

APPENDICES

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Note: Expenditure figures for 2023-24 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2024-25 estimate.

APPENDIX A

MEDIUM RANGE FORECAST

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SECTION I FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

1 The Medium Range Forecast (MRF) is a fiscal planning tool. It sets out the high-level forecast of government expenditure and revenue as well as the financial position covering the five-year period including the budget year, i.e. from 2024-25 to 2028-29.

2 A wide range of assumptions underlying the factors affecting Government’s revenue and expenditure are used to derive the MRF. Some assumptions are economic in nature (the general economic assumptions) while others deal with specific areas of Government’s activities (other assumptions).

General Economic Assumptions

Real Gross Domestic Product (real GDP)

3 GDP growth is forecast to range from 2.5% to 3.5% in real terms in 2024. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2025 to 2028, the trend growth rate of the economy in real terms is assumed to be 3.2% per annum.

Price change

4 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 2.7% in 2024. For the four-year period 2025 to 2028, the GDP deflator is assumed to increase at a trend rate of 2.3% per annum.

5 The Composite Consumer Price Index (CCPI), measuring inflation in the consumer domain, is forecast to increase by 2.4% in 2024. Netting out the effects of various one-off relief measures, the underlying CCPI is forecast to increase by 1.7% in 2024. For the ensuing period 2025 to 2028, the trend rate of increase for the underlying CCPI is assumed to be 2.5% per annum.

Nominal Gross Domestic Product (nominal GDP)

6 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 5.2% to 6.2% in 2024, and the trend growth rate in nominal terms for the period 2025 to 2028 is assumed to be 5.5% per annum.

Other Assumptions

7 Other assumptions on expenditure and revenue patterns over the forecast period are as follows –

- The operating expenditure for 2025-26 and beyond represents the forecast expenditure requirements for Government.
- The capital expenditure for 2024-25 and beyond reflects the estimated cash flow requirements for capital projects including approved capital works projects and those at an advanced stage of planning.
- The revenue projections for 2025-26 and beyond basically reflect the relevant trend yields.

Budgetary Criteria

8 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.*”

9 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.*”

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

Budget surplus/deficit

The Government aims to achieve, over time, a balance in the consolidated account.

Expenditure policy

The general principle is that, over time, the growth rate of expenditure should be commensurate with the growth rate of the economy.

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

11 The financial position of the Government for the current MRF period (*Note (a)*) is summarised below –

Table 1

(\$ million)	2023-24 Revised Estimate	2024-25 Estimate	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast
Operating Account						
Operating revenue (<i>Note (b)</i>)	513,920	580,729	620,551	666,626	695,468	732,345
Less: Operating expenditure (<i>Note (c)</i>)	606,272	613,785	622,585	639,234	654,194	676,695
Operating surplus / (deficit)	(92,352)	(33,056)	(2,034)	27,392	41,274	55,650
Capital Account						
Capital revenue (<i>Note (d)</i>)	40,651	52,298	82,906	103,570	127,613	153,823
Less: Capital expenditure (<i>Note (e)</i>)	121,610	163,083	164,719	178,205	154,801	131,382
Capital surplus / (deficit)	(80,959)	(110,785)	(81,813)	(74,635)	(27,188)	22,441
Consolidated Account						
Government revenue	554,571	633,027	703,457	770,196	823,081	886,168
Less: Government expenditure	727,882	776,868	787,304	817,439	808,995	808,077
Consolidated surplus / (deficit) before issuance and repayment of bonds	(173,311)	(143,841)	(83,847)	(47,243)	14,086	78,091
Add: Proceeds from issuance of government bonds (<i>Note (f)</i>)	72,490	120,000	135,000	135,000	135,000	95,000
Less: Repayment of government bonds (<i>Note (f)</i>)	800	24,217	44,819	54,933	106,345	107,899
Consolidated surplus / (deficit) after issuance and repayment of bonds	(101,621)	(48,058)	6,334	32,824	42,741	65,192
Fiscal reserves at 31 March	733,169	685,111	691,445	724,269	767,010	832,202
In terms of number of months of government expenditure	12	11	11	11	11	12
In terms of percentage of GDP	24.5%	21.7%	20.7%	20.6%	20.7%	21.2%

Fiscal Reserves

12 Part of the fiscal reserves has, since 1 January 2016, been held in a notional savings account called the Future Fund, which is placed with the Exchange Fund with a view to securing higher investment returns over a ten-year investment period. The initial endowment of the Future Fund was \$219,730 million, being the balance of the Land Fund on 1 January 2016. \$4.8 billion of the consolidated surplus from the Operating and Capital Reserves was transferred to the Future Fund as top-up in 2016-17. The arrangement thereafter is subject to an annual review by the Financial Secretary.

