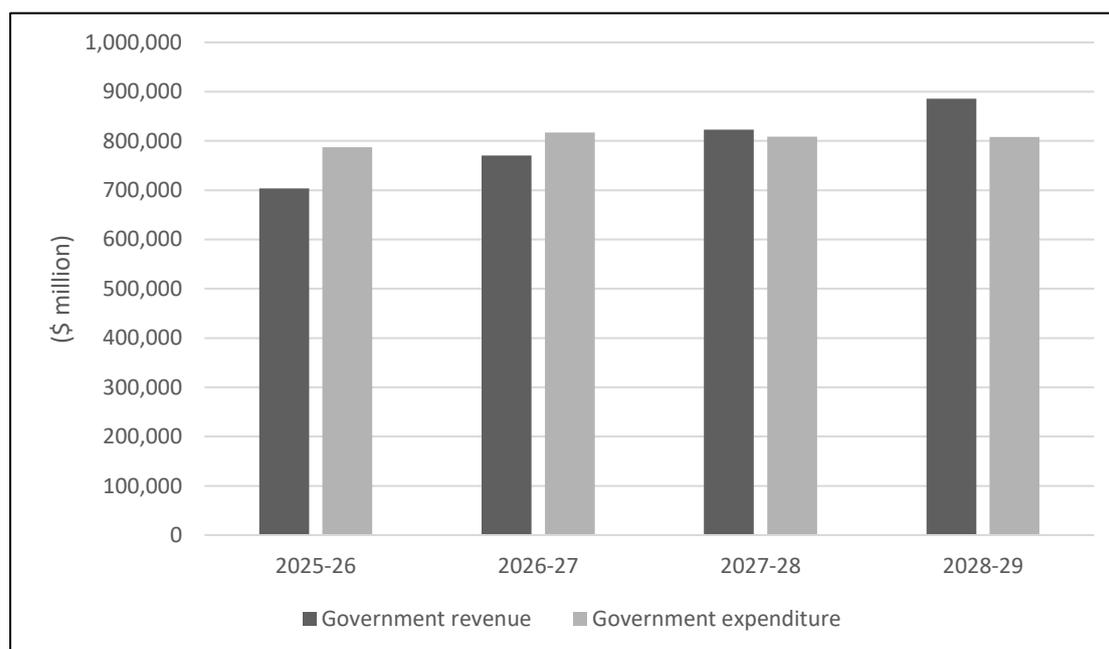


**Q.38**

On 28 February 2024, Financial Secretary Chan Mo-po delivered the 2024-25 Budget, which aroused public discussion on how to reduce the budget deficit.

**Source A:** Forecast of the financial position of the HKSAR Government from 2025-26 to 2028-29



(Source: *The 2024-25 Budget, HKSAR Government*)

**Source B:** A news report on the 2024-25 Budget

The HKSAR government recorded a fiscal deficit in 2023-24. To achieve a fiscal balance, the government will control the growth of public expenditure. The growth rate of public expenditure is expected to be lower than that of gross domestic product from 2025-26 to 2028-29.

In addition, the government will introduce measures to increase revenue and issue bonds to drive the development of infrastructure projects.

(Source: *The 2024-25 Budget, HKSAR Government*)

**Source C:** Proposals for increasing government revenue in the 2024-25 Budget

Implementation of a two-tiered standard rates regime for salaries tax and tax under personal assessment

Original standard rate (year of assessment 2023-24)	New standard rates (from the year of assessment 2024-25)
15%	- On the first \$5 million of net income: 15% - Remainder: 16%

(Source: *The 2024-25 Budget, HKSAR Government*)

**Source D:** Some views on the issuance of bonds by the Hong Kong government

 <p>A government official</p>	Financing infrastructure projects (such as transportation infrastructure) by issuing bonds allows projects that benefit the economy and people's livelihoods to be completed earlier, bringing economic returns and social benefits.
 <p>An investor</p>	Government bonds provide investors with a reliable investment product.
 <p>A commentator on current affairs</p>	Issuing bonds will lead to an increase in government expenditure and the financial burden on the government will increase.

**Questions**

- (a) Refer to Source A. Describe the change in the budget forecast for Hong Kong from 2025-26 to 2028-29. (2 marks)
- (b) Refer to Source B. Explain how the change in the growth rate of public expenditure will affect the size of the public sector in Hong Kong. (2 marks)
- (c) Refer to Source C. Explain how the implementation of the two-tiered standard rates regime for salaries tax and tax under personal assessment will affect the income inequality in Hong Kong. (2 marks)
- (d) Refer to the view of the government official in Source D. Explain how the infrastructure projects financed by issuing bonds may involve externalities. (3 marks)
- (e) Refer to the view of the investor in Source D. Explain **ONE** advantage of buying government bonds over bonds issued by private enterprises. (2 marks)
- (f) Refer to the view of the commentator in Source D. Explain with **ONE** reason why issuing bonds may increase the financial burden on the government. (2 marks)

For part (g), candidates are required to present their answer in essay form. Criteria for marking will include use of sources and economic theories, relevant content, logical presentation and clarity of expression.

(g) Suppose there are two proposals to improve the fiscal situation of Hong Kong.

Proposal I: to introduce a general sales tax  
Proposal II: to put up more land for sale (including residential sites, commercial sites and industrial sites)

With reference to the above sources and your own knowledge in Economics, discuss the effects of each proposal on the following in order to **evaluate** the two proposals.

- aggregate output
- stability of government revenue
- balance of payments

(14 marks)