

THE 2009-10 BUDGET

*Speech by the Financial Secretary, the Hon John C Tsang
moving the Second Reading of the Appropriation Bill 2009*

Wednesday, 25 February 2009

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Mr President,

I move that the Appropriation Bill 2009 be read a second time.

Introduction

2. Since my first Budget last year, the global financial environment has changed dramatically. The financial crisis triggered by the US sub-prime mortgage problem is the most severe for the world economy since the Great Depression in the 1930s. This once-in-a-century financial turmoil has spread from the financial markets to the real economy, leading to a synchronised global recession. Being a small open economy, Hong Kong will inevitably be hit by the turmoil and our economy will slide into recession.

3. At times such as this, we need far-sightedness and courage. We also need to be strategic in our thinking and have the ability in problem solving so as to arrest as best we can the knock-on effects of the financial crisis. More importantly, we need to use our expertise to anticipate the development of the financial turmoil by taking countermeasures and making judgement in light of circumstances. We are responding with measures to ease the liquidity crunch in the financial system, relieve financing difficulties faced by enterprises, and bolster the community's confidence.

4. I will be responsive to social problems arising from the economic downturn, including unemployment, reduced incomes, and the negative wealth effect of lower property and stock values. I will provide a full, clear and honest account of our economic prospects. Through clear appreciation of the troubles we face together, we will endure and overcome them together.

5. To our citizens, having a job is of the utmost importance. In a financial crisis, having a secure job is like an anchor that provides stability to a ship in rough seas. The best way to preserve jobs is to improve our economy. Therefore, while we need to create more employment opportunities in the near future, we should concentrate on promoting medium and long-term development, strengthen our economic foundations, bolster our existing strengths and tap new opportunities during this worldwide economic slump. The financial turmoil has impacted on the life of many citizens. Until the turmoil subsides, we need to help those with new or added burdens so that they can overcome the present difficulties.

6. In preparing this Budget, I have been guided by three principles. First, in response to the economic recession and rising unemployment, I have given priority to measures that are effective in creating jobs and supporting employment. Second, I have sought measures that can increase the overall competitiveness of our economy and enhance the quality of life for our society. Third, to foster a return to healthy growth in the economy, I have sought measures that promote a more sustainable economic development, tap new opportunities, and provide new economic drivers to benefit Hong Kong in the long run.

7. In this Budget, I will explain the short, medium and long-term strategies to be adopted by the Government, adhering to the principles of prudent management of public finances and acting in the interest of our citizens:

- In the short term, I will introduce more measures to strengthen the employment programme we have implemented since last September to counter the financial crisis;
- For the medium and long term, I will spell out measures to grasp opportunities in the Mainland, consolidate our strengths in financial services, promote tourism and implement infrastructure projects. The aim is to help Hong Kong recover from the current financial crisis and enjoy healthy economic growth again; and
- At the same time, we will continue to sustain endeavors to develop a more caring society, provide assistance to the disadvantaged, build a more cohesive community and enhance the quality of life for every citizen.

8. Troubled times have come, but I am confident that with tenacity and wisdom we can weather this financial storm and put Hong Kong back on course again as a vibrant city of opportunity.

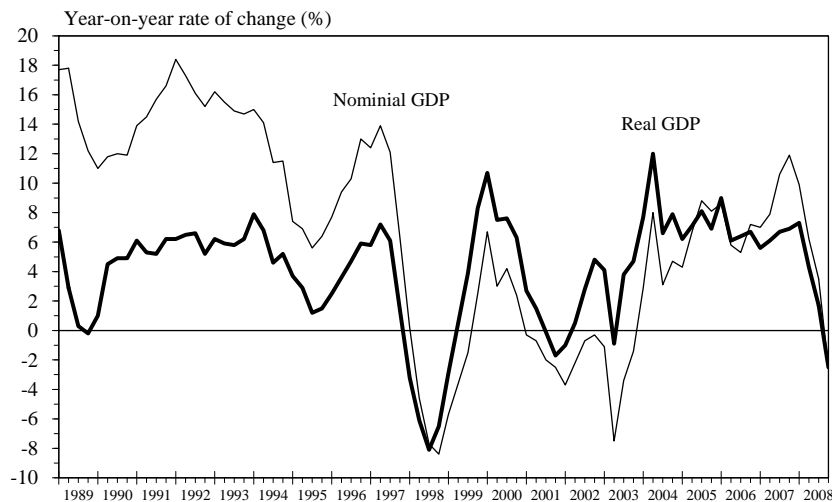
Hong Kong Economic Performance and Outlook

Economic Performance 2008

9. As a result of the financial crisis and a slow-down in the global economy, Hong Kong's economy suffered a heavy blow in the latter half of 2008. Gross Domestic Product (GDP) growth fell successively from 7.3 per cent in the first quarter, to 4.3 per cent in the second quarter, 1.7 per cent in the third quarter, and minus 2.5 per cent in the fourth quarter. For 2008 as a whole, GDP grew by 2.5 per cent, lower than the trend growth rate over the past 10 years.

Chart 1

Gross Domestic Product

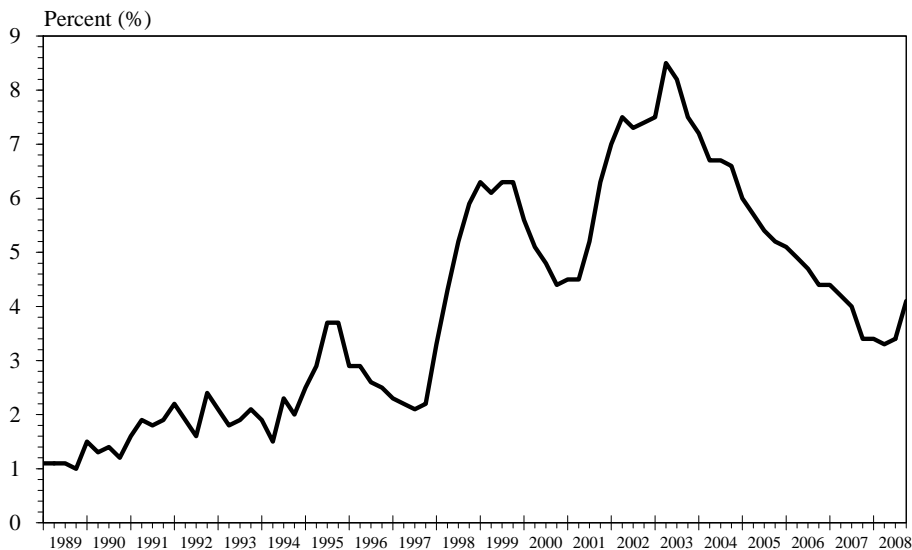


10. On the trading front, because of sluggish overseas markets and the global credit crunch, growth in Hong Kong's exports of goods decelerated last year, recording an increase of only two per cent in real terms. Consumer sentiment has worsened visibly. The drop in asset prices and bleaker economic prospects saw private consumption expenditure grow by only 1.8 per cent in 2008, a marked slow-down from the rapid growth in 2007.

11. Towards the end of last year, enterprises took a more cautious approach to investment and staff recruitment. Gross domestic fixed capital formation dipped 0.3 per cent for the whole year. After falling to a 10-year low of 3.2 per cent in the middle of last year, unemployment reversed to an uptrend. The latest figure is 4.6 per cent. The financial crisis also caused a rapid decline in the property market towards the end of last year. Negative equity cases increased to more than 10 000 in the fourth quarter. This represents two per cent of the total number of residential mortgages.

Chart 2

Unemployment Rate

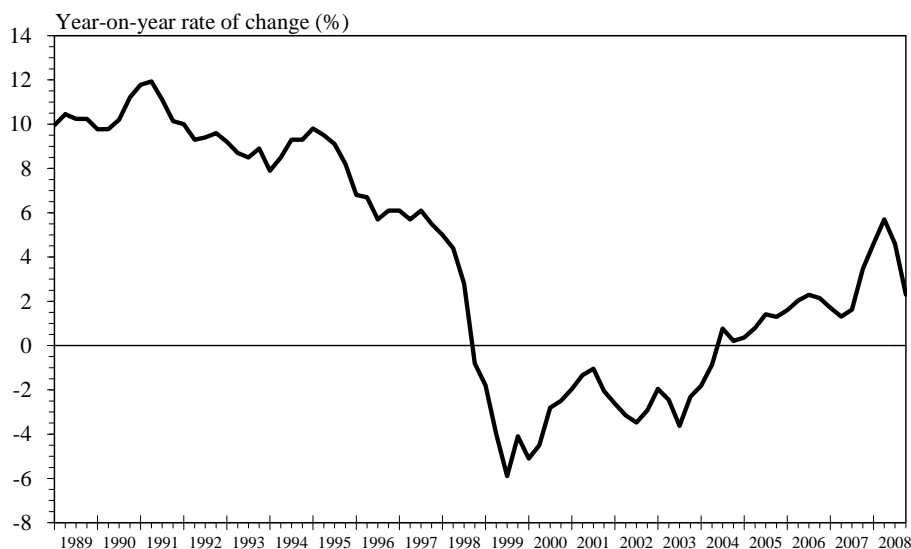


12. As a result of a surge in world food prices, local inflation went up for most of last year. The rise in private housing rental earlier on, resulting from an increase in demand, also brought inflationary pressure. With the fall in global food and energy prices and the decline in consumer demand in the second half of last year, the inflationary pressure on Hong Kong eased off notably by the end of last year.

13. The Budget that I presented last year and the package of relief measures announced by the Chief Executive in July 2008 helped lower headline inflation. The International Monetary Fund also agreed that these measures had provided a timely stimulus to the economy and protected vulnerable groups from the consequences of high food prices and the effects of economic downturn. The average inflation rate as measured by the Composite Consumer Price Index for 2008 was 4.3 per cent. If there had not been relief measures, the inflation rate would have been 5.6 per cent.

Chart 3

Composite Consumer Price Index



Economic Outlook 2009

14. 2009 will be a very difficult year. Both external trade and domestic demand are expected to remain subdued. I forecast a decrease in GDP by two to three per cent for 2009, the first negative growth for a whole year since the Asian financial crisis in 1998. With the economy sinking into recession, the employment situation is

expected to deteriorate further. As regards inflation, given weaker demand and a significant drop in global commodity prices starting from the second half of last year, I forecast that the headline inflation rate in 2009 will ease to 1.6 per cent.

15. In the midst of a worldwide economic downturn, we all hope for a full recovery as soon as possible. Given the fluid economic situation and the varying effects of stimulus measures being taken around the world, it is likely that the global economy will take some time to return to normal. It is hard to predict accurately now when recovery will come about. I shall provide an update on the overall economic condition in the middle of this year.

2008-09 Outturn

16. I estimate that operating expenditure for 2008-09 will be \$260 billion. As it covers the costs of various one-off measures to provide relief and to leave wealth with the people, operating expenditure for 2008-09 will be higher than that for 2007-08 by 27 per cent.

17. As regards operating revenue, although I have taken into account in my last Budget a number of tax concessions, the lagging effect of the rapid economic growth in 2007-08 led to higher-than-expected revenues from profits tax and salaries tax this year. Besides, the impact of the financial crisis on tax revenue has yet to be fully reflected in 2008-09. Therefore, I estimate that operating revenue for 2008-09 will be \$278 billion, \$28.6 billion higher than the original estimate.

18. For capital revenue, land premium is estimated at \$16.9 billion, which is \$26.2 billion lower than the original estimate of \$43.1 billion, a decrease of 73 per cent over 2007-08.

19. For capital works expenditure, excluding the \$21.6 billion endowment to the West Kowloon Cultural District Authority, the revised estimate for expenditure on government works projects for 2008-09 is \$23 billion, \$1.2 billion higher than the original estimate of \$21.8 billion and an increase of 12 per cent over the \$20.5 billion spent in 2007-08. I expect an even larger increase in capital works expenditure in 2009-10.

20. Overall, I forecast a surplus of \$18 billion in the Operating Account and a deficit of \$4.9 billion in the Consolidated Account for 2008-09. This deficit, equivalent to 0.3 per cent of our GDP, is close to the deficit of \$7.5 billion in the original estimate. This can be regarded as achieving fiscal balance. Fiscal reserves are forecast to stand at \$488 billion by end March 2009.

Principles of Management of Public Finances

21. In last year's Budget, I stated my principles of management of public finances. These are: managing public finances prudently by keeping expenditure within the limits of revenues, maintaining a low and simple tax regime, and following the direction of "Market Leads, Government Facilitates". I also explained three basic principles that I have strictly adhered to, that is, pragmatism, commitment to society, and sustainability. These underlying principles serve the overall interests of Hong Kong.

22. I believe that public finances should be managed in such a way to respond to people's needs and aspirations. In face of economic recession, while keeping to our fiscal policies, I will make good use of the Government's resources to assist our citizens in overcoming their difficulties, with a view to breaking the vicious economic cycle and minimising the negative effects of the economic downturn.

23. Last year I put forward a package of measures to leave wealth with the people. During economic downturn, public finance can play a more effective role. Adopting more proactive fiscal policies is not to stifle the vitality of the market, but to give fuller play to the Government's role as a facilitator. I will pragmatically review the various economic segments and decisively inject impetus into the economy, in order to bolster market confidence and provide a better environment for enterprises to play to their strengths. I will also be sensitive to the needs of different sectors of the community and provide the necessary assistance.

Short-term Strategies

Countering Financial Crisis

24. The global financial situation has deteriorated rapidly since last September. We have taken the following multi-pronged, strategic measures.

- First, last September we introduced a series of measures to ensure the stability of financial institutions and the market to bolster public confidence in our financial systems. These measures included the provision of liquidity assistance to the banking system, provision of full deposit guarantee according to the principles of the Deposit Protection Scheme and the establishment of a Contingent Bank Capital Facility;
- Second, in November and December last year, we introduced new measures in two phases to address the funding needs of small and medium enterprises (SMEs). In the first phase, we allowed greater flexibility in the use of the loans under the SME Loan Guarantee Scheme and

extended the guarantee period for the Working Capital Loan. In the second phase, we set up a Special Loan Guarantee Scheme whereby the Government's guarantee ratio was increased to 70 per cent and the guarantee commitment to \$100 billion to help SMEs to solve their cashflow problems. Since the launch of these measures, the Government had approved more than 3 000 applications, involving loans of over \$6 billion;

- Third, after the meetings of the Task Force on Economic Challenges, the Chief Executive announced a series of measures to preserve employment, including the provision of more than 60 000 employment opportunities this year through expediting works projects, the recruitment of civil servants and creating temporary and other posts. The Government also sought co-operation between the public and private sectors, including universities, statutory bodies and local and international Chambers of Commerce to create employment and internship opportunities; and
- Fourth, after introducing a Renminbi 4-trillion stimulus package last November, in December the Central Government introduced 14 measures to support our financial stability and economic development. We are maintaining close liaison with the Central Government and relevant Mainland authorities to ensure maximum benefit of these opportunities for our businesses and employment.

25. Mr President, in my last Budget I proposed a number of fiscal measures to ease inflationary pressure and to prepare for the expected economic slow-down starting at the end of 2008. In mid-July last year, the Chief Executive announced 10 additional measures to improve people's livelihood. This \$57 billion relief package – equivalent to 3.4 per cent of 2008 GDP – helped ease the burden of

the grassroots and the middle class and achieved our goal to relieving the hardship being faced by the people. Some of these measures, such as the lowering of the standard rate, the electricity charge subsidy and food assistance, will continue to benefit the citizens in 2009-10.

Preserving Jobs

26. Jobs are important to social stability. I agree with the view that Government's efforts to sustain employment should not focus on a few sectors. They should benefit all businesses. Preserving jobs is my primary objective in preparing this Budget. We will not reduce expenditure because of the economic downturn and reduction in revenue. We will adopt counter-cyclical measures and government expenditure will exceed \$300 billion next year. This will help ease the pressure of economic contraction, boost domestic demand and increase employment opportunities.

