

**HONG KONG'S ECONOMY IN 2016
AND OUTLOOK FOR 2017**

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Executive Summary

1. Hong Kong's economy is expected to hit a new low of 1.5% in 2016 after recovering from a significant contraction in 2009. This also reflected a continued weakening in growth, from 3.1%, 2.7% and 2.4% in the previous three years.
2. Similar to other economies in the region such as Singapore and Southeast Korea, Hong Kong's growth deceleration trails that of the Chinese mainland, while performing somewhat better than those of Japan and Taiwan.
3. Although Hong Kong's gross domestic product (GDP) figures for 2016 seemed somewhat gloomy, the situations for employment and earnings remained robust. In the third quarter, unemployment rate and underemployment were at 3.4% and 1.4%, respectively.
4. Inflation rate was also low. Headline composite consumer price inflation is expected to be 2.4% for the year and consumer price index stayed mostly at below 3.1% during the first 10 months of the year. Meanwhile, property prices stagnated.
5. As the world's economy and trade both slowed down in recent years, private consumption and investment have become significant to sustain Hong Kong's growth.
6. Trade remains essential to Hong Kong, an entrepôt economy. Bilateral trade between Hong Kong and Chinese mainland continued to expand, especially in services. The Mainland accounted for over half of Hong Kong's goods exports in 2015 and in the first 10 months of 2016. In 2015, it also supplied nearly half of Hong Kong's total goods imports.
7. Trade in services between the two has developed strongly, especially Hong Kong's exports to the Mainland. Its share in Hong Kong's total doubled from 20% in 2001 to 40% in 2014. An important source is tourism, where visitors from the Mainland accounted for over three quarters of Hong Kong's inbound tourists in recent years.

8. To support the economy, the government initiated policies in various areas including tax cuts for businesses and individuals, measures to support small and medium enterprises as well as tourism industries, and incentives to encourage innovation.
9. Hong Kong's economy in 2017 will continue to face formidable challenges. Economic transition in China, rising protectionist tendencies in major economies, and geopolitical tensions could undermine growth outlook. Further economic integration with the Mainland, through projects such as the Hong Kong-Zhuhai-Macao Bridge, could provide support for a modest growth.
10. The mainland and Hong Kong economies will continue to integrate, much to the chagrin of the pro-democracy camp in Hong Kong. Political uncertainties abound, particularly due to the elections this year. Hong Kong's economic well-being will continue to be determined more by economic factors than political factors.