

## EDITORIAL

### Recent trends and events

The favourable economic trends in Hong Kong's economy continued in the third quarter. Real GDP grew strongly at an annual rate of 8.2%, following the increase of 7.3% in the previous quarter. Net exports of goods and services increased by 29.4%, contributing to 4.5 percentage points of GDP growth. Consumption was another growth driver, with private consumption expenditure increasing by 4.6% year on year. Inflation continued to edge upwards, reaching 1.8% in October, but was still within a range that can be considered benign. In view of the encouraging statistics, the Government has raised its forecast for GDP growth in 2005 to 7%.

The US Federal Open Market Committee continued to raise the federal funds target rate, by a total of 50 basis points to 4% over the past three months. Since the introduction of the three refinements to the Linked Exchange Rate system in May, interbank interest rates in Hong Kong and their US dollar counterparts have been moving in tandem. The change in renminbi exchange regime announced in July and the subsequent widening of the trading band against non-US dollar currencies in September have had virtually no impact on the Hong Kong dollar. The Hang Seng Index moved between 14,000 and 15,500 in the past three months, closing at 14,937 on 30 November.

The Chief Executive of the Hong Kong Special Administrative Region delivered his Policy Address on 12 October. One of the initiatives in the Address was the expansion of renminbi business in Hong Kong, the details of which were announced by the HKMA on 1 November. On 18 October, the Hong Kong Special Administrative Region Government and the Central People's Government reached an agreement on the liberalisation measures under the third phase of the Mainland and Hong Kong Closer Economic Partnership Arrangement. The Standing Committee of the National People's Congress decided on 27 October to add a national law providing for immunity of property of foreign central banks from judicial enforcement measures to Annex III to the Basic Law following its passage. The law is intended to be implemented in Hong Kong by way of local legislation. An IMF Staff Mission to Hong Kong completed its Article IV Consultation in November, stating that it was supportive of the Government's fiscal policy and its commitment to the Linked Exchange Rate system.

## In this issue

This issue of the *Quarterly Bulletin* contains a feature article entitled the composite interest rate of Hong Kong - a new data series, which provides the background to the composite interest rate that the HKMA proposes as an alternative reference rate for banks and their customers, and explains how it is compiled. The second article is entitled Hong Kong as one of the world's largest net creditors: a study of international investment position statistics. The article concludes that sharp increase in net portfolio investment and in other investments are the main factors accounting for Hong Kong's position. The last feature article provides an updated review of financial infrastructure development. This issue also contains a Supervisor's Memo setting out the policy stance of the HKMA related to the implementation of Basel II in Hong Kong.