inducements including flexible payment terms, top-up loans, cash rebates, and mortgage subsidies in the early part of the repayment period. Flat buyers could opt for different combinations of these privileges, or else seek a direct price discount. In effect, the acquisition cost initially and/or the mortgage cost in the ensuing few years would be reduced for the flat buyers.
- (8) On 13 November 2002, the Secretary for Housing, Planning and Lands announced nine specific measures to redress supply and demand imbalance with a view to stabilising the housing market, as summarised below:
- (a) The system of arranging scheduled land auctions would be stopped. The remaining two scheduled land auctions in the financial year 2002/03 would be cancelled. Also, the Application List would be suspended with immediate effect up to December 2003. After this date, the supply of new land would only be triggered from the Application List.
 - (b) The Government would step up liaison with the Mass Transit Railway Corporation Limited and the Kowloon-Canton Railway Corporation to better co-ordinate the tendering of railway-related housing projects. The Government and the two railway corporations had reached a consensus whereby no railway property developments would be put up for tender in 2003.
 - (c) Except for a small number of unsold and returned flats, the production and sale of flats under the Home Ownership Scheme (HOS)/Private Sector Participation Scheme (PSPS) would cease. HOS/PSPS flats that were already completed or under construction would be disposed of through market-friendly means.
 - (d) All mixed development projects, including the Flat For Sale Scheme operated by the Housing Society, would be stopped.
 - (e) The sale of public rental housing (PRH) units under the Tenants Purchase Scheme (TPS) would be halted, except for the flats that were already sold and those that had been announced to be sold under TPS Phase 6.
 - (f) The scale of the PRH construction programme would be demand driven, with a view to maintaining an average waiting time of three years.
 - (g) A new interest-free loan scheme would be provided by the Housing Authority to help eligible families to buy their own homes.
 - (h) A further review of the Landlord and Tenant (Consolidation) Ordinance would be conducted, with a view to removing all outdated and excessive protection of security of tenure, in a bid to revitalise the rental market for private residential property.
 - (i) The remaining anti-speculation measures in respect of the restriction on internal sale quota and the restriction that each purchaser could only buy one residential unit together with no more than two car parking spaces would be removed.

/(9)

- (9) Under the Home Assistance Loan Scheme, an initial quota of 10 000 assistance cases, for either interest-free loan or mortgage subsidy, is earmarked for 2003. This will be equally split between Green Form applicants (including mainly existing public housing tenants and eligible applicants on the Waiting List of public rental housing) and White Form applicants (other applicants). A successful family applicant irrespective of category will be eligible for an interest-free loan at \$530,000 repayable by 13 years or \$390,000 repayable by 20 years, or else a monthly mortgage subsidy at \$3,800 lasting for four years. The corresponding amount of loan and subsidy for a successful singleton applicant will be halved.
- (10) Following a review of the presentation by the Census and Statistics Department, real estate developers' margin is now incorporated into private sector expenditure on building and construction, instead of being delineated separately in the expenditure components of GDP. This amounts to bringing up the private sector investment in building and construction much closer to its overall output value, from its direct assessed physical construction cost. The change in presentation is in line with international statistical practice, and reflects the recognition that real estate developers' margin is an integral part of private sector investment in building and construction.
- (11) The Government operates an Application System under the Land Sale Programme as from April 1999, whereby additional sites are set aside on an Application List for open application by property developers. Provided that the minimum price offered by the applicant is acceptable to the Government, the site involved can be released from the Application List for open auction or tender. This helps ensure a flexible supply of Government land in response to market demand.
- (12) Virtually all the land in Hong Kong is held on a leasehold basis. A predominant part of the existing developed and developable land is already in the private sector domain. In order to facilitate redevelopment in line with the town planning and urban renewal objectives, modification of usage (including modification by way of land exchange) may be granted by the Government to old leases of land upon application from the landlords. A land premium, equivalent to the difference in land value between the old and the new usage, is normally required for granting of the modification.
- (13) In the light of the significant changes over the past year in the number and profile of visitor arrivals to Hong Kong, the Hong Kong Tourism Board is reviewing the tourist receipts and per capita spending figures for the sake of compiling an improved set of estimates. At the same time, a new means of presenting the figures is being contemplated. The improved estimates are expected to be available later in the year.
- (14) As from 1 January 2002, the quota of 1 500 a day set for Mainland visitors under the Hong Kong Group Tour Scheme is abolished, so as to facilitate more Mainland visitors coming for tours in Hong Kong. Also, the number of Mainland travel agencies licensed to organise group tours to Hong Kong has henceforth gone up substantially, from 4 to 528. The greatly increased competition amongst these travel agencies has led to a drastic reduction in the tour fees, which is conducive to more group tours coming to Hong Kong.

As from 1 December 2001, the Mainland authorities have extended the effective period for multiple business visits endorsement from six months to a maximum of three years. This further enables more Mainland visitors to come to Hong Kong.

/(15)

- (15) This includes access by international direct dialing (IDD) through telephone lines, facsimile lines and datel lines.

- (16) 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 The performance of the local financial markets was mixed in 2002. The spot exchange rate of the Hong Kong dollar against the US dollar continued to stay close to the linked rate. As to the spread of the twelve-month forward rate against the spot rate, the premium was broadly stable in the early part of 2002, except for a brief pick-up in mid-March. The premium then narrowed distinctly until mid-September when it widened sharply amidst market concern over the protracted fiscal deficit in Hong Kong, yet shrank again since late November. Local inter-bank interest rates remained soft in most of 2002, largely following their US dollar counterparts. With low costs of holding liquid balances, narrow money supply continued to increase throughout the course of 2002, while broad money supply fell during the year. The local stock market was volatile in 2002, largely affected by the gyrations in the US stock market where investor sentiment was undermined by uncertainties over the pace of US economic recovery and a spate of corporate frauds, and in the latter part of the year, also by heightened war pressure on Iraq. The Hang Seng Index plummeted to a four-year low of 8 859 in mid-October, recovered somewhat in November, but drifted lower again to close the year at 9 321, 18% below the level at the end of 2001.

Exchange rates

4.2 The spot exchange rate of the Hong Kong dollar against the US dollar stayed close to the linked rate throughout 2002, moving within a narrow range of 7.796 to 7.800. As to the spread of the twelve-month forward rate against the spot rate, the premium held generally stable in the early part of 2002, except for a brief pick-up to above 250 pips (each pip equivalent to HK\$0.0001) in mid-March. It then narrowed distinctly in the ensuing months, to an eight-month low of merely one pip on 26 June. It widened after mid-September amidst market concern over the protracted fiscal deficit in Hong Kong, moving

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

/mostly

mostly in the range of 250 to 350 pips between mid-October and late November. Yet it shrank again towards the year-end, and closed 2002 at 169 pips, considerably reduced from that of 235 pips at end-2001.

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 in the US dollar. The US dollar remained strong at the beginning of 2002, but weakened against the major currencies since mid-April, due to uncertainties over the pace of US economic recovery and plausible military action on Iraq. The dollar - euro exchange rate, at an average of 0.946 in 2002, weakened by 5.6% from that of 0.896 in 2001. The dollar - pound sterling exchange rate also weakened, by 4.4% to an average of 1.504 in 2002, from that of 1.441 in 2001. The yen - dollar exchange rate, averaged at 125.2 in 2002, nevertheless went up by 3.0% from 121.5 in 2001, signifying relative strengthening in the US dollar. In 2002, most of the other major East Asian currencies appreciated to various extent against the US dollar.

4.4 Taking these currency movements together, the trade-weighted Nominal Effective Exchange Rate Index⁽²⁾ of the Hong Kong dollar fell slightly by 0.7%, to an average of 104.0 in 2002, from 104.7 in 2001. After adjusting for relative movements in the respective consumer price indices, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar fell distinctly more by 3.9%, to an average of 96.1 in 2002, from 100.0 in 2001.

/Table 4.1

Table 4.1

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

<u>Average for the month</u>		<u>Trade-weighted Nominal EERI^(a) (Jan 2000 = 100)</u>		<u>Trade-weighted Real EERI^(b) (Jan 2000 = 100)</u>	
2001	Mar	104.3	(1.0)	100.1	(-0.2)
	Jun	105.6	(1.2)	101.0	(0.9)
	Sep	104.3	(-1.2)	99.4	(-1.5)
	Dec	105.4	(1.1)	98.2	(-1.3)
2002	Mar	105.9	(0.5)	99.3	(1.1)
	Jun	103.5	(-2.3)	95.5	(-3.8)
	Sep	103.0	(-0.5)	94.4	(-1.1)
	Dec	102.7	(-0.3)	93.3	(-1.2)

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 Philippine peso, and to exclude the five currencies pertaining to the participating countries of the euro.

(b) The Real Effective Exchange Rate Index of the Hong Kong dollar is obtained by adjusting the Nominal EERI for relative movements in the seasonally adjusted consumer price indices of the respective trading partners.

() % change over three months earlier.

/Diagram 4.1

Diagram 4.1

Exchange rate of the Hong Kong dollar against the US dollar

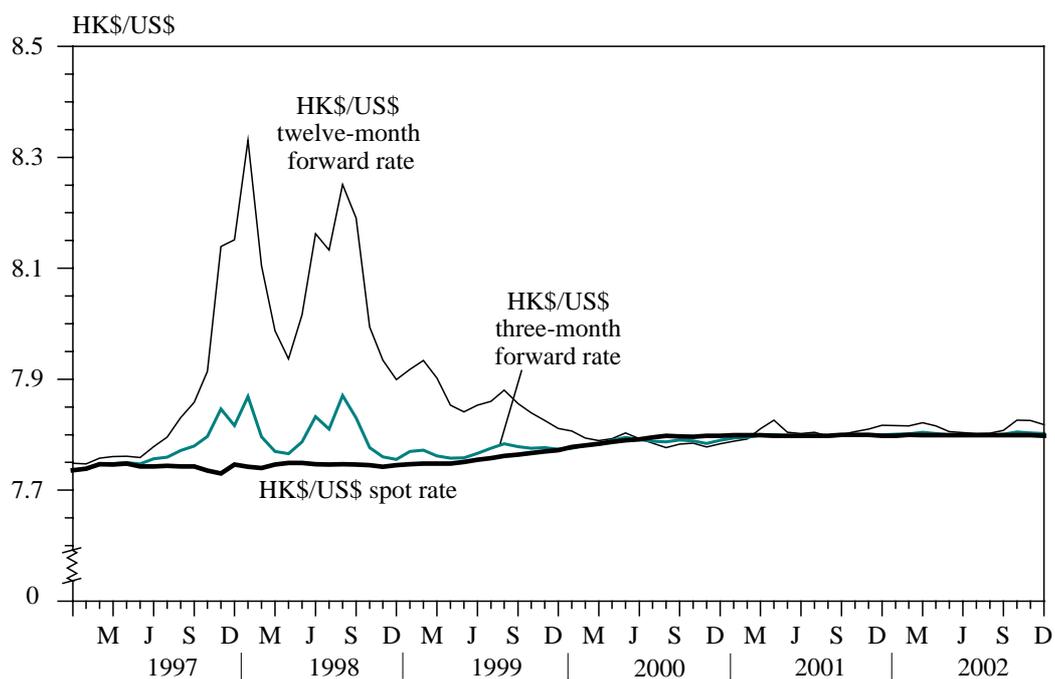
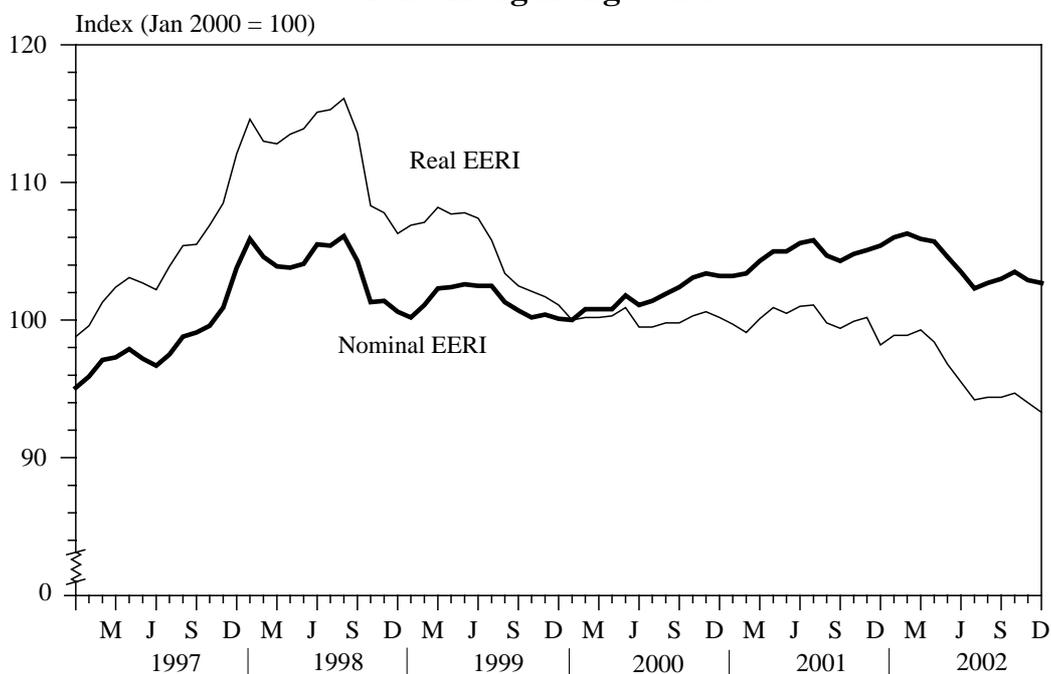


Diagram 4.2

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



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

/Interest

Interest rates

4.5 After successive rate cuts leading to substantial monetary easing in 2001, the US Federal Reserve lowered the Fed Funds target rate only once in November 2002, by 50 basis points to a new 41-year low of 1.25%. With the exception of some temporary increases in March and September, local short-term interest rates largely tracked their US dollar counterparts. They remained low during most of 2002, and eased further in the last two months of the year. The three-month HIBOR went down to 1.4% at end-2002, from 1.9% at end-2001. The average spread between the three-month HIBOR and the corresponding Euro-dollar deposit rate reversed from a discount of 6 basis points in December 2001 to a premium of 10 basis points in December 2002.

4.6 Following the movement in the US Fed Funds target rate, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority was maintained at 3.25% until early November 2002, when it was reduced by 50 basis points to 2.75%. The best lending rate of the major commercial banks was lowered to 5.00% at end-2002, from 5.13% at end-2001. Savings deposit rates offered by the major banks were also trimmed, to an average of merely 0.03% at end-2002, from 0.15% at end-2001. The average spread of the best lending rate over the three-month time deposit rate widened slightly, to 4.71 percentage points in 2002, from 4.62 percentage points in 2001.

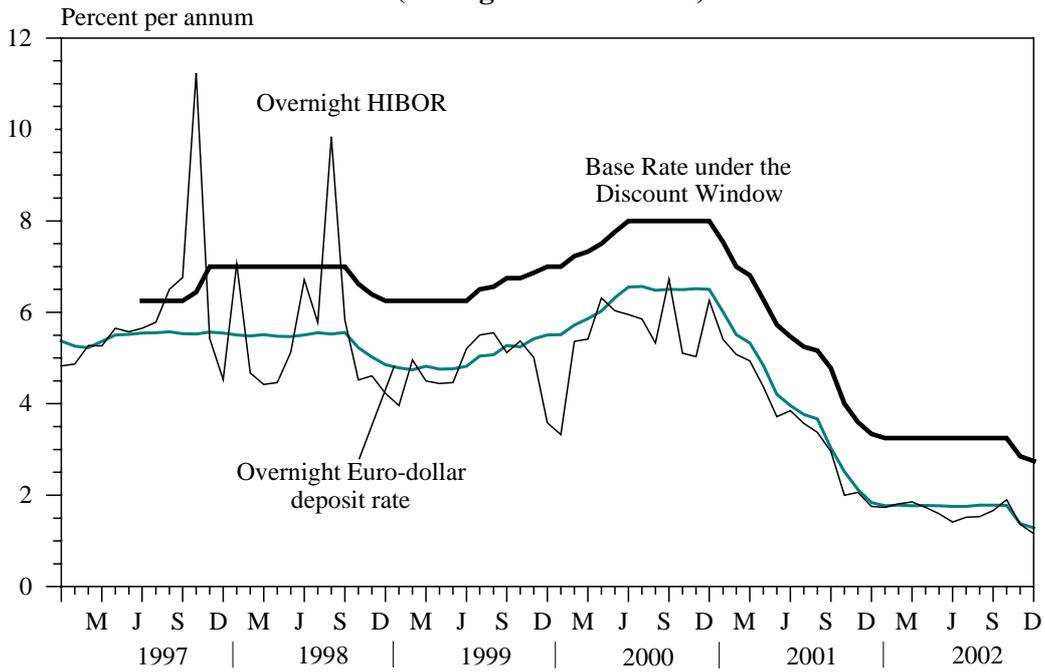
4.7 Competition among the banks for residential mortgage business intensified further. The proportion of new residential mortgages granted at more than 2.25 percentage points below the best lending rate rose distinctly further, from 73.9% in December 2001 to 79.0% in December 2002. Even more visibly, the proportion of new residential mortgages granted at more than 2.5 percentage points below the best lending rate, at 45.3% in December 2002, was way above that of only 5.0% in December 2001⁽³⁾.

/Diagram 4.3

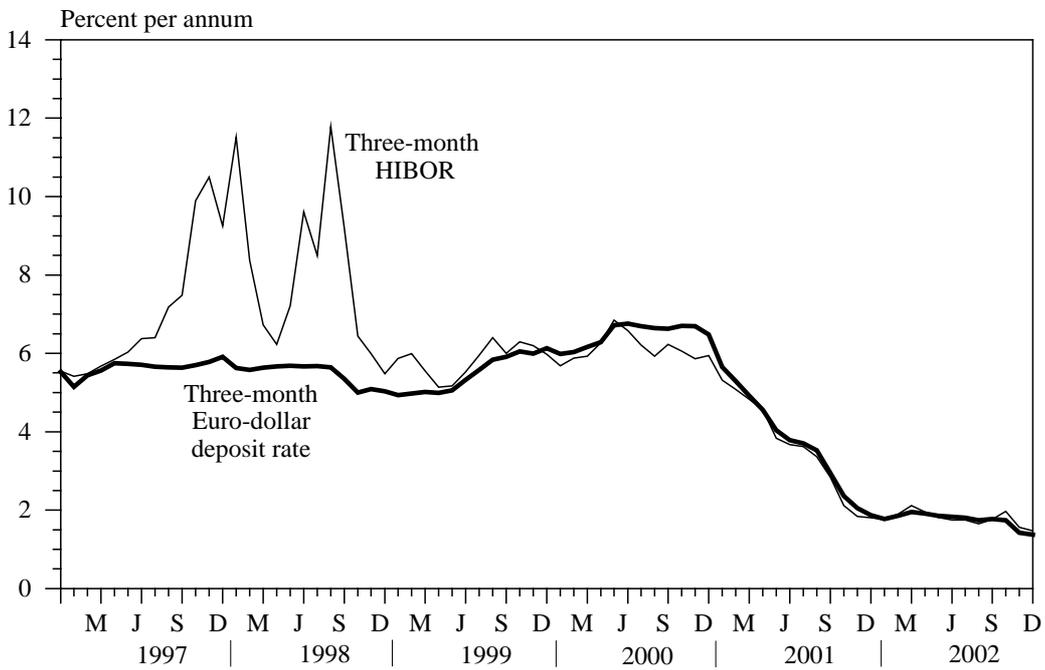
Diagram 4.3

Interest rates

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



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



/Diagram 4.3 (cont'd)

Diagram 4.3 (cont'd)

**(c) Twelve-month HIBOR and Euro-dollar deposit rate
(average for the month)**

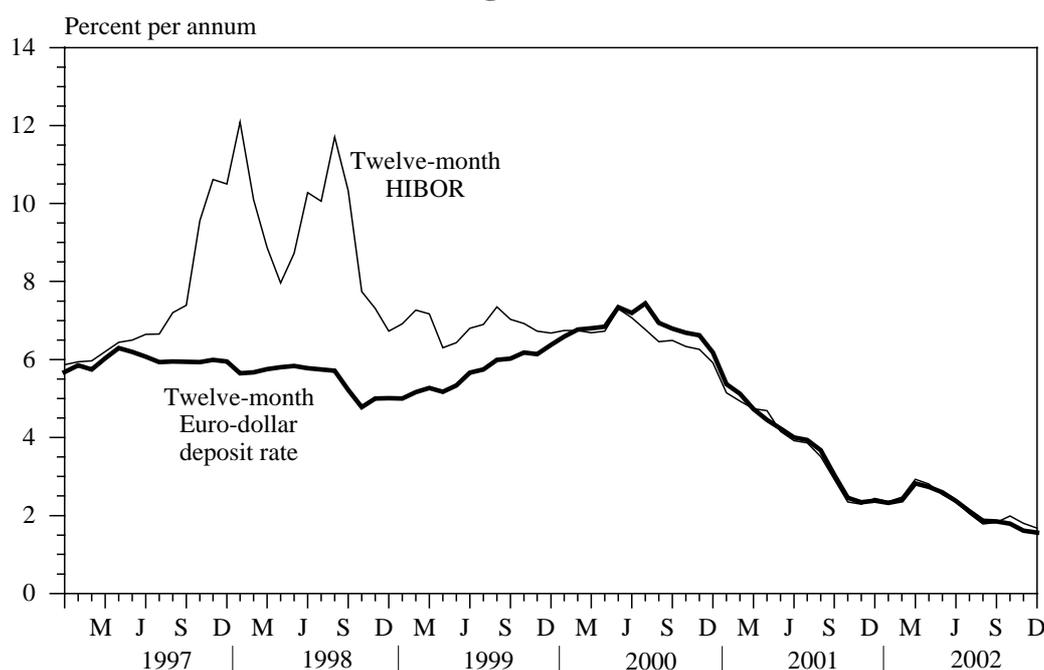


Table 4.2

**Hong Kong dollar inter-bank offer rates (HIBORs)
(% per annum)**

Average for the month		Overnight HIBOR		Three-month HIBOR		Twelve-month HIBOR	
2001	Mar	4.94	(-39)	4.83	(-9)	4.74	(1)
	Jun	3.85	(-11)	3.67	(-12)	3.92	(-9)
	Sep	2.96	(-15)	2.84	(-11)	2.93	(-11)
	Dec	1.75	(-9)	1.81	(-6)	2.44	(6)
2002	Jan	1.74	(-3)	1.76	(-1)	2.36	(5)
	Feb	1.81	(3)	1.90	(4)	2.47	(9)
	Mar	1.86	(9)	2.12	(17)	2.93	(11)
	Apr	1.73	(-4)	1.95	(5)	2.80	(8)
	May	1.60	(-17)	1.81	(-4)	2.54	(-5)
	Jun	1.41	(-35)	1.75	(-9)	2.34	(-4)
	Jul	1.52	(-23)	1.75	(-6)	2.04	(-6)
	Aug	1.53	(-25)	1.65	(-9)	1.78	(-8)
	Sep	1.67	(-11)	1.77	(*)	1.82	(-3)
	Oct	1.90	(13)	1.97	(23)	1.99	(20)
	Nov	1.37	(-1)	1.56	(14)	1.79	(18)
	Dec	1.16	(-13)	1.48	(10)	1.68	(12)

Notes : () 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.

(*) Spread of less than one basis point.

/Table 4.3

Table 4.3

Hong Kong dollar deposit and lending rates
 (% per annum, as average of the rates
 quoted by the major banks)

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

<u>Average for 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>
2001	Mar	3.53	3.74	3.73	3.71	3.71	3.65	8.40
	Jun	2.22	2.41	2.46	2.52	2.73	2.25	7.00
	Sep	1.36	1.59	1.58	1.63	1.73	1.33	6.30
	Dec	0.22	0.51	0.51	0.63	1.04	0.20	5.17
2002	Jan	0.17	0.41	0.46	0.57	0.92	0.16	5.13
	Feb	0.18	0.48	0.55	0.71	1.08	0.16	5.13
	Mar	0.21	0.55	0.62	0.84	1.39	0.16	5.13
	Apr	0.17	0.45	0.56	0.82	1.41	0.16	5.13
	May	0.17	0.34	0.43	0.58	1.02	0.16	5.13
	Jun	0.17	0.29	0.36	0.46	0.74	0.16	5.13
	Jul	0.17	0.31	0.37	0.41	0.56	0.16	5.13
	Aug	0.16	0.32	0.36	0.39	0.44	0.16	5.13
	Sep	0.16	0.33	0.38	0.40	0.43	0.16	5.13
	Oct	0.17	0.37	0.43	0.44	0.48	0.16	5.13
	Nov	0.10	0.16	0.20	0.24	0.30	0.07	5.03
	Dec	0.09	0.13	0.15	0.19	0.25	0.03	5.00

Deposits and money supply

4.8 Following a marginal rise of 0.2% during 2001, Hong Kong dollar deposits (adjusted to include foreign currency swap deposits⁽⁴⁾) fell modestly, by 1.6% over a year earlier to \$1,825 billion at end-2002. They fell by 1.3% during the first quarter of 2002, before reversing to increase by 1.0% during the second quarter. They decreased again by 1.5% during the third quarter, and then picked up slightly by 0.2% during the fourth quarter. The share of Hong Kong dollar deposits in total deposits edged higher, to 55.0% at end-2002, from 54.4% at end-2001.

/4.9

4.9 Amidst low cost in holding liquid balances in a low interest rate environment, time deposits continued to shrink throughout 2002 whereas demand deposits and savings deposits both recorded distinct increases. Compared with a year earlier, demand deposits and savings deposits went up by 14.0% and 9.8% respectively to \$146 billion and \$674 billion at end-2002, whereas time deposits went down by 9.7% to \$1,004 billion at end-2002.

Table 4.4

Hong Kong dollar deposits with authorized institutions

<u>% change during the quarter</u>		<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u> ^{(a)(b)}	<u>Total Hong Kong dollar deposits</u> ^(a)
2001	Q1	-6.1	1.4	-0.6	-0.4
	Q2	0.9	8.3	-2.9	0.3
	Q3	5.9	4.4	-2.4	0.1
	Q4	13.9	8.7	-5.2	0.2
2002	Q1	-4.9	0.5	-1.9	-1.3
	Q2	3.6	3.9	-1.0	1.0
	Q3	4.7	-0.9	-2.5	-1.5
	Q4	10.5	6.2	-4.7	0.2
Total amount at the end of December 2002 (HK\$Bn)		146	674	1,004	1,825
% change over a year earlier		14.0	9.8	-9.7	-1.6

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.

/4.10

4.10 With US dollar and non-US dollar deposits both declining, total foreign currency deposits (adjusted to exclude foreign currency swap deposits) continued on a downtrend, falling by 3.8% over a year earlier to \$1,493 billion at end-2002, after a 7.4% decrease during 2001. Within the foreign currency deposits, US dollar deposits fell by 1.9% during 2002, smaller than the decline of 5.5% during 2001. Non-US dollar deposits plunged further by 7.6% during 2002, having contracted by 11.0% during 2001. On the quarterly profile, total foreign currency deposits declined by 6.2% during the first quarter of 2002, picked up by 1.7% during the second quarter, yet fell again by 0.9% during the third quarter, before rising by 1.7% during the fourth quarter.

Table 4.5

Foreign currency deposits with authorized institutions

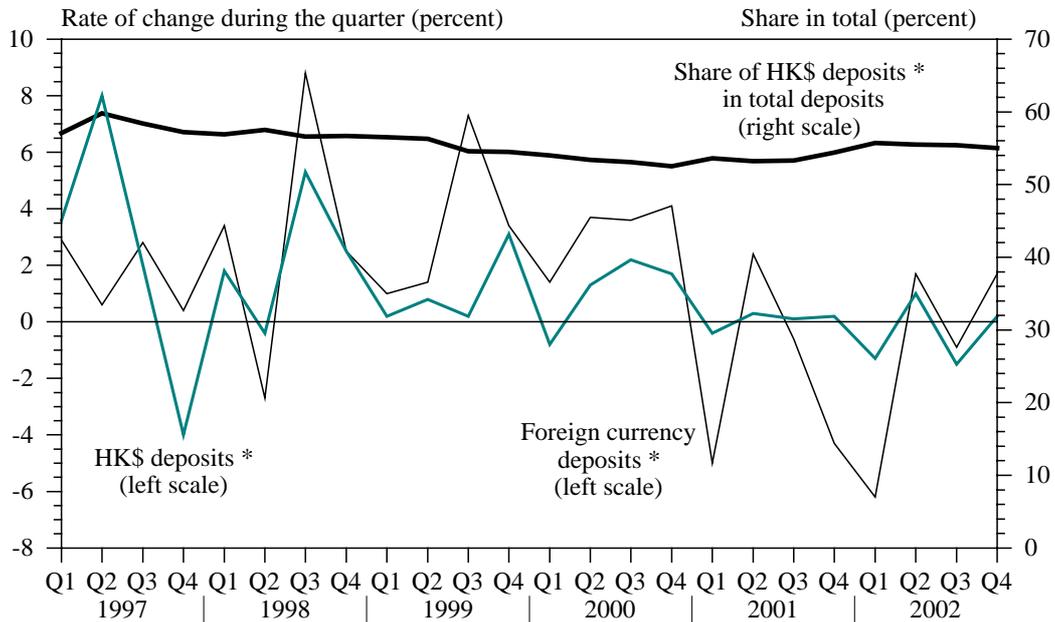
% change during the quarter		US\$ deposits ^(a)	Non-US\$ deposits ^(a)	Total foreign currency deposits ^(a)	Foreign currency swap deposits
2001	Q1	-3.9	-7.1	-5.0	-10.3
	Q2	2.1	2.8	2.4	-20.4
	Q3	-0.9	0.1	-0.6	-7.5
	Q4	-2.9	-6.9	-4.3	-7.8
2002	Q1	-2.9	-12.7	-6.2	-6.9
	Q2	1.1	3.2	1.7	-8.0
	Q3	-3.3	4.2	-0.9	-7.5
	Q4	3.4	-1.5	1.7	-8.6
Total amount at the end of December 2002 (HK\$Bn)		1,013	480	1,493	2
% change over a year earlier		-1.9	-7.6	-3.8	-27.7

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.

4.11 Total deposits with all authorized institutions in Hong Kong fell by 2.6% over a year earlier to \$3,318 billion at end-2002, following a 3.4% decrease during 2001. The fall during 2002 was due to the declines of 3.5% and 1.2% respectively during the first and third quarters, which more than offset the increases of 1.3% and 0.9% respectively during the second and fourth quarters. A closely similar quarterly pattern was observed for deposits with licensed banks, which took up 98.7% of the total deposits with all authorized institutions. Deposits with deposit-taking companies and licensed banks fell by 8.8% and 2.7% respectively during the year, whereas deposits with restricted licence banks went up, by 7.4%.

/Table 4.6

Table 4.6**Total deposits by major type 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>
2001	Q1	-13.0	0.8	-3.0	-2.7	4.7	5.5	-2.6
	Q2	0.6	7.3	-0.2	1.3	-3.2	-6.5	1.3
	Q3	6.7	4.3	-2.0	-0.3	7.0	16.0	-0.2
	Q4	10.2	8.5	-5.8	-1.9	-2.0	-1.9	-1.9
2002	Q1	-1.5	0.2	-5.0	-3.5	-3.0	-7.0	-3.5
	Q2	4.4	4.4	-0.2	1.2	10.6	-3.0	1.3
	Q3	2.2	0.3	-2.2	-1.3	7.7	-2.2	-1.2
	Q4	10.9	6.1	-1.8	1.0	-6.9	3.3	0.9
Total amount at the end of December 2002 (HK\$Bn)		182	947	2,147	3,276	36	6	3,318
% change over a year earlier		16.6	11.2	-9.0	-2.7	7.4	-8.8	-2.6

4.12 Following a strong increase of 12.7% during 2001, narrow money supply, HK\$M1⁽⁵⁾, continued to expand markedly, by 12.9% over a year earlier to \$259 billion at end-2002. Having declined marginally by 0.1% during the first quarter of 2002, HK\$M1 resumed increases by 1.7%, 3.5% and 7.3% during the ensuing three quarters. On a seasonally adjusted basis, HK\$M1 rose by 0.5%, 5.4%, 2.9% and 3.4% respectively during the four quarters of 2002⁽⁶⁾. By contrast, the broader definitions of money supply, HK\$M2 and HK\$M3 (adjusted to include foreign currency swap deposits) at \$1,984 billion and \$2,004 billion respectively at end-2002, were down by 0.7% and 0.6% over a year earlier. These reversed the corresponding increases of 0.5% and 0.7% during 2001. On the quarterly profile, both HK\$M2 and HK\$M3 fell by 1.0% during the first quarter of 2002 and rose back by 1.2% during the second quarter. They then fell again during the third quarter, by 1.4% and 1.3% respectively, yet increased again during the fourth quarter, by 0.4% and 0.5%

/respectively

respectively. Apart from being influenced by the low cost of holding cash, HK\$M1 in particular was boosted by a greater demand for cash brought about by the continued surge in visitors from the Mainland.

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>	
2001	Q1	-2.6	(0.4)	-7.5	-0.5	-2.6	-0.5	-2.5
	Q2	1.0	(1.7)	0.9	0.4	1.5	0.4	1.4
	Q3	5.1	(4.8)	5.7	0.4	*	0.5	0.1
	Q4	8.9	(5.0)	7.3	0.3	-1.6	0.3	-1.6
2002	Q1	-0.1	(0.5)	1.5	-1.0	-3.1	-1.0	-3.1
	Q2	1.7	(5.4)	2.4	1.2	1.7	1.2	1.7
	Q3	3.5	(2.9)	2.1	-1.4	-0.8	-1.3	-0.7
	Q4	7.3	(3.4)	8.0	0.4	1.4	0.5	1.3
Total amount at the end of December 2002 (HK\$Bn)		259	(253)	296	1,984	3,519	2,004	3,562
% change over a year earlier		12.9	(12.7)	14.6	-0.7	-0.9	-0.6	-0.9

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.

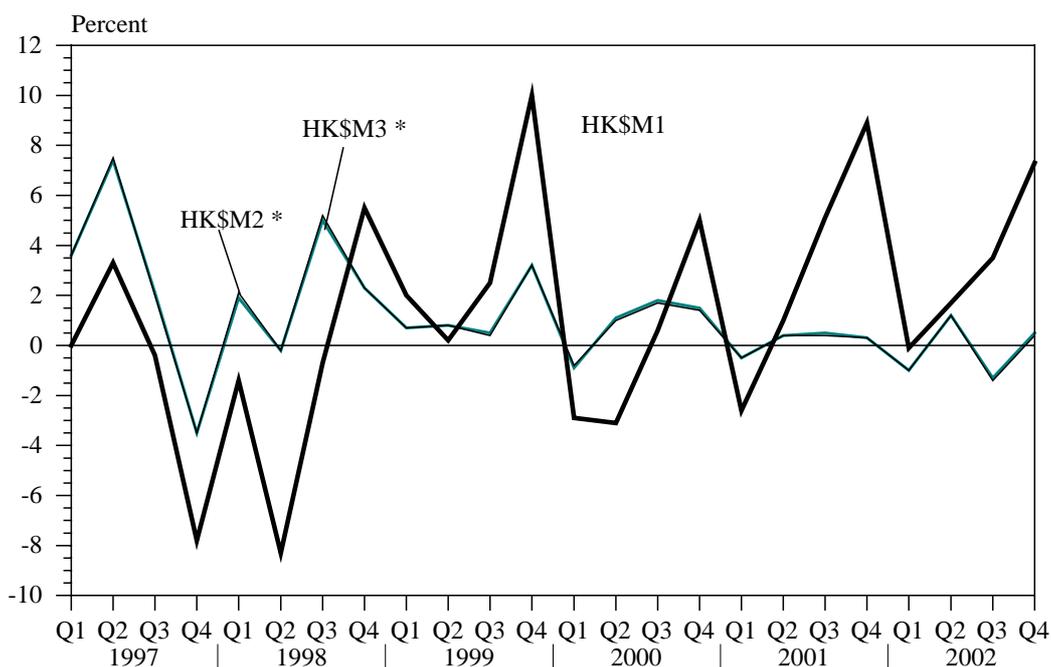
(a) Adjusted to include foreign currency swap deposits.

(*) Change of less than 0.05%.

/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 external claims and liabilities

4.13 Hong Kong dollar claims held by Hong Kong's authorized institutions on banks outside Hong Kong rose by 15.4% during the first eleven months of 2002, from \$170.0 billion at end-2001 to \$196.2 billion at end-November 2002. Compared with a year earlier, the increase at end-November 2002 was 7.8%. The rise was mainly attributable to more placements with banks in Europe. By contrast, Hong Kong dollar liabilities owed by Hong Kong's authorized institutions to banks outside Hong Kong continued to fall, by 9.9% during the first eleven months of 2002, from \$175.4 billion at end-2001 to \$158.1 billion at end-November 2002. Compared with a year earlier, the decrease at end-November 2002 was 11.7%. The fall was due to less deposits from Mainland banks. Taken together, the external position of Hong Kong's authorized institutions against banks abroad reverted to net claims of \$38.0 billion at end-November 2002, from net liabilities of \$5.5 billion at end-2001. At end-November 2001, there was net claims of \$2.8 billion.

/4.14

4.14 As to external position against banks in the Mainland, Hong Kong dollar liabilities owed by Hong Kong's authorized institutions to banks in the Mainland continued to be the most prominent, with a 48% share in the corresponding total liabilities at end-November 2002. Yet as deposits from banks in the Mainland declined, these liabilities fell by 20.8% during the first eleven months of 2002, from \$96.0 billion at end-2001 to \$76.0 billion at end-November 2002. Compared with a year earlier, the decline at end-November 2002 was slightly larger, at 23.2%. The significance of Hong Kong dollar claims held by Hong Kong's authorized institutions on banks in the Mainland was much less, with a 11% share at end-November 2002. But these claims increased by 14.9% during the first eleven months of 2002, from \$18.5 billion at end-2001 to \$21.3 billion at end-November 2002. Compared with a year earlier, the rise at end-November 2002 was 14.4%. Taken together, net Hong Kong dollar liabilities of Hong Kong's authorized institutions to banks in the Mainland fell considerably, to \$54.7 billion at end-November 2002, from \$77.4 billion at end-2001 and \$80.3 billion at end-November 2001.

Table 4.8

**Hong Kong dollar external claims and liabilities
held by Hong Kong's authorized institutions**

As at the end of	Claims on banks outside Hong Kong (HK\$Bn)		Liabilities to banks outside Hong Kong (HK\$Bn)		Net liabilities to banks outside Hong Kong (HK\$Bn)	
	Overall	Involving banks in the Mainland	Overall	Involving banks in the Mainland	Overall	Involving banks in the Mainland
2001 Q1	194.3 (-3.4)	42.5 (-0.3)	213.3 (-8.1)	141.1 (-10.3)	19.0	98.6
Q2	160.3 (-17.5)	19.0 (-55.4)	190.6 (-10.6)	115.6 (-18.1)	30.3	96.6
Q3	178.2 (11.1)	18.8 (-1.1)	188.3 (-1.2)	111.5 (-3.5)	10.1	92.7
Q4	170.0 (-4.6)	18.5 (-1.2)	175.4 (-6.8)	96.0 (-13.9)	5.5	77.4
2002 Q1	171.8 (1.1)	19.1 (3.2)	147.0(-16.2)	68.4 (-28.7)	-24.9	49.3
Q2	190.1 (10.6)	19.8 (3.4)	151.2 (2.9)	67.4 (-1.4)	-38.9	47.6
Q3	192.3 (1.2)	21.5 (8.7)	154.3 (2.1)	70.6 (4.6)	-38.0	49.0
Oct	184.3 (-4.2)	20.6 (-4.5)	150.1 (-2.7)	67.7 (-4.0)	-34.2	47.2
Nov	196.2 (6.4)	21.3 (3.7)	158.1 (5.3)	76.0 (12.2)	-38.0	54.7
	<7.8>	<14.4>	<-11.7>	<-23.2>		

Notes : () % change during the period.

< > % change over a year earlier.

/Loans

Loans and advances

4.15 Total loans and advances shrank by 4.9% over a year earlier to \$2,077 billion at end-2002. Though smaller than the 11.2% decrease during 2001, this represented the fifth consecutive year of decline. The contraction during 2002 was made up of declines of 1.2%, 0.5%, 2.2% and 1.0% respectively during the four quarters. As in the previous years, the shrinkage was concentrated in foreign currency loans, which fell by 14.2% during 2002, albeit lesser than the 33.6% decrease during 2001. Foreign currency loans dwindled by 7.2%, 5.5% and 2.3% during the first, third and fourth quarters of 2002, yet a marginal increase of 0.2% was recorded during the second quarter. Hong Kong dollar loans declined modestly by 1.9% over a year earlier to \$1,616 billion at end-2002, further to a 0.3% decrease during 2001. Having increased by 0.7% during the first quarter of 2002, Hong Kong dollar loans fell by 0.8%, 1.3% and 0.6% respectively during the ensuing three quarters. The share of Hong Kong dollar loans in total loans and advances stood at 77.8% at end-2002, higher than that of 75.4% at end-2001.

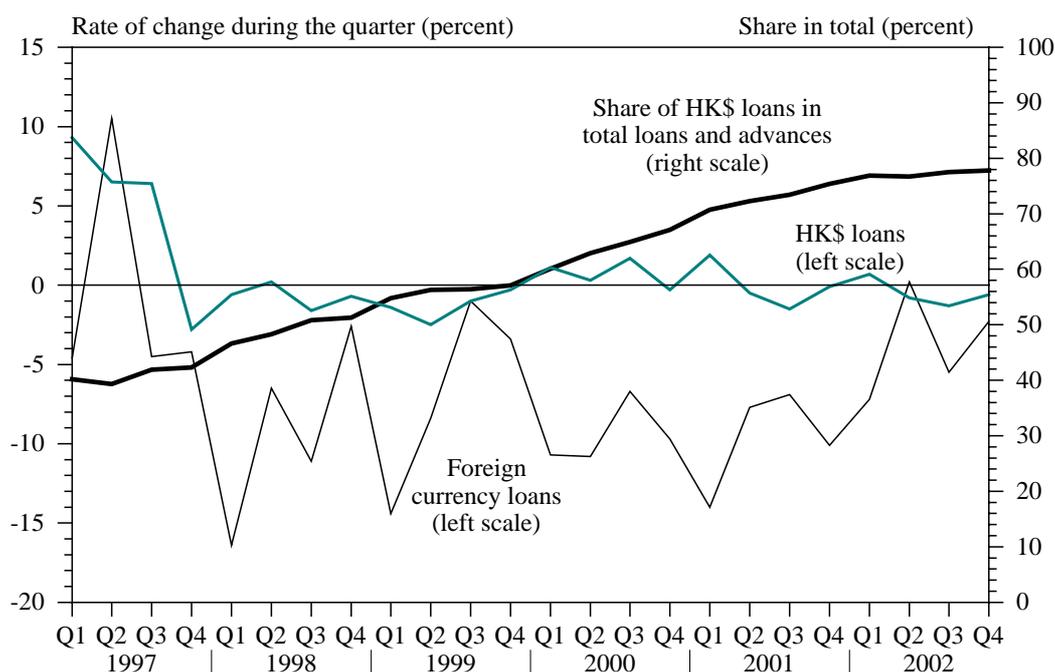
Table 4.9

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>
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
2002	Q1	0.7	-7.2	-1.2
	Q2	-0.8	0.2	-0.5
	Q3	-1.3	-5.5	-2.2
	Q4	-0.6	-2.3	-1.0
Total amount at the end of December 2002 (HK\$Bn)		1,616	461	2,077
% change over a year earlier		-1.9	-14.2	-4.9

/Diagram 4.6

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



4.16 As the decline in Hong Kong dollar loans was slightly more than that in Hong Kong dollar deposits during 2002, the Hong Kong dollar loan-to-deposit ratio fell slightly further, to a new low of 88.5% at end-2002, from that of 88.8% at end-2001.

