

## Economic Information on Hong Kong

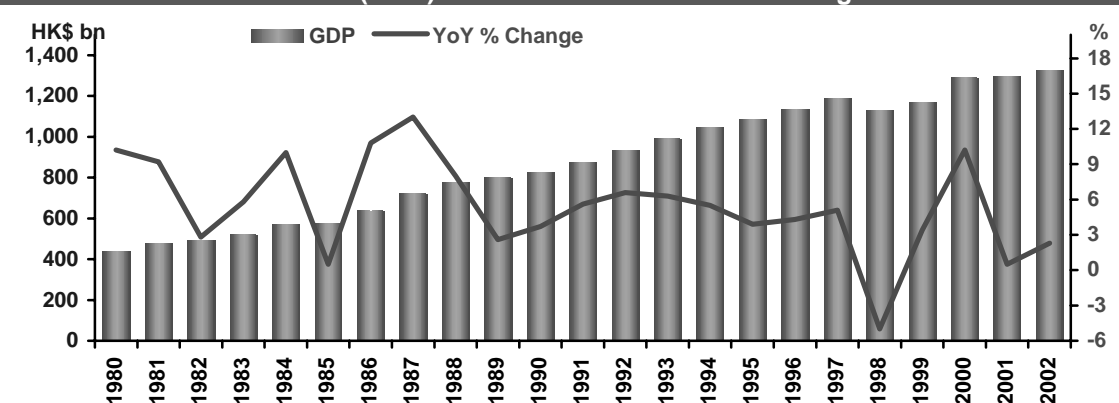
### Highlights of the Hong Kong Economy

- Freest economy in the world for 9 years (1995-2003) ranked by the Heritage Foundation
- Sound banking system – 15.8% capital adequacy at the end of 2002 and one of the lowest NPLs in Asia
- FX reserves at US\$112.1 bn as of end Sep 2003, the 5th largest in the world
- Stock market capitalisation amounted to US\$592 bn as of end Aug 2003, 2<sup>nd</sup> largest stock market in Asia and 8<sup>th</sup> largest in the world
- Average daily turnover of foreign exchange and derivatives transactions was US\$71 bn, 3<sup>rd</sup> largest in Asia and 7<sup>th</sup> in the world

### Achievements of Hong Kong in the World Economy

Hong Kong has firmly established itself as a major international trading and financial centre. It has been ranked as the world's freest economy for 9 consecutive years (1995-2003) by the Heritage Foundation. Real GDP growth of Hong Kong averaged 6.6% per year during 1982-1992, whilst that was 3.6% during 1992-2002. The per capita GDP in 2002 exceeded US\$24,000, the second highest in Asia, behind only to Japan.

Chart 1 – GDP at Constant (2000) Market Prices and YoY % Change



Source: C&SD

Hong Kong is the world's 10<sup>th</sup> largest trading entity in goods and the 10<sup>th</sup> largest exporter of commercial services in 2001 (World Trade Organisation, October 2002). Hong Kong's total exports rebounded by 5.4% in 2002, as compared with a decline of 5.8% a year earlier. The recovery was distinctly noticeable, as the external demand steadily picked up from the repercussions of the bursting of the IT bubble and the terrorist attacks of September 11, 2001.

Hong Kong is an important banking and financial centre in the Asia Pacific. There are 218 banks and 92 representative offices operating in Hong Kong. According to the BIS Triennial Central Bank Survey 2001, Hong Kong is the 3<sup>rd</sup> largest foreign exchange market in Asia and the 7<sup>th</sup> largest in the world, with the average daily turnover of foreign exchange and derivatives transactions reaching US\$71 bn.

According to the UNCTAD World Investment Report, Hong Kong was the 2<sup>nd</sup> largest source of outward foreign direct investment (FDI) in Asia and the 14<sup>th</sup> in the world in 2001. Hong Kong also ranked as the 2<sup>nd</sup> largest recipient of inward FDI in Asia and the 10<sup>th</sup> in the world. Hong Kong's total stock of inward direct investment was estimated at US\$433 bn at end 2002, corresponding to 266% of GDP in that year.

