

## **Policy Objectives in Financial Affairs and Public Finance**

This document sets out the Financial Secretary (FS)'s policy objectives at a macro level in relation to the financial system, the status of Hong Kong as an international financial centre and the public finance.

### **Financial system**

2. The role of the financial system is to promote economic well-being through financial intermediation, i.e., the channelling of savings into investment, and the provision of a financial infrastructure for effecting financial transactions. Given the externally oriented nature of Hong Kong's economy, the openness of its financial markets and Hong Kong's status as an international financial centre, the financial system of Hong Kong should operate in line with international standards. In promoting the effective performance of this role by the financial system, the Government should adopt a free market approach and keep its involvement in the financial system to the minimum, except where the private interests of financial market participants do not align with the public interests, or where the infrastructure is a public good that it may not be possible or appropriate to provide through the market, for reasons of competitive fairness or commercial viability.

3. The Government should formulate specific policies to promote the efficient functioning of the financial system in the following manner -

- (a) Policies concerning financial infrastructure should aim to mitigate risks, increase efficiency and enhance market transparency and liquidity, thus supporting the safety and soundness of the financial system.
- (b) Policies concerning financial intermediation should aim to promote the stability, integrity, diversity and efficiency of the financial system.

- (c) Policies concerning the regulatory regime should aim to provide a regulatory framework that promotes the stability of the financial system, provides an appropriate measure of protection to users of financial services and facilitates competition, and is consistent with the standards and practices of major international financial centres.

### **Status of Hong Kong as an international financial centre**

4. An international financial centre is a place where financial institutions from many different jurisdictions come together to carry out financial intermediation of an international dimension. The Government should seek to maintain and enhance Hong Kong's status as a major international financial centre. Towards this end, the Government should -

- (a) maintain an appropriate economic and legal environment for an open, fair and efficient market, including through ensuring that Hong Kong's laws continue to provide a level playing field;
- (b) further enhance the international competitiveness of Hong Kong's financial services through promoting international financial intermediation and attracting foreign savings to Hong Kong;
- (c) develop payment, clearing and settlement systems to facilitate the safe and efficient conduct of international and cross-border financial activities in Hong Kong; and
- (d) strengthen corporate governance standards with a view to fostering international confidence in our financial markets.

### **Public finance**

5. The Government should maintain sound and stable public finance and foster a fiscal environment conducive to continued economic growth and success. Towards this end, the Government should -

- (a) follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of Hong Kong's gross domestic product;
- (b) ensure that resources available are deployed appropriately and used cost-effectively in providing services that best meet the needs of the community;
- (c) maintain a policy of low taxation, as well as an effective revenue collection and protection system, to provide sources of government finance in support of economic and social development;
- (d) improve the efficiency, quality and cost-effectiveness of the Government's central support services; and
- (e) manage the Government's estate cost-effectively and efficiently.

6. It should be stressed that the above do not represent an exhaustive list of objectives to be pursued in relation to financial affairs and public finance. Nor should they be taken as static goals. As the market evolves, these objectives may need to be reviewed to ensure that they remain relevant and appropriate to Hong Kong.

Financial Secretary

27 June 2003

A:\FS-PO.doc