

THE 2010-11 BUDGET

*Speech by the Financial Secretary, the Hon John C Tsang
moving the Second Reading of the Appropriation Bill 2010*

Wednesday, 24 February 2010

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Mr President,

I move that the Appropriation Bill 2010 be read a second time.

Introduction

2. This is my third Budget. In the past year, Hong Kong has gone through many ups and downs because of the adverse impact of the financial tsunami. The shocks to the global economy, in terms of their severity and scale, were more profound than those experienced during the Asian financial turmoil in 1997 and 1998.

3. During the Asian financial turmoil, Asian currencies fluctuated wildly. Both the stock and property markets went down sharply. Nonetheless, the global economy still grew by 2.6 per cent and global trade expanded by 4.5 per cent in 1998. By contrast, the financial tsunami triggered by the US sub-prime mortgage problem has swept across the entire world. The global economy shrunk by one per cent and world trade plunged by 12 per cent. This recession is the most severe since World War II.

4. In the face of this severe financial crisis, the Government implemented the strategy of “stabilising the financial system, supporting enterprises and preserving employment” in the shortest possible time. The measures we took included providing liquidity to banks, a full deposit guarantee for depositors, loan guarantee schemes with a guarantee commitment of \$100 billion for small and medium enterprises, and fiscal stimulus, job creation and relief measures amounting to \$87.6 billion. These measures provided impetus to our economy and restored people’s confidence.

5. In the fourth quarter of 2009, our economy resumed positive growth after four consecutive quarters of year-on-year contraction – one quarter fewer than that during the Asian financial turmoil. At the worst part of this contraction, job losses were 43 000 – but that was only one-third of those experienced during the Asian financial turmoil. The unemployment rate during this economic contraction was also lower than that during the previous crisis, and started to fall as early as in the third quarter of last year.

6. Although the current crisis is much more severe than the Asian financial turmoil, our economy has recovered more quickly this time. Both the job market and the overall economic performance indicate that our economic fundamentals are stronger than before and have shown greater resilience to withstand external shocks. The Government's timely strategy has yielded positive effects. More importantly, Hong Kong people have demonstrated once again their tenacity, confidence and ability to rise to challenges.

7. While we have come through the most difficult period of the financial tsunami, the external environment is still fraught with uncertainties and the foundations of the recovery are not yet firm. I am also concerned that some people have yet to benefit from the economic recovery. Therefore, through this Budget, I will strive to achieve the three objectives of consolidating the recovery, developing our economy and building a caring society.

8. In his Policy Address, the Chief Executive outlined the future socio-economic challenges and development directions for Hong Kong. I will seek to implement the development blueprint set out in the Policy Address through the proper allocation of resources. The expenditure and revenue proposals of Government departments and related organisations are detailed in the Estimates. I will elaborate on items about which the community are more concerned.

Economic Performance and Outlook

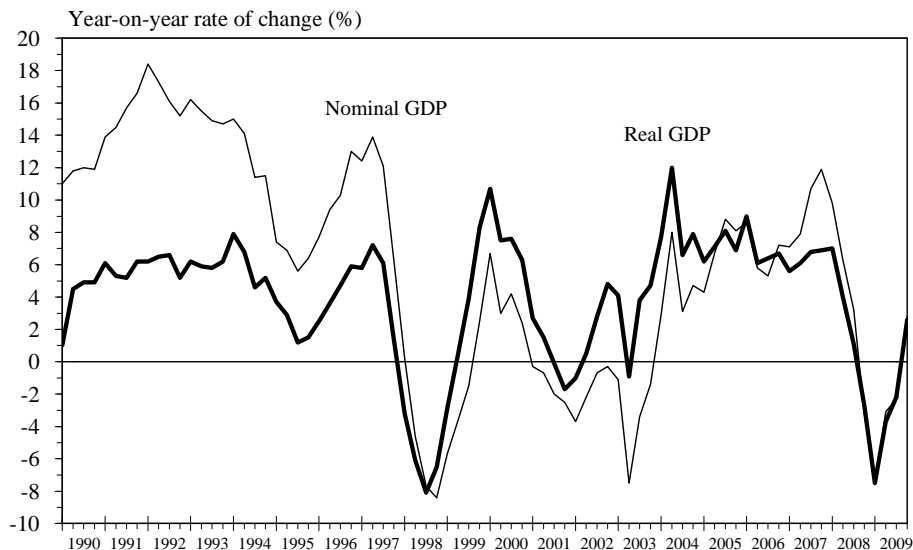
Economic Performance 2009

9. First of all, I will say a few words about our economic performance in 2009 and the economic outlook for 2010.

10. Gross Domestic Product (GDP) fell by 7.5 per cent in the first quarter of 2009. But, as the Mainland economy returned to faster growth and the European and the US economies began to stabilise, our economy improved in the second quarter and resumed year-on-year growth of 2.6 per cent in the fourth quarter. For 2009 as a whole, GDP fell by only 2.7 per cent.

Chart 1

Gross Domestic Product

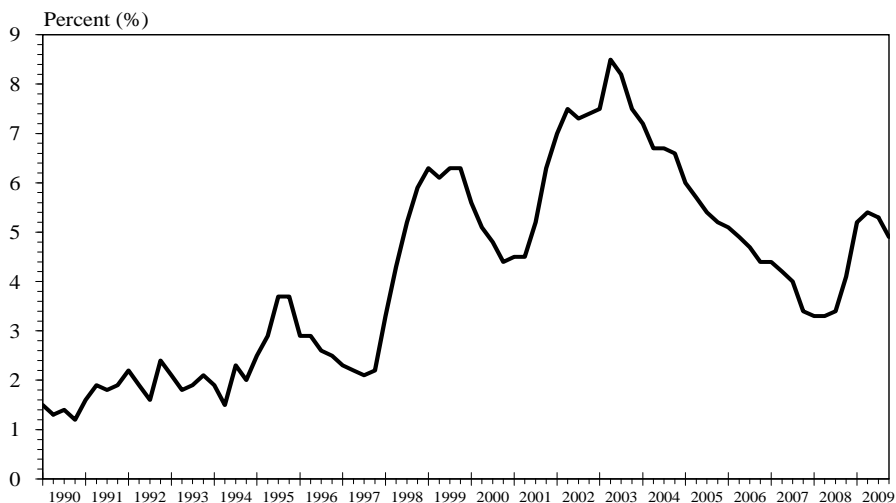


11. Amidst the severe plunge in global trade, Hong Kong's goods exports fell by 12.6 per cent in real terms in 2009, the biggest annual drop on record. For investment, gross domestic fixed capital formation dipped by 2.2 per cent for the whole year. We can, however, take some comfort in the fact that consumer sentiment was not seriously affected for most of last year. In 2009, private consumption expenditure dipped by only 0.3 per cent and actually reverted to a year-on-year increase in the latter half of the year. Business sentiment also improved distinctly during the latter half of the year, with overall investment recording double-digit growth in the fourth quarter.

12. Employment is the Government's biggest concern. As the economy started to recover and our measures to preserve employment proved effective, employment conditions turned better from the middle of last year, with unemployment rate coming down to 4.9 per cent lately.

Chart 2

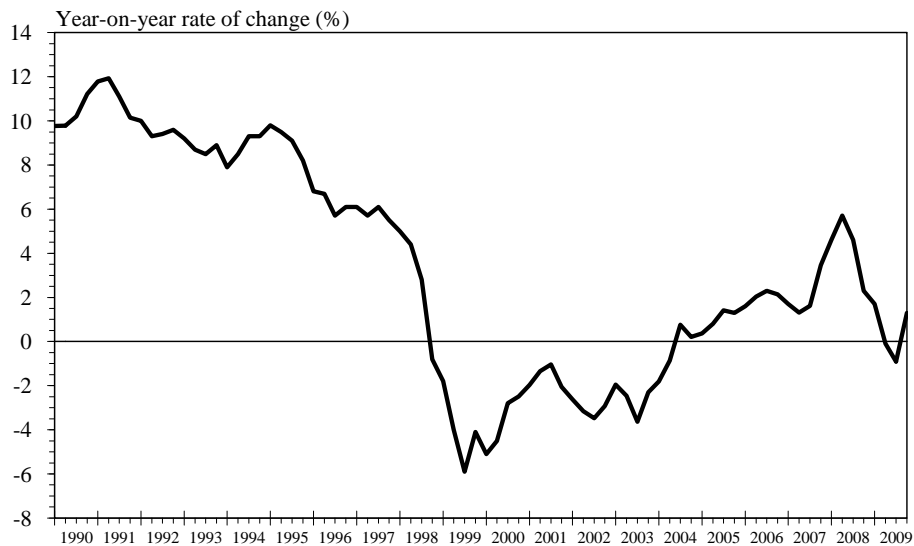
Unemployment Rate



13. As the costs of doing business in Hong Kong came down and the average import prices softened as a result of the global recession, the inflation rate eased from the beginning of last year. Mild deflation was seen in the latter half of the year. The average inflation rate for 2009 as measured by the Composite Consumer Price Index was 0.5 per cent. Netting out the effects of the Government's one-off relief measures, the underlying inflation rate was one per cent.

Chart 3

Composite Consumer Price Index



Economic Outlook 2010

14. I am cautiously optimistic about Hong Kong's economic prospects for 2010. The global economy has not yet regained its vigour. There remain a number of uncertainties and potential pitfalls in the external environment. While the European and the US economies have returned to positive growth, their labour markets have yet to improve and their financial systems are still impaired. These economies may have undergone fundamental changes in their economic structures, and that will affect our future export performance.

15. It remains uncertain whether some of the economies can grow robustly after the effects of the huge stimulus measures have subsided. If all countries and central banks were to exit from these measures at the same time, the potential shocks to the global financial and economic scenes would be a cause for concern. Mounting protectionism is also being seen among countries. These potential problems may put us on a bumpy recovery path in the year ahead. As such, we have to remain vigilant against the risk of a possible relapse and prepare to maintain social and economic stability.

16. On the other hand, the return to a stronger growth in the Mainland economy may help offset the fragile recovery in overseas markets. I forecast GDP growth of four to five per cent for the year. The employment situation is expected to improve further. Deflation has been arrested, and mild inflation is expected to return this year. I forecast that the underlying inflation rate for 2010 as a whole will average 1.5 per cent while the average rate of headline inflation will be 2.3 per cent. I note that commodity prices have generally rebounded and that food prices in the Mainland have also risen. If the US dollar exchange rate remains soft and these price increases continue, it will add to imported inflation especially in the latter part of the year which in turn may impose a heavier burden on Hong Kong people.

Challenges on the Road to Recovery

17. While our economy is in its early stage of recovery, the road ahead may not be smooth. In the short term, we must carefully adjust the exceptional measures introduced to combat the financial tsunami and tackle the risk of asset-price bubbles. In the medium to long term, we must endeavour to promote sustained and steady socio-economic development.

Adjusting Exceptional Measures

18. Since 2008, the Government has implemented a number of measures under the strategy of “stabilising the financial system, supporting enterprises and preserving employment”. These exceptional measures were designed to counter the financial tsunami and would not be adopted lightly in normal circumstances. They should not and cannot be sustained over a long period of time, lest they impose a heavy burden on public finances and undermine market operation. Governments around the world are now making plans to exit from their exceptional measures. Some have already begun to progressively execute these plans. We should also prepare to adjust our exceptional measures at a suitable time.

19. In respect of the support measures for enterprises, I announced in October 2009 that the application period for the Special Loan Guarantee Scheme would be extended to end-June 2010 to counter the credit crunch triggered by the global financial crisis. So far, loans worth more than \$68 billion have been approved by banks, benefiting over 16 000 enterprises and indirectly preserving jobs for 280 000 or so employees. I will closely monitor the pace of our economic recovery over the next few months and consider when to let the credit market resume normal operation.

20. On financial measures, the full deposit guarantee will remain in force until the end of this year. At the Asia Pacific Economic Cooperation Finance Ministers' Meeting last year, I discussed the issue of exit strategies with finance ministers in the region. The Hong Kong Monetary Authority (HKMA) has also established a tripartite working group with its counterparts in Singapore and Malaysia to work out suitable arrangements to exit from the deposit guarantee regimes. The HKMA and I will continue to communicate and co-ordinate with the other governments, with the common objective of minimising the impact of exiting from the deposit guarantee on the economy and the banking system. We have also completed a review on the existing Deposit Protection Scheme. We will introduce a bill in the current legislative year to ensure that, upon expiry of the full deposit guarantee, the public can benefit from a more suitable protection scheme.

The Risk of Asset-Price Bubbles

21. Since the onset of the financial tsunami, a number of economies have introduced expansionary fiscal measures and eased their monetary policies, resulting in a surge in global liquidity. Large amounts of capital have been attracted into Asia, including Hong Kong, in a short period of time, stimulating investment activities in the asset markets. Since the fourth quarter of 2008, the amount of inflow of funds has exceeded \$640 billion, increasing the potential risk of creating asset-price bubbles. We are also concerned that if capital flows were to reverse or interest rates rebound, asset prices would become more volatile. This in turn may affect the stability of our financial system and the recovery of the real economy.

22. The increased risk of a bubble forming in the property market has also aroused public concern about the difficulty in buying homes. The inflow of funds has fuelled an increase in the prices of luxury flats, which to some extent has affected the prices of small and medium-sized flats. This, together with a relatively low supply of flats in the past two years, has led some people to worry that their plans to buy a home may be frustrated. However, there are also suggestions that the Government should act prudently to prevent public policies from causing wild fluctuations in property prices. Hong Kong's residential property market is extremely sensitive. Any such fluctuations in property prices would have a profound impact on the economy, on hundreds of thousands of flat owners and on the public.

23. The Government is closely monitoring the situation in the property market. In January this year, the prices of some luxury flats returned to the peaks of the 1997 property boom, while prices of small and medium-sized flats were about 23 per cent lower. Overall, property prices are eight per cent above their peaks before the financial tsunami. On average, the ratio of mortgage payment to household income in the current low-interest rate environment is reasonably healthy. According to figures from the fourth quarter of last year, the ratio of mortgage payment to median household income is around 38 per cent for a 20-year mortgage on a flat with a saleable area of 45 square metres. This is lower than the average of 53 per cent in the past 20 years.

24. While the local property market is still reasonably healthy, we must not lose sight of the increasing risk of a property bubble developing with the global economic recovery and the abundant liquidity in the international financial markets. The rise in property prices has picked up again after a slight moderation in the fourth quarter of last year, and turnover also increased. I am particularly concerned that some citizens may no longer afford their mortgage payments if the interest rates were to reverse to a more normal level. To ensure a healthy and stable development of the property market, we will implement measures in the following four aspects.

25. Our first set of measures will address the fundamental issue of flat supply. Over the past few months, real estate developers have been more active in applying for sale of sites on the Application List, lease modifications and land exchanges. In response to the Government's request, the MTR Corporation Limited (MTR Corporation) and the Urban Renewal Authority (URA) have also quickened the pace of bringing residential sites to the market to increase the supply of flats in the coming few years. In 2010, the number of private residential units completed will increase to 14 300. In the coming three to four years, we estimate that about 53 000 private residential units will come onto the market. To further increase the supply of flats, we will introduce the following measures.

26. While we believe that the Government should maintain the market-driven Application List system as its principal mechanism for the sale of government land, improvement measures should be implemented to increase residential land supply. In this connection, the Government has drawn up the Application List for 2010-11 for application by the market. However, depending on market conditions, the Government will put up several urban residential sites in the List for sale by auction or tender in the coming two years if they have not been triggered.

27. In addition, we will liaise with the MTR Corporation and the URA to increase the supply of small and medium-sized residential flats in their West Rail property development projects and urban renewal projects respectively. We are also preparing to sell by open tender a site of about 1.2 hectares near the West Rail Long Ping Station in Yuen Long for private residential purpose, and will increase the supply of small and medium-sized flats by specifying in the land sale conditions requirements in terms of the minimum number of flats and the range of size of such units. The Secretary for Development will elaborate on these improvement measures when announcing the Application List for 2010-11.

28. At present, there are more than 300 000 Home Ownership Scheme (HOS) flats. Over 60 000 are flats with premium paid and 250 000 or so are flats with premium not yet paid, and the two categories of flats can be put on sale in the open market and the HOS secondary market respectively. Mostly priced below \$2 million and situated in various districts of the territory, HOS flats can cater for the medium and low-priced property market. The Hong Kong Housing Authority will actively explore means to revitalise the HOS secondary market.

29. Second, we will increase the transaction cost of property speculation with appropriate tax measures so as to reduce the risk of creating a property bubble. I propose that with effect from 1 April this year the rate of stamp duty on transactions of properties valued more than \$20 million be increased from 3.75 per cent to 4.25 per cent, and buyers will no longer be allowed to defer payment of stamp duty on such transactions. In parallel, we will closely monitor the trading of properties valued at or below \$20 million. If there is excessive speculation in the trading of these properties, we will consider extending the measures to these transactions.

30. The Inland Revenue Department (IRD) has established procedures to track property transactions involving speculation and will follow up each case closely. If it is found that such transactions constitute a business, the IRD will levy profits tax on the persons or companies concerned for profits arising from such transactions.

31. Third, we will ensure transparency in property transactions and transaction prices to facilitate effective operation of the market. The Chief Executive announced in November 2009 three measures including shortening the lead time for developers to make public details of transactions, and requiring developers to list the price per square foot in saleable area of individual flats and adopt a reasonable floor numbering system. We will work to uphold fairness in market operation to ensure that both buyers and sellers can conduct informed transactions. We will not tolerate market players disseminating confusing information in an attempt to manipulate the market. I have asked the Secretary for Transport and Housing to enhance the regulation of property transactions to ensure that citizens can buy and sell properties in a fair and transparent market. The Bureau is now exploring further measures to strengthen the regulation of the sale of first-hand, uncompleted private residential flats.

32. Fourth, we will strive to prevent excessive expansion in mortgage lending so as to avert fuelling an asset-price bubble in the property market. Last October the HKMA issued guidelines to banks, lowering the loan-to-value ratio for mortgages on properties valued at \$20 million or above and requiring banks to process mortgage loan applications prudently. I have asked the HKMA to closely monitor the situation and take further measures when necessary to strengthen the prudent regulation of banks.