Table 4.10

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

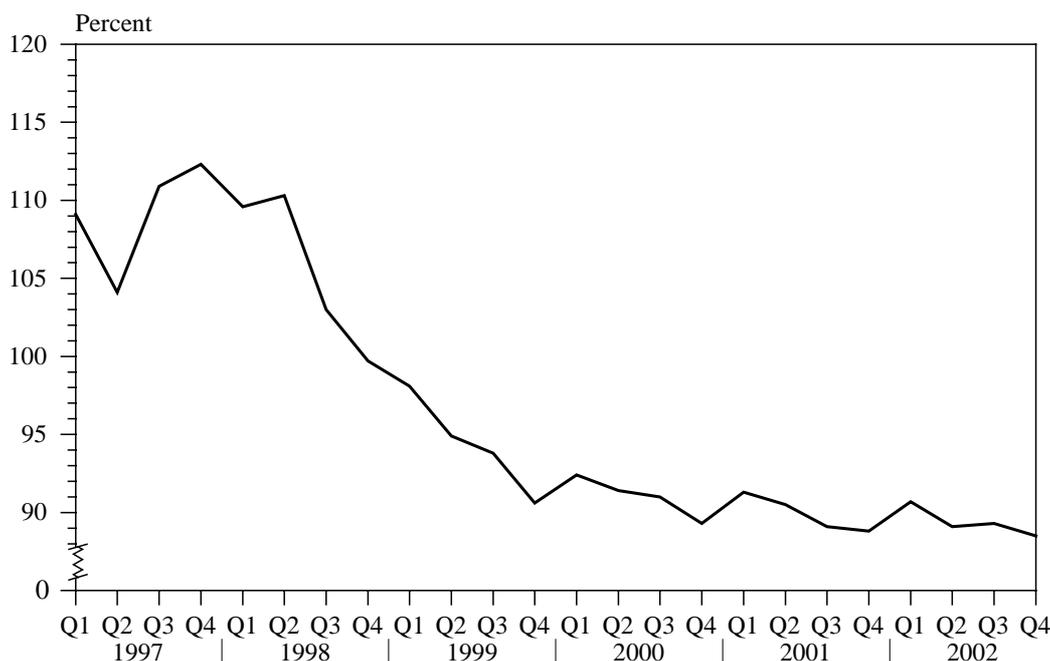
<u>As at the end of</u>		<u>%</u>
2001	Q1	91.3
	Q2	90.5
	Q3	89.1
	Q4	88.8
2002	Q1	90.7
	Q2	89.1
	Q3	89.3
	Q4	88.5

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.

4.17 Analysed by place of usage, loans for use in Hong Kong, at \$1,834 billion at end-2002, fell by 2.4% during the year, after a decline of 4.4% during 2001. This was in line with the subdued domestic business activity. Loans for use outside Hong Kong, at \$243 billion at end-2002, contracted significantly further by 20.7% during the year, having already fallen sharply by 38.3% during 2001. This was due to continued cut-backs in Euro-yen Impact Loans⁽⁷⁾.

/Table 4.11

Table 4.11

Loans and advances by place of usage

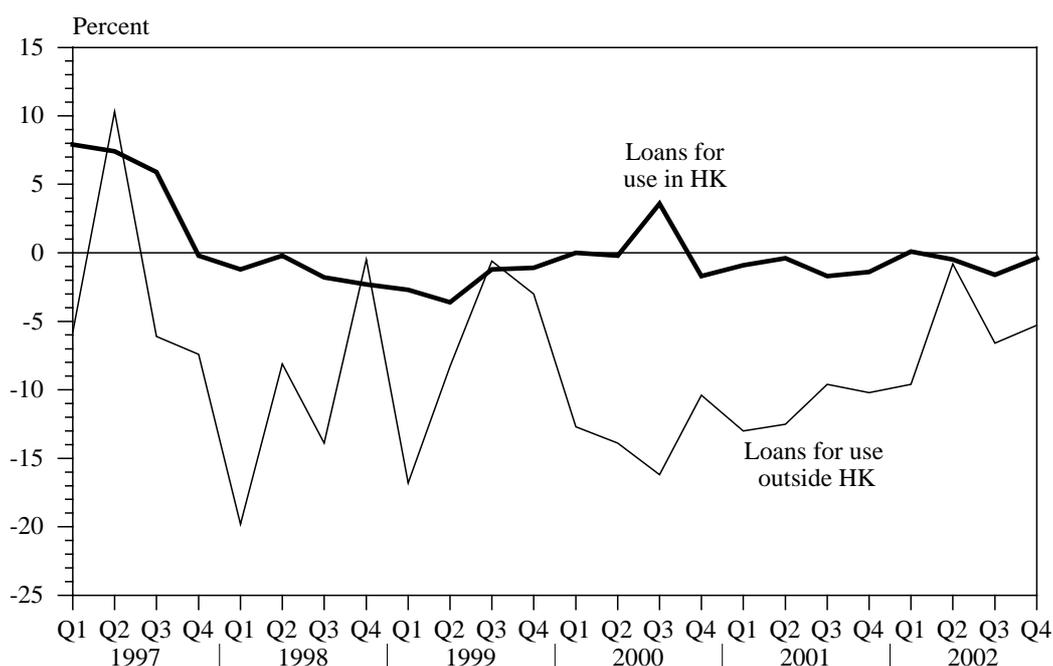
% change during the quarter		Loans for use in Hong Kong ^(a)	Loans for use outside Hong Kong ^(b)
2001	Q1	-0.9	-13.0
	Q2	-0.4	-12.5
	Q3	-1.7	-9.6
	Q4	-1.4	-10.2
2002	Q1	0.1	-9.6
	Q2	-0.5	-0.8
	Q3	-1.6	-6.6
	Q4	-0.4	-5.3
Total amount at the end of December 2002 (HK\$Bn)		1,834	243
% change over a year earlier		-2.4	-20.7

Notes : (a) Including trade financing loans.

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

Diagram 4.8

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



/4.18

4.18 Analysed by major usage, the decline in domestic loans was almost across-the-board. Loans to financial concerns fell the most, by 10.1% during 2002, along with the slide in the local stock market. Loans to stockbrokers came down by 6.8%, for a similar reason. Loans for building, construction, property development and property investment fell by 3.9%, amidst a dearth of new building projects. These were followed by loans for the wholesale and retail trade (with a 2.4% decrease); loans to the manufacturing sector (1.3% decrease); and loans for residential mortgages (0.8% decrease). But loans for trade financing went up by 2.6% during 2002, in line with the distinctly improved export performance.

Table 4.12

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

		Loans to :							
		Finance	Manu-	Whole-	Building,	Purchase	Financial	Stock-	Others
		visible	facturing	sale	construction,	resi-	concerns	brokers	
		trade	Sector	and	property	dential			
				retail	development	property			
				trades	and	investment			
						property			
						property ^(b)			
% change	during								
the	quarter								
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	-8.9	-0.4	-7.1	0.9	0.5	-0.8	-11.3	-3.4
2002	Q1	-2.6	1.2	1.0	-0.5	*	0.9	2.1	0.7
	Q2	7.3	1.3	-0.1	-1.9	0.6	-8.2	23.9	-0.8
	Q3	1.9	-4.9	-0.9	-2.4	-0.7	-3.2	-22.2	-1.5
	Q4	-3.6	1.2	-2.5	1.0	-0.7	0.3	-5.2	-0.3
Total amount at the end of December 2002 (HK\$Bn)		91	71	100	379	642	125	8	418
% change over a year earlier		2.6	-1.3	-2.4	-3.9	-0.8	-10.1	-6.8	-1.9

Notes : (a) Figures 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%.

/4.19

4.19 Although bank loans had yet to rebound, asset quality of the banks in Hong Kong continued to improve in overall terms. The ratio of non-performing loans to total loans fell from 5.16% at end-2001 to 4.13% at end-September 2002. The ratio of classified loans to total loans likewise decreased, from 6.53% to 5.18%. The ratio of overdue and rescheduled loans to total loans also went down, from 4.57% to 3.99%⁽⁸⁾. Arrears for over three months in mortgage repayments declined during the same period, from 1.22% to 1.08%. Arrears for over three months in credit card repayments, at 1.32% at end-September 2002, were up from 1.28% at end-2001, yet they fell during the second and third quarters, reversing the uptrend in the preceding two years. Local banks remained well capitalised, with their consolidated capital adequacy ratio averaging at 16.3% at end-September, well above the standard set by the Bank for International Settlements.

Banks and other deposit-taking institutions

4.20 The number of licensed banks decreased by 14 during the year to 133 at end-December 2002. Yet this was due to the merger of a key China-related banking group last year. The number of restricted licence banks fell by three to 46 and the number of deposit-taking companies by nine to 45. Altogether, 224 authorized institutions (excluding representative offices) from 31 countries and territories maintained a presence in Hong Kong at end-2002. Total assets of the authorized institutions in Hong Kong as a whole declined by 2.6% over a year earlier to \$5,993 billion at end-December 2002.

4.21 For enhancing deposit protection in Hong Kong, opinions obtained from a public consultation exercise in the latter part of 2000 indicated broad support for the introduction of a deposit insurance scheme in Hong Kong. Following a more detailed study by HKMA, the Administration approved in principle the proposal to introduce such a scheme in Hong Kong. After completing consideration on how the scheme should be structured, HKMA issued a further consultation paper in March 2002 setting out the detailed proposals for the scheme. The consultation ended in May. With the detailed design features for the scheme determined, HKMA is preparing the requisite legislation, with a view to introducing it to the Legislative Council in the first half of 2003.

/4.22

4.22 For enhancing the capability of the banks in their assessment of consumer credit, HKMA issued a circular to all authorized institutions in February 2002, recommending the best practices for management of credit card operations and also setting out the measures for preventing abuse of the bankruptcy provisions. The Hong Kong Association of Banks and the Privacy Commissioner (PC) have reached broad agreement on the scope of positive consumer credit data to be shared amongst the banks. Taking into account the views expressed in a public consultation, PC is of the opinion that greater sharing of credit data, when implemented with appropriate measures to safeguard privacy protection, will be beneficial to the credit environment, which in turn will benefit both lenders and borrowers. The Code of Practice on Consumer Credit Data is being revised accordingly.

Insurance

4.23 At end-2002, the total number of insurance companies was reduced by nine to 195. Within this total, 46 were engaged wholly in long-term business, 130 wholly in general business, and 19 in composite business. Taken together, insurance companies from 27 countries and territories maintained a presence in Hong Kong at end-2002. Reflecting continued notable growth of the insurance industry, the value of its business receipts rose further, by 8% in the first three quarters of 2002 over a year earlier, after a 14% increase in 2001.

The debt market

4.24 In 2002, a total of 114 issues of Exchange Fund paper were launched to replace the maturing issues⁽⁹⁾. The total market value of Exchange Fund paper outstanding rose by \$3.7 billion during the year, to \$117.5 billion at end-2002. Market response to the tenders of Exchange Fund paper continued to be favourable, with an average over-subscription rate of 5.3 times in 2002, up from 4.9 times in 2001. Trading in Exchange Fund paper also increased, with average daily turnover of \$22.3 billion in 2002, being higher than that of \$21.2 billion in 2001. The yield spread of five-year Exchange Fund Notes over the corresponding US Treasuries narrowed, from 92 basis points at end-2001 to 48 basis points at end-2002.

/Table 4.13

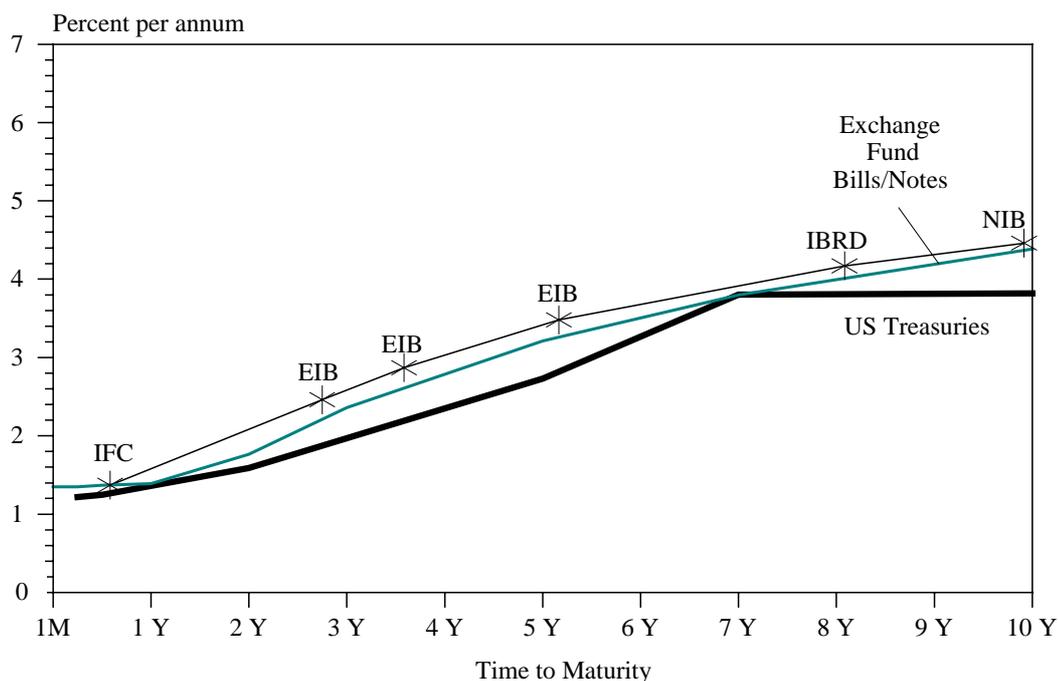
Table 4.13

Exchange Fund Bills and Notes issued by HKMA

		Amount outstanding as at the end of the quarter (HK\$Bn)	Average daily turnover in the quarter (HK\$Bn)
2001	Q1	110.1	21.5
	Q2	111.5	20.7
	Q3	112.7	19.7
	Q4	113.8	22.9
2002	Q1	114.7	22.3
	Q2	115.7	22.7
	Q3	116.6	23.4
	Q4	117.5	21.0

Diagram 4.9

**Hong Kong dollar and US dollar yield curves
(as at the end of December 2002)**



Note : AAA Hong Kong dollar debt issuers

EIB European Investment Bank
 IBRD International Bank for Reconstruction and Development
 IFC International Finance Corporation
 NIB Nordic Investment Bank

/4.25

4.25 The Hong Kong Mortgage Corporation (HKMC) has become one of the major issuers of debt securities in Hong Kong. In 2002, \$15.0 billion worth of HKMC debt paper was launched. The total outstanding value of debt securities issued by HKMC under its Note Issuance Programme stood at \$5.0 billion at end-2002, while that under its Debt Issuance Programme was \$17.5 billion. There were also retail bonds issued by HKMC, with the outstanding value totalling \$6.1 billion at end-2002.

4.26 In 2002, \$109.7 billion worth of new negotiable certificates of deposit (NCDs) was launched, up from \$84.0 billion in 2001. Of the new issuance of NCDs in 2002, \$71.2 billion was denominated in Hong Kong dollars, also more than that of \$56.2 billion in 2001. The total value of NCDs outstanding rose to \$211.2 billion at end-2002, from \$172.3 billion at end-2001. Within this total, \$138.4 billion was denominated in Hong Kong dollars at end-2002, larger than that of \$134.9 billion at end-2001. The proportion of Hong Kong dollar denominated NCDs held by the local banking sector declined, to 52.3% at end-2002, from 55.3% at end-2001.

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>
2001	Q1	146.7	172.8	90.4	102.9	56.2	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
2002	Q1	132.1	173.3	73.5	85.0	58.6	88.2
	Q2	142.0	192.3	77.2	86.2	64.8	106.1
	Q3	136.8	201.0	72.9	82.0	63.9	118.9
	Q4	138.4	211.2	72.4	80.2	66.1	131.1

/4.27

4.27 757 new issues of other Hong Kong dollar debt instruments, totalling \$109.2 billion, were launched by the private sector in 2002. This was less than the 806 new issues for \$96.7 billion in 2001. Partly reflecting risk aversion by debt issuers against potential interest rate volatility, issuance of fixed rate bonds by the private sector, at \$70.5 billion in 2002, continued to exceed considerably that of floating rate notes, at \$38.7 billion. At end-2002, outstanding Hong Kong dollar fixed rate bonds and floating rate notes from the private sector amounted to \$193.9 billion and \$75.7 billion respectively, giving a total of \$269.6 billion⁽¹⁰⁾. These were all higher than the corresponding figures of \$181.8 billion, \$53.3 billion and \$235.1 billion at end-2001. There were eight new issues of Hong Kong dollar debt paper by multilateral agencies in 2002, raising a total of \$5.2 billion, as compared to 15 issues for \$7.5 billion in 2001.

4.28 Taking the public and private sectors together, the total value of Hong Kong dollar debt paper outstanding amounted to \$532.4 billion at end-2002⁽¹¹⁾, up from that of \$493.8 billion at end-2001. The size of the Hong Kong dollar debt market was equivalent to 26.6% of HK\$M3, or 19.9% of the Hong Kong dollar denominated assets of the entire banking sector.

The stock, futures and gold markets

4.29 The local stock market exhibited much volatility over the course of 2002. There was a brief rally at the beginning of the year, upon a price surge in technology-related shares in the United States. With greater optimism about a sooner-than-expected recovery in the US economy, local share prices continued to hold up well in February and March. Fund inflows and market expectation for no imminent rise in US interest rates then pushed the Hang Seng Index to a high of 11 975 on 17 May.

4.30 Local share prices soon drifted lower, with the Hang Seng Index falling to levels below 10 000 in late July. Apart from lacklustre corporate performance in the local economy, market sentiment was also weighed down by growing concern worldwide about the uncertain tempo of US economic recovery and the likely consequence of US corporate frauds. Then, looming war pressure on Iraq led to a further dip in share prices in September. The Hang Seng Index plunged to a four-year low of 8 859 on 10 October. Local share prices recovered some lost ground in November, upon the US interest rate

/cut

cut and steadier employment conditions locally. But as war pressure on Iraq escalated and tension over nuclear control in North Korea broke out towards the year-end, local share prices were dampened again. The Hang Seng Index closed the year at 9 321, 18.2% lower than the level of 11 397 at end-2001. Share prices in the major stock markets overseas likewise plummeted during 2002, for some by even greater magnitudes than in the local market.

Diagram 4.10

Hang Seng Index

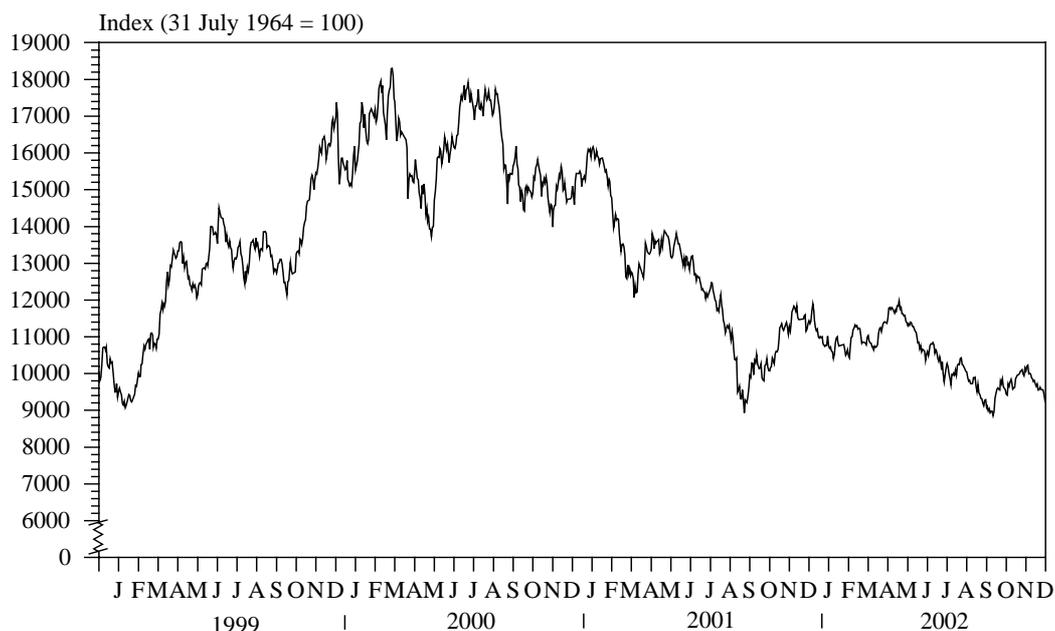


Table 4.15

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

		Hang Seng Index	New York Dow Jones Industrial Average	Tokyo Nikkei Average	London Financial Times Index	Frankfurt DAX 30 Index	Paris CAC 40 Index	Sydney All Ordinaries Index	Singapore Straits Times Index
2001	Q1	12 761	9 879	13 000	5 634	5 830	5 180	3 097	1 674
	Q2	13 043	10 502	12 969	5 643	6 058	5 225	3 425	1 727
	Q3	9 951	8 848	9 775	4 903	4 308	4 079	2 988	1 320
	Q4	11 397	10 022	10 543	5 217	5 160	4 625	3 360	1 624
2002	Q1	11 033	10 404	11 025	5 272	5 397	4 688	3 363	1 803
	Q2	10 599	9 243	10 622	4 656	4 383	3 898	3 163	1 553
	Q3	9 072	7 592	9 383	3 722	2 769	2 777	2 928	1 352
	Q4	9 321	8 342	8 579	3 940	2 893	3 064	2 976	1 341
% change during 2002		-18.2	-16.8	-18.6	-24.5	-43.9	-33.7	-11.4	-17.4

/4.31

4.31 In parallel with the fall in share prices, total stock market capitalisation, including the Main Board and the Growth Enterprise Market (GEM)⁽¹²⁾, was reduced by 8% over a year earlier to \$3,611 billion at end-2002. Average daily turnover in the local stock market fell distinctly, to \$6.7 billion in 2002, from \$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 the quarter</u> (HK\$Bn)		
		Main Board	Growth Enterprise Market	Total	Main Board	Growth Enterprise Market	Total
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	6.9	0.2	7.1	3,885	61	3,946
2002	Q1	6.9	0.3	7.1	3,855	69	3,924
	Q2	7.8	0.2	8.0	3,792	61	3,852
	Q3	5.8	0.2	5.9	3,327	53	3,381
	Q4	5.6	0.1	5.6	3,559	52	3,611

4.32 In 2002, 117 new share flotations (including two companies switching from GEM to the Main Board without raising capital) were launched on the Stock Exchange of Hong Kong, raising a total equity capital of \$52.0 billion. These were distinctly higher than the corresponding figures of 88 and \$25.7 billion in 2001. Of these, 60 were listed on the Main Board and 57 on GEM, raising equity capital of \$45.0 billion and \$7.0 billion respectively. Amongst these new issues, 12 pertained to H shares and were listed on GEM, raising equity capital of \$1.1 billion. In addition to the new flotations, around \$16.3 billion was raised through private placements by 133 companies, and around \$5.9 billion through rights issues by 47 companies.

4.33 The Securities and Futures Ordinance (SFO) was enacted on 13 March 2002 and will come into effect on 1 April 2003. This represents a major milestone in the modernisation and consolidation of Hong Kong's securities legislation. The enhanced SFO provides Hong Kong with a clear and

/user-friendly

user-friendly regulatory framework for a fair, efficient and transparent market. It includes the introduction of a streamlined single licensing regime, proportionate disciplinary sanctions to combat market misconduct, measures to protect the interests of investors, a comprehensive investor compensation scheme, and a tighter regime for disclosure of interests in listed companies. As such, investors can be better protected and the competitive edge of Hong Kong's financial sector henceforth strengthened.

4.34 On trading in derivatives on the Hong Kong Exchanges and Clearing Ltd, average daily turnover of Hang Seng Index futures contracts increased by 8% over a year earlier to 19 602 contracts in 2002, while average daily turnover of Hang Seng Index options contracts rose by 47% to 4 369 contracts. But average daily turnover of MSCI China Free Index futures contracts⁽¹³⁾ was very thin, at only eight contracts in 2002.

Table 4.17

Average daily turnover of Hang Seng Index futures and options contracts in the Hong Kong derivatives 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)
2001 Q1	17 443	2 763
Q2	17 447	2 480
Q3	18 758	2 992
Q4	19 206	3 619
2002 Q1	17 956	3 338
Q2	18 739	3 185
Q3	21 053	4 652
Q4	20 508	6 242

4.35 At end-2002, there were 33 classes of stock options contracts and 32 classes of stock futures contracts. Average daily turnover of stock options contracts decreased by 8% over a year earlier to 15 203 contracts in 2002. Concurrently, average daily turnover of stock futures contracts, at 86 contracts in 2002, was almost two times more than a year earlier.

/4.36

4.36 Average daily turnover of three-month HIBOR futures contracts dropped by 56% over a year earlier to 1 144 contracts in 2002. Average daily turnover of three-year Exchange Fund Note futures contracts, which commenced trading in late 2001, was 15 contracts in 2002. Trading in Rolling Forex Futures contracts was suspended in May 2002.

4.37 There were 414 issues of warrants listed on the Main Board at end-2002. These were made up of 67 issues of equity warrants and 347 issues of derivative warrants. Average daily turnover of equity warrants was \$7.1 million in 2002, 46% less than in 2001. Average daily turnover of derivative warrants was \$457 million, 6% more than in 2001. As to GEM, only four issues of warrants were listed at end-2002. Trading in them remained negligible in 2002.

4.38 Gold prices soared over the course of 2002. Demand for gold holdings as an asset was rekindled, as share prices in the major stock markets fell sharply during the year. Also, along with the depreciation of the US dollar, the price of gold being denominated in US dollar was cheaper in terms of the other major currencies. Then there was the low interest rate environment, which made the opportunity cost of holding gold lower as against holding interest-bearing investment items. The looming war pressure on Iraq further boosted the demand for gold as hedge. The price of loco-London gold leaped to a 5½-year high of US\$349.5 per troy ounce on 27 December and closed 2002 at US\$344.0, 26% higher than that of US\$276.6 at the end of 2001. Gold price at the Chinese Gold and Silver Exchange Society surged in parallel, by 24% during the year to \$3,199 per tael at end-2002, from \$2,572 per tael at end-2001. Turnover on the Exchange was 3.5 million taels in 2002, lower than that of 4.3 million taels in 2001.

Unit trusts and mutual funds

4.39 The total number of unit trusts and mutual funds (including sub-funds and umbrella funds) in Hong Kong stood at 942 at end-2002, down from 952 at end-2001. Gross sales of mutual funds amounted to US\$12.6 billion in 2002, representing a sharp increase of 34% from US\$9.5 billion in 2001. After deducting redemptions, net sales was US\$4.6 billion in 2002, 11% more than that of US\$4.1 billion in 2001. Amongst the various types of mutual funds, equity funds continued to account for the largest share, at 59% of the total

/value

value of funds at end-2002. This was followed by bond funds, asset allocation funds and money market funds, with shares of 24%, 9% and 8% respectively⁽¹⁴⁾.

4.40 The Mandatory Provident Fund (MPF) System⁽¹⁵⁾ 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-2002, the aggregate net asset value of the approved constituent funds of MPF schemes rose further to \$55.1 billion, from \$36.0 billion at end-2001. This was mainly attributable to continued contributions from the enrolled population. By end-2002, there were 20 approved corporate trustees. On MPF products, 45 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 311 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. About 217 000 employers, 1.73 million employees and 302 000 self-employed persons had been enrolled in MPF schemes, with the compliance rates for employers, relevant employees and self-employed persons at 94%, 96% and 81% 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 7 September 1998, HKMA also provides an explicit undertaking to convert the Hong Kong dollar balances held in the clearing accounts maintained by the banks with 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 merchandise trade.

/As

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 Hong Kong's 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 Philippine 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 covered by the survey. Altogether 38 AIs were so included immediately after the coverage expansion. The number of AIs has since fallen to 28 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 is hence 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 (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.

/As

As from June 2002, short-term Exchange Fund placements of less than one month are included under time deposits as part of the monetary aggregates. The data series on time deposits and M2 are backdated to April 1997 using this revised definition.

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. Non-performing loans are those on which interest has been placed in suspense or on which interest accrual has ceased. 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 from 1 April 1999, interest payments on Exchange Fund paper are allowed for expanding the stock of outstanding Exchange Fund paper.
- (10) These figures may not represent a full coverage of all the Hong Kong dollar debt paper issued by the private sector.
- (11) 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.

/(12)

- (12) 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-sized enterprises, particularly those engaged in technology-related businesses.
- (13) The MSCI China Free Index is a market-capitalisation-weighted stocks index, covering Red-chip shares and H shares listed in Hong Kong, B shares listed in Shanghai and Shenzhen, and N shares listed in New York. The Index thus represents the universe of Chinese stocks open to investors outside the Mainland, and complements the Red-chip and H share markets in Hong Kong. Trading in MSCI China Free Index futures contracts commenced on 7 May 2001.

Trading in Red-chip options contracts and in Red-chip futures contracts have been suspended as from 31 July 2001 and 31 August 2001 respectively.

- (14) These figures are sourced from the sales and redemptions and performance survey conducted by the Hong Kong Investment Funds Association on their members, and as such cover only the active authorized funds that have responded to the survey.
- (15) 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 between 18 and 65, 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 scheme, subject to a maximum and a minimum level of income for MPF contribution purposes. As from February 2003, the minimum income level for MPF contribution purpose is raised from \$4,000 per month to \$5,000, yet the maximum income level is kept at \$20,000 per month. The accrued MPF benefits are fully vested in the scheme, and members 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 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. Following a recent legislative amendment, a constituent fund may also be invested in some other types of financial products, such as an index-tracking collective investment scheme, subject to MPFA's prior approval.

CHAPTER 5 : THE LABOUR SECTOR

Overall labour market situation⁽¹⁾

5.1 The labour market remained slack in overall terms in 2002. Yet some improvement was seen in the latter part of the year, mainly attributable to a pick-up in total employment upon an upturn in economic activity. For 2002 as a whole, the *unemployment rate*⁽²⁾ averaged at 7.3%, markedly up from 5.1% in 2001. The seasonally adjusted unemployment rate surged in the early part of the year, from 6.2% in the fourth quarter of 2001 to 7.0% and 7.7% respectively in the first two quarters of 2002, and further to a peak of 7.8% in May - July, amidst more extensive downsizing and lay-offs in the corporate sector. It then fell back somewhat in the latter part of the year, to 7.4% in the third quarter and 7.2% in the fourth quarter. The total number of unemployed persons (not seasonally adjusted) stood at 252 600 in the fourth quarter. On the median duration of unemployment, there was a distinct lengthening over the past year, from 82 days in the fourth quarter of 2001 to 90 days in the fourth quarter of 2002. As to the proportion of persons unemployed for six months or more, it likewise went up visibly, from 24% to 30%.

5.2 The *underemployment rate*⁽³⁾ also moved higher, averaging at 3.0% in 2002, as against 2.5% in 2001. It rose from 3.0% in the fourth quarter of 2001 to 3.2% in the first quarter of 2002, then declined to 2.9% in both the second and third quarters, but edged up again to 3.1% in the fourth quarter. The total numbers underemployed stood at 109 700 in the fourth quarter.

/5.3

5.3 For persons in employment, work intensity was high. The proportion of employed persons working for 50 hours or more per week rose visibly, from 35% in the fourth quarter of 2001 to 40% in the fourth quarter of 2002, as did the proportion of employed persons working for 60 hours or more per week, from 21% to 24%. This reflected greater work effort being exerted by the employed workforce in general, as the corporate sector underwent further staff consolidation over the past year. Yet taking all the employed persons together, the median hours of work stayed at 48 hours per week for most of 2002.

Table 5.1

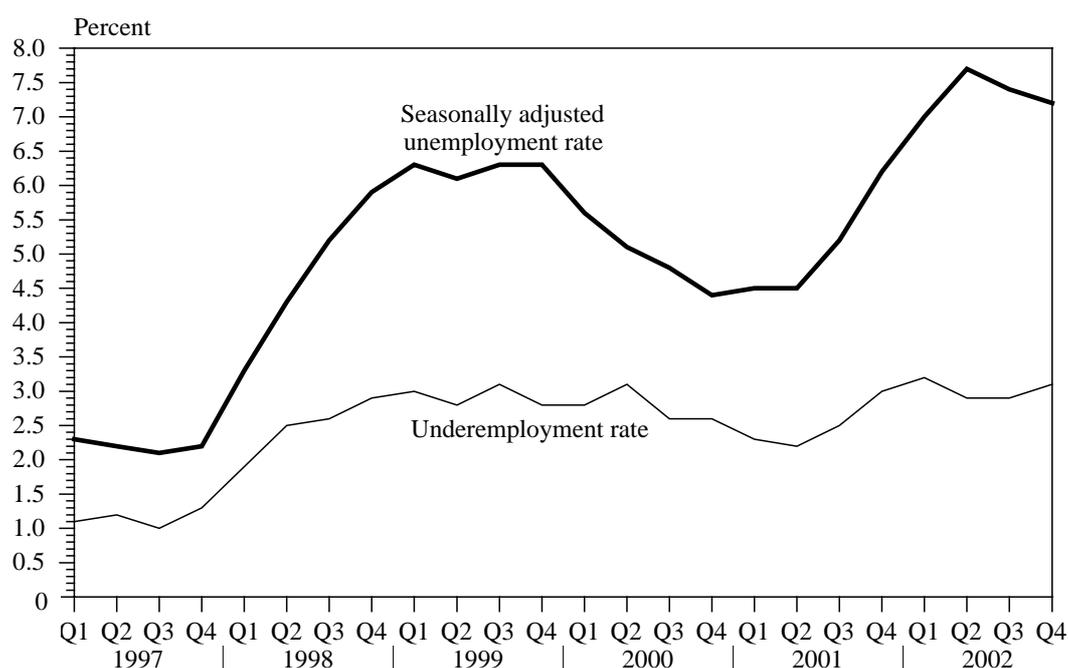
Unemployment and underemployment rates

		<u>Seasonally adjusted unemployment rate</u> (%)	<u>Underemployment rate</u> (%)
2001	Annual	5.1	2.5
	Q1	4.5	2.3
	Q2	4.5	2.2
	Q3	5.2	2.5
	Q4	6.2	3.0
2002	Annual	7.3	3.0
	Q1	7.0	3.2
	Q2	7.7	2.9
	Q3	7.4	2.9
	Q4	7.2	3.1

Note : Labour force statistics for 2001 have been slightly revised upon finalisation of the end-2001 population estimates in August 2002.

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.1

Diagram 5.1**Unemployment and underemployment rates****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>
2001	Annual	3 427 100	(1.6)	3 252 300	(1.4)	174 800	85 500
	Q1	3 403 400	(2.0)	3 253 700	(3.1)	149 600	77 700
	Q2	3 410 300	(1.3)	3 257 700	(1.9)	152 600	75 200
	Q3	3 443 400	(1.5)	3 257 300	(1.0)	186 100	84 500
	Q4	3 451 200	(1.4)	3 240 500	(-0.4)	210 700	104 500
2002	Annual	3 487 900	(1.8)	3 232 300	(-0.6)	255 500	105 200
	Q1	3 459 600	(1.7)	3 220 700	(-1.0)	238 900	109 300
	Q2	3 460 100	(1.5)	3 196 700	(-1.9)	263 400	100 500
	Q3	3 512 900	(2.0)	3 245 700	(-0.4)	267 200	101 400
	Q4	3 518 800	(2.0)	3 266 200	(0.8)	252 600	109 700
			<0.2>		<0.6>		

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.

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> (%)
2001	Annual	75	59	19	22
	Q1	75	58	20	22
	Q2	68	62	18	21
	Q3	72	61	16	23
	Q4	82	55	21	24
2002	Annual	87	52	19	29
	Q1	87	53	20	27
	Q2	89	51	19	30
	Q3	82	55	17	28
	Q4	90	51	19	30

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> (%)
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
2002	Annual	48	16	22	38
	Q1	45	14	20	34
	Q2	48	15	21	36
	Q3	48	17	22	40
	Q4	48	16	24	40

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

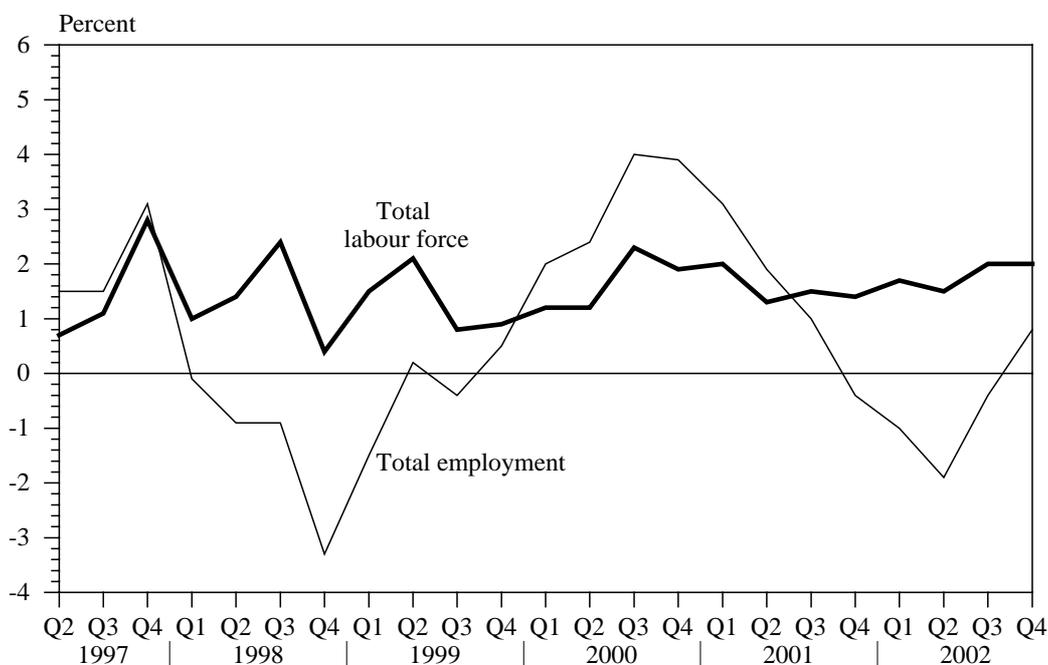
Source : General Household Survey, Census and Statistics Department.

/5.4

5.4 *Total employment*⁽⁴⁾ as enumerated from households staged an upturn towards the end of last year, to a year-on-year increase of 0.8% in the fourth quarter, having worsened from a 1.0% decrease in the first quarter. It stood at 3.27 million in the fourth quarter of 2002. *Total labour force*⁽⁵⁾ had a faster growth over the past year, with the year-on-year increase picking up to 2.0% in the fourth quarter of 2002, from 1.7% in the first quarter. It stood at 3.52 million in the fourth quarter of 2002. The swing in the growth rate differential between total labour force and total employment pointed to a relative narrowing in the overall manpower resource balance, leading to lower unemployment rate in the latter part of last year.

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, are available as from the second quarter of 1997.

/5.5

5.5 Overall labour income had been moderating over the past year, amidst more incidents of pay freeze or cuts. *Labour earnings*⁽⁶⁾ went down by an average of 1.0% in money terms in the first three quarters of 2002 over a year earlier, albeit still up by 2.1% in real terms. This compared with the respective increases of 1.8% and 3.5% in 2001. *Labour wages*⁽⁷⁾ likewise fell, by an average of 1.1% in money terms in the first nine months of 2002 over a year earlier, yet still higher by 2.4% in real terms. This compared with the respective increases of 0.8% and 3.4% in 2001.

Profile of unemployment and underemployment

5.6 Analysed by *economic sector*, the decrease in unemployment rate in the fourth quarter of 2002 over the third quarter occurred mainly in foundation and superstructure construction, and manufacturing, as well as in community, social and personal services, the retail trade, and financing. Yet construction and manufacturing were also the sectors where a more distinct increase in underemployment rate was observed. Conceivably, this was attributable to the engagement of more temporary and part-time workers, especially at building and construction sites. Other sectors also having a noticeable rise in underemployment rate included transport and the import/export trade. Comparing the fourth quarter of 2002 with a year earlier, the unemployment rate jumped extensively across almost all the major economic sectors. The rise was particularly visible in foundation and superstructure construction, as well as in restaurants and communications, with the former sector being affected by the scale-down in the Public Housing Programme and completion of the MTR Tseung Kwan O Extension, and the latter sectors by subdued demand in the local economy. As to the underemployment rate, increases were concentrated in decoration and maintenance, the retail trade, transport, restaurants, the import/export trade, and community, social and personal services, more than offsetting the decreases seen in foundation and superstructure construction and in manufacturing.

/Table 5.5

Table 5.5**Unemployment rates by major economic sector (%)^(a)**

	<u>2001</u>					<u>2002</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	5.5	4.6	5.1	5.8	6.5	7.8	7.4	8.3	7.7	7.9
Transport, storage and communications	4.4	4.2	4.2	3.8	5.2	5.4	5.7	5.3	5.3	5.4
Financing, insurance, real estate and business services	3.0	2.7	2.5	3.1	3.9	4.7	4.9	4.5	4.5	4.7
Community, social and personal services	2.0	1.9	1.7	2.0	2.5	3.2	2.7	3.3	3.5	3.1
Manufacturing	5.3	4.0	4.9	5.6	6.8	7.3	7.2	8.2	7.1	6.6
Construction ^(b)	10.7	10.3	9.7	10.3	12.6	15.8	15.7	16.9	15.6	15.2

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>2001</u>					<u>2002</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	1.3	1.1	1.1	1.3	1.5	1.8	1.8	1.6	1.8	1.7
Transport, storage and communications	2.7	2.4	2.6	2.6	3.1	3.0	3.1	3.0	2.5	3.4
Financing, insurance, real estate and business services	0.4	0.3	0.3	0.3	0.7	0.6	0.7	0.5	0.6	0.5
Community, social and personal services	1.4	1.3	1.2	1.3	1.7	2.1	2.3	1.8	2.1	2.0
Manufacturing	2.4	2.1	2.3	2.2	3.0	2.5	2.4	2.6	2.3	2.6
Construction ^(a)	12.5	11.7	10.7	12.3	15.2	13.8	14.2	13.7	12.8	14.6

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 2002**

	Unemployment rate ^(a) (%)	Numbers unemployed ^(a)	Underemploy- ment rate (%)	Numbers underemployed
Wholesale, retail and import/export trades, restaurants and hotels	7.9	83 500	1.7	18 200
Wholesale/retail trade	8.5	30 600	2.1	7 400
Import/export trade	5.2	21 600	0.8	3 100
Restaurants and hotels	11.1	31 300	2.7	7 700
Transport, storage and communications	5.4	19 400	3.4	12 200
Transport	4.8	14 500	3.6	10 800
Storage	11.1	700	1.5	100
Communications	8.1	4 300	2.3	1 200
Financing, insurance, real estate and business services	4.7	24 100	0.5	2 500
Financing	3.7	5 300	0.3	400
Insurance	4.9	2 100	0.6	300
Real estate	5.0	6 100	0.2	300
Business services	5.2	10 600	0.8	1 600
Community, social and personal services	3.1	27 400	2.0	18 000
Public administration	0.9	1 300	0.4	500
Education, medical and other health and welfare services	2.1	6 800	1.4	4 600
Other services	4.6	19 400	3.0	12 900
Manufacturing	6.6	20 100	2.6	8 100
Food and beverages	4.9	1 100	2.0	500
Clothing and footwear	8.1	6 800	4.2	3 500
Paper and printing	6.5	3 900	1.8	1 000
Plastic products	9.3	1 800	0	0
Metal products	4.6	900	5.0	1 000
Electrical and electronic products	6.7	3 900	1.5	900
Other manufacturing industries	4.1	1 600	2.9	1 200
Construction	15.2	52 700	14.6	50 700
Foundation and superstructure	13.6	35 700	12.2	32 100
Decoration and maintenance	20.0	17 000	21.9	18 600

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.

