

Press Releases

Budget Speech by the Financial Secretary (1) (with photo and video)

Following is the full text of the Speech on the 2008-09 Budget delivered by the Financial Secretary, Mr John C Tsang, in the Legislative Council today (February 27):

Madam President,

Introduction

I move that the Appropriation Bill 2008 be read a second time.

2. This is my first Budget. I will set out this year's economic and financial position as well as my principles of public finance management. I will also put forward a number of proposals. I hope Members of this Council will support this Budget.

Economic Performance and Outlook

Economic Performance

3. In 2007 the Hong Kong economy was vibrant. Although in the latter half of the year the external economic environment was beset with the US sub-prime mortgage problem and credit crunch, our Gross Domestic Product (GDP) still grew by 6.3 per cent, higher than the trend growth for the past 10 years.

4. The economic performance in 2007 shows that our economy continues to benefit from the dynamic development of our nation and the rapid growth of the global economy. It also demonstrates the ability of our economy to withstand external volatilities. In the past year, Hong Kong's exports grew notably by 7.9 per cent. Domestic private consumption spending was buoyant, registering growth of 7.8 per cent, the highest since 1993. The strong economic recovery in the past few years has greatly boosted consumer confidence.

5. In light of the broad-based economic expansion and strong business confidence, most businesses needed to recruit additional staff. In the past year, the labour market has improved further, and the number of

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employed persons has hit successive new highs. The latest unemployment rate fell to 3.4 per cent, the lowest since the first quarter of 1998.

6. The number of long-term unemployed has declined continuously from a peak of 93 000 in 2003 to 29 000 in the latest period, reflecting that people who had difficulty finding a job before have benefited from the booming economy. Since the recovery of our economy in mid-2003, more than 380 000 jobs have been created, providing many employment opportunities for lower-skilled workers. The latest figures show that the unemployment rate and underemployment rate for such workers have fallen to 3.5 per cent and three per cent respectively.

7. The continued expansion of our economy, strong consumer spending and the surge in import prices of foodstuffs has exerted upward pressure on inflation. In addition, the Hong Kong dollar has followed the depreciation of the US dollar against other major currencies, affecting import prices. The average inflation rate as measured by the Composite Consumer Price Index for 2007 was two per cent. Eliminating the effects of the rates concession and public housing rental waiver, the underlying inflation rate was 2.8 per cent. The inflationary trend that Hong Kong has experienced recently is similar to that in many developed economies.

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Budget Speech by the Financial Secretary (2)

Global and Regional Economic Environment

8. Regarding the global and regional economic environment, the sub-prime mortgage problem and the credit crunch triggered by the US housing market correction has resulted in a noticeable slowdown in the US economy and created global financial turbulence. The impact of the sub-prime mortgage problem on financial institutions and investors, the losses resulting from it, and the negative effect it is having on the global economy all have yet to fully surface.

9. The present credit crisis impacts mainly on the US and Europe. Its direct impact on Hong Kong and Asia has so far been limited. Overall though, the economic performance of Asia and other emerging markets remains strong. These economies have become major pillars of global economic growth. The robust economic growth in the Mainland and in India is especially noteworthy.

10. However, the risk of overheating has emerged in the Mainland economy. Our nation has to step up macroeconomic adjustment and adopt a tight monetary policy as well as other measures to curb inflation and raise economic efficiency. In the short term, such measures will have a bearing on Hong Kong's economy as well as a direct impact on many investors.

11. The global trend of rising inflation deserves our attention. Apart from surging food prices, energy and commodity prices remain persistently high. As food supply in the world market will take some time to increase, it is likely that there will still be upward pressure on the prices of foodstuffs in the short term.

12. Taking all these factors into consideration, Hong Kong is now faced with the risk of global economic slowdown coupled with rising inflation. There are also rising protectionist sentiments. We should be aware of the possibility that the situation might deteriorate in the near future and that the fallout may be prolonged.

Economic Outlook for 2008

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13. I am cautiously optimistic about Hong Kong's economic prospects for 2008. While the slowdown in growth of advanced economies in Europe and the US will have some impact on the economies of emerging markets and the Mainland, the sustained rapid economic growth of the Mainland and its increasingly intensified economic integration with Hong Kong will greatly promote our economic development and cushion the impact of the slowdown on Hong Kong. The economic fundamentals in Asia remain strong, which will help to improve our external trade performance and consolidate our position as Asia's world city. Local interest rate cuts, following those in the US, will also stimulate economic growth.

14. Moreover, Hong Kong's economy has staged a strong recovery over the past few years, with a marked improvement in employment and a rise in asset prices. The financial position of most enterprises and individuals has improved, and consumer sentiment and investor confidence are strong. Domestic demand will very likely remain a major driving force of economic growth in 2008.

15. Taking all these factors into account, and in the absence of unexpected serious incidents or major external shocks, Hong Kong's economy will continue to record solid growth in 2008. I forecast GDP to increase by four to five per cent, lower than that in the past four years but still higher than the average trend growth rate for the past ten years. I expect that the unemployment rate will remain at a relatively low level.

16. I am optimistic about our economic prospects over the medium term. Hong Kong will continue to move up the value chain in services provision and will intensify economic integration with the Mainland, consolidating its role as a financial, business, trading, services and tourism hub of the region. Furthermore, we will continue to tap new opportunities in emerging markets. I estimate that the annual average growth rate will be 4.5 per cent in real terms for the period 2009 to 2012.

17. As regards inflation, given continued economic expansion and high global commodity prices, the underlying inflation rate in 2008 is estimated to rise to 4.5 per cent, while the inflation rate forecast will average four per cent over the following four years. I forecast that upon implementation of the various one-off measures

proposed in this Budget, the inflation rate will fall to 3.4 per cent in 2008.

18. I realise that inflation has increased the burden on citizens. Rising food prices, while affecting everyone, hit those with low incomes hardest. I hope that the measures proposed in this Budget will help to relieve the burden of citizens, especially the disadvantaged, so that all can share the fruits of our economic growth.

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Budget Speech by the Financial Secretary (3)

Opportunities and Challenges

19. I would now like to discuss the opportunities and challenges ahead of us.

Comparative Advantages

20. First of all, let us consider Hong Kong's comparative advantages. The rapid development of our nation is transforming the global economic landscape. After 30 years of reform and liberalisation, the increasing integration of the Mainland with the global economy and the urbanisation and industrialisation in the Mainland have progressively changed the mode of economic development, boosting domestic consumption in terms of both quality and quantity, driving manufacturing industries up the value chain and speeding up the development of the service industries. These developments have helped our economy shift towards higher value-added services, thereby supporting our economic growth.

21. Hong Kong has the unique advantage of having the Mainland as our hinterland while maintaining an international outlook. We have been fostering co-operation and integration with the Mainland through the Closer Economic Partnership Arrangement and the Pan-Pearl River Delta (Pan-PRD) Regional Co-operation Framework Agreement. With the gradual implementation of the Action Agenda put forward in the Economic Summit of "China's 11th Five-Year Plan and the Development of Hong Kong", we can enhance our role in the development of our nation. In addition, by expanding the scope for functional division and co-operation between Hong Kong and Mainland cities, mutual benefit can be achieved. With these advantages, we can also attract investors from both the Mainland and overseas to use Hong Kong as a platform for developing regional and international business.

22. Hong Kong has a sound legal system, a free flow of information, a well-established, strong and effective global network, and entrenched intellectual property rights protection. Hong Kong also boasts an

open and highly cost-effective business environment, and has a huge Mainland market as our hinterland. These are the key elements for Hong Kong to attract local and overseas investors. We must co-operate with the Mainland, in particular the Pan-PRD region, in promoting to these investors the overall package in order to enhance our attractiveness.

23. We must also further enhance our status as Asia's world city and as a place for regional operating headquarters, and increase our co-operation with other cities in the region, so we can play our hub role more effectively, promoting the development of our nation and the entire region.

24. The Government is making untiring efforts to help our enterprises develop economic relations with emerging markets. In the past few months, we have led delegations of different sectors to Russia, Vietnam, India and the Middle East. We will continue to extend and strengthen these international ties. Later this year I will visit some major cities in Eastern Europe and South America to help our enterprises tap further opportunities.

Medium and Long-term Challenges

25. I would like to highlight some external and internal challenges.

Globalisation and Emerging Regional Economies

26. On the external front, globalisation and the emerging regional economies will bring increasing competition to Hong Kong. The global economic landscape has been changing rapidly in the past 20 to 30 years. The application of information technology, enhanced efficiency in transportation and logistics management, liberalisation and integration of financial markets in various economies and the rise of emerging markets all pose new challenges to Hong Kong. The Mainland economy is now at a crucial stage of change in its mode of development, with continuous restructuring and upgrading of Mainland industries. The rapid development and progress of Mainland cities will also bring more competition to Hong Kong.

