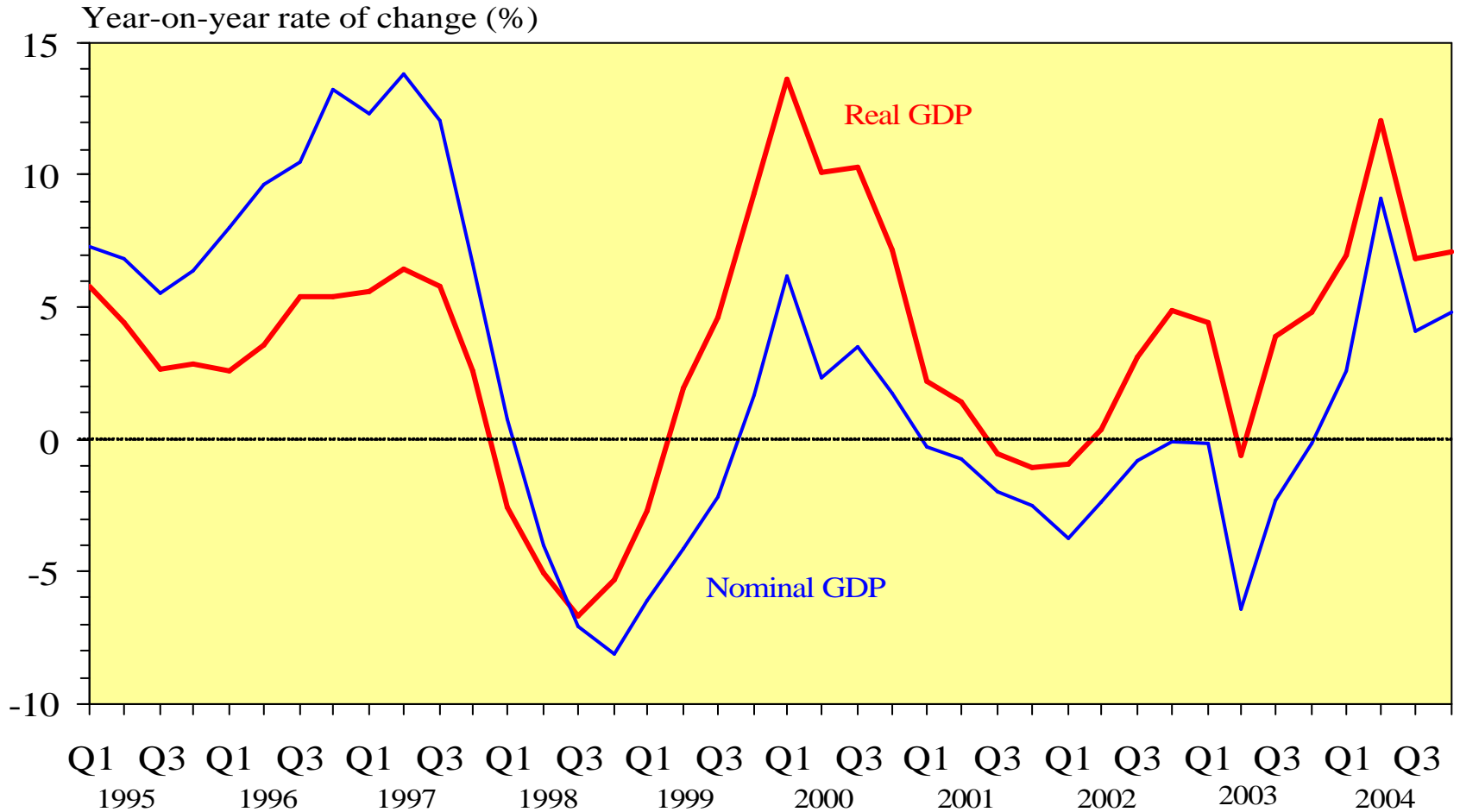


2005-06 Budget

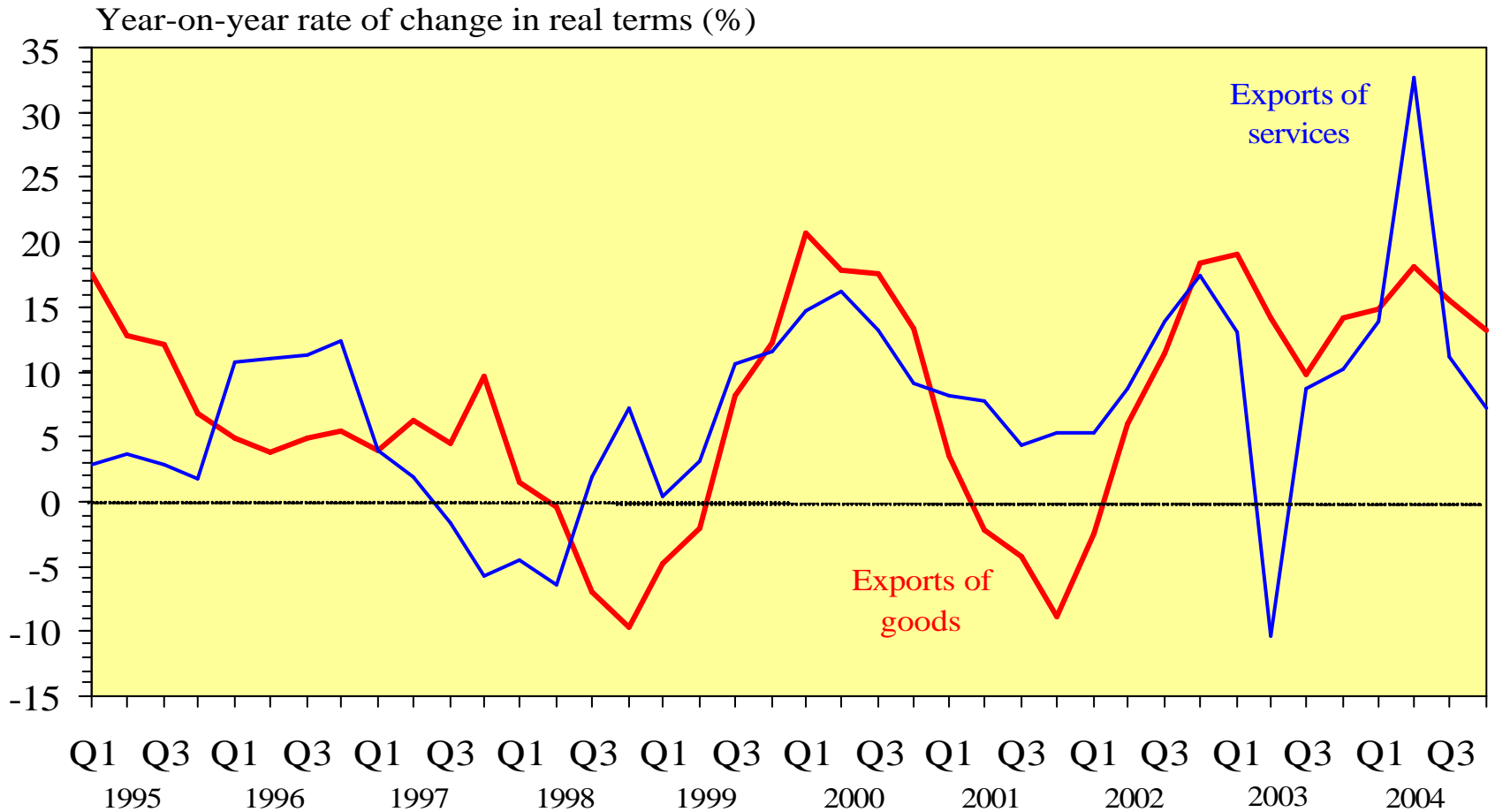
Briefing for the Legislative Council

