

THE 2020-21 BUDGET

*Speech by the Financial Secretary, the Hon Paul MP Chan
moving the Second Reading of the Appropriation Bill 2020
Wednesday, 26 February 2020*

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Mr President, Honourable Members and fellow citizens,

I move that the Appropriation Bill 2020 be read a second time.

Introduction

2. 2019 was an unsettling year fraught with obstacles and an unforgettable one for all Hong Kong people.

3. Early last year, we had already foreseen that our economy would be subject to considerable uncertainties due to the US-China trade conflict and other external factors. However, no one could have predicted that social incidents would break out in the middle of the year, which not only hit our economy but also broke our hearts. Before we could sort things out, there was an unexpected outbreak of the novel coronavirus disease.

4. Preventing and fighting against the epidemic, as well as deploying resources to alleviate the pressure on enterprises and the general public are our top priority. Last week, we established the \$30 billion Anti-epidemic Fund to relieve the burden on those industries and employees in the eye of the storm.

5. In preparing this Budget, I put the focus on “supporting enterprises, safeguarding jobs, stimulating the economy and relieving people’s burden”. I am well aware that financial resources alone are not enough to tackle the challenges we are facing. However, making good use of fiscal reserves to support enterprises and relieve people’s hardship is certainly in line with our people’s expectations towards the Government under the current difficult environment.

6. Therefore, I have decided to implement counter-cyclical measures of a massive scale involving above \$120 billion so as to meet the public's expectations as far as possible. Although a record high deficit is envisaged in next year's budget, I believe that only with such a budget can we help our community and local enterprises ride out their difficulties. I will go into more details about this in the ensuing paragraphs.

Economic Situation in 2019

7. The external environment was exceptionally austere in 2019. Confronted by the slowdown in growth across most economies and US-China trade conflict, Hong Kong's total exports of goods fell by 4.7 per cent in real terms for the year as a whole. Hit by the violent social incidents, exports of travel services plunged and led to a fall of 10.4 per cent in exports of services for 2019 as a whole, the largest annual decline on record.

8. On domestic demand, private consumption expenditure began to weaken in the first half of 2019, and deteriorated abruptly in the second half of the year, resulting in a decline of 1.1 per cent in real terms for the year. Investment expenditure fell by 12.3 per cent in real terms amid subdued business confidence.

9. Hong Kong's economy was already quite weak in the first half of 2019. Dragged by a host of headwinds, the economy entered recession in the third quarter and contracted by 1.2 per cent for the year as a whole, the first annual decline since the great recession of 2009.

10. As the economic situation worsened, the labour market gradually slackened. The seasonally adjusted unemployment rate went up from 2.8 per cent in the second quarter of 2019 to the latest 3.4 per cent, the highest in more than three years. Employment situations in many sectors came under pressure. The unemployment rate of the retail, accommodation and food services sectors as a whole rose to a three-year high of 5.2 per cent. The unemployment rate of the food and beverage services sector even rose sharply to 6.1 per cent, the highest in eight years, and its underemployment rate also went up substantially. Besides, household incomes began to weaken in the second half of 2019.

11. Overall price pressures remained largely moderate. However, consumer price inflation went up in the second half of 2019, mainly reflecting the sharp increase in prices of basic foodstuffs amid reduced supply of fresh pork. Netting out the effects of the Government's one-off relief measures, the underlying inflation rate was 3 per cent for 2019, up 0.4 percentage point from 2018.

Economic Outlook for 2020 and Medium-term Outlook

12. Entering 2020, the rapid spread of the novel coronavirus has dealt a severe blow to economic activities and sentiment in Hong Kong. The tourism- and consumption-related sectors, already hard hit by the social unrest, are suffering from a more serious setback and entering a “harsh winter”. Although the impact of the epidemic on our economy in the near term could possibly be greater than that of the SARS outbreak in 2003, and the labour market is also subject to significant pressure, Hong Kong’s economic fundamentals remain solid and therefore our core competitiveness will not be shaken. The economy of Hong Kong should be able to recover once the epidemic is over.

13. On the Mainland, while its economy showed some deceleration, it still recorded a solid growth of 6.1 per cent for 2019 as a whole. Regarding the economic outlook for this year, the US-China trade relations remain complex and constantly evolving, and the near-term economic performance is also facing notable downward pressure from the novel coronavirus epidemic. Nonetheless, economic fundamentals of the Mainland are solid and there are adequate policy tools to maintain macro-economic stability. Once the epidemic is over, the growth of the Mainland economy is expected to continue to outpace that of other major economies.

14. On the external front, the global economy is still struggling and the growth momentum of many advanced economies remains feeble. Although the economic growth in the US eased last year, the resilient labour market would still continue to support private consumption. Nevertheless, market forecasts generally point to a further growth moderation in the US economy this year. Besides, economic growth of the euro area would remain modest this year amid subdued manufacturing activities.

15. After the consumption tax hike in October last year, Japan's economy has already seen visible downward pressure. This, coupled with structural issues such as an ageing population and huge public debt, suggests that economic growth should be rather subdued this year. Elsewhere in Asia, the emerging economies of the Association of Southeast Asian Nations will likely continue to see solid economic growth in the medium to long term given resilient domestic demand.

16. The development of US-China trade relations is the most significant uncertain factor facing the global economy. Moreover, the geopolitical risks in the Middle East and uncertainties surrounding the Brexit negotiations could possibly send shocks to the global financial market and slow down economic recovery.

17. The outbreak of the novel coronavirus epidemic will also affect production and transportation in the Mainland and Asia as well as the global supply chain operation. This will deal a further blow to the global economy. The International Monetary Fund has therefore lowered the Mainland and global economic growth forecasts for this year recently.

18. To sum up, Hong Kong's economy is facing enormous challenges this year. The outlook is far from promising in the near term. Having regard to the stimulus effect of the fiscal measures, I forecast our economy will grow by -1.5 per cent to 0.5 per cent in real terms in 2020.

19. On inflation, global inflation is expected to remain modest. Subdued local economic conditions in the near term will contain the upward pressure on local costs. The moderation in residential rentals will also help lower overall inflation. Taking the various factors into account, I forecast that the headline inflation rate and underlying inflation rate will ease to 1.7 per cent and 2.5 per cent respectively in 2020.

20. On property market, the residential property market has been largely quiet since last June with transactions and prices generally retreating. Yet, the current flat prices are still out of line with economic fundamentals and people's affordability. The Government will continue its endeavour to increase land and housing supply.

21. In the medium term, the economic outlook of Hong Kong remains positive. The development of our country and Asia will continue to be the key driving force of global growth. Given the huge market potential of the Mainland as well as the opportunities brought by the Belt and Road Initiative and the development of Guangdong-Hong Kong-Macao Greater Bay Area (Greater Bay Area), Hong Kong can leverage its strengths, grasp the opportunities and explore greater room for development.

22. Yet, on the other hand, we have to strive to overcome the constraints stemming from ageing population, a dwindling labour force and shortage of land. The social incidents also reveal that there are conflicts to be addressed. Balancing the various factors, I forecast Hong Kong's economy will grow by an average of 2.8 per cent per annum in real terms from 2021 to 2024, slightly lower than the trend growth of 2.9 per cent over the past decade. The underlying inflation rate is forecast to average 2.5 per cent.

Riding Out the Crisis Together

23. In view of the tough economic environment, we will adopt an expansionary fiscal stance and make optimal use of our fiscal reserves to implement counter-cyclical measures, with the objective of “supporting enterprises, safeguarding jobs, stimulating the economy and relieving people’s burden”, so as to help Hong Kong tide over the difficulties.

24. Hong Kong’s economy has seen negative growth since the second half of 2019. I have since August last year announced four rounds of support measures targeted at enterprises and individuals, involving a total of over \$30 billion.

Overcoming Current Challenges

25. Since January 2020, Hong Kong has come under the threat posed by the novel coronavirus outbreak, which further dealt a blow to the economy. We must take decisive measures to tackle the situation.

26. The Government earlier announced the setting up of a \$30 billion Anti-epidemic Fund to implement 24 measures to further enhance our capability in combating epidemic and provide assistance to enterprises and members of the public. To provide further relief to the community, I will implement the following measures.

Support Enterprises and Safeguard Jobs

27. For enterprises, new relief measures include:
- (a) introducing a concessionary low-interest loan under the SME Financing Guarantee Scheme, under which 100% guarantee will be provided by the Government. The application period will last for six months. The maximum amount of loan for eligible enterprises is based on their salary and rental expenditures for six months, subject to a ceiling of \$2 million. The repayment period is up to three years and, on an opt-in basis, a principal moratorium is available for the first six months during which only interest payments have to be made. The Government will provide guarantee of up to \$20 billion under this concessionary loan scheme;
 - (b) reducing profits tax for the year of assessment 2019/20 by 100 per cent, subject to a ceiling of \$20,000. The reduction will be reflected in the final tax payable for the year of assessment 2019/20. This will benefit 141 000 taxpayers and reduce government revenue by \$2 billion;
 - (c) waiving rates for non-domestic properties for four quarters of 2020-21, subject to a ceiling of \$5,000 per quarter in the first two quarters and a ceiling of \$1,500 per quarter in the remaining two quarters for each rateable non-domestic property. This proposal is estimated to benefit 420 000 non-domestic properties and reduce government revenue by \$3.2 billion;
 - (d) waiving the business registration fees for 2020-21. This will benefit 1.5 million business operators and reduce government revenue by \$3 billion;

- (e) waiving the registration fees for all annual returns (except for late delivery) charged by the Companies Registry for two years. This will benefit about 1.4 million companies and reduce related revenue by about \$212 million in total;

Moreover, I will continue to implement the following measures:

- (f) providing a subsidy to each eligible non-domestic household accounts for four extra months to cover 75 per cent of their monthly billed electricity charges, subject to a monthly cap of \$5,000 per account. This will involve an expenditure of about \$2.9 billion;
- (g) waiving 75 per cent of water and sewage charges payable by non-domestic households for four extra months, subject to a monthly cap of \$20,000 and \$12,500 respectively per household. This will reduce government revenue by \$340 million;
- (h) providing a new round of rental subsidy for six months to local recycling enterprises. This will involve an expenditure of about \$100 million;
- (i) reducing rental by 50 per cent for another six months for eligible tenants of government properties, government land and EcoPark. This will reduce government revenue by \$573 million;
- (j) reducing rental and fees by 50 per cent for another six months for eligible operators of properties covered by short-term waivers. This will reduce government revenue by \$265 million;

- (k) providing hirers of civic centres under the Leisure and Cultural Services Department (LCSD) with a 50 per cent reduction of hire charges for another six months. This will reduce government revenue by \$23 million; and
- (l) offering another six months of fees and rent reduction for cruise lines and existing tenants of the Cruise Terminal. This will reduce government revenue by \$18 million.

28. The above initiatives will cost a total of \$18.3 billion. I hope that they will not only help support our enterprises but also safeguard jobs for more than three million workers. I appeal to all employers and employees to stand together to ride out the difficult times.

Support Employees

29. In light of the deteriorating employment situation, I will provide an additional annual funding of \$30 million to enhance the employment programmes of the Labour Department, with a view to further encouraging employers to hire the elderly, young people and persons with disabilities. These initiatives include raising the ceiling of the on-the-job training allowance payable to employers under the Employment Programme for the Elderly and Middle-aged, the Youth Employment and Training Programme as well as the Work Orientation and Placement Scheme. The enhanced measures are expected to be implemented in the second half of this year and benefit some 4 000 persons annually.

30. The Employees Retraining Board (ERB) will enhance the new tranche of the Love Upgrading Special Scheme to be launched in July this year and provide about 10 000 additional places, in order to provide training and allowance for employees affected by the economic downturn. The ERB will also, through legislative amendment, increase the maximum amount of monthly allowance of each eligible trainee from \$4,000 to \$5,800. This initiative will benefit over 40 000 trainees annually and incur an additional expenditure of about \$2.5 billion.

31. The Construction Industry Council (CIC) will draw \$200 million from its levy income to provide around 6 000 eligible small and medium-sized contractors and registered subcontractors with a financial subsidy, capped at \$20,000 each, to tide the industry over the present difficulties. The CIC will also provide training allowances to those underemployed in-service workers attending its training courses so as to upgrade their skills.

32. In view of the deteriorating economic and employment conditions as a result of the novel coronavirus epidemic, the Government will provide a one-off special allowance to about 200 000 eligible low-income households under the Anti-epidemic Fund.

Relieve People's Burden

33. I will also introduce the following measures to ease the financial burden of the public:

- (a) reducing salaries tax and tax under personal assessment for the year of assessment 2019/20 by 100 per cent, subject to a ceiling of \$20,000. The reduction will be reflected in the final tax payable for the year of assessment 2019/20. This will benefit 1.95 million taxpayers and reduce government revenue by \$18.8 billion;

- (b) waiving rates in respect of residential properties for four quarters of 2020-21, subject to a ceiling of \$1,500 per quarter for each rateable property. This proposal is estimated to involve 2.93 million domestic properties and reduce government revenue by \$13.3 billion;
- (c) providing an extra allowance to eligible social security recipients, equal to one month of the standard rate Comprehensive Social Security Assistance payments, Old Age Allowance, Old Age Living Allowance or Disability Allowance. Similar arrangements will apply to recipients of the Work Incentive Transport Subsidy. This will involve an expenditure of about \$4.225 billion;
- (d) paying one month's rent for lower income tenants living in public rental units of the Hong Kong Housing Authority and the Hong Kong Housing Society, involving an expenditure of about \$1.829 billion; and
- (e) paying the examination fees for school candidates sitting for the 2021 Hong Kong Diploma of Secondary Education Examination, involving an expenditure of about \$150 million.

Cash Payout

34. The social incidents in the past months and the novel coronavirus epidemic have dealt a heavy blow to Hong Kong's economy.

35. In the face of an economic downturn, we expect a decline in government revenue in the coming year. The Government must exercise fiscal prudence to ensure healthy public finance. That said, I believe that the Government should also do a bit more, notwithstanding the fiscal deficit, when we are facing an economic setback and overwhelmed by a heavy atmosphere.

36. After careful consideration, I have decided to disburse \$10,000 to Hong Kong permanent residents aged 18 or above, with a view to encouraging and boosting local consumption on the one hand, and relieving people's financial burden on the other. This measure, which involves an expenditure of about \$71 billion, is expected to benefit about seven million people. The Government will announce the details of the scheme as soon as possible after obtaining funding approval from the Legislative Council (LegCo).

37. I have to emphasise that, although the cash payout scheme involves a huge sum of public money, it is an exceptional measure taken in light of the current unique circumstances and will not, therefore, impose a burden on our long-term fiscal position. I consider that, with ample fiscal reserves, the Government has to increase public expenditure amid an economic downturn to stimulate the economy and ride out the difficult times with members of the public.

Strengthening the Healthcare System

Fight the Epidemic

38. Currently, the most pressing tasks for the Government are to control the epidemic and stabilise our economy. On epidemic prevention and control, the Government is proactively sourcing anti-epidemic supplies worldwide, while subsidising and facilitating local production of these supplies to meet part of the demand. The Anti-epidemic Fund will help strengthen such efforts. I will also provide sufficient financial support for the Hospital Authority (HA) and the Department of Health (DH) in combating the epidemic.

39. We should plan ahead to enhance the capability of our healthcare system in preventing and treating infectious diseases, such as building additional medical and quarantine facilities, increasing our stock of medical supplies as well as strengthening scientific research on infectious disease prevention and control, pathology and medication. At the same time, we should also pay more attention to environmental hygiene so as to reduce the risk of infectious diseases spreading in the community. I will provide resource support on this front.

Enhance Services

40. In my last two Budgets, I announced, among others, the second 10-year Hospital Development Plan (HDP), enhancement of healthcare manpower training, expediting the upgrading and acquisition of medical equipment, introduction of advanced medical devices for treating cancer and other diseases requiring specialty services, expansion of the scope of the HA Drug Formulary, establishment of a public healthcare stabilisation fund, development of Chinese medicine (CM) services, and promotion of primary healthcare services. In sum, I have devoted substantial resources to healthcare and public health services.

Development of Healthcare Facilities

41. In 2016, the Government proposed the first 10-year HDP and earmarked \$200 billion for its implementation. Various projects are under way. The whole project is expected to provide a total of over 6 000 additional beds and more than 90 operating theatres.

42. The HA is also actively taking forward the planning of the second 10-year HDP. It is expected that the provision of over 9 000 additional beds and other new hospital facilities can meet the projected service demand up to 2036.

