

**Press Release**

**Working Group on Long-Term Fiscal Planning releases Phase Two report  
(with photo/videos)**

Monday, March 2, 2015

The following is issued on behalf of the Working Group on Long-Term Fiscal Planning:

The Working Group on Long-Term Fiscal Planning released today (March 2) its Phase Two Report, which proposes options for a savings scheme (the Future Fund) for Hong Kong. The Working Group also advised on how the Government can step up the management of its assets.

The Working Group Report released in March 2014 highlighted the huge pressure that an ageing population and anticipated slower economic growth would put on public finance. The anticipated challenges to our public finance call for resolute and early actions to manage our finances in a sustainable manner.

The Financial Secretary invited the Working Group to extend its appointment in July last year to follow up on the findings of the March 2014 Report and tender further advice.

Briefing the media today, the Chairperson of the Working Group, Ms Elizabeth Tse, said that upon the delivery of the Phase Two Report, the Working Group would have completed its public mission.

"The Working Group stresses that fiscal sustainability remains a serious issue. We must take timely and effective measures to address the problem. Our economy needs new growth areas, government expenditure growth needs to be contained and should be commensurate with the growth of GDP and government revenue, government revenue needs consolidation and reform to broaden the tax base, and savings for better returns should start before it is too late," Ms Tse said.

**Future Fund**

The Working Group believes that the main objectives of the Future Fund should be a combination of "saving and investing", "for the benefit of future generations" and "enhancing fiscal sustainability". In practical terms, the Working Group recommends

that the Future Fund should seek, within acceptable risks, higher returns through long-term investments.

The Working Group recommends adopting an administrative route to set up the Future Fund. Under this option, the Government would designate the \$220 billion Land Fund as endowment, plus about a quarter to a third of annual budget surpluses as periodic top-ups, as the "Future Fund". The Government would need flexibility to adjust the top-up percentage having regard to the prevailing fiscal situation and needs of the community.

The Working Group believes that there will be budget surpluses, but not for too long if the existing policies and expenditure trends prevail. The Working Group recommends establishing the Future Fund as soon as practicable, and adopting an administrative route would be the most efficient and cost-effective means.

The Working Group is mindful that netting off the Future Fund from the fiscal reserves may generate unwarranted concerns about a misconceived weakening of Hong Kong's fiscal strength and macroeconomic fundamentals, which may impact on our credit worthiness. As such, the Working Group recommends that the Future Fund should stay as part of the fiscal reserves.

Furthermore, the Working Group believes that the Future Fund should continue to be placed with the Exchange Fund such that it would benefit from the Exchange Fund's established investment infrastructure and expertise, as well as lower costs and balance of risk and return. Continued placement with the Exchange Fund can also enhance the financial resources for the Exchange Fund to maintain the financial and monetary stability of Hong Kong.

To allow more time for long-term investments to reap and realise better returns, the Working Group considers that there should be at least a 10-year horizon before withdrawals can be made. Under dire circumstances when the Future Fund has to be drawn down, the Government needs to consider both immediate and longer-term needs. The Future Fund remains part of the fiscal reserves and withdrawal from the Fund will require approval of the Legislative Council under existing legislation.

The Working Group recommends that the Future Fund be subject to the same investment management regime and oversight by the Exchange Fund Advisory Committee. Separately, the Hong Kong Monetary Authority should consult the

Financial Secretary and the Secretary for Financial Services and the Treasury at least once a year on the investment strategy and asset allocation for the Future Fund.

"Since the release of the Working Group Report in March 2014, the proposition of setting up a Future Fund has generated considerable public interest and discussion. The Working Group appreciates the feedback and suggestions. Through the Phase Two Report, we hope the public can better understand that the Future Fund is but a long-term investment option seeking to foster a stronger sense of fiscal discipline, enhance investment returns, and allow long-term interests to be protected. The Future Fund is not the total solution for the anticipated structural deficit problem," said Ms Tse.

#### Management of government assets

On the management of government assets, the Working Group has reviewed the nature and governance structure of the Government's investments in its fixed and financial assets.

The Working Group appreciates that the Government's investments in Government Business Enterprises (GBEs) would seek primarily to meet the relevant public policy objectives rather than to achieve a financial return. The Working Group recommends that, in times of serious financial distress, the Government should consider reducing or disposing of its shareholding in some GBEs. That said, the Government should continue to be the majority shareholder in those GBEs which hold strategic assets, such as railways and the airport.

The Working Group emphasises that one-off revenue from asset disposal cannot resolve a structural deficit problem. The Working Group also recommends that the Government should institute a more structured review for monitoring all GBEs.

#### Communication tools

"In order to relay the key findings and recommendations of the Working Group's first report to the community in a more user-friendly manner, four videos and an interactive game have been prepared to facilitate easier and better understanding of the fiscal sustainability problems," Ms Tse added.

Members of the public are invited to download the Phase Two Report, view the

videos and try out the interactive game on the homepage of the Treasury Branch of the Financial Services and the Treasury Bureau website ([www.fstb.gov.hk/tb/en/](http://www.fstb.gov.hk/tb/en/)).

The Working Group reiterates that the long-term fiscal challenges brought by an ageing population and anticipated slower economic growth are very serious. As forecast in the Working Group's first report, "Government revenue is still projected to exceed government expenditure in the coming years and the Government would still be able to build up the fiscal reserves. The good years ahead will give the community a false sense of security." This is the so-called "Living with surplus" phase. The Working Group considers that it is of the utmost importance for the Government and the community to address the problem and work together to maintain strict fiscal discipline by keeping expenditure within the limits of revenues in drawing up the budget, striving to achieve a fiscal balance, avoiding deficit and keeping the budget commensurate with the growth rate of GDP. The Working Group is confident that with resolute and timely action to address the fiscal sustainability issue, the structural deficit problem can be delayed or even averted.

#### The Working Group on Long-Term Fiscal Planning

Appointed by the Financial Secretary in June 2013, the Working Group has completed the first comprehensive fiscal sustainability appraisal of Hong Kong's public finances since 1997-98. The appointment of the Working Group was extended in July last year to follow up on its findings and tender further advice. Convened by the Permanent Secretary for Financial Services and the Treasury (Treasury), Ms Elizabeth Tse, the Working Group comprises five non-official members, namely Professor Liu Pak-wai (Research Professor, Institute of Global Economics and Finance, the Chinese University of Hong Kong), Professor Francis Lui (Director of Center for Economic Development, Professor of Economics, the Hong Kong University of Science and Technology), Mr Mark Saunders (Group Chief Strategy and Marketing Officer, AIA Group Limited), Mrs Jennifer Wong (Former Partner, KPMG) and Mr Marcellus Wong (Senior Adviser, PricewaterhouseCoopers) and three ex-officio members, namely the Director of Accounting Services, Mr Martin Siu; the Government Economist, Mrs Helen Chan; and the Deputy Secretary for Financial Services and the Treasury, Ms Esther Leung.

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