

## EDITORIAL

### Recent trends and events

Growth of the Hong Kong economy accelerated in the second quarter, due mainly to expansion in private consumption and business spending. Real GDP increased by 6.9% year on year in the quarter, and 6.3% year on year in the first half of 2007. Inflation pressures continued to rise with the Composite Consumer Price Index increasing to 2.6% year on year in July, from 2.4% in June. The unemployment rate declined to a nine-year low of 4.2% in the second quarter.

The US federal funds target rate remained at 5.25%, and hence the local Base Rate stayed at 6.75%, throughout the second quarter. The Aggregate Balance continued to be stable at around \$1.3 billion. The local stock market had a roller-coaster ride in July and August, with the Hang Seng Index dropping 4,171 points from 23,557 on 26 July to 19,386 on 17 August, before rising 4,700 points to reach the then all-time high of 24,089 on 31 August. The Index closed at 23,984 on 31 August.

On 4 June, the HKMA announced the launch of a campaign to promote public awareness of the security features and the handling characteristics of the Hong Kong ten-dollar polymer note, which was to be put into circulation gradually from 9 July. On 18 July, it announced, with the approval of the Financial Secretary and following consultation with the note issuing banks (NIB), its new policy of requiring NIBs to have no close association with any foreign government or foreign government-controlled entity which either alone or with associates is entitled to exercise or control the exercise of 20% or more of the voting power at any general meeting of the bank or its holding company or either directly or indirectly influences or seeks to influence any aspect of the management or business of the bank. On 10 August, it announced the inaugural issue of 15-year Exchange Fund Notes on 28 August.

### In this issue

This issue of the Quarterly Bulletin contains two feature articles. The first is a study into the determinants of the performance of banks in Hong Kong and finds cost efficiency to be the major determinant. The second one looks into the sources of employment growth in Hong Kong and assesses the contribution of demand from Mainland China to job creation in the city.