27. In a report released at the end of last year, the International Monetary Fund pointed out that further financial liberalisation in the Mainland is likely to consolidate Hong Kong's position as an international financial centre over the medium term. However, with the modernisation of the Mainland's financial system

and the development of other financial centres in the Mainland, Hong Kong's comparative advantage in China-related intermediation may diminish. To maintain its long-term standing as an international financial centre, Hong Kong must build a geographically diverse base for its financial services in the region.

28. Apart from looking at expansion in regional financial services, we must maintain and promote Hong Kong's role as an international cosmopolitan city. We will continue to expand our capacity to handle trading and financial issues and broaden our international horizon through access to more overseas markets and by establishing stronger international links. We will further ease business operations, improve the transparency of our regulatory regime, streamline procedures, encourage creative ideas and promote the use of technology. These will help economic restructuring, reduce business compliance costs and enhance our ability to meet the challenges brought by globalisation and by rapid integration with the Mainland economy.

29. For a highly developed city, global competition is ultimately a competition for talent. To consolidate Hong Kong's position as Asia's world city, we must nurture a large number of talented local people as well as attract talent from the Mainland and around the world.

30. The Government will continue to invest heavily in education and retraining as well as create more favourable conditions to attract talent from around the world. The completion of major infrastructure projects and various environmental improvement measures mentioned in last year's Policy Address will also allow us to expand our business opportunities, raise economic efficiency and build a quality city with a quality living environment to enhance Hong Kong's attractiveness.

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Budget Speech by the Financial Secretary (4)

An Ageing Population

31. An ageing population is an internal challenge for Hong Kong that will have a profound impact on our community and economy. The number of people aged 65 or above is expected to rise sharply in the next 20 to 30 years. At present, one in eight persons in Hong Kong is in this group. By 2033, only 25 years away, that figure rises to one in four persons.

32. Meanwhile, the working age population will begin to fall gradually after 2014. The increasing elderly population will increase the burden on the working population. At present, every two elderly persons are supported by about 12 people of working age. By 2033, however, every two elderly persons will be supported by only about five people of working age. This means that the burden on each working person will more than double. Therefore, unless there is a substantial increase in labour productivity, an ageing population will lower our standard of living and undermine economic vitality and competitiveness. We must make preparations now for the future.

33. An ageing population will also put immense pressure on public finances. On the revenue side, the tax base from salaries tax will become increasingly narrow because of the decrease in working population. At the same time, expenditures closely related to the elderly, such as medical, long-term care expenses and social security payments, will increase substantially. Therefore, we must endeavour to enhance productivity, control expenditure and invest today in measures that will help to mitigate future pressures on public finance.

Production Capacity

34. An ageing population will impose limitations on the production capacity of the economy. We must attract talented people from the Mainland and overseas to give fresh impetus to our economy and improve our population structure.

35. Since reunification, we have, through various schemes, attracted more than 200 000 talented people to Hong Kong. We have recently relaxed the age limit

and the requirements on language proficiency and work experience for the Quality Migrant Admission Scheme and the arrangements for non-local students to work in Hong Kong after graduation, with a view to attracting more talented young people to our city. We will make better use of the Hong Kong Economic and Trade Offices around the world to step up the external promotion of the various talent admission schemes and the arrangements for non-local students to work in Hong Kong.

36. The Government has been investing heavily in education. This has generally raised the education level of the local workforce and prepared us for further development as a knowledge-based economy. In the long run, enhancing the skills and competitiveness of people of all ages through continuous efforts to raise their education level and encourage lifelong learning will help to increase our per capita productivity, thereby alleviating the problems caused by our shrinking workforce.

Demand for Health Care Services

37. An ageing population will bring about a substantial increase in demand for health care services. Currently, nearly half of the total expenditure of the Hospital Authority is used to provide health care services for the elderly. The cost of providing such services to the elderly is on average six times that for other groups.

38. On the other hand, advances in medical technology, the use of new diagnostic techniques, new drugs and new treatment methods all combine to continually drive up medical costs. Because of these factors, it is expected that the increase in overall expenditure on health care services will, on average, be two percentage points higher than the actual economic growth rate in the next 20 to 30 years.

39. According to an external study, if the existing health care system were to remain unchanged, expenditure on public health care services would increase from \$38 billion in 2004 to over \$180 billion in 2033, an increase of almost 400 per cent in real terms. The share of the cost of public health care services could increase substantially from the present 15 per cent of government recurrent expenditure to over 27 per cent. Although we will increase the share of public health care expenditure to 17 per cent of government recurrent expenditure in the next few years, there is still a big gap between

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this figure and the forecast expenditure on public health care services for 2033. If we do not introduce new financing arrangements, the provision of quality public health care services cannot be sustained.

Welfare Expenditure

40. The ageing of Hong Kong's population in the past decade has not been significant, with the percentage of the elderly population rising by only three percentage points. However, government welfare expenditure on the elderly has increased steadily. The operating expenditure of the Social Welfare Department on services for the elderly rose from \$1.44 billion in 1996-97 to \$3.08 billion in 2006-07, an increase of over 100 per cent. The number of elderly Comprehensive Social Security Assistance (CSSA) cases increased by more than 60 per cent over the same period, and related expenditure surged from \$3.59 billion to \$8.28 billion, an increase of more than 130 per cent.

41. If the existing social security system were to remain unchanged, it is expected that expenditure relating to the CSSA, the Old Age Allowance and the Disability Allowance for the elderly would increase from the present \$13.1 billion to \$31.8 billion in 2033, an increase of over 140 per cent in real terms.

42. Ensuring that the Government is financially capable of meeting the health and welfare expenditure for the elderly in need is an issue that the Government and the community as a whole must understand and address. We must make good use of every dollar from taxpayers and prepare for the future.

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Budget Speech by the Financial Secretary (5)

Principles of Management of Public Finances

43. As Financial Secretary, I will uphold our well-established principles of management of public finances. I will continue to manage public finances prudently by keeping expenditure within the limits of revenues, maintaining a low and simple tax regime, and following the direction of "Market Leads, Government Facilitates". These principles are all very familiar to you, and I think there is no need for me to explain them again.

44. In drawing up the first Budget of the Government of this term, I have strictly adhered to three basic principles. First, the Budget should demonstrate the Government's commitment to our society; second, financial policies should be sustainable; and third, we should be pragmatic in decision making. By following these principles, we strive to ensure that the measures proposed in this Budget respond to the aspirations of the community and lay a solid foundation for our economy to meet future challenges.

Commitment to Society

45. My first principle is that fiscal policies should demonstrate the Government's commitment to society.

46. I am aware that recent inflation has brought pressure to bear on the public. We must understand that inflation is partly driven by our strong economic growth and that a vibrant economy is beneficial to our people. Our declining unemployment rate is one of the indicators reflecting this situation. Nonetheless, I am deeply concerned about the fact that some disadvantaged groups have not yet been able to enjoy the fruits of economic growth. I believe that, through proper revenue and expenditure proposals, this Budget can help improve their lives.

47. It is the duty of the Government to provide a final safety net for those who cannot help themselves. Concern over the livelihood of low-income families has now become a consensus in our community. In line with this consensus, I will propose measures to help them.

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48. The Chief Executive has clearly stated in his Policy Address that the Government should not attempt to narrow the wealth gap by redistributing wealth through high levels of tax and welfare. Such a measure would only inhibit people's incentive to work hard and, in turn, undermine the productivity and competitiveness of the community as a whole.

49. We will create favourable conditions, such as strengthening education and training, to help people enhance their skills. By helping people to help themselves, we will enable them to contribute to the economic development of Hong Kong. Education provides an opportunity for the next generation of low-income families to move up the social ladder, thereby reducing cross-generational poverty. The Government will continue to invest heavily in the community by making long-term commitments to education, retraining and health care.

Sustainability

50. My second principle in managing public finances is that our financial policies should be sustainable. If we increase recurrent public expenditure or reduce recurrent public revenue, we must be able to give reasonable assurances that the changes can sustain themselves.

51. Recently, there have been calls for the Government to make good use of the fiscal surplus and return wealth to the people. I share this view. This year, with our economy performing well, our tax revenue has increased. Revenues from stamp duty and land premium income, in particular, are far higher than expected. However, we must realise that a substantial surplus will not occur every year. Temporary improvements in our fiscal position, therefore, are not sufficient reasons for significant increases in recurrent expenditure or reductions in tax.

52. Thus, in studying the feasibility of increasing recurrent expenditure, we must examine carefully the sustainability of each proposed measure. We must avoid measures that impose burdens that the community will find hard to bear in the long run.

53. 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 and avoid

deficits. To ensure fiscal sustainability, I will strive to achieve fiscal balance over the next five years. I may introduce one-off measures which will increase government expenditure in the short term if there are needs in the community and our finances permit.

