

THE 2023-24 BUDGET

*Speech by the Financial Secretary, the Hon Paul MP Chan
moving the Second Reading of the Appropriation Bill 2023
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Contents

	<i>Paragraphs</i>
Introduction	1 – 6
Economic Situation in 2022	7 – 14
Economic Outlook for 2023 and Medium-term Outlook	15 – 24
Gearing Up for Speedy Recovery on the Path to Normalcy	25
Post-epidemic Recovery	26 – 36
Issuing Consumption Vouchers	37 – 39
Supporting Enterprises	40 – 42
Supporting the General Public	43 – 44
Opening Up New Horizons Together	
Promoting High-quality Development	45 – 48
Digital Economy	49 – 54
Web3	55 – 57
International GreenTech and GreenFi Centre	58 – 63
Attract Enterprises	64 – 66

	<i>Paragraphs</i>
Pooling Talent	67 – 68
Actively Align with National Development Strategies	69 – 71
International Innovation and Technology Centre	72 – 80
International Financial Centre	81 – 104
International Aviation Hub	105 – 110
International Maritime Centre	111 – 113
International Trade Centre	114 – 119
Centre for International Legal and Dispute Resolution Services in the Asia-Pacific Region	120 – 121
Regional Intellectual Property Trading Centre	122 – 125
East-meets-West Centre for International Cultural Exchange	126 – 129
Development of the Agriculture and Fisheries Industry	130 – 133
Building Capacity	
Talent Resources	134 – 140

	<i>Paragraphs</i>
Northern Metropolis and Kau Yi Chau Artificial Islands	141 – 144
Land Supply	145 – 146
Housing Supply	147 – 152
Transport Infrastructure	153 – 157
Governing for the People	
Building a Liveable City	158 – 163
Healthcare	164 – 170
Youth Development	171 – 173
Caring and Inclusion	174 – 181
Revised Estimates for 2022-23	182 – 187
Estimates for 2023-24	188 – 201
Medium Range Forecast	202 – 207
Public Finance	208 – 217
Concluding Remarks	218 – 223

Mr President, Honourable Members and fellow citizens,

I move that the Appropriation Bill 2023 be read a second time.

Introduction

2. This is the first Budget of the current-term Government and also the first to be presented since Hong Kong's emergence from the epidemic and resumption of quarantine-free travel with the Mainland and the international community.

3. With a clear direction ahead and specific goals in mind, Hong Kong is in a new stage of the journey towards vigorously pursuing our economic growth, and moving to high-quality development and enhancing people's quality of life.

4. The current external environment remains severe and ever-changing and the Government has also endured a number of stress tests over the past few years. Yet, amid the adversities, the Government's financial position as well as Hong Kong's financial system have displayed remarkable resilience and remained healthy, and our community at large is stable.

5. The theme of this year's Budget is: Leaping Forward Steadily, Together We Bolster Prosperity under Our New Vision.

6. Our economy is at the early recovery stage, and members of the public as well as a large number of enterprises are still weighed down by tremendous pressure and require support. Meanwhile, in the face of intense competition and imminent development needs, we have to fully and speedily press ahead with high-quality economic development, which requires forward planning and a front-loaded approach. Overcoming resource constraints will require innovative solutions. Overall, we will take a “moderately liberal” fiscal stance this year. Hence, this is still a deficit budget. More than 80 per cent of the resources involved for the budget initiatives will benefit the general public and small and medium sized enterprises. We will support people in need to the best of our ability, and sustain the impetus to economic recovery in moving towards high-quality development. I will elaborate on this in the following chapters.

Economic Situation in 2022

7. In 2022, the external environment deteriorated markedly. With the Russia-Ukraine conflict driving up international energy and commodity prices and rampant global inflation, major central banks sharply tightened their monetary policies, posing a drag on the performance of advanced economies. The Mainland's economic growth also slowed amid the subdued global economy and the fluctuating epidemic situation. The International Monetary Fund (IMF) estimated that global economic growth decelerated to 3.4 per cent last year.

8. Amid moderated growth across major economies, decelerated growth in manufacturing and trading activities in Asia as well as the continued disruptions to cross-boundary truck movements between Hong Kong and the Mainland caused by the epidemic, Hong Kong's total exports of goods posted a notable decline of 13.9 per cent in real terms last year.

9. As for trade in services, exports of transport services and financial services both declined. Exports of travel services recorded a surge alongside the progressive relaxation of quarantine requirements for visitors, but remained far below the pre-epidemic level. Total exports of services declined mildly by 0.9 per cent for the year as a whole.

10. Domestically, the outbreak of the fifth wave of the epidemic early last year and tightened financial conditions weighed heavily on domestic demand. Nevertheless, with the local epidemic situation stabilising, and the Government's counter-cyclical measures and disbursement of consumption vouchers making key impacts, employment conditions improved continuously. Private consumption expenditure has gradually revived since the second quarter, but still recorded a drop of one per cent for the year as a whole. Dampened by the subdued economic outlook and rising borrowing costs, overall investment expenditure fell by 8.5 per cent.

11. With both external and domestic segments hit hard, the Hong Kong economy contracted by 3.5 per cent in 2022. Nevertheless, the labour market showed improvement, with the seasonally adjusted unemployment rate declining gradually to the latest 3.4 per cent after rising to 5.4 per cent early last year.

12. Inflation remained moderate in overall terms. While prices of individual items such as food, energy, and clothing and footwear recorded more notable increases, price pressures on other major components were largely contained. Private housing rentals also fell. Netting out the effects of the Government's one-off measures, the underlying inflation rate was 1.7 per cent for last year as a whole.

13. Dampened by factors including tightened financial conditions, slackened global growth and heightened geopolitical tensions, the Hong Kong stock market continued to correct during most of last year and trading activities shrank. Nevertheless, amid market expectations of a slower pace of interest rate hikes among major economies and an accelerated return of the local economy to normalcy, the Hang Seng Index rebounded strongly by the end of the year.

14. The residential property market underwent a marked correction last year. Flat prices dropped by 15.6 per cent during the year. The number of transactions plunged by almost 40 per cent to a low level of about 45 000. The non-residential property market also turned quiet.

Economic Outlook for 2023 and Medium-term Outlook

15. The market generally expects that the negative impact on the global economy of the sharp tightening of monetary policies by major central banks will become more apparent this year. Heightened geopolitical tensions will also add to the downside risks. Last month, the IMF forecast that global economic growth would slacken further to 2.9 per cent this year.

16. Sluggish external demand will continue to affect the Mainland's exports this year. Yet, the Mainland economy is resilient and has solid fundamentals. As economic activities quickly revive from the epidemic and the various economic stabilisation measures implemented over the past year gradually yield results, the growth of the Mainland economy is expected to accelerate visibly.

17. The economic growth of the US and Europe is expected to decelerate further this year. The market anticipates that US interest rates will rise further in the first half and stay elevated for some time, which is expected to further dampen demand. For the eurozone economy, economic sentiment remained subdued. The pace of economic growth will soften notably due to the continued impact of monetary policy tightening and the Russia-Ukraine tension.

18. Given the further weakening of growth momentum in advanced economies, Hong Kong's exports of goods will still face severe challenges this year. However, the accelerated growth of the Mainland economy coupled with the lifting of restrictions on cross-boundary truck movements should alleviate part of the pressure. As for exports of services, with the removal of the quarantine requirements for inbound persons and the normal cross-boundary travel between Hong Kong and the Mainland, the number of visitor arrivals is expected to see a strong rebound.

19. Domestically, as overall economic sentiment improves in tandem with the revival of economic activities and the rapid return of Hong Kong's exchanges with the Mainland and the world to normalcy, private consumption will increase. The better economic prospects will also be conducive to fixed asset investment, though tightened financial conditions will remain a constraint.

20. Having regard to the above factors, I forecast that the Hong Kong economy will see a visible rebound this year with growth of 3.5 to 5.5 per cent for the year as a whole.

21. In respect of prices, domestic cost pressures will increase alongside the economic recovery. Despite some moderation, external price pressures will remain notable this year. Taking all factors into account, I forecast that the underlying inflation rate and the headline inflation rate will rise to 2.5 per cent and 2.9 per cent respectively this year.

22. In the medium to long term, the Hong Kong economy will see abundant opportunities. Our country pursues high-quality development and will maintain reasonable growth. Other emerging Asian economies will also continue to register relatively fast growth. Meanwhile, advanced economies such as the US and the eurozone are expected to gradually return to their long term growth trends after the current challenges.

23. Hong Kong's advantages under "One Country, Two Systems" are unique. Besides, the current-term Government strives to forge a better integration of a "capable government" and an "efficient market", proactively strengthening competitiveness, identifying new impetus for growth and expanding economic capacity. The various measures will yield results gradually.

24. Considering all the above factors and taking into account the catch-up growth in the initial period arising from the continued return of economic activities from the epidemic to normalcy, I forecast that the Hong Kong economy will grow by an average of 3.7 per cent per annum in real terms from 2024 to 2027, higher than the trend growth of 2.8 per cent during the decade before the epidemic. The underlying inflation rate is forecast to average 2.5 per cent per annum.

Gearing Up for Speedy Recovery on the Path to Normalcy

25. I believe that Hong Kong's economy will visibly recover this year, and I remain positive. However, economic recovery is still in its initial stage, and there is a need for our people and businesses to regain vigour for being hit by the epidemic over the past three years. Having regard to the financial affordability of the Government, I will introduce the following targeted measures to support people and enterprises and boost the momentum of our economic revival.

Post-epidemic Recovery

Strive to Attract Tourists and Enliven Hong Kong's Image

26. Hong Kong has long been a world-renowned events capital. Organisation of mega events, international conferences and exhibitions is especially crucial to drawing high value-added visitors. It is also a segment of the tourism industry in which countries around the world are striving to establish a foothold. We must spare no effort in staging and supporting more international mega events and activities to further augment our image and enhance our competitiveness as an events capital.

International Events

27. To enhance Hong Kong's international image, the Government will earmark \$100 million for attracting more mega events with significant visitor appeal and tourism promotional effect to be staged in Hong Kong. Besides, the Hong Kong Tourism Board (HKTB) will spend over \$250 million to sustain its efforts in organising or helping promote major tourism events, including the Hong Kong Pop Culture Festival to be held for the first time, the Hong Kong Wine and Dine Festival to be held in physical mode again for the first time since the epidemic, the Hong Kong International Dragon Boat Races, Hong Kong Cyclothon, Hong Kong Sevens and Arts Basel in Hong Kong, etc.

Major Conventions and Exhibitions

28. The Hong Kong Trade Development Council (HKTDC) will hold more than 10 major conferences and exhibitions in the coming months. It is anticipated that these events will attract over 500 000 participants. Moreover, as this year marks the 10th anniversary of the Belt and Road (B&R) Initiative, the Government will continue to co-organise the annual B&R Summit with the HKTDC to actively promote Hong Kong as a functional platform and a key link for the B&R Initiative.

29. The Government will allocate additional funding of about \$200 million to the HKTB for stepping up its efforts in securing the staging of more international meetings, incentive travels, conventions and exhibitions (MICE) of various scales and types in respect of finance, innovation and technology (I&T), medicine, etc. in Hong Kong, to attract high value-added visitors and consolidate Hong Kong's position as the premier MICE destination in the region.

30. The Hong Kong Monetary Authority (HKMA) plans to jointly organise international conference on banking supervision in Hong Kong with the Basel Committee on Banking Supervision next month, and is discussing with the Bank for International Settlements the holding of the Central Bank Governors Meeting in Hong Kong in the latter half of the year. As regards the Global Financial Leaders' Investment Summit organised for the first time in November last year, it will be held again this year to showcase Hong Kong's unique edges and investment environment.

Promote Hong Kong

31. On promoting Hong Kong, we should invite visitors to come here, and, at the same time, raise our city's profile around the world. The Task Force on Promoting and Branding Hong Kong, led by myself, comprises distinguished personalities from various sectors of society, with the aim of exploring novel ways to promote Hong Kong to the world. Government departments and related units will make concerted efforts to promote Hong Kong's new advantages under the direction of the task force. I will provide a grant of \$50 million for supporting the relevant work.

"Hello Hong Kong"

32. To bolster Hong Kong's economic and business advantages, the Government launched a large-scale global promotional campaign themed "Hello Hong Kong" in early February. The campaign aims to showcase and promote the city's new bright economic prospects, new cultural vision and new travel experience in a holistic manner, with a view to attracting as early as possible more business travellers and tourists from the Mainland and all over the world to visit Hong Kong.

33. The Airport Authority Hong Kong (AA) has announced that it would give away free air tickets while the HKTB is handing out gift packs to inbound visitors. Notwithstanding our status as a culinary capital and a shopping paradise, we also need to enhance promotion efforts while tourism is on the road to recovery. In this connection, the HKTB will distribute “Hong Kong Goodies” to one million inbound visitors, offering them shopping and dining privileges. In addition, the HKTB will provide greater incentive to attract visits of international cruises, with a view to facilitating the revival of the cruise industry and consolidating Hong Kong’s position as a major cruise port in the region.

“Happy Hong Kong”

34. We will soon launch the “Happy Hong Kong” Campaign for the general public, providing them opportunities to share happy and enjoyable moments together, thereby bringing more joy to the community. The campaign will focus on activities related to gourmet experiences, fun amusements and exciting ambience. Apart from providing members of the public with more diverse choices of fun and interesting activities in Hong Kong, it will also help stimulate local consumption and boost our economy.

35. One of the major themes for this series of events is the launch of a “Gourmet Marketplace”, under which large-scale food fairs will be organised in various locations across the territory in the coming months, bringing together Mainland, Hong Kong and overseas gourmet food, with a view to enabling the public and visitors enjoy the good food in the city. The Home and Youth Affairs Bureau will assist in co-ordinating the relevant events, details of which will be announced later. Another highlight is the organisation of a large-scale sea-land carnival by the HKTB in summer, with Victoria Harbour as the stage. Apart from a wide range of dancing, music and street performances presented by performing groups from around the world, a brand new lighting show will also be staged to offer a new experience to the public and visitors while they are enjoying the spectacular view of the harbour.

36. Additionally, in support of the Happy Hong Kong Campaign, organisations like the West Kowloon Cultural District Authority, Hong Kong Disneyland, Ocean Park Hong Kong, Hong Kong Cyberport Management Company Limited (Cyberport) and Hong Kong Science and Technology Parks Corporation (HKSTPC) will each hold themed fairs, carnivals or other activities this year.

Issuing Consumption Vouchers

37. The Government implemented two rounds of consumption voucher scheme in the past two years, under which electronic consumption vouchers of \$5,000 and \$10,000 were disbursed respectively to over six million eligible residents. The initiatives were well received by the community.

38. Having regard to the current economic situation, people's livelihood and the Government's financial position, I will issue electronic consumption vouchers again this year with a total value of \$5,000 to each eligible Hong Kong permanent resident and new arrival aged 18 or above in two instalments.

39. To facilitate early disbursement of consumption vouchers, the Government will first disburse consumption vouchers valued at \$3,000 in April this year using the registration data of last year's scheme. The remaining vouchers will be disbursed together with the vouchers for the new eligible persons in the middle of the year. In line with the arrangement for last year's scheme, eligible persons who have come to live in Hong Kong through different admission schemes or to study in Hong Kong will receive vouchers in half value, i.e. \$2,500 in total. We will announce the details as soon as possible.

Supporting Enterprises

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

- (a) reducing profits tax for the year of assessment 2022/23 by 100 per cent, subject to a ceiling of \$6,000. The reduction will be reflected in the final tax payable for the year of assessment 2022/23. This measure will benefit 134 000 businesses and reduce government revenue by \$720 million;
- (b) providing rates concession for non-domestic properties for the first two quarters of 2023-24, subject to a ceiling of \$1,000 per quarter for each rateable property. This measure is estimated to involve 430 000 non-domestic properties and reduce government revenue by \$740 million; and
- (c) starting from July 2023, granting 50 per cent rental or fee concession to eligible tenants of government premises and eligible short-term tenancies and waivers under the Lands Department for six months until end-2023. This measure will reduce government revenue by approximately \$1 billion.

41. The Government has been enhancing the SME Financing Guarantee Scheme (SFGS) continuously over the years to meet the financing needs of small and medium enterprises (SMEs) during economic downturns. As at end-2022, loans amounting to more than \$230 billion have been approved under the SFGS, benefiting over 53 000 enterprises. As the Hong Kong economy is picking up steadily this year, it is expected that commercial financing will gradually return to be adjusted by the market. That said, it takes time for SMEs to consolidate their strengths on the way to recovery. I have, therefore, decided to extend the application period of all guarantee products under the SFGS from end-June 2023 to end-March 2024, thus giving SMEs more room to adjust and secure a firm footing.

42. To support cross-boundary passenger transport and the tourism industry, the Government will, drawing on the experience in implementing the above SFGS, launch new schemes to offer fully guaranteed loans for eligible passenger transport operators and licensed travel agents. It is estimated that the above schemes will involve a total loan guarantee amount of about \$2.7 billion. Details of the schemes, which is expected to be launched within April this year, will be announced in due course. The Government will also extend the Travel Agents Incentive Scheme, which is due to expire by end-March 2023, for three months, with a view to facilitating the speedy recovery of the industry. In addition, the Government will inject \$30 million into the Information Technology Development Matching Fund Scheme for Travel Agents, with the aim of encouraging the industry to undergo upgrade and transformation by making use of technology.

Supporting the General Public

43. I will introduce the following one-off relief measures to alleviate the economic pressure on the public:

- (a) reducing salaries tax and tax under personal assessment for the year of assessment 2022/23 by 100 per cent, subject to a ceiling of \$6,000. The reduction will be reflected in the final tax payable for the year of assessment 2022/23. This measure will benefit 1.9 million taxpayers and reduce government revenue by \$8.5 billion;
- (b) providing rates concession for domestic properties for the first two quarters of 2023-24, subject to a ceiling of \$1,000 per quarter for each rateable property. This measure is estimated to involve 3.03 million domestic properties and reduce government revenue by \$5.2 billion;
- (c) 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 an additional expenditure of about \$2,721 million. Similar arrangements will apply to recipients of the Working Family Allowance, involving an additional expenditure of about \$116 million;

- (d) extending the temporary special measures under the Public Transport Fare Subsidy Scheme for a period of six months till October 2023 to 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. This measure will involve an additional expenditure of about \$1.08 billion. It is estimated that the scheme will benefit about 3.5 million commuters per month;
- (e) paying the examination fees for school candidates sitting for the 2024 Hong Kong Diploma of Secondary Education Examination, incurring an expenditure of \$151 million; and
- (f) granting each eligible residential electricity account a subsidy of \$1,000. This measure will involve an expenditure of about \$2.9 billion. The current arrangement of distributing electricity charges relief of \$50 a month to each eligible residential electricity account will be extended to the end of 2025. This measure will involve an expenditure of about \$3.5 billion and benefit around 2.9 million residential households.

44. Besides, I propose to increase the basic child allowance and the additional child allowance for each child born during the year of assessment from the current \$120,000 to \$130,000 starting from the year of assessment 2023/24. This measure is estimated to benefit 324 000 taxpayers and reduce tax revenue by \$610 million a year.

Opening Up New Horizons Together

Promoting High-quality Development

45. The Report to the 20th National Congress of the Communist Party of China emphasises that the pursuit of high-quality development is first and foremost to build a modern socialist country in all respects. Likewise, as Hong Kong advances towards the new stage from stability to prosperity, we must also closely follow this theme. This is how we put making good use of Hong Kong's advantages to meet the needs of our country into practice. It is also the only way to attain better development for ourselves.

46. After the past several decades of development, Hong Kong has penned many success stories, but also faced development bottlenecks in some areas. We must push forward our economy towards high-quality development. We need to persistently drive development through innovation and technology; create new growth impetus through institutional enhancements and policy innovations; and progress towards green transformation by vigorously promoting the development of green and low-carbon technology and industries.

