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Madam President,

Introduction

I move that the Appropriation Bill 2005 be read a second time.

2. Hong Kong has faced many challenges since the reunification less than eight years ago. Mr Tung Chee Hwa, the first Chief Executive of the Hong Kong Special Administrative Region (SAR), has led us through those turbulent times. His selfless devotion and courageous commitment to Hong Kong is exemplary. The State Council has accepted his resignation on 12 March. I respect his decision to resign and I am sure Mr Tung will continue to serve our motherland and the people of Hong Kong in his new capacity. I and other members of the SAR Government will work with each other to fulfill our public duties to the best of our ability.

3. With the support of the Central Government and the combined efforts of the Hong Kong people, we have successfully overcome these trials and tribulations, demonstrating our resilience, perseverance and "the Hong Kong Spirit". As President Hu Jintao says, seeking development, stability and harmony is the mainstream social consensus in Hong Kong. Confronted by change, we should show solidarity and each play our part in the community. We should also uphold the principle of "One Country, Two Systems". In this respect, we are fortunate to have a sound and efficient government structure and a well-established administrative system based on the rule of law. I will do my best to live up to the expectations our citizens have of me as Financial Secretary of the Hong Kong SAR, and to ensure the continuity and consistency of the Government's fiscal and economic policies, so as to maintain public confidence in the economic development and social stability of Hong Kong.

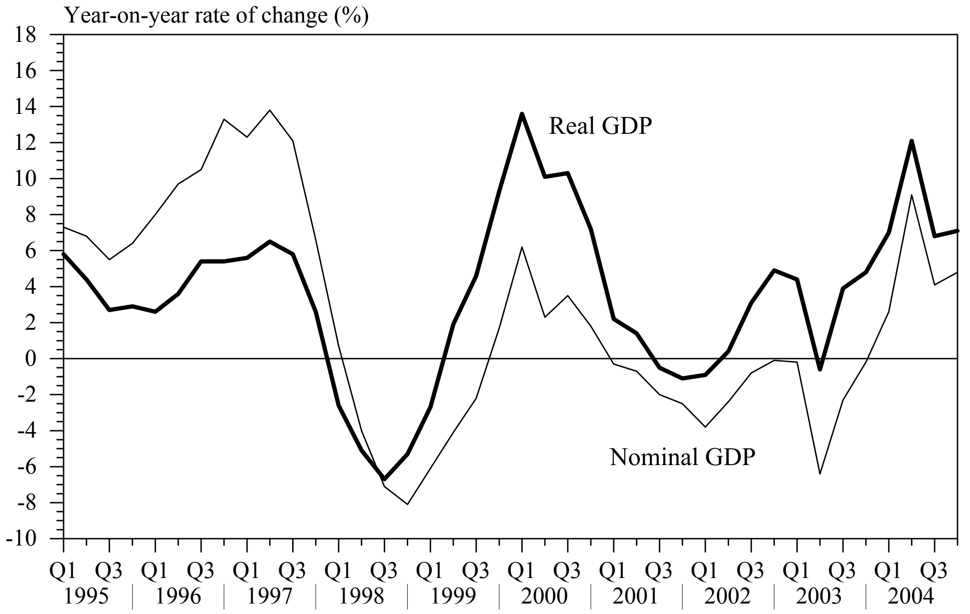
Economic Performance in 2004

4. Our economy recovered throughout 2004, moving out of the doldrums that had beset us since the Asian financial crisis. Last year, it grew by 8.1 per cent, the highest rate in four years and well above the average annual growth rate of 4.8 per cent over the past 20 years. This suggests that our

economy is back on an upward track following the adjustments over the past few years.

Chart 1

Gross Domestic Product



5. Our external trade in 2004 remained buoyant: total exports of goods and offshore trade both surged by 15 per cent. The number of visitor arrivals for the year reached an all-time high of 21.81 million. Private consumption increased significantly, by 6.7 per cent. Likewise, investment in industrial machinery, after falling for several years, resumed positive growth, with an overall increase of 20 per cent for the year, the highest since 2000. Property values rebounded, and the number of homeowners with negative equity fell drastically from about 106 000 in the middle of 2003 to around 19 000 at the end of 2004. The number of bankruptcy petitions also decreased from more than 22 000 in 2003 to about 12 000 in 2004, and was the lowest in four years.

6. With the economic upturn, the unemployment rate fell steadily from its peak of 8.6 per cent in the middle of 2003 to a three-year low of 6.4 per cent earlier this year. The total employed population rose at a remarkable pace to an all-time high of 3.34 million, up by about 154 000 over the trough in 2003. There was a surge in vacancies across many sectors.

Chart 2

Seasonally-adjusted Unemployment Rate

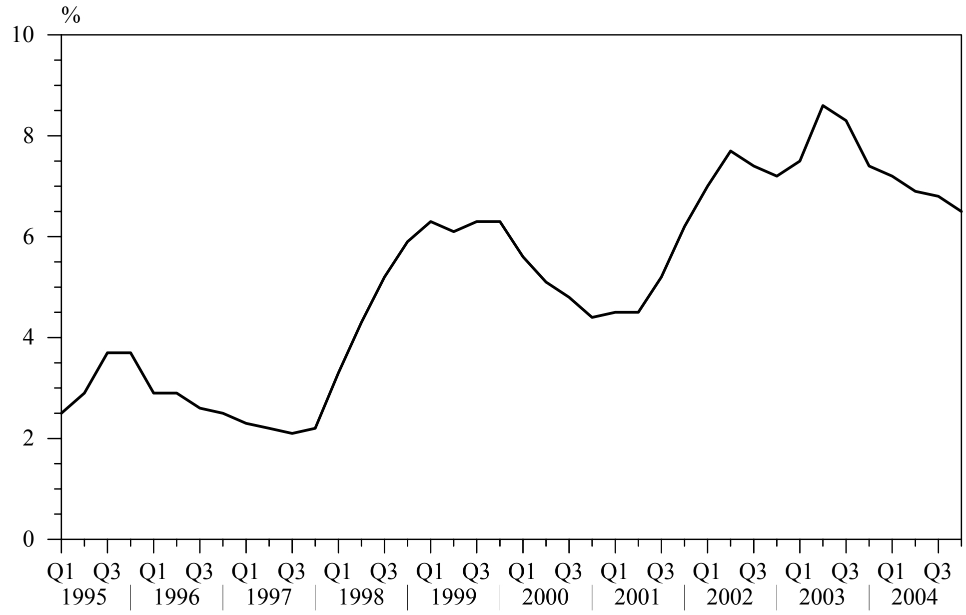
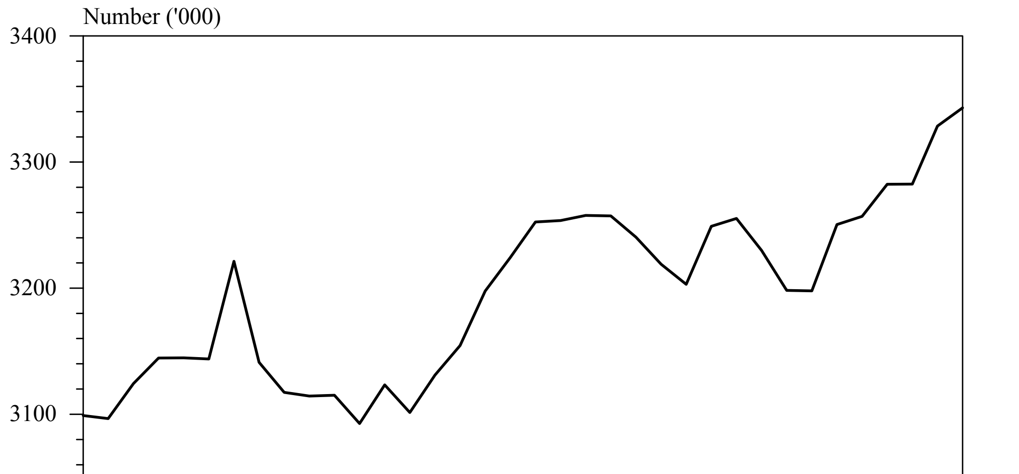


Chart 3

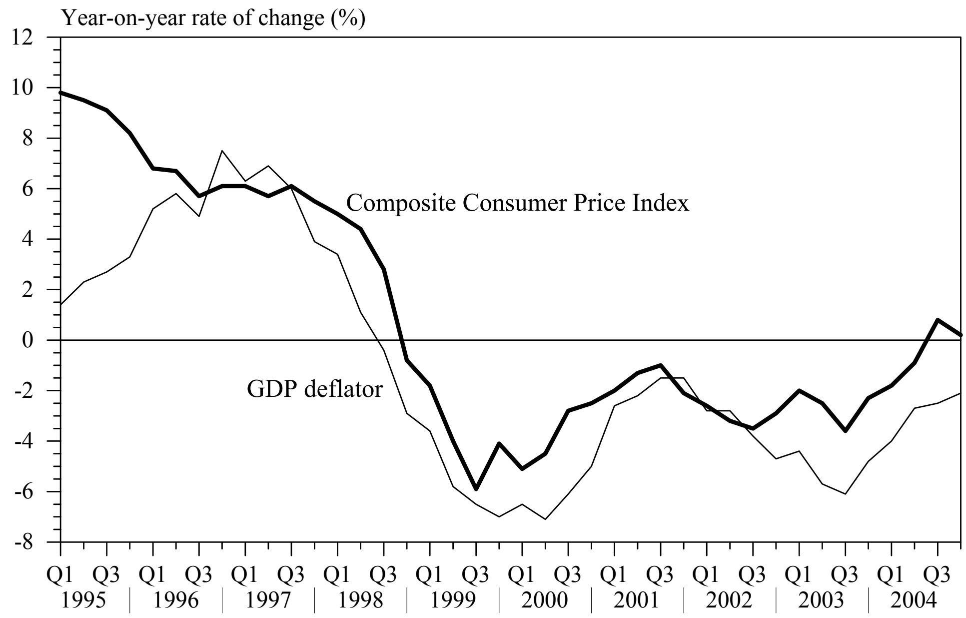
Total Employment



7. In July 2004, the deflation that had persisted for nearly six years finally came to an end. With brisk local consumer demand and vibrant inbound tourism, 2004 has seen a progressive return of local retailers' pricing power. In the first half of the year, the Composite Consumer Price Index still experienced a 1.3 per cent year-on-year decline, but in the second half of 2004 this reversed to a small increase of 0.5 per cent. For the year as a whole, the average price decline was only 0.4 per cent.

Chart 4

Composite Consumer Price Index and GDP Deflator



2004–05 Outturn

8. As our economy put in a strong performance last year, revenue from various sources was higher than expected.

9. For the Consolidated Account, I estimate that a surplus of $12 billion will be achieved in 2004–05, equivalent to 0.9 per cent of Gross Domestic Product (GDP). This is the first time since 1999–2000 that the Consolidated Account has recorded a surplus, and is mainly due to lower-than-expected expenditure and higher-than-expected revenue this year, capital revenue in

particular. For example, land premiums amount to $31.3 billion, more than two and a half times the original estimate. Operating revenues such as salaries tax, profits tax and stamp duty are also higher than expected, with increases in these items ranging from 9 to 40 per cent.

10. I must, however, stress that the main reason for the surplus is that revenue from land premiums is far greater than expected. As such revenue is volatile and is affected by a number of factors, we cannot rely too heavily on it to fund operating expenditure. Moreover, the sums raised by issuing bonds in 2004–05 will have to be repaid. Discounting the proceeds from bond issuances, the Consolidated Account will still record a deficit of $13.4 billion.

11. As far as the Operating Account is concerned, I am pleased to announce that operating expenditure for 2004–05 will be lower than that for 2003–04. Barring two special accounting arrangements with the former municipal councils, this is the first time in over 50 years that operating expenditure has fallen.

12. This demonstrates that the various control measures taken by the Government are gradually producing results. These include reduction in the civil service establishment, adjustments to civil service pay, reprioritisation of service provision, structural reorganisation and streamlining of procedures. I am grateful for the joint efforts of Directors of Bureaux and my colleagues in the civil service. This also shows that our civil service has the flexibility to try new approaches and has striven to reduce operating expenditure while maintaining a quality service. The operating deficit for 2004–05 is forecast to be $14.1 billion, much lower than the $46.6 billion originally estimated.

13. Despite the fact that people's incomes decreased and deflation persisted in the wake of the Asian financial crisis, the Government's operating expenditure continued to soar. I know that members of the public are unhappy about this. Last year, I pledged that the Government would first cut down on spending in order to demonstrate our readiness for action. One year later, we have succeeded in checking the trend of our operating expenditure, which had been on the rise for over 50 years. This clearly demonstrates that we have the determination and capability to contain our spending.

Consolidating our Recovery, Rising to the Challenges

14. Although our economy is back on an upswing and the fiscal position of the Government has improved, we are still faced with many challenges. Being highly externally-oriented, our economy is very sensitive to outside factors such as oil prices, fluctuations in US dollar exchange and interest rates, the pace of the Mainland's economic growth and changes in its policies. The development of the Mainland has also emerged as a strong competitive force for Hong Kong, threatening even some of our industries which had long had an edge over our competitors, such as logistics. Furthermore, increasing globalisation has a continuous impact on our strengths. There are also potential problems in the local economy. For example, unemployment in certain industries remains high, our economy is undergoing adjustment and the problem of the structural deficit has yet to be resolved. On the other hand, as our economy continues to improve, we must assiduously monitor inflation and property price movement, so as to avoid a major increase in business costs.

15. In the face of these challenges, we cannot afford to let our guard down. Instead, we should constantly try to innovate and seize every opportunity. For the Government's part, we will uphold the principle of "Market Leads, Government Facilitates" and actively promote economic growth by facilitating the development of the market and providing a favourable platform for the business community.

16. We will continue our efforts to secure more favourable market access for local enterprises and to protect the lawful rights of Hong Kong businessmen. We will maintain a healthy social system and a business-friendly environment. We will provide essential services and facilities, for example by investing in infrastructure and providing assistance to meet the basic needs of socially-disadvantaged groups. Moreover, we will persevere with rigorous control of expenditure and allow the private sector more room to expand.

17. Promoting social stability and the economic development of Hong Kong will continue to be the key theme of this year's Budget. In striving to improve our business environment, we will encourage fair competition, foster economic co-operation with the Mainland, assist Hong Kong enterprises to access the Mainland market, enhance the competitiveness of our financial, logistics and tourism industries, improve training and attract more talent. I hope that these measures will help create an environment in which enterprises can

thrive and give full rein to their creativity, and so raise Hong Kong's competitiveness as a knowledge-based economy. Boosting the economy will also provide us with more opportunities to realise our potential and upgrade our standard of living.

