THE 2017-18 BUDGET

Speech by the Financial Secretary, the Hon Paul MP Chan moving the Second Reading of the Appropriation Bill 2017

Wednesday, 22 February 2017

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This speech, together with the supplement and appendices relating to the 2017-18 Budget, is available at www.budget.gov.hk.

Mr President, Honourable Members and fellow citizens,

I move that the Appropriation Bill 2017 be read a second time.

Introduction

2. When I took over as the Financial Secretary on 16 January this year, the foremost task before me was to prepare the Budget for the coming financial year. I kept asking myself - What does Hong Kong need most now? What are citizens' expectations of the Government? What is our ideal way of life? How can we attain a sense of well-being? How do we position Hong Kong as an international city?

3. I came from a poor family and grew up in the 1960s and 1970s when people in Hong Kong were, in general, happy and satisfied with their lives as long as they had a shelter and got enough to eat and wear. Hong Kong then saw brisk economic growth in the 1980s and 1990s and after that, two financial crises. I believe that having gone through these changes, Hong Kong people now crave for more than the basic necessities. We all want further progress in society, so that young people can cherish hopes for the future, the middle-aged need not worry about the competitiveness of the younger generation, and the elderly will have no fear of abandonment.

4. It is not beyond our capacity to realise this vision for Hong Kong, but I dare not boast that we can open up a new world for Hong Kong by one Budget alone. My endeavour is to make use of the wealth we have accumulated together through hard work to take care of the needy in the society, ease the heavy burden of middle-class families, and make appropriate investments essential for building a better Hong Kong.

5. I understand that people from all walks of life have different expectations of the Budget and hope the Government can respond to their demands. However, the reality is that resources are not unlimited, and that no Budget can ever meet the needs of each and every member of the community and win applause from all. We can only devote our best efforts to provide support for those in need, share wealth with the community when there is a substantial surplus and allocate resources to areas which are conducive to our social and economic development.

6. In the coming year, our economy will be fraught with uncertainties arising from the complicated and volatile external environment. I hope that with wisdom, collaboration and relentless efforts, we will have the strength to rise to all challenges ahead and embrace the future with hope.

Economic Performance in 2016

7. The global economy operated in low gear in 2016 and recorded the slowest growth since the global financial crisis. The situation was particularly grim at the beginning of the year, affecting the trade performance of Hong Kong and the Asian region. The subsequent abatement of downward pressures on the external front led to a rebound in Hong Kong's exports of goods, registering a year-on-year growth of 1.7 per cent in real terms for 2016 as a whole. Exports of services, though showing some relative improvement during the year and picking up in the fourth quarter, still fell by 3.1 per cent for the whole year. With the gradual recovery of tourism, the decline in the overall retail sales volume slowed notably to only 3.6 per cent in the fourth quarter, but for the whole year it was still down by 7.1 per cent.

8. Domestic demand strengthened in the latter half of last year. Favourable employment and earnings conditions, together with the support of relief measures introduced in the last Budget, were conducive to sanguine consumer sentiment. The growth of private consumption expenditure gathered pace in the second half of last year, and investment expenditure also bounced back visibly.

9. Overall, the local economy picked up progressively from a marginal growth rate of one per cent in the first quarter to 3.1 per cent in the fourth quarter. For 2016 as a whole, there was a modest growth of 1.9 per cent, generally in line with the one to two per cent economic growth as forecast in last year's Budget.

10. The unemployment rate averaged 3.4 per cent last year, sustaining a state of full employment in general. Inflation pressure was moderate. The headline inflation rate for 2016 was 2.4 per cent. Netting out the effects of the Government's one-off measures, the underlying inflation rate was 2.3 per cent in 2016, the fifth consecutive year of easing.

Economic Outlook for 2017

11. Looking ahead, in 2017, the economic growth of advanced economies will be modest and patchy. This, coupled with new uncertainties brought about by political changes in many parts of the world and rising populist and protectionist sentiments, will further complicate the situation and render the global economic outlook volatile.

12. The US economy has continued to improve in the recent period but the economic policy agenda of the new administration has remained unclear. Despite the fact that the US may introduce fiscal stimulus measures conducive to global economic growth, there is increasing market concern over whether the US will roll out, in phases, a number of trade protection measures, which may disrupt the improving growth momentum in global trade. The Federal Reserve Board (Fed) will proceed with or even expedite the normalisation of US interest rates. Consequently, monetary policy divergence among major central banks will become more pronounced. All these will impact on the global economy and financial environment.

13. Economic growth in Europe is still constrained by its structural debts. This, together with the Brexit developments and the upcoming general elections in some major European countries this year, will complicate and add uncertainties to the political and economic outlook for Europe. This may weigh on the European economy as well as global monetary and financial stability.

14. The growth of the Mainland economy is increasingly driven by domestic demand and the service sector, and is moving towards a pattern of sustainable development. With stable and appreciable economic growth as well as ample policy room, the Mainland economy should be able to maintain a medium-high pace of growth, remaining a mainstay supporting global economic growth.

15. Japan's economy has been stuck in low gear, facing high deflation risks. A package of fiscal stimulus and monetary initiatives has been launched but the effectiveness is yet to be seen.

16. As regards emerging markets, international energy and metal prices have rebounded from the low level over the recent past, easing the downward pressure on commodity-exporting economies. Emerging markets in Asia will remain the main propellers of global economic growth.

17. The slightly improved global economy over the recent period will lend support to Hong Kong's export performance. If the recent growth momentum continues, our merchandise exports will see a stronger performance this year. However, the aforesaid risk factors in the external environment will cast shadows over the export trade in Asia and in Hong Kong. Under these circumstances, sustaining domestic demand will remain crucial to maintaining the stable development of our economy and underpinning the employment market. Moreover, inbound tourism has improved recently, with fresh growth in the number of visitors. If this continues, the retail sector should be set to stabilise further.

18. Locally, favourable conditions in the job market and rising labour earnings have bolstered consumer confidence in the recent past. Sustained increases in infrastructure and other building and construction activities should provide momentum for domestic demand. In the light of the recent developments and granting no severe external shocks, I forecast Gross Domestic Product (GDP) growth of two to three per cent in 2017.

19. But, the uncertain external environment and interest rate trend may trigger abrupt shifts in capital flows and heighten volatility in local asset prices, with repercussions on consumption and investment sentiments and on macro-economic stability. Over the past few years, the tight supply of residential flats, ultra-low interest rates and an influx of capital have made the local property market even more exuberant, resulting in high flat prices which are out of tune with the local economy.

20. The current-term Government is committed to increasing land and housing supply, and has introduced several rounds of demand-side management measures and macro-prudential policies. These efforts have effectively maintained the overall macro-economic and financial stability. The introduction of the Special Stamp Duty and Buyer's Stamp Duty, together with the earlier increase in Ad Valorem Stamp Duty, has achieved significant results in combating short-term speculation, curbing external demand and reducing investment demand. Moreover, with the Government's strenuous efforts in increasing land supply in the past few years and the gradual completion of housing units, we expect that the supply of residential flats will increase substantially in the next few years. However, the property market may have to face potential risks if the Fed normalises interest rates faster this year. We will closely monitor the situation.

21. The still-low global inflation and strong US dollar have lessened the impact of the rise in international oil prices, maintaining imported inflation at a low level. Inflationary pressure will remain mild in the short term. I forecast that the headline inflation rate for 2017 as a whole will be 1.8 per cent with an underlying inflation rate at two per cent.

Public Finance : Objectives and Approach

22. Hong Kong is one of the most advanced economies in the world, despite the relatively small scale of our economy. Our GDP per capita has now reached US$44,000, overtaking Japan and many advanced economies in Europe. Hong Kong's success is built on the resilience, hard work and sustained innovative efforts of past generations. Our achievements are also attributable to the unique advantage of "one country, two systems", the fair and corruption-free system, rule of law, and the open and efficient market that we have. I believe that while recognising the effect of market forces, the Government should play an active role as a facilitator by taking forward appropriate policies with the optimal use of public resources. Only by doing so can we build a caring, just and pluralistic society, helping Hong Kong develop as an even more liveable, sustainable and vibrant city.

Developing the Economy and Improving Livelihood

23. Specifically, public finance should serve three objectives. First, the Government must be appropriately proactive in developing the economy and improving people's livelihood. We must strengthen the competitiveness of and explore new markets for the pillar industries. We must also help industries over which we have advantages as well as emerging industries and identify growth opportunities so that the economy can prosper in a sustained and diversified manner. I believe that, as long as all industries can continue to grow and flourish, young people will have better job opportunities, greater upward mobility as well as a platform to realise their dreams. Only by giving the younger generation hope for the future can our city remain vibrant, joyful and positive.

24. Whatever is taken from the people ought to be used for the people. The Government must uphold the principle of people-based governance. Government resources should primarily be used to improve people's livelihood and cater for the needy groups in the community. Given limited resources, it is not possible to meet all livelihood-related policy objectives at one stroke. We must allocate resources according to need and priority, striking a balance between the desired policy outcome and the affordability of the Government and progress towards our goals at a measured pace.

Investing for the Future and Enhancing Liveability

25. Second, the Government must be forward-looking and invest continuously for the future of Hong Kong. We should create capacity for both development and environment, and enhance competitiveness, so that our economy and society can develop in a sustained manner and our living environment can keep improving.

26. With respect to hardware, the Government has kept investing in infrastructure, including land production and expansion of the air, sea and land transport networks, to support our social and economic development. The Government's annual expenditure on capital works projects has increased significantly from a mere $62.4 billion in 2012-13 to $86.8 billion in 2017-18, allowing the construction industry to contribute 4.7 per cent to our GDP. I wish to point out that, other than improving people's quality of life and enhancing our business environment, these projects have created tens of thousands of jobs for the construction industry, transport industry and other trades.

27. Human capital is Hong Kong's most important asset. In the face of stiff competition from other economies and a new economic landscape arising from technological development, we must continue to invest heavily in nurturing talent for a knowledge-based economy and promote diversified and high value-added economic development for Hong Kong. The current-term Government has made significant efforts to promote Innovation and Technology (I&T). These include establishing the Innovation and Technology Bureau in November 2015, allocating over $18 billion so far to enhance our I&T ecosystem, providing funding support for universities and the industry to conduct research and development (R&D) activities and supporting start-ups.

28. To improve people's quality of life, the Government is committed to developing Hong Kong into a smart city by leveraging I&T to enhance city management. We have commenced a comprehensive study to formulate the policy objectives and a blueprint for developing Hong Kong into a smart city.

29. The Government will continue to invest substantially to protect and enhance our environment, striving to further improve the air quality, water quality, green and blue assets and waste management; and step up efforts to combat climate change and conserve nature, thereby making Hong Kong an even more liveable city.

Upholding Social Justice and Sharing Fruits of Success

30. Third, the Government must make good use of financial resources, with a view to building a fair and just society where people from all walks of life can share the fruits of economic advancement. Some low income earners still find it hard to make ends meet, reflecting a notable wealth gap in society.

31. Poverty alleviation, care for the elderly and support for the disadvantaged are at the top of the current-term Government's agenda. We have devoted substantial resources to improve the livelihood of the grassroots over the past four years or so. Specifically, as compared with the amount at the beginning of the current-term Government, recurrent expenditure on social welfare has increased by 71 per cent in five years, from $42.8 billion in 2012-13 to $73.3 billion in 2017-18. Over the period, poverty figures have edged downward. We will continue to allocate resources in this area. We aim to render assistance to people in need through our social security system, while at the same time striving to encourage and support people capable of working to achieve self-reliance through employment. The goal is to alleviate intergenerational poverty and enhance upward social mobility, thereby promoting a caring and inclusive society.

32. Senior citizens deserve credit for their contributions to the prosperity of Hong Kong. We should show the community's care for them.

33. As announced by the Chief Executive in this year's Policy Address, the Government will enhance the Old Age Living Allowance (OALA) through two measures. First, a higher monthly allowance of $3,435 will be provided for eligible elderly persons with more financial needs. Second, the existing asset limits will be relaxed to benefit more elderly persons. It is estimated that about 500 000 elderly persons, each receiving approximately $10,000 to $30,000 more a year, will benefit from these measures in the first year upon full implementation, and the coverage of OALA will increase from 37 per cent to 47 per cent of the elderly population, thus further strengthening retirement protection through the social security pillar. The Government will lower the eligibility age for Elderly Health Care Vouchers from 70 to 65, so that about 400 000 more elderly persons will receive $2,000 a year to purchase primary care services from the private sector. These measures represent a significant and long-term commitment, involving an additional recurrent government expenditure of about $9 billion per year on average over the next ten years.

34. The Government is discussing with major stakeholders the proposal to progressively abolish the "offsetting" of severance payments or long service payments with Mandatory Provident Fund (MPF) contributions. I will provide the necessary financial support having regard to the outcome.

35. Besides, I will continue to allocate resources to optimise healthcare and elderly services, and enhance care and support for persons with disabilities.

A Sound and Progressive Fiscal Policy

36. Mr President, in preparing this Budget, I have carefully considered the views of different sectors and note some gaps in the understanding of the Government's fiscal position. Please allow me an opportunity to offer some clarifications and suggest policy approaches, taking into account the three objectives of public finance, the macro-economic outlook and the Government's financial position.

Annual Surplus

37. Some sectors have suggested that since we are running a substantial fiscal surplus this year, the Government should reduce taxes and introduce more recurrent measures to alleviate people's financial burden.

38. As we all know, Hong Kong has a narrow tax base, and our revenue sources are concentrated. Profits tax, salaries tax, stamp duties, rates and land revenue account for about 75 per cent of total government revenue in 2015-16. Nevertheless, as a small and open economy, Hong Kong is particularly susceptible to global economic fluctuations, which is beyond the Government's control. Should there be any abrupt deterioration or fluctuation in the external economic environment, government revenue would be directly affected, and the consequences could be unpredictable. Analysis based on statistics over the past 25 years shows that although government revenue has grown broadly in line with the GDP, the former is often far more volatile than the latter. This has brought challenges to our public finances. Take this year as an example. The vast majority of the Government's surplus comes from the far higher-than-expected land revenue and stamp duties on properties. Our property market has experienced a market boom of nearly eight years. Property prices are still at a record high though trading in the market has turned quieter. Supply of private residential flats in the future is expected to gradually pick up to an average of nearly 20 000 units a year. It is difficult to tell whether revenue from land sales in the future will continue to hit successive new highs. In fact, over the past decade, land revenue varied considerably from a low level of less than $17 billion in 2008-09 to over $117 billion in 2016-17.

39. Government revenue may fluctuate with the ups and downs of the economic cycle. Government expenditure, however, is far more rigid and public services cannot be trimmed or suspended arbitrarily. The current-term Government has introduced many new measures on poverty alleviation and support for the disadvantaged, such as the OALA and the Low-income Working Family Allowance (LIFA). To keep pace with the rapid ageing of our population, financial commitment on associated measures will increase at a fast rate. Take the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities (also known as the "$2 Public Transport Fare Concession Scheme") and the Elderly Health Care Voucher Scheme as examples. Between 2012-13 and 2017-18, recurrent expenditure on the two schemes would see an over four-fold and ten-fold increase to nearly $1.2 billion and $2.1 billion respectively, representing a sharp growth. These are measures that benefit our community; cuts or cancellation cannot be taken lightly.

40. Being a responsible government, we should remain vigilant. Before committing to new recurrent initiatives, we must be satisfied that these initiatives can be funded in a sustainable manner in the long run. Windfall revenue of a capital nature is no justification for substantial increases in recurrent expenditure. It is much the same as an employee who may happily spend a bit more upon receiving a large sum of year-end bonus in a certain year but would not recklessly make any unaffordable long-term financial commitment. So, in my view, in considering how our annual surplus is to be deployed, we should take into account the source and nature of the surplus, alongside the prevailing economic situation and external environment, the future needs of society and the expectations of the community, so as to ensure optimal allocation of resources.

Fiscal Reserves

41. It has also been suggested that the fiscal reserves of over $900 billion is just too much, and instead of being miserly, the Government should consider major tax cuts and step up its efforts to relieve people's hardship. While I share the view that the Government, with its existing fiscal strength, can afford to be more proactive, we should avoid reckless commitments. Public spending must be fit for purpose.

42. 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*". I agree that the implementation of this Article should not be a "straitjacket" which restrains our annual revenue and expenditure. Instead, there should be a certain degree of flexibility. In fact, Hong Kong, as a small externally-oriented economy, is highly susceptible to the influence of the external environment and cyclical fluctuations, and short-term fiscal imbalance is probably inevitable. Some expenditure increases are justifiable, as in the case of welfare spending since the Government is catching up on service delivery. Some other expenditure items are investments and the potential return may only be realised in future. I consider that it is most important to spend only when necessary and to act with prudence and strive for an overall fiscal balance over time.

43. The total expenditure of the Government has increased year after year from $380 billion in 2012-13 to over $490 billion in 2017-18. Total and recurrent expenditure of the current-term Government would have respectively grown on average by 5.4 per cent and as much as 7.2 per cent per annum between 2012-13 and 2017-18. Compared with the nominal GDP growth of five per cent and government revenue growth of 3.4 per cent for the same period, expenditure growth of the current-term Government is considerable. However, the growth of government expenditure cannot keep outpacing economic growth for an undue period, lest the risk of a structural deficit would emerge.

44. In assessing whether the level of fiscal reserves is appropriate, we ought to consider the Government's prevailing recurrent funding requirements and the medium- to long-term financial implications upon full implementation of policy initiatives, such as the "$2 Public Transport Fare Concession Scheme" and the Elderly Health Care Voucher Scheme mentioned in paragraph 39, and the enhanced OALA and the provision of subsidy in respect of the MPF "offsetting" arrangement as announced in this year's Policy Address. In addition, our medium and long-term commitments include a sum of over $300 billion for ongoing works projects and about $450 billion for civil service pension obligations in the next ten years. The Government's financial burden cannot be taken lightly.

45. To demonstrate the Government's determination in and commitment to making good use of surplus and investing in the future, we have set aside substantial resources for housing and healthcare. The Housing Reserve, which was established in 2014 to support large-scale public housing development programme, now stands at $77 billion. Last year, the Government also set aside $200 billion for the implementation of a ten-year hospital development plan to improve public healthcare facilities and services. I will make provisions for elderly services and rehabilitation services for persons with disabilities as well as sports development when determining the use of surplus for this financial year.

46. The economic crises caused by the financial plight of many European countries and the US in the past decade have pointed to pitfalls that Hong Kong should avoid. In fact, from 1998 to 2004 when Hong Kong's economy was ensnared in difficulties during the Asian Financial Crisis and the I&T bubble burst, government revenue plunged far more sharply than that of GDP. We experienced five years of fiscal deficits, which depleted 40 per cent or over $180 billion of our fiscal reserves, leaving these at a level equivalent to only 13 months instead of 28 months of government spending.

47. I believe that the two objectives of our fiscal policy are maintaining healthy public finances and strengthening resilience to withstand economic fluctuations. We should not just keep looking back to the prosperous years in the past. Instead, we should stay alert to the challenges ahead. Under the linked exchange rate system, there is very limited room to adjust our monetary policy. Therefore, we have to rely on a sound and progressive fiscal policy to ensure that we can stay strong and have adequate resources to continuously increase public investment, enhance our competitiveness, cater for social development needs and improve people's livelihood. This also enables us to promptly launch counter-cyclical measures to stabilise the economy in times of economic downturn, so as to minimise the impact of economic fluctuations on people's livelihood.

