



The 2006-07 Budget

Information Pack for The Financial Secretary's Consultations

November 2005

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The Basic Law

Article 107

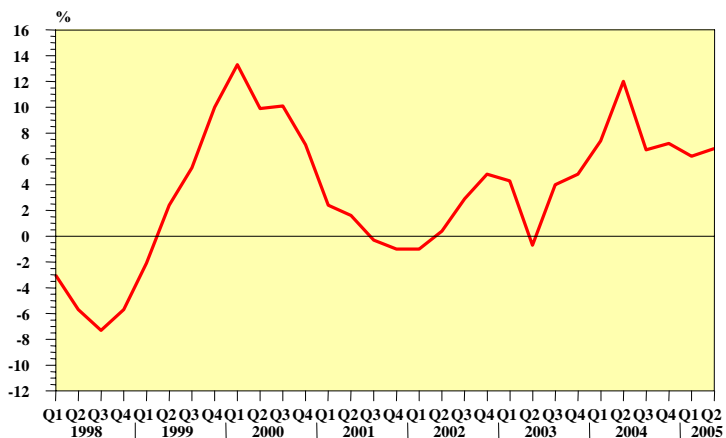
The Hong Kong Special Administrative Region shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product.

Economic positioning

- Accessing the Mainland market, fostering economic co-operation, capitalising on CEPA
- Market leads, Government facilitates
- Building on Hong Kong's strengths, enhancing competitiveness of our key industries
- Developing our human resources, promoting employment
- Maintaining a robust market structure, promoting fair competition

Economy on a firm footing

Gross Domestic Product
(year-on-year rate of change in real terms)



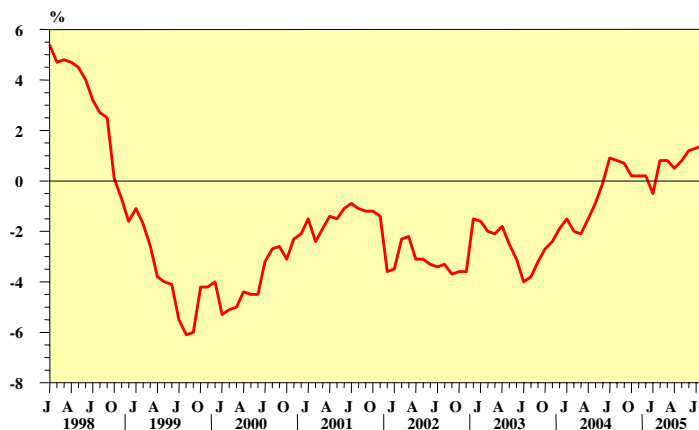
Latest 2005 economic indicators

Gross Domestic Product	1 st Half	+6.5%
Unemployment rate	3 rd Quarter	5.5% (down from peak of 8.6%)
Volume of exports of goods	First 8 months	+10.5% (August +13.3%)
Volume of exports of services	2 nd Quarter	+7.8%
Outbound container cargoes	First 7 months	+0.4% (July +7.7%)
Outbound air cargoes	First 9 months	+13.1% (September +10.4%)
Incoming visitors	First 8 months	+7.8% (August +2.6%)
Volume of retail sales	First 8 months	+6.7% (August +5.3%)
Investment expenditure	2 nd Quarter	+3.5%

Except for unemployment rate, the above percentages represent year-on-year changes.

Modest consumer inflation even with strong economic growth

Composite Consumer Price Index
(year-on-year rate of change)



External uncertainties

Short-term

- Surging oil prices
- Rising US interest rates
- US asset prices and consumer confidence
- Movements of US dollar and Renminbi

