THE 2014-15 BUDGET

Speech by the Financial Secretary, the Hon John C Tsang moving the Second Reading of the Appropriation Bill 2014

Wednesday, 26 February 2014

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This speech, together with the supplement and appendices relating to the 2014-15 Budget, is available at www.budget.gov.hk .

Mr President,

I move that the Appropriation Bill 2014 be read a second time.

Introduction

2. In the 16 years since our return to China, Hong Kong has seen significant developments in people's livelihood and in the social, economic and political spheres. Now, in 2014, we have reached a crucial juncture. We must work together to prepare ourselves for the future, to strengthen further our solid foundation for the well-being of this generation and the next.

3. The community is now discussing the methods for selecting the Chief Executive in 2017 and for forming the Legislative Council in 2016. I fervently hope that the community will set aside differences, reach a consensus and chart a course towards universal suffrage.

4. On the economic front, the external environment last year was mixed with the US Federal Reserve Board changing towards the end of the year the quantitative easing policy which it has sustained for years. It is likely that there will be larger and more frequent capital flows into and out of Hong Kong. We must be prepared to withstand the inevitable volatility while adapting to the underlying changes in the global landscape to open up opportunity for future development.

5. Last month, the Chief Executive delivered a wide ranging Policy Address with over 160 measures benefiting a broad spectrum of the community. The additional expenditure involved is $25 billion. I shall ensure that financial resources are adequate to fully support the early launch of the relevant initiatives to meet the aspirations of the public.

6. I set up the Working Group on Long-Term Fiscal Planning to explore ways to make more comprehensive planning for our public finances to cope with an ageing population and other long-term commitments. I would like to express my heartfelt gratitude to the experts and scholars in the Working Group for their hard work in the past six months or so as well as their independent and professional analyses and recommendations. The Working Group's report points out that, with an ageing population and a shrinking workforce, economic and revenue growth would decelerate; a structural deficit would be inevitable if expenditure growth outpaces revenue growth in a persistent manner. This reminds us of the importance of "living within our means" and "fiscal prudence". Government will keep the overall fiscal health in view and take timely targeted measures to ensure the sustainability of public finances.

7. Competitiveness is the theme of this Budget. I shall set out proposals on bolstering Hong Kong's position as an international hub, the promotion of industries, the keys and limits to development, and fiscal sustainability. I believe that the proposed measures will enhance our competitiveness, help keep Hong Kong's economy growing, improve our business environment, increase employment opportunities and maintain the health of public finances. With all this in place, I hope that everyone in the community will be able to realise their potential, live a better life and pursue their aspirations.

Economic Performance in 2013

8. The domestic sector remained resilient amid challenges facing the global economy in 2013. The Hong Kong economy grew by 2.9 per cent for the year, a marked improvement over 1.5 per cent in 2012.

9. The US and European economies were beset by a tepid recovery, which put a drag on Hong Kong's trade performance. Merchandise exports to the US shrank by four per cent in 2013 and those to the European Union (EU) fell by one per cent.

10. China's robust economy is the driving force of economic growth in the region and underpins the Hong Kong economy. More than half of Hong Kong's exports of goods went to the Mainland market, outpacing other markets. As for tourism, visitors from the Mainland accounted for 75 per cent of the total arrivals and helped stabilise the local economy and preserve employment.

11. Energy and raw material prices remained stable, alongside a generally moderate increase in import prices of food. Domestic price pressures, however, were more notable. Inflation edged up in the third quarter of last year, reflecting the lagged effects of the surge in private housing rentals in 2012, but tapered subsequently following the decelerated rise in fresh-letting rentals since early 2013. The average headline inflation rate for 2013 as a whole was 4.3 per cent, while the underlying inflation rate, at four per cent, was down by 0.7 percentage point from 2012.

12. The unemployment rate averaged at a low level of 3.3 per cent, buoying the local consumption market. The initiatives introduced in last year's Budget, including a $33 billion package of one-off counter-cyclical measures, had a fiscal stimulus effect of boosting the GDP by 1.3 percentage points, thereby helping to stabilise the economy and preserve employment.

Economic Outlook for 2014

13. The US economy may see some improvement in 2014. Nevertheless, there is still uncertainty over the Federal Reserve Board's exit strategy and interest rate policy. Possible market fluctuations and the risk of reversal of capital flows will cast shadows over global economic growth this year.

14. The Eurozone has pulled out of recession. However, the root problems have yet to be solved, the financial markets are feeble, and unemployment rates are high. Fundamentals are still weak and, as a result, the economic recovery will remain sluggish.

15. Japan's government debt has reached as high as two and a half times the country's GDP. The economy, while being troubled by the threat of deflation, lacked momentum over the past two decades. It remains to be seen whether the economy will be able to maintain its growth trend propped up by the Japanese government's quantitative easing programme last year.

16. The fiscal issues faced by these advanced economies have features in common, namely imbalanced fiscal structures, high debts and high unemployment rates. The governments of these economies adopted expansionary policies to boost economic growth and employment, but the need to mend public finances and reduce fiscal deficits give rise to contractionary pressures. Such contradictory policies would intensify social conflicts and unrest and make the road to economic recovery even more bumpy. Hong Kong must learn from their lessons.

17. Ultra-low interest rates and abundant liquidity under the loose global monetary environment have exposed emerging markets to risks of all kinds, including bursting of asset-price bubbles, greater volatilities of stock prices and exchange rates and intensified inflation pressure. This will dampen their economic growth and performance.

18. The geopolitical uncertainties in many parts of the world are still a cause for concern in the coming year. It is difficult to predict what will happen.

19. The faster economic growth in the Mainland provides crucial support to the regional economy. In Hong Kong, local consumption prospects remain positive, inbound visitor numbers continue to grow and major infrastructure works are steaming ahead, all fuelling domestic demand; the weak external environment is also expected to show some improvement.

20. I forecast GDP growth of three to four per cent in 2014, lower than the average annual growth rate of 4.5 per cent over the past decade. As for unemployment rate, barring any external shocks, the labour market is expected to remain in a state of full employment.

21. On inflation, global economic growth and inflation are likely to stay modest, and global food prices should hold steady by and large. Domestically, the uptrend of factor costs is tapering off. This, coupled with the markedly slower rise in rentals for fresh-letting of flats and shops last year, will help ease inflation pressure this year. I forecast that the headline inflation for 2014 will average 4.6 per cent and underlying inflation at 3.7 per cent.

22. Low interest rates and abundant liquidity have seen the local property market out of line with economic fundamentals, with heightened risk of a bubble. Before the supply-demand situation of the property market regains its balance, Government must continue with its demand-side management measures. These serve to forestall an increased risk of a property bubble that would hamper our macro-economic and financial stability. Keeping the external environment and market conditions in view, I shall adjust these exceptional measures where and when appropriate.

Hong Kong's Competitiveness

23. Some citizens have expressed concern about Hong Kong losing its edge. They worry that weakening competitiveness and slower development might see Hong Kong lose its international status to other places and take their toll on our economy and employment. Our competitive edge cannot be taken for granted, nor is it self-sustaining. It is essential that we seize every opportunity to improve, and aptly respond to possible crises along the way. On the one hand, we should understand our advantages and limitations, and consolidate our time-honoured success model. On the other hand, we should adapt to evolving circumstances.

24. Hong Kong's economic success over the years owes much to our efforts to grasp the opportunities presented by our country's development, to our steadfast commitment to free market principles and to our firm positioning as a world city. In the Index of Economic Freedom released by The Heritage Foundation last month, Hong Kong ranked first for the 20th consecutive year. For eight years in a row, we have been accredited by the World Bank with a top ranking for ease of paying taxes in its survey 'Paying Taxes - The Global Picture'. Our total tax rate is among the lowest in advanced economies. Hong Kong was rated as one of the world's three most competitive economies for the ninth consecutive year by the International Institute for Management Development in Lausanne, Switzerland.

25. Such international recognition and acclaim do not come easy. The reports highlight a wealth of intangible assets we possess, including a set of relative strengths and social values upheld by years of hard work and perseverance. But, as our competitors are also striving for excellence, we have to work harder to stay ahead.

26. The market economy regime encourages enterprises and individuals to translate their strengths and talents into economic benefits based on their own choices and their own efforts. It thrives on our fine tradition of the rule of the law, a level playing field promoting fair competition, an efficient public sector, and a simple and low tax regime.

27. The Hong Kong economy could not have attained its economic achievements through the domestic sector alone. The key has been to integrate with the global community, forge extensive and strong commercial ties with the rest of the world, and to tap into markets outside Hong Kong. That is why we have all along maintained a highly open market to ensure the free flows of people, goods, capital and information, with a view to strengthening our position as an international city where East meets West.

28. All along, Hong Kong has been participating in, and has benefited from, China's reform and liberalisation. Reunification has given us a unique competitive edge under "One Country, Two Systems". Hong Kong has become not only the largest investor in the Mainland, but also an intermediary and a bridge for trade between China and the rest of the world. Our nation's new round of economic reform will bring about new competition on the one hand, and much room for development on the other.

29. Our well-established trading and logistics industry, financial services industry, tourism industry and professional services have been showcasing Hong Kong to the international community. They have become Hong Kong's pillar industries, not on account of any mandatory government selection, but because they have been able to capitalise on their own strengths as well as Hong Kong's edge. Decades of effort by these industries amid natural selection in the international market have contributed to Hong Kong's position as a commercial hub, a financial centre, and an international tourist destination.

30. In the foreseeable future, there is still ample room for these industries to flourish and keep moving up the value chain in their pursuit of new areas of growth, providing support and job opportunities for our economy. At the same time, we must nurture with patience new industries which have potential and international competitiveness. By doing so, we are opening up more new opportunities for our future economic development.

31. Manpower, land supply and an ageing population are the major constraints to Hong Kong's future development. To overcome them, we must endeavour to nurture a wealth of suitable talent for the future, increase land supply to expand the scale of the economy, and plan well ahead for an ageing society.

International Hub

32. Hong Kong boasts unparalleled access across Asia, and unrivalled connections both to international markets and to the China market. With a complementary mix of talented people and efficient infrastructure, well-developed international and domestic transport networks, quality business support services and financial infrastructure of the highest world standards, Hong Kong will continue to thrive as an international hub, a focal point for multinational enterprises.

33. To stay highly efficient and become even more competitive, we must put in place a comprehensive strategy, not only for improving the efficiency in the flow of people, goods, capital and information, but also for enhancing the quality of our living environment and our position as an international hub. Among other things, this tops the future agenda of Government. Our financial commitment in capital works has reached a high of $340 billion. This has yet to include our investments in mega projects, such as a new airport runway, new development areas, and reclamations. These projects will help boost Hong Kong's efficiency and economic strength, improve the living conditions, and build an ideal city for the future.

Transport Networks

34. As a major international aviation centre, Hong Kong currently has nearly 110 air carriers operating about 7 100 scheduled flights per week to and from almost 180 cities. As one of the busiest ports in the world, our city is served by about 80 international shipping lines with some 380 liner services per week to 550 destinations worldwide. Moreover, we are well connected with the Mainland through four road-based boundary crossings, two rail-based boundary crossings and two cross-boundary ferry terminals.

35. The Hong Kong International Airport at Chek Lap Kok is Hong Kong's most important external transport infrastructure and an essential ancillary facility for all industries. As one of the world's best and busiest airports, it handled almost 60 million passengers and more than 4.1 million tonnes of air cargo last year. With the burgeoning demand for aviation services, hourly flight movements of the two existing runways will increase from the current 65 to 68 next year.

36. We are assisting the Airport Authority Hong Kong (AA) to press ahead with planning for a three-runway system. The project, estimated to cost over $100 billion, will foster our long-term economic development and enhance our competitiveness. The AA is conducting the environmental impact assessment with a view to securing approval this year in order to take forward the project as soon as possible for commissioning in 2023. The AA is preparing the detailed project cost, formulating budgets and examining viable financing options, which include increasing recurrent revenue, issuing bonds and keeping its operating surplus as reserves. Government will support the financing of the project.

37. Upon the commissioning of the Hong Kong-Zhuhai-Macao Bridge in 2016, the development potential of Lantau Island will be significantly enhanced as the island transforms from the western end of Hong Kong into the centre of the Pearl River Delta (PRD). It will then take one hour to travel from Hong Kong to Macao and Zhuhai, three hours to most of the major towns and cities of the Western PRD, and about one day to major cities in Indochina such as Hanoi. This increased connectivity will help expand our market hinterland, and facilitate people flows and logistics connectivity between Hong Kong and neighbouring areas.

38. Upon completion of work next year, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL) will reduce the journey time between Guangzhou and Hong Kong to 48 minutes, bringing together our seven-million people metropolitan area and a market of 60-million people. The XRL will also give passengers easy access to the Mainland's 16 000 kilometres high-speed railway network to all the major cities.

39. Domestically, we have been investing in large-scale strategic road and railway projects totalling over $90 billion in the past five years to upgrade network efficiency. Projects under construction include the Tuen Mun-Chek Lap Kok Link, Central-Wan Chai Bypass and Island Eastern Corridor Link, as well as widening of Tolo Highway and Fanling Highway. They are on track for completion successively before the end of 2018. There are also major projects under planning, such as the Central Kowloon Route, the Tseung Kwan O-Lam Tin Tunnel, and Tseung Kwan O Cross Bay Link.

40. As for railways, the West Island Line, the South Island Line (East), the Kwun Tong Line Extension and the Shatin to Central Link, at a total cost of over $110 billion, are all under construction. They are expected to be completed for commissioning between the end of this year and 2020. The existing network will then be extended to strengthen the role of railways as the backbone of the public transport system. Government will shortly announce a blueprint for railway development beyond 2020.

Financial Infrastructure

41. Apart from ensuring a better flow of people and goods, Hong Kong has been enhancing its financial infrastructure for a smoother flow of capital. Three main components of the financial infrastructure, namely the interbank Real Time Gross Settlement (RTGS) systems, debt securities settlement and custodian systems, and system links for cross-border transactions. These provide multi-currency and multi-channel platforms to handle local real-time transactions in Hong Kong dollar and major foreign currencies, covering global banking, equity and debt markets.

42. The Hong Kong Monetary Authority (HKMA) has been actively promoting electronic payment systems to boost the operational efficiency of enterprises and banks. With the launch of the first Electronic Bill Presentment and Payment platform last year, the public can now receive and schedule payments for various types of electronic bills online. Major bill-issuing departments of Government are expected to be on board by the end of this year to facilitate the online receipt and settlement of bills such as water charges and rates.

43. In collaboration with the Hong Kong Association of Banks, the HKMA has issued the Best Practice for Near Field Communication (NFC) Mobile Payment in Hong Kong to ensure the steady development of the market. Four objectives are set out in the Best Practice, namely "multiple payment services on a single NFC-enabled mobile phone, service continuity despite switching mobile network operators, service continuity despite changing phones, and a high level of security". Meanwhile, an "e-cheque service" is expected to be launched in the latter half of 2015. The service allows individuals and enterprises to issue or deposit e-cheques via the Internet, thus cutting the time and cost for handling cheques by banks.

44. In last year's Budget, I proposed to introduce a licensing scheme to regulate stored value facilities (SVF), in order to ensure financial stability of SVF issuers, and to protect and manage the transactions properly. The proposed regulatory regime will foster the development of local e-commerce and relevant information technology (IT) sectors. We received general support as well as constructive suggestions from the public during consultation. We seek to introduce the relevant bill into this Council in the next legislative session.

45. We are committed to strengthening the capacity of our trading platforms. We are set to implement a scripless securities market with enhanced efficiency and investor protection. Government plans to introduce the relevant bill into this Council in the first half of this year.

Development as a Smart City

46. Rapid IT development means swift access to worldwide information. Capacity in information processing and analysis has become a key component of the competitive edge of modern large enterprises. Small and medium enterprises (SMEs) in all sectors also stand to benefit from making use of IT for greater efficiency. Hong Kong's IT infrastructure is well developed. Today, 97 per cent of households are able to access broadband services, and 83 per cent make use of these services. With 10 000 Wi-Fi hotspots offered by Government and commercial sector, Hong Kong has one of highest concentrations of hotspots in the world. We also have a high mobile phone penetration rate of 237 per cent.

47. In fact, we have won wide international recognition for our achievements in areas such as IT infrastructure, internet security and the free flow of information. Hong Kong was ranked first in International Internet Bandwidth. As for the Global Innovation Index and Data Centre Risk Index, Hong Kong comes first in Asia.

48. In the recent fourth update of the Digital 21 Strategy, we have proposed a series of initiatives under the theme of "Smarter Hong Kong, Smarter Living", including the following five –

(a) doubling the number of Wi-Fi hotspots with complete or time-limited free public access to 20 000 by the end of this year through public-private partnership to promote city-wide Wi-Fi for all. We shall engage the public in the naming of a common Wi-Fi brand. Citizens and visitors will have easy and convenient access to Wi-Fi services;

(b) making all government information released for public consumption machine-readable in digital formats from next year onwards to provide more opportunities for the business sector. Currently, Public Sector Information available for free access covers real-time data such as road traffic information, geo-referenced public facility data, property market statistics, population census statistics, etc;

(c) further digitalising government operations and actively implementing paperless solutions to enhance efficiency, facilitate information sharing and protect the environment;

(d) looking into the wider use of the Internet of Things, sensors and big data analytics to enhance our municipal management; and

(e) considering the provision of digital identity to all Hong Kong citizens in order to develop a common, shared and safe platform for the delivery of services such as electronic health records and e-cheques.

