

Budget Speech by the Financial Secretary (2)

Bolstering Confidence

28. The economic environment has been rather difficult in recent years amid intensifying geopolitical tensions and the rise of unilateralism and protectionism. Its impact on the Mainland economy and even the Hong Kong economy, coupled with fierce competition from other economies, have caused unease among some about the future development of Hong Kong.

29. That said, Hong Kong's economic outlook is bright. Despite a host of prevailing challenges, we will find infinite opportunities ahead, as long as we stay on top of global trends and dare to explore. Global economic gravity will continue to shift eastward. Asia will remain an important engine of global economic growth. Our country's economy is now pursuing high-quality development through innovation, deepening reform and sustaining a high-level, two-way opening-up. The overall trend of long-term growth remains unchanged. Our country has shown great care and staunch support for Hong Kong, and recently extended the Individual Visit Scheme to Xi'an and Qingdao. By leveraging Hong Kong's institutional advantages and our connectivity with the Mainland and the rest of the world under "One Country, Two Systems", we will certainly be able to seize the opportunities coming our way.

30. In the short run, the Government has put in place a series of measures to showcase Hong Kong's appeal to people from around the world, empowering individuals and enterprises to seize every opportunity. And we will continue to roll out policies and initiatives on all fronts, drawing in capital, enterprises and talent, expanding our economic capacity and strengthening our impetus for development.

Attracting Enterprises, Capital and Talent on All Fronts

31. Our economy will develop better by drawing together a larger pool of companies, capital and talent. The Office for Attracting Strategic Enterprises (OASES), the Innovation, Technology and Industry Bureau (ITIB), Invest Hong Kong (InvestHK) and the Hong Kong Investment Corporation Limited (HKIC) actively reach out to enterprises from the Mainland and overseas, and proactively attract and assist high value-added technology industries and enterprises to establish a foothold in Hong Kong.

Attract Strategic Enterprises

32. Next month, 10-plus strategic enterprises will sign a partnership agreement with OASES. The companies have either confirmed setting up or expanding their businesses in Hong Kong, or they are planning to do so. Together with the 30 companies from the first batch, they are expected to bring about over \$40 billion in investment to Hong Kong, creating about 13 000 jobs over the next few years. Their presence in Hong Kong will attract

upstream, midstream and downstream partners from their industry chains, promoting our Innovation and Technology (I&T) sector's vibrant development.

Hong Kong Investment Corporation Limited

33. Performing its role of channelling capital and leveraging market resources, the HKIC will attract more I&T companies to establish their presence in Hong Kong, accelerating the development of strategic industries. The first batch of direct investment and co-investment projects will be implemented in the first half of this year, covering areas such as life technology, green technology and finance, semi-conductors and chips, as well as the upgrading and transformation of manufacturing industries.

34. The HKIC will also encourage enterprises in its investment portfolio to engage more actively in local, Mainland and overseas I&T networks, where they can explore more application and development opportunities, while identifying potential investors and their target clientele.

35. To enhance Hong Kong's attractiveness to enterprises and capital, the HKIC will host a Roundtable for International Sovereign Wealth Funds. Sovereign wealth funds and financial leaders will be invited to explore investment opportunities and develop collaborative partnerships. A Summit on Start-up Investment and Development in Hong Kong will also be organised. It will bring together prominent figures in the start-up ecosystem, with a view to boosting collaboration among the investment, industry, academic and research sectors. That will help support I&T enterprise development at varying stages.

Re-domiciliation Mechanisms

36. We have already taken the first step by putting in place user-friendly fund re-domiciliation mechanisms for Open-ended Fund Companies and Limited Partnership Funds. These mechanisms attract existing foreign funds to establish and operate in Hong Kong. In the first half of 2024, we will submit a legislative proposal enabling companies domiciled overseas, especially enterprises with a business focus in the Asia-Pacific region, to re-domicile in Hong Kong.

Opening Up New Capital Sources

37. Alongside our longstanding efforts to reinforce Hong Kong's appeal to traditional European and American capital, we are striving to open up new capital sources, including those from the Middle East. At the end of last year, the Asia-Pacific region's first Exchange Traded Fund (ETF), which tracks stocks in Saudi Arabia, was listed in Hong Kong, a milestone in enhanced mutual access between our two markets. The Hong Kong Monetary Authority (HKMA) is also working with a number of financial institutions on the listing of an ETF in the Middle East that tracks Hong Kong stock indices.

Pooling Talent

38. A larger pool of talent can boost economic development and competitiveness.

39. In recent years, we have rolled out a number of measures, including the Top Talent Pass Scheme (TTPS), to trawl for talent. In the past year or so, more than 140 000 applications were approved under various talent admission schemes. About 100 000 of them have already arrived in Hong Kong. The Labour and Welfare Bureau will review the relevant arrangements in the middle of this year to ensure the competitiveness of these measures and their effectiveness in addressing our manpower demand.

40. The median average age of successful applicants of the TTPS is 35. Over 60 per cent of them are married, and most of them have brought their families to Hong Kong. More than half of those who have been in Hong Kong for at least half a year are employed, and their median monthly income is about \$50,000.

41. The Hong Kong Talent Engage (HKTE) is committed to attracting talent from the Mainland and overseas, providing one-stop support services to help them settle here. The HKTE will organise a Global Talent Summit and the Guangdong-Hong Kong-Macao Greater Bay Area High-quality Talent Development Conference in May. Their aim is to promote Hong Kong's advantages as an international talent hub, enabling the flow of talent among the cities of the GBA.