Table 2

Distribution of fiscal reserves at 31 March					
	2023-24 Revised Estimate	2024-25 Estimate			
(\$ million)			Future Fund	Operating and Capital Reserves	Total
General Revenue Account	140,451	129,647	4,800*	124,847	129,647
Funds with designated use	225,778	213,298		213,298	213,298
Capital Works Reserve Fund	96,477	99,410		99,410	99,410
Capital Investment Fund	16,363	12,368		12,368	12,368
Civil Service Pension Reserve Fund	55,857	57,924		57,924	57,924
Disaster Relief Fund	9	200		200	200
Innovation and Technology Fund	28,149	17,987		17,987	17,987
Loan Fund	5,828	4,480		4,480	4,480
Lotteries Fund	23,095	20,929		20,929	20,929
Land Fund	366,940	342,166	342,166	-	342,166
	<u>733,169</u>	<u>685,111</u>	<u>346,966</u>	<u>338,145</u>	<u>685,111</u>
In terms of number of months of government expenditure	12	11	6	5	11

* Being one-third of 2015-16 consolidated surplus.

13 The fiscal reserves would be drawn on to fund contingent and other liabilities. As detailed in Section IV, these include over \$632 billion for capital works projects underway and about \$559 billion as statutory pension obligations in the coming ten years.

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 2024-25 Budget, and is made up of –

(\$ million)	2023-24 Revised Estimate	2024-25 Estimate	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast
Operating revenue before investment income	448,563	499,798	571,308	633,391	662,545	703,847
Investment income	65,357	80,931	49,243	33,235	32,923	28,498
Total	<u>513,920</u>	<u>580,729</u>	<u>620,551</u>	<u>666,626</u>	<u>695,468</u>	<u>732,345</u>

- (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 is 3.7% for 2024 (vs 3.7% for 2023) and is assumed to be in the range of 2.9% to 4.1% a year for 2025 to 2028.
- (iii) Investment income of the Future Fund includes investment income of the relevant portion of the General Revenue Account and investment income of the Land Fund, compounded on an annual basis. As directed by the Financial Secretary, the investment income is reflected in the Government's accounts on a progressive basis starting from 2021-22.

(c) *Operating expenditure*

This represents expenditure charged to the Operating Account of the General Revenue Account and Land Fund. The figures for 2025-26 and beyond set out the forecast operating expenditure requirements for Government.

(d) Capital revenue

(i) The breakdown of capital revenue is –

(\$ million)	2023-24 Revised Estimate	2024-25 Estimate	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast
General Revenue Account	7,182	7,249	1,520	5,979	5,030	5,030
Capital Investment Fund	480	898	1,973	1,414	1,416	1,417
Capital Works Reserve Fund	19,539	33,008	66,700	85,000	110,000	135,000
Innovation and Technology Fund	70	-	-	-	-	-
Loan Fund	659	1,127	3,095	3,568	4,178	4,234
Lotteries Fund	1,153	1,149	1,138	1,145	1,148	1,150
Capital revenue before investment income	29,083	43,431	74,426	97,106	121,772	146,831
Investment income	11,568	8,867	8,480	6,464	5,841	6,992
Total	40,651	52,298	82,906	103,570	127,613	153,823

(ii) Land premium included under the Capital Works Reserve Fund for 2024-25 is estimated to be \$33 billion. For 2025-26 onwards, it is assumed to be 3.4% of GDP, being the 20-year historical average, with possible adjustment with reference to the land sale programme.

(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. The rate of investment return is 3.7 % for 2024 (vs 3.7% for 2023) and is assumed to be in the range of 2.9% to 4.1% a year for 2025 to 2028.

(e) Capital expenditure

The breakdown of capital expenditure is –

(\$ million)	2023-24 Revised Estimate	2024-25 Estimate	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast
General Revenue Account	7,595	9,586	9,296	9,901	10,371	9,420
Capital Investment Fund	2,826	5,451	6,631	6,510	5,364	3,386
Capital Works Reserve Fund	100,976	130,154	126,388	141,934	119,869	99,996
Disaster Relief Fund	164	-	-	-	-	-
Innovation and Technology Fund	5,645	11,081	13,423	11,721	11,464	11,537
Loan Fund	2,348	2,675	2,773	2,736	2,769	2,803
Lotteries Fund	2,056	4,136	6,208	5,403	4,964	4,240
Total	121,610	163,083	164,719	178,205	154,801	131,382

(f) Government bonds

The Government issued green bonds under the Government Green Bond Programme (GGBP) from 2019-20 to 2023-24, and plans to expand its scope to cover sustainable finance projects and continue to issue relevant bonds from 2024-25 to 2028-29. In addition, the Government plans to issue infrastructure bonds under the Infrastructure Bond Programme (IBP) to be established from 2024-25 to 2028-29. The actual size and timing of issuance will be determined having regard to market conditions. The proceeds of the aforementioned Programmes are credited to the Capital Works Reserve Fund to finance eligible projects.