48. Our position as an international financial centre is crucial to both Hong Kong and our country. The cornerstone of financial stability is confidence. A sound financial management philosophy and strong fiscal position of the Government are vital for maintaining international confidence in Hong Kong. We may recall how a single financial crisis has exposed the excessive budget deficits in many advanced economies in Europe and the US. A domino effect was triggered off, bringing down the international ratings of all these economies, and giving them a hard blow to their economies and financial systems. With these examples, Hong Kong must reflect on our own position seriously. Hong Kong has recently been recognised by the International Monetary Fund again for our strong policy framework, including the linked exchange rate system, vigorous regulation and supervision of the financial system and ample buffers, which enable us to cope with external economic risks.

49. As such, we should spend only when necessary and make good use of the reserves to benefit the society. At the same time, we must maintain strict fiscal discipline and ensure that our expenditure growth will be broadly in line with affordability. We must also maintain adequate fiscal reserves to support socio-economic development, deal with emergencies and cope with the challenges posed by a rapidly ageing population.

Value for Money and User Pays Principles

50. To achieve more efficient use of resources, the Government should adhere to the "value for money" principle, rectify unsustainable policies and adjust expenditure items that are repetitive, inappropriate and ineffective. To ensure the effective use of our public resources and to preserve the revenue base, government departments should continue to review their fees and charges in a timely manner and in accordance with the "cost recovery" and "user pays" principles.

Tax Policy

51. Another topic that people frequently talk about is our tax policy. There have been calls for tax cuts, providing tax concessions to support the development of certain industries and broadening the tax base.

52. Hong Kong has all along been maintaining a low, simple and territorial-source-based tax regime, which comprises mainly of direct taxes. As an advocate of free trade, Hong Kong does not impose duties on import or export goods except for four types of dutiable commodities. These were the key competitive advantages underpinning our success in the past. However, the global competitive environment is fast-changing. Neighbouring countries, European countries, the US and Free Trade Zones in the Mainland are using tax concession as a means to compete for investment and promote the development of targeted industries. Some countries have even adjusted their taxation structure. Recently, individual European countries and the US indicated that they would consider reducing profits tax in a bid to enhance competitiveness. Besides, the international community is taking forward measures to counter money laundering, tax base erosion and profit shifting. Hong Kong should complement these global efforts. How can we ensure that our competitive advantages would not be undermined?

53. With social advancement and economic development, the Government will continue to increase expenditure in social welfare, education, healthcare, housing supply, infrastructure and district facilities, etc. We should be mindful of our narrow tax base, concentration of revenue from a few industries and volatility of Government's revenue in response to economic fluctuations. Using 2015-16 as an example, revenue from land sales and profits tax accounted for 14 per cent and 31 per cent of government revenue respectively, with the financial and real estate industries contributing over 40 per cent of the profits tax receipts. Volatility in the global economy and financial market in the future or significant adjustment in asset prices will affect government revenue and fiscal affordability.

54. As a responsible government, we have to cope with the huge expenditure needs under different economic scenarios. We cannot propose a tax cut which erodes our revenue base. Neither can we adjust our tax rates frequently as this would affect the predictability of our tax regime and dent investor confidence. We have to examine the international competitiveness of our tax regime and address the problem of a narrow tax base. I plan to set up a tax policy unit in the Financial Services and the Treasury Bureau to comprehensively examine these tax issues from a macro perspective. On the one hand, we will seek to align our tax practices with international standards and actively study ways to foster the development of pillar industries, industries over which we have advantages and emerging industries through tax measures including enhanced deductions for I&T expenditure, so as to ensure that Hong Kong remains competitive and can create wealth. On the other hand, we will enhance our tax regime and explore broadening the tax base and increasing revenue, so as to ensure that adequate resources are available to support the sustainable development of our society.

Revised Estimates for 2016-17

55. The 2016-17 revised estimate on government revenue is $559.5 billion, 12 per cent or $61.3 billion higher than the original estimate. This is due mainly to the increase in revenue from land sales and stamp duty.

56. Revenue from land sales is $50.8 billion or 76 per cent higher than the original estimate, demonstrating yet again that land revenue has always been highly volatile and vulnerable to market fluctuations. It was only in 2015-16, when revenue from land sales was nearly $9.1 billion lower than estimated as some sites were unable to be sold. As a result of a period of hectic trading in the property market last year, stamp duty revenue for the whole year would be $8 billion or 16 per cent higher than estimated.

57. As for government expenditure, I forecast a revised estimate of $466.7 billion, 4.1 per cent or $20.2 billion lower than the original estimate. This is mainly because the $10 billion set aside for the Hospital Authority Public-Private Partnership Fund in the original estimate was advanced and allocated in 2015-16.

58. For 2016-17, I forecast a surplus of $92.8 billion. Fiscal reserves are expected to reach $935.7 billion by 31 March 2017.

Investing, Sharing and Caring

59. The Chief Executive has put forward in this year's Policy Address an array of measures on poverty alleviation, care for the elderly and support for the disadvantaged to improve the livelihood of the grassroots. The community looks to the Government for relief measures to ease the burden of the needy. Small and medium enterprises (SMEs) also look to the Government for help to cope with the unstable external environment and the escalating operating costs.

60. Having regard to the current economic situation, the complicated and uncertain global political and economic climate in the coming year, as well as the Government's fiscal surplus, I will introduce a series of measures that will on the one hand share the fruits of our economic development with members of the public, stimulate domestic demand, stabilise the economy and support the employment market and on the other hand, invest for the future by optimising the use of government resources. These measures include −

(a) reducing salaries tax and tax under personal assessment for 2016-17 by 75 per cent, subject to a ceiling of $20,000. The reduction will be reflected in the final tax payable for 2016-17. This proposal will benefit 1.84 million taxpayers and reduce government revenue by $16.4 billion;

(b) reducing profits tax for 2016-17 by 75 per cent, subject to a ceiling of $20,000. The reduction will be reflected in the final tax payable for 2016-17. This proposal will benefit 132 000 taxpayers and reduce government revenue by $1.9 billion;

(c) waiving rates for four quarters of 2017-18, subject to a ceiling of $1,000 per quarter for each rateable property. This proposal will benefit 3.21 million properties and reduce government revenue by $10.9 billion; and

(d) providing an extra allowance to social security recipients, equal to one month of the standard rate Comprehensive Social Security Assistance payments, Old Age Allowance (OAA), OALA or Disability Allowance. This will involve an additional expenditure of about $3.5 billion. Similar arrangements will apply to LIFA and Work Incentive Transport Subsidy, involving an additional expenditure of about $100 million.

61. In addition to the above one-off measures, I propose, after taking into account the Government's fiscal position in the short to medium term, the following five recurrent tax measures starting from 2017-18 so as to relieve the burden on taxpayers −

(a) widening the marginal bands for salaries tax from the current $40,000 to $45,000. This measure will reduce the tax burden of 1.3 million taxpayers and reduce tax revenue by $1.5 billion a year;

(b) raising the disabled dependant allowance from the current $66,000 to $75,000. This measure will benefit 35 000 taxpayers and reduce tax revenue by $50 million a year;

(c) raising the dependent brother/sister allowance from the current $33,000 to $37,500. This measure will benefit 23 800 taxpayers and reduce tax revenue by $13 million a year;

(d) extending the entitlement period for the tax reduction for home loan interest from 15 years of assessment to 20 while maintaining the current deduction ceiling of $100,000 a year. This proposal will reduce tax revenue by $430 million a year; and

(e) raising the deduction ceiling for self-education expenses from the current $80,000 to $100,000. This measure will benefit 3 500 taxpayers and reduce tax revenue by $8 million a year.

Support for Building Rehabilitation

62. The ageing of buildings is a thorny issue posing health and safety risks for the community. While owners are responsible for timely maintenance of their buildings, many of them find the relevant procedures daunting. To help property owners secure the necessary technical support, the Government will earmark $300 million to allow owners to participate in the "Smart Tender" Building Rehabilitation Facilitating Services Scheme run by the Urban Renewal Authority (URA) at a concessionary rate. It is estimated that owners of about 4 500 buildings will benefit from this initiative in the next five years.

63. This set of tax and short-term relief measures will cost $35.1 billion in total. Together with other spending initiatives in the Budget, they will have a fiscal stimulus effect of boosting GDP for 2017 by 1.1 per cent.

Support for Small and Medium Enterprises

64. The Government has always attached great importance to the development of SMEs and rendered them key assistance in tapping new markets and enhancing overall competitiveness. As the external economic environment is still fraught with uncertainties, we will continue to implement the following three support measures for local SMEs −

(a) extending the application period for the Dedicated Fund on Branding, Upgrading and Domestic Sales for five years to June 2022 to assist Hong Kong enterprises in furthering their business development in the Mainland;

(b) extending the application period for the special concessionary measures under the SME Financing Guarantee Scheme to 28 February 2018 to help enterprises tide over their liquidity needs; and

(c) proposing to strengthen the underwriting capacity of the Hong Kong Export Credit Insurance Corporation (ECIC) by raising the cap on the contingent liability of ECIC under contracts of insurance from $40 billion to $55 billion.

65. It is equally important to support the use of I&T by SMEs to enhance their competiveness. Last November, we introduced the Technology Voucher Programme to provide each eligible SME with funding of up to $200,000. The programme promotes the effective use of technological services and solutions among SMEs for better operational efficiency, and creates business opportunities for the I&T industry. Response has been encouraging with more than 900 SMEs having already registered their intention to participate in the programme.

First Registration Tax for Electric Vehicles

66. For years we have been actively promoting a wider use of electric vehicles to replace diesel and petrol vehicles so as to improve roadside air quality. Relevant measures include the introduction of First Registration Tax exemption for electric vehicles to narrow the price difference between these vehicles and the conventional ones. The waiver arrangement will expire on 31 March this year. In consideration of the overall growth of the private car fleet in recent years and the increasing acceptance of electric private cars by drivers, the Government has decided to revise the arrangement. From 1 April 2017 to 31 March 2018, First Registration Tax of electric commercial vehicles, motor cycles and motor tricycles will continue to be fully waived. However, the First Registration Tax waiver for electric private cars will be capped at $97,500. The Environment Bureau will announce the details.

Voluntary Health Insurance Scheme

67. To encourage the use of private healthcare services by the public, we will provide tax deduction for the purchase of regulated health insurance products, details of which are being examined by the Government.

Use of Surplus

68. Given the higher-than-expected surplus for this financial year, I will take a forward-looking approach to put $61 billion of the surplus to good use, by implementing the following −

(a) earmarking a total of $30 billion to strengthen elderly services and rehabilitation services for persons with disabilities. The Government will introduce measures to ensure the quality of residential care services and enhance community care services for the elderly. The Government will also put forward initiatives to enhance pre-school training, residential care, day care, community support, employment, barrier-free facilities and transportation for persons with disabilities, and to enable them to fully integrate into the community and enjoy equal opportunities;

(b) earmarking a total of $20 billion for sports development as announced in the Policy Address. To provide better community and sports facilities for public use, the Government will launch 26 projects in the coming five years to develop new or improve existing sports and recreation facilities in different districts. These include sports grounds, sports centres, football pitches, swimming pools, cycling grounds, tennis courts and open spaces;

(c) reserving \$10 billion for supporting I&T development in Hong Kong; and

(d) deploying \$1 billion for youth development, including the provision of \$700 million for the Education Bureau to strengthen its efforts in promoting vocational and professional education and training (VPET), facilitating the training and professional development of principals and teachers, and enhancing support for local post-secondary students, including those pursuing self-financing post-secondary programmes. In addition, an allocation of \$300 million will be provided in 2017-18 for the Home Affairs Bureau to expand the Multi-faceted Excellence Scholarship and the International Youth Exchange Programme, providing more chances for young people to enrich their exposure and broaden their horizons. On developing manpower resources, I will go into details later.

Consolidating Pillar Industries

69. Situated at a strategic location and with world-class infrastructural facilities, Hong Kong boasts a free economic system that is highly flexible and efficient. We have the unique advantage of "one country, two systems", a low and simple tax regime and a highly open market enabling free flows of people, capital and goods. We embrace a pluralistic and inclusive society and uphold the rule of law. Our public sector is small yet efficient; our financial system is well-established and our service industries are well-developed, marking our irreplaceable strengths in the region. In 2015, our pillar industries contributed close to 60 per cent of our GDP and about half of the employment opportunities in Hong Kong, serving as the linchpin of our economy. It is therefore of utmost importance to consolidate and enhance the competitiveness of our pillar industries.

Trading and Logistics Industry

70. Being the lifeline of Hong Kong's business, the trading and logistics industry accounts for 22 per cent of our GDP and employs about 750 000 people. The value of Hong Kong's external merchandise trade amounted to about $7.6 trillion in 2016, a rise of 50 per cent over the past decade. In terms of the total value of trade, Hong Kong was ranked the eighth largest trading entity in the world in 2015, up three places from its position ten years ago.

71. Recently, there are signs of rising protectionist and anti-globalisation sentiments around the world. Some individual economies have advocated or even implemented trade protection measures. Global economic growth remains weak and sluggish. Under such uncertainties in the macro-environment, Hong Kong as a small and open economy should uphold the principle of free trade. We will continue to work with our major trading and investment partners to open up more markets and remove market impediments, so as to strengthen our status as an investment, financial and logistics hub in the region.

Free Trade Agreements

72. As a founding member of the World Trade Organization (WTO), Hong Kong has always been a staunch supporter of the multilateral trading system under the auspices of the WTO, upholding the policy of open and free trade. We have endeavoured to promote the liberalisation of trade through the rule-based multilateral trading system and join hands with our trading partners to remove trade barriers. This has helped develop a favourable and sustainable business environment and safeguard Hong Kong's commercial interests.

73. Hong Kong, as a separate customs territory, has signed trade agreements with various economies and continuously expanded its Free Trade Agreement (FTA) and Investment Promotion and Protection Agreement (IPPA) networks.

74. The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) is the first FTA concluded by Hong Kong. It is also the most liberal trade agreement ever signed by the Mainland. We are discussing with the Central Government further expansion and enhancement of CEPA, with the aim of achieving some concrete results by the middle of this year. In addition, we will continue our FTA negotiations with the Association of Southeast Asian Nations (ASEAN) as well as Georgia on the land route and Maldives on the maritime route under the Belt and Road Initiative.

75. The IPPA between Hong Kong and Canada entered into force last September. Together with that concluded with Chile last November, the number of IPPAs signed by Hong Kong has increased to 19. We concluded the negotiation with Mexico and initialled the draft text in January this year. Looking ahead, we will continue our efforts to negotiate IPPAs with Iran and Russia.

Trade Single Window

76. The establishment of a Trade Single Window is high on the Government's agenda. It will provide a one-stop electronic platform for the lodging of trade documents, promote cross-border customs co-operation and expedite trade declaration and customs clearance with a view to facilitating trade. The dedicated Project Management Office is maintaining close liaison with the industry to enhance the pre-shipment and post-shipment declaration arrangements to ensure that only the most essential information will be required for customs clearance. We aim to roll out the initiative by phases as soon as practicable to keep Hong Kong in line with the international trend.

Maritime Industry

77. The Hong Kong Maritime and Port Board was established last April to work closely with the industry to foster the long-term development of high value-added maritime and port services. In the next five years, Invest Hong Kong will strengthen its promotional activities overseas and in the Mainland, focusing on the development of Hong Kong into a maritime services hub in the region, as well as a platform connecting the Mainland with the maritime industry in other parts of the world.

Aviation Industry

78. Based on the assessment by the Joint Works Committee of the Three Governments, the three sides will strive to complete the construction of the entire Hong Kong-Zhuhai-Macao Bridge (HZMB) project by the end of this year for early simultaneous commissioning subject to factors such as the implementation of cross-boundary transport arrangements. We are looking at various possibilities to better connect Hong Kong and places in the Pearl River Delta (PRD) region upon the commissioning of the HZMB. We will also consider the provision of cross-boundary helicopter service between Hong Kong and PRD cities to further enhance cross-boundary transportation services with a view to developing more diversified commercial and other economic activities in the region.

79. To facilitate transit passengers travelling between the Hong Kong International Airport (HKIA) and the PRD region via the HZMB in the future, the Airport Authority Hong Kong (AA) has suggested providing two-way land-to-air shuttle bus service to take these passengers direct to the Restricted Area of the HKIA for outbound flights. Overseas passengers travelling to Zhuhai and Macao via the HKIA may also benefit from the service. We are actively discussing the detailed arrangements with the two governments, the AA and relevant organisations.

80. Rapid development of the civil aviation industry in Asia in recent years has generated a long-term demand for aircraft leasing in the market. The proportion of new aircraft being financed by leasing has exceeded 30 per cent worldwide. Over the next 20 years, the number of global aviation passengers is expected to grow at about five per cent per annum, and that of new aircraft delivered is estimated at over 39 000, valued at about US$5.9 trillion.

81. Aircraft financing is a very promising global business. As the tax factor is one of the key considerations for aircraft financing companies in selecting the place of domicile for their business, the Government plans to introduce a bill into the Legislative Council (LegCo) in 2017 to amend the Inland Revenue Ordinance to offer tax concession. Such concession will attract aircraft leasing companies to develop their business in Hong Kong, thereby creating job opportunities for both the financial and aviation industries, and will further consolidate Hong Kong's position as an international financial centre.

Air Cargo Industry

82. The HKIA has been the world's busiest cargo airport in the past six consecutive years. The cargo handled by the HKIA accounts for less than two per cent of our total cargo volume by weight, but makes up nearly 40 per cent of our exports and imports by value, contributing significantly to our economy.

83. The strong growth of cross-boundary e-commerce in recent years has generated new opportunities for the air cargo industry. To capitalise on these opportunities, the AA has taken an array of measures, which include reserving land on both the airside and landside in the South Cargo Precinct, so as to support the growth in transhipment, cross-boundary e-commerce and high value-added air cargo business. The AA is working with Hongkong Post to explore ways to enhance the handling capacity and operational arrangement of the Air Mail Centre at the HKIA.

84. The AA and the industry are striving to enhance the HKIA's capacity to handle high-value temperature-controlled goods, such as pharmaceuticals, by upgrading hardware and software so as to attract more transhipment of such goods via Hong Kong. The Government and the AA will actively examine facilitation measures to promote air-to-air transhipment in Hong Kong, with a view to enhancing the HKIA's competitive edge as an international air cargo hub.

85. In view of the rapid development of high value-added third-party logistics services over the past decade, the Government has been identifying suitable sites to facilitate and to further enhance the strengths of our logistics industry in this area. Three logistics sites in Tsing Yi made available by the Government totalling about 6.9 hectares were sold by open tender in 2010, 2012 and 2013 respectively, providing a total of some 280 000 square metres of floor area. The Government has reserved two more sites in Tuen Mun West totalling around ten hectares for high value-added logistics services. We will endeavour to release the land for use by the industry as early as practicable.

86. We will continue to promote the development of high value-added logistics services so as to strengthen Hong Kong's position as an international aviation and maritime centre.

Financial Services

87. Amid the unstable external environment, Hong Kong's financial services industry maintained a robust performance, contributing 18 per cent of our GDP and employing over 250 000 people. The industry serves as a key driving force for our steady economic growth. Although the global financial market will remain volatile in the foreseeable future, I believe Hong Kong has the strengths to ride out the challenges arising from these changes and seize the opportunities to reinforce our status as an international financial centre.

Regulatory Regime

Financial Institutions

88. After the outbreak of the global financial crisis in 2008, countries around the world have realised the importance of enhancing financial system stability. Hong Kong participates actively in the relevant discussions and endeavours to strengthen our crisis prevention and risk management capabilities in line with international standards. For instance, we have implemented a regulatory framework as prescribed under Basel III, taken forward a reform of the over-the-counter derivatives market, and set up an effective resolution regime for financial institutions.