33. It is the policy objective of the Government to ensure a healthy and stable development of the property market. The above measures strike a balance between reducing the risk of a property bubble and preventing public policies from causing unnecessary fluctuations in the property market. It is very important to maintain this balance particularly at this point in time, in the face of uncertainties in the external environment. The Government and the regulatory bodies will continue to closely monitor the situation and take further measures when necessary.

Social and Economic Development

34. In the early stage of recovery, the key to fostering sustained social and economic development is the ability to grasp the opportunities arising from the financial tsunami and consolidate our fundamentals. I will elaborate on the lessons learned from the financial crisis on the Government's role, which can help us chart our way forward.

“Big Market, Small Government”

35. With economic globalisation and advances in technology, any economic fluctuation or crisis will ripple through more rapidly and extensively. Being a small and open economy, Hong Kong will inevitably be affected.

36. The market mechanism remains the best means to make effective adjustments in a fast-changing age. The market is the aggregate of the choices of many participants. Their decisions should work more flexibly and efficiently than those made by the Government. Under the principles of “Market Leads, Government Facilitates” and “Big Market, Small Government”, the Government will continue to create conditions for market development. These include maintaining the rule of law and a simple and low tax regime, nurturing talent, investing in infrastructure, and helping enterprises tap markets outside Hong Kong.

37. While acknowledging the importance of market mechanism, the Government will not be completely passive in regards to the adjustment of the economy and the allocation of resources. Where necessary, the Government will introduce measures to safeguard social stability and sustain the normal operation of the economy in the face of fluctuations in a fast-changing economic environment.

38. During an economic downturn, some people are trapped in difficulties for various reasons. Therefore, the Government adopted a pragmatic and flexible approach and introduced expansionary measures during the financial crisis to stabilise the economy and safeguard the livelihood of our people. When our economy is in the early stage of recovery, it is still necessary for the Government to take measures to help those who have not benefited immediately from the recovery or adapted themselves to the new economic environment. Once the economy resumes steady growth, the Government should let our society and economic activities return to normal operation.

Ensuring Adequate Fiscal Reserves

39. Our quick recovery from the financial tsunami is, to some extent, attributable to the Government's prompt deployment of huge fiscal resources to stabilise the economy. The intensity of several rounds of stimulus measures introduced since 2008 and involving a total of \$87.6 billion is unprecedented. This clearly demonstrates that maintaining adequate fiscal reserves is a prerequisite for the Government to fulfil the functions of ensuring social and economic stability.

40. Government revenue is highly susceptible to economic fluctuations. Flexibility in expenditure is very low. Over the years we have adopted the strategy of containing expenditure prudently and using our fiscal reserves as a buffer for deficits in individual years. As such, we are able to achieve a fiscal balance and keep expenditure within the limits of revenues over a period of time. The reserves required for the buffer can be substantial. Take the six years starting from 1998-99 as an example. The five fiscal deficits that occurred in these years reduced our fiscal reserves by about \$200 billion – the equivalent of 40 per cent of our fiscal reserves as at end-March 1998.

41. Apart from providing a buffer, the fiscal reserves also generate revenue of tens of billions of dollars each year. In 2009-10, for example, investment income accounted for 11 per cent of total government revenue. Should the reserves continue to fall, the revenue from this source will drop accordingly. This will reduce the resources available for investing in projects to build our economy and improve people's livelihood.

42. Where necessary, I will draw on the fiscal reserves to implement measures for economic and social stability. However, I must act with prudence and replenish our reserves as and when appropriate. After the financial tsunami, we should appreciate more deeply the importance of adequate fiscal reserves. In the long run, an ageing population and a shrinking working population will further narrow our tax base. More than ever, we need to prepare for the future by increasing our reserves to meet these challenges.

Developing the Economy

43. Mr President, we are now in the early stage of recovery and our economic prospects are unclear. I will continue to help our citizens ride out the economic difficulties. At the same time, I will improve their quality of life through enhancing social mobility and essential services. My objectives are to consolidate the recovery, develop our economy and build a caring society.

44. First, I will give a brief account of the strategies and measures in relation to our economic development. In support of the development blueprint set out in the Policy Address, I will promote sustainable development of our economy by furthering regional co-operation, investing in infrastructure and promoting the development of various industries.

Furthering Regional Co-operation

45. In my last Budget I pointed out that the Government would play the role as a “champion” in furthering economic integration. We will continue to make the best of Hong Kong’s modernisation and internationalisation, and capitalise on the “China advantage”.

46. Specifically, we can support the development strategy of the Mainland by further developing Hong Kong into a knowledge-based and high value-added economy. At the international level, the Mainland has been actively promoting quality growth and encouraging enterprises to reach out to the international market. Hong Kong can provide a platform for the Mainland's enterprises to expand overseas. We can also make use of our strengths to help these enterprises bring their management and technological standards closer to the international level. With our rich experience in international exchanges, we can assist the Mainland in building brand names and improving product image. Our service industries will emerge out of the process with broader scope and better standards. Our position as an international financial and commercial centre will also be reinforced.

47. At the national level, the Mainland economy is becoming more and more market-oriented, industrialised and urbanised. This plays a crucial role in China's sustainable development and creates excellent opportunities for Hong Kong. Hong Kong can assist by attracting foreign investment, facilitating international exchanges and providing quality services that are essential to the restructuring and upgrading of Mainland's economy. This will help promote quality growth of the Mainland's economy. It will also increase the demand for Hong Kong services, thereby addressing the problem of our small local market.

48. At the regional level, Guangdong is one of the best developed regions in China. It is also the vanguard of our country's reform and liberalisation, and its systems can most readily be aligned with international standards. Hong Kong and Guangdong enjoy geographical proximity, close cultural ties and a long history of co-operation, and yet differ greatly in such areas as resources and industrial structure. As such, there is ample room for the two places to increase co-operation. Hong Kong can speed up its integration with the Pearl River Delta (PRD) to increase the depth and breadth of the market in the region, creating synergy for the joint development of the two places.

12th Five-Year Plan

49. We will take full advantage of the platform being provided under the National 12th Five-Year Plan. Our state leaders have indicated that in preparing the Plan, the Mainland authorities will keep the SAR Government informed of the planning progress and seek our views, so that we can have a full picture of China's situation and directions for development. We will capitalise on this opportunity. We will strengthen our liaison with the relevant Mainland departments and ministries as well as our direct working relationship with the National Development and Reform Commission, with a view to complementing in all respects the preparation of the National 12th Five-Year Plan under the principle of "One Country, Two Systems".

Co-operation between Guangdong, Hong Kong and Macao

50. At the regional level, we are implementing the Outline of the Plan for the Reform and Development of the Pearl River Delta (the Outline) by drawing up a framework agreement for Hong Kong-Guangdong co-operation. This framework will translate the Outline's macro policies into concrete measures conducive to the development of both places, with a view to incorporating the related policies into the National 12th Five-Year Plan. At the same time, we are actively working with Guangdong and Macao to formulate specific regional co-operation plans on building a quality living circle and on infrastructure development.

51. We are also in close liaison with the Guangdong Provincial Government and the Shenzhen Municipal Government to explore ways of promoting the development of service industries in Qianhai. This will allow us to tap the Greater PRD market, which has a population of 50 million, and in turn the Pan-PRD market, which has a population of more than 400 million. At the Plenary meeting of the Hong Kong/Guangdong Co-operation Joint Conference last August, a letter of intent on co-operation was signed to set up an expert group to explore how best to leverage Hong Kong's advantages as an international financial, trade and shipping centre, and to combine the strengths of the two places to promote the development of modern service industries in Qianhai. The present consensus is that the Shenzhen Municipal Government will assume the leading role in developing and managing Qianhai, and the SAR Government will render advice on planning and policy formulation.

Exchanges and Co-operation with Taiwan

52. To enhance the co-operation between Hong Kong and Taiwan, the SAR Government has decided to set up the Hong Kong-Taiwan Economic and Cultural Co-operation and Promotion Council (ECCPC). The ECCPC will discuss matters of mutual interest and enhance co-operation in various respects with its counterpart in Taiwan, the Taiwan-Hong Kong Economic and Cultural Co-operation Council (ECCC).

53. At the corporate level, the Hong Kong-Taiwan Business Co-operation Committee (BCC) comprising members of the local commercial sector and Taiwan businessmen in Hong Kong will be set up. The BCC will discuss with the Economic Co-operation Committee under the ECCC ways to foster co-operation between Hong Kong and Taiwan in trade and investment.

54. Hong Kong and Taiwan have been liaising closely on the establishment of the new co-operation platform to kick-start collaborations on various fronts, fostering mutually beneficial co-operation between the two places. Once the new platform is established, I hope to lead a delegation of ECCPC and BCC members to Taiwan to discuss issues on bilateral co-operation.

Investing in Infrastructure

55. We will continue to invest heavily in infrastructure to promote economic development, create employment opportunities and enhance the long-term competitiveness of Hong Kong. In 2009-10, capital works expenditure reached \$45.1 billion. Construction works for the Hong Kong-Zhuhai-Macao Main Bridge, site formation works for the new cruise terminal, and the Central-Wan Chai Bypass project all began at end-2009. The works for the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link project also started in January this year.

56. The estimated capital works expenditure for 2010-11 will increase to \$49.6 billion. Major works projects expected to start include the Kai Tak Cruise Terminal Building and ancillary facilities, Hong Kong-Zhuhai-Macao Bridge Hong Kong boundary crossing facilities, Harbour Area Treatment Scheme Stage 2A, and Town Park, Indoor Velodrome-cum-Sports Centre in Area 45 of Tseung Kwan O. With many projects entering their construction peaks, I estimate that the capital works expenditure for each of the next few years will be at an all-time high of over \$50 billion.

57. With the implementation of various projects including “Operation Building Bright”, the employment situation in the construction sector has improved significantly. The unemployment rate of the sector has dropped continuously from its peak of 12.7 per cent last year to 7.4 per cent recently. On the other hand, we will closely monitor the construction industry’s delivery capacity to avoid the bunching of projects that may result in an upsurge in wages and construction costs, or calls from the market for the importation of labour.

58. We are also mindful of the ageing problem and possible skills mismatch in the construction workforce. Currently, the Construction Industry Council (CIC) strives to attract more people, especially young people, to join the construction industry through training and trade testing. Furthermore, the CIC aims to enhance the skills and competitiveness of in-service construction workers and to uplift the image of the industry through promotion and public education. Together with the industry, we will take the lead to introduce best practices in public works projects to further improve the safety, working environment and conditions in construction sites. I will also earmark \$100 million to support the CIC to strengthen the relevant work, and I expect that the CIC will increase its investment in tandem with this funding to provide the necessary incentives to attract more young people to join the construction industry and to improve the practice of the industry. We believe that these measures can help attract fresh blood to the industry and meet the manpower needs of future construction projects.

Promoting the Development of Industries

59. In his Policy Address, the Chief Executive pointed out the need to promote the development of innovation and knowledge-based industries. These include the four traditional pillar industries, namely financial services, tourism, trading and logistics, and professional services, and six industries where we enjoy clear advantages. The six industries are medical services, education services, environmental industries, testing and certification, innovation and technology, and cultural and creative industries.

60. In 2008, the private enterprises of these six industries made a direct contribution of eight per cent to the GDP and employed about 380 000 people, representing about 11 per cent of the total workforce. The role of the Government is to provide a conducive environment for the development of these industries under the principle of “Market Leads, Government Facilitates”. We will provide the necessary support in land resources, human capital and incentives to facilitate the diversification of industries under the market mechanism. The Government has started to roll out the initiatives put forth in the Policy Address, and I will provide the necessary financial support.

Optimising Land Resources

Revitalising Old Industrial Buildings

61. To promote the development of the six industries and inject new impetus into old industrial areas, the Chief Executive has put forward measures to revitalise old industrial buildings in his Policy Address. To facilitate the redevelopment or conversion of industrial buildings by owners, the Lands Department will set up a dedicated team on 1 April 2010 to process such applications centrally. Other departments involved will also exercise flexibility in considering applications for wholesale conversion of industrial buildings, taking into account the constraints of existing industrial buildings.

62. The Government will also take the lead in injecting impetus to the revitalisation of industrial buildings. Where appropriate, we will consider making use of old industrial buildings in the relocation of our offices and facilities. For example, we have completed a study on relocating government departments in the three government office buildings at the Wan Chai waterfront. As and when appropriate we will relocate the departments concerned to other districts to free some land in the central business district. We will study the feasibility of making use of industrial buildings in drawing up the relocation plans. Moreover, we will consider relocating government offices currently accommodated in commercial office premises to industrial buildings upon expiry of their tenancies.

Reserving Sites for Our Industries

63. We are inviting expressions of interest to develop private hospitals on four reserved sites as announced in the Policy Address. The invitation will close at end-March this year. We will formulate the land disposal arrangements in light of the response and views from the market.

64. Regarding education services, apart from the two urban sites and three sites in the New Territories reserved earlier, we will reserve a further site at the former Queen Hill's Camp in the New Territories to establish a self-financing tertiary institution. We estimate that the site will provide a gross floor area of more than 100 000 square metres and is suitable for the development of a self-financing tertiary institution with boarding facilities. The institution is expected to provide some 8 000 self-financing degree places. We expect to launch an Expression of Interest exercise by the end of this year to invite development proposals from institutions and education bodies. Moreover, the Finance Committee of this Council approved early this month an additional \$2 billion loan commitment for post-secondary education providers to develop or refurbish campus premises. All these measures will help increase the number of places for tertiary education and facilitate the diversified development of the higher education sector, thereby strengthening Hong Kong's status as a regional education hub.

Strengthening Manpower Training for Our Industries

65. To support the development of the six industries, the Vocational Training Council and various tertiary institutions have been offering programmes to nurture talent. For example, the Vocational Training Council provided an additional 210 places in its higher diploma programmes on testing and certification as well as environmental and related studies in the 2009 academic year, and will provide 310 additional places in the 2010 academic year. Upon commissioning of its new campus in Tseung Kwan O in the 2010 academic year, the Hong Kong Design Institute will provide about 4 500 places for training design students. The Academy of Film recently established by the Hong Kong Baptist University, and the various design and creative media programmes to be launched at the end of this year by the Hong Kong campus of the Savannah College of Art and Design situated at the former North Kowloon Magistracy, will help nurture more creative talent for Hong Kong.

66. To get a better grasp of the manpower situation of the six industries, we will conduct another round of manpower projection in the first half of this year. The relevant policy bureaux will implement appropriate measures and ensure the provision of suitable training in light of the findings. We will ensure that there will be sufficient manpower and professionals to meet the development needs of the industries.

67. In addition, under the Qualifications Framework we have already set up industry training advisory committees for 13 sectors, covering about 30 per cent of the labour force. These committees set out the skills, knowledge and outcome standards required of employees in those sectors to encourage training providers to design training courses that meet the needs of the sectors. We will further promote the Qualifications Framework to enhance vocational education and training relevant to the industries.

Reinforcing our Position as a Financial Centre

68. Apart from being one of our most competitive industries, the financial services sector can best play a unique role in complementing the development of China. In the current financial crisis, the Mainland has emerged as a prominent economic power. With the emergence of a new economic order, our country will further integrate with the international financial community. Hong Kong can play a more important role in this process. The Chief Executive has already indicated in the Policy Address that we will develop offshore Renminbi (RMB) business and make Hong Kong a global financial centre and asset management centre, attracting capital and talent from within and outside the country. In the process, we will endeavour to meet the overall development needs of our country.

Developing Offshore Renminbi Business

69. As our country's capital account has yet to be fully liberalised, developing offshore RMB business in Hong Kong is the best option for promoting the use and circulation of RMB outside the Mainland in an orderly manner. In December last year, Premier Wen Jiabao told the Chief Executive that the Mainland would continue to promote cross-border trade settlement in RMB in Hong Kong, explore ways of developing various businesses that would facilitate the circulation of RMB, and foster the development of RMB bond business in Hong Kong. We are grateful for this encouragement and support. In the long run, we hope that Hong Kong will become the first testing ground for all new measures relating to the liberalisation of China's capital account and the regionalisation and internationalisation of RMB. The SAR Government will continue to actively take forward work in this regard.

70. Since the introduction of RMB trade settlement in July 2009, corporations in Hong Kong and other areas (e.g. the ASEAN countries) can conduct trade settlement in RMB through banks in Hong Kong. We, together with the Mainland authorities, will continue to study the ongoing refinements to the RMB trade settlement services, and to promote the expanded use of RMB outside the Mainland. We will also continue to develop the RMB clearing platform in Hong Kong, thereby facilitating Hong Kong's development as a regional RMB settlement centre.

71. Last year, the amount of RMB bonds issued in Hong Kong reached RMB 16 billion, including RMB 6 billion of sovereign bonds launched in Hong Kong for the first time. This reflects the popularity of RMB investment products in Hong Kong. We hope to further promote the development of RMB bond business in Hong Kong, such as expanding the issuance size of bonds and increasing the types of bond issuers and the classes of qualified investors. The recent elucidation by the HKMA has suggested that apart from approved Mainland entities, non-Mainland entities may also issue RMB bonds in Hong Kong. As long as the bond issuance does not entail cross-border flows of RMB funds into and out of the Mainland, the range of eligible issuers and issue arrangements can be determined in accordance with the applicable regulations and market conditions in Hong Kong. We also hope that RMB sovereign bonds will be issued on a regular basis in Hong Kong and that RMB-denominated investment products will be developed. With all of this, we hope to see RMB business scale new heights this year.

Promoting Asset Management Business

72. In the financial tsunami, the strong rebound of China's economy has spearheaded the overall economic recovery of Asia and created abundant investment opportunities in the region. Asia is now the bright spot in the eyes of global institutional investors. We believe that more institutional investors will give greater weight to Asia in their investment portfolios and choose to establish footholds in Asia as the platform for their investment. Equipped with world-class hardware and software, including a strong asset management foundation, and benefiting from a huge demand for wealth and asset management services in the Mainland, Hong Kong is well placed to become Asia's premier asset management centre.