Reinforcing our Strengths

Improving our Business Environment

18. Hong Kong has a very favourable business environment, underpinned by a sound legal system, an independent judiciary, a low and simple tax regime, free flows of capital and information, and a clean and efficient government. Nonetheless, we must strive for continuous improvement if we are to increase our competitiveness and boost economic development. The Economic and Employment Council established last year has identified the construction and retail industries, which have a significant influence on our economy and the job market, for regulatory review. The review aims to facilitate businesses by breaking down barriers and streamlining procedures. The Council is particularly concerned that many types of licences are required for a commercial undertaking and involve lengthy procedures. One of the main objectives of the review is therefore to look into the feasibility of issuing composite licences and, where practicable, introducing third-party certification or self-certification. This would expedite the licensing process and enable the departments concerned to redeploy resources and step up enforcement action, thereby reducing irregularities. We expect the Council to complete the review and put forward specific proposals by the end of this year.

19. To create a more user-friendly business environment, we will continue to drive our e-government programme to enhance our service quality and efficiency. We will also promote the adoption of e-business in the private sector. In February this year, for instance, the Land Registry rolled out the Integrated Registration Information System, which enables the industries concerned and the public in general to conduct online land search. Towards the end of last year, the Intellectual Property Department started to allow electronic filing of applications for registration of trademark, patents and designs. As a result, application fees have been considerably reduced and although this arrangement has been in place for only a few months, nearly 30 per cent of applications are now filed electronically.

Promoting Fair Competition

20. The Government is determined to promote the principle of fair competition. We have been working to increase the transparency of our existing regulatory regime to ensure it is fair and to enhance Hong Kong's competitiveness. Within the community, views differ on the introduction of competition law. The Government's stance is that we will legislate where circumstances so warrant. We should, however, take into account the needs and circumstances of individual sectors in deciding whether legislation or other means should be used to achieve fair competition. In view of recent public concerns over the local auto-fuel market, we have commissioned an independent and comprehensive study on the competitive situation in this market. In addition, the Competition Policy Advisory Group will appoint an independent committee to review existing competition policy and the Group's composition, terms of reference and operations.

Accessing the Mainland Market, Fostering Economic Co-operation

21. China has attracted worldwide attention as a rapidly-growing, emerging market gradually undergoing further reforms. The Government's role in tapping into this market is to reduce any policy obstacles so as to attract investment from the Mainland, and facilitate market access for Hong Kong businesses and professionals. This is beneficial to Hong Kong and meets the development needs of the Mainland economy. The Closer Economic Partnership Arrangement (CEPA) Phases I and II, signed by Hong Kong and the Mainland in 2003 and 2004 respectively, are key milestones in this process. Under both phases of CEPA, a total of 1 108 products have been granted tariff-free treatment. Taken together with the Mainland's commitment on accession to the World Trade Organisation, about 95 per cent of Hong Kong's domestic exports to the Mainland are now entitled to such treatment. Under Phase II, the liberalisation of trade in services has been extended to 26 sectors. Both sides have also agreed to enhance co-operation on trade and investment facilitation in seven areas. The economic benefits of CEPA are gradually being realised. By the end of February this year, products with a total value of $1.4 billion were exported tariff-free under CEPA from Hong Kong to the Mainland. According to the initial findings of the Government's economic benefit analysis, we expect to see the creation of more than 28 000 new jobs in the first two years of implementing CEPA. The Individual Visit Scheme, for instance, has led to the creation of about 16 500 new jobs in 2004 and generated an additional $6.5 billion in tourist spending during the year.

22. CEPA provides a useful framework for Hong Kong companies to promote their businesses in the Mainland, and for Mainland companies to invest and identify suitable business partners in Hong Kong, which will then assist them to extend their business networks overseas. In late August last year, the Mainland authorities introduced a new investment facilitation policy for Mainland enterprises to invest and to establish their businesses in the Hong Kong and Macau SARs. These are important steps under CEPA to facilitate investment. The new policy encourages and supports investment by Mainland enterprises in Hong Kong and expedites the decision-making process in respect of such investment. In response to it, Invest Hong Kong has introduced "Invest Hong Kong One-stop Services" to provide a convenient free service for Mainland enterprises that intend to use Hong Kong as the platform for their global business. To facilitate the development of further business by Mainland enterprises in Hong Kong, the Commerce, Industry and Trade Bureau will keep the existing support measures under review, and step up its co-ordination and promotion work.

23. Our objective is to develop and expand CEPA still further. To this end, the Government is now soliciting the views of relevant business sectors and will be holding discussions with the appropriate ministries of the Central Government.

24. Since the opening up of the Mainland, we have continuously been broadening and deepening our economic relationship with it. The Mainland is our largest trading partner and our second-largest source of foreign direct investment, while Hong Kong is its largest source of foreign investment. In the Pearl River Delta (PRD) region alone, for example, our manufacturing industry employs about 11 million workers, over three times the Hong Kong workforce. Furthermore, around 240 000 Hong Kong residents regularly work in the Mainland. In recent years, the Mainland economy has been upgrading gradually. Its structure is also becoming more diversified. Such developments do pose constant challenges, but they also open up new opportunities for Hong Kong.

25. As a long-term strategy, Hong Kong needs to continue strengthening its economic ties with Guangdong and other Mainland provinces and cities. This will extend our co-operation with the Mainland, complement its further development and reinforce our own position as the region's premier bi-directional business platform. A good example of this is the Mainland/Hong Kong Science and Technology Co-operation Committee which was established late last year. The Committee has agreed to set up a working group to draw up specific plans for co-operation in four selected areas, namely, automotive parts

and accessory systems, radio frequency identification technologies, Chinese medicine, and integrated circuit design. We are also working in collaboration with leaders of the relevant Mainland provinces and regions to promote Guangdong/Hong Kong co-operation and Pan-PRD co-operation under the "9+2", in order to enhance our regional economic hinterland and efficiency. This will help promote Hong Kong as a base for overseas enterprises to invest in the Mainland and as a platform for Mainland enterprises hoping to enter the international market. This will create a "win-win-win" situation for Mainland, Hong Kong and overseas enterprises.

Enhancing our Position as an International Financial Centre

26. Hong Kong's development as an international financial centre during the past year was most encouraging. Hong Kong ranked first in Asia and third in the world last year in terms of capital raised, with total Initial Public Offering (IPO) and post-IPO equity funds reaching some $265 billion, out-performing the London and Tokyo Stock Exchanges. Market capitalisation also hit a new high of about $6,650 billion, nearly 50 per cent above the pre-reunification level. In Hong Kong, Mainland enterprises have raised over $900 billion since the introduction of H-shares in 1993. As at the end of last year, a total of 304 Mainland enterprises had listed here, 22 per cent more than in 2003 and representing over a quarter of the total number of listed companies in Hong Kong. These enterprises accounted for about 30 per cent of our total stock market capitalisation. Trading in their shares last year constituted half of our total market turnover. In 2004 alone, 44 Mainland enterprises raised funds through listing in Hong Kong. The vast majority of Mainland enterprises listed outside the Mainland are quoted on our stock exchange. Of those listed in Hong Kong, only a minority are also listed in other overseas markets, and more than 70 per cent of their trading is conducted in Hong Kong. This demonstrates that Hong Kong has further consolidated its position as the premier international capital formation centre for the Mainland.

Improving the Financial Regulatory System

27. As an international financial centre, one of our major tasks is to provide an effective, transparent and fair regulatory regime on a par with international standards. Last year, this Council enacted the Deposit Protection Scheme Ordinance, which will improve the protection of deposits in Hong Kong. The scheme is expected to start in 2006. We will also introduce a bill into this Council next month to implement the new capital adequacy standards for banks issued by the Basel Committee on Banking Supervision, commonly known as

Basel II. These new standards will strengthen the risk-management capability and stability of our banking sector and stand it in good stead for the further liberalisation of the Mainland's financial markets in future.

Enhancing Corporate Governance

28. We will continue to enhance corporate governance so as to attract more local and international investors. Last year, this Council enacted the Professional Accountants (Amendment) Ordinance 2004, which improves the transparency and independence of the regulatory framework for the accounting profession. The amendments include opening up the structure of governance of the Hong Kong Institute of Certified Public Accountants. Later this year, we will be introducing two bills which will give statutory backing to major listing requirements and establish the Financial Reporting Council to strengthen the supervision of auditors and raise the quality of financial reporting by listed companies. Meanwhile, Hong Kong Exchanges and Clearing Limited introduced a new Code on Corporate Governance Practices in January this year, aimed at implementing a number of corporate governance improvement measures in the three areas of directors' and board practices, protection of shareholders' rights and corporate reporting and disclosures.

Promoting the Bond Market

29. In addition to our regulatory work, we will continue to promote our bond market. Most fund-raising activities in Hong Kong are now carried out through banking facilities and the stock market. This means that our bond market has ample room to develop. Last May, we issued a $6 billion securitisation bond for the government tolled tunnels and bridges. This is the largest-ever securitisation bond offering in Hong Kong, and the first made available to retail investors. It also ranks among the largest in the region and has received 17 financial services awards, including those from Asiamoney, FinanceAsia and IFR. In July last year, the Government launched its $20 billion global bond offering. This was the largest dual-currency and multi-tranche offering from the region, available to both retail and institutional investors. It also generated the largest subscription and issue amounts for a retail bond offering in Hong Kong. The offering was oversubscribed by local and international investors alike, and opened a new chapter for Hong Kong in the international capital markets. It too was the recipient of a number of awards. We will consider whether to issue additional bonds in future, having regard to our objective of promoting the local bond market and the financial position of the Government. I hope that, as our bond market develops further, more corporations and investors from the Mainland and overseas will make use of our

market to meet their funding and investment needs. I also look forward to the issuance in Hong Kong of more bonds denominated in various currencies.

Reinforcing our Renminbi Business

30. Last year, Hong Kong became the first place outside the Mainland to conduct personal Renminbi (RMB) business, including deposit-taking, currency exchange, remittances and credit cards. The development of this business has been encouraging. At present, a total of 38 Hong Kong retail banks, nearly all of them, provide the first three of these services. As at the end of January this year, total RMB deposits in Hong Kong exceeded RMB13.1 billion. The cumulative value of transactions by Mainland visitors using RMB cards to spend and make cash withdrawals in Hong Kong exceeds $2.9 billion, or $3,000 per transaction on average. Some Hong Kong banks also started issuing RMB cards in late April 2004 to facilitate cross-boundary spending by Hong Kong residents.

31. While the range of RMB services now available in Hong Kong is quite limited, the provision of such services already represents a breakthrough. For the further development of RMB business in Hong Kong, I have earlier indicated three strategic directions: first, exploring the diversification of the RMB assets and liabilities of Hong Kong banks; particularly on the liability side, diversification to non-residents and non-individuals of deposits now restricted to resident individuals; second, exploring the provision of appropriate RMB banking services for trade and other current account transactions between Hong Kong and the Mainland; third, exploring the feasibility of establishing a RMB debt issuance mechanism in Hong Kong. These proposals, if implemented, will facilitate the channelling of RMB back to the Mainland and the diversification of RMB assets. The further development of RMB business in Hong Kong needs to be compatible with the process of financial liberalisation in the Mainland. The Government is exploring with the Mainland authorities ways to expand the scope of RMB business on a sound footing, in these three strategic directions. In this context, we will also be studying the establishment of a clearing and settlement platform for RMB transactions so as to enhance their efficiency and safety.

Promoting Asset Management

32. Hong Kong is already a major asset management centre in Asia. In 2003, total assets of our fund management business amounted to

$2,950 billion, of which $1,860 billion were sourced from overseas investors and accounted for 63 per cent of the total. The potential to expand our asset management business remains considerable, given the vast pension scheme assets held by banks, fund managers and insurance companies in Asia, coupled with the continued growth of personal savings in the Mainland.

33. The Government has consulted the industry on our proposals to exempt offshore funds from profits tax. We will shortly introduce the necessary legislative amendments into this Council.

34. To promote the further development of our asset management business, the Government last year consulted interested parties and the public at large on the abolition of estate duty. While abolition and retention both have their pros and cons, the majority view tends to support abolition.

35. Those who oppose abolition consider that estate duty, which is imposed on the better-off in society, is in line with the principle of affordability. They are also of the view that this duty is not an important consideration in investment decisions. Some are even concerned about the possible impact of abolition on certain professions. They have pointed out that, if the duty is abolished, the Government will lose a stable source of income and suffer a reduction in revenue, and the fiscal deficit will be aggravated.

36. Those in support of abolition take the view that, although the tax is targeted at the better-off, in practice the latter may avoid it through various legal means. Of the dutiable cases processed by the Inland Revenue Department last year, about 70 per cent involved assets with an estate value, after exemptions, below $20 million. They point out that, in other places, estate duty avoidance is also very common and it is no easy task to plug these loopholes. Others think that, as the assessment of estate duty takes time, and the assets of citizens, particularly operators of small and medium enterprises (SMEs), may be frozen during the assessment period, this causes them cash flow problems. In settling estate duty, some enterprises may have to sell their assets to raise cash and as a result encounter operating difficulties.

37. In recent years, global financial services have experienced phenomenal growth. The financial markets in the Asia Pacific region have also quickened the pace of their development. Hong Kong is looking at unprecedented opportunities in this sector, but at the same time faces increasing competition. A number of countries in the region, including India, Malaysia, New Zealand and Australia, have abolished estate duty over the past 20 years.

In Europe, Italy and Sweden have also abolished the tax. We understand that one of the main reasons for the decision by some countries to abolish estate duty is the adverse impact on SMEs.

38. Investment decisions are influenced by many factors. It is impossible for us to give an accurate estimate of the amount of foreign and domestic investment that will be induced if estate duty is abolished. Nonetheless, we believe that, with its abolition, Hong Kong will become more attractive to investors. Many members of the industry envisage that abolition will encourage more people to hold assets in Hong Kong through a corporate vehicle or trust. More overseas companies and professionals will come here, and this will facilitate the further development of our asset management services, create more employment opportunities, and in turn make Hong Kong more competitive as an international financial centre. Trading in the financial market will also become more active, and contribute additional government revenue from stamp duty and other taxes.

39. On balance, after weighing these factors, I propose to abolish the tax and will introduce the relevant bill into this Council as soon as possible.

40. The financial services industry is a high value-added industry and very important to our economy: its direct contribution is 13 per cent of GDP. The industry also fosters growth in a number of professional services, and this in turn becomes a strong driving force for other sectors, such as real estate and the consumer market. With globalisation of the industry, the flows of capital, financial talent and expertise have become easier and more frequent, and have created new opportunities for Hong Kong. I hope that the foregoing measures will encourage the further development of our financial services industry and strengthen our position as an international financial centre.

Developing Tourism

41. Our economic restructuring and the relocation of manufacturing processes and back-office operations have brought tremendous employment pressure to bear on the less-educated and low-skilled workers. Coupled with a slackened construction industry and rapid advances in technology, the unemployment rate has remained relatively high. Because of the nature of the tourism industry, its demand for manpower is stronger. Thanks to an improved external economy and rapid development in the Mainland, there is still plenty of room for growth in this sector. A boost for the tourism industry can provide a large number of low-skilled workers with job opportunities and alleviate our

unemployment problem. We estimate that, during the period from 2000 to 2003 alone, tourism has created around 25 000 new jobs in Hong Kong. The Government will continue to spare no effort to support and facilitate the development of tourism.

