



2004 Economic Background and 2005 Prospects

Government of the Hong Kong
Special Administrative Region

***2004 ECONOMIC BACKGROUND
AND
2005 PROSPECTS***

ECONOMIC ANALYSIS DIVISION
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HONG KONG SPECIAL ADMINISTRATIVE REGION

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CALENDAR OF EVENTS OF SIGNIFICANCE TO THE HONG KONG ECONOMY IN 2004

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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE IN 2004

Summary

- *The Hong Kong economy entered into a full-fledged upturn in 2004, following a swift rebound in the second half of 2003 after the waning of SARS. The pick-up in activity was broad-based. Externally, exports of both goods and services were robust all through, thanks to the global economic upswing and enhanced price competitiveness from a weak US dollar. Locally, consumption picked up strongly and attained the fastest growth since 1993 on the back of improving income and buoyant asset markets. Investment in overall terms bounced up visibly along with the activity upturn, attaining the fastest growth since 2000.*
- *GDP grew by a remarkable 8.1% in real terms in 2004, distinctly faster than the 3.2% growth in 2003. The growth was the second fastest since 1987, just after the exceptionally high growth in 2000.*
- *Along with the economic upturn, total employment expanded at a considerable pace and vacancies surged across many sectors. The seasonally adjusted unemployment rate came down progressively over the course of the year, reaching a near three-year low of 6.5% in the fourth quarter. Downward pressures on wages and labour earnings also began to recede in 2004, though only gradually.*
- *The property market was buoyant, marked by active trading in both residential and non-residential properties. The strong acquisition interest was underpinned by the return of home buyers' confidence, coupled with an attractive affordability level, better mortgage financing terms and abundant liquidity. By December 2004, overall flat prices have risen back by 27% over a year ago, though still 52% lower than the peak in 1997.*
- *The economy finally came out of the protracted period of deflation since November 1998. In parallel with the much improved consumer sentiment, the pricing power of retailers seems to be returning. Also, the rise in import prices over the past year was more readily passed through to the retail price level.*

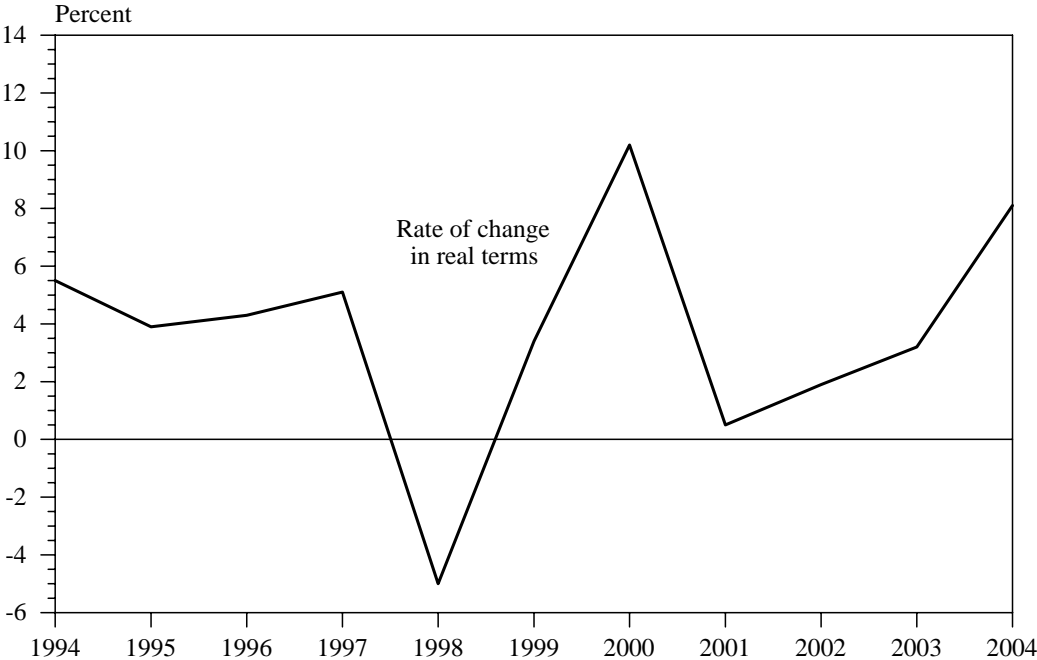
Overall situation

1.1 The Hong Kong economy entered into a full-fledged upturn in 2004, following a V-shaped rebound in the second half of 2003 after the waning of the negative impacts due to the Severe Acute Respiratory Syndrome (SARS). This once again demonstrated the resilience and strength of the economy. The activity upturn in 2004 was broad-based, marked by thriving exports and offshore trade, vibrant inbound tourism, strong pick-up in consumer spending, and visible bounce-back in investment. While external trade had benefitted much from the global trade boom, the domestic economy also revived along with the return of both consumer and investor confidence.

1.2 For 2004 as a whole, the *Gross Domestic Product (GDP)*⁽¹⁾ grew by a remarkable 8.1% in real terms, distinctly faster than the 3.2% growth in 2003. The growth was the second fastest since 1987, just after the exceptionally high growth in 2000. On a year-on-year comparison, after growing by 7.0% in the first quarter of 2004, real GDP surged further by 12.1% in the second quarter against a low base last year due to SARS and sustained notable growth at 6.8% and 7.1% in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, GDP expanded throughout the four quarters, by 2.0%, 2.5%, 1.6% and 0.6% respectively in real terms.

Diagram 1.1 : Gross Domestic Product

(a) Annual profile



(b) Quarterly profile

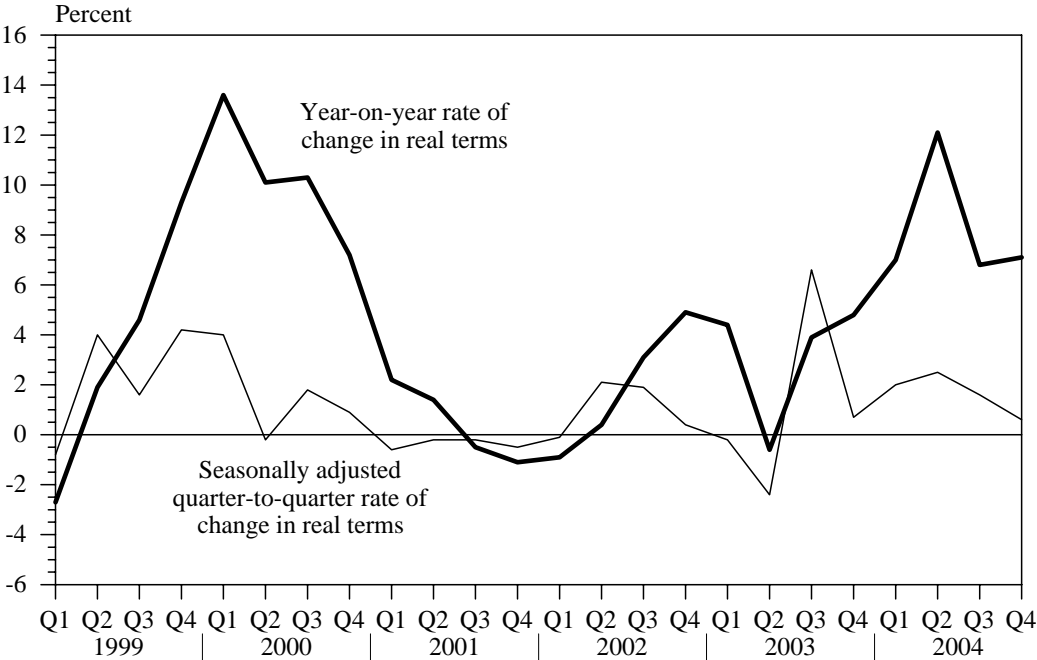


Table 1.1 : Gross Domestic Product and its main expenditure components and the main price indicators (year-on-year rate of change (%))

	2003 [#]	2004 ⁺	2003				2004			
			Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]	Q4 ⁺
<i>Change in real terms of GDP and its main expenditure components (%)</i>										
Private consumption expenditure [@]	-0.3	6.7	-2.7 (-0.4)	-3.8 (-2.1)	0.9 (4.9)	4.4 (1.8)	5.4 (1.0)	10.7 (2.5)	5.0 (-0.1)	5.7 (1.9)
Government consumption expenditure	1.9	0.5	1.0 (-0.1)	0.5 (1.8)	0.5 (1.5)	5.5 (2.1)	5.4 (-0.2)	-0.2 (-3.3)	-1.4 (0.2)	-1.8 (1.4)
Gross domestic fixed capital formation	0.1	4.5	(N.A.)	(N.A.)	*	1.9 (N.A.)	5.5 (N.A.)	12.7 (N.A.)	2.7 (N.A.)	-2.0 (N.A.)
<i>of which :</i>										
Building and construction	-7.0	-10.3	-3.2	-8.5	-6.6	-9.9	-11.6	-10.1	-13.7	-5.2
Machinery, equipment and computer software	6.5	12.2	12.8	-1.1	5.6	9.3	16.0	26.1	12.2	-2.4
Total exports of goods	14.2	15.3	19.1 (2.6)	14.3 (2.0)	10.0 (2.8)	14.7 (6.5)	15.0 (2.5)	18.7 (5.8)	15.3 (0.6)	12.6 (2.9)
Imports of goods	13.1	14.1	18.8 (3.4)	10.9 (-0.5)	8.2 (3.6)	15.7 (8.0)	16.3 (3.7)	20.3 (3.6)	14.2 (-1.1)	7.0 (0.6)
Exports of services [@]	5.7	14.9	13.0 (-1.0)	-10.4 (-15.2)	8.7 (27.2)	10.2 (3.0)	14.0 (1.8)	32.8 (-0.4)	11.1 (6.0)	7.3 (-0.5)
Imports of services	-4.6	10.5	-5.4 (-5.5)	-16.8 (-15.4)	-0.3 (25.3)	3.1 (2.4)	4.1 (-3.7)	30.3 (5.1)	6.1 (2.4)	6.0 (1.6)
Gross Domestic Product	3.2	8.1	4.4 (-0.2)	-0.6 (-2.4)	3.9 (6.6)	4.8 (0.7)	7.0 (2.0)	12.1 (2.5)	6.8 (1.6)	7.1 (0.6)
<i>Change in the main price indicators (%)</i>										
GDP deflator	-5.3	-2.8	-4.4 (-1.1)	-5.7 (-2.2)	-6.1 (-1.1)	-4.8 (-0.6)	-4.0 (-0.3)	-2.7 (-0.7)	-2.5 (-0.8)	-2.1 (-0.3)
Composite Consumer Price Index	-2.6	-0.4	-2.0 (-0.2)	-2.5 (-1.1)	-3.6 (-1.8)	-2.3 (0.8)	-1.8 (0.3)	-0.9 (-0.1)	0.8 (-0.2)	0.2 (0.3)
Change in nominal GDP (%)	-2.2	5.1	-0.2	-6.4	-2.3	-0.2	2.6	9.1	4.1	4.8

Notes : (#) Revised figures.

(+) Preliminary figures.

(@) Figures for 2004 have been revised following the release of enhanced estimates on tourism expenditure by Mainland visitors by the Hong Kong Tourism Board. Estimates for 2002 and 2003 were revised accordingly to enable comparability of the data series. The overall GDP nevertheless is not affected.

() Seasonally adjusted quarter-to-quarter rate of change.

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.

(*) Change of less than 0.05%.

The external sector

1.3 Merchandise exports sustained remarkable growth throughout 2004, boosted by the sturdy demand in all major markets including East Asia, the European Union and US, as well as the Mainland's buoyant external trade and robust domestic demand. Apart from this, increasing competitiveness of Mainland products in the world market, coupled with the weakness of the US dollar, has rendered a further boost to Hong Kong's exports. *Total exports of goods* attained double-digit growth in all the four quarters of 2004, yielding an annual growth of 15.3% in 2004, up further from the already strong growth of 14.0% in 2003. This was also the second consecutive year that exports had a double-digit growth, the first time since 1995.

1.4 On invisible trade, inbound tourism was vibrant, with the number of incoming visitors hitting successive new monthly highs in the latter part of the year. For 2004 as a whole, the number of visitor arrivals had a 40% growth over 2003. If compared with 2002 to remove the distortion caused by SARS, the growth was also phenomenal, at 32%, reflecting that the tourism sector has not only fully recovered from SARS, but also that it is now back on a full upswing. While the extension of the Individual Visit Scheme added impetus to the surge in the number of Mainland visitors, the number of visitors from most other major sources also rose considerably. Coupled with the thriving offshore trade brought forth particularly from strong trade flows in the region, *exports of services* were buoyant all through 2004, giving a remarkable 14.9% growth for the year as a whole, distinctly up from that of 5.7% in 2003.

Diagram 1.2 : Total exports of goods and exports of services

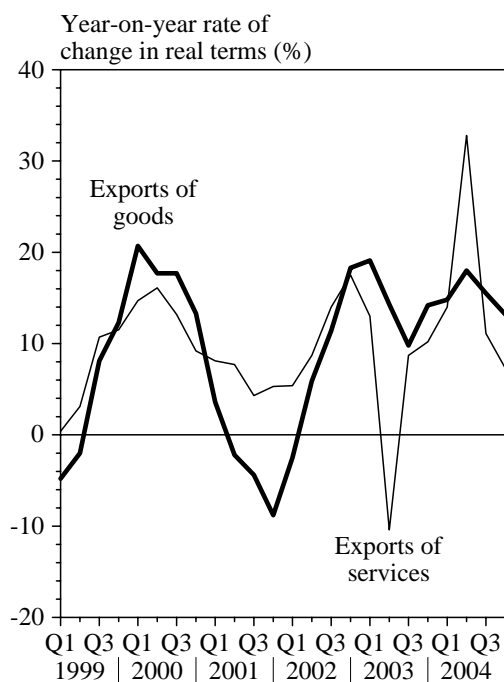
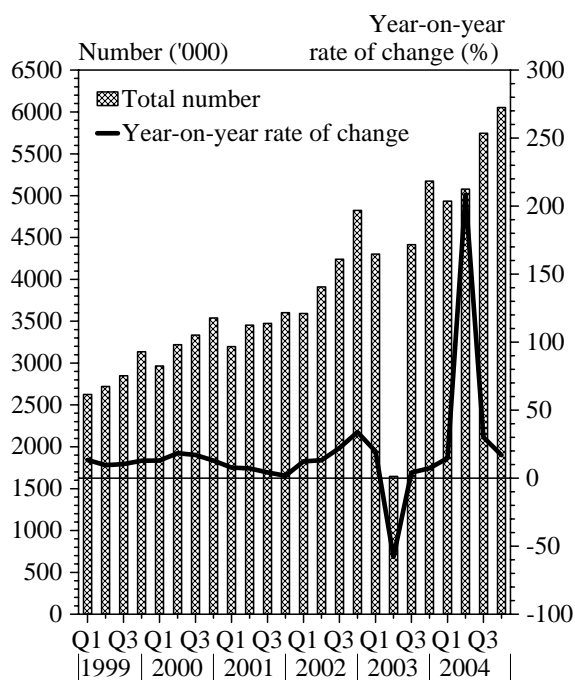


Diagram 1.3 : Visitor arrivals



The domestic sector

1.5 While external trade was buoyant throughout 2004, the domestic sector had also picked up further in the year. On the consumption front, local consumer spending maintained notable growth throughout the year, as consumers' willingness to spend was well underpinned by optimism over the economic outlook, improving labour market conditions, as well as the wealth effect stemming from the rebound in property prices. *Private consumption expenditure (PCE)* grew by 5.4%, 10.7%, 5.0% and 5.7% respectively in real terms in the four quarters over a year earlier, giving a 6.7% growth for 2004 as a whole, the fastest since 1993. The particularly distinct growth in the second quarter was in part inflated by an exceptionally low base caused by SARS in 2003. On a seasonally adjusted quarter-to-quarter comparison, PCE grew by 1.0% and 2.5% in real terms in the first and second quarters, edged down by 0.1% in the third quarter, and then picked up again to a 1.9% growth in the fourth quarter.

**Table 1.2 : Consumer spending by major component^(a)
(year-on-year rate of change in real terms (%))**

Of which :

		Total consumer spending in the domestic market ^(a)	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure ^(b)
2003	Annual	1	1	6	-4	1	-13	-3 ⁺	* ⁺
	Q1	*	1	5	-5	1	-14	25 ⁺	-3 ⁺
	Q2	-6	*	-1	-17	-4	-31	-57 ⁺	-4 ⁺
	Q3	3	1	6	1	3	-3	19 ⁺	1 ⁺
	Q4	5	2	13	4	5	-4	6 ⁺	4 ⁺
2004	Annual	7	1	16	10	6	11	19	7
	Q1	7	1	17	6	5	-2	11 ⁺	5 ⁺
	Q2	13	-2	20	27	11	50	150 ⁺	11 ⁺
	Q3	5	2	14	4	3	6	4 ⁺	5 ⁺
	Q4	5	3	14	6	3	1	-4	6

Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

(b) Private consumption expenditure is obtained by deducting visitor spending from the total consumer spending in the domestic market, and adding back residents' expenditure abroad.

(+) Revised figures following the Hong Kong Tourism Board's revision on the consumption expenditure of Mainland visitors. For details, see footnote @ in Table 1.1.

(*) Change of less than 0.5%.

1.6 Investment demand strengthened as investor confidence returned. Overall investment spending in terms of *gross domestic fixed capital formation* attained a 4.5% growth in real terms in 2004, the fastest since 2000, as the activity upturn and brighter business outlook prompted a broad-based surge in machinery and equipment investment to cater for the growing business. Particularly worth-noting was that investment in industrial machinery for manufacturing use, which had been on a general fall-off in recent years, also rebounded significantly in the year. However, building and construction output was still in a lull in the year, due to the earlier fall-off in new private building projects, the scale-back of the Public Housing Programme, as well as the completion of works on priority railway projects.

Diagram 1.4 : Consumer spending

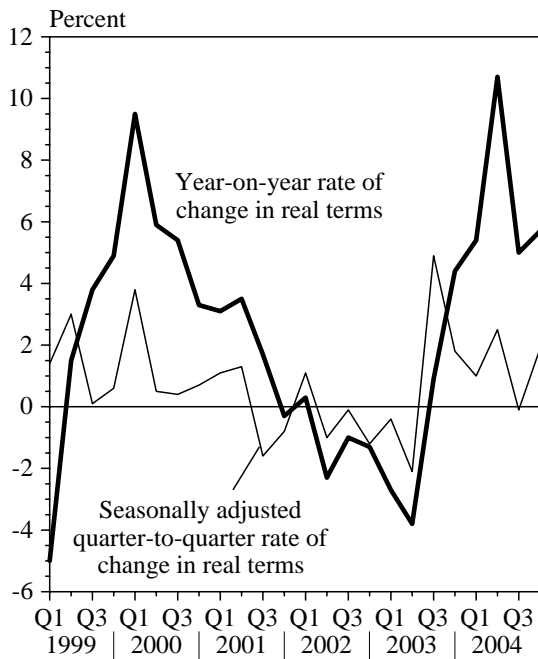
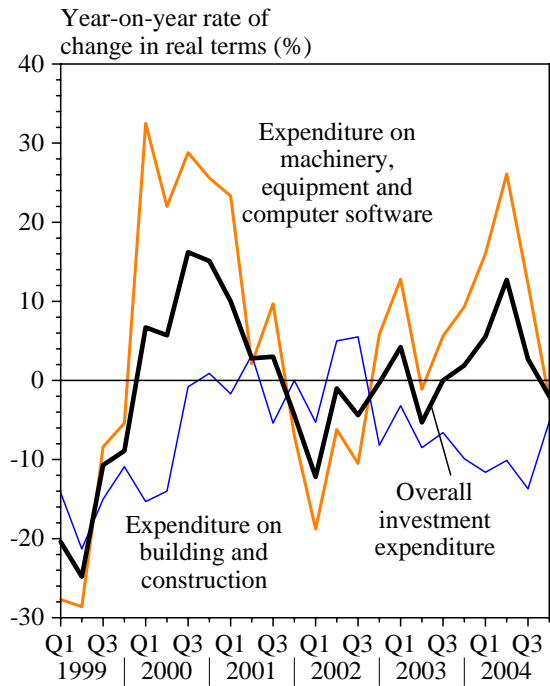


Diagram 1.5 : Investment spending



The labour sector

1.7 The labour market improved progressively on a broad front throughout 2004. As the economic recovery gathered pace, *total employment* expanded notably, by 2.1% in 2004. By the fourth quarter of 2004, the total number reached an all-time high of 3.33 million, a gain of 139 400 over the trough in 2003. Reflecting improved employment conditions, the *seasonally adjusted unemployment rate* fell back successively from a high of 8.6% in the second quarter of 2003 to a near three-year low of 6.5% in the fourth quarter of 2004. The *underemployment rate* also fell from a high of 4.3% in the second quarter of 2003 to 3.1% in the fourth quarter of 2004. Vacancies surged across many sectors, with particularly distinct rises in trade-related and tourism-related sectors such as freight transport services, retail trade, and restaurants and hotels. Downward pressures on wages and labour earnings, which were still pronounced in 2003, began to recede in 2004, though only gradually.

Diagram 1.6 : Unemployment and underemployment rates

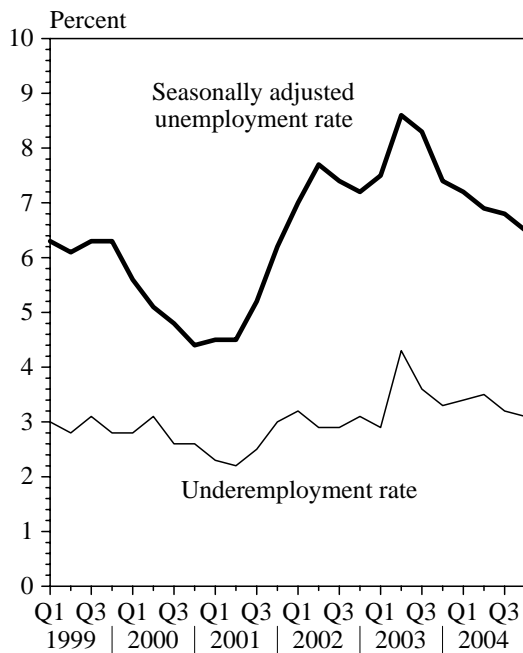
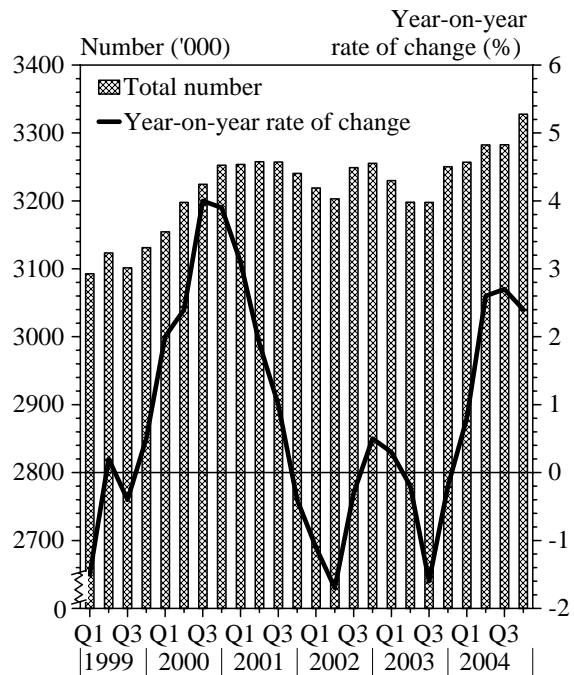


Diagram 1.7 : Total employment



Property market

1.8 The *residential property* market picked up distinctly further in early 2004, marked by active trading and further gains in property prices. While primary sales of flats in many developments received enthusiastic response, the secondary market was also active. The market went through a brief consolidation during May-July, as flat prices fell back somewhat after the hefty gains in the earlier months, and also amidst concern over an imminent interest rate rise in the US, the economic tightening measures in the Mainland and the oil price upsurge. But as the economic upturn proceeded, in tandem with improving household incomes and the end of the deflation era, buying interest soon returned, and flat prices were back on the rise again after the summer months. Buying interests in the mass residential market were keen, as affordability still stood at quite an attractive level, supported by the government's measures to extend mortgage financing to home buyers. The luxury end of the market had a more hefty rise, fuelled by abundant liquidity, apart from general optimism over Hong Kong's economic outlook. By December 2004, flat prices were 27% higher than a year ago, though still 52% lower when compared with the peak in 1997. Flat rentals also rose, by 11% at end-2004 over a year earlier.

1.9 On *commercial property*, both the sales and rental markets for office space were active, particularly for office space in prime locations amidst the upturn in business activity. The market for shopping space in major shopping areas also firmed up, as demand was boosted by buoyant inbound tourism and pick-up in local consumer spending. The demand for industrial property also showed some revival with strengthened demand amidst buoyant export growth and as investor sentiment reportedly was lifted by the implementation of CEPA.

Diagram 1.8 : Number and value of property transactions

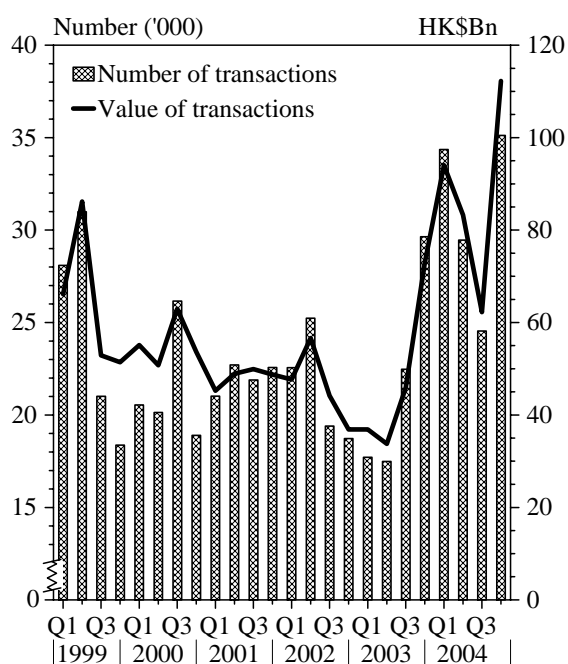


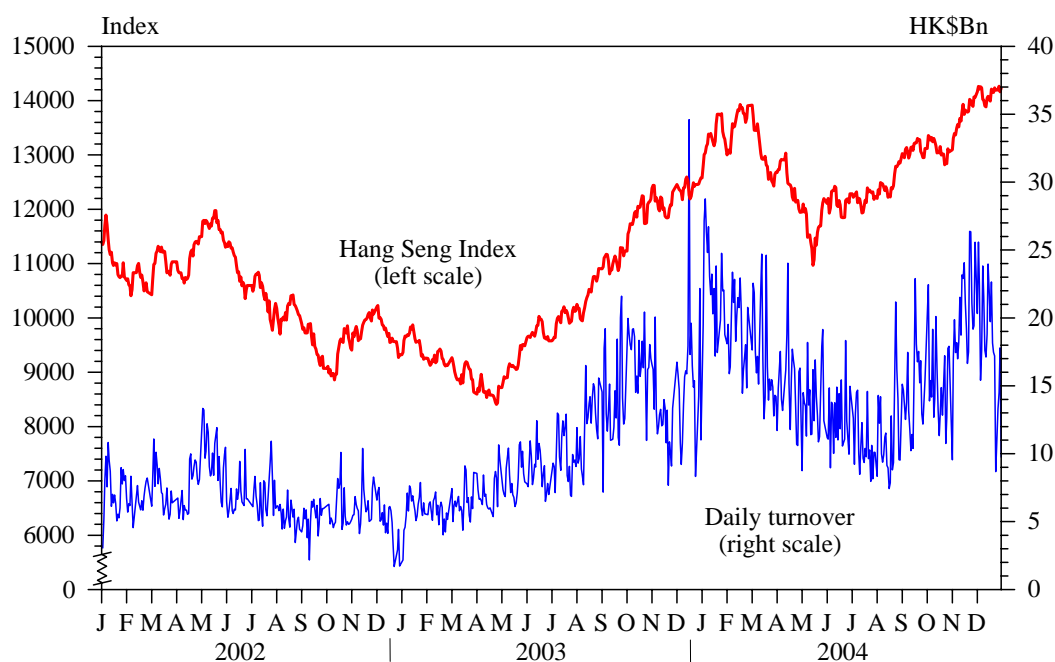
Diagram 1.9 : Prices and rentals for residential property



Stock market

1.10 The local *stock market* went down along with the overseas markets in the early months of 2004, being much weighed down by the uncertainties stemming from surging oil prices and the US interest rate up-cycle. Market sentiment subsequently improved, underpinned by optimism over the economic outlook, favourable land auction results, and ample liquidity amidst substantial funds inflow thereby driving local interest rates to near zero level. Receding crude oil prices and the rally in overseas stock markets rendered a further boost towards the year-end. The Hang Seng Index was on a general rise in the second half of the year, hitting a 45-month high of 14 266 on 29 December and closing the year at 14 230, distinctly up by 13.2% over end-2003. The average daily turnover likewise surged, to a record high of \$16.0 billion in 2004, up from the \$10.4 billion in 2003 and \$15.5 billion in the previous peak in 1997.

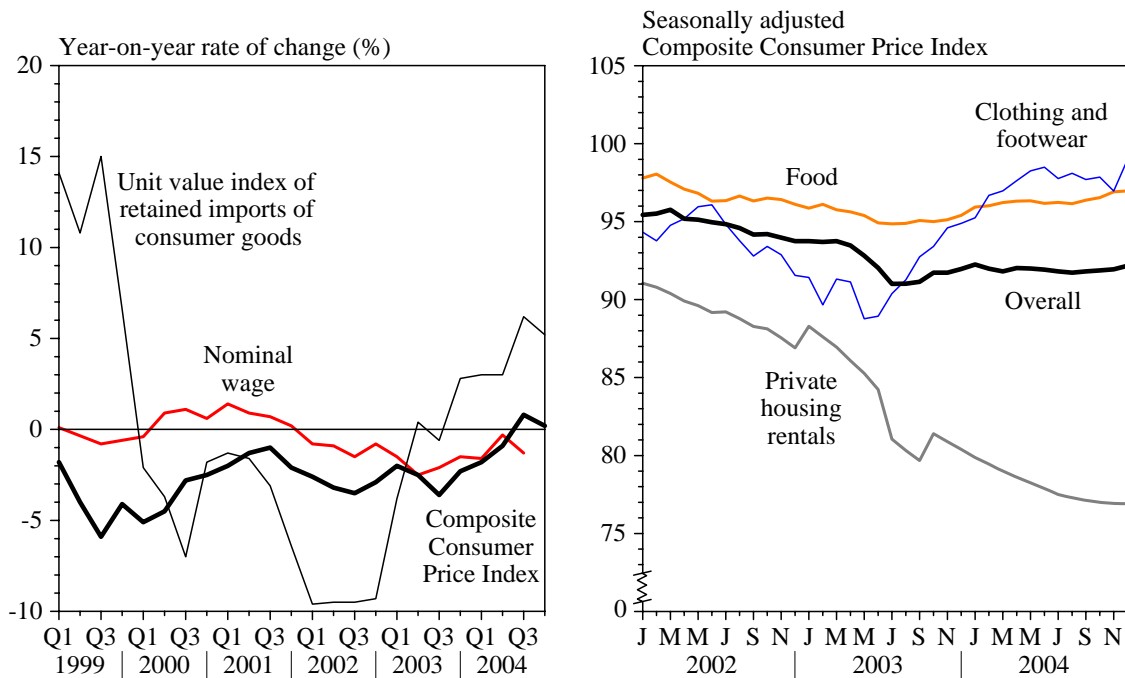
Diagram 1.10 : Hang Seng Index and stock market turnover



Prices

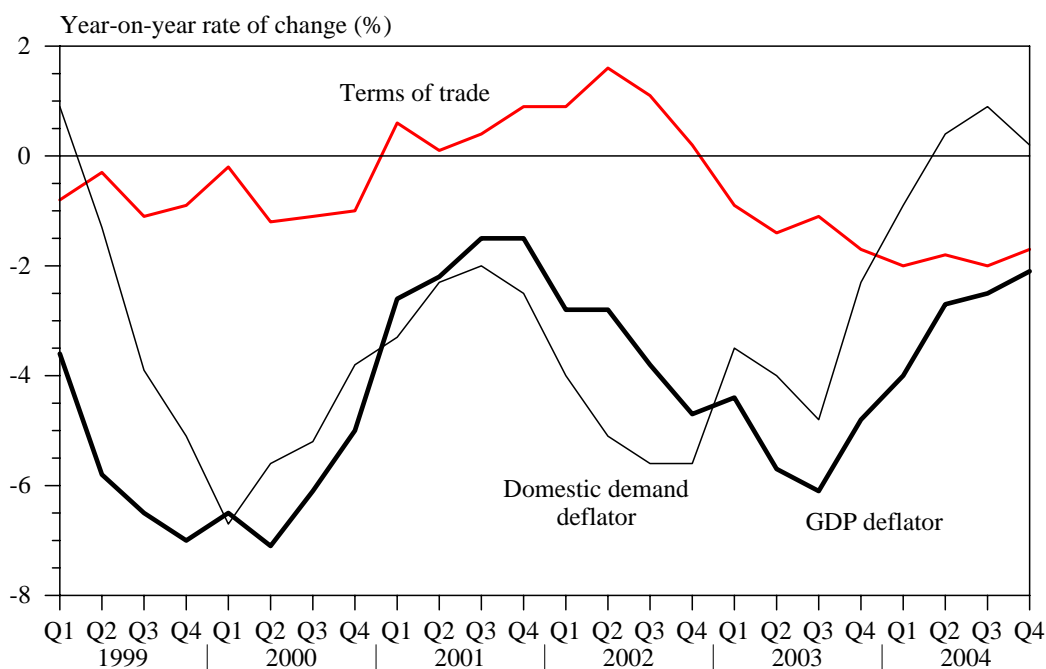
1.11 The economy finally came out of deflation that had lasted for 68 months. As the pricing power of retailers returned along with the economic recovery, the rise in import prices stemming from a weak dollar and firming world commodity prices was more readily passed through to the retail price level. Prices of a wide range of consumer goods and services have thus resumed increases since early 2004. But the pace of upturn in consumer prices was only gradual, being kept down by very modest housing cost due to the distinct fall-offs in flat rentals in the earlier period. On a year-on-year basis, the decline in the *Composite Consumer Price Index* tapered distinctly from 1.8% in the first quarter to 0.9% in the second quarter, and then reverted to a small increase of 0.8% in the third quarter and 0.2% in the fourth quarter. In general, price pressures on the consumption front were modest all through the second half of 2004, as wages and earnings were still subdued in overall terms, while the rebound in property rentals over the past year had yet to show up fully.

Diagram 1.11 : Consumer prices



1.12 As to the *GDP deflator*, the year-on-year rate of decline also tapered successively over the course of the year, from 4.0% in the first quarter to 2.7%, 2.5% and 2.1% in the ensuing three quarters, along with the rebound in consumer prices and a pick-up in the price deflator for investment, the latter reflecting the distinct rise-back in the price deflator for construction investment. The pace of upturn in the GDP deflator was considerably slower than that of Composite CPI, due to the drag from a worsened terms of trade caused by the further weakening of the US dollar in the year.

Diagram 1.12 : GDP deflator



Economic policy

1.13 The Government of HKSAR believes in free market, and adopts “market leads, government facilitates” as the guiding principle of its economic policy. Over the past few years, the Government has taken a proactive role to create a conducive environment for business and to facilitate economic development, particularly to enhance Hong Kong’s competitiveness and to reduce rigidities in the economy. While the above measures carry a longer-term target, they have also aided the swift revival of the Hong Kong economy after SARS and also the further pick-up in 2004.

1.14 Proximity to the Mainland as a huge and dynamic economic hinterland is a key edge that Hong Kong possesses over its neighbouring economies. Over the past two decades, economic relations between the two places continued to strengthen. Bilateral trade has grown by leaps and bounds. Two-way visitors flow have surged, more so upon the Mainland’s progressive liberalisation on residents travelling abroad. Hong Kong and the Mainland are each other’s largest source of external direct investment. In the financial sector, cross-boundary fund flows have risen markedly over the past decade. Hong Kong is an important fund raising centre for Mainland’s state-owned enterprises and recently also private enterprises⁽³⁾.

1.15 In order to reap more fully the enormous opportunities being accorded by rapid growth and further liberalisation in the Mainland economy, Hong Kong will clinch well to the growth impetus in the Mainland, whilst making effective use of its international business perspective to meet the Mainland's development needs. Thus, it is essential to foster as much as possible the multitude of inter-flows, more specifically those of people, goods, capital, information and services, between the two places.

1.16 The signing of CEPA⁽⁴⁾ signifies a major milestone towards advancing the economic interface between Hong Kong and the Mainland. On trade in goods, the zero tariff concession on Hong Kong's domestic exports, which has become substantially effective since 1 January 2004, has helped lift the competitiveness of Hong Kong's products in the Mainland market, as compared to products imported from other places. On trade in services, by giving Hong Kong companies a "first mover" advantage in a large number of sectors, it should facilitate expansion of Hong Kong's services across the boundary and open up more opportunities for business in the Mainland. As to trade and investment facilitation, it will help promote and streamline trade, investment and other business flows between the two places.

1.17 CEPA adopts a building block approach wherein more measures will be added as necessary in the future. The signing of CEPA II on 27 August 2004 provides further liberalisation measures to be implemented from 1 January 2005. Under CEPA II, tariff elimination is to be applied to another 713 products as from January 2005. Moreover, for the 18 services sectors to which preferential treatments have already been provided under CEPA I, the liberalisation is to be broadened for 11 of them under CEPA II. In addition, new liberalisation measures are to be granted to 8 new service areas. CEPA II will further broaden the scope for Hong Kong products to penetrate into the Mainland market. Moreover, more Hong Kong companies would enjoy the "first mover" advantage in venturing into the services sectors in the Mainland.

1.18 The launch and progressive extension of the Individual Visit Scheme⁽⁵⁾ for Mainland residents coming to Hong Kong has been adding fuel to the already strong upturn in Mainland visitor inflow. In 2004, there were nearly 4.3 million Mainland visitor arrivals to Hong Kong under this scheme, accounting for over one-third of overall visitor arrivals from this source in the year. This is rendering an important invigorating force to Hong Kong's inbound tourism.

1.19 Focusing on areas where Hong Kong has clear comparative advantage is the only way to compete with the rest of the world. Financial services; trading and logistics; tourism; and producer and professional services are the sectors that possess comparative edge. They are not only the key driving force of Hong Kong's economic growth, they have also been providing the key impetus to job creation. In 2003, these key industries taken together contributed to 54.9% of GDP and 44.3% in terms of total employment⁽⁶⁾.

1.20 Over the past year, a number of measures have been put in place to foster the development of these key industries. On the development of Hong Kong as an international financial centre, measures were initiated to improve our regulatory regime and reinforce corporate governance of listed companies and professional standards of intermediaries. The securitisation of government toll tunnels and bridge has helped promote development of the bond market and generated one-off revenue to the government coffer. To enhance Hong Kong's position as a regional logistics centre, progressive liberalisation of airline services was made, and measures were implemented to reduce cross boundary trucking cost in order to enhance efficiency of our port services. The HKSAR government has drawn up a concept plan on development of Lantau for public consultation with a view to strengthening Hong Kong's function as a regional transportation, logistics and tourism hub.

1.21 The Hong Kong economy has also benefited from several policy measures initiated by the Central Government in 2004. In early 2004, the central government has agreed to enable Hong Kong's local banks to operate personal renminbi businesses, including deposit, exchange, remittances and renminbi bank cards. The initiation of personal renminbi business by the banks in Hong Kong marks the opening of a new venue towards further enhancing the role of Hong Kong as a key financial centre for the Mainland. In August, measures were introduced to facilitate Mainland enterprises investing in Hong Kong and Macao⁽⁷⁾. The Central Government's other relaxation measures, though not exclusive to Hong Kong, will also benefit the Hong Kong economy by facilitating the inflow of Mainland capital. For instance, Mainland insurance companies are now allowed to invest in overseas capital markets, and it is reckoned that Hong Kong will be the key beneficiary. Hong Kong also stands to benefit from other measures, such as relaxation of restrictions on outward remittance associated with emigration of Mainland residents and Mainland students studying overseas, and raising of the limit on the amount of renminbi cash Mainlanders are allowed to carry on their overseas trips.

1.22 The vision of the Hong Kong Government is to build Hong Kong as Asia's world city, by consolidating Hong Kong's unique position in the region as well as its role as a gateway to the Mainland. Reflecting the prominent role of Hong Kong as a business hub in the region, the number of both overseas and Mainland companies to set up operations in Hong Kong has continued to rise in recent years, more so after the launch of CEPA. Specifically, both the number of regional headquarters and regional offices set up in Hong Kong surged in 2004 to hit new highs⁽⁸⁾. Within this total, the number of regional headquarters set up by Mainland companies in Hong Kong had a more distinct increase, as many of these Mainland companies set up business operations or join forces with local enterprises to tap the vast market potential of CEPA. The envisaged benefits of setting up operations in Hong Kong under CEPA are also one of the factors considered by many overseas companies in investing in Hong Kong⁽⁹⁾.

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 compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.
- (3) At end-2004, there are 304 Mainland enterprises (including 109 H-share companies, 84 "Red Chips" companies and 111 private enterprises) listed on the Hong Kong stock market, accounted for 28% of the total number of listed companies. The capital raised by these Mainland enterprises since January 1993 amounted to \$901 billion, accounting for 49% of the total funds raised in the stock market. As at end-2004, the market capitalisation of these Mainland enterprises stood at \$2.0 trillion, accounting for 30% of the total market capitalisation of the Hong Kong stock market. In 2004, 49% of the market turnover in the stock market was contributed by trading of the above Mainland-related stocks.

- (4) The main parts of CEPA were signed on 29 June 2003, and the six Annexes setting out the implementation details were signed on 29 September 2003. For details, see Paragraphs 3.17-3.19 in Chapter 3.
- (5) The Individual Visit Scheme was extended to the whole of Guangdong on 1 May 2004 and further to Nanjing, Suzhou and Wuxi in Jiangsu; Hangzhou, Ningbo and Taizhou in Zhejiang; and Fuzhou, Xiamen and Quanzhou in Fujian on 1 July 2004 and to Tianjin and Chongqing on 1 March 2005.
- (6) The respective value added contributions to GDP of financial services, trading and logistics, tourism, and professional and other producer services are 13.1%, 27.9%, 2.5% and 11.5% respectively in 2003. Their corresponding shares in total employment in 2003 are 5.4%, 24.4%, 3.8% and 10.8%. Other producer services refer to the producer services other than those covered in the three key industries of financial services, trading and logistics, and tourism.
- (7) In August, the Ministry of Commerce (MOC) and the Hong Kong and Macao Affairs Office (HKMAO) jointly promulgated measures to facilitate Mainland investment in Hong Kong and Macao. Mainland enterprises can make use of a number of channels to invest in Hong Kong and Macao in areas such as manufacturing, import/export trade, transportation, tourism, science and technology, and research and development. These channels include setting up wholly-owned subsidiary or joint venture, capital injection, merger with or acquisition of Hong Kong companies. For Mainland enterprises registered with the provincial governments, approval authority is delegated to the provincial level, and successful applications only need to be filed with MOC and HKMAO for record. In addition, processing time for the application is shortened to 15 working days.
- (8) The number of regional headquarters and regional offices established in Hong Kong increased by 13.7% and 12.0% respectively at end-May 2004 over a year earlier to new highs of 1 098 and 2 511. Within these totals, the number of regional headquarters set up by Mainland companies surged by 26.2%, while the corresponding number of regional offices rose by 5.4%, bringing the total number to 106 and 156 as at end-May 2004.
- (9) According to Invest Hong Kong, the number of foreign companies assisted by the Department in setting up or expanding operations in Hong Kong during 2004 surged by 44% over 2003 to hit a record high of 205. 22% of these companies indicated that either their investment in Hong Kong was because of CEPA or they had accelerated their investment plan, invested more capital or employed more staff as a result of CEPA.

CHAPTER 2 : ECONOMIC OUTLOOK FOR 2005 AND THE MEDIUM TERM

Summary

- *In 2005:*
 - *The Hong Kong economy is expected to attain further solid growth of 4.5-5.5% in real terms, which if achieved would represent another year of above-trend growth as against the average growth of 3.5% over the past decade.*
 - *The driver of economic growth is likely to come from both domestic demand and external demand, now that the domestic sector has completely shrugged off the earlier sluggishness, and as the external environment remains generally favourable.*
 - *Total employment is poised for further expansion in the year ahead, as the economic upturn increasingly translates into job opportunities. Downward pressures on wages and labour earnings are also expected to progressively recede over the course of the year.*
 - *As the rebound in rentals has yet to fully feed through, while wage pressures are still mild, inflation is expected to be mild through the year, with consumer price inflation forecast at 1.5%.*
- *Over the medium term, with sustained robust growth in the Mainland and with the increasing integration between Hong Kong and the Mainland following the launch of CEPA, the Hong Kong economy will continue to shift towards higher value-added services. The productivity growth achieved in the process will help the economy attain a 4% trend GDP growth over the next few years.*

Major external factors

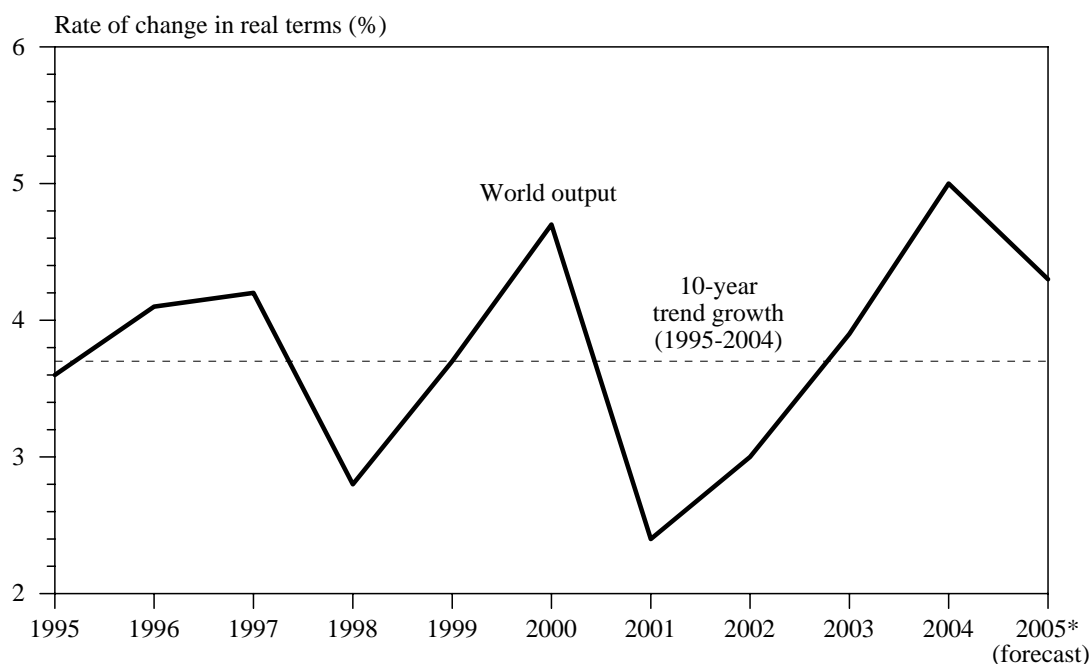
2.1 Given the high degree of external orientation of the Hong Kong economy, discussion of the economic prospects for 2005 necessarily starts with an analysis of the external environment. The factors that could impinge on the global economic growth momentum include most notably oil price movements and the interest rate up-cycle. Exchange rate movements could be a key determinant of Hong Kong's external price competitiveness, while the China

factor is an important aspect of Hong Kong's competitiveness in a broader sense.

Global economic outlook

2.2 2004 was undoubtedly a spectacular year for the global economy. Riding on the strong growth momentum in the second half of 2003, the global economic environment remained generally buoyant in early 2004. The pace of upturn slowed somewhat since the second quarter of 2004, as a number of risk factors emerged around the globe to dent sentiment, including most notably, the kick-off of the interest rate up-cycle in the US, the upsurge in international oil prices to successive record highs, and the stepping up of tightening measures in Mainland China. Yet the US monetary policy continued to be very accommodative even after the rate hike, thereby sustaining a robust growth in US domestic demand. Also, the macroeconomic adjustment measures in the Mainland seemed to have yielded some success in containing the surge in investment and credit without severely impeding the overall growth. As a result, the pace of expansion continued to be notable across many regions in the second half of 2004, with activity growth becoming even more broad-based. For 2004 as a whole, IMF expects that the global economy should have grown by around 5%, the fastest growth in almost three decades, and also distinctly up from that of 3.9% in 2003.

Diagram 2.1 : Global economy expected to maintain above-trend growth in 2005



Note : (*) IMF's forecast.

2.3 The global economy is envisaged to settle back to more sustainable yet still appreciable growth in 2005. According to the latest projection by IMF, the world economy would grow by a solid 4.3% in 2005, which if achieved would represent another year of above-trend growth as against the average annual growth of 3.7% over the past ten years. The US economy, though with some slow-down towards late 2004, is expected to regain some momentum going forward, as hinted by the generally upbeat economic data released lately. A number of positive factors should help the US economy sustain a reasonably solid growth pace in 2005. Labour productivity, which has attained remarkable growth over the past few years, looks set for further solid growth this year. Moreover, the fiscal policy stance is likely to remain expansionary, albeit less so when compared with previous years amidst the growing need for fiscal consolidation. Meanwhile, with inflationary pressures still staying moderate, the US Federal Reserve is expected to follow a “measured” pace in removing its policy accommodation for some time. Given that real interest rates are currently still very low, barring any unforeseen adverse developments in the asset markets, the expected further rate hike in 2005 should not pose too much drag on US consumption and investment.

Table 2.1 : Growth forecasts for major economies in 2005⁽¹⁾

	<u>IMF</u>	<u>World Bank</u>	<u>Private sector forecast[^]</u>
	(%)	(%)	(%)
World	4.3*	3.2	3.0
US	3.7*	3.2	3.5
Euro-area	1.6*	2.1	1.7
Asia :			
Mainland China	8.5*	7.8	8.4
Japan	2.3	1.8	1.1
Singapore	4.4	4.5	4.2
Republic of Korea	4.0	4.4	3.9
Malaysia	6.3	6.0	5.3
Thailand	6.4	5.8	5.3
Taiwan	4.1	4.3	4.2
Indonesia	5.0	5.4	5.2

Notes : (*) Latest forecasts as reported in the media in early March 2005. IMF's forecasts for other countries represent those put out in the World Economic Outlook, September 2004.

(^) Average.

2.4 The EU economy also looks set for further activity expansion in 2005, on the back of a generally positive external environment, even though the pace of upturn may be held back by the euro strength. The prevailing low interest rate environment is expected to persist in the meantime, thereby rendering continuing support to the recovery process.

2.5 China's economy, the bright spot both in the region and in the global economy, is poised for a further distinct growth in 2005. The macro-adjustment process will continue to help redress the structural imbalances in the Mainland economy. With persistently strong income growth particularly in the rural sector, a high level of infrastructure investment, continuing influx of enormous FDI, the on-going move towards economic reform and liberalisation, and the continued rapid growth in international trade, China's economy should be able to sustain strong growth and achieve another broad-based expansion this year.

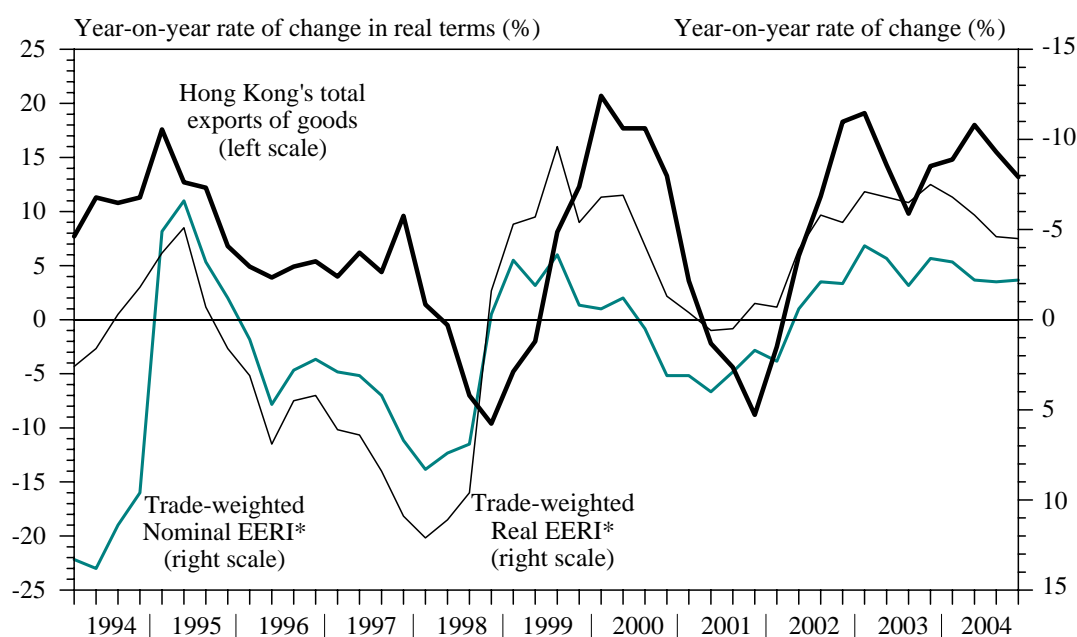
2.6 The Japanese economy, though with its pace of expansion slowing significantly in recent quarters upon the moderation in export growth, should hopefully regain some strength and continue with its recovery in 2005. As to the other East Asian economies, the near-term outlook is likewise generally positive, underpinned by surging regional trade flows alongside the expected further opening up of the Mainland economy, and also by a relatively resilient domestic sector.

2.7 Notwithstanding the generally sanguine global economic environment foreseen for 2005, there are still a number of downside risks that need to be closely watched. *First*, oil prices are likely to remain volatile and relatively high for a considerable period amidst the on-going geo-political uncertainties in the Middle East and concern over the capacity constraint, thereby casting a shadow over the global economic outlook. *Second*, the global current account imbalances remain alarming and must be reverted at some point in the future. Should such imbalances trigger a more abrupt adjustment in the US dollar exchange rate and induce massive capital flight away from US dollar assets, it could be destabilising to the international financial markets and impinge on the growth prospect of the global economy. *Third*, the growth prospect of the East Asia region also hinges on how well the Mainland economy can achieve soft landing, given China's escalating importance in the international economic arena.

