

財經事務及庫務局
(庫務科)

香港下亞厘畢道
中區政府合署



FINANCIAL SERVICES AND THE
TREASURY BUREAU
(The Treasury Branch)

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11 March 2010

Clerk to the Finance Committee
(Attn : Ms Anita Sit)
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Ms Sit,

Finance Committee

Follow-up to meeting on 25 February 2010

Thank you for your letter of 26 February 2010. The information requested is set out below.

Expenditure on Research and Development

	Total R&D Expenditure \$ million	Private R&D Expenditure \$ million	Public R&D Expenditure \$ million
1999	5,885	1,408	4,478
2008	12,293	5,265	7,029

Fiscal Reserves

At the Finance Committee meeting on 25 February, individual Members asked specifically about setting a target for the fiscal reserves at an amount that is equivalent to 12 months of government expenditure. This target level was first adopted in the 2002-03 Budget Speech when fiscal reserves were expected to reduce to 12 months of government expenditure by the end of the Medium Range Forecast period. It was adopted in subsequent budgets until the 2007-08 Budget.

The 2007-08 Budget Speech referred to this 12-month target level, and discussed whether it should be maintained –

“When I took up office as Financial Secretary, the fiscal deficit problem was very serious....In view of this, I set the target level of fiscal reserves at an amount equivalent to about 12 months of government expenditure. The current fiscal reserves have exceeded this level. However, opinions are divided over whether this target should be maintained....I do not consider that the reserves need to keep expanding, but rather they should be maintained at an appropriate level with a view to providing adequate resources to meet our needs.”

Accordingly, the budgetary criterion for the Medium Range Forecast for 2007-08 to 2011-12 was changed to reflect the situation as follows –

“Government aims to maintain adequate reserves in the long run.”

Since then the same criterion has been applied to subsequent budgets, including the current 2010-11 Budget, and we are to continue complying with this.

As evidenced in the Asian Financial Crisis, our fiscal reserves were drawn down by almost \$200 billion in five deficits experienced between 1998-99 to 2003-04. We need to maintain adequate fiscal reserves to cope with economic downturns which have become even more volatile in the last decade. We need to have large enough fiscal reserves to prepare for future economic shocks.

Yours sincerely,



(Ms Bernadette Linn)
for Secretary for Financial Services
and the Treasury

cc Hon Emily Lau Wai-hing, JP (Chairman of the Finance Committee)