42. Last year, our tourism industry performed strongly, with visitor arrivals reaching an all-time high of 21.81 million, an increase of almost one third compared with 2002, the year before the SARS outbreak. This boom encouraged growth in tourism-related sectors such as the catering, retail and hotel industries. In 2004, under the Individual Visit Scheme, 4.26 million visits were made by Mainland visitors to Hong Kong. As from March last year, the scheme has been extended to the whole of Guangdong Province and 11 additional major cities throughout the Mainland, and this will further help stimulate our economy. Meanwhile, visitor arrivals from our traditional long-haul markets increased steadily at a rate of 8 per cent, breaking the record set in 2002.

43. We expect 2005 to be an even better year for the tourism industry. Hong Kong Disneyland is scheduled to open in September, an event which the market is eagerly anticipating, and recruitment of 5 000 staff is fully under way. By the end of this year or early next year, a number of other major tourism infrastructure projects will also be completed, including the second phase of "A Symphony of Lights", the Tung Chung Cable Car System, and Hong Kong Wetland Park. In parallel, a number of new hotels will have opened by the end of 2006, providing about 14 000 rooms and employment for 7 500 staff. The Government is also working on strengthening the further development of our tourism industry, for example, by encouraging ecotourism in the Northern New Territories, so that nature lovers may enjoy the natural beauty of Hong Kong. In addition, we are studying the feasibility of developing spa resort facilities, which will provide high-spending visitors with more choices.

44. Apart from developing new attractions, we must make the best use of our tourism resources and enhance existing facilities. Ever since its opening in 1977, Ocean Park has been a favourite destination for local and overseas visitors alike. Last year, the number of people visiting the Park reached a new record of more than 4 million. The Park will continue to roll out programmes combining entertainment with education on the themes of "the Ocean" and "Animal Encounter" and will present them in a fresh and creative manner in order to give visitors a brand new experience. Ocean Park has made new development proposals. We will carefully consider the details of these proposals, including their scope, the financial package, complementary facilities, environmental implications and resource requirements.

45. Over the next two years, to tie in with the completion of our new attractions, the Hong Kong Tourism Board will launch a series of strategic global publicity and promotion programmes. The Board has identified families and business and young executive travellers as the key target segments for the next two years and will introduce brand new tourism products to suit their needs, so as to showcase Hong Kong's many diverse attractions. Another major strategy is to designate 2006 as "Discover Hong Kong Year". Starting from the latter half of 2005 under a new integrated theme, we will launch a wide variety of promotional activities in the major markets around the world through various media channels, to promote our new facilities and new image extensively to the rest of the world, in a bid to attract more visitors to Hong Kong in 2006.

46. We will also extend the Quality Tourism Services Scheme to cover more tourism-related trades and further improve customer services and the complaint-handling mechanism, in order to enhance consumer protection. By the end of last year, the number of accredited shops had increased from some 2 000, when the scheme was first launched, to over 5 000. This reflects the success of the scheme and retailers' and tourists' support for it.

47. To promote the tourism industry further, I propose to earmark funding of $500 million to implement the foregoing measures, which are expected to bring over 1.2 million additional visitors in the next two years, as well as an increase of nearly 2 million days in visitors' length of stay, and additional economic benefits of nearly $10 billion. The Hong Kong Tourism Board anticipates that, by the end of 2006, the overall number of visitor arrivals will exceed 27 million.

48. Tourism is an important sector of our economy. It raises Hong Kong's international profile and greatly benefits various aspects of our economic and cultural development. It also provides many job opportunities for the less-educated and low-skilled workers. The Government will continue to support projects to improve tourism facilities and the work of the Hong Kong Tourism Board in order to promote the industry further and maintain our standing as Asia's preferred tourist destination.

Developing Logistics

49. As our logistics industry faces increasingly stiff competition, we must further raise our competitiveness in order to reinforce our position as an international logistics hub. Later this year, the Government will launch the

Digital Trade and Transportation Network System. This system will enhance the competitiveness of our logistics industry by offering an open, neutral, stable and secure e-platform where logistics and related industries can exchange information and data, and by facilitating global information flow and service integration.

50. For the future development of our port, including the timing and site-selection for Container Terminal 10, we will have to take into account such information as the updated cargo forecast and the findings of the ecology study. As regards the Lantau Logistics Park project, the Government has sought the views of the logistics industry on the park's operational characteristics and planning parameters. A detailed feasibility study has been commissioned to meet the statutory requirements for the planning and reclamation of the park site.

51. To consolidate our position as an international port as well as a shipping and logistics hub, we must promote our strengths and the latest developments in these areas in the Mainland and overseas markets. In 2005–06, the Government will provide funding of $5 million each to the Hong Kong Logistics Development Council and the Hong Kong Maritime Industry Council to enhance the marketing of our port, shipping and logistics facilities.

52. In terms of international air cargo throughput, our airport is the busiest in the world. Taking advantage of this, the Airport Authority is actively seeking out strategic partnerships with Mainland airports in a bid to improve development and co-operation in the logistics industries of both sides. We will, of course, also continue to expand our cross-boundary transport network and other infrastructural facilities to meet the needs of our logistics industry.

Cultural and Creative Industries

53. To improve Hong Kong's competitiveness, creativity is important. Ideas and innovations can improve production efficiency and bring about added convenience, and in some cases can change entire industries and even society as a whole. Individuals and corporations in Hong Kong are putting their heads together to explore new products and services, and searching for breakthroughs in their business methods. In such fields as design, research and development, culture and the arts, media, advertising, or even management, consulting, engineering and health care, we have an abundant supply of creative people. Thanks to their efforts, Hong Kong has become an efficient city with a rich culture and its developments are multi-faceted.

54. The Government will make every effort to support and facilitate the development of our cultural and creative industries. We are, for example, extending the Film Guarantee Fund so that it may continue to underwrite film production and encourage banks and other lending institutions to participate in film financing. We have also earmarked funding for projects such as manpower training, which are conducive to the general development of the film industry. In last year's Budget, I proposed the $250 million DesignSmart Initiative. This was launched in June last year, with the objectives of strengthening support for design and innovation and promoting their wider use in industries to help them move up the value chain. In addition, we will provide funding to the Hong Kong Science and Technology Parks Corporation and the Hong Kong Design Centre for the joint development of a one-stop centre which aims to encourage the creation and clustering of high value-added activities among design professionals and companies, and will provide incubation services for the latter. The one-stop centre will be located in Kowloon Tong and is expected to come into operation this year.

Small and Medium Enterprises

55. SMEs have always been a key part of our economy, representing 98 per cent of all business establishments in Hong Kong and employing 1.3 million people. To help SMEs secure loans, expand access to markets outside Hong Kong, upgrade human resources and enhance their overall competitiveness, the Government introduced four SME funding schemes between late 2001 and early 2002. These schemes have been well-received. As at the end of February this year, the Trade and Industry Department had approved over 93 000 applications, and the resulting loans and grants have benefited more than 40 000 SMEs. The provision for the four schemes will be depleted by the middle of this year.

56. The SME Committee has completed a review of the schemes. I have accepted its recommendation and will seek approval from the Finance Committee of this Council to provide additional funding of $300 million to the SME Export Marketing Fund and the SME Development Fund. I will also transfer $200 million from the $1 billion SME Loan Guarantee Scheme to the two funds, bringing the total additional funding to $500 million. Separately, we propose to reduce the assumed default rate under the scheme in order to raise the aggregate amount of guarantees. These measures will extend the funds and the scheme to 2007, so that more SMEs can benefit.

Nurturing and Attracting Talent

57. The importance of talent to economic development has been thrown into sharp relief by globalisation. While containing overall expenditure, we will continue to invest heavily in education. The allocation for education in 2005–06 will still represent the biggest share, or nearly one quarter of recurrent expenditure.

58. The Government will also endeavour to attract more talented people and professionals from overseas and the Mainland, so as to upgrade our human resources and meet the needs of Hong Kong in its transition to a knowledge-based economy. As I mentioned in last year's Budget, I head a committee to ensure the smooth operation of the assessment procedures under the Admission Scheme for Mainland Talent and Professionals. Since the introduction of the scheme in July 2003, we have received nearly 7 000 applications, over 80 per cent of which have been approved. The applications cover a wide range of sectors including academic research and education, commerce and trade, financial services, culture and the arts, and information technology.

An Equitable and Sustainable Society

59. In promoting economic development, we should not lose sight of those in need, who require our care and assistance. As a matter of fact, Hong Kong has always been a caring society. We provide public housing, medical care and social welfare services to those in need. The provision of such services is well-supported by the community as a whole.

60. Owing to Hong Kong people's caring and generous spirit, the grass roots have a chance to improve their standard of living. Many middle-class or rich people today might have grown up in families living on public assistance. They did not lose heart or a sense of self-reliance as a result. Instead, they strove for advancement and betterment of their livelihood. Some have even achieved great financial success or attained eminent positions.

61. This reflects the high degree of upward mobility in Hong Kong. Upward mobility is rooted in an equitable society where people from all walks of life have opportunities to develop their potential, realise their aspirations and shape a better future for themselves.

62. While the Government will continue to promote economic development, we will also encourage our enterprises to maintain the time-honoured generous spirit of our community by doing their duty as good corporate citizens. As individuals, I hope we can continue moving forward to realise a brighter future for ourselves and future generations.

63. Equity is, of course, just one of the main ingredients for the sustainable development of society. To make Hong Kong a better place for us and succeeding generations to live and work, we must take heed of the other long-term development needs of the community and respond to these in good time.

Promoting Employment

64. Promoting employment will help the unemployed to re-enter the labour market, gain self-confidence and ease the pressure on the social security system, thus fostering the development of a healthy and harmonious society. As I pointed out in last year's Budget, the most effective way of tackling unemployment is by encouraging economic development.

65. A robust performance by private enterprise plays a crucial role in easing the unemployment problem. The Government will also continue to allocate resources for capital works projects, promote tourism, logistics, environmental, and cultural and creative industries, and will facilitate urban renewal and building management and maintenance. Apart from encouraging economic development, these projects create more job opportunities.

66. Furthermore, the Government has decided to extend about 11 600 temporary jobs in the public sector, involving a sum of more than $880 million. Meanwhile, the Government has initiated various retraining and skills-upgrading schemes and has been encouraging people to seek self-advancement and enhance their competitiveness through the Continuing Education Fund.

Improving Building Safety

67. To speed up urban renewal and building maintenance, the Government has recently announced that it has obtained the support of the Hong Kong Housing Society to launch a $3 billion Building Management and Maintenance Scheme. The scheme will provide "one-stop" services to owners

of old buildings to help them improve the overall condition of their buildings and living environment. Each year, an estimated 800 or so buildings will benefit from the scheme. In addition, I will earmark a total of $830 million to the Buildings Department over a period of five years starting from 2006–07, for the purpose of removing over 180 000 unauthorised structures and improving the safety and external appearance of old buildings. These initiatives will create job opportunities for the building construction and decorating sectors and help ease the unemployment situation of less-educated and low-skilled workers.

Tax Relief

68. In preparing for this year's Budget, I have heard many calls for an increase in the allowances for dependent parents and children. At present, salaries taxpayers caring for dependent parents or grandparents aged 60 or above enjoy tax allowances. Because of economic restructuring and the fact that the unemployment rate for older workers is still relatively high, the younger generation will inevitably have to undertake a heavier responsibility in caring for their parents. This responsibility will be less in respect of those parents who are under 60, as they have a better chance of finding a full-time or part-time job. As a relief measure, I propose to introduce two new allowances for taxpayers taking care of dependent parents or grandparents aged between 55 and 59. They will be granted a basic allowance of $15,000 a year, with an additional allowance of the same amount if their parents or grandparents are residing with them.

69. I understand that Hong Kong people have high expectations of their children and attach great importance to their education. Moreover, the cost of living is rising, so the burden of raising children is rather heavy. I therefore propose to increase the child allowance from $30,000 per child to $40,000. Some people have suggested that the Government should offer tax concessions for children's education. I believe that increasing the child allowance as I have just mentioned is a simpler and more flexible way of easing parents' financial burden in this respect, and more people will be able to benefit from it.

Helping the Poor, Promoting Self-reliance

70. Helping the poor is one of our priorities. The recent establishment of the Commission on Poverty reflects the Government's determination to help the poor and address their needs. At the first meeting of the Commission, members agreed that its objectives should be to prevent and alleviate poverty and promote self-reliance. They also agreed that we should use multiple means and channels and actively involve the community to provide the poor with more opportunities, so that they can realise their potential, regain dignity and self-confidence, and move up the social ladder to live a more fulfilled and happier life.

71. Some of our existing policies already target these objectives. We have set up the Community Investment and Inclusion Fund and the Partnership Fund for the Disadvantaged, which are now open for applications. Through these funds, we hope to develop a tripartite relationship between the Government, the business community and the non-government organisations, and encourage various entities to mobilise community resources to help individuals and various groups in society cope better with adversity and become self-reliant. We will review the operation of these funds regularly and examine their resource requirements as and when necessary.

72. I would like to emphasise that helping the poor does not mean dishing out largesse. Because every dollar comes from taxpayers' hard-earned money, we must be very careful in our spending. Besides, providing financial assistance is not the best way to lift people out of poverty. I believe that what the poor want most is an opportunity to improve their livelihood and that of their families through their own efforts. Our policies on economic development, employment, education, training and welfare reflect our belief in helping people to help themselves, so that people from all walks of life can participate in our economic development and build a prosperous and harmonious society together.

Environmental Protection

73. Promoting environmental protection will help reduce wastage, preserve and improve our environment, and ensure the sustainable development of Hong Kong. Moreover, this will help develop our environmental industry, create more job opportunities and improve the quality of life in Hong Kong as a cosmopolitan city so as to attract more talent and enhance our competitiveness.

74. In the light of overseas experience, I believe that introduction of suitable "green" taxes can help reduce the growth of solid waste and enhance public awareness of environmental protection. The Environment, Transport and Works Bureau (ETWB) is now studying the introduction of a product responsibility scheme for waste tyres. The scheme aims to give those concerned the responsibility of recovering and recycling waste tyres. Under this scheme, they will have to bear the associated costs in accordance with the "polluter pays" principle. The regulatory impact assessment study on the scheme has been completed. ETWB is now evaluating the cost-effectiveness of different options and their effect on the industry, and aims to commence a public consultation on the recommended options within this year.

75. During this year's Budget consultation exercise, I floated the idea of a tax on plastic bags. We all know that plastic waste is generally non-biodegradable. A staggering number of plastic bags are used by Hong Kong people. Each day the plastic waste dumped in landfills amounts to 1 064 tonnes, equivalent to over 33 million plastic bags. Every day on average, therefore, each citizen disposes of nearly five plastic bags. Such a grave situation is incongruous with the concept of promoting a sustainable society. ETWB will study ways to help the retail industry to minimise the distribution of plastic bags and to recover and recycle the used products. ETWB also aims to encourage the public to re-use plastic bags and take their own bags with them for shopping. Taking as a frame of reference the overseas practices of levying a tax or charging fees on plastic bags, ETWB is studying the feasibility of introducing similar measures to Hong Kong.

76. No matter how desirable our proposed measures are, it will be difficult to achieve meaningful results without the community taking ownership and contributing positively to the effort. Environmental protection will bring long-term benefits to our society. I hope the public will respond constructively to the proposals when the Government formally puts them forward.

