THE 2018-19 BUDGET

Speech by the Financial Secretary, the Hon Paul MP Chan moving the Second Reading of the Appropriation Bill 2018

Wednesday, 28 February 2018

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This speech, together with the supplement and appendices relating to the 2018-19 Budget, is available at www.budget.gov.hk.

Mr President, Honourable Members and fellow citizens,

I move that the Appropriation Bill 2018 be read a second time.

Introduction

2. At the start of the Chinese New Year, I deliver the first Budget of the current-term Government with a thankful heart.

3. Over the past few weeks, the public has engaged in extensive discussions and expressed diverse opinions on the Budget. I am indebted to you all, and appreciate fully that various sectors of the community have different needs and aspirations.

4. The preparation of this year's Budget has enlightened me in many ways. Budget consultation has revealed once again the wide-ranging, diverse and even conflicting demands within the community. At the same time, it has brought me closer to the public, enabling me to see things from the perspective of the people whom I serve, so that I could consider how best to use the resources pooled from them to meet their needs and those of Hong Kong. Therefore, in preparing the speech, I have placed much emphasis on explaining, in a more systematic way, the Government's priorities in using public resources, as well as our visions for the future, development direction and financial planning.

5. The initiatives put forward in this Budget are underpinned by three main objectives: (1) Diversified economy: we have to diversify our economy to create wealth for Hong Kong and provide wider and better development opportunities for our young people. (2) Investing for the future: the outbreak of winter influenza has reminded us once again of the pressing need to improve healthcare services; an ageing population poses challenges which need to be overcome by deploying resources and making early preparation; and we also need to improve our living environment to make Hong Kong an ideal smart city to work and live in. (3) Caring and sharing: children and young people should be given more care, protection and opportunities; middle-class families need relief from financial burdens, while the grassroots and underprivileged require more support. Besides, a fulfilling life calls for not only materialistic improvements, but also better quality of life and spiritual enrichment.

6. In reality, no abundance of resources would ever enable the Government to satisfy the needs of all. It is my responsibility to take care of various sectors of the community. While addressing the pressing needs, I must also be proactive, innovative and bold in investing for the future of Hong Kong. I will elaborate on this in the ensuing parts of my speech.

Economic Development

7. The Gross Domestic Product (GDP) per capita of Hong Kong amounts to US$46,000, and is among the highest in the world. However, our average annual economic growth rate over the past decade was merely 2.7 per cent, reflecting a slower growth momentum. We must leverage our strength and take a forward-looking approach in positioning our future development and seeking new impetus. This will enable our economy to grow in a diversified manner, provide our young people with more room for development and improve people's quality of life.

Global Trends

8. In view of the global economic landscape, we need to keep abreast of three major trends and ride on them.

9. First, the unstoppable wave of innovation and technology (I&T) has swept through the world, fundamentally changing the global economic structure and the way we live and consume. The application and omnipresence of communication technology, artificial intelligence and big data have not only spurred the birth of many new industries that operate across industries, sectors and geographical areas, as well as the emergence of the sharing economy, but also revolutionised the traditional and capital intensive business model based on tangible assets. They have generated keen competition along with opportunities for transformation. New technologies facilitate business start-up and foster new ideas, innovative products and services that generate economic benefits. This explains why major economies over the world all strive to develop I&T and regard it as the new driver of economic growth. To stay ahead of the game, we must enhance our I&T environment, attract companies from new economy sectors and research institutions to set up their presence in Hong Kong and nurture talent for a knowledge-based economy.

10. Second, the shift in global economic gravity from West to East is now established. Over the past five years, China has contributed over 30 per cent to the global economic growth and, together with other developing regions in Asia, has made up a share of almost 60 per cent. In the foreseeable future, the developing regions in Asia will continue to drive the global economy. Since the reform and opening up of our country four decades ago, China's economy grew by about 9.5 per cent per annum in real terms on average, and has risen to a US$12 trillion economy last year. Its per capita GDP also increased from just about US$200 in 1978 to over US$8,000 today. The future directions and strategies of our country's economic development have a major global bearing. They are also the linchpin of Hong Kong's sustained prosperity.

11. Third, since the outbreak of the global financial crisis in 2008, there have been incessant protests against free trade and calls for de-globalisation in some advanced economies. Protectionism is also on the rise. The multilateral trade system advocated by the World Trade Organization over the past few decades has encountered enormous challenges. More economies have turned to regional or bilateral trade negotiations for promoting and maintaining their trading activities. While safeguarding multilateral trade, Hong Kong must also strive to conclude more regional and bilateral trade agreements.

Seizing Opportunities

12. In response to the three major trends just mentioned, Hong Kong needs to consolidate and build on its existing strengths, rise with the tide and seize the opportunities before us.

13. In the Dedicated Chapter on Hong Kong and Macao in the 13th Five-Year Plan, our country indicates support for Hong Kong to leverage its unique advantages, reinforce and enhance its status as an international financial, transportation and trade centre, and strengthen Hong Kong's status as a global hub for off-shore Renminbi (RMB) business and our role as an international asset management centre, and move various services up the value chain. It also expresses support for Hong Kong in developing the I&T industry and establishing itself as a centre for international legal and dispute resolution services in the Asia-Pacific region.

14. As stated in the report to the 19th CPC National Congress, the national economy has been transforming from a phase of rapid growth to high-quality development, and China will continue to forge ahead with consumption upgrading and the supply-side structural reform. The report also proposed to pursue the Belt and Road Initiative as a priority and give equal emphasis to "bringing in" and "going global", with a view to boosting two-way investment and trade flows between China and other countries, thus making new ground for opening up on all fronts. Moreover, the report advocated the implementation of a co-ordinated regional development strategy, including the development of the Guangdong-Hong Kong-Macao Bay Area (Bay Area). On the other hand, the report pointed out the importance of forestalling and resolving major risks, especially the financial risks.

15. The direction and strategies of China's economic development have created enormous opportunities for Hong Kong. Take the financial services industry as an example. With the unique advantage of "one country, two systems", Hong Kong has become the premier listing and fund-raising platform for Mainland enterprises and the global centre for off-shore RMB business. We have been contributing to our country's financial reforms and RMB internationalisation in a risk controlled manner. We have also played an unparalleled role in connecting the Mainland and the international markets and investors, and achieved significant development in the process.

16. Looking ahead, our financial services industry will have ample room for more diversified development. We will map out a development blueprint for it.

17. Hong Kong's trade volume is four times its gross economic volume, and free trade is the cornerstone of our economy. We have all along been fostering economic development by expanding the boundaries and scale of our market. In the face of rising trade protectionism and anti-globalisation sentiments, the Belt and Road Initiative and the Bay Area development serve to enlarge the hinterland for business development of our enterprises and expand our market coverage.

Belt and Road Initiative

18. The Belt and Road Initiative spans from east to west, covering both land and sea routes. By effectively improving the flow of people, goods and capital through facilities connectivity and policy co-ordination, the initiative will generate great demand for infrastructure, capital, as well as professional, legal and other high-end services over which Hong Kong has advantages. Supporting the Belt and Road development and assisting Mainland enterprises in going global will open up new room for the development of our enterprises as well as financial and professional services.

Bay Area

19. The Bay Area development is of strategic significance to Hong Kong in three key aspects, namely, "two markets", "I&T industries" and "land resources".

20. With a population of 68 million and GDP amounting to US$1,400 billion, the Bay Area is an enormous market for our financial and high-end services industries. Furthermore, as Hong Kong is the most cosmopolitan city offering the best professional services in the region, our enterprises and those in the Mainland may join forces in tapping new markets.

21. The Bay Area covers not only Shenzhen which houses many leading I&T enterprises, but also a large number of cities transforming towards an advanced manufacturing economy. As such, the Bay Area and Hong Kong can complement each other in the field of I&T industries, thereby creating an international innovation and technology hub where talent, research and development (R&D) institutes and enterprises cluster.

22. The Bay Area has abundant room for development as well as rich land resources. Upon the completion and commissioning of various transport infrastructure projects, travel within the Bay Area will be very convenient. With policy breakthroughs, it would offer more convenience to Hong Kong people who operate business, study, work and live in the Bay Area.

Rising to Challenges

23. To seize the opportunities, we must look squarely into the problems of land and manpower, which have been hindering the economic and social development of Hong Kong.

Land Supply

24. Hong Kong has been plagued by land shortage for years. The problem not only affects people's livelihood, but also restrains our growth potential. We must proactively address this problem with firm resolve. The Task Force on Land Supply established last year is striving to forge a consensus in the community on this issue.

Human Capital

25. Furthermore, a shortage of workforce and talent has also impeded the economic development and competitiveness of Hong Kong.

26. The latest unemployment rate of below three per cent reflects a tight labour market in Hong Kong. With a rapidly ageing population, our workforce will fall from its peak in the coming few years. On the premise that local workers' priority for employment will be safeguarded, we should consider increasing imported labour in a timely manner and on an appropriate scale to address the specific needs of individual sectors.

27. The Commission for the Planning of Human Resources led by the Chief Secretary for Administration will commence operation shortly. Fostering collaboration across bureaux and various sectors, the Commission will examine and co-ordinate existing policies and measures from a macro perspective.

28. In parallel, the Government will continue to invest in education, training and retraining to enhance the quality and competitiveness of our workforce. In order to cater for the development needs of various sectors and industries, we will also enhance our talent admission arrangements to attract talent from outside Hong Kong. The Labour and Welfare Bureau is finalising the talent list, which is scheduled for completion in mid-2018.

Building Consensus

29. The land and manpower problems in Hong Kong cannot be solved with financial resources alone. We should not shy away from the different voices in the community. Instead, in the spirit of "seeking common ground while shelving major differences", we should build consensus in a pragmatic and rational manner, and join hands to overcome constraints. While there are vast opportunities for Hong Kong's development, they do not knock twice or wait for anyone. We have to stay united and seize each and every opportunity.

The Government's Role

30. Our free and highly efficient market has won worldwide acclaim. Under normal circumstances, the market is the most efficient mechanism to allocate resources. One should therefore respect market forces when formulating economic policies.

31. That said, with the upsurge of I&T and fierce competition between economies, the current-term Government will examine Hong Kong's competitiveness, our economy as well as the current state and direction for development of our industries from a forward-looking and strategic perspective. Playing the role as a "facilitator" and a "promoter", we will introduce timely and appropriate measures to support industries where we have strengths and development potentials, and tap new markets. We will also review regulatory and tax requirements to remove red tape and create a business-friendly environment. Our various initiatives in promoting I&T and financial development are some examples.

32. The Government will focus in particular on removing land and manpower constraints. At the same time, we will maintain a simple and competitive tax regime as well as a transparent and efficient regulatory system, while encouraging investment and innovation. Under the present macro environment in which opportunities abound, I am confident that we can find more drivers for growth to support the development of our society.

33. Now, let us review our economic performance over the past year.

Economic Situation in 2017

34. Throughout 2017, the global economic landscape continued to improve. The economies of the US, Eurozone and Japan recovered further with a synchronised acceleration of growth. The Mainland economy, sustaining strong growth momentum at 6.9 per cent, bolstered regional trade flows in Asia. Hong Kong's exports of goods registered appreciable growth of 5.9 per cent in real terms. Exports of services also returned to a steady growth of 3.5 per cent in real terms.

35. Domestic demand remained particularly resilient. Full employment, coupled with the positive wealth effect, drove strong consumer confidence. Last year, private consumption expenditure grew by 5.4 per cent in real terms, the fastest since 2011. Investment expenditure also increased by 4.2 per cent in real terms for the year.

36. Overall, due to the better-than-expected outturn in the external environment, Hong Kong's economy grew by 3.8 per cent last year, higher than the forecast in last year's Budget and the average trend growth rate of 2.9 per cent over the decade from 2007 to 2016.

37. In a state of full employment, the labour market further tightened in the latter half of the year. The latest unemployment rate dropped to a 20-year low of 2.9 per cent. Strong economic growth spurred a gradual increase in employment during the year, with broad-based improvement in wages and earnings in real terms. The headline inflation rate for 2017 was 1.5 per cent, as inflationary pressure remained moderate. Netting out the effects of the Government's one-off measures, the underlying inflation rate was 1.7 per cent in 2017, the sixth consecutive year of easing.

Economic Prospects for 2018 and Medium-term Outlook

38. Looking ahead, I am cautiously optimistic. The global economy remains on an upward trend, with a synchronised upturn in major economies. The International Monetary Fund lately forecast that the global economic growth this year should reach 3.9 per cent, the fastest since 2011. Yet, we need to remain alert to changes in the global monetary environment and geopolitical situations, as well as policy risks of major economies.

39. The performance of the US economy last year exceeded expectation, with unemployment rate falling below the levels before the financial tsunami. As the US implemented a tax reform at the end of last year, we need to continue monitoring its potential impact on the US and global economy, as well as the capital flows worldwide. The pace of monetary policy normalisation of the Federal Reserve is another major factor affecting the global economic and monetary environment this year.

40. The recovery momentum in the Eurozone becomes more entrenched as the unemployment rate continues to fall. The policy moves by the European Central Bank following its tapering of monthly asset purchases early this year and the progress of Brexit negotiations deserve attention.

41. In the Mainland, as it deepens the supply-side structural reform to promote economic upgrading and transformation, and continues to prevent and control financial risks, it is expected to maintain a medium-high rate of economic growth and remain the main engine of global economic growth this year.

42. All in all, the prevailing external environment is promising. The expected gradual pick-up in demand from major economies will lead to considerable growth in Asian exports. Hong Kong's exports of goods should be able to grow steadily. If the recovery of tourism in recent months can be sustained, Hong Kong's retail sector will also see a more vibrant performance.

43. Our favourable employment and income conditions will spur consumption growth in Hong Kong this year. Sanguine local economic sentiment and positive business confidence should also sustain investment growth. In the light of the global and local economic situations at this juncture, I forecast economic growth of three to four per cent for Hong Kong this year.

44. On inflation, local cost pressures will go up somewhat amid sustained economic growth. Imported inflation will also edge up alongside the global economic upturn, but such pressure is unlikely to be high. Overall, inflation will remain moderate this year. For 2018 as a whole, I forecast that the headline inflation rate will be 2.2 per cent with an underlying inflation rate at 2.5 per cent.

45. Since the start of this year, the expectation of a US interest rates adjustment has triggered substantial fluctuations in the global financial markets. I urge all investors to stay vigilant. As always, the Government is committed to ensuring an orderly and steady operation of our financial system.

46. Over the past few years, with a tight supply of residential flats, ultra-low interest rates and an influx of capital, property prices have soared beyond the affordability of ordinary citizens. However, I believe that the key factors underpinning soaring property prices over the past few years are gradually undergoing fundamental changes. First, the supply of residential flats will increase. The private sector will, on average, produce about 20 800 residential units annually in the coming five years (from 2018 to 2022), an increase of 50 per cent over the annual average in the past five years. Besides, as at end-December 2017, the projected supply from the first-hand private residential property market in the next three to four years will remain at a high level of approximately 97 000 units. We anticipate that the tight supply situation in the property market will ease. Besides, as the US interest rate normalisation process continues, the ultra-low interest rate environment of the past few years will no longer persist. The changes in these key factors will put pressure on the property market. The Government will keep a close watch over changes in the property market. Before making a home purchase decision, the public should carefully assess the risks involved, especially the impact of interest rate hikes on their ability to repay.

Public Finances

New Fiscal Philosophy

47. The Chief Executive has put forward a new fiscal philosophy for the current-term Government. It envisages that on the premise of ensuring the health of our public finance, the Government should adopt forward-looking and strategic financial management principles in optimising the use of surplus to invest for Hong Kong and relieve our people's burdens. I agree entirely with her view.

48. In formulating fiscal policies, we should strive to be innovative, responding to community aspirations promptly and effectively and making a head start to foster long-term development.

Budget Strategies for 2018-19

49. In preparing this year's Budget, I have ensured that adequate resources are provided to implement the various policy initiatives put forth in the Policy Address. I have also adopted the following strategies:

(a) proactively promoting economic development by providing favourable conditions for emerging industries such as I&T and identifying growth opportunities on the one hand, and strengthening the competitiveness of the pillar industries on the other, so that our economy will prosper in a sustained and diversified manner, creating quality jobs for our young people;

(b) making bold investments to break through the development bottlenecks. The Budget will optimise the use of surplus to build capacity in terms of land and human capital;

(c) improving the existing services and quality of life;

(d) preparing to meet the community's long-term needs for healthcare and elderly care;

(e) while maintaining the competitiveness of our tax regime, making suitable adjustments to ease the burden on taxpayers and enterprises, having regard to our prevailing fiscal position;

(f) caring for and sharing with the community by enhancing support for the disadvantaged and enabling members of the public to enjoy the fruits of our economic success; and

(g) maintaining adequate fiscal reserves.

50. I now turn to three issues on public finances which were frequently raised during the consultation exercise.

Annual Surplus

51. It is expected that the Government will have an estimated surplus of $138 billion in 2017-18. As pointed out in my Budget last year, when considering how our annual surplus is to be deployed, I will carefully take into account the source and nature of the surplus, and make optimal allocation of resources in the light of the external and local economic environment, social needs and public expectations. This year, I will follow the same principle by sharing with the community about 40 per cent of the projected annual surplus, and using the remaining for improving services and investing in the future.

Fiscal Reserves

52. We have a healthy fiscal surplus, but as a small and highly open economy, Hong Kong is susceptible to changes in the external economic environment. The linked exchange rate system leaves us limited room to adjust our monetary policy. Therefore, healthy public finances are vital for Hong Kong as they enable us not only to accelerate our development and expand our capacity when the economy is stable, but also to introduce counter-cyclical measures promptly and effectively in times of economic downturn, thereby stabilising the economy and safeguarding people's livelihood.

53. As we all know, Hong Kong has a narrow tax base, and our revenue sources are concentrated. In 2017-18, profits tax, salaries tax, stamp duties and land premium account for about 74 per cent of total government revenue. Among them, land premium and stamp duties fluctuate the most and they account for 27 per cent and 15 per cent of our total revenue respectively.

