

EDITORIAL

Recent Trends and Events

Hong Kong's economy improved markedly in the third quarter of 2003, with real GDP growing by 4% year-on-year. The latest indicators show that the recovery now in progress has broadened and deepened. The unemployment rate declined to 8% in the August-October period from a peak of 8.7% in the three months ending in July. Exports increased in October on a seasonally adjusted month-on-month basis, following moderate declines in the preceding three months. Tourist arrivals in October were the highest on record: the sharp increase in the number of visitors from the Mainland was attributable in part to the relaxation of restrictions on individual travellers to Hong Kong during the summer. In view of the improved economic environment, the Government has recently raised its growth forecast for 2003 to 3% (from 2% in August).

The reviving economy and growing confidence in Hong Kong's prospects were reflected in financial markets. The Hang Seng Index reached a 28-month high of 12,457 on 1 December. The Hong Kong dollar has strengthened against the US dollar since late September. Factors in the strengthening of the Hong Kong dollar included market dynamics, speculations about a revaluation of the renminbi, and the various policy measures introduced in the summer and autumn to facilitate further economic co-operation between Hong Kong and the Mainland of China. Among the latest of these measures was the decision, announced on 18 November, to allow banks in Hong Kong to conduct personal renminbi business — including deposit-taking, exchange, remittances, and credit and debit cards — on a trial basis.

In This Issue

This issue of the *HKMA Quarterly Bulletin* includes the HKMA's first Half-Yearly Monetary and Financial Stability Report, on pages 43 to 89. This report, which uses statistical information available up to end-November 2003, provides detailed description and analysis of the main factors, both external and domestic, that have a bearing on Hong Kong's monetary and financial stability. The report presents the HKMA's view of the main forces acting upon the Hong Kong economy, paying particular attention to the implications for the monetary and financial systems. The Half-Yearly Monetary and Financial Stability Report will in future be published in the June and December issues of the *Quarterly Bulletin*. In these issues, three of the four regular articles will be absorbed into the Half-Yearly Report:

- the Domestic and External Environment is examined on pages 47 to 68
- the Operation of Monetary Policy is discussed on pages 69 to 75
- Developments in the Banking Sector are outlined on pages 76 to 84

These articles will continue to appear as separate items in the March and September issues. The other regular article, the Records of Discussion of the Sub-Committee on Currency Board Operations of the Exchange Fund Advisory Committee, will continue as a separate item in all four issues.

In the feature articles in this issue, two studies examine the behaviour of business and wages in the light of recent economic developments. The analysis of the financial health of Hong Kong corporations finds that, in order to regain competitiveness, businesses have diversified their fund-raising channels to reduce their reliance on bank loans, and have replaced short-term loans with long-term ones to help improve their liquidity position and reduce costs. The article on recent developments in labour earnings finds that official labour earnings indicators may have underestimated the extent of wage adjustment in Hong Kong in recent years: it suggests that declines in nominal wages in the past five years are likely to have been larger than implied by the official statistics, pointing to a greater degree of wage flexibility.

The 17th of October 2003 marked the 20th anniversary of the introduction of the Linked Exchange Rate system in Hong Kong, under which the Hong Kong dollar is linked to the US dollar at the rate of 7.8 to one US dollar. In a speech entitled The Link: 20 Years On, delivered at the Open University of Hong Kong on 14 October, the Chief Executive of the HKMA, Joseph Yam, recalls the events of September and October 1983 and examines the factors behind the recent strengthening of the Hong Kong dollar.