Exchange rates and price competitiveness

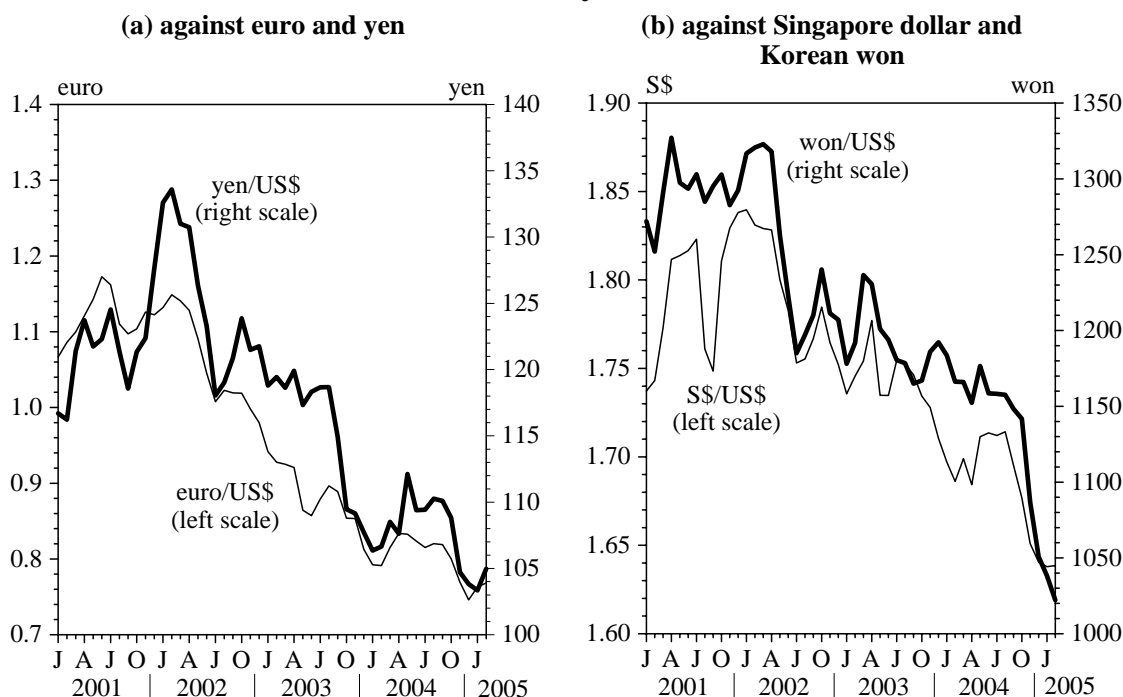
2.8 The exchange rate factor is a key factor determining Hong Kong's relative price competitiveness. Despite the recent bounce-back in the US dollar, the current level of the dollar remains somewhat lower against the euro and the Japanese yen than the 2004 average. Given the lingering concern about the sustainability of US huge current account deficit, the market seems to have taken a view that the US dollar weakness is necessary for the global trade imbalances to adjust to restore a better balance. Lately, the calls for the burden of dollar weakness to be shared more by Asian currencies has led to the firming of the Asian currencies towards end-2004. In general, a weak dollar is conducive to Hong Kong's price competitiveness.

Diagram 2.2 : Exports to continue to benefit from favourable exchange rate movements in the near term



Note : (*) Positive changes in the Real/Nominal EERI denote real/nominal appreciation of the Hong Kong dollar, and negative changes denote real/nominal depreciation.

Diagram 2.3 : Despite recent bounce-back, the dollar remains lower than a year earlier

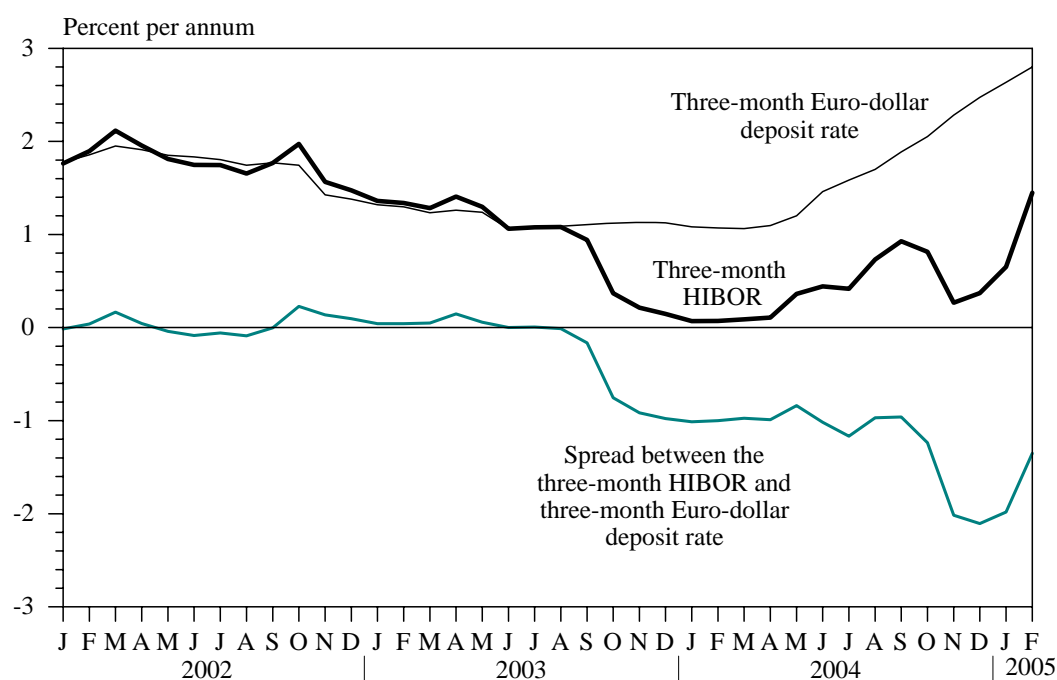


2.9 On the cost front, a high level of producer price inflation in the Mainland during 2004, including the surge in prices of many raw material and energy inputs, resulted in a margin squeeze for many producers. However, with a high level of productivity-enhancing investments and the increasing effects of economies of scale, “Made in China” products remain very competitive in global markets and this should continue to underpin Hong Kong’s trade in 2005.

2.10 Locally, consumer price inflation in Hong Kong is still near zero at present, and is likely to remain modest through the year. More pertinently, export prices have been persistently kept down by keen competition within the region over the past few years, and this situation is expected to continue in 2005. On the whole, Hong Kong’s external competitiveness should continue to hold up well, given the general weakness of the US dollar, and the substantial cost restructuring over the past few years which should enable the economy to better cope with external shocks now than before.

Interest rate movements

Diagram 2.4 : Low interest rates still supportive to economic recovery

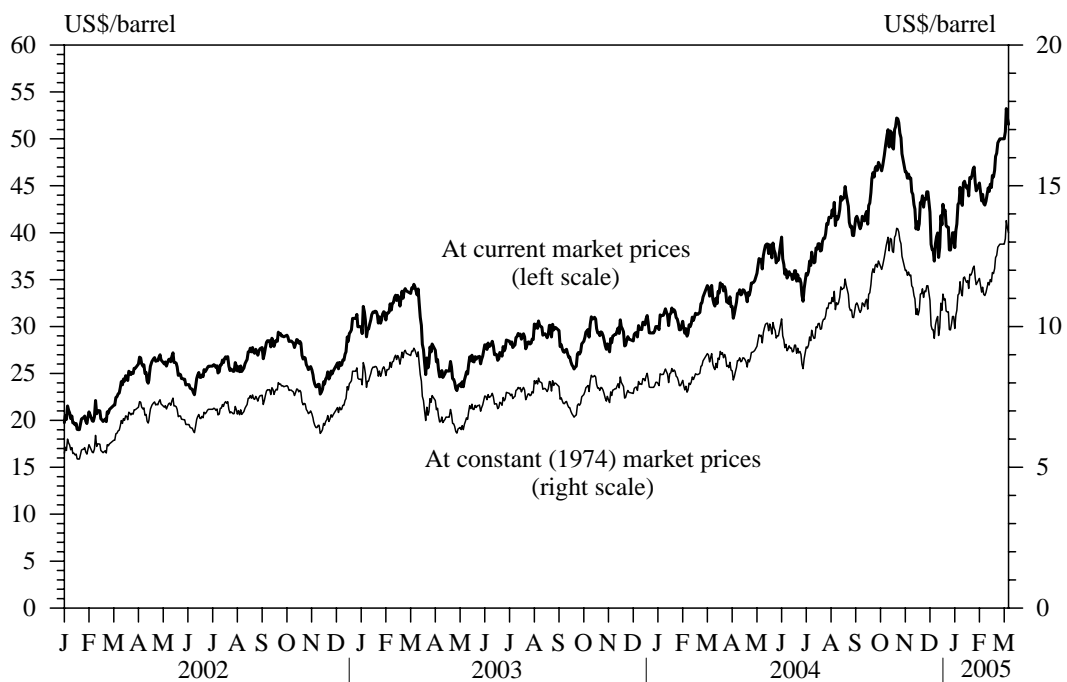


2.11 Since June 2004, the US Federal Reserve has lifted the Fed Funds target rate six times, by a total of 150 basis points, to 2.5%. But so far, Hong Kong banks had not followed suit, as substantial funds inflows in the latter part of last year drove market interest rates markedly below their US counterparts. Nonetheless, by virtue of the linked exchange rate system, Hong Kong interest rates should in the long term follow US interest rates, as interest rate arbitrage should eventually trigger funds outflow from Hong Kong to close the interest rate gap. As such, with further interest rate hikes in the US forthcoming in this year, Hong Kong interest rates may need to follow more closely, and depending on the fund flow situation, local interest rates might even need to catch up with the earlier US interest rate hikes. Yet given that local interest rates are still low at present, and granting that the US interest rates were to be raised at a measured pace, the hike in local interest rates from the current level is not expected to impinge too much on the growth momentum in the local economy. Moreover, insofar as US interest rates are driven up primarily by a strengthening US economy, the removal of the accommodative monetary stance as and when the US economic recovery has finally gathered pace is not at all a negative development.

Oil price

2.12 International crude oil prices soared to successive record highs during 2004 owing to escalating concerns over supply-demand imbalances against the backdrop of strengthening world oil demand, persistent geo-political tensions, and also adverse weather conditions leading to the disruption of production facilities. Brent oil prices surged to a high of US\$52 per barrel in late October 2004, up sharply by 70% since the beginning of the year. For 2004 as a whole, they were on average US\$10 per barrel higher than in 2003. Brent oil prices have remained high and volatile on entering 2005, hovering around US\$50 per barrel at end-February. (Brent oil prices moved up further and hit a fresh record high in early March, closing at above US\$51 per barrel on 7 March.)

Diagram 2.5 : Oil prices remain a source of risk in the external environment



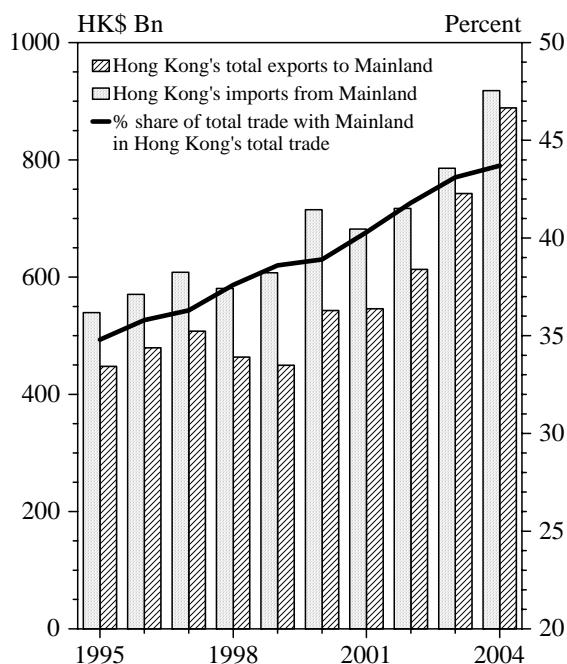
2.13 In the case of Hong Kong, the direct impact of high oil prices should be rather limited, as our economy is service-oriented and not oil-dependent, with fuel cost accounting for just around 2% of total business operating cost. There could be broader impact through the trade links with the rest of the world, to the extent that the growth prospects of Hong Kong's trading partners are adversely affected by the upsurge in crude oil prices. Nonetheless, with the decline in oil dependency of the industrial economies over the past three decades, it is generally believed that an oil price hike should have less damaging effects on the global economy now than before. If so, the indirect impact on the Hong Kong economy should also be less severe. Moreover, the impact on consumer prices, mainly in the form of pass-through of cost increases from producers to consumers, is also reckoned to be rather insignificant.

China factor

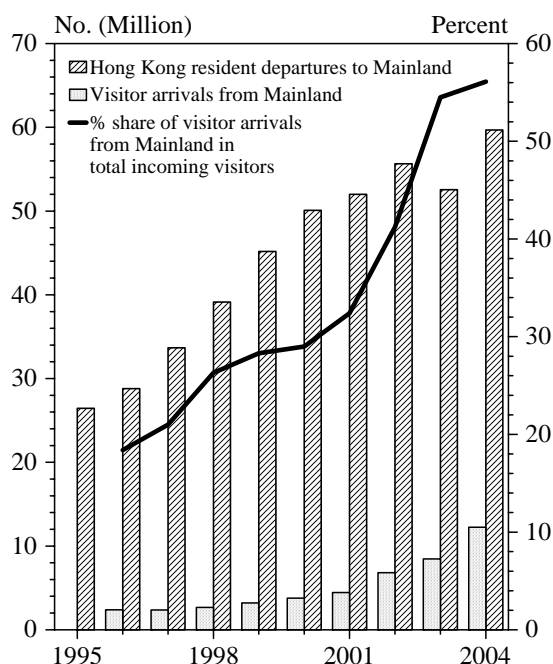
2.14 The integration with the Mainland China and in particular the Guangdong Province over the past twenty years has produced significant synergy effects that have transformed both Hong Kong and South China, and has also catalysed the development of Hong Kong as a business and financial centre in the region. Thanks to the staunch support of the Central Government, there have been many breakthroughs on Mainland-Hong Kong economic linkages over the past two years. CEPA, the launch of Individual Visit Scheme, and the streamlining of application procedures for Mainland enterprises to set up businesses in Hong Kong are the major initiatives in this regard, which have opened up a new era in the already very close economic linkage between Hong Kong and the Mainland (Para 1.13-1.22, and Para 3.17-3.22). Reciprocally, first-class infrastructure, sound financial system with a critical mass of banks and financial sector expertise, high market transparency, rule of law, simple taxation system with low tax rate are what Hong Kong can offer as a business centre for China. With growing prosperity in Pearl River Delta, the region is becoming an increasingly important consumer market and the ever closer integration puts Hong Kong in the best position to benefit from China's spectacular growth.

Diagram 2.6 : Hong Kong's economic links with China growing by leaps and bounds

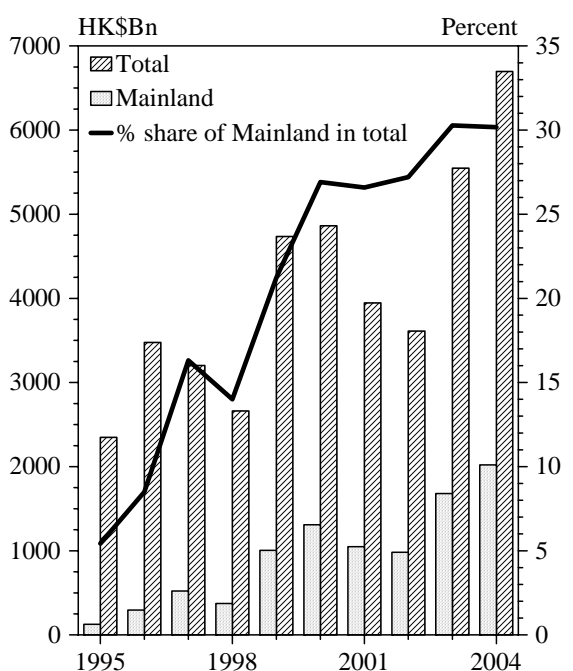
(a) Merchandise trade



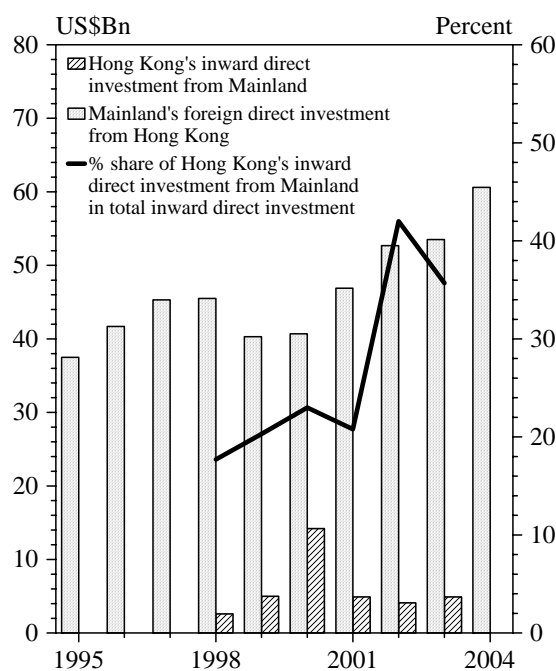
(b) Visitor arrivals from Mainland and Hong Kong resident departures to Mainland



(c) Market capitalisation of Mainland enterprises in Hong Kong's stock market (end-year figures)



(d) Mainland's foreign direct investment from Hong Kong and Hong Kong's inward direct investment from Mainland



Removal of textile and clothing quotas

2.15 Under the WTO Agreement on Textiles and Clothing (ATC), all quotas on textile and clothing (T&C) products among member economies have been removed as from 1 January 2005. In the longer term this should bring

considerable welfare and efficiency gains for the global economy. In the near-term, given the fact that the Mainland is highly competitive in T&C manufacturing, such liberalisation measure would very likely lead to a notable gain in the Mainland's T&C exports to the restrained markets like US, EU and Canada. This should in turn benefit Hong Kong's re-exports and offshore trade.

2.16 However, in the production realignment process, Hong Kong's domestic exports will be curbed to the extent that the liberalisation induces relocation of local production to the Mainland to take advantage of the lower production cost there. Yet with the uncertainties of anti-surge safeguards from the WTO members, the expected re-alignment of T&C production in the region is likely to take place only slowly and in a phased manner. In any case, for Hong Kong T&C manufacturers to maintain competitiveness, they should continue with their efforts to go up-market, focus on fashion design, develop brand name, establish regional distributive network, and make a foothold in Mainland's fashion market with the help of CEPA. Moreover, it is envisaged that more and more local T&C manufacturers will transform into T&C trading companies, involving not only in the simple buying and selling of T&C products, but also in the more sophisticated and higher value-added services.

Outlook for the Hong Kong economy in 2005

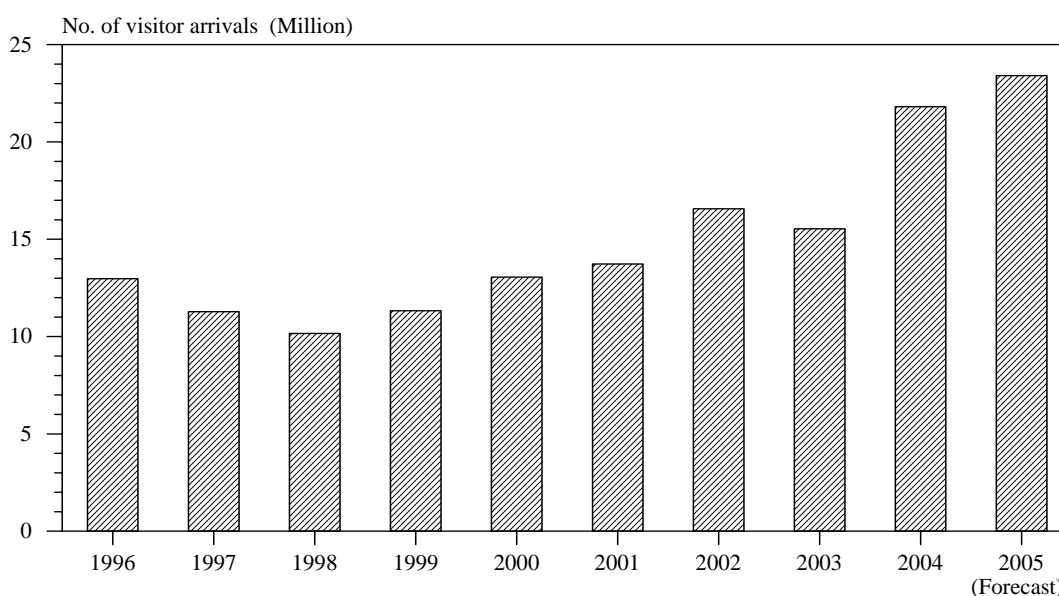
2.17 Looking ahead, with the global economic environment on the whole still sanguine, and with the revival in the domestic sector gathering more and more foothold, the Hong Kong economy is poised for another year of solid growth in 2005. By now, the domestic sector has completely shrugged off the earlier sluggishness, economic growth this year will be characterised by balanced growth in both external and domestic demand, a sign that the economy has finally entered into a full upswing.

2.18 Externally, the trade outlook remains good in 2005. With the global economy expected to attain above-trend growth this year, and with the regional trade boom and a vibrant Mainland economy, there should be plenty of good trading and business opportunities for Hong Kong traders. On the competitiveness front, the general weakness of the dollar, coupled with still modest cost pressures in Hong Kong, should continue to bode well for external price competitiveness. On top of these, the implementation of CEPA II will accord Hong Kong products with an added competitive edge in the Mainland market.

2.19 There are however some uncertainties about the impact of the removal of quotas on textile and clothing under the WTO Agreement on Textiles and Clothing. But on the whole, it is believed that while Hong Kong's domestic exports of T&C products might have a noticeable decline this year, there would also be an offsetting boost from re-exports and offshore trade sourced from the Mainland, as China would very likely be a major beneficiary of the quota liberalisation move. Against this backdrop, *total exports of goods* look set for a further distinct growth in 2005, with re-exports still the key growth driver, though with domestic exports likely to show a much more moderate performance.

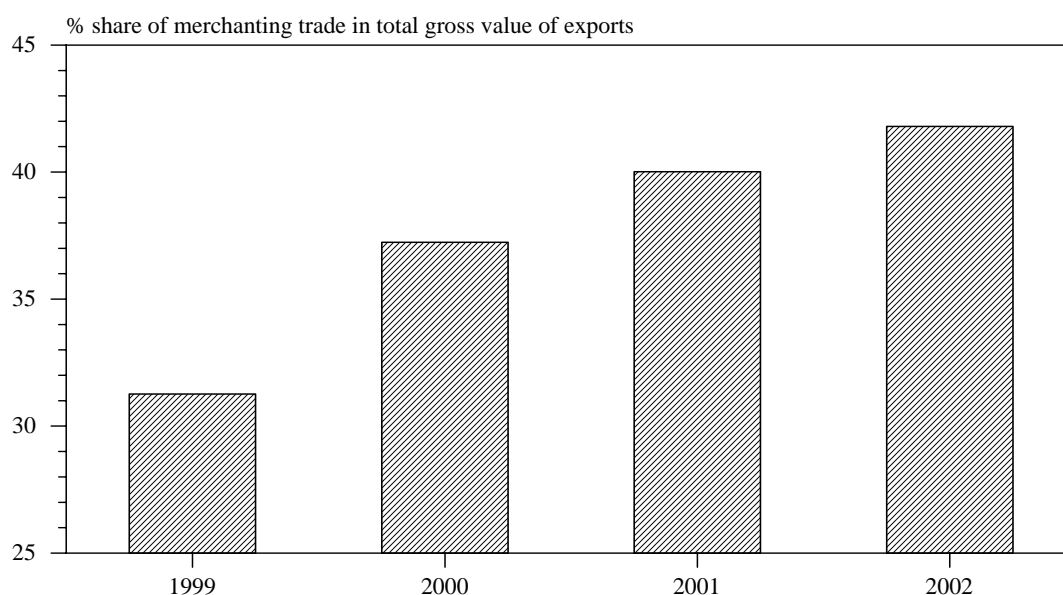
2.20 *Exports of services* look even more promising. The opening of the Disneyland theme park in September 2005 will add a major tourist attraction to Hong Kong, which will undoubtedly render a strong boost to incoming visitors, especially those from the Mainland. Exports of trade-related services comprising mainly offshore trade should continue to forge ahead in tandem with the Mainland's vibrant trade flows⁽²⁾, apart from the usual boost from the on-going structural shift from re-exports to offshore trade. Exports of transportation services should likewise fare well, given the huge demand for logistic services amidst the vibrant trade flows. Exports of finance, business and other services should also flourish, as more business demand is generated upon further liberalisation of trade in services under CEPA and the stepping up in regional economic co-operation.

Diagram 2.7 : Inbound tourism to reach another high in 2005



Source : Hong Kong Tourism Board

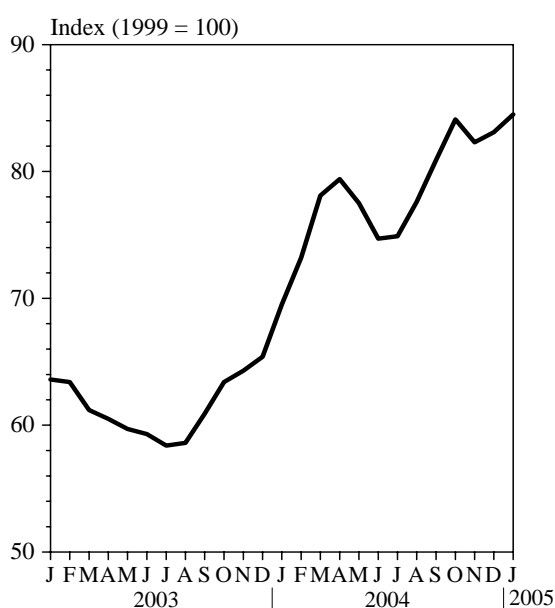
Diagram 2.8 : Structural shift from re-exports to offshore trade continuing



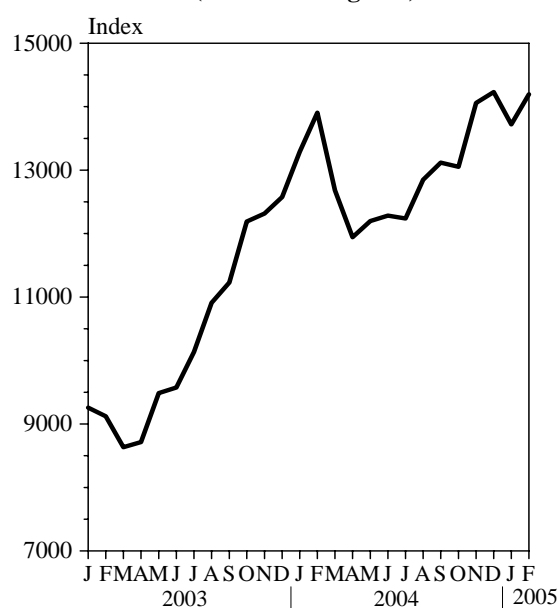
2.21 Locally, *private consumption expenditure* is likely to advance further in 2005 after the notable pick-up in 2004. The return of consumer confidence has become more evident, underpinned by the solid recovery of the economy and steadily improving employment conditions. The positive wealth effect stemming from the strong rebound in property prices over the past year and to a certain extent also from the buoyant stock market should render an added boost to local consumer spending.

Diagram 2.9 : Asset market developments adding boost to local demand

(a) Residential flat price

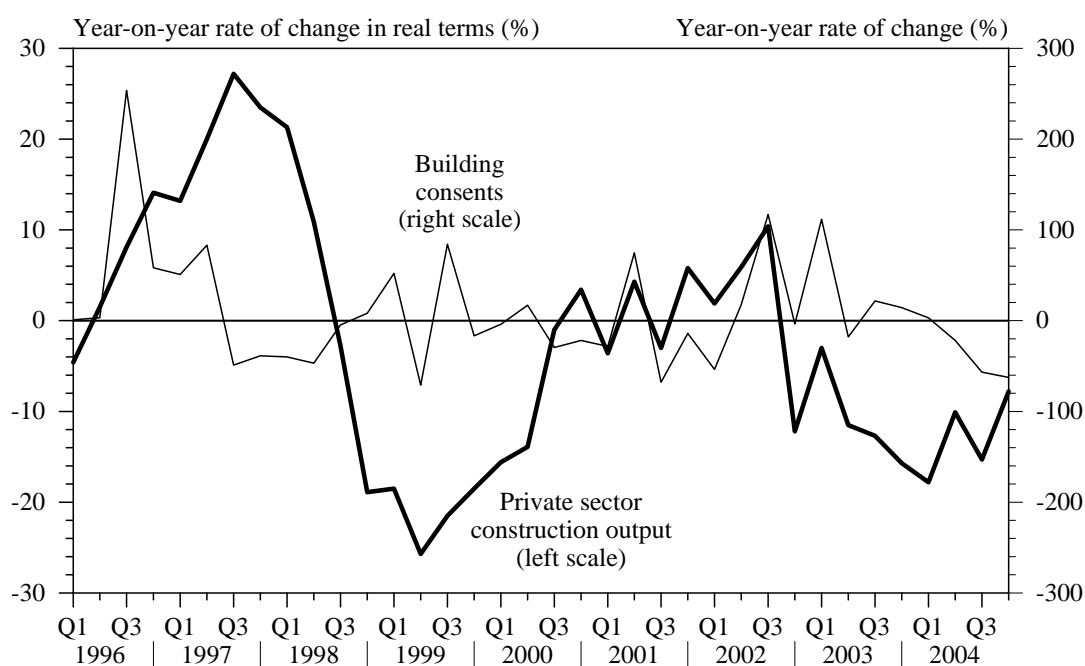


(b) Hang Seng Index (month-end figures)



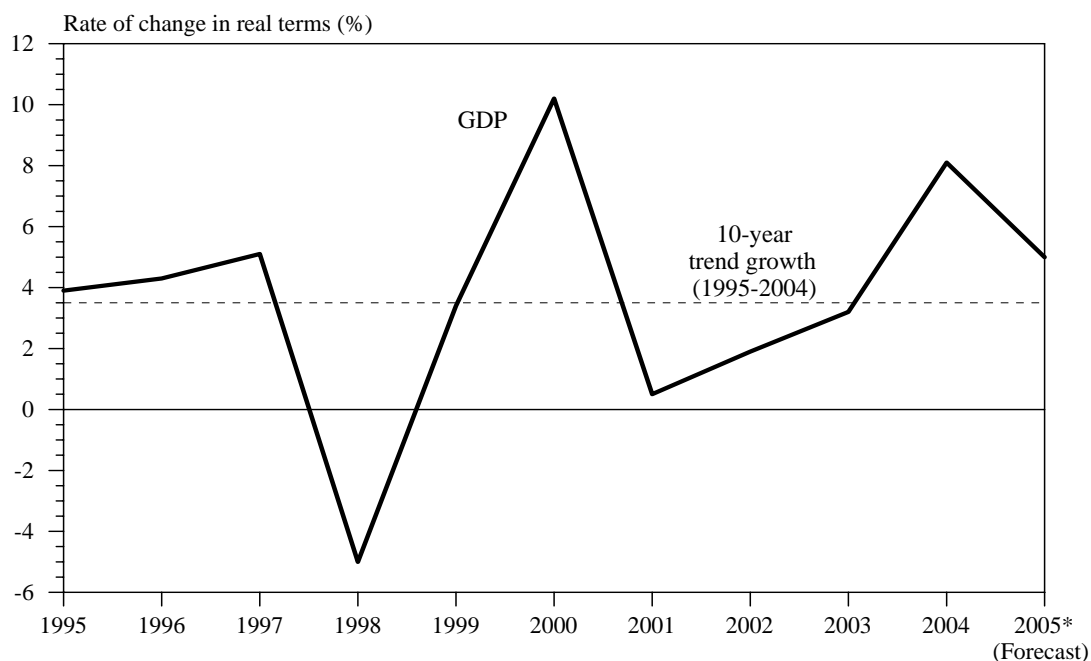
2.22 *Investment spending* in overall terms was back to growth in 2004, and the outlook in 2005 is for a further solid growth. On the back of brighter business prospects and improved profitability, more companies are likely to increase their investment in production capacity, so as to tap the anticipated growth in business. Abundant bank liquidity and the still low interest rates should help in this regard. Investment expenditure on machinery, equipment and computer software is likely to remain strong, as the cost-conscious companies are keen to boost productivity amidst an increasingly competitive environment. On the other hand, the slack in construction output is expected to continue in 2005, as the distinct fall-off in building consents in 2004 would hold back new construction activity for some time, and as public sector construction output would have to face a temporary lull upon the completion of the West Rail and the Ma On Shan Extension of the East Rail (Para 4.15).

Diagram 2.10 : Distinct fall-off in new building projects to hold back construction for some time



2.23 Overall, the *Gross Domestic Product* is expected to attain growth of 4.5-5.5% in real terms this year, which if achieved would represent another year of above-trend growth as against the average growth of 3.5% over the past ten years. The forecast is largely in line with the prevailing forecasts of Hong Kong's GDP growth for 2005 by the private sector, which range mostly from 4.0% to 6.0%, averaging at 4.7%. Taking into account the projected overall population growth for 2005, *per capita GDP* is forecast to increase by 3.7-4.7% in real terms in 2005, after a 6.9% increase in 2004.

Diagram 2.11 : Economy poised for solid growth in 2005



Note : (*) Mid-point of the range forecast.

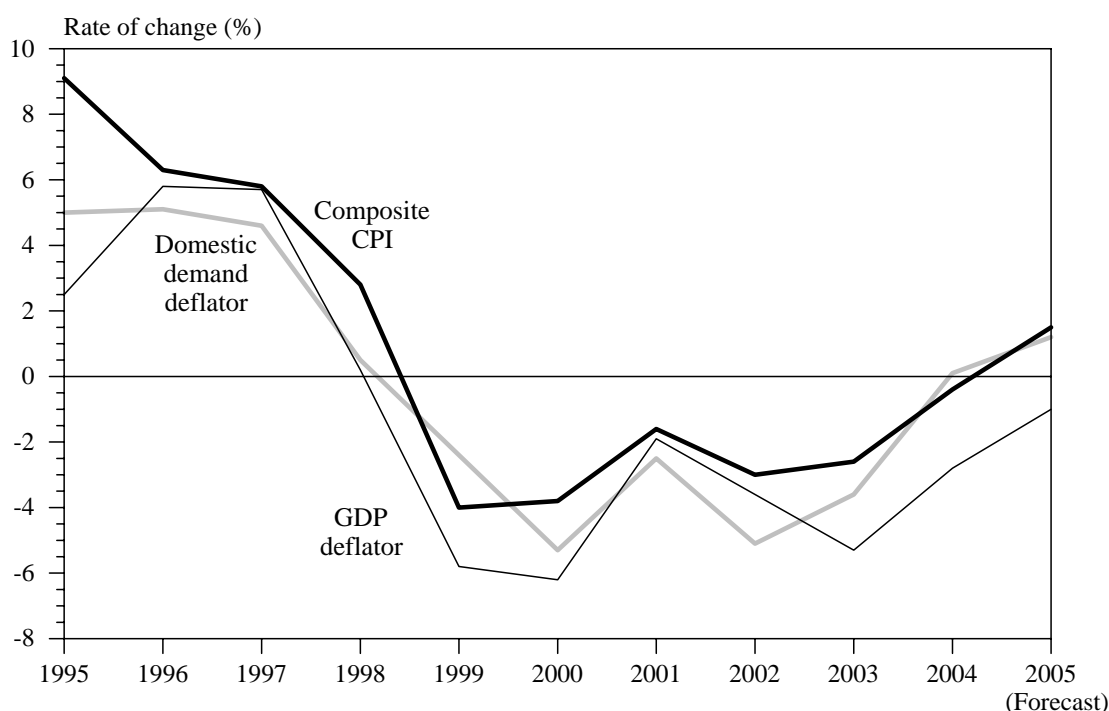
2.24 After the end of the 68-month long deflationary spiral in mid-2004, consumer price inflation has been hovering at near zero level over the past few months. The outlook in 2005 is for a modest inflation of 1.5%, marking the first annual increase after six long years of deflation since 1999. On the cost front, the drag from the earlier fall-off in housing rental is waning, and given the typical 2-year period of leasing contract the drag should pass out fully by around the second quarter of 2005. By that time the rebound in property rental in 2004 should begin to show up to lift the housing cost component within the CPI. Rentals for office space and shopping space are moving up, which would also pass through to the retail price level, now that consumers' spending power has improved in tandem with the economic upturn. Also, the downward pressures on wages and labour earnings are likely to recede further; labour earnings at the upper end of the job hierarchy are expected to come under upward pressure in 2005. Externally, world commodity prices, which were sustained at high levels throughout 2004, will continue to contribute to local inflation in 2005. The weakening of the US dollar towards late 2004 would also lead to some further firming of import prices in the near term.

2.25 Taking these factors together, consumer price inflation in terms of the year-on-year rate of increase in the *Composite CPI* is likely to edge up progressively over the course of the year. Yet for 2005 as whole, inflation

would still be very mild, mainly on account that the CPI in the near term will continue to be kept down by the earlier rental fall-off and that wage pressures in overall terms would still be mild through the year.

2.26 The pace of upturn in the *GDP deflator* is however likely to be visibly slower than that of the Composite CPI, as the deflator in the near term would still be dragged by lower terms of trade stemming from the further weakening of the US dollar towards late 2004. Also worth-noting is the fact that the GDP deflator still had a fairly notable decline of 2.1% in the fourth quarter of 2004, and it is quite unlikely that the deflator will turn around shortly. However, as and when the terms of trade effect reverses, the GDP deflator is poised for an upturn, though probably still slower than that of the Composite CPI. For 2005 as a whole, the GDP deflator is thus forecast to edge down by 1%, which nevertheless represents a distinct tapering from the 2.8% fall in 2004. The 1% decline expected for 2005 merely reflects the fact that it would take time for the terms of trade effect to pass out. In fact, the deflators for other individual demand components are all expected to rise further in 2005.

Diagram 2.12 : Inflation still tame in 2005



2.27 Taking the forecast growth in real GDP and the change in the GDP deflator, *nominal GDP* is forecast to grow further by 3.5-4.5% in 2005, following a 5.1% increase in 2004. The *per capita GDP* at current market prices is forecast at HK\$191,400 – 193,300 or US\$24,500 – 24,800.

The forecasts for the key economic indicators are summarised in the table below:

Forecast rate of change in 2005 (%)

Gross Domestic Product (GDP)

<i>Real GDP</i>	4.5-5.5
<i>Nominal GDP</i>	3.5-4.5

<i>Per capita GDP, in real terms</i>	3.7-4.7
<i>Per capita GDP at current market prices</i>	HK\$191,400-193,300 (US\$24,500-24,800)

Composite Consumer Price Index	1.5
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GDP Deflator	-1
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Medium-term outlook for the Hong Kong economy

2.28 The medium-term prospect for the Hong Kong economy is bright, as Hong Kong continues to reinforce its existing strengths and identify new areas for development. This, coupled with envisaged benefits derived from further integration and co-ordination with the Mainland economy, will help Hong Kong speed up the process of economic restructuring towards higher value-added services and knowledge-based economy in the coming years.

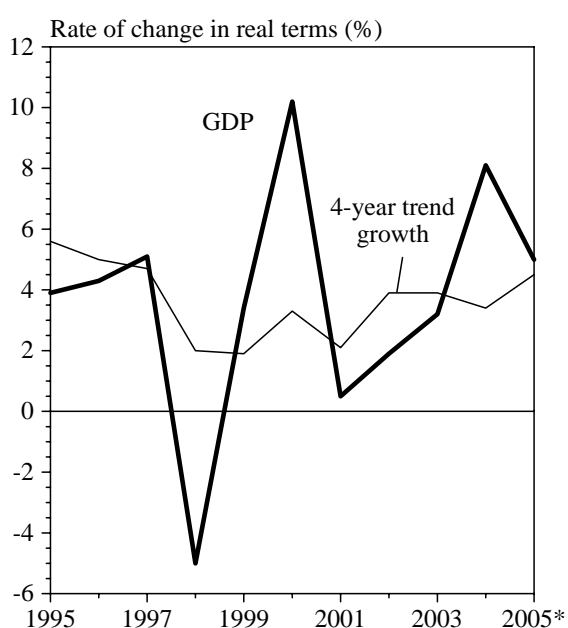
2.29 Hong Kong possesses many strengths as a business hub and financial centre in Asia – first-class port and airport infrastructure; creativity and entrepreneurship of our businessmen; high degree of internationalism with extensive business networking with the rest of the world; and sound legal system and financial regulatory framework. But there is no room for complacency. Hong Kong will strive to be an international financial centre through enhancing infrastructure of the financial markets. On the logistics front, Hong Kong looks set to benefit from the vibrant trade flows in the region, aided further by enhancement of Hong Kong's competitiveness as a regional trade and services hub. Tourism will remain a bright spot of the Hong Kong economy over the next few years, thanks to further extension of the Individual Visit Scheme and additions of key tourist attractions.

2.30 The Hong Kong SAR Government will, as always, strive to maintain the rule of law, a level playing field, corruption-free government, free flow of information and simple tax regime, these institutional strengths being

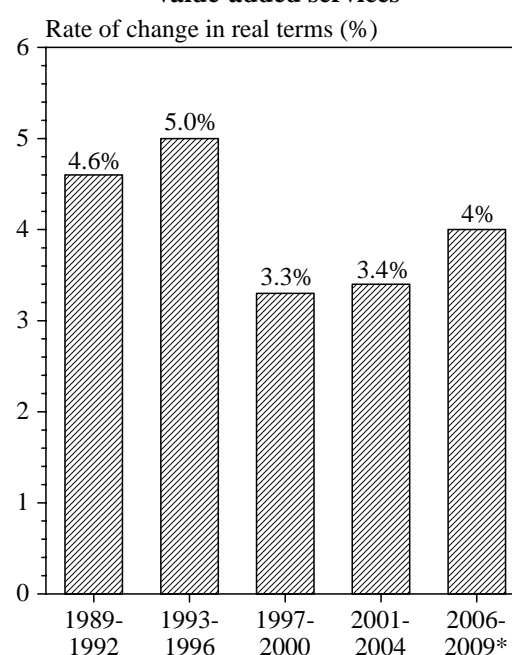
the key aspects of Hong Kong's competitiveness. Furthermore, in order to win the war for talents, the Government will continue to invest substantially in education for upgrading the skills of the local workforce. At the same time, the Government will engage a more flexible population policy to attract Mainland and overseas talents to increase the overall economic vitality and to create more jobs. This is imperative if Hong Kong is to go up the value chain and meet the challenges of a knowledge-based economy.

Diagram 2.13 : Medium-term economic outlook

(a) Economy back on faster growth track



(b) Medium-term outlook underpinned by CEPA and transformation to high value-added services



Note : (*) Forecast.

2.31 Furthermore, co-operation among Hong Kong and other Mainland provinces and cities in the Pan-Pearl River Delta will enhance Hong Kong's role as an intermediary for external economic co-operation over the medium term. On top of this, the "going global" development strategy and measures formulated by the Central Government presents much opportunities for Hong Kong to attract Mainland enterprises to set up businesses here.

2.32 All in all, the future of Hong Kong hinges on whether the economy could go up the value chain and stay competitive, and on how best Hong Kong could leverage on the enormous business opportunities in the fast growing Mainland economy. The strategy of the Hong Kong SAR Government to stay competitive is to foster the development of high value-added sectors, to upgrade

the quality of its workforce, and to facilitate even closer economic collaboration with the Mainland. With various measures put in place over the past two years and the launch of CEPA II, coupled with a highly flexible labour market and the vitality of Hong Kong's business sector, Hong Kong will continue to shift towards higher value-added services and knowledge-based economy. The productivity growth achieved in the process will help the economy attain a 4% trend GDP growth over the next four years 2006-2009.

Notes :

- (1) The economic forecasts for Hong Kong's major markets cited in this report are mainly for the purpose of illustration and are not purported to be exhaustive. Economic forecasts from a variety of sources, including the central banks and government departments in the respective economies and certain private sector forecasting agencies, have been taken into account in deriving the forecasts for Hong Kong's exports.
- (2) Offshore trade comprises mainly merchanting and merchandising services. In both cases, the goods involved do not pass through Hong Kong. For the former, the service providers take ownership of the goods involved, while for the latter, the service providers as agents or brokers do not take ownership of the goods involved. In 2002, around 60% of goods involved in merchanting were sourced from the Mainland, and more than one-third of goods involved in merchanting destined for the Mainland market.

CHAPTER 3 : THE EXTERNAL SECTOR IN 2004

Summary

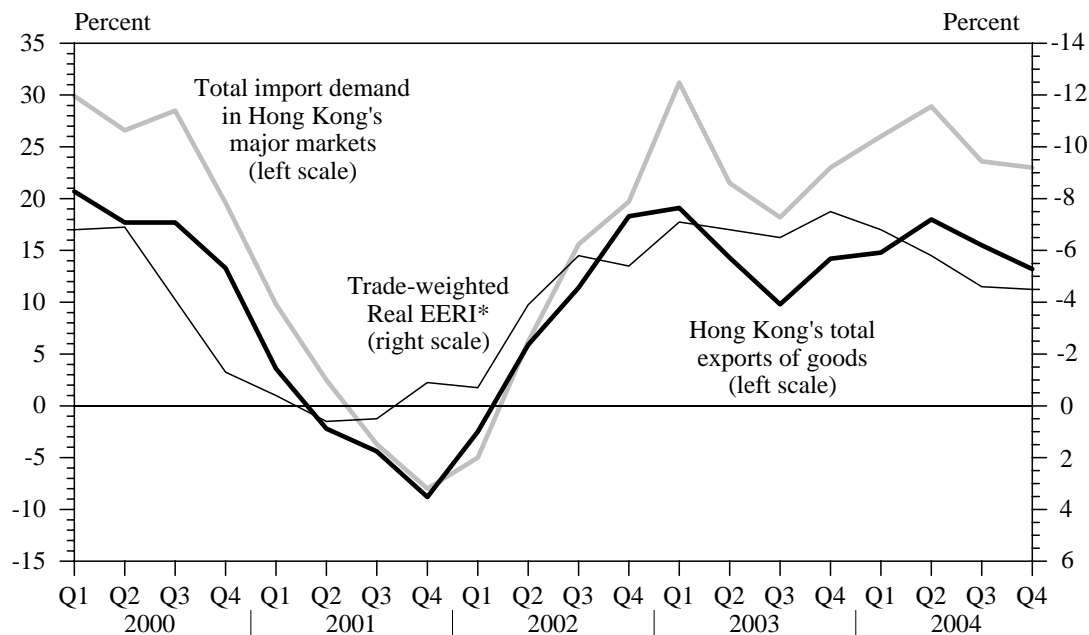
- *Hong Kong's external sector, having attained a remarkable growth in 2003, was even more vibrant in 2004, thanks to buoyant global demand and enhanced external price competitiveness brought about by sustained weakness in the US dollar.*
- *Total exports of goods leaped by 15.3% in real terms in 2004, up further from the already robust growth of 14.0% in 2003. This also marked the second consecutive year of double-digit export growth. Exports to both the East Asian and European markets maintained strong growth. Exports to the United States reverted to increase in the year, albeit still lagging behind other markets under the impact of structural shift to offshore trade.*
- *Exports of services were also robust throughout 2004, on the back of thriving offshore trade, strong bounce-back in transportation services, as well as vibrant inbound tourism.*
- *Although the surge in oil prices, the launch of macroeconomic adjustment in the Mainland, and successive interest rate hikes in the US have inflicted much uncertainties during the course of the year, up till now their impacts on Hong Kong's external trade had been very limited.*

Visible trade

Total exports of goods

3.1 Hong Kong's external trade had another year of impressive performance in 2004. Apart from buoyant global and regional demand, continued weakness of the US dollar rendered a further boost to Hong Kong's external competitiveness. *Total exports of goods* (comprising re-exports and domestic exports) leaped by 15.3% in real terms⁽¹⁾ in 2004, up even further from the already strong growth of 14.0% in 2003. There were double-digit increases in all four quarters of the year, and by the fourth quarter of 2004, total exports had sustained double-digit growth for ten straight quarters. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods expanded continuously throughout the four quarters of 2004, rounding off an uninterrupted trend of expansion over the past three years.

Diagram 3.1 : Hong Kong's total exports of goods, total import demand in Hong Kong's major markets, and exchange rate movements (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.

(*) 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 denoting real appreciation of the Hong Kong dollar appear at the lower part and negative changes denoting real depreciation at the upper part of the diagram.

3.2 *Re-exports*⁽²⁾ continued to outperform overall export growth, surging by a further 16.3% in 2004, following a 16.1% increase in 2003. Benefitting from the Mainland's buoyant trade flows in the year, and also reflecting Hong Kong's prominent role as the trade conduit between the Mainland and the rest of the world, Hong Kong's re-export trade involving the Mainland was vivid throughout 2004.

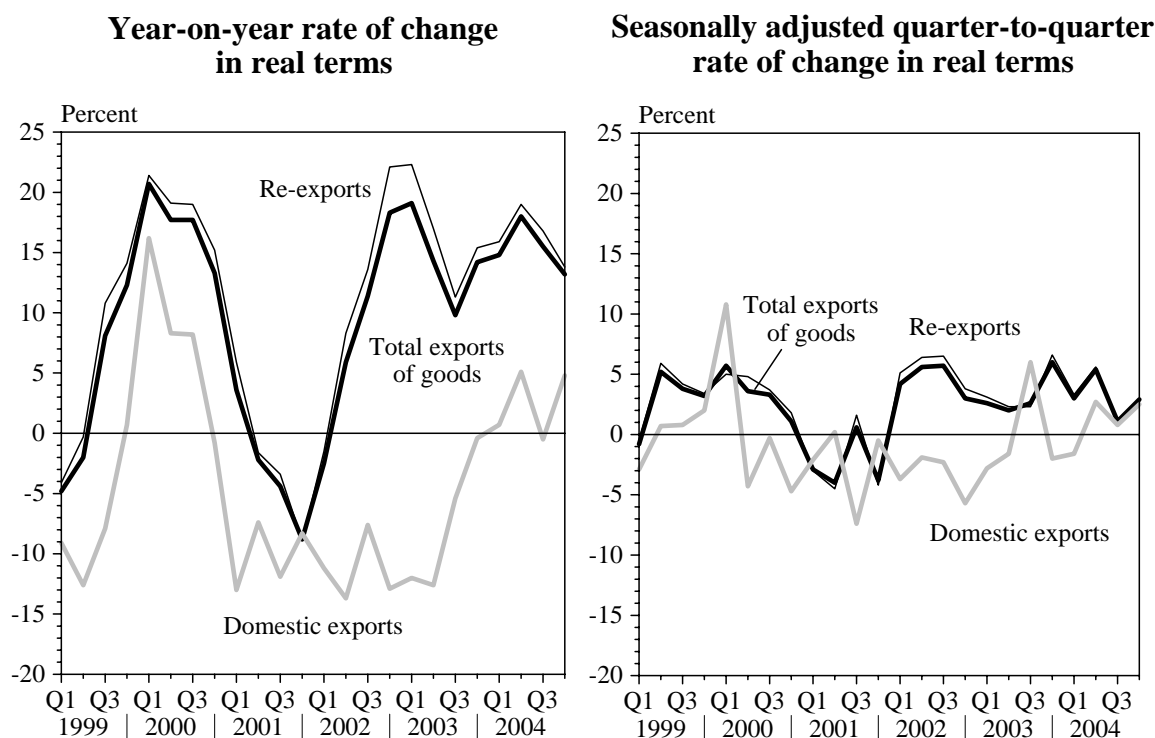
3.3 Despite the continuing drag from structural shift to re-exports and offshore trade⁽³⁾, *domestic exports* bounced up to a modest 2.4% increase in 2004, the first time since 2000. The rebound was underpinned by highly distinct increases in domestic exports to many East Asian markets. Domestic exports to the Mainland in particular saw a sharp turnaround towards the year-end, conceivably as the boost from CEPA progressively showed up.

**Table 3.1 : 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>
2003	Annual	11.7	14.0	1.4	13.4	16.1	-1.5	-7.1	-7.4	0.2
	Q1	17.6	19.1 (2.6)	-0.9	20.3	22.3 (3.1)	-1.1	-10.4	-12.0 (-2.8)	0.8
	Q2	12.2	14.3 (2.0)	-1.4	14.4	17.0 (2.3)	-1.6	-11.4	-12.6 (-1.6)	0.7
	Q3	7.1	9.8 (2.6)	-1.8	8.2	11.3 (2.3)	-2.0	-5.4	-5.4 (6.0)	0.3
	Q4	11.4	14.2 (6.0)	-1.5	12.4	15.4 (6.6)	-1.5	-1.7	-0.4 (-2.0)	-0.8
2004	Annual	15.9	15.3	1.2	16.8	16.3	1.1	3.5	2.4	1.5
	Q1	13.0	14.8 (3.0)	-0.7	14.0	15.9 (3.3)	-0.8	-0.6	0.7 (-1.6)	-0.6
	Q2	17.8	18.0 (5.4)	0.5	18.7	19.0 (5.6)	0.5	4.9	5.1 (2.7)	0.2
	Q3	17.2	15.5 (1.1)	1.9	18.5	16.8 (1.1)	2.0	0.8	-0.5 (0.8)	1.8
	Q4	15.3	13.2 (2.9)	2.6	15.7	13.8 (3.0)	2.5	8.6	4.8 (2.5)	4.2

Note : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

Diagram 3.2 : Total exports of goods, re-exports and domestic exports



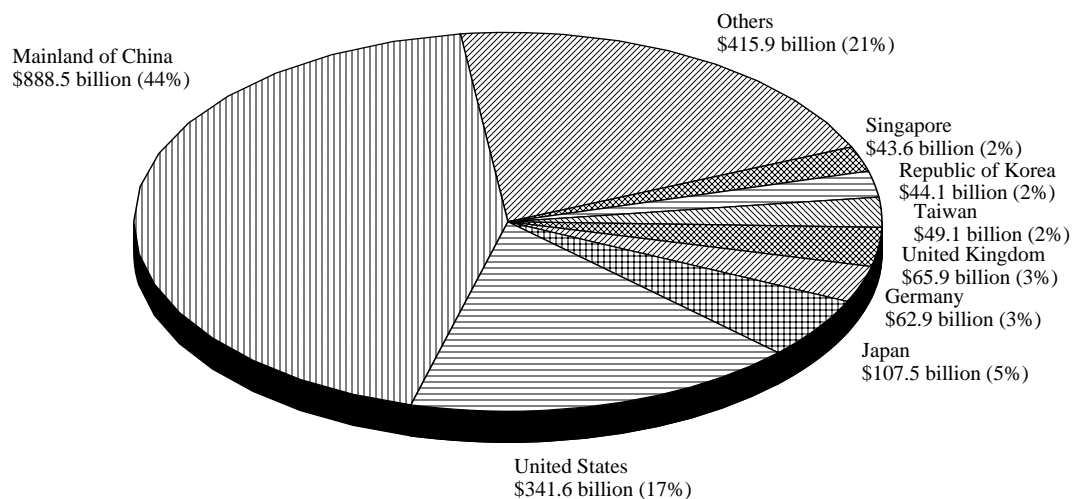
Total exports of goods by major market

3.4 Around 60% of the value of Hong Kong's total exports of goods were destined to East Asia⁽⁴⁾ in 2004. Such intra-regional trade continued to flourish

in 2004, as can be seen from a further distinct double-digit growth in exports to the region as a whole. Amongst the constituent economies, total exports of goods to the Mainland continued with a sharp uptrend in 2004, attaining growth of 17.8% in real terms. Exports of raw materials and semi-manufactures in particular picked up further to a highly distinct growth, in tandem with soaring exports in the Mainland. Exports of capital goods to this market also had a notable rise, though moderated from that in 2003. Exports to Japan had seen a pick-up across all major end-use categories in the year. Exports to the other East Asian markets in general also attained remarkable growth in 2004, again led mainly by exports of raw materials and semi-manufactures in tandem with the regional trade boom.

