THE 2024-25 BUDGET

Speech by the Financial Secretary, the Hon Paul MP Chan moving the Second Reading of the Appropriation Bill 2024

Wednesday, 28 February 2024

Mr President, Honourable Members and fellow citizens,

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

Introduction

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

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

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

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

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

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

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

Economic Situation in 2023

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

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

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

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

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

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

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

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

Economic Outlook for 2024 and the Medium Term

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

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

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

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

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

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

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

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

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

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

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

Bolstering Confidence

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

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

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

Attracting Enterprises, Capital and Talent on All Fronts

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

Attract Strategic Enterprises

32. Next month, 10-plus strategic enterprises will sign a partnership agreement with OASES. The companies have either confirmed setting up or expanding their businesses in Hong Kong, or they are planning to do so. Together with the 30 companies from the first batch, they are expected to bring about over $40 billion in investment to Hong Kong, creating about 13 000 jobs over the next few years. Their presence in Hong Kong will attract upstream, midstream and downstream partners from their industry chains, promoting our Innovation and Technology (I&T) sector's vibrant development.

Hong Kong Investment Corporation Limited

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

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

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

Re-domiciliation Mechanisms

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

Opening Up New Capital Sources

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

Pooling Talent

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

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

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

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

Creating Favourable Conditions for Recovery

Property Market

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

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

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

Stock Market

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

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

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

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

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

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

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

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

Assisting Small and Medium Enterprises

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

SME Financing Guarantee Scheme

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

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

Digital Transformation

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

BUD Fund

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

Deduction of Expenses and Allowances under Profits Tax

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

Building the Hong Kong Brand on All Fronts

55. Hong Kong is an international financial centre and a world city with a distinctive blend of Chinese and Western cultures. We will build Hong Kong as a premier destination for business and tourism through better use of our social and natural resources, the consolidation of mega events and thematic annual conferences and the integration of opportunities created by industry development.

Mega-Events

56. Mega-events create opportunities for attracting tourists, while bringing wider entertainment and leisure choices for the people of Hong Kong. We will stage more mega-events, boost their promotion and co-ordination and maximise their economic and publicity benefits to enhance our international image.

57. More than 80 mega-events in a variety of themes and genres will be staged in Hong Kong in the first half of this year. For "Art March" alone, a series of arts and cultural events will be presented, such as Art Basel, Art@Harbour and the Asian debut of the international pop-culture festival ComplexCon. For sports events, LIV Golf, an international golf tournament also featuring musical entertainment and other activities, will be staged for the first time in Hong Kong.

58. Hong Kong, Guangdong Province and Macao will co-host the 15th National Games in 2025. Members of the public can cheer the athletes on home ground or visit nearby GBA cities to watch the games.

59. The Government has set up a Mega Events Coordination Group to reach out proactively for more mega events to be staged in Hong Kong, while strengthening inter-departmental collaboration for such events to be successfully held. We have earmarked $100 million to boost mega-event promotions over the next three years.

Financial Forums

60. Organising thematic conferences can help reinforce Hong Kong's branding. The Global Financial Leaders' Investment Summit and the Asian Financial Forum are two very successful illustrations of this. The Financial Mega Event Week will be launched in Hong Kong in March, featuring an array of major financial events, including the Wealth for Good in Hong Kong Summit, which brings together owners and managers of family offices, the Global Investors' Symposium by Milken Institute etc. There will also be a wealth of activities for enriching Hong Kong's branding, including a round-table conference to be organised by the HKIC.

61. Apart from inviting visitors to our city, we will continue to go global, visiting regions and markets to tell the good stories of Hong Kong and expand our circle of friends. We will also launch a new Sponsored Overseas Speaking Engagement Programme. Renowned scholars and industry leaders will be sponsored to attend overseas events and give speeches to promote Hong Kong and its many advantages.

Better Use of the Harbourfront Resources

62. Our magnificent Victoria Harbour, with its stunning harbourfront, is a natural beauty and popular leisure destination for tourists and the general public that creates memorable moments and positive impressions of Hong Kong. We will make good use of such valuable resources to offer many more enchanting moments and experiences for our people and visitors alike.

63. The dazzling fireworks display above the night sky of Victoria Harbour, and last year's special waterfront pyrotechnic shows along the waterfronts of Wan Chai and the West Kowloon Cultural District, were well-received by the public. The Hong Kong Tourism Board (HKTB) will hold pyrotechnic and drone shows against the backdrop of the splendid night views of Victoria Harbour every month. The HKTB will also revamp its light-and-sound show, "A Symphony of Lights". The Development Bureau (DEVB) will also introduce commercial facilities such as food and beverages, retail and entertainment on a pilot basis at selected suitable harbourfront locations to bring convenience and better experience to visitors.

Energise Tourism

64. The HKTB will develop brand new seasonal, festival and event experiences of varying themes featuring Chinese and Western arts, popular cultures, wine-and-dine, outskirt explorations, active sports and more to cater to the interests of wide-ranging visitor segments. The HKTB will also encourage the industry to launch a more diversified portfolio of tourism products.

65. We will continue to enhance local group-tour activities. The Tourism Commission will, over the next few years, continue to organise well-received signature creative arts and cultural tourism projects. That includes the Sai Kung Hoi Arts Festival, which features an integration of arts with the island, allowing visitors to experience its natural landscape, history, culture and heritage. Another example is the Design District Hong Kong (#ddHK), which takes visitors on a journey to discover the local culture and characteristics of Hong Kong.

66. In addition, the HKTB will promote immersive, in-depth tourism with themes like "Citywalk", and promote young-adult focused activities such as hiking, cycling, stand-up paddle-boarding, trail running and stargazing in the wilderness. It's all part of an energising effort to soft-sell Hong Kong.

67. Our Temple Street Night Market promotion, last December, successfully drew tourists and locals alike to this street of distinctive character. The HKTB will offer more diversified activities and promotion to boost the flow of people in the district and create more business opportunities for its merchants.

Enhance Publicity and Promotional Efforts

68. The HKTB will launch a new Hong Kong tourism brand, and continue to target source markets and collaborate with GBA cities to jointly promote multi-destination tourism.

69. Sincerity and hospitality will make Hong Kong even more popular. The HKTB will enhance the Quality Tourism Services Scheme and launch a new round of publicity activities, including reality shows and the commendation of outstanding frontline staff in the service industry. We want to promote Hong Kong as a hospitable, people-focused city in collaboration with various sectors.

70. We will make every effort to promote mega-events and design in-depth thematic tours, enrich tourism resources and provide more novel products and experiences to cater to visitors of all types and sources. This will help stimulate retail, consumption, catering and transportation demand throughout Hong Kong.

71. We will allocate additional funding, totalling $1,095 million, to support the Tourism Commission and the HKTB in organising these and other Hong Kong events and activities.

Supporting People and Enterprises

72. Having regard to the economic pressure faced by some industries and the people, and the Government's financial position this year, we will introduce the following measures:

(a) provide rates concession for domestic properties for the first quarter of 2024/25, subject to a ceiling of $1,000 for each rateable property. This measure is estimated to involve 3.08 million domestic properties and reduce government revenue by $2.6 billion;

(b) provide rates concession for non-domestic properties for the first quarter of 2024/25, subject to a ceiling of $1,000 for each rateable property. This measure is estimated to involve 430 000 non-domestic properties and reduce government revenue by $370 million;

(c) reduce salaries tax and tax under personal assessment for the year of assessment 2023/24 by 100 per cent, subject to a ceiling of $3,000. The reduction will be reflected in the final tax payable for the year of assessment 2023/24. This measure will benefit 2.06 million taxpayers and reduce government revenue by $5.1 billion;

(d) reduce profits tax for the year of assessment 2023/24 by 100 per cent, subject to a ceiling of $3,000. The reduction will be reflected in the final tax payable for the year of assessment 2023/24. This measure will benefit 160 000 businesses and reduce government revenue by $430 million; and

(e) provide an allowance to eligible social security recipients, equal to one half of a month of the standard rate Comprehensive Social Security Assistance (CSSA) payments, Old Age Allowance, Old Age Living Allowance or Disability Allowance, while similar arrangements will apply to recipients of the Working Family Allowance, altogether involving an additional expenditure of about $3 billion.

Accelerating the Promotion of High-quality Development

73. The promotion of high-quality development inspires continuing economic innovation and growth while conserving the natural environment, making life better for people. Green future and digitalisation are two of its overarching themes.

74. We have to make better use of Hong Kong's distinctive advantages of enjoying our nation's strong support and being closely connected to the world under "One Country, Two Systems". In pursuing high-quality development, we will open up new opportunities and bring more room for growth.

Moving towards a Green Future

75. "Green development is a defining feature of high-quality development". As global economies pursue carbon neutrality, green transformation creates huge business opportunities and financing needs, leading to industry clusters of great diversity. Sustainable fuels, energy saving, emission reduction and carbon-capture technologies continue to emerge.

Green Finance

76. Being an international financial centre, Hong Kong is also rising as an international green finance centre.

77. The Government is hosting "Hong Kong Green Week" this week, comprising events covering technology, finance and other fields. It has brought together industry leaders from the Asia-Pacific region to examine issues such as green development and climate finance. This autumn, the HKMA will co-host a Joint Climate Finance Conference in Hong Kong with the Dubai Financial Services Authority. The Conference will explore transition financing opportunities and challenges for the Middle East and Asia.

Extend the Green and Sustainable Finance Grant Scheme

78. The Government has so far provided subsidies to eligible bond issuers and loan borrowers for the issuance of more than 340 green and sustainable debt instruments in Hong Kong through the Green and Sustainable Finance Grant Scheme which totalled US$100 billion, enriching our green and sustainable finance ecosystem. We propose to extend the scheme, which is due to expire in mid-2024, to 2027, and expand the scope of subsidies to cover transition bonds and loans. This will encourage related industries in the region to make use of Hong Kong's transition financing platform as they move towards decarbonisation.

Formulate Sustainability Disclosure Standards

79. Accurate information is essential to the promotion of sustainable financing. It is also the priority of international organisations and government agencies in the next few years. To deepen Hong Kong's green and sustainable finance development, enterprises must align their practices in sustainability disclosure with international standards. Financial Services and the Treasury Bureau and the SFC will formulate a roadmap and vision statement to assist companies and financial institutions in sustainability reporting and the analysis of relevant data, elucidating our vision of promoting green and sustainable finance.

Green Technology

80. Hong Kong also possesses advantages in green technology. More than 200 green-technology companies work out of Hong Kong, with some equipped with globally competitive technologies and have successfully tapped into Mainland and overseas markets. And the Greater Bay Area cities, apart from their market scale, enjoy strong capabilities in research, advanced manufacturing and commercialisation. Together, we have what it takes to become Asia's leading green technology hub.

81. The Government's Green Tech Fund funds research and development (R&D) projects which help Hong Kong decarbonise and enhance environmental protection, and encourages their subsequent practical applications. With $400 million injected into the Fund, thirty projects from local universities, public research institutes and enterprises have been approved, involving a total grant of about $130 million for subsidising local research projects

82. We will launch the Green and Sustainable Fintech Proof-of-Concept Subsidy Scheme in the first half of this year. It will provide early-stage funding support for green fintech, facilitating commercialisation and fostering the development of new green fintech initiatives.

Green Shipping

83. Given maritime industry's vast market potential for green transformation, the Marine Department is planning to provide incentives for Hong Kong-registered ships that have attained high ratings under the international standards on decarbonisation formulated by the International Maritime Organization. This will involve about $65 million in funding. And the Transport and Logistics Bureau (TLB), in collaboration with the Environment and Ecology Bureau (EEB) and other relevant departments, is conducting a feasibility study to provide green-methanol bunkering for local and ocean-going vessels. We expect to publish an action plan for Hong Kong's development into a green maritime fuel-bunkering centre this year.

Green Aviation

84. We are committed to developing Hong Kong International Airport (HKIA) into a green airport. The Airport Authority Hong Kong (AA) is working in collaboration with relevant government departments to simplify approval procedures for the transportation and storage of Sustainable Aviation Fuel (SAF), so as to encourage more airlines to use SAF in Hong Kong. In addition, the AA has begun a consultancy study on SAF development trends worldwide, which will also put forward recommendations on policy measures and infrastructure etc. The consultancy study is expected to be completed in the third quarter this year.

Green City

Launch a Pilot Scheme on Building-Integrated Photovoltaics

85. The Government has taken the lead in applying renewable energy (RE) in government buildings and facilities. We will launch a pilot scheme at the Electrical and Mechanical Services Department Headquarters to explore photovoltaic technology applications on the facades of government buildings. We will also support public and private organisations to use RE to help Hong Kong realise carbon neutrality.

New Energy Vehicles

86. Through its New Energy Transport Fund, the Government has been promoting trials of various new-energy public transport, including new-energy buses, while encouraging the industry to conduct trials on a variety of new-energy commercial transport, including electric-goods vehicles and electric coaches.

87. The Government has been encouraging a wider use of electric vehicles. The first registration tax (FRT) concessions for electric vehicles, due to terminate at the end of March, will be extended for two years. Nevertheless, given the price reduction of electric vehicles and increasing availability of vehicle options, we will reduce the concessions by 40 per cent. Specifically, the maximum FRT concession for electric private cars (e-PCs), granted under the "One-for-One Replacement" Scheme, will be adjusted to $172,500, whereas the concession ceiling for general e-PCs will be lowered to $58,500. At the same time, e-PCs valued at over $500,000 before tax will not be entitled to concessions under the "affordable users pay" principle. As for other types of electric vehicles, including electric commercial vehicles, electric motorcycles and electric motor tricycles, the FRT will continue to be waived in full over the next two years. The EEB will announce details in due course.

Sustainable Development of Agriculture and Fisheries Industries

88. The EEB promulgated its Blueprint for the Sustainable Development of Agriculture and Fisheries in December last year. For agriculture, we expect to enable the establishment of a modernised Techno-Agricultural Park of approximately 11 hectares as part of the Agricultural Park's Phase 2 this year. It will help accelerate the modernisation of agriculture through public-private partnership. We will launch a pilot project on modern urban farming in Ma On Shan this year. As for fisheries, four new fish culture zones, with a total area of up to 590 hectares, will begin operation in phases starting this year. Local mariculture production is expected to increase considerably

Digital Economy

89. Digital economy has become a new driving force for economic development. As a new key production factor, data links different industries and sectors, empowering enterprises to enhance efficiency, boost their competitiveness and create fresh business opportunities.

90. The Digital Economy Development Committee (DEDC), chaired by me, has undertaken in-depth studies on promoting the development of digital economy over the past two years. The DEDC's report covers recommendations on many areas, including promotion of digital policies, initiatives for enhancing digital infrastructure, facilitation of the safe and orderly flow and usage of data, acceleration of enterprise digital transformation and talent development. Some of these recommendations have been implemented, including making preparations for the establishment of the Digital Policy Office.

Build a Data Trading Ecosystem

91. As transformation of global digitalisation accelerates, the presence of a highly efficient data ecosystem has become one of the considerations for many enterprises to establish a foothold in Hong Kong. Building a mechanism that facilitates data trading is particularly important in the data ecosystem. Hong Kong is underpinned by its distinctive advantages under "One Country, Two Systems" and endowed with the characteristics of an international city. From supply and demand of data to application scenarios, we are equipped with a robust foundation and possess an abundance of favourable conditions for developing international data trading.

92. We have commissioned an expert group to undertake an in-depth study on how to develop a robust data trading ecosystem in Hong Kong, the scope of which includes Hong Kong's role as a "super connector" in data trading as well as promoting the formulation of international data trading rules. The aim is to enable us to unleash the potential of data elements and facilitate its development into a new industry with an enormous growth momentum, hence empowering the upgrading and transformation of traditional industries.

Digital Finance

93. Digital technology has turned new financial business models into reality. Digital finance, through integrating data and technological innovations in different use case scenarios, can complement traditional financial services in enabling wider service access and enhancing the inclusiveness of financial services.

94. The HKMA completed Phase 1 of the e-HKD Pilot Programme last October, and has studied domestic retail use cases in various areas such as programmable payments, offline payments and tokenised deposits. Phase 2 of the pilot programme will soon commence to further explore new use cases. Project mBridge, another important initiative, has also achieved good progress. Phase 1 of its service, which is expected to be launched this year, will become one of the first projects around the world to settle cross-boundary transactions for corporates using central bank digital currencies.

95. In addition, we will expand the scope of e-CNY pilot testing in Hong Kong. Members of the public may set up e-CNY wallets easily for use and for topping up funds by the Faster Payment System, thereby further enhancing the efficiency and user experience of cross-boundary payment services.

<u>Promote Cross-Boundary Data Flow</u>

96. The ITIB and the Cyberspace Administration of China launched an early and pilot implementation arrangement for the "Standard Contract for the Cross-boundary Flow of Personal Information Within the Guangdong-Hong Kong-Macao Greater Bay Area (Mainland, Hong Kong)" last December. During the first phase of implementation, we have invited the banking, credit referencing and healthcare sectors to participate, and their responses have been very positive. Having regard to outcomes of the pilot implementation in the first phase, we will gradually extend the coverage of the facilitation measures so that various business sectors of both places may leverage cross-boundary data with a smoother flow, thereby providing more cross-boundary services for the convenience of the public and enterprises.

Cross-boundary Public Services

97. To further facilitate access to the public services of Guangdong and Hong Kong by residents and enterprises in Hong Kong and the GBA, we collaborated with Guangdong Province to launch the Cross-boundary Public Services thematic website. We also connected iAM Smart with the Unified Identity Authentication Platform of Guangdong Province in November last year. Having set up iAM Smart registration service counters in Guangzhou as well as in Qianhai and Futian in Shenzhen, we have also introduced the first self-service kiosk for Hong Kong's Cross-boundary Public Services in Guangzhou. This will facilitate Hong Kong residents and enterprises in the GBA cities to access the Cross-boundary Public Services and register for iAM Smart.