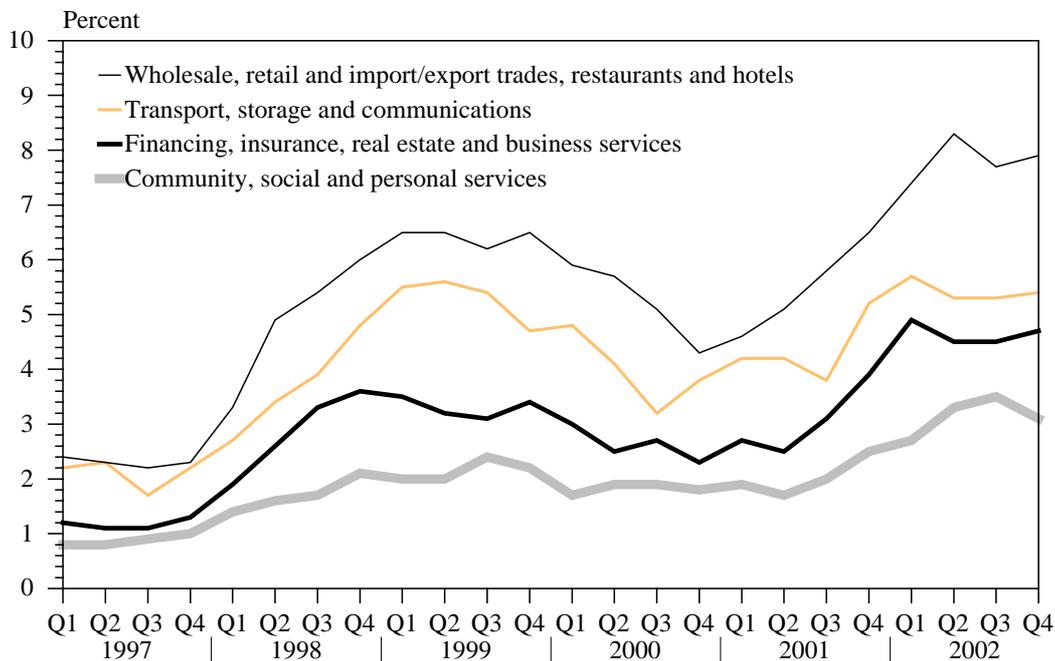
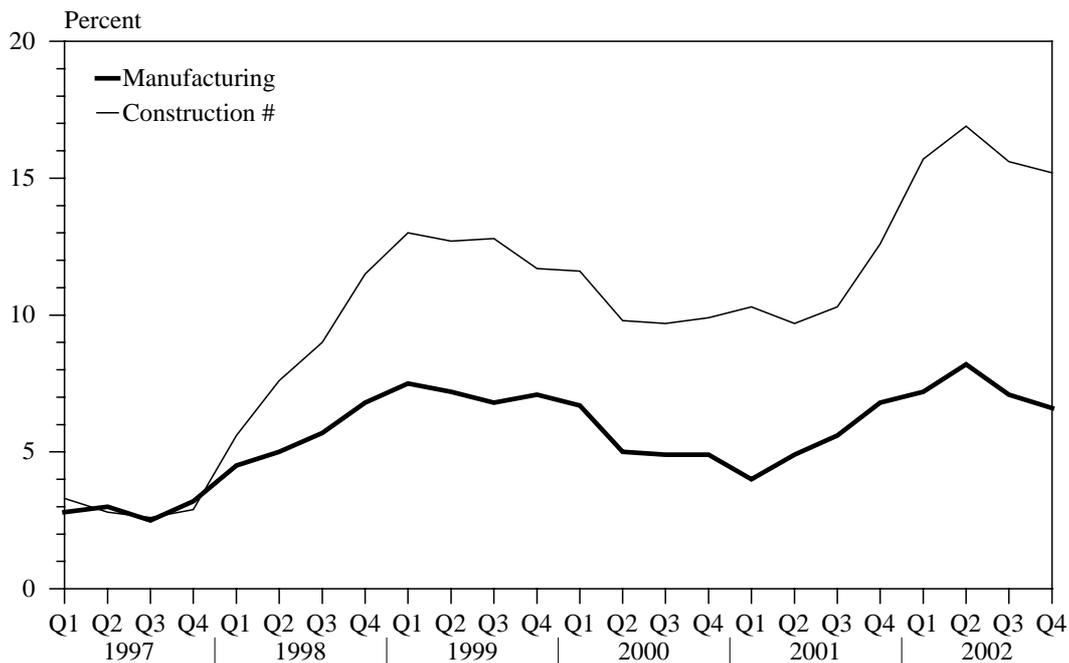
(a) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.3

Diagram 5.3

Unemployment rates by major economic sector*



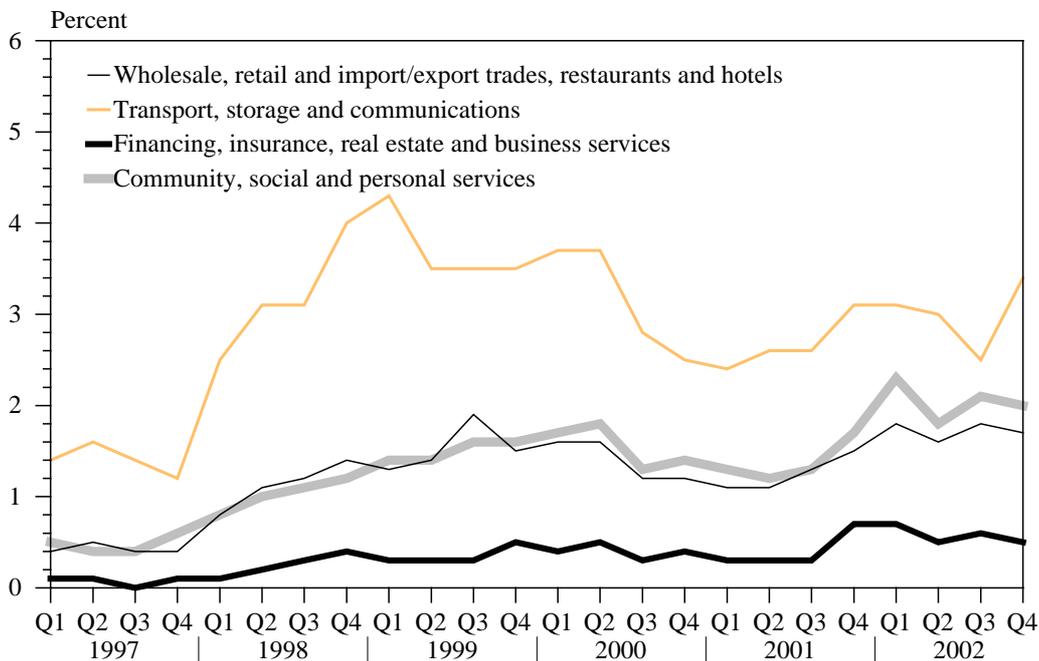
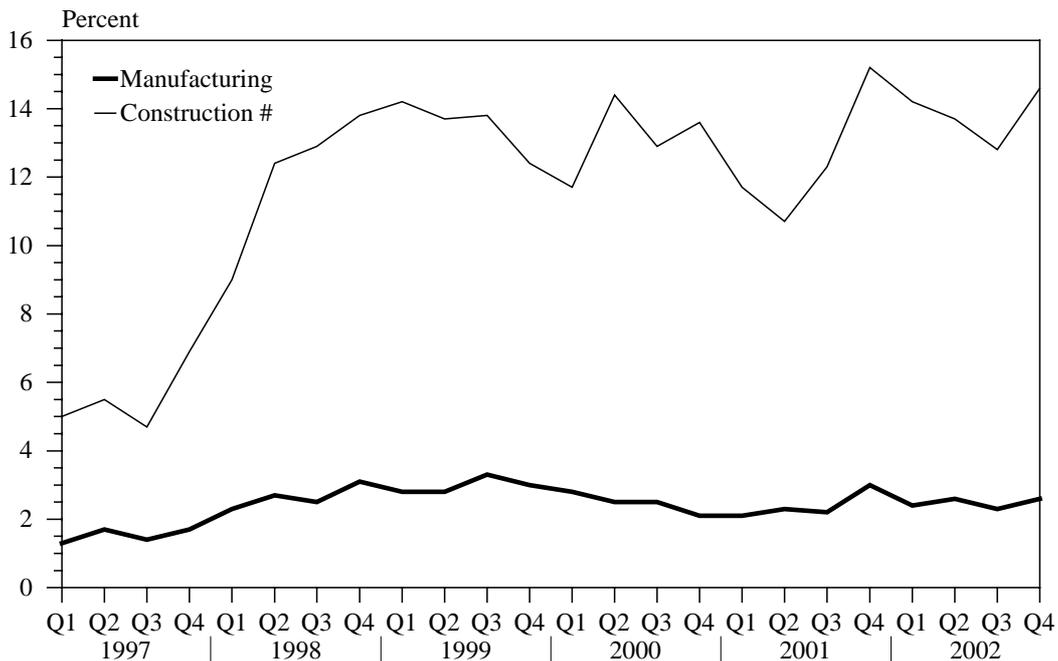
Notes : (*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

(#) 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*, the decline in unemployment rate between the third and fourth quarters of 2002 was more visible amongst craft and related workers, mostly in construction. Other occupation categories also registering decreases in unemployment rate were managers and administrators, professionals, associate professionals, clerks, and plant and machine operators and assemblers. As to the underemployment rate, increases were seen amongst craft and related workers, plant and machine operators and assemblers, and workers in elementary occupations. On a year-on-year comparison, the unemployment rate surged across many of the major occupation categories in the fourth quarter of 2002, more so amongst craft and related workers, service workers and shop sales workers, and workers in elementary occupations. As to the underemployment rate, increases took place largely amongst craft and related workers, service workers and shop sales workers, and clerks, outweighing the decreases observed amongst plant and machine operators and assemblers, and workers in elementary occupations.

Table 5.8

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

	<u>2001</u>					<u>2002</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	1.9	1.4	1.6	2.0	2.4	2.7	3.5	3.1	2.3	1.9
Professionals	1.9	1.2	1.5	2.2	2.6	2.4	2.6	2.5	2.3	2.1
Associate professionals ^(b)	2.9	2.6	2.6	3.0	3.4	4.3	4.2	4.3	4.5	4.3
Clerks	3.7	3.1	3.2	3.7	4.9	5.3	5.2	5.5	5.4	5.2
Service workers and shop sales workers	6.5	5.6	6.1	6.9	7.5	9.1	8.5	9.6	9.1	9.4
Craft and related workers	9.3	8.9	8.1	9.3	10.7	14.0	12.6	15.7	14.3	13.5
Plant and machine operators and assemblers	4.6	4.0	3.9	4.8	5.9	5.9	6.4	6.6	5.4	5.2
Elementary occupations	5.2	4.8	5.0	4.8	6.2	7.7	7.4	7.7	7.8	7.9
Others	3.1	1.2	8.0	1.6	1.3	3.4	2.4	2.9	4.7	3.9

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>2001</u>					<u>2002</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	0.1	0.1	*	0.1	0.1	*	*	0	0.2	0
Professionals	0.2	0.1	0.3	0.1	0.3	0.3	0.4	0.3	0.3	0.2
Associate professionals ^(a)	0.5	0.5	0.5	0.5	0.5	0.8	0.8	1.0	0.8	0.7
Clerks	0.7	0.6	0.6	0.8	0.9	1.1	1.1	0.9	1.2	1.2
Service workers and shop sales workers	1.7	1.5	1.7	1.7	2.1	2.5	2.6	2.3	2.8	2.4
Craft and related workers	9.3	9.1	8.0	8.8	11.5	11.3	11.2	11.0	10.6	12.5
Plant and machine operators and assemblers	3.4	2.8	3.4	3.2	4.2	3.8	4.3	3.8	3.1	3.9
Elementary occupations	4.3	3.8	3.7	4.5	5.2	4.8	5.2	4.5	4.6	5.0
Others	3.4	0	3.8	8.9	1.3	3.5	0.8	6.7	5.8	0

Notes : (a) Including technicians and supervisors.

(*) Less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

/5.8

5.8 Analysed by *sex*, male workers generally faced a smaller decline in unemployment rate than female workers between the third and fourth quarters of 2002. As a result, the difference between the two unemployment rates widened, to 2.3 percentage points in the fourth quarter. Comparing the fourth quarter of 2002 with a year earlier, the unemployment rates for male and female workers went up by virtually the same magnitude, giving no change in the difference between them over the period.

Table 5.10

Unemployment rates by sex (%)^(a)

	<u>Male</u>	<u>Female</u>
2001 Annual	6.0	3.9
Q1	5.3	3.1
Q2	5.3	3.4
Q3	6.3	4.1
Q4	7.1	4.8
2002 Annual	8.4	6.0
Q1	8.1	5.3
Q2	8.8	6.1
Q3	8.5	6.5
Q4	8.2	5.9

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 *age group*, the decline in unemployment rate in the fourth quarter of 2002 over the third quarter was most apparent amongst younger persons aged 15-24, due to increased absorption of first-time job-seekers at this age into employment upon the recent upturn in economic activity. Also having decrease in unemployment rate were persons aged 25-29 and 50 and above. Comparing the fourth quarter of 2002 with a year earlier, there was a broader-based increase in unemployment rate across almost all the age groups. The rise was most distinct amongst persons aged 15-19 and 50-59. The former group was constrained by relatively limited practical skills and working experience, and the latter group by those within the group having relatively lower educational attainment, so that persons in both groups generally tended to have greater difficulty in finding jobs under slack labour market conditions.

Table 5.11

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

	<u>2001</u>					<u>2002</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	23.4	21.0	21.2	25.1	26.1	30.7	27.2	30.1	35.1	29.4
20-24	8.7	7.1	6.5	11.4	9.7	11.3	9.8	11.3	13.5	10.5
25-29	4.4	3.9	4.0	4.5	5.4	6.1	6.2	6.5	6.1	5.5
30-39	3.5	3.1	3.2	3.4	4.5	5.4	5.6	5.5	5.1	5.6
40-49	4.6	3.8	4.1	4.8	5.8	6.7	6.3	7.2	6.6	6.5
50-59	5.4	5.1	5.1	5.2	6.0	8.2	7.3	8.5	8.7	8.5
60 and above	2.7	2.7	2.3	2.5	3.1	5.0	5.3	6.0	4.6	4.2

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.

/5.10

5.10 Analysed by *educational attainment*, the unemployment rate moved down more notably amongst persons with upper secondary education and with tertiary education in the fourth quarter of 2002 over the third quarter. By contrast, persons with no schooling/kindergarten education and with lower secondary education faced a distinct rise in unemployment rate. Comparing the fourth quarter of 2002 with a year earlier, the unemployment rate, whilst surging across many of the educational levels, had a sharper increase amongst persons with lower secondary education and with primary education. Apart from reflecting a relatively better demand for higher educated persons, this might also reflect a downward stretch by the higher educated persons for job opportunities at a lower level under slack labour market conditions.

Table 5.12

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

	<u>2001</u>					<u>2002</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	5.6	2.8	5.3	4.7	9.6	8.7	8.4	8.9	8.4	9.1
Primary	6.4	5.9	5.9	6.2	7.6	9.8	8.6	10.0	10.4	10.4
Lower secondary	7.5	7.1	6.7	7.6	8.7	10.9	10.4	11.5	10.5	11.1
Upper secondary ^(b)	4.7	4.1	4.1	5.1	5.7	6.9	6.6	7.3	7.2	6.5
Matriculation	3.6	2.6	3.0	4.7	4.1	5.2	5.2	5.4	5.1	5.3
Tertiary	3.2	2.3	2.7	3.9	4.0	4.3	3.9	4.2	5.0	4.0
<i>of which :</i>										
Non-degree	3.9	2.6	3.5	4.7	4.8	5.5	5.1	5.3	6.1	5.4
Degree	2.8	2.0	2.2	3.5	3.5	3.6	3.3	3.6	4.4	3.2

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

5.11 In 2002, *total labour force* expanded by an average of 1.8% to an average of 3.49 million, following a 1.6% rise in 2001. This comprised year-on-year increases of 1.7% and 1.5% respectively in the first and second quarters of 2002, picking up to 2.0% in both the third and fourth quarters. Underlying this profile was a distinct rise in the overall labour force participation rate⁽⁸⁾, from 61.3% in the first quarter of 2001 to 62.0% in the fourth quarter of 2002. This in turn was attributable to a surge in the labour force participation rate for females especially those aged 30-59, as well as that for males aged 15-19. Thus apparently, there was greater inclination amongst housewives and youngsters to find jobs over the past year.

5.12 On the other hand, *total employment* shrank by an average of 0.6% to an average of 3.23 million in 2002, reversing the 1.4% gain in 2001. Decreases took place entirely in the first three quarters of 2002, by 1.0%, 1.9% and 0.4% respectively over a year earlier, while an increase of 0.8% occurred in the fourth quarter. The recent upturn was more visible amongst persons with tertiary education as well as amongst persons at the upper segment of the occupational hierarchy including in particular professionals and associate professionals, yet with increases of smaller magnitude also observed amongst service workers and shop sales workers and amongst workers in elementary occupations. As to changes by employment status, the number of employees underwent a continuous downtrend, attributable to subdued business conditions and more extensive corporate downsizing. The number of employers likewise fell for most of the past year, consequential to more cessations of business, yet reverted to increase in the fourth quarter. By contrast, the number of self-employed persons continued on a distinct rise, as apparently more persons resorted to self-employment as individual vendors, free-lance workers, etc. against reduced job opportunities in the corporate sector.

/Table 5.13

Table 5.13**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	3 427 100	1.6	3 252 300	1.4
2002	3 487 900	1.8	3 232 300	-0.6

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 5.14**Labour force participation rates by sex (%)**

	<u>Male</u>	<u>Female</u>	<u>Both sexes combined</u>
2001 Annual	72.9	50.7	61.4
Q1	73.0	50.3	61.3
Q2	72.7	50.6	61.3
Q3	73.2	50.8	61.6
Q4	72.8	51.0	61.5
2002 Annual	72.5	52.0	61.8
Q1	72.4	51.5	61.6
Q2	72.3	51.4	61.5
Q3	73.0	52.3	62.3
Q4	72.3	52.5	62.0

Source : General Household Survey, Census and Statistics Department.

/Table 5.15

Table 5.15**Labour force participation rates by sex and by age group (%)**

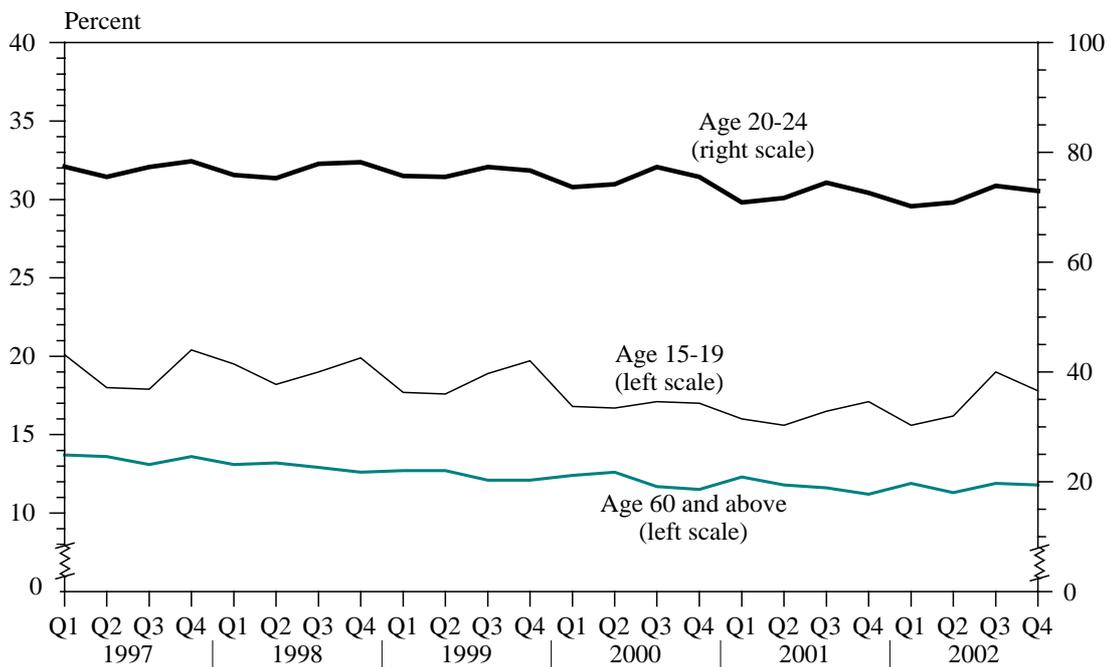
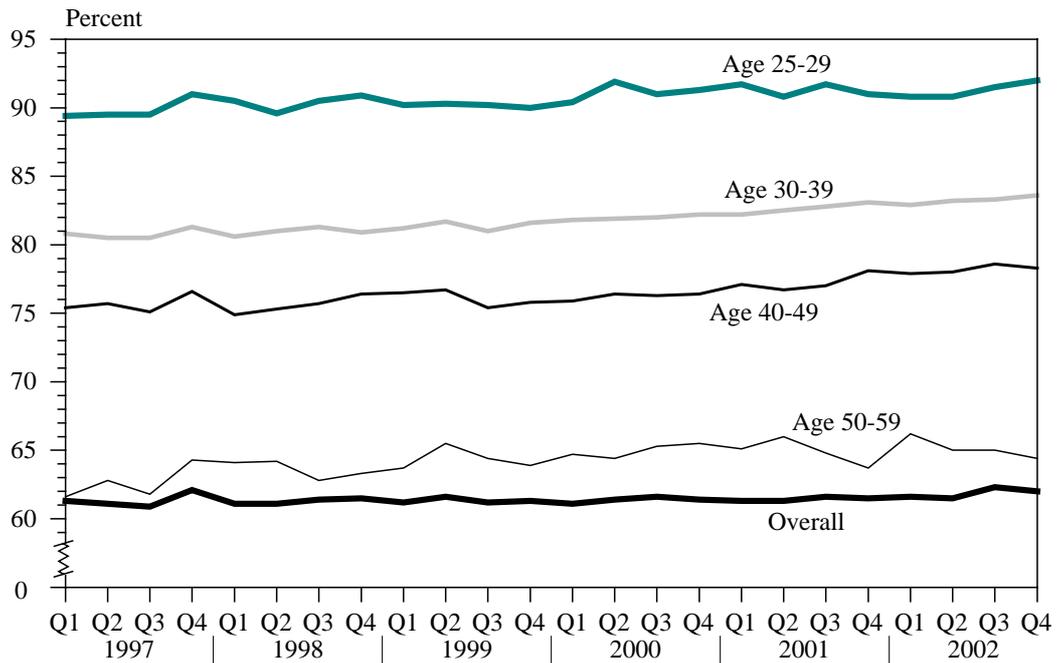
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<u>Male</u>						
15-19	21.2	20.0	20.2	18.0	17.1	18.0
20-24	77.8	77.8	76.5	75.8	72.4	71.2
25-29	97.1	97.3	97.1	96.6	96.4	95.7
30-39	98.2	98.1	97.9	97.7	97.4	97.4
40-49	97.1	97.1	96.5	96.4	96.3	95.8
50-59	85.5	85.3	85.7	86.0	85.6	84.6
60 and above	23.7	22.3	21.1	20.6	20.2	19.4
Overall	75.1	74.6	74.0	73.5	72.9	72.5
<u>Female</u>						
15-19	17.0	18.2	16.6	15.7	15.4	16.2
20-24	76.5	75.9	76.1	74.6	72.5	72.8
25-29	83.7	84.5	84.4	86.5	87.0	87.5
30-39	64.6	65.4	67.0	68.7	70.7	72.2
40-49	53.5	53.6	55.4	56.1	58.4	61.4
50-59	35.5	38.0	39.8	41.1	42.0	44.4
60 and above	4.2	4.3	4.3	4.0	3.8	4.5
Overall	47.9	48.5	49.2	49.9	50.7	52.0
<u>Both sexes combined</u>						
15-19	19.1	19.1	18.5	16.9	16.3	17.1
20-24	77.2	76.8	76.3	75.2	72.4	72.0
25-29	89.8	90.4	90.2	91.1	91.3	91.3
30-39	80.8	80.9	81.4	82.0	82.6	83.3
40-49	75.7	75.6	76.1	76.3	77.2	78.2
50-59	62.6	63.6	64.4	65.0	64.9	65.2
60 and above	13.5	12.9	12.4	12.0	11.7	11.7
Overall	61.3	61.3	61.3	61.4	61.4	61.8

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

5.13 Employment as enumerated from business establishments continued on a decline, as the corporate sector underwent further consolidation and rationalisation. For all the private sector establishments surveyed taken together, total employment shrank by 1.5% in September 2002 over a year earlier, further to a 1.1% decrease in March and a 2.7% decrease in June. For the first nine months of 2002 as a whole, total employment dwindled by an average of 1.8%, after an increase of only 0.2% in 2001. On a seasonally adjusted quarter-to-quarter comparison, total employment was virtually static in September 2002, having decreased by 0.7% in March and 0.6% in June.

5.14 Taking all the *service sectors* surveyed together⁽⁹⁾, employment was reduced by 0.4% in September 2002 over a year earlier, further to a 2.1% decline in June. Employment growth varied amongst the constituent sectors. On a year-on-year comparison, employment in storage and communications fell visibly, by 7.3% in September 2002, attributable to further consolidation in the telecommunications sector. Employment in restaurants and hotels and in the retail trade contracted by 4.8% and 1.7% respectively, amidst subdued local consumer demand, and notwithstanding buoyancy in inbound tourism. Employment in financing, insurance, real estate and business services and in water transport, air transport and services allied to transport declined by 2.9% and 0.6% respectively. On the other hand, employment in the wholesale and import/export trades went up, albeit only marginally, by 0.2%, in tandem with a pick-up in external trade. Employment in community, social and personal services rose more, by 5.7%, underpinned by sustained strong demand for welfare, education, medical and health, sanitary and recreational services.

5.15 As to the local *manufacturing* sector, its workforce underwent further downsizing, amidst continued weak performance of domestic exports and on-going relocation of production processes to the Mainland. In September 2002, employment in this sector went down further, by 9.2% from a year earlier, after an 8.5% dip in June.

/5.16

5.16 Employment of manual workers at *building and construction sites* also shrank visibly, by 8.0% in September 2002 over a year earlier, much enlarged from the 1.3% fall in June. This was mainly due to the significant reduction in employment at public sector sites, by 14.5%, upon progressive scale-back of the Public Housing Programme and completion of the MTR Tseung Kwan O Extension. Concurrently, employment at private sector sites decreased by 3.0%, as reduced employment in quite a number of private building sites more than offset the gain seen at the construction site for Container Terminal No. 9. Analysed by type of project, employment at building sites and civil engineering sites both dropped, by 10.9% and 1.0% respectively in September 2002 over a year earlier. Taking into account off-site workers and related professional and support staff, employment for the entire building and construction sector⁽¹⁰⁾ was 2.7% less in the third quarter of 2002 than a year earlier, though smaller than the 4.4% decline in the second quarter.

5.17 In line with the Government's move to contain recurrent expenditure and the size of the *Civil Service*⁽¹¹⁾, employment in the Civil Service was slashed by 3.5% in September 2002 from a year earlier, after a 3.9% cut in June. As indicated in the Chief Executive's Policy Address on 8 January 2003, the Government plans to reduce the Civil Service establishment by 10% to around 160 000 by the financial year 2006/07. It will also freeze recruitment to the Civil Service, as from 1 April 2003. Details of the Second Voluntary Retirement Scheme have been announced recently.

/Table 5.16

Table 5.16**Employment by major economic sector**

	<u>2001</u>					<u>2002</u>		
	Annual average	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Wholesale and import/export trades	577 200 (-3.5)	581 100 (-3.5)	581 500 (-3.6)	579 300 (-5.0)	566 800 (-1.8)	566 100 (-2.6)	556 000 (-4.4)	580 400 (0.2)
Retail trade	219 700 (2.6)	215 400 (3.9)	228 300 (8.1)	225 000 (0.9)	210 200 (-2.2)	216 300 (0.4)	218 400 (-4.3)	221 300 (-1.7)
Restaurants and hotels	222 200 (1.2)	220 600 (0.9)	225 100 (1.4)	223 000 (1.1)	219 900 (1.3)	213 600 (-3.2)	213 700 (-5.1)	212 300 (-4.8)
Water transport, air transport and services allied to transport	99 900 (2.1)	98 200 (2.1)	100 500 (1.1)	101 600 (1.5)	99 100 (3.6)	100 800 (2.6)	102 300 (1.8)	101 000 (-0.6)
Storage and communications	44 400 (2.8)	44 600 (8.2)	46 000 (6.2)	43 700 (-3.0)	43 400 (0.3)	41 300 (-7.2)	41 600 (-9.7)	40 500 (-7.3)
Financing, insurance, real estate and business services	435 600 (1.6)	428 900 (3.4)	442 500 (3.1)	437 300 (0.1)	433 900 (-0.1)	423 400 (-1.3)	430 300 (-2.8)	424 500 (-2.9)
Community, social and personal services	373 800 (7.2)	360 500 (4.5)	372 500 (7.6)	377 000 (8.1)	385 100 (8.6)	392 100 (8.8)	390 800 (4.9)	398 300 (5.7)
Manufacturing	212 000 (-8.6)	217 000 (-7.2)	218 700 (-8.4)	209 300 (-8.8)	203 000 (-10.3)	197 400 (-9.0)	200 100 (-8.5)	190 100 (-9.2)
Building and construction sites	80 300 (0.9)	87 800 (17.8)	80 300 (1.3)	76 500 (-5.2)	76 600 (-8.7)	76 900 (-12.4)	79 200 (-1.3)	70 400 (-8.0)
<i>All establishments surveyed in the private sector^(a)</i>	<i>2 312 600 (0.2)</i>	<i>2 301 600 (0.9)</i>	<i>2 343 200 (1.0)</i>	<i>2 319 900 (-0.9)</i>	<i>2 285 500 (-0.3)</i>	<i>2 275 500 (-1.1)</i>	<i>2 280 100 (-2.7)</i>	<i>2 286 100 (-1.5)</i>
		<i><0.2></i>	<i><1.1></i>	<i><-1.2></i>	<i><-0.2></i>	<i><-0.7></i>	<i><-0.6></i>	<i><*></i>
<i>Civil Service^(b)</i>	<i>177 700 (-3.5)</i>	<i>181 000 (-2.6)</i>	<i>178 700 (-3.3)</i>	<i>176 700 (-3.7)</i>	<i>174 500 (-4.4)</i>	<i>173 000 (-4.4)</i>	<i>171 700 (-3.9)</i>	<i>170 500 (-3.5)</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 sectoral coverage: while the former survey covers selected major sectors, the latter survey covers 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 0.05%.

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

/Diagram 5.6

Diagram 5.6

Employment by broad economic sector

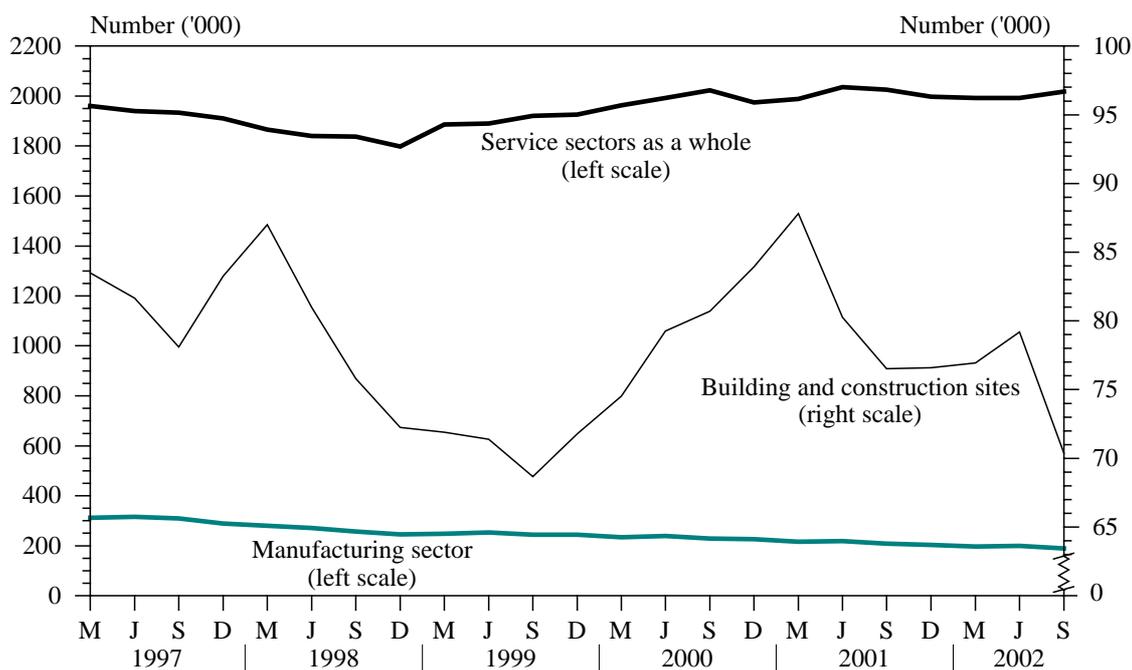
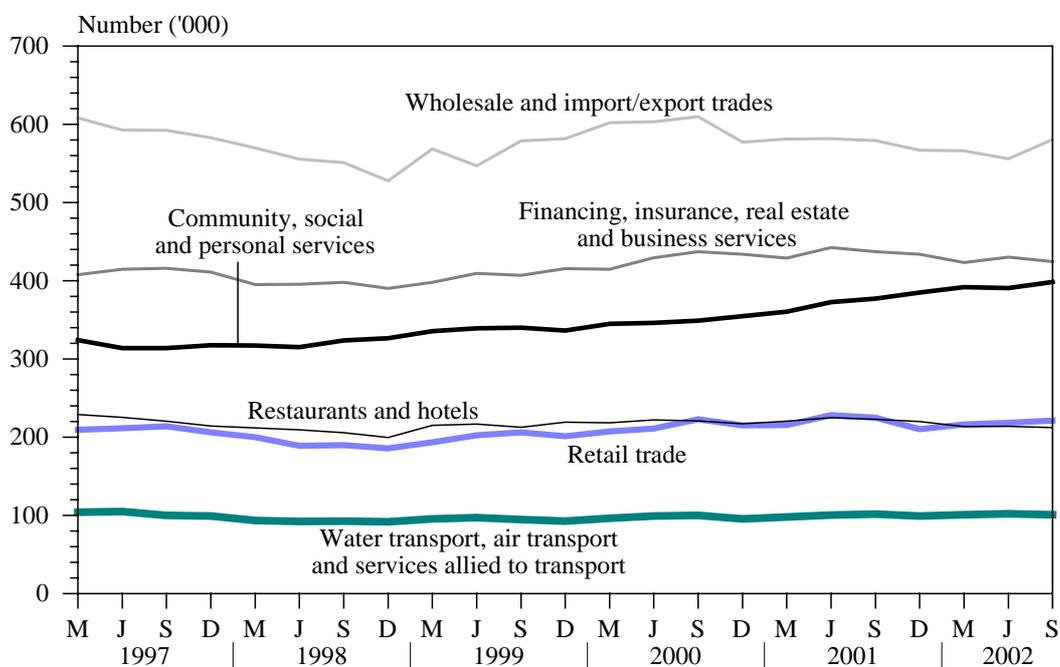


Diagram 5.7

Employment in the major service sectors



/Vacancies

Vacancies

5.18 Vacancies in the private sector continued on a downtrend, yet the decrease on a year-on-year comparison tended to taper during the past year. Taking all the private sector establishments surveyed together, vacancies were down by 11.6% in September 2002 over a year earlier, smaller than the 30.8% fall in March and the 14.9% fall in June. For the first nine months of 2002 as a whole, the decrease averaged at 20.2%, again narrowed from the 28.0% drop in 2001. On a seasonally adjusted quarter-to-quarter comparison, vacancies fell by 12.7% in September 2002, following a 2.7% fall in March and a 12.1% rise in June. The overall vacancy rate in the private sector thus moved lower to 0.8% in September 2002, from 0.9% in both March and June.

5.19 Analysed by *economic sector*, vacancies for all the *service sectors* surveyed taken together contracted by 12.6% in September 2002 over a year earlier, as against a 14.2% dip in June. On a year-on-year comparison for the constituent sectors, vacancies in the retail trade and in community, social and personal services plummeted by 33.1% and 23.8% respectively in September 2002. Vacancies in storage and communications, in restaurants and hotels, and in financing, insurance, real estate and business services decreased by 11.3%, 10.8% and 8.4% respectively. On the other hand, vacancies in water transport, air transport and services allied to transport surged by 17.2%, due to a low base a year earlier. Vacancies in the wholesale and import/export trades increased modestly, by 3.5%. As to the local *manufacturing sector*, vacancies increased by 3.9% in September 2002 over a year earlier, reversing the 22.0% decline in June as well as the downtrend evident since September 2000. Vacancies for manual workers at *building and construction sites* were 19.7% fewer in September 2002 than a year earlier, yet much narrowed from the 48.6% plunge in June. Vacancies in the *Civil Service* went up by 1.9% in September 2002 over a year earlier, after a 16.0% leap in June, with the increases occurring mostly in the security, social welfare and education fields, mainly stemming from natural wastage.

/Table 5.17

Table 5.17**Vacancies by major economic sector**

	<u>No. of vacancies</u>								<u>Vacancy rate in Sep 2002 (%)</u>
	<u>Annual average</u>	<u>2001</u>				<u>2002</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	4 700 (-45.0)	7 400 (-29.0)	4 600 (-50.2)	4 000 (-56.5)	3 000 (-46.8)	5 000 (-32.2)	5 000 (9.5)	4 200 (3.5)	0.7
Retail trade	2 100 (-20.5)	2 400 (-3.2)	2 100 (-20.3)	2 400 (-20.1)	1 500 (-38.7)	1 700 (-31.4)	2 500 (20.0)	1 600 (-33.1)	0.7
Restaurants and hotels	1 600 (-21.0)	2 200 (7.0)	1 300 (-29.8)	1 500 (-35.9)	1 200 (-24.1)	1 600 (-28.5)	1 400 (4.7)	1 400 (-10.8)	0.6
Water transport, air transport and services allied to transport	700 (-33.2)	900 (6.1)	800 (-24.4)	400 (-68.8)	500 (-30.1)	500 (-48.3)	600 (-21.6)	500 (17.2)	0.5
Storage and communications	500 (-25.6)	600 (-29.2)	500 (-50.4)	500 (-23.2)	500 (38.0)	400 (-31.0)	400 (-15.7)	400 (-11.3)	1.1
Financing, insurance, real estate and business services	6 400 (-30.5)	8 200 (-12.9)	7 800 (-22.2)	5 300 (-48.8)	4 300 (-39.3)	5 400 (-34.6)	6 000 (-22.3)	4 800 (-8.4)	1.1
Community, social and personal services	5 600 (0.5)	5 700 (5.5)	6 500 (16.0)	5 500 (-11.1)	4 700 (-8.0)	4 400 (-23.5)	4 200 (-35.4)	4 200 (-23.8)	1.0
Manufacturing	1 600 (-35.2)	1 900 (-34.1)	1 900 (-34.0)	1 400 (-37.8)	1 100 (-36.1)	1 400 (-25.0)	1 500 (-22.0)	1 400 (3.9)	0.7
Building and construction sites	100 (-55.3)	200 (3.3)	100 (-75.3)	100 (-72.4)	100 (-57.6)	100 (-42.7)	100 (-48.6)	100 (-19.7)	0.1
<i>All establishments surveyed in the private sector^(a)</i>	<i>23 500 (-28.0)</i>	<i>30 000 (-13.8)</i>	<i>25 700 (-26.4)</i>	<i>21 200 (-40.6)</i>	<i>17 200 (-32.1)</i>	<i>20 800 (-30.8)</i>	<i>21 900 (-14.9)</i>	<i>18 800 (-11.6)</i>	<i>0.8</i>
<i>Civil Service^(b)</i>	<i>1 700 (-12.3)</i>	<i>1 500 (-31.8)</i>	<i>1 700 (-19.7)</i>	<i>1 700 (-8.1)</i>	<i>1 900 (19.8)</i>	<i>1 700 (9.0)</i>	<i>1 900 (16.0)</i>	<i>1 700 (1.9)</i>	<i>1.0</i>

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. They have been adjusted by deducting the vacant posts emerging from the Voluntary Retirement Scheme.

() % change over a year earlier.

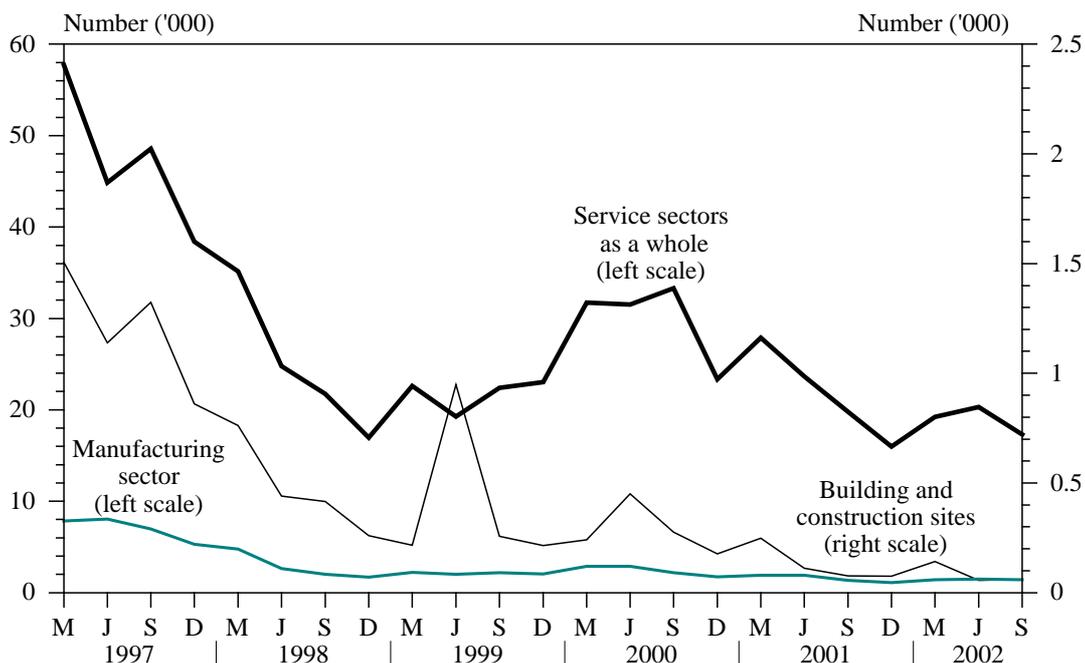
< > Seasonally adjusted quarter-to-quarter % change.

