

Record of discussion of meeting of Exchange Fund Advisory Committee Currency Board Sub-Committee held on May 6

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 30, 2023 – April 24, 2024)

The Currency Board Sub-Committee (Sub-Committee) noted that the Hong Kong dollar (HKD) traded within a range of 7.8067 – 7.8369 against the US dollar (USD) during the review period. The HKD exchange rate moderated slightly between January and April amid softened liquidity but remained supported by net inflows through the Southbound Stock Connect. HKD interbank rates continued to track the USD rates while also being affected by local supply and demand. The Convertibility Undertakings were not triggered and the Aggregate Balance was stable at around HK\$45 billion. No abnormality was noted in the usage of the Discount Window. Overall, the HKD exchange and interbank markets continued to trade in a smooth and orderly manner.

The Sub-Committee noted that the Monetary Base increased to HK\$1,909.96 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 earlier market expectations of imminent cut in US policy rate had been dashed by the recent stronger-than-expected US inflation readings. While risky assets had rallied on the back of "soft landing" expectations and investor frenzy in stocks related to artificial intelligence, the elevated asset valuations could be challenged by the "high for long" interest rate environment, which had already led to some cracks in the real economy including rising customer loan delinquencies and pressures on the commercial real estate market. Meanwhile, vulnerabilities in non-bank financial institutions, including the private credit market and hedge funds, also warranted continued attention.

The Sub-Committee noted the continued, yet uneven, economic recovery in Mainland China in Q1 2024. The official economic growth target for 2024 was

set at about 5 per cent for the second consecutive year, likely bolstered by stronger fiscal support and better co-ordination of fiscal and monetary policies. However, the near-term economic outlook continued to face various challenges from a sluggish global growth outlook, an uncertain geopolitical environment, a soft domestic housing market and lingering concerns over local government financing vehicle debt risk. The Asia Pacific region remained resilient amid elevated interest rates and dampened credit and investment, although geoeconomic fragmentation might rise further in 2024 given increased appetite for trade protectionist measures and more active industrial policies.

The Sub-Committee noted that in Hong Kong, visitor arrivals continued to recover in Q1 2024 and merchandise exports registered a notable increase against a low base of comparison. Looking ahead, the domestic economy was expected to continue to recover at a moderate pace in 2024, but the growth outlook would face evolving risks and uncertainties relating to the US policy rate path, global economic prospects, the recovery pace of the global tech cycle and evolving geopolitical tensions. While the residential property market turned more active following the relaxation of policy measures announced at the 2024-25 Budget, housing prices remained soft amid the still-elevated mortgage rates and increased private housing supply.

Hong Kong Banking Sector's Exposures to Non-Bank Financial Institutions

The Sub-Committee noted a paper that reported on a deep-dive review of the Hong Kong banking sector's exposures to non-bank financial institutions completed by the Banking Supervision Department.