

Long-term Fiscal Sustainability – Impact of Ageing Population

The Financial Services and the Treasury Bureau
The Government of the Hong Kong Special Administrative Region
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Contents



Public Finance

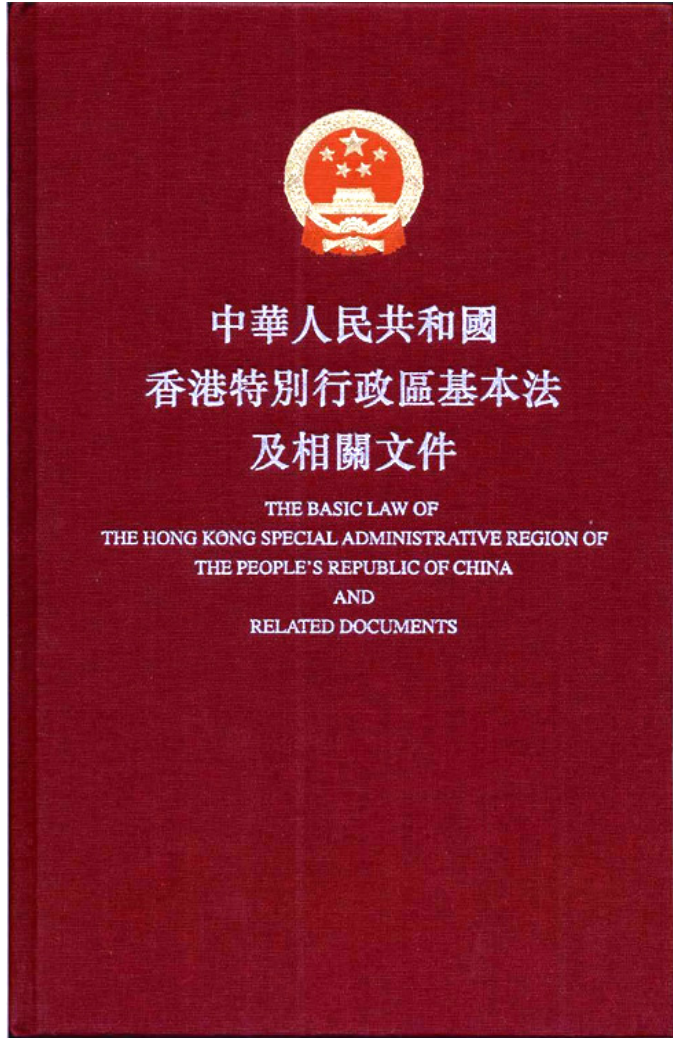


Long-term Fiscal
Sustainability

Public Finance



Fiscal discipline enshrined in Basic Law



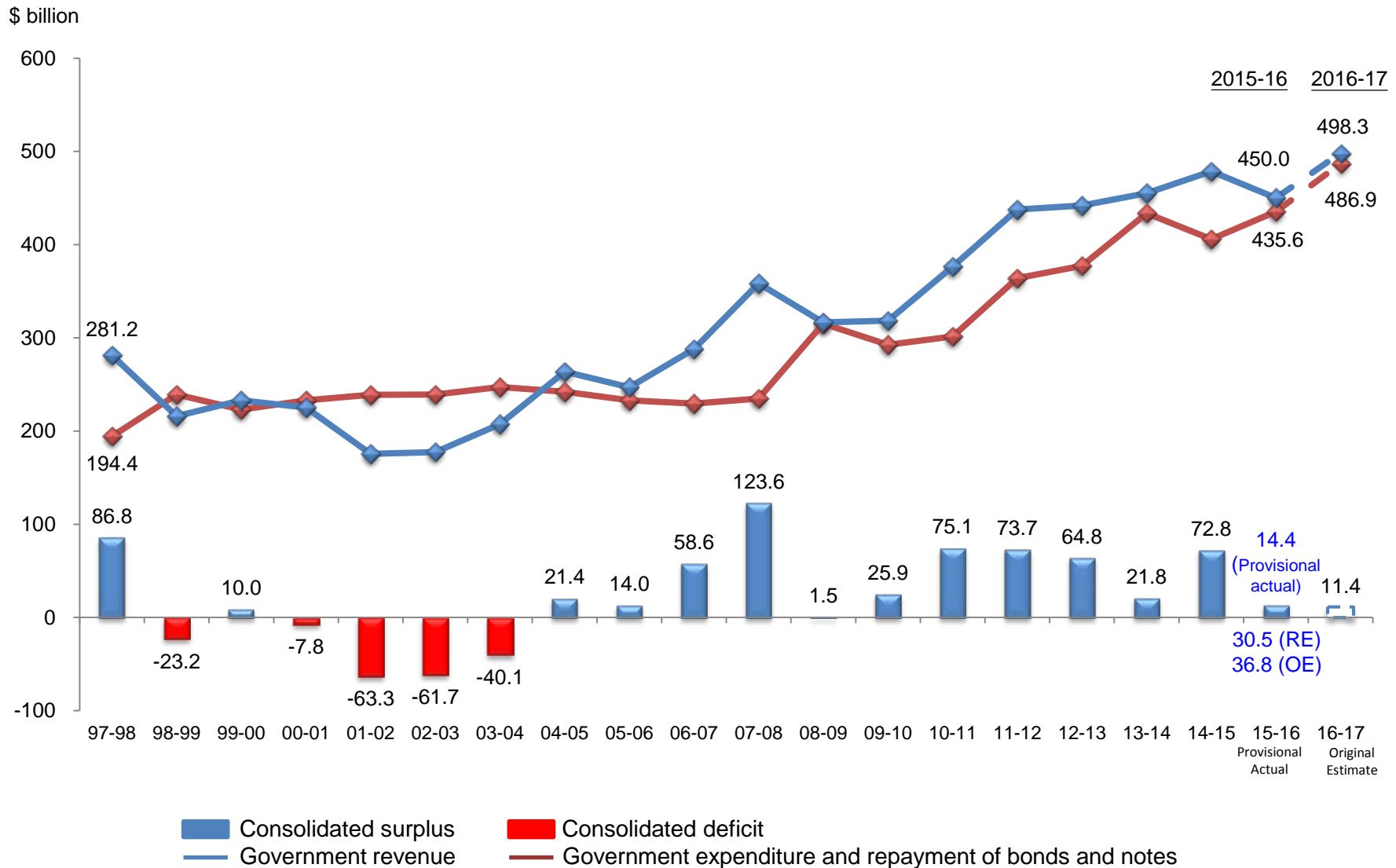
Article 107

- The HKSAR 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 GDP.

Article 108

- The HKSAR shall practise an independent taxation system.

Is our fiscal health since 1997-98 sustainable?

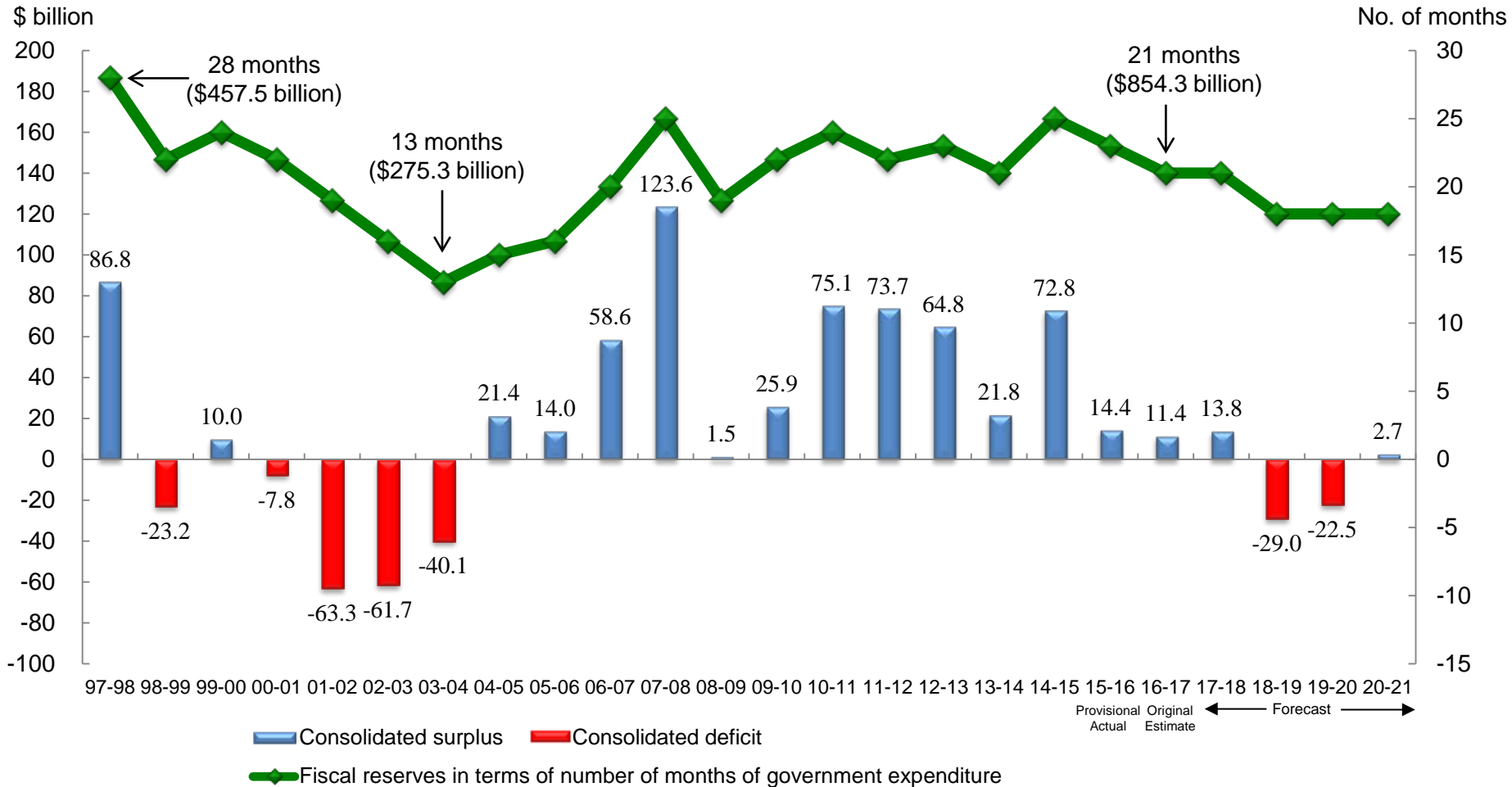


Will our fiscal reserves continue to increase?

(\$ Billion)	2016–17 Original Estimate*
General Revenue Account	504.3
Funds with designated use	130.3
Capital Works Reserve Fund	67.9
Capital Investment Fund	2.1
Civil Service Pension Reserve Fund	31.9
Disaster Relief Fund	0.1
Innovation and Technology Fund	3.9
Loan Fund	2.3
Lotteries Fund	22.1
Land Fund	219.7
Total	854.3

* The forecast fiscal reserves balances as at end-March 2017 are revised to take into account the provisional financial results in 2015-16.