54. Fiscal surpluses in recent years were attributable mainly to the buoyancy of asset markets. However, experience shows that asset markets can be highly volatile and any downturn will put our revenue and fiscal position under pressure.

55. When considering the allocation of resources, I often remind myself to take a more forward-looking perspective. To better care for people in need, the Government has implemented measures proactively for elderly care and support for the disadvantaged over the past few years. In the face of a rapidly ageing population and fierce competitions from other economies, we need to enhance our economic structure, strengthen healthcare and elderly services, nurture talent, increase land supply and housing, improve labour welfare, and build a caring and just society. These are significant commitments.

56. Moreover, the Budget is prepared on a cash basis and mainly reflects the projected cash receipts and disbursements of the new financial year with forecasts for the following four years. It does not fully reflect our liabilities and committed expenditure, such as the outstanding commitment of over $350 billion for ongoing works projects. Besides, the financial implications of policy initiatives may not be fully reflected in the Budget of the new financial year because of the lead time required for implementation.

Relationship between Public Expenditure and GDP

57. In the past, it was a budgetary criterion that public expenditure should be kept at or below 20 per cent of GDP. One of the considerations was to avoid over-expansion of the Government, which might not be conducive to resource deployment. Today, while acknowledging the forces and roles of the market, we have to be more proactive in managing public finances in the face of various development needs of society and the economy. During the period between the 2018-19 Budget and the subsequent years in the Medium Range Forecast, the public expenditure will be slightly higher than 21 per cent of our GDP, but I will ensure that the increase in public expenditure is necessary to meet the actual needs of Hong Kong, and broadly in line with our affordability in the long run.

Revised Estimates for 2017-18

58. The 2017-18 revised estimate on government revenue is $612.4 billion, 20.6 per cent or $104.7 billion higher than the original estimate. This is due mainly to much higher-than-expected revenues from land premium and stamp duties.

59. The revenue arising from the sale of several residential and commercial sites in the urban area and a sharp increase in the number of land exchange agreements concluded with developers, land premium increases by $62.6 billion to $163.6 billion or 62 per cent higher than the original estimate. As a result of heated trading in both the property and stock markets last year, the revenue arising from stamp duties would be $39.7 billion or 75 per cent higher than estimated, reaching $92.7 billion.

60. As for government expenditure, I forecast a revised estimate of $474.4 billion, 3.5 per cent or $17 billion lower than the original estimate. This is mainly because the expenditure on certain initiatives, such as the Old Age Living Allowance (OALA) and the Low-income Working Family Allowance (LIFA), were lower than the original estimate.

61. For 2017-18, I forecast a surplus of $138 billion. Fiscal reserves are expected to reach $1,092 billion by 31 March 2018 while the Housing Reserve will reach $78.8 billion.

Budget Measures for 2018-19

Diversified Economy

62. Economic development increases income and enables us to improve people's livelihood and drive for society progress.

Innovation and Technology

63. I&T is undoubtedly an economic driver in the new era.

64. To shine in the fierce I&T race amidst keen competition, Hong Kong must optimise its resources by focusing on developing its areas of strength, namely biotechnology, artificial intelligence, smart city and financial technologies (Fintech), and forge ahead according to the eight major directions set out by the Chief Executive. In order to achieve results, our targeted efforts must be underpinned by adequate resources. In last year's Budget, I reserved $10 billion for supporting I&T development. This year, I will set aside an additional $50 billion.

Lok Ma Chau Loop

65. Of this, $20 billion will be used on the first phase of the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop for, inter alia, site formation, infrastructure, superstructure and initial operation. Given the scale of the development, it is estimated that the whole project will eventually cost far more than $20 billion. When the relevant planning studies are finished, we will make reference to the findings and provide additional resources in a timely manner so that the Park can come into operation as early as possible.

Innovation and Technology Fund

66. Besides, we will inject $10 billion into the Innovation and Technology Fund (ITF). The ITF's financial support for I&T development in Hong Kong has increased from about $700 million in 2013-14 to $1.5 billion in 2017-18. It is anticipated that the demand for funds will continue to increase. As our fiscal position is strong this year, I believe that a funding injection is opportune. The ITF will continue to support applied R&D work in Hong Kong with the additional resources.

Establishing Technology Research Clusters

67. I will also earmark $10 billion to support the establishment of two research clusters on healthcare technologies and on artificial intelligence and robotics technologies, to attract the world's top scientific research institutions and technology enterprises to Hong Kong for conducting more midstream and downstream R&D projects in collaboration with local universities and scientific research institutions. Such clusters will pool and nurture more technology talent in Hong Kong. I will provide financial support for non-profit-making scientific research institutions that will establish their presence in these two clusters.

Science Park

68. To reinforce the role of the Science Park as Hong Kong's flagship technology infrastructure, I will allocate $10 billion to the Hong Kong Science and Technology Parks Corporation (HKSTPC). Of this, about $3 billion will be used to construct research-related infrastructure and facilities, whereas the remaining $7 billion will be used for the HKSTPC to enhance support for its tenants and incubatees, and set up a Smart Campus in the Park, etc..

Cyberport

69. Moreover, I will allocate $200 million to Cyberport to enhance the support for start-ups and promote the development of digital technology ecosystem. Cyberport is going to launch an "easy landing" programme to attract multinational companies (including overseas and Mainland leading internet enterprises and Fintech companies) to set up offices and R&D units in Hong Kong. It will also roll out a new support scheme, offering financial assistance up to $200,000 for each eligible start-up to conduct market research and promotion, as well as participate in business missions, trade fairs and exhibitions, etc. outside Hong Kong. The financial assistance offered under Cyberport's incubation programme to individual start-ups will also increase by 50 per cent to $500,000.

E-sports

70. In recent years, e-sports have been developing rapidly with tremendous potential. Last December, Cyberport completed a study on the promotion of e-sports in Hong Kong and made a number of recommendations. To promote the development of e-sports, I will allocate $100 million to Cyberport. The Cyberport Arcade will become a local e-sports and digital entertainment node providing a competition venue for e-sports. Support will also be provided for the e-sports sector in areas such as technological development and talent nurturing.

Encouraging Research and Development

71. To encourage R&D, the Chief Executive announced in her Policy Address the provision of additional tax deduction for domestic expenditure on R&D incurred by enterprises. Enterprises will enjoy a 300 per cent tax deduction for the first $2 million qualifying R&D expenditure, and a 200 per cent deduction for the remainder. Drafting of the legislation and consultation have already commenced.

Promoting "Re-industrialisation"

72. I set up the Committee on Innovation, Technology and Re-industrialisation last April to promote re-industrialisation. The Data Technology Hub and the Advanced Manufacturing Centre under construction are expected to be completed in 2020 and 2022 respectively. We are also expanding the Science Park, which is expected to provide extra space for start-ups and other technology companies in two years. Moreover, the Hong Kong Productivity Council established an Inno Space last October to provide working space and technical support for start-ups, students and graduates to help them develop their innovative ideas into industrial design, which may subsequently be translated into products through prototyping.

Technology Voucher Programme

73. In addition to the above new initiatives, the Government will also relax the eligibility criteria for the Technology Voucher Programme. All local enterprises, irrespective of size and duration of operation, may apply. This will enable more medium enterprises and start-ups to benefit from the Programme.

Innovation and Technology Talent

74. We will earmark $500 million under the ITF to implement, in the second half of the year, the Technology Talent Scheme as announced in the Policy Address. One of the initiatives is to establish a Postdoctoral Hub programme to provide funding support for all eligible institutions to recruit postdoctoral talent. The Scheme will also provide funding to subsidise local enterprises on a matching basis for training staff on high-end technologies.

75. While we foster the development of new industries, we should also strengthen the traditional industries where we enjoy clear advantages.

Financial Services Industry

Financial Talent

76. Hong Kong has long been leading Asia in financial services industry. Looking ahead, China will continue to take centre stage in driving global economic development. We must upgrade and enrich our pool of financial talent if we are to maintain our leading edge and firmly remain the most competitive financial centre in Asia.

77. To this end, I have asked the Hong Kong Monetary Authority (HKMA) to make plans to set up an academy of finance in collaboration with the Financial Services Development Council, the financial sector, tertiary institutions, professional training bodies and regulators for promoting cross-sector expertise sharing and collaboration in applied research.

Listing Platform

78. The Financial Leaders Forum I chair has laid down the general principles on developing Hong Kong into a preferred listing platform for emerging and innovative enterprises. The new regime should be in place in the second quarter of this year after the Stock Exchange of Hong Kong (SEHK) has consulted the market on the proposed specific arrangements and the amendments to the Listing Rules. It will boost Hong Kong's competitiveness as a listing platform and attract listing applications from emerging and innovative enterprises, including large enterprises with weighted voting rights structure and pre-revenue biotechnology enterprises. We will ensure appropriate safeguards for investors and uphold the quality of our market under the new regime.

Developing Bond Market and Green Finance

79. We have seen rapid growth in the Asian bond market in recent years, with US$300 billion worth of US dollar bonds issued in Asian economies other than Japan last year, 60 per cent more than 2016. We expect that the Asian bond markets will continue to expand. To encourage more investors and issuers from the Mainland, Asia and along the Belt and Road to participate in the Hong Kong bond market, the Government plans to launch an array of measures to enhance our competitiveness, including attracting corporate bond issuance, facilitating investors participation and broadening investment platform.

Pilot Bond Grant Scheme

80. First, I propose to launch a three-year Pilot Bond Grant Scheme to attract local, Mainland and overseas enterprises to issue bonds in Hong Kong. The pilot scheme will cover eligible enterprises issuing bonds in Hong Kong for the first time. The amount of grant for each bond issuance is equivalent to half of the issue expenses, capped at HK$2.5 million. Each enterprise can apply for a grant for two bond issuances at most. The HKMA will announce the details in due course.

Qualifying Debt Instrument Scheme

81. I also propose to amend the qualifying debt instrument scheme by increasing the types of qualified instruments. In addition to instruments lodged and cleared by the Central Moneymarkets Unit of the HKMA, debt securities listed on the SEHK will also become eligible. We will also extend the scope of tax exemption from debt instruments with an original maturity of not less than seven years to instruments of any duration. Under the enhanced scheme, Hong Kong investors will enjoy tax concession for interest income and trading profits derived from a more diverse range of debt instruments.

Government Bond Programme

82. On developing retail bonds, I propose to continue the issuance of Silver Bonds in 2018 and 2019, targeting Hong Kong residents aged 65 or above.

Green Bond and Green Finance

83. To demonstrate the Government's commitment to promoting green finance, I propose to launch a green bond issuance programme with a borrowing ceiling of $100 billion. The sums borrowed will be credited to the Capital Works Reserve Fund to provide funding for green public works projects of the Government. The measure will encourage more issuers to arrange financing for their green projects through our capital markets. The Government will submit a resolution to the Legislative Council (LegCo) as soon as possible so that the inaugural government green bond can be issued in 2018-19.

84. The Hong Kong Quality Assurance Agency launched the Green Finance Certification Scheme last month to provide third-party certification service for potential green bond issuers. We will introduce a Green Bond Grant Scheme to subsidise qualified green bond issuers in using the Certification Scheme.

Asset and Wealth Management

85. The Government has introduced a number of initiatives in recent years to sharpen the competitive edge of Hong Kong's fund industry and diversify the management platform. These initiatives include removing constraints in the existing legal structure, providing a more facilitating tax environment and expanding the distribution network. It is expected that the regime for open-ended fund companies to be used as a fund vehicle and the relevant tax exemption arrangements can commence operation later this year. Besides, we will review the existing tax concession arrangements applicable to the fund industry with regard to international requirements on tax co-operation. The Government will also examine the feasibility of introducing a limited partnership regime for private equity funds and the related tax arrangements.

Corporate Treasury Centres

86. To attract multinational and Mainland enterprises to establish corporate treasury centres in Hong Kong, the Government will further amend the Inland Revenue Ordinance to extend the coverage of profits tax concession to specified treasury services provided by qualifying corporate treasury centres to all their onshore associated corporations.

Offshore Renminbi Business

87. Hong Kong maintains the world's largest offshore RMB liquidity pool. Apart from issuing RMB sovereign bonds in Hong Kong nine years in a row, the Ministry of Finance also issued US dollar sovereign bonds here last October. This is not only conducive to the development of the Hong Kong bond market, but also helps promote the integration of the Mainland financial market into the global market. We have provided profits tax exemption for non-RMB (including US dollar) sovereign bonds issued in Hong Kong by the Central People's Government so as to ensure that Hong Kong continues to be the premier platform for our country to issue sovereign bonds in different currencies. Moreover, to promote mutual market access between Hong Kong and the Mainland, we will continue to explore the possibility of including a wider range of investment products in the two-way mutual access mechanism.

Faster Payment System and Virtual Banks

88. The HKMA is prepared to launch a Faster Payment System offering 24-hour real-time payment function. This will allow banks and Stored Value Facility service providers to provide real-time, round-the-clock, cross-institution payment and fund transfer service to their business and personal customers.

89. Moreover, since virtual banks are considered commercially and technically viable based on overseas experience, the HKMA is consulting the industry on reviewing and amending the relevant guidelines, and will make the best endeavour to issue licences within this year.

Insurance Industry

90. I will ask the Insurance Authority to explore ways of enhancing Hong Kong's competitiveness as an insurance hub, including tax arrangements and other regulatory requirements, in collaboration with the industry.

Annuity Scheme

91. The Hong Kong Mortgage Corporation Limited (HKMC) will launch a Life Annuity Scheme in the middle of this year. Purchasers will only have to pay a lump sum in exchange for a stable flow of monthly income. In view of the community's positive response to the Scheme, the HKMC will actively consider increasing its issuance size.

92. Deferred annuity products are already available in the market. They can be purchased by means of contributions, allowing greater flexibility in the amount and duration of payment. To encourage the development of the deferred annuity market, thereby offering more options to people in making financial arrangements for retirement, I will ask the Insurance Authority to issue guidelines, and enable all deferred annuity products available in the market meeting the guidelines to enjoy tax concessions.

93. As contributions made to such financial products for retirement protection are similar in nature to voluntary contributions made to the Mandatory Provident Fund (MPF), the proposed tax concessions will be applicable to MPF voluntary contributions. To meet the long-term saving objective for retirement protection, voluntary contributions which have enjoyed tax deduction will be transferred to the mandatory contribution accounts, and subject to the same withdrawal restrictions on mandatory contributions.

Dedicated Provision for Development of Financial Services Industry

94. I have set aside a dedicated provision of $500 million for the development of the financial services industry in the coming five years, providing necessary support for bond market development, Fintech, green finance, manpower training and other aspects of financial services.

Trading and Logistics Industry

95. Expanding our Free Trade Agreement (FTA) and Investment Promotion and Protection Agreement (IPPA) networks would help Hong Kong businesses and investors open up new markets, protect their overseas investments and attract foreign investors to Hong Kong. In addition to signing the Closer Economic Partnership Arrangements (CEPA) with the Mainland and Macao, we have forged four FTAs and 20 IPPAs with other economies. The signing of Comprehensive Avoidance of Double Taxation Agreements (CDTAs) not only will benefit our businessmen, but will also attract more enterprises to use Hong Kong as their base for overseas investments. The Government has so far concluded CDTAs with 38 tax jurisdictions.

96. We will actively seek to sign FTAs, IPPAs and CDTAs with other economies, including those along the Belt and Road, to fortify our position as an international trade and investment hub.

97. As a "facilitator" and a "promoter" for economic development, the Government will be more proactive in strengthening and consolidating Hong Kong's edge as a trading and logistics hub. The Government will actively enhance the supporting infrastructure to increase the handling capacity of both air and maritime cargo, with a view to moving the trading and logistics industry up the value chain.

98. On air transport, the Hong Kong International Airport (HKIA) has been the world's busiest cargo airport for seven years in a row. The cargo it handled accounted for about 1.6 per cent of total cargo volume by weight, but 40 per cent of imports and exports by value.

99. Situated at the heart of Asia, the HKIA boasts a vast global network. This, together with its proximity to the Pearl River Delta and the Bay Area as well as the imminent commissioning of the Hong Kong-Zhuhai-Macao Bridge (HZMB), promises ample opportunities for our air cargo industry. The booming of global e-commerce has generated demands for cross-border logistics and delivery services, particularly air delivery and transhipment services. In December 2017, the Airport Authority Hong Kong (AA) made available a site of around 5.3 hectares at the South Cargo Precinct of the Airport Island to develop a modern air cargo logistics centre.

100. We are actively considering the redevelopment of the Air Mail Centre at the HKIA, which has been operating for 20 years. The Centre will be equipped with modern facilities to significantly enhance its efficiency and capacity. For fiscal planning, I have set aside $5 billion for the project. In addition, we are engaging with the AA and other postal authorities to explore collaboration with a view to maximising the use of the centre's transit handling capability to foster cross-border logistics and trading activities.

101. Our strategic objective is to develop Hong Kong into a trading, storage, logistics and distribution hub for high-value goods such as pharmaceuticals. Between 2014 and 2016, pharmaceuticals handled by the HKIA grew by over 30 per cent. The AA and the industry will continue to proactively enhance the HKIA's capacity to handle high-value temperature-controlled goods and adopt the necessary temperature control facilities to cater for the special needs in handling such goods.

102. Hong Kong is a free port. As we upgrade our facilities, we will also move ahead with times and review existing measures timely with a view to facilitating the trade and attaining the greatest economic benefits. At present, trade declaration is not required for transhipment cargo via Hong Kong, and the level of declaration charges for imports and exports are kept at a low level. To encourage the trading and logistics industry to move up the value chain, the Government will cap the charge for each declaration at $200, so as to further lower the cost of importing and exporting high-value goods to and from Hong Kong, and enhance Hong Kong's advantage as a trading hub. The measure is expected to save the trade $458 million per year and benefit about 900 000 cases.

103. The Hong Kong Maritime and Port Board was established in 2016 to foster the development of our maritime and port sectors and high-value-added maritime services. The Transport and Housing Bureau is now working with the sector to map out strategies and explore measures that will facilitate the development of the maritime industry in Hong Kong. The Government will continue to devote resources to promote our maritime industry. Invest Hong Kong (InvestHK) will also set up a dedicated team to strengthen promotion to attract more renowned maritime enterprises to operate in Hong Kong.

