

## Motion Debate on “Effective utilization of fiscal surplus”

### Progress Report

#### Background

At the Legislative Council meeting on 24 May 2006, the motion on “Effective utilization of fiscal surplus” moved by Hon Kwong Chi-kin was carried. The motion reads as follows:

*“That, as the fiscal surplus in 2005-06 amounts to \$14 billion, which exceeds the expected \$4.1 billion by \$9.9 billion, this Council urges the Government to effectively utilize the surplus to alleviate the disparity between the rich and the poor, stimulate the economy and increase employment opportunities.”*

2. This note informs Members of the follow-up actions taken by the Administration in respect of the motion.

#### Administration’s response

3. Thanks to the strong economic growth over the past few years, the fiscal balance in the Operating and Consolidated Accounts has been restored starting from 2005-06, the first time since 1997-98 that both accounts have recorded a surplus. However, a review of the financial situation of the Government in recent years reveals that consolidated deficits in fact occurred in five out of the past seven financial years since 1998-99 to 2004-05. Within a short space of a few years, the accumulated deficits exceeded \$190 billion, equivalent to more than 13 times of the surplus in 2005-06.

4. That our fiscal position has been able to turn from deficit to surplus is mainly due to the Government’s successful efforts to control expenditure and to the economic recovery. We of course hope that the surplus can be sustained. However, Hong Kong is still facing a lot of challenges, such as the threats of high oil prices, interest rate fluctuations and the changes in external economic climate, which can affect our future economic situation. Moreover, the tax base of Hong Kong is very narrow and some of our major sources of revenue are highly sensitive to economic fluctuations. This has made it all the more necessary for us to uphold the principle of prudent management of public finances.

5. In the motion debate, Members urged the Government to alleviate the disparity between the rich and the poor, stimulate the economy and increase employment opportunities. The issues raised have all along been the key policy objectives of the Government.

6. On stimulating the economy and increasing employment opportunities, the Financial Secretary has, in his 2006-07 Budget, set out a series of programmes and measures to leverage on the advantage of having the Mainland as our hinterland and our international outlook, grasp the opportunities of the Mainland's rapid growth and development, accelerate the current restructuring of Hong Kong, promote our own economic growth, and create more employment opportunities. They include:

- furthering our economic co-operation with the Mainland by, inter alia, ensuring the effective implementation of CEPA and promoting our co-operation with the Pan-Pearl River Delta (Pan-PRD) region;
- expanding the scope of Renminbi business, facilitating market development, upgrading the quality of our financial markets and actively promoting the strengths of Hong Kong as an international financial centre so as to further promote the financial services industry;
- continuing to invest in our tourism infrastructure and promote our hospitality culture, which will be instrumental in facilitating the growth of our tourism industry;
- continuing to promote the development of the logistics industry by, inter alia, working closely with the Mainland authorities in order to develop major cross-boundary linkages between our transport network and those of Guangdong and other Pan-PRD provinces. We have also proposed a series of measures to attract more vessels to use our port facilities;
- on the education front, in order to increase the competitiveness of local talent, we will improve the quality of our formal education and enhance training and retraining with more investment in these areas. We have also introduced the “Quality Migrant Admission Scheme” in order to make a greater effort to recruit overseas and Mainland talent who have made a mark in their chosen professions; and
- cutting red tape and streamlining procedures to reduce the business sector's compliance costs and enhance efficiency.

7. With regard to helping the disadvantaged groups and enabling the unemployed to achieve self-reliance, the Government's estimated recurrent expenditure on social welfare for 2006-07 will amount to \$34.6 billion, almost equivalent to the revenue from salaries tax for the whole year and representing an increase of \$2.3 billion over the previous year. The expenditure on social welfare has increased substantially compared with 1997-98, and its increase has far exceeded those in other policy areas. The Financial Secretary has also put forward a number of proposals in the Budget as follows:

- an additional funding of about \$230 million will be provided over the next five years to enhance and improve the employment assistance and support for the unemployed, of which \$150 million will be earmarked to strengthen district-based poverty alleviation work, including support for social enterprises; and
- the annual funding to increase and improve services for the disadvantaged groups will be increased by about \$100 million.

8. Furthermore, in the debate on the Appropriation Bill 2006, the Financial Secretary also indicated acceptance in principle of the proposal on transport subsidies put forward by the Commission on Poverty to provide a travel support pilot scheme for low-income earners living in remote areas. Our aim is to implement the scheme in 2006-07. We are also positive to proposals on preventing intergenerational poverty, including the setting up of a "Child Development Fund".

9. In preparing the Budget every year, the Government will review various revenue items and strive to enhance our systems. We will definitely continue to take into account the views from various sectors, including Members of the Legislative Council. The Budget consultation for the next financial year will be launched in October/ November 2006. We will carefully consider the relevant proposals put forward by various sectors in the preparation of the next Budget.

Financial Services and the Treasury Bureau  
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