### **Economic Relations with the Mainland**

The 1997 reunification has brought Hong Kong and Mainland much closer through the "one country, two systems" principle. Hong Kong is the most important entrepot for the Mainland. About 30% of the Mainland's foreign trade is handled via Hong Kong. According to China's customs statistics, Hong Kong ranked the 3<sup>rd</sup> largest trading partner of the Mainland, accounting for 11% of its total trade in 2002. By the end of 2001, among the 389,549 overseas-funded projects registered in the Mainland, more than half were tied to Hong Kong interests.

Meanwhile, the Mainland is one of the leading investors in Hong Kong. The Mainland's cumulative direct investment in Hong Kong amounted to US\$123 bn as at end 2001, accounting for 29% of the stock of Hong Kong's inward direct investment. According to the Chinese official estimate, there are over 1,800 Mainland-backed enterprises registered in Hong Kong, with total assets exceeding US\$205 bn.

Hong Kong is also a major funding centre for the Mainland. The Mainland's major fund-raising activities in the territory include syndicated loans and issuance of shares. Since 1993, H shares have been issued in Hong Kong's stock market by an increasing number of large state-owned enterprises in China. Many China-affiliated companies are now listed on the Stock Exchange of Hong Kong (SEHK).

### **Latest Developments of the Hong Kong Economy**

Like many other economies in Asia, Hong Kong is faced with a number of challenges. These include the challenges brought about by the Asian financial crisis, the bursting of the dot.com bubble, and more recently, the SARS outbreak.

The Hong Kong economy, following a distinct slow-down in 2001, revived progressively under the impetus from the external sector over the course of 2002, and displayed strong growth momentum at the beginning of 2003. However, the economic performance was upset by the spread of SARS in mid-March 2003. In the second quarter of 2003, real GDP dropped by 0.5%, down from an increase of 4.5% in the first quarter. In particular, the domestic sector, including retail trade, entertainment, transportation and restaurants, was severely affected.

Reflecting the generally subdued local demand condition, consumer prices continued to decline. The Composite Consumer Price Index (CCPI) has dropped for four consecutive years, by 1.6% in 2001 and 3% in 2002. It further fell by 2.6% in the first eight months of 2003. The unemployment rate stood at 8.6% in the three months ended August 2003.

Activities in the asset markets remained subdued, although the local interest rates have eased thirteen times since 2001. Residential property price continued to fall by 12.5% in 2001 from a year earlier and another 13% in 2002. Against the peak level in the third quarter of 1997, flat prices in the fourth quarter of 2002 dropped by an average of 62%.

### **Optimism Returned to the City Recently**

Nevertheless, optimism returned to the city recently, as evidenced by the sharp rally in stock market, rebound in property sector, a boom in tourism and recovery in the retail trade, etc. All these positive developments could be attributable to the global recovery led by US economy and the Mainland government's supportive policies, including the CEPA (Mainland and Hong Kong Closer Economic Partnership Arrangement) and the relaxation of travel rules for the Mainland tourists.

Under CEPA and subject to certain country of origin requirements, products of Hong Kong will enjoy duty-free access to the Mainland by 1 Jan 2006. In late July, the Chinese Government also announced the scheme to allow residents from Beijing, Shanghai and several cities in Guangdong to travel individually to Hong Kong. These have helped restore confidence in economic turnaround.

In conjunction, there have been indications of capital inflow into Hong Kong since May. The HKD spot rate moved to the strong side of the link, and the HKD 1-year forward rate moved from a premium to a discount.

