

# APPENDICES

	<b>Page</b>
<b>A. MEDIUM RANGE FORECAST</b>	5
Forecast of Government expenditure and revenue for the period up to 2016–17	
<b>B. ANALYSIS OF EXPENDITURE AND REVENUE</b>	15
Allocation of resources among policy area groups and analysis of revenue	
<b>C. GLOSSARY OF TERMS</b>	33

*Note:* Expenditure figures for 2011–12 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2012–13 estimate.



# **APPENDIX A**

## **MEDIUM RANGE FORECAST**



<b>CONTENTS</b>		<b>Page</b>
<b>SECTION I</b>	<b>FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA</b>	6
<b>SECTION II</b>	<b>MEDIUM RANGE FORECAST</b>	7
<b>SECTION III</b>	<b>RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE/ PUBLIC EXPENDITURE AND GDP IN THE MEDIUM RANGE FORECAST</b>	10
<b>SECTION IV</b>	<b>CONTINGENT AND MAJOR UNFUNDED LIABILITIES</b>	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 1% to 3% in real terms in 2012. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2013 to 2016, 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 increase by 1.5% in 2012. For the four-year period 2013 to 2016, 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 3.5% in 2012. Eliminating the effects of various relief and stimulus measures introduced since the 2008-09 Budget, the underlying CCPI is forecast to increase by 4% in 2012. For the ensuing period 2013 to 2016, the trend rate of increase for the underlying CCPI is assumed to be 3.5% 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 2.5% to 4.5% in 2012, and the trend growth rate in nominal terms for the period 2013 to 2016 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 2012-13 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 MEDIUM RANGE FORECAST**

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

Table 1

(\$ million)	2011–12 Revised Estimate	2012–13 Estimate	2013–14 Forecast	2014–15 Forecast	2015–16 Forecast	2016–17 Forecast
<b>Operating Account</b>						
Operating revenue ( <i>Note (b)</i> )	336,046	312,539	346,934	373,027	403,165	418,991
Less: Operating expenditure ( <i>Note (c)</i> )	297,831	315,000	299,500	317,500	386,600	356,800
<b>Operating surplus/(deficit)</b>	<b>38,215</b>	<b>(2,461)</b>	<b>47,434</b>	<b>55,527</b>	<b>16,565</b>	<b>62,191</b>
<b>Capital Account</b>						
Capital revenue ( <i>Note (d)</i> )	97,083	77,771	51,545	51,747	55,162	58,180
Less: Capital expenditure ( <i>Note (e)</i> )	68,580	78,759	95,130	94,749	97,893	89,051
<b>Capital surplus/(deficit)</b>	<b>28,503</b>	<b>(988)</b>	<b>(43,585)</b>	<b>(43,002)</b>	<b>(42,731)</b>	<b>(30,871)</b>
<b>Consolidated Account</b>						
Government revenue	433,129	390,310	398,479	424,774	458,327	477,171
Less: Government expenditure	366,411	393,759	394,630	412,249	484,493	445,851
<b>Consolidated surplus/(deficit) before repayment of bonds and notes</b>	<b>66,718</b>	<b>(3,449)</b>	<b>3,849</b>	<b>12,525</b>	<b>(26,166)</b>	<b>31,320</b>
Less: Repayment of bonds and notes ( <i>Note (f)</i> )	-	-	-	9,750	-	-
<b>Consolidated surplus/(deficit) after repayment of bonds and notes</b>	<b>66,718</b>	<b>(3,449)</b>	<b>3,849</b>	<b>2,775</b>	<b>(26,166)</b>	<b>31,320</b>
<b>Fiscal reserves at 31 March</b>						
In terms of number of months of government expenditure	22	20	20	19	16	18
In terms of percentage of GDP	35.0%	33.7%	31.9%	30.3%	27.4%	27.1%

Notes –

## (a) Accounting policies

- (i) The MRF is prepared on a cash basis and reflects forecast receipts and payments, whether 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 takes into account the revenue measures proposed in the 2012-13 Budget, and is made up of –

(\$ million)	2011–12 Revised Estimate	2012–13 Estimate	2013–14 Forecast	2014–15 Forecast	2015–16 Forecast	2016–17 Forecast
Operating revenue before investment income	304,793	282,272	320,942	353,117	368,702	390,384
Investment income	31,253	30,267	25,992	19,910	34,463	28,607
Total	<u>336,046</u>	<u>312,539</u>	<u>346,934</u>	<u>373,027</u>	<u>403,165</u>	<u>418,991</u>

- (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 2012 is 5.6% and for 2013 to 2016 is assumed to be in the range of 3.3% to 5.8% a year.