3.5 Exports to the European Union⁽⁵⁾ were robust all through, recording a double-digit growth in 2004 for the second straight year. The uptrend coincided well with the sustained strength of the euro, as well as the steady improvement in demand there. Moreover, increased penetration of the Mainland products in the EU markets also helped boost Hong Kong's exports to this region. Exports to both Germany and the United Kingdom attained further strong growth in 2004, with exports of raw materials and semi-manufactures and of capital goods exhibiting the sharpest increases. By contrast, exports to the United States persistently lagged behind other major markets and also US' own import demand throughout the year. This was conceivably due to the accelerating shift to offshore trade, as US-bound cargoes were increasingly shipped out directly from South China instead of going through Hong Kong as re-exports. Nevertheless, as compared with the negative growth in 2003, exports to US still had relative improvement in 2004.

Diagram 3.3 : Total exports of goods by major market in 2004



Total exports of goods in 2004 : \$2,019.1 billion

**Table 3.2 : Total exports of goods 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
2003	Annual	23.1	-1.4	14.2	8.1	18.6	25.4	16.4	20.7
	Q1	27.5	9.4	15.0	8.5	26.5	26.9	7.4	12.4
	Q2	22.5	-3.7	18.6	8.9	25.8	19.7	12.3	27.7
	Q3	19.6	-6.3	13.5	6.9	14.0	19.1	22.5	22.5
	Q4	23.7	-1.3	10.6	8.5	12.0	35.9	21.9	20.5
2004	Annual	17.8	5.3	14.2	14.8	12.0	17.9	24.0	25.1
	Q1	17.0	4.6	10.9	13.8	7.9	26.2	31.1	33.2
	Q2	21.4	7.2	17.4	13.3	16.9	27.0	30.1	27.5
	Q3	19.9	4.1	13.6	14.5	12.0	14.3	20.9	23.1
	Q4	13.4	5.6	14.9	17.1	11.4	7.1	16.8	18.1

Imports of goods

3.6 Mirroring closely the expansion in re-export trade, and also with a notable growth in import intake for local use, *imports of goods* likewise flourished, surging by 14.1% in real terms for 2004 as a whole. Imports of goods sourced from the East Asian markets performed particularly well, with imports from the Mainland – the largest source of Hong Kong’s imports – attaining an even more marked growth in 2004.

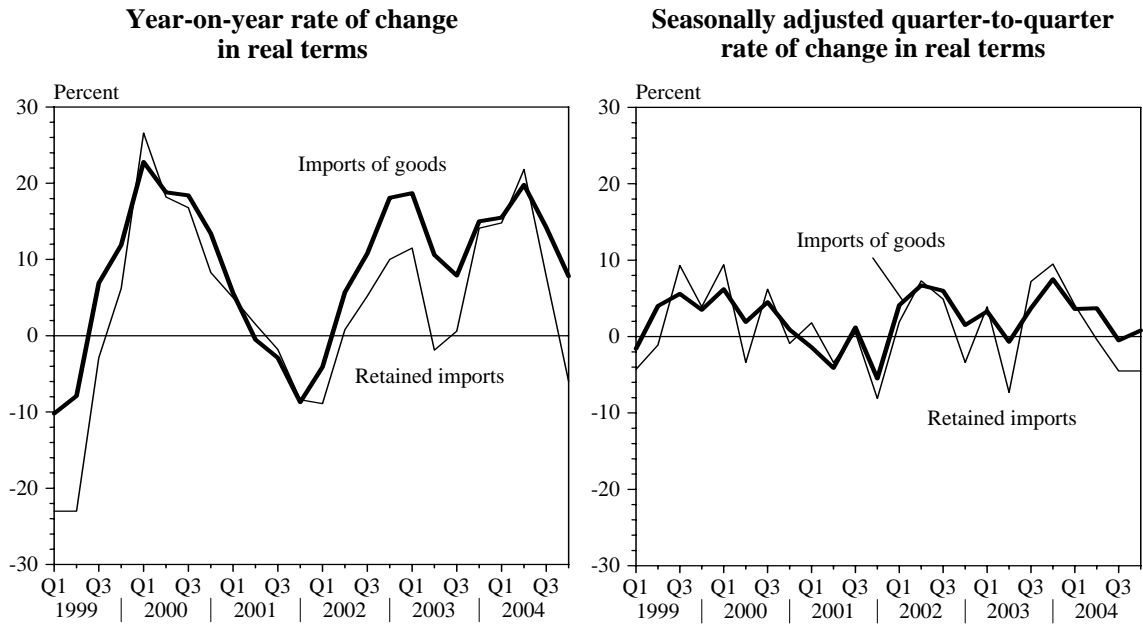
**Table 3.3 : Imports of goods and retained imports
(year-on-year rate of change (%))**

		<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>
2003	Annual	11.5	12.8	-0.4	2.6	5.8	-1.1
	Q1	17.8	18.7 (3.3)	-0.1	7.7	11.5 (3.9)	-1.9
	Q2	9.6	10.6(-0.7)	-0.3	-5.5	-1.9(-7.3)	-1.4
	Q3	6.1	7.9 (3.7)	-0.9	-3.5	0.6 (7.2)	-1.6
	Q4	13.8	15.0 (7.5)	-0.2	12.9	14.1 (9.5)	0.1
2004	Annual	16.9	14.1	2.9	17.2	8.9	8.2
	Q1	15.7	15.5 (3.6)	0.7	20.3	14.8 (4.1)	4.6
	Q2	22.1	19.8 (3.7)	2.3	32.0	21.8(-0.4)	7.4
	Q3	18.4	14.2(-0.5)	4.0	18.1	7.8(-4.5)	10.8
	Q4	11.9	7.8 (0.8)	4.3	1.5	-6.0(-4.5)	10.6

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

- (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.

Diagram 3.4 : Imports of goods and retained imports



3.7 Within total imports of goods, *retained imports* rose by 8.9% in 2004, as import intake for local use and also for production thrived along with the economic recovery. This was further up from the 5.8% growth in 2003. Over the four quarters, the pick-up in retained imports of goods was particularly remarkable in the first and second quarters, with the increase in the second quarter magnified by the low base caused by the SARS outbreak.

3.8 Analysed by *end-use category*, retained imports of capital goods picked up visibly in 2004, as investment sentiment turned more sanguine and as the more established economic recovery necessitated further expansion in production capacity to meet increased demand. Within retained imports of capital goods, intake of industrial machinery for manufacturing use and of telecommunications equipment were the main driver of the overall growth. Imports of construction machinery, however, remained weak in overall terms. As to the other end-use categories, retained imports of raw materials and semi-manufactures attained notable growth in 2004, consistent with the bounce-back in industrial production and also the broad-based upturn in economic activity. In tandem with thriving retail business, retained imports of both foodstuffs and consumer goods had a faster growth in 2004, though easing back towards the end of the year. Retained imports of fuels turned up to a notable growth in 2004, conceivably due to a continued build-up in oil stock in face of the general uptrend in oil prices.

**Table 3.4 : Retained imports by end-use category
(year-on-year rate of change in real terms (%))**

		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2003	Annual	1.5	1.7	6.0	8.5	-1.4
	Q1	7.7	-4.6	10.6	18.0	9.1
	Q2	-10.3	-6.2	-2.8	5.9	-12.8
	Q3	3.2	1.5	5.1	-6.7	0.6
	Q4	6.7	15.4	11.1	19.6	-1.2
2004	Annual	3.0	5.8	13.1	8.0	8.3
	Q1	2.2	7.1	17.8	22.1	9.1
	Q2	21.6	19.6	25.6	15.6	23.7
	Q3	-1.1	5.0	14.8	6.9	4.7
	Q4	-8.5	-4.7	-2.5	-9.5	-1.5

**Table 3.5 : Retained imports of capital goods by broad type
(year-on-year rate of change in real terms (%))**

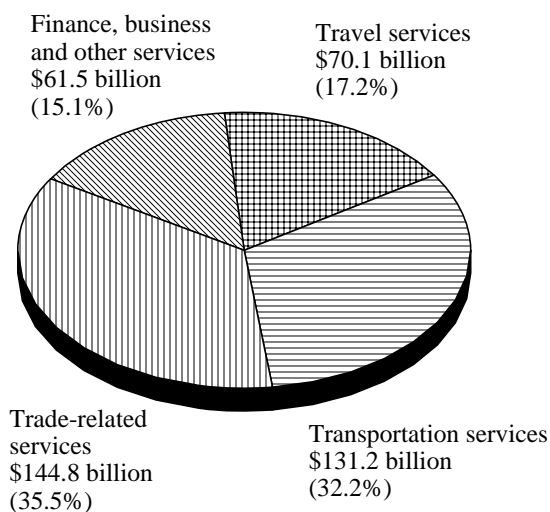
		<u>Industrial machinery for manufacturing use</u>	<u>Construction machinery</u>	<u>Office equipment</u>	<u>Tele-communications equipment</u>	<u>Other capital goods</u>
2003	Annual	-7.3	-19.1	6.5	12.4	19.8
	Q1	3.9	-9.4	52.9	-12.9	16.0
	Q2	-7.6	-21.6	-2.0	1.1	2.1
	Q3	-7.9	-28.6	2.9	29.3	-5.0
	Q4	-15.4	-14.1	-9.0	29.5	68.4
2004	Annual	20.0	-11.3	2.2	30.8	-2.6
	Q1	17.7	1.5	13.4	37.8	1.6
	Q2	11.8	10.7	19.4	76.0	-6.7
	Q3	32.6	-23.0	-0.1	0.6	49.3
	Q4	18.2	-38.6	-22.3	28.9	-34.2

Invisible trade

Exports of services

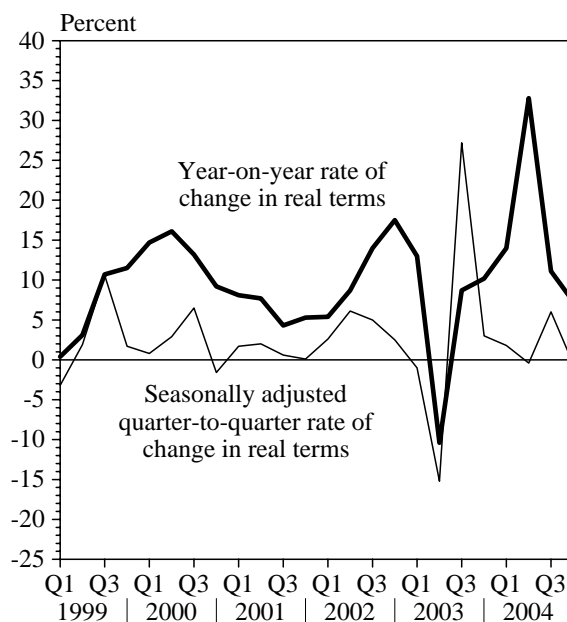
3.9 *Exports of services* sustained strong growth momentum in 2004, with the setback caused by SARS now well behind. For 2004 as a whole, there was a 14.9% leap in real terms, much faster than the 5.7% increase in 2003. The pick-up in exports of services was across-the-board, marked by highly distinct growth throughout the four quarters of 2004. The growth in 2004 was remarkable, even after allowing for the distortion caused by SARS in the second quarter of 2003.

Diagram 3.5 : Exports of services by major service group in 2004



Exports of services in 2004 : \$407.6 billion

Diagram 3.6 : Exports of services



3.10 The robustness of exports of services in 2004 owed in large part to the further surge in trade-related services, the largest component within exports of services. The region-wide trade boom, and more importantly, surging trade flows involving the Mainland, underpinned the fast growth in offshore trade. Exports of transportation services, the second largest component, also picked up strongly in 2004, as passenger services were buoyed by strong influx of incoming visitors, while cargo services thrived upon the vivid external trade.

3.11 Exports of travel services rebounded strongly in 2004, with record-breaking numbers of visitor arrivals during the year. Not only did the number of visitors from the Mainland surge to a record-high in the year, those from most other sources also surpassed the pre-SARS levels well before the year-end. Nonetheless, growth in overall tourist spending was much less than that of the number of visitors, as per capita spending tapered in 2004 after the initial spending spree in the latter part of 2003. Meanwhile, exports of finance, business and other services picked up to a notable growth in 2004.

**Table 3.6 : Exports of services by major service group
(year-on-year rate of change in real terms (%))**

Of which :

		<u>Exports of services</u>	<u>Trade-related services^(a)</u>	<u>Transportation services</u>	<u>Travel services^(b)</u>	<u>Finance, business and other services</u>
2003	Annual	5.7	16.7	*	-3.4	2.4
	Q1	13.0 (-1.0)	20.1	8.0	25.0	0.8
	Q2	-10.4 (-15.2)	16.0	-12.6	-57.9	-1.5
	Q3	8.7 (27.2)	14.1	-0.9	19.3	4.3
	Q4	10.2 (3.0)	17.5	5.7	5.6	5.9
2004	Annual	14.9	15.0	16.9	19.4	7.2
	Q1	14.0 (1.8)	18.6	13.4	11.3	8.9
	Q2	32.8 (-0.4)	19.9	31.4	152.3	8.5
	Q3	11.1 (6.0)	12.6	16.2	3.5	6.2
	Q4	7.3 (-0.5)	11.6	9.4	-4.3	5.4

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

(a) Comprising mainly offshore trade.

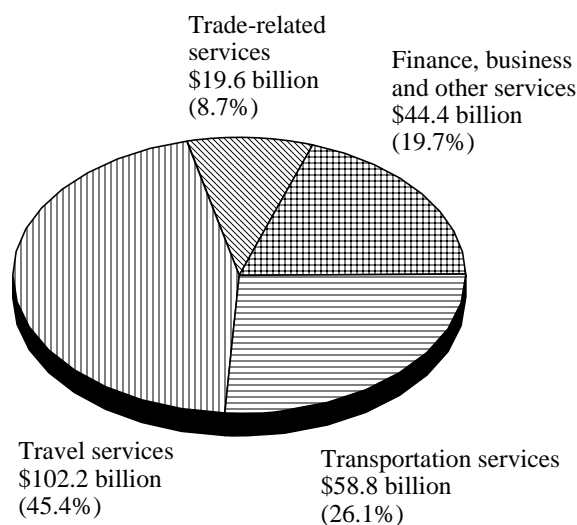
(b) Comprising mainly inbound tourism receipts. Figures for 2004 have been revised following the release of enhanced estimates on tourism expenditure by Mainland visitors by the Hong Kong Tourism Board. Estimates for 2002 and 2003 were revised accordingly to enable comparability of the data series.

(*) Change of less than 0.05%.

Imports of services

3.12 *Imports of services* reverted to a remarkable 10.5% leap in real terms in 2004, after the setback caused by SARS leading to a 4.6% decline in 2003. As with exports of services, imports of services had a quarterly profile distorted by the SARS outbreak in 2003, with a much magnified increase attained in the second quarter of 2004 but still solid increases in the other three quarters. Imports of travel services, the largest component within imports of services, rose back distinctly in 2004 after the plunge in 2003. Imports of transportation services also benefitted from the rebound in residents' spending abroad, boosted further by a sharp rise in incoming cargoes. Imports of trade-related services had another year of distinct growth on the back of soaring offshore trade. Imports of finance, business and other services also strengthened up amidst the activity upturn, attaining a solid growth in 2004.

Diagram 3.7 : Imports of services by major service group in 2004



Imports of services in 2004 : \$225.0 billion

Diagram 3.8 : Imports of services

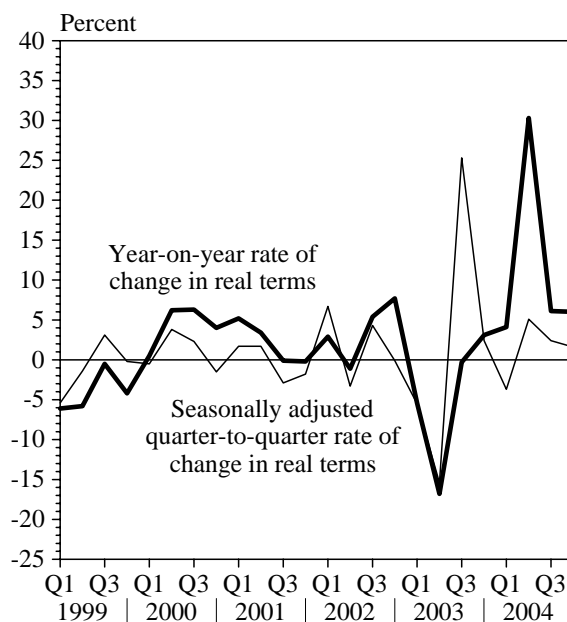


Table 3.7 : Imports of services by major service group (year-on-year rate of change in real terms (%))

		<i>Of which :</i>				Finance, business and other services
		Imports of services	Travel services ^(a)	Transportation services	Trade-related services	
2003	Annual	-4.6	-10.6	-3.0	15.1	0.3
	Q1	-5.4 (-5.5)	-12.5	0.9	18.4	-1.1
	Q2	-16.8 (-15.4)	-26.6	-17.6	14.4	-3.0
	Q3	-0.3 (25.3)	-1.5	-3.0	12.5	0.8
	Q4	3.1 (2.4)	-2.6	7.7	15.9	4.1
2004	Annual	10.5	9.7	16.4	13.3	4.1
	Q1	4.1 (-3.7)	-0.7	11.4	16.9	2.6
	Q2	30.3 (5.1)	43.0	37.3	18.2	5.1
	Q3	6.1 (2.4)	2.2	12.5	11.0	5.2
	Q4	6.0 (1.6)	4.2	9.2	10.0	3.7

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

(a) Comprising mainly outbound travel spending.

Visible and invisible trade balances

3.13 As import intake picked up along with the economic recovery, the *visible trade deficit*⁽⁶⁾ widened to \$72.5 billion in 2004, equivalent to 3.5% of the value of imports of goods. These compared with \$45.0 billion or 2.5% in 2003.

3.14 But the *invisible trade surplus*⁽⁷⁾ also expanded even more in 2004, thanks to vibrant offshore trade and transportation services. For the year as a whole, the surplus enlarged to \$182.6 billion, equivalent to 81.1% of the value of imports of services, up from \$151.4 billion or 77.2% in 2003.

3.15 With the invisible trade surplus more than enough to offset the visible trade deficit, there was a sizeable combined surplus of \$110.0 billion in 2004, up from that of \$106.4 billion in 2003.

**Table 3.8 : 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>
2003	Annual	1,749.1	347.4	1,794.1	196.1	-45.0	151.4	106.4
	Q1	383.4	82.0	399.4	47.8	-16.0	34.2	18.2
	Q2	419.3	67.3	429.1	39.9	-9.8	27.4	17.6
	Q3	467.5	95.3	468.9	54.2	-1.4	41.0	39.7
	Q4	478.8	102.8	496.6	54.2	-17.8	48.7	30.9
2004	Annual	2,027.0	407.6	2,099.5	225.0	-72.5	182.6	110.0
	Q1	434.4	93.4	467.2	51.4	-32.8	42.0	9.2
	Q2	497.9	92.2	527.3	53.7	-29.4	38.5	9.1
	Q3	546.7	108.7	555.2	60.2	-8.5	48.5	40.0
	Q4	548.0	113.2	549.7	59.6	-1.8	53.5	51.8

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

Trade policy and measures conducive to external trade

3.16 The Government of Hong Kong SAR sees its task as facilitating commerce and industry within the framework of a free-market. In regard to trade, Hong Kong maintains no tariffs and no regulatory measures impinging on international trade other than those required to discharge the international obligations or to protect health, the environment and access to high technology.

Mainland and Hong Kong Closer Economic Partnership Arrangement

3.17 The HKSAR Government and the Central People's Government (CPG) signed the main text of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) on June 29, 2003, and concluded the six Annexes on September 29, 2003. CEPA is the first free trade agreement ever concluded by the Mainland and Hong Kong, eyeing the benefit of expanding business opportunities between the two places by enlarging the scope for trade, services and investment. Also, it will help upgrade Hong Kong's manufacturing industry, by attracting investment in such niche areas as high value-added products, brand names, and high IP content products/processes. CEPA has three main parts, namely (1) zero-tariff treatment for exports from Hong Kong meeting the rules of origin requirement, with the first batch covering 374 Mainland product codes taking effect as from 1 January 2004; (2) liberalisation of market access in 18 services sectors⁽⁸⁾ in the Mainland; and (3) promotion of co-operation in seven areas of trade and investment facilitation, such as customs clearance, small and medium-sized enterprises, Chinese medicine and medical products, and e-commerce. This apart, it also embraces mutual recognition of professional qualifications in certain professional service fields. CEPA came into full operation on January 1, 2004.

3.18 CEPA adopts a building block approach wherein more measures will be added as necessary in the future. The signing of CEPA II on 27 August 2004 provides further liberalisation measures to be implemented from 1 January 2005. Under the second phase of CEPA, 529 goods items with current production and 184 items with planned production will be granted zero tariff respectively from 1 January 2005 and 1 January of the year after the products have come into production. These goods items include aqua-marine products, food and beverages, chemical products, pharmaceutical products, plastic and rubber products, leather and fur products, textiles and clothing, metal products, mechanical, electrical and electronics products etc. Moreover, for the 18 services sectors to which preferential treatments have already been provided under CEPA, the liberalisation is to be broadened for 11 of them under CEPA II. In addition, new liberalisation measures are to be granted to 8 new service areas, namely the airport services; information technology services; patent agency services; trademark agency services; job referral agencies; cultural and entertainment services; job intermediaries; and professional and technical qualification examinations. CEPA II will further broaden the scope for Hong Kong products to penetrate into the Mainland market. Moreover, more Hong

Kong companies would enjoy the “first mover” advantage in venturing into the services sector in the Mainland.

3.19 As at 31 December, the Trade and Industry (TID) of the HKSAR government has issued 668 certificates of Hong Kong service supplier to Hong Kong companies, most of which provide transport, logistics and distribution services. TID also issued 3 008 certificates of Hong Kong origin (CEPA) to goods produced in Hong Kong, involving a total of \$1.1 billion of goods, many of which are textiles, clothing and pharmaceutical products. Upon obtaining the former type of certificate, the Hong Kong companies can proceed to apply for setting up business operations in the Mainland. Goods produced in Hong Kong with the latter type of certificate can be exported to the Mainland tariff-free.

Increasing connectivity between Mainland and Hong Kong

3.20 Increased connectivity between Hong Kong and Pearl River Delta should help enhance the flows of people and goods further. On facilitation of flow of passengers, vehicles and goods, 24-hour passenger clearance goes into effect at Lok Ma Chau/Huanggang as from 27 January 2003. Mainland business people can come to Hong Kong more easily with simplified visa application procedures, while travel convenience to the Mainland has been enhanced for foreign residents living in Hong Kong. In addition, new links between Hong Kong and the Mainland will be constructed. The Shenzhen Western Corridor linking up Shekou in Shenzhen and Hong Kong is scheduled for completion by end-2005. For the longer term, construction of a bridge linking Hong Kong, Macau and the western part of the PRD is now under active consideration.

3.21 On 8 September, the HKSAR Government and the Central Government concluded the latest review of the Air Services Arrangement. The two sides agreed to increase substantially the passenger and cargo capacities between Hong Kong and the Mainland, by 30% to 1 600 flights per week and 100% to 42 frequencies per week respectively. In addition, the new arrangement allows Hong Kong airlines to combine two Mainland points in one service. Furthermore, the arrangement provides expanded through-running rights for Mainland airlines to operate services to overseas destinations via Hong Kong. The new arrangement could enhance the competitiveness of the Hong Kong International Airport and strengthen Hong Kong’s status as an international aviation centre.

Pan-PRD co-operation

3.22 The promotion of the pan-PRD co-operation among Guangdong and the eight neighbouring provinces together with Hong Kong and Macau in 2004 will further expand the geographical reach of Hong Kong in terms of economic co-operation. It will enhance the competitiveness of the Greater PRD region by expanding its productive capacity and market potential in the long term.

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) East Asia here covers nine major markets in the region, namely the mainland of China, Japan, Taiwan, Singapore, the Republic of Korea, the Philippines, Thailand, Malaysia and Indonesia.
- (5) The European Union here covers twenty five member countries, namely the United Kingdom, Germany, the Netherlands, France, Sweden, Italy, Denmark, Spain, Finland, Belgium, Luxembourg, Ireland, Austria, Greece, Portugal, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

- (6) Here 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.
- (7) 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.
- (8) These include management consulting, convention and exhibition, advertising, accounting, real estate and construction, medical and dental, distribution, logistics, freight forwarding, storage and warehousing, transport, tourism, audiovisual, legal, banking, securities, insurance and telecommunications services.

CHAPTER 4 : DEVELOPMENTS IN SELECTED SECTORS IN 2004

Summary

- *The pick-up in net output growth for the services sector since the latter part of 2003 gained further momentum in the first three quarters of 2004, thanks to the sustained recovery in local consumer demand, robust trade performance, as well as vibrant inbound tourism.*
- *The property market picked up strongly further during 2004, with prices for residential, commercial and industrial properties all registering double-digit increases. Underlying this was the improved market sentiment along with the distinct upturn in the overall economy and the end of the deflation era.*
- *Building and construction activity remained generally slack in 2004. While private sector building activity was dampened by the earlier sluggishness in the property market, public sector output was dragged down by the further shrinkage in works under the Public Housing Programme and the completion of several priority railway projects.*
- *Inbound tourism showed a spectacular performance in 2004, with substantial increases seen in all major sources of incoming visitors. While further extension of the Individual Visit Scheme boosted visitor arrivals from the Mainland, the relatively strong global economy and the intensive promotion campaigns conducted by the industry and the Government also helped lift the number of visitors from other major sources.*
- *Buoyed by the strong growth in merchandise trade flows, cargo throughputs handled at the airport and port picked up further in 2004. The Hong Kong International Airport remained the world's busiest airport in terms of international cargo movements in 2004, and the Hong Kong Port also retained its top position in the world.*

Net output or value added by major economic sector

4.1 The upturn in the Hong Kong economy was underpinned largely by the revival in the services sector. Net output or value added in the *service sectors* as a whole⁽¹⁾ attained a further notable growth of 7.4% in real terms in

the third quarter of 2004 over a year earlier, having risen by 8.6% and 12.8% in the first two quarters (the leap in the second quarter was partly inflated by a very low base of comparison caused by SARS in 2003). For the first three quarters of 2004 taken together, there was a marked growth of 9.5%, distinctly up from the 4.3% increase in 2003.

4.2 Amongst constituent service sectors, net output in transport, storage and communications rose most sharply, by 17.8% in the first three quarters of 2004 over a year earlier, backed by a surge in merchandise trade flows amidst vibrant global demand and by a continued proliferation of the telecommunications industry particularly of the mobile phone and the international telephone services. Over the same period, net output in the wholesale, retail and import/export trades, restaurants and hotels also registered a robust growth, at 14.8%. Continued recovery in local consumer demand, remarkable trade performance, and resurgence in inbound tourism all contributed. Meanwhile, net output in finance, insurance, real estate and business services picked up to an 8.8% increase, led mainly by the distinctly improved performance of the banking sector. Fees and commissions earned by the banks showed particularly strong growth, along with the rapid development in various personal banking services and fund management. Net output in community, social and personal services firmed up to a 4.3% growth, with a particularly distinct rebound in recreation and entertainment services, in line with better consumer sentiment and improved labour market conditions.

Diagram 4.1 : GDP by major economic sector
(year-on-year rate of change in real terms)

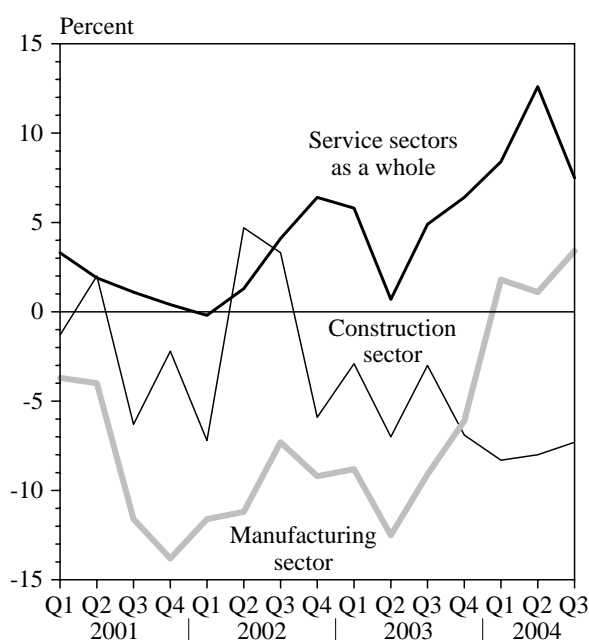
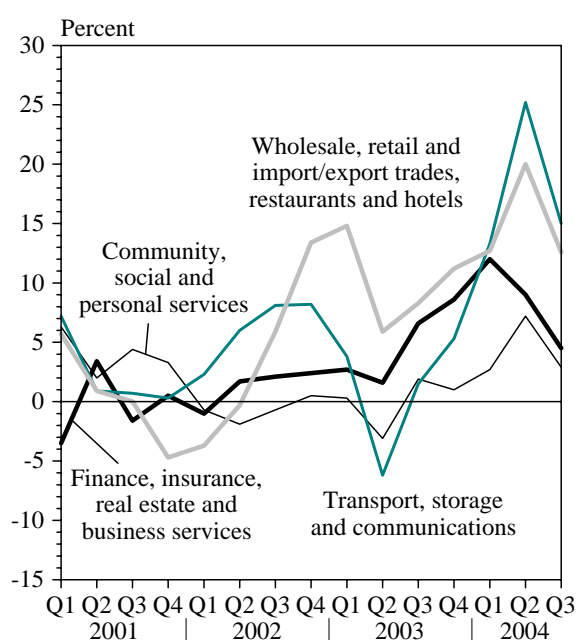


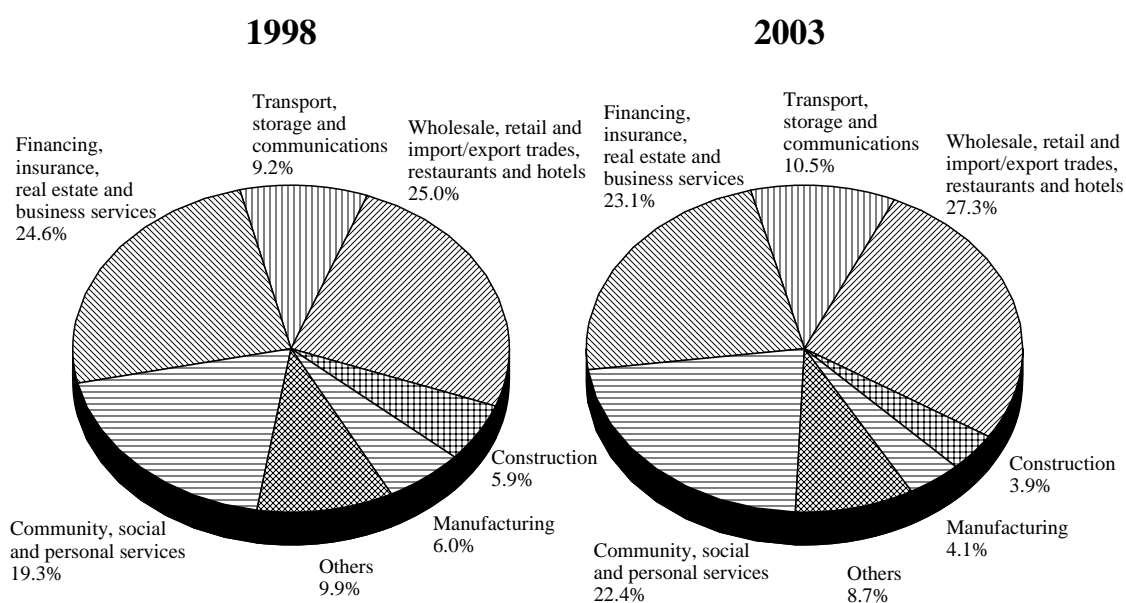
Diagram 4.2 : GDP by main constituent services sector
(year-on-year rate of change in real terms)



4.3 For the *manufacturing sector*, under the support of a highly favourable trading environment, net output resumed a 2.1% growth in real terms in the first three quarters of 2004 over a year earlier, as against a 9.1% drop in 2003. To promote wider use of design and innovation in industries so as to help them move up the value chain, and ultimately turn Hong Kong into a focal point of design excellence in the region, the Government set up the DesignSmart Initiative⁽²⁾ in June 2004, which included a Design Support Programme and the setting up of an InnoCentre. As to the *construction sector*, overall construction activity remained slack, with net output in this sector falling by 9.2% in the first three quarters of 2004 as a whole, after a 5.0% decline in 2003. The fall-off throughout the first three quarters of last year was the combined result of the completion of some prominent private sector building projects, a further drop in output under the Public Housing Programme, and the completion or winding down of works on several priority railway projects.

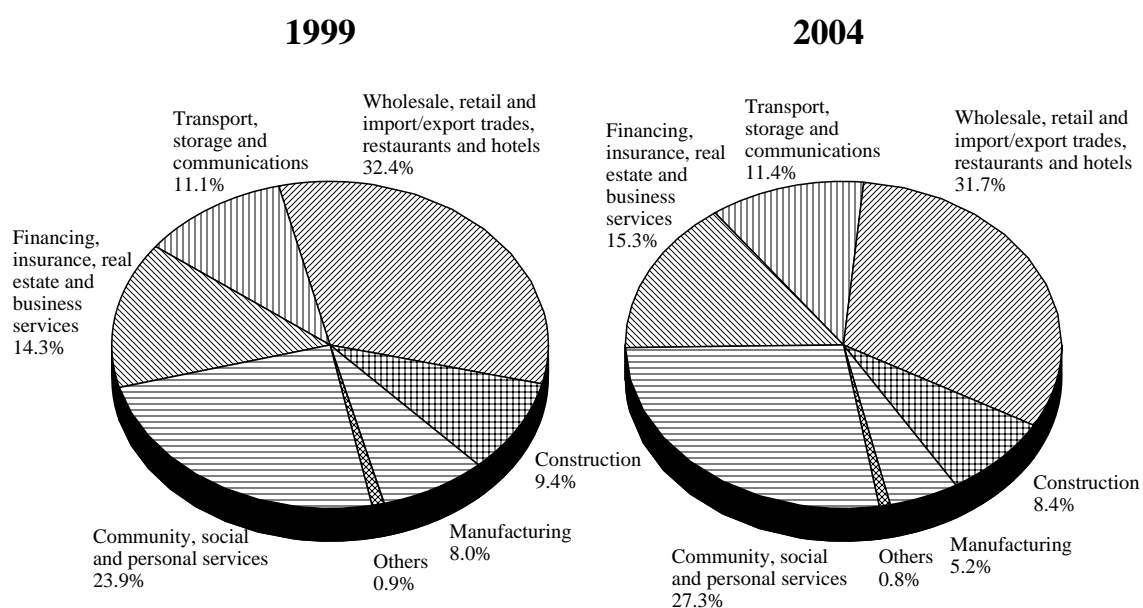
4.4 The structure of the economy continued to shift away from manufacturing to services over the past years. Between 1998 and 2003, net output in the manufacturing sector shrank by an average of 8.0% per annum in value terms, while net output in the service sectors as a whole rose by an average of 0.4% per annum. The contribution of the service sectors as a whole to GDP thus enlarged from 84.9% in 1998 to 88.5% in 2003, contrasted with the reduction in the contribution of the local manufacturing sector to GDP from 6.0% to 4.1% over the same period. Within the total for the service sectors in 2003, the wholesale, retail and import/export trades, restaurants and hotels remained the largest contributor to GDP, with a share of 27.3%. Financing, insurance, real estate and business services came next (with a share of 23.1%), followed by community, social and personal services (22.4%), and transport, storage and communications (10.5%). As to the construction sector, net output dropped by an average of 8.2% per annum in value terms from 1998 to 2003, and correspondingly its contribution to GDP declined from 5.9% to 3.9% over the same period.

Diagram 4.3 : Gross Domestic Product by economic sector



4.5 The sectoral composition of employment showed a broadly similar shift as the sectoral contributions to GDP over the past few years. For the service sectors as a whole, the share in total employment⁽³⁾ expanded visibly from 81.7% in 1999 to an average of 85.6% in the first three quarters of 2004. On the other hand, the share for the manufacturing sector dropped from 8.0% to 5.2% over the same period, while that for the construction sector also fell from 9.4% to 8.4%.

Diagram 4.4 : 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 1999 refer to the annual average, while figures for 2004 refer to the average for the first three quarters of the year.

Property

4.6 The property market as a whole picked up markedly further in early 2004 in terms of both prices and trading activity, as market sentiment continued to improve amidst the distinct economic upturn. The low interest rate environment amidst keen competition in the mortgage loan market rendered further support to the property market. Following a brief consolidation in mid-year caused by concerns over the return of interest rate up-cycle, the economic tightening measures in the Mainland and the oil price upsurge, the property market activated again in the latter part of the year as local economic fundamentals continued to strengthen and as the deflation era came to an end. In particular, the sales market for residential property was reportedly stimulated by the favourable land auction results in June and by the removal of the security of tenure provisions for domestic tenancies in early July⁽⁴⁾. The expansion of the Mortgage Insurance Programme in several aspects between late July and the year-end⁽⁵⁾ also helped lift end-user demand.

4.7 The sales market for *residential property* was buoyant for 2004 as a whole, with particularly hectic trading activity in the secondary market. Flat prices in both the mass market and the luxury end of the market rose markedly during the year, with particularly pronounced increase in the latter market. On a quarter-to-quarter comparison, flat prices in the first quarter of 2004 registered the first double-digit increase in the past seven years, followed by modest rises in the ensuing three quarters. By the fourth quarter of 2004, overall flat prices soared by an average of 29% over the same quarter in 2003, the highest price level since the fourth quarter of 2000. As to the rental market, flat rentals picked up steadily throughout the four quarters of 2004, and were 11% higher in the fourth quarter of 2004 than a year earlier. Yet compared with their peaks in the third quarter of 1997, flat prices and rentals in the fourth quarter of 2004 were still substantially lower, on average by 51% and 42% respectively.

Diagram 4.5 : Price and rental indices for private residential property

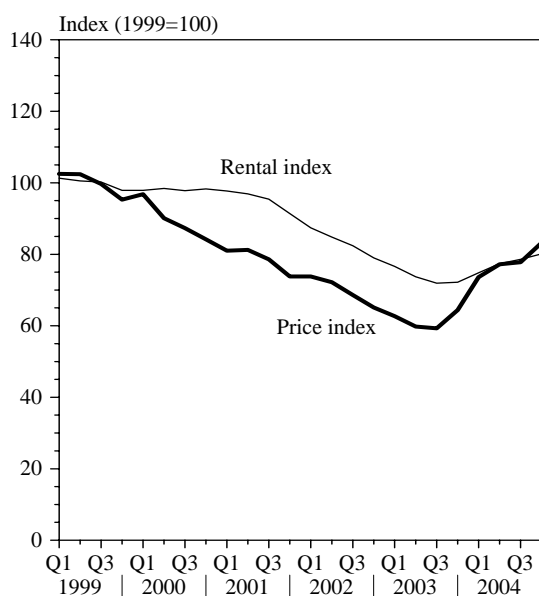
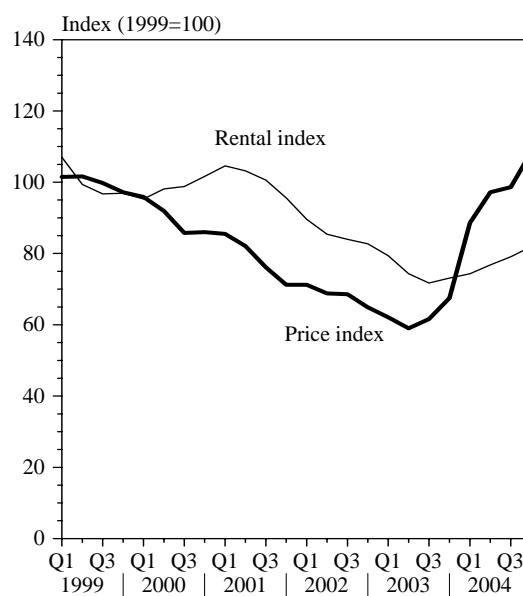


Diagram 4.6 : Price and rental indices for private office space



Note : See footnotes to Table 14 of the Statistical Appendix.

4.8 On *commercial property*, bolstered by keen investor interest amidst sanguine business outlook, the sales market for office space picked up sharply in the first quarter of 2004 and stayed buoyant in the second quarter. It then went through a brief consolidation in the third quarter owing to uncertainties in the external environment, but bounced back swiftly in the fourth quarter as local business activity continued to prosper. By the fourth quarter of 2004, prices for office space on average surged by 61% from a year earlier. As to the rental market, rentals for office space picked up during most of 2004, with rentals for Grade A office space registering the strongest increase. There was on-going

upgrading and relocation of office space from the fringe areas to quality office premises in the prime locations, as rentals for Grade A office space had fallen to an attractive level and as business activity saw further growth. By the fourth quarter of 2004, office rentals went up by an average of 12% over a year earlier. Against their respective peak levels in 1994, prices and rentals for office space in the fourth quarter of 2004 were lower by an average of 55% and 57% respectively.

4.9 The sales and rental markets for *shopping space* were generally supported by the vigorous retail business amidst continued revival in local consumer demand and buoyant inbound tourism in 2004. Retail premises in popular locations and in better-managed shopping malls had particularly strong demand. By the fourth quarter of 2004, prices and rentals for shopping space rose on average by 40% and 9% respectively over the fourth quarter of 2003, but were on average 31% and 23% lower than their respective peaks in the third quarter of 1997.

Diagram 4.7 : Price and rental indices for private shopping space

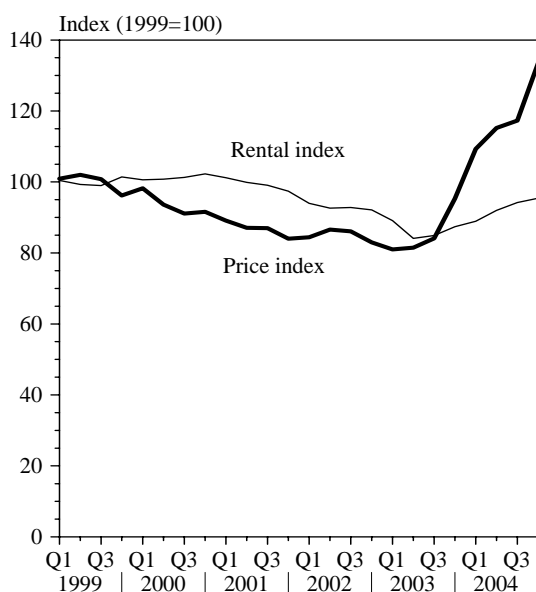
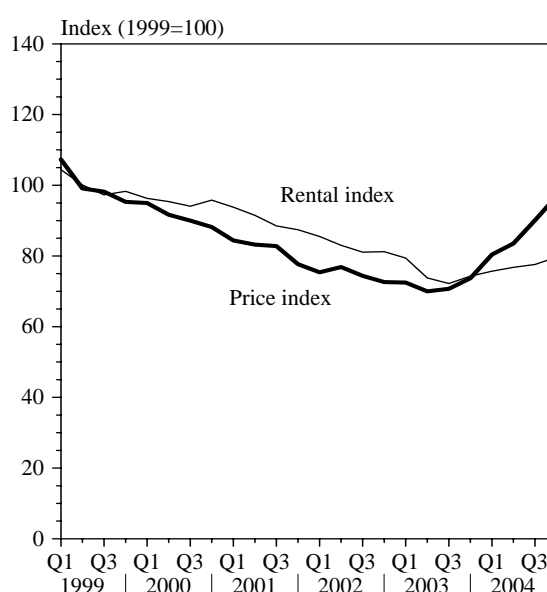


Diagram 4.8 : Price and rental indices for private flatted factory space



Note : See footnotes to Table 14 of the Statistical Appendix.

4.10 On *industrial property*, with end-user demand strengthened amidst buoyant export growth and investor sentiment reportedly lifted by the implementation of CEPA, prices for flatted factory space registered appreciable increases throughout the four quarters of 2004. By the fourth quarter of 2004, prices for flatted factory space rose distinctly by 31% over a year earlier.

Concurrently, rentals of industrial space also picked up, albeit at a much slower pace, by 7% over the same period. Compared with their respective peaks in 1994, prices and rentals for industrial space in the fourth quarter of 2004 were still significantly lower, by an average of 57% and 47% respectively.

4.11 *Property transactions*, as measured by agreements for sale and purchase of property registered with the Land Registry, leaped by 41% in number and 86% in value in 2004, much faster than the modest 2% increase in both number and total value in 2003. While the upsurge reflected the marked revival in the property market over the course of 2004, it was also partly attributable to a distinctly low base of comparison for the early part of the year due to the SARS impact in 2003. Within the total, transactions in residential property soared by 41% in number and 80% in value in 2004, while the respective increases for non-residential property were even stronger, at 45% and 109%. Meanwhile, property transfer assignments expanded by 23% in number and 47% in value in 2004, as against an 8% decline in number and a 5% rise in value in 2003. As to mortgage arrangements, their number jumped by 21% in 2004 over 2003.

Table 4.1 : Agreements for sale and purchase of property

		<u>Number</u>						<u>Total value (\$Bn)</u>					
		<u>Residential Property</u>		<u>Non-residential property</u>		<u>Total</u>		<u>Residential Property</u>		<u>Non-residential property</u>		<u>Total</u>	
2003	Annual	71 576	(-2)	15 733	(22)	87 309	(2)	153.6	(*)	35.8	(15)	189.4	(2)
	Q1	14 386	(-24)	3 329	(-7)	17 715	(-21)	29.9	(-28)	7.0	(14)	36.9	(-23)
	Q2	14 336	(-35)	3 149	(-5)	17 485	(-31)	27.0	(-44)	6.8	(-19)	33.8	(-40)
	Q3	18 716	(16)	3 755	(15)	22 471	(16)	35.9	(11)	9.9	(-17)	45.9	(4)
	Q4	24 138	(51)	5 500	(97)	29 638	(58)	60.7	(89)	12.2	(155)	72.9	(98)
2004	Annual	100 630	(41)	22 850	(45)	123 480	(41)	276.7	(80)	75.1	(109)	351.8	(86)
	Q1	28 624	(99)	5 735	(72)	34 359	(94)	77.3	(158)	16.7	(140)	94.0	(155)
	Q2	23 736	(66)	5 718	(82)	29 454	(68)	64.3	(138)	19.0	(180)	83.3	(147)
	Q3	20 012	(7)	4 529	(21)	24 541	(9)	49.6	(38)	12.6	(27)	62.2	(36)
	Q4	28 258	(17)	6 868	(25)	35 126	(19)	85.4	(41)	26.8	(120)	112.2	(54)
			<41>		<52>		<43>		<72>		<113>		<80>

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

() % change over a year earlier.

< > % change over the preceding quarter.

(*) Change of less than 0.5%.

Source : Land Registry.

Table 4.2 : Property transfer assignments and mortgage arrangements

		Property transfer Assignments ^(a)				Mortgages other than building mortgages ^(b)	
		Number		Total value (\$Bn)		Number	
2003	Annual	110 052	(-8)	207.3	(5)	102 210	(-16)
	Q1	28 557	(-9)	45.0	(-7)	26 941	(-20)
	Q2	23 618	(-21)	42.3	(-19)	22 757	(-26)
	Q3	24 638	(-21)	49.9	(2)	22 080	(-28)
	Q4	33 239	(21)	70.1	(44)	30 432	(14)
2004	Annual	135 106	(23)	305.7	(47)	124 183	(21)
	Q1	31 060	(9)	61.9	(38)	25 712	(-5)
	Q2	38 801	(64)	89.6	(112)	34 646	(52)
	Q3	27 802	(13)	69.7	(40)	28 606	(30)
	Q4	37 443	(13)	84.4	(20)	35 219	(16)
			<35>		<21>		<23>

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.

Source : Land Registry.

4.12 Regarding supply of new property, *completions* of private residential flats declined by 1% in 2004 to 26 000 units, lesser than the 15% drop in 2003. On the other hand, completions of office space fell back by 6% in terms of internal floor area in 2004, having surged by 80% in 2003. Completions of other commercial premises likewise declined, by 23% in 2004, further to a 15% fall in 2003. Completions of conventional flatted factory space in 2004 was only 800 m², after nil completions in 2003. There were nil completions of industrial-cum-office space in 2004, following completions of 14 800 m² in 2003. With an across-the-board rise in new take-ups, *vacancy rates* for almost all types of property in the private sector lowered, at 6.2% for residential flats, 12.7% for office space, 10.8% for shopping space, 8.7% for conventional flatted factory space, and 11.1% for industrial-cum-office space at end-2004.

Table 4.3 : 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	
2003	Annual	26 397 (-15)	299 (80)	118 (-15)	417 (37)	0 (-100)	0 (-100)	15 (--)	15 (-50)
	Q1	4 337 (62)	32 (-38)	48 (174)	79 (15)	0 (-100)	0 (--)	15 (--)	15 (447)
	Q2	5 899 (3)	159 (199)	27 (21)	186 (146)	0 (--)	0 (--)	0 (--)	0 (--)
	Q3	9 099 (-27)	28 (225)	13 (-68)	41 (-17)	0 (--)	0 (--)	0 (--)	0 (--)
	Q4	7 062 (-30)	80 (54)	30 (-48)	110 (*)	0 (--)	0 (-100)	0 (--)	0 (-100)
2004	Annual [^]	26 036 (-1)	279 (-6)	91 (-23)	371 (-11)	1 (--)	0 (--)	0 (-100)	1 (-95)
	Q1 [^]	4 427 (2)	10 (-70)	1 (-98)	10 (-87)	0 (--)	0 (--)	0 (-100)	0 (-100)
	Q2 [^]	7 974 (35)	60 (-62)	4 (-85)	64 (-66)	0 (--)	0 (--)	0 (--)	0 (--)
	Q3 [^]	6 697 (-26)	197 (604)	77 (499)	274 (570)	1 (--)	0 (--)	0 (--)	1 (--)
	Q4 [^]	6 938 (-2)	14 (-83)	9 (-70)	23 (-79)	0 (--)	0 (--)	0 (--)	0 (--)

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

(a) The figures shown are the number of private residential units, excluding units built under the Private Sector Participation, Home Ownership, Buy or Rent Option, Mortgage Subsidy, Sandwich Class Housing, Urban Improvement and Flat-for-Sale Schemes. Also excluded are village-type housing units.

These include all completed residential premises to which full Occupation Permits have been granted. Property developments subject to a Consent Scheme will need a Certificate of Compliance or Consent to Assign in addition to an Occupation Permit before the premises can be individually assigned. 2004 completions include those private flats converted from subsidised flats during the year.

(b) These include retail premises and other premises designed or adapted for commercial use, with the exception of purpose-built offices. Car-parking space and commercial premises built by the Hong Kong Housing Authority and the Hong Kong Housing Society are 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.

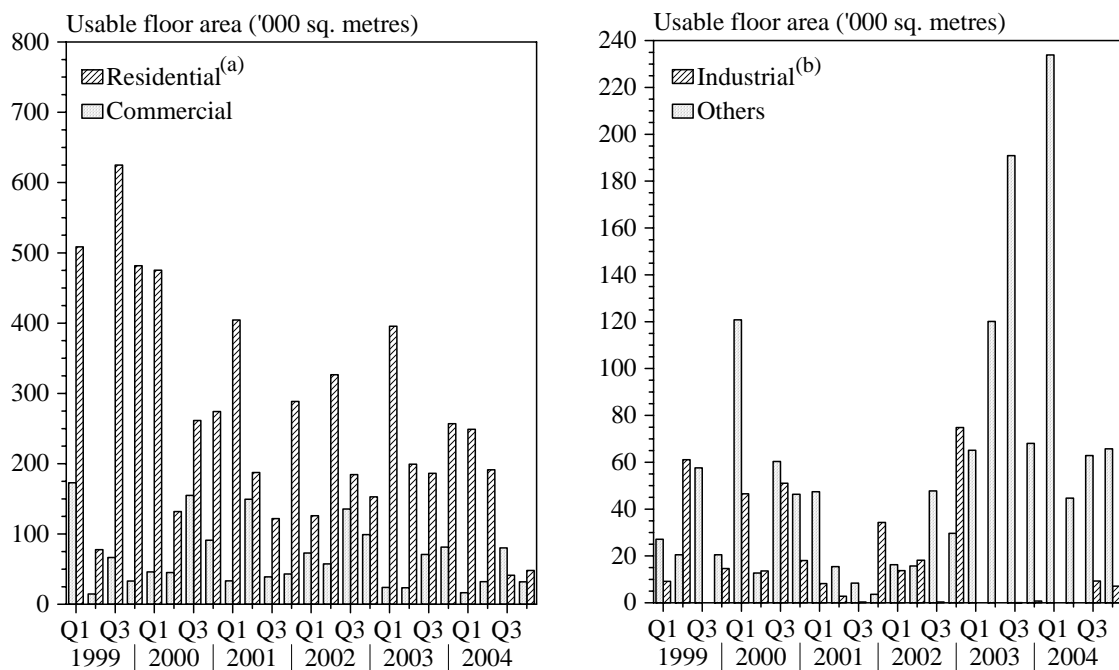
(*) Change of less than 0.5%.

(--) Not applicable.

Source : Rating and Valuation Department.

4.13 *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, shrank by 34% in 2004, following a 23% surge in 2003. Within the total in 2004, planned developments of private residential property fell by 49% in terms of total usable floor area and 52% in terms of units. Planned developments of commercial property fell by 19%, while planned developments of industrial property surged by 19 times against an extremely low base of comparison in 2003. Meanwhile, planned developments of property in the “others” category declined by 8%.

Diagram 4.9 : Building plans with consent to commence work in the private sector by major category



Notes : Developers are required to re-apply for issue of consent to commence work on every major revision of their development projects. The figures reported here may include re-application cases and hence may contain a degree of double-counting. In 2004, for building plans with consent to commence work in respect of private residential property, 38% in terms of units or 37% in terms of total usable floor area were re-application cases.

(a) Here the classification of residential property includes developments under the Urban Improvement Scheme of the Housing Society, but excludes developments under the Home Ownership Scheme and the Private Sector Participation Scheme of the Housing Authority.

