THE 2022-23 BUDGET

Speech by the Financial Secretary, the Hon Paul MP Chan
moving the Second Reading of the Appropriation Bill 2022
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This speech, together with the supplement and appendices relating to the 2022-23 Budget, is available at www.budget.gov.hk.

Mr President, Honourable Members and fellow citizens,

I move that the Appropriation Bill 2022 be read a second time.

Introduction

2. The COVID-19 pandemic has plagued the entire world for two years, taking a heavy toll on economic activities and people's way of life. Since the middle of last year, the epidemic situation in Hong Kong had been brought under control, with economic activities and daily life gradually getting back to normal. Nevertheless, with the emergence of a virus variant in the past month or so, the epidemic situation in Hong Kong has taken a drastic turn for the worse. The rapid spread of the virus and its profound impact have dealt a heavy blow to many people, disrupting both their life and work, and seriously affected the operations of small and medium-sized enterprises (SMEs), thus undermining confidence in the future. A gloomy atmosphere enveloped the Hong Kong community.

3. Taking prompt action to stabilise the epidemic situation is crucial for safeguarding the health and lives of our people. It is also the key to maintaining people's confidence and stabilising our economy. The care and guidance of the Central Government, together with the selfless support from the relevant departments and municipal governments, have bolstered the solidarity, confidence and indomitable spirit of the Hong Kong Special Administrative Region (HKSAR) Government and all sectors of the community. By making a concerted effort to fight the epidemic on all fronts and at full speed, we will surely win this battle against the virus. We will deploy all available resources and take all necessary measures to fully support the anti-epidemic work. The resources allocated for this cause in this Budget alone involve more than $54 billion.

4. At this critical time, we need to direct more resources to relieve people's hardship and provide SMEs with some breathing space so as to stabilise the economy and maintain public confidence. This is also what the general public expect of the Government. With this in mind, this year's Budget will continue to adopt an expansionary fiscal policy with initiatives mainly focusing on four areas:

(a) supporting an all-out effort to win the fight against the epidemic;

(b) relieving the hardship of our people and SMEs;

(c) rendering support to the struggling economy and fostering post-epidemic economic revival; and

(d) investing for the future by planning ahead for the medium- and long-term development of our economy.

5. It is estimated that the counter-cyclical measures (costing a total of over $170 billion) mentioned in the Budget, together with the spending in infrastructure projects and other items, will have a fiscal stimulus effect of boosting the economy by around three percentage points. I will elaborate the details afterwards.

Economic Situation in 2021

6. In 2021, with the roll-out of vaccination schemes around the world as well as the strong fiscal and monetary support, global economic activities revived remarkably. The International Monetary Fund (IMF) estimated that the global economy staged a strong rebound by 5.9 per cent last year.

7. Given the sharp rebound in demand from major economies, production and trading activities in Asia were vibrant. Hong Kong's total exports of goods continued to register strong growth, with a notable increase of 19 per cent in real terms for the year as a whole and surpassing the high in 2018 by 10.9 per cent.

8. As regional trade flows remained active, exports of transport services reverted to growth. Exports of financial services also showed further growth. Consequently, Hong Kong's total exports of services registered a mild growth of 1.1 per cent for the year, but was still far below the pre-recession level with inbound tourism virtually at a standstill.

9. The local epidemic situation remained stable during the period from May 2021 to end-2021 and the employment and income conditions continued to improve. These, coupled with the boost from the consumption voucher scheme, contributed to a rebound of private consumption expenditure by 5.6 per cent for the year as a whole. As business outlook turned positive, investment expenditure rose by 10.1 per cent.

10. Hong Kong's overall economy saw a visible recovery in 2021 with a growth of 6.4 per cent, reversing the declining trend in the past two consecutive years. The seasonally adjusted unemployment rate dropped substantially from a high of 7.2 per cent early last year to 3.9 per cent in the latest period (November 2021 to January 2022).

11. Given the continued recovery of the local economy and the accelerated rise in import prices, consumer price inflation increased progressively in 2021. However, owing to the fall in private housing rentals earlier on, the increase of the Consumer Price Index remained mild. Netting out the effect of the Government's one-off measures, the underlying inflation rate was 0.6 per cent for last year as a whole, down 0.7 percentage point from the year before.

12. Dampened by factors including the monetary policy stance in the US, the regulatory requirements in the Mainland, and the emergence of COVID-19's variants and supply bottlenecks worldwide, the local stock market underwent a sharp adjustment in 2021.

13. As supported by the low interest rate environment and firm end-user demand, the residential property market was active in the first half of last year. Although the market sentiment weakened in the fourth quarter of last year due to local stock market adjustment and concerns about the US interest rate hikes, flat prices still saw a moderate increase of three per cent for the whole year.

14. As for the non-residential property market, with the recovery of the local economy, coupled with the abolition of the Double Stamp Duty imposed on non-residential property transactions in November 2020, there was a visible rebound in transaction activities last year. Yet, prices and rentals of office space were relatively soft, while those of industrial buildings rebounded significantly.

15. The Government will continue to spare no efforts in increasing land supply and closely monitor the property market development.

Economic Outlook for 2022 and Medium-term Outlook

16. The market generally expects a further revival of the global economy this year, but the rampant Omicron variant has slowed the pace of global economic recovery recently. As affected by the impact of high energy prices and supply bottlenecks, global inflation has been pushed up significantly, and many central banks will have to tighten their monetary policies. Besides, the geopolitical situation is complex and volatile. All these factors have cast uncertainties over the global economic outlook. Last month, the IMF lowered its global economic growth forecast for this year to 4.4 per cent.

17. In the Mainland, the epidemic was contained effectively last year. Production activities have revived and the external trade has put up a strong performance. Last year, the growth rate of the Mainland economy was 8.1 per cent, which was faster than that of most economies. Looking ahead, although the Mainland economy is facing some downward pressure, its sound fundamentals along with ample policy room will support the steady economic growth in the Mainland, and will continue to be the growth engine of the global economy.

18. Last year, the US economy rebounded visibly. The market generally predicts that it will see further growth this year. However, in response to rising inflation, the Federal Reserve Board will likely raise interest rates several times and start to reduce the size of its balance sheet progressively within the year. Besides, fiscal policy support is expected to reduce from last year. These may affect the momentum of economic growth. The eurozone economy slowed again in the latter part of last year due to the resurgence of the pandemic. However, with the still accommodative monetary policy and supportive fiscal measures, it will likely continue to recover this year. The economic growth outlook for Japan and other Asian economies this year will hinge on the pandemic developments and the restrictive measures imposed by their respective governments.

19. Although further recovery of the global economy will lend support to Hong Kong's export performance this year, our economy and people's livelihood have been under immense pressure in recent months as the rapid worsening of the fifth wave of the epidemic, coupled with further tightening of various restrictive measures, led to drastic fall in people flow and seriously dampened consumer and economic sentiments. To win the fight against the epidemic, the Government will devote all-out efforts in stepping up testing and anti-epidemic work. Inevitably, economic activities, particularly the consumption-related sectors, will continue to be under intense pressure in the short term. Unemployment and underemployment situation will also deteriorate. The economic performance in the first quarter is not optimistic.

20. The successful control of the epidemic is the key to safeguarding our economy and people's livelihood. With the staunch support and unfailing assistance from our country, the Government and the whole community must join hands to fight the virus and win the battle promptly. As long as the recent wave of the epidemic can be gradually put under control, and the status of "dynamic zero infection" can be maintained down the road, consumption and investment demand will likely gather steam again. A stabilised epidemic situation will also create favourable conditions for the gradual and orderly resumption of quarantine-free travel between the Mainland and Hong Kong, thereby injecting greater impetus into the economy. Having regard to the latest local and external situations as well as the stimulus effect of the fiscal measures, I forecast that Hong Kong's economy will put up a better performance in the second half of this year and achieve growth of 2 to 3.5 per cent in real terms for the year as a whole.

21. On inflation, external price pressures are expected to remain high and persist for some time, while domestic cost pressures will also increase gradually alongside the economic recovery. On the other hand, the upward pressure on residential rentals remains mild. Taking all factors into account, I forecast that the headline inflation rate and the underlying inflation rate will be 2.1 per cent and 2 per cent respectively this year. Although inflation pressure in Hong Kong remains moderate in overall terms, given that the supply of many daily necessities relies on imports, we should keep in view the impact brought by external inflation on people's livelihood if such inflation leads to an increase in the prices of imported goods.

22. In the medium term, the economic outlook for Hong Kong is positive. The sustained high-quality development of our country's economy will serve as the key driver of global economic growth, and provide the most solid foundation for Hong Kong to prosper and develop. The 14th Five-Year Plan establishes a clear positioning and direction for Hong Kong's economic development and supports Hong Kong for the development of the eight international centres and emerging industries. We may, by leveraging our advantages under "One Country, Two Systems", achieve co-ordinated development with our neighbouring cities in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), thereby creating enormous business opportunities and ample room for Hong Kong's development. Besides, the Government has been committed to nurturing emerging industries over the past few years. Among them, the ecosystem of the innovation and technology (I&T) industry has become increasingly mature and is ready to contribute more to Hong Kong's economy and competitiveness in the coming few years. Regarding our traditional industries, financial services have been developing rapidly with a promising outlook, and will remain a driving force for our economic growth in future. To make the best of the opportunities, we must continue to build capacity and overcome the constraints on our workforce and land supply, and make concerted efforts to scale new heights in our economic development. Considering all these factors and taking into account the catch-up growth after the epidemic, I forecast that Hong Kong's economy will grow by an average of three per cent per annum in real terms from 2023 to 2026, slightly higher than the trend growth of 2.8 per cent during the decade before the pandemic. The underlying inflation rate is forecast to average 2.5 per cent.

Fighting the Virus Together

23. The COVID-19 epidemic starting from early 2020 has affected people's livelihood and the economy. In response to this, the Government promptly set up the Anti-epidemic Fund (AEF) to provide appropriate financial assistance for the affected individuals and businesses.

24. I am deeply grateful to the Finance Committee of the Legislative Council (LegCo) for promptly approving a further injection of $27 billion into the AEF last Tuesday, so that the sixth round of measures can be introduced under the AEF. These measures include providing support for the first time for the temporarily unemployed, with $3 billion earmarked for granting a subsidy of $10,000 to each eligible person. I believe that the latest round of relief measures can help the public meet their imminent needs. Counter-cyclical measures were also launched in my previous two Budgets. These measures, together with the relief measures under the AEF, involved a total financial commitment of over $460 billion.

25. Besides, government departments have also devoted substantial resources to fighting the epidemic, including providing isolation facilities at Penny's Bay and other appropriate locations, setting up a temporary hospital at the AsiaWorld-Expo, launching the vaccination programme, providing testing services and increasing the supply of medications, medical equipment etc., involving a total of over $24 billion.

Stepping up Anti-epidemic Efforts

26. Fighting the epidemic is our overriding mission at present. The Government will mobilise all available manpower and resources to contain and stabilise the epidemic. I will once again allocate substantial additional resources in the new financial year, including:

(a) an additional funding of about $22 billion for the Food and Health Bureau (FHB) to strengthen testing work, procure rapid antigen test kits and relevant services, and provide additional support for the Hospital Authority (HA);

(b) an additional funding of $6 billion for the Department of Health to procure more vaccines as booster doses for the general public;

(c) an additional funding amounting to about $7 billion in total for relevant departments to procure anti-epidemic items and services, implement anti-epidemic measures, etc.;

(d) a total additional funding of $500 million to be allocated within two years for the Food and Environmental Hygiene Department (FEHD) to enhance environmental hygiene services, particularly strengthening the street cleansing and refuse collection services, stepping up measures on rodent control and improving the hygiene of public markets in response to the epidemic. Meanwhile, the FEHD will strengthen inspections and enforcement actions to raise the community's awareness about hygiene; and

(e) a further injection of $12 billion into the AEF for the construction of various anti-epidemic related facilities.

27. Besides, I have earmarked $20 billion for other potential anti-epidemic needs. We will provide full support to fight the epidemic should more resources be required.

Relieving People's Hardship

28. To provide support for members of the public who have been affected by the epidemic, I will introduce the following one-off measures:

(a) reducing salaries tax and tax under personal assessment for the year of assessment 2021/22 by 100 per cent, subject to a ceiling of $10,000. The reduction will be reflected in the final tax payable for the year of assessment 2021/22. This measure will benefit 2.01 million taxpayers and reduce government revenue by $13.1 billion;

(b) providing rates concession for domestic properties for four quarters of 2022-23, subject to a ceiling of $1,500 per quarter in the first two quarters and a ceiling of $1,000 per quarter in the remaining two quarters for each rateable property. This measure is estimated to involve 2.99 million domestic properties and reduce government revenue by $11.7 billion;

(c) granting each eligible residential electricity account a subsidy of $1,000. This measure will involve an expenditure of about $2.8 billion and benefit around 2.8 million residential households;

(d) providing an allowance to eligible social security recipients, equal to one half of a month of the standard rate Comprehensive Social Security Assistance payments, Old Age Allowance, Old Age Living Allowance or Disability Allowance. This measure will involve additional expenditure of about $2,384 million. Similar arrangements will apply to recipients of the Working Family Allowance, involving additional expenditure of about $117 million; and

(e) paying the examination fees for school candidates sitting for the 2023 Hong Kong Diploma of Secondary Education Examination, incurring $149 million.

29. We will also lower the threshold for the Public Transport Fare Subsidy Scheme from $400 to $200 from May to October this year. The Government will provide commuters with a subsidy amounting to one-third of their actual monthly public transport expenses in excess of $200, subject to a maximum of $500 per month. With an increase of $1.08 billion in the subsidy amount, it is estimated that the scheme will benefit about 3.8 million commuters per month.

30. Moreover, I propose to provide a tax deduction for domestic rental expenses starting from the year of assessment 2022/23 so as to ease the burden of renting a private property on taxpayers liable to salaries tax and tax under personal assessment who are not owners of domestic properties, subject to a deduction ceiling of $100,000 for a year of assessment. It is expected that government revenue will be reduced by $3.3 billion. We plan to introduce a bill into the LegCo for scrutiny in the second quarter of this year.

31. The 100% Personal Loan Guarantee Scheme rolled out last year has helped a lot of people. I will extend the scheme for one year until the end of April next year. The maximum loan amount per applicant will increase from six times to nine times of his/her average monthly income during employment, and the ceiling will increase from \$80,000 to \$100,000. In addition, the maximum repayment period under the scheme will be extended from six years to 10 years, whereas the maximum duration of principal moratorium will be extended from 12 months to 18 months. The Hong Kong Monetary Authority (HKMA) and the lending institutions will also enhance the flexibility of the scheme to assist those with income substantially reduced under the epidemic.

32. To strengthen support for e-learning, the Quality Education Fund has set aside \$2 billion to launch a three-year programme starting from this school year, under which subsidies will be provided to schools to purchase mobile computer devices and portable Wi-Fi devices for loan to needy students. This initiative will facilitate the learning of students from grassroots families during the epidemic.

Supporting Enterprises

33. During this critical juncture of fighting the epidemic, we must take all necessary measures to preserve the vitality of the economy, in particular the survival of SMEs, and strive to safeguard jobs. I will take measures to ease the operating pressure of businesses and enhance the cash flow support for them.

34. For easing the operating pressure of businesses, I propose:

(a) reducing profits tax for the year of assessment 2021/22 by 100 per cent, subject to a ceiling of \$10,000. The reduction will be reflected in the final tax payable for the year of assessment 2021/22. This measure will benefit 151 000 businesses and reduce government revenue by \$1.2 billion;

(b) providing rates concession for non-domestic properties for four quarters of 2022-23, subject to a ceiling of $5,000 per quarter in the first two quarters and a ceiling of $2,000 per quarter in the remaining two quarters for each rateable property. This measure is estimated to involve 430 000 non-domestic properties and reduce government revenue by $3.4 billion;

(c) waiving the business registration fees for 2022-23. This measure will benefit 1.5 million business operators and reduce government revenue by $3 billion;

(d) continuing to waive 75 per cent of water and sewage charges payable by non-domestic households for eight months until 30 November 2022, subject to a monthly ceiling of $20,000 and $12,500 respectively per household. This measure will benefit 250 000 non-domestic households and reduce government revenue by $680 million;

(e) extending the waivers/concessions of the existing 34 groups of government fees and charges for 12 months starting from October this year. This measure will benefit a wide range of sectors (such as aviation, maritime, logistics, retail, catering, agriculture and fisheries, construction, tourism and entertainment) and will reduce government revenue by about $1.7 billion; and

(f) continuing to grant the 75 per cent rental or fee concession currently applicable to eligible tenants of government premises and eligible short-term tenancies and waivers under the Lands Department for six months until 30 September 2022. During the period, tenants who have to close their properties at the request of the Government will continue to receive full rental waiver for the duration of the closure. This will reduce government revenue by $1.4 billion.

35. As regards enhancing the cash flow support for businesses, I will extend the application period of all guarantee products under the SME Financing Guarantee Scheme (SFGS) for one year to the end of June next year. The Special 100% Loan Guarantee under the SFGS will also be further enhanced by increasing the maximum loan amount per enterprise from the total amount of employee wages and rents for 18 months to that for 27 months with the loan ceiling raised from $6 million to $9 million, and by extending the maximum repayment period from eight years to 10 years.

36. Besides, I have requested the HKMA to extend the Pre-approved Principal Payment Holiday Scheme through the Banking Sector SME Lending Coordination Mechanism for six months to the end of October this year. At the same time, the HKMA and the banking sector will offer enterprises the option of making partial repayment of principal over a longer period of time. This arrangement will also apply to the loans granted under the SFGS.

37. To help small and medium-sized exporters secure export financing from banks more easily, the Hong Kong Export Credit Insurance Corporation (ECIC) plans to launch the Export Credit Guarantee Programme on a pilot basis in March this year, under which the ECIC will guarantee up to 70 per cent of the export financing of their policyholders, subject to a maximum limit of $50 million. In addition, to encourage exporters to take larger orders from overseas buyers, the ECIC will introduce the "Flexible Indemnity Ratio" arrangement in the second half of this year to enhance insurance coverage for exporters. This measure is expected to benefit about 2 400 policyholders.

Job Creation

38. To ease the unemployment situation due to the epidemic and the anti-epidemic measures, the Government has earmarked total funding of $13.2 billion under the AEF to create time-limited jobs in the public and private sectors. As at end-2021, some 60 000 jobs were created under the two rounds of the Job Creation Scheme, of which about 45 000 jobs were filled. We have earmarked an additional funding of $6.6 billion in the latest round of AEF injection for the creation of another 30 000 time-limited jobs.

Issuing Consumption Vouchers

39. Last year, we implemented the consumption voucher scheme for the first time. With the help and concerted efforts of various parties, the scheme was effective in boosting the market sentiment, stimulating local consumption, and speeding up economic recovery. It has also promoted the extensive use of electronic payment. The new wave of epidemic has disrupted the pace of economic recovery. With last year's experience, I will implement a new round of consumption voucher scheme, under which electronic consumption vouchers with a total value of $10,000 will be disbursed by instalment to each eligible Hong Kong permanent resident and new arrival aged 18 or above through suitable stored value facilities. The scheme is expected to benefit about 6.6 million people.

40. I fully understand that this wave of epidemic has seriously affected various sectors and the public. In order to relieve the burden of the people and different merchants, I will make a special arrangement, under which consumption vouchers valued at $5,000 will be disbursed in April to over 6.3 million successful registrants first by making use of the registration data collected through last year's consumption voucher scheme. They will get the remaining vouchers by instalments together with the new eligible persons in the middle of the year. In this regard, the Government will, in moving the Vote on Account Resolution, inform the LegCo that the funding allocation for the consumption voucher scheme may be used upon passage of the Resolution. I hope that the scheme will inject impetus to the market when the epidemic is stabilised so as to accelerate economic recovery, and further encourage the public and merchants to use electronic payment which will promote the development of digital economy.

41. The entire scheme will incur about $66.4 billion of financial commitment. We will announce the details as soon as possible.

Enhancing Economic Resilience and Enriching Industrial Development

42. When formulating long-term economic policies, first we must be clear about the purpose of economic development, so that policy implementation will not deviate from its original intention. It is also necessary to have a full understanding of our country’s development plans and strategies, as well as Hong Kong's roles and functions therein, and to take into account demand in the international market, in order to identify the right positioning and seize opportunities. Furthermore, we need to keep carefully assessing the international politico-economic landscapes, clearly identify long-term trends, grasp economic patterns, and prudently control risks to avoid disruptions to development.

People-centric Development

43. First of all, it is necessary to know whom and what purpose economic development is for. Hong Kong’s per capita GDP reached US$49,000 last year, and the latest seasonally adjusted unemployment rate has fallen to 3.9%, which look good. However, these figures do not allow us to see clearly many issues, such as unbalanced economic development and that many young people cannot fulfil their aspirations. For example, financial services accounted for 23% of GDP in 2020, but only 7% of total employment. This reflects that although people in the industry have high incomes, the beneficiaries are not broad enough. In fact, employment earnings of youths in the younger-generation with post-secondary education are generally significantly lower than those of the older-generation with similar educational attainment, indicating that the pace of economic upgrading falls short of creating sufficient high-quality jobs for young people.

44. Economic development is meant to raise the living standards of all citizens and to let all of us share the fruits of development. This is also the foundation of social harmony. As such, we must enrich industrial development, and move towards high-quality and inclusive economic growth, thereby creating more high-quality and diverse employment opportunities. This will not only benefit the citizens better, but also create conditions and provide resources to solve deep-seated problems such as housing and poverty.