Combating Money Laundering

89. Meanwhile, as a member of the Financial Action Task Force, Hong Kong has been actively involved in global actions against money laundering. The Financial Services and the Treasury Bureau is conducting consultations on legislative proposals to enhance the regulatory regime for combating money laundering and terrorist financing, with a view to introducing the relevant amendment bills into LegCo for scrutiny in the middle of this year.

Reforming the Regulatory Regime for Listed Entity Auditors

90. We are pressing ahead with the work of reforming the regulatory regime for listed entity auditors to make the oversight regime independent from the audit profession. The relevant amendment bill will strengthen the functions of the Financial Reporting Council (FRC), enabling the FRC to become an independent oversight body of listed entity auditors. We plan to introduce the relevant amendment bill into LegCo for scrutiny in the second quarter of this year.

Listing Platform

91. Last year, for the second year in a row, Hong Kong ranked first globally in terms of funds raised through initial public offerings (IPO). The funds so raised amounted to US$25.1 billion. We have been among the world's top five in IPO fundraising since 2002. Such achievements do not come easily. To keep our listing platform competitive, we must do our utmost to uphold market quality.

92. The Securities and Futures Commission (SFC) and the Hong Kong Exchanges and Clearing Limited (HKEX) jointly conducted a consultation on proposed enhancements to the decision-making and governance structure for listing regulation last year. The consultation aimed to enable the listing regulatory structure and procedures to better respond to rapid developments in the market. A large number of submissions have been received. The SFC and the HKEX are considering and analysing the views carefully.

93. The Government has always been very concerned about market quality issues, such as high price volatility of Growth Enterprise Market (GEM) stocks. We always support the SFC's monitoring and law enforcement efforts in combating wrongdoings. For instance, with regard to GEM IPO placings, the SFC has recently issued a set of guidelines on the expected standards of conduct of intermediaries, and a joint statement with the HKEX regarding the roles of applicants and intermediaries. Also, we hope to further the development of our listing platform. The HKEX is studying ways to continuously enhance the competitiveness of the listing platform in Hong Kong. They include a review of the positioning of GEM and an assessment of the feasibility of introducing a new board. Once more concrete progress is made, public consultation on the relevant conceptual proposals will be launched to map out the direction for long-term development.

94. A sound regulatory regime is the cornerstone of our financial system. In the meantime, we need to examine ways to make good use of our strengths and grasp the opportunities to elevate the position and competitiveness of Hong Kong as an international financial centre.

Local Bond Market

95. Since the launch of the Government Bond Programme (GBP) in 2009, the Government has set a bond pricing benchmark for the market through systematic issuance of government bonds. This initiative has successfully attracted local and overseas investors and issuers to participate in Hong Kong's bond market. Retail bonds issued under the GBP have been well received by the public, encouraging further development of the local bond market. We also issue Islamic bonds (sukuk) with different structures under the GBP, thereby laying the foundation for the development of Hong Kong into an Islamic financial centre. The Silver Bond Pilot Scheme launched last year has further promoted the development of the relevant market. As scheduled, we will issue a second batch of Silver Bond in 2017-18. Appropriate issuance terms, including the issuance size and tenure, will be formulated in the light of market environment.

Green Finance

96. At the Group of Twenty (G20) Summit held in Hangzhou last year, the G20 recognised that green finance is critical to addressing climate change and fostering sustainable development. The summit advocated the implementation of the voluntary options, including the provision of clear strategic policy signals and frameworks, to promote green financial business. Hong Kong possesses the right conditions for developing green finance. To tap into the potential of the green finance market, the Mass Transit Railway Corporation Limited took the lead in raising capital through the issuance of green bonds last October. We will step up our efforts to promote our competitive capital market and encourage the sector to explore opportunities brought by green finance.

Renminbi Business

97. Today, around 70 per cent of the world's Renminbi (RMB) payment transactions are processed via Hong Kong. As revealed by the Bank for International Settlements' survey findings published last September, Hong Kong continued to rank top globally in terms of the volume of RMB foreign exchange transactions. These are testimonies to Hong Kong's status as the global offshore RMB business hub. With the wider use of RMB in the international arena, we will continue to explore with the Mainland authorities ways to open up more channels for two-way cross-border RMB fund flows.

Asset/Wealth Management

98. We will implement a number of measures as below to develop Hong Kong into Asia's asset and wealth management centre.

Fund Industry

99. To facilitate Hong Kong's development into a full-fledged fund service centre, we propose to extend the profits tax exemption to onshore privately-offered open-ended fund companies. The proposal will help attract more funds to domicile in Hong Kong and build up Hong Kong's fund manufacturing capabilities. The Financial Services and the Treasury Bureau will shortly consult the industry on the legislative proposals.

100. Our advantage in "leveraging the Mainland while engaging the world at large" has created ample opportunities for our financial sector. The launch of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect are of groundbreaking significance to mutual capital market access between Hong Kong and the Mainland. The implementation of the Mainland-Hong Kong Mutual Recognition of Funds Arrangement since 2015 also has brought about a wider range of products for the fund business and fuller mutual access between financial markets in both places.

101. Other than the Mainland market, Hong Kong, as an international financial centre, has always sought to build connections with financial markets around the world. Apart from facilitating two-way capital flows between Hong Kong and these markets, this will enable Hong Kong to demonstrate its role as a hub for capital flows between the Mainland and global markets. Last year, the SFC signed a Memorandum of Understanding on mutual recognition of funds with the Swiss Financial Market Supervisory Authority, which allows eligible public funds in Hong Kong to gain direct access to the investing public in the Swiss market through a streamlined vetting process. The SFC is actively negotiating similar arrangements with other jurisdictions and we hope that more agreements can be concluded.

102. The bond market is a key component of the capital market. Apart from issuing different types of bonds to boost our bond market, the Government is studying with the relevant Mainland authorities ways to further facilitate the participation of investors of both places in the bond market, with a view to improving the connectivity between market infrastructures.

Consumers

Tackling Malpractices of Financial Intermediaries for Money Lending

103. The Government has implemented various measures since last year to tackle malpractices by financial intermediaries for money lending. These include imposing additional licensing conditions on all money lender licences in accordance with the Money Lenders Ordinance for better protection of borrowers. The additional licensing conditions came into effect on 1 December 2016. We are taking actions to seriously follow up on the implementation and effectiveness of the additional licensing conditions, as well as to enhance public education to raise people's awareness of debt management.

Mandatory Provident Fund Scheme

104. Our future objective is to explore the development of eMPF, a centralised electronic platform, to enhance the administrative efficiency of the MPF Scheme, thereby providing room for fee reduction. As such, I have asked the Financial Services and the Treasury Bureau to set up a working group, members of which include representatives of both the Mandatory Provident Fund Schemes Authority and the industry, to explore viable solutions with reference to overseas experiences, with a view to devising an electronic MPF management platform which will enhance administrative efficiency and directly benefit scheme members.

Public Annuity Scheme

105. In this year's Policy Address, the Chief Executive announced that the Government will study the feasibility of a public annuity scheme and explore whether we can have life annuity plans to be run by the public sector, so as to help the elderly turn their assets into a stable monthly retirement income to reduce uncertainty. The Hong Kong Mortgage Corporation Limited has commenced the design and feasibility study of the proposal, and will furnish a report to its Board of Directors for consideration as soon as possible.

Tax Co-operation

106. The international community has proposed a number of new initiatives to enhance tax transparency and combat cross-border tax evasion. Regarding the package of measures put forward by the Organisation for Economic Co-operation and Development to tackle "base erosion and profit shifting" (BEPS), Hong Kong has joined the inclusive framework set up by the international community for implementing the BEPS package.

107. We are also actively seeking to expand our network of Comprehensive Avoidance of Double Taxation Agreements (CDTAs) with other jurisdictions, and 37 CDTAs have been signed so far. We will continue our efforts to expand the network so as to foster a more business and investment-friendly environment for Hong Kong.

Tourism

108. The tourism industry, which makes up five per cent of GDP and employs about 270 000 people, has been driving the growth of other related industries including retail, hotel and catering industries, and contributing significantly to Hong Kong's economy. Over the past decade, the number of visitor arrivals has more than doubled from 25 million in 2006 to over 56 million in 2016, making Hong Kong one of the most popular cities in the world in terms of visitor arrivals.

109. The past year was a period of consolidation for the tourism industry. We adjusted our tourism development strategy to emphasise diversification and attracting high-yield overnight visitors. Our objective is to pursue a balanced, healthy and long-term development of the tourism industry. Although total visitor arrivals last year recorded a decline of 4.5 per cent owing to a drop in the number of Mainland visitors, we have seen a rebound of visitor arrivals in recent months. The number of non-Mainland visitors, in particular those from Southeast Asia, has registered growth for several consecutive quarters. Moreover, the number of overnight visitor arrivals for Meetings, Incentive Travels, Conventions and Exhibitions (MICE) also grew by 9.9 per cent in the past year. As regards cruise tourism, the number of ship calls at the Kai Tak Cruise Terminal last year was close to 100, an increase of around 70 per cent as compared with 2015. The number of ship calls is estimated to further rise to about 200 this year. The cruise passenger throughput at the Kai Tak Cruise Terminal last year also reached about 420 000, representing an increase of around 60 per cent as compared with 2015.

Support Measures

110. While the situation in the tourism industry has become more stable, the outlook for the coming year remains challenging. Taking into account the hardship faced by the related trades and industries, I will introduce three short-term measures to waive licence fees amounting to $137 million −

(a) waive the licence fees for 1 800 travel agents for one year;

(b) waive the licence fees for over 2 000 hotels and guesthouses for one year; and

(c) waive the licence fees for restaurants and hawkers and fees for restricted food permits for one year, benefiting 27 000 restaurants and operators.

Enhancing Hong Kong's Tourism Appeal

111. It was reiterated in this year's Policy Address that the Government would continue to attract more high-yield overnight visitors. In line with this policy direction, we will support the tourism industry by allocating an additional sum of $243 million in 2017-18 for the following five areas of work −

(a) supporting light shows, home-grown mega events and continuation of efforts to attract more small-and-medium-sized MICE events to Hong Kong;

(b) promoting further the diversification of tourism products by inviting the Hong Kong Tourism Board (HKTB) to provide funding support to activity organisers and the tourism sector for the launch of tourism projects with local characteristics and green tourism products respectively, with a view to encouraging the development of a greater variety of tourism products to attract more visitors to Hong Kong;

(c) stepping up our efforts to attract more high-spending visitors by implementing a scheme targeting transit passengers and overnight visitors in Hong Kong through the HKTB. We will work with local airlines, tourist attractions, hotels and the tourism sector to provide promotional offers to transit passengers or overnight visitors. Besides, the Government will provide funding support for the trade to promote cruise tourism. Such efforts include continuing to promote "fly-cruise" tours and collaborating with cruise lines to develop more source markets and products for cruise tourism;

(d) enhancing Hong Kong's appeal as a tourist destination. Through the HKTB, we will continue our publicity in the Mainland to promote the quality and honest image of Hong Kong's tourism and strengthen our efforts to publicise in overseas markets the mega events to be held in Hong Kong this year, so as to attract more Mainland and overseas visitors to Hong Kong; and

(e) providing funding support for the training of members of the tourism industry through the Travel Industry Council of Hong Kong to enhance service quality of the industry, and continue to implement the matching fund for promoting tourist attractions as well as waive local traders' participation fees for overseas promotional fairs.

Business and Professional Services

112. The business and professional services industry has always been one of Hong Kong's pillar industries, accounting for 12 per cent of GDP and employing a total of about 520 000 people. In the world's ever-changing business environment, we have been actively promoting Hong Kong's role as a major business platform in the global market, so as to enhance our business ties and trade flows with economies around the world. With the global economic development gravity shifting towards the east in recent years, Mainland enterprises have been active in making investments overseas and tapping overseas markets. Capitalising on its quality professional services, socio-cultural advantages and rich international business experiences, Hong Kong can capture the business opportunities so created and strive for further development.

Supporting Development

113. We have been implementing a combination of measures to support the development of professional services. These measures include pursuing negotiations on FTAs to secure more favourable market access for our industries; promoting our strengths in professional services through the Hong Kong Trade Development Council (HKTDC), and providing various kinds of assistance. In November last year, the $200 million Professional Services Advancement Support Scheme was launched to specifically support Hong Kong's professional services sector in undertaking activities relating to external exchanges, publicity and enhancement of service standards and competitiveness. I encourage the sector to make the best use of the scheme.

Exploring New Markets

114. To help the local commercial sector and professionals open up new markets, we established our 12th overseas Economic and Trade Office (ETO) in Indonesia last year to strengthen our ties with ASEAN countries. While actively preparing for the setting up of an ETO in Korea, we are commencing preliminary work to establish ETOs in India, Mexico, Russia, South Africa and the United Arab Emirates so as to enhance our trade and cultural exchanges with other economies.

115. The current-term Government has been actively expanding the network of our offices in the Mainland. In particular, a total of four liaison units will be set up in Tianjin, Zhejiang, Guangxi and Shaanxi in the first half of this year. This will bring the total number of ETOs (including the Beijing Office) and liaison units in the Mainland from seven in June 2012 to 16 in the near future, enabling a more even geographical spread throughout the entire Mainland.

Asian Infrastructure Investment Bank

116. We will continue to work with the Central Government and the Asian Infrastructure Investment Bank (AIIB) for early completion of the procedures for Hong Kong to participate in the AIIB as a non-sovereign territory. With extensive experience in implementing, managing and operating infrastructure projects, a mature financial market and a wide range of professionals, Hong Kong can contribute to the AIIB and further reinforce its position as an international financial centre.

Infrastructure Financing Facilitation Office

117. Riding on the Mainland's implementation of the Belt and Road Initiative, Hong Kong can play an important role in facilitating infrastructure investment and financing in the region. Established by the Hong Kong Monetary Authority (HKMA) last year, the Infrastructure Financing Facilitation Office (IFFO) is tasked to pool a cluster of key stakeholders in various fields and enhance their knowledge and interest in investing in infrastructure and related projects. The IFFO will continue to work with the key stakeholders in a bid to promote and develop Hong Kong as an infrastructure investment and financing centre.

Diversified Development

118. Hong Kong is a pluralistic and liberal society, with a unique blend of Chinese and Western cultures. It is well placed to develop diversified industries by leveraging its wealth of talent, strong capability in scientific research, advanced information network and abundant supply of capital. While strengthening our pillar industries, we will seize the opportunities and strongly support the development of industries over which we have advantages as well as emerging industries to further diversify our economy. By so doing, Hong Kong can better respond to the world's ever-changing economic environment and competition. This will also generate more quality opportunities for our younger generation and entrepreneurs with sharp business acumen to unleash their creativity, and display their talents and fulfil their aspirations.

Innovation and Technology

119. I&T is a new engine to power the sustainable and diversified economic development of Hong Kong. Since the establishment of the Innovation and Technology Bureau in November 2015, the Government has been actively working with industry stakeholders to further enhance our I&T ecosystem. Various measures, amounting to a total of $18 billion, have been launched to promote I&T development.

Development of Industries

120. As a result of economic restructuring, the contribution of the manufacturing industry to our economy declined from 2.7 per cent of GDP, or $39.7 billion, in 2006 to 1.2 per cent of GDP, or $27.2 billion, in 2015. As the manufacturing industry relates to technology in different areas as well as different types of products and processes, we believe that I&T can drive Hong Kong's re-industrialisation, thereby facilitating the development of a high-end manufacturing industry conducive for Hong Kong, promoting economic growth and creating quality jobs.

121. To this end, the Government fully supports the Hong Kong Productivity Council (HKPC) in facilitating industrial upgrading and transformation for a shift towards high value-added production. On hardware, we have provided funding of $8.2 billion for the Hong Kong Science and Technology Parks Corporation (HKSTPC) to build an Advanced Manufacturing Centre and a Data Technology Hub in Tseung Kwan O Industrial Estate. We have also commissioned the HKPC to establish an Inno Space to turn innovative and technological ideas into industrial designs or products, with a view to expanding the start-up culture in Hong Kong and supporting re-industrialisation.

122. I will set up a new committee on I&T development and re-industrialisation to co-ordinate the I&T development and re-industrialisation of Hong Kong. The tax policy unit will also explore enhanced tax deductions for I&T expenditure.

Start-ups

123. A "start-up wave" has emerged in recent years. With creativity, technology knowledge, entrepreneurship and hard work, many young people have succeeded in starting up their own businesses. The HKSTPC and Cyberport provide support including facilities and financial, technical and business advisory backup for start-ups, which is most helpful to young entrepreneurs lacking in capital and experience. To encourage private investment in local I&T start-ups, we are setting up a $2 billion Innovation and Technology Venture Fund (ITVF). The ITVF will co-invest in local I&T start-ups with venture capital funds on a matching basis of about one to two, thereby injecting new capital and energy into technology start-ups in Hong Kong.

124. The Public Sector Trial Scheme has been extended to include the incubatees of the HKSTPC and Cyberport since the end of last year. The scheme will provide each eligible project with a maximum subsidy of $1 million, seeking to encourage the public sector to conduct trials on the start-ups' products and services. We have also enhanced the Internship Programme by increasing the monthly allowances and extending the programme to benefit the incubatees and SME tenants of the HKSTPC and Cyberport, with the aim of nurturing more I&T talent. The Government will continue to support the development of local start-ups, so that more young people can realise their aspiration for entrepreneurship.

Application

125. To promote the use of I&T in our daily lives, we will soon launch a $500 million Innovation and Technology Fund for Better Living to finance I&T projects that improve people's daily lives and benefit the elderly or the underprivileged.

126. E-sports has been developing rapidly in Hong Kong and other cities over the past few years. It has even become a form of international sports competition. E-sports is a new sector with economic development potential, which can help boost the local gaming industry and I&T development such as application of virtual reality technologies. We will invite Cyberport to study the latest technology and products development and explore further promotion of e-sports in Hong Kong.

Fintech

127. Financial technologies (Fintech) make transactions and financial management easier, faster, safer and more cost-effective. It has transformed conventional financial services and brought convenience to people. Electronic payment is one of the examples. With the granting of 13 Stored Value Facility (SVF) licences by the HKMA last year and the commencement of the Payment Systems and Stored Value Facilities Ordinance last November, the electronic and mobile payment ecosystem in Hong Kong is maturing. A variety of payment options are now available to the public, including mobile payment, peer-to-peer (P2P) transfer, e-Cheque, and the Electronic Bill Presentation and Payment Service.

128. To further enhance the payment infrastructure, the HKMA is developing a new Faster Payment System (FPS). When the FPS is completed next year, it will provide a round-the-clock inter-bank real-time payment platform allowing banks and SVF service providers to offer their customers faster, more convenient and comprehensive payment and fund transfer services. Meanwhile, the Government will actively explore new payment channels for settling government bills and fees. In addition to facilitating the use of government services, the new channels will encourage more people to make use of innovative payment products and services.

129. The combination of biometric authentication and financial services has helped consumers manage their finances. To enhance transaction security, many financial institutions offer consumers with authentication options involving biometric features such as fingerprints and voiceprints. To speed up the launch of their new services, some financial institutions using biometric authentication have leveraged the Fintech Supervisory Sandbox (FSS) launched by the HKMA last September to test their biometric authentication services in a risk-controlled environment and under flexible arrangements. We hope that the industry will make good use of the trial environment provided by the FSS, so as to deliver more products and services based on different kinds of new technology. The development of the FSS has also demonstrated the possibility of striking a balance between consumer protection and promotion of innovation with appropriate supervision.

