



Economic and Financial Monthly (FEB 2015)

Summary

The US economy maintained moderate growth momentum with GDP expanded 2.2% QoQ on annualized basis in 4Q2014. In Eurozone, Germany and Spain outperformed other member states and became the catalysts of economic growth of the currency bloc. China's economic growth was facing downward pressure, amid of subdued inflation, providing rooms for the People's Bank of China (PBOC) to loosen monetary policy further. The PBOC announced to cut benchmark rates and the reserve requirement ratio in February. Hong Kong's GDP growth slowed in 4Q, mainly due to sluggish external demand.

■ U.S.: Economy maintained moderate growth momentum

The US GDP grew 2.2% QoQ on annualized basis in 4Q2014, declining 2.8 percentage points from 5% in 3Q. Economic expansion in 4Q was mainly driven by personal expenditure. Moreover, inflation was subdued because of relatively low oil price. CPI in January 2015 dropped by 0.2% from a year ago, the first contraction since October 2009. Nevertheless, excluding food and energy items, YoY growth of core CPI remained stable at 1.6%.

Eurozone: Germany and Spain became the catalysts of economic growth

Eurozone economy expanded 0.3% QoQ in 4Q2014 and grew 0.9% from a year ago. Germany, an export dependent economy within the zone, outperformed other member states as weak euro was positive to its export. In addition, the effects of reform in Spain were beginning to materialize. Both nations registered 0.7% QoQ GDP growth in 4Q2014, and they became the major driving forces of economic growth in Eurozone.

China: PBOC monetary policy loosened further

China's economic growth was still facing downward pressure. In addition, inflation was subdued with CPI increased only 0.8% YoY in January, providing rooms for the People's Bank of China (PBOC) to loosen monetary policy further. In early February, the PBOC announced to cut reserve requirement ratio (RRR) by 50bps for all deposit-taking institutions. The PBOC also cut the RRR by an extra 50bps for municipal and rural commercial banks whose

lending to small enterprises reached targeted RRR cut threshold, and cut the RRR for Agricultural Development Bank of China by an extra 400bps. Furthermore, the PBOC announced to cut rates in late February. The benchmark 1-year lending rate would be cut by 0.25 ppt to 5.35%, while the benchmark 1-year deposit rate would be reduced by 0.25 ppt to 2.5%. The PBOC also adjusted the deposit rate ceiling from 1.2x the benchmark to 1.3x.

Hong Kong: Economic growth slowed in 4Q2014

Hong Kong's GDP grew 2.2% YoY in 4Q2014, or 0.5 ppt less than that in the previous quarter. External demand remained sluggish as economic activities in advanced economies expanded moderately, along with economic slowdown in China. By contrast, GDP growth contribution from domestic demand has exceeded external demand since 2Q2012 and it became the major driving force of Hong Kong's economic growth.

Annie Cheung