73. I propose to introduce a number of measures to strengthen the competitiveness of the industry and attract more talent, capital and products to Hong Kong. First, I propose to extend the stamp duty concession in respect of the trading of exchange traded funds (ETFs). Currently, we waive the stamp duty for the trading of ETFs with no Hong Kong stock in their portfolios. ETFs with Hong Kong stocks, regardless of the weightings, are not entitled to this concession. With further integration of the financial markets in Asia, ETFs that track a basket of stocks in the region will become increasingly popular. To facilitate the development of ETFs, I propose to extend the concession to cover ETFs that track indices comprising not more than 40 per cent of Hong Kong stocks. This will reduce the trading cost and promote the diversification and healthy growth of the ETF market.

74. As for the local bond market, currently a concessionary profits tax rate at 50 per cent of the normal rate is applied to the interest income and profits derived from qualifying debt instruments with a maturity period of less than seven years but not less than three years. I propose to extend this concession to cover qualifying debt instruments with a maturity period of less than three years. To better meet market requirements, we also plan to amend the provisions under the Inland Revenue Ordinance that require such debt instruments to be issued to the public in Hong Kong.

75. The Commissioner of Inland Revenue will further clarify the definition of “central management and control” to address the industry’s concern about the residency requirement for directors of the management committee of offshore funds in their applications for profits tax exemption. This will help attract more fund managers to manage overseas funds in Hong Kong. I also propose to update the lists of recognised stock exchanges and futures exchanges under the Inland Revenue Ordinance so as to extend the application of tax exemption for offshore funds engaged in futures trading.

Improving the Financial Regulatory System

76. Our financial system is sound with strong fundamentals. While the current financial crisis did not cause systemic problems to our financial system, we will still take steps to further improve Hong Kong's financial regulatory system so as to strengthen investor protection.

77. The Government and regulators will continue to adopt a disclosure-cum-conduct based regulatory approach for the authorisation and sale of structured financial products. This regulatory regime rests on two important pillars, namely information disclosure and suitability assessment. On this basis, we have worked out an action plan for phased implementation. The measures in the first phase, which focus on improving the sales practices for investment products, the professional conduct of intermediaries and investor education, have been implemented. For the longer-term measures, we are consulting the public on proposals to establish an "Investor Education Council" and a "Financial Dispute Resolution Centre". Our aim is to strengthen investor protection in every aspect, from investor education, authorisation of investment products, disclosure requirements, sales practices, conduct of intermediaries to financial dispute resolution mechanism.

78. We have been fostering a continuous disclosure culture among listed companies. We are preparing for public consultation on a proposal to amend the Securities and Futures Ordinance to require timely disclosure of certain price-sensitive information by listed companies. Our aim is to enhance the quality and transparency of the stock market.

79. To consolidate our position as a financial centre, we will also continue with the following work this year:

- (1) Launch the second phase consultation on the draft provisions of the Companies Bill to modernise the Companies Ordinance, so as to enhance corporate governance and facilitate business;
- (2) Conduct consultations on the establishment of an independent Insurance Authority and a Policyholders' Protection Fund; and
- (3) Study the introduction of a corporate rescue procedure, with a view to reducing corporate bankruptcy and preserving employment.

Promoting Tourism

80. Last year, the financial tsunami and the human swine influenza dealt a heavy blow to tourism. Thanks to the support of the Mainland authorities and the concerted effort of the Government and the travel industry, total visitor arrivals have reverted to an upward trend since August. Total visitor arrivals in 2009 rose slightly to nearly 30 million, exceeding the total for 2008. As the economy recovers, we expect a further increase in the number of visitors.

81. Starting last April, Shenzhen permanent residents have been able to apply for an individual visit endorsement that allows them to make multiple visits to Hong Kong in one year. As at early February this year, the total number of trips made with this endorsement to visit Hong Kong exceeded 1.9 million. The response is encouraging. Arrangements for non-Guangdong residents living in Shenzhen to apply for individual visit endorsements in Shenzhen were also implemented last December.

82. We hope that these measures to help Shenzhen residents visit Hong Kong can be extended to cover more cities in the PRD region, and eventually all of Guangdong Province. As there are about 83 million permanent residents in Guangdong, the extension of these measures, if implemented, will bring considerable benefit to our tourism, retail and the related industries.

83. We will also develop new travel themes and products to attract returning visitors. More than \$25 million of funds in sponsorship of six arts, cultural and sports events held in Hong Kong has been approved so far under the Mega Events Fund unveiled last year. The results of the second round applications will be announced shortly. These diversified mega events will enrich the experience of visitors, as well as add to the vibrancy of Hong Kong.

84. Last year saw the opening of a large number of new tourist attractions, as well as the addition of new features to existing ones. Noah's Ark in Ma Wan, the Hong Kong National Geopark, and the 1881 Heritage at the Former Marine Police Headquarters Historic Compound opened last year. A number of large scale attractions at Ocean Park are also coming on stream. All these have made Hong Kong's tourist attractions more diversified. Looking ahead, the first berth of the Kai Tak Cruise Terminal will come into operation in mid-2013. Hong Kong Disneyland has also embarked on an expansion plan to add three new themed areas over the next few years.

Promoting Businesses Related to Wine Trading

85. Businesses related to wine trading, distribution and auctions have grown considerably since 2008, when the Government scrapped wine duties and launched a series of facilitation measures. After recording an 80 per cent increase in 2008, the total value of wine imports reached \$4 billion in 2009, marking a further growth of 41 per cent year-on-year. According to information provided by the industry, Hong Kong has surpassed London to become the second largest wine auction centre in the world. To help the industry better grasp the business opportunities in the Mainland, we have just signed an agreement with the General Administration of Customs to provide facilitation measures for wines exported from Hong Kong to the Mainland. The measures will be implemented on a trial basis in Shenzhen in the second quarter of 2010. We will continue to explore other measures to strengthen Hong Kong's position as a regional wine trading and distribution hub which in turn will help boost employment.

86. Regarding promotional efforts, the first Wine and Dine Festival held in October last year was well received. The Hong Kong Tourism Board will stage the event again on an even larger scale this year. Building on the success of the last two years, the Hong Kong Trade Development Council will continue to organise the Hong Kong International Wine and Spirits Fair at the end of this year. Vinexpo, a renowned wine and spirits exhibition from France, will also be held in Hong Kong for the fourth time.

Developing Testing and Certification Services

87. I will allocate \$20 million in the next two years to support the work of the Hong Kong Council for Testing and Certification set up last September, with a view to enhancing the professional standards of the local testing and certification services as well as international recognition, thereby creating more business opportunities. I will also allocate an additional \$21 million in the next two years to the Hong Kong Accreditation Service to strengthen services to the industry.

88. The Hong Kong Council for Testing and Certification will shortly submit to the Chief Executive an industry development plan for the coming three years. The plan will make specific recommendations to increase the competitiveness of the industry, step up promotional effort in the Mainland and overseas, strengthen manpower support, and help the industry tap business opportunities in those areas with good potential. I will provide the necessary resources when required.

Promoting Green Economy

89. In my last Budget, I proposed to promote a “green economy” and introduced a series of measures, including Hong Kong-Guangdong co-operation in environmental protection, the use of electric vehicles and promotion of green buildings. In his Policy Address, the Chief Executive further announced the development of environmental industries as one of the six industries and put forth initiatives in respect of the Cleaner Production Partnership Programme, the Clean Development Mechanism Projects, and Government Green Procurement. These initiatives have already been rolled out. In the next financial year, I will give further support in the following areas.

Harbour Area Treatment Scheme

90. To improve the water quality of Victoria Harbour, we have already allocated \$9.3 billion for the construction of sewage tunnels and ancillary works of Harbour Area Treatment Scheme Stage 2A project. We have proposed to put in an additional \$7.9 billion for the remaining works of the project. Furthermore, we will allocate \$5.1 billion to build in Tuen Mun an incinerator employing the latest high temperature incineration technology to process sewage sludge generated from the project and others. The water quality of Victoria Harbour will be greatly improved upon the completion of the project in 2014.

Pilot Green Transport Fund

91. To encourage the transport sector to test out green and low-carbon transport technology, I propose to set up a \$300 million Pilot Green Transport Fund for application by the industry, initially by the public transport operators. I hope that this Fund will encourage the industry to introduce more innovative green technologies, such as the use of buses, public light buses, taxis, and ferries that employ green technologies, and help nurture the budding of green technology in Hong Kong.

92. The use of low-emission and energy saving transport will not only help improve roadside air quality, but also reduce carbon emissions and promote a low-carbon economy. I hope that the transport industry will actively try out innovative green technologies, contributing to better air quality and the health of people living in Hong Kong.

Phasing Out Old Diesel Commercial Vehicles

93. In 2007, the Government launched a scheme to subsidise the replacement of the more polluting pre-Euro and Euro I diesel commercial vehicles with newer models producing fewer emissions. The scheme will end this March. To continue to accelerate the phasing out of old diesel commercial vehicles, I will provide a 36-month subsidy scheme for the replacement of Euro II diesel commercial vehicles. The scheme will involve expenditure of about \$540 million.

94. I also propose to accelerate the tax deduction for capital expenditure on environment-friendly vehicles. Enterprises can enjoy a 100 per cent profits tax deduction in the first year under the proposal. This will encourage the business sector to purchase more electric vehicles, hybrid vehicles and other environment-friendly commercial vehicles.

Promoting the Use of Electric Vehicles

95. To promote the use of electric vehicles, I set up the Steering Committee on the Promotion of Electric Vehicles last April. The Committee has made a number of recommendations on the strategy and concrete measures for promoting electric vehicles. One of the recommendations is that the Government should take the lead in using more electric vehicles. We have procured 10 electric vehicles, and plan to purchase 10 to 20 such vehicles in each of the following few years. Besides, 10 electric motorcycles have been introduced into the Police fleet. In the private sector, the two power companies have placed orders for over 20 electric vehicles. Furthermore, around 200 electric vehicles will be supplied to the local market in the next financial year. We expect to see wider use of electric vehicles in Hong Kong in the year ahead.

96. We have made good progress in increasing charging facilities for electric vehicles. We have built charging stations in nine government car parks and will build more than 20 such stations this year. Apart from these, the two power companies have started building 28 charging stations in various car parks. The Electrical and Mechanical Services Department has also issued guidelines on the installation of charging facilities in car parks to encourage operators of private car parks to provide such facilities. The Government and the power companies will continue to expand the charging networks for electric vehicles.

Promoting Innovation and Technology

97. Innovation and application of technology are the most effective ways to add value to products and services. In the past 10 years, the Government has been supporting the development of innovation and technology in Hong Kong by providing the necessary hardware and software. These include the construction of the Science Park and the Cyberport as well as the establishment of the Innovation and Technology Fund.

98. With the concerted effort of the Government and the industry, the contribution of business organisations to the total expenditure on research and development (R&D) in Hong Kong increased from 24 per cent in 1999 to 43 per cent in 2008. This reflects that the business community is increasingly aware of the importance of strengthening R&D. The number of R&D personnel in Hong Kong also more than doubled from about 10 000 in 1999 to some 22 000 in 2008.

R&D Cash Rebate

99. To encourage business organisations to increase their investment in R&D and strengthen their co-operation with R&D institutions, the Legislative Council approved in January this year a funding of \$200 million to set up a “R&D Cash Rebate Scheme”. We will launch the scheme in April this year.

Hong Kong Science Park

100. The Hong Kong Science Park has become a scientific research hub in Hong Kong and the home to more than 300 science and technology companies from Hong Kong, the Mainland and around the world. Through the development of five areas – electronics, information technology and telecommunications, precision engineering, biotechnology and green technology – the Park has created a clustering effect for companies engaged in these technology fields. It also provides a range of professional and technological support services to small and medium enterprises, helping them flourish through the Incubation Programme.

101. At present, the overall leasing rate of the two phases of the Hong Kong Science Park is close to 85 per cent. To further promote the development of innovation and technology, boost the development of green technology and attract more high-tech companies to establish a presence in Hong Kong, we have decided to implement the development of Science Park Phase 3. The project will entail an estimated expenditure of \$4.9 billion. Proposals covering the scope of development as well as financing arrangements will be announced later. Construction works are expected to start next year for completion in phases between 2013 and 2016. We expect that an additional 4 000 R&D-related jobs or so will be provided upon completion, and that around 5 000 construction-related job opportunities will be created during the construction period.

Encouraging Creativity and Innovation

Create Hong Kong

102. Create Hong Kong was set up last year to support local creative industries. Apart from continuing to tap the Mainland market through CEPA, it will explore strategies to promote the development of creative industries. Further support to this sector will come from the revitalisation of the former Hollywood Road Police Married Quarters, which will be converted into a centre for promoting creative industries. We will invite proposals from interested organisations shortly.

103. The \$300 million CreateSmart Initiative launched last June was well received by the industry. Some projects approved under the scheme have provided our young people with job opportunities to give play to their creativity. Highly resourceful and in tune with world trends, young people in Hong Kong enjoy a competitive edge in creative industries. I hope that the industry and our young people will make good use of the scheme and contribute to the development of creative industries in Hong Kong.

Shanghai Expo

104. The World Expo to be held in Shanghai this May is a golden opportunity to showcase our creativity and to promote the revitalized Brand Hong Kong. Highlighting the theme of “Potential Unlimited”, the Hong Kong Pavilion will display our advantages in connectivity and creativity. We will also take part in the Urban Best Practices Area Exhibition (UBPA), where we will demonstrate our achievements under the theme of “Smart Card, Smart City, Smart Life”.

105. During the Expo, we will join hands with local creative industries to showcase our creativity and distinctiveness. For example, Create Hong Kong will support the local design sector in holding a six-month exhibition in Shanghai. During this period, a number of exchange forums on the Hong Kong design industry will be held to introduce our design talent to the Mainland business community. We are building a virtual pavilion and exhibition to enable people to visit, on the Internet, the Hong Kong Pavilion and Hong Kong's UBPA exhibition.

Intellectual Property Rights

106. Under the existing tax arrangements, capital expenditure by enterprises to purchase patent rights and industrial know-how is deductible under profits tax. To promote the wider application of intellectual property by enterprises and the development of creative industries, I propose to extend the deduction to cover registered trademarks, copyrights and registered designs. The Inland Revenue Department will formulate detailed proposals.

107. The Patent Application Grant under the Innovation and Technology Fund provides funding support to Hong Kong companies and inventors in their first patent applications so as to help them capitalise and protect their intellectual work. To further encourage creativity and innovation, we will raise the grant ceiling for each case from \$100,000 to \$150,000. The expenditure ceiling in respect of patent applications in R&D projects funded by the Innovation and Technology Fund will also be raised to \$150,000 correspondingly.

A Caring Society

108. With economic development, we aim to build a prosperous and caring Hong Kong. Through spending in areas such as housing, healthcare and social welfare, we provide disadvantaged groups and people in difficulties with a basic safety net. We also invest heavily in education and training, and strengthen employment support services to enhance social mobility. Our estimated recurrent expenditure on education, health and social welfare for 2010-11 will reach around \$130 billion, accounting for 56 per cent of recurrent government expenditure. I will now briefly describe my major proposals on developing human capital, community building, healthcare, and care for people in need.

Developing Human Capital

109. We have been investing heavily in education to develop our human capital. Recurrent expenditure on education has increased by 18 per cent over the past 10 years. In 2010-11, the estimated recurrent expenditure in this area will be \$52.2 billion, taking up the largest share of recurrent government expenditure. We will continue to take forward education reform initiatives such as the new academic structure for senior secondary and higher education, and small-class teaching in primary schools. We will also implement additional measures as follows.

Enhancing After-school Support to Needy Students

110. I take a keen interest in the education and whole-person development of young people, especially needy students. I will significantly increase recurrent funding for the School-based After-school Learning and Support Programmes by \$100 million to \$175 million to enable schools and non-governmental organisations to organise after-school activities for needy students. This will provide further support to these students to improve their learning effectiveness, broaden their learning experience outside the classroom, and increase their self-confidence and sense of belonging. A wide range of activities, including homework tutorials, cultural and art programmes, sports programmes, leadership training and volunteer services, will be offered. The additional funding will help our needy students be nurtured into capable individuals and reduce cross-generational poverty.

Facilitating Internet Learning

111. To narrow the digital divide, the Policy Address proposed that convenient and suitable Internet learning opportunities be provided for students in need through tripartite collaboration between the community, the business sector and the Government. In this digital age, web-based learning and research on the Internet have become an integral part of education. After studying the issue with the relevant bureaux, I propose to adopt a two-pronged approach to help primary and secondary school students from low-income families with Internet learning. We will grant them a subsidy for Internet access charges, and encourage the market to provide them with economical Internet services.

112. I propose to give a subsidy of \$1,300 for Internet access charges in the 2010 school year to each family receiving Comprehensive Social Security Assistance (CSSA) with children studying in primary or secondary schools. For each family with children studying in primary or secondary schools and eligible for student financial assistance, I propose to grant a full subsidy of \$1,300 or half subsidy of \$650 depending on the outcome of their means test. To offer an affordable option to students receiving the subsidies, we are also making preparations for a non-profit making organisation to collaborate with private service providers and community organisations to provide economical Internet services and computer hardware to low-income families in need. This will bring market forces into play and make our policy more cost-effective. The organisation will also provide complementary services such as parent education and technical support. We will invite expressions of interest from interested non-profit making organisations. When the organisation has begun to provide economical Internet services that meet learning needs, the subsidies for Internet access charges for subsequent school years will be suitably adjusted. I have earmarked \$500 million as the start-up capital for these two measures.

Launching Matching Grant Scheme

113. We are committed to fostering the development of higher education to complement our transformation into a knowledge-based economy. Since 2003, the Government has launched four rounds of the Matching Grant Scheme (MGS) to help institutions tap more funding sources to support institutional development. Institutions have so far secured additional resources of about \$10.8 billion, comprising \$3.9 billion in government matching grants and \$6.9 billion in private donations. The scheme has effectively promoted the development of the institutions and helped foster a philanthropic culture.

114. In view of the success of the scheme, I propose to allocate \$1 billion to launch the fifth MGS. For the first time, this will cover all 12 degree-awarding institutions so as to support the diversified development of higher education.