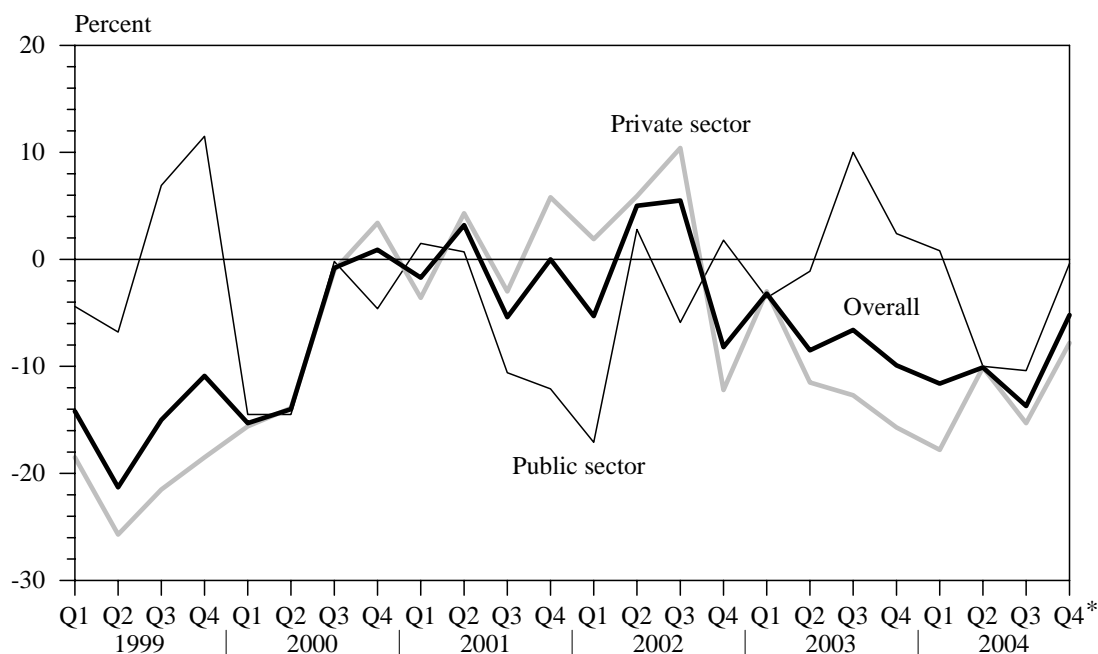
(b) Including multi-purpose industrial premises designed also for office use.

4.14 On *Government-subsidised flats*, the Housing Authority endorsed the sales plan of Phase 6A under the Tenants Purchase Scheme (TPS) in June 2004. Four housing estates, namely Cheung Wah Estate, Lei Tung Estate, Shan King Estate and Po Lam Estate, were then offered for sale under this plan. The sale of TPS flats would cease after the launch of Phase 6B, under which five public housing estates would be offered for sale. On home ownership loans, the Housing Authority announced the termination of the Home Assistance Loan Scheme in July 2004, following a thorough review of the Scheme. This enabled the Housing Authority to concentrate its limited resources on providing public rental housing to those in need.

Building and construction

4.15 Building and construction activity remained generally slack in 2004, with overall expenditure on building and construction dropping by 10% in real terms, following a 7% decline in 2003. Expenditure on building and construction in both private and public sectors fell in 2004, by 13% and 5% respectively. While private sector building activity was dampened by the earlier sluggishness in the property market, public sector output was dragged down by the further shrinkage in works under the Public Housing Programme and the completion and commission of several priority railway projects, namely the West Rail in December 2003, KCRC East Rail extension to Tsim Sha Tsui in October 2004, and the Ma On Shan Rail in December 2004. These far more than offset the increased output in some civil engineering projects, including Route 8, the Deep Bay Link and the Hong Kong Section of Hong Kong-Shenzhen Western Corridor.

**Diagram 4.10 : Expenditure on building and construction
(year-on-year rate of change in real terms)**



Note : (*) Provisional figures.

Land

4.16 Following suspension of the Application List System in 2003⁽⁶⁾, the Government announced resumption of land sales through auction in early January 2004 with the 2004/05 Application List⁽⁷⁾ released for applications from developers. Three land auctions were then held during 2004, with five residential sites totalling 5.9 hectares being sold. Reflecting developers' confidence in the outlook for the property market, responses to all these auctions were highly favourable. In particular, two residential sites totalling 3.0 hectares were sold through auction in October, with the prices fetched being well above market expectations. As to land sales through tender, two batches of petrol filling station sites totalling 1.4 hectares were sold in 2004.

4.17 On modification of lease on existing developed and developable land in the private sector domain⁽⁸⁾, 72 applications were approved by the Government in 2004. Of this total, 34 applications were for residential development, 13 for residential-cum-commercial development, six for commercial development, six for education and community facilities, two for industrial development, and the remaining 11 for other purposes.

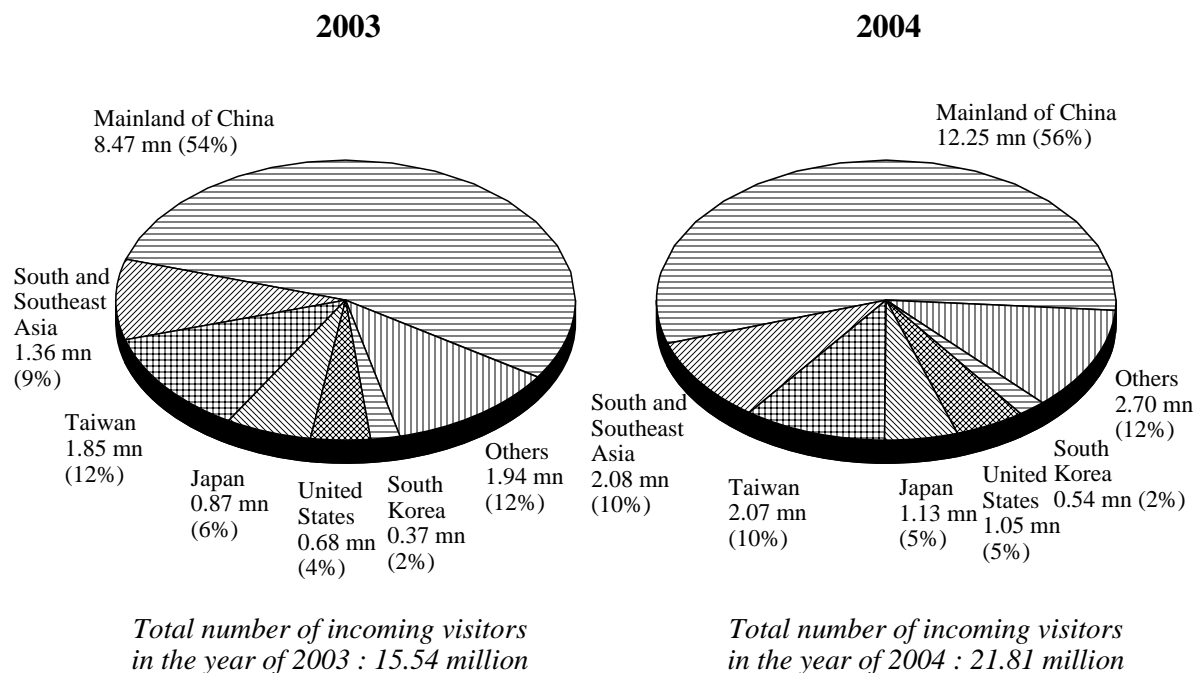
4.18 On the industrial estates, there were three sites with an area of 1.39 hectares being taken up in the Yuen Long Industrial Estate in 2004, while the Tai Po Industrial Estate had one site with an area of 1.17 hectares being taken up. The Tseung Kwan O Industrial Estate had no new take-up during last year. With no surrender of site over the course of 2004, the take-up rates of the industrial estates in Yuen Long and Tai Po rose to 90.2% and 94.5% respectively as at end-2004, while the take-up rate in the Tseung Kwan O Industrial Estate remained stable, at 47.9%. As to the Science Park, Phase 1 was completed in October 2004. As at end-2004, 73 companies were approved for admission. Construction work for Science Park Phase 2 is underway.

Tourism

4.19 Inbound tourism exhibited a spectacular performance in 2004, with the total number of *incoming visitors* hitting a record high of 21.8 million, 40% up from 2003. Apart from the continued surge in visitors from the Mainland bolstered by further extension of the Individual Visit Scheme⁽⁹⁾, visitors from all other major sources likewise rebounded promptly from the earlier setback to double-digit increases in 2004. The relatively strong global economy and the intensive promotion campaigns conducted by the industry and the Government⁽¹⁰⁾ were the main driving factors. In line with the buoyancy in inbound tourism, the *average hotel room occupancy rate* rose to 92% in the fourth quarter of 2004, from 88% in the same quarter in 2003. As at end-2004, there were 44 362 *hotel and guesthouse rooms* in Hong Kong, 3% up from a year earlier⁽¹¹⁾.

4.20 In 2004, the Mainland continued to be the largest source of visitors to Hong Kong, with its share in total ascending further to 56%. Other major sources of visitors included South and Southeast Asia (with a share of 10%), Taiwan (10%), Japan (5%) and the United States (5%).

Diagram 4.11 : Number of incoming visitors by source

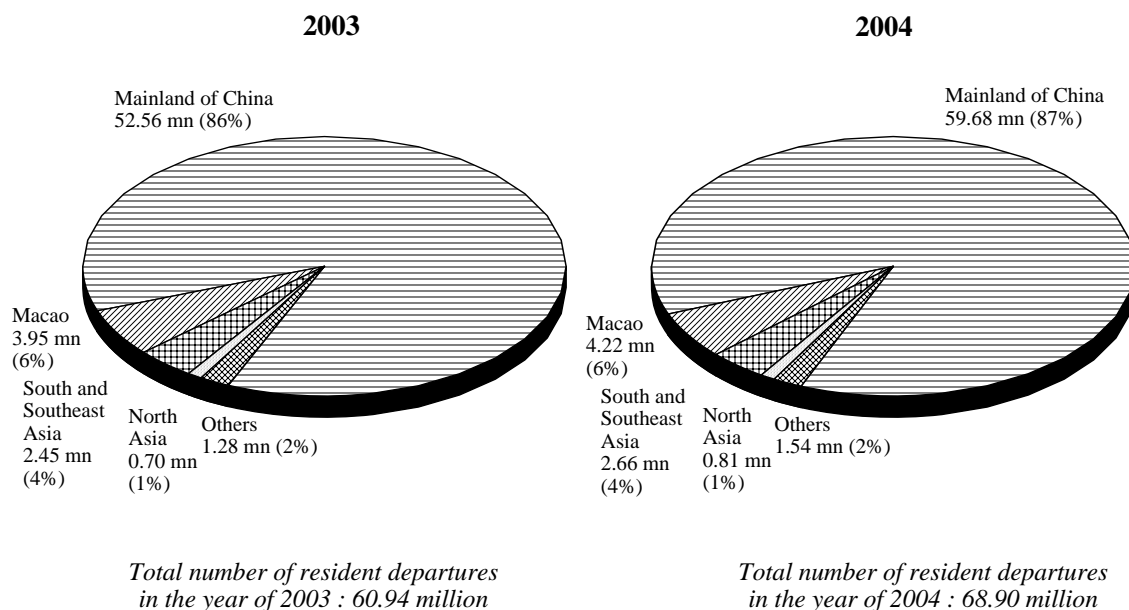


4.21 As to *Hong Kong residents travelling abroad*, the total number of resident departures rose back distinctly by 13% to 68.9 million in 2004, after a 6% decline in 2003. The turnaround in outbound tourism was mainly attributable to sustained recovery in the local economy.

4.22 Analysed by major destination, the Mainland remained the most popular destination for Hong Kong resident departures, taking up a predominant share of 87% of the total outbound trips. Most of these trips were destined for the Guangdong Province. Macao was the next most popular destination for Hong Kong resident departures (with a share of 6%), followed by South and Southeast Asia (4%).

4.23 With regard to the major *tourism-related construction projects*, construction of the Hong Kong Disneyland had been progressing well during 2004, and was targeted to be opened in September 2005. Construction of MTRC's Disneyland Resort Line was on schedule, and was targeted for completion in July 2005. Construction works on the Tung Chung Cable Car System, targeted for completion in February 2006, were likewise in intensive progress in 2004. These infrastructures would render added boost to the already buoyant inbound tourism upon completion.

Diagram 4.12 : Number of Hong Kong resident departures by destination



Logistics

4.24 On the *major developments* in the logistics industry, the Government accorded priority to improving the handling capacity of cross boundary facilities, and several infrastructure projects were underway in 2004 to ease congestion at the control points. These included the two new boundary bridges at Lok Ma Chau and Sha Tau Kok and the improvement works at the Lo Wu Cross-boundary Footbridge. They were completed and opened for use in January 2005, and served to smoothen the flow of passengers and vehicles crossing the boundary. The Hong Kong-Shenzhen Western Corridor was also under intensive construction in 2004. Upon commissioning in the second half of 2006, it would provide a fourth road crossing between Hong Kong and Shenzhen. The advance work for the Hong Kong-Zhuhai-Macao Bridge (HZMB), a proposed land transport link between Hong Kong and the west bank of Pearl River Delta (PRD), was proceeding at full steam in 2004.

4.25 The implementation of CEPA since January 2004 had provided added impetus to Hong Kong's logistics development by opening up new and unprecedented opportunities for Hong Kong logistics companies. As at end-2004, logistics services suppliers accounted for 46% of the total number of Certificate of Hong Kong Service Supplier approved under CEPA.

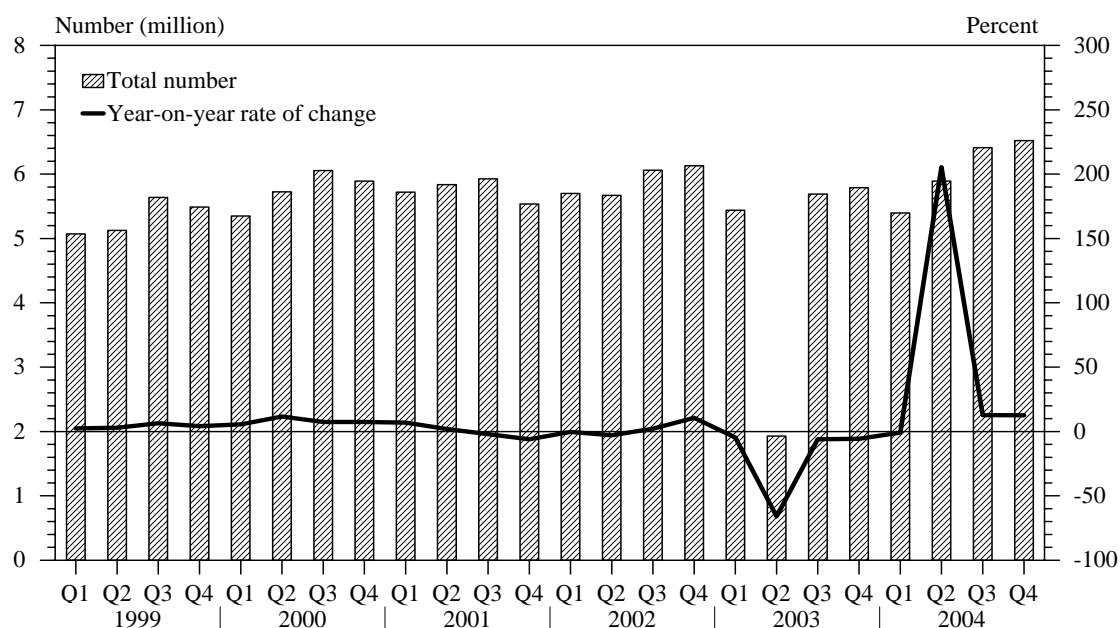
4.26 To enhance Hong Kong's capability in providing one-stop integrated logistics services, the Government identified a site at Siu Ho Wan, North

Lantau for developing a Lantau Logistics Park (LLP). Its strategic location close to the airport, the container port and the Hong Kong landing point of HZMB will enable the LLP to take advantage of the opportunities presented by links to the PRD. Separately, the Government aims to launch the Digital Trade and Transportation Network System within 2005 to provide a secure, neutral and open e-platform for logistics players to exchange information and data in an efficient, reliable and low-cost manner, thus strengthening Hong Kong's role as the prime logistics information conduit.

4.27 In November 2004, the Government completed a consultancy study "Hong Kong Port - Master Plan 2020", with a view to formulating a competitive and sustainable strategy and master plan for Hong Kong's port development to the year of 2020 and beyond⁽¹²⁾.

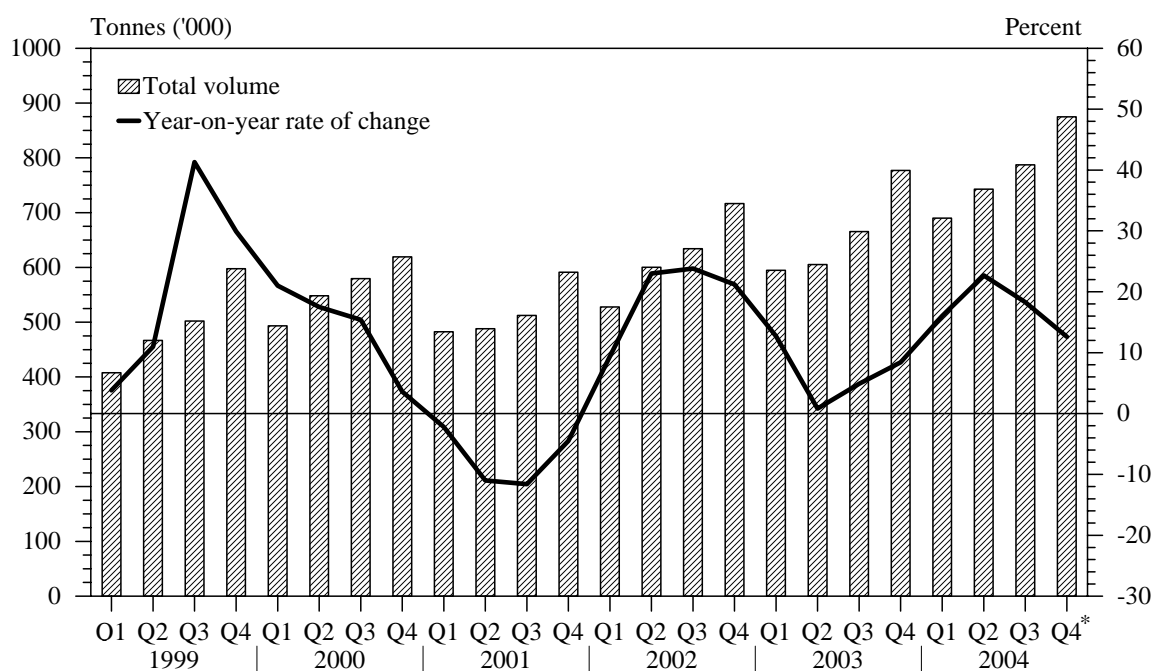
4.28 On *air transport*, total *air passenger movements* surged by 29% to a record high of 24.2 million in 2004, contrasted with a 20% plunge in 2003 owing to the SARS impact. Within the total for 2004, air passenger arrivals soared by 30% to 12.4 million. Apart from the continued surge in air passengers coming from the Mainland, air passengers from other sources as a whole had also surpassed the pre-SARS level. Concurrently, air passenger departures rose back by 27% to 11.9 million in 2004, as outbound tourism recovered from the earlier SARS impact. Likewise, *aircraft movements* (including both passenger and cargo flights) bounced back sharply by 26% to an all-time high of 237 200 in 2004, after a 9% decrease in 2003.

Diagram 4.13 : Number of air passenger movements



4.29 As to *air cargo movements*, in tandem with the robust trade performance, both inward and outward air cargo registered sharp rises in 2004, by 12% and 20% respectively. Taken together, total air cargo movements expanded by 17% to a record high of 3.1 million tonnes in 2004, up from the 7% increase in 2003. Consequently, the Hong Kong International Airport remained the world's busiest airport in terms of international cargo movements for the seventh consecutive year since its opening in 1998.

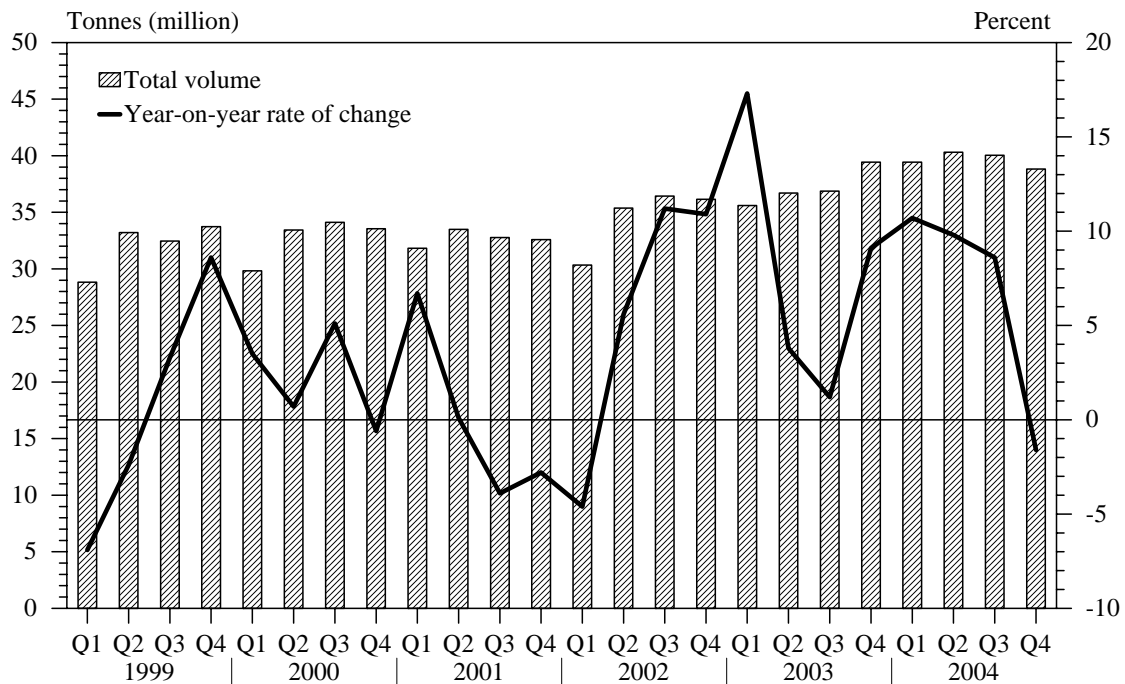
Diagram 4.14 : Cargo carried by air



Note : (*) Provisional figures.

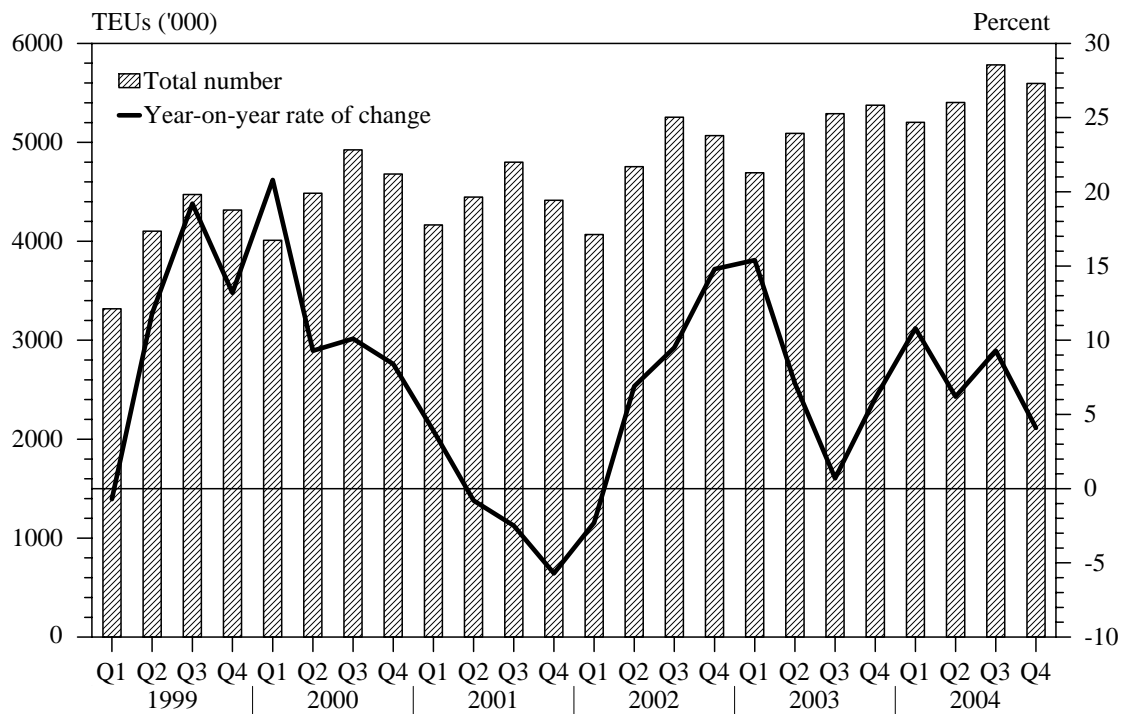
4.30 On *ocean transport*, total *ocean cargo movements* rose by 7% in 2004 over 2003 to 158.6 million tonnes, same as the increase in 2003. The growth momentum of transshipment cargo was particularly strong, surging by 14% in 2004. This compared with a 2% growth in direct shipment cargo. Within total ocean cargo movements, inward and outward ocean cargo rose by 5% and 10% respectively in 2004 to 104.6 million tonnes and 54.0 million tonnes, as compared to the corresponding increases of 6% and 10% in 2003.

Diagram 4.15 : Cargo carried by sea



4.31 Regarding *container traffic* handled by the Hong Kong Port, total container throughput in terms of Twenty-foot Equivalent Units (TEUs) expanded by 8% to 22.0 million TEUs in 2004, as against a 7% increase in 2003. Within the total for 2004, inward and outward container throughput went up by 9% and 6% respectively. However, reflecting the on-going trend of relatively more manufactured goods being shipped directly through the Mainland ports rather than indirectly through the Hong Kong Port, container throughput of ports in Shenzhen surged by 28% in 2004, after a 40% leap in 2003. Yet Hong Kong was still the world's busiest container port in 2004, retaining the title for the 12th year out of the past 13 years.

Diagram 4.16 : Container throughput



Notes :

- (1) The service sectors comprise the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; finance, 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. Fees for financial intermediation services are however deducted.

- (2) There are four funding schemes under the Design Support Programme launched in 2004 to support design/business collaboration, design research, design professional continuing education as well as fostering the culture of design. As to the InnoCentre, it aims to create a design cluster and will provide one-stop-shop services including incubation services for design ventures; professional education and training; design-related exhibition, seminars and workshops; design-related resource centre such as design library; and events and activities for networking among design professionals and user industries. Located in Kowloon Tong, the InnoCentre is targeted to open in the second half of 2005.

- (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 Landlord and Tenant (Consolidation) (Amendment) Ordinance 2004 took effect on 9 July 2004. Under the new ordinance, the security of tenure provisions for domestic tenancies was removed. A fixed term tenancy will end upon expiry while a periodic tenancy can be terminated by a notice to quit served by either party in accordance with the common law. This means that landlords and tenants are free to negotiate and enter into agreement for fresh letting or renewal of tenancies, and helps restore the free operation of private rental market.
- (5) On 28 July 2004, the Hong Kong Mortgage Corporation (HKMC) approved an increase in the maximum loan-to-value (LTV) ratio under the Mortgage Insurance Programme (MIP) from 90% to 95%. Mortgage loans on both completed properties and properties under construction are eligible for coverage up to a LTV ratio of 95%. On 19 November, the HKMC announced an increase in the maximum loan size for mortgages with a LTV ratio of 95% under the MIP from \$5 million to \$8 million, and on 6 December, the HKMC announced an expansion of the MIP to cover cash-out refinancing mortgages with a maximum LTV ratio of 85% and a maximum loan size of \$5 million. On 14 December, the HKMC approved the expansion of the MIP to facilitate mortgage financing for old-aged properties. The expanded MIP covers mortgage loans with a combined age of property and loan tenor of up to a maximum of 55 to 60 years, instead of 50 years, and a maximum LTV ratio of 85% to 95%.
- (6) The Government operates an Application List System since April 1999, under which sites available for sale are put 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.

In November 2002, the Government announced its decision to stop the scheduled land auctions and to suspend the Application List until December 2003, as part of the measures to stabilise the housing market. There was thus no land sales during 2003.

- (7) The 2004/05 Application List consists of 17 sites, comprising 14 residential sites totalling about 10.4 hectares and three commercial/business sites totalling about 2.6 hectares. The residential sites are of different sizes and are modest in terms of resultant flat supply.

- (8) 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 enhancement difference in land value between the “before” and “after” situation, is normally required for granting of the modification.

The figures reported here may include re-application cases and hence may contain a degree of double-counting. Moreover, they are provisional figures subject to later revisions.

- (9) For details about the Individual Visit Scheme for Mainland residents coming to Hong Kong, see paragraph 1.18 and Note (5) in Chapter 1.
- (10) In 2004, the Hong Kong Tourism Board (HKTB) staged a series of themed mega-events to attract more visitors, extend their duration of stay and increase their spending in Hong Kong. Some key tourism events organised by HKTB included the International Chinese New Year Parade in February, the Hong Kong Shopping Festival from late June to end-August, the Best of the Best Culinary Awards for the fourth consecutive year in October, and Hong Kong WinterFest for the third year in December.
- (11) According to the latest projections by the Hong Kong Tourism Board, there would be 24 new hotels with some 10 300 new rooms available in 2005.
- (12) The immediate initiatives recommended by the Study on Hong Kong Port – Master Plan 2020 include implementation of measures to improve boundary crossing and review of licensing and registration fees including those levied by the Guangdong authorities to reduce inland transport costs to the Hong Kong Port (HKP). The longer-term initiatives include, inter alia, creation of a formal process of communicating HKP interests in the relevant stakeholder forums; aiming at improving efficiency, avoiding excess capacity and keeping tariffs at a level that delivers regional economic benefits; and enhancing port productivity of existing operations of the Kwai Chung Container Port with the Government creating an enabling framework for operators to capture efficiency gains.

CHAPTER 5 : THE FINANCIAL SECTOR IN 2004[#]

Summary

- *In 2004, the Hong Kong dollar exchange and money markets were broadly stable. During the year, the Hong Kong dollar spot rate was mostly close to, or else slightly stronger than, the Linked Rate, while the Hong Kong dollar forward rates stayed at a considerable discount to the spot rate.*
- *Hong Kong dollar interest rates generally edged up during the first three quarters of 2004, in tandem with the uptrend in US dollar interest rates. Yet these two rates showed diverse trends in the fourth quarter, with the former easing back amid ample market liquidity.*
- *Hong Kong dollar broad money continued to grow in 2004, underpinned partly by increased domestic credit demand alongside the revival in economic activity.*
- *The local stock market weakened in the early months of 2004, but staged a strong rebound in the remainder of the year. At end-2004, the Hang Seng Index closed at 14 230, 13.2% higher than a year earlier.*

Exchange rates

5.1 In 2004, the exchange and money markets held broadly stable, despite a marked depreciation in the exchange value of the US dollar against most other currencies. In the first four months of 2004, the Hong Kong dollar exchange rate edged down towards the Linked Rate (at \$7.80 per US dollar), as the upward pressure arising from the inflow of funds in late 2003 gradually subsided. During the period up to the third quarter, the Hong Kong dollar mostly stayed close to the Linked Rate. But it strengthened again during the fourth quarter, against the backdrop of the generally weak sentiment towards the US dollar, rampant speculation of an imminent revaluation of the renminbi, and stronger economic growth in Hong Kong. The Hong Kong Monetary Authority (HKMA) sold a total of \$12.6 billion Hong Kong dollars in that quarter, in response to bank bids. This led to a rise in the Aggregate Balance to \$15.8 billion by the year-end, under the Currency Board arrangements. Meanwhile, Hong Kong dollar forward rates remained at a substantial discount

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

to the spot rate. In particular, the twelve-month forward discount rate, having been traded at a small discount over the spot rate in the first nine months of 2004, saw a marked widening in the discount subsequently, to close at 1 625 pips (each pip equivalent to HK\$0.0001) at end-2004, as against that of 595 pips at end-2003.

5.2 Under the Linked Exchange Rate system⁽¹⁾, movements in the exchange rates of the Hong Kong dollar against other major currencies follow closely those in the US dollar. During 2004, the US dollar weakened against other major currencies (except the Hong Kong dollar and the renminbi), amid worries about the sustainability of large US current account and fiscal deficits. As a result, the trade-weighted Nominal Effective Exchange Rate Index⁽²⁾ of the Hong Kong dollar fell by 2.6% over the year to 96.4 in December 2004. After adjusting for changes in consumer prices, the corresponding Real Effective Exchange Rate Index⁽³⁾ declined more by 4.7% to 82.4.

Diagram 5.1 : Exchange rate of the Hong Kong dollar against the US dollar (average for the month)

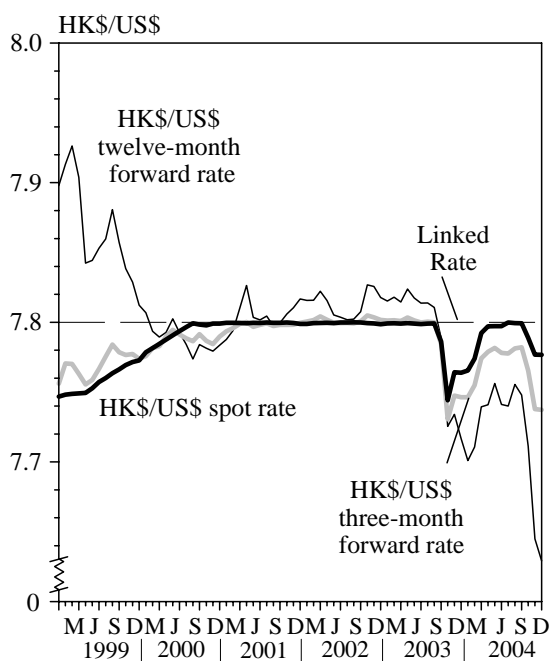
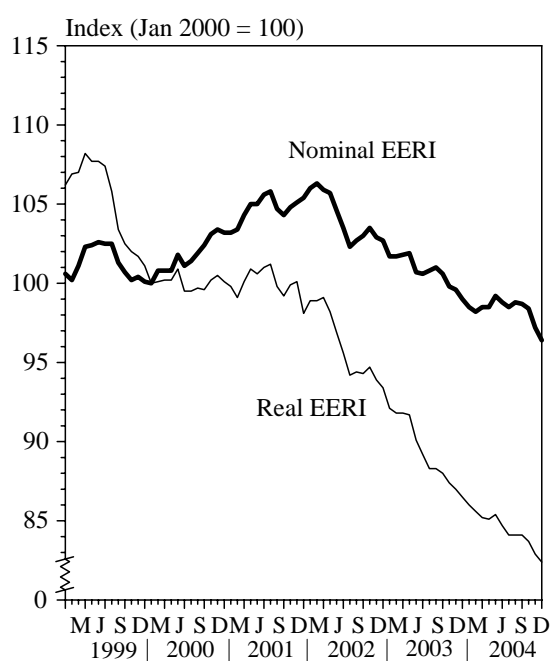


Diagram 5.2 : Trade-weighted Effective Exchange Rate Index of the Hong Kong dollar (average for the month)



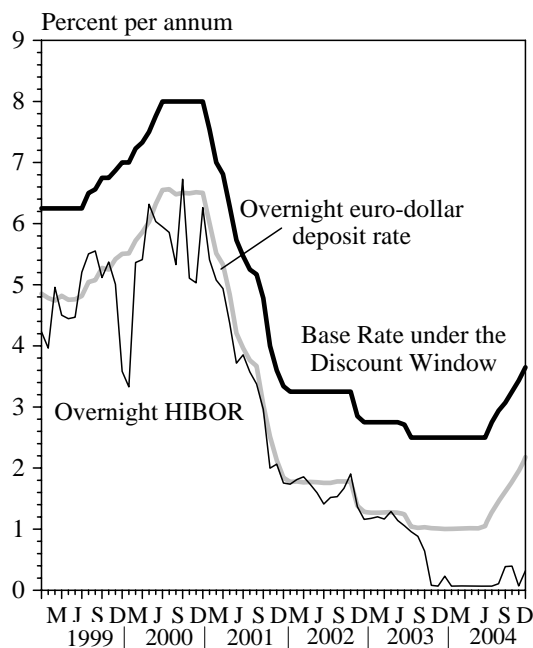
Interest rates

5.3 Hong Kong dollar interest rates moved up during most of the first nine months of 2004, in step with the uptrend in the US dollar interest rates. But the former rates eased abruptly in the fourth quarter upon increased market liquidity, which was clearly at variance with the sustained rise in the latter rates.

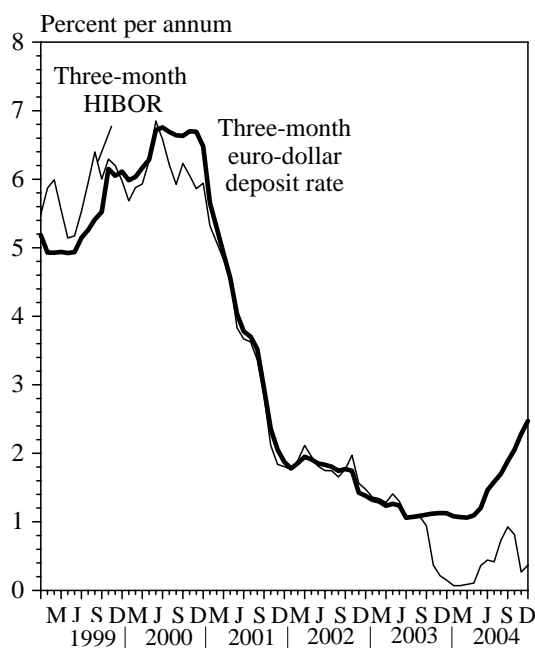
Specifically, the three-month HIBOR, having risen to a high of 1.1% in early October, fell back to 0.3% at end-2004, which was 227 basis points below the corresponding euro-dollar deposit rate.

Diagram 5.3 : Interest rates

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



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



5.4 The Base Rate under the Discount Window operated by the HKMA was static in the first half of 2004, but was adjusted upward cumulatively by 125 basis points in the second half to 3.75%, in line with the rise in the US Fed Funds target rate. However, reflecting ample liquidity and a moderate expansion in local credit demand, the best lending rate offered by the major banks was virtually intact at 5.0% at end-2004, unchanged from a year ago. The spread of the best lending rate over the three-month time deposit rate was likewise broadly stable, at 4.98 percentage points at the end of the year.

5.5 Meanwhile, competition among banks for residential mortgage business remained intense. The proportion of new mortgage loans granted at more than 2.25 percentage points below the best lending rate increased significantly, from 87.5% at end-2003 to 93.2% at end-2004⁽⁴⁾.

Money supply and deposits

5.6 Monetary conditions remained generally favourable in 2004. Growth in HK\$M1⁽⁵⁾ (seasonally adjusted)⁽⁶⁾, as a measure of narrow money supply, held strong in the first quarter. This was followed by a slowdown in the second and third quarters, attributable to moderated growth in demand deposits along with reduced turnover in the equity market. Yet in the fourth quarter, HK\$M1 staged a visible rebound upon increased inflow of funds into the Hong Kong dollar. At end-2004, HK\$M1 amounted to \$413 billion, up notably by 16.3% over a year earlier, although this was smaller than the 36.8% surge in 2003. Part of this growth was due to the low opportunity cost involved in holding liquid monetary assets.

5.7 As to broad monetary aggregates, partly affected by the movements in narrow money, growth in HK\$M3 also slackened in the second and third quarters of 2004, and then picked up appreciably in the fourth quarter. At end-2004, HK\$M3 amounted to \$2,220 billion, representing an increase of 4.6% over a year earlier. This was rather similar to the 5.9% rise in 2003, and also broadly in line with the nominal GDP growth in 2004.

Table 5.1 : Hong Kong dollar money supply and total money supply

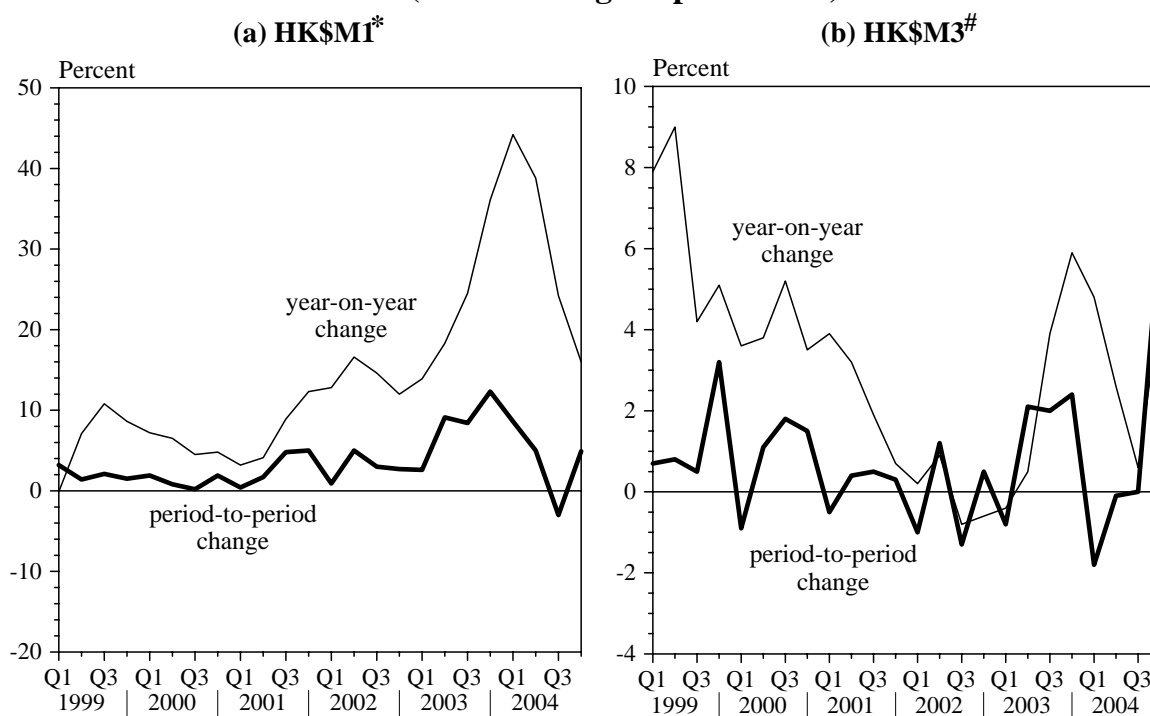
% change during the quarter		<u>M1</u>		<u>M2</u>		<u>M3</u>	
		<u>HK\$</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
2003	Q1	0.4 (2.6)	1.4	-0.8	-0.3	-0.8	-0.4
	Q2	6.4 (9.1)	7.1	2.2	2.2	2.1	2.2
	Q3	7.9 (8.4)	8.7	2.2	2.4	2.0	2.4
	Q4	18.6 (12.3)	18.4	2.5	3.9	2.4	3.9
2004	Q1	6.1 (8.6)	5.5	-1.8	*	-1.8	*
	Q2	2.3 (5.0)	2.6	-0.1	0.4	-0.1	0.4
	Q3	-3.6 (-3.0)	-0.6	0.1	2.1	*	1.9
	Q4	11.2 (4.9)	8.9	6.7	6.6	6.5	6.1
Total amount at the end of December 2004 (HK\$Bn)		413 (397)	485	2,209	4,167	2,220	4,190
% change over a year earlier		16.3 (16.0)	17.2	4.8	9.3	4.6	8.6

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

() 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.

(*) Change of less than 0.05%.

**Diagram 5.4 : Hong Kong dollar money supply
(rate of change at period end)**



Notes: (*) Percentage changes are compiled based on the seasonally adjusted series of HK\$M1.
(#) Adjusted to include foreign currency swap deposits.

5.8 Total deposits with authorized institutions went up by 8.4% in 2004⁽⁷⁾, further to a 7.5% growth in 2003. Of this total, Hong Kong dollar deposits (adjusted to include foreign currency swap deposits)⁽⁸⁾, as a key component of the money supply, rose by 4.5%. This was attributable entirely to the increase in demand and savings deposits, more than offsetting a reduction in time deposits. By comparison, foreign currency deposits (adjusted to exclude foreign currency swap deposits) maintained a faster expansion by 13.0%, within which US dollar deposits had a larger growth than non-US dollar deposits, by 18.0% as against 2.3%, notwithstanding the weakness of the US currency. As the increase in foreign currency deposits continued to outpace that in Hong Kong dollar deposits, the share of Hong Kong dollar deposits in total deposits declined further to 52.2% at end-2004, from 54.1% at end-2003.

Table 5.2 : Total deposits

		<u>Hong Kong dollar deposits</u>				Total foreign currency deposits ^(c)	Total deposits
<u>% change during the quarter</u>		<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u> ^{(a)(b)}	<u>Total deposits</u> ^(a)		
2003	Q1	-2.9	2.2	-3.2	-1.2	-0.9	-1.0
	Q2	10.7	6.6	-2.3	2.1	1.9	2.0
	Q3	12.0	5.4	-1.6	2.4	2.6	2.5
	Q4	28.9	20.9	-17.9	2.4	5.7	3.9
2004	Q1	7.1	3.4	-11.9	-2.3	2.0	-0.3
	Q2	2.8	-1.7	0.9	-0.2	1.0	0.4
	Q3	-6.9	-2.9	6.2	-0.1	3.9	1.8
	Q4	17.0	11.8	-1.6	7.3	5.5	6.4
Total amount at the end of December 2004 (HK\$Bn)		272	1,033	713	2,018	1,848	3,866
% change over a year earlier		19.8	10.4	-7.2	4.5	13.0	8.4

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.

(c) Adjusted to exclude foreign currency swap deposits.

Loans and advances

5.9 Total loans and advances reverted to positive growth in 2004, for the first time in seven years. Analysed by place of usage, loans for use in Hong Kong rose by 6.3% during 2004, as the sustained upturn in economic activity stimulated increased appetite for bank credit. Concurrently, loans for use outside Hong Kong were up by 3.0%.

Table 5.3: Loans and advances by location of uses

<u>% change during the quarter</u>		<u>Loans for use in Hong Kong^(a)</u>	<u>Loans for use outside Hong Kong</u>	<u>Total loans and advances</u>
2003	Q1	-0.5	-3.4	-0.8
	Q2	-0.3	-0.2	-0.3
	Q3	-1.5	-3.5	-1.7
	Q4	0.9	0.4	0.8
2004	Q1	0.3	0.2	0.3
	Q2	1.9	-0.6	1.7
	Q3	0.8	-4.6	0.2
	Q4	3.2	8.4	3.7
Total amount at the end of December 2004 (HK\$Bn)		1,923	233	2,156
% change over a year earlier		6.3	3.0	5.9

Note: (a) Including trade financing.

5.10 Analysed by major usage, domestic loans went up across many of the major economic sectors in 2004. Comparing end-2004 with a year earlier, trade financing and loans to the manufacturing sector, financial concerns, and the wholesale and retail trade registered notable increases. The outstanding stock of mortgage loans declined slightly by 0.9%, as an upsurge in new mortgage lending was offset by repayments on existing mortgages.

Table 5.4 : Loans and advances for use in Hong Kong by major usage^(a)

		Loans to :							
		Finance visible trade	Manu- facturing sector	Whole- sale and retail trade	Building, construction, property develop- ment and property investment	Purchase residential property ^(b)	Financial concerns	Stock- brokers	Others
% change during the quarter									
2003	Q1	2.2	1.7	2.3	-0.3	-1.3	0.1	4.2	-1.2
	Q2	6.2	4.9	-0.5	-1.3	-1.4	2.8	-5.5	-1.0
	Q3	-1.5	3.1	-5.4	-2.2	-1.0	7.3	10.0	-4.4
	Q4	3.0	3.1	-3.1	-1.1	-0.3	5.8	12.3	2.7
2004	Q1	6.4	5.4	2.5	-1.5	0.1	4.3	6.0	-2.3
	Q2	14.7	8.7	0.2	1.5	-0.7	2.1	-5.9	2.1
	Q3	5.5	4.9	5.8	-0.3	-0.5	0.8	-8.8	2.4
	Q4	1.0	6.4	0.4	7.6	0.2	6.5	5.7	2.9
Total amount at the end of December 2004 (HK\$Bn)		130	99	99	386	611	168	10	419
% change over a year		30.0	27.8	9.2	7.2	-0.9	14.2	-3.8	5.2

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.

5.11 Owing to the faster growth in Hong Kong dollar loans than in Hong Kong dollar deposits, the Hong Kong dollar loan-to-deposit ratio moved up from 81.5% at end-2003 to 82.6% at end-2004.

Diagram 5.5 : Hong Kong dollar loan-to-deposit ratio*



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

Banking

5.12 The quality of assets held by the local banking sector showed a noticeable improvement in 2004, aided by the recovery in economic activity generally and the asset markets in particular. The ratio of classified loans to total loans of retail banks was reduced from 3.94% at end-2003 to 2.67% at end-September 2004. Analysed by type of loan, the delinquency ratio for residential mortgage loans declined from 0.86% to 0.47%, as did arrears for over three months in credit card repayment from 0.92% to 0.55%. For all the local banks taken together, their consolidated capital adequacy ratio averaged 15.9% at end-September, still well above the minimum international standard of 8% set by the Bank for International Settlements.

Table 5.5 : Asset quality of retail banks^(a)
(as % of total loans)

	<u>2003</u>		<u>As at the end of</u>		
	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Pass loans	88.39	89.53	90.07	91.41	92.35
Special mention loans	7.01	6.53	6.26	5.59	4.98
Classified loans (gross)	4.59	3.94	3.66	3.00	2.67

Notes : (a) Period-end figures relate to Hong Kong offices and overseas branches. Loans and advances are classified into the following categories: Pass, Special Mention, Substandard, Doubtful and Loss. Loans in the substandard, doubtful and loss categories are collectively known as "classified loans".

Due to rounding, the figures in this table may not add up to 100.

5.13 On the management of credit risk by authorized institutions, the Commercial Credit Reference Agency (CCRA), established under the initiative of the Hong Kong Association of Banks and the DTC Association, came into operation in November 2004. The CCRA collates credit information about small and medium-sized enterprises and makes the information available to authorized institutions. It helps strengthen the credit risk management of authorized institutions and facilitate the enterprises concerned with good credit history to obtain bank financing.

5.14 Hong Kong has benefited further from financial liberalisation of the Mainland. Under CEPA, a number of banks have established or applied for establishing branches in the Mainland. Furthermore, Mainland branches of Hong Kong banks are allowed to conduct insurance agents business after obtaining approval with effect from 1 November 2004. In Hong Kong, Mainland debit/credit cards are allowed to be used locally as from 18 January 2004, and banks have started to issue renminbi cards to Hong Kong residents for use in the Mainland since the end of April. Since 25 February, banks in Hong Kong have introduced renminbi deposit-taking, exchange and remittance services to customers. At end-December 2004, a total of 38 licensed banks were engaged in these business activities. Renminbi deposits with authorized institutions totalled RMB12.1 billion, of which 44.7% (RMB5.4 billion) were savings deposits and 55.3% (RMB6.7 billion) were time deposits. According to a survey by the HKMA, interest rates on renminbi savings deposits averaged 0.46% and those on three-month time deposits averaged 0.60% in December 2004.

5.15 On enhancing deposit protection, the Deposit Protection Scheme Ordinance was enacted by the Legislative Council on 5 May 2004. The Hong Kong Deposit Protection Board was subsequently formed on 1 July to implement the Scheme. Given the time needed for preparatory work, the scheme is expected to start providing deposit protection in 2006.

Insurance

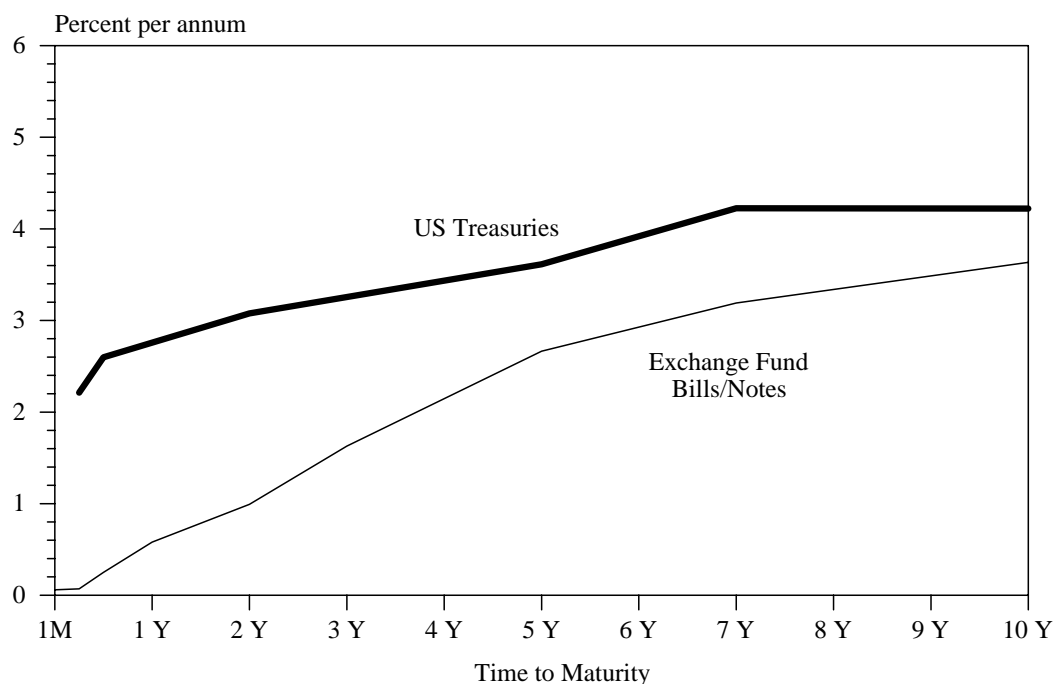
5.16 The total value of business receipts for the insurance industry showed a further robust growth, by 15.7% in the third quarter of 2004 over a year earlier. For the first three quarters of the year as whole, there was a surge of 24.2%. The principal source of growth continued to come from the life insurance business⁽⁹⁾.

5.17 The CEPA involving the insurance sector came into operation on 1 January 2004. Separately, in the light of international regulatory trends and developments of the insurance industry, the Government is reviewing the institutional set-up of the Office of the Commissioner of Insurance. The review entails a study on turning that office into a regulatory agency independent of the Government.

