

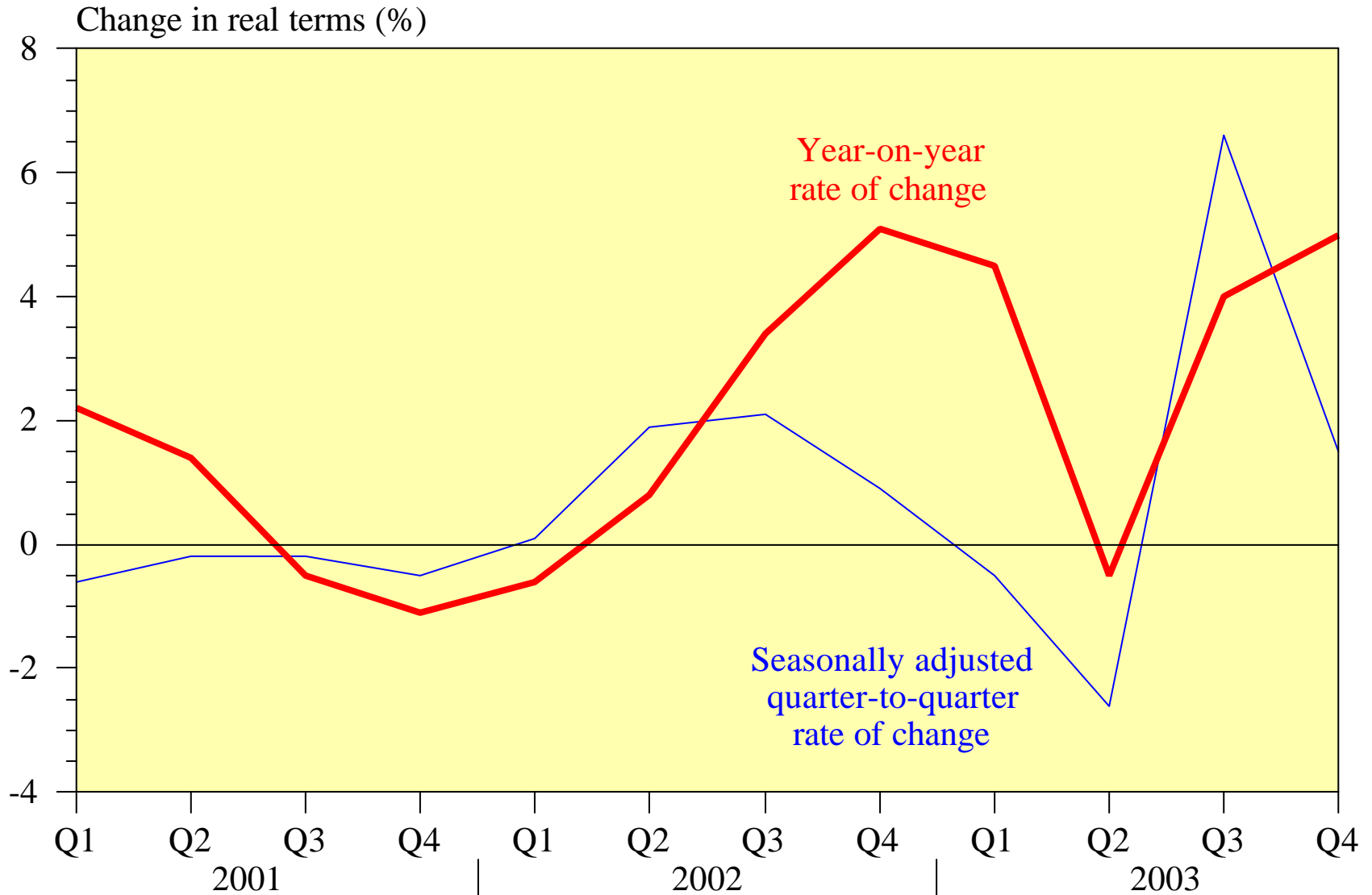
2004-05 Budget

Briefing for the Legislative Council

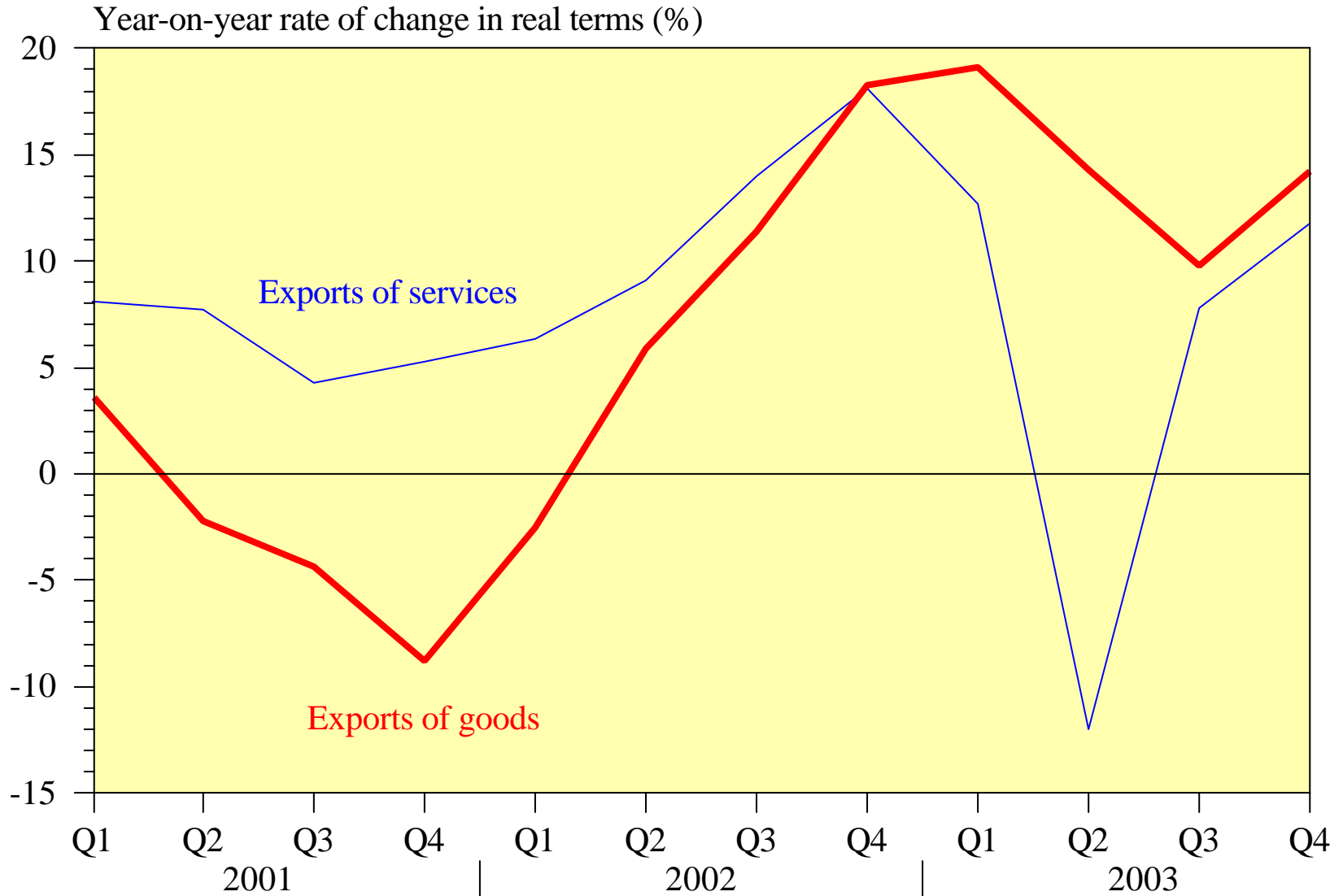
11 March 2004