47. The pace of profound changes facing the world that is unseen in a century is accelerating, and global competition is getting more intense. We need to make better use of our unique advantages under "One Country, Two Systems" to fully grasp the Mainland's enormous market, bring together local and overseas talents, capital and other resources, and to attain mutual benefits that can be shared by everyone and bring about better development for everyone under the operation of an open economy.

48. The current-term Government will better integrate a “capable government” with an “efficient market”. In areas where government leadership is needed, we dare to lead, take full responsibility and push forward at an accelerated pace; while for areas where the power of market forces is required, we will create a conducive environment and conditions for market forces to unleash their power. These will forcefully push forward high-quality development in Hong Kong.

Digital Economy

49. Digital economy plays a crucial role in the course of achieving high-quality development. To speed up the process of digital economy development in Hong Kong, the Digital Economy Development Committee, chaired by me, is undertaking in-depth studies on four major areas to explore, namely, the digital infrastructure needed to promote the development of digital economy, cross-boundary data transfer in a convenient, efficient and secure manner, digital transformation of enterprises and human resources support. The four sub-groups under the committee will provide specific recommendations to the Government this year.

Digital Infrastructure

Artificial Intelligence Supercomputing Centre

50. The availability of adequate computing infrastructure is a prerequisite for promoting the development of scientific research and artificial intelligence (AI) industries in Hong Kong. To this end, the Government will conduct a feasibility study on the development of an AI Supercomputing Centre. The study will be completed in 2023-24.

“iAM Smart”

51. Developing into a smart city and a digital economy can help improve people’s quality of life. I will earmark a sum of about \$200 million to enhance the operation of the “iAM Smart” platform, so as to provide members of the public with more convenient one-stop digital services and improve user experience. The wider use of “iAM Smart” will further promote “Smart Government” and digital transformation of the whole society.

Encourage the Telecommunications Industry to Invest in Infrastructure

52. Advanced and more comprehensive telecommunications infrastructure is an important cornerstone of our economic development. To encourage telecommunications network operators to more actively invest in infrastructure for providing better communication services to companies and the public, I propose to provide tax deduction for the spectrum utilisation fees to be paid by the future successful bidders of radio spectrum.

Digital Transformation

53. Many local SMEs are actively seeking digital transformation for value creation of their business. To further expedite the pace of digital transformation of enterprises, I will set aside \$500 million for Cyberport to launch a Digital Transformation Support Pilot Programme, under which subsidies will be provided on a one-to-one matching basis to assist SMEs in applying ready-to-use basic digital solutions, thus facilitating their digitalisation.

54. The Government also spares no efforts in supporting enterprises to use technologies to enhance productivity and upgrade or transform their business processes. For example, the Technology Voucher Programme, which is widely received by industries, has supported over 20 000 applications since launch. To assist enterprises in better developing digital support facilities as well as carrying out upgrade and transformation, the Hong Kong Productivity Council (HKPC) launched the Biz Expands Easy one-stop online platform last September in order to make the funding application process smoother.

Web3

55. The Internet has been undergoing continuous development and evolution. Every generation of technological reform brings about new applications and fresh opportunities, and even disrupts the mode of business operation. The third generation Internet (Web3), currently in its start-up period, has the same huge potential. We must keep up with the times and seize this golden opportunity to spearhead innovation development.

56. Cyberport established the Web3 Hub@Cyberport early this year. I will allocate \$50 million to expedite the Web3 ecosystem development by, among other things, organising major international seminars, to enable the industry and enterprises to better grasp frontier development and to promote cross-sectoral business co-operation, as well as arranging a wide array of workshops for young people.

57. Virtual assets (VA) are an integral part of a vibrant Web3 ecosystem. The policy statement on VA issued in October last year has set out the Government's policy stance and approach towards the relevant sector. The market has responded proactively. Over the past few months, a large number of innovative enterprises with potential have been considering setting up business in Hong Kong. For the next step, I will establish and lead a task force on VA development, with members from relevant policy bureaux, financial regulators and market participants, to provide recommendations on the sustainable and responsible development of the sector.

International GreenTech and GreenFi Centre

58. Promoting green economy for sustainable development is an important theme globally, and our country is advancing towards the "3060 Dual Carbon Targets". Bringing together resources such as technological innovation, finance, commerce and manpower, this economic model can drive economic transformation and sustainable development, generate demand and create strong impetus for growth. The whole industry cluster is growing rapidly, but the formation of a leading green technology and finance cluster has yet to be seen around the world.

59. In fact, Hong Kong has an edge when it comes to establishing an international green technology and financial centre. I&T development over the years has pooled together quite a number of green technology enterprises and talents. The Government also takes the lead in promoting the application of green technology, including setting up the Green Tech Fund. Hong Kong plays the role of a leader and a first-mover in green finance and innovation. Last week, we successfully issued \$800 million of tokenised green bond, the first of its kind issued by a government globally. This has accentuated Hong Kong's capacity in providing a flexible and favourable legal and regulatory environment for innovative forms of bond issuance. As for the US\$5.75 billion equivalent of government green bonds denominated in US dollar, euro and Renminbi (RMB) issued last month, it was the largest ESG (i.e. environmental, social and governance) bond issuance in Asia.

60. On promoting the adoption of green financing by enterprises, grants have been approved for over 200 related debt instruments issued in Hong Kong since the launch of the Green and Sustainable Finance Grant Scheme in 2021, involving a total underlying debt issuance of nearly US\$70 billion.

61. Furthermore, the launch of Core Climate by the Hong Kong Exchanges and Clearing Limited (HKEX) last October for the trading of international voluntary carbon credits signifies a critical step forward in the development of carbon marketplace in Hong Kong.

62. We must actively seize the opportunities brought by our country's dual carbon strategies at the right time. We should also leverage our strengths under "One Country, Two Systems" and as an international financial centre to accelerate the development of Hong Kong into an international centre for green technology and finance. We will proceed in five directions, namely:

- (a) building a green technology ecosystem to attract top-notch enterprises or start-ups to set up their operations, encourage efficient interaction among industry, academia and research sectors to commercialise R&D outcomes, and boost the demand for green technology through policy support;
- (b) green finance application and innovation: facilitating green projects to obtain capital more conveniently and flexibly through financial innovations apart from traditional financing channels;
- (c) green certification and alignment with international standards;
- (d) training for talents; and
- (e) enhancing the exchange and co-operation with the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) and international markets.

63. I will set up a Green Technology and Finance Development Committee, inviting industry representatives from green technology, green finance and green standard certification, etc. to assist in the formulation of an action agenda for promoting the development of Hong Kong into an international green technology and finance centre. The Government will organise an International GreenTech Week at the end of this year to pool together representatives, enterprises and investors from the green technology industries around the world.

Attract Enterprises

Office for Attracting Strategic Enterprises

64. With a new mindset to proactively reach out, we have established the Office for Attracting Strategic Enterprises (OASES), the Advisory Committee on Attracting Strategic Enterprises and the Dedicated Teams for Attracting Businesses and Talents, with the purpose of attracting representative and high potential strategic enterprises from around the globe, thereby enhancing our competitiveness and accelerating the development of industries. Since its establishment at the end of last year, OASES has already contacted quite a number of strategic enterprises. It is actively following up on these cases, assisting these enterprises in establishing or expanding their business in Hong Kong.

Attracting Overseas Companies to Re-domicile in Hong Kong

65. Hong Kong has enjoyed the competitive edge as a hub for multinational enterprises and as a headquarters economy. To further explore market opportunities, we will introduce a mechanism to provide facilitation for companies domiciled overseas, particularly enterprises with a business focus in the Asia-Pacific region, for re-domiciliation to Hong Kong, so that these companies may utilise our favourable business environment and professional services. We will conduct consultation and submit legislative proposals in 2023-24.

Hong Kong Investment Corporation Limited

66. In his 2022 Policy Address, the Chief Executive proposed to establish the Hong Kong Investment Corporation Limited (HKIC) to optimise the use of fiscal reserves for promoting the development of the economy and industries. The HKIC enhances our ability to attract enterprises and investment, and facilitates industrial co-operation between Hong Kong and our sister cities in the GBA. The HKIC has commenced operation and is identifying quality partners to make strategic investments in a timely manner.

Pooling Talent

Measures to Attract Talents

67. The 2022 Policy Address has proposed an array of initiatives to trawl for outside talents alongside the Government's efforts to nurture local talents, with a view to contributing to our economic development. These initiatives include the Top Talent Pass Scheme and the establishment of Hong Kong Talent Engage. Furthermore, the Labour and Welfare Bureau (LWB) is currently updating the Talent List, for completion within next month, to better reflect the manpower demands of different professions. The LWB will also commence a new round of manpower projections in the middle of this year to help the Government formulate appropriate strategies to address the overall manpower demand.

Capital Investment Entrant Scheme

68. With a view to further enriching the talent pool and attracting more new capital to Hong Kong, we will introduce a new Capital Investment Entrant Scheme. Applicants shall make investment at a certain amount in the local asset market, excluding property. Upon approval, they may reside and pursue development in Hong Kong. Details of the Scheme will be announced later.

Actively Align with National Development Strategies

69. All along, Hong Kong's destiny has been closely intertwined with the destiny of our country. In the prosperous development of our country over a long period, Hong Kong has always actively participated and made irreplaceable contributions, and at the same time it has achieved a higher level of development in a wider range of areas.

70. Our country is advancing towards the second centenary goal and is now in a critical opening period of the journey. As Hong Kong integrates into the national development, we must fully leverage our unique advantages and irreplaceable role under "One Country, Two Systems" to make proactive contributions to the modernisation of our country.

71. The GBA is the best entry point for Hong Kong to integrate into the national development. It has a population of 86 million, and is also the country's most affluent area. Innovative and vibrant, the GBA economy has full-fledged and high-quality production chains and strong complementarity with the Hong Kong economy. By joining hands with our GBA sister cities to achieve synergy in the development of a number of major industries, Hong Kong can certainly spearhead high quality development of the entire GBA.

International Innovation and Technology Centre

72. Hong Kong has to better capitalise on its advantage as an international I&T centre. Apart from strengthening co-operation with the Mainland and overseas, we should also make good use of the vast Mainland market as well as the regional advantages of the GBA. Furthermore, we have to pool the efforts of Government, industry, academic and research sectors to commercialise research and development (R&D) results and promote the development of I&T industry.

73. The Government has been stepping up efforts in promoting I&T development through an array of measures over the past few years, which have begun to yield solid results. The number of start-ups in Hong Kong has increased to about 4 000 with over 10 unicorns. Hong Kong has been Asia's largest and the world's second largest fundraising hub for biotechnology companies in recent years.

74. To seize the immense opportunities arising from the 14th Five-Year Plan and the GBA development, the Government promulgated the Hong Kong Innovation and Technology Development Blueprint at the end of last year to map out the broad development directions and major strategies of future I&T development from the perspective of top-level planning, with a view to charting Hong Kong in moving full steam towards the vision of an international I&T centre.

Life Technology and Artificial Intelligence

75. I announced in my last Budget that \$10 billion would be earmarked to further promote the development of life and health technology in Hong Kong. In a bid to enhance support for the transformation of R&D outcomes as well as R&D activities related to life and health technology, I will set aside \$6 billion out of the above provision to provide subsidies for universities and research institutes to set up thematic research centres. The aims are to foster cross-university, cross-institutional and multi-disciplinary co-operation. We will invite universities and research institutes interested in setting up life and health technology research institutes to submit proposals in 2023-24.

76. To further enhance basic research in frontier technology fields such as AI and quantum technology and to better realise our basic technology research capabilities in making breakthroughs out of the blue, I will earmark \$3 billion to promote the development of relevant facilities, in particular, to leverage Hong Kong's unique advantage as a platform for international scientific research collaboration and attract leading I&T talents, research teams and enterprises from the Mainland and overseas to Hong Kong, thereby promoting cross-sectoral research cooperation.

Microelectronics Research and Development Institute

77. Microelectronics is the core technology in high-tech and information industries. Given the rapid growth of its global demand, microelectronics has infinite room for development and Hong Kong must seize this opportunity. The Government will support the establishment of a Microelectronics Research and Development Institute to promote microelectronics development in Hong Kong, aiming to make it a leading organisation for supporting microelectronics development in the Asia-Pacific region. The Institute will be tasked with strengthening collaboration with universities, R&D centres and the industry and expediting the "1 to N" transformation of technological outcomes. This will help pool together Mainland and overseas talents in relevant fields and strengthen the nurturing of local R&D talents, thereby further enhancing the I&T ecosystem.

Nurture Start-ups

78. The Government has been supporting the sustainable development of the I&T ecosystem in Hong Kong through the HKSTPC and Cyberport. To step up investment in technology start-ups, the HKSTPC will inject \$400 million into its Corporate Venture Fund to help more technology start-ups with potential. In addition, the HKSTPC will, through consolidating its existing Acceleration Programme and injecting an additional amount of \$110 million, launch the Co-acceleration Programme in collaboration with cooperation partners to support the growth of technology start-ups with high potential into regional or global enterprises.

79. To tie in with the policy of developing smart city and digital economy, I will earmark \$265 million for Cyberport to launch a dedicated incubation programme for smart living start-ups, under which a maximum grant of \$500,000 as well as targeted professional support and counselling will be provided. It is anticipated that about 90 eligible start-ups will benefit from the programme in each of the next five years.

New Industrialisation

80. Advanced manufacturing activities generate R&D demand and encourage private enterprises to invest more resources in R&D work, thereby supporting Hong Kong in developing into an international I&T centre. The Advanced Manufacturing Centre (AMC) in the Tseung Kwan O InnoPark was opened in April 2022, providing advanced manufacturing space of about 110 000 square metres. Tenants which have already moved in include enterprises engaged in the manufacturing of civilian satellites and advanced materials as well as provision of smart logistics-related services. To tie in with the policy objectives of attracting strategic enterprises to establish a presence in Hong Kong and promoting new industrialisation, the Government will plan ahead to provide more advanced manufacturing space, including to support the setting up of the second AMC, on which the HKSTPC is currently conducting a feasibility study.

International Financial Centre

81. By leveraging its advantages to serve the country's needs, Hong Kong has developed into a globally recognised international financial centre. As our country is going full steam ahead to a higher-level opening up and advancing towards higher quality development, channelling funds for effective allocation through the capital market is essential for the development of our country's real economy, which will in turn provide enormous opportunities for Hong Kong.

82. Despite the impact of geopolitical risks, our country's steady economic growth, coupled with its adherence to the development principle of reciprocity and mutual benefits, has prompted a large number of enterprises and investors to zero in on the investment benefits to be brought by our country's long-term development. This has made Hong Kong's advantages to become more prominent.

83. As a leading offshore RMB hub, Hong Kong will continue to take the lead in RMB fund management and investment in the international market, and contribute to the internationalisation of RMB.

84. As Hong Kong heads towards high-quality development as an international financial centre, it has to attach importance to issues about both development and security. We have been identifying potential risks early and managing them properly, and firmly upholding the bottom-line of ensuring “financial security”, on which our steady economic, financial and social development depends.

Widen Mutual Access between the Mainland and Hong Kong

85. Relevant institutions in the two places have been collaborating closely to expand the mutual market access schemes, with a view to implementing the related measures promptly. In the future, we will continue to explore with the Mainland various proposals on expansion of mutual market access and enhancement arrangements, such as enhancing the Cross-boundary Wealth Management Connect Scheme in the GBA, the Bond Connect, as well as further expanding the scope of eligible securities under the Stock Connect. We will also contemplate the idea of providing more risk management products for investors outside of the Mainland, including to issue Mainland government bond futures in Hong Kong, thereby injecting new impetus into Hong Kong’s capital market in a sustainable manner.

Offshore Renminbi Business Centre

86. As our country is the world’s biggest trading nation, the usage volume of cross-boundary and offshore RMB will continue to increase. As stated in the report to the 20th National Congress of the Communist Party of China, our country will promote the internationalisation of RMB in an orderly way.

87. Hong Kong has always been the world's largest offshore RMB hub with deposits of nearly RMB 1 trillion in total as at the end of 2022. Approximately 75 per cent of offshore RMB settlements across the globe are conducted in Hong Kong. Experience from the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect as well as the Bond Connect fully shows that where risks are controllable, Hong Kong can assist the Mainland in opening up the financial market in an orderly manner and attracting offshore capital for investment in offshore RMB assets. Under the mutual access channels, RMB counter is being explored under the Stock Connect, while HKD and RMB settlement is also offered in the international carbon market launched by the HKEX.

88. In January this year, the Legislative Council (LegCo) passed a bill to exempt the stamp duty payable for certain transactions by dual-counter market makers (DCMMs). To boost the issuance and trading of RMB securities in Hong Kong, the HKEX will introduce a DCMM regime in the first half of this year to promote the liquidity of RMB-denominated stocks and price efficiency as well as to tie in with the setting up of RMB trading counters by issuers.

Securities Market

89. After consulting the market, the HKEX will introduce a listing regime for advanced technology companies in the first quarter of this year to expand the listing channel for issuers. The HKEX will also put forward specific reform recommendations on GEM within this year after carefully considering the views of various market players on the financing needs of SMEs and start-ups, and consult stakeholders.

90. Besides, the HKEX will explore ways to further enhance the listing rules with the Securities and Futures Commission (SFC) in order to strike a balance between market development and regulatory needs, including relevant arrangement concerning share buy-backs by issuers. If the above recommendation is supported by the market, we will make necessary amendments to the Companies Ordinance.

91. The HKEX will also study a series of proposals on the optimisation of the trading mechanism, which include exploring arrangements for maintaining operation of the market under inclement weathers and reviewing the Self-Trade Prevention function as well as the relevant restrictions, so as to facilitate transactions of investors and dovetail with the market trend.

Bond Market

92. As the leading bond hub in Asia, Hong Kong has been the largest centre for arranging international bond issuance in the region for six consecutive years. The Government will continue to upgrade our infrastructure and implement support measures as well as work with regulators to promote the strengths of our capital market to issuers and investors in the Mainland and abroad.

93. Hong Kong is also an offshore RMB bond issuance centre. Last year, the People's Government of Hainan Province and the Shenzhen Municipal People's Government each issued offshore RMB bonds worth RMB 5 billion in Hong Kong respectively. In January this year, we issued offshore RMB bonds again under the Government Green Bond Programme (GGBP) and, in response to investors' demand, doubled the RMB tranches in size to RMB 10 billion. The issuance was well received by Mainland and overseas financial institutions. We will continue to encourage more Mainland local governments at different levels as well as Mainland and overseas public and private institutions to issue offshore RMB bonds in Hong Kong.

94. In addition, we just issued the inaugural one-year tokenised green bonds last week, making use of tokenisation technology in the process of bond issuance, including coupon payment, secondary trading and maturity redemption, etc. Institutional investors were the targets of this pilot issuance which explores the compatibility of Hong Kong's existing legal framework and financial infrastructure with tokenised issuance. We will consolidate the experience gained, review the development potential and prospects of tokenised bond issuance in Hong Kong, and consider policy initiatives to promote the wider use of tokenisation technology in our capital market.

Asset and Wealth Management Centre

95. The asset and wealth management industry is an essential part of Hong Kong's financial industry as well as an important component contributing to our status as an international financial centre under the 14th Five-Year Plan. In 2021, the assets under management in Hong Kong amounted to over \$35 trillion, with a total of 54 000 practitioners in the sector. We will actively take forward a series of measures to further strengthen Hong Kong's status as the asset and wealth management hub in Asia.

96. Regarding family office business, we introduced legislative amendments into LegCo last December to provide profits tax exemption for qualifying transactions of family-owned investment holding vehicles managed by single family offices in Hong Kong. Upon LegCo's passage of the proposal, the tax concession arrangements will be applicable to any years of assessment on or after 1 April 2022.

