Monetary Stability

Objectives

The overriding objective of Hong Kong's monetary policy is currency stability. This is defined as a stable external exchange value of Hong Kong's currency, in terms of its exchange rate in the foreign exchange market against the US dollar, within a band of HK$7.75–7.85 to US$1.

The structure of the monetary system is characterised by Currency Board arrangements, requiring the Monetary Base to be at least 100% backed by US dollar reserves held in the Exchange Fund, and changes in the Monetary Base to be 100% matched by corresponding changes in US dollar reserves.

The Monetary Base (Table 1) comprises the following components:

- Certificates of Indebtedness, which provide full backing to the banknotes issued by the three note-issuing banks;
- Government-issued currency notes and coins in circulation;
- The Aggregate Balance (AB), which is the sum of clearing account balances kept with the HKMA; and
- Exchange Fund Bills and Notes (EFBNs) issued by the HKMA on behalf of the Government.

Table 1 Monetary Base

HK$ million	**31 December 2025**	31 December 2024
Certificates of Indebtedness[a]	**636,375**	601,415
Government-issued currency notes and coins in circulation[a]	**12,973**	13,047
Balance of the banking system[b]	**53,948**	44,802
EFBNs issued[c]	**1,336,616**	1,383,858
Total	**2,039,912**	2,043,122

a. The Certificates of Indebtedness and the Government-issued currency notes and coins in circulation shown here are stated at Hong Kong dollar face values. The corresponding items shown in the balance sheet of the Exchange Fund in this *Annual Report* are in Hong Kong dollars equivalent to the US dollar amounts required for their redemption at the prevailing exchange rates on the reporting date. This arrangement is in accordance with the accounting principles generally accepted in Hong Kong.

b. Balance of the banking system shown here is the carrying value before the amount advanced to the banks under the Discount Window Operations. In accordance with the accounting principles generally accepted in Hong Kong, the corresponding item shown in the balance sheet of the Exchange Fund in this *Annual Report* includes the amount of these advances.

c. The amount of EFBNs shown here refers to their fair value. In accordance with the accounting principles generally accepted in Hong Kong, the EFBNs held by the HKMA on behalf of the Exchange Fund in relation to its trading of the EFBNs in the secondary market are offset against the EFBNs issued, and the net amount is recorded in the balance sheet. The EFBNs allotted on tender dates but not yet settled are included in the balance sheet but excluded from the Monetary Base. Therefore, the amount of EFBNs shown here is different from that in the balance sheet of the Exchange Fund in this *Annual Report*.

The stability of the Hong Kong dollar exchange rate is maintained through an automatic interest rate adjustment mechanism and the firm commitment by the HKMA to honour the Convertibility Undertakings (CUs). With the HKMA standing ready to sell (or buy) Hong Kong dollars to (or from) banks in exchange for US dollars upon request at HK$7.75 (or HK$7.85) per US dollar, when the strong-side (or weak-side) CU is triggered, the AB will expand (or contract) to push down (or up) Hong Kong dollar interest rates, helping move the Hong Kong dollar back to within the Convertibility Zone of 7.75 to 7.85.

Monetary Stability

Review of 2025

Exchange rate stability

In 2025, the Hong Kong dollar exchange rate saw significant movements within the Convertibility Zone due to uncertainties surrounding global trade, market volatilities, and local fund flow dynamics. Stepping into the second quarter of the year, the Hong Kong dollar strengthened toward the strong-side CU, fuelled by high net inflows through the Southbound Stock Connect, and the unwinding of short Hong Kong dollar carry trades driven by risk-off sentiment following US tariff announcements. Subsequently, amid a sharp appreciation of some Asian currencies and continued equity-related demand, the Hong Kong dollar strengthened further, triggering the strong-side CU four times in early May. Reflecting the triggering of the strong-side CU, the AB increased from HK$44.6 billion at the end of April to HK$173.4 billion at the end of May. The expansion of the AB widened negative HKD-USD interest rate spreads, which incentivised carry trade activities and subsequently pushed the Hong Kong dollar toward the weak-side CU. As a result, the weak-side CU was triggered 12 times between late June and mid-August, and the AB correspondingly decreased to HK$54.1 billion at the end of August. Following this, the Hong Kong dollar stabilised and primarily traded on the strong side of the Convertibility Zone, driven by equity-related buying flows. Overall, the Hong Kong dollar exchange market continued to function normally throughout 2025 (Chart 1).

