

Budget Speech by the Financial Secretary (5)

Developing a Diversified Economy

50. Financial services, tourism, trading and logistics, business and professional services are the pillars of Hong Kong's economy. Apart from strengthening the industries with competitive edges, I see the need to identify new growth engines by actively developing emerging industries. This will not only broaden the foundation of our economy, but also provide diversified and quality employment opportunities for young people to unleash their potential.

Financial Services

51. We have been continuously enhancing our financial market infrastructures and regulatory regime, with the aim of boosting the competitiveness of Hong Kong as an international financial centre. The financial market is highly volatile. To ensure financial security, under my steer, financial regulators have taken great efforts on shock-resistance and market surveillance for the operation of a stable and orderly financial market. We will continue to fulfil the dual roles of facilitator and regulator. While consolidating our strengths and developing the market, we will ensure that our regulatory framework can keep pace with the times, manage systemic risks effectively and provide protection for investors.

Securities Market

52. The securities market in Hong Kong enjoyed flourishing development in the past year. Since the launch of the reform in end-April 2018 to facilitate the listing of new-economy companies in Hong Kong, a total of 17 enterprises have listed in Hong Kong under the new regime and raised more than \$200 billion, representing more than one-third of the funds raised through initial public offerings during the same period.

53. The rapid growth of the Exchange Traded Fund (ETF) market in recent years has brought new opportunities for the development of our securities market. In order to strengthen the competitiveness of Hong Kong as an ETF listing platform, I propose to waive the stamp duty on stock transfers paid by ETF market makers in the course of creating and redeeming ETF units listed in Hong Kong. This initiative will further reduce the transaction cost of ETFs listed and spur the development of the ETF market in Hong Kong.

Green Finance

54. Last year, we saw the successful offering of our inaugural green bond of US\$1 billion under the Government Green Bond Programme. The issuance was well received by investors worldwide and set an important new benchmark for

potential issuers in Hong Kong and the region. We plan to issue green bonds totalling \$66 billion within the next five years, having regard to the market situation. This will further consolidate and develop Hong Kong's position as a premier green hub in the region.

Retail Bond Market

55. In view of three rounds of interest rate cuts in the US last year and the low interest rates prevailing in Europe and Japan, I expect the global low interest rate environment to persist for a long time. Given that past issuances of inflation-linked retail bonds (iBond) were generally well-received, we plan to launch a further issuance of iBond this year to promote the further development of the retail bond market.

56. We will also continue to issue Silver Bonds to provide Hong Kong residents aged 65 or above with more appropriate investment products, and to encourage the financial sector to continue to develop the silver market.

57. Depending on the market situation, the issuance size of the two types of bonds above will not be less than \$13 billion. The Hong Kong Monetary Authority will announce the details in due course.

Public Annuities

58. On retirement financial planning, the Government launched the Hong Kong Mortgage Corporation Limited (HKMC) Annuity Plan in 2018 to assist the elderly in turning their assets into a lifelong stable cashflow. Over the past two years, the public and the retirees have raised their awareness of life annuity. This gives new impetus to the annuity market.

59. I will lower the minimum entry age of the HKMC Annuity Plan from 65 to 60 so as to facilitate early participation by those in need. The HKMC Annuity Limited will announce the details as soon as possible.

Fixed-rate Mortgage Loans

60. To provide potential homebuyers with more loan options and reduce the risks of interest rate volatility, HKMC will launch a pilot scheme to offer through banks fixed-rate mortgage loans, with interest rates of 2.75, 2.85 and 2.95 per cent per annum for periods of 10, 15 and 20 years respectively, capped at a ceiling of \$10 million per loan transaction. The total loan amount under the scheme is \$1 billion, subject to review based on market response.

Asset and Wealth Management

61. Hong Kong is an international asset and wealth management centre. The development of the Greater Bay Area presents enormous opportunities for the sector. To attract more funds to Hong Kong, we have been making full efforts to introduce new fund structures, including the preparation of new legislation on the establishment of a limited partnership regime that meets the operational needs of funds, so as to encourage the setting up of private equity funds in Hong Kong.

62. Promoting the development of private equity funds in Hong Kong will not only draw in capital, talent and expertise for a large number of business entities, technology companies and start-ups, but also drive demand for related professional services such as management, accounting and law while creating business opportunities in the service industry, including conference and exhibition, hotel, and tourism. With a view to attracting more private equity funds to domicile and operate in Hong Kong, we plan to provide tax concession for carried interest issued by private equity funds operating in Hong Kong subject to the fulfilment of certain conditions. We will consult the industry on the proposal, and the relevant arrangement will be applicable starting from 2020-21 upon completion of the legislative exercise.