27. We will also introduce some targeted measures to provide various types of jobs and internship opportunities. These measures fall into four groups:

- First, I will earmark \$400 million non-recurrent funding for the Labour Department to enhance and integrate its various employment programmes to provide training and employment opportunities. We will raise the levels of subsidy to employers as an incentive for them to hire middle-aged people and disabled persons, and extend the subsidy period. It is estimated that these measures will benefit 44 000 people in the next two years.
- Second, I will provide \$13 million additional funding for the Labour Department to adopt a more proactive approach in providing employment assistance to those made redundant during the financial crisis. This

assistance will include contacting the affected employees and providing them with priority referral and job matching services so that they can find suitable jobs as soon as possible. In addition, we will organise more job fairs to provide them with a wide range of employment information.

- Third, to address the influx of graduates into the labour market in the middle of the year, we have approached and received positive feedback from University Grants Committee funded institutions and self-financing universities, the Hong Kong Chinese Enterprises Association and relevant chambers of commerce on measures to relieve employment difficulties for these graduates. We will launch an “Internship Programme for University Graduates” in the middle of the year. The programme will provide interested graduates with opportunities to work as interns and receive training in local or Mainland enterprises for six to 12 months. It will broaden the horizon of our graduates and help them gain experience, as well as nurture talent for the industrial and business sectors. I have earmarked about \$140 million for subsidising the internships and meeting other related expenses under the programme. We expect the programme to benefit about 4 000 graduates.

- Fourth, I will provide an additional \$1.1 billion non-recurrent funding to provide various types of jobs. The measures include:
 - (1) introducing a two-year “Operation Building Bright” campaign for maintenance of 1 000 dilapidated buildings, including those without owners’ corporations. This will be done in co-operation with the Hong Kong Housing Society and the Urban Renewal Authority. I will earmark \$700 million

and the two organisations will each provide funding of \$150 million to assist owners of these buildings carry out repair and improvement works. Elderly owner-occupiers will be eligible for a full subsidy of maintenance costs subject to a ceiling of \$40,000, while non-elderly owners will enjoy an 80 per cent subsidy capped at \$16,000. The campaign will create 10 000 jobs in the next two years;

- (2) earmarking \$100 million to assist organisers to host more attractive events in the areas of arts, culture and sports over the next three years to further promote Hong Kong as an events capital of Asia. This will help attract more tourists, stimulate consumption and promote economic development. It is expected that such activities will create some 2 800 jobs;
- (3) allocating \$78 million to promote and organise community involvement activities under the theme of “Green, Cultural, Dynamic Games” and to publicise the 2009 East Asian Games. This year also marks the 60th anniversary of the founding of the People’s Republic of China. We will join with various sectors of the community to organise a number of celebration activities, including art and cultural performances, exhibitions and youth exchange programmes. These activities will create about 260 jobs in project co-ordination, publicity and promotion;
- (4) earmarking \$63 million to conduct a one-year education programme to teach Internet users, especially young students, how to use the Internet appropriately and safely. It is expected that this programme will create about 500 jobs; and

- (5) allocating an additional \$130 million to carry out works to enhance energy efficiency of government buildings and public facilities. It is expected that this measure will create some 200 jobs while helping to improve the quality of public buildings.

28. Besides creating jobs directly, the above measures will also provide training and job opportunities specifically to those in need, including young people, graduates, women, the middle-aged and the disabled. These measures will entail a provision of \$1.6 billion and create about 62 000 jobs and internship opportunities in the next three years.

Directions for Development and Prospects

Consolidating Fundamentals, Embracing Challenges

29. To address our present challenges, as well as taking concrete and timely steps to increase employment and give fresh impetus to the economy, we must formulate strategies for the long-term development of Hong Kong. We must lay a better foundation for the next generation.

30. The citizens expect us to take action to overcome the challenges posed by the financial turmoil. The drastic economic changes have fostered new roles for the Government. We must seize the opportunities for economic development. We will adopt a positive approach and formulate specific and effective policies. In the process, the Government will work more closely with the community and act as a more proactive market facilitator in economic development when necessary. For example, with increasing

economic integration between Hong Kong and the Mainland, the two economies have established a very close relationship, and it is necessary for Hong Kong to reposition itself in the national plan. The past practice of enterprises moving ahead of the Government may not always suit the development trend. We must have greater involvement in both regional economic planning and national strategic positioning. The Government will play an increasingly important role as a “champion”.

31. We are not departing from market principles. We should not intervene when the market is functioning properly. This does not mean we are going down an interventionist route. We will review pragmatically the future directions for Hong Kong’s economic development and provide a suitable platform for sustainable economic growth where necessary. There are times when the market fails and Government action is called for. In considering Government measures, we need to take into account whether they are in the interests of the community, provide a platform for long-term social development, and enhance the overall competitiveness of Hong Kong.

32. We will tap business opportunities and promote economic development more proactively. For example, we will promote employment training and encourage universities and business chambers to work with the Government to provide internship opportunities for university graduates. So is the promotion of green economy. My key strategies for sustaining the development of our economy include:

- Promoting development of the regional economy and continuing economic integration with the Mainland;

- Consolidating our role as a financial, business support and professional services, logistics and tourism hub;
- Reaching into new economic territory such as new technology-based economy, creative economy and green economy, to enhance Hong Kong's long term competitiveness; and
- Investing in the future by implementing infrastructure projects.

Regional Economy

Fostering Hong Kong/Guangdong/Macao Co-operation

33. The interaction between Hong Kong and the Mainland have been evolving over the past 30 years. Today the two economies are highly integrated. My confidence in Hong Kong's future is buttressed by our advantage in having the Mainland as our hinterland. To effectively and speedily implement and follow-up on the "Outline of the Plan for the Reform and Development of the Pearl River Delta" (the Outline) published by the National Development and Reform Commission in January this year, Guangdong and Hong Kong have agreed to focus on four priority areas of co-operation, namely: the financial industry; service industries; infrastructure and town planning; and, innovation and technology. At the same time, both sides have proposed to incorporate the concept of transforming the Pearl River Delta (PRD) region into a green and quality living area into the national 12th Five-year Plan.

34. At their first co-ordination meeting, senior officials from the Guangdong, Hong Kong and Macao governments discussed specific actions to implement the Outline and regional co-operation initiatives. The meeting reached consensus on major areas of work. We will seek to identify economic opportunities in keeping with the Greater PRD region's effort to upgrade its industries. We will capitalise on the opportunities presented by the Outline to increase co-operation among the three places on all fronts so as to set directions and targets that are most beneficial to the long-term development of the Greater PRD region.

35. As a financial, trading and services centre for the region, Hong Kong must strengthen infrastructural link with the Mainland. We will expedite the study and implementation of various major cross-boundary infrastructure projects, including the Hong Kong-Zhuhai-Macao Bridge, the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Hong Kong-Shenzhen Airport Rail Link, and the Liantang/Heung Yuen Wai Boundary Control Point.

“Three Direct Links” and Exchanges with Taiwan

36. The SAR Government supports the full implementation of the “Three Direct Links” across the Taiwan Strait. Although the implementation may weaken certain intermediary roles of Hong Kong in the short term, I believe that in the medium and long term this will further liberalise the trade flows between the Mainland, Taiwan, Hong Kong and Macao. Hong Kong will maintain its strategic position and reap greater economic benefits from the “Three Direct Links”. I have set up an inter-departmental steering committee to study and co-ordinate overall strategy and action plans on closer economic and trade ties with Taiwan.

37. The Taipei Office of the Hong Kong Trade Development Council commenced operation in late 2008. It will step up efforts to promote trade and service industries in Taiwan. Moreover, we are encouraging the industrial and business sectors and Taiwan businessmen in Hong Kong to set up a Hong Kong-Taiwan Business Co-operation Committee to provide opportunities for direct exchanges between enterprises from both places and to foster closer co-operation in areas such as trade, investment and tourism.

Hong Kong-Macao Co-operation

38. Hong Kong and Macao have always had a close relationship and both governments aim to strengthen our ties further. Co-operation and liaison between the two SARs are now being enhanced by meetings between Hong Kong and Macao jointly chaired by me and Macao's Secretary for Economy and Finance. The publication of the "Outline of the Plan for the Reform and Development of the Pearl River Delta" has provided more opportunities for co-operation between the two places. We consider there is a need to strengthen our links with Macao in economic and other areas, especially in tourism and convention business, cross-boundary infrastructure and economic development in order to achieve synergy through complementing each other's strengths.

Promoting Sustainable Economic Development

39. Despite the impact of the global financial crisis and other external factors, we still enjoy a number of advantages, including a sound institutional framework, a large pool of talent, solid commercial fundamentals, and a favourable geographical location. We will continue to capitalise on our strengths and to enhance the four pillar industries, namely financial services, logistics, tourism, and business support and professional services.

40. Human capital is the most valuable resource for our pillar industries and sustaining our economic edge. We will continue to invest heavily in education to develop human capital. The estimated expenditure on education will be \$61.7 billion for 2009-10, which accounts for the largest share of government expenditure.

41. As a world city, Hong Kong must nurture biliterate talent and equip the younger generation with the abilities of self-learning, innovation and coping with changes. In preparation for the new senior secondary academic structure to be introduced this September, we have earmarked about \$7.5 billion to provide professional support to secondary schools and support tertiary institutions in preparing new courses and carrying out infrastructure projects. Upon full implementation of the new structure, an additional annual recurrent funding of about \$2 billion will be required to meet the new demand of secondary and tertiary education. We plan to invest around \$950 million in the next few years to implement measures supporting the medium of instruction arrangement for secondary schools and the teaching and learning of English in primary schools. We also plan to invest an additional \$21 million each year starting from the next financial year to promote national education, so as to offer more opportunities for teachers and students to join Mainland exchange programmes and study trips.

42. Measures to promote the co-operation between Guangdong, Hong Kong and Macao will foster economic development, creating ample business opportunities for the logistics and other service industries of Hong Kong. At the end of last year, I led a business delegation, travelling by land from Nanning in Guangxi through the Friendship Gate to Hanoi in Vietnam. The purpose of the visit was to increase our understanding of economic conditions and the business environment in these areas. We explored business opportunities particularly in logistics and professional services. We will enhance sea, air and land transport networks, including allocating additional resources for air traffic control and enhancing our Shipping Register service, thereby reinforcing Hong Kong's status as a regional

logistics hub. We will also strive to introduce more liberalisation measures for early and pilot implementation in the Guangdong Province under CEPA for service industries in support of the service sectors where we have a competitive edge, and continue to work closely with relevant organisations to give our business sectors greater support in expanding access in the Mainland and overseas markets.

Consolidating our Position as a Financial Centre

43. Since the outbreak of the financial crisis, the global financial industry has been facing great changes. All economies have been seeking a new balance between financial innovation and effective supervision. During this period of global financial change, we must capitalise on our strengths and improve our supervisory framework. This will benefit both Hong Kong and our nation.

44. Financial services are high value-added industries and are closely inter-related with other professional services. A highly efficient and robust financial industry provides a financing channel for all businesses, increases their competitiveness, and indirectly creates a large number of jobs in other industries. We will seize the moment to improve the efficiency, supervision and transparency of the financial market, strengthen our competitiveness and prepare ourselves for increasing financial co-operation with the Mainland.

Participating in the Work of International Financial Institutions

45. Last November, as a member of the Chinese delegation, I had the opportunity to attend the G-20 Leaders Summit on Financial Markets and the World Economy held in Washington D.C. After the meeting, the leaders issued a statement outlining direction for reforming the international financial system and relevant action plans. They are expected to meet again in London this April to review the progress of reform and discuss related economic issues. We will

participate in the preparation work for the London Summit. I hope that the Summit can achieve results in restoring market confidence, promoting global economic growth and taking forward the reform of the international financial system.

Increasing Co-operation with Emerging Markets

46. To consolidate Hong Kong's position as an international financial centre, we will further develop and increase financial co-operation with emerging markets. Particular measures are needed to improve Hong Kong's regime as a platform for the growing area of Islamic finance. Since the structure of most Islamic financial products involves the sale and re-purchase of assets, such transactions may entail tax liabilities in Hong Kong. Therefore, we plan to submit to the Legislative Council in 2009-10 a proposal to create a level playing field for Islamic financial products vis-à-vis conventional ones. The proposal will include making changes to or clarifications of the arrangements for stamp duty, profits tax and property tax.

Optimising the Supervisory Framework

47. The Lehman Brothers Minibonds Incident has exposed certain problems of banks in conducting securities business. After considering reports prepared by the Hong Kong Monetary Authority and the Securities and Futures Commission, we have drawn up an Action Plan for conducting consultation on the recommendations and implementing the related measures in phases so as to further improve our regulatory framework and enhance investor protection.

48. We are now working with the regulatory bodies to implement the initial phase of improvement measures. These include the introduction of new administrative guidelines or codes to strengthen the regulation of the business operation and conduct of financial intermediaries. Some of these improvement measures have

already been implemented immediately. Further measures will be implemented after the regulatory bodies have completed their consultations. We are also considering action for the next phase and preparing for consultations on certain subjects relating to structural adjustment of our financial regulatory framework. We will also take into account the views of the Legislative Council Subcommittee to Study Issues Arising from Lehman Brothers-related Minibonds and Structured Financial Products, which will help us formulate the relevant legislative proposals. We will seriously and pragmatically review and implement the relevant measures in light of Hong Kong's unique background and needs, global financial development trends, recommendations of international financial institutions (including the G-20 and the Financial Stability Forum) and views from various sectors of the community.

Promoting Further Development of the Bond Market

49. Promoting the development of the bond market is important to reinforcing Hong Kong's position as an international financial centre. This can provide more diversified investment products and avenues for financing to attract more overseas capital, enhancing stability of our financial system. The Government has been working on this. Apart from providing the necessary financial infrastructure and relevant tax incentives, we have offered investors more choices through issuing different types of bonds. To promote the further and sustainable development of our bond market, we intend to implement a programme to issue government bonds.

50. I would like to emphasise that the aim of the government bond programme is to promote the further development of our bond market and to provide more choices to both institutional and individual investors. In view of the current investment market conditions and low interest rates, we believe that there is demand for quality bonds. The sums raised will be credited to a fund to be established under the Public Finance Ordinance. The fund will not be

treated as part of the fiscal reserves and will be managed separately. We will seek the views of the trade on details of the bond programme later and make necessary adjustments at the implementation stage having regard to market needs. We will put forward to the Legislative Council as soon as possible the resolutions for issuing bonds under the programme and for establishing the fund. We will also examine, in consultation with relevant sectors, whether there is room for further improvement in the existing financial infrastructure and mechanisms, so as to promote the development of bond products.

Extending the Network of Agreements for Avoidance of Double Taxation

51. Agreements for the avoidance of double taxation with major economies will help improve the business environment and facilitate flows of trade, investment and talent between Hong Kong and the rest of the world. They help reduce tax burdens on individuals and enterprises and eliminate uncertainties over tax liabilities. They also enhance Hong Kong's position as an international business and financial centre. To this end, I signed the fifth agreement of this kind with Vietnam during my visit there last December.

52. In recent years, our major trading partners have raised the requirements on the exchange of tax information under such agreements. Our existing legislation has not kept pace with this development. To further extend our network of such agreements, we consulted the industry in mid-2008 on liberalising the arrangements for the exchange of tax information. I believe that the business and professional community generally agrees that Hong Kong should align its arrangements for the exchange of tax information with international standards so that we can enter into such agreements with more economies. We plan to put forward relevant legislative proposals by the middle of this year.

