

## **2006-07 Budget**

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# **Briefing for the Legislative Council**

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**23 February 2006**

Chart 1

### **Economic performance**

- 9 quarters of above-trend growth
- Broad-based upturn
- Trade, financial and producer services, and tourism are the bright spots; but construction still weak
- Significant and broad-based job creation; wages improving gradually
- Inflation creeping up but still low

Chart 2

## Strong GDP growth through 2005

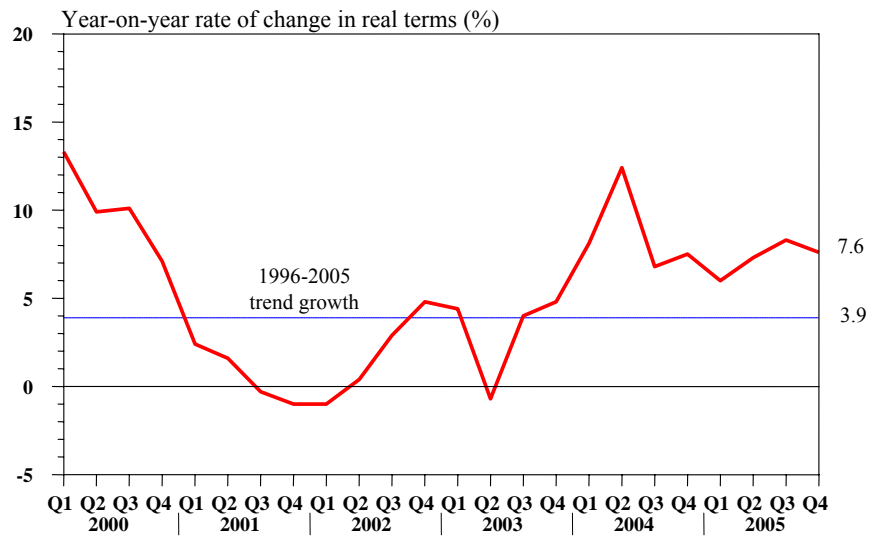


Chart 3

## Double-digit export growth

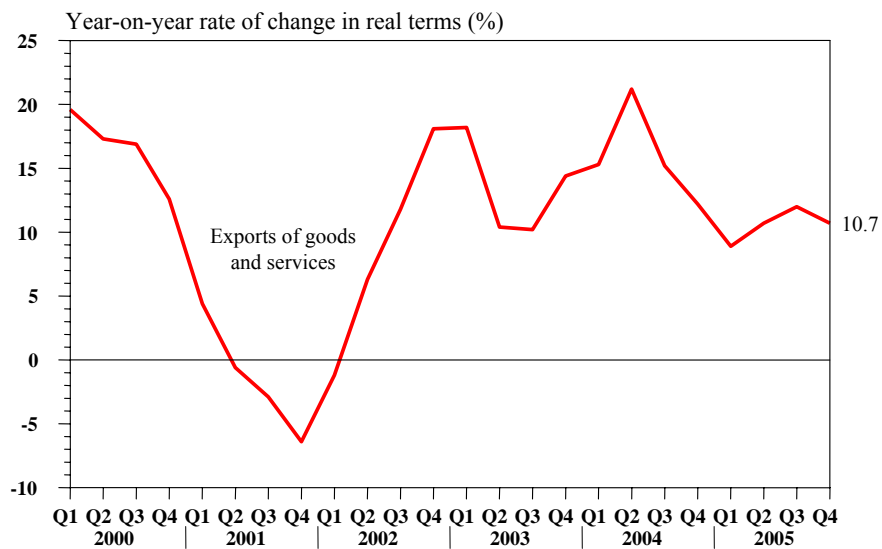
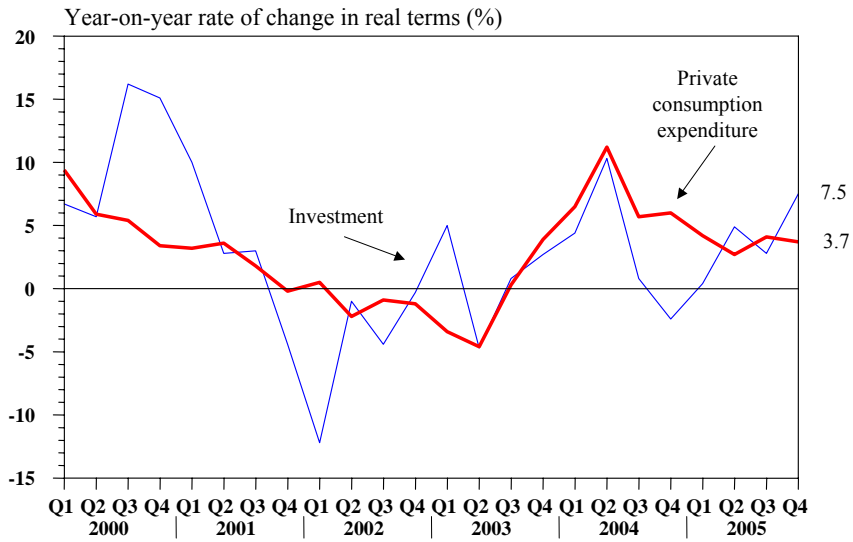