54. Past Budgets have been formulated to meet the prevailing needs of the community. For example, Hong Kong's economy declined substantially after the Asian financial crisis and the SARS outbreak. The Chief Executive and the Financial Secretary at the time, faced with swelling deficits, took unpopular measures to increase revenues and reduce expenditure. Such measures indeed laid the foundations for the subsequent return to sound Government finances a few years later.

Pragmatism

55. My third fiscal principle is to be pragmatic.

56. Public resources are limited, but social aspirations are unlimited. As Financial Secretary, I must manage and use public money properly because this is the public's wealth. My objective is to allocate resources where they are required, to ensure that every dollar is well spent and that measures introduced are targeted to benefit those most in need.

57. I will continue to maintain fiscal discipline, strictly control recurrent expenditure and uphold the principle of "Big Market, Small Government", so that the share of public expenditure will be maintained at 20 per cent or below of GDP.

58. A big market can increase the share of the private sector in the economy and allow market forces to allocate our limited resources in the most efficient way for the maximum benefit of the community as a whole. A small government can prevent the public sector from acquiring excessive resources and thus reducing efficiency in the allocation and use of resources. Moreover, a small government can minimise regulation, thereby facilitating business operations and attracting overseas investment. However, we will also keep government expenditure in line with economic growth to ensure that our services can meet the changing needs of the community.

59. We should adopt a pragmatic approach to the problem of the narrow tax base of Hong Kong. In July 2006, the Government launched a public consultation

on reforming Hong Kong's tax system to broaden our tax base. According to consultation findings, the community recognises that there is a need for the Government to broaden the tax base. However, there is no clear consensus or inclination on how to achieve this objective.

60. We will continue to study options on broadening the tax base. I hope to provide opportunities for the community to discuss the tax reform options that are equitable and conform to the "ability-to-pay" principle, can generate stable revenue, offer certainty and are predictable.

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Budget Speech by the Financial Secretary (6)

2007-08 Outturn

61. I now give an account of the 2007-08 outturn.

62. Thanks to the continued economic upturn in 2007, and our successful efforts to contain operating expenditure over the past few years, the Government's finances for 2007-08 are in very good shape.

63. I estimate that operating expenditure for 2007-08 will be \$206.4 billion, an increase of 6.4 per cent over 2006-07.

64. Against the background of a 6.3 per cent GDP growth in 2007, my updated estimate for operating revenue for 2007-08 is \$270.1 billion, an increase of \$48.7 billion over the original estimates. The main items that brought in higher-than-expected revenues were stamp duty on stock transfers which generated \$35 billion (\$22.1 billion higher than the original estimates), stamp duty on property transactions which generated \$14.6 billion (\$5.1 billion higher), profits tax which generated \$89 billion (\$11.5 billion higher) and salaries tax which generated \$37 billion (\$7 billion higher).

65. For capital revenue, land premium for 2007-08 is estimated at \$63.1 billion. We estimate that the revenues from land premium and stamp duties together will account for about one-third of total government revenue for 2007-08. This is the highest contribution that these relatively less stable revenue sources have made to total government income since 1997-98.

66. Since April 1, 2007, in order to reduce volatility in investment income, the investment return on the fiscal reserves has been calculated on the basis of the average rate of return of the Exchange Fund's investment portfolio over the previous six years. The investment income on the fiscal reserves for 2007-08 is estimated at \$27.9 billion.

67. The revised overall expenditure on infrastructure for 2007-08 is \$20.5 billion, which, as the Chief Executive has pointed out in his Policy Address, is

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the lowest in recent years. The main reason for the decrease in expenditure is that there are not enough infrastructure projects, especially major ones, ready for implementation. I believe that expenditure on infrastructure has bottomed out. It will rise to \$21.8 billion next year and increase further in the years ahead. This will help create more job opportunities.

68. Overall, I forecast a surplus of \$63.7 billion in the Operating Account for 2007-08. For the Consolidated Account, I forecast a surplus of \$115.6 billion, which is an all-time high. This is four and a half times last year's forecast and is equivalent to 7.2 per cent of our GDP. By March 31 this year, our fiscal reserves will have increased to \$484.9 billion.

69. This forecast outturn is somewhat higher than that predicted at the beginning of last year. I understand well what the former U.S. Federal Reserve Board chairman Alan Greenspan meant when he said last year that while he had been forecasting economic changes for 50 years he had not seen any improvement in his ability as a forecaster. I am not going to pledge to do better than him in forecasting. I have focused on how to use the happily favourable outturn this year to address present needs and to put us on a more secure footing to meet tomorrow's challenges.

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Budget Speech by the Financial Secretary (7)

Major Revenue and Expenditure Proposals

70. Having regard to the large surplus in 2007-08, we should make good use of it for the greatest well being of the community. I propose to allocate additional resources in the following four main areas:

- (a) Promoting long-term economic and social development as an investment for the next generation;
- (b) Supporting disadvantaged groups so as to improve their livelihood;
- (c) Leaving wealth with the people to share the fruits of economic development; and
- (d) Providing for future challenges.

71. The major revenue and expenditure proposals of this Budget are set out below.

Promoting Long-term Development

72. In the first area of promoting long-term economic and social development, I propose to implement measures for investing in infrastructure; more efficient use of land and resources; reinforcing pillar industries; tapping new markets; developing human capital; community building; and environmental improvement.

Investing in Infrastructure

73. In his Policy Address, the Chief Executive said we will promote economic development through infrastructure projects, which will create more jobs and stimulate wage increases. Over the next few years, we will vigorously implement various infrastructure projects, including the ten major projects announced by the Chief Executive. Since the planning of these projects takes time, expenditure on infrastructure is unlikely to increase substantially within a short time.

74. Over the past two years, there has been a significant increase in the number and value of approved infrastructure projects and public works

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contracts awarded. We believe that more employment opportunities will be created in the construction industry in the next few years as these projects reach their construction peaks. Discounting the upfront endowment of \$21.6 billion to the West Kowloon Cultural District Authority, the estimated expenditure on infrastructure projects will be \$21.8 billion for 2008-09. It is expected that about 27 000 new construction jobs will be created.

75. I have instructed Controlling Officers and heads of works departments to closely monitor the planning progress of these projects. The Development Bureau and the Transport and Housing Bureau will play a coordinating role to ensure that these projects will commence as soon as possible. The major transport infrastructure projects are progressing well. The MTR Corporation is working on the detailed design of the West Island Line, and has started the preliminary planning and design of the eastern section of the South Island Line. The review of the project proposals for the Sha Tin to Central Link and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link are near the final stage. It is expected that the study on a rail link between Hong Kong International Airport (HKIA) and Shenzhen Airport will be completed by the end of this year. The governments of Guangzhou, Hong Kong and Macao are pushing ahead with preparations for the Hong Kong-Zhuhai-Macao Bridge. We believe that the financial arrangements could be finalised shortly.

76. The Hong Kong-Shenzhen Joint Task Force on Boundary District Development has been established. The Task Force will give priority to two development projects at the new Liantang/Heung Yuen Wai control point and the Lok Ma Chau Loop. The Kai Tak Development, with its funding approval recently granted by this Council, has entered the construction stage. As for the projects on opening up new development areas in the Northwest New Territories, we will shortly submit a funding application to this Council to start a comprehensive assessment on the planning and construction of the projects as well as their impact on heritage sites.

Efficient Use of Land Resources

77. With the continued upturn in our economy, demand for residential and commercial properties has increased, exerting upward pressure on both property prices and rent. The transaction prices of land at auction reflect market demand. In view of this, we

will increase land supply.

Application List System

78. Some property developers have recently urged the Government to change the Application List System and resume scheduled land auctions to increase land supply. I do not agree.

79. The Application List System enables real estate developers to apply for suitable sites on the Application List for public auction. The number of sites to be put up for sale and the time for land sale are decided by the market. This prevents the Government from interfering unnecessarily with the operation of the market. The system is working well. We have no intention of changing it.

80. The Development Bureau will announce the Application List for 2008-09 shortly. The number of sites on the list will increase from last year's 47 to 62. These sites cover a total area of 60 hectares and allow for a variety of uses.

Flexible Use of Land Resources

81. We will adopt a more proactive and flexible approach in the use of land resources. For example, to better address the problems faced by the Tin Shui Wai community, it is necessary for us to create more job opportunities in the district. The Development Bureau is working with the bureaux and departments concerned to study how best to make use of two sites adjacent to the Wetland Park in Tin Shui Wai North, with a total area of about 14 hectares, to give fresh economic impetus to the district and provide the necessary facilities there. In addition, to respond more positively to the aspirations of local communities, the Lands Department will liaise with District Councils and study ways of putting vacant land not needed in the short term to better use, for example, beautifying it or converting it to other temporary public use.

