

APPENDICES

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Note: Expenditure figures for 2010-11 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2011-12 estimate.

APPENDIX A

MEDIUM RANGE FORECAST

2010–11 TO 2015–16

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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 between 4% to 5% in real terms in 2011. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2012 to 2015, 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 2.5% in 2011. For the four-year period 2012 to 2015, 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 2011. Eliminating the effects of various relief and stimulus measures introduced since the 2008-09 Budget, the underlying CCPI is forecast to increase by 4.5% in 2011. For the ensuing period 2012 to 2015, 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 between 6.5% to 7.5% in 2011, and the trend growth rate in nominal terms for the period 2012 to 2015 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 2011-12 Budget.

Budgetary Criteria

7 There are a number of criteria against which the results of forecasts are tested for overall acceptability in terms of budgetary policy.

8 The following covers the more important budgetary criteria –

Budget surplus/deficit

The Government aims to achieve 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. Capital expenditure, by its nature, will fluctuate from year to year.

Revenue policy

Account is taken of the need to maintain, over time, the real yield from revenue.

Fiscal reserves

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

SECTION II THE MRF FOR 2010–11 TO 2015–16

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

Table 1

(\$ million)	2010–11 Revised Estimate	2011–12 Estimate	2012–13 Forecast	2013–14 Forecast	2014–15 Forecast	2015–16 Forecast
Operating Account						
Operating revenue (<i>Note b</i>)	301,442	301,630	335,335	348,180	359,021	395,259
Less: Operating expenditure (<i>Note c</i>)	240,751	298,000	270,500	285,400	301,100	317,700
Operating surplus	60,691	3,630	64,835	62,780	57,921	77,559
Capital Account						
Capital revenue (<i>Note d</i>)	73,319	73,386	52,692	50,799	52,252	56,372
Less: Capital expenditure (<i>Note e</i>)	62,739	73,116	89,109	91,044	91,434	91,660
Capital surplus/(deficit)	10,580	270	(36,417)	(40,245)	(39,182)	(35,288)
Consolidated Account						
Government revenue	374,761	375,016	388,027	398,979	411,273	451,631
Less: Government expenditure	303,490	371,116	359,609	376,444	392,534	409,360
Consolidated surplus before repayment of bonds and notes	71,271	3,900	28,418	22,535	18,739	42,271
Less: Repayment of bonds and notes (<i>Note f</i>)	-	-	-	-	9,750	-
Consolidated surplus after repayment of bonds and notes	71,271	3,900	28,418	22,535	8,989	42,271
Fiscal reserves at 31 March (<i>Note g</i>)						
In terms of number of months of government expenditure	23	19	21	21	20	20
In terms of percentage of GDP	33.8%	31.8%	31.5%	30.8%	29.4%	29.5%

Notes –

(a) *Accounting policies*

- (i) The MRF is prepared on a cash basis and reflects forecast receipts and payments, whether or not 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 has taken into account the revenue measures proposed in the 2011-12 Budget, and is made up of –

(\$ million)	2010-11 Revised Estimate	2011-12 Estimate	2012-13 Forecast	2013-14 Forecast	2014-15 Forecast	2015-16 Forecast
Operating revenue before investment income	272,542	271,132	301,561	316,384	334,120	353,221
Investment income	28,900	30,498	33,774	31,796	24,901	42,038
Total	301,442	301,630	335,335	348,180	359,021	395,259

- (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 2011 is 6% and for 2012 to 2015 is assumed to be in the range of 4% to 6.6% a year.

(c) *Operating expenditure*

This represents expenditure charged to the Operating Account of the General Revenue Account. The levels of operating expenditure in 2011-12 to 2015-16 represent the expenditure guideline for these years.

(d) *Capital revenue*

- (i) The breakdown of capital revenue is –

(\$ million)	2010-11 Revised Estimate	2011-12 Estimate	2012-13 Forecast	2013-14 Forecast	2014-15 Forecast	2015-16 Forecast
General Revenue Account	1,594	1,515	2,723	592	604	599
Capital Investment Fund	1,251	1,188	1,262	1,144	1,009	1,020
Capital Works Reserve Fund	62,038	62,247	40,021	42,433	44,992	47,704
Disaster Relief Fund	1	-	-	-	-	-
Innovation and Technology Fund	37	8	-	-	-	-
Loan Fund	2,146	2,211	2,391	2,527	2,661	2,760
Lotteries Fund	1,067	1,098	1,135	1,174	1,214	1,255
Capital revenue before asset sales and investment income	68,134	68,267	47,532	47,870	50,480	53,338
Asset sales	154	158	145	141	137	133
Investment income	5,031	4,961	5,015	2,788	1,635	2,901
Total	73,319	73,386	52,692	50,799	52,252	56,372

- (ii) Land premium included under the Capital Works Reserve Fund for 2011-12 is assumed to stay at the same level as that for 2010-11. For 2012-13 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)	2010–11 Revised Estimate	2011–12 Estimate	2012–13 Forecast	2013–14 Forecast	2014–15 Forecast	2015–16 Forecast
General Revenue Account	3,114	3,809	3,970	3,970	3,970	3,970
Capital Investment Fund	1,475	670	371	1,482	262	268
Capital Works Reserve Fund	53,651	63,878	78,818	79,706	82,497	82,614
Disaster Relief Fund	342	-	-	-	-	-
Innovation and Technology Fund	816	864	910	960	974	1,007
Loan Fund	2,314	2,813	3,787	3,777	2,912	2,968
Lotteries Fund	1,027	1,082	1,253	1,149	819	833
Total	62,739	73,116	89,109	91,044	91,434	91,660

(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 2016 is estimated at \$1,500 million.