Tourism

104. We strive to develop Hong Kong into a world-class premier tourism destination to ensure the healthy and sustainable development of the industry.

105. I will allocate an additional $396 million to the tourism industry in the new financial year, of which $226 million will be provided for the Hong Kong Tourism Board (HKTB) to implement the Development Blueprint for Hong Kong's Tourism Industry released by the Tourism Commission last year.

106. The Development Blueprint sets out four development strategies, namely (1) to develop a diversified portfolio of visitor source markets for Hong Kong, with a focus on attracting high value-added overnight visitors; (2) to nurture and develop tourism products and initiatives with local and international characteristics; (3) to develop smart tourism; and (4) to upgrade the service quality of our tourism industry. Highlights include:

(a) supporting the trade in exploring tourism business opportunities arising from the Belt and Road Initiative, the development of the Bay Area, as well as the commissioning of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL) and the HZMB, including organising a tourism forum under the themes of the Belt and Road and the Bay Area with a business matching conference in collaboration with the HKTB;

(b) providing new experience for visitors by incorporating design elements and making use of I&T application as well as light and art installations that blend with district characteristics at major tourist spots;

(c) promoting green tourism by enhancing supporting facilities at popular hiking trails and those with good tourism potentials; and

(d) allocating an additional funding of $30 million to the Travel Industry Council of Hong Kong for enhancing the Pilot Information Technology Development Matching Fund Scheme for Travel Agents.

107. I will also allocate a total of $310 million in the next few years to support the Ocean Park in developing education and tourism projects. For the benefits of local students, the Ocean Park will distribute 10 000 complimentary admission tickets to primary and secondary school students in the coming year.

Business and Professional Services

108. The Government is committed to expanding its network of Economic and Trade Offices (ETOs). At present, we have 12 overseas ETOs. To enhance trade relations with the Association of Southeast Asian Nations (ASEAN), open up the emerging opportunities there, as well as actively participate in and support the Belt and Road Initiative, the Chief Executive announced that an ETO would be set up in Thailand. We are in close liaison with the Thai government to this end. Regarding our proposal to set up new ETOs in countries including Korea, India, Russia and the United Arab Emirates, we are actively following up with the governments concerned.

109. The Government has launched the Professional Services Advancement Support Scheme to provide funding support for business and professional organisations, thereby facilitating external promotion and enhancement of Hong Kong's professional services. I encourage the professional services sector to work with other sectors in applying for funding and exploring new business opportunities.

Support for Small and Medium Enterprises

110. Hong Kong is home to about 330 000 small and medium enterprises (SMEs), accounting for over 98 per cent of the total number of local enterprises. To help SMEs, including start-ups, grasp economic opportunities and boost their competitiveness, I will enhance the current funding schemes as follows:

(a) injecting $1.5 billion into the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund);

(b) injecting $1 billion into the SME Export Marketing and Development Funds;

(c) extending the geographical scope of the Enterprise Support Programme under the BUD Fund from the Mainland to include the ASEAN countries. The respective cumulative funding ceiling for enterprises undertaking projects in the Mainland and ASEAN markets will be $1 million;

(d) increasing the cumulative funding ceiling for enterprises under the SME Export Marketing Fund from $200,000 to $400,000, and removing the existing condition on the use of the last $50,000 of grants;

(e) extending the application period for the special concessionary measures under the SME Financing Guarantee Scheme to 28 February 2019; and

(f) in the five financial years from 2018-19, providing a total of $250 million additional funding to the Hong Kong Trade Development Council (HKTDC) for assisting local enterprises (SMEs in particular) in seizing opportunities arising from the Belt and Road Initiative and the Bay Area development, promoting the development of e-commerce, and enhancing Hong Kong's role as a premier international convention, exhibition and sourcing centre.

External Promotion

111. The Information Services Department, our ETOs overseas and in the Mainland, InvestHK and the HKTDC will strengthen collaboration and take a more proactive approach in promoting our advantages overseas and attracting investments to Hong Kong.

Construction Industry

112. Despite its acclaim for high efficiency, Hong Kong's construction industry must continue to upgrade through wider adoption of innovative technology to enhance productivity, built quality, environmental performance and site safety. The Construction Industry Council (CIC) established the Construction Innovation and Technology Application Centre last year, leading the industry to embrace innovation through collecting, exhibiting and experiencing the latest construction technologies and applications.

113. Starting this year, the Government will adopt building information modelling (BIM) technology in the design and construction of major government capital works projects. The CIC will formulate BIM technical standards, help equip the industry and encourage the use of such technology in private works projects.

114. Furthermore, we are now assisting the industry in establishing large-scale, highly automated steel reinforcing bar prefabrication yards. The Government will also take the lead in piloting Modular Integrated Construction (MiC) in public projects. We are considering extending the current gross floor area concessions for promoting green and innovation buildings to cover buildings adopting MiC. We are also conducting studies on relevant manufacturing facilities to promote the wider use of such a construction method in Hong Kong.

Construction Innovation and Technology Fund

115. I propose to set up a $1 billion Construction Innovation and Technology Fund to boost the capacities of enterprises and practitioners in the construction industry to adopt new technology, and support the industry to harness innovative technology. Eligible contractors, registered sub-contractors and consultants can apply for financial support from the Fund to acquire the software and hardware as well as to nurture the expertise required for using local and overseas innovative construction technologies, such as BIM, steel reinforcing bar products produced in local prefabrication yards and MiC when carrying out construction projects. The Fund will also support students and practitioners of the construction industry to receive training on innovative construction technologies.

Creative Industries

116. Since 2009, the Government has injected a total of $1 billion into the CreateSmart Initiative (CSI). In the new financial year, the Government intends to inject another $1 billion into the CSI to strengthen support for the development of the creative industries, especially in nurturing youths and helping start-ups, and also to enable the Hong Kong Design Centre to implement initiatives to enhance public understanding of the value of creativity and design.

Manpower Training

117. Talents are essential elements for economic development and social progress. The Government must invest heavily in nurturing talent; provide diversified learning, training and development opportunities; and create employment and business start-up opportunities with good prospects for our young people.

Education

118. Upon taking office, the current-term Government has pledged to increase recurrent expenditure on education by $5 billion, of which $3.6 billion has been approved by the LegCo.

119. I propose to commit an additional recurrent expenditure of $2 billion to achieve quality education. The initiatives to be launched include enhancing the professional development of teachers, strengthening support for kindergartens, reviewing and improving integrated education, and supporting schools in enhancing promotion of life-wide learning.

120. I also propose to allocate $2.5 billion for launching the eighth round of Matching Grant Scheme to help the ten publicly-funded post-secondary institutions tap more funding sources, promote community involvement and improve the quality of education.

121. Furthermore, the Government will invite the Quality Education Fund Steering Committee to consider allocating $3 billion for application by primary and secondary schools, kindergartens and special schools, through simplified procedures, for launching school-based curriculum development and student support measures, as well as the relevant school improvement works and procurement of supplies.

122. I will also make an additional provision of $2 billion to expedite installation of lifts for public sector schools as needed to build barrier-free campuses.

123. In the 2018/19 school year, I will regularise the Pilot Scheme on Promoting Interflows between Sister Schools in Hong Kong and the Mainland, under which participating schools will receive a grant of $150,000 per annum. The additional annual expenditure is expected to be around $170 million.

124. To cater for students with care needs, the Government will increase the nursing support of schools for children with intellectual disability, schools for children with physical disability and schools for children with visual impairment cum intellectual disability. Nurses will also be provided for schools for children with visual impairment as well as schools for children with hearing impairment. The additional annual expenditure is expected to be around $26 million.

125. I propose to inject $800 million into the Gifted Education Fund in 2018-19 to enhance the development of gifted students. Another $800 million will be injected into the HKSAR Government Scholarship Fund to increase the number of scholarships starting from the 2019/20 academic year to incentivise students to pursue excellence in both academic and non-academic areas.

126. As the Hong Kong Jockey Club Life-wide Learning Fund is coming to an end, I will earmark $2.5 billion to set up a new Student Activities Support Fund. The Fund will continue to provide support for students with financial needs to participate in life-wide learning activities for whole-person development.

127. Since the 2014/15 academic year, we have implemented the Pilot Training and Support Scheme through the Vocational Training Council to provide quality and diversified vocational and professional education and training for young people. The Scheme will continue to be implemented in the 2018/19 academic year. I will provide adequate resources to regularise the Scheme. The Education Bureau will review the implementation of the Scheme this year to finalise the regularisation arrangements.

Continuing Education

128. To encourage members of the public to pursue self-enhancement, the Government will raise the subsidy ceiling of the Continuing Education Fund (CEF) from $10,000 to $20,000 per applicant. Those who once opened a CEF account may also benefit from this initiative. In parallel, we will extend the upper age limit for CEF applicants to 70, lift the restrictions on the validity period and the number of claims, and expand the scope of the CEF to include all courses in the Qualifications Register. I will further inject an additional $8.5 billion into the CEF. It is expected that a total of about 610 000 recipients will benefit from the enhancements.

Youth Development

129. Youth development has a significant bearing on the future of Hong Kong. We will set up the Youth Development Commission in the first half of this year. Chaired by the Chief Secretary for Administration, the Commission will promote youth development in a more holistic manner and address young people's concerns about education, career pursuit, home ownership, public policy discussion and debate and participation in politics. I will set aside $1 billion to support the work of the Commission, with a view to giving young people more room to unleash their potential and more opportunities for upward mobility.

Enhancing Liveability

130. We will make good use of our resources and invest for the future to enhance the quality of life, with a view to building Hong Kong into a more ideal place for living and working.

Land Resources

Land for Housing

131. Land and housing supply has been a long standing problem in Hong Kong. The Government has been making every effort to identify land and boost housing supply. Over the past few years, through land use reviews, we have identified over 210 sites with housing development potential in the short to medium term. The sites can provide a total of more than 310 000 flats, of which about 70 per cent will be for public housing. The majority of these sites require the completion of feasibility studies and necessary procedures (including planning, consultation, rezoning, funding acquisition, land resumption, clearance, reprovisioning and site formation) before they are ready for housing construction.

132. As for the actual supply of housing units, the estimated public housing production for the next five years is about 100 000 units, of which about 75 000 are public rental housing units and about 25 000 are subsidised sale flats. On private housing flats, based on the preliminary estimation, the private sector will, on average, complete about 20 800 residential units annually in the next five years, representing an increase of about 50 per cent over the past five years.

133. Including the 15 sites rolled over from 2017-18, the 2018-19 Land Sale Programme comprises a total of 27 residential sites capable of providing about 15 200 residential units. Together with railway property development projects, the Urban Renewal Authority's projects and private development/redevelopment projects, the potential land supply for the whole year is expected to have a capacity to produce about 25 500 units. The Development Bureau will announce tomorrow the Land Sale Programme for the next financial year.

134. In the short to medium term, we will provide about 380 000 residential flats in total by rezoning sites, increasing development density as appropriate, and taking forward projects at the Kai Tak Development Area and Anderson Road Quarry, railway property development projects and urban renewal projects. As for the medium to long term, we will press ahead with a number of projects in new development areas and railway property development projects such as Siu Ho Wan, in order to provide about 220 000 residential units. Of these projects, reclamation works of the Tung Chung New Town Extension have started. The 130 hectares of land to be formed is expected to provide some 49 000 residential units from 2023-24 in phases.

Industrial/Commercial Land

135. The Government will continue to increase the supply of commercial floor area through various means. Apart from releasing approximately 560 000 square metres of commercial/office floor area through reprovisioning the existing government facilities in the two action areas in Kwun Tong and Kowloon Bay, it is expected that a number of commercial sites located at the Kai Tak Development Area, above the terminus of the Hong Kong Section of the XRL, and at the new Central Harbourfront, Caroline Hill Road, Queensway Plaza and Sai Yee Street, etc. will also be put up for sale in the next few years. These sites will provide a total floor area of about 1.1 million square metres. Among these sites, four commercial/hotel sites will be included in the 2018-19 Land Sale Programme, capable of providing about 530 000 square metres of floor area.

Long-term Development

136. The Task Force on Land Supply will launch a public engagement exercise in the first half of this year to discuss with all sectors of the community the options and priorities for increasing land supply. Recommendations will be submitted to the Government by the end of this year.

Optimising the Use of Government Land

137. At present, vacant government sites or school premises are available for use by non-governmental organisations (NGOs) through short-term tenancies. However, since these sites may have been left idle for a long time, restoration or other works are required before they can be put to use. I will set aside $1 billion to subsidise the costs of basic works of eligible projects, and co-ordinate the efforts of government departments in providing technical advice to the user organisations to make better use of these vacant government sites and school premises.

138. We will also pursue the "single site, multiple use" model in multi-storey developments on "Government, Institution or Community" sites. One example is the proposed redevelopment of Tuen Mun Clinic. With a view to optimising land use, our initial thinking is to reprovision and consolidate the existing healthcare and other government services in the new high-rise building where elderly care facilities needed in the district will also be provided.

Healthcare

139. Apart from land and housing, healthcare is another issue of utmost concern to the community. The Government has increased its recurrent expenditure on healthcare by an average of seven per cent over the past decade. A 10-year hospital development plan amounting to $200 billion has also commenced. The expenditure on public healthcare services will increase by 13.3 per cent to $71.2 billion in 2018-19, accounting for 17.5 per cent of total recurrent expenditure.

Hospital Authority

140. An additional recurrent funding of nearly $6 billion will be allocated to the Hospital Authority (HA) in 2018-19 to increase the number of hospital beds, operating theatre sessions, the quota for general out-patient and specialist out-patient services and the manpower required. The Government will progressively increase the recurrent provision for the HA on a triennium basis, having regard to population growth and demographic changes. This will enable more effective resource planning by the HA. To tackle the recent influenza surge, the HA has deployed $500 million for implementing relief measures to alleviate the work pressure on frontline healthcare personnel. The HA will also examine the abolition of the policy on incremental pay freeze in the first two years of service in respect of certain new recruits, so as to boost morale and retain staff. I will ensure the availability of adequate resources.

Public Healthcare Facilities

141. In the light of an increasing demand for healthcare services, I have invited the HA to start planning the second 10-year hospital development plan instead of waiting for the mid-term review of the first 10-year plan to be conducted in 2021. The second 10-year plan will cover the study of in-situ redevelopment of Princess Margaret Hospital and Tuen Mun Hospital, construction of a new hospital at the King's Park site (i.e. the existing Queen Elizabeth Hospital site) and expansion of North Lantau Hospital. It is expected to deliver 3 000 to 4 000 additional hospital beds, provide additional facilities and quota for consultation.

142. The Government will also plan for other public healthcare facilities such as community health centres and ambulatory care centres, and improve the clinic facilities under the Department of Health (DH) by phases.

Healthcare Manpower Training

143. Over the past decade, the number of University Grants Committee (UGC)-funded healthcare training places has substantially increased by about 60 per cent to almost 1 800, of which the number of bachelor degree places in medicine has increased from 250 to 470, representing a rise of almost 90 per cent. The Government is discussing with the UGC further increase in publicly-funded training places for doctors, dentists, nurses and relevant allied health professionals in the coming three years. The Government has invited the universities concerned and the Prince Philip Dental Hospital to actively consider further enhancing and increasing teaching facilities so as to expand their capacity for healthcare manpower training.

144. To support the second 10-year hospital development plan, improve the clinic facilities in DH, and upgrade and increase healthcare teaching facilities, I have set aside a sum of $300 billion as an initial provision.

145. There will be a total of over 2 000 medical graduates in the coming five years. I will ensure that the HA has adequate resources to employ all local medical graduates. Some additional $200 million will be allocated each year to enhance the healthcare professional training provided by the HA, including clinical practicum, as well as specialist and higher training.

Community Healthcare Services

146. The Government is conducting a comprehensive review of the planning for primary healthcare services with a view to drawing up a blueprint. The first district health centre will be set up in Kwai Tsing District in the third quarter of next year, after which we will progressively set up such centres in all 18 districts. Provision of community healthcare services can raise public awareness of personal health management, enhance disease prevention and strengthen medical and rehabilitation services in the community, thereby reducing unwarranted use of hospital services. I will set aside necessary resources to fully support this initiative.

Controlling Non-communicable Diseases and Promoting Mental Health

147. I will provide an additional annual funding of $100 million for the DH to promote a healthy lifestyle in the community in order to reduce non-communicable diseases such as cardiovascular diseases, cancers, diabetes and chronic respiratory diseases. At the same time, the DH will promote mental health and enhance public education to minimise stigmatisation.

Dental Services

148. The Government will provide about $54 million to launch a three-year project for more NGOs to provide free oral check-ups, dental treatments and oral health education for adults with intellectual disability. We will also increase the funding for the Prince Philip Dental Hospital to provide special care training for participating dentists and dental surgery assistants. I have asked the departments concerned to improve existing dental care services for the elderly.

Elderly Health Care Vouchers

149. The accumulation limit of Elderly Health Care Vouchers will be raised from $4,000 to $5,000 in 2018 to allow greater flexibility to users. In 2018-19, I will provide, on a one-off basis, an additional $1,000 worth of vouchers to eligible elderly persons, which will involve an expenditure of about $796 million. Elderly Health Care Vouchers can be used on services provided by medical practitioners, dentists and Chinese medicine practitioners in the non-public sector.

Colorectal Cancer Screening Programme

150. The Colorectal Cancer Screening Pilot Programme enables early identification of sufferers and high-risk individuals. The Government will regularise the Programme and progressively extend it to cover individuals aged between 50 and 75. This initiative will incur a total expenditure of $940 million over the coming five years.

Development of Chinese Medicine

151. I propose to establish a $500 million fund to promote the development of Chinese medicine by providing support in areas such as applied research, Chinese medicine specialisation, knowledge exchange and cross-market co-operation, and helping local Chinese medicines traders with the production and registration of Chinese proprietary medicines. The Chinese Medicine Unit to be set up by the Food and Health Bureau (FHB) will be responsible for the co-ordination work.

