

Speech by FS at SCMP's Redefining Hong Kong Debate Series (English only)

Following is the speech by the Financial Secretary, Mr Paul Chan, at the South China Morning Post (SCMP)'s Redefining Hong Kong Debate Series today (March 13):

Gary (Chief Executive Officer of the SCMP, Mr Gary Liu), Tammy (Editor-in-Chief of the SCMP, Ms Tammy Tam), Shirley (Chief Executive Officer of the Hong Kong General Chamber of Commerce, Ms Shirley Yuen), Agnes (Managing Partner, Hong Kong and Macau, EY, Ms Agnes Chan), Stephen (Deputy Executive Director, Our Hong Kong Foundation, Mr Stephen Wong), distinguished guests, ladies and gentlemen,

Good afternoon.

It is a pleasure to be taking part, once again, in the South China Morning Post's Redefining Hong Kong Debate Series. This is a welcome opportunity to share my thoughts with you on the 2019-20 Budget, delivered exactly two weeks ago today.

This afternoon's discussion topic – "Can this year's spending blueprint meet the immediate needs of Hongkongers, as well as provide longer-term help for businesses facing economic headwinds?" – gets to the heart of the matter. And indeed, that central question was close to my heart as I worked on the Budget.

To help answer it, I went directly to the people of Hong Kong.

In addition to holding some 40 consultation sessions to gauge the views of various sectors and organisations, I spent a considerable amount of time interacting with people in the community, hearing their thoughts and expectations regarding the Budget.

I also needed to frame the Budget within the larger context of the global political and economic landscape. As pointed out in my Budget Speech, these include unsettling US-China relations, changing dynamics in international co-operation, opportunities in developing Asia, opportunities arising from the continuing development of the Mainland, in particular the implementation of the Greater Bay Area development and the Belt and Road Initiative, and finally the impact of the global innovation and technology (I&T) wave.

And without going into the details, I am sure you will agree with me that "complex and volatile" are apt descriptions of the external environment we are facing. Together, they have created a global backdrop charged with uncertainty.

We are a small and open economy, and global challenges could easily bring an impact on our economic performance. With our GDP growth falling from 4.6 per cent in the first quarter of 2018 to 1.3 per cent in the fourth quarter, perhaps the good news is that we can still maintain 3 per cent overall growth in the whole year, higher than the trend growth rate of 2.8 per cent over the past decade.

It was with these developments very much in mind, together with the concerns of the public and the business community, that I prepared this year's Budget.

To address Hong Kongers' immediate needs, particularly to help enterprises tackle today's uncertainties, I introduced a series of relief and support measures, while having regard to the Government's fiscal position.

Today's prevailing uncertainties can be particularly unsettling for small and medium-sized enterprises (SMEs). To help them address liquidity problems, I have decided to further extend the application period of the special concessionary measures under the SME Financing Guarantee Scheme, which enables enterprises to obtain loans from banks, up to \$15 million per enterprise.

I will also inject \$1 billion, on top of \$1.5 billion last year, into the Dedicated Fund on Branding, Upgrading and Domestic Sales, to provide funding support of \$3 million per enterprise to assist them in exploring new markets and new business opportunities, not just in the Mainland but also in ASEAN countries and other economies that have signed a Free Trade Agreement with Hong Kong.

To encourage enterprises to enhance business efficiency through adoption of technology, I will boost the Technology Voucher Programme, by doubling the funding ceiling to \$400,000 per enterprise.

With a view to relieving enterprises' burden in the present environment, we will waive the business registration fees for 2019-20 and rebate the profits tax for 2018-19 by 75 per cent, subject to a ceiling of \$20,000 per enterprise.

This is on top of the already implemented two-tier profits tax rates regime, under which the profits tax rate for the first \$2 million of assessable profits is cut in half to 8.25 per cent.

Businesses and enterprises aside, we also have to improve people's livelihoods and address their expectations.

That's why I have announced in the Budget a series of one-off relief measures, or so-called "sweeteners", including rebating salaries tax, waiving rates, paying DSE exam fees for students, providing extra allowances to social security recipients, needy students and the elderly, etc.

