

LCQ8: Developing bond market

Following is a question by the Hon Kenneth Lau and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (May 22):

Question:

On developing the bond market, will the Government inform this Council:

(1) as the Government has proposed in the 2024-2025 Budget to set a total borrowing ceiling of \$500 billion for the Infrastructure Bond Scheme and the Government Sustainable Bond Programme, of the respective ceilings set by the Government for the amount of (i) retail bonds, (ii) green bonds, and (iii) Silver Bond to be issued under the two bond programmes;

(2) as the Government has stated in the 2024-2025 Budget its plans to issue bonds of \$95 billion to \$135 billion per annum in the next five years to drive the development of the Northern Metropolis and other infrastructure projects, of the progress of work on bond issuance and whether it has drawn up a timetable; if so, of the details; if not, the reasons for that;

(3) as it is learnt that the tenor of government bonds is normally three years, whether the Government has considered, by drawing reference from the practice of the United States Government in issuing Treasury Bills, studying the feasibility of issuing short-term bonds in order to increase the vibrancy of the bond market; if so, of (i) the feasibility of issuing short-term bonds and (ii) the risks it will face; if not, the reasons for that;

(4) as it is learnt that public organisations also issue bonds (e.g. the Airport Authority Hong Kong issued bonds in February this year for the construction of the three-runway system at the Hong Kong International Airport) at present, whether the Government will provide assistance to public organisations in issuing bonds; if so, of the details; if not, the reasons for that;

(5) whether it has compiled statistics on the respective percentages of the currency types in which bonds issued by (i) local enterprises, overseas organisations and multilateral development banks, and (ii) the Government are denominated in the Hong Kong bond market at present (set out in the table below);

Institution issuing bonds	Hong Kong dollar	Renminbi	US dollar	Euro	Japanese yen
(i)					
(ii)					

(6) as it is learnt that government bonds are mainly denominated in Hong Kong dollars and US dollars, and Hong Kong is the world's largest offshore Renminbi (RMB) centre, whether the Government will issue more RMB-denominated bonds, thereby facilitating the development of the local RMB bond market; if so, of the details; if not, the reasons for that;

(7) whether the Government will draw on the experience of sukuk issuance in the past, and attract or invite organisations from the countries of Middle East, the Association of Southeast Asian Nations and the Belt and Road to issue bonds in Hong Kong; if so, of the details; if not, the reasons for that; and

(8) as it is learnt that in recent years, Singapore has introduced a number of initiatives (e.g. the Global-Asia Bond Grant Scheme and the Singapore-dollar Credit Rating Grant Scheme) to attract listing and promote trading of bonds on the Singapore Exchange, whether, apart from the Green and Sustainable Finance Grant Scheme, the Government has other measures to subsidise foreign enterprises to issue bonds in Hong Kong; if not, whether the Government will draw reference from Singapore's policy and formulate relevant subsidy measures to attract foreign capital and assist enterprises that will develop in the Northern Metropolis in the future to issue bonds in Hong Kong; if so, of the details; if not, the reasons for that?

Reply:

President,

In consultation with the Hong Kong Monetary Authority (HKMA), the reply to the eight parts of the question is as follows:

(1) and (2) It was announced in the 2023-24 Budget that the Infrastructure Bond Programme (IBP) would be established to enable better management of the cashflow needs of major infrastructure projects and facilitate their early completion for the good of the economy and people's livelihood, while the scope of the Government Green Bond Programme (GGBP) (renamed as the Government Sustainable Bond Programme (GSBP)) would be further expanded to cover sustainable projects. In the 2024-25 Budget, a combined borrowing ceiling of \$500 billion was set for the IBP and GSBP, along with the plan to issue Government Bonds (GBs) of \$95 billion to \$135 billion per annum in the coming five years (i.e. 2024-25 to 2028-29) under the two programmes. For 2024-25, the Government plans to issue \$120 billion worth of bonds, of which \$70 billion will be retail tranche for public subscription (including \$50 billion worth of Silver Bond and \$20 billion worth of non-silver retail bond). The remaining \$50 billion will be institutional tranche, with a certain proportion to be earmarked for priority investment by Mandatory Provident Fund schemes. A resolution to approve the Government to borrow sums not exceeding in total \$500 billion for the IBP and GSBP was passed by the Legislative Council on May 8, 2024.

On the timetable for bond issuance for infrastructure projects, the Government will recommend for approval an appropriate issuance arrangement

(including target investors, issuance size and timing, currency, tenor, pricing/yield, listing arrangements), taking into account the funding need of the infrastructure projects, as well as market conditions. The Steering Committee chaired by the Financial Secretary, with the Financial Services the Treasury Bureau, the Environment and Ecology Bureau, the Development Bureau and the HKMA serving as members (the Steering Committee), will consider the recommendation.

(3) and (4) To promote the sustainable development of the local bond and green bond markets, the Government has all along been issuing GBs of different types, with short, medium and long-tenors (from one to 30 years) systematically under the Government Bond Programme (GBP) and the GGBP to establish a representative benchmark yield curve to facilitate the market in determining the pricing of other types of bonds (such as corporate bonds). With the establishment of the IBP and GSBP, we and the HKMA will recommend issuance of GBs of different tenors under the two programmes, taking into account the funding needs of relevant projects and market conditions, for approval by the Steering Committee.

