Budget Speech by the Financial Secretary (9)

A Caring and Inclusive Community

Youth Development

194. Young people are Hong Kong's future. "Hong Kong will prosper only when its young people thrive." The Government is actively implementing the various actions and measures set out in the Youth Development Blueprint in phases. We will also open up more Mainland and overseas exchange and internship opportunities for young people. Our target is to benefit no less than 30 000 youths this year, enabling young people to learn about our country's major development trends and broaden their global exposure. The Government will also organise the Youth Development Summit in mid this year. Mainland and overseas youth organisations will be invited to exchange views on issues of concern to young people and to engage in mutual learning. It is anticipated that more than 1 000 people will participate in the Summit.

Vocational and Professional Education and Training

195. The Government will continue to foster industry-institution collaboration and diversified development to enhance vocational and professional education and training (VPET). The Government has set aside some $680 million to support the Vocational Training Council's efforts. Initiatives include extending the Pilot Incentive Scheme to Employers and the Pilot Subsidy Scheme for Students of Professional Part-time Programmes for five years, as well as stepping up support for student-exchange activities, strengthening assistance to students with special educational needs and encouraging employers to provide workplace learning opportunities, etc.

196. Furthermore, the Government has also set aside a start-up fund of $100 million to support self-financing, post-secondary institutions in forming an Alliance of Universities in Applied Sciences for joint publicity and promotion of VPET, and raise the status of VPET among parents, students and society in general.

Caring for the Elderly

197. The Government has regularised the Community Care Service Voucher (CCSV) Scheme for the Elderly since September 2023, and extended its scope to cover the rental of assistive technology products. The number of CCSVs will increase to 11 000 in 2024-25, involving an annual expenditure of about $900 million. The Government also regularised the Residential Care Service Voucher (RCSV) Scheme for the Elderly since last April. From the second quarter of this year, the number of RCSVs will increase to 5 000 for the early benefit of more eligible elderly persons. The scheme will involve an annual expenditure of about $1,440 million.

Support to Persons with Disabilities

198. The Government is committed to increasing the number of day rehabilitation, residential care and respite service places for persons with disabilities. As at end-2023, the total number of service places had been increased to 36 400. The Government will also allocate funding of about $130 million from the Community Care Fund to implement a three-year pilot scheme starting from the third quarter of 2024 to provide an additional subsidy of $500 per month for employed disabled recipients of CSSA as an incentive for employment. The scheme is expected to benefit some 6 800 persons.

Women's Development

199. The Government attaches great importance to women's development, setting aside $100 million last year to strengthen support for the relevant work. The Women Empowerment Fund, established in June 2023, has so far provided funding support to women's organisations and non-governmental organisations for launching over 140 projects for purposes such as helping women assume different roles in the job market and providing them with training on child and elderly care.

Assist Working Families in Childbearing

200. Starting this year, the Government will set up 10 more aided, standalone child-care centres, in phases. The target is to provide nearly 900 additional places for child day-care services within three years. The Government will also extend the After School Care Programme for Pre-primary Children in phases, starting this year, to cover all districts in Hong Kong. The number of service places will increase to nearly 1 200 within three years.

Revised Estimates for 2023-24

201. Hong Kong's economic growth last year was slower than expected owing to global interest rate hikes, economic slowdown and continued geopolitical tensions. Notwithstanding a reduction in total government expenditure after the pandemic, revenue from land premium and stamp duty has decreased under a softened asset market, resulting in a larger deficit than expected.

202. The 2023-24 revised estimate on government revenue is $554.6 billion, lower than the original estimate by 13.7 per cent or $87.8 billion.

203. Revenue from land premium is $19.4 billion, substantially lower than the original estimate by $65.6 billion and also far lower than the previous year. Revenue from stamp duty of $50 billion is lower than the original estimate by $35 billion. Revenue from profits tax and salaries tax is $171.2 billion and $79.2 billion respectively, comparable to the original estimates.

204. The revised estimate of total government expenditure for 2023-24 is $727.9 billion, decreased by 10.2 per cent compared to the previous year, and is 4.3 per cent or $33.1 billion lower than the original estimate.

205. All in all, it is expected that there will be a consolidated deficit of $101.6 billion for 2023-24. Fiscal reserves are expected to be $733.2 billion

by 31 March 2024.

