

## 2007-08 Budget

---

# Briefing for the Legislative Council

---

1 March 2007

### Strong economic recovery since 2003

Chart 1

Compared with the trough in 2003:

Cumulative economic growth 25%

*Of which:*

Exports 42%

Volume of retail sales 23%

Overall investment 16%

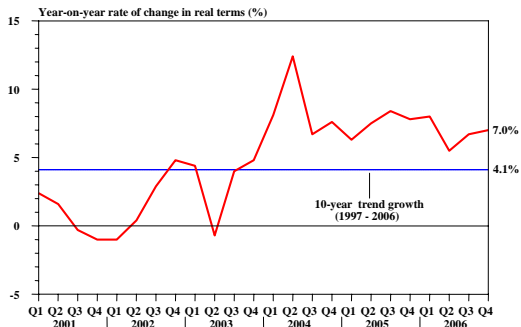
Visitor arrivals 63%

## Strong economic recovery since 2003

Compared with the trough in 2003:

- Additional jobs (up to Jan 2007) : 310 000
- Unemployment rate fell from 8.5% to 4.4%
- Long-term unemployment down by 56%
- Negative equity cases down by 92%
- Stock market capitalisation up by 3 times
- Deflation ended in 2004

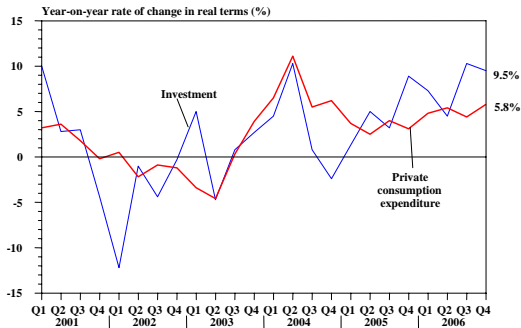
## Robust GDP growth for 13 consecutive quarters



## Strong export growth amidst thriving Mainland economy



## Domestic demand becoming a steady and important driving force



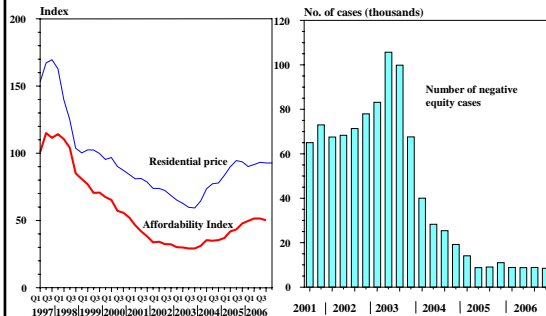
## GDP growth led by financial, and trading and logistics services

Chart 6

	<u>2001-2003</u>	<u>2004</u>	<u>2005</u>	<u>2006 Q1-Q3</u>
	(%)	(%)	(%)	(%)
Services	3.0	10.1	8.0	8.3
Wholesale and retail	-1.0	7.8	7.4	4.8
Import and export trades	7.5	15.4	16.1	10.6
Restaurants and hotels	-11.0	22.6	6.0	9.4
Transport and storage	1.2	14.0	6.8	8.0
Communications	8.9	13.8	11.5	11.1
Financing and insurance	4.6	21.7	11.9	19.9
Real estate and business services	0.8	1.1	3.2	1.6
Community, social and personal services	1.3	2.9	0.4	1.8

## Housing market developing steadily and negative equity problem disappearing

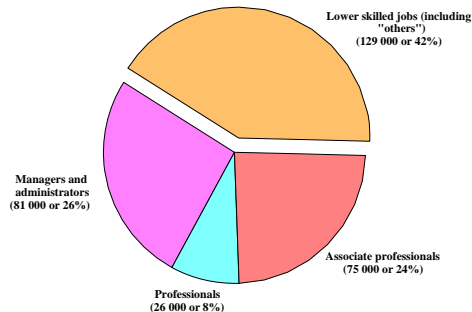
Chart 7



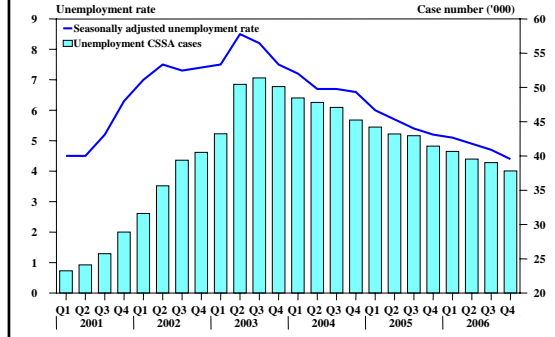
## Broad-based improvement in labour market

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

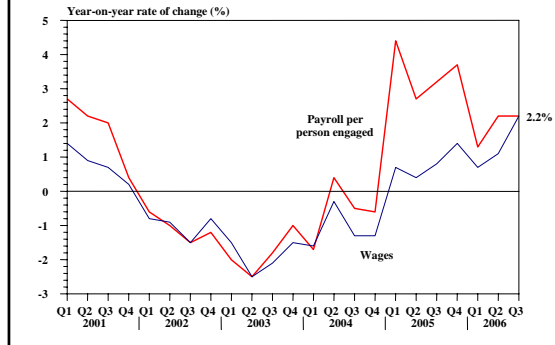
## 310 000 jobs created since 2003 trough (Up to Jan 2007)