As for statutory and public bodies, they may consider issuing bonds according to their needs and market conditions. If they require technical assistance or co-ordination on bond issuance, the HKMA will provide recommendation and share its experience to them for reference as appropriate.

(5) As of end-2023, the total size of the Hong Kong dollar debt instruments outstanding in the market is as follows:

Issuer	Hong Kong Dollar (HK\$) (in billion)
(i) Non-public segment (including authorised institutions, local corporates, multilateral development banks, statutory bodies and government-owned corporations and other issuers outside Hong Kong)	1,203
(ii) Public segment (including Exchange Fund and the Government)	1,540
Total	2,743

As of end-April 2024, the total size of outstanding GBs is as follows:

(in billion)	Hong Kong Dollar (HK\$)	United States Dollar (US\$)	Renminbi (RMB)	Euro
GSBP	42	9.95	31.5	4.58
GBP	237	1	—	—
Total	279	10.95	31.5	4.58
Percentage of total	64%	19%	8%	9%

(6) The 14th Five-Year Plan acknowledges the significant functions and positioning of Hong Kong in the overall development of the country, including enhancing its status as an international financial centre and strengthening its functions as a global offshore RMB business hub. As a leading offshore RMB hub, Hong Kong will continue to take the lead in RMB fund management and investment in the international market, and contribute to the internationalisation of RMB. Under the GGBP, the Government has issued multiple tranches of government green bond denominated in RMB since November 2021, with a total issuance amount reaching RMB31.5 billion. The Government will continue to issue GBs denominated in RMB under the GSBP and IBP to foster the development of local RMB bond market and formation of a local yield curve, promoting RMB internationalisation in an orderly manner. The issuance parameters (including the issuance amount of RMB bonds) under the two programmes will be drawn up taking account of the actual market conditions at the time of arranging the bond issuance, and will be submitted for approval by the Steering Committee.

(7) In 2014, 2015 and 2017, three sukuk of different structures and tenors totalling US\$3 billion were issued under the GBP to demonstrate to the global market the strengths of Hong Kong's Islamic finance platform. The three successful issuances have helped to demonstrate the viability of Hong Kong as an Islamic bond platform and that Hong Kong's legal, regulatory and taxation framework can readily support issuances of sukuk with different structures.

To further strengthen Hong Kong's advantages as a bond financing platform, the Government is continuously enhancing the financial infrastructure. For instance, the Government is in the process of enhancing the functions of the Central Moneymarkets Unit (CMU) by upgrading it to be a major central securities depository platform in Asia. The enhanced CMU system will be able to provide efficient and convenient services supporting issuance, settlement and custodian operations. At the same time, the Government and the regulators are stepping up efforts to promote Hong Kong's position as a bond centre among investors and bond issuers, attracting more organisations to use Hong Kong's fundraising platform and professional services.

To promote the unique advantages of Hong Kong's capital market abroad, the Government has been utilising various channels for publicising Hong Kong's good image internationally and connecting with overseas enterprises. In this regard, the Chief Executive led a delegation to various countries in the Middle East and Southeast Asia in February and July last year respectively, including visiting Saudi Arabia and Indonesia to meet with local officials and business leaders to promote Hong Kong's advantages in different areas such as finance and trade as well as the immense opportunities under "one country, two systems". In addition, the Hong Kong Special Administrative Region Government and the Emirate of Dubai signed in September last year a Memorandum of Understanding, which strengthens the bilateral relations and collaboration between the two places, and facilitates the mutual and sustainable development of the financial services industries, including exploring policy communication, knowledge exchange and co-operation opportunities in areas such as family offices, fintech, virtual asset and

green and sustainable finance. The HKMA also held bilateral meetings with the Central Bank of the United Arab Emirates (CBUAE) and the Saudi Central Bank (SAMA) in May and July last year respectively. Discussions covered a number of areas, including financial infrastructure development, market connectivity. The HKMA will continue to deepen the collaboration in financial services with the CBUAE and the SAMA, with a view to promoting investment and financial market connectivity between the Middle East and Asia.

(8) The Government launched in 2021 the Green and Sustainable Finance Grant Scheme to provide subsidy for eligible bond issuers and loan borrowers to cover part of their expenses on bond issuance and external review services. The Scheme has been well received by the industry. As of early May 2024, the Scheme has granted around \$240 million to around 410 green and sustainable debt instruments issued in Hong Kong, involving a total underlying debt issuance of around US\$110 billion (or over HK\$800 billion).

The 2024-25 Budget announced that the Scheme would be extended by three years to 2027, and the scope of subsidies would be expanded to cover transition bonds and loans. The HKMA has released the updated guideline of the Scheme. We and the HKMA will continue to promote the Scheme, encourage relevant industries in the region to make use of Hong Kong's transition financing platform, and continue to enrich the green and sustainable finance ecosystem in Hong Kong.