THE 2021-22 BUDGET

Speech by the Financial Secretary, the Hon Paul MP Chan moving the Second Reading of the Appropriation Bill 2021 Wednesday, 24 February 2021

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Building a Liveable City

This speech, together with the supplement and appendices relating to the 2021-22 Budget, is available at www.budget.gov.hk.

Mr President, Honourable Members and fellow citizens,

I move that the Appropriation Bill 2021 be read a second time.

Introduction

2. Over the past year, we all have experienced a very different life. The epidemic has aggravated the economic recession. Face masks have become a daily necessity. We might have spent more time at home, but we have fewer opportunities to gather with our relatives and friends. The year 2020 has become our common memory.

3. The epidemic has made us realise that globalisation is not only a driving force for economic development, but also the key to victory in the fight against viruses and epidemics. No place on earth can stay aloof and remain unaffected. Only with concerted efforts can we successfully beat this pandemic of the century that has plagued the entire world.

4. Hong Kong went through tribulations in the past two years. International political tensions have dampened local exports and market sentiments; violent clashes have endangered the stability and safety of our society; and the epidemic has exerted additional pressure on the whole community and economy. In the past year, Hong Kong's economy recorded a negative growth of 6.1 per cent with the latest unemployment rate rising to seven per cent. The Government of the Hong Kong Special Administrative Region has committed a total of nearly $300 billion for supporting measures, with a view to stabilising the economy and relieving people's burden. However, this has also brought the fiscal deficit to a record high.

5. With the epidemic still lingering, our economy is yet to come out of recession. Our most urgent task is to contain the epidemic and press ahead with the vaccination programme, so that people and businesses can be back on track, and safe travelling between Hong Kong and the Mainland as well as the rest of the world can be resumed as soon as possible. I will, as always, provide the resources required to fully support the anti-epidemic work.

6. This year's Budget focuses on stabilising the economy and relieving people's burden. It aims to alleviate the hardship and pressure caused by the economic downturn and the epidemic through the introduction of counter-cyclical measures costing over $120 billion; and seeks to create a leverage effect to benefit our people, workers as well as enterprises. It is equally important that we should grasp the major directions and new trends of future development to strategically enhance our policy steering, support measures and resources allocation in key areas. This will not only bring new impetus to our industries, but also enable them to have a more dynamic, diverse and interactive development. I will go into more details in the ensuing paragraphs.

Economic Situation in 2020

7. Last year, the COVID-19 pandemic ravaged the world, causing unprecedented repercussions on the global economy. The International Monetary Fund (IMF) estimated that the global economy contracted significantly by 3.5 per cent for the year as a whole. At the onset of the outbreak, governments around the world implemented stringent social distancing requirements and widespread lockdowns, plunging many major economies into a deep recession in the first half of last year. Amid a sharp fall in external demand caused by the epidemic, Hong Kong's total exports of goods tumbled by 9.7 per cent year-on-year in real terms in the first quarter of last year. Later, with a strong rebound in the Mainland economy after its epidemic situation was kept under control and the gradual recovery of other major economies in the second half of the year, Hong Kong's total exports of goods resumed growth in the second half of the year. Yet, there was still a mild decrease of 0.3 per cent for the year as a whole.

8. Under the threat of the epidemic, inbound tourism was brought to a frozen state for most of the time last year amid extensive travel restrictions worldwide. Exports of travel services fell drastically by 90.5 per cent for the year as a whole. Exports of financial services saw a moderate growth in the period, but total exports of services still registered a record decline of 36.8 per cent for the year as a whole.

9. Given the volatile local epidemic situation, social distancing measures were tightened from time to time. This, coupled with the weak job and income conditions, has dampened local consumer sentiments. Private consumption expenditure dropped significantly by 10.1 per cent for the year as a whole despite some narrowing of the decline in the second half of the year. Amid the highly uncertain business outlook, investment expenditure fell by 11.5 per cent.

10. Hong Kong's overall economy contracted substantially by nine per cent in the first half of last year. While a slight improvement was seen in the third quarter, it has been hit again by the epidemic since the latter part of the fourth quarter. For 2020 as a whole, the economy contracted by 6.1 per cent, the largest annual decline on record. It is also the first time for Hong Kong to register two consecutive years of negative growth.

11. The labour market deteriorated sharply. The seasonally adjusted unemployment rate went up from 3.3 per cent in the fourth quarter of 2019 to seven per cent in the latest period, the highest in close to 17 years. Amid the epidemic, the consumption- and tourism-related sectors were hit hard. The unemployment rate of the retail, accommodation and food services sectors combined rose to 11.3 per cent. In particular, the unemployment rate of the food and beverage services sector reached a high level of 14.7 per cent. The unemployment rate of the construction sector also reached a double-digit level. Household incomes fell markedly in the year.

12. Amid a lacklustre economy, pressures on consumer price inflation were modest. Netting out the effects of the Government's one-off measures, the underlying inflation rate was 1.3 per cent for last year as a whole, down 1.7 percentage points from the year before.

13. As for the property market, the residential property market was generally stable last year. Prices of commercial and industrial properties fell visibly from their peak in 2019, and transaction volume dropped to a record low. Following the relaxation of macro-prudential measures for mortgage loans on non-residential properties by the Hong Kong Monetary Authority (HKMA), as well as the abolition of the Doubled Ad Valorem Stamp Duty on non-residential property transactions by the Government, there was a slight rebound in transactions in the latter part of last year.

Economic Outlook for 2021 and Medium-term Outlook

14. With the launch of vaccination schemes in various places around the world, the global economy may see relatively significant improvements starting from the latter half of 2021. Last month, the IMF forecast that the global economy will rebound by 5.5 per cent this year.

15. The Mainland economy was hard hit by the epidemic in early 2020. Nevertheless, with the epidemic swiftly put under control and vigorous macro policies implemented in a timely manner, the Mainland economy experienced a strong rebound since the second quarter with an annual growth of 2.3 per cent, making our country the only major economy in the world that achieved a positive growth. Looking ahead, though there are still uncertainties arising from the global epidemic situation and the China-US relations, the Mainland economy is fundamentally sound. The Central Economic Work Conference held at the end of last year emphasised that the continuity, stability and sustainability of the macro policies would be maintained to provide the necessary support for economic recovery on an ongoing basis. All these would be conducive to robust economic growth in the Mainland.

16. The US economy has begun to pick up since the third quarter of last year. With the rollout of a vaccination programme and the support of fiscal stimulus measures, as well as the easy monetary environment, market forecasts generally point to faster economic growth in the US this year. The economy in Europe has slowed down again recently due to the resurgence of the pandemic. Nevertheless, with stronger policy support provided by the European Central Bank since late last year, the eurozone economy is expected to rebound later this year, provided that vaccines are widely applied. Once the epidemic is contained, Japan and other economies in Asia will also see a visible recovery this year.

17. The foreign and economic policy directions of the US administration is the attention of the whole world. Their implications on the China-US relations and their economies are of particular significance. The global community hopes that China-US economic and trade relations can gradually be back to normal, thereby supporting further revival of global trade and business activities. However, as seen from the developments in the past few years, there remain many deep-seated conflicts between the two nations. Looking ahead, relations between the two nations will remain in a state of continued tensions, and on-going competition but without a total break-down. Changes in China-US relations will affect the global trade, finance and political landscape. External factors such as geopolitical situations and possible financial risks associated with the surging global public debt also warrant attention.

18. Hong Kong's economy is expected to resume positive growth this year, but the progress of economic recovery will hinge on the development of the epidemic. As cross-boundary movement of people and tourism activities take time to resume normal, the economy will still face significant challenges in the first half of the year. Nevertheless, as long as the community gathers together to control the epidemic and social stability is maintained, economic recovery will likely gain a stronger momentum in the second half of the year in tandem with an expected rebound in the global economy. Having regard to the latest internal and external situations as well as the stimulus effect of the fiscal measures, I forecast that our economy will grow by 3.5 per cent to 5.5 per cent in real terms this year.

19. On inflation, external price pressures are expected to remain modest. After two consecutive years of contraction, overall economic activities will remain below the pre-recession level this year and should not pose notable pressure on local costs. I forecast that the headline inflation rate and the underlying inflation rate will be 1.6 per cent and one per cent respectively this year.

20. In the medium term, Hong Kong will continue to benefit from the ongoing development of the Mainland and the shift in global economic gravity from West to East. The economic outlook is positive. Our country's economy will continue to advance during the 14th Five-Year Plan period. The signing of the Regional Comprehensive Economic Partnership (RCEP) Agreement will further promote economic integration in the region. Hong Kong can open up greater room for development by leveraging the advantages under "One Country, Two Systems", playing its unique role as a gateway and an intermediary, integrating into the new overall development of our country, actively participating in the national dual circulation development strategy and seizing the opportunities brought by the development of Guangdong-Hong Kong-Macao Greater Bay Area (GBA) and the Belt and Road (B&R) Initiative. On the other hand, the Government will strive to overcome land and talent constraints, promote innovation and technology (I&T) development, invest in education and nurture talent, and strengthen connection with the world. Considering the above factors and taking into account the catch up growth that would follow the initial economic recovery this year, I forecast that Hong Kong's economy will grow by an average of 3.3 per cent per annum in real terms from 2022 to 2025, while the underlying inflation rate will average two per cent.

Riding out the Storm

Fighting the Virus Together

21. It is the Government's top priority to contain the epidemic so that businesses and the public can be back to their daily routines. A high-level Steering Committee cum Command Centre led by the Chief Executive was set up in January 2020 to formulate strategies and measures swiftly in response to the development of the epidemic with a view to achieving the target of zero infection. I would like to extend my heartfelt thanks to those joining the fight against the epidemic, including healthcare staff as well as businesses and individuals who have been supporting the Government's anti-epidemic measures. I will continue to provide adequate resources to fully support the anti-epidemic work.

22. The Government strives to step up surveillance and testing efforts. In order to identify cases in the community as early as possible to help cut the transmission chains, various means are provided to collect specimens up to about 100 000 for testing each day. At present, the actual testing capacity of public and private laboratories in Hong Kong has reached the level of over 100 000 tests per day.

23. The Government has allocated $4.7 billion from the Anti-epidemic Fund (AEF) to support the anti-epidemic work of the Hospital Authority (HA), ensuring sufficient support and protection for frontline healthcare staff. The Government also provides an additional allocation of $3,044 million mainly for the HA to establish and operate the Community Treatment Facility at the AsiaWorld-Expo and the Hong Kong Infection Control Centre at the North Lantau Hospital. The former has commenced services in phases since last August, and the latter will commence services from the end of this month.

24. The Government has earmarked over $8.4 billion for the procurement and administration of COVID-19 vaccines. Our target is to have the majority of the population vaccinated for free within 2021. The COVID-19 Vaccination Programme which started yesterday will provide vaccination for five priority groups of citizens. The Government will seek funding support from the Finance Committee (FC) of the Legislative Council (LegCo) in the end of this month to establish a vaccination indemnity fund with $1 billion.

Overcoming the Epidemic

25. The AEF is set up to enhance Hong Kong's capability in combating the epidemic and provide relief for industries and members of the public hit hard by the epidemic. The measures launched under the AEF and the relief measures that I put forward in my last Budget involve a total of over $300 billion, providing an expected support effect of more than five per cent of Gross Domestic Product (GDP).

26. Having regard to the financial affordability of the Government, I will implement the following measures to continue to support enterprises, safeguard jobs and relieve people's burden.

Support Enterprises

27. To support enterprises, I will implement the following measures involving a total of about $9.5 billion:

(a) reducing profits tax for the year of assessment 2020/21 by 100 per cent, subject to a ceiling of $10,000. The reduction will be reflected in the final tax payable for the year of assessment 2020/21. This will benefit 128 000 businesses and reduce government revenue by $1,050 million;

(b) providing rates concession for non-domestic properties for four quarters of 2021-22, subject to a ceiling of $5,000 per quarter in the first two quarters and a ceiling of $2,000 per quarter in the remaining two quarters for each rateable property. This proposal is estimated to involve 420 000 non-domestic properties and reduce government revenue by $3.4 billion;

(c) waiving the business registration fees for 2021-22. This will benefit 1.5 million business operators and reduce government revenue by $3 billion;

(d) continuing to waive 75 per cent of water and sewage charges payable by non-domestic households for eight months starting from April 2021, subject to a monthly ceiling of $20,000 and $12,500 respectively per household. This will benefit 250 000 non-domestic households and reduce government revenue by $680 million; and

(e) continuing to grant the 75 per cent rental or fee concession currently applicable to eligible tenants of government properties and eligible short-term tenancies and waivers under the Lands Department for six months starting from April 2021. During the period, tenants who have to close their properties at the request of the Government will continue to receive full rental waiver for the duration of the closure. This will reduce government revenue by $1.4 billion.

28. The Government has introduced a number of enhancements to the SME Financing Guarantee Scheme, including the rollout of the 90% Guarantee Product and the one-year Special 100% Guarantee Product to provide enterprises with low-interest loans or interest subsidies, as well as principal moratorium during which only interest payments have to be made, thus giving them some breathing space for recovery. As at the end of January, a total of $42.7 billion in loans was approved under the 100% Guarantee Product, benefiting over 20 000 enterprises, involving 260 000 employees. As the epidemic has been lingering on for over one year, in order to continue to relieve the cash flow pressure of small and medium enterprises (SMEs), I will extend the application period of the Special 100% Guarantee Product to the end of this year; further increase the maximum loan amount per enterprise from the total amount of employee wages and rents for 12 months to that for 18 months and raise the loan ceiling from $5 million to $6 million; extend the maximum repayment period from five years to eight years; and extend the maximum duration of principal moratorium from 12 months to 18 months. The Hong Kong Mortgage Corporation Insurance Limited (HKMCIL) will announce the details later.

29. Further to the launching of the Pre-approved Principal Payment Holiday Scheme together with the banking sector in response to the epidemic in May last year, the HKMA announced in November that the scheme would be extended for six months to April 2021 having regard to the ongoing impact of the epidemic on economic activities. Some 120 000 eligible corporate customers are covered by the scheme. Under this scheme and other relief initiatives offered by banks, about 59 000 cases have been approved by banks to support enterprises as at end-January 2021, involving an amount of about $750 billion.

Support Employment

30. Following the allocation of funding to enhance the Love Upgrading Special Scheme run by the Employees Retraining Board (ERB) in last year's Budget, the ERB launched the third tranche of the scheme in January this year to provide training and allowance for 20 000 trainees affected by the economic situation. The Government will ask the ERB to launch the fourth tranche of the scheme in July, which will last for six months until the end of this year, benefiting 20 000 trainees. The ERB will continue to provide more training options under the scheme and more online courses for trainees to engage in distance learning during the epidemic.

31. Having regard to the advancement in technology and changes in learning mode, the Government plans to expand the scope of the Continuing Education Fund to include online courses to provide learners with more diversified ways of continuing learning. At the same time, we will ensure effective supervision over the quality of courses and teaching. The Government will consult the sector with a view to implementing the measure upon commencement of the new school term in September.

32. In 2020-21, the Government created about 31 000 time-limited jobs in the public and private sectors through the AEF. As at end-January, some 16 000 appointments were made. I propose to further allocate $6.6 billion to create around 30 000 time-limited jobs for a period up to 12 months.

Relieve People's Hardship

33. I will also introduce the following one-off measures to alleviate the impact of the economic downturn on the public:

(a) reducing salaries tax and tax under personal assessment for the year of assessment 2020/21 by 100 per cent, subject to a ceiling of $10,000. The reduction will be reflected in the final tax payable for the year of assessment 2020/21. This will benefit 1.87 million taxpayers and reduce government revenue by $11.4 billion;

(b) providing rates concession for domestic properties for four quarters of 2021-22, subject to a ceiling of $1,500 per quarter in the first two quarters and a ceiling of $1,000 per quarter in the remaining two quarters for each rateable property. This proposal is estimated to involve 2.95 million domestic properties and reduce government revenue by $11.6 billion;

(c) granting each residential electricity account a subsidy of $1,000. This measure will involve an expenditure of about $2.8 billion and benefit over 2.7 million eligible residential households;

(d) providing an allowance to eligible social security recipients, equal to one half of a month of the standard rate Comprehensive Social Security Assistance (CSSA) payments, Old Age Allowance, Old Age Living Allowance or Disability Allowance. This will involve additional expenditure of $2,382 million. Similar arrangements will apply to recipients of the Working Family Allowance and Individual-based Work Incentive Transport Subsidy, involving additional expenditure of $121 million; and

(e) paying the examination fees for school candidates sitting for the 2022 Hong Kong Diploma of Secondary Education Examination, incurring $150 million.

34. This prolonged economic downturn has plunged some people into financial difficulties. In view of this, many people have demanded temporary unemployment assistance. The Government has reiterated the policy considerations it has taken into account for not accepting the proposal, and instead provided a time-limited special scheme under the CSSA Scheme to help the unemployed.

35. Considering that many grassroots have been suffering from underemployment amid the epidemic, the Government proposes to relax the working hour requirements under the Working Family Allowance Scheme. Among them, the current basic working hour requirement of not fewer than 144 hours per month for non-single parent households will be substantially lowered by half for one year. The measure will be implemented in June at the earliest subject to FC approval.

36. In order to provide an extra financing option for the unemployed, I suggest setting up a Special 100% Loan Guarantee for Individuals Scheme as a supplementary measure. The Government will offer a guarantee for loans provided under the scheme. The maximum loan amount per applicant is set at six times of his/her average monthly income during employment, subject to a ceiling of $80,000. There will be a principal moratorium for the first 12 months. Afterwards, the principal and interest can be repaid over a period of up to five years with an interest rate fixed at one per cent per annum. Applicants who have repaid loans in full as scheduled will be offered full reimbursement for the interest paid. Freelancers who provide proof of loss of income may also apply for the loan. The Government will provide a total guarantee commitment of $15 billion. The application period will last for six months. The Financial Services and the Treasury Bureau (FSTB) will, in collaboration with the HKMCIL, announce the details in due course.

37. Amid the epidemic, the public are increasingly concerned about environmental hygiene issues such as misconnection and dilapidation of the drainage pipes of buildings. I will earmark $1 billion to provide subsidies for owners of more than 3 000 old buildings with relatively low rateable values to carry out drainage repair or enhancement works. For buildings with owners having difficulties in organising the works by themselves, such as "three-nil" buildings, the Buildings Department will exercise its power under the Buildings Ordinance to carry out the works in default of their owners in an orderly manner based on the risk profile. The owners concerned may also benefit from the subsidy scheme.

Reviving the Economy after the Epidemic

38. While having a profound impact on the global economic development and structure, as well as people's lifestyles, the epidemic has also created new business opportunities. To enable our economy to revive after the epidemic, we should adopt a targeted approach. Apart from helping enterprises adapt to the economic "new normal" after the epidemic and stimulating consumption, we should also promote our advantages outside Hong Kong. I will elaborate on the relevant measures in the ensuing parts of my speech.