43. Around \$180 million has been allocated to the University of Hong Kong, the Chinese University of Hong Kong and the Hong Kong Polytechnic University in 2018-19 for carrying out short-term renovation works, enhancing facilities and strengthening professional healthcare training. Furthermore, the DH will renovate its clinics in phases.

Healthcare Manpower

44. Given a surge in demand for public hospital services in recent years, it is our top priority to provide sufficient manpower.

45. The HA established a Task Group on Sustainability in December 2019 to focus on reviewing, among other things, strategies for retaining staff. Three major proposals have been put forward as follows:

- (a) the HA will enhance the Special Retired and Rehire Scheme to encourage experienced doctors to continue their service on contract terms in the HA after retirement until 65;

- (b) the HA will consider creating opportunities for around 200 Associate Consultants to be promoted to Consultants within the next five years so as to retain experienced medical personnel; and
- (c) the HA will provide registered nurses who have attained specialty qualifications with additional allowance so as to retain manpower and encourage their continuing professional development in nursing.

It is estimated that the additional expenditure for the above three initiatives will increase substantially by 6.5 times, from around \$160 million in 2021-22 to around \$1.2 billion in 2025-26. The Government has already committed resources on this front. The HA will continue to look into other possible proposals for retaining manpower.

46. In the coming year, the Government will continue to increase the recurrent funding for the HA by \$3 billion, having regard to population growth and demographic changes. An additional funding of about \$600 million will also be provided to the HA for increasing manpower to implement new measures and enhance existing services. Overall, a total recurrent funding of \$75 billion will be provided to the HA in 2020-21, representing an increase of 35 per cent over the provision of \$55.6 billion in 2017-18.

Primary Healthcare

47. On the other hand, the Government will continue to allocate resources to promote district-based primary healthcare services, with a view to enhancing the public's capability in self health management and providing community support for chronic patients. The first District Health Centre (DHC) in Hong Kong was set up in Kwai Tsing District last year. The Government plans to set up DHCs in six other districts in the coming two years. I have earmarked \$650 million for meeting their recurrent expenditure. For the remaining 11 districts where DHCs have yet to be set up, I will allocate about \$600 million to subsidise the setting up of smaller interim "DHC Express" by non-governmental organisations (NGOs).

Development of Chinese Medicine

48. The Government has incorporated CM into Hong Kong's healthcare system and increased the provision of recurrent resources to provide the public with more desirable and subsidised CM services. The Food and Health Bureau (FHB) is undergoing the open tender process in identifying an operator for the first CM hospital in Hong Kong, and intends to launch the tender process for the construction works later this year. On the other hand, FHB established in 2019 a dedicated fund with \$500 million for promoting CM development in Hong Kong. Since its operation in less than a year, the fund has approved a total of about \$10 million to provide funding for the CM sector to nurture talent, conduct research and studies, and promote CM.

Mental Health Services

49. The social incidents and the novel coronavirus epidemic have affected the mental health of many people in Hong Kong. I will allocate sufficient resources to the FHB, the Labour and Welfare Bureau and the Education Bureau for providing appropriate support to people suffering from mental distress.

Developing a Diversified Economy

50. Financial services, tourism, trading and logistics, business and professional services are the pillars of Hong Kong's economy. Apart from strengthening the industries with competitive edges, I see the need to identify new growth engines by actively developing emerging industries. This will not only broaden the foundation of our economy, but also provide diversified and quality employment opportunities for young people to unleash their potential.

Financial Services

51. We have been continuously enhancing our financial market infrastructures and regulatory regime, with the aim of boosting the competitiveness of Hong Kong as an international financial centre. The financial market is highly volatile. To ensure financial security, under my steer, financial regulators have taken great efforts on shock-resistance and market surveillance for the operation of a stable and orderly financial market. We will continue to fulfil the dual roles of facilitator and regulator. While consolidating our strengths and developing the market, we will ensure that our regulatory framework can keep pace with the times, manage systemic risks effectively and provide protection for investors.

Securities Market

52. The securities market in Hong Kong enjoyed flourishing development in the past year. Since the launch of the reform in end-April 2018 to facilitate the listing of new-economy companies in Hong Kong, a total of 17 enterprises have listed in Hong Kong under the new regime and raised more than \$200 billion, representing more than one-third of the funds raised through initial public offerings during the same period.

53. The rapid growth of the Exchange Traded Fund (ETF) market in recent years has brought new opportunities for the development of our securities market. In order to strengthen the competitiveness of Hong Kong as an ETF listing platform, I propose to waive the stamp duty on stock transfers paid by ETF market makers in the course of creating and redeeming ETF units listed in Hong Kong. This initiative will further reduce the transaction cost of ETFs listed and spur the development of the ETF market in Hong Kong.

Green Finance

54. Last year, we saw the successful offering of our inaugural green bond of US\$1 billion under the Government Green Bond Programme. The issuance was well received by investors worldwide and set an important new benchmark for potential issuers in Hong Kong and the region. We plan to issue green bonds totalling \$66 billion within the next five years, having regard to the market situation. This will further consolidate and develop Hong Kong's position as a premier green hub in the region.

Retail Bond Market

55. In view of three rounds of interest rate cuts in the US last year and the low interest rates prevailing in Europe and Japan, I expect the global low interest rate environment to persist for a long time. Given that past issuances of inflation-linked retail bonds (iBond) were generally well-received, we plan to launch a further issuance of iBond this year to promote the further development of the retail bond market.

56. We will also continue to issue Silver Bonds to provide Hong Kong residents aged 65 or above with more appropriate investment products, and to encourage the financial sector to continue to develop the silver market.

57. Depending on the market situation, the issuance size of the two types of bonds above will not be less than \$13 billion. The Hong Kong Monetary Authority will announce the details in due course.

Public Annuities

58. On retirement financial planning, the Government launched the Hong Kong Mortgage Corporation Limited (HKMC) Annuity Plan in 2018 to assist the elderly in turning their assets into a lifelong stable cashflow. Over the past two years, the public and the retirees have raised their awareness of life annuity. This gives new impetus to the annuity market.

59. I will lower the minimum entry age of the HKMC Annuity Plan from 65 to 60 so as to facilitate early participation by those in need. The HKMC Annuity Limited will announce the details as soon as possible.

Fixed-rate Mortgage Loans

60. To provide potential homebuyers with more loan options and reduce the risks of interest rate volatility, HKMC will launch a pilot scheme to offer through banks fixed-rate mortgage loans, with interest rates of 2.75, 2.85 and 2.95 per cent per annum for periods of 10, 15 and 20 years respectively, capped at a ceiling of \$10 million per loan transaction. The total loan amount under the scheme is \$1 billion, subject to review based on market response.

Asset and Wealth Management

61. Hong Kong is an international asset and wealth management centre. The development of the Greater Bay Area presents enormous opportunities for the sector. To attract more funds to Hong Kong, we have been making full efforts to introduce new fund structures, including the preparation of new legislation on the establishment of a limited partnership regime that meets the operational needs of funds, so as to encourage the setting up of private equity funds in Hong Kong.

62. Promoting the development of private equity funds in Hong Kong will not only draw in capital, talent and expertise for a large number of business entities, technology companies and start-ups, but also drive demand for related professional services such as management, accounting and law while creating business opportunities in the service industry, including conference and exhibition, hotel, and tourism. With a view to attracting more private equity funds to domicile and operate in Hong Kong, we plan to provide tax concession for carried interest issued by private equity funds operating in Hong Kong subject to the fulfilment of certain conditions. We will consult the industry on the proposal, and the relevant arrangement will be applicable starting from 2020-21 upon completion of the legislative exercise.

Comprehensive Regulation

63. The Financial Action Task Force (FATF), an international regulatory body, completed a comprehensive evaluation of Hong Kong's anti-money laundering and counter-terrorist financing (AML/CTF) regime in mid-2019. Hong Kong is the first jurisdiction in the Asia-Pacific region having successfully passed the FATF assessment. The Government will further enhance Hong Kong's AML/CTF regime having regard to the recommendations of the evaluation report, and consider incorporating virtual asset service providers and dealers in precious metals, stones and jewellery into the AML/CTF regulatory framework. We plan to consult the public on detailed proposals this year.

64. Furthermore, we will continue to implement the latest international standards on banking regulation as promulgated by the Basel Committee on Banking Supervision, with a view to safeguarding the financial stability of Hong Kong.

Innovation and Technology

65. Innovation and technology (I&T) is an important growth engine for future economic development. In the past three years, the Government introduced a number of policies and allocated over a hundred billion dollars to support a series of measures for the development of I&T. The local I&T ecosystem has become more vibrant. Schools and parents are attaching greater importance to STEM education. Local I&T companies have won awards time and again in international competitions, whereas a number of "unicorns" have emerged. While there is still some way to go to develop I&T into mature industries, I am convinced that our current investments will bear fruits in future.

Promoting Research and Development

66. Promoting research and development (R&D) is a crucial part of I&T development. The Government is developing two InnoHK research clusters at the Hong Kong Science Park (Science Park), one focusing on healthcare technologies and the other on artificial intelligence and robotics technologies. They have received overwhelming response from many world renowned universities and research institutes. With the first batch of R&D centres expected to be set up progressively this year, we are actively exploring the establishment of a third InnoHK research cluster.

67. The Government will continue to provide enhanced tax deduction for qualifying R&D expenditure incurred by enterprises and subsidise local R&D work through the Innovation and Technology Fund (ITF), with a view to fostering technology transfer as well as application and commercialisation of R&D results. The Government will extend next month the coverage of the Public Sector Trial Scheme to all technology companies conducting R&D activities in Hong Kong.

68. On R&D and application, with the recent anti-epidemic work as an example, the Government has used the electronic wristbands developed by the Logistics and Supply Chain Multi-tech R&D Centre to facilitate home quarantine. The Nano and Advanced Materials Institute has also authorised a mask manufacturer to use its patented nanofibre technology to produce a highly breathable mask that is capable of killing bacteria. The government is also exploring the technology solutions related to reusable masks.

Re-industrialisation and Industry Development

69. The Government has been promoting re-industrialisation in Hong Kong through the provision of infrastructural, financial, technological and talent support. We will inject \$2 billion into the ITF for launching the Re-industrialisation Funding Scheme to provide financial support for manufacturers on a matching basis for setting up new smart production lines in Hong Kong. We will also provide the Hong Kong Science and Technology Parks Corporation (HKSTPC) with an additional funding of \$2 billion for converting an old factory in the Yuen Long Industrial Estate into a Microelectronics Centre to provide modern manufacturing facilities.

70. From April 2020 onwards, the Government will enhance the Technology Voucher Programme to promote the wider use of technological services and solutions among local enterprises for increasing their productivity or upgrading and transforming business processes. The Government's funding ratio will increase from the current level of two-thirds to three-fourths, and the funding ceiling from \$400,000 to \$600,000. The ceiling on the number of approved projects will also rise from four to six.

Developing I&T Infrastructure

71. The HKSTPC is exploring the feasibility of Phase 2 of the Science Park Expansion Programme. I will earmark \$3 billion for the programme.

72. The Data Technology Hub and the Advanced Manufacturing Centre being developed by the HKSTPC in the Tseung Kwan O Industrial Estate will be completed as scheduled in the first half of this year and in 2022 respectively.

73. We are now going through the statutory town planning procedures for the Cyberport 5 development site and plan to submit a funding proposal to LegCo in the first half of 2021. Construction is expected to complete in 2024 at the earliest. The expansion will attract more technology companies and start-ups to Cyberport.

Supporting Start-ups

74. We support start-ups through various means, including strengthening the support of the HKSTPC and Cyberport for their tenants and incubatees, backing university start-ups through the Technology Start-up Support Scheme for Universities, making use of the Innovation and Technology Venture Fund for co-investing with venture capital funds in local technology start-ups.

Transport and Logistics

75. We will continue to promote the development of transportation and logistics services, and harness the opportunities brought about by the Belt and Road Initiative and the development of the Greater Bay Area, so as to consolidate Hong Kong's position as an international and regional aviation, maritime and logistics hub.

Air Cargo Sector

76. The Airport Authority Hong Kong (AA) estimates that upon the full commissioning of the Three-Runway System in end-2024, the Hong Kong International Airport (HKIA) will boost its annual passenger and cargo handling capacities to around 100 million and about nine million tonnes respectively, thus meeting the air traffic demand at least up to 2030. Meanwhile, the AA is expanding the express air cargo terminal, developing a premium logistics centre and strengthening the airport's capability in handling high-value temperature-controlled cargoes in an effort to reinforce our leading position in air freight logistics.

77. To foster cross-border logistics and trading activities and grasp business opportunities in electronic commerce, I set aside \$5 billion last year for the redevelopment of the Air Mail Centre at the HKIA. Hongkong Post has completed the preparatory work and plans to submit a funding application to LegCo within this year, with a view to commencing the works as soon as possible.

Maritime Sector

78. The Government will continue to assist the port industry in enhancing its operational efficiency, and strive to develop high value-added maritime services by leveraging our strengths in professional services. The Government will amend the relevant legislation to provide tax concessions for the ship leasing business, including offering a profits tax exemption to qualifying ship lessors and a half-rate profits tax concession to qualifying ship leasing managers. Besides, profits tax will be halved for eligible insurance businesses including marine insurance. The Government will also explore other tax measures to attract more global shipping business operators and commercial principals to set up business in Hong Kong.

Enhancing Operational Efficiency of the Logistics Sector

79. To encourage the logistics industry to enhance productivity through technology application, the Government will introduce a pilot subsidy scheme this year with an injection of \$345 million. Each eligible third party logistics service provider will receive subsidies to implement up to four projects, subject to a cumulative subsidy ceiling of \$1 million. The scheme is expected to benefit about 300 companies.

Tourism

80. The tourism industry has suffered successive setbacks since the middle of last year. The Government has been maintaining close liaison with industry players. I have rolled out since last August several measures to alleviate their operating pressure and the Anti-epidemic Fund will also implement measures to help the industry. I will allocate an additional amount of over \$700 million for the Hong Kong Tourism Board to step up promotion and revive the tourism industry when the epidemic is over.

Trade

81. I will allocate an additional funding of \$150 million to the Trade Development Council (TDC) for organising various initiatives to promote Hong Kong; setting up Hong Kong Pavilion, Hong Kong Design Gallery and pop-up shops in major overseas cities; and organising trade delegations. In addition, the Anti-epidemic Fund has also set aside resources to provide subsidies to enterprises for attending conferences and exhibitions organised by the TDC, and subsidise the conferences and exhibitions to be held at the Hong Kong Convention and Exhibition Centre and the Asia World-Expo. These measures will help re-establish the confidence of the international community in Hong Kong as Asia's business hub and explore market opportunities for Hong Kong companies.

Professional Services

82. With its talent pool and rich international experience, the professional services sector supports the development of various industries in Hong Kong and reinforces our position as an international financial and business centre. We will continue to support the sector in expanding into overseas and Mainland markets. We will also seek to promote the development of our professional services sector in the Greater Bay Area under the “early and pilot implementation” approach.

83. Respect for the rule of law and independence of the judiciary are among the cornerstones underpinning Hong Kong's success. I will earmark about \$450 million for the Department of Justice to implement the "Vision 2030 for Rule of Law" project so as to strengthen our community's understanding of the concept of the rule of law and its implementation.

Cultural and Creative Industries

Cultural Development

84. Hong Kong is an international cultural metropolis where the eastern and western cultures meet. Cultural and arts activities not only enrich life experience and foster the cultivation of personal qualities, but also create room for young people to display their creativity and offer them job opportunities. In 2019-20, the Government's total expenditure on culture and arts exceeds \$5 billion.

85. We will continue to promote traditional Chinese culture actively through the Intangible Cultural Heritage Funding Scheme and the Cantonese Opera Development Fund. At the same time, we will encourage local arts groups and artists to showcase to the world the cultural strength and artistic achievements of Hong Kong.

86. Promoting diversity in cultural and arts development requires the joint support of the community and the business sector. I will allocate an additional \$900 million to the Art Development Matching Grants Scheme this year to further promote sponsorship of culture and arts.

Cultural Facilities

87. The West Kowloon Cultural District is one of the largest cultural projects in the world, with the Xiqu Centre and Freespace already commissioned in 2019. The remaining cultural and arts facilities, including the visual culture museum M+, the Hong Kong Palace Museum and the Lyric Theatre Complex, will be completed in the next few years to provide world-class venues for artists.

88. The Hong Kong Museum of Art re-opened at the end of last year, while the East Kowloon Cultural Centre under construction is targeted to commence operation in 2022. We are also actively planning for the construction of a number of new cultural facilities, and the expansion and renovation of existing facilities.