Web3.0

98. In last year's Budget, I proposed to expedite development of the Web3.0 ecosystem. We have made good progress over the past year.

99. At present, there are over 220 enterprises specialising in related technologies in Cyberport, including three unicorns. Last year, Cyberport organised a number of promotional and educational activities, attracting more than 29 000 participants. It also rolled out a subsidy scheme to encourage enterprises to conduct proof-of-concept testing, with a view to accelerating market application of the relevant technologies.

100. Having successfully issued the first batch of inaugural tokenised green bonds in February 2023, we issued the second batch of tokenised green bonds in early February this year, worth a total of $6 billion and denominated in Hong Kong dollar, Renminbi (RMB), US dollar and Euro. This is the world's first-ever multi-currency tokenised bond issuance, and has attracted overwhelming subscription by global institutional investors, including asset managers, insurance companies, private banks and non-financial corporates. Apart from the many technological innovations, we have also achieved breakthroughs in this issuance in areas such as broadening investor participation and streamlining the issuance process.

101. In keeping abreast of the latest international trends and market development, we consulted the public on a legislative proposal to develop a regulatory regime for stablecoin issuers in end-2023, with the aim of putting in place a regulatory regime that safeguards financial stability without compromising innovation. The HKMA will soon roll out a "sandbox" for entities interested in issuing stablecoins to conduct trials, under manageable conditions, on the issuance process, business models, investor protection and risk management system. The "sandbox" will also facilitate communication on future regulatory requirements.

102. Cybersecurity alongside investor and customer protection are matters of utmost importance in Web3.0 development. Embracing the principle of "same activity, same risks, same regulation", the SFC has implemented a licensing regime for virtual asset (VA) trading platforms since last June. This regime enables investors to conduct trading on licensed trading platforms in compliance with the relevant international standards and in a protected environment, thereby enabling Hong Kong to surpass many major jurisdictions in the regulation of VA trading. To strengthen investor and customer protection, we have launched a consultation on the regulation of over-the-counter trading of VA. We will continue to promote the development of Hong Kong's VA market in a stable and responsible manner through a multi-pronged approach, which includes timely dissemination of information, holistic public education and enhanced enforcement.

Launch the Business Version of "iAM Smart"

103. The Government will set up a "digital identity of enterprises" platform, i.e. the business version of "iAM Smart", to enable authentication of identity and verification of signature of enterprises using electronic government services or conducting online business transactions in a secure, convenient and efficient manner without having to go through complicated procedures, thus saving time and reducing the risk of human error. The expenditure involved is estimated to be about $300 million and our goal is to roll out the platform progressively from end-2026 onwards.

Promote Digital Inclusion

104. Moreover, we strive to reduce digital exclusion and promote the wider use of information technology by various community groups, including elderly persons. The Government will allocate $100 million under the Social Innovation and Entrepreneurship Development Fund to provide, in the next three years, elderly people aged 60 or above with digital training courses and technical support, so that they can integrate into the digital era more easily and enjoy the benefits that digital technology brings. The first group of projects is expected to commence in the fourth quarter of 2024 at the earliest and benefit at least 50 000 elderly persons.

International Innovation and Technology Centre

105. I&T is a key engine driving our economy and society towards high-quality development. The Hong Kong Innovation and Technology Development Blueprint, promulgated in 2022, formulates strategic plans and clear roadmaps for Hong Kong's I&T development over the next five to ten years, leading Hong Kong steadily towards its vision of becoming an international I&T centre.

106. The Government has committed substantial resources to building a vibrant I&T ecosystem by focusing on enhancing I&T infrastructure, research capacity, talent, etc. The Hong Kong Science Park and Cyberport are I&T flagships and incubators for the city. As at end-2023, the number of tenants of these two flagships, together with past and current incubatees, amounted to some 4 500, an increase of more than 60 per cent over the past five years. Among them, 16 have been listed, nine have become unicorns, and a total of some $130 billion has been raised while more than 1 700 local and non-local awards have been won.

Artificial Intelligence

107. Artificial Intelligence (AI), as an important driver of a new round of technological and industrial transformation, is also the key to propelling the development of digital economy in Hong Kong.

108. Cyberport is expediting the establishment of an AI Supercomputing Centre to meet the demand of research institutes and the industry for computing power. The first phase facility is expected to start operating within this year at the earliest. By early 2026 at the soonest, the computing power of the supercomputing facility is expected to reach 3 000 petaFLOPS. The scale of such power is equivalent to the capacity of processing nearly 10 billion images in one hour.

109. We will allocate $3 billion to Cyberport for the launch of a three-year AI Subsidy Scheme to support local universities, research institutes and enterprises to leverage the Centre's computing power and achieve scientific breakthroughs. The subsidy will also be used to strengthen the cyber security and data protection of the Centre, and launch promotional and educational activities, etc. to encourage Mainland and overseas AI experts, enterprises and R&D projects to come to Hong Kong.

R&D of Microelectronics

110. With an increasing demand for semiconductors worldwide, the scale of related industries is expected to grow continuously and exceed US$1 trillion by 2030.

111. To capture a market with such huge potential, and dovetail with the national strategy for technological development, the Government is fostering R&D of microelectronics. We will establish the Hong Kong Microelectronics Research and Development Institute (HKMSRDI) this year. It will spearhead and facilitate research collaboration on the third-generation semiconductors among universities, R&D centres and the industry, and to realise R&D outcomes by making use of the comprehensive manufacturing industry chain in the Greater Bay Area (GBA).

Life and Health Technology

112. With solid basic research capabilities in life and health technology, Hong Kong is home to world-class experts, top-notch medical schools, R&D centres and laboratories. We are well-equipped to develop into an international life and health technology centre.

Set up Life and Health Technology Research Institutes

113. In the previous Budget, I earmarked $10 billion to promote the development of life and health technology. Of this, $6 billion will be used to provide subsidies for local universities to collaborate with Mainland and overseas organisations to set up life and health technology research institutes. The purpose is to facilitate relevant R&D activities and transformation of R&D outcomes, and to attract leading I&T talent and research teams around the world to Hong Kong.

Strengthen Clinical Trial Platform

114. The Government will set up the Greater Bay Area International Clinical Trial Institute in the Hetao Shenzhen-Hong Kong Science and Technology Innovation Co-operation Zone this year. It will provide one-stop support to attract more local, Mainland and overseas pharmaceutical and medical device enterprises to conduct clinical trials in Hong Kong. We will also actively seek support from the National Medical Products Administration for record filing, so that such data can be used by these enterprises when applying for marketing authorisation of their products in the Mainland.

Establish "Primary Evaluation"

115. The new mechanism for registering New Drugs ("1+" mechanism) came into effect on 1 November 2023. This allows for new drugs for life threatening or severely debilitating diseases to be registered in Hong Kong with the submission of only one certificate of pharmaceutical product issued by reference drug regulatory authorities, subject to the fulfilment of specific requirements. The Department of Health has approved two new drugs for registration under this mechanism, bringing new hope of treatment to patients.

116. The "1+" mechanism is an important step in progressing towards a "primary evaluation" approach. This approach enables us to directly approve applications for registration of drugs and medical devices locally based on clinical data, without relying on other drug regulatory authorities.

117. The Government is committed to establishing the Hong Kong Centre for Medical Products Regulation (CMPR). The preparatory office will be set up in the first half of this year to study the restructuring and strengthening of the current regulatory and approval regimes for drugs, medical devices and medical technologies. The objective is to establish a standalone statutory body that is internationally recognised, so as to accelerate clinical application of new drugs and medical devices. It will also drive the development of emerging industries engaging in the R&D and testing of drugs and medical devices.

New Industrialisation Development

118. Driven by information, new industrialisation leverages advanced technologies such as AI, data analytics and new materials to support enterprises in moving towards smart production and develop emerging industries with high value-adding potential and economic efficiency.

119. We will launch a $10 billion New Industrialisation Acceleration Scheme (NIAS) this year. Enterprises engaging in life and health technology, AI and data science, advanced manufacturing and new energy technology will each be provided with funding support of up to $200 million on a matching basis of one (Government): two (enterprise). Applicant enterprises shall invest no less than $200 million in Hong Kong.

120. Apart from the above funding support on a matching basis, enterprises participating in the NIAS may receive subsidies to engage research talent under the Research Talent Hub. They may also, on a pilot basis, engage a small number of non-local technical personnel under the Technology Talent Admission Scheme to expedite the set-up and operation of advanced manufacturing facilities in Hong Kong.

121. It is anticipated that the NIAS will attract 50 to 100 enterprises engaging in relevant industries to invest no less than $20 billion in Hong Kong.

Hong Kong Shenzhen Innovation and Technology Park

122. Hong Kong-Shenzhen Innovation and Technology Park (HSITP) in the Lok Ma Chau Loop (the Loop) enables Hong Kong to play an active part in GBA development, better integrate into overall national development and forge closer connections overseas. While the first batch of buildings in the HSITP will commence operation progressively by the end of this year, various tasks such as attracting enterprises, investment and talent are underway. We will continue to support the development of the HSITP, and are drafting the White Paper on the Development of the HSITP in the Loop targeting to be announced this year.

InnoLife Healthtech Hub

123. We will set up the InnoLife Healthtech Hub in the HSITP to attract top-notch research teams and talent from around the world, with a focus on life and health disciplines, to conduct research. This will be conducive to the development of international I&T centre in the Loop and the GBA. We will allocate $2 billion from the $10 billion earmarked to support the InnoHK research clusters to establish presence in the Loop. We will also allocate $200 million to provide assistance to start-ups engaging in life and health technology in the form of incubation and acceleration programmes, etc.

Nurturing Start-ups

124. In the Global Startup Ecosystem Report 2023, Hong Kong ranked second in the world and first in Asia in the Emerging Startup Ecosystems category. The number of start-ups rose to nearly 4 300 last year, about a fourfold increase compared to 2014. Over the same period, the number of people employed by related start-ups increased by about seven times to over 16 000.

125. Since its inception, the Corporate Venture Fund under the Hong Kong Science and Technology Parks Corporation (HKSTPC) has invested a total of nearly $400 million in 31 start-ups and attracted private investment of about $12.6 billion. The HKSTPC will soon launch the Co-acceleration Programme to pool the efforts of the I&T industry and provide value-added support services to I&T start-ups with high potential and to nurture them as regional or global enterprises.

R&D and Transformation in I&T

Frontier Technology Research Infrastructure Support Scheme

126. We will launch a Frontier Technology Research Infrastructure Support Scheme to assist the eight University Grants Committee (UGC)-funded universities, on a matching basis, in procuring facilities and conducting research projects which cover various fields such as AI, quantum information, integrated circuit, clinical medicine and health, and gene and biotechnology. To this end, we will allocate $3 billion from the sum earmarked in the past.

Strengthen Support for Technology Transfer

127. To enable universities to strengthen technology transfer and marketing services, we will provide subsidies of no more than $16 million to the Technology Transfer Office of each of the eight UGC-funded universities from 2024-25 onwards.

Enhancing I&T Infrastructure

128. Batch 1 of Stage 2 of the Science Park Expansion Programme, which will provide a gross floor area (GFA) of about 13 000 square metres mainly for wet laboratories, is expected to be completed in the first quarter of next year. The Cyberport 5 expansion project, which will provide a GFA of about 66 000 square metres for co-working spaces and offices, etc., is expected to be completed by the end of next year at the earliest. Together with the I&T sites in the Loop to be put into use progressively, there will be more room for the local I&T ecosystem to prosper.

International Financial Centre

129. A highly efficient financial market accelerates the development of the real economy by effectively matching capital with the needs of industry. The financial industry is one of the pillars of Hong Kong's economy. Hong Kong as an international financial centre is also our country's international financial centre, having an edge in "quantity" and "quality" that enables various financial areas to thrive.

Offshore Renminbi Business Hub

130. Our country is the world's second-largest economy. The proportion of RMB as a global currency for international trade, investment and financing, cross-border payment and reserves is increasing continuously, as the Mainland develops closer economic ties with other regions. Market demand for RMB is becoming keener than ever.

131. As the world's largest offshore RMB business hub, Hong Kong processes about 75 per cent of global offshore RMB settlement. We also have the world's largest offshore RMB liquidity pool, at over RMB 1 trillion. To capitalise on this enormous opportunity, we will press ahead with the development of an offshore RMB ecosystem to promote the internationalisation of the RMB in a steady and prudent manner.

132. We are taking forward relevant work on various fronts. It includes making continuous efforts to deepen mutual-market access schemes that facilitate RMB cross-boundary investment and two-way fund flows to enhance offshore RMB liquidity. It also includes encouraging financial institutions to provide more offshore RMB products and risk-management tools, and carrying out RMB financing in Hong Kong. We will also develop the Central Moneymarkets Unit (CMU) into Asia's major international central securities depository platform. It will provide better support for RMB businesses such as cross-border clearing, settlement and custodian services etc.

Mutual Market Access

133. Mutual-market access between financial markets in the Mainland and Hong Kong has been expanding in scope and capacity. Bond Connect, the Cross-boundary Wealth Management Connect Scheme, ETFs in Stock Connect and Swap Connect are among the many opportunities that have been implemented, one after another, in recent years. The initiatives provide more asset allocation and risk-management options for Mainland and international investors.

134. This year, HKEX will host the 10th Anniversary of Mutual Access Forum to share our experience with the industry and explore how best to inject new impetus into the regime. We will stage a series of roadshows in the Mainland to promote mutual market access further.

135. We are now in discussion with Mainland authorities over the introduction of block trading, the inclusion of RMB counters under the Southbound Trading of Stock Connect, and the expansion of the mutual-market access regime to cover REITs, bringing in more enterprises and capital to the Hong Kong market.

Asset and Wealth Management Centre

136. Hong Kong is an international asset and wealth management centre, with assets under management amounting to more than HK$30 trillion. It is also Asia's largest hedge-fund centre and the second-largest centre for private equity management after the Mainland. Currently, there are more than 250 open-ended fund companies and 780 limited partnership funds registered in Hong Kong.

137. To drive market development, the Government will extend the Grant Scheme for Open-ended Fund Companies and Real Estate Investment Trusts for three years, and set up a task force to discuss with the industry measures for further developing the asset and wealth management industry.

138. Attracting global family offices and asset owners to Hong Kong will help bring in more capital and drive ancillary economic activities. We have implemented a number of measures, including providing tax concessions for qualifying transactions of family-owned investment holding vehicles managed by single family offices in Hong Kong, and streamlining the suitability assessment when dealing with sophisticated professional investors.

139. The new Capital Investment Entrant Scheme (new CIES) will soon invite applications. Eligible investors who invest HK$27 million or more in qualifying assets and place HK$3 million into a new CIES Investment Portfolio may apply to reside in and pursue development in Hong Kong. The new CIES will help strengthen our advantages in developing the asset and wealth management industry and related professional service sectors in Hong Kong, while supporting the I&T sector's development.

140. We are setting the stage for the second Wealth for Good in Hong Kong Summit in end-March in a bid to showcase Hong Kong's unique advantages to global family offices and asset owners. In addition, we will further enhance the preferential tax regimes for related funds, single family offices and carried interest, including reviewing the scope of the tax concession regimes, increasing the types of qualifying transactions and enhancing flexibility in handling incidental transactions, all to attract more funds and family offices with potential to establish a presence in Hong Kong.

<u>Securities Market</u>

141. We are keen to foster the development of the securities market into one with greater depth, breadth and vibrancy, thereby consolidating and enhancing market competitiveness. I have explained this in detail in paragraphs 45 to 48.

<u>Bond Market</u>

142. As a long-standing leader in bond issuance in Asia, Hong Kong has ranked first in the region for seven consecutive years in terms of the volume of international bond issuance. In the last Budget, I proposed to expand the scope of the Government Green Bond Programme to cover sustainable finance projects and take forward the Infrastructure Bond Scheme to raise capital for infrastructure projects, thereby facilitating the early completion of projects for the good of the economy and people's livelihood. We will set a borrowing ceiling of a total of $500 billion for these two programmes to allow more flexibility in quota re-allocation. The sums borrowed will be credited to the Capital Works Reserve Fund for investment in projects which are conducive to long-term development. These two programmes will gradually replace the existing Government Bond Programme.

143. In 2024-25, we will issue $120 billion worth of bond, of which $70 billion will be retail tranche that includes $50 billion worth of Silver Bond, and $20 billion worth of green bonds and infrastructure bonds to achieve financial inclusiveness and enhance a "sense of participation" in infrastructure and sustainable development among the public.

Deepen Financial Co-operation in the GBA

144. The Cross-boundary Wealth Management Connect (WMC) Scheme in the GBA has seen continuous and steady development. "WMC 2.0" was officially launched earlier this week, introducing such enhancement measures as increasing the individual investor quota to RMB 3 million and lowering the threshold for participating in the Southbound Scheme.

145. To help enterprises secure financing in the GBA more easily, the HKMA and Mainland regulatory authorities will continue to build a collaborative framework on cross-boundary credit referencing. Through such collaboration, the banks of both places, upon consent from corporate customers, will be allowed to access the credit data of relevant corporations, so that credit assessment can be conducted in a more secure and efficient manner.