Chart 4

### Domestic demand also played a role in recovery



### GDP growth led by trading and financial/professional services

Chart 5

	<u>2001-2003</u>	<u>2004</u>	<u>2005 Q1-Q3</u>
	%	%	%
Manufacturing	-9.8	1.7	0.8
Construction	-2.9	-9.8	-4.4
Services	3.0	9.9	8.1
Wholesale, retail and import and export trades, restaurants and hotels	4.6	15.1	11.2
Transport, storage and communications	3.0	13.9	13.5
Financing, insurance, real estate and business services	2.9	13.1	9.3
Community, social and personal services	1.3	2.6	0.7

## Broad-based improvement in labour market

- Improvements across all sectors, all age groups and all levels of education attainment
- Long-term unemployment declining
- Wages reversed decline and rising back
- Earnings of lower-income families also improving

## 240 000 jobs created since 2003 trough

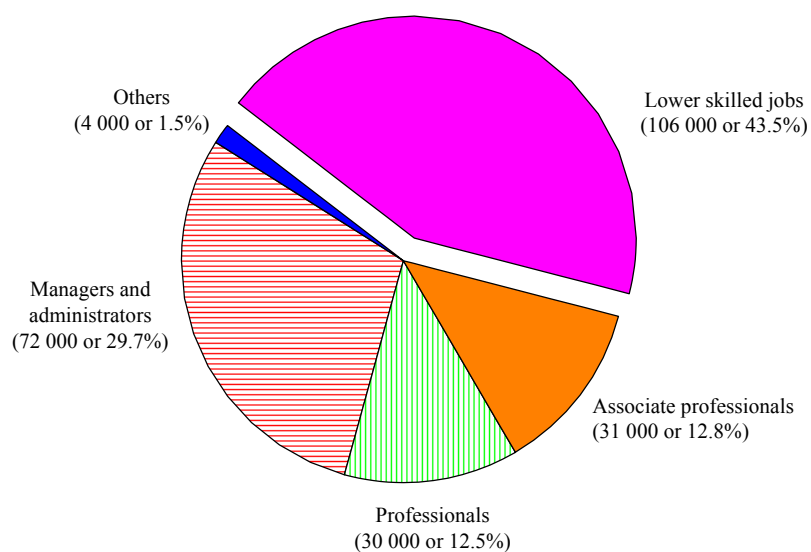


Chart 8

### Both unemployment rate and unemployment CSSA cases are falling

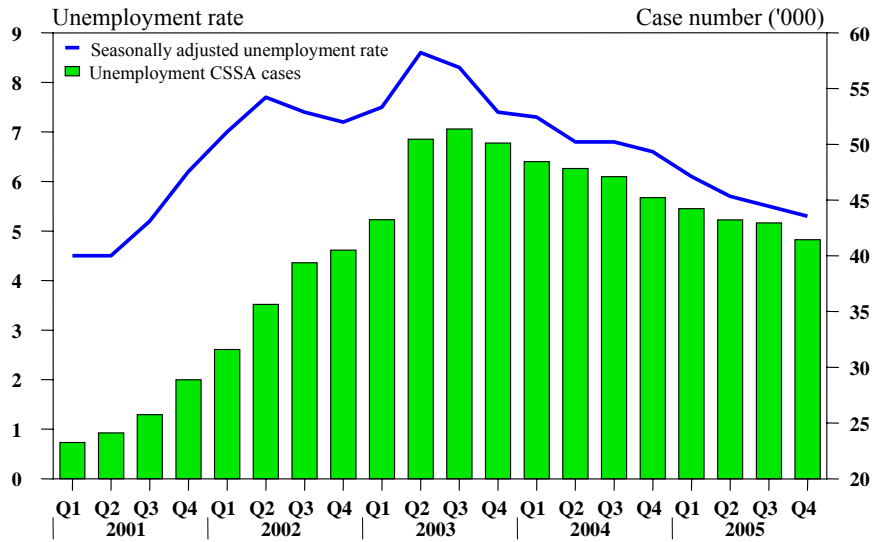


Chart 9

### Labour income rising back as labour market improves

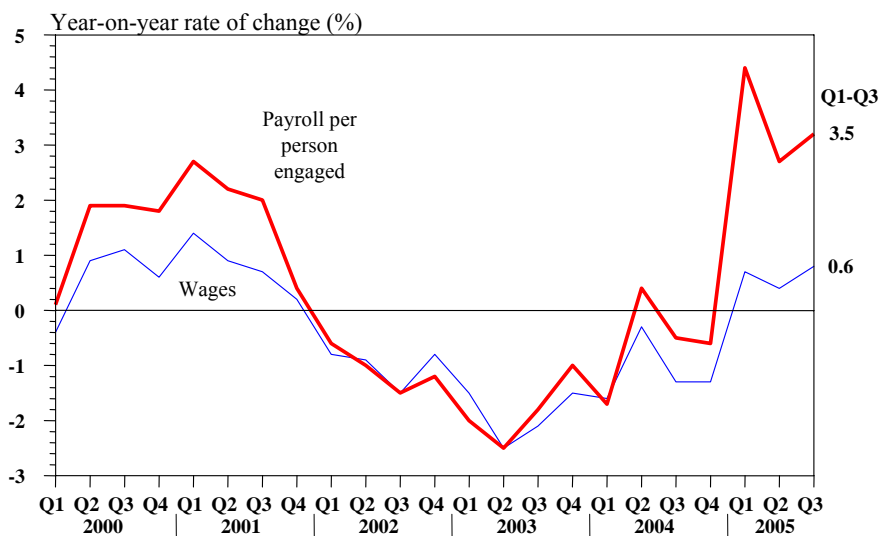


Chart 10

## One out of three in HK's workforce is a managerial, professional or administrative worker

	No. of managerial, professional or administrative workers '000	Share in Employment*
		%
1995	780	28
2000	966	32
2005	1 159	36

\* Excluding foreign domestic helpers

Chart 11

## The rising share of services in HK's economy

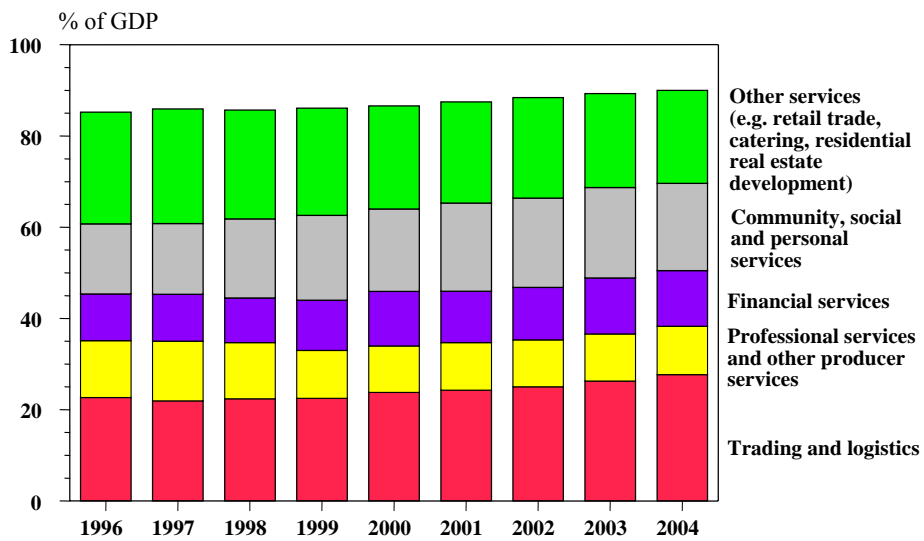
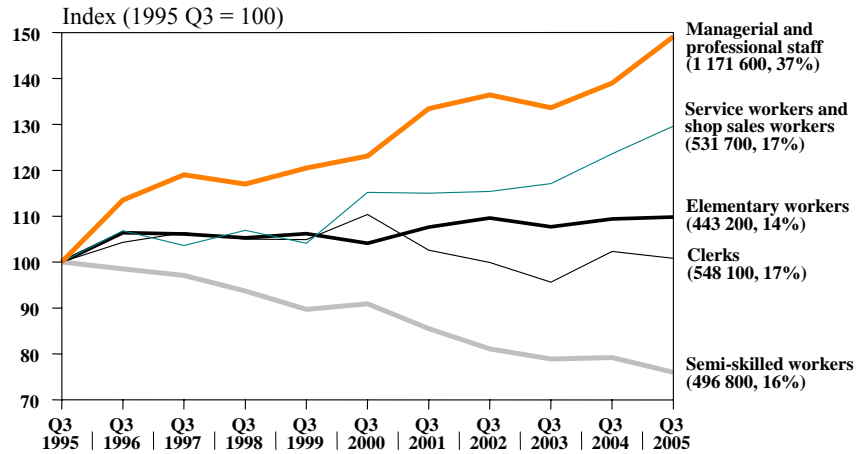