Digital Economy

39. Many traditional industries have accelerated the application of technology in their operations due to the epidemic. Examples include digital payment; smart self-service systems; and various online businesses, customer services and workflow management. For many people who stay at home during the epidemic, the use of online shopping services, video streaming platforms and online conference software has become their new mode of working, studying and entertainment. For various trades, it has now become a trend to speed up digital transformation in order to adapt to the new consumption modes and habits of the people. Only by making good use of information technology can enterprises seize the opportunities of development when the epidemic is over.

40. In view of the above, we have launched the Distance Business Programme under the AEF to provide funding support for enterprises to adopt information technology solutions and cover the expenses for providing relevant training to their employees. The programme has received an overwhelming response since its launch in mid-2020, and a total funding of nearly $800 million has been granted. We have subsequently allocated an additional funding of $1 billion for the continuation of the programme and further enhancement.

41. The challenges posed by the epidemic have also catalysed local I&T development. They not only incentivise businesses to conduct research and development (R&D) for products or innovative services but also provide enterprises with suitable contexts for application. The electronic wristbands used for home confinement and the touchless lift button system are some good examples. The Government will continue to support enterprises or manufacturers through, among others, the Public Sector Trial Scheme, the Technology Voucher Programme and the Re-industrialisation Funding Scheme in realising and commercialising their R&D outcomes, using technological services to improve their productivity or business processes, and setting up smart production lines in Hong Kong. This will enable them to better grasp the opportunities brought by the new economy.

42. I will allocate a total of $375 million to the Hong Kong Trade Development Council (TDC) in three years starting from 2021-22 for developing virtual platforms to enhance its capability to organise online activities and to proceed with digitalisation. Moreover, the TDC will promote Hong Kong’s strength in the development of the GBA and in healthcare products and services. It will also explore the use of its physical and online Business-to-Consumer platforms to assist young business starters in promoting their original products and gauging the preference of consumers.

43. In light of the epidemic, we have expedited our work in taking forward e-Government by providing more electronic services to make it easier for enterprises and individuals to submit applications, make payments, obtain licences and use government services. By mid-2022, unless there are legal or operational constraints, all government forms and licence applications can be submitted electronically. Besides, e-payment options (including the Faster Payment System) will be available for making payments in respect of most government bills and licences starting from mid-2022.

44. The "iAM Smart", a one-stop personalised digital service platform, was launched at the end of last year. The HKMA is currently working with the Office of the Government Chief Information Officer (OGCIO) to develop the business version of the "iAM Smart" digital authentication platform. It can be used to authenticate the identity of enterprises through an electronic channel. With the wide adoption of "iAM Smart" in various electronic government services, members of the public can choose to obtain their data kept by individual government departments via electronic means, and submit such data electronically when applying for services from financial institutions. In addition, the HKMA has earlier announced the development of "Commercial Data Interchange", which will allow commercial services operators to submit customers' data to financial institutions under the instruction and consent of their corporate customers so as to assist them in the application for services.

45. To promote the LawTech development, I set aside funding in the 2019-20 Budget to support the development of an online dispute resolution and deal making platform by a non-governmental organisation (NGO). With an allocation of $100 million to the project, starting from this year, the platform will roll out negotiation, arbitration, mediation and online training services progressively and develop other services such as e-translation and smart contract in phases. This year, the Government will actively explore the development of the Hong Kong Legal Cloud, in order to sharpen Hong Kong's edge and raise our status in the provision of professional legal services.

Issue Consumption Vouchers

46. In view of the current special situation, the Government should make good use of the fiscal reserves to energise the market, stimulate the economy, and facilitate the speedy recovery of the consumption market and other economic segments in a timely manner. After careful consideration, I will issue electronic consumption vouchers in instalments with a total value of $5,000 to each eligible Hong Kong permanent resident and new arrival aged 18 or above, so as to encourage and boost local consumption. This measure, which involves a financial commitment of about $36 billion, is expected to benefit around 7.2 million people. The Government will identify suitable stored value facilities operators to help roll out the scheme, and will announce the details of the scheme as soon as possible.

Explore Markets

47. I will inject $1.5 billion into the Dedicated Fund on Branding, Upgrading and Domestic Sales, and substantially extend in phases its geographical coverage from 20 to 37 economies to include all those with which Hong Kong has entered into Investment Promotion and Protection Agreements (IPPAs). The funding ceiling for each enterprise will be increased from $4 million to $6 million, so as to support enterprises in exploring more diversified markets by fully utilising the better protection offered by the IPPAs.

Support Tourism

48. The epidemic has dealt a heavy blow to the local tourism industry, bringing it to a standstill. Apart from the financial support of nearly $2.6 billion that has already been provided for the tourism industry, I will further earmark a total of $934 million to enhance tourism resources, of which $169 million will be used to continue to take forward local cultural, heritage and creative tourism projects, such as the Yim Tin Tsai Arts Festival and the City in Time. We will continue to improve the facilities along hiking trails to develop more green tourism resources. The purpose is to offer leisure and travel experience with rich historical and cultural elements to both locals and visitors.

49. I will also earmark $765 million to support the Hong Kong Tourism Board (HKTB) in reviving our tourism industry. The HKTB has launched promotional programmes such as "Holiday at Home" and "360 Hong Kong Moments" with a view to enhancing local ambience and consumption as well as maintaining the promotion and exposure of Hong Kong in visitor source markets. Upon gradual resumption of cross-boundary travel, the HKTB will roll out promotional offers to attract visitors through the "Open House Hong Kong" platform. The HKTB is also conducting a comprehensive review of the positioning of Hong Kong's tourism in the long run in response to the "new normal" after the epidemic with a view to formulating appropriate strategies to spur the recovery of the tourism industry.

50. Provided that public health can be safeguarded, the Government will consider relaxing restrictions on group gatherings in relation to local group tours again to allow room for business operation for the tourism industry. The Government will discuss and work out arrangements regarding Air Travel Bubble with places that have close economic and trade relations with Hong Kong and where the epidemic situation is relatively stable.

51. Apart from the above initiatives, additional resources will also be allocated to enhance country parks, recreational facilities, harbourfront, etc. These enhancements will improve people's quality of life when the epidemic is over and may also appeal to our visitors. I will provide more details in the ensuing parts of my speech.

Promote Hong Kong

52. Once the pandemic further subsides, the Government will launch a large-scale publicity and promotional campaign at home and abroad, showcasing to the world the image of Hong Kong as a highly open international city in the GBA from various perspectives such as finance, I&T, culture and creativity and tourism, as well as our unique advantages under "One Country, Two Systems". We hope to attract enterprises, investors and talent to Hong Kong. InvestHK and our overseas offices will step up their efforts in this area.

Stimulating the Economy

Positioning and Directions for Economic Development

Assessment of Situation

53. Hong Kong has been leveraging the support from the Mainland while engaging the world. Over the past many years, we have been utilising our advantages in institutions, talents and external connections, and served as a bridge between our country and the rest of the world in different ways in response to our country's ever-changing needs. By doing so, Hong Kong has contributed to national development and at the same time promoted its own development and economic growth. Only by making good use of the advantages of "One Country, Two Systems" with the precondition of strengthening national security can we continue to play and even enhance our role on this front.

54. Over the past two years, Hong Kong has been affected by the deterioration of the China-US relations, and experienced the blow from the social incidents and the ravages of the pandemic. However, we should not let these challenges weaken our confidence in the future. Instead, we should learn from the experience and make correct assessment of the major development trends.

55. First, the world is facing profound changes unseen in a century. The economic gravity is shifting from West to East, and the political setting has also seen subtle changes. Our country's composite national strength has enhanced significantly, while other developing countries in Asia have undergone robust development. However, with the rise of unilateralism in recent years and the misunderstandings of some western countries towards Hong Kong's developments, we are facing greater difficulties. The epidemic has increased various countries' concerns about development security, which might further escalate protectionism. Some nations encourage or even ask enterprises to move back to their home countries, impacting on the development and setting of global value chains.

56. Second, the world is facing drastic disruptions brought by technological revolution, which have far-reaching implications for our personal life, modes of production and operation, economic structures, development prospects and international landscape. The pandemic has also accelerated changes in the mode of business operation and people's living habits. Making good use of digital technology is not only essential to effective business operation, but also crucial for preventing and combating the pandemic and protecting public health and safety. Whether a place can attain a leading position in I&T will determine its success or failure.

57. Third, green development is a major global trend. Environmental pollution and climate change have become too serious to ignore. There is a general recognition in the international community that we should promote green and low-carbon development, which involves extensive new areas. The Government needs to have visions and determination; the people need to build awareness of environmental protection and corresponding habits; the business sector needs to develop and adopt novel technologies, and launch products of high efficiency. Other matching services such as financial support are also needed.

58. Fourth, as for Hong Kong, we have experienced many changes at different points in our history, but the support of our country has remained unchanged. With the advantages under "One Country, Two Systems", Hong Kong has a unique and irreplaceable role in the national development.

Functions and Positioning

59. With its deep and extensive connections with the world, Hong Kong will continue to be an important platform for economic exchanges and trade between the Mainland and the international community. As mentioned in the Proposal for Formulating the National 14th Five-Year Plan, our country supports Hong Kong in consolidating and bolstering our competitive edges, building the city as an international I&T hub, fostering the development of the city as a B&R functional platform, and achieving diversified and sustainable development of the economy. With our country's support, we can further capitalise on our advantages and realise our potential. We must step up our efforts to explore international economic and trade opportunities and actively participate in national development through making use of our industries with competitive strengths.

60. Hong Kong has prominent functional roles in various aspects such as pooling international capital and talent, and providing a platform to align our country's standards with the international ones. In addition, Hong Kong serves as a testing ground and firewall in our country's promotion of financial sector reform and opening up (such as the internationalisation of Renminbi (RMB)). Under our country's dual circulation development strategy, Hong Kong will definitely achieve greater success in the future as long as we can give full play to our unique roles as a gateway, a springboard and an intermediary.

61. Leveraging our close proximity, Hong Kong can make use of the GBA development as an entry point, participating actively in the development of our country's domestic circulation for capturing the enormous business opportunities. As an international metropolis that connects the world, Hong Kong can help the expansion of the country's external circulation, and in consequence further strengthen its status as an international centre for finance, commerce and trade, as well as a home for corporate headquarters.

62. In the face of rising unilateralism, it is all the more important for us to actively promote multilateralism, dismantle various barriers and strengthen Hong Kong's links with the international community. We should further expand Hong Kong's trade, investment and tax agreement networks. The Free Trade Agreement and the Investment Agreement between Hong Kong and the Association of Southeast Asian Nations have recently come into full effect. In November last year, our country signed the RCEP Agreement with 14 economies. We are actively seeking to be among the first batch of economies joining the RCEP after it comes into effect, so as to help Hong Kong businesses and investors open up markets, thereby fostering the long-term economic development of Hong Kong.

The Way Forward for Industries

63. From the perspective of industries, Hong Kong has huge development potential in areas including financial services, I&T, green economy, air cargo, supply chain management and professional services. Financial services are an important support to the real economy. On top of being a leading asset and wealth management centre, Hong Kong is also an international fundraising platform, an insurance and risk management centre and an offshore RMB hub. Our financial services can assist Mainland enterprises in raising funds, and provide outlets and risk management for Mainland funds, as well as facilitating the Mainland's ongoing financial liberalisation in a secure and orderly manner in support of the development of our country's real economy. We must continue to strengthen Hong Kong's leading position in the global financial market.

64. Hong Kong enjoys a number of advantages in I&T development, such as top-notch capabilities in basic scientific research, intellectual property rights protection, attractiveness to research talents from all over the world and first-class financial support services. In recent years, the Government has allocated substantial resources and implemented a number of preferential policies, and been blessed with our country's support. As long as we can leverage our advantages and achieve co-ordinated development with our brother cities that have advanced manufacturing industries in the GBA, we can form an I&T upstream, midstream and downstream industrial chain and develop the GBA into an international I&T centre, thus contributing to our country's technological self-reliance and at the same time identifying new areas of growth for Hong Kong's economy.

65. Nowadays, when everyone is striving to live a quality life, decarbonisation, waste reduction, building of a green environment and a sustainable city, etc. have become a social consensus. The international community, including our country and the European Union, have set achieving carbon neutrality as an important development goal. A significant synergy effect can be generated between green economy and other industries such as the I&T and financial sectors. Our robust green and sustainable financial services can contribute to the development of green economy in the Mainland and Hong Kong.

66. Hong Kong is a world-class logistics and supply chain management centre. With a well-established network of air routes, a highly efficient airport as well as simple and fast customs clearance procedures, Hong Kong's air cargo transport sector plays a leading role in the world. We will strive to enhance our intermodal transportation services in the future, with a view to increasing the global accessibility of the GBA. This will facilitate not only the exports of goods from the GBA to overseas markets, but also the imports of quality products from around the world to the Mainland, meeting the increasing consumer demands there. Technology is reshaping the interplay between the supply of goods and the demand of consumers, and the prospects for our high-end logistics and supply chain management services are bright.

67. As our country seeks to achieve high-quality development, the demand for various types of professional services such as legal, accounting, construction and project management services is on the rise. These areas are where our strengths lie. Hong Kong's professionals can provide services in a market full of opportunities, and also promote the alignment of industry standards in the Mainland with those of the international community.

68. Apart from the above industries, there is also a growing demand for inclusion of cultural and creative elements in the cyber world. I will allocate additional resources to promote the development of cultural and creative industries, so that young people can have more employment and business start-up opportunities for unleashing their potential and realising their dreams.

Guangdong-Hong Kong-Macao Greater Bay Area

69. As mentioned earlier, the GBA is the best entry point for Hong Kong to participate in the domestic circulation of our country's economy. Be it for the mutual market access for financial services and products, cooperation and collaboration in respect of innovation and technology, or people's stay and living across the boundary, continued innovation in institutional and policy arrangement is needed so as to ensure a smoother two-way flow of funds, people and factors of production. The Guangdong-Hong Kong-Macao Greater Bay Area Development Office has been set up to strengthen the planning, coordination and promotion of the various policies and measures relating to GBA development, and enhance the community's understanding of GBA development. The Government also helps Hong Kong's businesses and youths to grasp the opportunities arising from GBA development through various schemes.

Belt and Road

70. Our country has signed cooperation agreements with about 170 countries and international organisations regarding the B&R initiative. The Government will continue to provide financing services to B&R infrastructure projects through leveraging Hong Kong's function as an international financial centre, encourage Hong Kong enterprises and professional services sectors to develop business in the overseas Economic and Trade Co-operation Zones set up by our country, and establish connections with Mainland enterprises and industry associations for jointly exploring new markets, thereby consolidating Hong Kong's role as a prime functional platform and key node for the B&R Initiative.

Financial Services

71. Comprehensive and superb financial services are crucial for an economy gearing for high-quality development. The value added of the financial services industry in Hong Kong accounted for 21 per cent of the GDP in 2019. Its share of the overall employment increased from 6.8 per cent in 2018 to 7.1 per cent in 2019. Hong Kong has always been an offshore financing centre for Mainland enterprises and an important conduit for international capital to enter the Mainland market. The capital markets of Hong Kong and the Mainland can complement and interact positively with each other.

72. Last year's total transaction value of the Southbound and Northbound Trading of Stock Connect programmes more than doubled that of the year before. The mutual market access programmes have been operating smoothly. Hong Kong can contribute more proactively to our country's "dual circulation" strategy. The FSTB, together with the HKMA, the Securities and Futures Commission (SFC) and the Insurance Authority (IA), has set up a joint working group to explore how Hong Kong can complement the economic and financial development of our country and meet the needs of international investors, and examine how to further enhance Hong Kong's competitiveness as an international financial centre on the basis of our existing capacities. It will set out the development blueprint and put forward concrete proposals and measures for engagement with the Central Authorities to secure their support.

Green and Sustainable Finance

73. Having regard to the goal of achieving carbon neutrality before 2050, we will continue to promote the development of green and sustainable finance, encourage institutions to conduct relevant investment, financing and certification activities and attract top-notch institutions and talent to Hong Kong to provide the relevant services. We will join hands with the financial sector and relevant stakeholders to take forward the strategic plan announced end last year by the Green and Sustainable Finance Cross-Agency Steering Group, thereby leveraging our role as an international financial centre to mobilise capital towards sustainable projects in the region and enhance Hong Kong's position as a green and sustainable finance hub in the region.

74. Last month, we successfully offered the second batch of government green bonds totalling US$2.5 billion, among which the 30-year tranche is the longest-tenor bond issued by the Government and the longest-tenor USD-denominated government bond in Asia to date. We plan to issue green bonds regularly and expand the scale of the Government Green Bond Programme. We propose to double the borrowing ceiling of the Programme to $200 billion to allow for further issuance of green bonds totalling $175.5 billion within the next five years, having regard to the market situation. This will also give us more room for piloting the issuance of green bonds that involves more types of currencies, project types and issuance channels, thereby further enriching the green finance ecosystem in Hong Kong. We also plan to issue retail green bonds for the participation of the general public.

75. The Pilot Bond Grant Scheme and the Green Bond Grant Scheme rolled out by the Government previously will expire by mid-2021. We will consolidate the two schemes into a Green and Sustainable Finance Grant Scheme to provide subsidy for eligible bond issuers and loan borrowers to cover their expenses on bond issuance and external review services. The Scheme will last for three years and the HKMA will announce relevant details in due course.

Bond Market

76. Through the active promotion of the Government, Hong Kong's bond market has seen sustained growth, now ranking third in Asia (excluding Japan) in terms of total amount of bond issuances. I will lead a steering group comprising members from the FSTB, the HKMA, the SFC, the IA and the Hong Kong Exchanges and Clearing Limited (HKEX), to formulate a roadmap for promoting the diversified development of Hong Kong's bond market and reinforcing its functions.

Consolidating Market Infrastructure

77. We will enhance the efficiency and capacity of our domestic Central Moneymarkets Unit (CMU) and introduce new functions to cope with the increasing market demand for Northbound Trading of Bond Connect and support its future commissioning of Southbound Trading, with a view to providing a risk-controlled channel for Mainland investors to participate in local and overseas bond markets. We will develop the CMU as a major central securities depository platform in Asia and in the world in the long-run.

Bond Connect Development

78. We target to expand Bond Connect to cover both Southbound and Northbound Trading. The implementation of Southbound Trading will further facilitate Mainland investors to make diversified asset allocation and present enormous opportunities for Hong Kong's financial industry. The HKMA and the People's Bank of China have set up a working group to drive the initiative of Southbound Trading of Bond Connect, with the target of launching it within this year.

Retail Bond Market

79. Given that the global low interest rate environment will persist for a considerably long time, and many people in the community, especially the elderly, prefer investment options with steady and reliable returns, we plan to continue to issue no less than $24 billion of Silver Bond and no less than $15 billion of iBond this year. We propose to raise the borrowing limit of the Government Bond Programme from $200 billion to $300 billion to allow sufficient room for bond issuances, so as to achieve the objective of promoting the sustainable development of Hong Kong's bond market. The eligible age for subscribing Silver Bond will be lowered from 65 to 60.

Real Estate Investment Trusts

80. We are committed to developing the real estate investment trust (REIT) market in Hong Kong and reinforcing the city's role as a premier capital raising centre, while offering investors a wide range of investment options with relatively stable returns. Subsidies will be provided for qualifying REITs authorised by the SFC and listed in Hong Kong in the coming three years to encourage the listing of more REITs in Hong Kong. The subsidy will cover 70 per cent of the expenses paid to local professional service providers for the listing of REITs, subject to a cap of $8 million per REIT. The SFC will announce relevant details in due course.