Gross Domestic Product

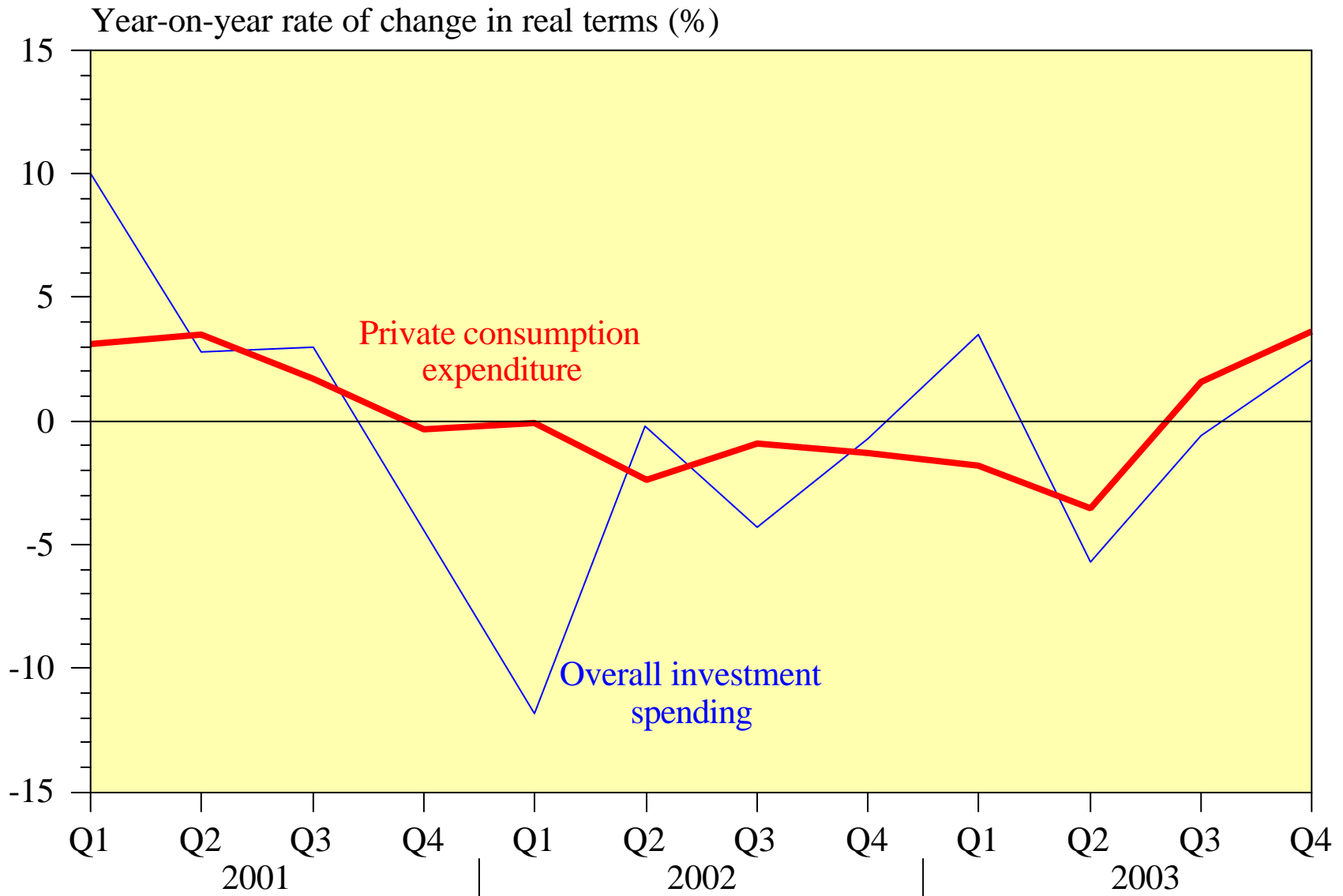
Chart 1



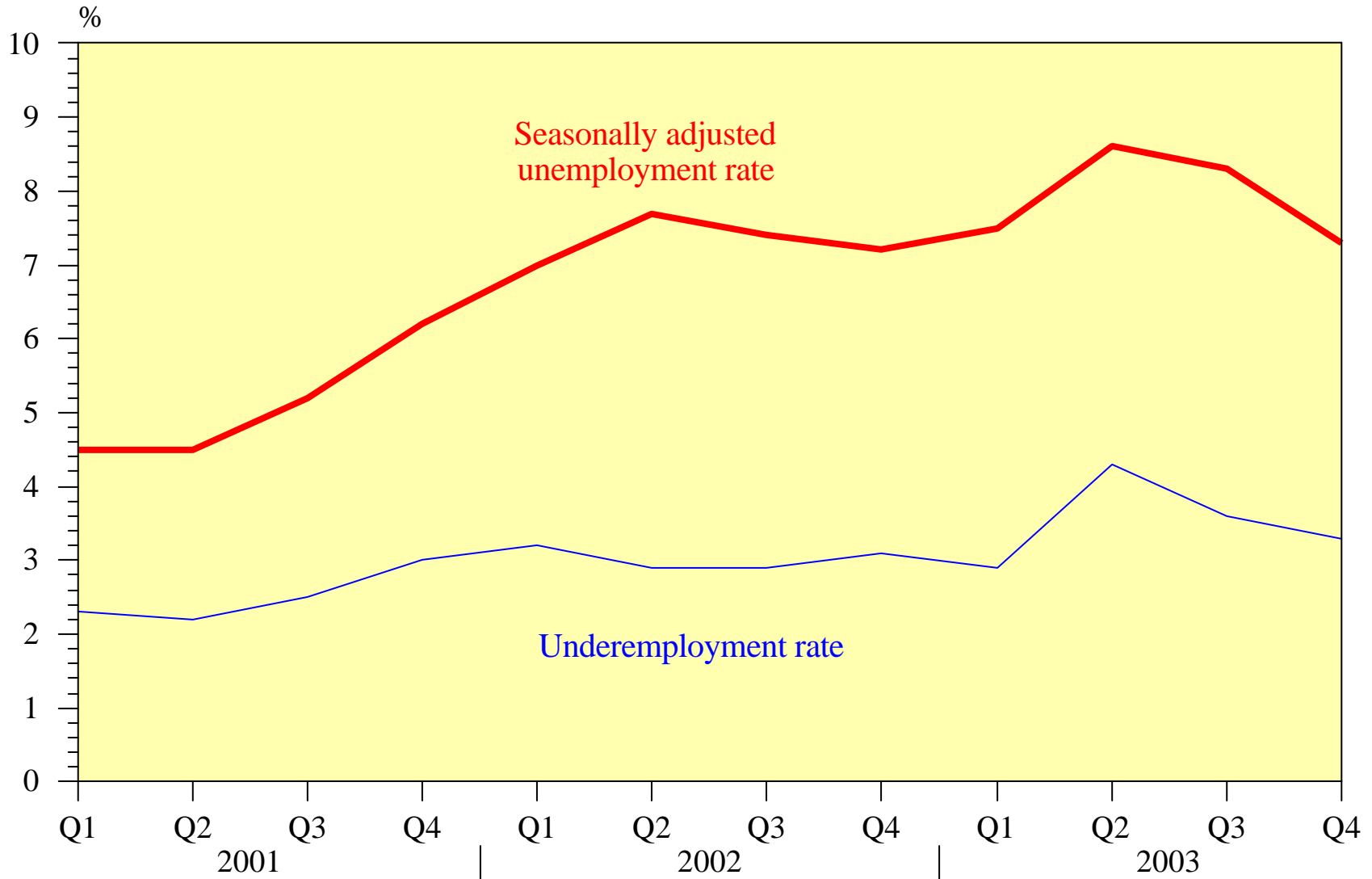
Total exports of goods and exports of services



