

EDITORIAL

Recent Trends and Events

Key indicators point to continued economic recovery in Hong Kong in recent months. Fuelled by China's strong export performance, and helped by a weaker US dollar, Hong Kong's external trade picked up further in the fourth quarter of 2002 into 2003. The unemployment rate declined from its peak of 7.8% in mid-2002 to 7.2% in the three months to end-January. Price deflation has moderated. The continuing surge in inbound tourism is helping domestic demand, which, though still subdued, appears to be beginning to bottom out. There are signs that the property market, while still weak, is responding to the Government's recent stabilising initiatives.

Looking ahead, economic recovery is generally expected to continue this year. The short-term outlook is, however, clouded by growing international tensions and slowing economic growth in the main world economies. These concerns and uncertainties have been reflected in stock markets across the world. In Hong Kong, the Hang Seng Index, following closely the movements in US and other major markets, fell below 9,200 in February, from 10,200 in early December.

The Hong Kong dollar has remained stable under the Linked Exchange Rate system, with 12-month forward points declining to around 180 pips in recent weeks, from about 370 pips in mid-October, when concerns about Hong Kong's fiscal deficit intensified. On 25 February the International Monetary Fund Staff Mission visiting Hong Kong for the annual Article IV Consultation, in its concluding statement, declared strong support for the Hong Kong SAR Government's commitment to the Linked Exchange Rate system. The Mission's concluding statement also drew attention to Hong Kong's resilient financial system and its well capitalised and profitable banking system.

One area of concern noted by the IMF Mission is the deterioration of the fiscal position in Hong Kong, and the risk that this might pose to the long-term sustainability of the public finances and the stability of the Linked Exchange Rate system. A wide-ranging package of concrete proposals to address the deficit problem was outlined by the Financial Secretary in his annual budget, on 5 March. The aim is to restore fiscal balance by 2006-07 through measures designed to reduce government expenditure, increase revenue, and stimulate economic activity.

In This Issue

In this 34th issue of the *HKMA Quarterly Bulletin* we introduce a number of changes. The *Quarterly Bulletin* is now completely bilingual, with the English and Chinese versions in distinct sections. New statistical appendices, complementing the more detailed on-line *HKMA Monthly Statistical Bulletin*,

provide the latest key financial and economic statistics for Hong Kong. The charts and other illustrative material have been made clearer. The format has been redesigned, and there will be a different cover illustration for each issue: the theme for 2003 is coins in nineteenth-century Hong Kong. A new section on resources provides guidance on other research and reference materials produced by the HKMA. A brief editorial, of which this is the first, surveys the main events relevant to the HKMA's work in the preceding few months and comments on some of the main articles in the current issue.

The price of the *Quarterly Bulletin*, at one hundred Hong Kong dollars per issue, remains unchanged, and the complete *Bulletin* is available on-line in English and Chinese at no charge. In short, and in the spirit of deflation and increased productivity that now prevails in Hong Kong, you get more for your money.

In addition to the regular articles, this issue of the *Quarterly Bulletin* contains five feature articles. Among these, a research feature on the External Demand for Hong Kong Dollar Currency explores a growing phenomenon in recent years: the use outside of Hong Kong, and particularly on the Mainland of China, of Hong Kong dollar notes. The article on the Development of Financial Infrastructure in Hong Kong traces the considerable strides made in Hong Kong's clearing, payment and settlement systems over the past thirteen years and looks forward to the development of further systems and links, particularly of an international dimension. With the planned commencement of the new Securities and Futures Ordinance and the accompanying Banking (Amendment) Ordinance 2002 next month, transitional arrangements and key issues for practitioners in the field are set out in an article Securities-Related Activities of Authorized Institutions: Key Issues for Staff. Further articles review the development of the Hong Kong Dollar Debt Market in 2002 and the application to Hong Kong of Alternative Measures of the Real Effective Exchange Rate.