The debt market

5.18 In 2004, a total of 113 issues of Exchange Fund Bills and Notes were launched by the HKMA for replacing the earlier issues upon maturity⁽¹⁰⁾. The total market value of Exchange Fund paper outstanding rose by 2.0% over a year earlier to \$122.6 billion at end-2004. Trading in Exchange Fund paper remained active, with the daily turnover averaging \$16.7 billion in 2004, though less than that of \$20.8 billion in 2003. The yield of the five-year Exchange Fund Notes was 95 basis points below that of the corresponding US Treasuries at end-2004, as against 6 basis points below at end-2003.

**Diagram 5.6 : Hong Kong dollar and US dollar yield curves
(as at the end of December 2004)**



5.19 The Hong Kong Mortgage Corporation (HKMC) continued to be one of the active issuers of debt securities in Hong Kong. In 2004, \$11.3 billion worth of HKMC debt paper was launched. At end-2004, the total outstanding value of debt securities issued by HKMC under its Note Issuance Programme amounted to \$1.0 billion, and that under its Debt Issuance Programme amounted to \$27.4 billion. In addition, retail bonds were issued by the HKMC, with the outstanding value totalling \$7.2 billion at end-2004. Among the retail issues in 2004, HKMC sold for the first time in Hong Kong and Asia the \$0.9 billion worth of mortgage-backed securities to retail investors in October. The retail portion received applications amounting to \$1.1 billion.

5.20 The Government was also active in the local bond market in 2004. In order to fund infrastructural and other investment projects and to promote the development of local bond market, the Government launched its landmark \$6 billion securitisation bonds in May and completed a \$20 billion global bond offering in July. The \$6 billion securitisation bonds, being the first and largest securitisation bond offering in Hong Kong, were backed by toll revenues from government-owned tunnels and bridge. As for the \$20 billion global bond offering, it included Hong Kong dollar and US dollar tranches of different maturity. These two bond issues were both well received by institutional and retail investors. The net proceeds therefrom were credited to the Capital Works Reserves Fund to finance capital works projects.

5.21 On Hong Kong dollar private-sector debt, the gross issuance declined further to \$139.2 billion in 2004, from \$151.8 billion in 2003. Analysed by type of issuer, debt issuance activity by authorized institutions (AIs) and overseas borrowers other than Multilateral Development Banks (non-MDB overseas borrowers) moderated over the past year. The slowdown in debt issuance by AIs could be partly due to ample liquidity in the banking sector. As to non-MDB overseas borrowers, while the gross issuance has also slowed, its share of outstanding debt rose to 54% of the total private-sector debt at end-2004, from 51% at end-2003. Since 2003, non-MDB overseas borrowers have been the largest debtor in the Hong Kong dollar private-sector bond market. The value of outstanding Hong Kong dollar private-sector debt nevertheless increased further to \$390.1 billion at end-2004, from \$353 billion at end-2003, as total new issues continued to exceed maturing securities. At end-2004, private-sector debt accounted for 64% of the total Hong Kong dollar debt outstanding, unchanged from that at end-2003. As regards new issues of Hong Kong dollar debt by Multilateral Development Banks (MDBs), they amounted to \$3.5 billion in 2004, as compared to \$2.6 billion in 2003.

5.22 Partly due to the low interest rate environment, fixed-rate debt issues continued to exceed floating-rate ones in the private sector. New issues of fixed-rate private debt grew to \$106.2 billion in 2004, as against the floating rate issues of \$33 billion. New issues of fixed-rate debt accounted for 76% of the gross issuance in the private sector, compared to 70% in 2003. At end-2004, the total value of outstanding Hong Kong dollar fixed-rate bonds and floating rate notes issued by the private sector amounted to \$262.6 billion and \$127.5 billion respectively.

5.23 Taking the public and private sector issues together, the total value of Hong Kong dollar debt paper outstanding amounted to \$607.9 billion at end-2004⁽¹¹⁾, up from \$557.8 billion at end-2003. The size of the Hong Kong dollar debt market was equivalent to 27.4% of HK\$M3, or 21% of the Hong Kong dollar-denominated assets of the entire banking sector.

Table 5.6 : New HK\$ Debt Securities Issued (HK\$Bn)

		Exchange Fund paper	Statutory bodies/govern ment-owned corporations	Govern- ment	MDBs	AIs	Local corporates	Non-MDB overseas borrowers	Total	Public sector ^(a)	Private sector ^(b)
2003	Annual	213.3	16.0	-	2.6	60.9	5.5	85.5	383.7	229.3	151.8
	Q1	51.9	4.1	-	1.6	11.1	0.7	24.5	93.9	56.0	36.4
	Q2	53.4	5.4	-	-	19.0	2.4	21.8	102.2	58.9	43.3
	Q3	53.0	1.3	-	0.9	13.7	0.6	21.5	90.9	54.3	35.8
	Q4	54.9	5.2	-	0.2	17.0	1.7	17.7	96.7	60.1	36.4
2004	Annual	206.0	17.8	10.3	3.5	53.6	9.1	76.5	376.8	234.1	139.2
	Q1	51.6	4.4	-	1.4	8.9	3.1	24.9	94.3	56.0	36.9
	Q2	52.1	10.1	-	2.0	13.1	0.1	17.9	95.4	62.3	31.2
	Q3	51.2	0.8	10.3	0.1	13.6	0.6	15.6	92.1	62.3	29.8
	Q4	51.1	2.5	-	-	18.0	5.3	18.1	95.0	53.6	41.4

Notes: (a) Public-sector debt includes Exchange Fund paper and debt securities issued by the government and statutory bodies/government-owned corporations.

(b) Private-sector debt includes debt securities issued by AIs, local corporates and non-MDB overseas borrowers.

Table 5.7 : HK\$ Debt Securities Outstanding (HK\$Bn)

End of period		Exchange Fund paper	Statutory bodies/govern ment-owned corporations	Govern- ment	MDBs	AIs	Local corporates	Non-MDB overseas borrowers	Total	Public sector ^(a)	Private Sector ^(b)
2003	Q1	118.2	52.1	-	35.3	148.7	35.7	154.2	544.3	170.3	338.6
	Q2	119.0	55.0	-	30.4	148.0	36.8	163.8	552.9	174.0	348.5
	Q3	119.7	55.0	-	29.7	142.2	35.6	173.7	555.9	174.7	351.6
	Q4	120.2	56.8	-	27.9	138.0	33.5	181.5	557.8	176.9	353.0
2004	Q1	120.6	53.8	-	24.9	137.9	35.7	196.0	568.9	174.4	369.6
	Q2	121.2	60.3	-	25.1	139.2	32.7	203.4	582.0	181.5	375.3
	Q3	121.9	58.5	10.3	24.7	141.4	31.0	207.8	595.6	190.7	380.2
	Q4	122.6	60.2	10.3	24.7	144.3	34.6	211.2	607.9	193.1	390.1

Notes: (a) Public-sector debt includes Exchange Fund paper and debt securities issued by the government and statutory bodies/government-owned corporations.

(b) Private-sector debt includes debt securities issued by AIs, local corporates and non-MDB overseas borrowers.

The stock, futures and gold markets

5.24 The local stock market started the year on a firm note, but this was soon followed by a downturn amid growing expectations of US interest rate hike and worries about the upsurge in international oil prices. The macroeconomic adjustment measures introduced in the Mainland and the weakness of major bourses overseas added to the local market woes. The Hang Seng Index sank to an eight-month low of 10 968 on 17 May. Market sentiment subsequently improved, underpinned by renewed softening in international oil prices, mild increase in the US interest rates and favourable local land auction results. Also boosting investors' confidence were the strong rebound in property prices, optimistic short-term economic outlook for Hong Kong, increased inflow of funds and the growing prospects of soft landing in the Mainland economy. The Hang Seng Index surged to a 45-month high of 14 266 on 29 December, before closing the year at 14 230, 13.2% above the end-2003 level.

Table 5.8 : 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 FTSE 100 Index	Frankfurt DAX 30 Index	Paris CAC 40 Index	Sydney All Ordinaries Index	Singapore Straits Times Index
2003	Q1	8 634	7 992	7 973	3 613	2 424	2 618	2 849	1 268
	Q2	9 577	8 985	9 083	4 031	3 221	3 084	3 000	1 448
	Q3	11 230	9 275	10 219	4 091	3 257	3 135	3 176	1 631
	Q4	12 576	10 454	10 677	4 477	3 965	3 558	3 306	1 765
2004	Q1	12 682	10 358	11 715	4 386	3 857	3 625	3 416	1 859
	Q2	12 286	10 435	11 859	4 464	4 053	3 733	3 530	1 838
	Q3	13 120	10 080	10 824	4 571	3 893	3 641	3 675	1 985
	Q4	14 230	10 783	11 489	4 814	4 256	3 821	4 053	2 066
% change during the fourth quarter of 2004	8.5	7.0	6.1	5.3	9.3	5.0	10.3	4.1	
% change during 2004	13.2	3.1	7.6	7.5	7.3	7.4	22.6	17.1	

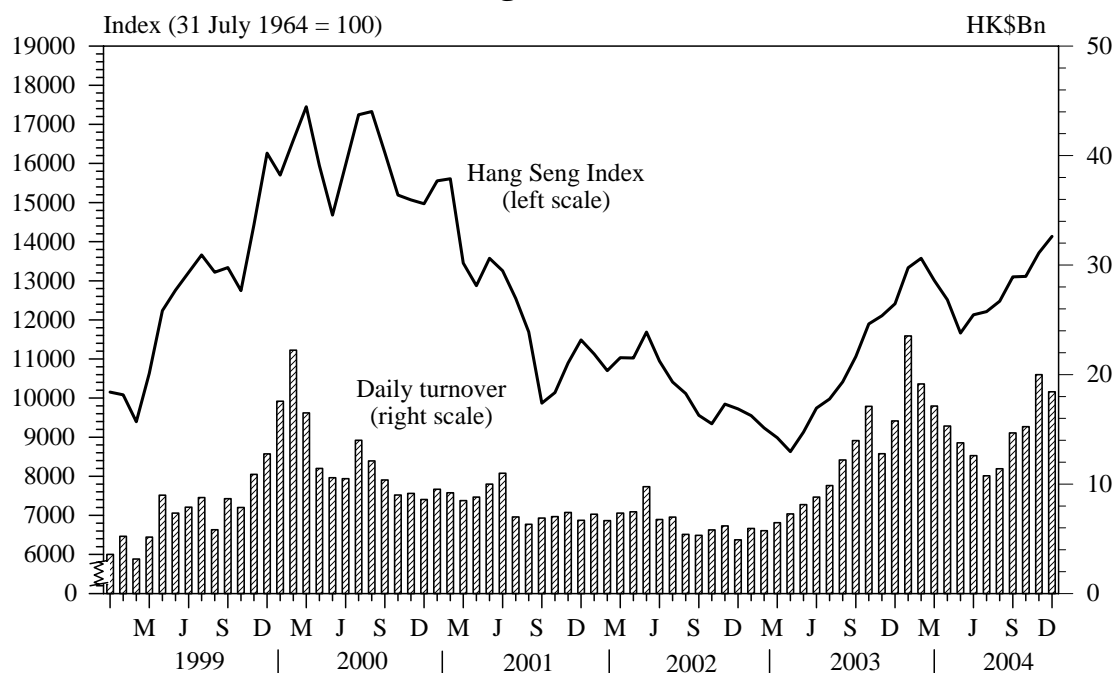
5.25 Total stock market capitalisation, covering both the Main Board and the Growth Enterprise Market (GEM)⁽¹²⁾, amounted to \$6,696 billion at end-2004, up by 20.7% over a year earlier. The daily turnover averaged \$16.0 billion in 2004, up even more by 53.2%. These were the highest levels ever recorded for the local stock market.

Table 5.9 : Average daily turnover and total market capitalisation of the Hong Kong stock market

		Average daily turnover in the quarter (HK\$Bn)			Total market capitalisation as at the end of the quarter (HK\$Bn)		
		Main Board	Growth Enterprise Market	Total	Main Board	Growth Enterprise Market	Total
2003	Q1	6.0	0.1	6.1	3,378	51	3,429
	Q2	7.9	0.1	8.1	3,907	61	3,968
	Q3	11.8	0.2	12.0	4,708	68	4,776
	Q4	15.1	0.2	15.3	5,478	70	5,548
2004	Q1	19.5	0.2	19.7	5,691	79	5,769
	Q2	13.8	0.1	13.8	5,483	73	5,555
	Q3	12.2	*	12.3	5,898	62	5,961
	Q4	17.9	0.1	18.0	6,629	67	6,696

Note : (*) Less than HK\$0.5 billion.

Diagram 5.7 : Hang Seng Index and Hong Kong's stock market turnover (average for the month)



5.26 In 2004, 70 new share flotations were launched on the local stock market, raising a total equity capital of \$97.2 billion. Of these new issues, 49 were listed on the Main Board raising equity capital of \$94.5 billion, and the remaining 21 on GEM raising \$2.7 billion. Among the new issues pertained to H shares, eight of them were listed on the Main Board and nine on GEM, raising equity capital of \$40.0 billion and \$0.7 billion respectively. In addition,

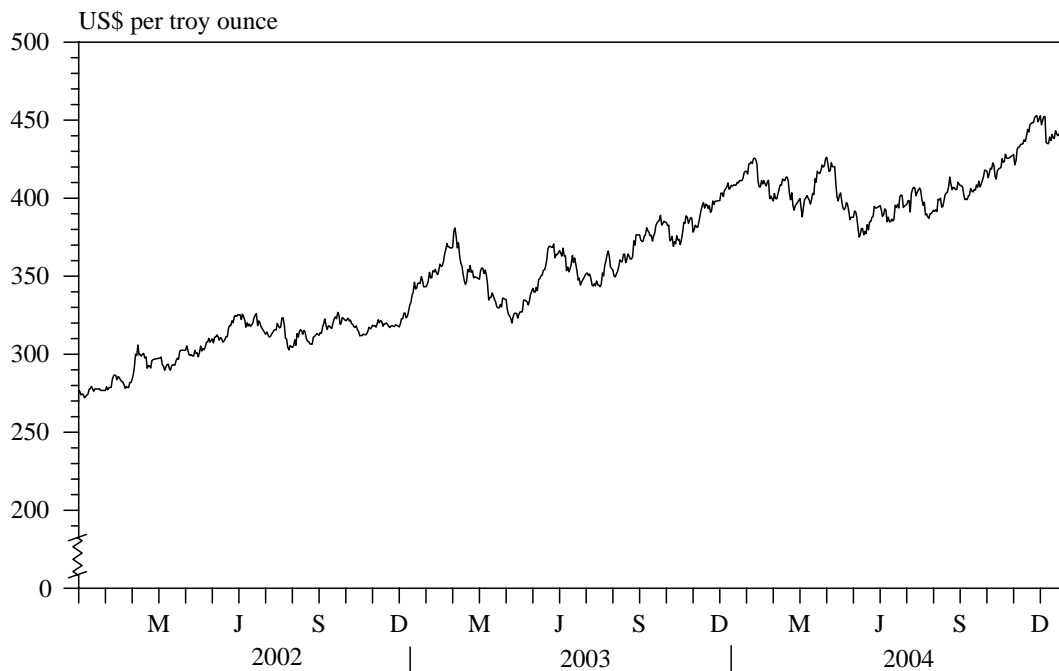
\$45.7 billion was raised through private placements by 171 companies, and \$8.1 billion through rights issues by 33 companies.

5.27 As to trading in derivatives at the Hong Kong Exchanges and Clearing Limited, the average daily turnover of the Hang Seng Index options contracts fell by 4.4% to an average of 8 215 contracts in 2004, whereas the Hang Seng Index futures contracts increased by 26.2% to 34 824 contracts. The H-shares Index futures contracts, which were launched in December 2003, had an average daily turnover of 7 060 contracts. As to the H-shares Index options contracts launched on 14 June 2004, an average daily turnover of 566 contracts was attained in the second half of the year.

5.28 At end-2004, there were 37 classes of stock options contracts. Their average daily turnover amounted to 22 720 contracts in the year, 32.7% more than in 2003. Concurrently, the average daily turnover of the stock futures contracts fell by 7.9% to 70 contracts. There were 36 classes of such contracts at the year-end.

5.29 On the gold market, the low interest rate and weak US dollar environment continued to support the demand for gold as an alternative investment instrument in 2004. Concerns about terrorism and tension in the Middle East added to the demand for bullion as a safe haven. Thus, apart from the occasional setbacks during the first half of the year, gold prices followed a general uptrend for most of 2004. Towards the end of the year, heightened concern about the large US twin deficits gave further strength to the rally. The price of loco-London gold reached a 16-year high of US\$455.8 per troy ounce on 2 December, before ending the year at US\$437.5 per troy ounce, 4.9% higher than the end-2003 level. Gold price at the Chinese Gold and Silver Exchange Society likewise moved higher, by 5.4% during the year to \$4,053 per tael at end-2004. Turnover on the Exchange totalled 3.0 million taels in 2004, as compared to that of 3.4 million taels in 2003.

Diagram 5.8 : Price of loco-London gold



Unit trusts and mutual funds

5.30 The total number of unit trusts and mutual funds (including sub-funds and umbrella funds) in Hong Kong stood at 1 013 at end-2004, up from 963 at end-2003. Gross sales of mutual funds amounted to US\$20.3 billion in 2004, 4.3% more than a year earlier. Yet after deducting redemptions, net sales declined by 18.5% to US\$2.6 billion. Among the various types of mutual funds, equity funds continued to take up the largest proportion, at 62.2% of the total value of funds at end-2004. This was followed by fixed income/bond funds, asset allocation funds, money market funds and other funds, with respective shares of 26.7%, 6.2%, 3.9% and 1.0%⁽¹³⁾.

5.31 At end-2004, the aggregate net asset value of the approved constituent funds of MPF schemes⁽¹⁴⁾ stood at \$120.2 billion, up from \$89.4 billion at end-2003. Apart from continued contributions from the enrolled population, this also reflected higher value of the investment portfolio in these funds. There were 19 approved trustees at the year-end. On MPF products, 43 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 323 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. Around 223 400 employers, 1.84 million employees and 293 900 self-employed persons had been enrolled in MPF schemes, with the compliance rates for employers, relevant employees and self-employed persons reaching 97.9%, 96.2% and 79.6% respectively.

Notes :

- (1) Under the Linked Exchange Rate system established in October 1983, the note-issuing commercial banks are required to pay US dollar 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, 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. Specifically, it 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. 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.

It is important to note that the EERI 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) The Real EERI 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.
- (4) 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 24 due to banking sector consolidation. The AIs currently

covered together account for around 99% of the total business, as compared to 92% for the 32 AIs formerly covered.

- (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 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) Among 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 backdated 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) Authorized institutions include licensed banks, restricted licence banks and deposit-taking companies. The number of licensed banks stood at 133 at end-December 2004, and restricted licence banks and deposit-taking companies were at 40 and 35 respectively. Altogether, 208 authorized institutions (excluding representative offices) from 32 countries and territories had a presence in Hong Kong. Their total assets amounted to \$7,137 billion at end-December 2004, up by 10.0% from a year earlier.
- (8) 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.
- (9) The number of authorized insurers in Hong Kong declined from 188 at end-2003 to 180 at end-2004. Within this total, 45 were engaged in long-term insurance business, 116 in general insurance business, and 19 in composite insurance business. Taken together, authorized insurers from 23 countries and territories (including Hong Kong) maintained a presence in Hong Kong.
- (10) As from 1 April 1999, interest payments on Exchange Fund paper are allowed for expanding the stock of outstanding Exchange Fund paper.

- (11) These figures may not represent a full coverage of all the Hong Kong dollar debt paper issued by the private sector.
- (12) The Growth Enterprise Market was launched by the Hong Kong stock market 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. Though open to companies in all industries and of all sizes, the market provides an efficient venue for fund raising especially by small to medium-sized enterprises.
- (13) 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.
- (14) 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 more recent legislative amendment, a constituent fund may also invest in some other types of financial products, such as index-tracking collective investment schemes, subject to MPFA's prior approval.

CHAPTER 6 : THE LABOUR SECTOR IN 2004

Summary

- *The seasonally adjusted unemployment rate followed a steady downtrend over the course of 2004, reaching a 35-month low of 6.5% at the year-end. The decrease was widespread across many economic sectors, occupation categories and educational attainment levels.*
- *Concurrently, the underemployment rate edged lower to 3.1%, with the employment composition shifting from part-time and temporary workers to full-time workers alongside the sustained revival in economic activity partly contributed.*
- *The number of employed persons rose to a new high of 3.33 million at end-2004, up distinctly by 4.4% or 139 400 from the trough in mid-2003.*
- *The improved labour demand helped alleviate the downward pressure on wages and earnings. While overall labour wages and earnings were slightly down in the third quarter of 2004, modest increases were observed in a few economic sectors.*

Overall labour market situation

6.1 The labour market improved progressively on a broad front throughout 2004, as the economic growth gathered momentum and extended scope. The *seasonally adjusted unemployment rate*⁽¹⁾ and the numbers unemployed both fell over the course of the year, to 6.5% and 226 900 respectively in the fourth quarter. These represented the lowest levels recorded since November 2001 – January 2002. For 2004 as a whole, the unemployment rate and numbers unemployed averaged 6.8% and 241 400 respectively. Though still high by historical standards, they were lower than those of 7.9% and 277 200 in 2003. This decrease, whilst occurring extensively across many economic sectors, was most apparent in construction and in the tourism and consumption-related sectors. Furthermore, the median duration of unemployment shortened from 109 days at end-2003 to 99 days at end-2004. (In November 2004 – January 2005, the seasonally adjusted unemployment rate and the number of unemployed persons were 6.4% and 214 000 respectively.)

6.2 The *underemployment rate*⁽²⁾ also came down during 2004, albeit less visibly, to 3.1%. So did the numbers underemployed, to 110 800. For 2004 as a whole, the underemployment rate and the numbers underemployed averaged 3.3% and 116 200 respectively, below those of 3.5% and 123 300 in 2003. The decrease was concentrated in the restaurants, hotels and transport sectors. This was partly due to a shift in employment composition from part-time and temporary workers to full-time workers, as more full-time jobs became available amid continued upturn in business activity. (In November 2004 - January 2005, the underemployment rate and the number of underemployed persons were 3.1% and 111 000 respectively.)

Diagram 6.1 : Unemployment and underemployment rates

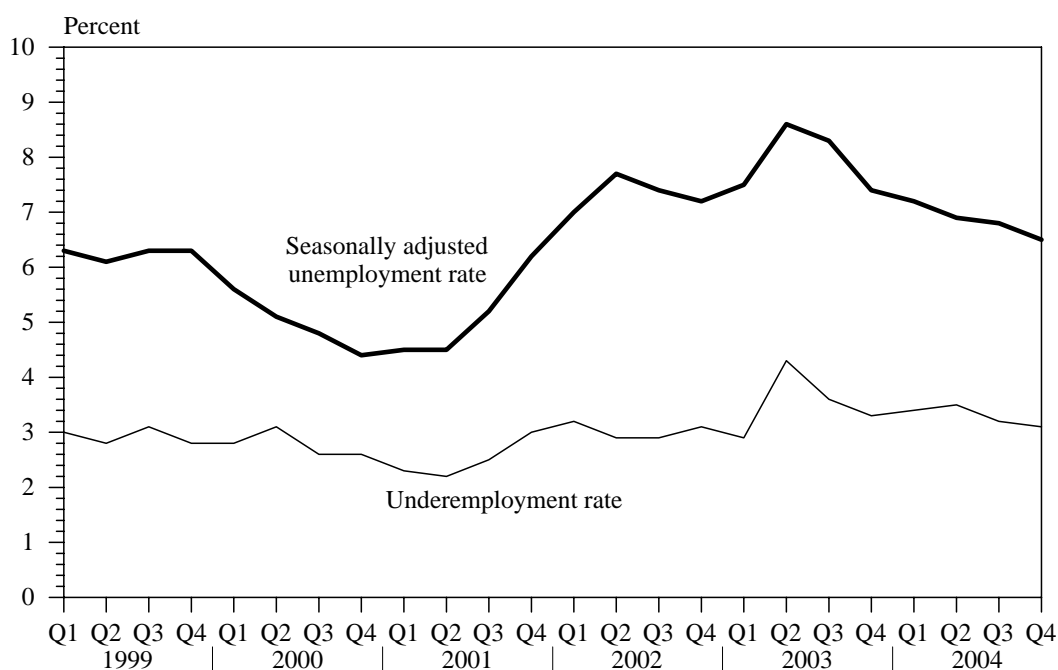


Table 6.1 : Unemployment and underemployment rates

		<u>Seasonally adjusted unemployment rate</u> (%)	<u>Underemployment rate</u> (%)
2003	Annual	7.9	3.5
	Q1	7.5	2.9
	Q2	8.6	4.3
	Q3	8.3	3.6
	Q4	7.4	3.3
2004	Annual	6.8	3.3
	Q1	7.2	3.4
	Q2	6.9	3.5
	Q3	6.8	3.2
	Q4	6.5	3.1

Source : General Household Survey, Census and Statistics Department.

Table 6.2 : 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>
2003	Annual	3 496 200	(0.3)	3 219 100	(-0.4)	277 200	123 300
	Q1	3 488 600	(0.9)	3 229 900	(0.3)	258 700	100 300
	Q2	3 496 200	(0.9)	3 198 200	(-0.2)	298 100	150 200
	Q3	3 495 700	(-0.6)	3 197 900	(-1.6)	297 800	126 600
	Q4	3 504 500	(-0.1)	3 250 400	(-0.2)	254 200	116 100
2004	Annual	3 529 000	(0.9)	3 287 600	(2.1)	241 400	116 200
	Q1	3 506 400	(0.5)	3 256 900	(0.8)	249 500	118 700
	Q2	3 522 700	(0.8)	3 282 400	(2.6)	240 200	122 400
	Q3	3 531 500	(1.0)	3 282 600	(2.7)	248 900	112 900
	Q4	3 555 400	(1.5)	3 328 500	(2.4)	226 900	110 800
			<0.7>		<1.4>		

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.

Profile of unemployment

6.3 Analysed by *economic sector*, the unemployment rates in the service sectors, averaging between 3.4% and 6.6% in 2004, were clearly below those in the manufacturing and construction sectors, at 7.1% and 16.0% respectively. This was in line with increased service orientation of the economy. Most of these rates followed a declining trend over the course of 2004, though to varying degrees, reflecting the different labour supply and demand conditions prevailing in the relevant sectors. Insofar as the latest period was concerned, the unemployment rate fell most distinctly in restaurants, hotels, amusement and recreational services, decoration and maintenance, transport and real estate.

Table 6.3 : Unemployment rates by major economic sector (%)^(a)

	<u>2003</u>					<u>2004</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	8.2	7.9	9.1	8.8	7.0	6.6	7.0	6.8	6.5	6.1
Transport, storage and communications	6.5	6.1	7.6	6.2	6.1	5.3	6.1	5.2	5.2	4.6
Financing, insurance, real estate and business services	5.2	4.5	5.6	5.4	5.2	4.5	4.9	4.8	4.4	4.1
Community, social and Personal services	3.5	2.9	3.7	3.7	3.5	3.4	3.5	3.4	3.3	3.3
Manufacturing	7.6	7.3	8.4	7.3	7.4	7.1	7.1	6.2	7.4	7.6
Construction ^(b)	19.0	18.9	19.7	19.6	17.7	16.0	17.9	15.8	15.4	14.9

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.

6.4 Analysed by *occupation category*, managers and administrators, professionals and associate professionals had distinctly lower unemployment rates of 1.9 - 3.5% in 2004. The unemployment rate for clerks was also moderate, at 4.5%. But the unemployment rates for the other categories, comprising mostly the lower-end jobs, were considerably higher, at 6.1 – 13.3%. This was attributable to lesser demand for lower-skilled workers, amid the

ongoing economic restructuring towards knowledge-based and higher value-added activities. Nevertheless, during the past year or so, all these rates were generally on the decrease. Between the third and fourth quarters of 2004, more visible declines were actually observed among workers at the lower segment, including in particular service workers and shop sales workers, and craft and related workers, as well as associate professionals at the upper segment.

Table 6.4 : Unemployment rates by major occupation category (%)^(a)

	<u>2003</u>					<u>2004</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	2.4	2.1	2.2	2.2	3.0	1.9	2.0	1.6	1.9	2.0
Professionals	2.4	2.2	2.8	2.8	1.8	2.1	2.1	2.5	2.2	1.8
Associate professionals ^(b)	4.4	4.3	4.9	4.6	3.6	3.5	3.6	3.4	3.9	3.2
Clerks	5.4	5.0	5.5	5.8	5.2	4.5	4.6	4.6	4.2	4.5
Service workers and shop sales workers	10.3	9.4	12.3	10.8	8.7	8.4	9.0	8.8	8.3	7.3
Craft and related workers	16.0	16.2	16.4	16.1	15.3	13.3	15.2	13.2	13.0	12.0
Plant and machine operators and assemblers	7.0	6.8	7.3	7.1	6.7	6.1	6.7	5.9	6.1	5.7
Elementary occupations	8.7	8.0	9.6	8.9	8.1	8.2	8.7	8.1	7.8	8.3

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

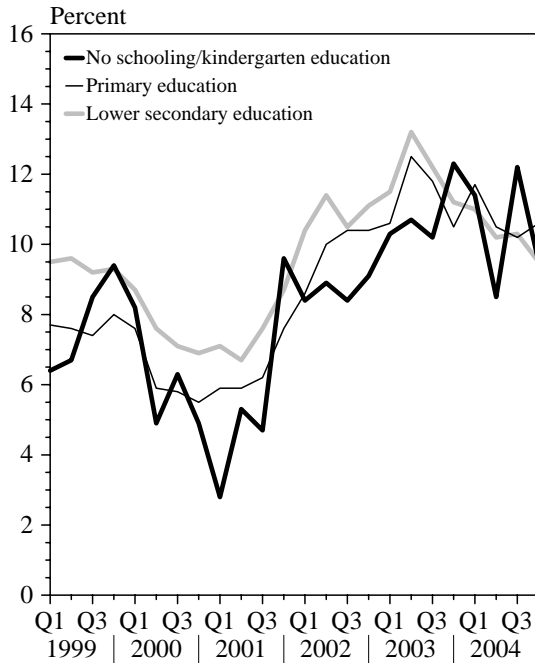
(b) Including technicians and supervisors.

Source : General Household Survey, Census and Statistics Department.

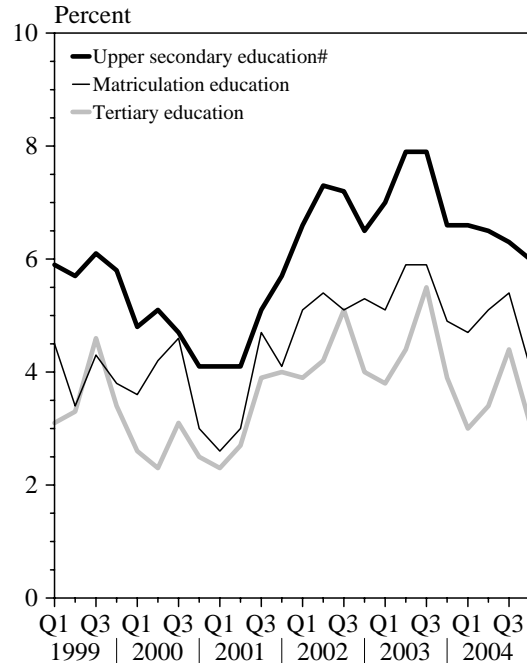
6.5 Analysed by *educational attainment*, the unemployment rate for workers with lower secondary education or below, averaging 10.3 – 10.8% in 2004, was much higher than that for workers with upper secondary education or above, averaging 3.0 – 6.3%. This largely reflected the skills mismatch brought about by structural transformation in the economy. Yet a broad-based decline in unemployment rate occurred across many educational attainment levels over the past year. As for the fourth quarter of 2004, the decrease was most apparent among those better-educated workers with matriculation level or above, and also those with no schooling/kindergarten education.

Diagram 6.2 : Unemployment rates by educational attainment*

(a) Workers with lower secondary education and below



(b) Workers with upper secondary education and above



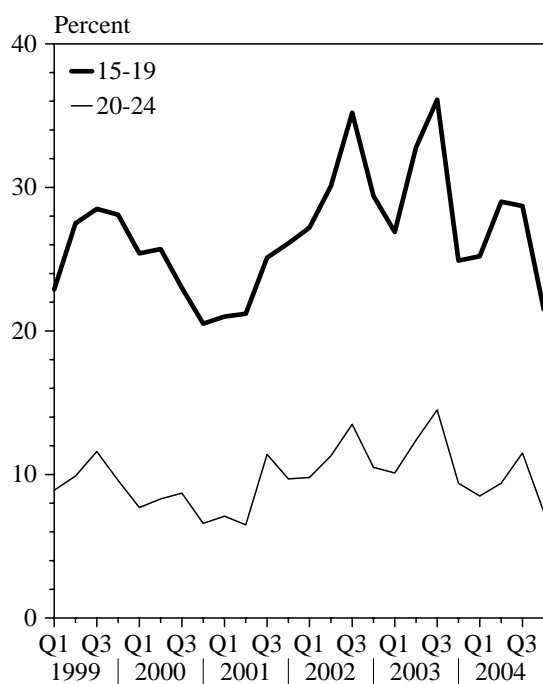
Notes : (*) Not seasonally adjusted, but including first-time job seekers and re-entrants into the labour force.

(#) Including craft courses.

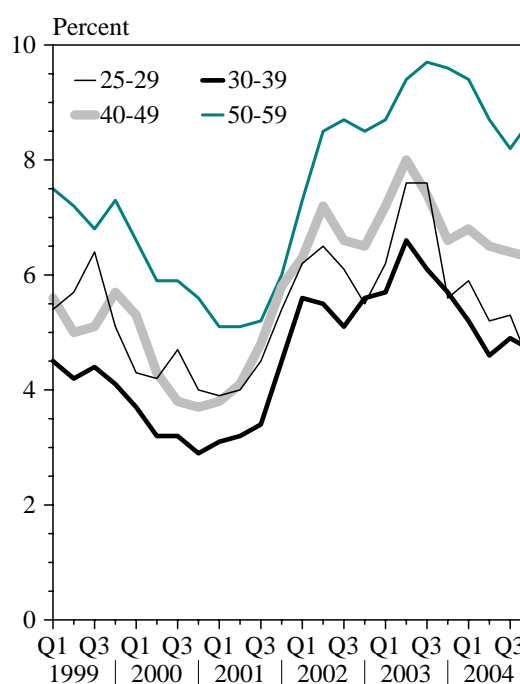
6.6 Analysed by *age group*, there continued to be a significant gap between the unemployment rates for younger workers and older workers. Specifically, workers aged 15 – 19 and 20 – 24 had unemployment rates averaging 26.2% and 9.2% respectively in 2004, as against those of 4.9 – 8.7% for workers aged 25 or above. An across-the-board reduction was likewise seen among all the age groups during the past year. Yet in the most recent period, workers aged 15 – 24 were the ones benefiting more from the improved unemployment situation.

Diagram 6.3 : Unemployment rates by age group*

(a) Workers aged 15-24



(b) Workers aged 25 and above



Note : (*) See the first note to Diagram 6.2.

Profile of underemployment

6.7 Workers with better skills and higher educational attainment were again the group experiencing relatively lower underemployment. Yet between the third and fourth quarters of 2004, the underemployment rate fell most visibly among those workers engaged as craft and related workers, those with primary or lower secondary education, and those working in the foundation and superstructure construction, restaurants, storage and communications, and miscellaneous personal services sectors.

Total labour supply and employment

6.8 *Total labour force*⁽³⁾ stayed on a steady growth path, expanding by 0.3% in 2003 and further by 0.9% in 2004. The latest increase was attributable entirely to an expansion in the population of working age by 1.1%, more than offsetting the decline in the labour force participation rate⁽⁴⁾ especially for male workers aged 15-24 and 50-59.

6.9 By comparison, overall labour demand showed a more notable increase in 2004. This was manifested not only by a more intensive utilisation of existing manpower resources, but also by increased job openings and

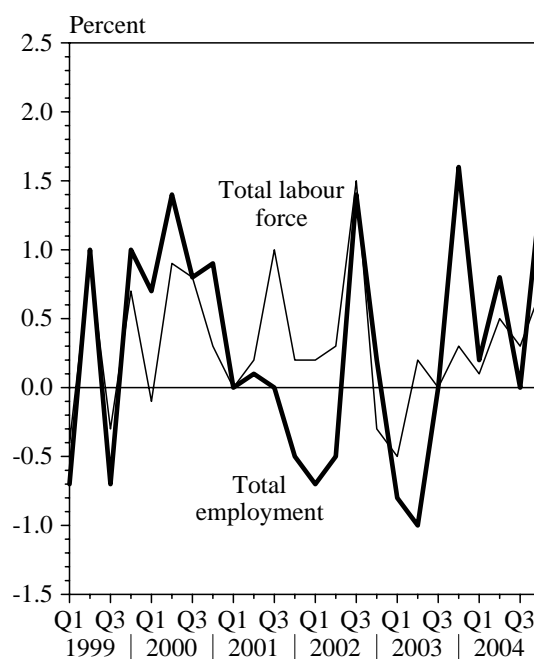
employment of additional staff. As an indicator, *total employment*⁽⁵⁾ as enumerated from households rose by 2.1% in 2004, reversing the 0.4% fall in 2003. Growth was modest in the first quarter, but picked up momentum for rest of the year. At end-2004, total employment reached an all-time high of 3.33 million. Compared with the trough in mid-2003, this represented a visible gain of 139 400 or 4.4%. Much of the growth occurred among the higher skilled workers engaged in the import/export trade, financing and education services, as well as among the lower skilled ones including service workers and shop sales workers engaged in the wholesale/retail trade, restaurants and miscellaneous personal services sectors, craft and related workers engaged in the construction sector, and workers in elementary occupations in the transport and real estate sectors. Also, the more experienced workers aged 40 – 59 seemed to have benefited more from the better employment situation.

Diagram 6.4 : Total labour force and total employment

(a) Year-on-year rate of change



(b) Quarter-to-quarter rate of change



Profile of employment

6.10 Total employment as enumerated from private sector establishments also went up appreciably by 2.7% in September 2004 over a year earlier. This was attributable entirely to a 3.6% increase in the *service sectors*⁽⁶⁾, within which the growth impetus came primarily from employment gains in the wholesale, retail and import/export trades, restaurants and hotels, water transport, air transport and services allied to transport, and financing, insurance,

real estate and business services. For the first nine months of 2004 as a whole, total employment in the private sector was 2.1% higher than a year earlier. The corresponding growth rate for the service sectors was 2.9%.

6.11 Yet outside of the service sectors, the local *manufacturing sector* still registered a reduction in employment by 2.8% in September 2004 from a year earlier, owing to continued relocation of production process across the boundary. Employment of manual workers at *building and construction sites* likewise shrank, by 8.1% over the same period⁽⁷⁾, consequential to the scale-back in the Public Housing Programme and winding down or completion of several major civil engineering projects. For the first nine months of 2004 taken together, employment in these two non-service sectors fell by 3.4% and 4.9% respectively over a year earlier.

6.12 Meanwhile, the civil service underwent further downsizing through natural wastage and staff departure under the second Voluntary Retirement (VR) Scheme, on top of the general recruitment freeze implemented since 1 April 2003. By the end of July 2004, most of the some 5 300 VR takers had left the civil service under the second VR Scheme. Together with those left earlier under the first VR Scheme, a total of about 15 000 civil servants had retired voluntarily from the service. At end-September 2004, the total number of civil service employees was down by 3.8% from a year earlier.

6.13 On employment of foreign professionals in Hong Kong, the number of employment visas granted surged by 21% to 19 200⁽⁸⁾ in 2004, reversing the decline seen in the preceding three years. As to the Mainland professionals admitted under the Admission Scheme for Mainland Talents and Professionals⁽⁹⁾, the number soared by 153% to 3 900 in 2004, making Mainlanders the largest single source of non-local professionals. In order to enhance the competitiveness of the Hong Kong economy and to maintain good economic growth, it is vital to have a quality workforce. Currently, the unemployment rate for skilled workers, at below 3.5%, is way below the overall unemployment rate of over 6%. If the employment of higher-skilled workers could increase further, apart from their direct contribution to the economy, it would also generate additional job opportunities for the lesser skilled workers.

Table 6.5 : Employment by major economic sector

	Annual Average	2003				2004		
		Mar	Jun	Sep	Dec	Mar	Jun	Sep
Wholesale and import/export trades	558 300 (-1.5)	563 900 (-0.4)	558 200 (0.4)	555 700 (-4.3)	555 400 (-1.8)	556 600 (-1.3)	563 100 (0.9)	577 000 (3.8)
Retail trade	210 700 (-2.8)	209 700 (-3.1)	209 000 (-4.3)	207 100 (-6.4)	217 100 (2.9)	214 600 (2.3)	216 500 (3.6)	219 400 (6.0)
Restaurants and hotels	196 100 (-7.3)	198 200 (-7.2)	191 100 (-10.6)	193 900 (-8.7)	201 400 (-2.5)	204 600 (3.2)	209 500 (9.7)	206 600 (6.6)
Water transport, air transport and services allied to transport	98 000 (-3.1)	100 200 (-0.6)	96 100 (-6.1)	96 600 (-4.4)	99 000 (-1.0)	101 600 (1.4)	104 500 (8.7)	104 800 (8.5)
Storage and communications	35 100 (-12.5)	33 300 (-19.5)	35 300 (-15.1)	35 200 (-13.0)	36 500 (-1.1)	35 900 (8.0)	36 100 (2.2)	35 300 (0.1)
Financing, insurance, real estate and business services	421 900 (-1.9)	422 500 (-0.2)	419 000 (-2.6)	422 300 (-0.5)	423 800 (-4.0)	428 600 (1.4)	434 200 (3.6)	437 800 (3.7)
Community, social and personal services	407 300 (2.9)	398 100 (1.5)	400 600 (2.5)	414 100 (3.9)	416 500 (3.5)	412 000 (3.5)	418 100 (4.4)	415 700 (0.4)
Manufacturing	173 100 (-10.3)	178 900 (-9.4)	172 500 (-13.8)	172 800 (-9.1)	168 300 (-8.8)	168 900 (-5.6)	169 600 (-1.7)	168 000 (-2.8)
Building and construction sites ^(a)	67 600 (-7.7)	69 900 (-9.1)	67 300 (-15.1)	68 000 (-3.4)	65 100 (-2.0)	66 100 (-5.5)	66 600 (-1.0)	62 500 (-8.1)
All establishments surveyed in the private sector ^(b)	2 215 800 (-2.6)	2 222 200 (-2.3)	2 197 000 (-3.6)	2 213 500 (-3.2)	2 230 400 (-1.4)	2 236 000 (0.6)	2 265 000 (3.1)	2 273 600 (2.7)
		<-1.5>	<-1.5>	<0.3>	<1.2>	<0.6>	<0.9>	(*)
Civil service ^(c)	167 100 (-2.4)	169 100 (-2.3)	168 200 (-2.0)	166 500 (-2.3)	164 700 (-2.9)	163 000 (-3.6)	161 700 (-3.9)	160 100 (-3.8)

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) Due to an expansion in survey coverage as from March 2003, the employment figures for manual workers at building and construction sites in 2003 have been revised accordingly to facilitate comparison.
- (b) 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.
- (c) These figures cover only those employed on civil service terms of appointment. Judicial officers, ICAC officers, locally engaged staff working in overseas Hong Kong Economic and Trade Offices, and other Government employees such as non-civil service contract staff 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.

Vacancies

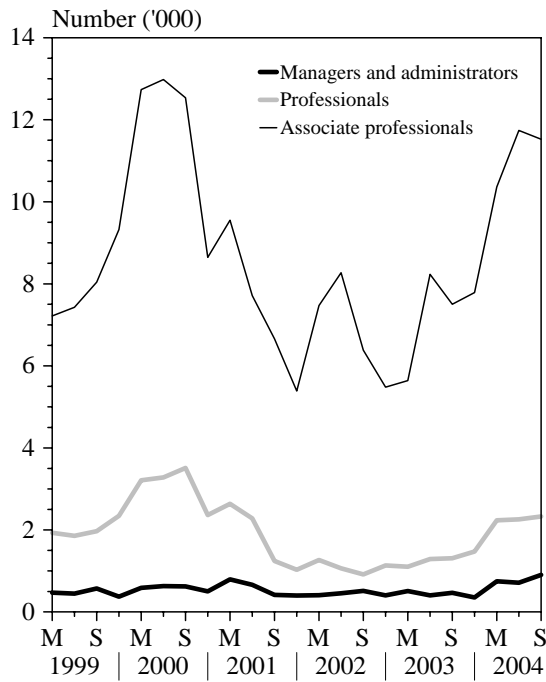
6.14 Job vacancies in the private sector had reverted to an uptrend since the latter part of 2003. In September 2004, the total number of private sector vacancies jumped by 55.3% over a year earlier. For the first nine months of the year as a whole, the increase was equally impressive, at 61.6%.

6.15 Growth over the past year was broadly based, whether analysed by *economic sector* or by *occupational category*. Vacancies in the service sector, in the manufacturing sector and for manual workers at construction sites all went up significantly by 54.8%, 67.0% and 69.2% respectively. Meanwhile, sharp gains were also observed across various occupational categories. More specifically, vacancies at the lower and upper segments leaped by 36.8 – 109.4% and 53.7 – 93.8% respectively in September 2004 over a year earlier.

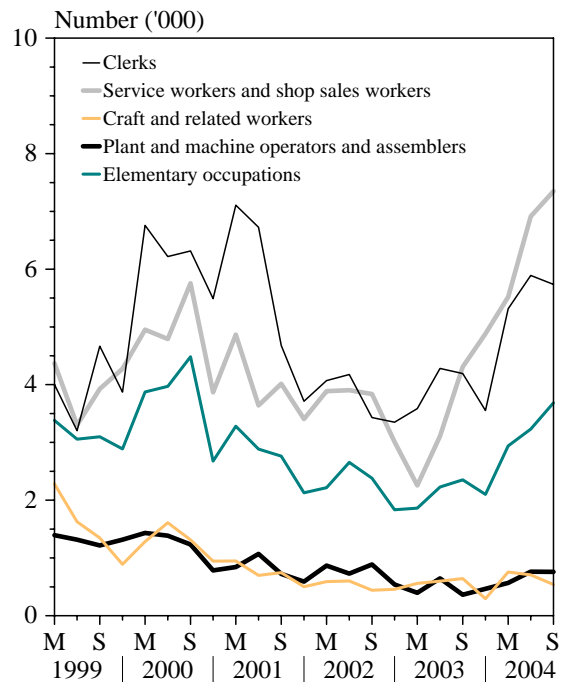
6.16 Vacancies in the *civil service* likewise went up, by 13.3% in September 2004 over a year earlier, mainly attributable to increased job openings for disciplinary staff. This contrasted with the 1.9% decrease in June. The target is to reduce the size of the civil service to around 160 000 by 2006/07 and hence the recruitment freeze imposed since 1 April 2003. Exemption would only be granted when there are genuine needs to recruit from outside the civil service.

Diagram 6.5 : Vacancies by major occupation category

(a) Workers at the upper segment



(b) Workers at the lower segment



6.17 Latest statistics from the Labour Department indicated a further increase in vacancies towards the end of 2004. Specifically, the number of vacancies received by the Department continued to surge, by 40.4% year-on-year in the fourth quarter. For 2004 as a whole, the increase was 34.6%, and the number of vacancies received, at 303 000, was the highest level ever recorded. As for the number of placement achieved, the corresponding growth rates for the fourth quarter of 2004 and for the year as a whole were also encouraging, at 26.9% and 30.5%.

Table 6.6 : Vacancies by major economic sector

	<u>No. of vacancies</u>								<u>Vacancy rate in Sep 2004 (%)</u>
	<u>Annual average</u>	<u>2003</u>				<u>2004</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	4 800 (10.0)	4 400 (-12.2)	4 900 (-1.9)	5 300 (26.1)	4 800 (39.8)	7 200 (64.7)	8 700 (77.5)	8 000 (51.7)	1.4
Retail trade	1 700 (-8.1)	1 100 (-35.1)	1 500 (-37.8)	1 700 (2.9)	2 400 (60.5)	2 300 (108.2)	2 400 (55.2)	3 300 (97.3)	1.5
Restaurants and hotels	1 300 (-2.4)	800 (-47.0)	1 100 (-22.3)	1 700 (23.3)	1 700 (56.0)	1 800 (113.1)	2 200 (100.6)	2 500 (50.1)	1.2
Water transport, air transport and services allied to transport	500 (-5.7)	400 (-9.7)	500 (-17.7)	500 (-1.1)	500 (9.4)	900 (102.3)	1 300 (161.0)	1 300 (192.8)	1.3
Storage and communications	400 (-6.9)	300 (-25.6)	400 (14.3)	500 (1.3)	300 (-18.8)	600 (83.8)	400 (-3.3)	800 (83.7)	2.3
Financing, insurance, real estate and business services	5 600 (8.0)	4 200 (-22.1)	6 200 (3.2)	5 700 (18.8)	6 300 (38.7)	8 600 (106.0)	9 000 (45.4)	9 300 (62.2)	2.1
Community, social and personal services	4 200 (1.3)	3 300 (-23.8)	4 600 (11.0)	4 800 (14.6)	3 900 (4.9)	5 200 (56.5)	6 200 (34.2)	5 800 (20.7)	1.4
Manufacturing	1 000 (-21.5)	1 100 (-23.5)	1 200 (-16.4)	900 (-34.7)	800 (-6.4)	1 500 (37.5)	1 600 (30.2)	1 500 (67.0)	0.9
Building and construction sites	# (-60.1)	# (-81.7)	# (-52.6)	# (-57.4)	# (28.6)	# (57.7)	100 (118.5)	# (69.2)	0.1
All establishments surveyed in the private sector ^(a)	19 700 (1.4)	15 900 (-23.4)	20 800 (-4.9)	21 100 (12.5)	20 900 (28.9)	28 400 (78.7)	32 200 (55.0)	32 800 (55.3)	1.4
		<-18.2>	<25.2>	<10.3>	<14.2>	<13.7>	<8.2>	<10.0>	
Civil service ^(b)	1 500 (-14.8)	1 600 (-3.8)	1 700 (-13.5)	1 600 (-9.9)	1 200 (-32.1)	1 300 (-21.7)	1 600 (-1.9)	1 800 (13.3)	1.1

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 Schemes.

() % change over a year earlier.

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

(#) Less than 50.

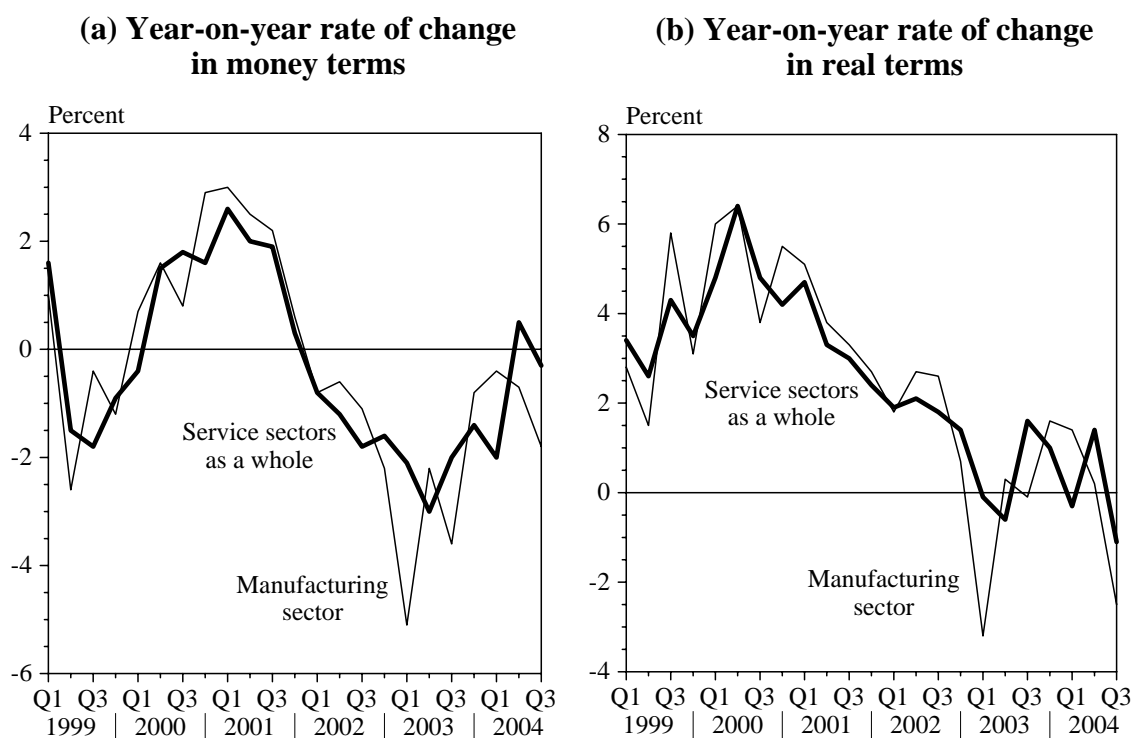
Source : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

Earnings and wages

6.18 Labour income, as a lagging indicator, continued on a downtrend in money terms, but the decrease was of a smaller magnitude in 2004 than in 2003. Specifically, overall *labour earnings*⁽¹⁰⁾ in the private sector, as measured by payroll per person engaged, edged lower by 0.5% year-on-year in money terms in the third quarter of 2004 and by 0.7% in the first three quarters taken together. In real terms, there was a decrease of 1.3% in the third quarter, but virtually nil change for the first three quarters as a whole⁽¹¹⁾.

6.19 Analysed by *economic sector*, labour earnings in the *service sectors* exhibited divergent movements. While year-on-year increases in money terms were observed for the wholesale and retail trades, restaurants and hotels, and water and air transport in the third quarter of 2004, these were more than offset by the declines seen in the other sectors such as the import/export trade, land transport and business services. For all the service sectors taken together, labour earnings were modestly down by 0.3% in money terms or 1.1% in real terms. Over the same period, labour earnings in the *manufacturing sector* fell more, by 1.8% in money terms or 2.5% in real terms.

Diagram 6.6 : Earnings by broad economic sector



6.20 Overall *labour wages*⁽¹²⁾ in the private sector, excluding the irregular payment items, also edged lower, by 1.3% in money terms or 2.5% in real terms in September 2004 from a year earlier. For the first nine months of 2004 as a whole, the corresponding decreases were 1.1% and 1.0%.

6.21 Analysed by *economic sector*, wages in the *service sectors* were adjusted downwards by 0.3 - 2.0% in money terms in September 2004 from a year earlier, save for those in personal services which were lifted by 3.3% attributable to pay hikes at barber and beauty shops. In real terms, there were wage decreases of 1.5 - 3.1% for most service sectors, but a 2.1% rise for personal services. As for wages in the local *manufacturing* and *construction sectors*, they were down by 1.1% and 2.6% respectively in money terms, corresponding to decreases of 2.3% and 3.9% in real terms.

6.22 Following the enactment of the Public Officers Pay Adjustments (2004/2005) Ordinance in December 2003, the civil service pay was reduced on two occasions by broadly equal magnitude on 1 January 2004 and 1 January 2005. After these reductions, all civil service pay points have been restored to the levels, in dollar terms, as at 30 June 1997.