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

/Diagram 5.8

Diagram 5.8

Vacancies by broad economic sector



5.20 Analysed by *occupation category*, vacancies in the private sector were reduced fairly extensively. Specifically, vacancies for craft and related workers, clerks, professionals and workers in elementary occupations fell markedly, by 40.9%, 26.7%, 26.5% and 13.8% respectively in September 2002 over a year earlier, while vacancies for service workers and shop sales workers and for associate professionals had much more modest decreases, by 4.4% and 4.1% respectively. On the other hand, vacancies for managers and administrators and for plant and machine operators and assemblers leaped, by 23.2% and 22.5% respectively in September 2002 over a year earlier, yet these followed considerable declines of 31.0% and 31.9% in June.

/Table 5.18

Table 5.18**Vacancies by major occupation category**

	<u>No. of vacancies</u>							
	<u>Annual average</u>	<u>2001</u>				<u>2002</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 (-3.2)	800 (35.1)	700 (4.6)	400 (-33.1)	400 (-20.5)	400 (-48.7)	500 (-31.0)	500 (23.2)
Professionals	1 800 (-41.8)	2 600 (-17.8)	2 300 (-30.4)	1 200 (-64.6)	1 000 (-56.4)	1 300 (-52.0)	1 100 (-53.5)	900 (-26.5)
Associate professionals	7 300 (-37.5)	9 600 (-25.0)	7 700 (-40.6)	6 700 (-46.9)	5 400 (-37.7)	7 500 (-21.8)	8 300 (7.2)	6 400 (-4.1)
Clerks	5 600 (-10.3)	7 100 (5.2)	6 700 (8.2)	4 700 (-26.0)	3 700 (-32.4)	4 100 (-42.7)	4 200 (-37.9)	3 400 (-26.7)
Service workers and shop sales workers	4 000 (-17.8)	4 900 (-1.7)	3 600 (-24.0)	4 000 (-30.2)	3 400 (-12.0)	3 900 (-20.1)	3 900 (7.3)	3 800 (-4.4)
Craft and related workers	700 (-43.8)	900 (-26.0)	700 (-56.6)	700 (-43.3)	500 (-46.8)	600 (-37.8)	600 (-13.9)	400 (-40.9)
Plant and machine operators and assemblers	800 (-33.3)	800 (-41.1)	1 100 (-22.8)	700 (-41.4)	600 (-24.7)	900 (3.0)	700 (-31.9)	900 (22.5)
Elementary occupations	2 800 (-26.3)	3 300 (-15.3)	2 900 (-27.3)	2 800 (-38.4)	2 100 (-20.5)	2 200 (-32.4)	2 700 (-8.0)	2 400 (-13.8)

Note : () % change over a year earlier.

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

/Earnings

Earnings and wages

5.21 Overall *labour earnings* in the private sector, as measured by payroll per person engaged, turned down to decrease in money terms in the first quarter of 2002, for the first time since the fourth quarter of 1999, and the decrease widened in the ensuing two quarters. In the third quarter of 2002, there was a fall of 1.5% in money terms over a year earlier, having declined by 0.6% and 1.0% respectively in the first and the second quarters. Amongst the business establishments surveyed in the third quarter of 2002, 43% reported a decrease in average labour earnings over a year earlier. Another 23% reported virtually no change. The remaining 34% reported an increase in average labour earnings, but this was partly due to a shift in the employment composition towards higher-skill and thus better-paid employees upon retrenchment of employees at the lower level. Netting out an enlarged fall in consumer prices as reflected by the Composite CPI, overall labour earnings still gained by 2.1% in real terms in the third quarter of 2002 over a year earlier, similar to the 2.1% increase in the first quarter and the 2.2% increase in the second quarter. For the first three quarters of 2002 as a whole, overall labour earnings declined on average by 1.0% in money terms over a year earlier, but were still up by 2.1% in real terms. In 2001, overall labour earnings were higher both in money terms and in real terms, by 1.8% and 3.5% respectively. On a seasonally adjusted quarter-to-quarter comparison, overall labour earnings edged down by 0.3% in money terms in the third quarter of 2002, similar to the 0.2% decrease in the first quarter and the 0.3% decrease in the second quarter. In real terms, they moved up by 0.5% in the third quarter of 2002, having risen by 0.7% in the first quarter and 0.6% in the second quarter.

5.22 Analysed by *economic sector*, labour earnings fell across all the constituent sectors. Taking all the *service sectors* surveyed together, earnings decreased by 1.8% in the third quarter of 2002 over a year earlier, exceeding the 1.2% decline in the second quarter. In real terms, earnings nevertheless rose by 1.8% and 2.1% respectively in these two quarters over a year earlier. Amongst the various service sectors, earnings in restaurants and hotels had a larger decrease, by 3.0% in money terms in the third quarter of 2002 over a year earlier, but still went higher by 0.5% in real terms. Earnings in transport, storage and communications, in community, social and personal services, and in the wholesale, retail and import/export trades were lower by around 2.1 - 2.5% in money terms, yet higher by around 1.0 - 1.5% in real terms. Earnings in financing, insurance, real estate and business services went down

/by

by 1.4% in money terms, but moved up by 2.2% in real terms. As to the local *manufacturing sector*, earnings declined by 1.1% in money terms in the third quarter of 2002 over a year earlier, larger than the 0.6% fall in the second quarter. In real terms, there were still increases of 2.6% and 2.7% respectively in these two quarters.

Table 5.19

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

	<u>Payroll per person engaged</u>									Average amount in Q3 2002 (\$)
	<u>2001</u>						<u>2002</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	2.0 (3.7)	2.7 (4.8)	2.4 (3.7)	1.5 (2.6)	1.2 (3.3)	-1.5 (1.6)	-1.0 (1.6)	-1.6 (1.7)	-2.1 (1.5)	11,500
Restaurants and hotels	0.1 (1.7)	1.6 (3.7)	1.4 (2.7)	-0.8 (0.3)	-2.2 (-0.1)	-4.5 (-1.5)	-4.9 (-2.3)	-5.5 (-2.4)	-3.0 (0.5)	8,300
Transport, storage and communications	1.3 (3.0)	2.7 (4.8)	1.4 (2.8)	1.6 (2.7)	-0.5 (1.5)	-1.0 (2.1)	-1.9 (0.7)	1.5 (4.9)	-2.5 (1.0)	17,400
Financing, insurance, real estate and business services	0.4 (2.0)	2.5 (4.6)	1.7 (3.0)	-0.8 (0.3)	-2.0 (0.1)	-2.0 (1.1)	-2.0 (0.6)	-2.6 (0.6)	-1.4 (2.2)	17,300
Community, social and personal services	0.7 (2.3)	0.8 (2.8)	-0.8 (0.5)	3.1 (4.2)	-0.5 (1.6)	-0.8 (2.4)	* (2.7)	0.1 (3.4)	-2.4 (1.2)	20,100
Manufacturing	2.1 (3.8)	3.0 (5.1)	2.5 (3.8)	2.2 (3.3)	0.6 (2.7)	-0.8 (2.3)	-0.8 (1.8)	-0.6 (2.7)	-1.1 (2.6)	11,200
All sectors surveyed in the private sector	1.8 (3.5)	2.7 (4.8)	2.2 (3.5)	2.0 (3.1)	0.4 (2.5)	-1.0 (2.1)	-0.6 (2.1)	-1.0 (2.2)	-1.5 (2.1)	14,500
		<0.8> {1.2}	<0.2> {0.4}	<0.1> {0.6}	<-0.7> {0.4}		<-0.2> {0.7}	<-0.3> {0.6}	<-0.3> {0.5}	

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.

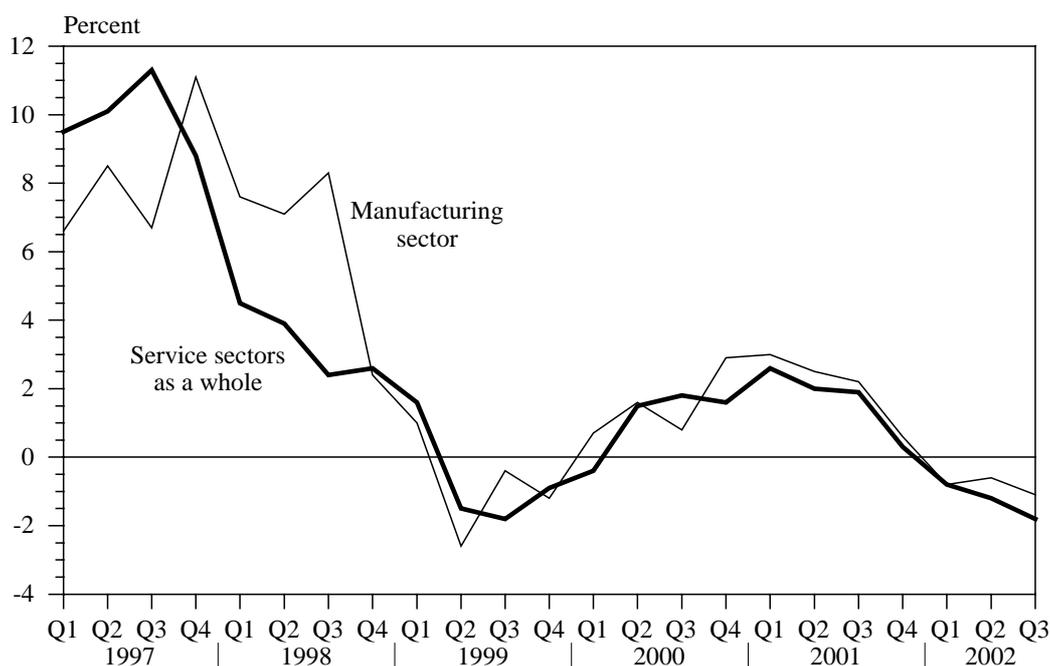
(*) Change of less than 0.05%.

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)**



5.23 Overall *labour wages* in the private sector likewise showed a renewed decline in March 2002, for the first time since March 2000, and the decline enlarged in the ensuing months. In September 2002, labour wages fell by 1.5% in money terms over a year earlier, having fallen by 0.8% in March and 0.9% in June. Amongst the business establishments surveyed in September 2002, 51% reported a reduction in average wage rate over a year earlier, mainly on account of a cut in guaranteed bonuses and allowances. Another 14% reported almost no change. The remaining 35% reported an increase in average wage rate, but this was again partly associated with a shift in the employment composition towards higher-skill and thus better-paid workers upon retrenchment of the lower-paid clerical staff and operatives. Netting out an enlarged decline in consumer prices as reflected by the CPI(A)⁽¹²⁾, overall labour wages nevertheless moved higher by 2.8% in real terms in September 2002 over a year earlier. This came after a 1.2% increase in March and a 3.1% increase in June. For the first nine months of 2002 as a whole, labour wages fell on average by 1.1% in money terms over a year earlier, but rose by 2.4% in real terms. In 2001, labour wages went up both in money terms and in real terms, by 0.8% and 3.4% respectively.

5.24 Analysed by *economic sector*, and within the service sectors surveyed, wages in personal services, in restaurants and hotels, and in the wholesale, retail and import/export trades went down by 3.0%, 2.7% and 2.0% respectively in money terms in September 2002 over a year earlier. These nevertheless corresponded to increases of 1.3%, 1.6% and 2.4% in real terms. Wages in transport services and in financing, insurance, real estate and business services showed nil change in money terms, but were up by 4.4% in real terms. As to wages in the local manufacturing sector, there was a 1.5% decline in money terms in September 2002 over a year earlier, yet a 2.8% rise in real terms.

Table 5.20

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

	<u>By reference to the wage index</u>								
	<u>2001</u>					<u>2002</u>			
	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec^(a)</u>	<u>Jan - Sep</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>
Wholesale, retail and import/export trades	1.4 (4.1)	1.8 (4.0)	1.7 (2.4)	1.2 (2.1)	1.1 (7.8)	-0.5 (2.9)	* (2.1)	0.3 (4.4)	-2.0 (2.4)
Restaurants and hotels	0.7 (3.3)	0.8 (3.0)	0.6 (1.4)	0.9 (1.9)	0.2 (6.9)	-2.4 (1.0)	-1.4 (0.6)	-3.3 (0.6)	-2.7 (1.6)
Transport services	0.7 (3.4)	0.5 (2.7)	0.1 (0.9)	0.3 (1.3)	2.0 (8.7)	0.6 (4.1)	1.1 (3.1)	0.8 (4.9)	* (4.4)
Financing, insurance, real estate and business services	-0.9 (1.7)	0.8 (3.0)	-0.1 (0.6)	-1.7 (-0.8)	-2.5 (4.0)	-1.1 (2.3)	-1.7 (0.3)	-1.8 (2.2)	* (4.4)
Personal services	0.7 (3.3)	1.4 (3.5)	1.0 (1.7)	1.4 (2.3)	-0.9 (5.7)	-2.0 (1.5)	-0.9 (1.1)	-2.0 (2.0)	-3.0 (1.3)
Manufacturing	2.2 (4.8)	3.0 (5.2)	1.6 (2.4)	2.7 (3.6)	1.4 (8.1)	-1.5 (2.0)	-2.1 (-0.2)	-0.7 (3.4)	-1.5 (2.8)
All selected sectors surveyed in the private sector	0.8 (3.4)	1.4 (3.6)	0.9 (1.7)	0.7 (1.6)	0.2 (6.9)	-1.1 (2.4)	-0.8 (1.2)	-0.9 (3.1)	-1.5 (2.8)

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

(a) The large difference between the nominal and the real changes in wages in December 2001 over a year earlier was caused by an abrupt fall in the CPI(A) in December 2001, owing to a waiver of public housing rentals in that month. The CPI(A) instead of the Composite CPI is taken as the price deflator here, on account of its closer relevance to the occupation coverage of the wage series.

(*) Change of less than 0.05%.

Source : Labour Earnings Survey, Census and Statistics Department.

5.25 Analysed by *occupation category*, wages for service workers, clerical and secretarial workers, and miscellaneous non-production workers all came down, by 3.4%, 1.8% and 1.8% respectively in money terms in September 2002 over a year earlier, although they still went up by 0.9%, 2.5% and 2.6% in real terms. Wages for craftsmen, operatives, and supervisory and technical workers fell relatively less, by 1.5%, 1.3% and 0.7% respectively in money terms, and thus had larger increases by 2.9%, 3.0% and 3.7% respectively in real terms.

Table 5.21

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

	<u>By reference to the wage index</u>								
	<u>2001</u>					<u>2002</u>			
	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec^(a)</u>	<u>Jan - Sep</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>
Supervisory and technical workers	0.9 (3.5)	1.8 (4.0)	1.1 (1.8)	0.4 (1.3)	0.1 (6.8)	-0.2 (3.2)	-0.2 (1.8)	0.1 (4.2)	-0.7 (3.7)
Clerical and secretarial workers	1.8 (4.4)	2.0 (4.1)	1.7 (2.4)	2.0 (3.0)	1.4 (8.2)	-0.9 (2.5)	-0.2 (1.8)	-0.8 (3.2)	-1.8 (2.5)
Craftsmen	1.0 (3.6)	0.8 (3.0)	1.5 (2.2)	0.9 (1.8)	0.9 (7.6)	-1.2 (2.2)	-0.6 (1.4)	-1.6 (2.4)	-1.5 (2.9)
Operatives	2.6 (5.2)	4.3 (6.5)	0.6 (1.3)	3.1 (4.0)	2.3 (9.1)	-0.7 (2.7)	-1.0 (1.0)	0.1 (4.2)	-1.3 (3.0)
Service workers	-1.8 (0.8)	-0.9 (1.2)	-1.2 (-0.5)	-1.4 (-0.5)	-3.5 (2.9)	-3.3 (*)	-3.0 (-1.0)	-3.6 (0.3)	-3.4 (0.9)
Miscellaneous non-production workers	1.2 (3.9)	1.3 (3.5)	1.6 (2.3)	0.6 (1.5)	1.5 (8.2)	-1.3 (2.1)	-0.9 (1.1)	-1.4 (2.6)	-1.8 (2.6)

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

Also see Note (a) to Table 5.20.

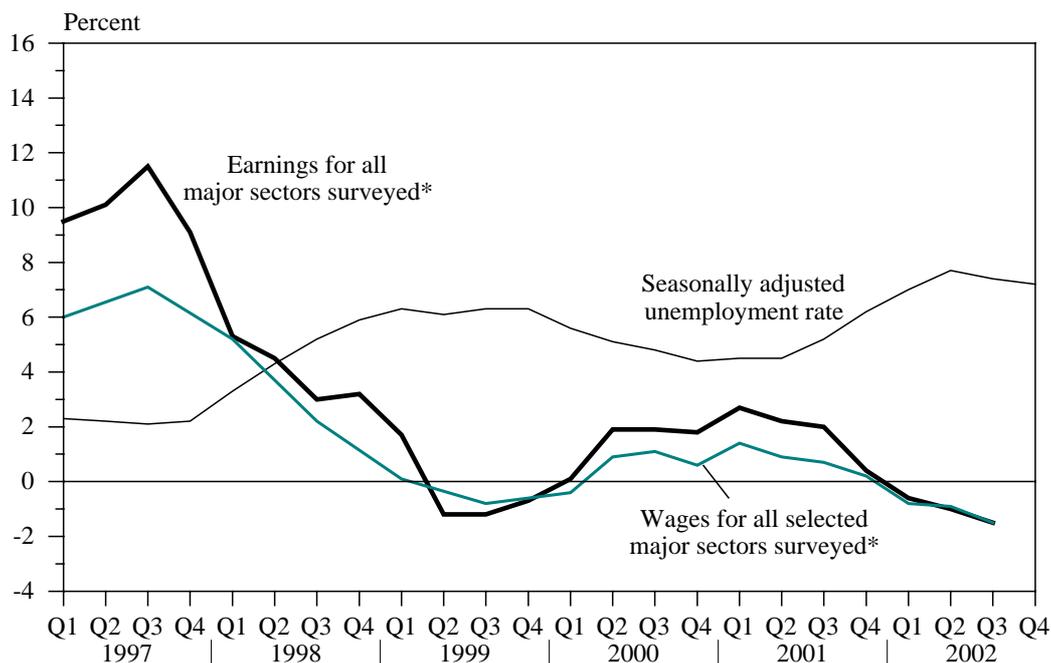
(*) Change of less than 0.05%.

Source : Labour Earnings Survey, Census and Statistics Department.

/Diagram 5.10

Diagram 5.10

Earnings, wages and the unemployment rate



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

5.26 Overall wage rates in the *construction sector* eased back by 0.4% in money terms in the third quarter of 2002 over a year earlier, following a 0.2% fall in the first quarter and a 1.6% rise in the second quarter. Netting out the decline in consumer prices as reflected by the CPI(A), these wages went up by 3.8% in real terms in the third quarter of 2002 over a year earlier, after increases of 2.6% and 5.3% respectively in the first and the second quarters. Taking the first three quarters of 2002 together, construction wages were higher by 0.3% in money terms or 3.9% in real terms over a year earlier. In 2001, the corresponding changes were -0.1% and 1.6%.

5.27 Amongst the various job categories, wages for painters, fitters, plumbers, truck drivers and plasterers decreased by 1.3 - 4.5% in money terms in the third quarter of 2002 over a year earlier. On the other hand, wages for electricians (wiremen) and plant operators edged up by 0.3% and 0.2% respectively in money terms, while wages for carpenters and joiners, steelbenders, and concretors/bricklayers/drainlayers had larger increases, by 1.1 - 5.6% in money terms.

/Table 5.22

Table 5.22**Construction wage rates by selected job category
(year-on-year rate of change (%))**

	<u>2001</u>						<u>2002</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	-1.1	3.3	-2.7	-2.0	-2.7	1.3	-0.2	3.0	1.1
Steelbenders	-1.6	0.6	-2.1	-2.8	-2.1	2.5	1.0	3.1	3.4
Carpenters and joiners	-4.3	-0.7	-6.8	-5.3	-4.2	3.0	-1.5	5.2	5.6
Plumbers	5.3	11.1	9.2	4.5	-2.8	-2.7	-3.8	-2.1	-2.3
Fitters	2.8	1.4	4.0	2.3	3.2	-0.2	2.6	-0.7	-2.4
Plasterers	3.7	10.8	9.2	1.1	-5.2	-2.3	-3.6	-1.9	-1.3
Painters	4.9	3.8	7.2	6.0	2.8	-3.4	-2.1	-3.6	-4.5
Electricians (wiremen)	0.8	-1.3	-0.4	2.9	1.8	2.1	3.3	2.7	0.3
Plant operators	2.3	2.6	2.2	2.0	2.5	2.1	3.3	2.8	0.2
Truck drivers	2.1	1.9	0.4	2.6	3.5	0.6	2.5	1.3	-1.9
All job categories in the construction sector ^(a)	-0.1 (1.6)	1.5 (3.6)	-0.7 (0.4)	* (0.7)	-1.0 (1.9)	0.3 (3.9)	-0.2 (2.6)	1.6 (5.3)	-0.4 (3.8)

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 this table.

(*) Change of less than 0.05%.

Source : Census and Statistics Department.

/5.28

5.28 Following enactment of the Public Officers Pay Adjustment Ordinance on 19 July 2002, Civil Service pay at the directorate level and the upper salary band was adjusted downward by 4.42%, and those at the middle and the lower salary bands by 1.64% and 1.58% respectively, as from 1 October 2002. When deciding on this pay reduction, the Government had taken into consideration all relevant factors under the existing Civil Service pay adjustment mechanism, including the results of the 2001/02 Pay Trend Survey⁽¹³⁾, change in cost of living, the state of the economy, the Government's budgetary consideration, staff sides' pay claims and Civil Service morale. As with the previous pay adjustments, salary increments on the pay scales were netted out.

5.29 On 25 February 2003, the Government announced that the dollar value of all Civil Service pay points below D3 or equivalent should be restored to the levels as at 30 June 1997 in cash terms by two adjustments of broadly equal amount to be implemented on 1 January 2004 and 1 January 2005 respectively, while the dollar value of all Civil Service pay points at D3 and above or equivalent should be restored to the levels as at 30 June 1997 in cash terms from 1 January 2004. The Government will introduce draft legislation into the Legislative Council as soon as possible to implement the pay reduction decision.

5.30 The Government has also decided to develop in consultation with staff an improved Civil Service pay adjustment mechanism on the basis of the existing mechanism. It will comprise the conduct of periodic pay level surveys to compare Civil Service pay levels with those in the private sector, the conduct of annual pay trend surveys based on an improved methodology, and an effective means for implementing both upward and downward adjustments. The aim is to complete the exercise, including the conduct of a pay level survey, within 2004.

/Notes

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 revisions to their respective rates of change are relatively 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) 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)

- (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 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 that sector, such as engineers, architects, surveyors and contract managers, as well as general clerical staff.
- (11) In his 2002/03 Budget, the Financial Secretary announced that the Government would stringently contain the growth of the Civil Service in all ranks, and should be able to attain the target of reducing the Civil Service establishment to around 181 000 by March 2003. Also, it would review the demand for services and its priorities for deployment of resources, and strive to meet additional service needs with the resources released through streamlining procedures, simplifying structures and economising on manpower.
- (12) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for labour earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the middle to lower income groups, is taken as the price deflator for labour wages in respect of workers on occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.
- (13) The results of the 2001/02 Pay Trend Survey covering some 91 private sector firms, as conducted for the period 2 April 2001 to 1 April 2002, were released in May 2002. These results indicated that salaries for the upper, middle and lower pay bands fell by 3.39%, 0.60% and 0.79% respectively in money terms over that period.

CHAPTER 6 : PRICES

Consumer prices

6.1 Overall consumer prices continued to decline in 2002. By December, overall consumer prices had fallen for 50 consecutive months. Though with some relative narrowing towards the year-end, the decrease for 2002 as a whole widened considerably from that in 2001. This reflected mostly the influence of domestic factors. In particular, there were the special relief measures of rates concession and waiver of water and sewage charges implemented by the Government during the year. Domestic cost pressure was lessened, by softening in both labour wages and property rentals. Also, local retailers reduced the prices of their goods and services further, in face of sluggish consumer demand and keen competition in the retail market. On the external front, while import prices stayed soft in overall terms, the decline moderated over the past year, upon a weaker US dollar and a rebound in world commodity prices.

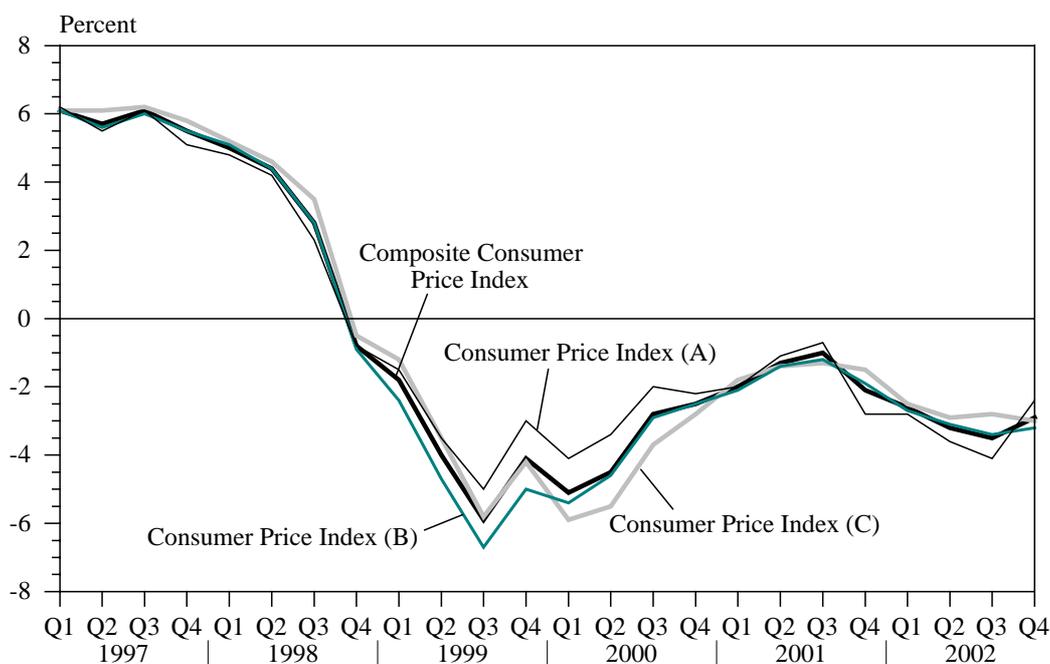
6.2 For 2002 as a whole, the *Composite Consumer Price Index*⁽¹⁾ went down by 3.0%, nearly double the 1.6% fall in 2001. There was an enlargement in the year-on-year decrease for most of the year, from 2.6% in the first quarter of 2002 to 3.2% in the second quarter and further to 3.5% in the third quarter. To a large extent, this was due to the two rounds of rates concession⁽²⁾ as well as the waiver of water and sewage charges⁽³⁾ granted as from the early part of 2002. (Netting out the effect of these special relief measures, the decline widened only modestly over the period.) Also relevant were further reductions in the prices of basic foodstuffs and in the charges of such service items as mobile phone and other telecommunications services. The year-on-year decrease then narrowed to 2.9% in the fourth quarter of 2002. Yet this was mostly attributable to a low base of comparison a year earlier, caused by a waiver of public housing rentals by the Housing Authority and Housing Society in December 2001⁽⁴⁾.

/6.3

6.3 Analysed by sub-index, the CPI(A), CPI(B) and CPI(C) all came down, by 3.2%, 3.1% and 2.8% respectively for 2002 as a whole, larger than the decreases of 1.7%, 1.6% and 1.5% in 2001. For the CPI(A) and CPI(B), the respective year-on-year declines likewise accentuated, from 2.8% and 2.7% in the first quarter of 2002 to 3.6% and 3.1% in the second quarter and further to 4.1% and 3.4% in the third quarter, before moderating to 2.4% and 3.2% in the fourth quarter. As to the CPI(C), the year-on-year decrease, having enlarged from 2.5% in the first quarter of 2002 to 2.9% and 2.8% respectively in the second and third quarters, showed a further widening to 3.0% in the fourth quarter. This was due to the fact that the CPI(C) was unaffected by the waiver of public housing rentals in December 2001.

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>
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
2002	Annual	-3.0	-3.2	-3.1	-2.8
	H1	-2.9	-3.2	-2.9	-2.7
	H2	-3.2	-3.3	-3.3	-2.9
	Q1*	-2.6	-2.8	-2.7	-2.5
	Q2#	-3.2	-3.6	-3.1	-2.9
	Q3	-3.5	-4.1	-3.4	-2.8
	Q4	-2.9	-2.4	-3.2	-3.0
	Jan	-3.5	-3.9	-3.4	-3.2
	Feb ⁺	-2.3	-2.4	-2.3	-2.0
	Mar	-2.2	-2.0	-2.3	-2.5
	Apr	-3.1	-3.3	-3.0	-2.9
	May	-3.1	-3.5	-3.0	-2.9
	Jun	-3.3	-3.9	-3.2	-2.8
	Jul	-3.4	-4.1	-3.3	-2.7
	Aug	-3.3	-3.7	-3.2	-2.8
	Sep	-3.7	-4.2	-3.7	-3.0
	Oct	-3.6	-4.0	-3.5	-3.2
	Nov	-3.6	-4.1	-3.6	-3.1
	Dec [^]	-1.5	1.0	-2.6	-2.8

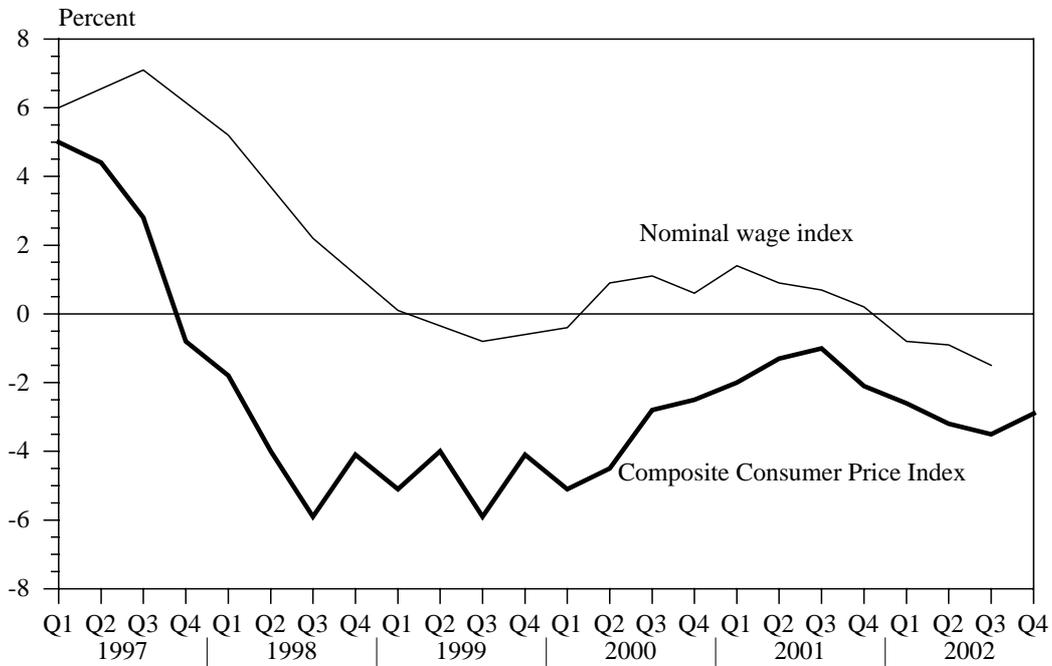
- Notes : (*) The enlarged year-on-year decline observed for most of the CPIs in the first quarter of 2002 was primarily due to the rates concession granted by the Government as from January 2002. This measure had the effect of lowering the Composite CPI by 0.9 of a percentage point in that quarter. The corresponding dampening effects were 1.2 percentage points for the CPI(A), 1.0 percentage point for the CPI(B), and 0.7 of a percentage point for the CPI(C).
- (#) The further widening in year-on-year decline in the CPIs in the second quarter of 2002 was due in part to the waiver of water and sewage charges as well as the additional rates concession granted by the Government as from April 2002. These measures had the effect of lowering the Composite CPI, CPI(A), CPI(B) and CPI(C) by 0.4, 0.5, 0.4 and 0.5 of a percentage point respectively.
- (+) The narrower year-on-year decline in the CPIs in February than in January 2002 was attributable in part to the difference in timing of the Lunar New Year Festival, which occurred in February last year but in January in the year before it. As consumer prices tended to be boosted in the sales period near the Festival and eased shortly afterwards, this difference in timing had led to a larger year-on-year decline in consumer prices in January 2002, but a smaller year-on-year decline in February 2002.
- (^) The distinctly narrowed year-on-year decline in the Composite CPI and CPI(B), as well as a renewed increase in the CPI(A), in December 2002 was mainly due to the low base of comparison in December 2001, when a waiver of public housing rentals was granted by the Housing Authority and Housing Society in that month. The CPI(C) was unaffected by such a measure, public housing cost being irrelevant to this sub-index.

/Diagram 6.2

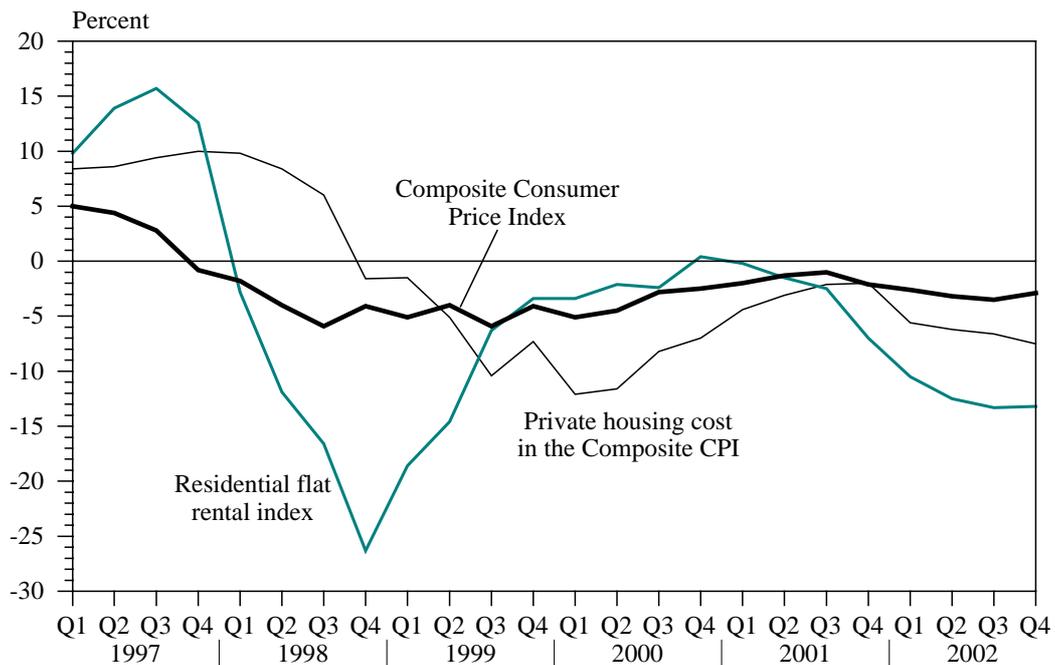
Diagram 6.2

**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



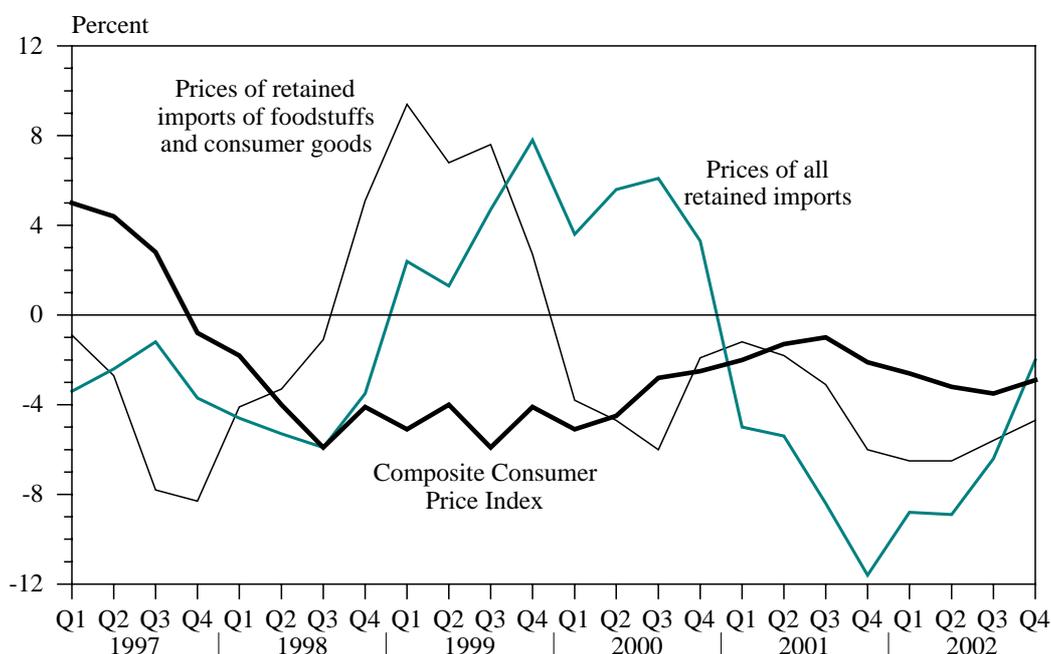
(b) Compared with residential flat rentals



/Diagram 6.2 (cont'd)

Diagram 6.2 (cont'd)

(c) Compared with prices of retained imports



Note : See the footnote to Diagram 6.1.

6.4 On a quarter-to-quarter comparison, the seasonally adjusted Composite CPI went down by 1.1% in the first quarter of 2002, followed by more modest declines of 0.6-0.7% in the ensuing three quarters. The larger drop in the first quarter mainly reflected the dampening effects of the rates concession effected in January as well as the special one-off rebate of electricity charges granted by a power company in January and February⁽⁵⁾. The seasonally adjusted CPI(B) and CPI(C) showed a similar movement, with larger falls of 1.4% and 1.3% respectively in the first quarter of 2002, and then smaller decreases of 0.5-0.7% in the remaining three quarters. Yet for the seasonally adjusted CPI(A), the decline in the first quarter of 2002 was smaller, at 0.6%. This was due to a lower base for this sub-index in the preceding quarter, on account of the waiver of public housing rentals in December 2001. The declines in the subsequent three quarters, at 0.6-0.7%, were roughly similar to that in the first quarter.

/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>
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
2002	Q1 ⁺	-1.1	-0.6	-1.4	-1.3
	Q2 [@]	-0.6	-0.6	-0.6	-0.7
	Q3	-0.7	-0.7	-0.7	-0.5
	Q4	-0.6	-0.6	-0.6	-0.6

Notes : (#) The enlarged quarter-to-quarter decline in the seasonally adjusted Composite CPI, CPI(A) and CPI(B) in the fourth quarter of 2001 was mainly due to the waiver of public housing rentals in December 2001. This had the effect of lowering the seasonally adjusted Composite CPI, CPI(A) and CPI(B) by 0.7 of a percentage point, 1.7 percentage points, and 0.3 of a percentage point respectively in the fourth quarter of 2001. Yet the seasonally adjusted CPI(C) was unaffected by such a measure.

(+) The further quarter-to-quarter decline in the seasonally adjusted CPIs in the first quarter of 2002, notwithstanding dissipation of the effect of waiver of public housing rentals, was mainly due to the rates concession for 2002 as well as the one-off rebate of electricity charges granted by a power company in January and February 2002. The former factor had the effect of lowering the seasonally adjusted Composite CPI, CPI(A), CPI(B) and CPI(C) by 0.9 of a percentage point, 1.2 percentage points, 0.9 of a percentage point and 0.7 of a percentage point respectively in the first quarter of 2002. For the latter factor, the corresponding dampening effects were 0.3, 0.5, 0.2 and 0.1 of a percentage point in the same quarter.

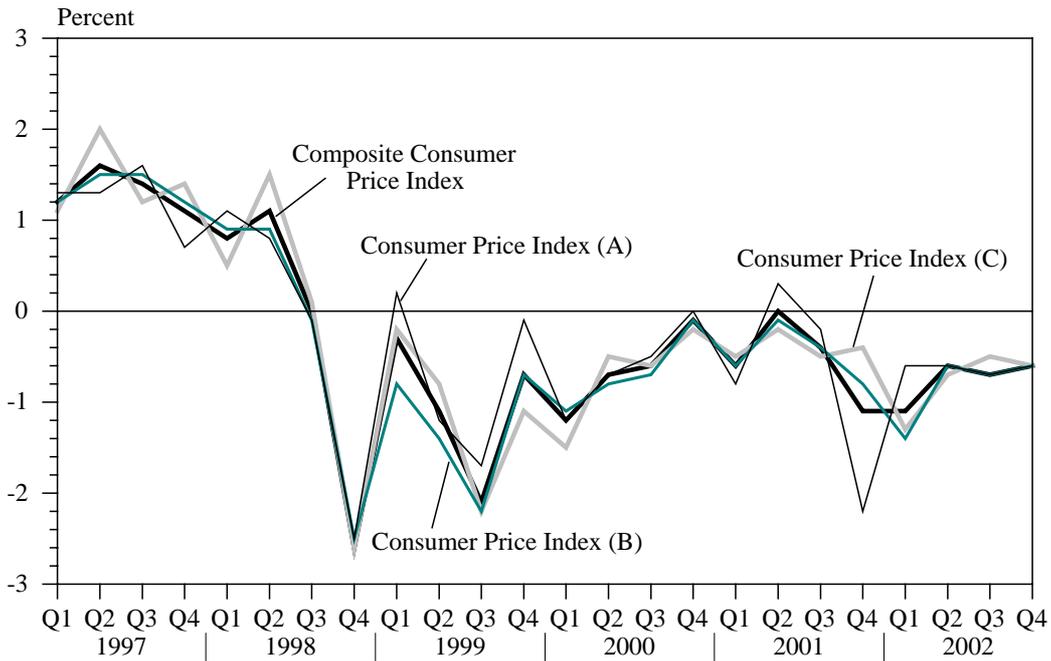
(@) The quarter-to-quarter decline in the seasonally adjusted CPIs mostly narrowed in the second quarter of 2002. There was little additional dampening effect from the rates concession in the second quarter, given that the base of comparison in the first quarter was already lowered by that measure. Also, the effect of the one-off rebate of electricity charges granted by a power company in the first two months of 2002 had dissipated. These outweighed the new dampening effect from the waiver of water and sewage charges for one year as from April 2002.

