

Record of discussion of meeting of Exchange Fund Advisory Committee Currency Board Sub-Committee held on April 27

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

(Approved for Issue by the Exchange Fund Advisory Committee by circulation)

Report on Currency Board Operations (December 31, 2022 – April 17, 2023)

The Currency Board Sub-Committee (Sub-Committee) noted that the Hong Kong dollar (HKD) traded within a range of 7.8072 – 7.8500 against the US dollar (USD) during the review period. The HKD softened upon the fading of the seasonal funding demand for HKD at year-end 2022, and stayed close to the weak-side Convertibility Undertaking (CU) since mid-February this year amid the selling pressure from carry trades. The weak-side CU was triggered six times between mid-February and mid-April. With the Hong Kong Monetary Authority buying HK\$39.96 billion under the weak-side CU, the Aggregate Balance fell correspondingly to around HK\$57 billion. The HKD interbank interest rates decreased during the review period, and the spreads of the HKD-USD interbank interest rate generally widened in the negative territory. Overall, the HKD exchange and interbank markets continued to trade in a smooth and orderly manner.

The Sub-Committee noted that the Monetary Base decreased to HK\$1,879.75 billion at the end of the review period. In accordance with the Currency Board principles, all changes in the Monetary Base had been fully matched by changes in foreign reserves.

The Report on Currency Board Operations for the review period is at Annex.

Monitoring of Risks and Vulnerabilities

The Sub-Committee noted that the recent banking problems in the US and Europe had underscored the fragility of market confidence amid tightening global financial conditions. While swift policy responses had been rolled out to forestall further escalation of the banking stress, lingering concern about the health of financial institutions might weaken market confidence further and heighten the risks of credit retrenchment, which might lead to a sharper slowdown in global growth ahead. Meanwhile, the still-strong inflation pressure in major advanced economies was likely to necessitate a continued tightening bias by major central banks, accentuating the trade-offs among price stability, financial stability and growth in the near term.

The Sub-Committee noted that economic activities had started to normalise in Mainland China following the reopening, with major economic indicators showing improvement in Q1 2023. As for the Asia-Pacific region, while the banking problems in the US and Europe and the increased uncertainty surrounding the US interest rate outlook so far had not triggered any funding market stress, it was noted that the external environment would likely remain volatile and the related impact on the region would warrant close monitoring.

The Sub-Committee noted that Hong Kong's merchandise exports remained weak in Q1 2023, but visitor arrivals and retail sales revived visibly on the back of the reopening of Mainland China and Hong Kong. The economic growth of Hong Kong was expected to stage a strong rebound this year, although the outlook would face evolving uncertainties, especially those relating to the US policy interest rate and the recovery pace of inbound tourism. Meanwhile, housing prices and transactions both picked up in early 2023 as market sentiment improved.