

2017-18 Budget

Briefing for Legislative Council

23 February 2017

Key Aspects of 2017-18 Budget

- 1. Public Finance: Objectives and Approach**
- 2. Investing, Sharing and Caring**
- 3. Consolidating Pillar Industries**
- 4. Diversified Development**
- 5. Capacity Building**

Public Finance: Objectives and Approach

- **Developing the Economy and Improving Livelihood**
 - Strengthening pillar industries; helping advantageous and emerging industries
 - identifying growth opportunities to facilitate diversified development
- **Investing for the Future and Enhancing Liveability**
 - Investing continuously to create capacity for development and environment
 - Developing Hong Kong into a smart city; protecting and enhancing our environment
- **Upholding Social Justice and Sharing Fruits of Success**
 - Making good use of financial resources to build a fair and just society

Public Finance: Objectives and Approach

- **A Sound and Progressive Fiscal Policy**
 - Optimal allocation of resources taking into account source and nature of surplus, economic situation, future needs of society and community expectations
 - Strict fiscal discipline calls for adherence to “value for money”, “user pays” and “cost recovery” principles and ensuring healthy public finances to withstand economic fluctuations
 - A tax policy unit would be set up to explore tax measures to enhance Hong Kong’s competitiveness and to support the sustainable development of our society

Investing, Sharing and Caring

- **Sharing the fruits of economic development**
- **Stabilising the economy and supporting the employment market**
- **Investing for the future by optimising use of government resources**

Investing, Sharing and Caring

● One-off Measures

- Reducing salaries tax and tax under personal assessment for 2016-17
- Reducing profits tax for 2016-17
- Waiving rates for four quarters of 2017-18
- Providing an extra allowance to recipients equal to one month of Comprehensive Social Security Assistance, Old Age Allowance, Old Age Living Allowance or Disability Allowance, Low-income Working Family Allowance and Work Incentive Transport Subsidy

Investing, Sharing and Caring

- **Recurrent Tax Measures**
 - Widening marginal bands for salaries tax
 - Raising disabled dependent allowance
 - Raising dependent brother / sister allowance
 - Extending entitlement period for tax reduction for home loan interest
 - Raising deduction ceiling for self-education expenses

Investing, Sharing and Caring

- **Supporting SMEs**
 - Extending the application period for “the Dedicated Fund on Branding, Upgrading and Domestic Sales”
 - Extending application period for the special concessionary measures under “the SME Financing Guarantee Scheme”
 - Strengthening the underwriting capacity of the Hong Kong Export Credit Insurance Corporation

Investing, Sharing and Caring

- Earmarking **\$30 billion** to strengthen elderly services and rehabilitation services for persons with disabilities
- Earmarking **\$20 billion** to provide community and sports facilities
- Reserving **\$10 billion** for supporting Innovation and Technology development
- Deploying **\$1 billion** for youth development

Investing, Sharing and Caring

- **Support for Building Rehabilitation**
 - Earmarking \$300 million to support owners to participate in “Smart Tender” Building Rehabilitation Facilitating Services Scheme
- **Encourage use of private healthcare services**
 - Providing tax deduction for purchase of regulated voluntary health insurance products
- **Revising First Registration Tax (FRT) Exemption of Electric Vehicles**
 - Imposing a cap on FRT waiver

Consolidating Pillar Industries

● **Trading and Logistics Industry**

- Signing Free Trade Agreements (FTAs) and Investment Promotion and Protection Agreements (IPPAs)
- Strengthening connection to the Pearl River Delta region to tie in with commissioning of the Hong Kong-Zhuhai-Macao Bridge
- Offering tax concession to attract aircraft leasing business

● **Financial Services**

- Strengthening regulatory regime
- Upholding market quality and furthering development of listing platform
- Developing bond market
- Exploring development of eMPF platform