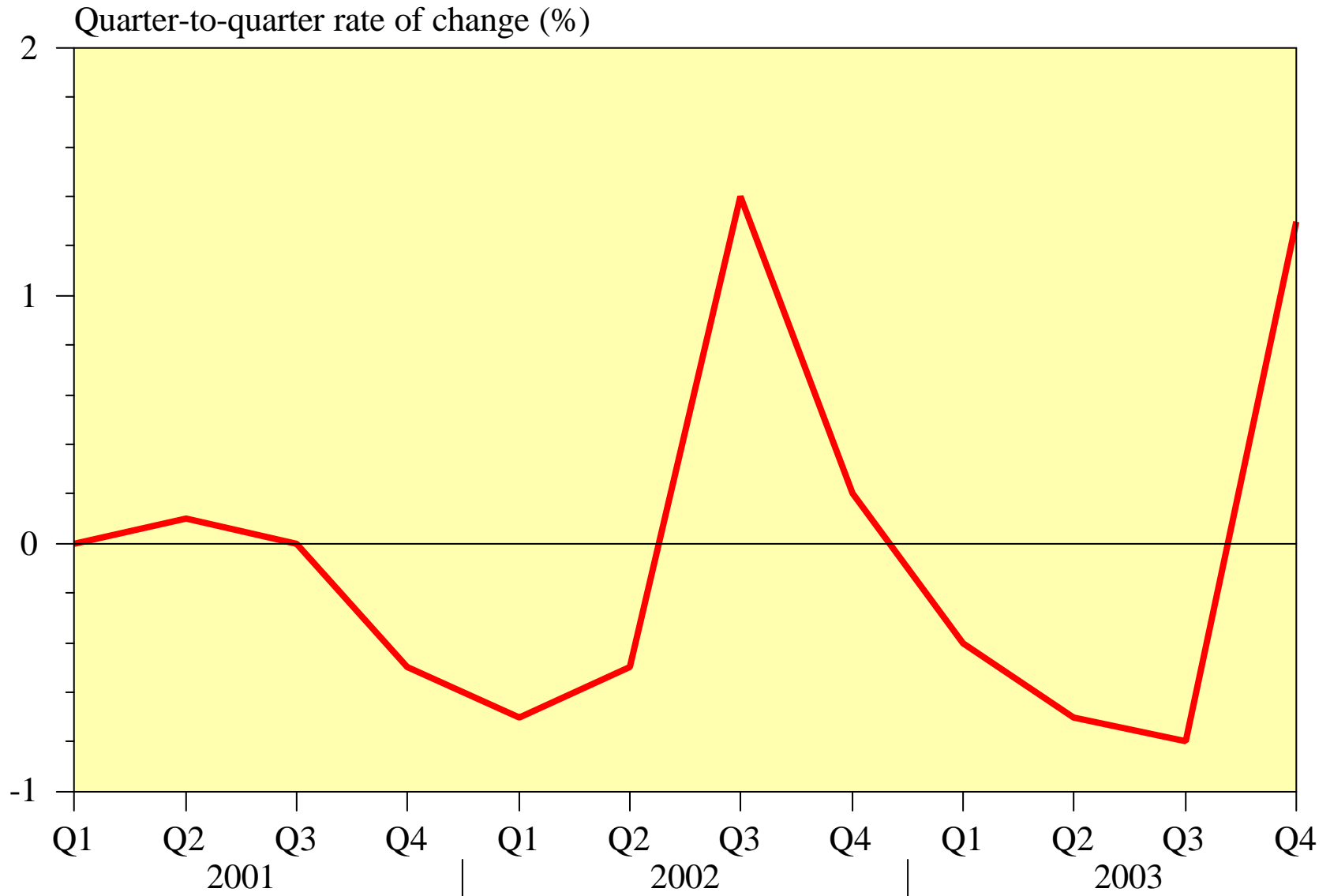
Domestic demand



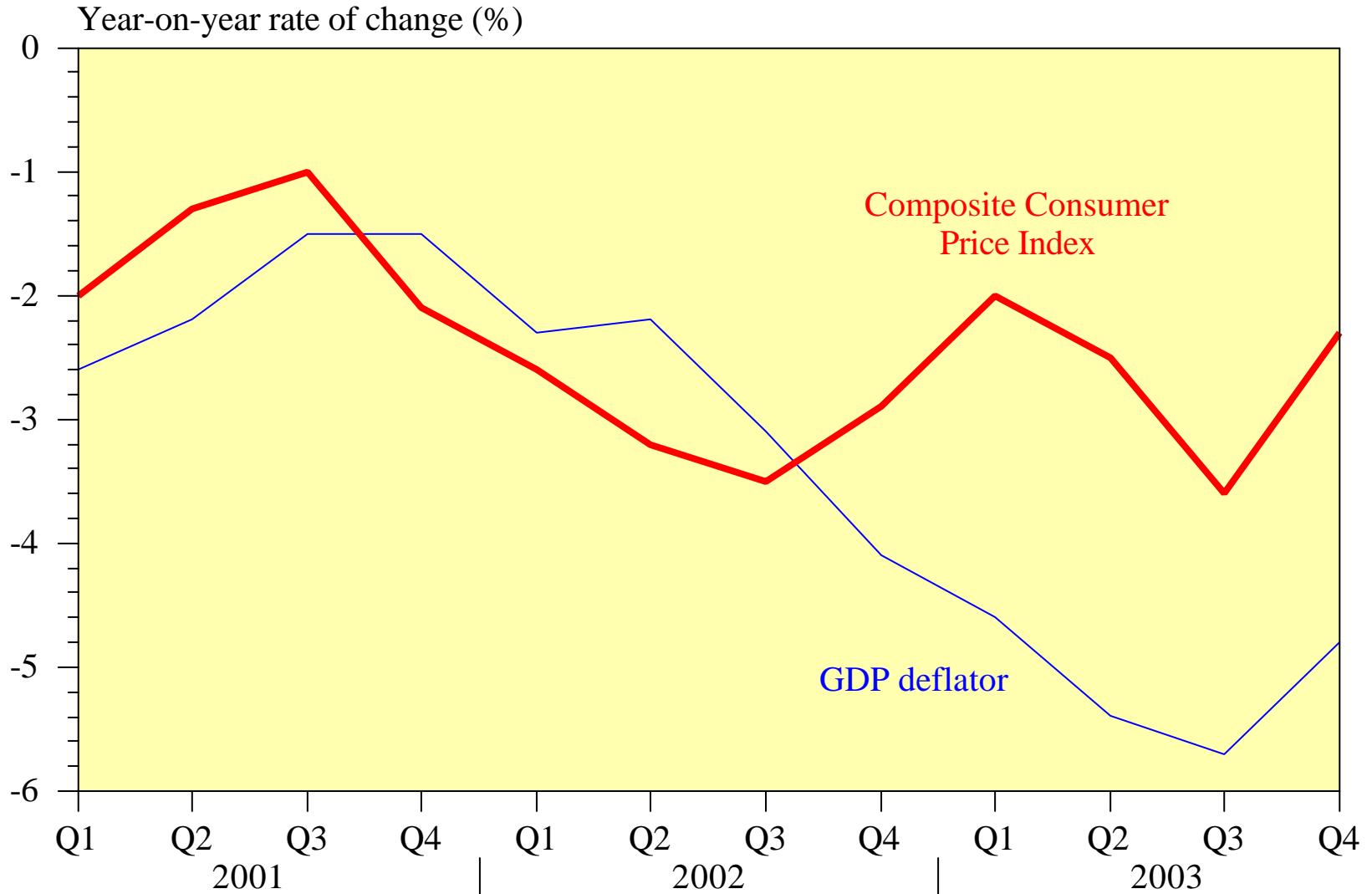
Seasonally adjusted unemployment rate and underemployment rate