External uncertainties

Beyond the short-term

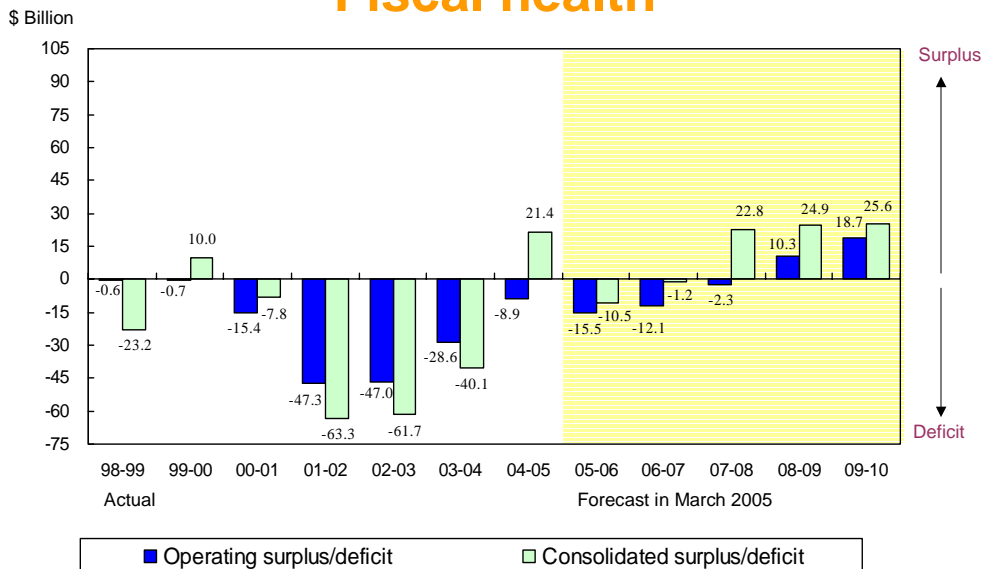
- Persistent current account deficit in the US and on-going trade tension with Asia/Mainland
- Sustainability of Japan's economic recovery
- Success in steering a soft-landing in the Mainland economy

Forecasts for 2005

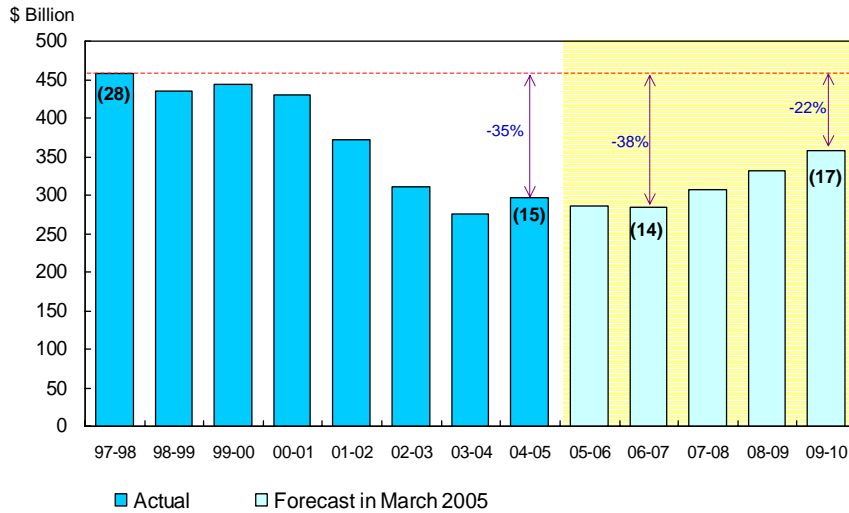
GDP real growth 4.5% - 5.5% (same as March 2005 forecast)

CCPI 1.5% (same as March 2005 forecast)