A Liveable City

49. Hong Kong needs to keep investing in environmental infrastructure to ensure cleaner air, cleaner sea water, and better treatment of solid waste. They are key to meeting the aspirations for healthy living and making Hong Kong an attractive place for all, locals as well as talents from abroad.

50. An incentive-cum-regulatory approach to phase out all the 82 000 pre-Euro IV diesel commercial vehicles by 2020 is being pursued. We have earmarked $11.4 billion for the ex-gratia payment scheme, which will be open for application from 1 March. For years, we have been promoting the use of electric vehicles by exempting them from First Registration Tax. I propose to extend the tax exemption by three years up to 31 March 2017.

51. The Harbour Area Treatment Scheme collects sewage from both sides of Victoria Harbour for centralised treatment at Stonecutters Island. Stage 1 of the scheme has been completed at $8.3 billion. As to Stage 2A, works are in progress at an estimated cost of $17.5 billion. Upon the scheduled completion of the main works this year, the water quality of Victoria Harbour will further improve. Sludge produced in the course of sewage treatment will be transferred to the Sludge Treatment Facility which will come into service this year. The facility will turn the sludge into energy, while alleviating the burden on landfills.

52. As for the management of municipal solid waste, we shall invest about $30 billion in waste recycling and treatment facilities. We are pressing ahead with the provision of organic waste treatment facilities, community green stations, and waste electrical and electronic equipment processing facilities. Government is also actively pursuing measures to support the long-term and sustainable development of the recycling industry by setting up a Recycling Fund, enhancing training, promoting green procurement, etc. We are also actively taking forward the development of the Integrated Waste Management Facilities Phase 1 and the extension of the three landfills.

53. 70 to 80 per cent of Hong Kong's fresh water comes from Dongjiang. Given the rising demand for fresh water in Guangdong Province and the challenge due to climate change, we shall endeavour to increase the supply of fresh water from local sources. Government has reserved a site for the construction of a desalination plant, and the planning and investigation study will largely be completed early next year. The desalination plant is expected to commence operation in 2020. Although the initial annual output of the plant will account for just five to ten per cent of Hong Kong's total fresh water consumption, I believe seawater desalination can serve as an important water source for Hong Kong in the long run as technology advances.

Development of Industries

54. Hong Kong's economic accomplishment is the fruit of the concerted efforts of the community and Government over the years. Government is committed to maintaining a favourable business environment for enterprises to flourish. We liaise actively with other governments to open up more markets for enterprises, and address the specific needs of individual sectors by introducing measures to help them stand up to intense international competition.

Innovation and Technology Industry

55. To tie in with economic restructuring, even knowledge-based and high value-added industries need to progress with the times. Pursuing innovation and making good use of technology will not only facilitate development of industries, but also help raise the productivity of all sectors.

56. Government aims to provide an enabling environment and proper financial support for universities, research and development (R&D) organisations and industry to conduct research and commercialise their innovations. In 2012, Hong Kong's total R&D expenditure amounted to around $15 billion, of which more than half came from the public sector. We shall accelerate technology transfer of upstream R&D results to translate more innovations into commercialised midstream and downstream R&D products or services.

57. The Innovation and Technology Fund (ITF) has been supporting applied R&D and is constantly being refined to nurture an environment conducive to innovation and technology in Hong Kong. Established 15 years ago, the ITF has funded more than 3 600 projects with about $8 billion. To further enhance the application and commercialisation of R&D results, we shall introduce two new measures –

(a) setting up an Enterprise Support Scheme (ESS) to replace the Small Entrepreneur Research Assistance Programme. The ESS will provide funding support for R&D activities of private sector companies, irrespective of size, with the funding ceiling for each project raised from $6 million to $10 million. While the recipient company must bear at least half of the cost, it may retain all the intellectual property rights of the project; and

(b) extending the scope of funding to development work and system integration, industrial design, compliance testing and clinical trials. This will render stronger support to downstream R&D and commercialisation activities, allowing full exploitation of the technological edge of local industries.

58. These two measures are intended to further boost R&D investments and commercialisation activities among private companies at home and attract those from abroad to bring their R&D departments to our city, hence creating a more diversified ecology for innovation and technology.

59. I am happy to see the mushrooming of start-ups in Hong Kong over the last few years. Although no new business could guarantee success, more favourable environment will certainly help translate more new ideas into business opportunities.

60. Government will create a better ecological environment for technology start-ups in collaboration with local R&D institutions and universities. The ITF will provide an annual funding of up to $24 million to the six designated universities to provide seed money for R&D projects that they recommend, encouraging their students and teachers to start downstream R&D businesses and commercialise their R&D results.

61. The Hong Kong Science and Technology Parks Corporation, Cyberport and Hong Kong Design Centre will continue to provide various incubation programmes and support services for the start-ups, such as shared workspace, business knowledge training, business liaison and interflow, and investment matching activities. All these aim to help start-ups tide over the difficulties encountered in the initial stage of their business and grow further. The "StartmeupHK" portal of Invest Hong Kong provides start-ups with an information and exchange platform. To cater for innovation and technology start-ups in particular, Government will soon launch an interactive portal to pool stakeholders in the start-up ecosystem to promote their inventions and innovations to attract funding.

62. The Chief Executive, in his Policy Address, proposed to set up an Innovation and Technology Bureau as a centralised body to co-ordinate and promote innovation and technology policy. The proposal is widely supported by the industry, and I look forward to its early implementation.

Pillar Industries

63. The four pillar industries recorded a cumulative growth of 84 per cent over the past ten years up to 2012, exceeding the overall economic growth for the same period. They currently employ over 1.7 million people, or almost half of the total labour force, and contribute close to 60 per cent of GDP. They are the linchpin of Hong Kong's economy.

Trading and Logistics Industry

64. Hong Kong is the ninth largest trading entity in the world with a sophisticated trading and logistics industry. In 2013, visible trade, including re-exports, domestic exports and imports of goods, amounted to over $8.2 trillion, approaching four times of GDP.

Market Access

65. We have strived to open up new markets for Hong Kong's enterprises by fostering closer ties at G2G level, and protect the interests of business people through trade agreements. The ten member states of the Association of Southeast Asian Nations (ASEAN), which enjoy rapid economic growth, are Hong Kong's second largest trading partner in terms of goods and fourth largest in terms of services. We shall vigorously pursue the upcoming negotiations of a free trade agreement with ASEAN.

66. We have signed 17 Investment Promotion and Protection Agreements so far. The negotiations with Bahrain and Myanmar were concluded last year, and those with Russia and Chile will proceed this year.

67. We shall continue to help Hong Kong enterprises develop once again the traditional European and American markets, which are on their way to recovery. The relevant Hong Kong Economic and Trade Offices and the Hong Kong Trade Development Council (HKTDC) have organised large-scale promotional events, arranged exchange visits and explore other means to promote bilateral trade and investment, and encouraged European and American enterprises to capitalise on Hong Kong's position as the gateway to the Asia-Pacific market. All these activities seek to secure the best opportunities for the Hong Kong business sector.

68. Hong Kong has always been a staunch supporter of the multilateral trading system. At the end of last year, the World Trade Organization (WTO) held the Ninth WTO Ministerial Conference in Bali, Indonesia, and reached the first-ever multilateral trade agreement since its establishment. As Chairman of the Sixth Ministerial Conference, I am deeply encouraged. This trade agreement will rationalise the import/export and customs formalities and procedures of over 150 WTO members. It will help reduce costs and bring economic benefits worth around US$1 trillion. Hong Kong's importers and exporters as well as the logistics industry will stand to benefit directly while enterprises in general can also achieve cost savings in customs clearance when exporting their products.

High Value-added Logistics Services

69. Faced with competition from neighbouring regions, Hong Kong's trading and logistics industry has been developing towards the provision of high value-added services in recent years in such areas as inventory management, regional distribution and global supply chain management. Airfreight throughput kept scaling new heights. Despite its tiny one-per cent share in total trade volume, air cargo accounts for over one-third of our total trade in value terms.

70. To dovetail with the latest developments of the airfreight logistics industry, the AA is planning and developing relevant sites on the Airport Island. Hong Kong has registered the world's largest international air cargo throughput for years, and the AA keeps upgrading the airport's facilities. A new air cargo terminal was fully commissioned last October, and the midfield development project scheduled for completion in 2015 will provide a new passenger concourse with an additional 20 aircraft parking stands and other ancillary facilities.

71. Over the past three years, we have released three logistics sites with a total floor area of 280 000 square metres at Tsing Yi. We are conducting technical assessments for the ten hectares of land reserved at Tuen Mun West to ascertain its feasibility for developing into modern logistics facilities.

72. Scattered throughout the New Territories, many "brownfield sites" are being used for port backup, container vehicle parking and open storage purposes, etc. Although such services are in demand, the potential of these sites has not been maximised. I have asked relevant policy bureaux and departments to explore feasible improvement measures, including accommodating some of these operations in suitable multi-storey buildings. We are proactively studying the consolidation of the existing backup sites for the port and logistics industry around Kwai Chung and Tsing Yi Container Terminals, to facilitate the development of the logistics industry and enhance the efficiency of the Hong Kong Port, and at the same time, better utilise the valuable land resources.

Financial Services

73. The financial services industry contributes 15.9 per cent of Hong Kong's GDP. Its per capita value added, at $1.4 million, is the highest among all pillar industries. The financial services industry helps spur the development of Hong Kong's economy as a whole as it not only benefits its 230 000-strong direct workforce, but also indirectly creates plenty of employment opportunities in related sectors, such as legal, accounting and IT services, and support the operation of other industries.

Offshore Renminbi Business Centre

74. Hong Kong is the world's largest offshore Renminbi (RMB) business centre. At the end of last year, RMB deposits and outstanding RMB certificates of deposits totalled more than RMB 1 trillion, accounting for 70 per cent of the offshore pool of RMB liquidity. RMB trade settlement conducted through Hong Kong banks last year exceeded RMB 3.8 trillion, with a year-on-year increase of 45 per cent. The average daily turnover on Hong Kong's RMB RTGS system has posted a remarkable increase of nearly 100 fold from RMB 5 billion in 2010 to RMB 500 billion at end-2013. In the past few years, the RMB transactions conducted between local and overseas banks have increased substantially. The amounts due to and due from overseas banks have each increased significantly by more than eight times, from less than RMB 20 billion at end-2010 to some RMB 160 billion.

75. The RMB Qualified Foreign Institutional Investors (RQFII) Scheme was further expanded last year, bringing the total investment quota to RMB 270 billion, exceeding the aggregate quota of all other offshore RMB centres. The RQFII Scheme facilitates the launch of more innovative and diversified RMB investment products in Hong Kong to promote two-way flow of RMB funds between the Mainland and Hong Kong.

76. The Ministry of Finance issued sovereign bonds in Hong Kong twice last year, totalling RMB 23 billion, and offered for the first time sovereign bonds of 30-year tenor. This demonstrates the regularisation of the issuance of RMB sovereign bonds in Hong Kong by the Central Government.

77. The proposals in the Mainland's blueprint for the deepening of reforms include further opening up the financial industry and the capital markets both domestically and externally. We shall continue to support our country's accelerated drive to realise capital account convertibility and internationalisation of the RMB by acting as a bridge between our nation and the rest of the world, and serving as a platform for Mainland funds and enterprises to reach out to the international market.

78. The world's financial centres are developing offshore RMB business. Hong Kong, with its first-mover advantage, is well-positioned to provide RMB services to overseas financial institutions at the wholesale level. At the same time, we should strengthen our existing services, including RMB trade financing, RMB-denominated financial products and cross-border reinsurance, direct cross-border investment from the Mainland, asset management and fund development. Consensus has been reached between the Securities and Futures Commission and relevant Mainland authorities on the mutual recognition of funds. On implementation, this arrangement will further promote the diversification of fund products in the Mainland and Hong Kong.

Asset Management

79. Hong Kong's wealth and asset management business has been growing exponentially, ranking top in Asia. At end-2012, there were 45 banks operating private wealth management business in Hong Kong. The assets under management of these banks and other fund managers recorded year-on-year growth of 40 per cent, reaching a record high of $12.6 trillion.

80. In last year's Budget, I proposed to allow private equity funds also to enjoy tax exemption for offshore funds to attract them to expand their business in Hong Kong. We have completed an industry consultation and shall take forward the legislative work as soon as possible. As for my proposal on introducing an open-ended fund company structure to attract more funds to establish in Hong Kong, relevant regulatory frameworks have been drawn up and consultation will begin next month.

81. In 2010, I extended the stamp duty concession to cover exchange traded funds (ETFs) that track indices comprising not more than 40 per cent of Hong Kong stocks. The number of ETFs listed in Hong Kong have since seen a substantial increase from 69 at end-2010 to 116 at the end of last year. The daily average turnover of ETFs also increased from $2.4 billion to $3.7 billion, making Hong Kong one of the largest ETF markets in the Asia-Pacific region. I propose to waive the stamp duty for the trading of all ETFs, so that the trading cost of ETFs with a higher percentage of Hong Kong stocks in their portfolios can be reduced as well. This will help promote the development, management and trading of ETFs in Hong Kong.

82. Hong Kong is a popular platform for multinational enterprises to manage their global or regional treasury functions. To draw more of these functions to Hong Kong and to enhance our strengths in financial and professional services, I have asked the Financial Services and the Treasury Bureau (FSTB) to set up a task force in collaboration with the HKMA. The task force will review the requirements under the Inland Revenue Ordinance for interest deductions in the taxation of corporate treasury activities, and clarify the criteria for such deductions. It will come up with concrete proposals within one year.

Local Bonds

83. Compared with RMB business and asset management, the development of Hong Kong's bond market has a slower start. One reason is that the Hong Kong-US dollar peg prompts enterprises to raise funds in the more mature and more-liquid US bond market. Another is that the sound fiscal health of Government precludes the need for raising funds through bond issuance. Nevertheless, developing the local bond market is important for consolidating Hong Kong's status as an international financial centre.

84. We introduced the Government Bond Programme (GBP) in 2009 to expand the base of investors. We have implemented measures under the GBP to allow market makers to acquire institutional bonds with varying maturities more easily. This will give institutional investors further flexibility and promote the development of the secondary bond market. Separately, we have introduced the relevant bill to enable the issuance of Islamic bonds under the GBP, in order to encourage more issuers to raise funds through the financial market of Hong Kong.

85. In view of the enthusiastic public response to inflation-linked retail bonds (iBond) issued by Government and the prevailing low interest rates of the Hong Kong dollar, I propose another iBond issue of up to $10 billion with a maturity of three years. This issue will target Hong Kong residents. Interest will be paid to bond holders once every six months at a rate linked to the inflation rates of the last half-year period. The HKMA will announce the details in due course.

Tourism

86. Tourism has been making immense contribution to Hong Kong's economy. In 2013, visitors to Hong Kong exceeded 50 million, an increase of 11.7 per cent over 2012. Total spending went up by 14.8 per cent to $340 billion. Tourism, making up 4.7 per cent of GDP and employing over 250 000 people, has been driving the growth of many other industries, such as retail, catering and transport. I appreciate that an excessive number or over-concentration of visitors may exert pressure on our society. Government should strive to ensure that there is sufficient capacity to receive visitors.

87. In order to attract high-spending visitors to Hong Kong, thus bring about more economic benefits from tourism, we should continue to upgrade our tourist facilities, host attractive mega events and maintain an adequate supply of high-end hotel accommodation.

88. On tourist facilities, the construction of the waterpark at Tai Shue Wan in the Ocean Park and the "Iron Man Experience" in the Hong Kong Disneyland has commenced by phases. The terminal building and the first berth of the Kai Tak Cruise Terminal came into operation last June. Cruise lines and passengers have found the Terminal's facilities and services satisfactory. With construction works now in the final stage, the second berth is planned to be commissioned this year. "Kai Tak Fantasy" — International Ideas Competition on Urban Planning and Design is now under way, and it is our target to develop the site into a spectacular world-class tourism, entertainment and leisure hub.

89. As for hotels, Government is pressing ahead with the infrastructure works at the southern end of the runway and south apron of the former Kai Tak Airport. We are identifying feasible ways for the gradual release of the six sites facing Victoria Harbour within the "hotel belt" adjacent to the Kai Tak Cruise Terminal to the market starting from the end of next year. These prime sites can be developed into a distinctive hotel cluster with five-star accommodation as well as gourmet and entertainment facilities.

90. The hotel project at the Murray Building site has been successfully tendered. Upon commissioning, this hotel, together with the Ocean Hotel in the Ocean Park and the third hotel in the Hong Kong Disneyland, will provide altogether over 1 500 rooms, offering more diverse and novel choices of quality hotel accommodation.

91. Overnight business travellers are our prime targets. According to the Hong Kong Tourism Board (HKTB), the total spending of visitors attending conventions and exhibitions in Hong Kong reached $16.3 billion in 2013. Their per capita spending was close to $10,000, 21 per cent more than that of other overnight visitors.

92. As our neighbouring cities have been proactive in drawing convention and exhibition visitors in recent years, we must adjust our strategies from time to time. I shall allocate an additional $45 million for the HKTB to provide more attractive and targeted services and concessions for organisers and participants of conventions and exhibitions of various scales and types in the coming three years. Meanwhile, Government is studying the demand for convention and exhibition facilities in Hong Kong in the next 15 years.

