

Budget Speech by the Financial Secretary (14)

Estimates for 2019-20

181. The major policy initiatives announced in the 2018 Policy Address involve an operating expenditure of \$75.3 billion and capital expenditure of \$8.8 billion. I will ensure that adequate resources are provided to fully support the launch of these initiatives.

182. Total government revenue for 2019-20 is estimated to be \$626.1 billion. Earnings and profits tax is estimated to be \$235.9 billion. The revenue from land premium is estimated to be \$143 billion, an increase of 23.3 per cent compared with the revised estimate for 2018-19. The revenue from stamp duties is estimated to be \$76 billion, a decrease of 5 per cent compared with the revised estimate for 2018-19.

183. Operating expenditure is estimated to be \$501.5 billion, a year-on-year increase of 15.4 per cent or \$66.9 billion. This mainly involves an expenditure of \$11.2 billion on the Caring and Sharing Scheme last year. Recurrent expenditure, which accounts for over 80 per cent of operating expenditure, will reach \$441 billion, a year-on-year increase of nine per cent or \$36.3 billion.

184. In 2019-20, the estimated recurrent expenditure on education, social welfare and healthcare accounts for about 60 per cent of government recurrent expenditure, exceeding \$250 billion in total. Recurrent expenditure in these three areas recorded a cumulative increase of 45 per cent over the past five years.

185. We will increase the manpower of all departments as appropriate in 2019-20. The civil service establishment is expected to expand by 3 481 posts to 191 816. This represents a year-on-year increase of about 1.8 per cent, resuming the growth level of one to two per cent.

186. Taking all these into account, including bringing back \$21.2 billion from the Housing Reserve in 2019-20, I forecast a surplus of \$16.8 billion in the Consolidated Account in the coming year. Fiscal reserves are estimated to be \$1,178.4 billion by the end of March 2020, equivalent to 39.4 per cent of GDP.

Medium Range Forecast

187. The Medium Range Forecast projects, mainly from a macro perspective, the revenue and expenditure as well as financial position of the Government from 2020-21 to 2023-24. During this period, annual expenditure on the Government's infrastructure projects will exceed \$100 billion, while the growth of recurrent government expenditure ranges between 5 per cent and 8.8

per cent per annum, higher than the average annual nominal economic growth of 5 per cent over the same period.

188. Regarding revenue, the land premium estimate for 2019-20 mainly makes reference to the Land Sale Programme and the land supply target of the coming year. The medium range forecast on land premium from 2020-21 onwards is based on the average proportion of land revenue to GDP over the past decade, which is 3.9 per cent of GDP. I also assume that the growth rate of revenue from profits tax and other taxes will be similar to the economic growth rate in the next few years.

189. In addition, as I mentioned earlier (paragraph 102), I will bring back the Housing Reserve, with a current accumulated balance of \$82.4 billion, to the fiscal reserves over four years to better reflect the Government's financial position.

190. Based on the above assumptions and arrangements, I forecast an annual surplus in the Operating Account every year for the coming five financial years except for 2019-20. A small deficit would surface in the Capital Account in 2021-22 and 2022-23. The forecast deficit in the Operating Account in 2019-20 is mainly due to the expenditure arising from the one-off relief measures announced in this Budget and the Caring and Sharing Scheme. There is no structural change in the Government's financial position. Moreover, ample fiscal reserves also enable us to meet foreseeable expenditure needs. I remain cautiously optimistic about the forecast for the coming five years.

191. Fiscal reserves are estimated at \$1,224.6 billion by the end of March 2024, representing 33.7 per cent of GDP, equivalent to 19 months of government expenditure.

192. Taking all these into account, the Government will generally have an overall surplus in the next five years. That said, the above forecast has not taken into account the tax rebate and relief measures that the Government may implement during the Medium Range Forecast period.

Concluding Remarks

193. The consultation for this Budget started earlier than that for the last. Apart from holding around 40 consultation sessions to gauge views from various sectors and groups, I spent a lot of time interacting with people in the community to understand what they expect of the Government and the Budget.

194. I remember that one morning when I settled my bill at a cha chaan teng (Hong Kong-style café) in Hung Hom, the cashier lady told me that as the mother of a mentally-handicapped child, she was acutely aware how inadequate the support was and hoped that the Government would provide more care homes for people with disabilities. On another occasion, a girl from a grass-roots family attended a function in my official residence. Her mother told me that she had made use of the \$2,000 school expenses allowance for needy students

introduced last year to enrol her child in an interest class outside school to develop her potential. She hoped the allowance would be granted again this year. In recent months, I also exchanged ideas with public healthcare personnel on a number of occasions. I gained insight into the problems they faced, and heard their suggestions on how to improve healthcare services. From these encounters, I was greatly inspired by the aspirations and strong hopes of the people I met, and deeply moved by their sincerity and candidness.

195. I set off from the bottom of my heart and listen with care. The opportunity to put forward measures that meet people's needs and expectations is what drives me in preparing this Budget.

196. However, resources are not infinite and trade-offs are inevitable. The Government has to prioritise its policy initiatives by taking into account the interests of all. No matter how many resources we put into solving problems, solutions do not happen overnight. This is especially true for difficult problems that have beset our community for many years. But I firmly believe that challenges are meant to be overcome as long as we devote resources and tackle them step by step.

197. Only with adequate resources can we improve services and enhance people's quality of life. We must continue to leverage our edges and seize opportunities to promote a diversified economy. Now that the economic environment is fraught with uncertainties and challenges, we must get ourselves well prepared.

198. Hard-working and flexible, Hong Kong people have weathered tough times and grown tougher. With confidence, hope and concerted efforts, we will definitely be able to see the sunshine through the clouds!

199. Thank you, Mr President.