Upgrading Language Proficiency

115. To enable Hong Kong to maintain its competitiveness and embrace the opportunities brought by our economic integration with the Mainland, I propose to inject \$500 million into the Language Fund to further upgrade our biliterate and trilingual proficiency. Relevant initiatives include introducing or optimising the school-based measures under the English Enhancement Scheme, and creating an environment conducive to learning English and Putonghua. We will also roll out school-based after-school support services to assist non-Chinese speaking students learn Chinese and adapt to the local curriculum as soon as possible for better integration into the community.

116. Regarding language proficiency in the workplace, the new resources will also be used to encourage employees to raise their standards of English and Putonghua. Such measures may include providing vocational language courses tailored to the needs of the industries, encouraging the development and use of self-learning platforms on the Internet, and organising public education activities. We will, in addition, strengthen research on language education. We will invite the Standing Committee on Language Education and Research to put forward proposals for the above initiatives.

Building the Community

Promoting Building Maintenance

117. Last month, an old building at Ma Tau Wai Road, Hung Hom, collapsed. While the cause is still under investigation, the incident has aroused public concern over the problem of building safety. The responsibility for building maintenance rests with property owners. They must promptly carry out inspections and maintenance of their properties. In this connection, we hope that the legislative process of the relevant bill could be completed at the earliest possible time for the prompt implementation of the Mandatory Building Inspection Scheme and Mandatory Window Inspection Scheme.

118. In conjunction with the Hong Kong Housing Society and the URA, the Government has introduced a number of support measures in the past few years to provide property owners in need with technical and financial assistance for carrying out building repair and maintenance works. Last year, I launched the \$2 billion “Operation Building Bright” campaign to provide one-stop assistance for the repair and maintenance of about 2 000 buildings aged 30 years or above.

119. To provide timely assistance to more owners of old buildings to repair their properties, I propose to allocate additional funding of \$500 million for “Operation Building Bright” to provide targeted assistance to those owners who cannot co-ordinate maintenance works on their own, including owners of dilapidated buildings without owners’ corporations.

Redeveloping Old Areas

120. For aged buildings in disrepair in old areas, redevelopment is an option that can better improve the living environment of residents and protect public safety. To tackle the increasing number of old buildings, we need to review afresh the Urban Renewal Strategy and the role of the URA. The Development Bureau will complete the review of the Urban Renewal Strategy by the end of this year and map out new directions. In response to the redevelopment requests from owners of old buildings, we have also proposed to lower the compulsory sale application threshold for buildings aged 50 years or above from 90 to 80 per cent.

121. In order to resolve the problem of old buildings in disrepair in the vicinity of the collapsed building on Ma Tau Wai Road, and to improve the living environment of the hundreds of households there and relieve their fears and worries, I have agreed to the URA taking forward immediately a redevelopment project at that location. It will cover old buildings in 33 street numbers on Ma Tau Wai Road, Hok Yuen Street and Chun Tin Street. The URA will embark on the necessary freezing survey today.

Promoting Arts, Culture and Sports

122. To provide the necessary support to the development of the West Kowloon Cultural District, I will allocate additional funding of \$486 million over the next five financial years. The funding will be used for measures such as art programme development, audience building and enhancement of art education and manpower training. We will support art groups and artists in developing their brand performances and step up the promotion of public art and popular cultural and art activities, with a view to integrating art into our community. At the same time, we will strengthen the promotion of arts in schools to develop young people's interest in arts and culture and their appreciation abilities in these areas. We will organise training programmes to provide training and internship opportunities for people who aspire to a career in arts and culture.

123. Cantonese opera has become our first item of world intangible cultural heritage. To further preserve it as an art form, I propose to draw \$69 million from the additional funding just announced and inject it into the Cantonese Opera Development Fund. In the next financial year, we will also request the Legislative Council to approve funding of approximately \$730 million for constructing an annex building with a medium-sized theatre and training facilities at the Ko Shan Theatre. I expect that the existing and the new theatres of the Ko Shan Theatre and the Yau Ma Tei Xiqu Activity Centre under construction will become dedicated venues that attract audience to watch Cantonese opera performances.

124. During the East Asian Games last year, Hong Kong athletes achieved unprecedented success. We will seize this opportunity to encourage various sectors of the community to give continued support to our athletes and to the development of sports programmes and facilities. We will also facilitate greater participation in sports and the organisation of major sports events to increase public interest in sports.

125. To further promote the development of sports and arts, I propose to inject \$3 billion into the Arts and Sport Development Fund as seed money and use the annual investment return of the Fund to provide sustainable additional resources for subsidising the long-term development of sports, culture and arts.

Campaigning Against Drug Abuse

126. In response to the Government's anti-drug policy, I have already allocated additional funding of \$52 million in 2010-11 to support anti-drug efforts of the departments concerned. Furthermore, to encourage the community to join hands in combating drug abuse, I propose to inject \$3 billion into the Beat Drugs Fund. The money, together with donations from different sectors, will yield a larger investment return to the Fund and enable it to increase its annual funding for the community to make an all-out effort in taking forward various anti-drug initiatives.

Medical and Health Services

127. The Government has been investing substantial resources to enhance the quality of public medical and health services and to keep service charges at a low level. It is estimated that recurrent expenditure on health will reach around \$37 billion in 2010-11, accounting for 16.1 per cent of the recurrent government expenditure. We have pledged to further increase health expenditure to 17 per cent of the recurrent government expenditure by 2012. We will make efficient use of the additional funding to improve services and take forward the healthcare reform.

Public Healthcare

128. In my last Budget, I indicated that the recurrent subvention for the Hospital Authority (HA) over the three financial years starting from 2009-10 would be increased by about \$870 million each year. Apart from increasing the recurrent subvention through this arrangement, we will also allocate additional funding to the HA in 2010-11. Excluding the resources for procuring medical equipment and supplies, the additional funding provided to the HA in the next financial year will be \$1.24 billion in total. The HA will make use of the additional funding to strengthen services, including:

- (1) Strengthening the training of nurses to meet service growth and development needs. It is expected that 1 400 nurses will graduate in 2010, an increase of 40 per cent over 2009, and the number will rise to 2 150 in 2012. We will also provide a total of 2 350 places in nursing programmes and training in the next two academic years, and 80 places in midwifery training in each of the next four years;

- (2) Strengthening the services provided for cancer, cataract and renal patients. A case management programme on cancer treatment will be introduced for 1 100 patients. Cataract surgeries will also be increased by about 40 per cent. For renal patients, the HA will strengthen haemodialysis services and introduce a pilot programme on palliative care;
- (3) Incorporating eight drugs into the Hospital Authority Drug Formulary to enhance the efficacy in treating cancer and rare genetic diseases. The HA will also expand the clinical application of nine drug classes. It is estimated that a total of 38 200 patients will benefit from these two initiatives each year;
- (4) Setting up a specialist centre for joint replacement, which also provides comprehensive post-surgical care and rehabilitation support to patients. It is expected that the centre can handle 750 additional cases a year, an increase of about 40 per cent;
- (5) Implementing various infection control measures to strengthen our preparedness against epidemic diseases such as human swine influenza; and
- (6) Improving medication safety in the HA through the newly established Drug Quality Assurance Office.

129. To address citizens' concern about medication safety, the Government will allocate additional funding of about \$40 million in the next financial year to enhance the regulation of drugs. The Food and Health Bureau has recently published its review findings on the regulatory regime of western pharmaceutical products and recommended dozens of improvement measures. To ensure medication safety and safeguard public health, the Government will propose legislative amendments and explore ways of implementing these measures and providing the necessary resource support.

Healthcare Reform

130. The Working Group on Primary Care chaired by the Secretary for Food and Health has put forward a number of proposals to strengthen primary care services. These include extending the pilot project for strengthening the support to chronic patients, setting up community health centres or networks, and enhancing primary dental services and oral health promotion programmes, particularly those for the elderly. I will allocate a total of about \$600 million for the next three financial years to implement these proposals.

131. During the Budget consultation period, I heard suggestions to revise the value of health care vouchers under the Elderly Health Care Voucher Pilot Scheme and to adjust the age limit under the scheme. The Food and Health Bureau will consider these suggestions in its mid-term review of the pilot scheme later this year. Subject to the review findings, I will provide the necessary resources.

132. Many people suggested to me that tax deduction should be provided for private medical insurance premium or expenses. The Government is working out a supplementary healthcare financing option operating on a voluntary participation basis, containing insurance and savings components. We plan to consult the public on the option this year. In working out the option, we will consider how to make use of the \$50 billion earmarked in the fiscal reserves for implementing the healthcare financing reform, and take into account the suggestion on tax deduction.

Tobacco Control

133. For public health reasons, I increased tobacco duty substantially by 50 per cent last year. This year I propose to abolish the duty-free concessions on tobacco products for incoming passengers. To facilitate law enforcement, small amounts of tobacco products for own consumption will be exempted. The Food and Health Bureau and Customs and Excise Department will announce the details. This measure will take effect on completion of the legislative process.

134. Studies by the World Health Organization have clearly shown that increasing tobacco duty is an effective means of tobacco control. I am aware that tobacco duty in Hong Kong currently accounts for only about 60 per cent of the retail prices of cigarettes, some way below the 75 per cent recommended by the World Health Organization. The retail prices of cigarettes in Hong Kong are also lower than those in some international cities. The Food and Health Bureau will closely monitor the effectiveness of the various tobacco control measures in the year ahead. I will consider a phased increase in Hong Kong's tobacco duty based on the Bureau's recommendations.

Working Together for the Needy

135. The Government has been providing a wide range of welfare services to the public, as well as a social security net to help those in need meet their living expenses and attain the goal of “moving from welfare to self-reliance”. In the past 10 years, recurrent expenditure on social welfare has increased by over 50 per cent, outpacing the expenditure increase in other policy area groups. In 2010-11, recurrent expenditure on social welfare is estimated to be around \$40 billion, accounting for 17 per cent of recurrent government expenditure. I will now set out the major initiatives.

Caring for the Elderly

136. According to the latest projection, the number of people aged 65 or above will rise sharply in the next 20 to 30 years. At present, on average, one in every eight persons in Hong Kong is 65 or over. By 2036, it will be one in every four persons. The demand for elderly care services will continue to grow substantially.

137. In view of this, we will strengthen residential care services to serve elderly people who cannot be taken care of at home, especially frail elderly people requiring nursing care. The Policy Address announced initiatives to speed up the provision of subsidised nursing home places and those offering a continuum of care. I will increase the recurrent funding by about \$160 million to provide over 1 000 additional places, an increase of more than 60 per cent over the number of additional places announced in the last Budget. The Government will also allocate \$5 million to launch a pilot scheme to provide residential care homes with visiting pharmacist services, with a view to enhancing the service quality of these institutions.

138. In the long run, elderly services must be well planned in a holistic manner. In January this year, the Elderly Commission released its consultancy study report on Residential Care Services for the Elderly. It pointed out that, with a rapidly ageing population, a longer life expectancy and a low tax regime, increasing the supply of subsidised residential care places alone will not be sufficient to meet the ever-growing demand for long-term care services of the elderly. The study recommends that the Government should target limited public resources at providing subsidised residential care services to the elderly most in need, and further develop community care services to help the elderly age in place.

139. We agree with the general direction of “ageing in place” advocated in the study report, which is in line with the Government’s policy of “supporting ageing in the community as the core, institutional care as back-up”. In tandem with the Elderly Commission’s study on community care services, we will launch an elderly home care pilot scheme to provide more personalised home care services for the elderly who are waiting for nursing home places. I have earmarked \$55 million under the Lotteries Fund to implement this pilot scheme in Kowloon. The Social Welfare Department will invite organisations with experience in elderly services to submit expressions of interest setting out their proposals on the service content and the modes of service delivery.

140. The Government will also increase recurrent funding by about \$9 million to provide 115 additional subsidised day care places for the elderly, and provide additional funding of about \$4 million to extend the District-based Scheme on Carer Training. These measures will help provide support to elderly people ageing at home.

Supporting Rehabilitation of Persons with Disabilities

141. I will provide additional recurrent funding of about \$100 million to enhance services for persons with disabilities. About \$60 million will be used to provide 268 additional subvented residential care places for persons with disabilities, 154 additional places for pre-school rehabilitation services and 260 additional places for day training and vocational rehabilitation services. About \$40 million will be used to strengthen such support services as physiotherapy and nursing care for elderly residents in subvented residential care homes for persons with intellectual disability. I will also provide additional funding of about \$8 million to increase the number of Rehabuses to 119 by acquiring four new buses and replacing six old ones.

142. We will regulate the residential care homes for persons with disabilities through a statutory licensing scheme. Before the scheme is launched, we will introduce complementary measures to encourage operators of private residential care homes to improve their service quality, increase the provision of subsidised residential care places, and facilitate the market to develop residential care homes of different types and modes of operation. I have earmarked \$64 million under the Lotteries Fund to implement a pilot Bought Place Scheme for residential care homes for persons with disabilities. The Social Welfare Department will finalise the operational details of the scheme as soon as possible.

143. Moreover, I will earmark \$163 million under the Lotteries Fund to implement a pilot scheme to provide persons with severe disabilities with home-based nursing care services, with a view to strengthening the community support to persons with disabilities and relieving the pressure on their family carers. The pilot scheme will be launched in Kwun Tong and Tuen Mun, where there are more persons with severe disabilities on the waiting lists for residential care home places.

Promoting Mental Health

144. In the next financial year, the HA will launch new programmes for patients with severe mental illness and common mental disorders, involving an expenditure of over \$100 million. Relevant measures include:

- (1) Piloting a case management programme in three districts to train healthcare workers as case managers to provide continuous and customised intensive support at the community level to persons with severe mental illness. The programme will be gradually extended to cover the whole territory. It is expected that the number of patients benefiting from the programme will increase from 5 000 in 2010-11 to 16 000 in 2012-13; and

- (2) Promoting collaboration between psychiatric specialist out-patient service and primary healthcare service to provide appropriate assessment and consultation services for patients with common mental disorders. This new measure is expected to benefit 7 000 patients in 2010-11, and the number of beneficiaries will increase to 10 000 each year from 2011-12 onwards.

145. I will also provide additional recurrent funding of about \$70 million to extend the service mode of the existing Integrated Community Centre for Mental Wellness in Tin Shui Wai to all 18 districts in Hong Kong. As for manpower, I will increase the recurrent funding by about \$6 million to recruit 14 additional psychiatric medical social workers, thereby increasing their number to over 210 to enhance the psychiatric medical social service.

Helping Victims of Domestic Violence

146. As proposed in the Policy Address, the Government will launch a new programme to strengthen support for victims of domestic violence. The Social Welfare Department will provide a subvention of about \$5 million each year to non-governmental organisations for operating the “Victim Support Programme”. Under the programme, emotional support and relevant information on judicial proceedings and social support services will be provided to victims of spouse battering and child abuse cases, particularly those undergoing judicial proceedings. The programme is expected to be launched in the first half of this year.

Supporting Job Seekers

147. To Hong Kong people, having a job is of utmost importance. Employment provides a source of steady income and protection for individuals and families. It is a key to social stability. Therefore, I have been paying great attention to the employment issue and adopting a two-pronged approach. First is promoting economic development. Only when the economy grows robustly can more employment opportunities be created. Second is providing suitable employment support and training to increase the competitiveness and employment motivation of job seekers so they can seize these opportunities. I will therefore provide additional funding of \$173 million to implement the following measures to support job seekers.

148. The Labour Department will launch a two-year “Pilot Employment Navigator Programme”. Under this programme, a cash incentive of \$5,000 will be payable to each person who has worked for a continuous period of three months after receiving the department’s intensive employment counselling and job matching services. The programme will provide 11 000 places a year. It is designed to address the problem of manpower mismatch, fully utilise our labour productivity and encourage employment.

149. We will step up our efforts to help young people with special employment difficulties. The Labour Department will launch a targeted employment programme under which non-governmental organisations will provide training and internship for 12 months to young people, aged between 15 and 24 with low educational qualifications, who need special assistance because of emotional and behavioural problems or learning difficulties. The programme will provide 500 places.

150. In my last Budget I provided additional funding of over \$400 million for the Labour Department to strengthen its various employment and training services. These services will continue to benefit job seekers in 2010-11.

151. During the Budget consultation period, there were many suggestions to extend the Transport Support Scheme, which aims at encouraging needy job seekers living in remote districts where job opportunities are fewer to “go out” and seek jobs or work across districts. The Labour and Welfare Bureau will complete by the end of this year a study on ways to reduce the burden of travelling expenses borne by the working poor in Hong Kong. The existing Transport Support Scheme will remain in force before the completion of the study. I will make suitable financial provisions depending on the findings of the study.

Joining the Effort to Help the Disadvantaged

152. I firmly believe that only by pooling the efforts of various sectors of the community, by collaboration between the community, the business sector and the Government, can we effectively help disadvantaged groups and build a caring society. Since its inception in 2005, through funding support on a matching basis, the Partnership Fund for the Disadvantaged has been promoting tripartite partnership among the social welfare sector, the business sector and the Government in helping the disadvantaged, thereby enhancing social cohesion. So far, over \$100 million has been approved under the Fund. This, together with the matching donations from the business sector, supports non-governmental organisations to implement various welfare projects in conjunction with the business sector. Around 650 000 disadvantaged persons have benefited from these projects. In view of the favourable response from the community, I propose to inject \$200 million into the Fund to encourage further cross-sector collaboration to help the disadvantaged.