A New Starting Point in History

45. The implementation of the Hong Kong National Security Law, coupled with the improvement of the electoral system, is to implement the fundamental principle of “patriots administering Hong Kong” and establish Hong Kong's political order from a legal and institutional perspective. As a result, the practice of “One Country, Two Systems” in Hong Kong can be brought back to the right track for steadfast and successful implementation, so that Hong Kong can consolidate and strengthen its uniqueness and advantages under this system.

46. At present, the “executive-led” political system has been strengthened, and there is healthy interaction between the executive and the legislature. The administration’s governance efficiency has been enhanced as a result. The HKSAR Government, the LegCo and all sectors of society can work together to address social, economic and people’s livelihood issues, and gradually resolve some of the deep-seated contradictions that have hindered Hong Kong’s development for a long time. Year 2022 marks the 25th anniversary of the re-unification of the Hong Kong SAR with our Motherland, which will mark a new historical starting point for Hong Kong, and a new milestone towards governance and prosperity.

Integrate into the National Development

47. Hong Kong has unique advantages, including institutional advantages under "One Country, Two Systems", a fine tradition of rule of law, and a market-oriented and internationalised business environment. We have always been leveraging the support from our Motherland while engaging with the world, serving our country's needs with our strengths, and achieving great development in return. Under the 14th Five-Year Plan, our country continues to reform and open up, moves towards high-quality development, and progress according to the strategy of domestic and international dual circulation. It also makes clear the positioning and direction of Hong Kong's economic development and supports the development of Hong Kong in eight areas. Integrating into the national development is an inevitable path for the Hong Kong economy. The Government will make good use of national policies and our own advantages and take the GBA as an entry point, proactively exploring the vast Mainland market and participating in the domestic circulation of the national economy. At the same time, Hong Kong will play its bridging and platform role at the intersection of domestic and international circulations well, connecting domestic and foreign markets and investors, and assisting Mainland enterprises to explore the international market.

Seeking Progress While Maintaining Stability

48. The world is undergoing a change unseen in a century. In recent years, Western countries have been trying to suppress our country's development. The COVID-19 pandemic has dealt a severe blow to the global supply chains, further heightening protectionism. In the past two years, governments of many countries have raised debts of massive scale, and central banks have implemented extremely accommodative monetary policies, greatly increasing macroeconomic and financial market vulnerabilities. We need to stay highly vigilant at all times, better connect with the international market under the premise that risks are well managed, thereby striving for progress while maintaining stability. We also have to use development to enhance our ability to cope with risks, so as to promote stability with progress.

Innovation and Technology as well as Digital Economy

49. Innovation and technology (I&T) development is a global trend and a reflection of core competitiveness of different economies. The I&T industry is not only a new economic growth spot, but can also enhance the productivity of other industries. For Hong Kong, whether it is the development of new industries with advantages or the transformation and upgrading of traditional industries, the contribution of I&T is required. Therefore, we must focus on promoting I&T development.

50. Digitalisation is an inevitable trend as the economy moves towards high-quality development. Through the collection of various data in the economic system, followed by digitalisation, organisation and analysis of these data, we can better understand the operation of the whole economy and the individual segments, and enhance efficiency and promote innovation. For enterprises, digitalisation can help on transformation and empowerment, quality and quantity improvement, and innovation stimulation. In order to accelerate the progress of digital economy, I will set up a "Digital Economy Development Committee", with members comprising experts and scholars, industry elites, and relevant government officials.

51. Next, I will elaborate on the key points of injecting new fields and elements into Hong Kong's economic development.

Innovation and Technology Development

52. Continuous promotion of I&T development is an important strategy to foster a more vibrant and diversified economy. The 14th Five-Year Plan supports Hong Kong's development into an international I&T hub. Apart from fostering economic growth and job creation, I&T development can also promote re-industrialisation and enhance the competitiveness of our manufacturing sector as well as enable digital transformation across various trades. The current-term Government has invested over $130 billion in I&T development, which has seen results trending up gradually in recent years. I will allocate additional resources in the Budget to keep reinforcing the entire value chain and the I&T ecosystem.

Support Start-ups and Technology Investments

53. The I&T ecosystem in Hong Kong has become increasingly vibrant. The number of start-ups surged from around 1 000 in 2014 to around 4 000 last year; and the amount of venture capital investment surged from $1.24 billion to about $41.7 billion in the same period. Currently, Hong Kong is Asia's largest and the world's second-largest fundraising hub for biotechnology.

54. In recent years, the Government and local universities have allocated considerable resources to nurture start-ups and assist research teams comprising students and professors in commercialising their research and development (R&D) results. The Hong Kong Science and Technology Parks Corporation (HKSTPC) and the Cyberport, our two I&T flagships, provide one-stop support services for start-ups. So far, we have witnessed the birth and development of over 10 unicorns.

55. Over the past few years, apart from the $2 billion Innovation and Technology Venture Fund, we have also set up the Corporate Venture Fund and the Cyberport Macro Fund through the HKSTPC and the Cyberport respectively. Each of these funds has its own specific key areas of investment, which has significantly broadened the fundraising channel for start-ups in Hong Kong.

56. Nevertheless, as the funds mentioned above are mainly targeted at early-stage start-ups, they may not be suitable for expanding enterprises with considerable scale. Some such type of enterprises often have huge development potential. Indeed, we are not short of examples of success in nurturing these enterprises in Hong Kong.

57. I announced in my Budget two years ago the setting up of an investment portfolio named the Hong Kong Growth Portfolio using part of the Future Fund for investment in projects with a "Hong Kong nexus". The aim is to consolidate Hong Kong's status as a financial, commercial and I&T centre as well as to raise our productivity and competitiveness in the long run. Last year, the Government appointed eight fund managers as general partners to make strategic investment. To nurture enterprises that are relatively more mature and have good potential for contribution to our economy, I will further increase the funding allocated to the Hong Kong Growth Portfolio under the Future Fund by $10 billion, of which $5 billion will be used to set up a new investment fund, namely the Strategic Tech Fund. I will invite the HKSTPC and the Cyberport to identify technology enterprises which are of strategic value to Hong Kong as well as investment opportunities conducive to enriching the I&T ecosystem.

58. On the other hand, the Technology Start-up Support Scheme for Universities under the Innovation and Technology Fund (ITF) has been supporting universities in setting up their own start-ups and commercialising their R&D results, with a view to creating economic value. To help universities realise their R&D outcomes, I will double the amount of subsidy to $16 million. The increased subsidy will be provided to start-ups of universities with private investments on a matching basis of one to one. Each start-up may receive an annual subsidy of up to $1.5 million for a maximum of three years. The initiative will incur an additional expenditure of $48 million per year.

Promote Life and Health Scientific Research

59. The impact of the COVID-19 pandemic for more than two years has roused much global interest in R&D in life and health disciplines. In fact, the National 14th Five-Year Plan has also called for focusing on issues like human health as well as the enhancement of technological strengths in specialist fields such as life and health.

60. Hong Kong has strong research capabilities in life and health sciences. There are a number of renowned scholars in local universities whose R&D teams display great originality and have the ability to create breakthroughs out of the blue, generating fruitful outcomes in scientific research. With clinical trial centres recognised by the National Medical Products Administration, Hong Kong enjoys clear advantages in promoting research and fostering development of industries in life and health disciplines. In 2018, I allocated $10 billion to launch the flagship project of "*InnoHK* Research Clusters", under which 28 laboratories have so far been established by local universities in collaboration with over 30 top-notch universities/research institutions around the world. Among these laboratories, 16 are related to life and health sciences. On the back of our robust strength in scientific research, we can deliver more revolutionary R&D outcomes.

61. To further promote the development of life and health technology in Hong Kong, I will earmark $10 billion to provide more comprehensive support in the long run, including hardware, research talent, clinical trials and data application, with the aim of enabling institutions, including universities, to enhance their capacity and capability in this area, as well as strengthening the industrial chain. We will set up the *InnoLife Healthtech Hub* in the Hong Kong-Shenzhen Innovation and Technology Park. With the above 16 laboratories and the eight relevant State Key Laboratories as the basis, we can pool together top-notch research teams from all over the world and focus our efforts on R&D work as well as global research collaboration in the field of life and health sciences. This includes biomedicine, big data and artificial intelligence, which can be applied in various areas, such as prevention, diagnosis, drug discovery, advanced treatment and rehabilitation. The HA will assist more institutions in exploring how to make better use of their hospitals for conducting research and clinical trials as well as the valuable clinical data they have accumulated for R&D purposes. Our aim is to promote multi-faceted collaboration in scientific research and development of industries, develop Hong Kong into a major R&D hub in life and health disciplines, and link up related industrial clusters.

Promote Research and Development

62. We have been actively promoting R&D in the past few years. There are 16 State Key Laboratories and six Hong Kong Branches of Chinese National Engineering Research Centres in Hong Kong. They all possess high-level scientific research teams and equipment, and many of them enjoy global leading positions in their areas of expertise. Currently, these institutions are receiving an annual subsidy under the ITF. I announce that the amount of subsidy be doubled to HK$440 million so that they can have more resources to conduct R&D activities, nurture local talent as well as attract more local and overseas I&T talent, and further their co-operation and exchanges with institutions in the Mainland.

Technology Application

63. We have been encouraging the public and private sectors to proactively apply technologies in their operations for the benefits and convenience of the public. To promote further digitalisation in government operations, I have reserved $600 million to conduct a comprehensive e-government audit in the coming three years with the aim of reviewing the progress made by government departments in using technologies, as well as assisting them in enhancing the efficiency of public service provision through the adoption of I&T solutions.

Strengthen the Intellectual Property Regime

64. Intellectual property (IP) protection is in line with the direction of developing Hong Kong into a knowledge-based economy and an international I&T hub. The Government will strengthen the IP regime in Hong Kong. With regard to patents, we will further promote and develop Hong Kong's "original grant patent" (OGP) system. In the next three financial years, I will allocate a total of about $85 million to the Intellectual Property Department (IPD) for enhancing Hong Kong's capacity to conduct substantive examination in processing OGP applications. On trademarks, we are pressing ahead with the preparatory work for implementing the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks in Hong Kong. It is expected that an international trademark registration system will be put in place in Hong Kong next year at the earliest. As for copyrights, to tie in with the development of digital environment, the Commerce and Economic Development Bureau launched a public consultation exercise on updating Hong Kong's copyright regime at the end of last year. The consultation period ends today. The Government will carefully consider the views collected before introducing a bill to amend the Copyright Ordinance into the LegCo in the first half of this year.

65. The IPD will also actively explore with the Mainland authorities facilitation measures for cross-boundary IP protection; enhance its free IP Consultation Service, IP Manager Scheme PLUS and other training programmes; and collaborate with the Department of Justice to promote IP mediation and arbitration services. Besides, we will work with the Hong Kong Trade Development Council (TDC) and relevant stakeholders to promote Hong Kong's IP professional services through different channels.

International Financial Centre

66. The development of Hong Kong as an international financial centre has dovetailed with the needs of our country and attuned to the pulse of the global investment market over the past few decades. As a result of such development, an extensive pool of capital, investors, entrepreneurs and professional services talent was created in Hong Kong. Our market size continues to grow with new services and products rolling out one after another. Following the continuous expansion and enhancement of the mutual access regime and our implementation of various policies to promote the transformation of the market structure in recent years, Hong Kong's role and function as the international financial centre of our country have been further enhanced. Hong Kong has risen to a new level of development, with a wider scope of services and a more comprehensive industrial chain. The clustering effect in respect of financial institutions has also become more prominent.

67. The 14th Five-Year Plan expressly supports Hong Kong in enhancing our status as an international financial centre, strengthening its functions as a global offshore Renminbi (RMB) business hub, an international asset management centre and a risk management centre, as well as deepening and widening mutual access between the financial markets of Hong Kong and the Mainland, so as to develop a high-quality GBA.

68. We will endeavour to achieve the goal of enhancing the capability of the financial sector in serving the real economy. While making rapid development, we need to strike a balance to maintain stability and security, enabling Hong Kong to fully realise its market potential as well as achieving rapid, long-term and steady market development. The steady development of our country provides the most solid backing for Hong Kong. Under the "dual circulation" strategy, our country's continuous reform, high-quality two-way opening up, ongoing RMB internationalisation and transformation to a green and zero-emission economy have brought us new missions and opportunities. Hong Kong has to proactively develop a more vibrant and diversified financial market in terms of type of investment products, risk management tool, appropriate corporate financing arrangement, treasury management needs, etc. By doing so, we can definitely ensure a stronger development of our financial market, through which we can deepen and widen the mutual access between Mainland and international capital markets, thereby facilitating Hong Kong's development into a more competitive and powerful international financial centre.

Securities and Bond Markets

Securities Market

69. In the past year, the securities market continued to flourish. The Hong Kong stock market recorded an average daily turnover of $166.7 billion last year, representing an increase of 29 per cent over 2020. Funds raised through initial public offerings (IPO) in Hong Kong amounted to nearly $330 billion during the same period, making Hong Kong the fourth largest IPO centre in the world. Hong Kong remains a main listing platform worldwide.

70. The increase in trading and market capitalisation of Hong Kong stocks was attributable mainly to the series of reform implemented in the past few years to enhance the competitiveness of the Hong Kong market, including allowing emerging and innovative enterprises with weighted voting rights structure as well as pre-revenue or pre-profit biotechnology companies to list in Hong Kong and providing facilitation for qualifying issuers to seek secondary listing in Hong Kong.

71. As at the end of last month, a total of 70 companies have listed in Hong Kong under the new regime, raising more than $570 billion, representing nearly half of the total funds raised during the same period. Currently, the new economy enterprises account for more than 20 per cent of the total market capitalisation in Hong Kong. Among them, 48 are healthcare and biotechnology companies. They have raised over $110 billion in total, turning Hong Kong into Asia's largest and the world's second largest fundraising hub for biotechnology and spurring the rapid and comprehensive development of the biotechnology ecosystem in Hong Kong.

72. Continuous operational enhancement, system reformation and innovative development are important means to empower and accelerate the development of the Hong Kong market. In January this year, after striking a balance amongst considerations such as the need to ensure the quality of listed companies, investor protection and market development, the Hong Kong Exchanges and Clearing Limited (HKEX) launched a listing regime for Special Purpose Acquisition Companies (SPAC), enabling experienced and reputable SPAC promoters to source new and innovative enterprises for merger and acquisition, with a view to assisting emerging enterprises with potential in listing through an unconventional initial offering and providing a new alternative listing route in Hong Kong.

73. Moreover, with the continuous development of the Mainland economy, enterprises have substantial financing needs in the international market. However, due to the increased risks and uncertainties of listing in overseas markets, many China Concept Stock companies have chosen to return. We have already made preparation for their return, including allowing Greater China companies without weighted voting rights structure and which are not from innovative sectors to seek secondary listing in Hong Kong, and offering more flexibility to issuers seeking dual-primary listings. These measures will help further attract quality China Concept Stock companies to list in Hong Kong and provide more choices for market players, thereby increasing market liquidity and enhancing the competitiveness of Hong Kong as a global financing platform.

74. On market development, considering the fact that there are some large-scale advanced technology enterprises which require substantial capital for their R&D work but are not qualified for listing as they fail to meet the profit and trading record requirements, the Securities and Futures Commission (SFC) and the HKEX are reviewing the Main Board Listing Rules and, having due regard to the risks involved, examining the revision of the listing requirements to meet the fundraising needs of such enterprises.

Bond Market

75. Bond markets not only facilitate medium and long-term capital allocation and management, but also guide capital markets with greater depth and breadth towards the role of supporting a real economy. Developing the bond market in Hong Kong has been one of our key objectives in recent years. Apart from promoting the diversification of bond products, we strive to move towards the development direction of financial inclusion, enabling the public to participate and benefit from such inclusion.

76. The Steering Committee on Bond Market Development in Hong Kong, which was set up under my steer last year, has reviewed the current situation of the bond market in Hong Kong and put forward recommendations along three directions, i.e. enhancing market landscape, market infrastructure and market promotion to further promote the development of our bond market. We will progressively implement these recommendations, including expanding the issuance of green bonds, RMB bonds and Hong Kong Dollar bonds with longer tenor under government bond programmes to foster the development of local RMB and green bond markets and the formation of local yield curve; consolidating our strengths in promoting offshore RMB business and encouraging participation of Mainland enterprises and entities in Hong Kong's bond market; and stepping up efforts to promote Hong Kong's position as a bond centre among investors and bond issuers. Meanwhile, we will further enhance the functions of the Central Moneymarkets Unit by upgrading it to be a major central securities depository platform in Asia, while working on the development of an electronic bond trading platform to facilitate secondary transactions and expand investor base. Besides, we will also explore ways to enhance the prospectus requirements and, on the premise of ensuring due protection of investors, make it easier for retail investors to participate in and share the fruits of our bond market development.

77. We have been committed to promoting the development of retail bonds so as to benefit the public. I plan to issue no less than $15 billion of inflation-linked retail bonds (i.e. iBond) and no less than $35 billion of Silver Bond in the next financial year, with a view to offering members of the public, particularly the elderly, investment options with steady returns. Details of the first batch of retail green bonds for public subscription were announced last week. Members of the public can directly invest in green projects that provide environmental benefits so as to jointly create a green environment for green living in Hong Kong while gaining steady inflation-linked returns. I plan to continue to issue no less than $10 billion of retail green bonds in the next financial year.

Offshore Renminbi Business Hub

78. Hong Kong's offshore RMB market is the largest in scale. With our geographical and cultural edges, as well as first-mover advantage, Hong Kong has been performing the role of facilitator and innovator in proactively promoting the internationalisation of RMB in terms of offshore RMB capital flow, clearing volume, product type and risk management tool.

79. In the future, we will explore ways to further expand the channels for the two-way flow of cross- boundary RMB funds, as well as continue to promote the development of offshore RMB products, including introducing more diversified RMB wealth management products and bonds.

80. The working group formed by the SFC, the HKEX and the HKMA has completed the feasibility study on allowing stocks traded via the Southbound Trading of Stock Connect to be denominated in RMB, and put forth recommendations on detailed implementation. The working group will start making preparation in this regard, and will discuss with the regulatory authorities and relevant organisations in the Mainland. The Government will roll out supporting measures such as waiving the stamp duty on stock transfers paid by market makers in their transactions, so as to increase the liquidity of RMB-denominated stocks. We are also working with the regulatory authorities in the Mainland to explore enhancement measures for the Cross-boundary Wealth Management Connect Scheme in the Guangdong-Hong Kong-Macao GBA, such as increasing quotas gradually, expanding the scope of eligible investment products, inviting more participating organisations and improving the distribution arrangement.

Deepen Mutual Access with the Mainland

81. Mutual access between the financial markets in the Mainland and Hong Kong has been deepening and widening. Last September saw the launch of the Southbound Trading of Bond Connect and the Cross-boundary Wealth Management Connect Scheme in the GBA. The Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect have continued to expand, registering a substantial increase in trading volume. At the end of last year, a consensus was reached among the exchanges in the two places on the inclusion of exchange traded funds (ETFs) in the mutual market access programme. The mutual access of ETFs is expected to be implemented soon. As a risk management tool, the A-share index futures contract was also successfully launched last year. We will explore more risk management products.

Development of Family Office Business

82. In my last Budget, I proposed to review the relevant tax arrangements with the aim of further attracting family offices to establish a presence in Hong Kong. After discussing and examining the relevant arrangements with the asset management sector, we propose to provide tax concessions for the eligible family investment management entities managed by single-family offices. We will consult the sector on the detailed proposal as soon as possible and aim to submit legislative amendments to the LegCo within the current legislative session. It is expected that the relevant tax concessions will come into effect in the year of assessment 2022/23. I believe that the proposal will enhance our attractiveness as a hub for family offices, deepen Hong Kong’s pool of liquidity and create more business opportunities for the financial sector and other professional sectors.

Green and Sustainable Finance

83. The development of green and sustainable finance in Hong Kong offers promising prospects. By leveraging our advantages as an international financial centre, we can facilitate matching between international capital and quality green projects, contribute proactively to helping our country achieve its "3060 Target" in relation to carbon emission peak and carbon neutrality, as well as propelling Hong Kong towards our carbon neutrality target by 2050 and promoting green transformation of our economy.

84. Since the launch of the Government Green Bond Programme in 2018, a total of more than US$7 billion equivalent of green bonds targeting global institutional investors has been successfully issued. Several important milestones have been achieved, including the issuance of a 30-year US dollar-denominated green bond and a 20-year euro-denominated green bond and, both of which are the first issuance among Asian governments, and have established an important reference benchmark for the thriving development of the bond market in Hong Kong. The successful issuance of RMB green bonds by the Shenzhen Municipal Government in Hong Kong has set a leading example for GBA cities to make good use of the Hong Kong market for green financing. It has also further strengthened Hong Kong's functions as an offshore RMB hub and a green financial centre. This year, we will continue to issue green bonds totalling about US$4.5 billion or equivalent.

85. The Green and Sustainable Finance Grant Scheme launched last year has been well received by the industry. Over 50 applications have been approved so far, covering various kinds of green and sustainable debt instruments. Among the applications approved, many of them involved subsidies for covering the external review costs relating to green and sustainable loans. To support enterprises in obtaining green financing, we will lower the minimum loan size from $200 million to $100 million in respect of applications for subsidies for covering external review costs under the scheme.

