

EDITORIAL

Recent trends and events

The economy of Hong Kong advanced into the third quarter of 2006 with its vital signs in robust condition. Growth of real GDP averaged 6.8% in the first three quarters of the year while inflation measured by the composite consumer price index remained moderate at 2%. Exports and investment were sturdy and grew at 9.5% and 8.5% respectively. The unemployment rate, which has been on a downward trend since mid-2003, reached 4.5% in October.

The US federal funds target rate has been kept at 5.25%, and the corresponding local Base Rate at 6.75%, since June 2006. The Aggregate Balance has remained stable at around HK\$1.3 billion in the past three months. Hong Kong's equity market was largely on an upward trend in the third quarter, with the Hang Seng Index reaching as high as 19,404 near the end of November and closing at 18,960 at the end of the month.

The HKMA announced the completion of a review of debt market development in Hong Kong on 5 October. As a result of the review, the HKMA will implement measures to improve its Exchange Fund Bills and Notes programme. The three-year rule imposed on Hong-Kong-dollar-denominated bonds issued by Multilateral Development Banks since 1998 will also be removed. On 23 October, the HKMA launched a new bulk settlement service for Hong-Kong-dollar credit card transactions among banks participating in a credit card scheme. A new cross-border payment-versus-payment link between Hong Kong's US dollar real time gross settlement system (RTGS) and Malaysia's Ringgit RTGS was launched by the HKMA and the Bank Negara Malaysia on 13 November.

In this issue

This issue of the Quarterly Bulletin contains two feature articles and a supervisor's memo. The first feature article examines the level of financial integration in Asia, and the second develops a framework for macro stress testing the credit risk of banks in Hong Kong. The supervisor's memo provides answers to some possible questions on the use test for internal ratings-based approaches under Basel II.

