

Budget Speech by the Financial Secretary (3)

Global Political and Economic Landscape

26. In last year's Budget, I mentioned three major global trends, namely rising trade protectionism, unstoppable wave of innovation and technology (I&T), and the shift of world economic gravity from West to East. The changes over the past year have unveiled a new situation, new landscape, and new norm of global politics and economics. We must analyse and study these to identify the positioning and future direction of Hong Kong when considering the way forward for our economic and social development.

US-China Relations

27. First, the US-China trade conflict over the past year has revealed the underlying differences between the two sides, which include technology matters as well as other more deep-seated considerations. While it would be encouraging if the trade issue could be resolved to some extent, their deep-rooted differences may remain. The fluctuating US-China relations may turn the global economy volatile for some time. Furthermore, trade conflicts will undermine multilateralism and the free trade regime, with far-reaching implications on the global governance system and international order. The future global industry setting will also be changed by the new trade regime and relationship.

International Co-operation

28. Second, the rise of nativism and populism in various countries has brought changes to their political scene, affecting their foreign and economic policies. Such development undermines the growth of multilateral free trade and affects international trade flows.

29. The financial tsunami in 2008 was the most severe economic crisis since the Great Depression in the 1930s. Thanks to concerted global effort, the world successfully averted catastrophic consequences, and the global economy gradually resumed growth. However, the growth of the major advanced economies have not yet returned to the levels before the financial tsunami, and still need to rely on ultra-low interest rates or unconventional monetary policies. Given that the interest rates remain very low, there would be little room for introducing rescue measures if a major economic or financial crisis were to happen again. More importantly, the rise of nativism nowadays may make an international concerted effort and a swift response more difficult.

Developing Asia

30. Third, emerging Asian economies (including ASEAN and India) have huge

growth potential and present us with enormous business opportunities. With an average annual growth of 6.3 per cent over the past five years, they contribute about a quarter of global economic growth. Moreover, the IMF forecasts that emerging Asian economies (excluding the Mainland) will still attain a growth rate of over 6 per cent in 2019 and 2020.

31. In the past, the economic development of Asia was primarily based on the model of “production in Asia and consumption in Europe and the US”. With the emergence of a larger and richer middle class in Asia, it will not only lead to “production in Asia and consumption in Asia”, but also result in a growing demand for European and the US consumer products from Asia in the future. In addition, due to the US-China trade conflict and the rise of protectionism, some emerging Asian economies will benefit from the changing pattern of the global supply chain. Hong Kong must ride on these new developments, leveraging our strengths as the supply chain management centre and trade centre in Asia.

National Development

32. Fourth, China’s 40 years of reform and opening up has not only transformed its economy and society, but also made it the second largest economy in the world and the main engine of global economic growth. This is a remarkable achievement. Since the 19th National Congress of the Communist Party of China, the Mainland has been steering its economy from rapid growth to high-quality development. The Mainland is seeking to change its mode of development, optimise its economic structure and identify new growth engines. We should pay particular attention to the following areas in which our nation is pushing ahead in full steam:

- (a) intensifying supply-side structural reform, accelerating the development of advanced manufacturing, and promoting deeper integration of the internet, big data and artificial intelligence with the real economy;
- (b) using innovation to foster economic development, with emphasis on scientific research and technology application;
- (c) building a strong domestic market with domestic consumption remains the main engine of economic growth;
- (d) implementing the Greater Bay Area development and the Belt and Road Initiative; and
- (e) pursuing further reforms and opening up to stabilise foreign businesses and investments; and promoting the new direction of two-way opening up with equal emphasis on “going global” and “attracting foreign investment” to boost two-way investment and trade flows between China and other countries.

33. As seen from the above, although the Mainland is facing a complicated external environment and its economic development is encountering challenges, we should focus on the long term trend and recognise that our country is at an era of the strategic opportunities which offers promising development

prospects in the long run.

Development of Innovation and Technology

34. Fifth, the rapid development of I&T is ushering in a new era. Not only does it reshape production and business models, but also brings significant changes to our daily lives and consumption. For example, artificial intelligence may bring significant breakthroughs in advanced areas such as healthcare. However, some of our jobs may be replaced, causing a blow to the labour market. While we benefit from the convenience and opportunities brought by the rapid development of I&T, we should be well-prepared for the change by making corresponding adjustments in areas such as development of industries, education and vocational training.

(To be continued.)

Budget Speech by the Financial Secretary (2)

Revised Estimates for 2018-19

11. The 2018-19 revised estimates on government revenue is \$596.4 billion, lower than the original estimate by 1.3 per cent or \$8.1 billion. This is mainly due to lower-than-expected revenues from land premium and stamp duties, while revenues from profits tax and salaries tax are higher than the original estimate by \$16.1 billion.