Specialty Insurance Market

146. As an international risk-management centre, Hong Kong provides diversified risk-management channels, including professional insurance services. We have been making dedicated efforts to invite Mainland and overseas enterprises to establish captive insurers in Hong Kong, enhancing their corporate risk-management capabilities. We are also promoting the development of insurance-linked securities (ILS) by establishing a dedicated regulatory regime and launching a pilot grant scheme. To date, we have facilitated the issuance of four catastrophe bonds in Hong Kong, one of which marked the inaugural listing of its type of ILS. We will continue to attract more issuing institutes to Hong Kong, while nurturing talent and propelling the industry's development.

Create Strong Impetus for Growth in the Financial Services Industry

147. To bolster the competitiveness and advantages of the financial services industry in Hong Kong, the Government will earmark $100 million to promote the sustainable development of financial services. This includes green and sustainable finance, fintech, asset and wealth management, headquarters business, and risk management etc.

International Trade Centre

148. The international trade landscape is in a constant state of flux. In recent times, Hong Kong's total exports have seen their share of the Europe and US markets decline, while our exports to developing countries such as those in ASEAN and the Middle East is on the rise. At the same time, Mainland manufacturing enterprises are increasingly using production capabilities both at home and abroad as multinational supply chains for manufacturing products to be exported to overseas markets. Hong Kong is equipped to seize the opportunities arising from these changes.

Multinational Supply Chain Management

149. In line with the trend of Mainland manufacturing enterprises extending their production supply chains abroad, our goal is to develop Hong Kong into a multinational supply chain management centre. As a premier financial and commercial centre in the region, Hong Kong has the capacity to offer full-fledged and comprehensive professional support services to enterprises to meet their overseas business needs. These services are of utmost importance to enterprises seeking to go global, particularly those with less overseas experience.

150. Consulting services: The Hong Kong Trade Development Council (HKTDC) has been providing various services through different schemes covering business operations, production and supply chain solutions, market information and other consulting services. All this helps to support Mainland enterprises based in Hong Kong to establish a foothold in the Belt and Road (B&R) Initiative countries.

151. Trade financing: Mainland enterprises with operations in Hong Kong can also utilise various services provided by the Hong Kong Export Credit Insurance Corporation, including export credit insurance, surveys on buyers, and sharing of market updates to meet their business operation needs. The Commercial Data Interchange launched earlier by the HKMA and its Project mBridge allow enterprises to apply trade financing and cross-border settlement services at a lower cost and with higher efficiency.

152. Corporate training: Hong Kong's business sector possesses rich knowledge and profound experience in managing multinational supply chains as well as handling compliance, labour protection, environmental protection and other requirements of overseas markets. We will facilitate collaboration between different organisations and industry stakeholders to provide environmental, social and corporate governance (ESG) training etc. to Mainland enterprises seeking to expand their reach to overseas markets. This will help them build goodwill with business partners and expand their markets.

153. In order to enhance our work on this front, Commerce and Economic Development Bureau, in coordination with "Team Hong Kong" organisations, will work together to study relevant details, including the establishment of a trade single window to provide one-stop services for enterprises. Invest Hong Kong will also step up efforts to attract Mainland manufacturing enterprises to set up offices in Hong Kong, to serve as headquarters for managing their offshore trading.

Explore Markets

154. The Government has been expanding Hong Kong's economic and trade network overseas, to help the business sector explore emerging markets.

155. To strengthen our economic and trade relations with the Middle East, the Government is conducting negotiations with Saudi Arabia on an Investment Promotion and Protection Agreement (IPPA) and considering establishing an Economic and Trade Office (ETO) in Riyadh, Saudi Arabia. Two consultant offices will also be set up in Turkey and Egypt this year to bring in foreign capital and enterprises. Meanwhile, Hong Kong has concluded the IPPA negotiations with Bahrain and will soon sign a Comprehensive Double Taxation Agreement with it.

156. ASEAN is another priority strategic partner with whom we seek to enhance our engagement. The Government is considering establishing an ETO in Kuala Lumpur, Malaysia. As for other markets, we are negotiating a Free Trade Agreement with Peru and an IPPA with Bangladesh. Furthermore, the HKTDC will set up two consultant offices along the B&R to enhance trade promotion in emerging countries.

Belt and Road

157. The B&R Initiative promulgated by our country has entered its second golden decade. Hong Kong will continue to give full play to its role as a functional platform for the B&R. To this end, we will actively participate in and contribute to fostering high-quality development, especially in green development as well as innovation and technology.

158. Apart from continuing to host the annual Belt and Road Summit in September, a new Belt and Road Festival will be launched. The festival will promote collaboration with B&R countries in a wide range of areas including trade and investment, technology, arts and culture and talent exchange. Hong Kong will also host the Conference of Belt and Road Initiative Tax Administration Cooperation Forum, which will be attended by representatives of the governments, international organisations, academic institutions and strategic enterprises of B&R regions. It will provide a platform for attendees to establish connections and exchange ideas, thereby promoting tax administration co-operation and capacity building. Besides, more outbound missions will be organised, including visits to the Mainland for enterprises of B&R countries which are operating in Hong Kong to explore business opportunities.

Regional Intellectual Property Trading Centre

159. The effective protection and efficient transaction of IP is important to promote industries such as R&D, cultural and creative industries, design services, and brand licensing industries in Hong Kong. In fact, for the past three years, the Intellectual Property Department (IPD) granted an average of more than 10 000 standard patent registrations each year, which is a clear indication of the enormous potential of the IP trading market in Hong Kong.

160. The Government will introduce into the Legislative Council (LegCo) in the first half of 2024 a proposal to amend the Inland Revenue Ordinance with a view to implementing the "patent box" tax incentive, which will reduce substantially the tax rate for profits derived from qualifying IP to five per cent. This incentive aims to encourage enterprises to devote more resources to R&D and conduct commercialisation transactions making use of patents and other IP protections.

Participate in Dedicated Programme of World Intellectual Property Organisation (WIPO)

161. We are planning for the establishment of a WIPO Technology and Innovation Support Centre (TISC) in Hong Kong to enable our integration into the country's TISC network. The TISC will focus on providing specialised services such as patent search and analysis for the protection of scientific research results and enhanced support to the I&T sector, while promoting IP trading at the same time. The TISC also helps nurture local I&T talent well versed in patent knowledge. In this regard, I have set aside $45 million to support the Hong Kong Productivity Council in establishing and operating the TISC. It is anticipated that the TISC will commence operation by 2025 the earliest.

International Maritime Centre

162. Currently, around 90 per cent of the world's merchandise goods are transported by sea. With its advantageous geographical location, unique institutional strengths and extensive experience and network in international trade and commerce, Hong Kong enjoys a prime position in the shipping market. Supported by the National 14th Five-Year Plan and the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area, the Government promulgated the Action Plan on Maritime and Port Development Strategy (Action Plan) in December last year. The Action Plan formulates 10 strategies and 32 action measures to support the sustainable development of Hong Kong's maritime and port industry, with a view to enhancing the long-term competitiveness of the industry. It also consolidates and strengthens Hong Kong's position as an international maritime centre.

Develop High Value-Added Maritime Services

163. One of the directions set out in the Action Plan is to develop high value-added maritime services. Over the past few years, the Government has introduced a series of tax concession measures for the maritime industry in the areas of ship leasing, marine insurance, ship agency, ship management, shipbroking and so forth, which have begun to yield results. We will commence studies on further enhancements within this year.

164. In addition, Hong Kong's ship registration regime is widely recognised internationally. Hong Kong ranks fourth in the world in terms of gross tonnage, and excels in its high quality fleet. The port state control detention rate of Hong Kong registered ships is much lower than the global average. We plan to offer block registration incentive to attract shipowners to register ships in Hong Kong extensively. The Government will amend the relevant regulations regarding this incentive starting this year, and provide an outline of the incentive rules, eligibility criteria and so forth.

Modern Logistics Development

165. The Government seeks to assist the logistics industry in better capitalising on the latest developments and business opportunities in smart logistics and e-commerce. To encourage the logistics industry to enhance productivity through technology application, the Government launched a $300 million Pilot Subsidy Scheme for Third-party Logistics Service Providers in 2020 to provide subsidies to eligible logistics service providers. So far, the scheme has benefited over 190 enterprises, involving a total of about $137 million. The scheme was enhanced in February this year, with the funding ceiling for each applicant enterprise increased from $1 million to $2 million and the scope of funding extended to cover services related to the application of ESG technology solutions.

International Aviation Hub

166. Hong Kong International Airport (HKIA) has about 120 airlines operating flights to some 180 destinations worldwide. With Hong Kong's role as an international aviation hub and tapping into the convenience and opportunities brought about by the Hong Kong Zhuhai Macao Bridge, our vision is to transform HKIA into an Airport City integrating commerce, conventions and exhibitions, tourism, lifestyle, logistics and more, shaping it into a world-class landmark.

Open up a New Aviation Hinterland

167. The AA is working full steam ahead with the HKIA three-runway system (3RS) project as scheduled, with the target of commissioning at the end of this year. Leveraging the opportunities brought by the 3RS and our country's support of the "Air Silk Road," we will focus on current major routes and routes along the B&R with potential, thus strengthening aviation services between Hong Kong and related countries and, in doing so, expand our aviation network.

Intermodal Transport

168. The AA will make comprehensive use of HKIA's advantages in handling high-value, temperature-controlled air cargo. We are taking forward the development of a sea-air intermodal cargo-transhipment mode in collaboration with Dongguan. Its handling capacity will gradually reach one million tonnes per annum, better fulfilling the GBA's international cargo demand, with first-phase construction of the permanent facility of the HKIA Logistics Park, which is scheduled for completion by the end of next year.

Asia's Aviation Logistics Base

169. The AA will actively expand air cargo services, including handling cold-chain cargo at its logistics park in Dongguan and collaborating with Zhuhai to develop its international cargo business. It will also attract international cargo forwarders and major global retailers to set up their Asian aviation logistics base in Hong Kong.

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

170. As the only common law jurisdiction in China, Hong Kong enjoys a robust legal system and a pool of elite legal talent, which are cornerstones of Hong Kong's premier business environment and provide us with new opportunities for development.

171. With the staunch support from the Central Government, the International Organization for Mediation (IOMed), upon establishment, will have its headquarters hosted in Hong Kong. IOMed, specialising in resolving international disputes by means of mediation, will be the first international inter-governmental organisation to set up headquarters in Hong Kong. This will attract dispute parties, mediators and legal professionals to conduct mediation in Hong Kong, which will in turn boost other related economic activities.

172. Furthermore, the Department of Justice (DoJ) will continue to promote Hong Kong's legal and dispute resolution services by organising international conferences and exchange activities, as well as leading delegations of legal professionals to visit the Mainland, the Middle East, ASEAN member states, etc.

East-meets-West Centre for International Cultural Exchange

173. Hong Kong is a diverse and open community. It is a melting pot of Chinese and Western cultures, where modernity blends with tradition. The Government is committed to developing high-quality arts, cultural and creative industries through continuously developing relevant sectors, promoting Chinese culture and fostering arts and cultural exchanges between China and the rest of the world. The Government will soon promulgate the Blueprint for Arts and Culture and Creative Industries Development, to outline the vision and specific initiatives for the work.

Creative Arts Branding

174. The Government will inject about $1.4 billion and $2.9 billion into the Film Development Fund and the CreateSmart Initiative respectively in 2024/25, to support projects in various areas such as film, arts and design. Among them, the Government will organise the Hong Kong Fashion Design Week annually from 2024 onwards. It is our vision to turn the Hong Kong Fashion Design Week into an Asian fashion design mega event, thereby introducing Hong Kong's fashion design brands internationally.

Signature Performing Arts Programmes

175. The Government has announced the launch of the Signature Performing Arts Programme Scheme. The scheme will support production of representative and large-scale local signature performing arts programmes to be staged as long-running performances and become another cultural icon of Hong Kong. Culture, Sports and Tourism Bureau will devise the key arrangements of the Signature Performing Arts Programme Scheme in the first half of 2024.

Large-scale Arts Events

176. We will organise the first Hong Kong Performing Arts Expo (HKPAX) in October this year to provide a comprehensive platform for showcasing top-notch performing arts productions and enhancing exchanges to create business opportunities for these programmes and creative talents. We will also organise the 4th Guangdong-Hong Kong-Macao Greater Bay Area Culture and Arts Festival. With more than 100 arts and cultural activities taking place in Hong Kong and different cities of the GBA, the festival is expected to feature about 5 000 artists and draw a total of 140 000 visitors.

Nurturing Local Talent

177. "Talent as the prime resource" is the fundamental driving force that underpins the development of our economy and various sectors. While proactively attracting talent from around the world, we must continue our efforts in nurturing local talent. Apart from supporting post-secondary institutions to enhance their quality and expand their capacity, we will continue to take forward a number of sector-specific talent training programmes to enrich the local talent pool.

I&T Talent

178. Apart from supporting various talent training programmes under new industrialisation development, we have also implemented the STEM Internship Scheme to encourage university students to participate in I&T-related work. Besides, to better prepare for integration into the knowledge-based economy and development of a digital society, the Government has launched a "Knowing More About IT" Programme to enhance primary school students' interests in information technology and its applications. In this connection, I propose to allocate an additional funding of $134 million for the provision of subsidies of up to $300,000 for each publicly-funded primary school in the next two academic years.

Healthcare Professionals

179. The Government attaches importance to training local healthcare professionals. The Health Bureau will continue to enhance healthcare-related teaching facilities, while increasing the number of local training places as appropriate. Since last April, we have also started to subsidise the relevant institutions in respect of the clinical practicum training fees for their specified healthcare-related programmes. On another front, since the announcement of an additional injection of $500 million into the Chinese Medicine Development Fund in last year's Budget, a number of capacity building initiatives for the industry have been taken forward under the fund, such as the Hong Kong Chinese Medicine Talent Short-term Training Programme co-organised with the National Administration of Traditional Chinese Medicine in support of building an excellent pool of Chinese medicine (CM) talent.

Maritime and Aviation Talent

180. The Government introduced the Professional Training on Smart and Green Logistics Scheme and the Logistics Promotion Funding Scheme under the Maritime and Aviation Training Fund (MATF) in January this year. These schemes aim to enhance promotion and talent development in the logistics sector in line with new developments in smart and green logistics. We also launched the Aviation Promotion Project Funding Scheme to fund activities organised by local aviation-related organisations and academic institutions, while promoting to different sectors of the community the development of our aviation industry and the opportunities available. The TLB will conduct a comprehensive review of the MATF this year, to gauge its effectiveness in attracting talent and promoting manpower development in the maritime and aviation sectors.

Patent Talent

181. The Government will allocate an additional funding of about $12 million in total to the IPD over the next three years, to prepare for the introduction of regulatory arrangements for local patent agent services. Our aim is to enhance the professionalism and support the development of the original grant patent system. The Government will also continue to strengthen and enlarge its patent examiner team and enhance its substantive examination capability, with a view to acquiring institutional autonomy in conducting substantive patent examination in 2030.

International Legal Talent

182. In order to nurture legal talent with an international perspective and good knowledge of different legal systems, the DoJ will set up a dedicated office and an expert group this year to take forward the establishment of the Hong Kong International Legal Talents Training Academy.

Land and Housing Supply

Land Supply

183. The 2024-25 Land Sale Programme will cover a total of eight residential sites. There will also be railway property developments, private development and redevelopment projects as well as projects undertaken by the Urban Renewal Authority. Taken together, the potential land supply for the whole year is expected to have a capacity for providing about 15 000 units, exceeding the annual demand of 13 200 units projected in the Long Term Housing Strategy by about 14 per cent. The Land Sale Programme will also include two commercial sites and one industrial site, capable of providing about 120 000 square metres of commercial floor area and 540 000 square metres of industrial floor area respectively. We will take into account the market situation when deciding on the quantity and types of land to be put up for sale as well as the pace of sale.

184. We will make available land for the production of no less than 80 000 private housing units in the coming five years. Such land will be put to the market in a timely manner. Among them, about 60 per cent comes from New Development Areas/New Town Extensions, with another 40 per cent from government land sale and railway property development projects in other districts.

Housing Supply

185. On public housing supply, the Government has identified sufficient land for meeting the supply target of 308 000 public housing units over the next ten years (from 2024-25 to 2033-34). Among which, as at the end of last year, construction of about 105 000 units under the Hong Kong Housing Authority has commenced with satisfactory progress. In view of the fact that the Cash Allowance Trial Scheme is due to expire by mid-2024, the Government has decided to extend the scheme for one year until June 2025, to help grassroots families on the waiting list for public rental housing. The scheme will be subject to further review in due course.

186. On private housing supply, we estimate that the completion of private residential units will average over 19 000 units annually in the five years from 2024, representing an increase of about 15 per cent over the annual average of the past five years. The potential supply of first hand private residential units for the next three to four years will be around 109 000 units.

Transport Infrastructure

187. It is the Government's vision to build a liveable, competitive and sustainable Hong Kong by adopting the planning principles of "infrastructure led" and "capacity creating". We are taking forward in an orderly manner the railway and major road projects set out in the Hong Kong Major Transport Infrastructure Development Blueprint, to bolster connectivity between districts and unleash their development potential. At the same time, the Government plans to put in place smart and green mass transit systems in East Kowloon, Kai Tak and Hung Shui Kiu/Ha Tsuen. We will invite within the year the relevant suppliers and operators to submit expressions of interest.

188. To further promote the connectivity of infrastructure within the GBA, the Government will continue to work with the Shenzhen authorities through the Task Force for Hong Kong-Shenzhen Co-operation on Cross-Boundary Railway Infrastructure. We will take forward two cross-boundary projects, namely the Hong Kong-Shenzhen Western Rail Link (Hung Shui Kiu – Qianhai) and the Northern Link Spur Line, to jointly develop the concept of "GBA on the Rail".

