

APPENDICES

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Note: Expenditure figures for 2025-26 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2026-27 estimate.

APPENDIX A

MEDIUM RANGE FORECAST

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SECTION I FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

1 The Medium Range Forecast (MRF) is a fiscal planning tool. It sets out the high-level forecast of government expenditure and revenue as well as the financial position covering the five-year period including the budget year, i.e. from 2026-27 to 2030-31.

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

Economic Assumptions

Real Gross Domestic Product (real GDP)

3 GDP growth is forecast to range from 2.5% to 3.5% in real terms in 2026. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, the trend growth rate of the economy in real terms is assumed to be 3% per annum in the four-year period from 2027 to 2030.

Price change

4 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 1.7% in 2026. For the four-year period from 2027 to 2030, 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 1.8% in 2026. Netting out the effects of one-off relief measures, the underlying CCPI is forecast to increase by 1.7% in 2026. From 2027 to 2030, 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 4.2% to 5.2% in 2026, and the trend growth rate in nominal terms from 2027 to 2030 is assumed to be 5% per annum.

Specific Assumptions

- 7** Specific assumptions on expenditure and revenue patterns over the forecast period are as follows –
- The operating expenditure for 2027-28 and beyond represents the forecast expenditure requirements for Government.
 - The capital expenditure for 2026-27 and beyond reflects the estimated cash flow requirements for capital projects including approved capital works projects and those at an advanced planning stage.
 - The revenue projections for 2027-28 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)	2025-26 Revised Estimate	2026-27 Estimate	2027-28 Forecast	2028-29 Forecast	2029-30 Forecast	2030-31 Forecast
Operating Account						
Operating revenue (<i>Note (b)</i>)	653,257	652,110	666,047	688,762	724,620	767,261
Less: Operating expenditure (<i>Note (c)</i>)	601,971	640,200	639,605	647,565	672,458	698,391
Operating surplus	51,286	11,910	26,442	41,197	52,162	68,870
Capital Account						
Capital revenue (<i>Note (d)</i>)	35,505	113,124	128,409	77,035	95,121	107,887
Less: Capital expenditure (<i>Note (e)</i>)	187,200	203,216	226,997	224,298	218,341	215,215
Capital deficit	(151,695)	(90,092)	(98,588)	(147,263)	(123,220)	(107,328)
Consolidated Account						
Government revenue	688,762	765,234	794,456	765,797	819,741	875,148
Less: Government expenditure	789,171	843,416	866,602	871,863	890,799	913,606
Consolidated deficit before issuance and repayment of bonds	(100,409)	(78,182)	(72,146)	(106,066)	(71,058)	(38,458)
Add: Proceeds from issuance of government bonds (<i>Note (f)</i>)	155,000	160,000	210,000	220,000	190,000	190,000
Less: Repayment of government bonds (<i>Note (f)</i>)	51,686	59,708	129,923	103,307	101,571	133,148
Consolidated surplus after issuance and repayment of bonds	2,905	22,110	7,931	10,627	17,371	18,394
Fiscal reserves at 31 March	657,222	679,332	687,263	697,890	715,261	733,655
In terms of number of months of government expenditure	10	10	10	10	10	10
In terms of percentage of GDP	19.7%	19.5%	18.8%	18.1%	17.7%	17.3%

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. In October 2022, the investment arrangement was extended for a further five-year period up to 31 December 2030. The initial endowment of the Future Fund was \$219,730 million, being the balance of the Land Fund on 1 January 2016. In 2016-17, \$4.8 billion of the consolidated surplus from the Operating and Capital Reserves were transferred to the Future Fund as top-up. The arrangement thereafter is subject to an annual review by the Financial Secretary.

Table 2

Distribution of fiscal reserves at 31 March					
	2025-26 Revised Estimate	2026-27 Estimate			
(\$ million)			Future Fund	Operating and Capital Reserves	Total
General Revenue Account	230,258	234,796	4,800*	229,996	234,796
Funds with designated use	177,140	194,691		194,691	194,691
Capital Works Reserve Fund	57,429	81,730		81,730	81,730
Capital Investment Fund	11,802	9,440		9,440	9,440
Civil Service Pension Reserve Fund	60,478	63,381		63,381	63,381
Disaster Relief Fund	128	200		200	200
Innovation and Technology Fund	17,655	12,119		12,119	12,119
Loan Fund	5,688	5,699		5,699	5,699
Lotteries Fund	23,960	22,122		22,122	22,122
Land Fund	249,824	249,845	249,845	-	249,845
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	657,222	679,332	254,645	424,687	679,332
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
In terms of number of months of government expenditure	10	10	4	6	10

* 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 about \$619 billion for capital works projects underway and about \$571 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 relating 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 includes the proceeds, repayments and interest expenses of government bonds accounted for in the Capital Works Reserve Fund (*see Note (f)*) but does not include the Bond Fund.
- (iii) The Bond Fund is set up for the development of bond market and its balance does not form part of the fiscal reserves. It is managed by the Hong Kong Monetary Authority for investment purposes and is separated from the Government's consolidated account.