Creative Industries

89. The Government allocated \$1 billion each to the CreateSmart Initiative and the Film Development Fund in the past two financial years, more than doubling the total amount of resources allocated in the preceding years.

90. In the coming year, we will focus on helping industries explore the Mainland and overseas markets. On films, we will enhance co-operation with countries in Southeast Asia in a more proactive manner. Last November, Hong Kong signed a memorandum of understanding with Thailand, facilitating co-operation between the creative sectors of both sides. The Agreement Concerning Amendment to the Mainland and Hong Kong Closer Economic Partnership Arrangement Agreement on Trade in Services announced earlier will also facilitate the entry of the local film, television and printing industries into the Mainland market.

Nurturing Talent

91. Human capital is a valuable asset for our society. To provide young people with more opportunities to broaden their horizons and apply their knowledge, the Government and relevant organisations have provided training, internship schemes, subsidies, etc. for young people to develop their strengths in different areas.

Innovation and Technology

92. On I&T, last year we extended the funding period of the Researcher Programme (RP) and Postdoctoral Hub and increased the allowance under the RP. So far, the two programmes together have nurtured about 5 700 scientific research talent. We will expand the two programmes in March this year to cover all technology companies conducting R&D activities in Hong Kong. Moreover, we will consolidate the two programmes to provide more flexibility for engaging R&D talent.

93. The Government will also continue to implement the Re-industrialisation and Technology Training Programme, which provides subsidies to local enterprises for training their staff in high-end technologies. The programme has so far benefited over 2 000 staff with a funding of over \$13 million.

94. In January this year, we enhanced the Technology Talent Admission Scheme by doubling the technology areas covered by the scheme to 13. We have also extended its coverage to all companies engaging in relevant R&D activities in Hong Kong, which will help them attract more technology talent.

95. The Government has been striving to promote STEM education, with the aim of bringing new blood into the I&T industry. In the 2018/19 academic year, total student enrolments in STEM-related programmes funded by the University Grants Committee exceeded 35 000, representing an increase of 16 per cent over five years. I will set aside \$40 million to subsidise short-term internships for undergraduates and postgraduates taking STEM programmes in local universities.

International Aviation Training Hub

96. AA established the Hong Kong International Aviation Academy in 2016 which has since then provided professional training programmes for over 68 000 participants. The Academy is conducive to the development of Hong Kong as an international training base for aviation talent.

Maritime and Aviation Sectors

97. The Government will continue to collaborate with the maritime and aviation sectors to enrich their talent pool through measures such as enhancing the Ship Repair Training Incentive Scheme and the Maritime and Aviation Internship Scheme under the Maritime and Aviation Training Fund, as well as introducing the Local Vessel Competency Enhancement Scheme. As at end of last year, over 8 400 students and in-service practitioners in the maritime and aviation sectors benefited from the Fund.

Construction Industry

98. In my last Budget, I proposed the allocation of \$200 million for attracting young people to join the construction industry and step up training of workers. The CIC will take forward various initiatives, subject to funding approval by the LegCo.

99. The Government will continue to lead the construction industry to implement Construction 2.0 for enhancing its capacity and promoting its continuous development by advocating innovation, professionalism and revitalisation. In July 2019, the Centre of Excellence for Major Project Leaders was established to enhance the delivery capability of project leaders in the Government and the public sector.

Arts Administration

100. To support the development of culture and arts in Hong Kong, I have allocated a total of \$216 million to the Arts Development Council and LCSD for providing about 700 placements for internship, scholarship and on-the-job training to strengthen the training of arts administrators.

Youth Entrepreneurship

101. The Government has earmarked \$1 billion to support the work of the Youth Development Commission. Of this sum, the Commission has already expended \$500 million to implement a range of new programmes and measures, including injection of \$300 million into the Youth Development Fund to support youth innovation and entrepreneurship and promote upward mobility. About \$100 million under the Fund will be granted to support over 10 NGOs in implementing youth entrepreneurship projects, under which subsidies will be provided for nearly 200 young entrepreneurs who intend to start or have already started their businesses, while start-up support and incubation services will be rendered to about 4 000 young people.

Provision of Internship Places

102. The Government will offer more internship opportunities to students by substantially increasing the short-term internship places in 2020-21 to almost 5 000. This will enable the students to better understand the operation of the Government and the public sector and gain experience, and thereby facilitating their planning ahead for future development.

Guangdong-Hong Kong-Macao Greater Bay Area

103. The Greater Bay Area, with a population of over 70 million and a GDP of US\$1.6 trillion, presents an enormous market and ample room for development for Hong Kong.

104. Under the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area, Hong Kong is positioned in the Greater Bay Area not only as international financial, transportation and trade centres and an international aviation hub, but also as a global offshore Renminbi (RMB) business hub and an international asset management centre and risk management centre. Our services industry is heading for the development of high-end and high value-added services, and making great efforts to develop I&T industries as well as international legal and dispute resolution services.

105. Last year, the Leading Group for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area (Leading Group) announced successively 24 key policy measures to benefit people from all walks of life and facilitate the development of our professional services sector in the Greater Bay Area. These measures would offer greater convenience to Hong Kong people developing their careers, working and living in the Greater Bay Area, and facilitate the flow of people, goods and capital within the area.

Financial Services Industry

106. The Leading Group has announced six finance-related measures, covering areas such as personal banking services and insurance. Regarding the establishment of a two-way wealth management connect scheme, good progress has been made in the discussions between Hong Kong and the Mainland. On the premise of ensuring prudent management of risks and protection of investors, the scheme aims to enable residents of Hong Kong and Mainland cities in the Greater Bay Area to invest in wealth management products in each other's market. This will create more business opportunities for the financial industries of the two places, and provide more choices for residents therein, thereby facilitating the cross-boundary flow and use of RMB, and in turn further reinforcing Hong Kong's position as the hub for offshore RMB business as well as the intermediary for capital flowing into and out of the Mainland. We will strive to implement the scheme as early as possible.

107. With the support of the Central People's Government, Hong Kong continues to be the world's largest offshore RMB business hub, with the largest offshore RMB liquidity pool as well as foreign exchange and over-the-counter interest rate derivatives market. With a leading position in RMB settlement, financing and asset management, Hong Kong has been playing a bridging role by providing a premier platform for international investors to access the Mainland market and allocate RMB assets. We will continue to explore with the industry and Mainland authorities on the expansion of the channels for two-way flow of cross-boundary RMB funds.

Innovation and Technology

108. Hong Kong is a highly internationalised and market-oriented city enjoying the unique advantage of “One Country, Two Systems”. The R&D capabilities of our universities have attained world-class standard in many areas. Hong Kong’s advantages include our competence in R&D, pool of talent, international experience and safeguards of intellectual property. In parallel, the Greater Bay Area features a host of leading I&T enterprises, exemplary capabilities in commercialising R&D results and advanced manufacturing industries. Through mutual collaboration, Hong Kong and other cities in the Greater Bay Area can form a comprehensive production chain and bolster our overall competitiveness, thereby benefiting the development of I&T industry in Hong Kong and facilitate the development of the Greater Bay Area into an international I&T centre.

109. The Hong Kong-Shenzhen Innovation and Technology Park (the Park) in the Lok Ma Chau Loop is a key base for co-operation in scientific research for Hong Kong and Shenzhen in future. The Park will provide a maximum gross floor area of 1.2 million square metres, three times that of the Science Park. The Park is not only the largest I&T platform in Hong Kong so far, but also an important infrastructure for promoting local R&D and re-industrialisation. The first phase of ground treatment works is in good progress. We will seek funding from the LegCo for commencing the Main Works Package 1 and construction works of the first batch of buildings.

Belt and Road

110. The Belt and Road Initiative marks its seventh year this year. So far, over 160 countries and international organisations have become partners. There has been a growing interest in greening infrastructure, debt affordability and exchange rate risks among various parties. Moreover, RMB will be increasingly used. We can provide diversified services for Belt and Road projects in the areas of infrastructure financing, green finance, RMB products and services, insurance as well as other professional services.

111. Leveraging Hong Kong's platform function for taking forward Belt and Road projects, enterprises from within and outside the country can set up their regional headquarters here to open up new markets; carry out financing, treasury and risk management activities; and make use of our insurance, legal and dispute resolution services. Over the past few years, we have introduced an array of policy initiatives to enhance our competitiveness and attractiveness in this area.

112. On the other hand, the Government will continue to actively support local enterprises and professional services sectors to go global with Mainland enterprises to tap overseas markets by, among other things, setting up business in the Mainland's overseas Economic and Trade Co-operation Zones. We will also strengthen ties with overseas markets to seize the opportunities brought about by the Belt and Road Initiative.

Building A Liveable City

113. Hong Kong is our home. We will devote resources to different areas to develop Hong Kong into a more liveable city.

Land Resources

114. The Government is committed to resolving the land and housing problems. We accepted the report of the Task Force on Land Supply early last year and are now taking forward its recommendations in full steam.

Housing Land

115. In the medium to long term, various new development area projects will bring about over 210 000 housing units. In particular, the first parcel of housing land under the Tung Chung East reclamation works is ready for handover next month, and is expected to provide 10 000 public housing units in the first quarter of 2024. The land resumption exercise for Kwu Tung North/Fanling North new development areas commenced last year, with a view to enabling the first population intake of the public housing development in 2027. Besides, upon funding approval by the LegCo, we will commence in the second half of the year the first phase of the works for Hung Shui Kiu/Ha Tsuen new development area. As for the Yuen Long South development, the statutory planning process will commence soon, and we will strive to have the first batch of public housing units in place in 2028.

116. As for rezoning sites for housing development, we have rezoned 135 sites for providing over 147 000 public housing units and approximately 44 000 private housing units over the past six years. Rezoning for another 12 sites are in progress to provide some 11 000 housing units, over 90 per cent of which will be public housing. We will gradually commence the rezoning procedures for another 25 sites in the coming year involving nearly 85 000 units, over 90 per cent of which will be public housing.

117. The Planning Department will commence technical studies on the first batch of shortlisted brownfield clusters suitable for public housing development as soon as possible. It is estimated to provide over 20 000 public housing units, with the details to be announced by the Development Bureau (DEVB) in due course. In addition, the DEVB is co-ordinating technical studies for the three urban squatter areas in Cha Kwo Ling, Ngau Chi Wan and Chuk Yuen for 6 300 public housing units. It will also examine the suitability of some 10 sites, which have been zoned for high-density housing development but without any development plans due to various reasons, for public housing development.

118. Moreover, the three-year Land Sharing Pilot Scheme will start receiving applications in the first half of this year. The area of land to be approved will be capped at 150 hectares. I believe that this can supplement the supply of public and private housing in the short to medium term.

Housing Supply

119. According to the latest forecast, the total public housing production in the five-year period from 2019-20 to 2023-24 is about 100 400 units, comprising about 74 400 public rental housing and Green Form Subsidised Home Ownership Scheme units and about 26 000 other subsidised sale units. On private housing, it is estimated that the private sector will, on average, complete about 19 600 private residential units annually from 2020 to 2024, an increase of about 25 per cent over the annual average of the past five years.

Long-term Planning for Land Resources

120. Over the past year, the Steering Committee on Land Supply under my leadership had been co-ordinating policy bureaux to re-assess the future land requirements of Hong Kong with the concept of land reserve in mind. The latest land forecast, scheduled to be announced in the second quarter of this year, will provide a blueprint of land search and creation for the Government.

121. Regarding the studies related to Lantau Tomorrow, the DEVB is seeking funding from the LegCo for carrying out engineering, planning and financial assessments. The Government will also strive to secure early approval of the funding for conducting the combined study on the Lung Kwu Tan reclamation and the re-planning of Tuen Mun West (covering a total of approximately 440 hectares of land) for industrial, residential and other development uses. I am aware that some members of the public are concerned that the construction of Lantau Tomorrow may impose a heavy burden on public finances. In this regard, the Government has all along been implementing a stringent audit and monitoring mechanism for the approval of funding for public works and the use of public funds. We are confident in and capable of ensuring that the Government can afford the expenditure on future works.

Land Supply

122. The 2020-21 Land Sale Programme comprises a total of 15 residential sites, capable of providing about 7 500 residential units. Together with railway property development projects and private development and redevelopment projects, the potential land supply for the whole year is expected to have a capacity of providing about 15 700 units.

123. To meet the needs of economic development, the Government will include six commercial sites in the Land Sale Programme, estimated to provide about 830 000 square metres of floor area. The Secretary for Development will shortly announce the details of the Land Sale Programme for the next financial year.

Environmental Protection

124. Climate change has brought about global environmental challenges, with extreme weather phenomena increasing in frequency and intensity. Hong Kong has been working towards the goal of the Paris Agreement. In Hong Kong's Climate Action Plan 2030+ announced in 2017, the Government set out the target to reduce Hong Kong's carbon intensity by 65 per cent to 70 per cent by 2030 against a 2005 baseline, i.e. an overall carbon emission reduction of 26 per cent to 36 per cent. Enhancement in climate resilience will not only turn Hong Kong into a more liveable city, but also contribute to our sustainable development.

125. The Council for Sustainable Development has conducted a public engagement exercise on Hong Kong's long-term decarbonisation strategy. It is analysing the views collected to help the Government formulate a long-term decarbonisation strategy.

Setting Up the Green Tech Fund

126. To promote the development of decarbonisation and green technologies, expedite low-carbon transformation and enhance environmental protection, I propose setting up a \$200 million Green Tech Fund to support R&D and application of decarbonisation and green technologies, and the sharing of R&D findings.

Promoting the Use of Electric Vehicles

127. On promoting the use of electric vehicles (EVs), the Government has offered tax concessions, provided subsidies for franchised bus companies for trials of single-deck electric buses and enhanced the public EV charging network. The number of electric private cars in Hong Kong grew from 70 in 2010 to 13 600 last year, accounting for 2.1 per cent of the total number of private cars. Such adoption rate comes second to Beijing among major Asian cities. The Government will update the Clean Air Plan to, among other things, examine the policy of further promoting the use of EVs. We will also formulate Hong Kong's first roadmap on the popularisation of EVs.

128. As regards charging facilities, we will launch a \$2 billion pilot scheme this year. The scheme aims to subsidise the installation of charging-enabling infrastructure in eligible car parks of private residential buildings, with a view to facilitating the installation of chargers by owners of individual parking spaces.

129. We are researching into electric public light buses that are suitable for local use and the basic specifications and requirements of the associated charging facilities. Relevant guidelines will be formulated. The Government will earmark \$80 million for a pilot scheme under which green PLBs running on fixed routes will pioneer the switch to EVs.

Phasing Out Euro IV Diesel Commercial Vehicles

130. The Government is preparing for the launch of a scheme in the second half of this year to phase out about 40 000 Euro IV diesel commercial vehicles. I have set aside \$7.1 billion for ex-gratia payment to the vehicle owners concerned.

Pilot Scheme for Electric Ferries

131. To reduce emissions from ferries, the Government plans to launch a pilot scheme for electric ferries serving ferry routes in the Victoria Harbour. I have earmarked \$350 million for this purpose. Relevant departments will work out details of the scheme.

Waste Paper Recycling

132. To support the waste paper recycling industry, I propose to set aside a sum of not less than \$300 million each year starting from 2020-21 for implementing a scheme to recycle waste paper. The Environmental Protection Department (EPD) will engage service contractors to collect waste paper across the territory for screening, sorting and baling before exporting to other places for recycling. This will help stabilise the quantity and price of local waste paper and support the waste paper. The EPD plans to commence the scheme in the second half of this year.

Cleaner Production Partnership Programme

133. The Cleaner Production Partnership Programme encourages Hong Kong-owned factories to adopt cleaner production technologies, so as to help improve the regional environment. I have earmarked \$300 million to extend the programme for five years up to March 2025.

Smart City

134. The Innovation and Technology Bureau (ITB) will announce the Smart City Blueprint for Hong Kong 2.0 this year to further promote smart city development.

Digital Infrastructure

135. The world enters the 5G era, with major telecommunications operators launching 5G services in Hong Kong during the year. The Government will adopt a multi-pronged approach in facilitating the development and application of 5G network. This includes the implementation of a subsidy scheme for mobile network operators to expand optical fiber network to remote villages. We will also open up more suitable government properties, sheltered bus stops and telephone kiosks for the setting up of radio base stations by operators to support the development of 5G network.

“iAM Smart”

136. ITB will launch the “iAM Smart” one-stop personalised digital service platform in the fourth quarter of 2020. By the middle of next year, members of the public can gain access to more than 100 online government services through “iAM Smart”.

