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Our Ref : FIN H/BUD/19

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12 April 2002

Ms Anita Sit  
Clerk to Panel  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong

Dear Ms Sit,

**LegCo Panel on Financial Affairs**  
**Follow-up to meeting on 14 March 2002**  
**Target level and purposes of fiscal reserves**

Following the Asian Financial crisis, the HKMA has taken a number of technical measures to strengthen Hong Kong's currency board system and resilience against speculative attacks. Moreover, the foreign currency assets of the Exchange Fund have also increased substantially since then. This being the case, we no longer believe that the level of fiscal reserves should be linked to, amongst other things, a fixed percentage of the Hong Kong dollar Money Supply (M1). However, it remains crucial that the fiscal reserves should continue to be placed with the Exchanged Fund to ensure that the Exchange Fund will have abundant resources to defend the stability of our monetary and financial systems.

Yours sincerely,

(Miss Denise Yue)  
Secretary for the Treasury