

EDITORIAL

Recent trends and events

The Hong Kong economy continued to improve into 2005. Exports of goods rose sharply in January, benefiting from the continued strong growth in Mainland China's exports in recent months. Domestically, higher asset prices and declining unemployment, together with further growth in inbound tourism, helped retail sales. Residential mortgages in negative equity declined to some 19,200 cases, a 24% fall from the previous quarter. There was a small decline in consumer prices in January, although this may have been influenced by the change in the timing of the Chinese New Year holiday.

Monetary and financial conditions in Hong Kong remained stable. The Hang Seng Index recovered part of its decline in January, closing at 14,195 on 28 February. Capital outflows from the Hong Kong dollar occurred during February and early March, and the Aggregate Balance declined from over HK\$15 billion to HK\$8 billion. The US federal funds target rate was raised twice over the past three months, by a cumulative 50 basis points. However, despite these pressures, ample liquidity in the Hong Kong interbank market allowed banks to keep their saving and best lending rates unchanged.

The Hong Kong dollar was included in the Continuous Linked Settlement System on 6 December 2004. This enables foreign exchange transactions involving the Hong Kong dollar to be settled through the System on a payment-versus-payment basis, thus removing settlement risk. On 20 January the HKMA announced that the Exchange Fund recorded an investment income of HK\$56.7 billion in 2004. The Fiscal Reserves' share of this income amounted to HK\$14.5 billion, some HK\$2.2 billion over the amount budgeted in the fiscal year 2004-05.

On 22 February the International Monetary Fund released its Article IV Consultation Staff Report on Hong Kong. The Report projected that sustained economic growth and the efforts to restrain government expenditure would result in the achievement of a balanced budget ahead of the scheduled 2008-09. The Report also reiterated support for Hong Kong's Linked Exchange Rate system, and concluded that the HKMA's response to appreciation pressures of the Hong Kong dollar had enhanced the resilience of the system.

In this issue

The first feature article in this *Quarterly Bulletin* presents a graphical framework for monitoring the property market in Hong Kong, and concludes that the risk of a property bubble developing in Hong Kong is currently low. An article on the growth of consumer credit in Asia points out that strong growth in consumer credit in Asian economies in recent years creates a new source of risk, to which policymakers should pay attention. A further article reviews the first year of renminbi banking business in Hong Kong, and an article on the Hong Kong dollar debt market in 2004 examines the debt market performance in 2004.