

APPENDICES

	Page
A. MEDIUM RANGE FORECAST 2009–10 TO 2014–15	5
Forecast of Government's expenditure and revenue for the period up to 2014–15	
B. ANALYSIS OF PUBLIC/GOVERNMENT EXPENDITURE 2005–06 TO 2010–11	15
Allocation of resources among policy area groups	
C. GLOSSARY OF TERMS	33

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

CONTENTS	Page
SECTION I – FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA	6
SECTION II – THE MRF FOR 2009-10 TO 2014-15	7
SECTION III – RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE/ PUBLIC EXPENDITURE AND GDP IN THE MRF	10
SECTION IV – ESTIMATES OF CONTINGENT LIABILITIES	12

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					
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>