立法會
Legislative Council

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by the Administration)

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Legislative Council
Panel on Financial Affairs

Minutes of Meeting held on
Tuesday, 2 May 2000 at 10:45 am
in the Chamber of the Legislative Council Building

Members present	:	Hon Ambrose LAU Hon-chuen, JP (Chairman) Hon Eric LI Ka-cheung, JP (Deputy Chairman) Hon LEE Cheuk-yan Dr Hon David LI Kwok-po, JP Hon NG Leung-sing Hon Ronald ARCULLI, JP Hon James TO Kun-sun Hon CHEUNG Man-kwong Hon HUI Cheung-ching Hon Bernard CHAN Hon Jasper TSANG Yok-sing, JP Hon Emily LAU Wai-hing, JP Hon Timothy FOK Tsun-ting, SBS, JP
Members absent	:	Hon James TIEN Pei-chun, JP Hon Albert HO Chun-yan Hon Martin LEE Chu-ming, SC, JP Hon SIN Chung-kai Dr Hon Philip WONG Yu-hong Hon FUNG Chi-kin
Public officers attendance	:	For Item IV Hong Kong Monetary Authority Mr Joseph YAM, JP Chief Executive

Mr David CARSE, JP
Deputy Chief Executive

Mr Norman CHAN, JP
Deputy Chief Executive

Mr Anthony LATTER, JP
Deputy Chief Executive

For Item V

Education and Manpower Bureau

Mr Philip K F CHOK
Deputy Secretary for Education and Manpower

Ms Michelle LI
Principal Assistant Secretary for Education and Manpower

Finance Bureau

Mrs Carrie LAM
Deputy Secretary for the Treasury

Government Property Agency

Mrs Mimi BROWN
Deputy Government Property Administrator

University Grants Committee

Mr Jack CHAN
Deputy Secretary-General

Clerk in attendance : Ms LEUNG Siu-kum
Chief Assistant Secretary (1)4

Staff in attendance : Ms Connie SZETO
Senior Assistant Secretary (1)1

I Confirmation of minutes of previous meeting
(LC Paper No. CB(1) 1450/99-00)

The minutes of meeting held on 14 February 2000 were confirmed.

II Information papers issued since last meeting
(LC Paper No. CB(1) 1377/99-00 -- Publication from the Mandatory Provident Fund Schemes Authority)

2. Members noted the captioned information paper issued since the last meeting.

III Date of the next meeting and items for discussion
(LC Paper Nos. CB(1) 1452/99-00(01) and (02))

3. Members noted that the next meeting would be held on 5 June 2000, at 10:45 am to receive the briefing by the Financial Secretary on the macro-economic development of Hong Kong.

IV Briefing on the Hong Kong Monetary Authority Annual Report 1999
(The Hong Kong Monetary Authority Annual Report 1999 issued on 28 April 2000, LC Paper No. CB(1) 1502/99-00(01) -- Presentation material tabled at the meeting)

Briefing by the Chief Executive of Hong Kong Monetary Authority

4. The Chief Executive of the Hong Kong Monetary Authority (CE/HKMA) presented the HKMA Annual Report 1999. He pointed out that the Hong Kong economy showed a clear V-shape revival in 1999. The remarkable growth in the real Gross Domestic Product over 1998 was expected to sustain in 2000. The Hong Kong dollar exchange rate against the US dollar remained stable throughout 1999. On interest rate movement, CE/HKMA expected that US interest rates would rise during 2000. Due to the Linked Exchange Rate (LER) system, Hong Kong would have to follow suit. Nonetheless, he expected that the rise in US interest rate would be gradual giving adequate time for Hong Kong economy to gather greater momentum in its recovery. The emergence of “new economy” activities, which were supposed to bring productivity gains would also mitigate the negative effect brought by interest rate increases. On the other hand, competition among banks and strong confidence in the Hong Kong dollar had been curbing down local lending rates, in particular mortgage rates, which had contributed to offsetting the increases required to match the rise in US interest rates.

5. CE/HKMA briefed members on the major areas of work of HKMA in 2000. On the monetary side, he stressed HKMA's commitment to maintaining the LER system and strengthening it through the work of the Subcommittee on Currency Board Operations. HKMA and the note-issuing banks had also decided to conduct a review on the design of bank notes to improve the anti-counterfeiting features. Concerning the banking sector, the process of reform would continue

with focuses on the implementation of deregulation of the remaining interest rate rules in two phases and the enhancement of depositor protection in Hong Kong. On the development of financial infrastructure, the project to establish the US Dollar clearing system to enhance the competitiveness of Hong Kong as an international financial centre was progressing smoothly. The system was expected to begin operation in August 2000 and would be in full implementation by end of the year.