130. Looking ahead, distributed ledger technology (DLT), including Blockchain, and cyber security will be two major development clusters in Fintech. We will continue to encourage the sector to develop and apply Fintech which has immense potential, and promote Hong Kong as a hub for the application and setting of standards for these technologies. The Applied Science and Technology Research Institute (ASTRI) has been collaborating with the HKMA and a number of banks to explore the feasibility of applying DLT, and published the White Paper on Distributed Ledger Technology in November last year on the first stage of the research project, covering the feasibility of employing DLT on property valuation information management, trade financing and digital identity management. At the same time, the Fintech Innovation Hub jointly established by the HKMA and ASTRI last September offers its IT environment and support to the banking sector for developing prototypes for the use of DLT in trade financing and other aspects, so as to test how the concept can be applied in different operational scenarios. ASTRI will publish the findings in the second White Paper on DLT in the latter half of this year. Furthermore, financial institutions and start-ups in Hong Kong have implemented and actively explored initiatives to apply Blockchain technology in services such as insurance claims and cross-border remittance, with a view to reducing costs and fraud risks as well as enhancing transparency of transactions.

131. Cyber security is becoming increasingly important amidst the wider adoption of Fintech. The Cyber Resilience Assessment Framework, Professional Development Programme and Cyber Intelligence Sharing Platform under the HKMA's Cybersecurity Fortification Initiative were recently implemented in December last year. Apart from enhancing protection for consumers in e-banking services, these projects will strengthen Hong Kong's expertise and capability in cyber security.

132. I envisage that these projects can dovetail with the R&D efforts of the industry to achieve synergy, leading to refinements of Fintech solutions for the benefit of financial institutions, start-ups as well as the community, and offering consumers and enterprises in Hong Kong and around the world a comprehensive range of quality financial services.

Creative Industries

133. Hong Kong people are talented. Our vision is to engage creative and energetic people to develop their potential in our city, and to shape Hong Kong into a trend-setting creative hub as well as a metropolis rich in arts and culture.

134. Over the past ten years, the Government allocated $1.52 billion in total for the Create Smart Initiative (CSI) and the Film Development Fund to support the development of creative industries. We have also consolidated part of the resources of the CSI with other resources to provide a total of $500 million for the development of the fashion industry.

135. Our efforts are bearing fruits. The Design Incubation Programme has provided support to 181 start-ups, which have won over 50 international design awards. Last year, the HKTDC hosted the inaugural CENTRESTAGE, an annual international fashion event showcasing the latest collections and designs presented by some 200 fashion brands. The event attracted some 8 300 buyers.

136. The Animation Support Programme has provided support to 65 start-ups or SMEs. Some of these companies won Asia-Pacific awards in the DigiCon6 Asia hosted by the Japanese television broadcaster TBS while a company was also engaged by the international brand Prada for producing a multimedia animated commercial.

137. We have also sponsored a programme for supporting advertising and music talents. Sixty-six start-ups have benefited so far and one of them, being the only company engaged by Disney outside the US, worked for the advertising production for the film "Star Wars".

138. Over the past decade, we have provided financing or subsidy to over 40 films. These films together won about 100 prizes in different film festivals, showcasing their spectacular achievements.

139. 2017 marks the 20th anniversary of the establishment of the Hong Kong Special Administrative Region. We will sponsor or organise a series of celebration events to showcase the robust development of Hong Kong's creative industries to our community and countries around the world. We will sponsor design exhibitions to be staged in Hong Kong, five Mainland and three overseas cities to present and promote our design industry. We will also organise thematic Hong Kong film shows in ten cities in North America, Europe and Asia to highlight the achievements of Hong Kong's film industry.

140. In addition, we will sponsor exhibitions to be staged locally and in Europe on the works of Hong Kong comic artists, a locally-held response exhibition of the Venice Biennale International Architecture Exhibition and the organisation of fashion shows. These events will help present the accomplishments of various domains of our creative industries in a multi-faceted manner.

Arts and Culture

141. Hong Kong has long been a melting pot of eastern and western cultures. Our inclusiveness and diversity are evidenced by our arts and culture. I believe that many of us are excited about the commissioning of various cultural facilities in the next few years. Apart from the expansion of the Hong Kong Museum of Art and the construction of the East Kowloon Cultural Centre, various facilities in the West Kowloon Cultural District, including the Xiqu Centre, Art Park, Freespace and M+ Museum, will also be completed in the coming few years.

142. Recurrent expenditure on arts and culture exceeds $4 billion for 2017-18, an increase of over 30 per cent as compared with 2012-13. This will mainly be incurred for art education and promotion, venue support for art activities and subventions for art groups. The recurrent subvention for the nine major performing art groups alone has increased by about ten per cent over the same period. To nurture small and medium performing art groups as well as budding artists, the Government has implemented the Arts Capacity Development Funding Scheme since 2011 and funded a total of 73 projects in the past five rounds of application. In addition, an Art Development Matching Grants Pilot Scheme was launched last year to provide matching grants to art groups and art organisations of different sizes and at different development stages for the amount of donations they raised, with a view to widening their sources of funding and encouraging community support for art and cultural development. Matching grants approved under the first round of the scheme will be disbursed this year.

143. We will continue to support the exchange activities and performances of art groups and artists through the regular funding schemes of the Home Affairs Bureau and the Hong Kong Arts Development Council. To complement the celebration activities for the 20th anniversary of the establishment of the Hong Kong Special Administrative Region, the Government will allocate additional resources in 2017-18 to support more local art groups and artists to perform in major overseas and Mainland cities to showcase our cultural strength.

Capacity Building

144. Land and manpower are two major constraints on our economic growth. To drive the diversified development of a knowledge-based economy and open up new markets, we need to attract talents with vision, cross-cultural competence and a firm grasp of international affairs. The Government has been investing heavily in education to nurture talent for the sustainable socio-economic development of Hong Kong.

Human Capital

Whole-person Education

145. Between 2012-13 and 2017-18, recurrent expenditure on education has recorded a cumulative growth of nearly 30 per cent to $78.6 billion, accounting for 21 per cent of government recurrent expenditure, with an average annual growth of about 5.4 per cent. This demonstrates the great importance the Government attaches to investing in education and our long-term commitment to this area.

146. The Government will implement the free quality kindergarten education policy from the 2017/18 school year to replace the Pre-primary Education Voucher Scheme launched in the 2007/08 school year. The Government's financial commitment to pre-primary education will increase substantially by about $2.7 billion annually.

147. VPET broadens the learning opportunities for secondary school leavers and in-service personnel, and nurtures the requisite human capital for various sectors. The Government has allocated $288 million to the Vocational Training Council (VTC) to launch a pilot scheme which integrates structured apprenticeship training programmes with on-the-job training since the 2014/15 academic year. The scheme aims to attract and retain talent for industries with keen demand for labour, and will benefit four cohorts of 4 000 trainees in total. In addition, the Government has allocated $200 million to the VTC to implement the Pilot Subsidy Scheme for Students of Professional Part-time Programmes from the 2016/17 academic year, covering programmes in the disciplines of construction, engineering and technology. The scheme is expected to benefit three cohorts of about 5 600 students in total.

148. In order to nurture talent to meet our social and economic needs, the Government has decided to regularise the Study Subsidy Scheme for Designated Professions/Sectors from the 2018/19 academic year to subsidise students to undertake designated self-financing undergraduate programmes. The number of subsidised places will increase from about 1 000 per cohort to 3 000. Current students of the designated programmes will also receive the subsidy from the 2018/19 academic year. It is expected that about 13 000 students will benefit from the scheme each academic year, involving an expenditure of about $850 million per year.

149. Furthermore, the Government has established the $1 billion Qualifications Framework (QF) Fund to promote the development and implementation of QF, with a view to continuously enhancing the overall quality and competitiveness of the local workforce. We are actively pursuing opportunities for co-operation with other countries or places in the development of QF. The Education Bureau is conducting comparability study of QFs with relevant authorities in New Zealand, Scotland and Ireland. Such international co-operation can facilitate mutual recognition of qualifications and enhance the mobility of our workforce.

Continuing Education

150. The Continuing Education Fund (CEF) subsidises adults with learning aspirations to pursue continuing education and training. So far, injections into the CEF have totalled $6.2 billion. I propose to inject an additional $1.5 billion into the CEF in 2017-18. We will also consider various measures to enhance the operation of the CEF. In addition, we will raise the tax deduction ceiling for self-education expenses from $80,000 to $100,000, with a view to promoting life-long learning and maintaining a quality workforce.

Youth Development

151. To nurture young people as future leaders with vision, creativity, leadership and a sense of commitment, we have been actively advocating a culture of multi-faceted excellence and providing additional resources to implement various youth development initiatives in recent years. In 2017-18, I will inject $200 million into the Multi-faceted Excellence Scholarship to support local students who excel in areas other than academic performance, for example sports, arts or community services, to pursue undergraduate studies, in a bid to promote multi-faceted excellence. I will also allocate an additional $100 million to expand the International Youth Exchange Programme so as to encourage young people to increase their global exposure and broaden their international horizons.

Land Resources

152. Increasing land and housing supply is one of the priorities of the Government. Our work not only involves the technical process of land identification and development, but also the balancing of various needs and expectations of stakeholders. This is not an easy task. On the one hand, the Government has to continue its endeavour to increase land supply on all fronts to meet the housing, economic and social development needs of Hong Kong. On the other hand, it is necessary for us to build up a land reserve to meet future demand in a timely manner.

Housing Land

153. On housing land, as at end 2016, the projected supply from the first-hand private residential property market in the next three to four years will be approximately 94 000 units, a record high since the first release of quarterly supply statistics in September 2004. Based on the preliminary assessment of private residential developments known to have started or to be started on disposed sites, the private sector will, on average, produce about 20 300 private residential units each year in the next five years, representing an increase of about 70 per cent over the yearly average in the past five years. As regards public housing supply, for the five-year period from 2016-17 to 2020-21, estimated public housing production by the Hong Kong Housing Authority and the Hong Kong Housing Society will be about 94 500 units, including about 71 800 public rental housing units and about 22 600 subsidised sale flats.

154. The 2017-18 Land Sale Programme comprises a total of 28 residential sites, including 20 new sites, capable of providing about 19 000 residential units. Taking into account railway property development projects, the URA's projects and private redevelopment and development projects, we estimate that the potential land supply for private housing in 2017-18 will have a capacity to produce about 32 000 units. The Secretary for Development will announce tomorrow the Land Sale Programme for the next financial year.

155. To achieve the ten-year housing supply target, we must address the shortfall in land supply for public housing development. Through the Steering Committee on Land Supply, I will co-ordinate and supervise the work on land supply with a view to narrowing the difference as soon as possible in order that applicants who are waiting for public rental housing can be housed earlier. Once again, I call on the relevant District Councils, local communities and LegCo members to support the rezoning of various sites for housing use in the overall interests of the community, so that people who are yearning for a residential flat can secure one at the earliest possible time.

Commercial/Industrial Land

156. To maintain Hong Kong's status as an international financial centre, we have to ensure a continued supply of office space, especially Grade A office space. At the same time, we need to provide space which is more flexible and affordable for industrial and commercial operation, to facilitate the development of different trades in Hong Kong.

157. The Government will continue to increase land supply for different economic activities through various measures in order to sustain our competitiveness. From 2012-13 to 2016-17, a total of 23 sites for commercial/industrial use have been sold/will be put up for sale, capable of providing about 1.02 million square metres of floor area, representing an increase of about 1.8 times compared with the previous five years. In the same period, the Government sold three hotel sites, capable of providing some 1 900 hotel rooms.

158. The Land Sale Programme for the coming financial year includes three commercial/business sites and one hotel site, capable of providing about 172 000 square metres of floor area and some 550 hotel rooms respectively.

159. The Government will continue to increase the supply of commercial floor area through various means. Apart from approximately 560 000 square metres of commercial/office floor area to be released through reprovisioning the existing government facilities in the two action areas in Kwun Tong and Kowloon Bay, a number of large commercial sites will be made available to the market in the next few years. They include the Queensway Plaza site, the site on top of the terminus of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section), Site 3 of the new Central Harbourfront, the Caroline Hill Road site, the Sai Yee Street site and various sites in Kai Tak, capable of providing a total of about 1.1 million square metres of floor area.

Long-term Development

160. While carrying out large-scale new land development and building up a land reserve, we need to formulate a comprehensive development strategy for meeting various challenges, especially those posed by our ageing population, ageing building stock and a shrinking workforce. The Development Bureau and the Planning Department are conducting public engagement for "Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030" ("Hong Kong 2030+"), which has put forward a number of policy directives and recommendations. The aim is to formulate long-term planning for Hong Kong's sustainable development and create sufficient development and environment capacity for meeting future land resources demand and conserving our natural assets. The public engagement exercise of "Hong Kong 2030+" will last until the end of April this year. I hope all sectors of the community will contribute to this exercise and offer your valuable views with empathy and with a view to forging a consensus for the betterment of Hong Kong.

Public Finances

Estimates for 2017-18

161. The major new policy initiatives announced by the Chief Executive in the Policy Address involve an operating expenditure of $25 billion and capital expenditure of $61 billion. I will ensure that financial resources are adequate to fully support the launch of these initiatives.

162. Total government revenue for 2017-18 is estimated to be $507.7 billion, of which earnings and profits tax is estimated at $208.9 billion. Land revenue is estimated to be $101 billion, which is at a relatively high level, since the Government plans to release several valuable commercial sites in the urban area next year.

163. The overall expenditure of the Government for 2017-18 is estimated to be $491.4 billion, representing an increase of 5.3 per cent compared with the revised estimate for 2016-17. Operating expenditure for 2017-18 is estimated to be $384.2 billion, representing a year-on-year increase of 8.5 per cent or $30.1 billion. Recurrent expenditure, which accounts for over 90 per cent of operating expenditure, will reach $371 billion, reflecting a year-on-year increase of 7.4 per cent or $25.6 billion. In 2017-18, the estimated recurrent expenditure on education, social welfare and healthcare accounts for about 60 per cent of government recurrent expenditure, exceeding $210 billion in total. Recurrent expenditure in these three areas recorded a cumulative increase reaching 43 per cent in these five years. I would like to set out the major expenditure items in the ensuing paragraphs.

Education

164. In 2017-18, recurrent expenditure on education is estimated to be $78.6 billion, representing an increase of $3.1 billion by year and accounting for 21 per cent of government recurrent expenditure. The major new initiatives include −

(a) implementing the free quality kindergarten education policy from the 2017/18 school year and the recurrent expenditure on pre-primary education will increase to about $6.7 billion; and

(b) regularising the Study Subsidy Scheme for Designated Professions/Sectors from the 2018/19 academic year and increasing the number of subsidised places to about 3 000 per cohort, involving about $850 million per year.

165. Regarding non-recurrent expenditure on education, we will launch the seventh round of Matching Grant Scheme in 2017-18 with a commitment of up to $500 million for eligible self-financing local degree-awarding institutions to apply, thereby helping these institutions recruit additional staff, retain talent, upgrade their facilities, enhance learning and teaching, and organise student-oriented activities. We will inject an additional $1.5 billion into the CEF and explore various measures for its enhancement, so as to cater for people with diverse education needs.

166. Besides, as mentioned in paragraph 68, I have earmarked $700 million from the surplus for this financial year to support student learning and professional development of teachers. In addition, we attach importance to the student's learning environment. Hence, we will increase the allocation for regular school repairs by nine per cent to $1.2 billion. Recognising their special designs, we will also earmark sufficient resources for retrofitting 26 "matchbox-style school premises".

Social Welfare

167. In 2017-18, recurrent expenditure on social welfare is estimated to be $73.3 billion, representing an increase of $9.5 billion by year and accounting for 20 per cent of government recurrent expenditure. The major new initiatives include −

(a) allocating additional funding of $253 million to strengthen elderly care by increasing the number of subsidised residential care places and day care places for the elderly and improving the services of the existing contract homes, involving a total of 758 places; as well as increasing funding for the Infirmary Care Supplement and the Dementia Supplement;

(b) exempting once again, on a one-off basis for a one-year period, eligible elderly persons already residing in Guangdong from the requirement of having resided in Hong Kong continuously for at least one year immediately before the date of application under the Guangdong Scheme; and introducing, with reference to the design of the Guangdong Scheme, the Fujian Scheme to provide monthly OAA for eligible elderly persons who choose to reside in Fujian. Expenditure for the first year upon full implementation of both measures will amount to about $174 million;

(c) adding a higher tier of assistance under the OALA and relaxing the asset limits for the OALA. Expenditure for the first year upon full implementation of both measures will amount to about $6.53 billion;

(d) on supporting persons with disabilities, allocating additional funding of $176 million to provide a total of 898 additional places covering residential care, day training and vocational rehabilitation as well as pre-school rehabilitation services; providing 80 additional day care service places in the district support centres for persons with disabilities and enhancing their outreaching services; and strengthening the manpower of Integrated Community Centres for Mental Wellness as well as regularising the Pilot Project on Peer Support Service in Community Psychiatric Service Units;

(e) allocating an additional $582 million to support children with special needs and their parents by, among others, regularising the pilot scheme on On-site Pre-school Rehabilitation Services as well as offering about 7 000 places in phases; waiving the service fees of special child care centres; and providing a non-means-tested training subsidy for children on the waiting list of these centres; and

(f) allocating an additional $145 million for day/residential child care service units and pre-school rehabilitation services for enhancing remuneration for qualified staff, so as to retain and attract such staff; and allocating an additional $71 million for increasing the level of various foster care allowances, providing 240 additional foster care places in phases as well as recruiting more foster parents.

168. We will inject a funding of $100 million for the Enhancing Employment of People with Disabilities through Small Enterprise Project to create more employment opportunities for persons with disabilities. As mentioned in paragraph 68, I will earmark $30 billion to strengthen elderly services and rehabilitation services for persons with disabilities.

Healthcare

169. In 2017-18, recurrent expenditure on healthcare is estimated to be $61.9 billion, representing an increase of $3.2 billion by year and accounting for 17 per cent of government recurrent expenditure. The major new initiatives include −

(a) recruiting more healthcare staff, enhancing service and improving waiting time through such initiatives as increasing the number of hospital beds, and the quota for general out-patient consultation, augmenting the service capacity of specialist out-patient clinics and Accident and Emergency Departments, strengthening psychiatric healthcare manpower, and expanding clinical pharmacy, drug reconciliation and consultation services;

(b) enhancing healthcare services for the elderly, including setting up geriatric fragility fracture co-ordination services in designated acute hospitals and strengthening physiotherapy service;

(c) further enhancing the services provided by the Community Geriatric Assessment Teams for terminally-ill patients living in residential care homes for the elderly;

(d) extending the fee waiver for public hospital and clinic services to cover older OALA recipients with more financial needs; and

(e) lowering the eligibility age for the Elderly Health Care Vouchers from 70 to 65.

Infrastructure

170. Capital expenditure is forecast to be $107.2 billion for 2017-18, including $86.8 billion for capital works. The Government will continue to allocate substantial resources to implement public works projects that are closely related to people's livelihood.