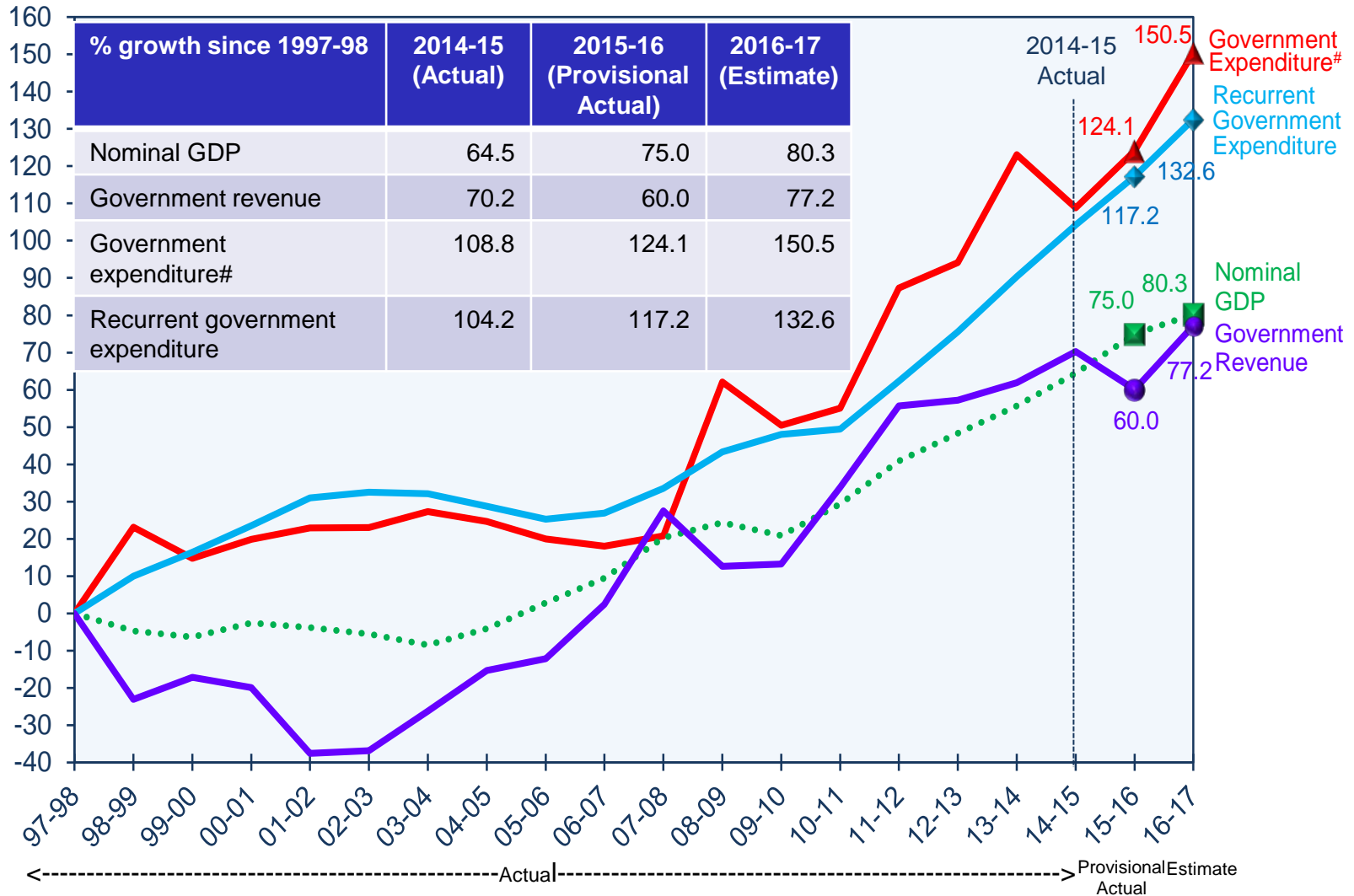
Cushioning effect getting smaller with increasing government expenditure



Note – The forecast fiscal reserves balances from 2016-17 to 2020-21 are revised to take into account the provisional financial results in 2015-16.

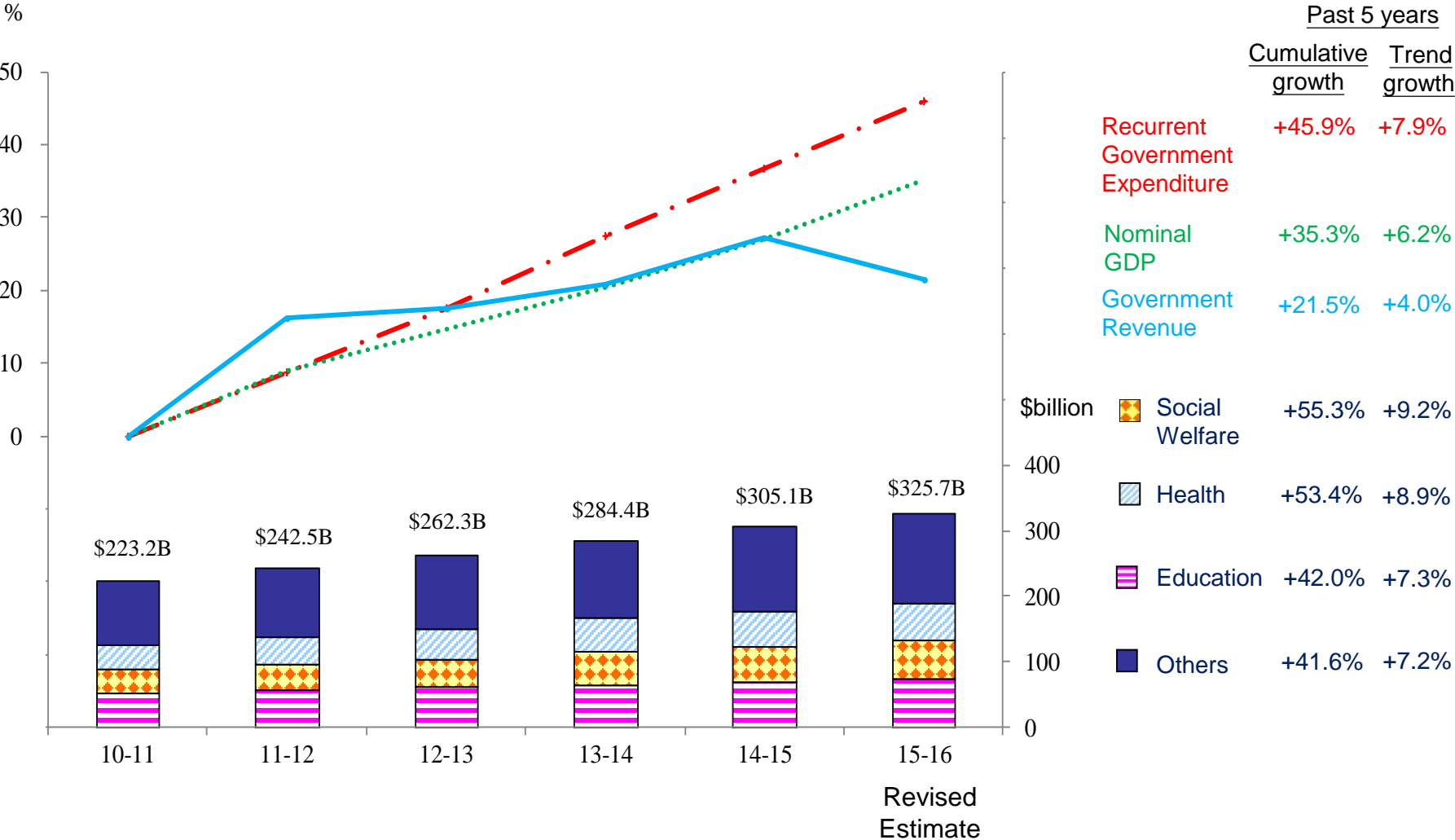
Expenditure Growing Faster than Revenue and GDP

Cumulative Growth (%)



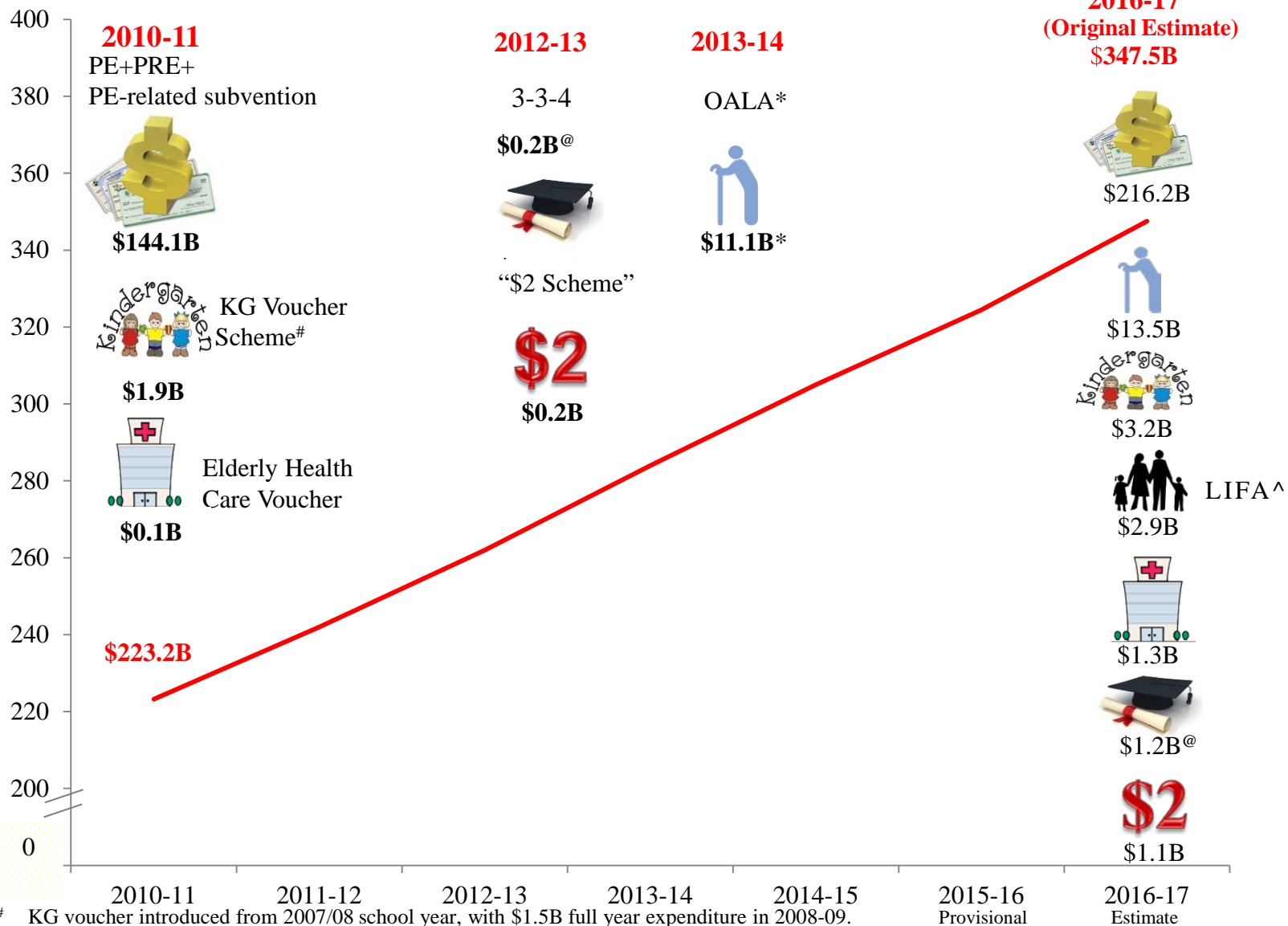
Government expenditure includes repayment of bonds and notes.