Talking about "sweeteners", I have, from time to time, heard about

suggestions of doing away with the "sweeteners" and spending the money on long-term initiatives.

It is true that budget relief measures usually take up quite a part of the estimated surplus. For this year, it is 73 per cent. Yet from what I gathered in various consultation sessions, "sweeteners" are not perceived as optional, and there is always expectation from the public. Indeed, in this year's case, these measures could go some way to relieve the burden of our people in times of uncertainty.

Relief measures aside, I also needed to address other livelihood issues of my community.

The public healthcare system is one of such issues. I have proposed four initiatives totalling \$16.1 billion to improve the allowances and pay for front-line medical and supporting staff who have been under very heavy workload, expedite the upgrading and acquisition of advanced medical devices and equipment, expand the scope of subsidised drugs, and help ensure stable public healthcare funding.

An inclusive community is a caring community. That means ensuring Hong Kong's needy and disadvantaged receive the help they need as quickly as possible. With that in mind, I set aside \$20 billion to purchase 60 properties for providing more than 130 welfare facilities scattered around 18 districts, ranging from a pre-school rehabilitation centre and child day-care centres to parent resources centres and neighbourhood centres for the elderly.

To further improve the mental health and stress resilience of teenagers, we will implement a "two school social workers for each school" measure in more than 460 secondary schools from the coming school year. Together with other enhanced services for the elderly, children, youths, persons with disabilities, rehabilitation and family and community support, over \$4.2 billion in recurrent resources is committed.

On housing, we will continue to work hard to increase land and housing supply. Meanwhile, I have earmarked \$2 billion to support non-governmental organisations in constructing transitional housing to meet the needs of those who are living in inadequate accommodation.

In addition to meeting immediate needs and expectations, I believe long-term sustainable economic growth is crucial to Hong Kong's future well-being.

In that regard, economic diversification is critical. I have used financial services and innovation and technology as examples in my Budget to illustrate the Government's vision and holistic strategy in further strengthening our pillar industries and in nurturing new industry.

On financial services, our vision is to develop Hong Kong into the international financial centre of China, Asia and the world by riding on the

increasing economic size of China and harnessing global opportunities.

Our strategy comprises nine components, namely equities market, bond market, insurance and risk management, banking, wealth and asset management, offshore RMB business, green finance, financial services in the Greater Bay Area, and Belt and Road infrastructure financing.

Underpinning these nine components, we have intensified our development in fintech and talent. We will continue to leverage our "one country, two systems" unique arrangement in playing a pivotal role in bridging opportunities in the Mainland and the rest of the world.

Last year, we launched a new listing regime to encourage the listing of emerging and innovative enterprises and pre-revenue biotech companies in Hong Kong. As a result, we ranked number one again last year in terms of funds raised through IPOs (initial public offerings).

Besides, we introduced measures to attract organisations to issue bonds in Hong Kong, in particular green bonds. Last year, green bonds issued here amounted to some US\$11 billion, more than triple that of 2017.

We also implemented measures, including tax and other arrangements, to boost our wealth and asset management industry and insurance industry and our attractiveness as a corporate treasury centre for Mainland and overseas enterprises.

This year, we will study the case of introducing a more competitive tax arrangement, along with more structural choices, to attract more private equity funds to set up and operate in Hong Kong. This will help bring more capital to our companies at varying stages of their development and thereby help drive the real economy. It will also generate demand for related professional services and create opportunities for the service industry in general.

With regard to fintech, we have come a long way in a short time, with more than 550 fintech companies now based here in Hong Kong. And I'm confident that the number will continue to soar and unicorns will continue to emerge.

Apart from financial services, innovation and technology is another priority sector for Hong Kong.

The development of I&T will bring huge economic benefits to Hong Kong. The intellectual property so generated can be commercialised to drive ancillary economic activities, thus creating quality employment opportunities and enabling people to live comfortably by adopting new technology.