Infrastructure Financing Securitisation

86. To consolidate the vital role of Hong Kong as an infrastructure financing hub and a premier overseas financing platform under the national B&R Initiative, the Hong Kong Mortgage Corporation Limited (HKMC) will conduct a study on the implementation of a pilot scheme on infrastructure financing securitisation within this year. Under the scheme, the HKMC is expected to offer infrastructure financing securitisation products with a total value of US$450 million to investors in the institutional market in the next financial year. This will enable the local infrastructure financing market to become more vibrant and diversified, and also facilitate the inflow of market capital to high-quality infrastructure projects.

Financial Technology

87. The HKMA and the People's Bank of China (PBoC) signed a Memorandum of Understanding (MoU) in October last year. Under the MoU, the two authorities agreed to develop a one-stop platform in the form of a "network link-up" to allow eligible financial institutions and technology firms to conduct pilot trials of cross-boundary financial technology (Fintech) projects concurrently in Hong Kong and the Mainland. At present, more than 10 local banks have expressed interest in using the platform. The HKMA and the PBoC are implementing the operation details of the platform.

88. The Fintech Proof-of-Concept Subsidy Scheme has received overwhelming response from the industry since its first launch last year. We will allocate a funding of $10 million for launching a new round of the scheme this year. The aim is to promote continuous innovation by encouraging the financial industry to conduct Proof-of-Concept projects on more financial services and products. Besides, we propose to provide subsidies to research institutions under the new round of the scheme, so that they can put forward solutions as to how to remove development bottlenecks faced by the Fintech industry in Hong Kong.

Commercial Data Interchange

89. The "Commercial Data Interchange" (CDI) announced in last year's Budget, which is targeted to be launched by the end of this year, is progressing well. A number of banks have successfully approved loans totalling over HK$900 million to SMEs using various kinds of commercial data during the study and pilot launch stages of the project. The HKMA will enrich the data-driven financial service ecosystem by exploring the introduction of more commercial data sources in order to expand the function of the CDI. Concurrently, the Government will explore ways to enable the financial institutions, with the authorisation by the enterprises, to obtain the enterprises' data kept in government departments from various departments in a computer-readable format. Priority will be accorded to data which facilitates the application for financial services by SMEs.

GBA Investment Fund

90. As I mentioned earlier, I will increase the funding allocated to the Hong Kong Growth Portfolio under the Future Fund by $10 billion, of which $5 billion will be used to set up the Strategic Tech Fund. As for the remaining $5 billion, it will be used to set up a GBA Investment Fund, which will focus on investment opportunities in the GBA. With the country's support, the GBA will be one of the key drivers of future regional economic development, and the \prospect will be promising. As the relationship between Hong Kong and other cities in the GBA becomes closer, investing in the development of various priority industries in the region will not only inject more dynamism to the development of the region, but also bring economic and social benefits to Hong Kong.

Arts, Culture and Tourism

91. Arts and culture, which depicts the spirit and values of a community, is where the soft power of a place lies. With a rich Chinese heritage, distinctive advantages as a cultural melting pot of East and West, as well as extensive international connections, Hong Kong is uniquely positioned to tell the story of China and Hong Kong through the promotion of arts and culture development and exchange. This can also tie in with Hong Kong's new positioning as an East-meets-West centre for international cultural exchange under the 14th Five-Year Plan. I will allocate additional resources to promote arts and culture.

Hong Kong Performing Arts Market

92. To promote the development of the arts and cultural sector, it is important for us to provide an international platform, which will be conducive to the creation of a complete ecosystem for the industry. Our arts and cultural sector has gathered considerable strength. In respect of visual arts, Art Basel (Hong Kong) and the Business of Design Week held annually are acclaimed internationally. In 2020, Hong Kong ranked as the second-largest art market in the world, after only New York.

93. To consolidate Hong Kong's role as an East-meets-West centre for international arts and cultural exchange, I will allocate $42 million for organising the first Hong Kong Performing Arts Market within two years. The large-scale arts market, which is designed for the performing arts industry, will serve as an integrated platform for showcasing the works of top-notch performing artists and arts groups from the Mainland, Hong Kong and overseas. This will help bring the remarkable performing arts of the Mainland and Hong Kong onto the world stage through activities such as exhibitions, forums, focus discussions, performances and trading. The event will also facilitate exchanges between renowned overseas performing artists as well as arts groups and their counterparts in the Mainland and Hong Kong.

Arts Technology

94. The integration of arts and technology has become a new trend. Apart from expanding the reach of arts and its form of presentation, such integration has also brought new development opportunities for the relevant sectors, especially the youth. In 2020, we set aside $100 million to promote the integration of arts and technology by providing support to arts groups and I&T talent.

95. To further facilitate arts technology development, I will allocate $30 million to implement a Arts Technology Funding Pilot Scheme in the next financial year with the aim of encouraging the nine major performing arts groups to apply arts technology to enrich their stage production. I will also inject an additional amount of $10 million into the Arts Capacity Development Funding Scheme in order to encourage small and medium-sized arts groups to further explore the use of arts technology under the scheme.

96. In addition, the East Kowloon Cultural Centre is expected to be commissioned in phases next year. I will earmark $85 million each year to support its development into a major arts technology venue and incubator for the provision of structured training. I will also set aside $70 million to upgrade the facilities of the performing venues under the Leisure and Cultural Services Department (LCSD), with a view to enabling arts groups to further apply technology in their performances, thereby enhancing audience experience.

Development of Tourism Industry

97. As the development of tourism industry and the promotion of East-meets-West arts and cultural exchange are closely related, strengthening support for the tourism industry can help achieve synergy. Over the past two years, the Government has rolled out measures of more than $3.8 billion to support the tourism industry. In addition to providing direct financial subsidy to the trade, it also encourages the trade to explore more local tour itineraries before resumption of cross-boundary tourism and enhancing the supporting facilities of tourist attractions and the tour guide services as well.

98. In light of fierce regional competition, we will get well-prepared by providing additional resources for the promotion of cultural, heritage and green tourism projects with Hong Kong characteristics, enhancing tourism promotion and rolling out enticing promotional offers in a timely manner to attract tourists from outside Hong Kong. This will also help consolidate Hong Kong's position as a core demonstration zone for multi-destination tourism and an international tourism hub as specified in the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area and the Culture and Tourism Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (the CTD Plan).

99. I will earmark $1.26 billion to support and develop the tourism industry, of which $600 million will be used to implement a three-year scheme entitled "Cultural and Heritage Sites Local Tour Incentive Scheme". The scheme aims at providing incentives for the industry to develop and launch tourism products with cultural and heritage elements as well as supporting the operation of the Green Lifestyle Local Tour Incentive Scheme. Another sum of $60 million will be used to sponsor the training of tourism practitioners for three years, with a view to further improving the professional standards and service quality of the industry.

100. The remaining sum of $600 million in the earmarked funding will be used for supporting the work of the Hong Kong Tourism Board (HKTB) to revive the tourism industry and implement the CTD Plan. The HKTB will continue to launch the “Holiday at Home” campaign to support the industry. When cross-boundary travel gradually resumes, the HKTB will promote the “Open House Hong Kong” campaign in appropriate source markets, with a view to attracting tourists to revisit Hong Kong. Last year, the HKTB completed a preliminary study and a consultation exercise on the positioning of Hong Kong’s tourism in the long run. Depending on the circumstances of individual source markets, a new tourism brand promotion campaign will be launched around the world in phases in the coming year. The HKTB will also allocate a sum of $100 million from its reserve to support the above work.

Aviation and Maritime Sectors

101. Hong Kong's airport and port facilities are among the best in the world. The 14th Five-Year Plan expressly supports Hong Kong in developing high value-added maritime services, and states for the first time the support for enhancing Hong Kong's status as an international aviation hub. The Government will continue to take forward the development of Hong Kong's aviation sector by leveraging the geographical advantage of the Hong Kong International Airport (HKIA) on Lantau Island to build an Airport City with diversified industry make-up.

International Air Cargo

102. To further provide quality and efficient cargo services for the GBA, the Airport Authority Hong Kong (AA) plans to develop sea-air cargo transhipment between the HKIA and the rest of the GBA. The AA will set up an upstream HKIA Logistics Park in Dongguan and an airside intermodal cargo handling facility at the HKIA. This will allow export cargo from the Mainland to complete security screening in advance and then be transported seamlessly to Hong Kong. It will then be directly transhipped to all overseas destinations through Hong Kong's international aviation network without the need to undergo further security screening. Similarly, international cargo can also be imported into the Mainland through the reverse process. Since the end of 2021, the AA has progressively launched a sea-air intermodal pilot scheme with the existing facilities at the HKIA for the purpose of testing and establishing the full operational procedures.

Maritime and Port Sector

103. The Hong Kong Maritime and Port Board (HKMPB) has set up a dedicated task force to explore concrete proposals to promote the development of "Smart Port", including further enhancing port efficiency and reducing cargo handling time and cost with the use of a digitalised system. Based on the findings of its study, the HKMPB has proposed to provide half-tax concession to attract more maritime enterprises to establish a presence in Hong Kong. The Government plans to introduce the proposed legislative amendments to the LegCo in the first half of this year.

Agriculture and Fisheries

104. To encourage the upgrading and sustainable development of the agricultural and fisheries sector, we have launched two pilot schemes under the Sustainable Agricultural Development Fund (SADF) and the Sustainable Fisheries Development Fund (SFDF) respectively, to provide subsidies for the local agriculture and fisheries industry to adopt new technologies, such as hydroponic technology, smart farm management, advanced livestock waste treatment technology, deep sea mariculture and shellfish and crustacean farming, etc., with a view to further promoting modernisation of the industry and enhancing its competitiveness as well as fostering the transfer of knowledge. I propose making two separate injections of $500 million each into the SADF and the SFDF, as well as expanding the coverage of the funds and streamlining the application procedures as appropriate. This will support the development of the industry in terms of application of advanced technology and intensification of production, and help it seize the opportunities arising from the GBA development.

105. We will continue to take forward the measures under the New Agriculture Policy, including the establishment of the Agricultural Park (Agri-Park) in Kwu Tung South in the New Territories. The Agri-Park Phase 1 will provide about seven hectares of agricultural land. The works are expected to complete in phases from the second quarter of this year to 2023. As for Phase 2, the preparatory work has commenced and the project is expected to provide about 70 hectares of agricultural land.

Stepping up Investment Promotion

106. Foreign investment is highly conducive to the development of various economic areas. Quality foreign investment brings in not only capital but also skills and job opportunities. We must continue to attract Mainland and overseas enterprises to make investment in Hong Kong, with a view to injecting new impetus into our economic growth.

107. Hong Kong's appeal to foreign investment is beyond question. According to a survey conducted by the Government, the number of Mainland and overseas companies in Hong Kong increased by 10 per cent from 8 225 in 2017 to a record high of 9 049 last year, demonstrating that Hong Kong's business environment remains remarkable.

Attract Investment from the Mainland and Overseas

108. Competition among various economies in the aftermath of the pandemic will definitely intensify. We must step up our efforts in investment promotion to attract foreign enterprises to Hong Kong. Starting from the next financial year, the Government will provide an additional recurrent provision of around $90 million in phases to strengthen InvestHK's work and our investment promotion network in the Mainland and overseas.

109. At present, Hong Kong has signed 45 Comprehensive Avoidance of Double Taxation Agreements (CDTAs) and is in negotiations with 14 tax jurisdictions, with a view to minimising the risk of double taxation borne by foreign enterprises doing business in Hong Kong. We will continue to proactively expand our CDTA network.

Global Financial Leaders' Investment Summit

110. To further tap into Hong Kong's strength in attracting investment and our influence as an international financial centre, I have invited the HKMA to organise a high-level investment summit. Representatives of Mainland and international financial institutions will be invited to attend the summit to learn more about the unique advantages and investment environment of Hong Kong, and to jointly explore global financial opportunities and the role that Hong Kong can play in the future.

Trade Development

111. Hong Kong has all along been a highly open trade centre. The 14th Five-Year Plan supports Hong Kong in enhancing its status as an international trade centre. The HKSAR Government will continue to proactively develop a more stable, open, inclusive and mutually beneficial international economic and trade environment in compliance with multilateral trade rules. We will also continue to strengthen our role as a connecting platform between our country and the rest of the world in the international circulation and as a key link for the Belt and Road Initiative.

Hong Kong's External Trade

112. The Mainland and the Association of Southeast Asian Nations (ASEAN) are the largest and second-largest trading partners of Hong Kong respectively. We will continue to strive to introduce more liberalisation measures under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement, thereby creating more favourable conditions for Hong Kong enterprises to enter the Mainland market. The Free Trade Agreement (FTA) and the related Investment Agreement (IA) between Hong Kong and ASEAN, both of which came into full effect last year, have been implemented smoothly. ASEAN members welcome Hong Kong's interest in seeking accession to the Regional Comprehensive Economic Partnership (RCEP). The HKSAR Government is pressing ahead with Hong Kong's early accession to the RCEP.

113. Apart from our major trading partners, we will also continue to seek to enter into FTAs and IAs with other economies. We also strive to strengthen economic and trade connections with the economies in the Middle East and attract enterprises there to do business in Hong Kong through the newly-established Hong Kong Economic and Trade Office in Dubai.

Trade Single Window

114. The Government has implemented the "Trade Single Window" (TSW) in phases since 2018 to enable one-stop lodging of Business-to-Government import and export documents, with a view to enhancing cargo clearance efficiency. Services under Phase Two are expected to be rolled out in batches from next year onwards. We have also earmarked about $1.4 billion for the development of the IT system in Phase Three and the industry is being consulted on the relevant implementation details. Our target is to submit the funding application to the LegCo in the next financial year, with a view to achieving full implementation of the TSW as early as possible.

Trade Promotion

115. The Government has previously made arrangements to allocate an additional sum of $835 million in total to the TDC in six years from 2018-19 onwards for the implementation of various measures, with a view to consolidating Hong Kong's status as a business hub in Asia and exploring business opportunities for Hong Kong companies. In the coming year, the TDC will continue to enhance its mega promotion "Think Business, Think Hong Kong" to strengthen its promotional efforts in ASEAN and mature markets. Moreover, it will actively develop digital platforms to help Hong Kong enterprises explore business opportunities and develop overseas markets. The TDC will also organise a number of events to introduce Hong Kong products and services to the Mainland market.

Convention and Exhibition

116. Convention and exhibition (C&E) activities are crucial for developing Hong Kong's external trade and attracting foreign investment. As at end-January 2022, the Government has subsidised 118 C&E events under the Convention and Exhibition Industry Subsidy Scheme launched not long after the onset of the COVID-19 outbreak. The scheme has also provided one-off immediate relief to organisers of 73 recurrent exhibitions in Hong Kong. The Government will actively consider attracting more event organisers to organise C&E activities in Hong Kong when the epidemic situation stabilises.

Rental Enforcement Moratorium

117. Many SMEs currently face huge challenge amidst the adverse business environment. Taking into consideration that rental payment constitutes a major part of the operating expenses of enterprises, we will expeditiously introduce new legislation to prohibit landlords from terminating the tenancy of or not providing services to tenants of specified sectors for failing to settle rents on schedule, or taking relevant legal actions against them. The relief will be valid for three months and, if necessary, be extended one more time for the same duration, with the legislation automatically lapsing after six months. The arrangement will provide enterprises in deep water with breathing space and help secure employment. HKMA will be in close communication with the banking sector and banks will exercise flexibility if the repayment ability of any landlord is affected owing to reduction in his rental income.

Support Scheme for Pursuing Development in the Mainland

118. To facilitate Hong Kong businessmen, professional services practitioners and entrepreneurs in the Mainland in better integrating into the overall development of our country and seizing the opportunities there, I will allocate a total funding of $135 million to the TDC over the next three years for the introduction of the Support Scheme for Pursuing Development in the Mainland. The scheme will focus on those Mainland cities with larger numbers of Hong Kong business people and workers, with priority accorded to the GBA. Through the TDC's network of offices in the Mainland, training and exchange programmes, business missions as well as promotion activities will be organised in partnership with various business associations to further support Hong Kong people in the Mainland, including business chambers, professionals' groups and associations of young entrepreneurs.

Building Capacity

119. Land and manpower are the two major constraints on Hong Kong's economic growth. In order to ease these constraints, we must make vigorous efforts to create land and nurture talent. Doing so will not only make Hong Kong a better place in which to live and work, but also enable us to scale new heights in economic development, thereby maintaining social stability.

Northern Metropolis and Lantau Tomorrow

120. Both the Northern Metropolis Development Strategy (the Development Strategy) and Lantau Tomorrow plan are important initiatives for increasing land supply, through which housing supply can be substantially increased.

121. The Northern Metropolis will provide ample land for I&T uses, which will foster I&T development in Hong Kong. Hung Shui Kiu/Ha Tsuen can also be developed into the New Territories North Modern Services Centre. As regards development areas including San Tin Technopole, Lo Wu/Man Kam To Comprehensive Development Node, Ma Tso Lung, as well as Lau Fau Shan, Tsim Bei Tsui and Pak Nai, the Government is striving to formulate development plans for the four land formation projects within two to three years. We will also step up the implementation of the New Development Areas projects to ensure timely completion of the housing projects.

122. On financial arrangements, , I will set aside $100 billion from the cumulative return of the Future Fund to set up a dedicated fund under the Capital Works Reserve Fund in order to expedite the implementation of infrastructure works relating to land, housing and transportation within the Northern Metropolis.

123. As for Lantau Tomorrow, the Studies related to Artificial Islands in the Central Waters commenced in last June. It is expected that preliminary proposals will be put forward in the fourth quarter of this year. The Government is considering streamlining the procedures, with a view to further advancing the development timetable, i.e. commencing the first phase of reclamation before the original date of 2027 with the first batch of population intake before 2034. We will make financial assessments when conducting relevant studies and explore the use of different approaches and financing options, including bond issuances or public-private partnership, etc. to take forward the projects.

Transport Infrastructure

124. The provision of comprehensive infrastructure support is crucial for the implementation of the major development projects mentioned above. Infrastructure-led and capacity building planning approach means that transport infrastructure will be used to drive the development of land. The expansion of the railway network will support NDAs and other new development projects, unleash the development potential of nearby areas and facilitate revitalisation, development and economic activities in the districts. The Government is actively taking forward a series of new railway projects, among which the environmental impact assessment studies for the Northern Link and Hung Shui Kiu Station projects have commenced, while the railway schemes for the Tung Chung Line Extension and Tuen Mun South Extension were already gazetted.

125. We are exploring the layout of railway and major road infrastructure in the territory, having regard to the development strategy set out in the “Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030”. These studies are conducted to ensure that the planning of infrastructure will cater for, or even reserve capacity to meet, the overall long-term development needs of Hong Kong, including the Development Strategy. Besides, the Transport Department has launched the Traffic and Transport Strategy Study to lay down the visions for Hong Kong’s traffic and transport policies until 2050 and draw up a strategy blueprint, thereby ensuring that Hong Kong can build a safe, reliable, environmentally friendly and efficient traffic and transport system.

Talent and Labour Force

126. With an ageing population and a declining birth rate, Hong Kong's workforce is expected to shrink. To ensure the sustainable development of Hong Kong's economy, apart from ensuring an adequate local supply of human resources, we should also enhance the quality of our workforce and attract talent to Hong Kong.

127. I shall now elaborate on measures for enriching our local talent pool, which include providing training to talent, enhancing the skills, knowledge and creativity of our manpower resources, and attracting talent from outside Hong Kong.

Financial Services

128. Having regard to the new trend of developing low-carbon and sustainable economy, we plan to launch a three-year Pilot Green and Sustainable Finance Capacity Building Support Scheme. Under the scheme, subsidies will be provided for the training and acquisition of relevant professional qualifications, so as to encourage practitioners in the financial and other relevant sectors to participate in the training.

129. We are also actively implementing the development of professional qualifications recognised under the Qualifications Framework for Fintech practitioners. The first batch of Fintech professional qualifications for the banking sector is expected to be rolled out this year. We will also implement the Pilot Scheme on Training Subsidy for FinTech Practitioners this year. Practitioners who have attained Fintech professional qualifications can receive reimbursement of 80 per cent of the tuition fees, and around 1 500 places will be offered. We will conduct a consultancy study this year, with a view to continuing developing Fintech professional qualifications for different financial sectors, thereby promoting comprehensive professional development of Fintech talent. The estimated expenditure of the scheme is $43 million.

130. Besides, we have commissioned the Cyberport to implement a new round of Financial Practitioners FinTech Training Programme this year to provide training programmes and tuition fee subsidies for practitioners in the insurance and securities sectors. Subsidies will also be provided for the two sectors to organise their own training programmes.

Innovation and Technology

131. The HKSTPC and the Cyberport continue to provide young people with internship and training opportunities through various schemes. The HKSAR Government has also launched a number of schemes such as the STEM Internship Scheme and the Research Talent Hub to provide incentives or subsidies for graduates to pursue a career in I&T.

132. At present, the Technology Talent Admission Scheme provides a fast track to process entry applications of individuals undertaking R&D work. The Global STEM Professorship Scheme, on the other hand, supports universities in recruiting internationally renowned I&T scholars and their teams to conduct research and teaching activities in Hong Kong. We will consider rolling out more relevant measures to facilitate the entry of talent into Hong Kong in due course.

Healthcare

133. To step up our efforts in coping with the continuous healthcare manpower shortage in the future, I intend to gradually increase recurrent allocation, up to $400 million a year as needed, for enhancing training for medical professionals starting from 2023/24 school year onward, including providing subsidies for students to enrol in taught postgraduate programmes on healthcare offered by University Grants Committee-funded universities, self-financing post-secondary institutions or public medical institutions. Students who have successfully completed the programmes can become medical professionals. Meanwhile, 500 more designated places will be provided under the Study Subsidy Scheme for Designated Professions/Sectors to provide subsidies for students to take self-financing undergraduate programmes on healthcare.