97. Furthermore, we will allocate \$100 million to InvestHK over the next three years for attracting more family offices to Hong Kong. The Financial Services and the Treasury Bureau has set up a steering group to oversee key projects including the "Wealth for Good in Hong Kong" Summit in end-March, as well as providing dedicated training for relevant wealth management talents.

98. Over the years, we have been striving to enhance the ecosystem of our asset management industry. We have also provided targeted, tangible support to local asset managers. For example, in recent years, the Exchange Fund has established alternative asset portfolios with dedicated allocation to smaller local managers. As a next step, such portfolios will cover also private equity funds managed by smaller local managers and those seeking to expand their Hong Kong operations in order to support their continued growth here. In addition, the Exchange Fund will identify and increase allocation to funds that focus on sustainable investment to help consolidate Hong Kong's position as the region's leading sustainable finance platform.

99. Meanwhile, we will work with regulators to refine the regulatory measures and tax arrangements for the asset and wealth management sector. On wealth management, regulators will on a risk-based principle and subject to appropriate protection for investors, streamline the suitability assessment and disclosure process for sophisticated or ultra-high net worth individual clients. Moreover, the Government will review the existing tax concession measures applicable to funds and carried interest.

Financial Technology Development

100. We will continue to take forward the application testing and preparatory work for various financial technology (Fintech) infrastructure projects, including "e-HKD" and "e-CNY" as cross-boundary payment facilities. In addition, the HKMA is currently working with the Bank of Thailand to explore the use of Hong Kong's Faster Payment System and Thailand's PromptPay by visitors from the two places for local payment, providing them with another safe, fast and effective payment option.

101. The Commercial Data Interchange (CDI) was launched in October 2022, with over 1 000 loans totalling more than \$1.9 billion having been granted to SMEs by participating banks as at end of 2022. It is expected that the CDI will be linked to the Consented Data Exchange Gateway developed by the Office of the Government Chief Information Officer at the end of this year, thus allowing financial institutions to obtain relevant data after receipt of their clients' authorisation, thereby enhancing the efficiency of providing financial services.

Non-traditional risk transfer instruments

102. Hong Kong is a global risk management centre, and some Mainland enterprises have established captive insurers to leverage on the professional managers and services in Hong Kong for enhancing their integrated corporate risk management capabilities. In recent years, we implemented a dedicated regulatory regime for insurance-linked securities (ILS) and launched the Pilot ILS Grant Scheme, facilitating the issuance of several catastrophe bonds in Hong Kong and promoting diversified development of the insurance market. I propose a two-year extension of the Pilot ILS Grant Scheme to continue attracting more issuing institutions and nurturing talent, with a view to supporting industry development and assisting our country in expansion of channels for risk diversification and management.

Financial Inclusiveness

103. The Government will continue to adopt a multi-pronged approach in developing the retail bond market. I plan to issue no less than \$50 billion of Silver Bond and \$15 billion of retail green bonds in the next financial year, so as to facilitate market development and at the same time offer members of the public investment options with steady returns.

104. At present, there are over four million MPF scheme members. Society at large has clear aspirations for MPF funds that offer stable returns at low fees. I have instructed the HKMA and the Mandatory Provident Fund Schemes Authority to conduct a study on this. To start off, I plan to earmark a certain proportion of the future issuances of Government green bonds and infrastructure bonds for priority investment by MPF funds, thereby providing MPF scheme members an additional investment option.

International Aviation Hub

105. Hong Kong's positioning as an international aviation hub is affirmed and supported by the Central People's Government in the 14th Five-Year Plan and the Outline Development Plan for the GBA. The Hong Kong International Airport (HKIA), which served about 70 million passengers in 2018-19, was the third busiest airport in terms of international passenger throughput around the globe. It was also the world's busiest cargo airport for many years.

106. To support the recovery of air traffic, the Airport Authority Hong Kong (AA) is rolling out a series of measures, which include reducing or waiving airport charges, providing incentives to resume suspended flight services or launch new routes, organising large-scale promotion activities, etc. Meanwhile, the Government and the AA are examining the medium-to-long-term manpower shortage situation in the aviation industry, with a view to identifying solutions to the problem.

Airport City

107. To enhance Hong Kong's status as an international aviation hub, the Government and the AA are pressing ahead with the "Airport City" development strategy, under which the HKIA will be developed into a node of various economic activities with aviation as its core business. With the addition of new developments and new functions, the HKIA will drive the economic growth of Hong Kong as well as its neighbouring regions.

108. A number of infrastructure projects of the HKIA will be successively completed and commissioned, including the SkyPier Terminal which will commence operation in the middle of this year and the entire Three-Runway System which is expected to be completed by the end of 2024. The HKIA will have its capacity substantially increased and its position as a regional multi-modal transportation hub further enhanced. The above developments will significantly boost passenger and cargo traffic of the HKIA, creating tremendous opportunities for activities such as aircraft repair and maintenance, aircraft parts manufacturing and relevant R&D. The AA is planning to construct a new aviation business park on the Airport Island, and is exploring with Zhuhai authorities the feasibility of building an aviation industrial park in Zhuhai, so as to promote the development of the aviation industry in the two places through synergised cross-boundary co-operation.

109. Under the development strategy of the Airport City, the HKIA is also actively taking forward the integrated commercial development project of SKYCITY. Moreover, logistics infrastructure will be strengthened to further expand the business of high-value goods and e-commerce. With its advantages in terms of geography, infrastructure and transportation, the site will be developed into a vibrant hub of commerce, conventions and exhibitions, tourism, lifestyle and logistics.

Enhance the Aircraft Leasing Preferential Tax Regime

110. The Government will enhance the aircraft leasing preferential tax regime, striving to establish Hong Kong as an aircraft leasing and services hub. The Government has conducted a trade consultation on the proposed enhancement measures, which include allowing tax deduction for the acquisition cost of aircraft and expanding the scope of leases and aircraft leasing activities. This has been welcomed by the trade. These enhancement measures will further attract more aircraft leasing companies to establish a presence in Hong Kong. We will introduce a bill into the LegCo in the fourth quarter of this year.

International Maritime Centre

111. Currently, over 80 per cent of the world's merchandise goods still rely on sea transportation. With Hong Kong's position as a prominent international maritime centre, we have been committed to raising the industry's competitiveness. Measures include attracting more maritime enterprises to establish a presence in Hong Kong through tax concessions; promoting the development of smart port, for instance, by setting up a digitalised port community system, with a view to further enhancing the efficiency of Hong Kong's port and reducing its operation cost.

Promote the International High-end Maritime Service Industry

112. In order to further promote the development of Hong Kong as an international maritime centre, the Transport and Logistics Bureau will set up a task force with the aim of putting forward, in collaboration with the Hong Kong Maritime and Port Board and representatives of the high-end maritime services industry, an action plan on the following strategies by the end of this year. These strategies include:

- (a) enhancing business sectors such as ship finance, marine insurance, maritime arbitration and ship management, thereby enabling Hong Kong to become a global leading high-end maritime service market;
- (b) facilitating transformation of global maritime and port business towards zero emission;
- (c) promoting the development of smart initiatives and digitalisation in the maritime industry; and
- (d) promoting exchanges and collaboration among maritime industries in the GBA and those around the world.

113. I will earmark \$20 million to expedite studies on strategies for promoting the high-end maritime service industry and enhance exchanges among industries in the international arena and the GBA. The scale of the annual flagship event Hong Kong Maritime Week will also be expanded.

International Trade Centre

114. The National 14th Five-Year Plan supports Hong Kong in enhancing its status as an international trade centre. It also supports Hong Kong's participation in and contribution to our country's comprehensive opening-up and development of a modern economic system. The Report to the 20th National Congress has set out that our country will leverage the strengths of its enormous market to attract global resources and production factors with its strong domestic economy, and amplify the interplay between domestic and international markets and resources, thereby improving the quality and level of trade and investment cooperation.

115. Under our country's new development pattern, we will strengthen our role as a connecting platform for international circulation between our country and the rest of the world. We will also capitalise on the dual engines of the B&R Initiative and the GBA development to facilitate commercial exchanges between the GBA and the Association of Southeast Asian Nations (ASEAN), enhance the strategic positioning of both our country and Hong Kong in global and regional economy and trade, and promote our participation in regional economic integration. All these will place us in a better position to cope with the impact of unilateralism and protectionism.

Open up the Mainland Domestic Market

116. We will fully leverage our unique advantages under “One Country, Two Systems”, i.e. enjoying strong support of the Motherland while also being closely connected to the rest of the world, in order to consolidate our leading position in global trade. To further integrate into the overall development of our country in order to create strong impetus for our growth, we need to open up the Mainland domestic market internally, and also expand our international economic and trade networks externally. In doing so, we can play our roles as a “participant” in domestic circulation and a “facilitator” in international circulation. In support of the B&R Initiative, we will explore and tap emerging markets such as ASEAN, the Middle East, Central Asia and Africa while maintaining ties with the European and American markets.

Strengthening Overseas Economic and Trade Connections

117. On expanding our global economic and trade networks, we have been seeking to enter into free trade agreements (FTAs) and investment agreements (IAs) with more economies. The FTAs and IAs signed by Hong Kong so far have covered most of our major trading partners. We will continue to actively take forward the relevant work, with emerging economies as priority targets to inject new impetus into Hong Kong’s trade development. Moreover, we are actively seeking to join the Regional Comprehensive Economic Partnership (RCEP) in order to further help Hong Kong build a more comprehensive supply chain and attract more Hong Kong enterprises to invest in the member economies of RCEP, with a view to boosting the trade, investment and relevant development in the region, thereby enhancing Hong Kong’s status as a regional trade centre.

Open up Target Emerging Markets

118. To further assist Hong Kong enterprises and investors in opening up markets, the Government will provide additional funding of \$550 million in total to the HKTDC in the five financial years starting from 2023-24. The additional funding aims to help Hong Kong enterprises seize opportunities arising from the B&R Initiative and the GBA development and tapping into emerging markets as well as stepping up our global promotional efforts.

119. The Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) has assisted enterprises in exploring markets outside Hong Kong and benefited more than 3 900 enterprises over the years. I propose to further inject \$500 million into the fund and, at the same time, launch “BUD Easy” to expedite the processing of applications, enabling more SMEs to make use of the funding to develop their business. In addition, the Hong Kong Productivity Council has been proactively assisting SMEs in applying for government subsidies, which is well received by the industry. I propose to allocate \$100 million to enhance this service in the next five years.

Centre for International Legal and Dispute Resolution Services in the Asia-Pacific Region

120. We will continue to strive to consolidate the strategic positioning of Hong Kong as a centre for international legal and dispute resolution services in the Asia Pacific region under the National 14th Five Year Plan. We will enhance the competitiveness of our legal infrastructure, deepen the mutual legal assistance mechanisms on civil and commercial matters between Hong Kong and the Mainland, and also promote the strengths of and opportunities for Hong Kong’s legal and dispute resolution services on all fronts.

121. The AALCO (Asian-African Legal Consultative Organization) Hong Kong Regional Arbitration Centre was established in Hong Kong in May last year. With the support of the Ministry of Foreign Affairs, the International Organization for Mediation Preparatory Office was officially opened in Hong Kong in the middle of this month. To foster integration of legal practices in the GBA, the Department of Justice (DoJ) has set up a task force, comprising experts and academics, to study various measures for facilitating exchanges among the people and businesses in the area. The DoJ will seek to establish and promote the use of a common online mediation platform for dispute resolution in the GBA, with a view to providing a more convenient, efficient and cost-effective means for people and businesses in the GBA to settle cross-boundary disputes online.

Regional Intellectual Property Trading Centre

122. The National 14th Five-Year Plan supports Hong Kong to develop into a regional intellectual property (IP) trading centre. According to the Global Innovation Index 2022 published by the World Intellectual Property Organization, the Shenzhen-Hong Kong-Guangzhou cluster was ranked second among the world's top-performing science and technology clusters for three consecutive years, highlighting the vibrancy of innovative activities in the GBA.

123. The Government will continue to allocate resources to further promote and develop the “original grant patent” system to tie in with Hong Kong's I&T development. An additional funding totalling \$10 million will be allocated to the Intellectual Property Department in the next two years for employing and nurturing its patent examiners as well as progressively developing a talent pool, with a view to acquiring institutional autonomy in conducting substantive patent examination by 2030.

124. The Government will also continue to enhance the IP regime. To strengthen copyright protection in the digital environment, the Copyright (Amendment) Ordinance 2022 will come into operation on 1 May this year, following which we will embark on a new round of review as soon as possible as part of our ongoing efforts to enhance the competitiveness of our copyright regime. We also plan to table the relevant subsidiary legislation for implementing the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks in the LegCo in the first half of this year, with a view to putting in place the international trademark registration system under the Protocol as early as possible. This will enable trademark owners to register and manage their trademarks in multiple jurisdictions under one single application.

“Patent Box” Tax Incentive

125. I&T is a key engine for driving the development of a knowledge-based economy. Legal protection of R&D outcomes in the I&T field can be acquired through patent registration, which facilitates IP trading activities such as buying/selling and licensing and the development of new products and services, as well as unleashes the underlying economic value of the concerned intangible assets. To encourage the I&T sector to forge ahead with more R&D activities and create more patented inventions with market potential, we will introduce a “patent box” tax incentive to provide tax concessions for profits sourced in Hong Kong from qualifying patents generated through R&D activities. We will consult the trade on the “patent box” tax arrangements within this year and formulate a competitive concessionary tax rate applicable to Hong Kong. Our target is to submit the legislative amendments to the LegCo in the first half of 2024.

East-meets-West Centre for International Cultural Exchange

126. Hong Kong's positioning as an East-meets-West centre for international cultural exchange has, for the first time, been included in national planning. This gives full recognition of Hong Kong's distinctive advantages as a cultural melting pot of East and West, including the world-class cultural resources in the West Kowloon Cultural District, our position as one of the three largest art markets in the world and the vast pool of outstanding talents from around the globe. The Government will continue to dedicate its efforts to promote our cultural development, including mapping out a Blueprint for Arts and Culture and Creative Industries Development, nurturing a diverse talent pool, enriching arts, cultural and creative content as well as upgrading cultural infrastructure, with a view to further enhancing the ecosystem for the relevant industries.

Arts and Culture

127. To further promote the exchange of culture and arts in the GBA, Hong Kong will serve as the host city for the GBA Culture and Arts Festival in 2024, offering high-quality cultural and performing arts programmes from the area. I will allocate \$20 million for hosting the festival. It is expected that 5 000 Hong Kong and Mainland artists as well as other practitioners in the arts and cultural sector will participate in the festival, attracting an anticipated audience of 140 000 people. I also propose to provide a total of \$135 million over five years, starting from the next financial year, to support performing arts groups and artists in Hong Kong in taking part in performances and productions in the GBA. It is anticipated that each year 1 000 Hong Kong artists will participate in these activities, with an audience of 40 000 from the GBA.

Creative Industries

128. The Government launched the CreateSmart Initiative (CSI) in 2009. As at end-September 2022, nearly \$2.3 billion had been allocated under the CSI to sponsor the creative sector in organising about 650 projects in Hong Kong, the Mainland and overseas benefiting around 13 000 SMEs with the creation of nearly 30 000 jobs and over 80 000 nurturing opportunities.

129. I will inject an additional \$500 million into the CSI to support the development of our creative industries, encourage more cross-sectoral and cross-genre collaboration on creative and cultural programmes, and promote the co-production of television variety programmes by local television stations with Mainland or Asian production teams to enhance the influence of Hong Kong's pop culture. The CSI will also provide funding support for the Hong Kong Design Centre and the HKTDC to implement flagship events and incubation programmes.

Development of the Agriculture and Fisheries Industry

130. The Government has attached importance to the local agriculture and fisheries industry and is committed to promoting its modernisation and sustainable development. We support the sector in the application of advanced technology and intensification of production, as well as helping it seize the opportunities arising from the GBA development.

131. In my last Budget, I proposed to make two separate injections of \$500 million into the Sustainable Fisheries Development Fund and the Sustainable Agricultural Development Fund. Upon approval of this funding proposal by the Finance Committee of the LegCo in December last year, the Environment and Ecology Bureau (EEB) has proposed a number of enhancements to suitably expand the coverage of the funds and further streamline the application procedures taking into account the views of the industry. The Agriculture, Fisheries and Conservation Department (AFCD) has also set up a task force to strengthen the support for interested applicants.

132. Phase 1 of the Agricultural Park in Kwu Tung, set up with \$830 million of Government funding, has commenced operation in phases since late 2022. The industry has been conducting a consultancy study on the building design guidelines for multi-storey livestock farms with financial support of the Government. On fisheries, the AFCD plans to designate four new fish culture zones this year, to provide an additional development area of about 600 hectares. Besides, several new deep sea cages with modern mariculture equipment will be provided in phases for renting to fisheries associations, to lower their start-up costs. Fishermen associations may also apply to the Sustainable Fisheries Development Fund for setting up and operating new deep sea cages to facilitate sustainable development in terms of intensification of production.

133. To promote the upgrading, transformation, modernisation and sustainable development of the agriculture and fisheries industry, the EEB will work hand in hand with the industry to formulate a blueprint for the sustainable development of agriculture and fisheries. This will help to raise the quality and value of local produce, as well as the productivity of the industry in the long run through an array of measures covering finance, infrastructure, land and technical support, etc.

Building Capacity

Talent Resources

134. Talents are the most important resources for growth. Hong Kong's future depends on the continuous and abundant supply of quality talents to meet market demands. While launching initiatives to “compete for talents”, the Government's foremost task is still to proactively nurture and retain local talents. The Government will encourage diversified development through education and training to equip young people and practitioners of different sectors with the skills required for the future development of our industries and economy, and create opportunities and hope for our local talents, so as to motivate them to keep striving for a better future together in Hong Kong.

Financial Services

135. To further nurture Fintech talents, the Government will launch a Fintech internship scheme for post secondary students, under which subsidies will be provided to participating students in Hong Kong and the GBA. The scheme facilitates eligible students to acquire practical work experience in Fintech enterprises in Hong Kong or the wider GBA, and helps them develop an early interest in pursuing a career in Fintech after graduation, with a view to enlarging the local Fintech talent pool.

136. Since its launch in 2016, the Pilot Programme to Enhance Talent Training for the Insurance Sector and the Asset and Wealth Management Sector has been well received. We will extend the programme for three years to nurture more talents for the industry and enhance the professional competency of practitioners.

Maritime, Aviation and Logistics Industries

137. Since its launch in 2014, the Maritime and Aviation Training Fund (MATF) has benefited more than 15 000 students and practitioners, and supported the industries in their promotional and publicity work. I will inject \$200 million into the MATF to support manpower training of the logistics industry, promote the development of high-end, high value-added and smart logistics, and encourage the industry to collaborate with tertiary institutions and professional organisations in attracting more young people to join the industry. In addition, we will launch a Maritime Services Traineeship Scheme this year to provide traineeship opportunities for young people who aspire to a career in maritime law, with a view to nurturing more home-grown maritime lawyers.

138. In order to attract more young people to join the aviation industry, the first-year training places of the GBA Youth Aviation Industry Internship Programme co-organised by the Hong Kong International Aviation Academy and Mainland institutions will be increased from 300 to 450 to meet the long-term manpower demand of the aviation industry in Hong Kong and the Mainland.

Innovation and Technology (I&T)

139. In recent years, the Government has been making dedicated efforts to foster among our youth an interest in I&T from an early age, enhance students' digital skills and innovative thinking, improve the atmosphere for their learning of information technology (IT), and expand the future supply of I&T talents. Since launching, the IT Innovation Lab in Secondary Schools Programme and the Knowing More About IT Programme have been well received. I will make an additional funding of \$300 million to continue providing subsidies of up to \$1 million for each publicly-funded secondary school in the next three academic years for organisation of IT-related extra-curricular activities.