Development of Lantau

77. Lantau has great development potential as well as conservation and recreation value. It will play an important role in the future development of Hong Kong. I hope that we can jointly formulate a planning framework to achieve a sustainable development, balancing economic development and conservation. The Lantau Development Task Force drew up a Concept Plan for Lantau at the end of last year. Public consultation on the Plan ended last month. The public is generally in support of a balanced and co-ordinated approach to

planning the future development of Lantau. However, there are those who feel that no further development in Lantau should be carried out. That there are strong and divergent views in the community on this important subject is perfectly understandable. I would like to stress that the consultation we have just completed is only the beginning of public participation. I hope that the public can keep an open mind and continue their discussions on the Concept Plan. It is not necessary for anyone to jump to any conclusion now.

Economic Outlook

78. Although Hong Kong's economy is expected to maintain solid growth this year, we still have to be alert to certain risks and variables such as oil prices, US dollar exchange and interest rates, geopolitical uncertainties, and whether the global and Asian economies can maintain their anticipated steady growth this year. In the long term, we still have to face stiff competition from neighbouring economies and as brought about by rapid globalisation. I hope that the foregoing measures, which aim at consolidating economic development, promoting equity and a sustainable society, can help reinforce our strengths and competitiveness, thereby fostering our economic growth.

Economic Prospects for 2005

79. I remain cautiously optimistic about the external economic environment in 2005. Latest indicators show that the US economy is still expanding at a reasonably solid pace, and there is only expected to be a modest increase in US interest rates. The economies in the European Union will also continue to expand. The outlook for the East Asian economies in the short term remains promising. The Mainland's economy will maintain its strong momentum, and the macroeconomic adjustment measures should help address the imbalances in some sectors and should be conducive to long-term economic growth. Taking these factors into account, we can expect the global economy to fare well in 2005, though its growth rate may not be as impressive as in 2004.

80. Hong Kong's external trade is again expected to perform strongly in 2005, as the earlier weakness of the US dollar will still be advantageous to our export competitiveness in the short term, and as the global economic outlook is promising. With the opening of Hong Kong Disneyland, inbound tourism will continue to thrive. Private consumption expenditure should advance further, buoyed by improved employment income and positive developments in the asset

markets. The robust overall demand for goods and services will in turn induce new investment expenditure.

81. In overall terms, Hong Kong's economy is expected to achieve solid growth in 2005, with GDP forecast to grow by 4.5 to 5.5 per cent. With a further pick-up in the economy and the development and implementation of various tourism and infrastructure projects, overall employment opportunities look set to increase further, and the unemployment situation in Hong Kong will continue to improve. Inflation will remain modest, with the Composite Consumer Price Index expected to rise by a mere 1.5 per cent for the year.

Medium-term Prospects

82. Since last year, our economy has been staging a broader-based recovery. With the continued economic development of the Mainland and the closer economic ties between it and Hong Kong, our economy is expected to maintain steady growth over the next four years. The trend GDP growth rate in real terms from 2006 to 2009 is forecast at 4 per cent. With deflation coming to an end, the trend rate of increase in the GDP deflator is forecast at 1.5 per cent. After combining these two forecasts, the trend growth rate of nominal GDP over the period from 2006 to 2009 is forecast at 5.5 per cent.

83. Apart from being confronted with such domestic challenges as economic restructuring and unemployment, however, the economic performance of Hong Kong in the short to medium term will also be influenced by changes in the external economic and financial environment. Such external factors include whether the global economy will rapidly slow down, whether the lagged effect of the oil price hikes is more serious than expected, whether the Mainland's economy will take a longer time to achieve a soft landing, the movements of the RMB, the extent of US dollar movements and their impact on the stability of the global financial markets, and whether interest rate hikes are bigger than generally expected. At the same time, as the economy continues to expand, we need to ensure an adequate supply of manpower and land to meet the needs of the community and economic development, and to ensure that the market has enough flexibility to adjust, in order not to repeat the excessive boom and bust cycles we have experienced in the past.

Public Finances

Maintaining Fiscal Discipline

84. The financial position of the Government has gradually improved with the steady economic upturn. As I mentioned earlier, the 2004–05 forecast outturn shows that the operating deficit will be lower than expected. If our economy continues to pick up, we expect to achieve, ahead of schedule, most of the fiscal targets set in last year's Budget. The three targets are:

- reducing operating expenditure to $200 billion by 2008–09;

- striving to restore fiscal balance in the Operating and Consolidated Accounts by 2008–09; and

- bringing public expenditure down to 20 per cent of GDP or below, so as to be in line with the principle of "Big Market, Small Government".

85. Based on the latest forecast:

- operating expenditure for 2004–05 will reduce to $201.2 billion, nearly hitting the $200 billion target;

- we expect fiscal balance to be restored in the Operating Account by 2008–09 as scheduled, and in the Consolidated Account by 2007–08, one year ahead of our target; and

- the share of public expenditure in GDP will decrease to 20.2 per cent in 2005–06 and is expected to fall below 20 per cent in 2006–07.

86. Although our financial position has improved, we must not relax fiscal discipline or substantially increase expenditure and reduce taxes just because of good results in a single year. Since the start of the recent bout of operating deficits in 1998–99, our fiscal reserves have already been depleted by about $170 billion, or 37 per cent. As our economy consolidates, uncertainties

for our economic outlook remain. Hong Kong is an international city and our economy is sensitive to external factors. Any changes in the economic outlook would require our financial forecasts to be revised. I would like to reiterate that we will continue to manage our public finances prudently, keep expenditure within the limits of revenues, strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of GDP.

Estimates of Operating Expenditure

87. After reviewing the guidelines on operating expenditure which I laid down last year, I have reduced estimated operating expenditure for 2005–06 by \$2.6 billion, from \$210.6 billion to \$208 billion. This reflects the austerity drive by government departments and takes into account their actual operational requirements. In fact, the civil service establishment has been reduced from 170 600 in March last year to about 166 000 at present, and will be further reduced to about 163 300 by March 2006. However, even budgeting for the latest forecast expenditure level, the Government will still record an operating deficit of \$15.4 billion.

Estimates of Capital Expenditure

88. Capital expenditure finances investments in infrastructure and the like. We will continue to allocate resources where they are required to meet the long-term development needs of Hong Kong. We are delivering the commitment made last year to set aside an average of about \$29 billion a year on works projects. We will actively consider channelling capital and talent in the private sector into designing, constructing and managing suitable projects.

89. Capital expenditure for 2005–06 is estimated to be \$39.8 billion. Over the next five years, capital expenditure will amount to about \$43 billion a year on average.

Allocation of Expenditure

90. We estimate that total government expenditure for 2005–06 will be \$247.8 billion. Expenditure on Education, Social Welfare, Health and Security will account for over 60 per cent of the total, with 23.5 per cent for Education, 14.6 per cent for Social Welfare, 13 per cent for Health, and 10.6 per cent for Security.

Revenue

Taxes

91. I believe that, as our economy has only recently begun its recovery, we should leave wealth with the people as far as possible, in order to allow greater flexibility for economic activities. With regard to revenue, I do not propose to introduce new taxes nor raise existing ones. On the contrary, I have earlier in this speech proposed a number of tax concessions to ease the burden on taxpayers.

Salaries Tax

92. Some political parties and Members of this Council have suggested that we should shelve the second phase of salaries tax adjustments proposed in the 2003–04 Budget, or allow the salaries tax rates and bands to revert to their pre-2003–04 levels. I know that members of the public hope the Government will relieve their tax burden. However, the suspension of the second phase of adjustments would cost the Government $3.3 billion in a full year. As the fiscal deficit has yet to be eliminated, I believe it is inappropriate to adjust the salaries tax rates and bands at the current juncture. Nevertheless, to alleviate the burden on taxpayers, I have just proposed that those maintaining parents or grandparents aged between 55 and 59 should be granted allowances. It is estimated that around 100 000 taxpayers will benefit from this measure, which will cost $450 million a year. I have also proposed to increase the allowance for children. Around 300 000 taxpayers will benefit from this measure, which will cost about $620 million a year. We will introduce the relevant bill into this Council for deliberation as soon as possible.

Estate Duty

93. As regards estate duty, I have just proposed its abolition. This will cost the Government $1.5 billion a year. We will introduce the relevant bill into this Council for deliberation as soon as possible.

Duty on Alcoholic Beverages

94. I pledged in last year's Budget to review the duty on alcoholic beverages. We have now conducted a two-month public consultation exercise. I would like to emphasise that the duty under review is imposed not only on wine but also on other alcoholic beverages such as beer, rice wine and spirits.

95. We have received a diversity of views on the subject. Those in favour of maintaining the present rate consider that the duty provides a stable source of revenue for the Government and acts as a disincentive to drinking, consistent with the objective of protecting public health. Those in favour of lowering the duty rate think that this would boost consumption, as the rate is higher in Hong Kong than in neighbouring jurisdictions such as the Mainland and Macau.

96. Some people believe that drinking wine, particularly red wine, is the preserve of only a few rich people. This is not the case. According to last year's figures, the average retail price of the top 10 best-selling wines in Hong Kong was only $55 per bottle. On the contrary, the high-end products that attracted a duty above $500 accounted for only about 0.1 per cent by volume of the wine market as a whole, an extremely small share. Reducing the duty on alcoholic beverages, therefore, will not only benefit all consumers but also help promote the culture of wine appreciation in Hong Kong. In fact, many in the tourism industry, along with other business people, have told me that Hong Kong has the potential to become a wine exhibition and trading centre.

97. After taking into account the divergent views of the public, I have decided to maintain the status quo for now.

Rates

98. Rateable values are derived from the expected amount of rent that a property can achieve in the open market. They are thus subject to fluctuation in line with market conditions. As a result, rateable values on properties had fallen for several successive years since 1999–2000, with an average accumulated decrease of about 39 per cent. In the latest revaluation exercise, the rateable values increased for the first time in six years by about 7 per cent on average. The rates charge will remain unchanged at 5 per cent in 2005–06. We expect that about 65 per cent of ratepayers will see an average increase in their rates bill of around $40 a month.

Government Fees and Charges

99. In the past few months, the Government has put forward proposals to the relevant Panels of this Council to adjust some fees and charges that do not directly affect people's livelihood or general business activities, such as fees for oil storage installation licences and for registration of general building contractors. I would like to thank Members of the Panels concerned for considering these proposals against the principles of fairness and objectivity. We will continue to formulate other fee revision proposals in accordance with the "user pays" principle.

Sale and Securitisation of Government Assets

100. Last year, the Government successfully launched the $6 billion securitisation of revenues from the government tolled tunnels and bridges as well as its $20 billion bond offering. While there has been a hitch in the Housing Authority's sale of its retail and car parking facilities, this will not affect the Government's intention to sell or securitise its own assets. For example, the Government is conducting a public consultation on the privatisation of the Airport Authority. We are also continuing our discussions with the two railway corporations over a possible merger. The sale and securitisation of assets will not only provide the public with more investment options, but also ensure a more effective use of resources. The Government will, in accordance with the principle of "Big Market, Small Government", continue to identify suitable assets for sale or securitisation in order to reduce the share of the public sector in the economy and give more scope for the private sector to develop.

Tax System

Tax Deduction for Private Medical Insurance

101. Some Members have suggested that the Government should provide a tax deduction for contributions to private medical insurance schemes, so as to encourage people to take out such insurance and reduce their reliance on public health care services, and to promote the development of private services. Providing a tax deduction is only one of many ways of encouraging people to join private medical insurance schemes. To reduce people's reliance on public health care services, we need to adopt a holistic approach and take into account other, complementary measures. The Health, Welfare and Food Bureau will

undertake studies on the financing and sustainability of our public health care services within the next two and a half years. In examining the overall financing options, we will consider any related tax arrangements.

Goods and Services Tax

102. Last year I mentioned that there was to be a study on the implementation of a goods and services tax (GST). Suggestions have been made that GST is unfair to the grass roots because it is regressive. However, there are also people who support the introduction of GST on the grounds that it is in line with the principle of affordability. In general, wealthy people, who have a greater capacity to spend, will pay more GST.

103. I appreciate the community's concerns over the introduction of GST. But I would like to emphasise that Hong Kong will continue to maintain the low and simple tax regime that underpins our success. The purpose of the proposed GST is not to increase the grass roots' tax burden. The reason for its introduction is to broaden our tax base so as to secure a steadier source of revenue and reduce our reliance on more volatile revenues. As a matter of fact, our salaries tax and profits tax, which are the major recurrent revenues of the Government, are paid by a minority of taxpayers and enterprises, and these taxes are highly sensitive to economic fluctuations. The problems arising from our narrow tax base are abundantly clear. The International Monetary Fund has also pointed out that Hong Kong should introduce GST to solve the problem of its structural deficit.

104. An internal committee set up by the Government has carried out the GST study. Our next step is to conduct a public consultation on this subject. We will provide further information in the consultation document that we are drawing up for publication later this year to give the public a better understanding of the tax. Overseas experience shows that it takes about three years from making a decision to introduce GST to actual implementation. Therefore, the public will have sufficient time to hold in-depth, thorough and constructive discussions on this subject. At this stage, there is no need to jump to a conclusion. As GST will have far-reaching impacts on our tax regime and the Government's financial health, we will listen carefully to the views of the public.