134. Besides, I will ask the FHB and the HA to explore waiving the clinical practicum training fees payable by tertiary institutions to the HA in respect of their subsidised undergraduate programmes and taught postgraduate programmes on healthcare.

135. Apart from the earmarked sum of $20 billion as announced in the 2018 Policy Address, I will set aside another $10 billion for the completion of the works to upgrade and increase the healthcare teaching facilities of the University of Hong Kong, Chinese University of Hong Kong and Hong Kong Polytechnic University. Upon completion of the proposed facilities, the three universities will have the capacity of coping with about 900 additional healthcare training places.

Arts and Culture

136. I will allocate $37 million over the next six years to provide professional training for the conservators of the LCSD and those of the Hong Kong Palace Museum, which will be opened soon, as well as increase the number of places under the museum trainees (conservation) programme and the summer internship programme. It is expected that the measures will benefit more than 150 people.

137. I will also inject $100 million into the Cantonese Opera Development Fund to further support Cantonese opera practitioners in enhancing their professional standards and pursuing continuous training, with a view to facilitating the long-term development of the Cantonese opera sector. It is expected that the measure will benefit 800 Cantonese opera practitioners.

Construction Industry

138. In order to train more new blood and upskill in-service workers, I propose to allocate $1 billion to the Construction Industry Council for supporting manpower training, which includes increasing the training places and the amount of allowance for trades facing labour shortage to attract new entrants and job changers to the industry, and increasing the training places for upgrading semi-skilled construction workers to skilled workers and the amount of allowance. We will also step up our efforts to promote the professional image and career prospects of the construction industry in order to attract more young people to join.

139. We established the Centre of Excellence for Major Project Leaders in 2019 with the aim of equipping public officers with a more innovative mindset and enhanced leadership skills for taking forward public works projects. I have set aside $30 million for extending the training of the centre to stakeholders outside the Government, including project-related personnel of major public organisations as well as those working for consultants and contractors engaged in public works projects, with a view to enhancing the overall performance of works projects, and jointly taking forward our long-term major development plans.

Quality Migrant Admission Scheme

140. Upon completion of a review of the Talent List of Hong Kong under the Quality Migrant Admission Scheme earlier on, the Government has added to the list the professions of "professionals in compliance in asset management" and "financial professionals in Environmental, Social and Governance", expanded the scope of some existing professions to include experts of "medical and healthcare sciences", "microelectronics", "integrated circuit design" and "arts technology", as well as refined the requirements on legal and dispute resolution professionals. This is to complement Hong Kong's policy direction to accord priority to the development of finance, I&T, arts and culture as well as dispute resolution services in future, and attract more targeted talent to Hong Kong.

Vocational and Professional Education and Training

141. In addition, the Government has been actively promoting the development of vocational and professional education and training by providing flexible and diversified pathways for young people with different aspirations and abilities, with a view to nurturing talent required for the development of Hong Kong. The Pilot Incentive Scheme to Employers and the Pilot International Study Programme under the Training and Support Scheme as well as the Pilot Subsidy Scheme for Students of Professional Part-time Programmes have been implemented by the Vocational Training Council (VTC) to facilitate workplace learning and assessment, broaden learners' horizon and encourage continuing education among the working population. The Government has decided to extend the schemes for two years to benefit more trainees.

142. The Government is currently reviewing the Diploma Yi Jin subsidy scheme and enhancing the programme curriculum. The scheme will be regularised starting from the 2023/24 school year to continue supporting Secondary Six school leavers as well as adult learners in securing employment and pursuing further study.

Encourage Continuing Education

143. To keep on promoting continuing education and encouraging members of the public to pursue self-enhancement, the Government will raise the subsidy ceiling of the Continuing Education Fund (CEF) from $20,000 to $25,000 per applicant and remove the upper age limit. This new initiative will benefit 760 000 more eligible persons as well as those who have opened a CEF account.

Building a Liveable City

Land Supply

144. The current-term Government adopts a multi-pronged strategy to actively expedite land supply for housing. There has been a steady land supply for private housing development over the past five years, involving around 86 000 units. It is estimated that the overall land supply in 2021-22 can provide about 20 000 units, around 7 000 more than the supply target.

145. Looking ahead, the 2022-23 Land Sale Programme will comprise a total of 13 residential sites and four commercial sites, capable of providing about 8 000 residential units and about 300 000 square metres of commercial floor area respectively. With the residential sites under the Land Sale Programme, together with railway property development, private development and redevelopment projects as well as the Urban Renewal Authority (URA)'s projects, the potential land supply for the whole year is expected to have a capacity of providing about 18 000 units.

146. As for land supply for private housing development in the short to medium term, we will secure approximately 103 hectares of land in the coming five years, and make available to the market sites for the production of over 57 000 units through land sales or putting up railway property developments for tender. Among such land, nearly 40 per cent comes from NDAs/New Town Extensions, another 40 per cent from other districts under the Government Land Sale Programmes, and the remaining from railway property developments in design stage. The above figures have not taken into account URA projects and other private land development projects.

147. In the coming year, I will introduce various enhancement measures to expedite the process, optimise land use and promote the application of I&T in the construction industry, with a view to speeding up the use of land and housing production.

Streamline Statutory Procedures

148. The Development Bureau (DEVB) is pressing ahead with the review of the land development legislation, with a view to streamlining development processes and statutory procedures and hence shortening the time of land creation. We plan to introduce amendment bills into the LegCo within this year, hoping that all sectors of the community will support the reform so that the various reclamation works and NDA projects as well as public and private housing projects can be completed as early as possible.

Develop Multi-storey Industrial Buildings

149. With the launch of various large-scale NDA projects, many brownfield operations in the NDAs will inevitably be affected by land resumption. The Government has engaged a consultancy firm to conduct a market sounding exercise to gauge market interest. With the benefit of this exercise, the Government initially tends to identify sites in Hung Shui Kiu and Yuen Long for the development of multi-storey industrial buildings by leveraging market forces. These buildings will be mainly used by logistics and automobile repairing industries and will provide space for other appropriate uses and for brownfield site business operators affected by land resumption. The DEVB seeks to sell the first piece of land concerned by public tender next year.

Promote the Adoption of Innovation and Technology in the Construction Industry

150. I allocated $1 billion in 2018 to set up the Construction Innovation and Technology Fund (CITF) to boost the capacity of the construction industry to adopt new technology. After operating for more than three years, the CITF is delivering results. I now propose to inject another $1.2 billion for its ongoing operation and implementation of enhancement measures launched recently, including expanding the funding scope and increasing the funding ceiling.

151. Besides, I have earmarked $30 million to promote applied R&D as well as the adoption of new materials and innovative construction technologies in public works and the industry in the coming three years, with a view to enhancing the overall productivity and performance of the construction industry.

Further Encourage the Adoption of Modular Integrated Construction Method

152. Modular Integrated Construction (MiC) helps substantially shorten construction time, address the problem of manpower shortage in the construction industry and reduce the environmental impacts brought by construction works. To expedite housing supply, the Government will introduce more concessionary measures to encourage the adoption of MiC, including increasing the concession of floor area from the current 6 per cent to 10 per cent and providing corresponding site coverage concession as well as supporting applications for exceeding building height limits due to increase in floor area caused by the adoption of MiC. The Government will put the above measures in place in the middle of this year.

Housing Supply

153. The Government has identified some 350 hectares of land for the provision of about 330 000 public housing units to meet the demand for about 301 000 public housing units in the coming 10 years. Of these 330 000 units, about one-third are scheduled for completion in the first five-year period with the remaining in the second five-year period.

154. On private housing, it is estimated that the completion of private residential units will average over 19 000 units annually in the five years from 2022 onward, representing an increase of about 14 per cent over the annual average of the past five years. The projected first-hand private residential unit supply for the next three to four years is 98 000 units, reaching a new high in recent years.

155. Besides, the Government has already identified sufficient land for the provision of more than 17 000 transitional housing units. About 2 300 units are already in operation. In addition, more than 4 200 units are under construction and are expected for completion this year. It is expected that another 11 000 more units will be completed for operation by the end of next year.

Mortgage Insurance Programme

156. Over the years, the Government has been suppressing investors' and speculators' demand for local property while striving to assist people in buying their own homes. At the end of 2019, the Government relaxed the Mortgage Insurance Programme (MIP) of the HKMC Insurance Limited. Public response was positive with the property market remaining stable. Given the current market situation, the supply in the next few years and the need to provide assistance for the first-time home buyers and families seeking self-occupied "flat for flat", I have instructed the HKMC Insurance Limited to make amendments to the MIP. For these home buyers and families, the cap on the value of a property eligible for a mortgage loan of a maximum cover of 80 per cent loan-to-value (LTV) ratio will be raised from $10 million to $12 million. For the first-time home buyers, the cap on the value of a property eligible for a mortgage loan of a maximum cover of 90 per cent LTV ratio will be raised from the existing $8 million to $10 million. The HKMC Insurance Limited will announce the details later. As for other property demand management measures, we have no plan for relaxation.

Building a Green City

157. To strive to achieve carbon neutrality before 2050, the Government will implement strategies and measures to reduce carbon emissions in accordance with the Hong Kong's Climate Action Plan 2050 published last year. Concurrently, the Government will continue to promote new energy transportation so as to further enhance air quality. Over the past few years, resources have been allocated in the Budget to take forward the building of a green city and implement a range of measures on various fronts to combat climate change.

Green Tech Fund

158. I will inject an additional funding of $200 million into the Green Tech Fund (GTF), with a view to further promoting decarbonisation and enhancing environmental protection in Hong Kong. The first round of GTF applications received an overwhelming response, and the second round of applications has commenced. The funding injected will primarily be used to subsidise projects in priority areas such as net-zero electricity generation, energy saving and green buildings, green transport and waste reduction, which will in turn help support innovation and create job opportunities for the I&T industry. Some 40 additional projects can be funded with the new injection.

Charging Facilities for Electric Vehicles

159. The Government launched the $2 billion EV-charging at Home Subsidy Scheme in October 2020 to promote the installation of EV charging-enabling infrastructure in car parks of the existing private residential buildings. Given the overwhelming response, we will inject an additional sum of $1.5 billion to extend the scheme for four years to the 2027-28 financial year. The scheme will support the installation of EV charging-enabling infrastructure for a total of about 140 000 parking spaces in some 700 existing private residential buildings, accounting for about half of the eligible parking spaces in Hong Kong.

160. The Government is preparing to gradually convert some existing petrol or liquefied petroleum gas filling stations into quick charging stations, so as to support the provision of charging services for more diverse types of vehicles. We will also explore the feasibility of developing some larger filling station sites under the "single site, multiple use" model.

Enhance the Capability of the Low-lying Areas to Withstand Threats

161. Climate change will lead to rising sea level and extreme waves. To enhance the capability of the coastal areas in responding to climate change, the Government plans to earmark funding in the next five years to take forward improvement projects and management measures for 26 low-lying or windy residential areas that are prone to high risks. We will also commence strategic studies on coastal management, with a view to providing guidelines on planning and land use as well as formulating the related long-term strategies and preventive measures. In addition, we will seek funding approval of about $8.4 billion this year for carrying out drainage improvement works in various districts to enhance the flood control capability.

Quality Living

162. In order that Hong Kong people and tourists can enjoy the diverse cultural heritage, the beauty of the harbourfront and the enhanced cultural, sports and recreational facilities in Hong Kong, we will take forward our work in the following areas.

Enhance Harbourfront

163. The current-term Government has allocated $6.5 billion for developing new harbourfront promenades and open space as well as improving harbourfront facilities. In 2021, a total of 13 new harbourfront sites, including the harbour steps at Wan Chai harbourfront, were opened, providing the public with more well-connected open space in close proximity to the Victoria Harbour and giving them a variety of water-friendly experience. In the coming year, we will continue to adopt the incremental approach in taking forward our plans to open the Hoi Sham Park Extension in Kowloon City and the first section of the promenade under private development in the Kai Tak former runway area. This will extend the Victoria Harbour promenade by one kilometre to a total length of 26 kilometres.

Sports Development

164. The Government has been proactively promoting sports development with new resources allocation of more than $60 billion since 2017 for promoting sports in the community, supporting elite sports and maintaining Hong Kong's status as a centre for major international sports events, as well as for providing more sports and recreational facilities. These efforts encourage collaboration among different sectors of the community in fostering a strong sports culture. In 2019, the Government injected $6 billion into the Elite Athletes Development Fund to subsidise the provision of comprehensive support to athletes through the Hong Kong Sports Institute. We also injected $250 million into the Hong Kong Athletes Fund in 2020 to encourage more athletes to commit to full-time training as well as dual-track development in sports training and academic studies. I am delighted to see that Hong Kong athletes achieved outstanding and encouraging results in international sports events last year, and I hope more young people in Hong Kong will pursue a career in sports, develop their potential and bring glory to Hong Kong.

165. Besides, we are pressing ahead with the Kai Tak Sports Park project, which is scheduled for completion by the end of next year. We are also actively implementing the $20 billion Five-year Plan for Sports and Recreational Facilities, and taking forward the construction and upgrading of community sports and recreational facilities. Meanwhile, we are progressively carrying out the five-year plan to transform the public play spaces managed by the LCSD.

Cultural Facilities

166. As announced in the 2018-19 Budget, the Government would set aside $20 billion for the improvement and development of cultural facilities in the following 10 years. We plan to seek funding approval this year for taking forward the main works of a cultural centre in Fanling, the construction of Yau Ma Tei Theatre Phase 2 as well as the main works of the Leisure and Cultural Complex at Tin Yip Road, Tin Shui Wai project Phase 1.

Community Arts Scheme

167. Popularisation of arts can enrich people's quality of life. Starting from the 2024-25 financial year, I will allocate $20 million per year for regularising the LCSD's Community Arts Scheme, with the aim of providing more opportunities for members of the public to take part in arts and cultural activities, thereby promoting the integration of arts into our community.

Heritage Conservation

168. Over the past decade or so, we have allocated a total of $2.4 billion for the Revitalising Historic Buildings through Partnership Scheme, under which 19 historic building conservation projects have been launched so far. Through the Financial Assistance for Maintenance Scheme on Built Heritage, we have also assisted private owners in carrying out proper maintenance works for 71 historic buildings. Moreover, we are committed to enhancing public awareness of conservation of historic buildings and supporting relevant academic research.

169. The Built Heritage Conservation Fund has subsidised many successful revitalisation projects, such as Tai O Heritage Hotel, Lui Seng Chun and Jao Tsung-I Academy since its establishment. These revitalisation projects have become local highlights, attracting many people to visit during leisure time. They also enhance Hong Kong's appeal as a tourist destination, and many of them have won international awards for heritage conservation. I propose to earmark an additional funding of $1 billion for the Fund, with a view to further promoting the conservation of heritage and historic buildings.

Caring and Inclusion

170. We will continue to strengthen community and residential care services as well as social work services to support the elderly, persons with disabilities and children, involving an additional annual expenditure of over $1.9 billion.

171. On residential care services, we will regularise three pilot schemes, namely the Pilot Scheme on Multi-disciplinary Outreaching Support Teams for the Elderly, the Pilot Scheme on Residential Care Service Voucher for the Elderly and the Pilot Scheme on Professional Outreaching Teams for Private Residential Care Homes for Persons with Disabilities. We will also allocate additional resources to upgrade the standard of EA2 homes under the Enhanced Bought Place Scheme.

172. On community care services, we will regularise the Pilot Scheme on Home Care and Support for Elderly Persons with Mild Impairment and the speech therapy service of the Enhanced Home and Community Care Services, so as to help the elderly in need age in place.

173. On the provision of additional welfare facilities, we will set up seven contract residential care homes in the Multi-welfare Services Complex, which is near completion, at Kwu Tung North NDA, as well as a new contract residential care home under the development project at Queen’s Hill in Fanling. In addition, a neighbourhood elderly centre, a special child care centre and an early education and training centre will also be set up in Area 54, Tuen Mun to provide community support and training services for the elderly, carers of elderly persons and children with special needs in the area.

174. We will also regularise the Pilot Scheme on Social Work Service for Pre-primary Institutions to facilitate early identification of and provision of assistance to pre-primary children and their families with welfare needs. Moreover, persons with disabilities receiving subsidised residential care and community rehabilitation services will be provided with soft meals from October this year onwards to cater for the needs of users with a swallowing problem.

Neighbourhood Support Child Care Project

175. Under the Neighbourhood Support Child Care Project launched in 2008, service operators recruit child carers to provide families in their neighbourhood with flexible day child care services at home, as a way to foster the spirit of mutual help in the community. To better meet the keen demand for day child care services, the Government will review the implementation mode and effectiveness of the project, including the need for home-based child carers to undergo certified training and the level of their pay, with a view to enhancing service quality as well as attracting more people to become home-based child carers. The review is expected to be completed by mid-2023.

Public Finance

Financial Position of the Current-term Government: Retrospect and Prospect

176. The current-term Government has all along been adhering to the principles of exercising fiscal prudence, keeping expenditure within the limits of revenue and committing resources as and when justified and needed in public finance management. We have also strived to enhance the transparency of public finance. Thanks to years of economic development and the hard work of our people, the fiscal reserves stood at about $950 billion when this term of the Government took office, and subsequently reached a record high of $1.17 trillion in 2018-19. The ample fiscal reserves have enabled the Government to allocate additional resources in a prompt and decisive manner to defuse crises over the past two years, including setting up the AEF with an injection of about $200 billion in total and implementing counter-cyclical measures on a massive scale to relieve people's hardship and stabilise the economy. Though consolidated deficits were recorded from 2019-20 to 2020-21 as a result, the positive impact of the above initiatives, along with our solid foundation built on the principle of "One Country, Two Systems", have turned the consolidated deficit projected in the Original Estimates into a consolidated surplus projected in the Revised Estimates for this financial year. Our fiscal reserves are estimated to stand at about $940 billion at the end of the current-term of the Government, and will gradually rebound to over $1 trillion (equivalent to 16 months of government expenditure) during the five-year period in the Medium Range Forecast (MRF).

177. On enhancing the transparency of public finance, I have brought back the Housing Reserve to the fiscal reserves since 2019-20 and also announced last year that the investment return of the Future Fund would be progressively reflected in the Operating Account. These measures will allow one to have a full grasp of the Government's fiscal strength and help maintain our financial stability.

Striving to Maintain Healthy Public Finances

178. To address social aspirations and strive for service enhancement, the current-term Government has significantly increased the recurrent expenditure on social welfare, healthcare and education. Based on the Revised Estimates for the current financial year, the overall cumulative increase in the recurrent expenditure in these three areas will exceed 40 per cent, or close to $85 billion in dollar terms. In view of the very substantial increase in the recurrent expenditure from $361.8 billion in 2017-18 to over $510 billion in the Original Estimates for this year, I emphasised last year that government expenditure should enter a consolidation period. I also announced an expenditure reduction programme, under which government departments were required to cut recurrent expenditure by one per cent without affecting livelihood-related spending. Given the lasting effect of the recurrent expenditure reduction, we will not roll out any further expenditure reduction programme this year, otherwise the cumulative impact may disrupt departmental operations and in turn affect the delivery of public services. We will, however, continue to examine carefully any new initiatives that will incur recurrent expenditure and strictly control the growth of the civil service, so as to ensure that our long-term financial commitments are commensurate with the increase in our revenue.

179. The current-term Government actively promotes the Government Green Bond Programme. Given that green bonds are issued to finance certified green projects and our commitment not to use the proceeds for meeting operating expenditure, they are widely accepted by investors. The issuance of green bonds will not undermine our fiscal discipline, but can relieve the Government's fiscal pressure arising from the need to meet capital expenditure with existing resources, and hence further reinforce the confidence in our public finances.

Increasing Revenue

180. Hong Kong is an open economy with a relatively narrow tax base. Our revenue is susceptible to changes in the economic environment. To maintain healthy public finances, we follow the principle of keeping expenditure within the limits of revenue to ensure that the growth of expenditure is commensurate with economic growth. We also need to maintain the development and vibrancy of Hong Kong’s economy and identify new areas of growth, with a view to increasing revenue.

181. Our simple and low tax regime, one of the cornerstones of our success in maintaining Hong Kong’s competitiveness, is of utmost importance in bolstering our competitive edge. It is also closely related to our economy and people’s livelihood. On the other hand, owing to the implementation of various policy objectives, enhancement of services and increase in investment in various areas of the community pursued by the current-term of Government, public expenditure will remain at a relatively higher level. Our anti-epidemic efforts and the relief measures implemented in the past two years have also incurred additional expenditure. Given that government revenue should be commensurate with its expenditure, we need to implement measures to increase revenue without affecting people’s livelihood, so that we can broaden our revenue sources while maintaining our policy of low tax rate in Hong Kong.

182. In last year's Budget, I proposed to raise the rate of Stamp Duty on Stock Transfers as a measure to help increase government revenue in the short run. However, with the outbreak of the fifth wave of the epidemic, businesses and individuals are generally under considerable financial pressure. Having regard to the current economic situation, I believe that this is still not the appropriate time to revise the rates of profits tax and salaries tax, which are our major sources of revenue. We anticipate that a deficit will still be recorded in 2022-23. In the medium term, with the implementation in 2023 of the international tax reform proposals drawn up by the Organisation for Economic Co-operation and Development (OECD), the introduction of a global minimum tax rate may help increase revenue from profits tax. I also propose to introduce a progressive rating system for domestic properties to reflect the "affordable users pay" principle. I will elaborate on these two measures in the latter part of the Budget.