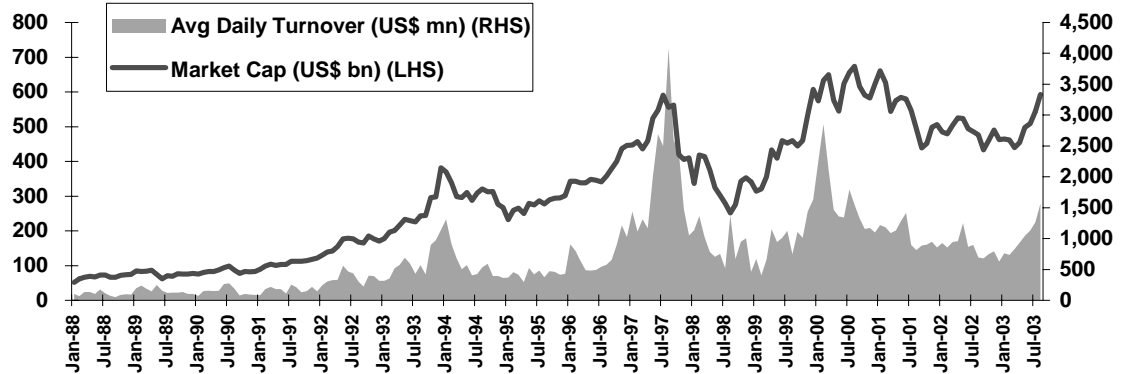
### **The Securities and Futures Markets of Hong Kong**

The stock market of Hong Kong was the 8<sup>th</sup> largest in the world by market capitalization and 2<sup>nd</sup> in Asia at the end of August 2003. The SEHK provides trading of a wide range of products including stocks, warrants, debt securities, exchange-traded funds and equity-linked instruments to match the diverging needs of investors. The Growth Enterprise Market, established in November 1999, provides an alternative fund-raising venue for new start-ups in Hong Kong and the Mainland.

As of the end of August 2003, 1,014 companies were listed on the stock market, with market capitalisation amounting to US\$592 bn. The average daily turnover was US\$929 mn for the 12 months ending August 2003.

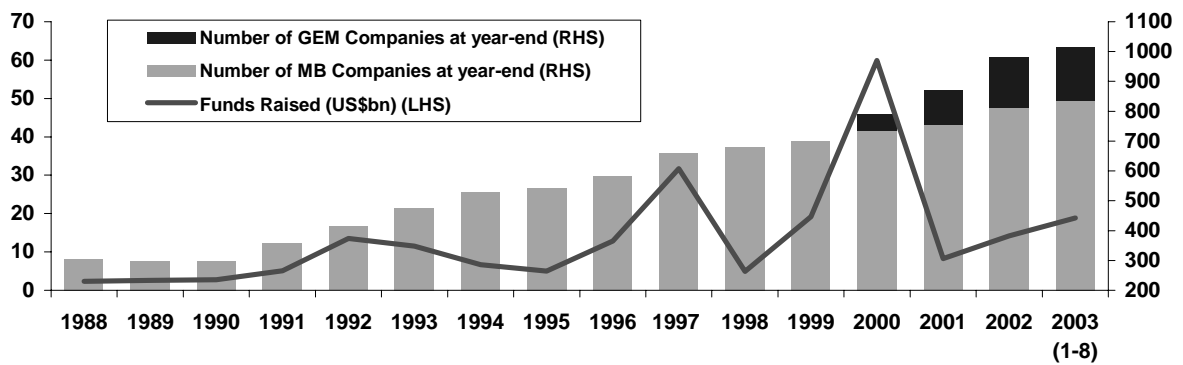
Reflecting the economic integration with Mainland China, a number of Mainland enterprises were listed in Hong Kong. As at the end of August 2003, 153 Mainland enterprises were listed in Hong Kong as H-shares and Red-chips. Their market capitalization amounted to US\$153 bn, representing 26% of total market capitalization. The average daily turnover of Mainland enterprises was US\$304 mn for the 12 months ended August 2003. This accounted for 33% of total turnover. Since 1993, US\$93 bn has been raised directly and indirectly for Mainland enterprises.

**Chart 2 – Market Capitalization and Turnover of the Hong Kong Stock Market (Main Board + GEM Board)**



Source: HKEx

**Chart 3 – Number of Companies Listed and Funds Raised through Hong Kong Stock Market (Main Board + GEM Board)**



Source: HKEx