17 March 2005

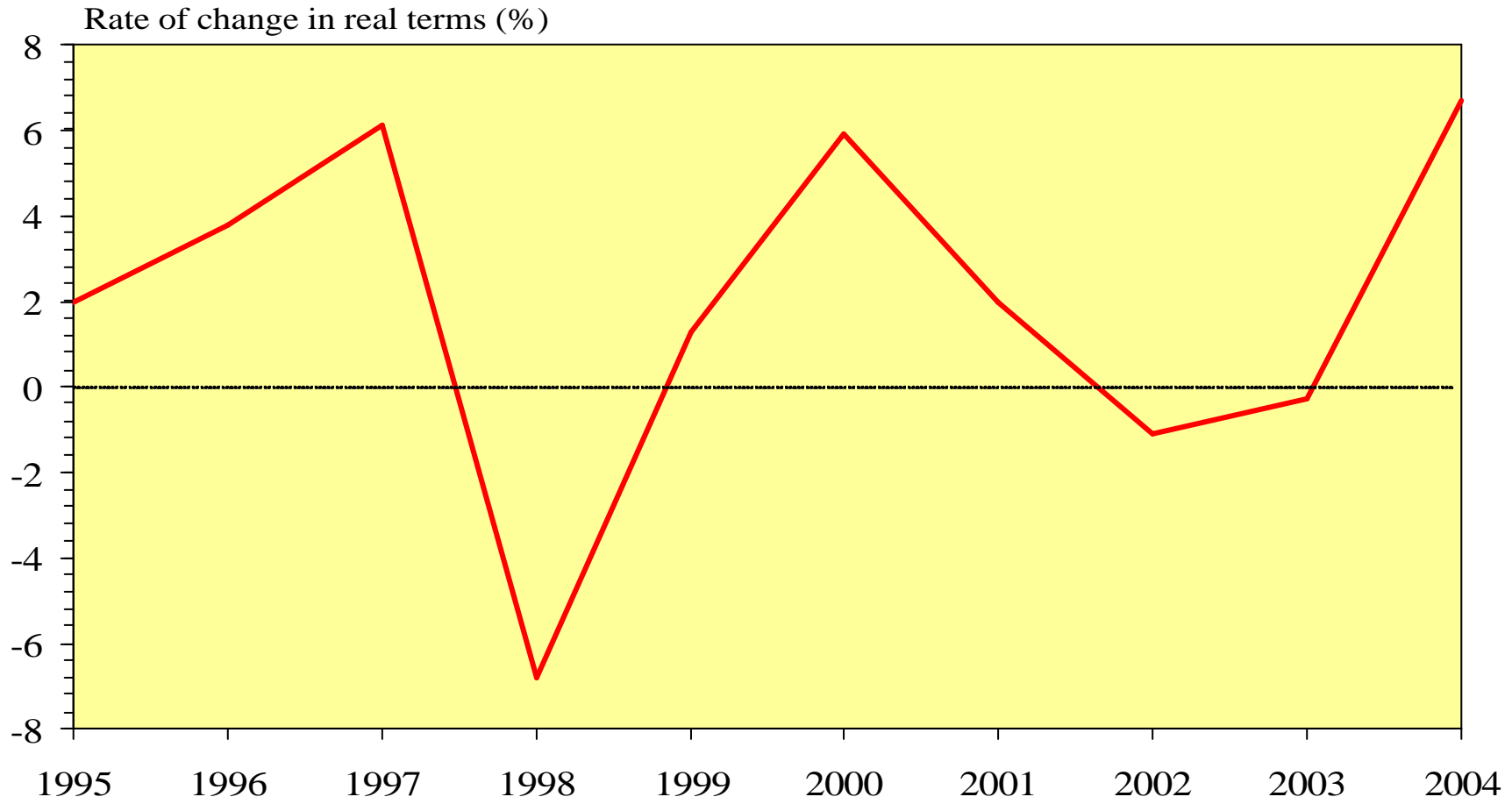
Gross Domestic Product



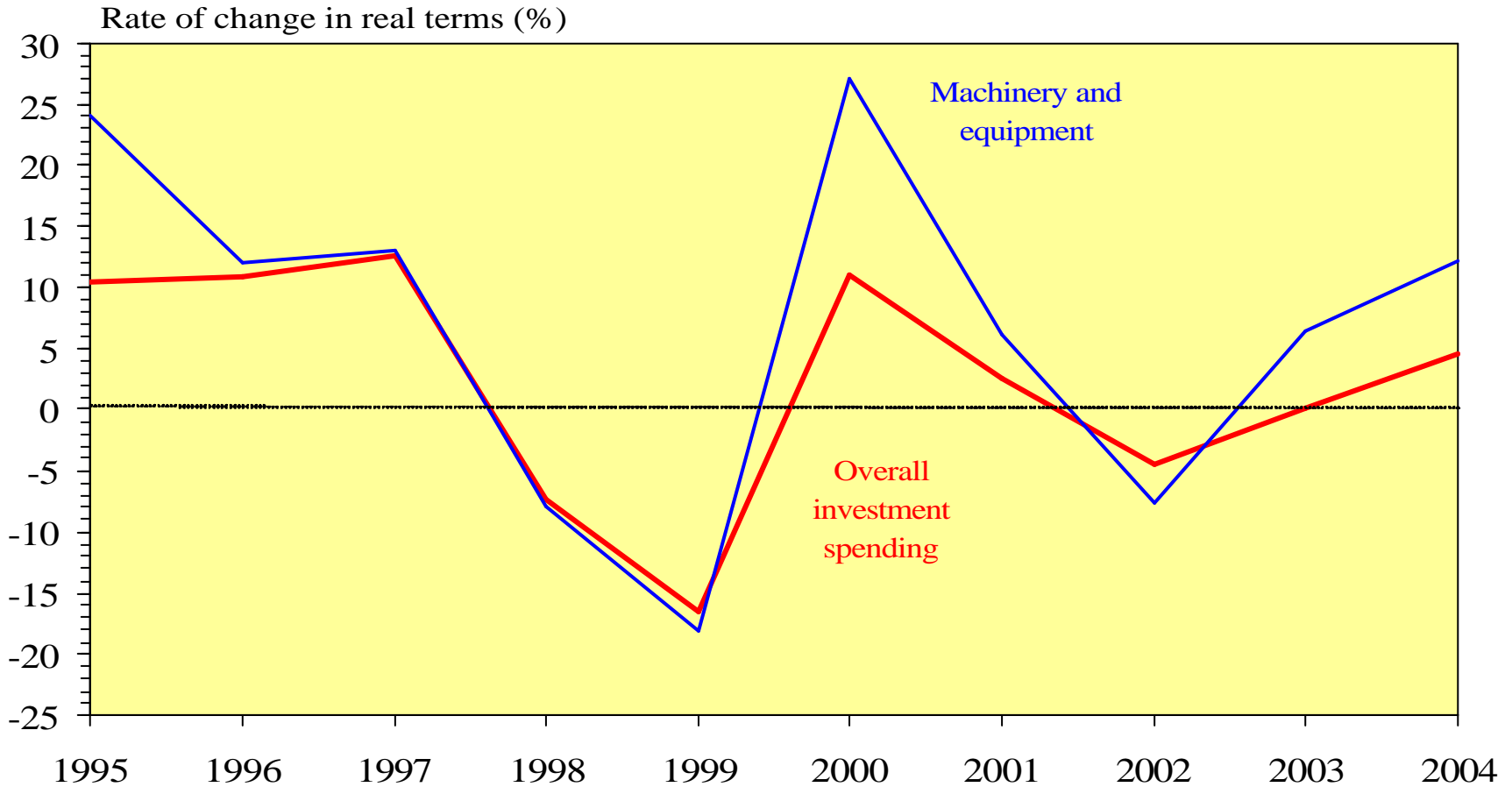