Fiscal health

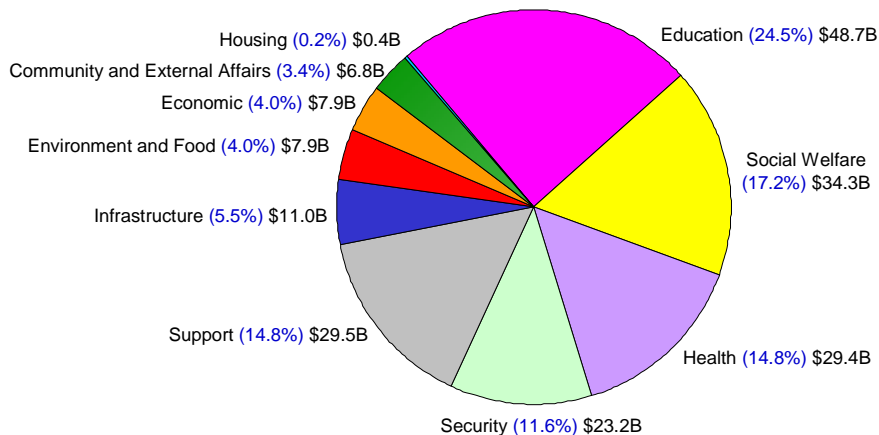


Fiscal reserves



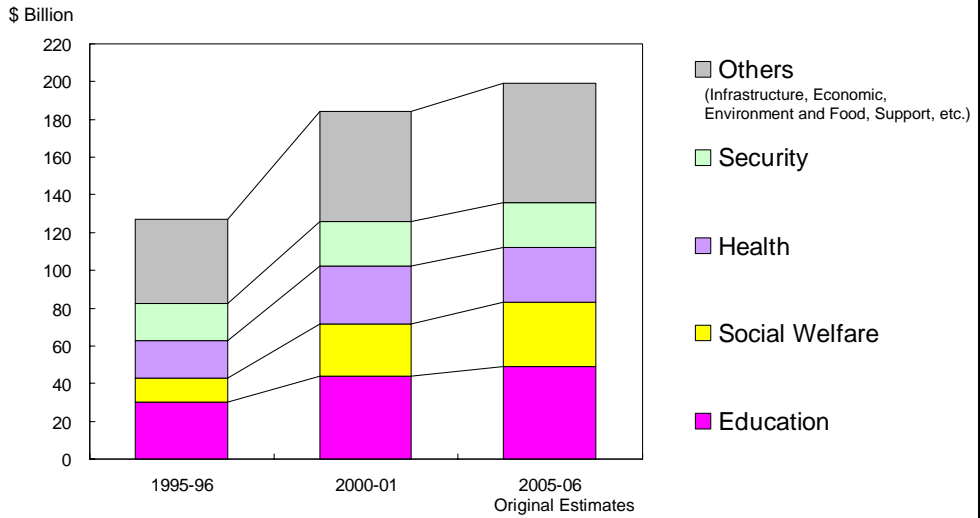
Figures in () represent the equivalent months of government expenditure.

Expenditure profile in 2005-06



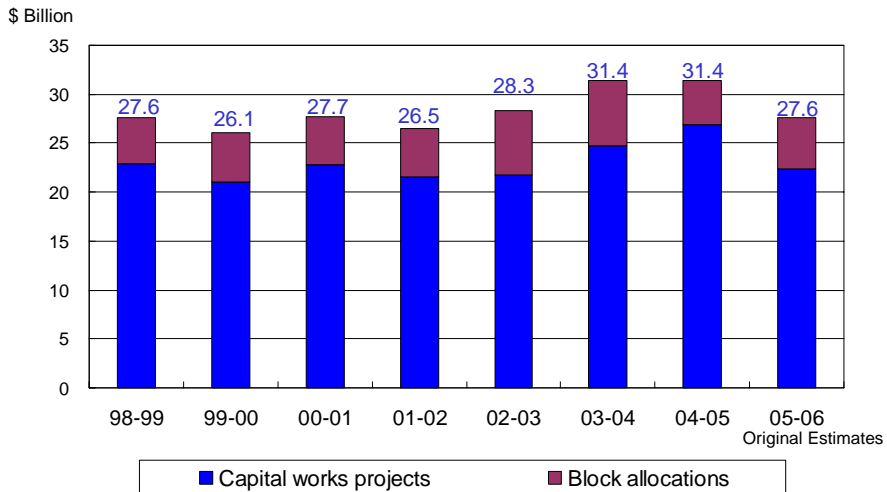
**Recurrent government expenditure
Total : \$199.1 billion**