Tourism Economy

53. Tourism is important to our economy and currently employs a workforce of over 170 000. In face of the current economic difficulties and competition from other regions, we should take proactive action to facilitate the continuous development of tourism. This will stimulate growth and create employment in our service industries including retail, catering and hotel industries.

Individual Visit Scheme

54. From the launch of the Individual Visit Scheme in July 2003 up till the end of last year, over 35 million Mainlanders had visited Hong Kong under the scheme, serving as an important stimulus for our various consumer industries. Last December, the Central Government announced additional measures to further facilitate Mainland residents to visit Hong Kong under the scheme, covering over 8.6 million residents of Shenzhen. As a next step, we will, in collaboration with the Guangdong and Macao governments, seek to extend the coverage of the pilot liberalisation measures from Shenzhen to the rest of Guangdong Province.

Promotion Strategies

55. We have worked with the Hong Kong Tourism Board (HKTB) to adjust promotion strategies. We will develop new tourism products and step up promotion in high-growth source markets. These include Japanese seniors, the young Taiwanese and Indian families. The governments of Hong Kong and Japan have designated 2009 as “Hong Kong-Japan Tourism Exchange Year” to promote Hong Kong’s diversified tourism products to Japan and arouse Japanese visitor interest in Hong Kong. The Government has also decided to finance the construction of the Kai Tak cruise terminal. Work is expected to commence this year. The project is expected to

create over 3 000 jobs in the next few years. We are actively discussing with The Walt Disney Company the expansion of Hong Kong Disneyland and any capital realignment of the joint-venture company involved. We hope that agreement will soon be reached on a proposal that will both make Hong Kong Disneyland more attractive as well as serve the overall interests of Hong Kong.

Wine and Food

56. The market has responded favourably to my announcement of the exemption of wine duties last year. Wine trading, distribution and other related businesses have all shown notable growth. In the 10 months ending last December, the total value of imported wine reached \$2.6 billion, an increase of 82 per cent over the same period in 2007. To make the most of this development as well as the release of the Michelin Guide Hong Kong Macao, we will step up the promotion of Hong Kong as an Asian wine and gourmet centre through the “World of Food and Wine” Festival, to be organised jointly by the HKTB and famous wine producers in this October. We have signed co-operation agreements with a number of winegrowing trading partners. These agreements cover investment promotion, trade shows and manpower training. They will reinforce Hong Kong’s status as a regional hub for wine distribution and trading. We will actively encourage wine traders intending to access the Asian market to participate in wine fairs in Hong Kong and to set up business here.

Conventions and Exhibitions

57. To upgrade the software and the hardware for developing these industries, I chair a cross-sector steering committee to co-ordinate measures by various departments. Such measures include facilitating immigration clearance for frequent business travellers, and enhancing co-ordination between government departments, overseas offices and non-government organisations. In addition, the HKTB set

up the dedicated MEHK (Meetings and Exhibitions Hong Kong) Office last November for overseas promotion campaigns and one-stop support services. The atrium link extension of the Hong Kong Convention and Exhibition Centre (HKCEC) will be completed in the first half of this year. This will increase the HKCEC's dedicated exhibition space by 40 per cent.

New Economic Initiatives

58. Faced with the global financial crisis, governments around the world are reviewing their strategies for economic development. There have also been calls for the Government to promote diversification of our economy. During an economic downturn, as well as addressing immediate needs, it is vital that we are far-sighted in encouraging high value-added economic activities that open up new sectors for sustainable economic growth. I will elaborate on our way forward in promoting technology-based, creative and green economies.

Technology-based Economy

59. Promoting the use of technology is a long-term task. We will continue on the path towards a high value-added and knowledge-based economy. We will promote the development of new technologies to enhance the competitiveness of Hong Kong through the provision of infrastructure, manpower training, co-operation with the Mainland and other economies and funding schemes.

60. Last year, the SAR Government and the Shenzhen Municipal Government and DuPont, a US enterprise, started working together to set up DuPont's Solar Energy Thin Film Photovoltaic Research and Industrial Platform in the Hong Kong Science Park and its manufacturing facilities in Shenzhen. This is the first major technology project under the framework of the "Shenzhen-Hong Kong Innovation Circle". It has attracted other solar energy photovoltaic

research institutes to apply for admission to the Science Park. DuPont has also started to collaborate with the Nano and Advanced Materials Institute, one of our five research and development centres, in conducting further research on photovoltaic solar energy technology.

61. We will continue to work with Shenzhen to attract more overseas enterprises with this modality to conduct scientific research in Hong Kong. To further co-operation in various areas under the framework of the “Shenzhen-Hong Kong Innovation Circle”, the two governments will formulate an action plan for the next three years on top of the annual joint funding for co-operative research projects of the two places. In co-operation with the Guangdong Provincial Government, the SAR Government will continue to explore other areas of technological development to enhance the overall research capacity of the PRD region and facilitate the upgrading and restructuring of Hong Kong enterprises in the region.

Hong Kong Science Park

62. The Hong Kong Science Park promotes innovation and technology by providing advanced laboratories and research and development facilities in a quality environment. By assisting technology start-ups through incubation programmes, it creates conditions for business development, which in turn furnishes new business and job opportunities. Phases 1 and 2 of the Science Park have been commissioned. More than 250 local and overseas research institutes have set up their offices in the Science Park, providing a total of over 6 000 technology-related jobs. With annual turnover of \$60 billion to \$70 billion, these institutes have made significant contributions to enhancing the competitiveness of our industries and broadening the base of our economy.

63. We have reserved two purpose-built laboratory buildings in Science Park Phase 2 to support biotechnology research. The buildings will be commissioned in April this year. Biotechnology has potential for wide applications. Our universities are well-positioned to develop this technology. A number of world renowned biotechnology companies have been conducting technological research in Hong Kong, building up a sound foundation for development. In addition to the key development areas of electronics, precision engineering and information technology, biotechnology will become a new cluster in the Science Park.

64. To continue to support development of Hong Kong's research capacity effectively in response to economic restructuring and enterprises' demand for scientific research facilities, and to foster the strategic development of Guangdong/Hong Kong co-operation, the Science Park is exploring the feasibility of and the development plans for Phase 3 of the Park. We will study Science Park's report and will decide on appropriate next steps.

Industrial Estates

65. Economic restructuring and industrial transformation have brought challenges and opportunities to Hong Kong. The Government has always been an active facilitator, providing a level playing field and a suitable environment for the industrial sector to play to its strengths. We have given appropriate support to such areas as research, product development and manpower training. This enables the industrial sector to make the best use of new high technology to further develop high value-added industries.

66. Drawing on the successful experience of our three industrial estates in supporting the development of special industries, we are studying ways to enhance the functions of the industrial estates. We are also reviewing the existing mix of industries within these estates and exploring future market opportunities, including the

introduction of new industries, to ensure that the development of our industrial estates keeps pace with the times and brings the best economic benefit to Hong Kong. It is expected that the study will be completed in the third quarter. We will consider the potential and feasibility of developing a fourth estate.

Research Grants

67. We will increase the number of calls for Innovation and Technology Fund (ITF) applications each year and expand the funded technology areas. We have also relaxed the criteria for the Internship Programme under the ITF to allow more local talent to participate in such projects. We have also raised the grant ceiling for each project funded under the Small Entrepreneur Research Assistance Programme to \$4 million to enhance the competitiveness of enterprises in product and service research.

68. The Finance Committee has approved the establishment of an \$18-billion Research Endowment Fund, and we will also progressively provide 800 additional places for postgraduate research programmes in three years starting from the 2009-10 academic year. These will help increase our research capacity and competitiveness, and attract outstanding researchers, educators and more high value-added enterprises to Hong Kong.

Creative Economy

69. Creativity is an important element for enhancing productivity and competitiveness. As a pluralistic international metropolis, Hong Kong offers fertile ground for the growth of creative industries. At present, Hong Kong has approximately 32 000 creative industry-related establishments. They contribute over \$60 billion annually to our GDP. The Chief Executive announced in his Policy Address the integration of existing government resources to set up a

dedicated office to co-ordinate work on the development of a creative economy and give more effective support to this important sector. It is expected the office will be set up in the middle of this year. Currently, the Film Development Fund and the DesignSmart Initiative provide effective support to the film and design industries respectively. I will earmark \$300 million for the development of other creative industries in the coming three years.

70. We will promote the use of design and nurture more local talent to drive the development of the design industry, incorporate the elements of design and creativity into education, promote the development of the local film industry through the Film Development Council's efforts to expand markets for Hong Kong films in the Mainland and Southeast Asia, and provide financial support to further incubate more digital entertainment companies. We will also develop creative industries with strong local characteristics through the promotion of culture and art.

71. We will continue to promote the accomplishments of our creative industries in the Mainland and overseas. Our participation in the World Expo to be held in Shanghai in 2010 will provide a particularly good opportunity to promote the updated Brand Hong Kong and demonstrate our quality of life and the characteristics of our innovative city. Hong Kong has also been selected to take part in the Urban Best Practices Area Exhibition, where we will showcase our success in the extensive use of smartcard technology in Hong Kong under the theme "Smart Card, Smart City, Smart Life".

72. Through my invitation to a renowned local cartoonist to produce the comic "Tomorrow — Future for Today" to promote the Budget, and through the use of new modes of electronic media to invite public opinions, I have signalled the Government's commitment to make use of local creative industries as well as my commitment to greater public participation in the Budget process.

Green Economy

73. With increasing demands for a better living environment, promoting investments and economic activities that protect the environment and save energy will put the overall economy on a more sustainable path. Promoting a “green economy” will enhance Hong Kong’s overall competitiveness as well as making it a more liveable city. We must boost efforts to help people and enterprises expand the opportunities of a green economy.

Hong Kong/Guangdong Co-operation in Environmental Protection

74. Under the “Outline of the Plan for the Reform and Development of the Pearl River Delta”, we will co-operate with the Guangdong Provincial Government to take forward the concept of transforming the PRD region into a green and quality living area. We will extend the existing areas of co-operation to other domains in order to turn the region into a cluster of high-tech, low-pollution and low-energy-consumption cities. We will further develop regional high-tech recycling industries, and encourage enterprises to adopt advanced technologies for cleaner production, energy saving and emission reduction. On the basis of the Memorandum of Understanding on energy co-operation signed by the HKSAR Government and the National Energy Administration, we will encourage energy enterprises of the two places to increase their co-operation in the supply of electricity and natural gas as well as the construction of related infrastructure.

Electric Vehicles

75. In recent years, there have been breakthroughs in the technology for electric vehicles. Automobile manufacturers are actively exploring using new generation batteries to develop electric vehicles with longer travel range that can better satisfy drivers’ needs.

The door is opening to wider use of such vehicles, which are more energy efficient and emit no exhaust gas. Automobile manufacturers expect that new generation electric vehicles will be put on the market in the coming few years after technical problems such as battery capacity have been solved.

76. Promoting the use of electric vehicles will create additional business opportunities. In 2006, the Government established the Hong Kong Automotive Parts and Accessory Systems R&D Centre. Through the research efforts of local universities, some local companies have started to produce electric vehicles for sale in the UK market. We hope that the industrial sector can grasp this opportunity to develop and produce parts and accessory systems for electric vehicles in collaboration with the Centre. Moreover, the Government will study the feasibility of jointly promoting electric vehicles with manufacturers. We will be actively involved in vehicle tests conducted in Hong Kong with a view to introducing electric vehicles into our market early. We will also consider introducing such vehicles into government fleet when the related technology has matured and the vehicles are available on the market.

77. To further promote the use of electric vehicles, I propose to extend the exemption for electric vehicles from First Registration Tax, which is due to expire on 31 March 2009, for a further five years instead of three years as in the past.

78. Re-charging facilities are crucial for the wider use of electric vehicles. We will examine the feasibility of providing re-charging facilities in government multi-storey car parks and explore ways of encouraging the business sector, including property developers and private car park operators, to set up such facilities. I will lead a steering committee to study the wider use of electric vehicles in Hong Kong. The committee will carry out in-depth studies and make recommendations from the perspectives of economic development, town planning, industry, technology, environmental

protection and transport to take this important first step towards cleaner, more efficient transport technology.

Green Buildings

79. Buildings account for some 90 per cent of our total electricity consumption. Much needs to be done to improve energy efficiency in buildings. We will allocate about \$450 million to carry out minor works in government buildings in the next two years to install energy efficient lighting systems, retrofit plumbing with water saving devices and incorporate energy efficient features in air-conditioning, elevator and escalator systems.

80. The Environment and Conservation Fund has agreed to allocate \$450 million for private building owners to conduct energy-cum-carbon audits and energy efficiency improvement projects. We expect to subsidise over 1 600 projects. This will also create business opportunities for related sectors. I call on the owners of private buildings to make good use of the funding scheme to improve energy efficiency.

81. Government initiatives and efforts of the community are of equal importance. With the support of the Construction Industry Council, the Hong Kong Green Building Council will soon be established. The Council will comprise representatives of the construction industry and professional sectors. It will help raise public awareness of green buildings and facilitate exchange and technological co-operation between Hong Kong and the rest of the world. We welcome the establishment of the Council, and will support its work.

Implementing Development Projects, Investing in the Future

Pushing Ahead Public Works Projects

82. A key strategy of this Government is to promote economic growth through infrastructural development. Over the past 20 months, we have made good progress in implementing the Chief Executive's initiative of undertaking ten major infrastructure projects to enhance our overall competitiveness and in carrying out other major projects. We estimate that capital works expenditure for 2009-10 will be as high as \$39.3 billion.

Promoting Private Development Projects

83. During the past 10 years, works completed by the public sector only accounted for about 30 to 50 per cent of overall construction output. Government infrastructure projects cannot support all economic activities and provide all employment opportunities in the construction industry. To better co-ordinate development projects involving policies handled by different government departments, we will soon set up a Development Opportunities Office under the Development Bureau to provide an effective platform where bureaux and departments can jointly assess the benefits brought by proposed projects and provide co-ordinated enquiry services. I would like to stress that this mechanism will not replace the existing statutory procedures, public consultation and regulation. To engage the public at the earliest stage on these private development projects, we will re-organise the existing Land and Building Advisory Committee by appointing new members from the community, together with representatives of various trade bodies, to contribute their ideas to the work of the Office.

Supporting Community Infrastructure Projects

84. The Development Opportunities Office will also provide one-stop consultation and co-ordination services for community infrastructure projects. After the second meeting of the Task Force on Economic Challenges, the Chief Executive announced that government departments should provide more active support to charitable and voluntary organisations considering extension or relocation plans. We have subsequently received about ten community building proposals. Depending on the specific needs of individual projects, we will consider the provision of non-recurrent funding.

Land Supply

85. The 2008-09 Application List provided the market with a variety of commercial/residential sites and “hotel use only” sites. Because of the economic downturn, there were few applications to trigger sites for sale for the whole year. So far we have only sold one small residential site. Although this has affected our land revenue for the year, it proves that a market-driven land sale mechanism can better reflect and respond to economic changes. We have reviewed the development parameters of certain sites to better respond to the aspirations of the community for lower development density. We will adhere to the principles of certainty, clarity and consistency in preparing the Application List for the next year. We will extend the pilot measures for “hotel use only” sites for another year. At the same time, the Lands Department will continue to explore practicable ways to streamline the lease modification process and update premium assessment in light of market conditions.

Building a Caring Community

Building the Community, Improving Quality of Life

86. During the Budget consultation, a number of people said that when addressing the challenges ahead, we must at the same time strive to strengthen our community and improve the quality of life. I share this view. This is indeed our commitment to the community. As citizens of Hong Kong, we take pride in our sophisticated infrastructure and good city management, and how we have together built Hong Kong into a liveable, cultured and vibrant city.