Relocating Government Buildings outside Central Business Districts

82. Some government office buildings are located in central business districts. From the perspectives of economic development and use of land resources, we consider that it is not necessary for all government office buildings to be located in these areas. The Hong Kong 2030 Study completed earlier forecasts that

the current supply of sites for Grade A offices in central business districts will be able to meet the demand in the next few years. However, in order to keep our economy growing, the Government must identify more sites for such offices in central business districts.

83. In order to meet the demand in this respect, we will study the relocation of three government office buildings at the Wan Chai waterfront. Potential sites for relocation may be found in new districts such as the Kai Tak Development Area and Tseung Kwan O. This will free some land in the central business districts for developing Grade A offices and give fresh impetus to the new districts, increasing employment opportunities there.

Land Development Parameters

84. The Development Bureau is reviewing the outline zoning plans of several districts to provide citizens with a better living environment. To ensure that the land supplied by the Government to the market will achieve the same result and that clear market information is provided, we will state the relevant development parameters, for example, building height, permitted floor area, ventilation requirements, for each site on the Application List. We think it is worthwhile to adopt this measure although it may lead to a reduction in government revenue.

Renewal and Conservation of Old Urban Areas

85. Redevelopment of old urban areas can effectively improve the living conditions of local residents and release land for better use. However, with the public attaching greater importance in recent years to heritage conservation, community networks and building rehabilitation, the role of redevelopment in the renewal of old urban areas should be reviewed. In the next few months, the Development Bureau and the Urban Renewal Authority (URA) will conduct a review of the Urban Renewal Strategy. I hope that various sectors of the community and the general public will participate in the discussion to set a new direction for this important social issue. Pending revision of the strategy, the URA will push ahead with those redevelopment projects in progress and make effective use of part of the \$10 billion we originally injected into the URA to strengthen its work to revitalise old areas and conserve historic buildings.

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Budget Speech by the Financial Secretary (8)

Strengthening Pillar Industries

86. We have been strengthening Hong Kong's position as Asia's world city. We are promoting our role as an international financial centre and as a hub of business, logistics and tourism in the Asia-Pacific region. As a result of globalisation and the rapid economic growth in the region, Hong Kong's economy has been restructuring and upgrading. Over the past 10 years, growth in our total labour productivity averaged 2.7 per cent per year. The average growth rate in the past four years reached 4.8 per cent, showing that we have achieved notable results in this respect.

87. Hong Kong has become a sourcing, supply chain management, logistics and distribution centre in the region. The direct contribution of the trading and logistics sector to our economy increased from 21.9 per cent in 1997 to 27.4 per cent in 2006.

88. Moreover, trade in services has become increasingly important to our economy. In 2007, Hong Kong's export of services grew by more than 140 per cent in real terms compared with 10 years ago. The value of these exports now stands at \$645 billion. This demonstrates Hong Kong's strong competitive edge in the export of services including tourism, offshore trade, and financial, commercial and professional services. At the end of last year, overseas and Mainland companies had set up a total of 3 890 regional headquarters or offices in Hong Kong, an increase of 55 per cent over 10 years ago.

Tourism, Convention and Exhibition Industries

89. Tourism is a pillar industry of our economy. In 2007, there were over 28 million visitors to Hong Kong, an increase of 11.6 per cent over 2006. Visitor spending is estimated to have exceeded \$130 billion in 2007, an increase of 8.9 per cent year-on-year.

90. The development of a new cruise terminal at Kai Tak will help Hong Kong to develop into a leading regional cruise hub. Tenders were invited last November. We expect that the contract will be

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awarded in the second quarter of 2008. The first berth will come into operation in February 2012.

91. To continue to promote development of the tourism, convention and exhibition industries, I propose three measures.

Convention, Exhibition and Tourism Capital

92. First, in support of the objective given in the Policy Address to enhance the appeal of Hong Kong as an international convention, exhibition and tourism capital, we will seek to host more mega international conventions and exhibitions. We will step up our efforts in overseas promotion. We aim to attract more high quality convention and exhibition projects that will bring high value-added business travellers to Hong Kong. I have earmarked an additional \$150 million to carry out these activities in the next five years.

Hotel Accommodation Tax

93. Second, I propose to waive the Hotel Accommodation Tax. This proposal will help to further promote tourism and enhance the competitiveness of our hotel industry. It will also reduce the administrative cost of hotels and guesthouses. This proposal, which will come into effect after the enactment of the relevant amendment bill, will cost the Government \$470 million a year.

Hotel Sites

94. Third, to consolidate Hong Kong's status as an international convention, exhibition and tourism capital, we must have adequate hotel facilities. In order to allow more hotels to be built, we will include sites "restricted to hotel use" in the 2008-09 Application List, and provide 10 sites to build different types of hotels.

Business and Financial Industries

95. The financial sector has huge potential. It is the driving force for Hong Kong to move towards a knowledge-based and high value-added economy. The direct contribution of the financial sector to our economy in 2006 was more than 50 per cent higher than in 1997. The development of this industry has stimulated growth in many other industries, particularly professional services.

96. Our objective is to develop Hong Kong's strength as an international financial centre. With the rapid development and reform of the Mainland's financial services industry, there is ample room for co-operation between the financial sectors of Hong Kong and the Mainland.

97. TIME Magazine recently coined the term "Nylonkong" to highlight the extent to which New York, London and Hong Kong have become models of globalisation, while at the same time "lubricated the global economy". These three cities are situated in different time zones, but are closely linked by air flights and communication networks. This enables financial and business activities to be carried out on a 24-hour basis, forming a global commercial and financial network.

98. The Government will take measures to enhance the competitiveness of our commercial and financial sectors and to improve the regulatory regime. We will review the regulatory framework for the securities market to improve market quality and reduce compliance costs for the industry. For instance, we have launched a comprehensive rewrite of the Companies Ordinance with a view to developing a set of modernised company legislation. We will review the Trustee Ordinance in order to increase the competitiveness of our trust services industry.

99. The successful implementation of Basel II in Hong Kong last year enabled our banks to stay ahead in the quality of risk management. To tie in with the implementation of Qualified Domestic Institutional Investor (QDII) arrangements by the Mainland, the Government and the regulatory bodies concerned will continue to liaise with the Mainland, improve market infrastructure, promote financial intermediary activities, encourage financial innovation and launch new financial products.

100. The Chief Executive has visited the Middle East recently and we are working hard to develop an Islamic financial platform in Hong Kong so as to tap a market with an estimated value of US\$1,000 billion. Furthermore, in the past few months, we have led financial sector delegations to visit Vietnam and India. Last year, the Securities and Futures Commission and the Hong Kong Exchanges and Clearing Ltd. jointly issued a policy statement on the listing of overseas companies in Hong Kong so as to attract more overseas enterprises to list here. The Government will continue to monitor and promote

the development of the local financial markets in collaboration with the financial regulators.

Air Transport

101. As an international and regional aviation hub, Hong Kong has direct air links with more than 150 cities in the world, providing strong support for transnational businesses, the tourism industry, and the logistics industry. The HKIA is the world's fifth busiest airport in terms of international passenger throughput and the busiest in terms of international cargo throughput. Passenger and air cargo throughput reached new highs last year, with over 47 million travellers passing through the airport and 3.74 million tonnes of air cargo handled.

102. To enhance the competitiveness of the HKIA, the Airport Authority (AA) keeps upgrading the airport's infrastructure to increase its passenger and cargo handling capacities and strengthen transport links between the airport and the Pearl River Delta. These measures can help to further consolidate Hong Kong's position as an aviation hub.

Runway Capacity

103. As announced last May, the Government will increase the capacity of the two existing runways of the HKIA progressively from 54 movements per hour to 58 movements per hour in 2009. With the support of the AA and the industry, we are confident that capacity of the existing runways can be gradually increased to 68 aircraft movements per hour by 2015. In the long run, it is important that the HKIA can further increase runway capacity to handle forecast growth in air traffic. The AA is preparing to start, within this year, the engineering and environmental feasibility studies for a third runway.

Container Terminal 10

104. Turning to the port, the latest forecast shows that container throughput will continue to increase in the future after reaching a handling capacity of 24 million twenty-foot equivalent units (TEUs) of containers last year. The Government has been identifying suitable locations for the development of Container Terminal 10 to meet this demand.

105. Two sites have been identified initially. Extensive reclamation is required for the site at Northwest Lantau, which may affect the ecological

environment. Consequently, the Government will study the other site at Southwest Tsing Yi. Although this site will require the relocation of the existing oil depot, it can achieve synergy with the container terminals in Kwai Chung and Tsing Yi.

(To be continued)

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Press Releases

Budget Speech by the Financial Secretary (9)

Tapping New Markets

106. Apart from promoting pillar industries and developing traditional businesses, we must tap new opportunities and markets.