Recurrent Government Expenditure vs GDP and Revenue Growth



Where has the increased spending gone?

Recurrent
Expenditure
\$billion



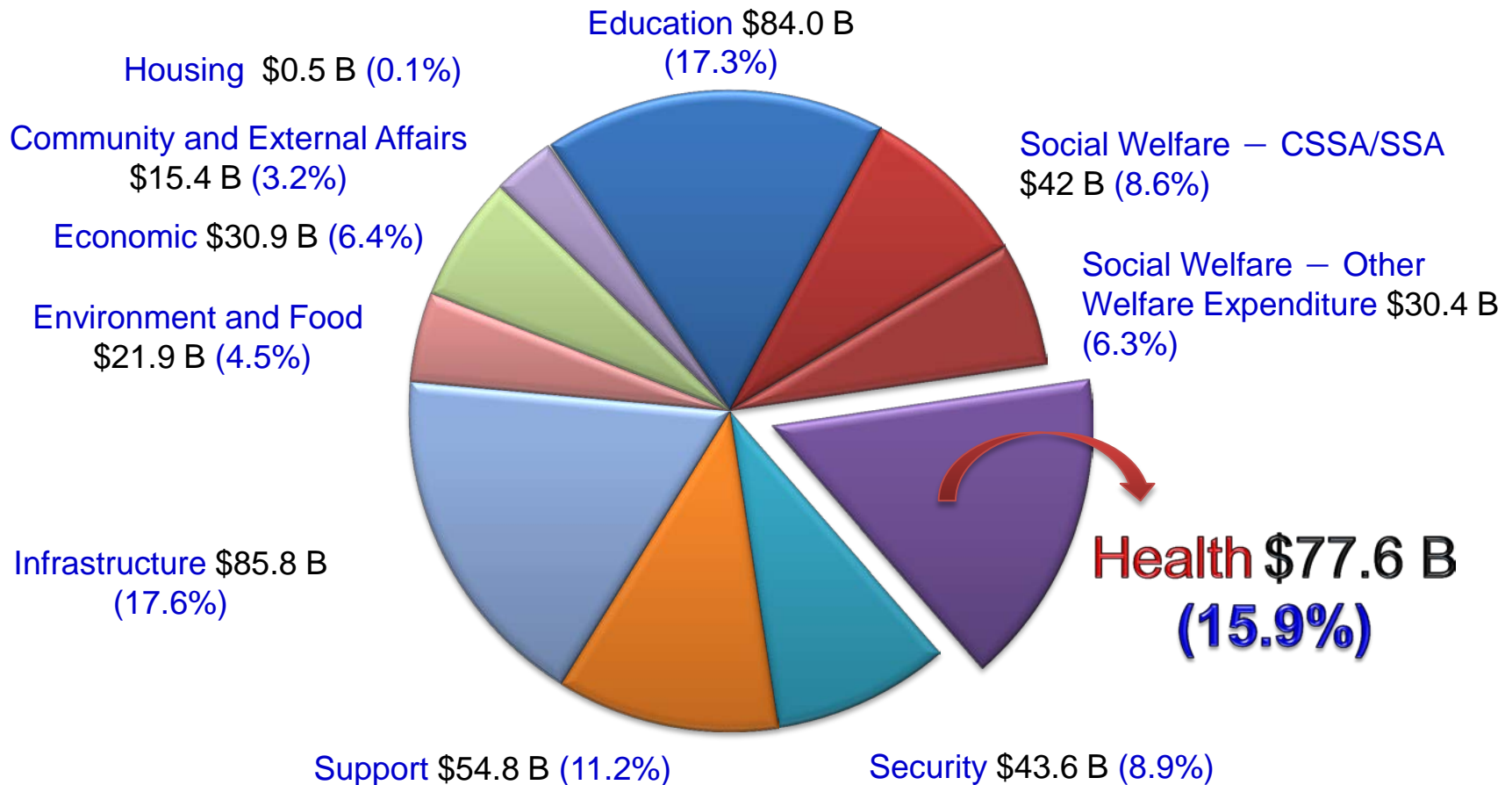
KG voucher introduced from 2007/08 school year, with \$1.5B full year expenditure in 2008-09.

* Exclude back pay for the period from December 2012 to March 2013.

^ LIFA, with full year provision of \$2.9B, will be implemented in May 2016.

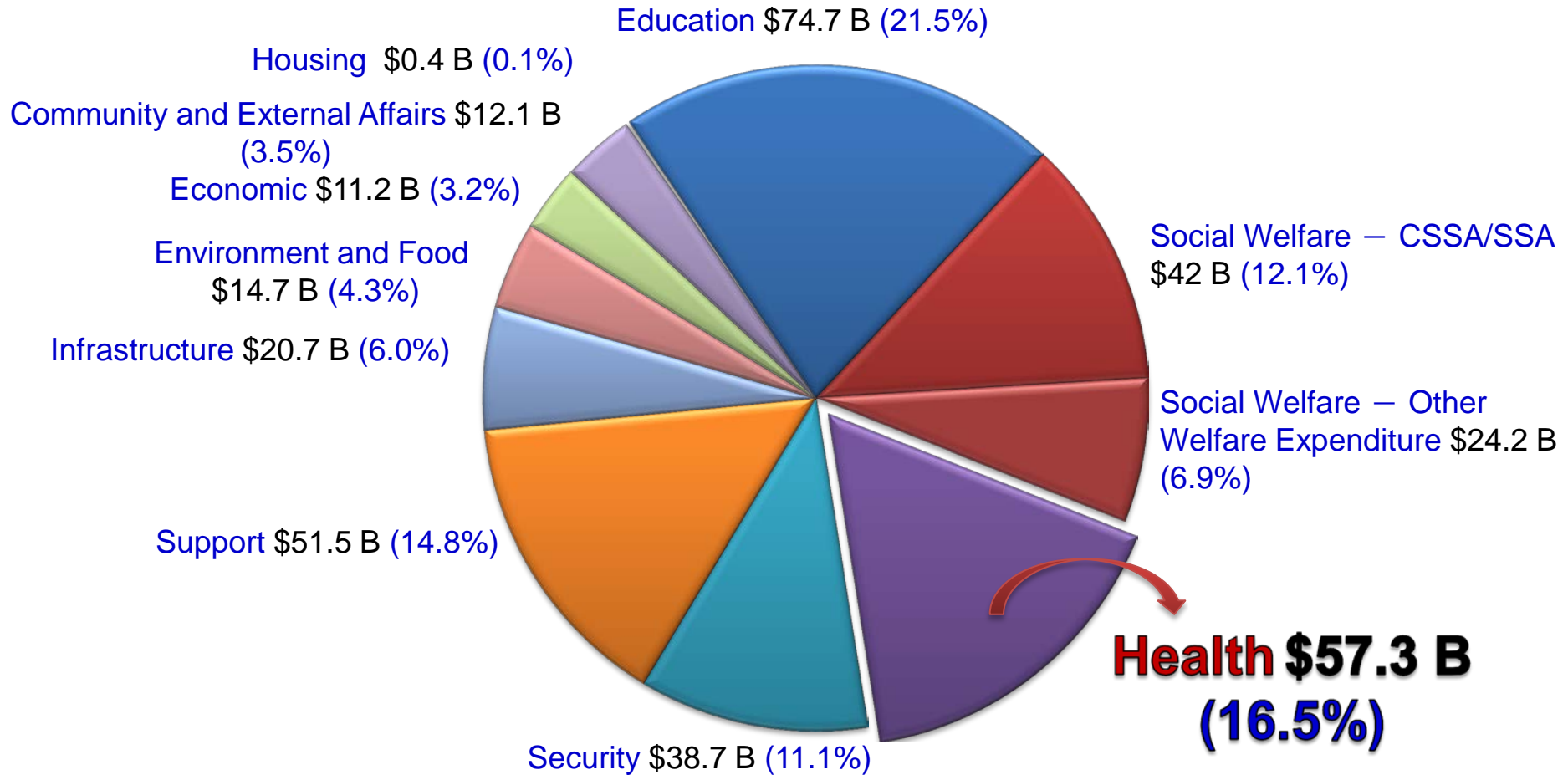
@ The expenditure figures represent the additional funding allocated to the University Grants Committee in respect of the New Academic Structure.

2016-17 Total Government Expenditure



Total government expenditure: \$486.9 billion
(Increase of 14.0% against 2015-16 Revised Estimate)

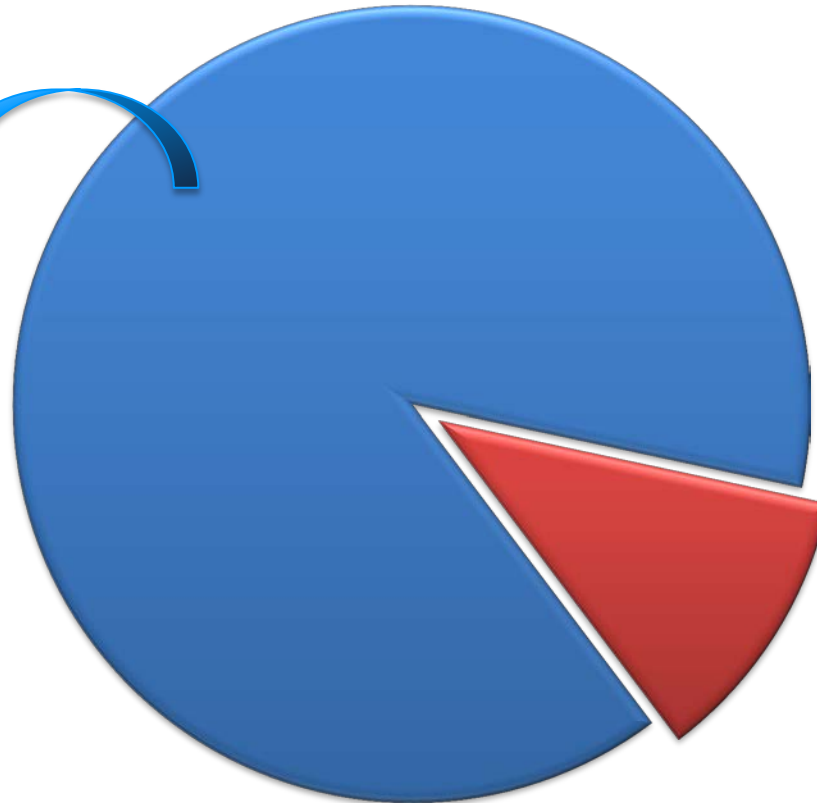
2016-17 Recurrent Expenditure Estimates



Recurrent government expenditure: \$347.5 billion (71.4% of total government expenditure of \$486.9 billion)
(Increase of 6.7% against 2015-16 Revised Estimate)

