

APPENDICES

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Note: Expenditure figures for 2012-13 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2013-14 estimate.

APPENDIX A

MEDIUM RANGE FORECAST

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SECTION I FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

1 A wide range of assumptions on the factors affecting Government's revenue and expenditure are used to derive the Medium Range Forecast (MRF). Some assumptions are economic in nature (the general economic assumptions) while others deal with specific areas of Government's activities (the detailed assumptions).

General Economic Assumptions

Real Gross Domestic Product (real GDP)

2 GDP is forecast to increase by 1.5% to 3.5% in real terms in 2013. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2014 to 2017, the trend growth rate of the economy in real terms is assumed to be 4% per annum.

Price change

3 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 3% in 2013. For the four-year period 2014 to 2017, the GDP deflator is assumed to increase at a trend rate of 2% per annum.

4 The Composite Consumer Price Index (CCPI), measuring inflation in the consumer domain, is forecast to increase by 4.5% in 2013. Netting out the effects of various one-off relief measures, the underlying CCPI is forecast to increase by 4.2% in 2013. For the ensuing period 2014 to 2017, the trend rate of increase for the underlying CCPI is assumed to be 3.5% per annum.

Nominal Gross Domestic Product (nominal GDP)

5 Given the assumptions on the rates of change in the real GDP and the GDP deflator, the GDP in nominal terms is forecast to increase by 4.5% to 6.5% in 2013, and the trend growth rate in nominal terms for the period 2014 to 2017 is assumed to be 6% per annum.

Detailed Assumptions

6 The MRF incorporates a wide range of detailed assumptions on expenditure and revenue patterns over the forecast period, taking the following, amongst other factors, into account –

- estimated cash flow of capital projects,
- forecast completion dates of these capital projects and their related recurrent consequences in terms of staffing and running costs,
- estimated cash flow arising from new commitments and policy initiatives,
- the expected pattern of demand for individual services,
- the trend in yield from individual revenue sources, and
- new initiatives in the 2013-14 Budget.

Budgetary Criteria

7 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, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product”.

8 Article 108 of the Basic Law stipulates that “the Hong Kong Special Administrative Region shall, taking the low tax policy previously pursued in Hong Kong as reference, enact laws on its own concerning types of taxes, tax rates, tax reductions, allowances and exemptions, and other matters of taxation”.

9 For the purpose of preparing the MRF, the following criteria are also relevant –

Budget surplus/deficit

The Government aims to achieve a balance in the consolidated and operating accounts. The Government needs, over time, to achieve an operating surplus to partially finance capital expenditure.

Expenditure policy

The general principle is that, over time, expenditure growth should not exceed the growth of the economy. The Government aims to keep public expenditure at or below 20% of GDP.

Revenue policy

The Government aims to maintain, over time, the real yield from revenue.

Fiscal reserves

The Government aims to maintain adequate reserves in the long run.

SECTION II MEDIUM RANGE FORECAST

10 The current MRF (*Note (a)*) is summarised in the following table which indicates the forecast financial position of the Government –

Table 1

(\$ million)	2012–13 Revised Estimate	2013–14 Estimate	2014–15 Forecast	2015–16 Forecast	2016–17 Forecast	2017-18 Forecast
Operating Account						
Operating revenue (<i>Note (b)</i>)	347,935	349,460	392,889	431,592	449,051	476,102
Less: Operating expenditure (<i>Note (c)</i>)	304,828	352,000	321,100	390,400	360,800	382,400
Operating surplus/(deficit)	43,107	(2,540)	71,789	41,192	88,251	93,702
Capital Account						
Capital revenue (<i>Note (d)</i>)	97,571	85,598	55,226	61,332	61,006	65,472
Less: Capital expenditure (<i>Note (e)</i>)	75,787	87,983	103,318	101,068	102,815	99,732
Capital surplus/(deficit)	21,784	(2,385)	(48,092)	(39,736)	(41,809)	(34,260)
Consolidated Account						
Government revenue	445,506	435,058	448,115	492,924	510,057	541,574
Less: Government expenditure	380,615	439,983	424,418	491,468	463,615	482,132
Consolidated surplus/(deficit) before repayment of bonds and notes	64,891	(4,925)	23,697	1,456	46,442	59,442
Less: Repayment of bonds and notes (<i>Note (f)</i>)	-	-	9,750	-	-	-
Consolidated surplus/(deficit) after repayment of bonds and notes	64,891	(4,925)	13,947	1,456	46,442	59,442
Fiscal reserves at 31 March						
In terms of number of months of government expenditure	23	20	21	18	20	21
In terms of percentage of GDP	36.0%	33.9%	32.6%	30.8%	30.9%	31.3%

Notes –

(a) *Accounting policies*

- (i) The MRF is prepared on a cash basis and reflects forecast receipts and payments, whether they relate to operating or capital transactions.
- (ii) The MRF includes the General Revenue Account and eight Funds (Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund). It does not include the Bond Fund which is managed separately and the balance of which does not form part of the fiscal reserves.