Consolidating Pillar Industries

● Tourism

- Waiving licence fees for travel agents, hotels and guesthouses, and restaurants and hawkers for one year
- Allocating **\$243 million** for:
 - Supporting home-grown mega events, development of tourism projects with local characteristics and green tourism products
 - Attracting high-spending visitors by launching overnight offers and stepping up publicity

● Business and Professional Services

- Expanding Economic and Trade Offices network to help the sector open up new markets
- Completing early the procedure for joining Asia Infrastructure Investment Bank
- Infrastructure Financing Facilitation Office

Diversified Development

- **Innovation and Technology**
 - Providing **\$8.2 billion** to build Advanced Manufacturing Centre and Data Technology Hub
 - Establishing “Inno Space”
 - Setting up committee on innovation and technology development and “re-industrialisation”
 - Exploring further promotion of e-sports
 - Fintech
 - Developing “Faster Payment System”
 - Exploring new payment channels for government bills
 - Fintech Supervisory Sandbox
 - Studying application of “distributed ledger technology”

Diversified Development

- **Creative Industries**

- Showcasing creative industries and cultural strength in Mainland and overseas

- **Arts and Culture**

- Art education and promotion
- Supporting more local art groups and artists to perform in major overseas and Mainland cities to showcase our cultural strength

Capacity Building

- **Human Capital**
 - Implementing free quality kindergarten education
 - Regularising Study Subsidy Scheme for Designated Professions / Sectors and increasing places to **3 000**, involving **\$850 million**
 - Injecting **\$1.5 billion** to Continuing Education Fund
 - Raising tax deduction ceiling for self-education expenses to **\$100,000**
 - Injecting **\$200 million** into Multi-faceted Excellence Scholarship
 - Allocating **\$100 million** to expand International Youth Exchange Programme

Capacity Building

- **Land Resources**
 - Increase public and private housing supply
 - Public housing supply – about 94 500 units
 - Land supply for private housing – capacity to produce about 32 000 units
 - Reprovisioning existing government facilities to release commercial sites
 - Large commercial sites to be made available, providing a total of 1.1 million m² of floor area