Total exports of goods and services



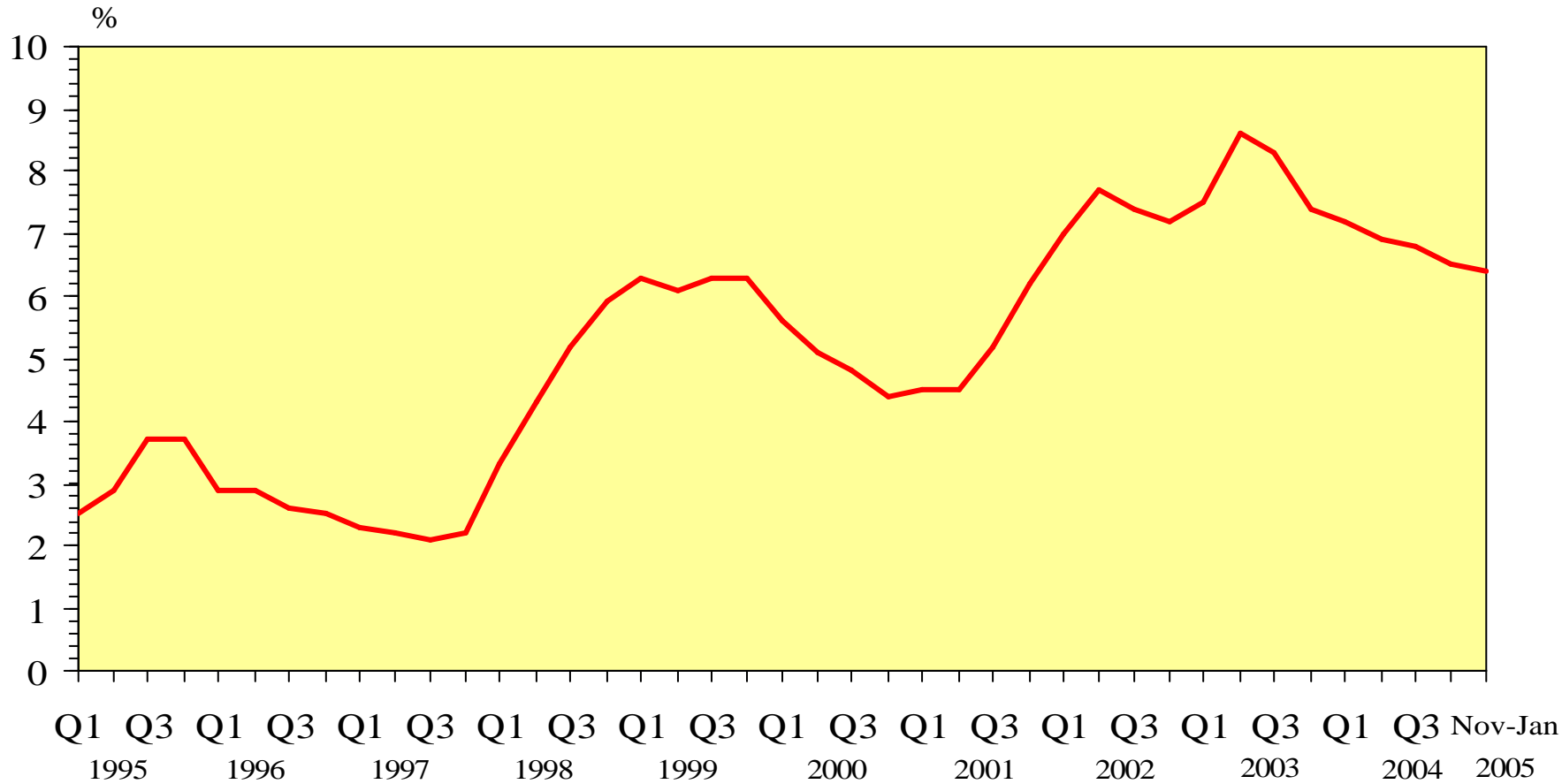
Private consumption expenditure



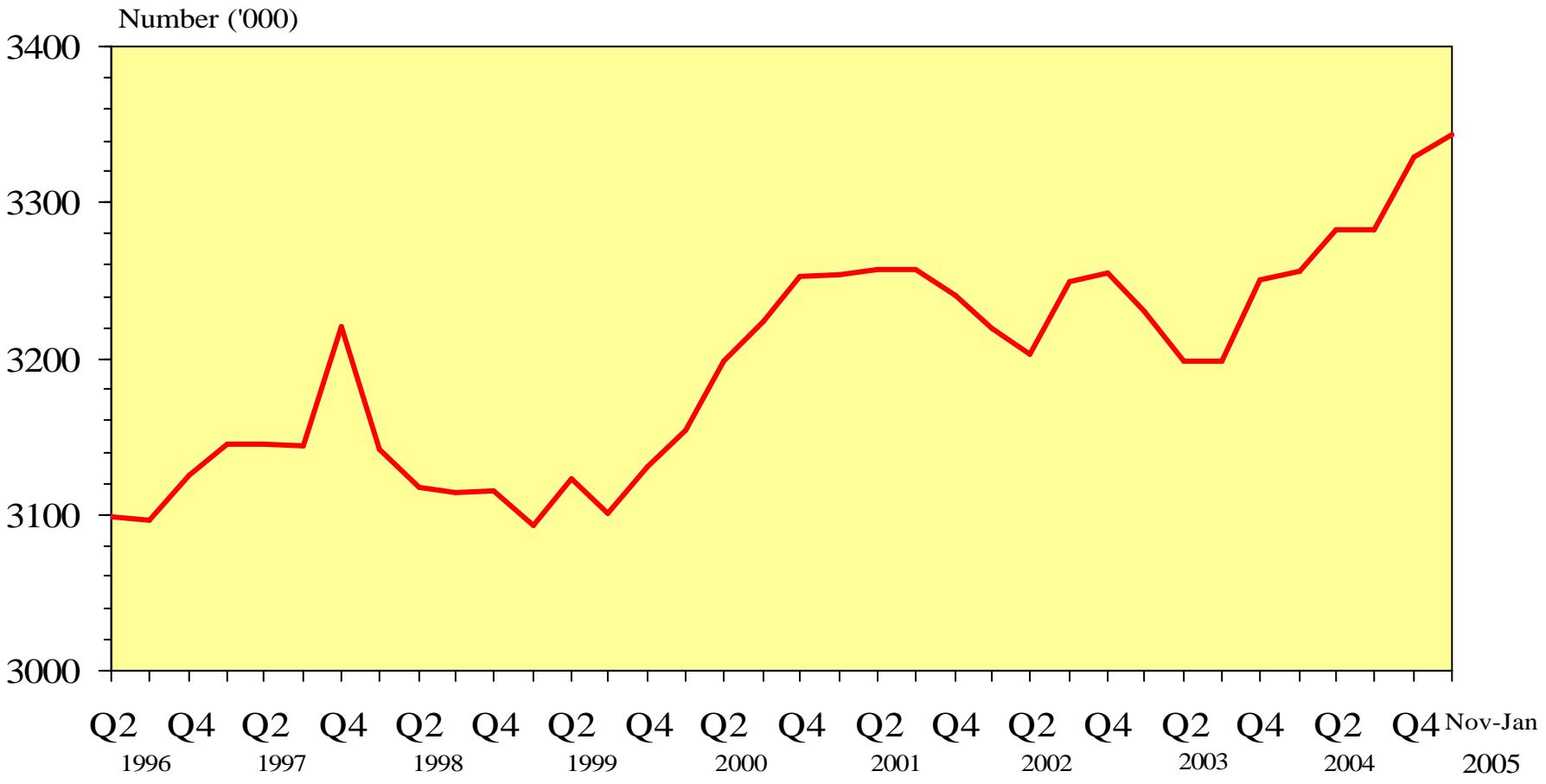