6.23 In November 2004, the Government presented the proposals on the pay level survey methodology and application of the survey results for extensive consultation. The two-month consultation ended in January 2005. The Government shall give careful consideration to all the views received during the consultation in deciding on the way forward. The aim is to commence the survey field work in the first quarter of 2005, with a view to covering the pay adjustments in the private sector up to 1 April 2005.

The Government's recent employment and training measures

6.24 In recent years, the Government has implemented a series of measures to enhance the employability of youths. In May 2004, the Youth Self-employment Support Scheme was launched as a new initiative to train and assist young people aged 18 to 24 with educational attainment below degree level and assessed to have motivation to become self-employed. A total of 36 projects providing 1 500 training places in areas with business prospects have been approved. By the end of the year, the trainees have conducted 1 420 business transactions, with gross profits of about \$940,000 recorded. As to the ongoing measures, these included the Youth Pre-employment Training Programme (YPTP) launched in 1999 for school leavers aged 15 to 19, and the Youth Work Experience and Training Scheme (YWETS) launched in 2002 for

young people aged 15 to 24 with educational attainment below degree level. By end-2004, some 57 000 youngsters have been trained under YPTP and about 28 000 trainees have found employment under YWETS.

6.25 In addition, the Government has launched the Re-employment Training Programme for the Middle-aged (RTP) in 2003. It is aimed at assisting unemployed workers aged 40 or above to secure employment through the provision of a training allowance to employers hiring them. By end-2004, the programme has achieved about 8 600 job placements. Besides, a special incentive allowance scheme for local domestic helpers (LDHs) has also been introduced in 2003, under which qualified LDHs who work in a district different from the one in which they reside or during unsocial hours (i.e. 5 pm to 9 am) may apply for a daily allowance of \$50 per day, with an overall cap of \$7,200 per year. Its aims are to promote the market for LDHs on the one hand, and to facilitate employment of the middle-aged low-skilled workers on the other. As of end-2004, some 3 700 applications have been approved.

6.26 Furthermore, in order to enhance employability of the lower-skill workers amid structural change in the economy, the Employees Retraining Board was set up in 1992 primarily to provide training to unemployed persons aged 30 or above with lower secondary education or below. The target is to assist them to take on new or enhanced skills so that they can be better adapted to the evolving job requirements. Around 110 000 retraining places are offered each year through various full-time and part-time courses, and so far over 824 000 retrainees have benefited from the programmes. There is also the Skills Upgrading Scheme, launched in 2001, for providing skills-upgrading training to in-service workers with secondary education or below. The Scheme has so far launched 5 200 classes and benefited over 110 000 workers in 22 industries since its inception.

6.27 On job creation, the Government has created a number of temporary jobs in the public sector since 2000, which cover a wide range of services including cleansing, health, welfare, leisure and tourism. In the 2005 Policy Address announced on 12 January, it proposed to further extend some 10 000 temporary jobs. Additionally, the municipal works projects, and the initiatives in urban renewal and redevelopment, greening, decking of nullahs and promotion of the environmental industry are all implemented with the provision of employment opportunities being one of the key considerations.

6.28 Besides, the Government will introduce two new employment initiatives in the second quarter of 2005 : the Work Trial Scheme (WST) and the

Work Orientation and Placement Scheme (WOPS). Under the WTS, 2 000 job-seekers with special difficulty in securing employment will be arranged to undergo a one-month work trial in a participating company with a view to the offer of long-term employment after satisfactory completion of the work trial. Participants will be paid an allowance after the trial. To encourage employers to engage people with disabilities, the WOPS will be implemented to provide pre-employment training and job placements for 1 000 disabled job-seekers.

Notes :

- (1) 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.

- (2) 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.

Following these criteria, employed persons taking no-pay leave due to slack work during the reference period are also classified as underemployed if they had worked less than 35 hours or were on leave for the entire reference period.

- (3) 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.

- (4) 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.
- (5) 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).
- (6) 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.
- (7) Yet taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector increased by 2.0% in the third quarter of 2004, although there was still a decrease of 0.8% for the first three quarters as a whole.

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.

- (8) This refers to the employment visas issued for the admission of professionals, specialists, businessmen, managers and administrators, for whom there is no quota. It does not cover the admission of Mainland residents and overseas Chinese, foreign domestic helpers, trainees, as well as employment under the Supplementary Labour Scheme and the Admission Scheme for Mainland Talents and Professionals.
- (9) The Admission Scheme for Mainland Talents and Professionals was implemented on 15 July 2003 to attract qualified Mainland talents and professionals to work in Hong Kong. It replaced the Admission of Talents Scheme and the Admission of Mainland Professionals Scheme introduced in 1999 and 2001 respectively, which were more restrictive in their purview. The new Scheme caters for the entry of Mainland talents and professionals in all sectors including arts, culture and sports as well as those in the culinary profession so as to enhance Hong Kong's status as an Asian world city. The Mainland professionals must be employed with remuneration comparable to the local market level and be able to contribute to the operation of the firms concerned with a view to facilitating economic development in Hong Kong.
- (10) 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.
- (11) 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 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 wages in respect of workers on occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.

- (12) 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.

CHAPTER 7 : PRICES IN 2004

Summary

- *The deflationary trend that started in November 1998 finally gave way to inflation by mid-2004. Amidst a brisk local consumer demand and vibrant inbound tourism, 2004 has seen a progressive return of pricing power of local retailers. Also, on the cost front, downward pressures on local wages were receding, albeit only slowly; property rentals have rebounded from the trough in 2003; the rise in import prices stemming from a weak US dollar was more readily passed through to the retail price level.*
- *But in overall terms, consumer price inflation was still very modest up to the end of 2004, indicating that price pressures from domestic sources were on the whole still scant.*
- *The year-on-year decline in the GDP deflator, as a broad measure of price movements of local output produced by the Hong Kong economy, tapered visibly over the course of 2004, along with the rebound in consumer prices and a pick-up in the price deflator for construction investment. The pace of upturn in the GDP deflator was nevertheless considerably slower than that of Composite CPI, due to the drag from worsened terms of trade caused by a sagging US dollar.*

Consumer prices

7.1 2004 was a remarkable year for the Hong Kong economy, as the deflationary trend that started in November 1998 finally gave way to inflation by the middle of the year. A number of factors on the domestic and external fronts have contributed to this. First and foremost was the return of pricing power of local retailers as the economic recovery became more established. Indeed, prices of a wide range of local goods and services have been rising on a year-on-year basis after early 2004, thanks to brisk consumer demand and vibrant inbound tourism. Secondly, on the cost front, the downward pressures on wages, which were still very pronounced in 2003, have abated somewhat in 2004, in tandem with steadily improving labour market conditions. Office and shop rentals have gone up further during the year, even though it would take some time for the rental increases to feed through fully to the retail price level. Thirdly, on the external front, there were also more price pressures stemming

from rising import prices, owing to a weak US dollar and higher world commodity prices, notably oil prices. With the progressive return of pricing power of local retailers, there was thus a more ready pass-through of the externally induced cost pressures onto the retail price level.

7.2 Reflecting the progressive dissipation of deflationary pressures as the economy gathered pace, the year-on-year decline in the *Composite Consumer Price Index (CPI)*⁽¹⁾ tapered successively during the first half of 2004, from 1.8% in the first quarter to 0.9% in the second quarter, and just 0.1% by June. The Composite CPI then reverted to increase as from July, averaging at 0.8% in the third quarter and 0.2% in the fourth quarter. The somewhat larger year-on-year increase in the third quarter was largely attributable to a low base brought about by the Government's rates concession⁽²⁾ implemented in the same quarter of 2003. In general, consumer price inflation was very modest up to the end of the year, being kept down by the marked fall-off in private housing rentals in 2003⁽³⁾. For 2004 as a whole, the decline in the Composite CPI was merely 0.4%, distinctly smaller than that of 2.6% in 2003.

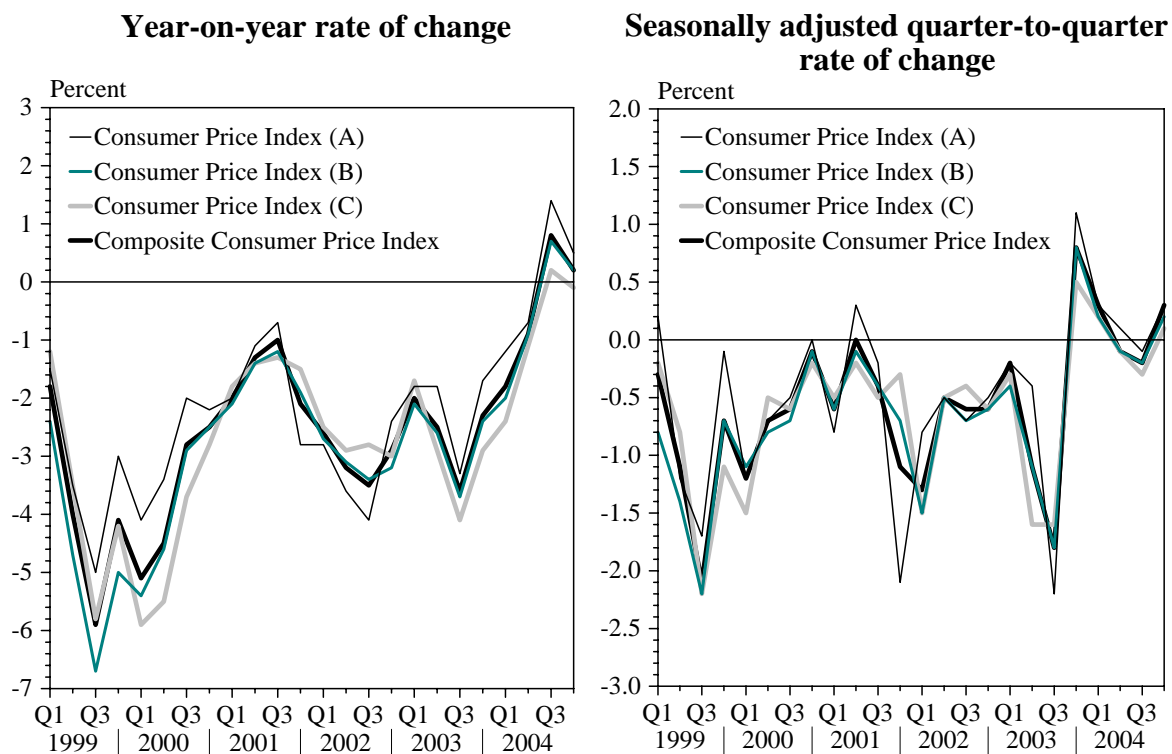
**Table 7.1 : Consumer Price Indices
(year-on-year rate of change (%))**

		<u>Composite CPI</u>		<u>CPI(A)</u>		<u>CPI(B)</u>		<u>CPI(C)</u>	
2003	Annual	-2.6		-2.1		-2.7		-2.9	
	H1	-2.2		-1.8		-2.3		-2.3	
	H2	-3.0		-2.5		-3.1		-3.5	
	Q1	-2.0	(-0.2)	-1.8	(-0.2)	-2.1	(-0.4)	-1.7	(-0.3)
	Q2	-2.5	(-1.1)	-1.8	(-0.4)	-2.6	(-1.1)	-2.9	(-1.6)
	Q3	-3.6	(-1.8)	-3.3	(-2.2)	-3.7	(-1.8)	-4.1	(-1.6)
	Q4	-2.3	(0.8)	-1.7	(1.1)	-2.4	(0.8)	-2.9	(0.5)
2004	Annual	-0.4		*		-0.5		-0.9	
	H1	-1.3		-1.0		-1.4		-1.8	
	H2	0.5		0.9		0.4		0.1	
	Q1	-1.8	(0.3)	-1.2	(0.3)	-2.0	(0.2)	-2.4	(0.2)
	Q2	-0.9	(-0.1)	-0.7	(0.1)	-0.9	(-0.1)	-1.1	(-0.1)
	Q3	0.8	(-0.2)	1.4	(-0.1)	0.7	(-0.2)	0.2	(-0.3)
	Q4	0.2	(0.3)	0.5	(0.3)	0.2	(0.2)	-0.1	(0.1)

Notes : () Figures in parentheses denote seasonally adjusted quarter-to-quarter rates of change.

(*) Change of less than 0.05%.

Diagram 7.1 : Consumer Price Indices



7.3 All the sub-indices exhibited broadly similar profile of movements during 2004, with tapering year-on-year declines in the first half of 2004 followed by mild increases in the second half. For 2004 as a whole, the CPI(A) registered virtually no change, whereas CPI(B) and CPI(C) still had marginal declines at 0.5% and 0.9% respectively. As rates, water and sewage charges constituted a relatively larger weight in the CPI(A) than the other two sub-indices, the former index was lifted upwards more in the latter part of 2004 due to dissipation of the low base effect induced by government’s relief measures adopted in 2003.

7.4 On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI rose by 0.3% in the first quarter of 2004, upon a rebound in food prices and with water and sewage charges returning to normal level upon the end of the waiver period in August - November 2003. The seasonally adjusted Composite CPI then fell back by 0.1% in the second quarter and 0.2% in the third quarter, due to the heavy drag from the fall-off in private housing cost, which outweighed the increases of prices of other goods and services. Also contributed was the ease-back in prices of durable goods in the third quarter. But as the effect of the earlier rental decline waned as leasing contracts were progressively renewed at a higher rental level, coupled with higher cost pressures from imported foodstuffs and also from imported fuel, the seasonally adjusted Composite CPI reverted to a 0.3% increase in the fourth

quarter. Yet on the whole, the quarterly rise in the CPI was very modest in the fourth quarter, suggesting that overall price pressures were still scant up till the end of 2004.

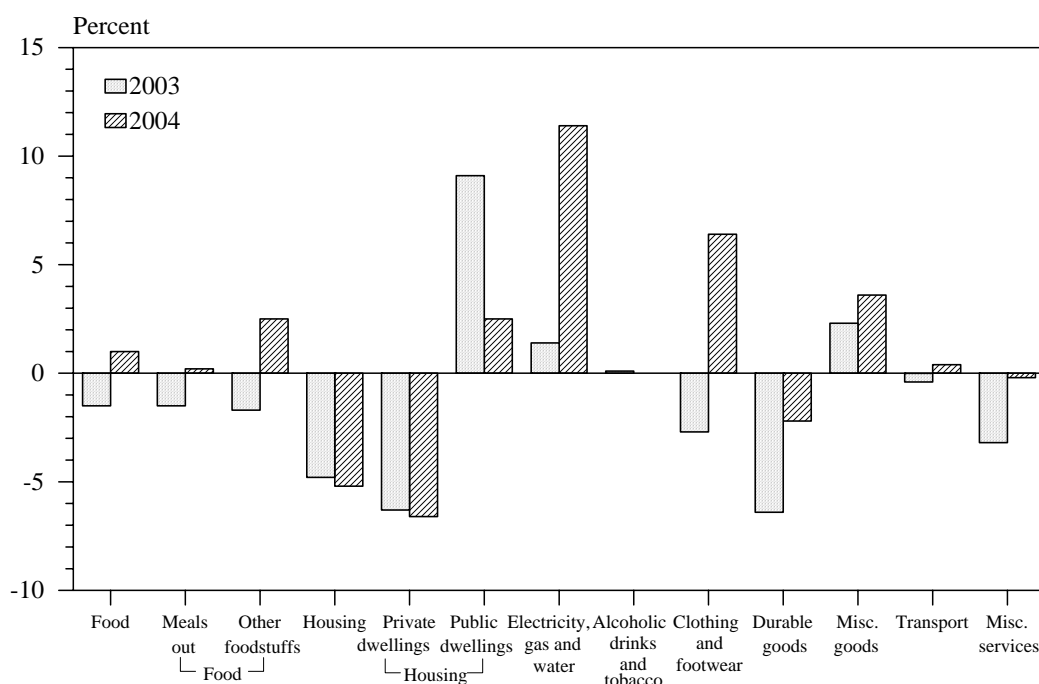
**Table 7.2 : Composite Consumer Price Index by component
(year-on-year rate of change (%))**

<u>Expenditure component</u>	<u>Weighting</u>	<u>2003</u>	<u>2004</u>	<u>Q1</u>	<u>2004</u>		
					<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Food	26.67	-1.5	1.0	0.1	1.0	1.4	1.7
<i>Meals bought away from home</i>	16.39	-1.5	0.2	-0.5	0.3	0.5	0.5
<i>Other foodstuffs</i>	10.28	-1.7	2.5	1.1	2.3	2.8	3.6
Housing ^(a)	29.91	-4.8	-5.2	-7.7	-6.7	-2.3	-3.9
<i>Private dwellings</i>	24.59	-6.3	-6.6	-9.3	-8.2	-3.8	-4.9
<i>Public dwellings</i>	2.07	9.1	2.5	0.1	0.1	10.3	0.1
Electricity, gas and water	2.98	1.4	11.4	21.8	3.0	12.7	9.8
Alcoholic drinks and tobacco	0.94	0.1	*	-0.1	0.4	-0.1	-0.3
Clothing and footwear	4.13	-2.7	6.4	6.1	9.2	6.7	4.0
Durable goods	6.24	-6.4	-2.2	-3.6	-1.4	-1.9	-2.1
Miscellaneous goods	5.70	2.3	3.6	3.8	4.4	3.6	2.5
Transport	9.01	-0.4	0.4	-0.4	0.4	0.7	0.8
Miscellaneous services	14.42	-3.2	-0.2	-3.4	*	1.2	1.2
All items	100.00	-2.6	-0.4	-1.8	-0.9	0.8	0.2

Notes : (a) 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. Hence, the combined weighting of private and public dwellings is slightly less than the weighting of the entire housing component.

(*) Change of less than 0.05%.

**Diagram 7.2 : Composite Consumer Price Index by component
(year-on-year rate of change)**



7.5 Analysed by main component of the Composite CPI, price increases were seen extensively across many of the consumer items in 2004. Charges for electricity, gas and water had the most distinct increase, by 11.4%, mainly due to a distinctly low base caused by the waiver of water and sewage charges and the two rounds of rebate of electricity charges by a power company in 2003. Also contributed was the surge in gas charges upon higher oil prices in the latter part of the year. Prices of clothing and footwear went up visibly, by 6.4% in 2004, reflecting mainly brisk retail business as well as the pass-through of higher import prices. The prices of miscellaneous goods also rose, by 3.6%. The prices of basic foodstuffs went up by 2.5%, reflecting mainly rising food prices from the Mainland. Transport cost and charges for meals at restaurants were more stable, with marginal increases at 0.4% and 0.2% respectively. But private housing cost fell further in 2004, by 6.6%, mainly dragged down by the pronounced declines in private housing rentals in 2003. The prices of durable goods fell further by 2.2% in 2004, due to the continued fall-off in the prices of computer and telecommunications equipment amidst keen business competition. As to the charges of miscellaneous services, they still recorded a marginal decline of 0.2% for 2004 as a whole, notwithstanding a rebound in the second half of the year, predominantly in the charges for outbound package tours.

Import prices

7.6 Reflecting the build-up of externally induced cost pressure stemming from a weak US dollar and rising commodity prices in the year, the prices of imports of goods accelerated progressively during 2004, giving an annual increase at 2.9%, in contrast to a 0.4% fall in 2003. Analysed by major source, the increase in the prices of imported goods was across-the-board, with more distinct increases in the prices of goods imported from Japan and Taiwan, which conceivably were lifted in part by the appreciation of Japanese yen and New Taiwan dollar in the year. Prices of imports from the Mainland also firmed up more visibly in the second half of 2004, largely due to a steeper rise in the prices of foodstuffs imported from there.

**Table 7.3 : 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>
2003	Annual	-0.2	2.4	-0.6	-0.9	-0.4
	H1	-0.4	3.1	0.3	-2.0	-0.2
	H2	*	1.8	-1.3	0.1	-0.5
	Q1	-1.0	3.3	1.1	-2.6	-0.1
	Q2	0.1	2.9	-0.3	-1.4	-0.3
	Q3	-0.1	0.9	-1.3	-1.1	-0.9
	Q4	*	2.7	-1.3	1.1	-0.2
2004	Annual	1.4	2.8	3.8	1.6	2.9
	H1	0.7	2.4	1.5	1.3	1.5
	H2	1.9	3.2	6.0	1.9	4.1
	Q1	0.5	2.3	0.4	1.1	0.7
	Q2	0.9	2.4	2.4	1.5	2.3
	Q3	1.9	3.4	4.9	2.4	4.0
	Q4	2.0	3.1	7.3	1.4	4.3

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

**Diagram 7.3 : World commodity prices
(year-on-year rate of change)**

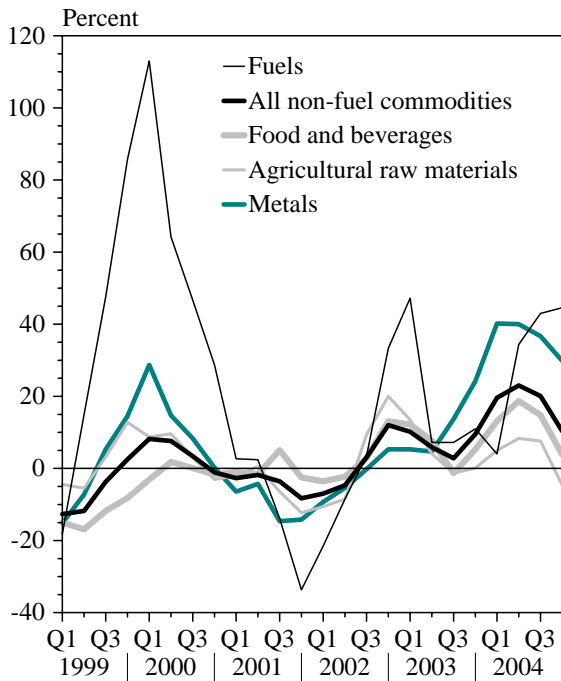
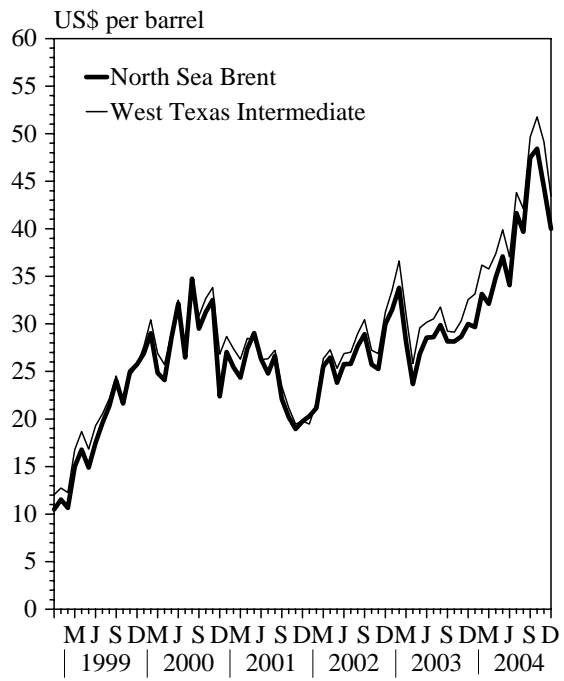
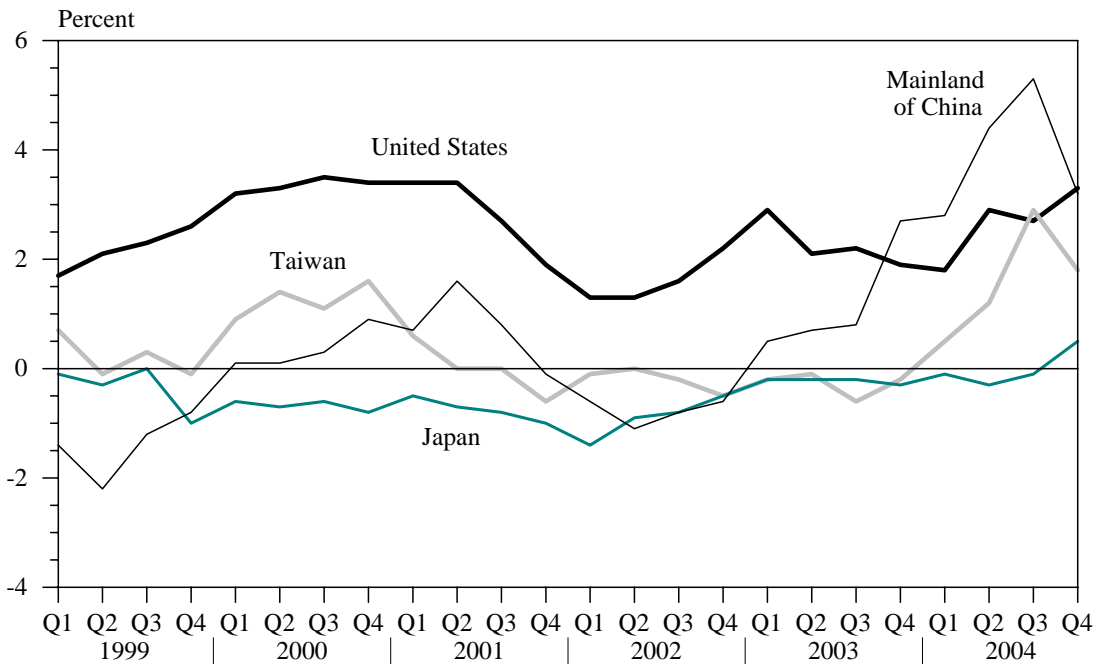


Diagram 7.4 : Spot price of crude oil*



Note : (*) Month-end figures.

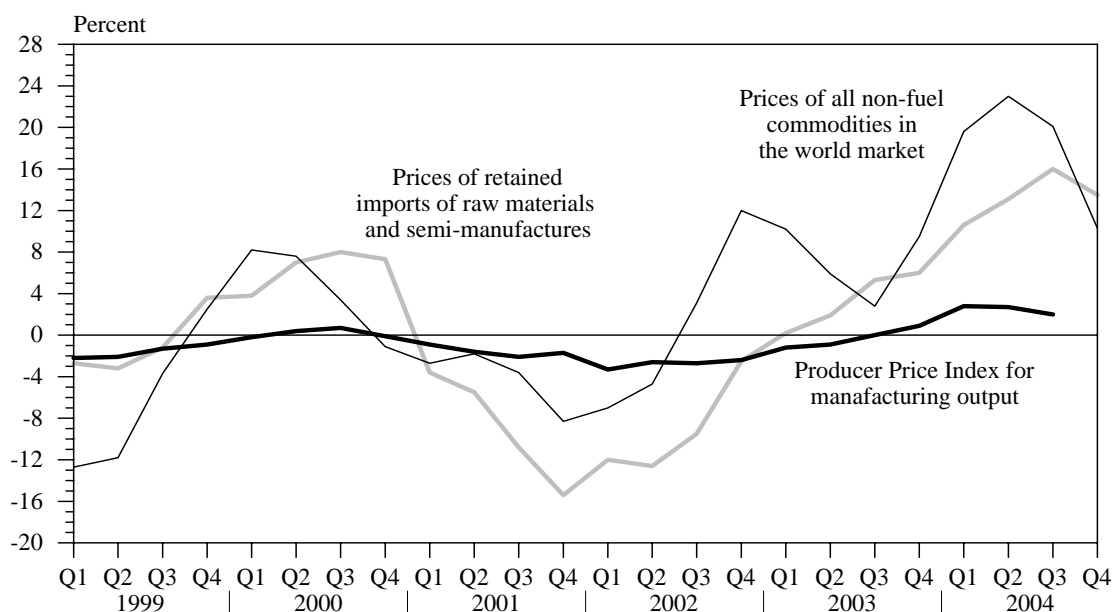
**Diagram 7.5 : Consumer prices in the major supplier economies
(year-on-year rate of change)**



Cost of factor inputs and domestic output prices

7.7 On the local cost front, *rentals* for office space, shopping space and conventional flatted factory all picked up visibly during 2004 amidst improved business conditions. By the fourth quarter of 2004, they were 12.0%, 9.2% and 7.3% respectively higher than a year earlier, translating to annual increases of 4.6%, 7.2% and 3.5% over 2003. Downward pressures on *labour cost* also seemed to be receding, though only slowly, with the decline in labour wages tapering to 1.1% in nominal terms in the first three quarters of 2004, as against a 1.9% decline in 2003. The decline in labour earnings narrowed more distinctly, to 0.7% in the first three quarters of 2004, as against 1.8% in 2003.

Diagram 7.6 : Producer Price Index, world commodity prices, and prices of retained imports of material inputs (year-on-year rate of change)



7.8 Along with the end of deflation signifying lesser margin squeeze on the producers, and also with the cost-push from higher material costs, domestic output prices generally rose back in 2004. The *prices of local manufacturing output*, as measured by the Producer Price Index⁽⁴⁾, rebounded to a 2.5% increase in the first three quarters of 2004 over a year earlier, from a 0.3% decline in 2003, the first increase in four years. As to the *prices of output in selected service sectors*, they registered a rather broad-based increase in the first three quarters of 2004, with a particularly distinct increase in the output prices for hotels and boarding houses amidst robust pick-up in inbound tourism. Yet the output prices for telecommunications stayed on a decline amidst keen competition in the industry.

Table 7.4 : Producer Price Index for the local manufacturing sector and selected service sectors
(year-on-year rate of change (%))

<u>Industry group</u>	<u>Annual</u>	<u>2003</u>					<u>2004</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>Overall manufacturing</u>	-0.3	-1.2	-0.9	*	0.9	2.5	2.8	2.7	2.0
<i>within which :</i>									
Wearing apparel	-0.2	-0.8	0.1	0.2	-0.2	-1.4	-0.4	-0.1	-3.7
Textiles	-0.1	-0.6	-0.5	-0.2	1.0	0.9	1.4	1.0	0.2
Plastic products	2.6	0.1	2.5	2.6	5.1	5.4	4.7	3.1	8.4
Consumer electrical and electronic products	-1.7	-1.7	-0.8	-2.3	-2.1	-6.4	-4.5	-5.8	-9.1
Machinery and equipment	-1.3	-3.1	0.1	0.5	-2.7	2.3	3.1	1.7	2.1
Fabricated metal products	-2.9	-3.0	-3.9	-3.3	-1.3	0.8	0.2	1.1	1.1
Paper products and Printing	-1.7	-2.0	-2.3	-1.7	-0.7	-0.2	-0.4	*	-0.4
<u>Selected services sector^(#)</u>									
Hotels and boarding houses	-4.9	1.6	-10.5	-4.2	-6.3	10.7	2.9	17.7	12.4
Land transport	-1.6	-0.7	-1.9	-2.7	-1.1	-0.1	-1.9	0.4	1.2
Maritime transport	7.2	5.5	7.6	6.2	9.5	1.7	2.7	0.8	1.7
Air transport	0.4	1.8	-0.6	-0.4	0.9	3.3	1.2	4.9	3.8
Telecommunications	-10.7	-7.7	-12.0	-10.1	-13.2	-10.6	-13.6	-7.9	-10.2
Miscellaneous communications services	3.9	7.1	6.9	3.1	-1.1	2.6	2.9	2.8	2.0

Notes : (#) Producer Price Indices for the 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.

(*) Change of less than 0.05%.

Export prices

7.9 In tandem with the rise-back in manufacturing output prices, the *prices of total exports of goods* bounced up after the first quarter of 2004. For 2004 as a whole, the unit value index of total exports of goods rebounded to a 1.2% increase, after the 1.4% decline in 2003 and arresting the downtrend since 1996. Analysed by major market, the increase in the prices of total exports of goods was across-the-board in the second half of 2004.

7.10 As the prices of total exports of goods rose less rapidly than the prices of imports of goods, the *terms of trade in goods*⁽⁵⁾ for Hong Kong fell further by 1.7% in 2004, after the 1.0% decline in 2003.

**Table 7.5 : 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>
2003	Annual	-0.8	-0.9	-2.5	-1.7	-1.4	-3.4	-1.4
	H1	-0.9	-0.5	-2.6	-1.4	-1.1	-2.4	-1.1
	H2	-0.7	-1.2	-2.5	-1.9	-1.7	-4.0	-1.6
	Q1	-1.3	0.1	-2.3	-1.0	-1.1	-1.6	-0.9
	Q2	-0.6	-1.0	-2.9	-1.7	-1.2	-3.1	-1.4
	Q3	-0.3	-1.7	-2.9	-2.1	-2.1	-4.5	-1.8
	Q4	-1.1	-0.6	-2.1	-1.6	-1.3	-3.6	-1.5
2004	Annual	0.2	2.7	*	0.6	0.6	-1.3	1.2
	H1	-0.5	1.1	-0.4	-0.3	-0.3	-3.2	-0.1
	H2	0.8	4.1	0.4	1.2	1.3	0.3	2.3
	Q1	-0.6	0.2	-0.9	-0.7	-0.6	-4.2	-0.7
	Q2	-0.4	1.9	*	0.1	0.1	-2.3	0.5
	Q3	0.4	3.8	0.5	1.0	1.2	0.3	1.9
	Q4	1.3	4.8	0.3	1.4	1.4	0.3	2.6

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

Diagram 7.7 : Prices of total exports of goods and imports of goods (year-on-year rate of change)

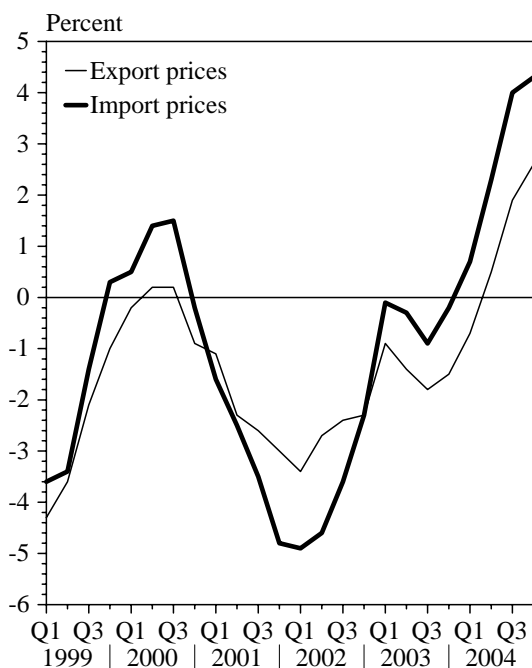
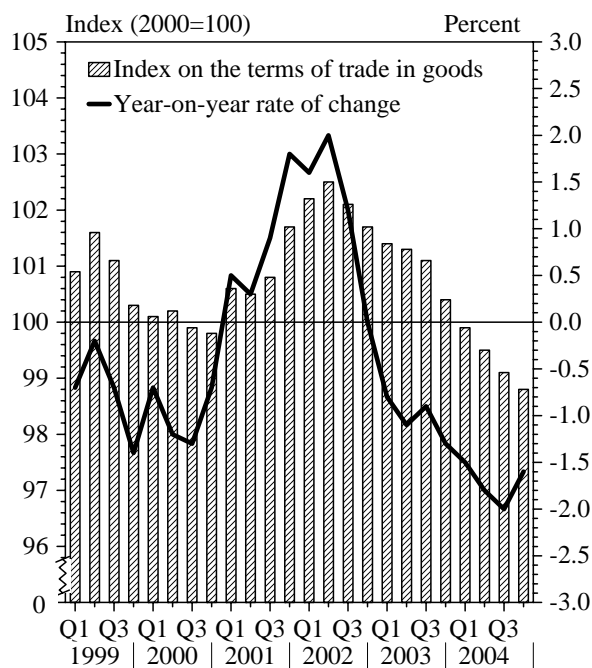


Diagram 7.8 : Terms of trade in goods



GDP deflator

7.11 On a year-on-year basis, the decline in the *GDP deflator*⁽⁶⁾, as a broad measure of overall price change in the economy, tapered successively over the course of 2004, from 4.0% in the first quarter to 2.7%, 2.5% and 2.1% in the ensuing three quarters. For the year as a whole, the average decrease was 2.8%, notably smaller than that of 5.3% in 2003. To a large extent, the relative improvement in 2004 was helped by the end of consumer price deflation during the year, and also by a visible pick-up in the prices of investment spending on private residential buildings as property prices rebounded. Also worth-noting was the rebound in prices of exports of both goods and services in 2004, after several years of continual fall-off amidst immense market competition. But with imports of goods and services both rising faster than their export counterparts amidst a weaker US dollar, the resultant deterioration in the terms of trade had posed a severe drag on the overall GDP deflator throughout 2004. Excluding the terms of trade effect, which is particularly prominent in the case of Hong Kong owing to the size of the external sector, both the *domestic demand deflator* and the *total final demand deflator* had actually bottomed out after the first quarter of 2004, to register increases at 0.1% and 0.7% for the year as a whole. These were the first annual increases since 1998, again a manifestation of the end of the deflationary trend in the local economy along with the activity pick-up.

Diagram 7.9 : GDP deflator, total final demand deflator and domestic demand deflator (year-on-year rate of change)

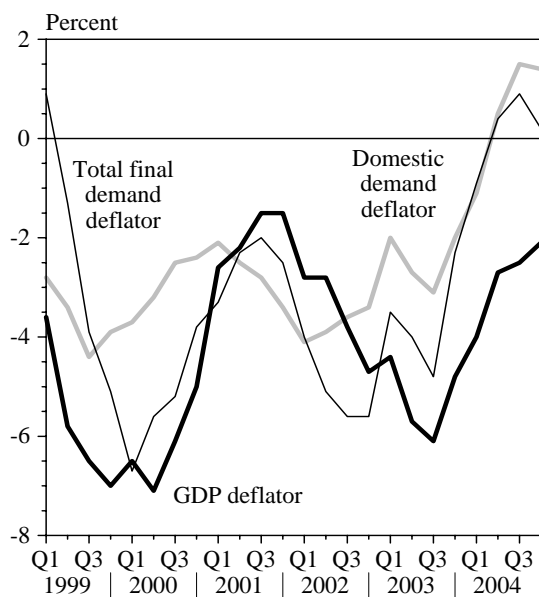


Diagram 7.10 : GDP deflator (seasonally adjusted quarter-to-quarter rate of change)

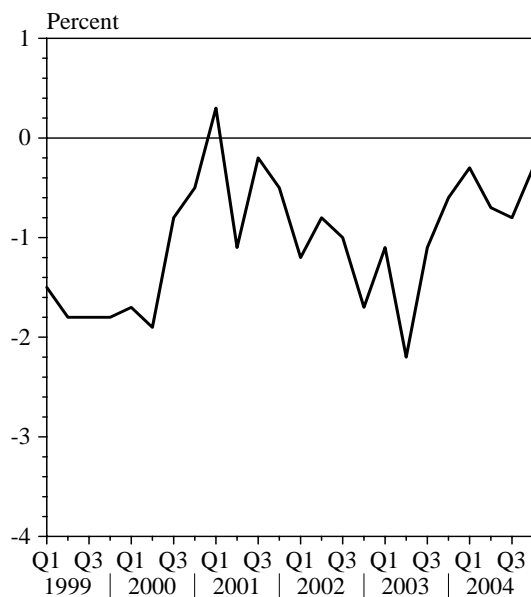


Table 7.6 : GDP deflator and the main expenditure component deflators (year-on-year rate of change (%))

	<u>Annual</u> [#]	<u>Q1</u> [#]	<u>2003</u> <u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Annual</u> ⁺	<u>Q1</u> [#]	<u>2004</u> <u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> ⁺
Private consumption expenditure	-2.9	-2.1	-3.3	-4.0	-2.3	-0.2	-1.9	-0.3	1.0	0.3
Government consumption expenditure	-2.7	-2.6	-3.7	-3.5	-1.4	-3.0	-3.4	-2.9	-2.6	-2.6
Gross domestic fixed capital formation	-6.0	-7.0	-6.0	-7.7	-3.5	2.3	2.0	3.0	2.2	2.1
Total exports of goods	-2.0	-1.3	-1.8	-2.3	-2.2	0.5	-1.5	0.1	1.3	1.6
Imports of goods	-0.9	-0.8	-0.8	-1.6	-0.8	2.5	0.5	2.2	3.7	3.5
Exports of services	-1.9	-1.0	-3.6	-2.5	-1.2	2.1	*	3.2	2.7	2.6
Imports of services	2.8	3.8	2.7	1.2	3.8	3.8	3.3	3.3	4.6	3.9
Gross Domestic Product	-5.3	-4.4	-5.7	-6.1	-4.8	-2.8	-4.0	-2.7	-2.5	-2.1
		<-1.1>	<-2.2>	<-1.1>	<-0.6>		<-0.3>	<-0.7>	<-0.8>	<-0.3>
Total final demand	-2.6	-2.0	-2.7	-3.1	-2.0	0.7	-1.1	0.5	1.5	1.4
Domestic demand	-3.6	-3.5	-4.0	-4.8	-2.3	0.1	-0.9	0.4	0.9	0.2

Notes : (#) Revised figures.
 (+) Preliminary figures.
 <> Seasonally adjusted quarter-to-quarter % change.
 (*) Change of less than 0.05%.

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) On 23 April 2003, the Government announced a package of relief measures to help the community tide over the difficulties caused by the outbreak of SARS in Hong Kong. For households, it included a rates concession of up to \$1,250 per tenement for the period July to September 2003, as well as a waiver of water and sewage charges of up to \$267 and \$67 respectively per household for the period August to November 2003. These two measures were estimated to have the effect of lowering the Composite CPI by around 0.8 and 0.2 of a percentage point respectively during their implementation periods. For 2003 as a whole, they were estimated to have the effect of lowering the Composite CPI by around 0.2 and 0.1 of a percentage point respectively, or combined by around 0.3 of a percentage point.

- (3) According to the Rating and Valuation Department, rentals for new lettings were on average 5.6% higher in 2004 than in 2003, in stark contrast to the distinct declines of 12.6% in 2002 and 11.8% in 2003. However, it should be noted that, 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.
- (4) 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.
- (5) 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.
- (6) 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 prices 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.

Calendar of Events of Significance for the Hong Kong Economy in 2004

- 1 Jan The initial phase of Closer Economic Partnership Arrangement (CEPA) between the Mainland and Hong Kong came into effect. Under the CEPA framework, exports from Hong Kong meeting the rules of origin requirement covering 374 Mainland product codes enjoyed zero-tariff treatment upon entry into the Mainland, while Hong Kong service suppliers in 18 service sectors enjoyed preferential market access treatment in the Mainland.
- The Individual Visit Scheme (IVS) for Mainland visitors was further extended to residents of six more cities in Guangdong, namely Shantou, Chaozhou, Meizhou, Zhaoqing, Qingyuan and Yunfu.
- Import tariffs in the Mainland were further reduced from an average of 11% in 2003 to 10.4% in 2004, in compliance with China's commitments to the World Trade Organisation (WTO).
- The first phase of pay adjustments for civil servants specified in the Public Officers Pay Adjustments (2004/2005) Ordinance came into effect. The dollar value of all Civil Service pay points below Directorate Pay Scale Point 3 or equivalent would be restored back to the levels as at 30 June 1997, upon implementation of the second phase of pay adjustments to be effective on 1 January 2005.
- 7 Jan The Chief Executive (CE) delivered the 2004 Policy Address. He pledged that the Government would seize the opportunities to entrench economic revival after Severe Acute Respiratory Syndrome (SARS) and to expedite economic restructuring. Apart from consolidating the four core industries, there was an imperative to promote new growth industries such as creative industries, education and health care industries, international asset management, etc.
- 9 Jan Hong Kong was ranked as the freest economy in the world for the tenth consecutive year in 2004, according to the ranking results of the Heritage Foundation and the Wall Street Journal.
- The Government announced the 2004-05 Application List for sale of government land. For 2004 as a whole, a total of five lots were successfully released for sale upon application from developers.
- 12 Jan The Government announced the establishment of the Steering Committee on Innovation and Technology for coordinating the formulation and implementation of innovation and technology policy and ensuring greater synergy among the stakeholders. The Steering Committee was chaired by the Secretary for Commerce, Industry and Technology (SCIT) and comprised representatives from relevant Government bureaux, innovation and technology organisations, academia and industry.

- 15 Jan The Hong Kong Monetary Authority (HKMA) announced the investment performance of the Exchange Fund for the year 2003. The Exchange Fund recorded an investment income of HK\$89.6 billion in 2003 and an investment return of 10.2%, which was 70 basis points above benchmark set for it by the Exchange Fund Advisory Committee.
- 18 Jan The first phase of personal renminbi business was introduced, whereby shops and ATM machines in Hong Kong began to accept renminbi debit and credit cards issued by Mainland banks.
- The reimbursable courses of the Continuing Education Fund for eligible applicants was extended to “creative industries”, covering courses in advertising, digital entertainment, films, television and video production.
- 20 Jan The Standing Committee on Company Law Reform issued its Final Recommendations arising from the Corporate Governance Review Phase II, which sought to further enhance Hong Kong’s corporate governance regime.
- 27 Jan The third generation (“3G”) telecommunications service was launched in Hong Kong for the first time, providing a brand new experience in high-speed multi-media mobile services to the public.
- 30 Jan The University Grants Committee (UGC) released the strategic document on “Hong Kong higher education: to make a difference, to move with the times”. It took a strategic approach to develop a role-driven, deeply collaborative but interlocking system of higher education where each institution would fulfill a unique role. UGC would continue to promote the international competitiveness of the higher education sector, reinforcing Hong Kong’s position as Asia’s World City and regional education hub.
- The Government suspended the importation of live birds and poultry meat from the Mainland, following outbreak of avian influenza in many Asian countries, including the Mainland.
- 4 Feb A new and user-friendly business portal, business.gov.hk, was launched to provide investors with essential information on how to start or expand a business in Hong Kong. The portal was a government-to-business (G2B) gateway, providing a single point of entry to up-to-date and comprehensive content and services.
- 9 Feb Construction of the Cable Car System linking up Tung Chung and Ngong Ping commenced. The System was scheduled for completion in early 2006.
- 10-16 Feb The Second Session of the Tenth Provincial People’s Congress of Guangdong was held. The provincial government would take advantage of CEPA to push forward a new round of co-operation among Guangdong, Hong Kong and Macao. The co-operation would emphasise the complementary roles of the three places.
- 14 Feb The Intellectual Property Department re-launched the “No Fakes” Pledge to promote public awareness of intellectual property right.

- 17 Feb The Financial Secretary (FS) and the Vice Minister of the Ministry of Commerce of the Central People's Government (CPG) jointly chaired the CEPA Higher Level Conference on Professional Services in Beijing. Notable achievements were made on mutual recognition of qualification.
- The Hong Kong resident population was provisionally estimated at 6.81 million at end-2003, up by 0.4% over a year earlier.
- 20 Feb The Finance Committee of the Legislative Council (LegCo) approved to extend some 11 700 temporary jobs in the public sector, to meet operational needs of government departments and to provide short-term relief to lower-skill workers.
- 23 Feb The Hong Kong - Zhuhai - Macao Bridge Advance Work Co-ordination Group commissioned a consultant to study the feasibility of the Bridge.
- Pursuant to the initiatives of CE's 2004 Policy Address, the first meeting of the Economic and Employment Council (EEC) was convened. EEC was chaired by FS and comprised members from academic, business and labour sectors and policy secretaries from seven bureaux. EEC was a high-level forum to advise FS on the development and implementation of policies and initiatives to promote economic activities, encourage inward investment, facilitate business, and engender employment opportunities.
- 24 Feb The Government invited the Mass Transit Railway Corporation (MTRC) Limited and the Kowloon-Canton Railway Corporation (KCRC) to commence negotiation on a possible merger based on a framework of parameters set by the Government.
- 25 Feb The second phase of personal renminbi business commenced. Banks in Hong Kong introduced renminbi deposit-taking, currency exchange and remittance services to customers.
- 26 Feb The Government announced the setting up of the Greater Pearl River Delta (PRD) Business Council under the chairmanship of Dr Victor Fung Kwok-king. The Council aimed to foster closer economic co-operation within the Greater PRD Region, with a mission to come up with new business ideas for facilitating value-added operations and sustainable development across the boundary, thus promoting bilateral trade and investment.
- 27 Feb The Finance Committee of the LegCo approved to launch a pilot Youth Self-employment Support Scheme. Under the scheme, 1 000 youngsters aged 18 to 24 would be trained to become self-employed in such areas as information technology and multimedia applications, personal care and public performances.
- 28 Feb The Skills Upgrading Scheme was extended to television, film and entertainment, sports and recreation industries, providing about 5 600 training places.
- 4 Mar The 2004 Digital 21 Strategy, the blueprint for the development of information and communications technology (ICT) in Hong Kong, was published. The updated 2004 Strategy aimed to sustain the momentum built up over the past five years and to continue to harness the benefits of ICT for businesses and the community, and to strengthen Hong Kong's position as a leading digital city in the world.

- 5-14 Mar The Second Session of the Tenth National People's Congress (NPC) was convened. The "Three Represents" were written into the Constitution as guiding principles. A new clause was added to stipulate that a sound social security system compatible with the stage of economic development should be established.
- 10 Mar FS presented the Budget for the financial year 2004-05 to the LegCo.
- Based on the premise of "allowing the community to take a respite and build up its strength", the Budget strived to strike a balance between restoring fiscal balance, safeguarding people's livelihood and maintaining the momentum of economic recovery. To manage public finance prudently, the Budget had set specific expenditure guidelines for reducing operating expenditure to \$200 billion by 2008-09 with a view to restoring fiscal balance in the Operating and Consolidated Accounts by the same year. In line with the principle of "big market, small government", public expenditure would be lowered to 20% of GDP or below by 2008-09.
- The Budget also announced that an internal committee would be set up to conduct a detailed and comprehensive study on the implementation of a Goods and Services Tax in Hong Kong. A report would be submitted to FS by end-2004.
- The 2003 Economic Background and 2004 Economic Prospects were published along with the 2004-05 Budget. On Hong Kong's economic outlook for 2004, the Gross Domestic Product (GDP) was forecast to grow by 6% in real terms, while the Composite Consumer Price Index (CPI) was forecast to decline by 1%.
- 11 Mar In accordance with the established mechanism, the Housing Authority (HA) moderately adjusted the income and asset limits for public rental housing (PRH) applicants, taking account of the downward adjustments in private rentals and consumer prices. The revised income and asset limits, with effect from 1 April 2004, were lowered by an average of 4.3% and 8.9% respectively. For four-person households, the income limit went down from \$14,600 to \$14,000 whereas the asset limit from \$380,000 to \$350,000.
- The Government resumed the processing of applications for the importation of chilled and frozen poultry meat from the Mainland, upon waning concerns over avian influenza.
- 15 Mar The HKMA and the Guangzhou Branch of the People's Bank of China (PBOC) introduced the Hong Kong dollar and US dollar RTGS links between Hong Kong and Guangdong province. The service facilitated instant cross-border electronic payments in Hong Kong dollars and US dollars between banks in Hong Kong and Guangdong province.
- 19 Mar The Government resumed the processing of applications for the importation of live birds from countries or places unaffected by avian influenza.
- 24 Mar LegCo passed a resolution to extend the ULSD concession (duty rate at \$1.11 per litre) to end-2004.

- 25 Mar PBOC raised refinancing rate on loans to financial institutions by 0.63 of a percentage point 3.33% (20-day refinancing rate) and rediscount rate by 0.27 of a percentage point to 3.24%.
- KCRC's Kowloon Southern Link was gazetted. The 3.8km long strategic passenger railway would link up the West Rail and the East Rail.
- The Government announced measures to improve the regulation of listing to enhance market quality, after a consultation exercise conducted in 2002. The Consultation Conclusions recommended codifying in the statute the more important listing requirements, i.e. financial reporting and other periodic disclosure, disclosure of price-sensitive information and shareholders' approval for notifiable transactions.
- 29 Mar The Digital Media Centre (DMC) of the Hong Kong Cyberport was opened to provide high-end post-production facilities and technical support to companies, especially small and medium-sized enterprises, engaged in digital content creation.
- 30 Mar The Treasury Markets Forum of Hong Kong (TMF) was established. The TMF aimed to bring together the industry associations and professionals in the treasury markets, with a view to promoting co-operation and synergy to raise the professionalism of practitioners and the overall competitiveness of the treasury markets in Hong Kong.
- 1 Apr The Office of the US Trade Representative released the 2004 National Trade Estimate Report on Foreign Trade Barriers. The report gave recognition to Hong Kong's strong legal and banking system, world-class infrastructure, rigorously enforced anti-corruption regime and continued efforts in intellectual rights protection. It also commented that Hong Kong was well-positioned to continue to benefit from the growth in trade resulting from China's WTO accession.
- The US State Department published its seventh 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 12-month period ending March 2004. It recognised that Hong Kong remained an international city and one of the world's most open and freest economies. It affirmed Hong Kong's autonomy, rule of law, respect for freedom and civil liberties, as well as praised Hong Kong's contribution to issues of interests to the US. It also gave recognition to Hong Kong's strong support for global anti-terrorism efforts.
- 6 Apr The Standing Committee of the NPC passed amendments to the "Law on Foreign Trade", which further liberalised the trading rights in the Mainland. With effect from 1 July 2004, individuals would be granted trading rights upon registration with the relevant authorities in the Mainland.
- 7 Apr An Air Services Agreement (ASA) was signed between the Governments of the HKSAR and Kuwait.
- 13 Apr Hong Kong International Airport (HKIA) was voted for the fourth consecutive year as the world's best airport in 2004, based on a large scale annual survey undertaken by Skytrax Research in London involving over 4.8 million nominations from travellers around the world.

- 15 Apr HKMA, together with other member central banks and monetary authorities of the EMEAP (Executives' Meeting of East Asia-Pacific Central Banks) Group, announced the preliminary structure of the second stage of the Asian Bond Fund (ABF2). The ABF2 would invest in domestic currency bonds issued by sovereign and quasi-sovereign issuers in EMEAP economies.
- 16 Apr The Ministry of Commerce of CPG promulgated the "Measures for the Administration on Foreign Investment in Commercial Fields". The measures would substantially lower the entry threshold for foreign investment in the Mainland's distribution services sector and allowed the establishment of wholly foreign owned enterprises.
- 18 Apr The 11th and 12th pairs of Guangzhou-Kowloon Through Train commenced operation.
- 19 Apr The Government launched the \$6 billion securitisation of revenues from tolled tunnels and bridges. It was the largest securitisation bond offering ever launched in Hong Kong and the first made available to retail investors. It was also amongst the largest offer of this kind in the region.
- 20 Apr The importation of Mainland live chickens was resumed on a pilot basis. 6,000 chickens were imported on the day of resumption.
- 23 Apr The 1st Digital Entertainment Leadership Forum was held, with distinguished Hollywood and local experts in digital entertainment sharing their experience and insights with over 200 local participants.
- 25 Apr PBOC raised the reserve ratio requirement for most commercial banks by half of a percentage point to 7.5%, and that for smaller banks with lower asset quality by one percentage point to 8%.
- 27 Apr The State Council of CPG raised the minimum capital requirements for projects in steel, aluminum, cement and real estates, in a move to step up efforts to curb over-investment in those sectors with signs of overheating.
- Construction of the Stonecutters Bridge commenced. The Bridge would provide a new east-west strategic route linking the eastern part of the New Territories to the airport on the one hand, and provide direct access to Container Terminals 8 and 9 in Kwai Chung on the other. On its completion scheduled for mid-2008, the Stonecutters Bridge with a main span of 1018 meters would be one of the longest cable-stayed bridges in the world, a new landmark in Hong Kong. This new highway would further enhance Hong Kong as an important international logistics and transportation hub.
- 28 Apr The one-way direct link from the China Government Depository Trust & Clearing Co. Ltd (CDC) to the Central Moneymarkets Unit (CMU) of the HKMA commenced live operation. The link allowed CDC Members that were authorised to invest in foreign debt securities to clear, settle and hold Hong Kong and foreign debt securities through the CDC's account with the CMU.