## (c) Operating expenditure

This represents expenditure charged to the Operating Account of the General Revenue Account. The levels of operating expenditure in 2012-13 to 2016-17 represent the expenditure guideline for these years. The sum for 2015-16 has included \$50 billion for supporting healthcare reform.

## (d) Capital revenue

- (i) The breakdown of capital revenue is –

(\$ million)	2011–12 Revised Estimate	2012–13 Estimate	2013–14 Forecast	2014–15 Forecast	2015–16 Forecast	2016–17 Forecast
General Revenue Account	2,862	6,153	791	649	551	547
Capital Investment Fund	1,286	1,198	1,087	995	1,017	1,034
Capital Works Reserve Fund	83,227	60,165	41,434	43,933	46,581	49,390
Disaster Relief Fund	7	-	-	-	-	-
Innovation and Technology Fund	38	10	-	-	-	-
Loan Fund	2,231	2,355	2,450	2,631	2,723	3,070
Lotteries Fund	1,390	1,456	1,527	1,601	1,680	1,762
Capital revenue before asset sales and investment income	<u>91,041</u>	<u>71,337</u>	<u>47,289</u>	<u>49,809</u>	<u>52,552</u>	<u>55,803</u>
Asset sales	118	111	147	147	147	147
Investment income	5,924	6,323	4,109	1,791	2,463	2,230
Total	<u>97,083</u>	<u>77,771</u>	<u>51,545</u>	<u>51,747</u>	<u>55,162</u>	<u>58,180</u>

- (ii) Land premium included under the Capital Works Reserve Fund for 2012-13 is assumed to be \$60 billion. For 2013-14 onwards, it is assumed to be 2% of GDP.
- (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)	2011–12 Revised Estimate	2012–13 Estimate	2013–14 Forecast	2014–15 Forecast	2015–16 Forecast	2016–17 Forecast
General Revenue Account	3,267	3,635	3,970	3,970	3,970	3,970
Capital Investment Fund	12	779	1,116	628	268	268
Capital Works Reserve Fund	61,183	68,548	83,491	84,934	88,843	79,822
Disaster Relief Fund	38	-	-	-	-	-
Innovation and Technology Fund	743	783	836	887	922	965
Loan Fund	2,289	3,796	4,191	3,323	2,819	2,841
Lotteries Fund	1,048	1,218	1,526	1,007	1,071	1,185
Total	68,580	78,759	95,130	94,749	97,893	89,051

(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 2017 is estimated at \$1,500 million.

### SECTION III RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE/PUBLIC EXPENDITURE AND GDP IN THE MEDIUM RANGE FORECAST

10 For monitoring purposes, expenditure of the Trading Funds and the Housing Authority (collectively referred to as “other public bodies” in this Appendix) 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)	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
	Revised Estimate	Estimate	Forecast	Forecast	Forecast	Forecast
Operating expenditure	297,831	315,000	299,500	317,500	386,600	356,800
Capital expenditure	68,580	78,759	95,130	94,749	97,893	89,051
<b>Government expenditure</b>	<b>366,411</b>	<b>393,759</b>	<b>394,630</b>	<b>412,249</b>	<b>484,493</b>	<b>445,851</b>
Other public bodies expenditure	22,402	24,311	25,277	26,592	28,410	29,645
<b>Public expenditure (Note (a))</b>	<b>388,813</b>	<b>418,070</b>	<b>419,907</b>	<b>438,841</b>	<b>512,903</b>	<b>475,496</b>
<b>Gross Domestic Product (calendar year)</b>	<b>1,890,939</b>	<b>1,957,100</b>	<b>2,074,500</b>	<b>2,199,000</b>	<b>2,330,900</b>	<b>2,470,800</b>
Nominal growth in GDP (Note (b))	8.6%	3.5%	6.0%	6.0%	6.0%	6.0%
Growth in government expenditure (Note (c))	21.6%	7.5%	0.2%	4.5%	17.5%	-8.0%
Growth in public expenditure (Note (c))	21.3%	7.5%	0.4%	4.5%	16.9%	-7.3%
<b>Public expenditure in terms of percentage of GDP</b>	<b>20.6%</b>	<b>21.4%</b>	<b>20.2%</b>	<b>20.0%</b>	<b>22.0%</b>	<b>19.2%</b>

