

## CONCLUSIONS

94. The Task Force finds that Hong Kong is facing an ongoing and persistent fiscal problem. Some of the economic forces leading to this situation are believed to be structural in nature, although it is difficult, if not impossible, to discount the effects of all the cyclical factors. Nevertheless, the model findings show unequivocal signs that even when the economy returns to “normal” growth, the budget deficits will remain and indeed worsen. To continue the current fiscal “lifestyle” is therefore not an option.

95. The Task Force further concludes that decisive actions are needed to restore fiscal sustainability, which underpins the economic prosperity of Hong Kong. It considers that specific expenditure and/or revenue measures should be implemented over the next few years when the economic situation permits. It also considers that the longer-term fiscal well being of the HKSAR should be kept under regular review.

96. To restore fiscal sustainability over the next few years, the Task Force considers that the Government should accord priority to controlling the growth of government expenditure. It further considers that the existing budgetary guideline of controlling the growth of government expenditure in line with the growth of the economy in real terms needs to be reinforced by aligning the growth of government expenditure with the trend growth of the economy in nominal terms as well. This is to address the differential between the price movements of government expenditure and those in the economy, which has been magnified during the past few years of deflation. This is also in recognition of the fact that government revenue is received in nominal terms and that government expenditure is also incurred in nominal terms.

97. The Task Force notes that the Advisory Committee on New Broad-based Taxes will shortly submit its report with recommendations on what broad-based taxes would be suitable for Hong Kong should there be a need for their introduction. The Task Force is of the view that the Advisory Committee's recommendations should be carefully considered when the economic situation permits. The Task Force further considers that the views expressed by the public during and after the consultation exercise conducted by the Advisory Committee should also be taken into account in formulating future revenue-related proposals.

98. A robust and sustainable public finance system is one of Hong Kong's fundamental economic strengths. The HKSAR Government, with the support of the community, must ensure its continuation in the years to come.

Task Force on Review of Public Finances  
February 2002