- 28 Apr - 1 May The Chief Secretary for Administration led a business mission to Zhanjiang and Yangjiang with a view to highlighting the development potential of the western part of Guangdong, promoting Hong Kong as a service platform for mainland enterprises to set foot in the international market. It was the first of a series of missions to expand Hong Kong/Guangdong economic co-operation to the eastern, western and northern parts of Guangdong. Two more business missions were launched in 2004, covering Shaoguan and Qingyuan during 20-22 June, and Shantou and Meizhou during 1-3 December.
- 30 Apr The third phase of personal renminbi business started. Banks in Hong Kong began to offer the issue of renminbi debit and credit cards to Hong Kong residents for use in the Mainland.
- 1 May The IVS was further extended to cover the remaining seven cities in the Guangdong Province, including Zhanjiang, Shaoguan, Heyuan, Maoming, Yangjiang, Jieyang, and Shanwei, bringing the total number of IVS cities to 23.
- The Harbour-front Enhancement Committee was formally established. The Committee would advise the Government on planning, land uses and developments along the existing and new harbour-front of the Victoria Harbour, with a view to protecting the Harbour; improving the accessibility, utilisation and vibrancy of the harbour-front areas; and safeguarding public enjoyment of the Harbour through a balanced, effective and public participation approach, in line with the principle of sustainable development.
- The European Union was expanded to cover a total of 25 member states, upon admission of ten new members in the Eastern and Central Europe (i.e. Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia). The new member states, upon accession, adopted the European Union's Common Commercial Policy, including the common customs tariff and trade defence measures like anti-dumping duties, as well as quantitative restrictions for imports of textiles. Hong Kong's exports of restrained textiles and clothing products to the new member states began to be subject to quota control from 1 May to end-2004.
- 4 May The iResource Centre of the Hong Kong Cyberport was opened to provide a wide range of IT and multimedia resources to the local developers of digital content and entertainment services.
- 5 May The Deposit Protection Scheme Ordinance, which provided for the establishment of a deposit protection scheme in Hong Kong, was enacted by the LegCo. The Hong Kong Deposit Protection Board was subsequently formed in July 2004 to plan for the implementation of the scheme.
- 7 May The Intellectual Property (Miscellaneous Amendments) Ordinance 2001 came into operation to facilitate electronic filing and publication of patents and designs.
- Another low cost carrier started daily services out of the Hong Kong International Airport to Singapore, extending our extensive aviation network and consolidating Hong Kong's position as a premier regional aviation hub.

- 12 May The Revenue Bill 2004, which implemented the Budget proposals announced on 10 March, was passed by the LegCo.
- Crude oil prices hit a 13-year high of US\$38 (Brent) per barrel, spurred by brisk global oil demand as well as looming supply concerns after a cut in OPEC's oil production on 1 April and continuing terrorist attacks on oil facilities in the Middle East.
- 17 May SCIT and Vice Minister of the Ministry of Science and Technology of the CPG signed the Agreement on the Establishment of the Mainland and Hong Kong Science and Technology Cooperation Committee. The Cooperation Committee was responsible for organising and coordinating technology exchange and cooperation activities between Hong Kong and the Mainland.
- 18-20 May The Hong Kong Logistics Development Council sponsored the "Logistics Hong Kong" International Conference and Exhibition in Hong Kong to showcase Hong Kong's logistics strengths and its unique role as the gateway to China. The event attracted more than 2 200 participants from around the world.
- 19 May The HA sold 4 304 surplus Home Ownership Scheme flats to the Government for reprovisioning aged staff quarters and transferred 2 920 flats to public rental housing, effectively reducing the number of flats awaiting disposal in a market friendly manner to 3 040 flats.
- 21 May An ASA was signed between the Governments of the HKSAR and Kenya.
- 25 May Government held the first land auction since September 2002. Two lots for residential use were sold at the auction and the response was favourable.
- 26 May - 1 Jun FS led a Hong Kong delegation to participate in the Chongqing/Hong Kong Week and to sign a Memorandum of Co-operation with the Chongqing Foreign Trade and Economic Relations Commission to further enhance bilateral economic cooperation.
- 28 May The Government published the First Quarter Economic Report 2004. The report pointed out that robust recovery in the Hong Kong economy gathered further momentum in the first quarter of 2004, with GDP leaping by 6.8% in real terms over a year earlier. The robust growth momentum was underpinned by double-digit increase in exports of both goods and services amidst a sanguine global economic environment and vibrant inbound tourism. Locally, consumer spending registered the fastest quarterly growth in 3½ years, bolstered by improved employment conditions and a reviving property market. Investment expenditure also picked up further as business situation improved.

In the May update of the economic forecast for 2004, the forecast growth rate in real terms of GDP was kept at 6%, same as the forecast first released in the Budget. Likewise, the forecast rate of change in the Composite CPI was maintained at -1%.

- 31 May Hong Kong Exchanges and Clearing Limited (HKEx) published a Consultation Conclusions Paper on proposed operational model for a scripless securities market. The Government was working towards the introduction of a Companies (Amendment) Bill in 2005 to enable the operation of a scripless securities market.
- 1 Jun The Centre for Health Protection was established, in a move to make Hong Kong a healthier place to live and to respond promptly and effectively in the event of an infectious disease outbreak.
- The Intellectual Property Department launched their Online Design Search System.
- 1-3 Jun The first “Pan-Pearl River Delta (Pan-PRD) Regional Cooperation and Development Forum” was held in Hong Kong, Macao and Guangdong. The Forum, jointly organised by the People’s Governments of Fujian, Jiangxi, Hunan, Guangdong, Guangxi, Hainan, Sichuan, Guizhou and Yunnan Provinces/ Regions, as well as the Governments of the Special Administrative Regions of Hong Kong and Macao, served to strengthen cooperation and enhance overall competitiveness of the Pan-PRD Region through closer partnership. The signing of the “Pan-PRD Regional Cooperation Framework Agreement” on 3 June marked the first regional cooperation of this kind in the country.
- 3 Jun The International Telecommunication Union (ITU) announced that Hong Kong won the bid to host the next ITU Telecom World event, a major telecommunications exhibition cum forum, in December 2006. This would be the first time since the event’s inception in 1971 that it was hosted by a city other than Geneva. ITU Telecom World 2006 was expected to bring some 100,000 visitors and \$1.2 billion of economic benefits to Hong Kong.
- 6-12 Jun At the invitation of the Hong Kong and Macao Office, FS led a Hong Kong delegation to Beijing, Dalian, Shenyang, Changchun and Harbin to take part in the “Study Tour to the Northeast for the Industrial, Commercial and Professional sectors from Hong Kong and Macao”.
- 8 Jun The HKMA issued a revised “Supplement to the Guideline on Prevention of Money Laundering”, aimed at bringing the anti-money laundering (AML) regime in respect of Hong Kong authorized institutions fully in line with the customer due diligence requirements of the Basel Committee on Banking Supervision and the revised Forty Recommendations issued by the Financial Action Task Force on Money Laundering.
- 11 Jun The Finance Committee approved a funding of \$250 million for the setting up of a “DesignSmart Initiative” to strengthen government’s support for design and innovation, and to promote wider use of design and innovation in industries to help them move up the value chain.
- 17 Jun The Shenzhen/Hong Kong co-operation meeting, co-chaired by the Chief Secretary for Administration and the Mayor of Shenzhen, was held in Hong Kong. The two sides signed an overarching memorandum on enhancing co-operation and eight co-operation agreements on areas covering legal services, industry and trade, investment promotion, economic and trade exchange, tourism and technology.

The third meeting of the Guangzhou-Shenzhen-Hong Kong Express Rail Link Joint Expert Group took place. The Mainland authorities and the HKSAR Government exchanged their latest thinking on the project to better cater for the town and transport planning on both sides.

Construction commenced for the traffic control and surveillance system for the Hong Kong - Shenzhen Western Corridor and Deep Bay Link commenced. Construction works was scheduled for completion in January 2006.

A strategic partnership agreement was signed between the Hong Kong Cyberport and the Shenzhen Hi-Tech Industrial Park (SHIP). This partnership agreement signified a new chapter in the collaboration on IT development between the two places.

The CITB of the HKSARG signed a Memorandum of Co-operation with the Department of Foreign Trade and Economic Cooperation of the Jiangsu Provincial Government to enhance bilateral trade and economic cooperation.

25 Jun A Small and Medium-sized Enterprises Board was launched in the Shenzhen Stock Exchange.

28 Jun The European Commission published its sixth report on the HKSAR. The report commented, among others, that Hong Kong's economic restructuring started to produce positive effects and that Hong Kong's economic situation improved steadily during the last quarter of 2003. The report also highlighted the good trade relations between the European Union and Hong Kong.

30 Jun The Census and Statistics Department announced a new set of population projections, covering the period 2004-2033. The Hong Kong resident population was projected to increase at an average annual rate of 0.7%, from 6.80 million in mid-2003 to 8.38 million in mid-2033. The ageing trend of the population was expected to continue, with the proportion of the population aged 65 and over projected to increase from 12% in 2003 to 27% in 2033. Coupled with a projected decline in the proportion of the population aged under 15 from 16% to 11%, the median age of the population would rise from 38 to 49.

The Electronic Transactions (Amendment) Ordinance 2004 came into effect. The legislative amendments updated and improved the legal framework for the conduct of electronic transactions, thereby facilitating further development of e-business in Hong Kong.

The Innovation and Technology Commission (ITC) issued a consultation paper on the new strategy of innovation and technology development. The new strategy emphasised five key elements, namely focus, market relevance, industry participation, leverage on the Mainland, and better coordination among different elements of the innovation and technology programme. The main proposal under the new strategy was to set up research and development (R&D) centres to drive and coordinate applied R&D efforts in selected technology areas where Hong Kong had comparative advantages and the potential for meeting industry needs.

US Federal Reserve's Federal Open Market Committee (FOMC) raised the Fed Funds Target Rate for the first time in four years, by 25 basis points from a low of 1.00% to 1.25%, marking the beginning of an US interest rate up-cycle.

1 Jul The IVS was further extended to cover nine cities in the Fujian Province, Jiangsu Province and Zhejiang Province, including Xiamen, Fuzhou, Quanzhou, Suzhou, Wuxi, Nanjing, Hangzhou, Ningbo and Taizhou, bringing the total number of IVS cities to 32.

The Office of the Government Chief Information Officer (OGCIO) was established under CITB. The new office would lead, coordinate, monitor and ensure the effective implementation of the Digital 21 Strategy, formulate IT policies and strategies, drive e-government development, promote IT adoption by business and the community, foster the development of the local IT industry and champion the development of new applications and services.

2 Jul The Construction Workers Registration Ordinance was enacted for implementation of a mandatory registration system for construction workers.

The HKMA Base Rate was raised by 25 basis points to 2.75%, following an increase of the US Fed Funds target rate by the same magnitude after the FOMC meeting on 30 June.

In the face of abundant liquidity in the Hong Kong dollar interbank market, major banks kept the best lending rate and savings deposit rate unchanged.

The Clearing and Settlement Systems Ordinance was passed by the LegCo. The Ordinance established a statutory regime for the Monetary Authority to designate and oversee clearing and settlement systems which were material to the monetary or financial stability of Hong Kong or to the functioning of Hong Kong as an international financial centre. The Ordinance also provided statutory backing to the settlement finality of those transactions effected through designated systems by protecting the settlement finality from insolvency laws or any other laws.

The Waste Disposal (Amendment) Ordinance 2004 which enabled the implementation of construction waste disposal charges was passed by the LegCo. Based on the polluter pays principle, the Government was undertaking necessary preparatory work for implementation of the construction waste disposal charging scheme in summer 2005.

6 Jul The Government announced the decision that the Type II interconnection for local fixed-line telecommunications services would be fully withdrawn by 30 June 2008 in order to promote investment and consumer choice in high bandwidth customer access networks in telecommunications. In the run up to 30 June 2008, the withdrawal would be implemented progressively on a building-by-building basis and applied to buildings already connected to at least two self-built customer access networks.

7 Jul The Government's first Bond Offering of \$20 billion was launched, pursuant to the initiatives in FS's 2004-05 Budget.

The Land Titles Ordinance was enacted for introducing a new land titles registration system (LTRS) to replace the present Deed Registration System. The LTRS represented a significant development in Hong Kong land law that would give greater security to property interest and simplify conveyancing. The Ordinance would commence in stages in respect of new land and existing properties.

The Town Planning (Amendment) Ordinance 2004 was enacted, with a view to enhancing the transparency of the planning system, streamlining the town planning process and strengthening enforcement control against unauthorised developments in the rural areas. Under the revised system, public participation in the plan-making process would be enhanced and meetings of the Town Planning Board would also be opened to the public. The Amendment Ordinance would come into operation in early 2005 after further consultation with the stakeholders on the implementation details and guidelines on various new procedures.

The provisions of the Telecommunications Ordinance regulating mergers and acquisitions came into effect.

The Broadcasting (Amendment) Ordinance came into effect, which tightened control over pirated viewing of licensed pay TV service for both commercial and domestic purposes.

8-17 Jul FS visited Beijing, London and New York to promote the inaugural Global Bond Offering of the HKSAR Government.

9 Jul The Landlord and Tenant (Consolidation) (Amendment) Ordinance 2004 which removed the security of tenure provisions for domestic tenancies and the statutory minimum notice requirement for terminating non-domestic tenancies took effect.

The Government announced its decision on the implementation framework for digital terrestrial television broadcasting in Hong Kong. According to this framework, Asia Television Limited and Television Broadcasts Limited were required to commence digital terrestrial television broadcasting by 2007 and achieve 75% of digital coverage by 2008.

The Companies (Amendment) Ordinance 2004 was enacted to improve the prospectus regime to facilitate market development; enhance corporate governance standards; and modernise the registration regime for overseas companies.

11 Jul The Secretary for Education and Manpower of HKSAR Government and the Minister of Education of CPG signed a memorandum in Beijing for the mutual recognition of academic degrees in higher education in Hong Kong and the Mainland.

14 Jul The HA terminated the Home Assistance Loan Scheme in line with the repositioned housing policy to minimise market intervention. The HA would focus on the provision of public rental housing to low-income families. Applications already registered in 2003/04 would continue to be processed subject to the availability of quota.

The first Pan-PRG Regional Economic and Trade Co-operation Fair was held in Guangzhou, in which 847 deals involving investment of over 293 billion yuan were

signed. Of these, 313 items involving investment amounting to 56 billion yuan were signed with Hong Kong companies.

- 15 Jul Hong Kong was once again ranked the freest economy in the world, according to the 2004 Annual Report on the Economic Freedom of the World jointly released by the Cato Institute of the US, Fraser Institute of Canada and more than 50 other public policy research organisations around the world. Singapore took the second spot, while New Zealand, Switzerland, the United Kingdom and the United States tied for the third.
- 17 Jul Manifests for air and rail cargoes must henceforth be submitted by electronic means.
- 23 Jul With the co-operation of the HKMA and the Shenzhen Central Sub-branch of the PBOC, the two-way joint cheque clearing arrangement between Hong Kong and Shenzhen was extended to include cheques denominated in US dollars in addition to those denominated in Hong Kong dollars. Hong Kong dollar and US dollar cheques issued by banks in Hong Kong or Shenzhen could be presented to banks in both areas, and funds would be made available to the payee on the next business day following the deposit of the cheque into the payee's bank.
- 31 Jul The net asset value of all Mandatory Provident Fund (MPF) schemes passed the \$100 billion mark, totalling \$100.67 billion, three years and eight months after the launch of the MPF System in December 2000.
- 1 Aug The General Council of the WTO adopted a package of framework for further negotiations on major negotiating areas under the Doha Development Agenda, launched negotiations on trade facilitation, and extended the closing date of the new round of negotiations to an open deadline.
- 2 Aug The Intellectual Property Department launched their Online Patent Search System.
- 4 Aug The Seventh Meeting of the Hong Kong/Guangdong Cooperation Joint Conference, co-chaired by the CE and the Governor of Guangdong, was held in Guangzhou. The two governments reached agreement on promoting co-operation in many areas, including economic and trade, implementation of CEPA, tourism, control point co-operation, environmental protection, logistics, technology and education. Both sides also agreed to set up three new expert groups respectively on Pan-PRD regional co-operation, town planning and development, and civil service exchange, thus increasing the number of expert groups under the Hong Kong/Guangdong co-operation framework to a total of 17.
- The meeting also discussed new initiatives in supporting Hong Kong enterprises to grow and prosper in the Guangdong province and agreed to continue to encourage more Guangdong enterprises to set up businesses or list in Hong Kong.
- The HKMA initiated consultation on "Proposals for the Implementation of the New Basel Capital Adequacy Standards (Basel II)" in Hong Kong, an initiative aimed at enhancing the stability and effective working of the banking sector.
- 9 Aug An ASA was signed between the Governments of the HKSAR and Iceland.

- 11 Aug The Base Rate under the Discount Window operated by the HKMA was raised by 25 basis points to 3%, following an increase of the US Fed Funds target rate by the same magnitude to 1.5% after the FOMC meeting on 10 August.
- Amidst the abundant liquidity in the Hong Kong dollar interbank market, major banks kept the best lending rate unchanged while the savings deposit rate was, on average, raised marginally to 0.01%.
- 19 Aug Crude oil prices surged further to hit a record high of US\$44.9 (Brent) per barrel, upon heightened supply concerns in face of continuing terrorist attacks in oil-producing regions and looming tax disputes between the largest oil producer in Russia, the Yukos, and the Russian government.
- 23 Aug FS chaired the Hong Kong Economic Summit which was an important forum for idea exchange on the positioning of Hong Kong's economy. It explored directions for Hong Kong's economic development, examined ways to build on the city's strengths and enhance the competitiveness of its key industries, and discussed issues relating to human resource development amidst on-going restructuring of the Hong Kong economy.
- Statistics released by the Census and Statistics Department indicated that the Composite CPI bounced up to a 0.9% increase in July 2004 over a year earlier, ending the 68-month long deflation era that started in November 1998.
- 26 Aug An amount of \$1.67 billion as the first share of surplus sales proceeds from the Cyberport project was deposited to the Government's General Revenue Account.
- 27 Aug The Government published the Half-yearly Economic Report 2004. The report pointed out that the Hong Kong economy marched into a full-fledged upturn in the second quarter of 2004, with GDP leaping by 12.1% in real terms over a year earlier. Externally, both merchandise and offshore trade accelerated further in growth amidst a generally sanguine global economic environment, while inbound tourism continued to soar upon further extension of IVS for Mainland visitors and the progressive return of visitors from other sources. Locally, domestic demand also gathered further strength upon improved business outlook, falling unemployment, and a steady revival in the property market.
- In the August update of the economic forecast for 2004, the forecast growth rate in real terms of GDP was revised upwards to 7.5%, from 6% in the May round. The forecast rate of change in the Composite CPI was likewise revised upwards to zero change in the August update, from -1% in the May round.
- FS of the HKSARG and Vice Minister of the Ministry of Commerce of CPG reached agreement on a package of further liberalisation measures on goods and services trade under the second phase of CEPA (CEPA II), and signed the record of consultations. Together with the first phase of CEPA, goods originating from Hong Kong in over 1 000 Mainland tariff codes could be exported tariff-free to the Mainland as from 1 January 2005. Also, and Hong Kong service suppliers in a total of 26 service sectors would enjoy preferential market access in the Mainland.
- 28 Aug An ASA was signed between the Governments of the HKSAR and Jordan.

- 31 Aug The Ministry of Commerce of the CPG launched a new investment facilitation policy for Mainland enterprises to invest in Hong Kong and Macau. The new policy expressly stated that the CPG encouraged and supported Mainland enterprises investing in Hong Kong and Macau. Under the new policy, the procedures for Mainland enterprises applying for investing in Hong Kong and Macau were more transparent, simplified and convenient.
- 1 Sep The Copyright (Amendment) Ordinance 2004, which sought to strengthen criminal sanctions against illicit reproduction of printed materials by copyshops, came into operation.
- 2 Sep The HKSARG and the Beijing Municipal Government held a high-level meeting cum First Plenary of the “Hong Kong-Beijing Economic and Trade Co-operation Conference” in Hong Kong. The two governments agreed to set up a three-tier co-operation mechanism, and agreed on seven immediate major areas of co-operation.
- 8 Sep The HKSAR Government and the CPG concluded the latest review of the Air Services Arrangement.
- The New Destination Incentive Arrangement was re-introduced by the Airport Authority (AA) to provide landing charge rebate to airlines opening air service between Hong Kong and new destinations.
- 12 Sep AA announced that HKIA handled a record number of 3.5 million passengers in the month of August 2004.
- 13 Sep ITC and the Guangdong Provincial Department of Science and Technology jointly launched a “Guangdong-Hong Kong Technology Cooperation Funding Scheme” which aimed to enhance collaborations among research institutions and technology enterprises in Hong Kong and Guangdong in carrying out applied R&D projects that would facilitate industry upgrading and economic development in the Greater PRD region.
- 20 Sep FS led a Hong Kong Services Delegation to Shanghai for exploring the business opportunities arising from the 2010 World Expo.
- 21 Sep The handling capacity of the Lo Wu Control Point was further strengthened, upon the opening of 14 additional immigration counters and a new passageway at the departure hall.
- Invest Hong Kong co-hosted the 4th Annual Forbes Global CEO Conference. This was the second time that the conference was held in Hong Kong and it attracted over 350 top business executives and government leaders from all over the world.
- 22 Sep The Base Rate under the Discount Window operated by the HKMA was raised by 25 basis points to 3.25%, following an increase of the US Fed Funds target rate by the same magnitude to 1.75% after the FOMC meeting on 21 September.
- Subsequently, major banks increased the best lending rate by 12.5 basis points to 5.125%, and the savings deposit rate by an average 11.8 basis points to 0.128%.

- 28 Sep The Securities and Futures Commission (SFC) released for public consultation proposed measures to strengthen the overall regulatory framework for brokerage firms involved in securities margin financing. They included a set of targeted reforms designed to significantly reduce the existing risks to investors and the market arising from excessive pooling and re-pledging of margin clients' collateral and aggressive lending by securities margin financing providers. The results of public consultation were reported to the Financial Affairs Panel of the LegCo in December 2004.
- According to the Bank for International Settlements triennial survey on the turnover of foreign exchange and derivatives for 2004, Hong Kong advanced one place from the 2001 survey to rank sixth in the global foreign exchange market. It was ranked seventh in the global foreign exchange and OTC derivatives market.
- 1 Oct A new Digital 21 Strategy Advisory Committee (D21SAC) was set up to replace the former Information Infrastructure Advisory Committee (IIAC) as the highest level of advisory body on IT and related matters in Hong Kong. The D21SAC, chaired by SCIT and comprised official and non-official members, advised the Government on the strategies, programmes and measures to attain and further the goals and objectives set out in the Digital 21 Strategy.
- 4 Oct A consultation exercise was launched to invite views on the regulation of Internet Protocol (IP) Telephony. IP Telephony referred to the service offering of voice, fax, data and multimedia services using IP technology.
- 9 Oct The Hong Kong Accreditation Service was accepted into the International Accreditation Forum Multilateral Recognition Arrangement for quality management systems.
- 12 Oct Two lots for residential use were sold by auction and fetched a total premium of \$14.12 billion. This set a new record for the total sum attained in a single auction. Also, the auction had also set the records for "the longest auction time" and "the number of bids received" in a single auction.
- 19 Oct The Stock Exchange of Hong Kong Limited (SEHK) published the amendments to the Listing Rules relating to the regulation of sponsors and independent financial advisers and released the related Consultation Conclusions Report jointly with the SFC. The rule amendments made clear the expectations of the SEHK and the SFC of sponsors, compliance advisers and independent financial advisers.
- The Hong Kong Mortgage Corporation announced the launch of a new series of mortgage-backed securities (MBS) under the Bauhinia MBS Limited US\$3 billion Mortgage-Backed Securitisation Programme. The new issue, with a size of HK\$2 billion, consisted of "professional notes" for institutional investors and "retail notes" for retail investors and marked the first retail MBS in Asia.
- 20 Oct The General Council of the WTO decided to hold the Sixth Ministerial Conference in Hong Kong on 13-18 December 2005.

- 22 Oct Crude oil prices spiked further to hit an all-time high of US\$52.2 (Brent) per barrel, cumulating to a 74% increase since the beginning of this year, amidst heightened supply concerns over political unrest in Nigeria, disruption in oil production due to hurricanes in the Gulf of Mexico, and seasonal pick-up in oil demand amidst approaching winter in the Northern Hemisphere.
- 24 Oct KCRC's East Rail Tsim Sha Tsui Extension, a 1.1km rail extension from the existing East Rail Hung Hom Station to the new East Tsim Sha Tsui Station, was officially opened.
- 26 Oct The Hong Kong Association of Banks, the DTC Association, the HKMA, and Dun & Bradstreet (HK) Ltd jointly announced the launch of a Commercial Credit Reference Agency (CCRA) in Hong Kong on 1 November 2004. CCRA would collate credit information about small and medium-sized enterprises (SMEs) and make the information available to authorized institutions (AIs). The establishment of the CCRA helped strengthen the credit risk management of AIs and assist SMEs with good credit history to obtain bank financing.
- 27 Oct The Government of the HKSAR and the CPG signed the Supplementary Agreement to CEPA concerning details of the liberalisation measures under CEPA II and related implementation arrangements.
- 27 Oct - 3 Nov FS led a delegation to Tianjin to attend the 2004 Tianjin/Hong Kong Week. The two sides pledged to step up efforts to foster closer economic partnership and cooperation.
- 28 Oct PBOC raised the one-year benchmark deposit and lending rates each by 0.7 of a percentage point and removed the upper limit on lending rates charged by commercial banks.
- 29 Oct Construction of the Phase 1 Science Park development at Pak Shek Kok, Shatin was completed. The development provided a total floor area of 120 000 m² in multi-tenanted buildings for administration and R&D activities.
- 1 Nov Pursuant to CEPA II, Mainland branches of Hong Kong banks were allowed to conduct insurance agents business after obtaining approval.
- 2 Nov US President George W. Bush was re-elected for the second term. The Republicans also gained control of both chambers of the US Congress in the election.
- 3 Nov SFC published the guidelines to address analysts' conflict of interest and the related Consultation Conclusions Paper. The guidelines, which formed part of the Code of Conduct for Persons Licensed by or Registered with SFC, imposed processes on investment banks to prevent, eliminate and disclose conflicts of interest.
- 4 Nov The Clearing and Settlement Systems Ordinance came into effect.
- The Civil Service Bureau issued a consultation paper on proposals relating to the methodology of a pay level survey for the civil service and the general approach for the application of the survey results for extensive consultation. The conduct of periodic pay level surveys would form part of an improved civil service pay

adjustment mechanism, which would reflect the civil service pay policy and uphold the principle of maintaining broad comparability between civil service pay and private sector pay.

5 Nov The six-berth Container Terminal 9 at Kwai Chung was completed, boosting the total handling capacity of Kwai Chung container terminals to over 18 million TEUs.

9 Nov The Hong Kong Shipping Register reached a new record of 25 million gross tonnes, securing its position in the top five shipping registers in the world.

11 Nov The Base Rate under the Discount Window operated by the HKMA was raised by 25 basis points to 3.5%, following an increase of the US Fed Funds target rate by the same magnitude to 2.0% after the FOMC meeting on 10 November.

However, owing to abundant liquidity in the Hong Kong dollar interbank market, major banks cut their best lending rates by 12.5 basis points to 5%, and lowered their savings deposit rate, on average, by 11.6 basis points to 0.0125%.

14 Nov AA announced that HKIA processed a record-breaking number of 299 000 tonnes of air cargo in the month of October 2004.

15 Nov The Hong Kong Customs and the Mainland Customs jointly launched the Mutually Recognized Seal arrangement with a view to expediting cargo flow across the land boundary. A dedicated "green" customs seal would be affixed on certain types of examined cargoes so as to help minimise duplication of cargo examination by the other side.

16 Nov An International Monetary Fund Staff Mission to Hong Kong supported the Government's efforts to reduce the structural deficit and ensure a credible and lasting fiscal consolidation. The mission made a visit to Hong Kong for an annual Article IV Consultation, which involved a review of Hong Kong's macroeconomic policies, including fiscal and exchange rate issues.

TDC organised the World SME Expo to foster a strong business network among thousands of local, mainland and overseas SMEs.

The HKSARG signed a Memorandum of Co-operation with the Department of Commerce of the Hainan Provincial Government to enhance trade and economic cooperation between Hong Kong and Hainan.

16-18 Nov The Institute for International Research organised the 3G World Congress & Exhibition in Hong Kong. The event, which attracted over 1 000 delegates from around the world, promoted the adoption and growth of 3G worldwide.

19 Nov SEHK announced amendments to the Listing Rules relating to the Code on Corporate Governance Practices and Rules on the Corporate Governance Report and published the related Conclusions Paper. The Code represented a significant move towards adoption of international benchmarks of corporate governance, best practice and disclosure.

The State Administration for Industry and Commerce promulgated the “Guidelines on the Registration Administration of Individually Owned Stores Set up in the Mainland by Hong Kong and Macao Residents”. The Guidelines stipulated the registration procedures for Hong Kong permanent residents with Chinese citizenship setting up individually owned stores in the Mainland under the framework of CEPA II to be effective on 1 January 2005.

20-21 Nov CE attended the Twelfth Asia-Pacific Economic Cooperation Economic Leaders' Meeting in Santiago, Chile. Leaders agreed to contribute to the WTO negotiations on trade facilitation and to seek substantial results at the Sixth WTO Ministerial Conference to be held in Hong Kong in December 2005.

22 Nov The Court of Appeal allowed the appeals by the HA against the Court of First Instance's judgment on the judicial review of HA's decisions to defer the public housing rent review. In brief, the Court of Appeal ruled that the Housing Ordinance did not place a duty on the HA to conduct a rent review every three years or within any time frame. The 10% median rent-to-income ratio requirement only applied if there was a decision to vary rent, and a deferment of rent review did not amount to a determination of variation of rent.

The Government issued a Consultation Document to seek the community's views on the regulatory and institutional framework pertinent to the proposed partial privatisation of the AA.

The Executive Summary of the “Study on Hong Kong Port - Master Plan 2020” was published for public consultation. The Study formulated a competitive strategy and master plan for port development in Hong Kong in the coming 20 years.

FS and the Hongkong International Theme Parks Limited announced that the opening date of the Hong Kong Disneyland was scheduled for 12 September 2005.

24 Nov The HA announced details of the global offering of units of The Link Real Estate Investment Trust (REIT), through which the HA would divest 180 of its retail and car parking facilities.

25 Nov The US dollar plummeted to a new record low of US\$1.324 against euro and hovered around more than four-year lows against major Asian currencies, weighed down by looming concerns over the twin deficits in the US economy.

25-26 Nov The Financial Services and the Treasury Bureau organised a Forum on Management of Insurance Funds in Beijing. The forum had successfully fostered experience sharing on management of insurance funds between Mainland and Hong Kong representatives. It had also helped improve the Mainland insurance sector's understanding of Hong Kong's edges as the international investment platform for the Mainland.

26 Nov The Government published the Third Quarter Economic Report 2004. The report pointed out that the the upturn in the Hong Kong economy extended well into the third quarter as merchandise exports and offshore trade thrived further amidst a favourable external environment. Domestic demand also held firm. GDP attained a further notable growth at 7.2% in real terms in the third quarter over a year earlier.

In the November update of the economic forecast for 2004, the forecast growth rate in real terms of GDP was maintained at 7.5%, same as the forecast put out in August. The rate of change in the Composite CPI for 2004 as a whole was forecast at -0.3%, as a technical revision from the forecast of zero change put out in August.

The Office of the Commissioner of Insurance and the China Insurance Regulatory Commission signed a Co-operative Arrangement to enhance regulatory co-operation between the two regulators.

29 Nov The Lantau Development Task Force chaired by FS released the Concept Plan for Lantau for public consultation. The proposals set out in the Concept Plan would contribute positively to the development of Hong Kong and create more employment, investment and local business opportunities. The Concept Plan proposals were conceptual in nature for community discussion at this stage.

OFTA announced the decision to offer the holders of the nine incumbent GSM and PCS licences new Mobile Carrier Licences for a period of 15 years so that they might continue to operate their mobile telecommunication services. The holders of the CDMA and TDMA licences would not be granted new licences, but might continue to operate the services for three more years, with one-third of the originally assigned spectrum, to facilitate customer migration.

1 Dec LegCo passed a resolution to extend the ULSD concession (duty rate at \$1.11 per litre) to end-2005.

1-2 Dec The International Herald Tribune organised “Luxury 2004: The Lure of Asia” in Hong Kong. The event was the world’s most prestigious conference focusing on the business of fashion and luxury. Over 600 CEOs, senior executives and designers from famous world brands attended the conference.

2 Dec The 2nd PRD Software Industry Forum, which aimed to promote cooperation between the software industries in the PRD and Hong Kong, was held in Zhuhai. Over 400 government officials and software industry representatives from the Mainland and Hong Kong participated in the event.

5 Dec Tourist arrivals for a single year breached the 20 millionth mark for the first time within a year. Tourist arrivals so far in 2004 had already far exceeded the annual record high of 16.6 million attained in 2002.

6 Dec The HKMA announced that Hong Kong dollar had been included in the Continuous Linked Settlement (CLS) System, a global clearing and settlement system for cross-border foreign exchange transactions operated by CLS Bank International. The inclusion of the Hong Kong dollar into the CLS System enabled foreign exchange transactions involving the Hong Kong dollar to be settled through the CLS System on a payment-versus-payment basis, thus removing the settlement risk in these transactions.

The Hong Kong Mortgage Corporation Limited announced an expansion in the Mortgage Insurance programme to cover cash-out refinancing mortgages with a maximum loan-to-value ratio of 85% and a maximum loan size of HK\$5 million.

- 8-19 Dec On 8 December, two public housing tenants applied for a judicial review of the HA's decision to divest its retail and car-parking facilities. This application was made one day before the close of the Hong Kong Public Offering of The Link REIT, in which some 510 000 applications were eventually received.
- Despite both the Court of First Instance and the Court of Appeal had ruled in favour of the HA, one of the judicial review applicants retained a right to appeal to the Court of Final Appeal. Owing to such legal uncertainty, the HA announced on 19 December that the listing of The Link REIT would not proceed as scheduled, and that it would prepare for a re-launch of the listing as soon as practicable after the legal uncertainty was removed. All monies due to the 510 000 investors applying for units of The Link REIT were refunded on time.
- 9 Dec The Government released a consultation document on the review of certain provisions of the Copyright Ordinance with a view to soliciting public views on the issues related to end-user criminal liability, copyright exemption and a number of other aspects in the Copyright Ordinance that required a review.
- 10 Dec Hong Kong and the United Kingdom signed the second Memorandum of Understanding (MOU) on co-operation in information and communications technology (ICT).
- After considering the submissions on the consultation paper on the new strategy of innovation and technology development and consulting the Steering Committee on Innovation and Technology, ITC announced its plan to set up R&D Centres in four technology areas (i.e. automotive parts and accessory systems, logistics and supply chain management enabling technologies, nanotechnology and advanced materials, and textile and clothing) in 2005. Meanwhile, R&D in five other areas (i.e. communications technologies, consumer electronics, Chinese medicine, integrated circuit design and optoelectronics) would be subsumed under the development plan of the Applied Science and Technology Research Institute.
- The Government launched an Expression of Interest (EOI) exercise to invite views on the operational characteristics and planning parameters of the Lantau Logistics Park to be developed at Siu Ho Wan. The Park would be a designated facility for the provision of one-stop integrated logistics services.
- 14 Dec The Third Pan-PRD Regional Cooperation IT Department Directors Joint Conference was held in Hainan. IT Department/Office Directors or representatives of Pan-PRD joined together to better the cooperation of IT among the nine provinces and the two SARs.
- The Board of Directors of the Hong Kong Mortgage Corporation Limited approved the expansion of the Mortgage Insurance Programme to facilitate mortgage financing for old-aged properties.
- 15 Dec The Base Rate under the Discount Window operated by the HKMA was raised by 25 basis points to 3.75%, following an increase of the US Fed Funds target rate by the same magnitude to 2.25% after the FOMC meeting on 14 December.
- Major banks left their best lending rates and savings deposit rates unchanged at 5% and 0.0125% respectively.

- 16 Dec Public consultation on the proposals for the development of the West Kowloon Cultural District commenced. The three screened-in proposals were on display at a public exhibition and a series of discussion forums were organised.
- Consultation on the draft Banking (Amendment) Bill 2005 was initiated, with a view to amending the Banking Ordinance for the introduction of revised banking supervision standards modelled on “Basel II”.
- The HKMA, together with other member central banks and monetary authorities of the EMEAP Group, announced the launch of the ABF2. All 11 members of the EMEAP Group would invest in the ABF2. The ABF2, which would have an initial size of around US\$2 billion, would invest in domestic currency bonds issued by sovereign and quasi-sovereign issuers in all EMEAP economies except Australia, Japan and New Zealand. The ABF2 would bring about significant benefits to the development of bond market in Asia.
- The Immigration Department introduced three automated passenger clearance channels (e-channels) at the departure hall of the Lo Wu Control Point which enabled Hong Kong permanent residents aged 11 or above holding smart identity cards to perform self-service immigration clearance.
- 17 Dec As one of the liberalisation measures under CEPA II, the HKSARG and the CPG reached an agreement on the transitional arrangements for Hong Kong services suppliers to apply for Computer Information System Integration Qualification Certification in the Mainland. The transitional period would last for one year starting from 1 January 2005.
- The Mainland and Hong Kong Science and Technology Co-operation Committee held its first meeting in Beijing and agreed to strengthen co-operation in four technology areas, namely radio frequency identification technologies, automotive parts and accessory systems, integrated circuit design, and Chinese medicine.
- 19-20 Dec Two more operators launched their 3G mobile services, bringing the number of 3G licensees who had launched their services to three.
- 20 Dec OFTA issued a consultation paper to seek public views on the licensing framework for deployment of broadband wireless access (BWA). BWA referred to access technologies based on the use of high-capacity radio links to deliver telecommunications services, including broadband services. BWA provided a possible alternative to the conventional wireline technologies that a fixed network operator might consider adopting for speedy rollout of a broadband network.
- 21 Dec KCRC’s Ma On Shan Rail commenced operation. This 11.4km railway with nine stations linked Ma On Shan with the East Rail at Tai Wai.
- 22 Dec SFC issued the Consultation Paper on the Review of the Level and Funding of the Investor Compensation Fund (ICF), Broker Defaults since 1998 and the Operation of the Investor Compensation Arrangements for public consultation. The consultation paper proposed an automatic levy triggering mechanism, where the current investor compensation levy be suspended once the self-funding level at \$1.4 billion was reached, and be automatically triggered when the fund fell below \$1 billion. Subject to the results of public consultation, the Government would work

with the SFC to put in place the necessary legislative amendments to implement the proposals.

The fifth meeting of the Hong Kong-Guangdong Joint Working Group on Sustainable Development and Environmental Protection was held in Hong Kong to discuss the implementation progress of various air quality management measures in 2004 and to devise the action plan for 2005.

- 26 Dec A tsunami across the Indian Ocean inflicted severe damage to a number of countries in South Asia, reportedly causing more than 280 000 deaths. This was amongst the worst natural disasters in human history.
- 29 Dec The Hang Seng Index surged to a 45-month high to close at 14 266, on the back of abundant liquidity amidst continued fund inflows as well as buoyancy in major overseas stock markets upon easing crude oil prices.
- 30 Dec The US dollar weakened further to an all-time low of US\$1.363 against euro, and hovered around a 6-year low against Singapore dollar and a 7-year low against the Korea won.
- 31 Dec A new boundary bridge between Lok Ma Chau and Huanggang, a joint project of Hong Kong and Shenzhen, was completed for commissioning in early January 2005. The project aimed to improve traffic flow and increase the capacity of the existing boundary bridge.

In accordance with the WTO Agreement on Textiles and Clothing, all quantitative restrictions on textiles and clothing among Members of the WTO (including Hong Kong) would be eliminated on 1 January 2005. Hong Kong's licensing control over textiles imports and exports would be suitably modified to provide greater facilitation to the trade. Legislative changes to the subsidiary legislation of the Import and Export Ordinance and the Trade Descriptions Ordinance to give effect to the new arrangements would commence operation from 1 January 2005.

Hong Kong's container throughput rose by 8% to reach about 22 million TEUs in 2004. The Hong Kong port retained its position as the busiest container port in the world.

Statistical Appendix

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**Table 1 : Gross Domestic Product by expenditure component
(at current market prices)**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
	(\$Mn)				
Private consumption expenditure ^(a)	683,362	748,196	825,130	787,043	754,450
Government consumption expenditure	93,608	103,532	112,741	116,539	119,984
Gross domestic fixed capital formation	334,363	378,486	451,891	388,731	325,328
<i>of which:</i>					
Building and construction	158,898	185,648	223,264	208,235	171,930
Machinery, equipment and computer software	161,562	170,652	190,760	165,177	141,349
Changes in inventories	45,656	9,762	12,313	-15,651	-10,612
Total exports of goods	1,344,127	1,397,917	1,455,949	1,347,649	1,349,000
Domestic exports	231,657	212,160	211,410	188,454	170,600
Re-exports	1,112,470	1,185,758	1,244,539	1,159,195	1,178,400
Imports of goods	1,466,759	1,511,365	1,589,876	1,408,317	1,373,500
Exports of services ^(a)	240,584	272,183	272,760	257,416	265,536
Imports of services	178,678	187,786	196,362	193,560	184,052
GDP	1,096,263	1,210,925	1,344,546	1,279,850	1,246,134
<i>Per capita GDP (\$)</i>	<i>178,078</i>	<i>188,163</i>	<i>207,194</i>	<i>195,585</i>	<i>188,622</i>
GNP^(b)	1,116,866	1,211,084	1,354,704	1,308,446	1,280,629
<i>Per capita GNP^(b) (\$)</i>	<i>181,424</i>	<i>188,188</i>	<i>208,760</i>	<i>199,955</i>	<i>193,844</i>
Total final demand	2,741,700	2,910,076	3,130,784	2,881,727	2,803,686
Total final demand excluding re-exports ^(c)	1,812,788	1,929,454	2,107,773	1,939,301	1,864,501
Domestic demand	1,156,989	1,239,976	1,402,075	1,276,662	1,189,150
Private	1,009,750	1,071,349	1,225,108	1,098,911	1,003,515
Public	147,239	168,627	176,967	177,751	185,635
External demand	1,584,711	1,670,100	1,728,709	1,605,065	1,614,536

Definitions of Terms :

Total final demand	= private consumption expenditure + government consumption expenditure + gross domestic fixed capital formation + changes in inventories + total exports of goods + exports of services
Private sector domestic demand	= private consumption expenditure + gross domestic fixed capital formation by the private sector + changes in inventories
Public sector domestic demand	= government consumption expenditure + gross domestic fixed capital formation by the public sector
Domestic demand	= private sector domestic demand + public sector domestic demand
External demand	= total exports of goods + exports of services

**Table 1 : Gross Domestic Product by expenditure component
(at current market prices) (cont'd)**

	(\$Mn)				
	<u>2000</u>	<u>2001</u>	<u>2002[#]</u>	<u>2003[#]</u>	<u>2004⁺</u>
Private consumption expenditure ^(a)	760,168	765,105	728,719	704,991	750,217
Government consumption expenditure	120,148	128,846	131,279	130,067	126,926
Gross domestic fixed capital formation	347,375	333,036	286,020	269,127	287,819
<i>of which:</i>					
Building and construction	155,441	142,651	131,752	116,207	109,589
Machinery, equipment and computer software	180,204	180,011	144,832	144,509	161,433
Changes in inventories	14,399	-4,060	5,660	9,471	6,988
Total exports of goods	1,572,689	1,480,987	1,562,121	1,749,089	2,027,031
Domestic exports	180,967	153,520	131,079	122,126	126,386
Re-exports	1,391,722	1,327,467	1,431,041	1,626,964	1,900,645
Imports of goods	1,636,711	1,549,222	1,601,527	1,794,059	2,099,545
Exports of services ^(a)	301,813	307,657	335,362	347,432	407,555
Imports of services	191,543	192,453	199,676	196,080	224,992
GDP	1,288,338	1,269,896	1,247,958	1,220,038	1,281,999
<i>Per capita GDP (\$)</i>	<i>193,299</i>	<i>188,835</i>	<i>183,875</i>	<i>179,336</i>	<i>186,267</i>
GNP^(b)	1,309,407	1,309,855	1,263,265	1,254,180	1,312,305
<i>Per capita GNP^(b) (\$)</i>	<i>196,460</i>	<i>194,777</i>	<i>186,130</i>	<i>184,354</i>	<i>190,670</i>
Total final demand	3,116,592	3,011,571	3,049,161	3,210,177	3,606,536
Total final demand excluding re-exports ^(c)	2,018,523	1,952,252	1,891,449	1,874,440	2,046,106
Domestic demand	1,242,090	1,222,927	1,151,678	1,113,656	1,171,950
Private	1,061,542	1,036,086	966,854	932,122	996,338
Public	180,548	186,841	184,824	181,534	175,612
External demand	1,874,502	1,788,644	1,897,483	2,096,521	2,434,586

Notes : (a) Figures from 2002 to 2004 have been revised to incorporate the revised data on destination consumption expenditure of incoming visitors and travellers released by the Hong Kong Tourism Board.

(b) Figures prior to the fourth quarter of 2004 have been revised with the adoption of an enhanced methodology based on more relevant data available.

(c) Re-export margin is nevertheless retained in the total final demand.

(#) Revised figures.

(+) Preliminary figures.

**Table 2 : Rates of change in Gross Domestic Product
by expenditure component (in real terms)**

(%)

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Private consumption expenditure ^(a)	2.0	3.8	6.1	-6.8	1.3	5.9
Government consumption expenditure	3.2	3.8	2.4	0.7	3.1	2.0
Gross domestic fixed capital formation	10.4	10.9	12.6	-7.3	-16.6	11.0
<i>of which:</i>						
Building and construction	1.1	7.0	10.5	-2.4	-15.5	-7.6
Machinery, equipment and computer software	24.1	12.0	13.1	-7.9	-18.2	27.0
Total exports of goods	12.0	4.8	6.1	-4.3	3.7	17.1
Domestic exports	2.0	-8.4	2.1	-7.9	-7.2	7.5
Re-exports	14.3	7.5	6.8	-3.7	5.4	18.5
Imports of goods	13.9	4.3	7.3	-7.3	*	18.2
Exports of services ^(a)	2.7	11.4	-0.5	-0.4	6.7	13.1
Imports of services	1.8	5.2	4.0	1.6	-4.1	4.2
GDP	3.9	4.3	5.1	-5.0	3.4	10.2
<i>Per capita GDP (\$)</i>	<i>1.8</i>	<i>-0.2</i>	<i>4.2</i>	<i>-5.8</i>	<i>2.4</i>	<i>9.2</i>
GNP^(b)	4.6	2.3	5.9	-3.5	3.9	8.9
<i>Per capita GNP^(b) (\$)</i>	<i>2.5</i>	<i>-2.1</i>	<i>5.0</i>	<i>-4.3</i>	<i>2.9</i>	<i>8.0</i>
Total final demand	9.5	4.3	6.2	-5.8	1.1	14.5
Total final demand excluding re-exports ^(c)	6.5	2.3	5.8	-7.3	-2.1	11.5
Domestic demand	7.2	2.0	8.1	-9.4	-4.5	10.3
Private	6.8	1.1	9.4	-10.1	-5.5	12.3
Public	10.3	9.2	-1.0	-3.8	2.1	-2.8
External demand	10.7	5.5	5.3	-3.8	4.0	16.6

Notes : (a) Figures from 2002 to 2004 have been revised to incorporate the revised data on destination consumption expenditure of incoming visitors and travellers released by the Hong Kong Tourism Board.

(b) Figures prior to the fourth quarter of 2004 have been revised with the adoption of an enhanced methodology based on more relevant data available.

(c) Re-export margin is nevertheless retained in the total final demand.

**Table 2 : Rates of change in Gross Domestic Product
by expenditure component (in real terms) (cont'd)**

(%)

	<u>2001</u>	<u>2002</u> [#]	<u>2003</u> [#]	<u>2004</u> ⁺	Average annual rate of change:	
					10 years	5 years
					1994 to <u>2004</u> ⁺	1999 to <u>2004</u> ⁺
Private consumption expenditure ^(a)	2.0	-1.1	-0.3	6.7	1.9	2.6
Government consumption expenditure	6.1	2.5	1.9	0.5	2.6	2.6
Gross domestic fixed capital formation	2.6	-4.5	0.1	4.5	1.9	2.6
<i>of which:</i>						
Building and construction	-1.1	-1.1	-7.0	-10.3	-2.9	-5.5
Machinery, equipment and computer software	6.2	-7.6	6.5	12.2	5.8	8.3
Total exports of goods	-3.3	8.7	14.2	15.3	7.2	10.1
Domestic exports	-10.2	-11.2	-7.3	2.4	-4.0	-4.0
Re-exports	-2.4	11.0	16.3	16.3	8.7	11.7
Imports of goods	-1.9	7.9	13.1	14.1	6.7	10.1
Exports of services ^(a)	6.2	11.7	5.7	14.9	7.0	10.3
Imports of services	2.0	3.7	-4.6	10.5	2.3	3.0
GDP	0.5	1.9	3.2	8.1	3.5	4.7
Per capita GDP (\$)	-0.4	1.0	2.9	6.9	2.1	3.9
GNP^(b)	2.0	*	4.7	7.6	3.6	4.6
Per capita GNP^(b) (\$)	1.1	-0.9	4.5	6.4	2.2	3.8
Total final demand	-0.7	5.2	8.0	11.6	5.2	7.6
Total final demand excluding re-exports ^(c)	0.3	2.0	3.2	8.6	2.9	5.0
Domestic demand	1.0	-0.8	0.4	5.0	1.8	3.1
Private	0.6	-1.1	0.2	6.2	1.8	3.5
Public	3.3	1.2	1.4	-1.4	1.8	0.3
External demand	-1.8	9.2	12.7	15.2	7.2	10.2

Notes (cont'd) : (#) Revised figures.
 (+) Preliminary figures.
 (*) Change of less than 0.05%.

**Table 3 : Gross Domestic Product by economic activity
(at current prices)**

	1999		2000		2001		2002 [#]		2003 [#]	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture and fishing	1,171	0.1	920	0.1	1,003	0.1	1,002	0.1	824	0.1
Mining and quarrying	307	*	241	*	174	*	136	*	116	*
Manufacturing	67,540	5.7	71,655	5.8	63,519	5.2	54,848	4.5	47,895	4.1
Electricity, gas and water	37,211	3.2	38,853	3.2	40,126	3.3	41,540	3.4	40,587	3.4
Construction	67,232	5.7	64,026	5.2	58,971	4.9	53,089	4.4	46,233	3.9
Services	1,004,335	85.3	1,053,202	85.7	1,051,562	86.5	1,055,535	87.5	1,042,013	88.5
<i>Wholesale, retail and import/export trades, restaurants and</i>	296,318	25.2	324,622	26.4	324,654	26.7	324,131	26.9	321,836	27.3
<i>Transport, storage and communications</i>	112,667	9.6	125,724	10.2	124,260	10.2	128,278	10.6	123,667	10.5
<i>Finance, insurance, real estate and business services</i>	281,439	23.9	291,062	23.7	274,030	22.5	268,208	22.2	272,372	23.1
<i>Community, social and personal services</i>	246,003	20.9	252,435	20.5	265,081	21.8	267,659	22.2	263,279	22.4
<i>Ownership of premises</i>	162,488	13.8	155,303	12.6	159,118	13.1	159,586	13.2	148,876	12.6
<i>less Adjustment for financial intermediation services indirectly measured</i>	94,580	8.0	95,945	7.8	95,582	7.9	92,328	7.7	88,018	7.5
GDP at factor cost	1,177,796	100.0	1,228,897	100.0	1,215,354	100.0	1,206,150	100.0	1,177,668	100.0
Taxes on production and imports	53,474		57,908		53,917		43,325		48,057	
Statistical discrepancy (%)	1.2		0.1		*		-0.1		-0.5	
GDP at current market prices	1,246,134		1,288,338		1,269,896		1,247,958		1,220,038	

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

(#) Revised figures.

(*) Less than 0.05%.

**Table 4 : Rates of change of Gross Domestic Product by economic activity
(in real terms)**

	(%)					
	<u>2001</u>	<u>2002[#]</u>	<u>2003[#]</u>		<u>2004</u>	
				Q1 [#]	Q2 [#]	Q3 [#]
Agriculture and fishing	4.1	-0.7	-5.6	*	-0.4	-1.5
Mining and quarrying	-14.1	-11.1	2.2	-17.4	-29.1	-19.6
Manufacturing	-8.6	-9.8	-9.1	1.8	1.1	3.4
Electricity, gas and water	2.5	3.0	1.8	2.8	1.2	1.2
Construction	-2.0	-1.5	-5.0	-8.3	-8.0	-11.3
Services	1.6	3.1	4.3	8.6	12.8	7.4
<i>Wholesale, retail and import/export trades, restaurants and hotels</i>	<i>0.2</i>	<i>4.2</i>	<i>8.8</i>	<i>12.7</i>	<i>20.1</i>	<i>12.4</i>
<i>Transport, storage and communications</i>	<i>2.1</i>	<i>6.2</i>	<i>1.1</i>	<i>13.3</i>	<i>25.3</i>	<i>15.5</i>
<i>Finance, insurance, real estate and business services</i>	<i>-0.4</i>	<i>1.6</i>	<i>5.1</i>	<i>12.8</i>	<i>9.8</i>	<i>4.3</i>
<i>Community, social and personal services</i>	<i>3.9</i>	<i>-0.7</i>	<i>0.7</i>	<i>2.7</i>	<i>7.2</i>	<i>2.9</i>
<i>Ownership of premises</i>	<i>3.8</i>	<i>2.5</i>	<i>2.2</i>	<i>1.2</i>	<i>2.8</i>	<i>2.5</i>
<i>less Adjustment for financial intermediation services indirectly measured</i>	<i>0.7</i>	<i>-4.3</i>	<i>4.6</i>	<i>14.1</i>	<i>11.1</i>	<i>9.1</i>
Taxes on production and imports	-1.1	-0.1	2.9	19.8	16.7	8.2
GDP at constant (2000) market prices	0.5	1.9	3.2	7.0	12.1	6.8

Notes : (#) Revised figures.