Securities Market

81. Undaunted by challenges from external factors, the Hong Kong stock market recorded an average daily turnover of $129.5 billion last year, representing an increase of 49 per cent over the year before. A total of $397.5 billion was raised through initial public offerings (IPO) during the same period, representing an increase of 27 per cent over the year before, and among which, over 90 per cent of the funds were raised by Mainland enterprises. Not only is Hong Kong a preferred international fundraising platform, it is also the world's second largest fundraising hub for biotechnology companies. There have been 43 companies listed under the new listing regime in Hong Kong since its introduction, raising a total of over $420 billion, which accounts for about 40 per cent of total IPO funds raised in the period. These companies have a combined market capitalisation of over $11 trillion, accounting for about a quarter of the current total market capitalisation in Hong Kong. They include ten China Concept Stock companies returning to Hong Kong for secondary listing and 31 pre-revenue or pre-profit biotechnology companies. Our earlier efforts in enhancing the listing regime are gradually delivering results.

82. The HKEX will review the overall secondary listing regime, including whether Greater China companies with non-weighted voting rights structures have to be companies in the field of I&T in order to seek secondary listing in Hong Kong through the new concessionary route, as well as their corresponding market capitalisation requirements. The HKEX will consult the market in due course.

83. Stock Connect expands the depth and breadth of the capital market in Hong Kong, and is in line with our country's financial development strategy. We will seek to expand its capacity continuously, including the progressive inclusion of ETF and other types of assets as well as expansion of the scope of eligible securities. With international investors' increased participation in the A-share market through Stock Connect, there is a growing demand for using A-shares index futures to hedge market risk. The HKEX will accelerate the preparatory work for the launch of MSCI China A-Index Futures contract.

Insurance and International Risk Management Centre

84. We are currently undertaking a series of legislative work to provide for half-rate profits tax concessions to eligible insurance businesses including marine insurance and specialty insurance; facilitate the issuance of insurance-linked securities (ILS) in Hong Kong; expand the scope of insurable risks of captive insurance companies; and enhance the group-wide supervision framework by the end of next month. We are also preparing for the implementation of a Risk-based Capital Regime for the insurance industry to replace the rule-based capital adequacy regime.

85. I propose launching a two-year Pilot Insurance-linked Securities Grant Scheme to attract insurance enterprises or organisations to issue ILS in Hong Kong. The amount of grant for each issuance will be capped at $12 million, depending on the maturity of the ILS. The IA will announce the details in due course.

Asset and Wealth Management

86. Since the establishment of the two new fund structures, namely the Open-ended Fund Company (OFC) and the Limited Partnership Fund (LPF), the investment fund regime of Hong Kong has become more comprehensive. With 11 OFCs and over 100 LPFs already set up, Hong Kong's status as an international asset and wealth management centre has been consolidated. We plan to submit a legislative proposal in the second quarter of this year to allow foreign investment funds to re-domicile to Hong Kong for registration as OFCs or LPFs.

87. OFC suits various types of investment funds. We will provide subsidies to cover 70 per cent of the expenses paid to local professional service providers for OFCs set up in or re-domiciled to Hong Kong in the coming three years, subject to a cap of $1 million per OFC. The SFC will announce relevant details in due course.

88. We have introduced an amendment bill to provide tax concessions for carried interest issued by private equity funds operating in Hong Kong. We strive to secure the LegCo's passage of the bill within the current session for the tax concession arrangements to apply starting from 2020-21.

Family Office Business

89. To enhance our attractiveness as a hub for family offices, InvestHK and regulators will offer one-stop support services to family offices interested in establishing a presence in Hong Kong. We will also review the relevant tax arrangements.

Innovation and Technology

90. In the past three years, the Government allocated over $100 billion to support the development of I&T. We already have eight unicorns, making Hong Kong comparable to many larger economies. Despite the huge challenges imposed by the epidemic as well as the internal and external environments, I am convinced that the promotion of I&T is the right direction for the long-term development of Hong Kong.

Nurture and Pool Talent

91. In recent years, the number of research personnel and the number of staff members of start-ups in Hong Kong have increased substantially. To nurture I&T talent, the Education Bureau has implemented a number of measures to promote STEM education, including curriculum updating, providing professional training for teachers, subsidising and organising large-scale learning activities, such as the STEM Education Fair. The Standing Committee on STEM Education of the Curriculum Development Council steers and promotes the long-term development of STEM education in primary and secondary schools, as well as reviews continuously the relevant curriculum.

92. The IT Innovation Lab in Secondary Schools Programme has received positive response since its launch. I will set aside over $200 million to extend the programme to primary schools. Funding of up to $400,000 will be provided to each subsidised primary school in the coming three school years, thereby rolling out a "Knowing More About IT" Programme to enhance students' interests and knowledge in information technology and their applications through extra-curricular activities, so as to prepare them for integration into the knowledge-based economy and participation in the development of a digital society. The OGCIO will set up a one-stop support centre to provide assistance for primary schools.

93. Last year, I earmarked $40 million to implement a pilot scheme, under which subsidies are provided for students who study science and technology in local universities to enrol in short-term I&T related internships. More than 1 600 students and over 1 000 enterprises participated in the scheme. Eighty per cent of the interns indicated that they would consider pursuing a career in I&T after graduation. Given the overwhelming responses, I announce that the scheme would be regularised.

94. The Government will launch a Global STEM Professorship Scheme in the first half of this year to support universities in attracting world-renowned I&T scholars and their teams to Hong Kong to participate in STEM teaching and research. The scheme will involve an expenditure of about $2 billion, which will be borne by the Government, the universities and the Hong Kong Jockey Club Charities Trust.

95. Job opportunities and continuous training are also crucial for nurturing the I&T talent. In the past three years, the Research Talent Hub has funded over 3 700 R&D positions. Among those engaged, about 1 400 are postdoctoral talent. The Re-industrialisation and Technology Training Programme provided on-the-job training for over 3 500 employees of some 1 800 enterprises so as to enable them to have a better grasp of the development of the new economy and I&T. The Greater Bay Area Youth Employment Scheme launched early this year also provides around 700 I&T places to encourage enterprises to employ Hong Kong's university graduates so that the latter can undertake I&T-related work and receive on-the-job training in Hong Kong and another city in GBA.

Innovation and Technology Infrastructure

96. Over 80 per cent of the areas in the two buildings under Stage 1 of the Science Park Expansion Programme has been occupied. As for the Data Technology Hub (DT Hub) in the Tseung Kwan O Industrial Estate, since its commencement of operation in the fourth quarter of last year, 16 enterprises have already set up offices there or signed tenancy agreements. Besides, quite a number of enterprises have expressed interest in setting up offices in the DT Hub. The InnoCell adjacent to the Science Park was completed at the end of last year, providing around 500 residential spaces with flexible design and facilities such as shared work spaces for the research personnel in the Science Park. Leasing activities will commence and a trial run will be held in the first half of this year.

97. The supply of R&D and working spaces in the Hong Kong Science Park and Cyberport falls short of demand. In the last two Budgets, resources were set aside for the Science Park expansion and Cyberport 5 development, which will respectively provide about 28 000 and 63 000 square metres of floor area mainly for R&D or operation of I&T enterprises.

98. We are also pressing ahead with the development of the Hong Kong-Shenzhen Innovation and Technology Park (the Park) in the Lok Ma Chau Loop. A provision of about $32.5 billion has been approved for the project. Works have already commenced. The first batch of facilities is expected to be completed in phases from 2024 to 2027, the economic contribution to Hong Kong of which is expected to reach $5.5 billion per annum, with about 4 800 jobs to be created. Upon full development, the Park will be the largest ever I&T platform in Hong Kong, providing a gross floor area of 1.2 million square metres, which is approximately three times that of the Science Park. Its economic contribution to Hong Kong is expected to reach $52 billion per annum, with about 52 000 jobs to be created.

99. On digital infrastructure, the coverage of 5G network in Hong Kong is now over 90 per cent. The subsidy scheme for expanding fibre-based network to villages in remote areas will be completed in phases from this year onwards. The Government will continue to support the development of 5G networks and applications; release more 5G spectrum in different frequency bands; facilitate the setting up of radio base stations by operators at suitable government venues and public facilities; assist in the relocation of the Tai Po satellite earth stations; and provide land at Chung Hom Kok Teleport for the development of infrastructure to connect with external telecommunications facilities.

Promote Research and Development

100. Over the past few years, we have been dedicated to promoting R&D but it takes time to deliver results. These efforts are gradually bearing fruits with a rising gross domestic expenditure on R&D activities in recent years, boosting our confidence in promoting R&D.

101. Amendments were made to the Inland Revenue Ordinance in late 2018 to provide for enhanced tax reduction for qualifying R&D expenditure so as to encourage enterprises to devote resources to local R&D. The total amount of R&D expenditure for which claims for tax deduction were made in the first year of assessment has more than doubled since the implementation of this measure. Seventy per cent of this amount enjoyed enhanced tax deduction. The measure has delivered notable results.

102. Since permission was granted for the remittance of Mainland R&D funding to Hong Kong, the Ministry of Science and Technology, Guangdong Provincial Government and Shenzhen Municipal Government in the past two years have approved over RMB 340 million for universities and research institutes in Hong Kong to conduct R&D or set up laboratories, thereby adding impetus for local R&D activities.

103. The "*InnoHK* Research Clusters" is our flagship project. It comprises *Health@InnoHK* on healthcare technologies and *AIR@InnoHK* on artificial intelligence and robotics technologies, and has attracted many top-notch universities and research institutions in the world. The first batch of about 20 R&D laboratories will commence operation progressively in the first quarter of this year. This will further consolidate Hong Kong's position as a global research collaboration hub.

104. Funding under the Innovation and Technology Fund (ITF) increased by over seven times in the last seven years. I will inject $4,750 million per year to the ITF two years in a row to sustain its 17 funding schemes as well as the work of over 50 R&D laboratories in the next three years.

Start-ups

105. Hong Kong's start-up ecosystem has become increasingly vibrant, with an increase in the number of start-ups from around 1 100 in 2014 to over 3 300 last year. Investment from venture capital funds in Hong Kong also increased from $1.24 billion in 2014 to $9.9 billion in 2019, representing an increase of over seven times. Over the past three years, I&T enterprises in the Science Park and Cyberport have attracted over $41 billion of investment. Besides, some 600 start-ups are being incubated by the Science Park and Cyberport on top of the nearly 1 300 start-ups already graduated from the programmes.

106. The Innovation and Technology Venture Fund (ITVF) has invested more than $100 million in 19 local start-ups over the past two years, attracting more than $500 million private investment. The ITVF appointed three new co-investment partners late last year. We will continue to partner with venture capital funds to invest in local start-ups.

107. In the past three years, the Hong Kong Science and Technology Parks Corporation (HKSTPC) has invested over $100 million in 13 technology enterprises through its Corporate Venture Fund, attracting about $1,350 million private investment. The Cyberport Macro Fund set up by Cyberport also invested more than $120 million in 16 companies, attracting over $860 million private investment. The HKSTPC and Cyberport will inject $350 million and $200 million into the two Funds respectively and extend their scope to cover Series B and later stage investments.

108. The Technology Start-up Support Scheme for Universities has provided funding of about $120 million to 139 start-ups in the past three years. Among those start-ups which have benefited from the Scheme since inception, over half of them have launched their products in the market, more than 40 per cent have earned revenue and about 60 per cent have received capital injection from investors with a total amount of some $530 million.

Financial Technology

109. The epidemic has speeded up digital transformation of the Hong Kong financial market. On top of many Fintech start-ups, there are eight virtual banks, four virtual insurers, and a virtual asset trading platform having been authorised to operate in Hong Kong.

110. With a view to fostering the development of more novel financial products, the HKSTPC and Cyberport will collaborate with the HKMA to attract more financial, technology or research institutes to set up laboratories in Hong Kong, with a focus on such areas as regulatory technology and cyber security, where Hong Kong enjoys clearest advantages. In addition to the Fintech Proof-of-Concept Subsidy Scheme announced in January this year, the HKMA is considering enhancing its Fintech Supervisory Sandbox by providing "through-train" vetting and funding arrangements for those promising Fintech solutions to reduce the time for the launch of innovative financial products in the market.

Foster Re-industrialisation

111. The Re-industrialisation Funding Scheme, which was launched in July last year, provides subsidies, on a matching basis, to manufacturers for setting up new smart production lines in Hong Kong. The scheme has received 12 applications so far.

112. The Advanced Manufacturing Centre in the Tseung Kwan O Industrial Estate and the Microelectronics Centre in the Yuen Long Industrial Estate, being developed by the HKSTPC, will be completed in the coming years. The two centres will provide a total gross floor area of over 140 000 square metres for smart production and high-end manufacturing industries. Quite a number of enterprises have expressed interest in setting up establishments in the two centres.

Air Cargo Sector

113. The Hong Kong International Airport (HKIA) is a "double gateway" connecting the world and the GBA. With further growth in external trade in the GBA, particularly the booming of e-commerce and the personalisation of consumer demand, orders received by manufacturers are becoming small in amount with a narrow delivery window. It can be envisaged that that there will be an increasingly keen regional demand for air cargo services. Last year, HKIA handled 4.5 million tonnes cargoes and air mail, down by only 7% from the pre-epidemic level.

114. The Airport Authority (AA) has active plans for developing intermodal cargo handling facilities, so that there will be seamless transportation of Mainland exports to the rest of the world through the HKIA, and vice versa. With the expansion of the existing express air cargo terminal, and the commissioning of a new premium logistics centre as well as the Three Runway System, HKIA's annual cargo handling capacity is expected to increase from 7.4 million tonnes to some nine million tonnes in 2024. When the airside intermodal cargo handling facility becomes operational as well, Hong Kong's position as the air cargo centre of the GBA will be further reinforced.

115. HKIA's capability in handling high-value temperature-controlled air cargo is internationally recognised. In addition, the Government will work with the AA to actively explore measures to facilitate trans-shipment through Hong Kong, with a view to maintaining our competitive edge as an international air cargo hub. We are confident that the HKIA will become the busiest cargo airport in the world again when the pandemic is over.

116. We will submit a funding application to the LegCo within this year to redevelop the Air Mail Centre at the HKIA, with a view to bringing the centre into operation by end 2027 the earliest. We will continue to work with the AA and other postal authorities on maximising the use of the centre's transit handling capacity, in order to support the long-term development of the postal industry in the GBA.

Cultural and Creative Industries

117. I will inject an additional $1 billion into the CreateSmart Initiative in 2021-22 to continuously drive the development of the creative industries.

118. The Government has continued to allocate more resources to the development of arts and culture in recent years. In 2021-22, the total expenditure will exceed $5.7 billion. The West Kowloon Cultural District (WKCD) is a new landmark and attraction in Hong Kong. With the opening of M+ and the Hong Kong Palace Museum in WKCD in this and next year respectively, and the expected completion of the Lyric Theatre Complex in 2024, diversified development opportunities will be brought to the local arts and cultural sector.

119. We plan to seek funding approval in the current legislative session for taking forward the renovation of Tsuen Wan Public Library, the facility upgrading of Tai Po Civic Centre as well as the renovation and improvement of Sai Wan Ho Civic Centre. The above works cost a total of about $900 million, creating a total of some 210 employment opportunities.

120. The Government provided multiple rounds of assistance amounting to over $200 million to the arts and culture sector under the AEF, benefitting over 930 arts groups and over 6 800 arts practitioners. As many arts and culture activities were not able to be staged, the industry has made use of technology to perform through various means, promoting the integration of arts and I&T as a new trend of development. The Home Affairs Bureau has established an inter-bureau task force with $100 million reserved to promote the integration of arts and technology, and support arts groups and I&T savvy.

Infrastructure Investment and Construction Industry

121. The Government will continue to invest in infrastructure. The annual capital works expenditure will exceed $100 billion in coming years. The annual total construction output will increase to around $300 billion, creating over 300 000 employment opportunities.

Train Talent

122. The Government and the Construction Industry Council have been providing professional and comprehensive training programmes for construction workers. The Hong Kong Institute of Construction also has a well-established training system offering a clear career progression path for its trainees. Measures to enhance training for skilled workers, subsidise the operation of small-and-medium-sized contractors and registered subcontractors, and offer allowances to registered construction workers who are underemployed or temporarily unemployed for attending training courses have been implemented since January this year.

123. The Development Bureau (DEVB) established the Centre of Excellence for Major Project Leaders, which is the first institution in Asia specialising in nurturing leaders for works projects. To enhance the professional skills of mid-tier managers in the Government and uplift the project delivery capability, I have earmarked $6 million for provision of systematic training to them in the next three years, with a view to ensuring more effective use of public resources.

Manage Cost

124. Cost management is an important part of the sustainable development of the construction industry. The Project Strategy and Governance Office of the DEVB, apart from implementing strategic measures to raise cost-effectiveness within the Government, will also promote cost management culture to the industry.

Enhance Effectiveness

125. The Government actively promotes the Modular Integrated Construction (MiC) method. Intake for the first batch of pilot projects, including the InnoCell of the Hong Kong Science Park and the Disciplined Services Quarters for the Fire Services Department at Pak Shing Kok, is expected to commence early this year. Up to now, the Construction Innovation and Technology Fund has granted over $75 million to the industry for supporting their adoption of this method and the Buildings Department has approved 31 pre-accepted MiC systems to facilitate their adoption by the private building developers.

Digitalisation of Public Works

126. With $100 million allocated for the development of the integrated digital platform in the last Budget, the platform will be implemented in phases from this year onwards for driving digitalisation of public works through data integration and analysis to monitor project performance continuously and enhance the management of capital works projects.

Building a Liveable City

Optimise Land Use

Land Supply

127. The 2021-22 Land Sale Programme comprises a total of 15 residential sites and three commercial sites, capable of providing about 6 000 residential units and about 480 000 square metres of commercial floor area respectively. With the residential sites under the Land Sale Programme, together with railway property development projects, private development and redevelopment projects and the Urban Renewal Authority's projects, the potential land supply for the whole year is expected to have a capacity of providing about 16 500 units. The Secretary for Development will later announce the details of the Land Sale Programme for the next financial year.

128. The construction of Kwu Tung North/Fanling North new development areas (NDAs) is making good progress. The intake for the first batch of public housing in Kwu Tung North is expected to take place in 2026, one year earlier than originally planned. Private residential sites in the area will be tendered gradually. The 12 hectares of private land involved in the first phase of the works for Hung Shui Kiu/Ha Tsuen NDA has been resumed as scheduled. Site formation and infrastructure works are underway. As for the Yuen Long South development, we are going through the statutory planning process. The first batch of public housing units will be completed in 2028. We will seek funding approval from the LegCo for studies related to the New Territories North NDA within this legislative session. The studies will commence shortly afterwards.

129. The first two parcels of housing land under the Tung Chung East reclamation works were handed over to the Hong Kong Housing Authority for public housing development last year. The first intake for about 10 000 public housing units will take place in 2024.