93. We have to keep enriching our cultural, art and sports programmes which will, apart from enabling local residents to enjoy more, refresh our city's appeal to overseas visitors and attract them to come back again at different times. We shall provide additional funding of $50 million to the HKTB in the coming two years to strengthen even further its popular events, such as the Wine and Dine Festival, the New Year Countdown Celebrations and the Chinese New Year Night Parade. One way to do so is to introduce 3D projection mapping technology to help showcase the magnificent night view of the Victoria Harbour during mega events. Residents and visitors alike can enjoy this projection mapping show as part of the year-end festivities in 2014. We shall continue to seek to host mega events, including through financial support from the Mega Events Fund, on the Victoria harbourfront for the enjoyment of residents and visitors.

Business and Professional Services

94. Hong Kong has one of the most advanced services industry in the world. Professional services and other producer services contribute 13 per cent of GDP and employ about 500 000 people. The professional services industry in particular recorded high growth in recent years, contributing nearly five per cent of GDP. Government will continue to strengthen G2G ties with its Mainland and overseas counterparts, secure more liberalisation measures and forge more free trade agreements to help Hong Kong service industries access external markets, especially the Mainland market, under more favourable conditions.

Closer Economic Partnership Arrangement

95. In 2011, the Central Government announced the objective of achieving basically liberalisation of trade in services between the Mainland and Hong Kong through the Closer Economic Partnership Arrangement (CEPA) by the end of the National 12th Five-Year Plan period. HKSAR Government is working closely with the Ministry of Commerce, striving to further open up the Mainland market to Hong Kong. We shall work with Guangdong Province, aiming at early achievement of basic liberalisation of trade in services between Hong Kong and Guangdong this year.

Trade in Services Agreement

96. To tap into the services markets outside the Mainland, Hong Kong is actively participating in the plurilateral Trade in Services Agreement negotiations. We aim to reach a high-standard WTO plus agreement to secure better market access for our service industries. 22 other parties are taking part in the negotiations, including eight of our top ten service trading partners. These participating economies account for half of Hong Kong's trade in services.

Cross-boundary Professional Services

97. In recent years, arbitration and mediation have become the mainstream modes of resolving international commercial disputes. Building on our robust legal system and tradition, Government has all along been actively promoting Hong Kong's legal and arbitration services, and making its best efforts to advocate and develop mediation services, with a view to enhancing Hong Kong's position as an international legal and dispute resolution services centre in the Asia-Pacific region.

98. Last year, we completed the reform to modernise our trust law, making our trust services industry more competitive. Government will work with the industry to promote our strengths in this respect, and encourage settlors all over the world to choose Hong Kong as their base for trust administration.

99. Trade in Intellectual Property (IP) has great development potential. The Secretary for Commerce and Economic Development will continue to lead the relevant working group to devise measures to develop Hong Kong as an IP trading hub in the region. The objectives are to provide more financing and trading channels for enterprises, and promote the development of the creative and technology industries.

Small and Medium Enterprises

100. SMEs make up over 90 per cent of local enterprises and employ 1.3 million people, or half of the number of employees in the private sector. Despite the unfavourable global economic climate over the past few years, the number of SMEs and their employees have been increasing. This underscores SMEs' role as the mainstay of our economy and employment market.

101. The development of SMEs has always been high on my agenda, and I appreciate the different challenges that they face such as surging costs and keen competition. Over the years, Government has rolled out an array of appropriate measures to support their development. Given the uncertain external economic environment, I shall continue to lend support to local SMEs in financing, market expansion, brand building and productivity enhancement through the following seven measures –

(a) extending the application period for the special concessionary measures under the SME Financing Guarantee Scheme for one year to the end of February 2015. From its launch to the end of 2013, over 8 000 applications have been approved, benefiting over 5 500 enterprises with total loan guarantee of more than $27 billion;

(b) continuing the implementation of the Small Business Policy (SBP) scheme by the Hong Kong Export Credit Insurance Corporation to allow SMEs engaging in export trade more flexibility in taking out insurance cover. The SBP scheme has been well received since its launch in March last year. More than 700 applications have been approved with the value of total insured business amounting to over $1 billion. SBP policyholders will continue to enjoy waiver of the annual policy fee and up to 20 per cent premium discount;

(c) earmarking $50 million to support retailers on a matching fund basis for the use of IT and other technology solutions to increase productivity;

(d) promoting cloud computing applications among SMEs and providing training to help them adopt appropriate and affordable IT solutions;

(e) continuing with the Hong Kong Mortgage Corporation Limited's Microfinance Scheme. Up to the end of 2013, 106 applications have been approved under the scheme, with a total loan amount of over $28 million;

(f) continuing to make use of the dedicated fund and extend the network of the HKTDC Design Gallery to assist Hong Kong enterprises in developing brands, in upgrading and restructuring, as well as in exploring market opportunities in the Mainland; and

(g) continuing to identify suitable workspace for individuals and enterprises engaging in creative industries and help promote their work. The "Comix Home Base" converted from a pre-war building was open in July last year. The creative industries landmark "PMQ", a $500 million government project of revitalising the former Police Married Quarters on Hollywood Road, is coming on stream in the first half of this year.

102. We do have a good number of industries with potential for development. I have received many proposals from various organisations as well as Members of this Council on how to promote sectors with development potential, an example being a centre for retail and wholesale fashion businesses at the district level. I am supportive of such proactive and self-initiated efforts of the industry. Government will render appropriate assistance to industries with potential for further development.

Key to Development

Manpower

103. Government attaches great importance to investment in people. In 2014-15, the recurrent expenditure on education will be $67.1 billion, taking up the largest share of recurrent government expenditure, also an increase of nearly 80 per cent over 1997-98.

104. A general rise in the education level of the workforce helps our market move towards a high value-added model. However, there remain a manpower mismatch and relatively high youth unemployment rate that we need to address. The city cannot afford to let the talent of any of its members go to waste. To ensure that our manpower resources can meet the needs of economic development; we have to specifically strengthen life planning, vocational education and training for the youth.

105. Shortage of manpower hampers the development of certain industries. Labour shortage in the construction sector, for instance, would affect the delivery of infrastructure projects. Apart from encouraging young people to join these industries, admitting from abroad talent and workers not available in Hong Kong will also help maintain our competitiveness. I hope that employers, employees and the community will work towards solutions to the problems through candid and open discussions.

Career Navigation and Training

106. The Vocational Training Council (VTC) will launch a pilot training and support scheme to attract new entrants for industries with keen demand for labour. Under the scheme, structured apprenticeship training programmes will be integrated with clear career progression pathways. The 2 000 apprentices joining the scheme will receive an allowance from Government and the industries. Meanwhile, the Education Bureau (EDB) will strengthen support to schools to enrich and strengthen career guidance service and life planning education to enable students to realise their potential.

107. In my last Budget, I announced the setting up of the Task Force on Manpower Development of the Retail Industry to study the outlook of the retail industry and its manpower demand and supply. Government has accepted the Task Force's recommendations and will allocate $130 million for their implementation, including the funding support mentioned earlier for retailers to increase productivity. We will also assist the VTC in strengthening its vocational education and training with reference to the Specifications of Competency Standards for the Retail Industry that was newly drawn up under the Qualifications Framework (QF). This includes running retail courses through a professional institution and launching pilot courses combining classroom learning and work placement. We shall work with the industry to enhance the image of the trade. The Labour Department will provide targeted recruitment and employment services as well as organise large-scale and district-based job fairs, all dedicated to the retail industry.

108. We shall seek closer collaboration with tertiary institutions and the industry to bring IT education more in line with the needs of the industry. We shall step up publicity about the contribution made by IT to our society and economy to enhance the profession's image. There are many examples of renowned IT talents around the world who started their own businesses at a young age and soon became leading figures in the IT sector. To identify such gifted young people earlier, we plan to incorporate enrichment programmes in secondary schools which are outstanding in IT education. By so doing, we hope to cultivate young IT professionals and even entrepreneurs to meet the development needs of a digital society.

109. Professionals and skilled personnel in various areas of the financial services industry are of vital importance to the sustained development and expansion of the sector. In this connection, FSTB will consult the industry and conduct an in-depth study on related issues, and submit their recommendations to me.

Continuing Education and Training

110. Continuing education is crucial to productivity enhancement and economic development. EDB plans to establish an endowment fund of $1 billion to provide a steady source of funding to support the sustainable development of the QF, benefitting employees and employers, education and training providers, assessment agencies and quality assurance bodies. We hope this initiative will encourage continuous learning among practitioners of the sectors concerned.

111. In 2014-15, the Employees Retraining Board (ERB) will offer 130 000 training places and services for those aged 15 or above with education attainment at sub-degree level or below. Resources have also been reserved to provide an additional 40 000 places to meet the potential demand from the employment market. The Finance Committee of this Council has approved Government's injection of $15 billion into the ERB as part of our long-term support.

Land Supply

112. To address the demand for land in the short, medium and long term, I shall continue to co-ordinate the efforts of the various government departments to increase housing land supply with a view to achieving the target of providing 470 000 residential flats in the coming ten years. We shall seek to increase the supply of commercial land to provide more opportunity for the community and various sectors. I shall allocate an additional funding of over $650 million in the coming five years to the bureaux and departments involved in this work to create 229 posts of different grades to enhance land development efforts.

Residential Land Supply

113. In this financial year, Government put up for sale 36 residential sites capable of providing about 14 000 private residential units, a record high since 2000-01. Together with other development projects, the total housing land supply from different sources will be capable of providing about 18 000 private residential units, falling short of the original annual average target of 20 000 units, mainly due to slower than expected progress in railway property development projects, projects of the Urban Renewal Authority (URA) and projects subject to lease modification/land exchange. Taking into account the private residential developments which have started or will start on disposed sites, together with other unsold units of completed projects, about 71 000 private residential units are estimated to be available for sale in the next three to four years.

114. So far we have identified 150 sites for residential use which, if their statutory plans could all be successfully amended, are expected to be made available over the next five years to provide about 210 000 public and private units. The 2014-15 Land Sale Programme will include 34 residential sites capable of providing about 15 500 units in total. Among these sites, 24 are new ones. Taking into account the housing land supply from different sources, we expect that the average annual target of land supply for private housing can be met in the coming financial year. The Secretary for Development will announce tomorrow the Land Sale Programme for the coming year.

115. Public housing takes up 60 per cent of the new housing target. To achieve the new target on the provision of public rental housing flats and Home Ownership Scheme flats, Government is fully committed to supplying additional sites to the Housing Authority. Apart from adequate supply of land and manpower resources, we have to ensure that there will be sufficient funding for the Housing Authority as well.

116. The Housing Authority will have an estimated balance of $68 billion at the end of this financial year. The sum can meet the funding requirement of the development programme for the next four years. However, to achieve the new housing production target, the Housing Authority must keep enhancing cost-effectiveness and sustainability of modus operandi in the long run. I hope that it will conclude the assessment next year on additional financial resources needed for the next ten years after consolidating revenue increases and cost savings. This will facilitate its discussions with Government on a feasible long-term financial arrangement.

<u>Room for Business Development</u>

117. The Land Sale Programme for the coming financial year will include seven sites for commercial/business use and one for “hotel only” use, providing a total floor area of about 230 000 square metres and some 1 100 hotel rooms.

118. To accommodate more economic activities and create more job opportunities, we shall increase land supply for commercial use in different districts through seven measures –

(a) continuing with the measures to facilitate revitalisation of industrial buildings and expediting the rezoning of industrial sites, to make available more floor area for commercial and other uses. The Planning Department is expected to complete a new round of industrial land review within this year to explore converting some sites no longer required for industrial use into other uses including commercial. The Lands Department has approved lease modification or land exchange applications in the past two years that are capable of providing about 250 000 square metres of additional commercial floor area;

(b) expediting the conversion of suitable Government, Institution or Community (GIC) sites in core business districts for commercial use. The two multi-storey carparks at Murray Road in Central and Rumsey Street in Sheung Wan are estimated to provide Grade A office space of some 76 000 square metres. The Middle Road Multi-storey Car Park Building in Tsim Sha Tsui, the Trade and Industry Department Tower in Mong Kok and the former Mong Kok Market will be converted for commercial use, providing about 53 000 square metres of commercial floor area. Meanwhile, we are taking forward the plan to relocate the offices in the three government office buildings in Wan Chai. Some of the offices therein will be reprovisioned to the West Kowloon Government Offices, the construction of which is expected to commence next year. Planning is also under way for the construction of the replacement offices in Kai Tak, Tseung Kwan O and Cheung Sha Wan;

(c) completing the land use and traffic impact study of the government site at Caroline Hill Road as soon as possible for the provision of more commercial floor area in Causeway Bay;

(d) the planning of the new Central harbourfront as a whole is expected to provide an estimated commercial floor area of about 260 000 square metres for office, retail, hotel and exhibition, etc. uses;

(e) the Kai Tak Development, an important source of future commercial land in Hong Kong, will provide about 1.4 million square metres of commercial floor area, including hotel sites, in phases over the three years from 2016-17;

(f) implementing the relocation and integration of the existing government facilities in the two action areas of Kowloon East on Kwun Tong waterfront and in Kowloon Bay, and kicking start the advance works. This project will provide some 500 000 square metres of commercial floor area. Government will identify suitable government sites in those areas to be released in the next financial year, providing over 120 000 square metres of commercial floor area; and

(g) conducting public consultation and a pilot study this year on the development of urban underground space in four strategic districts, namely Causeway Bay, Happy Valley, Admiralty/Wan Chai and Tsim Sha Tsui West.

Long-term Development

119. From a long-term point of view, when planning for new town extensions and new development areas, we must capitalise on the locational advantages to provide sites for the commercial sector and other industries. This will create employment opportunities and facilitate economic development in the areas. There are seven projects on this front –

(a) in the development plans including the North East New Territories New Development Areas, Lok Ma Chau Loop, Hung Shui Kiu New Development Area, Tung Chung New Town Development Extension, etc., over 140 hectares have been reserved for commercial use and for the development of various industries. The sites are expected to create over 160 000 new jobs, boosting economic activities in these localities;

(b) $60 million has been earmarked for a preliminary feasibility study on the topside and underground space development of the Hong Kong-Zhuhai-Macao Bridge Hong Kong Boundary Crossing Facilities (HKBCF), covering about 130 hectares, for commercial purposes such as shopping, dining, entertainment and hotels as well as on providing the necessary supporting infrastructure;

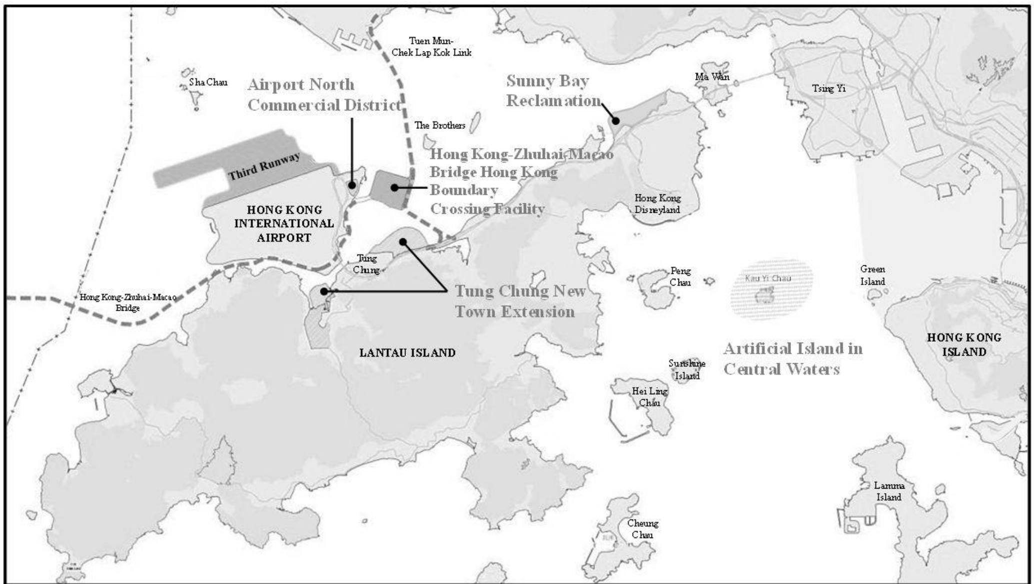
(c) tying in with the planning of the three-runway system and the synergy of the Lantau Development, the airport's North Commercial District development will be expedited to maximise the benefits;

(d) the HKBCF will connect with Tuen Mun Areas 40 and 46 via the Tuen Mun-Chek Lap Kok Link. Relevant planning and engineering studies have commenced, covering a total planning area of over 50 hectares;

(e) in the Preliminary Feasibility Study on Developing the New Territories North, which covers 5 300 hectares, the potential for economic development and employment creation in the areas around the boundary crossings at Lok Ma Chau, Man Kam To and Liantang/Heung Yuen Wai will be explored;

(f) the study on the East Lantau Metropolis will commence as soon as possible. Consideration is being given to the proposal for building an artificial island in central waters between Hong Kong Island and Lantau Island, to develop a new core commercial district. The new metropolis, to be well fitted with transport and infrastructure facilities, could accommodate a population of several hundred thousand and provide many employment opportunities; and

(g) preparing for the study on reclamation on an appropriate scale at Sunny Bay, and commencing preliminary feasibility studies progressively on other near-shore reclamation sites for the development of various industries and building up of a long-term land reserve.



