

臨時立法會
Provisional Legislative Council

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**Minutes of the Special Briefing by the Financial Secretary
held at 5:30 pm on Tuesday, 12 August 1997
in the Legislative Council Chamber**

Members present:

Dr Hon LEONG Che-hung, JP (Chairman)
Hon IP Kwok-him (Deputy Chairman)
Hon WONG Siu-yee
Hon HO Sai-chu, JP
Dr Hon Raymond HO Chung-tai, JP
Hon Mrs Elsie TU, GBM
Hon Henry WU
Hon Ronald ARCULLI, JP
Dr Hon Mrs TSO WONG Man-yin
Hon CHAN Yuen-han
Hon CHAN Kam-lam
Hon YEUNG Yiu-chung
Hon CHIM Pui-chung
Hon Bruce LIU Sing-lee
Hon LAU Kong-wah
Hon KAN Fook-yee
Hon NGAN Kam-chuen

Public officers attending:

Mr Donald TSANG, JP
Financial Secretary

Mr Andrew SHENG
Deputy Chief Executive
Hong Kong Monetary Authority

Clerk in attendance:

Mrs Justina LAM Assistant Secretary General 2

Staff in attendance:

Mr LEE Yu-sang Legal Adviser (Acting)
Mr Stephen LAM Assistant Legal Adviser 4
Ms Estella CHAN Chief Assistant Secretary (1)4
Mrs Percy MA Chief Assistant Secretary (2)5
Mrs Eleanor CHOW Senior Assistant Secretary (2)8

The Chairman said that the briefing was specially arranged at the request of the Financial Secretary (FS) to brief Members on Hong Kong's contribution towards the financial package organized by the International Monetary Fund (IMF) to assist Thailand. The Chairman reminded Members that as this was an informal meeting, they were not covered by the Legislative Council (Powers and Privileges) Ordinance.

2. ES informed Members that Hong Kong had committed a sum of US\$1 billion to the financial package organized by IMF to rescue the Thai baht. The amount would be repaid in three to five years' time with interest and that it would be drawn from the Exchange Fund and not from the fiscal reserves. ES explained that the use of the fiscal reserves, which consisted of accumulated annual savings of the Special Administrative Region Government and the Land Fund, was subject to approval by the legislature. The fiscal reserves amounting to around US\$45 billion had largely been entrusted to the Hong Kong Monetary Authority (HKMA) for management and investment.

3. ES said that the Exchange Fund Ordinance (the Ordinance) provided the legal framework for the management of the Exchange Fund. The Fund mainly consisted of deposits made by notes-issuing-banks to back the Hong Kong dollar as well as accumulated earnings of the Exchange Fund. ES pointed out that the foreign exchange portion of the Fund alone amounted to over US\$67 billion. The loan to Thailand would not in any way affect Government spending or revenue as the fiscal reserves were completely untouched.

4. ES explained that the statutory basis for his decision to use the Exchange Fund was section 3(1A) of the Ordinance which empowered FS to use the Exchange Fund "as he thinks fit to maintain the stability and the integrity of the monetary and financial systems of Hong Kong". ES further explained that he would need to consult the Exchange Fund Advisory Committee (EFAC) on any change in the control mechanism or organization of the Exchange Fund as stipulated in section 3(1) of the Ordinance. ES reiterated that he had absolute discretionary power to use the Fund as specifically provided for under section

3(1) and 3(1A). The authority in relation to "use" and that in relation to "control" of the Exchange Fund were separate under section 3(1).

5. ES said that in view of the large amount of money involved he considered it necessary to explain to the public and Members of the Provisional Legislative Council the reasons for his decision at the earliest opportunity. He added that the decision was not an easy one to make and reckoned that finance ministers elsewhere faced similar dilemmas. However, it was important for him to be given such discretionary power to effectively deal with crisis situations and not be subject to prior political vetting and consultation.

