

Budget Speech by the Financial Secretary (11)

Revised Estimates for 2021-22

189. The 2021-22 revised estimates on government revenue is \$682.7 billion, higher than the original estimate by 15.5 per cent or \$91.8 billion. This is mainly because revenues from land premium and profits tax are higher than the estimates by \$43.5 billion and \$32.4 billion respectively.

190. As for government expenditure, the revised estimate is \$699 billion, four per cent (or \$28.8 billion) lower than the original estimate. This is mainly because the operating expenditure is \$18.8 billion lower than the estimate.

191. All in all, I forecast a surplus of \$18.9 billion for 2021-22. Fiscal reserves are expected to be \$946.7 billion by 31 March 2022.

192. The civil service establishment recorded zero growth in this financial year. Departments have enhanced effectiveness and efficiency through prioritisation, internal redeployment and streamlining of work processes, so that the workload can be handled even without increase in the civil service establishment.

Estimates for 2022-23

193. The major policy initiatives announced in the 2021 Policy Address involve an operating expenditure of about \$10.4 billion and a capital expenditure of \$4.7 billion. I will ensure that adequate resources are provided to fully support the launch of these initiatives.

194. Total government revenue for 2022-23 is estimated to be \$715.9 billion. Earnings and profits tax is estimated to be \$251.1 billion, increasing by 3.3 per cent over the revised estimate for 2021-22. Having regard to the Land Sale Programme and the land supply target of 2022-23, revenue from land premium is estimated to be \$120 billion, decreasing by 15 per cent compared with the revised estimate for 2021-22. Revenue from stamp duties is estimated to be \$113 billion, increasing by 11.9 per cent over the revised estimate for 2021-22.

195. Total government expenditure for 2021-22 decreased by 14.4 per cent, with its share in nominal GDP projected to drop from the peak of 30 per cent in 2020-21 to 24.4 per cent. Total government expenditure for 2022-23 will increase by 15.5 per cent to \$807.3 billion. Public expenditure will continue to account for about 24.9 per cent of GDP on average during the five-year period up to 2026-27 in the MRF.

196. The recurrent expenditure of the current-term Government increased from \$361.8 billion in 2017-18 to \$467.1 billion in 2020-21, representing an increase of nearly 30 per cent. Of this, expenditure on education, social

welfare and healthcare, which are the three policy areas closely related to people's livelihood, accounts for about 58 per cent. In 2022-23, the estimated recurrent expenditure on education, social welfare and healthcare accounts for 60 per cent or \$341.6 billion. Among these, the expenditure on healthcare has recorded the largest increase, representing more than double of that in 2017-18.

197. The Government's target of zero growth in the civil service establishment will remain unchanged in 2022-23, with the aim of ensuring the sustainability of public finances. It is expected that as at the end of March 2023, there will be about 197 000 posts in the civil service establishment.

Medium Range Forecast

198. The MRF projects, mainly from a macro perspective, the revenue and expenditure as well as financial position of the Government. From 2023-24 to 2026-27, a real economic growth rate of three per cent per annum is adopted for the MRF.

199. During the above period, the average annual capital works expenditure will exceed \$100 billion. While the recurrent government expenditure is expected to drop by 1.8 per cent in 2023-24, it will subsequently grow at a rate between 4.1 per cent and 4.6 per cent per annum.

200. Regarding revenue from land premium, the forecast for 2023-24 continues to be based on the average proportion of revenue from land premium to GDP over the past 15 years, which is 3.8 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.

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

202. Based on the above assumptions and arrangements, I forecast a deficit in the Operating Account in 2022-23, which will turn into a surplus in 2023-24. There will be a surplus in the Capital Account in each of the five years during the MRF period. Except for the estimated deficit in the Operating Account in 2022-23 which is mainly attributed to the one-off relief measures and anti-epidemic expenditure announced in this Budget, there will be a surplus in the subsequent four years. The above forecast has not taken into account any tax rebate or relief measure that the Government may implement over the coming four years.

203. Fiscal reserves are estimated at \$1.065 trillion by the end of March 2027, representing 28.9 per cent of GDP, or equivalent to 16 months of government expenditure.

Concluding Remarks

204. Mr President, Hong Kong is currently experiencing its hardest time in the fight against the epidemic, and we are facing enormous challenges. Yet, we do have great strength and staunch support to ride out the storm. As long

as we are united in taking decisive action with firm determination and unwavering confidence, we can surely win the battle against the epidemic and our difficulties will eventually go away.

205. After containing the epidemic, our next task will be to propel economic revival and accelerate medium-to-long-term development. To this end, we must stand high and stand firm to see clearly the big picture, better understand the long-term development trends, have a good grasp of the economic patterns, concentrate on the focal points and map out long-term plans, while remaining steadfast against fluctuations in the short-term. Meanwhile, in the face of the profound changes worldwide unseen in a century and the complex external environment, we must plan ahead and get well-prepared to guard against risks, so as to consolidate our development path and achievements.

206. Since Reunification, Hong Kong has weathered many storms with its economic and financial conditions remaining largely stable. Yet, amid the adversities, many issues have emerged, such as the imbalance in economic development, inadequate opportunities for young people to give full play to their strengths as well as the distribution of economic gains, which have scope for improvement. Such issues need to be resolved step by step in the future. However, all these issues, which have implications for our social harmony and stability in the long run, cannot be resolved at one stroke and have to be dealt with through the concerted efforts of our whole community.

207. While every fascinating story is full of twists and turns, every success is spurred by the strength gained from overcoming setbacks. If there is one common factor, it may be that those who are striving to overcome setbacks and achieve success are all guided by firm determination and faith that they will be able to navigate through troubled waters. We deeply believe that Hong Kong can steer towards becoming a more equitable, just, caring and inclusive society.

208. This year marks the 25th anniversary of Hong Kong's return to the Motherland, a landmark occasion that can usher in the start of a new chapter in Hong Kong's development. The implementation of the National Security Law and improvements to the electoral system have brought Hong Kong back on a track focusing on development. We are on course to embark on a new phase of good governance, which we all look forward to. Our country has always provided the strongest backing for Hong Kong. During the ups and downs of our development, our Motherland has always given us staunch support, enabling us to write the next line in Hong Kong's success story.

209. In the great rejuvenation of the Chinese nation, Hong Kong has a unique and irreplaceable role to play. On the back of our country's sustained and steady development, Hong Kong has a bright and promising future under "One Country, Two Systems". We share the same dream with our country. Together and united, we can build a better home with courage, wisdom, confidence and action.

210. Thank you.