FS unveils 2021-22 Budget

The Financial Secretary, Mr Paul Chan, has today (February 24) in his 2021-22 Budget unveiled wide-ranging measures to revive Hong Kong's economy and help people overcome financial difficulties amid the COVID-19 pandemic.

Mr Chan said he expects a gradual recovery for the economy this year, but warned of financial challenges in the coming few years.

"This year's Budget focuses on stabilising the economy and relieving people's burden," he said.

"It aims to alleviate the hardship and pressure caused by the economic downturn and the epidemic through the introduction of counter-cyclical measures costing over $120 billion, and seeks to create a leverage effect to benefit our people, workers as well as enterprises."

Severely impacted by the global COVID-19 pandemic, Hong Kong's economy contracted by 6.1 per cent in 2020 while the seasonally adjusted unemployment rate currently stands at a near 17-year high of 7 per cent, Mr Chan said.

Mr Chan forecast economic growth of between 3.5 per cent and 5.5 per cent in real terms in 2021, and average annual growth of 3.3 per cent from 2022 to 2025, while the underlying inflation rate is expected to average 2 per cent.

Noting that government measures launched under the Anti-epidemic Fund and in last year's Budget exceeded $300 billion, Mr Chan forecast a budget deficit of $257.6 billion for 2020-21.

"Although I forecast an improvement in revenue for the next financial year, I expect that the fiscal deficit will be $101.6 billion, accounting for 3.6 per cent of GDP, due to the counter-cyclical fiscal measures and the continued increase in recurrent expenditure," Mr Chan said.

Fiscal reserves are expected to be $902.7 billion by March 31, 2021.

"In the past year, we have increased government expenditure substantially to combat the epidemic and roll out relief measures, which resulted in our fiscal reserves dropping sharply in two years from the equivalent of 23 months of government expenditure to 13 months," Mr Chan said.

Mr Chan said that starting from 2021-22, the cumulative investment return of the Future Fund (established in 2016) would be reflected in the Operating Account on a progressive basis, with $25 billion brought back in the first year.

This, he said, would ensure that financial stability is maintained and enhance confidence in Hong Kong's fiscal strength.

Given the budget deficit forecasts, Mr Chan said the Government would "set an example by cutting expenditure so as to strengthen fiscal discipline".

This would include zero growth in the civil service establishment in 2021-22, and trimming government recurrent expenditure by 1 per cent in 2022-23 to achieve estimated savings of $3.9 billion.

To increase revenue, the Government plans to raise the rate of Stamp Duty on Stock Transfers, from the current 0.1 per cent to 0.13 per cent of the consideration or value of each transaction payable by buyers and sellers respectively.

Mr Chan said the sums raised under the Government Green Bond Programme will provide funding for green projects. He proposed further issuance of green bonds totalling $175.5 billion within the next five years.

The Government will also review the rating system to explore room for improvement.

Mr Chan said that now is not the right time to introduce new taxes or revise the rates of profits tax and salaries tax, but the Government will "keep in view the situation and make adjustments at the appropriate time".

To help businesses weather the current economic downturn, Mr Chan announced a $9.5 billion package of financial relief measures, including reducing profits tax up to a ceiling of $10,000, waiving business registration fees for 2021-22 and reducing various government fees and charges.

To encourage and boost local consumption and stimulate the economy, the Government will issue, in instalments, electronic consumption vouchers with a total value of $5,000 to eligible Hong Kong permanent residents and new arrivals aged 18 or above.

"This measure, which involves a financial commitment of about $36 billion, is expected to benefit around 7.2 million people," Mr Chan said.

Mr Chan announced that the application period for the Special 100% Guarantee Product would be extended until end-2021, to help businesses overcome cash-flow challenges.

Mr Chan also set out initiatives to support the recovery and boost development of key industries, including innovation and technology, financial services, tourism, air cargo and creative industries.

To support job seekers, Mr Chan allocated $6.6 billion to create around 30 000 time-limited jobs for a period of up to 12 months.

Despite the fiscal deficit, Mr Chan said spending would not be reduced in areas related to people's livelihood, especially the three policy areas of education, social welfare and healthcare.

"In 2021-22, the recurrent funding for these three policy areas amounts to $302.3 billion in total, accounting for 58 per cent of the Government's total estimated recurrent expenditure," Mr Chan said.

To help ease people's financial burden, Mr Chan proposed a range of one-off measures, including reducing salaries tax by 100 per cent subject to a ceiling of $10,000, providing rates concessions for domestic properties and offering a $1,000 subsidy to each eligible residential electricity account as well as providing an extra half-month allowance to eligible recipients of the Comprehensive Social Security Assistance Scheme, Old Age Allowance, Old Age Living Allowance and Disability Allowance.

In addition, Mr Chan suggested setting up a Special 100% Loan Guarantee for Individuals Scheme, to provide an extra financing option for the unemployed. Under the proposal, the loan ceiling would be capped at $80,000 with the interest rate fixed at 1 per cent per annum and a maximum repayment period of five years.

The Government's goal is to achieve carbon neutrality before 2050. Mr Chan revealed plans to cease new registration of fuel-propelled private cars in 2035 or earlier, as part of the Government's strategy to promote the use of electric vehicles (EVs), which also includes expanding the EV charging network and training EV technical and maintenance practitioners.

To support decarbonising and waste management strategies, Mr Chan set aside an extra $1 billion to install additional small-scale renewable energy systems at government buildings and infrastructure.

A further $150 million will be earmarked to conduct energy audits and install energy-saving appliances, free of charge, for non-governmental organisations subvented by the Social Welfare Department, Mr Chan said.

To ease traffic congestion, Mr Chan proposed increasing the rate of each tax band for the first registration tax for private cars (including electric private cars) by 15 per cent and the vehicle licence fee by 30 per cent.

Identifying ways to improve the living environment, Mr Chan allocated $500 million to carry out enhancement works for facilities in some country parks, and reserved about $300 million to implement a five-year plan for upgrading more than 70 football pitches, including increasing the number of five-a-side football pitches.

"The economy may move in a cycle, but there is always a way to prosperity," Mr Chan said.

"We have overcome many challenges and always come out stronger. Let us be steadfast and ride out the storm. Together we will build a better Hong

Kong."