

Public Expenditure and Demographic Structural Changes in Hong Kong

Read the following information carefully and complete the questions.

Source A: Total revenue and expenditure of the HKSAR Government

Financial Year	Total Revenue (Billion)	Total Expenditure (Billion)
2017-2018	507.7	491.4
2018-2019	604.5	406.5
2019-2020	626.1	607.8
2020-2021	572.5	731.1
2021-2022	591.1	727.8
2022-2023	715.9	807.3

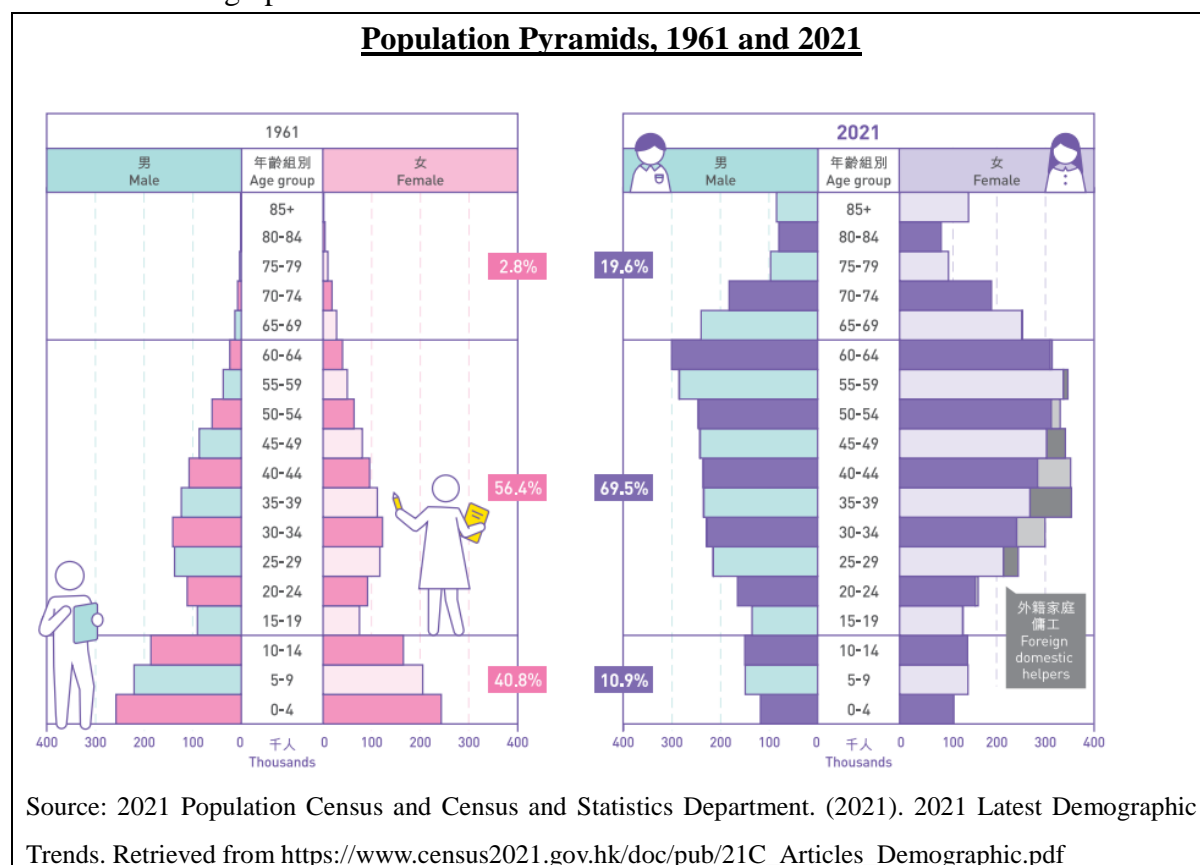
Reference: The budget website. (2022). Public Finance. Retrieved from <https://www.budget.gov.hk/2022/eng/io.html>

Source B: Financial Secretary CHAN Mo-po explains the fiscal policy of the HKSAR government

The economy in the past few years has been troubled by the COVID-19 epidemic. Fiscal revenue from various taxes and government charges has decreased. The anti-epidemic and support measures over the past three years have involved fiscal expenditures of more than \$600 billion. These two factors have resulted in a record fiscal deficit of more than \$200 billion in 2020-21. The deficit in 2022-23 is also expected to reach more than \$100 billion. In the face of the epidemic and economic downturn, we have firmly and decisively adopted expansionary fiscal policies, strengthened support for citizens and small and medium-sized enterprises through counter-cyclical measures, and stabilised social and market confidence. The measures have also produced the expected results and have been recognised by the market and rating agencies.

