



Hong Kong 2025-26 Budget Speech Delivered by Hong Kong's Financial Secretary, The Hon. Paul MP Chan, on 26 February 2025

On 26 February 2025, Hong Kong's Financial Secretary, The Hon. Paul MP Chan delivered the Hong Kong 2025-26 [budget speech](#), which is summarised in this newsletter. The budget speech can also be [downloaded](#) in full.

Introduction to the Hong Kong Budget 2025-26 (paragraphs 1- 8)

Positive developments in Hong Kong over the past year included two consecutive years of economic growth, a stable employment market, moderate inflation, successful efforts in attracting talent and enterprises, and increased visitor arrivals due to large-scale international events. The stock market sentiment had improved, contributing to a generally positive atmosphere in the city.

Challenges faced by Hong Kong include disruptions in trade, supply chain, cash flow, and investment market sentiment due to the international geopolitical landscape. Local asset prices are affected by a high interest rate environment, and the retail and catering markets are impacted by changes in consumption patterns of visitors and residents. The Financial Secretary, Paul MP Chan, acknowledged the challenges testing Hong Kong's economic resilience, emphasising the need for reform, innovation, and improvement in economic development. Despite counter-cyclical measures during the pandemic that supported enterprises and stabilised the economy, Hong Kong has faced fiscal deficits, with asset market-related revenue falling short of expectations.

The Financial Secretary, Paul MP Chan proposed a "reinforced version" of the fiscal consolidation program, aiming to reduce government recurrent expenditure by seven percent through 2027-28, while balancing the impact on public services and livelihoods. The goal is to restore fiscal balance in the Operating Account progressively within the current government term.

The Financial Secretary, Paul MP Chan highlighted the importance of accelerating the development of the Northern Metropolis (NM) to capitalise on innovation and technology advancements, viewing it as an investment in Hong Kong's future.

The Financial Secretary suggested expanding bond issuance, maintaining healthy public finances, and using the funds flexibly to invest in future growth and societal value. Also he stressed the importance of technological innovation as a core engine for economic development amidst global changes. Emphasis was placed on the need to expedite economic development by boosting new economic drivers and enhancing the competitive edge of

traditional industries.

The transformative impact of technology reform and artificial intelligence (AI) on the global landscape, leading to new industries, business forms, products, and services was highlighted. The Financial Secretary also urged the seizing of the current critical window of opportunity to accelerate development, advocating for establishing new advancements before phasing out the old and underscored that transformation and innovation are key to leading Hong Kong into the future, with a focus on fast-tracking high-quality economic development.

Hong Kong's Economic Situation in 2024 (paragraphs 9 - 16)

In 2024, Hong Kong's economy showed steady progress amidst geopolitical instability and high global interest rates, achieving a moderate growth rate of 2.5%. Supportive measures from the Chinese government and US interest rate cuts played a crucial role in this recovery. Visitor numbers surged by approximately 30% to 45 million, boosted by major events and improved air travel. Total goods exports increased by 4.7%, driven by rising external demand, while service exports grew by 4.8%.

Overall investment expenditure saw a 2.4% increase, although private consumption slightly declined by 0.6% due to changing consumption patterns. The Hong Kong labour market remained tight, with the unemployment rate at a low 3.1%, and median monthly earnings for full-time employees rose by 4.8%. Mild inflation was recorded at an underlying consumer price rate of 1.1%.

Additionally, the asset market experienced recovery, with the Hang Seng Index increasing by 18% and new listings raising \$88 billion. Despite external challenges, including trade protectionism, Hong Kong is poised for steady export performance, supported by a recovering economy and increased visitor arrivals. The International Monetary Fund projects global economic growth at 3.3% for the year, signalling potential for continued economic resilience.

Hong Kong's Economic Outlook for 2025 and the Medium Term (paragraphs 17 - 27)

The economic outlook for Hong Kong in 2025 anticipates moderate growth, with a projected increase of 2-3% in real terms. While domestic demand may face caution from investors due to external uncertainties, relaxed global financial conditions are expected to bolster fixed asset investment. Signs of stabilisation in private consumption towards the end of the previous year suggest potential for further growth, driven by increased resident income and steady asset market development.