(b) *Operating revenue*

- (i) The operating revenue takes into account the revenue measures proposed in the 2013-14 Budget, and is made up of –

(\$ million)	2012–13 Revised Estimate	2013–14 Estimate	2014–15 Forecast	2015–16 Forecast	2016–17 Forecast	2017-18 Forecast
Operating revenue before investment income	316,755	319,632	369,494	390,268	412,651	437,189
Investment income	31,180	29,828	23,395	41,324	36,400	38,913
Total	347,935	349,460	392,889	431,592	449,051	476,102

- (ii) Investment income under the Operating Account includes investment income of the General Revenue Account which is credited to revenue head Properties and Investments, and investment income of the Land Fund. The rate of investment return for 2013 is 5.0% and for 2014 to 2017 is assumed to be in the range of 3.7% to 6.2% a year.

(c) *Operating expenditure*

This represents expenditure charged to the Operating Account of the General Revenue Account. The levels of operating expenditure in 2013-14 to 2017-18 represent the expenditure guideline for these years. The sum for 2015-16 has included \$50 billion for supporting healthcare reform.

(d) *Capital revenue*

- (i) The breakdown of capital revenue is –

(\$ million)	2012–13 Revised Estimate	2013–14 Estimate	2014–15 Forecast	2015–16 Forecast	2016–17 Forecast	2017-18 Forecast
General Revenue Account	16,532	5,365	1,487	5,078	2,677	3,636
Capital Investment Fund	1,299	1,211	999	984	1,048	972
Capital Works Reserve Fund	69,189	69,131	45,400	48,138	51,040	54,377
Innovation and Technology Fund	49	14	-	-	-	-
Loan Fund	2,246	2,303	2,447	2,445	2,449	2,503
Lotteries Fund	1,145	1,165	1,192	1,221	1,250	1,279
Capital revenue before asset sales and investment income	90,460	79,189	51,525	57,866	58,464	62,767
Asset sales	266	237	298	298	298	298
Investment income	6,845	6,172	3,403	3,168	2,244	2,407
Total	97,571	85,598	55,226	61,332	61,006	65,472

- (ii) Land premium included under the Capital Works Reserve Fund for 2013-14 is assumed to stay at around the same level as that for 2012-13. For 2014-15 onwards, it is assumed to be 2% of GDP.
- (iii) Investment income under the Capital Account includes investment income of the Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund.

(e) *Capital expenditure*

The breakdown of capital expenditure is –

(\$ million)	2012–13 Revised Estimate	2013–14 Estimate	2014–15 Forecast	2015–16 Forecast	2016–17 Forecast	2017-18 Forecast
General Revenue Account	3,170	3,397	3,970	3,970	3,970	3,970
Capital Investment Fund	779	865	628	268	268	268
Capital Works Reserve Fund	67,336	77,839	90,660	89,989	92,846	90,347
Disaster Relief Fund	55	-	-	-	-	-
Innovation and Technology Fund	742	785	884	980	1,016	1,048
Loan Fund	2,735	3,808	5,209	4,030	3,010	2,895
Lotteries Fund	970	1,289	1,967	1,831	1,705	1,204
Total	<u>75,787</u>	<u>87,983</u>	<u>103,318</u>	<u>101,068</u>	<u>102,815</u>	<u>99,732</u>

(f) *Repayment of bonds and notes*

Repayment of bonds and notes is only in respect of the global bond issue in 2004. Outstanding principal as at 31 March 2018 is estimated at \$1,500 million.

SECTION III RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE/PUBLIC EXPENDITURE AND GDP IN THE MEDIUM RANGE FORECAST

11 For monitoring purposes, expenditure of the Trading Funds and the Housing Authority (collectively referred to as “other public bodies” in this Appendix) is added to government expenditure in order to compare public expenditure with GDP.