A City of Quality

87. Developing Hong Kong into a city of quality is our pledge to the citizens. We will continue to invest in the hardware of urban construction, and also constantly upgrade the software such as urban management and heritage conservation. It is our common wish to make Hong Kong a better place to live in. We will revitalise historic buildings, build a greener city of low-energy consumption, and make our harbourfront more enjoyable.

88. These efforts to build a city of quality must be rooted in the community. We will continue to allocate \$600 million annually to all 18 District Councils to organise community involvement programme suited to each district's characteristics and to carry out district minor works that meet district needs.

Urban Renewal

89. The renewal of old areas aims to improve the living environment, re-structure land use for providing community facilities, and meet future development needs. Any redevelopment project is bound to face challenges in such areas as property acquisition and compensation, and the preservation of the characteristics and community networks of the old areas. Therefore, redevelopment cannot, and should not, be the only or the mainstream option. In last year's Budget, I encouraged various sectors of the community to participate in the review of the Urban Renewal Strategy. We recently completed Stage 1 of the review. In the remaining stages, we will continue to explore with the public the future direction for urban renewal in Hong Kong with an open mind.

Building Maintenance

90. To address the problem of dilapidated buildings, we have, together with the Urban Renewal Authority and the Hong Kong Housing Society, adopted various measures over the years to help owners to meet their obligations to maintain their buildings. In my last Budget, I earmarked \$1 billion to implement the "Building Maintenance Grant Scheme for Elderly Owners", providing a maximum subsidy of \$40,000 to each eligible elderly owner. So far about 2 000 elderly people have benefited from the Scheme.

91. We are determined to tackle the problem of dilapidated buildings. We will introduce new legislation on mandatory building and window inspection by the end of this year, and implement a new minor works control system that facilitates building maintenance next year. As regards the special operation to remove 5 000 abandoned signboards announced by the Chief Executive after the meeting of the Task Force on Economic Challenges, the Buildings Department will commence the operation with the support of District Councils and Fire Safety Ambassadors in the districts from 1 March.

Heritage Conservation

92. Heritage conservation is essential to the quality of the city. With the support of new heritage conservation policies and additional resources, much has been done in the past 20 months. The Development Bureau has just announced the results of the first batch of historic buildings under the Revitalising Historic Buildings Through Partnership Scheme. I hope that the Legislative Council will give early funding approval for these six revitalisation projects, which are conducive to the development of local arts and culture, tourism, education, the creative economy and Chinese medicine.

93. The capital cost of these projects is approximately \$500 million, which is about half of the fund earmarked for the scheme. To enable more historic buildings owned by the Government to benefit from the scheme, I propose to earmark an additional sum under the Capital Works Reserve Fund to bring the total amount of uncommitted funds under the scheme back to \$1 billion so that applications can be invited for the second batch of historic buildings in the first half of this year as scheduled. To encourage private owners to conserve historic buildings graded by the Antiquities Advisory Board, and given that the Board will soon complete the grading of some 1 440 historic buildings, I have increased the provision for maintenance grants and raised the ceiling of financial support for each application.

Beautifying the Harbourfront

94. Creating continuous waterfront promenades on both sides of the Victoria Harbour and improving connectivity between the harbourfront and inland areas is an on-going effort. The Legislative Council has approved the creation of a directorate post to head a task group on harbourfront enhancement, and has set up a sub-committee under the Panel on Development. Next year, we will start work on temporary waterfront promenades in North Point and Kwun Tong.

We will also provide additional funding to facilitate the work of the Harbourfront Enhancement Committee to conduct research and organise public participation activities, with a view to developing harbourfront sites into prime leisure spots.

Building a Greener City

95. We are committed to promoting greening and have been maximising greening opportunities in public works projects. In the coming year, the Greening Master Plan projects undertaken by the Civil Engineering and Development Department will cover the whole of Hong Kong Island and urban Kowloon. In addition, we will provide landscaping features on 500 old slopes and carry out greening work on the rooftops of 40 Government buildings through additional funding for minor works. We will also subsidise schools and other non-profit-making organisations through the Environment and Conservation Fund to carry out greening work. Since our capital injection into the Fund last year, it has provided funding of \$29 million to support greening works for about 100 buildings. We will continue to streamline the vetting process and encourage district and eligible organisations to make good use of the Fund to improve the environment.

Arts, Culture and Sports

96. Arts, culture and sports can promote social development and enhance people's quality of life. The Legislative Council has approved funding of \$150 million for the Arts and Sport Development Fund recently to strengthen the related work.

Promoting Sports

97. Hong Kong will host the 2009 East Asian Games. Hong Kong people will have the opportunity to witness first-hand the competitions among elite athletes from East Asia. We hope that more local athletes can join this major sports event to gain experience in international competitions and win medals for Hong Kong. To this end, I will allocate about \$20 million to strengthen our athletes' preparation.

98. To further support community sports, we have earmarked \$50 million in the Sir David Trench Fund for Recreation to finance new facilities and equipment for district sports associations and National Sports Associations in the next three to four years.

Arts and Culture

99. Regarding arts and culture, the West Kowloon Cultural District will provide an environment conducive to the development of Hong Kong as an international art and cultural metropolis, and will enrich our cultural life. It will also bring economic benefits to Hong Kong, promoting creative industries and attracting visitors.

100. We are committed to bring art into the community. The Home Affairs Bureau and the Hong Kong Arts Development Council will provide local artists and art bodies with direct funding of about \$330 million next year. We will also increase the recurrent subvention for the Hong Kong Academy for Performing Arts to more than \$193 million to strengthen training programmes.

101. Cantonese opera is a gem of Lingnan culture. Hong Kong has preserved the essence of Cantonese opera which should be developed further. The Legislative Council has approved funding of about \$186 million for the conversion of the Yau Ma Tei Theatre and the Red Brick Building into a Xiqu Activity Centre to provide performing and practising venues for small-scale Cantonese opera performances and budding artists. We have also injected \$20 million into the Cantonese Opera Development Fund and will invest about \$33 million in 2009-10 to further support the research and promotion of Cantonese opera.

102. To provide more opportunity for people to use library facilities and to encourage more reading, the Leisure and Cultural Services Department will standardise the opening days of their 33 major and district libraries to seven days a week from 1 April, with opening hours increased by about 10 hours to 71 hours a week.

103. The Legislative Council has approved funding of \$93 million to upgrade and enhance the Multimedia Information Systems of public libraries. This will help meet future demand and provide more effective and advanced library information services to the community.

Medical and Health

104. As I mentioned in my first Budget, with an ageing population, healthcare presents the greatest challenge to the stability of our long-term public finances. After completing the first stage public consultation on healthcare reform in 2008, the Food and Health Bureau is now preparing for the second stage public consultation. In health care service reform, we have already set up the Working Group on Primary Care to put forward specific proposals on enhancing primary care. We have also implemented a number of pilot projects based on the concept of “money follows patient”. These include the

Influenza Vaccination Subsidy Scheme and the Elderly Health Care Voucher Pilot Scheme. These projects have laid the foundation for the enhancement of healthcare services through public-private partnership.

105. The Government will honour its pledge to increase healthcare expenditure to 17 per cent of recurrent expenditure by 2012. When the supplementary financing arrangements are finalised after consultation for implementation, we will draw an amount of \$50 billion from the fiscal reserves to implement the reform, irrespective of what the final arrangements are.

106. In the next few years, we will make use of increased healthcare resources to strengthen services and take forward service reform. I will increase the recurrent subvention for the Hospital Authority over the next three financial years by about \$870 million a year. In other words, the annual subvention in 2011-12 will be approximately \$2.6 billion higher than at present. I have also earmarked some \$840 million for the next three financial years to implement various complementary measures to strengthen primary care services and the support to chronic patients, promote public-private partnership, and develop a territory-wide electronic health record system.

107. As the public is attaching increasing importance to food safety, we are taking measures to support the development of food testing services, such as the provision of reputable accreditation services for private laboratories. This will help Hong Kong to develop into a food testing hub in the region.

108. Separately, for public health reasons, I propose to increase tobacco duty by 50 per cent with immediate effect. The duty on cigarettes will increase from around \$0.8 to about \$1.2 per stick. We will also continue to step up our efforts on smoking cessation, as well as on publicity and enforcement in tobacco control.

Alleviating People's Hardship, Sharing the Burden in Times of Difficulties

109. I firmly believe that public resources should be used where appropriate. Although our fiscal position in the coming year is unlikely to be robust, we will continue to spend to meet our commitments to the community, particularly the middle class and disadvantaged groups, and at the same time to alleviate economic contraction.

110. The relief measures announced in the last Budget and by the Chief Executive in July 2008 will continue to alleviate people's hardship in the coming year. For example, expenditure on electricity charges subsidy in 2009-10 is estimated at \$4.7 billion. The subsidy should enable people to spare more money for consumption, which in turn will stimulate the economy. Other measures such as the Building Maintenance Grant Scheme for Elderly Owners, short-term food assistance services and half fare concessions for students will continue to help ease the burden of the elderly, lower-income groups and parents.

Working Together for a Caring Community

111. Over the past few months, I have heard many say that the Government should not reduce expenditure for the disadvantaged during economic downturns and should instead provide them with appropriate support in difficult times. I will propose budget measures to assist the disadvantaged groups, enhance their quality of life and promote social harmony.

Child Care Service

112. I am aware that some parents may not be able to take care of their young children because of work or other reasons. I have talked with parents participating in the pilot Neighbourhood Support Child Care Project and with home-based child carers. They generally support the Project. I vividly remember a grandmother recounting in tears the pressure of babysitting two young grandchildren and her wish for help in times of need. I spoke to a transport worker who took his child to meet his babysitter in a park every day so that the child could receive the care of the babysitter while playing, and could hence get familiar with the babysitter more easily. The painstaking efforts of the father, the loving care of the babysitter and the spirit of mutual help in the neighbourhood have all left a deep impression on me.

113. We have, since last October, implemented the pilot Neighbourhood Support Child Care Project in six locations with higher demand for child care services, namely Tung Chung, Sham Shui Po, Kwai Chung, Tuen Mun, Yuen Long and Kwun Tong. We encourage neighbours to take care of each other's young children. This can foster a closer community relationship, and provide more flexible child care services in addition to the regular ones. We plan to extend the project in March this year to other districts to meet the needs of more families.

Supporting the Elderly

114. Strengthening elderly care is one of our core areas in building a caring community. To encourage our senior citizens to lead an enriched life, the Elderly Commission has tried, in the form of "cross-sectoral collaboration and inter-generational integration", to encourage self-help and mutual help among elders at the community level through the "Neighbourhood Active Ageing Project" in the past two years. The project facilitates the establishment of neighbourhood

support networks between the elderly and local volunteers, enabling elders to become a new driving force in the community. I fully support this meaningful project, and will allocate an additional provision of \$5 million in the next financial year to establish new networks in each district.

115. Research shows that learning has positive effect on elders' physical and mental well-being. The Elder Academy Scheme promoted by the Elderly Commission has been extended to seven tertiary institutions and 78 primary and secondary schools. They serve as an effective platform to promote lifelong learning through inter-generational interaction between the elderly and students. I propose to establish an Elder Academy Development Foundation, co-sponsored by the Government and various sectors, to ensure the sustainable development of this scheme. To this end, I will allocate \$10 million. I believe that the Chinese tradition of "education for all" should be broadened to "education for all ages".

116. We are in the digital era. We must not overlook the needs of the elderly on this front. The Government will co-ordinate the setting up of a dedicated portal for the elderly in the coming year to provide one-stop information service on elderly services and the silver hair market. Through this new portal and various computer courses offered by the Elder Academies, the elderly will enhance their computer knowledge and their ability to use digital services, expanding their circles of life through the Internet.

117. We will provide additional recurrent funding of about \$37 million to residential care homes taking care of infirm elders and those with dementia. In addition, I will increase recurrent funding by about \$55 million to provide a total of 650 additional subsidised residential care places through the Enhanced Bought Place Scheme and two new contract homes.

Women

118. The Government attaches great importance to meeting the learning needs of women at the grassroots level. In 2004 the Women's Commission launched the Capacity Building Mileage Programme to encourage women of different backgrounds and educational levels to pursue lifelong learning and develop a positive mindset and outlook on life. Since the launch of the programme, the number of enrolments has exceeded 28 000, while large audiences have been reached through radio programmes. I will allocate \$20 million in the coming three years to expand the programme and provide fee remissions to women with financial difficulty so as to encourage more women to pursue continuous learning and self-development.

Support to Persons with Disabilities

119. I will provide additional recurrent funding of about \$19 million to enhance the care for persons with disabilities and provide the necessary training, including the provision of 156 additional residential places, 30 additional day training or vocational rehabilitation service places and 54 additional pre-school rehabilitation service places. To strengthen transport services for persons with disabilities, I will also provide additional funding of about \$7.7 million to increase the number of Rehabuses to 115 by acquiring six new buses and replacing four old ones.

Helping Victims of Domestic Violence

120. I understand that some families face great pressure as a result of the economic downturn. To further support families in need and victims of domestic violence, I will provide additional recurrent funding of about \$25 million to increase the number of social workers and clinical psychologists dealing with domestic violence cases. We

will also further develop batterer intervention programmes and strengthen support for crisis centres and refuge centres for women.

Rehabilitation Services

121. To support the enhanced psychiatric outpatient, rehabilitation and oncology services given by the Hospital Authority in recent years, I will provide funding for 10 additional medical social workers. This will allow more timely services to be provided to patients and their families. The first integrated community centre for mental wellness in Tin Shui Wai will be set up next month. It will provide one-stop community support and rehabilitation services to local residents.

Developing Social Capital

122. The Community Investment and Inclusion Fund, established in 2002, provides financial support to community organisations in the development of social capital through cross-sectoral collaboration and community participation. Over 180 projects subsidised by the Fund in all 18 districts have delivered notable results in capacity building, enhancement of interpersonal relationship and development of community networks. So far about 60 per cent of the \$300 million under the Fund has been committed. I will closely monitor the spending situation and make an injection when necessary to ensure that the Fund can continue to perform its social function.

Revenue Concessions

123. Members of the public expect the Government to sense the public pulse and share their burden. Although it is expected that a larger deficit will occur in 2009-10, for the long-term interests of the community as a whole and having regard to the Government's financial position, I have decided to introduce some one-off revenue concessions.

Rates

124. First of all, I propose to waive rates for the first two quarters of 2009-10, subject to a ceiling of \$1,500 per quarter for each rateable tenement. It is estimated that about 90 per cent of domestic properties and 60 per cent of non-domestic properties will be subject to no rates in these two quarters. This proposal will cost the Government approximately \$4.2 billion.

Rental Concession for Government Properties and Land

125. Moreover, I have decided to provide a 20 per cent rental reduction for most government properties and short term tenancies of government land for three months. This proposal will benefit more than 17 000 tenants. Details of the concession will be announced shortly by relevant departments. It is estimated that this proposal will cost the Government about \$83 million.

Freezing Government Fees and Charges

126. Last July the Chief Executive announced a freeze on government fees and charges related to people's livelihood for one year. I have decided to extend the freeze until 31 March 2010.

Salaries Tax and Tax under Personal Assessment

127. I propose a one-off tax reduction of 50 per cent of salaries tax and tax under personal assessment for 2008-09, subject to a ceiling of \$6,000. The reduction will be reflected in the taxpayer's final tax payable for 2008-09. This proposal will cost the Government about \$4.1 billion and benefit all 1.4 million taxpayers.