(*) 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

6.5 Analysed by major *commodity group* in the Composite CPI, charges for electricity, gas and water went down by 7.0% in 2002, distinctly larger than the 1.9% decline in 2001. This was mainly due to the waiver of water and sewage charges effected as from April 2002. Private housing cost also fell more in 2002 than in 2001, by 6.5% as against 2.9%. The continued easing in private residential rentals was a major contributory factor⁽⁶⁾, besides the rates concession. Public housing cost was reduced by 2.7% in 2002, on account of the rates concession. Yet this was smaller than the 8.3% drop in 2001, caused by the waiver of public housing rentals in December 2001. The prices of durable goods, having eased by 7.1% in 2001, slid further by 6.3% in 2002, due to lower prices of computers and telecommunications equipment. The prices of basic foodstuffs had an enlarged decrease, from 1.7% in 2001 to 3.1% in 2002, along with further cut in the prices of fresh foodstuffs especially those of vegetables, meat and poultry imported from the Mainland. Charges for meals at restaurants also had an enlarged decline, from 0.3% in 2001 to 1.5% in 2002, owing to the lower food cost, coupled with keen competition in this trade. As to the prices of miscellaneous services, there was a dip of 2.3% in 2002, reversing the 0.5% rise in 2001. Lower charges for mobile phone services and package tours largely contributed. The cost of transport likewise turned into a decrease, by 0.6% in 2002, from an increase of 0.4% in 2001, due to fare concessions offered by some public transport operators. By contrast, the prices of clothing and footwear reverted to a 0.7% rise in 2002, from a 4.6% fall in 2001, along with some firming up in the prices of outerclothing. The prices of alcoholic drinks and tobacco went on an uptrend, rising by 3.3% in 2001 and further by 2.4% in 2002, on account of higher prices of certain beer and cigarettes as well as increased duty rate for wine as from March 2002⁽⁷⁾. So did the prices of miscellaneous goods, ascending by 1.3% in 2001 and 1.7% in 2002, upon upward adjustments in the prices of jewellery and textbooks.

/6.6

6.6 On a year-on-year comparison, the major commodity groups in the Composite CPI showed different patterns of movement during the course of 2002. On charges for electricity, gas and water and private housing cost, they had larger decreases in the second half of 2002 than in the first half, by 7.8% and 7.1% as against 6.1% and 5.9%. The prices of basic foodstuffs, the prices of miscellaneous services, the charges for meals at restaurants, and the cost of transport likewise had accentuated falls, from 2.9%, 1.7%, 1.1% and 0.5% respectively in the first half of 2002 to 3.3%, 2.9%, 1.8% and 0.8% in the second half. On the other hand, the decline in the prices of durable goods narrowed, from 6.7% to 5.8%. Public housing cost even went up, by 6.7% in the second half of 2002, reversing the 10.5% drop in the first half. But this was primarily due to a low base in the latter part of 2001. The prices of miscellaneous goods had an accelerated rise, from 1.4% in the first half of 2002 to 2.0% in the second half. Yet the prices of alcoholic drinks and tobacco and of clothing and footwear had moderated increases, from 3.2% and 1.4% respectively to 1.6% and 0.1% between the two periods.

/Table 6.3

Table 6.3**Consumer Price Indices by component
(year-on-year rate of change (%))****(a) In 2001 and 2002**

Expenditure component	<u>Composite CPI</u>		<u>CPI(A)</u>		<u>CPI(B)</u>		<u>CPI(C)</u>	
	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>
Food	-0.8	-2.1	-1.0	-2.2	-1.0	-2.1	-0.2	-1.7
<i>Meals bought away from home</i>	-0.3	-1.5	-0.5	-1.7	-0.6	-1.9	0.8	-0.3
<i>Other foodstuffs</i>	-1.7	-3.1	-1.8	-2.9	-1.6	-2.6	-1.9	-4.0
Housing [#]	-3.1	-5.7	-3.6	-5.7	-2.8	-5.9	-2.8	-5.5
<i>Private dwellings</i>	-2.9	-6.5	-2.9	-6.8	-2.9	-6.6	-3.1	-6.0
<i>Public dwellings</i>	-8.3	-2.7	-8.2	-2.7	-8.3	-2.7	--	--
Electricity, gas and water	-1.9	-7.0	-2.7	-8.2	-1.7	-6.7	-0.7	-5.1
Alcoholic drinks and tobacco	3.3	2.4	3.6	2.4	3.4	2.4	1.6	2.2
Clothing and footwear	-4.6	0.7	-4.3	2.6	-4.3	2.0	-5.2	-2.8
Durable goods	-7.1	-6.3	-6.9	-6.0	-7.7	-6.5	-6.5	-6.2
Miscellaneous goods	1.3	1.7	2.7	1.0	1.2	1.4	0.1	2.8
Transport	0.4	-0.6	0.5	-0.6	0.3	-0.5	0.3	-0.9
Miscellaneous services	0.5	-2.3	0.6	-3.3	0.4	-2.3	0.2	-1.4
All items	-1.6	-3.0	-1.7	-3.2	-1.6	-3.1	-1.5	-2.8

(b) In the first and second halves of 2002

Expenditure component	<u>Composite CPI</u>		<u>CPI(A)</u>		<u>CPI(B)</u>		<u>CPI(C)</u>	
	<u>2002 H1</u>	<u>2002 H2</u>	<u>2002 H1</u>	<u>2002 H2</u>	<u>2002 H1</u>	<u>2002 H2</u>	<u>2002 H1</u>	<u>2002 H2</u>
Food	-1.8	-2.3	-1.9	-2.6	-1.8	-2.5	-1.8	-1.6
<i>Meals bought away from home</i>	-1.1	-1.8	-1.3	-2.0	-1.5	-2.2	-0.2	-0.4
<i>Other foodstuffs</i>	-2.9	-3.3	-2.5	-3.3	-2.4	-2.9	-4.4	-3.7
Housing [#]	-5.8	-5.6	-6.6	-4.7	-5.7	-6.1	-5.1	-5.9
<i>Private dwellings</i>	-5.9	-7.1	-6.1	-7.5	-6.0	-7.1	-5.5	-6.4
<i>Public dwellings</i>	-10.5	6.7	-10.5	6.7	-10.5	6.7	--	--
Electricity, gas and water	-6.1	-7.8	-7.2	-9.1	-5.8	-7.5	-4.4	-5.8
Alcoholic drinks and tobacco	3.2	1.6	3.4	1.4	3.3	1.6	2.2	2.3
Clothing and footwear	1.4	0.1	3.9	1.4	2.9	1.1	-3.2	-2.5
Durable goods	-6.7	-5.8	-6.3	-5.7	-7.2	-5.9	-6.6	-5.8
Miscellaneous goods	1.4	2.0	1.1	1.0	1.1	1.7	2.0	3.6
Transport	-0.5	-0.8	-0.4	-0.7	-0.4	-0.6	-0.7	-1.1
Miscellaneous services	-1.7	-2.9	-2.5	-4.1	-1.7	-2.9	-1.0	-1.7
All items	-2.9	-3.2	-3.2	-3.3	-2.9	-3.3	-2.7	-2.9

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.

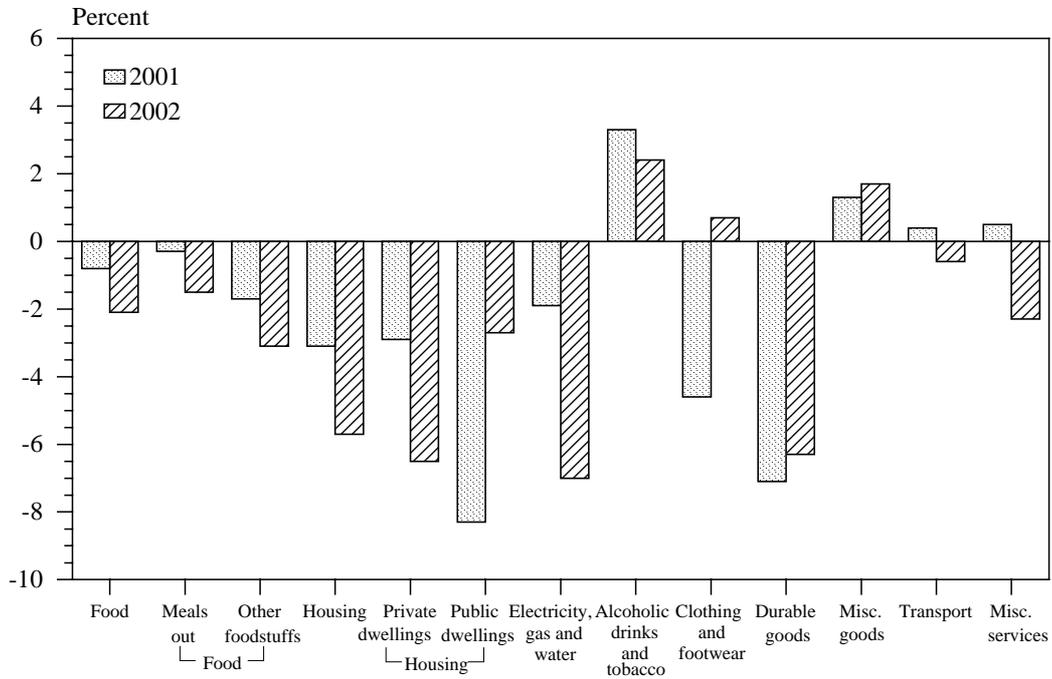
(--) Not applicable.

/Diagram 6.4

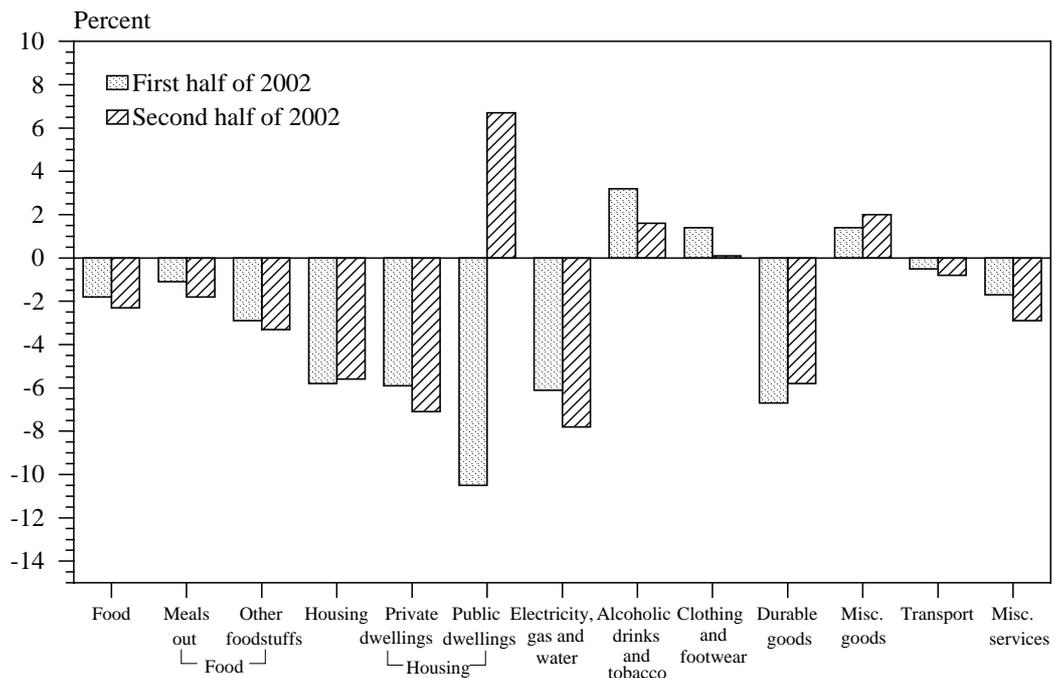
Diagram 6.4

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

(a) 2001 and 2002



(b) In the first and second halves of 2002

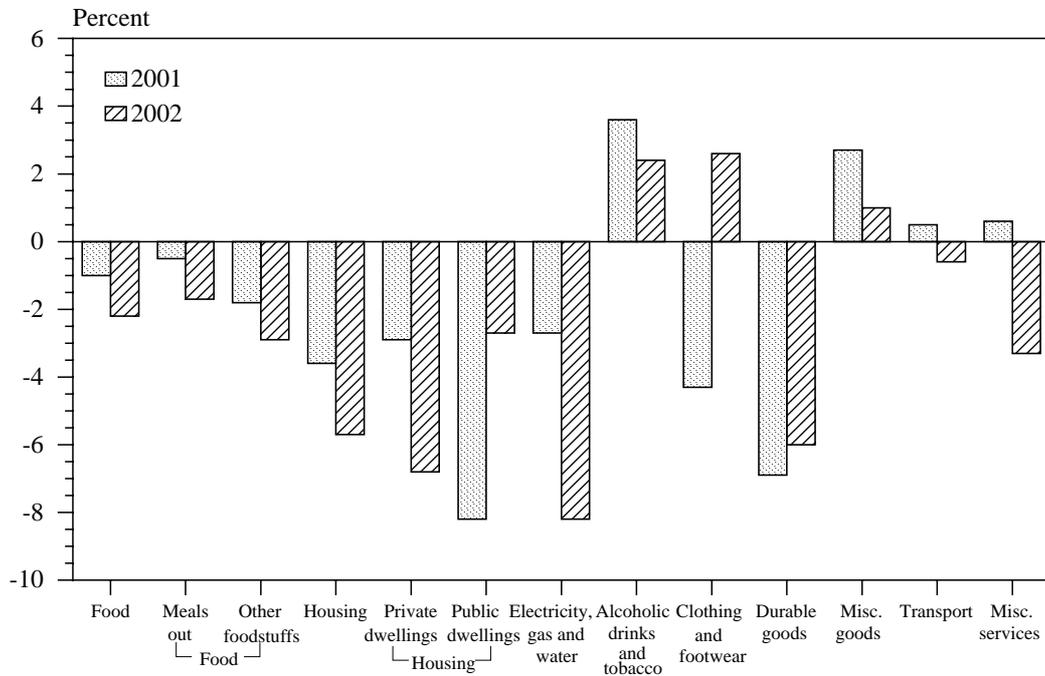


/Diagram 6.5

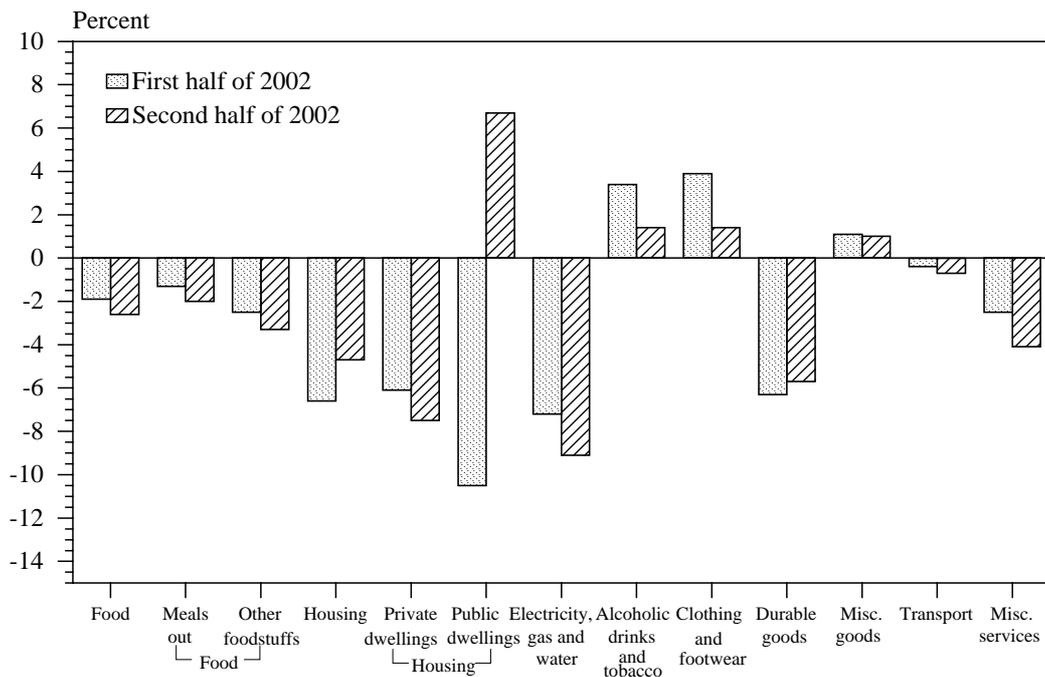
Diagram 6.5

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

(a) 2001 and 2002



(b) In the first and second halves of 2002



/Import

Import prices

6.7 The *prices of imports of goods* remained soft in overall terms. As measured by the unit value index of imports of goods⁽⁸⁾, the prices of imports of goods went down slightly more by 3.9% in 2002, after a 3.1% decline in 2001. Yet there was a progressive narrowing in year-on-year decrease in the prices of imports of goods during 2002, from 4.9% in the first quarter, 4.6% in the second quarter, 3.6% in the third quarter, to 2.3% in the fourth quarter. This was more so in the second half of the year, upon a weakening in the US dollar and a distinct rebound in world commodity prices. For crude oil price in particular, the price of North Sea Brent soared to an almost two-year high of around US\$30 per barrel by the end of 2002, amidst worries about possible outbreak of war on Iraq and also in face of some reduction in oil supply caused by political tension in Venezuela.

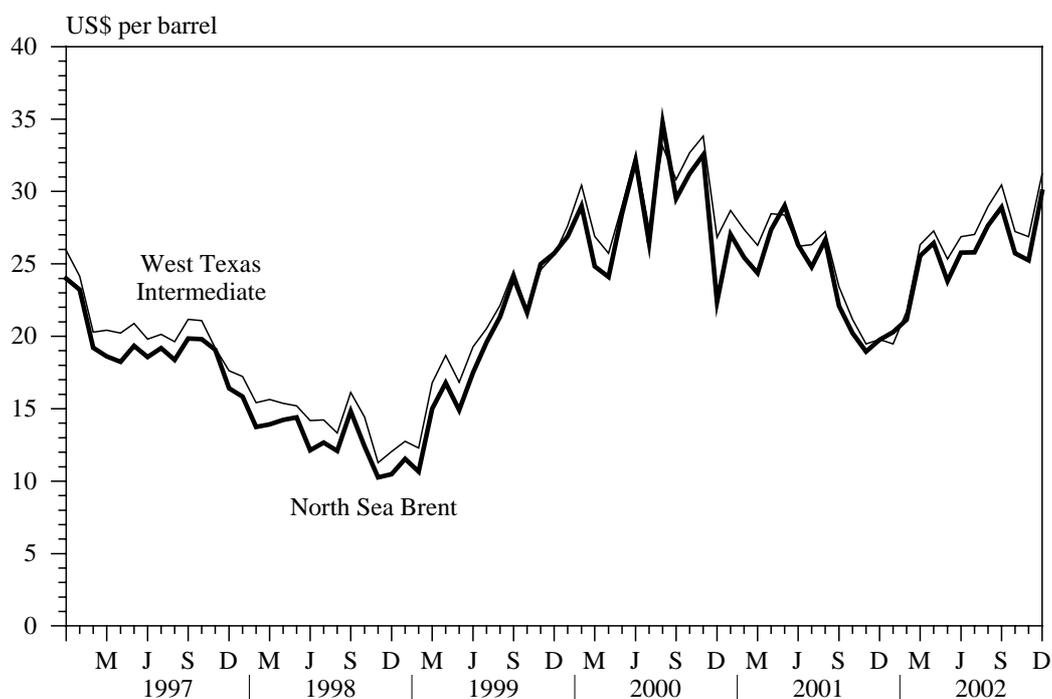
6.8 Analysed by major *source*, the fall in import prices occurred virtually across-the-board. The prices of goods imported from the United States dipped by 5.0% in 2002, considerably enlarged from the 2.2% fall in 2001. This was in line with the easing in US export prices, amidst excess productive capacity in the country and intensified competition in the global market. The prices of goods imported from the Mainland also showed a larger decline, by 3.3% in 2002, after a 1.6% decrease in 2001. This was mainly due to enlarged falls in the import prices of consumer goods and capital equipment from this source. The prices of goods imported from Japan and Taiwan fell by 3.7% and 3.5% respectively in 2002, yet these were smaller than the decreases of 4.1% and 6.0% in 2001. Moderation in year-on-year declines in the import prices for these two sources was more apparent in the second half of 2002 than in the first half, upon a strengthening in the Japanese yen and the New Taiwan dollar. For the other major sources, the year-on-year declines in import prices likewise moderated between the two periods.

/Table 6.4

Table 6.4**World commodity prices
(year-on-year rate of change (%))**

		<i>Of which :</i>				
		<u>Fuels</u>	<u>All non-fuel commodities</u>	<u>Food and beverages</u>	<u>Agricultural raw materials</u>	<u>Metals</u>
2001	Annual	-14.0	-5.4	-0.1	-6.9	-9.6
	H1	-1.3	-4.7	-2.3	-6.2	-4.3
	H2	-25.4	-6.1	2.1	-7.7	-14.9
	Q1	-2.4	-4.4	-1.6	-6.1	-5.0
	Q2	-0.3	-4.8	-3.1	-6.3	-3.6
	Q3	-15.9	-4.5	5.8	-6.1	-14.8
	Q4	-35.0	-7.8	-1.4	-9.3	-14.9
2002	Annual	2.7	3.9	10.0	2.5	-4.3
	H1	-12.5	-3.9	2.9	-7.7	-9.1
	H2	20.9	12.2	17.1	13.7	1.3
	Q1	-19.6	-5.9	0.4	-9.0	-11.2
	Q2	-5.6	-2.0	5.6	-6.4	-7.0
	Q3	7.7	8.1	13.6	8.3	-1.7
	Q4	37.9	16.4	20.8	19.4	4.3

Source : IMF International Financial Statistics.

Diagram 6.6**Spot price of crude oil***

Note : (*) Month-end figures.

/Table 6.5

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>
2001	Annual	-1.6	-4.1	-6.0	-2.2	-3.1
	H1	-1.1	-2.3	-4.5	-0.8	-2.1
	H2	-2.1	-5.9	-7.4	-3.6	-4.1
	Q1	-1.0	-1.2	-3.1	-0.4	-1.6
	Q2	-1.2	-3.3	-5.7	-1.3	-2.5
	Q3	-1.5	-5.2	-6.9	-2.8	-3.5
	Q4	-2.6	-6.6	-8.0	-4.5	-4.8
2002	Annual	-3.3	-3.7	-3.5	-5.0	-3.9
	H1	-3.4	-6.1	-5.4	-5.3	-4.8
	H2	-3.2	-1.3	-1.7	-4.6	-3.0
	Q1	-3.2	-7.0	-6.4	-5.1	-4.9
	Q2	-3.5	-5.4	-4.4	-5.6	-4.6
	Q3	-3.5	-2.1	-2.7	-4.6	-3.6
	Q4	-2.8	-0.5	-0.6	-4.5	-2.3

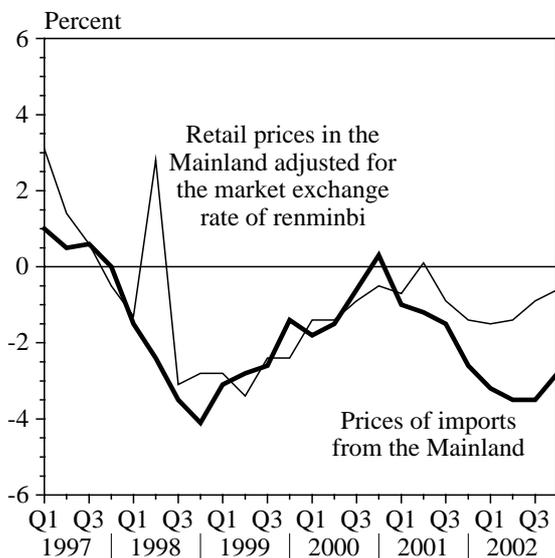
Note : From the first quarter of 2001 onwards, the year-on-year changes in import prices are computed from the new 2000-based unit value indices. Before then, the year-on-year changes are computed from the old 1990-based series. Splicing has been applied to the indices to maintain continuity.

/Diagram 6.7

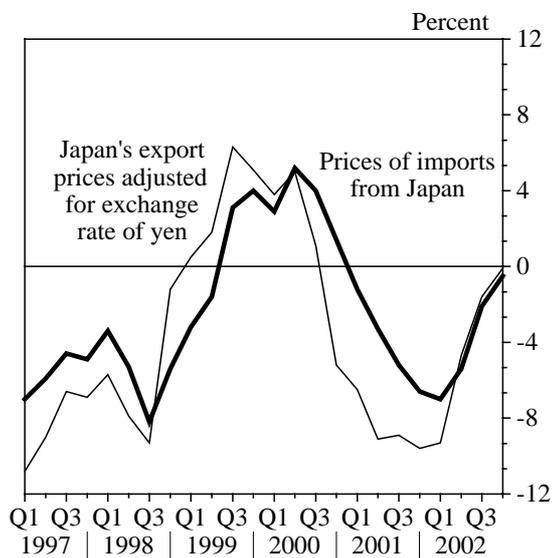
Diagram 6.7

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

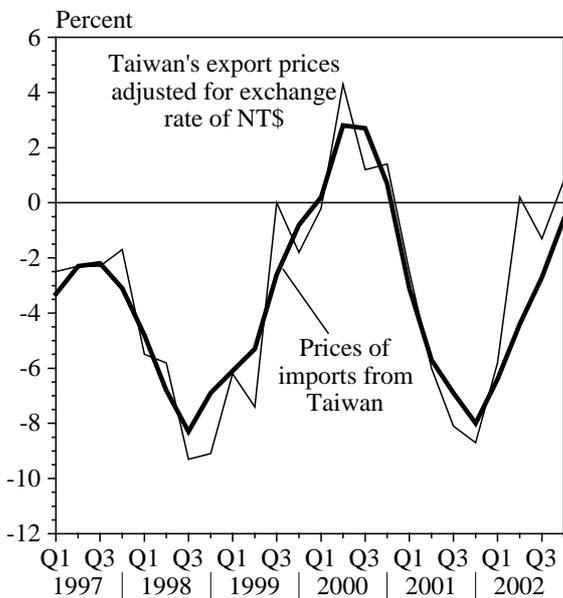
(a) For imports from the mainland of China



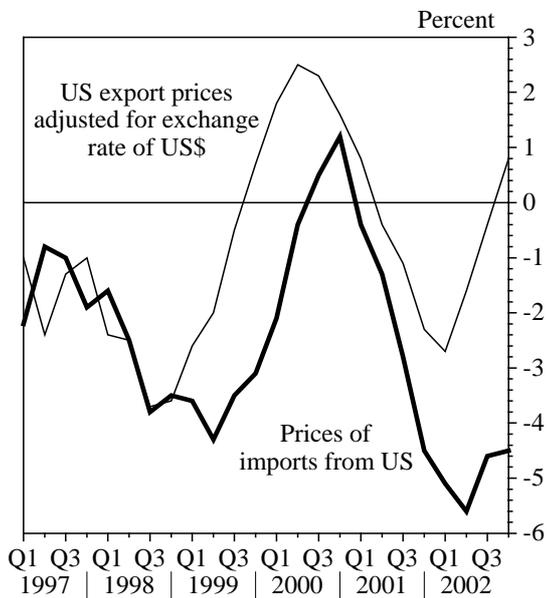
(b) For imports from Japan



(c) For imports from Taiwan



(d) For imports from the United States



Note : See the footnote to Table 6.5.

6.9 The *prices of retained imports*, as measured by the unit value index of retained imports, fell to a lesser extent in 2002 than in 2001, by 6.6% as against 7.6%. Moreover, the year-on-year decrease, having held steady at 8.8% and 8.9% respectively in the first two quarters of 2002, narrowed to 6.4% in the third quarter and further to 2.0% in the fourth quarter.

6.10 Analysed by *end-use category*, the prices of retained imports of capital goods had the largest fall, by 7.8% in 2002, attributable to lower import prices of industrial machinery, office machinery and telecommunications equipment, although this was lesser than the 9.3% dip in 2001. The prices of retained imports of raw materials and semi-manufactures sank by 7.7% in 2002, likewise narrowed from the decline of 8.8% in 2001. By contrast, the prices of retained imports of consumer goods had an enlarged decrease, from 3.1% in 2001 to 6.3% in 2002, mainly due to an accelerated fall in the prices of such retained imports from the Mainland. The prices of retained imports of foodstuffs also showed an accentuated decline, from 3.8% in 2001 to 4.6% in 2002, upon a larger decrease in the prices of such retained imports from many major sources. The prices of retained imports of fuels edged up by 0.5% in 2002, as the upsurge in international crude price in the second half of the year offset the decline seen in the first half. This contrasted with a 10.6% drop in 2001. For all these end-use categories, the prices of retained imports had lesser year-on-year declines in the second half of 2002 than in the first half, or in the case of fuels, even reverted to increase during the year.

/Table 6.6

Table 6.6

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

		<u>Food- stuffs</u>	<u>Consumer goods</u>	<u>Fuels</u>	<u>Raw materials and semi- manufactures</u>	<u>Capital goods</u>	<u>All categories</u>
2001	Annual	-3.8	-3.1	-10.6	-8.8	-9.3	-7.6
	H1	-2.4	-1.6	1.8	-4.6	-10.7	-5.2
	H2	-5.0	-4.7	-20.6	-13.1	-8.1	-9.9
	Q1	-1.6	-1.3	*	-3.6	-11.6	-5.0
	Q2	-3.2	-1.6	3.5	-5.5	-9.9	-5.4
	Q3	-4.1	-3.1	-13.1	-10.8	-8.3	-8.4
	Q4	-6.1	-6.4	-27.9	-15.4	-8.2	-11.6
2002	Annual	-4.6	-6.3	0.5	-7.7	-7.8	-6.6
	H1	-6.3	-6.7	-10.7	-10.7	-8.4	-8.9
	H2	-2.8	-5.9	11.8	-4.2	-7.3	-4.3
	Q1	-6.5	-6.7	-15.7	-10.3	-7.5	-8.8
	Q2	-6.2	-6.6	-6.9	-11.0	-9.4	-8.9
	Q3	-3.6	-6.1	0.1	-7.7	-8.0	-6.4
	Q4	-1.9	-5.6	25.7	-0.5	-6.2	-2.0

Notes : See the footnote to Table 6.5.

(*) Change of less than 0.05%.

/Prices

Prices of key inputs

6.11 The prices of the major inputs all moved lower in 2002. On *labour cost*, labour earnings fell slightly, by 0.6% in money terms in the first quarter of 2002 over a year earlier, representing the first decrease since the fourth quarter of 1999. The decrease widened to 1.0% in the second quarter, and further to 1.5% in the third quarter. On the *cost of material inputs*, the prices of retained imports of capital goods and of raw materials and semi-manufactures also fell in 2002, yet the respective year-on-year declines narrowed for most of the year, to 6.2% and 0.5% in the fourth quarter. On *property cost*, the prices of office space, shopping space and conventional flatted factory space continued to come down in 2002, with year-on-year decreases by 9.7%, 3.2% and 7.5% respectively in the fourth quarter. The corresponding rentals also had visible year-on-year declines, by 13.6%, 4.9% and 6.4% in the fourth quarter.

6.12 These cost and price easing pointed to a further reduction in the cost of doing business in Hong Kong, and should have also contributed to the continued downtrend in local consumer prices.

Prices of local manufacturing output

6.13 The *prices of local manufacturing output*, as measured by the Producer Price Index⁽⁹⁾, went down by 2.9% in the first three quarters of 2002 over a year earlier, exceeding the 1.6% fall in 2001. Reduced costs of inputs and keen competition in the product markets mattered. Analysed by major *industry group* and on a year-on-year comparison, output prices in the consumer electrical and electronic products and the machinery and equipment industries fell by 4.9% and 4.8% respectively in the first three quarters of 2002. This was followed by output prices in the wearing apparel industry (down by 3.7%), the fabricated metal products industry (2.6%), the plastic products industry (2.5%), the paper products and printing industry (2.1%), and the textiles industry (1.6%).

/Table 6.7

Table 6.7

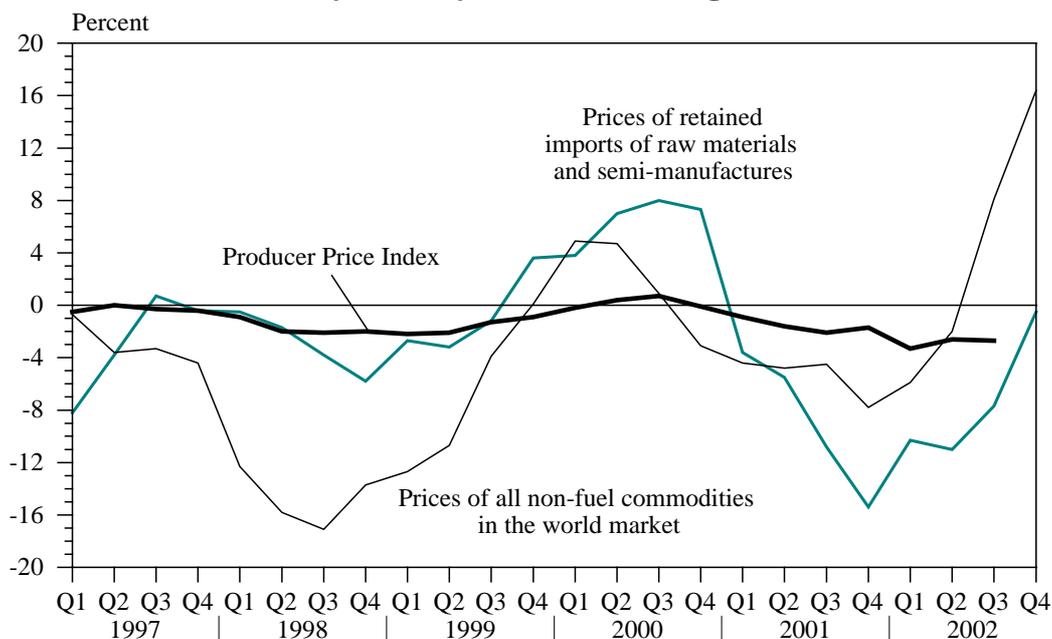
**Producer Price Index for the local manufacturing sector
(year-on-year rate of change (%))**

<u>Industry group</u>	<u>2001</u>					<u>2002</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	-0.2	0.4	0.1	-0.5	-1.0	-3.7	-3.2	-4.1	-3.7
Textiles	-1.2	*	-1.1	-1.7	-2.1	-1.6	-1.8	-1.8	-1.1
Plastic products	-0.3	-0.6	-2.3	0.3	1.6	-2.5	-1.7	-1.5	-4.1
Consumer electrical and electronic products	-1.9	-2.1	-2.1	-1.6	-1.6	-4.9	-4.4	-5.7	-4.6
Machinery and equipment	-2.8	-3.3	-2.2	-4.2	-1.4	-4.8	-3.8	-5.2	-5.4
Fabricated metal products	-1.8	1.0	-0.4	-3.9	-3.8	-2.6	-3.1	-2.5	-2.1
Paper products and printing	-0.3	-0.9	-0.3	-0.2	0.1	-2.1	-2.6	-1.7	-2.1
Overall manufacturing	-1.6	-0.9	-1.6	-2.1	-1.7	-2.9	-3.3	-2.6	-2.7

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

Diagram 6.8

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



/Prices

Prices of output in selected service sectors

6.14 The *prices of output in selected service sectors*, as measured by the respective Producer Price Indices, exhibited a broad-based decline. On a year-on-year comparison, output prices in telecommunications plunged by 20.9% in the first three quarters of 2002, much exceeding the 8.4% dip in 2001. This was mainly attributable to a sharp reduction in the charges for international calls and Internet services, as well as in the prices of mobile phone sets and related items. Output prices in hotels and boarding houses moved down by 4.6% in the first three quarters of 2002, in contrast to a 1.0% rise in 2001, owing to a cut in hotel room tariffs. Output prices in maritime transport were reduced by 4.2% in the first three quarters of 2002, further to a decrease of 5.6% in 2001, on account of downward adjustment in freight charges for sea cargo. Output prices in air transport also came down, by 1.9% in the first three quarters of 2002, yet smaller than the 6.0% fall in 2001, mainly reflecting lower air passenger fares. Output prices in land transport edged down further by 1.8% in the first three quarters of 2002, after a 0.5% fall in 2001, upon lower charges for freight transport and fare concessions for some public transport services. On the other hand, output prices in miscellaneous communications services rose further by 2.3% in the first three quarters of 2002, after a 1.3% increase in 2001, due to higher charges for international courier service.

/Table 6.8

Table 6.8

Producer Price Indices for selected service sectors⁺
(year-on-year rate of change (%))

<u>Selected service sector</u>	<u>Annual</u>	<u>2001</u>		<u>Q3</u>	<u>Q4</u>	<u>Q1-Q3</u>	<u>2002</u>		
		<u>Q1</u>	<u>Q2</u>				<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Hotels and boarding houses	1.0	5.8	5.2	1.1	-7.1	-4.6	-5.8	-4.2	-3.8
Land transport	-0.5	-1.0	-0.3	-0.2	-0.6	-1.8	-1.4	-2.0	-2.1
Maritime transport	-5.6	-0.2	-3.3	-9.3	-9.5	-4.2	-9.4	-5.5	2.9
Air transport	-6.0	-2.3	-4.9	-8.8	-7.8	-1.9	-5.5	-3.4	3.6
Telecommunications	-8.4	-5.5	-1.3	-12.9	-14.5	-20.9	-21.7	-24.5	-15.7
Miscellaneous communications services	1.3	2.8	1.2	0.7	0.5	2.3	0.4	0.1	6.3

Note : (+) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the producers often do not charge their customers explicitly.

Export prices

6.15 Export prices were still kept down by the generally slack demand conditions and intensified competition in the overseas markets. The *prices of total exports of goods*, as measured by the unit value index of total exports of goods, fell further by 2.7% in 2002, after a 2.3% decrease in 2001. Within this total, the prices of domestic exports sank by 3.3% in 2002, after a 4.7% fall in 2001, and the prices of re-exports sank by 2.7% in 2002, after a 2.0% fall in 2001. Yet there was a progressive moderation in the year-on-year decrease in the prices of total exports of goods over the course of 2002, from 3.4% in the first quarter, 2.7% in the second quarter, 2.4% in the third quarter, to 2.3% in the fourth quarter.

/6.16

6.16 Analysed by major *market*, the prices of total exports of goods to Singapore fell further by 3.9% in 2002, following a 4.0% drop in 2001. The prices of total exports of goods to Japan declined by 3.2% in 2002, double the 1.6% decrease in 2001. The prices of total exports of goods to Germany, the United States and the United Kingdom also drifted lower, by 3.2%, 2.6% and 2.5% respectively in 2002, after the falls of 2.3%, 0.4% and 2.1% in 2001. The prices of total exports of goods to the Mainland were reduced further by 2.5% in 2002, having decreased by 3.3% in 2001. For most of these major markets, the year-on-year declines in export prices likewise narrowed between the first half and second half of 2002.

Table 6.9

**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>
2001	Annual	-0.4	-3.3	-2.3	-2.1	-1.6	-4.0	-2.3
	H1	-0.1	-2.4	-1.9	-1.2	-1.2	-2.9	-1.7
	H2	-0.6	-4.2	-2.6	-2.9	-2.1	-5.1	-2.8
	Q1	0.1	-1.3	-1.9	-0.9	-0.8	-2.0	-1.1
	Q2	-0.3	-3.3	-2.0	-1.6	-1.5	-3.9	-2.3
	Q3	-0.4	-4.1	-2.6	-2.3	-1.4	-4.9	-2.6
	Q4	-0.9	-4.4	-2.6	-3.5	-2.7	-5.4	-3.0
2002	Annual	-2.6	-2.5	-3.2	-2.5	-3.2	-3.9	-2.7
	H1	-2.2	-3.5	-3.4	-3.0	-3.5	-4.2	-3.1
	H2	-2.9	-1.6	-2.9	-2.1	-2.9	-3.4	-2.4
	Q1	-1.9	-4.2	-4.0	-3.6	-3.5	-4.8	-3.4
	Q2	-2.4	-2.8	-2.8	-2.3	-3.4	-3.5	-2.7
	Q3	-3.2	-1.6	-2.8	-2.3	-2.7	-3.1	-2.4
	Q4	-2.6	-1.5	-3.0	-1.9	-3.0	-3.6	-2.3

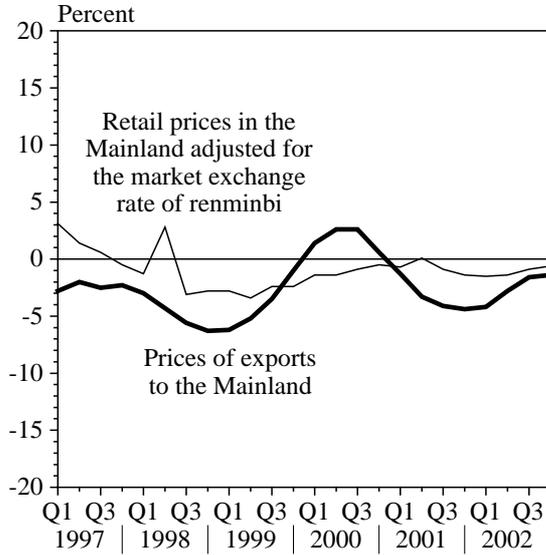
Note : From the first quarter of 2001 onwards, the year-on-year changes in export prices are computed from the new 2000-based unit value indices. Before then, the year-on-year changes are computed from the old 1990-based series. Splicing has been applied to the indices to maintain continuity.

