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7 per cent forecast on inflation

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THE Government is optimistic that last year's double-digit inflation rate can be contained at around seven per cent this year.

The official forecast for this year is based mainly on the Government's projected moderate pace of growth in local economic activities, after several consecutive years of rapid development.

Hongkong's economic growth rate dipped from 13.8 per cent in 1987 to 7.3 per cent in 1988. Last year, the figure was three per cent.

Government finance officials are expecting the downward trend to continue this year.

Private sector forecasts on the pace of economic growth range from two to around four per cent. The growth will depend on the demand for Hongkong's exports, especially from the United States.

The Standard Chartered Bank expects growth to be no more than 2.4 per cent while the Hongkong and Shanghai Bank is predicting around three per cent.

These estimates are a direct result of China's economic austerity programme and the slowdown in world economy, led by the US.

Both banks take a less optimistic view than the Government of this year's inflation rate and estimated it to be eight or 8.5 per cent by the end of the year.

Domestic inflation will be affected by the lower cost of imports from China (as a result of the renminbi's devaluation) and by the ability of Hongkong's trading partners to keep their inflation under control.

Government officials had suggested that Hongkong's major trading partners, including Britain, West Germany and the US, would continue to retain their tight monetary measures to fight inflation.

Such policies, including those on exchange rates, are likely to have a favourable knock-on effect for Hongkong consumers.

However, there is a danger that if the US dollar weakens and takes the linked Hongkong dollar with it, the cost of imports from third countries with strong currencies – such as Japan, Germany and France – will increase.

This could have the effect of maintaining the inflation rate at a higher level than the Government expects.

Domestic wages, which have been running ahead of inflation – wages averaged 13.4 per cent last year and were as high as 22 per cent in the services sector – will also keep the inflation rate high.

The territory had an average inflation rate of 10.1 per cent in the first 11 months of last year.

The seven per cent projection for this year has been used in revising the Government's cash assistance to the needy and in making other budgetary provisions.

But Mr David Li Kwok-po, who represents the finance and banking functional constituency in the Legislative Council, suggested yesterday that the figure was over-optimistic.

He said the banking sector was aware that the inflation rate had been dropping, but it would be more realistic to put this year's figure at about eight to 8.5 per cent.

Mr Li, director and chief executive of the Bank of East Asia, said Hongkong's inflation would depend a lot on the economic activities in China.

The Consumer Price Index (A) figures have been levelling off from an initial 11.1 per cent in January last year.

After peaking at 11 per cent last June, it fell to 10.1 per cent in September and continued to fall to 9.6 per cent in November.

The index, reflecting monthly expenditure patterns of households spending $2,000 to $6,499, is a barometer of price fluctuations for goods and services consumed by about half of the local urban families.

Some economists are also concerned that the Government's $127 billion port and airport development project could put pressure on inflation and the economy.

The massive construction programme is expected to affect the already tight labour market.