183. Taking into account these new revenue streams, we expect that the Government will start to achieve fiscal balance beginning from 2023-24.

184. In the long run, there will still be challenges in alleviating the pressure on public expenditure in the face of an ageing population. The Government will continue to explore different ways to broaden revenue sources, and will initiate in-depth discussions in due course to forge a consensus on how to sustain healthy public finances to meet the development needs of our economy and society.

Rating System

185. Revenue from rates accounts for about three to four per cent of total government revenue. Last year, I announced in my Budget a review of the rating system. Upon review, I propose to revise the rating system as follows:

(a) granting rates concession in a more targeted manner: The Government will continue to consider on an annual basis whether to provide rates concession in the light of the prevailing circumstances, to allow flexibility for the measure. In addition, in view of public concern over the multiple rates concession received by owners with multiple domestic properties under the current rates concession mechanism, we propose that for future rates concession for domestic properties, only those eligible owners who are natural persons can apply for rates concession for one domestic property under their name. Taking the rates concession ceiling of 2022-23 as a reference, the new arrangement can save around $3.1 billion for the Government when a one-off rates concession is implemented in the future; and

(b) introducing a progressive rating system for domestic properties: For domestic properties with rateable value of $550,000 or below, it is proposed that rates be charged at the present level of five per cent of the rateable value. For domestic properties with rateable value over $550,000, it is proposed that rates be charged at five per cent of the rateable value on the first $550,000 and at eight per cent of the rateable value on the next $250,000, and then at 12 per cent on rateable value exceeding $800,000. This can better reflect the “affordable users pay” principle. It is expected that about 42 000 domestic properties will be affected, accounting for around two per cent of the total number of private domestic properties, with an increase of about $760 million in government revenue each year.

186. The above revisions to the rating system will involve significant modifications of the IT system of the Rating and Valuation Department. The Government will implement the above revision proposals in phases. The proposal regarding rates concession for domestic properties will be rolled out in the first phase in 2023-24, whereas the proposed progressive rating system for domestic properties will be introduced in the second phase in 2024-25. The Government will in due course consult the LegCo Panel on Financial Affairs on the outcome of the rating system review, the details and the implementation timetable of the proposals.

New International Tax Standards

187. Last year, Hong Kong, together with more than 130 jurisdictions across the globe, pledged to implement the international tax reform proposals drawn up by the OECD to address base erosion and profit shifting (abbreviated as BEPS 2.0). As the global minimum effective tax rate under BEPS 2.0 only targets large multinational enterprise (MNE) groups with global turnover of at least 750 million euros, it will not affect local SMEs. The Government has been exchanging views with the affected MNEs on matters relating to the implementation of BEPS 2.0, and reaffirmed that we would preserve the advantages of Hong Kong’s tax regime in terms of its simplicity, certainty and transparency, maintain our the territorial source principle of taxation as well as minimise the compliance burden on MNEs when implementing BEPS 2.0. The Government will maintain communication with relevant MNEs to enable them to familiarise with the new tax rules as soon as possible.

188. We plan to submit a legislative proposal to the LegCo in the second half of this year to implement the global minimum tax rate and other relevant requirements in accordance with the international consensus. At the same time, we will consider introducing a domestic minimum top-up tax with regard to the aforesaid MNEs starting from the year of assessment 2024-25 to ensure that their effective tax rates reach the global minimum effective tax rate of 15 per cent so as to safeguard Hong Kong's taxing rights. Based on our rough estimates, the domestic minimum top-up tax will involve an amount of about HK$15 billion per year.

Revised Estimates for 2021-22

189. The 2021-22 revised estimates on government revenue is $682.7 billion, higher than the original estimate by 15.5 per cent or $91.8 billion. This is mainly because revenues from land premium and profits tax are higher than the estimates by $43.5 billion and $32.4 billion respectively.

190. As for government expenditure, the revised estimate is $699 billion, four per cent (or $28.8 billion) lower than the original estimate. This is mainly because the operating expenditure is $18.8 billion lower than the estimate.

191. All in all, I forecast a surplus of $18.9 billion for 2021-22. Fiscal reserves are expected to be $946.7 billion by 31 March 2022.

192. The civil service establishment recorded zero growth in this financial year. Departments have enhanced effectiveness and efficiency through prioritisation, internal redeployment and streamlining of work processes, so that the workload can be handled even without increase in the civil service establishment.

Estimates for 2022-23

193. The major policy initiatives announced in the 2021 Policy Address involve an operating expenditure of about $10.4 billion and a capital expenditure of $4.7 billion. I will ensure that adequate resources are provided to fully support the launch of these initiatives.

194. Total government revenue for 2022-23 is estimated to be $715.9 billion. Earnings and profits tax is estimated to be $251.1 billion, increasing by 3.3 per cent over the revised estimate for 2021-22. Having regard to the Land Sale Programme and the land supply target of 2022-23, revenue from land premium is estimated to be $120 billion, decreasing by 15 per cent compared with the revised estimate for 2021-22. Revenue from stamp duties is estimated to be $113 billion, increasing by 11.9 per cent over the revised estimate for 2021-22.

195. Total government expenditure for 2021-22 decreased by 14.4 per cent, with its share in nominal GDP projected to drop from the peak of 30 per cent in 2020-21 to 24.4 per cent. Total government expenditure for 2022-23 will increase by 15.5 per cent to $807.3 billion. Public expenditure will continue to account for about 24.9 per cent of GDP on average during the five-year period up to 2026-27 in the MRF.

196. The recurrent expenditure of the current-term Government increased from $361.8 billion in 2017-18 to $467.1 billion in 2020-21, representing an increase of nearly 30 per cent. Of this, expenditure on education, social welfare and healthcare, which are the three policy areas closely related to people’s livelihood, accounts for about 58 per cent. In 2022-23, the estimated recurrent expenditure on education, social welfare and healthcare accounts for 60 per cent or $341.6 billion. Among these, the expenditure on healthcare has recorded the largest increase, representing more than double of that in 2017-18.

197. The Government's target of zero growth in the civil service establishment will remain unchanged in 2022-23, with the aim of ensuring the sustainability of public finances. It is expected that as at the end of March 2023, there will be about 197 000 posts in the civil service establishment.

Medium Range Forecast

198. The MRF projects, mainly from a macro perspective, the revenue and expenditure as well as financial position of the Government. From 2023-24 to 2026-27, a real economic growth rate of three per cent per annum is adopted for the MRF.

199. During the above period, the average annual capital works expenditure will exceed $100 billion. While the recurrent government expenditure is expected to drop by 1.8 per cent in 2023-24, it will subsequently grow at a rate between 4.1 per cent and 4.6 per cent per annum.

200. Regarding revenue from land premium, the forecast for 2023-24 continues to be based on the average proportion of revenue from land premium to GDP over the past 15 years, which is 3.8 per cent of GDP. I also assume that the growth rate of revenue from profits tax and other taxes will correspond to the economic growth rate in the next few years.

201. In addition, the MRF reflects the bringing back of the investment return of the Future Fund and the proceeds of the Government Green Bond Programme.

202. Based on the above assumptions and arrangements, I forecast a deficit in the Operating Account in 2022-23, which will turn into a surplus in 2023-24. There will be a surplus in the Capital Account in each of the five years during the MRF period. Except for the estimated deficit in the Operating Account in 2022-23 which is mainly attributed to the one-off relief measures and anti-epidemic expenditure announced in this Budget, there will be a surplus in the subsequent four years. The above forecast has not taken into account any tax rebate or relief measure that the Government may implement over the coming four years.

203. Fiscal reserves are estimated at $1.065 trillion by the end of March 2027, representing 28.9 per cent of GDP, or equivalent to 16 months of government expenditure.

Concluding Remarks

204. Mr President, Hong Kong is currently experiencing its hardest time in the fight against the epidemic, and we are facing enormous challenges. Yet, we do have great strength and staunch support to ride out the storm. As long as we are united in taking decisive action with firm determination and unwavering confidence, we can surely win the battle against the epidemic and our difficulties will eventually go away.

205. After containing the epidemic, our next task will be to propel economic revival and accelerate medium-to-long-term development. To this end, we must stand high and stand firm to see clearly the big picture, better understand the long-term development trends, have a good grasp of the economic patterns, concentrate on the focal points and map out long-term plans, while remaining steadfast against fluctuations in the short-term. Meanwhile, in the face of the profound changes worldwide unseen in a century and the complex external environment, we must plan ahead and get well-prepared to guard against risks, so as to consolidate our development path and achievements.

206. Since Reunification, Hong Kong has weathered many storms with its economic and financial conditions remaining largely stable. Yet, amid the adversities, many issues have emerged, such as the imbalance in economic development, inadequate opportunities for young people to give full play to their strengths as well as the distribution of economic gains, which have scope for improvement. Such issues need to be resolved step by step in the future. However, all these issues, which have implications for our social harmony and stability in the long run, cannot be resolved at one stroke and have to be dealt with through the concerted efforts of our whole community.

207. While every fascinating story is full of twists and turns, every success is spurred by the strength gained from overcoming setbacks. If there is one common factor, it may be that those who are striving to overcome setbacks and achieve success are all guided by firm determination and faith that they will be able to navigate through troubled waters. We deeply believe that Hong Kong can steer towards becoming a more equitable, just, caring and inclusive society.

208. This year marks the 25th anniversary of Hong Kong's return to the Motherland, a landmark occasion that can usher in the start of a new chapter in Hong Kong's development. The implementation of the National Security Law and improvements to the electoral system have brought Hong Kong back on a track focusing on development. We are on course to embark on a new phase of good governance, which we all look forward to. Our country has always provided the strongest backing for Hong Kong. During the ups and downs of our development, our Motherland has always given us staunch support, enabling us to write the next line in Hong Kong's success story.

209. In the great rejuvenation of the Chinese nation, Hong Kong has a unique and irreplaceable role to play. On the back of our country's sustained and steady development, Hong Kong has a bright and promising future under "One Country, Two Systems". We share the same dream with our country. Together and united, we can build a better home with courage, wisdom, confidence and action.

210. Thank you.

THE 2022-23 BUDGET

Speech by the Financial Secretary, the Hon Paul MP Chan
moving the Second Reading of the Appropriation Bill 2022

Supplement and Appendices

Wednesday, 23 February 2022

SUPPLEMENT

Please visit our web-site at http://www.budget.gov.hk/2022/eng/speech.html for all documents, appendices and statistics relating to the 2022-23 Budget. The Chinese version can be found at www.budget.gov.hk/2022/chi/speech.html.

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EFFECT OF THE PROPOSED RATES CONCESSION[1] ON MAIN PROPERTY CLASSES

Property Type	*2022-23* [2] *No Concession* *Average Rates Payable ($ for the year)*	*Average Rates Payable ($ per month)*	*With Rates Concession* *Average Rates Payable ($ for the year)*	*Average Rates Payable ($ per month)*
Private Domestic Premises[3]				
Small	6,480	540	1,944	162
Medium	13,200	1,100	8,304	692
Large	27,564	2,297	22,632	1,886
Public Domestic Premises[4]	3,084	257	120	10
All Domestic Premises[5]	**6,288**	**524**	**2,436**	**203**
Shops and Commercial Premises	38,628	3,219	28,956	2,413
Offices	48,864	4,072	38,748	3,229
Industrial Premises[6]	17,712	1,476	9,720	810
All Non-domestic Premises[7]	**36,480**	**3,040**	**28,488**	**2,374**
All Properties	**10,056**	**838**	**5,676**	**473**

(1) The proposed rates concession measure is for four quarters of 2022-23. For domestic tenements, the concession ceiling is $1,500 per tenement per quarter for the first two quarters; and is $1,000 per tenement per quarter for the remaining two quarters. For non-domestic tenements, the concession ceiling is $5,000 per tenement per quarter for the first two quarters; and is $2,000 per tenement per quarter for the remaining two quarters. No rates will be charged on 63% and 39% of domestic ratepayers, and 74% and 49% of non-domestic ratepayers for the first two quarters and the remaining two quarters of 2022-23 respectively. Overall speaking, about 64% and 40% of ratepayers will not need to pay any rates for the first two quarters and the remaining two quarters of 2022-23 respectively.

(2) The rates payable have reflected the changes in rateable values for 2022-23 after the General Revaluation.

(3) Domestic units are classified by saleable areas, as follows –

Small	up to 69.9m²	(up to 752 ft²)
Medium	70m² to 99.9m²	(753 ft² to 1 075 ft²)
Large	100m² and over	(1 076 ft² and over)

(4) Including Housing Authority and Housing Society rental units.

(5) Including car parking spaces in domestic premises.

(6) Including factories and storage premises.

(7) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools and car parking spaces in non-domestic premises.

SALARIES TAX

Changes to Allowances and Deductions

	Present ($)	*Proposed/ New* ($)	*Increase* ($)	(%)
Personal Allowances:				
Basic	132,000	132,000	—	—
Married	264,000	264,000	—	—
Single Parent	132,000	132,000	—	—
Disabled	75,000	75,000	—	—
Other Allowances:				
Child:				
1st to 9th child				
Year of birth	240,000	240,000	—	—
Other years	120,000	120,000	—	—
Dependent Parent/Grandparent:				
Aged 60 or above				
Basic	50,000	50,000	—	—
Additional allowance (for a dependant living with the taxpayer)	50,000	50,000	—	—
Aged 55 to 59				
Basic	25,000	25,000	—	—
Additional allowance (for a dependant living with the taxpayer)	25,000	25,000	—	—
Dependent Brother/Sister	37,500	37,500	—	—
Disabled Dependant	75,000	75,000	—	—
Deduction Ceiling:				
Self-Education Expenses	100,000	100,000	—	—
Home Loan Interest	100,000	100,000	—	—
(Number of years of deduction)	(20 years of assessment)	(20 years of assessment)		
Approved Charitable Donations	35% of income	35% of income	—	—
Elderly Residential Care Expenses	100,000	100,000	—	—
Contributions to Recognised Retirement Schemes	18,000	18,000	—	—
Qualifying Voluntary Health Insurance Scheme Policy Premiums	$8,000 per insured person	$8,000 per insured person	—	—
Annuity Premiums and MPF Voluntary Contributions	60,000	60,000	—	—
Domestic Rental Expenses	—	100,000	New deduction[1]	

[1] Proposed to be effective from year of assessment 2022/23.

EFFECT OF THE PROPOSED ONE-OFF REDUCTION OF SALARIES TAX, TAX UNDER PERSONAL ASSESSMENT AND PROFITS TAX

Year of Assessment 2021/22

Salaries tax and tax under personal assessment –
100% tax reduction subject to a cap at $10,000 per case

Assessable Income	No. of taxpayers	Average amount of tax reduction	Average % of tax reduced
$200,000 and below	221 000	$820	100%
$200,001 to $300,000	420 000	$3,630	99%
$300,001 to $400,000	364 000	$6,780	66%
$400,001 to $600,000	439 000	$8,140	39%
$600,001 to $900,000	300 000	$9,250	19%
Above $900,000	265 000	$9,870	4%
Total	2 009 000	—	—

Note: As at 31 December 2021, Hong Kong had a working population of 3.68 million.

Profits tax –
100% tax reduction subject to a cap at $10,000 per case

Assessable Profits	No. of businesses#	Average amount of tax reduction	Average % of tax reduced
$100,000 and below	44 000	$3,860	100%
$100,001 to $200,000	20 000	$10,000	57%
$200,001 to $300,000	13 000	$10,000	37%
$300,001 to $400,000	8 000	$10,000	26%
$400,001 to $600,000	11 000	$10,000	19%
$600,001 to $900,000	11 000	$10,000	13%
Above $900,000	44 000	$10,000	0.3%
Total	151 000	—	—

Note: As at 31 December 2021, there were about 1.26 million corporations and 290 000 unincorporated businesses in Hong Kong.

Including 113 000 corporations and 38 000 unincorporated businesses.

ECONOMIC PERFORMANCE IN 2021

1. Rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2021:

		(%)
(a) Growth rates in real terms of:		
Private consumption expenditure		5.6
Government consumption expenditure		4.6
Gross domestic fixed capital formation		10.1
of which :		
Building and construction	0.3	
Machinery, equipment and intellectual property products	16.7	
Total exports of goods		19.0
Imports of goods		17.6
Exports of services		1.1
Imports of services		1.7
Gross Domestic Product (GDP)		**6.4**
Growth rate of per capita GDP in real terms		7.7
Per capita GDP at current market prices	HK$387,000 (US$49,800)	
(b) Rates of change in:		
Underlying Composite Consumer Price Index		**0.6**
GDP Deflator		**0.5**
Government Consumption Expenditure Deflator		**1.0**
(c) **Growth rate of nominal GDP**		**7.0**

2. Annual rates of change in total exports based on external merchandise trade index numbers:

	Total exports	
	In value terms (%)	***In real terms*** (%)
2019	-4	-5
2020	-2	-1
2021	26	20

3. Annual rates of change in real terms of total exports by major market based on external merchandise trade quantum index numbers:

	Total exports					
	Total (%)	***The Mainland*** (%)	***EU#*** (%)	***US*** (%)	***Taiwan*** (%)	***India*** (%)
2019	-5	-5	-7	-15	4	-12
2020	-1	5	-7	-13	11	-16
2021	20	18	20	20	35	33

Note: # Exports to the EU exclude those to the UK, as the UK formally withdrew from the EU on 31 January 2020. Taking the UK and the EU together, exports decreased by 6% and 7% in real terms in 2019 and 2020 respectively, but increased by 25% in 2021.

4. Annual rates of change in real terms of imports and retained imports based on external merchandise trade quantum index numbers:

	Imports (%)	***Retained imports*** (%)
2019	-8	-15
2020	-3	-9
2021	18	13

5. Annual rates of change in real terms of exports of services by type:

	Exports of services				
	Total (%)	***Transport services*** (%)	***Travel services*** (%)	***Financial services*** (%)	***Other services*** (%)
2019	-10	-4	-22	-1	-7
2020	-35	-25	-90	2	-10
2021	1	4	-44	2	2

6. Hong Kong's goods and services trade balance in 2021 reckoned on GDP basis:

		(HK$ billion)
Total exports of goods	5,241.5	
Imports of goods	5,219.9	
Goods trade balance		**21.6**
Exports of services	593.9	
Imports of services	479.8	
Services trade balance		**114.1**
Combined goods and services trade balance		**135.7**

7. Annual averages of the unemployment and underemployment rates and growth in labour force and total employment:

	Unemployment rate (%)	***Underemployment rate*** (%)	***Growth in labour force*** (%)	***Growth in total employment*** (%)
2019	2.9	1.1	-0.3	-0.4
2020	5.8	3.3	-2.0	-4.9
2021	5.2	2.5	-1.0	-0.4

8. Annual rates of change in the Consumer Price Indices:

	Composite CPI				
	Underlying (%)	***Headline*** (%)	***CPI(A)*** (%)	***CPI(B)*** (%)	***CPI(C)*** (%)
2019	3.0	2.9	3.3	2.7	2.6
2020	1.3	0.3	-0.6	0.6	0.8
2021	0.6	1.6	2.9	1.0	0.9

ECONOMIC PROSPECTS FOR 2022

Forecast rates of change in the Gross Domestic Product and main price indicators in 2022:

		(%)
Gross Domestic Product (GDP)		
Real GDP		**2 to 3.5**
Nominal GDP		4 to 5.5
Growth rate of per capita GDP in real terms		1 to 2.5
Per capita GDP at current market prices	HK$398,800-404,500 (US$51,100-51,900)	
Composite Consumer Price Index		
Underlying Composite Consumer Price Index		**2**
Headline Composite Consumer Price Index		**2.1**
GDP Deflator		**2**

APPENDICES

APPENDICES

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Note: Expenditure figures for 2021-22 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2022-23 estimate.

APPENDIX A

MEDIUM RANGE FORECAST

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SECTION I FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

1 The Medium Range Forecast (MRF) is a fiscal planning tool. It sets out the high-level forecast of government expenditure and revenue as well as the financial position covering the five-year period including the budget year, i.e. from 2022-23 to 2026-27.

2 A wide range of assumptions underlying the factors affecting Government's revenue and expenditure are used to derive the MRF. Some assumptions are economic in nature (the general economic assumptions) while others deal with specific areas of Government's activities (other assumptions).

General Economic Assumptions

Real Gross Domestic Product (real GDP)

3 GDP growth is forecast to range from 2% to 3.5% in real terms in 2022. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2023 to 2026, the trend growth rate of the economy in real terms is assumed to be 3% per annum.

Price change

4 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 2% in 2022. For the four-year period 2023 to 2026, the GDP deflator is assumed to increase at a trend rate of 2.3% per annum.

5 The Composite Consumer Price Index (CCPI), measuring inflation in the consumer domain, is forecast to increase by 2.1% in 2022. Netting out the effects of various one-off relief measures, the underlying CCPI is forecast to increase by 2% in 2022. For the ensuing period 2023 to 2026, the trend rate of increase for the underlying CCPI is assumed to be 2.5% per annum.

Nominal Gross Domestic Product (nominal GDP)

6 Given the assumptions on the rates of change in the real GDP and the GDP deflator, the GDP in nominal terms is forecast to increase by 4% to 5.5% in 2022, and the trend growth rate in nominal terms for the period 2023 to 2026 is assumed to be 5.3% per annum.