(b) *Operating revenue*

- (i) The operating revenue takes into account revenue measures proposed in the 2026-27 Budget, and is made up of –

	2025-26 Revised Estimate	2026-27 Estimate	2027-28 Forecast	2028-29 Forecast	2029-30 Forecast	2030-31 Forecast
(\$ million)						
Operating revenue before investment income	627,205	622,549	628,039	655,387	686,778	728,260
Investment income	26,052	29,561	38,008	33,375	37,842	39,001
Total	<u>653,257</u>	<u>652,110</u>	<u>666,047</u>	<u>688,762</u>	<u>724,620</u>	<u>767,261</u>

- (ii) Investment income under the Operating Account includes investment income of the General Revenue Account (which is credited to revenue head Properties and Investments) and investment income of the Land Fund. The rate of investment return is 4.8% for 2026 (vs 4.4% for 2025) and is assumed to be in the range of 4.4% to 6.9% from 2027 to 2030.
- (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 is reflected in the Government's accounts on a progressive basis starting from 2021-22.
- (iv) As proposed in the 2026-27 Budget Speech, about \$37 billion of accumulated surplus in the Bond Fund will be transferred to the Government's consolidated account in 2026-27.

(c) *Operating expenditure*

This represents expenditure charged to the Operating Account of the General Revenue Account and Land Fund. The figures for 2027-28 and beyond set out the forecast operating expenditure requirements for the Government.

(d) Capital revenue

(i) The breakdown of capital revenue is –

(\$ million)	2025-26 Revised Estimate	2026-27 Estimate	2027-28 Forecast	2028-29 Forecast	2029-30 Forecast	2030-31 Forecast
General Revenue Account	2,844	4,920	4,137	4,265	4,660	4,654
Capital Investment Fund	1,176	883	931	985	970	970
Capital Works Reserve Fund	17,638	93,038	109,421	57,881	71,342	84,802
Disaster Relief Fund	4	-	-	-	-	-
Innovation and Technology Fund	58	-	-	-	-	-
Loan Fund	3,104	3,523	4,229	4,344	4,603	4,767
Lotteries Fund	1,246	1,245	1,230	1,229	1,223	1,217
Capital revenue before investment income	26,070	103,609	119,948	68,704	82,798	96,410
Investment income	9,435	9,515	8,461	8,331	12,323	11,477
Total	35,505	113,124	128,409	77,035	95,121	107,887

(ii) Revenue from land premium included under the Capital Works Reserve Fund for 2026-27 is estimated to be \$18 billion with reference to the land sale programme. From 2027-28 onwards, it is prudently assumed to be progressively rising to 2% of GDP, which is lower than that of the past 20-year historical average ratio of 3.2%.

(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 4.8% for 2026 (vs 4.4% for 2025) and is assumed to be in the range of 4.4% to 6.9% from 2027 to 2030.

(iv) As proposed in the 2026-27 Budget Speech, \$75 billion of investment income from the Exchange Fund will be transferred to the Capital Works Reserve Fund in each of 2026-27 and 2027-28 (i.e. \$150 billion in total).

(e) Capital expenditure

The breakdown of capital expenditure is –

(\$ million)	2025-26 Revised Estimate	2026-27 Estimate	2027-28 Forecast	2028-29 Forecast	2029-30 Forecast	2030-31 Forecast
General Revenue Account	7,363	8,208	8,957	8,565	8,190	7,805
Capital Investment Fund	2,962	3,767	12,787	14,602	13,533	6,376
Capital Works Reserve Fund	161,298	172,997	183,755	180,416	175,769	177,669
Disaster Relief Fund	81	-	-	-	-	-
Innovation and Technology Fund	10,521	10,270	11,624	11,912	11,083	14,251
Loan Fund	2,909	3,784	3,659	4,325	5,037	5,137
Lotteries Fund	2,066	4,190	6,215	4,478	4,729	3,977
Total	187,200	203,216	226,997	224,298	218,341	215,215

(f) Government bonds

The Government issued green bonds under the Government Sustainable Bond Programme (GSBP) (previously known as the Government Green Bond Programme) from 2019-20 to 2025-26, and infrastructure bonds under the Infrastructure Bond Programme (IBP) from 2024-25 to 2025-26. The Government will continue issuing the above two types of bonds from 2026-27 to 2030-31. The actual size and timing of issuance will be determined having regard to market conditions. The proceeds of the two programmes are credited to the Capital Works Reserve Fund to finance eligible works projects and will not be used for government recurrent expenditure.

