[Budget Speech by the Financial Secretary (10)]

Revised Estimates for 2019-20

152. The 2019-20 revised estimates on government revenue is $567.3 billion, lower than the original estimate by 9.4 per cent or $58.8 billion. This is mainly because revenues from profits tax, salaries tax and stamp duties are lower than the original estimate by $53.4 billion.

153. Revenues from profits tax and salaries tax dropped substantially by $40.4 billion due to economic condition, enhanced tax concessions and a deferred tax assessment cycle as compared with previous years. On the other hand, stamp duty revenue is $63 billion, $13 billion less than the original estimate, attributed to smaller-than-expected trading volumes brought about by adjustments in the property and stock markets over the year.

154. As for government expenditure, the revised estimate is $611.4 billion, 0.6 per cent or $3.6 billion higher than the original estimate. This is mainly because of the establishment of the Anti-epidemic Fund, and that expenditures on public works projects were lower than the original estimates.

155. All in all, I forecast a deficit of $37.8 billion for 2019-20. Fiscal reserves are expected to be $1,133.1 billion by 31 March 2020.

156. The civil service establishment increased by 3 481 posts in this financial year, representing a growth of 1.8 per cent, close to the average growth of one to two per cent over the past decade.

Estimates for 2020-21

157. The major policy initiatives announced in the 2019 Policy Address involve an operating expenditure of $48.7 billion and capital expenditure of $24.8 billion. I will ensure that adequate resources are provided to fully support the launch of these initiatives.

158. Total government revenue for 2020-21 is estimated to be $572.5 billion. Earnings and profits tax are estimated to be $202 billion. Having regard to the Land Sale Programme and the land supply target of the coming year, land revenue is estimated to be $118 billion which decreased by 16.6 per cent compared with the revised estimate for 2019-20. Revenue from stamp duties is estimated to be $75 billion which increased by 19 per cent compared with the revised estimate for 2019-20.

159. Since taking office, the current-term Government has launched a series of measures to improve people’s livelihood. Operating expenditure for 2019-20 increased by 22.2 per cent, compared with the last financial year with an increase in total government expenditure by 15 per cent. The

operating expenditure for the new financial year will further increase by 16.9 per cent, demonstrating the Government's determination to stimulate the economy and ease people's burden. Public expenditure will account for about 23.2 per cent of our GDP during the five-year period up to 2024-25 in the Medium Range Forecast.

160. In 2020-21, the estimated recurrent expenditure on education, social welfare and healthcare accounts for about 60 per cent of government recurrent expenditure, together exceeding $280 billion. Recurrent expenditure in these three areas recorded a cumulative increase of 50 per cent over the past five years.

161. We will increase the manpower of various departments as appropriate in 2020-21. The civil service establishment is expected to expand by 6 082 posts to 197 845, representing a year-on-year increase of about 3.2 per cent. The increase in manpower is to cope with additional workload and support the implementation of new government policies and initiatives.

Medium Range Forecast

162. The Medium Range Forecast (MRF) projects, mainly from a macro perspective, the revenue and expenditure as well as financial position of the Government. From 2021-22 to 2024-25, a real economic growth rate of 2.8 per cent is adopted for the MRF which is slightly lower than the previous trend.

163. During the above period, the average annual capital works expenditure will exceed $100 billion, while the growth of recurrent government expenditure ranges between 4.3 per cent and 8.6 per cent per annum.

164. Regarding land revenue, the forecast on land premium from 2021-22 onwards is based on the average proportion of land revenue to GDP over the past decade, which is 4.2 per cent of GDP. I also assume that the growth rate of revenues from profits tax and other taxes will be similar to the economic growth rate in the next few years.

165. In addition, the forecast reflects that the Housing Reserve will be brought back to the fiscal reserves over four years starting from 2019-20, and the proceeds of the Government Green Bond Programme.

166. Based on the above assumptions and arrangements, I forecast an annual deficit in the Operating Account in each of the coming five financial years, as well as a surplus in the Capital Account every year for the same period. The estimated deficit in the Operating Account in 2020-21 is mainly due to the expenditure arising from the one-off relief measures announced in this Budget and some of the relief announced last year. The subsequent forecast deficit in the Operating Account is attributed to a higher growth in recurrent expenditure than that of revenue receipts. The above forecast has not taken into account tax rebate and relief measures that the Government may implement over these four years.

167. Fiscal reserves are estimated at $937.1 billion by the end of March 2025, representing 26.5 per cent of GDP, equivalent to 15 months of

government expenditure.

(To be continued.)