

APPENDICES

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Note: Expenditure figures for 2024-25 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2025-26 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 2025-26 to 2029-30.

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% to 3% in real terms in 2025. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2026 to 2029, the trend growth rate of the economy in real terms is assumed to be 2.9% per annum.

Price change

4 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 3.5% in 2025. For the four-year period 2026 to 2029, the GDP deflator is assumed to increase at a trend rate of 2.6% per annum.

5 The Composite Consumer Price Index (CCPI), measuring inflation in the consumer domain, is forecast to increase by 1.8% in 2025. Netting out the effects of various one-off relief measures, the underlying CCPI is forecast to increase by 1.5% in 2025. For the ensuing period 2026 to 2029, 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 5.5% to 6.5% in 2025, and the trend growth rate in nominal terms for the period 2026 to 2029 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 2026-27 and beyond represents the forecast expenditure requirements for Government.
- The capital expenditure for 2025-26 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 2026-27 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)	2024-25 Revised Estimate	2025-26 Estimate	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast	2029-30 Forecast
Operating Account						
Operating revenue (<i>Note (b)</i>)	526,833	621,158	663,196	681,594	699,586	738,171
Less: Operating expenditure (<i>Note (c)</i>)	599,940	624,212	634,824	640,633	657,309	682,334
Operating surplus / (deficit)	(73,107)	(3,054)	28,372	40,961	42,277	55,837
Capital Account						
Capital revenue (<i>Note (d)</i>)	32,745	38,255	51,683	76,890	82,107	99,935
Less: Capital expenditure (<i>Note (e)</i>)	154,814	198,059	200,553	195,407	184,197	187,530
Capital deficit	(122,069)	(159,804)	(148,870)	(118,517)	(102,090)	(87,595)
Consolidated Account						
Government revenue	559,578	659,413	714,879	758,484	781,693	838,106
Less: Government expenditure	754,754	822,271	835,377	836,040	841,506	869,864
Consolidated deficit before issuance and repayment of bonds	(195,176)	(162,858)	(120,498)	(77,556)	(59,813)	(31,758)
Add: Proceeds from issuance of government bonds (<i>Note (f)</i>)	130,000	150,000	160,000	195,000	190,000	190,000
Less: Repayment of government bonds (<i>Note (f)</i>)	22,060	54,148	59,511	134,267	119,600	133,206
Consolidated surplus / (deficit) after issuance and repayment of bonds	(87,236)	(67,006)	(20,009)	(16,823)	10,587	25,036
Fiscal reserves at 31 March	647,349	580,343	560,334	543,511	554,098	579,134
In terms of number of months of government expenditure	10	8	8	8	8	8
In terms of percentage of GDP	20.4%	17.2%	15.8%	14.5%	14.0%	13.9%

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. In October 2022, the investment arrangement was extended for a further five-year period up to 31 December 2030. 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					
	2024-25 Revised Estimate	2025-26 Estimate	Future Fund	Operating and Capital Reserves	Total
(\$ million)					
General Revenue Account	148,737	167,445	4,800*	162,645	167,445
Funds with designated use	214,844	163,064		163,064	163,064
Capital Works Reserve Fund	93,496	49,615		49,615	49,615
Capital Investment Fund	13,049	8,952		8,952	8,952
Civil Service Pension Reserve Fund	57,929	60,478		60,478	60,478
Disaster Relief Fund	121	200		200	200
Innovation and Technology Fund	21,862	17,391		17,391	17,391
Loan Fund	4,823	5,024		5,024	5,024
Lotteries Fund	23,564	21,404		21,404	21,404
Land Fund	283,768	249,834	249,834	-	249,834
	<u>647,349</u>	<u>580,343</u>	<u>254,634</u>	<u>325,709</u>	<u>580,343</u>
In terms of number of months of government expenditure	10	8	3	5	8

* 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 about \$687 billion for capital works projects underway and about \$566 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.
- (iii) The Bond Fund is set up for the development of bond market and its balance does not form part of the fiscal reserves. It is managed by the Hong Kong Monetary Authority for investment purposes and is separated from the Government's consolidated account.