/Diagram 6.9

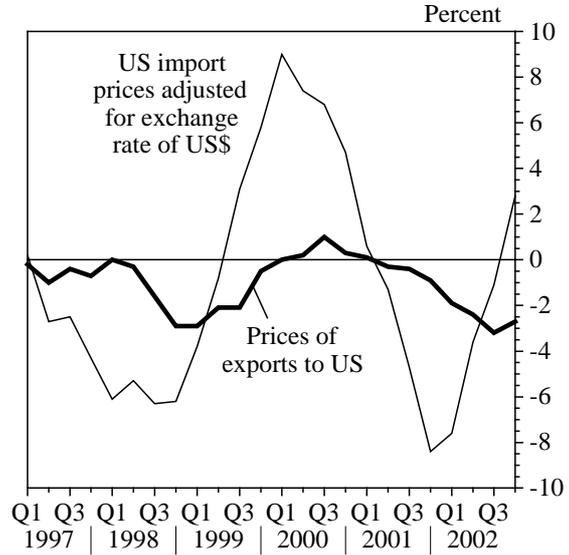
Diagram 6.9

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

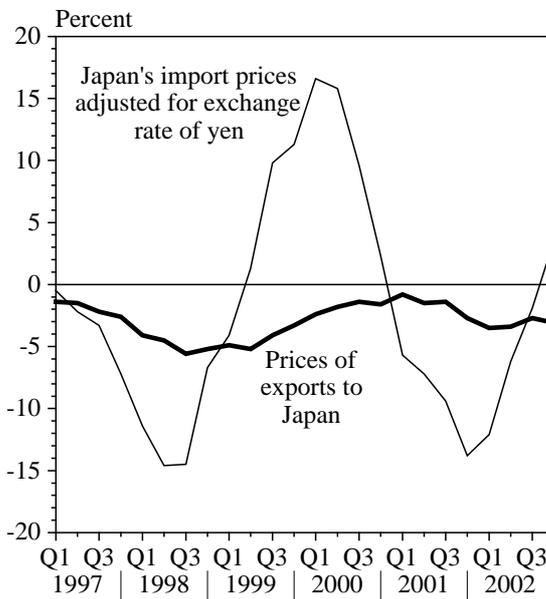
**(a) For exports to the
mainland of China**



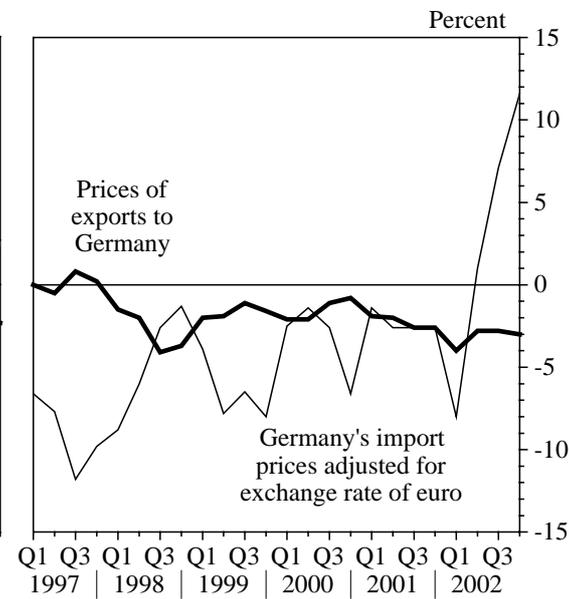
(b) For exports to the United States



(c) For exports to Japan



(d) For exports to Germany



Note : See the footnote to Table 6.9.

/Terms

Terms of trade

6.17 As the prices of imports of goods fell by more than the prices of total exports of goods, the terms of trade in goods⁽¹⁰⁾ for Hong Kong improved by 1.2% in 2002. This followed a 0.9% rise in 2001. Yet the improvement tended to taper in the latter part of last year, as the rate of decline in the prices of imports of goods narrowed by more than that in the prices of total exports of goods.

Table 6.10

		Terms of trade in goods	
		<u>Index on the terms of trade in goods</u> (2000 = 100)	<u>Year-on-year rate of change</u> (%)
2001	Annual	100.9	0.9
	H1	100.5	0.4
	H2	101.2	1.4
	Q1	100.6	0.5
	Q2	100.5	0.3
	Q3	100.8	0.9
	Q4	101.7	1.8
	2002	Annual	102.1
H1		102.3	1.8
H2		101.9	0.7
Q1		102.2	1.6
Q2		102.5	2.0
Q3		102.1	1.2
Q4		101.7	*

Notes : From the first quarter of 2001 onwards, the year-on-year changes in terms of trade in goods are computed from the new 2000-based unit value indices. Before then, the year-on-year changes are computed from the old 1990-based series. Splicing has been applied to the indices to maintain continuity.

(*) Change of less than 0.05%.

/Diagram 6.10

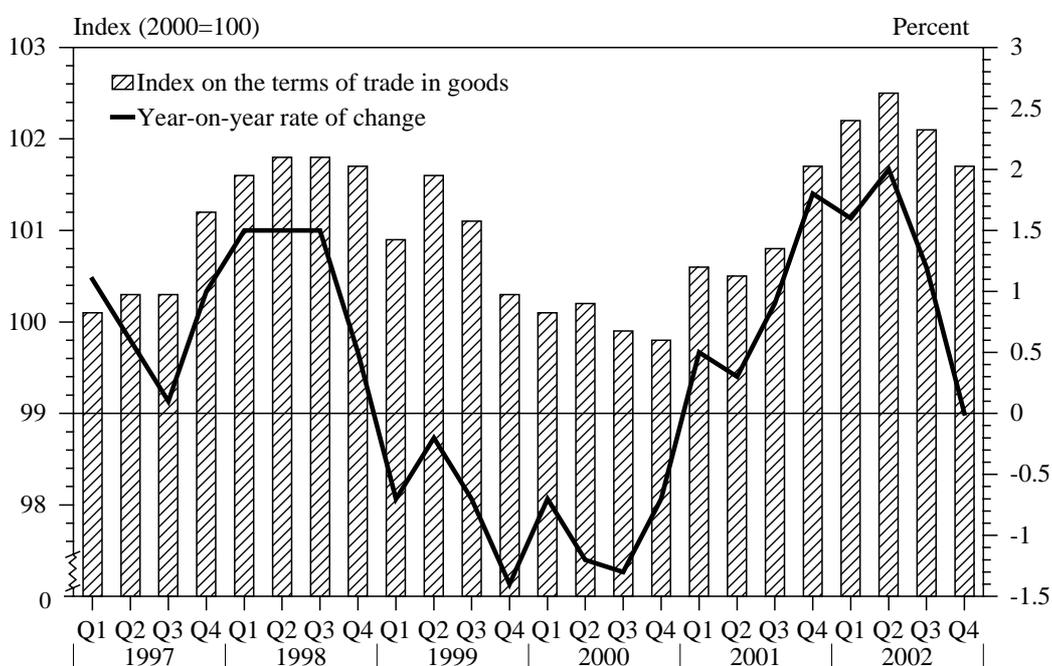
Diagram 6.10

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



Diagram 6.11

Terms of trade in goods



Note : From the first quarter of 2001 onwards, the year-on-year changes in import prices, export prices and terms of trade in goods are computed from the new 2000-based unit value indices. Before then, the year-on-year changes are computed from the old 1990-based series. Splicing has been applied to the indices to maintain continuity.

/GDP

GDP deflator

6.18 The *GDP deflator*⁽¹¹⁾, as a broad measure of overall price change in the economy, decreased by 3.8% in the fourth quarter of 2002 from a year earlier⁽¹²⁾. This exceeded the declines of 2.1%, 2.1% and 3.0% respectively in the first three quarters. For 2002 as a whole, the GDP deflator went down by 2.7%, larger than the 1.4% fall in 2001. This was mainly attributable to accentuated drops in the price deflators for private consumption expenditure and for gross domestic fixed capital formation, as well as renewed decrease in the government consumption expenditure deflator, more than offsetting the improvement in the terms of trade in goods and services. Within the GDP deflator, the *domestic demand deflator* and the *total final demand deflator* both showed larger decreases in 2002 than in 2001, by 4.2% and 3.4% respectively as against 1.8% and 2.4%. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator declined further by 0.9% in the fourth quarter of 2002, having fallen by 0.6%, 1.0% and 1.1% respectively in the first three quarters.

/Table 6.11

Table 6.11**GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))**

	<u>2000</u>	<u>2001[#]</u>	<u>2002⁺</u>	<u>2002</u>			
				<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4⁺</u>
Private consumption expenditure	-5.1	-1.3	-3.3	-3.0	-3.4	-3.6	-3.9
Government consumption expenditure	-1.9	1.2	-0.4	1.8	-0.1	-0.7	-2.7
Gross domestic fixed capital formation	-3.8	-4.3	-7.0	-6.1	-7.5	-7.7	-6.5
Total exports of goods	-0.5	-2.6	-2.9	-3.8	-3.0	-2.7	-2.4
Imports of goods	0.8	-3.5	-4.2	-5.2	-4.9	-3.9	-2.6
Exports of services	0.8	-3.9	-2.8	-5.0	-3.7	-2.5	-0.4
Imports of services	-0.2	-0.8	0.4	-2.0	-0.1	1.4	2.2
Gross Domestic Product	-6.2	-1.4	-2.7	-2.1 <-0.6>	-2.1 <-1.0>	-3.0 <-1.1>	-3.8 <-0.9>
Total final demand	-2.9	-2.4	-3.4	-3.7	-3.6	-3.3	-3.0
Domestic demand	-5.4	-1.8	-4.2	-3.1	-4.2	-4.4	-4.6

Notes : Figures in this table are based on the revised series incorporating the results of the technical revision to GDP as announced on 1 August 2002.

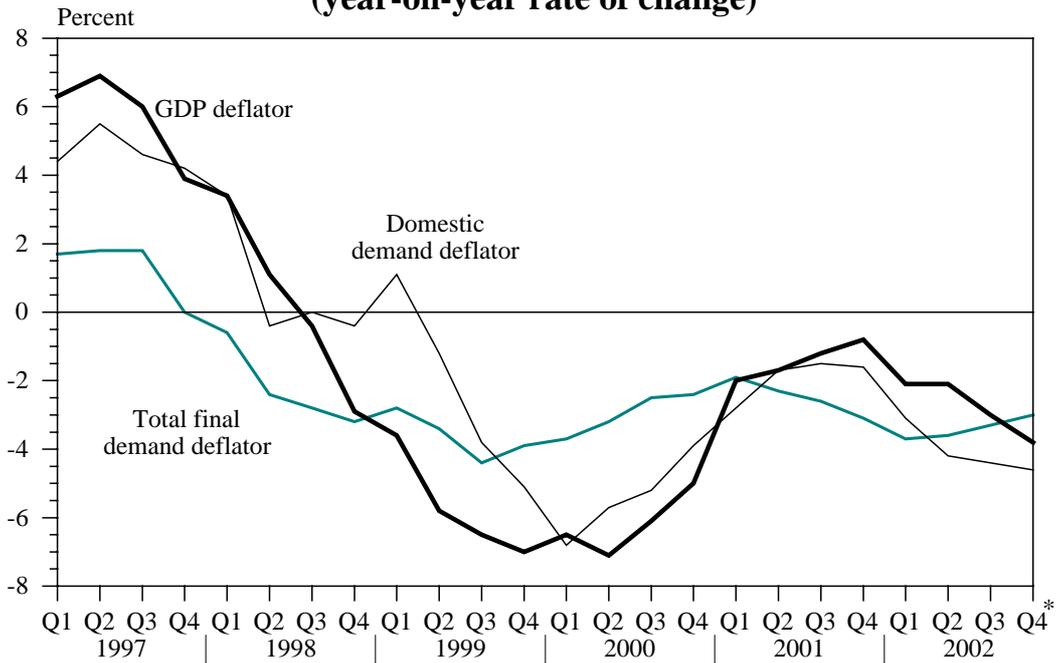
(#) Revised figures.

(+) Preliminary figures.

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

/Diagram 6.12

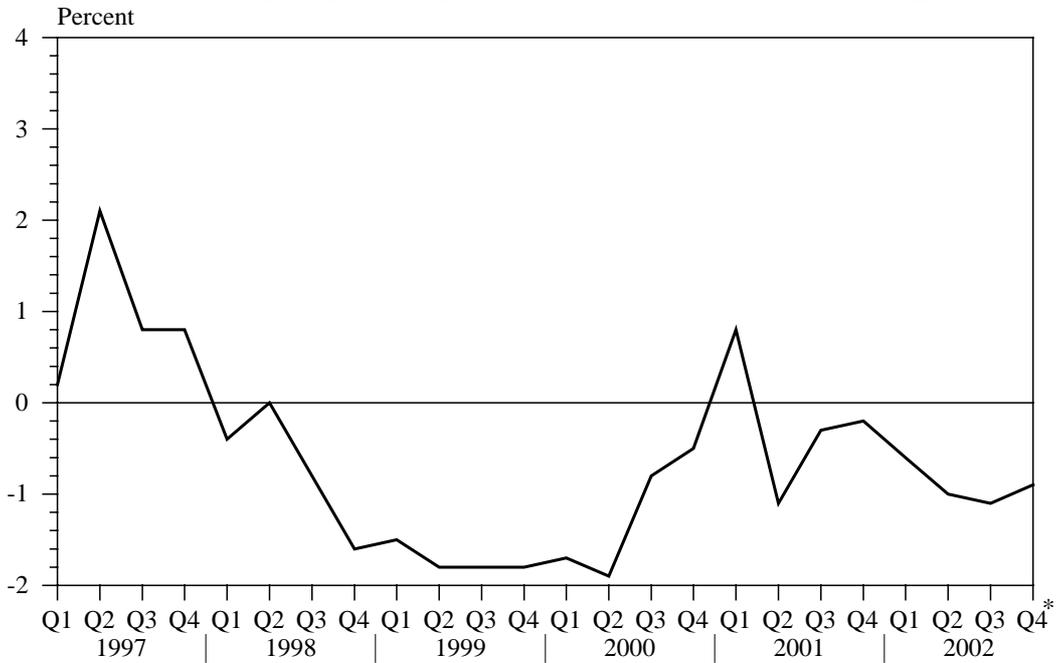
Diagram 6.12
GDP deflator, total final demand deflator
and domestic demand deflator
(year-on-year rate of change)



Notes : See the footnotes to Table 6.11.

(*) Preliminary figures.

Diagram 6.13
GDP deflator
(seasonally adjusted quarter-to-quarter rate of change)



Notes : See the footnotes to Table 6.11.

(*) 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 Chief Executive in his 2001 Policy Address announced that a concession on rates payable for 2002 was to be granted by a maximum of \$2,000 per household. The Financial Secretary in his 2002/03 Budget further announced that the maximum amount of reduction in rates payable for 2002 was to be raised to \$5,000. These two rounds of rates concession taken together had the effect of lowering the Composite CPI by 0.9 of a percentage point in 2002. Owing to different weightings attached to the rates payment and different impacts of these two successive rounds of concessions on households in the various expenditure ranges, the dampening effects on the three sub-indices varied. Specifically, the CPI(A) was lowered by 1.2 percentage points, the CPI(B) by 0.9 of a percentage point, and the CPI(C) by 0.6 of a percentage point.

/(3)

- (3) As announced by the Financial Secretary in the 2002/03 Budget, water and sewage charges for domestic households were to be waived for one year, subject to maximum amounts of \$800 and \$200 respectively. This had the effect of lowering the Composite CPI by 0.2 of a percentage point in 2002. Reflecting relatively greater effect on the lower income households, the corresponding dampening effects on the CPI(A), CPI(B) and CPI(C) were 0.3, 0.2 and 0.1 of a percentage point.
- (4) 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. The corresponding dampening effects on the CPI(A) and CPI(B) were 1.6 percentage points and 0.3 of a percentage point. The CPI(C) was unaffected, as public housing cost was irrelevant to this sub-index.
- (5) The special one-off rebate of electricity charges for January and February 2002 granted by a power company had the effect of lowering the seasonally adjusted Composite CPI by 0.3 of a percentage point in the first quarter of 2002. The corresponding dampening effects on the CPI(A), CPI(B) and CPI(C) were 0.5, 0.2 and 0.1 of a percentage point. Yet the effect on a year-on-year basis was insignificant, being neutralised by a similar rebate granted in February and March 2001.
- (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 CPIs, 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) As announced in the 2002/03 Budget, the duty rate on wine was raised from 60% to 80%, as from 6 March 2002.
- (8) Rebasings of the trade indices from 1990 to 2000 may have led to minor differences in some of the rates of change during the change-over period from the first quarter of 2001 to the first quarter of 2002.
- (9) The Producer Price Index is designed to reflect changes in the prices of goods and services received by local producers. Producer prices refer to the transacted prices, net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.
- (10) The terms of trade in goods is defined as the ratio of the prices of total exports of goods to the prices of imports of goods.

/(11)

- (11) 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 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 calculated directly by comparing the constant price measures over two periods.

The rate of change in the GDP deflator may differ substantially from that in the Composite CPI over the same time span. 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 plus imports and 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 imports and exports.

- (12) The figures as quoted are based on a revised series of the GDP deflator, in parallel with that for GDP consequential to a technical revision to GDP as announced in August 2002. The results for the GDP deflator are summarised below:

	<u>Level of the GDP deflator</u>		<u>Rate of change in the GDP deflator (%)</u>		
	<u>Previous</u> (1990=100)	<u>Revised</u> (2000=100)	<u>Previous</u>	<u>Revised</u>	<u>Extent of revision in % point</u>
1996	150.9	106.9	5.9	5.8	-0.1
1997	159.7	113.0	5.8	5.7	-0.1
1998	160.4	113.2	0.4	0.2	-0.2
1999	151.7	106.6	-5.4	-5.8	-0.4
2000	141.8	100.0	-6.5	-6.2	0.3
2001	141.1	98.6	-0.5	-1.4	-0.9

Note: Figures for 2001 are subject to revision when more data become available.

The extent of revision to the rate of change in the GDP deflator is generally not large for 1996 to 2000. The relatively larger revision for 2001 is due in part to downward adjustments in the rates of change in the price deflators for government consumption expenditure and for exports of services.

Calendar of Events of Significance to the Hong Kong Economy in 2002

- 1 Jan The United States (US) legislation granting Permanent Normal Trade Relations status to China came into force.
- The mainland of China (the Mainland) implemented its commitments on import tariffs, following its accession to the World Trade Organisation (WTO). The tariff rates were lowered from an average of 15.3% to 12.7%. Import tariff rates on 5 332 items out of 7 316 items were reduced to various extent.
- Taiwan formally became a member of WTO as a “Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu”.
- The Ministry of Foreign Trade and Economic Cooperation announced that the quota and sole agent systems on chilled chicken and meat as well as on frozen chicken and meat were abolished.
- As part of the Insurance Intermediaries Quality Assurance Scheme, the Office of the Commissioner of Insurance (OCI) implemented the Continuing Professional Development requirement for insurance intermediaries to help them maintain and enhance their professional standards.
- The quota system under the Hong Kong Group Tour Scheme for visitors from the Mainland was abolished.
- 7 Jan The Planning Department launched the Stage Two public consultation on the “Hong Kong 2030: Planning Vision and Strategy” Study, focusing on nine key planning issues and evaluation criteria. It was followed by a public forum held on 26 January 2002 and five focus group meetings held between February and March 2002 for more in-depth discussion with various stakeholders and concerned groups.
- 8 Jan An agreement on mutual abolition of visa requirements was signed between the Governments of the HKSAR and Hungary.
- 11 Jan The Government agreed to provide direct insurers with a facility of up to \$10 billion in aggregate to cover claims arising out of terrorism under their employees compensation (EC) insurance policies. This facility would ensure that employers and employees could continue to have EC insurance cover, despite unavailability of the necessary reinsurance support in the market.
- The Office of the Telecommunications Authority (OFTA) announced details on implementation of the Government's policy to fully liberalise the fixed line telecommunications network services (FTNS) market as from 1 January 2003, with no pre-set limit on the number of licences to be issued and no time limit for licence applications.
- 15 Jan The Hong Kong Monetary Authority (HKMA) and the China Government Securities Depository Trust & Clearing Co. Ltd. (CDC) agreed in principle to establish a link between their securities settlement systems in a bid to

promote development of the debt market infrastructure in the Mainland and Hong Kong. The link between HKMA's Central Moneymarkets Unit (CMU) and CDC's Government Securities Book-Entry System would enable Mainland financial institutions authorized to deal in foreign exchange transactions to hold and settle debt securities in Hong Kong.

16 Jan The Trade and Industry Department (TID) launched the Small and Medium Enterprises (SME) Training Fund to encourage and help SMEs provide training to their employers and employees. Three other SME funding schemes, namely the SME Business Installation and Equipment Loan Guarantee Scheme, the SME Export Marketing Fund, and the SME Development Fund, were launched in December 2001.

17 Jan The US Customs launched the Container Security Initiative to prevent ocean-going containers from being exploited by terrorists.

HKMA announced the operating results of the Exchange Fund for the year 2001. The Exchange Fund recorded a positive investment income of \$7.0 billion in 2001. Yet owing to net drawdown of fiscal reserves, total assets of the Exchange Fund decreased by \$42.8 billion, from \$1,023.4 billion at end-December 2000 to \$980.6 billion at end-December 2001. After deducting costs and the sharing of investment income with the fiscal reserves placed with the Exchange Fund, the Accumulated Surplus registered a decline of \$4.4 billion.

23 Jan Monaco granted visa-free treatment to holders of HKSAR passport with immediate effect.

25 Jan Consultations with the Mainland on the Mainland/Hong Kong Closer Economic Partnership Arrangement (CEPA) formally commenced. The proposed CEPA would cover trade in goods, trade in services, as well as trade and investment facilitation measures.

Qatar granted entry visa to holders of HKSAR passport upon arrival with immediate effect.

28 Jan The Securities and Futures Commission (SFC) introduced requirements for authorization of index funds under the Code on Unit Trusts and Mutual Funds.

The derivative warrant market on the Stock Exchange of Hong Kong was re-launched following a revision of the Listing Rules.

30 Jan - 1 Feb Hong Kong hosted the Plenary Meeting of the Financial Action Task Force on Money Laundering (FATF).

The Commissioner for Narcotics, as President of FATF, presided at a global forum on terrorist financing held at the conclusion of the Plenary Meeting on 1 February 2002. About 60 jurisdictions from FATF and FATF-style regional bodies, the Offshore Group of Banking Supervisors, and nine international organisations participated in the forum.

- 31 Jan The First Meeting of the Mainland/HKSAR Conference on the Coordination of Major Infrastructure Projects was held in Beijing. The Conference agreed that Hong Kong and cities in the Pearl River Delta Region should fully utilise the existing infrastructure for future economic development. In building new infrastructure, communication between both sides should be enhanced at the planning stage so as to forestall any duplication of efforts. Besides, both sides should step up communication regarding the development of railways, roads, ports and airports so as to explore possibilities for cooperation. It was also agreed to set up two expert groups, namely the “Joint Expert Group on Guangzhou-Shenzhen-Hong Kong Express Rail Link” and “Expert Group on Port and Logistics Planning and Development” under the Conference.
- 1 Feb The People’s Bank of China (PBOC) revised the “Regulations on Management of Foreign Financial Institutions”. Foreign banks could gain direct access to the Mainland market by setting up branches, establishing wholly-owned banks, or establishing banks jointly with Mainland financial institutions/companies.
- Foreign banks in the Mainland were allowed to expand their clientele for foreign exchange business from foreign-funded enterprises to all Mainland individuals and enterprises.
- SFC introduced further revisions to the Codes on Takeovers and Mergers and Share Repurchases so as to rationalise the voting requirements for company privatisation proposals and for delistings, and to strengthen the requirements for asset valuation.
- 3 Feb The Hong Kong International Airport (HKIA) was named “Cargo Airport of the Year” by the London-based Air Cargo News, a leading international air cargo trade publication.
- 5 Feb SFC published Guidelines for the Regulation of Automated Trading Services.
- An International Monetary Fund (IMF) Staff Mission to Hong Kong supported the Government’s policy framework to deal with the challenges ahead, and expected a moderate recovery for the Hong Kong economy in the near term, depending on an upturn in external demand. It noted that the longer-term outlook would depend on Hong Kong’s success in capitalising on the opportunities arising from growing integration with the Mainland. The assessment was made by the IMF Mission in its Concluding Statement for the annual Article IV Consultation with China in respect of Hong Kong.
- 7 Feb The US Congressional Task Force on Hong Kong issued its report on Hong Kong, commenting favourably on the developments in Hong Kong during the period between August 2000 and December 2001, and concluded that “the unprecedented ‘One Country, Two Systems’ experiment thus far continues to be a success”.
- 8 Feb Oman granted entry visa to holders of HKSAR passport upon arrival with immediate effect.

- 15 Feb The Mandatory Provident Fund (MPF) Schemes (Amendment) Ordinance 2002 was enacted to render better protection of scheme members' interests and more effective operation of the MPF System.
- 21 Feb PBOC cut the interest rates for renminbi deposits and loans, on average by 0.25 and 0.5 of a percentage point respectively.
- The State Council promulgated the "Provisions on Guidance for Foreign Investment", which guided foreign investors to adapt to the Mainland's national economic and social development programmes. Foreign investment projects were divided into four categories, namely encouraged, permitted, restricted and prohibited projects. This was implemented on 1 April 2002.
- 22 Feb An Air Services Agreement (ASA) was signed between the Governments of the HKSAR and Czech Republic.
- 25 Feb - 1 Mar The Intellectual Property Department hosted the Asia-Pacific Economic Cooperation (APEC) Intellectual Property Experts Capacity Building Programme for implementation of WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) in Hong Kong.
- 26 Feb The Government awarded a contract for system development for the introduction of a smart identity card in Hong Kong. The card, expected to be rolled out in mid-2003, would provide (apart from normal immigration functions) further multiple uses as a storage of an e-Cert, as a library card, and as medium for driving licence related functions. It would also have reserved capacity for an electronic purse in future.
- 28 Feb The Housing Authority (HA) revised the mechanism for determining eligibility for public housing, both for rent and for sale, by rationalising calculation of the income and asset limits. New features of the revised formula included the introduction of differential unit rents for small families to reflect more closely their pattern of housing costs, and the provision of contingency money to provide for emergency or other long-term plans. Subsequently the income and asset limits on the Waiting List for public rental housing (PRH) were reduced by an average of 5% and 10% respectively, and those for the Home Ownership Scheme (HOS) were lowered by 16% and 20% respectively.
- A \$100 million Professional Services Development Assistance Scheme was launched to provide financial support for projects aimed at increasing the competitiveness of Hong Kong's professional services in overseas markets, as well as for projects seeking to enhance the standard of professional services in Hong Kong.
- Mr Tung Chee-hwa was elected as Chief Executive of the HKSAR for the second term. The term of office of the Chief Executive, for five years, commenced on 1 July 2002.
- 2 Mar The Vice Chairman of the State Development Planning Commission led a Mainland delegation to Hong Kong to visit the territory's major infrastructure facilities. The Second Meeting of the Mainland/HKSAR Conference on the

Coordination of Major Infrastructure Projects was held alongside the visit.

4 Mar The Government announced the Land Sale and Development Programme for 2002/03 to 2006/07. In 2002/03, about seven hectares of private residential and non-residential land were scheduled to be put up for sale in regular land auctions and tenders, and another 33 hectares would be available for sale through application.

5 Mar At the opening of the Fifth Session of the Ninth National People's Congress, Premier Zhu Rongji set out several major economic tasks for 2002. Domestic demand would be expanded to support growth. Development of agriculture and the rural economy would be speeded up to raise farmers' income. Economic reform and institutional restructuring would be accelerated. The economy would be opened up further to foreign participation following China's accession to WTO.

6 Mar The Financial Secretary presented the Budget for the financial year 2002/03 to the Legislative Council.

The Budget proposed a number of relief measures including reducing rates payment by up to \$5,000 per tenement; waiving water and sewage charges for one year, subject to maximum amounts set at \$800 and \$200 respectively for domestic households, and \$3,200 and \$800 respectively for non-domestic consumers; reducing trade effluent surcharge by 30% for one year; waiving business registration fee for one year; extending duty concession for ultra low sulphur diesel for one year; and freezing Government fees and charges for one year.

In order to improve the fiscal position, some modest non-livelihood revenue-raising measures were proposed. These included raising duty rate on wine from 60% to 80%, and reducing duty-free tobacco allowance for local residents by 40% to 60 cigarettes or 15 cigars or 75 grammes of tobacco as well as duty-free still wine allowance by 25% to 750 millilitres.

The 2001 Economic Background and 2002 Economic Prospects were published. On economic outlook for the current year, the Gross Domestic Product (GDP) was forecast to grow by 1% in real terms in 2002, while the Composite Consumer Price Index (CPI) was forecast to decline by 2.8%.

7 -10 Mar The Information Infrastructure Expo and Conference 2002 was held. Since its inception in 1998, this event had become a major international information technology event held in Hong Kong. A total of 350 exhibitors and 85 800 visitors participated this year.

11 Mar The State Development Planning Commission, the State Economic and Trade Commission and the Ministry of Foreign Trade and Economic Cooperation jointly promulgated a new "Industrial Catalogue for Foreign Investment" under the "Provisions on Guidance for Foreign Investment", to take effect on 1 April 2002. A total of 262 types of foreign investment projects were listed under the encouraged category, and another 75 and 34 types of projects fell under the restricted and prohibited categories respectively.

- 12 Mar The Government announced proposals for improving certain provisions of the Copyright Ordinance, including making permanent the arrangement in the Copyright (Suspension of Amendments) Ordinance 2001 where end-user criminal liability for possessing infringing copies of copyright works in business was to apply only to computer program, movie, television drama and musical recording.
- The then Information Technology and Broadcasting Bureau and the Federal Ministry of Economics and Technology of the Federal Republic of Germany signed a Memorandum of Understanding (MOU) on co-operation in information and communications technology.
- 13 Mar The Securities and Futures Ordinance (SFO) was enacted, representing a major milestone in the modernisation of Hong Kong's securities legislation. SFO and its subsidiary legislation introduced a number of significant changes for regulation of the securities and future markets. These included (a) a streamlined single licensing regime; (b) proportionate disciplinary sanctions to combat market misconduct; (c) measures to protect the interests of investors, such as personal rights of action through the civil courts for loss caused by market misconduct or false or misleading public statements concerning securities; (d) a comprehensive investor compensation scheme; and (e) a tighter regime for disclosure of interests in listed companies. As such, SFO ensured Hong Kong's market regulation to be on par with international best practices, affording appropriate protection to investors on the one hand and leaving enough room for market development on the other.
- 14 Mar The then Information Technology and Broadcasting Bureau and the Ministry of Economy, Finance and Industry of the Government of France signed a MOU on co-operation in information and communications technology.
- The Land Registry awarded the key contract to develop an Integrated Registration Information System (IRIS), which would facilitate implementation of a Centralised Registration System and provide much greater efficiency of operations and capacity for future development in land registration services.
- 15 Mar The Fifth Meeting of the Hong Kong/Guangdong Cooperation Joint Conference was held in Zhuhai. The meeting reached consensus on a number of issues including co-location of immigration and customs facilities at Lok Ma Chau/Huanggang and Shenzhen Western Corridor, co-operation in tourism development, and provision of passenger ferry services connecting the major ports in the Pearl River Delta region with HKIA.
- 18 Mar The Court imposed for the first time immediate custodial sentences on persons manipulating stocks on the Stock Exchange of Hong Kong.
- The iPermit Scheme was launched to facilitate Taiwanese visitors entering Hong Kong.
- HKMA reached agreement with the Guangzhou Branch of PBOC on a new Joint Clearing Facility to speed up the processing of Hong Kong dollar cheques issued by the banks in Guangdong and presented in Hong Kong.

- 19 - 20 Mar The Intellectual Property Department hosted the 14th APEC Intellectual Property Rights Experts Group Meeting in Hong Kong.
- 19 - 22 Mar The Department of Health and the Intellectual Property Department co-organised an APEC Symposium on Traditional Medicine. The symposium was aimed at bringing about a deeper understanding of traditional medicine and the intellectual property issues involved.
- 20 Mar The Hongkong Post Certification Authority signed a Cross Certification Cooperation Arrangement with the Guangdong Electronic Certification Authority Ltd., with a view to establishing a cross-certification system to facilitate e-commerce activities between Hong Kong and Guangdong.
- 21 Mar SFC revised the authorization requirements of guaranteed funds so as to strengthen the qualification requirements for guarantors, enhance the disclosure requirements of offering documents and advertisements, and hence increase investor protection.
- The Stock Exchange of Hong Kong reduced substantially the fees for listing derivative warrants launched on or after 2 April 2002.
- 27 Mar HKMA released a second consultation paper on the proposed introduction of deposit insurance. The paper set out HKMA's detailed proposals on how the deposit insurance scheme in Hong Kong should be structured. Recommended features included establishment of an independent Deposit Insurance Board to operate the scheme, compulsory participation for full licensed banks, and stipulation of the coverage limit at \$100,000 per depositor per bank.
- 29 Mar The Taiwanese government announced relaxation of restrictions on investment by Taiwanese enterprises in fabrication plants for production of 8-inch wafers in the Mainland.
- 31 Mar The Home Starter Loan Scheme (HSLs) operated by the Housing Society lapsed.
- 1 Apr The agreements on avoidance of double taxation on shipping income with the United Kingdom and the Netherlands took effect.
- 2 Apr The Office of the US Trade Representative released the 2002 National Trade Estimate Report on Foreign Trade Barriers. The report gave recognition to Hong Kong's strong legal system and rigorously enforced anti-corruption regime, and commented that Hong Kong was well-positioned to benefit from the growth in trade resulting from China's WTO accession.
- 3 Apr The essential supporting infrastructure for the first phase of the Cyberport was completed. The Cyberport Road and the Cyberport Public Transport Interchange were officially opened.
- 8 Apr Andorra granted visa-free treatment to holders of HKSAR passport with immediate effect.
- 9 Apr The then Information Technology and Broadcasting Bureau and the Ministry of Transport, Public Works and Water Management of the Government of the

Netherlands signed a MOU on co-operation in information technology, information services and telecommunications.

10 Apr The US State Department published its fifth report on Hong Kong after Hong Kong's reunification with the Mainland. The report gave an overall positive assessment of the developments in Hong Kong in the eight months ending March 2002. It concluded in categorical terms that Hong Kong's promised high degree of autonomy remained a reality, and that Hong Kong remained one of the Asia's freest cities. The report also gave recognition to Hong Kong's strong support for global anti-terrorism efforts.

Construction of the Ngong Shuen Chau Viaduct, the first works contract of Route 9, commenced. The whole Route 9, at a total project cost of \$17 billion and targetted for completion in 2008, would provide a 13.5 km trunk road connecting Tsing Yi and Sha Tin.

11 Apr SFC issued the Disciplinary Fining Guidelines, which would be applied with SFO coming into effect in 2003. The Guidelines set out the factors which SFC should consider when imposing fines on intermediaries.

29 Apr The State Council published a white paper on China's labour market and social security situation. The paper put accentuated importance on the role of economic growth in generating employment. The coverage of social security would be expanded to include all workers, as well as the retrenched and the retired.

Under the Electronic Transactions Ordinance (Cap. 553), the Director of Information Technology Services granted recognition to two more certification authorities, bringing the number of recognised certification authorities operating in Hong Kong to four.

The Government of the HKSAR and the Guangdong Provincial Government reached consensus to improve air quality in the Pearl River Delta region by reducing, on a best endeavour basis, the emission of four major pollutants into the ambient air by such levels as would achieve the current air quality objectives of the two places by 2010.

30 Apr In its World Competitiveness Yearbook 2002, the International Institute for Management Development (IMD) based in Switzerland ranked Hong Kong as the ninth most competitive economy in the world, falling from the sixth in the previous round of assessment. The fall in Hong Kong's ranking was largely attributable to the sharp slow-down to near zero GDP growth in 2001, which led directly to the slip in "economic performance", and indirectly also to the decline in "business efficiency". Yet IMD recognised that Hong Kong's low corporate tax rate, flexible labour regulations and entrepreneurship would continue to underpin its competitiveness.

The Office of the US Trade Representative released the 2002 Special 301 Report. Hong Kong continued to remain off from any watch lists regarding intellectual property rights protection. The report also highlighted the progress made by Hong Kong in controlling optical media production and use of authorized software.

- 2 May Cyprus granted visa-free treatment to holders of HKSAR passport with immediate effect.
- 6 May SFC proposed a dual filing framework to enhance the effectiveness of the disclosure-based regulatory regime. Listed companies and listing applicants would be required to file corporate disclosure materials and listing documents simultaneously with the Stock Exchange of Hong Kong and SFC, hence establishing SFC as the statutory regulator of corporate disclosure. The framework would become operational with SFO coming into effect in 2003.
- Dow Jones Industrial Average Futures began trading on the Futures Exchange. This enabled investors to respond quickly to market events before or after the regular US trading hours.
- 7 May The Government announced its 2001-based population projection for the period 2002 - 2031. Hong Kong resident population was projected to increase from 6.72 million at mid-2001 to 8.72 million at mid-2031, or at an average annual rate of 0.9%. Indicating a continuous aging trend, the proportion of persons aged under 15 was projected to decline from 16% in 2001 to 12% in 2031, while the proportion of persons aged 65 and over was projected to rise markedly from 11% to 24%.
- The granting of land for urban renewal projects to the Urban Renewal Authority at the nominal premium for supporting the urban renewal programme was approved.
- 8 May HKIA was named for the second year as “Airport of the Year”, in a large-scale passenger survey conducted by Skytrax Research in the United Kingdom involving 1.4 million nominations around the world.
- 10 May HKMA’s proposals to improve certain market entry criteria for the banking sector was endorsed. These included: reducing the asset size criterion for overseas-incorporated bank applicants, reducing the period of operation as a restricted licence bank or deposit-taking company from ten to three years to upgrade to licensed bank status, and increasing the minimum capital requirement for locally incorporated bank applicants.
- 15 May The IMF Staff Report on the HKSAR gave a positive assessment of Hong Kong’s economic prospects and commended its policies to deal with the twin challenges of a sharp cyclical downturn and structural adjustments from growing economic integration with the Mainland.
- The Government introduced the Telecommunications (Amendment) Bill 2002 to the Legislative Council. It sought to establish a clear regulatory framework for mergers and acquisitions in the telecommunications market, to help promote fair and effective competition in the market, and to protect consumer interest.
- 16 May Marking a milestone in the restructuring of China’s telecommunications industry, the new China Telecom and China Netcom were established. The two companies were to provide fixed line, long distance and international telephone services as well as Internet services. The former was to operate in 21 provinces/municipalities in the northwest and southern part of China,

while the latter was to cover the remaining 10 provinces/municipalities in the north.

The Hong Kong Exchanges and Clearing Ltd. (HKEx) began to introduce CCASS/3, the new generation of the Central Clearing and Settlement System, in phases. CCASS/3 could support more regional and global products with different features and settlement periods, thereby improving the operational efficiency of the Hong Kong market and the market participants.

Hong Kong participated in the Organisation for Economic Cooperation and Development (OECD) Ministerial Council Meeting, Session with Non-Members, to discuss issues relevant to promoting global trade.

22 May The first Asia Pacific Regional Conference on Environmental Issues in Telecommunications was held in Hong Kong. The Conference was organised by the Global e-Sustainability Initiative (GeSI), and co-hosted by the Internet and Telecom Association of Hong Kong and OFTA. It explored how a pro-active stance on environmental protection could benefit the information and communications technology industry.

23 May The then Information Technology and Broadcasting Bureau and the Ministry of Communications of the Government of the Italian Republic signed a MOU on co-operation in telecommunications and information technologies.

Cook Islands granted visa free treatment to holders of HKSAR passport with immediate effect.

28 May HKMA and Clearstream Banking Luxembourg reached agreement to develop a direct link between HKMA's CMU and the settlement system of Clearstream Banking Luxembourg. Scheduled to go live in January 2003, the new link would significantly improve settlement efficiency, enabling Asian investors to trade international securities in a secure and robustly designed environment.

31 May The Government published the First Quarter Economic Report 2002. The report pointed out that overall economic activity remained modest in the first quarter of 2002, after the severe downturn in 2001. GDP fell by 0.9% in real terms in the first quarter of 2002 over a year earlier. Externally, total exports of goods were still weak at the beginning of the year, yet picked up progressively in the ensuing months as the global and regional economic conditions improved. Exports of services accelerated on the back of a swift recovery in inbound tourism, a sustained rise in offshore trade, and a marked rebound in exports of transportation services. Locally, consumer spending moderated further along with rising unemployment and wage restraint. While machinery and equipment intake was held back by an uncertain business outlook and weakened corporate profits, building and construction activity also remained slack in overall terms.

In the May update of the economic forecasts for 2002, the forecast growth rate in real terms of GDP was maintained at 1%, same as that in the Budget round. The forecast rate of change in the Composite CPI was also kept at -2.8%.

- An ASA was signed between the Governments of the HKSAR and the Hellenic Republic.
- 1 Jun Malta granted visa-free treatment to holders of HKSAR passport with immediate effect.
- Applications to the \$5 billion Continuing Education Fund commenced. The Fund was to help pursuit of continuing education so as to prepare Hong Kong's workforce for the knowledge-based economy. Eligible applicants should seek to enrol in approved courses in a number of specific sectors and, upon successful completion of the course, would be reimbursed 80% of the course fee or up to \$10,000.
- 5 Jun The Government announced that the sale of subsidised sale flats would resume after a ten-month moratorium, yet in a cautious and orderly manner.
- 6 Jun HKMA announced that the new two-way Joint Clearing Facility established with the Guangzhou Branch of PBOC would commence operation on 22 June 2002. Under the new clearing arrangement, the time required for clearing Hong Kong dollar cheques drawn on banks in Guangdong, including Shenzhen, and presented in Hong Kong was reduced to two working days.
- 7 Jun An ASA was signed between the Governments of the HKSAR and the Republic of Croatia.
- 10 Jun Rwanda granted visa-free treatment to holders of HKSAR passport with immediate effect.
- 11 Jun The Lok Ma Chau Spur Line was authorized, for construction to commence at end-2002. The project cost would be around \$10 billion.
- OFTA announced the implementation plan for the Billing and Metering Integrity Scheme. Operators were given a six-month transition period to make their systems ready to comply with the respective standards and procedures as from 1 January 2003.
- OFTA issued a statement setting out the views of the Telecommunications Authority on interconnection charging arrangements for International Call Forwarding Services.
- 12 Jun A 3-month reward scheme administered by the Hong Kong Customs and financed by the Business Software Alliance to combat the use of pirated computer software in business was launched.
- 14 Jun The Hong Kong Mortgage Corporation (HKMC) announced the introduction of the Home Owner Mortgage Enhancement Programme. This was a new mortgage insurance programme to reduce the financial burden of home-owners in negative equity and to provide an effective tool for banks to reduce the credit risk of mortgage loans with a current loan-to-value ratio above 100%. It provided insurance to cover a bank's credit exposure above 90% and up to 140% of the current value of the residential property at the time of refinancing.

- 15 Jun TID and the Office of the US Trade Representative reached agreement on implementation of the paperless Electronic Visa Information System, under which no paper visas would be required for customs clearance in the United States in respect of imports of textiles items subject to quota control.
- 19 - 20 Jun Hong Kong hosted the OECD Global Forum on Trade: Workshop on the Development Dimension of the Singapore Issues. More than 80 participants from some 20 economies attended the workshop.
- 19 - 21 Jun The Commissioner for Narcotics presided at the Plenary Meeting of the Financial Action Task Force on Money Laundering (FATF) held in Paris. This was the last Plenary Meeting of FATF under Hong Kong's presidency. During its tenure as President of FATF from July 2001 to June 2002, Hong Kong had assumed a leadership role in the formulation and promotion of policies and measures for combating money laundering and terrorist financing.
- 21 Jun International investment position (IIP) statistics, as a balance sheet showing the external financial assets and liabilities of an economy at a particular time point, were released for Hong Kong for the first time. Following release of detailed balance of payments (BoP) statistics in June 2000, the release of annual IIP statistics was a major statistical milestone for Hong Kong, in line with enhancing the transparency of Hong Kong's financial markets.
- The Finance Committee of the Legislative Council approved an injection of \$10 billion as equity into the Urban Renewal Authority in phases over the five financial years from 2002/03 to 2006/07 to facilitate implementation of the urban renewal programme.
- 24 Jun Detailed external debt (ED) statistics was released for Hong Kong for the first time. The release of quarterly ED statistics, in addition to quarterly BoP statistics and annual IIP statistics, would help enhance further the transparency of Hong Kong's financial markets and help support financial surveillance. Hong Kong's external debt position was healthy, with a major proportion of it arising from normal operations of the banking sector and with the Government incurring no external debt (indeed no debt at all).
- The State Council announced its decision to abolish the "Provisional Measures for Unloading State-owned Shares to Raise Funds for the Social Security System", which required those state-owned enterprises planning to raise capital in the Mainland stock markets to sell state-owned shares equivalent to 10% of the equity capital to be raised for supporting the social security system.
- The Government signed a supplemental agreement with the Motor Insurers' Bureau of Hong Kong to set up a facility to cover third party bodily injury or death claims arising from an act of terrorism under a motor insurance policy.
- 25 Jun The Cato Institute of the United States, in conjunction with the Fraser Institute of Canada and other research institutes around the world, released the Economic Freedom of the World: 2002 Annual Report. Hong Kong was again ranked the freest economy in the world. Hong Kong continued to fare well in regard to "size of government", "freedom to exchange with

foreigners” and “regulation of credit, labour and business”.