Conceptual Plan of Artificial Island in Central Waters

An Ageing Population

120. Hong Kong people enjoy a life expectancy which is among the longest in the world — 81 years for men and 86 years for women. The population aged 65 or above will surge from 980 000 at present, or 14 per cent of the total population, to 2 560 000 by 2041, or 30 per cent of the total population. Of these, about 960 000 will be aged 80 or over.

Age Structure

Elderly Services

121. Recurrent expenditure on elderly services has increased more than 40 per cent from \$3.8 billion to \$5.4 billion over the past five years. From 2014-15, we shall increase annual expenditure in this area with an additional funding of more than \$660 million to implement and enhance the following four areas of elderly services and facilities. This covers –

(a) some \$170 million for providing 1 500 additional places for the Enhanced Home and Community Care Services, and widening the scope of home care services for these additional places and the existing 5 600 places to strengthen our support for frail elderly persons living at home;

(b) some \$160 million for upgrading 51 social centres for the elderly to neighbourhood elderly centres, and enabling all subvented elderly centres to increase their manpower as well as programme expenses. The purposes are to enhance the support for elderly people as well as processing care needs assessment and service applications for long-term care services;

(c) some \$200 million for raising the subsidies for places under the Enhanced Bought Place Scheme (EBPS) and the Nursing Home Place Purchase Scheme, upgrading subvented nursing home places to provide continuum of care, and enhancing the service of the three new contract homes. These aim to enhance care and support for the elderly; and

(d) \$120 million for providing some 950 new subsidised residential care places for the elderly through the commencement of new contract homes, the purchase of additional places under EBPS, and as a pilot, the purchase of residential care places from elderly homes run by Hong Kong non-governmental organisations in the Mainland.

122. We have tasked the Elderly Commission to prepare an Elderly Services Programme Plan within two years. The Commission will also explore the feasibility of introducing residential care service vouchers for the elderly. About $800 million has been earmarked to issue a total of 3 000 residential care services vouchers in phases within three years from 2015-16. Government will inject $10 billion into the Lotteries Fund to implement the Special Scheme on Privately Owned Sites for Welfare Uses to provide additional places for elderly and rehabilitation services.

Healthcare

123. Over the past five years, Government's recurrent allocation to the Hospital Authority (HA) has increased by $15 billion, or nearly 50 per cent. The total recurrent provision for 2014-15 exceeds $47 billion.

124. On infrastructure, we commenced the construction of Tin Shui Wai Hospital and Hong Kong Children's Hospital. The preparatory works for the expansion of United Christian Hospital and redevelopment of Kwong Wah Hospital have started. We shall seek this Council's funding approval for the redevelopment of Queen Mary Hospital and Kwai Chung Hospital, as well as the expansion of Hong Kong Red Cross Blood Transfusion Service Headquarters. We shall spend $55 billion on these projects as part of an ongoing effort to improve public healthcare facilities and provide 1 400 additional hospital beds. Besides, we are conducting strategic studies on the construction of an acute general hospital in the Kai Tak Development Area. In the longer term, the HA will start planning for the redevelopment of Queen Elizabeth Hospital and phase two redevelopment project of Prince of Wales Hospital to address the community's long term demand for healthcare services.

125. A grant of $13 billion was approved by this Council in late 2013 for the HA to improve and upgrade its facilities over the next ten years. This covers the renovation of over 500 wards in 34 hospitals; provision of around 800 additional beds in 11 hospitals; expansion of operating theatres, accident and emergency departments, and general out-patient clinics; and setting up additional endoscopy centres and ambulatory facilities, etc. The HA will also comprehensively upgrade the major electrical and mechanical engineering installations in hospitals and strengthen the Universal Accessibility Programme. It is estimated that the grant will be used to implement about 5 000 projects. These projects will complement the major new hospital and hospital redevelopment projects to prepare for an ageing population.

126. In pursuit of the healthy and sustainable development of our dual-track healthcare system, Government is considering a voluntary health protection scheme to encourage those who can afford it to make greater use of private healthcare services. I pledged in the 2008-09 Budget to earmark $50 billion to support healthcare reform. The Food and Health Bureau will shortly consult the public on the details of the scheme. I shall consider providing tax reliefs for subscribers of regulated insurance products after a consensus is reached in the community.

127. Disease prevention and control forms an important line of defence in public health. Government has endeavoured to strengthen primary care, including proactively promoting healthy living, as well as strengthening disease prevention strategies and surveillance systems, with a view to lowering risks of disease and hence expenditure on healthcare. In the coming five years, Government will allocate additional funding of over $420 million for the study and implementation of a pilot programme to subsidise colorectal cancer screening for specific age groups.

128. Studies by the World Health Organization (WHO) and others point out that increasing tobacco duty is an effective means of tobacco control to lower the health risks of the public. It helps reduce direct medical expenses caused by smoking and second-hand smoking. To safeguard public health, I propose to increase the duty on cigarettes by 20 cents per stick with immediate effect. This will bring the proportion of tobacco duty to the retail price of cigarettes to about 70 per cent which meets the minimum level recommended by WHO. I wish to emphasise that this is not a budgetary measure to increase revenue. We shall continue to strengthen smoking cessation services, as well as publicity and law enforcement on tobacco control. The Customs and Excise Department will step up enforcement against different forms of illicit cigarette trading.

Public Finances

129. The Working Group on Long-Term Fiscal Planning was set up last June. Economists and experts from the accounting, tax and actuarial fields were invited to explore ways for our public finances to cope with an ageing population and long-term financial commitments. The Working Group performed a health check on the current state of Hong Kong's public finances and made projections of Government's long-term fiscal position up to 2041-42, having regard to demographic trends, economic growth and prevailing policies. The detailed results will be released next week.

130. According to the Working Group's analysis, Government's overall fiscal position in the short to medium term remains healthy. In the longer term, however, Government must seek to foster economic growth, and align the growth rates of government revenue and government expenditure.

131. With per capita GDP at US$38,000, Hong Kong is now a mature economy. It is highly unlikely that the economy will grow at a rate of eight to nine per cent per annum as it did in the 1970s and 1980s. Over the past three decades, the annual real GDP growth averaged 4.6 per cent. The economic growth momentum is expected to slow down as our population ages, reducing our labour force. The Working Group projects that over the next 20 to 30 years nominal GDP will grow at an average rate of 4.4 per cent per annum; real GDP will grow at a trend rate of 2.8 per cent per annum, which is a notch higher than most other mature economies.

132. The trend growth of government revenue has been on a par with nominal GDP growth over the past three decades. Assuming that the existing tax regime and tax rates were to remain unchanged, and barring any severe external shocks, the Working Group forecasts an average annual trend growth rate of 4.5 per cent for government revenue in the next 20 to 30 years. Towards the end of the projection period, government revenue is projected at 19.8 per cent of nominal GDP.

133. The average annual growth rate of government expenditure since reunification is 4.7 per cent. Taking into account the economic growth trends and demographic changes, the Working Group has made the following three projections based on different expenditure growth scenarios –

(a) if no service enhancement were to be made to the three areas of education, social welfare and healthcare, such that their recurrent expenditure were to be adjusted only for demographic and price factors, government expenditure would grow by 5.3 per cent per annum during the projection period. Because the growth rate of government expenditure exceeds that of government revenue at 4.5 per cent per annum, a structural deficit would surface in 15 years' time;

(b) if services were to be enhanced further for the three areas by one to two per cent per annum on top of adjustment for demographic and price factors, government expenditure would grow at an average of 6 to 6.7 per cent per annum. In that case, a structural deficit would surface in eight to ten years' time; and

(c) if services were to be enhanced following the historical trends at about three per cent per annum for the three areas, on top of adjustments for demographic and price factors, government expenditure would grow at an average growth rate of 7.5 per cent per annum. In that case, a structural deficit would surface in seven years' time.

134. The projection results and analysis of the Working Group spark off a clear warning and call for serious attention. If government expenditure keeps growing and outpacing economic and revenue growth, a structural deficit would be inevitable.

135. The Working Group recommends that Government should implement a combination of measures, including containing expenditure growth, preserving the revenue base and saving for future generations, to cope with the fiscal challenges ahead.

136. We should neither take the problem lightly nor over worry. Our public finances are still in good shape. Our economy will continue to grow in the coming 20 to 30 years. This implies that our revenue will continue to rise and we can still afford expenditure increases. Nevertheless, the growth in public expenditure must be commensurate with that of the economy and government revenue. I believe that as long as we take timely, resolute and effective actions, we can prevent the projected results from surfacing, and avoid subjecting our future generations to irreversible fiscal plight.

Containing Expenditure Growth

137. The Working Group recommends that public expenditure be controlled at or around 20 per cent of GDP. It is a suitable level as it ensures that Government will not consume excessive social resources and that government expenditure will be kept at a level commensurate with government revenue. In fact, government revenue exceeded this level in only seven out of the past 40 financial years.

138. It is incumbent upon Government to strictly contain the growth of expenditure. When preparing annual budgets, Government would hold fast to the forecast nominal GDP growth rates over the medium term as planning ceilings for total government expenditure. We should uphold fiscal disciplines, and put in place a more vigorous internal control and monitoring mechanism for assessing and prioritising competing funding priorities with appropriate offsettings from different programmes.

139. Government departments and the public sector should conduct expenditure reviews and introduce efficiency measures with a view to doing more with less. In response to community needs, Government will continue to increase recurrent spending. But we must be wary that it is always easier to increase than to cut recurrent expenditure, and their cumulative financial impact cannot be ignored. All government departments should consider how best to consolidate their services and funding schemes, and phase out outdated and redundant items.

Preserving Revenue Base

140. The second major recommendation of the Working Group is that Government should preserve, stabilise and broaden the revenue base. I am all for it. Having regard to the competitiveness of Hong Kong and the impact on the community, there is little room for major tax hikes. In principle, I shall not rule out any means to increase tax revenue. However, I also understand that it will be controversial to propose any new taxes, which need thorough consideration and public discussion. At the present stage, Government's priorities are to overcome the constraints posed by the ageing population on our economic growth, keep moving our economy up the value-added chain, and increase and preserve our revenue. Meanwhile, we have to ensure that our expenditure growth keeps pace with economic and revenue growth. We should also strive to forge a consensus in the community on preparing for Hong Kong's fiscal challenge in the short, medium and long term.

141. To prevent revenue loss, the Inland Revenue Department (IRD) will draw on international experience, step up tax enforcement and make better use of IT to combat tax evasion and avoidance, thereby recovering tax payable. The IRD has recovered over $14 billion in taxes over the past three years. We should preserve our indirect taxes such as rates and business registration fees, because they are broad-based and stable revenue sources.

142. Fees and charges is an important source of government revenue. Last year, I asked government departments to review their fees and charges, beginning with items which did not directly affect people's livelihood. After a review of more than 1 300 fees and charges, more than 200 increases have been proposed. These will reduce the loss of public revenue by around $60 million per year. We shall review other fees and charges this year, including water charges, which have not been revised for 19 years, the fees for use of leisure facilities and services, and charges relating to environmental hygiene services.

Saving for the Future

143. Our fiscal reserves currently stand at over $700 billion. Of this amount, $220 billion is the balance of the Land Fund and $130 billion is held in funds with designated uses. Only the remaining $400 billion or so, held in the General Revenue Account, may be flexibly deployed to meet the day-to-day operation of Government. We can consider setting up a savings scheme to prepare for the future having regard to the experience of other economies. One example is the setting up of a "Future Fund" comprising the Land Fund and a portion of future surpluses. Government may draw on this contingency fund in the event of sustained budget deficit to finance strategic infrastructure projects conducive to Hong Kong's future economic development.

144. An ageing population will pose sustained challenges to public finances. The conclusions and recommendations of the Working Group have provided a scientific and objective basis for the community to better understand the issues, and consider rational and pragmatic options ahead. We should take early action to address the challenges ahead when our public finances are still healthy. My colleagues and I shall examine the options in detail considering views from various sectors of the community, and take forward appropriate measures. I hope the experts and scholars in the Working Group will continue to tender their valuable advice to Government.

Relief Measures

145. The Chief Executive has put forth in this year's Policy Address an array of measures to help the needy and the disadvantaged, and improve the livelihood of the grassroots. Public response to the measures has been positive. I am aware of further requests seeking additional relief for the other sectors of the community, such as support for parents, children's education, self-advancement expenses, wage and rental expenses on the part of SMEs.

146. I am also aware that the public has expressed concern about Government's choice between recurrent and one-off relief measures. These measures serve different purposes. Recurrent measures may be deployed for new policies, new services or the enhancement of existing services. One-off relief measures, on the other hand, aim primarily at helping the public to cope with short-term financial pressure, or as a counter-cyclical measure to preserve economic stability and short-term employment. Unlike recurrent measures, one-off measures are necessarily subject to adjustment in the light of the economic and financial position of the year.

147. When drawing up the one-off relief measures to be included in this Budget, I have taken into account the series of recurrent measures introduced by Government earlier to help the grassroots, the economic outlook for the next financial year, especially a slight slowdown in inflation, and the financial position in the current financial year. I now propose to launch five measures involving about $20 billion. Together with other measures in this Budget, the fiscal stimulus effect on GDP will be 0.7 percentage point. These five measures include –

(a) reducing salaries tax and tax under personal assessment for 2013-14 by 75 per cent, subject to a ceiling of $10,000. This proposal will benefit 1.74 million taxpayers in the territory. The reduction will be reflected in the final tax payable for 2013-14. This will cost the Government about $9.2 billion;

(b) reducing profits tax for 2013-14 by 75 per cent, subject to a ceiling of $10,000. This proposal will benefit 126 000 taxpayers in the territory. The reduction will be reflected in the final tax payable for 2013-14. This will cost Government about $1 billion;

(c) waiving rates for the first two quarters of 2014-15, subject to a ceiling of $1,500 per quarter for each rateable property. It is estimated to benefit around 3.1 million properties, and will cost Government about $6.1 billion;

(d) paying one month's rent for public housing tenants. Government will pay one month's base rent for tenants who are required to pay extra rent to the Housing Authority. For non-elderly tenants of the Hong Kong Housing Society's Group B estates, Government will pay two-thirds of their rent for one month. This measure will involve $1 billion; and

(e) providing an extra allowance to Comprehensive Social Security Assistance (CSSA) recipients, equal to one month of the standard rate CSSA payments, and an extra allowance to Old Age Allowance, Old Age Living Allowance and Disability Allowance recipients, equal to one month of the allowances. This will involve an additional expenditure of $2.7 billion.

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148. In addition to one-off measures, I propose to increase the allowances for maintaining dependent parents or grandparents to alleviate taxpaying providers' burden. The three measures, which will benefit about 550 000 taxpayers and cost Government about $300 million a year, are –

(a) increasing the allowance for maintaining a dependent parent or grandparent aged 60 or above from $38,000 to $40,000. The same increase applies to the additional allowance for taxpayers residing with these parents or grandparents continuously throughout the year;

(b) increasing the allowance for maintaining a dependent parent or grandparent aged between 55 and 59 from $19,000 to $20,000. The same increase applies to the additional allowance for taxpayers residing with these parents or grandparents continuously throughout the year; and

(c) for taxpayers whose parents or grandparents are admitted to residential care homes, the deduction ceiling for elderly residential care expenses will be raised from the current $76,000 to $80,000.

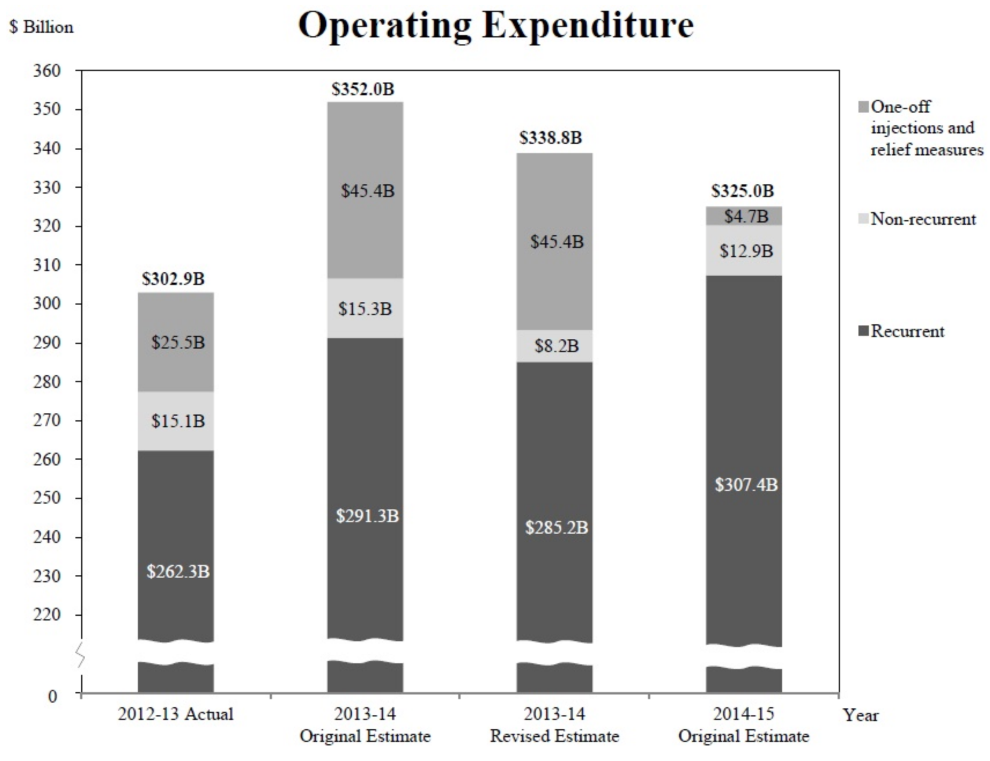
Revised Estimates for 2013-14

149. The revised estimate for government revenue for 2013-14 is $447.8 billion, $12.7 billion or 2.9 per cent higher than the original estimate. Amid uncertain global economic situation, revenue from profits tax is $11.5 billion or 8.8 per cent less than originally estimated while that from salaries tax is $4 billion or 7.8 per cent higher than the original estimate. Last year, Government put additional sites on the market on a quarterly basis to augment land supply. As a result, the sale of land brought in $84.1 billion, about $15.1 billion or 21.9 per cent higher than the original estimate. I forecast that the revised estimate for government expenditure will be $435.8 billion, which is $4.2 billion lower than the original estimate.