Relief Measures

153. We have just gone through the worst time of the financial tsunami, but its impact on many people is not yet over. Some people have yet to enjoy a salary rise in line with the recovery, whose burden may be further increased by the emerging inflationary pressure, particularly rises in food prices. During the Budget consultation period, many people suggested that we should introduce short-term measures to alleviate people's burdens. In addition, some were of the view that in the early recovery stage more consumer spending would contribute to consolidating the recovery. After taking into account our financial position, I propose a series of one-off measures as follows:

- (1) Paying two months' rent for around 700 000 public housing tenants. The Government will pay the base rent for tenants who are required to pay extra rent to the Hong Kong Housing Authority. For non-elderly tenants of the Hong Kong Housing Society's Group B estates, the Government will pay two-thirds of their rent. This measure will involve expenditure of approximately \$1.8 billion;
- (2) Providing an extra allowance to CSSA recipients, equal to one month of the standard rate CSSA payments; and an extra allowance to Old Age Allowance and Disability Allowance recipients, equal to one month of the allowances. This proposal will involve an additional expenditure of about \$1.8 billion;

- (3) Reducing 75 per cent of salaries tax and tax under personal assessment for 2009-10, subject to a ceiling of \$6,000. The reduction will be reflected in the taxpayer's final tax payable for 2009-10. This proposal will cost the Government about \$4.5 billion and benefit all 1.4 million taxpayers;
- (4) Waiving rates for 2010-11, subject to a ceiling of \$1,500 per quarter for each rateable property. It is estimated that about 90 per cent of domestic properties and 60 per cent of non-domestic properties will be subject to no rates in the year. This proposal will cost the Government approximately \$8.6 billion;
- (5) Waiving the business registration fees for one year. This proposal will cost the Government about \$1.8 billion; and
- (6) Providing an allowance of \$1,000 in the next school year to students in kindergartens, primary and secondary schools and tertiary institutions receiving CSSA or student financial assistance, so as to ease the financial burden on their parents of paying the expenses for the new school year. This proposal will involve an additional expenditure of about \$570 million.

154. To counter the financial tsunami, since 2008 we have introduced fiscal stimulus, job creation and relief measures amounting to \$87.6 billion. This will rise to nearly \$110 billion with this year's measures. Such measures, introduced on top of the current expenditure on health, housing, education and social welfare, are effective in stimulating the economy and safeguarding social stability and people's livelihood during the exceptional times of the financial tsunami. However, I must stress that these exceptional means employed at exceptional times cannot continue for long. Otherwise, they will affect the health of our public finances and dampen the enthusiasm for economic progress. I hope that these temporary measures will help our citizens tide over their present difficulties, assist our economy to regain its footing, and safeguard people's livelihood.

Current Financial Position and Estimates for 2010-11

155. I will now give a brief account of the revised estimates for 2009-10 and the estimates for 2010-11.

156. In preparing the 2009-10 Budget, I made an estimate of government revenue that reflected the downslide in the global economy and the highly volatile financial markets back then. However, the economy showed signs of gradual improvement from the second quarter of 2009, leading to better-than-expected revenues. The huge inflow of funds resulting from the global low-interest environment and the quantitative easing policy adopted by the many countries has given rise to hectic trading in both the stock and the property markets. As a result, revenue from stamp duties reaches \$40.5 billion, which is higher than the original estimate by \$15.5 billion. The revised estimate for operating revenue is \$255 billion. The revised estimate for land revenue is \$37.3 billion, more than double the original estimate. The revised total revenue is \$308.5 billion, \$46.8 billion higher than the original estimate.

157. The revised estimate for operating expenditure is \$236 billion, slightly lower than the original estimate. With a number of public works projects entering their construction peaks, capital expenditure is expected to reach \$55.2 billion, and total expenditure will be \$291.2 billion.

158. Overall, I forecast a surplus of \$19 billion in the Operating Account for 2009-10. For the Consolidated Account, after repayment of government bonds, I forecast a surplus of \$13.8 billion, equivalent to 0.8 per cent of our GDP. By 31 March 2010, our fiscal reserves will have increased to \$508.2 billion.

159. In 2010-11, I will continue to invest in infrastructure, promote the development of our industries and adopt various measures to achieve the objectives of consolidating the recovery, developing our economy and building a caring society. Operating expenditure for 2010-11 will be \$251.4 billion, an increase of 6.5 per cent over 2009-10.

160. Capital expenditure for 2010-11 is estimated to be \$65.8 billion, including \$49.6 billion in capital works, which is an all-time high. I forecast that total government expenditure will reach \$317.2 billion, an increase of \$26 billion, or 8.9 per cent, over 2009-10. Public expenditure will be equivalent to 19.8 per cent of our GDP.

161. I estimate that total government revenue for 2010-11 will be \$292 billion. Earnings and profits tax, which will still be our major source of revenue, are estimated at \$123 billion.

162. Taking all these into account, I forecast a deficit of \$3.8 billion in the Operating Account and a deficit of \$21.4 billion in the Capital Account. This will result in a deficit of \$25.2 billion in the Consolidated Account, equivalent to 1.5 per cent of our GDP. Fiscal reserves are estimated at \$483 billion by end-March 2011, representing approximately 28 per cent of our GDP and equivalent to 18 months of government expenditure.

163. At this early stage of recovery, we need to maintain government expenditure at a certain level to fortify the momentum of our domestic economy. Where affordable and without compromising our long-term financial integrity, I consider it necessary to continue to run a budget deficit in the next financial year so as to ensure a solid economic recovery without exerting excessive pressure on inflation.

Medium Range Forecast

164. For the medium term, with the gradual recovery of the global economy, I estimate that the annual trend growth rate will return to four per cent in real terms for the period 2011-14, while the underlying inflation rate forecast will average three per cent. I forecast a surplus in the Operating Account for the period between 2011-2012 and 2014-15, which will help meet the capital deficit arising from our enormous expenditure on infrastructure in these few years. The deficit in our Consolidated Account is expected to decrease gradually in the next few years, and we will achieve a balance by 2013-14. I estimate that the fiscal reserves will be around \$470 billion by end-March 2015, representing approximately 22 per cent of our GDP and equivalent to 15 months of government expenditure. The total deficit for the financial years between 2010-11 and 2014-15 is estimated to reach around \$40 billion.

Concluding Remarks

165. Mr President, the first decade of the 21st century is just behind us. The decade has seen several crises. We have come to realise the speed at which the global economic landscape is changing. Some worry that Hong Kong may be marginalised amidst the intense economic competition in the region and lag behind in the process of globalisation. The successive crises have put many citizens under tremendous pressure. They argue that the mode of our economic development cannot achieve a fair distribution of wealth, thus causing problems of poverty and social immobility. Some people also query, from a values perspective, the suitability to Hong Kong of the mode of promoting economic growth through infrastructural development.

166. As Hong Kong is a small and open economy subject to external constraints, it is inappropriate for us to solve the unemployment and poverty problems through large-scale redistribution of wealth. If we adopt this approach, which focuses on providing high levels of welfare, we will have to overhaul our tax regime and tax rates, weaken wage elasticity and adjustment function of the market, and fundamentally change our well-established mode of economic operation. I don't believe this will be acceptable to our society at large. I believe that in the long run, the fundamental solution to the problems of unemployment and poverty is to promote overall economic growth so as to provide opportunities for wealth creation in the community.

167. We uphold the principle of “Big Market, Small Government” because we believe that the market mechanism is the most effective way to raise economic efficiency. However, the Government will intervene when the market is not functioning properly. Our investment in education, infrastructure and social welfare aims to enhance overall competitiveness and to upgrade the capabilities of our citizens so they can rise to social and economic changes, which will in turn enhance social mobility.

168. Our long-term strategy for poverty alleviation is to develop the economy and invest in education. Between 2004 and 2008, when our economy was on an upturn, the number of low-income earners decreased. Income levels generally improved. Unemployment and underemployment rates fell. These show that the grassroots can also benefit from an economic boom. However, we also notice that in times of economic downturn, they bear the brunt of income reduction. Therefore, since 2008 we have introduced various short-term relief measures to help them meet their pressing needs.

169. Expenditure on education now takes up the largest share of recurrent government expenditure. Expenditure in this area has increased substantially over the past decade. This is because we believe that education and training are fundamental to enhancing social mobility. Quality human capital is the key to building a knowledge-based economy. Education plays a crucial role in personal development. An educator once said: “Education then, beyond all other devices of human origin, is the greatest equaliser of the conditions of men — the balance-wheel of the social machinery.” Many success stories in Hong Kong have one common lesson — knowledge changes one’s fate. I believe that continuous investment in education will yield continuous and improving returns for the community at large.

170. The context in which our public policies are framed has become complicated in recent years. Our citizens, with very high expectations of the Government, hope we can solve all problems in the shortest possible time. But some are concerned about over-expansion of the Government. I believe that the most important element in the relationship between the Government and the market, and between the economy and the community is to ensure an efficient government. An efficient government spends public money cost-effectively, uses public resources to promote our economic development and restructuring, promotes social advancement and improves our citizens' quality of life. Apart from a "big market" and a "small government", we have a dynamic "big community". We should make good use of our abundant social capital, and join hands to tackle social problems and pursue social justice and values.

171. In my view, a government upholding market principles is by no means a ruthless government. We promote economic development to benefit the community at large and not just a handful of rich people. When confronted with the poverty problem, the whole community has the collective responsibility to tackle it. The Government provides a favourable and vibrant market environment and economic setting for the business sector to play to their strengths. When some people cannot benefit from this, we expect that the business sector will fulfil their social responsibility to build a caring society together.

172. We have been stressing the importance of economic development because we believe that a prosperous society is in the overall interests of Hong Kong. In promoting economic development, we are serving the interests of all sectors of the community and not individual classes. I believe that Hong Kong people love to live in a prosperous society, and in a prosperous and caring society even more.

173. I share people's deep anxiety about layoffs and pay cuts. Since reunification, the Asian financial crisis and the financial tsunami have brought hardship to our people. We have in response introduced a number of measures to improve the employment situation, thereby improving people's livelihood. In addition, we also introduced relief measures to alleviate their burden, even though this might cause a deficit for the time being. In the long run, we must maintain fiscal discipline to ensure that our children will not be burdened by our spending today. I believe this is what a responsible government should do.

174. The contributing factors in Hong Kong's poverty problem are many. They include the outward mobility of Hong Kong people, the socio-economic conditions of the migrant population, and structural changes of the local economy. There has been considerable discussion in the community on ways to alleviate poverty. Much remains to be done. Legislating for a statutory minimum wage, promoting employment and implementing relief measures are our priority tasks. When the community has reached a consensus on the relevant policies, we will provide the necessary financial resources.

175. We have been taking a pragmatic approach to economic development. Economic pragmatism has tided us over many difficult times in the past. In promoting economic growth, we will take into account changes in the external environment as well as the situation of Hong Kong. We will have regard to the prevailing circumstances, without rigidly adhering to any single ideology or dogma. These are basic ingredients of Hong Kong's sustainable development. As such, while we are the freest economy in the world, we are also reputed to be the biggest public housing provider. I am always prepared to introduce initiatives that are pragmatic, proactive and conducive to the overall development of our city.

176. Recent events in Hong Kong have shown that some citizens attach importance to the values underlying social development. I appreciate that different people hold different values and that this is perfectly normal in an open and diversified society. In implementing public policies, the Government listens to the views of people with different values, and takes into account the actual needs of the community. For example, while showing respect for conservation and local values, we should carefully consider the role that development plays in promoting economic growth and increasing job opportunities. In balancing different values and handling conflicts in the community, we should tread lightly on the differences by giving due consideration to all views.

177. Mr President, Hong Kong has been through many changes in the past century. Politically, Hong Kong, formerly a British colony, was reunited with China as a Special Administrative Region with a high degree of autonomy. Economically, Hong Kong has been transformed from a local city engaged in manufacturing industries into a world city orientated to financial and service industries. It has also changed from an immigrant city to a civil society. We all love living here and have a strong sense of identity as Hong Kong people. It is a delight to see that citizens are attaching great value to their identity. I believe that as long as we maintain close communication with various sectors of the community and our policies can serve the interests of our people, Hong Kong will be able to sustain its economic and social development.

178. Hong Kong people have gone through many tough times before. In confronting crises and difficulties, we have displayed unity and solidarity. So long as we strive to enhance social cohesion and keep up the Hong Kong spirit, I have full confidence in the future of Hong Kong.

THE 2010-11 BUDGET

Speech by the Financial Secretary, the Hon John C Tsang
moving the Second Reading of the Appropriation Bill 2010

Supplement and Appendices

Wednesday, 24 February 2010

SUPPLEMENT

Please visit our web-site at www.budget.gov.hk/2010/eng/speech.html for all documents, appendices and statistics relating to the 2010–11 Budget. The Chinese version can be found at www.budget.gov.hk/2010/chi/speech.html.

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Tax reduction enjoyed by taxpayers by income group after implementation of the proposed one-off reduction of salaries tax and personal assessment tax

Income in 2009–10	No. of taxpayers	Average amount of tax reduction (\$)	Average percentage of tax reduction
\$108,001 to \$200,000	441 000	740	75%
\$200,001 to \$300,000	362 000	3,000	62%
\$300,001 to \$400,000	223 000	4,320	35%
\$400,001 to \$600,000	204 000	5,470	19%
\$600,001 to \$900,000	86 000	6,000	9%
\$900,001 and above	84 000	6,000	2%
Total	1 400 000	—	—

STAMP DUTY ON PROPERTY TRANSACTIONS

Comparison of present and proposed rates of stamp duty

Property Consideration	Present Rate	Proposed Rate
Up to \$2,000,000	\$100	No change
\$2,000,001 to \$3,000,000	1.50%	No change
\$3,000,001 to \$4,000,000	2.25%	No change
\$4,000,001 to \$6,000,000	3.00%	No change
\$6,000,001 to \$20,000,000	3.75%	No change
\$20,000,001 and above	3.75%	4.25%

EFFECT OF THE GENERAL REVALUATION OF RATES ON MAIN PROPERTY CLASSES

<i>Property Type</i>	<i>2010-11</i>		
	<i>Average Increase/Decrease in Rateable Value⁽⁶⁾</i>	<i>New Average Rates Payable⁽⁷⁾</i>	<i>Increase/Decrease⁽⁸⁾</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises ⁽¹⁾ (Private)	+6	277	+15
Medium Domestic Premises ⁽¹⁾ (Private)	+2	678	+15
Large Domestic Premises ⁽¹⁾ (Private)	-3	1,744	-53
Public Domestic Premises ⁽²⁾	+5	151	+7
All Domestic Premises⁽³⁾	+3	298	+9
Shops and Commercial Premises	+3	2,011	+53
Offices	-2	2,297	-56
Industrial Premises ⁽⁴⁾	+2	768	+15
All Non-domestic Premises⁽⁵⁾	-1	1,978	-17
All Properties	+1	521	+5

(1) Domestic units are classified by relation to saleable areas, as follows –

Small domestic	up to 69.9m ²	(up to 752 sq. ft.)
Medium domestic	70m ² to 99.9m ²	(753 sq. ft. - 1 075 sq. ft.)
Large domestic	100m ² and over	(1 076 sq. ft. and above)

(2) Including Housing Authority and Housing Society rental units.

(3) Including car parking spaces.

(4) Including factories and storage premises.

(5) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools and car parking spaces.

(6) The rateable values for 2010-11 reflect the changes in open market rental values between 1 October 2008 and 1 October 2009.

(7) The effects of possible rates concession in 2010-11 have not been taken into account.

(8) The effects of rates concession in 2009-10 have not been taken into account.

EFFECT OF THE GENERAL REVALUATION OF GOVERNMENT RENT ON MAIN PROPERTY CLASSES

<i>Property Type</i>	<i>2010-11</i>		
	<i>Average Increase / Decrease in Rateable Value⁽⁶⁾</i>	<i>New Average Rent Payable</i>	<i>Increase/ Decrease</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises ⁽¹⁾ (Private)	+6	156	+9
Medium Domestic Premises ⁽¹⁾ (Private)	+3	380	+12
Large Domestic Premises ⁽¹⁾ (Private)	-2	842	-19
Public Domestic Premises ⁽²⁾	+5	91	+4
All Domestic Premises⁽³⁾	+4	160	+6
Shops and Commercial Premises	+3	1,113	+33
Offices	-6	2,529	-150
Industrial Premises ⁽⁴⁾	+2	461	+9
All Non-domestic Premises⁽⁵⁾	-1	1,035	-7
All Properties	+2	257	+5

(1) Domestic units are classified by relation to saleable areas, as follows –

Small domestic	up to 69.9m ²	(up to 752 sq. ft.)
Medium domestic	70m ² to 99.9m ²	(753 sq. ft. - 1 075 sq. ft.)
Large domestic	100m ² and over	(1 076 sq. ft. and above)

(2) Including Housing Authority and Housing Society rental units.

(3) Including car parking spaces.

(4) Including factories and storage premises.

(5) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools and car parking spaces.

(6) The rateable values for 2010-11 reflect the changes in open market rental values between 1 October 2008 and 1 October 2009.

ECONOMIC PERFORMANCE IN 2009

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2009:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	-0.3
Government consumption expenditure	2.0
Gross domestic fixed capital formation	-2.2
<i>of which:</i>	
Building and construction	0.0
Machinery, equipment and computer software	-3.6
Total exports of goods	-12.6
Imports of goods	-9.7
Exports of services	-0.7
Imports of services	-4.0
Gross Domestic Product (GDP)	-2.7
<i>Per capita GDP, in real terms</i>	-3.0
<i>Per capita GDP at current market prices</i>	HK\$233,200 (US\$30,100)
(b) Rates of change in:	
Composite Consumer Price Index	0.5
GDP Deflator	0.2
Government Consumption Expenditure Deflator	0.1
(c) Growth rate of nominal GDP	-2.5

2. Annual growth rates in real terms of re-exports and domestic exports based on external trade quantum index numbers:

	<i>Re-exports</i> (%)	<i>Domestic exports</i> (%)
2007	10	-20
2008	4	-22
2009	-11	-35
<i>Share in the value of total exports of goods in 2009</i>	98	2

3. Annual growth rates in real terms of retained imports by type:

	<i>Retained imports</i>					
	<i>Total</i> (%)	<i>Consumer goods</i> (%)	<i>Foodstuffs</i> (%)	<i>Capital goods</i> (%)	<i>Raw materials and semi-manufactures</i> (%)	<i>Fuels</i> (%)
2007	12	6	7	11	18	9
2008	-1	12	13	7	-30	-4
2009	-4	-9	7	-4	-10	23

4. Annual growth rates in real terms of retained imports of capital goods by type:

	<i>Retained imports of capital goods</i>				
	<i>Total</i> (%)	<i>Office equipment</i> (%)	<i>Industrial machinery</i> (%)	<i>Construction machinery</i> (%)	<i>Telecommunications equipment</i> (%)
2007	11	-5	-5	6	26
2008	7	0	6	57	14
2009	-4	-9	-31	63	5

5. Annual growth rates in real terms of exports of services by type:

Exports of services

	<i>Total</i>	<i>Trade-related</i>	<i>Transportation</i>	<i>Travel</i>	<i>Finance, insurance, business and other services</i>
	(%)	(%)	(%)	(%)	(%)
2007	14	9	13	14	24
2008	5	4	3	6	7
2009	-1	-7	-2	8	3

6. Hong Kong's visible and invisible trade balance in 2009 reckoned on GDP basis ^(Note 1):

	(HK\$ billion)
Total exports of goods	2,494.7
Imports of goods	2,703.0
<i>Visible trade balance</i>	-208.2
Exports of services	670.0
Imports of services	344.1
<i>Invisible trade balance</i>	325.9
<i>Combined visible and invisible trade balance</i>	117.7

Note 1 Preliminary figures.

