

Budget Speech by the Financial Secretary (2)

Economic Outlook for 2020 and Medium-term Outlook

12. Entering 2020, the rapid spread of the novel coronavirus has dealt a severe blow to economic activities and sentiment in Hong Kong. The tourism- and consumption-related sectors, already hard hit by the social unrest, are suffering from a more serious setback and entering a “harsh winter”. Although the impact of the epidemic on our economy in the near term could possibly be greater than that of the SARS outbreak in 2003, and the labour market is also subject to significant pressure, Hong Kong’s economic fundamentals remain solid and therefore our core competitiveness will not be shaken. The economy of Hong Kong should be able to recover once the epidemic is over.

13. On the Mainland, while its economy showed some deceleration, it still recorded a solid growth of 6.1 per cent for 2019 as a whole. Regarding the economic outlook for this year, the US-China trade relations remain complex and constantly evolving, and the near-term economic performance is also facing notable downward pressure from the novel coronavirus epidemic. Nonetheless, economic fundamentals of the Mainland are solid and there are adequate policy tools to maintain macro-economic stability. Once the epidemic is over, the growth of the Mainland economy is expected to continue to outpace that of other major economies.

14. On the external front, the global economy is still struggling and the growth momentum of many advanced economies remains feeble. Although the economic growth in the US eased last year, the resilient labour market would still continue to support private consumption. Nevertheless, market forecasts generally point to a further growth moderation in the US economy this year. Besides, economic growth of the euro area would remain modest this year amid subdued manufacturing activities.

15. After the consumption tax hike in October last year, Japan’s economy has already seen visible downward pressure. This, coupled with structural issues such as an ageing population and huge public debt, suggests that economic growth should be rather subdued this year. Elsewhere in Asia, the emerging economies of the Association of Southeast Asian Nations will likely continue to see solid economic growth in the medium to long term given resilient domestic demand.

16. The development of US-China trade relations is the most significant uncertain factor facing the global economy. Moreover, the geopolitical risks in the Middle East and uncertainties surrounding the Brexit negotiations could possibly send shocks to the global financial market and slow down economic recovery.

17. The outbreak of the novel coronavirus epidemic will also affect

production and transportation in the Mainland and Asia as well as the global supply chain operation. This will deal a further blow to the global economy. The International Monetary Fund has therefore lowered the Mainland and global economic growth forecasts for this year recently.

18. To sum up, Hong Kong's economy is facing enormous challenges this year. The outlook is far from promising in the near term. Having regard to the stimulus effect of the fiscal measures, I forecast our economy will grow by -1.5 per cent to 0.5 per cent in real terms in 2020.

19. On inflation, global inflation is expected to remain modest. Subdued local economic conditions in the near term will contain the upward pressure on local costs. The moderation in residential rentals will also help lower overall inflation. Taking the various factors into account, I forecast that the headline inflation rate and underlying inflation rate will ease to 1.7 per cent and 2.5 per cent respectively in 2020.

20. On property market, the residential property market has been largely quiet since last June with transactions and prices generally retreating. Yet, the current flat prices are still out of line with economic fundamentals and people's affordability. The Government will continue its endeavour to increase land and housing supply.

21. In the medium term, the economic outlook of Hong Kong remains positive. The development of our country and Asia will continue to be the key driving force of global growth. Given the huge market potential of the Mainland as well as the opportunities brought by the Belt and Road Initiative and the development of Guangdong-Hong Kong-Macao Greater Bay Area (Greater Bay Area), Hong Kong can leverage its strengths, grasp the opportunities and explore greater room for development.

22. Yet, on the other hand, we have to strive to overcome the constraints stemming from ageing population, a dwindling labour force and shortage of land. The social incidents also reveal that there are conflicts to be addressed. Balancing the various factors, I forecast Hong Kong's economy will grow by an average of 2.8 per cent per annum in real terms from 2021 to 2024, slightly lower than the trend growth of 2.9 per cent over the past decade. The underlying inflation rate is forecast to average 2.5 per cent.

(To be continued.)