Chart 12

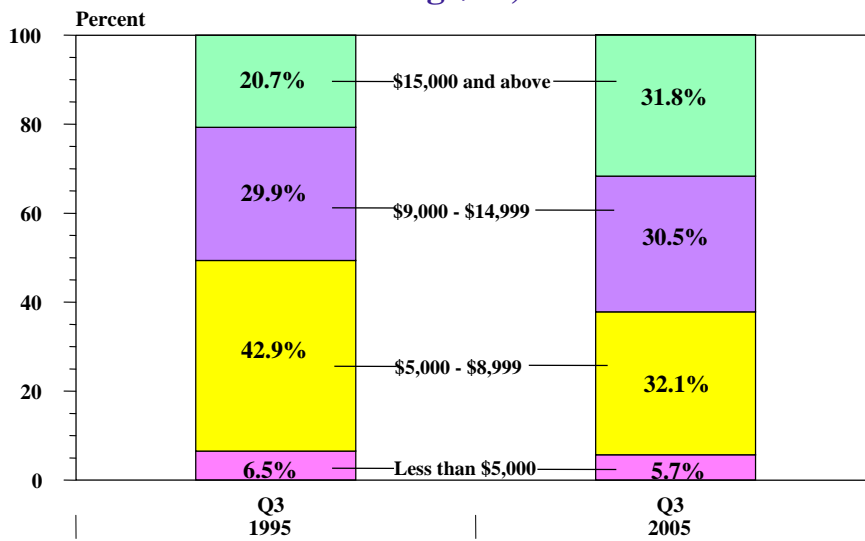
## Employment by occupation category



Notes : Classification of occupations is based on that of the General Household Survey as conducted by the Census and Statistics Department. Figures in brackets represent the number of employed persons in Q3 2005, and the percentage shares refer to the proportion of employed persons engaged in the respective occupations.

Chart 13

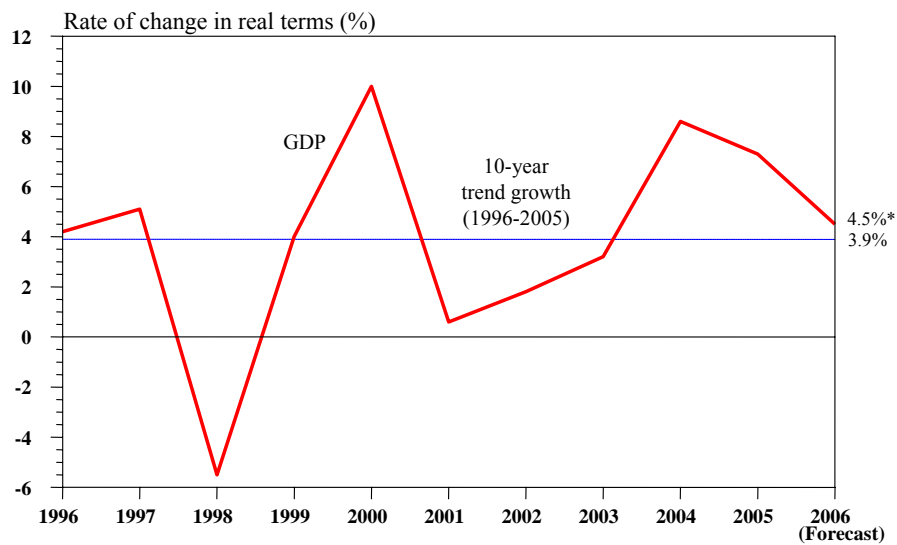
## Workers earning \$5,000 – \$8,999 down markedly ... while those earning \$15,000 or more rose