Discussion with Members

Domestic credits

6. Pointing out that bank lending for trade activities was on the decline, Ms Emily LAU expressed concern about the difficulties encountered by businesses, in particular the small and medium-sized enterprises (SMEs), in obtaining bank credits. She enquired whether such problem was unique to Hong Kong and whether there were measures HKMA could take to assist SMEs in this respect.

7. CE/HKMA remarked that loans for trade financing declined in the past two years as a result of the downturn of Hong Kong economy and the Asia financial turmoil. Other Asian economies were also experiencing shrinkage in bank lending. Banks in the region continued to be cautious in lending because of credit risks. With further recovery of Hong Kong economy and reduction in Mainland-related debts, it was expected that bank lending would be more active. The decline in domestic loans had moderated since mid-1999 and the situation remained stable in the first quarter of 2000. While the level of bank lending was low, financial intermediation had taken place more actively through the equity and debt markets. There is a remarkable growth in the amount of funds raised in these two markets in 1999. The Deputy Chief Executive (Banking), HKMA (DCE(B)/HKMA) supplemented that the decline in trade financing loans was also a result of a structural shift from bank financing towards the increasing use of open account financing where credits were arranged between the import and export parties direct without involving the banks.

8. On possible measures to promote bank lending, CE/HKMA stressed that it was a matter of commercial decision for banks to determine their credit policy. To provide banks with more information for credit risk assessment, HKMA was exploring the feasibility of setting up a central credit register of commercial enterprises for reference of banks in Hong Kong. Such central credit registers had proved to be very useful to banks in advanced overseas countries such as the US, the United Kingdom and other European countries.

9. As regards the difficulties facing SMEs in obtaining credits, the Deputy Chief Executive (Monetary policy and research), HKMA advised that HKMA was conducting a survey on banks and SMEs regarding the financing situation of SMEs in Hong Kong. The survey covered, inter alia, the current lending criteria for SMEs and possible measures to assist them in the matter. It

was expected that the survey would be completed in the coming few months.
HKMA HKMA would provide the result of the survey when it was available.

Banking stability

10. On Mr NG Leung-sing's enquiry about HKMA's provisioning policy in relation to non-performing loans and bad debts, DCE(B)/HKMA said that the "benchmark" provisioning levels for banks were stipulated in HKMA's guidelines issued in 1999 and there was no intention to make any change to these levels in 2000. He stressed that the appropriate level of provisions on individual loans and in aggregate was primarily a matter for the bank itself to determine. DCE(B)/HKMA added that the bad debt charge which peaked in 1998 rose at a much slower pace in 1999. HKMA expected that bad debt charge would fall in 2000 with continued improvement in Hong Kong economy.

11. As regards the applications to become Controller, Directors, Chief Executives or Alternate Chief Executives of authorized institutions (AIs), DCE(B)/HKMA advised that HKMA vetted more than 430 such applications in 1999. The figure of which was similar to that of 1998. He explained that the large number of applications was attributed to the high turnover rate of senior directorate staff of AIs, in particular in respect of foreign bank branches established in Hong Kong. He informed members that the processing of applications had been taken up by the new licensing and compliance division and stressed that the same standards of fitness and properness were applied to all applicants to ensure that only qualified persons would be approved.

12. Responding to the enquiry on HKMA's study on a depositor protection system, CE/HKMA advised that a consultancy had been commissioned and the study was expected to be completed in July 2000 to be followed by extensive public consultation. He stressed that a decision to introduce a form of explicit depositor protection in Hong Kong was yet to be made.

Investment outlook of the Exchange Fund (EF)

13. In view of the recent volatility in the financial market, Ms Emily LAU and Mr Eric LI expressed concern about possible loss in the investment of EF in 2000. Mr LI pointed out that the Government received a substantial interest payment from EF in 1999 and had forecasted an over $20 billion interest income from EF in the 2000-01 Budget. He was concerned that a loss in the investment of EF would bring about uncertainty in Government's income.

