Budget Speech by the Financial Secretary (10)

Public Finance

220. As one may recall, the Government launched several rounds of large-scale counter-cyclical and anti-epidemic measures during the pandemic, resulting in a sharp increase of expenditure to a high level of $810.5 billion in 2022-23. Although we have strived to reduce expenditure as the pandemic subsided, total expenditure for 2023-24 still reached $727.9 billion, representing an increase of 36.9 per cent compared with 2018-19, of which operating expenditure rose substantially by 40.2 per cent whereas operating revenue during the same period increased only by 13.1 per cent.

221. On capital works, the average annual expenditure has increased from about $76 billion over the past five years to about $85 billion in 2023-24. This is mainly due to the Government's all-out effort to press ahead with the land and housing supply projects, along with other infrastructure works for improving the environment and people's livelihood in recent years.

222. In face of challenges posed by the epidemic and external environment, our fiscal reserves have dropped to the current level of $733.2 billion. On Government's fiscal situation, we should not just focus on the short-term situation, but should look at the fiscal position over the entire economic cycle. The Government will uphold the principle of keeping the expenditure within the limits of revenues as enshrined under Article 107 of the Basic Law, and strive to achieve fiscal balance and avoid deficits, thereby ensuring the resilience and sustainability of our public finances.

Fiscal Consolidation Programme

223. We are taking steps to implement a comprehensive fiscal consolidation programme. After taking account of the need to strengthen momentum on economic growth and the burden of businesses and the public, the programme focuses mainly on expenditure cut with a view to restoring fiscal balance in a few years' time, although some revenue measures have been included in a pragmatic manner.

224. We will address the issue at its root by exercising stronger control over the pace of expenditure growth through re-engineering of business process or re-prioritisation. This notwithstanding, the Government will remain committed to taking care of people's needs by continued allocation of resources for the provision and improvement of public services.

Contain Growth of Operating Expenditure

225. We will strictly contain growth of operating expenditure by introducing the following measures:

(a) continuing to maintain zero growth in the civil service establishment, with the aim of containing the establishment at a level not exceeding that as at end-March 2021; and

(b) implementing the Productivity Enhancement Programme as announced earlier under which recurrent government expenditure will be cut by one per cent for two consecutive years. The resources thus saved will be re-allocated internally for enhancing existing or introducing new public services. To further contain the pace of expenditure growth, on the premise that such schemes as the Comprehensive Social Security Assistance Scheme and the Social Security Allowance Scheme will not be affected, all government departments need to cut recurrent government expenditure by another one per cent in 2026-27.

226. Upon implementation of the measures to contain expenditure growth, we forecast that the growth of operating expenditure will be reduced from the annual average of seven per cent in the past five years to an annual average of 2.2 per cent in the coming five years, which is lower than the 5.5 per cent increase in GDP over the same period.

227. Moreover, I have requested the relevant bureaux to review the mode of operation of the following two transport subsidy schemes that incur higher expenditure with a rapid expenditure growth rate. We have to emphasise that the Government has no intention to cancel these schemes. The review aims to enable the continued provision of subsidies of the schemes in a financially sustainable manner. We anticipate that the above review will be completed within this year:

(a) Government Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities (i.e. "the $2 Scheme"): the annual expenditure of the scheme has increased by over 200% from $1.3 billion in 2019-20 to about $4 billion in 2023-24; and

(b) Public Transport Fare Subsidy Scheme: the annual expenditure of the scheme has doubled from $1.7 billion in 2019-20 to the revised estimate of about $3.5 billion in 2023-24.

228. While we are controlling the growth rate of total expenditure, the amount of resources we allocated to public services has still recorded a significant increase. For example, recurrent expenditures related to health, social welfare and education in 2024-25 amount to $343.7 billion, up by 7.3 per cent over 2023-24 and by about 34.2 per cent over five years ago.

Review and Re-prioritisation of Capital Works

229. Implementation of infrastructure projects is not only an investment for the future, it can also promote Hong Kong's economic development and enhance people's livelihood. In recent years, the Government has made all-out effort to press ahead with the land and housing supply projects, including new development areas and new towns, and also proposed a number of other works projects for improving the environment and people's livelihood, such as Kai Tak Sports Park and Hospital Development Plan etc. It is estimated that

expenditure on capital works will start reaching its peak in the next three years.

230. The Government needs to contain its expenditure on infrastructure works at a sustainable level. To this end, relevant bureaux and departments have reviewed the cost-effectiveness of works projects and give due regard to priority and urgency to adjust the implementation schedule. For some works projects which are at a comparatively mature stage of planning, they will continue to be taken forward by the relevant bureaux and departments as planned. They include the site formation and infrastructure works for the Northern Metropolis. As for some works projects that are currently at the preliminary planning or conceptual stage, the implementation schedule will be adjusted in light of their importance, etc.

231. In the MRF, capital works expenditure could be contained at about $90 billion per annum on average. This figure still represents an increase of about 17 per cent over the average annual expenditure of $76 billion in the last five years, which demonstrates the Government's continued allocation of resources for capital works expenditure.

Increase Revenue

232. The key to boosting public revenue lies in sustained high-quality economic development. Only through growing the "economic pie" and enabling the economy to grow in a more robust and diversified manner can we increase our revenue to support the building of social infrastructure and people's livelihood.

233. When considering measures for increasing revenue, we have to take Hong Kong's actual situation into account and avoid taking any hasty actions that may affect local economic recovery and people's livelihood while at the same time maintaining the competitive edge of the simple and low tax regime. Having considered the above factors and based on the "affordable users pay" principle, we will implement adjustments to the following individual tax items.