## 2006 Economic outlook

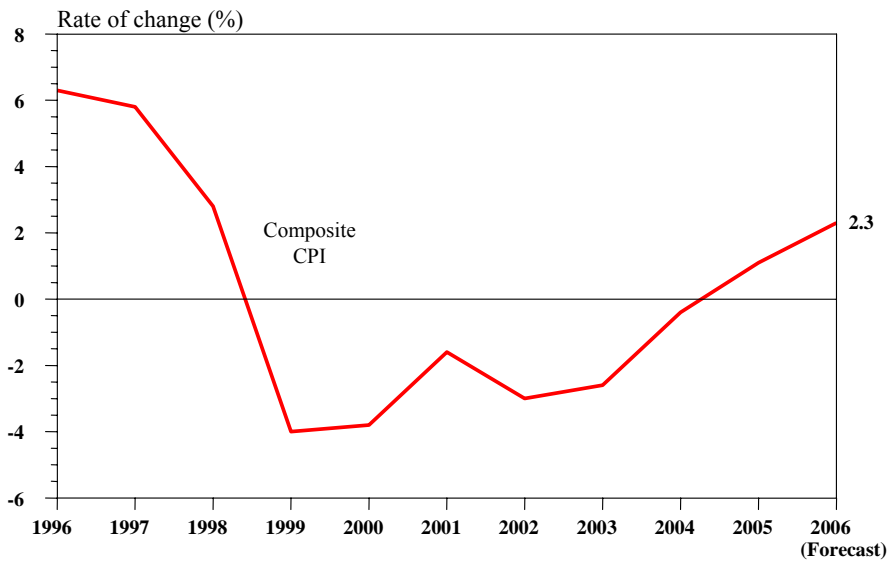
- GDP growth to settle back to more sustainable growth of 4 - 5%, still above past 10-year trend of 3.9%
- Another year of broad-based growth
- But risks from external environment and feed-through of higher interest rates
- Labour market to improve further
- Inflation edging up but still mild

## Economy set for still solid growth in 2006





## Inflation creeping up but low in 2006



## Fiscal Targets

- The three fiscal targets set in 2004 all achieved three years ahead of schedule:

Operating expenditure = \$200 billion	2004-05	= \$196.9 billion
	2005-06 Revised Estimates	= \$194.7 billion
Balance in	2005-06 Revised Estimates	
Operating Account		= Surplus \$5.8 billion
Consolidated Account		= Surplus \$4.1 billion
Public expenditure ≤ 20% of GDP	2004-05	= 19.9%
	2005-06 Revised Estimates	= 18.1%

## 2005-06 Revised Estimates

- Operating surplus : \$5.8 billion  
(Original Estimates: \$15.4 billion deficit)
- Consolidated surplus : \$4.1 billion  
(Original Estimates: \$10.5 billion deficit)
- The first time since 1997-98 that both the Operating and Consolidated Accounts record a surplus
- Operating expenditure is \$2.2 billion less than that for last year (\$13.3 billion less than Original Estimates)

## 2005-06 Revised Estimates Points to note

- Land premium and investment income are very unstable sources of income

\$ billion	<u>01-02</u>	<u>02-03</u>	<u>03-04</u>	<u>04-05</u>	<u>05-06 RE</u>
Land Premium	10.3	11.5	5.4	32.0	28.7
Investment Income	0.9	17.6	25.9	14.7	10.3

- Fiscal income fluctuates with economic performance
- Limited scope for further cuts in expenditure  
Increasing demands from various sectors of the community, ageing population, environmental protection and possible outbreak of avian influenza will impose pressure on Government finances

## Enhancing Our Economic Competitiveness

- Economic co-operation with the Mainland
- Business environment
- Financial services
  - expanding the scope of Renminbi (RMB) business
  - facilitating market development
  - upgrading the quality of our financial markets
  - promoting the strengths of Hong Kong