Investment spending



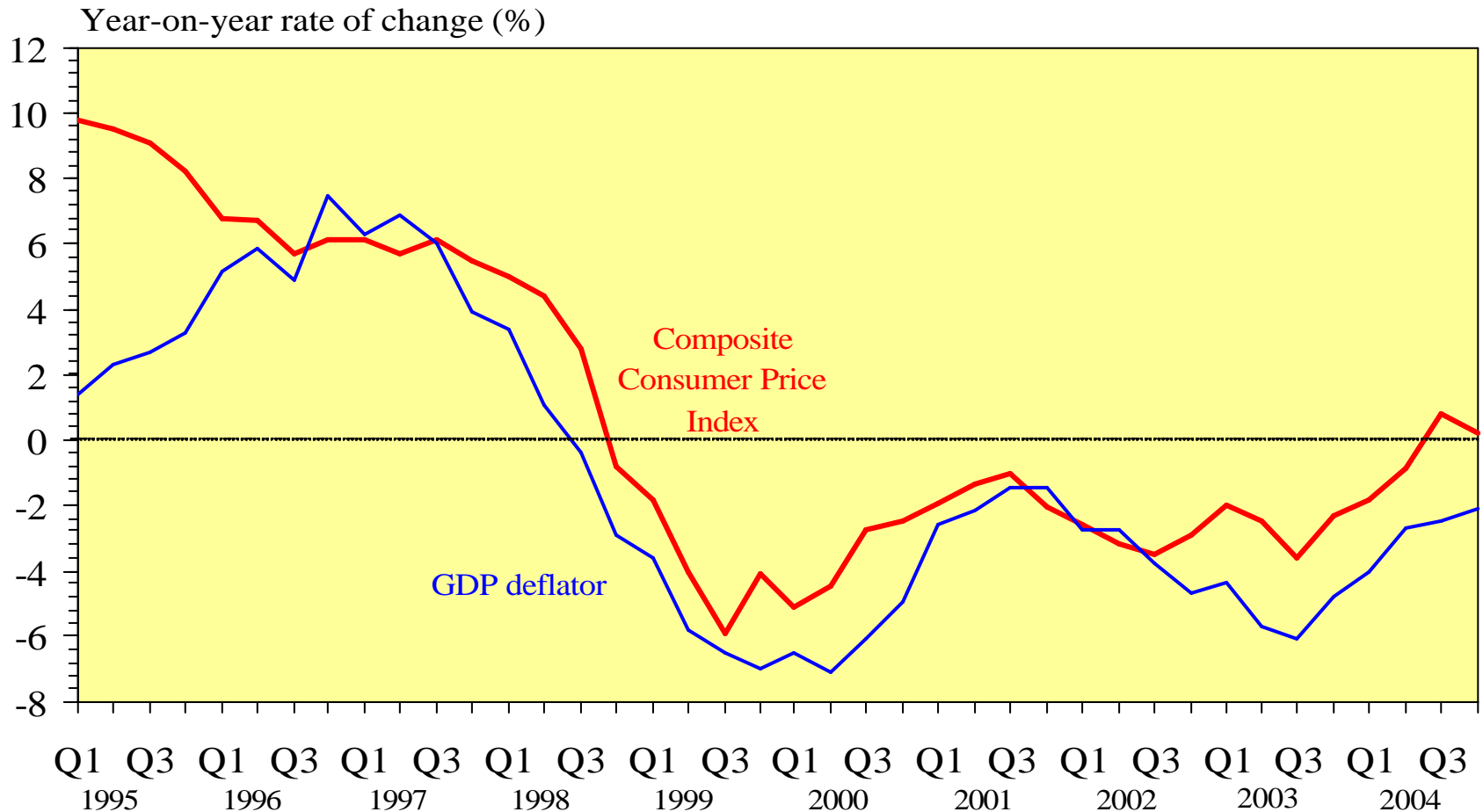
Seasonally-adjusted unemployment rate



