

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

Following is the speech by the Financial Secretary, Mr Paul Chan, at the South China Morning Post's Redefining Hong Kong Series today (March 4):

Fellow panellists, distinguished guests, ladies and gentlemen,

Good afternoon.

I'm pleased to take part, once again, in the South China Morning Post's Redefining Hong Kong Series. My thanks to the Post for giving me this welcome opportunity to speak to you today about the 2021-22 Budget.

This is my fifth Budget. Over these few years, extremes have become the taxing norm. Consider: we have dealt with a record-high surplus, a record-high deficit and, now, a record-long economic recession.

None of it smooth sailing. Still, I would say that this year's Budget was the most challenging one to date. Despite a \$250 billion deficit in the background, Hong Kong is in desperate need of relief measures. And, given the pandemic-driven reality of another \$100 billion deficit in the coming Budget, there's also a real need to increase government revenue.

That, and more, had to be juggled while working to maintain market confidence in our public finance. Our fiscal reserves have dropped sharply these past two years – from the equivalent of 23 months of government expenditure to just 13 months.

That said, I believe this year's Budget has addressed these critical concerns as far as possible. Allow me now to summarise the 2021-22 Budget in four broad areas.

The first one is the judicious allocation of resources.

Reviving the economy and relieving the burden of the people of Hong Kong are at the heart of this year's Budget. Given the financial limitations, a judicious allocation of resources is essential, with the underlying goal to create multiplier effects.

Beyond boosting investment in infrastructure, I announced the issuing of electronic consumption vouchers amounting to \$5,000 to each eligible Hong Kong permanent resident and new arrival aged 18 and over.

The goal is to boost local consumption, help Hong Kong business and, in doing so, accelerate our economy's recovery. The scheme may not be perfect, but I am confident it can achieve significant benefits.

The vouchers will have the effect of crowdfunding – spurring consumption while boosting business. In short, it's making use of the broadest possible base to stimulate the economy and maintain employment.

We're aiming for as wide a spending net as possible, including restaurants and fast-food outlets, retail and online shops, wet markets – just about everything.

To stimulate the job market, I'm allocating \$6.6 billion to create some 30 000 jobs for a period of up to 12 months. The hope, of course, is that a year from now our job market will once again be growing – expanding naturally.

To provide further support to the unemployed during this testing time, I also announced a Special 100% Loan Guarantee for Individuals Scheme as an extra financing option for the unemployed. The Government will guarantee loans provided under the scheme.

The maximum loan, per applicant, is six times the individual's average monthly income during employment – subject to a ceiling of \$80,000. Freelancers are also eligible.

The loan guarantee includes a principal moratorium for the first 12 months, after which the principal and interest can be repaid over the course of up to five years, with an interest rate fixed at 1 per cent a year. Applicants who repay their loans as scheduled will receive full reimbursement for the interest they paid.

To increase revenue and reduce the daunting fiscal deficit, I have decided to raise the stamp duty on stock transfers – from 0.1 per cent to 0.13 per cent. This comes at a time when the average daily turnover of our stock market has gone from below \$100 billion in 2019 to over \$200 billion lately.

No one enjoys paying more taxes, but given the situation we find ourselves in, I have chosen an area that will, I believe, have the least impact on the broader society. In tabling the measure, I have, let me add, duly considered the competitiveness of our financial market and its future development.

Second is on our business environment. A priority of this Budget, and the Hong Kong SAR Government, is to beat back the pandemic so that business, and the public, can get back to normal life as soon as possible.

The good news is that Hong Kong's territory-wide vaccination effort is now well under way. At a cost of \$8.4 billion, the programme includes the purchase of over 22 million doses from three vaccine makers – more than enough to vaccinate everyone in Hong Kong.

But before the epidemic is over and the economy bounces back, I understand businesses and individuals are generally under considerable

financial pressure. I agree that now is not the appropriate time to revise the rates of profits tax nor the salaries tax, both being major sources of our revenue. To show our support to businesses, we will continue to waive profits tax by 100 per cent with a ceiling of \$10,000 amid our stringent financial position.

And to accelerate businesses' return to business, to making money once again, I have proposed in the Budget measures to revive the economy, particularly on digital economy.

