Press release

ExCo approves proposal on Government Bond Programme

Tuesday, April 28, 2009

The Chief Executive in Council today (April 28) approved the proposal to implement the Government Bond Programme, and the introduction into the Legislative Council of the resolutions to authorise the Government to borrow and to set up a fund to manage sums raised under the programme.

The Secretary for Financial Services and the Treasury, Professor K C Chan, said that the programme's primary objective was to promote the further and sustainable development of the local bond market through systematic issuance of government bonds.

Professor Chan said, "By implementing the programme, we seek to increase the breadth, depth and liquidity of the local bond market, so that it can complement our banking and equity markets as an effective channel of financial intermediation.

"This will help promote efficient allocation and flow of funds, thereby promoting further economic development and financial stability, and strengthening Hong Kong's status as an international financial centre."

Given the programme's primary objective to promote the development of the local bond market, bonds to be issued under the programme will be mainly denominated in the Hong Kong dollar.

The programme will comprise bond issues for institutional and retail investors.

Professor Chan said that for a diversified tenor mix and to meet market demand, bonds of tenors within the range of two to 10 years would likely be issued at the initial stage of the programme. Going forward, consideration would be given to issuing bonds with longer tenors, say, 15 years or longer.

Initial market views indicate that the market may be able to digest government bonds of HK$10-20 billion over the course of a year. The Government will solicit further market views and conduct a more detailed assessment with a view to determining the appropriate size of individual bond issues, tenor, frequency of issues, etc. In the process, due consideration will be given to prevailing market conditions and the impact on other issuers in the market.

"The programme's borrowing ceiling is proposed to be set at HK$100 billion or equivalent. It represents a long-term target over a period of five to 10 years of programme implementation, and fully reflects the long-term and on-going nature of the programme," Professor Chan said.

The relevant borrowing ceiling refers to the maximum amount of outstanding principal at any time under the programme, i.e. principal amount of bonds issued minus that of bonds redeemed. Professor Chan stressed that the Government would plan individual bond issues carefully having regard to the prevailing market conditions.

Professor Chan said that sums raised under the programme would be credited to a "Bond Fund" to be established under the Public Finance Ordinance.

The "Bond Fund" will not be treated as part of the fiscal reserves and will be managed separately from the general revenue. It will be used to repay principal of bonds issued, meet the financial obligations and liabilities associated with the programme and make investments.

A long-term and conservative investment strategy will be adopted for the "Bond Fund" having regard to the objectives of preserving capital and generating reasonable investment returns for covering the financial obligations and liabilities under the programme.

The Hong Kong Monetary Authority will be tasked to co-ordinate the offering of the bonds under the programme and manage the "Bond Fund".

"Subject to the Legislative Council's approval for the relevant resolutions, we intend to implement the programme as soon as possible. We will seek further views of the market and make necessary adjustments in the course of implementation having regard to prevailing market conditions. We will also seek listing status for the bonds to be issued under the programme," said Professor Chan.

Tentatively, the Government intends to move the relevant resolutions in the Legislative Council on May 20, 2009.

Ends