

## **BOND FUND**

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### Memorandum Note

The Bond Fund was established by the Resolution passed by the Legislative Council under section 29 of the Public Finance Ordinance (Cap. 2) on 8 July 2009 in connection with the implementation of the Government Bond Programme to promote the further and sustainable development of the bond market in Hong Kong. The Programme can provide more diversified investment products and avenues for financing to attract more overseas capital, and reinforce Hong Kong's position as an international financial centre. The Programme consists of an institutional part and a retail part. The Fund does not form part of the fiscal reserves and is managed separately from other Government accounts. The Fund is placed with the Exchange Fund for investment purposes and attracts investment income on the basis of the "fixed rate" sharing arrangement applicable to the fiscal reserves.

2 On 26 March 2014, the Loans (Amendment) Ordinance 2014 was enacted by the Legislative Council putting in place a legal framework for the issuance of alternative bonds under the Government Bond Programme. The enactment amends the Loans Ordinance (Cap. 61) so that money raised by the Government by alternative bonds issued under a specified alternative bond scheme set up by the Government is treated as money borrowed by the Government and may be credited to the Fund. Amendments were also made to the Resolution passed under section 29 of the Public Finance Ordinance (Cap. 2) so that money can be expended from the Fund for making redemption payments and periodic distribution payments under the scheme and for paying the expenses in relation to the borrowing.

3 The Resolution passed under section 29 of the Public Finance Ordinance (Cap. 2) provides, *inter alia*, that—

- (a) the Fund is to be administered by the Financial Secretary, who may direct or authorize other public officers to administer the Fund and delegate the power of administration to other public officers;
- (b) the following are to be credited to the Fund—
  - (i) sums borrowed under section 3 of the Loans Ordinance (Cap. 61) that are required to be credited to the Fund by any resolution of the Legislative Council approving the borrowing;
  - (ii) sums received by way of interest, dividends or investment income earned in respect of the sums held in the Fund;
  - (iii) any appropriations from the general revenue that may be approved by the Legislative Council;
  - (iv) any other sums that may be received for the purposes of the Fund;
- (c) earnings from interest or dividends on investments of the Fund are to be retained for the purposes of the Fund;
- (d) the Financial Secretary may expend money from the Fund for the purposes of—
  - (i) repaying or, if appropriate, paying the principal of, interest on, and expenses incurred in relation to, any sums that have been borrowed under section 3 of the Loans Ordinance (Cap. 61) for the purposes of the Fund; and
  - (ii) investing in the manner the Financial Secretary considers appropriate for the prudent management of the Fund, and paying the expenses incurred in relation to the investments;
- (e) for sums borrowed in the manner mentioned in section 2A of the Loans Ordinance (Cap. 61), the power under sub-paragraph (d) above includes—
  - (i) paying the sums referred to in subsection (1)(e) of that section; and
  - (ii) paying the expenses incurred in relation to the borrowing;
- (f) the Director of Accounting Services, under the authority of a funds warrant issued by the Financial Secretary, is to pay from the Fund any sums that may be required to meet expenditures from the Fund; and
- (g) the Financial Secretary may transfer from the Fund to the general revenue the balance held in the Fund, if so approved by the Legislative Council, when all financial obligations and liabilities are met in relation to any sums that have been borrowed under section 3 of the Loans Ordinance (Cap. 61) for the purposes of the Fund.

4 The Legislative Council passed a Resolution under section 3 of the Loans Ordinance (Cap. 61) on 8 July 2009, authorising the Government to borrow from any person from time to time for the purposes of the Bond Fund such sums not exceeding in total \$100 billion or equivalent, being the maximum amount of all borrowings that may be outstanding by way of principal at any time. The Legislative Council later passed a Resolution under section 3 of the Loans Ordinance (Cap. 61) on 22 May 2013 and another on 21 July 2021, to raise the authorised borrowing ceiling first to \$200 billion or equivalent and then to \$300 billion or equivalent.

5 In September 2014, the Government made an inaugural issuance of alternative bonds under the Government Bond Programme. The proceeds, repayments and periodic distribution payments of alternative bonds are recorded in the Bond Fund under the subheads "receipts representing proceeds from issuance of alternative bonds", "payments representing repayment of alternative bonds", and "payments representing periodic distribution payments for alternative bonds" respectively.

6 In 2014, under the institutional part of the Government Bond Programme, the Government introduced two measures to enhance the liquidity of relevant bonds, namely, bond swap facility (which involves the early redemption of certain bonds for issuance of other bonds of the same monetary value for a short period and the reversal of these

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transactions on a later date) and switch tender (which involves the early redemption of certain bonds in market value for issuance of other bonds at tender prices). These measures entail additional issuances and early redemptions of relevant bonds. They have been recorded in the Bond Fund as proceeds from issuance of bonds, as well as repayments for bonds, under bond swap facility and switch tender as appropriate.