130. We estimate that in the NDA projects and other government and private development projects under planning, there is a total of over 860 hectares of brownfield sites in the New Territories which can gradually be redeveloped for housing and other land uses.

131. Over the past few years, we have identified 210 sites with potential for housing development. Rezoning has been completed or commenced for 70 per cent of them. It is estimated that about 40 per cent of the public housing units to be completed in the next ten years will come from the rezoned sites.

132. We are examining the feasibility of rezoning five commercial sites in Kowloon East for residential use taking into account the latest economic situation and market response. If confirmed feasible, we plan to initiate the relevant statutory town planning procedure this year. A total of about 5 800 private housing units can be provided according to our preliminary estimation.

133. The Mass Transit Railway Corporation Limited and government departments are pressing ahead with the development of the Siu Ho Wan Depot Site. Our target is to have the first batch of about 6 000 public and private housing units gradually ready for intake in around 2030. Upon completion of the whole project, about 20 000 units will be provided, about half of which will be public housing units.

134. We plan to conduct later this year district consultations on two "single site, multiple use" projects, namely the redevelopment of Tuen Mun Clinic and the joint-user building for community facilities at Shan Mei Street in Shatin. Besides, we will apply funding from the LegCo as soon as possible for three other projects, namely one at the former Anderson Road Quarry site, one in Tseung Kwan O town centre and the other one near Sheung Wan Fire Station. In addition, we are reviewing about 40 "Government, Institution or Community" sites with joint use potential. We hope to put forward concrete proposals for these sites this year, including developing multi-purpose public facility buildings.

135. The DEVB has set up the Development Projects Facilitation Office to facilitate the processing of planning, lease modification and building plan applications, etc. for private residential development projects with a yield of 500 flats or more by enhancing co-ordination among the departments involved.

136. The DEVB and the Lands Department will introduce a pilot scheme for charging land premium at "standard rates" in this quarter to encourage redevelopment of industrial buildings.

Housing Supply

137. We have identified land for the provision of 316 000 public housing units in the coming ten years. With the redevelopment of Hong Kong Housing Authority's factory estates, the number of public housing units may see further increase. It is estimated that the total public housing production in the five-year period from 2020-21 is about 101 400 units, comprising over 70 000 public rental housing and Green Form Subsidised Home Ownership Scheme units and over 30 000 other subsidised sale units. On private housing, it is estimated that the completion of private residential units will average over 18 000 units annually in the five years from 2021, representing an increase of about five per cent over the annual average of the past five years.

138. The Government has already identified land for the provision of about 14 000 transitional housing units by end-2023. Intake of residents for over 1 100 units has taken place. Projects involving about 9 800 units have been launched. The $5 billion Funding Scheme to Support Transitional Housing Projects has approved projects involving over $2.6 billion, and the Government will inject another $3.3 billion this year. The Government is also seeking funding from the Community Care Fund to subsidise NGOs, as a pilot scheme, to rent suitable rooms in hotels and guesthouses with relatively low occupancy rates for use as transitional housing.

Green City

139. The Government strives to achieve carbon neutrality before 2050, and will update Hong Kong's Climate Action Plan in the middle of this year to set out more proactive strategies and measures to reduce carbon emissions. We are setting an example by implementing the Green Energy Target to boost the overall energy performance of the Government by six per cent by 2024-25. Concurrently, the Government will continue to promote new energy transportation so as to further reduce roadside air pollution.

Promote New Energy Transportation

140. The Government has all along been promoting the replacement of conventional fuel-propelled private cars (PCs) with electric vehicles (EVs). Last year, one out of eight new PCs is EV. In the past ten years, the number of EVs increased from 184 to over 18 500, with the total number of electric private cars (e-PCs) accounting for 2.7 per cent of the total number of PCs in Hong Kong. The "One-for-One Replacement" Scheme provides a higher first registration tax (FRT) concession for owners who buy a new e-PC and scrap their eligible old PC, subject to a cap of $250,000. Since its launch, 90 per cent of the owners of first registered e-PCs have benefited from the Scheme. The FRT concession for general e-PCs is $97,500.

141. The Government launched the $2 billion EV-charging at Home Subsidy Scheme in October last year. It is expected that about 60 000 parking spaces in existing private residential buildings will be provided with EV charging-enabling infrastructure under the scheme in three years. Since the introduction of the scheme, applications involving more than 50 000 parking spaces have been received.

142. Last year, the Government allocated an additional funding of $800 million to the New Energy Transport Fund and expanded its funding scope to cover additional types of electric commercial vehicles. As at end-2020, the amount of subsidy granted under the Fund was $154 million, covering nearly 200 projects on electric and hybrid commercial vehicles as well as conventional buses and ferries. Moreover, the Government earmarked $80 million for green public light bus (PLB) operators to embark on a pilot scheme on electric PLBs from 2023. Meanwhile, the Government also earmarked $350 million to provide subsidies for ferry operators to conduct trials on electric ferries serving in-harbour routes of the Victoria Harbour from 2023.

143. The Environment Bureau will announce next month Hong Kong's first roadmap on the popularisation of EVs, setting out long-term policy objectives and plans on the use of EVs and their associated supporting facilities. The key measures include ceasing the new registration of fuel-propelled PCs in 2035 or earlier, expanding the EV charging network and promoting its marketisation, training of EV technical and maintenance practitioners, and formulating a Producer Responsibility Scheme for retired EV batteries. The Government will also take the lead to use more EVs.

Improve Air Quality

144. To further improve air quality, the Government has implemented an ex-gratia payment scheme of $7.1 billion to phase out about 40 000 Euro IV diesel commercial vehicles by end-2027. The Government will finish updating the Clean Air Plan for Hong Kong by the middle of this year to set out long-term goals and devise measures to further improve air quality.

Relieve Traffic Congestion

145. The number of PCs has been on the rise. Traffic congestion has been aggravating. The FRT and the vehicle licence fee for PCs have not been adjusted since 2011 and 1991 respectively. I propose increasing the rate of each tax band for the FRT for PCs (including e-PCs) by 15 per cent and the vehicle licence fee by 30 per cent. The above-mentioned adjustments have been gazetted for taking effect today. Other types of vehicles are not affected. The maximum FRT concession for e-PCs under the "One-for-One Replacement" Scheme will be raised correspondingly to $287,500, while the FRT concession cap for general e-PCs will remain unchanged. The Transport Department will also continue the studies on "Congestion Charging" and the Electronic Road Pricing Pilot Scheme in Central with the aim of optimising the use of road space and relieving traffic congestion.

Decarbonise and Reduce Waste

146. In addition to the resources earmarked in previous Budgets, I will set aside an extra $1 billion for more than 80 projects to install additional small-scale renewable energy systems at government buildings and infrastructure. I will also set aside $150 million to conduct energy audits and install energy-saving appliances, free of charge, for NGOs subvented by the Social Welfare Department. In addition, the Green Tech Fund, set up with an allocation of $200 million by the Government, has just closed the first round of applications. The result is expected to be announced in the middle of this year. All these measures can help Hong Kong advance towards its carbon neutrality target, and will also create jobs.

147. The Government will inject an additional funding of $1 billion to the Recycling Fund and extend the application period to 2027 so as to render continuous support to the trade, particularly the SMEs, in enhancing its operational capabilities and efficiency as well as coping with the latest needs of both the local and non-local markets. It is expected that more than 1 000 businesses will benefit from the measure.

Quality Living

148. Apart from large-scale infrastructure projects, I also care about developing a quality city for our citizens, including enhancing the facilities in our highly popular country parks, hiking trails, recreational facilities and harbourfront facilities. I will allocate more resources to the relevant projects.

Improve Country Parks

149. I will set aside $500 million to carry out enhancement works on facilities in some country parks, such as providing recreational elements like additional lookout points, treetop adventure and glamping sites, improving toilet facilities and barbeque and picnic sites, and revitalising some wartime relics by converting them into open museums so as to enrich visitors' experience and enjoyment at the countryside. The new facilities will adopt low-carbon and green design that integrates with its natural surroundings. The needs of all age groups and people with or without physical disabilities will be catered for. The new facilities will be rolled out gradually in the coming two to three years for public enjoyment. Meanwhile, I have also earmarked $55 million for the Tourism Commission to work with the Agriculture, Fisheries and Conservation Department to take forward the second phase of the enhancement programme for ten popular hiking trails in country parks that have potential for tourism in the coming five years, with a view to enriching leisure experience of the public and visitors.

Upgrade Recreational Facilities

150. The Government has launched a five-year plan to modify more than 170 public play spaces managed by the Leisure and Cultural Services Department (LCSD) across the territory since 2019 with a view to providing children's play equipment which incorporate more elements of fun, creativity and challenge. To cater for people's diverse needs for fitness equipment, the LCSD will install some novel outdoor fitness equipment as appropriate when constructing new parks or renovating existing ones, such as the Yat Ming Road Park in North District which is near completion and the Butterfly Beach Park in Tuen Mun.

151. Football has long been one of the most popular sports. The Kai Tak Sports Park, scheduled for completion in 2023, will provide, among others, two main stadiums for hosting both international and local football matches. The Five-year Plan for Sports and Recreational Facilities also includes the construction or reconstruction of 12 football pitches, including the redevelopment of Yuen Long Stadium.

152. I will earmark $318 million to implement a five-year plan for upgrading over 70 football pitches under the management of LCSD, including substantially increasing the number of 5-a-side football pitches meeting international standards, exploring the possibility of expanding the existing football pitches into standard 11-a-side turf pitches and expediting the replacement of artificial turf on football pitches. Relevant national sports associations and their affiliates, district football groups, schools and other organisations will have more up-to-standard football pitches to organise football training programmes and football matches in the future. The general public, in particular young people, will have more opportunities to play football regularly and develop their potential, thereby contributing to the long-term development of football in Hong Kong.

Enhance Harbourfront

153. I have earlier earmarked a total of $6.5 billion for harbourfront enhancement. We have completed six kilometres of harbourfront promenades over the past three years or so for public enjoyment. The 20 kilometres-plus Victoria Harbourfront promenades have now become popular leisure spots. This year, we will seek funding from the LegCo for commencing the construction works of two major projects, namely the Boardwalk underneath the Island Eastern Corridor and the harbourfront park at Eastern Street North in Sai Ying Pun. An incremental approach will continue to be adopted so that the harbourfront sites can be opened as early as possible for public enjoyment.

Strengthen Healthcare System

Healthcare Facilities and Manpower

154. The HA will press ahead with the implementation of the first 10-year Hospital Development Plan (HDP) and the planning of the second 10-year HDP. The HA will review the design of hospital projects under the two 10-year HDPs taking into account the experience in combating COVID-19 and incorporate required provisions for two to three general wards in each selected hospital, so that they can be readily converted into Tier-2 isolation wards when the need arises.

155. To strengthen professional healthcare training, around $1.9 billion has been allocated to the University of Hong Kong, the Chinese University of Hong Kong and the Hong Kong Polytechnic University in the past two financial years for carrying out short-term renovation works and facility enhancement as well as studies and medium and long-term works projects to increase their teaching facilities. The Government will continue to work with the universities to upgrade and increase healthcare-related teaching facilities.

156. Healthcare workers play a pivotal role in our fight against the epidemic. The last Budget earmarked funding to support the HA in providing sufficient manpower for the public healthcare system and easing the pressure on healthcare workers. The measures are being taken forward.

Primary Healthcare

157. Following the commencement of service of the first District Health Centre (DHC) in Kwai Tsing District, I earmarked $650 million recurrent expenditure for setting up DHCs in six other districts last year. Two of them in Sham Shui Po and Wong Tai Sin target to commence operation within the coming two years. Last year, I also allocated about $600 million for setting up "DHC Expresses" in the remaining 11 districts which are expected to commence service progressively within this year.

Development of Chinese Medicine

158. The Government will award the service deed for the Chinese Medicine Hospital in Tseung Kwan O in the middle of this year, and construction works are expected to be completed in 2025. Since last year, the Government has also allocated more resources to the 18 Chinese Medicine Clinics cum Training and Research Centres, with a view to continuously enhancing the remuneration package of and training for Chinese medicine practitioners. Moreover, the Government promotes the development of Chinese medicine in Hong Kong through a dedicated fund of $500 million.

Mental Health Services

159. The Government will provide additional recurrent funding of around $147 million to enhance child and adolescent psychiatric, community psychiatric and psychogeriatric services of the HA, and support the enhanced service of Kwai Chung Hospital upon its redevelopment. It was earlier announced that a sum of $300 million will be used for strengthening support for people in need in the community as well as enhancing public awareness of the importance of mental health.

Caring and Inclusion

160. The Government will provide an extra 1500 subsidised elderly home care service places this year, involving an annual expenditure of about $150 million. The Government is also taking forward 66 new projects, providing about 8 800 residential care places and about 2 800 subsidised day care service places for the elderly in the coming few years.

161. The Government has substantially increased the resources allocated to rehabilitation services in recent years. The number of places for on-site pre-school rehabilitation services has been increased by 1 000 to 8 000 in the current school year and is expected to further increase to 10 000 in 2022/23 school year.

162. The Labour Department launched the Racial Diversity Employment Programme last year to enable NGOs to provide one-stop employment services for ethnic minority job seekers through a case management approach. Over 500 ethnic minority job seekers are expected to participate in the first two years of the programme.

163. The revenue for the Lotteries Fund has dropped substantially due to the epidemic. I will make an injection of $1.1 billion to ensure that development projects in respect of much-needed social welfare services premises (particularly major facilities for elderly and rehabilitation services) can proceed as scheduled and that the feasibility studies and detailed design work for such projects will not be affected.

Public Finance

Deficit Budget

164. As an open economy with a relatively narrow tax base, Hong Kong's government revenue is susceptible to changes in the economic environment. The ageing population also poses pressure on public expenditure. Though I have great confidence in Hong Kong's fundamental strengths and long-term prospects, we must, in the face of an economic downturn and the aforesaid challenges, exercise extra prudence in managing public finance.

165. Our fiscal reserves are the fruits of the economic development of Hong Kong and the hard work of our people over the years. They enable us to adopt a deficit budget amid the prevailing economic downturn and launch counter-cyclical measures to support the economy and relieve people's burden. In the past year, we have increased government expenditure substantially to combat the epidemic and roll out relief measures, which resulted in our fiscal reserves dropping sharply in two years from the equivalent of 23 months of government expenditure to 13 months.

166. Although I forecast an improvement in revenue for the next financial year, I expect that the fiscal deficit will be $101.6 billion, accounting for 3.6 per cent of GDP, due to the counter-cyclical fiscal measures and the continued increase in recurrent expenditure. In other words, Hong Kong will record a deficit for a number of years after achieving a surplus for 15 years. As shown in the Medium Range Forecast (MRF), the Operating Account is projected to be in deficit for five consecutive years. The operating deficit for 2021-22 will be more than $140 billion mainly due to the counter-cyclical measures while the operating deficit for the remaining four years will range from $22.4 billion to $40.7 billion. The Consolidated Account is also expected to record a deficit for four consecutive years. The above forecast has not yet taken into account any tax rebate or relief measure that the Government may implement in the future.

167. The deficits are mainly caused by the fact that the rise in government expenditure is outpacing the increase in government revenue, especially in terms of recurrent expenditure. Recurrent expenditure of the Government increased from about $150 billion in 1997-98 to about $470 billion in 2020-21, representing a more than three-fold increase. The significant rise in government expenditure in recent years is for enhancing services or investing for the future. However, as emphasised in my last Budget, government expenditure should enter a consolidation period, and the long-term financial commitments should also be commensurate with the increase in revenue.

168. As a number of measures announced in this year's Budget will have a bearing on the new financial year and the MRF, I would like to offer some explanations here.

169. To optimise the use of fiscal reserves for seeking a better return to meet future needs, the Government set up the Future Fund in 2016 to make longer-term investments for a period of ten years. The investment return of the Fund forms an integral part of public financial resources, and has accumulated a return amounting to nearly $100 billion. While the Government has all along been disclosing the rate of return of the Future Fund, the investment return yet to be brought back has not been reflected under the cash-based government accounts. Starting from 2021-22, I will reflect the cumulative investment return of the Fund in the Operating Account on a progressive basis, with $25 billion brought back in the first year.

170. The 2021-22 Budget has also included $23 billion brought back from the Housing Reserve and the annual proceeds of about $35 billion from the expansion of the Government Green Bond Programme as mentioned earlier. The sums raised under the Government Green Bond Programme will provide funding for green projects under the Capital Works Reserve Fund but will not be used to finance operating expenditure, and hence will not undermine public finance discipline. The issuance of bonds cannot bolster our real financial strength as it ultimately requires the repayment of principal and interest. Nonetheless, the issuance of additional green bonds for financing eligible projects can definitely relieve the Government's fiscal pressure arising from the need to use existing resources to meet capital expenditure. This is a reasonable and appropriate approach in the light of the current low interest rate environment, and is also conducive to the development of Hong Kong's bond market.

171. The above measures of bringing back the Future Fund's investment return and the Housing Reserve and issuing additional green bonds will ensure that our fiscal reserves can be maintained at a relatively robust level despite deficit budgets in the next few years. They would enhance confidence in Hong Kong's fiscal strength and are conducive to maintaining our financial stability. However, in the long run, the key to maintaining healthy public finances is to follow the principle of keeping expenditure within the limits of revenue and ensure that the growth of expenditure is commensurate with economic growth. In the face of the challenges of fiscal deficits, we should not only reduce expenditure but also increase revenue.

Reduce Expenditure

172. This year's Budget will continue to roll out a series of measures for supporting individuals and businesses. Last year, Hong Kong's economy was battered by the epidemic, and all sectors of the community were generally affected in varying degrees, particularly the grassroots. Despite the fiscal deficit, I have decided not to reduce our spending in areas related to people's livelihood, especially resources allocated to the three policy areas of education, social welfare and healthcare, in order to safeguard people's livelihood and maintain public confidence. In 2021-22, the recurrent funding for these three policy areas amounts to $302.3 billion in total, accounting for 58 per cent of the Government's total estimated recurrent expenditure and representing an increase of 45 per cent over the provision of $208.2 billion in 2017-18.

173. The Government will set an example by cutting expenditure so as to strengthen fiscal discipline. In 2021-22, we will have zero growth in the civil service establishment. Besides, the Government will implement an expenditure reduction programme by requiring all policy bureaux and departments to reduce expenditure without affecting livelihood-related spending. The objective is to trim recurrent expenditure by one per cent in 2022-23. The estimated savings will be about $3.9 billion. While it seems not too difficult to achieve the one per cent cut in recurrent expenditure, there is limited room for curbing expenses related to personal emoluments which account for about 60 per cent of recurrent expenditure of government departments. We can only achieve the target mainly through savings from the remaining 40 per cent of recurrent expenditure, including major items such as general expenses and subventions. All departments have to undertake critical review, adjust priorities and enhance efficiency in order to achieve the savings target without affecting day-to-day operation and the public services they provide. Many a little makes a mickle.

Increase Revenue

174. As I have pointed out in my last Budget, Hong Kong needs to maintain the development and vibrancy of our economy and identify new areas of growth, with a view to increasing our revenue. I have just elaborated on the long-term positioning of Hong Kong's economy and the strategies for the development of our major sectors, which will help increase government revenue in the long run.

