

# 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.)