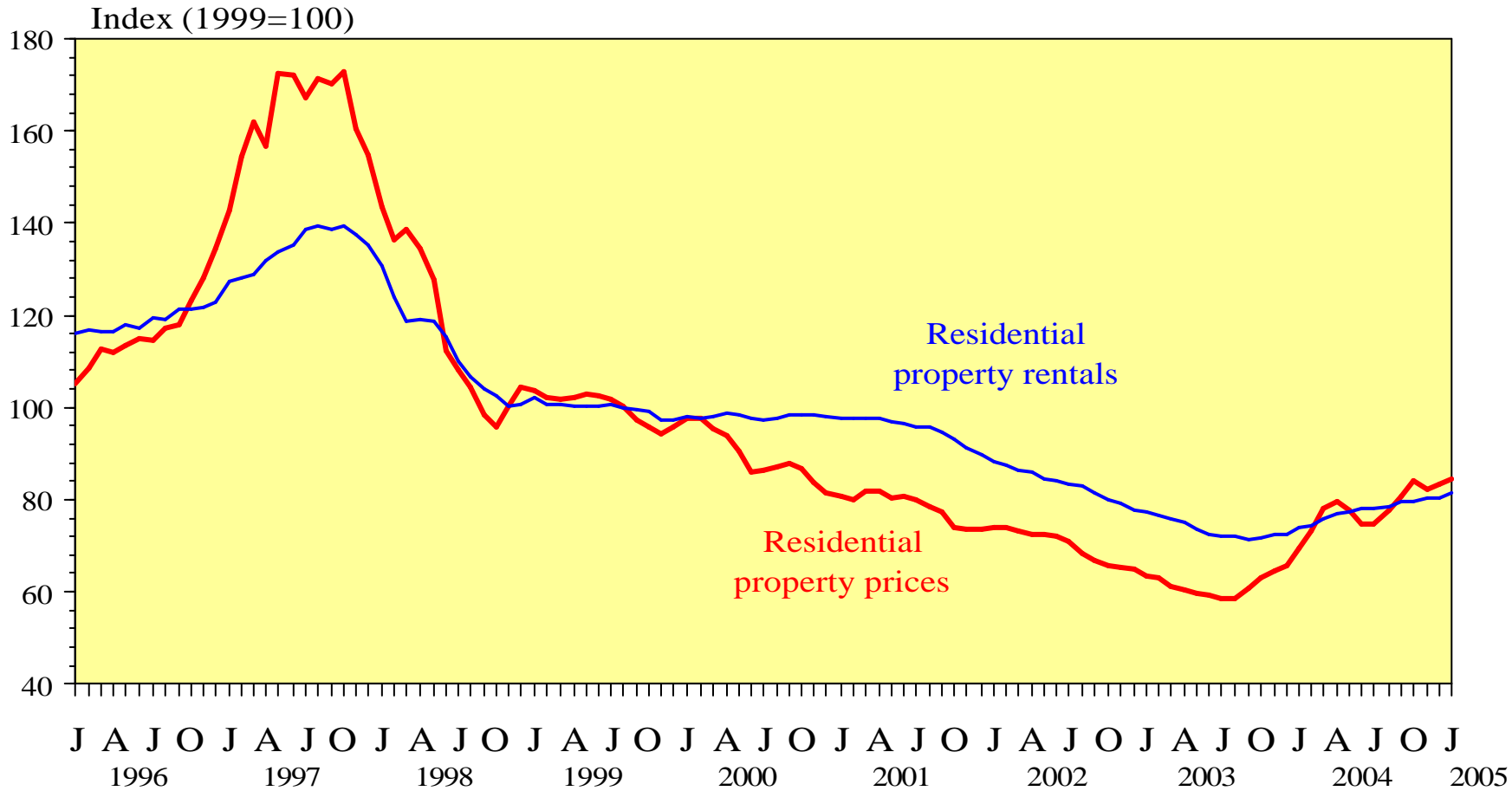
Total employment



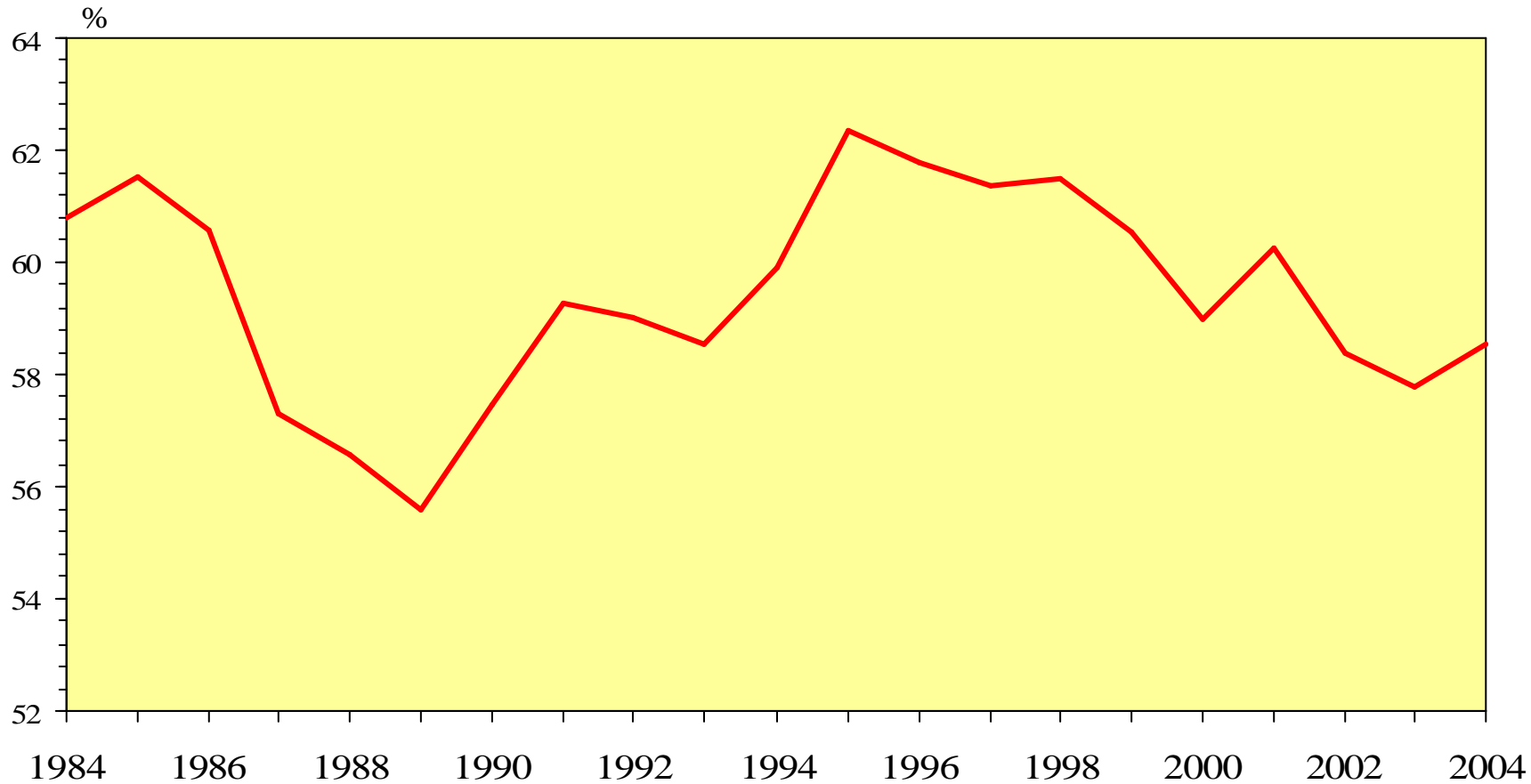
Composite Consumer Price Index and GDP deflator



