

Budget Model Parameters and Assumptions

A. Economic Parameters¹

Parameter	Medium Growth Assumptions	Sensitivity Tests on Economic Parameters	Historical Data				
			1981 - 1990	1991 - 1997	1998 - 2001	2000	2001 ²
1. Nominal GDP growth, comprising the following assumptions on growth rate of real GDP (item 1(a)) and rate of change in GDP deflator (item 1(b))	2002 : -0.5% 2003-2006 : 4.4% 2007 - 2021 : 5.1%	<u>Higher growth</u> 2002 : -0.5% 2003-2006 : 7.0% 2007 - 2021 : 7.1%	15.2%	12.4%	-1.2%	3.2%	-0.3%
		<u>Lower growth</u> 2002 : -0.5% 2003-2006 : 1.7% 2007 - 2021 : 2.5%					
1(a). Real GDP Growth	2002 : 1.0% 2003-2006 : 3.5% 2007 - 2021 : 3.0%	<u>Higher growth</u> 2002 : 1.0% 2003-2006 : 4.7% 2007 - 2021 : 4.0%	6.5%	5.2%	1.9%	10.5%	0.1%
		<u>Lower growth</u> 2002 : 1.0% 2003-2006 : 2.3% 2007-2021 : 2.0%					
1(b). GDP deflator	2002 : -1.5% 2003-2006: : 0.9% 2007 - 2021 : 2.0%	<u>Higher growth</u> 2002 : -1.5% 2003-2006 : 2.1% 2007 - 2021 : 3.0%	8.1%	6.9%	-3.0%	-6.5%	-0.5%
		<u>Lower growth</u> 2002 : -1.5% 2003-2006 : -0.5% 2007 - 2021 : 0.5%					

Parameter	Main Growth Assumptions	Sensitivity Tests on Economic Parameters	Historical Data				
			1981 - 1990	1991 - 1997	1998 - 2000	2000	2001 ²
2. Shares of compensation of employees and gross operating surplus in GDP	<u>Shares of compensation of employees in GDP</u> 2001-2005 : 55.4% 2006-2021 : 53.5% <u>Shares of gross operating surplus in GDP</u> 2001-2005 : 44.6% 2006-2021 : 46.5%	<u>Higher growth</u> <u>Shares of compensation of employees in GDP</u> 2001-2005 : 54.8% 2006-2021 : 50.5% <u>Shares of gross operating surplus in GDP</u> 2001-2005 : 45.2% 2006-2021 : 49.5%	<u>Shares of compensation of employees in GDP</u>				
			51.3%	50.7%	55.7%	56.1%	
			<u>Shares of gross operating surplus in GDP</u>				
			48.7%	49.3%	44.3%	43.9%	
3. Composite CPI	2001-2005 : -0.2% 2006-2021 : 2.5%	<u>Higher growth</u> 2001-2005 : +0.3% 2006-2021 : 3.5% <u>Lower growth</u> 2001-2005 : -0.7% 2006-2021 : 1.0%	1981 - 1990 8.0%	1991 - 1997 8.5%	1998 - 2001 -1.6%	2000 -3.8%	2001 -1.6%

B. Demographic Parameters

The model's population projections are based on *Hong Kong Population Projections 2000-2029* and the 2001 Population Census.

C. Revenue and Expenditure Parameters

Revenue or Expenditure Item	Parameters used in 2007-08 to 2021-22	Historical Data of Parameters					Forecast Parameters from 2002-03 to 2006-07					
		1981-82 1990-91	1991-92 1997-98	1998-99 2001-02	2000-01	2001-02 ³	2002-03	2003-04	2004-05	2005-06	2006-07	2002-03 - 2006-07
1. Profits tax, property tax and personal assessment as a percentage of gross operating surplus of the previous year.	9.3%	10.6%	11.2%	8.9%	9.5%	9.5%	9.3%	9.1%	9.2%	9.4%	9.6%	9.3%
2. Salaries tax as a percentage of compensation of employees of the previous year.	5.0%	4.2%	5.8%	4.1%	4.1%	4.3%	4.6%	4.8%	4.9%	5.1%	5.3%	5.0%
3. Rates including Government rents as a percentage of gross operating surplus	3.6%	1.0%	1.2%	2.6%	3.6%	3.3%	3.1%	3.9%	3.7%	3.6%	3.5%	3.6%
4. Stamp duties on stock transaction as a percentage of gross operating surplus	1.1%	0.9%	1.1%	1.0%	1.1%	0.9%	1.1%	1.2%	1.2%	1.2%	1.0%	1.1%
5. Stamp duties on property transaction as a percentage of gross operating surplus	1.2%	1.1%	2.4%	1.0%	1.0%	0.9%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%
6. Land premium as a percentage of GDP	2.0%	1.8%	2.2%	1.8%	2.3%	0.7%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
7. Other operating revenue excluding investment income as a percentage of GDP	4.1%	5.2%	5.1%	3.9%	3.8%	3.8%	4.0%	4.2%	4.2%	4.2%	4.1%	4.1%
8. Other capital revenue excluding investment income as a percentage of GDP	0.8%	1.0%	0.7%	1.1%	0.8%	1.1%	0.9%	0.9%	0.8%	0.8%	0.7%	0.8%

	Parameters used in 2002-03 to 2021-22	Historical Data				
		1981/82	1991/92	1998/99		
		-	-	-		
		1990/91	1997/98	2001/02	2000/01	2001/02 ³
9. Government expenditure excluding other charges (mainly social security expenditure)	To take into account price rigidity of government expenditure, rate of change in the price deflator equals to rate of change in GDP deflator <i>plus</i> 0.8% Real growth rates of individual years = trend GDP real growth rates over 4 years	<u>Rate of change in government consumption expenditure deflator</u> 10.3% 9.1% 0.7% -1.8% 2.1% <u>Rate of change in GDP deflator</u> 8.1% 6.9% -3.0% -6.5% -0.5%				
10. Other charges (mainly social security expenditure)	Other charges (mainly social security expenditure) = 0.442 ⁴ * (CCPI)* (Population aged 65+)	<u>Rate of change in other charges (mainly social security expenditure)</u> 13.2% ⁵ 13.9% 7.4% 2.6% 5.8%				
		1988 - 1992	1993- 1997	1998 - 2001	2000	2001
11. Investment income / interest cost - investment income (for fiscal reserve) - interest cost (for fiscal debt)	investment income : 5.5% investment cost : 6.0%	<u>Investment return of Exchange Fund</u> N.A. 6.2% 6.6% 4.3% 0% <u>Investment return of benchmark portfolio⁶</u> 7.8% 7.7% 4.9% ⁷ -2.4% N.A.				

Notes

- (1) The economic parameters during the period from 2002 to 2006 reflect the situation after revenue increase (expenditure cut) measures implemented from 2002/03 to 2006/07 for attaining a balanced budget of consolidated account in 2006-07.
- (2) Provisional data
- (3) Data for 2001-02 are based on the latest forecast of the revised estimates, which have not been finalised at the time of this report.
- (4) Compiled based on average parameter of 2002-03 to 2006-07.
- (5) Average growth for 1983-84 - 1990-91
- (6) The benchmark portfolio composes of 80% global bonds and 20% global equities.
- (7) Average of 1998-2000