Notes –

- (a) Public expenditure comprises government expenditure and expenditure by other public bodies. 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 2012-13, the nominal GDP growth of 3.5% represents the mid-point of the range forecast of 2.5% to 4.5% for the calendar year 2012.
- (c) The growth rates refer to year-on-year change. For example, the rates for 2011-12 refer to the change between revised estimate for 2011-12 and actual expenditure in 2010-11. The rates for 2012-13 refer to the change between the 2012-13 estimate and the 2011-12 revised estimate, and so forth.

11 Table 3 shows the relationship amongst the sum to be appropriated in the 2012-13 Budget, government expenditure and public expenditure.

**Relationship between Government Expenditure  
and Public Expenditure in 2012–13**

Table 3

(\$ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
<b>Expenditure</b>					
General Revenue Account					
Operating					
Recurrent	264,349	264,349	-	264,349	264,349
Non-recurrent	50,651	50,651	-	50,651	50,651
Capital					
Plant, equipment and works	2,052	-	2,052	2,052	2,052
Subventions	1,583	-	1,583	1,583	1,583
	318,635	315,000	3,635	318,635	318,635
Transfer to Funds	1,042	-	-	-	-
Capital Investment Fund	-	-	779	779	779
Capital Works Reserve Fund	-	-	68,548	68,548	68,548
Innovation and Technology Fund	-	-	783	783	783
Loan Fund	-	-	3,796	3,796	3,796
Lotteries Fund	-	-	1,218	1,218	1,218
Trading Funds	-	-	-	-	4,785
Housing Authority	-	-	-	-	19,526
	319,677	315,000	78,759	393,759	418,070
<b>Revenue</b>					
General Revenue Account					
Taxation		250,544	70	250,614	
Other revenue		50,899	6,083	56,982	
		301,443	6,153	307,596	
Land Fund		11,096	-	11,096	
		312,539	6,153	318,692	
Capital Investment Fund		-	1,282	1,282	
Capital Works Reserve Fund		-	64,276	64,276	
Civil Service Pension Reserve Fund		-	1,365	1,365	
Disaster Relief Fund		-	2	2	
Innovation and Technology Fund		-	152	152	
Loan Fund		-	2,562	2,562	
Lotteries Fund		-	1,979	1,979	
		312,539	77,771	390,310	
<b>Deficit</b>		(2,461)	(988)	(3,449)	

**SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES**

**12** The Government's contingent liabilities as at 31 March 2011, and estimates of these should they remain unsettled as at 31 March 2012 or 31 March 2013, are provided below as supplementary information to the MRF –

(\$ million)	2011	At 31 March 2012	2013
Guarantees provided under the Special Loan Guarantee Scheme	68,563	66,008	53,630
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	22,693	23,624	25,319
Guarantees provided under loan guarantee schemes for small and medium enterprises	5,878	7,369	8,405
Possible capital subscriptions to the Asian Development Bank	6,753	6,554	6,554
Guarantees provided under a commercial loan of the Ocean Park Corporation	1,388	1,388	1,388
Litigation	4,232	20	20
Guarantees provided under the Film Guarantee Fund	-	-	3
<b>Total</b>	109,507	104,963	95,319

**13** In addition to the bonds and notes issued in 2004, the repayment of which has been included in the MRF, the Government's major unfunded liabilities as at 31 March 2011 were as follows –

(\$ million)	
Present value of public officers pension obligations	533,832
Untaken leave ( <i>Note</i> )	21,955

*Note* –

The estimate for 'untaken leave' gives an indication of the overall value of leave earned but not yet taken by serving public officers.