Creative Economy

107. In last year's Policy Address, the Chief Executive indicated the new direction of accelerating the development of our creative economy. Hong Kong enjoys a leading edge in many areas of the creative economy in the region. There are now more than 170 000 people working in creative industries, with total value-added exceeding \$53 billion a year. The potential of the creative economy is immense. To accelerate and expand its growth, however, we must expand the market abroad. It is therefore of paramount importance for us to promote the achievements and brand names of our creative industries both in the Mainland and overseas.

108. Last November, to help our creative industries expand access in the Mainland market, the Secretary for Commerce and Economic Development led a delegation to Shanghai and to participate in an international exhibition on creative industries. We will continue to work with the industry to carry out promotions abroad and in the Mainland. Such promotion work includes coordination of the industry's participation in the China International Cultural Industry Fair to be held in Shenzhen this May, and the organisation of roving exhibitions for the "9707 Project", an impressive local design project that marked the 10th anniversary of reunification of Hong Kong with China. The exhibitions will be staged in four major cities in Europe and the US to showcase the achievements and brand names of Hong Kong's design industry.

The World Exposition 2010 Shanghai China

109. The World Exposition 2010 Shanghai China (Expo 2010) is an excellent opportunity to promote Hong Kong's quality city life and its position as a creative capital. In collaboration with the local creative industries we will participate in this event.

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110. We are now holding a competition on the design concept of the Hong Kong Pavilion. We have invited local professionals in the architectural, planning and design sectors to enter the competition so as to attract the best design concepts. The winning entries will be adopted for detailed design of the Hong Kong Pavilion. We have earmarked \$69 million for designing and constructing the pavilion.

111. We are also applying to take part in the "Urban Best Practice Area" at Expo 2010. About 30 cities with best practice cases will be selected for this area. We will take this opportunity to showcase our achievements in urban living, which will also help to promote Hong Kong's brand names and tap new markets.

Wine Trading and Distribution Businesses

112. I now turn to wine trading and distribution businesses. According to industry estimates, total spending on table wine in the Asian economies excluding Japan is around \$55 billion, which accounts for about seven per cent of the global market. The industry forecasts that there will be a considerable growth in table wine spending in this region and that the economies with the largest growth will include the Mainland, Hong Kong, Singapore, South Korea and Taiwan.

113. Hong Kong's advantageous geographical location, advanced transport and logistics infrastructure and rich experience in international promotion are favourable to the development of trading, storage and distribution of quality table wine.

114. Currently, London is the trading and distribution centre of quality table wine for the world. The industry indicates that many of the businesses there are owned by Hong Kong companies. It is expected that by developing the various businesses in Hong Kong relating to quality table wine, our total business volume in trading, storage and auction of table wine may increase by as much as \$4 billion. We believe that, in the long run, this will create more favourable conditions for the development of such economic activities as catering services, tourism, brand promotion and exhibitions, table wine appreciation and related educational activities that can achieve synergy with table wine trading and create new jobs.

115. After taking into account the development

potential and the job opportunities that can be created, I believe that we should support the further development of these businesses in Hong Kong. The industry has indicated that the current duty on alcoholic beverages and the related administrative controls are the major obstacles to the development of the businesses. I propose to exempt the duties on wine, beer and all other alcoholic beverages except spirits with immediate effect, and remove the related administrative controls upon amendment of the relevant legislation, so as to facilitate the import, export and storage of these alcoholic beverages. The proposal will cost the Government about \$560 million a year.

Developing Human Capital

116. The Government has been investing heavily to develop human capital, the most important resource in a knowledge-based economy. Expenditure on education exceeds \$50 billion a year, accounting for about one quarter of total government recurrent expenditure. Education is the policy area that takes up the largest share of government resources. As the resources we put into education are long-term investments that enhance the quality and productivity of our population, we will maintain our commitment in this area.

12-Year Free Education and Small-Class Teaching

117. As announced in last year's Policy Address, we will offer free senior secondary education from the 2008-09 school year. Under the new senior secondary education structure, free education will be extended from nine to 12 years, and the additional expenditure on education for each school year will amount to \$1.2 billion. The Policy Address has also announced that small-class teaching will be implemented in primary schools in phases from the 2009-10 school year. We will provide adequate resources in future Budgets to support this policy.

Research and Development

118. Diversified research and development (R&D) activities are essential to sustain economic growth and enhance competitiveness. Research stimulates new ideas, and research-based innovation can promote high value-added economic activities. The basic and applied research conducted by tertiary institutions helps other research institutes and the business community to master and apply new knowledge. This is

crucial to the sustained growth of our knowledge-based economy.

119. Therefore, our investment in this area is of great importance to Hong Kong. In this connection, I propose two measures.

Places for Postgraduate Research Programmes

(a) First, I propose to provide 800 additional publicly funded places for postgraduate research programmes in phases from the 2009-10 school year. This will incur additional expenditure of nearly \$300 million a year;

Research Endowment Fund

(b) Second, I intend to provide a one-off grant of \$18 billion to establish a Research Endowment Fund. The Fund and its investment earnings will replace the existing annual funding granted by the Government to the Research Grant Council of the University Grants Committee. Moreover, part of the funds will be used to finance appropriate research projects on specific themes. I believe that the Fund will not only affirm the Government's continued support to R&D activities, but also provide steady, additional resources through its investment earnings for the institutions to conduct such activities.

(To be continued)

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Issued at HKT 12:04

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Press Releases

Budget Speech by the Financial Secretary (10)

Community Building

Arts, Culture and Sports

120. As a cosmopolitan city, apart from increasing investment in education, Hong Kong must strive to enhance the quality of culture, arts and sports in the community. The Policy Address has announced that the Yau Ma Tei Theatre will be converted into a Cantonese opera centre to promote and preserve this local art. We have earmarked about \$120 million for this project. The Home Affairs Bureau will also seek Legislative Council approval for a \$21.6 billion upfront endowment for the West Kowloon Cultural District development. We will take forward these major cultural and arts infrastructure projects.

121. The Beijing Olympic Games to be held this year will draw the world's attention to China. To highlight our commitment in supporting, promoting and participating in the Olympic Games, the Legislative Council has approved funding of \$150 million to organise Olympic-related cultural, sports, community, celebration and promotional activities. The Policy Address has also announced that the recreational facilities managed by the Leisure and Cultural Services Department will be open for public use free of charge from July to September this year. We estimate that receipts from these facilities will decrease by about \$100 million.

Knowing the Basic Law

122. As the constitutional document of the Hong Kong Special Administrative Region, the Basic Law has laid a solid foundation for our stability and prosperity. In order to raise public awareness of the Basic Law and the "One Country, Two Systems" concept, we will devote more resources to further promote the Basic Law throughout the community. We have earmarked more than \$20 million for this purpose.

Enhancing Community Participation

123. With the District Councils playing a bigger role in district administration, we will increase funding for the 18 District Councils to \$600 million a year

to carry out various community involvement activities and district minor works. We will also provide additional manpower resources for District Offices to support more effective community participation in district administration.

Environmental Improvement

124. A good environment is vital for a quality life. This can protect the public's health and is conducive to attracting talents from around the world, thereby enhancing the overall competitiveness of Hong Kong. In recent years, the Government has implemented a number of environmental protection measures. Members of the public, by participation in these efforts, have been leading a greener lifestyle. The Government is ready to explore measures to improve our environment. I will provide the resources required for implementing effective measures.

Cleaner Diesel

125. From December 1, 2007, we have offered a concessionary duty rate of \$0.56 per litre for Euro V diesel for two years. The rate is 50 per cent lower than that for ultra low sulphur diesel. This concession will cost the Government about \$1.56 billion a year if calculated according to the normal duty rate of diesel. I believe that this concession is well worthwhile to help improve Hong Kong's air quality.

Environment-friendly Commercial Vehicles

126. Last April we offered a reduction in the First Registration Tax for environment-friendly private cars to encourage people to choose these type of cars. I propose to introduce a similar concession for environment-friendly commercial vehicles to further reduce air pollution. Depending on the types of vehicles, a reduction of 30, 50 or 100 per cent in the First Registration Tax will be offered to buyers of commercial vehicles meeting the Euro V emissions standards. Details of the proposal will be announced by the Environmental Protection Department later. If 15 per cent of the commercial vehicles applying for first registration are converted to Euro V vehicles, it is estimated that the proposal will cost the Government \$26 million a year.

Environment-friendly Facilities

127. I propose to provide a 100 per cent profits tax

deduction for capital expenditure on environment-friendly machinery and equipment in the first year of purchase to encourage the business community to use such equipment. For environment-friendly installations mainly ancillary to buildings, I propose that the depreciation period be shortened from the usual 25 years to five years. The Inland Revenue Department and the Environmental Protection Department will announce the list of environment-friendly facilities that would qualify for the deduction.

(To be continued)

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Press Releases

Budget Speech by the Financial Secretary (11)

Supporting Disadvantaged Groups

128. I now turn to my second area, that is, providing support for disadvantaged groups. The Policy Address states that the Government should strengthen the family by formulating social policy and providing welfare services. I will propose suitable measures in this Budget to help build a harmonious, family-based society.

