

Record of Discussion of the Meeting of the Exchange Fund Advisory Committee Currency Board Sub-Committee held on October 21

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

(Approved for Issue by the Exchange Fund Advisory Committee on November 30, 2021)

Report on Currency Board Operations (June 29 – October 11, 2021)

The Sub-Committee noted that the Hong Kong dollar (HKD) traded within a range of 7.7632 and 7.7924 against the US dollar during the review period. The HKD had softened since early July, mainly reflecting risk-off sentiment in the local stock market. With the sizeable Aggregate Balance, HKD interbank interest rates (i.e. HIBORs) remained largely stable 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\$2,118.34 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 corresponding changes in foreign reserves.

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

Monitoring of Risks and Vulnerabilities

The Sub-Committee noted that a renewed flare-up of COVID-19 infections had weighed on the global recovery and dimmed hopes for Asia reopening their economies, while global supply chain bottlenecks remained prevalent. These, together with the global housing market boom and the rising global energy prices, might render global inflation more persistent than expected. A prolonged inflation spell, in turn, could challenge "low for long" expectations, possibly triggering a premature tightening of global financial conditions.

The Sub-Committee noted that in the Mainland China, downward pressures on economic activities had increased, while liquidity pressures facing some Mainland property developers had intensified. Beyond the near term, continued China-US tensions could further increase uncertainties surrounding the global economic outlook.

The Sub-Committee further noted that the Hong Kong economy continued to recover visibly in the second quarter of 2021, driven by reviving local demand and robust merchandise exports. Thanks in part to a boost from the Government's Consumption Voucher Scheme, economic activities were expected to recover further in the rest of the year, although the spectre of a new infection wave still lingered due to the virus variants. Alongside a decline in the unemployment rate, local inflation picked up recently but should remain mild for 2021 as a whole, partly due to limited upward pressure on housing rentals. Housing prices and transactions moderated somewhat in the third quarter of 2021.

How would Mainland China-related Flows Affect the Monetary Conditions in Hong Kong

The Sub-Committee noted a paper which sought to explore how Mainland China-related fund flows could affect monetary conditions in Hong Kong.