189. Meanwhile, to raise productivity of the construction industry, a cross-departmental steering committee under the DEVB will soon formulate various measures to enhance the application of Modular Integrated Construction (MiC). We will strengthen collaboration with the Guangdong Provincial Government to enhance the manufacturing, import/export facilitation, and exportability of MiC modules, with a view to developing MiC as one of the industries in the GBA that enjoy clear advantages. The Government of the HKSAR will also examine the feasibility of investing in the MiC supply chain. Moreover, the DEVB will set up the Building Testing and Research Institute within this year to promote innovative application in the industry.

Healthcare

190. The Government attaches great importance to the well-being of members of the public, and is committed to maintaining Hong Kong's high-quality healthcare profession and its efficient healthcare system. We devote significant resources to the healthcare portfolio. The 2024-25 estimated recurrent expenditure for healthcare is $109.5 billion, accounting for about 19 per cent of government recurrent expenditure. The Government will continue to pursue transformation with innovation, with a view to protecting the health of all citizens, further developing primary healthcare, enhancing the quality of medical services and promoting the development of the healthcare industry.

191. The Government has been improving public healthcare services and enhancing the patient experience on various fronts with specific performance indicators. These include shortening the waiting time for specialist out-patient services and making wider use of telehealth services. The performance indicators of certain services, including medication delivery and electronic medical certificates, were met early last year.

Development of Chinese Medicine

192. The Government provides resources and implements a variety of measures to promote CM. These include increasing the quota of government-subsidised CM out-patient services, extending integrated Chinese-Western medicine services, promoting scientific research on CM and setting relevant standards. We are pressing ahead with the construction of the Chinese Medicine Hospital and the Government Chinese Medicines Testing Institute. The two institutions are expected to begin service, in phases, starting from end of 2025.

Tobacco Control Policies

193. Increasing the tobacco duty is recognised internationally as the most effective means of reducing tobacco use. The Government now proposes to increase the duty on cigarettes by 80 cents per stick, with immediate effect. Duties on other tobacco products will be increased by the same proportion. The rate of increase is similar to that of last year. We expect that the proportion of tobacco duty in the retail price of cigarettes will rise to about 70 per cent, gradually approaching the 75 per cent level recommended by the World Health Organization. This will provide a greater incentive for the public to quit smoking, safeguarding public health. We will continue to step up enforcement against illicit cigarette trading and strengthen smoking cessation services, publicity and education.

A Caring and Inclusive Community

Youth Development

194. Young people are Hong Kong's future. "Hong Kong will prosper only when its young people thrive." The Government is actively implementing the various actions and measures set out in the Youth Development Blueprint in phases. We will also open up more Mainland and overseas exchange and internship opportunities for young people. Our target is to benefit no less than 30 000 youths this year, enabling young people to learn about our country's major development trends and broaden their global exposure. The Government will also organise the Youth Development Summit in mid this year. Mainland and overseas youth organisations will be invited to exchange views on issues of concern to young people and to engage in mutual learning. It is anticipated that more than 1 000 people will participate in the Summit.

Vocational and Professional Education and Training

195. The Government will continue to foster industry-institution collaboration and diversified development to enhance vocational and professional education and training (VPET). The Government has set aside some $680 million to support the Vocational Training Council's efforts. Initiatives include extending the Pilot Incentive Scheme to Employers and the Pilot Subsidy Scheme for Students of Professional Part-time Programmes for five years, as well as stepping up support for student-exchange activities, strengthening assistance to students with special educational needs and encouraging employers to provide workplace learning opportunities etc.

196. Furthermore, the Government has also set aside a start-up fund of $100 million to support self-financing, post-secondary institutions in forming an Alliance of Universities in Applied Sciences for joint publicity and promotion of VPET, and raise the status of VPET among parents, students and society in general.

Caring for the Elderly

197. The Government has regularised the Community Care Service Voucher (CCSV) Scheme for the Elderly since September 2023, and extended its scope to cover the rental of assistive technology products. The number of CCSVs will increase to 11 000 in 2024-25, involving an annual expenditure of about $900 million. The Government also regularised the Residential Care Service Voucher (RCSV) Scheme for the Elderly since last April. From the second quarter of this year, the number of RCSVs will increase to 5 000 for the early benefit of more eligible elderly persons. The scheme will involve an annual expenditure of about $1,440 million.

Support to Persons with Disabilities

198. The Government is committed to increasing the number of day rehabilitation, residential care and respite service places for persons with disabilities. As at end-2023, the total number of service places had been increased to 36 400. The Government will also allocate funding of about $130 million from the Community Care Fund to implement a three-year pilot scheme starting from the third quarter of 2024 to provide an additional subsidy of $500 per month for employed disabled recipients of CSSA as an incentive for employment. The scheme is expected to benefit some 6 800 persons.

Women's Development

199. The Government attaches great importance to women's development, setting aside $100 million last year to strengthen support for the relevant work. The Women Empowerment Fund, established in June 2023, has so far provided funding support to women's organisations and non-governmental organisations for launching over 140 projects for purposes such as helping women assume different roles in the job market and providing them with training on child and elderly care.

Assist Working Families in Childbearing

200. Starting this year, the Government will set up 10 more aided, standalone child-care centres, in phases. The target is to provide nearly 900 additional places for child day-care services within three years. The Government will also extend the After School Care Programme for Pre-primary Children in phases, starting this year, to cover all districts in Hong Kong. The number of service places will increase to nearly 1 200 within three years.

Revised Estimates for 2023-24

201. Hong Kong's economic growth last year was slower than expected owing to global interest rate hikes, economic slowdown and continued geopolitical tensions. Notwithstanding a reduction in total government expenditure after the pandemic, revenue from land premium and stamp duty has decreased under a softened asset market, resulting in a larger deficit than expected.

202. The 2023-24 revised estimate on government revenue is $554.6 billion, lower than the original estimate by 13.7 per cent or $87.8 billion.

203. Revenue from land premium is $19.4 billion, substantially lower than the original estimate by $65.6 billion and also far lower than the previous year. Revenue from stamp duty of $50 billion is lower than the original estimate by $35 billion. Revenue from profits tax and salaries tax is $171.2 billion and $79.2 billion respectively, comparable to the original estimates.

204. The revised estimate of total government expenditure for 2023-24 is $727.9 billion, decreased by 10.2 per cent compared to the previous year, and is 4.3 per cent or $33.1 billion lower than the original estimate.

205. All in all, it is expected that there will be a consolidated deficit of $101.6 billion for 2023-24. Fiscal reserves are expected to be $733.2 billion by 31 March 2024.

Estimates for 2024-25

206. Looking ahead, the external environment will remain complicated in the coming year. As a small and externally-oriented economy, Hong Kong's economic growth will inevitably be affected. Revenues related to asset market will still require some time to fully recover. On the expenditure side, the Government will continue to provide resources for strengthening momentum on economic growth and enhancing public services.

207. The major policy initiatives announced in the 2023 Policy Address involve revenue of about $14.2 billion, operating expenditure of $13.4 billion and capital expenditure of $25.2 billion. The financial implications of such initiatives have been reflected in the estimates for 2024-25.

208. Total government expenditure for 2024-25 will increase by about 6.7 per cent to $776.9 billion, with its ratio to nominal GDP projected to increase slightly to 24.6 per cent.

209. Recurrent expenditure will increase by seven per cent to $580.2 billion. Of this, substantial resources will still be allocated to livelihood-related policy areas including health, social welfare and education, involving a total of $343.7 billion, representing 59.3 per cent of recurrent expenditure. After the pandemic, non-recurrent expenditure will substantially decrease by 47.7 per cent to $33.6 billion.

210. Total government revenue for 2024-25 is estimated to be $633 billion, while earnings and profits tax are estimated to be $279.6 billion, increasing by 6.8 per cent over the revised estimate for 2023-24. Having regard to the Land Sale Programme and the land supply target of 2024-25, revenue from land premium is estimated to be $33 billion, increasing by 70.1 per cent over the revised estimate for 2023-24. Revenue from stamp duty is estimated to be $71 billion, increasing by 42 per cent over the revised estimate for 2023-24.

211. Taking into account the bond issuance of $120 billion in 2024-25, it is expected that there will be a deficit of $48.1 billion for the year, and fiscal reserves will decrease to $685.1 billion.

212. In 2024-25, the Government will maintain its target of zero growth in the civil service establishment. Departments will enhance their effectiveness and efficiency through reprioritisation, internal redeployment and streamlining of work processes in taking forward different new policies and initiatives of the Government. It is expected that there will be about 194 000 posts in the civil service establishment as at end-March 2025.

Medium Range Forecast

213. We are determined and confident in overcoming the challenges currently facing our public finances. The fundamental principle that we follow is to maintain the sustainability of public finances. We have formulated a fiscal consolidation programme to achieve fiscal balance gradually and maintain fiscal reserves at a prudent level for ensuring the provision of various services to the society and promotion of economic development while also having sufficient buffer to roll out measures for rendering assistance to the public and enterprises at times of adversity or in other emergency situations.

214. The Medium Range Forecast (MRF) projects, mainly from a macro perspective, the revenue and expenditure as well as financial position of the Government. It has fully reflected the impact of the measures under the fiscal consolidation programme. For 2024-25, a real economic growth rate of 2.5 to 3.5 per cent per annum is adopted. From 2025-26 to 2028-29, a real economic growth rate of about 3.2 per cent per annum is adopted.

215. During the above period, the average annual capital works expenditure will be about $90 billion, while recurrent government expenditure will grow at a rate of 4.2 per cent per annum. The ratio of total government expenditure to GDP will gradually fall from about 24.6 per cent for 2024-25 to about 20.6 per cent for 2028-29.

216. Regarding revenue from land premium, the forecast for 2025-26 and onwards is mainly based on the more conservative 20-year average ratio of revenue from land premium to GDP, which is 3.4 per cent of GDP. I also assume that the growth rates of revenue from profits tax and other taxes will correspond to the economic growth rates in the next few years. Overall, the ratio of government revenue to GDP will gradually increase from about 20 per cent for 2024-25 to about 22.6 per cent for 2028-29.

217. In addition, the MRF reflects the proceeds from the annual issuance of government green/sustainable bonds and infrastructure bonds worth approximately $95 billion to $135 billion in total.

218. Based on the above assumptions and arrangements, the deficit in the Operating Account and Capital Account in the next five years will gradually reduce every year. The Operating Account is estimated to record a surplus two years later from 2026-27 onwards, while the Capital Account will record surplus in 2028-29. After taking account of proceeds from the issuance of bonds, the Consolidated Account will only record a deficit in 2024-25 and will turn to a surplus in subsequent years. The above forecast has not taken into account any tax rebates or relief measures that the Government may implement over the coming four years.

219. Fiscal reserves are estimated at $832.2 billion by the end of March 2029, representing 21.2 per cent of GDP, or equivalent to approximately 12 months of government expenditure.

Public Finance

220. As one may recall, the Government launched several rounds of large-scale counter-cyclical and anti-epidemic measures during the pandemic, resulting in a sharp increase of expenditure to a high level of \$810.5 billion in 2022-23. Although we have strived to reduce expenditure as the pandemic subsided, total expenditure for 2023-24 still reached \$727.9 billion, representing an increase of 36.9 per cent compared with 2018-19, of which operating expenditure rose substantially by 40.2 per cent whereas operating revenue during the same period increased only by 13.1 per cent.

221. On capital works, the average annual expenditure has increased from about \$76 billion over the past five years to about \$85 billion in 2023-24. This is mainly due to the Government's all-out effort to press ahead with the land and housing supply projects, along with other infrastructure works for improving the environment and people's livelihood in recent years.

222. In face of challenges posed by the epidemic and external environment, our fiscal reserves have dropped to the current level of \$733.2 billion. On Government's fiscal situation, we should not just focus on the short-term situation, but should look at the fiscal position over the entire economic cycle. The Government will uphold the principle of keeping the expenditure within the limits of revenues as enshrined under Article 107 of the Basic Law, and strive to achieve fiscal balance and avoid deficits, thereby ensuring the resilience and sustainability of our public finances.

Fiscal Consolidation Programme

223. We are taking steps to implement a comprehensive fiscal consolidation programme. After taking account of the need to strengthen momentum on economic growth and the burden of businesses and the public, the programme focuses mainly on expenditure cut with a view to restoring fiscal balance in a few years' time, although some revenue measures have been included in a pragmatic manner.

224. We will address the issue at its root by exercising stronger control over the pace of expenditure growth through re-engineering of business process or re-prioritisation. This notwithstanding, the Government will remain committed to taking care of people's needs by continued allocation of resources for the provision and improvement of public services.

Contain Growth of Operating Expenditure

225. We will strictly contain growth of operating expenditure by introducing the following measures:

(a) continuing to maintain zero growth in the civil service establishment, with the aim of containing the establishment at a level not exceeding that as at end-March 2021; and

(b) implementing the Productivity Enhancement Programme as announced earlier under which recurrent government expenditure will be cut by one per cent for two consecutive years. The resources thus saved will be re-allocated internally for enhancing existing or introducing new public services. To further contain the pace of expenditure growth, on the premise that such schemes as the Comprehensive Social Security Assistance Scheme and the Social Security Allowance Scheme will not be affected, all government departments need to cut recurrent government expenditure by another one per cent in 2026-27.

226. Upon implementation of the measures to contain expenditure growth, we forecast that the growth of operating expenditure will be reduced from the annual average of seven per cent in the past five years to an annual average of 2.2 per cent in the coming five years, which is lower than the 5.5 per cent increase in GDP over the same period.

227. Moreover, I have requested the relevant bureaux to review the mode of operation of the following two transport subsidy schemes that incur higher expenditure with a rapid expenditure growth rate. We have to emphasise that the Government has no intention to cancel these schemes. The review aims to enable the continued provision of subsidies of the schemes in a financially sustainable manner. We anticipate that the above review will be completed within this year:

(a) Government Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities (i.e. "the $2 Scheme"): the annual expenditure of the scheme has increased by over 200% from $1.3 billion in 2019-20 to about $4 billion in 2023-24; and

(b) Public Transport Fare Subsidy Scheme: the annual expenditure of the scheme has doubled from $1.7 billion in 2019-20 to the revised estimate of about $3.5 billion in 2023-24.

228. While we are controlling the growth rate of total expenditure, the amount of resources we allocated to public services has still recorded a significant increase. For example, recurrent expenditures related to health, social welfare and education in 2024-25 amount to $343.7 billion, up by 7.3 per cent over 2023-24 and by about 34.2 per cent over five years ago.

Review and Re-prioritisation of Capital Works

229. Implementation of infrastructure projects is not only an investment for the future, it can also promote Hong Kong's economic development and enhance people's livelihood. In recent years, the Government has made all-out effort to press ahead with the land and housing supply projects, including new development areas and new towns, and also proposed a number of other works projects for improving the environment and people's livelihood, such as Kai Tak Sports Park and Hospital Development Plan etc. It is estimated that expenditure on capital works will start reaching its peak in the next three years.

230. The Government needs to contain its expenditure on infrastructure works at a sustainable level. To this end, relevant bureaux and departments have reviewed the cost-effectiveness of works projects and give due regard to priority and urgency to adjust the implementation schedule. For some works projects which are at a comparatively mature stage of planning, they will continue to be taken forward by the relevant bureaux and departments as planned. They include the site formation and infrastructure works for the Northern Metropolis. As for some works projects that are currently at the preliminary planning or conceptual stage, the implementation schedule will be adjusted in light of their importance, etc.

231. In the MRF, capital works expenditure could be contained at about $90 billion per annum on average. This figure still represents an increase of about 17 per cent over the average annual expenditure of $76 billion in the last five years, which demonstrates the Government's continued allocation of resources for capital works expenditure.

Increase Revenue

232. The key to boosting public revenue lies in sustained high-quality economic development. Only through growing the "economic pie" and enabling the economy to grow in a more robust and diversified manner can we increase our revenue to support the building of social infrastructure and people's livelihood.

233. When considering measures for increasing revenue, we have to take Hong Kong's actual situation into account and avoid taking any hasty actions that may affect local economic recovery and people's livelihood while at the same time maintaining the competitive edge of the simple and low tax regime. Having considered the above factors and based on the "affordable users pay" principle, we will implement adjustments to the following individual tax items.

234. We propose to implement a two-tiered standard rates regime for salaries tax and tax under personal assessment starting from the year of assessment 2024/25. In calculating the amount of tax for taxpayers whose net income exceeds $5 million and whose salaries tax or tax under personal assessment is to be charged at a standard rate, the first $5 million of their net income will continue to be subject to the standard rate of 15 per cent, while the portion of their net income exceeding $5 million will be subject to the standard rate of 16 per cent. It is expected that about 12 000 taxpayers will be affected, accounting for 0.6 per cent of the total number of taxpayers chargeable to salaries tax and tax under personal assessment. The government revenue will increase by about $910 million each year. Even with the two-tiered standard rates regime above in place, the new tax rates will still be lower than those of other advanced economies.

235. The Government will introduce legislative amendments in the first half of this year to implement the progressive rating system for domestic properties, with the aim to bring the system into effect from the fourth quarter of 2024-25 onwards. The new system will only affect domestic properties with rateable value over $550,000, which account for about 1.9 per cent of the relevant properties. It is estimated that the system will contribute to an increase of about $840 million in government revenue annually.

236. The Government will review various fees and charges in a timely manner. Besides adhering to the "user pays" principle, the affordability of the general public and businesses will also be taken into account. Business registration fees will increase by $200 to $2,200 per annum with effect from 1 April 2024. The last adjustment to business registration fees was in 1994. We estimate that government revenue will increase by about $295 million per annum. To relieve the relevant impact, the business registration levy of $150 payable to the Protection of Wages on Insolvency Fund will be waived for two years.