Other Assumptions

7 Other assumptions on expenditure and revenue patterns over the forecast period are as follows –

— The operating expenditure for 2023-24 and beyond represents the forecast expenditure requirements for Government.

— The capital expenditure for 2022-23 and beyond reflects the estimated cash flow requirements for capital projects including approved capital works projects and those at an advanced stage of planning.

— The revenue projections for 2023-24 and beyond basically reflect the relevant trend yields.

Budgetary Criteria

8 Article 107 of the Basic Law stipulates that *"The Hong Kong Special Administrative Region shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product."*

9 Article 108 of the Basic Law stipulates that *"… The Hong Kong Special Administrative Region shall, taking the low tax policy previously pursued in Hong Kong as reference, enact laws on its own concerning types of taxes, tax rates, tax reductions, allowances and exemptions, and other matters of taxation."*

10 For the purpose of preparing the MRF, the following criteria are also relevant –

— *Budget surplus/deficit*

The Government aims to achieve, over time, a balance in the consolidated account.

— *Expenditure policy*

The general principle is that, over time, the growth rate of expenditure should be commensurate with the growth rate of the economy.

— *Revenue policy*

The Government aims to maintain, over time, the real yield from revenue.

— *Fiscal reserves*

The Government aims to maintain adequate reserves in the long run.

SECTION II MEDIUM RANGE FORECAST

11 The financial position of the Government for the current MRF period *(Note (a))* is summarised below –

Table 1

($ million)	2021-22 Revised Estimate	2022-23 Estimate	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
Operating Account						
Operating revenue *(Note (b))*	519,478	556,911	584,878	613,605	658,905	687,847
Less: Operating expenditure *(Note (c))*	593,057	682,500	584,400	601,500	627,600	654,100
Operating surplus / (deficit)	**(73,579)**	**(125,589)**	**478**	**12,105**	**31,305**	**33,747**
Capital Account						
Capital revenue *(Note (d))*	163,255	158,947	148,629	153,872	170,009	174,777
Less: Capital expenditure *(Note (e))*	105,898	124,789	141,266	148,316	148,319	148,383
Capital surplus	**57,357**	**34,158**	**7,363**	**5,556**	**21,690**	**26,394**
Consolidated Account						
Government revenue	682,733	715,858	733,507	767,477	828,914	862,624
Less: Government expenditure	698,955	807,289	725,666	749,816	775,919	802,483
Consolidated surplus / (deficit) before issuance and repayment of bonds	**(16,222)**	**(91,431)**	**7,841**	**17,661**	**52,995**	**60,141**
Add: Proceeds from issuance of green bonds under the Government Green Bond Programme *(Note (f))*	35,124	35,100	35,100	35,100	35,100	-
Less: Repayment of green bonds *(Note (f))*	-	-	-	17,064	22,850	29,777
Consolidated surplus / (deficit) after issuance and repayment of bonds	**18,902**	**(56,331)**	**42,941**	**35,697**	**65,245**	**30,364**
Fiscal reserves at 31 March	**946,669**	**890,338**	**933,279**	**968,976**	**1,034,221**	**1,064,585**
In terms of number of months of government expenditure	16	13	15	16	16	16
In terms of percentage of GDP	33.1%	29.7%	29.6%	29.2%	29.6%	28.9%

Fiscal Reserves

12 Part of the fiscal reserves has, since 1 January 2016, been held in a notional savings account called the Future Fund, which is placed with the Exchange Fund with a view to securing higher investment returns over a ten-year investment period. The initial endowment of the Future Fund was $219,730 million, being the balance of the Land Fund on 1 January 2016. $4.8 billion of the consolidated surplus from the Operating and Capital Reserves was transferred to the Future Fund as top-up in 2016-17. The arrangement thereafter is subject to an annual review by the Financial Secretary.

Table 2

Distribution of fiscal reserves at 31 March

($ million)	2021-22 Revised Estimate	**2022-23 Estimate**	Future Fund	Operating and Capital Reserves	Total
General Revenue Account	372,569	**275,522**	4,800*	270,722	275,522
Funds with designated use	316,733	**295,138**		295,138	295,138
Capital Works Reserve Fund	196,755	**174,687**		174,687	174,687
Capital Investment Fund	19,833	**15,484**		15,484	15,484
Civil Service Pension Reserve Fund	48,813	**53,864**		53,864	53,864
Disaster Relief Fund	72	**100**		100	100
Innovation and Technology Fund	25,937	**26,404**		26,404	26,404
Loan Fund	3,742	**3,425**		3,425	3,425
Lotteries Fund	21,581	**21,174**		21,174	21,174
Land Fund	257,367	**319,678**	319,678	-	319,678
	946,669	**890,338**	324,478	565,860	890,338
In terms of number of months of government expenditure	16	13	5	8	13

* Being one-third of 2015-16 consolidated surplus.

13 The fiscal reserves would be drawn on to fund contingent and other liabilities. As detailed in Section IV, these include over $610 billion for capital works projects underway and about $521 billion as statutory pension obligations in the coming ten years.

Notes –

(a) *Accounting policies*

(i) The MRF is prepared on a cash basis and reflects forecast receipts and payments, whether they relate to operating or capital transactions.

(ii) The MRF includes the General Revenue Account and eight Funds (Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund). It does not include the Bond Fund which is managed separately and the balance of which does not form part of the fiscal reserves.

(b) *Operating revenue*

(i) The operating revenue takes into account the revenue measures proposed in the 2022-23 Budget, and is made up of –

($ million)	2021-22 Revised Estimate	2022-23 Estimate	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
Operating revenue before investment income	456,596	478,422	536,199	569,082	617,889	648,436
Investment income *(Note (g))*	62,882	78,489	48,679	44,523	41,016	39,411
Total	519,478	556,911	584,878	613,605	658,905	687,847

(ii) Investment income under the Operating Account includes investment income of the General Revenue Account (which is credited to revenue head Properties and Investments) and investment income of the Land Fund. The rate of investment return is 5.6% for 2022 (vs 4.7% for 2021) and is assumed to be in the range of 4.7% to 5.9% a year for 2023 to 2026.

(iii) Investment income of the Future Fund includes investment income of the relevant portion of the General Revenue Account and investment income of the Land Fund, compounded on an annual basis. As directed by the Financial Secretary, the investment income is reflected in the Government's accounts on a progressive basis starting from 2021-22.

(c) *Operating expenditure*

This represents expenditure charged to the Operating Account of the General Revenue Account and Land Fund. The figures for 2023-24 and beyond set out the forecast operating expenditure requirements for Government.

(d) *Capital revenue*

(i) The breakdown of capital revenue is –

($ million)	2021-22 Revised Estimate	2022-23 Estimate	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
General Revenue Account	2,599	6,277	4,968	3,541	4,732	4,731
Capital Investment Fund	260	660	778	1,023	1,577	1,733
Capital Works Reserve Fund	141,195	120,036	119,943	126,301	132,996	140,045
Disaster Relief Fund	1	-	-	-	-	-
Innovation and Technology Fund	70	-	-	-	-	-
Loan Fund	691	1,207	1,248	3,176	3,675	3,330
Lotteries Fund	881	907	896	900	902	904
Capital revenue before investment income	145,697	129,087	127,833	134,941	143,882	150,743
Investment income *(Note (g))*	17,558	29,860	20,796	18,931	26,127	24,034
Total	163,255	158,947	148,629	153,872	170,009	174,777

(ii) Land premium included under the Capital Works Reserve Fund for 2022-23 is estimated to be $120.0 billion. For 2023-24 onwards, it is assumed to be 3.8% of GDP, being the 15-year historical average.

(iii) Investment income under the Capital Account includes investment income of the Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund. The rate of investment return is 5.6% for 2022 (vs 4.7% for 2021) and is assumed to be in the range of 4.7% to 5.9% a year for 2023 to 2026.

(e) *Capital expenditure*

The breakdown of capital expenditure is –

($ million)	2021-22 Revised Estimate	2022-23 Estimate	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
General Revenue Account	7,140	9,653	9,740	10,124	10,214	8,741
Capital Investment Fund	3,190	6,196	3,876	7,836	6,323	6,280
Capital Works Reserve Fund	85,646	95,954	111,209	115,002	116,478	117,929
Disaster Relief Fund	29	-	-	-	-	-
Innovation and Technology Fund	3,537	5,885	7,470	7,124	5,967	5,171
Loan Fund	3,434	2,849	2,943	2,938	3,052	3,140
Lotteries Fund	2,922	4,252	6,028	5,292	6,285	7,122
Total	105,898	124,789	141,266	148,316	148,319	148,383

(f) *Government bonds*

The Government issued green bonds under the Government Green Bond Programme in May 2019, February 2021 and November 2021, and plans to issue more green bonds from 2022-23 to 2025-26. The actual size and timing of issuance will be determined having regard to market conditions. The proceeds of the Programme are credited to the Capital Works Reserve Fund to finance projects with environmental benefits.

(g) *Housing Reserve*

The Housing Reserve was established in 2014 to support public housing development projects. As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts over four years from 2019-20 to 2022-23 as investment income, and would earn the same rate of investment return as stipulated in *Note (b)(ii)* or *Note (d)(iii)* above. At the same time, $82.4 billion (the balance of the Housing Reserve at 31 December 2018) was earmarked for public housing development. $21.2 billion, $22.0 billion and $23.1 billion have been brought back from the Housing Reserve in 2019-20, 2020-21 and 2021-22 respectively.

SECTION III RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE/PUBLIC EXPENDITURE AND GDP IN THE MEDIUM RANGE FORECAST

14 For monitoring purposes, expenditure of the Trading Funds and the Housing Authority (collectively referred to as "other public bodies" in this Appendix) is added to government expenditure in order to compare public expenditure with GDP.

Government Expenditure and Public Expenditure in the Context of the Economy

Table 3

($ million)	2021-22 Revised Estimate	2022-23 Estimate	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
Operating expenditure	593,057	682,500	584,400	601,500	627,600	654,100
Capital expenditure	105,898	124,789	141,266	148,316	148,319	148,383
Government expenditure	698,955	807,289	725,666	749,816	775,919	802,483
Expenditure by other public bodies	40,949	44,535	48,361	51,936	59,946	62,792
Public expenditure *(Note (a))*	739,904	851,824	774,027	801,752	835,865	865,275
Gross Domestic Product (calendar year)	2,861,620	2,997,500	3,156,400	3,323,700	3,499,900	3,685,400
Nominal growth in GDP *(Note (b))*	7.0%	4.75%	5.3%	5.3%	5.3%	5.3%
Growth in recurrent government expenditure *(Note (c))*	6.0%	13.8%	-1.8%	4.3%	4.6%	4.1%
Growth in government expenditure *(Note (c))*	-14.4%	15.5%	-10.1%	3.3%	3.5%	3.4%
Growth in public expenditure *(Note (c))*	-13.4%	15.1%	-9.1%	3.6%	4.3%	3.5%
Public expenditure in terms of percentage of GDP	25.9%	28.4%	24.5%	24.1%	23.9%	23.5%

Notes –

(a) Public expenditure comprises government expenditure and expenditure by other public bodies. It does not include expenditure by those organisations, including statutory organisations in which the Government has only an equity position, such as the Airport Authority and the MTR Corporation Limited.

(b) For 2022-23, the nominal GDP growth of 4.75% represents the mid-point of the range forecast of 4% to 5.5% for the calendar year 2022.

(c) The growth rates for 2021-22 to 2026-27 refer to year-on-year change. For example, the rates for 2021-22 refer to the change between the revised estimate for 2021-22 and the actual expenditure in 2020-21. The rates for 2022-23 refer to the change between the 2022-23 estimate and the 2021-22 revised estimate, and so forth.

15 Table 4 shows the relationship amongst the sum to be appropriated in the 2022-23 Budget, government expenditure and public expenditure.

Relationship between Government Expenditure and Public Expenditure in 2022-23

Table 4

($ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	563,454	563,454	-	563,454	563,454
Non-recurrent	118,967	118,967	-	118,967	118,967
Capital					
Plant, equipment and works	5,766	-	5,766	5,766	5,766
Subventions	3,887	-	3,887	3,887	3,887
	692,074	682,421	9,653	692,074	692,074
Transfer to Funds	5,771	-	-	-	-
Capital Investment Fund	-	-	6,196	6,196	6,196
Capital Works Reserve Fund	-	-	95,954	95,954	95,954
Innovation and Technology Fund	-	-	5,885	5,885	5,885
Land Fund	-	79	-	79	79
Loan Fund	-	-	2,849	2,849	2,849
Lotteries Fund	-	-	4,252	4,252	4,252
Trading Funds	-	-	-	-	7,367
Housing Authority	-	-	-	-	37,168
	697,845	682,500	124,789	807,289	851,824
Revenue					
General Revenue Account					
Taxation		437,792	10	437,802	
Other revenue		56,729	6,267	62,996	
		494,521	6,277	500,798	
Capital Investment Fund		-	1,847	1,847	
Capital Works Reserve Fund		-	138,786	138,786	
Civil Service Pension Reserve Fund		-	5,051	5,051	
Disaster Relief Fund		-	7	7	
Innovation and Technology Fund		-	1,602	1,602	
Land Fund		62,390	-	62,390	
Loan Fund		-	1,532	1,532	
Lotteries Fund		-	3,845	3,845	
		556,911	158,947	715,858	
Surplus / (Deficit)		(125,589)	34,158	(91,431)	

SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES

16 The Government's contingent liabilities as at 31 March 2021, 31 March 2022 and 31 March 2023, are provided below as supplementary information to the MRF **–**

Table 5

($ million)	At 31 March 2021	2022	2023
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	37,468	43,496	46,654
Guarantees provided under the SME Financing Guarantee Scheme	78,271	119,317	114,028
Legal claims, disputes and proceedings	6,346	3,366	565
Subscription to callable shares in the Asian Development Bank	6,054	5,994	5,994
Subscription to callable shares in the Asian Infrastructure Investment Bank	4,800	4,773	4,773
Guarantees provided under the SME Loan Guarantee Scheme	3,141	2,450	1,766
Guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation	947	920	893
Guarantees provided under the Special Loan Guarantee Scheme	230	98	88
Total	137,257	180,414	174,761

17 The Government's major unfunded liabilities as at 31 March 2021 were as follows –

($ million)	
Present value of statutory pension obligations *(Note (a))*	1,031,063
Untaken leave *(Note (b))*	28,855
Green bonds	27,216

Notes –

(a) The statutory pension obligations for the coming ten years are estimated to be about $521 billion in money of the day.

(b) The estimate for "untaken leave" gives an indication of the overall value of leave earned but not yet taken by serving public officers.

18 The estimated outstanding commitments of capital works projects as at 31 March 2021 and 31 March 2022 are $489,020 million and $610,268 million respectively. Some of these are contractual commitments.

APPENDIX B

ANALYSIS OF EXPENDITURE AND REVENUE

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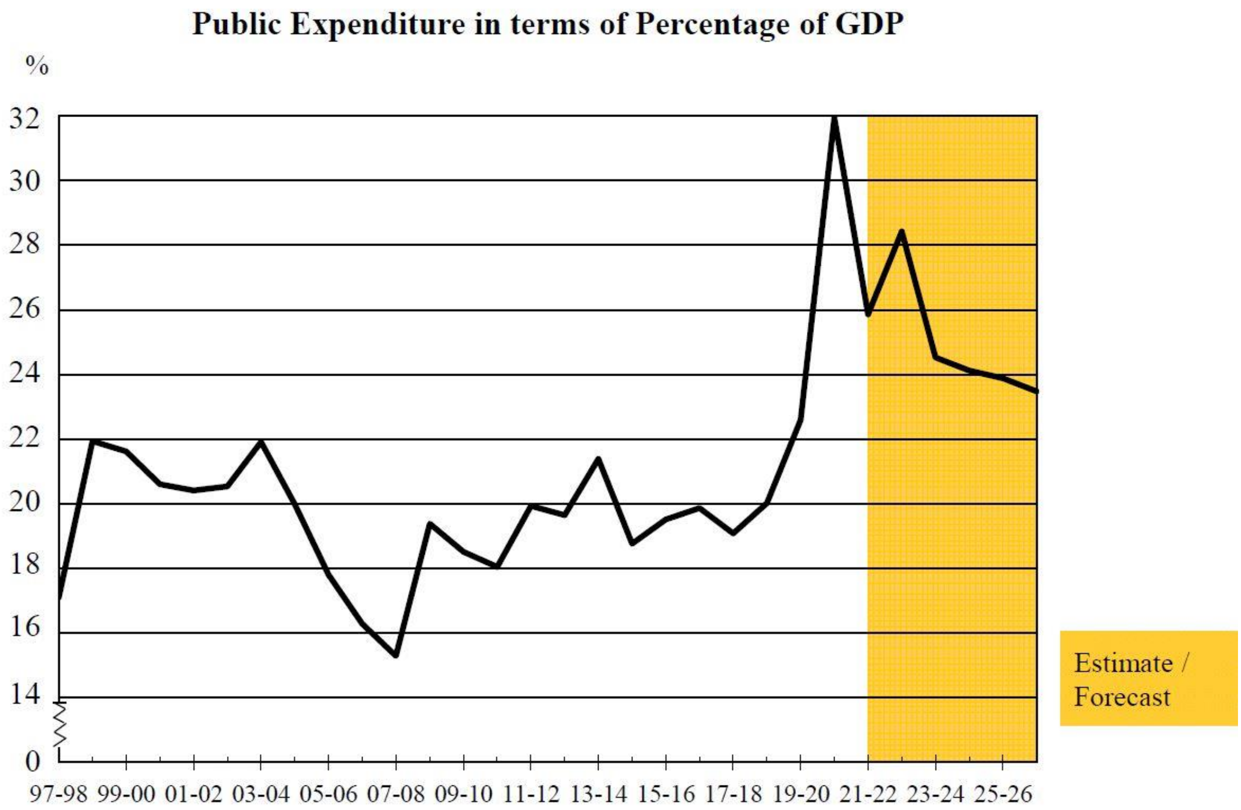
SECTION I THE ESTIMATES IN THE CONTEXT OF THE ECONOMY

Relationship between Government Expenditure, Public Expenditure and GDP

	2022-23 Estimate $m
General Revenue Account	
Operating	682,421
Capital	9,653
	692,074
Capital Investment Fund	6,196
Capital Works Reserve Fund	95,954
Innovation and Technology Fund	5,885
Land Fund	79
Loan Fund	2,849
Lotteries Fund	4,252
Government Expenditure	**807,289**
Trading Funds	7,367
Housing Authority	37,168
Public Expenditure	**851,824**
GDP	2,997,500
Public Expenditure in terms of percentage of GDP	28.4%


Public Expenditure in terms of Percentage of GDP
%
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30
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26
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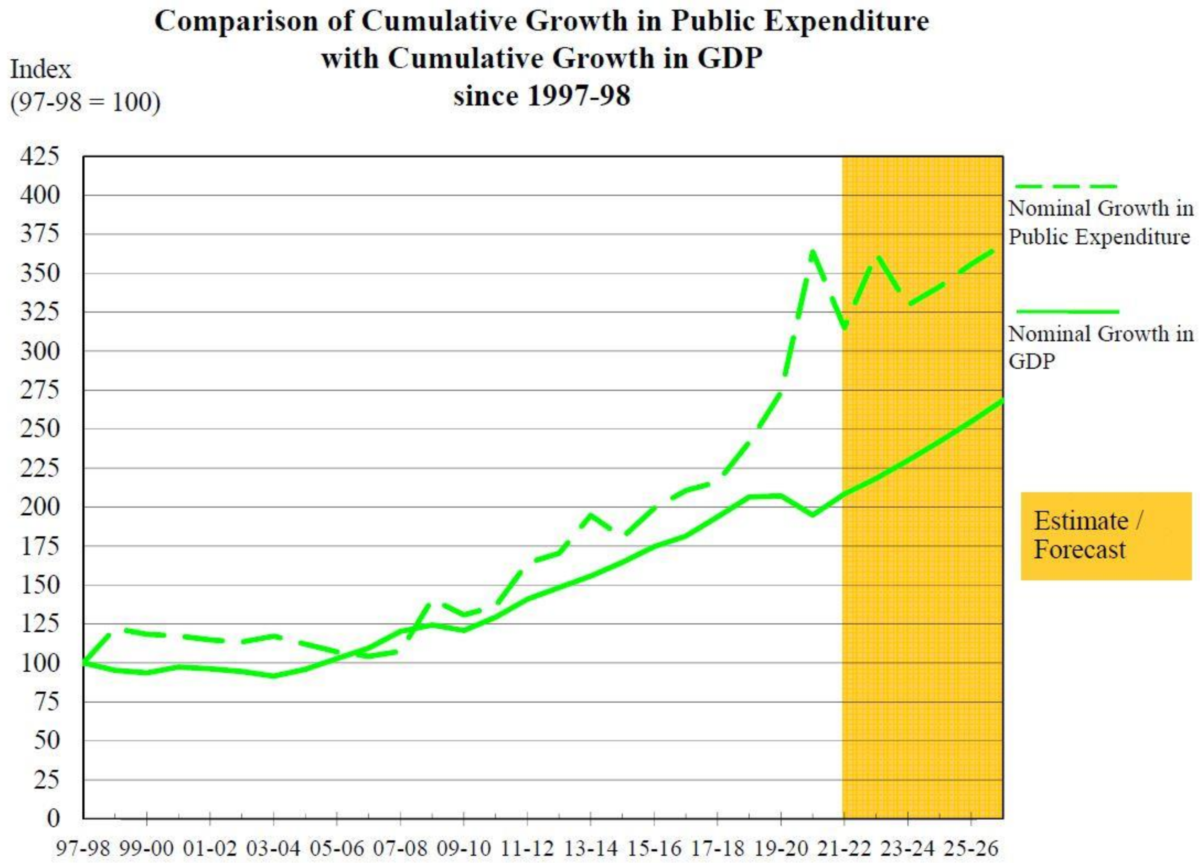
97-98 99-00 01-02 03-04 05-06 07-08 09-10 11-12 13-14 15-16 17-18 19-20 21-22 23-24 25-26
Estimate / Forecast