12. Revenues from stamp duties and land premium have always been highly susceptible to market fluctuations and therefore volatile. The revenue from land premium is \$115.9 billion, \$5.1 billion less than the original estimate, mainly due to the unsuccessful tendering of two sites in the year. Stamp duty revenue is \$80 billion, \$20 billion less than the original estimate, attributed to smaller-than-expected trading volumes brought about by adjustments in the property and stock markets over the year.

13. As for government expenditure, the revised estimate is \$537.7 billion, 5.6 per cent or \$31.9 billion lower than the original estimate. This is mainly because the expenditures on certain policy initiatives and public works projects were lower than the original estimates.

14. All in all, I forecast a surplus of \$58.7 billion for 2018-19. Fiscal reserves are expected to reach \$1,161.6 billion by 31 March 2019.

15. The civil service establishment increased by 6 700 posts in this financial year, representing a growth of 3.7 per cent, higher than the

average growth of one to two per cent over the past decade. One of the main reasons is the additional manpower requirements arising from the commissioning of several boundary control points.

Economic Prospects for 2019 and Medium-term Outlook

16. Looking ahead for 2019, the global economy, beset with considerable uncertainties and downward pressures, has abruptly turned from synchronised robust growth early last year to the current synchronised slowdown. Market sentiment has become increasingly cautious. The International Monetary Fund (IMF) lowered its global economic growth forecast for 2019 twice in the past five months, from 3.9 per cent down to 3.5 per cent, an indication that the slowdown risks should not be ignored.

17. The US economy was affected by an array of factors, such as the escalated trade conflict since the fourth quarter of last year and the normalisation of interest rates, leading to heightened financial market volatility. Economic growth is expected to slow down in 2019. The Brexit deadlock and the lingering risk of a hard Brexit have cast a dim light on the economic performance of the UK post-Brexit. The Eurozone economy has also slackened, with year-on-year growth of only 1.2 per cent in the fourth quarter of last year and a further weakening in both economic activities and confidence indicators in recent months.

18. In Asia, Japan's economy markedly weakened in the second half of 2018 due to natural disasters and slackened external demand, with a year-on-year growth close to zero. The growth for this year is forecast to be somewhat slow. Meanwhile, Singapore, Taiwan and Korea also saw slower growth momentum. We anticipate that the growth in these high-income economies will remain modest this year. As for India and emerging economies in the Association of Southeast Asian Nations (ASEAN), although their exports may be constrained by external factors, domestic demand will remain steady and sustain growth in 2019.

19. The Mainland economy is also slowing down. A 6.4 per cent growth was recorded in the fourth quarter of last year, with the annual growth rate reducing to 6.6 per cent, close to the full-year growth target of around 6.5 per cent. This year, export growth may further slacken due to external uncertainties. That said, the Mainland has become less dependent on exports in recent years. This, coupled with a host of stimulus measures rolled out by the authorities recently, will help ensure solid economic growth.

20. As regards interest rates, the Federal Reserve stated after its Open Market Committee meeting in January this year that it "would be patient" in determining future rate adjustments, while pointing out that subsequent rate moves would depend on economic data. Market expectations of interest rates may vary with the economic environment, resulting in greater fluctuations in the financial markets.

21. In fact, these uncertainties have greatly affected investors' risk appetite. The stock markets in the US, the Mainland and Hong Kong dropped

significantly within a short time in the past year. The prices of investment products also saw marked fluctuations.

22. The uncertain global economic outlook this year will restrain Hong Kong's economic performance. Having regard to the latest internal and external developments, I will make optimal use of the fiscal surplus for 2018-19 to introduce one-off measures to support enterprises and relieve people's burden. Together with the stimulus effect of other measures in the Budget, I forecast economic growth of two to three per cent in real terms for Hong Kong in 2019.

23. However, should the external headwinds deteriorate, especially if the US-China trade conflict escalates, global trade, investment and financial markets will be subject to greater shocks. This will not only affect our exports and asset markets, but also dampen local investments and private consumption. On the contrary, improving US-China trade relations will help eliminate external uncertainties and may drive better-than-forecast growth for Hong Kong's economy.

24. On inflation, the moderate economic growth forecast for this year may reduce the pressure on local costs. Pressure on local rentals eased recently and may also contribute to a lower headline inflation rate. Imported inflation may also be moderated along with the strengthening of the US dollar. Taking various factors into account, I forecast that the headline inflation rate and the underlying inflation rate for 2019 will both be 2.5 per cent.

