On Government Reserves

StephenYan-leung Cheung Professor of Finance (Chair) Department of Economics & Finance City University of Hong Kong Requirements Operating Contingency Monetary Large reserves ♦ Stability vs. opportunity costs Could not prevent crisis

Indicators(I)

Reserves-to-imports ratios improved for most of the Asian economies. (Table 1)

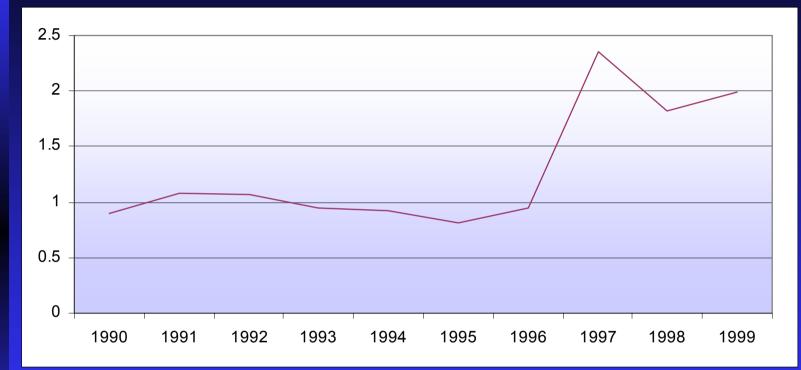
Reserves –to-GDP and reserve-toexpenditure increased with the inclusion of Land Fund in 1997. (Figures 1 and 2)

Table 1 Ratio of reserves to imports across countries

2000 7.80
7 80
7.00
6.00
6.70
8.60
5.10
5.30
6.50

Source: Standard & Poor's Sovereign Risk Indicators, 2000

Figure 1 Ratio of reserves^a to expenditure^b, 1990-1999



Source: Hong Kong Annual Digest of Statistics 1990-2000

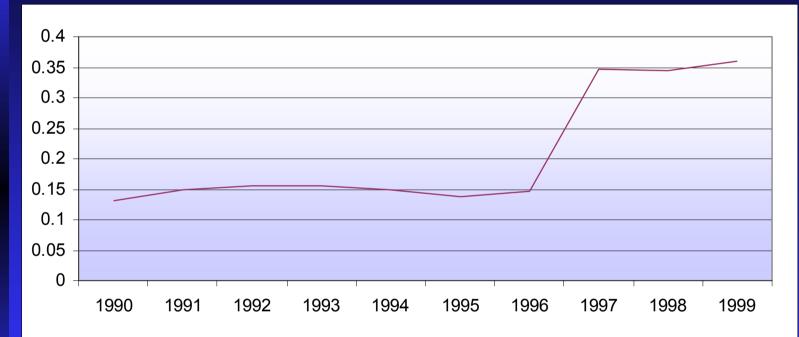
Finance Bureau, Government Secretariat

Census and Statistics Department

^a Figures of reserves refer to fiscal year 1990/91, 1991/92...1999/00

^b Figures of GDP refer to 1990, 1991,...,1999

Figure 2 Ratio of reserves^a to GDP^b, 1990-1999



Source: Hong Kong Annual Digest of Statistics 1990-2000

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^a Figures of reserves refer to fiscal year 1990/91, 1991/92...1999/00

^b Figures of GDP refer to 1990, 1991,...,1999

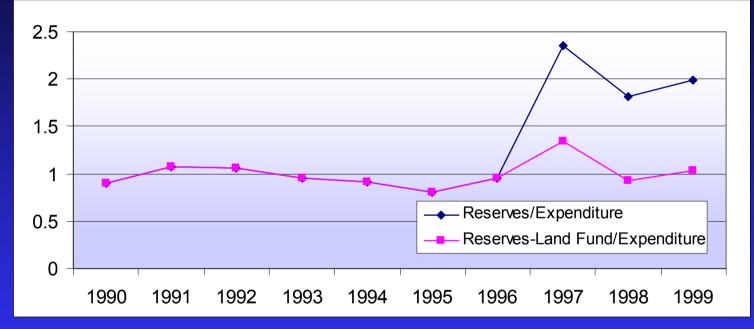
Indicators(II)

■ Without the Land Fund (Figures 3 and 4)

 \bullet Reserves-to-expenditure = 1

• Reserves-to-GDP = 0.2

Figure 3 Ratio of reserves^a less Land Fund^b to government expenditure^c, 1990-1999

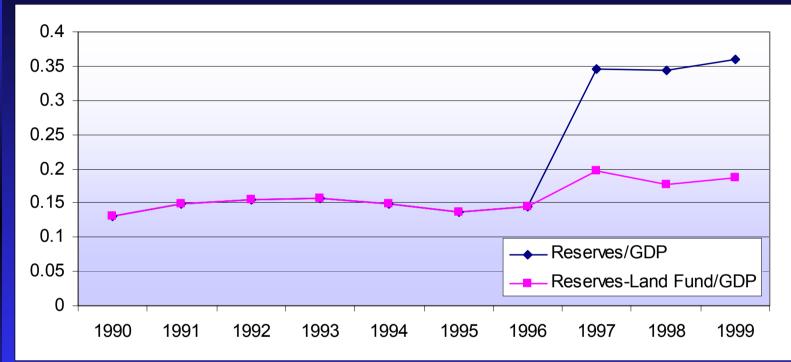


Source: Hong Kong Annual Digest of Statistics 1990-2000

Finance Bureau, Government Secretariat

- Census and Statistics Department
- HKMA Annual reports, 1998-1999
- ^a Figures of reserves refer to fiscal year 1990/91, 1991/92...1999/00
- ^b Figures of Land Fund refer to 1990, 1991,...,1999
- ^c Figures of government expenditure refer to 1990, 1991,...,1999

Figure 4 Ratio of reserves^a less Land Fund^b to GDP^c, 1990-1999



Source: Hong Kong Annual Digest of Statistics 1990-2000

Finance Bureau, Government Secretariat

Census and Statistics Department

HKMA Annual reports, 1998-1999

^a Figures of reserves refer to fiscal year 1990/91, 1991/92...1999/00

^b Figures of Land Fund refer to 1990, 1991,...,1999

^c Figures of GDP refer to 1990, 1991,...,1999

Hypothetical situation

Based on Year 2000

(in million)

Total government reserves = HKD 444,254m

Total gov't reserves (a)	Investment Fund (b)	Reserves $(a) - (b)$	Reserves / GDP	Reserves/ Expenditure
444,254	20,000	424,254	0.3445	1.9021
444,254	50,000	394,254	0.3202	1.7676
444,254	100,000	344,254	0.2796	1.5434

Investment projects

Investment for the future of the Hong Kong with higher return

Higher than the benchmark return

Difficult to quantifysocial projects

THE END