

HONG KONG'S TSANG IS PESSIMISTIC ON GLOBAL GROWTH AS CITY RISK RECESSION

According to the Hong Kong Chief Executive Donald Tsang, the city's economy may have slipped into a recession in the third quarter as Europe's debt crisis roiled markets. Tsang said in an interview at Bloomberg LP's head office in New York yesterday, that growth may be as little as 2 percent next year after a likely expansion of 5 percent this year. That would be compared with the 7 percent expansion that happened last year. For the first time in almost two years, Hong Kong exports declined in September, and the benchmark Hnag Seng Index plunged 21 percent in the third quarter. With seven of the fifteen economists in a Bloomberg News survey forecasting a second straight contraction, third-quarter economic figures are due Nov. 11, meeting the technical definition of recession. "It's very likely Hong Kong has entered into a recession, and I doubt if that will be a brief one," says Law Ka Chung, who is the chief economist at Bank of Communications Co. Ltd. in Hong Kong "There are so many bombs in Europe waiting to explode and the impact on the global economy may be huge, similar to what we saw in late 2008." By contributing to an easing economic growth in nations from China to South Korea, Europe's crisis and elevated U.S. unemployment have sapped demand for Asian exports. A government report showed on October 31 that Taiwan's economy shrank 0.28 percent in the third quarter from the previous three months, this is the first contraction since 2009. Although, Hong Kong's second-quarter decline was 0.5 percent. "I am pessimistic about short-term global growth," said Tsang, 67. "I am afraid a major eruption in the latest market in the world, i.e. Europe, is going to affect everyone on earth and Hong Kong cannot be totally exempted," Tsang said, adding that while a full-year recession is very unlikely, thought it's "possible" to have "a couple of quarters of bad times." Besides the huge weakness in global trade, Hong Kong is grappling with elevated inflation and the risk of a slumping housing market. The world's biggest developer by market value, Sun Hung Kai Properties Ltd's shares fell 18 percent this year, worse than a 15 percent slide in the benchmark index. Tsang said that the city won't relax housing curbs, and also that prices will moderate over time at the market "will not totally collapse." Tsang, who is a career civil servant who was previously the city's financial and chief secretary, will step down as chief executive in June after more than seven years in office. Under Tsang's watch, the economy grew 26 percent more, and unemployment fell to a 13-year low as Hong Kong's proximity to China boosted exports, retail spending and services. Tsang said that the economic growth in China and Hong Kong's fiscal surplus, enough to fund two years of operations with no revenue, will help the city whether the global slowdown. In a recent visit to Hong Kong in August, Chinese Vice Premier Li Keqiang announced plans to encourage more two-way investment in stock markets to help support the city's economy. As Asia's major financial hub, Hong Kong is



also seeking to become the offshore center for the Chinese currency to cement its status.