Economic Indicators

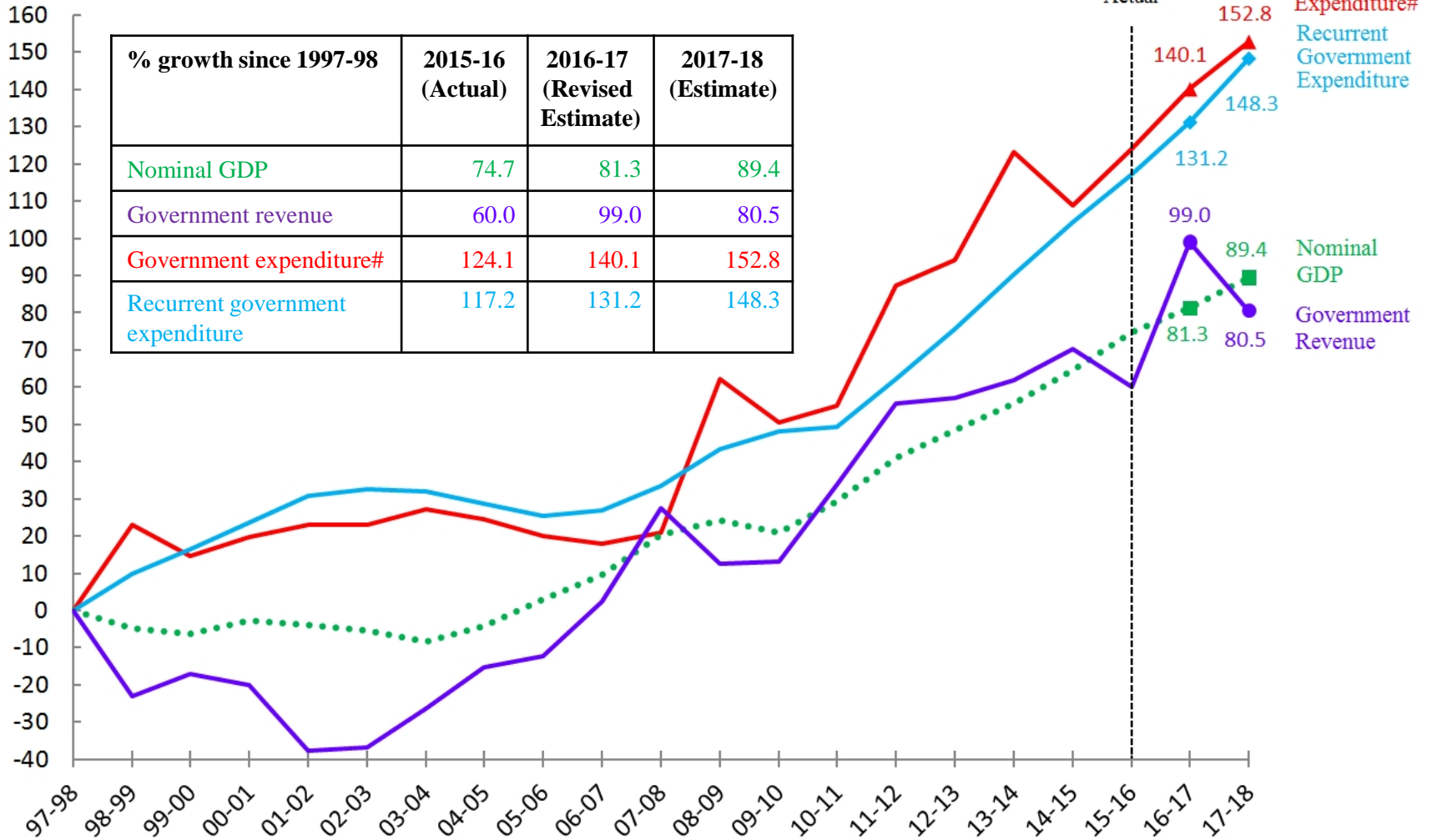
	2015 Actual	2016 Actual	2017 Forecast
GDP real growth	2.4%	1.9%	2%-3%
GDP nominal growth	6.1%	3.8%	4%-5%
Underlying CCPI	2.5%	2.3%	2%

2017-18 Estimates

	\$ billion
Government revenue	507.7
Government expenditure	<u>(491.4)</u>
	16.3
Operating surplus	11.1
Capital surplus	5.2
Consolidated surplus	<u>16.3</u>
Forecast balance of fiscal reserves as at end-March 2018	952.0

Growth of Government Revenue, Expenditure and Nominal GDP

Cumulative Growth (%)