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)	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
	Revised Estimate	Estimate	Forecast	Forecast	Forecast	Forecast
Operating expenditure	601,971	640,200	639,605	647,565	672,458	698,391
Capital expenditure	187,200	203,216	226,997	224,298	218,341	215,215
Government expenditure	789,171	843,416	866,602	871,863	890,799	913,606
Expenditure by other public bodies	55,046	61,308	66,441	69,615	69,377	71,812
Public expenditure (Note (a))	844,217	904,724	933,043	941,478	960,176	985,418
Gross Domestic Product (calendar year)	3,331,774	3,488,400	3,662,800	3,845,900	4,038,200	4,240,100
Nominal growth in GDP (Note (b))	4.5%	4.7%	5.0%	5.0%	5.0%	5.0%
Growth in recurrent government expenditure (Note (c))	2.2%	4.8%	2.4%	2.9%	3.9%	3.9%
Growth in government expenditure (Note (c))	4.8%	6.9%	2.7%	0.6%	2.2%	2.6%
Growth in public expenditure (Note (c))	5.4%	7.2%	3.1%	0.9%	2.0%	2.6%
Public expenditure in terms of percentage of GDP	25.3%	25.9%	25.5%	24.5%	23.8%	23.2%

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 2026-27, the nominal GDP growth of 4.7% represents the mid-point of the range forecast of 4.2% to 5.2% for 2026.
- (c) The growth rates for 2025-26 to 2030-31 refer to year-on-year change. For example, the rates for 2025-26 refer to the change between the revised estimate for 2025-26 and the actual expenditure in 2024-25. The rates for 2026-27 refer to the change between the 2026-27 estimate and the 2025-26 revised estimate, and so forth.

15 Table 4 shows the relationship amongst the sum to be appropriated in the 2026-27 Budget, government expenditure and public expenditure.

**Relationship between Government Expenditure
and Public Expenditure in 2026-27**

Table 4

(\$ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	599,677	599,677	-	599,677	599,677
Non-recurrent	40,523	40,523	-	40,523	40,523
Capital					
Plant, equipment and works	5,233	-	5,233	5,233	5,233
Subventions	2,975	-	2,975	2,975	2,975
	648,408	640,200	8,208	648,408	648,408
Transfer to Funds	4,063	-	-	-	-
Capital Investment Fund	-	-	3,767	3,767	3,767
Capital Works Reserve Fund	-	-	172,997	172,997	172,997
Innovation and Technology Fund	-	-	10,270	10,270	10,270
Loan Fund	-	-	3,784	3,784	3,784
Lotteries Fund	-	-	4,190	4,190	4,190
Trading Funds	-	-	-	-	4,250
Housing Authority	-	-	-	-	57,058
	652,471	640,200	203,216	843,416	904,724
Revenue					
General Revenue Account					
Taxation		522,889	100	522,989	
Other revenue		109,200	4,820	114,020	
		632,089	4,920	637,009	
Capital Investment Fund		-	1,405	1,405	
Capital Works Reserve Fund		-	97,006	97,006	
Civil Service Pension Reserve Fund		-	2,903	2,903	
Disaster Relief Fund		-	9	9	
Innovation and Technology Fund		-	734	734	
Land Fund		20,021	-	20,021	
Loan Fund		-	3,795	3,795	
Lotteries Fund		-	2,352	2,352	
		652,110	113,124	765,234	
Surplus / (Deficit)		11,910	(90,092)	(78,182)	

SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES

16 The Government’s contingent liabilities as at 31 March 2025, 31 March 2026 and 31 March 2027, are provided below as supplementary information to the MRF –

(\$ million)	<i>Table 5</i>		
	2025	At 31 March 2026	2027
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	54,623	61,331	68,537
Guarantees provided under the SME Financing Guarantee Scheme	126,601	108,544	79,110
Legal claims, disputes and proceedings	7,056	7,733	4,623
Subscription to callable shares in the Asian Development Bank	5,662	5,821	5,821
Subscription to callable shares in the Asian Infrastructure Investment Bank	4,800	4,800	4,800
Guarantees provided under the SME Loan Guarantee Scheme	418	209	114
Guarantees provided under Dedicated 100% Loan Guarantee Scheme for Travel Sector	203	1	10
Guarantees provided under the Special Loan Guarantee Scheme	58	54	47
Guarantees provided under Dedicated 100% Loan Guarantee Scheme for Battery Electric Taxis	32	303	2,404
Guarantees provided for the Medium Term Note Programme of the Hong Kong Cyberport Management Company Limited	-	500	500
Total	199,453	189,296	165,966

17 The Government’s major unfunded liabilities as at 31 March 2025 were as follows –

(\$ million)

Present value of statutory pension obligations (<i>Note (a)</i>)	924,766
Untaken leave (<i>Note (b)</i>)	25,841
Green bonds issued under the GSBP and infrastructure bonds issued under the IBP	299,344

Notes –

- (a) The statutory pension obligations for the coming ten years are estimated to be about \$571 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 2025 and 31 March 2026 are \$686,928 million and \$619,010 million respectively. Some of these are contractual commitments.