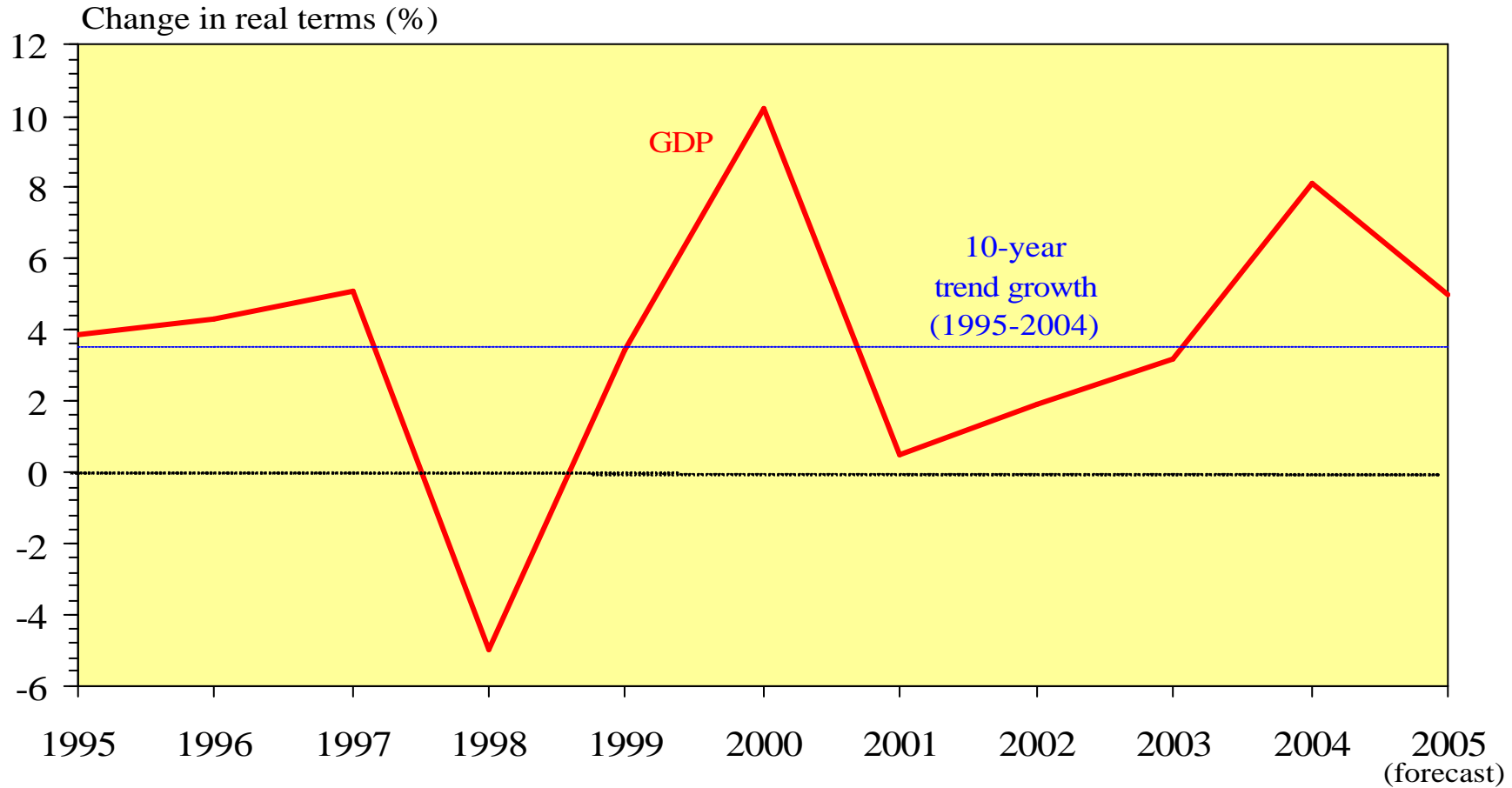
Residential property prices and rentals



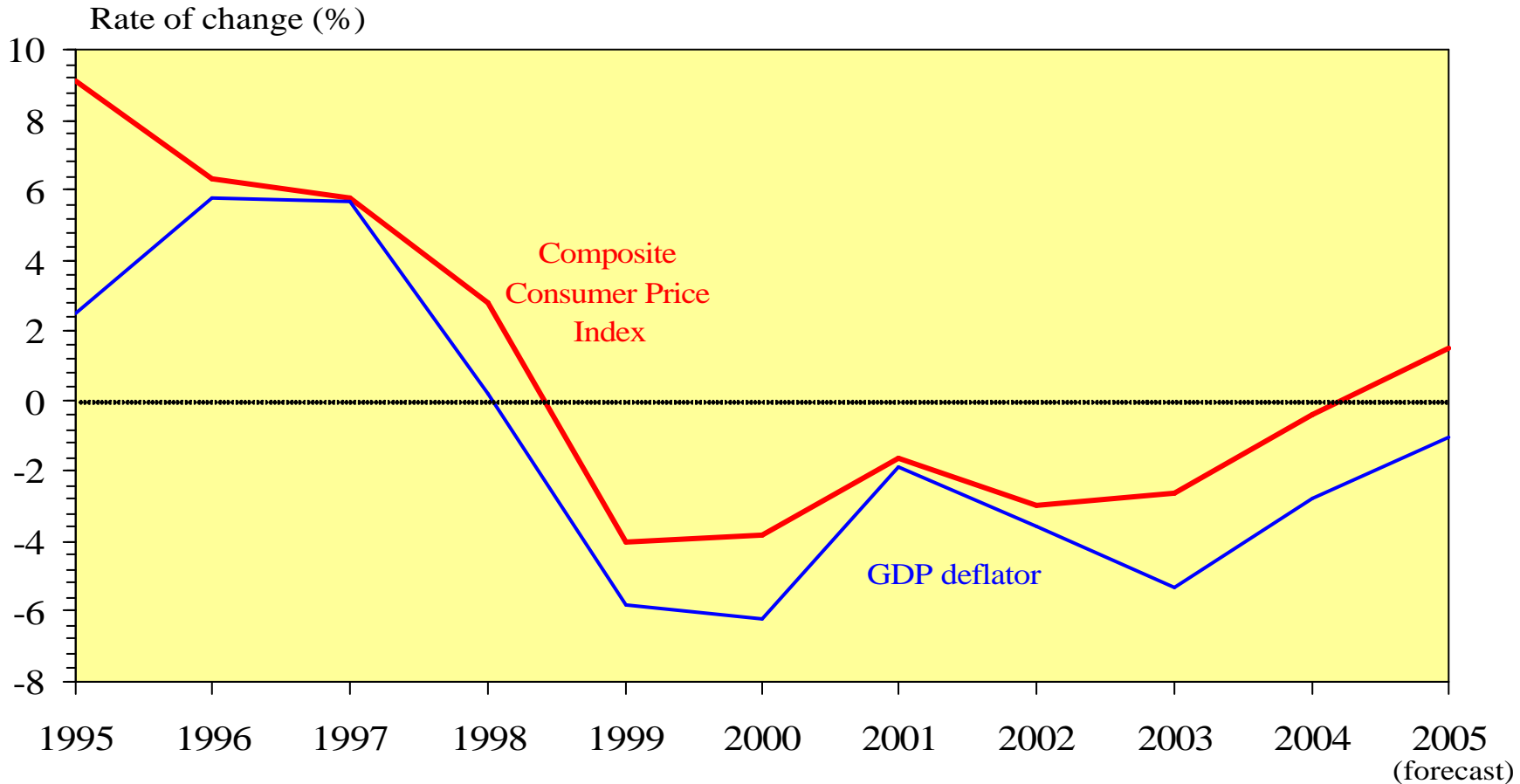
Private consumption expenditure as a % of GDP