171. Regarding transportation, a number of major infrastructure projects are at their construction peaks. These projects are the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section), the Shatin to Central Link, the Central-Wan Chai Bypass and the Island Eastern Corridor Link, the HZMB local projects (i.e. the Hong Kong Boundary Crossing Facilities and Hong Kong Link Road) and the Tuen Mun-Chek Lap Kok Link, etc. In parallel, the Government is pressing ahead with a host of cross-boundary and domestic projects, which include the Liantang/Heung Yuen Wai Boundary Control Point, the Tseung Kwan O-Lam Tin Tunnel and the Central Kowloon Route, etc. We aim to expand and improve our railway and road networks and facilitate daily travel with a view to enhancing the efficiency and international competitiveness of our city. As for medium- to long-term land supply, other than the potential railway property development projects under planning such as the development at the Siu Ho Wan Depot site, we will continue to take forward the Tung Chung new town extension, as well as the implementation plans for new development areas at Kwu Tung North, Fanling North, Hung Shui Kiu and Yuen Long South, etc.

172. To enhance healthcare facilities and services in the face of an ageing population, the Government announced the ten-year hospital development plan of $200 billion, under which a new major acute general hospital will be built in the Kai Tak Development Area to provide 2 400 beds and the first neuroscience centre in Hong Kong. The plan also covers the redevelopment or expansion of over ten hospitals including Queen Mary Hospital, Kwong Wah Hospital, United Christian Hospital, Prince of Wales Hospital, Kwai Chung Hospital and Grantham Hospital, etc., with a view to upgrading the existing healthcare facilities for enhanced service quality and capacity.

173. As for sports development, apart from the sum of $20 billion allocated for developing sports and recreation facilities in different districts, the Government will seek funding approval of about $31.9 billion from the Finance Committee for the construction of the Kai Tak Sports Park. The project mainly provides a 50 000-seat main stadium, a public sports ground and a large indoor sports centre.

174. Given that a number of projects are now at their construction peaks, and that a series of infrastructure projects will commence soon, capital works expenditure is expected to remain at a relatively high level in the next few years. I appeal to Members to stop frustrating deliberations on funding proposals by filibustering tactics, so that livelihood projects can commence as early as possible for the benefit of the public. Besides, we ought to minimise drastic fluctuations in the volume of construction to avoid affecting the jobs and livelihood of the construction sector and causing spillover to other trades, which could ultimately rock the economy.

175. In 2017-18, the civil service establishment is expected to expand by 3 378 posts to 181 705, representing a year-on-year increase of about 1.9 per cent. This manpower increase is to allow government departments to implement new policies and improve existing services.

176. Taking all these into account, I forecast a surplus of $16.3 billion in the Consolidated Account in the coming year. Fiscal reserves are estimated to be $952 billion by the end of March 2018, representing 37 per cent of GDP.

Medium Range Forecast

177. The global economy has seen rather low and unbalanced growth in recent years. External political and economic environment will be complex and volatile in the next few years. For the medium term, the average growth rate is forecast to be three per cent per annum in real terms from 2018 to 2021, broadly comparable to the trend growth of 2.9 per cent over the past decade; and the underlying inflation rate is expected to average 2.5 per cent per annum. The medium-term economic forecast is based on the assumption that there are no severe external shocks during the period, and has taken into account the impact on economic growth posed by an ageing population. That said, as the external environment is laden with uncertainties, we must remain vigilant.

178. The Medium Range Forecast projects, mainly from a macro perspective, the Government's expenditure requirements from 2018-19 to 2021-22. It is noteworthy that annual expenditure on infrastructure projects will soon exceed $100 billion, significantly higher than the annual average of about $40 billion as recorded by the previous-term Government. In fact, this projection has not reflected the substantial commitment which the Government will have to make for a number of land development, highways and railway projects once they are ready for rollout. Besides, over the medium term from 2018-19 to 2021-22, growth of recurrent government expenditure is estimated to range between 5.3 per cent and 9.8 per cent per annum, consistently higher than the average annual nominal economic growth of 4.5 per cent over the same period. Sustainability is an issue which deserves our attention.

179. Regarding revenue, the land revenue estimate for 2017-18 makes reference to the Land Sale Programme and the land supply target of the year. The medium range forecast on land revenue is based on the average proportion of land revenue to GDP over the past ten years, which is 3.3 per cent of GDP. Compared with recent years, when land revenue was referenced to its average proportion to GDP in the past 30 years which is 2.8 per cent of GDP, we have taken a more aggressive assumption. I also assume that the growth rate of revenue from profits tax and other taxes will be similar to the economic growth rate in the next few years.

180. Based on the above assumptions, I forecast an annual surplus in the Operating Account for the coming five financial years but an annual deficit would surface in the Capital Account as from 2018-19. There will be a small deficit in the Consolidated Account in 2020-21 and 2021-22. Fiscal reserves are estimated at $942.9 billion by end-March 2022, representing 30 per cent of GDP or equivalent to 18 months of government expenditure.

181. The above estimates have not taken into account tax rebate and relief measures proposed by the Government as in previous years.

182. Taking all these into account, the fiscal position will be broadly-balanced in the next five years. However, pressure on government expenditure is considerably high in the face of an ageing population, a shrinking workforce, economic volatility and the Government's long-term commitments. We ought to be prudent and vigilant about the long-term sustainability of public finances.

Concluding Remarks

183. Mr President, some people say that making money is a kind of skill, sustaining business is a branch of knowledge, and spending money is a matter of art. As a government, it is our responsibility to take a forward-looking perspective and promote social and economic development; it is our duty to exercise fiscal prudence and save for the unpredictable future; and it is our moral obligation to relieve people's hardship and support the needy.

184. Many people may only focus on the expenditure and revenue parts of the Budget. But to me, the Budget is not just a collection of cold and hard figures. It also indicates the priorities set by the Government in resource allocation, reflecting the values we hold.

185. How to mobilise resources effectively to achieve the aims of building a fair, just, caring and inclusive society that embraces pluralistic values, and turning Hong Kong into a low-carbon, more liveable, smart, resilient and sustainable city is really a formidable challenge for us. As I have just said, it is a vision that takes not only one or two Budgets, or even one or two terms of government, to accomplish. It is indeed a journey that we should take on together, and a goal that needs to be achieved through the concerted efforts of our community.

186. What are our expectations of the Government nowadays? What is our ideal way of life? How can we attain a sense of well-being? Many Hong Kong people, in particular the younger generation, would answer: Happiness in life is not about earning a living, but about having the freedom to pursue higher ends. They want to have room and opportunities to realise their dreams while doing jobs that suit their interests. They want to have a decent place to live in so that they can start their own family. They want to preserve and conserve the nature and our cultural heritage, as well as enrich their lives by exploring arts and culture. This reflects the pluralistic values of our society, the upholding of which deserves our joint efforts.

187. As in previous years, I will set aside financial resources to fully support the launch of various policy initiatives announced in the Policy Address. Amid global political and economic uncertainties, we must invest for the future in a bid to enhance our overall competitiveness, apart from deploying resources to improve people's livelihood. Through consolidating our pillar industries, as well as nurturing industries over which we have advantages and emerging industries, we could explore new areas of economic growth and create quality and diversified employment opportunities. Only by so doing can Hong Kong, the Pearl of the Orient, continue to gleam and glitter.

188. Born and grown up in Hong Kong, I love this city as much as all of you do. Over the past decades, Hong Kong encountered numerous difficulties and challenges that caused confusion and anxiety among our people. Yet, time and again, we were able to weather the storm and see the sunshine on the other side.

189. I strongly believe that Hong Kong people have the courage, wisdom and ability to overcome all difficulties. Together, we can rise to challenges ahead and scale new heights, while sustaining the legend of Hong Kong.

190. Thank you, Mr President.

THE 2017-18 BUDGET

Speech by the Financial Secretary, the Hon Paul MP Chan
moving the Second Reading of the Appropriation Bill 2017

Supplement and Appendices

Wednesday, 22 February 2017

SUPPLEMENT

Please visit our web-site at www.budget.gov.hk/2017/eng/speech.html for all documents, appendices and statistics relating to the 2017-18 Budget. The Chinese version can be found at www.budget.gov.hk/2017/chi/speech.html.

Contents

EFFECT OF THE PROPOSED RATES CONCESSION[1] ON MAIN PROPERTY CLASSES

Property Type	*2017-18[2]* *No Concession* *Average Rates Payable ($ for the year)*	*No Concession* *Average Rates Payable ($ per month)*	*With Rates Concession* *Average Rates Payable ($ for the year)*	*With Rates Concession* *Average Rates Payable ($ per month)*
Private Domestic Premises[3]				
Small	5,928	494	2,148	179
Medium	12,504	1,042	8,580	715
Large	27,636	2,303	23,688	1,974
Public Domestic Premises[4]	2,940	245	84	7
All Domestic Premises[5]	**5,856**	**488**	**2,556**	**213**
Shops and Commercial Premises	45,228	3,769	41,568	3,464
Offices	48,084	4,007	44,148	3,679
Industrial Premises[6]	17,172	1,431	13,428	1,119
All Non-domestic Premises[7]	**39,012**	**3,251**	**35,616**	**2,968**
All Properties	**10,092**	**841**	**6,780**	**565**

(1) The proposal involves rates concession for four quarters of 2017-18, subject to a ceiling of $1,000 per quarter.

(2) The rates payable have reflected the changes in rateable values for 2017-18 after the General Revaluation.

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

Small	up to 69.9m²	(up to 752 ft²)
Medium	70m² to 99.9m²	(753 ft² to 1 075 ft²)
Large	100m² and over	(1 076 ft² and over)

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

(5) Including car parking spaces in domestic premises.

(6) Including factories and storage premises.

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

SALARIES TAX

Proposed Changes to Tax Bands

Present		*Proposed*	
Tax Band Chargeable income	**Marginal Tax Rate (%)**	**Tax Band** Chargeable income	**Marginal Tax Rate (%)**
First $40,000	2	First **$45,000**	2
Next $40,000	7	Next **$45,000**	7
Next $40,000	12	Next **$45,000**	12
Remainder	17	Remainder	17

	Standard Rate* (%)		**Standard Rate* (%)**
	15		15

* Salaries tax payable is calculated at progressive rates on a taxpayer's net chargeable income or at standard rate on his/her net income (before deduction of the allowances), whichever is lower.

Proposed Changes to Allowances and Deductions

	Present ($)	*Proposed* ($)	*Increase* ($)	(%)
Personal Allowances:				
Basic	132,000	132,000	—	—
Married	264,000	264,000	—	—
Single Parent	132,000	132,000	—	—
Other Allowances:				
Child:				
1st to 9th child				
Year of birth	200,000	200,000	—	—
Other years	100,000	100,000	—	—
Dependent Parent/Grandparent:				
Aged 60 or above				
Basic	46,000	46,000	—	—
Additional allowance (for a dependant living with the taxpayer)	46,000	46,000	—	—
Aged 55 to 59				
Basic	23,000	23,000	—	—
Additional allowance (for a dependant living with the taxpayer)	23,000	23,000	—	—
Dependent Brother/Sister	33,000	37,500	4,500	14
Disabled Dependant	66,000	75,000	9,000	14
Deduction Ceiling:				
Self-Education Expenses	80,000	100,000	20,000	25
Home Loan Interest (Number of years of deduction)	100,000 (15 years of assessment)	100,000 (20 years of assessment)	— (Entitlement period extended by 5 years of assessment)	—
Approved Charitable Donations	35% of income	35% of income	—	—
Elderly Residential Care Expenses	92,000	92,000	—	—
Contributions to Recognised Retirement Schemes	18,000	18,000	—	—

EFFECT OF THE PROPOSED ONE-OFF REDUCTION OF SALARIES TAX, TAX UNDER PERSONAL ASSESSMENT AND PROFITS TAX

Year of Assessment 2016/17

Salaries tax and tax under personal assessment-
75% tax reduction subject to a cap at $20,000 per case

Assessable Income	No. of taxpayers	Average amount of tax reduction	Average % of tax reduced
$120,001 to $200,000	346 000	$580	75%
$200,001 to $300,000	404 000	$3,280	75%
$300,001 to $400,000	310 000	$8,040	75%
$400,001 to $600,000	383 000	$12,800	58%
$600,001 to $900,000	214 000	$17,700	34%
Above $900,000	186 000	$19,970	8%
Total	1 843 000	—	—

Note: As at 31 December 2016, Hong Kong had a working population of 3.82 million.

Profits tax-
75% tax reduction subject to a cap at $20,000 per case

Assessable Profits	No. of businesses#	Average amount of tax reduction	Average % of tax reduced
$100,000 and below	43 000	$4,200	75%
$100,001 to $200,000	17 000	$17,170	73%
$200,001 to $300,000	11 000	$20,000	51%
$300,001 to $400,000	7 000	$20,000	36%
$400,001 to $600,000	9 000	$20,000	26%
$600,001 to $900,000	8 000	$20,000	17%
Above $900,000	37 000	$20,000	1%
Total	132 000	—	—

Note: As at 31 December 2016, there were 1.22 million registered corporations in Hong Kong.

Including 100 000 corporations and 32 000 unincorporated businesses.

ECONOMIC PERFORMANCE IN 2016

1. Rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2016 *(Note 1)*:

		(%)
(a) Growth rates in real terms of:		
Private consumption expenditure		1.6
Government consumption expenditure		3.3
Gross domestic fixed capital formation		-0.5
of which :		
Building and construction	3.6	
Machinery, equipment and intellectual property products	-4.6	
Total exports of goods		1.7
Imports of goods		1.0
Exports of services		-3.1
Imports of services		1.9
Gross Domestic Product (GDP)		**1.9**
Per capita GDP in real terms		1.4
Per capita GDP at current market prices	HK$338,800 (US$43,600)	
(b) Rates of change in:		
Underlying Composite Consumer Price Index		**2.3**
GDP Deflator		**1.8**
Government Consumption Expenditure Deflator		**3.8**
(c) **Growth rate of nominal GDP**		**3.8**

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

	Re-exports (%)	***Domestic exports*** (%)	***Total exports*** (%)
2014	1	3	2
2015	-2	-13	-2
2016	2	-7	1
Share in the value of total exports of goods in 2016	*99*	*1*	*100*

3. Annual rates of change in real terms of total exports by major market based on external trade quantum index numbers:

	Total exports					
	Total (%)	***The Mainland*** (%)	***US*** (%)	***EU*** (%)	***Japan*** (%)	***India*** (%)
2014	2	-1	3	1	-4	16
2015	-2	-2	1	-4	-4	8
2016	1	2	-2	-1	-2	18

4. Annual rates of change in real terms of imports and retained imports based on external trade quantum index numbers:

	Imports (%)	***Retained imports*** (%)
2014	2	4
2015	-3	-7
2016	1	-1

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

	Exports of services				
	Total (%)	***Transport services*** (%)	***Travel services*** (%)	***Financial services*** (%)	***Other services*** (%)
2014	2	3	-2	6	1
2015	0	1	-4	9	-1
2016 *(Note 1)*	-3	2	-9	-3	0

6. Hong Kong's goods and services trade balance in 2016 reckoned on GDP basis *(Note 1)*:

		(HK$ billion)
Total exports of goods	3,900.2	
Imports of goods	4,036.2	
Goods trade balance		**-136.0**
Exports of services	764.0	
Imports of services	578.0	
Services trade balance		**186.1**
Combined goods and services trade balance		**50.1**

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*** (%)
2014	3.3	1.5	0.5	0.6
2015	3.3	1.4	0.9	0.8
2016	3.4	1.4	0.9	0.8

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

	Composite CPI				
	Underlying (%)	***Headline*** (%)	***CPI(A)*** (%)	***CPI(B)*** (%)	***CPI(C)*** (%)
2014	3.5	4.4	5.6	4.2	3.5
2015	2.5	3.0	4.0	2.9	2.1
2016	2.3	2.4	2.8	2.3	2.1

ECONOMIC PROSPECTS FOR 2017

Forecast rates of change in the Gross Domestic Product and prices in 2017:

		(%)
Gross Domestic Product (GDP)		
Real GDP		**2 to 3**
Nominal GDP		4 to 5
Per capita GDP in real terms		1.2 to 2.2
Per capita GDP at current market prices	HK$349,700-353,000 (US$44,800-45,300)	
Composite Consumer Price Index		
Underlying Composite Consumer Price Index		**2**
Headline Composite Consumer Price Index		**1.8**
GDP Deflator		**2**

APPENDICES

APPENDICES

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Note: Expenditure figures for 2016-17 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2017-18 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 2017-18 to 2021-22.

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 2% to 3% in real terms in 2017. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2018 to 2021, the trend growth rate of the economy in real terms is assumed to be 3% per annum.

Price change

4 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 2% in 2017. For the four-year period 2018 to 2021, the GDP deflator is assumed to increase at a trend rate of 1.5% per annum.

5 The Composite Consumer Price Index (CCPI), measuring inflation in the consumer domain, is forecast to increase by 1.8% in 2017. Netting out the effects of various one-off relief measures, the underlying CCPI is forecast to increase by 2% in 2017. For the ensuing period 2018 to 2021, the trend rate of increase for the underlying CCPI is assumed to be 2.5% 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 2017, and the trend growth rate in nominal terms for the period 2018 to 2021 is assumed to be 4.5% per annum.

Other Assumptions

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

— The operating expenditure for 2018-19 and beyond represents the expenditure requirements for Government, forecast on a broad-brush basis.

— The capital expenditure for 2017-18 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 2018-19 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 and that public expenditure should be kept at the order of 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 financial position of the Government for the current MRF period *(Note (a))* is summarised below –

Table 1

($ million)	2016-17 Revised Estimate	2017-18 Estimate	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast
Operating Account						
Operating revenue *(Note (b))*	408,243	395,256	438,952	455,339	476,812	500,871
Less: Operating expenditure *(Note (c))*	354,096	384,200	415,000	437,300	457,700	482,400
Operating surplus	**54,147**	**11,056**	**23,952**	**18,039**	**19,112**	**18,471**
Capital Account						
Capital revenue *(Note (d))*	151,278	112,443	104,039	108,044	110,746	116,308
Less: Capital expenditure *(Note (e))*	112,590	107,211	120,726	124,124	138,353	143,157
Capital surplus / (deficit)	**38,688**	**5,232**	**(16,687)**	**(16,080)**	**(27,607)**	**(26,849)**
Consolidated Account						
Government revenue	559,521	507,699	542,991	563,383	587,558	617,179
Less: Government expenditure	466,686	491,411	535,726	561,424	596,053	625,557
Consolidated surplus / (deficit) before repayment of bonds and notes	**92,835**	**16,288**	**7,265**	**1,959**	**(8,495)**	**(8,378)**
Less: Repayment of bonds and notes *(Note (f))*	-	-	-	1,500	-	-
Consolidated surplus / (deficit) after repayment of bonds and notes	**92,835**	**16,288**	**7,265**	**459**	**(8,495)**	**(8,378)**
Fiscal reserves at 31 March	**935,723**	**952,011**	**959,276**	**959,735**	**951,240**	**942,862**
In terms of number of months of government expenditure	24	23	21	21	19	18
In terms of percentage of GDP	37.6%	36.6%	35.3%	33.8%	32.0%	30.4%

Fiscal Reserves

12 Part of the fiscal reserves has, since 1 January 2016, been held in a notional savings account called the Future Fund, which is placed with the Exchange Fund with a view to securing higher investment returns over a ten-year investment period. The initial endowment of the Future Fund was $219,730 million, being the balance of the Land Fund on 1 January 2016. $4.8 billion of the consolidated surplus from the Operating and Capital Reserves was transferred to the Future Fund as top-up in 2016-17. The top-up arrangement beyond 2016-17 would be subject to an annual review by the Financial Secretary.

