

LegCo Secretariat releases Research Brief on “The 2019-2020 Budget”

The following is issued on behalf of the Legislative Council Secretariat:

The Legislative Council Secretariat (the Secretariat) today (April 16) released a Research Brief on "The 2019-2020 Budget".

The Financial Secretary delivered his second Budget of the current-term Government on February 27 and reported an estimated fiscal surplus of HK\$16.8 billion in 2019-2020, slipping from HK\$58.7 billion in 2018-2019. While the surplus is the lowest since 2015-2016, budget deficit would have taken place if the Housing Reserve, amounted to HK\$21.2 billion, were not taken back to the government accounts.

Government expenditure in 2019-2020 is expected to hit HK\$607.8 billion, increased by 13 per cent from the previous financial year. The ratio of government expenditure to government revenue will increase from 90 per cent in 2018-2019 to 97 per cent in 2019-2020. Based on the Government's medium range forecast, the ratio will even peak at 99 per cent from 2021-2022 and onwards, raising concern about the sustainability of the revenue sources.

Hong Kong's government revenue is all along known to be narrow-based and highly sensitive to economic performance. In recent years, with the increases in land sale supply and prices, land premium has made weighty contribution to government revenue at an average of 21 per cent during 2015-2020. Stamp duty has also seen rising contribution, with a notable portion deriving from a series of so-called "spicy" disincentive measures to curb the overheating property market. Although salaries tax has seen broadening base with more people being brought into the tax net, its average contribution to government revenue has declined and ageing population further poses concerns of whether salaries tax could remain a large revenue source to meet government expenditure.

On the other hand, profits tax is the most stable and the largest revenue item, making an average contribution of 22 per cent to 27 per cent to government revenue during various periods across 2000-2020. However, it has seen shrinking base with increasing reliance on the sector of banking, investment, finance and property.

In view of growing expenditure needs, there remains concern whether government revenue is abundant and stable enough to sustain expenditure given the limitations of the revenue structure. Diversifying the economy is therefore crucial to strengthening government coffers and the Government has committed resources to promote the industries which are considered to be the potential growth engine, such as innovation and technology, as well as cultural and creative industries. However, the latter seemed to have lost the momentum in recent years as its economic contribution as a percentage of Gross Domestic Product has registered persistent decline from the peak of

5.1 per cent in 2013 to 4.4 per cent in 2017. It may warrant a revisit of the constraints being faced by the sector as well as the effectiveness of the support measures.

Outside the cash-based government accounts, there are some 20 designated-purpose funds mainly funded by the Government which is also responsible for their use. These funds roughly amount to over HK\$91 billion. A number of them have used government injection as seed money to generate investment income to fund projects. This suggests that a huge sum of public money is being locked up and the funding activities are to a certain extent constrained by the level of investment return, prompting concerns about the effectiveness of public resources allocation.

The Legislative Council will resume the Second Reading debate on the Appropriation Bill 2019 tomorrow (April 17) and Members will speak on the Bill.

The Research Brief is prepared by the Secretariat's Research Office of the Information Services Division with a view to enhancing information support for Members. It is a concise summary aiming at explaining a subject matter which may be of interest to Members and the general public.

The Research Brief is now available on the Legislative Council Website at www.legco.gov.hk/research-publications/english/1819rb01-the-2019-2020-budget-20190416-e.pdf.