LCQ20: Retail infrastructure bonds

Following is a question by the Hon Paul Tse and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (December 18):

Question:

It has been reported that the Government launched a retail infrastructure bond earlier on with a target issuance size of $20 billion, but the subscription response was more lukewarm than expected, eventually resulting in an undersubscription where the subscription amount was only $17.85 billion and the number of subscribers was the smallest among all previous government bond issuances, which also marked the first time that a government bond had experienced sluggish sales. In this connection, will the Government inform this Council:

(1) whether it has studied the reasons for the undersubscription of this bond issuance;

(2) whether it has assessed the impact of the aforesaid undersubscription of the first batch of retail infrastructure bond on the Government's proposed policy of issuing bonds on a continuous basis to alleviate the serious fiscal deficit that has occurred year after year and to meet future expenditure on large-scale infrastructure projects, and how the Government will respond to it;

(3) as the Financial Secretary pointed out earlier on that the retail infrastructure bond had been three to four times oversubscribed by institutional investors, whether Mandatory Provident Fund trustees were included; if so, of the following information about such trustees: the number and names of such trustees, and their subscribed and allotted amounts of the bond;

(4) as some economists have pointed out that in recent months, the interest rates of United States Treasury bonds have risen again (at variance with government officials' expectation of interest rate reductions), among which that of three-year Treasury bonds has exceeded 4 per cent, half a percentage point higher than the interest rate of the retail infrastructure bond, causing members of the public who have subscribed to the retail infrastructure bond to lose out immediately upon purchase, while some virtual life insurance companies in Hong Kong have even adjusted the rate of return for three-year Hong Kong dollar savings insurance upwards to 3.88 per cent per annum, which is higher than the interest rate for the retail infrastructure bond, whether the Government has reviewed its expectation of interest rate reductions in the United States, and whether it will issue bonds at higher interest rates and reduce the number of bond issuances and the fund to be raised in the future, so as to avoid the recurrence of undersubscription; and

(5) as there have been comments from the media pointing out that full or oversubscription of government bonds reflects public recognition of the Government's principles in managing public finances, while undersubscription triggers an alarm for the Government's fiscal discipline, whether the Government will learn a lesson from this to avoid persistently running a fiscal deficit to such an extent that causes members of the public to query its repayment ability or even dare not subscribe to the Government's new bonds issued in the future?

Reply:

President,

In consultation with the Hong Kong Monetary Authority (HKMA), the reply to the question raised by Hon Paul Tse is as follows:

(1), (2) and (5) The Government issues the Retail Infrastructure Bond to provide members of the public with a reliable investment option with steady returns, while enabling them to participate in infrastructure development. At the same time, members of the public would consider different investment options based on their own investment objectives.

The Retail Infrastructure Bond 2024 was issued on December 17, with an issuance size of around HK$17.8 billion. On the subscription response to this tranche of the Retail Infrastructure Bond, since the current investment market is relatively active with ample investment options, the investment decisions of the members of the public could be affected.

In drawing up and implementing the Government's bond issuance plan, there is flexibility to adjust the issuance arrangements and final issuance size of each bond issuance based on various factors including market conditions. While the final issuance size of an individual bond issuance may differ from the target issuance size, this will not affect the implementation of the Government's bond issuance plan and overall fiscal planning.

Apart from retail bonds, the Government also issues institutional bonds under the Infrastructure Bond Programme. Take the institutional infrastructure bonds issued in early December this year via tendering as an example, the bid-to-cover ratio ranged from around 3 to 4.5, reflecting investors' affirmation of local infrastructure and bond market development, as well as their confidence in Hong Kong's long-term development.

In the 2024-25 Budget, the Government put forward a fiscal consolidation programme which seeks to tackle fiscal deficit by containing the growth of Government expenditure, increasing revenue and issuing government bonds. All proceeds raised from Retail Infrastructure Bond will be credited to the Government's Capital Works Reserve Fund (CWRF) for investment in infrastructure projects supported by the CWRF. No bond proceeds will be used for funding Government recurrent expenditure. The Government will uphold the principle of keeping the expenditure within the limits of revenues as enshrined under Article 107 of the Basic Law and strive to achieve fiscal balance, thereby ensuring the sustainability of public finances. In drawing up the Budget for the new financial year, the Government will review the scale and magnitude of the fiscal consolidation programme.

(3) and (4) The Government issued institutional infrastructure bonds in early December via tendering, with bid-to-cover ratio ranging from around 3 to 4.5. The bonds were issued to Primary Dealers and may be traded by Primary Dealers with investors in the secondary market. The Government as an issuer does not have further details (e.g. whether Mandatory Provident Fund trustees were among the buyers) on the distribution of bonds in the secondary market.

As mentioned above, the Government issues the Retail Infrastructure Bond to provide members of the public with an investment option with steady returns, while enabling the public to participate in infrastructure development. While there are different types of investment options in the market, their nature (including risk, return, tenor and currency, etc.) may vary and may not be directly comparable.

We will keep the effectiveness of the scheme and future arrangements under review, taking account of investor response, market conditions and other relevant considerations.