Construction Industry

140. In order to meet the manpower requirement for future infrastructure development, we will work with tertiary institutions to offer a comprehensive study and career development pathway and launch a two-year pilot scheme to provide on-the-job training allowance to trainees who have enrolled in part-time construction-related degree programmes. It is estimated that a funding of about \$100 million will be incurred. The Government will also earmark \$7 million to partner with Hong Kong Institute of Construction to launch a two-year “First-hire-then-train” subsidy scheme, to provide on-the-job training allowance to trainees who have chosen to enrol in Construction Safety Officer courses.

Northern Metropolis and Kau Yi Chau Artificial Islands

141. As a new engine for the future development of Hong Kong, the Northern Metropolis serves as an important base for promoting the development of I&T industries, supporting Hong Kong in establishing a new industry pattern of “South-North dual engine (finance-innovation and technology)”. It also facilitates high-quality economic co-operation between Hong Kong and the GBA, forging an important platform for Hong Kong to better integrate into the overall development of our country. Furthermore, more land resources will be released to provide more quality living space to the public.

142. In the 2022 Policy Address, the Chief Executive proposed to establish a Steering Committee on the Northern Metropolis and an Advisory Committee on the Northern Metropolis to strengthen the institutional governance for the development of the area. The latter is to be chaired by me. The Advisory Committee, with experts and stakeholders in the community, will tender advice and suggestions for taking forward the project. Meanwhile, the Government and relevant Mainland authorities have set up a task force to strengthen communication and collaboration on matters related to the development of the Northern Metropolis. In addition, the Government is making preparations for the establishment of a Northern Metropolis Co-ordination Office to take forward related work.

143. Apart from pressing ahead with projects already under construction in the Northern Metropolis, such as those in the large-scale New Development Areas (NDAs) in Kwu Tung North/Fanling North, Hung Shui Kiu/Ha Tsuen and Yuen Long South, we are, in parallel, taking forward the planning and engineering studies of other development projects. We will start off by commencing consultation in the second quarter on the development proposals and land use planning of San Tin Technopole, the flagship I&T project in the region covering 150 hectares of new land for I&T uses. On another front, the first three buildings of the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop will be gradually completed from end-2024 onwards and the site formation works of the first batch of new land for I&T uses at San Tin Technopole will commence in the same year. The additional space made available will facilitate the recruitment of Mainland and overseas I&T enterprises to establish a presence in Hong Kong.

144. Providing around four million square metres of commercial gross floor area and about 200 000 jobs, the 1 000-hectare Kau Yi Chau Artificial Islands built by reclamation can expand the scope and capacity of the development of Hong Kong and support the development of the third central business district. The Government has put forth preliminary proposals on the scope of reclamation, land use, transport infrastructure network and financial arrangements regarding the artificial islands, and has commenced public engagement activities. Upon finalisation of a more detailed planning and design concept, the Government will contemplate appropriate financial arrangements for the artificial islands project, examine various financing options and their economic benefits, and explore the optimal package with the community.

Land Supply

145. The 2023-24 Land Sale Programme will cover a total of 12 residential sites. With this, 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 20 550 units, about 60 per cent more than the annual demand of 12 900 units projected in the Long Term Housing Strategy. The Land Sale Programme also includes 3 commercial sites and 3 industrial sites, capable of providing about 200 000 square metres of commercial floor area and 170 000 square metres of industrial floor area respectively.

146. The Government's effort to expedite land creation has yielded remarkable results. We will secure land of a scale nearly doubles that of the previous five-year period for the production of no less than 72 000 private housing units in the coming five years, and make the land available to the market through the Land Sale Programmes and railway property developments. Among such land, nearly 60 per cent comes from NDAs/New Town Extensions, and another 40 per cent from other districts under the Government Land Sale Programmes and railway property developments. The above projection has yet to take into account the supply from development projects undertaken by the URA and other private development projects.

Housing Supply

147. The Government has identified sufficient land for the provision of about 360 000 public housing units, around 20 per cent higher than the supply target in the Long Term Housing Strategy, which will be able to meet the demand for about 300 000 public housing units in the next ten years. However, as the supply of housing land is not evenly distributed across each year, and land creation takes time, there is still a shortage of land ready for public housing development in the short run. To fill the short-term gap of public housing supply in a timely manner and to improve the living conditions of people living in inadequate housing, the Government has identified eight sites for the construction of Light Public Housing.

148. On transitional housing, as at end-2022, about 7 000 units have been put into service. It is expected that about 14 000 additional units will be coming on stream in the next two years.

149. To promote public-private partnership, the Pilot Scheme on Private Developer Participation in Subsidised Housing Development announced in 2022 Policy Address encourages developers to build subsidised sale flats for eligible persons to buy at a specified discount rate from the market price. We are currently formulating the policy framework of the pilot scheme, details of which will be announced later this year.

150. For private housing, it is estimated that the completion of private residential units will average over 19 000 units annually in the five years from this year onwards. As at end-2022, the potential supply of first-hand private residential units for the next three to four years is expected to remain at a relatively high level of about 105 000 units.

Adjustments to the Computation of Stamp Duty

151. The current demand-side management measures for residential properties (commonly known as “harsh measures”) will remain unchanged.

152. Last year, more than 90 per cent of buyers of residential properties were first-time buyers. Having considered that no adjustments have been made to the value bands of the ad valorem stamp duty payable for the sale and purchase or transfer of residential and non-residential properties (Rates at Scale 2) since 2010, I have decided to make adjustments in this regard, with a view to easing the burden on ordinary families of purchasing their first residential properties, particularly small and medium residential units. Details of which are set out in the supplement to the Budget. Such adjustments shall take immediate effect under a Public Revenue Protection Order published in the Gazette today. It is anticipated that this measure will benefit 37 000 buyers and cost the Government approximately \$1.9 billion per year.

Transport Infrastructure

153. The Government adopts the “infrastructure-led” and “capacity-creating” planning principles in taking forward transport infrastructure projects, with a view to unleashing the development potential of areas along transport corridors and meeting transport and logistics demand arising from long-term development in a forward-looking manner while fostering better connectivity with other GBA cities. According to the preliminary recommendations in the Strategic Studies on Railways and Major Roads beyond 2030, the Government plans to build three strategic railways and three major roads. In order to formulate Hong Kong’s future Major Transport Infrastructure Development Blueprint in the fourth quarter of this year, the Government is now consulting the public for their views on the above recommendations.

Application of Innovation and Technology in the Construction Industry

154. Hong Kong people have always been proud of our infrastructure, which is one of the keys to maintaining the city’s competitiveness. To further strengthen the advantages of our construction industry, we will promote the extensive application of advanced technologies in the construction industry to improve construction methods and materials.

Building Testing and Research Institute

155. I have earmarked \$30 million for the Development Bureau (DEVB) to conduct a study on establishing the Building Testing and Research Institute and to carry out related planning and preliminary design. Apart from R&D activities for innovative materials, construction methods and technologies, the centre will also devise standards, conduct testing and provide accreditation to spearhead innovation in the construction industry and attract R&D talent to Hong Kong. The centre will also capitalise on Hong Kong's unique advantages to provide a platform for our country's construction standards and related products to align with those in the international market.

Advanced Construction Industrial Building

156. I have also earmarked \$30 million for conducting a study on the construction of the first advanced construction industry building at a site of about three hectares in Tsing Yi, carrying out planning and preliminary design work as well as advising on its mode of operation. The conceptual idea is to provide space for operators to set up steel reinforcement bar prefabrication yards, processing sites for Multi-trade Integrated Mechanical, Electrical and Plumbing (MiMEP), and other advanced manufacturing yards in the multi-storey building.

Modular Integrated Construction Supply Chain

157. To implement the new initiatives announced in the 2022 Policy Address, I have earmarked \$15 million for studying and putting in place measures to strengthen the supply chain of the Modular Integrated Construction (MiC) modules. The scope of study will cover areas such as the manufacturing, transportation, storage and accreditation of MiC modules. We will also explore the provision of manufacturing and storage sites in the Northern Metropolis, and ways to enhance collaboration with the GBA and optimise the MiC supply chain.

Governing for the People

Building a Liveable City

Green City

158. Hong Kong is making vigorous efforts to achieve carbon neutrality before 2050 and reduce its carbon emission by 50 per cent before 2035 as compared with the level in 2005. To strengthen co-ordination and promote deep decarbonisation, the EEB has set up the Office of Climate Change and Carbon Neutrality in January this year. A Council for Carbon Neutrality and Sustainable Development will also be formed to advise on decarbonisation strategies.

Green Tech Fund

159. In the past few Budgets, I allocated resources in support of efforts to address climate change. Last year, I injected an additional funding of \$200 million into the GTF, doubling the provision to \$400 million. The GTF received overwhelming responses from applicants, and 22 projects from local universities, designated public research institutes and private enterprises have been approved. These research projects involve technologies for the cell storage and generation of hydrogen fuel; manufacturing of biochar-enhanced construction materials; and air cleaning system for reducing roadside air pollution.

New Energy Transport

160. The Government has set the target of introducing about 700 electric buses and 3 000 electric taxis by end-2027. We will earmark \$200 million under the New Energy Transport Fund for progressively commencing trials of hydrogen fuel cell electric double-deck buses and heavy vehicles within this year in collaboration with franchised bus companies and other stakeholders to fully assess their operational feasibility under local circumstances. We have also set aside \$350 million to provide subsidies to four in-harbour ferry operators for the construction and trials of electric ferries and the related charging facilities, with a view to testing the technical and commercial viability of using electric ferries in Hong Kong. The trials are expected to commence in 2024.

161. Moreover, the Government will put in place a loan scheme with 100% guarantee for the taxi trade as an incentive for taxi owners to replace their existing taxis with battery electric taxis. It is estimated that the proposed measure will involve a loan guarantee of about \$6.4 billion. The details of the scheme will be announced in due course.

Food Waste Reduction

162. Food waste accounts for 30 per cent of municipal solid waste disposed of at landfills. In 2023-24, we will allocate an additional funding of \$62 million to gradually expand the scope of food waste collection to cover more public and private premises, including food establishments, markets, hotels, large shopping malls, etc. The food waste collection trial scheme for public rental housing estates will also be extended to cover a total of 100 blocks, involving about 150 000 residents. Through these measures, we can not only reduce the volume of odorous food waste disposed of at landfills, but also deliver the food waste to the Organic Resources Recovery Centre for conversion into renewable energy.

Countryside Conservation

163. In the next two to three years, the AFCD will gradually enhance facilities in country parks and explore ideas such as providing treetop adventure, repairing wartime relics and turning them into open museums. As at end-2022, 33 projects involving a total grant of \$165 million have been approved under the Countryside Conservation Funding Scheme to support non-profit making organisations in carrying out countryside conservation and revitalisation projects at different levels ranging from natural environment or ecological habitats, non-graded built heritage to cultural and historic assets.

Healthcare

Public Healthcare Services

164. The Government has been devoting a lot of resources on healthcare, of which the 2023-24 estimate reaches \$104.4 billion, accounting for about 19 percent of the Government recurrent expenditure. We will continue to enhance public healthcare services. The HA will strengthen a series of services, such as enhancing clinical services for diseases including cancer, increasing public hospital beds, operating theatre sessions, etc. Besides, the HA is continuing its rollout of measures to reduce the waiting time for specialist out-patient services, which include streamlining referral arrangements for cross-specialty cases, setting up integrated clinics to provide multi-disciplinary support, etc. The HA will also introduce a new service for drug collection and delivery by phases, and further promote tele-consultation services.

Primary Healthcare

165. Primary healthcare is an integral part of the entire healthcare system, accounting for about 20% of the expenditure on public healthcare. To balance healthcare resources and the over-concentration of pressure in public hospitals, the Government put forward the Primary Healthcare Blueprint (the Blueprint) at the end of last year, under which a series of key reform initiatives for enhancing Hong Kong's primary healthcare services are set out, and prevention-oriented, community-based, family centric, and early detection and intervention strategies are adopted. The vision of the Blueprint is to improve the overall health of the general public by providing coherent and comprehensive healthcare services and establishing a sustainable healthcare system.

166. As introduced in the Blueprint, the Government will launch the Chronic Disease Co-Care Pilot Scheme and enhancement measures to the Elderly Health Care Voucher Scheme. The Government will announce the details in the third quarter of this year. I will set aside sufficient financial resources for the schemes.

Development of Chinese Medicine

167. Since the official launch of the Chinese Medicine Development Fund in 2019, more than 10 funding schemes have been rolled out to benefit various practitioners and organisations in the Chinese medicine sector. The fund supports the holistic development of Chinese medicine in Hong Kong on all fronts, with its funding scope covering talent nurturing, facility and quality enhancement, registration of proprietary Chinese medicines as well as promotion and research of Chinese medicine. The fund has also played a crucial role amid the epidemic in supporting community Chinese medicine practitioners to provide telemedicine consultation and rehabilitation treatment for discharged patients and recovered persons.

168. I plan to inject an additional amount of \$500 million into the fund starting from this financial year to support the commissioning of large-scale training, research and publicity projects on strategic themes and to take forward more capacity building programmes for the sector, which include making preparations for Hong Kong's first Chinese medicine hospital which is expected to commence services in 2025 and strengthening the role of Chinese medicine in the primary healthcare system.

Tobacco Control Policies

169. Smoking is hazardous to health. Increasing tobacco duty is recognised internationally as the most effective means to reduce tobacco use. It has been over 10 years since the last substantial increase in tobacco duty and its policy effect has been diluted gradually by inflation and various other factors. At present, tobacco duty accounts for about 62 per cent of the retail price of cigarettes in Hong Kong, far lower than the rate of 75 per cent recommended by the World Health Organization.

170. To safeguard public health, I propose to increase the duty on cigarettes by 60 cents per stick with immediate effect. Duties on other tobacco products will also be increased by the same proportion. A rise in cigarette price will increase the incentive of smokers to reduce or quit smoking. Our target is to bring the smoking prevalence rate down from the current 9.5 per cent to 7.8 per cent. With this target in mind, we will continue to review the overall effectiveness of tobacco control measures, and in parallel step up efforts to promote smoking cessation as well as law enforcement against illicit cigarettes.

Youth Development

171. Young people are the future of Hong Kong. The Government attaches importance to youth development and strives to let the younger generation see opportunities for upward mobility. The Government released at the end of last year the Youth Development Blueprint, which outlines the overall vision and guiding principles for its future youth development work. A range of concrete actions and measures on youth development are put forward, with a view to supporting young people in preparing for the future, fulfilling dreams, achieving whole-person development and contributing to society. The Government will progressively implement these measures.

Promote Urban Sports

172. In recent years, both the Olympic Games and the Youth Olympic Games have introduced a range of urban sports that are popular among the youth. The Government will promote urban sports in collaboration with the sports community, schools and other sectors. The Culture, Sports and Tourism Bureau is examining the conversion of some underutilised floors of the Kwun Chung Municipal Services Building into an urban sports centre, so as to provide a suitable venue for activities such as sport climbing and skateboarding.

Vocational and Professional Education and Training

173. Vocational and professional education and training (VPET) has always been providing diversified and flexible education pathways for young people with different aspirations and abilities. Starting from the 2023/24 academic year, the Vocational Training Council will launch a two-year pilot project enabling secondary school students to have an early exposure to VPET and helping them explore their interests. The Government will launch the Diploma of Applied Education Programme on a regular basis in the same academic year in place of the existing Diploma Yi Jin Programme, and will continue to review the implementation of the Pilot Project on the Development of Applied Degree Programmes and proactively explore the launch of more programmes, so as to further enhance the VPET progression pathway at the post-secondary education level.

Caring and Inclusion

Women Development

174. Women's contribution to family and social and economic development is enormous. The provision of more opportunities to help women achieve a sense of self-fulfilment and bring their potential to the fullest is essential to the development of our society. I will set aside \$100 million to strengthen support for women's development and the related tasks, which include helping women take up different roles in the job market, providing them with training on child and elderly care, promoting work and family life balance as well as mental health, and organising sharing and learning activities.

Enhance Support for Pre-school Children with Special Needs

175. The Government has been committed to providing appropriate support for pre-school children with special needs. Currently, about 80 kindergartens and kindergarten-cum-child care centres provide on-site training through a pilot project for children awaiting assessment of their physical and intellectual abilities or assessed to have borderline developmental problems, as well as support for their parents and teachers (i.e. “Tier 1 Support Services”). Since the launch of the pilot project nearly three years ago, over 70 per cent of the children who have received Tier 1 Support Services have smoothly bridged over to mainstream primary schools for education. This shows that early intervention in their prime learning period not only contributes significantly to their rehabilitation and growth, but also benefits their families. In view of this, I will step up efforts to support these pre-school children by allocating additional resources to regularise Tier 1 Support Services and extend them to cover nearly 900 pre-primary institutions. Such services will also be integrated with on-site pre-school rehabilitation services, which support pre-school children with mild disabilities, to offer comprehensive and timely assistance to pre-school children with different levels of special needs through inter-disciplinary service teams under a school-based and integrated approach. The above measures will incur an annual recurrent expenditure of about \$174 million.

Support Ageing in Place

176. The Government provides the elderly with various types of care and support services at the community level to help them age in place. In addition to the provision of services such as personal care, nursing care and rehabilitation exercises at day care centres and homes of the elderly, we will regularise the Pilot Scheme on Community Care Service Voucher for the Elderly in the third quarter of this year and increase the number of beneficiaries from the current 8 000 to 12 000 in 2025-26, involving an annual recurrent expenditure of about \$900 million. The Government will also set up 16 new neighbourhood elderly centres in the next five years and expand the service scope of a total of over 200 district elderly community centres and neighbourhood elderly centres in the fourth quarter of this year to cover retirement planning and promotion of gerontechnology.

177. The Government is also concerned about the post-treatment care and rehabilitation needs of elderly persons. The Hospital Authority's Integrated Discharge Support Programme for Elderly Patients offers six to eight weeks of support services for discharged elderly patients with a higher risk, which include rehabilitation exercises, meal services, environmental risk assessments and recommendations on home modifications, in order to facilitate their recovery at home and reduce their re-admission risk. The Government will expand the programme starting from the third quarter of this year by increasing the number of beneficiaries from about 33 000 to 45 000 per annum, and the number of beneficiaries who can be referred to receive home support services will increase from about 9 000 to 11 000. This measure will involve an annual recurrent expenditure of about \$74 million.

Enhance Support for Carers

178. Carers devote much time and energy to support elderly persons and persons with disabilities, so that they can continue to live in a familiar community. They deserve credit for building a caring and inclusive society. In recognition of their sacrifices and contributions, the Government will step up its efforts to cater for carers' various needs. On financial support, the Government will regularise two financial assistance schemes for carers from low-income families and raise the amount of monthly allowance starting from October this year, involving an annual expenditure of about \$430 million. The Government will also set up a dedicated carer support hotline in the third quarter of this year, with professional social workers rendering emergency support, emotional counselling, and outreaching services.

Encourage Further Employment of Elderly Employees

179. With an ageing population and a declining birth rate, Hong Kong's workforce is expected to shrink. At present, there are about 1.5 million elderly persons aged 65 or above. Many of them are still capable of working beyond traditional retirement age and are willing to stay in employment. I propose to increase the tax deduction for the Mandatory Provident Fund (MPF) voluntary contributions made by employers for their employees aged 65 or above, from the current 100 per cent to 200 per cent in respect of such expenditure. This will encourage employers to continue to hire mature employees, while helping the silver-haired increase their retirement savings.

Encourage Provision of More Quality Private Residential Care Homes for the Elderly and Persons with Disabilities

180. As proposed in the 2022 Policy Address, more incentives should be provided to developers for the construction and operation of residential care homes for the elderly (RCHEs) in private development projects. Upon review, we have decided to, in addition to continue to exempt the gross floor area (GFA) of these private RCHEs from payment of premium, raise the GFA of RCHEs that can be exempted in each development project. Furthermore, we propose to exempt such GFA from the calculation of the maximum GFA of the relevant projects. It is hoped that these enhanced measures will increase the supply of quality private RCHEs. We will launch the enhanced measures in the second quarter of this year and will conduct a review after a three-year trial period. In addition, the DEVB and the LWB will formulate a similar scheme for residential care homes for persons with disabilities (RCHDs) so as to encourage the market to provide more quality private RCHDs.

