Budget Speech by the Financial Secretary (2)

Bolstering Confidence

28. The economic environment has been rather difficult in recent years amid intensifying geopolitical tensions and the rise of unilateralism and protectionism. Its impact on the Mainland economy and even the Hong Kong economy, coupled with fierce competition from other economies, have caused unease among some about the future development of Hong Kong.

29. That said, Hong Kong's economic outlook is bright. Despite a host of prevailing challenges, we will find infinite opportunities ahead, as long as we stay on top of global trends and dare to explore. Global economic gravity will continue to shift eastward. Asia will remain an important engine of global economic growth. Our country's economy is now pursuing high-quality development through innovation, deepening reform and sustaining a high-level, two-way opening-up. The overall trend of long-term growth remains unchanged. Our country has shown great care and staunch support for Hong Kong, and recently extended the Individual Visit Scheme to Xi'an and Qingdao. By leveraging Hong Kong's institutional advantages and our connectivity with the Mainland and the rest of the world under "One Country, Two Systems", we will certainly be able to seize the opportunities coming our way.

30. In the short run, the Government has put in place a series of measures to showcase Hong Kong's appeal to people from around the world, empowering individuals and enterprises to seize every opportunity. And we will continue to roll out policies and initiatives on all fronts, drawing in capital, enterprises and talent, expanding our economic capacity and strengthening our impetus for development.

Attracting Enterprises, Capital and Talent on All Fronts

31. Our economy will develop better by drawing together a larger pool of companies, capital and talent. The Office for Attracting Strategic Enterprises (OASES), the Innovation, Technology and Industry Bureau (ITIB), Invest Hong Kong (InvestHK) and the Hong Kong Investment Corporation Limited (HKIC) actively reach out to enterprises from the Mainland and overseas, and proactively attract and assist high value-added technology industries and enterprises to establish a foothold in Hong Kong.

Attract Strategic Enterprises

32. Next month, 10-plus strategic enterprises will sign a partnership agreement with OASES. The companies have either confirmed setting up or expanding their businesses in Hong Kong, or they are planning to do so. Together with the 30 companies from the first batch, they are expected to bring about over $40 billion in investment to Hong Kong, creating about 13 000 jobs over the next few years. Their presence in Hong Kong will attract

upstream, midstream and downstream partners from their industry chains, promoting our Innovation and Technology (I&T) sector's vibrant development.

Hong Kong Investment Corporation Limited

33. Performing its role of channelling capital and leveraging market resources, the HKIC will attract more I&T companies to establish their presence in Hong Kong, accelerating the development of strategic industries. The first batch of direct investment and co-investment projects will be implemented in the first half of this year, covering areas such as life technology, green technology and finance, semi-conductors and chips, as well as the upgrading and transformation of manufacturing industries.

34. The HKIC will also encourage enterprises in its investment portfolio to engage more actively in local, Mainland and overseas I&T networks, where they can explore more application and development opportunities, while identifying potential investors and their target clientele.

35. To enhance Hong Kong's attractiveness to enterprises and capital, the HKIC will host a Roundtable for International Sovereign Wealth Funds. Sovereign wealth funds and financial leaders will be invited to explore investment opportunities and develop collaborative partnerships. A Summit on Start-up Investment and Development in Hong Kong will also be organised. It will bring together prominent figures in the start-up ecosystem, with a view to boosting collaboration among the investment, industry, academic and research sectors. That will help support I&T enterprise development at varying stages.

Re-domiciliation Mechanisms

36. We have already taken the first step by putting in place user-friendly fund re-domiciliation mechanisms for Open-ended Fund Companies and Limited Partnership Funds. These mechanisms attract existing foreign funds to establish and operate in Hong Kong. In the first half of 2024, we will submit a legislative proposal enabling companies domiciled overseas, especially enterprises with a business focus in the Asia-Pacific region, to re-domicile in Hong Kong.

Opening Up New Capital Sources

37. Alongside our longstanding efforts to reinforce Hong Kong's appeal to traditional European and American capital, we are striving to open up new capital sources, including those from the Middle East. At the end of last year, the Asia-Pacific region's first Exchange Traded Fund (ETF), which tracks stocks in Saudi Arabia, was listed in Hong Kong, a milestone in enhanced mutual access between our two markets. The Hong Kong Monetary Authority (HKMA) is also working with a number of financial institutions on the listing of an ETF in the Middle East that tracks Hong Kong stock indices.

