

LEGISLATIVE COUNCIL BRIEF

Loans Ordinance (Chapter 61)

Resolution to Raise the Maximum Amount of Borrowings for the Purposes of the Capital Works Reserve Fund for the Infrastructure Bond Programme and Government Sustainable Bond Programme

INTRODUCTION

At the meeting of the Executive Council on 28 February 2024, the Council **ADVISED** and the Chief Executive **ORDERED** that the Resolution, at **Annex A**, should be introduced into the Legislative Council (“LegCo”) to approve the Government to borrow, under section 3(1) of the Loans Ordinance (Cap. 61)(“the Ordinance”), for the purposes of the Capital Works Reserve Fund (“CWRF”), sums not exceeding in total \$500 billion or equivalent, being the maximum amount of all sums borrowed that may be outstanding by way of principal at any time, with the sums borrowed to be credited to the CWRF for the Infrastructure Bond Programme (“IBP”) and the Government Sustainable Bond Programme (“GSBP”).

JUSTIFICATIONS

Establishment of the IBP

2. It was announced in the 2023-24 Budget that the IBP will 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. The IBP will also cater for public participation in retail bond subscription for the community to develop a “sense of participation” and a “sense of gain” in support of Hong Kong’s long-term development projects. A certain portion of the issuances will be earmarked for priority investment by Mandatory Provident Fund (“MPF”) Schemes.

3. The IBP will cover the projects under the Government’s capital works programme of the CWRP (except for those also constituting green projects that have been or are expected to be included in the Government Green Bond Programme (“GGBP”)). This coverage will include projects under major infrastructure initiatives such as the Northern Metropolis.

Expansion of the Scope of the GGBP and Renaming it as the GSBP

4. The GGBP was set up in 2018 with the policy objective of promoting the development of green finance in Hong Kong and signifying the Government’s support for sustainable development and combatting climate change. In this regard, LegCo passed a resolution under the Ordinance in November 2018 authorising the Government to borrow, for the purposes of the CWRP, sums not exceeding in total \$100 billion, being the maximum amount of all borrowings under the GGBP that may be outstanding by way of principal at any time. The sums raised were credited to the CWRP for funding the Government’s green projects meeting the criteria for inclusion in the GGBP¹. To promote market development and further consolidate Hong Kong’s position as an international green finance hub, the GGBP borrowing ceiling was increased to \$200 billion in July 2021 by means of another resolution passed by LegCo under the Ordinance. The scope of the GGBP was also expanded such that the bond proceeds can be used to fund more categories of green projects under the CWRP². As of February 2024, the outstanding principal amount of green bonds (including institutional, retail and tokenised bonds) is approximately \$194 billion, nearing the borrowing ceiling of \$200 billion.

5. The GGBP has established important benchmarks for issuance of green bonds in the region, encouraged best practices and won considerable acclaim from international investors. It has helped promote the development of green finance in Hong Kong by encouraging issuers to arrange financing for their green projects through the Hong Kong capital market, while expanding the local green investor base. Building on the success of the GGBP and further

¹ In line with international best practice, a Green Bond Framework (“Framework”) was drawn up in March 2019 (subsequently updated in February 2022) which sets out how the Government intends to issue green bonds to fund projects that will improve the environment and facilitate the transition to a low carbon economy. In accordance with the latest Framework, the proceeds of issuances will be used exclusively to finance or re-finance projects of the Government that fall under one or more of the nine eligible categories (i.e. renewable energy; energy efficiency and conservation; pollution prevention and control; waste management and resource recovery; water and wastewater management; nature conservation / biodiversity; clean transportation; green buildings; and climate change adaptation).

² Including minor works projects, major systems and equipment, and capital subventions.

consolidating Hong Kong’s position as a green and sustainable finance hub, it was announced in the 2023-24 Budget that the scope of the GGBP will be further expanded to cover sustainable projects³.