The outstanding EFBNs decreased slightly from HK$1,383.9 billion to HK$1,336.6 billion during the year[1], while the AB increased from HK$44.8 billion to HK$53.9 billion. The AB and outstanding EFBNs combined decreased slightly from HK$1,428.7 billion at the end of 2024 to HK$1,390.6 billion at the end of 2025 (Chart 2). The Monetary Base as a whole remained fully backed by foreign exchange reserves.

HK$1,390.6 billion

Total AB and outstanding EFBNs

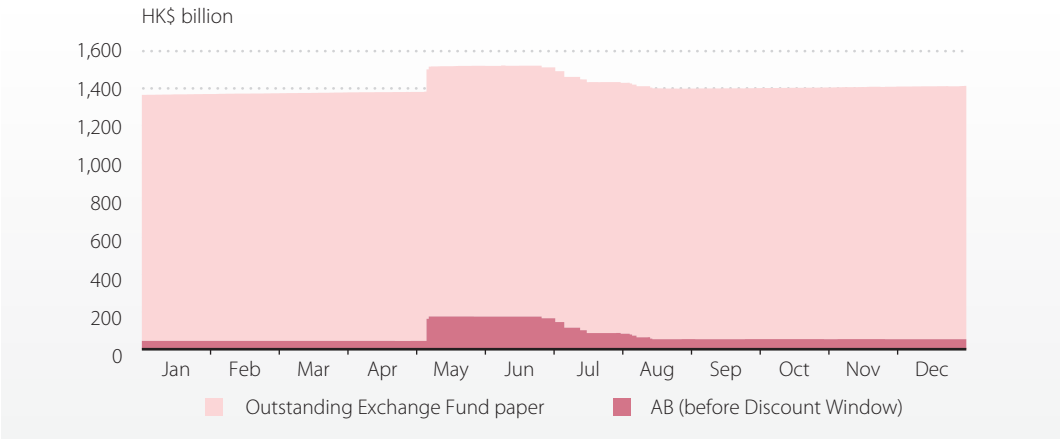
Chart 1 Market exchange rate in 2025



1 EFBNs issued on a tender date but not yet settled are included in "EFBNs issued" in Table 1. The decrease in outstanding EFBNs during the year is attributable to the fact that the base date for the computation of the change (31 December 2024) was a tender date.

Monetary Stability

Chart 2 AB (before Discount Window) and outstanding Exchange Fund papers in 2025



Money market

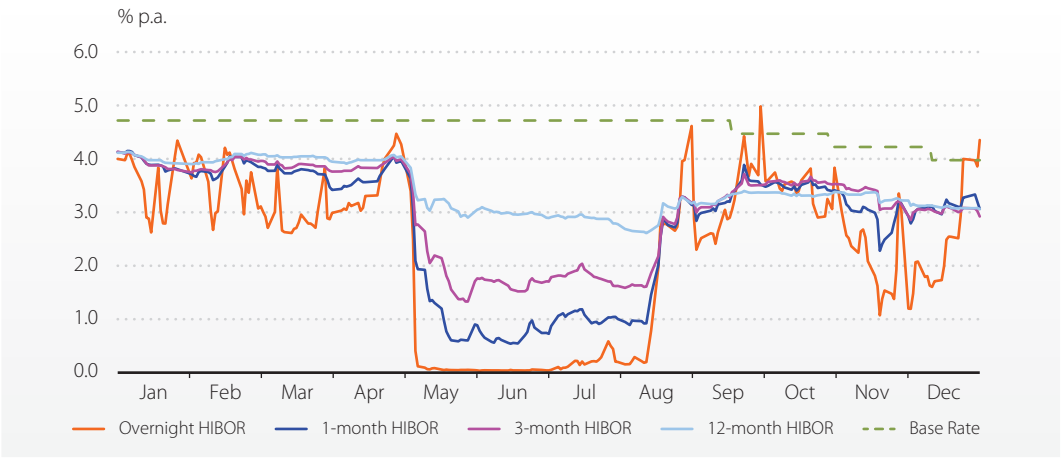
While Hong Kong dollar interbank rates generally track their US dollar counterparts under the Linked Exchange Rate System (LERS), they are also influenced by local supply and demand of Hong Kong dollar funding. Hong Kong interbank rates remained stable in the first four months of 2025 (Chart 3). As the AB expanded in early May, eased liquidity conditions pushed Hong Kong Interbank Offered Rates (HIBORs) lower, with the overnight HIBOR trading near zero. After repeated weak-side CU triggering, liquidity tightened and facilitated the short-dated HIBORs to rebound and track the US dollar interest rates more closely in August. Thereafter, HIBORs remained largely stable before tightening on typical seasonal funding demand ahead of the holidays in late December. For the year as a whole, the overnight, one-month and three-month HIBORs decreased by 126, 150 and 144 basis points respectively to 4.38%, 3.08% and 2.93% at year end.

