

EDITORIAL

Recent trends and events

Hong Kong's economy registered its sixteenth consecutive quarter of above-trend growth mainly driven by strong private consumption, inbound tourism and merchandise exports. GDP rose by 6.2% year on year in the third quarter of 2007. The Government expects the economy to attain 6% growth, the upper end of its forecast of 5 to 6% growth. The unemployment rate edged down further to 3.9% in October, the lowest since mid-1998. Inflationary pressures mounted in light of the buoyant economy, the tight labour market and the continuing appreciation of the renminbi. After netting out the effect of the government rates concession, CCPI inflation picked up from 2.7% in the second quarter to 3.3% in the third quarter.

The US Federal Open Market Committee cut the federal funds target rate for the third time since September, by a total of 100 basis points to 4.25%. The local Base Rate correspondingly decreased to 5.75%. The local stock market remained volatile. Since reaching a record high of 31,958 on 30 October, the Hang Seng Index subsequently declined to 25,861 on 22 November. The index closed at 28,643 on 30 November.

The HKMA and Bank Negara Malaysia announced on 29 October the implementation of a cross-border delivery-versus-payment link between Hong Kong's US dollar real time gross settlement (RTGS) system and Malaysia's Ringgit RTGS system. On 19 November, the HKMA and the Financial Reporting Council (FRC) entered a Memorandum of Understanding to elaborate the mechanisms for communication and information exchange between the HKMA and the FRC, and to enhance the cooperation and mutual assistance between the two parties.

The International Monetary Fund's annual Article IV Consultation for Hong Kong took place between from October 29 to November 7. In its Concluding Statement, the IMF mission reiterated its support for Hong Kong's Linked Exchange Rate system. The mission also welcomed the initiatives by the Hong Kong and Mainland authorities to deepen financial integration, and considered that these will benefit both economies.

In this issue

This issue of the Quarterly Bulletin contains two feature articles and a supervisor's memo. The first article introduces alternative methods for measuring the position of Hong Kong as an international financial centre, and the second examines the turnover of the foreign exchange and derivatives markets in Hong Kong. The supervisor's memo addresses the key enquiries on the supervisory requirements set out in the HKMA circular of 20 June 2007 regarding Participating Banks' controls and risk management over the expanded renminbi banking business in Hong Kong.

In a move to streamline production and reduce paper consumption, starting from 2008, the Quarterly Bulletin will be available only on the HKMA website. However, printed version of the Half-Yearly Monetary and Financial Stability Report (English only) will still be available.