Medium Range Forecast and Fiscal Reserves

Medium Range Forecast

105. If our estimated economic growth is achieved and the proposals are implemented in respect of expenditure and revenue, the medium range forecast for 2005–06 to 2009–10 will be as follows:

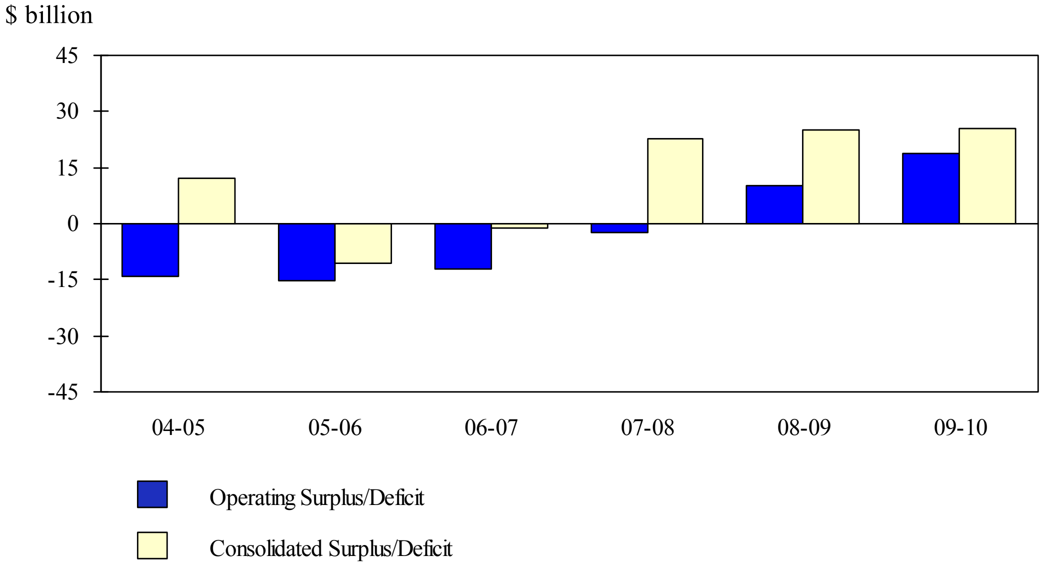
Year	**2005–06 ($ billion)**	**2006–07 ($ billion)**	**2007–08 ($ billion)**	**2008–09 ($ billion)**	**2009–10 ($ billion)**
Operating revenue	192.6	195.0	201.3	210.3	221.2
Operating expenditure	208.0	207.1	203.5	200.0	202.5
Operating surplus/(deficit)	(15.4)	(12.1)	(2.2)	10.3	18.7
Capital revenue	50.5	61.7	69.4	60.8	53.7
Capital spending (including payments from the Capital Investment Fund)	45.6	48.2	44.4	43.5	43.3
Capital financing surplus	4.9	13.5	25.0	17.3	10.4
Repayment of government bonds and notes	—	2.6	—	2.7	3.5
Capital financing surplus after bond repayment	4.9	10.9	25.0	14.6	6.9
Consolidated surplus/(deficit) before bond repayment	(10.5)	1.4	22.8	27.6	29.1
- as a percentage of GDP	0.8%	0.1%	1.5%	1.8%	1.8%
Consolidated surplus/(deficit) after bond repayment	(10.5)	(1.2)	22.8	24.9	25.6
- as a percentage of GDP	0.8%	0.1%	1.5%	1.6%	1.5%
Fiscal reserves	276.8	275.6	298.4	323.3	348.9
- as a number of months of government expenditure	13	13	14	16	17
Public expenditure	268.6	270.2	266.4	261.6	264.0
- as a percentage of GDP	20.2%	19.2%	17.9%	16.7%	16.0%

106. For 2005–06, we forecast an operating deficit of $15.4 billion, and this will gradually decline. We estimate that in 2008–09 a surplus of $10.3 billion will be recorded and the target of restoring fiscal balance in the Operating Account will have been achieved. The surplus will further increase to $18.7 billion in 2009–10.

107. In respect of the Consolidated Account, we estimate that a deficit of $10.5 billion will occur in 2005–06, equivalent to 0.8 per cent of GDP. Looking ahead, we will see a gradual decline in the consolidated deficit. We will achieve fiscal balance in the Consolidated Account by 2007–08, a year earlier than the original target. A surplus of $25.6 billion will be recorded in 2009–10, equivalent to 1.5 per cent of the GDP forecast for that year.

Chart 5

Surplus/Deficit Forecast



Fiscal Reserves

108. We expect that by 31 March this year, our fiscal reserves will stand at $287.3 billion, equivalent to 14 months of government expenditure. Over the next five years, the fiscal reserves will be maintained in a range between $270 billion and $340 billion, equivalent to between 13 and 17 months of government expenditure.

Summing Up

109. I have pledged that the Government will maintain fiscal discipline. We have the determination and ability to attain our fiscal targets. Last year, I pledged to cut spending first and reverse the rising trend of operating expenditure. With the concerted efforts of my colleagues in the various departments, our cost-saving measures are now starting to produce results. Last year, I said that I would reduce operating expenditure to $200 billion by 2008–09. This is now forecast to reduce to $201.2 billion for 2004–05. I said that I would bring public expenditure down to 20 per cent of GDP or below, and this is forecast to decrease to 20.2 per cent next year. We expect to achieve balance in the Consolidated Account in 2007–08, one year ahead of target. While we will persevere in restoring fiscal balance, we have proposed a number of tax concessions to relieve the burden on some taxpayers. Our proposal to abolish estate duty will encourage the further development of Hong Kong as an international financial centre. For the proposed introduction of GST, the Government will give the public ample opportunity to express their views.

Concluding Remarks

110. Madam President, our economy is improving steadily and so is the Government's financial position. This is encouraging. Accordingly, some people argue that, even if the Government does not increase its spending or substantially reduce tax, it is at least time to relax its expenditure control. I do not agree. We should take a longer-term view, setting aside any short-term interests and political considerations and work together to lay a solid foundation, so that Hong Kong can stay ahead of the competition.

111. Promoting stability and development has been the theme of this year's Budget. I will uphold the principle of "Market Leads, Government Facilitates". We will be more proactive in our facilitation work, so as to provide a favourable platform for our enterprises. We will also maintain strict fiscal discipline, ensure the effective use of resources and leave wealth with the people. While promoting economic development, we will, of course, not lose sight of the needy in the community.

112. Hong Kong has encountered many challenges, but on each occasion we have emerged stronger. This demonstrates that Hong Kong people are tenacious and resilient, and understand how to take advantage of opportunities. As a member of the administration, I will adopt a forward-looking and pragmatic approach to my work. I will be responsive, proactive and consistent in looking after the interests of various sectors of the community. Let us work together to make Hong Kong a more vibrant, colourful and harmonious city.

113. Madam President, this Council will go into its Easter recess after the announcement of this year's Budget and will not resume meeting until April, after the new financial year has commenced. Immediately after the delivery of my Budget Speech, therefore, the Secretary for Financial Services and the Treasury will move the Vote on Account Resolution in this Council to seek funds on account, to enable the Government to carry on existing services between the start of the new financial year and the enactment of the Appropriation Ordinance. I hope Members will remain in the Chamber and pass the resolution today. I would like to thank them for their co-operation and understanding.

Changes to Salaries Tax Allowances

	Present ($)	Proposed ($)	Increase ($)	Increase (%)
Basic Allowances:				
Basic	100,000	100,000	—	—
Married	200,000	200,000	—	—
Single Parent	100,000	100,000	—	—
Additional Allowances:				
Child:				
1st to 9th child	30,000	40,000	10,000	33.3
Dependent Parent/Grandparent:				
Aged 60 or above				
Basic	30,000	30,000	—	—
Additional allowance (for dependant living with taxpayer)	30,000	30,000	—	—
Aged 55 to 59				
Basic	—	15,000	New	
Additional allowance (for dependant living with taxpayer)	—	15,000	New	
Dependent Brother/Sister	30,000	30,000	—	—
Disabled Dependant	60,000	60,000	—	—

EFFECT OF THE GENERAL REVALUATION OF RATES ON MAIN PROPERTY CLASSES

Property Type	*2005-06*		
	Average Increase in Rateable Value[6]	*New Average Rates Payable*	*Increase*
	%	*$ per month*	*$ per month*
Small Domestic Premises[1] (Private)	5	218	**11**
Medium Domestic Premises[1] (Private)	9	520	**43**
Large Domestic Premises[1] (Private)	9	1,341	**106**
Public Domestic Premises[2]	4	122	**4**
All Domestic Premises[3]	6	234	**13**
Shops and Commercial Premises	8	1,470	**110**
Offices	11	1,052	**103**
Industrial Premises[4]	8	541	**39**
All Non-domestic Premises[5]	8	1,490	**104**
All Properties	7	405	**25**

(1) Domestic units are classified by relation to saleable areas, as follows –

Small domestic	up to 69.9m²	(up to 752 sq. ft.)
Medium domestic	70m² to 99.9m²	(753 sq. ft. - 1 075 sq. ft.)
Large domestic	100m² and over	(1 076 sq. ft. and above)

(2) Including Housing Authority and Housing Society rental units.

(3) Including car parking spaces.

(4) Including factories and storage premises.

(5) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools and car parking spaces.

(6) The rateable values for 2005-06 reflect the changes in open market rental values between 1 October 2003 and 1 October 2004.

EFFECTOF THE GENERAL REVALUATION OF GOVERNMENT RENT ON MAIN PROPERTY CLASSES

Property Type	*2005-06* Average Increase in Rateable Value[6] %	*2005-06* New Average Rent Payable $ per month	*2005-06* Increase $ per month
Small Domestic Premises[1] (Private)	5	124	**6**
Medium Domestic Premises[1] (Private)	10	290	**25**
Large Domestic Premises[1] (Private)	8	631	**48**
Public Domestic Premises[2]	4	71	**3**
All Domestic Premises[3]	6	135	**8**
Shops and Commercial Premises	5	814	**39**
Offices	10	1,117	**106**
Industrial Premises[4]	8	335	**26**
All Non-domestic Premises[5]	7	830	**52**
All Properties	6	224	**13**

(1) Domestic units are classified by relation to saleable areas, as follows –

Small domestic	up to 69.9m²	(up to 752 sq. ft.)
Medium domestic	70m² to 99.9m²	(753 sq. ft. - 1 075 sq. ft.)
Large domestic	100m² and over	(1 076 sq. ft. and above)

(2) Including Housing Authority and Housing Society rental units.

(3) Including car parking spaces.

(4) Including factories and storage premises.

(5) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools and car parking spaces.

(6) The rateable values for 2005-06 reflect the changes in open market rental values between 1 October 2003 and 1 October 2004.

ECONOMIC PERFORMANCE IN 2004

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2004:

		(%)
(a) Growth rates in real terms of:		
Private consumption expenditure		6.7
Government consumption expenditure		0.5
Gross domestic fixed capital formation		4.5
of which:		
Building and construction	-10.3	
Machinery, equipment and computer software	12.2	
Total exports of goods		15.3
Re-exports	16.3	
Domestic exports	2.4	
Imports of goods		14.1
Exports of services		14.9
Imports of services		10.5
Gross Domestic Product (GDP)		**8.1**
Per capita GDP, in real terms		6.9
Per capita GDP at current market prices	HK$186,300 (US$23,900)	
(b) Rates of change in:		
Composite Consumer Price Index		**-0.4**
GDP Deflator		**-2.8**
Government Consumption Expenditure Deflator		**-3.0**
(c) **Growth rate of nominal GDP**		**5.1**

2. Annual growth rates in real terms of re-exports and domestic exports:

	Re-exports (%)	***Domestic exports*** (%)
2002	11	-11
2003	16	-7
2004	16	2
Share in the value of total exports of goods in 2004	*94*	*6*

3. Annual growth rates in real terms of retained imports:

	Retained imports					
	Total (%)	***Consumer goods*** (%)	***Foodstuffs*** (%)	***Capital goods*** (%)	***Raw materials and semi-manufactures*** (%)	***Fuels*** (%)
2002	2	6	5	-14	10	5
2003	6	1	2	6	8	-1
2004	9	3	6	13	8	8

4. Annual growth rates in real terms of retained imports of capital goods by type:

	Retained imports of capital goods				
	Total (%)	***Office machinery*** (%)	***Industrial Machinery*** (%)	***Construction Machinery*** (%)	***Telecommunications Equipment*** (%)
2002	-14	-12	-1	11	-2
2003	6	6	-7	-19	12
2004	13	2	20	-11	31

5. Annual growth rates in real terms of exports of services by type of activity:

	Export of services				
	Total (%)	***Trade-related services*** (%)	***Transportation services*** (%)	***Travel services*** (%)	***Finance, business and other services*** (%)
2002	12	13	12	26	-1
2003	6	17	*	-3	2
2004	15	15	17	19	7

* Change of less than 0.5%.

6. Hong Kong's visible and invisible trade balance in 2004 reckoned on a GDP basis:

		(HK$ billion)
Total exports of goods	2,027.0	
Imports of goods	2,099.5	
Visible trade balance		**-72.5**
Exports of services(*Note 1*)	407.6	
Imports of services(*Note 1*)	225.0	
Invisible trade balance(*Note 1*)		**182.6**
Combined visible and invisible trade balance(*Note 1*)		**110.0**

Note 1 Preliminary figures.

7. Annual averages of the unemployment and underemployment rates and rates of change in labour force and total employment:

	Unemployment rate (%)	***Underemployment rate*** (%)	***Growth in labour force*** (%)	***Growth in total employment*** (%)
2002	7.3	3.0	1.8	-0.6
2003	7.9	3.5	0.3	-0.4
2004	6.8	3.3	0.9	2.1

8. Annual rates of change in the Consumer Price Indices:

	Composite CPI (%)	***CPI(A)*** (%)	***CPI(B)*** (%)	***CPI(C)*** (%)
2002	-3.0	-3.2	-3.1	-2.8
2003	-2.6	-2.1	-2.7	-2.9
2004	-0.4	*	-0.5	-0.9

* Change of less than 0.05%.

ECONOMIC PROSPECTS FOR 2005

Forecast rates of change in the Gross Domestic Product and prices in 2005:

		(%)
Gross Domestic Product (GDP)		
Real GDP		**4.5 to 5.5**
Nominal GDP		3.5 to 4.5
Per capita GDP, in real terms		3.7 to 4.7
Per capita GDP at current market prices	HK$191,400-193,300 (US$24,500-24,800)	
Composite Consumer Price Index		**1.5**
GDP Deflator		**-1**
Government Consumption Expenditure Deflator		**-1.5**

CONTENTS

SECTION I - FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

1 A number of computer-based models are used to derive the Medium Range Forecast (MRF). These models reflect a wide range of assumptions about the factors determining each of the components of Government's revenue and expenditure. Some are economic in nature (the general economic assumptions) while others deal with specific areas of Government's activities (the detailed assumptions). These are supported by studies of historical and anticipated trends.

General Economic Assumptions

Real Gross Domestic Product (real GDP)

2 GDP is forecast to increase by 4.5% to 5.5% in real terms in 2005. For planning purposes, over the ensuing four-year period 2006 to 2009, the trend growth rate of the economy in real terms is assumed at 4% per annum. We have made reference to the mid-point of the range forecast of GDP growth rate for 2005 in deriving the MRF.

Price change

3 The GDP deflator, measuring overall price change in the economy, is forecast to decline by 1% in 2005. For the four-year period 2006 to 2009, the GDP deflator is assumed to increase at a trend rate of 1.5% per annum. The Composite Consumer Price Index, measuring inflation in the consumer domain, is forecast to increase by 1.5% in 2005. The trend rate of increase for the ensuing period 2006 to 2009 is assumed to be 3.0% per annum.

Nominal Gross Domestic Product (nominal GDP)

4 Taking the assumptions on the rates of change in the real GDP and the GDP deflator together, the growth rate of GDP in nominal terms is forecast at 3.5% to 4.5% in 2005, and the trend growth rate in nominal terms for the period 2006 to 2009 is assumed at 5.5% per annum.

Detailed Assumptions

5 The MRF incorporates a wide range of detailed assumptions on expenditure and revenue patterns over the forecast period, taking the following, amongst other factors, into account–

- — estimated cash flow of capital projects,
- — forecast completion dates of these capital projects and their related recurrent consequences in terms of staffing and running costs,
- — estimated cash flow arising from new commitments resulting from policy initiatives,
- — the expected pattern of demand for individual services,
- — the trend in yield from individual revenue sources, and
- — new revenue/expenditure measures in the 2005 Budget.

Budgetary Criteria

6 In addition to the above forecasting assumptions, there are a number of criteria against which the results of forecasts are tested for overall acceptability in terms of budgetary policy.