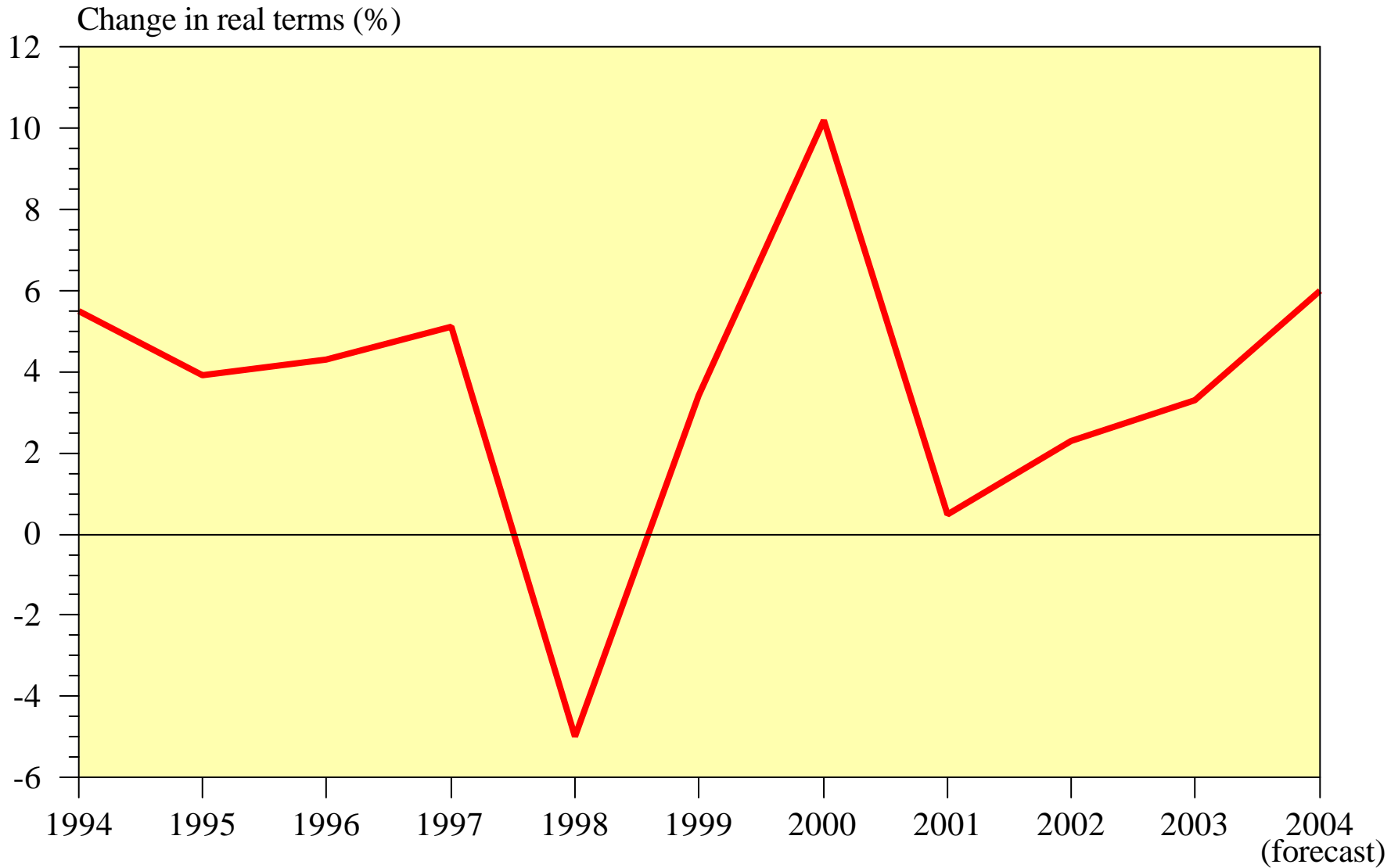
Total employment



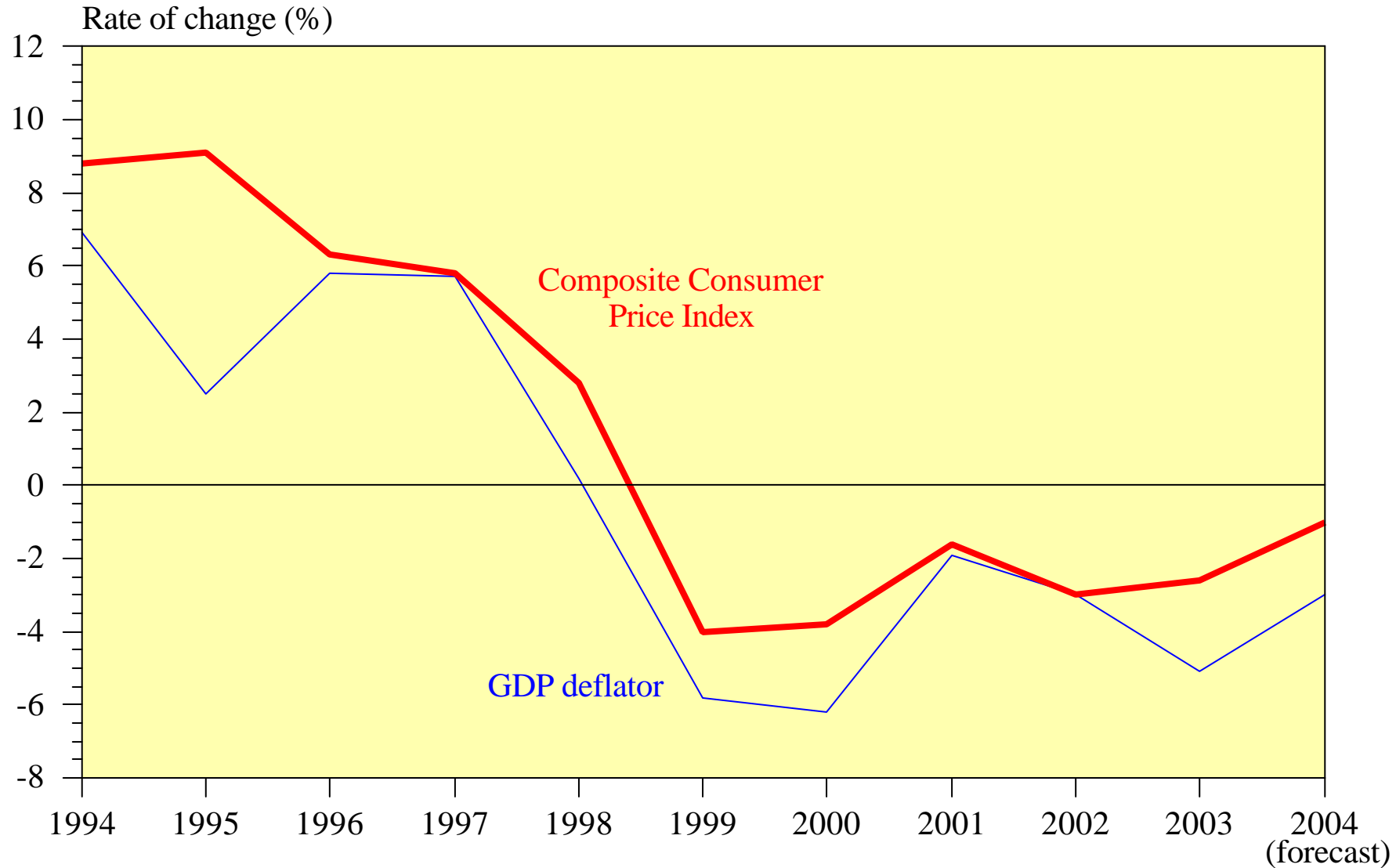
Composite Consumer Price Index and GDP deflator



Forecast of Gross Domestic Product for 2004



Forecasts of the Composite Consumer Price Index and GDP deflator for 2004



2003-04 Outturn

- \$49 billion Deficit (2002-03 Actual Deficit \$61.7 billion)

	OE Updated (\$billion)	RE (\$billion)	Change (\$billion)
● higher-than-expected revenue, mainly in			
– Investment income	12.1	25.8	+13.7
– Profits tax	43.3	47.0	+3.7
– Stamp duty	7.9	9.9	+2.0
● Lower-than-expected expenditure	260.7	248.6	-12.1

The 2004 Medium Range Forecast (MRF)

Chart 10

\$billion	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Operating revenue	165.6	170.7	177.7	184.9	194.8
Operating expenditure	212.2	210.6	207.1	203.5	200.0
Operating surplus/(deficit)	(46.6)	(39.9)	(29.4)	(18.6)	(5.2)
Capital revenue	37.9	56.8	44.5	56.0	49.3
Capital spending (including payments from the Capital Investment Fund)	53.4	52.3	45.9	39.6	37.1
Capital financing surplus/ (deficit)	(15.5)	4.5	(1.4)	16.4	12.2
Government bond issuance					
- Proceeds	20.0	-	-	-	-
- Interest expense	0.5	1.0	1.0	1.0	1.0
Capital financing surplus/ (deficit) after bond issuance	4.0	3.5	(2.4)	15.4	11.2
Consolidated surplus/(deficit) before bond issuance	(62.1)	(35.4)	(30.8)	(2.2)	7.0
- as a percentage of GDP	4.9%	2.7%	2.2%	0.2%	0.5%
Consolidated surplus/(deficit) after bond issuance	(42.6)	(36.4)	(31.8)	(3.2)	6.0
- as a percentage of GDP	3.4%	2.7%	2.3%	0.2%	0.4%
Fiscal reserves after bond issuance	223.8	187.4	155.6	152.4	158.4
- as number of months of Government Expenditure	10	9	7	8	8
Public expenditure	286.0	277.7	270.2	264.3	259.3
- as a percentage of GDP	22.5%	20.8%	19.3%	18.0%	16.9%