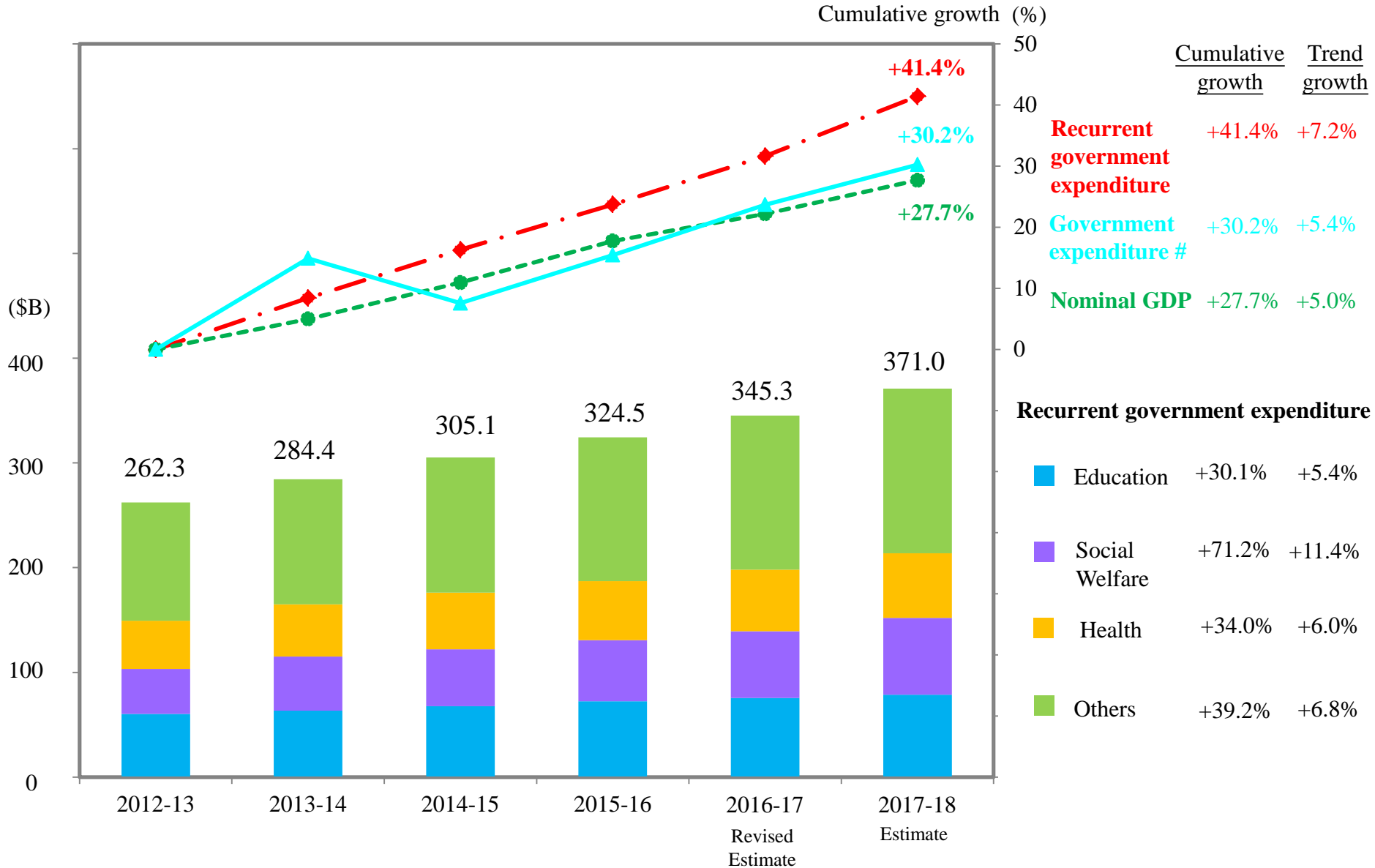


←----- Actual -----> Revised Estimate Estimate

#Government expenditure includes repayment of bonds and notes.