150. For 2013-14, I forecast a surplus of $12 billion. By 31 March 2014, fiscal reserves are expected to reach $745.9 billion.

Estimates for 2014-15

151. Operating expenditure for 2014-15 is estimated to be \$325 billion. This is 4.1 per cent or \$13.8 billion less than the revised estimate for 2013-14, mainly due to the reduction of one-off relief measures and one-off injections into funds for designated uses. Recurrent expenditure accounts for \$307.4 billion, or over 94 per cent of the 2014-15 operating expenditure, which is an increase of \$22.3 billion or 7.8 per cent over the revised estimate for 2013-14. This represents Government's continued commitment to improving people's livelihood.



152. Of the recurrent expenditure for the next financial year, almost 60 per cent will be deployed to the three policy area groups of education, health and social welfare. Recurrent expenditure on education will be $67.1 billion, an increase of 5.3 per cent over 2013-14. Major new proposals include regularising three Community Care Fund programmes for under-privileged students, costing $529 million a year; and enhancing support for non-Chinese speaking students and those with special educational needs, costing about $400 million a year. In addition, Government will earmark $436 million each year to increase the intake of senior-year undergraduate places in University Grants Committee-funded institutions by 1 000 places. Another $965 million will be reserved for a new scheme to subsidise up to 1 000 students per cohort to pursue self-financing undergraduate programmes in selected disciplines to meet Hong Kong's manpower needs. The scheme will benefit three cohorts of students.

153. Recurrent expenditure on medical and health services for 2014-15 will be $52.4 billion, 5.2 per cent higher than that for 2013-14. Besides the major new initiatives mentioned earlier, Government will provide additional funding of nearly $600 million per year for increasing the annual voucher value under the Elderly Health Care Voucher Scheme to $2,000 per person.

154. Recurrent expenditure on welfare for 2014-15 will reach $56.9 billion, increasing by 9.7 per cent from that in 2013-14. Besides the major new initiatives mentioned earlier, Government will enhance services for persons with disabilities, involving an additional expenditure of about $360 million per year. Government will pursue the extension of the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities to eligible children with disabilities under the age of 12, and the phased extension of the Concession Scheme to green minibuses, involving an additional expenditure of $176 million per year. In addition, Government will continue to enhance the CSSA scheme and increase the annual recurrent funding for non-governmental organisations under the Lump Sum Grant Subvention System, involving an additional expenditure of about $126 million and about $470 million per year respectively. Government has also earmarked $3 billion for the proposed introduction of the Low-income Working Family Allowance.

155. I forecast that capital expenditure for 2014-15 will be $86.2 billion, including $70.8 billion on capital works. In recent years, capital works expenditure has been maintained at high levels, reflecting Government's vigorous investment in infrastructure.

156. Owing to the reduction in operating expenditure, total government expenditure is estimated to be $411.2 billion in the next financial year, 5.7 per cent less than that of last year. Public expenditure will be equivalent to 19.8 per cent of GDP.

157. Having rolled out a number of new policy initiatives in recent years, Government has been counting on the professional and effective civil service to implement them. On the one hand, we shall seek to enhance efficiency through internal redeployment and streamlining. On the other hand, we shall also strengthen the establishment and set service priorities based on actual needs. The civil service establishment is expected to expand by 2 556 posts to 173 961 in 2014-15. This represents a year-on-year increase of 1.5 per cent, 50 per cent up from that of the previous year and the highest since 2007-08.

158. Total government revenue for 2014-15 is estimated to be $430.1 billion. Earnings and profits tax, estimated at $177.5 billion, remain the major sources of revenue. Land revenue is estimated to be $70 billion.

159. Taking all these into account, I forecast a surplus of $9.1 billion in the Consolidated Account in the coming year. Fiscal reserves are estimated to be $755 billion by the end of March 2015, representing about 34 per cent of GDP and equivalent to 22 months of government expenditure.

Medium Range Forecast

160. Influenced by the global financial crisis, the annual average growth rate of Hong Kong's economy over the past five years was only 2.7 per cent in real terms, much lower than our average trend growth rate of 4.5 per cent in the past decade. The external economic environment remains uncertain in the coming few years. The risks associated with the US Federal Reserve Board's exit policy are of particular concern. For the medium term, the annual average growth rate is forecast to be 3.5 per cent in real terms from 2015 to 2018, and the underlying inflation rate will also average at 3.5 per cent.

161. I forecast an annual surplus in the Operating Account in the four years from 2015-16. With a number of major infrastructure projects entering their construction peaks, a deficit will arise in the Capital Account, but a surplus is expected in the Consolidated Account in all years except 2015-16. Fiscal reserves are estimated at approximately $799.2 billion by end-March 2019, representing about 29.1 per cent of GDP and equivalent to 19 months of government expenditure.

Concluding Remarks

162. Mr President, as Financial Secretary, my foremost priorities are to promote economic development and to maintain a sound business and employment environment. Through sustainable development and diversification of the economy, I believe every member of our society will have the opportunity to unleash their potential and realise their aspirations. This will provide a more solid foundation for the development of our next generation.

163. I note that some members of the public are wary of any excessive growth in our spending and are worried that Hong Kong will be moving towards welfarism. I understand their concern. However, I would like to point out that Government's welfare spendings are meant to help the needy by providing them with short-term relief, so that those capable of working could re-enter the labour market, make a living on their own, and leave the safety net as soon as possible. I believe that so long as our society maintains adequate upward mobility channels and a level playing field, people will be able to improve their living through hard work. Those who are in need today may be able to offer a helping hand and pay back to the community some day.

164. We have seen examples of governments spending beyond their means in recent years in Europe and America. This not only undermines the stability of a society but also gives rise to far-reaching consequences for the future. The community's rising aspirations in an evolving environment will inevitably put increasing pressure on public finances.

165. A philosopher once said, "Society is a partnership. It is a partnership not only between those who are living, but between those who are living, those who are dead, and those who are to be born." Past generations have laid a solid foundation for economic and financial development in Hong Kong. I believe that the present generation recognises the importance of fiscal prudence, that is to avoid making today's spending a burden for the next generation.

166. We are faced with various challenges and choices. Yet, I have full confidence in Hong Kong people. Looking back, Hong Kong has gone through many tough times. In the midst of these ups and downs, we survive the crises, breaking new grounds with our bare hands. With confidence, we shall be able to meet the challenges that come our way.

167. "Believe in opportunity, not fate" — this is the innate mindset of Hong Kong people. No matter what difficulties we face, we stay positive, optimistic and tenacious. These unyielding qualities are deeply ingrained in us and form part of our collective DNA. I believe that, at this crucial point in time, our wisdom and experience will continue to guide us to act with pragmatism and make the best choice for the future of Hong Kong.

168. Thank you, Mr President.

THE 2014-15 BUDGET

Speech by the Financial Secretary, the Hon John C Tsang
moving the Second Reading of the Appropriation Bill 2014

Supplement and Appendices

Wednesday, 26 February 2014

SUPPLEMENT

Please visit our web-site at www.budget.gov.hk/2014/eng/speech.html for all documents, appendices and statistics relating to the 2014–15 Budget. The Chinese version can be found at www.budget.gov.hk/2014/chi/speech.html .

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EFFECT OF RATES CONCESSION ON MAIN PROPERTY CLASSES

Property Type	*2014-15* No Concession[6] Average Rates Payable ($ for the year)	*No Concession*[6] Average Rates Payable ($ per month)	*With Rates Concession*[7] Average Rates Payable ($ for the year)	*With Rates Concession*[7] Average Rates Payable ($ per month)
Small Domestic Premises[1] (Private)	5,088	424	2,856	238
Medium Domestic Premises[1] (Private)	11,544	962	8,700	725
Large Domestic Premises[1] (Private)	27,180	2,265	24,276	2,023
Public Domestic Premises[2]	2,616	218	1,308	109
All Domestic Premises[3]	**5,208**	**434**	**3,324**	**277**
Shops and Commercial Premises	37,524	3,127	34,992	2,916
Offices	42,480	3,540	39,732	3,311
Industrial Premises[4]	13,512	1,126	11,052	921
All Non-domestic Premises[5]	**34,176**	**2,848**	**31,908**	**2,659**
All Properties	**8,952**	**746**	**7,020**	**585**

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

Small domestic	up to $69.9m^2$	(up to 752 ft^2)
Medium domestic	$70m^2$ to $99.9m^2$	(753 ft^2 to 1 075 ft^2)
Large domestic	$100m^2$ and over	(1 076 ft^2 and over)

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

(3) Including car parking spaces in domestic premises.

(4) Including factories and storage premises.

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

(6) The rates payable have reflected the changes in rateable values for 2014-15 after the General Revaluation.

(7) The proposed rates concession is capped at $1,500 per quarter for the first two quarters of 2014-15.

SALARIES TAX

Changes to Allowances and Deductions

	Present ($)	*Proposed* ($)	*Increase* ($)	(%)
Personal Allowances:				
Basic	120,000	120,000	—	—
Married	240,000	240,000	—	—
Single Parent	120,000	120,000	—	—
Other Allowances:				
Child:				
1st to 9th child				
Year of birth	140,000	140,000	—	—
Other years	70,000	70,000	—	—
Dependent Parent/Grandparent:				
Aged 60 or above				
Basic	38,000	40,000	2,000	5
Additional allowance (for a dependant living with the taxpayer)	38,000	40,000	2,000	5
Aged 55 to 59				
Basic	19,000	20,000	1,000	5
Additional allowance (for a dependant living with the taxpayer)	19,000	20,000	1,000	5
Dependent Brother/Sister	33,000	33,000	—	—
Disabled Dependant	66,000	66,000	—	—
Deduction Ceiling:				
Self-Education Expenses	80,000	80,000	—	—
Home Loan Interest (Number of years of deduction)	100,000 (15 years of assessment)	100,000 (15 years of assessment)	—	—
Approved Charitable Donations	35% of income	35% of income	—	—
Elderly Residential Care Expenses	76,000	80,000	4,000	5
Contributions to Recognised Retirement Schemes	15,000	18,000*	3,000	20

* The maximum level of relevant income under the Mandatory Provident Fund Schemes Ordinance will be increased to $30,000 with effect from 1 June 2014. Subject to the passage of the Inland Revenue (Amendment) (No. 3) Bill 2013 by the Legislative Council (which was introduced by the Government in December 2013), the maximum amount of deductible contributions will be $17,500 for the year of assessment 2014-15 and $18,000 for the year of assessment 2015-16 onwards.

Effect of the proposed one-off reduction of salaries tax, tax under personal assessment and profits tax

Salaries tax and tax under personal assessment-
75% tax reduction subject to a cap at $10,000 per case

Income in 2013-14	No. of taxpayers	Average amount of tax reduction	Average % of tax reduced
$120,001 to $200,000	414 000	$710	75%
$200,001 to $300,000	420 000	$3,600	73%
$300,001 to $400,000	291 000	$6,150	54%
$400,001 to $600,000	306 000	$8,190	32%
$600,001 to $900,000	158 000	$9,810	16%
Above $900,000	151 000	$10,000	4%
Total	1 740 000	—	—

Profits tax-
75% tax reduction subject to a cap at $10,000 per case

Profits in 2013-14	No. of businesses#	Average amount of tax reduction	Average % of tax reduced
$100,000 and below	42 000	$4,520	73%
$100,001 to $200,000	16 000	$10,000	41%
$200,001 to $300,000	10 000	$10,000	24%
$300,001 to $400,000	7 000	$10,000	17%
$400,001 to $600,000	9 000	$10,000	12%
$600,001 to $900,000	8 000	$10,000	8%
Above $900,000	34 000	$10,000	0.3%
Total	126 000	—	—

Including 97 000 corporations and 29 000 unincorporated businesses.

DUTY RATES OF TOBACCO

	Present	***Proposed***
	($ per 1 000 sticks)	***($ per 1 000 sticks)***
Cigarettes	1,706	1,906
	($ per kg)	***($ per kg)***
Cigars	2,197	2,455
Chinese prepared tobacco	419	468
All other manufactured tobacco except tobacco intended for the manufacture of cigarettes	2,067	2,309

ECONOMIC PERFORMANCE IN 2013

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2013:

(a) Growth rates in real terms of:

		(%)
Private consumption expenditure		4.2
Government consumption expenditure		2.7
Gross domestic fixed capital formation		3.3
of which :		
Building and construction	-1.2	
Machinery, equipment and intellectual property products	10.5	
Total exports of goods		6.7
Imports of goods		7.6
Exports of services		5.8
Imports of services		1.5
Gross Domestic Product (GDP)		**2.9**
Per capita GDP in real terms		2.5
Per capita GDP at current market prices	HK$295,300 (US$38,100)	

(b) Rates of change in:

Composite Consumer Price Index	**4.3**
GDP Deflator	**1.2**
Government Consumption Expenditure Deflator	**4.3**

(c) **Growth rate of nominal GDP** **4.2**

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

	Re-exports (%)	***Domestic exports*** (%)
2011	3	-12
2012	0	-13
2013	3	-9
Share in the value of total exports of goods in 2013	*98*	*2*

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

	Retained imports					
	Total (%)	***Consumer goods*** (%)	***Foodstuffs*** (%)	***Capital goods*** (%)	***Raw materials and semi-manufactures*** (%)	***Fuels*** (%)
2011	8	33	6	15	-4	-10
2012	4	6	2	22	-6	-7
2013	6	3	9	22	-3	0

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

	Retained imports of capital goods				
	Total (%)	***Office equipment*** (%)	***Industrial machinery*** (%)	***Construction machinery*** (%)	***Telecommunications equipment*** (%)
2011	15	-20	-10	-14	126
2012	22	22	-26	-26	100
2013	22	9	-24	57	52

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

			Exports of services		
	Total (%)	***Trade-related services*** (%)	***Transportation services*** (%)	***Travel services*** (%)	***Finance, insurance, business and other services*** (%)
2011	5	3	1	16	5
2012	2	1	-4	10	3
2013	6	1	0	19	4

6. Hong Kong's visible and invisible trade balance in 2013 reckoned on GDP basis *(Note 1)*:

		(HK$ billion)
Total exports of goods	3,816.4	
Imports of goods	4,394.9	
Visible trade balance		**-578.5**
Exports of services	1,066.0	
Imports of services	465.2	
Invisible trade balance		**600.9**
Combined visible and invisible trade balance		**22.3**

Note 1 Preliminary figures.

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

	Unemployment rate (%)	***Underemployment rate*** (%)	***Growth in labour force*** (%)	***Growth in total employment*** (%)
2011	3.4	1.7	2.0	2.9
2012	3.3	1.5	2.2	2.4
2013	3.3	1.5	2.3	2.3

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

	Composite CPI				
	Headline (%)	***Underlying*** (%)	***CPI(A)*** (%)	***CPI(B)*** (%)	***CPI(C)*** (%)
2011	5.3	5.3	5.6	5.2	5.1
2012	4.1	4.7	3.6	4.3	4.1
2013	4.3	4.0	5.1	4.1	3.8

ECONOMIC PROSPECTS FOR 2014

Forecast rates of change in the Gross Domestic Product and prices in 2014:

		(%)
Gross Domestic Product (GDP)		
Real GDP		**3 to 4**
Nominal GDP		4 to 5
Per capita GDP in real terms		2.1 to 3.1
Per capita GDP at current market prices	HK$304,500-307,400 (US$39,000-39,400)	
Composite Consumer Price Index		
Headline Composite Consumer Price Index		**4.6**
Underlying Composite Consumer Price Index		**3.7**
GDP Deflator		**1**

APPENDICES

APPENDICES

Note: Expenditure figures for 2013-14 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2014-15 estimate.

APPENDIX A

MEDIUM RANGE FORECAST

CONTENTS **Page**

SECTION I FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

1 The Medium Range Forecast (MRF) is a fiscal planning tool. It sets out the high-level forecast of government expenditure and revenue covering the five-year period including the budget year, i.e. from 2014-15 to 2018-19.

2 A wide range of assumptions underlying the factors affecting Government's revenue and expenditure are used to derive the MRF. Some assumptions are economic in nature (the general economic assumptions) while others deal with specific areas of Government's activities (other assumptions).

General Economic Assumptions

Real Gross Domestic Product (real GDP)

3 GDP is forecast to increase by 3% to 4% in real terms in 2014. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2015 to 2018, the trend growth rate of the economy in real terms is assumed to be 3.5% per annum.

Price change

4 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 1% in 2014. For the four-year period 2015 to 2018, the GDP deflator is assumed to increase at a trend rate of 2% per annum.