Government Expenditure and Public Expenditure in the Context of the Economy

Table 2

(\$ million)	2012–13	2013–14 Estimate	2014–15 Forecast	2015–16 Forecast	2016–17 Forecast	2017-18 Forecast
	Revised Estimate					
Operating expenditure	304,828	352,000	321,100	390,400	360,800	382,400
Capital expenditure	75,787	87,983	103,318	101,068	102,815	99,732
Government expenditure	380,615	439,983	424,418	491,468	463,615	482,132
Other public bodies expenditure	24,912	27,085	28,615	30,212	31,508	32,740
Public expenditure (Note (a))	405,527	467,068	453,033	521,680	495,123	514,872
Gross Domestic Product (calendar year)	2,040,104	2,152,300	2,281,400	2,418,300	2,563,400	2,717,200
Nominal growth in GDP (Note (b))	5.4%	5.5%	6.0%	6.0%	6.0%	6.0%
Growth in government expenditure (Note (c))	4.6%	15.6%	-3.5%	15.8%	-5.7%	4.0%
Growth in public expenditure (Note (c))	5.2%	15.2%	-3.0%	15.2%	-5.1%	4.0%
Public expenditure in terms of percentage of GDP	19.9%	21.7%	19.9%	21.6%	19.3%	18.9%

Notes –

- (a) Public expenditure comprises government expenditure and expenditure by other public bodies. It does not include expenditure by those organisations, including statutory organisations in which the Government has only an equity position, such as the Airport Authority and the MTR Corporation Limited.
- (b) For 2013-14, the nominal GDP growth of 5.5% represents the mid-point of the range forecast of 4.5% to 6.5% for the calendar year 2013.
- (c) The growth rates refer to year-on-year change. For example, the rates for 2012-13 refer to the change between revised estimate for 2012-13 and actual expenditure in 2011-12. The rates for 2013-14 refer to the change between the 2013-14 estimate and the 2012-13 revised estimate, and so forth.

12 Table 3 shows the relationship amongst the sum to be appropriated in the 2013-14 Budget, government expenditure and public expenditure.

**Relationship between Government Expenditure
and Public Expenditure in 2013-14**

Table 3

(\$ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	291,282	291,282	-	291,282	291,282
Non-recurrent	60,718	60,718	-	60,718	60,718
Capital					
Plant, equipment and works	2,033	-	2,033	2,033	2,033
Subventions	1,364	-	1,364	1,364	1,364
	355,397	352,000	3,397	355,397	355,397
Transfer to Funds	743	-	-	-	-
Capital Investment Fund	-	-	865	865	865
Capital Works Reserve Fund	-	-	77,839	77,839	77,839
Innovation and Technology Fund	-	-	785	785	785
Loan Fund	-	-	3,808	3,808	3,808
Lotteries Fund	-	-	1,289	1,289	1,289
Trading Funds	-	-	-	-	5,152
Housing Authority	-	-	-	-	21,933
	356,140	352,000	87,983	439,983	467,068
Revenue					
General Revenue Account					
Taxation		285,679	70	285,749	
Other revenue		53,318	5,295	58,613	
		338,997	5,365	344,362	
Land Fund		10,463	-	10,463	
		349,460	5,365	354,825	
Capital Investment Fund		-	1,287	1,287	
Capital Works Reserve Fund		-	73,249	73,249	
Civil Service Pension Reserve Fund		-	1,287	1,287	
Disaster Relief Fund		-	2	2	
Innovation and Technology Fund		-	119	119	
Loan Fund		-	2,624	2,624	
Lotteries Fund		-	1,665	1,665	
		349,460	85,598	435,058	
Deficit		(2,540)	(2,385)	(4,925)	

SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES

13 The Government's contingent liabilities as at 31 March 2012, 31 March 2013 and 31 March 2014, are provided below as supplementary information to the MRF –

(\$ million)	2012 Actual	At 31 March 2013 Estimate	2014 Estimate
Guarantees provided under the Special Loan Guarantee Scheme	62,751	50,350	46,888
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	23,751	28,725	30,500
Guarantees provided under the SME Financing Guarantee Scheme – Special Concessionary Measures	-	24,954	24,155
Guarantees provided under the SME Loan Guarantee Scheme	7,012	7,844	9,128
Possible capital subscriptions to the Asian Development Bank	6,607	6,543	6,543
Guarantees provided under a commercial loan of the Ocean Park Corporation	1,388	1,388	1,388
Litigation	3,168	3,497	168
Guarantees provided under a special finance scheme for small and medium enterprises	16	16	16
Total	104,693	123,317	118,786

14 The Government's major unfunded liabilities as at 31 March 2012 were as follows –

(\$ million)	
Present value of statutory pension obligations	641,371
Untaken leave (<i>Note (a)</i>)	23,586
Government bonds and notes issued in 2004 (<i>Note (b)</i>)	11,250

Notes –

(a) The estimate for 'untaken leave' gives an indication of the overall value of leave earned but not yet taken by serving public officers.

(b) Based on US\$1 = HK\$7.8