7 The following covers the more important budgetary criteria–

—*Budget surplus/deficit*

The Government aims to achieve balance in consolidated and operating accounts by 2008–09. In the longer term, the Government needs to achieve an operating surplus to partially finance capital expenditure.

—*Operating expenditure*

The Government aims to bring operating expenditure down to $200 billion by 2008–09.

—*Capital expenditure*

By its nature, some fluctuations in the level of capital expenditure are to be expected. However, over a period the aim is to contain capital expenditure within expenditure guidelines.

—*Total expenditure*

The general principle is that, over time, expenditure growth should not exceed the growth of the economy, taking into account both real and nominal terms. The Government aims to keep public expenditure at or below 20% of GDP by 2008–09.

—*Revenue policy*

Account is taken of the need to maintain over time the real yield from revenue.

—*Fiscal reserves*

The Government in the long run aims to maintain the level of reserves at around 12 months of total government expenditure.

SECTION II - THE MRF FOR 2004–05 TO 2009–10

8 The current MRF *(Note a)* is summarised in the following table which indicates the forecast financial position of the Government–

Table 1

	Original Estimate*	Revised Estimate	Forecast				
($ million)	2004–05	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
Operating Account							
Operating revenue *(Note b)*	155,593	175,640	181,388	184,111	189,929	197,939	207,804
Operating expenditure*(Note c)*	212,200	201,241	208,000	207,080	203,540	200,000	202,500
Surplus/(deficit) before investment income	**(56,607)**	**(25,601)**	**(26,612)**	**(22,969)**	**(13,611)**	**(2,061)**	**5,304**
Investment income *(Note b)*	10,039	11,453	11,161	10,878	11,360	12,367	13,405
Operating surplus/(deficit) after investment income	**(46,568)**	**(14,148)**	**(15,451)**	**(12,091)**	**(2,251)**	**10,306**	**18,709**
Capital Financing Statement							
Capital revenue *(Note d)*	18,624	39,839	42,159	40,619	41,687	43,458	44,110
Asset sales *(Note d)*	11,000	6,177	5,401	18,126	24,770	14,225	6,226
	29,624	46,016	47,560	58,745	66,457	57,683	50,336
Capital spending *(Note e)*	53,418	48,058	44,741	47,403	43,613	42,791	42,734
Surplus/(deficit) before investment income/interest expenses	(23,794)	(2,042)	2,819	11,342	22,844	14,892	7,602
Investment income *(Note d)*	2,215	3,192	2,940	2,930	2,987	3,173	3,397
Interest expenses *(Note e & f)*	500	442	853	826	799	754	642
Surplus/(deficit) after investment income/interest expenses	**(22,079)**	**708**	**4,906**	**13,446**	**25,032**	**17,311**	**10,357**
Net proceeds from issuance of bonds and notes *(Note d & f)*							
– Toll Revenue Bond	6,000	5,522	-	-	-	-	-
– Other government bonds and notes	20,000	19,871	-	-	-	-	-
Repayment of bonds and notes *(Note e & f)*	-	-	-	2,550	-	2,700	3,500
Capital financing surplus/(deficit) after bond issuance/repayment	**3,921**	**26,101**	**4,906**	**10,896**	**25,032**	**14,611**	**6,857**
Consolidated Account							
Fiscal reserves at 1 April	266,448	275,343	287,296	276,751	275,556	298,337	323,254
Operating surplus/(deficit)	(46,568)	(14,148)	(15,451)	(12,091)	(2,251)	10,306	18,709
Capital financing surplus/(deficit) before bond issuance/repayment	(22,079)	708	4,906	13,446	25,032	17,311	10,357
Consolidated surplus/(deficit)	**(68,647)**	**(13,440)**	**(10,545)**	**1,355**	**22,781**	**27,617**	**29,066**
Net proceeds from issuance of bonds and notes							
– Toll Revenue Bond	6,000	5,522	-	-	-	-	-
– Other government bonds and notes	20,000	19,871	-	-	-	-	-
Repayment of bonds and notes	-	-	-	2,550	-	2,700	3,500
Consolidated surplus/(deficit) after bond issuance/repayment	**(42,647)**	**11,953**	**(10,545)**	**(1,195)**	**22,781**	**24,917**	**25,566**
Fiscal reserves at 31 March	**223,801**	**287,296**	**276,751**	**275,556**	**298,337**	**323,254**	**348,820**
As number of months of government expenditure	10	14	13	13	14	16	17
Outstanding debt at 31 March *(Note f)*							
– Toll Revenue Bond	6,000	5,667	4,877	4,538	3,319	2,979	1,840
– Other government bonds and notes	20,000	20,000	20,000	17,450	17,450	14,750	11,250

* We have reclassified the net proceeds of Toll Revenue Bond and the interest expenses of bonds. The consolidated deficit before bond issuance for the 2004-05 Original Estimate becomes $68,647 million (vs $62,147 million in the 2004 Budget), while the consolidated deficit after bond issuance remains unchanged at $42,647 million.

Notes–

(a) *Accounting policies*

(i) The MRF is prepared on a cash basis and reflects forecast receipts and payments, whether or not they relate to operating or capital transactions.

(ii) The MRF includes the General Revenue Account and the Funds (Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund, and Lotteries Fund).

(b) *Operating revenue*

(i) The operating revenue has taken into account the revenue-concession measures proposed in the 2005 Budget, and is made up of –

($ million)	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
Operating revenue before investment income	175,640	181,388	184,111	189,929	197,939	207,804
Investment income	11,453	11,161	10,878	11,360	12,367	13,405
Total	187,093	192,549	194,989	201,289	210,306	221,209

(ii) For the purpose of the MRF, investment income under the Operating Account includes the investment income of the General Revenue Account which are credited to revenue head Properties and Investments and the investment income of the Land Fund. The rate of investment return is assumed at 5% per annum throughout the MRF period.

(c) *Operating expenditure*

(i) The operating expenditure in 2004–05 and 2005–06 includes forecast expenditure of $4 billion and $0.4 billion respectively for the Voluntary Retirement Schemes. The one-off expenditure under these schemes comprises commuted pensions and compensation for takers of the schemes.

(ii) The level of operating expenditure in 2004–05 to 2009–10 has taken into account the two-phased paycut on 1 January 2004 and 1 January 2005.

(d) *Capital revenue*

(i) The breakdown of capital revenue is –

($ million)	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
General Revenue Account	3,652	5,008	3,193	2,183	2,104	762
Capital Works Reserve Fund	31,368	32,161	33,753	35,620	37,591	39,671
Capital Investment Fund	2,389	2,432	2,009	1,938	1,488	871
Innovation and Technology Fund	14	—	—	—	—	—
Loan Fund	1,412	1,527	584	816	1,075	1,551
Lotteries Fund	1,004	1,031	1,080	1,130	1,200	1,255
Capital revenue before asset sales, investment income and net proceeds from bond issuance	39,839	42,159	40,619	41,687	43,458	44,110
Asset sales	6,177	5,401	18,126	24,770	14,225	6,226
Investment income	3,192	2,940	2,930	2,987	3,173	3,397
Net proceeds from issuance of bonds and notes	25,393	—	—	—	—	—
Total	74,601	50,500	61,675	69,444	60,856	53,733

(ii) For the purpose of the MRF, the annual land premia included under the Capital Works Reserve Fund are assumed at 2.4% of GDP throughout the MRF period.

(iii) For the purpose of the MRF, investment income under the Capital Financing Statement includes investment income of the Funds except Land Fund (i.e. Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund).

(e) *Capital spending*

The breakdown of capital spending is –

($ million)	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
General Revenue Account	1,790	1,628	4,015	4,060	4,105	4,152
Capital Works Reserve Fund	34,858	32,035	33,581	33,669	33,665	33,999
Capital Investment Fund	6,767	5,802	3,956	503	284	250
Disaster Relief Fund	36	—	—	—	—	—
Innovation and Technology Fund	470	809	809	809	809	809
Loan Fund	2,973	3,259	4,052	4,019	3,518	3,363
Lotteries Fund	1,164	1,208	990	553	410	161
Capital spending before interest on and repayment of government bonds and notes	48,058	44,741	47,403	43,613	42,791	42,734
Interest expenses	442	853	826	799	754	642
Repayment of bonds and notes	—	—	2,550	—	2,700	3,500
Total	48,500	45,594	50,779	44,412	46,245	46,876

(f) *Government bonds and notes*

(i) For 2004-05, two bond programmes were launched, viz. a Toll Revenue Bond of $6 billion in April 2004 and a global bond issue totalling $20 billion in July 2004. The net proceeds of the two bond programmes were credited to the Capital Works Reserve Fund.

(ii) Interest expenses and repayment of bonds and notes are only in respect of the global bond issue and not the Toll Revenue Bond. The interest expenses and repayment of the Toll Revenue Bond are charged directly against the net toll revenue of concerned tunnels and bridges. The toll revenue thus foregone has been taken into account in forecasting Government's operating revenue.

SECTION III - RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE, PUBLIC EXPENDITURE AND GDP IN THE MRF

9 For monitoring purposes, the Government's own expenditure is consolidated with the expenditure of the Housing Authority and the Trading Funds (collectively referred to as "other public bodies") in order to compare total public expenditure with Gross Domestic Product.

Government Expenditure and Public Expenditure in the Context of the Economy *Table 2*

	Original Estimate	Revised Estimate	Forecast				
($ million)	2004–05	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
Operating expenditure	212,200	201,241	208,000	207,080	203,540	200,000	202,500
Capital expenditure	46,539	41,733	39,792	44,273	43,909	43,261	43,126
Total government expenditure	258,739	242,974	247,792	251,353	247,449	243,261	245,626
Other public bodies	27,235	22,285	20,798	18,835	18,968	18,333	18,327
Total public expenditure *(Note a)*	285,974	265,259	268,590	270,188	266,417	261,594	263,953
Gross Domestic Product (calendar year)	1,269,744	1,281,999	1,332,877	1,406,722	1,484,658	1,566,913	1,653,724
Growth in GDP *(Note b)*							
Money terms		5.1%	4.0%	5.5%	5.5%	5.5%	5.5%
Real terms		8.1%	5.0%	4.0%	4.0%	4.0%	4.0%
Growth in government expenditure *(Note c)*							
Money terms		-0.1%	2.0%	1.4%	-1.6%	-1.7%	1.0%
Real terms		1.7%	2.7%	0.5%	-2.5%	-2.7%	-0.2%
Growth in public expenditure *(Note c)*							
Money terms		-2.2%	1.3%	0.6%	-1.4%	-1.8%	0.9%
Real terms		-0.5%	1.9%	-0.3%	-2.3%	-2.8%	-0.2%
Public expenditure as a percentage of GDP	22.5%	20.7%	20.2%	19.2%	17.9%	16.7%	16.0%

Notes–

(a) Public expenditure comprises government expenditure (i.e. all expenditure charged to the General Revenue Account and financed by the Government's statutory funds excluding Capital Investment Fund), and expenditure by the Trading Funds and the Housing Authority. But *not* included is expenditure by those organisations, including statutory organisations, in which the Government has only an equity position, such as the Airport Authority, the MTR Corporation Limited and the Kowloon-Canton Railway Corporation. Similarly, advances and equity investments from the Capital Investment Fund as well as repayment of government bonds and notes are excluded as they do not reflect the actual consumption of resources by the Government.

(b) For 2005-06, the GDP growth in money terms of 4.0% represents the mid-point of the range forecast of nominal GDP growth at 3.5% to 4.5% for the calendar year 2005. Similarly, the growth in real terms of 5.0% represents the mid-point of the range forecast of real GDP growth at 4.5% to 5.5% for 2005.

(c) The growth rates refer to year-on-year change. For example, the rates for 2004–05 refer to the change between revised estimate for 2004–05 and actual expenditure in 2003–04. The rates for 2005–06 refer to the change between the 2005–06 forecast and the 2004–05 revised estimate, and so forth.

10 Table 3 shows the relationship amongst the sum to be appropriated in the 2005 Budget, government expenditure and public expenditure. It also shows the effect of the Budget revenue measures on the overall surplus/deficit position for 2005–06.

Relationship between Government Expenditure and Public Expenditure in 2005–06

($ million) *Table 3*

Components of expenditure and revenue	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	199,117	199,117	—	199,117	199,117
Non-recurrent	8,883	8,883	—	8,883	8,883
Capital					
Plant, equipment and works	824	—	824	824	824
Subventions	804	—	804	804	804
	209,628	208,000	1,628	209,628	209,628
Transfer to Funds	5,028	—	—	—	—
Capital Works Reserve Fund	—	—	32,888	32,888	32,888
Innovation and Technology Fund	—	—	809	809	809
Loan Fund	—	—	3,259	3,259	3,259
Lotteries Fund	—	—	1,208	1,208	1,208
Trading Funds	—	—	—	—	3,109
Housing Authority	—	—	—	—	17,689
	214,656	208,000	39,792	247,792	268,590
Revenue (before Budget revenue measures)					
General Revenue Account					
Taxation		155,028	1,510	156,538	
Other revenue		31,905	3,998	35,903	
		186,933	5,508	192,441	
Land Fund		6,376	—	6,376	
		193,309	5,508	198,817	
Capital Works Reserve Fund		—	33,820	33,820	
Capital Investment Fund		—	2,482	2,482	
Civil Service Pension Reserve Fund		—	784	784	
Disaster Relief Fund		—	2	2	
Innovation and Technology Fund		—	208	208	
Loan Fund		—	1,547	1,547	
Lotteries Fund		—	1,248	1,248	
Asset sales		—	5,401	5,401	
		193,309	51,000	244,309	
Surplus/(deficit) before Budget revenue measures		(14,691)	11,208	(3,483)	
Less: Effect of Budget revenue measures		760	500	1,260	
Surplus/(deficit) after Budget revenue measures		(15,451)	10,708	(4,743)	
Less: Advances and equity investments from the Capital Investment Fund		—	5,802	5,802	
Consolidated surplus/(deficit)		(15,451)	4,906	(10,545)	

SECTION IV - ESTIMATES OF CONTINGENT LIABILITIES

11 The Government's contingent liabilities as at 31 March 2004, and estimates of these should they remain unsettled as at 31 March 2005 or 31 March 2006, are provided below as supplementary information to the MRF–

(at 31 March)	2004 $m	2005 $m	2006 $m
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	9,499	9,983	10,383
Litigation			
- the Government's appeals arising from judicial reviews challenging the lawfulness of the two pieces of pay reduction legislation giving effect to the civil service pay adjustments in October 2002, January 2004 and January 2005	-	5,400	9,600
- others	113	119	124
Possible capital subscriptions to the Asian Development Bank	2,069	2,069	2,069
Guarantees provided under loan guarantee schemes for small and medium enterprises, the Film Guarantee Fund and the Loan Guarantee Scheme for Severe Acute Respiratory Syndrome Impacted Industries	3,680	4,092	3,850
Total	15,361	21,663	26,026