237. We propose to resume the collection of the Hotel Accommodation Tax (HAT) at a rate of three per cent. It is anticipated that government revenue will increase by about $1.1 billion per annum. This will take effect from 1 January 2025 in order to allow the hotel and tourism industries more time for preparation. The HAT to be collected is estimated to only account for less than one per cent of the total spending of overnight visitors in Hong Kong. In the coming year, the Government plans to allocate over $1 billion for upgrading tourism infrastructure and services to attract more high-spending overnight visitors from different visitor source markets to Hong Kong.

Developments in International Taxation

238. We will continue to take forward the implementation of the global minimum tax proposal drawn up by the Organisation for Economic Co-operation and Development to address base erosion and profit shifting. We aim to apply the global minimum tax rate of 15 per cent on large multinational enterprise groups with an annual consolidated group revenue of at least EUR 750 million and impose the Hong Kong minimum top-up tax starting from 2025. We are now conducting consultation on the implementation of the above proposals and expect to submit a legislative proposal to LegCo in the second half of this year. It is estimated that these proposals will bring in tax revenue of about $15 billion for the Government annually starting from 2027-28. Hong Kong maintains an edge over other tax jurisdictions in terms of tax competitiveness after the implementation of the proposals.

Investment Return of the Future Fund

239. As announced in the 2021-22 Budget, the accumulated investment return of the Future Fund would be progressively reflected in the Operating Account. The Government will submit a resolution for passage by LegCo next month to complete the transfer arrangements.

Bond Issuance

240. The issuance of Government bonds is conducive to the development of the bond market and allows the use of the capital raised from the market to drive green/sustainable and infrastructure projects. I emphasise that proceeds from bond issuance will not be used for funding government recurrent expenditure.

241. The Committee on the Financing of Major Development Projects led by me has reviewed how to adopt an orderly and phased approach in developing the Northern Metropolis. We plan to issue bonds of about $95 billion to $135 billion per annum in the next five years to drive the development of the Northern Metropolis and other infrastructure projects. For the Kau Yi Chau Artificial Islands project, we will continue to conduct relevant studies, and in considering its concrete implementation timetable, we will take into account various factors including the public finance position.

242. The Government will continue to adhere strictly to fiscal discipline and keep the government debt at a prudent level. It is expected that the ratio of Government debt to GDP will be in the range of about 9 to 13 per cent from 2024-25 to 2028-29, which is much lower than most of the other advanced economies.

Concluding Remarks

243. Mr President, this year will still be fraught with uncertainties. Investment sentiment and capital flows are under the sway of the complicated and volatile external environment.

244. In the short term, we need to reinforce the momentum of our economic recovery, while in the long run, we have to adjust our economic growth model with enhancements to both "quality" and "quantity". By charting the course of high-quality development, we will drive further innovations, bring in new services and products, stimulate new demand and open up new markets. This is the necessary path to take for the future development of Hong Kong.

245. Just as nature goes through endless evolutions, so economic development has its cycles of ups and downs. New challenges and future uncertainties may be disconcerting. But when we reflect on decades of development in Hong Kong, it is obvious that the path we have trodden, however winding or bumpy, has always led to a better tomorrow.

246. The colour of the cover of this year's Budget symbolises the first glimmer of dawn, for this inspires hope, faith and our longing for greater unity and harmony.

247. We have succeeded in turning challenges into greater opportunities every step of the way. We owe every success to the strong leadership of the Central People's Government, the staunch support from our country, as well as the agility and tenacity of Hong Kong people.

248. Our unique positioning and distinctive functions make us irreplaceable as our country strides towards high-quality development and the building of a great modern nation. And we have been playing an active role in contributing to our country's development. Our country's swift and steady progress, alongside a fast developing Asia, has provided us with infinite opportunities along the way.

249. Hong Kong thrives on its cultural blend of East and West and its connectivity to the world. It is also the only place in the world where the global advantage and the China advantage come together in a single economy. So long as we know where we stand and chart the right direction, we will be able to give full play to our unique strengths. By blazing new trails and firmly pressing ahead, Hong Kong will certainly thrive and prosper, like a dragon soaring far and high in the boundless sky. Thank you, Mr President.

THE 2024-25 BUDGET

Speech by the Financial Secretary, the Hon Paul MP Chan
moving the Second Reading of the Appropriation Bill 2024

Supplement and Appendices

Wednesday, 28 February 2024

SUPPLEMENT

Please visit our website at http://www.budget.gov.hk/2024/eng/speech.html for all documents, appendices and statistics relating to the 2024-25 Budget. The Chinese version can be found at http://www.budget.gov.hk/2024/chi/speech.html.

Contents

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

Property Type	*2024-25* [(2&8)] *No Concession* *Average Rates Payable ($ for the year)*	*No Concession* *Average Rates Payable ($ per month)*	*With Rates Concession* *Average Rates Payable ($ for the year)*	*With Rates Concession* *Average Rates Payable ($ per month)*
Private Domestic Premises[(3)]				
Small	6,648	554	5,688	474
Medium	13,332	1,111	12,348	1,029
Large	29,688	2,474	28,704	2,392
Public Domestic Premises[(4)]	3,168	264	2,436	203
All Domestic Premises[(5)]	**6,504**	**542**	**5,652**	**471**
Shops and Commercial Premises	37,716	3,143	36,804	3,067
Offices	45,996	3,833	45,012	3,751
Industrial Premises[(6)]	18,684	1,557	17,736	1,478
All Non-domestic Premises[(7)]	**36,144**	**3,012**	**35,292**	**2,941**
All Properties	**10,152**	**846**	**9,300**	**775**

(1) The proposed rates concession measure is capped at $1,000 per tenement for the first quarter of 2024-25. No rates will be charged on 37% of domestic ratepayers, and 28% of non-domestic ratepayers for the first quarter of 2024-25. Overall speaking, about 36% of ratepayers will not need to pay any rates for the first quarter of 2024-25.

(2) The rates payable have reflected the changes in rateable values for 2024-25 after the General Revaluation.

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

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

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

(5) Including car parking spaces in domestic premises.

(6) Including factories and storage premises.

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

(8) The effects of implementation of the proposed progressive rating system for domestic tenements in the 4th quarter of 2024-25 have been taken into account.

SALARIES TAX

Proposed Changes to Standard Rate

Present		Proposed	
Net income	**Standard Rate (%)**	**Net income**	**Standard Rate (%)**
Any amount	15	First $5,000,000	15
		Remainder	16

Note: Salaries tax payable is calculated at progressive rates on a taxpayer's net chargeable income or at standard rate on his/her net income (before deduction of the allowances), whichever is lower.

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

Year of Assessment 2023/24

Salaries tax and tax under personal assessment –
100% tax reduction subject to a cap at $3,000 per case

Assessable Income	No. of taxpayers	Average amount of tax reduction	Average % of tax reduced
$200,000 and below	187 000	$770	100%
$200,001 to $300,000	391 000	$2,230	57%
$300,001 to $400,000	373 000	$2,560	27%
$400,001 to $600,000	474 000	$2,720	13%
$600,001 to $900,000	335 000	$2,850	6%
Above $900,000	303 000	$2,910	1%
Total	2 063 000	—	—

Note: In the fourth quarter of 2023, the number of employed persons in Hong Kong was 3.71 million.

Profits tax –
100% tax reduction subject to a cap at $3,000 per case

Assessable Profits	No. of businesses#	Average amount of tax reduction	Average % of tax reduced
$100,000 and below	49 700	$2,000	46%
$100,001 to $200,000	20 500	$3,000	18%
$200,001 to $300,000	11 800	$3,000	11%
$300,001 to $400,000	8 200	$3,000	8%
$400,001 to $600,000	11 400	$3,000	6%
$600,001 to $900,000	10 900	$3,000	4%
Above $900,000	47 700	$3,000	0.1%
Total	160 200	—	—

Note: As at 31 December 2023, there were about 1.3 million corporations and 287 000 unincorporated businesses in Hong Kong.

Including 121 800 corporations and 38 400 unincorporated businesses.

ECONOMIC PERFORMANCE IN 2023

1. Rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2023:

		(%)
(a) Growth rates in real terms of:		
Private consumption expenditure		7.3
Government consumption expenditure		-4.3
Gross domestic fixed capital formation		10.8
of which :		
Building and construction	7.1	
Machinery, equipment and intellectual property products	20.7	
Total exports of goods		-10.3
Imports of goods		-8.6
Exports of services		21.2
Imports of services		26.2
Gross Domestic Product (GDP)		**3.2**
Growth rate of per capita GDP in real terms		0.6
Per capita GDP at current market prices	HK$396,900 (US$50,700)	
(b) Rates of change in:		
Underlying Composite Consumer Price Index		**1.7**
GDP Deflator		**3.2**
Government Consumption Expenditure Deflator		**2.6**
(c) **Growth rate of nominal GDP**		**6.5**

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

	Total exports	
	In value terms (%)	***In real terms*** (%)
2021	26	20
2022	-9	-15
2023	-8	-12

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

	Total exports					
	Total (%)	***The Mainland*** (%)	***EU*** (%)	***US*** (%)	***India*** (%)	***Taiwan*** (%)
2021	20	18	20	20	33	35
2022	-15	-21	-11	-11	26	0
2023	-12	-14	-15	-10	-9	-12

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

	Imports (%)	***Retained imports*** (%)
2021	18	13
2022	-14	-10
2023	-9	1

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

	Exports of services				
	Total (%)	***Transport services*** (%)	***Travel services*** (%)	***Financial services*** (%)	***Other services*** (%)
2021	3	6	-38	2	9
2022	0	-3	62	-2	-1
2023	21	5	523	-4	2

6. Hong Kong's goods and services trade balance in 2023 reckoned on GDP basis:

		(HK$ billion)
Total exports of goods	4,497.1	
Imports of goods	4,625.3	
Goods trade balance		**-128.3**
Exports of services	774.1	
Imports of services	620.7	
Services trade balance		**153.4**
Combined goods and services trade balance		**25.1**

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

	Unemployment rate (%)	***Underemployment rate*** (%)	***Growth in labour force*** (%)	***Growth in total employment*** (%)
2021	5.2	2.6	-1.2	-0.6
2022	4.3	2.3	-2.4	-1.6
2023	2.9	1.1	0.8	2.2

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

	Composite CPI				
	Underlying (%)	***Headline*** (%)	***CPI(A)*** (%)	***CPI(B)*** (%)	***CPI(C)*** (%)
2021	0.6	1.6	2.9	1.0	0.9
2022	1.7	1.9	2.2	1.7	1.8
2023	1.7	2.1	2.3	2.0	2.0

ECONOMIC PROSPECTS FOR 2024

Forecast rates of change in the Gross Domestic Product and main price indicators in 2024:

		(%)
Gross Domestic Product (GDP)		
Real GDP		**2.5 to 3.5**
Nominal GDP		5.2 to 6.2
Growth rate of per capita GDP in real terms		2.1 to 3.1
Per capita GDP at current market prices	HK$416,000-419,900 (US$53,300-53,800)	
Composite Consumer Price Index		
Underlying Composite Consumer Price Index		**1.7**
Headline Composite Consumer Price Index		**2.4**
GDP Deflator		**2.7**

APPENDICES

APPENDICES

Note: Expenditure figures for 2023-24 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2024-25 estimate.

APPENDIX A

MEDIUM RANGE FORECAST

CONTENTS **Page**

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 2024-25 to 2028-29.

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

General Economic Assumptions

Real Gross Domestic Product (real GDP)

3 GDP growth is forecast to range from 2.5% to 3.5% in real terms in 2024. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2025 to 2028, the trend growth rate of the economy in real terms is assumed to be 3.2% per annum.

Price change

4 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 2.7% in 2024. For the four-year period 2025 to 2028, 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 2.4% in 2024. Netting out the effects of various one-off relief measures, the underlying CCPI is forecast to increase by 1.7% in 2024. For the ensuing period 2025 to 2028, 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 5.2% to 6.2% in 2024, and the trend growth rate in nominal terms for the period 2025 to 2028 is assumed to be 5.5% per annum.

Other Assumptions

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

— The operating expenditure for 2025-26 and beyond represents the forecast expenditure requirements for Government.

— The capital expenditure for 2024-25 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 2025-26 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)	2023-24 Revised Estimate	2024-25 Estimate	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast
Operating Account						
Operating revenue *(Note (b))*	513,920	580,729	620,551	666,626	695,468	732,345
Less: Operating expenditure *(Note (c))*	606,272	613,785	622,585	639,234	654,194	676,695
Operating surplus / (deficit)	**(92,352)**	**(33,056)**	**(2,034)**	**27,392**	**41,274**	**55,650**
Capital Account						
Capital revenue *(Note (d))*	40,651	52,298	82,906	103,570	127,613	153,823
Less: Capital expenditure *(Note (e))*	121,610	163,083	164,719	178,205	154,801	131,382
Capital surplus / (deficit)	**(80,959)**	**(110,785)**	**(81,813)**	**(74,635)**	**(27,188)**	**22,441**
Consolidated Account						
Government revenue	554,571	633,027	703,457	770,196	823,081	886,168
Less: Government expenditure	727,882	776,868	787,304	817,439	808,995	808,077
Consolidated surplus / (deficit) before issuance and repayment of bonds	**(173,311)**	**(143,841)**	**(83,847)**	**(47,243)**	**14,086**	**78,091**
Add: Proceeds from issuance of government bonds *(Note (f))*	72,490	120,000	135,000	135,000	135,000	95,000
Less: Repayment of government bonds *(Note (f))*	800	24,217	44,819	54,933	106,345	107,899
Consolidated surplus / (deficit) after issuance and repayment of bonds	**(101,621)**	**(48,058)**	**6,334**	**32,824**	**42,741**	**65,192**
Fiscal reserves at 31 March	**733,169**	**685,111**	**691,445**	**724,269**	**767,010**	**832,202**
In terms of number of months of government expenditure	12	11	11	11	11	12
In terms of percentage of GDP	24.5%	21.7%	20.7%	20.6%	20.7%	21.2%

Fiscal Reserves

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

Table 2

Distribution of fiscal reserves at 31 March

($ million)	2023-24 Revised Estimate	**2024-25 Estimate**	Future Fund	Operating and Capital Reserves	Total
General Revenue Account	140,451	**129,647**	4,800*	124,847	129,647
Funds with designated use	225,778	**213,298**		213,298	213,298
Capital Works Reserve Fund	96,477	**99,410**		99,410	99,410
Capital Investment Fund	16,363	**12,368**		12,368	12,368
Civil Service Pension Reserve Fund	55,857	**57,924**		57,924	57,924
Disaster Relief Fund	9	**200**		200	200
Innovation and Technology Fund	28,149	**17,987**		17,987	17,987
Loan Fund	5,828	**4,480**		4,480	4,480
Lotteries Fund	23,095	**20,929**		20,929	20,929
Land Fund	366,940	**342,166**	342,166	-	342,166
	733,169	**685,111**	346,966	338,145	685,111
In terms of number of months of government expenditure	12	11	6	5	11

* 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 $632 billion for capital works projects underway and about $559 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 2024-25 Budget, and is made up of –

($ million)	2023-24 Revised Estimate	2024-25 Estimate	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast
Operating revenue before investment income	448,563	499,798	571,308	633,391	662,545	703,847
Investment income	65,357	80,931	49,243	33,235	32,923	28,498
Total	513,920	580,729	620,551	666,626	695,468	732,345

(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 2024 (vs 3.7% for 2023) and is assumed to be in the range of 2.9% to 4.1% a year for 2025 to 2028.

(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 2025-26 and beyond set out the forecast operating expenditure requirements for Government.

(d) Capital revenue

(i) The breakdown of capital revenue is –

($ million)	2023-24 Revised Estimate	2024-25 Estimate	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast
General Revenue Account	7,182	7,249	1,520	5,979	5,030	5,030
Capital Investment Fund	480	898	1,973	1,414	1,416	1,417
Capital Works Reserve Fund	19,539	33,008	66,700	85,000	110,000	135,000
Innovation and Technology Fund	70	-	-	-	-	-
Loan Fund	659	1,127	3,095	3,568	4,178	4,234
Lotteries Fund	1,153	1,149	1,138	1,145	1,148	1,150
Capital revenue before investment income	29,083	43,431	74,426	97,106	121,772	146,831
Investment income	11,568	8,867	8,480	6,464	5,841	6,992
Total	40,651	52,298	82,906	103,570	127,613	153,823

(ii) Land premium included under the Capital Works Reserve Fund for 2024-25 is estimated to be $33 billion. For 2025-26 onwards, it is assumed to be 3.4% of GDP, being the 20-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 2024 (vs 3.7% for 2023) and is assumed to be in the range of 2.9% to 4.1% a year for 2025 to 2028.

(e) Capital expenditure

The breakdown of capital expenditure is –

($ million)	2023-24 Revised Estimate	2024-25 Estimate	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast
General Revenue Account	7,595	9,586	9,296	9,901	10,371	9,420
Capital Investment Fund	2,826	5,451	6,631	6,510	5,364	3,386
Capital Works Reserve Fund	100,976	130,154	126,388	141,934	119,869	99,996
Disaster Relief Fund	164	-	-	-	-	-
Innovation and Technology Fund	5,645	11,081	13,423	11,721	11,464	11,537
Loan Fund	2,348	2,675	2,773	2,736	2,769	2,803
Lotteries Fund	2,056	4,136	6,208	5,403	4,964	4,240
Total	121,610	163,083	164,719	178,205	154,801	131,382

(f) Government bonds

The Government issued green bonds under the Government Green Bond Programme (GGBP) from 2019-20 to 2023-24, and plans to expand its scope to cover sustainable finance projects and continue to issue relevant bonds from 2024-25 to 2028-29. In addition, the Government plans to issue infrastructure bonds under the Infrastructure Bond Programme (IBP) to be established from 2024-25 to 2028-29. The actual size and timing of issuance will be determined having regard to market conditions. The proceeds of the aforementioned Programmes are credited to the Capital Works Reserve Fund to finance eligible projects.

