

2008-09 Budget

Briefing for the Legislative Council

28 February 2008

Chart 2

Salient features of economic performance in 2007

- Economic growth remained strong at 6.3% in 2007 and distinctly above trend for 17 quarters
- Impact of global financial turbulence not significant. External trade still vibrant, particularly so for exports of services
- Domestic demand was an important growth driver, amidst upbeat consumer and business confidence
- Financial sector showed the fastest expansion among all major sectors
- Labour market saw further significant improvements
- Inflation went up, reflecting the strong consumption market, global food inflation, elevated energy prices and a weak US dollar

Chart 3

Economic growth remained strong throughout 2007

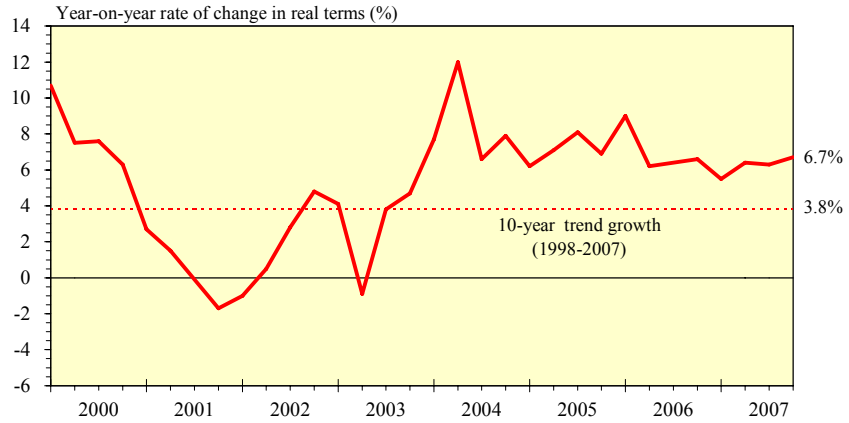


Chart 4

Export growth stayed vibrant, particularly in exports of services

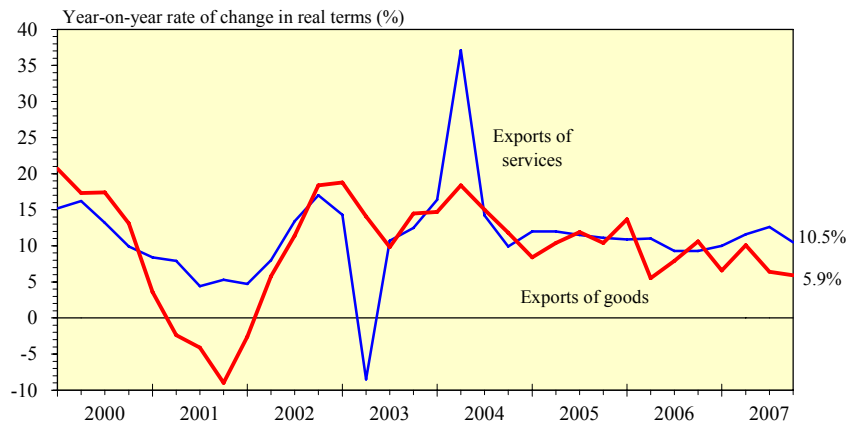


Chart 5