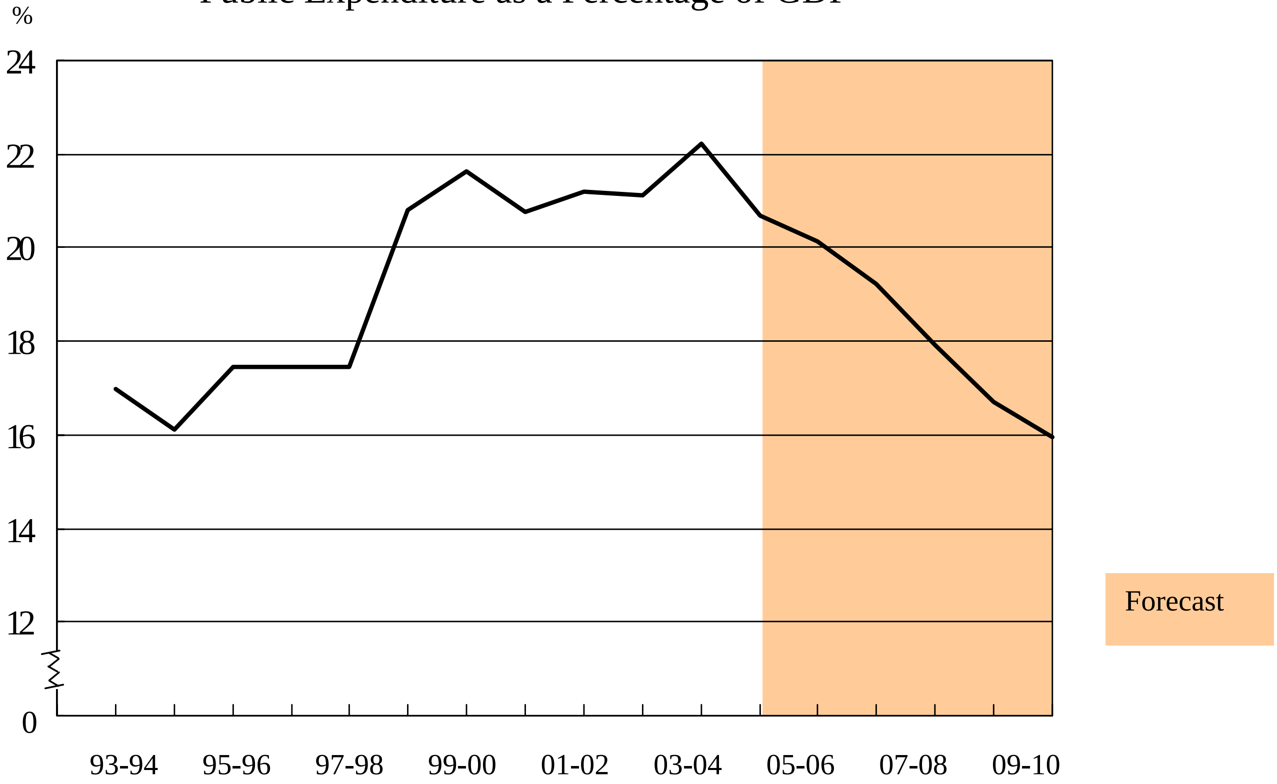
CONTENTS

SECTION I - THE ESTIMATES IN THE CONTEXT OF THE ECONOMY

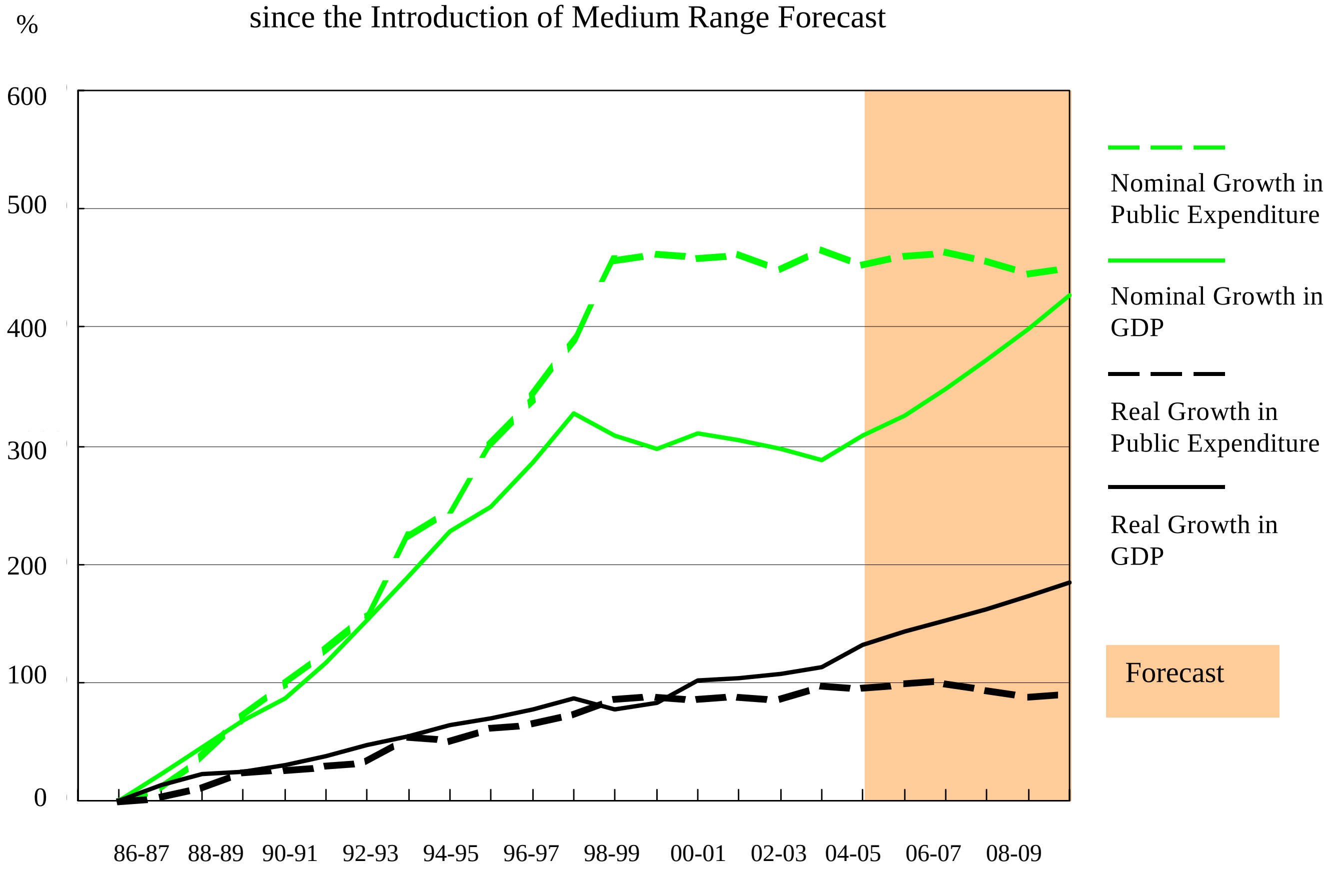
Relationship between Government Expenditure, Public Expenditure in 2005–06 and GDP

	2005-06 Estimate $m
General Revenue Account	
Operating	208,000
Capital	1,628
	209,628
Capital Works Reserve Fund	32,888
Loan Fund	3,259
Lotteries Fund	1,208
Innovation and Technology Fund	809
Government Expenditure	247,792
Trading Funds	3,109
Housing Authority	17,689
Public Expenditure	268,590
GDP	1,332,877
Public Expenditure as a % of GDP	20.2%

Public Expenditure as a Percentage of GDP



Comparison of Cumulative Growth in Public Expenditure
with Cumulative Growth in GDP
since the Introduction of Medium Range Forecast



SECTION II - ANALYSIS OF RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Recurrent Public Expenditure : Year-on-Year Change

	2004–05 Original Estimate $m	2004–05 Revised Estimate $m	**2005–06 Estimate $m**	**Increase/Decrease over 2004–05 Original Estimate in Nominal Terms** %	**in Real Terms** %
Education	49,189	45,535	**48,680**	**-1.0**	**0.3**
Social Welfare	33,715	32,575	**34,318**	**1.8**	**2.8**
Health	30,325	30,208	**29,432**	**-3.0**	**-1.1**
Security	23,949	23,405	**23,156**	**-3.3**	**-1.7**
Housing	12,806	10,980	**11,175**	**-12.7**	**-13.5**
Infrastructure	11,367	11,244	**11,131**	**-2.1**	**-1.5**
Economic	10,844	10,636	**10,753**	**-0.8**	**0**
Environment and Food	8,198	7,759	**7,864**	**-4.1**	**-3.6**
Community and External Affairs	7,116	6,937	**6,817**	**-4.2**	**-4.1**
Support	31,296	30,152	**29,524**	**-5.7**	**-5.8**
	218,805	209,431	**212,850**	**-2.7**	**-1.8**

SECTION II - ANALYSIS OF RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Recurrent Government Expenditure : Year-on-Year Change

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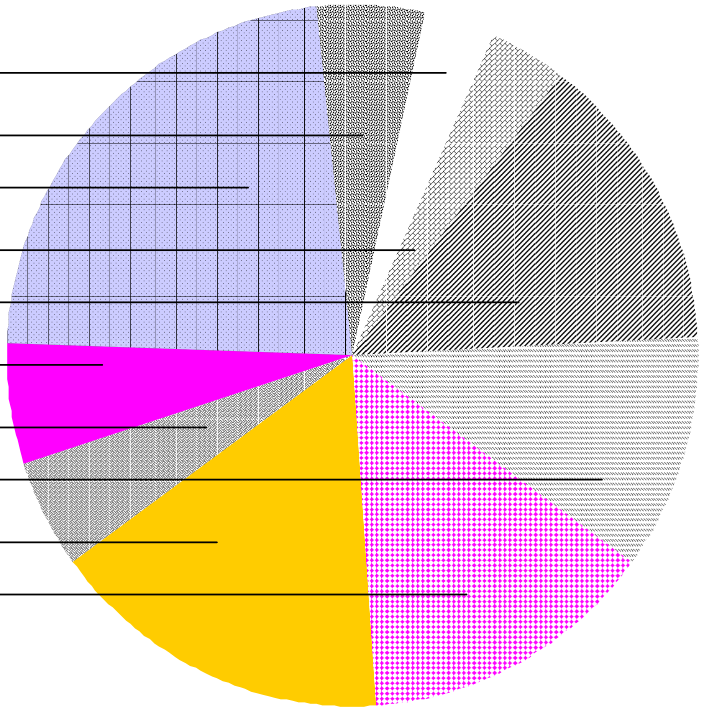
Education	49,189	45,535	**48,680**	**-1.0**	**0.3**
Social Welfare	33,715	32,575	**34,318**	**1.8**	**2.8**
Health	30,325	30,208	**29,432**	**-3.0**	**-1.1**
Security	23,949	23,405	**23,156**	**-3.3**	**-1.7**
Infrastructure	11,248	11,114	**10,991**	**-2.3**	**-1.7**
Economic	7,978	7,744	**7,929**	**-0.6**	**0.2**
Environment and Food	8,198	7,759	**7,864**	**-4.1**	**-3.6**
Community and External Affairs	7,116	6,937	**6,817**	**-4.2**	**-4.1**
Housing	455	422	**406**	**-10.8**	**-8.7**
Support	31,296	30,152	**29,524**	**-5.7**	**-5.8**
	203,469	195,851	**199,117**	**-2.1**	**-1.1**

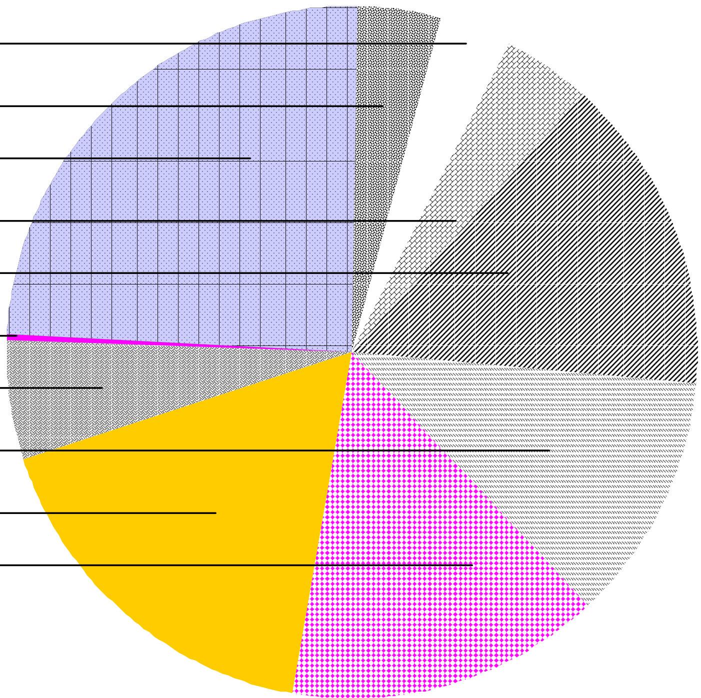
Percentage Share of Expenditure by Policy Area Group
Recurrent Public Expenditure : 2005-06 Estimate

Community and External Affairs	**3.2%**
Economic	**5.0%**
Education	**22.9%**
Environment and Food	**3.7%**
Health	**13.8%**
Housing	**5.3%**
Infrastructure	**5.2%**
Security	**10.9%**
Social Welfare	**16.1%**
Support	**13.9%**
	100.0%



Percentage Share of Expenditure by Policy Area Group
Recurrent Government Expenditure : 2005-06 Estimate

Community and External Affairs	**3.4%**
Economic	**4.0%**
Education	**24.5%**
Environment and Food	**4.0%**
Health	**14.8%**
Housing	**0.2%**
Infrastructure	**5.5%**
Security	**11.6%**
Social Welfare	**17.2%**
Support	**14.8%**
	100.0%



SECTION III - ANALYSIS OF TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Public Expenditure : Year-on-Year Change

	2004–05 Original Estimate $m	2004–05 Revised Estimate $m	**2005–06 Estimate $m**	**Increase/Decrease over 2004–05 Original Estimate in Nominal Terms %**	**in Real Terms %**
Education	59,542	55,732	**58,160**	**-2.3**	**-1.4**
Social Welfare	35,404	34,119	**36,302**	**2.5**	**3.4**
Health	32,977	32,355	**32,240**	**-2.2**	**-0.6**
Security	27,032	26,312	**26,192**	**-3.1**	**-1.8**
Infrastructure	30,173	28,245	**26,008**	**-13.8**	**-13.8**
Housing	24,583	19,523	**18,108**	**-26.3**	**-26.9**
Economic	16,675	14,912	**15,509**	**-7.0**	**-6.8**
Environment and Food	12,604	10,438	**10,818**	**-14.2**	**-14.0**
Community and External Affairs	8,593	8,213	**8,266**	**-3.8**	**-3.8**
Support	38,391	35,410	**36,987**	**-3.7**	**-3.9**
	285,974	265,259	**268,590**	**-6.1**	**-5.5**