129. We will support the further development of social enterprises through Budget initiatives and relevant financial policies, creating more job opportunities and promoting a caring culture in the community. For instance, we have launched a pilot scheme whereby qualified social enterprises are given priority to bid for 38 Government cleansing contracts. The Home Affairs Department is now formulating a social enterprise partnership scheme to support operators of social enterprises, enhance the competitiveness of such enterprises, and promote the partnership between non-government organisations, the business community and government departments.

Ceiling for Tax Deductible Donations

130. Charitable institutions give unstinting support to disadvantaged groups. To encourage more generous charitable donations from the business community and the public, I propose to raise the ceiling for tax deductible donations under profits tax, salaries tax and tax under personal assessment from the present 25 per cent to 35 per cent of assessable profits or income. This proposal will cost the Government about \$80 million a year.

Family and Children

Day Foster Care and Child Care Services

131. Some parents are temporarily unable to take care of their children because they have to work away from home or for other reasons. I understand their circumstances, and therefore propose to provide funding of \$45 million over the next three years to strengthen day foster care services and to promote various types of child care services that offer

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greater flexibility to meet the needs of these parents.

Supporting Victims of Domestic Violence

132. To strengthen direct support to victims of domestic violence and families in need, I propose providing additional annual funding of about \$40 million to increase the places of refuge centres for women, strengthen the Social Welfare Department's hotline services, sustain efforts in publicity campaigns and public education, and enhance the training of relevant front-line professionals.

Youth

Job Creation

133. Young people are the driving force for the future development of the community. I hope that unemployed youths can obtain work experience and enhance their job-related skills to provide a solid foundation for future development. The Policy Address announced that 3 000 three-year jobs will be provided for those aged between 15 and 29. I propose to make a provision of about \$1 billion over the next three years to create these jobs in collaboration with non-government organisations.

Tackling Drug Abuse

134. I am deeply concerned about the problem of psychotropic drug abuse by young people. The high level inter-departmental task force led by the Secretary of Justice has conducted in-depth studies of the problem over the past few months and devised a series of initial measures that can be implemented in the short to medium term. I will allocate additional resources of \$53 million in 2008-09 to tackle this problem.

District Cyber Centres

135. To enable young people from poor families and other needy members of the community to access and use information technology and online services, with a view to narrowing the digital divide and helping them integrate into the information society, the Office of the Government Chief Information Officer will launch a pilot scheme to establish cyber centres in selected districts. The business community will be invited to participate in the scheme by providing technical as well as software and hardware support.

The Government will work in partnership with community organisations in managing the centres.

Persons with Disabilities

Training and Residential Services

136. As regards support to persons with disabilities, I propose additional funding of about \$100 million a year to offer 300 more pre-school training places, 450 more day training places and 490 more subvented residential places. I also propose an additional provision of about \$35 million a year to establish, following a district-based approach, 16 community support centres to strengthen one-stop services and support for persons with disabilities as well as their family members and caretakers.

Transport Support

137. To improve the Rehabus service, the Government will allocate about \$20 million to acquire eight new Rehabuses and replace 24 old ones.

138. To further encourage disabled people to participate in activities away from home, I propose providing an additional supplement of \$200 a month to Disability Allowance recipients aged between 12 and 64, and CSSA recipients in the same age group with 100 per cent disability. It is estimated that this proposal, which involves expenditure of \$230 million a year, will benefit 96 000 persons with disabilities.

(To be continued)

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Press Releases

Budget Speech by the Financial Secretary (12)

Patients with Financial Difficulties

139. With the rapid advance in medical technology in recent years, the efficacy of treatment of serious illnesses such as cancer has notably improved. But the new medicines used are often very expensive. I propose to inject \$1 billion into the Samaritan Fund to enable more new medicines to be included on the subsidy list of the Fund according to the established mechanism so as to relieve the burden on patients with financial difficulties.

Ethnic Minorities

140. Though a predominantly Chinese society, Hong Kong has quite a number of ethnic minorities who are valued members of our community. Many have attained outstanding achievements in their professions and have made significant contributions to Hong Kong's economic growth and social development.

141. Some members of ethnic minorities, however, are disadvantaged because of their education level, language barriers, lack of social networks, and other causes. In view of this, I propose:

(a) Granting a recurrent annual allowance of \$300,000, starting from the 2008-09 school year, to 19 designated primary and secondary schools to help them implement the School-based Support Scheme for non-Chinese speaking students, and to suitably increase the allowance granted to such "designated schools" with a higher intake of non-Chinese speaking students. We will also seek to increase the number of these schools to 25 within two school years. It is estimated that full implementation of these proposals will entail an additional provision of \$13 million a year.

(b) Setting up, on a trial basis, four support service centres in different districts to provide interpretation services for ethnic minorities using health care services, job centres and social welfare facilities. Chinese and English language courses and other activities will also be organised to help them integrate into the community. I will earmark \$16

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million as the operating expenses of these centres for the coming year and allocate an additional \$8 million to subsidise their start-up cost.

Social Security Recipients

Additional Allowance

142. To share the fruits of economic prosperity with social security recipients, I propose to provide one additional month of the standard rate CSSA payments for CSSA recipients and one additional month of allowance for recipients of Disability Allowance. This proposal, which involves an expenditure of about \$1.2 billion, will benefit 620 000 people.

Adjustment to CSSA Payment Rates

143. I am very concerned about the impact of recent price rises on CSSA households. Apart from the additional one-month standard rate CSSA payments, we also propose to adjust the CSSA payment rates in accordance with the existing mechanism ahead of the normal schedule this year, so as to ease the impact of rising prices on these households. This measure will increase government expenditure on CSSA payments when inflation rises.

Public Housing Tenants

144. In order to ease the burden of low income families, I propose that the Government will pay one month's rent for lower income families living in the rental units of the Hong Kong Housing Authority (HA) and the Hong Kong Housing Society (HS). However, this measure will not apply to HA tenants who are required to pay extra rent or tenants of HS Group B estates. I have earmarked about \$1 billion for this measure. We will discuss implementation details with the HA and HS.

Low-income Group

Pilot Transport Support Scheme

145. The pilot Transport Support Scheme introduced last June aimed at encouraging the unemployed and low-income employees with financial difficulties living in Tuen Mun, Yuen Long, the North District and outlying islands to seek employment across districts. Under the Scheme, eligible applicants are allowed to claim a Job Search Allowance of \$600 and a Cross-district Transport Allowance of \$600 a month

for up to six months.

146. After reviewing the Scheme, the Government considers that its objective should remain unchanged. However, the eligibility criteria of applicants and the subsidy period can be suitably relaxed. The ceiling for monthly income should be raised from \$5,600 to \$6,500, while the subsidy period should be extended from six months to 12 months. Having regard to the large area covered by these four districts, we will also allow eligible people working and living in the same district to apply for the allowance.

147. However, I must emphasise that the objective of the Scheme is to provide a time-limited allowance as an incentive for people in districts further afield to seek jobs across districts. It is not a long-term measure to subsidise the transport costs of the low-income group with public money. I believe that a better way to help lower-skilled people to seek jobs with higher value and wages is to raise their education level and enhance their skills. Through this, the productivity of the community as a whole can also be enhanced.

Electricity Charge Subsidy

148. To ease inflationary pressure, I propose to grant each residential electricity account a subsidy of \$1,800. At present, about 15 per cent of households in Hong Kong pay an average of not more than \$150 a month for electricity charges. The subsidy will enable these households to cover their electricity charges for about one year. As for another 20 per cent of households paying an average of \$150 to \$300 a month for electricity charges, the subsidy is enough to pay their electricity bills for about six months. I believe this measure will most benefit lower income households. The Government will inject the subsidy into the electricity bill accounts of eligible registered households in phases. We will discuss with the two electricity companies the implementation arrangements and announce the details later. This measure will cost about \$4.3 billion.

(To be continued)

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Press Releases

Budget Speech by the Financial Secretary (13)

The Elderly

149. The Government has always cared greatly about the well being of the elderly. The Government will continue to work closely with the Elderly Commission to help enhance the abilities of the elderly and to maintain their vitality so that they can continue to contribute to the community and the economy.

Elder Academies

150. Following this direction, the Government and the Elderly Commission have established 32 school-based Elder Academies in all the 18 districts of Hong Kong. This scheme has started to deliver results, and it is expected that the Elder Academies can provide over 5 000 places for the elderly in 2008. We will continue to promote this scheme. Apart from sustaining this development at primary and secondary school levels, we will extend the scheme to tertiary institutions so that the elderly will have the opportunity to take suitable courses at universities to continue their learning.

