

## EDITORIAL

### Recent trends and events

With generally favourable external conditions in the first half of 2004, Hong Kong's economic recovery became more broad-based and sustained. Real GDP rose by 6.8% in the first quarter of 2004, the strongest year-on-year growth since the fourth quarter of 2000. The Government forecasts 6% growth for the entire year. The unemployment rate declined to 7.1% in the three months to April 2004, down from 7.3% in the three months ending in January. A sustained recovery in property prices brought the estimated number of residential mortgages in negative equity down to around 40,000 at the end of March.

Despite volatility in the stock market in May, reflecting external pressures, financial markets have been generally stable. Following its episode of strengthening in late 2003, the market exchange rate of the Hong Kong dollar moved gradually back towards the official rate of HK\$7.8 to US\$1, and the Convertibility Undertaking was triggered 29 times between late April and mid-May.

On 5 May the Legislative Council passed the Deposit Protection Scheme Ordinance, which provides for the introduction of a deposit protection scheme for Hong Kong. It is expected that such a scheme will be introduced in 2006. The scheme will be managed by an independent Deposit Protection Board. The coverage limit will be HK\$100,000 per depositor per bank.

### In this issue

This issue of the *HKMA Quarterly Bulletin* contains the second of the HKMA's Half-Yearly Monetary and Financial Stability Report, which provides a detailed analysis of external and domestic influences on Hong Kong's monetary and financial systems. The report concludes that conditions for Hong Kong are generally favourable, despite uncertainties surrounding interest rate increases and the economy of Mainland China. One of this quarter's three feature articles examines the sources of unemployment in Hong Kong against a background of persistently high unemployment in recent years. A second article explores the impact of one of Hong Kong's oldest and most venerable seasonal phenomena: the demand for cash around Chinese New Year. The other reports on the results of the 2003 survey on credit derivatives and asset securitisation activity.

