

Press release

LCQ12: Budget estimates

Wednesday, February 27, 2013

Following is a question by the Hon Frederick Fung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (February 27):

Question:

According to the latest figures announced by the Government, the financial situation for the first nine months (ending December 31, 2012) of this financial year was that there was a surplus of HK\$40 billion. It has been reported that based on a conservative estimate, the fiscal surplus of the current financial year will exceed \$25 billion, which is a far cry from the deficit of \$3.4 billion estimated by the Financial Secretary when delivering the Budget last year. According to Article 107 of the Basic Law, "[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 (GDP)". Furthermore, the principle of managing public finances prudently has all along been adopted in the fiscal system of Hong Kong, under which the Government maintains public expenditure at a level below 20% of GDP. Besides, the former Chief Executive (CE) even stated clearly in the final Policy Address during his term of office that Hong Kong should maintain the "fiscal discipline" of keeping public expenditure at a level not exceeding 20% of GDP. However, the incumbent CE has stated during the election that it is not practical to maintain public expenditure firmly within a specific limit (i.e. to limit public expenditure to 20% of GDP). In this connection, will the Government inform this Council:

(a) of the public revenue and expenditure for 2012-2013 according to the authorities' latest estimation; how the difference between revenue and expenditure estimations compares to the budget deficit of \$3.4 billion; if there is an enormous discrepancy between the two, of the reasons for that and whether there is a deliberate under-estimation of revenues or whether factors of revenue-expenditure structure are involved; whether the authorities will review the reasons for the wide gaps between the estimates and the actual amounts of public revenue and expenditure over the years;

(b) in the face of the discrepancies between budgetary estimates and actual amounts of revenue and expenditure over the years, whether the authorities have assessed if there

had been ineffective use of the surplus resources due to under-estimation of revenue in the past, and whether expenditure had been wrongly cut or addition of required items of expenditure rejected due to the expenditure being budgeted on the basis of the under-estimated revenue, which resulted in a failure to provide sufficient resources to meet the needs of the public; whether they have examined if the aforesaid arrangement of setting expenditure on the basis of under-estimated revenue violates the principle of "keeping the expenditure within the limits of revenues" enshrined in the Basic Law; if they have, of the outcome; and

(c) whether the Government of the current term observes the financial management principle of its predecessor that public expenditure should be maintained at a level of around 20% of GDP and no upper limit is set for fiscal reserves; if it does, whether it has assessed if such practice violates the aforesaid advocacy put forward by CE during the election; if it does not observe that principle, of the Government's principle of and policy on financial management at present; how the authorities realise, in their formulation of fiscal policy and utilisation of fiscal reserves, the principle of governance advocated by CE that the Government should be appropriately proactive to promote economic development?

Reply:

President,

(a) The Financial Secretary will give an account of the revised estimates for 2012-13 when he moves the second reading of the Appropriation Bill 2013.

The Government expenditure and revenue involve huge sums and cover a large number of items. It is difficult to estimate with accuracy. The difference between the estimate and actual figures is invariably the result of many factors, particularly external ones. In preparing budget, we will compile the best estimates on the basis of the information available at the time.

Among different sources of government revenue, land premium, profits tax and stamp duties are particularly volatile. They are very susceptible to economic changes which are often beyond our capacity to estimate.

(b) We have always been managing public finances in accordance with the principles of fiscal prudence, keeping expenditure within the limits of revenues, and committing resources only where justified.

The estimated total expenditure and recurrent expenditure in 2012-13 have increased by 68% and 33% respectively over 2007-08, substantially exceeding the nominal GDP growth of only 21% during the same period. The estimated capital works expenditure in 2012-13 is over \$60 billion, an increase of 204% over the year 2007-08.

The increase in government expenditure in recent years is by no means conservative, which is a testimony to the Government's on-going commitment to the community. Taking into account Hong Kong's fiscal affordability in the long term, we must strictly control the growth of our expenditure, especially recurrent expenditure. The Government will adhere steadfastly to the principles of keeping expenditure within the limits of revenues and committing resources only where justified.

(c) On February 27, the Financial Secretary will explain the Government's fiscal management policy and principles in the context of presenting first budget of the current-term Government.

Ends