Private consumption showed the strongest performance since 1993

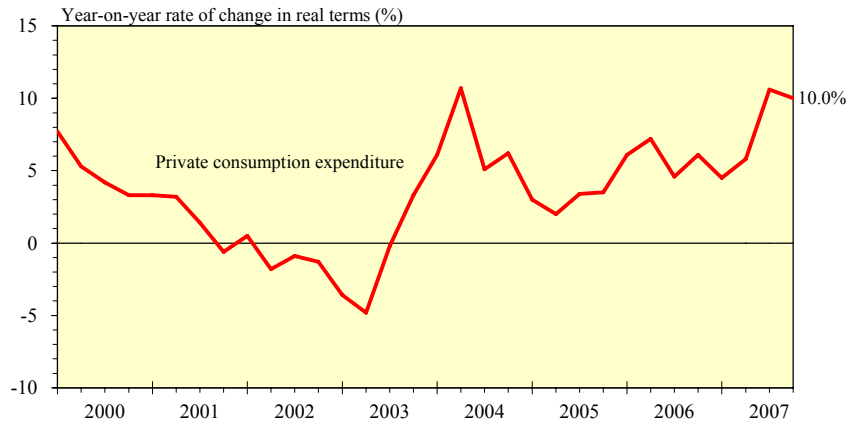


Chart 6

Business confidence upbeat

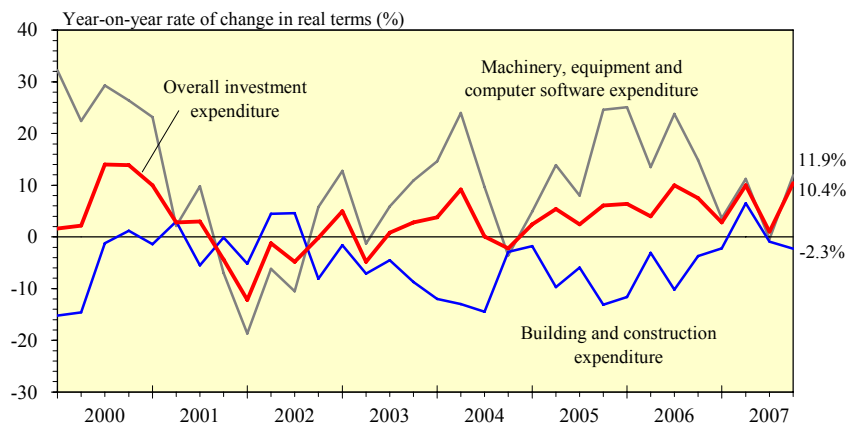


Chart 7

Financial services was the best performer in recent years among major economic sectors

	<u>Year-on-year rate of increase in value added in real terms</u>			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007 Q1-Q3</u>
	%	%	%	%
Services	9.9	7.5	7.2	7.1
Wholesale and retail	6.9	8.3	7.1	8.3
Import and export trades	15.4	15.9	9.0	7.0
Restaurants and hotels	23.0	6.8	9.4	8.7
Transport and storage	13.7	6.9	6.6	5.2
Communications	14.6	9.4	7.7	5.3
Financing and insurance	21.0	11.9	19.7	18.9
Real estate and business services	2.6	4.2	2.0	6.9
Community, social and personal services	2.6	-0.1	1.8	1.3

Chart 8

Housing prices rose further, but stock market volatile

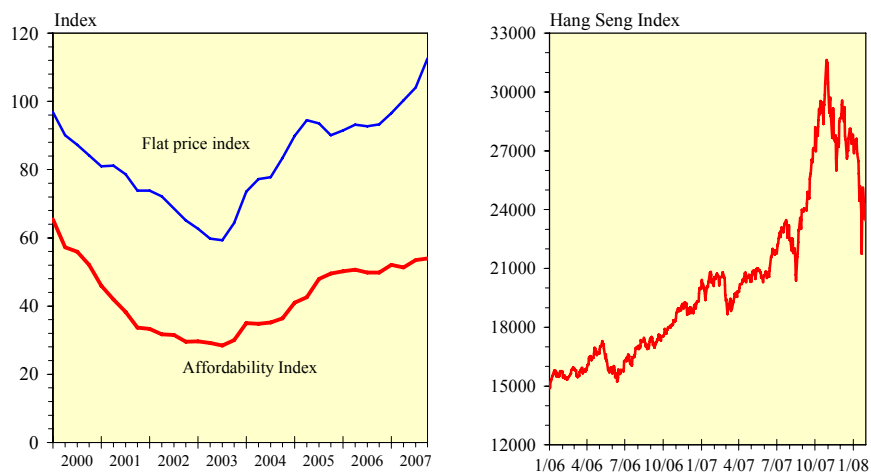
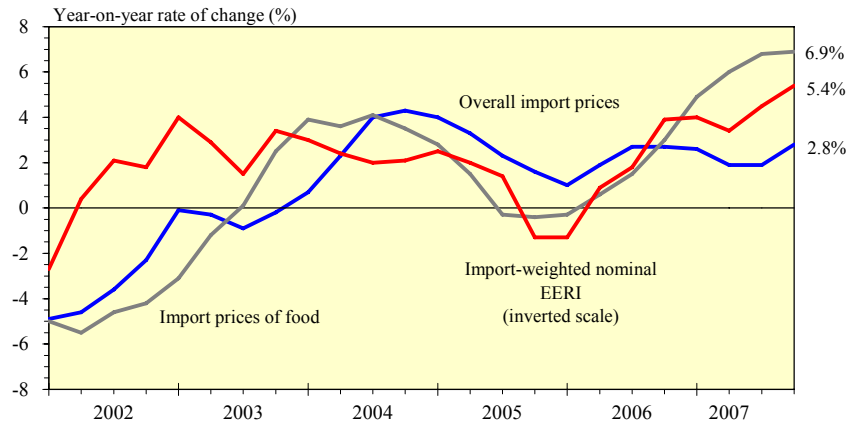