175. Besides, I mentioned last year that we need to consider seeking new revenue sources or revising tax rates, and reducing one-off relief measures progressively. Though raising tax rates can increase revenue in the short run, the choice must be made carefully.

176. Having duly considered the impact on the securities market and our international competitiveness, we have decided to introduce a bill to raise the rate of Stamp Duty on Stock Transfers, from the current 0.1 per cent to 0.13 per cent of the consideration or value of each transaction payable by buyers and sellers respectively. The Government will continue to spare no efforts in introducing measures to facilitate the development of the securities market, so as to take our financial services sector to the next level.

177. As businesses and individuals are generally under considerable financial pressure amid the prevailing economic environment and the epidemic, I consider that it is not the appropriate time to revise the rates of profits tax and salaries tax, which are our major sources of revenue. Nevertheless, we will keep in view the situation and make adjustments at the appropriate time.

178. During Budget consultations, I received many proposals to introduce new taxes. If we do so, we have to carefully examine the proposals, take all factors into consideration, and earnestly listen to views of various sectors of the community. Fighting the epidemic and reviving the economy are our current priorities. This is not the time to introduce new taxes. Nevertheless, we will carry out related research and make preparation to facilitate in-depth discussions at a suitable time, and forge consensus before we introduce new taxes to increase revenue.

International Tax Co-operation

179. The Organisation for Economic Co-operation and Development (OECD) is drawing up new proposals to address base erosion and profit shifting (BEPS 2.0), which include the introduction of a global minimum tax rate and a digital tax. In mid-2020, the Advisory Panel on BEPS 2.0 commenced work on assessing the impact of the proposals on Hong Kong. At the same time, the Government has been collecting views from stakeholders in the business sector. Taking into account the preliminary views of the Advisory Panel, I would like to outline the direction of the Government's response measures so that the business sector can have a better grasp of the issue and make early preparation. First, as an international financial and business centre, Hong Kong will actively implement the BEPS 2.0 proposals according to international consensus. Second, as most of the rules under BEPS 2.0 are only applicable to large multinational corporations, we will minimise the impact on local SMEs where possible when drawing up the response measures and strive to maintain the simplicity, certainty and fairness of our tax regime, which are our key advantages. Third, while safeguarding Hong Kong's taxing rights, we will at the same time minimise the compliance burden on affected corporations. Fourth, we will keep up our efforts in improving Hong Kong's business environment and enhancing our competitiveness, with a view to attracting multinational corporations to invest and operate in Hong Kong. Once the OECD has finalised the proposal, the Advisory Panel will put forth its recommendations on the specific response measures in its report to me.

Rating System

180. The rating system in Hong Kong has not undergone any major change since 1995. To ensure that our rating system could keep pace with the times, I have requested the FSTB and the Rating and Valuation Department to review whether there is any room for improvement in respect of the rating system. We will review the case for introducing a progressive element to the rating system and that for providing rates concession to owner-occupied properties on a regular basis. Furthermore, we will consider shifting the primary liability for rates payment from the occupier to the owner of a property to reflect that the ultimate responsibility with regard to a property should rest with its owner. The Government will consult the relevant LegCo panel on whether and how to revise the rating system.

Revised Estimates for 2020-21

181. The 2020-21 revised estimates on government revenue is $543.5 billion, lower than the original estimate by 5.1 per cent or $29 billion. This is mainly due to the lower-than-expected revenue from land premium.

182. Revenue from land premium is $87 billion, substantially lower than the original estimate by $31 billion, mainly due to the deferment of the disposal timetable of a high-value commercial site in the year. Revenue from profits tax is $131 billion, comparable to the original estimate. Meanwhile, revenue from salaries tax is $72 billion, which is $12.1 billion higher than the original estimate. This is mainly because some tax revenue that should be received in the previous year could only be collected in this year as a result of the deferred tax assessment cycle. Stamp duty revenue is $79 billion, which is $4 billion higher than the original estimate. This is mainly due to the hectic trading in the stock market.

183. As for government expenditure, the revised estimate is $820.4 billion, 12.2 per cent (or $89.3 billion) higher than the original estimate. This is mainly because of the need to make injections into the AEF and meet expenditure on other helping measures. At the same time, expenditure on public works projects was $7.1 billion lower than the original estimate.

184. All in all, I forecast a deficit of $257.6 billion for 2020-21. Fiscal reserves are expected to be $902.7 billion by 31 March 2021.

185. The civil service establishment increased by 6 082 posts in this financial year, representing a growth of 3.2 per cent. The increase in the establishment is mainly due to the implementation of new policies and measures by the Government and the need to cope with additional workload.

Estimates for 2021-22

186. The major policy initiatives announced in the 2020 Policy Address involve an operating expenditure of about $18.3 billion and a capital expenditure of $2.1 billion. I will ensure that adequate resources are provided to fully support the launch of these initiatives.

187. Total government revenue for 2021-22 is estimated to be $591.1 billion. Earnings and profits tax is estimated to be $200.7 billion, decreasing by 6.1 per cent compared with the revised estimate for 2020-21. Having regard to the Land Sale Programme and the land supply target of the coming year, revenue from land premium is estimated to be $97.6 billion, increasing by 12.1 per cent compared with the revised estimate for 2020-21. Revenue from stamp duties is estimated to be $92 billion, increasing by 16.5 per cent compared with the revised estimate for 2020-21.

188. The current-term Government has launched a series of measures to improve people's livelihood. Recurrent expenditure for 2020-21 increased by 7.6 per cent compared with the last financial year, while total government expenditure also increased by 35 per cent. Recurrent expenditure for the new financial year will further increase by 9.6 per cent, demonstrating the Government's determination to stimulate the economy and ease people's burden. Public expenditure will account for about 25 per cent of GDP on average during the five-year period up to 2025-26 in the MRF.

189. In 2021-22, the estimated recurrent expenditure on education, social welfare and healthcare accounts for 58 per cent of government recurrent expenditure or $302.3 billion. Recurrent expenditure in these three areas recorded a cumulative increase of 53 per cent over the past five years.

190. Our target is to have zero growth in the civil service establishment in 2021-22. The Civil Service Bureau has encouraged departments to enhance effectiveness through re-prioritisation, internal redeployment and streamlining of work processes, so as to cope with the workload.

Medium Range Forecast

191. The MRF projects, mainly from a macro perspective, the revenue and expenditure as well as financial position of the Government. From 2022-23 to 2025-26, a real economic growth rate of 3.3 per cent is adopted for the MRF.

192. During the above period, the average annual capital works expenditure will exceed $100 billion, while the growth of recurrent government expenditure ranges between 3.5 per cent and 4.7 per cent per annum.

193. Regarding revenue from land premium, the forecast from 2022-23 onwards is based on the average proportion of revenue from land premium to GDP over the past 15 years, which is 3.6 per cent of GDP. I also assume that the growth rate of revenue from profits tax and other taxes will correspond to the economic growth rate in the next few years.

194. In addition, the MRF reflects the bringing back of the Housing Reserve and the investment return of the Future Fund, and the proceeds of the Government Green Bond Programme.

195. Based on the above assumptions and arrangements, I forecast an annual deficit in the Operating Account in each of the coming five financial years, as well as a deficit in the Capital Account from 2022-23 to 2024-25. The estimated deficit in the Operating Account in 2021-22 is mainly due to the expenditure arising from the one-off relief measures announced in this Budget and some of the relief measures announced last year. The forecast deficit in the Operating Account in the following four years is attributed to the fact that recurrent expenditure will be higher than revenue receipts. The above forecast has not taken into account any tax rebate or relief measure that the Government may implement over these four years.

196. Fiscal reserves are estimated at $775.8 billion by the end of March 2026, representing 22 per cent of GDP, or equivalent to 12 months of government expenditure.

Concluding Remarks

197. Mr President, over the past two years, Hong Kong has suffered successive setbacks. And now we have to fight the epidemic and ride out the economic difficulties. Life has not been easy for us all.

198. I often chat with people, especially during the preparation for the Budget. I know how difficult it is to earn a living during the economic downturn. I can feel their pain. This is why, despite a record high fiscal deficit in 2020-21, I once again propose a Budget involving a deficit of over a hundred billion dollars. I do so after careful consideration, as the counter-cyclical measures are necessary for stabilising the economy and alleviating people's burden. At the same time, I am mindful of the need to expand government revenue and create fiscal space in a prudent manner.

199. In spite of the pressure we now face, looking back, we have walked all the way through thick and thin. However harsh life may have been, Hong Kong remains the home that we treasure.

200. Home is not where we find perfection. It is where we stay together as a family, sharing mutual care, acceptance and support.

201. This unprecedented pandemic reminds us that we are all in the same boat. Deep-seated conflicts cannot be resolved instantly, nor can wounds be healed overnight. Given time, even the tightest knot can be untied.

202. The economy may move in a cycle, but there is always a way to prosperity. We have overcome many challenges and always come out stronger. Let us be steadfast and ride out the storm. Together we will build a better Hong Kong.

203. Thank you, Mr President.

THE 2021-22 BUDGET

Speech by the Financial Secretary, the Hon Paul MP Chan
moving the Second Reading of the Appropriation Bill 2021

Supplement and Appendices

Wednesday, 24 February 2021

SUPPLEMENT

Please visit our web-site at www.budget.gov.hk/2021/eng/speech.html for all documents, appendices and statistics relating to the 2021-22 Budget. The Chinese version can be found at www.budget.gov.hk/2021/chi/speech.html.

Contents

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

Property Type	*2021-22* [(2)] *No Concession*		*With Rates Concession*	
	Average Rates Payable ($ for the year)	*Average Rates Payable ($ per month)*	*Average Rates Payable ($ for the year)*	*Average Rates Payable ($ per month)*
Private Domestic Premises[(3)]				
Small	6,456	538	1,932	161
Medium	13,164	1,097	8,268	689
Large	27,372	2,281	22,440	1,870
Public Domestic Premises[(4)]	3,108	259	120	10
All Domestic Premises[(5)]	**6,276**	**523**	**2,412**	**201**
Shops and Commercial Premises	40,860	3,405	31,296	2,608
Offices	50,880	4,240	40,752	3,396
Industrial Premises[(6)]	17,604	1,467	9,684	807
All Non-domestic Premises[(7)]	**36,876**	**3,073**	**28,932**	**2,411**
All Properties	**10,116**	**843**	**5,748**	**479**

(1) The proposed rates concession measure is for four quarters of 2021-22. For domestic tenements, the concession ceiling is $1,500 per tenement per quarter for the first two quarters; and is $1,000 per tenement per quarter for the remaining two quarters. For non-domestic tenements, the concession ceiling is $5,000 per tenement per quarter for the first two quarters; and is $2,000 per tenement per quarter for the remaining two quarters. No rates will be charged on 63% and 39% of domestic ratepayers, and 74% and 49% of non-domestic ratepayers for the first two quarters and the remaining two quarters of 2021-22 respectively. Overall speaking, about 64% and 40% of ratepayers will not need to pay any rates for the first two quarters and the remaining two quarters of 2021-22 respectively.

(2) The rates payable have reflected the changes in rateable values for 2021-22 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.

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

Year of Assessment 2020/21

Salaries tax and tax under personal assessment-
100% tax reduction subject to a cap at $10,000 per case

Assessable Income	No. of taxpayers	Average amount of tax reduction	Average % of tax reduced
$200,000 and below	260 000	$760	100%
$200,001 to $300,000	422 000	$3,440	100%
$300,001 to $400,000	335 000	$6,520	68%
$400,001 to $600,000	393 000	$7,920	40%
$600,001 to $900,000	242 000	$9,260	20%
Above $900,000	219 000	$10,000	4%
Total	1 871 000	—	—

Note: As at 31 December 2020, Hong Kong had a working population of 3.89 million.

Profits tax-
100% tax reduction subject to a cap at $10,000 per case

Assessable Profits	No. of businesses[#]	Average amount of tax reduction	Average % of tax reduced
$100,000 and below	36 000	$3,490	98%
$100,001 to $200,000	15 000	$9,950	60%
$200,001 to $300,000	10 000	$10,000	38%
$300,001 to $400,000	7 000	$10,000	28%
$400,001 to $600,000	10 000	$10,000	20%
$600,001 to $900,000	9 000	$10,000	14%
Above $900,000	41 000	$10,000	0.3%
Total	128 000	—	—

Note: As at 31 December 2020, there were about 1.28 million corporations and 280 000 unincorporated businesses in Hong Kong.

[#] Including 101 000 corporations and 27 000 unincorporated businesses.

FIRST REGISTRATION TAX ON PRIVATE CARS

Tax Bands	*Present tax rates*	*Proposed tax rates*
(a) On the first $150,000 of taxable value	40%	46%
(b) On the next $150,000 of taxable value	75%	86%
(c) On the next $200,000 of taxable value	100%	115%
(d) On the remainder of taxable value	115%	132%

VEHICLE LICENCE FEE FOR PRIVATE CARS

(a) Petrol and diesel private cars

Cylinder Capacity of Engine	*Existing Annual Licence Fee ("ALF")*[1]	*Proposed ALF*
	for Petrol / Diesel private cars	
Not exceeding 1 500 cubic centimetres (c.c.)	\$3,815 / \$5,275	\$4,960 / \$6,858
Exceeding 1 500 c.c. but not exceeding 2 500 c.c.	\$5,680 / \$7,140	\$7,384 / \$9,282
Exceeding 2 500 c.c. but not exceeding 3 500 c.c.	\$7,550 / \$9,010	\$9,815 / \$11,713
Exceeding 3 500 c.c. but not exceeding 4 500 c.c.	\$9,420 / \$10,880	\$12,246 / \$14,144
Exceeding 4 500 c.c.	\$11,215 / \$12,675	\$14,580 / \$16,478

(b) Electric private cars

Electrically powered passenger vehicle	*Existing ALF*	*Proposed ALF*
Not exceeding one tonne unladen weight; and	\$440	\$572
An additional fee for each 250 kg unladen weight or part thereof	\$95	\$124

[1] According to regulation 21 of the Road Traffic (Registration and Licensing of Vehicles) Regulations, the fee for a licence for four months is equal to 35% of ALF and an additional fee of \$30.

ECONOMIC PERFORMANCE IN 2020

1. Rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2020:

		(%)
(a) Growth rates in real terms of:		
Private consumption expenditure		-10.1
Government consumption expenditure		7.8
Gross domestic fixed capital formation		-11.5
of which :		
Building and construction	-8.2	
Machinery, equipment and intellectual property products	-19.2	
Total exports of goods		-0.3
Imports of goods		-2.1
Exports of services		-36.8
Imports of services		-35.1
Gross Domestic Product (GDP)		**-6.1**
Growth rate of per capita GDP in real terms		-5.8
Per capita GDP at current market prices	HK$362,300 (US$46,700)	
(b) Rates of change in:		
Underlying Composite Consumer Price Index		**1.3**
GDP Deflator		**0.8**
Government Consumption Expenditure Deflator		**2.7**
(c) **Growth rate of nominal GDP**		**-5.4**

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

	Total exports	
	In value terms (%)	***In real terms*** (%)
2018	7	5
2019	-4	-5
2020	-2	-1

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*** (%)	***Japan*** (%)	***India*** (%)
2018	5	5	9	6	-1	-13
2019	-5	-5	-7	-15	-8	-12
2020	-1	5	-7	-13	-7	-16

Note: # Exports to the EU exclude those to the UK, as the UK formally withdrew from the EU on 31 January 2020. Taking the UK and the EU together, exports increased by 8% in real terms in 2018, and decreased by 6% and 7% in 2019 and 2020 respectively.

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

	Imports (%)	***Retained imports*** (%)
2018	6	9
2019	-8	-15
2020	-3	-9

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*** (%)
2018	5	3	9	2	2
2019	-10	-8	-21	-2	-4
2020	-37	-30	-91	3	-12

6. Hong Kong's goods and services trade balance in 2020 reckoned on GDP basis:

		(HK$ billion)
Total exports of goods	4,282.3	
Imports of goods	4,329.1	
Goods trade balance		**-46.8**
Exports of services	494.9	
Imports of services	395.8	
Services trade balance		**99.1**
Combined goods and services trade balance		**52.3**

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*** (%)
2018	2.8	1.1	0.8	1.1
2019	2.9	1.1	-0.3	-0.4
2020	5.9	3.3	-2.2	-5.1

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

	Composite CPI				
	Underlying (%)	***Headline*** (%)	***CPI(A)*** (%)	***CPI(B)*** (%)	***CPI(C)*** (%)
2018	2.6	2.4	2.7	2.3	2.2
2019	3.0	2.9	3.3	2.7	2.6
2020	1.3	0.3	-0.5	0.7	0.8

ECONOMIC PROSPECTS FOR 2021

Forecast rates of change in the Gross Domestic Product and main price indicators in 2021:

		(%)
Gross Domestic Product (GDP)		
Real GDP		**3.5 to 5.5**
Nominal GDP		4.5 to 6.5
Growth rate of per capita GDP in real terms		2.5 to 4.5
Per capita GDP at current market prices	HK$373,700-380,900 (US$47,900-48,800)	
Composite Consumer Price Index		
Underlying Composite Consumer Price Index		**1**
Headline Composite Consumer Price Index		**1.6**
GDP Deflator		**1**

APPENDICES

APPENDICES

Note: Expenditure figures for 2020-21 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2021-22 estimate.

APPENDIX A

MEDIUM RANGE FORECAST

CONTENTS **Page**

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 as well as the financial position covering the five-year period including the budget year, i.e. from 2021-22 to 2025-26.

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 growth is forecast to range from 3.5% to 5.5% in real terms in 2021. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2022 to 2025, the trend growth rate of the economy in real terms is assumed to be 3.3% per annum.

Price change

4 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 1% in 2021. For the four-year period 2022 to 2025, 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 1.6% in 2021. Netting out the effects of various one-off relief measures, the underlying CCPI is forecast to increase by 1% in 2021. For the ensuing period 2022 to 2025, the trend rate of increase for the underlying CCPI is assumed to be 2% 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 4.5% to 6.5% in 2021, and the trend growth rate in nominal terms for the period 2022 to 2025 is assumed to be 5.3% per annum.

Other Assumptions

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

— The operating expenditure for 2022-23 and beyond represents the forecast expenditure requirements for Government.