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)	2023-24 Revised Estimate	2024-25 Estimate	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast
Operating expenditure	606,272	613,785	622,585	639,234	654,194	676,695
Capital expenditure	121,610	163,083	164,719	178,205	154,801	131,382
Government expenditure	727,882	776,868	787,304	817,439	808,995	808,077
Expenditure by other public bodies	42,544	53,126	60,322	64,238	66,264	68,698
Public expenditure *(Note (a))*	770,426	829,994	847,626	881,677	875,259	876,775
Gross Domestic Product (calendar year)	2,991,328	3,161,800	3,335,700	3,519,200	3,712,800	3,917,000
Nominal growth in GDP *(Note (b))*	6.5%	5.7%	5.5%	5.5%	5.5%	5.5%
Growth in recurrent government expenditure *(Note (c))*	0.4%	7.0%	3.0%	4.3%	3.1%	3.8%
Growth in government expenditure *(Note (c))*	-10.2%	6.7%	1.3%	3.8%	-1.0%	-0.1%
Growth in public expenditure *(Note (c))*	-9.1%	7.7%	2.1%	4.0%	-0.7%	0.2%
Public expenditure in terms of percentage of GDP	25.8%	26.3%	25.4%	25.1%	23.6%	22.4%

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 2024-25, the nominal GDP growth of 5.7% represents the mid-point of the range forecast of 5.2% to 6.2% for the calendar year 2024.

(c) The growth rates for 2023-24 to 2028-29 refer to year-on-year change. For example, the rates for 2023-24 refer to the change between the revised estimate for 2023-24 and the actual expenditure in 2022-23. The rates for 2024-25 refer to the change between the 2024-25 estimate and the 2023-24 revised estimate, and so forth.

15 Table 4 shows the relationship amongst the sum to be appropriated in the 2024-25 Budget, government expenditure and public expenditure.

Relationship between Government Expenditure and Public Expenditure in 2024-25

Table 4

($ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	580,213	580,213	-	580,213	580,213
Non-recurrent	33,571	33,571	-	33,571	33,571
Capital					
Plant, equipment and works	5,912	-	5,912	5,912	5,912
Subventions	3,674	-	3,674	3,674	3,674
	623,370	613,784	9,586	623,370	623,370
Transfer to Funds	185	-	-	-	-
Capital Investment Fund	-	-	5,451	5,451	5,451
Capital Works Reserve Fund	-	-	130,154	130,154	130,154
Innovation and Technology Fund	-	-	11,081	11,081	11,081
Land Fund	-	1	-	1	1
Loan Fund	-	-	2,675	2,675	2,675
Lotteries Fund	-	-	4,136	4,136	4,136
Trading Funds	-	-	-	-	5,012
Housing Authority	-	-	-	-	48,114
	623,555	613,785	163,083	776,868	829,994
Revenue					
General Revenue Account					
Taxation		449,211	8	449,219	
Other revenue		56,291	7,241	63,532	
		505,502	7,249	512,751	
Capital Investment Fund		-	1,456	1,456	
Capital Works Reserve Fund		-	37,304	37,304	
Civil Service Pension Reserve Fund		-	2,067	2,067	
Disaster Relief Fund		-	6	6	
Innovation and Technology Fund		-	919	919	
Land Fund		75,227	-	75,227	
Loan Fund		-	1,327	1,327	
Lotteries Fund		-	1,970	1,970	
		580,729	52,298	633,027	
Deficit		(33,056)	(110,785)	(143,841)	

SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES

16 The Government's contingent liabilities as at 31 March 2023, 31 March 2024 and 31 March 2025, are provided below as supplementary information to the MRF –

Table 5

($ million)	2023	At 31 March 2024	2025
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	44,078	48,966	52,174
Guarantees provided under the SME Financing Guarantee Scheme	141,411	146,070	114,787
Legal claims, disputes and proceedings	16,007	18,235	15,349
Subscription to callable shares in the Asian Development Bank	5,801	5,753	5,753
Subscription to callable shares in the Asian Infrastructure Investment Bank	4,800	4,779	4,779
Guarantees provided under the SME Loan Guarantee Scheme	1,602	1,010	622
Guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation	893	866	-
Guarantees provided under the Special Loan Guarantee Scheme	185	72	69
Total	214,777	225,751	193,533

17 The Government's major unfunded liabilities as at 31 March 2023 were as follows –

($ million)	
Present value of statutory pension obligations *(Note (a))*	1,015,397
Untaken leave *(Note (b))*	28,171
Green bonds	122,498

Notes –

(a) The statutory pension obligations for the coming ten years are estimated to be about $559 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 2023 and 31 March 2024 are $613,946 million and $632,368 million respectively. Some of these are contractual commitments.

APPENDIX B

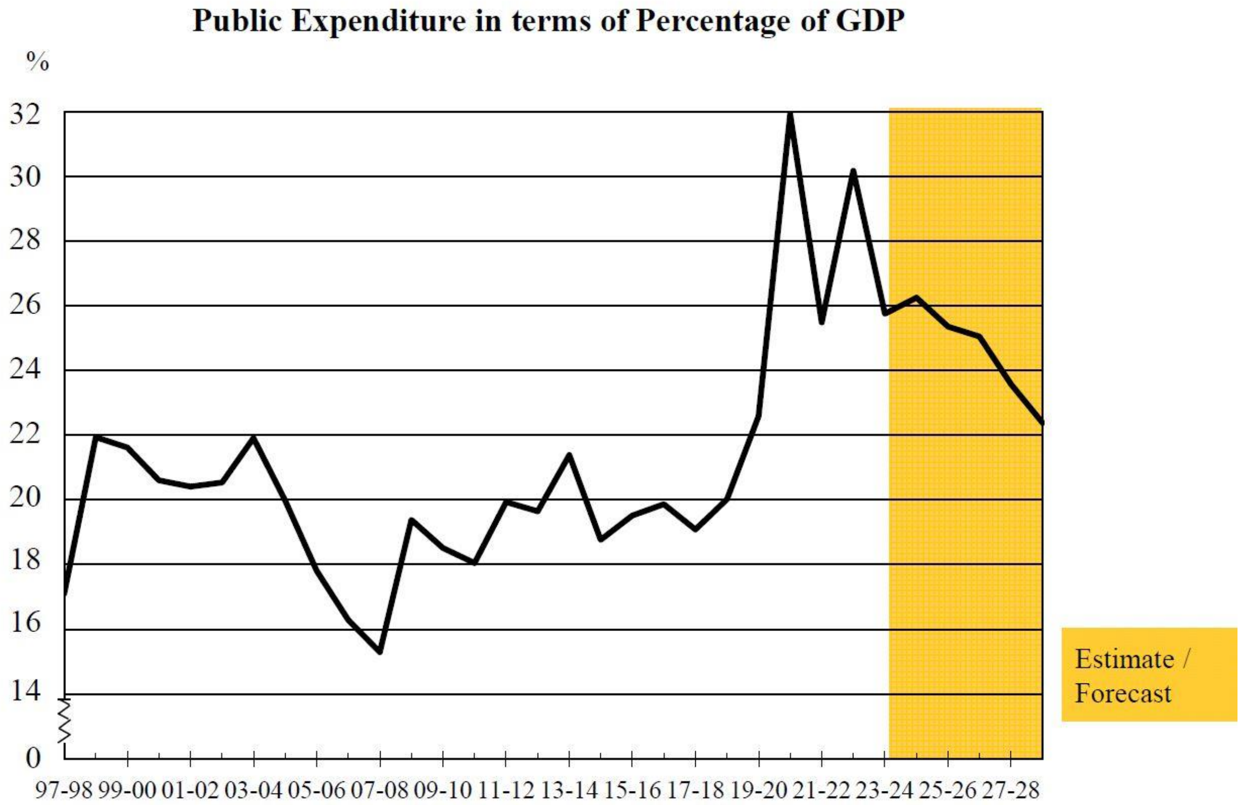
ANALYSIS OF EXPENDITURE AND REVENUE

CONTENTS **Page**

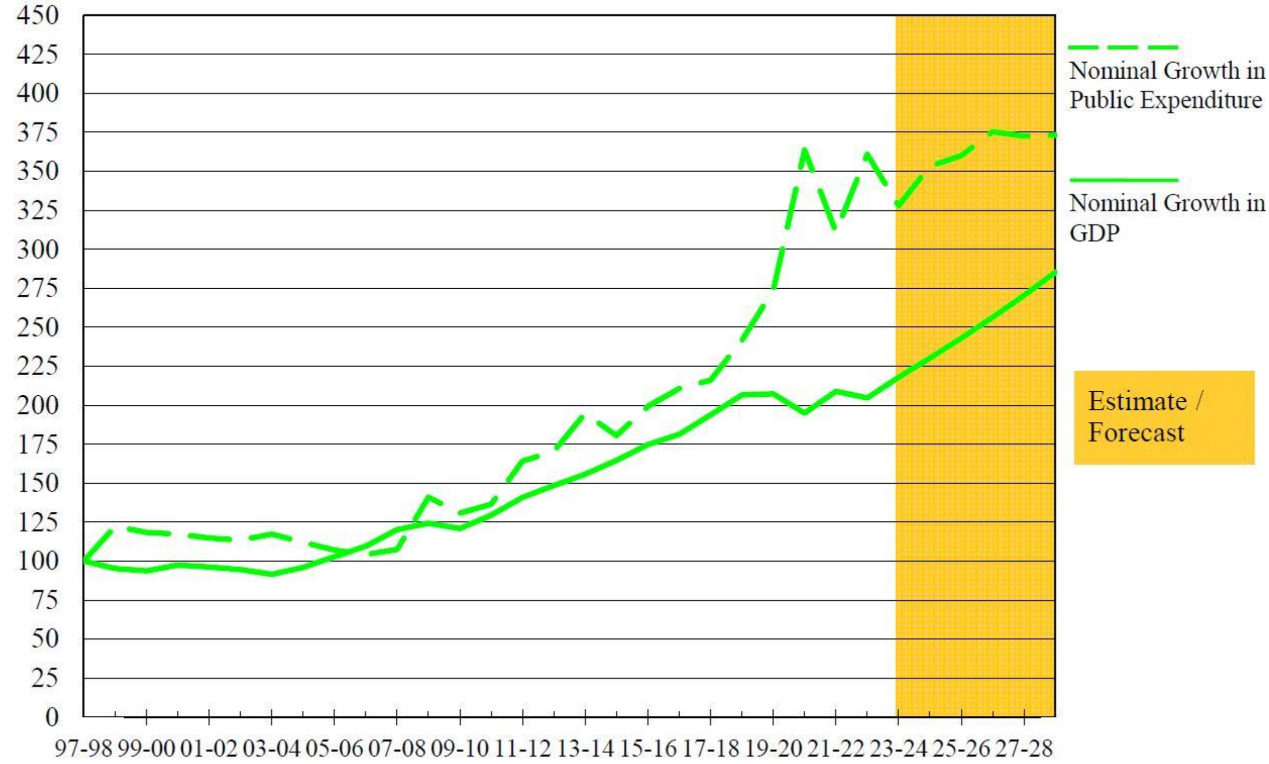
SECTION I THE ESTIMATES IN THE CONTEXT OF THE ECONOMY

Relationship between Government Expenditure, Public Expenditure and GDP

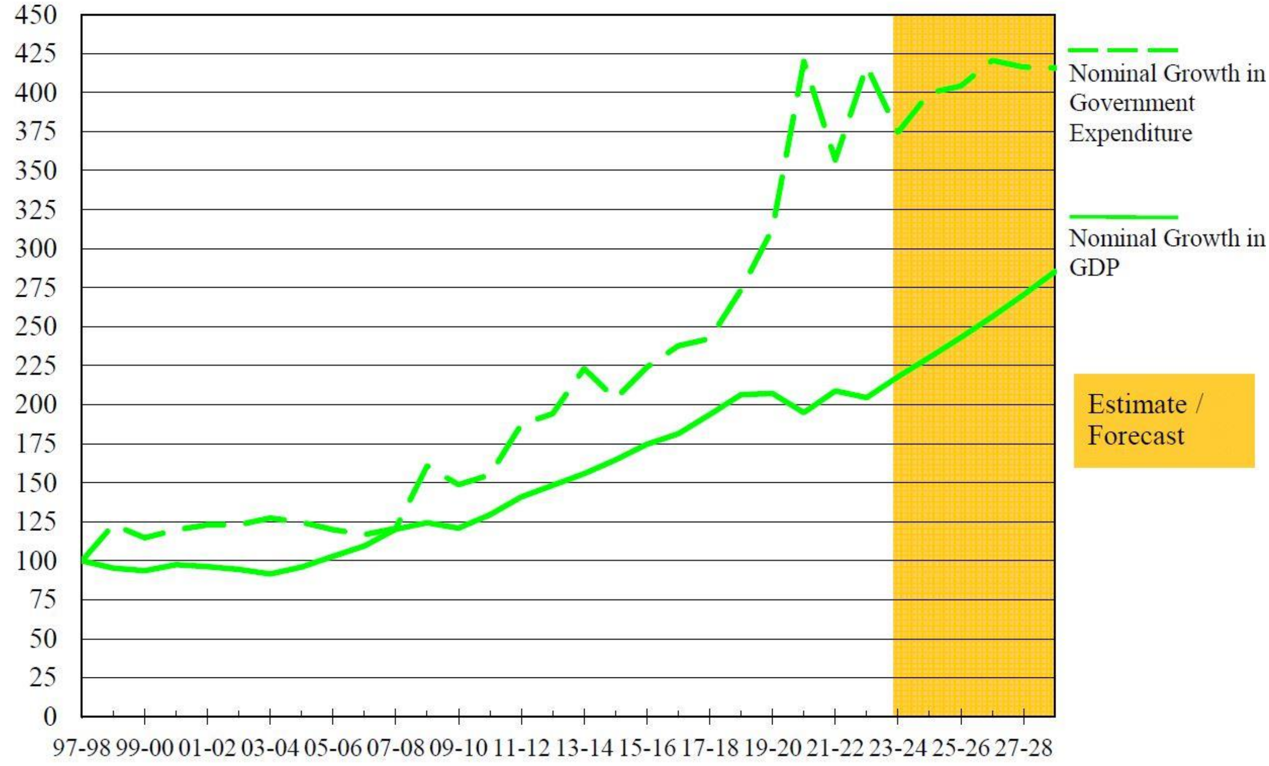
	2024-25 Estimate $m
General Revenue Account	
Operating	613,784
Capital	9,586
	623,370
Capital Investment Fund	5,451
Capital Works Reserve Fund	130,154
Innovation and Technology Fund	11,081
Land Fund	1
Loan Fund	2,675
Lotteries Fund	4,136
Government Expenditure	**776,868**
Trading Funds	5,012
Housing Authority	48,114
Public Expenditure	**829,994**
GDP	3,161,800
Public Expenditure in terms of percentage of GDP	26.3%

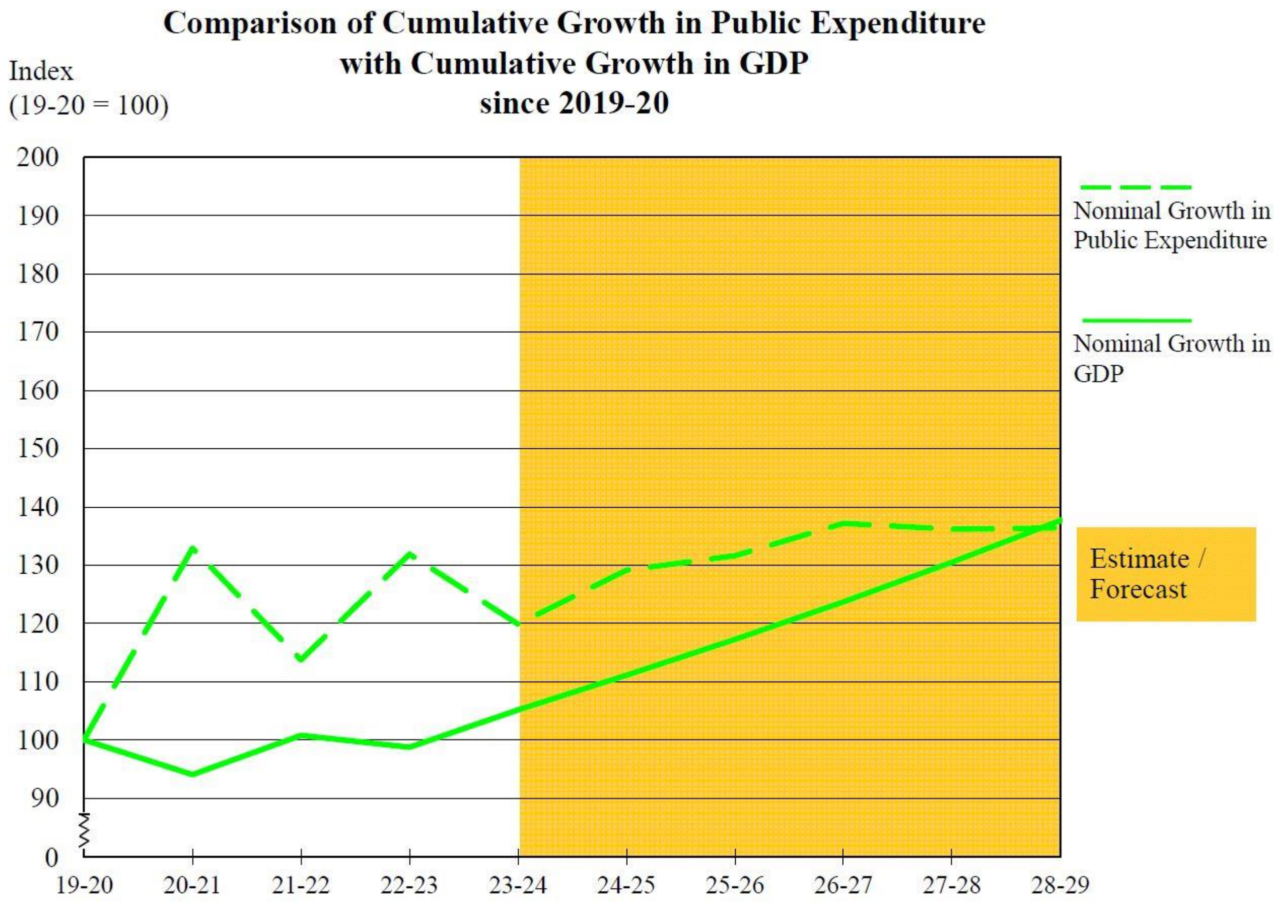

Public Expenditure in terms of Percentage of GDP
%
32
30
28
26
24
22
20
18
16
14
0
97-98 99-00 01-02 03-04 05-06 07-08 09-10 11-12 13-14 15-16 17-18 19-20 21-22 23-24 25-26 27-28
Estimate / Forecast