2016-17 Recurrent Expenditure Estimates on Health

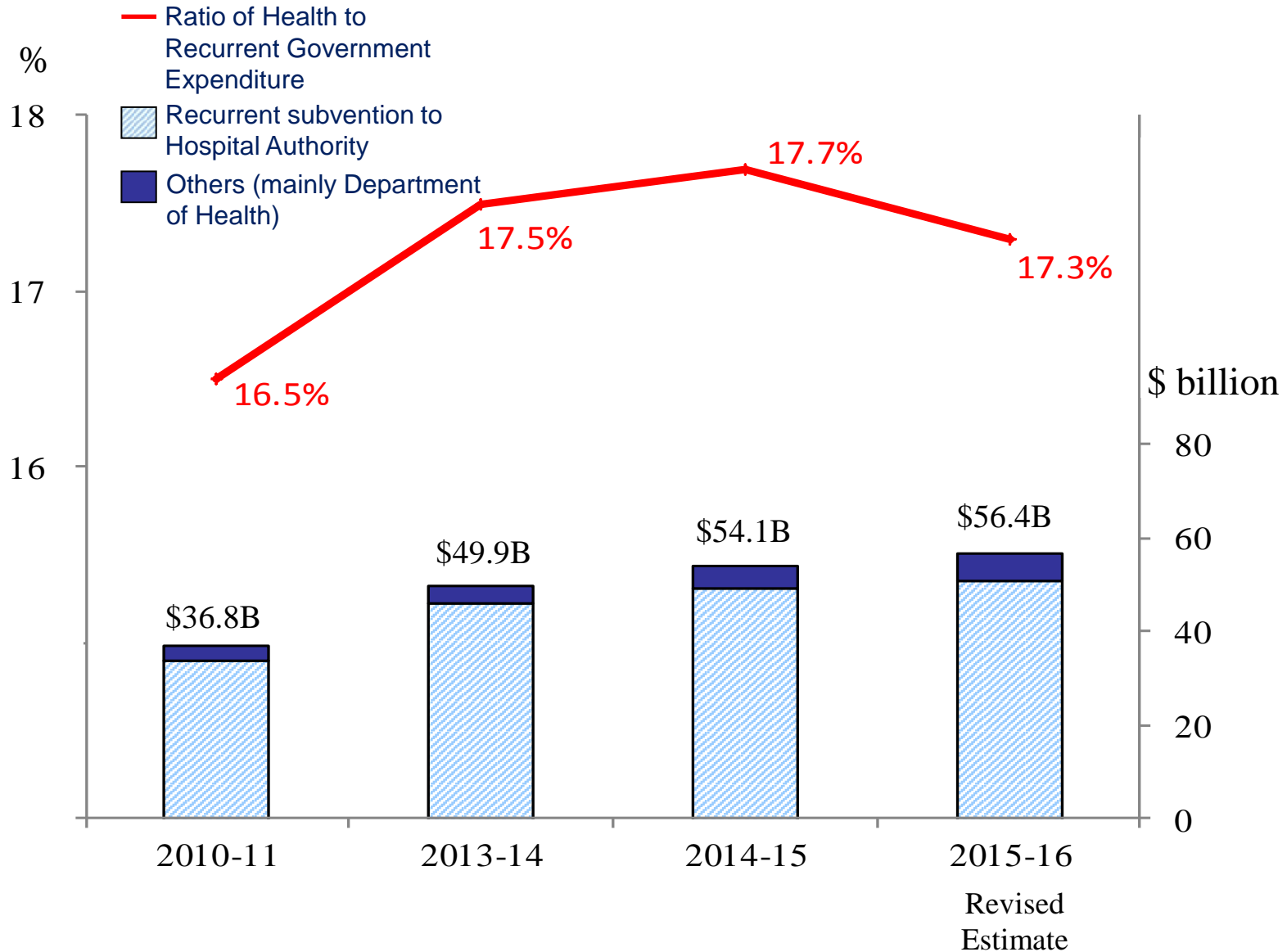
**Subvention to
Hospital
Authority
\$50.8 B (88.6%)**



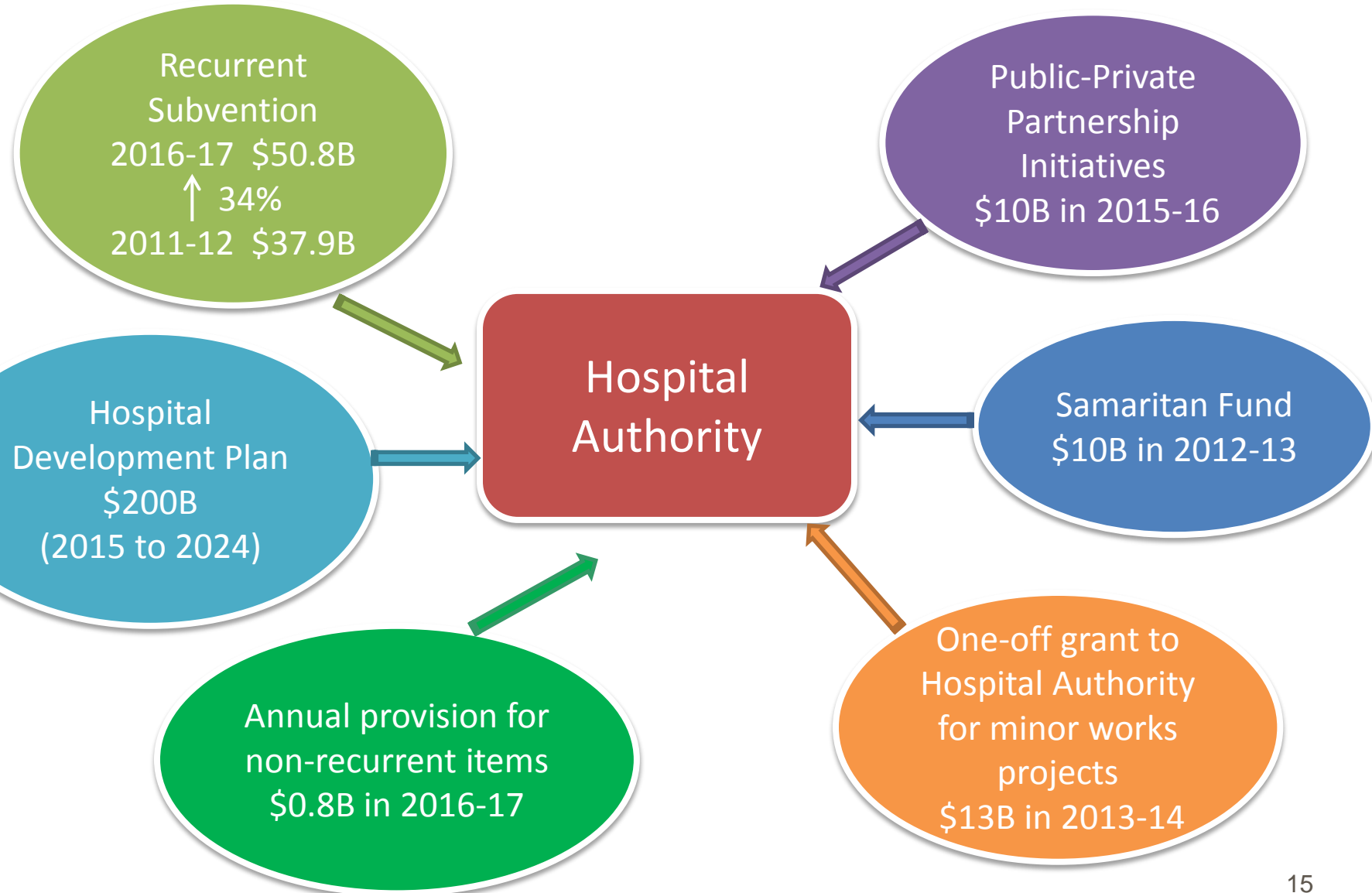
Others (mainly for public health protection services provided by Department of Health)
\$6.5 B (11.4%)

Recurrent subvention to Hospital Authority: \$50.8 billion
(88.6% of recurrent government expenditure on Health of \$57.3 billion)