Smart Traffic Fund

137. I have earmarked \$1 billion for the Smart Traffic Fund to provide funding support for enterprises or organisations to conduct research and application on vehicle-related I&T. The Fund is expected to commence operation in 2020-21.

Geospatial Data

138. Last year, I earmarked \$300 million to promote greater use of spatial data in the community. We will launch the high-quality territory-wide 3D digital map in phases starting from this year, and roll out the Common Spatial Data Infrastructure Portal for full operation by end-2022. This year I will further earmark \$60 million for the establishment of the first Geospatial Lab to encourage the public to make use of spatial data in developing mobile applications.

Digitisation of the Works Supervision System

139. The DEVB has actively promoted the digitisation of the works supervision system. Starting from the second quarter of this year, all public works projects will adopt the digital works supervision system in phases. I will allocate \$100 million to develop an integrated digital platform for data integration and information exchange in order to strengthen project supervision.

Sports Development

140. This year is the Olympic year. We will give Hong Kong athletes our strongest support to enable them to achieve outstanding results at the Tokyo Olympic and Paralympic Games.

141. To further promote sports development in Hong Kong, the Government will substantially increase the total subvention for the Sports Federation and Olympic Committee of Hong Kong, China and 60 national sports associations from about \$300 million to more than \$500 million a year over the next four years. We will continue to take forward the new facilities building project of the Hong Kong Sports Institute so as to provide our athletes with world-class training and support facilities.

City Development

142. The Government will continue to invest in infrastructure projects with a view to building a better city and improving quality of life. In the next few years, the annual capital works expenditure is expected to reach \$100 billion on average, and the annual total construction output will increase to around \$300 billion.

Harbourfront Enhancement

143. The Government has earmarked \$6.5 billion for implementing a number of harbourfront development initiatives. Taking the example of the highly popular harbourfront promenades, our target this year is to open up another kilometre or so of new promenades, further extending the total length of the promenades along both sides of the Victoria Harbour to 24 kilometres.

Making Good Use of Government Land

144. In last year's Budget, I set aside \$22 billion to take forward the projects under the "single site, multiple use" initiative. The six projects in the first batch comprise the redevelopment of Tuen Mun Clinic, development of a proposed ambulance depot near Sheung Wan Fire Station, consolidation of several government sites in Tsuen Wan town centre, as well as the construction of joint-user buildings for community facilities at the former Anderson Road Quarry site, Tseung Kwan O town centre and Shan Mei Street in Shatin. We will finalise the mix of community facilities in the relevant projects.

Railway Development

145. Railway has always been the backbone of the passenger transportation system in Hong Kong which facilitates daily commuting and promotes district development. Two weeks ago, Tuen Ma Line Phase 1 was smoothly commissioned. We expect the MTR Corporation Limited (MTRCL) to complete the remaining works of the Tuen Ma Line and the Hung Hom to Admiralty Section of the Shatin to Central Link as soon as possible, with target commissioning in end-2021 and the first quarter of 2022 respectively.

146. We will progressively implement the new railway projects recommended under the Railway Development Strategy 2014, and invite the MTRCL to commence detailed planning and design for the Tung Chung Line Extension, the Tuen Mun South Extension and the Northern Link in the coming year. We will consult the public on these new railway schemes after they are finalised.

Caring Society

147. The current-term Government spares no effort to enhance social welfare services. The recurrent expenditure in this area has increased by 26 per cent, from \$65.3 billion in 2017-18 to \$82.3 billion in 2019-20. In January, the Chief Executive also announced a number of new recurrent measures to benefit the elderly, workers, low-income families, the unemployed or underemployed, and underprivileged people.

148. I will continue to allocate resources to strengthen elderly services. A total of 3 000 additional home care service quotas will be provided for frail elderly persons in the two years, while an additional 1 000 community care service vouchers will be issued to elderly persons with moderate or severe impairment in 2020-21. The annual recurrent expenditure for 2020-21 will exceed \$300 million. In addition, I will allocate an additional \$75 million to subsidised elderly service units for providing soft meals to elderly persons with swallowing difficulties.

149. As for child welfare, to enhance the service quality of the Neighbourhood Support Child Care Project, the Social Welfare Department (SWD) has allocated an additional provision of about \$24 million to service operators under the Project since January this year, enabling them to increase manpower to strengthen training for home-based child carers.

150. For early identification of and provision of assistance to pre-primary children and their families with welfare needs, the Government has allocated \$990 million from the Lotteries Fund to provide social work services in phases in subsidised/aided child care centres, kindergartens and kindergarten-cum-child care centres for about 150 000 pre-primary children and their families. The first two phases have provided services to 485 eligible pre-primary institutions in total. The third phase will commence in August this year.

151. Starting from 2020-21, I will provide additional funding to SWD-subsented NGOs operating day service units to meet the electricity costs of providing air conditioning for their activity areas, involving an annual recurrent expenditure of about \$46 million. It is expected that over 1 100 subsented service units and more than one million service users will benefit from this initiative.

Revised Estimates for 2019-20

152. The 2019-20 revised estimates on government revenue is \$567.3 billion, lower than the original estimate by 9.4 per cent or \$58.8 billion. This is mainly because revenues from profits tax, salaries tax and stamp duties are lower than the original estimate by \$53.4 billion.

153. Revenues from profits tax and salaries tax dropped substantially by \$40.4 billion due to economic condition, enhanced tax concessions and a deferred tax assessment cycle as compared with previous years. On the other hand, stamp duty revenue is \$63 billion, \$13 billion less than the original estimate, attributed to smaller-than-expected trading volumes brought about by adjustments in the property and stock markets over the year.

154. As for government expenditure, the revised estimate is \$611.4 billion, 0.6 per cent or \$3.6 billion higher than the original estimate. This is mainly because of the establishment of the Anti-epidemic Fund, and that expenditures on public works projects were lower than the original estimates.

155. All in all, I forecast a deficit of \$37.8 billion for 2019-20. Fiscal reserves are expected to be \$1,133.1 billion by 31 March 2020.

156. The civil service establishment increased by 3 481 posts in this financial year, representing a growth of 1.8 per cent, close to the average growth of one to two per cent over the past decade.

Estimates for 2020-21

157. The major policy initiatives announced in the 2019 Policy Address involve an operating expenditure of \$48.7 billion and capital expenditure of \$24.8 billion. I will ensure that adequate resources are provided to fully support the launch of these initiatives.

158. Total government revenue for 2020-21 is estimated to be \$572.5 billion. Earnings and profits tax are estimated to be \$202 billion. Having regard to the Land Sale Programme and the land supply target of the coming year, land revenue is estimated to be \$118 billion which decreased by 16.6 per cent compared with the revised estimate for 2019-20. Revenue from stamp duties is estimated to be \$75 billion which increased by 19 per cent compared with the revised estimate for 2019-20.

159. Since taking office, the current-term Government has launched a series of measures to improve people's livelihood. Operating expenditure for 2019-20 increased by 22.2 per cent, compared with the last financial year with an increase in total government expenditure by 15 per cent. The operating expenditure for the new financial year will further increase by 16.9 per cent, demonstrating the Government's determination to stimulate the economy and ease people's burden. Public expenditure will account for about 23.2 per cent of our GDP during the five-year period up to 2024-25 in the Medium Range Forecast.

160. In 2020-21, the estimated recurrent expenditure on education, social welfare and healthcare accounts for about 60 per cent of government recurrent expenditure, together exceeding \$280 billion. Recurrent expenditure in these three areas recorded a cumulative increase of 50 per cent over the past five years.

161. We will increase the manpower of various departments as appropriate in 2020-21. The civil service establishment is expected to expand by 6 082 posts to 197 845, representing a year-on-year increase of about 3.2 per cent. The increase in manpower is to cope with additional workload and support the implementation of new government policies and initiatives.

Medium Range Forecast

162. The Medium Range Forecast (MRF) projects, mainly from a macro perspective, the revenue and expenditure as well as financial position of the Government. From 2021-22 to 2024-25, a real economic growth rate of 2.8 per cent is adopted for the MRF which is slightly lower than the previous trend.

163. During the above period, the average annual capital works expenditure will exceed \$100 billion, while the growth of recurrent government expenditure ranges between 4.3 per cent and 8.6 per cent per annum.

164. Regarding land revenue, the forecast on land premium from 2021-22 onwards is based on the average proportion of land revenue to GDP over the past decade, which is 4.2 per cent of GDP. I also assume that the growth rate of revenues from profits tax and other taxes will be similar to the economic growth rate in the next few years.

165. In addition, the forecast reflects that the Housing Reserve will be brought back to the fiscal reserves over four years starting from 2019-20, and the proceeds of the Government Green Bond Programme.

166. Based on the above assumptions and arrangements, I forecast an annual deficit in the Operating Account in each of the coming five financial years, as well as a surplus in the Capital Account every year for the same period. The estimated deficit in the Operating Account in 2020-21 is mainly due to the expenditure arising from the one-off relief measures announced in this Budget and some of the relief announced last year. The subsequent forecast deficit in the Operating Account is attributed to a higher growth in recurrent expenditure than that of revenue receipts. The above forecast has not taken into account tax rebate and relief measures that the Government may implement over these four years.

167. Fiscal reserves are estimated at \$937.1 billion by the end of March 2025, representing 26.5 per cent of GDP, equivalent to 15 months of government expenditure.

Public Finance

Deficit Budget

168. The HKSAR Government runs a fiscal deficit in 2019-20, the first time for Hong Kong over the past 15 years. I forecast a deficit for the next five years as well.

169. The US-China trade conflict and the violent incidents in Hong Kong significantly dampened our economic momentum. In the past six months, I have announced four rounds of relief measures costing over \$30 billion. These measures, together with the \$30 billion Anti-epidemic Fund established in response to the recent novel coronavirus outbreak, resulted in a deficit of about \$37.8 billion for 2019-20, which is about 1.3 per cent of GDP.

170. Regarding 2020-21, taking into account the impact of the external economic environment and the epidemic, Hong Kong's economy is expected to be under contractionary pressure, with enterprises facing difficulties and the unemployment rate on the rise. As such, this year's Budget focuses on "supporting enterprises, safeguarding jobs, stimulating the economy and relieving people's burden". Measures for supporting the general public and enterprises, including the cash payout scheme, will be rolled out.

171. Though confident in Hong Kong's fundamental strengths and long-term prospects, I must prudently assess the impact of the current situation on government revenue in the coming year. I thus forecast a decrease in tax and land revenues. Taking also into account the launch of countercyclical fiscal measures on a much larger scale and the continued increase in recurrent expenditure as I have just mentioned, I expect that the fiscal deficit for next year will be \$139.1 billion, accounting for 4.8 per cent of GDP.

172. Although the deficit will hit an all-time high, a close look at its components shows that almost \$120 billion of the deficit is related to the cash payout scheme and other one-off relief measures, which will not incur long-term financial commitments.

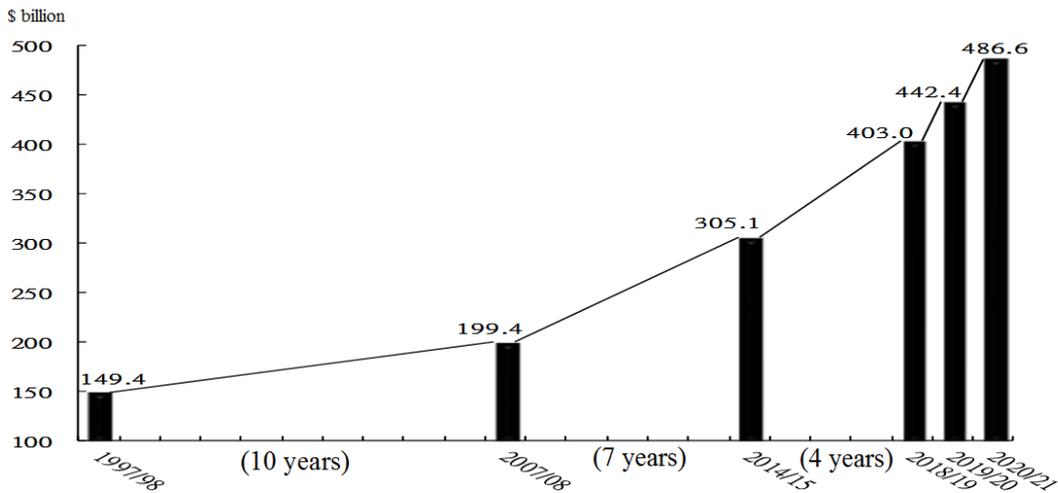
173. Besides, the revenue for the same financial year will include \$19.5 billion from the issuance of green bonds and \$22 billion brought back from the Housing Reserve. Netting out the aforesaid revenue and one-off expenditure, the deficit is about \$59 billion, accounting for 2 per cent of GDP.

174. Our current fiscal reserves of about \$1,100 billion enable us to roll out special measures amid the prevailing economic downturn, such as paying out cash. Such special measures and the ever-growing expenditure, however, will deplete our fiscal reserves. Take the 2020-21 financial year as an example. Our reserves which are equivalent to 22 months of government expenditure at the beginning of the year will drop to a level equivalent to 16 months of government expenditure at year-end. If we keep running a fiscal deficit, our reserves will eventually be used up. This is something which we do not want to see. Moreover, the Government will have to draw on the fiscal reserves to meet the funding already earmarked for a number of large-scale projects, for example the two 10-year Hospital Development Plans amounting to about \$500 billion in total.

175. It is worth noting that the Operating Account is projected to record a deficit for five consecutive years, as shown in the Medium Range Forecast. In the four financial years starting from 2021-22, there will be an annual deficit of about \$50 billion in the Operating Account, and the overall deficit in the Consolidated Account will range between \$7.4 billion and \$17 billion. That said, the above forecast has not taken into account tax rebate and relief measures that the Government may implement.

176. The deficits are mainly caused by the fact that government revenue cannot keep up with drastic increases in government expenditure, especially recurrent expenditure. Since reunification, recurrent expenditure increased from \$150 billion to \$440 billion recorded last year. It started to rise from \$150 billion to \$200 billion in the first decade after reunification, further increased to \$300 billion over the following seven years (i.e. in 2014-15) and to \$400 billion after four years (i.e. in 2018-19). For this year (i.e. in 2019-20) alone, recurrent expenditure shows a further increase of about \$40 billion, and in the coming year (i.e. in 2020-21), it will be almost \$500 billion. Such rapid growth is not sustainable.

Growth of Government Recurrent Expenditure since 1997/98



Face the Challenge

177. The significant rise in government expenditure over the years was for enhancing services or increasing investment in various areas of the community, which were essential to catching up with the needs of the public. In the coming years, government expenditure will enter a consolidation period. We will focus on the optimal use of resources to implement the committed initiatives in an orderly and effective manner so that the public will see progressive improvements in public services and social infrastructure. As for future increase in spending, we should be more mindful of the Government's long-term affordability. It should also be commensurate with the increase in revenue.

178. We need to maintain the growth and vibrancy of our economy and identify new areas of economic growth, with a view to increasing our revenue, promoting social development, coping with the challenges arising from an ageing population, and providing more quality employment opportunities. Besides, we may need to consider seeking new revenue sources or revising tax rates. The one-off relief measures may also have to be progressively reduced.

179. Hong Kong is renowned for its simple and low tax regime which is based on the principle of territorial source. In recent years, we rolled out a number of tax concession measures to promote investment in and the development of specific sectors. However, new developments in the international tax arena will affect the competitiveness of Hong Kong's tax regime.

180. In response to the use of tax policy in the international community as a means of competition, the Organisation for Economic Co-operation and Development (OECD) is actively exploring the proposal of setting rules for imposing a global minimum tax rate. Under this proposal, if the tax paid by a multinational corporation in Hong Kong is lower than the new global minimum tax rate, its parent company will be subject to additional taxes or defensive measures imposed by the jurisdictions where they are located. As an international financial and business centre, Hong Kong will inevitably be affected.

181. The imposition of a global minimum tax rate may undermine the attractiveness of Hong Kong's low tax policy to multinational corporations, thus posing challenges to our territorial-source-based tax regime. The proposal will also bring additional tax burden and compliance costs to multinational corporations, and affect their incentives for investing and operating in Hong Kong.

182. The Government will continue to keep a close watch on the developments of the OECD's work, make assessments and devise corresponding measures. I will invite scholars, experts and members of the business community who are experienced in the fields of international taxation and economic development to tender advice on the matter. This is to ensure that Hong Kong's tax regime is not only in line with new developments in the international tax scene, but also helps us maintain our premier business environment and competitiveness.