Encourage Installation of Separate Water Meters for Subdivided Units

181. To encourage landlords' participation in the Scheme for Installation of Separate Water Meters for Subdivided Units launched by the Water Supplies Department, payment of the water fee deposit and the charge for providing a meter for each separate water meter installed under the scheme will be waived. Every such water meter account will have a separate water bill for paying water charge, and the first 12 cubic metres of water consumed for each four-month period will be free of charge.

Revised Estimates for 2022-23

182. Last year, Hong Kong's economy was plagued by the epidemic. Meanwhile, the sharp tightening of monetary policies by central banks across the globe has significantly weakened the external economic momentum with adverse impact on the local economy. Government revenue has fallen short of expectation, and the revenue from profits tax in this financial year will be lower than the initial estimate. The sluggish stock and property markets have led to lower-than-expected revenue from stamp duty. The weak property market also has a bearing on revenue from land premium. With the massive expenditure incurred by the 2022 Employment Support Scheme launched after the announcement of the last Budget and the anti-epidemic measures taken last year, the financial position of this financial year was worse than expected. Although we have reduced the expenditure on anti-epidemic measures in a timely manner having regard to the subsiding epidemic situation during the year, it is estimated that a deficit of about \$140 billion will be recorded, higher than the original estimate of about \$56 billion. Our fiscal reserves will fall to about \$820 billion.

183. The 2022-23 revised estimate on government revenue is \$603.8 billion, lower than the original estimate by 15.7 per cent or \$112.1 billion. This is mainly because revenues from land premium and stamp duty are lower than their previous estimates.

184. Revenue from land premium is \$71.1 billion, substantially lower than the original estimate by \$48.9 billion, mainly due to the lower-than-expected transaction prices of some land lots and the cancellation of some land sales. Revenue from stamp duty of \$67 billion is lower than the original estimate by \$46 billion, and is also far lower than the previous year. This is mainly because of the sluggish property and stock markets and the decreased volume of transactions. Revenue from profits tax is \$162 billion, which is lower than the original estimate by \$5.7 billion, mainly due to an increase in the amount of holding over of provisional tax given the difficult economic environment last year. Revenue from salaries tax is \$75.7 billion, which is \$2.8 billion higher than the original estimate. This is mainly because of an increase in pay level.

185. Due to the huge expenditure involved in the implementation of massive counter-cyclical measures and anti-epidemic work, the revised estimate of total government expenditure for 2022-23 at \$809.6 billion increased significantly by 16.8 per cent compared to the previous year. Its ratio to nominal GDP is projected to rise to 28.6 per cent, 0.3 per cent or \$2.3 billion higher than the original estimate.

186. All in all, I forecast a consolidated deficit of \$139.8 billion for 2022-23. Fiscal reserves are expected to be \$817.3 billion by 31 March 2023.

187. The civil service establishment maintained a zero growth in this financial year. Departments have enhanced effectiveness and efficiency through reprioritisation, internal redeployment and streamlining of work processes, so that various new policies and initiatives of the Government can be taken forward with the civil service establishment maintaining at the present level.

Estimates for 2023-24

188. Despite enduring the epidemic for over three years, our society remains fairly stable and our public finances are robust. However, we have seen two years of heavy fiscal deficits, while the external environment is still rife with challenges. We will continue to adhere to the principles of exercising fiscal prudence, keeping expenditure within the limits of revenue, committing resources as and when justified and needed, strictly containing the growth of government expenditure and exploring various ways to increase revenue. In addition, we will consider utilising appropriate financial instruments (such as issuance of bonds) to better manage cash flow, and launch several major infrastructure and works projects as scheduled to benefit the public as early as possible.

Expenditure

189. The major policy initiatives announced in the 2022 Policy Address involve operating expenditure of about \$27.8 billion and capital expenditure of \$29.1 billion. I will ensure that adequate resources are provided to fully support the launch of these initiatives.

190. In 2023-24, the recurrent expenditure will slightly increase by 3.3 per cent to \$560.2 billion. Of this, substantial resources have still been allocated to livelihood-related policy areas including healthcare, social welfare and education, involving a total amount of \$329.4 billion, representing 59 per cent of the recurrent expenditure. Non-recurrent expenditure will substantially decrease by 53 per cent to \$69.3 billion.

191. Total government expenditure for 2023-24 will decrease by 6 per cent to \$761.0 billion, with its ratio to nominal GDP projected to drop to 25 per cent.

192. We will continue to strictly control the growth of the civil service establishment. The Government's target of zero growth in the civil service establishment will remain unchanged in 2023-24. It is expected that as at end-March 2024, the civil service establishment will remain at about 197 000 posts.

Revenue

193. In the face of pressure on public finances, we have to reduce expenditure and, more importantly, increase government revenue. The key direction for increasing government revenue is “growing the pie” with a view to driving up revenue through economic growth. Enterprises and individuals faced huge pressure during the economic downturn in the past few years. While we are steadily returning to normalcy, it will take some time for us to recuperate and consolidate our foundation. Therefore, we should strive to minimise the scope of impact brought by any upward adjustment of taxes as far as possible.

194. Profits tax and salaries tax are our major sources of revenue. In previous Budgets, it was mentioned that revisions to these tax rates would be put on hold having regard to the epidemic and prevailing economic situation. Our community has now entered the post-pandemic stage, with travelling between Hong Kong and the Mainland and the rest of the world resuming in recent months and the atmosphere in society turning optimistic. However, given that external economic conditions are still slackened, volatile and ever-changing, the momentum of Hong Kong's economic recovery still requires consolidation.

195. Besides, when reviewing whether adjustments or changes should be made to various government taxes, we have to consider whether such adjustments or changes are in line with other government policy objectives and social values, as well as take into account our competition with neighbouring regions. Hence, I propose that profits tax and salaries tax rates should remain unchanged this year. This will help Hong Kong maintain our long-standing advantages with regard to our tax regime, and will complement with the Government's overall policy direction of attracting enterprises and talents. As regards other proposals on the imposition of new taxes, we must first clearly consider the policy objectives of imposing such new taxes and allow thorough discussions in society before weighing the pros and cons of the proposals and making any decision on them.

196. Nevertheless, in the face of fiscal pressure, we must seek ways to increase government revenue in the short term. I propose to impose an annual special football betting duty of \$2.4 billion on the Hong Kong Jockey Club (HKJC) under the Betting Duty Ordinance for five years starting from 2023-24, while the current betting duty rates remain unchanged. In formulating this arrangement, we have given due consideration to the intense external competition facing by the local betting business. The HKJC has also undertaken that the proposal would not reduce its commitment to local charities.

197. Moreover, in last year's Budget, I announced the introduction of a progressive rating system for domestic properties in 2024-25. Other than reflecting the "affordable users pay" principle, the new system will increase government revenue by about \$760 million annually.

198. Taking into account the above new sources of revenue, total government revenue for 2023-24 is estimated to be \$642.4 billion. Of this, earnings and profits tax are estimated to be \$263.7 billion, increasing by 6.4 per cent over the revised estimate for 2022-23. Having regard to the Land Sale Programme and the land supply target of 2023-24, revenue from land premium is estimated to be \$85 billion, increasing by about 20 per cent over the revised estimate for 2022-23. Revenue from stamp duty is estimated to be \$85 billion, increasing by 27 per cent over the revised estimate for 2022-23.

199. Taking into account the proceeds from issuance of government bonds of about \$65 billion in 2023-24, I forecast a deficit of \$54.4 billion for 2023-24. Fiscal reserves will also decrease to \$762.9 billion, equivalent to 12 months of government expenditure.

Other Taxation Issues

New International Tax Standards

200. In October 2021, the Organisation for Economic Co-operation and Development announced the international tax reform proposals to address base erosion and profit shifting (abbreviated as BEPS 2.0). A global minimum effective tax rate of 15 per cent will be introduced on large multinational enterprise (MNE) groups with global turnover of at least 750 million euros. Hong Kong will implement the global minimum effective tax rate in accordance with international consensus so as to safeguard our taxing rights and maintain the competitiveness of our tax regime. The Government has been closely liaising with the trade in this regard while closely monitoring the implementation plan of other jurisdictions. Hong Kong plans to apply the global minimum effective tax rate on these large MNE groups and implement the domestic minimum top-up tax starting from 2025 onwards. It is estimated that this will bring in tax revenue of about \$15 billion per year for the Government. We will launch a consultation exercise to allow MNE groups to make early preparation.

Disposal of Equity Interests

201. We will strive to maintain our simple and low tax regime, the core competitiveness of Hong Kong, with a view to attracting more enterprises and talent to do business or pursue careers in Hong Kong. In this regard, the Government will put forward an enhancement proposal in mid-March to provide clearer guidelines on whether onshore gains on disposal of equity interests are subject to tax. The initiative will not only facilitate business expansion and restructuring through disposal of equity interests, but also enhance tax transparency, lower the compliance cost of businesses, increase the competitiveness of Hong Kong's tax regime, and enhance the attractiveness of Hong Kong as an international investment and business hub.

Medium Range Forecast

202. The MRF projects, mainly from a macro perspective, the revenue and expenditure as well as financial position of the Government. For 2023-24, the real economic growth rate between 3.5 per cent and 5.5 per cent is adopted, and that for 2024-25 to 2027-28 is 3.7 per cent per annum.

203. During the above period, the average annual capital works expenditure will exceed \$100 billion, while the recurrent government expenditure will grow at a rate between 3.3 per cent and 5 per cent per annum. The ratio of total government expenditure to GDP will gradually fall from about 25 per cent for 2023-24 to about 22 per cent.

204. Regarding revenue from land premium, the forecast for 2024-25 and onwards is mainly based on the 15-year average ratio of revenue from land premium to GDP, which is 3.7 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. Overall, the ratio of government revenue to GDP will gradually increase from about 21 per cent for 2023-24 to over 23 per cent.

205. In addition, the MRF reflects the proceeds from the annual issuance of government green bonds and infrastructure bonds worth approximately \$65 billion in total. I will explain the details a little later.

206. Based on the above assumptions and arrangements, after taking into account proceeds from issuance of bonds and repayments, with the exception of a forecast deficit in 2023-24, the Consolidated Account will turn to a surplus in the coming four years. There will also be a deficit in the Capital Account from 2023-24 to 2026-27, which will turn to a surplus in 2027-28. As Hong Kong is susceptible to the influence of external political and economic environments given its fully open and externally-oriented economy, government revenues fluctuate rather substantially. The Operating Account is therefore estimated to record a deficit in 2023-24 and 2024-25, which will turn to a surplus in the subsequent 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.

207. Fiscal reserves are estimated at \$983.7 billion by the end of March 2028, representing 25.6 per cent of GDP, or equivalent to approximately 14 months of government expenditure.

Public Finance

Article 107 of the Basic Law

208. Our economy remained sluggish in the past few years because of the epidemic, resulting in huge fiscal deficits. Some people have raised concerns as to whether the Government's fiscal management conforms to the requirement of Article 107 of the Basic Law. Article 107 states that the Government should follow the principle of keeping the 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. I would like to offer some views here.

209. Hong Kong is a small and open economy with scarce natural resources. It is, therefore, unavoidable that our economic performance is susceptible to external forces. When the external environment worsens or a natural disaster occurs, the downward pressure on Hong Kong's economy will intensify, which may result in a substantial drop in government revenue. The primary policy objective of the Government is striving for the well-being of the people. To this end, we need to launch counter-cyclical measures during economic downturns to stabilise the economy and safeguard people's livelihood, so as to relieve the pressure on them. With an increase in expenditure and a decrease in revenue, the Government will record a fiscal deficit. In times of an economic upturn, government revenue from tax and other sources, on the contrary, will increase, while the need to increase expenditure will also be less imminent. A surplus will be seen under such circumstances.

210. Therefore, in analysing the Government's financial position, we should look at the entire economic cycle rather than focus on the short-term performance. The Government's financial position has been volatile over the past two decades or so. Some may consider that the Government runs a structural surplus during economic boom and slips into a structural deficit in times of economic downturn. There are limitations in either one of these conclusions as they are based on observations of short-term performance. In my opinion, it is more appropriate to assess the Government's financial position on the basis of economic cycle rather than individual financial year. Since Hong Kong's return to our Motherland, we have passed through three economic cycles of varying durations, with the most recent one being the longest, lasting for more than 10 years.

Level of Fiscal Reserves

211. As to the appropriate level of our fiscal reserves, public opinion also varies. Some people think that the more, the better while others are of the view that the Government should not keep excessive social resources but allocate them to the people and the market as much as possible, and in this way, higher economic efficiency will be achieved. I think that our fiscal reserves have several functions, including:

- (a) as savings for rainy days, that is, keeping a certain amount of savings for use in times of adversities to support our people and enterprises, thereby maintaining social stability;
- (b) helping safeguard financial stability; and
- (c) generating investment returns. These returns from our reserves are one of the important sources of government revenue. The proper use of our reserves facilitates the development of our economy and industries.

212. Taking Hong Kong's previous financial position in times of adversity as a reference, I consider that our fiscal reserves are currently maintained at a prudent level.

Bond Issuance

213. Through issuance of bonds, the Government has been fostering the development of our bond market and attaining other policy objectives such as financial inclusiveness and promoting green and sustainable development.

214. In fact, the Government's outstanding debts remain at a low level, currently accounting for only four per cent of GDP, far lower than most of the other advanced economies. Against this background, Hong Kong should make good use of the room for bond issuance to support and expedite economic development while creating capacity and investing for the future, with a view to enabling early sharing of the fruits of economic development with the public.

Green Bonds

215. The Government Green Bond Programme (GGBP), which has won considerable acclaim from international investors since its launch, has become a benchmark for issuance of green bonds in the region. The Government will further expand the scope of the GGBP to cover sustainable finance projects. The HKMA will announce the details in due course.

Infrastructure Bonds

216. Infrastructure is one of the key areas for sustained economic development and improvement of people's quality of life. I propose the setting up of an Infrastructure Bond Scheme to enable us to better manage the cashflow needs of major infrastructure projects and facilitate the early completion of projects for the good of the economy and people's livelihood, so that members of the public can enjoy the benefits early. Meanwhile, we will also explore public participation in bond subscription for our people to develop a "sense of participation" and a "sense of gain" in their support for Hong Kong's long-term development projects. I will introduce the relevant proposals to the LegCo in 2023-24.

217. Even with further bond issuance in future, we will still strive to keep the government debt-to-GDP ratio at a relatively low level, which is expected to remain below 10 per cent by the end of the MRF period in 2027-28. I have to emphasise that we will continue to adhere to the fiscal discipline of keeping expenditure within the limits of revenue. Proceeds from bond issuance will not be used for funding recurrent expenditure.

Concluding Remarks

218. Mr President, life has not been easy during the past three years, and sometimes we might inevitably feel disheartened. With the epidemic now coming to an end, we are free to travel again. Mega events are resuming one after another. I now see many happy faces around, as people start to reconnect with each other and cherish the moments they are spending together. I am deeply touched by these scenes, which inspired me to come up with the idea of launching the “Happy Hong Kong” Campaign that comprises a wide variety of events. I hope that people can share more joyful moments with their families and friends through participating in these fun-filled activities.

219. Happiness can actually be found just around the corner. Over the past few years, more people have developed an interest in joining fascinating local tours. They have discovered the beauty of our countryside, the elegance of our historical buildings as well as a wide range of gourmet food in various districts. Each discovery brings us a happy memory. If only we feel the things around us with our heart, we will see that there is so much to treasure in this city.

220. Recently, I have made quite a number of overseas visits and received many visiting guests. It left a deep impression on me that many misconceptions about Hong Kong exist overseas. Often, such misconceptions originate from biased news reporting. After all, interaction between Hong Kong and the outside world has been hindered for more than three years and many of those living overseas have been prevented from visiting Hong Kong. Henceforth, showcasing the new strengths of Hong Kong to the outside world is our top priority. In the midst of complicated and volatile international relations, it is all the more important that we stand firm in explaining the actual situation in Hong Kong and establish new connections and friendships. While we will strain every nerve to get the job done, your concerns and efforts in this regard are also crucial. History has taught us that Hong Kong people can always turn crises into opportunities in turbulent and stormy times, and achieve still greater development.

221. Under “One Country, Two Systems”, Hong Kong’s orientation and positioning in the global arena serve a crucial role. In spite of all the trials and tribulations, we still have many friends around the world, both old and new, who are always ready to offer us valuable advice and suggestions. Our country sustains high-quality development and adheres to the strategy of two-way opening up under the principle of reciprocity and mutual benefits. These, together with our country’s staunch and robust support to Hong Kong, enable us to explore new markets and forge new partnerships in the current international landscape.

222. Under the leadership of the Chief Executive, the new-term Government embraces a new paradigm and a new outlook by giving its all with vigour and competence. As stated by President Xi Jinping in his important speech on 1 July 2022, the next five years are important for Hong Kong to break new ground and achieve another leap forward. While there are both opportunities and challenges for the future of Hong Kong, opportunities definitely outnumber challenges. On this new journey towards the great rejuvenation of the Chinese nation, Hong Kong has a unique and crucial role to play and an irreplaceable function to perform. I therefore have full confidence in the future of Hong Kong.

223. Hong Kong people, as always, have no fear of challenges. In fact, challenges nurture greater creativity and capability. The story of Hong Kong in the past few decades reveals our success in overcoming one challenge after another, and each time scaling new heights. Each and every one of us has a place in Hong Kong’s success story. We all need to keep striving for a better future for Hong Kong, contributing to its success. Fellow citizens, I can say with certainty that Hong Kong will forge ahead in the new era, on a new stage and along a new journey!

THE 2023-24 BUDGET

Speech by the Financial Secretary, the Hon Paul MP Chan
moving the Second Reading of the Appropriation Bill 2023

Supplement and Appendices

Wednesday, 22 February 2023

SUPPLEMENT

Please visit our website at www.budget.gov.hk/2023/eng/speech.html for all documents, appendices and statistics relating to the 2023-24 Budget. The Chinese version can be found at www.budget.gov.hk/2023/chi/speech.html.

Contents

	Pages
Rates	(1)
Salaries Tax	(2)
One-off Reduction of Tax	(3)
Ad Valorem Stamp Duty	(4)
Economic Performance in 2022	(5) – (8)
Economic Prospects for 2023	(9)

EFFECT OF THE PROPOSED RATES CONCESSION⁽¹⁾ ON MAIN PROPERTY CLASSES

2023-24 ⁽²⁾

<i>Property Type</i>	<i>No Concession</i>		<i>With Rates Concession</i>	
	<i>Average Rates Payable (\$ for the year)</i>	<i>Average Rates Payable (\$ per month)</i>	<i>Average Rates Payable (\$ for the year)</i>	<i>Average Rates Payable (\$ per month)</i>
Private Domestic Premises ⁽³⁾				
Small	6,492	541	4,560	380
Medium	13,080	1,090	11,100	925
Large	27,444	2,287	25,464	2,122
Public Domestic Premises ⁽⁴⁾	3,096	258	1,656	138
All Domestic Premises⁽⁵⁾	6,288	524	4,596	383
Shops and Commercial Premises	36,888	3,074	35,064	2,922
Offices	46,860	3,905	44,892	3,741
Industrial Premises ⁽⁶⁾	18,024	1,502	16,164	1,347
All Non-domestic Premises⁽⁷⁾	35,856	2,988	34,152	2,846
All Properties	9,948	829	8,256	688

- (1) The proposed rates concession measure is capped at \$1,000 per tenement per quarter for the first two quarters of 2023-24. No rates will be charged on 38% of domestic ratepayers, and 29% of non-domestic ratepayers for the first two quarters of 2023-24. Overall speaking, about 37% of ratepayers will not need to pay any rates for the first two quarters of 2023-24.
- (2) The rates payable have reflected the changes in rateable values for 2023-24 after the General Revaluation.
- (3) Domestic units are classified by saleable areas, as follows –
- | | | |
|--------|--|---|
| Small | up to 69.9m ² | (up to 752 ft ²) |
| Medium | 70m ² to 99.9m ² | (753 ft ² to 1 075 ft ²) |
| Large | 100m ² and over | (1 076 ft ² 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

Proposed Changes to Allowances and Deductions

	<i>Present</i>	<i>Proposed/ New</i>	<i>Increase</i>	
	(\$)	(\$)	(\$)	(%)
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	260,000	20,000	8
Other years	120,000	130,000	10,000	8
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 Rents	100,000	100,000	—	—

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

Year of Assessment 2022/23

Salaries tax and tax under personal assessment –
100% tax reduction subject to a cap at \$6,000 per case

Assessable Income	No. of taxpayers	Average amount of tax reduction	Average % of tax reduced
\$200,000 and below	181 000	\$850	100%
\$200,001 to \$300,000	391 000	\$3,380	85%
\$300,001 to \$400,000	346 000	\$4,490	48%
\$400,001 to \$600,000	417 000	\$5,280	25%
\$600,001 to \$900,000	298 000	\$5,680	11%
Above \$900,000	267 000	\$5,880	2%
Total	1 900 000	—	—

Note: As at 31 December 2022, Hong Kong had a working population of 3.67 million.