Following the decreases in the target range for the US federal funds rate, the Base Rate was adjusted downwards thrice by a total of 0.75 percentage points (i.e. 75 basis points) from 4.75% to 4.00% (Chart 3)[2]. On the retail front, following the US policy rate cuts, many banks lowered their best lending rates by 12.5 basis points in late September and another 12.5 basis points in early November. They did not proceed to cut rates further in December despite another US policy rate cut, as deposit rates were already close to zero. Overall, Hong Kong's money markets continued to function normally. Discount Window borrowing decreased to HK$35.7 billion in 2025 from HK$50.0 billion in 2024 and no abnormality was noted in the relevant usage.

2 The adjustments of the Base Rate were in accordance with the established formula, which sets the Base Rate at either 50 basis points above the lower bound of the prevailing target range for the US federal funds rate or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever is higher.

Monetary Stability

Chart 3 **Hong Kong dollar interbank interest rates in 2025**



Linked Exchange Rate System

The LERS has served as a strong anchor of Hong Kong's financial system for four decades and has shown its strength and resilience in the face of challenges. The Government is firmly committed to the LERS. In its 2025 *External Sector Report*, the International Monetary Fund reiterated that the credibility of the LERS has been ensured by a transparent set of rules governing the arrangement, large fiscal and foreign reserves, strong financial regulation and supervision, a flexible economy, and a prudent fiscal framework.

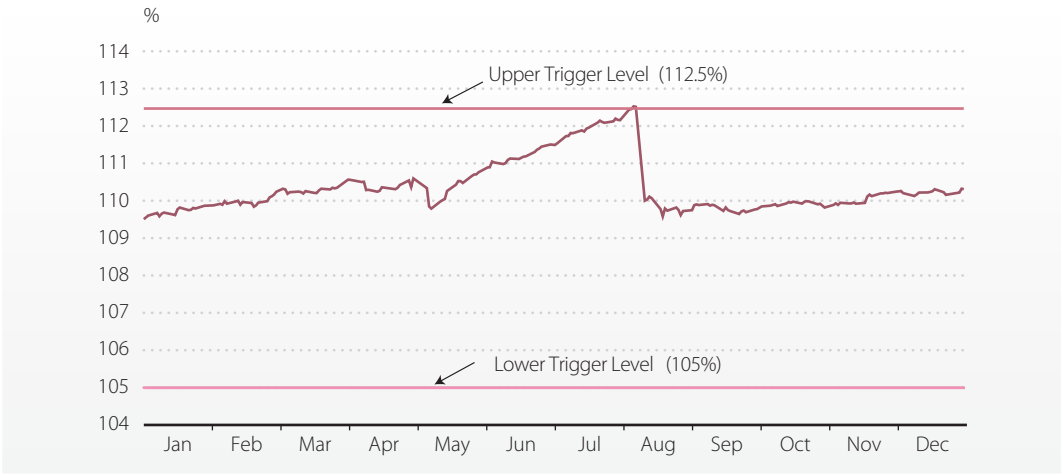
A robust banking system is crucial to the normal functioning of the LERS. Hong Kong's banking sector continued to operate smoothly with liquidity positions and capitalisation faring very well by international standards. To ensure the resilience of the banking sector, the HKMA has been closely monitoring banks' management of credit, liquidity and interest rate risks and stress-test results. In addition, the HKMA has maintained its supervisory efforts on bank lending.