Comparison of Cumulative Growth in Public Expenditure
with Cumulative Growth in GDP
since 1997-98
Index
(97-98 = 100)
425
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375
350
325
300
275
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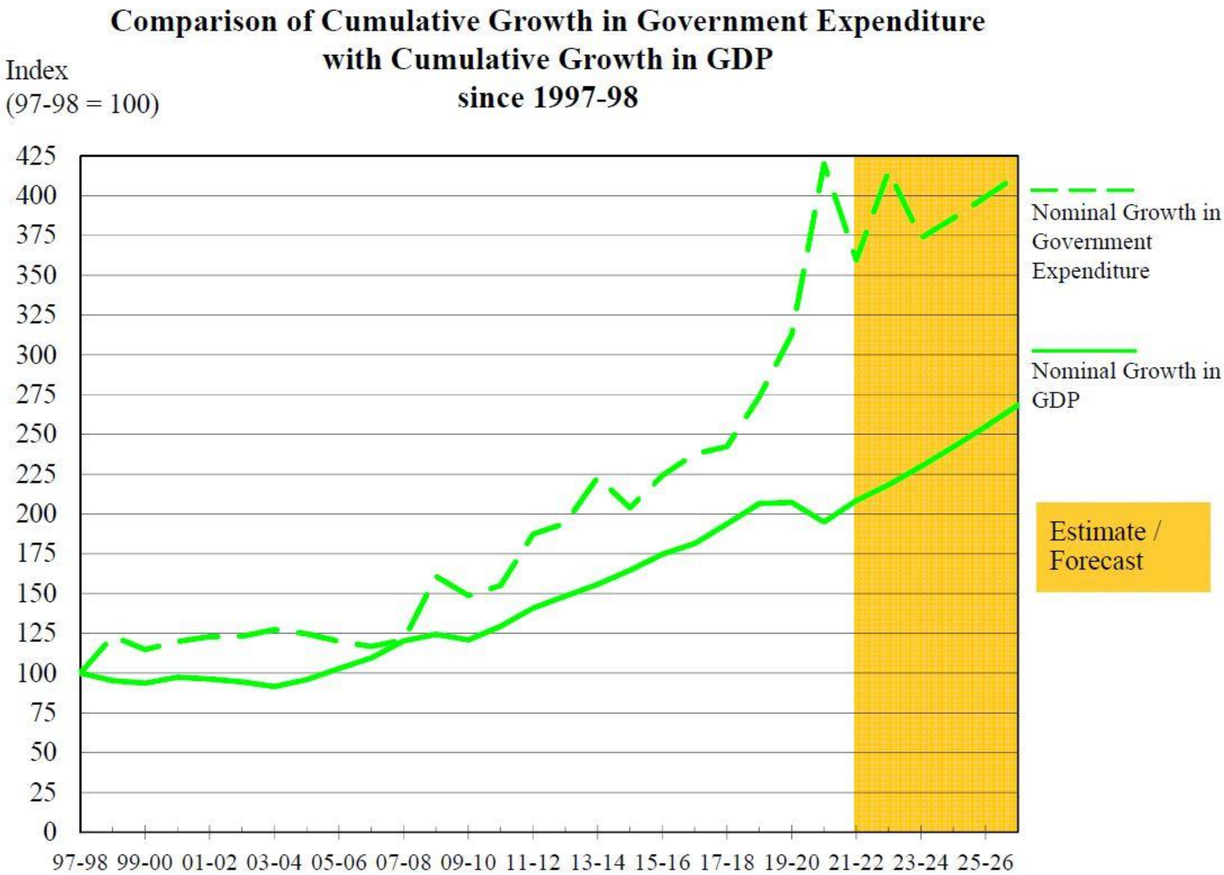
Nominal Growth in Public Expenditure
Nominal Growth in GDP
Estimate / Forecast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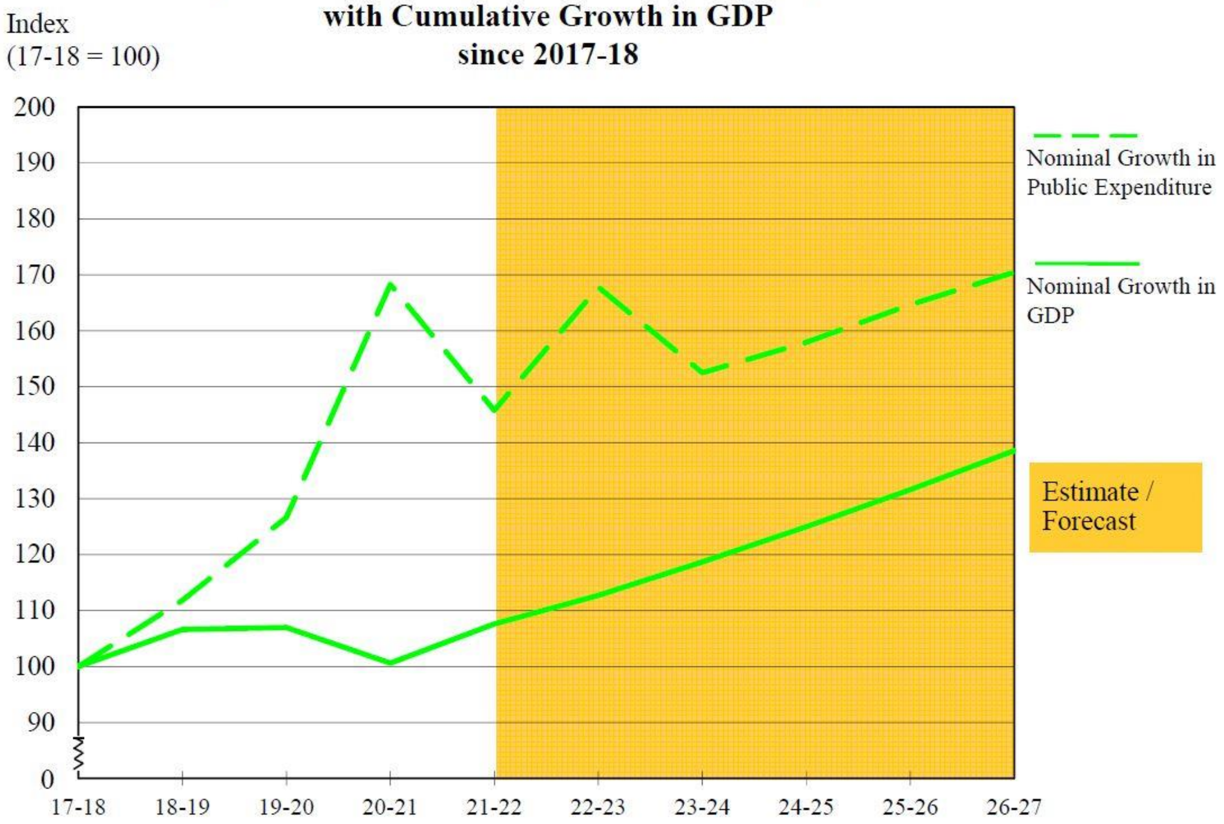
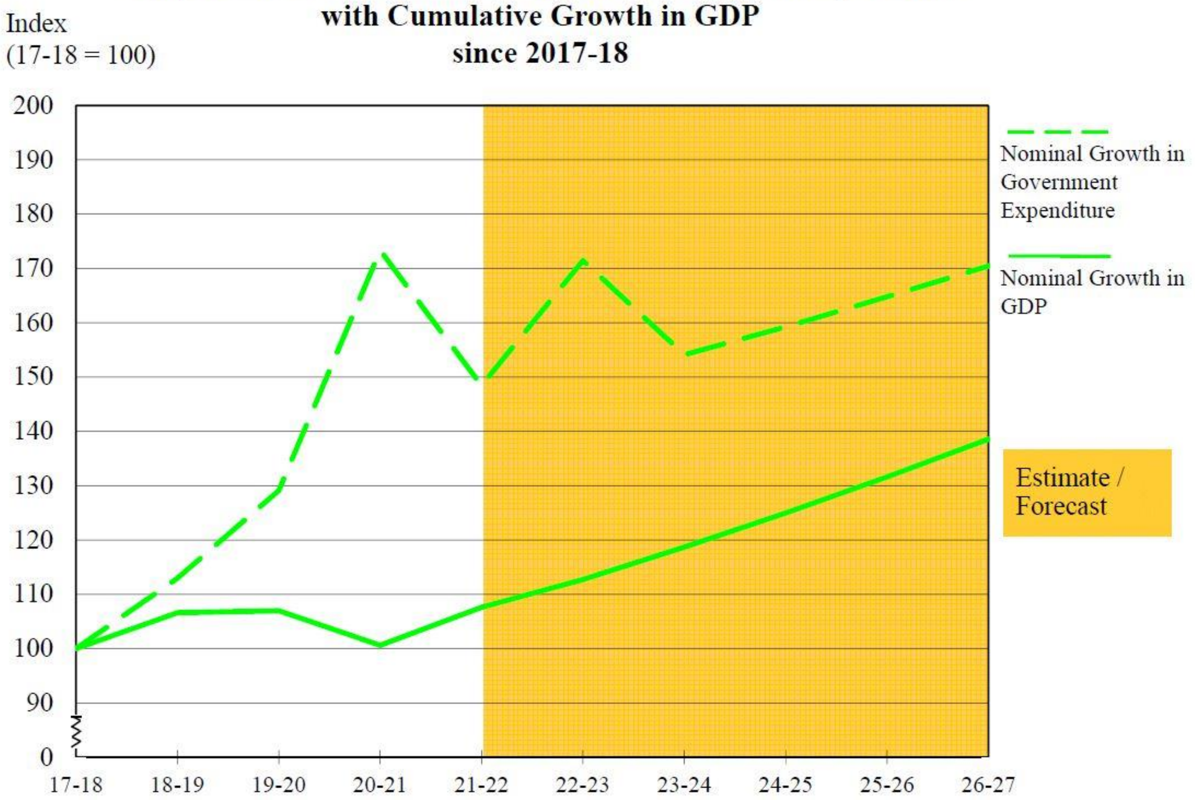
Nominal Growth in Government Expenditure
Nominal Growth in GDP
Estimate / Forecast

Comparison of Cumulative Growth in Public Expenditure with Cumulative Growth in GDP since 2017-18



Comparison of Cumulative Growth in Government Expenditure with Cumulative Growth in GDP since 2017-18



SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Recurrent Public Expenditure : Year-on-Year Change

	2020-21 Actual $m	2021-22 Revised Estimate $m	**2022-23 Estimate $m**	**Increase/Decrease over 2021-22 Revised Estimate in Nominal Terms %**	**Increase/Decrease over 2021-22 Revised Estimate in Real Terms %**
Education	97,297	97,171	**101,936**	**4.9**	**4.3**
Social Welfare	88,985	97,449	**111,813**	**14.7**	**12.7**
Health	87,598	98,015	**127,842**	**30.4**	**29.4**
Security	50,781	51,992	**58,052**	**11.7**	**11.0**
Infrastructure	29,640	31,595	**33,832**	**7.1**	**5.7**
Environment and Food	20,700	21,478	**23,488**	**9.4**	**8.0**
Economic	18,966	20,889	**23,496**	**12.5**	**11.1**
Housing	17,198	17,742	**19,039**	**7.3**	**4.6**
Community and External Affairs	14,458	14,752	**16,656**	**12.9**	**11.5**
Support	62,992	67,287	**72,361**	**7.5**	**5.7**
	488,615	518,370	**588,515**	**13.5**	**12.2**

GDP growth in 2022	**4% to 5.5%**	**2% to 3.5%**

SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

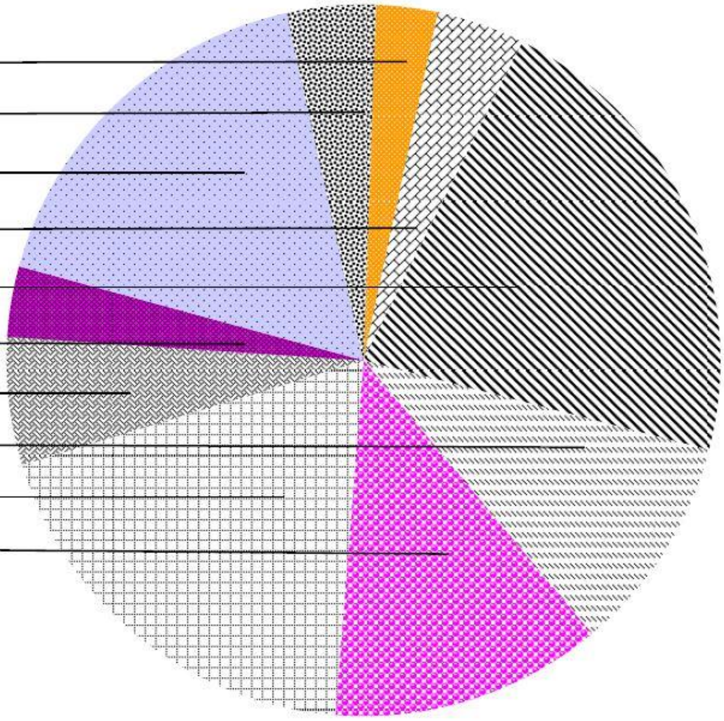
Recurrent Government Expenditure : Year-on-Year Change

	2020-21 Actual $m	2021-22 Revised Estimate $m	**2022-23 Estimate $m**	**Increase/Decrease over 2021-22 Revised Estimate in Nominal Terms %**	**Increase/Decrease over 2021-22 Revised Estimate in Real Terms %**
Education	97,297	97,171	**101,936**	**4.9**	**4.3**
Social Welfare	88,985	97,449	**111,813**	**14.7**	**12.7**
Health	87,598	98,015	**127,842**	**30.4**	**29.4**
Security	50,781	51,992	**58,052**	**11.7**	**11.0**
Infrastructure	29,398	31,363	**33,582**	**7.1**	**5.7**
Environment and Food	20,700	21,478	**23,488**	**9.4**	**8.0**
Economic	14,284	15,137	**16,991**	**12.2**	**11.2**
Housing	601	648	**762**	**17.6**	**17.3**
Community and External Affairs	14,458	14,752	**16,656**	**12.9**	**11.5**
Support	62,992	67,287	**72,361**	**7.5**	**5.7**
	467,094	495,292	**563,483**	**13.8**	**12.5**

GDP growth in 2022	**4% to 5.5%**	**2% to 3.5%**

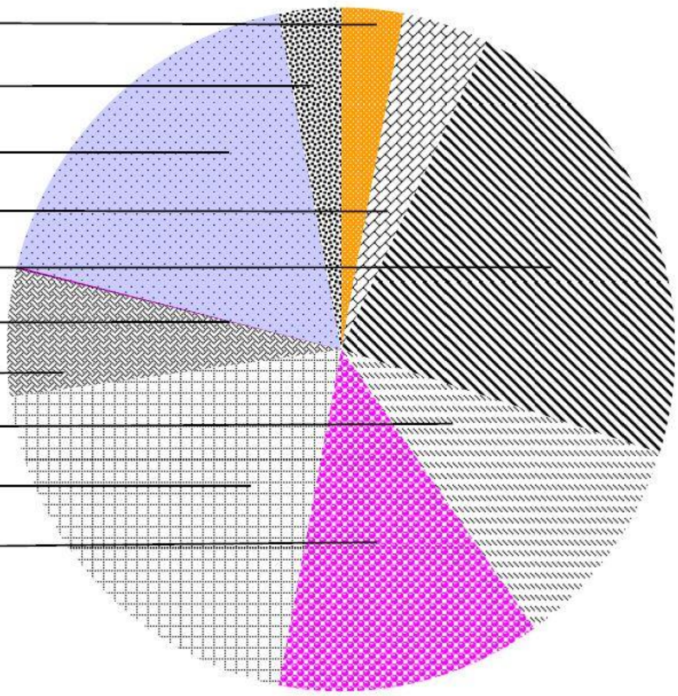
Percentage Share of Expenditure by Policy Area Group
Recurrent Public Expenditure : 2022-23 Estimate

Community and External Affairs	**2.8%**
Economic	**4.0%**
Education	**17.3%**
Environment and Food	**4.0%**
Health	**21.7%**
Housing	**3.2%**
Infrastructure	**5.8%**
Security	**9.9%**
Social Welfare	**19.0%**
Support	**12.3%**
	100.0%



Percentage Share of Expenditure by Policy Area Group
Recurrent Government Expenditure : 2022-23 Estimate

Community and External Affairs	**3.0%**
Economic	**3.0%**
Education	**18.1%**
Environment and Food	**4.2%**
Health	**22.7%**
Housing	**0.1%**
Infrastructure	**6.0%**
Security	**10.3%**
Social Welfare	**19.8%**
Support	**12.8%**
	100.0%



SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Public Expenditure : Year-on-Year Change

	2020-21 Actual $m	2021-22 Revised Estimate $m	**2022-23 Estimate $m**	**Increase/Decrease over 2021-22 Revised Estimate in Nominal Terms %**	**in Real Terms %**
Education	107,040	106,785	**111,887**	**4.8**	**3.9**
Social Welfare	98,046	103,910	**120,031**	**15.5**	**13.4**
Health	96,999	114,389	**162,760**	**42.3**	**40.5**
Security	64,330	56,232	**65,851**	**17.1**	**15.9**
Infrastructure	77,105	80,448	**85,429**	**6.2**	**3.0**
Environment and Food	35,311	33,651	**39,060**	**16.1**	**13.7**
Economic	117,727	75,071	**113,789**	**51.6**	**48.7**
Housing	35,151	38,257	**44,914**	**17.4**	**13.7**
Community and External Affairs	21,901	23,749	**28,819**	**21.3**	**18.4**
Support	200,646	107,412	**79,284**	**-26.2**	**-27.6**
	854,256	739,904	**851,824**	**15.1**	**13.1**

GDP growth in 2022	**4% to 5.5%**	**2% to 3.5%**

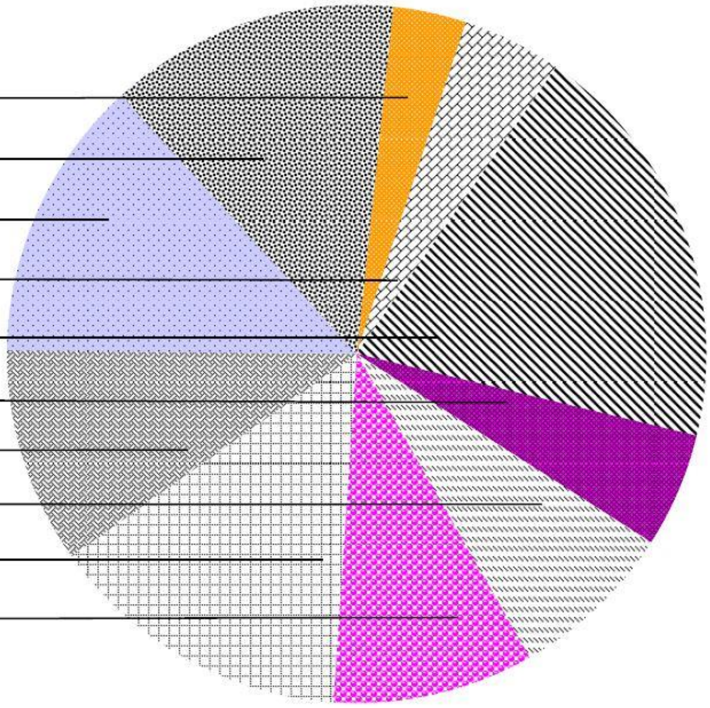
SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Government Expenditure : Year-on-Year Change

	2020-21 Actual $m	2021-22 Revised Estimate $m	**2022-23 Estimate $m**	**Increase/Decrease over 2021-22 Revised Estimate in Nominal Terms %**	**in Real Terms %**
Education	107,040	106,785	**111,887**	**4.8**	**3.9**
Social Welfare	98,046	103,910	**120,031**	**15.5**	**13.4**
Health	96,999	114,389	**162,760**	**42.3**	**40.5**
Security	64,330	56,232	**65,851**	**17.1**	**15.9**
Infrastructure	76,791	80,197	**85,114**	**6.1**	**2.9**
Environment and Food	35,311	33,651	**39,060**	**16.1**	**13.7**
Economic	112,869	69,004	**106,737**	**54.7**	**51.8**
Housing	2,142	3,626	**7,746**	**113.6**	**109.7**
Community and External Affairs	21,901	23,749	**28,819**	**21.3**	**18.4**
Support	200,646	107,412	**79,284**	**-26.2**	**-27.6**
	816,075	698,955	**807,289**	**15.5**	**13.6**
GDP growth in 2022				**4% to 5.5%**	**2% to 3.5%**