Future Fund

183. The Government set up the Future Fund in 2016. In its first three years of operation, the Fund achieved a composite rate of return of 4.5 per cent, 9.6 per cent and 6.1 per cent respectively. To further optimise the Future Fund, I indicated in my last Budget that I would invite several experienced persons in the financial services sector to advise on the Fund's investment strategy and portfolios, with a view to enhancing returns while reinforcing Hong Kong's status as a financial, commercial and innovation centre. This is also crucial for raising Hong Kong's productivity and competitiveness in the long run.

184. A team led by Dr Victor FUNG Kwok-king has made recommendations to me, which include using part of the Future Fund to set up the Hong Kong Growth Portfolio for direct investments in projects with a "Hong Kong nexus". I have accepted the recommendations and will start preparing for their implementation.

Concluding Remarks

185. Hong Kong has been intensely affected by the profound changes in the international political and economic landscape. Meanwhile, we had an extraordinary year with the occurrence of local social incidents. Social unrest and turbulence have revealed deep-seated conflicts in our community, which cannot be resolved overnight. We need to address these conflicts patiently and carefully as they have a far-reaching impact on the stability and development of Hong Kong in the future.

186. I have picked an earth tone colour for the cover of this year's Budget Speech. I believe that Hong Kong is still a fertile piece of land. The quality of its crops, however, depends on the seeds we sow and the way we cultivate and irrigate it. I believe that, no matter what our backgrounds, beliefs and aspirations are, we all cherish and love Hong Kong.

187. Living on the same land, we are closely connected, sharing joys and sorrows. Hong Kong may have all sorts of shortcomings, but it is our home which allows diversity and freedom of development. Even if we have been disappointed, we can choose to feel hopeful for our future. Even if we are striving for different goals, we can work together to put aside our differences, make room for resolving conflicts, and drive Hong Kong forward.

188. Thank you, Mr President.

THE 2020-21 BUDGET

Speech by the Financial Secretary, the Hon Paul MP Chan
moving the Second Reading of the Appropriation Bill 2020

Supplement and Appendices

Wednesday, 26 February 2020

SUPPLEMENT

Please visit our web-site at www.budget.gov.hk/2020/eng/speech.html for all documents, appendices and statistics relating to the 2020-21 Budget. The Chinese version can be found at www.budget.gov.hk/2020/chi/speech.html.

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EFFECT OF THE PROPOSED RATES CONCESSION⁽¹⁾ ON MAIN PROPERTY CLASSES

2020-21⁽²⁾

<i>Property Type</i>	<i>No Concession</i>		<i>With Rates Concession</i>	
	<i>Average Rates Payable (\$ for the year)</i>	<i>Average Rates Payable (\$ per month)</i>	<i>Average Rates Payable (\$ for the year)</i>	<i>Average Rates Payable (\$ per month)</i>
Private Domestic Premises ⁽³⁾				
Small	6,732	561	1,452	121
Medium	13,896	1,158	8,052	671
Large	29,292	2,441	23,388	1,949
Public Domestic Premises ⁽⁴⁾	3,276	273	24	2
All Domestic Premises⁽⁵⁾	6,564	547	2,136	178
Shops and Commercial Premises	42,768	3,564	33,876	2,823
Offices	55,452	4,621	45,684	3,807
Industrial Premises ⁽⁶⁾	18,576	1,548	11,016	918
All Non-domestic Premises⁽⁷⁾	40,236	3,353	32,712	2,726
All Properties	10,788	899	5,976	498

- (1) The proposed rates concession measure is for four quarters of 2020-21. For domestic tenements, the concession ceiling is \$1,500 per tenement per quarter. For non-domestic tenements, the ceiling is \$5,000 per tenement per quarter for the first two quarters; and is \$1,500 per tenement per quarter for the last two quarters. About 61.0% of domestic ratepayers will not need to pay any rates during 2020-21. No rates will be charged on 73.1% and 38.7% of non-domestic ratepayers for the first two quarters and the last two quarters of 2020-21 respectively. Overall speaking, about 62.5% and 58.2% of ratepayers will not need to pay any rates for the first two quarters and the last two quarters of 2020-21 respectively.
- (2) The rates payable have reflected the changes in rateable values for 2020-21 after the General Revaluation.
- (3) Domestic units are classified by saleable areas, as follows –

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

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

Year of Assessment 2019/20

Salaries tax and tax under personal assessment-
100% 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
\$200,000 and below	319 000	\$740	100%
\$200,001 to \$300,000	436 000	\$3,420	100%
\$300,001 to \$400,000	313 000	\$8,450	97%
\$400,001 to \$600,000	394 000	\$13,380	67%
\$600,001 to \$900,000	258 000	\$17,560	38%
Above \$900,000	230 000	\$20,000	8%
Total	1 950 000	—	—

Note: As at 31 December 2019, Hong Kong had a working population of 3.94 million.

Profits tax-
100% 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	42 000	\$3,480	100%
\$100,001 to \$200,000	16 000	\$15,450	94%
\$200,001 to \$300,000	10 000	\$19,600	74%
\$300,001 to \$400,000	8 000	\$20,000	55%
\$400,001 to \$600,000	10 000	\$20,000	40%
\$600,001 to \$900,000	10 000	\$20,000	27%
Above \$900,000	45 000	\$20,000	1%
Total	141 000	—	—

Note: As at 31 December 2019, there were about 1.27 million corporations and 260 000 unincorporated businesses in Hong Kong.

[#] Including 108 000 corporations and 33 000 unincorporated businesses.

ECONOMIC PERFORMANCE IN 2019

1. Rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2019:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	-1.1
Government consumption expenditure	5.1
Gross domestic fixed capital formation	-12.3
<i>of which :</i>	
Building and construction	-6.1
Machinery, equipment and intellectual property products	-20.0
Total exports of goods	-4.7
Imports of goods	-7.4
Exports of services	-10.4
Imports of services	-2.3
Gross Domestic Product (GDP)	-1.2
<i>Growth rate of per capita GDP in real terms</i>	-1.9
<i>Per capita GDP at current market prices</i>	HK\$382,000 (US\$48,800)
(b) Rates of change in:	
Underlying Composite Consumer Price Index	3.0
GDP Deflator	2.4
Government Consumption Expenditure Deflator	4.5
(c) Growth rate of nominal GDP	1.2

2. Annual rates of change in total exports based on external merchandise trade index numbers:

	<i>Total exports</i>	
	<i>In value terms</i> (%)	<i>In real terms</i> (%)
2017	8	6
2018	7	5
2019	-4	-5

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

	<i>Total exports</i>					
	<i>Total</i> (%)	<i>The Mainland</i> (%)	<i>EU</i> (%)	<i>US</i> (%)	<i>Japan</i> (%)	<i>India</i> (%)
2017	6	5	5	2	10	35
2018	5	5	8	6	-1	-13
2019	-5	-5	-6	-15	-8	-12

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

	<i>Imports</i> (%)	<i>Retained imports</i> (%)
2017	7	8
2018	6	9
2019	-8	-15

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

	<i>Exports of services</i>				
	<i>Total</i> (%)	<i>Transport services</i> (%)	<i>Travel services</i> (%)	<i>Financial services</i> (%)	<i>Other services</i> (%)
2017	3	7	2	2	0
2018	5	3	9	2	2
2019	-10	-8	-21	-2	-4

6. Hong Kong's goods and services trade balance in 2019 reckoned on GDP basis:

	(HK\$ billion)
Total exports of goods	4,291.3
Imports of goods	4,415.3
<i>Goods trade balance</i>	-124.0
Exports of services	793.9
Imports of services	619.1
<i>Services trade balance</i>	174.8
<i>Combined goods and services trade balance</i>	50.8

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

	<i>Unemployment rate (%)</i>	<i>Underemployment rate (%)</i>	<i>Growth in labour force (%)</i>	<i>Growth in total employment (%)</i>
2017	3.1	1.2	0.7	1.0
2018	2.8	1.1	0.8	1.1
2019	3.0	1.1	-0.3	-0.4

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

	<i>Composite CPI</i>		<i>CPI(A)</i>	<i>CPI(B)</i>	<i>CPI(C)</i>
	<i>Underlying (%)</i>	<i>Headline (%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
2017	1.7	1.5	1.5	1.4	1.5
2018	2.6	2.4	2.7	2.3	2.2
2019	3.0	2.9	3.3	2.7	2.6

ECONOMIC PROSPECTS FOR 2020

Forecast rates of change in the Gross Domestic Product and main price indicators in 2020:

	(%)
Gross Domestic Product (GDP)	
<i>Real GDP</i>	-1.5 to 0.5
<i>Nominal GDP</i>	0.5 to 2.5
<i>Growth rate of per capita GDP in real terms</i>	-2.2 to -0.2
<i>Per capita GDP at current market prices</i>	HK\$381,100-388,700 (US\$48,900-49,800)
Composite Consumer Price Index	
<i>Underlying Composite Consumer Price Index</i>	2.5
<i>Headline Composite Consumer Price Index</i>	1.7
GDP Deflator	2

APPENDICES

APPENDICES

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Note: Expenditure figures for 2019-20 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2020-21 estimate.

APPENDIX A

MEDIUM RANGE FORECAST

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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 as well as the financial position covering the five-year period including the budget year, i.e. from 2020-21 to 2024-25.

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 growth is forecast to range from -1.5% to 0.5% in real terms in 2020. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2021 to 2024, the trend growth rate of the economy in real terms is assumed to be 2.8% per annum.

Price change

4 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 2% in 2020. For the four-year period 2021 to 2024, the GDP deflator is assumed to increase at a trend rate of 2.2% per annum.

5 The Composite Consumer Price Index (CCPI), measuring inflation in the consumer domain, is forecast to increase by 1.7% in 2020. Netting out the effects of various one-off relief measures, the underlying CCPI is forecast to increase by 2.5% in 2020. For the ensuing period 2021 to 2024, 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 0.5% to 2.5% in 2020, and the trend growth rate in nominal terms for the period 2021 to 2024 is assumed to be 5% per annum.

Other Assumptions

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

- The operating expenditure for 2021-22 and beyond represents the forecast expenditure requirements for Government.
- The capital expenditure for 2020-21 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 2021-22 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, over time, a balance in the consolidated account.

Expenditure policy

The general principle is that, over time, the growth rate of expenditure should be commensurate with the growth rate of the economy.

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)	2019-20 Revised Estimate	2020-21 Estimate	2021-22 Forecast	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast
Operating Account						
Operating revenue (<i>Note (b)</i>)	410,246	434,732	519,594	545,697	557,779	580,737
Less: Operating expenditure (<i>Note (c)</i>)	528,271	617,700	568,100	594,800	613,600	636,400
Operating deficit	(118,025)	(182,968)	(48,506)	(49,103)	(55,821)	(55,663)
Capital Account						
Capital revenue (<i>Note (d)</i>)	157,053	137,806	155,590	172,873	173,817	178,775
Less: Capital expenditure (<i>Note (e)</i>)	83,175	113,395	135,551	152,449	145,422	134,435
Capital surplus	73,878	24,411	20,039	20,424	28,395	44,340
Consolidated Account						
Government revenue	567,299	572,538	675,184	718,570	731,596	759,512
Less: Government expenditure	611,446	731,095	703,651	747,249	759,022	770,835
Consolidated deficit before issuance and repayment of bonds and notes	(44,147)	(158,557)	(28,467)	(28,679)	(27,426)	(11,323)
Add: Net proceeds from issuance of green bonds under the Government Green Bond Programme (<i>Note (f)</i>)	7,829	19,500	11,700	11,700	11,700	11,700
Less: Repayment of bonds and notes (<i>Note (f)</i>)	1,500	-	-	-	-	7,800
Consolidated deficit after issuance and repayment of bonds and notes	(37,818)	(139,057)	(16,767)	(16,979)	(15,726)	(7,423)
Fiscal reserves at 31 March	1,133,065	994,008	977,241	960,262	944,536	937,113
In terms of number of months of government expenditure	22	16	17	15	15	15
In terms of percentage of GDP	39.5%	34.1%	32.0%	29.9%	28.0%	26.5%

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 arrangement thereafter is subject to an annual review by the Financial Secretary.

Table 2

Distribution of fiscal reserves at 31 March					
	2019-20	2020-21			
	Revised	Estimate	Future	Operating and	Total
(\$ million)	Estimate	Estimate	Fund	Capital Reserves	
General Revenue Account	639,291	534,553	4,800*	529,753	534,553
Funds with designated use	274,044	239,725		239,725	239,725
Capital Works Reserve Fund	176,219	149,873		149,873	149,873
Capital Investment Fund	6,287	3,437		3,437	3,437
Civil Service Pension Reserve Fund	39,426	42,764		42,764	42,764
Disaster Relief Fund	38	100		100	100
Innovation and Technology Fund	24,185	18,439		18,439	18,439
Loan Fund	4,250	3,860		3,860	3,860
Lotteries Fund	23,639	21,252		21,252	21,252
Land Fund	219,730	219,730	219,730	-	219,730
	<u>1,133,065</u>	<u>994,008</u>	<u>224,530</u>	<u>769,478</u>	<u>994,008</u>
In terms of number of months of government expenditure	22	16	4	12	16

* 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 \$390 billion for capital works projects underway and about \$501 billion as statutory pension obligations in the coming ten years.

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 2020-21 Budget, and is made up of –

(\$ million)	2019-20 Revised Estimate	2020-21 Estimate	2021-22 Forecast	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast
Operating revenue before investment income	370,127	388,870	478,653	508,054	535,772	565,122
Investment income (<i>Note (g)</i>)	40,119	45,862	40,941	37,643	22,007	15,615
Total	<u>410,246</u>	<u>434,732</u>	<u>519,594</u>	<u>545,697</u>	<u>557,779</u>	<u>580,737</u>

- (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 3.7% for 2020 (vs 2.9% for 2019) and is assumed to be in the range of 4% to 5.3% a year for 2021 to 2024.
- (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 2021-22 and beyond set out the forecast operating expenditure requirements for Government.

(d) Capital revenue

(i) The breakdown of capital revenue is –

(\$ million)	2019-20 Revised Estimate	2020-21 Estimate	2021-22 Forecast	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast
General Revenue Account	2,504	3,764	4,589	2,913	3,962	3,961
Capital Investment Fund	770	1,066	1,108	1,200	1,408	1,647
Capital Works Reserve Fund	141,844	118,091	128,386	134,803	141,544	148,621
Disaster Relief Fund	2	-	-	-	-	-
Innovation and Technology Fund	45	-	-	-	-	-
Loan Fund	2,263	2,344	3,228	3,735	3,558	3,572
Lotteries Fund	1,377	1,410	1,427	1,454	1,481	1,509
Capital revenue before investment income	148,805	126,675	138,738	144,105	151,953	159,310
Investment income (<i>Note (g)</i>)	8,248	11,131	16,852	28,768	21,864	19,465
Total	157,053	137,806	155,590	172,873	173,817	178,775

(ii) Land premium included under the Capital Works Reserve Fund for 2020-21 is estimated to be \$118 billion. For 2021-22 onwards, it is assumed to be 4.2% 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 3.7% for 2020 (vs 2.9% for 2019) and is assumed to be in the range of 4% to 5.3% a year for 2021 to 2024.

(e) Capital expenditure

The breakdown of capital expenditure is –

(\$ million)	2019-20 Revised Estimate	2020-21 Estimate	2021-22 Forecast	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast
General Revenue Account	5,568	7,635	8,956	9,410	8,229	7,911
Capital Investment Fund	929	4,115	4,206	8,081	8,267	5,469
Capital Works Reserve Fund	69,136	87,562	107,388	120,131	115,555	109,626
Disaster Relief Fund	64	-	-	-	-	-
Innovation and Technology Fund	2,543	6,568	6,137	6,531	6,352	5,842
Loan Fund	2,651	2,880	2,879	2,769	2,793	2,866
Lotteries Fund	2,284	4,635	5,985	5,527	4,226	2,721
Total	83,175	113,395	135,551	152,449	145,422	134,435

(f) Government bonds and notes

(i) The Government issued an inaugural green bond under the Government Green Bond Programme in May 2019, and plans to issue more green bonds from 2020-21 to 2024-25. The actual size and timing of issuance will be determined having regard to market conditions. The net proceeds of the Programme are credited to the Capital Works Reserve Fund to finance public works projects of the Government with environmental benefits.

(ii) The outstanding principal of \$1,500 million of the global bond issue in 2004 was fully repaid in 2019-20.