## Both unemployment rate and unemployment CSSA cases falling further



## Labour income rising gradually as labour market improves

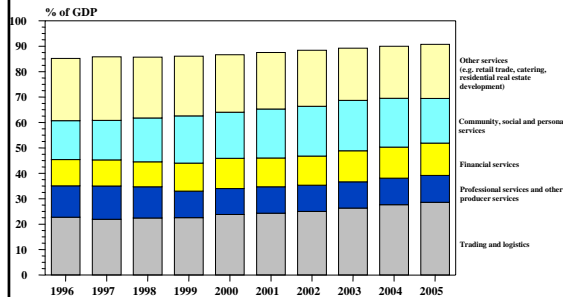


## Over one-third of HK's workforce are managerial, professional or administrative workers

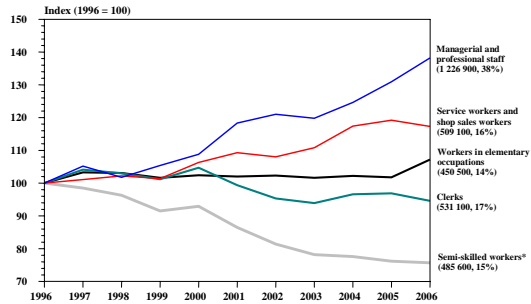
	No. of managerial, professional or administrative workers	Share in employment*
1995	780 000	28%
2000	966 000	32%
2006	1 227 000	38%

\* Excluding foreign domestic helpers

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



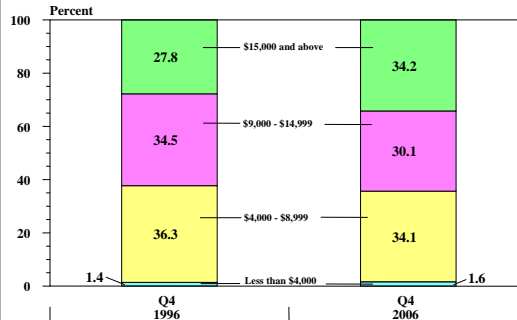
## Employment by occupation category



Notes : Figures in brackets represent the number of employed persons (excluding foreign domestic helpers) in 2006, and the percentage shares refer to the proportion of employed persons engaged in the respective occupations.

(\*) Semi-skilled workers include craft and related workers and plant and machine operators and assemblers.

## Full-time workers earning \$4,000 – \$8,999 came down ... while those earning \$15,000 or more rose markedly



Note : Excluding foreign domestic helpers.



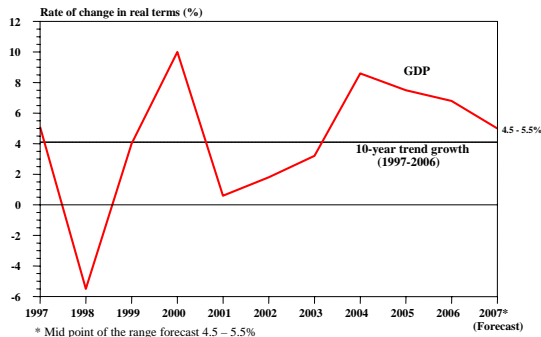
## 2007 Economic outlook

Chart 16

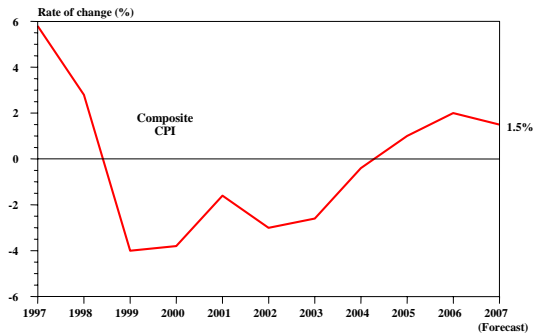
- GDP to attain another year of solid and balanced growth at 4.5 – 5.5%, still above past 10-year trend of 4.1%
- Closer integration with the Mainland economy on all fronts
- But risks from external environment remain, particularly the evolving situation of the US economy
- Labour market likely to improve further
- Underlying cost pressures likely to build up further, yet various government measures will provide an offset to keep inflation in check

## Economy set for solid and balanced growth in 2007

Chart 17



## Inflation to remain benign in 2007



## 2006-07 Revised Estimates

- Our economy is strengthening
- 2006 GDP grew by 6.8%, significantly higher than the 4% to 5% forecast by the market and the Government earlier in the year
- Increased Corporate profits and salaries, the buoyant stock market and a stable property market

## 2006-07 Revised Estimates (Contd.)

- Revenue from several major items higher than the original estimates

(\$ billion)	<u>Original Estimates</u>	<u>Revised Estimates</u>	<u>Increase</u>
Investment income	18.2	29.5	11.3
Land premium	30.5	36.8	6.3
Stamp duty	14.8	23.4	8.6
Profits tax	70.7	74.1	3.4
Salaries tax	37.1	38.4	1.3