Chart 9

Inflation went up amidst a strong consumption market and higher food prices



Note : The import-weighted nominal EERI (IEERI) is inverted in scale for easier comprehension. An increase in IEERI indicates weakening of the Hong Kong dollar.

Chart 10

Food price hike being a world-wide phenomenon (Year-on-year rate of increase)

	World food prices*	Hong Kong's Import prices of foodstuffs	Of which : From the Mainland
2006	9.9	1.2	0.6
2006 Q1	5.3	-0.3	-1.5
Q2	10.3	0.6	0.1
Q3	10.2	1.5	1.1
Q4	13.6	3.0	2.8
2007 Q1	11.7	4.9	2.8
Q2	7.5	6.0	3.4
Q3	15.8	6.8	5.7
Q4	21.8	6.9	4.7

Note : (*) IMF data.

Chart 11

Current inflation still much lower than in the late 1980s and early 1990s

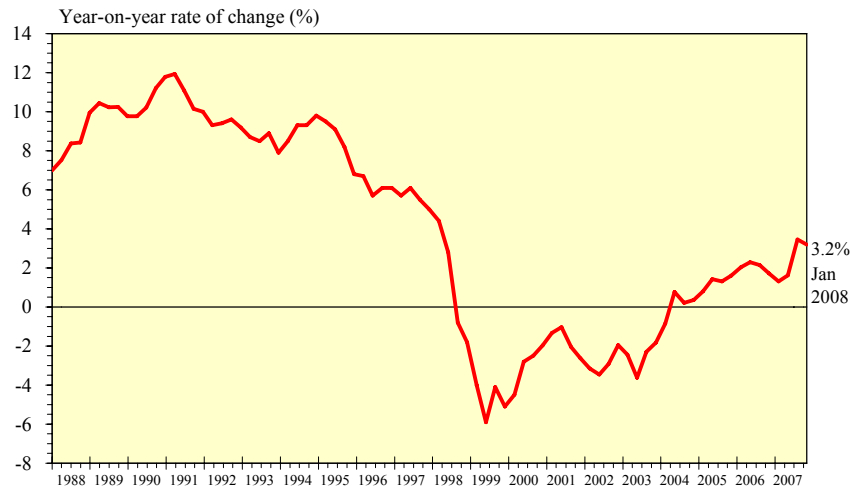


Chart 12

Further significant improvements in labour market

- Unemployment rate fell to the lowest in almost ten years
- Lower-skilled workers also benefited notably from the economic upturn
- Long-term unemployment declining
- Wages and earnings rising gradually

Chart 13

Over 380 000 additional jobs created since 2003 trough (Up to Jan 2008)