## Enhancing Our Economic Competitiveness (Contd.)

- Developing tourism
- Developing logistics
- Pooling of talent

## Future Challenges

- Economic restructuring
- External economic environment (e.g. oil prices and interest rates movement)
- Ageing population
- Environmental improvement
- Avian influenza
- Aspirations of the community

## Tax Concessions

### Salaries Tax

- Lower the marginal tax rates to relieve taxpayers' burden

<u>Marginal Tax Band</u>	<u>Marginal Tax Rate (%)</u>	
	<u>Present</u>	<u>Proposed</u>
First	2	2
Second	8	7
Third	14	13
Highest	20	19

- Extend the limit for the deduction for home loan interest by a further three years to a total of 10 years to provide relief to families burdened with home mortgage payments

## Other Measures

- Reduce the levy on trading in securities, futures and options contracts by 20%
- Simplify vessel entry procedures, lower port charges, and establish more service anchorages to enhance the competitiveness of our ports
- Consider providing concession in trade declaration charges for gold in support of the proposed establishment of a gold depository, with a view to promoting Hong Kong's position as a logistics hub and gold trading centre

## Other Measures (Contd.)

- Provide 1 800 additional hostel places, which will cost about \$350 million, to attract more undergraduates from outside Hong Kong to study in local tertiary institutions on exchange programmes
- Increase recurrent funding to help the disadvantaged groups by \$100 million a year, which includes:
  - to strengthen convalescent and continuing rehabilitation day services for discharged disabled and psychiatric patients
  - to strengthen family support
  - to strengthen home care services for the elderly
  - to improve the pilot Comprehensive Child Development Service and gradually extend its coverage

## Other Measures (Contd.)

- Provide additional funding of about \$230 million over the next five years to strengthen employment assistance through education and training, which includes:
  - additional \$60 million over the next two years to continue the Intensive Employment Assistance Projects
  - additional \$20 million next year to strengthen our employment assistance measures
  - provision of \$150 million over the next five years to strengthen district-based poverty alleviation work
- To exempt electric vehicles from first registration tax for a further three years up to end March 2009

## Tax Review

- Consider tax deduction for contributions to private medical insurance schemes in formulating options for financing and sustaining public health care services
- Impose “green” taxes on tyres and plastic bags

## Goods and Services Tax

- Announce detailed proposals in the middle of this year
- Public consultation lasting about nine months
- Submit a report for consideration by the Government of the next term