Care Services

151. In respect of elderly care services, I propose to increase funding by \$60 million a year to provide an additional 160 day care places, 278 more subsidised residential care places and 180 more infirmary places in residential care homes for the elderly. I also propose to provide additional funding of \$18 million a year for District Elderly Community Centres to recruit more staff to strengthen their counselling and referral services and their processing of applications for subsidised long-term care services for the elderly.

Home Environment

152. The Policy Address stated that the Government will help elderly people without family support to improve their homes in the next five years. I have earmarked \$200 million to implement this measure. The main targets of this measure are the elderly people, especially those living alone, who are living in dilapidated homes with poor fittings.

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153. Following assessment, the elderly in need will be provided with minor home maintenance and improvement services as well as the necessary fittings according to their home environment. The amount of subsidy for each household will be subject to a ceiling of \$5,000. It is expected that about 40 000 elderly households will benefit from this measure.

Maintenance of Self-occupied Properties

154. We note that some needy elderly people have not properly maintained their self-occupied properties because of financial difficulties. The plight of some may even make it impossible for other owners and owners' corporations to comply with maintenance orders issued by the Buildings Department, thus endangering the safety of public areas and the external walls of the buildings.

155. In view of this, I propose to earmark \$1 billion as a subsidy for the elderly in need to carry out maintenance or safety improvement works for their self-occupied properties in the next five years, subject to a ceiling of \$40,000 per eligible elderly person. This proposal will benefit 30 000 elderly people.

156. For those elderly people who are unable to pay off property maintenance loans previously obtained through the Buildings Department, the URA or the HS, they can also apply for the subsidy to repay the debts. We will ask the HS to implement this scheme.

Old Age Allowance Scheme

157. In the past few months, I have heard people discussing cases of the elderly relying on the Old Age Allowance for their living and calls for the Government to increase the allowance. I am very concerned about such cases because the existing safety net provided by CSSA should be able to give them adequate assistance. According to some media reports, the elderly people concerned are not eligible for CSSA because they own self-occupied properties. As a matter of fact, under the existing system, owning a self-occupied property does not affect the eligibility of elderly people for CSSA. The elderly in need can contact the Social Welfare Department early to have their eligibility assessed.

158. With an ageing population, the number of elderly people is expected to increase from the current 870

000 to about 2.17 million by 2033, or two and a half times the present population. The expenditure on the Old Age Allowance will increase accordingly, in today's money, from \$3.9 billion in 2008 to \$9.7 billion in 2033, posing a considerable burden to public finances in the long run. If the Old Age Allowance were increased to \$1,000 for each eligible person, by 2033 expenditure would surge to \$14 billion. In the long run, this measure would be unsustainable, and the expenditure involved would become a heavy burden on the community.

159. I agree that the Government should provide more assistance to the elderly in need. We must explore a feasible long-term option for the Old Age Allowance. While the option should provide adequate assistance to the elderly in need to ensure the proper use of public money, it should also be a sustainable and affordable one for the community. We hope that such an option can gain the general support of the public.

160. The issue we need to resolve is how additional assistance could be provided to the elderly in need but without further increasing the burden of the Old Age Allowance Scheme on public finances in the long run. Subject to this overriding principle, the Government is willing to consider any option, such as identifying the elderly in need through means tests and re-deploying resources to render them more appropriate assistance.

161. The Labour and Welfare Bureau will conduct in-depth studies on how to improve the Old Age Allowance Scheme and seek views from various sectors of the community. We hope that a decision can be made by the end of this year. I will make available resources as necessary.

162. To enable Old Age Allowance recipients to share the fruits of our economic growth, I propose to provide each with a one-off grant of \$3,000. Expenditure for implementing this measure will be \$1.5 billion.

Tin Shui Wai Community

163. The challenges facing the Tin Shui Wai community have become a matter of public concern. With the concerted efforts of various government departments, we have already taken a number of actions. We will introduce further measures to help the residents in need, including:

- (a) Setting up an integrated community centre for mental wellness;
- (b) Providing land for long-term commercial or hotel development;
- (c) Launching a two-year pilot scheme whereby chronically ill persons can be provided with private clinic services for the same fee as that charged by clinics under the Hospital Authority; and
- (d) Constructing a general out-patient clinic in Tin Shui Wai North, and considering building a hospital in the district.

(To be continued)

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Press Releases

Budget Speech by the Financial Secretary (14)

Leaving Wealth with the People

164. I will now move to my third area of action, leaving wealth with the people. If revenue exceeds the level needed to meet operating requirements, then, after investing for the long-term development of Hong Kong and supporting disadvantaged groups, the Government should consider reducing the tax burden on the public.

Salaries Tax and Tax under Personal Assessment

Tax Rates

165. On salaries tax and tax under personal assessment, in his Policy Address the Chief Executive announced the lowering of the standard rate of salaries tax in 2008-09 by one percentage point to 15 per cent. This takes us back to the level in 2002-03. This standard rate is also applicable to tax under personal assessment, profits tax of unincorporated businesses, and property tax. This proposal will cost the Government \$960 million a year.

Tax Reduction

166. I now propose a one-off tax reduction of 75 per cent of salaries tax and tax under personal assessment for 2007-08, subject to a ceiling of \$25,000. The reduction will be reflected in the taxpayer's final tax payable for 2007-08. This proposal will cost the Government \$12.4 billion in 2008-09 and benefit 1.4 million taxpayers. After the reduction, about a million taxpayers will pay no more than \$5,000 in tax.

Tax Allowances

167. In addition to the one-off tax reduction, I propose to raise the basic allowance and the single parent allowance from \$100,000 to \$108,000. I also propose to increase the married person's allowance from \$200,000 to \$216,000. These proposals will cost the Government \$1.31 billion annually.

168. Upon implementation of the proposals, all the major allowances and tax rates will have reverted to

their 2002-03 levels. The child allowance, allowance for dependent parent/grandparent aged 55 to 59 and the deduction ceilings for self-education expenses and charitable donations will all be higher than their 2002-03 levels.

Tax Bands

169. I also propose to widen tax bands from \$35,000 to \$40,000. Upon implementation of the proposal, tax bands will be wider than in 2002-03. The proposal will cost the Government \$1 billion annually.

Profits Tax

Tax Rate

170. As regards profits tax, the Chief Executive announced in his Policy Address the lowering of the corporate profits tax rate to 16.5 per cent in 2008-09, a decrease of one percentage point. This proposal will cost the Government \$4.4 billion a year.

Tax Reduction

171. Additionally, in order to support small and medium enterprises, I propose a one-off tax reduction of 75 per cent of profits tax for 2007-08, subject to a ceiling of \$25,000. The reduction will be reflected in the taxpayer's final tax payable for 2007-08. The proposal will benefit all 100 000 companies liable to profits tax and cost the Government \$1.73 billion.

Business Registration Fee

172. I further propose to waive the business registration fee for 2008-09 to benefit all companies. This proposal will cost the Government \$1.6 billion in the year.

Property Tax

173. I propose a one-off tax reduction of 75 per cent of property tax for 2007-08, subject to a ceiling of \$25,000. The reduction will be reflected in the taxpayer's final tax payable for 2007-08. The proposal will benefit 100 000 taxpayers and cover 115 000 properties. It will cost the Government \$680 million.

Rates

174. As for rates, I propose to waive rates for 2008-09, subject to a ceiling of \$5,000 per quarter for each rateable tenement. It is estimated that 99 per cent of domestic properties and 85 per cent of non-domestic properties will be subject to no rates in the year. This proposal will cost the Government \$11.2 billion.

(To be continued)

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Press Releases

Budget Speech by the Financial Secretary (15)

Providing for the Future

175. The final area is to make preparations to meet future challenges to public finances. I mentioned earlier the pressure that economic fluctuations and an ageing population will bring to bear on public finances. Therefore, if our financial position permits, we should take measures now that will ease the pressure on public finances in the long run.

Retirement Protection

176. The Government introduced the Mandatory Provident Fund (MPF) Scheme in December 2000, with the aim of assisting our working population to save part of their income for investment to help safeguard life in retirement. Upon implementation of the MPF Scheme, Hong Kong has in place the "Three Pillars" for retirement protection advocated by the World Bank, the others being the "social safety net" long established by the Government and personal savings and insurance.

177. However, I understand that some people faced with the need to make ends meet may not have any extra money to save up for their retirement life after making statutory MPF contributions. To demonstrate the Government's commitment to enhancing retirement protection and relieving the pressure on social welfare expenditure in the long run, for employees and self-employed persons who currently have MPF accounts and who each earns not more than \$10,000 a month, I propose to make a one-off injection of \$6,000 into their MPF accounts.

178. At present, members of some occupational retirement schemes do not have MPF accounts. If their occupational retirement scheme is a defined contribution scheme, their accounts under such a scheme will also be entitled to the proposed fund injection. The Financial Services and the Treasury Bureau will announce the details.