14. In response, CE/HKMA advised that the assets of EF rose by about 10% in 1999 to over $1 trillion with the accumulated surplus grew by about 20%. He explained that much of the increase had come from the windfall gains on the Hong Kong equity portfolio acquired during the market operation of August 1998. On the investment outlook of EF in 2000, CE/HKMA remarked that any forecast would be very difficult and the windfall gains enjoyed in 1999 were unlikely to repeat. Both the Hong Kong and US equity markets had been extremely volatile

in the past few weeks. The rise in US interest rates would depress bond prices. Coupled with volatility in currencies, EF investment performance would be dampened further. He would not be surprised if EF suffered an investment loss in 2000. As regards Mr LI's concern about the impact on the Government's income, CE/HKMA said that HKMA had not participated in the preparatory work for the 2000-01 Budget and therefore was unable to comment on the forecasted interest payment from EF.

15. As regards notes on EF accounts, Mr Eric LI suggested that HKMA should improve the presentation on items 2(b) -- Financial assets and liabilities, and item 13 -- Placements by other HKSAR Government funds by including more details on these two items. In response, CE/HKMA thanked Mr LI for his valuable suggestions. He remarked that the statement of the accounts of EF as presented in the Annual Report had been audited by the Director of Audit.

Expenditure of HKMA

16. Ms Emily LAU expressed concern about HKMA's staff costs which amounted to 50% of its total operating expenses in 1999. She queried the high level of salaries of 12 senior staff at executive directorate level and above and enquired about details of their emoluments and how they were compared to those high level officers of overseas regulatory bodies of similar nature.

17. CE/HKMA clarified that the emoluments of HKMA senior staff were determined by the EF Advisory Committee. He said that the Committee had drawn up the emoluments with reference to posts of comparable level in the private sector. As regards details of the emoluments disclosed in the Annual Report, CE/HKMA advised that they were all inclusive of salaries, other benefits, and contributions to the provident fund scheme; and that there were no housing, education or leave passage allowances in HKMA emoluments.

18. On comparison with overseas regulatory bodies and international financial institutions, CE/HKMA remarked that direct comparison between the emoluments might not be appropriate. It would be more meaningful to compare the total expenditure of respective institutions with the amount of asset they managed. The total expenditure of HKMA was on the low side when compared with that of overseas regulatory bodies. In respect of comparison with the financial institutions, the total expenditure of a retail fund manager usually amounted to 1% or 2% of the total asset of the fund, while HKMA's total expenditure in 1999 was only 0.1% of the asset of EF. Upon request of Ms
HKMA Emily LAU, CE/HKMA undertook to provide relevant information for members' reference after the meeting.

HKMA and the community

19. Ms Emily LAU appreciated HKMA's efforts in increasing its transparency and accessibility to the general public. She enquired about HKMA's publicity work at the district level in 1999 and programmes planned for

2000. In response, CE/HKMA said that HKMA recognized the importance of promoting public confidence and understanding of HKMA's work through organizing education and publicity programmes at district level. Apart from HKMA's continued efforts in enhancing contact with the media and providing monetary and banking information through regular publications as well as its homepage in the Internet, HKMA would make special efforts to improve its communications with the community by presenting a major exhibition on monetary and banking topics at the district level in the summer of 2000.

20. The Chairman thanked CE/HKMA and the DCEs for attending the meeting.

V Disposal of surplus quarters arising from the implementation of the Home Financing Scheme in University Grants Committee-funded institutions

(LC Paper Nos. CB(1) 1452/99-00(03) and (04))

21. Members noted that the Education Panel raised concerns about the lengthy time required by the Government Property Agency (GPA) to take over the vacant staff quarters from the University Grants Committee (UGC)-funded institutions during its discussion on the progress on the implementation of the Home Financing Scheme (HFS) for eligible UGC staff at the Panel meeting held on 17 January 2000. As GPA was under the Finance Bureau, the matter was referred to the Financial Affairs Panel for follow-up.

22. Upon the Chairman's invitation, the Deputy Secretary for Education and Manpower briefed members on the Administration's information paper which provided an update on the disposal of surplus staff quarters in UGC-funded institutions. He informed members that a Task Force chaired by the Secretary-General of UGC had been formed to consider and advise on proposals from institutions on disposal plans or alternative uses of surplus quarters. The Task Force had taken immediate measures and formulated medium and long term proposals on the disposal or alternative uses of quarters taking into account the unique situations of respective institutions.