## Revenue profile in 2006-07 (Original Estimates)

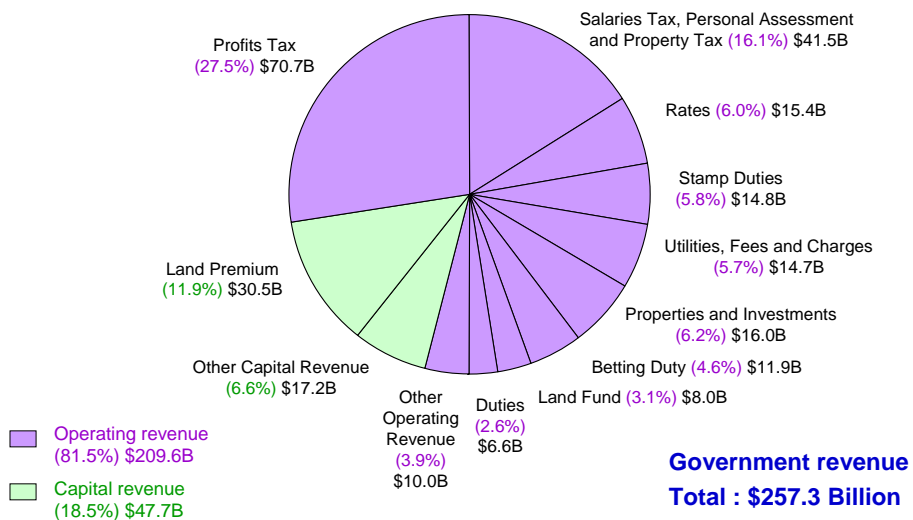


Chart 30

## Expenditure profile in 2006-07 (Original Estimates)

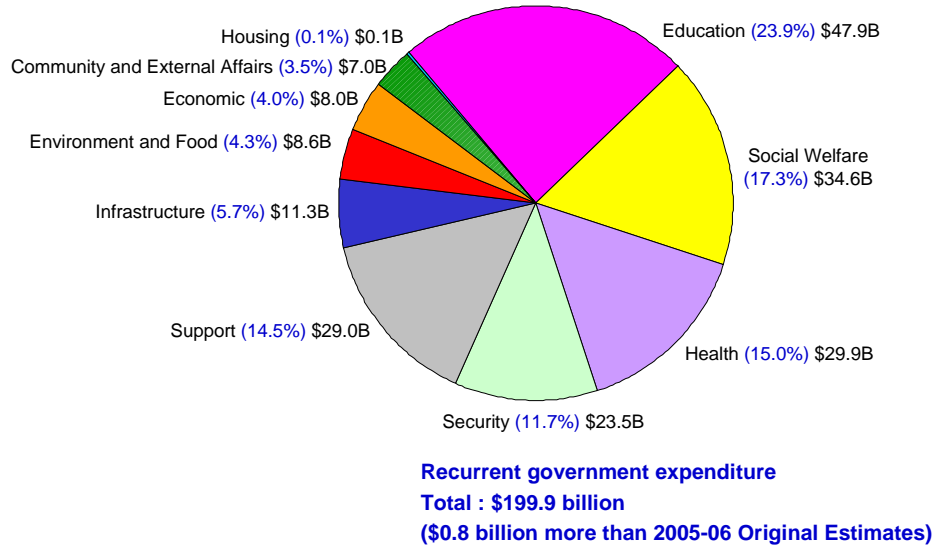


Chart 31

## 2006 Medium Range Forecast

\$ billion	2006-07	2007-08	2008-09	2009-10	2010-11
Operating revenue	209.6	215.8	227.3	239.7	253.6
Operating expenditure	209.0	214.2	219.6	225.1	230.7
<b>Operating surplus</b>	<b>0.6</b>	<b>1.6</b>	<b>7.7</b>	<b>14.6</b>	<b>22.9</b>
Capital revenue	47.7	52.9	62.3	52.1	55.6
Capital spending	40.1	44.2	44.1	44.1	45.9
Repayment of government bonds and notes	2.6	-	2.7	3.5	-
<b>Capital financing surplus</b>	<b>5.0</b>	<b>8.7</b>	<b>15.5</b>	<b>4.5</b>	<b>9.7</b>
<b>Consolidated surplus</b>	<b>5.6</b>	<b>10.3</b>	<b>23.2</b>	<b>19.1</b>	<b>32.6</b>
Fiscal reserves	306.4	316.7	339.9	359.0	391.6
- as a number of months of government expenditure	15	15	15	16	17



Chart 32

## Fiscal health

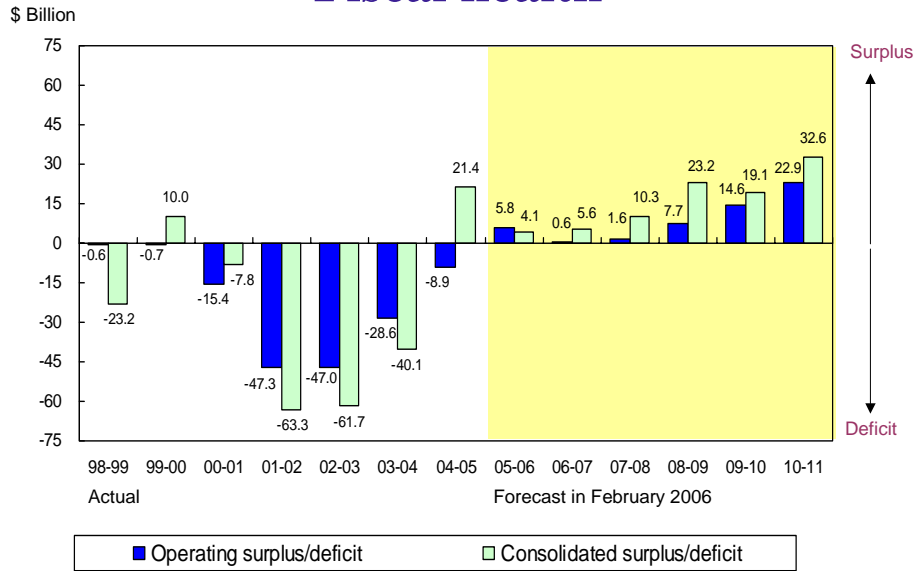


Chart 33

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# Thank you

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