Estimates for 2024-25

206. Looking ahead, the external environment will remain complicated in the coming year. As a small and externally-oriented economy, Hong Kong's economic growth will inevitably be affected. Revenues related to asset market will still require some time to fully recover. On the expenditure side, the Government will continue to provide resources for strengthening momentum on economic growth and enhancing public services.

207. The major policy initiatives announced in the 2023 Policy Address involve revenue of about $14.2 billion, operating expenditure of $13.4 billion and capital expenditure of $25.2 billion. The financial implications of such initiatives have been reflected in the estimates for 2024-25.

208. Total government expenditure for 2024-25 will increase by about 6.7 per cent to $776.9 billion, with its ratio to nominal GDP projected to increase slightly to 24.6 per cent.

209. Recurrent expenditure will increase by seven per cent to $580.2 billion. Of this, substantial resources will still be allocated to livelihood-related policy areas including health, social welfare and education, involving a total of $343.7 billion, representing 59.3 per cent of recurrent expenditure. After the pandemic, non-recurrent expenditure will substantially decrease by 47.7 per cent to $33.6 billion.

210. Total government revenue for 2024-25 is estimated to be $633 billion, while earnings and profits tax are estimated to be $279.6 billion, increasing by 6.8 per cent over the revised estimate for 2023-24. Having regard to the Land Sale Programme and the land supply target of 2024-25, revenue from land premium is estimated to be $33 billion, increasing by 70.1 per cent over the revised estimate for 2023-24. Revenue from stamp duty is estimated to be $71 billion, increasing by 42 per cent over the revised estimate for 2023-24.

211. Taking into account the bond issuance of $120 billion in 2024-25, it is expected that there will be a deficit of $48.1 billion for the year, and fiscal reserves will decrease to $685.1 billion.

212. In 2024-25, the Government will maintain its target of zero growth in the civil service establishment. Departments will enhance their effectiveness and efficiency through reprioritisation, internal redeployment and streamlining of work processes in taking forward different new policies and initiatives of the Government. It is expected that there will be about 194 000 posts in the civil service establishment as at end-March 2025.

Medium Range Forecast

213. We are determined and confident in overcoming the challenges currently facing our public finances. The fundamental principle that we follow is to maintain the sustainability of public finances. We have formulated a fiscal consolidation programme to achieve fiscal balance gradually and maintain

fiscal reserves at a prudent level for ensuring the provision of various services to the society and promotion of economic development while also having sufficient buffer to roll out measures for rendering assistance to the public and enterprises at times of adversity or in other emergency situations.

214. The Medium Range Forecast (MRF) projects, mainly from a macro perspective, the revenue and expenditure as well as financial position of the Government. It has fully reflected the impact of the measures under the fiscal consolidation programme. For 2024-25, a real economic growth rate of 2.5 to 3.5 per cent per annum is adopted. From 2025-26 to 2028-29, a real economic growth rate of about 3.2 per cent per annum is adopted.

215. During the above period, the average annual capital works expenditure will be about $90 billion, while recurrent government expenditure will grow at a rate of 4.2 per cent per annum. The ratio of total government expenditure to GDP will gradually fall from about 24.6 per cent for 2024-25 to about 20.6 per cent for 2028-29.

216. Regarding revenue from land premium, the forecast for 2025-26 and onwards is mainly based on the more conservative 20-year average ratio of revenue from land premium to GDP, which is 3.4 per cent of GDP. I also assume that the growth rates of revenue from profits tax and other taxes will correspond to the economic growth rates in the next few years. Overall, the ratio of government revenue to GDP will gradually increase from about 20 per cent for 2024-25 to about 22.6 per cent for 2028-29.

217. In addition, the MRF reflects the proceeds from the annual issuance of government green/sustainable bonds and infrastructure bonds worth approximately $95 billion to $135 billion in total.

218. Based on the above assumptions and arrangements, the deficit in the Operating Account and Capital Account in the next five years will gradually reduce every year. The Operating Account is estimated to record a surplus two years later from 2026-27 onwards, while the Capital Account will record surplus in 2028-29. After taking account of proceeds from the issuance of bonds, the Consolidated Account will only record a deficit in 2024-25 and will turn to a surplus in subsequent years. The above forecast has not taken into account any tax rebates or relief measures that the Government may implement over the coming four years.

219. Fiscal reserves are estimated at $832.2 billion by the end of March 2029, representing 21.2 per cent of GDP, or equivalent to approximately 12 months of government expenditure.

(To be continued.)