To improve the transparency of the Currency Board Account, a specific portion of the Exchange Fund assets has been allocated to back the Monetary Base since October 1998. The Backing Ratio (defined as the Backing Assets divided by the Monetary Base) rose from 109.56% at the end of 2024 to a high of 112.56% on 6 August 2025, surpassing the Upper Trigger Level of 112.5% (Chart 4)[3]. In accordance with the arrangement approved by the Exchange Fund Advisory Committee, assets were transferred out of the Backing Portfolio to the Investment Portfolio to reduce the Backing Ratio to around 110.03% on 11 August. Thereafter, the Backing Ratio remained largely stable, ending the year at 110.34% on 31 December. Under the LERS, while specific Exchange Fund assets have been designated for the Backing Portfolio, all Exchange Fund assets are available to support the Hong Kong dollar exchange rate. The ample financial resources of the Exchange Fund, together with the sound banking system, provide a powerful backstop to Hong Kong's monetary and financial stability.

3 The increase was mainly attributable to interest income and mark-to-market revaluation of investments.

Monetary Stability

Chart 4 Daily movement of the Backing Ratio in 2025



Currency Board Sub-Committee

The Currency Board Sub-Committee (CBC) of the Exchange Fund Advisory Committee monitors and reviews issues relevant to monetary and financial stability in Hong Kong. In 2025, the CBC considered issues including the usage of the HKMA's Discount Window and the associated "stigma effect" on banks over time, and the relationship between Hong Kong dollar interbank liquidity and interbank interest rates. Records of the CBC's discussions on these issues and reports on Currency Board operations submitted to the CBC are published on the HKMA website.

Records of the CBC's discussions

Notes and coins

The value of the notes and coins in circulation at the end of 2025 is summarised below:

Total value of banknotes issued by note-issuing banks (Charts 5, 6 and 7)

HK$636.4 billion

up 5.8% year on year

Total value of notes and coins issued by the Government (Charts 8 and 9)

HK$12.7 billion

down 0.6% year on year

Of which:

– Total value of HK$10 notes **HK$4.5 billion**

81% were polymer notes

Monetary Stability

Chart 5 Banknotes in circulation by note-issuing banks at the end of 2025

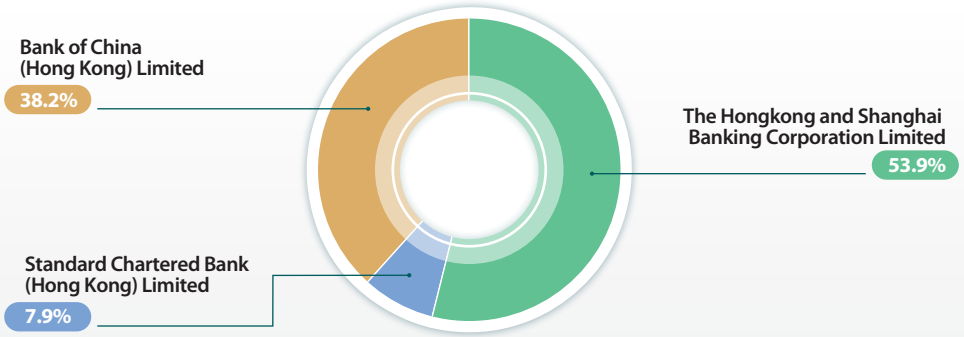
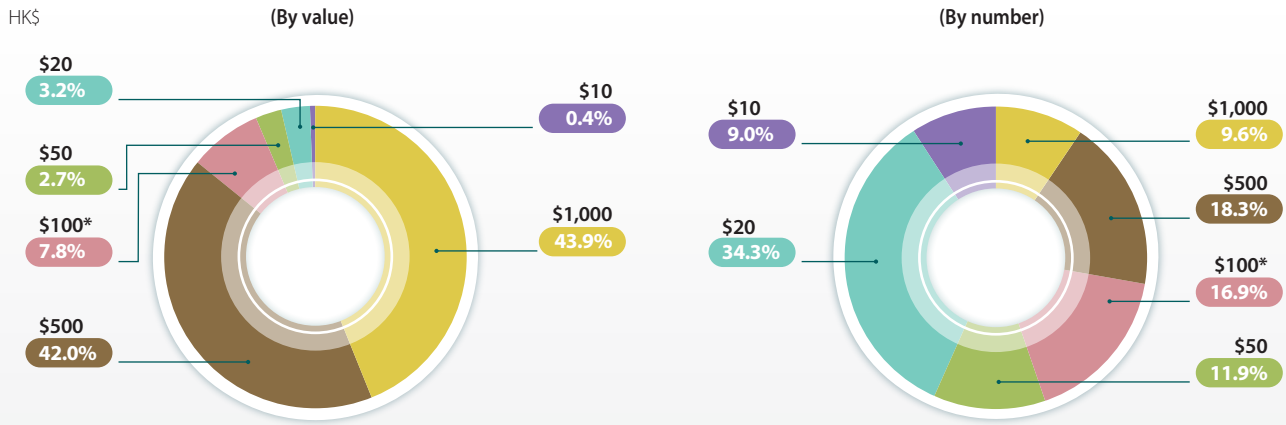


