

Exchange Fund Position at end-December 2023

The following is issued on behalf of the Hong Kong Monetary Authority:

The Hong Kong Monetary Authority (HKMA) today (January 26) published the unaudited financial position of the Exchange Fund at end-December 2023.

The Exchange Fund recorded an investment income of HK\$212.7 billion in 2023. The main components were:

- gains on bonds of HK\$144.0 billion;
- losses on Hong Kong equities of HK\$15.5 billion;
- gains on other equities of HK\$73.2 billion;
- negative currency translation effect of HK\$0.5 billion on non-Hong Kong dollar assets (Note 1); and
- gains on other investments of HK\$11.5 billion (Note 2).

Fees on placements by the Fiscal Reserves and placements by HKSAR Government funds and statutory bodies were HK\$17.5 billion (Note 3) and HK\$16.5 billion respectively in 2023, with the rate of fee payment at 3.7 per cent for 2023.

The Abridged Balance Sheet shows that the total assets of the Exchange Fund increased by HK\$9.8 billion, from HK\$4,008.0 billion at the end of 2022 to HK\$4,017.8 billion at the end of 2023. Accumulated surplus stood at HK\$652.4 billion at end-December 2023.

The Exchange Fund recorded an investment return of 5.2 per cent in 2023 (Note 4). Specifically, the Investment Portfolio achieved a rate of return of 6.4 per cent. The Backing Portfolio gained 5.0 per cent, a post-2009 record high level of return, as a result of higher interest income on the short-term bonds alongside rising bond yields. The Long-Term Growth Portfolio (LTGP) recorded an annualised internal rate of return of 11.8 per cent since its inception in 2009 up to the end of September 2023.

Commenting on the performance of the Exchange Fund in 2023, Chief Executive of the HKMA, Mr Eddie Yue, said, "The investment environment in 2023 was extremely volatile and challenging. Although banks in the US and Europe experienced liquidity issues at the beginning of the year, the associated risks have not spread across the financial markets. While the levels of inflation in major developed economies have declined from their peak last year, they remained above the targets set by major central banks. Following an aggressive rate hike cycle, the US Fed has paused hiking rate since the third quarter, and recently indicated that the policy rate was likely at or near its peak. Coupled with a resilient US economy, investor

sentiment has turned more optimistic in general. However, ongoing geopolitical tensions, such as the Russia-Ukraine war and the outbreak of conflict in the Middle East during the year, added turbulence and uncertainties to the investment market.

"In this complicated and dynamic investment environment, the investment performance of the Exchange Fund experienced some ups and downs but managed to achieve a decent return overall. Global equities were generally on an upward trend in 2023, contributing to the positive performance of the Exchange Fund's equity holdings. Investment income from bond holdings set a new record, mainly due to the high bond yields that brought significant interest income."

Mr Yue said, "Looking ahead in 2024, global financial markets will continue to face numerous challenges. Markets in general expect that the interest rate hike cycle is almost over. However, the time required for inflation to return to the target levels set by major central banks remains uncertain. Should the timing and pace of interest rate cuts fall short of market expectations, it may trigger heightened volatility and corrections in asset prices. In addition, the impact of rate hikes on the global real economy has become more visible. Corporate earnings and macroeconomic growth may start to slow down. These factors will bring material uncertainties to global asset markets.

"Furthermore, the biggest unknown factor remains geopolitical risks. Escalation of tensions in situations such as the Russia-Ukraine war, the Middle East conflict and the Red Sea could have substantial impact on the global economy and the financial markets. 2024 is also a key election year as many major elections are scheduled to be held. The outcome of these elections will further increase market uncertainties and pose challenges to the investments of the Exchange Fund.

Despite the complicated and dynamic investment environment, the HKMA will continue to adhere to the principle of capital preservation first while maintaining long-term growth. We shall continue to manage the Exchange Fund with prudence and flexibility, implement appropriate defensive measures, and maintain a high degree of liquidity. We will also continue our investment diversification to strive for higher long-term investment returns and ensure that the Exchange Fund will continue to serve its purpose of maintaining monetary and financial stability of Hong Kong in an effective manner."

Note 1: This is primarily the effect of translating foreign currency assets into Hong Kong dollar after deducting the portion for currency hedging.

Note 2: This is the valuation change of investments held by investment holding subsidiaries of the Exchange Fund. This figure reflects the valuations at the end of September 2023. Valuation changes of these investments from October to December are not yet available.

Note 3: This does not include the 2023 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2023 is available.

Note 4: This return excludes the performance of the Strategic Portfolio and

only includes the performance of LTGP up to the end of September 2023. The audited full year return will be disclosed in the 2023 annual report.