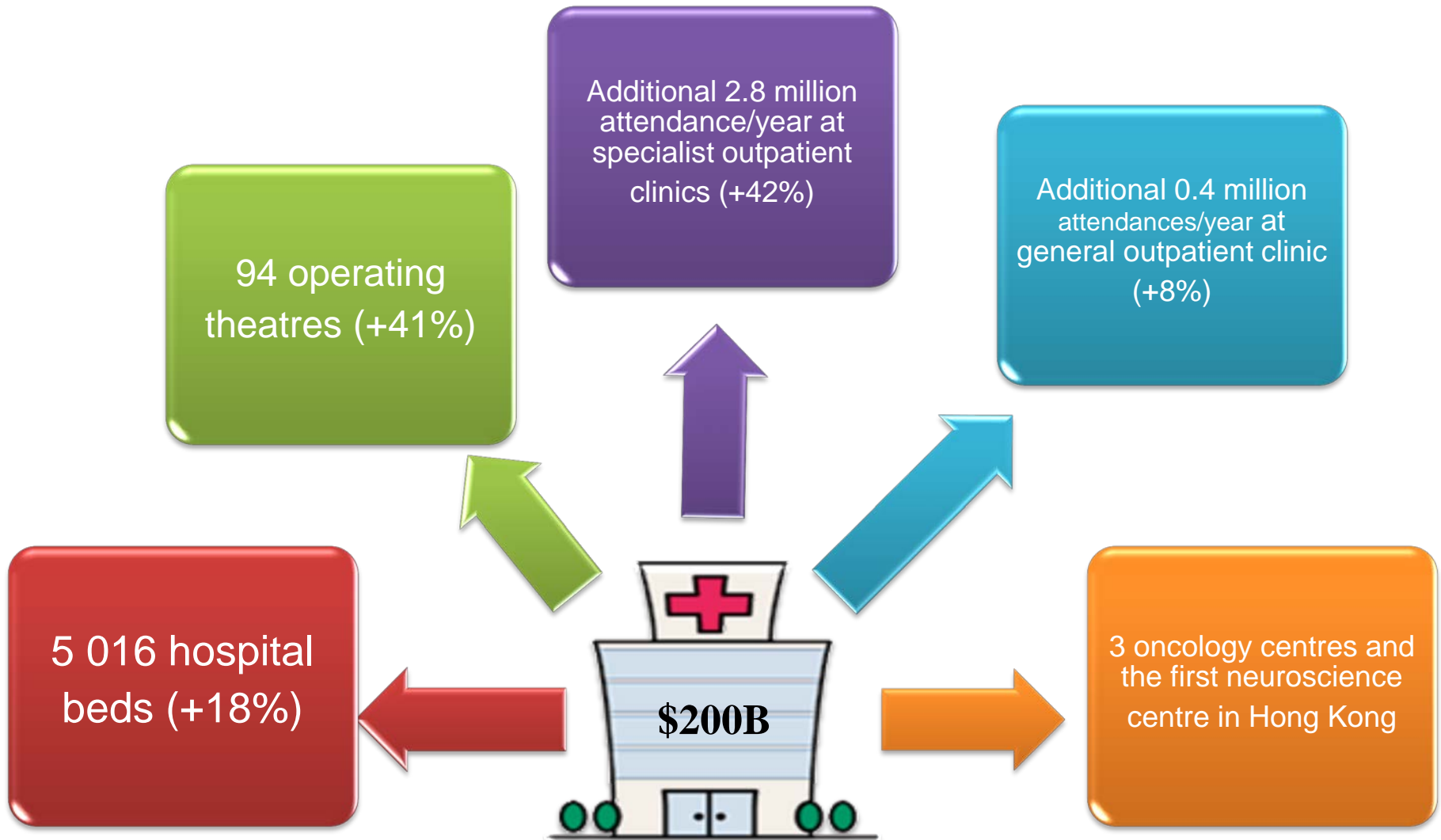
Recurrent expenditure on health



Multiple Funding Sources for Hospital Authority

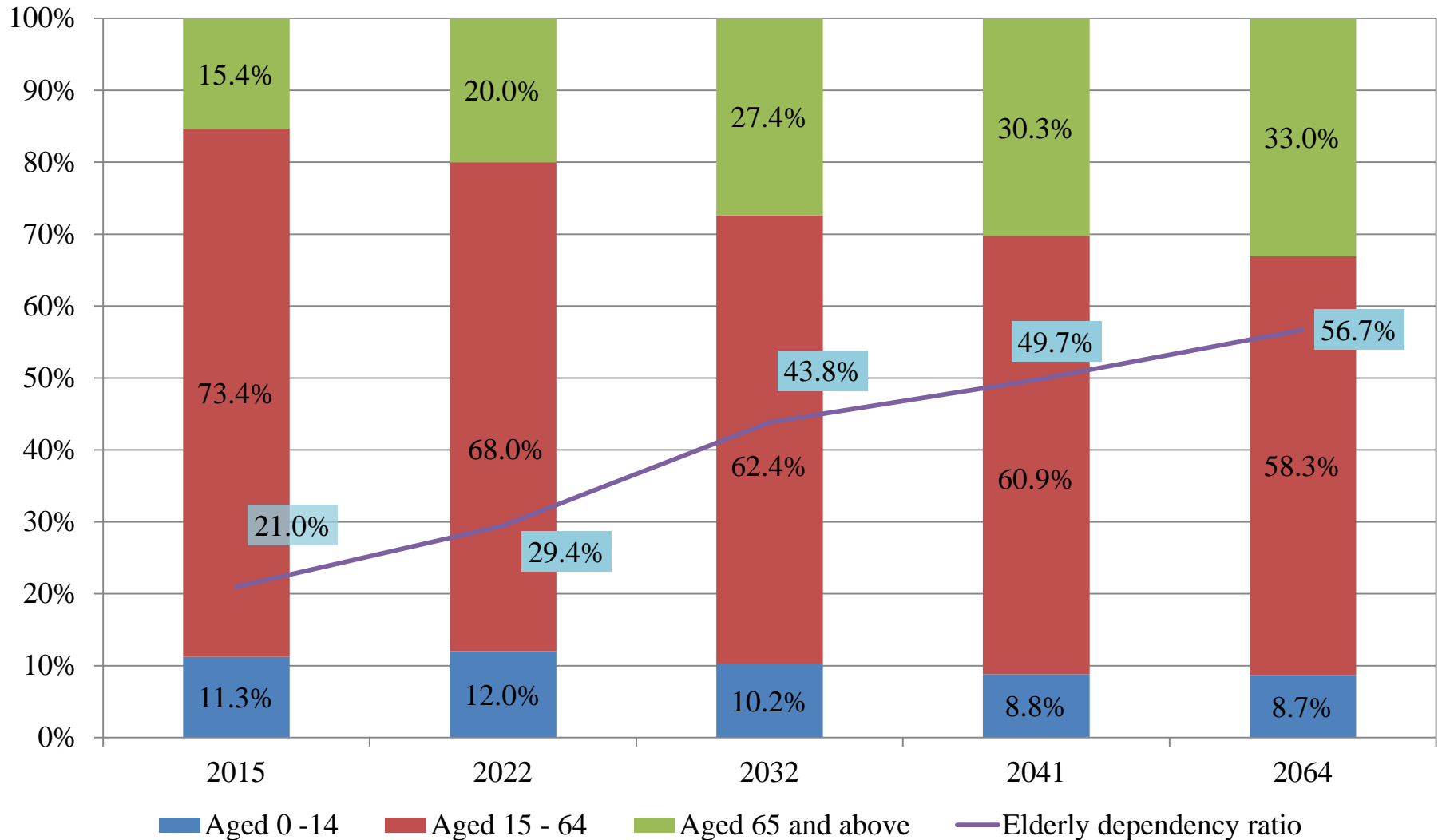


Hospital Development Plan 10 years from 2015 to 2024

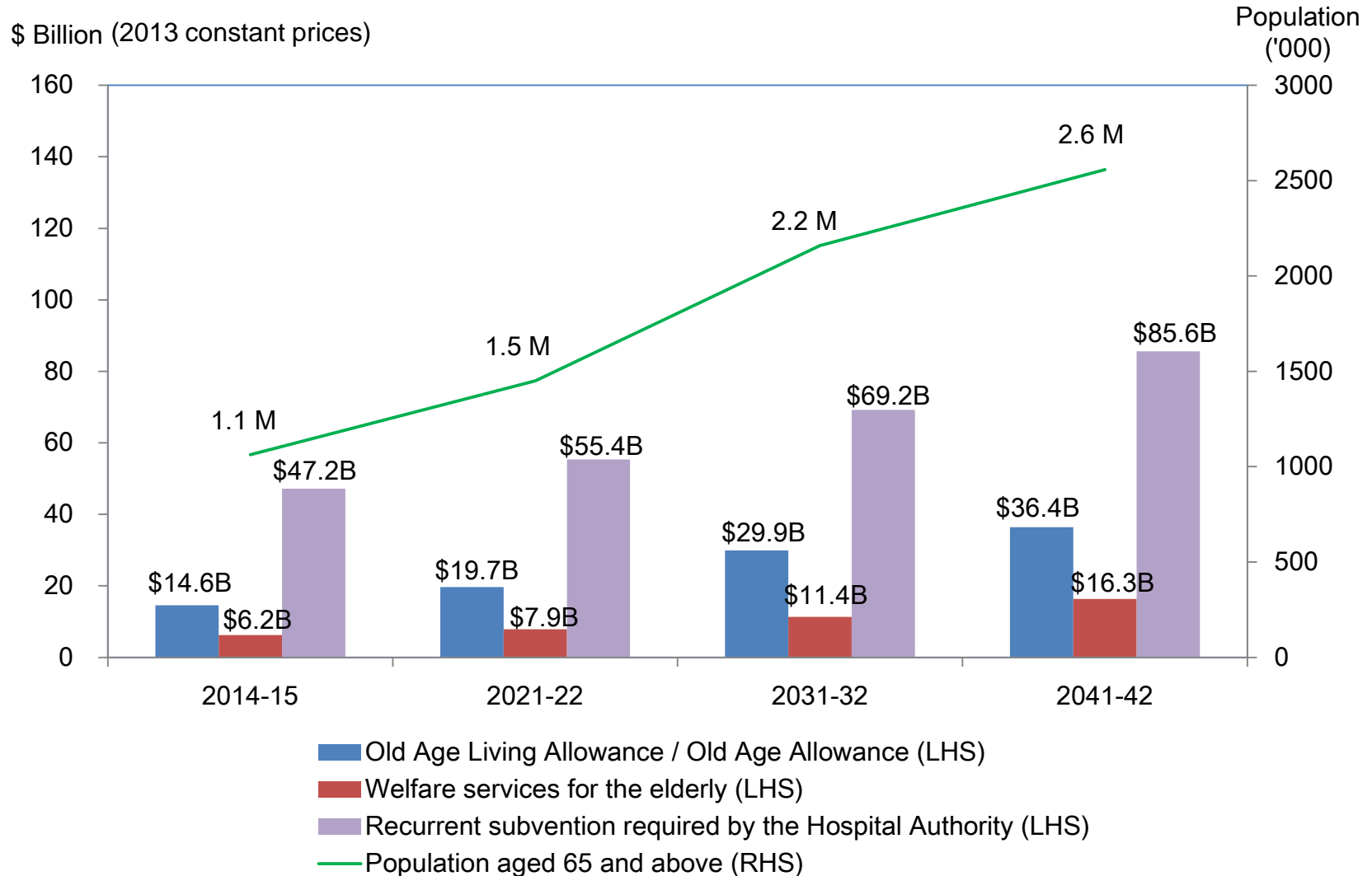


Long-Term Fiscal Sustainability

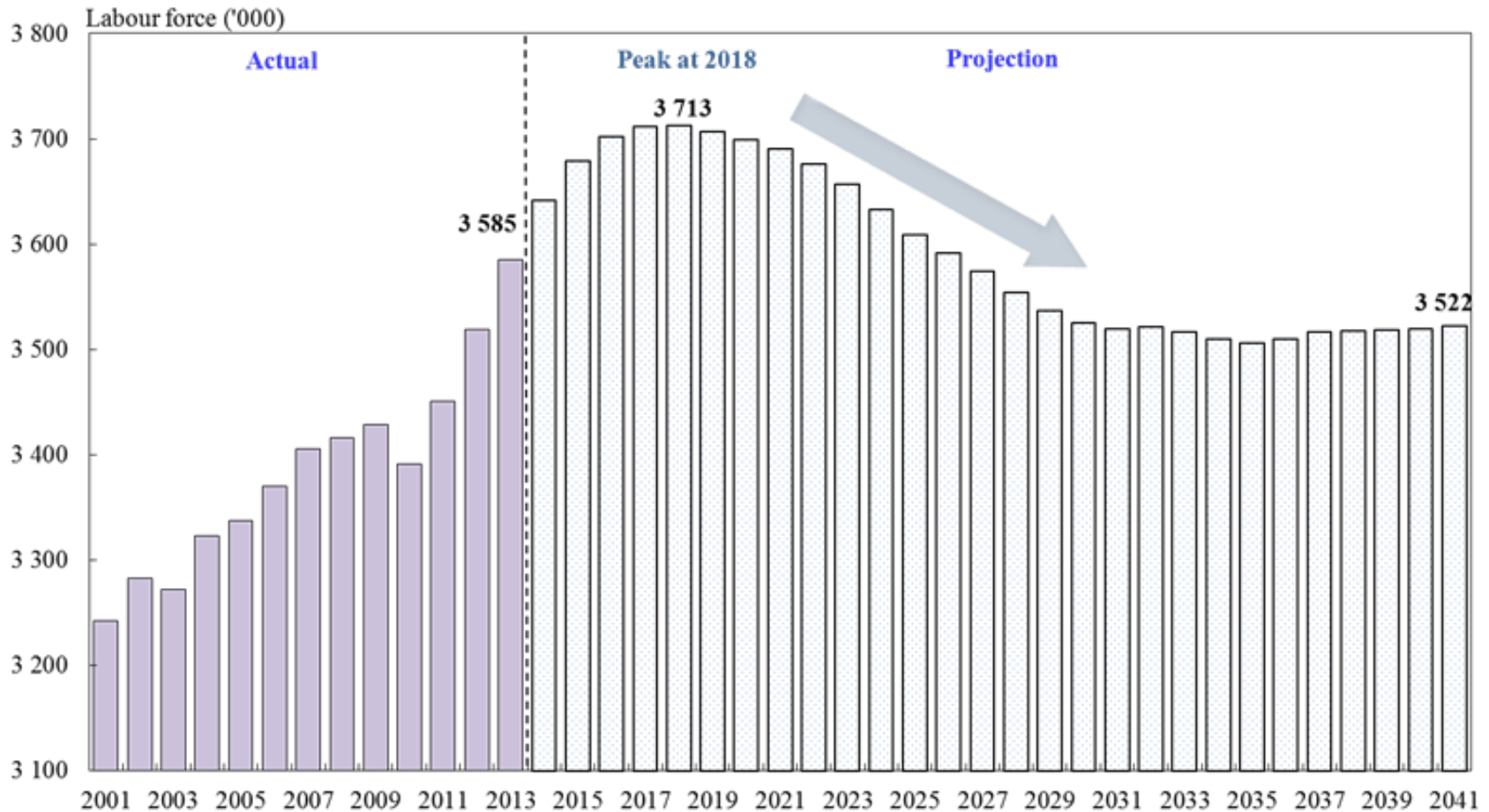
Elderly dependency ratio to rise phenomenally