Pooling Talent

38. A larger pool of talent can boost economic development and competitiveness.

39. In recent years, we have rolled out a number of measures, including the Top Talent Pass Scheme (TTPS), to trawl for talent. In the past year or so, more than 140 000 applications were approved under various talent admission schemes. About 100 000 of them have already arrived in Hong Kong. The Labour and Welfare Bureau will review the relevant arrangements in the middle of this year to ensure the competitiveness of these measures and their effectiveness in addressing our manpower demand.

40. The median average age of successful applicants of the TTPS is 35. Over 60 per cent of them are married, and most of them have brought their families to Hong Kong. More than half of those who have been in Hong Kong for at least half a year are employed, and their median monthly income is about $50,000.

41. The Hong Kong Talent Engage (HKTE) is committed to attracting talent from the Mainland and overseas, providing one-stop support services to help them settle here. The HKTE will organise a Global Talent Summit and the Guangdong-Hong Kong-Macao Greater Bay Area High-quality Talent Development Conference in May. Their aim is to promote Hong Kong's advantages as an international talent hub, enabling the flow of talent among the cities of the GBA.

Creating Favourable Conditions for Recovery

Property Market

42. The Government announced on 25 October 2023 the adjustment of demand-side management measures for residential properties. The relevant adjustments included shortening the applicable period of the Special Stamp Duty (SSD) from three years to two years, reducing the rates of the Buyer's Stamp Duty (BSD) and the New Residential Stamp Duty (NRSD) by half, and introducing a stamp duty suspension arrangement for incoming talents' acquisition of residential properties. Among them, the stamp duty suspension arrangement has been well-received, with over 500 applications approved. This is a testament to the appeal of Hong Kong for overseas talents.

43. We have been keeping a close watch on the residential property market. After prudent consideration of the overall current situation, we decide to cancel all demand-side management measures for residential properties with immediate effect, that is, no SSD, BSD or NRSD needs to be paid for any residential property transactions starting from today. We consider that the relevant measures are no longer necessary amidst the current economic and market conditions.

44. The HKMA adjusted the countercyclical macroprudential measures for property mortgage loans in July last year. Taking into account the external and local economic situation, we consider that there is now room to make further adjustments to the relevant measures and other supervisory policies pertinent to property lending where appropriate, under the premise of maintaining the stability of the banking system. The HKMA will make announcements later today.

Stock Market

45. During the past year, we have made good progress in developing the stock market. We joined hands with regulators and HKEX in implementing a number of measures, including establishing the listing regime for specialist technology companies and the Hong Kong Dollar – Renminbi Dual Counter securities model. Regarding attracting overseas enterprises to be listed in Hong Kong, HKEX has included the Saudi Arabia and Indonesia stock exchanges in its list of Recognised Stock Exchanges last year, which facilitates enterprises primary listed on the main market of these exchanges to seek secondary listing in Hong Kong.

46. We are actively implementing measures proposed, last October, by the Task Force on Enhancing Stock Market Liquidity. They include reforming the Growth Enterprise Market (GEM). The HKEX has consulted the market on such initiatives as introducing a treasury share buy-back regime and maintaining trading operations under severe weather. Both are targeted for implementation in the middle of the year.

47. The Securities and Futures Commission of Hong Kong (SFC) and the HKEX are considering an array of measures to boost market efficiency and liquidity, including:

(a) enhancing the listing regime: explore enhancing the process of price discovery in the initial public offering of shares and reviewing requirements for the public float of shares of listed companies to boost market efficiency. Listing requirements and arrangements for structured products will also be enhanced, while the listing costs of the products will be lowered;

(b) improving the transaction mechanism: explore reducing the minimum trading spread to narrow bid-ask spreads, with the proposal to be submitted in the second quarter; enhancing stock-trading units adopted in the cash market as the next step; and making further adjustments to the position limits and margin requirements of derivative products to better meet risk-management needs;

(c) boosting investor services: explore refining real-time, market-data services, to provide investors with targeted services at a reasonable price; and

(d) stepping up market promotion: the HKEX will strengthen the promotion of Hong Kong's securities market through its overseas offices and deepen connectivity with the Middle East and ASEAN countries, to attract more issuers and capital.

48. To further enhance market competitiveness, stamp duties payable on the transfer of real estate investment trust (REIT) units and the jobbing business of option market-makers will be waived. It is estimated that this will reduce government revenue by about $1 billion annually.

Assisting Small and Medium Enterprises

49. Taking into consideration that the strength of our economic recovery

still requires consolidation and changes in market conditions, the Government will assist small and medium enterprises (SMEs) through different measures to tackle their capital-flow problems, tap into new markets and accelerate upgrading and transformation.