6. It is commonly accepted in the international capital markets that the concept of sustainable finance covers the financing of green projects and social projects, as well as financial instruments with the interest rates linked to the overall sustainability performance of the issuer. When allocating the bond proceeds to individual sustainable projects covered by the CWRP, the Government will ensure a proper allocation by making reference to the latest relevant international standards and principles, as well as the Government’s environmental policies and targets. With the expansion of the GGBP to cover sustainable projects, it is recommended that the programme be renamed as the GSBP. Similar to the IBP, a certain portion of the future issuances will be earmarked for priority investment by MPF Schemes. Retail issuances will continue.

Borrowing Ceiling for the IBP and GSBP

7. As set out in the 2024-25 Budget, setting the borrowing ceiling at a total of \$500 billion for the IBP and GSBP can allow more flexibility in quota re-allocation to facilitate investment in projects which are conducive to long-term development as covered by the CWRP. To implement this initiative, it is necessary to introduce a new resolution under section 3(1) of the Ordinance to authorise the Government to borrow, for the purposes of the CWRP, sums not exceeding in total \$500 billion or equivalent, being the maximum amount of all sums borrowed that may be outstanding by way of principal at any time, under the IBP and GSBP.

Implementation of the IBP and GSBP

8. The implementation and development of the current GGBP is overseen by a Steering Committee chaired by the Financial Secretary, with members from the Financial Services and the Treasury Bureau, the

³ As there is no universally accepted definition of “sustainable”, we will not define “sustainable projects” (as we do not define “green” under the GGBP) so as to provide flexibility to include projects as will be considered “sustainable” in the evolving sustainable finance landscape. According to the latest guidelines issued by the International Capital Market Association, sustainability bonds are any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance a combination of both green and social projects. Social projects are projects which directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes, especially for a target population.

Environment and Ecology Bureau, and the Hong Kong Monetary Authority (“HKMA”). The Steering Committee will be expanded to oversee both the IBP and GSBP, with the Development Bureau as an added member.

9. On the issuance arrangements for the IBP and GSBP, the Government and the HKMA will continue to adopt a flexible approach and monitor market conditions closely to decide on the appropriate issuance timing and parameters. As announced in the 2024-25 Budget, we will issue \$120 billion worth of bonds in 2024-25, of which \$70 billion will be retail tranche that includes \$50 billion worth of Silver Bond⁴, and \$20 billion worth of green bonds and infrastructure bonds to achieve financial inclusiveness and enhance a “sense of participation” in infrastructure and sustainable development among the public.

10. All proceeds raised under the IBP and GSBP will be credited to the CWRP⁵. Expenses (including interest payment, principal repayment, expenses for external services, etc.) will be met by the CWRP.

THE RESOLUTION

11. The Resolution seeks to approve the Government to borrow for the purposes of the CWRP, sums not exceeding in total \$500 billion or equivalent, being the maximum amount of all sums borrowed that may be outstanding by way of principal at any time, under the IBP and GSBP. It requires the sums borrowed to be credited to the CWRP, and replaces the resolution passed by LegCo in July 2021 on the current maximum amount of borrowings of \$200 billion for the GGBP.

⁴ The Silver Bond will be issued under the IBP and/or GSBP.

⁵ The IBP and GSBP will gradually replace the existing Government Bond Programme to channel liquidity for the two programmes.

LEGISLATIVE TIMETABLE

12. The tentative legislative timetable is set out below –

Moving the resolution in LegCo	27 March 2024
Publication in the Gazette and commencement	April 2024

IMPLICATIONS OF THE PROPOSAL

13. The proposal is in conformity with the Basic Law, including the provisions concerning human rights, and will not affect the current binding effect of the Ordinance. There are no civil service, productivity, family and gender implications. Additional workload arising from the administration of the IBP and GSBP will be absorbed by relevant bureaux or departments with existing resources.

14. The economic, environmental, financial and sustainability implications of the proposal are set out in **Annex B**.

PUBLIC CONSULTATION

15. The proposed establishment of the IBP and expansion of the GGBP to cover sustainable projects was announced in the 2023-24 Budget, and generally received positive comments.