Medium Range Forecast

128. I now give a brief account of the 2009-10 estimates. I have adopted a counter-cyclical fiscal strategy and set total government spending at \$301.6 billion. While operating expenditure for 2009-10 will be slightly lower than that for 2008-09 as the latter includes the costs of a number of one-off measures, it is higher than actual expenditure in 2007-08 by 19.2 per cent. In comparison, the GDP for 2009 is forecast to increase by only 1.8 per cent over 2007. I forecast a deficit of \$9.8 billion in the Operating Account and a deficit of \$30.1 billion in the Capital Financing Statement. This results in a deficit of \$39.9 billion in the Consolidated Account, equivalent to 2.4 per cent of our GDP. Fiscal reserves are estimated at \$448.1 billion by end March 2010, equivalent to 18 months of government expenditure.

129. For the medium term, I estimate that the annual average growth rate will be 3.5 per cent in real terms for the period 2010-13, while the inflation rate forecast will average two per cent. I forecast a deficit in the Operating Account for the next three years, and followed by a return to surplus in our Operating Account in 2012-13, with a further increase in surplus in the subsequent year.

130. As regards capital revenue and spending, I will continue to invest heavily in infrastructure so as to counter the financial crisis, create employment and enhance the long-term competitiveness of Hong Kong. With the major infrastructure projects entering their construction peaks and an expected decrease in land revenue, I forecast a capital financing deficit for some time in the future. Our annual capital works expenditure will be at a very high level over the next few years, and may reach \$50 billion. This will pose challenges to the construction industry. We will pay close attention to the construction industry's capacity to avoid bunching of projects causing tension in the supply of construction workers and cost fluctuations.

131. In this time of economic turbulence, the preparation of this year's Budget has been a great challenge. Following the principles of prudent financial management and keeping expenditure within the limits of revenues as stipulated in Article 107 of the Basic Law, I have prepared a Budget that is in the best interests of the public. In light of the current economic environment and needs of the community, I hold to the view that expenditure for next year should be maintained at a high level despite a fall in revenue. Although this will lead to a deficit in 2009-10, requiring us to draw on the fiscal reserves, I consider it appropriate. The Government should show its commitments to the community during exceptional times. In the medium term, with the recovery of the economy and our control of operating expenditure, I forecast that the consolidated deficit will gradually decline and we will largely achieve fiscal balance by 2013-14. I estimate that the fiscal reserves will be about \$390 billion by end March 2014, equivalent to 14 months of government expenditure.

	2009–10 (\$ billion)	2010–11 (\$ billion)	2011–12 (\$ billion)	2012–13 (\$ billion)	2013–14 (\$ billion)
Operating revenue	234.2	235.3	253.7	273.5	290.0
Operating expenditure	244.0	249.4	258.1	267.1	276.4
Operating surplus/(deficit)	(9.8)	(14.1)	(4.4)	6.4	13.6
Capital revenue	27.5	44.3	52.1	53.7	56.3
Capital spending (including payments from the Capital Investment Fund)	54.1	55.2	69.6	68.9	71.2
Repayment of government bonds and notes	3.5	—	—	—	—
Capital financing deficit	(30.1)	(10.9)	(17.5)	(15.2)	(14.9)
Consolidated deficit	(39.9)	(25.0)	(21.9)	(8.8)	(1.3)
- as a percentage of GDP	2.4%	1.5%	1.2%	0.5%	0.1%
Fiscal reserves	448.1	423.1	401.2	392.4	391.1
- as number of months of government expenditure	18	17	15	14	14
- as a percentage of GDP	27.2%	24.6%	22.3%	20.9%	19.9%
Public expenditure	319.4	326.8	350.0	358.7	370.9
- as a percentage of GDP	19.4%	19.0%	19.5%	19.1%	18.9%

Concluding Remarks

132. Mr President, since reunification, we have gone through a number of economic crises, such as the Asian financial turmoil in 1997 and 1998, and the major downturn triggered by the SARS outbreak in 2003. Some people inevitably feel worried and upset when facing difficulties. However, timely and effective policies, coupled with the collective wisdom and efforts of Hong Kong people, allowed us to overcome these challenges and scale new heights each time.

133. In my last Budget, I said that “Ready to Face, Dare to Hope” best described the conviction of Hong Kong people. Hong Kong people are ready to face the realities and challenges of today, and dare to hope for our future. By working hard, we will reap the rewards of our efforts and eventually overcome difficulties. It is this belief that gives us the courage to stand up to challenges and, because of this confidence, we can boldly embrace tomorrow.

134. The current financial turmoil is severe and unsettling, and is wreaking terrible damage. Some people feel uncertain about the future; some are anxious about their investment loss; and some are worried about their jobs. I feel their anxiety, and share their concerns. As before, we will face these challenges together. We will do our best to keep abreast of this evolving crisis, and introduce effective measures to lessen its impact.

135. We must dare to face this financial turmoil and must believe we can overcome it. The people of Hong Kong have weathered tough times before and will weather them again. During the SARS outbreak, our healthcare workers showed dedication and displayed commendable professionalism. In hazardous firefighting operations, our firefighters carry out their mission with the spirit of self-sacrifice. This is what we all know as the ‘Hong Kong Spirit’ and this is what gives me confidence to say that Hong Kong will overcome this current crisis.

136. In this Budget, we have announced initiatives that will create about 62 000 jobs and internship opportunities. We will invest heavily to foster a caring society. We will introduce measures to sustain economic development and maintain our economic vibrancy.

137. The current financial turmoil is undoubtedly a severe test that poses challenges to individuals, families, enterprises, societies and governments. At this crucial moment, it is with no small amount of trepidation that I, as Financial Secretary, am serving the citizens and braving the storm with you under the weight of a challenging mission. In meeting the challenges ahead, we should also realise that the Government cannot solve all problems. Jobs created by the Government are no substitute for jobs created in the private sector. Effective help for the disadvantaged also requires community support and involvement. Economic development requires us all to go beyond our current strengths and advantages to create new economic drivers. All of this requires us to play our part. With confidence in ourselves and in our abilities, we can create the future that we want. We can rebuild wealth and competitiveness, and we can realise our goal of building a caring community.

138. A German theologian said, “The ultimate test of a moral society is the kind of world that it leaves to its children”. I hope that our children will inherit a society that upholds our conviction in meeting future challenges while daring to hope for a better tomorrow.

THE 2009-10 BUDGET

Speech by the Financial Secretary, the Hon John C Tsang
moving the Second Reading of the Appropriation Bill 2009

Supplement and Appendices

Wednesday, 25 February 2009

SUPPLEMENT

Please visit our web-site at www.budget.gov.hk/2009/eng/speech.html for all documents, appendices and statistics relating to the 2009–10 Budget. The Chinese version can be found at www.budget.gov.hk/2009/chi/speech.html.

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Tax reduction enjoyed by taxpayers by income group after implementation of the proposed one-off reduction of salaries tax and personal assessment tax

Income in 2008–09	No. of taxpayers	Average amount of tax reduction (\$)	Average percentage of tax reduction
\$108,001 to \$200,000	424 000	470	50%
\$200,001 to \$300,000	345 000	2,200	47%
\$300,001 to \$400,000	226 000	3,840	33%
\$400,001 to \$600,000	211 000	5,270	19%
\$600,001 to \$900,000	98 000	5,990	9%
\$900,001 and above	96 000	6,000	2%
Total	1 400 000	—	—

DUTY RATE OF TOBACCO

	Present <i>(\$ per 1 000 sticks)</i>	Proposed <i>(\$ per 1 000 sticks)</i>
Cigarettes	804	1,206
	<i>(\$ per Kg)</i>	<i>(\$ per Kg)</i>
Cigars	1,035	1,553
Chinese prepared tobacco	197	296
All other manufactured tobacco except tobacco intended for the manufacture of cigarettes	974	1,461

EFFECT OF THE GENERAL REVALUATION OF RATES ON MAIN PROPERTY CLASSES

<i>Property Type</i>	<i>2009–10</i>		
	<i>Average Increase/Decrease in Rateable Value⁽⁶⁾</i>	<i>New Average Rates Payable⁽⁷⁾</i>	<i>Increase/Decrease⁽⁸⁾</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises ⁽¹⁾ (Private)	-2	263	-5
Medium Domestic Premises ⁽¹⁾ (Private)	-1	664	-6
Large Domestic Premises ⁽¹⁾ (Private)	+1	1,809	+15
Public Domestic Premises ⁽²⁾	-3	143	-4
All Domestic Premises⁽³⁾	-1	289	-4
Shops and Commercial Premises	less than 0.5	1,918	+1
Offices	+2	2,328	+34
Industrial Premises ⁽⁴⁾	less than 0.5	752	-1
All Non-domestic Premises⁽⁵⁾	less than 0.5	2,025	-5
All Properties	-1	520	-4

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

Small domestic	up to 69.9m ²	(up to 752 sq. ft.)
Medium domestic	70m ² to 99.9m ²	(753 sq. ft. - 1 075 sq. ft.)
Large domestic	100m ² 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 2009–10 reflect the changes in open market rental values between 1 October 2007 and 1 October 2008.

(7) The effect of the proposed rates concession in 2009–10 has not been taken into account.

(8) The effect of rates concession in 2008–09 has not been taken into account.

EFFECT OF THE GENERAL REVALUATION OF GOVERNMENT RENT ON MAIN PROPERTY CLASSES

<i>Property Type</i>	<i>2009–10</i>		
	<i>Average Decrease in Rateable Value⁽⁶⁾</i>	<i>New Average Rent Payable</i>	<i>Decrease</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises ⁽¹⁾ (Private)	-3	147	-4
Medium Domestic Premises ⁽¹⁾ (Private)	-2	368	-8
Large Domestic Premises ⁽¹⁾ (Private)	-1	865	-8
Public Domestic Premises ⁽²⁾	-3	87	-3
All Domestic Premises⁽³⁾	-2	157	-4
Shops and Commercial Premises	-1	1,048	-10
Offices	less than 0.5	2,709	-11
Industrial Premises ⁽⁴⁾	less than 0.5	454	-2
All Non-domestic Premises⁽⁵⁾	-1	1,065	-9
All Properties	-2	262	-4

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

Small domestic	up to 69.9m ²	(up to 752 sq. ft.)
Medium domestic	70m ² to 99.9m ²	(753 sq. ft. - 1 075 sq. ft.)
Large domestic	100m ² 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 2009–10 reflect the changes in open market rental values between 1 October 2007 and 1 October 2008.

ECONOMIC PERFORMANCE IN 2008

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2008:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	1.8
Government consumption expenditure	2.0
Gross domestic fixed capital formation	-0.3
<i>of which:</i>	
Building and construction	0.3
Machinery, equipment and computer software	0.6
Total exports of goods	2.0
Imports of goods	1.9
Exports of services	5.6
Imports of services	3.2
Gross Domestic Product (GDP)	2.5
<i>Per capita GDP, in real terms</i>	1.7
<i>Per capita GDP at current market prices</i>	HK\$240,600 (US\$30,900)
(b) Rates of change in:	
Composite Consumer Price Index	4.3
GDP Deflator	1.4
Government Consumption Expenditure Deflator	5.2
(c) Growth rate of nominal GDP	3.9

2. Annual growth rates in real terms of re-exports and domestic exports based on external trade quantum index numbers:

	<i>Re-exports</i> (%)	<i>Domestic exports</i> (%)
2006	11	1
2007	10	-20
2008	4	-22
<i>Share in the value of total exports of goods in 2008</i>	97	3

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

<i>Retained imports</i>						
	<i>Total</i> (%)	<i>Consumer goods</i> (%)	<i>Foodstuffs</i> (%)	<i>Capital goods</i> (%)	<i>Raw materials and semi-manufactures</i> (%)	<i>Fuels</i> (%)
2006	8	14	2	28	-17	5
2007	12	6	7	11	18	9
2008	-1	12	13	7	-30	-4

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

<i>Retained imports of capital goods</i>					
	<i>Total</i> (%)	<i>Office equipment</i> (%)	<i>Industrial machinery</i> (%)	<i>Construction machinery</i> (%)	<i>Telecommunications equipment</i> (%)
2006	28	32	3	34	39
2007	11	-5	-5	6	26
2008	7	0	6	57	14

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

Exports of services

	<i>Total</i>	<i>Trade-related</i>	<i>Transportation</i>	<i>Travel</i>	<i>Finance, insurance, business and other services</i>
	(%)	services (%)	services (%)	services (%)	(%)
2006	10	9	8	6	19
2007	14	9	13	14	24
2008	6	6	2	6	9

6. Hong Kong's visible and invisible trade balance in 2008 reckoned on GDP basis ^(Note 1):

	(HK\$ billion)
Total exports of goods	2,844.0
Imports of goods	3,024.1
<i>Visible trade balance</i>	-180.1
Exports of services	719.9
Imports of services	357.3
<i>Invisible trade balance</i>	362.6
<i>Combined visible and invisible trade balance</i>	182.5

Note 1 Preliminary figures.

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

	<i>Unemployment rate (%)</i>	<i>Underemployment rate (%)</i>	<i>Growth in labour force (%)</i>	<i>Growth in total employment (%)</i>
2006	4.8	2.4	1.1	1.9
2007	4.0	2.2	1.6	2.4
2008	3.5	1.9	1.0	1.6

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

	<i>Composite CPI (%)</i>	<i>CPI(A) (%)</i>	<i>CPI(B) (%)</i>	<i>CPI(C) (%)</i>
2006	2.0	1.7	2.1	2.2
2007	2.0	1.3	2.2	2.7
2008	4.3	3.6	4.6	4.7

ECONOMIC PROSPECTS FOR 2009

Forecast rates of change in the Gross Domestic Product and prices in 2009:

	(%)
Gross Domestic Product (GDP)	
<i>Real GDP</i>	-2 to -3
<i>Nominal GDP</i>	-1.5 to -2.5
<i>Per capita GDP, in real terms</i>	-2.8 to -3.8
<i>Per capita GDP at current market prices</i>	HK\$232,500-234,900 (US\$29,800-30,100)
 Composite Consumer Price Index	
<i>Headline Composite Consumer Price Index</i>	1.6
<i>Underlying Composite Consumer Price Index</i>	1.5
 GDP Deflator	 0.5

APPENDICES

APPENDICES

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APPENDIX A

MEDIUM RANGE FORECAST

2008–09 TO 2013–14

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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 use a wide range of assumptions about the factors affecting 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 projected trends.

General Economic Assumptions

Real Gross Domestic Product (real GDP)

2 GDP is forecast to decrease by between 2% to 3% in real terms in 2009. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2010 to 2013, the trend growth rate of the economy in real terms is assumed to be 3.5% per annum.

Price change

3 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 0.5% in 2009. For the four-year period 2010 to 2013, the GDP deflator is assumed to increase at a trend rate of 1% per annum.

4 The Composite Consumer Price Index (CCPI), measuring inflation in the consumer domain, is forecast to increase by 1.6% in 2009. Eliminating the effects of various one-off measures introduced in the 2008-09 and 2009-10 Budgets, the underlying CCPI is forecast to increase by 1.5% in 2009. For the ensuing period 2010 to 2013, the trend rate of increase for the underlying CCPI is assumed to be 2% per annum.

Nominal Gross Domestic Product (nominal GDP)

5 Given the assumptions on the rates of change in the real GDP and the GDP deflator, the GDP in nominal terms is forecast to decrease by between 1.5% to 2.5% in 2009, and the trend growth rate in nominal terms for the period 2010 to 2013 is assumed to be 4.5% per annum.

Detailed Assumptions

6 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 and 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 2009-10 Budget.

Budgetary Criteria

7 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.

8 The following covers the more important budgetary criteria –

Budget surplus/deficit

The Government aims to achieve balance in the consolidated and operating accounts. The Government needs, over time, to achieve an operating surplus to partially finance capital expenditure.

Expenditure policy

The general principle is that, over time, expenditure growth should not exceed the growth of the economy. The Government aims to keep public expenditure at or below 20% of GDP. Capital expenditure, by its nature, will fluctuate from year to year.