The Government awarded the Shatin to Central Link to the Kowloon-Canton Railway Corporation (KCRC). The project cost would be around \$26 billion at 2000 prices.

The Government announced its intention to conduct a feasibility study on the pros and cons of merging KCRC and the Mass Transit Railway Corporation Ltd. (MTRCL).

25 - 26 Jun The Asia Leadership Forum was held in Hong Kong. This was BusinessWeek’s flagship event in Asia. Entitled “Transcending Hierarchy: Leadership in an Empowered World”, the event was attended by some 300 senior corporate leaders and policy makers from 15 countries.

27 Jun The Chief Executive officially opened the Hong Kong Science Park. It was aimed at creating a focal point and a conducive environment for the clustering of technology-based firms for applied research and development activities. The initial clusters being developed were information technology and telecommunications, electronics, biotechnology and precision engineering.

27 - 28 Jun The SME Market Day organised by the Hong Kong Trade Development Council (TDC) attracted participation by trade promotion organisations from over 24 countries and regions. The event had fast become the region’s premier one-stop shop for information on partnership opportunities for local SMEs and their overseas and Mainland counterparts.

28 Jun SFC introduced an additional alternative client identification procedure to facilitate the opening of trading accounts over the Internet.

The Financial Market Development Task Force submitted its first phase recommendations to the Financial Secretary. “Quick win” proposals recommended by the Task Force included streamlining procedures and lowering costs for the public offering of debt and equity, and relaxing short selling rules.

The Financial Secretary announced plans for the issue of a new \$10 note. It was to be issued by the Government of the HKSAR, and would be gradually put into circulation in late summer and early autumn 2002. It would circulate in addition to the \$10 coin and the existing green \$10 note, both to remain as legal tender.

The then Financial Services Bureau issued a consultation paper on the outcome of a consultancy to review the role of the Official Receiver’s Office.

29 Jun The Standing Committee of the National People’s Congress passed the Law on Promotion of Small and Medium-sized Enterprises (SMEs), which would strengthen the support being provided to SMEs in the Mainland. SMEs were encouraged to introduce foreign capital, technology and management skills to their businesses, and to establish Chinese-foreign equity joint ventures and Chinese-foreign contractual joint ventures.

HA invited applications for funding support from the \$20 million Housing Authority Research Fund (HARF), which was newly launched to promote research activities that could improve the quality of public housing development and construction.

1 Jul The Chief Executive Mr Tung Chee-hwa was sworn in by the President of the People's Republic of China.

The Chief Executive (CE) launched the Accountability System for the Government of the HKSAR. Under this new system, three Secretaries of Department and eleven Directors of Bureaux are nominated by the CE from both inside and outside the civil service for appointment by the Central People's Government as Principal Officials (POs) under the Basic Law. These POs are employed on terms and conditions different from those of the Civil Service and they are not civil servants. All POs are accountable to the CE for the success or failure of matters under their policy portfolios. All Directors of Bureaux continue to be supported by civil servants in the formulation and implementation of policies. The Civil Service remains permanent, meritocratic and politically neutral under the new system, and the system for civil service appointment, posting, promotion and disciplinary action remains unchanged.

3 Jul HKMA announced that Standard Chartered Bank was appointed as the Settlement Institution for the euro clearing system in Hong Kong. The system was to facilitate the efficient settlement of euro transactions on a real-time basis within the Hong Kong time zone.

10 Jul HKEx consulted the market on the proposed model of Third Party Clearing, which would give Exchange Participants the option to out-source clearing and settlement of their stock exchange trades to a designated General Clearing Participant, thereby enabling them to conduct their business more flexibly.

11 Jul The Industrial and Commercial Bank of China announced commencement of its direct remittance service with banks in Taiwan, following lifting of the ban by the Taiwanese government on direct remittance between Mainland banks and Taiwanese banks.

14 Jul Aruba granted visa-free treatment to holders of HKSAR passport with immediate effect.

18 Jul HKEx and Standard & Poor's announced an agreement providing for the creation of a new series of equity indices covering stocks listed in Hong Kong.

19 Jul The Prevention of Copyright Piracy Ordinance (Amendment of Schedule 1) Order 2002 commenced operation. It established a statutory licensing requirement for manufacturing stampers used for the mass production of optical discs.

The Mandatory Provident Fund Schemes (Amendment) (No. 2) Ordinance was enacted so as to improve the effectiveness and efficiency of the MPF System. This included setting up a mechanism for adjusting the minimum

and maximum levels of relevant income for MPF contributions, adjusting the minimum level of relevant income from \$4,000 to \$5,000 for taking effect on 1 February 2003, simplifying MPF scheme administration, and enhancing protection of scheme members' interests.

21 Jul Hong Kong Customs implemented the Electronic Data Interchange - Dutiable Commodities Permit, enabling the submission of permit applications via a recognised electronic service.

24 Jul The Government and MTRCL entered into a Project Agreement on the Penny's Bay Rail Link, as the a principal gateway to Hong Kong Disneyland. The project, estimated to cost \$2 billion, would be completed in 2005 to tie in with the opening of the theme park.

Greenland and Faroe Islands granted visa free access to holders of HKSAR passport with immediate effect.

The Labour Department launched the Youth Work Experience and Training Scheme to provide on-the-job training of 6 – 12 months duration to young people aged 15 – 24 with educational attainment below degree level. The scheme would provide training for 10 000 young people in two years with a view to enhancing their employability.

25 Jul HKEx issued a consultation paper on the proposed amendments to the Listing Rules relating to initial listing and continuing listing criteria and cancellation of listing procedures. Prices of many low-priced stocks fell significantly on the following day. Responding to public reaction, the Financial Secretary on 31 July 2002 appointed an independent Panel of Inquiry to look into the circumstances relating to the preparation and release of the consultation paper. HKEx on 15 November 2002 released a revised consultation paper on continuing listing criteria and related issues.

29 Jul HKMA announced that its CMU would introduce a new clearing, settlement and custodian service for US Treasuries. The new service would commence in the fourth quarter of 2002, enabling investors in Hong Kong and elsewhere in Asia to settle US Treasuries during Hong Kong hours through CMU. Also, HKMA appointed Citibank as its custodian for custody of US Treasuries on behalf of CMU.

31 Jul The Government signed a Provisional Agreement with MTRCL for the Tung Chung Cable Car Project. This enabled MTRCL to take forward the detailed design and the necessary statutory procedures before the formal award of the franchise. The Project was scheduled for completion in the second half of 2005.

1 Aug The Census and Statistics Department released a revised GDP series as a result of a major revision exercise. It was mainly for benchmarking and rebasing so as to bring the compilation framework up-to-date, as well as for gearing in with the latest statistical standards in this area.

The Government started construction work on Phase II of the Hong Kong Wetland Park as a major eco-tourism facility. The Park was scheduled for completion in the second half of 2005.

- 2 Aug The Taiwanese government lifted the ban on direct investment by Taiwanese enterprises in the Mainland.
- Hong Kong Customs signed a Cooperative Arrangement with the National Copyright Administration of the Mainland for strengthening enforcement cooperation.
- 4 Aug HA set up a Business Opportunity Centre to provide one-stop services to prospective business operators seeking to rent HA premises. It would provide the latest information on lettable shops and rent levels, as well as briefings on letting procedures and leasing arrangements.
- 5 Aug OCI issued a “Guidance Note on the Corporate Governance of Authorized Insurers”.
- The first six Equity Linked Instruments were listed, after the Stock Exchange of Hong Kong introduced new Listing Rules to allow for a wider range of derivative products.
- 7 Aug The European Commission published its fourth report on the HKSAR. The report concluded that Hong Kong maintained its unique and separate identity within China under the “One Country, Two Systems” principle. It also highlighted the good trade relations between the European Union and Hong Kong.
- 16 Aug The Government announced full liberalisation of the rice trade as from 1 January 2003, whereby import quota for rice would be removed. Interested parties were invited to apply for registration as rice stockholders for 2003.
- 18 Aug The MTR Tseung Kwan O Line commenced service, extending the MTR service to the Tseung Kwan O and Yau Tong areas.
- 27 Aug TDC and the Guangdong Sub-Council of the China Council for the Promotion of International Trade co-organised a Guangdong-Hong Kong-Taiwan Economic Cooperation Forum in Hong Kong. The Chief Executive of the HKSAR, the Governor of Guangdong Province, and the Chairman of the Chamber of Taiwan Businessmen in China spoke at the forum.
- 30 Aug The Government published the Half-yearly Economic Report 2002. The report pointed out that the Hong Kong economy resumed positive growth at 0.5% in real terms in the second quarter of 2002 over a year earlier, after receding in the past three quarters. This was mainly propelled by a visible pick-up on the external front. On the back of firmer regional demand and also improved external price competitiveness from a weaker US dollar, total exports of goods reverted to increase. Exports of services were bolstered by significant leaps in inbound tourism and offshore trade. But locally, consumer spending was restrained by the unemployment hike and moderating wages. Machinery and equipment intake was held back by subdued business climate and an overhang of excess capacity, which more than offset a mild increase in building and construction output upon intensification of work on some major projects.

In the August update of the economic forecasts for 2002, the forecast of GDP growth was revised up to 1.5% in real terms, from 1% in the May update. The forecast rate of change in the Composite CPI, at -2.8%, was the same as the May update.

- 31 Aug HA revised the income and asset limits for HOS applicants for the second half of 2002/03, following a mid-year review to reflect the downward adjustments in the general price level and the average mortgage rate in the preceding 12 months.
- 9 Sep HA's Commercial Properties Committee endorsed the refund of part of the rent deposit to commercial tenants. Rent deposit for all commercial tenants was henceforth standardised at two months' rent.
- 10 Sep The Financial Secretary released the report of the Panel of Inquiry appointed on 31 July 2002 to look into the circumstances relating to the preparation and release of the consultation paper on amendments to the Listing Rules by HKEx. The report made various recommendations on the consultation process.
- 12 Sep US President George W. Bush, in his speech before the United Nations, implicitly warned military action against Iraq, unilateral from the United States if necessary, if the United Nations did not enforce the existing resolutions on Iraq to eliminate its weapons of mass destruction.
- 13 Sep With a grant and related support from the Government, and a donation from the Hong Kong Jockey Club Charities Trust, the Hong Kong Design Centre commenced operation. As a multi-disciplinary design centre, it would promote design as a value-added activity, raise design standards, foster design-related education, and lift the profile of Hong Kong as an innovative and creative hub.
- 18 Sep Hong Kong was named the best-performing host economy for foreign direct investment in Asia, according to the World Investment Report 2002 released by the United Nations Conference on Trade and Development. Hong Kong held the second place in the global ranking, after Belgium/Luxembourg.
- 20 Sep The Government received the Phase One Final Report of the Task Force on Review of Civil Service Pay Policy System. It made recommendations on the priority areas for more detailed study in the short, medium and long term. It was then released on the same day for public consultation until 15 November 2002.
- 20 Sep The Chief Secretary for Administration led a delegation to Shanghai to attend the Third Meeting of the Mainland/HKSAR Conference on the Coordination of Major Infrastructure Projects. At the meeting, the Joint Expert Group on Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Expert Group on Port and Logistics Planning and Development reported the work progress and discussed the plans ahead. Consensus reached by both sides included affirming in principle the necessity for development of a Guangzhou-Shenzhen-Hong Kong express rail link, and agreeing to launch a phase two study on the two more viable alignment options; commissioning research

- bodies to jointly explore the room for cooperation in logistics development and identify specific project items for collaboration; and conducting a joint study on an express transport link connecting Hong Kong and the west bank of the Pearl River Delta.
- 23 Sep Hong Kong Customs and US Customs signed a Declaration of Principles on Hong Kong's participation in the Container Security Initiative. It signified commitment by the two sides to enhancing the security of ocean-going containers through intensifying information exchange and strengthening customs cooperation at seaport.
- Affected by a possibly imminent outbreak of war on Iraq, the price of Brent crude oil surged to a year-high of nearly US\$30 per barrel.
- 24 Sep The Government asked KCRC to proceed with detailed planning and design of the Kowloon Southern Link. The project was estimated to cost around \$9.2 billion.
- 24 - 26 Sep Hong Kong hosted the 2002 Forbes Global CEO Conference, which brought some 350 leading business executives to Hong Kong to discuss issues around the theme of "reassessing the business blueprint".
- 26 Sep The Financial Secretary appointed an Expert Group to review the operation of the three-tier regulatory structure of the Hong Kong financial market, particularly in relation to listing related matters. The Expert Group was expected to submit its report by the end of March 2003.
- 1 Oct SFC amended its Financial Resources Rules to improve risk management of intermediaries engaged in securities margin lending.
- The pay of civil servants and specified public officers was reduced by 1.58% to 4.42% in accordance with the Public Officers Pay Adjustment Ordinance.
- To enhance vehicular throughput during the overnight period at the Lok Ma Chau/Huanggang Boundary crossing, the number of inspection lanes at the Huangguang Control Point on the Shenzhen side was increased from three (one northbound and two southbound) to five lanes (one northbound and four southbound) between midnight and 7 am. Corresponding adjustment was made at the Lok Ma Chau Control Point on the Hong Kong side.
- OFTA reduced further the interconnection charge over the network of PCCW-HKT for mobile phone services from 4.8 cents per minute to 4.5 cents per minute. The interconnection charge for value-added services remained unchanged.
- 2 Oct Airport Authority Hong Kong awarded a 15-year franchise to DHL International (Hong Kong) Ltd. for the development, construction and operation of a dedicated express cargo terminal at HKIA.
- HKMC announced the launch of a new issue of retail bonds which would be placed to investors through an enlarged group of placing banks. The new issue would also feature more choice on structure and return as well as a reliable market making arrangement.

- 9 Oct Cathay Pacific Airways Ltd. (CPA) and DHL Worldwide Express International Ltd. (DHL) announced that they had concluded a new joint-venture agreement under which DHL would acquire a 30% stake in CPA's wholly owned subsidiary, Air Hong Kong Ltd. (AHK). AHK would then purchase a fleet of mid-range, wide-bodied aircraft to operate, thereby enabling DHL to enhance its service network to the major cities in the Asia Pacific region.
- The Government completed and handed over the first patch of reclaimed land of about 68 hectares to the Hongkong International Theme Parks Ltd. This triggered superstructure construction of the Hong Kong Disneyland.
- 11 Oct The US Congress voted to give the President the authorization to use armed forces against Iraq.
- Restructuring of China's airline industry was completed with the establishment of three airline groups, namely China Airlines, China Eastern Airlines and China Southern Airlines. Along with the restructuring, the role of the General Administration of Civil Aviation would be reduced to a regulator in air traffic management, aviation security and public relations.
- OFTA decided to give the 3G licensees a one-year waiver on the submission of performance bonds, in face of the changing market conditions.
- OFTA finalised the details of the Class Licence for In-building Telecommunications Systems to regulate the provision of in-building telecommunications services and to facilitate the development of advanced in-building telecommunications systems and intelligent buildings in Hong Kong.
- 14 Oct The Economic and Trade Office (ETO) of the HKSAR Government in Guangdong was officially opened in Guangzhou, after four months of initial operation. It was the first ETO established in the Mainland, and was tasked with strengthening the already intimate economic and trade ties between Hong Kong and Guangdong.
- 15 Oct The Government set up the Manpower Development Committee chaired by the Secretary for Education and Manpower to render advice on the manpower needs of Hong Kong and the promotion and regulation of the vocational, post-secondary and continuing education sectors.
- 16 Oct Vice Premier Qian Qichen stated that "santong" between the Mainland and Taiwan was an economic issue and should not require political negotiations. He further proposed defining direct air and shipping links between the Mainland and Taiwan as "cross straits" rather than "domestic".
- 21 Oct The Hong Kong Public Key Infrastructure Forum was established with the Postmaster General elected as Chairman, and comprising public and private sector organisations with a common interest to promote secure e-commerce. It would represent Hong Kong in international fora to foster cooperation in such matters as cross-certification, application development and inter-operability arrangements.

- The Government revamped the Task Force on Employment chaired by the Financial Secretary so as to widen its representation to include members of the Legislative Council pertaining to the political parties. The new composition would enhance the role of the Task Force as a high-level forum to tap the views of the business community, labour sector, academia and political parties on ways to tackle unemployment.
- 22 Oct New bus franchises for about ten years for the North Lantau and Airport bus network were granted to Citybus Ltd., Long Win Bus Co. Ltd. and New World First Bus Services Ltd. respectively. The new franchises would commence upon expiry of the existing franchises of these companies in mid-2003.
- 26 - 27 Oct The Chief Executive attended the Tenth Asia Pacific Economic Cooperation Economic Leaders' Meeting in Los Cabos, Mexico. Leaders re-affirmed their full commitment to ensuring the successful completion of the Doha Development Agenda negotiations by 1 January 2005.
- 30 Oct China announced the formal inauguration of its Gold Trading Centre in Shanghai.
- 31 Oct US Customs issued a final rule on 24 hours advance cargo declaration filing.
- HA decided to defer the rent review on the vast majority of public rental housing (PRH) units for another year until 1 December 2003, covering over 540 000 PRH flats and 7 700 Interim Housing units.
- HA also endorsed the recommendations of the Ad Hoc Committee on Review of Domestic Rent Policy to enhance the Rent Assistance Scheme. These included relaxation of the eligibility criteria for elderly households, acceptance of tenants affected by redevelopment to apply for rent assistance immediately upon rehousing to new or refurbished flats, and extension of the grace period for beneficiaries of the scheme to move to cheaper flats from two to three years.
- 4 Nov China and the Association of Southeast Asian Nations (ASEAN) signed a Framework Agreement on Comprehensive Economic Cooperation at the Sixth China-ASEAN Summit held in Phnom Penh to initiate the process towards establishing a China-ASEAN Free Trade Area (FTA) by 2010. As a first step, negotiations on abolition of import tariffs on some 600 agricultural items would take place soon. Negotiations on other tariff concessions and on trade in services would commence in due course.
- 5 Nov Construction of Route 9 – Cheung Sha Wan to Sha Tin commenced. The project, to be completed by April 2007, was estimated to cost \$6.8 billion.
- 6 Nov The US Fed Funds target rate was reduced by 50 basis points to 1.25% as a new 41-year low, for the first time in 2002. The Base Rate under the Discount Window of HKMA was adjusted by the same magnitude, to 2.75% on the next day. The best lending rate of the commercial banks in Hong Kong and the savings deposit rates of the major banks in Hong Kong were then lowered by lesser magnitudes, by 12.5 basis points to 5.0% and on average by 12 basis points to a historical low of 0.03% respectively.

- 7 Nov The China Securities Regulatory Commission (CSRC) and jointly issued the “Provisional Measures on Administration of Domestic Securities Investments of Qualified Foreign Institutional Investors (QFII)”, allowing QFII to invest in A shares and bonds listed on China’s stock exchanges. These new measures came into effect on 1 December 2002.
- 8 Nov The United Nations Security Council unanimously adopted Resolution 1441 on Iraqi disarmament.
- The 16th National Congress of the Communist Party of China (CPC) commenced. The “Three Represents” was incorporated in the Party constitution. A wider spectrum of people, including private entrepreneurs, was admitted into the Party. The Congress also re-affirmed the direction of economic reform, modernisation and liberalisation. The ultimate aim was to build a better-off society in an all-rounded way, with real GDP quadrupling the level in 2000 by 2020.
- 12 Nov The 2003 Index of Economic Freedom published by the US Heritage Foundation (HF) ranked Hong Kong as the freest economy in the world for the ninth consecutive year since the Index was first published in 1995. HF recognised Hong Kong’s virtues in having a duty-free port, low cost of government, very low level of inflation, very low barriers to foreign investment, very low level of restrictions in banking and finance, low level of intervention in wages and prices, strong property rights, very low level of regulation, and low level of black market activity. Yet it also noted increasing government intervention in the economy.
- In the 2002 Global Competitiveness Report released by the World Economic Forum (WEF) based in Switzerland, Hong Kong’s ranking fell further from 13th to 17th. This fall was largely due to a deterioration in the rating on “public institutions”. The ratings on “technology” and “macroeconomic environment” showed marginal improvement.
- The domestic free television programme services licences of Asia Television Ltd. and Television Broadcasts Ltd., both for twelve years, were renewed. The renewed licences provided for migration from analogue to digital broadcasting.
- 13 Nov The Secretary for Housing, Planning and Lands announced a package of nine measures to stabilise the housing market. These measures included a moratorium on land sales for 14 months and suspension of property development tenders from the two railway corporations, cessation of HOS, Tenants Purchase Scheme (TPS) and mixed development schemes with private developers, close monitoring of the public rental housing production programme, implementation of a new home loan scheme, and relaxation of tenancy control and anti-speculation measures.
- 14 - 15 Nov Hong Kong participated in the WTO Informal Ministerial Meeting hosted by Australia, to discuss multilateral trade issues with 24 other Trade Ministers and the Director-General of WTO.
- 15 Nov The Hong Kong Shipping Register hit a new record of 16 million gross tonnes.

- 18 Nov HKEx launched the Mini-Hang Seng Index (Mini-HSI) Options for trading. Margins for the Mini-HSI Options were a fraction of the HSI options, thereby enabling more individual investors to participate in the stock index options market.
- 19 Nov HKMC announced an expansion in the Mortgage Insurance Programme. The loan size ceiling for mortgage loans on property under construction (i.e. equitable mortgage loans) covered by the Programme was increased from \$5 million to \$8 million with a loan-to-value ratio of up to 85%.
- 21 Nov The Government's Inter-operability Framework (IF) was released after wide consultation with the general public, the IT industry and Government bureaux and departments. This was a set of technical and data specifications for achieving greater inter-operability amongst Government systems and for enabling more effective implementation of joined-up e-government services. It would also enable the Government systems to interact much more seamlessly with those in the private sector. Compliance with IF by the Government systems would be mandatory as from January 2003.
- 25 Nov The direct link from HKMA's CMU to Euroclear, the Brussels-based international central securities depository, commenced live operation, to supplement the existing link from Euroclear to CMU established in 1994.
- 26 Nov The Deep Bay Link was authorized. The project, estimated to cost \$4.6 billion, would be completed by end-2005 together with the Shenzhen Western Corridor.
- The Government issued an Invitation for Expressions of Interest to occupy and use the Tuen Mun Pier for the operation of cross-boundary passenger ferry services. The Government would examine the submissions with a view to determining whether to proceed with a tender exercise to implement the project.
- 28 Nov HA endorsed the Government's request to re-position itself into a facilitating and enabling role. It agreed to halt the production and sale of HOS and Private Sector Participation Scheme (PSPS) indefinitely, to give cash subsidies to eligible non-elderly families for renting accommodation in the private sector under the proposed General Rental Allowance, as well as to halt the sale of rental units under TPS after Phases 6A and 6B. Also, it decided not to pursue the mixed development project at the former North Point Estate.
- SFC announced that three hedge funds had been authorized for sale to the public. This followed the introduction of hedge funds authorization guidelines in May.
- 28 - 29 Nov The Mainland and HKSAR Joint Commission on Commerce and Trade held its fourth meeting in Hong Kong. The two sides held in-depth discussions on issues of mutual interest in the area of promoting and enhancing bilateral trade and investment.

29 Nov The Joint Commission set up an E-business Working Group to enhance exchange and co-operation in e-commerce amongst the governments and business sectors in the Mainland and Hong Kong.

Restructuring of China's power industry was completed with the establishment of five nationwide independent power generation companies and two regional based electricity distribution companies. These companies were formed by breaking up the monopoly of the former State Power Corporation. A new regulatory body, the State Power Regulatory Commission, was also set up.

The Government published the Third Quarter Economic Report 2002. The report pointed out that the Hong Kong economy, after turning around to a modest growth in the second quarter of 2002, picked up visibly further to a year-on-year growth of 3.3% in real terms in the third quarter. Externally, total exports of goods continued to benefit from sustained strong demand in the Mainland, generally increased import intake in the region, and a further gain in external price competitiveness from the earlier weakening in the US dollar. Exports of services performed even better, upon an extensive surge in inbound tourism, offshore trade and transportation services. The domestic sector, whilst still weak, also showed some relative improvement in overall terms. Consumer spending had a lesser decline. But the reduction in intake of machinery, equipment and computer software outweighed the modest increase in overall building and construction output. In tandem with the pick-up in overall economic activity, labour market conditions also improved.

In the November update of the economic forecasts for 2002, the forecast of GDP growth was raised further to 2% in real terms, from 1.5% in the August update. The forecast rate of change in the Composite CPI was lowered slightly to -3%, from -2.8% in the August update.

The Government of the HKSAR entered into bilateral agreements on information and communications technology and on SMEs respectively with the Government of Ireland, for strengthening trade and economic links between Hong Kong and Ireland.

1 Dec Five more cities in the Mainland, viz. Guangzhou, Zhuhai, Wuhan, Nanjing and Qingdao, were opened up to foreign banks for conducting renminbi business. Before that, renminbi business was open to foreign banks only in four cities, viz. Shanghai, Shenzhen, Tianjin and Dalian.

2 Dec The US rule on 24 hours advance cargo declaration filing came into operation.

After reaching consensus with the Mainland authorities on the inspection and quarantine requirements for chilled chicken imported from the Mainland, the first three consignments of Mainland chilled chicken arrived in Hong Kong.

OCI initiated a consultancy study on the feasibility of establishing an insurance policyholders protection fund in Hong Kong.

- 3 Dec Shanghai won the bid to host the World Exposition in 2010.
- HKMA and the Exchange Fund Investment Ltd. (EFIL) announced that with effect from January 2003, the management of the Exchange Fund's long-term Hong Kong equity portfolio would be transferred from EFIL to HKMA. HKMA would continue to manage the Hong Kong equity portfolio through the existing external fund managers appointed by EFIL. EFIL's operations would then be wound down by end-January 2003.
- 4 Dec The Commerce, Industry and Technology Bureau and Industry Canada of the Canadian Government renewed the MOU on co-operation in information and communications technology.
- The Commerce, Industry and Technology Bureau signed a MOU on co-operation in biotechnology with Industry Canada of the Canadian Government.
- 7 Dec The Shanghai Municipal Government and the Universal Studios signed an agreement in principle to build a theme park in Shanghai by 2006.
- 9 Dec Hong Kong Customs signed a MOU under the "Watch-out Programme" with 16 representatives from the cargo industry for promoting cooperation and partnership.
- SFC published the Report of the Steering Committee on the Enhancement of Financial Infrastructure II, which outlined recommendations aiming to make Hong Kong the preferred location in the Asian time zone for investors.
- 12 Dec SFC and HKMA signed a new MOU, setting out their respective roles and responsibilities in the regulation and supervision of Registered Institutions and their relevant staff under SFO. Registered Institutions would be authorized institutions under the Banking Ordinance having registered with SFC to conduct regulated securities activities.
- 13 Dec The Secretary for Financial Services and the Treasury announced the target to bring SFO into operation on 1 April 2003.
- 14 Dec The Government accepted the recommendations of the SME Committee to enhance further the effectiveness of the SME funding schemes. These included expanding the scope of the Government's guarantee to include working capital loans, raising the ceilings of the guarantee/grant for individual SMEs, extending the guarantee period, and rationalising the application procedures.
- 16 Dec HA approved a new Home Assistance Loan Scheme (HALS). To be launched in January 2003, it would replace the Home Purchase Loan Scheme (HPLS) managed by HA and the Home Starter Loan Scheme (HSLs) operated by the Hong Kong Housing Society to ensure rational allocation of housing resources and improve operational efficiency. It would be available to both Green Form and White Form applicants, who would receive the same amount of interest-free loan or monthly mortgage subsidy to acquire their own homes in the private sector.

17 Dec TDC and the Hong Kong Logistics Development Council co-organised the Hong Kong Logistics Services Expo & Conference in Guangzhou. This was Hong Kong's first large-scale event to promote its value-added logistics service capabilities in the Mainland.

Hong Kong Accreditation Service (HKAS) signed a MOU with the College of Pathologists (HKCPATH) on co-operation in the accreditation programme for medical testing laboratories. It was scheduled to be launched in April 2003.

18 Dec The Landlord and Tenant (Consolidation)(Amendment) Ordinance 2001, for streamlining statutory procedures for repossession of leased premises and tenancy renewal in the private domestic rental market, was enacted.

23 Dec The Chief Secretary for Administration led a delegation to Beijing to exchange views with officials of the Hong Kong and Macao Affairs Office of the State Council on a number of proposals to improve the operation of boundary crossings. Consensus was reached on setting the long-term objective to complete cross-boundary clearance on both sides within 30 minutes for passengers and 60 minutes for goods vehicles, implementing 24-hour passenger clearance at Lok Ma Chau/Huanggang before the coming Lunar New Year, exploring the possibility of increasing the through train service between Hong Kong and Guangzhou, and conducting a study on an additional bridge linking the checkpoints at Lok Ma Chau and Huanggang.

27 Dec Amidst heightened war tension on Iraq, the price of Brent Crude oil reached a near two-year peak of US\$31.3 per barrel.

31 Dec By end-2002, the Government had already provided e-options for 81% of the public services that were amenable to the electronic mode of service delivery. It would strive to achieve the overall e-government target of providing e-options for 90% of such public services by end-2003.

Hong Kong's container throughput rose by 7% over 2001 to around 19 million TEUs in 2002. The Hong Kong port remained as the busiest port in the world in terms of containers handled.

Visitor arrivals reached a new record high of 16.6 million in 2002, representing a hefty increase of 21% over 2001.

Statistical Appendix

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Table 1 : Gross Domestic Product[#] (GDP)

	<u>At current market prices</u>				<u>At constant (2000) market prices</u>			
	<u>Overall GDP</u>		<u>Per capita GDP</u>		<u>Overall GDP</u>		<u>Per capita GDP</u>	
	<u>\$Mn</u>	<u>% change</u>	<u>\$</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>	<u>\$</u>	<u>% change</u>
1992	791,319	16.8	136,423	15.9	931,692	6.6	160,622	5.7
1993	912,809	15.4	154,687	13.4	990,831	6.3	167,908	4.5
1994	1,029,773	12.8	170,622	10.3	1,045,154	5.5	173,170	3.1
1995	1,096,263	6.5	178,078	4.4	1,085,764	3.9	176,371	1.8
1996	1,210,925	10.5	188,163	5.7	1,132,524	4.3	175,981	-0.2
1997	1,344,546	11.0	207,194	10.1	1,189,966	5.1	183,374	4.2
1998	1,279,850	-4.8	195,585	-5.6	1,130,838	-5.0	172,813	-5.8
1999	1,246,134	-2.6	188,622	-3.6	1,169,474	3.4	177,019	2.4
2000	1,288,338	3.4	193,299	2.5	1,288,338	10.2	193,299	9.2
2001	1,278,995	-0.7	190,188	-1.6	1,296,512	0.6	192,793	-0.3
2002 ⁺	1,271,082	-0.6	187,282	-1.5	1,325,687	2.3	195,327	1.3
<u>Average annual growth rate:</u>								
1992-2002 (10 years)		4.9		3.2		3.6		2.0
1997-2002 (5 years)		-1.1		-2.0		2.2		1.3

Notes : (#) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

(+) Preliminary figures.

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

	<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002⁺</u>	
	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>						
Private consumption expenditure	772,347	-4.3	740,819	-4.1	744,401	0.5	745,537	0.2	708,579	-5.0
Government consumption expenditure	116,539	3.4	119,984	3.0	120,148	0.1	128,844	7.2	131,363	2.0
Gross domestic fixed capital formation	388,731	-14.0	325,328	-16.3	347,375	6.8	341,847	-1.6	303,951	-11.1
Change in inventories	-15,651	--	-10,612	--	14,399	--	-2,466	--	3,789	--
Exports of goods	1,347,649	-7.4	1,349,000	0.1	1,572,689	16.6	1,480,987	-5.8	1,561,499	5.4
Less Imports of goods	1,408,317	-11.4	1,373,500	-2.5	1,636,711	19.2	1,549,222	-5.3	1,601,518	3.4
Exports of services	272,112	-6.5	279,167	2.6	317,580	13.8	323,087	1.7	352,187	9.0
Less Imports of services	193,560	-1.4	184,052	-4.9	191,543	4.1	189,619	-1.0	188,768	-0.4
Gross Domestic Product	1,279,850	-4.8	1,246,134	-2.6	1,288,338	3.4	1,278,995	-0.7	1,271,082	-0.6

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

(#) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

(+) Preliminary figures.

(--) Not applicable.

**Table 3 : Gross Domestic Product by main expenditure component[#]
(at constant (2000) market prices)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>		<u>2001</u>		<u>2002⁺</u>	
	% change	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change
Private consumption expenditure	-6.7	1.3	744,401	5.9	754,979	1.4	743,036	-1.6
Government consumption expenditure	0.7	3.1	120,148	2.0	127,357	6.0	130,350	2.4
Gross domestic fixed capital formation	-7.3	-16.6	347,375	11.0	357,305	2.9	341,569	-4.4
Change in inventories	--	--	14,399	--	-3,184	--	4,337	--
Exports of goods	-4.3	3.7	1,572,689	17.1	1,520,244	-3.3	1,651,357	8.6
<i>Less</i> Imports of goods	-7.3	*	1,636,711	18.2	1,605,267	-1.9	1,732,470	7.9
Exports of services	-1.1	6.4	317,580	12.9	336,295	5.9	377,122	12.1
<i>Less</i> Imports of services	1.6	-4.1	191,543	4.2	191,217	-0.2	189,614	-0.8
Gross Domestic Product	-5.0	3.4	1,288,338	10.2	1,296,512	0.6	1,325,687	2.3

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

(#) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002. The level figures in respect of GDP by component at constant (2000) market prices before 2000 are not available.

(+) Preliminary figures.

(*) Change of less than 0.05%.

(--) Not applicable.

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

	1997		1998		1999		2000		2001	
	\$Mn	% share								
Agriculture and fishing	1,464	0.1	1,530	0.1	1,171	0.1	920	0.1	1,003	0.1
Mining and quarrying	272	*	301	*	307	*	241	*	174	*
Manufacturing	81,722	6.4	72,601	6.0	67,540	5.7	71,655	5.8	63,519	5.2
Electricity, gas and water	32,328	2.6	36,081	3.0	37,211	3.2	38,853	3.2	40,126	3.3
Construction	72,759	5.7	71,000	5.9	67,232	5.7	64,026	5.2	58,971	4.8
Services	1,078,943	85.1	1,023,836	84.9	1,004,335	85.3	1,053,202	85.7	1,052,582	86.5
<i>Wholesale, retail and import/export trades, restaurants and hotels</i>	325,514	25.7	301,693	25.0	296,318	25.2	324,622	26.4	324,652	26.7
<i>Transport, storage and communications</i>	115,648	9.1	111,409	9.2	112,667	9.6	125,724	10.2	124,260	10.2
<i>Financing, insurance, real estate and business services</i>	335,927	26.5	296,352	24.6	281,439	23.9	291,062	23.7	274,919	22.6
<i>Community, social and personal services</i>	220,636	17.4	233,169	19.3	246,003	20.9	252,435	20.5	265,073	21.8
<i>Ownership of premises</i>	171,383	13.5	170,660	14.2	162,488	13.8	155,303	12.6	159,260	13.1
<i>less Adjustment for financial intermediation services indirectly measured</i>	90,164	7.1	89,446	7.4	94,580	8.0	95,945	7.8	95,582	7.9
GDP at factor cost	1,267,489	100.0	1,205,349	100.0	1,177,796	100.0	1,228,897	100.0	1,216,374	100.0
Taxes on production and imports	82,205		60,372		53,474		57,908		53,943	
Statistical discrepancy (%)	-0.4		1.1		1.2		0.1		0.7	
GDP at current market prices	1,344,546		1,279,850		1,246,134		1,288,338		1,278,995	

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

(#) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

(*) Share of less than 0.05%.

**Table 5 : Gross Domestic Product (GDP) by economic activity[#]
(at constant (2000) prices)**

	2000		2001			2002				
	(\$Mn)	(\$Mn)	%	Q1		Q2		Q3		
				(\$Mn)	change	(\$Mn)	change	(\$Mn)	change	
Agriculture and fishing	920	958	4.1	246	3.4	262	6.9	226	2.7	
Mining and quarrying	241	207	-14.1	40	-23.1	40	-20.0	38	-30.9	
Manufacturing	71,655	65,508	-8.6	13,477	-11.3	15,031	-10.8	16,108	-6.4	
Electricity, gas and water	38,853	39,841	2.5	8,506	1.2	10,632	6.9	12,157	2.9	
Construction	64,026	61,267	-4.3	14,876	-1.7	14,128	3.2	15,156	2.4	
Services	1,053,202	1,068,119	1.4	256,556	*	265,064	1.8	285,489	4.2	
<i>Wholesale, retail and import/export trades, restaurants and hotels</i>	324,622	323,515	-0.3	73,372	-2.8	75,924	1.0	93,438	6.8	
<i>Transport, storage and communications</i>	125,724	128,417	2.1	31,263	0.2	31,988	3.6	35,141	5.5	
<i>Financing, insurance, real estate and business services</i>	291,062	289,395	-0.6	69,983	-2.0	73,536	1.2	73,095	1.4	
<i>Community, social and personal services</i>	252,435	262,386	3.9	63,947	1.1	66,519	0.6	65,474	1.2	
<i>Ownership of premises</i>	155,303	161,234	3.8	40,905	2.9	40,341	1.6	41,567	2.1	
<i>less Adjustment for financial intermediation services indirectly measured</i>	95,945	96,828	0.9	22,914	-6.8	23,244	-4.3	23,227	-4.8	
Taxes on production and imports	57,908	57,309	-1.0	15,021	*	15,394	1.1	12,524	-0.7	
Statistical discrepancy (%)	0.1	0.3	--	0.5	--	-0.7	--	0.5	--	
GDP at constant (2000) market prices	1,288,338	1,296,512	0.6	310,256	-0.5	318,263	0.8	343,371	3.3	

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

(#) Revised figures.

(*) Change of less than 0.05%.

(--) Not applicable.

Table 6 : Gross National Product (GNP) and external factor income flows (EFIF) by income component[#] (at current market prices)

	1998		1999		2000		2001		2002 ⁺ Q1-Q3	
	\$Mn	% change	\$Mn	% change						
Type of income component										
Direct investment income										
Inflow	124,999	-35.3	136,454	9.2	153,848	12.7	168,497	9.5	128,078	-4.5
Outflow	136,350	-44.3	197,094	44.5	266,324	35.1	244,838	-8.1	175,154	-9.5
Portfolio investment income										
Inflow	74,444	-22.9	86,291	15.9	95,086	10.2	96,338	1.3	72,505	-3.6
Outflow	24,696	-39.2	25,410	2.9	26,900	5.9	26,835	-0.2	20,616	-4.6
Other investment income										
Inflow	162,913	-8.9	142,008	-12.8	167,787	18.2	119,730	-28.6	49,753	-49.3
Outflow	172,548	0.1	107,472	-37.7	101,729	-5.3	71,718	-29.5	29,549	-49.4
Compensation of employees										
Inflow	363	-44.7	110	-69.7	53	-51.8	30	-43.4	13	-45.8
Outflow	363	-44.7	110	-69.7	53	-51.8	30	-43.4	13	-45.8
Total EFIF										
Inflow	362,719	-22.7	364,863	0.6	416,774	14.2	384,595	-7.7	250,348	-18.6
Outflow	333,957	-27.2	330,086	-1.2	395,006	19.7	343,420	-13.1	225,332	-17.7
Net flow	28,762	--	34,777	--	21,768	--	41,174	--	25,015	--
GDP (\$Mn)										
	1,279,850	-4.8	1,246,134	-2.6	1,288,338	3.4	1,278,995	-0.7	936,342	-1.2
Per capita GDP (\$)										
	195,585	-5.6	188,622	-3.6	193,299	2.5	190,188	-1.6	N.A.	N.A.
GNP (\$Mn)										
	1,308,612	-3.4	1,280,911	-2.1	1,310,106	2.3	1,320,169	0.8	961,357	-2.1
Per capita GNP (\$)										
	199,980	-4.2	193,886	-3.0	196,565	1.4	196,311	-0.1	N.A.	N.A.

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

(#) Revised figures.

(+) Preliminary figures.

(--) Not applicable.

N.A. Not available.

Table 7 : Balance of payments account by major component[#]

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	<u>\$Mn</u>	<u>\$Mn</u>	<u>\$Mn</u>	<u>\$Mn</u>	<u>Q1-Q3</u>
					<u>\$Mn</u>
Current account^(a)	34,283	93,447	70,960	95,795	90,204
Goods	-60,667	-24,501	-63,832	-64,970	-34,426
Services	78,552	95,115	126,037	133,468	110,517
Factor income	28,762	34,777	21,768	41,174	25,015
Current transfers	-12,364	-11,943	-13,013	-13,878	-10,901
Capital and financial account^(a)	-31,514	-83,374	-57,863	-97,359	-134,228
Capital transfers	-18,445	-13,812	-12,044	-9,155	-12,496
Direct investment	-17,192	40,511	19,976	96,948	-27,620
Portfolio investment	171,052	256,812	190,782	-322,045	-193,187
Financial derivatives	25,550	79,225	1,661	39,640	12,664
Other investment	-245,059	-368,243	-179,917	133,783	79,452
Reserve assets (net change) ^(b)	52,581	-77,867	-78,321	-36,530	6,959
Net errors and omissions	-2,770	-10,074	-13,097	1,565	44,023
Overall balance of payments	-52,581 (in deficit)	77,867 (in surplus)	78,321 (in surplus)	36,530 (in surplus)	-6,959 (in deficit)

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

(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 8: Visible and invisible trade[#]
(at current market prices)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002⁺</u>
	<u>\$Mn</u>	<u>\$Mn</u>	<u>\$Mn</u>	<u>\$Mn</u>	<u>\$Mn</u>
Total exports of goods	1,361,885	1,355,529	1,579,367	1,488,982	1,561,499
Imports of goods ^(a)	1,422,552	1,380,030	1,643,199	1,553,952	1,601,518
Visible trade balance	-60,667 (-4.3)	-24,501 (-1.8)	-63,832 (-3.9)	-64,970 (-4.2)	-40,019 (-2.5)
Exports of services	272,112	279,167	317,580	323,087	352,187
Imports of services	193,560	184,052	191,543	189,619	188,768
Invisible trade balance	78,552	95,115	126,037	133,468	163,419
Visible and invisible trade balance	17,885 <1.1>	70,614 <4.5>	62,205 <3.4>	68,498 <3.9>	123,400 <6.9>

Notes : (a) Imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis which is still the on-going practice for the merchandise trade statistics, as presented in Tables 14 and 15.