PUBLICITY

16. We will issue a press release upon the introduction of the Resolution, and will brief the LegCo Panel on Financial Affairs on the proposal in March 2024. A spokesperson will be available to answer enquiries.

ENQUIRIES

17. Enquiries relating this brief can be directed to Ms Almaz LEUNG, Principal Assistant Secretary for Financial Services and the Treasury (Financial Services), at 2810 2150 or Mr Justin TO, Principal Assistant Secretary for Financial Services and the Treasury (Financial Services), at 2810 2067.

Financial Services and the Treasury Bureau
28 February 2024

Loans Ordinance

Resolution of the Legislative Council

Resolution made and passed by the Legislative Council under section 3(1) of the Loans Ordinance (Cap. 61) on 2024,

Resolved that—

- (a) the Government be approved to borrow from any person from time to time for the purposes of the Capital Works Reserve Fund established by the Resolution passed on 20 January 1982 (Cap. 2 sub. leg. A) sums not exceeding in total \$500 billion or equivalent, being the maximum amount of all sums borrowed under this paragraph that may be outstanding by way of principal at any time;
- (b) sums borrowed under paragraph (a) are to be credited to the Capital Works Reserve Fund; and
- (c) this Resolution is to replace the Resolution passed on 21 July 2021 (Cap. 61 sub. leg. H).

Clerk to the Legislative Council

2024

Explanatory Note

This Resolution relates to the proposals in the 2023–24 Budget—

- (a) to establish an Infrastructure Bond Programme; and
- (b) to expand the scope of the Government Green Bond Programme (which will be renamed as the Government Sustainable Bond Programme) to cover sustainable projects.

2. This Resolution—

- (a) gives approval to the Government to borrow for the purposes of the Capital Works Reserve Fund sums not exceeding in total \$500 billion or equivalent, being the maximum amount of all sums borrowed under the approval that may be outstanding by way of principal at any time; and
- (b) requires that the sums be credited to the Capital Works Reserve Fund.

Implications of the Proposal

Economic Implications

The Infrastructure Bond Programme (“IBP”) and the Government Sustainable Bond Programme (“GSBP”), which target at both local and international investors, will continue to help promote the development of the local bond market, including retail bond market and green and sustainable bond market in Hong Kong. It will help establish market benchmark and enrich the green and sustainable finance ecosystem, which is conducive to consolidating Hong Kong’s position as an international financial centre and a green and sustainable finance hub. The set-up of the IBP should also facilitate the Government’s investment in various major infrastructure initiatives, which would help build capacity for Hong Kong’s future economic development.

Environmental Implications

2. Further issuance of green bonds under the GSBP will finance a greater number and wider variety of projects with positive environmental benefits, conducive to the Government’s efforts in transforming Hong Kong into a low-carbon economy and achieving the goal of carbon neutrality before 2050. It will signal the Government’s continuous commitment to promoting sustainable development and combating climate change. The proposal will not affect the established mechanism to assess environmental implications in taking forward individual projects.

Financial Implications

3. The financial implications to be brought about by the implementation of the IBP and GSBP should be minimal. While the sums raised will be credited to the Capital Works Reserve Fund (“CWRF”), costs incidental to the issuance of bonds, annual payment of interest and repayment of principal will continue to be met by the CWRF. It is envisioned that, in line with the current arrangement under GGBP, proceeds pending allocation will remain at the CWRF which, as part of the Operational and Capital Reserves of the fiscal reserves, and in accordance with the existing

arrangement between the Government and the Hong Kong Monetary Authority, is placed with the Exchange Fund at a fixed rate of return determined every year.

Sustainability Implications

4. The proposed expansion of the borrowing ceiling and the expanded scope of the GSBP will fund a greater variety of sustainability projects that will improve the environment and bring positive social impacts. In addition to the environmental implications set out above, the GSBP will also help promote the development of the green and sustainable bond market in Hong Kong.