

General Background Note

The Government's fiscal reserves comprise the accumulated balances of the General Revenue Account and seven funds. The General Revenue Account acts as the central funding device for Government's financial activities with resources being transferred as necessary to these funds. The funds are established by resolution of the Legislative Council under section 29 of the Public Finance Ordinance to finance specific activities. The seven funds and their respective purposes as defined by the resolutions are -

Funds Established under Section 29 of Public Finance Ordinance

Name of Fund	Purposes
(a) Capital Works Reserve Fund	To finance public works programmes, acquisitions of land, capital subventions and major systems and equipment.
(b) Capital Investment Fund	To finance investments in and loans to the MTR Corporation Limited, the Kowloon-Canton Railway Corporation; the Hong Kong Housing Authority; the New Hong Kong Tunnel Company Limited and such other bodies as the Finance Committee may specify.
(c) Civil Service Pension Reserve Fund	To meet payment of civil service pensions in the most unlikely event that the Government cannot meet such liabilities from the General Revenue.
(d) Disaster Relief Fund	To provide a ready mechanism for Hong Kong to respond swiftly to international appeals for humanitarian aid in relief of disasters that occur outside Hong Kong.
(e) Innovation and Technology Fund	To finance projects to help promote innovation and technology upgrading in manufacturing and service industries.

(f) Land Fund	To enable the investments held by the former Trustees of the Hong Kong Special Administrative Region Government Land Fund to be formally brought into the Government's accounts.
(g) Loan Fund	To finance loans and advances for development schemes in Hong Kong and loans to qualified recipients such persons (such as students, schools and teachers in training and housing loans for civil servants).

2. The fiscal reserves are placed with the Exchange Fund. In the 1998-99 Budget Speech, the Financial Secretary announced that with effect from 1 April 1998 we would link the return on the fiscal reserves to that achieved by the entire Exchange Fund. Correspondingly we have adopted a refined accounting arrangement for the investment income on the fiscal reserves (except for the balances of the Loan Fund and the Capital Investment Fund^(Note)) placed with the Exchange Fund with effect from 1 April 1998. We informed Members of the refined accounting arrangement in March 2000 through an information note. The Hong Kong Monetary Authority further elaborated on the arrangements for sharing of the investment income of the Exchange Fund by the fiscal reserves and the amount involved through an information note to Members in February 2001.

3. In the past 15 years since 1986-87 when we started publishing the Medium Range Forecast, the annual balance of the fiscal reserves has risen each year due to accumulation of the annual fiscal surpluses except in three

(Note) The resolutions approved by LegCo for the setting up of the Capital Investment Fund and the Loan Fund require the balances in these Funds to be invested in interest bearing securities. These balances are thus placed with the Exchange Fund at predetermined interest rates.

years when fiscal deficits were recorded, i.e. 1995-96, 1998-99 and 2000-01. In 1997-98, the fiscal reserves saw a big increase as a result of the establishment of the Land Fund on 1 July 1997 to receive the \$197.1 billion worth of investments held by the former Trustees of the Hong Kong Special Administrative Region Government Land Fund. The following table lists the balance of the fiscal reserves in the past 15 years in terms of absolute value and number of months of government expenditure it could cover in the respective fiscal years:

Fiscal Reserves

<u>Year</u>	<u>Fiscal Reserves</u>	<u>Equivalent to No. of months of Government Expenditure</u>
	\$Bn	
1986-87	32.9	10
1987-88	45.4	12
1988-89	61.5	14
1989-90	72.6	13
1990-91	76.5	12
1991-92	99.1	13
1992-93	121.0	14
1993-94	140.2	13
1994-95	151.0	13
1995-96	147.9	11
1996-97	173.6	12
1997-98	457.5	28

1998-99	434.3	24
1999-2000	444.3	25
2000-01 (Forecast)	430.3	23