5 The Composite Consumer Price Index (CCPI), measuring inflation in the consumer domain, is forecast to increase by 4.6% in 2014. Netting out the effects of various one-off relief measures, the underlying CCPI is forecast to increase by 3.7% in 2014. For the ensuing period 2015 to 2018, the trend rate of increase for the underlying CCPI is assumed to be 3.5% per annum.

Nominal Gross Domestic Product (nominal GDP)

6 Given the assumptions on the rates of change in the real GDP and the GDP deflator, the GDP in nominal terms is forecast to increase by 4% to 5% in 2014, and the trend growth rate in nominal terms for the period 2015 to 2018 is assumed to be 5.5% per annum.

Other Assumptions

7 Other assumptions on expenditure and revenue patterns over the forecast period are as follows –

— The operating expenditure for 2015-16 and beyond represents the expenditure guideline only, assuming operating expenditure would grow in line with nominal GDP.

— The capital expenditure for 2014-15 and beyond reflects the estimated cash flow requirements for capital projects including approved capital works projects and those at an advanced stage of planning.

— The revenue projections for 2015-16 and beyond basically reflect the relevant trend yields.

Budgetary Criteria

8 Article 107 of the Basic Law stipulates that "the Hong Kong Special Administrative Region shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product".

9 Article 108 of the Basic Law stipulates that "the Hong Kong Special Administrative Region shall, taking the low tax policy previously pursued in Hong Kong as reference, enact laws on its own concerning types of taxes, tax rates, tax reductions, allowances and exemptions, and other matters of taxation".

10 For the purpose of preparing the MRF, the following criteria are also relevant –

— *Budget surplus/deficit*

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

— *Expenditure policy*

The general principle is that, over time, the growth rate of expenditure should not exceed the growth rate of the economy. The Government aims to keep public expenditure at or below 20% of GDP.

— *Revenue policy*

The Government aims to maintain, over time, the real yield from revenue.

— *Fiscal reserves*

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

SECTION II MEDIUM RANGE FORECAST

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

Table 1

($ million)	2013–14 Revised Estimate	2014–15 Estimate	2015–16 Forecast	2016–17 Forecast	2017–18 Forecast	2018-19 Forecast
Operating Account						
Operating revenue *(Note (b))*	347,868	348,882	392,241	405,615	431,440	467,486
Less: Operating expenditure *(Note (c))*	338,781	325,000	388,800	357,400	377,100	397,800
Operating surplus	**9,087**	**23,882**	**3,441**	**48,215**	**54,340**	**69,686**
Capital Account						
Capital revenue *(Note (d))*	99,937	81,165	70,058	70,299	74,098	78,739
Less: Capital expenditure *(Note (e))*	97,010	86,163	101,779	108,735	107,230	107,038
Capital surplus/(deficit)	**2,927**	**(4,998)**	**(31,721)**	**(38,436)**	**(33,132)**	**(28,299)**
Consolidated Account						
Government revenue	447,805	430,047	462,299	475,914	505,538	546,225
Less: Government expenditure	435,791	411,163	490,579	466,135	484,330	504,838
Consolidated surplus/(deficit) before repayment of bonds and notes	**12,014**	**18,884**	**(28,280)**	**9,779**	**21,208**	**41,387**
Less: Repayment of bonds and notes *(Note (f))*	-	9,750	-	-	-	-
Consolidated surplus/(deficit) after repayment of bonds and notes	**12,014**	**9,134**	**(28,280)**	**9,779**	**21,208**	**41,387**
Fiscal reserves at 31 March	**745,928**	**755,062**	**726,782**	**736,561**	**757,769**	**799,156**
In terms of number of months of government expenditure	21	22	18	19	19	19
In terms of percentage of GDP	35.1%	34.0%	31.1%	29.8%	29.1%	29.1%
Being balance held in –						
General Revenue Account	394,241	402,613				
Funds with designated use	131,957	124,809				
Capital Works Reserve Fund	78,679	70,307				
Capital Investment Fund	1,992	1,341				
Civil Service Pension Reserve Fund	27,029	28,002				
Disaster Relief Fund	29	50				
Innovation and Technology Fund	1,801	990				
Loan Fund	1,357	2,098				
Lotteries Fund	21,070	22,021				
Land Fund	219,730	227,640				
	745,928	755,062				

Notes –

(a) Accounting policies

(i) The MRF is prepared on a cash basis and reflects forecast receipts and payments, whether they relate to operating or capital transactions.

(ii) The MRF includes the General Revenue Account and eight 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). It does not include the Bond Fund which is managed separately and the balance of which does not form part of the fiscal reserves.

(b) Operating revenue

(i) The operating revenue takes into account the revenue measures proposed in the 2014-15 Budget, and is made up of –

($ million)	2013-14 Revised Estimate	2014-15 Estimate	2015-16 Forecast	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast
Operating revenue before investment income	317,760	326,862	355,779	374,022	399,468	429,296
Investment income	30,108	22,020	36,462	31,593	31,972	38,190
Total	347,868	348,882	392,241	405,615	431,440	467,486

(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 2014 is 3.6% and for 2015 to 2018 is assumed to be in the range of 4.8% to 6% a year.

(c) Operating expenditure

This represents expenditure charged to the Operating Account of the General Revenue Account. The levels of operating expenditure in 2015-16 to 2018-19 represent the expenditure guideline for these years based on the latest GDP forecast in nominal terms (i.e. 5.5% growth per annum). The sum for 2015-16 has been adjusted to include $50 billion for supporting healthcare reform.

(d) Capital revenue

(i) The breakdown of capital revenue is –

($ million)	2013-14 Revised Estimate	2014-15 Estimate	2015-16 Forecast	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast
General Revenue Account	3,376	1,248	626	586	1,719	1,715
Capital Investment Fund	1,532	1,273	1,026	989	947	934
Capital Works Reserve Fund	84,252	70,131	57,990	60,894	64,565	68,793
Disaster Relief Fund	1	-	-	-	-	-
Innovation and Technology Fund	31	15	-	-	-	-
Loan Fund	2,503	2,114	2,337	2,436	2,593	2,645
Lotteries Fund	1,212	1,227	1,250	1,273	1,296	1,321
Capital revenue before asset sales and investment income	92,907	76,008	63,229	66,178	71,120	75,408
Asset sales	151	177	177	177	177	177
Investment income	6,879	4,980	6,652	3,944	2,801	3,154
Total	99,937	81,165	70,058	70,299	74,098	78,739

(ii) Land premium included under the Capital Works Reserve Fund for 2014-15 is assumed to be $70 billion. For 2015-16 onwards, it is assumed to be 2.5% of GDP.

(iii) Investment income under the Capital Account includes investment income of the 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 expenditure*

The breakdown of capital expenditure is –

($ million)	2013-14 Revised Estimate	2014-15 Estimate	2015-16 Forecast	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast
General Revenue Account	2,585	3,329	3,970	3,970	3,970	3,970
Capital Investment Fund	12	12	888	868	268	268
Capital Works Reserve Fund	88,325	76,854	88,874	97,775	97,804	97,837
Disaster Relief Fund	172	-	-	-	-	-
Innovation and Technology Fund	723	882	939	969	868	877
Loan Fund	4,305	4,079	4,752	2,872	2,568	2,613
Lotteries Fund	888	1,007	2,356	2,281	1,752	1,473
Total	97,010	86,163	101,779	108,735	107,230	107,038

(f) *Repayment of bonds and notes*

Repayment of bonds and notes is only in respect of the global bond issue in 2004. Outstanding principal as at 31 March 2019 is estimated at $1,500 million.

SECTION III RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE/PUBLIC EXPENDITURE AND GDP IN THE MEDIUM RANGE FORECAST

12 For monitoring purposes, expenditure of the Trading Funds and the Housing Authority (collectively referred to as "other public bodies" in this Appendix) is added to government expenditure in order to compare public expenditure with GDP.

Government Expenditure and Public Expenditure in the Context of the Economy

Table 2

($ million)	2013-14 Revised Estimate	2014-15 Estimate	2015-16 Forecast	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast
Operating expenditure	338,781	325,000	388,800	357,400	377,100	397,800
Capital expenditure	97,010	86,163	101,779	108,735	107,230	107,038
Government expenditure	435,791	411,163	490,579	466,135	484,330	504,838
Other public bodies expenditure	25,662	28,875	32,463	37,455	40,659	42,560
Public expenditure *(Note (a))*	461,453	440,038	523,042	503,590	524,989	547,398
Gross Domestic Product (calendar year)	2,122,492	2,218,000	2,340,000	2,468,700	2,604,500	2,747,700
Nominal growth in GDP *(Note (b))*	4.2%	4.5%	5.5%	5.5%	5.5%	5.5%
Growth in government expenditure *(Note (c))*	15.5%	-5.7%	19.3%	-5.0%	3.9%	4.2%
Growth in public expenditure *(Note (c))*	15.3%	-4.6%	18.9%	-3.7%	4.2%	4.3%
Public expenditure in terms of percentage of GDP	21.7%	19.8%	22.4%	20.4%	20.2%	19.9%

Notes –

(a) Public expenditure comprises government expenditure and expenditure by other public bodies. 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.

(b) For 2014-15, the nominal GDP growth of 4.5% represents the mid-point of the range forecast of 4% to 5% for the calendar year 2014.

(c) The growth rates refer to year-on-year change. For example, the rates for 2013-14 refer to the change between revised estimate for 2013-14 and actual expenditure in 2012-13. The rates for 2014-15 refer to the change between the 2014-15 estimate and the 2013-14 revised estimate, and so forth.

13 Table 3 shows the relationship amongst the sum to be appropriated in the 2014-15 Budget, government expenditure and public expenditure.

Relationship between Government Expenditure and Public Expenditure in 2014-15

Table 3

($ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	307,433	307,433	-	307,433	307,433
Non-recurrent	17,567	17,567	-	17,567	17,567
Capital					
Plant, equipment and works	1,789	-	1,789	1,789	1,789
Subventions	1,540	-	1,540	1,540	1,540
	328,329	325,000	3,329	328,329	328,329
Transfer to Funds	7,519	-	-	-	-
Capital Investment Fund	-	-	12	12	12
Capital Works Reserve Fund	-	-	76,854	76,854	76,854
Innovation and Technology Fund	-	-	882	882	882
Loan Fund	-	-	4,079	4,079	4,079
Lotteries Fund	-	-	1,007	1,007	1,007
Trading Funds	-	-	-	-	5,041
Housing Authority	-	-	-	-	23,834
	335,848	325,000	86,163	411,163	440,038
Revenue					
General Revenue Account					
Taxation		290,784	70	290,854	
Other revenue		50,188	1,178	51,366	
		340,972	1,248	342,220	
Land Fund		7,910	-	7,910	
		348,882	1,248	350,130	
Capital Investment Fund		-	1,361	1,361	
Capital Works Reserve Fund		-	73,232	73,232	
Civil Service Pension Reserve Fund		-	973	973	
Disaster Relief Fund		-	2	2	
Innovation and Technology Fund		-	71	71	
Loan Fund		-	2,320	2,320	
Lotteries Fund		-	1,958	1,958	
		348,882	81,165	430,047	
Surplus/(Deficit)		23,882	(4,998)	18,884	

SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES

14 The Government's contingent liabilities as at 31 March 2013, 31 March 2014 and 31 March 2015, are provided below as supplementary information to the MRF **–**

	At 31 March		
($ million)	2013	2014	2015
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	29,475	30,282	34,425
Guarantees provided under the Special Loan Guarantee Scheme	50,955	42,534	29,061
Guarantees provided under the SME Financing Guarantee Scheme – Special Concessionary Measures	20,924	29,685	27,561
Guarantees provided under the SME Loan Guarantee Scheme	7,452	7,958	7,571
Possible capital subscriptions to the Asian Development Bank	6,391	6,558	6,558
Legal claims, disputes and proceedings	7,821	7,529	4,653
Guarantees provided under a commercial loan of the Ocean Park Corporation	1,388	1,388	1,388
Total	124,406	125,934	111,217

15 The Government's major unfunded liabilities as at 31 March 2013 were as follows –

($ million)	
Present value of statutory pension obligations	714,745
Untaken leave *(Note (a))*	25,106
Government bonds and notes issued in 2004 *(Note (b))*	11,250

Notes –

(a) The estimate for 'untaken leave' gives an indication of the overall value of leave earned but not yet taken by serving public officers.

(b) Based on US$1 = HK$7.8

APPENDIX B

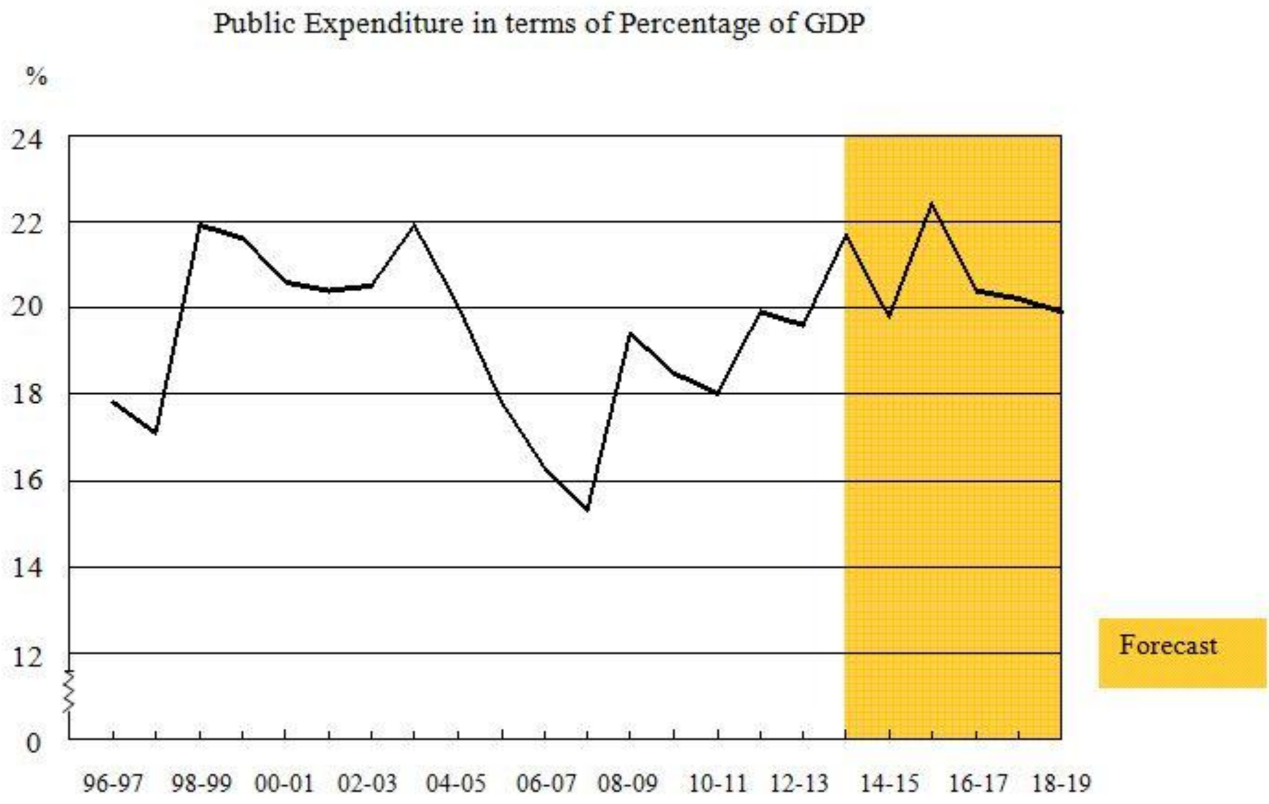
ANALYSIS OF EXPENDITURE AND REVENUE

CONTENTS **Page**

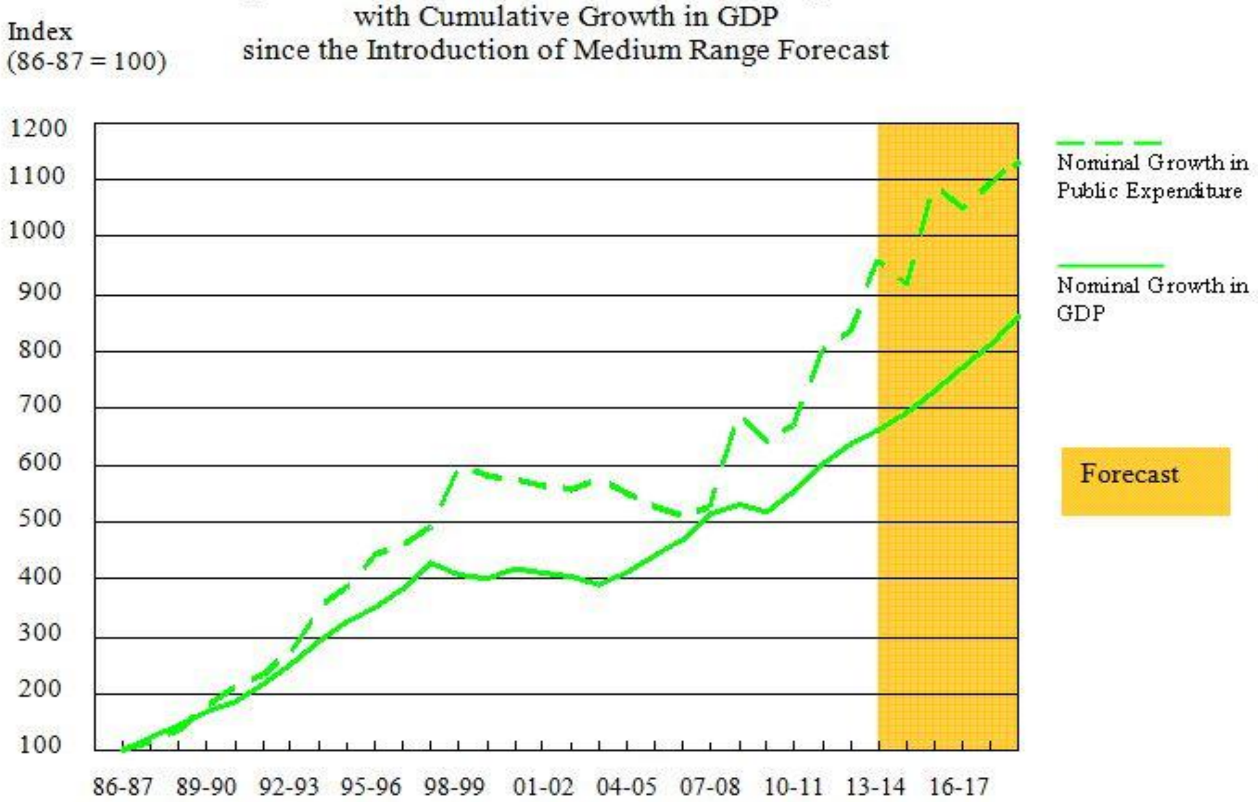
SECTION I THE ESTIMATES IN THE CONTEXT OF THE ECONOMY

