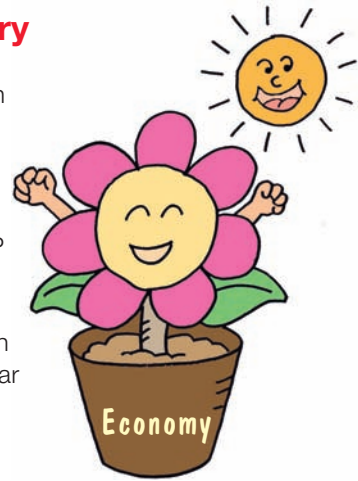


## A Strong Recovery

- Real economic growth in 2005 was 7.3%, with GDP reaching a new high
- In 2006, forecast GDP growth is 4–5% and CPI inflation is 2.3%. Trend real GDP growth is forecast at 4% a year



## Achieving Targets Ahead of Schedule

- Restoring fiscal balance in both the Operating and Consolidated Accounts for first time in eight years
- Continuing reduction in operating expenditure for second consecutive year and containing below \$200 billion
- Public expenditure fell to and remains below 20% of GDP as from last year



## Creating Value

- The Business Facilitation Advisory Committee to conduct in-depth reviews of the land lease and planning procedures affecting the construction industry, and of the licensing regimes for food premises, theme parks and family amusement centres to cut red-tape and streamline procedures
- To strengthen our financial services industry and reinforce our status as an international financial centre:

- Expanding Renminbi (RMB) business: in discussion with the Central Government regarding proposals to allow cross-boundary trade to settle in RMB and to establish a RMB debt issuance mechanism in Hong Kong

- Facilitating market development: to reduce the levy on trading in securities, futures and options contracts by 20%

- Upgrading market quality: to strengthen the regulation of listed corporations and to establish the Financial Reporting Council

- Promoting Hong Kong's strengths and brand name in financial services



## Pooling of Talent

- To provide 1 800 additional hostel places, costing roughly \$350 million, to meet accommodation needs of local and exchange tertiary students

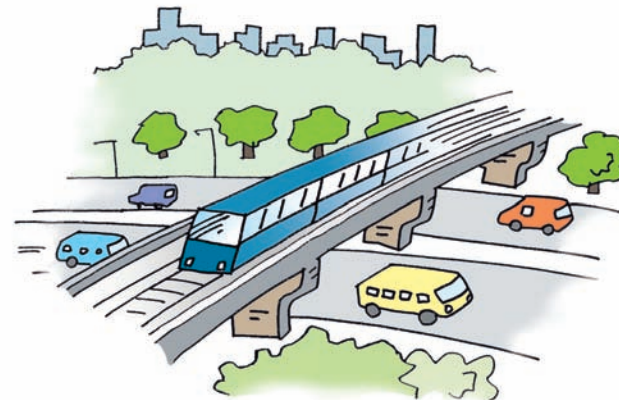


- To introduce a new admission scheme to recruit overseas and Mainland talent with a quota of 1 000 entrants a year



## Investing in Infrastructure

- To earmark \$29 billion a year on average for infrastructure projects over the next five years. About 14 000 new construction jobs will be created in the coming year



- Investing in infrastructure will not only promote economic development and bring more job opportunities, but also make our living environment more pleasant and enhance our competitiveness. Since we now have the opportunity and resources available to proceed, we will commence major projects under planning once the community has reached a consensus on these projects

## Helping the Disadvantaged

- Starting from 2006-07, to allocate about \$100 million more a year to help the disadvantaged groups:
  - an additional \$27 million to strengthen rehabilitation services for disabled and psychiatric patients
  - an additional \$30 million to strengthen family support, including enhanced out-reach services
  - an additional \$20 million to strengthen home care services for the elderly
  - an additional \$20 million to improve the pilot Comprehensive Child Development Service and gradually extend its coverage to help children and their families with special needs



- To provide additional funding of about \$230 million over the next five years to provide additional employment assistance and support to the unemployed to help them achieve self-reliance:

- an additional \$60 million over the next two years to continue the Intensive Employment Assistance Projects to help unemployed CSSA recipients rejoin the workforce



- an additional \$20 million next year to implement trial schemes to strengthen employment assistance measures. These schemes aim to motivate unemployed young CSSA recipients to find jobs; provide financial incentive for long-term CSSA recipients to return to work; provide short-term travel support for non-CSSA unemployed people in districts further afield to take up employment; and provide training to social enterprises staff



- an additional \$150 million earmarked over the next five years to strengthen district-based poverty alleviation work, including support for social enterprises



### Sharing Wealth with the People

- To lower the marginal rates of salaries tax while observing the principle of affordability and preserving our tax base. Nearly a million people, i.e. three quarters of taxpayers, will benefit.

This will cost the revenue about \$1.5 billion a year

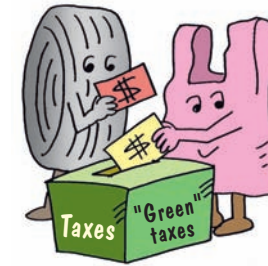


Marginal tax band	Marginal tax rate (%)	
	Present	Proposed
Chargeable income		
First \$30,000	2	2
Next \$30,000	8	7
Next \$30,000	14	13
Remainder	20	19
Standard rate (%)	16	16

- To extend the limit for the deduction for home loan interest by three years to a total of 10 years. This will cost the revenue an estimated \$1.2 billion

### Promoting Environmental Protection

- To impose "green" taxes in accordance with the Polluter Pays principle and to implement product responsibility schemes to promote recovery and recycling of tyres and to reduce the use of plastic bags
- To exempt electric vehicles from first registration tax for a further three years



### Broadening the Tax Base

- To consider introducing a Goods and Services Tax (GST) to develop a more stable source of revenue. Paying an affordable amount of tax demonstrates good citizenship
- To consider implementing various measures to reduce the impact of GST on our people. In working out the details, the Government will follow the principle of maintaining an equitable, low and simple tax regime
- To announce detailed proposals and launch a public consultation in the middle of this year

# 2006-07 Budget Highlights