(g) Housing Reserve

The Housing Reserve was established in 2014 to support public housing development projects. As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts over four years from 2019-20 to 2022-23 as investment income, and would earn the same rate of investment return as stipulated in *Note (b)(ii)* above. At the same time, \$82.4 billion (the balance of the Housing Reserve at 31 December 2018) was earmarked for public housing development. A sum of \$21.2 billion has been brought back from the Housing Reserve in 2019-20.

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

14 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)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	Revised Estimate					
Operating expenditure	528,271	617,700	568,100	594,800	613,600	636,400
Capital expenditure	83,175	113,395	135,551	152,449	145,422	134,435
Government expenditure	611,446	731,095	703,651	747,249	759,022	770,835
Expenditure by other public bodies	36,159	41,994	43,451	45,856	49,907	51,874
Public expenditure (Note (a))	647,605	773,089	747,102	793,105	808,929	822,709
Gross Domestic Product (calendar year)	2,868,171	2,911,200	3,056,800	3,209,600	3,370,100	3,538,600
Nominal growth in GDP (Note (b))	1.2%	1.5%	5.0%	5.0%	5.0%	5.0%
Growth in recurrent government expenditure (Note (c))	9.8%	10.0%	8.6%	5.0%	4.3%	5.0%
Growth in government expenditure (Note (c))	15.0%	19.6%	-3.8%	6.2%	1.6%	1.6%
Growth in public expenditure (Note (c))	14.1%	19.4%	-3.4%	6.2%	2.0%	1.7%
Public expenditure in terms of percentage of GDP	22.6%	26.6%	24.4%	24.7%	24.0%	23.2%

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 2020-21, the nominal GDP growth of 1.5% represents the mid-point of the range forecast of 0.5% to 2.5% for the calendar year 2020.
- (c) The growth rates for 2019-20 to 2024-25 refer to year-on-year change. For example, the rates for 2019-20 refer to the change between the revised estimate for 2019-20 and the actual expenditure in 2018-19. The rates for 2020-21 refer to the change between the 2020-21 estimate and the 2019-20 revised estimate, and so forth.

15 Table 4 shows the relationship amongst the sum to be appropriated in the 2020-21 Budget, government expenditure and public expenditure.

**Relationship between Government Expenditure
and Public Expenditure in 2020-21**

Table 4

(\$ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	486,595	486,595	-	486,595	486,595
Non-recurrent	131,105	131,105	-	131,105	131,105
Capital					
Plant, equipment and works	4,505	-	4,505	4,505	4,505
Subventions	3,130	-	3,130	3,130	3,130
	625,335	617,700	7,635	625,335	625,335
Transfer to Funds	1,899	-	-	-	-
Capital Investment Fund	-	-	4,115	4,115	4,115
Capital Works Reserve Fund	-	-	87,562	87,562	87,562
Innovation and Technology Fund	-	-	6,568	6,568	6,568
Loan Fund	-	-	2,880	2,880	2,880
Lotteries Fund	-	-	4,635	4,635	4,635
Trading Funds	-	-	-	-	6,332
Housing Authority	-	-	-	-	35,662
	627,234	617,700	113,395	731,095	773,089
Revenue					
General Revenue Account					
Taxation		347,859	15	347,874	
Other revenue		86,873	3,749	90,622	
		434,732	3,764	438,496	
Capital Investment Fund		-	1,265	1,265	
Capital Works Reserve Fund		-	125,716	125,716	
Civil Service Pension Reserve Fund		-	1,498	1,498	
Disaster Relief Fund		-	3	3	
Innovation and Technology Fund		-	822	822	
Loan Fund		-	2,490	2,490	
Lotteries Fund		-	2,248	2,248	
		434,732	137,806	572,538	
Surplus / (Deficit)		(182,968)	24,411	(158,557)	

SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES

16 The Government's contingent liabilities as at 31 March 2019, 31 March 2020 and 31 March 2021, are provided below as supplementary information to the MRF –

Table 5

(\$ million)	2019	At 31 March 2020	2021
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	37,289	36,968	40,098
Guarantees provided under the SME Financing Guarantee Scheme – Special Concessionary Measures	18,275	23,592	29,816
Guarantees provided under the SME Financing Guarantee Scheme – 90% Guarantee Coverage	-	3,329	16,285
Legal claims, disputes and proceedings	10,376	6,353	4,478
Subscription to callable shares in the Asian Development Bank	5,985	5,915	5,915
Subscription to callable shares in the Asian Infrastructure Investment Bank	4,800	4,768	4,768
Guarantees provided under the SME Loan Guarantee Scheme	4,104	4,169	4,170
Guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation	1,866	975	947
Guarantees provided under the Special Loan Guarantee Scheme	449	144	86
Total	83,144	86,213	106,563

17 The Government's major unfunded liabilities as at 31 March 2019 were as follows –

(\$ million)	
Present value of statutory pension obligations (<i>Note (a)</i>)	1,021,671
Untaken leave (<i>Note (b)</i>)	26,993
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 \$501 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.

18 The estimated outstanding commitments of capital works projects as at 31 March 2019 and 31 March 2020 are \$376,388 million and \$390,573 million respectively. Some of these are contractual commitments.

APPENDIX B

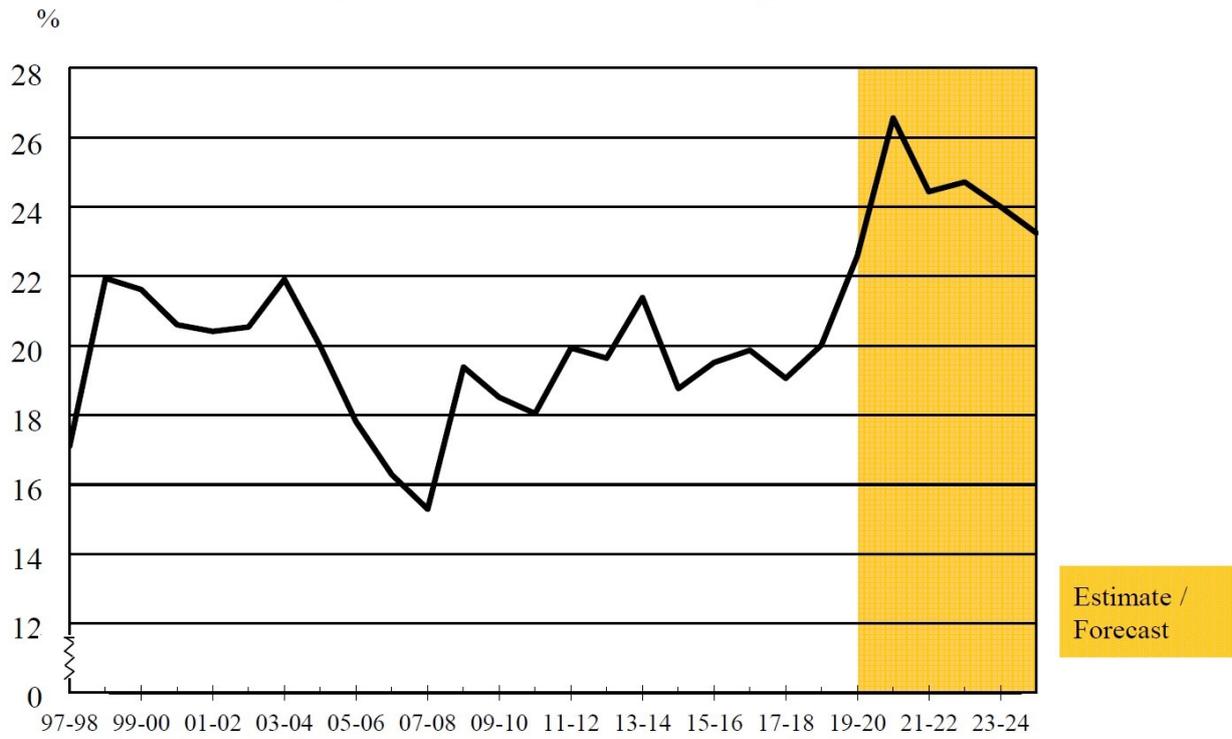
ANALYSIS OF EXPENDITURE AND REVENUE

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Relationship between Government Expenditure, Public Expenditure and GDP	18
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SECTION I THE ESTIMATES IN THE CONTEXT OF THE ECONOMY**Relationship between Government Expenditure, Public Expenditure and GDP**

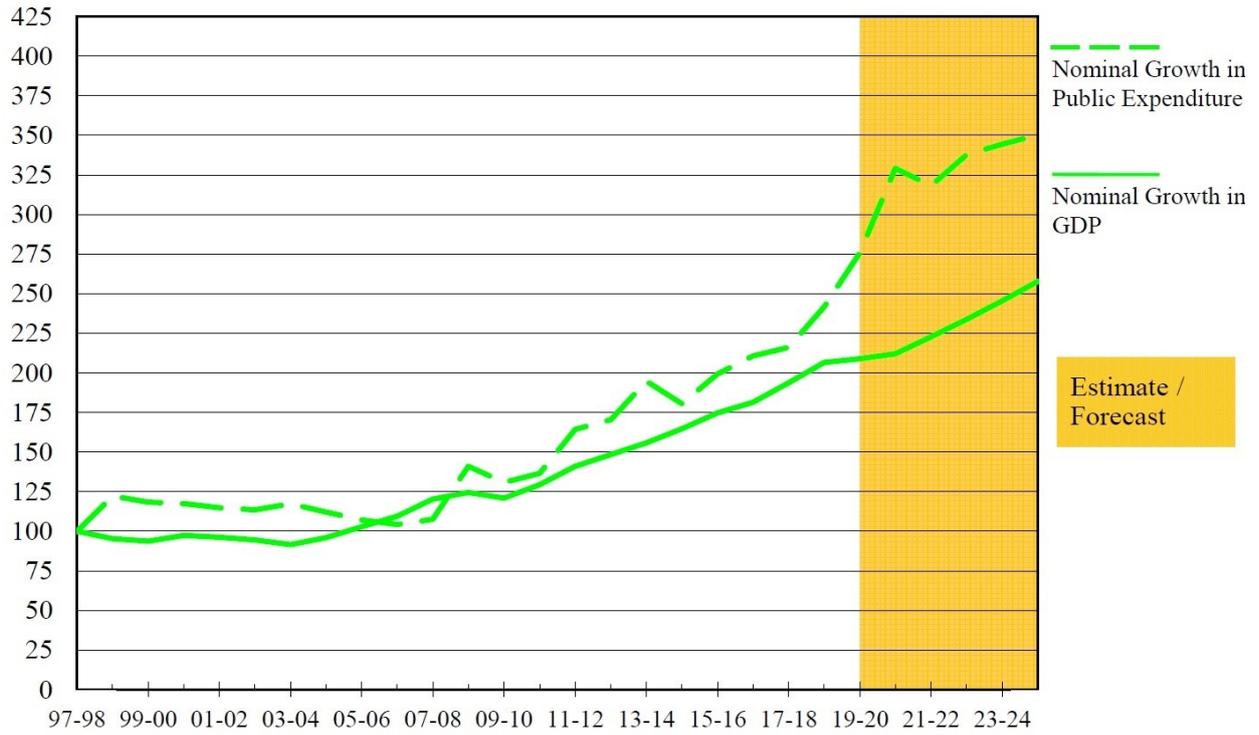
	2020-21 Estimate \$m
General Revenue Account	
Operating	617,700
Capital	7,635
	<hr/> 625,335
Capital Investment Fund	4,115
Capital Works Reserve Fund	87,562
Innovation and Technology Fund	6,568
Loan Fund	2,880
Lotteries Fund	4,635
Government Expenditure	<hr/> 731,095
Trading Funds	6,332
Housing Authority	35,662
Public Expenditure	<hr/> 773,089 <hr/>
GDP	2,911,200
Public Expenditure in terms of percentage of GDP	26.6%

Public Expenditure in terms of Percentage of GDP



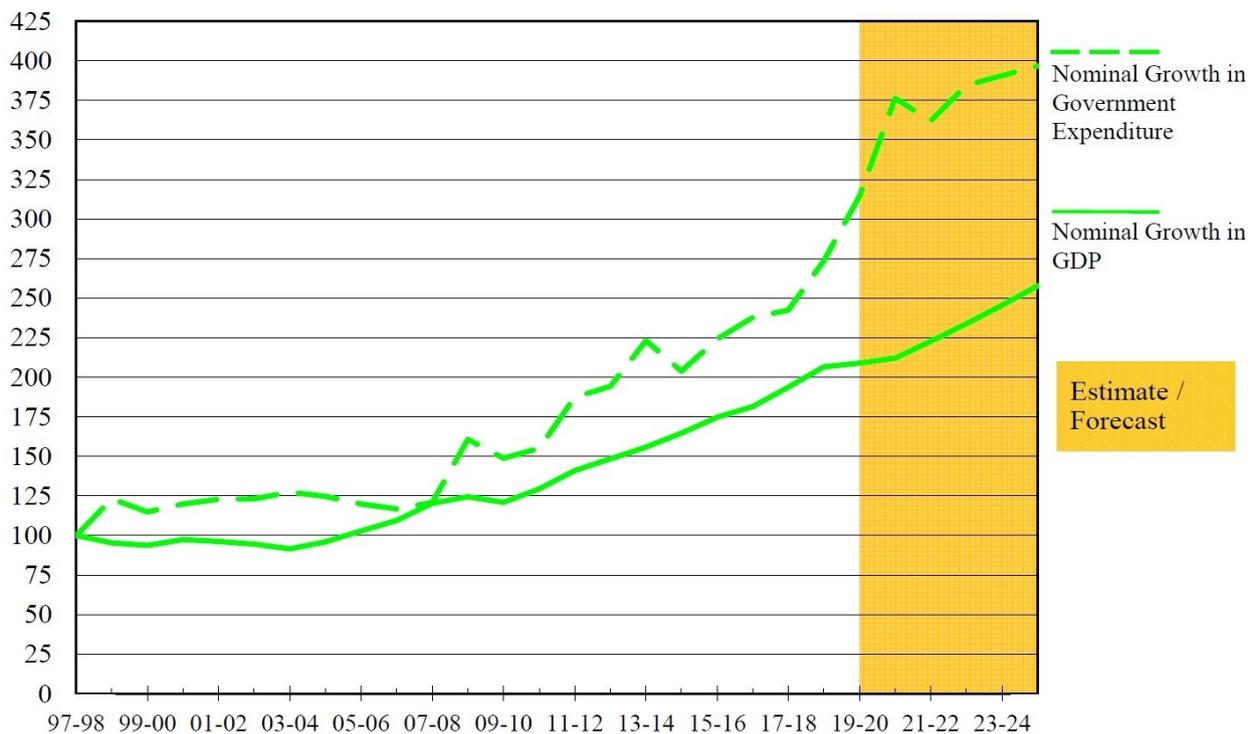
**Comparison of Cumulative Growth in Public Expenditure
with Cumulative Growth in GDP
since 1997-98**

Index
(97-98 = 100)