Relationship between Government Expenditure, Public Expenditure and GDP

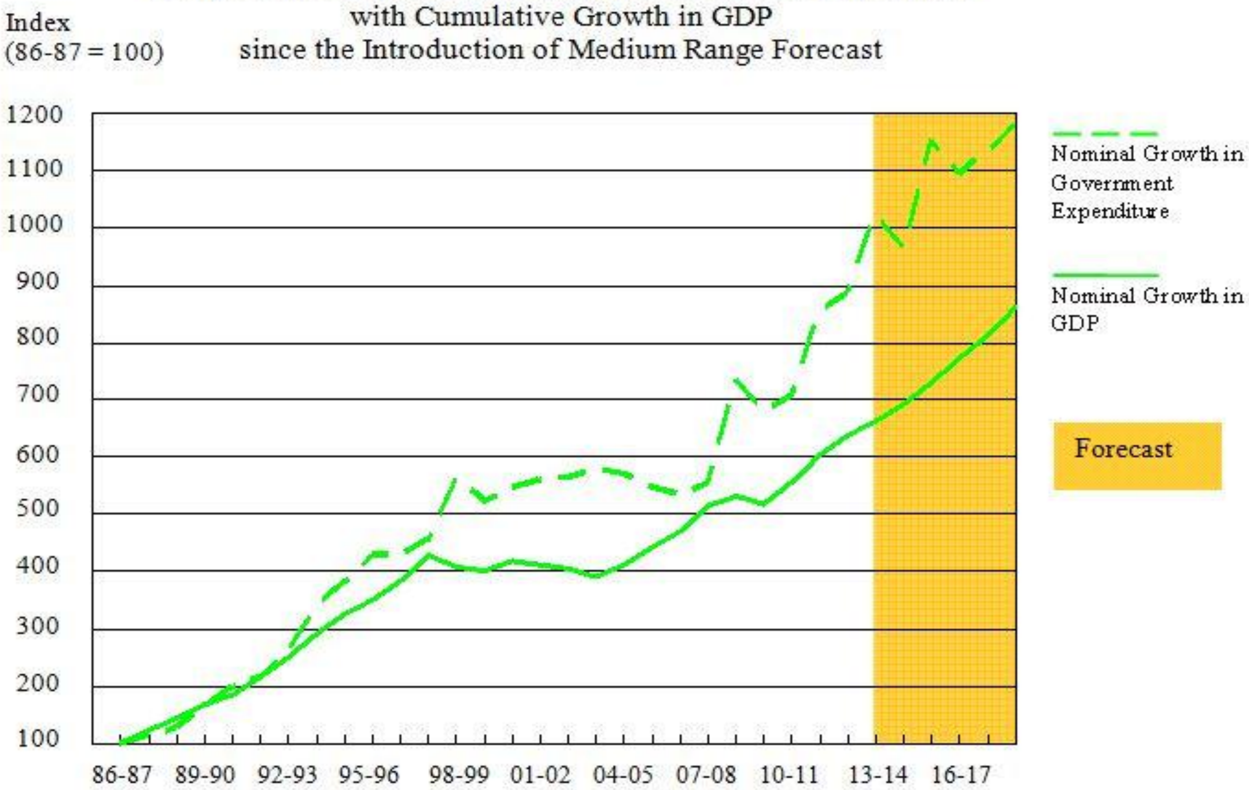
	2014-15 Estimate $m
General Revenue Account	
Operating	325,000
Capital	3,329
	328,329
Capital Investment Fund	12
Capital Works Reserve Fund	76,854
Innovation and Technology Fund	882
Loan Fund	4,079
Lotteries Fund	1,007
Government Expenditure	411,163
Trading Funds	5,041
Housing Authority	23,834
Public Expenditure	440,038
GDP	2,218,000
Public Expenditure in terms of percentage of GDP	19.8%


Public Expenditure in terms of Percentage of GDP
%
24
22
20
18
16
14
12
0
96-97
98-99
00-01
02-03
04-05
06-07
08-09
10-11
12-13
14-15
16-17
18-19
Forecast

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



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



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

Recurrent Public Expenditure : Year-on-Year Change

	2012-13 Actual $m	2013-14 Revised Estimate $m	**2014-15 Estimate $m**	**Increase/Decrease over 2013-14 Revised Estimate in Nominal Terms %**	**Increase/Decrease over 2013-14 Revised Estimate in Real Terms %**
Education	60,449	63,752	**67,131**	**5.3**	**5.0**
Social Welfare	42,813	51,892	**56,908**	**9.7**	**6.8**
Health	46,226	49,768	**52,373**	**5.2**	**5.0**
Security	31,377	32,836	**34,293**	**4.4**	**4.2**
Infrastructure	17,177	18,018	**18,788**	**4.3**	**2.9**
Economic	12,992	14,020	**14,567**	**3.9**	**2.9**
Environment and Food	11,100	11,770	**13,042**	**10.8**	**10.2**
Housing	10,672	12,138	**12,828**	**5.7**	**3.5**
Community and External Affairs	9,192	9,763	**10,370**	**6.2**	**5.6**
Support	35,176	37,848	**44,413**	**17.3**	**15.1**
	277,174	301,805	**324,713**	**7.6**	**6.4**

Nominal GDP growth in 2014 **4% to 5%**

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

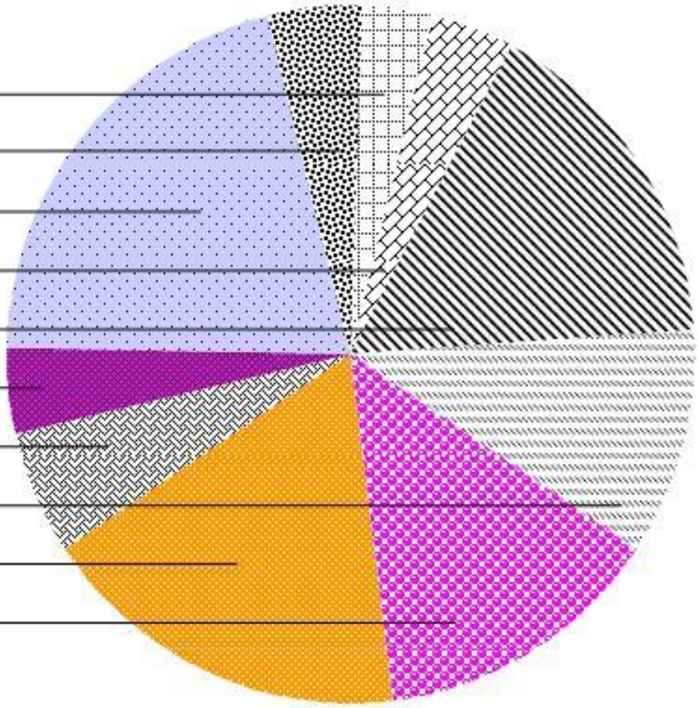
Recurrent Government Expenditure : Year-on-Year Change

	2012–13 Actual $m	2013–14 Revised Estimate $m	**2014–15 Estimate $m**	**Increase/Decrease over 2013–14 Revised Estimate in Nominal Terms %**	**in Real Terms %**
Education	60,449	63,752	**67,131**	**5.3**	**5.0**
Social Welfare	42,813	51,892	**56,908**	**9.7**	**6.8**
Health	46,226	49,768	**52,373**	**5.2**	**5.0**
Security	31,377	32,836	**34,293**	**4.4**	**4.2**
Infrastructure	17,021	17,849	**18,583**	**4.1**	**2.8**
Economic	8,717	9,402	**9,983**	**6.2**	**5.7**
Environment and Food	11,100	11,770	**13,042**	**10.8**	**10.2**
Housing	250	285	**337**	**18.2**	**18.1**
Community and External Affairs	9,192	9,763	**10,370**	**6.2**	**5.6**
Support	35,176	37,848	**44,413**	**17.3**	**15.1**
	262,321	285,165	**307,433**	**7.8**	**6.7**

Nominal GDP growth in 2014	**4% to 5%**

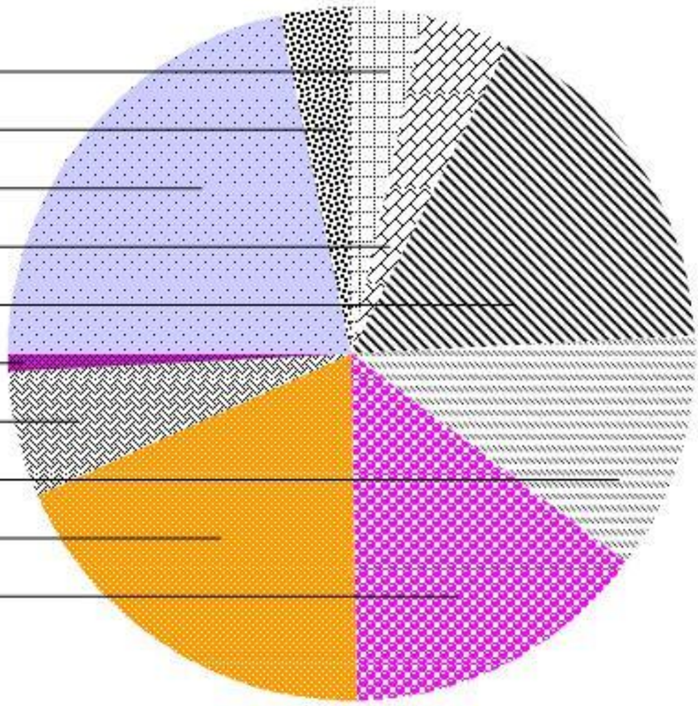
Percentage Share of Expenditure by Policy Area Group
Recurrent Public Expenditure : 2014-15 Estimate

Community and External Affairs	3.2%
Economic	4.5%
Education	20.7%
Environment and Food	4.0%
Health	16.1%
Housing	3.9%
Infrastructure	5.8%
Security	10.6%
Social Welfare	17.5%
Support	13.7%
	100.0%



Percentage Share of Expenditure by Policy Area Group
Recurrent Government Expenditure : 2014-15 Estimate

Community and External Affairs	3.4%
Economic	3.3%
Education	21.8%
Environment and Food	4.2 %
Health	17.0%
Housing	0.1%
Infrastructure	6.0%
Security	11.2%
Social Welfare	18.5%
Support	14.5%
	100.0%



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

Total Public Expenditure : Year-on-Year Change

	2012–13 Actual $m	2013–14 Revised Estimate $m	**2014–15 Estimate $m**	**Increase/Decrease over 2013–14 Revised Estimate in Nominal Terms %**	**Increase/Decrease over 2013–14 Revised Estimate in Real Terms %**
Education	76,600	76,856	**75,372**	**-1.9**	**-2.4**
Social Welfare	45,894	55,543	**61,906**	**11.5**	**8.7**
Health	59,572	67,369	**56,667**	**-15.9**	**-16.3**
Security	33,937	35,278	**38,689**	**9.7**	**9.0**
Infrastructure	61,695	74,620	**78,165**	**4.8**	**0.1**
Economic	33,298	37,367	**21,438**	**-42.6**	**-43.4**
Environment and Food	18,911	24,246	**23,006**	**-5.1**	**-6.8**
Housing	20,501	23,145	**25,311**	**9.4**	**5.5**
Community and External Affairs	13,228	27,784	**12,769**	**-54.0**	**-54.7**
Support	36,543	39,245	**46,715**	**19.0**	**16.8**
	400,179	461,453	**440,038**	**-4.6**	**-6.5**

Nominal GDP growth in 2014 **4% to 5%**

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

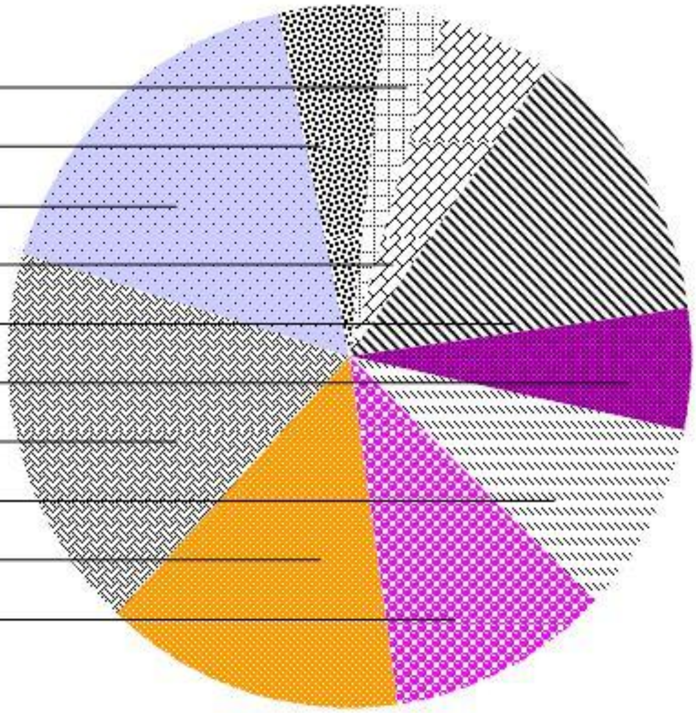
Total Government Expenditure : Year-on-Year Change

	2012–13 Actual $m	2013–14 Revised Estimate $m	**2014–15 Estimate $m**	**Increase/Decrease over 2013–14 Revised Estimate in Nominal Terms %**	**in Real Terms %**
Education	76,600	76,856	**75,372**	**-1.9**	**-2.4**
Social Welfare	45,894	55,543	**61,906**	**11.5**	**8.7**
Health	59,572	67,369	**56,667**	**-15.9**	**-16.3**
Security	33,937	35,278	**38,689**	**9.7**	**9.0**
Infrastructure	61,532	74,433	**77,950**	**4.7**	**0.1**
Economic	28,948	32,567	**16,612**	**-49.0**	**-49.5**
Environment and Food	18,911	24,246	**23,006**	**-5.1**	**-6.8**
Housing	2,159	2,470	**1,477**	**-40.2**	**-40.4**
Community and External Affairs	13,228	27,784	**12,769**	**-54.0**	**-54.7**
Support	36,543	39,245	**46,715**	**19.0**	**16.8**
	377,324	435,791	**411,163**	**-5.7**	**-7.4**

Nominal GDP growth in 2014 **4% to 5%**

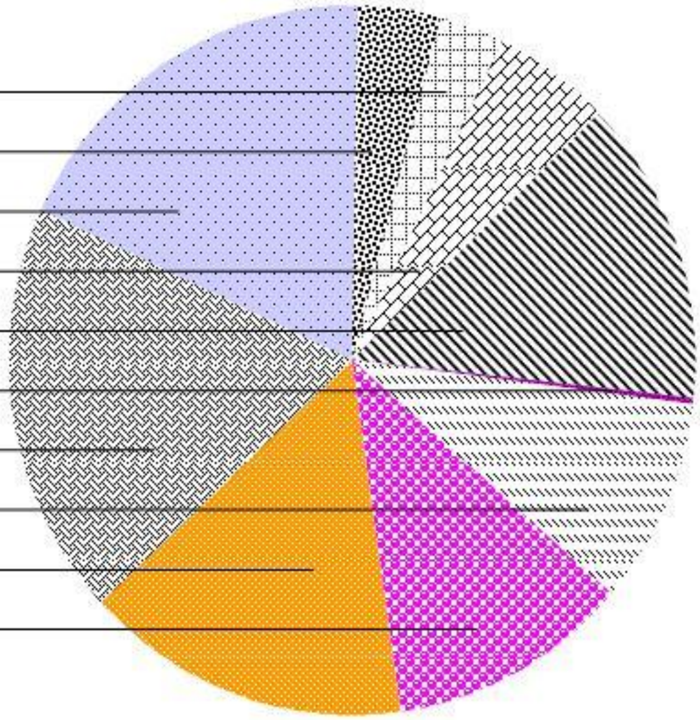
Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure : 2014-15 Estimate