Revenue policy

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

Fiscal reserves

The Government aims to maintain adequate reserves in the long run.

SECTION II – THE MRF FOR 2008–09 TO 2013–14

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

Table 1

(\$ million)	Original Estimate	Revised Estimate	Estimate	Forecast			
	2008–09	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14
Operating Account							
Operating revenue (<i>Note b & f</i>)	212,269	240,387	206,703	215,155	235,366	254,347	274,689
Less: Operating expenditure (<i>Note c</i>)	255,700	259,991	244,000	249,400	258,100	267,100	276,400
Deficit before investment income	(43,431)	(19,604)	(37,297)	(34,245)	(22,734)	(12,753)	(1,711)
Investment income (<i>Note b</i>)	37,091	37,562	27,494	20,108	18,348	19,116	15,264
Operating surplus/(deficit) after investment income	(6,340)	17,958	(9,803)	(14,137)	(4,386)	6,363	13,553
Capital Financing Statement							
Capital revenue (<i>Note d</i>)	53,138	25,832	23,506	41,416	39,429	41,587	44,436
Asset sales (<i>Note d</i>)	87	68	85	77	10,475	10,298	10,270
Less: Capital spending (<i>Note e</i>)	53,225	25,900	23,591	41,493	49,904	51,885	54,706
Deficit before investment income/interest expenses	(3,064)	(28,421)	(29,875)	(13,191)	(19,048)	(16,344)	(15,856)
Investment income (<i>Note d</i>)	5,315	9,036	3,944	2,832	2,149	1,776	1,536
Less: Interest expenses (<i>Note e & f</i>)	754	754	642	576	577	576	577
Surplus/(deficit) after investment income/interest expenses	1,497	(20,139)	(26,573)	(10,935)	(17,476)	(15,144)	(14,897)
Less: Repayment of bonds and notes (<i>Note e & f</i>)	2,700	2,700	3,500	-	-	-	-
Capital financing deficit after bond repayment	(1,203)	(22,839)	(30,073)	(10,935)	(17,476)	(15,144)	(14,897)
Consolidated Account							
Fiscal reserves at 1 April	484,939	492,914	488,033	448,157	423,085	401,223	392,442
Operating surplus/(deficit)	(6,340)	17,958	(9,803)	(14,137)	(4,386)	6,363	13,553
Capital financing surplus/(deficit) before bond repayment	1,497	(20,139)	(26,573)	(10,935)	(17,476)	(15,144)	(14,897)
Consolidated deficit	(4,843)	(2,181)	(36,376)	(25,072)	(21,862)	(8,781)	(1,344)
Less: Repayment of bonds and notes	2,700	2,700	3,500	-	-	-	-
Consolidated deficit after bond repayment	(7,543)	(4,881)	(39,876)	(25,072)	(21,862)	(8,781)	(1,344)
Fiscal reserves at 31 March	477,396	488,033	448,157	423,085	401,223	392,442	391,098
As number of months of government expenditure	18	19	18	17	15	14	14
As a percentage of GDP	27.7%	29.1%	27.2%	24.6%	22.3%	20.9%	19.9%
Outstanding debts at 31 March							
Toll Revenue Bond	2,098	1,932	-	-	-	-	-
Other government bonds and notes	14,750	14,750	11,250	11,250	11,250	11,250	11,250

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 2009-10 Budget, and is made up of –

	2008–09 Revised Estimate	2009–10 Estimate	2010–11 Forecast	2011–12 Forecast	2012–13 Forecast	2013–14 Forecast
(\$ million)						
Operating revenue before investment income	240,387	206,703	215,155	235,366	254,347	274,689
Investment income	37,562	27,494	20,108	18,348	19,116	15,264
Total	277,949	234,197	235,263	253,714	273,463	289,953

- (ii) Investment income under the Operating Account includes investment income of the General Revenue Account which is credited to revenue head Properties and Investments and investment income of the Land Fund. The rate of investment return for 2009 is 6.8% and for 2010 to 2013 is assumed to be in the range of 4.3% to 5.3% a year.

(c) *Operating expenditure*

This represents expenditure charged to the Operating Account of the General Revenue Account. The levels of operating expenditure in 2009-10 to 2013-14 represent the expenditure guideline for these years.

(d) *Capital revenue*

- (i) The breakdown of capital revenue is –

	2008–09 Revised Estimate	2009–10 Estimate	2010–11 Forecast	2011–12 Forecast	2012–13 Forecast	2013–14 Forecast
(\$ million)						
General Revenue Account	4,001	2,870	3,927	684	528	528
Capital Works Reserve Fund	17,047	16,634	33,366	34,539	36,639	39,240
Capital Investment Fund	1,811	872	812	770	802	821
Disaster Relief Fund	2	-	-	-	-	-
Innovation and Technology Fund	18	-	-	-	-	-
Loan Fund	1,992	2,131	2,259	2,324	2,444	2,606
Lotteries Fund	961	999	1,052	1,112	1,174	1,241
Capital revenue before asset sales and investment income	25,832	23,506	41,416	39,429	41,587	44,436
Asset sales	68	85	77	10,475	10,298	10,270
Investment income	9,036	3,944	2,832	2,149	1,776	1,536
Total	34,936	27,535	44,325	52,053	53,661	56,242

- (ii) For the purpose of the MRF, the annual land premium included under the Capital Works Reserve Fund is assumed to be around 1% of GDP in 2009-10 and 2% from 2010-11 onwards.
- (iii) 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 –

	2008–09 Revised Estimate	2009–10 Estimate	2010–11 Forecast	2011–12 Forecast	2012–13 Forecast	2013–14 Forecast
(\$ million)						
General Revenue Account	2,508	3,523	3,970	3,970	3,970	3,970
Capital Works Reserve Fund	47,166	43,884	44,558	59,525	58,885	61,651
Capital Investment Fund	209	380	535	250	250	250
Disaster Relief Fund	345	-	-	-	-	-
Innovation and Technology Fund	659	1,278	1,465	993	1,018	1,044
Loan Fund	2,492	2,592	2,935	3,044	3,592	3,250
Lotteries Fund	942	1,809	1,221	1,170	514	397
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Capital spending before interest on and repayment of government bonds and notes	54,321	53,466	54,684	68,952	68,229	70,562
Interest expenses	754	642	576	577	576	577
Repayment of bonds and notes	2,700	3,500	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	57,775	57,608	55,260	69,529	68,805	71,139

(f) *Government bonds and notes*

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 the concerned tunnels and bridges. The toll revenue thus forgone has been taken into account in forecasting government operating revenue.

SECTION III – RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE/PUBLIC EXPENDITURE AND GDP IN THE MRF

10 For monitoring purposes, expenditure of the Trading Funds and the Housing Authority (collectively referred to as “other public bodies”) is added to Government’s own expenditure in order to compare total public expenditure with GDP.

Government Expenditure and Public Expenditure in the Context of the Economy

Table 2

(\$ million)	Original Estimate	Revised Estimate	Estimate	Forecast			
	2008–09	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14
Operating expenditure	255,700	259,991	244,000	249,400	258,100	267,100	276,400
Capital expenditure	56,694	54,866	53,728	54,725	69,279	68,555	70,889
Total government expenditure	312,394	314,857	297,728	304,125	327,379	335,655	347,289
Other public bodies expenditure	19,688	19,745	21,631	22,656	22,642	23,092	23,610
Total public expenditure (Note a)	332,082	334,602	319,359	326,781	350,021	358,747	370,899
Gross Domestic Product (calendar year)	1,725,625	1,678,514	1,644,734	1,718,747	1,796,692	1,878,172	1,963,347
Growth in GDP (Note b)							
Nominal terms		3.9%	-2.0%	4.5%	4.5%	4.5%	4.5%
Real terms		2.5%	-2.5%	3.5%	3.5%	3.5%	3.5%
Growth in government expenditure (Note c)							
Nominal terms		34.1%	-5.4%	2.1%	7.6%	2.5%	3.5%
Real terms		28.5%	-6.0%	-0.7%	6.7%	0.5%	0.9%
Growth in public expenditure (Note c)							
Nominal terms		32.6%	-4.6%	2.3%	7.1%	2.5%	3.4%
Real terms		27.0%	-5.2%	-0.4%	6.2%	0.5%	0.8%
Public expenditure as a percentage of GDP	19.2%	19.9%	19.4%	19.0%	19.5%	19.1%	18.9%

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. It does not include expenditure by those organisations, including statutory organisations, in which the Government has only an equity position, such as the Airport Authority and the MTR Corporation Limited. 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 2009-10, the GDP growth in nominal terms of -2% represents the mid-point of the range forecast of nominal GDP growth at -1.5% to -2.5% for the calendar year 2009. Similarly, the growth in real terms of -2.5% represents the mid-point of the range forecast of real GDP growth at -2% to -3% for 2009.
- (c) The growth rates refer to year-on-year change. For example, the rates for 2008–09 refer to the change between revised estimate for 2008–09 and actual expenditure in 2007–08. The rates for 2009–10 refer to the change between the 2009–10 estimate and the 2008–09 revised estimate, and so forth.

11 Table 3 shows the relationship amongst the sum to be appropriated in the 2009-10 Budget, government expenditure and public expenditure. It also shows the effect of the Budget revenue measures on the overall fiscal position for 2009–10.

**Relationship between Government Expenditure
and Public Expenditure in 2009–10**

(\$ million)

Table 3

Components of expenditure and revenue	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	227,603	227,603	-	227,603	227,603
Non-recurrent	16,397	16,397	-	16,397	16,397
Capital					
Plant, equipment and works	2,023	-	2,023	2,023	2,023
Subventions	1,500	-	1,500	1,500	1,500
	247,523	244,000	3,523	247,523	247,523
Transfer to Funds	15,409	-	-	-	-
Capital Works Reserve Fund	-	-	44,526	44,526	44,526
Innovation and Technology Fund	-	-	1,278	1,278	1,278
Loan Fund	-	-	2,592	2,592	2,592
Lotteries Fund	-	-	1,809	1,809	1,809
Trading Funds	-	-	-	-	3,837
Housing Authority	-	-	-	-	17,794
	262,932	244,000	53,728	297,728	319,359
Revenue (before Budget revenue measures)					
General Revenue Account					
Taxation		188,947	80	189,027	
Other revenue		41,683	2,790	44,473	
		230,630	2,870	233,500	
Land Fund		11,196	-	11,196	
		241,826	2,870	244,696	
Capital Works Reserve Fund		-	18,361	18,361	
Capital Investment Fund		-	928	928	
Civil Service Pension Reserve Fund		-	1,377	1,377	
Disaster Relief Fund		-	3	3	
Innovation and Technology Fund		-	251	251	
Loan Fund		-	2,302	2,302	
Lotteries Fund		-	1,443	1,443	
		241,826	27,535	269,361	
Deficit before Budget revenue measures		(2,174)	(26,193)	(28,367)	
<i>Less: Effect of Budget revenue measures</i>		(7,629)	-	(7,629)	
Deficit after Budget revenue measures		(9,803)	(26,193)	(35,996)	
<i>Less: Advances and equity investments from the Capital Investment Fund</i>		-	380	380	
<i>Repayment of bonds and notes</i>		-	3,500	3,500	
Consolidated deficit		(9,803)	(30,073)	(39,876)	

SECTION IV – ESTIMATES OF CONTINGENT LIABILITIES

12 The Government's contingent liabilities as at 31 March 2008, and estimates of these should they remain unsettled as at 31 March 2009 or 31 March 2010, are provided below as supplementary information to the MRF –

(\$ million)	2008	At 31 March 2009	2010
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	12,787	15,163	17,962
Guarantee provided under the Special Loan Guarantee Scheme	-	58,350	100,000
Guarantees provided under loan guarantee schemes for small and medium enterprises	4,089	4,118	4,118
Possible capital subscriptions to the Asian Development Bank	2,295	2,295	2,295
Guarantee provided for commercial loan of the Ocean Park Corporation	-	786	1,388
Litigation	42	44	44
Total	<u>19,213</u>	<u>80,756</u>	<u>125,807</u>

APPENDIX B

ANALYSIS OF PUBLIC/GOVERNMENT EXPENDITURE

2004–05 TO 2009–10

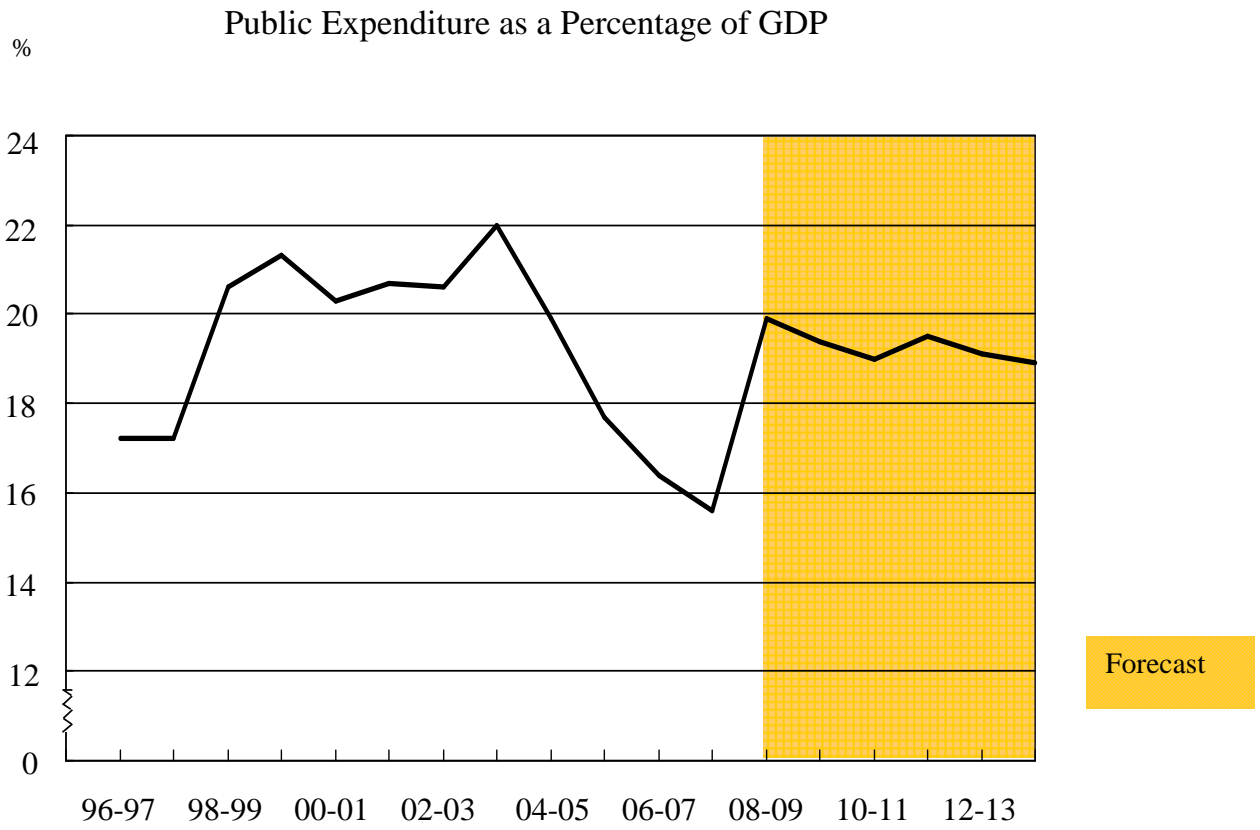
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Note: Expenditure figures for 2008-09 and before as shown in Sections II, III and V have been adjusted to align with the cost-neutral transfers between policy area groups adopted in the 2009-10 estimate.