234. We propose to implement a two-tiered standard rates regime for salaries tax and tax under personal assessment starting from the year of assessment 2024/25. In calculating the amount of tax for taxpayers whose net income exceeds $5 million and whose salaries tax or tax under personal assessment is to be charged at a standard rate, the first $5 million of their net income will continue to be subject to the standard rate of 15 per cent, while the portion of their net income exceeding $5 million will be subject to the standard rate of 16 per cent. It is expected that about 12 000 taxpayers will be affected, accounting for 0.6 per cent of the total number of taxpayers chargeable to salaries tax and tax under personal assessment. The government revenue will increase by about $910 million each year. Even with the two-tiered standard rates regime above in place, the new tax rates will still be lower than those of other advanced economies.

235. The Government will introduce legislative amendments in the first half of this year to implement the progressive rating system for domestic

properties, with the aim to bring the system into effect from the fourth quarter of 2024-25 onwards. The new system will only affect domestic properties with rateable value over $550,000, which account for about 1.9 per cent of the relevant properties. It is estimated that the system will contribute to an increase of about $840 million in government revenue annually.

236. The Government will review various fees and charges in a timely manner. Besides adhering to the "user pays" principle, the affordability of the general public and businesses will also be taken into account. Business registration fees will increase by $200 to $2,200 per annum with effect from 1 April 2024. The last adjustment to business registration fees was in 1994. We estimate that government revenue will increase by about $295 million per annum. To relieve the relevant impact, the business registration levy of $150 payable to the Protection of Wages on Insolvency Fund will be waived for two years.

237. We propose to resume the collection of the Hotel Accommodation Tax (HAT) at a rate of three per cent. It is anticipated that government revenue will increase by about $1.1 billion per annum. This will take effect from 1 January 2025 in order to allow the hotel and tourism industries more time for preparation. The HAT to be collected is estimated to only account for less than one per cent of the total spending of overnight visitors in Hong Kong. In the coming year, the Government plans to allocate over $1 billion for upgrading tourism infrastructure and services to attract more high-spending overnight visitors from different visitor source markets to Hong Kong.

Developments in International Taxation

238. We will continue to take forward the implementation of the global minimum tax proposal drawn up by the Organisation for Economic Co-operation and Development to address base erosion and profit shifting. We aim to apply the global minimum tax rate of 15 per cent on large multinational enterprise groups with an annual consolidated group revenue of at least EUR 750 million and impose the Hong Kong minimum top-up tax starting from 2025. We are now conducting consultation on the implementation of the above proposals and expect to submit a legislative proposal to LegCo in the second half of this year. It is estimated that these proposals will bring in tax revenue of about $15 billion for the Government annually starting from 2027-28. Hong Kong maintains an edge over other tax jurisdictions in terms of tax competitiveness after the implementation of the proposals.

Investment Return of the Future Fund

239. As announced in the 2021-22 Budget, the accumulated investment return of the Future Fund would be progressively reflected in the Operating Account. The Government will submit a resolution for passage by LegCo next month to complete the transfer arrangements.

Bond Issuance

240. The issuance of Government bonds is conducive to the development of the

bond market and allows the use of the capital raised from the market to drive green/sustainable and infrastructure projects. I emphasise that proceeds from bond issuance will not be used for funding government recurrent expenditure.

241. The Committee on the Financing of Major Development Projects led by me has reviewed how to adopt an orderly and phased approach in developing the Northern Metropolis. We plan to issue bonds of about $95 billion to $135 billion per annum in the next five years to drive the development of the Northern Metropolis and other infrastructure projects. For the Kau Yi Chau Artificial Islands project, we will continue to conduct relevant studies, and in considering its concrete implementation timetable, we will take into account various factors including the public finance position.

242. The Government will continue to adhere strictly to fiscal discipline and keep the government debt at a prudent level. It is expected that the ratio of Government debt to GDP will be in the range of about 9 to 13 per cent from 2024-25 to 2028-29, which is much lower than most of the other advanced economies.

Concluding Remarks

243. Mr President, this year will still be fraught with uncertainties. Investment sentiment and capital flows are under the sway of the complicated and volatile external environment.

244. In the short term, we need to reinforce the momentum of our economic recovery, while in the long run, we have to adjust our economic growth model with enhancements to both "quality" and "quantity". By charting the course of high quality development, we will drive further innovations, bring in new services and products, stimulate new demand and open up new markets. This is the necessary path to take for the future development of Hong Kong.

245. Just as nature goes through endless evolutions, so economic development has its cycles of ups and downs. New challenges and future uncertainties may be disconcerting.

246. But when we reflect on decades of development in Hong Kong, it is obvious that the path we have trodden, however winding or bumpy, has always led to a better tomorrow.

247. The colour of the cover of this year's Budget symbolises the first glimmer of dawn, for this inspires hope, faith and our longing for greater unity and harmony.

248. We have succeeded in turning challenges into greater opportunities every step of the way. We owe every success to the strong leadership of the Central People's Government, the staunch support from our country, as well as the agility and tenacity of Hong Kong people.

249. Our unique positioning and distinctive functions make us irreplaceable as our country strides towards high-quality development and the building of a great modern nation. And we have been playing an active role in contributing to our country's development. Our country's swift and steady progress,

alongside a fast developing Asia, has provided us with infinite opportunities along the way. Hong Kong thrives on its cultural blend of East and West and its connectivity to the world. It is also the only place in the world where the global advantage and the China advantage come together in a single economy. So long as we know where we stand and chart the right direction, we will be able to give full play to our unique strengths. By blazing new trails and firmly pressing ahead, Hong Kong will certainly thrive and prosper, like a dragon soaring far and high in the boundless sky. Thank you, Mr President.