Source: News.gov.hk. (2023). Fiscal policy should be adapted to current conditions. Extracted from https://www.news.gov.hk/chi/2023/01/20230129/20230129_111521_817.html

Source C: Demographic information of the HKSAR Government



Hong Kong Population Projections

Year	2019 (Base)	2024	2029	2034	2039
Population (Thousands)	7 507.4	7 738.3	7 893.5	8 024.1	8 097.4
Percentage of population					
Aged 0 – 14	12%	11%	10%	8%	8%
Aged 15 – 64	71%	67%	64%	63%	61%
Aged 65 and over	18%	22%	26%	29%	31%
Median age	44.6	46.1	47.7	49.1	50.4

Source: Census and Statistics Department. (2020). Projection Results (P.17). Retrieved from https://www.censtatd.gov.hk/en/data/stat_report/product/B1120015/att/B1120015082020XXXXB0100.pdf

Source D: HKSAR government's financial expenditure on the elderly services

According to the Census and Statistics Department's population projection, the percentage of elderly persons aged 65 and above in the total population will gradually increase from 20.8% in mid-2022 to 25.3% in 2028, and then to 35.1% in 2069.

A continued rise in the number of elderly persons will increase the demand for various elderly and healthcare services. The Government will continue to improve elderly services with due emphasis on both quality and quantity, follow through with the policy direction of promoting "ageing in place as the core, with institutional care as back-up", and endeavour to provide diversified services to elderly persons in need. The Government will also address the challenges brought by increasing elderly population and an increasing prevalence of chronic diseases through various measures, including the promotion of primary healthcare and the improvement of public hospital services. The measures summarised above should enable the Government to provide more appropriate healthcare, care and support services for the elderly with a view to creating a healthy ageing environment for the elderly persons. In 2023-24, the Government's estimated recurrent expenditure on elderly persons has reached \$123.1 billion, which is 70% higher than the \$71.0 billion in 2017-18, and in turn demonstrates the Government's commitment to the elderly.

Source: Press Release of HKSAR government. (2023). Measures to cope with an ageing population. Extracted from <https://www.info.gov.hk/gia/general/202303/22/P2023032200177.htm?fontSize=2>

Questions:

1. Apart from the budget website cited in Source A, suggest a website or a way for collecting government financial information.

- Website of Census and Statistics Department : <https://www.censtatd.gov.hk/en/>
- Website of HKMA : <https://www.hkma.gov.hk/eng/data-publications-and-research/data-and-statistics/economic-financial-data-for-hong-kong/>
- To check economic information and data from Hong Kong Yearbook

2. Based on Source A, describe the change in the balance of government fiscal revenue and expenditure. (Please select from the table below and fill in the appropriate answers.)

less than greater than deficit
positive negative surplus

In the fiscal year 2017-2020, government revenue was greater than expenditure, and the balance between fiscal revenue and expenditure was positive, indicating a fiscal surplus. However, a change began in the balance of revenue and expenditure in the 2020-21 fiscal year. Government revenue was less than expenditure. The balance between fiscal revenue and expenditure was negative for three consecutive fiscal years, indicating a fiscal deficit.

3. Continuing from the previous question, based on Source B, explain one main reason for the change in the balance of government fiscal revenue and expenditure.

The economy in the past few years has been troubled by the COVID-19 epidemic. Fiscal revenue from various taxes and government charges has decreased. The anti-epidemic and support measures over the past three years have involved huge fiscal expenditures. As a result, the balance between fiscal revenue and expenditure was negative for three consecutive fiscal years.

4. According to Source C, describe the changes in the population trends of different age groups, and point out the demographic phenomenon caused by the changes.

Birth rate/young people (aged 0 to 14) : Decrease
Working class (aged 15 to 64) : Decrease
Elderly (aged 65 or above) : Increase

Demographic phenomenon: ageing population

5. Continuing from the previous question, with reference to Source D, explain how the demographic phenomenon affects Hong Kong's public finance in the long run.

- Shrinking of local labour force → it may affect economic growth and lead to a reduction in public revenue.
- Increasing the demand of elderly care and medical services → increasing expenditure on public finance.

6. With reference to Sources C and D, as well as relevant information collected from the Internet, suggest and explain a policy measure that can help improving the economic impact brought by the demographic changes in long-term.

Relevant policy measures can be considered from the following directions, and the possible results of the policy measures can be explained:

- Providing initiatives on encouraging childbearing
- Attracting foreign talents to come to Hong Kong
- Providing more opportunities for local talents to stay and develop in Hong Kong
- Extending the retirement age, etc.

7. The HKSAR government always follows the public financial principles of prudence and keeping the expenditure within the limits of revenues. How does a stable public finance help Hong Kong's long-term development? Please share your opinions.

Students respond with their own opinions.

You can consider from the following directions:

- According to Article 107 of the Basic Law, the Hong Kong Special Administrative Region shall follow the principle of keeping the 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 gross domestic product.
- As the overall government finances are sound, the government has the ability to allocate resources to carry out various programs based on the needs of long-term social and economic development. For example:
 - Infrastructure construction;
 - Social welfare and medical security; and
 - Promote innovation and technology, etc.

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