179. I have earmarked \$8.5 billion to implement this measure. It requires amendment to the existing Mandatory Provident Fund Schemes Ordinance. I expect that the funds will be injected into the MPF accounts

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in 2008-09 upon completion of the relevant procedures.

Health Care Financing

180. Health care is the area that presents the greatest challenge to the stability of long-term public finances in this city because of an ageing population. The Secretary for Food and Health will conduct a public consultation on health care reform, in which various service reform proposals and different supplementary financing options will be put forward for public discussion. The Government is committed to increasing the share of health care expenditure to 17 per cent of its recurrent expenditure by 2012. Since the Government cannot increase public health care expenditure indefinitely, we hope that supplementary financing arrangements can be implemented that ensure the availability of adequate resources in our health care system to cope with the community's demands in the future, and enable us to uphold the established policy of public health care that no one with financial difficulties will be denied proper health care.

181. I hope the community will understand the urgency of health care reform and reach a consensus through pragmatic discussions. Inevitably, better-off people will have to pay more for their health and medical services. However, the Government promises to share the burden under the supplementary financing arrangements. Furthermore, we will provide support to the health care service and market reform to enable those people who shoulder more burden to enjoy more choices and better services.

182. After the implementation of supplementary financing arrangements after consultation, no matter what the final arrangements are, I pledge to draw \$50 billion from the fiscal reserves to assist the implementation of health care reform so as to help meet this major challenge to future public finances. For example, if the selected arrangement allows citizens to join a contribution scheme, I will inject this money as start-up capital for every citizen who joins the scheme. This will demonstrate the Government's determination to share the healthcare financing burden with citizens.

183. This concludes my major expenditure and revenue proposals.

(To be continued)

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Press Releases

Budget Speech by the Financial Secretary (16)

2008-09 Estimates and Medium Range Forecast

184. I will now give an account of the 2008-09 estimates and the medium range forecast.

2008-09 Estimates

185. Based on the revenue, expenditure and other proposals set out in the Budget, I forecast a deficit of \$6.3 billion in the Operating Account and a deficit of \$7.5 billion in the Consolidated Account for 2008-09. Public expenditure as a proportion of GDP will increase from 15.9 per cent in 2007-08 to 19.2 per cent in 2008-09. By March 31, 2009, our fiscal reserves will fall slightly to \$477.4 billion.

186. The measures for promoting long-term development, supporting the disadvantaged, leaving wealth with the people and providing for the future proposed in this Budget will reduce government revenue by \$33.5 billion and increase operating expenditure by \$41.5 billion in 2008-09. The latter figure does not cover the \$50 billion reserved for supporting health care financing arrangements.

187. As the measures proposed in this Budget are mostly one-off or time-limited, they will not have significant implications for future public finances. They will not lead to structural fiscal deficits and are therefore in line with the principle of sustainability.

188. The civil service establishment has been reduced from around 198 000 in early 2000 to around 160 000 in 2006-07 through two rounds of Voluntary Retirement Schemes and deletion of posts. Since the lifting of the moratorium on civil service recruitment on April 1, 2007, the establishment has increased slightly to about 162 830 in 2007-08. In order to implement various policy initiatives and provide better public services, we estimate that about 1 680 posts will be created in 2008-09, bringing the civil service establishment to about 164 500 by the end of March 2009.

189. From a macro-economic perspective, it is expected that the surplus of \$63.7 billion recorded

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in government operating account for 2007-08 will turn into a deficit of \$6.3 billion in 2008-09, creating a fiscal stimulus of about \$70 billion. This will give some impetus to the overall economy although the effect will not be significant in 2008.

190. Of this \$70 billion, about 40 per cent is the one-off provision for establishing a Research Endowment Fund and the one-off injection into MPF accounts. The impact of these measures will be felt in the medium to long term and will not have any short term economic impact.

191. The other measures will benefit our citizens at different times of the year. The effects of some may only appear at the beginning of 2009. Moreover, many people will put aside as savings part of the money they will now keep through the concessions. Therefore, these measures will not generate a lot of domestic demand in a short period of time. The stimulating effect on inflation should be limited.

192. The external economic and financial environment will be full of challenges in 2008. Hong Kong faces the risk of a slowdown in economic growth. The implementation of the measures proposed in this Budget should produce a moderately buoyant effect on our economy. Furthermore, some of the concessionary measures will benefit our citizens directly and ease the impact of inflation.

Medium Range Forecast

193. On the medium range forecast, after a deficit in the Operating Account for 2008-09, we expect a return to a surplus from 2009-10 onwards. The operating surplus will increase to \$67.3 billion in 2012-13. For the Consolidated Account, we forecast a deficit in 2008-09, followed by surpluses in the following years. The surplus will increase to \$75 billion in 2012-13. We forecast that the fiscal reserves will range between \$480 billion and \$720 billion over the next five years. We also estimate that operating expenditure will increase moderately, at a rate commensurate with economic growth over the next few years.

	2008-09	2009-10	2010-11	2011-12	2012-13
	(\$ billion)	(\$ billion)	(\$ billion)	(\$ billion)	(\$ billion)
Operating	249.4	293.0	309.2	329.0	353.8

revenue

Operating expenditure	255.7	237.3	251.5	267.8	286.5
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Operating surplus/ (deficit)	(6.3)	55.7	57.7	61.2	67.3
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Capital revenue	58.5	60.4	59.9	63.4	67.5
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Capital spending (including payments from the Capital Investment Fund)	57.0	63.4	62.7	57.8	59.8
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Repayment of government bonds and notes	2.7	3.5	-	-	-
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Capital financing surplus/ (deficit)	(1.2)	(6.5)	(2.8)	5.6	7.7
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Consolidated surplus/ (deficit)	(7.5)	49.2	54.9	66.8	75.0
- as a percentage of GDP	0.4%	2.7%	2.8%	3.2%	3.3%

Fiscal reserves	477.4	526.6	581.5	648.3	723.3
- as a number of months of government expenditure	18	21	22	24	25
- as a percentage of GDP	27.7%	28.5%	29.4%	30.7%	32.0%

Public expenditure	332.1	320.7	335.3	347.5	369.0
- as a percentage of GDP	19.2%	17.4%	17.0%	16.4%	16.3%

194. In 2008-09, we will take appropriate, targeted measures to help economic and social development. We will increase expenditure on social services and welfare and return part of our resources to the people on a one-off basis. We will also inject funds into the MPF accounts of low income earners. These measures will lead to a decrease in revenue and an increase in expenditure in 2008-09. I have also earmarked \$50 billion to prepare for the future health care financing arrangements. This reflects the Government's commitment to the people and our principle of investing in the community.

Concluding Remarks

Ready to Face, Dare to Hope

195. Madam President, Hong Kong has transformed from a small fishing port into a world-renowned international financial centre. The success of this transformation is the result of the perseverance of several generations of people who worked hard and strived for better lives. It is this eternal hope in their hearts that kept them going from generation to generation. Whether they are farmers from Guangdong, businessmen from Shanghai, returning overseas Chinese or expatriates settling in Hong Kong, they came here with a determination to build a better life and develop their careers. They all believed that Hong Kong was a place full of hope and opportunities. They all believed that Hong Kong was a place where they could unleash their potential and fulfil their aspirations.

196. Life could be tough for those who came to a new environment. But they all faced the challenges readily, worked hard, lived within their means and carried hope in their hearts. They were convinced that, by making the most of opportunities to learn and to work, they would eventually succeed in their chosen paths. The Government's policies reinforced their convictions that by working hard and investing heavily in the education of their children, they and their families could move up the social ladder and have a bright future. Such convictions gradually become a characteristic of Hong Kong people that can be represented in the slogan "Ready to Face, Dare to Hope".

197. Hong Kong is now much more prosperous than it was a few decades ago and compared to some neighbouring regions. However, I understand that

some poor people in our society still face many pressures and need to work hard to make ends meet. I also understand that Hong Kong as a whole has to face many challenges brought about by rapid changes in the global environment. I am sure that our society can face those challenges with the same measure of resolve and determination as in the past. The Government will endeavour to help relieve the difficulties we may all encounter.

198. This Budget is prepared against this background. I hope that this Budget will lessen people's burden and help them handle their various challenges. I also hope that through investing heavily in areas such as education, public health care and infrastructure, and vigorously promoting economic development, this Budget will help promote upward social mobility so that people will continue to carry hope in their hearts for a better future.

199. I pledge that I will adhere to my three principles - commitment to society, sustainability and pragmatism - in management of public finances. These will ensure a stable foundation of public service on which each citizen of Hong Kong can build. Each in our own way and each in our own field, but together with each other, we can build our bright future.

200. We must be ready to face the realities and challenges of today. We must dare to hope for desires and successes in our future. Hong Kong should have such courage and aspirations, and so should every Hong Kong citizen. Together with each other, let us be "Ready to Face" the present, and let us "Dare to Hope" for our future.

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