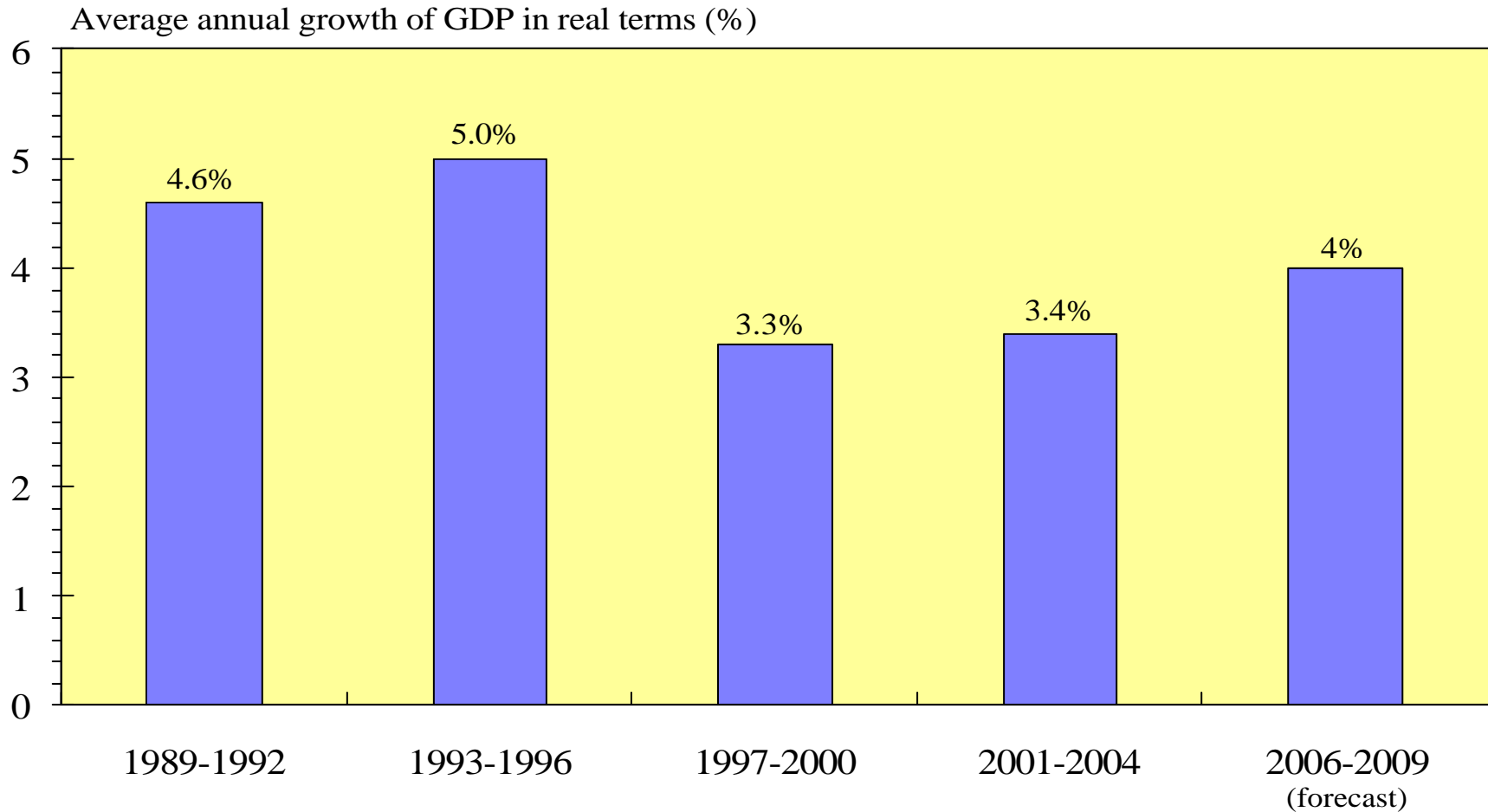
Forecast of Gross Domestic Product for 2005



Forecast of the Composite Consumer Price Index and GDP deflator for 2005



Medium-term economic outlook



2004-05 Revised Estimate

- Consolidated surplus after bond issuance **+\$12.0 billion**
(Original estimate : \$42.6 billion deficit)
- Consolidated deficit before bond issuance **-\$13.4 billion**
- Operating deficit **-\$14.1 billion**

2004-05 Revised Estimate

	Original Estimate (\$billion)	Revised Estimate (\$billion)	Change (\$billion)
● Higher-than-anticipated revenue, mainly due to –			
➤ Land premium	12.0	31.3	+19.3
➤ Earnings and profits tax	82.3	96.4	+14.1
➤ Stamp duties	11.0	15.5	+4.5
➤ Investment income	12.3	14.6	+2.3
● Lower-than-expected spending	266.1	249.7	-16.4

2004-05 Revised Estimate

Points to note

- Land premium and investment income are very unstable sources of income

						04-05	
	(\$ billion)	<u>99-00</u>	<u>00-01</u>	<u>01-02</u>	<u>02-03</u>	<u>03-04</u>	<u>Revised estimate</u>
Land Premium		34.8	29.5	10.3	11.5	5.4	31.3
Investment Income		41.9	23.5	0.9	17.6	25.9	14.6

- Income includes borrowings of more than \$20 billion which will have to be repaid

