

Budget Speech by the Financial Secretary (1)

Following is the full text of the Speech on the 2022-23 Budget delivered by the Financial Secretary, Mr Paul Chan, to the Legislative Council today (February 23):

Mr President, Honourable Members and fellow citizens,

I move that the Appropriation Bill 2022 be read a second time.

Introduction

2. The COVID-19 pandemic has plagued the entire world for two years, taking a heavy toll on economic activities and people's way of life. Since the middle of last year, the epidemic situation in Hong Kong had been brought under control, with economic activities and daily life gradually getting back to normal. Nevertheless, with the emergence of a virus variant in the past month or so, the epidemic situation in Hong Kong has taken a drastic turn for the worse. The rapid spread of the virus and its profound impact have dealt a heavy blow to many people, disrupting both their life and work, and seriously affected the operations of small and medium-sized enterprises (SMEs), thus undermining confidence in the future. A gloomy atmosphere enveloped the Hong Kong community.

3. Taking prompt action to stabilise the epidemic situation is crucial for safeguarding the health and lives of our people. It is also the key to maintaining people's confidence and stabilising our economy. The care and guidance of the Central Government, together with the selfless support from the relevant departments and municipal governments, have bolstered the solidarity, confidence and indomitable spirit of the Hong Kong Special Administrative Region (HKSAR) Government and all sectors of the community. By making a concerted effort to fight the epidemic on all fronts and at full speed, we will surely win this battle against the virus. We will deploy all available resources and take all necessary measures to fully support the anti-epidemic work. The resources allocated for this cause in this Budget alone involve more than \$54 billion.

4. At this critical time, we need to direct more resources to relieve people's hardship and provide SMEs with some breathing space so as to stabilise the economy and maintain public confidence. This is also what the general public expect of the Government. With this in mind, this year's Budget will continue to adopt an expansionary fiscal policy with initiatives mainly focusing on four areas:

- (a) supporting an all-out effort to win the fight against the epidemic;
- (b) relieving the hardship of our people and SMEs;
- (c) rendering support to the struggling economy and fostering post-epidemic economic revival; and

(d) investing for the future by planning ahead for the medium- and long-term development of our economy.

5. It is estimated that the counter-cyclical measures (costing a total of over \$170 billion) mentioned in the Budget, together with the spending in infrastructure projects and other items, will have a fiscal stimulus effect of boosting the economy by around three percentage points. I will elaborate the details afterwards.

Economic Situation in 2021

6. In 2021, with the roll-out of vaccination schemes around the world as well as the strong fiscal and monetary support, global economic activities revived remarkably. The International Monetary Fund (IMF) estimated that the global economy staged a strong rebound by 5.9 per cent last year.

7. Given the sharp rebound in demand from major economies, production and trading activities in Asia were vibrant. Hong Kong's total exports of goods continued to register strong growth, with a notable increase of 19 per cent in real terms for the year as a whole and surpassing the high in 2018 by 10.9 per cent.

8. As regional trade flows remained active, exports of transport services reverted to growth. Exports of financial services also showed further growth. Consequently, Hong Kong's total exports of services registered a mild growth of 1.1 per cent for the year, but was still far below the pre-recession level with inbound tourism virtually at a standstill.

9. The local epidemic situation remained stable during the period from May 2021 to end-2021 and the employment and income conditions continued to improve. These, coupled with the boost from the consumption voucher scheme, contributed to a rebound of private consumption expenditure by 5.6 per cent for the year as a whole. As business outlook turned positive, investment expenditure rose by 10.1 per cent.

10. Hong Kong's overall economy saw a visible recovery in 2021 with a growth of 6.4 per cent, reversing the declining trend in the past two consecutive years. The seasonally adjusted unemployment rate dropped substantially from a high of 7.2 per cent early last year to 3.9 per cent in the latest period (November 2021 to January 2022).

11. Given the continued recovery of the local economy and the accelerated rise in import prices, consumer price inflation increased progressively in 2021. However, owing to the fall in private housing rentals earlier on, the increase of the Consumer Price Index remained mild. Netting out the effect of the Government's one-off measures, the underlying inflation rate was 0.6 per cent for last year as a whole, down 0.7 percentage point from the year before.

12. Dampened by factors including the monetary policy stance in the US, the regulatory requirements in the Mainland, and the emergence of COVID-19's variants and supply bottlenecks worldwide, the local stock market underwent a

sharp adjustment in 2021.

13. As supported by the low interest rate environment and firm end-user demand, the residential property market was active in the first half of last year. Although the market sentiment weakened in the fourth quarter of last year due to local stock market adjustment and concerns about the US interest rate hikes, flat prices still saw a moderate increase of three per cent for the whole year.

14. As for the non-residential property market, with the recovery of the local economy, coupled with the abolition of the Double Stamp Duty imposed on non-residential property transactions in November 2020, there was a visible rebound in transaction activities last year. Yet, prices and rentals of office space were relatively soft, while those of industrial buildings rebounded significantly.