7. Annual averages of the unemployment and underemployment rates and growth in labour force and total employment:

	<i>Unemployment rate (%)</i>	<i>Underemployment rate (%)</i>	<i>Growth in labour force (%)</i>	<i>Growth in total employment (%)</i>
2007	4.0	2.2	1.6	2.4
2008	3.6	1.9	0.5	1.0
2009	5.2	2.3	1.3	-0.5

8. Annual rates of change in the Consumer Price Indices:

	<i>Composite CPI (%)</i>	<i>CPI(A) (%)</i>	<i>CPI(B) (%)</i>	<i>CPI(C) (%)</i>
2007	2.0	1.3	2.2	2.7
2008	4.3	3.6	4.6	4.7
2009	0.5	0.4	0.5	0.6

ECONOMIC PROSPECTS FOR 2010

Forecast rates of change in the Gross Domestic Product and prices in 2010:

	(%)
Gross Domestic Product (GDP)	
<i>Real GDP</i>	4 to 5
<i>Nominal GDP</i>	4 to 5
<i>Per capita GDP, in real terms</i>	3.1 to 4.1
<i>Per capita GDP at current market prices</i>	HK\$240,500-242,800 (US\$30,800-31,100)
 Composite Consumer Price Index	
<i>Headline Composite Consumer Price Index</i>	2.3
<i>Underlying Composite Consumer Price Index</i>	1.5
 GDP Deflator	 0

APPENDICES

APPENDICES

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Note: Expenditure figures for 2009-10 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2010-11 estimate.

APPENDIX A

MEDIUM RANGE FORECAST

2009–10 TO 2014–15

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SECTION I – FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

1 A wide range of assumptions on the factors affecting Government's revenue and expenditure are used to derive the Medium Range Forecast (MRF). Some assumptions are economic in nature (the general economic assumptions) while others deal with specific areas of Government's activities (the detailed assumptions).

General Economic Assumptions

Real Gross Domestic Product (real GDP)

2 GDP is forecast to increase by between 4% to 5% in real terms in 2010. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2011 to 2014, the trend growth rate of the economy in real terms is assumed to be 4% per annum.

Price change

3 The GDP deflator, measuring overall price change in the economy, is forecast to be zero in 2010. For the four-year period 2011 to 2014, the GDP deflator is assumed to increase at a trend rate of 2% per annum.

4 The Composite Consumer Price Index (CCPI), measuring inflation in the consumer domain, is forecast to increase by 2.3% in 2010. Eliminating the effects of various relief and stimulus measures introduced since the 2008-09 Budget, the underlying CCPI is forecast to increase by 1.5% in 2010. For the ensuing period 2011 to 2014, the trend rate of increase for the underlying CCPI is assumed to be 3% per annum.

Nominal Gross Domestic Product (nominal GDP)

5 Given the assumptions on the rates of change in the real GDP and the GDP deflator, the GDP in nominal terms is forecast to increase by between 4% to 5% in 2010, and the trend growth rate in nominal terms for the period 2011 to 2014 is assumed to be 6% per annum.

Detailed Assumptions

6 The MRF incorporates a wide range of detailed assumptions on expenditure and revenue patterns over the forecast period, taking the following, amongst other factors, into account –

- estimated cash flow of capital projects,
- forecast completion dates of these capital projects and their related recurrent consequences in terms of staffing and running costs,
- estimated cash flow arising from new commitments and policy initiatives,
- the expected pattern of demand for individual services,
- the trend in yield from individual revenue sources, and
- new initiatives in the 2010-11 Budget.

Budgetary Criteria

7 There are a number of criteria against which the results of forecasts are tested for overall acceptability in terms of budgetary policy.

8 The following covers the more important budgetary criteria –

Budget surplus/deficit

The Government aims to achieve balance in the consolidated and operating accounts. The Government needs, over time, to achieve an operating surplus to partially finance capital expenditure.

Expenditure policy

The general principle is that, over time, expenditure growth should not exceed the growth of the economy. The Government aims to keep public expenditure at or below 20% of GDP. Capital expenditure, by its nature, will fluctuate from year to year.

Revenue policy

Account is taken of the need to maintain, over time, the real yield from revenue.

Fiscal reserves

The Government aims to maintain adequate reserves in the long run.

SECTION II – THE MRF FOR 2009–10 TO 2014–15

9 The current MRF (*Note a*) is summarised in the following table which indicates the forecast financial position of the Government –

Table 1

(\$ million)	2009–10 Revised Estimate	2010–11 Estimate	2011–12 Forecast	2012–13 Forecast	2013–14 Forecast	2014–15 Forecast
Operating Account						
Operating revenue (<i>Note b</i>)	255,043	247,611	284,418	300,116	313,568	331,140
Less: Operating expenditure (<i>Note c</i>)	236,027	251,400	261,500	272,000	282,900	294,200
Operating surplus/(deficit)	19,016	(3,789)	22,918	28,116	30,668	36,940
Capital Account						
Capital revenue (<i>Note d</i>)	53,473	44,421	44,185	45,465	47,656	50,022
Less: Capital expenditure (<i>Note e</i>)	55,162	65,809	80,190	80,422	78,251	71,699
Capital deficit	(1,689)	(21,388)	(36,005)	(34,957)	(30,595)	(21,677)
Consolidated Account						
Government revenue	308,516	292,032	328,603	345,581	361,224	381,162
Less: Government expenditure	291,189	317,209	341,690	352,422	361,151	365,899
Consolidated surplus/(deficit) before repayment of bonds and notes	17,327	(25,177)	(13,087)	(6,841)	73	15,263
Less: Repayment of bonds and notes (<i>Note f</i>)	3,500	-	-	-	-	9,750
Consolidated surplus/(deficit) after repayment of bonds and notes	13,827	(25,177)	(13,087)	(6,841)	73	5,513
Fiscal reserves at 31 March						
As number of months of government expenditure	21	18	17	16	15	15
As a percentage of GDP	31.1%	28.3%	26.0%	24.1%	22.8%	21.7%

Notes –

(a) *Accounting policies*

- (i) The MRF is prepared on a cash basis and reflects forecast receipts and payments, whether or not they relate to operating or capital transactions.
- (ii) The MRF includes the General Revenue Account and eight Funds (Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund). It does not include the Bond Fund which is managed separately and the balance of which does not form part of the fiscal reserves.

(b) *Operating revenue*

- (i) The operating revenue has taken into account the revenue measures proposed in the 2010-11 Budget, and is made up of –

(\$ million)	2009–10 Revised Estimate	2010–11 Estimate	2011–12 Forecast	2012–13 Forecast	2013–14 Forecast	2014–15 Forecast
Operating revenue before investment income	225,951	220,969	259,418	273,037	290,893	313,908
Investment income	29,092	26,642	25,000	27,079	22,675	17,232
Total	255,043	247,611	284,418	300,116	313,568	331,140

- (ii) Investment income under the Operating Account includes investment income of the General Revenue Account which is credited to revenue head Properties and Investments, and investment income of the Land Fund. The rate of investment return for 2010 is 6.3% and for 2011 to 2014 is assumed to be in the range of 4% to 6.3% a year.

(c) *Operating expenditure*

This represents expenditure charged to the Operating Account of the General Revenue Account. The levels of operating expenditure in 2010-11 to 2014-15 represent the expenditure guideline for these years.

(d) *Capital revenue*

- (i) The breakdown of capital revenue is –

(\$ million)	2009–10 Revised Estimate	2010–11 Estimate	2011–12 Forecast	2012–13 Forecast	2013–14 Forecast	2014–15 Forecast
General Revenue Account	7,070	1,886	963	676	639	624
Capital Investment Fund	1,191	1,120	1,043	1,074	1,036	868
Capital Works Reserve Fund	37,355	34,233	35,707	37,860	40,339	43,166
Disaster Relief Fund	9	-	-	-	-	-
Innovation and Technology Fund	41	-	-	-	-	-
Loan Fund	2,145	2,151	2,175	2,218	2,333	2,424
Lotteries Fund	955	981	1,014	1,048	1,083	1,119
Capital revenue before asset sales and investment income	48,766	40,371	40,902	42,876	45,430	48,201
Asset sales	171	183	191	185	180	174
Investment income	4,536	3,867	3,092	2,404	2,046	1,647
Total	53,473	44,421	44,185	45,465	47,656	50,022

- (ii) For the purpose of the MRF, the annual land premium included under the Capital Works Reserve Fund is assumed at 2% of GDP throughout the MRF period.
- (iii) Investment income under the Capital Account includes investment income of the Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund.

(e) *Capital expenditure*

The breakdown of capital expenditure is –

(\$ million)	2009–10 Revised Estimate	2010–11 Estimate	2011–12 Forecast	2012–13 Forecast	2013–14 Forecast	2014–15 Forecast
General Revenue Account	2,912	4,152	3,970	3,970	3,970	3,970
Capital Investment Fund	341	1,823	689	1,030	250	250
Capital Works Reserve Fund	47,897	55,520	70,221	70,169	69,091	62,875
Disaster Relief Fund	106	-	-	-	-	-
Innovation and Technology Fund	771	970	1,061	1,067	1,117	1,045
Loan Fund	2,165	2,290	2,859	3,109	3,029	3,156
Lotteries Fund	970	1,054	1,390	1,077	794	403
Total	55,162	65,809	80,190	80,422	78,251	71,699

(f) *Repayment of bonds and notes*

Repayment of bonds and notes is only in respect of the global bond issue in 2004. Outstanding principal as at 31 March 2015 is estimated at \$1,500 million.

SECTION III – RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE/PUBLIC EXPENDITURE AND GDP IN THE MRF

10 For monitoring purposes, expenditure of the Trading Funds and the Housing Authority (collectively referred to as “other public bodies”) is added to government expenditure in order to compare public expenditure with GDP.

Government Expenditure and Public Expenditure in the Context of the Economy

Table 2

(\$ million)	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15
	Revised Estimate	Estimate	Forecast	Forecast	Forecast	Forecast
Operating expenditure	236,027	251,400	261,500	272,000	282,900	294,200
Capital expenditure	55,162	65,809	80,190	80,422	78,251	71,699
Government expenditure	291,189	317,209	341,690	352,422	361,151	365,899
Other public bodies expenditure	19,091	20,560	20,862	21,275	21,552	22,058
Public expenditure (Note a)	310,280	337,769	362,552	373,697	382,703	387,957
Gross Domestic Product (calendar year)	1,633,535	1,707,044	1,810,137	1,919,456	2,035,376	2,158,298
Nominal growth in GDP (Note b)	-2.5%	4.5%	6.0%	6.0%	6.0%	6.0%
Growth in government expenditure (Note c)	-6.8%	8.9%	7.7%	3.1%	2.5%	1.3%
Growth in public expenditure (Note c)	-6.3%	8.9%	7.3%	3.1%	2.4%	1.4%
Public expenditure as a percentage of GDP	19.0%	19.8%	20.0%	19.5%	18.8%	18.0%

Notes –

- (a) Public expenditure comprises government expenditure, expenditure by the Trading Funds and expenditure by the Housing Authority. It does not include expenditure by those organisations, including statutory organisations, in which the Government has only an equity position, such as the Airport Authority and the MTR Corporation Limited.
- (b) For 2010-11, the nominal GDP growth of 4.5% represents the mid-point of the range forecast of 4% to 5% for the calendar year 2010.
- (c) The growth rates refer to year-on-year change. For example, the rates for 2009–10 refer to the change between revised estimate for 2009–10 and actual expenditure in 2008–09. The rates for 2010–11 refer to the change between the 2010–11 estimate and the 2009–10 revised estimate, and so forth.

11 Table 3 shows the relationship amongst the sum to be appropriated in the 2010-11 Budget, government expenditure and public expenditure.

**Relationship between Government Expenditure
and Public Expenditure in 2010–11**

Table 3

(\$ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	229,645	229,645	-	229,645	229,645
Non-recurrent	21,755	21,755	-	21,755	21,755
Capital					
Plant, equipment and works	2,320	-	2,320	2,320	2,320
Subventions	1,832	-	1,832	1,832	1,832
	255,552	251,400	4,152	255,552	255,552
Transfer to Funds	30,047	-	-	-	-
Capital Investment Fund	-	-	1,823	1,823	1,823
Capital Works Reserve Fund	-	-	55,520	55,520	55,520
Innovation and Technology Fund	-	-	970	970	970
Loan Fund	-	-	2,290	2,290	2,290
Lotteries Fund	-	-	1,054	1,054	1,054
Trading Funds	-	-	-	-	3,828
Housing Authority	-	-	-	-	16,732
	285,599	251,400	65,809	317,209	337,769
Revenue					
General Revenue Account					
Taxation		194,666	70	194,736	
Other revenue		41,867	1,816	43,683	
		236,533	1,886	238,419	
Land Fund		11,078	-	11,078	
		247,611	1,886	249,497	
Capital Investment Fund		-	1,221	1,221	
Capital Works Reserve Fund		-	35,829	35,829	
Civil Service Pension Reserve Fund		-	1,363	1,363	
Disaster Relief Fund		-	2	2	
Innovation and Technology Fund		-	215	215	
Loan Fund		-	2,449	2,449	
Lotteries Fund		-	1,456	1,456	
		247,611	44,421	292,032	
Deficit		(3,789)	(21,388)	(25,177)	

SECTION IV – ESTIMATES OF CONTINGENT LIABILITIES

12 The Government's contingent liabilities as at 31 March 2009, and estimates of these should they remain unsettled as at 31 March 2010 or 31 March 2011, are provided below as supplementary information to the MRF –

(\$ million)	2009	At 31 March 2010	2011
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	17,120	21,545	23,835
Guarantees provided under loan guarantee schemes for small and medium enterprises	4,053	4,918	6,718
Guarantees provided under the Special Loan Guarantee Scheme	3,248	59,600	70,800
Possible capital subscriptions to the Asian Development Bank	2,070	2,070	2,070
Guarantees provided under a commercial loan of the Ocean Park Corporation	1,190	1,388	1,388
Litigation	23	22	23
Total	<u>27,704</u>	<u>89,543</u>	<u>104,834</u>