Inflation is expected to rise slightly, with forecasts indicating a 1.5% underlying inflation rate and a 1.8% headline inflation rate. However, external price pressures are anticipated to remain stable unless geopolitical risks escalate. In the medium term, the normalisation of monetary policy is expected to sustain global economic growth, with Mainland China playing a significant role through its focus on high-quality development, innovation, and reform.

Despite ongoing geopolitical challenges, Hong Kong's unique position under the "One Country, Two Systems" framework allows it to leverage both global and Chinese advantages to expand economic capacity and enhance competitiveness. The government emphasises the importance of integrating into national development strategies to capitalise on opportunities arising from both domestic and global economic developments. From 2026 to 2029, Hong Kong's economy is projected to grow by an average of 2.9% annually, with an underlying inflation rate expected to average 2.5% per year during this period.

Strengthening Hong Kong's Foundation to Accelerate Development (paragraphs 28 – 30)

Hong Kong's economy experienced moderate growth over the past two years, propelled by government initiatives in innovation and technology. The local stock market significantly improved, with average daily trading turnover surpassing \$200 billion—over a 50% increase from the previous year—and total market capitalisation reaching \$40 trillion. The IPO environment remains vibrant, with funds raised from new listings totalling \$88 billion last year, marking a nearly 90% year-on-year increase.

Currently, over 100 new IPO applications are in process at the Hong Kong Exchanges and Clearing Limited (HKEX). The city continues to solidify its position as Asia's largest hedge-fund centre and the second-largest for private equity management, with a notable increase in open-ended fund companies and registered limited partnership funds. Hong Kong is projected to become the world's largest cross-boundary wealth management centre by 2028.

The Office for Attracting Strategic Enterprises (OASES) attracted 66 enterprises, with 80% planning to set up global

or regional headquarters in Hong Kong. Additionally, Invest Hong Kong (InvestHK) brought in over 500 enterprises last year, resulting in direct investment exceeding \$67.7 billion. Talent admission schemes led to approximately 180,000 relocations to Hong Kong.

The government aims to attract more enterprises and visitors, with OASES announcing new strategic enterprises expected to generate \$50 billion in investment and create over 20,000 jobs. The International Organisation for Mediation (IOMed) will establish its headquarters in Hong Kong, and the Kai Tak Sports Park will soon open, enhancing cultural and tourism opportunities.

In April, Hong Kong will host the World Tourism Cities Federation's 2025 Fragrant Hills Tourism Summit, expected to attract representatives from around 40 countries. A series of mega events aimed at boosting economic growth and tourism are also planned.

Upholding Hong Kong's Principles and Innovation, and Cultivating New Quality Productive Forces (paragraphs 31 – 35)

Hong Kong is navigating a complex international environment marked by rising protectionism and unilateralism, resulting in a fragmented global political and economic landscape. As economies with shared interests begin to cooperate and form regional segments, the rapid development of artificial intelligence (AI) is reshaping the global economy. This shift, known as AI+, is influencing all industries and driving a profound restructuring of the global value chain, with a strong focus on intelligentisation and digitalisation in product design and manufacturing.

This transformation is revolutionising traditional production, business, and consumption models, redefining the core competitiveness of economies, industries, and enterprises. Hong Kong stands at a critical juncture, poised to leverage its strengths as an international platform to advance the AI industry, as emphasised by the Third Plenary Session of the 20th Central Committee of the Communist Party of China. This session highlighted the importance of scientific and technological innovation and the need for self-reliance in high-standard technology.

The directive called for comprehensive reform and high-standard opening-up, focusing on cultivating new quality productive forces tailored to local circumstances to promote high-quality development. This approach involves bold reforms and continuous innovation to unleash economic potential, with technological innovation serving as a catalyst for nurturing new industries and transforming traditional ones.

Additionally, Hong Kong is encouraged to harness the "One Country, Two Systems" framework to integrate into national development and participate in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) development. The goal is to enhance Hong Kong's connectivity with the Mainland and global markets, particularly emerging markets in the Global South, positioning Hong Kong as a "super connector" and "super value adder."