6. ES elaborated that the Thai baht was in trouble since May this year. The problem was not a question of short term cash flow but a longer term one of the sufficiency of Thailand's foreign exchange. The baht continued to plunge and by July it was obvious that some other Asian currencies had already been affected under what could be referred to as the "contagion" or "domino" effect. ES cited the drop in values of the following currencies to illustrate his point -

<u>Currency</u>	<u>% of depreciation within July 1997</u>
Thai baht	29.7
Philippine peso	8.5
Indonesia rupiah	8.6
Malaysia ringgit	9.8
Singapore dollar	5.3
Taiwan yuan	3.5

7. ES said that speculative attacks on Asian currencies would continue. At a meeting of the regional central banks (EMEAP) held at the end of July, the problem had already been raised by the Governors of Central Banks for discussion. At the end of last week, the Managing Director of IMF wrote to HKMA inviting Hong Kong to take part in a meeting in Tokyo as well as to consider contributing US\$1 billion towards a financial package to assist Thailand. ES further said that in return for the loan, Thailand must undertake certain measures prescribed by IMF to tackle its economic problems. The IMF measures had been used before, e.g. by Mexico to tackle its currency crisis in 1995, and had proven their effectiveness. ES added that the amount needed by Thailand was about US\$16 billion and that IMF had taken the lead in contributing US\$4 billion.

8. ES informed Members that in deciding to use the Exchange Fund to assist Thailand, he and HKMA had taken the following factors into careful consideration -

- (a) Hong Kong had robust reserves;

- (b) Hong Kong had a balanced budget with no deficit;
- (c) Government-owned enterprises such as the Kowloon-Canton Railway Corporation and Mass Transit Railway Corporation were making profitable returns;
- (d) Hong Kong had no "national" debt; and
- (e) Hong Kong's banking, financial and monetary systems were healthy and well-managed.

9. ES said that Hong Kong had always striven to be a premier financial centre, not only in the region but also in the world. Hong Kong could not stand idly by to watch an important trading partner such as Thailand collapse financially. Moreover speculators were still very active in the region. The Hong Kong dollar came under attack in July this year and there was always the risk of the Hong Kong dollar being affected under the "domino" effect. ES added that if the Asian currencies continued to be unstable, the business environment and economic development of the region would be adversely affected and Hong Kong's business interests would also be hurt.

10. ES said that Hong Kong had secured IMF's agreement that the loan would be made to Thailand subject to the following conditions -

- (a) The Thai Government must undertake the remedial measures prescribed by IMF, details of which were being worked out between Thailand and IMF;
- (b) Hong Kong would not be the only economy contributing to the financial package i.e. the loan would be a broad-based-facility, as follows -

<u>Country/Place</u>	<u>Amount (Billion)</u> US\$
IMF	4
Japan	4
Australia	1
Hong Kong	1
Malaysia	1
Singapore	1
Indonesia	0.5
South Korea	0.5

- (c) Hong Kong's contribution would not exceed US\$1 billion;

- (d) The loan and repayment would be made in proportion to the share of contribution of the participating countries/places; and
- (e) The loan was interest-earning.

11. Following his decision to contribute US\$1 billion to IMF's financial package, FS said that he had immediately reported the matter to EFAC as well as to the Chief Executive who gave his support.

12. A Member asked whether FS had absolute authority to use the Exchange Fund and whether the Hong Kong dollar was in any imminent danger of being affected by the baht crisis. FS reiterated that it was important for him to have the authority to use the Fund for the purposes referred to in section 3(1) and 3(1A) in order to be able to make a timely and decisive response to changing market situations. He reminded Members that HKMA, an organization separate from the civil service, was set up for the same reason. He assured Members that he was fully accountable to the public for his decisions and actions. FS added that although Hong Kong had a robust fiscal reserve, there was always the risk of speculators attacking the Hong Kong dollar, the most recent occurrence was in July this year.

13. In response to Members' questions about Thailand's ability to repay the loan given its political and economic track records, FS explained that any loan carried risks but he was confident that Thailand would be able to repay the loan. He reminded Members that the financial package was a broad-based-facility and that Thailand had to undertake remedial measures to reform its economy under IMF surveillance. FS added that such remedial measures drawn up by IMF had worked very well in the currency crisis of Mexico in 1995. The country was at that time in a much poorer state of affairs than Thailand. It was able to recover from the crisis and repay the loan, the amount of which was much larger than the rescue package for the Thai baht.

14. In response to a Member, FS said that the Ordinance did not stipulate any ceiling on the amount that FS could use. There were however internal guidelines setting out limits for the Chief Executive, Deputy Chief Executive and other staff members of HKMA. FS explained that such guidelines could not be made public as they were market sensitive information and speculators might use it in their favour. He assured Members that he would exercise extreme caution in using the Fund and that he would be fully accountable to the public for any such decisions.

15. Replying to Members' queries, FS said that he had not consulted EFAC before he made the decision because there was little time and he could not convene a meeting. FS reiterated that under section 3(1A) of the Ordinance, he was not required to consult EFAC in using the Exchange Fund for the purpose of

defending the stability of Hong Kong's monetary and financial systems. However immediately following the decision he circulated a paper to EFAC.

