

Permanent Accommodation for the HKMA

The planned purchase, through the Exchange Fund, of a permanent office for the HKMA has provoked a strong reaction from some politicians. The debate on this subject touches on larger issues concerning the accountability and independence of central banking institutions.

The decision by the Financial Secretary, as controller of the Exchange Fund, to purchase, for the account of the Exchange Fund, permanent accommodation for the HKMA has, interestingly, aroused a reaction from a few Legislative Council Members. This is perhaps understandable, given the large amount involved and the current concerns about the state of the public finances in the context of the annual debate on the Budget. The Legislative Council has a legitimate interest in monitoring the use of public funds, whether in the form of the general revenue or the Exchange Fund. Those with the authority to control and use public funds should be highly transparent in the discharge of their responsibilities and should be responsive to requests for information to facilitate such monitoring. Indeed, this has been the case. The intention to purchase permanent accommodation for the HKMA was disclosed to the Panel on Financial Affairs in January this year, and there was no adverse reaction at all then. As negotiations on the purchase progressed to a point at which agreement became imminent, an information paper was prepared specifically for the Panel to update Members. This week I shall, at the request of the Panel, be briefing Members still further on this subject.

I am happy to provide as much information to Members as I reasonably can on this issue, subject of course to considerations of commercial sensitivity. This is, after all, in line with our commitment to transparency. I sense, however, that the interest of the few Legislative Council Members in this subject lies not in transparency or the provision of information, but more in the control and use of the Exchange Fund. At a time when the strong and understandable desire of some Members to dig further into public funds to relieve the hardship of the community has been frustrated by the need to observe fiscal prudence, the lack of involvement on their part in the control and use of the Exchange Fund has become a concern. Added to this is the continuing confusion in the relationship between the fiscal reserves and the Exchange Fund, and the controversy over the adequacy of fiscal reserves and foreign reserves. These issues should, of course,

be openly discussed. I hope my Viewpoint articles in the past two weeks, and the publications of the HKMA relevant to these issues will contribute to a sensible discussion. I am not very optimistic that there can be clear-cut and scientific conclusions, particularly, for example, on the adequacy of foreign reserves. I nevertheless welcome objective views on these matters.

There is one essential point, however, which has to be made crystal clear, in the best interests of Hong Kong. This is to make sure that there is no scope for political interference in the work of the HKMA. The experience of the great majority of central banking institutions in other parts of the world points unambiguously to the fact that success in monetary management and the credibility of monetary policy depend crucially on the independence of central banks in discharging their responsibilities. From my contacts with Legislative Council Members, I get the impression that the majority of them share this view. This is also the view of the Financial Secretary, as evident in his robust statements in the Legislative Council and in his letter responding to a call to halt the negotiation on the purchase of permanent accommodation for the HKMA for the account of the Exchange Fund. The authority in monetary management is derived from the provisions laid down in the Exchange Fund Ordinance, involving as necessary the use of the Exchange Fund. It follows therefore that the independent and exclusive powers of the Financial Secretary, as controller of the Exchange Fund, as laid down in the Exchange Fund Ordinance, and with the advice of the Exchange Fund Advisory Committee, should not be fettered.

This is not to say that the independent use of the Exchange Fund, in any manner allowable in the Exchange Fund Ordinance, by the Financial Secretary or by the Monetary Authority under delegated authority, should not be subject to public scrutiny. Quite the contrary. The greater the independence in the control of the Fund the greater the need for arrangements to ensure that those exercising authority are held accountable. This applies to all forms of use of the Exchange Fund, from the technical requirement for every licensed bank to operate a clearing account with the Fund to the purchase of Hong Kong equities. It applies equally to the investment management of the Exchange Fund, now exceeding a trillion Hong Kong dollars, and to the annual administrative expenses of the HKMA, which amount to a few hundred million. In recognition of this, the degree of transparency in the operations of the HKMA is already exceedingly high by international standards. This transparency has been built up over the years very much on our own initiative. The HKMA is also very open and

accessible in explaining to members of the public and their representatives the work of the HKMA. We offer to give periodic briefings to the Legislative Council Panel on Financial Affairs on all matters concerning the HKMA. Our activities are furthermore subject to the detailed scrutiny of the Exchange Fund Advisory Committee and the Director of Audit whose staff members have a continuous presence in the HKMA.

Legislative Council Members are I am sure aware of our standing invitation to them to advise us on what measures, if any, we can take in order to enhance further our accountability to the people of Hong Kong. I reiterate this request every time I meet Legislative Council Members informally. I have received useful suggestions and have put them into practice. There are also plans, again on our own initiative, for further clarifying the policy objectives, the mandates, the authority, and the governance and accountability arrangements of the HKMA. If these are the real issues underlying the interest in the acquisition of permanent accommodation for the HKMA, by all means let there be frank discussions. But let us not compromise the authority of the Financial Secretary in his control and use of the Exchange Fund. We do so only at the expense of the monetary and financial stability of Hong Kong.

Joseph Yam
19 April 2001

Letterhead of Hong Kong Monetary Authority

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Joseph C K Yam, JP
Chief Executive

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19 April 2001

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Dear

I look forward to attending the Panel on Financial Affairs special meeting tomorrow. You may wish to note that I shall be putting out a *Viewpoint* article entitled "Permanent accommodation for the HKMA" this afternoon on our website, in which Members may be interested. An advance copy of the article is attached. This article, together with my last two *Viewpoint* articles "The Adequacy of Hong Kong's Foreign Reserves" and "Fiscal Reserves and the Exchange Fund" (copies of which were sent to you on 12 April) will, I hope, provide some background information for tomorrow's briefing.

Please feel free to circulate the article to the Members of the Panel on Financial Affairs in advance of publication later today.

Encl.

c.c. Mrs Florence Lam, Clerk to Panel