Community and External Affairs	2.9%
Economic	4.9%
Education	17.1%
Environment and Food	5.2%
Health	12.9%
Housing	5.7%
Infrastructure	17.8%
Security	8.8%
Social Welfare	14.1%
Support	10.6%
	100.0%



Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure : 2014-15 Estimate

Community and External Affairs	3.1%
Economic	4.0%
Education	18.3%
Environment and Food	5.6%
Health	13.8%
Housing	0.4%
Infrastructure	18.9%
Security	9.4%
Social Welfare	15.1%
Support	11.4%
	100.0%



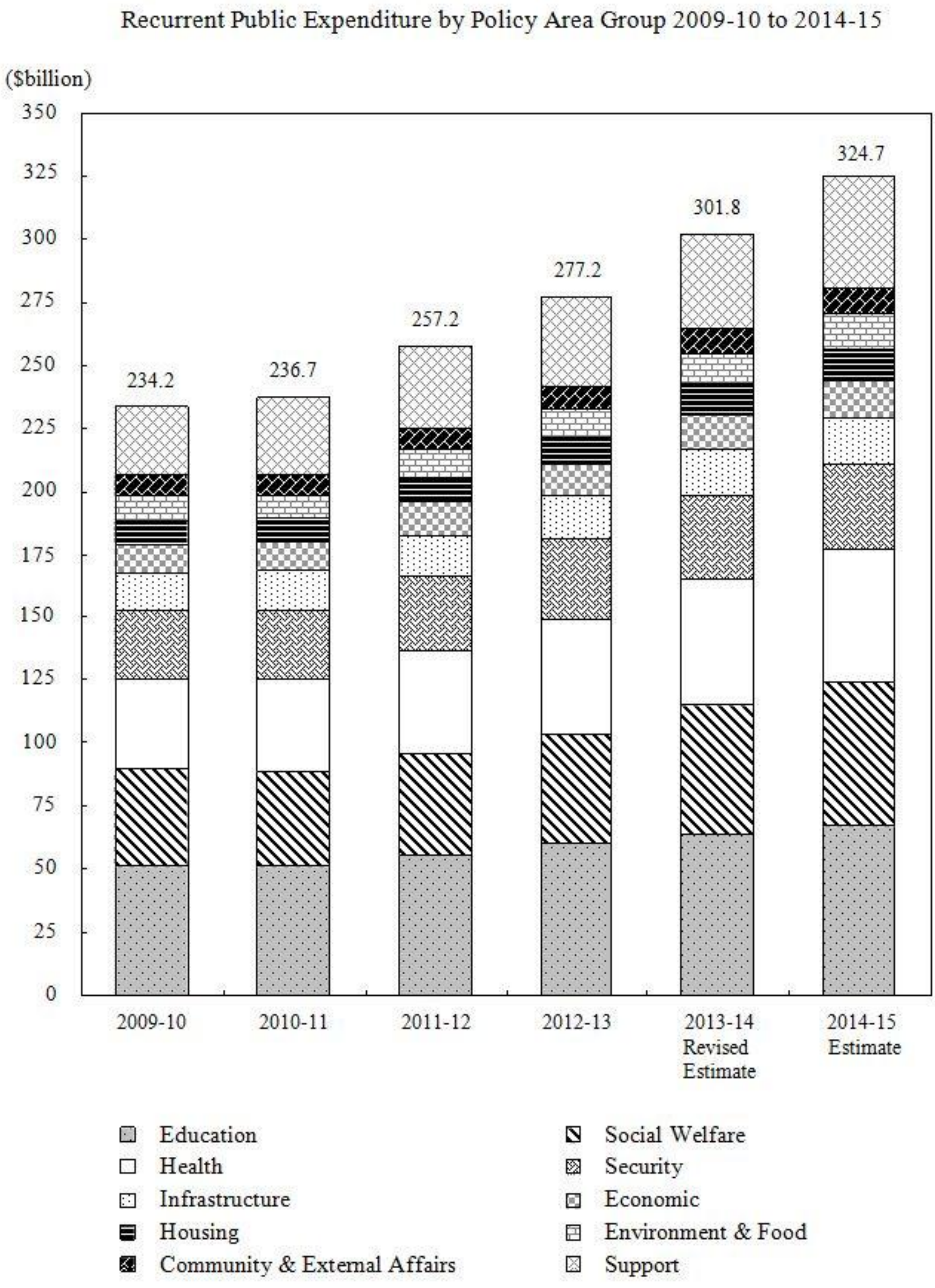
SECTION IV MAJOR CAPITAL PROJECTS ESTIMATED TO BEGIN IN 2014-15

Major capital projects estimated to begin in 2014-15 include –

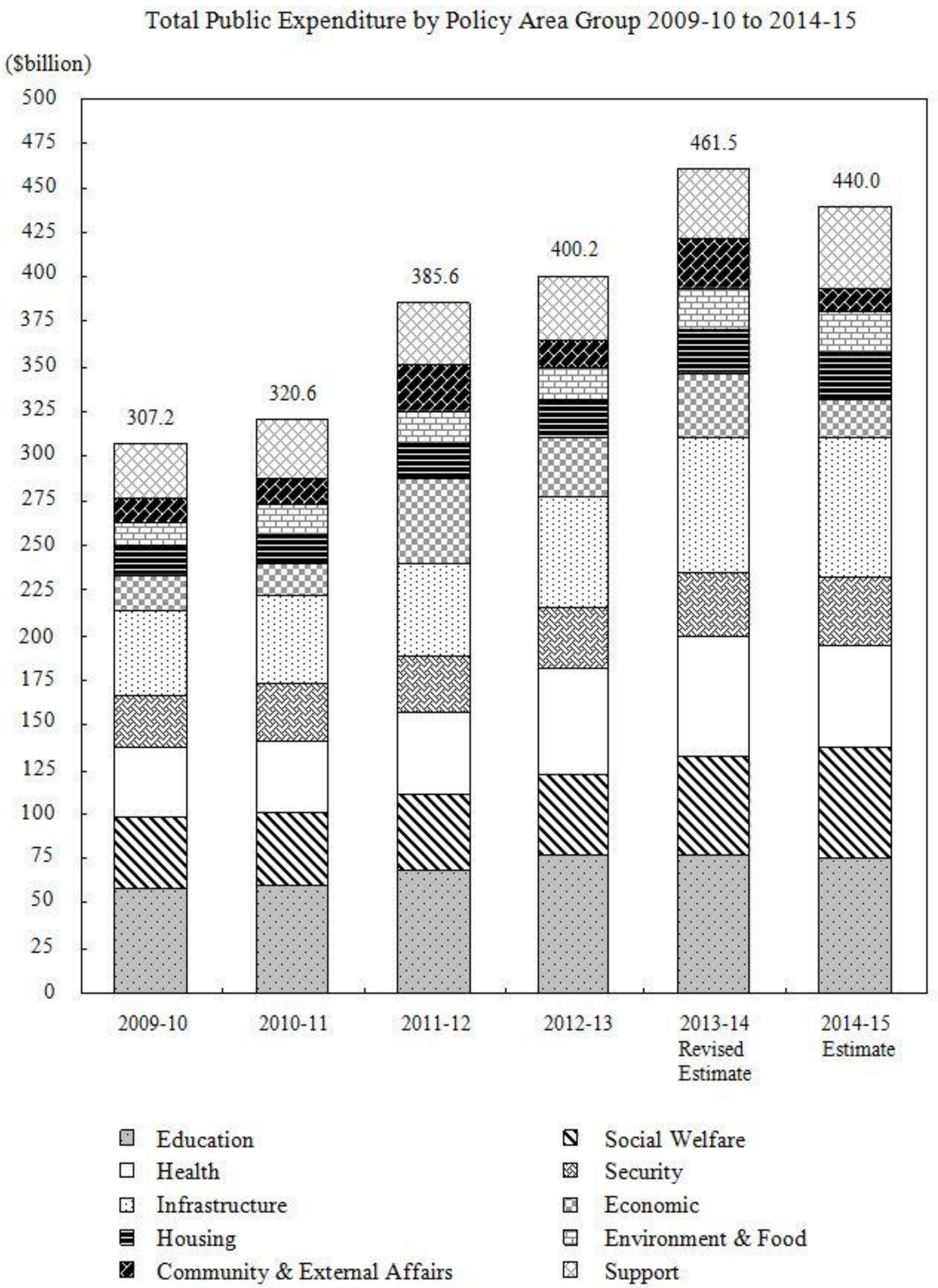
	Project Estimates $ million
Infrastructure	**8,405**
— Advance site formation and engineering infrastructure works at Kwu Tung North new development area and Fanling North new development area—detailed design and site investigation	
— Construction of additional floors at Central Piers Nos. 4, 5 and 6	
— Cross Bay Link, Tseung Kwan O—detailed design and site investigation	
— Development of Anderson Road Quarry site—detailed design and site investigations	
— Feasibility study on relocation of Diamond Hill fresh water and salt water service reservoirs to caverns	
— Footbridge across Po Yap Road linking Tseung Kwan O Area 55 and Area 65	
— Greening master plans for the New Territories South East and North West—priority greening works	
— Integrated basement for West Kowloon Cultural District—design, site investigation and advance works	
— Ma On Shan development—roads, drainage and sewerage works at Whitehead and Lok Wo Sha, phase 2	
— Main engineering infrastructure in association with the proposed developments in Area 56, Tung Chung	
— Pilot study on underground space development in selected strategic urban areas	
— Planning and engineering study on Sunny Bay reclamation	
— Planning, engineering and architectural study for topside development at Hong Kong boundary crossing facilities island of Hong Kong–Zhuhai–Macao Bridge	
— Reprovisioning of Harcourt Road fresh water pumping station	
— Retrofitting of noise barriers on Tuen Mun Road (Town Centre Section)	
— Road improvement works in West Kowloon reclamation development, phase 1	
— Strategic studies for artificial islands in the central waters	
Environment and Food	**5,963**
— Development of waste electrical and electronic equipment treatment and recycling facility	
— Feasibility study on relocation of Sai Kung sewage treatment works to caverns	
— Feasibility study on relocation of Sham Tseng sewage treatment works to caverns	
— Organic waste treatment facilities phase 1	
— Relocation of Sha Tin sewage treatment works to caverns—consultants' fees and investigation	
— Reprovisioning of Food and Environmental Hygiene Department Sai Yee Street Environmental Hygiene Offices-cum-Vehicle Depot at Yen Ming Road, West Kowloon Reclamation Area	
— Shek Wu Hui sewage treatment works—further expansion phase 1A—advance works, consultants' fees and investigation	
— Tuen Mun sewerage—Castle Peak Road trunk sewer and Tuen Mun village sewerage	
— West New Territories landfill extension—consultants' fees and investigations	
Security	**3,610**
— Construction of departmental quarters for Customs and Excise Department at Yau Yue Wan Village Road, Tseung Kwan O, Kowloon	
— Kowloon East Regional Headquarters and Operational Base-cum-Ngau Tau Kok Divisional Police Station	

	Project Estimates $ million
Community and External Affairs	**3,366**
— Community hall at Sau Ming Road, Kwun Tong	
— Lei Yue Mun Waterfront Enhancement Project—construction of a public landing facility	
— Lei Yue Mun Waterfront Enhancement Project—development of a waterfront promenade and related improvement works	
— Renovation of Hong Kong Museum of Art	
— Reprovisioning of Pak Tin community hall and special child care centre-cum-early education and training centre in Pak Tin Estate redevelopment site, and construction of footbridge link at Nam Cheong Street, Sham Shui Po	
— Sports centre in Area 14 (Siu Lun), Tuen Mun	
— Sports centre in Area 24D, Sha Tin	
Health	**2,216**
— Redevelopment of Queen Mary Hospital (phase 1)—preparatory works	
— Refurbishment of Hong Kong Buddhist Hospital	
Education	**1,247**
— A 36-classroom primary school in Area 36, Fanling	
— A school for social development for girls at Choi Hing Road, Kwun Tong, Kowloon	
— Two special schools at site 5C-5, Kai Tak development, Kowloon	

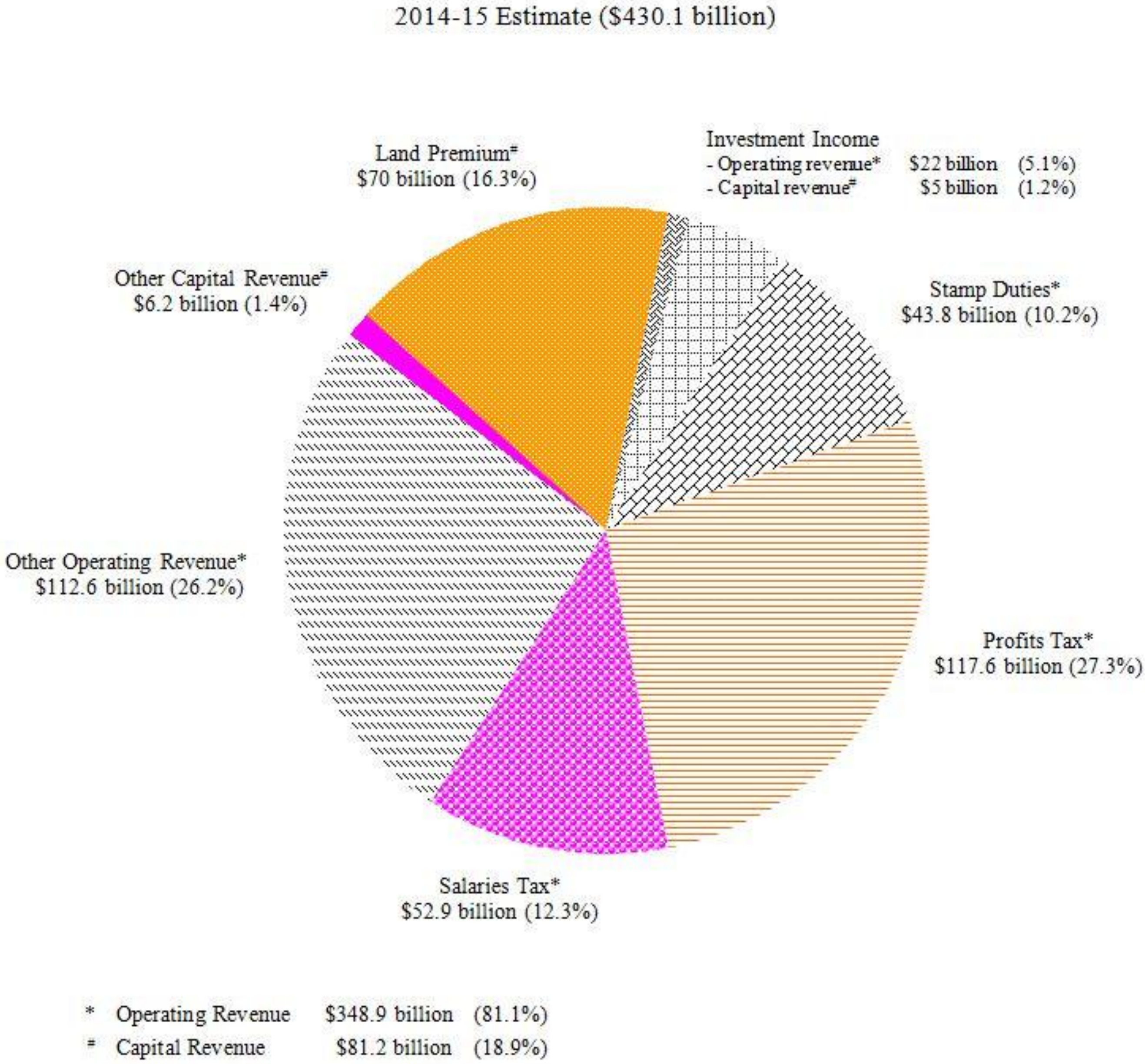
SECTION V TRENDS IN PUBLIC EXPENDITURE : 2009-10 TO 2014-15



SECTION V TRENDS IN PUBLIC EXPENDITURE : 2009-10 TO 2014-15



SECTION VI ANALYSIS OF GOVERNMENT REVENUE



SECTION VII CLASSIFICATION OF EXPENDITURE BY POLICY AREA GROUP

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

Note: Details of individual heads of expenditure contributing to a particular policy area are provided in an index in Volume I of the 2014-15 Estimates. The index further provides details, by head of expenditure, of individual programmes which contribute to a policy area.

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, Capital Investment Fund, 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. Major items are highlighted below –

General Revenue Account

equipment, works and capital subventions of a minor nature

Capital Investment Fund

advances and equity investments

Capital Works Reserve Fund

acquisition of land
capital subventions
computerisation
interest and other expenses on government bonds and notes issued in 2004
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 surplus/deficit. The difference between ***capital revenue*** and ***capital expenditure***.

Capital revenue. This comprises certain revenue items in the General Revenue Account and all receipts credited to seven Funds, 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 premium
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

Consolidated surplus/deficit before repayment of bonds and notes. The difference between ***government revenue*** and ***government expenditure***.

Fiscal reserves. The accumulated balances of the General Revenue Account, 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.

Government expenditure. The aggregate of ***operating expenditure*** and ***capital expenditure***. Unlike ***public expenditure***, it excludes expenditure by the Trading Funds and the Housing Authority.

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

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

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

General Revenue Account

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

Land Fund

investment income

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

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

Transfer to Funds. Transfers between the General Revenue Account and the eight 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) are not counted as government revenue and expenditure as these are merely internal transfers within Government's accounts.