

## EDITORIAL

### Recent trends and events

Solid growth, moderate inflation and low unemployment all testified to a sturdy economy in Hong Kong. The city's GDP increased by 5.6% year on year in the first quarter of 2007. Growth in private consumption and export of services and a strong stock market were the main contributors. Inflation pressures increased in the quarter but remained moderate at an annualised rate of 2.5%. The unemployment rate declined to a nine-year low of 4.3% in April.

The US federal funds target rate remained at 5.25%, and hence the local Base Rate at 6.75%, throughout the first quarter. The Aggregate Balance continued to be stable at around \$1.3 billion. The local stock market spent a good two months recovering from a 2000-point fall at the end of February and in early March this year. The Hang Seng Index reached an all-time high of 21,088 on 15 May, before closing at 20,634 at the end of the same month.

On 12 March, the HKMA announced its plan to issue, for trial, a ten-dollar polymer note around the middle of 2007. It also announced, with the Securities and Futures Commission, the Federation of Share Registrars and the Hong Kong Association of Banks, on 23 March a new measure to deter multiple applications for initial public offerings in Hong Kong. On 27 April, it published its *Annual Report* for 2006. On 4 May, it announced that all 72 Hong Kong incorporated authorized institutions are now reporting their capital adequacy positions under the newly implemented revised capital adequacy framework set out in the Banking (Capital) Rules.

In a speech delivered at a seminar organised by the Hong Kong Economic and Trade Office in Tokyo on 8 May, Joseph Yam spoke on the relationship between the Hong Kong and the Mainland financial systems, and how they could complement each other to their mutual benefit. He also spoke on the roles Hong Kong can and should play in the development of the financial markets of China as a whole.

### In this issue

This issue of the Quarterly Bulletin contains three feature articles. The first feature article is a review of the "Three Refinements" of the Hong Kong dollar Linked Exchange Rate system two years on. The second article presents the results of the 2006 survey on credit derivative and securitization activities, and the third is a research report on sense and nonsense about Asia's export dependency and the decoupling thesis.