

EDITORIAL

Recent Trends and Events

The outbreak of severe acute respiratory syndrome (SARS) in Hong Kong and elsewhere in the region dealt an unexpected blow to the economy in the second quarter of 2003. The retail, catering, travel and property sectors were severely affected. Inbound tourism, which had become one of the main drivers of growth in 2002, declined markedly. The unemployment rate rose to 7.8% during the three months to end-April. These setbacks came against a background of moderating, though still strong, economic growth in the first quarter of 2003, reflecting the uncertain international situation and sluggish performance in the main world economies.

The near-term outlook has been weakened by the SARS outbreak, and the Government has reduced its real GDP growth forecast for 2003 from 3% to 1.5%. The economic effects of the SARS episode on Hong Kong are, however, expected to be temporary. The World Health Organisation's travel advisory on Hong Kong was lifted on 23 May following clear evidence that the outbreak had been brought under control. Consumer sentiment has since begun to revive. In addition to a number of relief and stimulus packages within Hong Kong arranged by both the Government and the private sector, the Government has earmarked one billion dollars for a programme to relaunch Hong Kong internationally and to encourage people to visit the city.

More sustained economic recovery is expected to take hold in the latter part of the year along with expected improvements in the global economy and continuing growth in external trade, which, despite some moderation in April, has continued to be the main impetus for growth. The recent depreciation of the US dollar should help to improve further the competitiveness of Hong Kong's exports and services.

The Hong Kong dollar has remained stable under the Linked Exchange Rate system. The Concluding Statement on the International Monetary Fund's annual Article IV Consultation on Hong Kong, published on 30 May, expressed clear support for Hong Kong's Linked Exchange Rate system. A separate Financial System Stability Assessment, conducted recently by the IMF for Hong Kong, has also concluded that Hong Kong's financial system is "resilient, fundamentally sound, and supported by a strong financial stability framework".

In This Issue

This 35th issue of the *HKMA Quarterly Bulletin* contains five feature articles, in addition to the regular reports, surveys and statistics. An article on [Hong Kong's Export Performance](#) examines the recent shift in trade patterns from re-exports to offshore trade and draws attention in particular to the implications

for employment. A further article reports on empirical research into the Impact of Interest Rate Shocks on the Performance of the Banking Sector. More theoretically and more generally, the preliminary results of research into developing a conceptual approach to assessing the state of health of an economy are introduced in the article on a Framework to Measure the Resilience of an Economy.

Two articles report on developments in banking. The Results of the 2002 Survey on Credit Derivatives Activity show that banks' participation in the credit derivatives market has increased in the past three years, although their exposure is still small. The latest progress in the planning of a deposit protection scheme for Hong Kong is set out in an article on the provisions of, and rationale behind, the Deposit Protection Scheme Bill, which was introduced into Hong Kong's Legislative Council on 30 April 2003.