Comprehensive Regulation

63. The Financial Action Task Force (FATF), an international regulatory body, completed a comprehensive evaluation of Hong Kong's anti-money laundering and counter-terrorist financing (AML/CTF) regime in mid-2019. Hong Kong is the first jurisdiction in the Asia-Pacific region having successfully passed the FATF assessment. The Government will further enhance Hong Kong's AML/CTF regime having regard to the recommendations of the evaluation report, and consider incorporating virtual asset service providers and dealers in precious metals, stones and jewellery into the AML/CTF regulatory framework. We plan to consult the public on detailed proposals this year.

64. Furthermore, we will continue to implement the latest international standards on banking regulation as promulgated by the Basel Committee on Banking Supervision, with a view to safeguarding the financial stability of Hong Kong.

Innovation and Technology

65. Innovation and technology (I&T) is an important growth engine for future economic development. In the past three years, the Government introduced a number of policies and allocated over a hundred billion dollars to support a series of measures for the development of I&T. The local I&T ecosystem has become more vibrant. Schools and parents are attaching greater importance to STEM education. Local I&T companies have won awards time and again in international competitions, whereas a number of "unicorns" have emerged. While there is still some way to go to develop I&T into mature industries, I am convinced that our current investments will bear fruits in future.

Promoting Research and Development

66. Promoting research and development (R&D) is a crucial part of I&T development. The Government is developing two InnoHK research clusters at the Hong Kong Science Park (Science Park), one focusing on healthcare technologies and the other on artificial intelligence and robotics technologies. They have received overwhelming response from many world renowned universities and research institutes. With the first batch of R&D centres expected to be set up progressively this year, we are actively exploring the establishment of a third InnoHK research cluster.

67. The Government will continue to provide enhanced tax deduction for qualifying R&D expenditure incurred by enterprises and subsidise local R&D work through the Innovation and Technology Fund (ITF), with a view to fostering technology transfer as well as application and commercialisation of R&D results. The Government will extend next month the coverage of the Public Sector Trial Scheme to all technology companies conducting R&D activities in Hong Kong.

68. On R&D and application, with the recent anti-epidemic work as an example, the Government has used the electronic wristbands developed by the Logistics and Supply Chain Multi-tech R&D Centre to facilitate home quarantine. The Nano and Advanced Materials Institute has also authorised a mask manufacturer to use its patented nanofibre technology to produce a highly breathable mask that is capable of killing bacteria. The government is also exploring the technology solutions related to reusable masks.

Re-industrialisation and Industry Development

69. The Government has been promoting re-industrialisation in Hong Kong through the provision of infrastructural, financial, technological and talent support. We will inject \$2 billion into the ITF for launching the Re-industrialisation Funding Scheme to provide financial support for manufacturers on a matching basis for setting up new smart production lines in Hong Kong. We will also provide the Hong Kong Science and Technology Parks Corporation (HKSTPC) with an additional funding of \$2 billion for converting an old factory in the Yuen Long Industrial Estate into a Microelectronics Centre to provide modern manufacturing facilities.

70. From April 2020 onwards, the Government will enhance the Technology Voucher Programme to promote the wider use of technological services and solutions among local enterprises for increasing their productivity or upgrading and transforming business processes. The Government's funding ratio will increase from the current level of two-thirds to three-fourths, and the funding ceiling from \$400,000 to \$600,000. The ceiling on the number of approved projects will also rise from four to six.

Developing I&T Infrastructure

71. The HKSTPC is exploring the feasibility of Phase 2 of the Science Park Expansion Programme. I will earmark \$3 billion for the programme.

72. The Data Technology Hub and the Advanced Manufacturing Centre being developed by the HKSTPC in the Tseung Kwan O Industrial Estate will be completed as scheduled in the first half of this year and in 2022 respectively.

73. We are now going through the statutory town planning procedures for the Cyberport 5 development site and plan to submit a funding proposal to LegCo in the first half of 2021. Construction is expected to complete in 2024 at the earliest. The expansion will attract more technology companies and start-ups to Cyberport.

Supporting Start-ups

74. We support start-ups through various means, including strengthening the support of the HKSTPC and Cyberport for their tenants and incubatees, backing university start-ups through the Technology Start-up Support Scheme for Universities, making use of the Innovation and Technology Venture Fund for co-investing with venture capital funds in local technology start-ups.

(To be continued.)