16. Some Members expressed concern about the lack of consultation with EFAC on the use of such a large amount of money from the Exchange Fund. A few Members opined that although FS was not required by law to consult EFAC, he should have done so given that such a large amount of money was involved. They disagreed that the matter was of such urgency that neither a round of telephone calls to EFAC members nor a short meeting could be arranged. FS responded that EFAC was not entirely unaware of the matter. At the recent two meetings of EFAC, he had already alerted EFAC members to the looming Thai currency crisis and the need to take action fairly quickly at some point to deal with the situation.

17. A Member sought clarification on section 3(1), (1A) and 2(b) of the Ordinance. FS explained that he had the statutory power to decide on the use of the Exchange Fund under section 3(1) and 3(1A) of the Ordinance without consulting EFAC. Section 3(1) clearly stipulated that the Fund "shall be under the control of the Financial Secretary and shall be used primarily for such purposes as the Financial Secretary thinks fit affecting, either directly or indirectly the exchange value of the currency of Hong Kong and for other purposes incidental thereto". As regards section 3(2)(b), it dealt with financial arrangements that FS could enter into for the prudent management of the Fund subject to consultation with EFAC. In response to the Member's request, FS undertook to provide a written explanation on section 3(1), (1A), (1B) and (2) of the Ordinance.

18. In reply to further questions, FS said that given the substantial amount of the financial package put together by IMF to rescue the Thai baht, he believed that speculative activities would be deterred. Referring to the attack on the Hong Kong dollar in July, FS said that he could not reveal too much details except to say that the attack lasted for about two hours and the speculators had suffered losses.

19. In response to a Member, FS said that the repayment arrangements for the rescue package would be very transparent and there would be dire consequences if Thailand failed to repay the loan. He asked Members to bear in mind that Thailand was branded one of the four "little dragons" of South East Asia and its economy had a healthy and solid basis despite its present state of affairs. He assured Members that Hong Kong could afford to lend US\$1 billion and reiterated that Hong Kong's financial position was strong and healthy. In response to another Member, he said that no country in South East Asia which had been approached by IMF had turned down its request for contribution to the financial package. He added that a further amount of US\$3 billion comprising

US\$1 billion each from the World Bank, Asian Development Bank and China would be confirmed very soon.

20. A Member asked at which stage was the Chief Executive informed of the loan. FS replied that the authority to use the Exchange Fund to assist Thailand rested with him, although the Chief Executive was kept informed from the very start and supported his action.

21. A Member asked why IMF's rescue package had not been put together earlier. FS replied that the initiative for IMF's assistance had to come from Thailand and that the financial package was a loan which Thailand had to repay in full with interest. FS stressed that the loan aimed not only to help Thailand but also to stabilize other Asian currencies. Deputy Chief Executive of HKMA pointed out that although there were problems with Thailand's economy, the measures prescribed by IMF would help Thailand to restructure and reform its financial and banking systems.

22. A Member commented that he supported FS' decision to use the Exchange Fund to assist Thailand given that Hong Kong was a leading international and regional financial centre. He suggested that in future there should be better consultation should the situation permit.

23. A Member cautioned that the Government should guard itself from acting as a "saviour" or "policeman" of the Asian currency market and from "gambling" with speculators. He expressed concern that the FS' power under the Exchange Fund Ordinance was too wide and considered that FS should work with other Government officials as a team to make important decisions such as the one in question. FS reiterated that the rescue package was crucial to safeguarding the financial stability of the entire South-East Asian region and was in line with the long term interest of Hong Kong. He reassured Members that there had been full consultation with the relevant Government officials as well as with the Chief Executive.

24. A Member commented that he was not happy that there had not been consultation with EFAC given that the crisis did not happen overnight but was long in coming. He queried whether the authority of "control" and that of "use" in section 3(1) were in fact separate. He asked FS for a written explanation on section 3(1) and 3(1A) as well as examples of circumstances in which FS consulted EFAC before exercising his "control" under section 3(1).

25. The Chairman also asked the Legal Adviser to provide his view in respect of section 3(1), (1A), (1B), (2)(a) and (b).

(Post meeting note: FS' reply and Legal Adviser's opinion were circulated to Members vide PLC Paper No. CB(2)226)

26. The meeting ended at 6:45 pm.

Provisional Legislative Council Secretariat

16 September 1997