Innovation and Technology (paragraphs 36 – 60)

The budget speech emphasised Artificial Intelligence (AI) as a key driver for Hong Kong's development, aiming to position the city as an international hub for AI exchange and cooperation.

Cyberport's AI Supercomputing Centre is operational, targeting 3,000 petaFLOPS computing power. The Hong Kong Microelectronics Research and Development Institute collaborated to develop third-generation semiconductor technology, utilising the Greater Bay Area's manufacturing capabilities.

A \$1 billion allocation for the Hong Kong AI Research and Development Institute aimed to advance innovative R&D, with the Digital Policy Office overseeing initiatives to transform research outcomes into applications. The AI Subsidy Scheme approved projects focusing on big language models and other areas.

The Hong Kong Exchanges and Clearing Limited created a "technology enterprises channel" to support tech firms in fundraising, while the government planned to enhance IP tax deductions to promote IP-intensive industries.

The Hong Kong Investment Corporation Limited will host the International Conference on Embodied AI Robots to showcase technological advancements. The New Industrialisation Funding Scheme supported over 100 smart production lines, with a new Pilot Upgrade Support Scheme set to launch.

Additionally, the Hong Kong Monetary Authority and Cyberport initiated a Generative AI Sandbox for banking innovation. A \$10 billion fund will attract capital for emerging industries.

The Greater Bay Area remains crucial for innovation, with Hong Kong set to host the WIPO Global Innovation Index 2025 publication. A Working Group on the Low-altitude Economy is exploring pilot projects, while local tech companies will gain exposure through thematic displays at major exhibitions.

Finally, the Hong Kong Investment Corporation focuses on long-term investments to attract frontier technology firms, leveraging a strong co-investment model to enhance the local Innovation and Technology ecosystem.

Hong Kong's Northern Metropolis (paragraphs 61 – 71)

A Hong Kong Northern Metropolis (NM) is identified as a key driver for Hong Kong's social and economic growth, particularly in the Innovation and Technology (I&T) sector. The initiative aims to enhance participation in Greater Bay Area (GBA) development and improve living and career conditions for residents, with a focus on I&T and high-end professional services.

Key developments include the Hong Kong Park in the Hetao Shenzhen-Hong Kong Science and Technology Innovation Co-operation Zone and the San Tin Technopole, which will provide significant I&T land and support cross-boundary flows of innovation. The Hung Shui Kiu / Ha Tsuen New Development Area is planned as a hub for high-end services, utilising connections like the Shenzhen Bay Bridge.

A University Town, including a third medical school, is set to be developed in NM to bolster Hong Kong's status as an international tertiary education hub. 90 hectares of land is reserved for cultural, sports, and eco-tourism facilities, promoting a diversified approach to NM development. The government plans to pilot "large-scale land disposal" and invite market interest for development proposals.

The operational phase of the Hong Kong Park is beginning, with a budget of \$3.7 billion allocated for infrastructure development. The park is expected to contribute \$52 billion annually to the economy and create around 52,000 jobs. The San Tin Technopole will begin development in phases starting in the 2026-27 fiscal year, with a focus on I&T.

The government initiated major projects for the second phase of Hung Shui Kiu/Ha Tsuen NDA and other areas. This year, the second phase development of Yuen Long South NDA will commence, with significant outputs in residential units and industrial land anticipated in NM.

Construction of Phase 1 of the Northern Link (NOL) started, with Kwu Tung Station expected to be completed by 2027. Collaborations with Shenzhen authorities are ongoing for cross-boundary railway projects, including the Hong Kong-Shenzhen Western Rail Link and the Northern Link Spur Line, with design studies expected to begin this year.

Strengthening Hong Kong's Industries with a Competitive Edge (paragraphs 72 – 150)

The recent budget speech highlighted Hong Kong's strategic position as "three centres and a hub," leveraging the advantages of "One Country, Two Systems" to enhance existing industries and foster new developments. Hong Kong aimed to contribute to China's modernisation while achieving faster economic growth. Last year, Hong Kong ranked among the top three international financial centres and the top four initial public offering markets globally, with total assets under management exceeding \$31 trillion, primarily sourced from international investors. The offshore Renminbi liquidity pool has reached approximately RMB1.1 trillion.