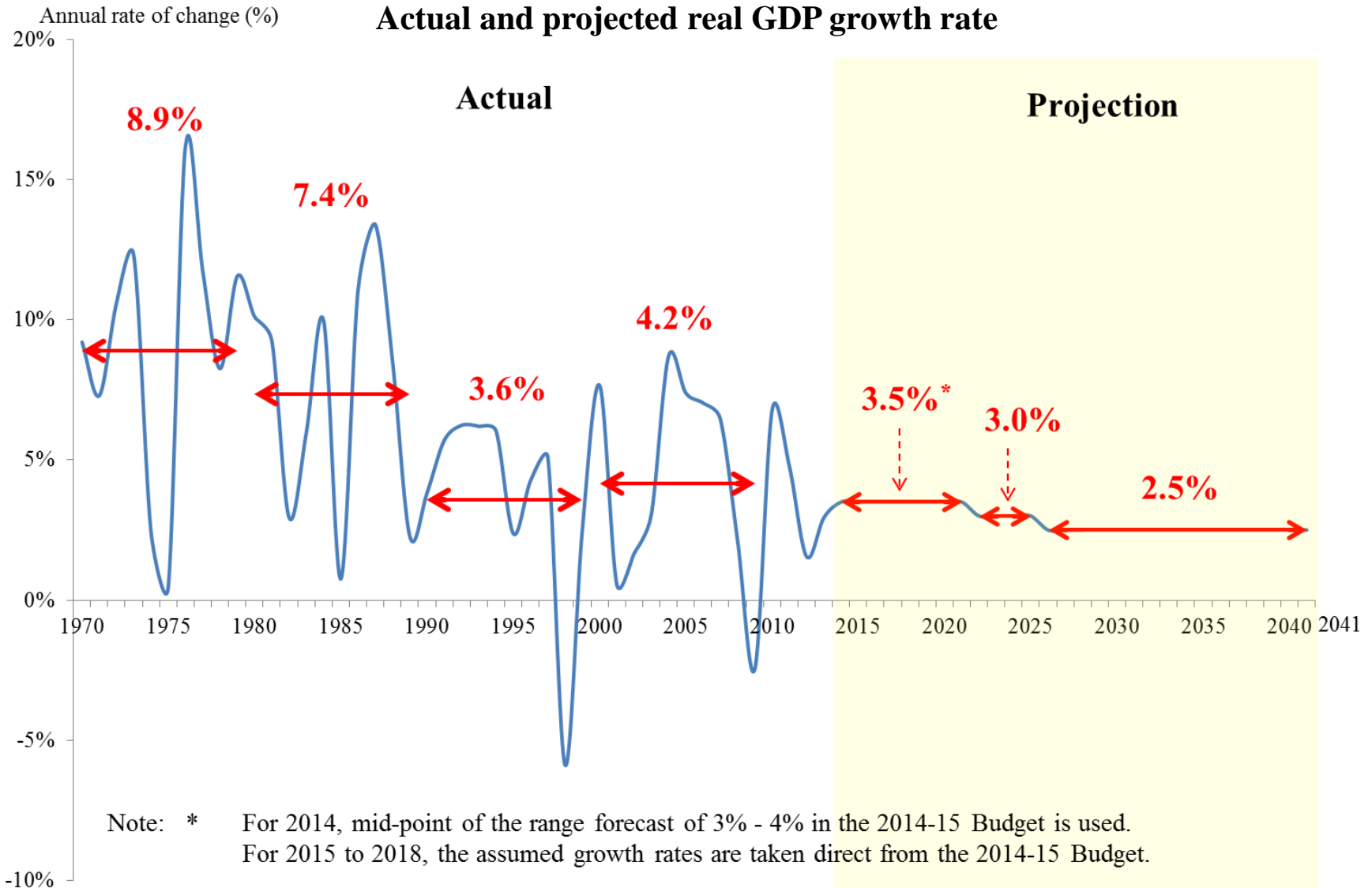
Population ageing drives up expenditure



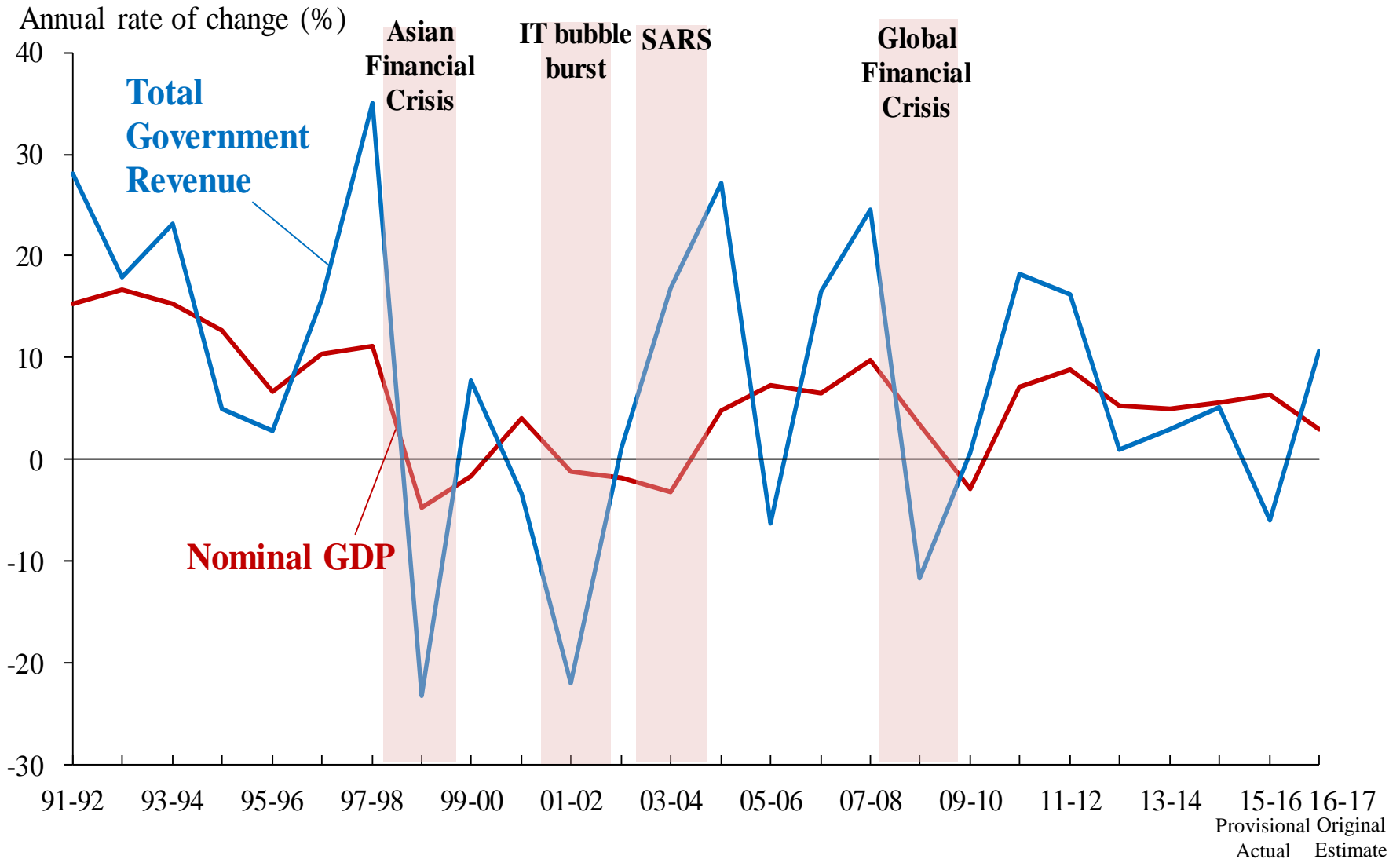
Labour force is expected to decline after 2018, only to stabilise in the 2030s



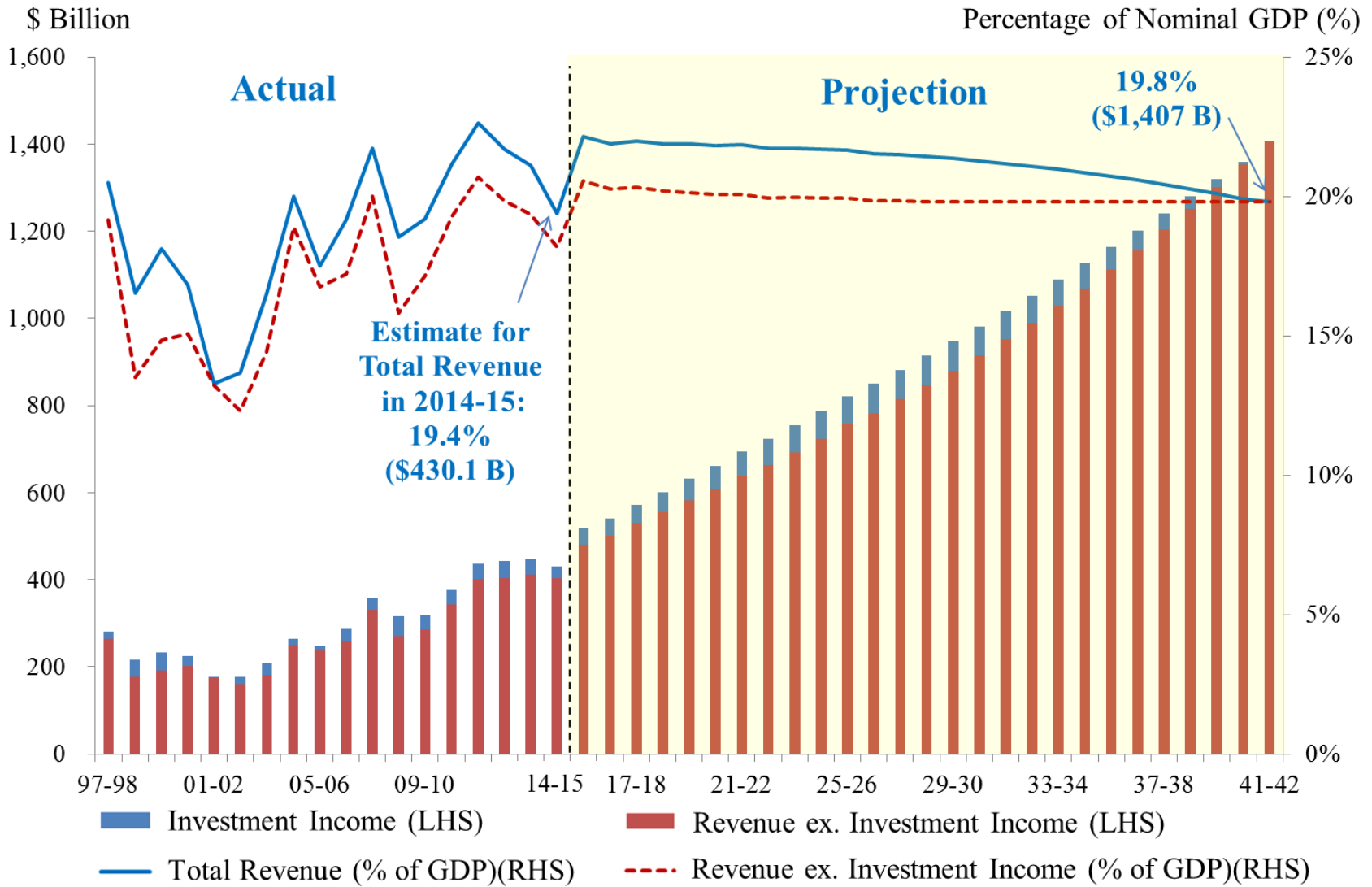
Economic growth is expected to settle at a slower pace