Voluntary Health Insurance Scheme

152. The FHB will announce the details of the Voluntary Health Insurance Scheme shortly. I propose to provide a tax deduction for people who purchase eligible health insurance products for themselves or their dependants under the Scheme. The annual tax ceiling of premium for tax deduction is $8,000 per insured person.

Subsidising Drug Treatments

153. In recent years, the HA has carried out appraisals of new drugs and expanded the coverage of the Drug Formulary regularly. It will closely monitor the R&D of new drugs and the related medical evidence so that patients can receive appropriate treatment as soon as possible.

154. The Community Care Fund (CCF) has launched an assistance programme to provide eligible patients with subsidies for the purchase of ultra-expensive drugs (including those for treating uncommon diseases). It will also extend the scope of the programme to subsidise individual patients with special clinical needs in using specific drugs. The HA will complete a review of the patient's co-payment mechanism under the CCF's programme in the first half of this year and propose improvement measures. I will set aside $500 million for this purpose.

Arts and Culture

155. Hong Kong is an international city with a unique blend of the East and the West, displaying richness and diversity in arts and culture.

156. The Xiqu Centre of the West Kowloon Cultural District will be completed this year; while other major facilities will also come on stream in the next few years. In order to continuously upgrade our cultural hardware, I will set aside $20 billion for the improvement and development of cultural facilities. Projects to be rolled out in the coming 10 years include the construction of the New Territories East Cultural Centre and the Heritage Conservation and Resource Centre; the expansion of the Hong Kong Science Museum, Hong Kong Museum of History and Hong Kong City Hall; and the renovation of the Hong Kong Cultural Centre. I will also allocate $500 million to the Leisure and Cultural Services Department (LCSD) for the acquisition of museum collections and holding exhibitions.

157. On support for arts groups and artists, starting from 2018-19, an additional recurrent provision of $55 million will be provided to support the nine major performing arts groups as well as small and medium arts groups funded by the Hong Kong Arts Development Council. More resources will be allocated to the small and medium arts groups under the Venue Partnership Scheme implemented by the LCSD.

158. I will inject an additional $500 million into the Art Development Matching Grants Pilot Scheme and consider relaxing its matching parameters to encourage donations from the business and private sectors in support of the development of arts groups.

159. To showcase Hong Kong's art and culture, I will, from 2018-19 onwards, progressively increase the recurrent provision to $50 million to support Hong Kong's arts groups and artists to perform and stage exhibitions outside Hong Kong. Moreover, in the coming five years, I will provide $40 million additional funding to the Hong Kong Arts Festival Society for commissioning creative works and performances by local arts groups and artists during the Arts Festival; $20 million to expand the Community Cultural Ambassador Scheme, and another $140 million to support local arts groups and artists for cultural exchanges in the Bay Area.

160. The Government announced the first Representative List of the Intangible Cultural Heritage (ICH) of Hong Kong last year. I will allocate $300 million to strengthen the protection, promotion and transmission of the ICH. Furthermore, I will inject $70 million into the Cantonese Opera Development Fund to support the production and performances of local Cantonese opera troupes, with a view to promoting the development of Cantonese opera as a world intangible cultural heritage item.

161. Cultivating a reading habit among the public is conducive to promoting culture and enhancing humanistic qualities. In the coming five years, I will allocate an additional $200 million to the Hong Kong Public Libraries to promote reading among children and families. Besides, the LCSD will work with the Education Bureau, community partners, local authors and publishers to promote the culture of reading for all.

Sports

162. In recent years, the number of people participating in major sports events and community sports activities is rising, and Hong Kong's athletes have achieved remarkable results in various sports competitions. The Government will continue to allocate resources to promote sports in the community, support elite sports and develop Hong Kong into a centre for major international sports events.

163. I will inject $1 billion into the sports portion of the Arts and Sport Development Fund to support sports organisations in the training of athletes and hosting competitions. I will also allocate $100 million for the launch of a five-year District Sports Programmes Funding Scheme to encourage wider community participation in sports.

164. On top of the $1 billion injection into the Elite Athletes Development Fund announced in January last year, I have decided to inject another $5 billion, bringing the total to $6 billion, into the Fund to provide greater support for elite athletes.

165. I will allocate $500 million for a new Major Sports Events Matching Grant Scheme to encourage the business sector to sponsor large-scale sports events, thereby providing our athletes with more opportunities to compete in high-level competitions on home ground.

166. This year, the LCSD will conduct a comprehensive review of the Sports Subvention Scheme. We will make reference to the review findings and provide the necessary resources for the Scheme. We will also conduct a technical feasibility study on the redevelopment of the Olympic House to provide office and activity space for the Sports Federation & Olympic Committee of Hong Kong, China and "national sports associations".

Environment

167. The Government will continue its endeavour to improve the environment and combat climate change.

168. Following the allocation of $200 million last year, I will set aside another $800 million this year to further promote the installation of renewable energy facilities at government buildings, venues and community facilities. The Government will also enhance tax concessions for capital expenditure incurred by enterprises in procuring eligible energy efficient building installations and renewable energy devices by allowing tax deduction to be claimed in full in one year instead of the current time frame of five years. The Environment Bureau will announce the details later.

169. To improve roadside air quality and reduce air pollutant emissions in a sustained manner, we will continue to encourage walking and the use of public transport, and take forward other initiatives, such as promoting the use of electric vehicles. The current first registration tax (FRT) concessions for electric vehicles will cease on 31 March 2018. Taking into account factors such as the technological development and market situation of electric vehicles, road traffic conditions and views of stakeholders, the Government has decided to continue to waive in full the FRT for electric commercial vehicles, electric motor cycles and electric motor tricycles until 31 March 2021.

170. As for electric private cars, on the one hand, the Government has to contain the number of private cars to prevent traffic congestion and aggravation of roadside air pollution; on the other hand, we hope to encourage car owners to go for electric vehicles as far as possible. Hence, apart from continuing with the current FRT concession of up to $97,500, we will also launch a "one-for-one replacement" scheme from today to allow eligible private car owners who buy a new electric private car and scrap an eligible private car they own to enjoy a higher FRT concession of up to $250,000. The above concessions will remain in force until 31 March 2021. The Environmental Protection Department and Transport Department will announce the details later.

District Facilities

171. There is rising expectation to increase district facilities. The District Councils have also put forward various suggestions in the past such as building community complexes and improving pedestrian links. I will set aside $8 billion to respond to the proposals of the 18 districts. The Home Affairs Bureau will co-ordinate and follow up with the relevant policy bureaux and departments.

172. On public markets, apart from making available resources to build public markets in districts with such needs, I will earmark $2 billion for implementing a Market Modernisation Programme over the next 10 years, which will entail a comprehensive review of nearly 100 existing markets and improvement works including early installation of air-conditioning systems, major overhaul or redevelopment.

Caring and Sharing

173. I will make optimal use of our resources to cater for those in need with the aim to build a caring and sharing society.

Elderly Services

174. Last October's Policy Address proposed an array of measures to improve elderly services, involving a total recurrent provision of about $1,263 million and non-recurrent expenditure of about $2,229 million. These measures include:

(a) increasing the number of vouchers under the Pilot Scheme on Community Care Service Voucher for the Elderly;

(b) setting up the Innovation and Technology Fund for Application in Elderly and Rehabilitation Care;

(c) providing professional outreach services and visiting medical practitioner services for residents in private residential care homes for the elderly and residential care homes for persons with disabilities (RCHDs); and

(d) increasing the salaries of front-line care staff of subsidised elderly service units.

175. Furthermore, I will make an additional provision of about $63 million to provide speech therapy services for elderly service units which will benefit some 22 000 elderly persons with swallowing difficulties or speech impairment.

Rehabilitation Services

176. Last year, the Government announced the provision of trust services for parents whose children have special needs. I will allocate $50 million to set up a dedicated office for this purpose. Moreover, I will make an additional annual provision of $660 million to improve the rehabilitation services through various measures, including:

(a) increasing 2 469 subvented rehabilitation service places and purchasing an additional 500 private RCHD places;

(b) providing speech therapy services in hostels for moderately mentally handicapped persons, hostels for severely mentally handicapped persons, hostels for severely physically handicapped persons with mental handicap and care and attention homes for severely disabled persons;

(c) providing additional places under the Extended Care Programme and Work Extension Programme;

(d) providing clinical psychological service to strengthen support for ex-mentally ill persons and step up community education for early prevention of mental illness, as well as enhancing support for visually impaired persons, children of hearing impaired persons and children of ex-mentally ill persons;

(e) strengthening the professional support provided by medical social workers in the Child Assessment Centres of the DH and the general and psychiatric hospitals of the HA;

(f) regularising the Pilot Project on Strengthening Support for Persons with Autism and their Parents/Carers; and

(g) increasing the number of parents resource centres to support children with disabilities or special needs and their parents or carers.

<u>Supporting the Disadvantaged and Caring for the Young</u>

177. The Government will allocate an additional annual provision of some $92 million to strengthen the manpower for residential child care services, and will make use of the Lotteries Fund to improve the environment of small group homes. The Government will also set up five centres for separated or divorced families, and will strengthen the manpower of Integrated Family Service Centres and Family and Child Protective Services Units of the Social Welfare Department (SWD) to enable early identification and more effective intervention for families at risk of separation or divorce. The additional recurrent provision involved will be around $56 million.

178. In recent months, it is sad to see several child abuse cases. I will allocate some $504 million from the Lotteries Fund to launch a three-year pilot scheme to provide social work services in phases for about 150 000 children and their families in all aided child care centres, kindergartens and kindergarten-cum-child care centres. Moreover, from the 2018/19 school year, more resources will be provided for public sector primary schools to encourage them to strengthen and enhance their social work and counselling services according to school-based circumstances, with a view to ultimately achieving the target of "one school social worker for each school". Besides, we will improve the provision of school social workers in special schools. I will strengthen the manpower of SWD's Family and Child Protective Services Units, and the workforce of NGOs supporting the Educational Programme on Stopping Domestic Violence. The recurrent expenditure involved will amount to some $43 million.

179. I will provide subvention to NGOs for setting up cyber youth support teams to reach out to high-risk or hidden youths to provide early intervention and support. I will also enhance the District Support Scheme for Children and Youth Development by raising the ceiling of cash assistance and increasing the number of quotas for disadvantaged children and youths. The additional recurrent expenditure involved will be $20.5 million and $11 million respectively.

Strengthening Support for Ethnic Minorities

180. There were some 250 000 ethnic minorities in Hong Kong, making up 3.8 per cent of our whole population. Many of them have taken root in Hong Kong and regard Hong Kong as their home. The Government always strives to encourage and facilitate the integration of ethnic minorities into society. Yet, they are still facing a lot of difficulties. To enhance collaboration within the Government on support for the ethnic minorities, the Chief Secretary for Administration will set up a steering committee to co-ordinate, review and monitor work in this area. I will earmark $500 million to strengthen support for ethnic minorities.

Support for Employment

181. To encourage employers to hire job seekers with special employment needs, I will make an additional annual funding of $48 million to enhance the special employment programmes of the Labour Department. These initiatives include:

(a) providing an on-the-job training allowance of up to $4,000 per month for a period of six to 12 months for employers engaging people aged 60 or above who have left the workforce or are unemployed;

(b) raising the monthly on-the-job training allowance ceiling under the Youth Employment and Training Programme by $1,000 to $4,000 per month for a period of six to 12 months; and

(c) extending the work adaptation period under the Work Orientation and Placement Scheme from two months to three months and increasing the maximum amount of allowance payable to employers engaging people with disabilities by $16,000 to $51,000.

Government Outsourcing System

182. The employment rights of non-skilled workers employed by government service contractors is a matter of great concern to the Government. The inter-bureaux/departmental working group set up by the Secretary for Labour and Welfare is exploring options to improve the government outsourcing system with a view to enhancing the protection of the reasonable employment terms and conditions as well as labour benefits of these non-skilled employees. It is expected that the working group will complete the review within this year. I will provide the necessary financial support having regard to the outcome of the review.

Abolishing the Arrangement for "Offsetting" Severance Payment or Long Service Payment against MPF Contributions

183. To effect the abolition of the MPF "offsetting" arrangement, the Government is striving to put forth as soon as possible a proposal which is more acceptable to both employers and employees and will consult major stakeholders. The Government has clearly indicated its willingness to increase its financial commitment, and I will set aside $15 billion for these measures.

Reducing Tax Burdens on Individuals

184. We are working towards the implementation of the two-tiered profits tax rates system. To alleviate the tax burden on salary earners, I propose to implement the following measures starting from the year of assessment 2018-19:

(a) widening the tax bands for salaries tax from the current \$45,000 to \$50,000, increasing the number of tax bands from four to five, and adjusting the marginal tax rates to 2 per cent, 6 per cent, 10 per cent, 14 per cent and 17 per cent respectively. These measures will reduce the tax burden of 1.34 million taxpayers and reduce tax revenue by \$4.09 billion a year;

(b) increasing the basic and additional child allowances from the current \$100,000 to \$120,000. This will benefit 335 000 taxpayers and reduce tax revenue by \$1.31 billion a year;

(c) increasing the allowances for maintaining a dependent parent or grandparent. This will benefit about 607 000 taxpayers and reduce tax revenue by about \$580 million a year. I will make the following three adjustments:

- increasing the allowance for maintaining a dependent parent or grandparent aged 60 or above from the current \$46,000 to \$50,000. The same increase applies to the additional allowance for taxpayers residing with parents or grandparents continuously throughout the year;

- increasing the allowance for maintaining a dependent parent or grandparent aged between 55 and 59 from the current \$23,000 to \$25,000. The same increase applies to the additional allowance for taxpayers residing with parents or grandparents continuously throughout the year; and

- raising the deduction ceiling for elderly residential care expenses from the current \$92,000 to \$100,000 for taxpayers whose parents or grandparents are admitted to residential care homes.

(d) introducing a personal disability allowance for eligible taxpayers, at a rate on par with the current disabled dependent allowance of $75,000. This will reduce tax revenue by about $450 million a year.

185. As for the proposed tax deduction for the premium of the Voluntary Health Insurance Scheme mentioned earlier, it will reduce tax revenue by around $800 million a year. Subject to the passage of the relevant legislative amendments by the LegCo, I hope that the measure will be implemented from the following year of assessment.

186. At present, if both husband and wife have income assessable to tax and wish to elect for personal assessment, they must jointly make an election. I propose to relax this requirement starting from the year of assessment 2018-19 by allowing the husband and wife the option to decide whether to elect for personal assessment, thereby providing greater flexibility to taxpayers. The relaxation will entail amendments to the Inland Revenue Ordinance.

Sharing Fruits of Success

Other Concessionary Measures

187. Having regard to our substantial fiscal surplus this year, I will introduce the following measures to share the fruits of our economic success with the community:

(a) reducing salaries tax and tax under personal assessment for 2017-18 by 75 per cent, subject to a ceiling of $30,000. The reduction will be reflected in the final tax payable for 2017-18. This will benefit 1.88 million taxpayers and reduce tax revenue by $22.6 billion;

(b) reducing profits tax for 2017-18 by 75 per cent, subject to a ceiling of $30,000. The reduction will be reflected in the final tax payable for 2017-18. This will benefit 142 000 taxpayers and reduce tax revenue by $2.9 billion;

(c) waiving rates for four quarters of 2018-19, subject to a ceiling of $2,500 per quarter for each rateable property. This proposal is estimated to benefit 3.25 million properties and reduce government revenue by $17.8 billion;

(d) providing an extra allowance to social security recipients, equal to two months of the standard rate Comprehensive Social Security Assistance (CSSA) payments, Old Age Allowance, OALA or Disability Allowance. This will involve an additional expenditure of about $7 billion. Similar arrangements will apply to recipients of Low-income Working Family Allowance and Work Incentive Transport Subsidy, involving an additional expenditure of about $379 million. Moreover, I will invite the CCF to consider providing short-term relief for low-income households not living in public housing and not receiving CSSA (commonly known as the "N have-nots households");

(e) providing a one-off grant of $2,000 to each student in need to support learning, involving an expenditure of about $740 million; and

(f) paying the examination fees for candidates sitting for the 2019 Hong Kong Diploma of Secondary Education Examination, involving an expenditure of about $180 million.

Estimates for 2018-19

188. The major policy initiatives announced by the Chief Executive in her Policy Address involve an operating expenditure of $40 billion and capital expenditure of $23.5 billion. I will ensure that adequate resources are provided to fully support the launch of these initiatives.

189. Total government revenue for 2018-19 is estimated to be $604.5 billion, of which earnings and profits tax is estimated at $218.4 billion. The revenue from land premium is estimated to be $121 billion, while that from stamp duties is estimated to be $100 billion. The overall expenditure of the Government for 2018-19 is estimated to be $557.9 billion, an increase of 17.6 per cent compared with the revised estimate for 2017-18. Operating expenditure for 2018-19 is estimated to be $441.5 billion, a year-on-year increase of 18.4 per cent or $68.6 billion. Recurrent expenditure, which accounts for over 90 per cent of operating expenditure, will reach $406.5 billion, a year-on-year increase of 11.8 per cent or $42.8 billion.

190. In 2018-19, the estimated recurrent expenditure on education, social welfare and healthcare accounts for about 60 per cent of government recurrent expenditure, exceeding $230 billion in total. Recurrent expenditure in these three areas recorded a cumulative increase of 42.8 per cent over the past five years.

191. The Government will increase manpower to support the implementation of various new policies and initiatives and ease the work pressure on civil servants. In 2018-19, the civil service establishment is expected to expand by 6 700 posts to 188 451. This represents a year-on-year increase of about 3.7 per cent, the highest since reunification.

192. Moreover, I will allocate a one-off provision to policy bureaux in 2018-19, equivalent to three per cent of the recurrent non-personal emoluments portion of their envelopes, to allow greater operational flexibility in coping with price adjustments, implementing new initiatives of a smaller scale or making service improvement.

193. Taking all these into account, I forecast a surplus of \$46.6 billion in the Consolidated Account in the coming year. Fiscal reserves are estimated to be \$1,138.6 billion by the end of March 2019, equivalent to 40.3 per cent of GDP.