The government is focused on strengthening competitive industries, particularly in the securities and derivatives market, recognising the Association of Southeast Asian Nations (ASEAN) as a significant economic region. Several ASEAN enterprises are seeking to list in Hong Kong, with HKEX planning to increase promotional efforts in the region and the Middle East. The Securities and Futures Commission (SFC) has clarified regulations to encourage private equity funds to list in Hong Kong. Ongoing reforms aim to enhance trading mechanisms and support the issuance of structured products.

The HKEX is also collaborating with the SFC to review the trading unit system to improve liquidity and efficiency. Legislative measures are being introduced for the uncertificated securities market, while the SFC plans to consult on increasing position limits for key index derivatives. The government is exploring the development of digital bonds and tokenisation to enhance the bond market. Additionally, initiatives are under way to strengthen the asset and wealth management sectors, including enhancements to the Cross-boundary Wealth Management Connect in the Greater Bay Area.

Efforts are being made to position Hong Kong as a leading offshore Renminbi business hub, with the government supporting the development of an offshore RMB yield curve. The Hong Kong RMB Clearing Bank provides 24-hour cross-border clearing services, and the HKMA plans to introduce an RMB Trade Financing Liquidity Facility. Enhancements to mutual market access with Mainland China are also being pursued, including the issuance of offshore Mainland government bond futures.

The government is actively developing its virtual asset ecosystem, balancing regulation with market growth. The recent "Consensus" event attracted global industry leaders and showcased Hong Kong's commitment to virtual assets and fintech. A consultation will be held this year to discuss licensing regimes for virtual asset trading services. Furthermore, initiatives are in place to promote the gold market and enhance Hong Kong's role as an international risk management centre.

In terms of trade, Hong Kong is expanding its network and attracting investment from Global South markets. The government is establishing Economic and Trade Offices in Malaysia and Saudi Arabia and has opened consultant offices in Cairo and Izmir. Hong Kong seeks to strengthen cooperation with countries involved in the Belt and Road Initiative, promoting project matching in green development and innovation.

To support local enterprises, the government plans to inject \$1.5 billion into various funds aimed at enhancing branding and domestic sales. The SME Financing Guarantee Scheme has approved over \$288 billion in loans, benefiting nearly 65,000 SMEs. Initiatives such as the "E-Commerce Express" aim to help local businesses tap into the Mainland market.

The government is also focusing on the maritime sector, establishing a Hong Kong Maritime and Port Development Board to enhance industry sustainability. Tax measures to support maritime activities will be introduced, and efforts are underway to develop modern logistics.

The Hong Kong International Airport returned to pre-pandemic activity levels, with plans for expansion and new projects in the pipeline. The government is facilitating the entry of China's C919 aircraft into the international market and increased medical training placements to support healthcare development.

Cultural and creative industries are being promoted, with significant funding approved for film projects. The government plans to enhance tourism through various initiatives, including partnerships with international brands and the promotion of unique tourism products. The aim is to reinforce Hong Kong's status as a global mega events capital and boost visitor experiences.

Lastly, the government is advancing the post-secondary education sector, with plans for increased funding for research initiatives and promotions to attract international students. The quota for the Hong Kong PhD Fellowship Scheme will rise, and new schemes will support the expansion of self-financing institutions.

Hong Kong as a Talent Hub (paragraphs 151 – 156)

The Government is focused on attracting top talent to Hong Kong through the Quality Migrant Admission Scheme, targeting leading professionals. Enhancements to the Admission Scheme for Mainland Talents and the General Employment Policy will allow young non-degree holders with technical skills to fill roles in trades facing manpower shortages. Hong Kong Talent Engage (HKTE) supports incoming talent and plans to host the second "Global Talent Summit · Hong Kong" next year. The Government also seeks to attract more students from ASEAN and Belt and Road countries through initiatives like the Belt and Road Scholarship.

The New Capital Investment Entrant Scheme received over 880 applications, anticipating investments exceeding \$26 billion, with plans for greater flexibility. To foster interest in Innovation and Technology (I&T) among students, the Financial Secretary partnered with various organisations to connect over 100 technology enterprises with schools for activities such as product displays and site visits. The initiative aims to enhance young people's skills in coding and AI through practical learning experiences.