Profits tax –
100% tax reduction subject to a cap at \$6,000 per case

Assessable Profits	No. of businesses#	Average amount of tax reduction	Average % of tax reduced
\$100,000 and below	43 100	\$4,060	100%
\$100,001 to \$200,000	17 200	\$6,000	37%
\$200,001 to \$300,000	10 100	\$6,000	22%
\$300,001 to \$400,000	7 000	\$6,000	16%
\$400,001 to \$600,000	9 800	\$6,000	11%
\$600,001 to \$900,000	8 800	\$6,000	8%
Above \$900,000	37 500	\$6,000	0.2%
Total	133 500	—	—

Note: As at 31 December 2022, there were about 1.27 million corporations and 295 000 unincorporated businesses in Hong Kong.

Including 100 300 corporations and 33 200 unincorporated businesses.

AD VALOREM STAMP DUTY – SCALE 2

**Comparison of present and proposed ad valorem stamp duty under Scale 2
(marginal relief not yet included)**

Amount or value of consideration (whichever is the higher)		Rates
Present	Proposed	
Up to \$2,000,000	Up to \$3,000,000	\$100
\$2,000,001 to \$3,000,000	\$3,000,001 to \$4,500,000	1.50%
\$3,000,001 to \$4,000,000	\$4,500,001 to \$6,000,000	2.25%
\$4,000,001 to \$6,000,000	\$6,000,001 to \$9,000,000	3.00%
\$6,000,001 to \$20,000,000	\$9,000,001 to \$20,000,000	3.75%
\$20,000,001 and above	\$20,000,001 and above	4.25%

ECONOMIC PERFORMANCE IN 2022

1. Rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2022:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	-1.0
Government consumption expenditure	8.1
Gross domestic fixed capital formation	-8.5
<i>of which :</i>	
Building and construction	4.3
Machinery, equipment and intellectual property products	-16.1
Total exports of goods	-13.9
Imports of goods	-13.2
Exports of services	-0.9
Imports of services	-1.0
Gross Domestic Product (GDP)	-3.5
<i>Growth rate of per capita GDP in real terms</i>	-2.6
<i>Per capita GDP at current market prices</i>	HK\$384,800 (US\$49,100)
(b) Rates of change in:	
Underlying Composite Consumer Price Index	1.7
GDP Deflator	2.2
Government Consumption Expenditure Deflator	2.8
(c) Growth rate of nominal GDP	-1.4

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

	<i>Total exports</i>	
	<i>In value terms</i> (%)	<i>In real terms</i> (%)
2020	-2	-1
2021	26	20
2022	-9	-15

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

	<i>Total exports</i>					
	<i>Total</i> (%)	<i>The Mainland</i> (%)	<i>EU[#]</i> (%)	<i>US</i> (%)	<i>India</i> (%)	<i>Taiwan</i> (%)
2020	-1	5	-7	-13	-16	11
2021	20	18	20	20	33	35
2022	-15	-21	-11	-11	26	0

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 7% in real terms in 2020, increased by 25% in 2021 and decreased by 15% in 2022.

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

	<i>Imports</i> (%)	<i>Retained imports</i> (%)
2020	-3	-9
2021	18	13
2022	-14	-10

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

	<i>Exports of services</i>				
	<i>Total</i> (%)	<i>Transport services</i> (%)	<i>Travel services</i> (%)	<i>Financial services</i> (%)	<i>Other services</i> (%)
2020	-35	-25	-90	2	-10
2021	3	6	-38	2	9
2022	-1	-3	65	-1	-3

6. Hong Kong's goods and services trade balance in 2022 reckoned on GDP basis:

	(HK\$ billion)
Total exports of goods	4,814.1
Imports of goods	4,859.3
<i>Goods trade balance</i>	-45.2
Exports of services	654.6
Imports of services	493.1
<i>Services trade balance</i>	161.4
<i>Combined goods and services trade balance</i>	116.2

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

	<i>Unemployment rate (%)</i>	<i>Underemployment rate (%)</i>	<i>Growth in labour force (%)</i>	<i>Growth in total employment (%)</i>
2020	5.8	3.3	-1.7	-4.7
2021	5.2	2.6	-1.2	-0.6
2022	4.3	2.3	-2.3	-1.4

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

	<i>Composite CPI</i>		<i>CPI(A)</i>	<i>CPI(B)</i>	<i>CPI(C)</i>
	<i>Underlying (%)</i>	<i>Headline (%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
2020	1.3	0.3	-0.6	0.6	0.8
2021	0.6	1.6	2.9	1.0	0.9
2022	1.7	1.9	2.2	1.7	1.8

ECONOMIC PROSPECTS FOR 2023

Forecast rates of change in the Gross Domestic Product and main price indicators in 2023:

	(%)
Gross Domestic Product (GDP)	
<i>Real GDP</i>	3.5 to 5.5
<i>Nominal GDP</i>	6.5 to 8.5
<i>Growth rate of per capita GDP in real terms</i>	2.9 to 4.9
<i>Per capita GDP at current market prices</i>	HK\$407,300-415,000 (US\$52,200-53,200)
Composite Consumer Price Index	
<i>Underlying Composite Consumer Price Index</i>	2.5
<i>Headline Composite Consumer Price Index</i>	2.9
GDP Deflator	3

APPENDICES

APPENDICES

	Page
A. MEDIUM RANGE FORECAST	3
Forecast of government expenditure and revenue for the period up to 2027-28	
B. ANALYSIS OF EXPENDITURE AND REVENUE	15
Allocation of resources among policy area groups and analysis of revenue	
C. GLOSSARY OF TERMS	35

Note: Expenditure figures for 2022-23 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2023-24 estimate.

APPENDIX A

MEDIUM RANGE FORECAST

CONTENTS	Page
SECTION I FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA	6
SECTION II MEDIUM RANGE FORECAST	7
SECTION III RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE/ PUBLIC EXPENDITURE AND GDP IN THE MEDIUM RANGE FORECAST	11
SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES	13

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 2023-24 to 2027-28.

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 3.5% to 5.5% in real terms in 2023. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2024 to 2027, the trend growth rate of the economy in real terms is assumed to be 3.7% per annum.

Price change

4 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 3% in 2023. For the four-year period 2024 to 2027, 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 2.9% in 2023. Netting out the effects of various one-off relief measures, the underlying CCPI is forecast to increase by 2.5% in 2023. For the ensuing period 2024 to 2027, 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 6.5% to 8.5% in 2023, and the trend growth rate in nominal terms for the period 2024 to 2027 is assumed to be 6% per annum.

Other Assumptions

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

- The operating expenditure for 2024-25 and beyond represents the forecast expenditure requirements for Government.
- The capital expenditure for 2023-24 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 2024-25 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)	2022-23 Revised Estimate	2023-24 Estimate	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast
Operating Account						
Operating revenue (<i>Note (b)</i>)	493,396	536,822	607,140	656,445	683,724	732,165
Less: Operating expenditure (<i>Note (c)</i>)	689,512	629,484	612,200	629,700	656,600	686,900
Operating surplus / (deficit)	(196,116)	(92,662)	(5,060)	26,745	27,124	45,265
Capital Account						
Capital revenue (<i>Note (d)</i>)	110,408	105,590	125,337	139,833	157,867	165,586
Less: Capital expenditure (<i>Note (e)</i>)	120,079	131,495	152,563	160,485	164,295	162,258
Capital surplus / (deficit)	(9,671)	(25,905)	(27,226)	(20,652)	(6,428)	3,328
Consolidated Account						
Government revenue	603,804	642,412	732,477	796,278	841,591	897,751
Less: Government expenditure	809,591	760,979	764,763	790,185	820,895	849,158
Consolidated surplus / (deficit) before issuance and repayment of bonds	(205,787)	(118,567)	(32,286)	6,093	20,696	48,593
Add: Proceeds from issuance of government bonds (<i>Note (ff)</i>)	65,992	65,000	65,000	65,000	65,000	65,000
Less: Repayment of government bonds (<i>Note (ff)</i>)	-	800	23,127	31,775	13,747	13,708
Consolidated surplus / (deficit) after issuance and repayment of bonds	(139,795)	(54,367)	9,587	39,318	71,949	99,885
Fiscal reserves at 31 March	817,333	762,966	772,553	811,871	883,820	983,705
In terms of number of months of government expenditure	12	12	12	12	13	14
In terms of percentage of GDP	28.9%	25.1%	24.0%	23.8%	24.4%	25.6%

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					
	2022-23 Revised Estimate	2023-24 Estimate			
(\$ million)			Future Fund	Operating and Capital Reserves	Total
General Revenue Account	229,921	134,943	4,800*	130,143	134,943
Funds with designated use	281,685	273,365		273,365	273,365
Capital Works Reserve Fund	151,142	150,389		150,389	150,389
Capital Investment Fund	18,037	16,784		16,784	16,784
Civil Service Pension Reserve Fund	53,864	55,857		55,857	55,857
Disaster Relief Fund	44	100		100	100
Innovation and Technology Fund	27,755	22,295		22,295	22,295
Loan Fund	7,715	6,535		6,535	6,535
Lotteries Fund	23,128	21,405		21,405	21,405
Land Fund	305,727	354,658	354,658	-	354,658
	<u>817,333</u>	<u>762,966</u>	<u>359,458</u>	<u>403,508</u>	<u>762,966</u>
In terms of number of months of government expenditure	12	12	6	6	12

* 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 \$613 billion for capital works projects underway and about \$544 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 2023-24 Budget, and is made up of –

(\$ million)	2022-23 Revised Estimate	2023-24 Estimate	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast
Operating revenue before investment income	429,607	482,036	562,436	610,262	643,236	691,528
Investment income (<i>Note (g)</i>)	63,789	54,786	44,704	46,183	40,488	40,637
Total	493,396	536,822	607,140	656,445	683,724	732,165

- (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 3.7% for 2023 (vs 5.6% for 2022) and is assumed to be in the range of 3.7% to 5.1% a year for 2024 to 2027.
- (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 2024-25 and beyond set out the forecast operating expenditure requirements for Government.

(d) *Capital revenue*

(i) The breakdown of capital revenue is –

(\$ million)	2022-23 Revised Estimate	2023-24 Estimate	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast
General Revenue Account	2,505	6,136	3,914	2,163	4,698	4,698
Capital Investment Fund	423	643	865	1,327	1,615	2,554
Capital Works Reserve Fund	71,163	85,008	108,465	119,345	135,505	141,958
Disaster Relief Fund	1	-	-	-	-	-
Innovation and Technology Fund	105	-	-	-	-	-
Loan Fund	5,719	1,201	1,688	3,632	4,071	4,097
Lotteries Fund	1,014	1,039	1,005	1,010	1,012	1,014
Capital revenue before investment income	80,930	94,027	115,937	127,477	146,901	154,321
Investment income (<i>Note (g)</i>)	29,478	11,563	9,400	12,356	10,966	11,265
Total	110,408	105,590	125,337	139,833	157,867	165,586

(ii) Land premium included under the Capital Works Reserve Fund for 2023-24 is estimated to be \$85 billion. For 2024-25 onwards, it is assumed to be 3.7% of GDP, being the 15-year historical average, with possible adjustment with reference to the land sale programme.

(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 3.7% for 2023 (vs 5.6% for 2022) and is assumed to be in the range of 3.7% to 5.1% a year for 2024 to 2027.

(e) *Capital expenditure*

The breakdown of capital expenditure is –

(\$ million)	2022-23 Revised Estimate	2023-24 Estimate	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast
General Revenue Account	7,924	9,468	9,957	10,316	9,279	8,756
Capital Investment Fund	5,044	2,549	7,988	8,290	6,272	2,387
Capital Works Reserve Fund	97,923	106,822	120,016	125,885	134,776	136,358
Disaster Relief Fund	56	-	-	-	-	-
Innovation and Technology Fund	4,570	6,417	6,493	6,656	4,956	5,077
Loan Fund	2,208	2,650	2,718	2,706	2,754	2,825
Lotteries Fund	2,354	3,589	5,391	6,632	6,258	6,855
Total	120,079	131,495	152,563	160,485	164,295	162,258

(f) *Government bonds*

The Government issued green bonds under the Government Green Bond Programme (the Programme) from 2019-20 to 2022-23, and plans to continue to issue bonds from 2023-24 to 2027-28. 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, \$23.1 billion and \$24.4 billion (the last tranche) have been brought back from the Housing Reserve in 2019-20, 2020-21, 2021-22 and 2022-23 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)	2022-23 Revised Estimate	2023-24 Estimate	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast
Operating expenditure	689,512	629,484	612,200	629,700	656,600	686,900
Capital expenditure	120,079	131,495	152,563	160,485	164,295	162,258
Government expenditure	809,591	760,979	764,763	790,185	820,895	849,158
Expenditure by other public bodies	38,181	49,561	50,965	57,527	66,466	69,524
Public expenditure (Note (a))	847,772	810,540	815,728	847,712	887,361	918,682
Gross Domestic Product (calendar year)	2,827,009	3,039,000	3,221,400	3,414,700	3,619,500	3,836,700
Nominal growth in GDP (Note (b))	-1.4%	7.5%	6.0%	6.0%	6.0%	6.0%
Growth in recurrent government expenditure (Note (c))	10.0%	3.3%	4.1%	3.7%	5.0%	4.7%
Growth in government expenditure (Note (c))	16.8%	-6.0%	0.5%	3.3%	3.9%	3.4%
Growth in public expenditure (Note (c))	16.0%	-4.4%	0.6%	3.9%	4.7%	3.5%
Public expenditure in terms of percentage of GDP	30.0%	26.7%	25.3%	24.8%	24.5%	23.9%

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 2023-24, the nominal GDP growth of 7.5% represents the mid-point of the range forecast of 6.5% to 8.5% for the calendar year 2023.
- (c) The growth rates for 2022-23 to 2027-28 refer to year-on-year change. For example, the rates for 2022-23 refer to the change between the revised estimate for 2022-23 and the actual expenditure in 2021-22. The rates for 2023-24 refer to the change between the 2023-24 estimate and the 2022-23 revised estimate, and so forth.

15 Table 4 shows the relationship amongst the sum to be appropriated in the 2023-24 Budget, government expenditure and public expenditure.

**Relationship between Government Expenditure
and Public Expenditure in 2023-24**

Table 4

(\$ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	560,143	560,143	-	560,143	560,143
Non-recurrent	69,272	69,272	-	69,272	69,272
Capital					
Plant, equipment and works	5,991	-	5,991	5,991	5,991
Subventions	3,477	-	3,477	3,477	3,477
	638,883	629,415	9,468	638,883	638,883
Transfer to Funds	53	-	-	-	-
Capital Investment Fund	-	-	2,549	2,549	2,549
Capital Works Reserve Fund	-	-	106,822	106,822	106,822
Innovation and Technology Fund	-	-	6,417	6,417	6,417
Land Fund	-	69	-	69	69
Loan Fund	-	-	2,650	2,650	2,650
Lotteries Fund	-	-	3,589	3,589	3,589
Trading Funds	-	-	-	-	6,113
Housing Authority	-	-	-	-	43,448
	638,936	629,484	131,495	760,979	810,540
Revenue					
General Revenue Account					
Taxation		437,109	8	437,117	
Other revenue		50,713	6,128	56,841	
		487,822	6,136	493,958	
Capital Investment Fund		-	1,296	1,296	
Capital Works Reserve Fund		-	91,869	91,869	
Civil Service Pension Reserve Fund		-	1,993	1,993	
Disaster Relief Fund		-	3	3	
Innovation and Technology Fund		-	957	957	
Land Fund		49,000	-	49,000	
Loan Fund		-	1,470	1,470	
Lotteries Fund		-	1,866	1,866	
		536,822	105,590	642,412	
Deficit		(92,662)	(25,905)	(118,567)	

SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES

16 The Government's contingent liabilities as at 31 March 2022, 31 March 2023 and 31 March 2024, are provided below as supplementary information to the MRF –

Table 5

(\$ million)	2022	At 31 March 2023	2024
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	40,316	41,174	42,693
Guarantees provided under the SME Financing Guarantee Scheme	116,180	143,776	139,350
Legal claims, disputes and proceedings	15,301	18,127	15,306
Subscription to callable shares in the Asian Development Bank	5,946	5,708	5,708
Subscription to callable shares in the Asian Infrastructure Investment Bank	4,800	4,780	4,780
Guarantees provided under the SME Loan Guarantee Scheme	2,399	1,650	1,068
Guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation	920	893	866
Guarantees provided under the Special Loan Guarantee Scheme	214	86	83
Total	186,076	216,194	209,854

17 The Government's major unfunded liabilities as at 31 March 2022 were as follows –

(\$ million)

Present value of statutory pension obligations (<i>Note (a)</i>)	1,047,790
Untaken leave (<i>Note (b)</i>)	29,012
Green bonds	56,680

Notes –

- (a) The statutory pension obligations for the coming ten years are estimated to be about \$544 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 2022 and 31 March 2023 are \$610,268 million and \$613,946 million respectively. Some of these are contractual commitments.