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

14 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 3

(\$ million)	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
	Revised Estimate	Estimate	Forecast	Forecast	Forecast	Forecast
Operating expenditure	606,272	613,785	622,585	639,234	654,194	676,695
Capital expenditure	121,610	163,083	164,719	178,205	154,801	131,382
Government expenditure	727,882	776,868	787,304	817,439	808,995	808,077
Expenditure by other public bodies	42,544	53,126	60,322	64,238	66,264	68,698
Public expenditure (Note (a))	770,426	829,994	847,626	881,677	875,259	876,775
Gross Domestic Product (calendar year)	2,991,328	3,161,800	3,335,700	3,519,200	3,712,800	3,917,000
Nominal growth in GDP (Note (b))	6.5%	5.7%	5.5%	5.5%	5.5%	5.5%
Growth in recurrent government expenditure (Note (c))	0.4%	7.0%	3.0%	4.3%	3.1%	3.8%
Growth in government expenditure (Note (c))	-10.2%	6.7%	1.3%	3.8%	-1.0%	-0.1%
Growth in public expenditure (Note (c))	-9.1%	7.7%	2.1%	4.0%	-0.7%	0.2%
Public expenditure in terms of percentage of GDP	25.8%	26.3%	25.4%	25.1%	23.6%	22.4%

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 2024-25, the nominal GDP growth of 5.7% represents the mid-point of the range forecast of 5.2% to 6.2% for the calendar year 2024.
- (c) The growth rates for 2023-24 to 2028-29 refer to year-on-year change. For example, the rates for 2023-24 refer to the change between the revised estimate for 2023-24 and the actual expenditure in 2022-23. The rates for 2024-25 refer to the change between the 2024-25 estimate and the 2023-24 revised estimate, and so forth.

15 Table 4 shows the relationship amongst the sum to be appropriated in the 2024-25 Budget, government expenditure and public expenditure.

**Relationship between Government Expenditure
and Public Expenditure in 2024-25**

Table 4

(\$ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	580,213	580,213	-	580,213	580,213
Non-recurrent	33,571	33,571	-	33,571	33,571
Capital					
Plant, equipment and works	5,912	-	5,912	5,912	5,912
Subventions	3,674	-	3,674	3,674	3,674
	623,370	613,784	9,586	623,370	623,370
Transfer to Funds	185	-	-	-	-
Capital Investment Fund	-	-	5,451	5,451	5,451
Capital Works Reserve Fund	-	-	130,154	130,154	130,154
Innovation and Technology Fund	-	-	11,081	11,081	11,081
Land Fund	-	1	-	1	1
Loan Fund	-	-	2,675	2,675	2,675
Lotteries Fund	-	-	4,136	4,136	4,136
Trading Funds	-	-	-	-	5,012
Housing Authority	-	-	-	-	48,114
	623,555	613,785	163,083	776,868	829,994
Revenue					
General Revenue Account					
Taxation		449,211	8	449,219	
Other revenue		56,291	7,241	63,532	
		505,502	7,249	512,751	
Capital Investment Fund		-	1,456	1,456	
Capital Works Reserve Fund		-	37,304	37,304	
Civil Service Pension Reserve Fund		-	2,067	2,067	
Disaster Relief Fund		-	6	6	
Innovation and Technology Fund		-	919	919	
Land Fund		75,227	-	75,227	
Loan Fund		-	1,327	1,327	
Lotteries Fund		-	1,970	1,970	
		580,729	52,298	633,027	
Deficit		(33,056)	(110,785)	(143,841)	

SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES

16 The Government’s contingent liabilities as at 31 March 2023, 31 March 2024 and 31 March 2025, are provided below as supplementary information to the MRF –

(\$ million)	<i>Table 5</i>		
	2023	At 31 March 2024	2025
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	44,078	48,966	52,174
Guarantees provided under the SME Financing Guarantee Scheme	141,411	146,070	114,787
Legal claims, disputes and proceedings	16,007	18,235	15,349
Subscription to callable shares in the Asian Development Bank	5,801	5,753	5,753
Subscription to callable shares in the Asian Infrastructure Investment Bank	4,800	4,779	4,779
Guarantees provided under the SME Loan Guarantee Scheme	1,602	1,010	622
Guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation	893	866	-
Guarantees provided under the Special Loan Guarantee Scheme	185	72	69
Total	214,777	225,751	193,533

17 The Government’s major unfunded liabilities as at 31 March 2023 were as follows –

(\$ million)	
Present value of statutory pension obligations (<i>Note (a)</i>)	1,015,397
Untaken leave (<i>Note (b)</i>)	28,171
Green bonds	122,498

Notes –

- (a) The statutory pension obligations for the coming ten years are estimated to be about \$559 billion in money of the day.
- (b) The estimate for “untaken leave” gives an indication of the overall value of leave earned but not yet taken by serving public officers.

18 The estimated outstanding commitments of capital works projects as at 31 March 2023 and 31 March 2024 are \$613,946 million and \$632,368 million respectively. Some of these are contractual commitments.