Expenditure Initiatives

- \$29 billion on average a year on works projects over the next five years
- \$1.2 billion for extending over 11,000 temporary jobs
- \$50 million for establishing a Youth Sustainable Development and Engagement Fund
- \$250 million for creating a fund to launch a “DesignSmart” Initiative and to set up a Design and Innovation Centre
- \$95 million for various tourism promotion and training activities
- \$200 million for promoting a tripartite social partnership and encouraging corporations to help the disadvantaged

Tax Concessions

- Allow profits tax deduction for design-related research and development expenses
- Extend home loan interest deduction for 2 years, maximum deduction maintained at \$100,000; estimated revenue forgone is \$4.6 billion over 5 years
- Extend duty concession for ultra low sulphur diesel to end-2004; i.e. duty maintained at \$1.11 per litre up to 31 December 2004; tax revenue forgone is about \$900 million

Revenue-Raising Measures

- New Personalised Vehicle Registration Marks (PVRM) Scheme
 - let vehicle owners set and choose vehicle registration marks
 - Transport Department will relax existing restrictions on vehicle registration marks
 - e.g. from “VG 1234” to “MY CAR”
 - expected to raise about \$70 million a year

Revenue-Raising Measures

- Fees and charges
 - Revise fees and charges of government services in line with the “User Pays” principle, dealing first with items that do not directly affect people’s livelihood or general business activities

Revenue-Raising Measures

- “Green” Tax
 - May change polluting behaviour through fiscal measures
 - Charge for construction waste disposal - legislation already introduced by SETW into LegCo
 - Tax on old car tyres – being considered by EPD and ETWB
 - SETW will review tax and fee concessions that run counter to the “Polluter Pays” Principle

Other Taxes

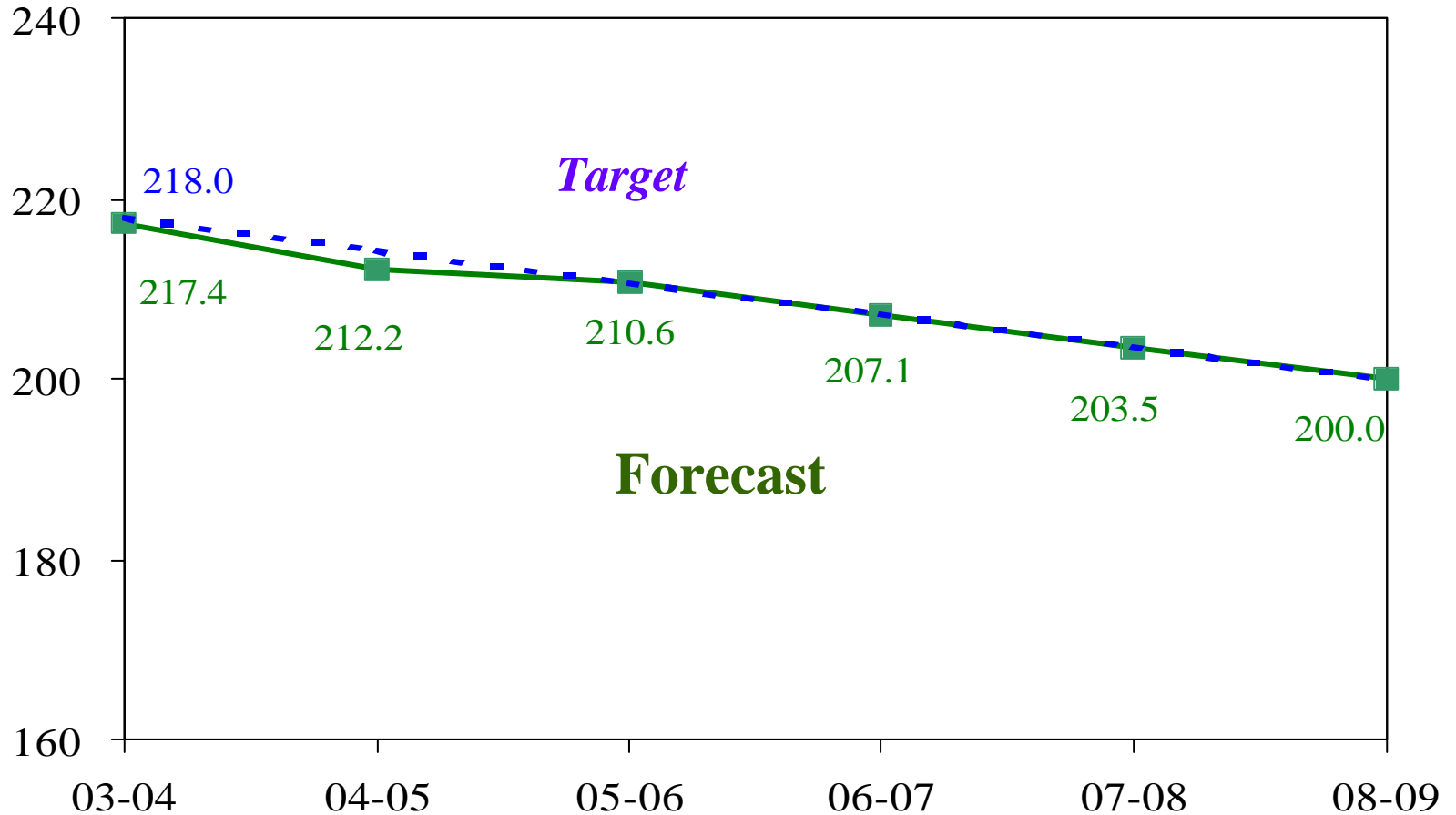
- Government is conducting a detailed study on implementation of a Goods and Services Tax (GST); will submit a report to FS by end 2004
- will review Estate Duty
- will keep duty on alcoholic beverages under review

Government Bonds

- Propose to issue government bonds not exceeding \$20 billion to provide funds for investment in capital projects.
- Issuance of bonds can provide greater flexibility in management of Government's liquidity and help promote development of our bond market

