

財經事務及庫務局  
(庫務科)

香港下亞厘畢道  
中區政府合署

FINANCIAL SERVICES AND THE  
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本函檔號 Our Ref. : FIN CR 1/2241/03  
來函檔號 Your Ref. :

BY FAX

12 May 2004

Clerk to Subcommittee  
Legislative Council Secretariat  
(Attn: Mr Anthony Chu)  
(Fax No. 2869 6794)

Dear Mr. Chu,

**Subcommittee on**  
**Proposed resolution under section 3(1) of the Loans Ordinance**  
**(by way of issuance of Government Bonds)**

We note the comments raised in the two submissions attached to your fascimile of 11 May 2004. We would like to reiterate the following points for Members' reference:

**Submission from Fitch Ratings Hong Kong**

- a. Government has established clear guidelines to gradually reduce operating expenditure to \$200 billion by 2008-09 and to control total public expenditure to an estimated 16.9% of the GDP by the same year; and
- b. Government plans to launch a consultation exercise next year at the earliest on the proposal to implement a Goods and Services Tax to broaden the tax base, to provide a more stable source of revenue and to open up a new revenue stream to finance the existing structural deficit.

**Submission from ACCA Hong Kong**

- c. The proposed issuance of Government bonds will provide greater flexibility in the management of Government's liquidity. It will increase flexibility in the implementation of the asset sale and securitisation programme by obviating the need to sell Government assets at low prices under unfavourable market conditions, facilitate further development of the local bond market to reinforce Hong Kong's role as a key international financial centre and, offer an additional high quality investment alternative to Hong Kong investors. A simple comparison between the cost of borrowing and the financial and/or economic returns of projects to be financed by the Capital Works Reserve Fund is not the only measure of effectiveness of the proposed bond issuance.
- d. Funds will be earmarked under the Capital Works Reserve Fund in due course during the annual appropriation process for the purpose of interest repayment and principal redemption.
- e. The cost of the proposed bond issuance will have to be determined in the light of the prevailing market conditions at the time. We anticipate that the cost will be lower than private sector borrowings implemented on the basis of credit ratings lower than that maintained by the Government.
- f. It is not clear what the Association mean by "...defined timetable for the term of the bond..." We anticipated that the proposed bonds will have fixed tenors.

Yours sincerely,

(Tommy Yuen)  
for Secretary for Financial Services  
and the Treasury