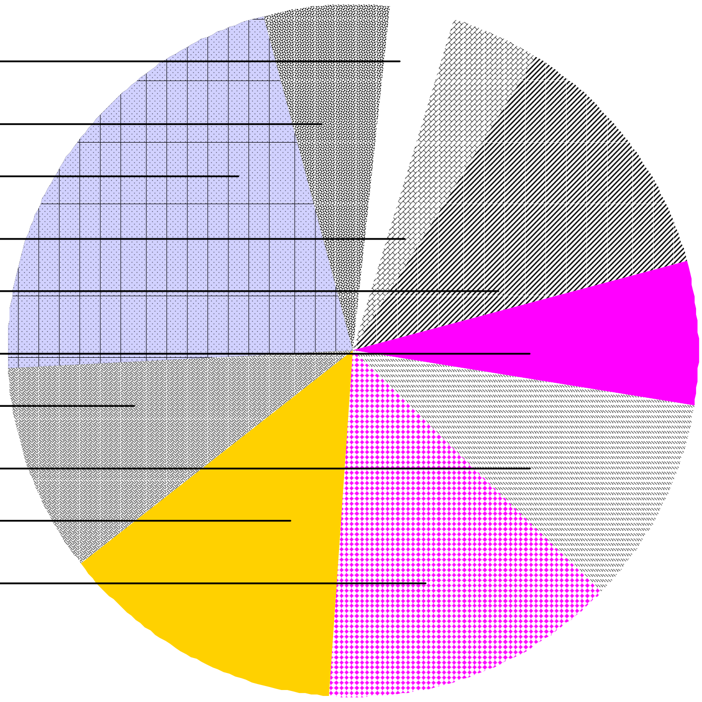
SECTION III - ANALYSIS OF TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Government Expenditure : Year-on-Year Change

	2004–05 Original Estimate $m	2004–05 Revised Estimate $m	**2005–06 Estimate $m**	**Increase/Decrease over 2004–05 Original estimate in Nominal Terms %**	**Increase/Decrease over 2004–05 Original estimate in Real Terms %**
Education	59,542	55,732	**58,160**	**-2.3**	**-1.4**
Social Welfare	35,404	34,119	**36,302**	**2.5**	**3.4**
Health	32,977	32,355	**32,240**	**-2.2**	**-0.6**
Security	27,032	26,312	**26,192**	**-3.1**	**-1.8**
Infrastructure	30,024	28,082	**25,846**	**-13.9**	**-14.0**
Economic	13,690	11,870	**12,563**	**-8.3**	**-8.1**
Environment and Food	12,604	10,438	**10,818**	**-14.2**	**-14.0**
Community and External Affairs	8,593	8,213	**8,266**	**-3.8**	**-3.8**
Housing	482	443	**418**	**-13.1**	**-11.2**
Support	38,391	35,410	**36,987**	**-3.7**	**-3.9**
	258,739	242,974	**247,792**	**-4.2**	**-3.6**

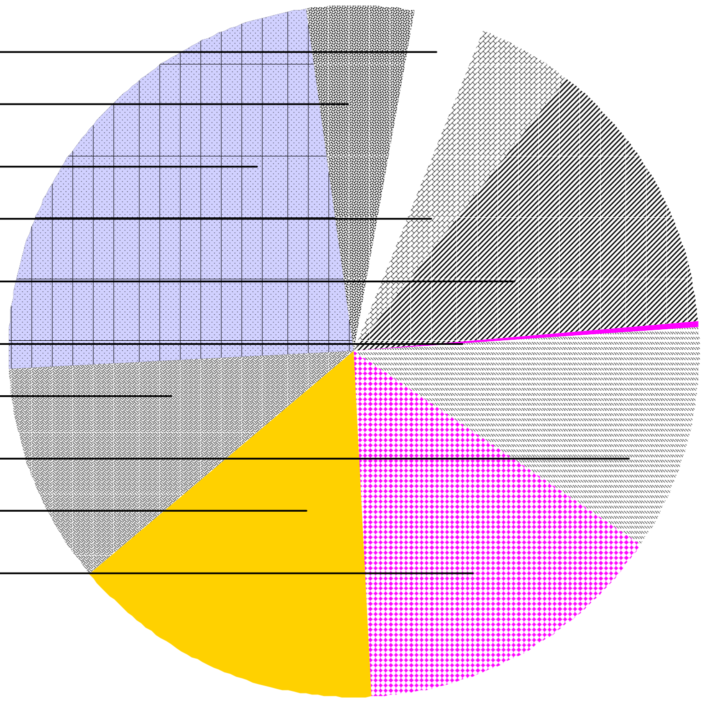
Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure : 2005-06 Estimate

Community and External Affairs	**3.1%**
Economic	**5.8%**
Education	**21.6%**
Environment and Food	**4.0%**
Health	**12.0%**
Housing	**6.7%**
Infrastructure	**9.7%**
Security	**9.8%**
Social Welfare	**13.5%**
Support	**13.8%**
	100.0%



Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure : 2005-06 Estimate

Community and External Affairs	**3.4%**
Economic	**5.1%**
Education	**23.5%**
Environment and Food	**4.3%**
Health	**13.0%**
Housing	**0.2%**
Infrastructure	**10.4%**
Security	**10.6%**
Social Welfare	**14.6%**
Support	**14.9%**
	100.0%



SECTION IV - MAJOR CAPITAL PROJECTS TO BEGIN IN 2005–06

Funds allocated for capital projects to start in 2005–06 include–

	$million
Infrastructure	**6,918**
— Replacement and rehabilitation of water mains	
— Water supply to housing development at Anderson Road and to Sha Tin development Area 56A	
— Ring mains for Cha Kwo Ling salt water supply system	
— Road P1 advance works at Sunny Bay of Lantau and Trunk Road T4 in Sha Tin	
— Improvements to San Tin Interchange	
— Remaining engineering works in Sha Tin New Town	
— Area traffic control and closed circuit television system for Tuen Mun and Yuen Long districts	
Environment and Food	**2,244**
— Tai Po sewage treatment works, stage 5 phase 1	
— Sewerage in North and South Kowloon, Yuen Long, Kam Tin, North District and Outlying Islands	
— Retrofitting of noise barriers on Cheung Pei Shan Road and Ma On Shan Road	
— Retrofitting of air-conditioning and general improvement to markets and cooked food centres	
— Conversion of aqua privies into flushing toilets—phase 2	
— Public Filling Barging Points in Kwai Chung and Chai Wan	
Education	**1,725**
— Construction, extension and redevelopment of primary and secondary schools	
— Construction of special schools	
— Stabilisation of slopes within the campus of the Chinese University of Hong Kong	
Support	**1,197**
— Drainage improvement in Northern New Territories, Sha Tin, Tai Po, Fanling and Sai Kung	
— Fitting out works for customs, immigration and quarantine facilities at Sky Plaza, Hong Kong International Airport	
Health	**539**
— Establishment of a community health and wellness centre at Yan Chai Hospital	
— Improvement of infection control provisions for autopsy facilities in public hospitals	
— Improvement of facilities in the Specialist Outpatient Block of Pamela Youde Nethersole Eastern Hospital	
Community and External Affairs	**527**
— Tseung Kwan O Sports Ground	
— Dr Sun Yat-sen Museum	
— Provision of open spaces	
Economic	**513**
— Transport link in Tsim Sha Tsui East	
— Tourist District Enhancement Programme—The Peak	
— Enhancement of public facilities at Ngong Ping, Lantau	

SECTION V - TRENDS IN PUBLIC EXPENDITURE : 2000–01 TO 2005–06

Introduction

This section presents trends in public expenditure over the period 2000–01 to 2005–06. The analysis includes expenditure by the Government, the Trading Funds and the Housing Authority.

2 Details of the individual heads of expenditure contributing to a particular policy area are provided in an index in Volume I of the 2005–06 Estimates. This index further provides details by head of expenditure of individual programmes which contribute to a policy area.

3 Where appropriate, historical figures have been adjusted to comply with the current classification of expenditure.

Recurrent Public Expenditure by Policy Area Group 2000–01 to 2005–06

Policy Area Groups	Actual				Revised Estimate	Estimate
	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06
	%	%	%	%	%	%
Education	22.3	22.0	22.2	22.0	21.7	22.9
Social Welfare	13.8	13.8	14.8	15.3	15.6	16.1
Health	15.4	15.2	15.3	15.0	14.4	13.8
Security	12.0	11.7	11.5	11.3	11.2	10.9
Housing	5.8	5.8	5.4	5.3	5.2	5.3
Infrastructure	5.4	5.4	5.4	5.3	5.4	5.2
Economic	5.2	5.1	5.0	5.1	5.1	5.0
Environment and Food	4.0	3.9	4.0	3.9	3.7	3.7
Community and External Affairs	3.4	3.4	3.5	3.3	3.3	3.2
Support	12.7	13.7	12.9	13.5	14.4	13.9
	100.0	100.0	100.0	100.0	100.0	100.0

	$m	$m	$m	$m	$m	$m
Total Recurrent Public Expenditure	198,619	210,445	211,728	211,102	209,431	212,850

Total Public Expenditure by Policy Area Group 2000–01 to 2005–06

Policy Area Groups	Actual				Revised Estimate	Estimate
	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06
	%	%	%	%	%	%
Education	19.2	19.4	20.8	20.8	21.0	21.6
Social Welfare	10.5	11.2	12.3	12.5	12.9	13.5
Health	12.2	12.7	12.6	12.6	12.2	12.0
Security	10.0	10.2	10.3	9.9	10.0	9.8
Infrastructure	8.6	9.3	9.3	9.5	10.6	9.7
Housing	15.9	11.9	9.1	9.3	7.4	6.7
Economic	4.7	5.1	5.2	5.5	5.6	5.8
Environment and Food	4.2	4.1	4.3	4.0	3.9	4.0
Community and External Affairs	3.1	3.1	3.1	3.0	3.1	3.1
Support	11.6	13.0	13.0	12.9	13.3	13.8
	100.0	100.0	100.0	100.0	100.0	100.0
	$m	$m	$m	$m	$m	$m
Total Public Expenditure	267,507	269,359	263,520	271,098	265,259	268,590

SECTION VI – KEY TO CLASSIFICATION OF EXPENDITURE

Index of Policy Area Groups

Policy Area Group	**Description by Policy Area**	**Reference** (*Note*)
Community and External Affairs	District and Community Relations	19
	Recreation, Culture, Amenities and Entertainment Licensing	18
Economic	Air and Sea Communications and Logistics Development	3
	Commerce and Industry	6
	Employment and Labour	8
	Financial Services	1
	Information Technology and Broadcasting	17
	Manpower Development	34
	Posts, Power, Competition Policy and Consumer Protection	4
	Public Safety	7
	Travel and Tourism	5
Education	Education	16
Environment and Food	Agriculture, Fisheries and Food Safety	2
	Environmental Hygiene	32
	Environmental Protection and Conservation	23
Health	Health	15
Housing	Housing	31
Infrastructure	Buildings, Lands and Planning	22
	Transport	21
	Water Supply	24
Security	Administration of Justice	12
	Anti-corruption	13
	Immigration Control	10
	Internal Security	9
	Legal Administration	11
	Legal Aid	20
Social Welfare	Social Welfare	14
	Women's Interests	33
Support	Central Management of the Civil Service	26
	Complaints Against Maladministration	30
	Constitutional Affairs	28
	Intra-Governmental Services	27
	Revenue Collection and Financial Control	25
	Support for Members of the Legislative Council	29

Note: The Policy Area Reference corresponds with that used in the Index of Policy Areas in the Estimates of Expenditure.

GLOSSARY OF TERMS

Note: Terms shown in ***bold italic*** are defined elsewhere in the glossary.

Capital expenditure. This comprises all expenditure charged to the Capital Account of the General Revenue Account, the Capital Works Reserve Fund (including interest on government bonds and notes but excluding repayment of the bonds and notes), Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund. Unlike ***capital spending***, it excludes advances and equity investments made from the Capital Investment Fund and repayment of government bonds and notes charged to the Capital Works Reserve Fund. Major items are highlighted below –

General Revenue Account

equipment, works and capital subventions of a minor nature

Capital Works Reserve Fund

acquisition of land
Public Works Programme expenditure
capital subventions
major systems and equipment
computerization
interest on government bonds and notes

Disaster Relief Fund

relief to disasters that occur outside Hong Kong

Innovation and Technology Fund

projects promoting innovation and technology upgrading in manufacturing and service industries

Loan Fund

loans to schools, teachers, students, and housing loans to civil servants, etc.
loans made under various finance schemes supported by the Government

Lotteries Fund

grants, loans and advances for social welfare services

Capital financing surplus/deficit. The difference between ***capital revenue*** and ***capital spending***.

Capital revenue. This comprises certain revenue items in the General Revenue Account and all receipts credited to the Funds (except Land Fund), as highlighted below –

General Revenue Account

disposal proceeds of government quarters and other assets
estate duty
taxi concessions
recovery from Housing Authority
donations
repayment of loans and advances

Capital Investment Fund

repayments received
dividends
interest on loans
interest on balances
proceeds from sale of investments

Capital Works Reserve Fund

land premia
investment income
donations for projects
recovery from MTR Corporation Limited and Trading Funds
net proceeds from issuance of government bonds and notes

Civil Service Pension Reserve Fund

investment income

Disaster Relief Fund

investment income

Innovation and Technology Fund

loan repayments received
investment income

Loan Fund

loan repayments received
interest on loans
interest on balances
proceeds from sale of loans

Lotteries Fund

loan repayments received
share of proceeds from the Mark Six Lottery
investment income

Capital spending. The aggregate of ***capital expenditure***, advances and equity investments from the Capital Investment Fund, and repayment of government bonds and notes charged to the Capital Works Reserve Fund.

Consolidated surplus/deficit. The difference between ***government revenue*** and ***government spending***.

Fiscal reserves. The accumulated balances of the General Revenue Account and the Funds, including the net proceeds from issuance of bonds and notes and after deducting their repayment charged to Government's accounts.

Government expenditure. The aggregate of ***operating expenditure*** and ***capital expenditure***. Unlike ***government spending***, it excludes advances and equity investments from the Capital Investment Fund, and repayment of government bonds and notes charged to Government's accounts. Also, unlike ***public expenditure***, it excludes expenditure by the Housing Authority and the Trading Funds.

Government revenue. The aggregate of ***operating revenue*** and ***capital revenue.***

Government spending. The aggregate of ***government expenditure***, advances and equity investments from the Capital Investment Fund, and repayment of government bonds and notes charged to the Capital Works Reserve Fund.

Operating expenditure. All expenditure charged to the Operating Account of the General Revenue Account.

Operating revenue. This comprises all revenue credited to the General Revenue Account (except those items which are treated as ***capital revenue***) and the Land Fund, as highlighted below —

General Revenue Account

duties
fines, forfeitures and penalties
investment income
rents and rates
royalties and concessions
taxes
utilities, fees and charges

Land Fund

investment income

Operating surplus/deficit. The difference between ***operating revenue*** and ***operating expenditure***.

Public expenditure. ***Government expenditure*** plus expenditure (operating and capital) by the Housing Authority and the Trading Funds.

Transfer to Funds. It is not counted as expenditure or spending under the General Revenue Account. In fact, all transfers between the General Revenue Account and the Funds are merely internal transfers within the Government's accounts and do not form part of the revenue, expenditure or spending.