7 Payments from the Fund for 2021–22 and 2022–23 are estimated at \$22,198,998,000 and \$38,105,021,000 respectively. The expected payment items mainly include payments representing repayments of and periodic distribution payments for alternative bonds issued, interest payments and repayments for bonds issued and to be issued under the Government Bond Programme (including repayments for bonds under tender or subscription and bond swap facility) as well as other relevant expenses (e.g. expenses for external services procured in the course of implementing the Government Bond Programme).

8 Receipts from issuance of bonds (including issuance of bonds under tender or subscription and bond swap facility) and investment income for 2021–22 and 2022–23 are estimated at \$77,375,611,000 and \$94,121 million respectively.

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### (Payments)

Sub-head (Code)	Actual expenditure 2020–21	Revised estimate 2021–22	Estimate 2022–23
	\$'000	\$'000	\$'000
<b>Head G01—Bond Fund</b>			
100 Repayments for bonds under tender or subscription .....	12,455,820	17,802,098	<b>31,503,867</b>
102 Repayments for bonds under bond swap facility .....	—	1,000,000	<b>1,000,000</b>
110 Payments representing repayments of alternative bonds .....	7,753,000	—	—
120 Interest payments for bonds .....	1,545,815	3,054,388	<b>5,237,822</b>
125 Payments representing periodic distribution payments for alternative bonds .....	316,207	244,042	<b>244,296</b>
130 Others .....	60,807	98,470	<b>119,036</b>
<b>Total (Payments) .....</b>	<b>22,131,649</b>	<b>22,198,998</b>	<b>38,105,021</b>

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## (Receipts)

Sub-head (Code)	Actual receipts 2020–21	Revised estimate 2021–22	Estimate 2022–23
	\$'000	\$'000	\$'000
<b>Head G01—Bond Fund</b>			
200 Proceeds from issuance of bonds under tender or subscription.....	49,340,969	68,148,370	83,000,000
202 Proceeds from issuance of bonds under bond swap facility ....	—	1,000,000	1,000,000
Investment income .....	4,581,065	8,227,241	10,121,000
<b>Total (Receipts) .....</b>	<b>53,922,034</b>	<b>77,375,611</b>	<b>94,121,000</b>

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### Movement of the Account

	Actual				Revised Estimate	Estimate
	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23
	\$m	\$m	\$m	\$m	\$m	\$m
Opening Balance	141,379	138,155	138,403	121,057	152,848	<b>208,024</b>
Revenue	23,377	25,924	25,064	53,922	77,375	<b>94,121</b>
Expenditure	26,601	25,676	42,410	22,131	22,199	<b>38,105</b>
Surplus/(Deficit)	(3,224)	248	(17,346)	31,791	55,176	<b>56,016</b>
Closing Balance	138,155	138,403	121,057	152,848	208,024	<b>264,040</b>

### Revenue Analysis

	Actual				Revised Estimate	Estimate
	2017–18	2018–19	2019–20	2020–21	2022–22	2022–23
	\$m	\$m	\$m	\$m	\$m	\$m
Proceeds from issuance of bonds under tender or subscription	19,429	19,458	21,039	49,341	68,148	<b>83,000</b>
Proceeds from issuance of bonds under bond swap facility	—	—	—	—	1,000	<b>1,000</b>
Receipts representing proceeds from issuance of alternative bonds	—	—	—	—	—	—
Investment income	3,948	6,466	4,025	4,581	8,227	<b>10,121</b>
<b>Total Revenue</b>	<b>23,377</b>	<b>25,924</b>	<b>25,064</b>	<b>53,922</b>	<b>77,375</b>	<b>94,121</b>

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### Expenditure Analysis

	Actual				Revised Estimate	Estimate
	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23
	\$m	\$m	\$m	\$m	\$m	\$m
Repayments for bonds under tender or subscription	24,484	23,346	32,335	12,456	17,802	<b>31,504</b>
Repayments for bonds under bond swap facility	—	—	—	—	1,000	<b>1,000</b>
Payments representing repayments of alternative bonds	—	—	7,830	7,753	—	—
Interest	1,547	1,763	1,762	1,546	3,054	<b>5,238</b>
Payments representing periodic distribution payments for alternative bonds	550	552	472	316	244	<b>244</b>
Others	20	15	11	60	99	<b>119</b>
<b>Total Expenditure</b>	26,601	25,676	42,410	22,131	22,199	<b>38,105</b>