Table 2

Distribution of fiscal reserves at 31 March

($ million)	2016-17 Revised Estimate	**2017-18 Estimate**	Future Fund	Operating and Capital Reserves	Total
General Revenue Account	559,009	**557,697**	4,800*	552,897	557,697
Funds with designated use	156,984	**174,584**		174,584	174,584
Capital Works Reserve Fund	87,180	**103,814**		103,814	103,814
Capital Investment Fund	3,078	**3,612**		3,612	3,612
Civil Service Pension Reserve Fund	31,899	**35,130**		35,130	35,130
Disaster Relief Fund	28	**80**		80	80
Innovation and Technology Fund	7,979	**6,413**		6,413	6,413
Loan Fund	3,938	**3,374**		3,374	3,374
Lotteries Fund	22,882	**22,161**		22,161	22,161
Land Fund	219,730	**219,730**	219,730	-	219,730
	935,723	**952,011**	224,530	727,481	952,011
In terms of number of months of government expenditure	24	23	5	18	23

* Being one-third of 2015-16 consolidated surplus.

13 The fiscal reserves would be drawn on to fund contingent and other liabilities. As detailed in Section IV, these include over $300 billion for capital works projects under way and about $450 billion as statutory pension obligations in the coming ten years.

14 Of the $200 billion needed for the Ten-year Hospital Development Plan, about $90 billion has been reflected as expenditure within the MRF period, leaving a balance of $110 billion to be charged against the fiscal reserves.

15 A total of $40.7 billion has been newly earmarked in the fiscal reserves for providing support to the elderly and the disadvantaged ($30 billion), promoting innovation and technology ($10 billion), and enhancing student and teacher development ($0.7 billion).

16 The Chief Executive has announced in the 2017 Policy Address that $20 billion would be set aside for a series of sports facilities. The provision would be charged against the fiscal reserves.

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 2017-18 Budget, and is made up of –

($ million)	2016-17 Revised Estimate	2017-18 Estimate	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast
Operating revenue before investment income	391,477	380,132	420,881	440,533	462,711	484,606
Investment income	16,766	15,124	18,071	14,806	14,101	16,265
Total	408,243	395,256	438,952	455,339	476,812	500,871

(ii) Investment income under the Operating Account includes investment income of the General Revenue Account (other than the portion notionally held for the Future Fund) which is credited to revenue head Properties and Investments. The rate of investment return is 2.8% for 2017 (vs 3.3% for 2016) and is assumed to be in the range of 2.4% to 3.3% a year for 2018 to 2021.

(iii) Investment income of the Future Fund includes investment income of the relevant portion of the General Revenue Account and investment income of the Land Fund, compounded on an annual basis. It will be retained by the Exchange Fund for reinvestment and will not be paid to Government until the end of the ten-year placement (i.e. 31 December 2025) or a date as directed by the Financial Secretary.

(c) Operating expenditure

This represents expenditure charged to the Operating Account of the General Revenue Account. The figures for 2018-19 and beyond set out the expenditure requirements for Government, forecast on a broad-brush basis.

(d) *Capital revenue*

(i) The breakdown of capital revenue is –

($ million)	2016-17 Revised Estimate	2017-18 Estimate	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast
General Revenue Account	24,302	1,489	3,794	5,598	4,280	4,279
Capital Investment Fund	1,347	1,185	1,150	1,317	1,429	1,616
Capital Works Reserve Fund	117,900	101,038	89,270	92,841	97,483	102,357
Disaster Relief Fund	3	-	-	-	-	-
Innovation and Technology Fund	40	8	-	-	-	-
Loan Fund	2,142	2,285	2,419	2,449	2,474	3,200
Lotteries Fund	1,411	1,475	1,554	1,638	1,726	1,819
Capital revenue before asset sales and investment income	147,145	107,480	98,187	103,843	107,392	113,271
Asset sales	169	281	308	266	266	266
Investment income	3,964	4,682	5,544	3,935	3,088	2,771
Total	151,278	112,443	104,039	108,044	110,746	116,308

(ii) Land premium included under the Capital Works Reserve Fund for 2017-18 is estimated to be $101 billion. For 2018-19 onwards, it is assumed to be 3.3% of GDP, being the ten-year historical average.

(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. The rate of investment return is 2.8% for 2017 (vs 3.3% for 2016) and is assumed to be in the range of 2.4% to 3.3% a year for 2018 to 2021.

(e) *Capital expenditure*

The breakdown of capital expenditure is –

($ million)	2016-17 Revised Estimate	2017-18 Estimate	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast
General Revenue Account	4,062	5,007	5,074	5,233	5,391	5,550
Capital Investment Fund	10,194	726	18	1,668	-	-
Capital Works Reserve Fund	90,772	91,654	104,239	108,957	125,376	130,886
Disaster Relief Fund	54	-	-	-	-	-
Innovation and Technology Fund	1,258	1,783	2,411	2,451	2,310	2,380
Loan Fund	4,976	5,214	4,241	2,622	2,553	2,526
Lotteries Fund	1,274	2,827	4,743	3,193	2,723	1,815
Total	112,590	107,211	120,726	124,124	138,353	143,157

(f) *Repayment of bonds and notes*

Repayment of bonds and notes is only in respect of the global bond issue in 2004. The outstanding principal of $1,500 million would be fully repaid in 2019-20.

(g) *Housing Reserve*

The Housing Reserve, which was established in 2014 to support large-scale public housing development projects, now stands at $77 billion. The sum is retained within the Exchange Fund to earn the same rate of investment return as stipulated in *Note (b)(ii).* The Housing Reserve is kept outside the Government's accounts and does not form part of the fiscal reserves. Government will seek the approval of the Finance Committee before offering to draw on the Housing Reserve for injections into the Housing Authority.

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

17 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 3

($ million)	2012-13 to 2017-18 Trend Growth *(Note (d))*	2016-17 Revised Estimate	2017-18 Estimate	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast
Operating expenditure		354,096	384,200	415,000	437,300	457,700	482,400
Capital expenditure		112,590	107,211	120,726	124,124	138,353	143,157
Government expenditure		466,686	491,411	535,726	561,424	596,053	625,557
Expenditure by other public bodies		34,104	40,406	40,716	41,063	46,064	48,437
Public expenditure *(Note (a))*		500,790	531,817	576,442	602,487	642,117	673,994
Gross Domestic Product (calendar year)		2,489,109	2,601,100	2,718,200	2,840,500	2,968,300	3,101,900
Nominal growth in GDP *(Note (b))*	5.0%	3.8%	4.5%	4.5%	4.5%	4.5%	4.5%
Growth in recurrent government expenditure *(Note (c))*	7.2%	6.4%	7.4%	9.8%	5.9%	5.3%	5.6%
Growth in government expenditure *(Note (c))*	5.4%	7.1%	5.3%	9.0%	4.8%	6.2%	4.9%
Growth in public expenditure *(Note (c))*	5.9%	7.0%	6.2%	8.4%	4.5%	6.6%	5.0%
Public expenditure in terms of percentage of GDP		20.1%	20.4%	21.2%	21.2%	21.6%	21.7%

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 2017-18, the nominal GDP growth of 4.5% represents the mid-point of the range forecast of 4% to 5% for the calendar year 2017.

(c) The growth rates for 2016-17 to 2021-22 refer to year-on-year change. For example, the rates for 2016-17 refer to the change between revised estimate for 2016-17 and actual expenditure in 2015-16. The rates for 2017-18 refer to the change between the 2017-18 estimate and the 2016-17 revised estimate, and so forth.

(d) The trend growth rates refer to the average annual growths between 2012-13 and 2017-18 irrespective of fluctuations.

18 Table 4 shows the relationship amongst the sum to be appropriated in the 2017-18 Budget, government expenditure and public expenditure.

Relationship between Government Expenditure and Public Expenditure in 2017-18

Table 4

($ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	370,965	370,965	-	370,965	370,965
Non-recurrent	13,235	13,235	-	13,235	13,235
Capital					
Plant, equipment and works	3,102	-	3,102	3,102	3,102
Subventions	1,905	-	1,905	1,905	1,905
	389,207	384,200	5,007	389,207	389,207
Transfer to Funds	8,850	-	-	-	-
Capital Investment Fund	-	-	726	726	726
Capital Works Reserve Fund	-	-	91,654	91,654	91,654
Innovation and Technology Fund	-	-	1,783	1,783	1,783
Loan Fund	-	-	5,214	5,214	5,214
Lotteries Fund	-	-	2,827	2,827	2,827
Trading Funds	-	-	-	-	4,843
Housing Authority	-	-	-	-	35,563
	398,057	384,200	107,211	491,411	531,817
Revenue					
General Revenue Account					
Taxation		337,231	15	337,246	
Other revenue		58,025	1,474	59,499	
		395,256	1,489	396,745	
Capital Investment Fund		-	1,260	1,260	
Capital Works Reserve Fund		-	103,788	103,788	
Civil Service Pension Reserve Fund		-	931	931	
Disaster Relief Fund		-	2	2	
Innovation and Technology Fund		-	217	217	
Loan Fund		-	2,650	2,650	
Lotteries Fund		-	2,106	2,106	
		395,256	112,443	507,699	
Surplus		11,056	5,232	16,288	

SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES

19 The Government's contingent liabilities as at 31 March 2016, 31 March 2017 and 31 March 2018, are provided below as supplementary information to the MRF –

Table 5

($ million)	At 31 March 2016	2017	2018
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	33,453	36,729	39,041
Legal claims, disputes and proceedings	12,053	29,789	28,446
Guarantees provided under the SME Financing Guarantee Scheme – Special Concessionary Measures	24,079	19,382	13,905
Possible capital subscriptions to the Asian Development Bank	5,990	5,725	5,725
Guarantees provided under the SME Loan Guarantee Scheme	5,253	4,793	4,704
Guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation	2,002	1,957	1,911
Guarantees provided under the Special Loan Guarantee Scheme	3,504	938	756
Total	86,334	99,313	94,488

20 The Government's major unfunded liabilities as at 31 March 2016 were as follows –

($ million)	
Present value of statutory pension obligations *(Note (a))*	874,746
Untaken leave *(Note (b))*	26,883
Government bonds and notes issued in 2004	1,500

Notes –

(a) The statutory pension obligations for the coming ten years are estimated to be about $450 billion in money of the day.

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

21 The estimated outstanding commitments of capital works projects as at 31 March 2016 and 31 March 2017 are $296,697 million and $310,334 million respectively. Some of these are contractual commitments.

APPENDIX B

ANALYSIS OF EXPENDITURE AND REVENUE

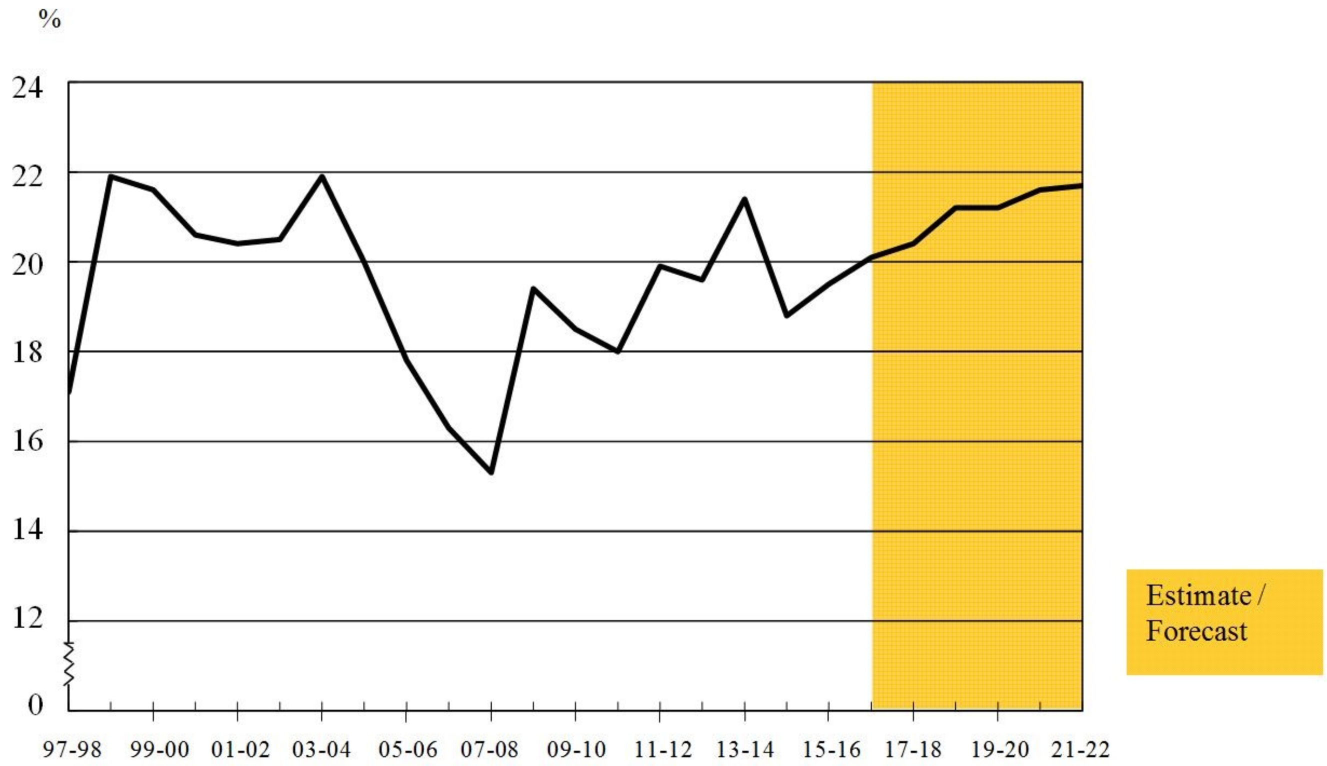
CONTENTS **Page**

SECTION I THE ESTIMATES IN THE CONTEXT OF THE ECONOMY

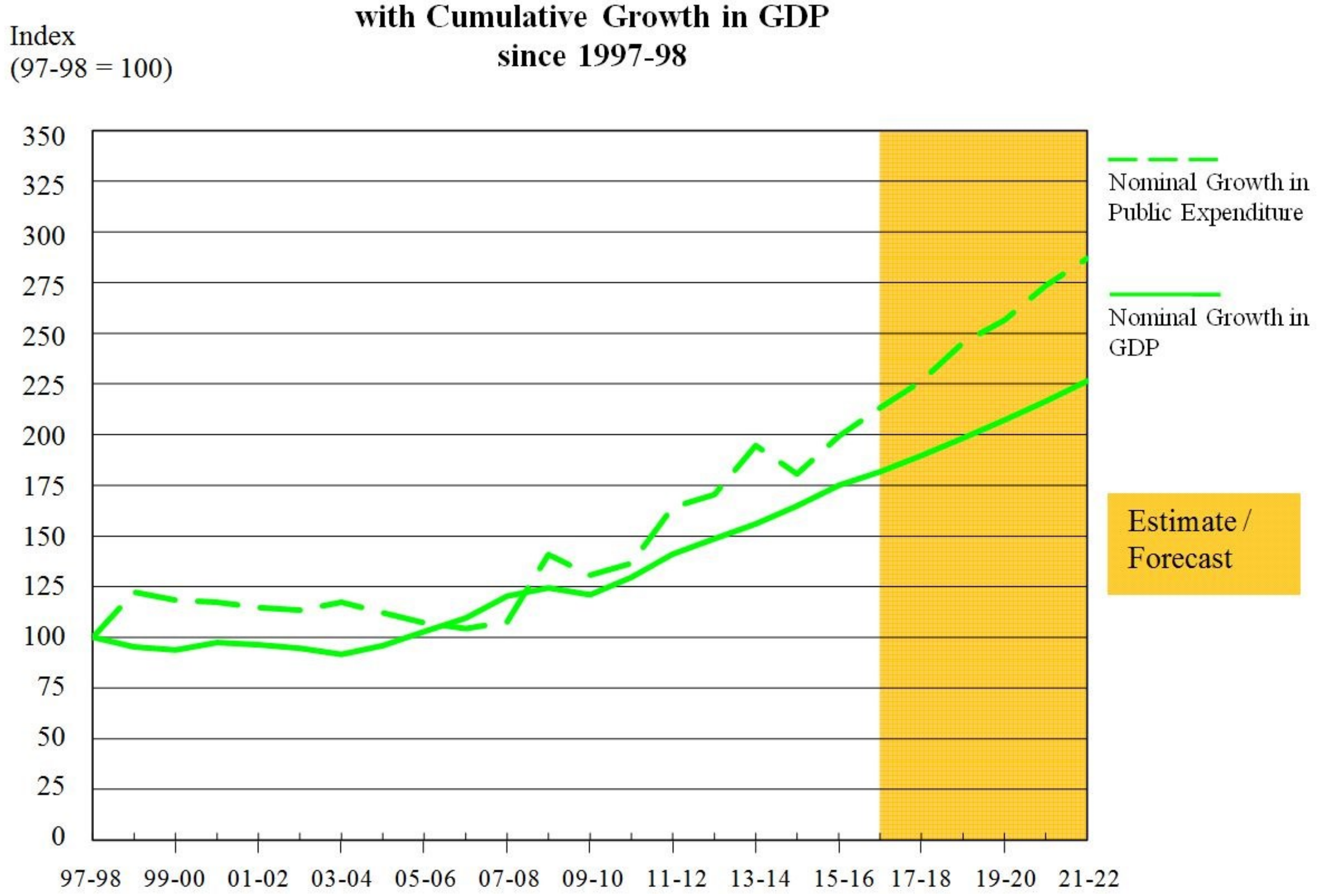
Relationship between Government Expenditure, Public Expenditure and GDP

	2017-18 Estimate $m
General Revenue Account	
Operating	384,200
Capital	5,007
	389,207
Capital Investment Fund	726
Capital Works Reserve Fund	91,654
Innovation and Technology Fund	1,783
Loan Fund	5,214
Lotteries Fund	2,827
Government Expenditure	**491,411**
Trading Funds	4,843
Housing Authority	35,563
Public Expenditure	**531,817**
GDP	2,601,100
Public Expenditure in terms of percentage of GDP	20.4%