(b) *Operating revenue*

- (i) The operating revenue takes into account the revenue measures proposed in the 2025-26 Budget, and is made up of –

(\$ million)	2024-25 Revised Estimate	2025-26 Estimate	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast	2029-30 Forecast
Operating revenue before investment income	487,478	577,900	610,747	628,255	656,283	693,133
Investment income	39,355	43,258	52,449	53,339	43,303	45,038
Total	<u>526,833</u>	<u>621,158</u>	<u>663,196</u>	<u>681,594</u>	<u>699,586</u>	<u>738,171</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 4.4% for 2025 (vs 3.7% for 2024) and is assumed to be in the range of 2.7% to 4.7% a year for 2026 to 2029.
- (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 2026-27 and beyond set out the forecast operating expenditure requirements for Government.

(d) Capital revenue

(i) The breakdown of capital revenue is –

(\$ million)	2024-25 Revised Estimate	2025-26 Estimate	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast	2029-30 Forecast
General Revenue Account	6,977	3,330	4,101	5,615	1,853	1,853
Capital Investment Fund	1,432	1,142	929	961	954	955
Capital Works Reserve Fund	13,606	21,008	35,896	60,471	69,455	83,438
Disaster Relief Fund	6	-	-	-	-	-
Innovation and Technology Fund	65	-	-	-	-	-
Loan Fund	1,139	3,031	3,498	4,120	4,179	4,281
Lotteries Fund	1,192	1,161	1,157	1,145	1,135	1,125
Capital revenue before investment income	24,417	29,672	45,581	72,312	77,576	91,652
Investment income	8,328	8,583	6,102	4,578	4,531	8,283
Total	32,745	38,255	51,683	76,890	82,107	99,935

(ii) Revenue from land premium included under the Capital Works Reserve Fund for 2025-26 is estimated to be \$21 billion with reference to the land sale programme. From 2026-27 onwards, it is prudently assumed to be progressively rising to 2% of GDP, which is lower than the past five-year and 20-year historical average ratio of 2.4% and 3.3% respectively.

(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 4.4 % for 2025 (vs 3.7% for 2024) and is assumed to be in the range of 2.7% to 4.7% a year for 2026 to 2029.

(e) Capital expenditure

The breakdown of capital expenditure is –

(\$ million)	2024-25 Revised Estimate	2025-26 Estimate	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast	2029-30 Forecast
General Revenue Account	8,081	8,431	7,185	7,341	7,394	6,869
Capital Investment Fund	5,367	5,749	7,052	5,949	4,574	2,713
Capital Works Reserve Fund	129,894	164,071	169,733	165,456	156,094	161,426
Disaster Relief Fund	89	-	-	-	-	-
Innovation and Technology Fund	7,079	12,449	7,900	8,400	8,300	8,600
Loan Fund	2,568	3,044	3,215	3,232	3,257	3,353
Lotteries Fund	1,736	4,315	5,468	5,029	4,578	4,569
Total	154,814	198,059	200,553	195,407	184,197	187,530

(f) Government bonds

The Government issued green bonds under the Government Green Bond Programme (GGBP) (renamed as the Government Sustainable Bond Programme (GSBP)) from 2019-20 to 2024-25, and plans to continue to issue relevant bonds from 2025-26 to 2029-30. In addition, the Government issued infrastructure bonds under the Infrastructure Bond Programme (IBP) in 2024-25, and plans to continue to issue relevant bonds from 2025-26 to 2029-30. 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 works projects and will not be used for government recurrent expenditure.

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)	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	Revised Estimate	Estimate	Forecast	Forecast	Forecast	Forecast
Operating expenditure	599,940	624,212	634,824	640,633	657,309	682,334
Capital expenditure	154,814	198,059	200,553	195,407	184,197	187,530
Government expenditure	754,754	822,271	835,377	836,040	841,506	869,864
Expenditure by other public bodies	50,109	55,474	64,188	68,659	71,990	74,481
Public expenditure (Note (a))	804,863	877,745	899,565	904,699	913,496	944,345
Gross Domestic Product (calendar year)	3,176,993	3,367,600	3,552,800	3,748,200	3,954,400	4,171,900
Nominal growth in GDP (Note (b))	6.5%	6.0%	5.5%	5.5%	5.5%	5.5%
Growth in recurrent government expenditure (Note (c))	4.3%	4.5%	3.3%	2.7%	3.0%	4.0%
Growth in government expenditure (Note (c))	4.6%	8.9%	1.6%	0.1%	0.7%	3.4%
Growth in public expenditure (Note (c))	5.6%	9.1%	2.5%	0.6%	1.0%	3.4%
Public expenditure in terms of percentage of GDP	25.3%	26.1%	25.3%	24.1%	23.1%	22.6%