Enhancing Collaboration with Cities in the Greater Bay Area (paragraphs 157 – 170)

Hong Kong and Shenzhen established the Greater Bay Area (GBA) Clinical Trial Collaboration Platform to enhance medical cooperation. The Real-World Study and Application Centre will launch by year-end to expedite drug registration approvals and promote advanced biomedical technology. The Hospital Authority is facilitating talent exchanges with healthcare professionals from the Mainland, while a new contract ensures safe cross-boundary

personal information flow.

The Hong Kong Monetary Authority and the People's Bank of China are piloting cross-boundary credit referencing, with plans for expansion. The Labour Department has relaxed requirements for the GBA Youth Employment Scheme, allowing young professionals under 30 to participate, and increasing enterprise allowances. An agreement between the Airport Authority and Zhuhai Transportation Holdings Group aims to improve airport connectivity, while a new sea-air cargo transshipment mode is being established.

The Building Technology Research Institute is aligning construction standards across regions, and collaborations with Guangdong Province focus on Modular Integrated Construction. The Department of Justice is creating a platform for GBA lawyers to enhance legal information exchange.

The Qianhai Shenzhen-Hong Kong Modern Service Industry Co-operation Zone is progressing in various policy areas, with the Qianhai Mercantile Exchange achieving over RMB100 billion in turnover. Measures allowing Hong Kong-invested enterprises to adopt Hong Kong law in other GBA cities have been extended. Cyberport is also supporting start-ups in Qianhai, with Hong Kong committed to piloting innovative policies in the GBA.

Accelerating Hong Kong's Green Development (paragraphs 171 – 182)

The development of Hong Kong's green industries is a key focus for addressing global climate change, emphasising the integration of green finance and technology to create industry clusters. The Hong Kong Sustainable Finance Action Agenda launched last year, aiming for the banking industry to achieve net zero emissions. A Roadmap on Sustainability Disclosure was introduced, targeting large publicly accountable entities to adopt sustainability reporting standards by 2028. The Pilot Green and Sustainable Finance Capacity Building Support Scheme will continue until 2028, with over 5,700 applications approved to date.

The Hong Kong Science and Technology Parks Corporation plans to transform the InnoCentre into a "GreenTech Hub," hosting over 200 green technology companies through partnerships with various institutions. The government will provide tax exemptions for green methanol used in bunkering, supporting Hong Kong's aim to become a green maritime fuel centre. Additionally, the government promoted Sustainable Aviation Fuel (SAF) at the Hong Kong International Airport, with a consumption target to be announced this year. An extra \$180 million will enhance waste reduction and recycling efforts, including expanding food waste collection and recycling networks.

Green development initiatives advanced waste-to-energy and electric vehicle infrastructure. I.PARK1, Hong Kong's first waste-to-energy facility, will commence operations this year, while plans for I.PARK2, with a treatment capacity of 6,000 tonnes per day, are underway. The number of electric vehicles surged to over 100,000, and a \$300 million subsidy scheme will support the installation of 3,000 fast chargers by 2030. The government allocated \$470 million to subsidise the purchase of around 600 electric buses and an additional \$135 million for 3,000 electric taxis.

Smart and green mass transit systems are being developed, with projects planned for Kai Tak and East Kowloon. Tenders for the Kai Tak project are expected this year, with others to follow next year. The government is also implementing a Blueprint for the Sustainable Development of Agriculture and Fisheries, reserving land for a modern livestock farm in Sheung Shui. Marine fish-culture licenses are anticipated to be issued by mid-year, alongside efforts to create a brand building and certification system for local agricultural and fisheries products.

Land and Housing Supply (paragraphs 183 – 189)

The government underscored the importance of sufficient land supply to support new industries, boost the economy, and enhance living and leisure environments. It planned to monitor the market and release land sites in a controlled manner, adjusting based on actual circumstances. Due to high vacancy rates and ample future supply, no commercial sites will be sold in the coming year to allow the market to absorb existing inventory. The government considered rezoning some commercial sites for residential use and allowing more flexible land use. Additionally, the deadline for completing in-situ land exchanges for commercial sites in the Hung Shui Kiu/Ha Tsuen New Development Area will be extended.