Today, work, study, entertainment and more are driven by online meetings and video streaming. And the pandemic's challenges have only spurred our local innovation and technology development.

That brings with it fresh opportunities for both traditional industries and emerging businesses. No economy can afford to ignore this promising new normal.

My Budget supports the digital economy in a number of ways. I'm allocating \$375 million to the TDC (Hong Kong Trade Development Council) over the next three years. The Council will develop virtual platforms. These will boost its ability to organise online activities and, in general, to go digital.

The TDC will also use the platforms to help young start-ups promote their products and services.

Meanwhile, we have expedited our work in taking forward e-government by providing more electronic government services. We will take one step further to commit ourselves to provide electronic submission means and e-payment options for most government services starting from mid-2022.

We are also developing the business version of the iAM Smart digital authentication platform so that enterprises can authenticate their identity through an electronic channel.

We will also provide solid support to promote the further development of individual sectors. Take the financial services sector as an example. Financial services is an important pillar to support the real economy. Comprehensive and superb financial services are crucial for an economy gearing for high-quality development.

The Budget this year emphasises on the development of green and sustainable finance, bond market, real estate investment trust market, securities market, insurance and risk management, asset and wealth management, as well as family office business.

Through the different measures, I am sure we can continue to strengthen Hong Kong's leading position in the global financial market and facilitate our country's ongoing financial liberalisation.

Third is on green future. Our financial services sector has long been an economic powerhouse. Green and sustainable finance will help ensure that the sector remains dynamic and in demand.

To that end, my Budget includes the issuance of green bonds totalling \$175.5 billion over the next five years, along with plans to issue retail green bonds.

Creating a green community is no less vital than building a sustainable green economy.

Which is why my Budget offers the city's first road map for popularising electric vehicles. Measures include ceasing new registration of fuel-driven private cars by 2035 at the latest.

We will also expand the charging network for electric vehicles, while promoting their marketing, and training technical and maintenance specialists.

The Government, let me add, is taking the driver's seat in the expansion of electric vehicle use. Details on the electric vehicle road map plan will soon be announced by the Environment Bureau.

There's more. I have set aside \$1 billion to install renewable energy systems at government buildings and related infrastructure. In addition, I have earmarked \$150 million for energy audits and the installation of energy-saving appliances, free of charge, for our social welfare NGOs.

And we're looking at the big picture, too, coming out with a completely updated Clean Air Plan for Hong Kong in just a few months.

Building a green liveable city is central to every Budget this Government delivers.

In the current Budget, I am setting aside \$500 million to enhance our country parks. The funds will give people more good reason to visit them, from expanded barbecue and picnic sites, to treetop and glamping adventures and the revitalisation of wartime relics.

Our harbourfront enhancement initiatives will also continue, for the enjoyment of all.

Last is on public finance. A budget must balance immediate needs and long-term vision while keeping a steady eye on expenditure. Given that I have pledged not to cut our essential public services, I am left with reducing the Government's operating expenditure.

Which is why there will be no growth in the civil service this fiscal year. It's also why the Government's recurrent expenditure will be cut by 1 per cent in 2022-23. That's expected to save nearly \$4 billion.

On a consolidated basis, we will see ourselves in a broadly balanced budget position in the ensuing four years ending 2025-26, after taking into account bond issuance and bringing back of investment income from the Future Fund. As such, our fiscal reserves will be maintained at a relatively robust level to support our financial stability and to provide us with fiscal space to deal with unforeseen future challenges.

Through it all, however, I'm confident the Hong Kong economy will bounce back. Indeed, I expect it to grow somewhere between 3.5 per cent and 5.5 per cent this year, with an average annual growth of 3.3 per cent between 2022 and 2025.

Down the road, Hong Kong will continue to reap the benefits of our "one country, two systems" framework. And the Guangdong-Hong Kong-Macao Greater Bay Area development presents us with bountiful business opportunities today – and for generations of Hong Kong people, and businesses, to come.

Ladies and gentlemen, that, in short order, summarises the 2021-22 Budget. I look forward to your questions. But before that, let me wish you all the best of health, and business, in this new Year of the Ox.

Thank you.