— The capital expenditure for 2021-22 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 2022-23 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 be 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)	2020-21 Revised Estimate	2021-22 Estimate	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast
Operating Account						
Operating revenue *(Note (b))*	440,351	470,278	531,778	546,264	571,923	599,944
Less: Operating expenditure *(Note (c))*	721,192	611,900	572,000	586,900	603,300	622,300
Operating deficit	**(280,841)**	**(141,622)**	**(40,222)**	**(40,636)**	**(31,377)**	**(22,356)**
Capital Account						
Capital revenue *(Note (d))*	103,144	120,827	143,829	142,185	146,554	160,294
Less: Capital expenditure *(Note (e))*	99,193	115,927	150,573	154,736	157,363	145,654
Capital surplus / (deficit)	**3,951**	**4,900**	**(6,744)**	**(12,551)**	**(10,809)**	**14,640**
Consolidated Account						
Government revenue	543,495	591,105	675,607	688,449	718,477	760,238
Less: Government expenditure	820,385	727,827	722,573	741,636	760,663	767,954
Consolidated deficit before issuance and repayment of bonds	**(276,890)**	**(136,722)**	**(46,966)**	**(53,187)**	**(42,186)**	**(7,716)**
Add: Net proceeds from issuance of green bonds under the Government Green Bond Programme *(Note (f))*	19,303	35,100	35,100	35,100	35,100	35,100
Less: Repayment of green bonds *(Note (f))*	-	-	-	-	7,800	7,800
Consolidated surplus / (deficit) after issuance and repayment of bonds	**(257,587)**	**(101,622)**	**(11,866)**	**(18,087)**	**(14,886)**	**19,584**
Fiscal reserves at 31 March	**902,721**	**801,099**	**789,233**	**771,146**	**756,260**	**775,844**
In terms of number of months of government expenditure	13	13	13	12	12	12
In terms of percentage of GDP	33.3%	28.0%	26.2%	24.3%	22.6%	22.1%

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)	2020-21 Revised Estimate	**2021-22 Estimate**	Future Fund	Operating and Capital Reserves	Total
General Revenue Account	443,588	**288,888**	4,800*	284,088	288,888
Funds with designated use	239,442	**254,843**		254,843	254,843
Capital Works Reserve Fund	128,202	**143,337**		143,337	143,337
Capital Investment Fund	21,702	**20,751**		20,751	20,751
Civil Service Pension Reserve Fund	42,770	**48,826**		48,826	48,826
Disaster Relief Fund	27	**100**		100	100
Innovation and Technology Fund	22,465	**18,430**		18,430	18,430
Loan Fund	3,174	**4,001**		4,001	4,001
Lotteries Fund	21,102	**19,398**		19,398	19,398
Land Fund	219,691	**257,368**	257,368	-	257,368
	902,721	**801,099**	262,168	538,931	801,099
In terms of number of months of government expenditure	13	13	4	9	13

* 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 $489 billion for capital works projects underway and about $508 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 2021-22 Budget, and is made up of –

($ million)	2020-21 Revised Estimate	2021-22 Estimate	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast
Operating revenue before investment income	398,490	402,479	481,558	511,418	542,251	570,036
Investment income *(Note (g))*	41,861	67,799	50,220	34,846	29,672	29,908
Total	440,351	470,278	531,778	546,264	571,923	599,944

(ii) Investment income under the Operating Account includes investment income of the General Revenue Account which is credited to revenue head Properties and Investments. The rate of investment return is 4.7% for 2021 (vs 3.7% for 2020) and is assumed to be in the range of 4.7% to 6.0% a year for 2022 to 2025.

(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. As directed by the Financial Secretary, the investment income will be brought back to the Government's accounts starting from 2021-22.

(c) Operating expenditure

This represents expenditure charged to the Operating Account of the General Revenue Account and Land Fund. The figures for 2022-23 and beyond set out the forecast operating expenditure requirements for Government.

(d) *Capital revenue*

(i) The breakdown of capital revenue is –

($ million)	2020-21 Revised Estimate	2021-22 Estimate	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast
General Revenue Account	3,750	3,081	2,145	2,139	2,885	2,884
Capital Investment Fund	699	708	834	991	1,208	1,643
Capital Works Reserve Fund	87,093	97,607	108,410	114,156	120,208	126,576
Disaster Relief Fund	2	-	-	-	-	-
Innovation and Technology Fund	42	-	-	-	-	-
Loan Fund	685	1,450	3,592	3,864	3,858	3,921
Lotteries Fund	295	1,202	1,412	1,415	1,418	1,421
Capital revenue before investment income	92,566	104,048	116,393	122,565	129,577	136,445
Investment income *(Note (g))*	10,578	16,779	27,436	19,620	16,977	23,849
Total	103,144	120,827	143,829	142,185	146,554	160,294

(ii) Land premium included under the Capital Works Reserve Fund for 2021-22 is estimated to be $97.6 billion. For 2022-23 onwards, it is assumed to be 3.6% of GDP, being the 15-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 4.7% for 2021 (vs 3.7% for 2020) and is assumed to be in the range of 4.7% to 6.0% a year for 2022 to 2025.

(e) *Capital expenditure*

The breakdown of capital expenditure is –

($ million)	2020-21 Revised Estimate	2021-22 Estimate	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast
General Revenue Account	5,987	8,393	9,622	9,213	10,661	8,888
Capital Investment Fund	2,684	2,654	8,133	5,480	8,335	6,846
Capital Works Reserve Fund	77,999	92,426	117,105	124,016	123,145	114,577
Disaster Relief Fund	72	-	-	-	-	-
Innovation and Technology Fund	5,331	5,062	6,267	7,338	6,638	5,340
Loan Fund	3,758	2,818	2,918	2,871	2,951	3,071
Lotteries Fund	3,362	4,574	6,528	5,818	5,633	6,932
Total	99,193	115,927	150,573	154,736	157,363	145,654

(f) *Government bonds*

The Government issued the inaugural and second green bonds under the Government Green Bond Programme in May 2019 and February 2021 respectively, and plans to issue more green bonds from 2021-22 to 2025-26. The actual size and timing of issuance will be determined having regard to market conditions. The net proceeds of the Programme are credited to the Capital Works Reserve Fund to finance projects of the Government with environmental benefits.

(g) *Housing Reserve*

The Housing Reserve was established in 2014 to support public housing development projects. As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts over four years from 2019-20 to 2022-23 as investment income, and would earn the same rate of investment return as stipulated in *Note (b)(ii)* above. At the same time, $82.4 billion (the balance of the Housing Reserve at 31 December 2018) was earmarked for public housing development. $21.2 billion and $22.0 billion have been brought back from the Housing Reserve in 2019-20 and 2020-21 respectively.

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)	2020-21 Revised Estimate	2021-22 Estimate	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast
Operating expenditure	721,192	611,900	572,000	586,900	603,300	622,300
Capital expenditure	99,193	115,927	150,573	154,736	157,363	145,654
Government expenditure	820,385	727,827	722,573	741,636	760,663	767,954
Expenditure by other public bodies	39,751	43,564	45,169	48,771	49,709	51,795
Public expenditure *(Note (a))*	860,136	771,391	767,742	790,407	810,372	819,749
Gross Domestic Product (calendar year)	2,710,730	2,859,800	3,011,400	3,171,000	3,339,100	3,516,000
Nominal growth in GDP *(Note (b))*	-5.4%	5.5%	5.3%	5.3%	5.3%	5.3%
Growth in recurrent government expenditure *(Note (c))*	7.6%	9.6%	3.5%	3.9%	4.7%	3.7%
Growth in government expenditure *(Note (c))*	35.0%	-11.3%	-0.7%	2.6%	2.6%	1.0%
Growth in public expenditure *(Note (c))*	33.8%	-10.3%	-0.5%	3.0%	2.5%	1.2%
Public expenditure in terms of percentage of GDP	31.7%	27.0%	25.5%	24.9%	24.3%	23.3%

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 2021-22, the nominal GDP growth of 5.5% represents the mid-point of the range forecast of 4.5% to 6.5% for the calendar year 2021.

(c) The growth rates for 2020-21 to 2025-26 refer to year-on-year change. For example, the rates for 2020-21 refer to the change between the revised estimate for 2020-21 and the actual expenditure in 2019-20. The rates for 2021- 22 refer to the change between the 2021-22 estimate and the 2020-21 revised estimate, and so forth.

15 Table 4 shows the relationship amongst the sum to be appropriated in the 2021-22 Budget, government expenditure and public expenditure.

Relationship between Government Expenditure and Public Expenditure in 2021-22

Table 4

($ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	517,622	517,622	-	517,622	517,622
Non-recurrent	94,276	94,276	-	94,276	94,276
Capital					
Plant, equipment and works	5,113	-	5,113	5,113	5,113
Subventions	3,280	-	3,280	3,280	3,280
	620,291	611,898	8,393	620,291	620,291
Transfer to Funds	5,089	-	-	-	-
Capital Investment Fund	-	-	2,654	2,654	2,654
Capital Works Reserve Fund	-	-	92,426	92,426	92,426
Innovation and Technology Fund	-	-	5,062	5,062	5,062
Land Fund	-	2	-	2	2
Loan Fund	-	-	2,818	2,818	2,818
Lotteries Fund	-	-	4,574	4,574	4,574
Trading Funds	-	-	-	-	6,760
Housing Authority	-	-	-	-	36,804
	625,380	611,900	115,927	727,827	771,391
Revenue					
General Revenue Account					
Taxation		356,648	10	356,658	
Other revenue		75,951	3,071	79,022	
		432,599	3,081	435,680	
Capital Investment Fund		-	1,703	1,703	
Capital Works Reserve Fund		-	107,461	107,461	
Civil Service Pension Reserve Fund		-	3,035	3,035	
Disaster Relief Fund		-	5	5	
Innovation and Technology Fund		-	1,027	1,027	
Land Fund		37,679	-	37,679	
Loan Fund		-	1,645	1,645	
Lotteries Fund		-	2,870	2,870	
		470,278	120,827	591,105	
Surplus / (Deficit)		(141,622)	4,900	(136,722)	

SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES

16 The Government's contingent liabilities as at 31 March 2020, 31 March 2021 and 31 March 2022, are provided below as supplementary information to the MRF –

Table 5

	At 31 March		
($ million)	2020	2021	2022
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	36,726	38,872	40,300
Guarantees provided under the SME Financing Guarantee Scheme	24,835	74,906	92,909
Legal claims, disputes and proceedings	7,461	6,067	3,583
Subscription to callable shares in the Asian Development Bank	5,833	6,132	6,132
Subscription to callable shares in the Asian Infrastructure Investment Bank	4,800	4,745	4,745
Guarantees provided under the SME Loan Guarantee Scheme	3,877	3,260	2,576
Guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation	975	947	920
Guarantees provided under the Special Loan Guarantee Scheme	329	112	102
Total	84,836	135,041	151,267

17 The Government's major unfunded liabilities as at 31 March 2020 were as follows –

($ million)	
Present value of statutory pension obligations *(Note (a))*	1,003,217
Untaken leave *(Note (b))*	28,169
Green bonds	7,754

Notes –

(a) The statutory pension obligations for the coming ten years are estimated to be about $508 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 2020 and 31 March 2021 are $390,573 million and $489,020 million respectively. Some of these are contractual commitments.

APPENDIX B

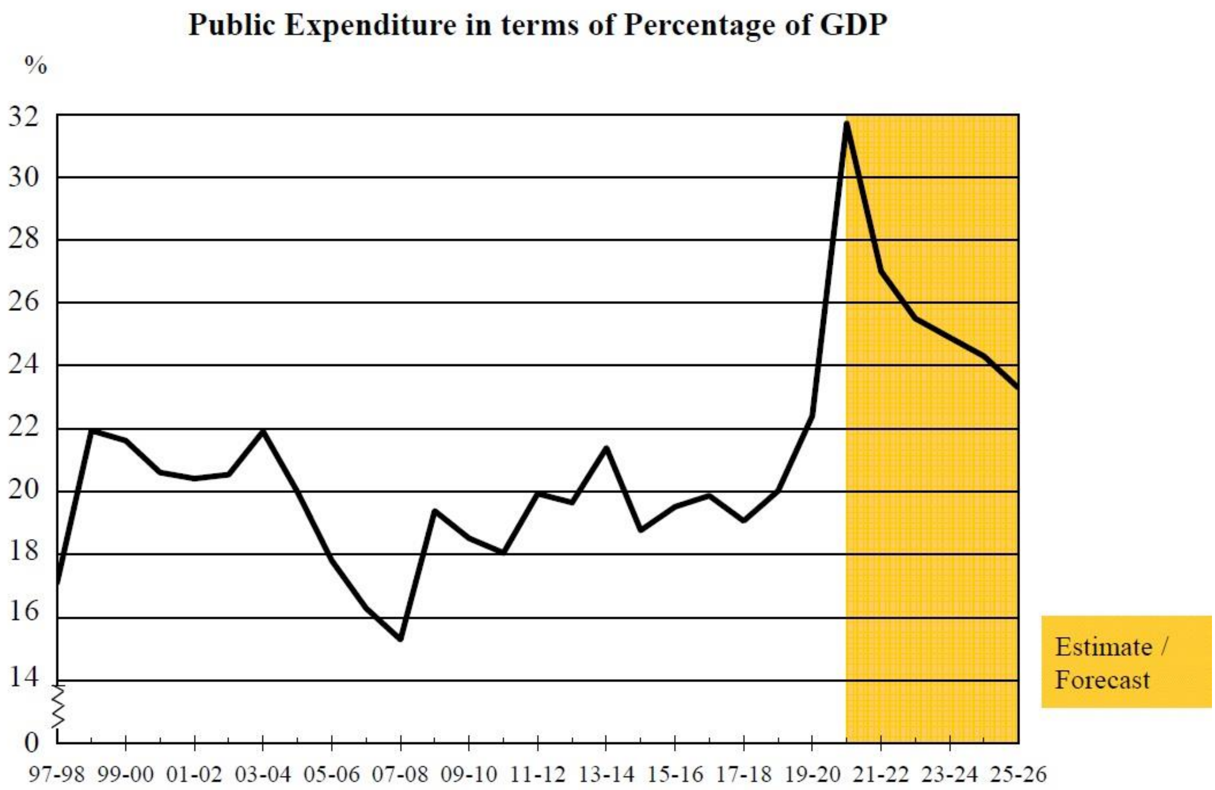
ANALYSIS OF EXPENDITURE AND REVENUE

CONTENTS **Page**

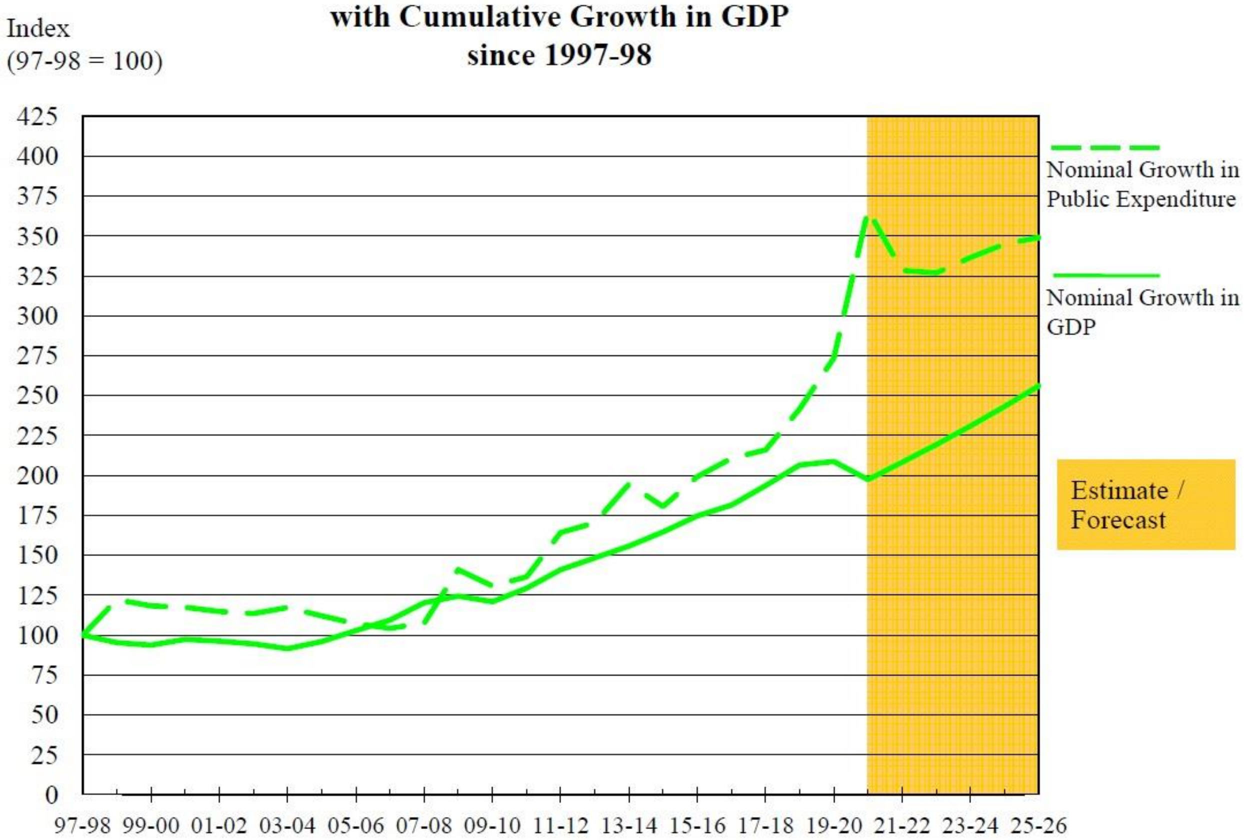
SECTION I THE ESTIMATES IN THE CONTEXT OF THE ECONOMY

Relationship between Government Expenditure, Public Expenditure and GDP

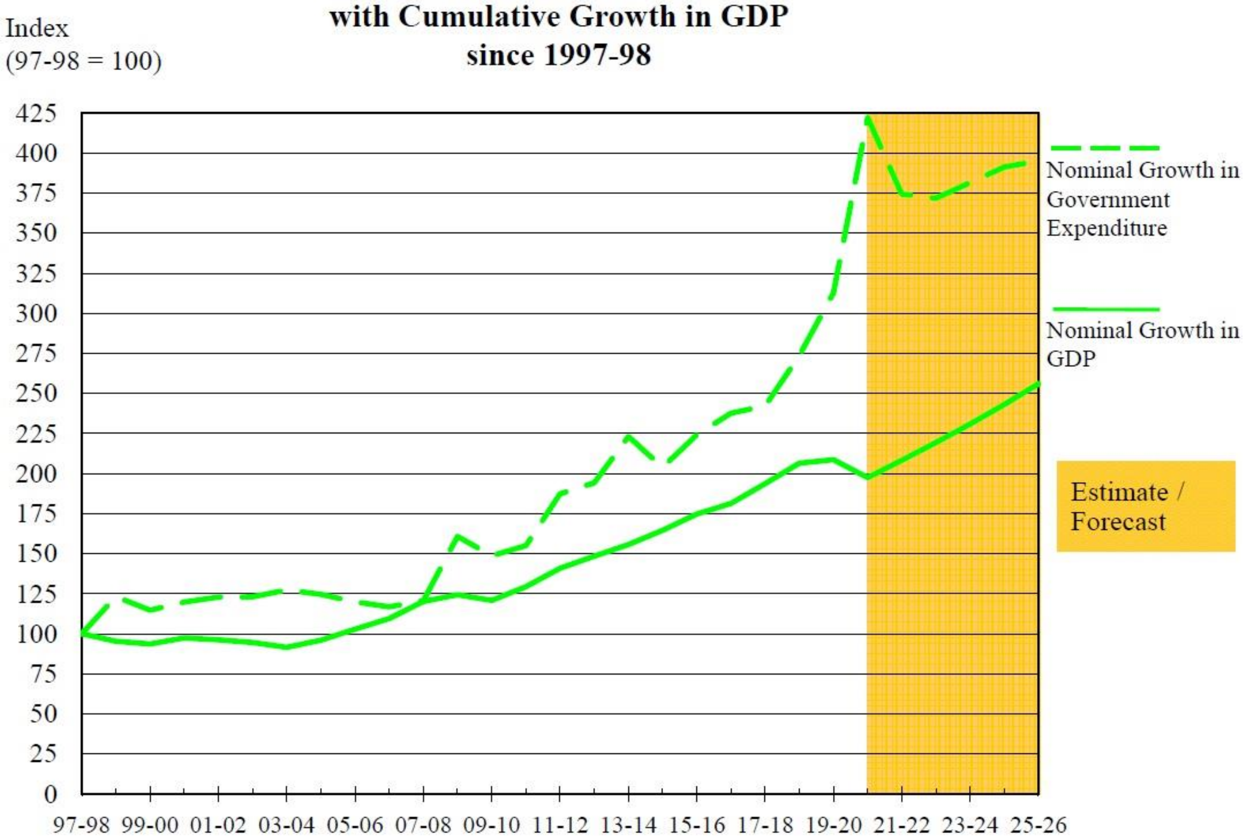
	2021-22 Estimate $m
General Revenue Account	
Operating	611,898
Capital	8,393
	620,291
Capital Investment Fund	2,654
Capital Works Reserve Fund	92,426
Innovation and Technology Fund	5,062
Land Fund	2
Loan Fund	2,818
Lotteries Fund	4,574
Government Expenditure	**727,827**
Trading Funds	6,760
Housing Authority	36,804
Public Expenditure	**771,391**
GDP	2,859,800
Public Expenditure in terms of percentage of GDP	27.0%