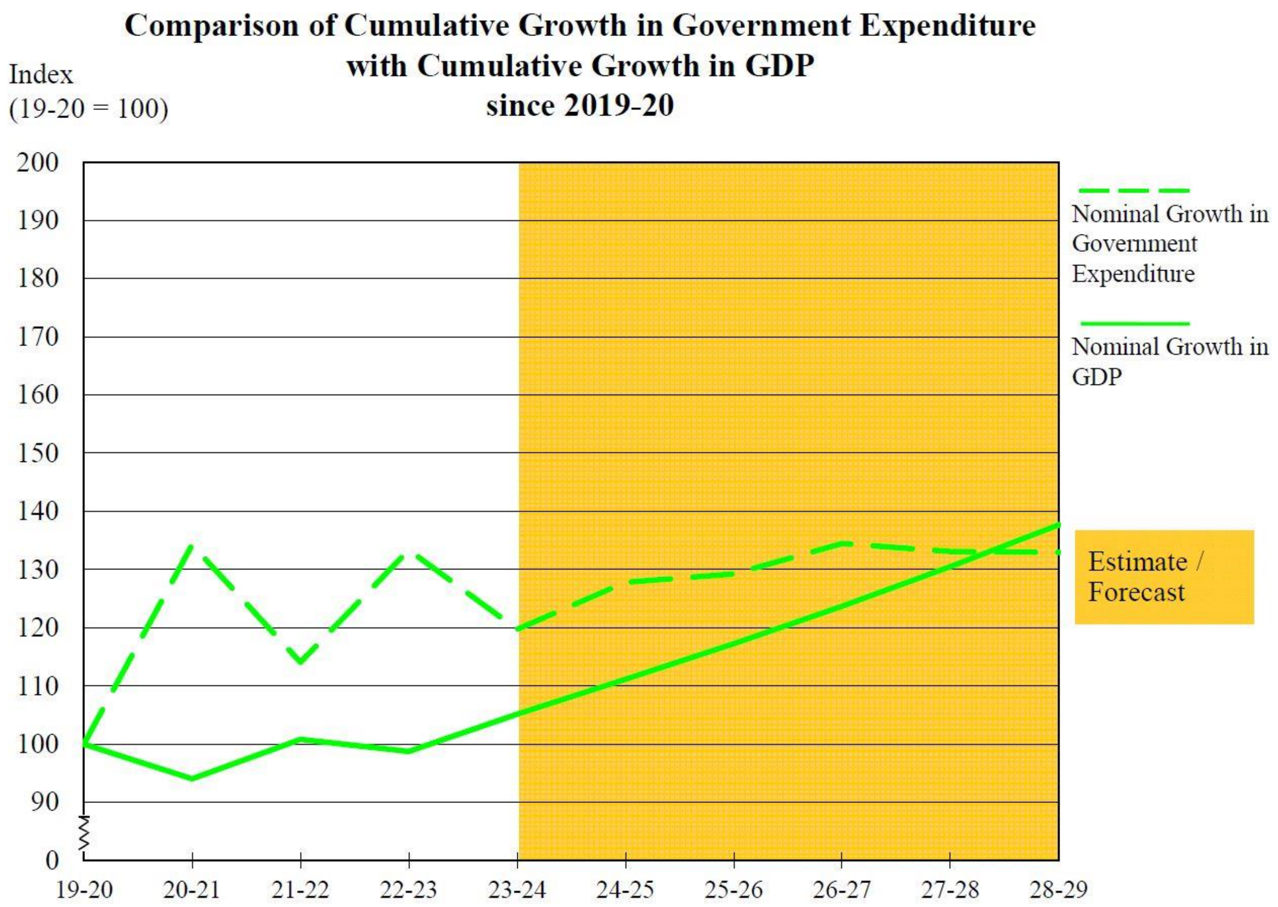
Comparison of Cumulative Growth in Public Expenditure with Cumulative Growth in GDP since 1997-98



Comparison of Cumulative Growth in Government Expenditure with Cumulative Growth in GDP since 1997-98




Comparison of Cumulative Growth in Public Expenditure
with Cumulative Growth in GDP
since 2019-20
Index
(19-20 = 100)
200
190
180
170
160
150
140
130
120
110
100
90
0
19-20
20-21
21-22
22-23
23-24
24-25
25-26
26-27
27-28
28-29
Nominal Growth in Public Expenditure
Nominal Growth in GDP
Estimate / Forecast


Comparison of Cumulative Growth in Government Expenditure
with Cumulative Growth in GDP
since 2019-20
Index
(19-20 = 100)
200
190
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150
140
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120
110
100
90
0
19-20
20-21
21-22
22-23
23-24
24-25
25-26
26-27
27-28
28-29
Nominal Growth in Government Expenditure
Nominal Growth in GDP
Estimate / Forecast

SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Recurrent Public Expenditure : Year-on-Year Change

	2022-23 Actual $m	2023-24 Revised Estimate $m	**2024-25 Estimate $m**	**Increase/Decrease over 2023-24 Revised Estimate in Nominal Terms %**	**in Real Terms %**
Education	97,920	103,152	**106,776**	**3.5**	**2.8**
Social Welfare	104,797	112,368	**127,362**	**13.3**	**10.9**
Health	127,002	104,711	**109,522**	**4.6**	**3.6**
Security	55,105	57,071	**60,885**	**6.7**	**5.9**
Infrastructure	32,203	33,933	**34,919**	**2.9**	**1.4**
Environment and Food	22,987	24,598	**26,485**	**7.7**	**5.8**
Economic	20,660	20,788	**23,115**	**11.2**	**9.6**
Housing	18,392	19,469	**21,004**	**7.9**	**5.5**
Community and External Affairs	15,890	16,727	**18,245**	**9.1**	**7.3**
Support	67,687	72,415	**76,666**	**5.9**	**4.3**
	562,643	565,232	**604,979**	**7.0**	**5.6**

GDP growth in 2024	**5.2% to 6.2%**	**2.5% to 3.5%**

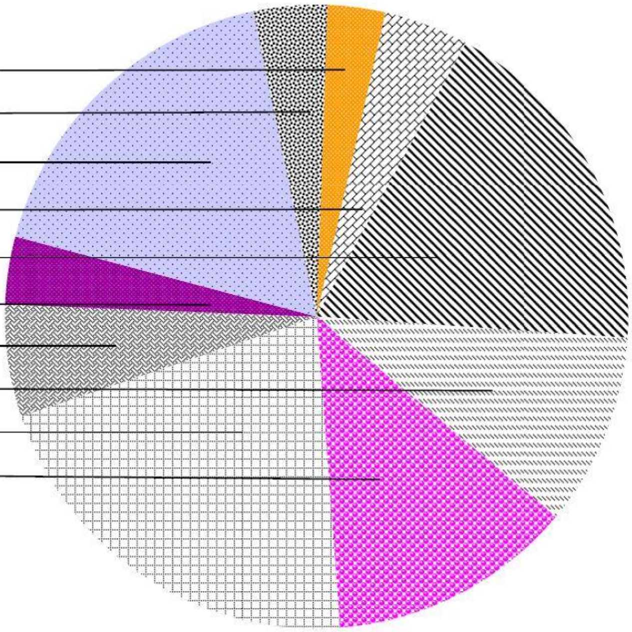
SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Recurrent Government Expenditure : Year-on-Year Change

	2022-23 Actual $m	2023-24 Revised Estimate $m	**2024-25 Estimate $m**	**Increase/Decrease over 2023-24 Revised Estimate in Nominal Terms %**	**Increase/Decrease over 2023-24 Revised Estimate in Real Terms %**
Education	97,920	103,152	**106,776**	**3.5**	**2.8**
Social Welfare	104,797	112,368	**127,362**	**13.3**	**10.9**
Health	127,002	104,711	**109,522**	**4.6**	**3.6**
Security	55,105	57,071	**60,885**	**6.7**	**5.9**
Infrastructure	31,988	33,710	**34,659**	**2.8**	**1.3**
Environment and Food	22,987	24,598	**26,485**	**7.7**	**5.8**
Economic	15,814	16,607	**18,784**	**13.1**	**11.6**
Housing	672	745	**830**	**11.4**	**11.3**
Community and External Affairs	15,890	16,727	**18,245**	**9.1**	**7.3**
Support	67,687	72,415	**76,666**	**5.9**	**4.3**
	539,862	542,104	**580,214**	**7.0**	**5.6**
GDP growth in 2024				**5.2% to 6.2%**	**2.5% to 3.5%**

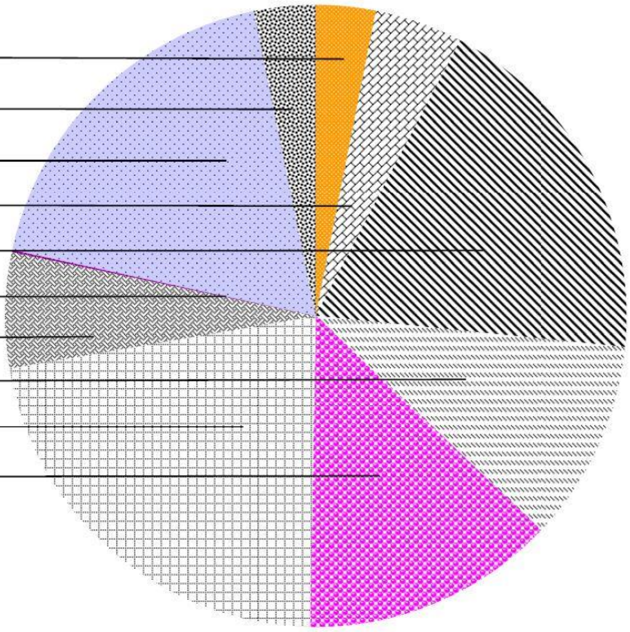
Percentage Share of Expenditure by Policy Area Group
Recurrent Public Expenditure : 2024-25 Estimate

Community and External Affairs	3.0%
Economic	3.8%
Education	17.6%
Environment and Food	4.4%
Health	18.1%
Housing	3.5%
Infrastructure	5.8%
Security	10.1%
Social Welfare	21.0%
Support	12.7%
	100.0%



Percentage Share of Expenditure by Policy Area Group
Recurrent Government Expenditure : 2024-25 Estimate

Community and External Affairs	3.1%
Economic	3.2%
Education	18.4%
Environment and Food	4.6%
Health	18.9%
Housing	0.1%
Infrastructure	6.0%
Security	10.5%
Social Welfare	22.0%
Support	13.2%
	100.0%



SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Public Expenditure : Year-on-Year Change

	2022-23 Actual $m	2023-24 Revised Estimate $m	**2024-25 Estimate $m**	**Increase/Decrease over 2023-24 Revised Estimate in Nominal Terms %**	**Increase/Decrease over 2023-24 Revised Estimate in Real Terms %**
Education	106,833	113,443	**115,741**	**2.0**	**1.1**
Social Welfare	110,194	117,771	**136,211**	**15.7**	**13.0**
Health	153,659	120,177	**127,939**	**6.5**	**4.9**
Security	65,954	62,757	**68,352**	**8.9**	**7.8**
Infrastructure	89,604	88,619	**106,141**	**19.8**	**15.9**
Environment and Food	38,296	41,664	**49,735**	**19.4**	**16.9**
Economic	103,103	74,555	**56,405**	**-24.3**	**-26.0**
Housing	35,997	44,874	**54,063**	**20.5**	**16.4**
Community and External Affairs	26,935	28,929	**31,824**	**10.0**	**7.1**
Support	116,963	77,637	**83,583**	**7.7**	**5.8**
	847,538	770,426	**829,994**	**7.7**	**5.6**

GDP growth in 2024	**5.2% to 6.2%**	**2.5% to 3.5%**

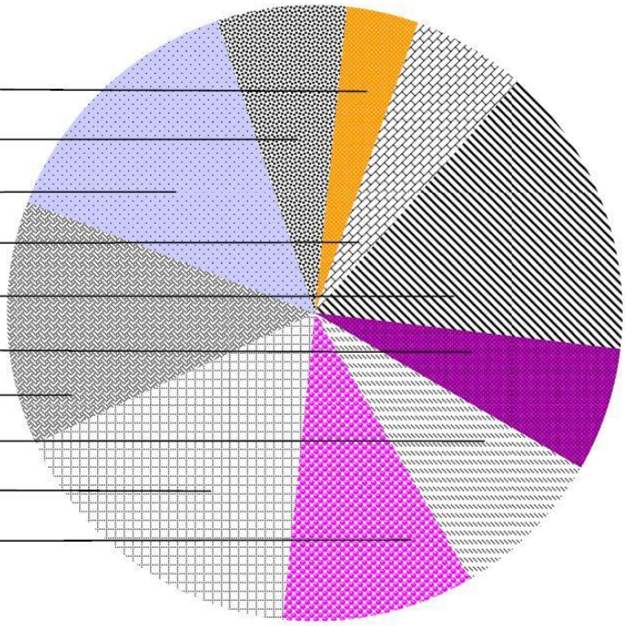
SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Government Expenditure : Year-on-Year Change

	2022-23 Actual $m	2023-24 Revised Estimate $m	**2024-25 Estimate $m**	**Increase/Decrease over 2023-24 Revised Estimate in Nominal Terms %**	**in Real Terms %**
Education	106,833	113,443	**115,741**	**2.0**	**1.1**
Social Welfare	110,194	117,771	**136,211**	**15.7**	**13.0**
Health	153,659	120,177	**127,939**	**6.5**	**4.9**
Security	65,954	62,757	**68,352**	**8.9**	**7.8**
Infrastructure	89,357	88,349	**105,821**	**19.8**	**15.9**
Environment and Food	38,296	41,664	**49,735**	**19.4**	**16.9**
Economic	97,942	69,963	**51,713**	**-26.1**	**-27.7**
Housing	4,344	7,192	**5,949**	**-17.3**	**-19.6**
Community and External Affairs	26,935	28,929	**31,824**	**10.0**	**7.1**
Support	116,963	77,637	**83,583**	**7.7**	**5.8**
	810,477	727,882	**776,868**	**6.7**	**4.7**
GDP growth in 2024				**5.2% to 6.2%**	**2.5% to 3.5%**

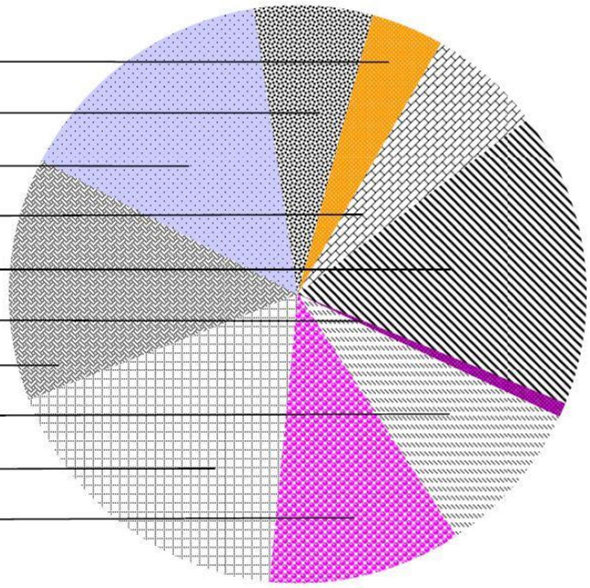
Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure : 2024-25 Estimate

Community and External Affairs	3.8%
Economic	6.8%
Education	14.0%
Environment and Food	6.0%
Health	15.4%
Housing	6.5%
Infrastructure	12.8%
Security	8.2%
Social Welfare	16.4%
Support	10.1%
	100.0%



Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure : 2024-25 Estimate

Community and External Affairs	4.1%
Economic	6.6%
Education	14.9%
Environment and Food	6.4%
Health	16.5%
Housing	0.8%
Infrastructure	13.6%
Security	8.8%
Social Welfare	17.5%
Support	10.8%
	100.0%