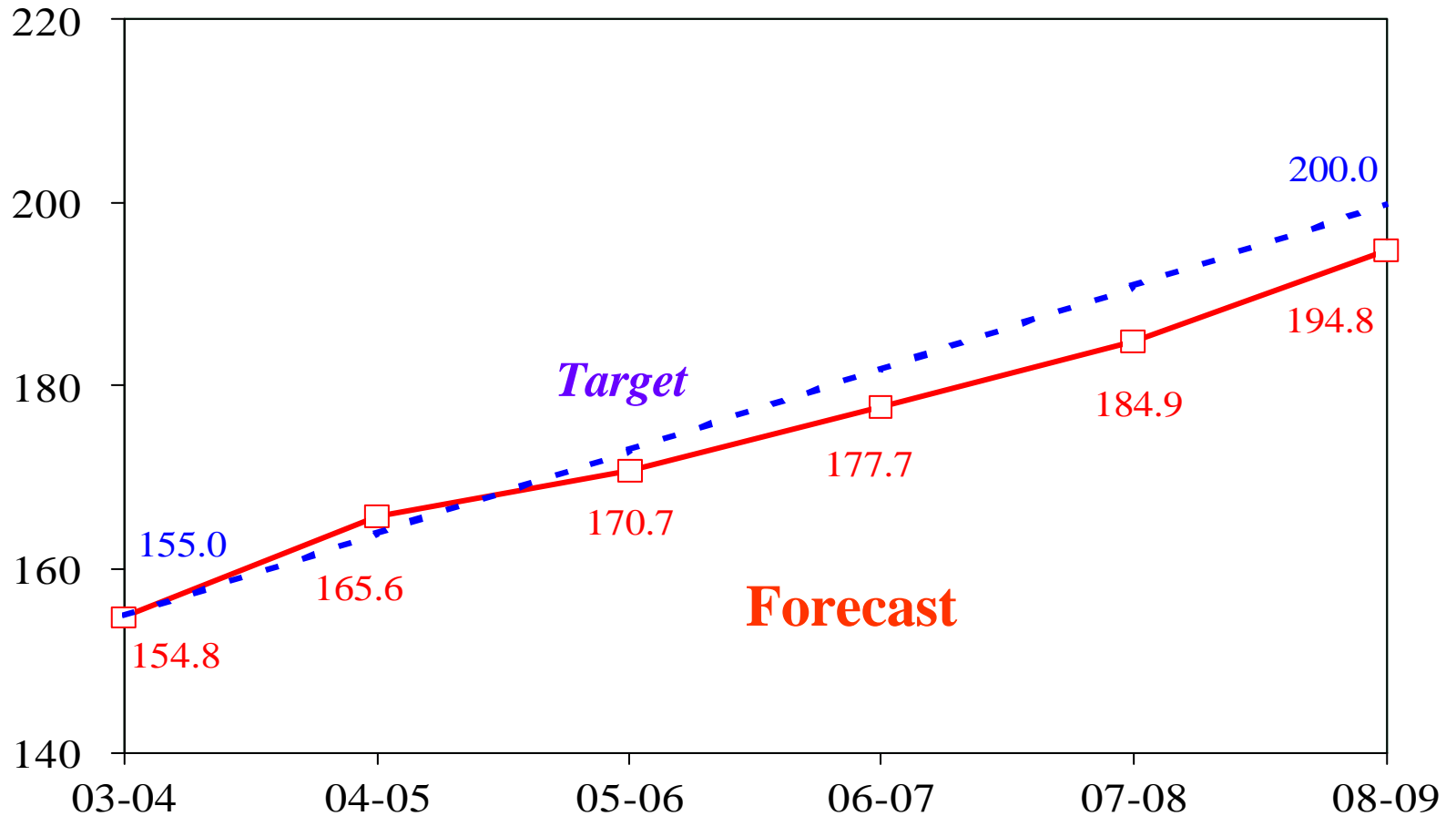
Operating Expenditure Forecast

\$billion



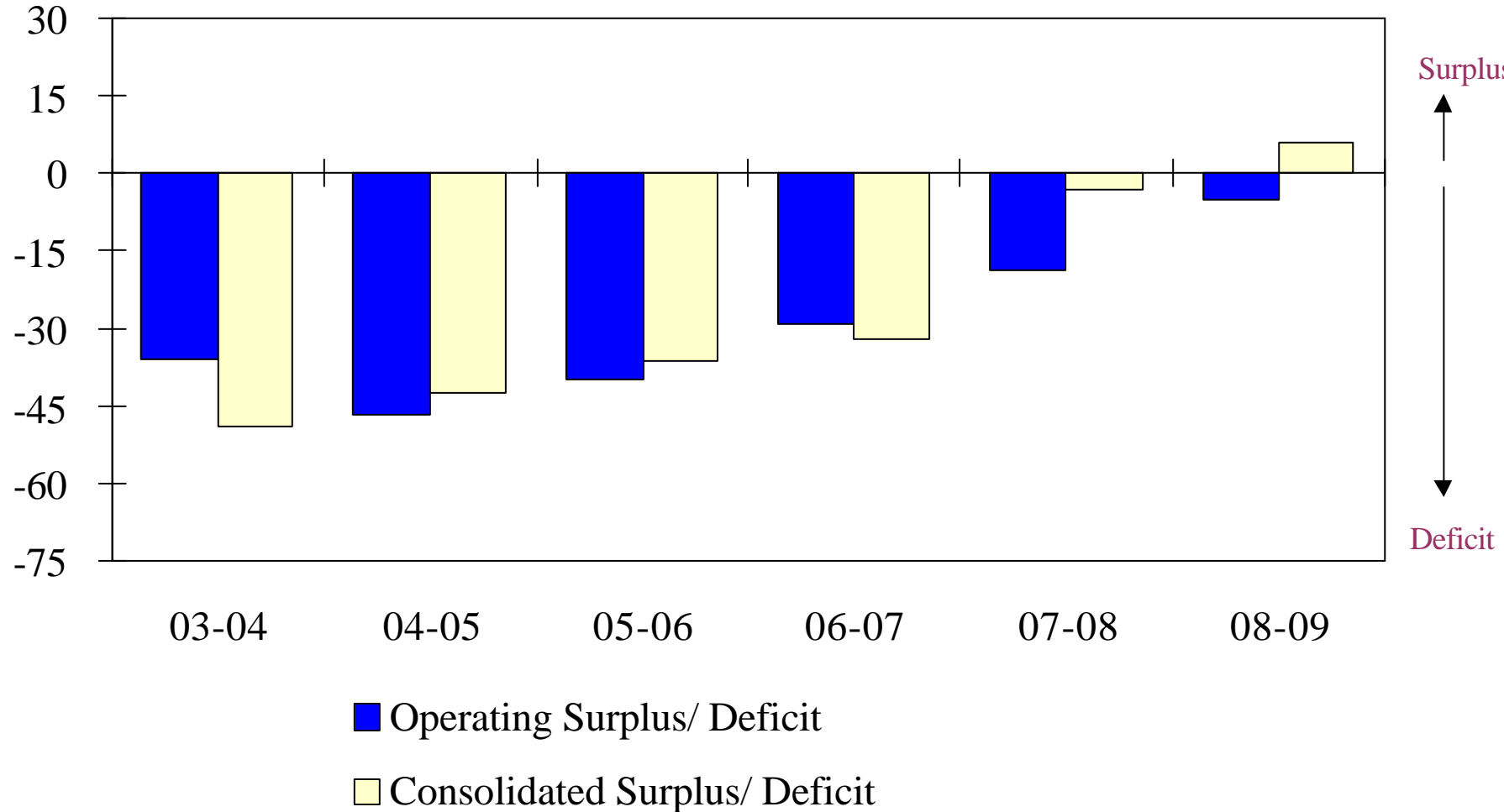
Operating Revenue Forecast

\$billion

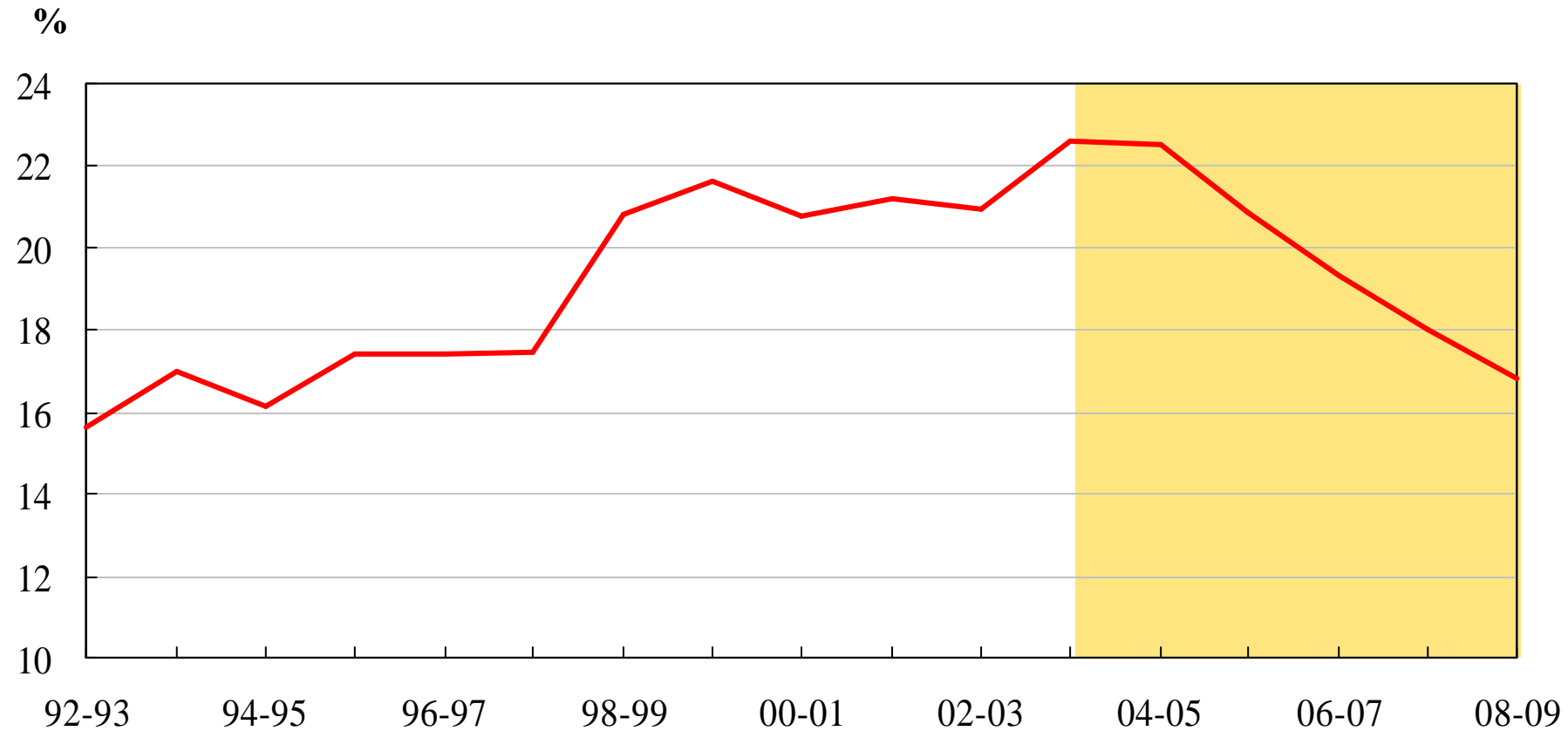


Surplus/Deficit Forecast

\$ billion



Public Expenditure as a percentage of GDP



Forecast

Recurrent Government Expenditure by Policy Area Group

\$ billion	<u>2003-04</u>		<u>2004-05</u>	
	Original Estimate	%	Original Estimate	%
Education	49.3	23.8	49.2	24.2
Social Welfare	32.8	15.8	33.7	16.6
Health	31.9	15.4	30.3	14.9
Security	25.0	12.1	23.9	11.7
Infrastructure	11.6	5.6	11.3	5.6
Environment and Food	8.7	4.2	8.2	4.0
Economic	8.3	4.0	8.0	3.9
Community and External Affairs	7.6	3.7	7.1	3.5
Housing	0.5	0.3	0.5	0.2
Support	31.3	15.1	31.3	15.4
Recurrent Government Expenditure	207.0	100.0	203.5	100.0

Total Government Expenditure by Policy Area Group

\$ billion	<u>2003-04</u>		<u>2004-05</u>	
	Original Estimate	%	Original Estimate	%
Education	61.0	23.8	59.5	23.0
Social Welfare	34.0	13.2	35.4	13.7
Health	33.4	13.0	33.0	12.7
Infrastructure	26.9	10.5	30.0	11.6
Security	27.9	10.9	27.0	10.5
Economic	14.0	5.4	13.7	5.3
Environment and Food	11.3	4.4	12.6	4.9
Community and External Affairs	9.0	3.5	8.6	3.3
Housing	0.6	0.2	0.5	0.2
Support	38.7	15.1	38.4	14.8
Total Government Expenditure	256.8	100.0	258.7	100.0