LCQ12: Financial results of the Government

Following is a question by the Hon Adrian Ho and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (November 13):

Question:

According to the information released by the Government at the end of September this year, in the first five months of this financial year alone and before taking into account the issuance and repayment of bonds, the Government has recorded a deficit of $201 billion, far exceeding the consolidated deficit of $143.8 billion for the whole year as forecast in the Budget of this financial year. There are views that the above situation reflects the Government's difficulty in meeting the Medium Range Forecast (MRF) in the Budget of this financial year (i.e. the Operating Account will record a surplus from the 2026-27 financial year onwards and the Capital Account will record a surplus in the 2028-29 financial year), and that once the relevant situation worsens, the Government will have difficulty in complying with the relevant requirement under Article 107 of the Basic Law to strive to achieve a fiscal balance in drawing up its budget. In this connection, will the Government inform this Council:

(1) in the remaining months of this financial year, other than revenues including salaries and profits taxes that are mostly received towards the end of a financial year, what additional measures the authorities plan to introduce to reduce the consolidated deficit for the whole year before taking into account the issuance and repayment of bonds;

(2) of the authorities' practical measures in place in each year from the next financial year to the 2028-29 financial year to meet the MRF of recording surpluses in both the Operating Account and the Capital Account;

(3) as there are views that while the 2023-24 Budget proposed that the Government issue government bonds totalling $65 billion in each year from that financial year until the 2028-29 financial year, the Budget of this financial year puts forward a plan to issue government bonds totalling about $95 billion to $135 billion in each year from this financial year until the 2028-29 financial year, indicating the Government's tendency to gradually increase the amount of bond issuance that will lead to a miscalculation of the time required to achieve fiscal balance, whether the Government has assessed if it is required to readjust the amount of bond issuance in this financial year and in the next few financial years; if it has assessed and the result is in the affirmative, of the latest projection for the amount of bond issuance in each year from this financial year until the 2028-29 financial year, and how the relevant adjustment will affect the aforesaid MRF in the Budget of this financial year; and

(4) as there are views that the estimated land premium revenue for this financial year is $33 billion, but as at October this year, the proceeds from the land premium of land sales in this financial year were only $720 million, and even after taking into account the proceeds from cases of registered lease modifications, land exchanges, private treaty grants and lot extensions in the second and third quarters of 2024, the total land premium revenue is merely $4.9 billion, which is a worrying situation, of the Government's plan in place to make up for the shortfall of almost $30 billion in estimated land premium revenue in the remaining months of this financial year?

Reply:

President,

Having consulted the Development Bureau, our consolidated reply to the question raised by Hon Adrian Ho is as follows:

The Government has all along been upholding the principle of keeping expenditure within the limits of revenues in drawing up its budget as enshrined in Article 107 of the Basic Law. We strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product, with a view to ensuring the resilience and sustainability of our public finances. The Government has constitutional responsibility to uphold the principle of fiscal prudence and achieve fiscal balance over a period of time.

During the earlier pandemic, the Government launched several rounds of large-scale counter-cyclical measures to support the enterprises and citizens. In addition, the implementation of anti-epidemic measures led to a sharp increase of expenditure. Therefore, relatively larger fiscal deficits were recorded. Furthermore, as a small and externally-oriented economy, Hong Kong is inevitably susceptible to the influence of a complicated and volatile external environment. While revenues related to the asset market will still require some time to fully recover, the Government has to keep devoting resources to strengthen the growth momentum of our economy and enhance public services. This is why we have a deficit budget for the 2024-25 financial year.

The Government is determined to overcome the challenges facing our public finances. In the 2024-25 Budget, the Financial Secretary put forward a comprehensive fiscal consolidation programme, which seeks to narrow our fiscal deficit progressively and restore fiscal balance in a few years' time by containing the growth of expenditure, increasing revenue and issuing government bonds.