Creating Favourable Conditions for Recovery

Property Market

42. The Government announced on 25 October 2023 the adjustment of demand-side management measures for residential properties. The relevant adjustments included shortening the applicable period of the Special Stamp Duty (SSD) from three years to two years, reducing the rates of the Buyer's Stamp Duty (BSD) and the New Residential Stamp Duty (NRSD) by half, and introducing a stamp duty suspension arrangement for incoming talents' acquisition of residential properties. Among them, the stamp duty suspension arrangement has been well-received, with over 500 applications approved. This is a testament to the appeal of Hong Kong for overseas talents.

43. We have been keeping a close watch on the residential property market. After prudent consideration of the overall current situation, we decide to cancel all demand-side management measures for residential properties with immediate effect, that is, no SSD, BSD or NRSD needs to be paid for any residential property transactions starting from today. We consider that the relevant measures are no longer necessary amidst the current economic and market conditions.

44. The HKMA adjusted the countercyclical macroprudential measures for property mortgage loans in July last year. Taking into account the external and local economic situation, we consider that there is now room to make further adjustments to the relevant measures and other supervisory policies pertinent to property lending where appropriate, under the premise of maintaining the stability of the banking system. The HKMA will make announcements later today.

Stock Market

45. During the past year, we have made good progress in developing the stock market. We joined hands with regulators and HKEX in implementing a number of measures, including establishing the listing regime for specialist technology companies and the Hong Kong Dollar – Renminbi Dual Counter securities model. Regarding attracting overseas enterprises to be listed in Hong Kong, HKEX has included the Saudi Arabia and Indonesia stock exchanges in its list of Recognised Stock Exchanges last year, which facilitates enterprises primary listed on the main market of these exchanges to seek secondary listing in Hong Kong.

46. We are actively implementing measures proposed, last October, by the Task Force on Enhancing Stock Market Liquidity. They include reforming the Growth Enterprise Market (GEM). The HKEX has consulted the market on such initiatives as introducing a treasury share buy-back regime and maintaining trading operations under severe weather. Both are targeted for implementation in the middle of the year.

47. The Securities and Futures Commission of Hong Kong (SFC) and the HKEX are considering an array of measures to boost market efficiency and liquidity, including:

(a) enhancing the listing regime: explore enhancing the process of price discovery in the initial public offering of shares and reviewing requirements for the public float of shares of listed companies to boost market efficiency. Listing requirements and arrangements for structured products will also be enhanced, while the listing costs of the products will be lowered;

(b) improving the transaction mechanism: explore reducing the minimum trading spread to narrow bid-ask spreads, with the proposal to be submitted in the second quarter; enhancing stock-trading units adopted in the cash market as the next step; and making further adjustments to the position limits and margin requirements of derivative products to better meet risk-management needs;

(c) boosting investor services: explore refining real-time, market-data services, to provide investors with targeted services at a reasonable price; and

(d) stepping up market promotion: the HKEX will strengthen the promotion of Hong Kong's securities market through its overseas offices and deepen connectivity with the Middle East and ASEAN countries, to attract more issuers and capital.

48. To further enhance market competitiveness, stamp duties payable on the transfer of real estate investment trust (REIT) units and the jobbing business of option market-makers will be waived. It is estimated that this will reduce government revenue by about \$1 billion annually.

Assisting Small and Medium Enterprises

49. Taking into consideration that the strength of our economic recovery

still requires consolidation and changes in market conditions, the Government will assist small and medium enterprises (SMEs) through different measures to tackle their capital-flow problems, tap into new markets and accelerate upgrading and transformation.

SME Financing Guarantee Scheme

50. To assist SMEs in tackling their capital-flow problems, I will extend the application period for the 80% and 90% Guarantee Products under the SME Financing Guarantee Scheme for two years to the end of March 2026. The total guaranteed commitment under the Scheme will increase further by \$10 billion.

51. In addition, I have instructed the HKMA to maintain close communication with banks and the commercial sectors, adopt an accommodating manner to help enterprises tide over their liquidity needs, and refrain from demanding repayment of loans due to a fall in collateral value.

Digital Transformation

52. SMEs in the food and beverage industry and the retail industry will be invited to select suitable options among ready-to-use basic digital solutions and apply for subsidies on a matching basis early this year under the Digital Transformation Support Pilot Programme. The solutions will focus on three areas: digital payment and shopfront sales, online promotion and customer-management solutions. It is expected that at least 8 000 eligible SMEs will benefit from the pilot programme.

BUD Fund

53. We have been making continuous enhancements to the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund). They include raising the cumulative funding ceiling per enterprise and streamlining application procedures. I propose to inject \$500 million more into the fund to help SMEs boost their competitiveness and tap into Mainland and overseas markets. This includes the launch of "E-commerce Easy" under the fund. It will provide support of up to \$1 million per enterprise for implementing e-commerce projects in the Mainland.

Deduction of Expenses and Allowances under Profits Tax

54. We propose to introduce two enhancement measures for deduction of expenses under profits tax. Profits-tax payers will be granted tax deduction for expenses incurred in reinstating the condition of the leased premises to their original condition. As regards the allowances for industrial buildings and structures as well as commercial buildings and structures, the time limit for claiming the allowances will be removed. This will allow the new owner to claim allowances for the property after a change of ownership, subject to factors such as the construction cost of the property and the balancing charge of its previous owner. Both enhancement measures will take effect from the year of assessment 2024/25.

(To be continued.)