SME Financing Guarantee Scheme

50. To assist SMEs in tackling their capital-flow problems, I will extend the application period for the 80% and 90% Guarantee Products under the SME Financing Guarantee Scheme for two years to the end of March 2026. The total guaranteed commitment under the Scheme will increase further by $10 billion.

51. In addition, I have instructed the HKMA to maintain close communication with banks and the commercial sectors, adopt an accommodating manner to help enterprises tide over their liquidity needs, and refrain from demanding repayment of loans due to a fall in collateral value.

Digital Transformation

52. SMEs in the food and beverage industry and the retail industry will be invited to select suitable options among ready-to-use basic digital solutions and apply for subsidies on a matching basis early this year under the Digital Transformation Support Pilot Programme. The solutions will focus on three areas: digital payment and shopfront sales, online promotion and customer-management solutions. It is expected that at least 8 000 eligible SMEs will benefit from the pilot programme.

BUD Fund

53. We have been making continuous enhancements to the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund). They include raising the cumulative funding ceiling per enterprise and streamlining application procedures. I propose to inject $500 million more into the fund to help SMEs boost their competitiveness and tap into Mainland and overseas markets. This includes the launch of "E-commerce Easy" under the fund. It will provide support of up to $1 million per enterprise for implementing e-commerce projects in the Mainland.

Deduction of Expenses and Allowances under Profits Tax

54. We propose to introduce two enhancement measures for deduction of expenses under profits tax. Profits-tax payers will be granted tax deduction for expenses incurred in reinstating the condition of the leased premises to their original condition. As regards the allowances for industrial buildings and structures as well as commercial buildings and structures, the time limit for claiming the allowances will be removed. This will allow the new owner to claim allowances for the property after a change of ownership, subject to factors such as the construction cost of the property and the balancing charge of its previous owner. Both enhancement measures will take effect from the year of assessment 2024/25.

(To be continued.)

Budget Speech by the Financial Secretary (1) (with photos)

Following is the full text of the Speech on the 2024-25 Budget delivered by the Financial Secretary, Mr Paul Chan, to the Legislative Council today (February 28):

Mr President, Honourable Members and fellow citizens,

I move that the Appropriation Bill 2024 be read a second time.

Introduction

2. During the past year, Hong Kong has returned to normalcy after the epidemic. The society and the daily lives of our people are back to normal as they have longed for. Visitors are returning, and our economy is regaining positive growth. A series of mega events have helped to restore a buoyant mood in the community.

3. Meanwhile, geopolitical uncertainties and high interest rates have impacted capital flows. Resumption of outbound travel, changes in consumption patterns and a shift in inbound visitors' preferences, along with competition from other economies and so forth have all weighed down economic confidence.

4. Amid a complicated and ever-changing international environment, and with our economy and society constantly evolving, more strenuous efforts are required to strengthen momentum of our economic recovery. While the uneven pace of recovery across industries merits our attention, there are also certain constraints that need to be unravelled in a gradual manner.

5. Innovation and technology as well as data empowerment will catalyse the emergence of new business models, however they will also heighten competition and pose challenges to many enterprises. Through vigorous promotion of innovative research and transformation of its outcomes as well as acceleration of digital transformation in recent years, we are well-equipped to navigate the changes.

6. Underpinned by our country's firm and steady development, our institutional advantages under "One Country, Two Systems" and our highly international characteristics, Hong Kong will attract yet a bigger pool of talent, capital and enterprises. I have absolute confidence in Hong Kong's future.

7. Our public finances, nevertheless, need consolidation as the epidemic subsides. Upon a full and thorough evaluation, we will adopt a fiscal consolidation strategy to narrow our fiscal deficit progressively towards achieving the goal of restoring fiscal balance.

8. The theme of this Budget is: "Advance with Confidence. Seize Opportunities. Strive for High-quality Development." I will elaborate on this a little later.

Economic Situation in 2023

9. In 2023, the Hong Kong economy returned to normalcy in the aftermath of the pandemic. Economic activities showed improvement immediately following the removal of anti-epidemic measures and the resumption of normal travel early in the year, though the difficult external environment continued to constrain the pace of growth. For the year as a whole, the economy grew 3.2 per cent. Incomes of the general public recorded growth in real terms.

10. Private consumption expenditure increased 7.3 per cent in real terms last year, supported by the Government's Consumption Voucher Scheme, activities and initiatives such as "Happy Hong Kong" and "Night Vibes Hong Kong" and the continuing increase in household income. Overall investment expenditure also rebounded, by 10.8 per cent, alongside the economic recovery.

11. Visitor arrivals bounced back sharply, to about 34 million last year, with fourth-quarter arrivals recovering to 58 per cent of the same period in 2018. Exports of travel services soared for the year, while exports of transport services increased in tandem, bringing about notable growth of 21.2 per cent in total exports of services for the year as a whole.