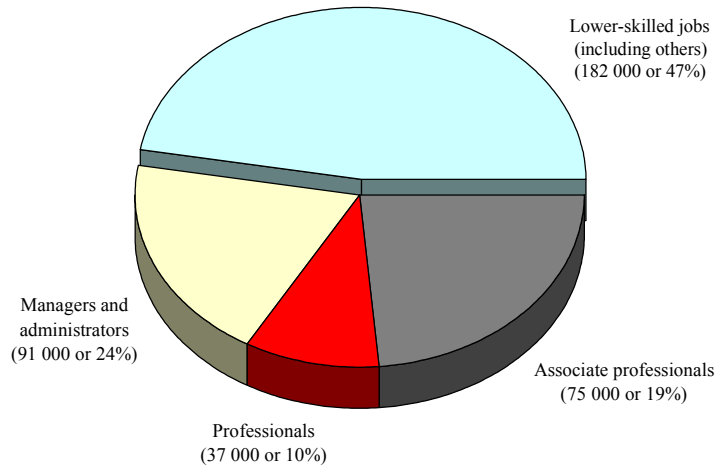


Chart 14

Both unemployment rate and unemployment CSSA cases falling further

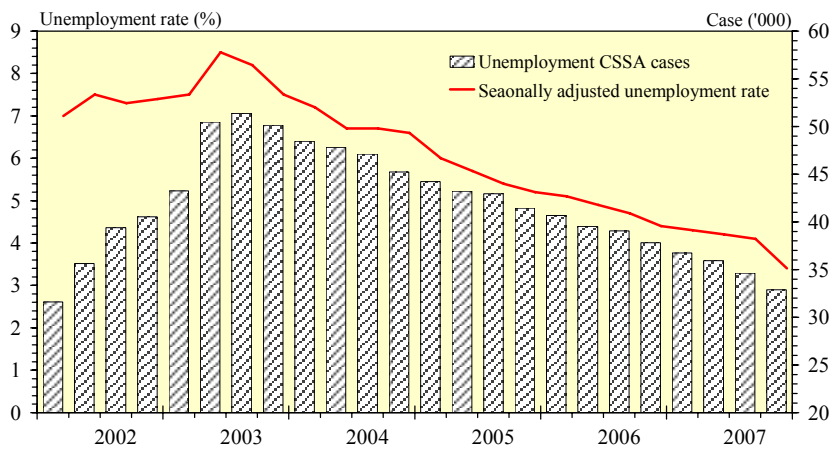


Chart 15

Employment conditions of lower-skilled workers improved markedly

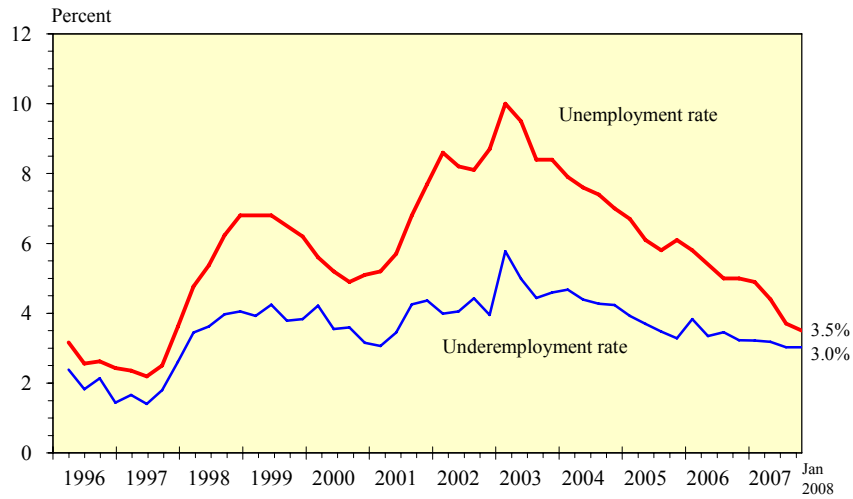


Chart 16

Wages and earnings on the rise

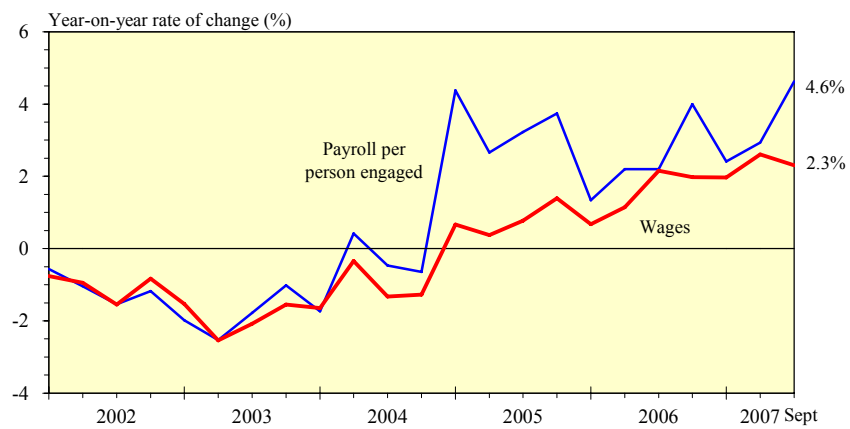


Chart 17

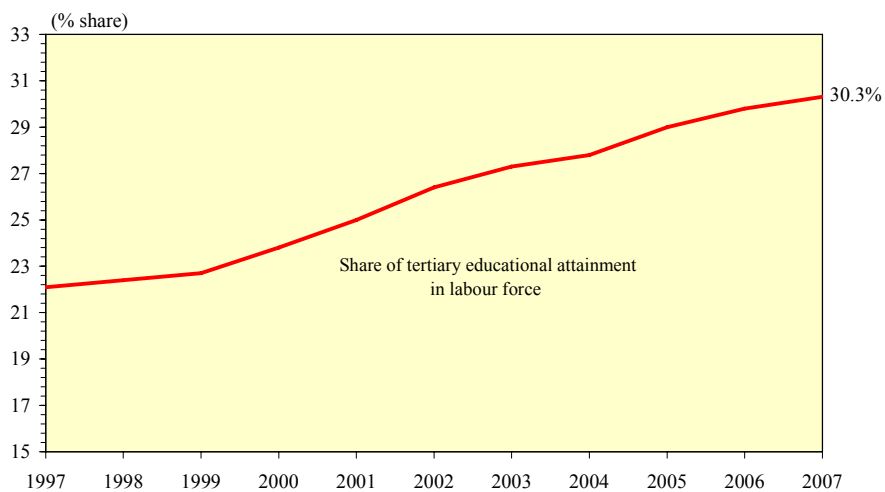
Moving towards a knowledge-based economy – proportion of managerial and professional staff in the workforce on the rise

	<u>Managers, administrators and professionals</u>	<u>% share in total employment*</u>
1995	780 000	28%
2000	966 000	32%
2005	1 162 000	37%
2007	1 260 000	39%

* Excluding foreign domestic helpers.

Chart 18

Educational attainment of labour force improving



2008 Economic outlook

- GDP to expand further, at a solid pace of 4 – 5%, above the average of 3.8% over the past 10 years
- Strong momentum in the Mainland and other emerging market economies, coupled with lower interest rates, should help alleviate the impact arising from the weakness of the US and other advanced economies
- But the continuing global financial turbulence will increase the downside risks in the external environment
- Inflationary pressures to continue, in the face of rising wages and rentals locally, elevated food and energy prices globally, the renminbi appreciation and US dollar weakness