15. The Government will continue to spare no efforts in increasing land supply and closely monitor the property market development.

Economic Outlook for 2022 and Medium-term Outlook

16. The market generally expects a further revival of the global economy this year, but the rampant Omicron variant has slowed the pace of global economic recovery recently. As affected by the impact of high energy prices and supply bottlenecks, global inflation has been pushed up significantly, and many central banks will have to tighten their monetary policies. Besides, the geopolitical situation is complex and volatile. All these factors have cast uncertainties over the global economic outlook. Last month, the IMF lowered its global economic growth forecast for this year to 4.4 per cent.

17. In the Mainland, the epidemic was contained effectively last year. Production activities have revived and the external trade has put up a strong performance. Last year, the growth rate of the Mainland economy was 8.1 per cent, which was faster than that of most economies. Looking ahead, although the Mainland economy is facing some downward pressure, its sound fundamentals along with ample policy room will support the steady economic growth in the Mainland, and will continue to be the growth engine of the global economy.

18. Last year, the US economy rebounded visibly. The market generally predicts that it will see further growth this year. However, in response to rising inflation, the Federal Reserve Board will likely raise interest rates several times and start to reduce the size of its balance sheet progressively within the year. Besides, fiscal policy support is expected to reduce from last year. These may affect the momentum of economic growth. The eurozone economy slowed again in the latter part of last year due to the resurgence of the pandemic. However, with the still accommodative monetary policy and supportive fiscal measures, it will likely continue to recover this year. The economic growth outlook for Japan and other Asian economies this year will hinge on the pandemic developments and the restrictive measures imposed by their respective governments.

19. Although further recovery of the global economy will lend support to Hong Kong's export performance this year, our economy and people's livelihood have been under immense pressure in recent months as the rapid worsening of the fifth wave of the epidemic, coupled with further tightening of various restrictive measures, led to drastic fall in people flow and seriously dampened consumer and economic sentiments. To win the fight against the epidemic, the Government will devote all-out efforts in stepping up testing and anti-epidemic work. Inevitably, economic activities, particularly the consumption-related sectors, will continue to be under intense pressure in the short term. Unemployment and underemployment situation will also deteriorate. The economic performance in the first quarter is not optimistic.

20. The successful control of the epidemic is the key to safeguarding our economy and people's livelihood. With the staunch support and unfailing assistance from our country, the Government and the whole community must join hands to fight the virus and win the battle promptly. As long as the recent wave of the epidemic can be gradually put under control, and the status of "dynamic zero infection" can be maintained down the road, consumption and investment demand will likely gather steam again. A stabilised epidemic situation will also create favourable conditions for the gradual and orderly resumption of quarantine-free travel between the Mainland and Hong Kong, thereby injecting greater impetus into the economy. Having regard to the latest local and external situations as well as the stimulus effect of the fiscal measures, I forecast that Hong Kong's economy will put up a better performance in the second half of this year and achieve growth of 2 to 3.5 per cent in real terms for the year as a whole.

21. On inflation, external price pressures are expected to remain high and persist for some time, while domestic cost pressures will also increase gradually alongside the economic recovery. On the other hand, the upward pressure on residential rentals remains mild. Taking all factors into account, I forecast that the headline inflation rate and the underlying inflation rate will be 2.1 per cent and 2 per cent respectively this year. Although inflation pressure in Hong Kong remains moderate in overall terms, given that the supply of many daily necessities relies on imports, we should keep in view the impact brought by external inflation on people's livelihood if such inflation leads to an increase in the prices of imported goods.

22. In the medium term, the economic outlook for Hong Kong is positive. The sustained high-quality development of our country's economy will serve as the key driver of global economic growth, and provide the most solid foundation for Hong Kong to prosper and develop. The 14th Five-Year Plan establishes a clear positioning and direction for Hong Kong's economic development and supports Hong Kong for the development of the eight international centres and emerging industries. We may, by leveraging our advantages under "One Country, Two Systems", achieve co-ordinated development with our neighbouring cities in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), thereby creating enormous business opportunities and ample room for Hong Kong's development. Besides, the Government has been committed to nurturing emerging industries over the past few years. Among

them, the ecosystem of the innovation and technology (I&T) industry has become increasingly mature and is ready to contribute more to Hong Kong's economy and competitiveness in the coming few years. Regarding our traditional industries, financial services have been developing rapidly with a promising outlook, and will remain a driving force for our economic growth in future. To make the best of the opportunities, we must continue to build capacity and overcome the constraints on our workforce and land supply, and make concerted efforts to scale new heights in our economic development. Considering all these factors and taking into account the catch-up growth after the epidemic, I forecast that Hong Kong's economy will grow by an average of three per cent per annum in real terms from 2023 to 2026, slightly higher than the trend growth of 2.8 per cent during the decade before the pandemic. The underlying inflation rate is forecast to average 2.5 per cent.

(To be continued.)