

# LCQ4: Tackling the Government's fiscal deficits

Following is a question by Dr the Hon Tik Chi-yuen and a reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (January 22):

Question:

It has been reported that the Government's fiscal deficit for the current financial year will be as high as \$100 billion. However, it is stipulated under Article 107 of the Basic Law that the Government 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. In this connection, will the Government inform this Council:

(1) given that according to government information, as at November 30 last year, the Government's fiscal reserves stood at \$591.4 billion, which had substantially reduced by almost half when compared with \$1,160.3 billion as at March 31, 2020, whether the Government has set a "safety line" for the fiscal reserves; if so, of the response plans in case the fiscal reserves drop to the critical level;

(2) as it has been reported that as at the previous financial year, the Government had issued bonds amounting to over \$200 billion, and it will also issue bonds not exceeding \$500 billion in the coming five years, while the Government has indicated that there may be room for upward adjustment of the ceiling on the amount of bond issuance depending on the circumstances, whether the Government will set an ultimate ceiling on the amount of bond issuance, so as to avoid triggering debt crises as a result of the total amount of debts substantially exceeding the Gross Domestic Product; and

(3) as it has been reported that the expenditure on civil service remuneration accounts for 25.98 per cent of the Government's operating expenditure, whether the Government has considered freezing or reducing civil service emoluments, merging civil service grades or streamlining the organisation structure, as well as reviewing the remuneration of senior officials (in particular politically appointed officials)?

Reply:

President,

Our reply to the question raised by Dr the Hon Tik Chi-yuen is as follows:

(1) 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 (GDP), with a view to ensuring the resilience and sustainability of our public finances. The Government has the constitutional responsibility to uphold the principle of fiscal prudence and achieve fiscal balance over a period of time.

During the epidemic, the Government launched several rounds of large-scale counter-cyclical measures to support enterprises and members of the public. The implementation of anti-epidemic measures also led to a sharp increase in expenditure. These measures, though successful in stabilising the economy and safeguarding people's livelihood at that time, have led to fiscal deficits in the past few years and a drop in fiscal reserves. 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 are having a deficit budget for this financial year (i.e. 2024-25). Taking into account the net proceeds from the issuance of government bonds, the latest projected consolidated deficit for 2024-25 will be under \$100 billion.

The Government is determined to overcome the challenges facing our public finances. In the 2024-25 Budget, we proposed to implement 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. Given the current economic and fiscal circumstances, we are actively considering enhancing our fiscal consolidation efforts to further contain expenditure growth. These include requiring government departments to reassess their resource allocations and work priorities and better meet the needs of society through reallocation of resources.

As to the appropriate level of fiscal reserves, there have been different views in the society. Some people think that the more, the better when it comes to fiscal reserves, while some are of view that the Government should not keep excessive social resources and should instead enhance economic efficiency through market forces. As our fiscal requirements will change alongside the continuous development of our economy and society, we consider that we should not and it is inappropriate to set a fixed benchmark or limit for the level of fiscal reserves. Meanwhile, we consider the current level of our fiscal reserves adequate for meeting the day-to-day operation of the Government.

The Financial Secretary is now formulating the 2025-26 Budget. The levels of revenue, expenditure and fiscal reserves will be reviewed in the light of the imminent and long-term needs of society. This will enable us to strike the right balance and draw up relevant measures and financial arrangements to ensure the sustained and steady development of our economy and society.

(2) The Government has made the issuance of government bonds a financing option for infrastructure projects. Taking into account the pace of development in respect of the Northern Metropolis and other infrastructure

projects, the Government announced in the 2024-25 Budget its 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 such factors as the prevailing fiscal position, market situation and works progress. In May 2024, the Legislative Council (LegCo) passed the resolution on the setting of a borrowing ceiling of a total of \$500 billion for the Government Sustainable Bond Programme and the Infrastructure Bond Programme. Any adjustments to the borrowing ceiling will require the approval by LegCo.

The issuance of government bonds on an appropriate scale will further foster the development of the bond market and the implementation of infrastructure projects, which is in line with the practice of many advanced economies. The Government will maintain government debt at a prudent level. According to the forecast given in the 2024-25 Budget, the ratio of government debt to GDP 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 advanced economies.

The Financial Secretary, who is now formulating the 2025-26 Budget, will look into the scale and forms of bond issuance for the next few years.

(3) As to pay adjustment in respect of politically appointed officials and civil servants, having consulted the Civil Service Bureau and the Constitutional and Mainland Affairs Bureau, we give our consolidated reply as follows:

Regarding the annual civil service pay adjustment, the Chief Executive in Council (CE in Council) will thoroughly consider six factors according to the established mechanism in deciding the civil service pay adjustment. The six factors include the state of Hong Kong's economy, changes in the cost of living, the net pay trend indicators derived from the annual Pay Trend Survey, the Government's fiscal position, the pay claims of the staff side and civil service morale.

The Government has been strictly controlling the civil service establishment and, since 2021-22, has contained the overall civil service establishment at a level not exceeding that as at end-March 2021 (about 196 000 posts); and the civil service establishment will reduce to 194 000 posts as of end-March 2025. Bureaux and departments have been enhancing efficiency through re-prioritisation, internal redeployment, work processes streamlining and leveraging on technology so as to take forward policies and initiatives of the Government as well as to cope with the rise in workload.

The existing remuneration package for Politically Appointed Officials of the HKSAR (Hong Kong Special Administrative Region) Government was set in accordance with the mechanism recommended and submitted by the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the Hong Kong Special Administrative Region to the CE in Council for consideration and decision.

As mentioned just now, we are actively considering enhancing our fiscal

consolidation efforts to further contain expenditure growth. The Financial Secretary is now formulating the 2025-26 Budget and will review the fiscal consolidation programme, including proposals on expenditure cut.

Thank you, President.