To develop I&T, we need talent and a robust ecosystem, and these are interdependent. To this end, we have, in this term of Government, committed about \$100 billion to develop I&T infrastructure, promote research and development (R&D), nurture local and attract international talent, support

and attract technology enterprises and promote re-industrialisation. We will also introduce a pro-innovation government procurement policy and review existing laws which may impede I&T development.

The initiatives outlined in this year's Budget include:

- * \$5.5 billion for the Cyberport phase 5 expansion project to accommodate our flourishing tech companies and start-ups;
- * \$16 billion for our universities to enhance or refurbish campus facilities, mainly laboratories and facilities essential for research and development;
- * At least \$800 million over the next five years to support applied R&D work and the realisation of R&D results in designated universities, key laboratories and research centres;
- * \$2 billion to launch a matching fund scheme for re-industrialisation this year. The fund will subsidise manufacturers to set up smart production lines in Hong Kong; and
- * \$500 million over the coming three school years for launching the IT Innovation Lab in secondary schools to nurture tomorrow's technology talent.

Of course, my Budget continues to support the development of other industries in Hong Kong such as tourism, creative industries, the construction industry, and transportation and logistics.

Realising long-term growth requires not only that we diversify our economy, but that we also expand our co-operation, our partnerships as well as our market reach. And I believe that in creating connections, you create mutual opportunity.

We have before us a rare opportunity arising from the two development strategies that our country is pressing ahead with, namely the Greater Bay Area development and the Belt and Road Initiative.

Both strategies will bring tremendous opportunities for Hong Kong. Apart from financial services, professional services, risk management and insurance, wealth and asset management and innovation and technology as I mentioned earlier on, we can be the legal and dispute-resolution centre.

That's why, in this Budget, I pledged \$150 million to set in motion a dispute resolution online platform by NGOs. The development of lawtech here will boost our position as a global centre for dispute resolution services.

Of course, Hong Kong's future development is more than business and trade. Working together, we can build a thriving, liveable city and a caring society.

Quality of life is multifaceted, embracing arts and culture, sports and our environment. To enrich our cultural offerings, and secure Hong Kong's

position as an international cultural hub, I've budgeted additional funding of \$176 million for hosting world-class performing arts programmes over the next five years. We will also increase the subvention to arts groups of various sizes.

Meanwhile, local elite athletes will benefit from an injection of \$250 million into the Hong Kong Athletes Fund, which will be used to support them in pursuing dual-track development, that is pursuing athletic training and academic studies at the same time.

And Victoria Harbour will attract even more visitors and admirers, with our \$6 billion budget programme designed to expand promenades and open space on either side of the magnificent harbour.

We will also launch a \$200 million Urban Forestry Support Fund to promote public awareness on tree care, and train more personnel on tree management.

\$600 million will go to the refurbishment of 240 public toilets in the coming five years as well.

As a responsible key office holder of the Government, while spending money on economic development and livelihoods improvement, I also have to make sure that our public finance stays healthy, including how to enhance our revenue and investment return.

On this, I have proposed in my Budget to further optimise the use of the Future Fund set up in 2016. The objective is to enhance return, while also consolidating Hong Kong's status as a financial, commercial and innovation centre, and raising Hong Kong's productivity and competitiveness in the long run.

Separately, I propose to transfer the Tax Policy Unit, currently under the Financial Services and the Treasury Bureau, to come directly under the Financial Secretary's Office, and provide it with additional resources as and when necessary.

Ladies and gentlemen, I believe I've run out of time. I'm certainly not running out of budget measures worth discussing. Indeed, to support the implementation of various measures, including those proposed in the Policy Address, I have set aside new resources ready for use of about \$150 billion in this Budget, with additional resources earmarked for various purposes.

If you have a chance to read this year's Budget, there are 199 discrete points, including a rather personal comment from the author in paragraph 195, as follows: "I set off from the bottom of my heart and listened with care. The opportunity to put forward measures that meet people's needs and expectations is what drives me in preparing this Budget."

That's as true today as it was when I wrote it.

The challenge is, as always, how best to maximise a Budget's short- and long-term goals while working with finite resources. I'm sure you have some thoughts on this, and I look forward to hearing your views in the panel discussion to follow.

Thank you.