

LCQ3: Management of public finance

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

Question:

Article 107 of the Basic Law stipulates that "[t]he Hong Kong Special Administrative Region shall follow the principle of keeping the 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 its gross domestic product". Regarding the management of public finance, will the Government inform this Council:

(1) whether it has set a requirement on the minimum level of fiscal reserves; if so, of the details and justifications; if not, the reasons for that;

(2) whether it has set a floor on the accumulated surplus of the Exchange Fund; if so, of the details and justifications; if not, the reasons for that; and

(3) whether it has estimated the likelihood of having structural fiscal deficits in the coming 15 years; if so, of the details, including the respective growth rates of government revenue, public expenditure as well as nominal and real Gross Domestic Products on which the estimation was based; if not, the reasons for that?

Reply:

President,

(1) Since the financial year 1997-98, the Government has maintained its fiscal reserves at a level equivalent to 13 to 28 months of government expenditure. In preparing the Budget every year, the Government endeavours to strike a proper balance among the levels of revenue, expenditure and fiscal reserves, taking also into account the imminent and long-term needs of the society, in drawing up suitable measures and financial arrangements. With ample fiscal reserves, the Government is able to introduce suitable measures to relieve people's burden during the economic downturn. Due to the continuous development of the economy and society, the fiscal requirements would vary, and it is inappropriate to set a rigid benchmark as a level of fiscal reserves. As set out in the Medium Range Forecast (MRF) in the Appendices of the 2020-21 Budget, the Government's fiscal reserves would, throughout the forecast period up to March 31, 2025, stay at a level equivalent to 15 months or more of government expenditure.

(2) The Exchange Fund (the Fund) is established and managed in accordance with the Exchange Fund Ordinance. Apart from specific items, such as transfer

from the Fund, the Ordinance does not set a ceiling or floor on the accumulated surplus of the Fund.

(3) Article 107 of the Basic Law stipulates that the Hong Kong Special Administrative Region shall follow the principle of keeping the 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 its gross domestic product. The Government strives to ensure that, over time, the growth rate of expenditure should be commensurate with that of the economy. According to the MRF, for the four financial years starting from 2021-22, the fiscal deficit is estimated at about \$14 billion per annum on average. Compared with the government expenditure of about \$700 billion a year, a fiscal balance can broadly be achieved. For the forecasting assumptions and budgetary criteria applied in the MRF, please refer to Appendix A of the Budget.