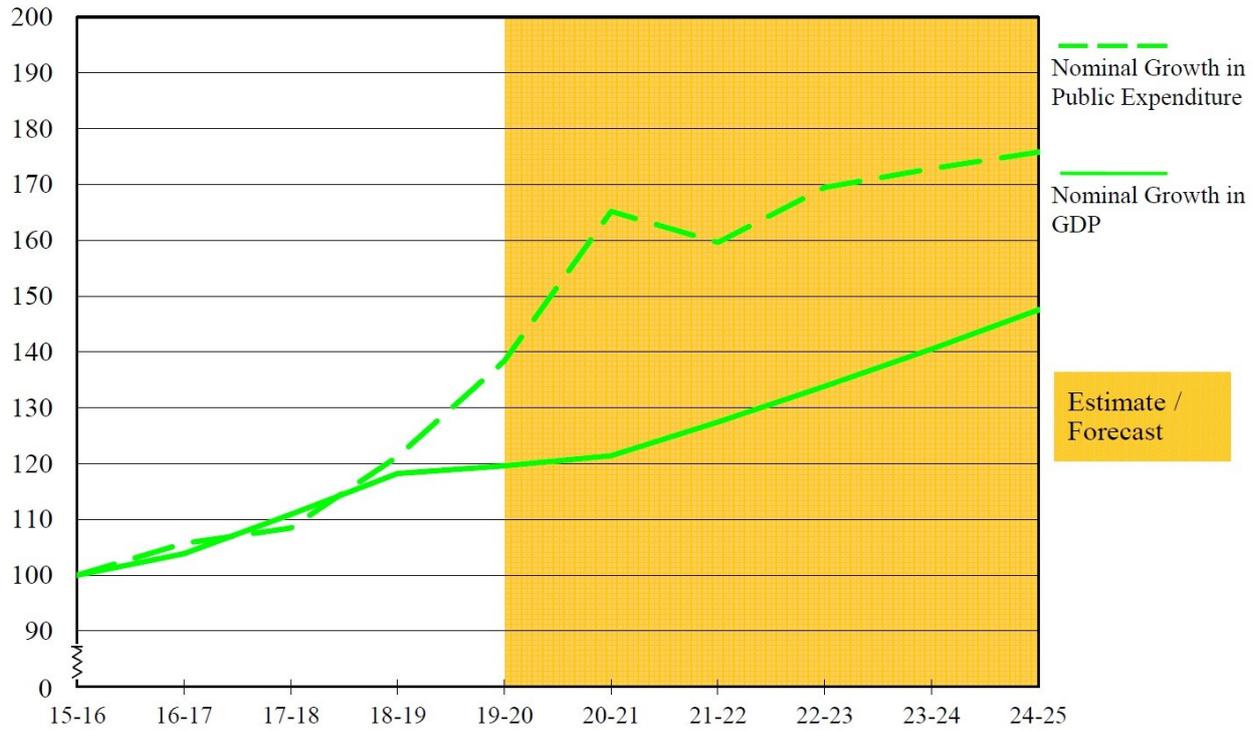
**Comparison of Cumulative Growth in Government Expenditure
with Cumulative Growth in GDP
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Index
(97-98 = 100)



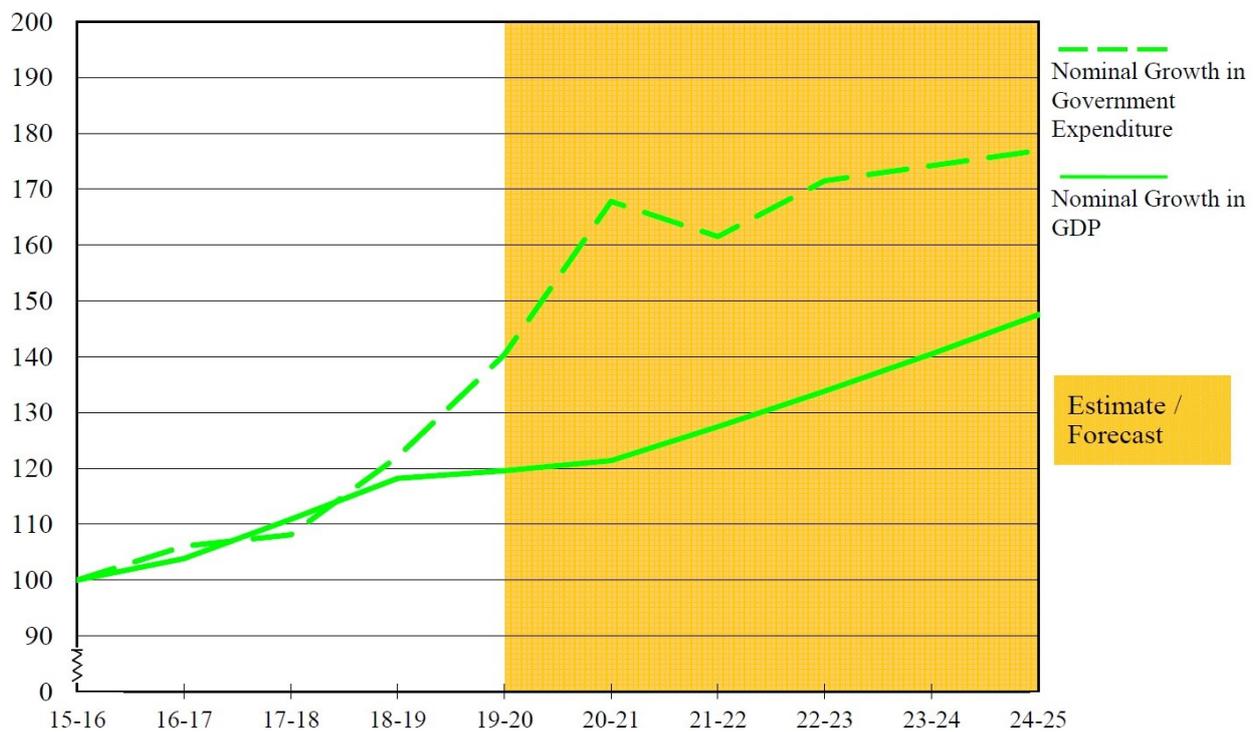
**Comparison of Cumulative Growth in Public Expenditure
with Cumulative Growth in GDP
since 2015-16**

Index
(15-16 = 100)



**Comparison of Cumulative Growth in Government Expenditure
with Cumulative Growth in GDP
since 2015-16**

Index
(15-16 = 100)



**SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE
BY POLICY AREA GROUP**

Recurrent Public Expenditure : Year-on-Year Change

	2018-19 Actual \$m	2019-20 Revised Estimate \$m	2020-21 Estimate \$m	Increase/Decrease over 2019-20 Revised Estimate in Nominal Terms %	in Real Terms %
Education	85,528	92,384	99,589	7.8	7.2
Social Welfare	79,486	82,268	93,942	14.2	11.8
Health	72,529	82,682	87,124	5.4	4.8
Security	44,324	50,820	55,209	8.6	8.0
Infrastructure	23,955	27,617	30,940	12.0	10.9
Environment and Food	16,850	18,782	21,855	16.4	14.9
Economic	16,978	18,584	21,250	14.3	12.6
Housing	14,613	16,287	17,429	7.0	4.2
Community and External Affairs	13,173	14,696	15,782	7.4	6.1
Support	54,681	59,502	66,154	11.2	8.8
	<u>422,117</u>	<u>463,622</u>	<u>509,274</u>	9.8	8.5
GDP growth in 2020				0.5% to 2.5%	-1.5% to 0.5%

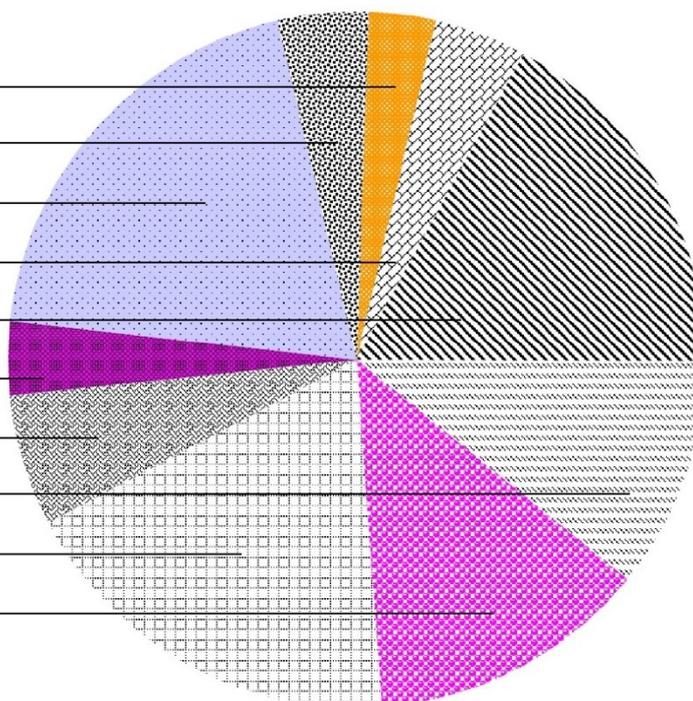
**SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE
BY POLICY AREA GROUP**

Recurrent Government Expenditure : Year-on-Year Change

	2018-19 Actual \$m	2019-20 Revised Estimate \$m	2020-21 Estimate \$m	Increase/Decrease over 2019-20 Revised Estimate in Nominal Terms %	in Real Terms %
Education	85,528	92,384	99,589	7.8	7.2
Social Welfare	79,486	82,268	93,942	14.2	11.8
Health	72,529	82,682	87,124	5.4	4.8
Security	44,324	50,820	55,209	8.6	8.0
Infrastructure	23,756	27,383	30,694	12.1	11.0
Environment and Food	16,850	18,782	21,855	16.4	14.9
Economic	12,247	13,433	15,565	15.9	14.8
Housing	416	502	681	35.7	35.3
Community and External Affairs	13,173	14,696	15,782	7.4	6.1
Support	54,681	59,502	66,154	11.2	8.8
	<u>402,990</u>	<u>442,452</u>	<u>486,595</u>	10.0	8.7
GDP growth in 2020				0.5% to 2.5%	-1.5% to 0.5%

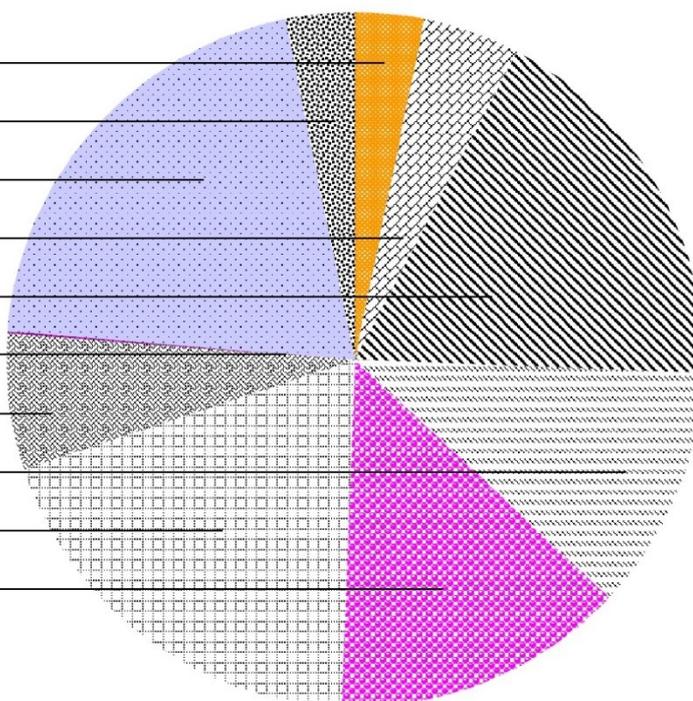
**Percentage Share of Expenditure by Policy Area Group
 Recurrent Public Expenditure : 2020-21 Estimate**

Community and External Affairs	3.1%
Economic	4.2%
Education	19.6%
Environment and Food	4.3%
Health	17.1%
Housing	3.4%
Infrastructure	6.1%
Security	10.8%
Social Welfare	18.4%
Support	13.0%
	100.0%



**Percentage Share of Expenditure by Policy Area Group
 Recurrent Government Expenditure : 2020-21 Estimate**

Community and External Affairs	3.2%
Economic	3.2%
Education	20.5%
Environment and Food	4.6%
Health	17.9%
Housing	0.1%
Infrastructure	6.3%
Security	11.3%
Social Welfare	19.3%
Support	13.6%
	100.0%



**SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE
BY POLICY AREA GROUP**

Total Public Expenditure : Year-on-Year Change

	2018-19 Actual \$m	2019-20 Revised Estimate \$m	2020-21 Estimate \$m	Increase/Decrease over 2019-20 Revised Estimate in Nominal Terms %	in Real Terms %
Education	108,035	125,861	112,304	-10.8	-13.2
Social Welfare	90,126	93,148	115,019	23.5	18.2
Health	78,275	87,877	97,694	11.2	8.0
Security	50,455	56,959	65,818	15.6	12.4
Infrastructure	75,211	67,868	78,622	15.8	11.2
Environment and Food	24,291	30,593	39,978	30.7	25.9
Economic	26,034	38,267	126,904	231.6	223.9
Housing	31,159	32,520	38,954	19.8	15.4
Community and External Affairs	24,835	20,946	25,486	21.7	17.1
Support	59,157	93,566	72,310	-22.7	-25.9
	<u>567,578</u>	<u>647,605</u>	<u>773,089</u>	19.4	15.4
GDP growth in 2020				0.5% to 2.5%	-1.5% to 0.5%

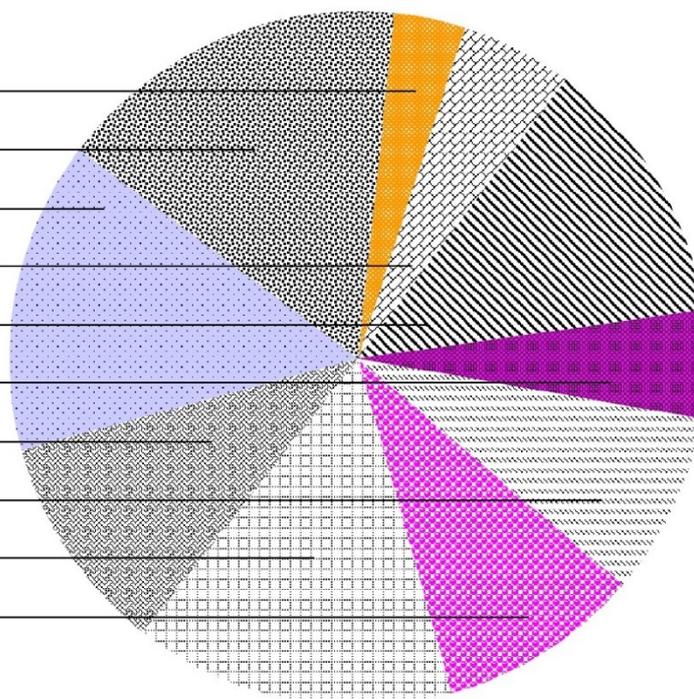
**SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE
BY POLICY AREA GROUP**

Total Government Expenditure : Year-on-Year Change

	2018-19 Actual \$m	2019-20 Revised Estimate \$m	2020-21 Estimate \$m	Increase/Decrease over 2019-20 Revised Estimate in Nominal Terms %	in Real Terms %
Education	108,035	125,861	112,304	-10.8	-13.2
Social Welfare	90,126	93,148	115,019	23.5	18.2
Health	78,275	87,877	97,694	11.2	8.0
Security	50,455	56,959	65,818	15.6	12.4
Infrastructure	74,994	67,585	78,299	15.9	11.2
Environment and Food	24,291	30,593	39,978	30.7	25.9
Economic	21,140	32,859	120,895	267.9	259.4
Housing	517	2,052	3,292	60.4	56.9
Community and External Affairs	24,835	20,946	25,486	21.7	17.1
Support	59,157	93,566	72,310	-22.7	-25.9
	<u>531,825</u>	<u>611,446</u>	<u>731,095</u>	19.6	15.6
GDP growth in 2020				0.5% to 2.5%	-1.5% to 0.5%

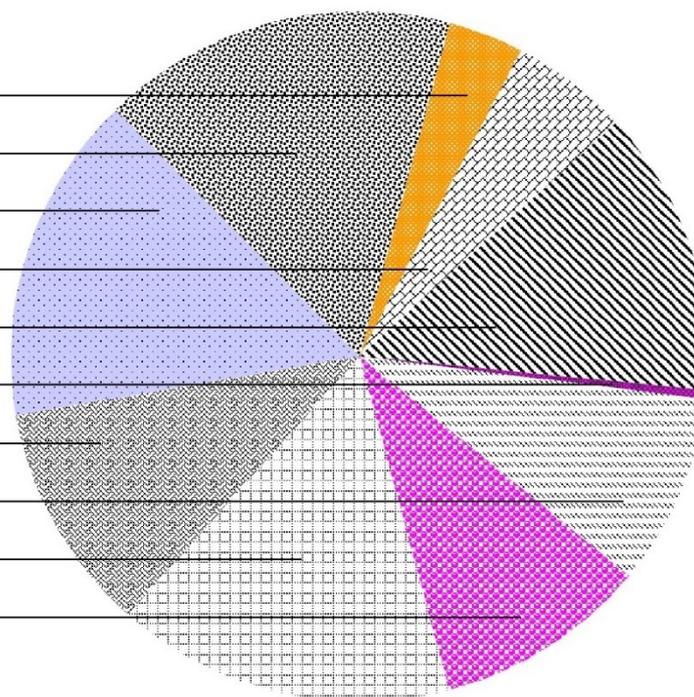
Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure : 2020-21 Estimate

Community and External Affairs	3.3%
Economic	16.4%
Education	14.5%
Environment and Food	5.2%
Health	12.6%
Housing	5.0%
Infrastructure	10.2%
Security	8.5%
Social Welfare	14.9%
Support	9.4%
	100.0%



Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure : 2020-21 Estimate

Community and External Affairs	3.5%
Economic	16.5%
Education	15.4%
Environment and Food	5.4%
Health	13.4%
Housing	0.5%
Infrastructure	10.7%
Security	9.0%
Social Welfare	15.7%
Support	9.9%
	100.0%



SECTION IV MAJOR CAPITAL PROJECTS PLANNED FOR COMMENCEMENT IN 2020-21

Major capital projects estimated to begin in 2020-21 include –

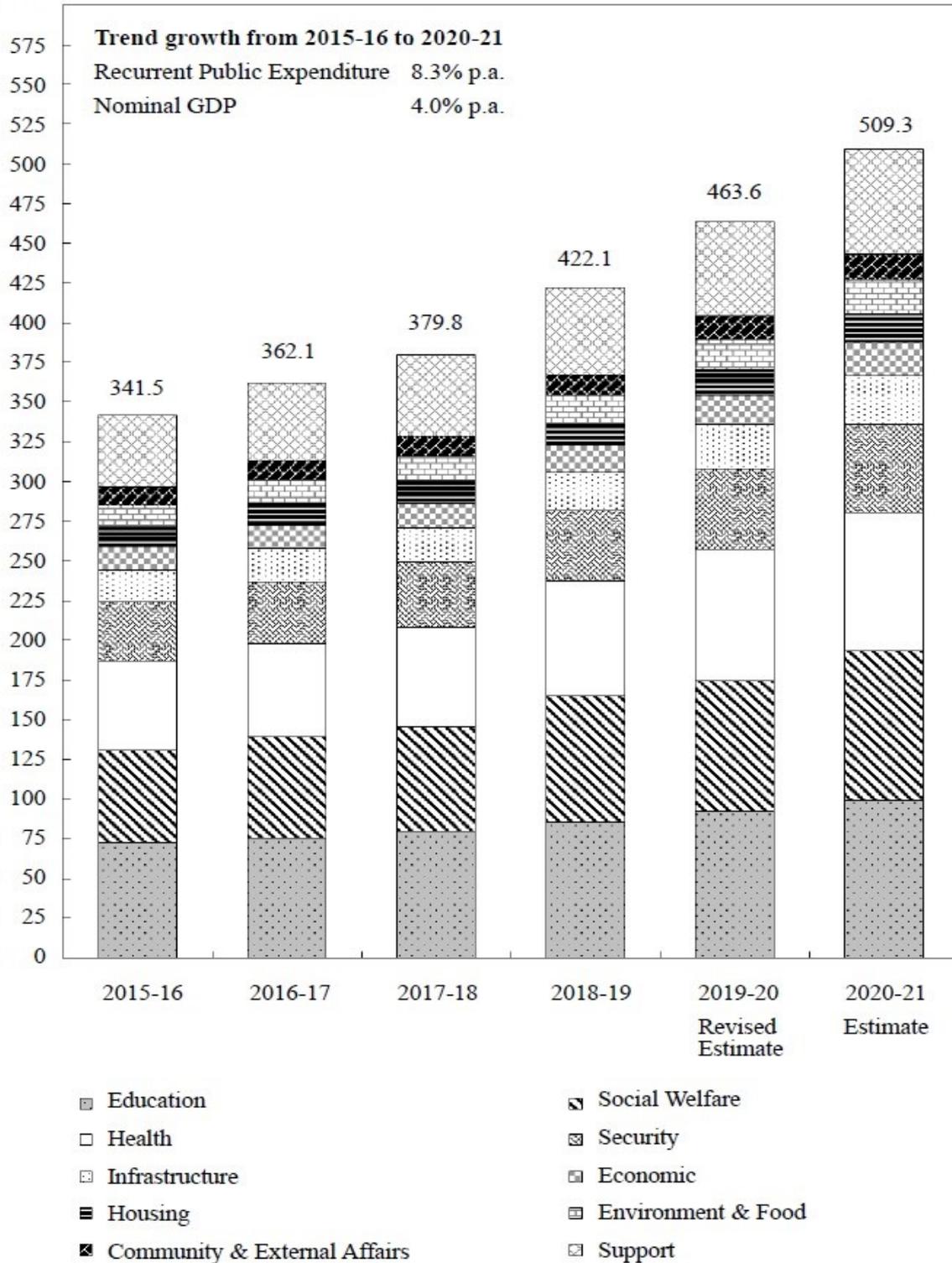
	Project Estimates \$ billion
Infrastructure	40.5
— Lung Tsun Stone Bridge Preservation Corridor at Kai Tak	
— Rehabilitation of underground stormwater drains—stage 2	
— Provision of an Additional District Cooling System at the Kai Tak Development	
— Provision of a District Cooling System for Kwu Tung North New Development Area	
— Studies related to artificial islands in the Central Waters	
— Widening of Castle Peak Road—Castle Peak Bay	
— Flyover from Kwai Tsing Interchange Upramp to Kwai Chung Road	
— Kai Tak development—stage 5B infrastructure works at the former north apron area	
— Development of Lok Ma Chau Loop—main works package 1—construction	
— Reclaimed water supply to Sheung Shui and Fanling	
— Improvement of salt water supply to Tsuen Wan and Kwai Chung	
— Site formation and infrastructure works for public housing development at Wang Chau, Yuen Long	
— Site formation and infrastructure works for public housing developments at Pok Fu Lam South	
— Site formation and infrastructure works for public housing developments at Pik Wan Road, Yau Tong	
— Transport infrastructure works for development at Diamond Hill	
Environment and Food	31.3
— Provision of columbarium, Garden of Remembrance and related works at On Hing Lane, Shek Mun, Sha Tin	
— Provision of columbarium and Garden of Remembrance at Sandy Ridge Cemetery (Phase 1 development)	
— Port Shelter sewerage, stage 2, package 3	
— Port Shelter sewerage, stage 3, package 2	
— Construction of San Shek Wan sewage treatment works, associated submarine outfall and Pui O sewerage works	
— Outlying Islands sewerage, stage 2—upgrading of Cheung Chau sewage treatment and disposal facilities	
— Outlying Islands sewerage stage 2—Lamma village sewerage phase 2, package 2	
— Upgrading of West Kowloon and Tsuen Wan sewerage—phase 2	
— Relocation of Sha Tin sewage treatment works to caverns—main caverns construction and upstream sewerage works	
— Yuen Long Effluent Polishing Plant—stage 1	
Health	23.8
— Reprovisioning of Victoria Public Mortuary	
— Community health centre cum social welfare facilities at Pak Wo Road, North District	
— Hospital Authority Supporting Services Centre	
— Expansion of United Christian Hospital—main works (superstructure and refurbishment works)	
— Redevelopment of Grantham Hospital, phase 1—demolition, site formation and foundation works	

	Project Estimates \$ billion
Support	14.5
— Animal Management and Animal Welfare Building Complex in Kai Tak Development	
— Drainage Services Department Office Building at Cheung Sha Wan Sewage Pumping Station	
— Water Supplies Department Headquarters with Hong Kong and Islands Regional Office and Correctional Services Department Headquarters building in Chai Wan	
— Joint-user Government Office Building in Area 67, Tseung Kwan O	
— Community hall, general outpatient clinic and maternal and child health centre at Ching Hong Road, Tsing Yi	
Community and External Affairs	3.2
— District Library and Residential Care Home for the Elderly in the Joint User Complex at Lei King Road	
— Redevelopment of Kowloon Tsai Swimming Pool Complex	
— Youth Hostel Scheme—construction works by The Hong Kong Girl Guides Association for the youth hostel project in Jordan	
— Water feature park and landscaped walk at Diamond Hill	
Economic	3.0
— Provision of facilities and accommodation for various government departments to support the Three-Runway System at Hong Kong International Airport	
Education	1.0
— A 30-classroom primary school at Site KT2c, Development at Anderson Road, Kwun Tong	
— Redevelopment of No. 2 University Drive (Building 1)	
Security	1.0
— Relocation of supporting operational facilities of Tsim Sha Tsui Fire Station Complex, Fire Services Club and other fire services accommodations to To Wah Road, Kowloon	

SECTION V TRENDS IN PUBLIC EXPENDITURE : 2015-16 TO 2020-21

Recurrent Public Expenditure by Policy Area Group

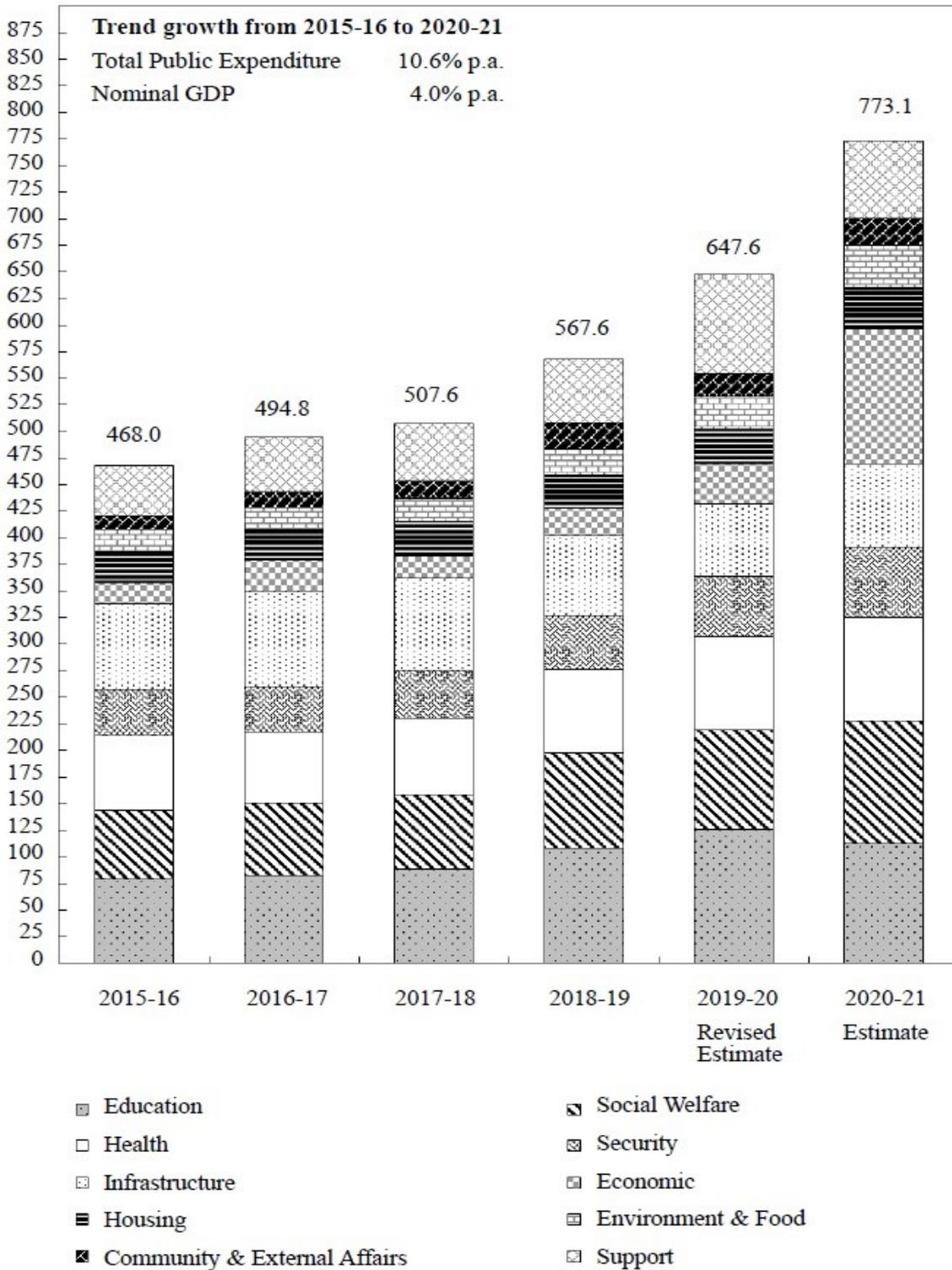
(\$billion)



SECTION V TRENDS IN PUBLIC EXPENDITURE : 2015-16 TO 2020-21

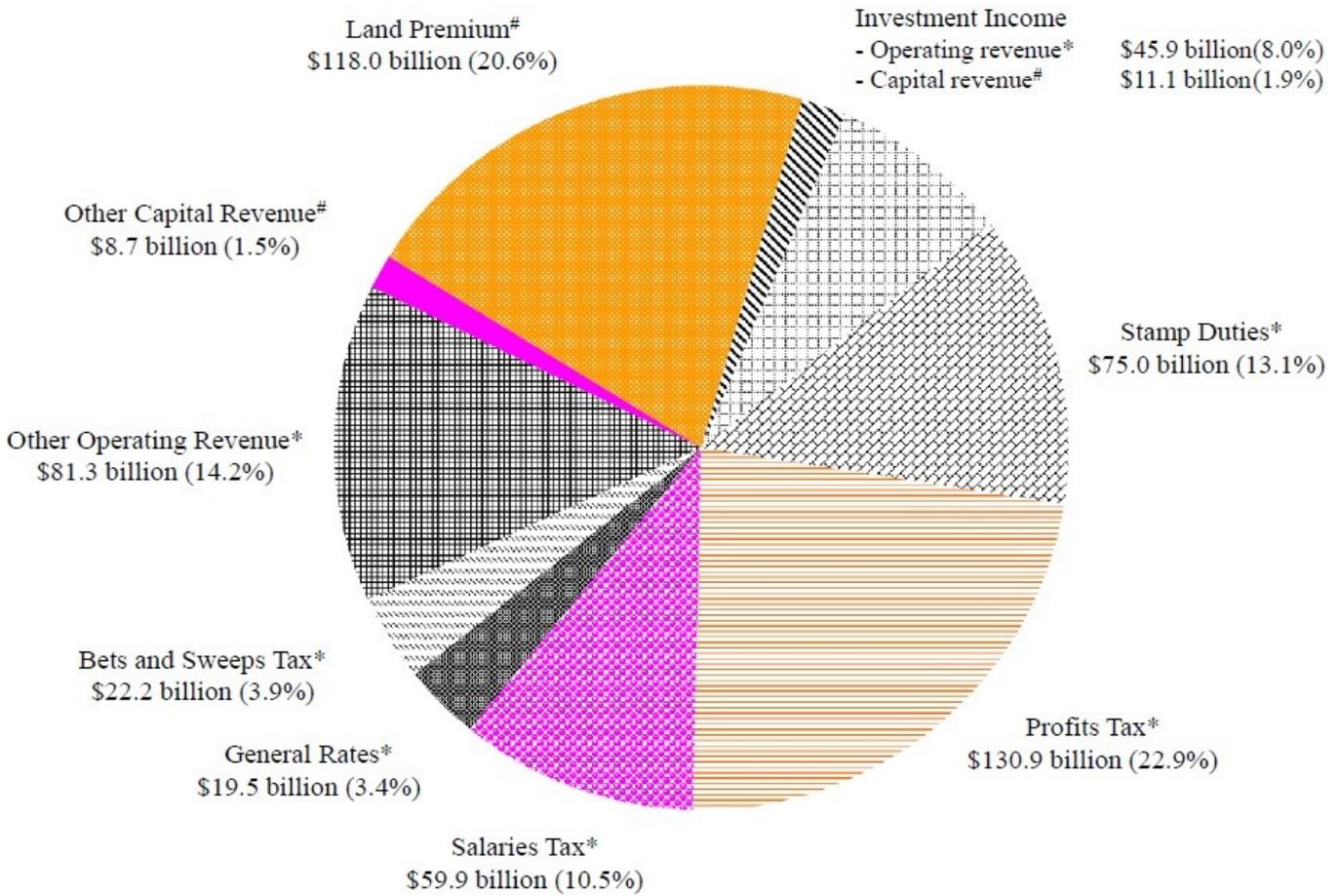
Total Public Expenditure by Policy Area Group

(\$billion)



SECTION VI ANALYSIS OF GOVERNMENT REVENUE

2020-21 Estimate (\$572.5 billion)



	2020-21 Estimate	% Share of Government Revenue	% of GDP
* Operating Revenue	\$434.7 billion	75.9%	14.9%
# Capital Revenue	\$137.8 billion	24.1%	4.8%
Total	\$572.5 billion	100%	19.7%

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 2020-21 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
 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. 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 deficit before issuance and 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 its Land Fund portion will be reinvested and will not be paid to Government until the end of the ten-year placement (i.e. 31 December 2025), unless otherwise directed by the Financial Secretary.*

Operating 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.