

Press release

LCQ14: Appropriate level of fiscal reserves

Wednesday, December 12, 2007

Following is a question by Dr Hon David Li and a written reply by the Acting Financial Secretary, Professor K C Chan, in the Legislative Council today (December 12):

Question:

In his 2007-2008 Budget Speech, the former Financial Secretary said that the International Monetary Fund had suggested that the levels of Hong Kong's fiscal reserves needed to anticipate fluctuations in revenue could be around 30 to 50% of gross domestic product (GDP), while those aimed at anticipating fiscal pressures arising from population ageing could mean putting in an additional 30% of GDP by 2030. He added that the Government needed to listen to more views from the community on such suggestions. In this connection, will the Government inform this Council:

(a) whether it has consulted the community on the above suggestions; if so, of the outcome of the consultation; and

(b) given that the fiscal reserves currently stand at less than 26% of GDP and the Government will need to accumulate large fiscal surpluses between now and 2030 to reach the levels referred to in the above suggestions, whether the Government has assessed if such suggestions are consistent with Article 107 of the Basic Law that the Government should strive to achieve a fiscal balance; if such an assessment has been made, of the results and the basis on which such results were arrived at?

Reply:

Madam President,

(a) We are now conducting a consultation exercise for the 2008-09 Budget and welcome views from the community on various subjects, including the appropriate level of fiscal reserves.

(b) Article 107 of the Basic Law stipulates that "The Hong Kong Special Administrative Region shall follow the principle of keeping 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". Keeping expenditure within the limits of revenue is the long established budgetary strategy of the Government. We must maintain an appropriate level of fiscal reserves to ensure that the Government has adequate resources to cope with fiscal pressure arising from economic downturn, unforeseen events or structural changes in the community.

The suggestions on the desirable levels of reserves made by the International Monetary Fund (IMF) in its report last year were made in the context of the policies in force at the time. The IMF also made other suggestions, such as stabilising investment income, to help reduce the desirable fiscal reserves levels.

Effective from April 1 this year, the return on the fiscal reserves is calculated on the basis of the average rate of return of the Exchange Fund's investment portfolio over the past six years. We will also conduct a public consultation on the reform of the health care system and related financing arrangements. These policy changes may affect the levels of fiscal reserves needed. The Government will continue to make reference to the IMF's report and listen to more views from the community in determining the appropriate level of fiscal reserves.

Ends