

For information on 13 May 2004

**Legislative Council Sub-Committee on
the Proposed Issuance of Government Bonds**

**Key objectives of the proposal
and responses to comments raised**

Introduction

The Financial Secretary announced in his maiden Budget in March 2004 the plan to issue up to \$20 billion or equivalent of Government Bonds in the current financial year. Under Section 3(1) of the Loans Ordinance (Cap. 61), the Government may borrow from such person such sum or sums and for such purposes as may be approved by resolution of the Legislative Council.

Key Objectives

2. The proposed issuance of Government bonds (the Proposed Issue) is expected to bring the following key benefits:-
 - (a) provides for an alternative source of capital revenue for Government to continue to invest in major infrastructural and investment projects that will bring long-term economic benefits to Hong Kong, giving the Government greater flexibility in managing its liquidity;
 - (b) increases flexibility in the implementation of the Government's asset sale and securitisation programme, avoiding the need to sell Government assets at low prices under potentially unfavourable market conditions;
 - (c) facilitates further development of the local bond market, reinforcing Hong Kong's role as a key international financial centre; and

- (d) offers an additional high quality investment alternative for Hong Kong investors.

Response to comments raised

3. The Administration has carefully considered the comments raised in various fora regarding the Proposed Issue and would like to reiterate the following points for Members' reference:-

- (a) Borrowing not for the purpose of reducing the Budget deficit

We have stated clearly in the proposed resolution under the Loans Ordinance (Cap. 61) as well as in the 2004/05 Budget that the borrowing is for the purposes of the Capital Works Reserve Fund, that is to assist in financing the Public Works Programme.

- (b) Government's resolve to exercise control over its expenditure will not be diminished

The targets of balancing the Government's Operating and Consolidated Accounts by 2008-09 and to reduce Government annual operating expenditure to \$200 billion by 2008-09 will not be changed because of the Proposed Issue.

- (c) The proposed Issue is limited in size (i.e. up to \$20 billion only)

We have no plan to issue more Government bonds than the proposed \$20 billion or equivalent limit. We have pointed out that Government will consider whether to issue additional bonds in the future in the light of funds required for infrastructural and investment projects, progress of implementation of the asset sale and securitisation programme, and market conditions.

- (d) Investing in projects with low investment return in the near term is not equivalent to "living on credit"

While many major infrastructural and investment projects may have a low or even nil investment return from a financial perspective (e.g. roads, bridges, water supply and sewerage projects) their implementation will bring significant economic benefits in the long term which will be in the interest of Hong Kong as a whole, and enhance our competitiveness. Improved economic performance will benefit not only the people of Hong Kong but also the Government in its effort to maintain a balanced Budget.

Financial Services and the Treasury Bureau

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