Revenue growth correlates with economic growth



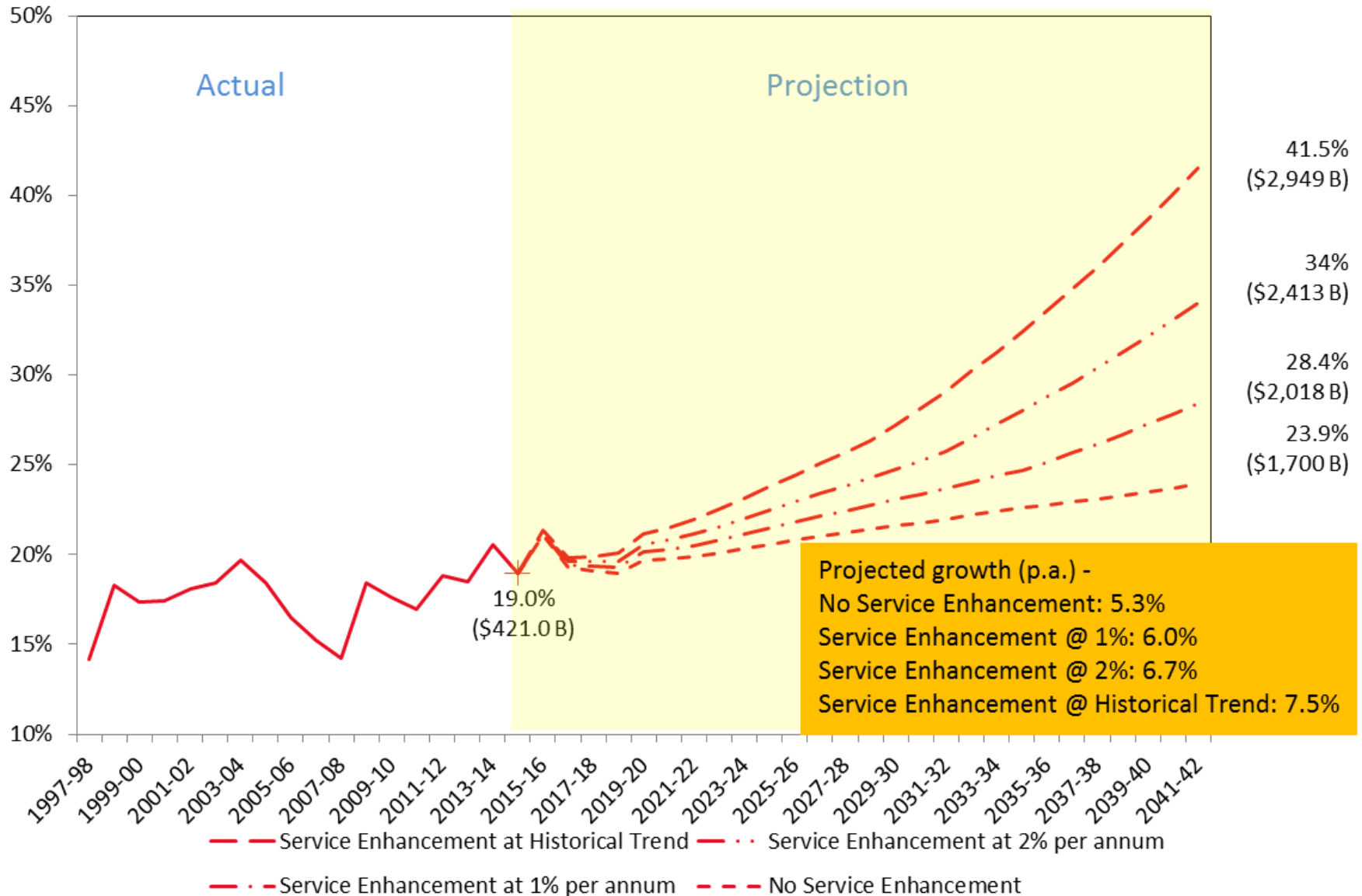
Projected revenue would not exceed 20% GDP



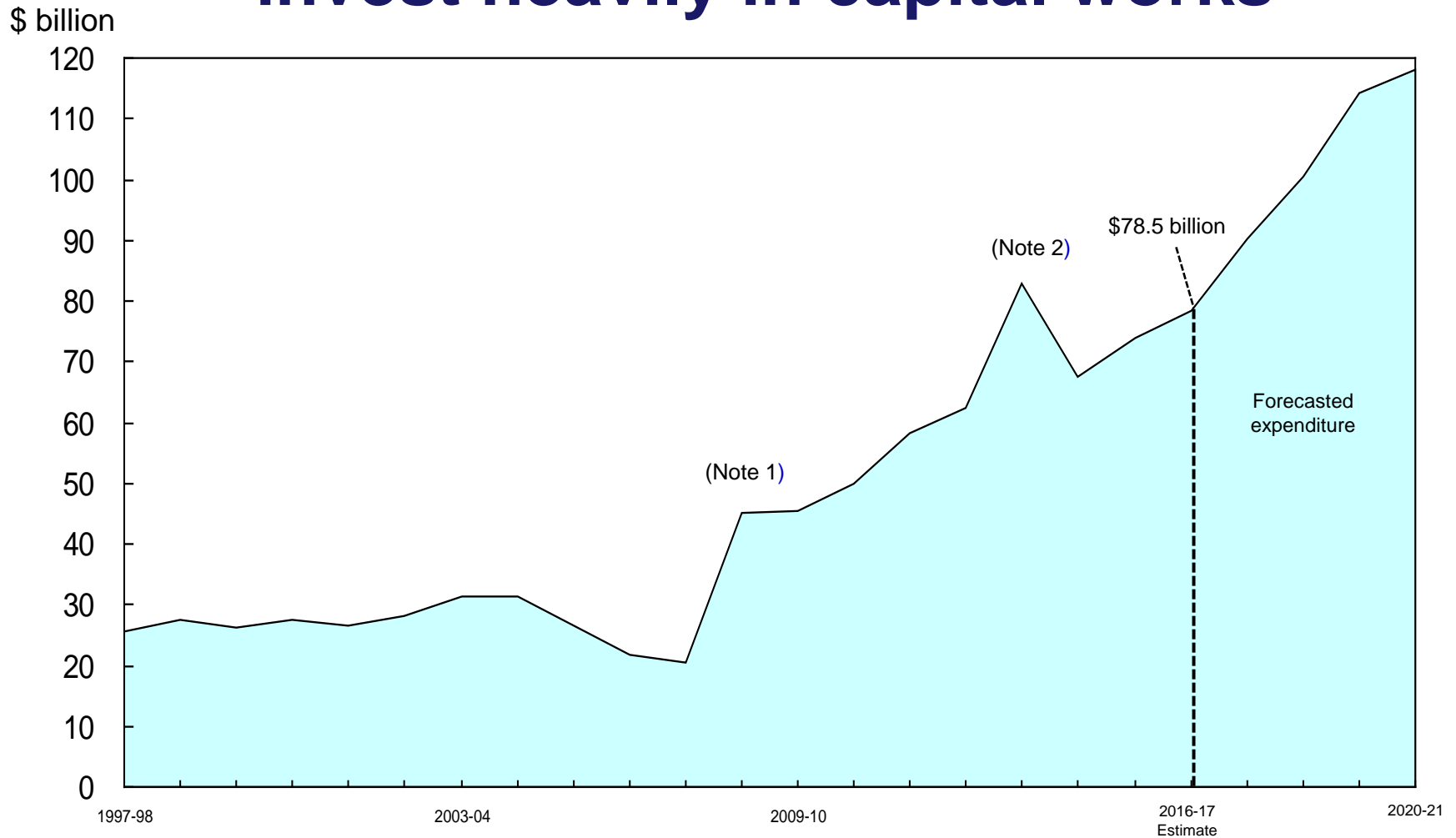
(Base Case, No Service Enhancement)

Projected government expenditure to increase far beyond 20% of GDP

% of Nominal GDP



Government continuing to invest heavily in capital works



Capital works projects and block allocations

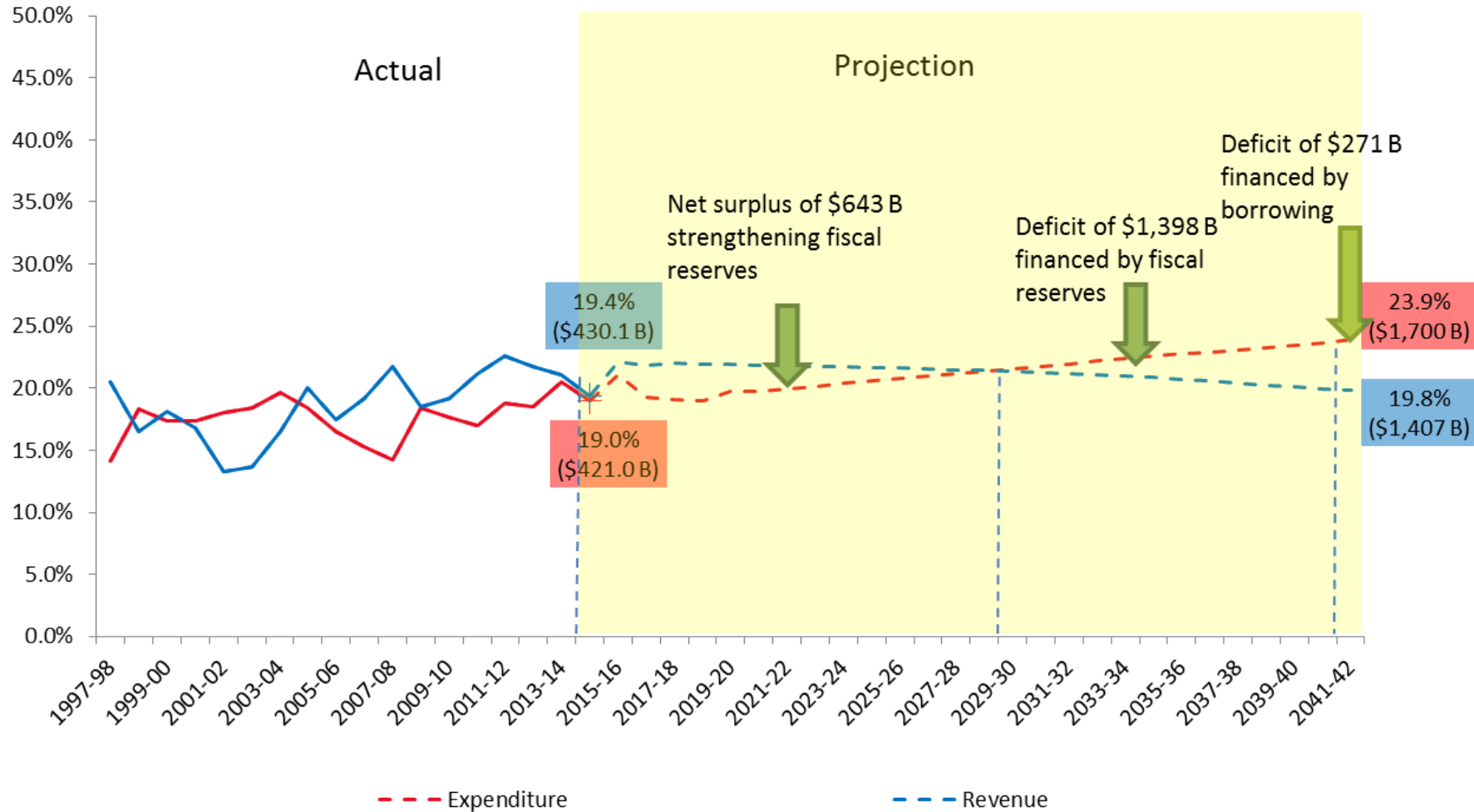
Note 1 : Including the one-off grant of \$21.6 billion provided to the West Kowloon Cultural District Authority.