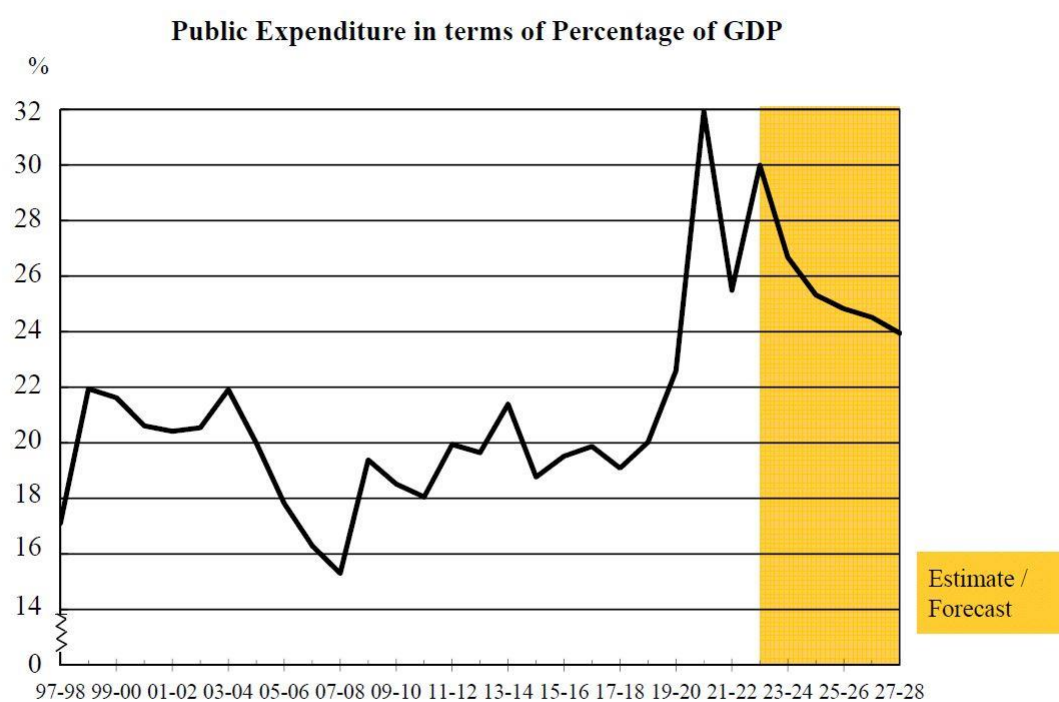
APPENDIX B

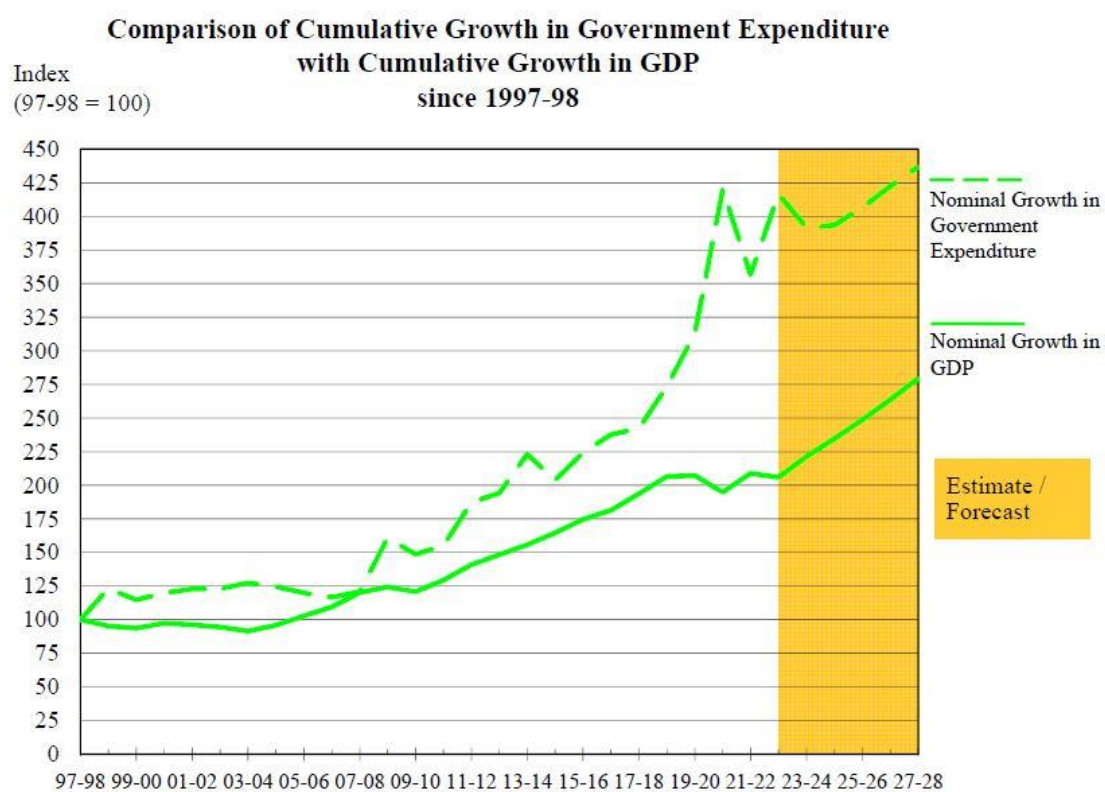
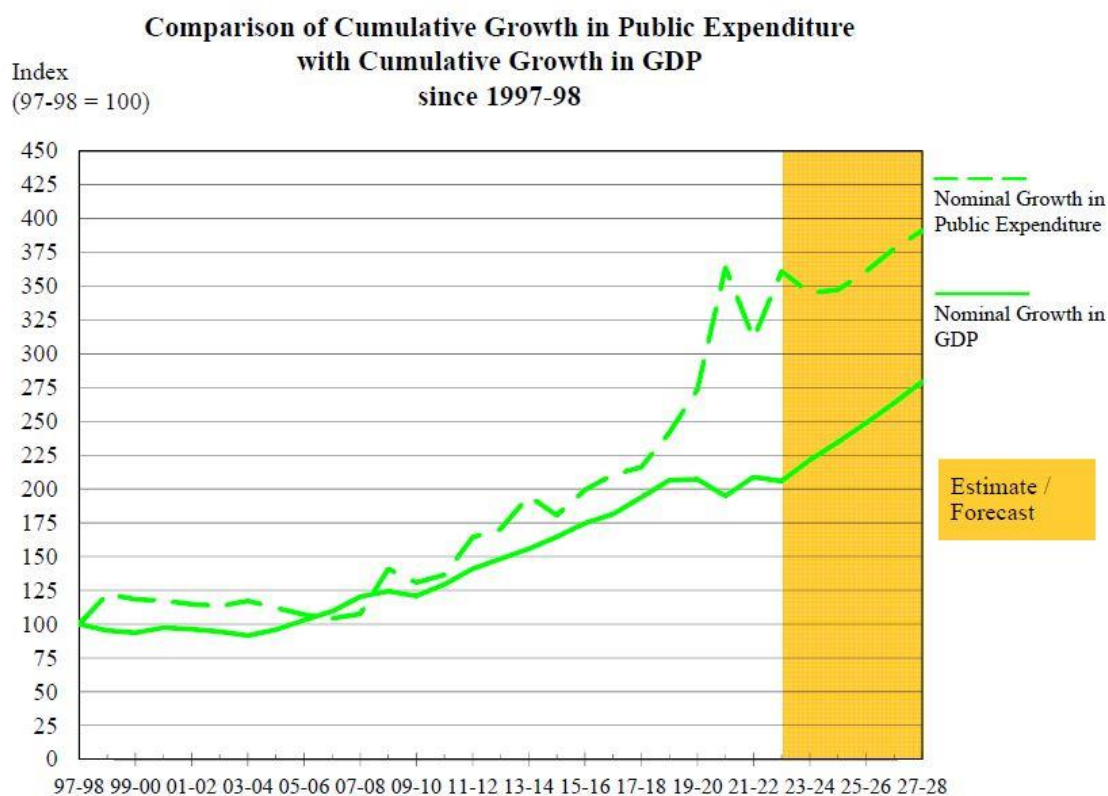
ANALYSIS OF EXPENDITURE AND REVENUE

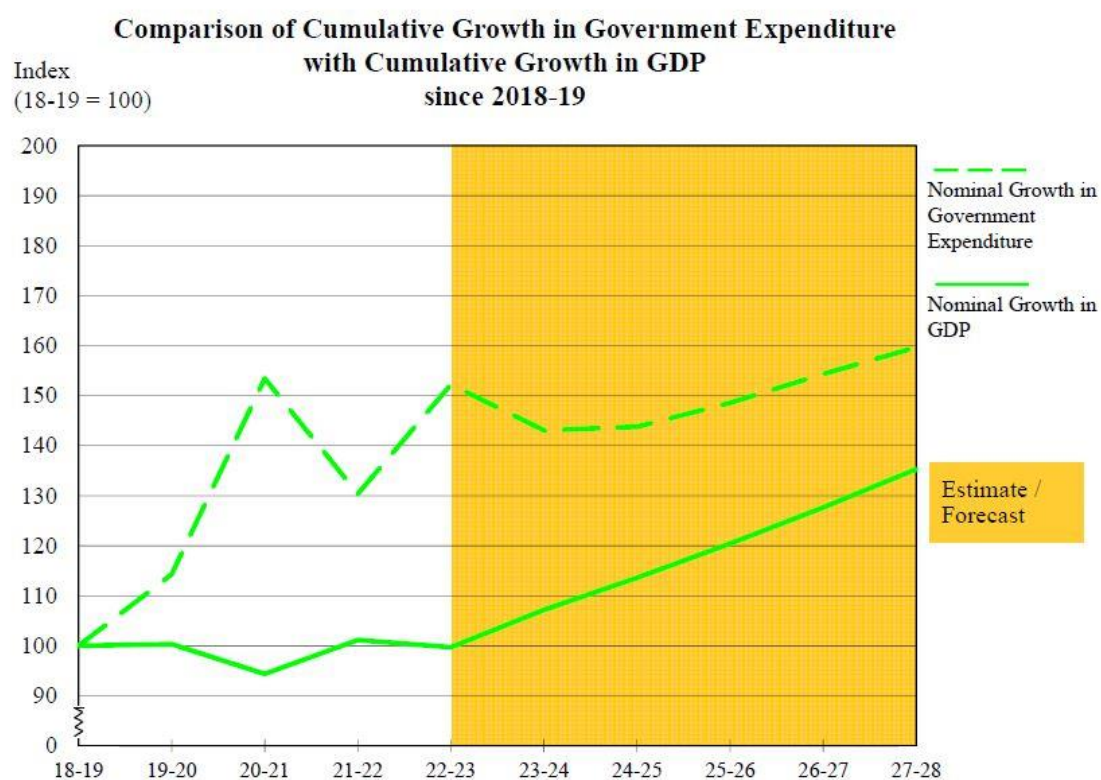
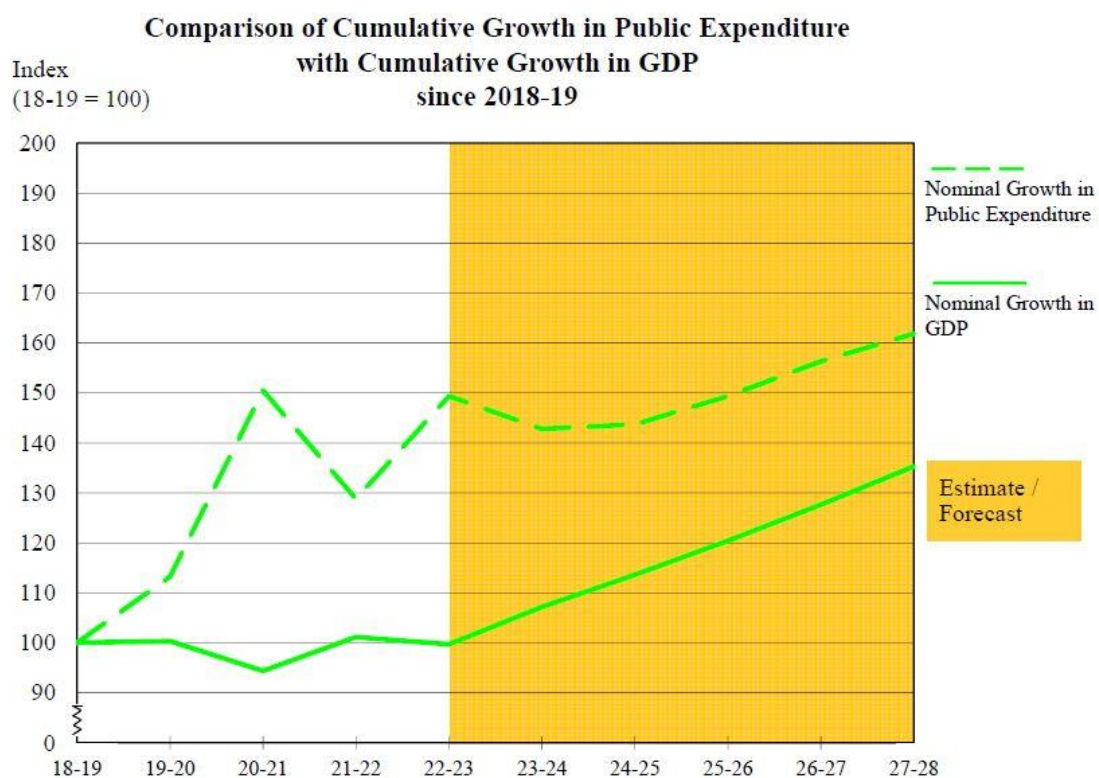
CONTENTS	Page
SECTION I THE ESTIMATES IN THE CONTEXT OF THE ECONOMY	
Relationship between Government Expenditure, Public Expenditure and GDP	18
SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP	
Recurrent Public Expenditure : Year-on-Year Change	22
Recurrent Government Expenditure : Year-on-Year Change	23
Percentage Share of Expenditure by Policy Area Group	24
Recurrent Public Expenditure	
Recurrent Government Expenditure	
SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP	
Total Public Expenditure : Year-on-Year Change	25
Total Government Expenditure : Year-on-Year Change	26
Percentage Share of Expenditure by Policy Area Group	27
Total Public Expenditure	
Total Government Expenditure	
SECTION IV MAJOR CAPITAL PROJECTS PLANNED FOR COMMENCEMENT IN 2023-24	28
SECTION V TRENDS IN PUBLIC EXPENDITURE : 2018-19 TO 2023-24	30
SECTION VI ANALYSIS OF GOVERNMENT REVENUE	32
SECTION VII CLASSIFICATION OF POLICY AREA GROUP	33

SECTION I THE ESTIMATES IN THE CONTEXT OF THE ECONOMY**Relationship between Government Expenditure, Public Expenditure and GDP**

	2023-24 Estimate \$m
General Revenue Account	
Operating	629,415
Capital	9,468
	<hr/> 638,883
Capital Investment Fund	2,549
Capital Works Reserve Fund	106,822
Innovation and Technology Fund	6,417
Land Fund	69
Loan Fund	2,650
Lotteries Fund	3,589
Government Expenditure	<hr/> 760,979
Trading Funds	6,113
Housing Authority	43,448
Public Expenditure	<hr/> 810,540 <hr/>
GDP	3,039,000
Public Expenditure in terms of percentage of GDP	26.7%







SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Recurrent Public Expenditure : Year-on-Year Change

	2021-22 Actual \$m	2022-23 Revised Estimate \$m	2023-24 Estimate \$m	Increase/Decrease over 2022-23 Revised Estimate in Nominal Terms %	in Real Terms %
Education	97,218	97,749	104,025	6.4	5.5
Social Welfare	97,070	106,002	120,957	14.1	11.4
Health	98,329	127,072	104,439	-17.8	-18.7
Security	51,644	55,310	58,554	5.9	5.0
Infrastructure	31,573	32,339	35,278	9.1	7.3
Environment and Food	21,657	22,926	25,581	11.6	9.4
Economic	19,297	20,604	22,907	11.2	9.3
Housing	17,363	18,531	19,630	5.9	3.3
Community and External Affairs	15,105	15,793	17,645	11.7	9.7
Support	65,209	68,797	75,409	9.6	7.2
	514,465	565,123	584,425	3.4	1.8
GDP growth in 2023				6.5% to 8.5%	3.5% to 5.5%

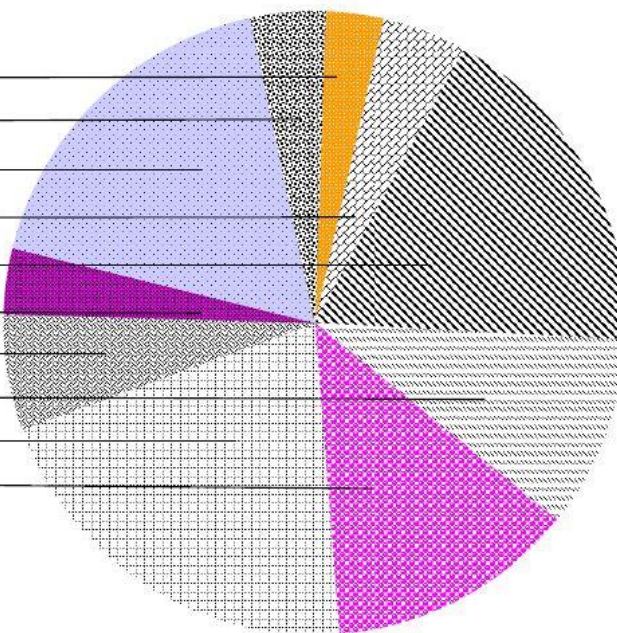
SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Recurrent Government Expenditure : Year-on-Year Change

	2021-22 Actual \$m	2022-23 Revised Estimate \$m	2023-24 Estimate \$m	Increase/Decrease over 2022-23 Revised Estimate in Nominal Terms %	in Real Terms %
Education	97,218	97,749	104,025	6.4	5.5
Social Welfare	97,070	106,002	120,957	14.1	11.4
Health	98,329	127,072	104,439	-17.8	-18.7
Security	51,644	55,310	58,554	5.9	5.0
Infrastructure	31,365	32,113	35,030	9.1	7.3
Environment and Food	21,657	22,926	25,581	11.6	9.4
Economic	14,955	15,892	17,687	11.3	9.7
Housing	650	677	834	23.2	23.0
Community and External Affairs	15,105	15,793	17,645	11.7	9.7
Support	65,209	68,797	75,409	9.6	7.2
	<u>493,202</u>	<u>542,331</u>	<u>560,161</u>	3.3	1.7
GDP growth in 2023				6.5% to 8.5%	3.5% to 5.5%

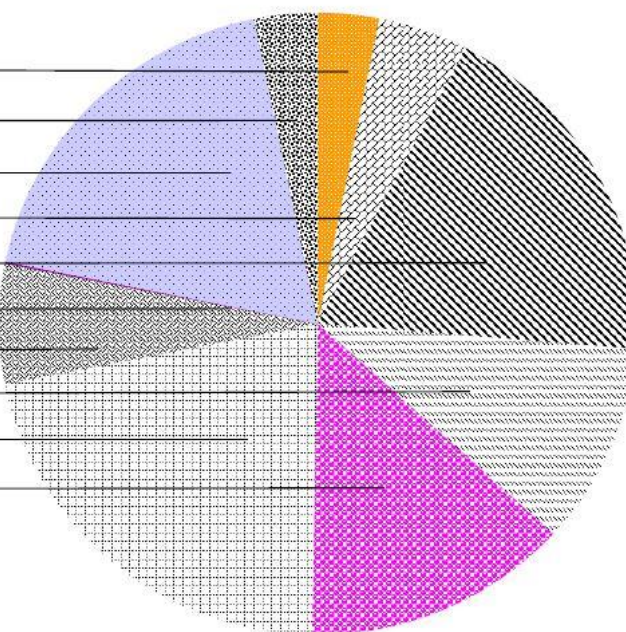
Percentage Share of Expenditure by Policy Area Group
Recurrent Public Expenditure : 2023-24 Estimate

Community and External Affairs	3.0%
Economic	3.9%
Education	17.8%
Environment and Food	4.4%
Health	17.9%
Housing	3.4%
Infrastructure	6.0%
Security	10.0%
Social Welfare	20.7%
Support	12.9%
	100.0%



Percentage Share of Expenditure by Policy Area Group
Recurrent Government Expenditure : 2023-24 Estimate

Community and External Affairs	3.1%
Economic	3.2%
Education	18.6%
Environment and Food	4.6%
Health	18.6%
Housing	0.1%
Infrastructure	6.2%
Security	10.5%
Social Welfare	21.6%
Support	13.5%
	100.0%



**SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE
BY POLICY AREA GROUP**

Total Public Expenditure : Year-on-Year Change

	2021-22 Actual \$m	2022-23 Revised Estimate \$m	2023-24 Estimate \$m	Increase/Decrease over 2022-23 Revised Estimate in Nominal Terms %	in Real Terms %
Education	106,937	106,892	114,675	7.3	6.1
Social Welfare	103,391	111,559	129,003	15.6	12.8
Health	114,553	154,427	124,781	-19.2	-20.4
Security	55,763	61,247	65,983	7.7	6.5
Infrastructure	79,481	90,890	89,027	-2.0	-5.2
Environment and Food	33,882	37,907	46,624	23.0	20.0
Economic	71,736	102,889	76,295	-25.8	-27.7
Housing	35,741	38,166	51,388	34.6	30.0
Community and External Affairs	24,216	26,833	29,753	10.9	7.9
Support	105,288	116,962	83,011	-29.0	-30.7
	<u>730,988</u>	<u>847,772</u>	<u>810,540</u>	-4.4	-6.5
GDP growth in 2023				6.5% to 8.5%	3.5% to 5.5%

