

Budget Speech by the Financial Secretary (12)

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.