Note 2 : Including the one-off grant of \$13 billion provided to the Hospital Authority.

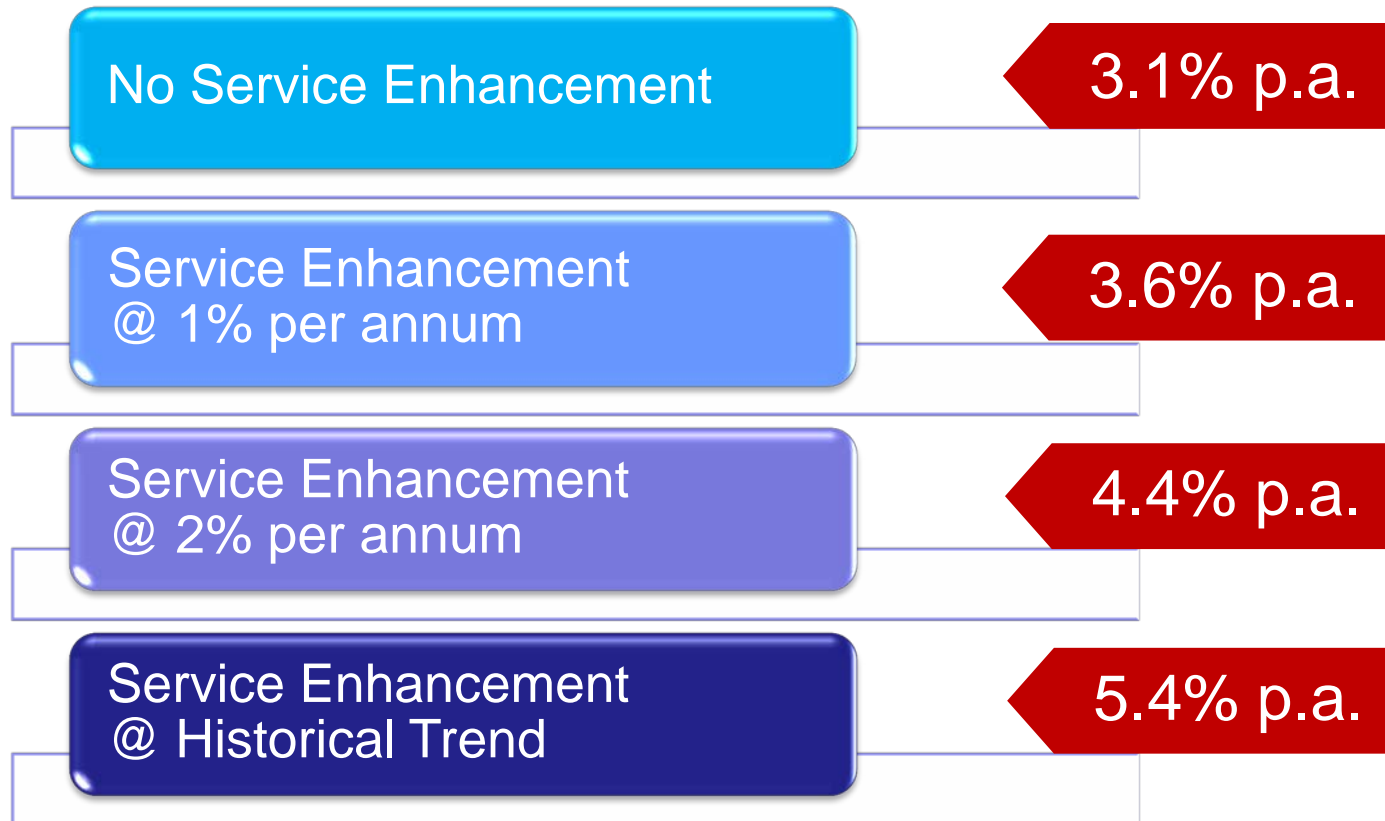
Structural Deficit to strike in a decade or so

(Base Case, No Service Enhancement)

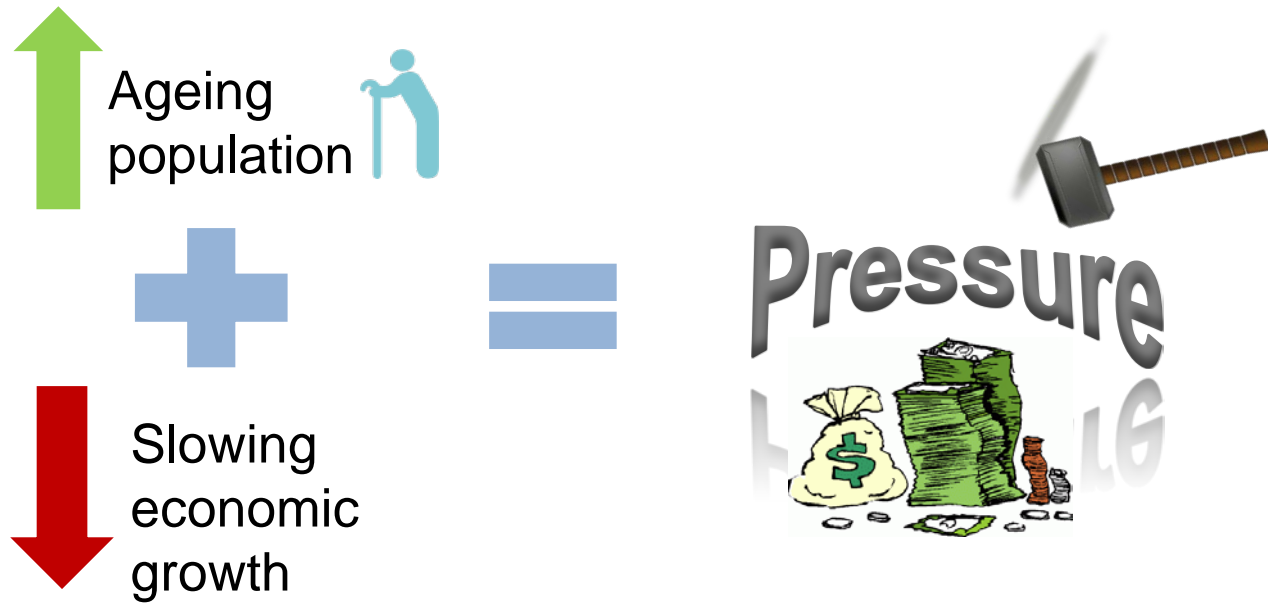
% of Nominal GDP



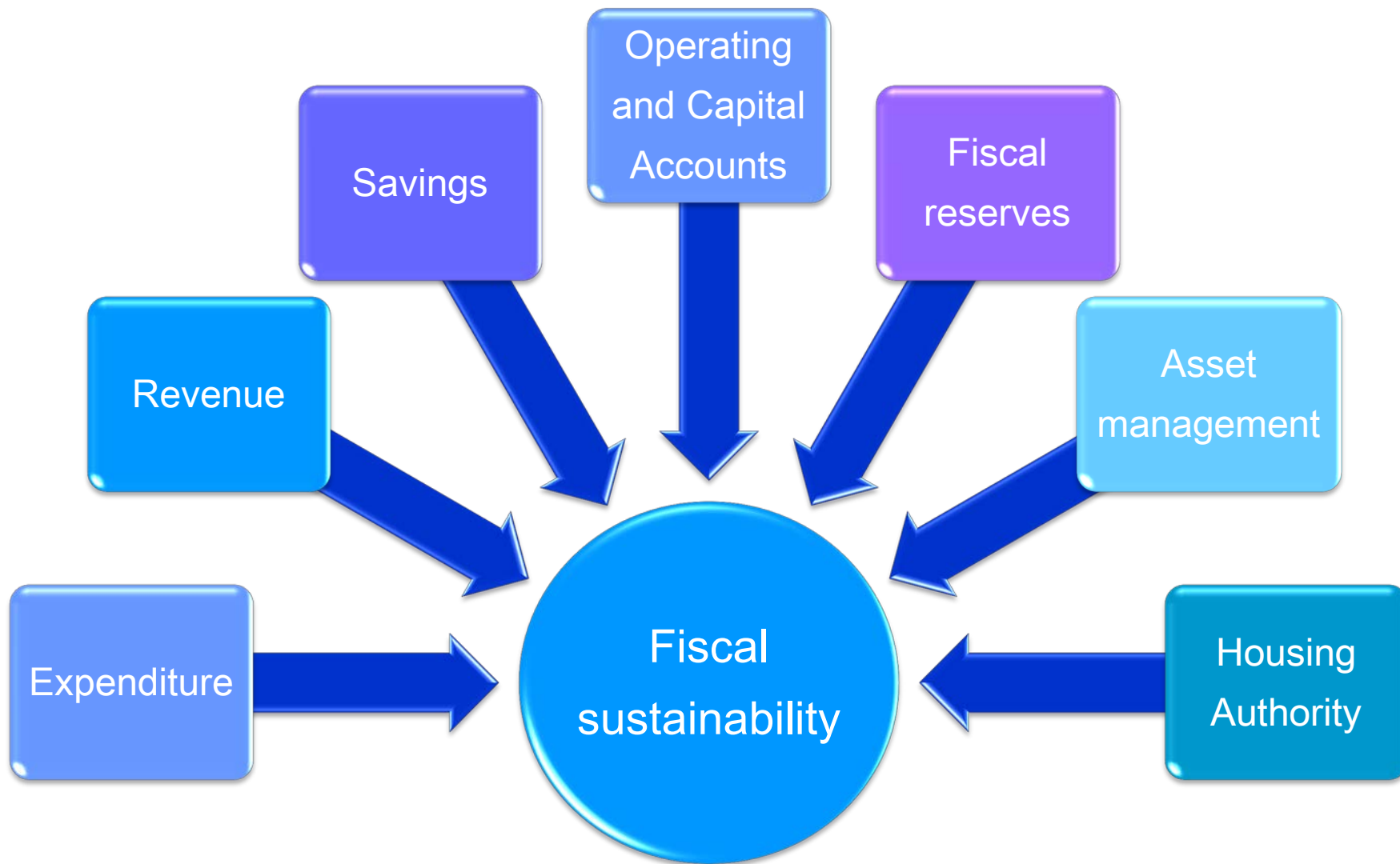
Real Economic growth needed to avoid structural deficit



Challenges Ahead



Multi-pronged Fiscal Measures





Thank you