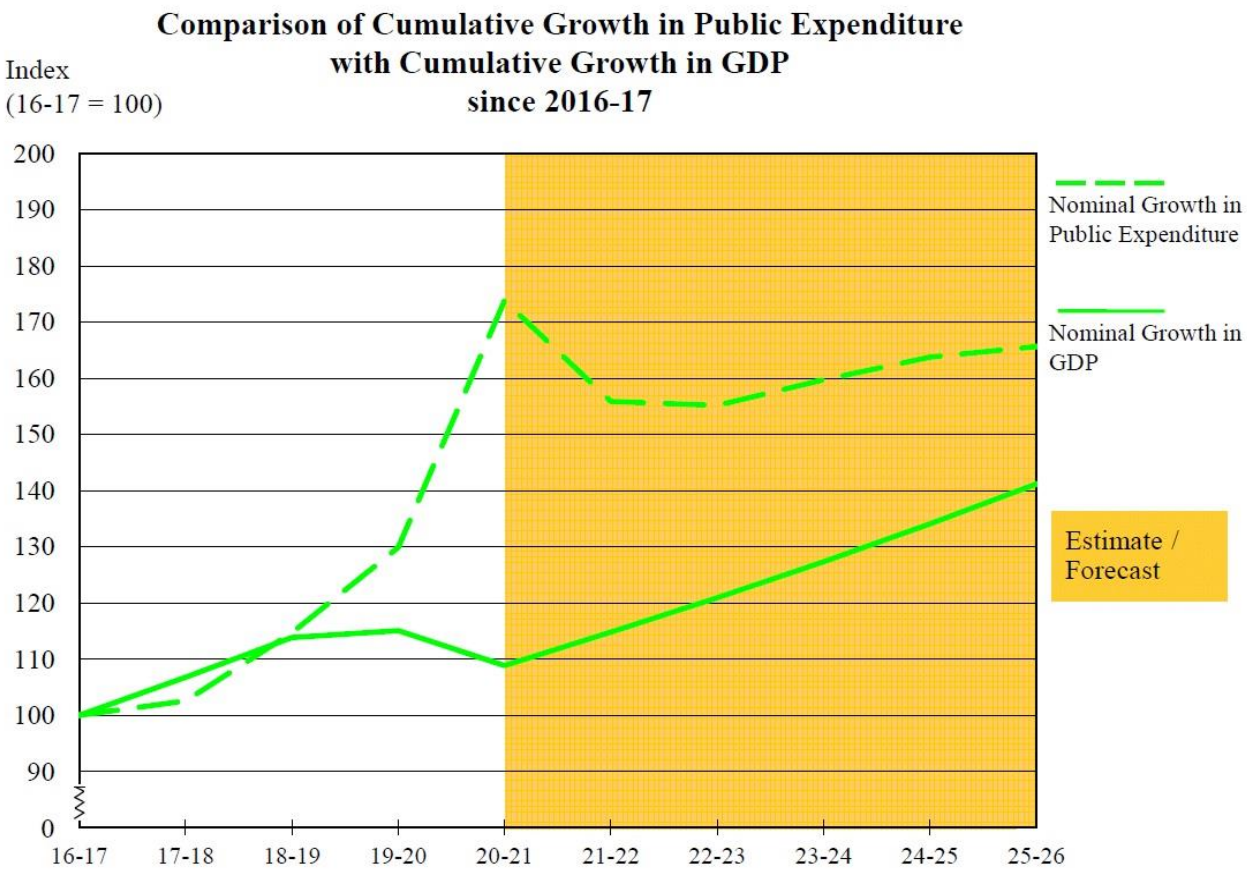

Public Expenditure in terms of Percentage of GDP
%
32
30
28
26
24
22
20
18
16
14
0
97-98 99-00 01-02 03-04 05-06 07-08 09-10 11-12 13-14 15-16 17-18 19-20 21-22 23-24 25-26
Estimate / Forecast

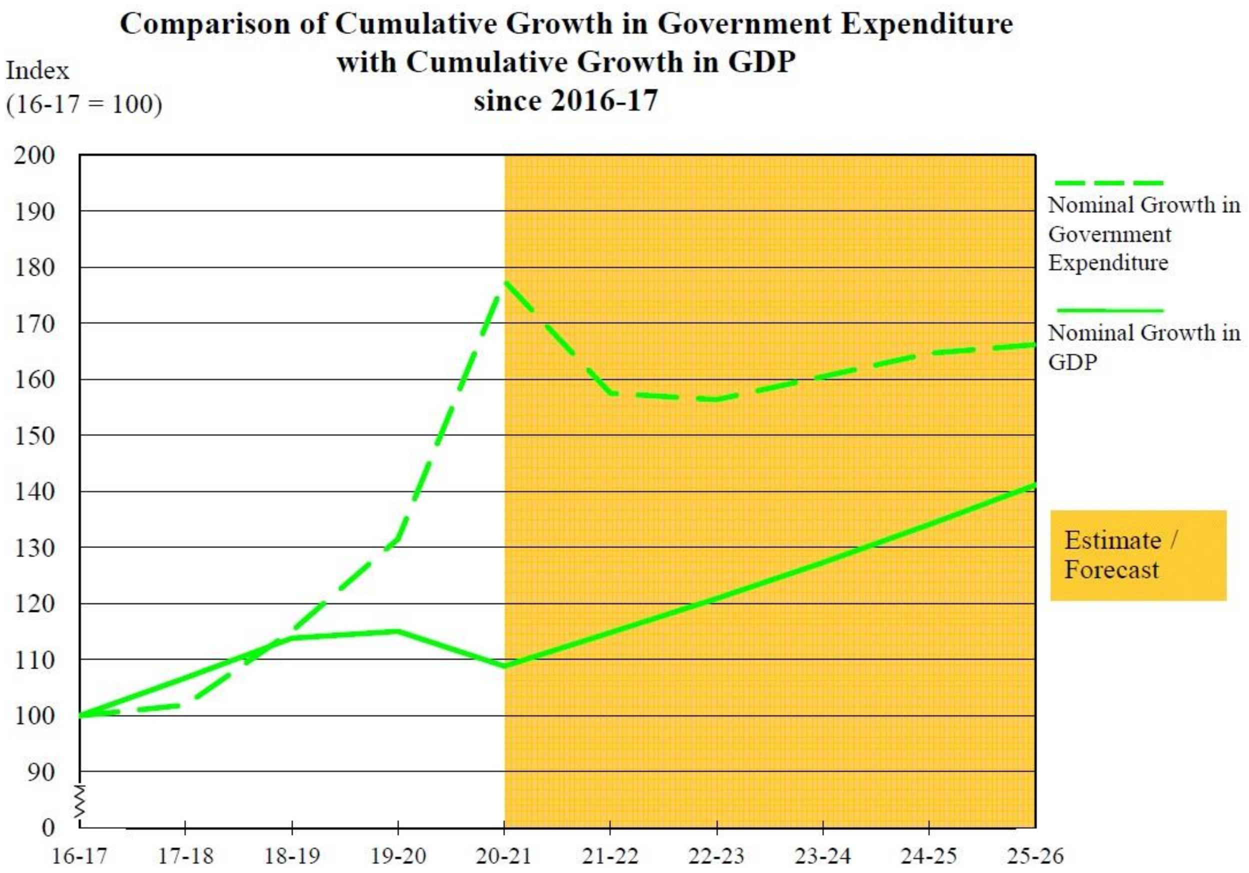
Comparison of Cumulative Growth in Public Expenditure with Cumulative Growth in GDP since 1997-98



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 2016-17
Index
(16-17 = 100)
200
190
180
170
160
150
140
130
120
110
100
90
0
16-17
17-18
18-19
19-20
20-21
21-22
22-23
23-24
24-25
25-26
Nominal Growth in Public Expenditure
Nominal Growth in GDP
Estimate / Forecast


Comparison of Cumulative Growth in Government Expenditure
with Cumulative Growth in GDP
since 2016-17
Index
(16-17 = 100)
200
190
180
170
160
150
140
130
120
110
100
90
0
16-17
17-18
18-19
19-20
20-21
21-22
22-23
23-24
24-25
25-26
Nominal Growth in Government Expenditure
Nominal Growth in GDP
Estimate / Forecast

SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Recurrent Public Expenditure : Year-on-Year Change

	2019-20 Actual $m	2020-21 Revised Estimate $m	**2021-22 Estimate $m**	**Increase/Decrease over 2020-21 Revised Estimate in Nominal Terms %**	**in Real Terms %**
Education	92,438	97,123	**100,710**	**3.7**	**3.4**
Social Welfare	81,555	90,936	**105,689**	**16.2**	**14.5**
Health	82,142	88,929	**95,943**	**7.9**	**7.6**
Security	50,539	51,229	**54,455**	**6.3**	**6.0**
Infrastructure	27,439	29,361	**33,411**	**13.8**	**13.2**
Environment and Food	18,636	20,541	**22,065**	**7.4**	**6.7**
Economic	18,582	19,959	**22,258**	**11.5**	**10.7**
Housing	16,030	17,207	**18,208**	**5.8**	**4.4**
Community and External Affairs	14,535	15,162	**16,164**	**6.6**	**6.0**
Support	57,937	63,999	**72,612**	**13.5**	**12.4**
	459,833	494,446	**541,515**	**9.5**	**8.8**
GDP growth in 2021				**4.5% to 6.5%**	**3.5% to 5.5%**

SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

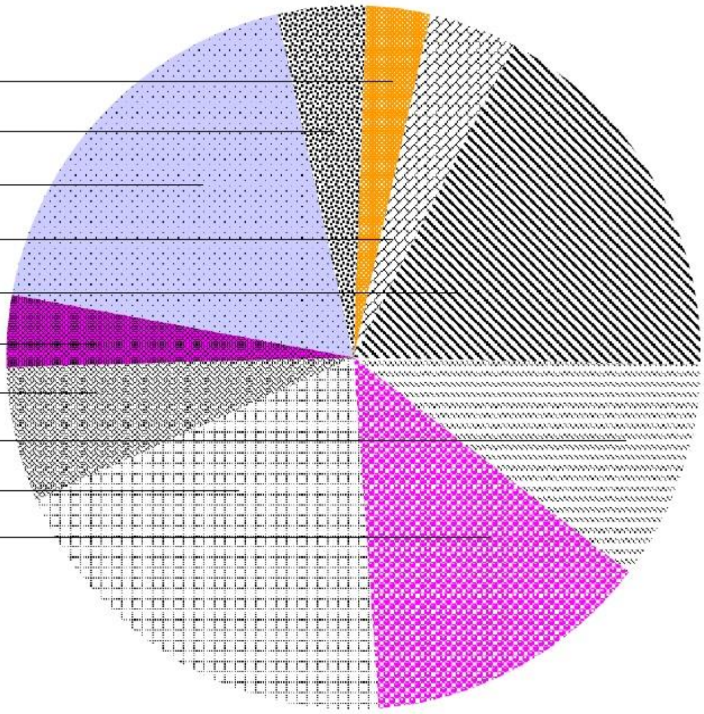
Recurrent Government Expenditure : Year-on-Year Change

	2019-20 Actual $m	2020-21 Revised Estimate $m	**2021-22 Estimate $m**	**Increase/Decrease over 2020-21 Revised Estimate in Nominal Terms %**	**Increase/Decrease over 2020-21 Revised Estimate in Real Terms %**
Education	92,438	97,123	**100,710**	**3.7**	**3.4**
Social Welfare	81,555	90,936	**105,689**	**16.2**	**14.5**
Health	82,142	88,929	**95,943**	**7.9**	**7.6**
Security	50,539	51,229	**54,455**	**6.3**	**6.0**
Infrastructure	27,206	29,114	**33,155**	**13.9**	**13.3**
Environment and Food	18,636	20,541	**22,065**	**7.4**	**6.7**
Economic	13,287	14,513	**16,190**	**11.6**	**11.0**
Housing	485	600	**641**	**6.8**	**6.8**
Community and External Affairs	14,535	15,162	**16,164**	**6.6**	**6.0**
Support	57,937	63,999	**72,612**	**13.5**	**12.4**
	438,760	472,146	**517,624**	**9.6**	**8.9**

GDP growth in 2021	**4.5% to 6.5%**	**3.5% to 5.5%**

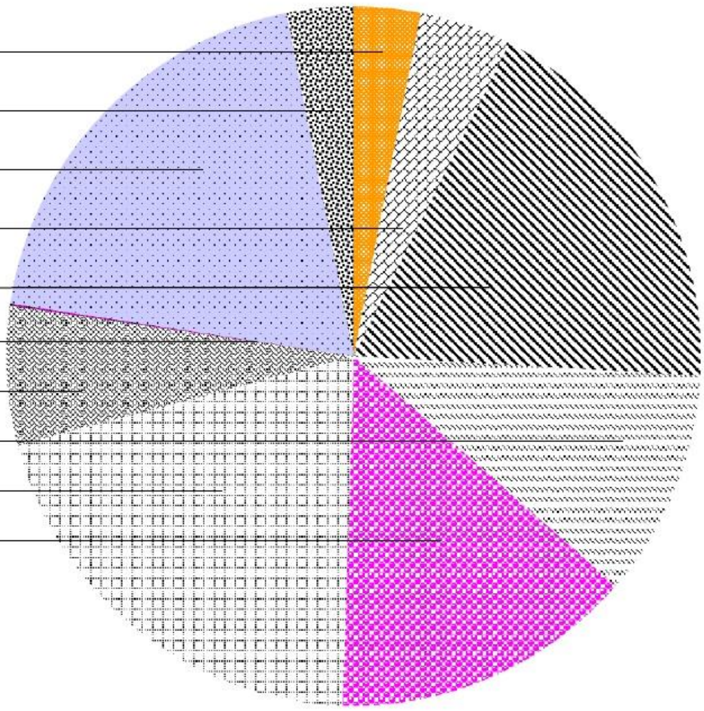
Percentage Share of Expenditure by Policy Area Group
Recurrent Public Expenditure : 2021-22 Estimate

Community and External Affairs	**3.0%**
Economic	**4.1%**
Education	**18.6%**
Environment and Food	**4.1%**
Health	**17.7%**
Housing	**3.3%**
Infrastructure	**6.2%**
Security	**10.1%**
Social Welfare	**19.5%**
Support	**13.4%**
	100.0%



Percentage Share of Expenditure by Policy Area Group
Recurrent Government Expenditure : 2021-22 Estimate

Community and External Affairs	**3.1%**
Economic	**3.1%**
Education	**19.5%**
Environment and Food	**4.3%**
Health	**18.5%**
Housing	**0.1%**
Infrastructure	**6.4%**
Security	**10.5%**
Social Welfare	**20.4%**
Support	**14.1%**
	100.0%



SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Public Expenditure : Year-on-Year Change

	2019-20 Actual $m	2020-21 Revised Estimate $m	**2021-22 Estimate $m**	**Increase/Decrease over 2020-21 Revised Estimate in Nominal Terms %**	**in Real Terms %**
Education	125,341	108,011	**110,870**	**2.6**	**1.8**
Social Welfare	92,249	100,066	**120,555**	**20.5**	**17.9**
Health	87,347	98,308	**115,827**	**17.8**	**16.5**
Security	56,732	64,609	**62,392**	**-3.4**	**-4.3**
Infrastructure	66,844	77,575	**84,381**	**8.8**	**5.5**
Environment and Food	30,680	35,129	**35,324**	**0.6**	**-1.3**
Economic	40,035	116,002	**88,059**	**-24.1**	**-24.9**
Housing	31,099	36,005	**42,110**	**17.0**	**13.6**
Community and External Affairs	20,302	22,749	**26,046**	**14.5**	**11.9**
Support	92,053	201,682	**85,827**	**-57.4**	**-58.1**
	642,682	860,136	**771,391**	**-10.3**	**-11.8**

GDP growth in 2021	**4.5% to 6.5%**	**3.5% to 5.5%**

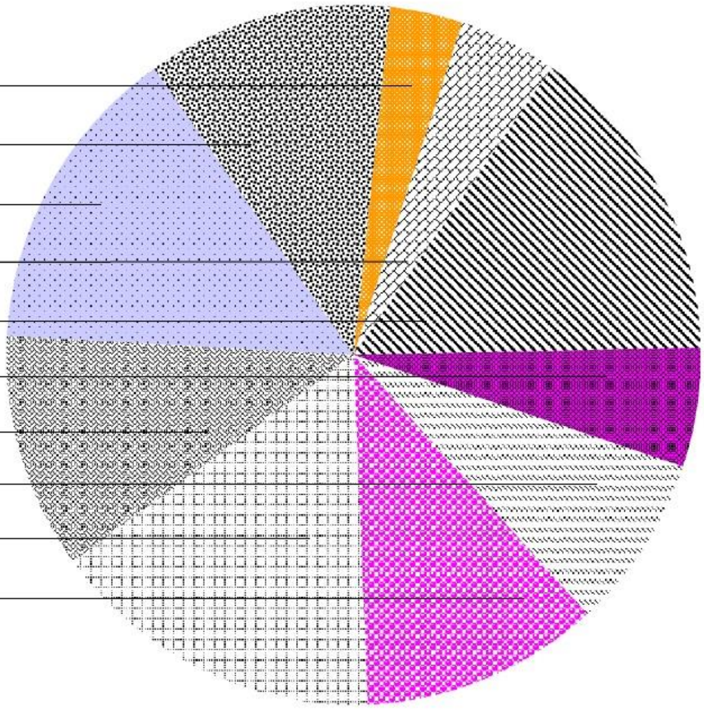
SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Government Expenditure : Year-on-Year Change

