

EDITORIAL

Recent trends and events

Economic recovery continued to gather momentum in Hong Kong in late 2003 and early 2004, helped by an improving global environment and by strong growth in in-bound tourism and exports. Real GDP grew by 3.3% in 2003. The unemployment rate fell to 7.3% in the three months ending in January, down from a peak of 8.7% in mid-2003. Consumer confidence continued to improve, asset prices increased, and deflationary pressures receded further. The Hang Seng index reached a nearly three-year high of 13,928 on 18 February. Inflows of funds helped maintain a strong Hong Kong dollar. A rebound in property prices led to a substantial reduction in the estimated number of home-owners in negative equity, from a peak of 106,000 at the end of June 2003 to around 60,000 in early 2004.

The Financial Secretary announced in his annual budget speech on 10 March an expected fiscal deficit for 2003-4 of \$49 billion, which is \$29 billion less than that originally projected. The Government forecast is for real GDP to grow by 6% in 2004. In the budget the Financial Secretary also proposed that the Government issue bonds not exceeding \$20 billion in 2004-5 to finance major infrastructure projects.

An important factor in Hong Kong's economic revival is the growing economic integration between Hong Kong and the mainland of China. An important milestone in this relationship was reached in late February with the introduction by 35 banks in Hong Kong of personal renminbi deposit, exchange and remittance services. A total of over RMB2 billion was deposited in banks in Hong Kong in the first two weeks (25 February — 10 March) of operation of renminbi services.

In this issue

The renminbi, and its impact on the economies of the region, and on the global economy generally, is the theme of two feature articles in this issue. The launch of renminbi services in Hong Kong raises the question of whether, sooner or later, the Hong Kong dollar will itself become marginalised. A research article on [personal renminbi business](#) addresses this question and concludes that it is unlikely, in the foreseeable future, that the renminbi will replace the Hong Kong dollar to any great extent in transactions within Hong Kong. A second article, on [the impact of a renminbi appreciation on global imbalances](#), carefully examines the arguments behind the calls for the renminbi to appreciate, but concludes that an appreciation of the renminbi would contribute little towards correcting global trade imbalances.

Further articles examine debt market development in Hong Kong in 2003 and the relationship between real estate indicators and the banking sector and the larger economy. This issue also includes the text of speech by the Chief Executive of the Monetary Authority, Joseph Yam, on issues in monetary policy. This speech addresses the recent strengthening of the Hong Kong dollar and explores a number of various scenarios under which this episode of strength will play out.