

Record of Discussion of the Meeting of the Exchange Fund Advisory Committee Currency Board Sub-Committee held on January 6

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

(Approved for Issue by the Exchange Fund Advisory Committee on January 25)

Report on Currency Board Operations (October 12 – December 24, 2021)

The Sub-Committee noted that the Hong Kong dollar (HKD) traded within a range of 7.7735 and 7.8032 against the US dollar (USD) during the review period. The HKD drifted lower in November and December amid softened equity market sentiment. Despite some increases amid tightened liquidity towards the year-end, HKD interbank interest rates (i.e. HIBORs) remained at low levels during the review period. Overall, the HKD exchange and interbank markets continued to trade in a smooth and orderly manner.

The Sub-Committee noted that the Monetary Base edged up to HK\$2,132.65 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 global economy continued to recover, but the pace of growth had slowed amid persistent supply bottlenecks and recurring COVID-19 outbreaks. Looking ahead, the global outlook was subject to a number of risks and uncertainties. In particular, the spread of the COVID-19 Omicron variant might lead to renewed lockdowns and exacerbate supply bottlenecks. This, together with rising rental costs and widespread labour shortages, could make US inflation stickier than expected, accentuating the risk of a premature financial tightening for emerging markets (EMs) as the Fed accelerated policy tightening.

In Mainland China, the economy faced downward pressures amid the softening housing market. Accordingly, Mainland authorities had set growth stabilisation as a policy priority. Amid the slower growth in the major economies, the rest of EM Asia might face weaker support from external demand, and corporates' profit margin might continue to face compression pressures.

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The Sub-Committee further noted that in Hong Kong, the economy continued to recover in the fourth quarter of 2021, with both external and local demand growing at a solid pace. Nevertheless, the growth outlook for 2022 was subject to heightened uncertainty. Alongside a decline in the unemployment rate and rising external prices, local inflationary pressures would likely edge up in the near term, but should remain largely in check as local cost pressures remained tame. Amid softened asset market sentiment, secondary housing market transaction volume moderated in the fourth quarter of 2021.

Developments in the Mainland Property Market

The Sub-Committee noted a paper which sought to examine property market conditions in the Mainland.