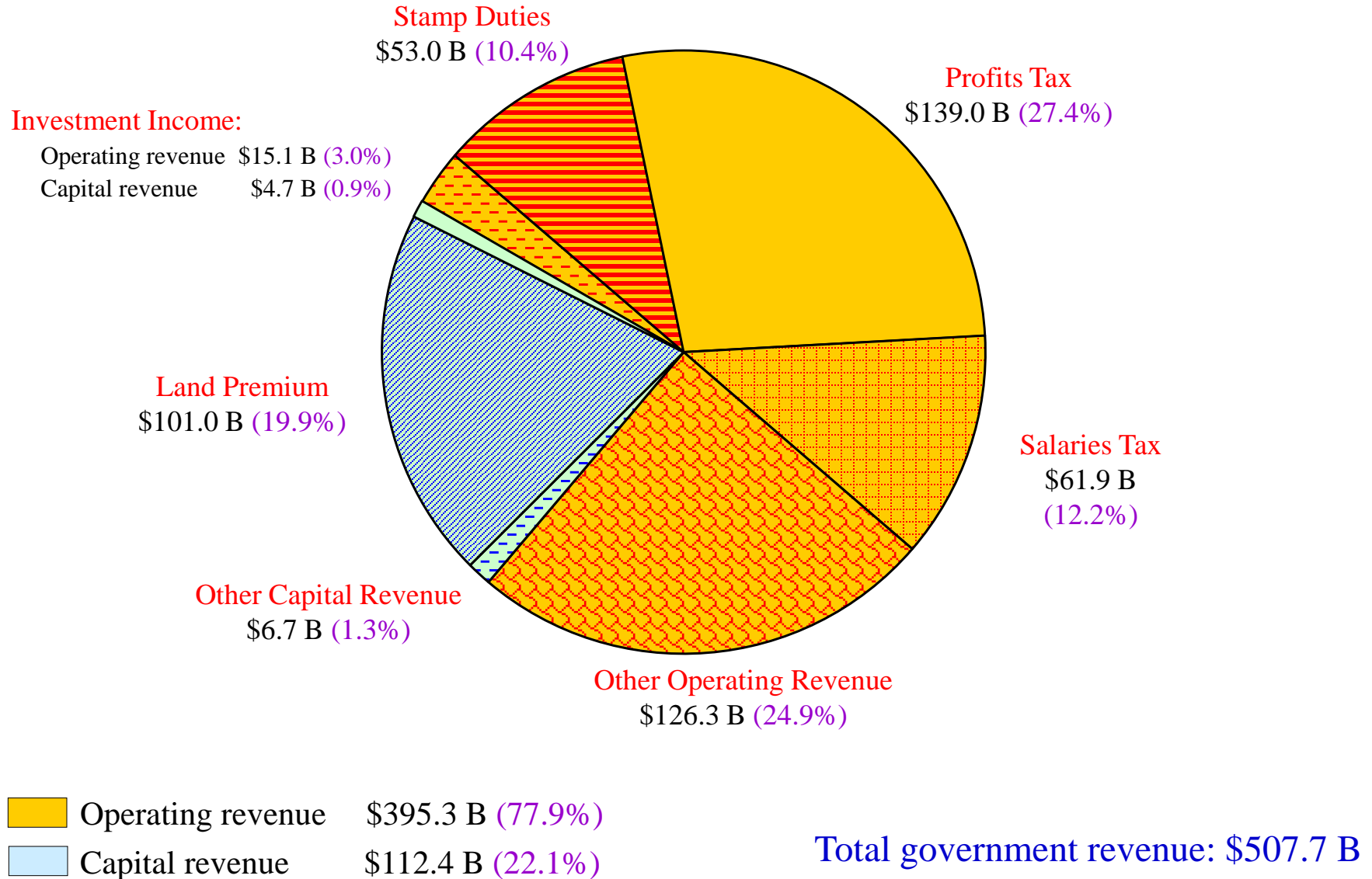
Government Expenditure vs Nominal GDP Chart 20