	2019-20 Actual $m	2020-21 Revised Estimate $m	**2021-22 Estimate $m**	**Increase/Decrease over 2020-21 Revised Estimate in Nominal Terms %**	**in Real Terms %**
Education	125,341	108,011	**110,870**	**2.6**	**1.8**
Social Welfare	92,249	100,066	**120,555**	**20.5**	**17.9**
Health	87,347	98,308	**115,827**	**17.8**	**16.5**
Security	56,732	64,609	**62,392**	**-3.4**	**-4.3**
Infrastructure	66,566	77,261	**84,103**	**8.9**	**5.5**
Environment and Food	30,680	35,129	**35,324**	**0.6**	**-1.3**
Economic	34,550	110,297	**81,578**	**-26.0**	**-26.9**
Housing	2,010	2,273	**5,305**	**133.4**	**130.2**
Community and External Affairs	20,302	22,749	**26,046**	**14.5**	**11.9**
Support	92,053	201,682	**85,827**	**-57.4**	**-58.1**
	607,830	820,385	**727,827**	**-11.3**	**-12.7**
GDP growth in 2021				**4.5% to 6.5%**	**3.5% to 5.5%**

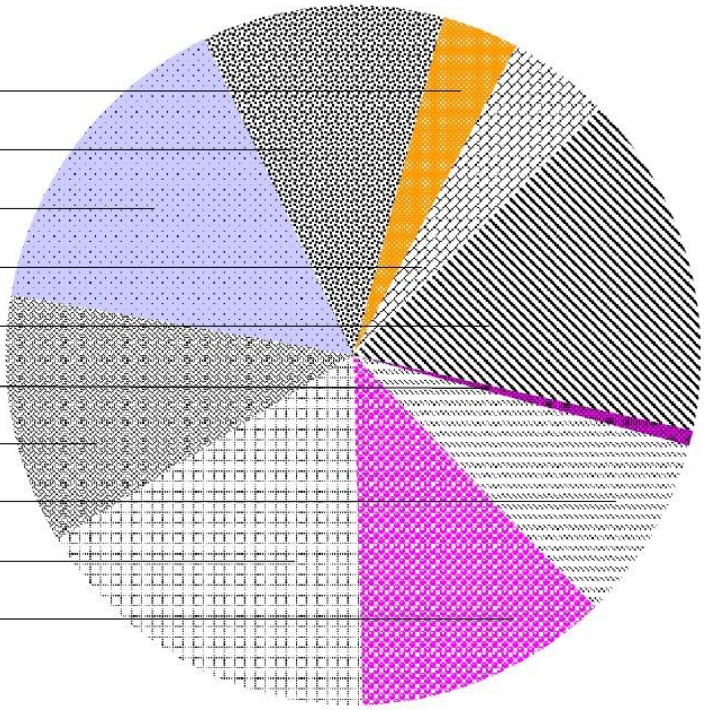
Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure : 2021-22 Estimate

Community and External Affairs	3.4%
Economic	11.4%
Education	14.4%
Environment and Food	4.6%
Health	15.0%
Housing	5.5%
Infrastructure	10.9%
Security	8.1%
Social Welfare	15.6%
Support	11.1%
	100.0%



Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure : 2021-22 Estimate

Community and External Affairs	3.6%
Economic	11.2%
Education	15.2%
Environment and Food	4.8%
Health	15.9%
Housing	0.7%
Infrastructure	11.6%
Security	8.6%
Social Welfare	16.6%
Support	11.8%
	100.0%



SECTION IV MAJOR CAPITAL PROJECTS PLANNED FOR COMMENCEMENT IN 2021-22

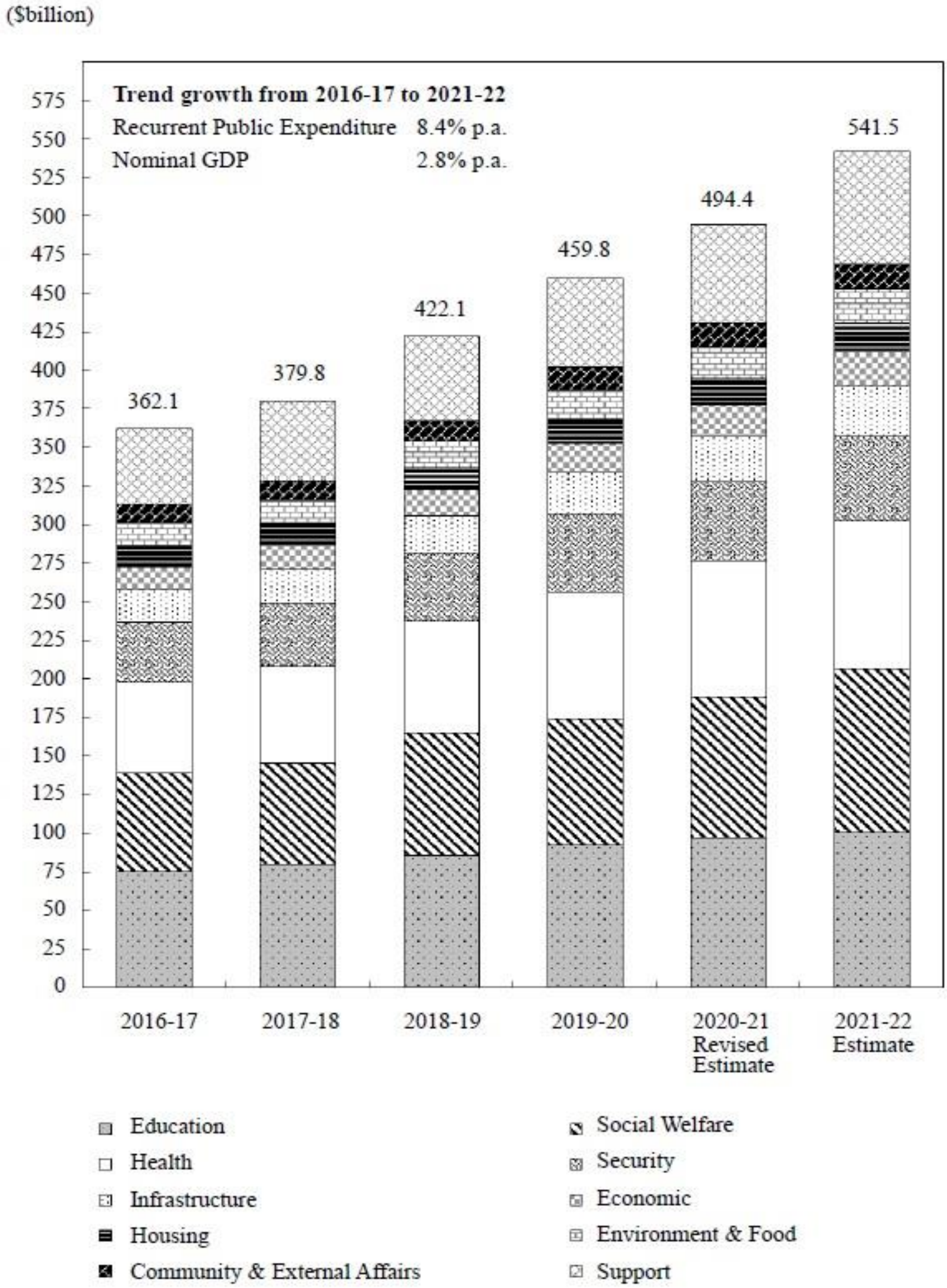
Major capital projects estimated to begin in 2021-22 include –

	Project Estimates $ billion
Health	**59.1**
— Health centre and social welfare facilities building in Siu Sai Wan	
— The development of Chinese Medicine Hospital in Tseung Kwan O	
— Expansion of North District Hospital—site formation and foundation works	
— New Acute Hospital at Kai Tak Development Area—main works	
— The establishment of Government Chinese Medicines Testing Institute in Tseung Kwan O	
Infrastructure	**58.8**
— Lung Tsun Stone Bridge Preservation Corridor at Kai Tak	
— Rehabilitation of underground stormwater drains—remaining works	
— The District Cooling System for Tung Chung New Town Extension (East)	
— District Cooling System at the Kwu Tung North New Development Area	
— Braemar Hill Pedestrian Link	
— Flyover from Kwai Tsing Interchange Upramp to Kwai Chung Road	
— Infrastructure works for West Kowloon Cultural District, phase 1—construction (package 4)	
— Development of Lok Ma Chau Loop—Main Works Package 1—site formation and infrastructure works	
— Tung Chung New Town Extension—site formation and infrastructure works	
— First Phase Development of the New Territories North—investigation and design for San Tin/Lok Ma Chau Development Node	
— Reprovisioning of Harcourt Road fresh water pumping station	
— Reclaimed water supply to Sheung Shui and Fanling	
— Siu Ho Wan Water Treatment Works extension—main works	
— Site formation and infrastructure works for public housing developments at Kam Tin South, Yuen Long—Phase 1	
— Site formation and infrastructure works for public housing developments at Tseung Kwan O	
— Site formation and infrastructure works for public housing development at Long Bin, Yuen Long	
— Site formation and infrastructure works for public housing developments at Tuen Mun Central—Phase 1	
Environment and Food	**16.9**
— Outlying Islands sewerage stage 2—Lamma village sewerage phase 2, package 2	
— Relocation of Sha Tin Sewage Treatment Works to caverns—main caverns construction and upstream sewerage works	
— North East New Territories sewerage system upgrade	
— Construction and rehabilitation of trunk sewage rising mains in Yuen Long	
— Construction and rehabilitation of trunk sewage rising mains in Yau Tong	

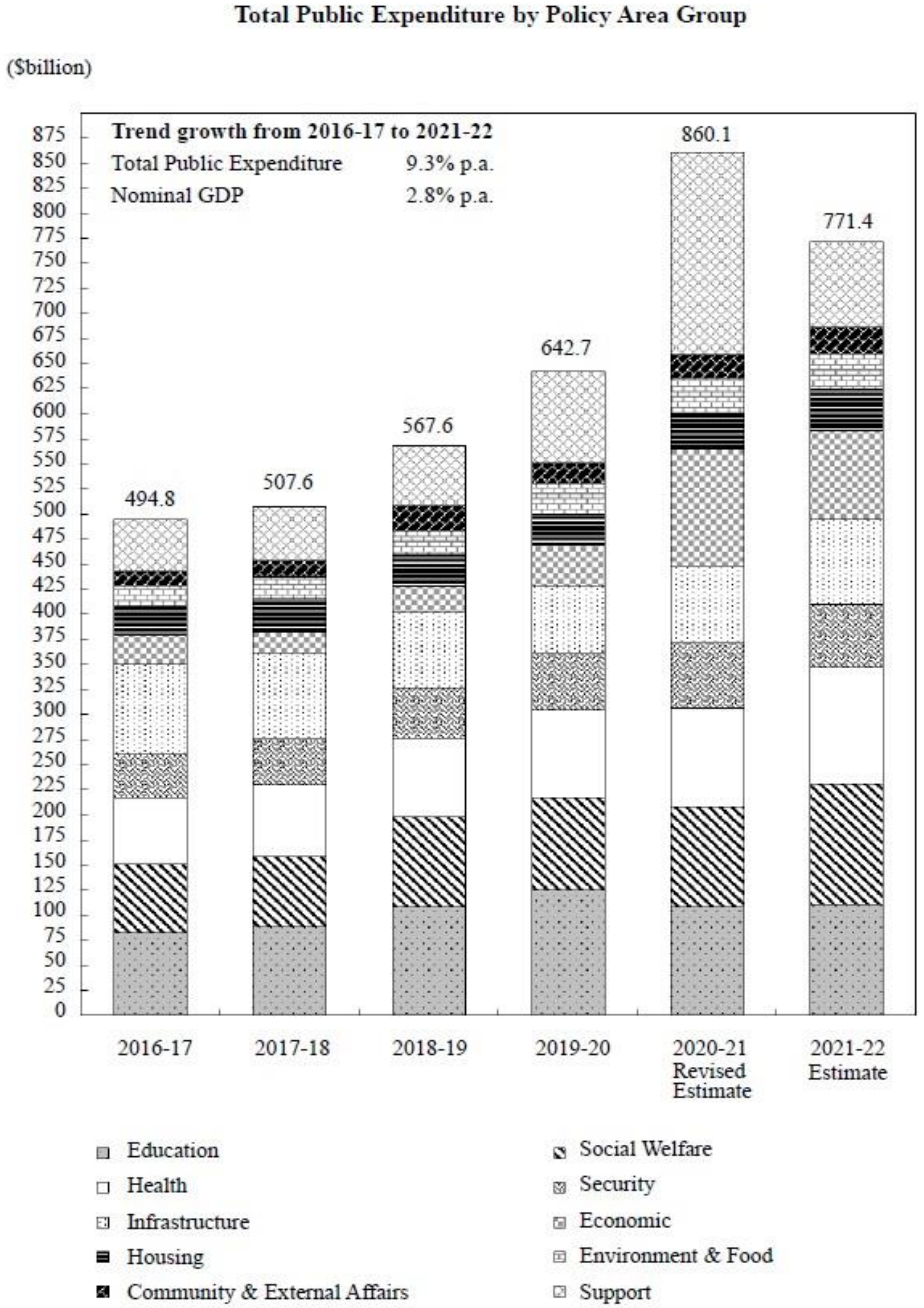
	Project Estimates $ billion
Security	**3.8**
— Construction of fire station-cum-ambulance depot with departmental quarters and facilities in Area 72, Tseung Kwan O	
— Fire Station and Ambulance Depot with Departmental Accommodations in Lok Ma Chau Loop	
— Redevelopment of Western Police Married Quarters Site	
Education	**2.9**
— A 30-classroom primary school at Site KT2c, Development at Anderson Road, Kwun Tong	
— A 30-classroom primary school in Tsuen Wan West Station (TW7) Development, Tsuen Wan	
— A 24-classroom primary school at Au Pui Wan Street, Fo Tan, Sha Tin	
— A 36-classroom primary school at Area 9, Tai Po	
— In-situ redevelopment of Wa Ying College at 8 Sheung Wo Street, Kowloon	
— Development of the Vocational Training Council Aviation and Maritime Education Centre at Tsing Yi	
Support	**1.9**
— Chai Wan Government Complex and Vehicle Depot	
Community and External Affairs	**1.8**
— Facility upgrading of Tai Po Civic Centre	
— Town Park in Area 68, Tseung Kwan O	
— Youth Hostel Scheme—construction works by The Hong Kong Girl Guides Association for the youth hostel project in Jordan	

SECTION V TRENDS IN PUBLIC EXPENDITURE : 2016-17 TO 2021-22

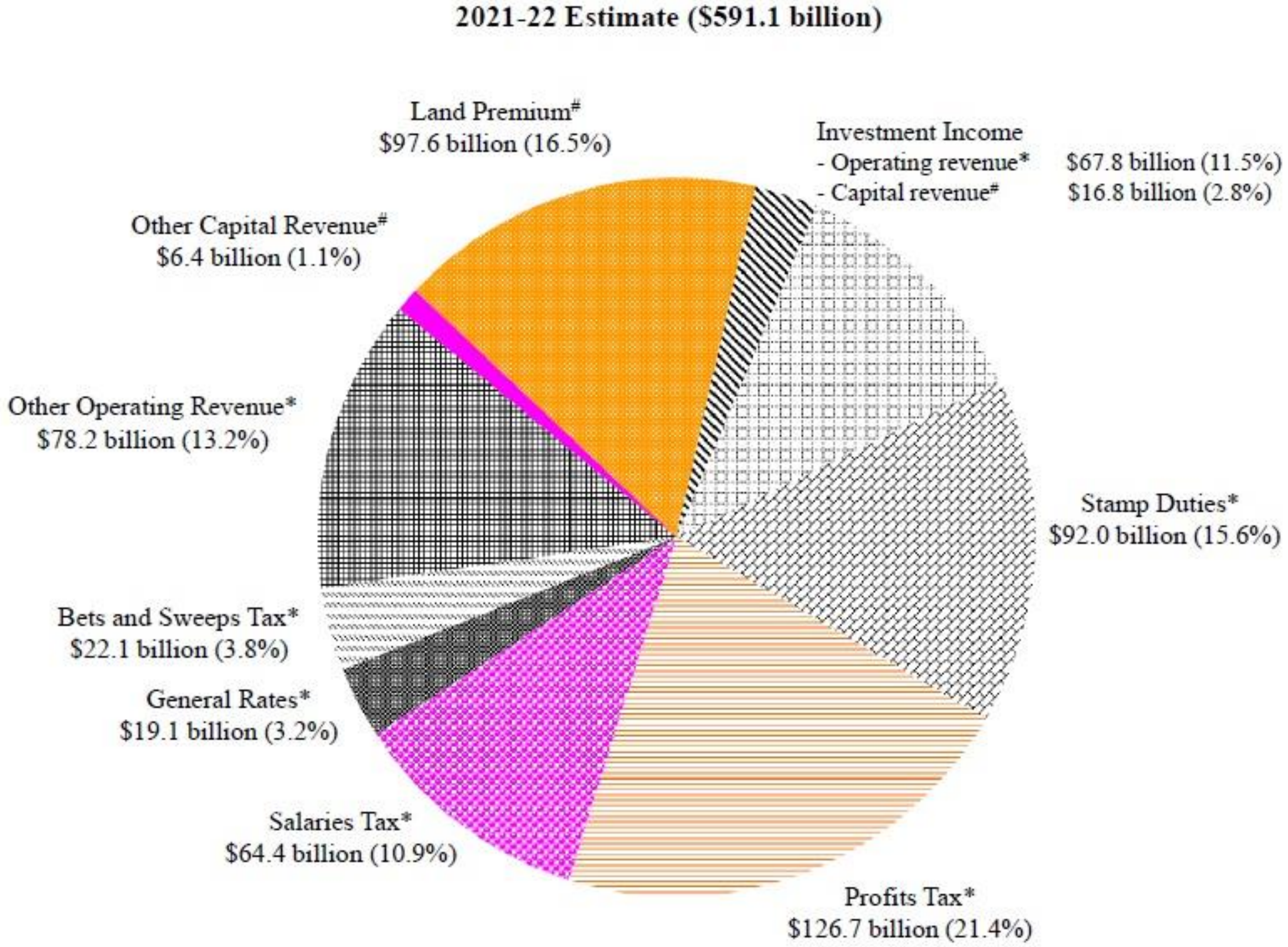
Recurrent Public Expenditure by Policy Area Group



SECTION V TRENDS IN PUBLIC EXPENDITURE : 2016-17 TO 2021-22



SECTION VI ANALYSIS OF GOVERNMENT REVENUE



	2021-22 Estimate	% Share of Government Revenue	% of GDP
* Operating Revenue	$470.3 billion	79.6%	16.5%
# Capital Revenue	$120.8 billion	20.4%	4.2%
Total	**$591.1 billion**	**100%**	**20.7%**

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 2021-22 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
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 deficit before issuance and repayment of bonds. 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 and the Land Fund.

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

General Revenue Account

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

Land Fund

investment income

Operating 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.