On expenditure, the Government strictly contains the growth of its operating expenditure, including continuing to maintain zero growth in the civil service establishment with the aim of containing the establishment at a level not exceeding that as at end-March 2021, and implementing the Productivity Enhancement Programme, under which recurrent government expenditure will be cut by 1 per cent each year from 2024-25 to 2026-27 on the premise that such schemes as the Comprehensive Social Security Assistance

Scheme and the Social Security Allowance Scheme will not be affected. In addition, the Government reviews the cost-effectiveness of capital works projects and gives due regard to priority and urgency to adjust the implementation schedule. Some works projects that are at a comparatively mature stage of planning, including the site formation and infrastructure works for the Northern Metropolis, will continue to be taken forward as planned. For those that are currently at the preliminary planning or conceptual stage, the implementation schedule will be adjusted in light of their importance and other factors.

On revenue, the Government will put in place four revenue-raising measures in 2024-25, namely (a) implementing a two-tiered standard rates regime for salaries tax and tax under personal assessment starting from the year of assessment 2024-25; (b) increasing business registration fees and branch registration fees by 10 per cent with effect from April 1, 2024; (c) implementing the progressive rating system for domestic properties starting from January 1, 2025; and (d) resuming the collection of hotel accommodation tax at a rate of 3 per cent with effect from January 1, 2025. The four measures are expected to bring in revenue of about $3.1 billion in total for the Government annually.

In addition, the Government will apply the global minimum tax rate of 15 per cent on large multinational enterprise groups with an annual consolidated group revenue of at least EUR 750 million, and impose the Hong Kong minimum top-up tax starting from 2025 in accordance with the global minimum tax proposal drawn up by the Organisation for Economic Co-operation and Development to address base erosion and profit shifting. Based on our current estimates, the measures will bring in an additional tax revenue of about $15 billion for the Government annually starting from 2027-28. We plan to introduce the relevant bill into the Legislative Council by January 2025.

The Government has made the issuance of government bonds a financing option for infrastructure projects, with a view to driving the development of the Northern Metropolis and other infrastructure with the capital raised from the market. Taking into account the pace of development in respect of the Northern Metropolis and other infrastructure projects, the Government plans to issue bonds worth about $95 billion to $135 billion per annum from 2024-25 to 2028-29. The actual size of bond issuance will be subject to the prevailing fiscal position, market situation and works progress. The Government will continue to adhere strictly to fiscal discipline and keep government debt at a prudent level. It is expected that the ratio of government debt to Gross Domestic Product will range from about 9 per cent to 13 per cent during the period from 2024-25 to 2028-29, which is much lower than most other advanced economies. We will look into the scale and forms of bond issuance for the next few years when formulating the 2025-26 Budget.

In formulating the Budget every year, the Government takes into account factors such as the overall performance of the property market, demand and supply situation in the market, and economic environment etc. in drawing up the Government Land Sale Programme of the upcoming year and estimating the revenue from land premium in the next financial year. Since the pace of land sale and the revenue from land premium are often affected by property market situation and economic environment, there may be a variance between the actual receipt and the estimate of land premium. As at end October this year, the total revenue from land sales by tender in this financial year as well as land transactions involving private treaty, lease modification, land exchange, etc. is around $3.7 billion.

Furthermore, the Government's overarching goal when supplying land is to maintain a sustained supply so as to allow for the healthy development of the property market. The Government will judge the hour and size up the situation by considering the actual circumstances (including the economic environment and market changes) and roll out sites to the market in a prudent manner. The Government will announce its quarterly land sale programme in advance, and maintain flexibility to put up additional sites for sale in course of a quarter. The Government will update the estimation of revenue from land premium in its 2025-26 Budget to be announced in February 2025.

In preparing the Budget, the Government takes into account the levels of revenue, expenditure and fiscal reserves, as well as the imminent and long-term needs of the society in order to draw up suitable measures and financial arrangements. As the 2025-26 Budget exercise is about to commence, we will review the latest position and forecast in respect of the public finances, and draw up measures with a view to restoring fiscal balance in a few years' time.