for the recent five years

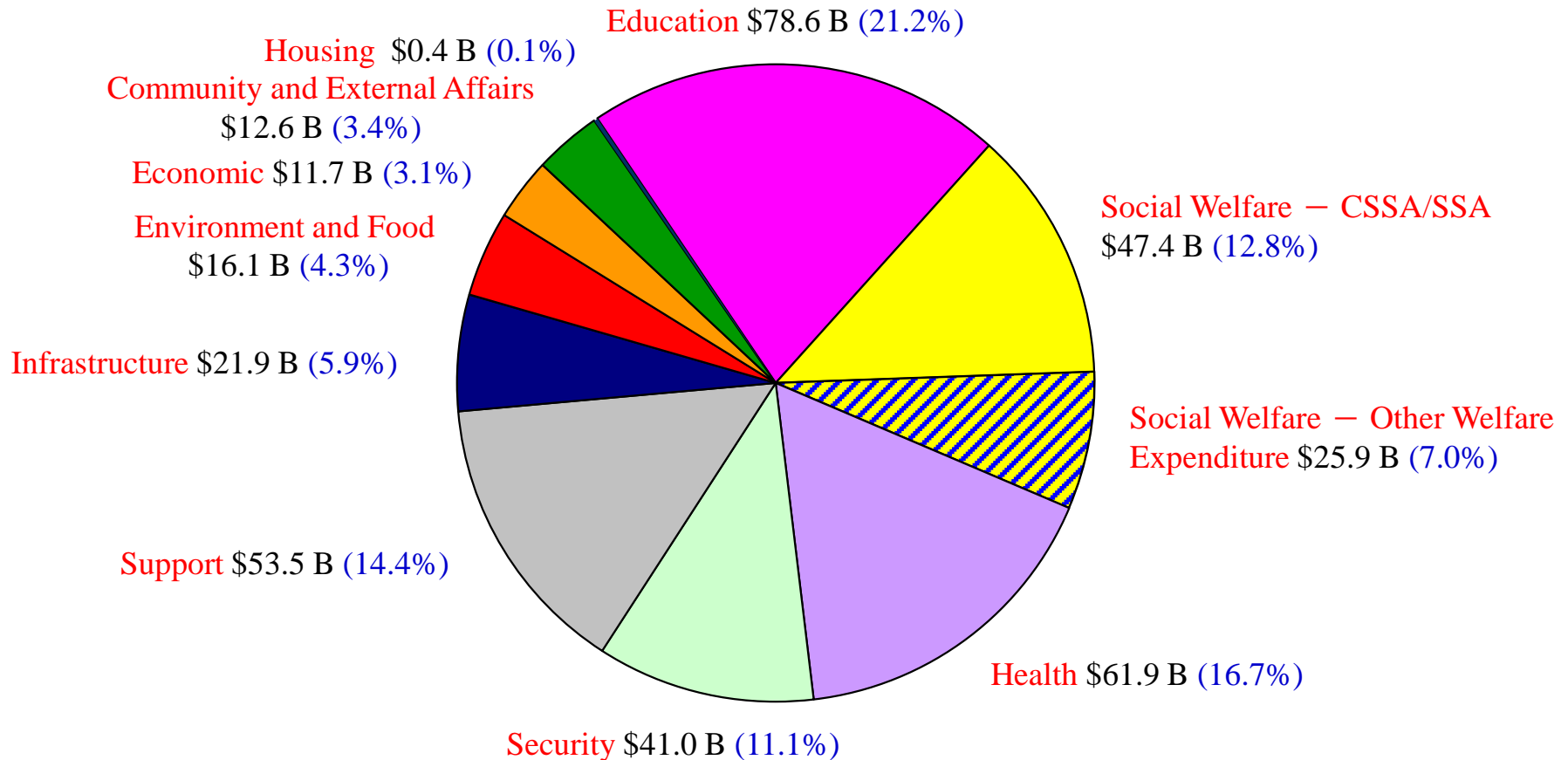


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2017-18 Revenue Estimates

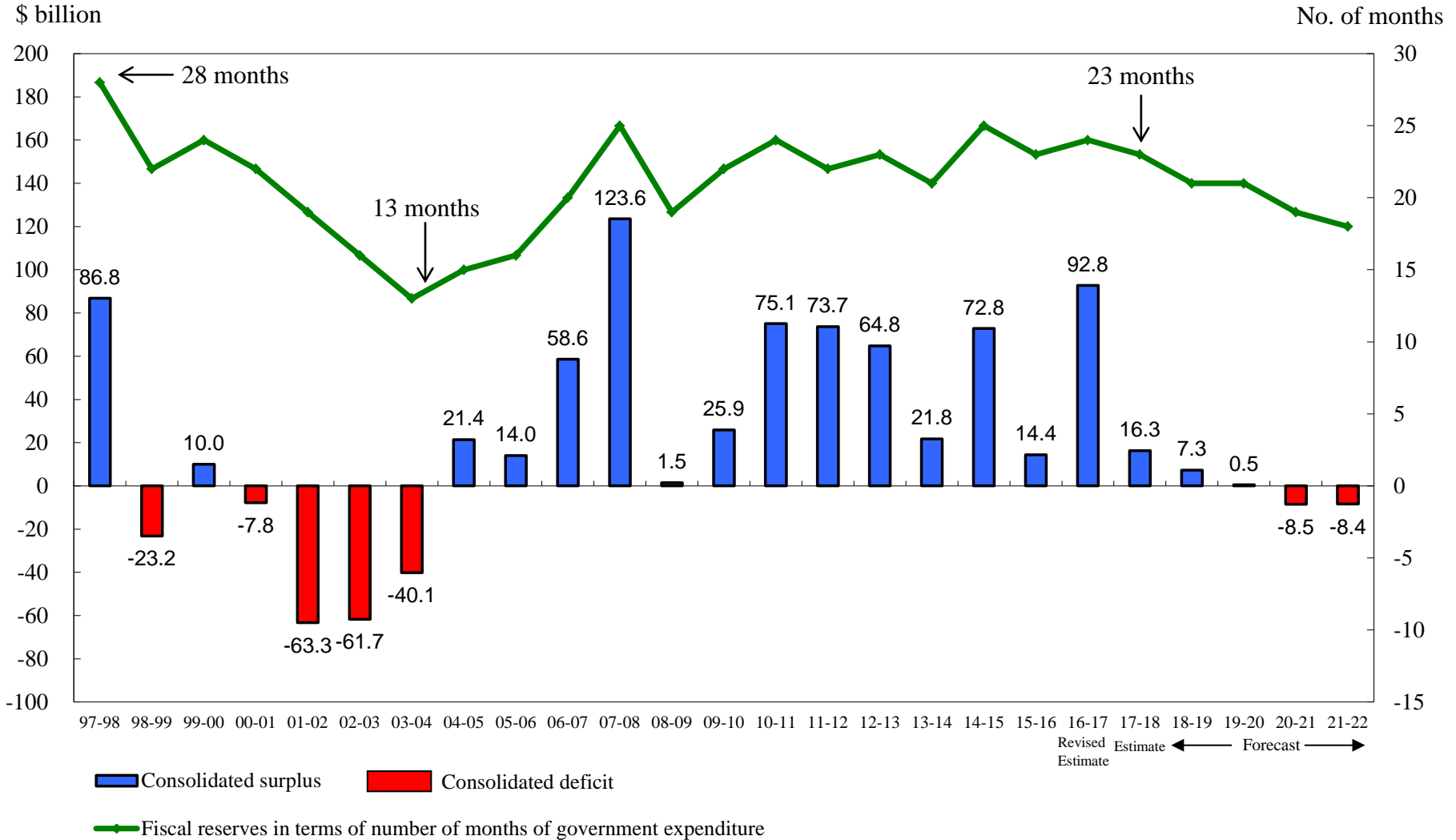


2017-18 Recurrent Expenditure Estimates



Recurrent government expenditure: \$371.0 billion (75.5% of total government expenditure of \$491.4 billion)
 (Increase of 7.4% against 2016-17 Revised Estimate)

Fiscal Reserves



2017 Medium Range Forecast

(\$ billion)	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>
Operating surplus	11.1	24.0	18.0	19.1	18.5
Capital surplus / (deficit)	5.2	(16.7)	(16.0)	(27.6)	(26.9)
Repayment of bonds and notes	-	-	(1.5)	-	-
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Consolidated surplus / (deficit)	16.3	7.3	0.5	(8.5)	(8.4)
Fiscal reserves	952.0	959.3	959.8	951.3	942.9
- in terms of number of months of government expenditure	23	21	21	19	18
- in terms of percentage of GDP	36.6%	35.3%	33.8%	32.0%	30.4%

Trend Growth

	2012-13 to 2017-18	2017-18 to 2021-22
Government Expenditure	+ 5.4%	+ 6.2%
Nominal GDP	+ 5.0%	+ 4.5%

Thank You