Chart 6 Distribution of banknotes in circulation at the end of 2025



* Includes 0.1 percentage point contributed by $150 banknote.

Chart 7 Banknotes in circulation at the end of 2025

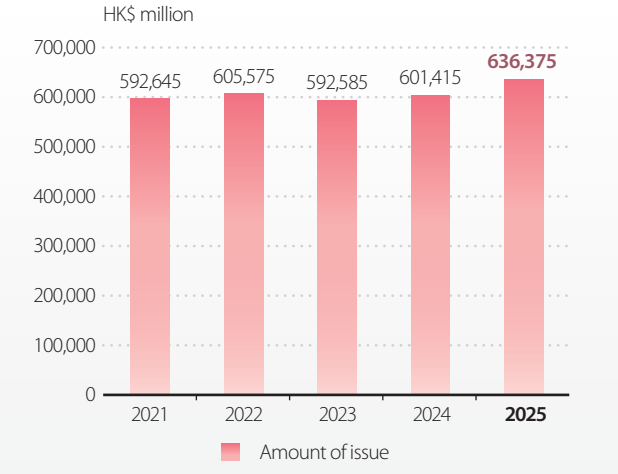
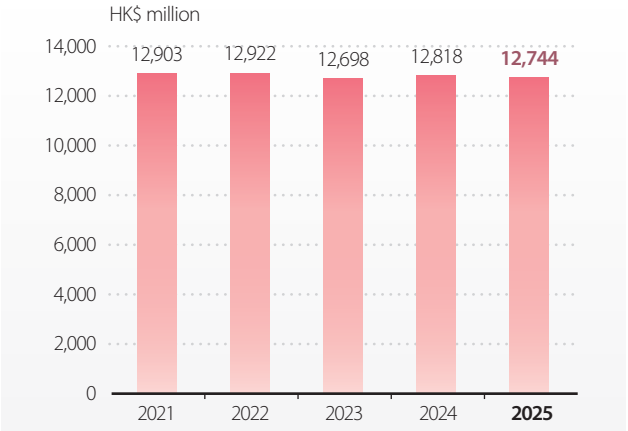
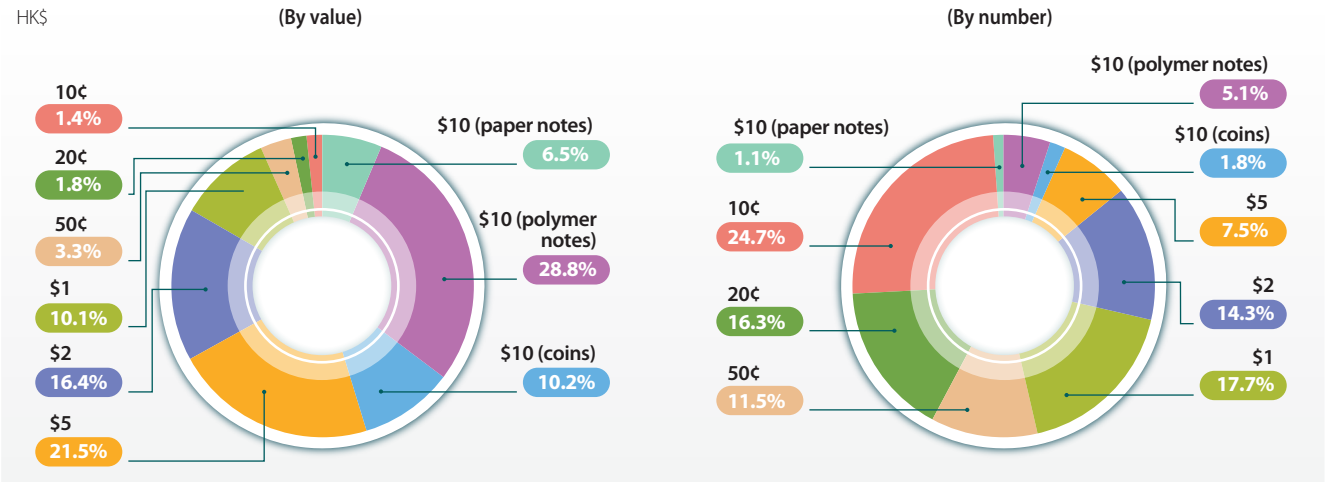


