

EDITORIAL

Recent trends and events

Hong Kong's economy continued to show broad-based expansion in the fourth quarter, although the rate of growth moderated. Real GDP registered its tenth straight quarter of expansion, rising by 0.6% from the third quarter, and was 7.6% higher than the same period in 2004. Most of the GDP components saw increases over the previous quarter. Consumer confidence remained strong. Labour market conditions continued to improve. Total employment rose to an all-time high in the fourth quarter, and the unemployment rate continued to decline to 5.2% in the three months ending January 2006. Inflation has edged up in recent months but the overall pressure is considered benign. On a three-month-on-three-month basis, the annualised increase in the Composite Consumer Price Index rose from 2.0% in November to 2.5% in December, before stabilising at 2.6% in January.

Following the two increases of 25 basis points each in the federal funds target rate (to 4.5%) at the Federal Open Market Committee meetings in December 2005 and January 2006, the HKMA raised the Base Rate by a total of 50 basis points to 6%. Hong Kong dollar interest rates tracked their US counterparts. The Hong Kong dollar exchange rate stayed near the strong-side Convertibility Undertaking rate (HK\$7.75 per US dollar) in the past three months, mainly due to strong demand for Hong Kong dollar funding related to some large initial public offerings. The Hang Seng Index moved between 14,800 and just below 16,000 in the past three months, ending February at 15,918.

To help authorized institutions better manage their interest rate risk, the HKMA announced the first composite rate, which closely tracks the average cost of funds, on 8 December 2005. On the same day, Bank Negara Malaysia and the HKMA entered into a Memorandum of Understanding for linking Malaysia's Ringgit RTGS system with Hong Kong's US dollar RTGS system. On 9 January 2006 the HKMA launched the CMU Bond Price Bulletin website, which provides retail investors with convenient on-line access to indicative bond prices provided by a number of banks in Hong Kong. The HKMA announced the position of the Exchange Fund at the end of 2005 on 19 January.

The World Trade Organization Sixth Ministerial Conference was held in Hong Kong in December 2005. Apart from the temporary closure of some bank branches and suspension of automated teller machine services due to nearby demonstrations, no major disruption to the banking sector was reported. The Treasury Markets Association announced its establishment on 23 January 2006. The International Monetary Fund released its Article IV Consultation Staff Report on 14 February, giving a positive assessment of Hong Kong's economic performance and commending the Government's fiscal and exchange rate policies.

In this issue

This issue of the *Quarterly Bulletin* contains five feature articles. The first article describes the benefits of sharing positive consumer credit data following the first review conducted by the HKMA. The review shows that sharing of positive data, which began in June 2003, benefits both financial institutions and consumers. The second article, entitled external demand for Hong Kong dollar currency (revisited), is a follow-up to a similarly titled article published in the March 2003 issue of the *Bulletin*. It is followed by an article comparing the financial sector output and employment in Hong Kong and New York City. The last two articles are annual reviews of Hong Kong dollar debt market development and Hong Kong's renminbi business.