The Hong Kong Land Sale List for the upcoming year includes eight residential sites, along with various development projects, potentially supplying around 13,700 units to meet the projected annual demand for private housing. Sale arrangements will be announced quarterly based on market conditions. Over the next five years, the government aims to prepare land for approximately 80,000 private housing units, primarily sourced from the

Northern Metropolis and Tung Chung New Town Extension.

For public housing, enough land has been identified to meet the target of 308,000 units over the next decade, with a total supply of 190,000 units expected in the next five years, an 80% increase compared to the previous period. The completion of private residential units is projected to average over 17,000 annually in the next five years, a decrease of about 8% from the past five years, with around 107,000 units expected in the next three to four years.

Infrastructure Development in Hong Kong (paragraphs 190 – 193)

The Hong Kong government will begin detailed planning for the South Island Line (West) project this year. Construction on Route 6, including the Central Kowloon Route, is nearing completion, with full operation expected next year.

A budget of \$15 million will enhance the Centre of Excellence for Major Project Leaders to improve construction industry standards. To attract youth, \$95 million will fund on-the-job training for 1,000 part-time degree trainees, while \$150 million will subsidise training for 2,500 graduates in various construction fields to help them gain professional qualifications.

A Caring and Inclusive Community (paragraphs 194 – 209)

The government raised the upper age limit for the Youth Employment and Training Programme participants to 29 and introduced workplace attachment opportunities in the Greater Bay Area, with a budget of \$100 million for the next year. Approximately 4,000 short-term internships will be available for tertiary students to explore public service careers.

The Hong Kong Housing Authority's "Well Being · Start-Up" Programme provides rent-free shop space for young entrepreneurs, with plans for expansion and private landlord participation. The government will increase the Residential Care Service Voucher Scheme for the Elderly by 1,000 vouchers each, totalling 6,000 and 12,000, with significant annual expenditures.

The Working Group on Promoting Silver Economy will implement measures to boost silver consumption and industry, enhance product quality assurance, and improve financial arrangements for the elderly. The HKMA will develop guidelines for elderly-friendly banking services.

As of last year, about 50,000 households received allowances under the Working Family Allowance Scheme, benefiting around 170,000 individuals. The government increased allowance rates by 15%. The Mandatory Reporting of Child Abuse Ordinance will enhance child protection, with an additional \$186 million allocated annually for emergency child care and support.

The government planned to establish 14 Integrated Community Rehabilitation Centres for persons with disabilities, adding 1,280 community service places with an annual budget of \$160 million. The Pilot Project on Enhancing Vocational Rehabilitation Services will be regularised, benefiting about 10,000 people.

The Women Empowerment Fund, launched in June 2023, has supported over 240 projects, and a mentorship program for female university students will be introduced. The government will regularise District Services and Community Care Teams, increasing funding by 50%.

Plans to upgrade District Health Centre Expresses into full centres aim to strengthen community healthcare. The government is implementing 16 projects under the First Hospital Development Plan, with a review of the Second Plan to follow. A review of public healthcare subsidisation will be announced this year.

The government addressed illegal basketball betting, with turnover estimated at \$70-90 billion last year. Plans to regulate basketball betting will involve consulting the Hong Kong Jockey Club for proposals.

Hong Kong's Public Finance (paragraphs 210 – 215)

The government aims to maintain expenditure within revenue limits to ensure fiscal sustainability, as stated in Article 107 of the Basic Law. Finances are divided into two accounts: the Operating Account and the Capital Account.

The Operating Account includes revenue from taxes, investments, and fees, with expenditures covering daily ex-

penses, aiming for a surplus. The Capital Account primarily derives revenue from land and focuses on infrastructure projects. Each account is managed separately with distinct fiscal targets.

Infrastructure spending is viewed as an investment for future benefits, but economic cycles can affect Capital Account revenue, leading to potential shortfalls. In such cases, surpluses from the Operating Account or other resources may be utilised.