Medium Range Forecast

194. For the medium term, the average growth rate is forecast to be three per cent per annum in real terms from 2019 to 2022, slightly higher than the trend growth rate of 2.7 per cent over the past decade; and the underlying inflation rate is expected to average 2.5 per cent per annum. The medium-term economic forecast has taken into account the impact of an ageing population on economic growth, with the assumption that there are no severe external shocks during the period. That said, as the complicated and volatile political and economic environment around the world may cause fluctuations in the financial markets, and affect Hong Kong's asset prices and economic sentiments, we must remain vigilant.

195. The Medium Range Forecast projects, mainly from a macro perspective, the Government's expenditure requirements from 2019-20 to 2022-23. It is noteworthy that annual expenditure on infrastructure projects will soon exceed $100 billion, but this projection has not fully reflected the expenditure that may be incurred by all the land development, highway and railway projects under planning. Besides, over the medium term from 2019-20 to 2022-23, growth of recurrent government expenditure is estimated to range between 6.1 per cent and 9.7 per cent per annum, consistently higher than the average annual nominal economic growth of five per cent over the same period.

196. Regarding revenue, the land premium estimate for 2018-19 mainly makes reference to the Land Sale Programme and the land supply target of the coming year. From 2019-20 onwards, the medium range forecast on land premium is based on the average proportion of land revenue to GDP over the past decade, which is 3.6 per cent of GDP. I also assume that the growth rate of revenue from profits tax and other taxes will be similar to the economic growth rate in the next few years.

197. Based on the above assumptions, I forecast an annual surplus in the Operating Account for the coming five financial years but a small deficit would surface in the Capital Account in 2021-22. Fiscal reserves are estimated at $1,222.6 billion by the end of March 2023, representing 35.6 per cent of GDP or equivalent to 21 months of government expenditure.

198. Taking all these into account, the Government will have an overall surplus in the next five years. The above forecast has not taken into account the tax rebate and relief measures that the Government may implement from 2019-20 to 2022-23.

Concluding Remarks

199. Mr President, in planning and preparing this Budget, I have been wrestling with what kind of a Budget would enable Hong Kong to forge ahead and make it a better place to live and work in. In formulating the initiatives in this Budget, I have taken into account the views received from different stakeholders and members of the public whom I consulted. The Budget is not a panacea for all our problems, but I am deeply grateful for the many people who devote themselves to the betterment of our home, Hong Kong. Their devotion has bolstered my confidence in the future.

200. Our country's economic development has entered a new phase. This, coupled with the ever-changing global economic landscape, has created a very favourable external environment for Hong Kong. If we can capitalise on the opportunities, the wind beneath our wings will bear Hong Kong far and high.

201. On the economic front, the current-term Government is ready to think out of the box and act proactively to open up new horizons for Hong Kong. To improve people's livelihood, we are resolute in devoting resources and will spare no effort in solving problems.

202. Over the years, Hong Kong has weathered many storms, and always emerged stronger through changes. What remain unchanged are our commitment to diversity and openness, our pursuit of fairness and justice, and our aspiration for a happy life. I strongly believe that as long as we embrace hope, find the right direction and steel our resolve, we will be able to brave the wind and the billows to turn our dreams into reality.

203. Thank you, Mr President!

THE 2018-19 BUDGET

Speech by the Financial Secretary, the Hon Paul MP Chan
moving the Second Reading of the Appropriation Bill 2018

Supplement and Appendices

Wednesday, 28 February 2018

SUPPLEMENT

Please visit our web-site at www.budget.gov.hk/2018/eng/speech.html for all documents, appendices and statistics relating to the 2018-19 Budget. The Chinese version can be found at www.budget.gov.hk/2018/chi/speech.html.

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EFFECT OF THE PROPOSED RATES CONCESSION[1] ON MAIN PROPERTY CLASSES

Property Type	*2018-19* [2] *No Concession* *Average Rates Payable ($ for the year)*	*Average Rates Payable ($ per month)*	*With Rates Concession* *Average Rates Payable ($ for the year)*	*Average Rates Payable ($ per month)*
Private Domestic Premises[3]				
Small	6,384	532	216	18
Medium	13,368	1,114	4,152	346
Large	28,716	2,393	19,128	1,594
Public Domestic Premises[4]	3,108	259	2	less than 1
All Domestic Premises[5]	**6,252**	**521**	**1,080**	**90**
Shops and Commercial Premises	45,600	3,800	37,728	3,144
Offices	50,916	4,243	42,372	3,531
Industrial Premises[6]	17,760	1,480	10,548	879
All Non-domestic Premises[7]	**40,368**	**3,364**	**33,552**	**2,796**
All Properties	**10,584**	**882**	**5,208**	**434**

(1) The proposal involves rates concession for four quarters of 2018-19, subject to a ceiling of $2,500 per quarter. About 87.2% of domestic ratepayers and 54.9% of non-domestic ratepayers (or 83.1% overall) need not pay any rates during 2018-19.

(2) The rates payable have reflected the changes in rateable values for 2018-19 after the General Revaluation.

(3) Domestic units are classified by saleable areas, as follows –

Small	up to 69.9m²	(up to 752 ft²)
Medium	70m² to 99.9m²	(753 ft² to 1 075 ft²)
Large	100m² and over	(1 076 ft² and over)

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

(5) Including car parking spaces in domestic premises.

(6) Including factories and storage premises.

(7) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools and car parking spaces in non-domestic premises.

SALARIES TAX

Proposed Changes to Tax Bands

Present		*Proposed*	
Tax Band Net chargeable income	**Marginal Tax Rate (%)**	**Tax Band** Net chargeable income	**Marginal Tax Rate (%)**
First $45,000	2	First $50,000	2
Next $45,000	7	Next $50,000	6
Next $45,000	12	Next $50,000	10
Remainder	17	Next $50,000	14
		Remainder	17
	Standard Rate* (%)		**Standard Rate* (%)**
	15		15

* Salaries tax payable is calculated at progressive rates on a taxpayer's net chargeable income or at standard rate on his/her net income (before deduction of the allowances), whichever is lower.

Proposed Changes to Allowances and Deductions

	Present ($)	*Proposed* ($)	*Increase* ($)	(%)
Personal Allowances:				
Basic	132,000	132,000	—	—
Married	264,000	264,000	—	—
Single Parent	132,000	132,000	—	—
Disabled	—	75,000	New allowance	
Other Allowances:				
Child:				
1st to 9th child				
Year of birth	200,000	240,000	40,000	20
Other years	100,000	120,000	20,000	20
Dependent Parent/Grandparent:				
Aged 60 or above				
Basic	46,000	50,000	4,000	9
Additional allowance (for a dependant living with the taxpayer)	46,000	50,000	4,000	9
Aged 55 to 59				
Basic	23,000	25,000	2,000	9
Additional allowance (for a dependant living with the taxpayer)	23,000	25,000	2,000	9
Dependent Brother/Sister	37,500	37,500	—	—
Disabled Dependant	75,000	75,000	—	—
Deduction Ceiling:				
Self-Education Expenses	100,000	100,000	—	—
Home Loan Interest (Number of years of deduction)	100,000 (20 years of assessment)	100,000 (20 years of assessment)	—	—
Approved Charitable Donations	35% of income	35% of income	—	—
Elderly Residential Care Expenses	92,000	100,000	8,000	9
Contributions to Recognised Retirement Schemes	18,000	18,000	—	—

EFFECT OF THE PROPOSED ONE-OFF REDUCTION OF SALARIES TAX, TAX UNDER PERSONAL ASSESSMENT AND PROFITS TAX

Year of Assessment 2017/18

Salaries tax and tax under personal assessment-
75% tax reduction subject to a cap at $30,000 per case

Assessable Income	No. of taxpayers	Average amount of tax reduction	Average % of tax reduced
$200,000 and below	307 000	$590	75%
$200,001 to $300,000	406 000	$3,010	75%
$300,001 to $400,000	314 000	$7,870	75%
$400,001 to $600,000	386 000	$15,730	70%
$600,001 to $900,000	244 000	$25,070	48%
Above $900,000	219 000	$29,880	12%
Total	1 876 000	—	—

Note: As at 31 December 2017, Hong Kong had a working population of 3.96 million.

Profits tax-
75% tax reduction subject to a cap at $30,000 per case

Assessable Profits	No. of businesses#	Average amount of tax reduction	Average % of tax reduced
$100,000 and below	44 000	$4,170	75%
$100,001 to $200,000	19 000	$17,690	75%
$200,001 to $300,000	12 000	$28,110	72%
$300,001 to $400,000	8 000	$30,000	54%
$400,001 to $600,000	10 000	$30,000	38%
$600,001 to $900,000	9 000	$30,000	26%
Above $900,000	40 000	$30,000	1%
Total	142 000	—	—

Note: As at 31 December 2017, there were about 1.26 million corporations and 260 000 unincorporated businesses in Hong Kong.

Including 110 000 corporations and 32 000 unincorporated businesses.

ECONOMIC PERFORMANCE IN 2017

1. Rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2017 *(Note 1)*:

			(%)
(a)	Growth rates in real terms of:		
	Private consumption expenditure		5.4
	Government consumption expenditure		3.4
	Gross domestic fixed capital formation		4.2
	of which :		
	Building and construction	3.0	
	Machinery, equipment and intellectual property products	1.9	
	Total exports of goods		5.9
	Imports of goods		6.9
	Exports of services		3.5
	Imports of services		1.8
	Gross Domestic Product (GDP)		**3.8**
	Per capita GDP in real terms		3.0
	Per capita GDP at current market prices	HK$360,200 (US$46,200)	
(b)	Rates of change in:		
	Underlying Composite Consumer Price Index		**1.7**
	GDP Deflator		**3.0**
	Government Consumption Expenditure Deflator		**2.4**
(c)	**Growth rate of nominal GDP**		**6.9**

2. Annual rates of change in total exports based on external merchandise trade index numbers:

	Total exports	
	In value terms (%)	***In real terms*** (%)
2015	-2	-2
2016	0	1
2017	8	6

3. Annual rates of change in real terms of total exports by major market based on external merchandise trade quantum index numbers:

	Total exports					
	Total (%)	***The Mainland*** (%)	***EU*** (%)	***US*** (%)	***India*** (%)	***Japan*** (%)
2015	-2	-2	-4	1	8	-4
2016	1	2	-1	-2	18	-2
2017	6	5	5	2	35	10

4. Annual rates of change in real terms of imports and retained imports based on external merchandise trade quantum index numbers:

	Imports (%)	***Retained imports*** (%)
2015	-3	-7
2016	1	-1
2017	7	8

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

	Exports of services				
	Total (%)	***Transport services*** (%)	***Travel services*** (%)	***Financial services*** (%)	***Other services*** (%)
2015	0	1	-4	9	-1
2016	-3	2	-9	-5	0
2017 *(Note 1)*	4	7	1	4	1

6. Hong Kong's goods and services trade balance in 2017 reckoned on GDP basis *(Note 1)*:

	(HK$ billion)	
Total exports of goods	4,190.2	
Imports of goods	4,377.2	
Goods trade balance		**-187.0**
Exports of services	810.3	
Imports of services	602.3	
Services trade balance		**208.1**
Combined goods and services trade balance		**21.0**

Note 1 *Preliminary figures.*

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

	Unemployment rate (%)	***Underemployment rate*** (%)	***Growth in labour force*** (%)	***Growth in total employment*** (%)
2015	3.3	1.4	0.8	0.8
2016	3.4	1.4	0.4	0.4
2017	3.1	1.1	0.9	1.2

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

	Composite CPI				
	Underlying (%)	***Headline*** (%)	***CPI(A)*** (%)	***CPI(B)*** (%)	***CPI(C)*** (%)
2015	2.5	3.0	4.0	2.9	2.1
2016	2.3	2.4	2.8	2.3	2.1
2017	1.7	1.5	1.5	1.4	1.5

ECONOMIC PROSPECTS FOR 2018

Forecast rates of change in the Gross Domestic Product and prices in 2018:

		(%)
Gross Domestic Product (GDP)		
Real GDP		**3 to 4**
Nominal GDP		5.5 to 6.5
Per capita GDP in real terms		2.2 to 3.1
Per capita GDP at current market prices	HK$376,900-380,500 (US$48,300-48,800)	
Composite Consumer Price Index		
Underlying Composite Consumer Price Index		**2.5**
Headline Composite Consumer Price Index		**2.2**
GDP Deflator		**2.5**

APPENDICES

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Note: Expenditure figures for 2017-18 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2018-19 estimate.

APPENDIX A

MEDIUM RANGE FORECAST

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SECTION I FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

1 The Medium Range Forecast (MRF) is a fiscal planning tool. It sets out the high-level forecast of government expenditure and revenue covering the five-year period including the budget year, i.e. from 2018-19 to 2022-23.

2 A wide range of assumptions underlying the factors affecting Government's revenue and expenditure are used to derive the MRF. Some assumptions are economic in nature (the general economic assumptions) while others deal with specific areas of Government's activities (other assumptions).

General Economic Assumptions

Real Gross Domestic Product (real GDP)

3 GDP is forecast to increase by 3% to 4% in real terms in 2018. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2019 to 2022, the trend growth rate of the economy in real terms is assumed to be 3% per annum.

Price change

4 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 2.5% in 2018. For the four-year period 2019 to 2022, the GDP deflator is assumed to increase at a trend rate of 2% per annum.

5 The Composite Consumer Price Index (CCPI), measuring inflation in the consumer domain, is forecast to increase by 2.2% in 2018. Netting out the effects of various one-off relief measures, the underlying CCPI is forecast to increase by 2.5% in 2018. For the ensuing period 2019 to 2022, the trend rate of increase for the underlying CCPI is assumed to be 2.5% per annum.

Nominal Gross Domestic Product (nominal GDP)

6 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 5.5% to 6.5% in 2018, and the trend growth rate in nominal terms for the period 2019 to 2022 is assumed to be 5% per annum.

Other Assumptions

7 Other assumptions on expenditure and revenue patterns over the forecast period are as follows –

— The operating expenditure for 2019-20 and beyond represents the forecast expenditure requirements for Government.

— The capital expenditure for 2018-19 and beyond reflects the estimated cash flow requirements for capital projects including approved capital works projects and those at an advanced stage of planning.

— The revenue projections for 2019-20 and beyond basically reflect the relevant trend yields.

Budgetary Criteria

8 Article 107 of the Basic Law stipulates that *"The Hong Kong Special Administrative Region shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product."*

9 Article 108 of the Basic Law stipulates that *"... The Hong Kong Special Administrative Region shall, taking the low tax policy previously pursued in Hong Kong as reference, enact laws on its own concerning types of taxes, tax rates, tax reductions, allowances and exemptions, and other matters of taxation."*

10 For the purpose of preparing the MRF, the following criteria are also relevant –

— *Budget surplus/deficit*

The Government aims to achieve, over time, a balance in the consolidated account.

— *Expenditure policy*

The general principle is that, over time, the growth rate of expenditure should commensurate with the growth rate of the economy.

— *Revenue policy*

The Government aims 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

11 The financial position of the Government for the current MRF period *(Note (a))* is summarised below –

Table 1

($ million)	2017-18 Revised Estimate	2018-19 Estimate	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast	2022-23 Forecast
Operating Account						
Operating revenue *(Note (b))*	436,885	456,139	507,974	504,993	531,965	568,654
Less: Operating expenditure *(Note (c))*	372,870	441,500	470,300	498,000	526,000	557,100
Operating surplus	**64,015**	**14,639**	**37,674**	**6,993**	**5,965**	**11,554**
Capital Account						
Capital revenue *(Note (d))*	175,500	148,370	125,690	129,899	138,050	147,059
Less: Capital expenditure *(Note (e))*	101,536	116,388	117,851	121,874	138,956	138,664
Capital surplus / (deficit)	**73,964**	**31,982**	**7,839**	**8,025**	**(906)**	**8,395**
Consolidated Account						
Government revenue	612,385	604,509	633,664	634,892	670,015	715,713
Less: Government expenditure	474,406	557,888	588,151	619,874	664,956	695,764
Consolidated surplus before repayment of bonds and notes	**137,979**	**46,621**	**45,513**	**15,018**	**5,059**	**19,949**
Less: Repayment of bonds and notes *(Note (f))*	-	-	1,500	-	-	-
Consolidated surplus after repayment of bonds and notes	**137,979**	**46,621**	**44,013**	**15,018**	**5,059**	**19,949**
Fiscal reserves at 31 March	**1,091,939**	**1,138,560**	**1,182,573**	**1,197,591**	**1,202,650**	**1,222,599**
In terms of number of months of government expenditure	28	24	24	23	22	21
In terms of percentage of GDP	41.0%	40.3%	39.9%	38.5%	36.8%	35.6%

Fiscal Reserves

12 Part of the fiscal reserves has, since 1 January 2016, been held in a notional savings account called the Future Fund, which is placed with the Exchange Fund with a view to securing higher investment returns over a ten-year investment period. The initial endowment of the Future Fund was $219,730 million, being the balance of the Land Fund on 1 January 2016. $4.8 billion of the consolidated surplus from the Operating and Capital Reserves was transferred to the Future Fund as top-up in 2016-17. The arrangement thereafter is subject to an annual review by the Financial Secretary.

Table 2

Distribution of fiscal reserves at 31 March

($ million)	2017-18 Revised Estimate	**2018-19 Estimate**	Future Fund	Operating and Capital Reserves	Total
General Revenue Account	619,925	**715,770**	4,800*	710,970	715,770
Funds with designated use	252,284	**203,060**		203,060	203,060
Capital Works Reserve Fund	180,578	**132,194**		132,194	132,194
Capital Investment Fund	2,917	**2,583**		2,583	2,583
Civil Service Pension Reserve Fund	35,129	**38,316**		38,316	38,316
Disaster Relief Fund	17	**80**		80	80
Innovation and Technology Fund	6,776	**4,979**		4,979	4,979
Loan Fund	3,726	**2,557**		2,557	2,557
Lotteries Fund	23,141	**22,351**		22,351	22,351
Land Fund	219,730	**219,730**	219,730	-	219,730
	1,091,939	**1,138,560**	224,530	914,030	1,138,560
In terms of number of months of government expenditure	28	24	5	19	24

* Being one-third of 2015-16 consolidated surplus.

