

Budget Speech by the Financial Secretary (2)

Economic Outlook for 2021 and Medium-term Outlook

14. With the launch of vaccination schemes in various places around the world, the global economy may see relatively significant improvements starting from the latter half of 2021. Last month, the IMF forecast that the global economy will rebound by 5.5 per cent this year.

15. The Mainland economy was hard hit by the epidemic in early 2020. Nevertheless, with the epidemic swiftly put under control and vigorous macro policies implemented in a timely manner, the Mainland economy experienced a strong rebound since the second quarter with an annual growth of 2.3 per cent, making our country the only major economy in the world that achieved a positive growth. Looking ahead, though there are still uncertainties arising from the global epidemic situation and the China-US relations, the Mainland economy is fundamentally sound. The Central Economic Work Conference held at the end of last year emphasised that the continuity, stability and sustainability of the macro policies would be maintained to provide the necessary support for economic recovery on an ongoing basis. All these would be conducive to robust economic growth in the Mainland.

16. The US economy has begun to pick up since the third quarter of last year. With the rollout of a vaccination programme and the support of fiscal stimulus measures, as well as the easy monetary environment, market forecasts generally point to faster economic growth in the US this year. The economy in Europe has slowed down again recently due to the resurgence of the pandemic. Nevertheless, with stronger policy support provided by the European Central Bank since late last year, the eurozone economy is expected to rebound later this year, provided that vaccines are widely applied. Once the epidemic is contained, Japan and other economies in Asia will also see a visible recovery this year.

17. The foreign and economic policy directions of the US administration is the attention of the whole world. Their implications on the China-US relations and their economies are of particular significance. The global community hopes that China-US economic and trade relations can gradually be back to normal, thereby supporting further revival of global trade and business activities. However, as seen from the developments in the past few years, there remain many deep-seated conflicts between the two nations. Looking ahead, relations between the two nations will remain in a state of continued tensions, and on-going competition but without a total break-down. Changes in China-US relations will affect the global trade, finance and political landscape. External factors such as geopolitical situations and possible financial risks associated with the surging global public debt also warrant attention.

18. Hong Kong's economy is expected to resume positive growth this year, but

the progress of economic recovery will hinge on the development of the epidemic. As cross-boundary movement of people and tourism activities take time to resume normal, the economy will still face significant challenges in the first half of the year. Nevertheless, as long as the community gathers together to control the epidemic and social stability is maintained, economic recovery will likely gain a stronger momentum in the second half of the year in tandem with an expected rebound in the global economy. Having regard to the latest internal and external situations as well as the stimulus effect of the fiscal measures, I forecast that our economy will grow by 3.5 per cent to 5.5 per cent in real terms this year.

19. On inflation, external price pressures are expected to remain modest. After two consecutive years of contraction, overall economic activities will remain below the pre-recession level this year and should not pose notable pressure on local costs. I forecast that the headline inflation rate and the underlying inflation rate will be 1.6 per cent and one per cent respectively this year.

20. In the medium term, Hong Kong will continue to benefit from the ongoing development of the Mainland and the shift in global economic gravity from West to East. The economic outlook is positive. Our country's economy will continue to advance during the 14th Five-Year Plan period. The signing of the Regional Comprehensive Economic Partnership (RCEP) Agreement will further promote economic integration in the region. Hong Kong can open up greater room for development by leveraging the advantages under "One Country, Two Systems", playing its unique role as a gateway and an intermediary, integrating into the new overall development of our country, actively participating in the national dual circulation development strategy and seizing the opportunities brought by the development of Guangdong-Hong Kong-Macao Greater Bay Area (GBA) and the Belt and Road (B&R) Initiative. On the other hand, the Government will strive to overcome land and talent constraints, promote innovation and technology (I&T) development, invest in education and nurture talent, and strengthen connection with the world. Considering the above factors and taking into account the catch up growth that would follow the initial economic recovery this year, I forecast that Hong Kong's economy will grow by an average of 3.3 per cent per annum in real terms from 2022 to 2025, while the underlying inflation rate will average two per cent.

(To be continued.)