(#) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002. Figures in this table are reckoned on a BoP basis.

(+) Preliminary figures.

() As a percentage of the total value of imports of goods on f.o.b. basis.

< > As a percentage of the total value of imports of goods and services.

Table 9 : Re-exports by market

	<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>	
	\$Mn	% change								
All markets	1,159,195	-6.9	1,178,400	1.7	1,391,722	18.1	1,327,467	-4.6	1,429,590	7.7
Mainland of China	407,366	-8.2	399,188	-2.0	488,823	22.5	496,574	1.6	571,870	15.2
United States	259,856	-0.6	269,444	3.7	311,047	15.4	282,189	-9.3	291,043	3.1
Japan	64,194	-17.4	67,506	5.2	82,050	21.5	83,551	1.8	80,743	-3.4
United Kingdom	42,259	8.2	45,541	7.8	52,356	15.0	46,764	-10.7	46,644	-0.3
Germany	42,161	-9.0	44,122	4.7	50,599	14.7	45,774	-9.5	44,567	-2.6
Taiwan	27,368	-7.5	27,859	1.8	33,696	21.0	30,021	-10.9	30,193	0.6
Singapore	25,625	-12.8	28,716	12.1	32,028	11.5	26,929	-15.9	29,424	9.3
Republic of Korea	12,241	-36.6	19,793	61.7	26,978	36.3	24,640	-8.7	29,264	18.8
Rest of the world	278,125	-6.6	276,230	-0.7	314,146	13.7	291,025	-7.4	305,844	5.1

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

Table 10 : Re-exports by source

	<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>	
	\$Mn	% change								
All sources	1,159,195	-6.9	1,178,400	1.7	1,391,722	18.1	1,327,467	-4.6	1,429,590	7.7
Mainland of China	691,219	-4.5	720,126	4.2	849,517	18.0	808,370	-4.8	863,967	6.9
Japan	123,879	-7.4	121,265	-2.1	137,338	13.3	125,649	-8.5	135,793	8.1
Taiwan	71,782	-13.9	71,957	0.2	87,942	22.2	80,321	-8.7	94,275	17.4
United States	54,530	-12.9	56,737	4.0	65,465	15.4	65,193	-0.4	62,900	-3.5
Republic of Korea	39,637	-0.1	38,822	-2.1	46,057	18.6	39,775	-13.6	47,218	18.7
Malaysia	17,473	-11.8	19,031	8.9	27,050	42.1	27,170	0.4	27,412	0.9
Germany	15,633	-5.9	15,558	-0.5	18,790	20.8	20,322	8.2	21,890	7.7
Singapore	20,175	-27.6	13,805	-31.6	14,991	8.6	14,650	-2.3	16,676	13.8
Rest of the world	124,867	-9.1	121,099	-3.0	144,572	19.4	146,017	1.0	159,459	9.2

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

Table 11 : Re-exports by selected commodity group

	1998		1999		2000		2001		2002	
	\$Mn	% change								
All re-exports	1,159,195	-6.9	1,178,400	1.7	1,391,722	18.1	1,327,467	-4.6	1,429,590	7.7
Office machinery	93,070	7.7	98,331	5.7	120,755	22.8	132,892	10.1	154,032	15.9
Electronic components	46,226	-10.1	61,502	33.0	97,724	58.9	99,418	1.7	122,255	23.0
Clothing	96,799	-9.3	99,308	2.6	111,268	12.0	110,609	-0.6	109,912	-0.6
Electrical machinery	62,560	6.0	72,209	15.4	97,238	34.7	89,471	-8.0	99,484	11.2
Toys, games and sporting goods	92,706	-5.6	92,661	*	102,588	10.7	85,666	-16.5	85,139	-0.6
Radios, television-sets, gramophones, records, tape recorders and amplifiers	54,108	-10.2	47,177	-12.8	59,203	25.5	54,831	-7.4	64,716	18.0
Telecommunication equipment	34,439	9.9	34,951	1.5	42,637	22.0	41,643	-2.3	46,259	11.1
Footwear	51,913	-20.9	47,840	-7.8	50,534	5.6	45,938	-9.1	44,905	-2.2
Plastic materials	34,042	-9.7	35,353	3.9	41,806	18.3	36,219	-13.4	40,172	10.9
Jewellery, precious stones and related articles	16,563	0.4	22,071	33.3	29,688	34.5	29,403	-1.0	36,701	24.8
Others	576,770	-8.7	566,997	-1.7	638,280	12.6	601,377	-5.8	626,015	4.1

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

(*) Change of less than 0.05%.

Table 12 : Domestic exports by market

	1998		1999		2000		2001		2002	
	\$Mn	% change								
All markets	188,454	-10.9	170,600	-9.5	180,967	6.1	153,520	-15.2	130,926	-14.7
United States	54,842	-0.4	51,358	-6.4	54,438	6.0	47,589	-12.6	41,908	-11.9
Mainland of China	56,066	-12.2	50,414	-10.1	54,158	7.4	49,547	-8.5	41,374	-16.5
United Kingdom	10,058	-6.2	10,392	3.3	10,681	2.8	8,578	-19.7	7,588	-11.5
Taiwan	6,505	-7.5	5,101	-21.6	6,104	19.7	5,346	-12.4	4,388	-17.9
Germany	9,805	-5.0	8,543	-12.9	9,294	8.8	5,818	-37.4	4,273	-26.6
Netherlands	4,736	-7.8	4,119	-13.0	3,910	-5.1	4,619	18.1	3,470	-24.9
Japan	6,435	-39.5	5,459	-15.2	5,084	-6.9	4,060	-20.1	2,969	-26.9
Malaysia	1,821	-32.1	1,945	6.8	2,668	37.1	1,716	-35.7	2,637	53.6
Rest of the world	38,187	-16.9	33,269	-12.9	34,630	4.1	26,247	-24.2	22,320	-15.0

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

Table 13 : Domestic exports by selected commodity group

	<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>	
	<u>\$Mn</u>	<u>% change</u>								
All domestic exports	188,454	-10.9	170,600	-9.5	180,967	6.1	153,520	-15.2	130,926	-14.7
Clothing	74,874	3.7	74,251	-0.8	77,415	4.3	72,240	-6.7	65,039	-10.0
Electronic components	25,884	-14.3	22,874	-11.6	26,554	16.1	19,184	-27.8	14,940	-22.1
Textiles	10,767	-14.9	9,488	-11.9	9,164	-3.4	8,193	-10.6	7,645	-6.7
Jewellery, precious stones and related articles	5,120	-11.4	5,430	6.1	6,350	16.9	5,138	-19.1	5,472	6.5
Office machines and equipment	3,611	-10.8	3,571	-1.1	3,049	-14.6	2,734	-10.3	3,567	30.5
Scientific, medical, optical measuring and controlling instruments and apparatus	6,003	24.1	5,913	-1.5	7,923	34.0	4,554	-42.5	1,833	-59.7
Metal manufactures	4,090	-21.4	3,823	-6.5	3,896	1.9	2,398	-38.4	1,665	-30.6
Watches and clocks	8,937	-17.2	5,040	-43.6	3,012	-40.2	2,354	-21.8	1,164	-50.6
Telecommunications and sound recording and reproducing equipment	6,305	-31.9	3,798	-39.8	4,211	10.9	3,511	-16.6	1,105	-68.5
Others	42,862	-24.0	36,411	-15.1	39,393	8.2	33,213	-15.7	28,496	-14.2

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

Table 14 : Imports of goods by source

	<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>	
	<u>\$Mn</u>	<u>% change</u>								
All sources	1,429,092	-11.5	1,392,718	-2.5	1,657,962	19.0	1,568,194	-5.4	1,619,419	3.3
Mainland of China	580,614	-4.6	607,546	4.6	714,987	17.7	681,980	-4.6	717,074	5.1
Japan	179,947	-18.8	162,652	-9.6	198,976	22.3	176,599	-11.2	182,569	3.4
Taiwan	104,075	-16.4	100,426	-3.5	124,172	23.6	107,929	-13.1	115,906	7.4
United States	106,537	-15.0	98,572	-7.5	112,801	14.4	104,941	-7.0	91,478	-12.8
Republic of Korea	68,836	-6.0	65,432	-4.9	80,600	23.2	70,791	-12.2	75,955	7.3
Singapore	61,457	-22.4	60,017	-2.3	74,998	25.0	72,898	-2.8	75,740	3.9
Rest of the world	327,626	-14.4	298,073	-9.0	351,430	17.9	353,057	0.5	360,698	2.2

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

Table 15 : Imports of goods by end-use category

	1998		1999		2000		2001		2002	
	\$Mn	% change								
All imports of goods^(a)	1,429,092	-11.5	1,392,718	-2.5	1,657,962	19.0	1,568,194	-5.4	1,619,419	3.3
Foodstuffs ^(a)	68,487	-10.4	61,555	-10.1	63,671	3.4	60,353	-5.2	59,145	-2.0
Consumer goods	506,047	-13.0	502,749	-0.7	562,188	11.8	537,967	-4.3	543,203	1.0
Fuels	23,369	-22.0	27,362	17.1	34,006	24.3	30,362	-10.7	31,288	3.1
Raw materials and semi-manufactures	485,167	-14.1	472,995	-2.5	580,475	22.7	511,367	-11.9	558,088	9.1
Capital goods	346,021	-4.5	328,056	-5.2	417,622	27.3	428,147	2.5	427,695	-0.1

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

(a) Including imports of fresh water.

**Table 16 : Exports and imports of services by component[#]
(at current market prices)**

	1997		1998		1999		2000		2001	
	\$Mn	% change								
Exports of services	291,100	-1.2	272,112	-6.5	279,167	2.6	317,580	13.8	323,087	1.7
Transportation	87,342	-1.2	85,074	-2.6	89,230	4.9	99,513	11.5	101,815	2.3
Travel	78,001	-16.7	58,661	-24.8	56,471	-3.7	61,786	9.4	64,594	4.5
Insurance	2,665	9.1	3,102	16.4	3,065	-1.2	3,452	12.6	3,942	14.2
Financial	18,951	7.6	16,324	-13.9	19,206	17.7	20,859	8.6	19,739	-5.4
Trade-related	73,441	12.8	76,866	4.7	81,524	6.1	97,616	19.7	99,323	1.7
Other business	30,700	12.5	32,086	4.5	29,672	-7.5	34,355	15.8	33,674	-2.0
Imports of services	196,362	4.6	193,560	-1.4	184,052	-4.9	191,543	4.1	189,619	-1.0
Transportation	50,240	-1.7	42,865	-14.7	39,238	-8.5	48,628	23.9	49,334	1.5
Travel	98,155	10.7	104,361	6.3	101,889	-2.4	97,402	-4.4	96,057	-1.4
Insurance	4,501	-4.6	4,600	2.2	4,975	8.2	4,111	-17.4	4,048	-1.5
Financial	5,792	8.8	6,739	16.4	5,729	-15.0	5,536	-3.4	5,320	-3.9
Trade-related	9,856	-9.3	8,505	-13.7	10,510	23.6	11,170	6.3	10,494	-6.1
Other business	27,818	2.6	26,490	-4.8	21,711	-18.0	24,695	13.7	24,366	-1.3
Net exports of services	94,378	-11.6	78,552	-16.8	95,115	21.1	126,037	32.5	133,468	5.9

Note : (#) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

Table 17 : 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> (‘000)	<u>% change over a year earlier</u>	<u>Number</u> (‘000)	<u>% change over a year earlier</u>	<u>Number</u> (‘000)	<u>% change over a year earlier</u>
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
2002	16 566	20.7	3 464	9.0	64 540	5.6

Table 18 : Incoming visitors by source

	<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>	
	<u>Number</u> (‘000)	<u>% change</u>								
All sources	10 160	-9.9	11 328	11.5	13 059	15.3	13 725	5.1	16 566	20.7
Mainland of China	2 672	13.0	3 206	20.0	3 786	18.1	4 449	17.5	6 825	53.4
Taiwan	1 886	-1.8	2 063	9.4	2 386	15.6	2 419	1.4	2 429	0.4
South and Southeast Asia	1 273	-21.7	1 511	18.6	1 747	15.6	1 747	*	1 905	9.1
Japan	1 101	-32.2	1 174	6.7	1 382	17.7	1 337	-3.3	1 395	4.4
United States	828	-3.8	859	3.7	966	12.5	936	-3.1	1 001	7.0
United Kingdom	353	-4.5	334	-5.3	368	10.2	361	-2.0	380	5.4
Others	2 047	-18.3	2 181	6.5	2 424	11.2	2 479	2.2	2 631	6.1

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

(*) Change of less than 0.05%.

Table 19 : Hong Kong residents travelling abroad by destination

	<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>	
	Number (‘000)	% change								
All destinations	47 594	14.4	53 144	11.7	58 901	10.8	61 096	3.7	64 540	5.6
Mainland of China	39 140	16.2	45 175	15.4	50 083	10.9	52 003	3.8	55 648	7.0
Macao	4 257	2.1	3 794	-10.9	4 207	10.9	4 294	2.1	4 182	-2.6
South and Southeast Asia	1 888	10.4	1 986	5.1	2 390	20.3	2 505	4.8	2 422	-3.3
North Asia	880	41.1	778	-11.5	739	-5.0	762	3.1	774	1.7
Taiwan	381	4.8	420	10.3	469	11.6	526	12.1	538	2.4
Americas ^(a)	432	-3.1	398	-7.9	399	0.2	377	-5.7	346	-8.1
Europe	321	-2.5	307	-4.2	323	5.2	324	0.1	347	7.1
Australia and New Zealand	237	4.4	230	-2.7	232	0.5	237	2.6	223	-6.0
Others	58	-0.8	55	-5.5	60	8.8	70	17.0	59	-15.6

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 20 : Private consumption expenditure by broad category[#]
(rate of change in real terms (%))**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002⁺</u>
Private consumption expenditure	-6.7	1.3	5.9	1.4	-1.6
Consumption expenditure in the domestic market	-9.6	1.6	7.2	2.0	0.7
<i>Food</i>	-8.9	2.1	5.4	2.6	0.2
<i>Consumer durables</i>	-22.2	-2.6	14.9	4.5	0.3
<i>Consumer non-durables</i>	-16.4	-0.7	4.8	-1.0	-5.3
<i>Services</i>	-0.7	3.9	6.4	2.4	2.9
Expenditure of residents abroad	9.2	0.2	-3.0	1.1	-3.6
Less Expenditure of non-residents in the domestic market	-16.6	5.8	8.3	7.6	20.8

Notes : (#) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

(+) Preliminary figures.

Table 21 : Expenditure on building and construction[#]

	<u>At current market prices</u>					<u>At constant (2000) 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>
1998	157,247	75.5	50,988	24.5	208,235	N.A.	1.1	N.A.	-11.5	N.A.	-2.4
1999	116,952	68.0	54,978	32.0	171,930	N.A.	-21.1	N.A.	1.0	N.A.	-15.5
2000	104,125	67.0	51,316	33.0	155,441	104,125	-7.1	51,316	-8.8	155,441	-7.6
2001	96,610	66.7	48,170	33.3	144,780	103,840	-0.3	48,602	-5.3	152,442	-1.9
2002 ⁺	94,870	68.7	43,210	31.3	138,080	109,573	5.5	45,635	-6.1	155,208	-1.8

- Notes :
- (a) Including the Mass Transit Railway Corporation Limited, the Kowloon-Canton Railway Corporation and the Airport Authority Hong Kong.
 - (#) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002. Following a review of the presentation by the Census and Statistics Department, real estate developers' margin is now incorporated into private sector expenditure on building and construction, instead of being delineated separately in the expenditure components of GDP.
 - ([^]) The level figures at constant (2000) market prices before 2000 are not available.
 - (⁺) Preliminary figures.
 - N.A. Not available.

Table 22 : 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
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	78.7	-12	95.4	-3	78.7	-12	101.0	3	86.8	-7	99.4	-2	82.0	-10	90.3	-5
2002 [^]	69.8	-11	83.6	-12	68.0	-14	85.4	-15	84.8	-2	93.0	-6	74.6	-9	82.9	-8

- Notes :
- (a) Prices for residential property in this table cover existing flats traded in the secondary market, but not new flats sold in the primary market.
 - (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.

Table 23 : 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>			
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	3 581	0.5	758	-0.4	1 756	0.3	808	-8.5	584	-15.1
2002 Jan-Nov	3 576	-0.2	754	-0.6	1 752	-0.3	707 [^]	-15.5 [^]	538 [^]	-9.4 [^]

Note : (^) Figures for Jan-Sep 2002.

Table 24 : Expenditure on machinery, equipment and computer software[#]

	<u>At current market prices</u>					<u>At constant (2000) 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>
1998	154,953	94	10,224	6	165,177	N.A.	-8.2	N.A.	-2.9	N.A.	-7.9
1999	130,676	92	10,673	8	141,349	N.A.	-19.4	N.A.	-0.6	N.A.	-18.2
2000	171,120	95	9,084	5	180,204	171,120	30.3	9,084	-15.3	180,204	27.0
2001	176,789	95	9,904	5	186,693	183,099	7.0	10,233	12.6	193,332	7.3
2002 ⁺	145,932	93	10,503	7	156,435	163,128	-10.9	11,570	13.1	174,698	-9.6

Notes : (a) Including the Mass Transit Railway Corporation Limited, the Kowloon-Canton Railway Corporation and the Airport Authority Hong Kong.

(#) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

(^) The level figures at constant (2000) market prices before 2000 are not available.

(+) Preliminary figures.

N.A. Not available.

**Table 25 : Indices of Industrial Production
(year-on-year rate of change (%))**

of which:

	<u>All manufacturing industries</u>	<u>Food, beverages and tobacco</u>	<u>Wearing apparel (except footwear)</u>	<u>Textile (including knitting)</u>	<u>Paper products and printing</u>	<u>Chemical, rubber, plastic and non-metallic mineral products</u>	<u>Plastic products</u>
1998	-8.7	-9.1	-6.0	-10.5	-7.8	-13.2	-19.6
1999	-6.4	-1.6	-0.1	-5.5	-9.6	-14.9	-18.6
2000	-0.5	-3.1	3.0	3.8	2.0	-14.4	-10.9
2001	-4.4	-1.7	-0.1	-0.3	-1.2	-7.8	-15.2
2002 Q1-Q3	-10.0	8.9	-6.4	-7.5	-2.9	-15.4	-11.9

	<u>Basic metals and fabricated metal products</u>	<u>Fabricated metal products</u>	<u>Electrical and electronic products, machinery, professional equipment and optical goods</u>	<u>Consumer electrical and electronic products</u>	<u>Machinery, equipment apparatus, parts and components</u>	<u>Miscellaneous manufacturing industries</u>
1998	-10.0	-17.8	-6.8	-13.3	1.5	-11.7
1999	-19.7	-21.3	-1.9	-2.8	0.9	-11.8
2000	-11.2	-18.5	0.8	-1.1	7.0	4.3
2001	-15.4	-10.2	-7.9	*	-8.5	-5.1
2002 Q1-Q3	-25.3	-29.6	-20.9	-19.5	-16.2	-1.2

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

**Table 26 : Business receipts indices for service industries/domains
(year-on-year rate of change in value terms (%))**

	<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>
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	-12.0	-1.2	-14.1	-2.5	-7.6	-2.4	-14.9	-13.2
2002 Q1-Q3	-12.1	-4.6	-5.3	-5.3	-7.5	-0.5	-23.2	-3.6

	<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>
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	2.7	-12.6	14.2	-16.9	-9.6	15.2	-1.6	-11.6
2002 Q1-Q3	-3.7	-15.3	8.5	-1.7	-6.5	-11.4	2.4	3.3

Note : (^) Including business receipts from the Airport Authority Hong Kong as from the third quarter of 1998.

Table 27 : 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>
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
2002	7.799	104.0	104.7	103.3
2002 Jan	7.798	106.0	106.8	105.2
Feb	7.800	106.3	107.0	105.5
Mar	7.799	105.9	106.6	105.2
Apr	7.799	105.7	106.5	104.9
May	7.799	104.6	105.2	103.9
Jun	7.799	103.5	104.1	102.9
Jul	7.799	102.3	102.7	101.8
Aug	7.799	102.7	103.2	102.3
Sep	7.799	103.0	103.6	102.4
Oct	7.799	103.5	104.3	102.7
Nov	7.799	102.9	103.6	102.2
Dec	7.798	102.7	103.4	101.9

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 28 : 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)									
1998	5.59	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	
2002	1.61	1.79	2.20	0.16	0.40	0.74	0.14	5.11	
2002	Jan	1.74	1.76	2.36	0.17	0.46	0.92	0.16	5.13
	Feb	1.81	1.90	2.47	0.18	0.55	1.08	0.16	5.13
	Mar	1.86	2.12	2.93	0.21	0.62	1.39	0.16	5.13
	Apr	1.73	1.95	2.80	0.17	0.56	1.41	0.16	5.13
	May	1.60	1.81	2.54	0.17	0.43	1.02	0.16	5.13
	Jun	1.41	1.75	2.34	0.17	0.36	0.74	0.16	5.13
	Jul	1.52	1.75	2.04	0.17	0.37	0.56	0.16	5.13
	Aug	1.53	1.65	1.78	0.16	0.36	0.44	0.16	5.13
	Sep	1.67	1.77	1.82	0.16	0.38	0.43	0.16	5.13
	Oct	1.90	1.97	1.99	0.17	0.43	0.48	0.16	5.13
	Nov	1.37	1.56	1.79	0.10	0.20	0.30	0.07	5.03
	Dec	1.16	1.48	1.68	0.09	0.15	0.25	0.03	5.00

Table 29 : 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)									
1998	1,689	1,265	2,954	10	36	46	1,700	1,300	3,000
1999	1,763	1,447	3,210	10	31	41	1,773	1,477	3,251
2000	1,839	1,652	3,491	12	25	37	1,851	1,677	3,528
2001	1,838	1,528	3,367	16	23	40	1,855	1,552	3,407
2002	1,806	1,470	3,276	19	23	42	1,825	1,493	3,318
(Rate of change during the period (%))									
1998	10.0	14.1	11.7	-34.0	-29.7	-30.7	9.5	12.2	10.7
1999	4.4	14.4	8.7	-1.6	-14.3	-11.4	4.3	13.6	8.4
2000	4.3	14.2	8.7	23.1	-19.4	-8.8	4.4	13.5	8.5
2001	*	-7.5	-3.6	31.7	-5.2	7.2	0.2	-7.4	-3.4
2002	-1.8	-3.8	-2.7	15.6	-2.8	4.8	-1.6	-3.8	-2.6

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 30 : 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)										
1998	178	(176)	19	198	1,829	1,283	3,112	1,841	1,327	3,168
1999	205	(191)	20	225	1,923	1,463	3,386	1,935	1,499	3,434
2000	204	(200)	40	244	1,988	1,662	3,649	2,002	1,690	3,693
2001	230	(224)	28	258	1,999	1,551	3,550	2,017	1,577	3,594
2002	259	(253)	36	296	1,984	1,535	3,519	2,004	1,558	3,562
(Rate of change during the period (%))										
1998	-5.2	(-5.4)	-2.8	-5.0	9.7	14.3	11.6	9.3	11.8	10.3
1999	15.2	(8.6)	2.1	13.9	5.2	14.0	8.8	5.1	12.9	8.4
2000	-0.7	(4.8)	101.2	8.3	3.4	13.6	7.8	3.5	12.8	7.5
2001	12.7	(12.3)	-29.3	5.8	0.5	-6.6	-2.7	0.7	-6.7	-2.7
2002	12.9	(12.7)	28.4	14.6	-0.7	-1.1	-0.9	-0.6	-1.2	-0.9

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 31 : 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)								
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	1,626	252	19	278	2	7	1,648	537
2002	1,591	243	23	210	2	8	1,616	461
(Rate of change during the period (%))								
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	*	-25.6	-15.5	-38.9	-37.5	-52.2	-0.3	-33.6
2002	-2.2	-3.7	20.0	-24.4	-1.5	7.3	-1.9	-14.2

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 32 : Assets and liabilities of authorized institutions

	<i>As at end of :</i>									
	<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</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	622	-19.5	529	-15.0	543	2.7	470	-13.4	394	-16.2
Amount due to banks abroad	2,803	-29.6	2,202	-21.5	1,752	-20.4	1,459	-16.7	1,394	-4.5
Deposits from customers	3,000	11.3	3,251	8.4	3,528	8.5	3,407	-3.4	3,318	-2.6
NCDs outstanding	209	-4.9	199	-4.8	178	-10.9	172	-2.9	211	22.6
Other liabilities	619	-14.9	604	-2.5	661	9.5	646	-2.2	676	4.6
Total liabilities	7,254	-13.6	6,784	-6.5	6,661	-1.8	6,154	-7.6	5,993	-2.6
<u>Assets</u>										
Notes and coins	14	-1.6	27	96.8	15	-41.8	14	-10.0	14	-2.7
Amount due from authorized institutions in Hong Kong	629	-18.4	536	-14.8	551	2.9	468	-15.1	395	-15.6
Amount due from banks abroad	2,312	0.1	2,389	3.3	2,450	2.6	2,160	-11.9	1,919	-11.1
NCDs held	144	-16.3	138	-4.2	135	-2.7	128	-5.3	134	4.7
Loans and advances to customers	3,304	-19.8	2,813	-14.9	2,461	-12.5	2,185	-11.2	2,077	-4.9
Other assets	850	-15.7	882	3.7	1,048	18.9	1,200	14.5	1,454	21.2
Total assets	7,254	-13.6	6,784	-6.5	6,661	-1.8	6,154	-7.6	5,993	-2.6

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

Table 33 : Balance sheet of the Exchange Fund

	As at end of :									
	1998		1999		2000		2001		2002 [^]	
	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change
Assets										
Foreign currency assets	701,239	19.2	755,115	7.7	856,680	13.5	877,427	2.4	891,684	1.6
Hong Kong dollar assets	211,036	337.9	247,641	17.3	166,683	-32.7	101,719	-39.0	63,433	-37.6
Total assets^(a)	912,275	43.3	1,002,756	9.9	1,023,363	2.1	979,146	-4.3	955,117	-2.5
Liabilities and Fund Resources										
Certificates of Indebtedness ^(b)	86,465	-0.6	118,195	36.7	99,265	-16.0	107,545	8.3	118,475	10.2
Coins in circulation	5,778	7.0	5,777	*	5,918	2.4	5,691	-3.8	5,891	3.5
Balance of banking system ^(c)	2,527	753.7	7,960	215.0	669	-91.6	671	0.3	525	-21.8
Exchange Fund Bills and Notes	98,334	10.1	101,828	3.6	109,288	7.3	118,157	8.1	122,925	4.0
Placements by other government funds ^(d)	424,562	78.7	392,206	-7.6	417,162	6.4	380,602	-8.8	301,669	-20.7
Other liabilities ^(e)	52,364	95.6	85,932	64.1	83,962	-2.3	63,891	-23.9	78,374	22.7
Total liabilities^(a)	670,030	50.1	711,898	6.2	716,264	0.6	676,557	-5.5	627,859	-7.2
Accumulated Surplus	242,245	27.3	290,858	20.1	307,099	5.6	302,589	-1.5	327,258	8.2

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 34 : Labour force characteristics

<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>	
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	5 609 400	1.3	61.5	3 451 200	1.4	3 240 500	-0.4	
2002	5 676 000	1.2	62.0	3 518 800	2.0	3 266 200	0.8	

<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>		
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	210 700	40.8	6.2	104 500	17.8	3.0		
2002	252 600	19.9	7.2	109 700	5.0	3.1		

Table 35 : Employment in selected major economic sectors

Major economic sector	As in September of:									
	1998		1999		2000		2001		2002	
	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	257 000	-16.9	244 500	-4.9	229 400	-6.2	209 300	-8.8	190 100	-9.2
<i>of which :</i>										
Wearing apparel, except footwear	44 900	-19.1	43 200	-3.9	37 000	-14.4	31 700	-14.1	25 200	-20.5
Textiles	35 100	-20.0	31 800	-9.5	29 400	-7.4	27 100	-8.0	26 400	-2.6
Electronics	24 800	-26.5	25 500	2.9	26 100	2.6	20 900	-19.9	18 600	-11.3
Plastic products	8 700	-29.4	8 000	-8.1	6 800	-14.2	5 900	-13.1	4 500	-24.8
Fabricated metal products, except machinery and equipment	15 000	-20.7	12 500	-16.8	12 100	-3.4	9 800	-19.1	7 700	-21.5
Wholesale, retail, import/export trades, restaurants and hotels	946 600	-7.8	997 500	5.4	1 053 300	5.6	1 027 300	-2.5	1 014 000	-1.3
<i>of which :</i>										
Wholesale, retail and import/export trades	740 900	-8.1	784 900	5.9	832 600	6.1	804 300	-3.4	801 700	-0.3
Restaurants and hotels	205 600	-6.8	212 600	3.4	220 600	3.8	223 000	1.1	212 300	-4.8
Transport, storage and communications	169 600	-4.5	175 600	3.6	183 300	4.4	184 200	0.5	180 400	-2.1
<i>of which :</i>										
Land transport	37 900	7.9	39 000	2.9	38 200	-2.1	38 800	1.8	38 800	*
Water transport	26 900	-0.3	26 500	-1.5	29 000	9.2	28 800	-0.7	28 500	-0.8
Services allied to transport	48 300	-12.9	51 900	7.6	53 900	3.9	53 800	-0.2	52 900	-1.7
Financing, insurance, real estate and business services	398 100	-4.3	406 900	2.2	437 000	7.4	437 300	0.1	424 500	-2.9
<i>of which :</i>										
Financial institutions	128 400	-10.6	137 400	7.0	137 400	*	136 300	-0.8	126 600	-7.2
Insurance	26 500	22.5	27 100	2.4	25 400	-6.3	26 900	6.1	26 200	-2.8
Real estate	78 800	-7.5	81 900	3.9	83 900	2.4	82 200	-1.9	83 400	1.4
Business services except machinery and equipment rental and leasing	163 000	-0.6	159 500	-2.2	189 200	18.6	190 800	0.9	187 200	-1.9
Community, social and personal services	323 900	3.2	340 000	5.0	348 900	2.6	377 000	8.1	398 300	5.7
<i>of which :</i>										
Sanitary and similar services	37 300	18.5	42 800	14.9	42 600	-0.5	46 800	9.8	53 700	14.8
Education services	104 200	4.5	109 000	4.6	112 800	3.4	120 600	7.0	123 300	2.3
Medical, dental and other health services	67 000	7.6	68 200	1.7	68 200	*	71 700	5.2	74 100	3.4
Welfare institutions	28 300	5.2	29 600	4.6	35 900	21.5	41 000	14.0	46 000	12.2
Civil Service^(a)	188 400	2.3	188 000	-0.2	183 400	-2.4	176 700	-3.7	170 500	-3.5

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 36 : Reported vacancies in selected major economic sectors

Major economic sector	As in September of:										Vacancy rate in
	1998		1999		2000		2001		2002		Sep 2002
	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	2 000	-71.2	2 200	8.6	2 200	*	1 400	-37.8	1 400	3.9	0.7
<i>of which :</i>											
Wearing apparel, except footwear	700	-59.0	600	-14.7	500	-12.5	400	-24.2	700	74.4	2.6
Textiles	200	-76.4	200	-3.1	100	-28.5	100	-52.2	#	-22.2	0.2
Electronics	200	-85.0	400	130.5	400	11.0	100	-68.3	100	-19.2	0.5
Plastic products	100	-71.9	100	55.6	100	-28.6	#	-56.7	#	-26.9	0.4
Fabricated metal products, except machinery and equipment	100	-78.8	100	-20.3	#	-37.3	100	51.4	#	-62.5	0.3
Wholesale, retail, import/export trades, restaurants and hotels	9 000	-61.1	9 700	7.7	14 700	51.1	8 000	-45.7	7 100	-10.3	0.7
<i>of which :</i>											
Wholesale, retail and import/export trades	7 300	-58.3	8 400	14.5	12 300	46.6	6 400	-47.6	5 800	-10.2	0.7
Restaurants and hotels	1 700	-70.0	1 300	-22.0	2 400	79.8	1 500	-35.9	1 400	-10.8	0.6
Transport, storage and communications	1 600	-57.2	1 800	8.7	2 300	28.8	1 100	-50.1	1 200	5.4	0.7
<i>of which :</i>											
Land transport	400	-50.9	200	-45.0	300	54.1	200	-32.5	300	21.6	0.7
Water transport	100	-66.6	200	32.4	400	106.9	100	-73.3	100	10.6	0.4
Services allied to transport	400	-53.3	800	79.2	800	-1.8	300	-62.5	200	-21.3	0.4
Financing, insurance, real estate and business services	6 200	-53.3	6 200	-0.1	10 300	64.9	5 300	-48.8	4 800	-8.4	1.1
<i>of which :</i>											
Financial institutions	800	-68.6	1 200	55.3	2 300	88.0	1 500	-35.9	1 000	-33.1	0.8
Insurance	1 700	21.6	800	-54.2	1 400	83.3	600	-59.1	900	59.4	3.4
Real estate	1 900	-53.3	1 800	-5.7	2 200	21.1	1 300	-41.4	1 000	-21.1	1.2
Business services except machinery and equipment rental and leasing	1 800	-65.3	2 400	31.2	4 300	78.5	1 900	-56.0	1 900	-0.2	1.0
Community, social and personal services	4 900	-40.9	4 700	-3.4	6 100	30.2	5 500	-11.1	4 200	-23.8	1.0
<i>of which:</i>											
Sanitary and similar services	400	-44.6	400	5.7	700	95.2	300	-63.1	300	17.5	0.6
Education services	600	-27.4	400	-36.1	900	139.5	800	-14.1	600	-17.9	0.5
Medical, dental and other health services	2 100	-3.5	2 100	-0.1	2 200	4.3	1 900	-16.3	1 400	-23.7	1.9
Welfare institutions	700	-31.8	600	-14.9	700	20.8	800	11.7	700	-16.3	1.4
Civil Service^(a)	4 400	-14.2	3 000	-32.5	1 900	-37.5	1700	-8.1	1 700	1.9	1.0

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 37: 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>		
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	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
2002	39 022	-3.8	9 638	-31.4	48 660	-10.9	2 790	9.1	19 007	-2.3	21 716	-1.0	70 376	-8.0

Note : (a) Including the Mass Transit Railway Corporation Limited, the Kowloon-Canton Railway Corporation and the Airport Authority Hong Kong.

Table 38: Average labour earnings by major economic sector

<u>Major economic sector</u>	<i>As in Q3 of:</i>				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Wholesale, retail and import/export trades	11,500 (3) <1>	11,200 (-2) <4>	11,600 (4) <7>	11,800 (2) <3>	11,500 (-2) <2>
Restaurants and hotels	9,000 (1) <-2>	8,600 (-4) <2>	8,600 (*) <3>	8,600 (-1) <*>	8,300 (-3) <1>
Transport, storage and communications	18,100 (2) <*>	17,100 (-5) <1>	17,500 (2) <5>	17,800 (2) <3>	17,400 (-3) <1>
Financing, insurance, real estate and business services	17,700 (-3) <-5>	17,400 (-1) <5>	17,700 (1) <4>	17,500 (-1) <*>	17,300 (-1) <2>
Community, social and personal services	20,200 (5) <2>	20,200 (*) <7>	20,000 (-1) <2>	20,700 (3) <4>	20,100 (-2) <1>
Manufacturing	11,100 (8) <5>	10,900 (*) <6>	11,000 (1) <4>	11,300 (2) <3>	11,200 (-1) <3>
All sectors surveyed	14,400 (3) <*>	14,200 (-1) <5>	14,400 (2) <5>	14,700 (2) <3>	14,500 (-2) <2>

Notes : () % change over a year earlier in money terms.

< > % change over a year earlier in real terms.

(*) Change of less than 0.5%.

**Table 39: Wage indices by selected major economic sector
(year-on-year rate of change (%))**

As in September of :

Selected major economic sector	<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>	
	In money terms	In real terms								
Wholesale, retail and import/export trades	2	*	-1	5	3	5	1	2	-2	2
Restaurants and hotels	*	-2	*	5	-1	1	1	2	-3	2
Transport services	4	2	-2	3	-3	-1	*	1	*	4
Financing, insurance, real estate and business services	4	2	-2	3	2	4	-2	-1	*	4
Personal services	4	1	*	5	*	2	1	2	-3	1
Manufacturing	1	-1	-1	5	2	5	3	4	-2	3
All sector surveyed	2	*	-1	4	1	4	1	2	-2	3

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

**Table 40: Composite Consumer Price Index
(year-on-year rate of change (%))**

		<i>of which :</i>														
		<i>Meals bought away from home</i>				<i>of which :</i>										
<u>Year/month</u>	<u>All items</u>	<u>Food</u>	<u>Other food</u>	<u>Housing</u>	<u>Private dwellings</u>	<u>Public Dwellings</u>	<u>Electricity, gas and water</u>	<u>Alcoholic drinks and tobacco (for home consumption)</u>	<u>Clothing and footwear</u>	<u>Durable goods</u>	<u>Miscellaneous goods</u>	<u>Transport</u>	<u>Miscellaneous services</u>			
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		
2002	-3.0	-2.1	-1.5	-3.1	-5.7	-6.5	-2.7	-7.0	2.4	0.7	-6.3	1.7	-0.6	-2.3		
2002	Jan	-3.5	-1.8	-0.8	-3.3	-5.4	-5.4	-10.7	-16.6	6.0	0.9	-7.3	0.1	-1.5	-2.9	
	Feb	-2.3	-1.0	-0.6	-1.6	-5.5	-5.6	-10.7	-4.1	5.1	1.1	-7.3	0.4	0.4	0.3	
	Mar	-2.2	-1.1	-1.1	-1.1	-5.8	-5.8	-10.7	12.7	2.5	-1.4	-7.2	1.0	-0.1	-1.1	
	Apr	-3.1	-1.9	-1.1	-3.2	-6.0	-6.1	-10.4	-9.3	2.5	1.5	-6.9	2.0	-0.7	-1.7	
	May	-3.1	-2.2	-1.7	-3.1	-6.0	-6.1	-10.4	-8.4	2.3	2.4	-6.1	2.1	-0.5	-2.4	
	Jun	-3.3	-3.0	-1.6	-5.1	-6.3	-6.5	-10.4	-8.2	1.3	3.4	-5.7	2.8	-0.4	-2.6	
	Jul	-3.4	-3.4	-1.8	-6.0	-6.1	-6.3	-10.4	-8.5	2.7	2.5	-5.8	2.2	-0.1	-2.4	
	Aug	-3.3	-2.1	-1.8	-2.6	-6.4	-6.6	-10.4	-8.5	3.1	2.1	-5.5	2.0	-0.6	-2.9	
	Sep	-3.7	-2.5	-1.8	-3.6	-6.6	-6.9	-10.4	-8.4	2.2	-0.3	-5.4	1.8	-0.6	-3.7	
	Oct	-3.6	-1.9	-1.7	-2.3	-6.7	-7.0	-10.4	-7.9	0.7	0.8	-6.3	1.3	-1.3	-3.4	
	Nov	-3.6	-2.0	-1.7	-2.4	-7.1	-7.5	-10.2	-7.2	0.6	-0.7	-6.0	2.3	-1.2	-3.3	
	Dec	-1.5	-2.1	-1.8	-2.5	-0.5	-7.9	2205.8	-6.2	0.3	-3.0	-5.8	2.6	-0.9	-1.4	

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.

Table 41 : Consumer Price Index (A)
(year-on-year rate of change (%))

		<i>of which :</i>													
		<i>Meals bought away from home</i>				<i>of which :</i>									
<u>Year/month</u>	<u>All items</u>	<u>Food</u>	<u>Other food</u>	<u>Housing</u>	<u>Private dwellings</u>	<u>Public dwellings</u>	<u>Electricity, gas and water</u>	<u>Alcoholic drinks and tobacco (for home consumption)</u>	<u>Clothing and footwear</u>	<u>Durable goods</u>	<u>Miscellaneous goods</u>	<u>Transport</u>	<u>Miscellaneous services</u>		
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	
2002	-3.2	-2.2	-1.7	-2.9	-5.7	-6.8	-2.7	-8.2	2.4	2.6	-6.0	1.0	-0.6	-3.3	
2002	Jan	-3.9	-2.0	-1.0	-3.2	-6.3	-5.8	-10.7	-21.0	6.1	4.2	-6.6	0.5	-1.2	-3.2
	Feb	-2.4	-0.9	-0.8	-1.1	-6.4	-5.9	-10.7	-5.2	5.6	4.3	-6.7	0.6	0.5	-0.7
	Mar	-2.0	-0.9	-1.2	-0.5	-6.5	-6.0	-10.7	17.4	2.7	1.6	-6.4	1.0	0.1	-1.9
	Apr	-3.3	-1.8	-1.2	-2.5	-6.6	-6.3	-10.4	-10.7	2.5	3.0	-6.5	1.4	-0.6	-2.4
	May	-3.5	-2.2	-1.8	-2.8	-6.7	-6.3	-10.4	-9.8	2.4	4.5	-5.8	1.4	-0.5	-3.4
	Jun	-3.9	-3.2	-1.8	-5.0	-6.9	-6.7	-10.4	-9.6	1.3	5.7	-5.6	1.7	-0.5	-3.7
	Jul	-4.1	-3.9	-2.0	-6.3	-7.0	-6.8	-10.4	-9.9	2.7	4.4	-5.7	1.4	*	-3.7
	Aug	-3.7	-2.1	-2.0	-2.3	-7.2	-7.0	-10.4	-9.8	3.0	4.1	-5.4	1.2	-0.6	-4.3
	Sep	-4.2	-2.9	-2.1	-3.8	-7.4	-7.4	-10.4	-9.7	2.3	0.6	-5.0	0.5	-0.6	-5.2
	Oct	-4.0	-2.1	-2.0	-2.2	-7.4	-7.4	-10.4	-9.3	0.4	3.3	-6.2	0.4	-1.2	-4.8
	Nov	-4.1	-2.1	-2.0	-2.3	-7.8	-7.9	-10.2	-8.5	0.3	0.1	-6.1	1.1	-1.2	-4.6
	Dec	1.0	-2.5	-2.1	-3.0	11.2	-8.5	2196.4	-7.5	0.1	-3.1	-6.0	1.2	-0.9	-2.0

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 42 : Implicit price deflators of GDP and its main expenditure components[#]
(rate of change (%))**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002⁺</u>
Private consumption expenditure	2.6	-5.2	-5.1	-1.3	-3.3
Government consumption expenditure	2.6	-0.1	-1.9	1.2	-0.4
Gross domestic fixed capital formation	-7.2	0.4	-3.8	-4.3	-7.0
Total exports of goods	-3.3	-3.4	-0.5	-2.6	-2.9
Imports of goods	-4.4	-2.6	0.8	-3.5	-4.2
Exports of services	-5.6	-3.6	0.8	-3.9	-2.8
Imports of services	-3.0	-0.8	-0.2	-0.8	0.4
Gross Domestic Product	0.2	-5.8	-6.2	-1.4	-2.7
Total final demand	-2.3	-3.7	-2.9	-2.4	-3.4
Domestic demand	0.6	-2.3	-5.4	-1.8	-4.2

Notes : (#) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

(+) Preliminary figures.

