

Record of discussion of meeting of Exchange Fund Advisory Committee Currency Board Sub-Committee held on April 30

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 (25 December, 2024 – 16 April, 2025)

The Currency Board Sub-Committee (Sub-Committee) noted that the Hong Kong dollar (HKD) traded within a range of 7.7555 – 7.7927 against the US dollar (USD) during the review period. The HKD exchange rate moderated in early January 2025 as liquidity tightness subsided at the end of 2024 and global markets reacted to US tariff announcements, but strengthened in mid-February 2025, supported by strong performance of the local stock market amid Mainland China's recent advancements in artificial intelligence and net inflows from the Southbound Stock Connect. In early April, in response to further US tariffs, the HKD strengthened further as long USD carry trades unwound amid a risk-off sentiment and southbound inflows continued. HKD interbank rates (HIBORs) continued to track the USD rates while shorter-tenor rates were also being affected by local supply and demand. Short-term HIBORs tightened briefly near the year-end but softened thereafter as funding demand faded. The Convertibility Undertakings were not triggered during the review period 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\$1,980.99 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 downside growth risks to the global economy had intensified following the US announcement of imposing reciprocal tariffs that exceeded market expectations. In response, global financial markets had gyrated, although they continued to operate smoothly with no sign of

widespread funding stress. While the postponement of reciprocal tariffs had offered some reprieve for export-reliant Asian economies which generally faced higher rates, the prospect of tariffs being implemented further down the road still posed significant growth headwinds.

The Sub-Committee noted that in Mainland China, the economy entered 2025 amid some green shoots and improved equity market sentiment. In particular, at the "two sessions" in March, the authorities sent strong pro-growth signals, including prioritising consumption and strengthening fiscal support. From April onwards, the Mainland economic outlook faced stiffer external headwinds due to the US reciprocal tariffs. It was expected that Mainland China would place increasing emphasis on supporting consumption.

The Sub-Committee noted that in Hong Kong, downside risks to the growth outlook heightened following the imposition of the US reciprocal tariffs. Yet, several factors might help alleviate some of the impact, including the Mainland's pro-growth policies and its advancement in artificial intelligence, the prospective US rate cuts expected by the markets, and the ongoing recovery of inbound tourism. Meanwhile, housing market transactions gained momentum in March following the Government's adjustment in stamp duties for lower-value properties, although market sentiment turned conservative in early April amid the global financial market volatility. The commercial real estate markets remained subdued, especially in the office segment.

A Study on "Discount Window Stigma"

The Sub-Committee noted a paper that examined the usage of the Hong Kong Monetary Authority's (HKMA) Discount Window and the associated "stigma effect" by banks over time. The results showed that the Discount Window was tapped more frequently and the associated stigma diminished in the current period of tight liquidity, compared with the previous period of tight liquidity in 2018 – 2020. This trend coincided with the HKMA's proactive communication efforts with banks to alleviate concerns about the "stigma effect" during recent periods.