13 The fiscal reserves would be drawn on to fund contingent and other liabilities. As detailed in Section IV, these include over $350 billion for capital works projects under way and about $470 billion as statutory pension obligations in the coming ten years.

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 2018-19 Budget, and is made up of –

($ million)	2017-18 Revised Estimate	2018-19 Estimate	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast	2022-23 Forecast
Operating revenue before investment income	421,262	428,470	482,570	480,273	505,252	535,912
Investment income	15,623	27,669	25,404	24,720	26,713	32,742
Total	436,885	456,139	507,974	504,993	531,965	568,654

(ii) Investment income under the Operating Account includes investment income of the General Revenue Account (other than the portion notionally held for the Future Fund) which is credited to revenue head Properties and Investments. The rate of investment return is 4.6% for 2018 (vs 2.8% for 2017) and is assumed to be in the range of 3.7% to 4.9% a year for 2019 to 2022.

(iii) Investment income of the Future Fund includes investment income of the relevant portion of the General Revenue Account and investment income of the Land Fund, compounded on an annual basis. It will be retained by the Exchange Fund for reinvestment and will not be paid to Government until the end of the ten-year placement (i.e. 31 December 2025) or a date as directed by the Financial Secretary.

(c) Operating expenditure

This represents expenditure charged to the Operating Account of the General Revenue Account. The figures for 2019-20 and beyond set out the forecast expenditure requirements for Government.

(d) *Capital revenue*

(i) The breakdown of capital revenue is –

($ million)	2017-18 Revised Estimate	2018-19 Estimate	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast	2022-23 Forecast
General Revenue Account	1,390	10,184	5,176	3,906	4,434	4,433
Capital Investment Fund	818	1,238	911	1,016	1,211	1,181
Capital Works Reserve Fund	163,687	121,010	106,686	112,021	117,623	123,502
Disaster Relief Fund	1	-	-	-	-	-
Innovation and Technology Fund	51	4	-	-	-	-
Loan Fund	2,276	2,273	2,309	2,339	3,022	3,470
Lotteries Fund	1,167	1,152	1,135	1,119	1,103	1,087
Capital revenue before asset sales and investment income	169,390	135,861	116,217	120,401	127,393	133,673
Asset sales	293	371	460	412	412	412
Investment income	5,817	12,138	9,013	9,086	10,245	12,974
Total	175,500	148,370	125,690	129,899	138,050	147,059

(ii) Land premium included under the Capital Works Reserve Fund for 2018-19 is estimated to be $121.0 billion. For 2019-20 onwards, it is assumed to be 3.6% of GDP, being the ten-year historical average.

(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. The rate of investment return is 4.6% for 2018 (vs 2.8% for 2017) and is assumed to be in the range of 3.7% to 4.9% a year for 2019 to 2022.

(e) *Capital expenditure*

The breakdown of capital expenditure is –

($ million)	2017-18 Revised Estimate	2018-19 Estimate	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast	2022-23 Forecast
General Revenue Account	4,525	6,388	7,196	8,088	6,881	7,043
Capital Investment Fund	1,058	1,694	4,141	2,818	2,718	1,552
Capital Works Reserve Fund	87,815	98,293	97,018	101,663	122,700	123,869
Disaster Relief Fund	63	-	-	-	-	-
Innovation and Technology Fund	1,484	2,085	2,313	2,422	2,109	2,099
Loan Fund	5,148	4,947	2,742	2,681	2,667	2,648
Lotteries Fund	1,443	2,981	4,441	4,202	1,881	1,453
Total	101,536	116,388	117,851	121,874	138,956	138,664

(f) *Repayment of bonds and notes*

Repayment of bonds and notes is only in respect of the global bond issue in 2004. The outstanding principal of $1,500 million would be fully repaid in 2019-20.

(g) *Housing Reserve*

The Housing Reserve, which was established in 2014 to support large-scale public housing development projects, now stands at $78.8 billion. The sum is retained within the Exchange Fund to earn the same rate of investment return as stipulated in *Note (b)(ii)*. The Housing Reserve is kept outside the Government's accounts and does not form part of the fiscal reserves. Government will seek the approval of the Finance Committee before offering to draw on the Housing Reserve for injections into the Housing Authority.

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

14 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 3

($ million)	2017-18 Revised Estimate	2018-19 Estimate	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast	2022-23 Forecast
Operating expenditure	372,870	441,500	470,300	498,000	526,000	557,100
Capital expenditure	101,536	116,388	117,851	121,874	138,956	138,664
Government expenditure	474,406	557,888	588,151	619,874	664,956	695,764
Expenditure by other public bodies	38,306	40,695	40,502	43,649	45,797	47,415
Public expenditure *(Note (a))*	512,712	598,583	628,653	663,523	710,753	743,179
Gross Domestic Product (calendar year)	2,662,637	2,822,400	2,963,500	3,111,700	3,267,300	3,430,600
Nominal growth in GDP *(Note (b))*	6.9%	6.0%	5.0%	5.0%	5.0%	5.0%
Growth in recurrent government expenditure *(Note (c))*	5.5%	11.8%	9.7%	6.8%	6.1%	6.4%
Growth in government expenditure *(Note (c))*	2.7%	17.6%	5.4%	5.4%	7.3%	4.6%
Growth in public expenditure *(Note (c))*	3.6%	16.7%	5.0%	5.5%	7.1%	4.6%
Public expenditure in terms of percentage of GDP	19.3%	21.2%	21.2%	21.3%	21.8%	21.7%

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 2018-19, the nominal GDP growth of 6% represents the mid-point of the range forecast of 5.5% to 6.5% for the calendar year 2018.

(c) The growth rates for 2017-18 to 2022-23 refer to year-on-year change. For example, the rates for 2017-18 refer to the change between revised estimate for 2017-18 and actual expenditure in 2016-17. The rates for 2018-19 refer to the change between the 2018-19 estimate and the 2017-18 revised estimate, and so forth.

15 Table 4 shows the relationship amongst the sum to be appropriated in the 2018-19 Budget, government expenditure and public expenditure.

Relationship between Government Expenditure and Public Expenditure in 2018-19

Table 4

($ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	406,494	406,494	-	406,494	406,494
Non-recurrent	35,006	35,006	-	35,006	35,006
Capital					
Plant, equipment and works	4,014	-	4,014	4,014	4,014
Subventions	2,374	-	2,374	2,374	2,374
	447,888	441,500	6,388	447,888	447,888
Transfer to Funds	2,590	-	-	-	-
Capital Investment Fund	-	-	1,694	1,694	1,694
Capital Works Reserve Fund	-	-	98,293	98,293	98,293
Innovation and Technology Fund	-	-	2,085	2,085	2,085
Loan Fund	-	-	4,947	4,947	4,947
Lotteries Fund	-	-	2,981	2,981	2,981
Trading Funds	-	-	-	-	5,546
Housing Authority	-	-	-	-	35,149
	450,478	441,500	116,388	557,888	598,583
Revenue					
General Revenue Account					
Taxation		389,217	15	389,232	
Other revenue		66,922	10,169	77,091	
		456,139	10,184	466,323	
Capital Investment Fund		-	1,360	1,360	
Capital Works Reserve Fund		-	129,909	129,909	
Civil Service Pension Reserve Fund		-	1,657	1,657	
Disaster Relief Fund		-	3	3	
Innovation and Technology Fund		-	288	288	
Loan Fund		-	2,778	2,778	
Lotteries Fund		-	2,191	2,191	
		456,139	148,370	604,509	
Surplus		14,639	31,982	46,621	

SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES

16 The Government's contingent liabilities as at 31 March 2017, 31 March 2018 and 31 March 2019, are provided below as supplementary information to the MRF –

Table 5

($ million)	At 31 March 2017	2018	2019
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	36,799	39,528	42,037
Legal claims, disputes and proceedings	29,324	30,021	26,243
Guarantees provided under the SME Financing Guarantee Scheme – Special Concessionary Measures	20,811	18,147	10,721
Subscription to callable shares in the Asian Development Bank	5,804	6,110	6,110
Guarantees provided under the SME Loan Guarantee Scheme	4,544	4,482	4,801
Subscription to callable shares in the Asian Infrastructure Investment Bank	-	4,782	4,782
Guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation	1,957	1,911	1,866
Guarantees provided under the Special Loan Guarantee Scheme	899	307	219
Total	100,138	105,288	96,779

17 The Government's major unfunded liabilities as at 31 March 2017 were as follows –

($ million)	
Present value of statutory pension obligations *(Note (a))*	919,197
Untaken leave *(Note (b))*	27,232
Government bonds and notes issued in 2004	1,500

Notes –

(a) The statutory pension obligations for the coming ten years are estimated to be about $470 billion in money of the day.

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

18 The estimated outstanding commitments of capital works projects as at 31 March 2017 and 31 March 2018 are $310,334 million and $350,711 million respectively. Some of these are contractual commitments.

APPENDIX B

ANALYSIS OF EXPENDITURE AND REVENUE

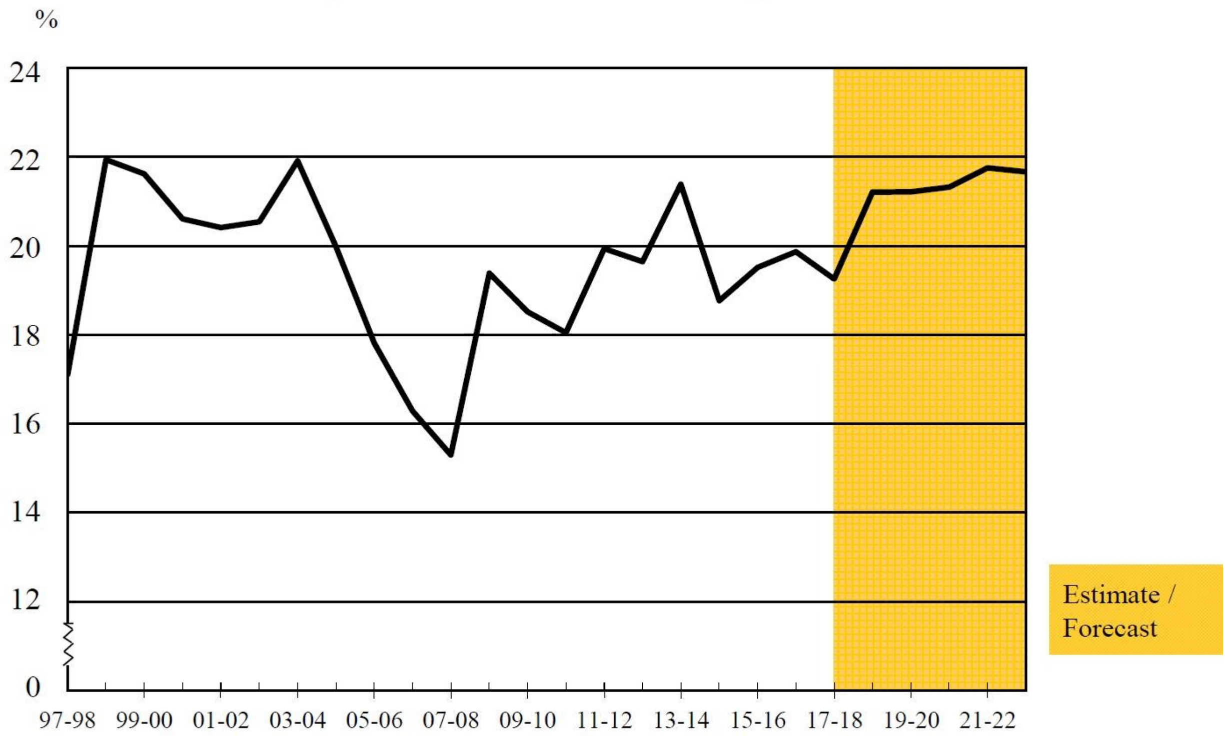
CONTENTS **Page**

SECTION I THE ESTIMATES IN THE CONTEXT OF THE ECONOMY

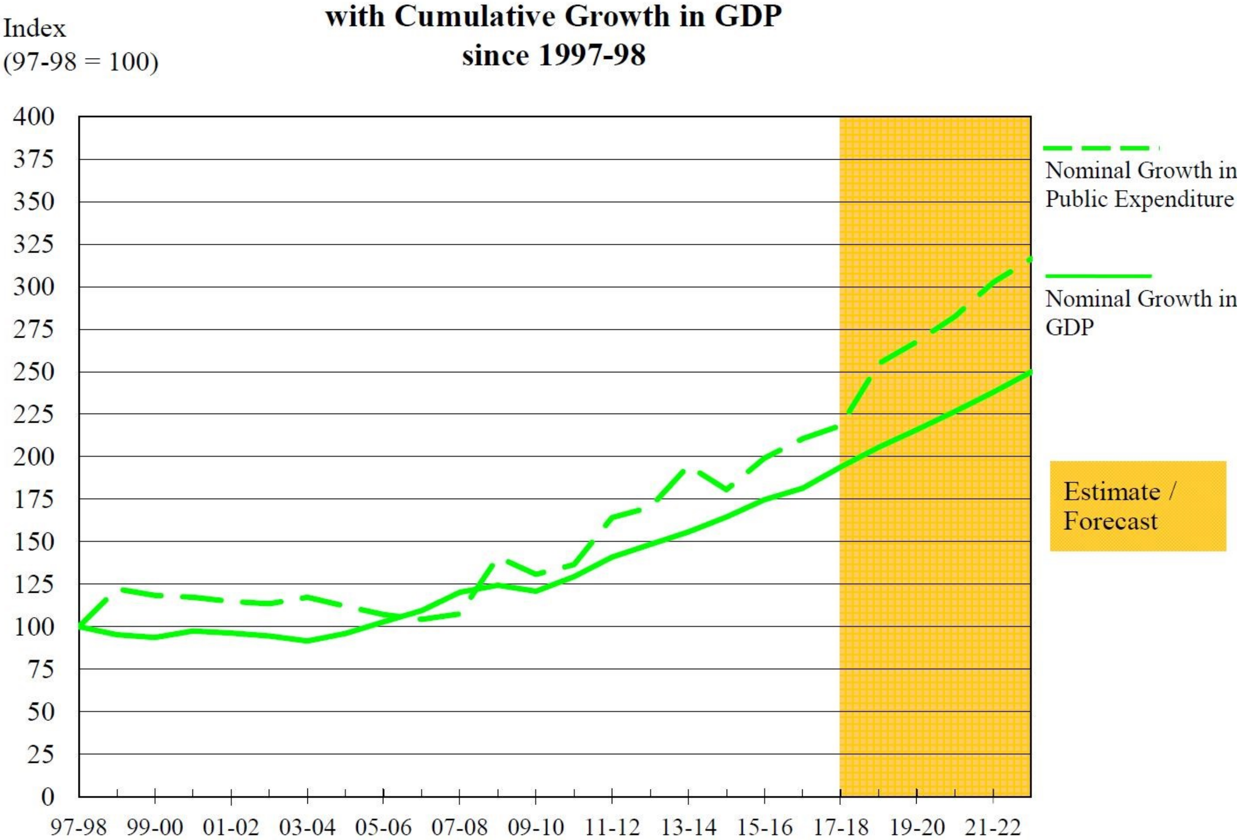
Relationship between Government Expenditure, Public Expenditure and GDP

	2018-19 Estimate $m
General Revenue Account	
Operating	441,500
Capital	6,388
	447,888
Capital Investment Fund	1,694
Capital Works Reserve Fund	98,293
Innovation and Technology Fund	2,085
Loan Fund	4,947
Lotteries Fund	2,981
Government Expenditure	**557,888**
Trading Funds	5,546
Housing Authority	35,149
Public Expenditure	**598,583**
GDP	2,822,400
Public Expenditure in terms of percentage of GDP	21.2%

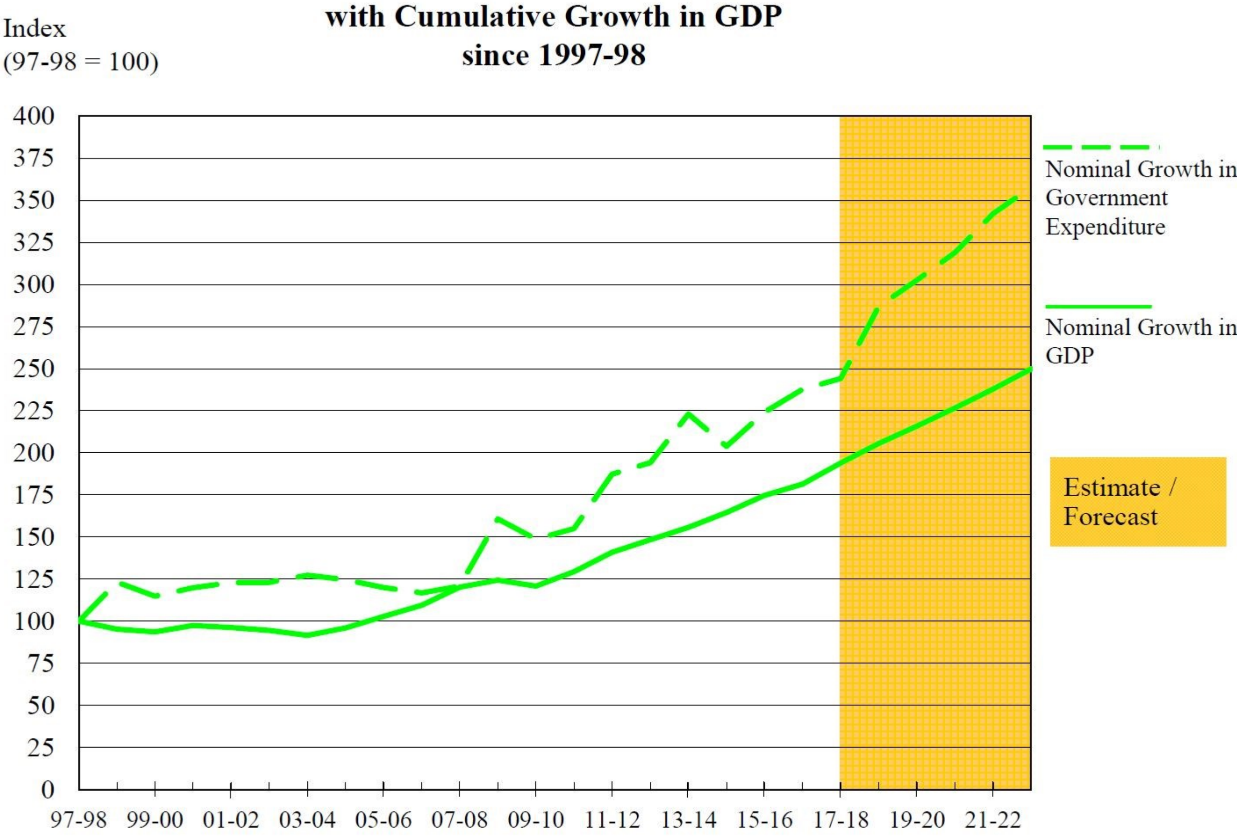
Public Expenditure in terms of Percentage of GDP