SECTION I – THE ESTIMATES IN THE CONTEXT OF THE ECONOMY

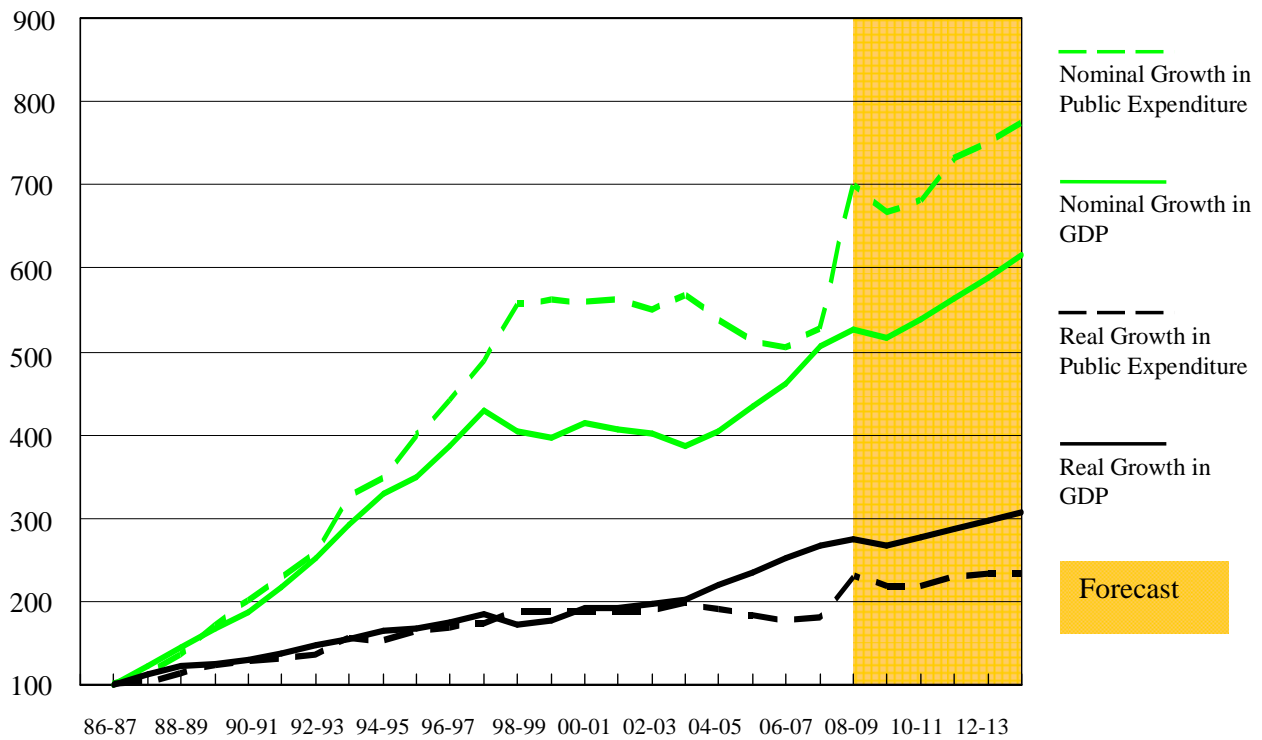
Relationship between Government Expenditure and Public Expenditure in 2009–10 and GDP

	2009–10 Estimate \$m
General Revenue Account	
Operating	244,000
Capital	3,523
	<hr/> 247,523
Capital Works Reserve Fund	44,526
Innovation and Technology Fund	1,278
Loan Fund	2,592
Lotteries Fund	1,809
Government Expenditure	<hr/> 297,728
Trading Funds	3,837
Housing Authority	17,794
Public Expenditure	<hr/> 319,359
GDP	1,644,734
Public Expenditure as a % of GDP	19.4%



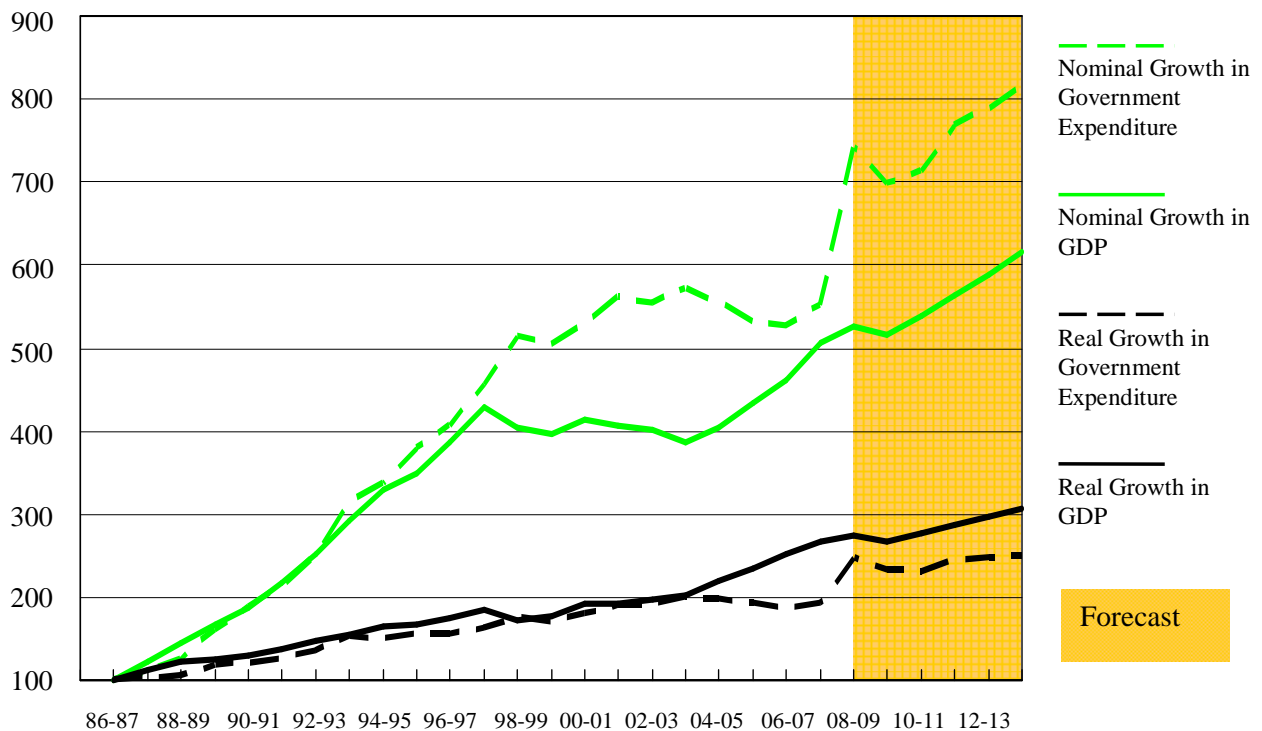
Comparison of Cumulative Growth in Public Expenditure with Cumulative Growth in GDP since the Introduction of Medium Range Forecast

Index (86-87 = 100)



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

Index (86-87 = 100)



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

Recurrent Public Expenditure : Year-on-Year Change

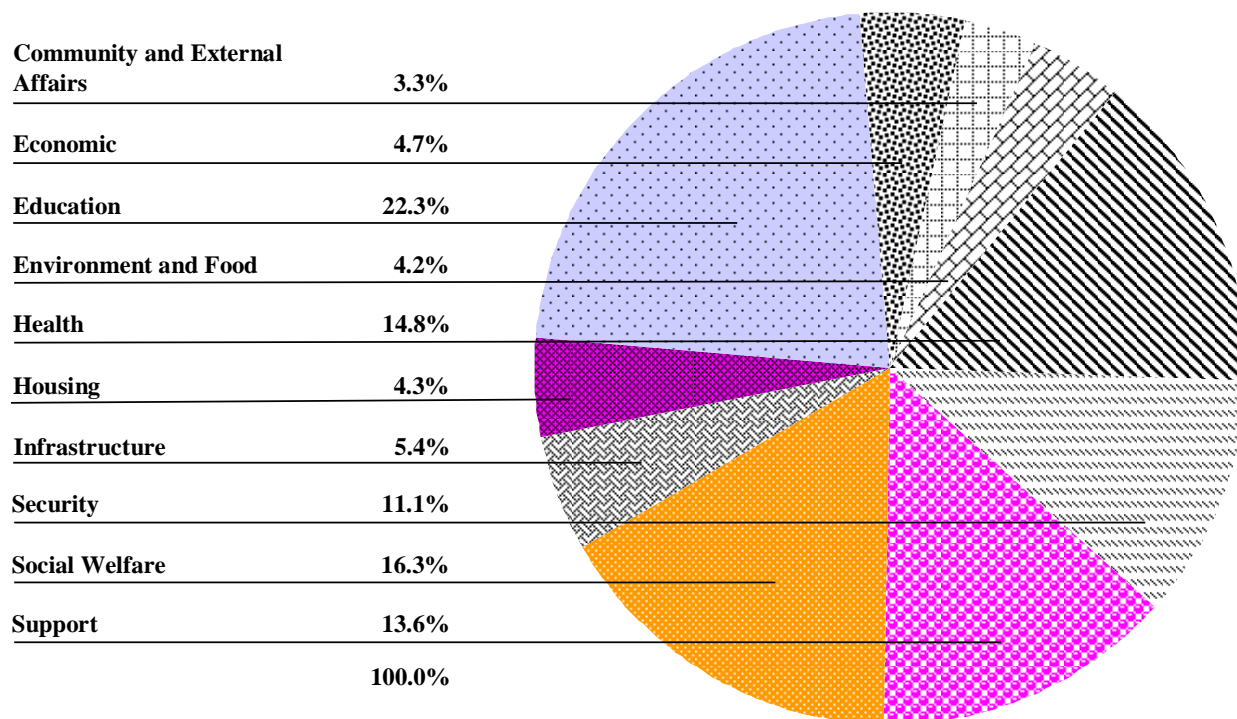
	2008–09 Original Estimate \$m	2008–09 Revised Estimate \$m	2009–10 Estimate \$m	Increase/Decrease over 2008–09 Original Estimate in Nominal Terms %	in Real Terms %
Education	51,106	50,314	53,817	5.3	1.1
Social Welfare	37,758	39,151	39,259	4.0	-6.4
Health	32,586	33,883	35,692	9.5	4.7
Security	25,375	25,933	26,847	5.8	1.2
Infrastructure	12,046	12,145	13,024	8.1	1.9
Economic	10,766	10,863	11,246	4.5	0.5
Housing	9,951	9,997	10,370	4.2	1.1
Environment and Food	9,265	9,210	10,345	11.7	8.7
Community and External Affairs	7,555	7,568	8,060	6.7	4.1
Support	31,597	30,342	32,778	3.7	1.5
	<u>228,005</u>	<u>229,406</u>	<u>241,438</u>	5.9	0.9

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

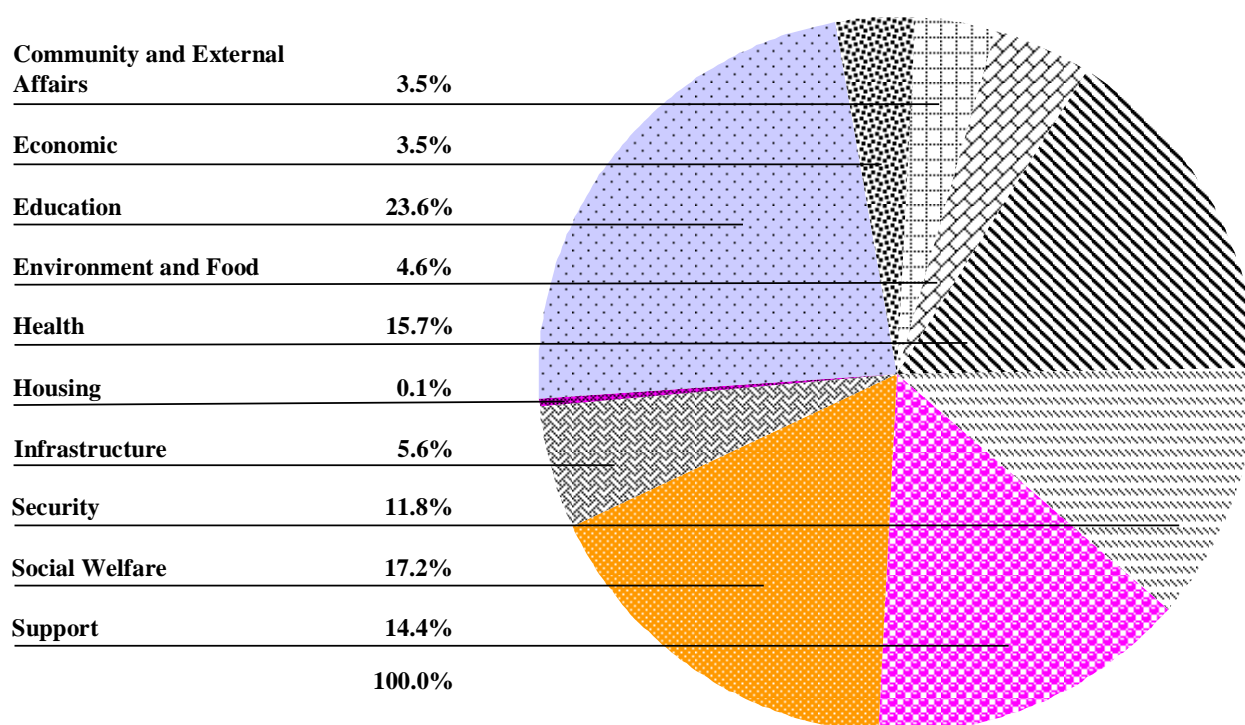
Recurrent Government Expenditure : Year-on-Year Change

	2008–09 Original Estimate \$m	2008–09 Revised Estimate \$m	2009–10 Estimate \$m	Increase/Decrease over 2008–09 Original Estimate	
				in Nominal Terms %	in Real Terms %
Education	51,106	50,314	53,817	5.3	1.1
Social Welfare	37,758	39,151	39,259	4.0	-6.4
Health	32,586	33,883	35,692	9.5	4.7
Security	25,375	25,933	26,847	5.8	1.2
Infrastructure	11,842	11,928	12,810	8.2	2.0
Environment and Food	9,265	9,210	10,345	11.7	8.7
Community and External Affairs	7,555	7,568	8,060	6.7	4.1
Economic	7,374	7,330	7,797	5.7	2.2
Housing	189	191	198	4.8	-
Support	31,597	30,342	32,778	3.7	1.5
	<u>214,647</u>	<u>215,850</u>	<u>227,603</u>	6.0	0.9