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 2025-26, the nominal GDP growth of 6% represents the mid-point of the range forecast of 5.5% to 6.5% for the calendar year 2025.
- (c) The growth rates for 2024-25 to 2029-30 refer to year-on-year change. For example, the rates for 2024-25 refer to the change between the revised estimate for 2024-25 and the actual expenditure in 2023-24. The rates for 2025-26 refer to the change between the 2025-26 estimate and the 2024-25 revised estimate, and so forth.

15 Table 4 shows the relationship amongst the sum to be appropriated in the 2025-26 Budget, government expenditure and public expenditure.

**Relationship between Government Expenditure
and Public Expenditure in 2025-26**

Table 4

(\$ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	588,064	588,064	-	588,064	588,064
Non-recurrent	36,148	36,148	-	36,148	36,148
Capital					
Plant, equipment and works	5,583	-	5,583	5,583	5,583
Subventions	2,848	-	2,848	2,848	2,848
	632,643	624,212	8,431	632,643	632,643
Transfer to Funds	7,071	-	-	-	-
Capital Investment Fund	-	-	5,749	5,749	5,749
Capital Works Reserve Fund	-	-	164,071	164,071	164,071
Innovation and Technology Fund	-	-	12,449	12,449	12,449
Loan Fund	-	-	3,044	3,044	3,044
Lotteries Fund	-	-	4,315	4,315	4,315
Trading Funds	-	-	-	-	5,376
Housing Authority	-	-	-	-	50,098
	639,714	624,212	198,059	822,271	877,745
Revenue					
General Revenue Account					
Taxation		462,819	8	462,827	
Other revenue		121,273	3,322	124,595	
		584,092	3,330	587,422	
Capital Investment Fund		-	1,652	1,652	
Capital Works Reserve Fund		-	24,338	24,338	
Civil Service Pension Reserve Fund		-	2,549	2,549	
Disaster Relief Fund		-	8	8	
Innovation and Technology Fund		-	978	978	
Land Fund		37,066	-	37,066	
Loan Fund		-	3,245	3,245	
Lotteries Fund		-	2,155	2,155	
		621,158	38,255	659,413	
Deficit		(3,054)	(159,804)	(162,858)	

SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES

16 The Government's contingent liabilities as at 31 March 2024, 31 March 2025 and 31 March 2026, are provided below as supplementary information to the MRF –

(\$ million)	<i>Table 5</i>		
	2024	At 31 March 2025	2026
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	46,211	51,972	55,358
Guarantees provided under the SME Financing Guarantee Scheme	144,401	124,140	92,609
Legal claims, disputes and proceedings	13,356	6,879	4,006
Subscription to callable shares in the Asian Development Bank	5,689	5,615	5,615
Subscription to callable shares in the Asian Infrastructure Investment Bank	4,800	4,759	4,759
Guarantees provided under the SME Loan Guarantee Scheme	981	566	334
Guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation	866	-	-
Guarantees provided under Dedicated 100% Loan Guarantee Scheme for Travel Sector	204	202	179
Guarantees provided under the Special Loan Guarantee Scheme	150	56	52
Guarantees provided under Dedicated 100% Loan Guarantee Scheme for Battery Electric Taxis	-	61	1,707
Total	216,658	194,250	164,619

17 The Government's major unfunded liabilities as at 31 March 2024 were as follows –

(\$ million)	
Present value of statutory pension obligations (<i>Note (a)</i>)	967,586
Untaken leave (<i>Note (b)</i>)	26,989
Green bonds	192,529

Notes –

- (a) The statutory pension obligations for the coming ten years are estimated to be about \$566 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 2024 and 31 March 2025 are \$632,368 million and \$686,928 million respectively. Some of these are contractual commitments.