Comparison of Cumulative Growth in Public Expenditure with Cumulative Growth in GDP since 1997-98

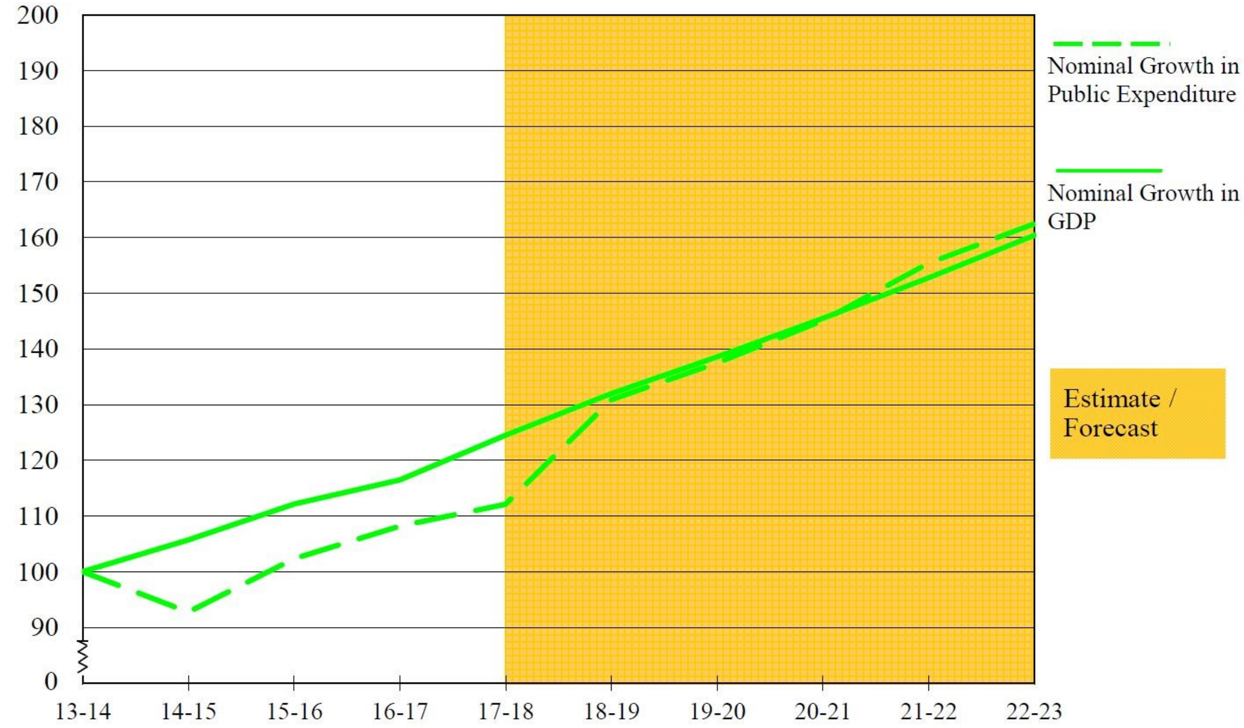


Comparison of Cumulative Growth in Government Expenditure with Cumulative Growth in GDP since 1997-98



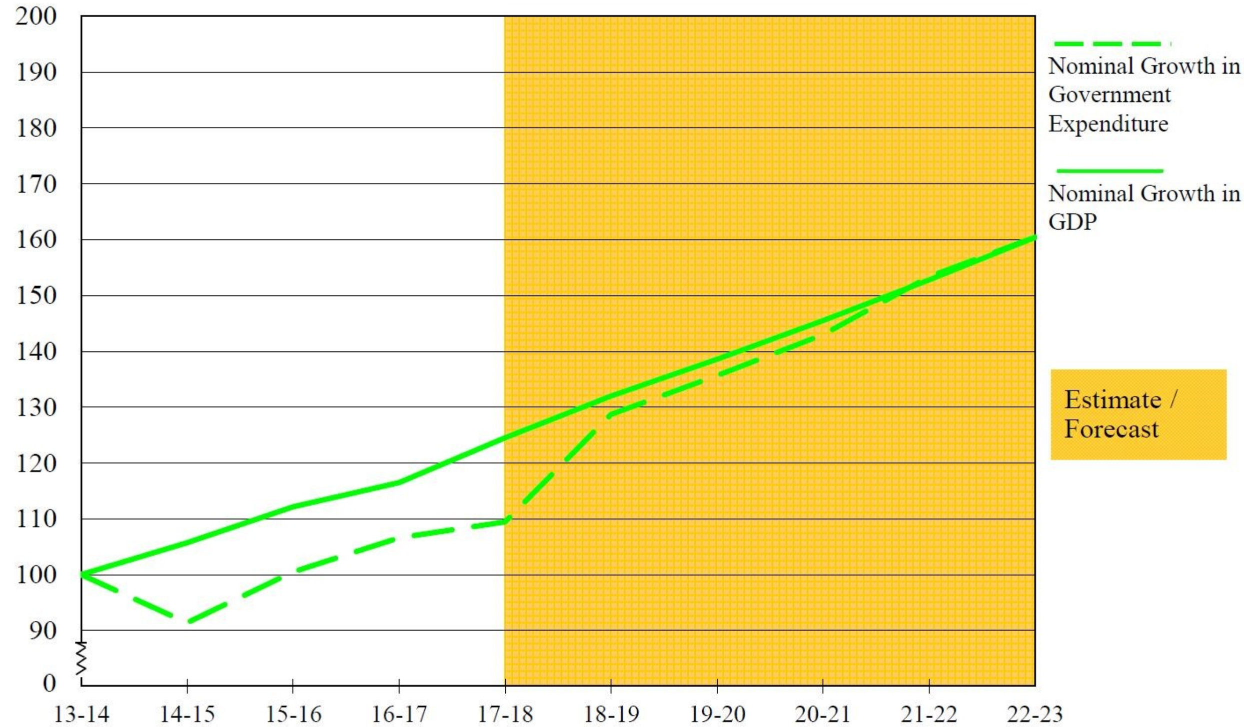
Comparison of Cumulative Growth in Public Expenditure with Cumulative Growth in GDP since 2013-14

Index (13-14 = 100)



Comparison of Cumulative Growth in Government Expenditure with Cumulative Growth in GDP since 2013-14

Index (13-14 = 100)



SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Recurrent Public Expenditure : Year-on-Year Change

	2016-17 Actual $m	2017-18 Revised Estimate $m	**2018-19 Estimate $m**	**Increase/Decrease over 2017-18 Revised Estimate in Nominal Terms %**	**in Real Terms %**
Education	75,533	80,141	**84,649**	**5.6**	**4.9**
Social Welfare	63,548	65,832	**79,824**	**21.3**	**19.9**
Health	58,712	62,802	**71,158**	**13.3**	**12.5**
Security	38,933	40,741	**44,861**	**10.1**	**9.4**
Infrastructure	21,045	22,267	**25,173**	**13.1**	**12.0**
Environment and Food	14,551	15,467	**17,739**	**14.7**	**13.0**
Economic	15,082	16,271	**17,728**	**9.0**	**7.3**
Housing	13,616	14,434	**15,495**	**7.4**	**4.9**
Community and External Affairs	12,227	12,692	**13,263**	**4.5**	**3.0**
Support	48,872	52,050	**56,921**	**9.4**	**9.0**
	362,119	382,697	**426,811**	**11.5**	**10.6**
GDP growth in 2018				**5.5% to 6.5%**	**3% to 4%**

SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

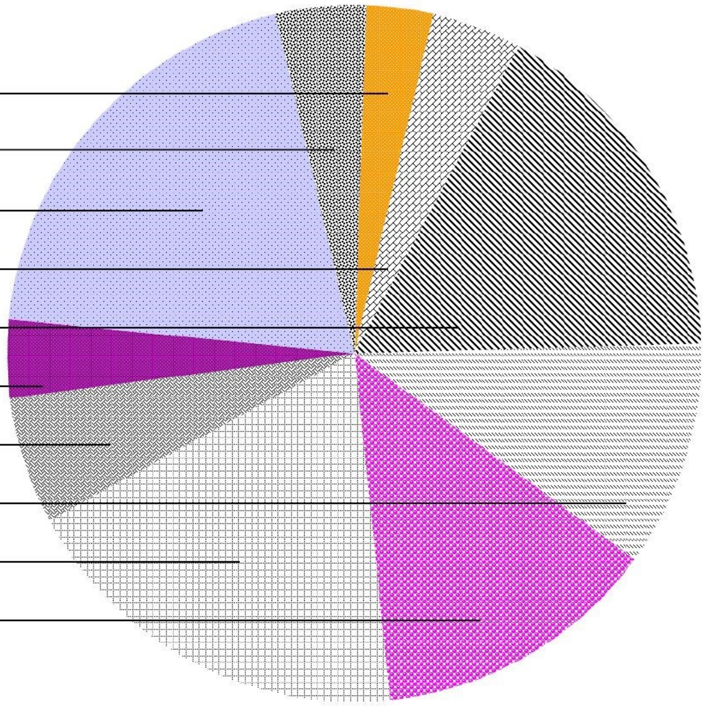
Recurrent Government Expenditure : Year-on-Year Change

	2016-17 Actual $m	2017-18 Revised Estimate $m	**2018-19 Estimate $m**	**Increase/Decrease over 2017-18 Revised Estimate in Nominal Terms %**	**in Real Terms %**
Education	75,533	80,141	**84,649**	**5.6**	**4.9**
Social Welfare	63,548	65,832	**79,824**	**21.3**	**19.9**
Health	58,712	62,802	**71,158**	**13.3**	**12.5**
Security	38,933	40,741	**44,861**	**10.1**	**9.4**
Infrastructure	20,838	22,053	**24,931**	**13.1**	**12.0**
Environment and Food	14,551	15,467	**17,739**	**14.7**	**13.0**
Economic	11,051	11,514	**12,724**	**10.5**	**9.3**
Housing	373	400	**424**	**6.0**	**5.8**
Community and External Affairs	12,227	12,692	**13,263**	**4.5**	**3.0**
Support	48,872	52,050	**56,921**	**9.4**	**9.0**
	344,638	363,692	**406,494**	**11.8**	**10.9**

GDP growth in 2018	**5.5% to 6.5%**	**3% to 4%**

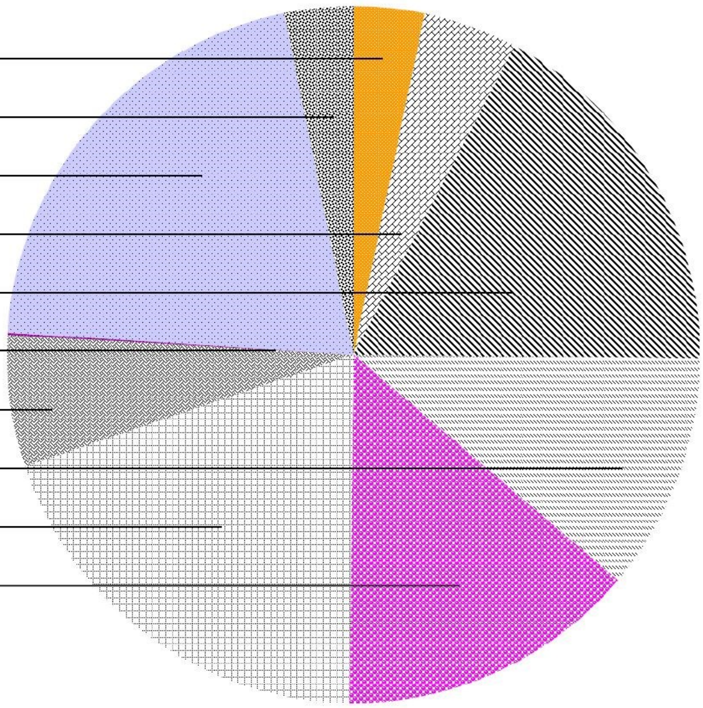
Percentage Share of Expenditure by Policy Area Group
Recurrent Public Expenditure : 2018-19 Estimate

Community and External Affairs	3.1%
Economic	4.2%
Education	19.8%
Environment and Food	4.2%
Health	16.7%
Housing	3.6%
Infrastructure	5.9%
Security	10.5%
Social Welfare	18.7%
Support	13.3%
	100.0%



Percentage Share of Expenditure by Policy Area Group
Recurrent Government Expenditure : 2018-19 Estimate

Community and External Affairs	3.3%
Economic	3.2%
Education	20.8%
Environment and Food	4.4%
Health	17.5%
Housing	0.1%
Infrastructure	6.1%
Security	11.0%
Social Welfare	19.6%
Support	14.0%
	100.0%



SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Public Expenditure : Year-on-Year Change

	2016-17 Actual $m	2017-18 Revised Estimate $m	**2018-19 Estimate $m**	**Increase/Decrease over 2017-18 Revised Estimate in Nominal Terms %**	**Increase/Decrease over 2017-18 Revised Estimate in Real Terms %**
Education	82,436	88,507	**113,672**	**28.4**	**26.0**
Social Welfare	68,151	70,850	**92,194**	**30.1**	**27.5**
Health	66,474	71,234	**77,979**	**9.5**	**7.7**
Security	43,162	46,048	**53,259**	**15.7**	**13.7**
Infrastructure	89,402	87,284	**85,901**	**-1.6**	**-5.6**
Environment and Food	20,834	22,046	**26,709**	**21.2**	**17.6**
Economic	29,365	21,498	**26,517**	**23.3**	**20.7**
Housing	28,875	33,673	**35,698**	**6.0**	**1.9**
Community and External Affairs	14,851	16,555	**25,606**	**54.7**	**51.2**
Support	51,266	55,017	**61,048**	**11.0**	**9.7**
	494,816	512,712	**598,583**	**16.7**	**14.1**

GDP growth in 2018	**5.5% to 6.5%**	**3% to 4%**

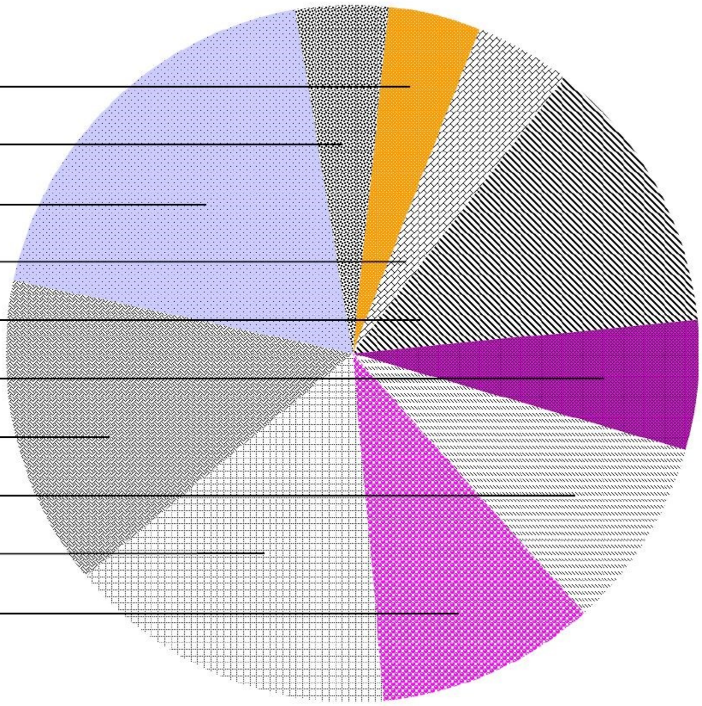
SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Government Expenditure : Year-on-Year Change

	2016-17 Actual $m	2017-18 Revised Estimate $m	**2018-19 Estimate $m**	**Increase/Decrease over 2017-18 Revised Estimate in Nominal Terms %**	**in Real Terms %**
Education	82,436	88,507	**113,672**	**28.4**	**26.0**
Social Welfare	68,151	70,850	**92,194**	**30.1**	**27.5**
Health	66,474	71,234	**77,979**	**9.5**	**7.7**
Security	43,162	46,048	**53,259**	**15.7**	**13.7**
Infrastructure	89,190	87,052	**85,636**	**-1.6**	**-5.6**
Environment and Food	20,834	22,046	**26,709**	**21.2**	**17.6**
Economic	25,218	16,565	**21,236**	**28.2**	**25.6**
Housing	470	532	**549**	**3.2**	**1.3**
Community and External Affairs	14,851	16,555	**25,606**	**54.7**	**51.2**
Support	51,266	55,017	**61,048**	**11.0**	**9.7**
	462,052	474,406	**557,888**	**17.6**	**15.0**
GDP growth in 2018				**5.5% to 6.5%**	**3% to 4%**

