



恒生銀行

HANG SENG BANK

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HONG KONG REMAINS ON TRACK TO ACHIEVE 4% REAL GDP GROWTH DESPITE SOFTENING EXTERNAL TRADE

According to the latest issue of *Hang Seng Economic Monthly*, the real GDP forecast for Hong Kong this year has remained unchanged at 4%.

Potential threats to the global economy and thus Hong Kong, such as rising US interest rates, higher oil prices and mainland China's introduction of measures designed to curb rapid investment growth have so far only exerted limited pressure on the local economy.

The report notes that although external trade is likely to become weaker in the months ahead, rising confidence in the local economy is helping drive strong domestic demand that should see Hong Kong reach the projected 4% growth in real GDP.

External factors continue to play a significant role in influencing Hong Kong's economy. Total trade in goods was three times the size of GDP in 2004, with re-exports accounting for 94% of total exports and equal to 148% of GDP.

The past three months have seen a slowing of re-exports growth to 10.6% down from 15.8% in 2004. Factors such as the rising proportion of exports leaving China through Mainland ports rather than through Hong Kong, the continued implementation of macroeconomic measures designed to cool the Mainland's economy and the possible re-imposition of quantitative import quota limits on certain Chinese exports by the EU and the US have the potential to aggravate the slowdown in Hong Kong's re-export growth, which would act as a drag on GDP growth.

The report also comments on the potential influence of rising interest rates and any change in the Mainland's currency regime.

The report notes that room for further increase in the Fed funds target rate appears to be limited to within one percentage point for the remainder of the year. With Hong Kong's interbank rates now closely tracking their US counterparts, Hong Kong's prime lending rate will follow the rise of US rates and will likely reach 6.75% in the last quarter of this year. The report states that this is not a restrictive level by Hong Kong standards, particularly with inflation creeping higher.

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新聞稿

Hong Kong Remains On Track To Achieve 4% Real GDP Growth Despite Softening External Trade / 2

Although no timetable has been established, remarks from various Chinese officials indicate that the Mainland is making preparations for a change in its currency regime. However, the report is of the view that it is highly unlikely that any change will lead to a significant revaluation of the renminbi and, as such, its effects are unlikely to be material in the short term.

In some ways, notes the report, the current economic situation is similar to that of 2000-01. In 2000, the local economy experienced tech-driven real GDP growth of 10.2%. But a setback in external trade in the third quarter of 2001 saw export levels plunge and real GDP recorded three consecutive quarters of year-on-year contraction.

However, the report states that the domestic environment currently exhibits much stronger attributes than four years ago, and domestic strengths will underpin Hong Kong's economy despite the less favourable external environment.

Hong Kong's economic recovery since the second half of 2003 has been more broad-based compared with that of 2000. The rapid growth in the number of Mainland visitors, the rebound in property prices, the strong IPO market and the ample liquidity as a result of inflows of funds have not only boosted domestic demand but also helped to restore much needed confidence. The report notes that the return of consumer and business confidence is clearly illustrated by the end of consumer price deflation and the strong growth in the employment market as well as the resumption of domestic credit growth across most major economic sectors.

The report concludes by restating the belief that despite the softening external environment, strong domestic demand, boosted by an improving labour market and booming property market, will ensure that Hong Kong achieves real GDP growth of 4% in 2005.

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