2004-05 Revised Estimate

Points to note

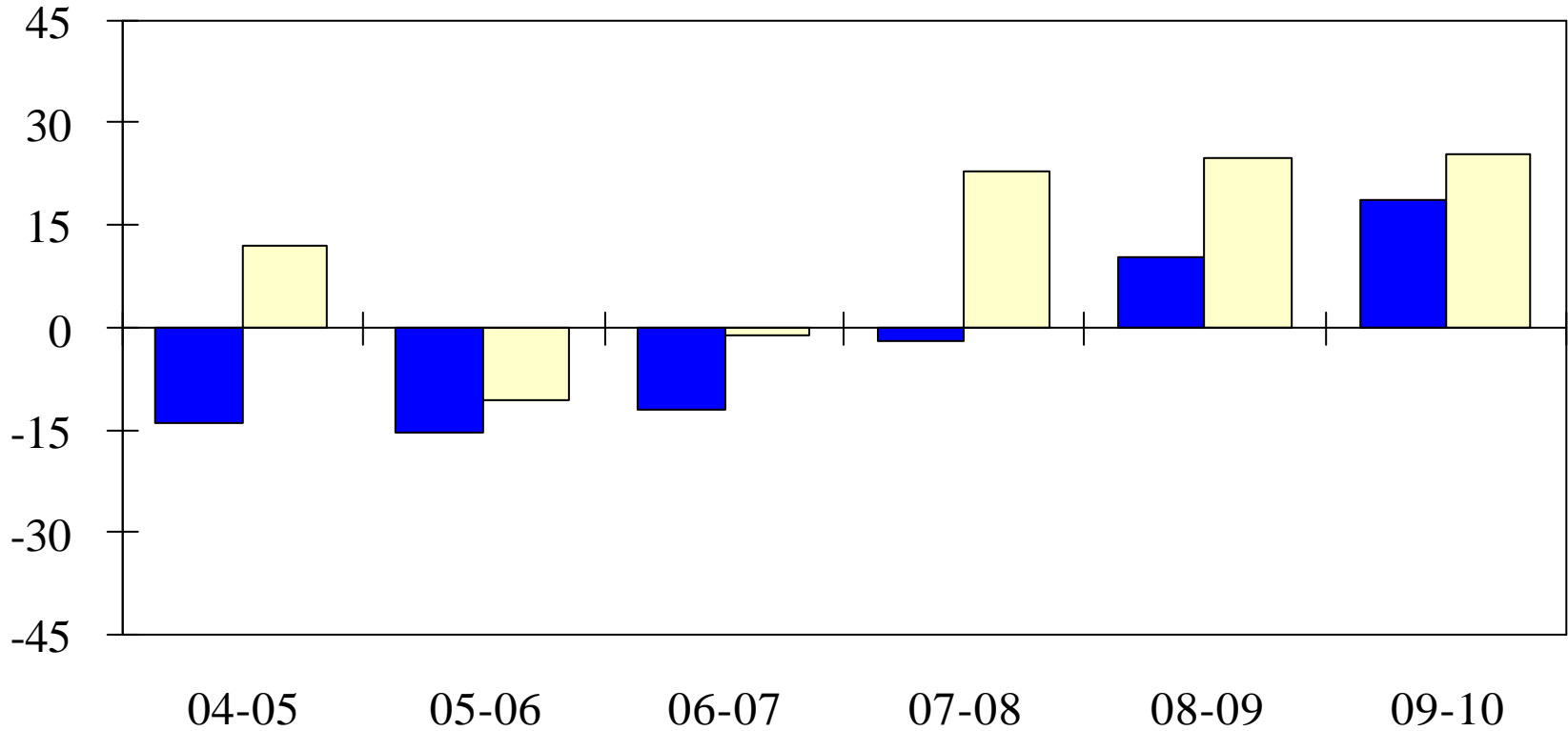
- Consecutive years of operating deficit since 1998-99, fiscal reserves also depleted by about \$170 billion (37%)
 - must not relax our efforts just because of one good year
- Compared with last year, operating expenditure reduced by \$2 billion
 - concerted efforts of all government colleagues in containing expenditure
 - inflation in future years will exert pressure on spending
- Uncertainties of external environment
 - affect fiscal income

2005 Medium Range Forecast

\$billion	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Operating revenue	192.6	195.0	201.3	210.3	221.2
Operating expenditure	208.0	207.1	203.5	200.0	202.5
Operating surplus / (deficit)	(15.4)	(12.1)	(2.2)	10.3	18.7
Capital revenue	50.5	61.7	69.4	60.8	53.7
Capital spending (including payments from the Capital Investment Fund)	45.6	48.2	44.4	43.5	43.3
Capital financing surplus	4.9	13.5	25.0	17.3	10.4
Repayment of bonds and notes	-	2.6	-	2.7	3.5
Capital financing surplus after bond repayment	4.9	10.9	25.0	14.6	6.9
Consolidated surplus / (deficit) after bond repayment	(10.5)	(1.2)	22.8	24.9	25.6
- as a percentage of GDP	0.8%	0.1%	1.5%	1.6%	1.5%
Fiscal reserves	276.8	275.6	298.4	323.3	348.9
- as a number of months of government expenditure	13	13	14	16	17

Surplus/Deficit Forecast

\$ billion



■ Operating Surplus/ Deficit

■ Consolidated Surplus/ Deficit

Fiscal Targets

- Three fiscal targets set in last year may be achieved ahead of schedule:

	<u>Original Target</u>	<u>Latest Forecast</u>
➤ Operating expenditure = \$200 billion	2008-09	2004-05 = \$201.2 billion
➤ Operating Account balance	2008-09	2008-09
Consolidated Account balance	2008-09	2007-08
➤ Public expenditure = 20% of GDP	2008-09	2006-07

Reinforcing our strengths

- Improving our business environment
 - facilitate business by breaking down barriers and streamlining procedures
- Promoting fair competition
 - review existing competition policy and mechanism
- Accessing the Mainland market, fostering economic co-operation
 - CEPA (including the Individual Visit Scheme), etc.

Reinforcing our strengths

- Enhancing our position as an international financial centre
 - Improving the financial regulatory system
 - Enhancing corporate governance
 - Promoting the bond market
 - Reinforcing our Renminbi business
 - Promoting asset management
 - abolish estate duty

Reinforcing our strengths

- Developing tourism
 - \$500 million to implement various measures in developing tourism
- Developing logistics
 - \$10 million to enhance the marketing of our port, shipping and logistics facilities
- Cultural and creative industries
 - extend the Film Guarantee Fund to facilitate the development of our cultural and creative industries
- Small and Medium Enterprises
 - additional funding of \$500 million to the SME Export Marketing Fund and the SME Development Fund
- Nurturing and attracting talent
 - invest in education
 - ensure smooth operation of the Admission Scheme to Mainland Talent and Professionals to attract more talented people and professionals

Other measures

- \$880 million to extend 11 600 temporary jobs
- \$830 million to remove over 180 000 unauthorised structures and improve the safety and external appearance of old buildings

Tax concessions

- Introduce basic allowance of \$15,000 to salaries taxpayers taking care of dependent parents or grandparents aged between 55 and 59, with an additional allowance of the same amount if their parents or grandparents are residing with them
- Increase the child allowance for salaries taxpayers to \$40,000 per child
- Abolish estate duty to promote the further development of our asset management business

Other taxes

- Duty on Alcoholic Beverages
 - Maintain status quo
- “Green” taxes on e.g.
 - waste tyres
 - plastic bags
- Consider tax deduction for contributions to private medical insurance schemes in examining options for financing and sustaining public health care services

Goods and Services Tax

- An internal committee carried out the study
- Will consult the public and provide further information in consultation document
- Will listen carefully to the views of the public

Recurrent Government Expenditure by Policy Area Group

	2004-05		2005-06	
	<u>Original Estimate</u> \$billion	%	<u>Original Estimate</u> \$billion	%
Education	49.2	24.2	48.7	24.5
Social Welfare	33.7	16.6	34.3	17.2
Health	30.3	14.9	29.4	14.8
Security	24.0	11.7	23.2	11.6
Infrastructure	11.2	5.6	11.0	5.5
Economic	8	3.9	7.9	4.0
Environment and Food	8.2	4.0	7.9	4.0
Community and External Affairs	7.1	3.5	6.8	3.4
Housing	0.5	0.2	0.4	0.2
Support	31.3	15.4	29.5	14.8
Recurrent Government Expenditure	203.5	100.0	199.1	100.0

Total Government Expenditure by Policy Area Group

	2004-05		2005-06	
	<u>Original Estimate</u>		<u>Original Estimate</u>	
	\$billion	%	\$billion	%
Education	59.5	23.0	58.2	23.5
Social Welfare	35.4	13.7	36.3	14.6
Health	33.0	12.7	32.2	13.0
Security	27.0	10.5	26.2	10.6
Infrastructure	30.0	11.6	25.8	10.4
Economic	13.7	5.3	12.6	5.1
Environment and Food	12.6	4.9	10.8	4.3
Community and External Affairs	8.6	3.3	8.3	3.4
Housing	0.5	0.2	0.4	0.2
Support	38.4	14.8	37.0	14.9
Total Government Expenditure	258.7	100.0	247.8	100.0

Thank you
