

EDITORIAL

Recent trends and events

Hong Kong's economy is now in its third year of broad-based growth. Both consumption and investment growth accelerated in the first quarter thanks to a favourable domestic environment. External trade remained buoyant, reflecting robust growth in Hong Kong's trading partners. Real GDP grew by 8.2% year on year in the first quarter of 2006. The unemployment rate fell to 5.1%, its lowest level since August 2001. Overall inflation has remained benign despite consumer price inflation having risen moderately in the past few months. The Composite CPI rose by 1.9% year on year in April.

The federal funds target rate reached 5% following two 25-basis-point increases in March and May. Accordingly, the HKMA raised the Base Rate by a total of 50 basis points to 6.5%. The Aggregate Balance remained at around HK\$1.3 billion in the past three months. Hong Kong's equity market has been volatile, with Hang Seng Index dropping by nearly 1,500 points within two weeks in May after having rallied strongly towards 17,300. The Index closed at 15,857 at the end of May.

In a speech delivered at the Pan-Pearl River Delta Financial Services Forum on 23 March, Joseph Yam, the Chief Executive of the HKMA, proposed a financial development strategy for Hong Kong to assist in the intermediation of funds on the Mainland and supporting its status as an international financial centre. The speech, which was delivered in Chinese, is reproduced in this issue of the *Quarterly Bulletin*, with an English translation.

The HKMA and the Bank of China (Hong Kong) Limited jointly announced the launch of the new Renminbi Settlement System on 2 March. On 27 April the Securities and Futures Commission and the HKMA jointly announced that disciplinary action had been taken against three individuals and one institution who were, at the material time, licensed persons under the Securities and Futures Ordinance (SFO) and relevant individuals under the Banking Ordinance. This was the first time the two regulators had taken joint disciplinary action since the SFO came into force in April 2003. The People's Bank of China announced the partial adjustment of foreign exchange management policies on 13 April.

In this issue

This issue of the *Quarterly Bulletin* includes four feature articles. The first two articles describe the Hong Kong banking sector's preparedness for a possible influenza pandemic and the oversight of payment and securities settlement systems in Hong Kong by the HKMA under the Clearing and Settlement Systems Ordinance. The results of the 2005 survey on credit derivative and securitisation activities show that authorized institutions were active in credit derivative and securitisation markets in 2005. The last article is a summary version of a research memorandum entitled the macroeconomic impact on Hong Kong of hypothetical Mainland shocks.