23. On savings to be brought about by UGC HFS, the Deputy Secretary for the Treasury (DS/Tsy) advised that according to the original Cost and Benefit Analysis presented to the Finance Committee (FC) in 1998 for the approval of the scheme, it was estimated that although the introduction of the scheme would require additional cashflow expenditure in the initial years, there would be a saving of $5.6 billion over a 15-year period. Such savings would accrue from reduced expenditure on other forms of housing benefits and value from surplus quarters available for alternative use. On the former, she said that expenditure on non-HFS housing benefits in UGC-funded sector was reduced by some $300 million in 1999-2000. As regards benefits derived from the disposal of surplus staff quarters, DS/Tsy said that under the agreed arrangement as endorsed by FC, the Government was entitled to a share of 70% of the notional rental proceeds

from the surplus quarters one year after the quarters became surplus arising from UGC HFS. Rental income of about $21 million was accrued to the Government in 1999-2000. The amount of income receivable by Government in 2000-01 would probably fall short of the original estimated level of $135 million in view of the flexible arrangements agreed with individual institutions over the disposal of the surplus quarters.

24. Ms Emily LAU expressed concern about the high vacancy rate of surplus staff quarters which stood at 21% as at 31 March 2000, the Principal Assistant Secretary for Education and Manpower (PAS/E&M) explained that the 171 surplus quarters were vacant temporarily pending putting into alternative uses including as rental premises for institutions' staff, or outsiders; academic support facilities; or student facilities, etc., as soon as possible.

25. Mr Cheung Man-kwong was of the view that as majority of the vacant quarters were within the campus of UGC-funded institutions, even after they were returned to the Government, it would be unlikely that the accommodation could be turned into rental premises for the general public nor their sites be sold to developers. Hence, he supported that a more flexible approach should be adopted in the disposal of these quarters.

26. The DS/Tsy stressed that the Government was committed to ensuring the greatest public benefits in the disposal of surplus staff quarters and was prepared to adopt a flexible approach in this respect. Hence, it was agreed in 1998 that institutions would continue to manage and maintain their own surplus quarters and be allowed to put them into alternative uses. The Government would consider taking over the surplus quarters at the institution’s request only when all alternative uses had been exhausted and provided that the Government could put them to optimal use. Based on these principles, the Government had agreed to take over some surplus quarters from Hong Kong Baptist University and quarter sites of University of Hong Kong (HKU) and the Hong Kong Polytechnic University (PolyU). Pending the return of the quarters or the sites to the Government, the notional rental sharing arrangement would not be strictly applied.

27. As regards the concern about disposal of vacant quarters located within the campus of institutions, DS/Tsy said that the Government had accepted that it would be more cost effective to convert these surplus quarters into alternative use, such as academic support facilities or student hostels. She informed members that the proposals to convert surplus quarters into student hostels in CUHK and academic support facilities in Hong Kong Institute of Education (HKIEd) would be submitted to the Public Works Subcommittee (PWSC) for consideration in June 2000. The estimated cost of the hostel conversion project for CUHK would be about $30 million which would be partially funded by private donations obtained by the institution. The conversion project for HKIEd would be funded wholly by private donations. Approval by PWSC for the conversion was required as it involved a change in the original scope of HKIEd's campus project as approved by FC in 1994.

28. On the concern about the progress on disposal of vacant staff quarters in University of Hong Kong (HKU), DS/Tsy advised that HKU had plans to return a few blocks of quarters to the Government. The Administration was discussing with HKU on the proposal in the overall context of the University's Strategic Campus Development. She noted members' concern that a definite timetable should be drawn up for the disposal project. Consideration was being given to asking HKU to surrender a few quarter sites to the Government by September 2002 or such dates as would be approved by the Director of Lands. In the meantime, HKU would consider alternative uses of the surplus quarters. The Government would consider setting aside the actual rental proceeds in a separate account for future use to be agreed between the Government and HKU.

29. Mr Eric LI remarked that improvements were seen in the disposal of surplus staff quarters of subvented organizations since the subject had been discussed by the Public Accounts Committee (PAC). In order to encourage utilization of vacant quarters in UGC-funded institutions in the interim, he urged the Government and the institutions to consider arranging flexible tenancies for letting these premises. In response, DS/Tsy said that the Government had taken into consideration recommendations of PAC in drawing up the disposal plans for surplus quarters. She re-iterated that the Government had been reminding institutions of the need to make the best use of the vacant quarters in the interim before long term disposal plans were drawn up. Moreover, respective responsibilities to be taken up by relevant departments and institutions would be clearly spelt out to ensure smooth implementation of disposal plans.

FB 30. In view of members' concern over the subject, DS/Tsy undertook to provide members with half-yearly progress reports on the disposal of surplus staff quarters in the institutions to update members on the programme.

VI Any other business

31. There being no other business, the meeting ended at 12:25 pm.

Legislative Council Secretariat
2 June 2000