Chart 8 Government-issued currency notes and coins in circulation at the end of 2025



Monetary Stability

Chart 9 Breakdown of Government-issued currency notes and coins in circulation at the end of 2025



Hong Kong banknotes

During the year, the HKMA organised 14 seminars on the design and security features of Hong Kong banknotes for more than 3,300 participants, including bank tellers, cashiers from retail establishments and students, to help enhance their knowledge and skills in authenticating banknotes.

Coin Collection Programme

The Coin Collection Programme continued to be well received by the public. More information about the Programme can be found in the *Sustainable HKMA* chapter of our *Sustainability Report 2025*.

Exchange Fund Bills and Notes

The EFBN Programme continued to operate smoothly. At the end of 2025, the nominal amount of outstanding Exchange Fund papers stood at around HK$1,342.0 billion (Table 2).

Table 2 Outstanding issues of EFBNs

HK$ million	**2025**	2024
Exchange Fund Bills (by original maturity)		
28 days	**0**	800
91 days	**854,865**	819,650
182 days	**416,600**	414,600
364 days	**56,100**	56,100
Subtotal	**1,327,565**	1,291,150
Exchange Fund Notes (by remaining tenor)		
1 year or less	**6,000**	6,000
More than 1 year and up to 3 years	**7,200**	7,200
More than 3 years and up to 5 years	**1,200**	2,400
More than 5 years and up to 10 years	**0**	0
Subtotal	**14,400**	15,600
Total	**1,341,965**	1,306,750

Monetary Stability

Monetary research

In 2025, the Hong Kong Institute for Monetary and Financial Research (HKIMR), a subsidiary and the research arm of the Hong Kong Academy of Finance (AoF)[4], released 21 working papers on monetary and financial topics relevant to Hong Kong and the Asia-Pacific region. The findings were widely disseminated to the academic and policy community through various channels.

The HKIMR also organised a series of knowledge exchange events to foster engagement with various participants. Aimed at local audiences, 27 research seminars/webinars on key monetary and financial topics were held during the year. On the international front, 13 international conferences and seminars were organised by the AoF and the HKIMR in collaboration with leading academic institutions, central banks and international financial institutions to foster dialogues on broader economic and financial issues.

The HKIMR international events included the following:

14–15 Jan — **Joint Conference on Europe, Asia and the Changing Global Economy**

Co-organisers: The European Central Bank and the Bank of Finland Institute for Emerging Economies



10 Apr — **International Conference on Generative Artificial Intelligence**

Co-organisers: The HKMA and the Centre for Economic Policy Research

14–15 May — **The second ASEAN+3 Finance Think-tank Network Seminar**

Co-organiser: The ASEAN+3 Macroeconomic Research Office

14–15 Jul — **Joint Conference on Sustaining Financial Stability amid Uncertainty, Fragmentation and Rapid Innovation**

Co-organisers: The International Monetary Fund and the Bank for International Settlements

11–12 Sep — **The 20th Central Bank Conference on the Microstructure of Financial Markets**

14–15 Oct — **The 15th Annual International Conference on the Chinese Economy – *Macroeconomic Management and Structural Transformation***

4 The AoF was set up with full collaboration amongst the HKMA, the Securities and Futures Commission, the Insurance Authority and the Mandatory Provident Fund Schemes Authority to bring together the strengths of the academia, the industry, professionals and the regulatory community to develop financial leadership and promote research collaboration. Members of the AoF are senior management and promising talents from financial institutions, regulators, professional firms and academia in the field of finance.