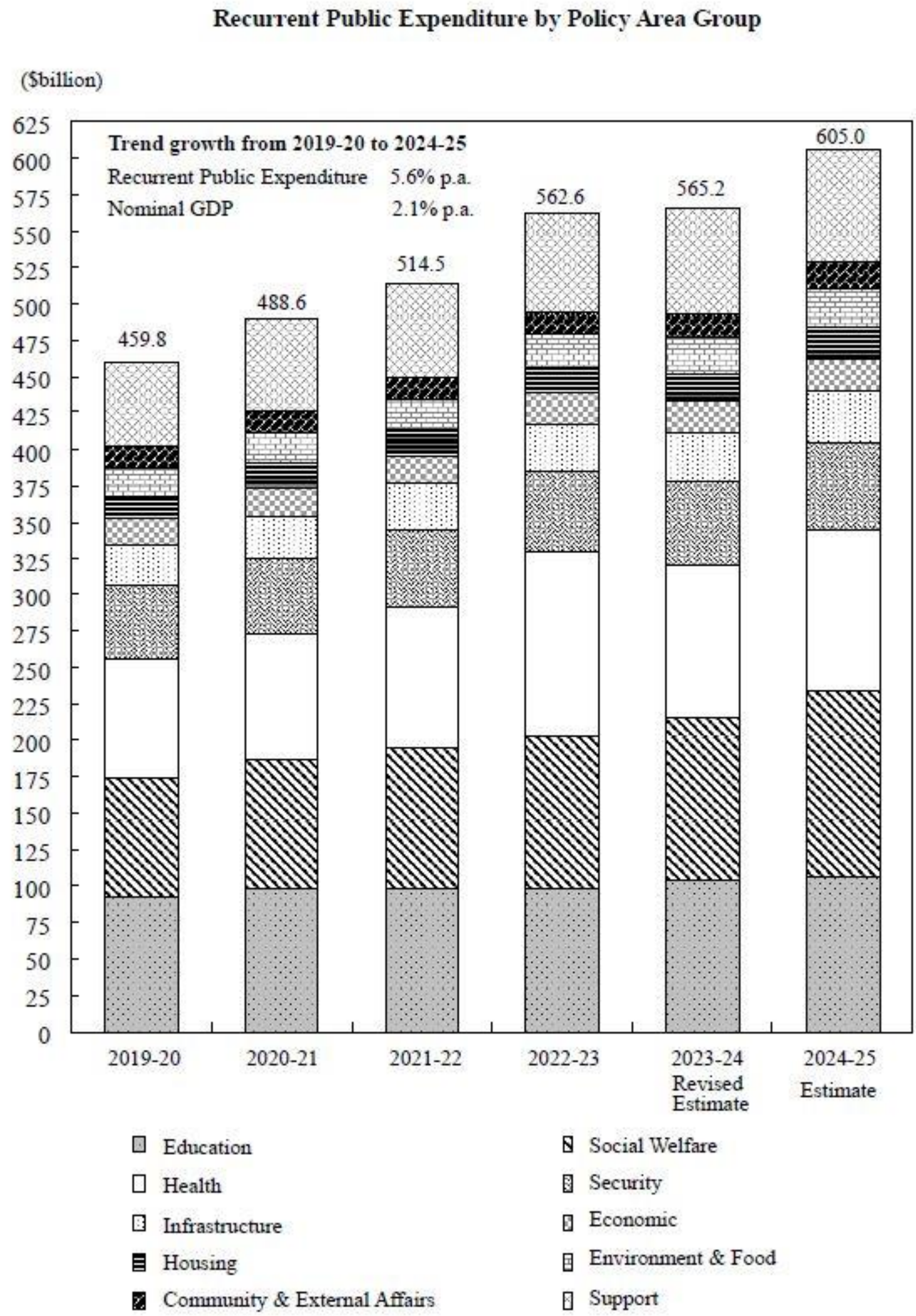
SECTION IV MAJOR CAPITAL PROJECTS PLANNED FOR COMMENCEMENT IN 2024-25

Major capital projects estimated to begin in 2024-25 include –

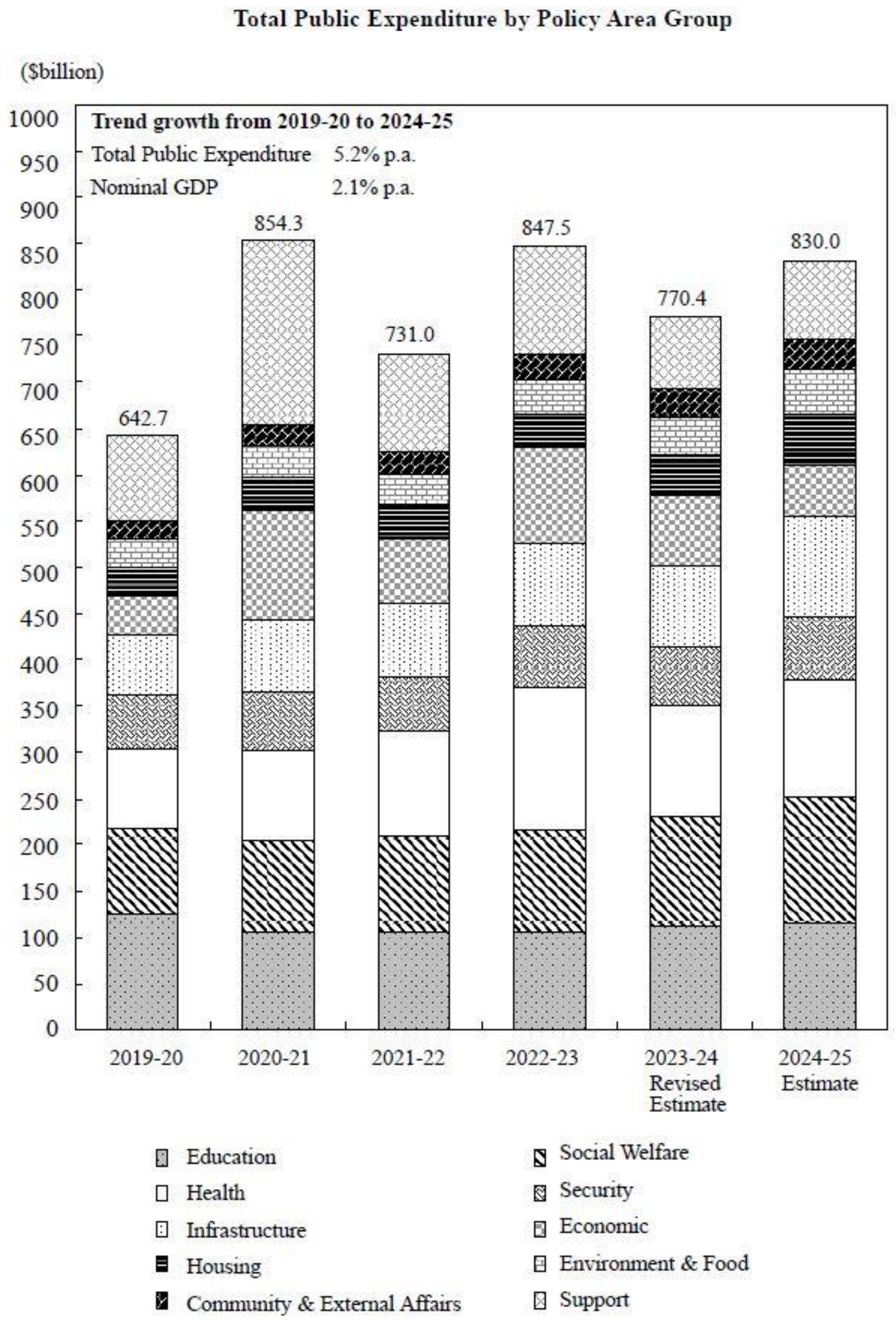
	Project Estimates $ billion
Infrastructure	**134.6**
— Town Park with Public Vehicle Park in Area 66, Tseung Kwan O	
— Drainage improvement works in Wong Tai Sin	
— Drainage improvement works in Mong Kok—phase 1	
— Drainage improvement works in Kwun Tong—phase 2	
— Drainage improvement works in Sha Tin and Sai Kung—phase 1	
— Drainage improvement works in Tai Po—phase 1	
— The District Cooling System (DCS) for Hung Shui Kiu/Ha Tsuen New Development Area, Phase 1 (stage 1 works)	
— Dualling of Hiram's Highway from Marina Cove to Sai Kung Town	
— Northern Metropolis Highway—investigation	
— Improvement works at Tsuen Tsing Interchange	
— Hung Shui Kiu/Ha Tsuen New Development Area advance works phase 3—site formation and engineering infrastructure	
— Remaining phase of site formation and engineering infrastructure works at Kwu Tung North New Development Area and Fanling North New Development Area—construction	
— Hung Shui Kiu/Ha Tsuen New Development Area stage 2 works—site formation and engineering infrastructure	
— Tung Chung New Town Extension—site formation and infrastructure works (Phase 2)	
— Development of San Tin Technopole phase 1 stage 1 works—site formation and engineering infrastructure	
— Trunk Road T4 in Sha Tin	
— Risk-based improvement of large diameter water mains, stage 1A	
— Site formation and infrastructure works for public housing development at Tin Wah Road, Lau Fau Shan	
— Site formation and infrastructure works for public housing development at To Yuen Tung, Tai Po	
— Site formation and infrastructure works for public housing development at Tsing Yi Road West, Tsing Yi	
— Site formation and infrastructure works for public housing development at A Kung Ngam Village, Eastern	
— Site formation and infrastructure works for public housing development near Chai Wan Swimming Pool, Chai Wan	
Environment and Food	**18.6**
— Reprovisioning of cremators and related works at Kwai Chung Crematorium	
— Construction of a new public market in Kwu Tung North New Development Area	
— Relocation of Sha Tin Sewage Treatment Works to caverns—remaining works	
— Construction and rehabilitation of sewage rising mains in Southern District	
— Implementation of a Large scale Solar Farm at South East New Territories Landfill for Supplying Renewable Energy to the Tseung Kwan O Desalination Plant	
Health	**11.5**
— Reprovisioning of Victoria Public Mortuary	
— Redevelopment of Shek Kip Mei Health Centre	
— Funding provision to the Hospital Authority for Minor Works Projects	

	Project Estimates $ billion
Housing	**9.8**
— Implementation of Light Public Housing—the Second Batch of Projects	
Support	**6.2**
— Hoi Ting Road Joint-user Complex	
— Joint-user Complex with Market in Area 67, Tseung Kwan O	
— Development of a Joint User Complex at Sheung Shui Areas 4 and 30	
Education	**5.5**
— A 30-classroom Primary School at Area 89 (Northern side), Tung Chung	
— A 30-classroom primary school at Area 17, Fanling North New Development Area	
— A 30-classroom primary school at Area 29, Kwu Tung North New Development Area	
— The Chinese University of Hong Kong—Engineering Building at Central Campus	
— Construction of a new academic building on an extension site east of No. 3 Sassoon Road (Main Works)	
Community and External Affairs	**4.7**
— Amenity Complex in Area 103, Ma On Shan—main works	
— Public Open Space at East Coast Park Precinct, North Point	
— Cycle Track between Tsuen Wan and Tuen Mun—detailed design, site investigation and construction (Stage 2)	

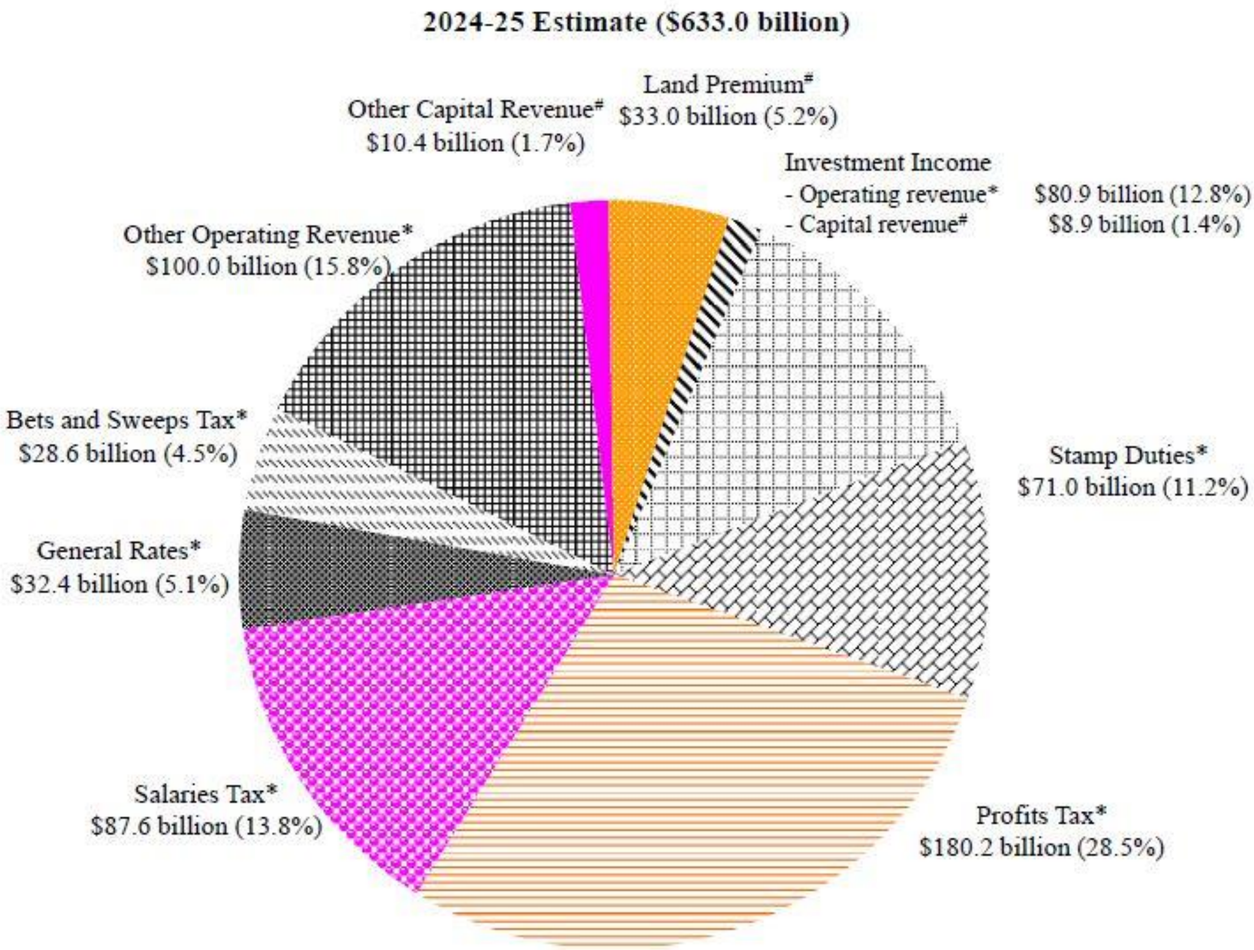
SECTION V TRENDS IN PUBLIC EXPENDITURE : 2019-20 TO 2024-25



SECTION V TRENDS IN PUBLIC EXPENDITURE : 2019-20 TO 2024-25



SECTION VI ANALYSIS OF GOVERNMENT REVENUE



	2024-25 Estimate	**% Share of Government Revenue**	**% of GDP**
* Operating Revenue	$580.7 billion	91.7%	18.4%
# Capital Revenue	$52.3 billion	8.3%	1.6%
Total	**$633.0 billion**	**100%**	**20.0%**

SECTION VII CLASSIFICATION OF POLICY AREA GROUP

Policy Area Group	**Policy Area** (*Note*)	
Community and External Affairs	19	District and Community Relations
	18	Recreation, Culture, Amenities and Entertainment Licensing
Economic	3	Air and Sea Communications and Logistics Development
	6	Commerce and Industry
	8	Employment and Labour
	1	Financial Services
	17	Information Technology and Broadcasting
	34	Manpower Development
	4	Posts, Competition Policy and Consumer Protection
	7	Public Safety
	5	Travel and Tourism
Education	16	Education
Environment and Food	2	Agriculture, Fisheries and Food Safety
	32	Environmental Hygiene
	23	Environmental Protection, Conservation, Power and Sustainable Development
Health	15	Health
Housing	31	Housing
Infrastructure	22	Buildings, Lands, Planning, Heritage Conservation, Greening and Landscape
	21	Land and Waterborne Transport
	24	Water Supply, Drainage and Slope Safety
Security	12	Administration of Justice
	13	Anti-corruption
	10	Immigration Control
	9	Internal Security
	11	Legal Administration
	20	Legal Aid
Social Welfare	14	Social Welfare
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 2024-25 Estimates. The index further provides details, by head of expenditure, of individual programmes which contribute to a policy area.

APPENDIX C

GLOSSARY OF TERMS

GLOSSARY OF TERMS

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

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

General Revenue Account

equipment, works and capital subventions of a minor nature

Capital Investment Fund

advances and equity investments

Capital Works Reserve Fund

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

Disaster Relief Fund

relief to disasters that occur outside Hong Kong

Innovation and Technology Fund

projects promoting innovation and technology upgrading in manufacturing and service industries

Loan Fund

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

Lotteries Fund

grants, loans and advances for social welfare services

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

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

General Revenue Account

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

Capital Investment Fund

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

Capital Works Reserve Fund

investment income
land premium
recovery from MTR Corporation Limited

Civil Service Pension Reserve Fund

investment income

Disaster Relief Fund

investment income

Innovation and Technology Fund

investment income
loan repayments received
proceeds from sale of investments

Loan Fund

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

Lotteries Fund

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

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

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

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

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

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

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

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

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

General Revenue Account

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

Land Fund

investment income

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

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

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