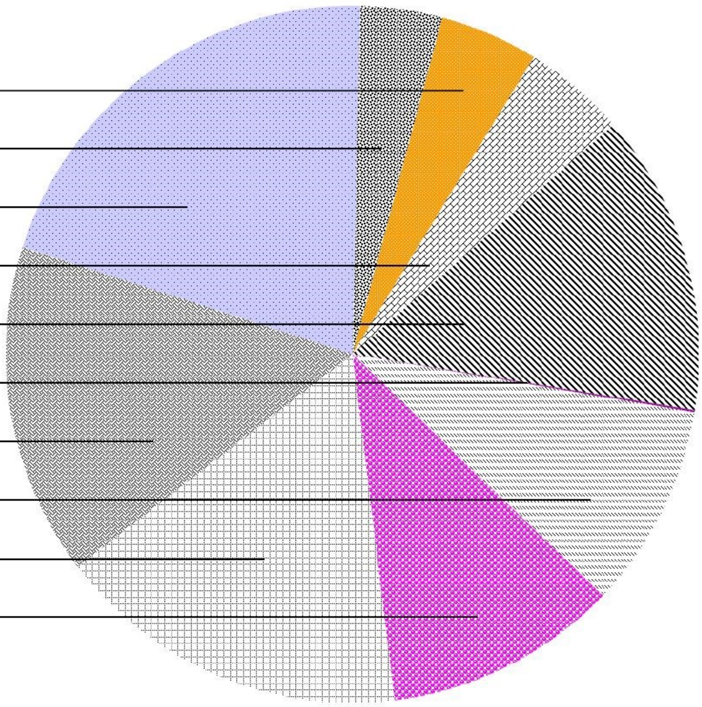
Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure : 2018-19 Estimate

Community and External Affairs	**4.3%**
Economic	**4.3%**
Education	**19.0%**
Environment and Food	**4.5%**
Health	**13.0%**
Housing	**6.0%**
Infrastructure	**14.4%**
Security	**8.9%**
Social Welfare	**15.4%**
Support	**10.2%**
	100.0%



Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure : 2018-19 Estimate

Community and External Affairs	**4.6%**
Economic	**3.8%**
Education	**20.4%**
Environment and Food	**4.8%**
Health	**14.0%**
Housing	**0.1%**
Infrastructure	**15.4%**
Security	**9.5%**
Social Welfare	**16.5%**
Support	**10.9%**
	100.0%



SECTION IV MAJOR CAPITAL PROJECTS PLANNED FOR COMMENCEMENT IN 2018-19

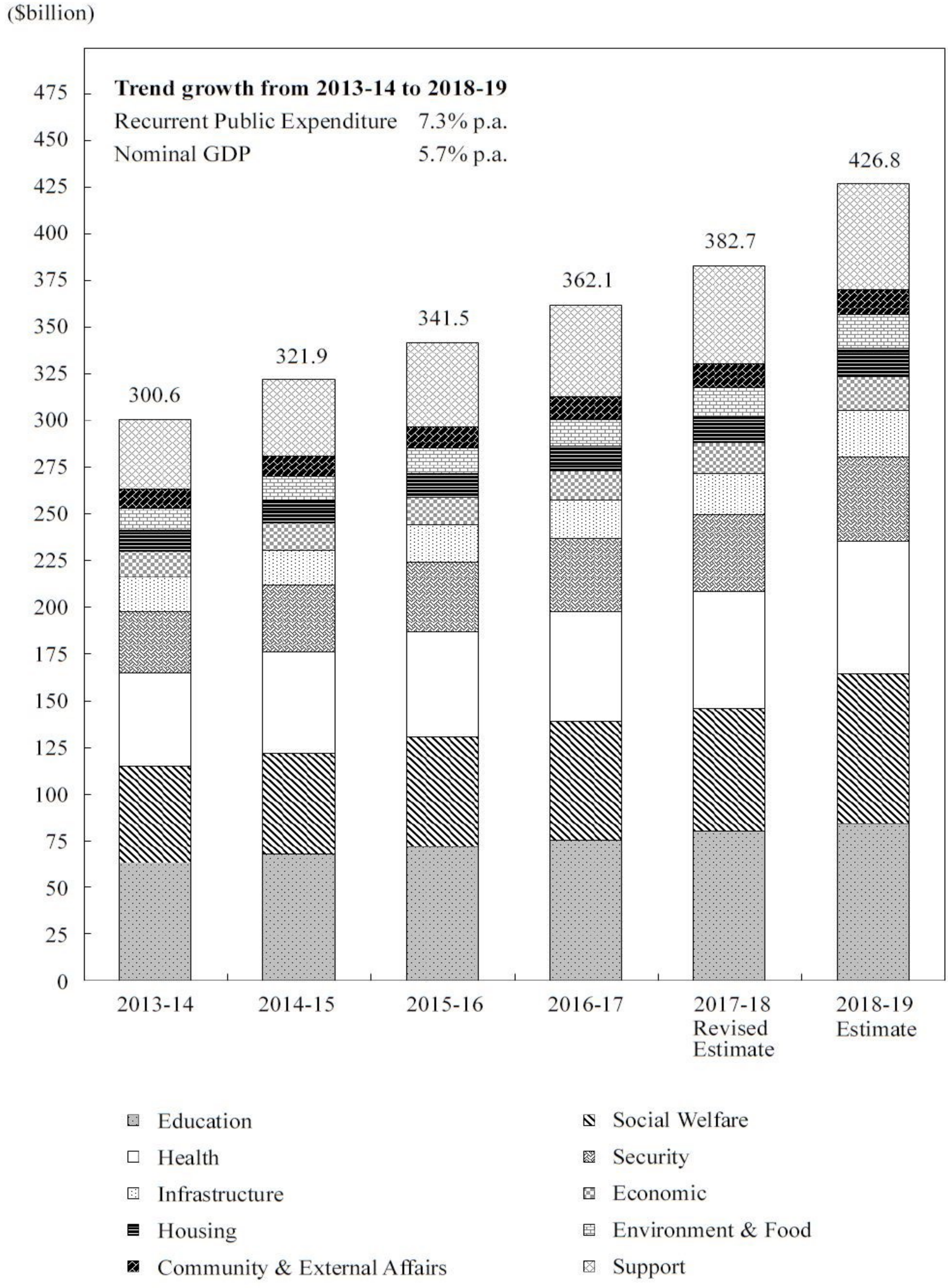
Major capital projects estimated to begin in 2018-19 include –

	Project Estimates $ billion
Health	**31.8**
— Redevelopment of Queen Mary Hospital, phase 1—main works	
— New Acute Hospital at Kai Tak Development Area—foundation, excavation and lateral support, and basement excavation works	
— Redevelopment of Kwong Wah Hospital—main works (superstructure and associated works for Phase 1)	
Infrastructure	**28.1**
— West Kowloon drainage improvement—inter-reservoirs transfer scheme	
— Lift and pedestrian walkway system between Castle Peak Road and Kung Yip Street, Kwai Chung	
— Elevated pedestrian corridor in Yuen Long Town connecting with Long Ping Station	
— Retrofitting of noise barriers on Tai Po Road (Sha Tin Section)	
— Development of Lok Ma Chau Loop—land decontamination and advance engineering works	
— Kai Tak development—stage 4 and stage 5 infrastructure at the former runway and south apron	
— Cross Bay Link, Tseung Kwan O—construction	
— Widening of Tai Po Road (Sha Tin Section)—construction	
— Implementation of Water Intelligent Network, stage 2	
— Water supply to new housing developments in Sheung Shui and Fanling	
— Design and construction for first stage of desalination plant at Tseung Kwan O—main works	
— Road improvement works at Ma On Shan, Sha Tin	
Environment and Food	**14.8**
— Reprovisioning of Fu Shan Public Mortuary at Sha Tin	
— Provision of columbarium at Cape Collinson Road in Chai Wan	
— Upgrading of Central and East Kowloon sewerage—phase 3	
— Rehabilitation of trunk sewers in Tuen Mun	
— Expansion of Sha Tau Kok Sewage Treatment Works—phase 1	
— Upgrading of sewage pumping stations and sewerage along Ting Kok Road	
— Shek Wu Hui Effluent Polishing Plant—main works stage 1	
— Relocation of Sha Tin sewage treatment works to caverns—site preparation and access tunnel construction	
Support	**8.7**
— Building a government data centre complex—construction	
— Joint-user Government Office Building in Cheung Sha Wan—construction	
— Inland Revenue Tower in Kai Tak Development	

	Project Estimates $ billion
Community and External Affairs	**5.5**
— Provision of heated pool at the Morse Park Swimming Pool Complex, Wong Tai Sin	
— Swimming pool complex and open space in Area 107, Tin Shui Wai	
— Station Square at Kai Tak	
— Youth Hostel Scheme—construction works by Po Leung Kuk for the youth hostel project in Ma Tin Pok, Yuen Long	
— Community hall cum social welfare facilities at Queen's Hill, Fanling	
Economic	**1.6**
— Reprovisioning of the Hongkong Post's Headquarters	
Security	**1.6**
— Construction of departmental quarters for Customs and Excise Department at Tseung Kwan O Area 123 (Po Lam Road)	
— Construction of departmental quarters for Customs and Excise Department at No. 57 Sheung Fung Street, Tsz Wan Shan	
Education	**1.3**
— A 30-classroom primary school at Tonkin Street, Cheung Sha Wan	
— Pre-construction works for development of new campus of Vocational Training Council (VTC) at Kowloon East (Cha Kwo Ling)	
— Joint Universities Research Archive	

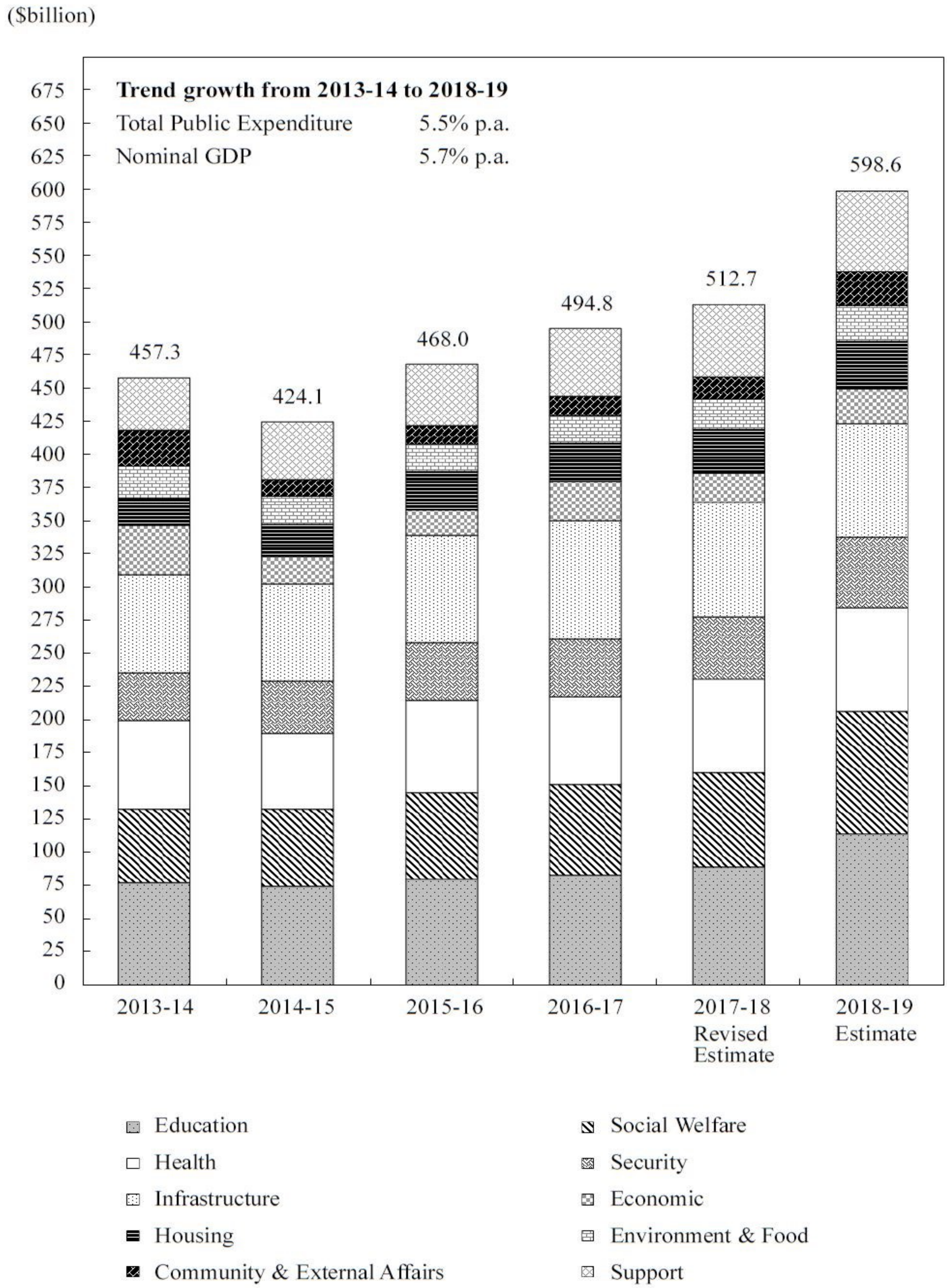
SECTION V TRENDS IN PUBLIC EXPENDITURE : 2013-14 TO 2018-19

Recurrent Public Expenditure by Policy Area Group



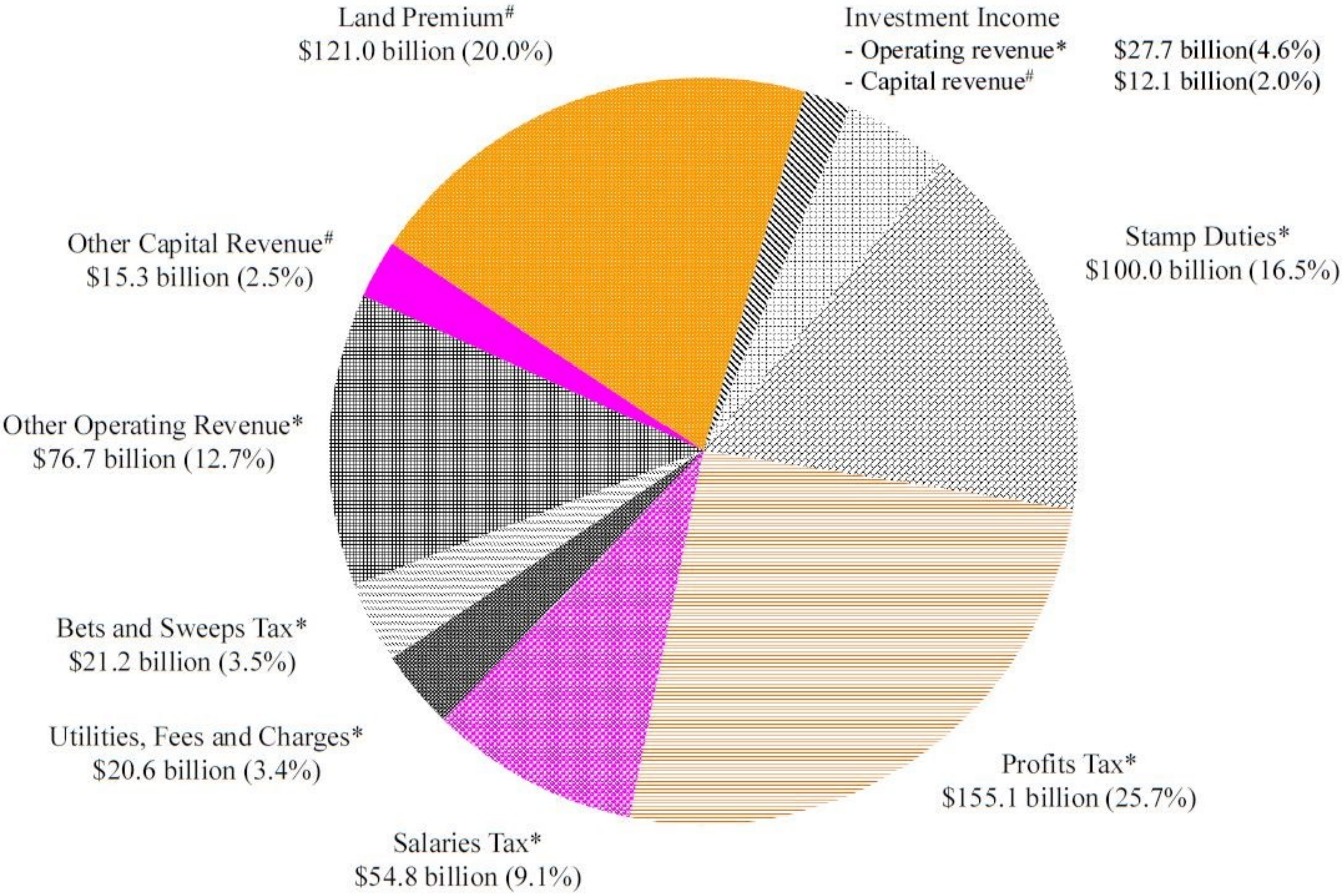
SECTION V TRENDS IN PUBLIC EXPENDITURE : 2013-14 TO 2018-19

Total Public Expenditure by Policy Area Group



SECTION VI ANALYSIS OF GOVERNMENT REVENUE

2018-19 Estimate ($604.5 billion)



	2018-19 Estimate	% Share of Government Revenue	% of GDP
* Operating Revenue	$456.1 billion	75.5%	16.2%
# Capital Revenue	$148.4 billion	24.5%	5.2%
Total	**$604.5 billion**	**100%**	**21.4%**

SECTION VII CLASSIFICATION OF POLICY AREA GROUP

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

Note: Details of individual heads of expenditure contributing to a particular policy area are provided in an index in Volume I of the 2018-19 Estimates. The index further provides details, by head of expenditure, of individual programmes which contribute to a policy area.

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 surplus/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.

Future Fund. It is the part of the fiscal reserves which is set aside for longer-term investment with a view to securing higher investment returns for the fiscal reserves. It is a notional savings account established on 1 January 2016. It comprises the balance of the Land Fund as its initial endowment and top-ups from consolidated surpluses to be transferred from ***Operating and Capital Reserves*** which is the part of the fiscal reserves outside the Future 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 and Capital Reserves. With the establishment of the ***Future Fund***, the part of the fiscal reserves outside the ***Future Fund*** is collectively known as the Operating and Capital Reserves.

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

With the establishment of the Future Fund as from 1 January 2016, the investment income of the Land Fund will be reinvested and will not be paid to Government until the end of the ten-year placement (i.e. 31 December 2025) or a date as directed by the Financial Secretary.

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.