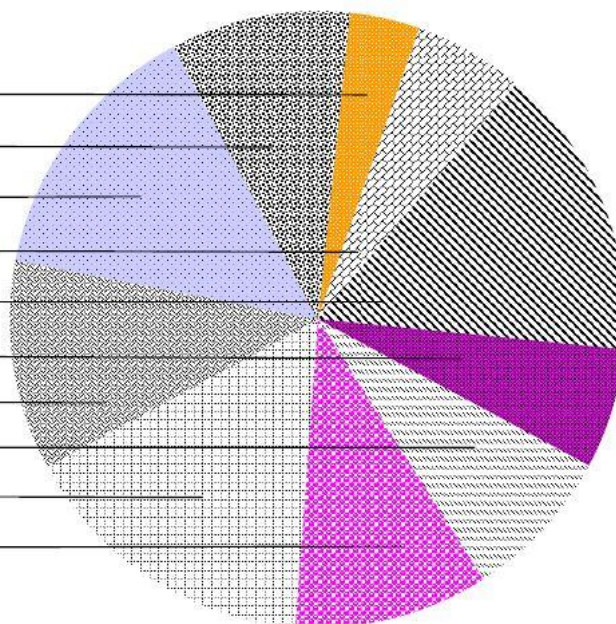
SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Government Expenditure : Year-on-Year Change

	2021-22 Actual \$m	2022-23 Revised Estimate \$m	2023-24 Estimate \$m	Increase/Decrease over 2022-23 Revised Estimate in Nominal Terms %	in Real Terms %
Education	106,937	106,892	114,675	7.3	6.1
Social Welfare	103,391	111,559	129,003	15.6	12.8
Health	114,553	154,427	124,781	-19.2	-20.4
Security	55,763	61,247	65,983	7.7	6.5
Infrastructure	79,260	90,625	88,722	-2.1	-5.2
Environment and Food	33,882	37,907	46,624	23.0	20.0
Economic	67,187	97,787	70,487	-27.9	-29.8
Housing	2,862	5,352	7,940	48.4	44.4
Community and External Affairs	24,216	26,833	29,753	10.9	7.9
Support	105,288	116,962	83,011	-29.0	-30.7
	<u>693,339</u>	<u>809,591</u>	<u>760,979</u>	-6.0	-8.0
GDP growth in 2023				6.5% to 8.5%	3.5% to 5.5%

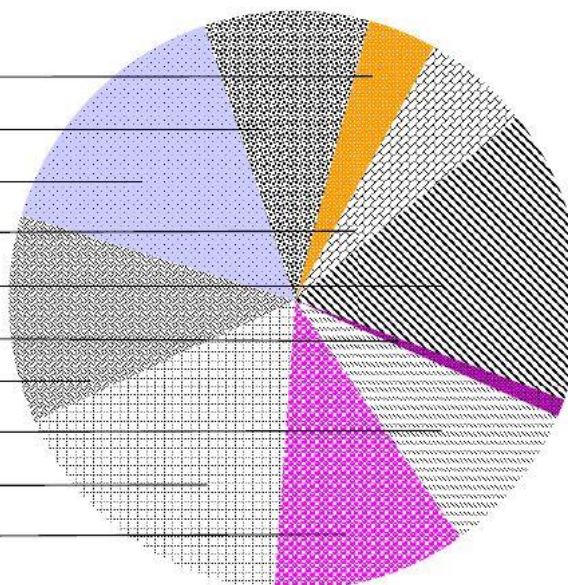
Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure : 2023-24 Estimate

Community and External Affairs	3.7%
Economic	9.4%
Education	14.2%
Environment and Food	5.8%
Health	15.4%
Housing	6.3%
Infrastructure	11.0%
Security	8.1%
Social Welfare	15.9%
Support	10.2%
	100.0%



Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure : 2023-24 Estimate

Community and External Affairs	3.9%
Economic	9.3%
Education	15.1%
Environment and Food	6.1%
Health	16.4%
Housing	1.0%
Infrastructure	11.6%
Security	8.7%
Social Welfare	17.0%
Support	10.9%
	100.0%



SECTION IV MAJOR CAPITAL PROJECTS PLANNED FOR COMMENCEMENT IN 2023-24

Major capital projects estimated to begin in 2023-24 include –

	Project Estimates \$ billion
Infrastructure	54.0
— Open Space with Public Vehicle Park at Yen Chow Street West, Sham Shui Po	
— Town Park with Public Vehicle Park in Area 66, Tseung Kwan O	
— Drainage improvement works at North District—phase 1	
— The District Cooling System for Hung Shui Kiu/Ha Tsuen New Development Area, Phase 1	
— Building of Government Records Service's Archives Centre in caverns	
— Improvement works at Tsuen Tsing Interchange	
— Dualling of Hiram's Highway from Marina Cove to Sai Kung Town	
— Sha Tin New Town, stage 2—Trunk Road T4	
— Site formation and infrastructure works for the development of ex-Cha Kwo Ling Kaolin Mine Site (Phase 2)	
— Hung Shui Kiu/Ha Tsuen New Development Area advance works phase 3—site formation and engineering infrastructure	
— Hung Shui Kiu/Ha Tsuen New Development Area stage 2 works—site formation and engineering infrastructure	
— Site formation and infrastructure works for public housing development at Cha Kwo Ling Village, Kowloon East	
— Relocation of Public Works Central Laboratory to caverns	
— Improvement Works to Fresh Water Mains with Internal Bitumen Lining—First Package of High Priority Mains—Stage One	
— Site formation and infrastructure works for public housing developments at Cheung Muk Tau	
— Site formation and infrastructure works for public housing developments at Tuen Mun Central—Phase 2	
Housing	14.9
— Implementation of Light Public Housing—the First Batch of Projects	
Environment and Food	12.3
— Relocation of Sha Tin Sewage Treatment Works to caverns—Ancillary Buildings, Cavern Ventilation System and Associated Works	
— Construction and rehabilitation of trunk sewage rising mains in Cheung Sha Wan	
— Construction and rehabilitation of sewage rising mains in Southern District	
— Hung Shui Kiu Effluent Polishing Plant—phase 1	
— Construction of dry weather flow interceptor at Hung Hom	
— Construction of dry weather flow interceptor at Causeway Bay	
— Construction of dry weather flow interceptor at Tsuen Wan	
— Refurbishment and upgrading of Outlying Islands transfer facilities	
— Refurbishment and modification of North Lantau transfer station	
Health	9.9
— Redevelopment of Kwong Wah Hospital, phase 2—main works	

**Project
Estimates
\$ billion**

Education

8.5

- New Research Building 2
- Construction of a teaching-research complex in Tai Po Area 39 (Phase 2—Main Works)
- Construction of a new academic building on an extension site east of No. 3 Sassoon Road (Main Works)
- Construction of a Clinical Training Amenities Centre at No. 6 Sassoon Road (Main Works)

Security

6.7

- Reprovisioning of Kong Wan Fire Station
- Redevelopment of Lai Chi Kok Reception Centre

Support

3.4

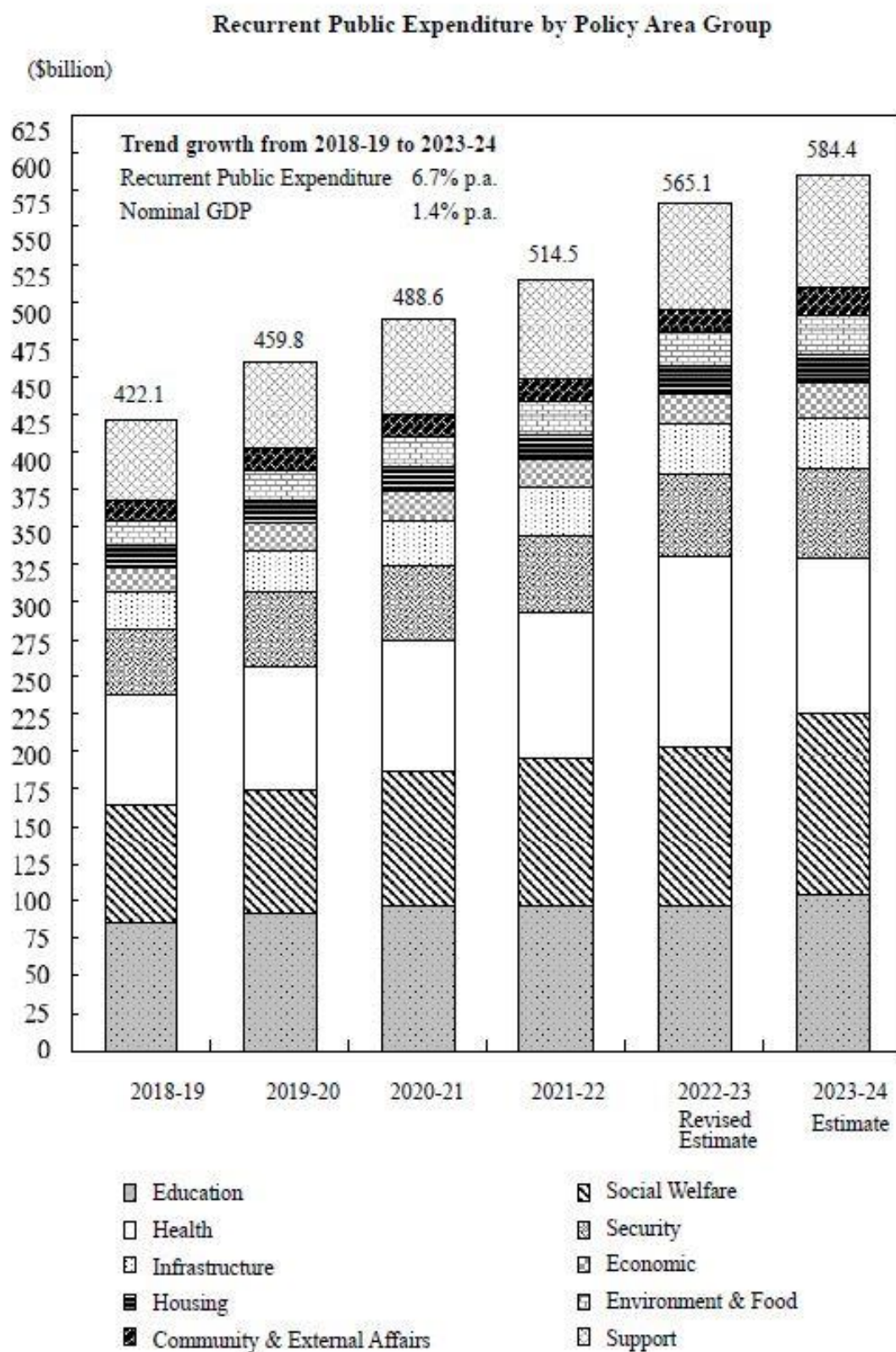
- Joint-user Complex with Market in Area 67, Tseung Kwan O

Community and External Affairs

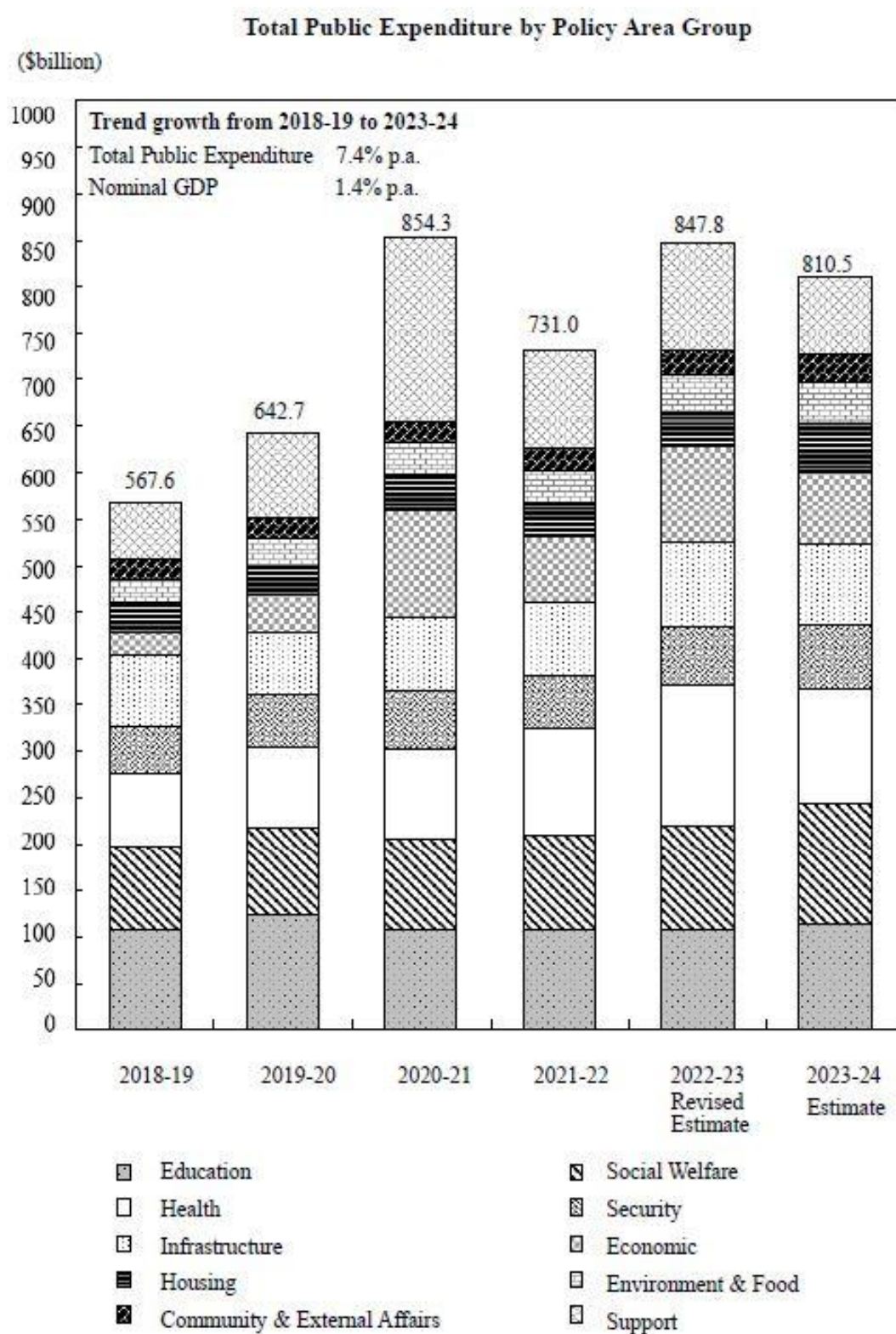
3.3

- Public Open Space at East Coast Park Precinct, North Point
- Quarry park in Anderson Road Quarry
- Cycle track between Tsuen Wan and Tuen Mun—Stage 2A—Tuen Mun to So Kwun Wat Section
- Improvement works at Mui Wo, phase 2 stage 2

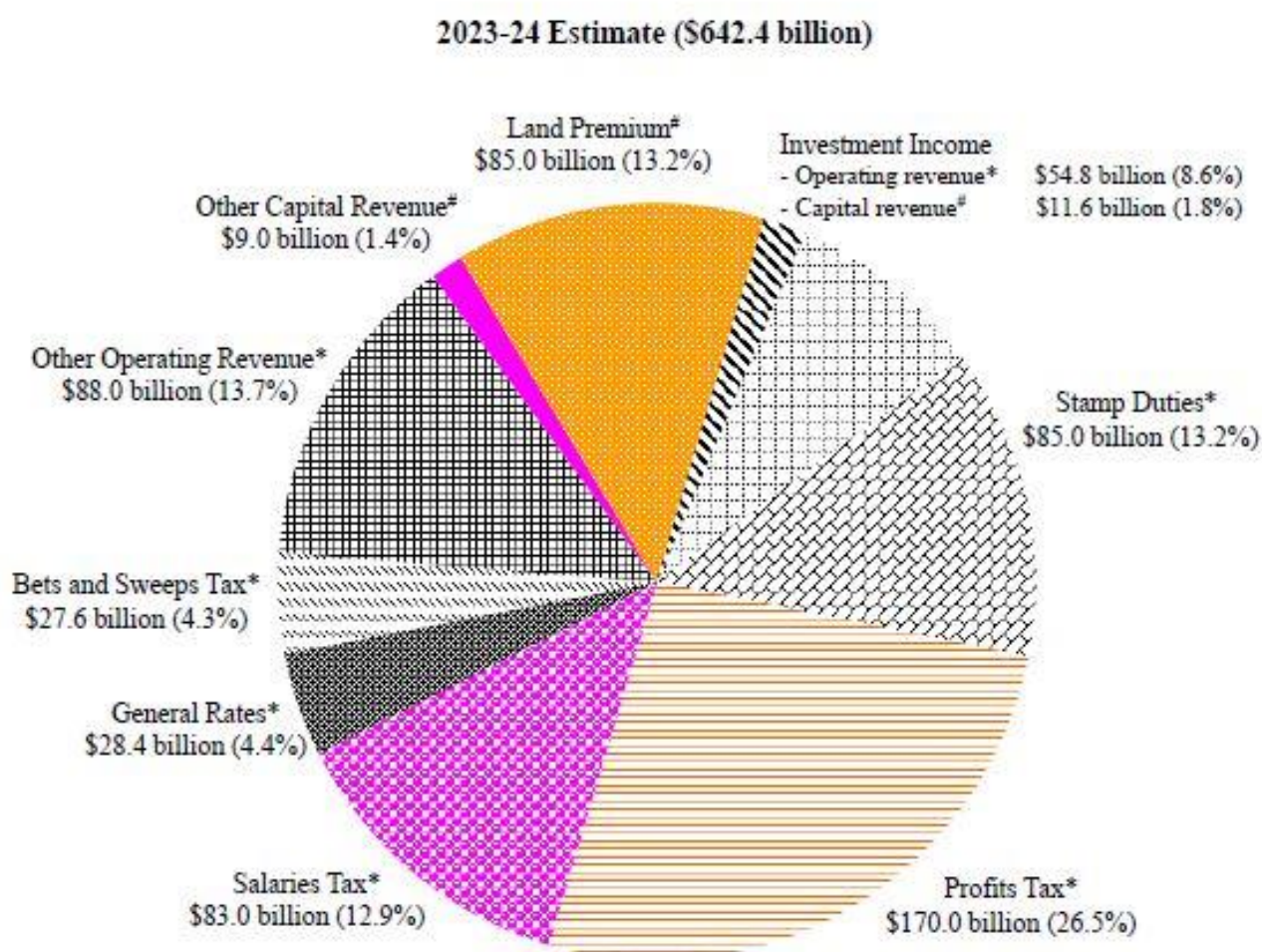
SECTION V TRENDS IN PUBLIC EXPENDITURE : 2018-19 TO 2023-24



SECTION V TRENDS IN PUBLIC EXPENDITURE : 2018-19 TO 2023-24



SECTION VI ANALYSIS OF GOVERNMENT REVENUE



	2023-24 Estimate	% Share of Government Revenue	% of GDP
* Operating Revenue	\$536.8 billion	83.6%	17.6%
# Capital Revenue	\$105.6 billion	16.4%	3.5%
Total	\$642.4 billion	100%	21.1%

SECTION VII CLASSIFICATION OF POLICY AREA GROUP

Policy Area Group	Policy Area (<i>Note</i>)	
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
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 2023-24 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
- finances, 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.