25. For the medium term, the average growth rate is forecast to be 3 per cent per annum in real terms from 2020 to 2023, slightly higher than the trend growth of 2.8 per cent over the past decade, while the underlying inflation rate is expected to average 2.5 per cent per annum. The above medium-term forecast is made on the assumption that there are no severe external shocks during the period. However, the external environment is still impeded by headwinds. If these headwinds persist in 2020 or beyond or even aggravate, global economic growth will be hindered, and Hong Kong's economy will in turn be affected. We have to stay vigilant.

(To be continued.)

Budget Speech by the Financial Secretary (1)

Following is the full text of the Speech on the 2019-20 Budget delivered by the Financial Secretary, Mr Paul Chan, in the Legislative Council today (February 27):

Mr President, Honourable Members and fellow citizens,

I move that the Appropriation Bill 2019 be read a second time.

Introduction

2. This is the second Budget of the current-term Government, my third since I became Financial Secretary. It has been prepared against the backdrop of profound changes in the global political and economic landscape, a complicated and volatile external environment and heightened uncertainties.

3. As a small and totally open economy, Hong Kong has been susceptible to economic headwinds over the past few months, as evidenced by notable slackening growth and diminishing confidence of enterprises in the future outlook. Under such circumstances, it is all the more important for us to have a sound judgement of the prevailing global political and economic landscape, and set the direction for Hong Kong's economic development with due regard to our own strengths. I will take this opportunity to share my views in the Budget.

4. Every cloud has a silver lining. Even though we are not out of the woods yet, we have every confidence in our future.

5. Given the public and the business community's concerns about Hong Kong's economic outlook, I prepared this year's Budget along the direction of "supporting enterprises, safeguarding jobs, stabilising the economy, strengthening livelihoods". In fact, to support the implementation of various measures, including those proposed in the Policy Address, I will provide new resources ready for use of about \$150 billion in this Budget, with additional resources earmarked for various purposes. This demonstrates our determination to enhance public services, support enterprises, relieve people's burden and invest for the future. Resources will be allocated as appropriate to support these measures. I will provide details in the ensuing parts of my speech.

Economic Situation in 2018

6. The global economy expanded throughout 2018, with stronger growth momentum during the first half of the year. The momentum was checked by brewing trade tensions and other unfavourable conditions in the second half of the year. Production and trading activities in Asia saw notable growth for most of last year, but significantly weakened towards year end. Affected by the external environment, Hong Kong's total exports of goods had an annual growth of 3.5 per cent in real terms, but the growth in the fourth quarter decelerated, resulting in a slight year-on-year decrease of 0.2 per cent. Exports of services also moderated in the latter half of the year, though an overall growth of 4.9 per cent was recorded for 2018.

7. Domestic demand remained largely stable, contributing favourably to the

labour market with solid rises in wages and earnings underpinning consumption. Private consumption expenditure grew by 5.6 per cent in real terms for the year, but slowed down through the year amid adjustments in asset prices and increasing external uncertainties. Although investment expenditure registered a growth of 2.2 per cent in real terms for the year, a number of surveys have reflected the weakened business sentiment in Hong Kong recently.

8. Under mounting external pressures, Hong Kong's economic growth moderated from 4.1 per cent in the first half of 2018 to 2.1 per cent in the second half of the year, with growth for the fourth quarter at a mere 1.3 per cent, the lowest since the first quarter of 2016. Overall, Hong Kong's economy grew by 3 per cent in 2018, at the lower end of the range projected in last year's Budget but still higher than the trend growth rate of 2.8 per cent over the past decade.

9. The labour market remained tight, with the unemployment rate remaining at 2.8 per cent, the lowest level in more than 20 years. Total employment sustained growth and salaries increased continuously in real terms.

10. As the economic growth had been above the trend growth for two consecutive years, the inflation rate rose slightly in 2018. Netting out the effects of the Government's one-off measures, the underlying inflation rate was 2.6 per cent, up by 0.9 percentage point from 2017.

(To be continued.)

[LCQ16: Workload and manpower of Social Security Officers](#)

Following is a question by the Dr Hon Chiang Lai-wan and a written reply by the Secretary for Labour and Welfare, Dr Law Chi-kwong, in the Legislative Council today (February 27):

Question:

Recently, some Social Security Officers (SSOs) employed by the Social Welfare Department (SWD) have relayed to me that as the Government has implemented in recent years quite a number of new policies and measures relating to the social security programmes (such as introducing the Old Age Living Allowance (OALA) and the Higher OALA, raising the eligible age for elderly Comprehensive Social Security Assistance and providing one-off extra allowances to recipients of social security payments), which is coupled with a continuous rise in the number of elderly persons due to increasing average life expectancy, the workload of SSOs has become increasingly heavy. However,

the Government has not increased the establishment of the SS0 grade accordingly, resulting in a tremendous increase in their work pressure. In this connection, will the Government inform this Council:

