

EDITORIAL

Recent trends and events

The steady and sustained recovery in the Hong Kong economy continued in the second and third quarters, despite a more uncertain external environment and concerns about rising oil prices. Hong Kong's real GDP grew by 12.1% year on year in the second quarter of 2004. The unemployment rate declined to 6.9% in the three months to July. The Consumer Price Index experienced a year-on-year increase of 0.9% in July, the first positive figure in nearly six years. Continued stability in property markets contributed to a further decline in the estimated number of residential mortgages in negative equity to around 28,000 at the end of June.

Financial markets in Hong Kong have been generally stable over the past few months. The Hang Seng Index moved within the region of 12,000 to 13,000 between June and August. Despite two increases in the US Fed funds target rate, on 30 June and 10 August, banks in Hong Kong have not so far seen a need to increase Hong Kong dollar interest rates because of the large amount of liquidity remaining in the interbank market. This liquidity has nevertheless continued to tighten: the Aggregate Balance of the clearing accounts maintained by banks with the HKMA declined to around HK\$5 billion in early September, from a high of nearly HK\$55 billion in March.

On 2 July the Legislative Council passed the Clearing and Settlement Systems Ordinance, which establishes a statutory regime for the Monetary Authority to designate and oversee the key clearing and settlement systems in Hong Kong. On 5 July the HKMA and Hong Kong's three note-issuing banks unveiled the designs and security features of the remaining three denominations in the new series of Hong Kong banknotes, which will go into circulation in October this year. On 22 July the Hong Kong SAR Government completed the offering of a bond issue of HK\$20 billion. The objective of the bond issue is to fund the Government's infrastructural and other investment projects.

In this issue

The new Hong Kong banknotes are described and illustrated in a special full-colour feature article in this issue. An article on international reserve holdings examines the relationship between reserve holding patterns and the size and nature of a financial centre. On the banking supervision side, a special article explains the background to new guidance issued to banks in Hong Kong on the prevention of money laundering and terrorist financing. This issue also includes the text of a speech by the Chief Executive of the Hong Kong Monetary Authority, Joseph Yam, on the case for an Asian bond market.