(g) *Fiscal reserves*

The amount is before deducting the \$50 billion pledged for supporting healthcare reform.

SECTION III RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE/PUBLIC EXPENDITURE AND GDP IN THE MRF

10 For monitoring purposes, expenditure of the Trading Funds and the Housing Authority (collectively referred to as “other public bodies”) 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)	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16
	Revised Estimate	Estimate	Forecast	Forecast	Forecast	Forecast
Operating expenditure	240,751	298,000	270,500	285,400	301,100	317,700
Capital expenditure	62,739	73,116	89,109	91,044	91,434	91,660
Government expenditure	303,490	371,116	359,609	376,444	392,534	409,360
Other public bodies expenditure	20,268	22,193	22,764	23,644	24,623	25,666
Public expenditure (Note a)	323,758	393,309	382,373	400,088	417,157	435,026
Gross Domestic Product (calendar year)	1,748,090	1,870,500	1,982,700	2,101,600	2,227,700	2,361,400
Nominal growth in GDP (Note b)	7.8%	7.0%	6.0%	6.0%	6.0%	6.0%
Growth in government expenditure (Note c)	5.0%	22.3%	-3.1%	4.7%	4.3%	4.3%
Growth in public expenditure (Note c)	5.4%	21.5%	-2.8%	4.6%	4.3%	4.3%
Public expenditure in terms of percentage of GDP	18.5%	21.0%	19.3%	19.0%	18.7%	18.4%

Notes –

- (a) Public expenditure comprises government expenditure, expenditure by the Trading Funds and expenditure by the Housing Authority. 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 2011-12, the nominal GDP growth of 7% represents the mid-point of the range forecast of 6.5% to 7.5% for the calendar year 2011.
- (c) The growth rates refer to year-on-year change. For example, the rates for 2010–11 refer to the change between revised estimate for 2010–11 and actual expenditure in 2009–10. The rates for 2011–12 refer to the change between the 2011–12 estimate and the 2010–11 revised estimate, and so forth.

11 Table 3 shows the relationship amongst the sum to be appropriated in the 2011-12 Budget, government expenditure and public expenditure.

**Relationship between Government Expenditure
and Public Expenditure in 2011–12**

Table 3

(\$ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	242,144	242,144	-	242,144	242,144
Non-recurrent	55,856	55,856	-	55,856	55,856
Capital					
Plant, equipment and works	2,079	-	2,079	2,079	2,079
Subventions	1,730	-	1,730	1,730	1,730
	301,809	298,000	3,809	301,809	301,809
Transfer to Funds	25,000	-	-	-	-
Capital Investment Fund	-	-	670	670	670
Capital Works Reserve Fund	-	-	63,878	63,878	63,878
Innovation and Technology Fund	-	-	864	864	864
Loan Fund	-	-	2,813	2,813	2,813
Lotteries Fund	-	-	1,082	1,082	1,082
Trading Funds	-	-	-	-	4,609
Housing Authority	-	-	-	-	17,584
	326,809	298,000	73,116	371,116	393,309
Revenue					
General Revenue Account					
Taxation		242,008	50	242,058	
Other revenue		48,407	1,465	49,872	
		290,415	1,515	291,930	
Land Fund		11,215	-	11,215	
		301,630	1,515	303,145	
Capital Investment Fund		-	1,297	1,297	
Capital Works Reserve Fund		-	64,936	64,936	
Civil Service Pension Reserve Fund		-	1,380	1,380	
Disaster Relief Fund		-	3	3	
Innovation and Technology Fund		-	185	185	
Loan Fund		-	2,468	2,468	
Lotteries Fund		-	1,602	1,602	
		301,630	73,386	375,016	
Surplus		3,630	270	3,900	

SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES

12 The Government's contingent liabilities as at 31 March 2010, and estimates of these should they remain unsettled as at 31 March 2011 or 31 March 2012, are provided below as supplementary information to the MRF –

(\$ million)	2010	At 31 March 2011	2012
Guarantees provided under the Special Loan Guarantee Scheme	46,606	73,575	71,374
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	21,483	23,745	26,010
Guarantees provided under loan guarantee schemes for small and medium enterprises	4,935	6,335	9,588
Possible capital subscriptions to the Asian Development Bank	2,114	6,605	6,605
Guarantees provided under a commercial loan of the Ocean Park Corporation	1,388	1,388	1,388
Litigation	364	392	419
Guarantees provided under the Film Guarantee Fund	-	-	3
Total	<u>76,890</u>	<u>112,040</u>	<u>115,387</u>

13 In addition to the bonds and notes issued in 2004, the repayment of which has been included in the MRF, the Government's major unfunded liabilities as at 31 March 2010 were as follows –

(\$ million)	
Present value of public officers pension obligations	469,640
Untaken leave (<i>Note</i>)	21,713

Note –

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