Expenditure profile in past ten years



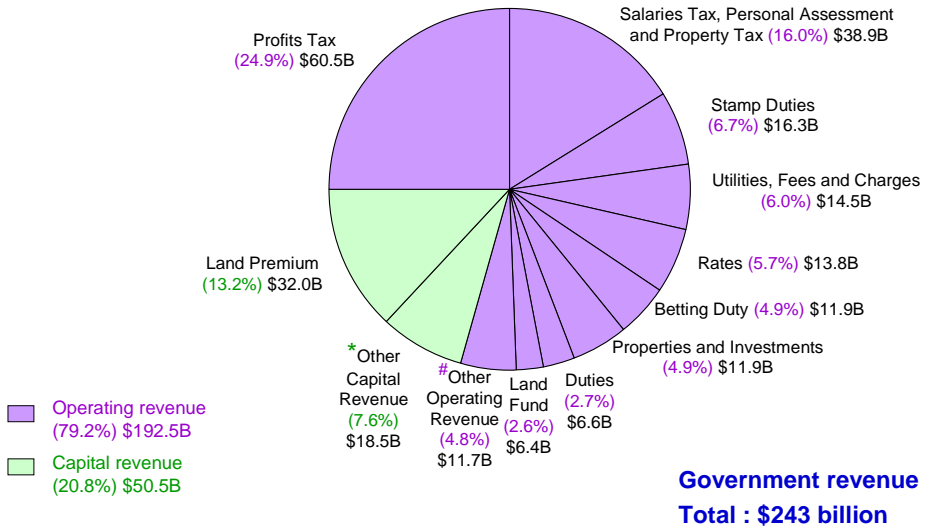
Recurrent government expenditure

Essential infrastructure

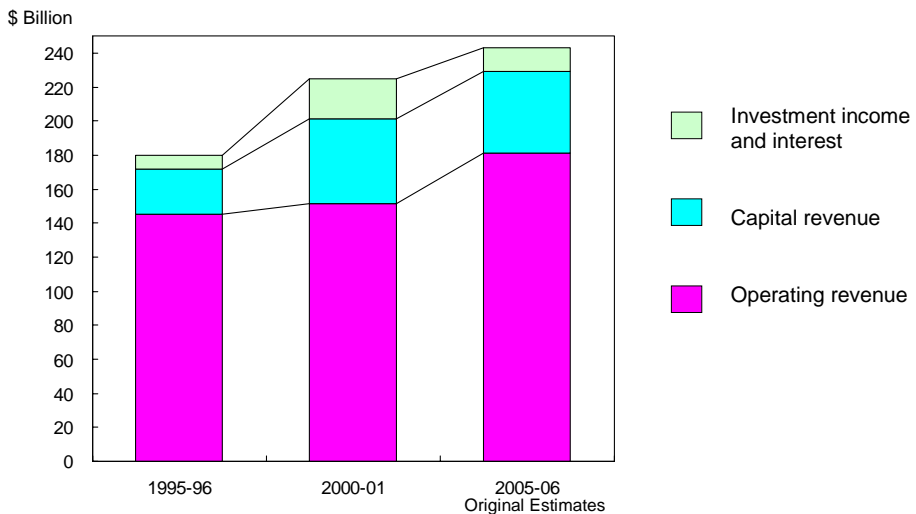


Capital works expenditure

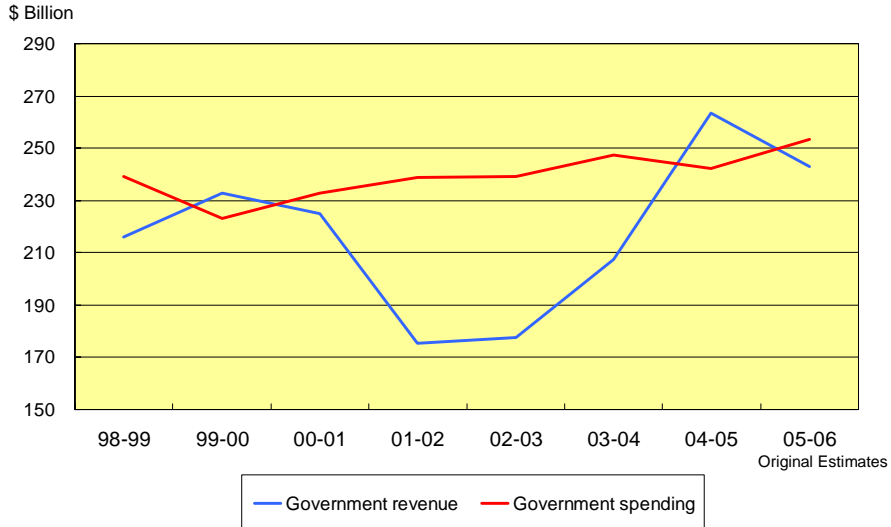
Revenue profile in 2005-06



Revenue profile in past ten years



Living within our means

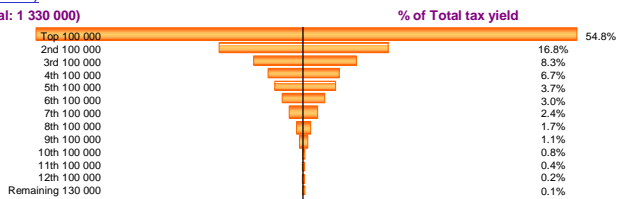


In line with the principle of affordability?

Salaries tax

1997-98 (Actual revenue)

Taxpaying population (Total: 1 330 000)

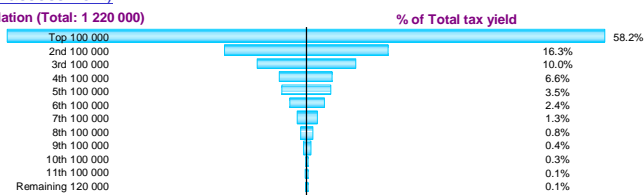


Working population which does not pay any salaries tax (Total : 1 830 000) 0%

* 2% of the working population pay at the standard tax rate of 15% and contribute about 43.9% of total salaries tax receipts

2005-06 (Provisional assessment)

Estimated taxpaying population (Total: 1 220 000)



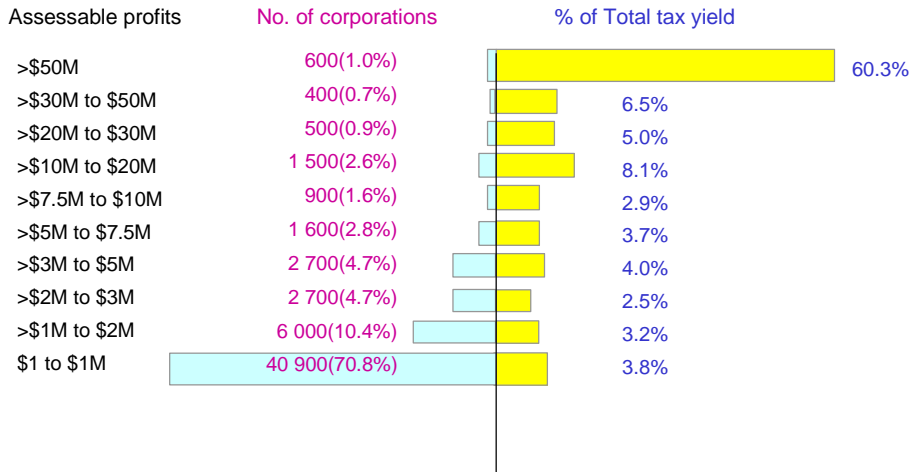
Estimated working population which does not pay any salaries tax (Total : 2 150 000) 0%

* 1.4% of the estimated working population pay at the standard tax rate of 16% and contribute 38.3% of total salaries tax receipts

In line with the principle of affordability?

Profits tax

2003-04 (Actual revenue)



Maintaining a robust and sustainable fiscal system

- Yet to restore fiscal balance
- Divergent views of the community
 - End the persistent fiscal problem
 - Maintain Hong Kong's fundamental economic strengths
 - Save for the rainy days
 - Increase government spending
 - Help the poor and address their needs
 - Reduce taxes and give the middle class a respite

Goods and Services Tax

- Should this be introduced?
- If so, should it be as all-embracing as possible?
- Exemptions to be contemplated?
- Need for relief/offset package?
- Time frame for introduction?

Sale and securitisation of government assets

- Principle of “Big Market, Small Government”
- Plans for 2005-06 include
 - Disposal of Government's shareholding in the Tradelink Electronic Commerce Limited
 - Sale of student loans
- Divestment being considered
 - Merger of MTRC and KCRC
 - Privatisation of Airport Authority

Views are welcome

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