## 2006-07 Revised Estimates (Contd.)

- Operating surplus : \$38.6 billion  
(Original Estimates: \$0.6 billion)
- Consolidated surplus : \$55.1 billion  
(Original Estimates: \$5.6 billion)

## Tax concessions

### Salaries Tax

- Revert the marginal bands and marginal rates for salaries tax to their 2002-03 levels

<u>Marginal Tax Band</u>	<u>Marginal Tax Band</u>		<u>Marginal Tax Rate</u>	
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>
First	\$30,000	\$35,000	2%	2%
Second	\$30,000	\$35,000	7%	7%
Third	\$30,000	\$35,000	13%	12%
Highest	Remainder	Remainder	19%	17%

## Tax concessions (Contd.)

### Salaries Tax

- **Child Allowance**
  - Increase the child allowance from \$40,000 to \$50,000
  - Introduce an additional one-off child allowance of \$50,000 for each child in the year of birth
- **Deduction for Self-education Expenses**
  - Increase the maximum amount of deduction from \$40,000 to \$60,000

## Tax concessions (Contd.)

### Stamp Duty on Property Transactions

Transactions of properties with a value between \$1 million and \$2 million: reduced to a fixed amount of \$100

### Duty on Alcoholic Beverages

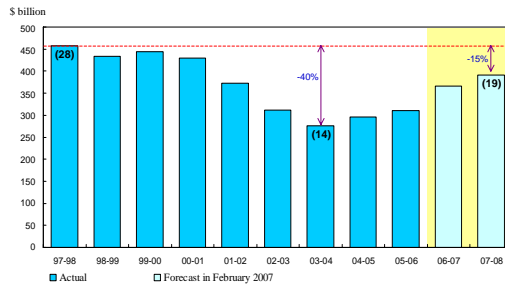
	<u>Present</u>	<u>New</u>
Beer and liquors containing not more than 30% of alcohol	40%	20%
Wine	80%	40%

## One-off measures

- Waive salaries tax and tax under personal assessment
- Waive rates for the first two quarters
- Provide one additional month of standard rate CSSA payments for CSSA recipients and one additional month of allowance for SSA recipients

**A \$20 billion package of tax concessions  
and one-off measures to share wealth with  
the community**

## Fiscal reserves

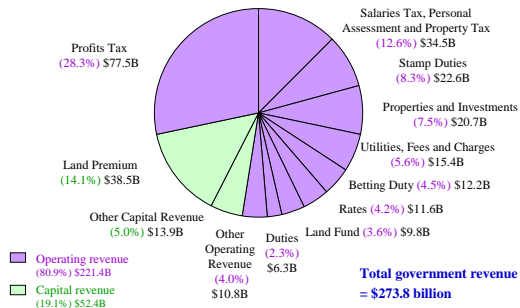


Figures in brackets represent the equivalent number of months of government expenditure.

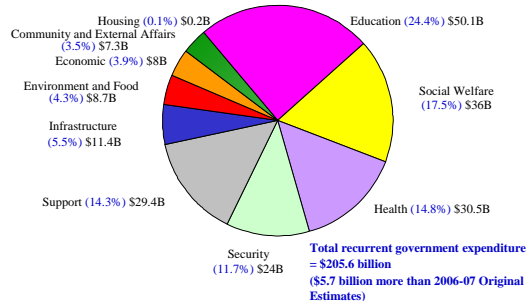
## Investment income of the fiscal reserves

- The return on the fiscal reserves will be calculated on the basis of the average rate of return of the Exchange Fund's investment portfolio over the past six years
- Increase Government's investment income and enhance its stability
- The rate of return for 2007-08 will be 7%

## Revenue profile for 2007-08 (Estimates)



## Expenditure profile for 2007-08 (Estimates)



## 2007 Medium Range Forecast

(\$ billion)	2007-08	2008-09	2009-10	2010-11	2011-12
Operating revenue	221.4	244.7	258.2	270.6	287.2
Operating expenditure	214.2	221.7	229.5	237.5	245.8
Operating surplus	7.2	23.0	28.7	33.1	41.4
Capital revenue	52.4	63.0	64.0	63.8	67.5
Capital spending	34.2	36.4	47.0	51.5	50.2
Repayment of government bonds and notes	-	2.7	3.5	-	-
Capital financing surplus	18.2	23.9	13.5	12.3	17.3
Consolidated surplus	25.4	46.9	42.2	45.4	58.7
Fiscal reserves	391.2	438.1	480.3	525.7	584.4
- as a number of months of government expenditure	19	20	21	22	24
- as a percentage of GDP	25.4%	26.9%	27.8%	28.7%	30.1%



## **Consolidating strengths, promoting development**

- Further economic integration with the Mainland
- Reinforce our status as an international financial centre
- Facilitate trade and logistics development
- Promote tourism
- Improve business environment

## **Developing a knowledge-based economy**

- Nurture and attract more talent
- Encourage more research into innovation and technology
- Provide WiFi networks in government venues
- Support the development of the film industry

---

**Thank You**

---