(*) Change of less than 0.05%.

**Table 5 : Balance of payments account by major component
(at current prices)**

	(\$Mn)							
	<u>2000</u> [#]	<u>2001</u> [#]	<u>2002</u> [#]	<u>2003</u> [#]	<u>2004</u> [#]			
					Q1-Q3	Q1	Q2	Q3
Current account	54,495	76,315	96,800	126,223	74,433	15,441	7,125	51,867
Goods	-63,832	-64,970	-39,406	-44,970	-70,757	-32,814	-29,432	-8,511
Services ^(a)	110,270	115,204	135,686	151,352	129,027	42,028	38,526	48,473
Income ^(b)	21,069	39,959	15,307	34,142	27,493	9,983	1,570	15,940
Current transfers	-13,013	-13,878	-14,787	-14,301	-11,330	-3,756	-3,539	-4,035
Capital and financial account	-57,863	-97,359	-151,179	-179,086	-102,157	-33,434	-31,241	-37,482
Capital and financial non-reserve assets (net change)	20,459	-60,829	-169,720	-171,497	-95,097	2,086	-39,210	-57,973
Capital transfers	-12,044	-9,155	-15,686	-8,292	-1,352	166	-142	-1,376
Financial non-reserve assets (net change)	32,503	-51,674	-154,033	-163,205	-93,745	1,920	-39,068	-56,597
<i>Direct investment</i>	19,976	96,948	-60,685	63,372	-82,097	-103,880	27,326	-5,543
<i>Portfolio investment</i>	190,782	-322,045	-302,484	-264,619	-304,368	-156,355	-106,559	-41,454
<i>Financial derivatives</i>	1,661	39,640	51,563	78,288	29,768	12,130	11,191	6,447
<i>Other investment</i>	-179,917	133,783	157,573	-40,247	262,952	250,025	28,974	-16,046
Reserve assets (net change) ^(c)	-78,321	-36,530	18,541	-7,589	-7,060	-35,520	7,969	20,492
Net errors and omissions	3,368	21,044	54,379	52,863	27,723	17,992	24,116	-14,385
Overall balance of payments	78,321	36,530	-18,541	7,589	7,060	35,520	-7,969	-20,492

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

- (a) Figures from 2002 to 2004 have been revised to incorporate the revised data on destination consumption expenditure of incoming visitors and travellers released by the Hong Kong Tourism Board.
- (b) Figures prior to the fourth quarter of 2004 have been revised with the adoption of an enhanced methodology based on more relevant data available.
- (c) A negative value for net change in reserve assets represents a net increase, and a positive value represents a net decrease.
- (#) Revised figures.

**Table 6 : Visible and invisible trade
(at current market prices)**

	(\$Mn)								
	<u>2000</u>	<u>2001</u>	<u>2002[#]</u>	<u>2003[#]</u>	<u>2004⁺</u>	<u>2004</u>			
						Q1 [#]	Q2 [#]	Q3 [#]	Q4 ⁺
Total exports of goods	1,572,689	1,480,987	1,562,121	1,749,089	2,027,031	434,433	497,894	546,732	547,972
Imports of goods	1,636,711	1,549,222	1,601,527	1,794,059	2,099,545	467,247	527,326	555,243	549,729
Visible trade balance	-64,022	-68,235	-39,406	-44,970	-72,514	-32,814	-29,432	-8,511	-1,757
	<-3.9>	<-4.4>	<-2.5>	<-2.5>	<-3.5>	<-7.0>	<-5.6>	<-1.5>	<-0.3>
Exports of services ^(a)	301,813	307,657	335,362	347,432	407,555	93,443	92,245	108,697	113,170
Imports of services	191,543	192,453	199,676	196,080	224,992	51,415	53,719	60,224	59,634
Invisible trade balance^(a)	110,270	115,204	135,686	151,352	182,563	42,028	38,526	48,473	53,536
	<57.6>	<59.9>	<68.0>	<77.2>	<81.1>	<81.7>	<71.7>	<80.5>	<89.8>
Exports of goods and services ^(a)	1,874,502	1,788,644	1,897,483	2,096,521	2,434,586	527,876	590,139	655,429	661,142
Imports of goods and services	1,828,254	1,741,675	1,801,203	1,990,139	2,324,537	518,662	581,045	615,467	609,363
Visible and invisible trade balance^(a)	46,248	46,969	96,280	106,382	110,049	9,214	9,094	39,962	51,779
	<2.5>	<2.7>	<5.3>	<5.3>	<4.7>	<1.8>	<1.6>	<6.5>	<8.5>

Notes : Figures in this table are reckoned on a GDP basis.

(a) Figures from 2002 to 2004 have been revised to incorporate the revised data on destination consumption expenditure of incoming visitors and travellers released by the Hong Kong Tourism Board.

(#) Revised figures.

(+) Preliminary figures.

() As a percentage of the total value of imports of goods/services.

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

Table 7 : Total exports of goods by market

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	%	<u>2004</u>				
							<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	
	(% change)					\$Mn	change over 2003	(% change over a year earlier)			
All markets	16.6	-5.8	5.4	11.7	2,019,114	15.9	13.0	17.8	17.2	15.3	
Mainland of China	20.8	0.6	12.3	21.1	888,543	19.7	16.0	22.2	23.0	17.1	
United States	13.9	-9.8	1.0	-2.6	341,600	5.4	3.7	6.6	4.2	6.8	
Japan	19.4	0.5	-4.5	12.3	107,545	14.4	9.6	17.2	14.3	16.3	
United Kingdom	12.7	-12.2	-2.0	5.8	65,853	14.8	12.4	12.2	15.3	18.0	
Germany	13.7	-13.9	-5.3	15.1	62,900	11.9	6.6	16.7	12.5	11.7	
Taiwan	20.8	-11.1	-2.2	22.2	49,112	16.2	20.1	24.8	14.5	7.5	
Republic of Korea	34.5	-9.4	17.2	16.9	44,069	24.0	29.1	26.0	23.5	18.5	
Singapore	13.4	-19.5	6.8	13.0	43,577	22.0	25.0	27.1	20.5	17.0	
Rest of the world	12.4	-8.4	3.5	7.1	415,916	17.3	13.3	16.9	19.0	19.5	

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

Table 8 : Imports of goods by source

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	%	<u>2004</u>				
							<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	
	(% change)					\$Mn	change over 2003	(% change over a year earlier)			
All sources	19.0	-5.4	3.3	11.5	2,111,123	16.9	15.7	22.1	18.4	11.9	
Mainland of China	17.7	-4.6	5.1	9.6	918,275	16.9	13.9	18.1	18.3	16.7	
Japan	22.3	-11.2	3.4	17.2	256,141	19.7	20.6	28.8	22.4	8.7	
Taiwan	23.6	-13.1	7.4	8.0	153,812	22.8	23.3	31.7	25.2	12.8	
United States	14.4	-7.0	-12.8	7.9	111,994	13.4	19.1	17.3	14.3	5.2	
Singapore	25.0	-2.8	3.9	19.6	110,986	22.5	17.1	34.4	23.9	15.7	
Republic of Korea	23.2	-12.2	7.3	15.0	100,467	15.0	26.3	23.0	10.8	3.2	
Rest of the world	17.9	0.5	2.2	12.1	459,448	13.6	11.1	21.7	15.8	6.9	

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

Table 9 : Retained imports of goods by end-use category

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>				
	(% change)				\$Mn	% change over 2003	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
							(% change over a year earlier)			
Overall	23.5	-9.1	-9.0	2.6	556,862	17.2	20.3	32.0	18.1	1.5
Foodstuffs	1.8	-2.6	0.2	1.5	49,118	8.4	7.8	20.6	8.5	-0.2
Consumer goods	15.5	3.9	-5.2	-1.8	122,538	8.6	5.4	28.1	7.8	-4.6
Fuels	30.3	-10.2	3.9	12.9	46,154	37.6	16.3	56.8	42.8	37.5
Raw materials and semi-manufactures	25.5	-22.3	-1.6	10.7	211,144	19.9	33.8	29.1	20.9	0.8
Capital goods	34.0	-2.8	-24.9	-6.6	122,034	13.8	18.5	30.0	15.2	-4.7

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

Table 10 : Exports and imports of services by component

	<u>2000</u>	<u>2001</u>	<u>2002</u> [#]	<u>2003</u> [#]	<u>2004</u> ⁺	<u>2004</u>				
	(% change)				\$Mn	% change over 2003	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> ⁺
							(% change over a year earlier)			
Exports of services^(a)	13.7	1.9	9.0	3.6	407,555	17.3	14.0	37.0	14.1	10.1
Transportation	11.5	-5.9	10.8	1.8	131,187	24.2	17.3	41.7	23.9	17.4
Travel ^(a)	7.4	0.7	25.4	-4.4	70,145	26.2	15.2	179.3	10.5	0.8
Trade-related	19.7	9.0	9.0	10.9	144,753	12.5	13.2	15.8	11.3	11.1
Other	12.9	4.3	-6.0	0.3	61,470	6.6	8.4	7.4	5.8	5.1
Imports of services	4.1	0.5	3.8	-1.8	224,992	14.7	7.6	34.6	11.0	10.1
Transportation	23.9	4.7	-4.7	0.6	58,765	20.4	15.1	41.3	17.2	12.5
Travel	-4.4	-1.4	0.8	-8.0	102,201	14.7	3.4	48.0	7.9	9.0
Trade-related	6.3	5.7	24.2	14.7	19,637	16.8	17.8	21.0	15.6	14.7
Other	5.9	-1.9	17.7	4.2	44,389	7.4	5.4	8.2	8.8	7.2
Net exports of services^(a)	35.3	4.5	17.8	11.5	182,563	20.6	22.9	40.4	18.1	10.0

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

(a) Figures from 2002 to 2004 have been revised to incorporate the revised data on destination consumption expenditure of incoming visitors and travellers released by the Hong Kong Tourism Board.

(#) Revised figures.

(+) Preliminary figures.

Table 11 : Incoming visitors by source

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>			
						Q1	Q2	Q3	Q4
<u>('000)</u>									
All sources	13 059.5	13 725.3	16 566.4	15 536.8	21 810.6	4 935.2	5 077.4	5 745.5	6 052.5
Mainland of China	3 785.8	4 448.6	6 825.2	8 467.2	12 245.9	2 919.1	2 749.0	3 311.3	3 266.4
South and Southeast Asia	1 747.1	1 746.6	1 905.2	1 359.6	2 077.7	376.5	533.4	500.5	667.3
Taiwan	2 385.7	2 418.8	2 428.8	1 852.4	2 074.8	481.8	501.0	562.5	529.6
Japan	1 382.4	1 336.5	1 395.0	867.2	1 126.3	220.0	256.8	317.8	331.6
Europe	1 068.8	1 019.9	1 083.9	780.8	1 142.7	261.8	267.2	260.8	352.9
United States	966.0	935.7	1 000.8	683.8	1 051.7	219.3	263.0	263.7	305.7
Others	1 723.5	1 819.2	1 927.4	1 525.8	2 091.7	456.7	507.0	528.8	599.2
<u>(% change over a year earlier)</u>									
All sources	15.3	5.1	20.7	-6.2	40.4	14.7	208.4	30.1	17.0
Mainland of China	18.1	17.5	53.4	24.1	44.6	37.0	148.9	37.9	15.4
South and Southeast Asia	15.6	*	9.1	-28.6	52.8	2.4	449.7	31.2	30.0
Taiwan	15.6	1.4	0.4	-23.7	12.0	-13.1	220.6	-6.0	-2.5
Japan	17.7	-3.3	4.4	-37.8	29.9	-32.4	440.1	36.8	26.6
Europe	4.7	-4.6	6.3	-28.0	46.3	2.9	458.9	41.8	19.7
United States	12.5	-3.1	7.0	-31.7	53.8	3.2	521.7	39.5	27.4
Others	15.4	5.6	5.9	-20.8	37.1	0.1	236.6	23.2	22.3

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

(*) Change of less than 0.05%.

Table 12 : Hong Kong residents travelling abroad by destination

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>		<u>2004</u>		
						Q1	Q2	Q3	Q4
<u>('000)</u>									
All destinations	58 901.1	61 095.9	64 540.1	60 936.1	68 903.4	15 805.2	17 450.9	17 907.5	17 739.8
Mainland of China	50 083.1	52 002.9	55 648.4	52 555.6	59 675.5	13 677.2	15 151.4	15 313.7	15 533.3
Macao	4 206.9	4 293.6	4 182.4	3 952.6	4 223.9	968.4	1 017.8	1 186.9	1 050.8
South and Southeast Asia	2 389.6	2 504.6	2 421.8	2 447.0	2 661.1	606.1	696.1	748.9	610.0
North Asia	739.0	761.6	774.5	699.8	806.4	187.5	209.2	219.4	190.3
Taiwan	468.7	525.5	538.2	414.5	536.1	120.7	140.2	144.4	130.8
Europe	323.5	323.7	346.6	322.7	373.6	87.8	94.0	117.9	74.0
Americas ^(a)	399.2	376.6	346.3	280.1	334.6	78.6	79.8	103.8	72.4
Australia and New Zealand	231.6	237.5	223.2	207.1	222.5	63.9	47.7	51.8	59.1
<u>(% change over a year earlier)</u>									
All destinations	10.8	3.7	5.6	-5.6	13.1	3.4	41.4	6.8	7.3
Mainland of China	10.9	3.8	7.0	-5.6	13.5	3.6	41.8	7.8	7.5
Macao	10.9	2.1	-2.6	-5.5	6.9	-1.0	18.9	1.5	10.7
South and Southeast Asia	20.3	4.8	-3.3	1.0	8.7	8.0	41.0	-3.4	-1.2
North Asia	-5.0	3.1	1.7	-9.6	15.2	6.0	59.4	2.1	7.7
Taiwan	11.6	12.1	2.4	-23.0	29.3	-10.8	388.5	17.8	2.2
Europe	5.2	0.1	7.1	-6.9	15.8	14.3	57.9	1.6	5.2
Americas ^(a)	0.2	-5.7	-8.1	-19.1	19.5	-2.3	112.2	14.4	1.6
Australia and New Zealand	0.5	2.6	-6.0	-7.2	7.4	2.1	18.0	5.3	7.8

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 13 : Property market

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Completion of new property by the private sector							
<i>(’000 m² of internal floor area)</i>							
Residential property ^(a) (in units)	22 621	19 875	18 202	22 278	35 322	25 790	26 262
Commercial property	562	390	705	945	634	160	208
<i>of which :</i>							
Office space	355	269	456	737	428	96	76
Other commercial premises ^(b)	207	121	249	208	206	64	132
Industrial property ^(c)	375	440	343	300	191	62	45
<i>of which :</i>							
Industrial-cum-office premises	77	115	72	145	40	37	14
Conventional flatted factory space	249	242	181	31	4	19	30
Storage premises ^(d)	49	83	90	124	147	6	0
Production of public housing							
<i>(in units)</i>							
Rental housing flats ^(e)	17 349	18 358	16 046	14 267	26 733	40 944	47 590
Subsidized sales flats ^(e)	16 672	10 725	21 535	21 993	26 532	22 768	22 614
Building plans with consent to commence work in the private sector							
<i>(’000 m² of usable floor area)</i>							
Residential property ^(f)	688.2	1 058.2	1 631.4	1 472.0	1 692.8	1 142.7	1 002.5
Commercial property	674.0	1 005.7	599.0	395.7	287.5	337.5	265.0
Industrial property ^(g)	457.4	530.5	461.6	69.5	84.9	129.2	45.7
Other property	159.0	375.8	259.2	201.5	125.8	240.2	75.0
Total	1 978.6	2 970.2	2 951.2	2 138.7	2 190.9	1 849.5	1 388.1
Agreements for sale and purchase of property							
<i>(Number)</i>							
Residential property ^(h)	76 633	129 484	172 711	85 616	77 087	65 340	69 667
Non-residential property	21 016	17 939	32 750	25 873	21 379	20 404	18 523
Total	97 649	147 423	205 461	111 489	98 466	85 744	88 190
Total value (\$Bn)							
Residential property ^(h)	200.3	381.7	690.3	278.5	212.0	168.4	150.9
Non-residential property	65.5	92.9	177.7	62.4	44.6	54.1	41.9
Total	265.8	474.7	868.0	340.9	256.6	222.5	192.8

Notes : (a) These include all 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. 2004 completions include those private flats converted from subsidised flats during the year.

The figures shown are the number of private residential units, excluding units built under the Private Sector Participation Scheme (PSPS), Home Ownership Scheme (HOS), Buy or Rent Option, Mortgage Subsidy Scheme, Sandwich Class Housing Scheme, Urban Improvement Scheme (UIS) and Flat-for-Sale Scheme.

Excluding village-type housing units from 2002 and units issued with temporary Occupation Permits from 2004 onwards.

- (b) These include retail premises and other premises designed or adapted for commercial use, with the exception of purpose-built offices. Car-parking space and commercial premises built by the Hong Kong Housing Authority and the Hong Kong Housing Society are 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.

Table 13 : Property market (cont'd)

	<u>2002</u>	<u>2003</u>	<u>2004</u>		<u>2004</u>		
				Q1	Q2	Q3	Q4
Completion of new property by the private sector⁺							
<i>('000 m² of internal floor area)</i>							
Residential property ^(a) (in units)	31 052	26 397	26 036	4 427	7 974	6 697	6 938
Commercial property	304	417	371	10	64	274	23
<i>of which :</i>							
Office space	166	299	279	10	60	197	14
Other commercial premises ^(b)	139	118	91	1	4	77	9
Industrial property ^(c)	29	15	1	0	0	1	0
<i>of which :</i>							
Industrial-cum-office premises	0	15	0	0	0	0	0
Conventional flatted factory space	3	0	1	0	0	1	0
Storage premises ^(d)	27	0	0	0	0	0	0
Production of public housing							
<i>(in units)</i>							
Rental housing flats ^(e)	20 154	13 986	20 947	5 503	5 646	4 248	5 550
Subsidized sales flats ^(e)	2 005	0	0	0	0	0	0
Building plans with consent to commence work in the private sector							
<i>('000 m² of usable floor area)</i>							
Residential property ^(f)	790.0	1 038.4	530.0	249.1	191.4	41.4	48.0
Commercial property	365.3	200.0	161.3	16.7	32.3	80.4	31.9
Industrial property ^(g)	107.1	0.8	16.4	0.0	0.0	9.3	7.1
Other property	109.3	444.2	407.1	233.9	44.7	62.8	65.7
Total	1 371.8	1 683.3	1 114.8	499.7	268.4	193.9	152.8
Agreements for sale and purchase of property							
<i>(Number)</i>							
Residential property ^(h)	72 974	71 576	100 630	28 624	23 736	20 012	28 258
Non-residential property	12 947	15 733	22 850	5 735	5 718	4 529	6 868
Total	85 921	87 309	123 480	34 359	29 454	24 541	35 126
Total value (\$Bn)							
Residential property ^(h)	154.3	153.6	276.7	77.3	64.3	49.6	85.4
Non-residential property	31.1	35.8	75.1	16.7	19.0	12.6	26.8
Total	185.4	189.4	351.8	94.0	83.3	62.2	112.2

- Notes (cont'd):
- (e) The Housing Authority housing production figures have been revised from 1998. The revision was to exhaustively cover all housing production and to count projects (including surplus HOS projects) which underwent transfer of usage at the time of disposal and according to their actual usage. Moreover, surplus HOS courts and blocks pending disposal are excluded from production statistics until they are disposed. However, buyback/rescinded flats and individual unsold flats in partially sold blocks are included in HOS/PSPS production. Rental and sales flats projects of the Housing Society are included.
 - (f) As from 1995, the classification of residential property has been revised to include developments under the UIS of the Housing Society, but to exclude developments under the HOS and the PSPS of the Housing Authority.
 - (g) Including multi-purpose industrial premises designed also for office use.
 - (h) It should be noted that primary sales of units under the HOS and the Tenants Purchase Scheme 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 PSPS are not included in the row on residential property, yet they are included in the row on non-residential property, and thus also in the row for the total.
 - (+) Figures for 2004 are provisional figures.

Table 14 : Property prices and rentals

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	107.3	116.9	163.1	117.1	100.0	89.6	78.7
Office space ^(b)	194.6	188.4	213.1	134.5	100.0	89.9	78.7
Shopping space	129.7	134.0	177.3	128.3	100.0	93.6	86.8
Flatted factory space	198.7	171.4	168.9	131.8	100.0	91.2	82.0
Property rental indices ^(c)							
Residential flats	120.7	119.0	134.5	112.6	100.0	98.1	95.4
Office space ^(b)	178.6	152.3	156.8	135.9	100.0	98.5	101.0
Shopping space	117.8	117.8	123.5	111.2	100.0	101.3	99.4
Flatted factory space	146.9	132.4	132.5	118.1	100.0	95.4	90.3
<u>(% change)</u>							
Property price indices :							
Residential flats ^(a)	-6.6	8.9	39.5	-28.2	-14.6	-10.4	-12.2
Office space ^(b)	-15.5	-3.2	13.1	-36.9	-25.7	-10.1	-12.5
Shopping space	-2.8	3.3	32.3	-27.6	-22.1	-6.4	-7.3
Flatted factory space	-11.2	-13.7	-1.5	-22.0	-24.1	-8.8	-10.1
Property rental indices ^(c)							
Residential flats	2.2	-1.4	13.0	-16.3	-11.2	-1.9	-2.8
Office space ^(b)	-1.8	-14.7	3.0	-13.3	-26.4	-1.5	2.5
Shopping space	1.1	*	4.8	-10.0	-10.1	1.3	-1.9
Flatted factory space	-1.7	-9.9	0.1	-10.9	-15.3	-4.6	-5.3

Notes : (a) Figures refer to prices of existing flats traded in the secondary market, but not new flats sold in the primary market.

(b) Since 2000, 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.

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

For residential property, their changes in rentals cover only new tenancies for which rentals are freshly determined. For non-residential property, their changes in rentals cover also lease renewals upon which rentals may be revised.

Table 14 : Property prices and rentals (cont'd)

	<u>2002</u>	<u>2003</u>	<u>2004⁺</u>	Q1	<u>2004</u> Q2	Q3 [#]	Q4 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	69.9	61.6	77.9	73.6	77.2	77.8	83.2
Office space ^(b)	68.4	62.5	98.2	88.6	97.2	98.6	108.4
Shopping space	85.0	85.5	118.8	109.3	115.2	117.3	133.5
Flatted factory space	74.8	71.7	87.7	80.4	83.5	90.1	96.9
Property rental indices ^(c)							
Residential flats	83.4	73.6	77.7	74.8	77.4	78.6	80.1
Office space ^(b)	85.4	74.6	78.0	74.3	76.8	79.1	81.9
Shopping space	92.9	86.4	92.6	88.9	92.0	94.2	95.4
Flatted factory space	82.7	74.9	77.5	75.7	76.8	77.6	79.7
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	-11.2	-11.9	26.5	17.4	29.1	31.2	29.2
Office space ^(b)	-13.1	-8.6	57.1	42.7	64.7	60.1	60.6
Shopping space	-2.1	0.6	38.9	34.9	41.3	39.5	40.1
Flatted factory space	-8.8	-4.1	22.3	10.9	19.3	27.4	31.5
Property rental indices ^(c)							
Residential flats	-12.6	-11.8	5.6	-2.3	5.0	9.3	10.9
Office space ^(b)	-15.4	-12.6	4.6	-6.4	3.4	10.3	12.0
Shopping space	-6.5	-7.0	7.2	-0.2	9.4	11.0	9.2
Flatted factory space	-8.4	-9.4	3.5	-4.7	4.1	7.5	7.3

Notes (cont'd) : (#) Figures for non-residential property are provisional.

(+) Provisional figures.

(*) Change of less than 0.05%.

Table 15 : Monetary aggregates

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<u>(as at end of year)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	171,642	198,311	188,135	178,260	205,339	203,966	229,841
M2 ^(a)	1,260,427	1,503,603	1,666,419	1,828,691	1,923,481	1,987,963	1,998,774
M3 ^(a)	1,278,288	1,520,461	1,684,325	1,840,824	1,935,471	2,002,358	2,016,635
Total money supply (\$Mn)							
M1	190,471	217,460	208,093	197,666	225,156	243,847	258,056
M2	2,282,849	2,532,236	2,788,808	3,111,942	3,386,196	3,649,492	3,550,060
M3	2,363,963	2,611,636	2,871,425	3,168,199	3,434,467	3,692,753	3,594,130
Deposit ^(b) (\$Mn)							
HK\$	1,171,627	1,400,077	1,551,555	1,699,726	1,773,169	1,851,177	1,854,651
Foreign currency	1,054,612	1,058,180	1,158,728	1,300,302	1,477,448	1,676,670	1,551,852
Total	2,226,238	2,458,256	2,710,282	3,000,027	3,250,617	3,527,847	3,406,502
Loans and advances (\$Mn)							
HK\$	1,237,330	1,447,844	1,742,481	1,695,027	1,607,126	1,652,191	1,647,684
Foreign currency	2,501,228	2,467,045	2,379,189	1,609,400	1,205,784	809,259	537,301
Total	3,738,558	3,914,890	4,121,670	3,304,427	2,812,910	2,461,450	2,184,986
Nominal Effective Exchange Rate Indices (Jan 2000 =100) ^{(c)(d)}							
Trade-weighted	91.6	94.0	98.0	103.4	100.9	101.7	104.7
Import-weighted	89.6	93.0	97.9	105.5	101.4	101.5	105.1
Export-weighted	93.7	95.1	98.1	101.3	100.4	101.9	104.3
<u>(% change)</u>							
Hong Kong dollar money supply :							
M1	2.2	15.5	-5.1	-5.2	15.2	-0.7	12.7
M2 ^(a)	15.1	19.3	--	9.7	5.2	3.4	0.5
M3 ^(a)	14.9	18.9	--	9.3	5.1	3.5	0.7
Total money supply :							
M1	2.8	14.2	-4.3	-5.0	13.9	8.3	5.8
M2	14.6	10.9	--	11.6	8.8	7.8	-2.7
M3	14.2	10.5	--	10.3	8.4	7.5	-2.7
Deposit ^(b)							
HK\$	15.3	19.5	--	9.5	4.3	4.4	0.2
Foreign currency	13.5	0.3	--	12.2	13.6	13.5	-7.4
Total	14.4	10.4	--	10.7	8.4	8.5	-3.4
Loans and advances							
HK\$	10.5	17.0	20.4	-2.7	-5.2	2.8	-0.3
Foreign currency	16.6	-1.4	-3.6	-32.4	-25.1	-32.9	-33.6
Total	14.5	4.7	5.3	-19.8	-14.9	-12.5	-11.2
Nominal Effective Exchange Rate Indices ^{(c)(d)}							
Trade-weighted	-4.0	2.6	4.3	5.5	-2.4	0.8	2.9
Import-weighted	-4.3	3.8	5.3	7.8	-3.9	0.1	3.5
Export-weighted	-3.6	1.5	3.2	3.3	-0.9	1.5	2.4

Definition of Terms :

The Hong Kong Dollar Money Supply is the Hong Kong dollar component of the respective monetary aggregate. Starting from April 1997, money supply definition has been revised to include short-term Exchange Fund placement of less than one month in the monetary aggregates. As such, figures after 1997 cannot be compared with those in the previous period.

Total Money Supply:

- M1: Legal tender 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 issued by licensed banks and held outside the monetary sector.
- M3: M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus negotiable certificates of deposit issued by such institutions and held outside the monetary sector.

Table 15 : Monetary aggregates (cont'd)

	<u>2002</u>	<u>2003</u>	<u>2004</u>		<u>2004</u>		
				Q1	Q2	Q3	Q4
<u>(as at end of year)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	259,411	354,752	412,629	376,267	385,100	371,163	412,629
M2 ^(a)	1,984,049	2,107,269	2,208,590	2,069,412	2,067,979	2,070,191	2,208,590
M3 ^(a)	2,004,225	2,122,861	2,219,523	2,084,930	2,083,144	2,084,012	2,219,523
Total money supply (\$Mn)							
M1	295,650	413,423	484,494	436,345	447,638	445,001	484,494
M2	3,518,326	3,813,442	4,166,706	3,812,041	3,827,314	3,908,156	4,166,706
M3	3,561,852	3,858,044	4,189,511	3,858,504	3,875,750	3,948,801	4,189,511
Deposit ^(b) (\$Mn)							
HK\$	1,824,911	1,930,790	2,017,878	1,887,172	1,883,625	1,881,039	2,017,878
Foreign currency	1,492,631	1,636,227	1,848,145	1,668,959	1,685,935	1,751,226	1,848,145
Total	3,317,542	3,567,018	3,866,023	3,556,131	3,569,560	3,632,265	3,866,023
Loans and advances (\$Mn)							
HK\$	1,615,667	1,573,079	1,666,773	1,571,119	1,606,403	1,605,858	1,666,773
Foreign currency	460,659	462,000	488,997	470,255	468,779	472,911	488,997
Total	2,076,325	2,035,079	2,155,770	2,041,374	2,075,182	2,078,769	2,155,770
Nominal Effective Exchange Rate Indices (Jan 2000 = 100) ^{(c)(d)}							
Trade-weighted	104.0	100.7	98.3	98.4	98.8	98.7	97.3
Import-weighted	104.7	101.6	99.2	99.4	99.7	99.7	98.2
Export-weighted	103.3	99.8	97.3	97.4	97.9	97.7	96.4
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	12.9	36.8	16.3	44.5	39.0	24.1	16.3
M2 ^(a)	-0.7	6.2	4.8	5.1	2.8	0.7	4.8
M3 ^(a)	-0.6	5.9	4.6	4.8	2.6	0.6	4.6
Total money supply :							
M1	14.6	39.8	17.2	45.5	39.3	27.4	17.2
M2	-0.9	8.4	9.3	8.7	6.8	6.5	9.3
M3	-0.9	8.3	8.6	8.7	6.9	6.4	8.6
Deposit ^(b)							
HK\$	-1.6	5.8	4.5	4.6	2.3	-0.3	4.5
Foreign currency	-3.8	9.6	13.0	12.8	11.8	13.2	13.0
Total	-2.6	7.5	8.4	8.3	6.5	5.8	8.4
Loans and advances							
HK\$	-1.9	-2.6	6.0	-2.4	0.6	2.4	6.0
Foreign currency	-14.3	0.3	5.8	4.5	2.8	5.2	5.8
Total	-5.0	-2.0	5.9	-0.9	1.1	3.0	5.9
Nominal Effective Exchange Rate Indices ^{(c)(d)}							
Trade-weighted	-0.7	-3.2	-2.4	-3.2	-2.2	-2.1	-2.2
Import-weighted	-0.4	-3.0	-2.4	-3.0	-2.4	-2.0	-2.1
Export-weighted	-1.0	-3.4	-2.5	-3.5	-2.0	-2.2	-2.2

- Notes : (a) Adjusted to include foreign currency swap deposits.
(b) Starting from April 1997, deposits include short-term Exchange Fund placements of less than one month. As such, figures after 1997 cannot be compared with those in the previous period.
(c) Period average.
(d) The Effective Exchange Rate Indices (EERIs) from January 2000 onwards are compiled on the basis of the average merchandise trade pattern from 1999 to 2000. The EERIs for the earlier periods are compiled on the basis of the average merchandise trade pattern in a much earlier period from 1991 to 1993, and have been re-scaled to the new base period for linking up with the new index series.
(--) Not applicable.

Table 16 : Rates of change in business receipts indices for service industries/domains

	(%)							
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>		<u>2004</u>	
					Q1-Q3	Q1	Q2	Q3
Wholesale trade	3.6	-12.0	-10.7	-5.0	6.1	5.7	9.6	3.3
Retail trade	3.8	-1.2	-4.1	-2.3	11.7	8.4	19.0	8.5
Import/export trade	12.0	-14.1	-2.8	6.5	13.7	14.3	15.6	11.6
Restaurants	2.1	-2.5	-5.4	-9.7	10.5	3.7	21.4	8.2
Hotels	16.7	-7.6	-2.3	-19.7	48.7	13.0	190.4	26.9
Transport ^(a)	20.8	-2.4	2.3	0.5	24.1	13.4	36.5	23.5
Storage	2.0	-14.9	-19.6	-4.5	19.4	17.6	24.5	16.5
Communications	8.7	-13.2	-2.6	-2.4	0.2	-3.7	1.7	2.8
Banking	0.8	2.7	-0.8	*	2.9	13.8	-1.4	-2.7
Finance (other than banking)	40.6	-12.6	-14.3	17.3	40.3	76.0	38.5	15.1
Insurance	13.1	14.2	10.3	19.1	24.2	29.1	28.6	15.7
Real estate	-0.1	-16.9	-2.5	6.2	12.5	25.0	5.8	7.6
Business services	2.4	-9.6	-5.8	0.5	8.1	7.6	10.1	6.6
Film entertainment	14.4	15.2	-9.1	2.3	6.5	4.2	14.5	2.0
Tourism, convention and exhibition services	13.7	-3.8	11.5	-12.4	34.9	8.6	142.0	14.5
Computer and information services	24.5	-11.6	5.7	5.7	21.3	23.0	18.4	22.6

Notes : (a) Including business receipts from the Airport Authority Hong Kong.

(*) Change of less than 0.05%.

Table 17 : Labour force characteristics

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>		<u>2004</u>		
						Q1	Q2	Q3	Q4
<u>(%)</u>									
Labour force participation rate	61.4	61.4	61.8	61.4	61.3	61.3	61.3	61.3	61.3
Seasonally adjusted unemployment rate	4.9	5.1	7.3	7.9	6.8	7.2	6.9	6.8	6.5
Underemployment rate	2.8	2.5	3.0	3.5	3.3	3.4	3.5	3.2	3.1
<u>('000)</u>									
Population of working age	5 498.7	5 579.2	5 642.8	5 694.0	5 755.1	5 717.9	5 745.6	5 761.4	5 795.3
Labour force	3 374.2	3 427.1	3 487.1	3 496.2	3 529.0	3 506.4	3 522.7	3 531.5	3 555.4
Persons employed	3 207.3	3 252.3	3 231.6	3 219.1	3 287.6	3 256.9	3 282.4	3 282.6	3 328.5
Persons unemployed	166.9	174.8	255.5	277.2	241.4	249.5	240.2	248.9	226.9
Persons underemployed	93.5	85.5	105.2	123.3	116.2	118.7	122.4	112.9	110.8
<u>(% change over a year earlier)</u>									
Population of working age	1.6	1.5	1.1	0.9	1.1	1.0	1.2	1.0	1.1
Labour force	1.6	1.6	1.8	0.3	0.9	0.5	0.8	1.0	1.5
Persons employed	3.1	1.4	-0.6	-0.4	2.1	0.8	2.6	2.7	2.4
Persons unemployed	-19.6	4.7	46.2	8.5	-12.9	-3.5	-19.4	-16.4	-10.7
Persons underemployed	-3.5	-8.6	23.0	17.3	-5.7	18.4	-18.5	-10.9	-4.5

Table 18 : Employment in selected major economic sectors

Major economic sector	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>					
	(% change)				Mar No.	% change over a year earlier	Jun No.	% change over a year earlier	Sep No.	% change over a year earlier
Manufacturing	-6.4	-8.6	-9.0	-10.3	168 900	-5.6	169 600	-1.7	168 000	-2.8
<i>of which :</i>										
Wearing apparel, except footwear	-11.6	-14.9	-19.3	-11.6	22 400	-1.6	22 800	1.2	23 100	-2.6
Textiles	-7.4	-8.7	-1.1	-16.8	20 200	-16.7	19 400	-16.3	19 600	-8.4
Electronics	4.7	-17.4	-13.1	-18.9	15 000	-7.1	15 300	0.6	14 900	-2.8
Plastic products	-11.8	-16.4	-17.0	-19.1	3 600	-12.6	3 500	-17.0	3 200	-22.8
Fabricated metal products, except machinery and equipment	-8.8	-16.9	-14.6	-20.7	7 300	-0.4	6 300	-10.2	6 300	-1.1
Wholesale, retail, import/export trades, restaurants and hotels	4.7	-1.2	-2.3	-3.0	975 800	0.4	989 200	3.2	1 003 100	4.9
<i>of which :</i>										
Wholesale, retail and import/export trades	5.5	-1.9	-1.6	-1.9	771 200	-0.3	779 700	1.6	796 500	4.4
Restaurants and hotels	1.7	1.2	-4.8	-7.3	204 600	3.2	209 500	9.7	206 600	6.6
Transport, storage and communications	2.6	2.4	-1.8	-4.4	176 100	2.1	178 900	4.7	178 200	4.1
<i>of which :</i>										
Land transport	-2.3	2.6	-0.3	0.5	38 600	-0.9	38 300	-3.0	38 100	-3.2
Water transport	0.3	3.3	1.0	-3.6	27 200	-1.8	28 200	4.3	26 700	-4.0
Services allied to transport	5.9	-0.8	1.1	-3.7	54 600	3.0	55 900	11.7	57 600	14.1
Financing, insurance, real estate and business services	5.3	1.6	-1.3	-1.9	428 600	1.4	434 200	3.6	437 800	3.7
<i>of which :</i>										
Financial institutions	0.1	-0.5	-5.6	-6.5	119 800	-2.5	119 600	3.2	119 800	2.4
Insurance	-1.1	7.1	0.3	1.2	27 400	3.0	27 100	-0.3	27 300	-0.6
Real estate	-0.7	-3.0	5.2	0.7	85 000	1.1	87 600	1.8	88 700	4.2
Business services except machinery and equipment rental and leasing	13.6	4.5	-1.2	-0.2	195 500	3.8	199 100	5.3	201 200	4.9
Community, social and personal services	3.2	7.2	5.9	2.9	412 000	3.5	418 100	4.4	415 700	0.4
<i>of which :</i>										
Sanitary and similar services	4.3	5.1	13.8	6.0	55 700	3.2	56 300	3.6	56 000	0.2
Education services	3.3	6.9	2.5	2.9	128 800	2.9	129 500	1.9	127 300	*
Medical, dental and other health services	-0.3	5.5	3.2	-0.3	75 000	1.8	75 700	2.1	75 000	2.6
Welfare institutions	10.6	25.4	11.9	13.9	50 300	4.7	52 700	7.0	54 300	-1.1
Civil Service^(a)	-2.2	-3.5	-3.7	-2.4	163 000	-3.6	161 700	-3.9	160 100	-3.8

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 19 : Number of workers engaged at building and construction sites

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> Q1-Q3	Mar	<u>2004</u> Jun	Sep
<u>(number)</u>								
Building sites								
Private sector	34 024	40 556	40 017	33 892	34 634	34 684	36 077	33 142
Public sector ^(a)	27 254	17 183	11 727	13 449	11 245	13 043	11 004	9 688
Sub-total	61 277	57 738	51 744	47 341	45 879	47 727	47 081	42 830
Civil engineering sites								
Private sector	1 657	2 633	2 869	2 755	2 467	2 065	2 664	2 672
Public sector ^(a)	16 666	19 931	18 611	17 466	16 696	16 289	16 820	16 980
Sub-total	18 322	22 564	21 480	20 221	19 163	18 354	19 484	19 652
Total	79 599	80 302	73 223	67 562	65 043	66 081	66 565	62 482
<u>(% change over a year earlier)</u>								
Building sites								
Private sector	9.1	19.2	-1.3	-15.3	2.0	-2.3	12.0	-2.9
Public sector ^(a)	0.4	-37.0	-31.8	14.7	-18.9	-7.7	-25.4	-23.7
Sub-total	5.1	-5.8	-10.4	-8.5	-4.0	-3.8	0.3	-8.5
Civil engineering sites								
Private sector	9.7	58.9	9.0	-4.0	-16.4	-33.0	15.0	-22.6
Public sector ^(a)	49.9	19.6	-6.6	-6.2	-5.4	-5.4	-6.6	-4.1
Sub-total	45.1	23.1	-4.8	-5.9	-7.0	-9.6	-4.1	-7.1
Total	12.2	0.9	-8.8	-7.7	-4.9	-5.5	-1.0	-8.1

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

Table 20 : Average labour earnings by major economic sector

	(\$)							
Major economic sector	2000	2001	2002	2003	2004	2004		
					Q1-Q3	Q1	Q2	Q3
Wholesale, retail and import/export trades	12,400 (2.4) <6.4>	12,700 (2.0) <3.7>	12,500 (-1.6) <1.4>	12,300 (-1.5) <1.1>	12,400 (0.5) <1.3>	14,300 (0.9) <2.7>	11,500 (1.4) <2.3>	11,300 (-0.7) <-1.4>
Restaurants and hotels	9,000 (-2.4) <1.5>	9,000 (0.1) <1.7>	8,700 (-4.2) <-1.1>	8,100 (-6.2) <-3.7>	8,100 (-0.2) <0.5>	8,500 (-3.5) <-1.7>	7,700 (2.1) <3.0>	8,000 (1.4) <0.6>
Transport, storage and communications	18,700 (0.9) <4.8>	18,900 (1.3) <3.0>	18,900 (-0.2) <2.9>	18,500 (-1.7) <0.9>	17,900 (-0.9) <-0.2>	19,400 (-2.4) <-0.6>	17,300 (0.7) <1.6>	16,900 (-0.8) <-1.6>
Financing, insurance, real estate and business services	19,200 (1.4) <5.4>	19,200 (0.4) <2.0>	18,800 (-2.2) <0.8>	18,600 (-1.4) <1.2>	18,400 (0.4) <1.1>	20,400 (0.5) <2.3>	17,900 (2.0) <2.9>	16,900 (-1.4) <-2.2>
Community, social and personal services	19,900 (0.1) <4.0>	20,000 (0.7) <2.3>	19,800 (-1.3) <1.9>	18,900 (-4.7) <-2.2>	18,400 (-3.1) <-2.4>	18,300 (-6.2) <-4.5>	17,900 (-2.8) <-1.9>	19,000 (-0.1) <-0.9>
Manufacturing	11,700 (1.5) <5.5>	11,900 (2.1) <3.8>	11,800 (-1.2) <1.9>	11,400 (-3.0) <-0.4>	11,300 (-0.9) <-0.2>	12,400 (-0.4) <1.4>	11,000 (-0.7) <0.2>	10,600 (-1.8) <-2.5>
All sectors surveyed	15,200 (1.4) <5.3>	15,400 (1.8) <3.5>	15,300 (-1.1) <2.0>	15,000 (-1.8) <0.8>	14,800 (-0.7) <*>	16,100 (-1.7) <0.1>	14,200 (0.4) <1.3>	14,100 (-0.5) <-1.3>

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

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

(*) Change of less than 0.05%.

**Table 21 : Rates of change in wage indices by
selected major economic sector**

(%)

Selected major economic sector	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>		
					Q1-Q3	Mar	Jun	Sep
<u>(in money terms)</u>								
Wholesale, retail and import/export trades	1.8	1.4	-0.6	-1.7	-1.7	-2.2	-0.8	-1.9
Restaurants and hotels	-0.9	0.7	-2.6	-4.1	-2.3	-3.6	-1.6	-1.8
Transport services	-3.1	0.7	0.6	-1.9	-0.9	-1.9	-0.5	-0.3
Financing, insurance, real estate and business services	0.4	-0.9	-0.8	-0.1	-0.2	0.6	0.8	-2.0
Personal services	0.3	0.7	-1.5	-3.1	1.2	-2.4	2.7	3.3
Manufacturing	2.0	2.2	-1.4	-2.7	-1.2	-1.4	-1.1	-1.1
All sectors surveyed	0.5	0.8	-1.0	-1.9	-1.1	-1.6	-0.3	-1.3
<u>(in real terms)</u>								
Wholesale, retail and import/export trades	4.9	4.1	1.7	0.4	-1.5	-0.4	-1.0	-3.1
Restaurants and hotels	2.1	3.3	-0.3	-2.1	-2.2	-1.8	-1.8	-3.0
Transport services	-0.1	3.4	2.9	0.1	-0.8	-0.1	-0.7	-1.5
Financing, insurance, real estate and business services	3.4	1.7	1.5	2.0	-0.1	2.5	0.6	-3.1
Personal services	3.4	3.3	0.8	-1.1	1.3	-0.6	2.5	2.1
Manufacturing	5.1	4.8	0.8	-0.7	-1.1	0.4	-1.3	-2.3
All sectors surveyed	3.6	3.4	1.3	0.2	-1.0	0.2	-0.5	-2.5

Table 22 : Rates of change in prices

	(%)						
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
GDP deflator	2.5	5.8	5.7	0.2	-5.8	-6.2	-1.9
Domestic demand deflator	5.0	5.1	4.6	0.5	-2.4	-5.3	-2.5
Consumer Price Indices ^(a) :							
Composite CPI	9.1	6.3	5.8	2.8	-4.0	-3.8	-1.6
CPI(A)	8.7	6.0	5.7	2.6	-3.3	-3.0	-1.7
CPI(B)	9.2	6.4	5.8	2.8	-4.7	-3.9	-1.6
CPI(C)	9.6	6.6	6.1	3.2	-3.7	-4.5	-1.5
Unit Value Indices :							
Domestic exports	2.4	0.3	-2.4	-2.8	-2.4	-1.0	-4.7
Re-exports	3.5	-0.5	-1.5	-3.9	-2.8	-0.1	-2.0
Total exports of goods	3.3	-0.3	-1.6	-3.8	-2.7	-0.2	-2.3
Imports of goods	5.0	-1.3	-2.3	-4.9	-2.0	0.8	-3.1
Terms of Trade Index	-1.6	1.0	0.7	1.2	-0.7	-1.0	0.9
Producer Price Index for all manufacturing industries	2.8	-0.1	-0.3	-1.8	-1.6	0.2	-1.6
Construction Labour and Material Cost Index	5.2	6.8	9.3	7.5	1.4	1.8	0.3
Tender Price Indices :							
Public sector building projects	17.8	14.4	17.6	9.1	-4.4	-13.1	-8.5
Public housing projects	18.3	11.4	18.9	9.0	-3.3	-11.9	-15.1

Notes : (a) As from October 2000 onwards, the year-on-year rates of change in the Consumer Price Indices are computed from the new 1999/2000-based CPI series. For the earlier periods, they are computed from the CPIs with old base period.

(#) Revised figures.

(+) Preliminary figures.

(*) Change of less than 0.05%.

(^) Rate of change in the first three quarters of 2004.

N.A. Not available.

Table 22 : Rates of change in prices (cont'd)

	(%)						
	<u>2002</u>	<u>2003</u>	<u>2004</u>		<u>2004</u>		
				Q1	Q2	Q3	Q4
GDP deflator	-3.6	-5.3 #	-2.8 +	-4.0 #	-2.7 #	-2.5 #	-2.1 +
Domestic demand deflator	-5.1	-3.6 #	0.1 +	-0.9 #	0.4 #	0.9 #	0.2 +
Consumer Price Indices ^(a) :							
Composite CPI	-3.0	-2.6	-0.4	-1.8	-0.9	0.8	0.2
CPI(A)	-3.2	-2.1	*	-1.2	-0.7	1.4	0.5
CPI(B)	-3.1	-2.7	-0.5	-2.0	-0.9	0.7	0.2
CPI(C)	-2.8	-2.9	-0.9	-2.4	-1.1	0.2	-0.1
Unit Value Indices :							
Domestic exports	-3.3	0.2	1.5	-0.6	0.2	1.8	4.2
Re-exports	-2.7	-1.5	1.1	-0.8	0.5	2.0	2.5
Total exports of goods	-2.7	-1.4	1.2	-0.7	0.5	1.9	2.6
Imports of goods	-3.9	-0.4	2.9	0.7	2.3	4.0	4.3
Terms of Trade Index	1.2	-1.0	-1.7	-1.5	-1.8	-2.0	-1.6
Producer Price Index for all manufacturing industries	-2.7	-0.3	2.5 ^	2.8	2.7	2.0	N.A.
Construction Labour and Material Cost Index	-0.3	-1.0	-1.4 ^	-1.4	-1.7	-1.1	N.A.
Tender Price Indices :							
Public sector building projects	-11.7	-0.3	-3.0 ^	-4.9	-1.5	-2.5	N.A.
Public housing projects	-9.6	-10.0	N.A.	1.1	3.0	N.A.	N.A.

Table 23 : Rates of change in Composite Consumer Price Index

(%)

	Weight	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
All items	100.0	9.1	6.3	5.8	2.8	-4.0	-3.8	-1.6
Food	26.67	7.1	3.9	3.6	1.9	-1.8	-2.2	-0.8
<i>Meals bought away from home</i>	<i>(16.39)</i>	<i>6.9</i>	<i>3.9</i>	<i>4.0</i>	<i>2.2</i>	<i>-1.2</i>	<i>-0.9</i>	<i>-0.3</i>
<i>Food, excluding meals bought away from home</i>	<i>(10.28)</i>	<i>7.4</i>	<i>3.9</i>	<i>3.0</i>	<i>1.5</i>	<i>-2.8</i>	<i>-4.2</i>	<i>-1.7</i>
Housing ^(a)	29.91	13.1	10.2	9.2	4.7	-5.1	-8.2	-3.1
<i>Private housing rent</i>	<i>(24.59)</i>	<i>13.7</i>	<i>10.7</i>	<i>9.1</i>	<i>5.5</i>	<i>-6.1</i>	<i>-9.8</i>	<i>-2.9</i>
<i>Public housing rent</i>	<i>(2.07)</i>	<i>9.0</i>	<i>8.3</i>	<i>13.5</i>	<i>-3.4</i>	<i>1.4</i>	<i>1.1</i>	<i>-8.3</i>
Electricity, gas and water	2.98	7.4	5.0	5.0	1.4	-0.4	3.6	-1.9
Alcoholic drinks and tobacco	0.94	6.1	5.7	5.6	6.6	1.2	-0.9	3.3
Clothing and footwear	4.13	9.6	8.3	8.4	-0.8	-20.6	-10.1	-4.6
Durable goods	6.24	4.2	1.9	2.2	0.2	-6.3	-4.6	-7.1
Miscellaneous goods	5.70	6.3	2.7	5.4	2.6	-0.7	0.9	1.3
Transport	9.01	7.4	6.2	4.0	3.9	0.5	1.0	0.4
Miscellaneous services	14.42	10.3	6.1	4.5	2.7	-1.3	-0.2	0.5

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.

(a) Apart from "Private housing rent" and "Public housing rent", the "Housing" section also includes "Management fee and other housing charges" and "Tools and materials for housing maintenance".

(*) Change of less than 0.05%.

Table 23 : Rates of change in Composite Consumer Price Index (cont'd)

(%)								
	Weight	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>			
					Q1	Q2	Q3	Q4
All items	100.0	-3.0	-2.6	-0.4	-1.8	-0.9	0.8	0.2
Food	26.67	-2.1	-1.5	1.0	0.1	1.0	1.4	1.7
<i>Meals bought away from home</i>	<i>(16.39)</i>	<i>-1.5</i>	<i>-1.5</i>	<i>0.2</i>	<i>-0.5</i>	<i>0.3</i>	<i>0.5</i>	<i>0.5</i>
<i>Food, excluding meals bought away from home</i>	<i>(10.28)</i>	<i>-3.1</i>	<i>-1.7</i>	<i>2.5</i>	<i>1.1</i>	<i>2.3</i>	<i>2.8</i>	<i>3.6</i>
Housing ^(a)	29.91	-5.7	-4.8	-5.2	-7.7	-6.7	-2.3	-3.9
<i>Private housing rent</i>	<i>(24.59)</i>	<i>-6.5</i>	<i>-6.3</i>	<i>-6.6</i>	<i>-9.3</i>	<i>-8.2</i>	<i>-3.8</i>	<i>-4.9</i>
<i>Public housing rent</i>	<i>(2.07)</i>	<i>-2.7</i>	<i>9.1</i>	<i>2.5</i>	<i>0.1</i>	<i>0.1</i>	<i>10.3</i>	<i>0.1</i>
Electricity, gas and water	2.98	-7.0	1.4	11.4	21.8	3.0	12.7	9.8
Alcoholic drinks and tobacco	0.94	2.4	0.1	*	-0.1	0.4	-0.1	-0.3
Clothing and footwear	4.13	0.7	-2.7	6.4	6.1	9.2	6.7	4.0
Durable goods	6.24	-6.3	-6.4	-2.2	-3.6	-1.4	-1.9	-2.1
Miscellaneous goods	5.70	1.7	2.3	3.6	3.8	4.4	3.6	2.5
Transport	9.01	-0.6	-0.4	0.4	-0.4	0.4	0.7	0.8
Miscellaneous services	14.42	-2.3	-3.2	-0.2	-3.4	*	1.2	1.2

**Table 24 : Rates of change in implicit price deflators of GDP
and its main expenditure components**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
							($\%$)
Private consumption expenditure	8.6	5.5	3.9	2.4	-5.4	-4.9	-1.3
Government consumption expenditure	9.1	6.5	6.4	2.6	-0.1	-1.9	1.1
Gross domestic fixed capital formation	-1.0	2.0	6.0	-7.2	0.4	-3.8	-6.6
Total exports of goods	2.6	-0.7	-1.9	-3.3	-3.4	-0.5	-2.6
Imports of goods	4.8	-1.2	-1.9	-4.4	-2.6	0.8	-3.5
Exports of services	5.4	1.6	0.7	-5.2	-3.3	0.5	-4.0
Imports of services	9.4	-0.1	0.6	-3.0	-0.8	-0.2	-1.5
Gross Domestic Product	2.5	5.8	5.7	0.2	-5.8	-6.2	-1.9
Total final demand	3.5	1.7	1.3	-2.3	-3.7	-2.9	-2.7
Domestic demand	5.0	5.1	4.6	0.5	-2.4	-5.3	-2.5

Notes : (#) Revised figures.
 (+) Preliminary figures.
 (*) Change of less than 0.05%.

**Table 24 : Rates of change in implicit price deflators of GDP
and its main expenditure components (cont'd)**

	(%)						
	<u>2002</u> [#]	<u>2003</u> [#]	<u>2004</u> ⁺	Q1 [#]	<u>2004</u>		
					Q2 [#]	Q3 [#]	Q4 ⁺
Private consumption expenditure	-3.7	-2.9	-0.2	-1.9	-0.3	1.0	0.3
Government consumption expenditure	-0.6	-2.7	-3.0	-3.4	-2.9	-2.6	-2.6
Gross domestic fixed capital formation	-10.1	-6.0	2.3	2.0	3.0	2.2	2.1
Total exports of goods	-2.9	-2.0	0.5	-1.5	0.1	1.3	1.6
Imports of goods	-4.2	-0.9	2.5	0.5	2.2	3.7	3.5
Exports of services	-2.5	-1.9	2.1	*	3.2	2.7	2.6
Imports of services	*	2.8	3.8	3.3	3.3	4.6	3.9
Gross Domestic Product	-3.6	-5.3	-2.8	-4.0	-2.7	-2.5	-2.1
Total final demand	-3.7	-2.6	0.7	-1.1	0.5	1.5	1.4
Domestic demand	-5.1	-3.6	0.1	-0.9	0.4	0.9	0.2