APPENDIX B

ANALYSIS OF PUBLIC/GOVERNMENT EXPENDITURE

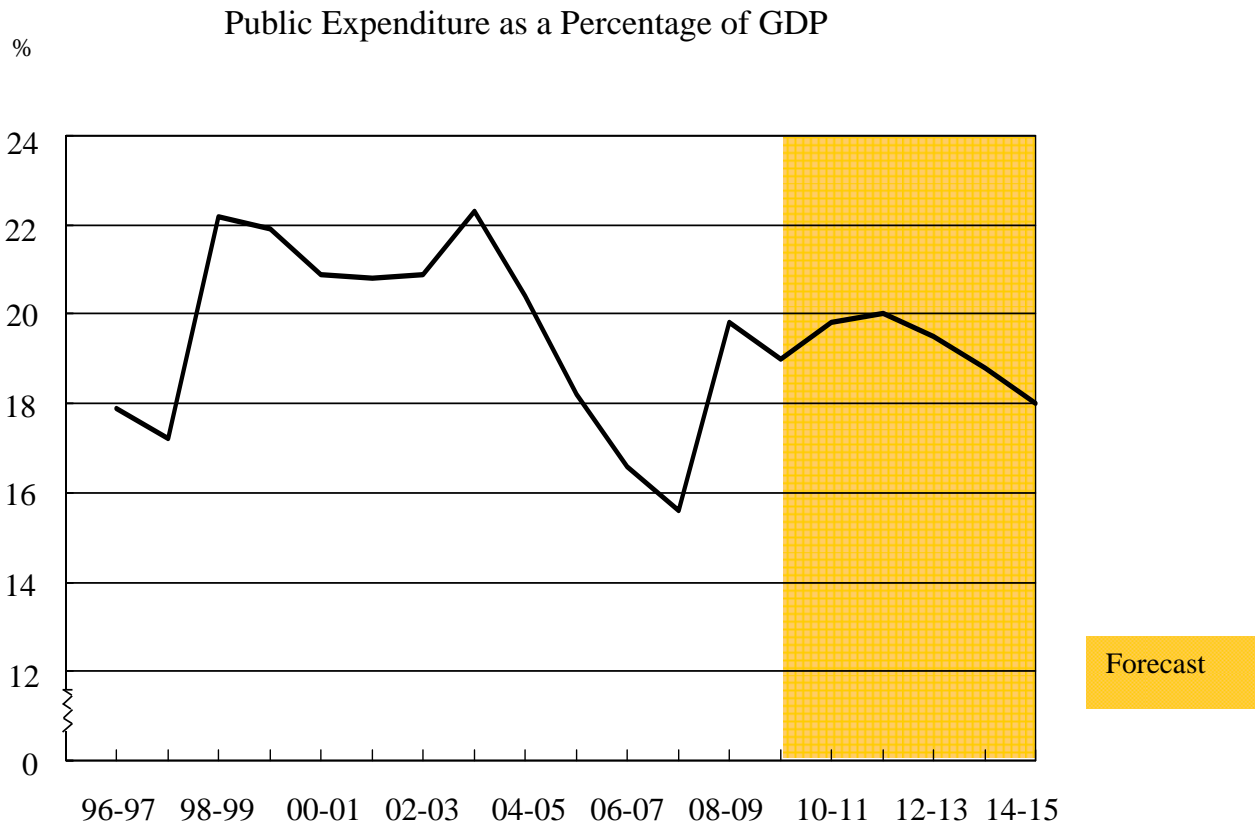
2005–06 TO 2010–11

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SECTION I – THE ESTIMATES IN THE CONTEXT OF THE ECONOMY

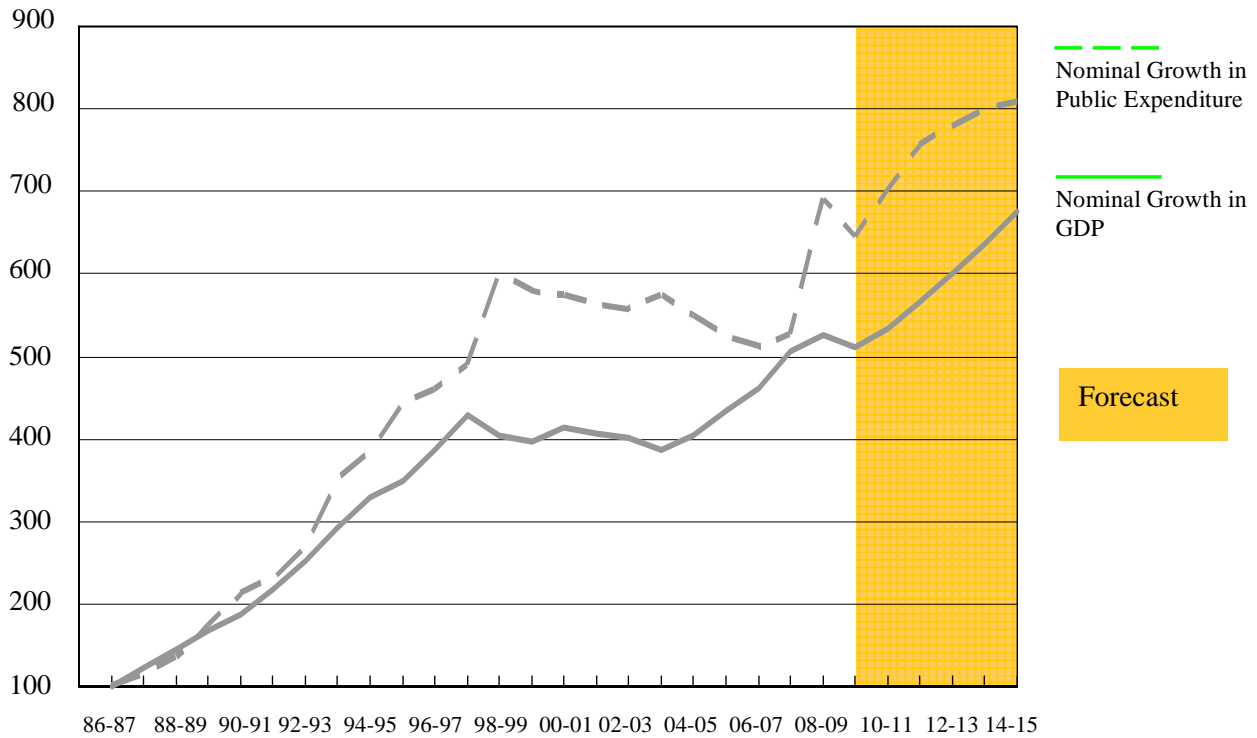
Relationship between Government Expenditure and Public Expenditure in 2010–11 and GDP

	2010–11 Estimate \$m
General Revenue Account	
Operating	251,400
Capital	4,152
	<hr/> 255,552
Capital Investment Fund	1,823
Capital Works Reserve Fund	55,520
Innovation and Technology Fund	970
Loan Fund	2,290
Lotteries Fund	1,054
	<hr/> 317,209
Government Expenditure	
Trading Funds	3,828
Housing Authority	16,732
	<hr/> 337,769
Public Expenditure	
	<hr/>
GDP	1,707,044
Public Expenditure as a % of GDP	19.8%



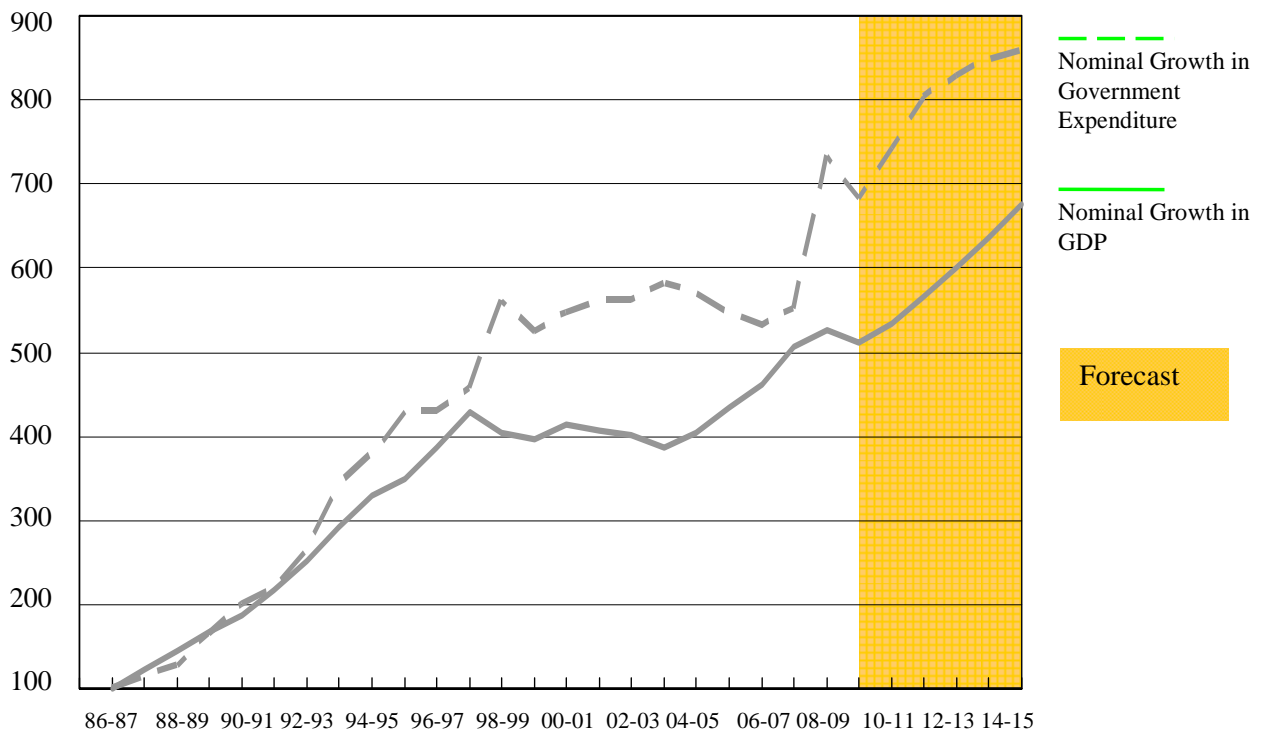
Comparison of Cumulative Growth in Public Expenditure with Cumulative Growth in GDP since the Introduction of Medium Range Forecast

Index (86-87 = 100)



Comparison of Cumulative Growth in Government Expenditure with Cumulative Growth in GDP since the Introduction of Medium Range Forecast

Index (86-87 = 100)



**SECTION II – ANALYSIS OF RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY
POLICY AREA GROUP**

Recurrent Public Expenditure : Year-on-Year Change

	2009–10 Original Estimate \$m	2009–10 Revised Estimate \$m	2010–11 Estimate \$m	Increase/Decrease over 2009–10 Revised Estimate in Nominal Terms %	in Real Terms %
Education	53,817	51,260	52,159	1.8	2.6
Social Welfare (Note)	39,259	39,688	39,687	0.0	0.2
Health	35,692	35,356	36,923	4.4	5.4
Security	26,847	26,856	27,968	4.1	5.1
Infrastructure	15,425	15,182	15,565	2.5	1.8
Economic	11,246	10,934	11,137	1.9	2.2
Housing	10,370	10,043	10,402	3.6	2.8
Environment and Food	10,345	9,820	10,274	4.6	5.2
Community and External Affairs	8,060	7,951	8,136	2.3	2.8
Support	30,377	28,591	31,210	9.2	9.1
	<u>241,438</u>	<u>235,681</u>	<u>243,461</u>	3.3	3.8

Note –

To give a better picture of the long term trend of recurrent expenditure on social welfare, one-off additional payments to recipients under Comprehensive Social Security Assistance and Social Security Allowance Schemes will be provided for under non-recurrent expenditure from 2010-11. If such payments were to be excluded also from the 2009-10 revised estimate to provide a like-to-like comparison, the 2010-11 estimate would be 4.6% and 4.8% higher in nominal and real terms respectively.

**SECTION II – ANALYSIS OF RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY
POLICY AREA GROUP**

Recurrent Government Expenditure : Year-on-Year Change

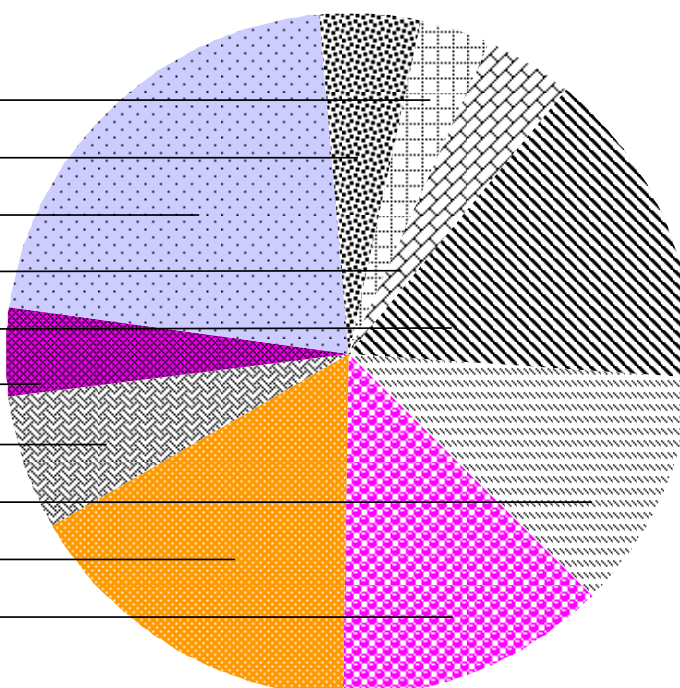
	2009–10 Original Estimate \$m	2009–10 Revised Estimate \$m	2010–11 Estimate \$m	Increase/Decrease over 2009–10 Revised Estimate	
				in Nominal Terms %	in Real Terms %
Education	53,817	51,260	52,159	1.8	2.6
Social Welfare <i>(Note)</i>	39,259	39,688	39,687	0.0	0.2
Health	35,692	35,356	36,923	4.4	5.4
Security	26,847	26,856	27,968	4.1	5.1
Infrastructure	15,211	14,985	15,377	2.6	1.9
Economic	7,797	7,589	7,716	1.7	2.4
Housing	198	193	195	0.9	2.1
Environment and Food	10,345	9,820	10,274	4.6	5.2
Community and External Affairs	8,060	7,951	8,136	2.3	2.8
Support	30,377	28,591	31,210	9.2	9.1
	<u>227,603</u>	<u>222,289</u>	<u>229,645</u>	3.3	3.8

Note –

To give a better picture of the long term trend of recurrent expenditure on social welfare, one-off additional payments to recipients under Comprehensive Social Security Assistance and Social Security Allowance Schemes will be provided for under non-recurrent expenditure from 2010-11. If such payments were to be excluded also from the 2009-10 revised estimate to provide a like-to-like comparison, the 2010-11 estimate would be 4.6% and 4.8% higher in nominal and real terms respectively.

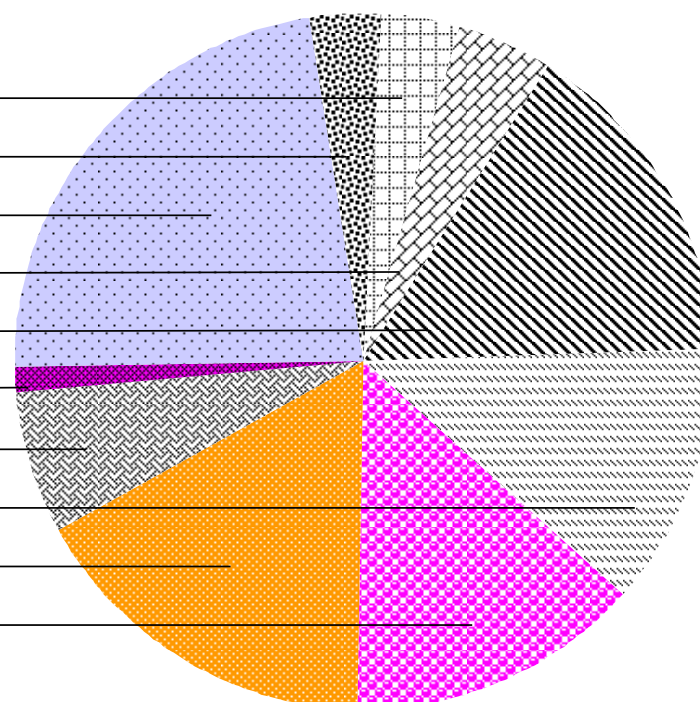
**Percentage Share of Expenditure by Policy Area Group
 Recurrent Public Expenditure : 2010-11 Estimate**

Community and External Affairs	3.3%
Economic	4.6%
Education	21.4%
Environment and Food	4.2%
Health	15.2%
Housing	4.3%
Infrastructure	6.4%
Security	11.5%
Social Welfare	16.3%
Support	12.8%
	100.0%



**Percentage Share of Expenditure by Policy Area Group
 Recurrent Government Expenditure : 2010-11 Estimate**

Community and External Affairs	3.5%
Economic	3.3%
Education	22.7%
Environment and Food	4.5%
Health	16.1%
Housing	0.1%
Infrastructure	6.7%
Security	12.2%
Social Welfare	17.3%
Support	13.6%
	100.0%



SECTION III – ANALYSIS OF TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Public Expenditure : Year-on-Year Change

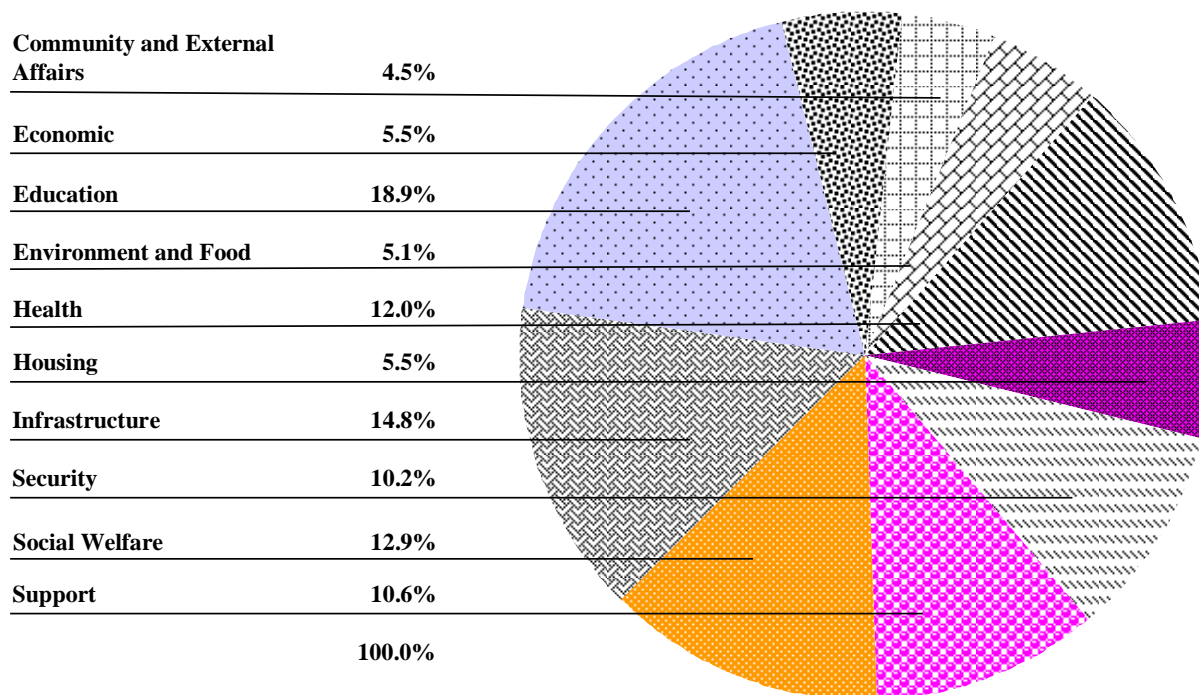
	2009–10 Original Estimate \$m	2009–10 Revised Estimate \$m	2010–11 Estimate \$m	Increase/Decrease over 2009–10 Revised Estimate	
				in Nominal Terms %	in Real Terms %
Education	61,665	58,766	63,701	8.4	8.9
Social Welfare	41,608	40,958	43,495	6.2	6.3
Health	38,420	38,655	40,501	4.8	5.5
Security	30,625	29,812	34,405	15.4	16.1
Infrastructure	44,390	47,409	49,986	5.4	3.3
Economic	20,680	18,828	18,434	-2.1	-2.1
Housing	18,004	17,322	18,768	8.3	6.8
Environment and Food	14,121	13,619	17,417	27.9	27.0
Community and External Affairs	14,248	14,144	15,118	6.9	6.5
Support	35,978	30,767	35,944	16.8	16.5
	<u>319,739</u>	<u>310,280</u>	<u>337,769</u>	8.9	8.6