- (1) Of the respective numbers of SS0 II and SS0 I currently employed by SWD;
- (2) Of the respective average numbers of Social Security Assistants supervised by each of the officers at the two ranks mentioned in (1) (supervision ratios) (i) in each of the past 10 years and (ii) at present; whether there are currently guidelines specifying the supervision ratios;
- (3) Whether there are currently guidelines specifying the specific methods for calculating the manpower requirements for the various ranks in the SS0 grade; and
- (4) Whether it has assessed the adequacy of current manpower at the various ranks in the SS0 grade; if so, of the outcome, and whether it will increase the manpower?

Reply:

President,

In recent years, the Government has introduced a number of social security measures (including rolling out of the Normal Old Age Living Allowance (OALA) and the Guangdong Scheme in 2013, and the Higher OALA and the Fujian Scheme in year 2018) to provide targeted support to needy persons. In view of the implementation of various programmes, the Social Welfare Department (SWD) would seek additional manpower resources according to service needs so as to cope with the corresponding work.

My reply to the Member's question is as follows:

(1) As at end-January 2019, there are 81 Social Security Officer I (SS0 I) posts and 310 Social Security Officer II (SS0 II) posts in the SWD.

(2) and (3) When estimating the manpower requirement of Social Security Officers (SSOs), the SWD takes into account the anticipated work of administration and supervision required, and the procedures and complexity involved in vetting various types of cases. The manpower ratio between ranks/grades is not the sole basis of estimation. The SWD does not set a so-called supervision ratio between SS0s and Social Security Assistants (SSAs).

Based on the above principle, establishment of manpower for the above ranks/grades each year from 2014-15 to end-January 2019 is provided below:

Rank/Grade Financial year*	SS0 I	SS0 II	SSA Grade
2014-15	77	289	1 319
2015-16	77	288	1 317
2016-17	78	294	1 331

2017-18	79	298	1 351
2018-19 (As at end-January 2019)	81	310	1 389
The increase in the 5- year period (from 2014-15 to end- January 2019)	4 (5.2%)	21 (7.3%)	70 (5.3%)

*Figures as at the end of the financial year

(4) The SWD has been reviewing the manpower of the SS0 grade from time to time, and has implemented various measures to provide appropriate support for its staff according to the actual work requirements. These measures include creating new posts subject to the availability of resources, conducting risk management studies to enhance resource allocation and efficiency, and improving the workflow and streamlining procedures, etc. The SWD will continue to maintain close communication with its staff of the social security grades, and stay attentive to their job arrangements and staffing situation so as to ensure efficient delivery of services to the public by the department.

[Japanese creative project design company extends reach to Hong Kong](#)

Superstation Inc, a Japanese creative project design company, officially opened a Hong Kong branch, Superstation International Ltd, at Cyberport today (February 27). The company's Hong Kong presence will leverage its connections with local partners with the aim of exploring new business opportunities in the city.

Superstation offers creative project development and consultancy services to its clients. One of its signature projects is "Knowledge Capital" in Osaka – an innovative hub comprising about 100 companies, universities and research organisations to create new and innovative ideas through the exchange of knowledge. The company plans, designs, organises and operates various kind of events and international festivals at the Knowledge Capital, says the CEO of Superstation International Ltd, Mr Takuya Nomura.

Mr Nomura said, "We gained support for our Knowledge Capital project from Hong Kong partners even before its inauguration. We want to build on our existing connections as well as explore new business partnerships and opportunities in the fields of technology, art, science and culture through the Hong Kong office.

"Hong Kong boasts a strong locational advantage with easy access to

other parts of Asia and the world. Having a base here will help us expand our business to Mainland China and other parts of Asia and, in the future, to Europe. Also, we can introduce Japanese cutting-edge technology and various aspects of culture and content to the city and throughout Asia."

Associate Director-General of Investment Promotion, Dr Jimmy Chiang, welcomed the opening of Superstation International Ltd in Hong Kong. "It will not only provide companies with other choices for creative project development and consultancy services but also bring and stimulate new concepts and ideas through co-operation with local partners," he said.

About Superstation Inc

Established in 1997 in Osaka, Japan, Superstation Inc started by planning and producing TV programmes and digital content. It has undertaken a number of demonstration experiment projects, such as better utilising high-speed fibre-optic networks and creative industry promotion projects led by the Japanese government in collaboration with industry, government and academia. For more information, please visit www.superstation.co.jp/en/.

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