Economy likely to expand solidly further in 2008

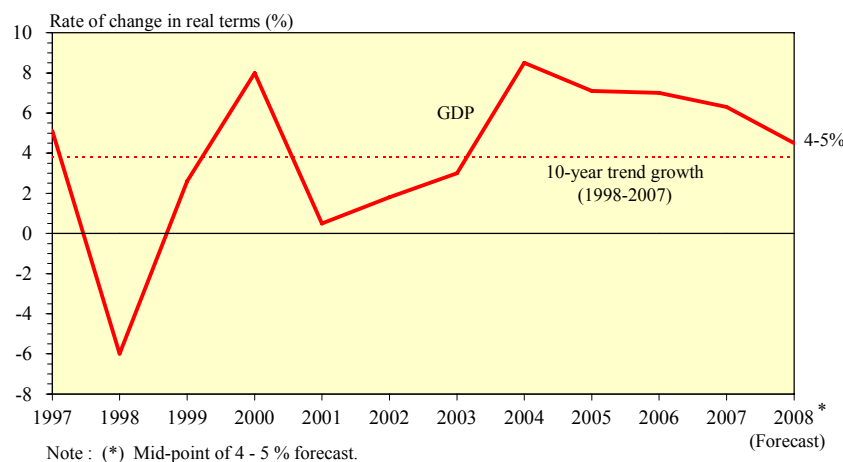


Chart 21

Inflationary pressures to persist in 2008

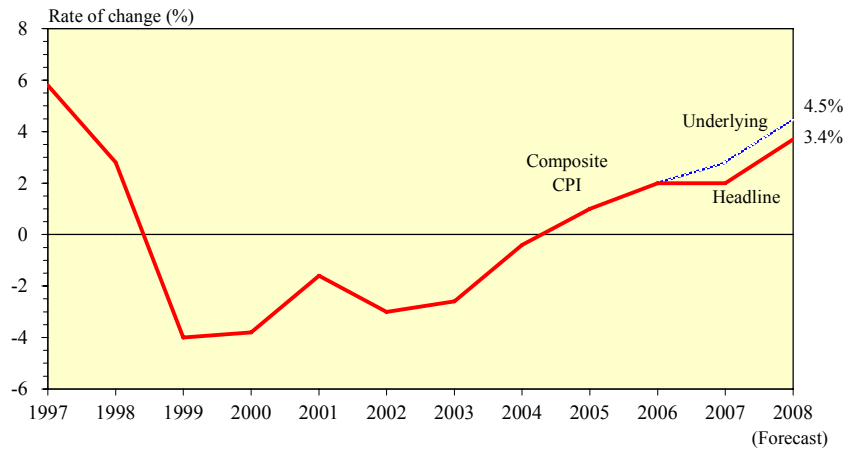


Chart 22

Principles of Management of Public Finances

- Commitment to society
- Sustainability
- Pragmatism

2007-08 Revised Estimates

- Our economy is strengthening
- 2007 GDP grew by 6.3%, higher than the 4.5% to 5.5% forecast early last year
- Increased corporate profits and salaries, a buoyant stock market and a strengthening property market

2007-08 Revised Estimates (Contd.)

- Revenue from several major items higher than the original estimates:

(\$ billion)	<u>Original Estimates</u>	<u>Revised Estimates</u>	<u>Increase</u>
Stamp duty	22.6	50.0	27.4
Land premium	38.5	63.1	24.6
Profits tax	77.5	89.0	11.5
Salaries tax	30.0	37.0	7.0
Investment income	26.0	27.9	1.9

2007-08 Revised Estimates (Contd.)

- Operating surplus: \$63.7 billion (Original Estimates: \$7.2 billion)
- Consolidated surplus: \$115.6 billion (Original Estimates: \$25.4 billion)

The 2008-09 Budget

- Promoting Long-term Development
- Supporting Disadvantaged Groups
- Leaving Wealth with the People
- Providing for the Future

Promoting Long-term Development

- Investing in infrastructure
- Efficient use of land resources
- Strengthening pillar industries

Promoting Long-term Development (Contd.)

- Tapping new markets
- Developing human capital

Promoting Long-term Development (Contd.)

- Community building
- Environmental improvement

Supporting Disadvantaged Groups

- Tax deductible donations
- Family and children
- Youth
- Persons with disabilities

Supporting Disadvantaged Groups (Contd.)

- Patients with financial difficulties
- Ethnic minorities
- Social security recipients
- Public housing tenants

Supporting Disadvantaged Groups (Contd.)

- Low-income group
- The elderly

Leaving Wealth with the People

Salaries Tax and Tax under Personal Assessment

- Lowering the standard rate to 15%
- Raising the basic allowance and the single parent allowance from \$100,000 to \$108,000
- Increasing the married person's allowance from \$200,000 to \$216,000
- Widening tax bands from \$35,000 to \$40,000

Profits Tax

- Lowering the tax rate to 16.5%

Leaving Wealth with the People (Contd.)

One-off Concessions/Waivers

- Salaries Tax
 - Tax under Personal Assessment
 - Profits Tax
 - Property Tax
 - Rates for 2008-09
 - Business Registration Fee for 2008-09
- 75% of the tax assessed for 2007-08

Providing for the Future

- Retirement protection
- Health care financing

2008-09 Estimates

- **Government revenue will reduce by \$33.5 billion**
- **Operating expenditure will increase by \$41.5 billion**

2008-09 Estimates (Contd.)