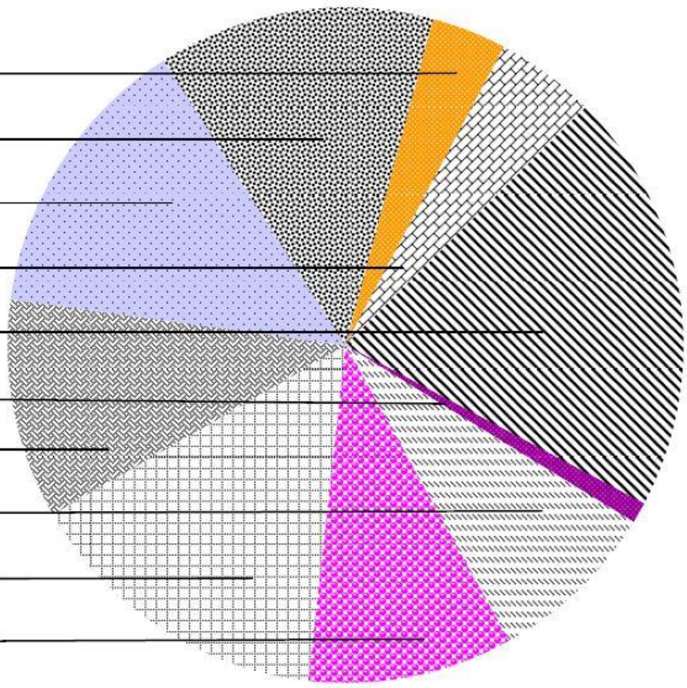
Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure : 2022-23 Estimate

Community and External Affairs	3.4%
Economic	13.4%
Education	13.1%
Environment and Food	4.6%
Health	19.1%
Housing	5.3%
Infrastructure	10.0%
Security	7.7%
Social Welfare	14.1%
Support	9.3%
	100.0%



Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure : 2022-23 Estimate

Community and External Affairs	3.6%
Economic	13.2%
Education	13.8%
Environment and Food	4.8%
Health	20.2%
Housing	1.0%
Infrastructure	10.5%
Security	8.2%
Social Welfare	14.9%
Support	9.8%
	100.0%



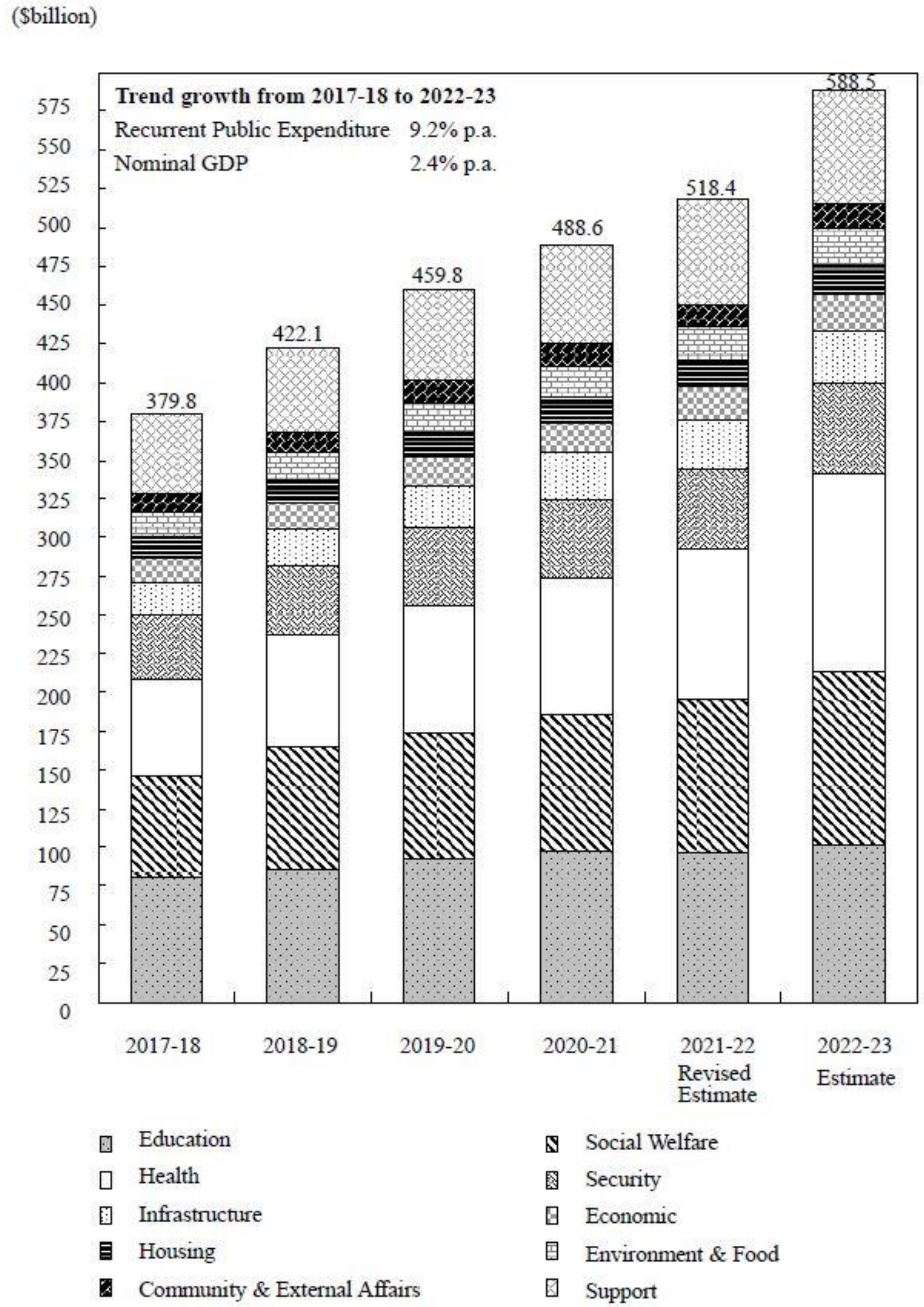
SECTION IV MAJOR CAPITAL PROJECTS PLANNED FOR COMMENCEMENT IN 2022-23

Major capital projects estimated to begin in 2022-23 include –

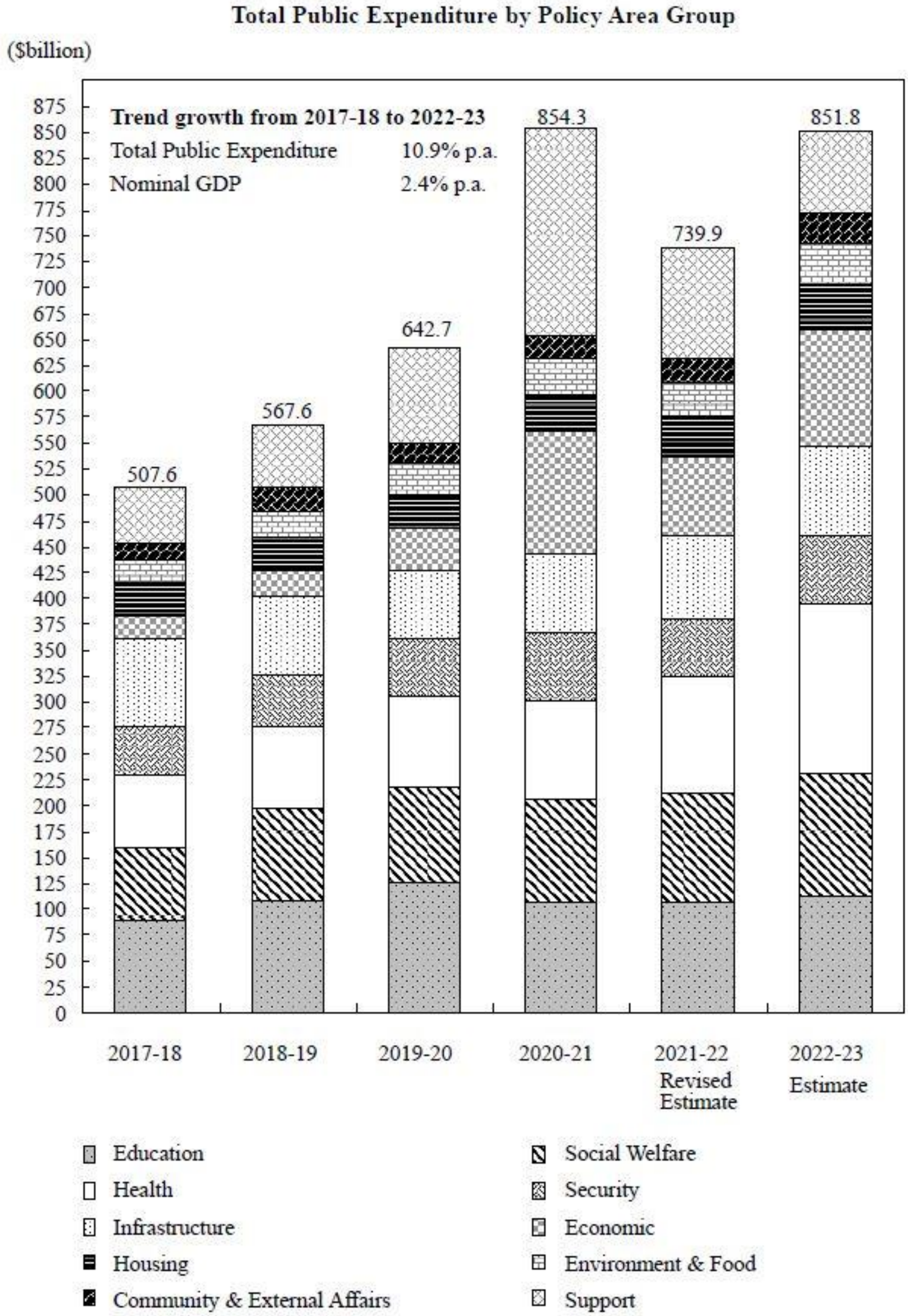
	Project Estimates $ billion
Infrastructure	**27.1**
— Improvement of Yuen Long Town Nullah (town centre section)	
— Drainage improvement works in Tsim Sha Tsui	
— Yuen Long Barrage Scheme	
— Drainage improvement works at Yuen Long—stage 2	
— Drainage improvement works in Kwun Tong—phase 1	
— Building of Government Records Service's Archives Centre in Caverns	
— Yuen Long South development—stage 1 works	
— Yuen Long South development—stage 2A works—site formation and engineering infrastructure and stages 2B and 3 works—detailed design and site investigation	
— Infrastructure works for Developments at Kwun Tong Action Area	
— Relocation of Public Works Central Laboratory to caverns	
— Relocation of Diamond Hill Fresh Water and Salt Water Service Reservoirs to caverns—construction works	
— Reprovisioning of Harcourt Road fresh water pumping station	
— Site formation and infrastructure works for public housing development at Ka Wai Man Road and Ex-Mount Davis Cottage Area, Kennedy Town	
— Site formation and infrastructure works for public housing development at Area 48, Fanling	
Health	**15.7**
— Reprovisioning of Victoria Public Mortuary	
— Redevelopment of Our Lady of Maryknoll Hospital—main works	
— Redevelopment of Grantham Hospital, phase 1—main works	
Security	**14.7**
— Redevelopment of Lai Chi Kok Reception Centre	
— Construction of a District Court Building at Caroline Hill Road	
— Kong Nga Po Police Training Facilities	
Community and External Affairs	**11.8**
— Main works for the New Territories East Cultural Centre in Area 11, Fanling	
— Main works for the Leisure and Cultural Complex at Tin Yip Road, Tin Shui Wai Phase 1 (Heritage Conservation and Resource Centre)	
— District open space, sports centre and public vehicle park at Sze Mei Street	
— Redevelopment of Yuen Long Stadium—main works	
— Improvement works at Mui Wo, phase 2 stage 2	
Education	**2.4**
— Two special schools at Renfrew Road, Kowloon Tong	
— Construction of a Clinical Training Amenities Centre at No. 6 Sassoon Road	
— New Academic Building in Tai Po Campus	
Environment and Food	**1.3**
— Construction of a new public market in Tin Shui Wai	

SECTION V TRENDS IN PUBLIC EXPENDITURE : 2017-18 TO 2022-23

Recurrent Public Expenditure by Policy Area Group

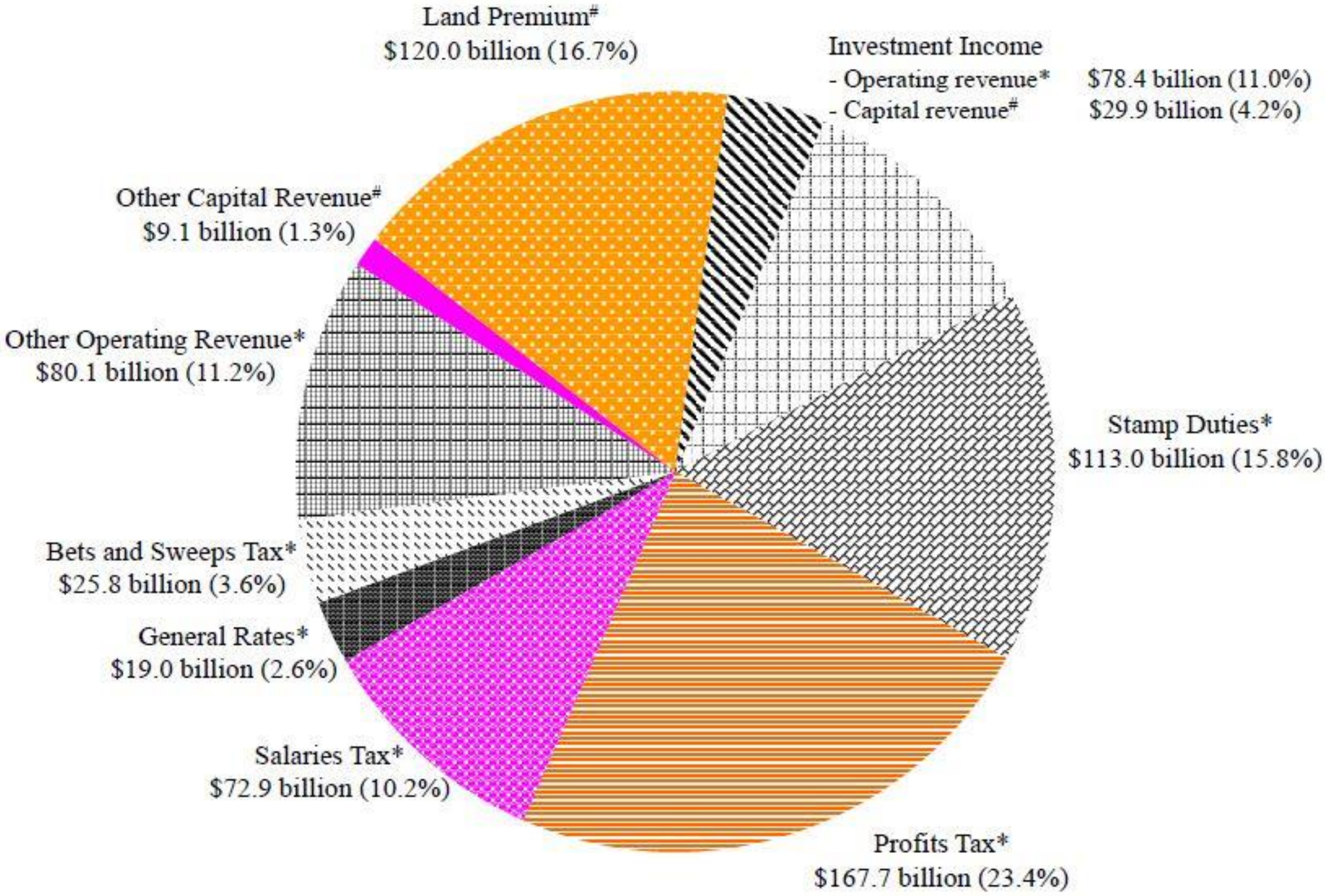


SECTION V TRENDS IN PUBLIC EXPENDITURE : 2017-18 TO 2022-23



SECTION VI ANALYSIS OF GOVERNMENT REVENUE

2022-23 Estimate ($715.9 billion)



	2022-23 Estimate	% Share of Government Revenue	% of GDP
* Operating Revenue	$556.9 billion	77.8%	18.6%
# Capital Revenue	$159.0 billion	22.2%	5.3%
Total	**$715.9 billion**	**100%**	**23.9%**

SECTION VII CLASSIFICATION OF POLICY AREA GROUP

Policy Area Group	**Policy Area** (*Note*)	
Community and External Affairs	19	District and Community Relations
	18	Recreation, Culture, Amenities and Entertainment Licensing
Economic	3	Air and Sea Communications and Logistics Development
	6	Commerce and Industry
	8	Employment and Labour
	1	Financial Services
	17	Information Technology and Broadcasting
	34	Manpower Development
	4	Posts, Competition Policy and Consumer Protection
	7	Public Safety
	5	Travel and Tourism
Education	16	Education
Environment and Food	2	Agriculture, Fisheries and Food Safety
	32	Environmental Hygiene
	23	Environmental Protection, Conservation, Power and Sustainable Development
Health	15	Health
Housing	31	Housing
Infrastructure	22	Buildings, Lands, Planning, Heritage Conservation, Greening and Landscape
	21	Land and Waterborne Transport
	24	Water Supply, Drainage and Slope Safety
Security	12	Administration of Justice
	13	Anti-corruption
	10	Immigration Control
	9	Internal Security
	11	Legal Administration
	20	Legal Aid
Social Welfare	14	Social Welfare
	33	Women's Interests
Support	26	Central Management of the Civil Service
	30	Complaints Against Maladministration
	28	Constitutional and Mainland Affairs
	27	Intra-Governmental Services
	25	Revenue Collection and Financial Control
	29	Support for Members of the Legislative Council

Note: Details of individual heads of expenditure contributing to a particular policy area are provided in an index in Volume I of the 2022-23 Estimates. The index further provides details, by head of expenditure, of individual programmes which contribute to a policy area.

APPENDIX C

GLOSSARY OF TERMS

GLOSSARY OF TERMS

Note: Terms shown in ***bold italic*** are defined elsewhere in the glossary.

Capital expenditure. This comprises all expenditure charged to the Capital Account of the General Revenue Account, Capital Investment Fund, Capital Works Reserve Fund (including interest on government bonds but excluding repayment of the bonds), Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund. Major items are highlighted below –

General Revenue Account

equipment, works and capital subventions of a minor nature

Capital Investment Fund

advances and equity investments

Capital Works Reserve Fund

acquisition of land
capital subventions
computerisation
interest and other expenses on government bonds
major systems and equipment
Public Works Programme expenditure

Disaster Relief Fund

relief to disasters that occur outside Hong Kong

Innovation and Technology Fund

projects promoting innovation and technology upgrading in manufacturing and service industries

Loan Fund

loans made under various development schemes supported by the Government
loans to schools, teachers, students, and housing loans to civil servants, etc.

Lotteries Fund

grants, loans and advances for social welfare services

Capital surplus. The difference between ***capital revenue*** and ***capital expenditure***.

Capital revenue. This comprises certain revenue items in the General Revenue Account and all receipts credited to seven Funds, as highlighted below –

General Revenue Account

disposal proceeds of government quarters and other assets
estate duty
loan repayments received
recovery from Housing Authority

Capital Investment Fund

dividends from investments
interest on loans
investment income
loan repayments received
proceeds from sale of investments

Capital Works Reserve Fund

investment income
land premium
recovery from MTR Corporation Limited

Civil Service Pension Reserve Fund

investment income

Disaster Relief Fund

investment income

Innovation and Technology Fund

investment income
loan repayments received
proceeds from sale of investments

Loan Fund

interest on loans
investment income
loan repayments received
proceeds from sale of loans

Lotteries Fund

auctions of vehicle registration numbers
investment income
loan repayments received
share of proceeds from the Mark Six Lottery

Consolidated surplus / (deficit) before issuance and repayment of bonds. The difference between ***government revenue*** and ***government expenditure***.

Fiscal reserves. The accumulated balances of the General Revenue Account, Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund.

Future Fund. It is the part of the fiscal reserves which is set aside for longer-term investment with a view to securing higher investment returns for the fiscal reserves. It is a notional savings account established on 1 January 2016. It comprises the balance of the Land Fund as its initial endowment and top-ups from consolidated surpluses to be transferred from ***Operating and Capital Reserves*** which is the part of the fiscal reserves outside the Future Fund.

Government expenditure. The aggregate of ***operating expenditure*** and ***capital expenditure***. Unlike ***public expenditure***, it excludes expenditure by the Trading Funds and the Housing Authority.

Government revenue. The aggregate of ***operating revenue*** *and* ***capital revenue***.

Operating and Capital Reserves. With the establishment of the ***Future Fund***, the part of the fiscal reserves outside the ***Future Fund*** is collectively known as the Operating and Capital Reserves.

Operating expenditure. All expenditure charged to the Operating Account of the General Revenue Account and the Land Fund.

Operating revenue. This comprises all revenue credited to the General Revenue Account (except those items which are treated as ***capital revenue***) and the Land Fund, as highlighted below –

General Revenue Account

duties
fines, forfeitures and penalties
investment income
rents and rates
royalties and concessions
taxes
utilities, fees and charges

Land Fund

investment income

Operating surplus / (deficit). The difference between ***operating revenue*** and ***operating expenditure***.

Public expenditure. ***Government expenditure*** plus expenditure (operating and capital) by the Trading Funds and the Housing Authority.

Transfer to Funds. Transfers between the General Revenue Account and the eight Funds (Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund) are not counted as government revenue and expenditure as these are merely internal transfers within Government's accounts.