12. Nonetheless, the challenging external environment continued to affect Hong Kong's export performance. Heightened geopolitical tensions severely undermined economic confidence around the world. Central banks of the advanced economies raised interest rates sharply to tame inflation, tightening global financial conditions and dampening import demand for goods. The International Monetary Fund (IMF) estimated that global economic growth slowed to 3.1 per cent last year. Against this backdrop, Hong Kong's total goods exports fell notably by 10.3 per cent last year.

13. The labour market continued to improve. The seasonally adjusted unemployment rate declined from 3.5 per cent in the fourth quarter of 2022 to the latest 2.9 per cent. The median monthly employment earnings of full-time employees increased 8.6 per cent, year-on-year, in the fourth quarter of last year.

14. Inflation remained moderate in overall terms. While prices of individual items such as energy, clothing and footwear, as well as meals out and takeaway food, rose visibly, price pressures faced by other major components were largely contained. Netting out the effects of the Government's one-off measures, the underlying inflation rate was 1.7 per cent last year.

15. The local stock market consolidated through most of 2023, and trading activities shrank. The Hang Seng Index, once again supported by economic activities, returned to normal at the beginning of the year. The market softened subsequently, however, with the Hang Seng Index falling 13.8 per cent in 2023, alongside weakened market confidence in the Mainland economy and expectations of interest rates remaining high.

16. As for residential property, market sentiment has become very cautious since the middle of last year amid rising interest rates and an external environment fraught with uncertainties. Flat prices fell seven per cent during the year. The number of transactions declined by five per cent, to a low level of about 43 000. The non-residential property market was largely quiet.

Economic Outlook for 2024 and the Medium Term

17. The external environment remains complicated. Geopolitical tensions will continue to impact international trade and capital flows, and may cause disruption to global supply chains. Sharply tightened financial conditions over the past two years will continue to constrain the growth rate of advanced economies. That said, the market widely believes that the US Federal Reserve will start cutting rates this year, though the timing and magnitude of rate cuts are still uncertain. Last month, the IMF forecast that global economic growth would remain at 3.1 per cent this year, below the average annual growth rate of 3.8 per cent between 2000 and 2019.

18. The Mainland's export performance this year will continue to be affected by the external environment. The Mainland economy, however, is resilient, with solid fundamentals. Our country's measures for boosting the economy are progressively taking effect, and there is still sufficient policy room to further support the economy. Domestic demand should improve, and the Mainland economy is expected to register steady growth this year.

19. Among advanced economies, the US this year is expected to realise lower economic growth than last year, as the lagged effects of rate hikes over the past two years continue to surface. Nevertheless, if the Federal Reserve, as expected, starts cutting interest rates, there would be some support for the economy. As consumption growth in the US was more concentrated in services over the past two years, demand for goods may grow faster this year and render support to global trade. For Europe, economic growth is expected to remain weak this year amid geopolitical tensions and the lack of significant improvement in external demand.

20. The external environment will continue to put pressure on Hong Kong's exports of goods. But global monetary conditions may ease progressively over the course of the year, which would bode well for export performance.

21. On the other hand, with the continued revival of handling capacity, particularly air passenger capacity, and the Government vigorously promoting mega event economy, visitor arrivals are expected to increase further, driving growth in exports of travel and other related services.

22. Moreover, rising incomes among the general public will continue to support private consumption. Successive Government measures will help lift consumption sentiment as well. Fixed asset investment should also increase alongside continuing economic growth.

23. Having regard to the above factors, we forecast that the Hong Kong economy will expand further this year, with growth of 2.5 to 3.5 per cent in

real terms for the year as a whole.

24. Domestic cost pressures are expected to increase alongside the economic recovery. External price pressures, however, should ease further, though persisting geopolitical tensions may pose upside risks. We forecast an underlying inflation rate and headline inflation rate of 1.7 per cent and 2.4 per cent, respectively, this year.

25. In the medium term, the Hong Kong economy will see sustained and solid development. While geopolitical tensions will continue to impact international capital flows and trade patterns, and the expansionary fiscal and monetary policies vigorously pursued by most economies during the pandemic have also added vulnerabilities to the global economy and financial system, global demand should be able to revive gradually in tandem with the anticipated progressive declines in interest rates in the US and the euro area in the coming few years. More importantly, our country's focus on promoting high-quality development will provide Hong Kong with ample room to grow.