	\$ billion
Total Revenue	307.9
Operating expenditure and capital spending*	(315.4)
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Consolidated deficit	(7.5)
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Forecast of balance of fiscal reserves as at the end of March 2009	477.4

* Including repayment of government bonds

Revenue Profile for 2008-09 (Estimates)

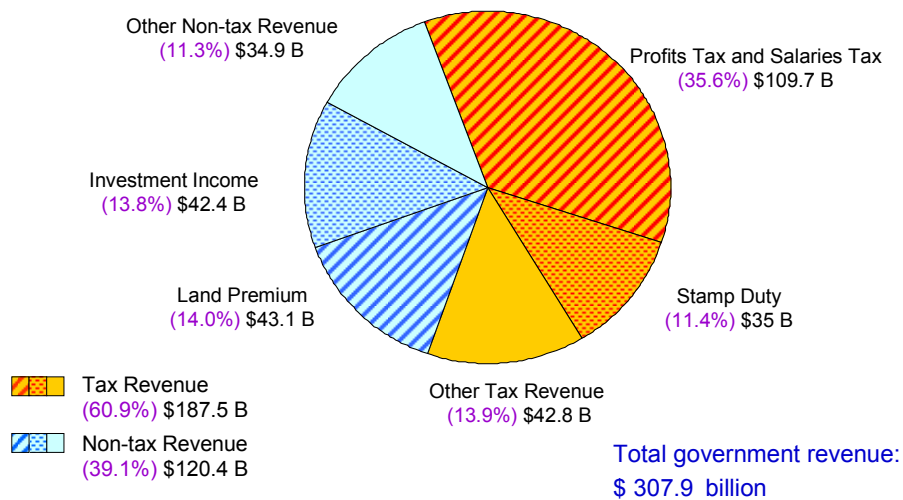
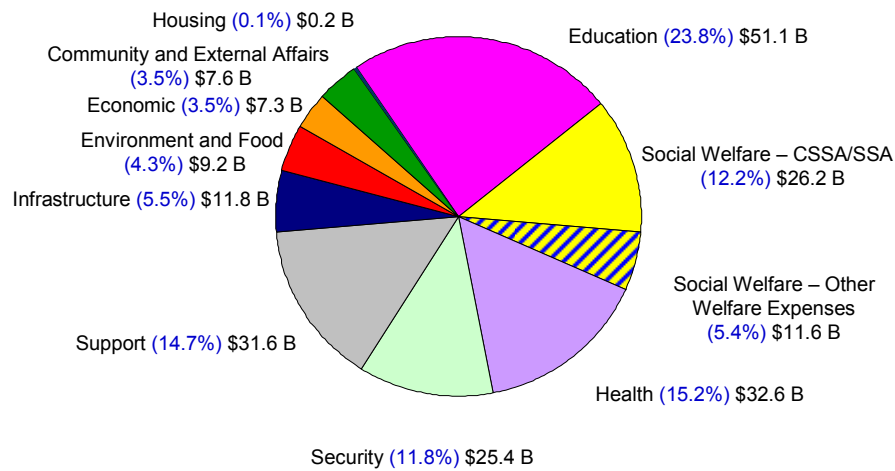


Chart 39

Recurrent Expenditure Profile for 2008-09 (Estimates)



* 68% of total government spending (\$315.4 billion)

Total recurrent government expenditure: \$214.6 billion*

Chart 40

2008 Medium Range Forecast

(\$ billion)	2008-09	2009-10	2010-11	2011-12	2012-13
Operating revenue	249.4	293.0	309.2	329.0	353.8
Operating expenditure	255.7	237.3	251.5	267.8	286.5
Operating surplus/(deficit)	(6.3)	55.7	57.7	61.2	67.3
Capital revenue	58.5	60.4	59.9	63.4	67.5
Capital spending*	59.7	66.9	62.7	57.8	59.8
Capital financing surplus/(deficit)	(1.2)	(6.5)	(2.8)	5.6	7.7
Consolidated surplus/(deficit)	(7.5)	49.2	54.9	66.8	75.0
Fiscal reserves	477.4	526.6	581.5	648.3	723.3
- as a number of months of government expenditure	18	21	22	24	25
- as a percentage of GDP	27.7%	28.5%	29.4%	30.7%	32.0%

* Including repayment of government bonds

Thank You