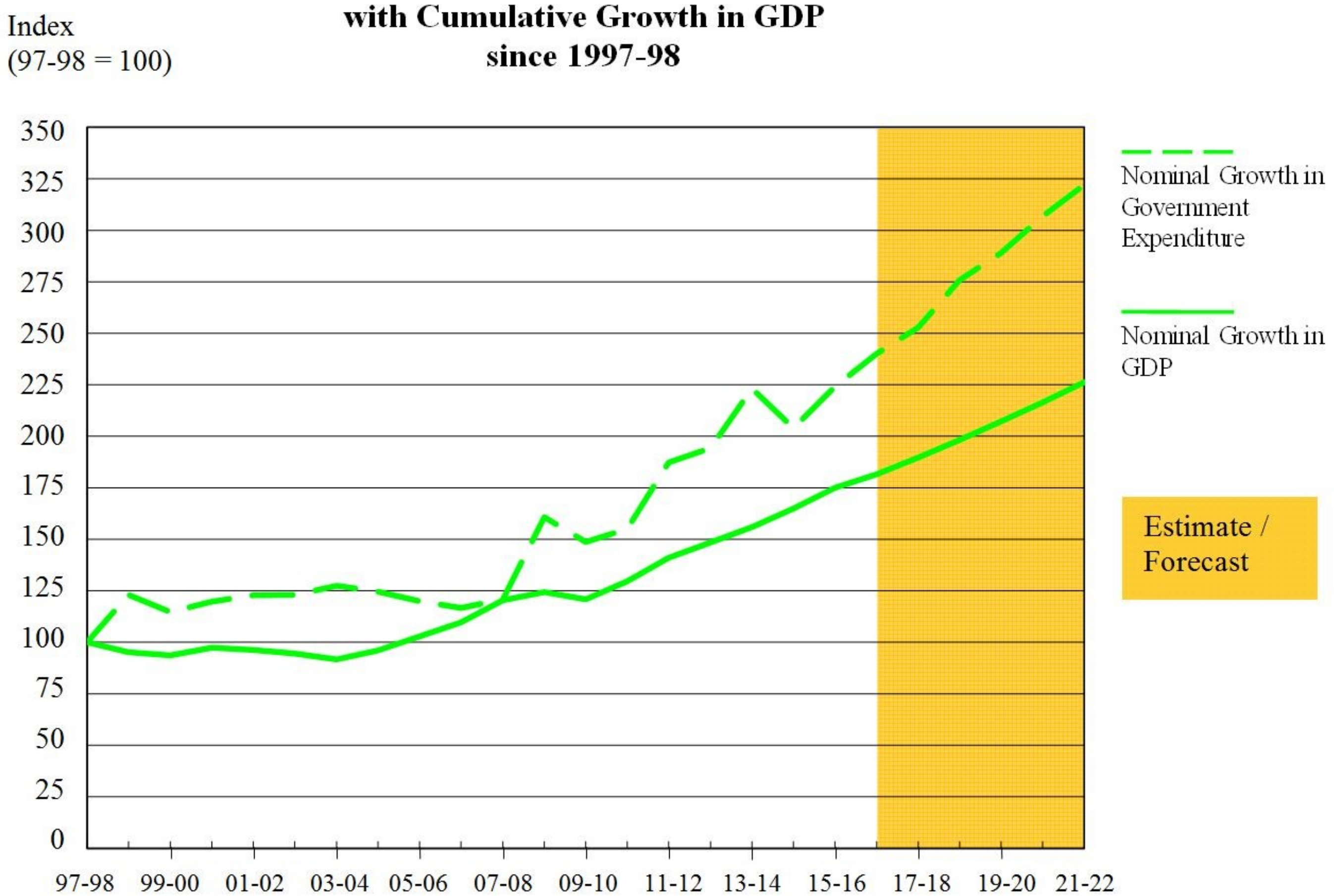
Public Expenditure in terms of Percentage of GDP



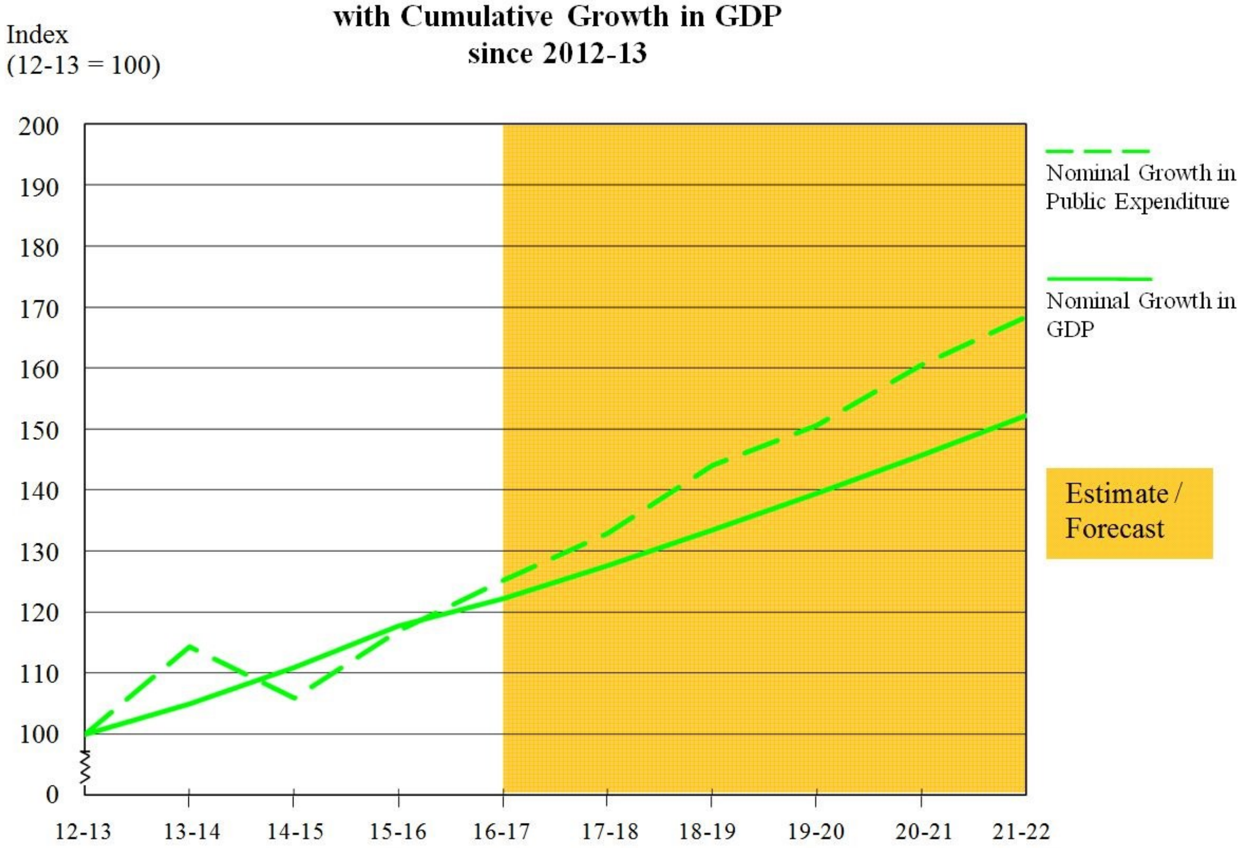
Comparison of Cumulative Growth in Public Expenditure with Cumulative Growth in GDP since 1997-98



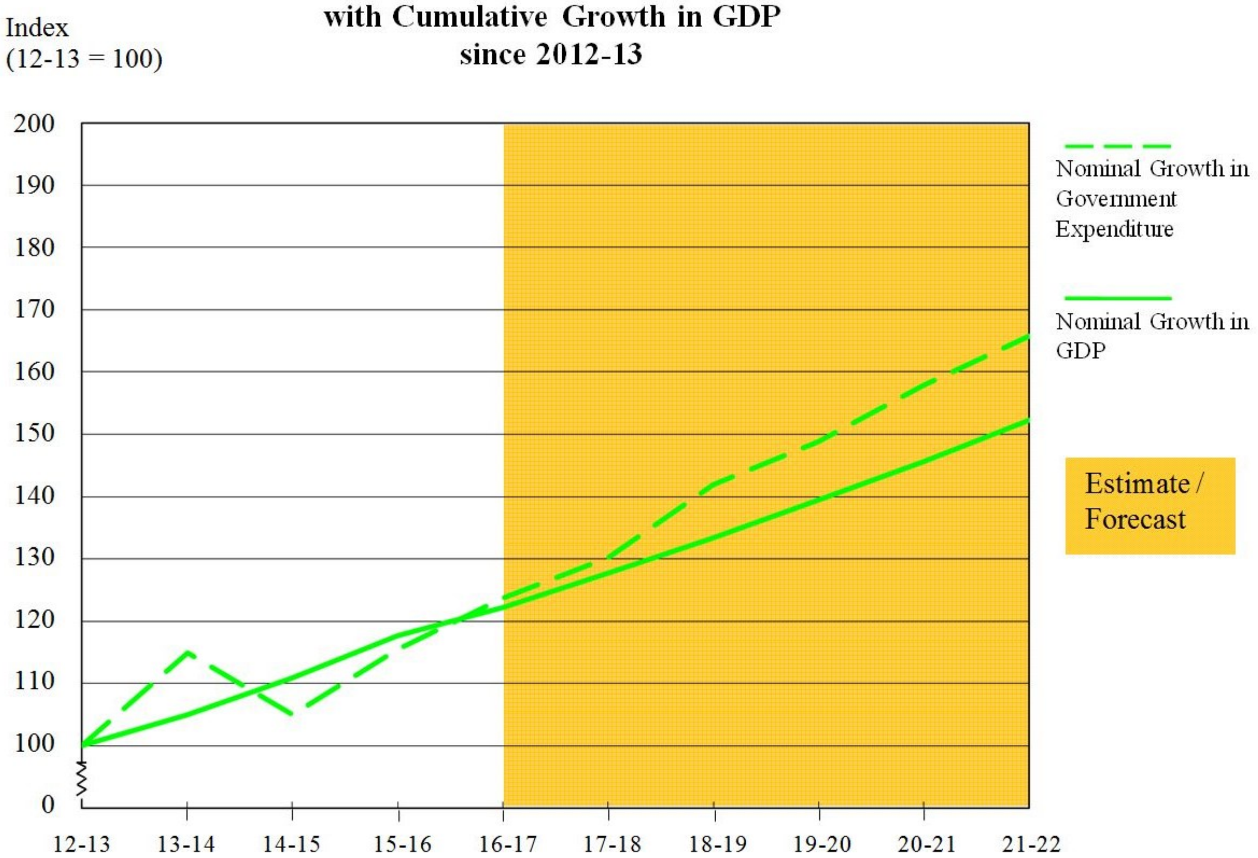
Comparison of Cumulative Growth in Government Expenditure with Cumulative Growth in GDP since 1997-98



Comparison of Cumulative Growth in Public Expenditure with Cumulative Growth in GDP since 2012-13



Comparison of Cumulative Growth in Government Expenditure with Cumulative Growth in GDP since 2012-13



SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Recurrent Public Expenditure : Year-on-Year Change

	2015-16 Actual $m	2016-17 Revised Estimate $m	**2017-18 Estimate $m**	**Increase/Decrease over 2016-17 Revised Estimate in Nominal Terms %**	**in Real Terms %**
Education	72,352	75,505	**78,627**	**4.1**	**3.5**
Social Welfare	58,265	63,780	**73,302**	**14.9**	**12.9**
Health	56,473	58,766	**61,935**	**5.4**	**4.9**
Security	36,943	38,811	**41,028**	**5.7**	**5.2**
Infrastructure	20,076	21,056	**22,086**	**4.9**	**3.1**
Economic	14,603	15,429	**16,078**	**4.2**	**2.7**
Environment and Food	13,542	14,643	**16,057**	**9.7**	**8.4**
Housing	12,848	13,747	**14,809**	**7.7**	**5.3**
Community and External Affairs	11,399	12,100	**12,603**	**4.2**	**2.9**
Support	44,986	49,307	**53,483**	**8.5**	**8.2**
	341,487	363,144	**390,008**	**7.4**	**6.4**
GDP growth in 2017				**4% to 5%**	**2% to 3%**

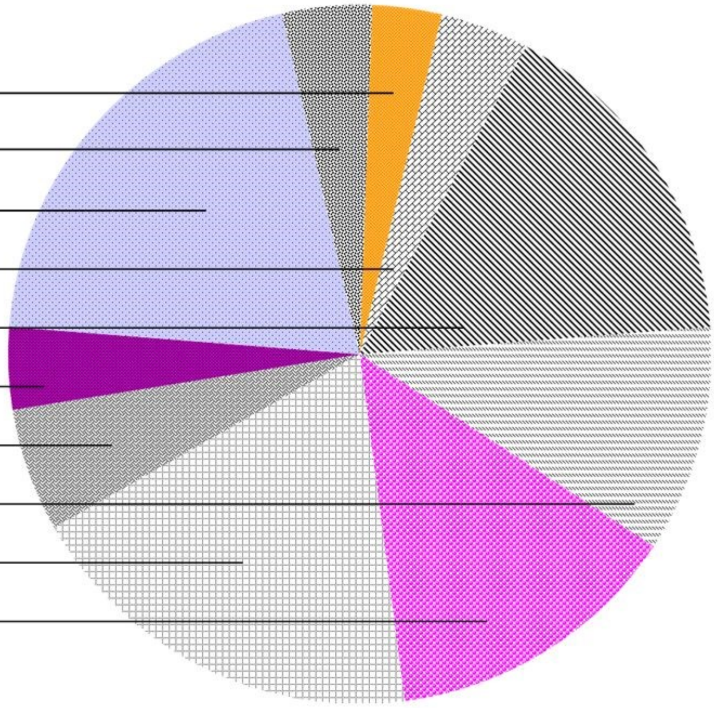
SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Recurrent Government Expenditure : Year-on-Year Change

	2015-16 Actual $m	2016-17 Revised Estimate $m	**2017-18 Estimate $m**	**Increase/Decrease over 2016-17 Revised Estimate in Nominal Terms %**	**Increase/Decrease over 2016-17 Revised Estimate in Real Terms %**
Education	72,352	75,505	**78,627**	**4.1**	**3.5**
Social Welfare	58,265	63,780	**73,302**	**14.9**	**12.9**
Health	56,473	58,766	**61,935**	**5.4**	**4.9**
Security	36,943	38,811	**41,028**	**5.7**	**5.2**
Infrastructure	19,875	20,846	**21,875**	**4.9**	**3.1**
Economic	10,341	11,193	**11,664**	**4.2**	**3.4**
Environment and Food	13,542	14,643	**16,057**	**9.7**	**8.4**
Housing	356	383	**391**	**2.1**	**2.0**
Community and External Affairs	11,399	12,100	**12,603**	**4.2**	**2.9**
Support	44,986	49,307	**53,483**	**8.5**	**8.2**
	324,532	345,334	**370,965**	**7.4**	**6.5**
GDP growth in 2017				**4% to 5%**	**2% to 3%**

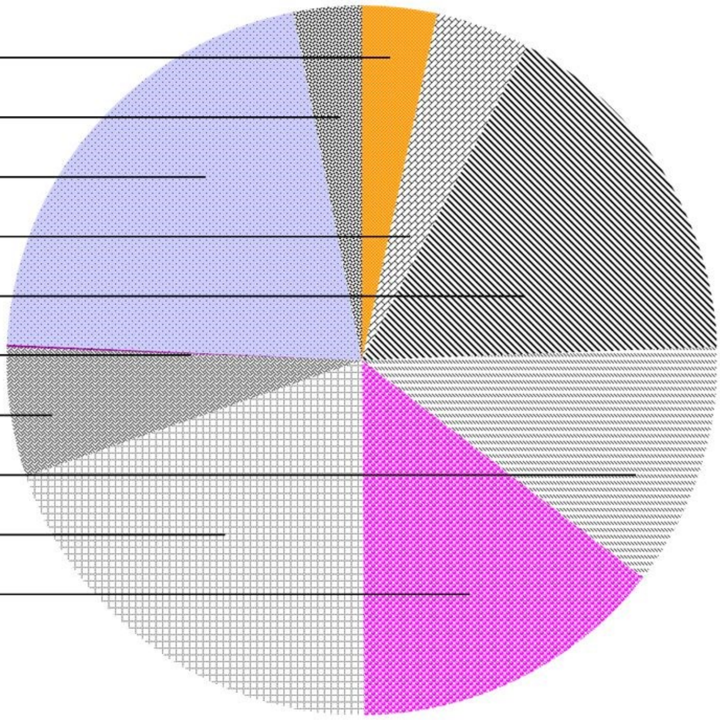
Percentage Share of Expenditure by Policy Area Group
Recurrent Public Expenditure : 2017-18 Estimate

Community and External Affairs	3.2%
Economic	4.1%
Education	20.2%
Environment and Food	4.1%
Health	15.9%
Housing	3.8%
Infrastructure	5.7%
Security	10.5%
Social Welfare	18.8%
Support	13.7%
	100.0%



Percentage Share of Expenditure by Policy Area Group
Recurrent Government Expenditure : 2017-18 Estimate

Community and External Affairs	3.4%
Economic	3.1%
Education	21.2%
Environment and Food	4.3%
Health	16.7%
Housing	0.1%
Infrastructure	5.9%
Security	11.1%
Social Welfare	19.8%
Support	14.4%
	100.0%



SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Public Expenditure : Year-on-Year Change

	2015-16 Actual $m	2016-17 Revised Estimate $m	**2017-18 Estimate $m**	**Increase/Decrease over 2016-17 Revised Estimate in Nominal Terms %**	**Increase/Decrease over 2016-17 Revised Estimate in Real Terms %**
Education	78,968	82,601	**87,516**	**6.0**	**5.2**
Social Welfare	64,893	68,405	**80,456**	**17.6**	**15.4**
Health	70,424	66,207	**69,960**	**5.7**	**4.9**
Security	43,108	43,181	**47,310**	**9.6**	**8.8**
Infrastructure	81,021	92,574	**89,283**	**-3.6**	**-7.0**
Economic	19,037	29,890	**22,629**	**-24.3**	**-25.5**
Environment and Food	20,839	21,219	**23,304**	**9.8**	**7.8**
Housing	29,405	29,986	**36,109**	**20.4**	**15.3**
Community and External Affairs	13,495	14,917	**18,256**	**22.4**	**20.2**
Support	46,838	51,810	**56,994**	**10.0**	**9.6**
	468,028	500,790	**531,817**	**6.2**	**4.4**

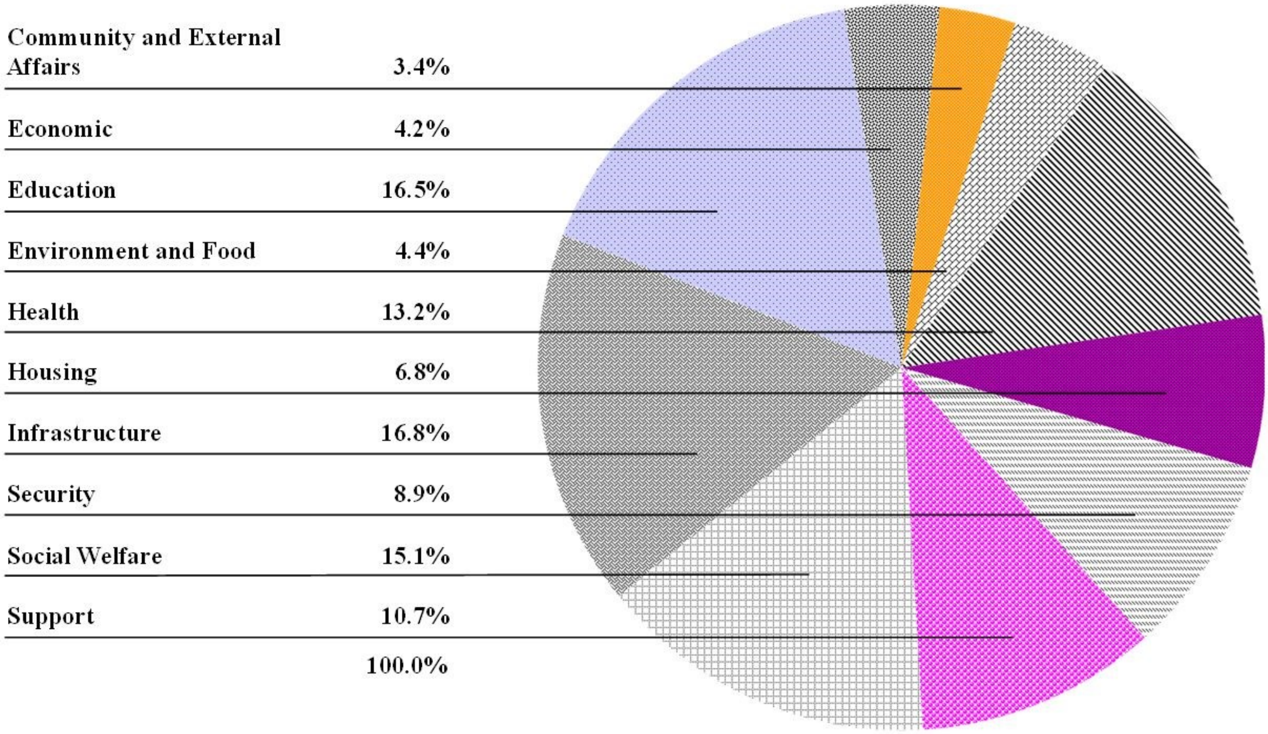
GDP growth in 2017	**4% to 5%**	**2% to 3%**

SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

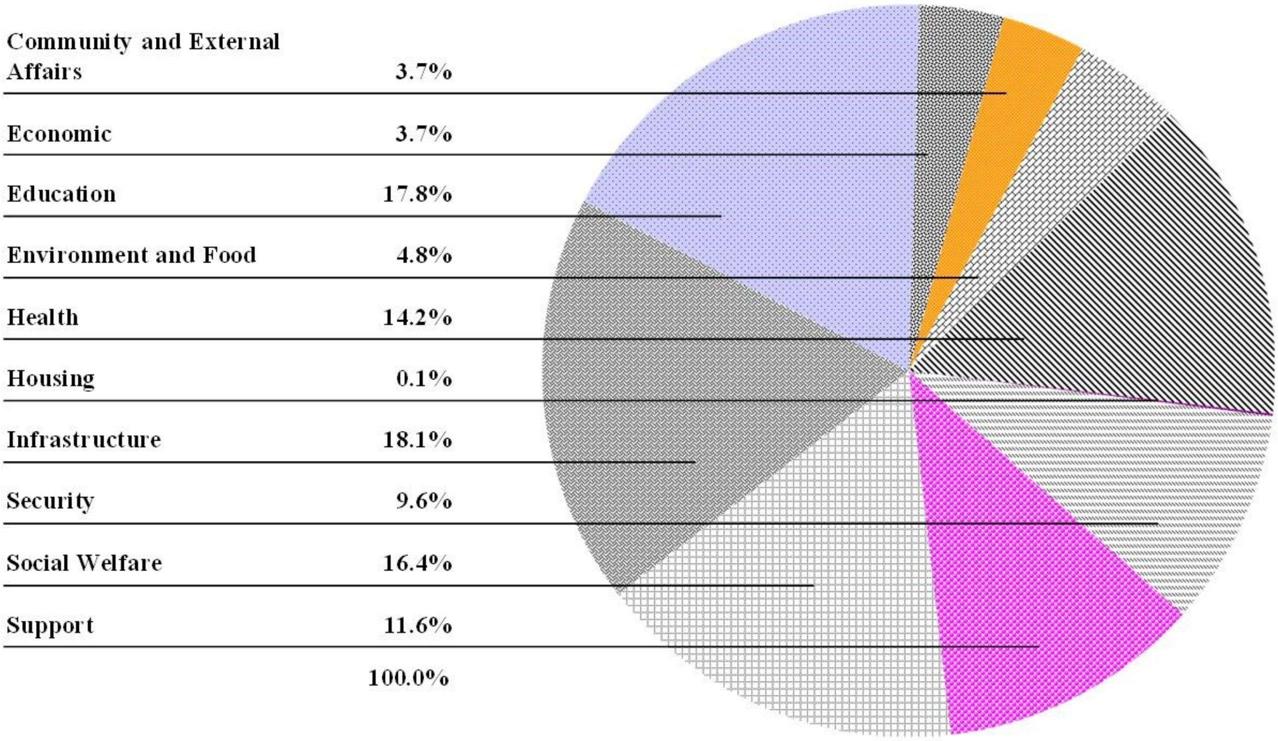
Total Government Expenditure : Year-on-Year Change

	2015-16 Actual $m	2016-17 Revised Estimate $m	**2017-18 Estimate $m**	**Increase/Decrease over 2016-17 Revised Estimate in Nominal Terms %**	**in Real Terms %**
Education	78,968	82,601	**87,516**	**6.0**	**5.2**
Social Welfare	64,893	68,405	**80,456**	**17.6**	**15.4**
Health	70,424	66,207	**69,960**	**5.7**	**4.9**
Security	43,108	43,181	**47,310**	**9.6**	**8.8**
Infrastructure	80,810	92,353	**89,062**	**-3.6**	**-7.0**
Economic	14,663	25,471	**18,007**	**-29.3**	**-30.1**
Environment and Food	20,839	21,219	**23,304**	**9.8**	**7.8**
Housing	1,595	522	**546**	**4.6**	**3.3**
Community and External Affairs	13,495	14,917	**18,256**	**22.4**	**20.2**
Support	46,838	51,810	**56,994**	**10.0**	**9.6**
	435,633	466,686	**491,411**	**5.3**	**3.7**
GDP growth in 2017				**4% to 5%**	**2% to 3%**

Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure : 2017-18 Estimate



Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure : 2017-18 Estimate

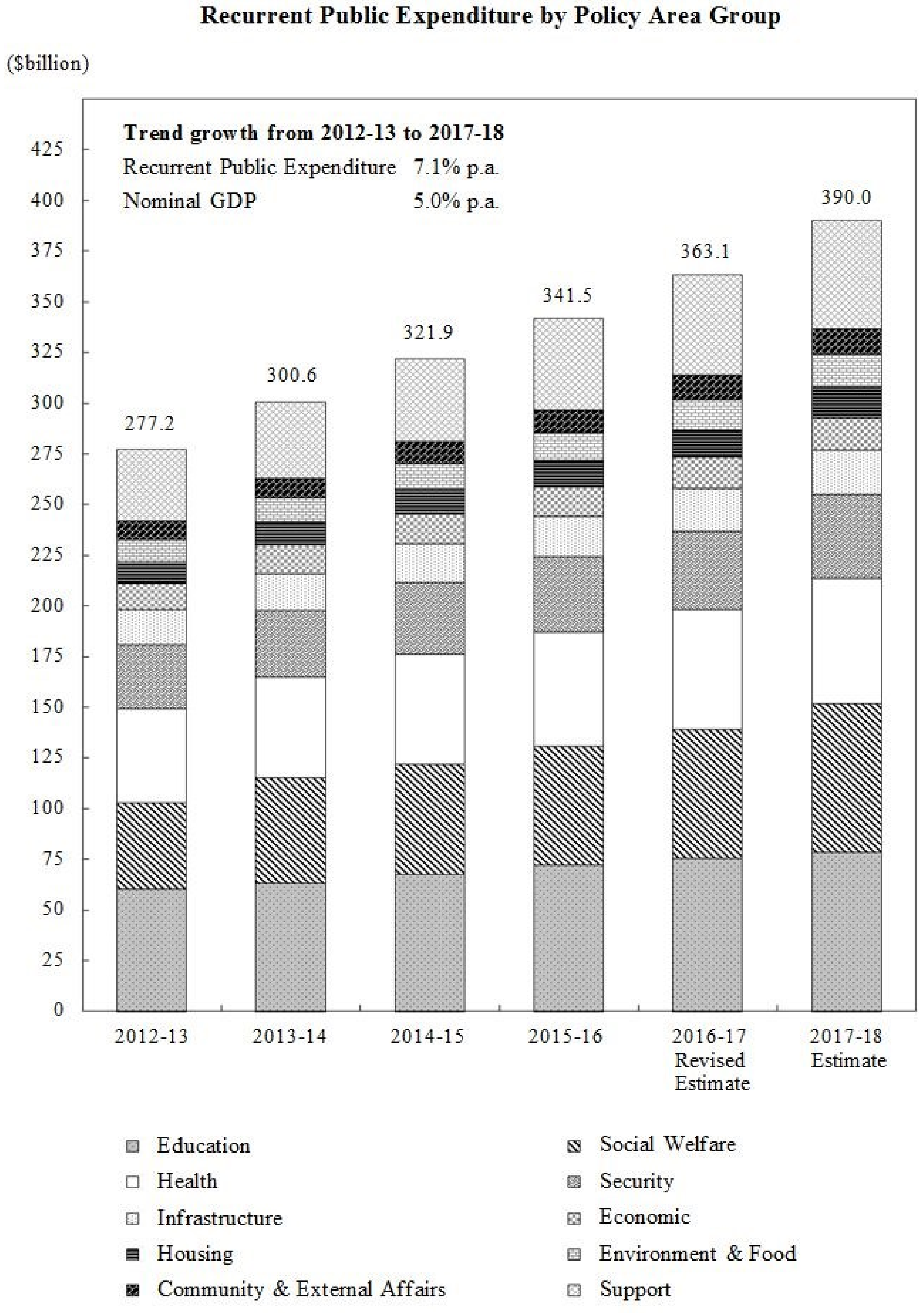


SECTION IV MAJOR CAPITAL PROJECTS PLANNED FOR COMMENCEMENT IN 2017-18

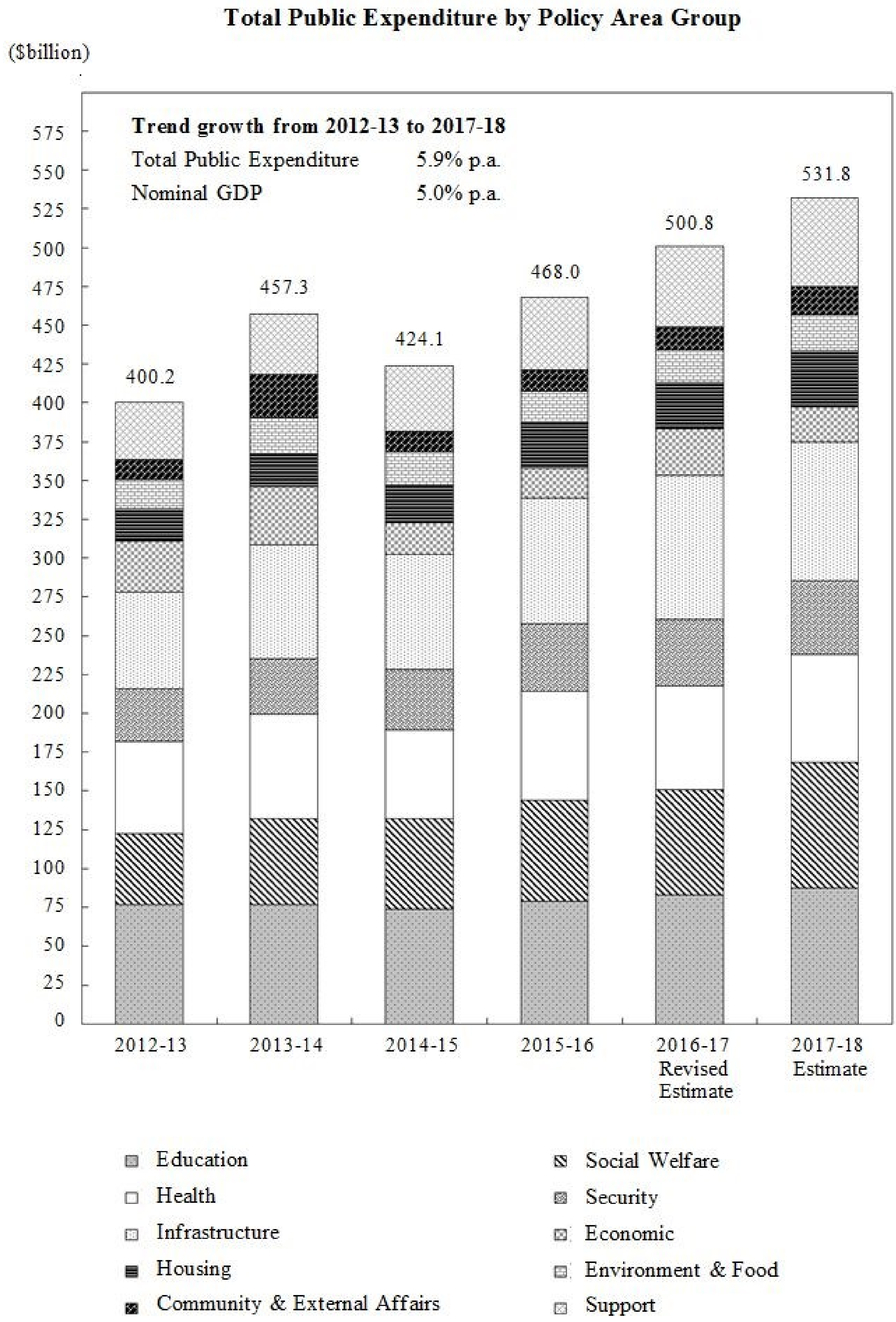
Major capital projects estimated to begin in 2017-18 include –

	Project Estimates $ billion
Infrastructure	**76.9**
— Site formation and associated infrastructural works for development of columbarium at Sandy Ridge Cemetery	
— Central Kowloon Route—main works	
— Development of Anderson Road Quarry site—remaining works	
— Site formation and infrastructure works for development at Kam Tin South, Yuen Long—advance works	
— Tung Chung New Town Extension—reclamation and advance works	
— Integrated Basement for West Kowloon Cultural District—third stage of construction works	
— Upgrading of disinfection facilities in water treatment works	
— Design and construction for first stage of desalination plant at Tseung Kwan O—mainlaying	
— Site formation and infrastructure works for public housing developments at Chung Nga Road and Area 9, Tai Po—Phase 1	
— Road improvement works at Ma On Shan, Sha Tin	
Security	**5.9**
— Construction of rank and file quarters for Fire Services Department at Area 106, Pak Shing Kok, Tseung Kwan O	
— Construction of Departmental Quarters for Customs and Excise Department at Tseung Kwan O Area 123 (Po Lam Road)	
— Redevelopment of Junior Police Officers Married Quarters at Fan Garden, Fanling	
Health	**3.0**
— Extension of Operating Theatre Block for Tuen Mun Hospital—main works	
Support	**2.9**
— Reprovisioning of Transport Department’s vehicle examination centres at Tsing Yi	
Environment and Food	**2.5**
— Construction of dry weather flow interceptor at Cherry Street box culvert	
— Rehabilitation of trunk sewers in Kowloon, Shatin and Sai Kung	
— Enhancement works for Kwun Tong sewage pumping station	
Economic	**1.8**
— Reprovisioning of Hongkong Post's Headquarters in the General Post Office Building to a Government, Institution or Community site at Wang Chin Street, Kowloon Bay	
Education	**1.0**
— Academic building at No. 3 Sassoon Road	

SECTION V TRENDS IN PUBLIC EXPENDITURE : 2012-13 TO 2017-18

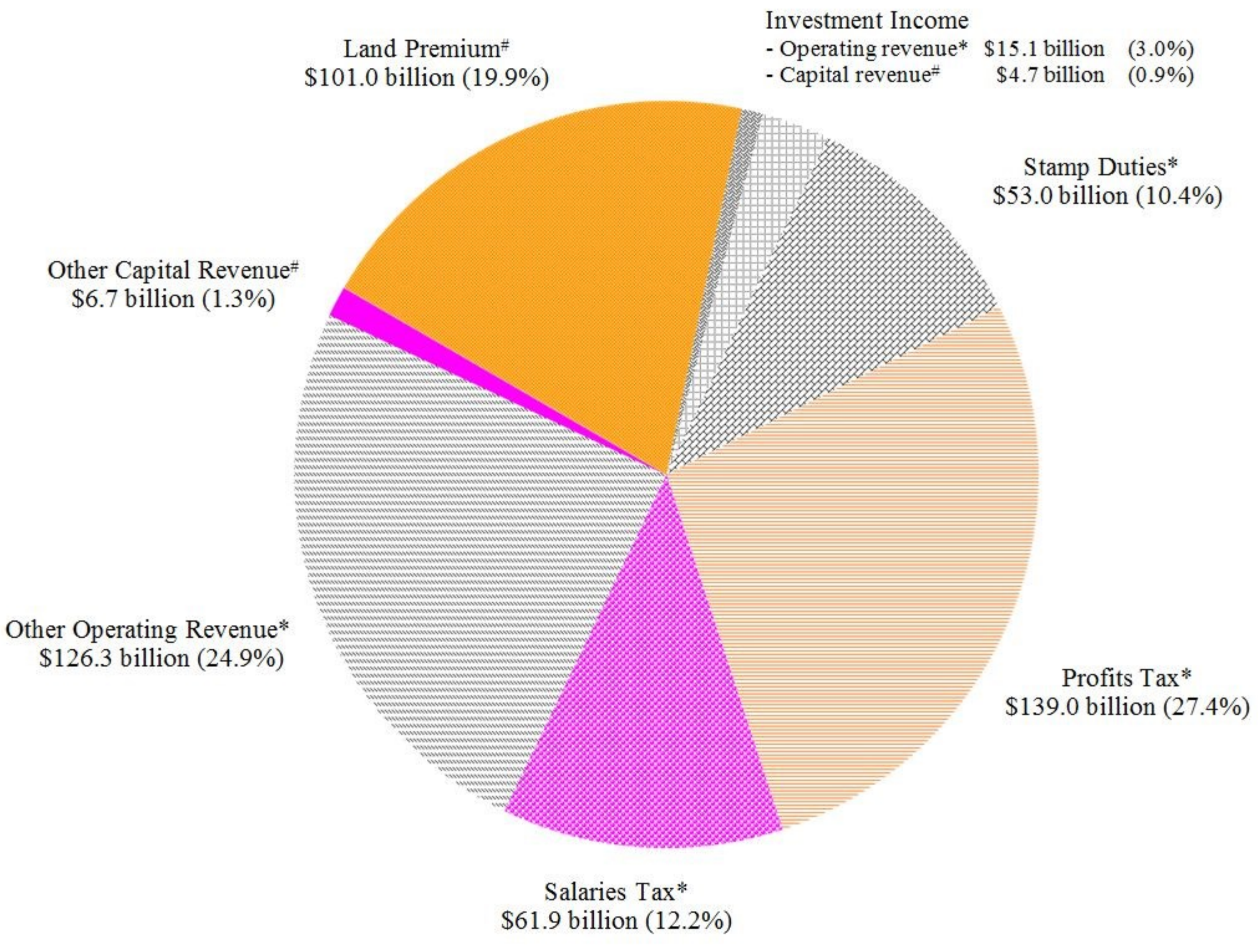


SECTION V TRENDS IN PUBLIC EXPENDITURE : 2012-13 TO 2017-18



SECTION VI ANALYSIS OF GOVERNMENT REVENUE

2017-18 Estimate ($507.7 billion)



	2017-18 Estimate	% Share of Government Revenue	% of GDP
* Operating Revenue	$395.3 billion	77.9%	15.2%
# Capital Revenue	$112.4 billion	22.1%	4.3%
Total	**$507.7 billion**	**100%**	**19.5%**

SECTION VII CLASSIFICATION OF 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 2017-18 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.

Future Fund. It is the part of the fiscal reserves which is set aside for longer-term investment with a view to securing higher investment returns for the fiscal reserves. It is a notional savings account established on 1 January 2016. It comprises the balance of the Land Fund as its initial endowment and top-ups from consolidated surpluses to be transferred from ***Operating and Capital Reserves*** which is the part of the fiscal reserves outside the Future 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 and Capital Reserves. With the establishment of the ***Future Fund***, the part of the fiscal reserves outside the ***Future Fund*** is collectively known as the Operating and Capital Reserves.

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

With the establishment of the Future Fund as from 1 January 2016, the investment income of the Land Fund will be reinvested and will not be paid to Government until the end of the ten-year placement (i.e. 31 December 2025) or a date as directed by the Financial Secretary.

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.