

LegCo Secretariat releases Research Brief on “The 2024-2025 Budget”

The following is issued on behalf of the Legislative Council Secretariat:

The Legislative Council Secretariat (the Secretariat) today (April 9) released a Research Brief on "The 2024-2025 Budget".

The Financial Secretary (FS) delivered the second Budget of the current-term Government on February 28, 2024, reporting a larger-than-expected fiscal deficit. The revised estimate of fiscal deficit for 2023-2024 was HK\$101.6 billion. The widening of fiscal deficit was largely due to a noticeable shortfall in revenue from land premium and stamp duties amid the lacklustre performance of the property and stock markets. This has led to a further depletion of the fiscal reserves to HK\$733.2 billion, which is the lowest level since 2012-2013 (see Annex 1).

While the 2024-2025 Budget remains expansionary, the FS forecast that budget deficit this year will narrow by more than half to HK\$48.1 billion. Several policy initiatives were introduced in the Budget to bolster Hong Kong's economic strength and fiscal stability. These included a fiscal consolidation programme aimed at achieving fiscal balance in a few years' time, the issuance of bonds to support green/sustainable and infrastructure projects, and the removal of all demand-side management measures for residential properties.

The fiscal consolidation programme reflects the Government's effort to identify new revenue and funding sources while controlling the growth of total government expenditures. To raise revenue, the FS announced targeted new tax measures in the Budget. These included a two-tiered standard rates tax regime for salaries tax and tax under personal assessment that targets high-income earners, and a progressive rating system for domestic properties with a higher rateable value. On the expenditure side, the amount earmarked for one-off relief measures plunged 80.6 per cent to HK\$11.5 billion in 2024-2025, compared to HK\$59.4 billion in the previous year. Meanwhile, of the total government expenditure in 2024-2025, the recurrent expenditure is set to grow by 7 per cent to HK\$580.2 billion in 2024-2025, while the increase in the following four financial years is expected to slow to between 3 per cent and 4.3 per cent per year.

The Research Brief also highlighted similar fiscal consolidation efforts by the United Kingdom (the UK), Canada and Singapore, noting these developed places commenced their actions to restore fiscal health on a wider scope and earlier than Hong Kong. The UK and Canada have pursued fiscal consolidation in a gradual pace, steering clear of sizable tax hikes or significant cuts to government services and benefits. In Singapore, although the government has raised tax rates on luxury cars, high-income earners and higher-value properties, the primary focus of its fiscal consolidation effort is to boost tax revenues by promoting economic growth.

The Budget also outlined the Government's plan to expand bond issuance over the coming years to drive green/sustainable and infrastructure projects. For 2024-2025, the Government plans to issue HK\$120 billion worth of silver, green and infrastructure bonds. The Research Brief pointed out that despite the recent reduction in fiscal reserves, Hong Kong still has considerable room for borrowing in view of its relatively low government debt to Gross Domestic Product ratio (see Annex 2).

Another key highlight of this year's Budget was the removal of all demand-side management measures for residential properties that had been in place since 2010. Transactions in both primary and secondary markets have reportedly picked up after the measures were axed. Nevertheless, concerns over the prospects for the property market remain. The inventory of unsold units and potential ample supply of new flats might challenge the continued reliance on land sales as a substantial revenue source for the Government. Given the volatility of revenue from land premium, there have been renewed calls for the Government to undertake a comprehensive review on the feasibility of introducing new broad-based taxes and the trade-offs of each tax option.

The Legislative Council (LegCo) will resume the Second Reading debate on the Appropriation Bill 2024 at its meeting of April 24 and Members will speak on the Bill.

The Research Brief is prepared by the Secretariat's Research Office of the Research and Information Division with a view to enhancing information support for Members. It is a concise summary aiming at explaining a subject matter which may be of interests to Members and the general public. The Research Brief is now available on LegCo website (app7.legco.gov.hk/rpdb/en/uploads/2024/RB/RB01_2024_20240409_en.pdf).