The Operating Account is projected to balance by fiscal year 2025-26, returning to surplus in 2026-27. The Capital Account is expected to experience a deficit during the Medium Range Forecast period due to accelerated development projects, though this deficit is anticipated to decrease annually starting from 2026-27.

Hong Kong's Revised Budget Estimates for 2024-25 (paragraphs 216 – 220)

The revised estimate for total government revenue in 2024-25 is \$559.6 billion, down 11.6% from the original estimate. Profits tax revenue remains stable at \$177.7 billion, and salaries tax at \$88 billion, showing economic resilience. However, revenue from land premiums dropped significantly to \$13.5 billion, a decrease of \$19.5 billion, and stamp duty revenue is \$58 billion, \$13 billion lower than expected.

Government expenditure for 2024-25 is revised to \$754.8 billion, \$22.1 billion less than initially estimated, with recurrent expenditure at \$562.5 billion, \$17.7 billion lower. With the issuance of \$130 billion in government bonds and repayments of \$22.1 billion, a consolidated deficit of \$87.2 billion is anticipated for 2024-25. Fiscal reserves are projected to reach \$647.3 billion by March 31, 2025.

Hong Kong's Revised Budget Estimates for 2025-26 (paragraphs 221 – 226)

The Hong Kong government planned to support economic growth, Innovation and Technology (I&T) industries, and public services in the fiscal year 2025-26. Hong Kong capital works expenditure will increase to sustain economic development, with major policy initiatives from the Hong Kong Chief Executive's 2024 Policy Address requiring \$8.1 billion in operating expenditure and \$14.1 billion in capital expenditure.

Total Hong Kong government expenditure is projected to rise by 8.9% to \$822.3 billion, representing 24.4% of nominal GDP. Recurrent expenditure is expected to increase by 4.5% to \$588.1 billion, with healthcare, social welfare, and education receiving about 60% of this allocation. Non-recurrent expenditure is anticipated to decrease by 3.4% to \$36.1 billion.

Estimated total Hong Kong government revenue for 2025-26 is \$659.4 billion, with earnings and profits tax projected at \$301.2 billion (an 8.4% increase). Revenue from land premiums is expected to rise by 55.3% to \$21 billion, and stamp duties are estimated at \$67.6 billion, a 16.5% increase. Approximately \$62 billion will be retrieved from six endowment funds.

With Hong Kong bond issuance projected at \$150 billion and repayments at \$54.1 billion, a deficit of \$67 billion is anticipated, and the fiscal reserve is expected to decrease to \$580.3 billion.

Support Measures for Hong Kong (paragraphs 227 – 228)

The government planned to introduce support measures to address industry and public pressures while considering the fiscal situation. A rates concession for domestic properties will be provided for the first quarter of 2025/26, with a \$500 ceiling, impacting 3.12 million properties and reducing revenue by \$1.5 billion. A similar concession for non-domestic properties will affect 430,000 properties, decreasing revenue by \$200 million.

For the 2024/25 assessment year, salaries tax and personal assessment will be reduced by 100%, up to a \$1,500 ceiling, benefiting 2.14 million taxpayers and decreasing revenue by \$2.9 billion. Profits tax will also be reduced by 100% for 165,400 businesses, reducing revenue by \$200 million.

Additionally, the government will provide an allowance to eligible social security recipients, equivalent to half a month of standard Comprehensive Social Security Assistance (CSSA) payments, resulting in an additional expenditure of approximately \$3.1 billion.

To ease the financial burden on buyers of lower-value properties, the maximum property value eligible for a \$100 stamp duty will increase from \$3 million to \$4 million, benefiting about 15% of transactions and reducing annual

revenue by approximately \$400 million.

Reinstating Fiscal Consolidation Programme in Hong Kong (229 – 249)

The Financial Secretary, The Hon. Paul MP Chan, emphasised reinforcing the fiscal consolidation program to uphold fiscal prudence, focusing on strict control of government expenditure while increasing revenue. Key principles included maintaining public services and preserving Hong Kong's competitive tax regime. Efforts will be intensified to manage operating expenditure, directing all departments to review resource allocation and priorities for cost-effective public service delivery through resource consolidation and technology utilisation.