**SECTION III – ANALYSIS OF TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY
AREA GROUP**

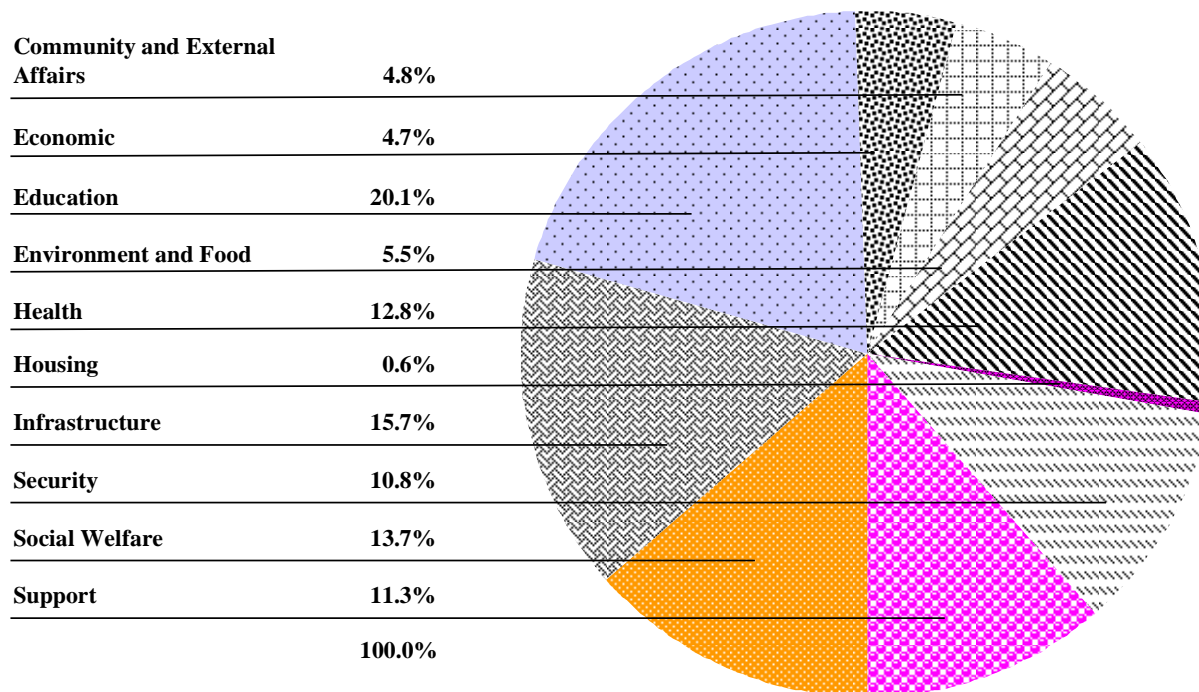
Total Government Expenditure : Year-on-Year Change

	2009–10 Original Estimate \$m	2009–10 Revised Estimate \$m	2010–11 Estimate \$m	Increase/Decrease over 2009–10 Revised Estimate in Nominal Terms %	in Real Terms %
Education	61,665	58,766	63,701	8.4	8.9
Social Welfare	41,608	40,958	43,495	6.2	6.3
Health	38,420	38,655	40,501	4.8	5.5
Security	30,625	29,812	34,405	15.4	16.1
Infrastructure	44,100	47,173	49,708	5.4	3.2
Economic	17,133	15,297	14,885	-2.7	-2.6
Housing	210	1,998	2,035	1.9	1.9
Environment and Food	14,121	13,619	17,417	27.9	27.0
Community and External Affairs	14,248	14,144	15,118	6.9	6.5
Support	35,978	30,767	35,944	16.8	16.5
	<u>298,108</u>	<u>291,189</u>	<u>317,209</u>	8.9	8.8

**Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure : 2010-11 Estimate**



**Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure : 2010-11 Estimate**



SECTION IV – MAJOR CAPITAL PROJECTS ESTIMATED TO BEGIN IN 2010–11

Major capital projects estimated to start in 2010–11 include –

	Project Estimates \$ million
Infrastructure	18,906
— Bus–bus interchanges on Tuen Mun Road	
— Hong Kong–Zhuhai–Macao Bridge Hong Kong boundary crossing facilities—reclamation and superstructures	
— Improvement works at Tai O, phase 1	
— Liantang/Heung Yuen Wai Boundary Control Point and associated works—village reprovisioning works	
— Public transport interchanges in Area 86, Tseung Kwan O	
— Reconstruction and rehabilitation of Kai Tak nullah from Po Kong Village Road to Tung Kwong Road—advance works	
— Revitalisation Scheme—Conversion of Lai Chi Kok Hospital into the Hong Kong Cultural Heritage	
— Revitalisation Scheme—Conversion of Lui Seng Chun into Hong Kong Baptist University Chinese Medicine and Healthcare Centre	
— Revitalisation Scheme—Conversion of Mei Ho House as City Hostel	
— Shatin to Central Link—construction of railway works—advance works	
— Tuen Mun–Chek Lap Kok Link and Tuen Mun Western Bypass—advance works	
Environment and Food	10,457
— District Cooling System at the Kai Tak development	
— Extension of Man Kam To food inspection facilities	
— Harbour Area Treatment Scheme, stage 2A—upgrading of Stonecutters Island sewage treatment works and preliminary treatment works	
— Reprovisioning of Cape Collinson Crematorium	
Economic	5,845
— Cruise terminal building and ancillary facilities for the Kai Tak cruise terminal development	
Community and External Affairs	2,146
— Construction of an annex building for Ko Shan Theatre	
— Cycle tracks connecting North West New Territories with North East New Territories—Sheung Shui to Ma On Shan section	
— Joint-user complex at Bailey Street, To Kwa Wan Reclamation	
— Public library and indoor recreation centre in Area 3, Yuen Long	
Security	326
— Additional courtrooms and associated facilities in the High Court Building	
— Construction of rank and file quarters for Immigration Department at Wo Yi Hop Road, Kwai Chung	
Education	260
— Special school in Area 16, Tuen Mun, for students with physical disability	

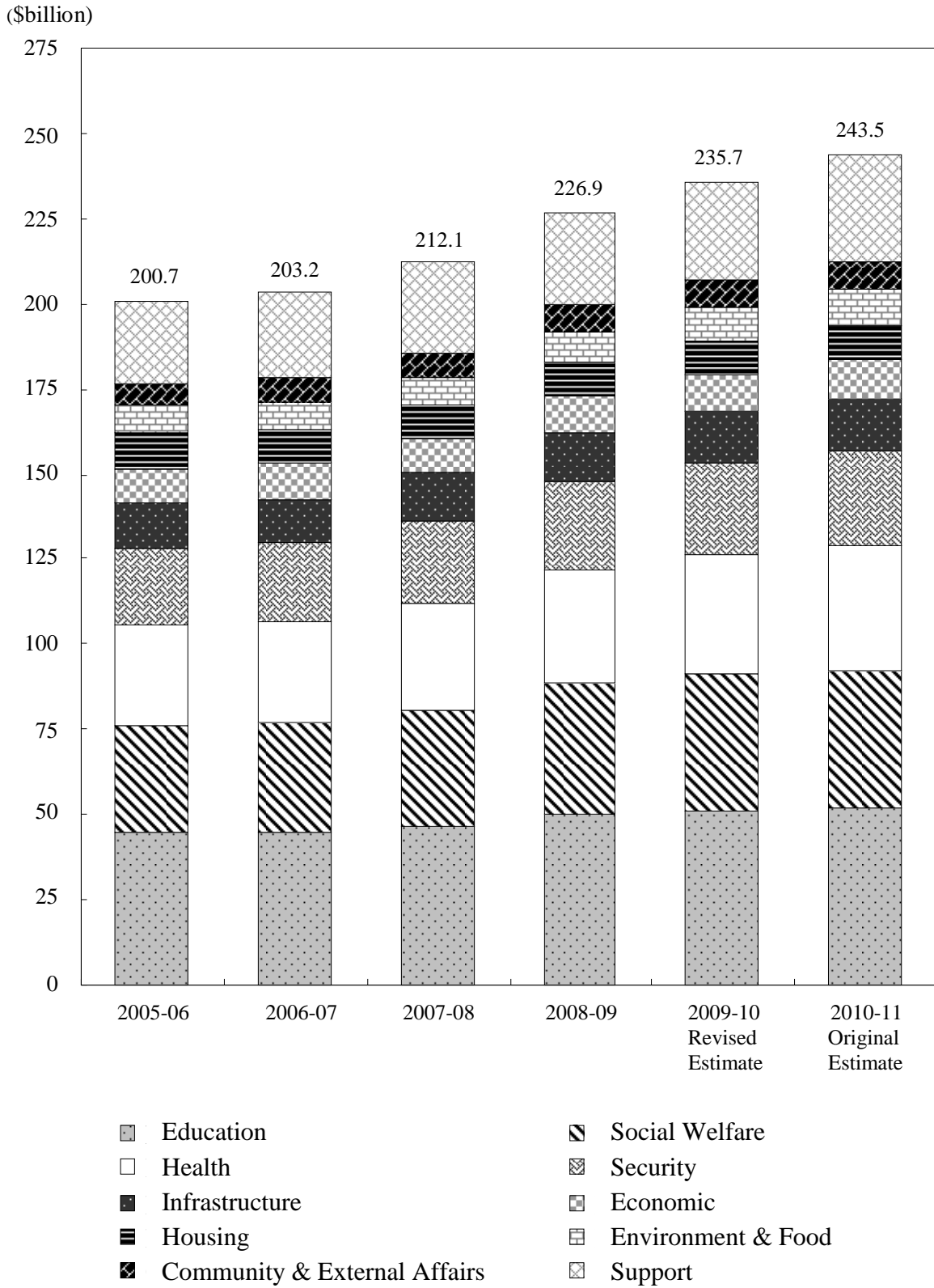
SECTION V – TRENDS IN PUBLIC EXPENDITURE : 2005–06 TO 2010–11

Introduction

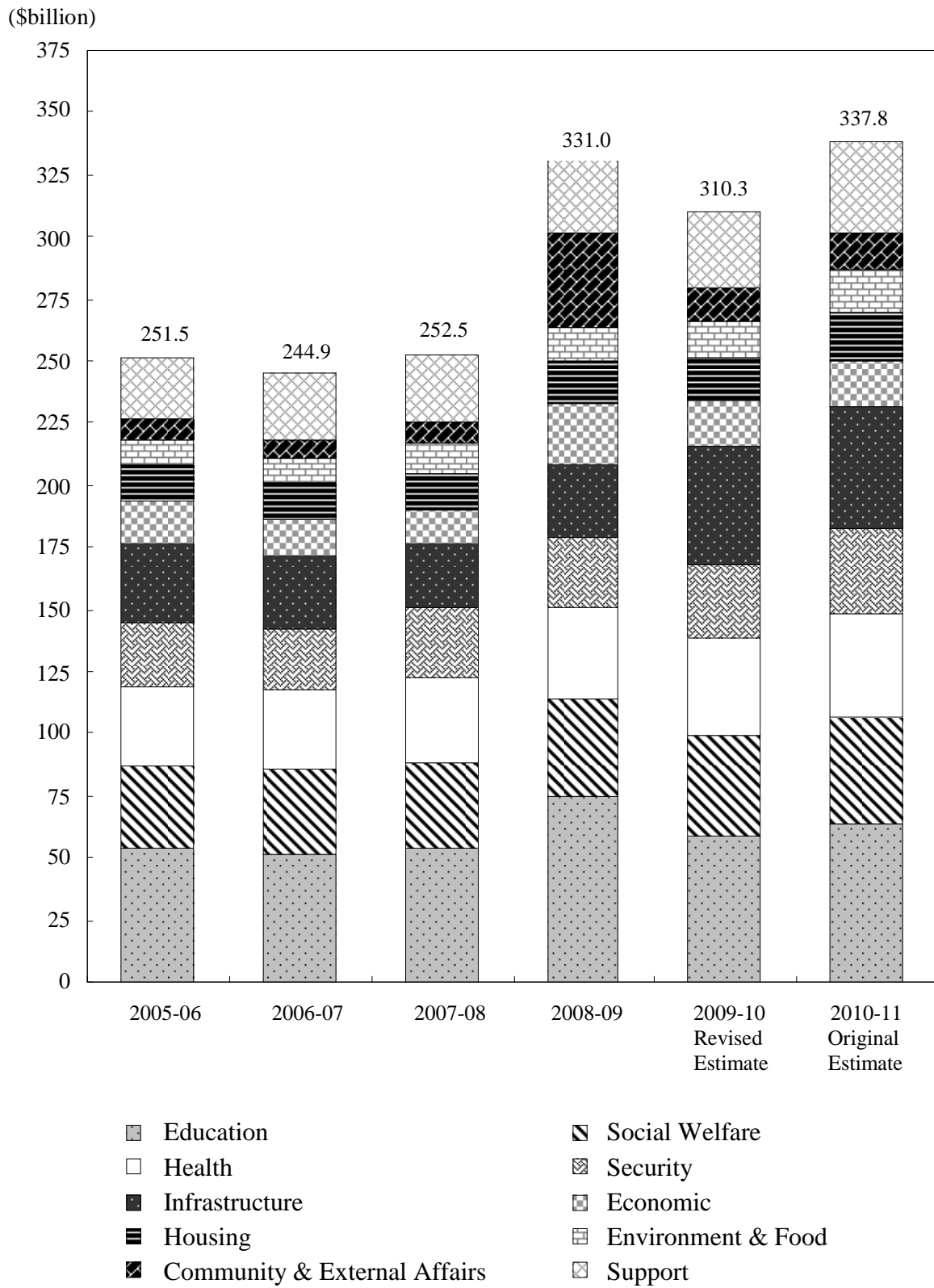
1 This section presents trends in public expenditure over the period 2005–06 to 2010–11. The analysis includes expenditure by the Government, the Trading Funds and the Housing Authority.

2 Details of individual heads of expenditure contributing to a particular policy area are provided in an index in Volume I of the 2010–11 Estimates. This index further provides details by head of expenditure of individual programmes which contribute to a policy area.

Recurrent Public Expenditure by Policy Area Group 2005-06 to 2010-11



Total Public Expenditure by Policy Area Group 2005-06 to 2010-11



SECTION VI – KEY TO CLASSIFICATION OF EXPENDITURE

Index of Policy Area Groups

Policy Area Group	Description by Policy Area	Reference (Note)
Community and External Affairs	District and Community Relations	19
	Recreation, Culture, Amenities and Entertainment Licensing	18
Economic	Air and Sea Communications and Logistics Development	3
	Commerce and Industry	6
	Employment and Labour	8
	Financial Services	1
	Information Technology and Broadcasting	17
	Manpower Development	34
	Posts, Competition Policy and Consumer Protection	4
	Public Safety	7
	Travel and Tourism	5
Education	Education	16
Environment and Food	Agriculture, Fisheries and Food Safety	2
	Environmental Hygiene	32
	Environmental Protection, Conservation, Power and Sustainable Development	23
Health	Health	15
Housing	Housing	31
Infrastructure	Buildings, Lands, Planning, Heritage Conservation, Greening and Landscape	22
	Land and Waterborne Transport	21
	Water Supply, Drainage and Slope Safety	24
Security	Administration of Justice	12
	Anti-corruption	13
	Immigration Control	10
	Internal Security	9
	Legal Administration	11
	Legal Aid	20
Social Welfare	Social Welfare	14
	Women's Interests	33
Support	Central Management of the Civil Service	26
	Complaints Against Maladministration	30
	Constitutional and Mainland Affairs	28
	Intra-Governmental Services	27
	Revenue Collection and Financial Control	25
	Support for Members of the Legislative Council	29

Note: The Policy Area Reference corresponds with that used in the Index of Policy Areas in the Estimates of Expenditure.

APPENDIX C

GLOSSARY OF TERMS

GLOSSARY OF TERMS

Note: Terms shown in *bold italic* are defined elsewhere in the glossary.

Capital expenditure. This comprises all expenditure charged to the Capital Account of the General Revenue Account, Capital Investment Fund, Capital Works Reserve Fund (including interest on government bonds and notes but excluding repayment of the bonds and notes), Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund. Major items are highlighted below –

General Revenue Account

equipment, works and capital subventions of a minor nature

Capital Investment Fund

advances and equity investments

Capital Works Reserve Fund

acquisition of land
 capital subventions
 computerisation
 interest and other expenses on government bonds and notes issued in 2004
 major systems and equipment
 Public Works Programme expenditure

Disaster Relief Fund

relief to disasters that occur outside Hong Kong

Innovation and Technology Fund

projects promoting innovation and technology upgrading in manufacturing and service industries

Loan Fund

loans made under various development schemes supported by the Government
 loans to schools, teachers, students, and housing loans to civil servants, etc.

Lotteries Fund

grants, loans and advances for social welfare services

Capital deficit. The difference between *capital revenue* and *capital expenditure*.

Capital revenue. This comprises certain revenue items in the General Revenue Account and all receipts credited to seven Funds, as highlighted below –

General Revenue Account

disposal proceeds of government quarters and other assets
 estate duty
 loan repayments received
 recovery from Housing Authority

Capital Investment Fund

dividends from investments
 interest on loans
 investment income
 loan repayments received
 proceeds from sale of investments

Capital Works Reserve Fund

investment income
land premium
recovery from MTR Corporation Limited

Civil Service Pension Reserve Fund

investment income

Disaster Relief Fund

investment income

Innovation and Technology Fund

investment income
loan repayments received
proceeds from sale of investments

Loan Fund

interest on loans
investment income
loan repayments received
proceeds from sale of loans

Lotteries Fund

auctions of vehicle registration numbers
investment income
loan repayments received
share of proceeds from the Mark Six Lottery

Consolidated surplus/deficit before repayment of bonds and notes. The difference between *government revenue* and *government expenditure*.

Fiscal reserves. The accumulated balances of the General Revenue Account, Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund.

Government expenditure. The aggregate of *operating expenditure* and *capital expenditure*. Unlike *public expenditure*, it excludes expenditure by the Trading Funds and the Housing Authority.

Government revenue. The aggregate of *operating revenue* and *capital revenue*.

Operating expenditure. All expenditure charged to the Operating Account of the General Revenue Account.

Operating revenue. This comprises all revenue credited to the General Revenue Account (except those items which are treated as *capital revenue*) and the Land Fund, as highlighted below –

General Revenue Account

duties
fines, forfeitures and penalties
investment income
rents and rates
royalties and concessions
taxes
utilities, fees and charges

Land Fund

investment income

Operating surplus/deficit. The difference between *operating revenue* and *operating expenditure*.

Public expenditure. *Government expenditure* plus expenditure (operating and capital) by the Trading Funds and the Housing Authority.

Transfer to Funds. Transfers between the General Revenue Account and the eight Funds (Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund) are not counted as government revenue and expenditure as these are merely internal transfers within Government's accounts.