26. The National 14th Five-Year Plan has set a clear positioning for Hong Kong's development of the "Eight Centres". Future prospects will be bright, as long as Hong Kong steadily forges ahead by leveraging its unique advantages under "One Country, Two Systems", proactively integrates into the overall national development, aligns with national development strategies, and continues to perform the role of an important node in the domestic and international dual circulation of our country. The Government's efforts in expanding economic capacity, enhancing competitiveness and cultivating new growth areas will also enable Hong Kong to seize opportunities when the global economic situation improves, enhancing its medium- to long-term growth momentum.

27. Based on the above considerations, we forecast that the Hong Kong economy will grow by an average of 3.2 per cent a year in real terms from 2025 to 2028. The underlying inflation rate is forecast to average 2.5 per cent a year.

(To be continued.)

[World Trade Organization services domestic regulation disciplines enter into force]

A Government spokesman said today (February 28) that a set of domestic regulation disciplines aiming to facilitate services trade agreed under the World Trade Organization (WTO) has entered into force. Hong Kong businesses will benefit from a more transparent and predictable regulatory environment when they enter foreign markets.

The disciplines are the negotiated outcome of a plurilateral trade initiative under the WTO. They aim to facilitate services trade by improving the transparency, predictability and effectiveness of the relevant domestic measures relating to licensing requirements and procedures, qualification requirements and procedures, and technical standards that businesses have to comply with to supply their services in a market, thereby cutting red tapes and lowering trade costs for service suppliers.

With the inclusion of Hong Kong, China (HKC), the plurilateral trade initiative has a total of 72 participants, together accounting for over 92.5 per cent of the world services trade. Other participants include HKC's major services trading partners such as China, the European Union, Japan, Singapore, the United Kingdom and the United States.

Being a highly open economy with a well-established and transparent regulatory regime, HKC's existing regulatory frameworks are able to comply with all the relevant disciplines. HKC will apply these disciplines to all its existing committed services sectors (Note 1) under the WTO General

Agreement on Trade in Services, and to six additional sub-sectors under Environmental Services (Note 2). For details about the disciplines, please refer to the dedicated webpage: www.tid.gov.hk/english/trade_relations/tradefora/domestic_regulation.html

Note 1: HKC has undertaken commitments in more than 30 services sectors, including accounting, auditing and bookkeeping services; telecommunication services; banking and other financial services; restaurant and catering services; travel agencies and tour operator services. The full list of HKC's committed services sectors is available on the Trade and Industry Department website: www.tid.gov.hk/english/trade_relations/tradefora/files/HKC_Services_Commitments_Only.pdf

Note 2: Namely sewage services; sanitation and similar services; cleaning services of exhaust gases; noise abatement services; nature and landscape protection services; and other environmental protection services.

Red flags hoisted at Silverstrand Beach and Clear Water Bay Second Beach

Attention TV/radio announcers:

Please broadcast the following as soon as possible:

Here is an item of interest to swimmers.

The Leisure and Cultural Services Department announced today (February 28) that due to big waves, red flags have been hoisted at Silverstrand Beach and Clear Water Bay Second Beach in Sai Kung District. Beachgoers are advised not to swim at these beaches.

Director of Hong Kong and Macao Work Office of CPC Central Committee and Hong Kong and Macao Affairs Office of State Council Mr Xia Baolong inspects

cultural and youth development in Hong Kong

The Director of the Hong Kong and Macao Work Office of the Communist Party of China Central Committee and the Hong Kong and Macao Affairs Office of the State Council, Mr Xia Baolong, today (February 27) continued his inspection visit to Hong Kong.

In the morning, accompanied by the Chief Executive, Mr John Lee; the Secretary for Culture, Sports and Tourism, Mr Kevin Yeung; and the Chairman of the Board of the West Kowloon Cultural District Authority, Mr Henry Tang, Mr Xia visited the Hong Kong Palace Museum in the West Kowloon Cultural District to inspect the cultural and arts development and promotion, and the work on promulgating Chinese culture in Hong Kong.

Mr Xia, in the company of Mr Lee and the Secretary for Home and Youth Affairs, Miss Alice Mak, then had an engagement session at the Hong Kong Palace Museum with some 40 Hong Kong young people. Attending youths included representatives from various youth groups, participants of the schemes for youth internship and exchange on the Mainland as well as the Strive and Rise Programme operated by the Hong Kong Special Administrative Region Government, Youth Ambassadors of the Youth Development Commission, as well as representatives of the Youth Link initiated by the Home and Youth Affairs Bureau.

In the afternoon, Mr Xia, accompanied by Mr Lee, had an exchange session with some economists to share views on economic development strategies of Hong Kong.

Mr Xia will continue his inspection visit to Hong Kong and conclude his seven-day visit tomorrow (February 28).