

Speech

SFST speaks at St Petersburg International Economic Forum

Sunday, June 20, 2010

Governments should balance the use of fiscal expenditure to boost economic and job growth in the short term and the need to convince the market that they have the will and the means to cap fiscal spending in the long term, the Secretary for Financial Services and the Treasury, Professor K C Chan, told the St Petersburg International Economic Forum 2010 in Russia today (June 19, St Petersburg time).

Professor Chan was speaking at a panel session on "Global Economy - Managing Sovereign Debt" which explored a range of issues reshaping the global economic environment including the accelerating changes in the balance of powers, global governance, and risks and opportunities in sustaining growth.

He said that in order to convince the market, governments in countries with high fiscal deficits should spell out clearly plans to exit from short term stimulative policies and implement long term fiscal reforms under realistic assumptions.

"Fiscal support for economic growth is still needed on the face of a weak global recovery. But not all government spending is conducive to economic growth. Governments need to re-think critically what their roles in such areas as education, health care, welfare and so on, and fiscal expenditure should be devised based on economic reality," he said.

He also pointed out that for countries affected by the sovereign debt crisis, there was one common thread running through them - persistent fiscal deficits for years culminating in high levels of government debts. Countries should critically review their public expenditure programmes, and restructure their priorities with a view of promoting economic growth.

"Economic growth is the only sustainable source of revenue generation, and raising taxes is not an ideal way to narrow fiscal deficit as this could restrain

economic growth and distort resource allocation," he added.

Professor Chan also called on governments to undertake business-friendly regulatory reform and improve labour market flexibility to enhance productivity and capacity to promote growth. He noted that the recent debt crisis has prompted European countries to join hands to address market concerns, and the EU leadership has demonstrated a commitment to undertaking reforms in this direction.

Other panelists of the session included Mr Alexei Kudrin, Deputy Prime Minister and Minister of Finance of the Russian Federation; Ms Christine Lagarde, Minister for Economy, Industry and Employment of France; Mr Stanley Fischer, Governor of the Bank of Israel; and Mr John Lipsky, First Deputy Managing Director, International Monetary Fund.

During his visit in St Petersburg, Professor Chan also met with the Chairman of the Committee of Foreign Relations of the St Petersburg City Government, Mr Alexander Prokhorenko, and the Chairman of the Finance Committee of St Petersburg, Mr Eduard Batanov.

He will depart for London tomorrow (June 20, St Petersburg time) to continue his visit in the United Kingdom.