**Percentage Share of Expenditure by Policy Area Group
 Recurrent Public Expenditure : 2009-10 Estimate**



**Percentage Share of Expenditure by Policy Area Group
 Recurrent Government Expenditure : 2009-10 Estimate**



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

Total Public Expenditure : Year-on-Year Change

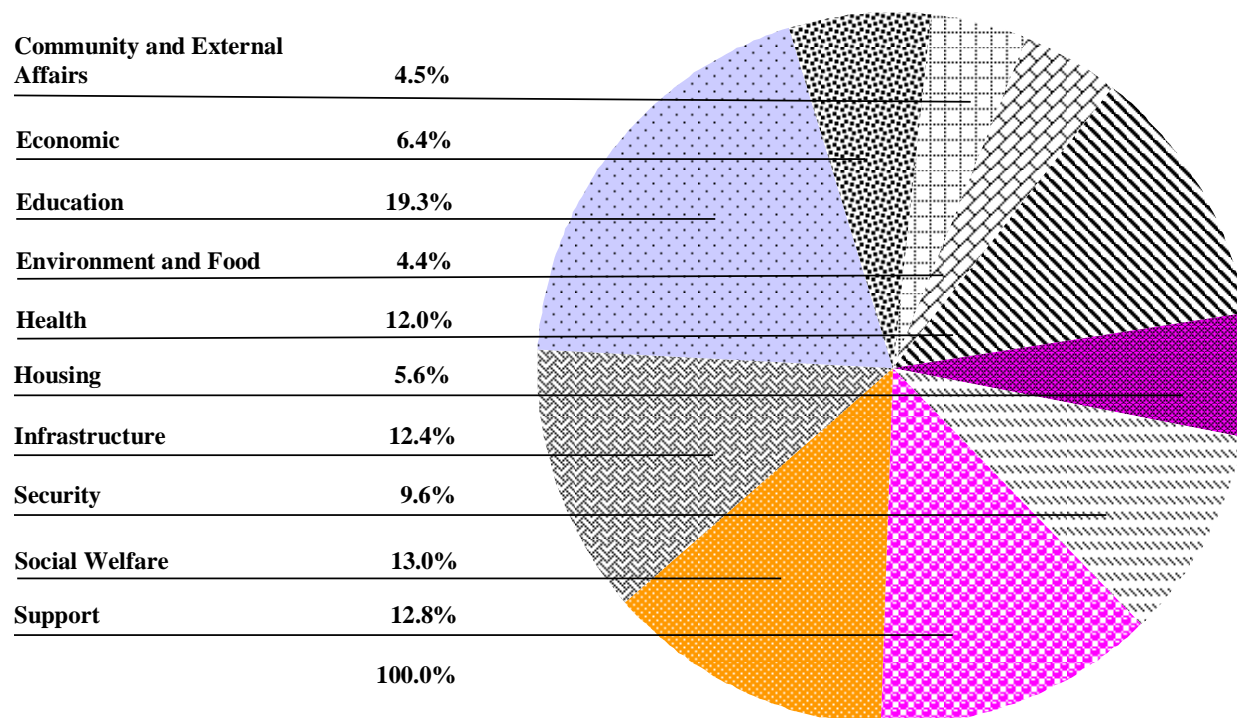
	2008–09 Original Estimate \$m	2008–09 Revised Estimate \$m	2009–10 Estimate \$m	Increase/Decrease over 2008–09 Original Estimate in Nominal Terms %	in Real Terms %
Education	77,275	75,935	61,665	-20.2	-23.1
Social Welfare	39,248	40,255	41,608	6.0	-4.0
Infrastructure	25,177	24,844	39,663	57.5	53.3
Health	35,828	36,848	38,420	7.2	2.8
Security	28,368	28,200	30,625	8.0	3.7
Economic	26,560	25,315	20,300	-23.6	-25.3
Housing	16,968	18,300	18,004	6.1	3.4
Community and External Affairs	32,571	38,613	14,248	-56.3	-57.0
Environment and Food	12,440	12,384	14,121	13.5	10.9
Support	37,647	33,908	40,705	8.1	6.1
	<u>332,082</u>	<u>334,602</u>	<u>319,359</u>	-3.8	-7.6

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

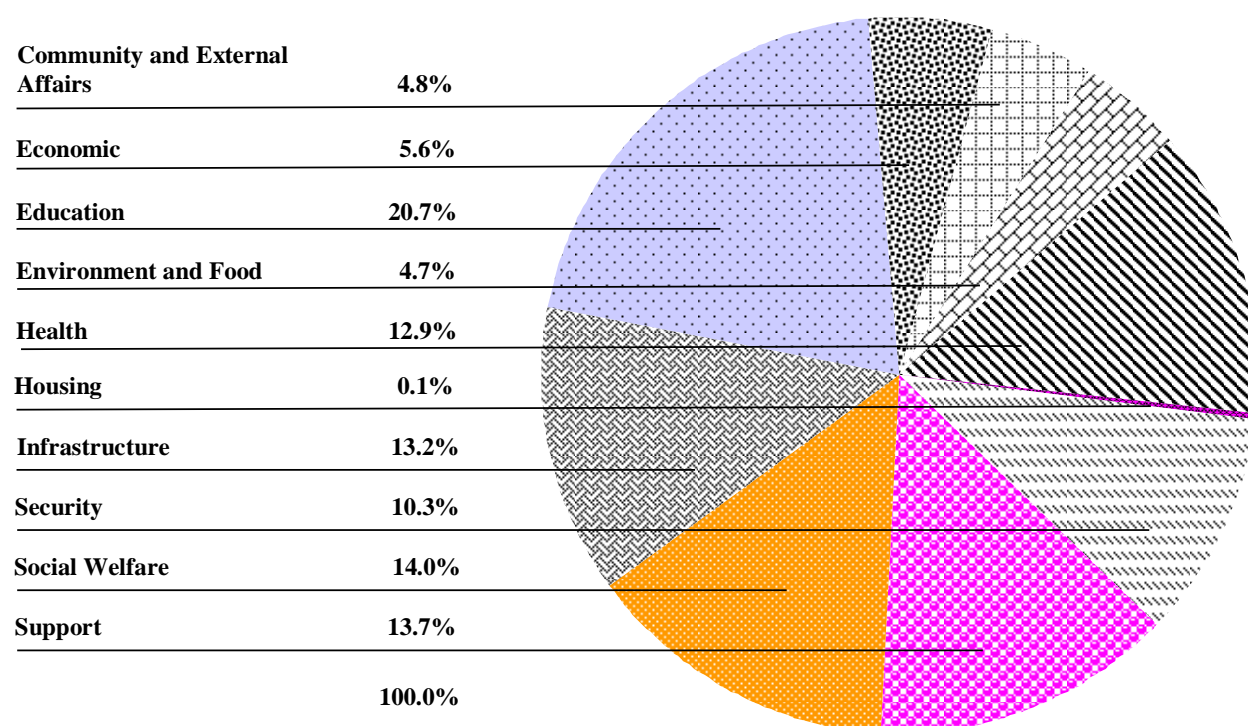
Total Government Expenditure : Year-on-Year Change

	2008–09 Original Estimate \$m	2008–09 Revised Estimate \$m	2009–10 Estimate \$m	Increase/Decrease over 2008–09 Original Estimate in Nominal Terms %	in Real Terms %
Education	77,275	75,935	61,665	-20.2	-23.1
Social Welfare	39,248	40,255	41,608	6.0	-4.0
Infrastructure	24,937	24,598	39,373	57.9	53.7
Health	35,828	36,848	38,420	7.2	2.8
Security	28,368	28,200	30,625	8.0	3.7
Economic	22,880	21,402	16,753	-26.8	-28.1
Community and External Affairs	32,571	38,613	14,248	-56.3	-57.0
Environment and Food	12,440	12,384	14,121	13.5	10.9
Housing	1,200	2,714	210	-82.5	-83.4
Support	37,647	33,908	40,705	8.1	6.1
	<u>312,394</u>	<u>314,857</u>	<u>297,728</u>	-4.7	-8.4

**Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure : 2009-10 Estimate**



**Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure : 2009-10 Estimate**



SECTION IV – MAJOR CAPITAL PROJECTS TO BEGIN IN 2009–10

Capital projects to start in 2009–10 include –

	Project Estimates \$ million
Infrastructure	100,595
— Central – Wan Chai Bypass and Island Eastern Corridor Link	
— Centre Street Escalator Link, stage 1	
— Detailed design for Tsuen Wan Bypass, widening of Tsuen Wan Road between Tsuen Tsing Interchange and Kwai Tsing Interchange and associated junction improvement works	
— Development of Government Helipad at the Hong Kong Convention and Exhibition Centre	
— Disposal of contaminated sediment – dredging, management and capping of sediment disposal facility at Sha Chau	
— Drainage improvement in Northern New Territories – package B (remaining works)	
— Elevated walkway across Tong Ming Street and Tong Tak Street, Tseung Kwan O	
— Expansion of Tai Po water treatment works and ancillary raw water and fresh water transfer facilities	
— Greening master plans for Hong Kong Island and Kowloon East and West – studies and works	
— Hang Hau Tsuen Channel at Lau Fau Shan	
— Hong Kong Section of Guangzhou–Shenzhen–Hong Kong Express Rail Link – construction	
— Hong Kong Section of Hong Kong–Shenzhen Airport Rail Link – design	
— Hong Kong–Zhuhai–Macao Bridge – detailed design and site investigation for Hong Kong Boundary Crossing Facilities, and funding support for preliminary design and site investigation for the Main Bridge	
— Improvement to Sham Tseng Interchange, road improvement works in association with the proposed realignment of Ngau Tau Kok Fourth Street and Fifth Street and construction of nearby footbridge links, and traffic improvements to Tuen Mun Road Town Centre section	
— Kai Tak development – stage 1 infrastructure works for developments at the southern part of the former runway and at north apron area of the former Kai Tak Airport for public housing and government office developments, and detailed design and site investigation for Kai Tak approach channel, Kwun Tong typhoon shelter improvement works and remaining infrastructure works for developments at the former runway	
— Liantang/Heung Yuen Wai Boundary Control Point and associated works – investigation and preliminary design	
— Ma On Shan Development – road, drainage and sewerage works at Whitehead and Lok Wo Sha phase 1	
— Mainlaying along Fanling Highway and near She Shan Tsuen – stage 1	
— Planning and engineering study on development of Lok Ma Chau Loop – consultants’ fees and site investigation	
— Review studies on Hung Shui Kiu new development area – consultants’ fees and site investigation	
— Revitalising Historic Buildings Through Partnership Scheme	
— Ring mains for Cheung Sha Wan salt water supply system	
— Salt water supply to Northwest New Territories – remaining works	
— Speed map panels in the New Territories	
— Trunk Road T2 – investigation and design	
— Tseung Kwan O further development – infrastructure works at Town Centre South and Tiu Keng Leng, and infrastructure works for Tseung Kwan O stage 1 landfill site	
— Upgrading of Wan Chai salt water supply system	
— West Island Line – funding support	
— Widening of Tolo Highway between Island House Interchange and Tai Hang	

	Project Estimates \$ million
Environment and Food	24,176
— Control of water pollution at Jordan Valley box culvert	
— Conversion of aqua privies into flushing toilets – phase 6	
— Harbour Area Treatment Scheme, stage 2A – construction of the sewage conveyance system and upgrading of Stonecutters Island sewage treatment works and preliminary treatment works	
— Re-provisioning of Wo Hop Shek Crematorium	
— Retrofitting of noise barriers on Fanling Highway from MTR Fanling Station to Wo Hing Road and from Po Shek Wu Road to MTR Fanling Station	
— Sewage upgrading works and associated works in Kam Tin, Kowloon City, Mui Wo, North District, Tolo Harbour, Tuen Mun and Yuen Long	
— Tai Po sewage treatment works, stage 5 phase 2B	
— Upgrading of Pillar Point sewage treatment works	
Community and External Affairs	7,892
— Conversion of Yau Ma Tei Theatre and Red Brick Building into a Xiqu Activity Centre	
— Cycle tracks connecting North West New Territories with North East New Territories	
— Development of a bathing beach at Lung Mei, Tai Po	
— Improvement works for Mong Kok Stadium	
— Lam Tin North Municipal Services Building	
— Public library and indoor recreation centre in Area 3, Yuen Long	
— Redevelopment of Kwun Tong Swimming Pool Complex and Kwun Tong Recreation Ground, and Victoria Park Swimming Pool Complex	
— Relocation and expansion of Hong Kong Maritime Museum	
— Sports centre and community hall in Area 101, Tin Shui Wai	
— Swimming pool complex in Area 1 (San Wai Court), Tuen Mun	
Education	7,323
— Baptist University Road campus development of the Baptist University of Hong Kong	
— Centralised general research lab complex (block 1) in Area 39 and two integrated teaching buildings of The Chinese University of Hong Kong	
— Innovation Tower and Phase 8 development of The Hong Kong Polytechnic University	
— New Academic Building of The Hong Kong University of Science and Technology	
— Phases 1 and 2 of Centennial Campus of The University of Hong Kong	

SECTION V – TRENDS IN PUBLIC EXPENDITURE : 2004–05 TO 2009–10

Introduction

1 This section presents trends in public expenditure over the period 2004–05 to 2009–10. The analysis includes expenditure by the Government, the Trading Funds and the Housing Authority.

2 Details of individual heads of expenditure contributing to a particular policy area are provided in an index in Volume I of the 2009–10 Estimates. This index further provides details by head of expenditure of individual programmes which contribute to a policy area.

Recurrent Public Expenditure by Policy Area Group 2004–05 to 2009–10

Policy Area Groups	Actual				Revised Estimate	Estimate
	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
	%	%	%	%	%	%
Education	22.0	22.2	22.0	22.1	21.9	22.3
Social Welfare	15.5	15.9	16.0	16.0	17.1	16.3
Health	14.7	14.6	14.7	14.9	14.8	14.8
Security	11.2	11.1	11.1	11.4	11.3	11.1
Infrastructure	5.5	5.6	5.4	5.4	5.3	5.4
Economic	4.9	5.1	5.0	5.0	4.7	4.7
Housing	5.0	5.3	5.1	4.4	4.4	4.3
Environment and Food	3.7	3.7	3.9	4.0	4.0	4.2
Community and External Affairs	3.2	3.3	3.3	3.3	3.3	3.3
Support	14.3	13.2	13.5	13.5	13.2	13.6
	100.0	100.0	100.0	100.0	100.0	100.0
	\$m	\$m	\$m	\$m	\$m	\$m
Total Recurrent Public Expenditure	205,426	200,710	203,162	212,121	229,406	241,438

Total Public Expenditure by Policy Area Group 2004–05 to 2009–10

Policy Area Groups	Actual				Revised Estimate	Estimate
	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
	%	%	%	%	%	%
Education	21.2	22.2	21.5	21.3	22.7	19.3
Social Welfare	12.9	13.6	13.9	13.8	12.0	13.0
Infrastructure	12.0	11.0	9.7	9.0	7.4	12.4
Health	12.5	12.9	13.3	13.3	11.0	12.0
Security	9.9	10.1	10.4	11.1	8.4	9.6
Economic	4.9	5.1	5.3	5.3	7.6	6.4
Housing	7.0	6.3	6.1	5.7	5.5	5.6
Community and External Affairs	3.1	3.2	3.3	3.3	11.6	4.5
Environment and Food	4.0	3.9	4.2	4.8	3.7	4.4
Support	12.5	11.7	12.3	12.4	10.1	12.8
	100.0	100.0	100.0	100.0	100.0	100.0
	\$m	\$m	\$m	\$m	\$m	\$m
Total Public Expenditure	257,137	244,982	241,744	252,395	334,602	319,359

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, 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, Conservation, Power and Sustainable Development	23
Health	Health	15
Housing	Housing	31
Infrastructure	Buildings, Lands, Planning and Heritage Conservation	22
	Land and Waterborne 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 and Mainland 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.

APPENDIX C

GLOSSARY OF TERMS

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 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
 capital subventions
 computerisation
 interest and other expenses on government bonds and notes
 major systems and equipment
 Public Works Programme expenditure

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

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
 loan repayments received
 recovery from Housing Authority

Capital Investment Fund

dividends from investments
 interest on loans
 investment income
 loan repayments received
 proceeds from sale of investments

Capital Works Reserve Fund

investment income
land premia
recovery from MTR Corporation Limited

Civil Service Pension Reserve Fund

investment income

Disaster Relief Fund

investment income

Innovation and Technology Fund

investment income
loan repayments received
proceeds from sale of investments

Loan Fund

interest on loans
investment income
loan repayments received
proceeds from sale of loans

Lotteries Fund

auctions of vehicle registration numbers
investment income
loan repayments received
share of proceeds from the Mark Six Lottery

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 repayments 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 Trading Funds and the Housing Authority.

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
- finances, 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 Trading Funds and the Housing Authority.

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 Government's accounts and do not form part of the revenue, expenditure or spending.