The Hong Kong Productivity Enhancement Programme will be intensified, raising the recurrent expenditure reduction rate from 1% to 2% for 2025-26, with total reductions reaching 7% by 2027-28, saving approximately \$3.9 billion to \$27.3 billion over four years. The civil service establishment will decrease by 2%, resulting in about 10,000 positions being eliminated. Funding for UGC-funded universities will be reduced by 2% annually, totalling \$68.1 billion over three years.

Hong Kong transport subsidy schemes, including the \$2 Scheme for the elderly and disabled and the Public Transport Fare Subsidy Scheme (PTFSS), will be reviewed to maintain sustainability while saving an estimated \$6.2 billion over five years. The Hong Kong Audit Commission will promote fiscal prudence through workshops, and a pay freeze is proposed for executive authorities and council members for 2025-26.

To address Hong Kong's rising construction costs, the Hong Kong government aims to enhance cost-effectiveness in infrastructure projects, achieving savings through improved governance. Plans include reviewing district cooling systems for potential savings of \$40 billion. The government will consolidate financial resources by reintegrating six funds with large unspent balances into its accounts and returning \$15 billion from the Anti-epidemic Fund.

Digital transformation efforts included a single portal for online government services and the "iAM Smart" app, which connects multiple services. The Transport Department will introduce electronic licensing services, and smart estate management pilots are underway in public housing. Fee adjustments will align with the "user pays" principle, including an increase in the air passenger departure tax and application fees for talent admission schemes.

Finally, the government is reviewing tolls for major tunnels to generate additional revenue, considering a new boundary facilities fee, and has submitted a bill for the global minimum tax proposal, which could yield significant tax revenue starting from 2027-28.

Hong Kong Bond Issuance (paragraphs 250 – 255)

The Hong Kong government plans to roll out projects related to the Northern Metropolis (NM) and other significant infrastructure works, leading to an increase in capital works expenditure from an average of \$90 billion to about \$120 billion annually in the Medium Range Forecast (MRF). To ensure timely progress and economic benefits, the government will utilise market resources flexibly, including public-private partnerships and large-scale land disposal pilot areas.

To raise capital for these crucial projects, the government will issue bonds, a common financial management tool that allows for flexible capital use while maintaining fiscal prudence. Hong Kong plans to issue \$150 billion to \$195 billion worth of bonds annually from 2025-26 to 2029-30 under the Government Sustainable Bond Programme and the Infrastructure Bond Programme, with approximately 56% allocated for refinancing short-term debts.

The borrowing ceiling for these programs is expected to increase from \$500 billion to \$700 billion during the MRF period. The debt-to-GDP ratio is projected to remain between 12% and 16.5%, which is considered prudent compared to most advanced economies. Proceeds from bond issuance will be strictly allocated for infrastructure investments and not for funding recurrent expenditure, adhering to fiscal discipline. These infrastructure investments are expected to drive economic activities, generate new opportunities, and align cash flow with the requirements of longer-term projects.

Hong Kong's Medium Range Forecast (Paragraphs 256 – 261)

Hong Kong's Medium Range Forecast (MRF) provided a macro perspective on the government's projected revenue, expenditure, and financial position, incorporating the fiscal consolidation program's effects. For the fiscal year 2025-26, real economic growth is anticipated at 2% to 3%, with an average growth rate of approximately

2.9% from 2026-27 to 2029-30. Average annual capital works expenditure is projected at about \$120 billion, while recurrent expenditure is expected to rise by 3.5% annually.

The ratio of total government expenditure to GDP is expected to decrease from around 24.4% in 2025-26 to about 20.9% by 2029-30. Revenue from land premiums is forecasted to rise to 2% of GDP from 2026-27, below the 20-year average of 3.3%. Revenue growth from profits tax and other taxes is assumed to align with economic growth, maintaining the government revenue to GDP ratio at about 20% starting from 2025-26. The MRF included proceeds from the annual issuance of sustainable and infrastructure bonds, totalling approximately \$150 billion to \$195 billion.

The MRF anticipated a gradual reduction in deficits for both the Operating and Capital Accounts over the next five years. The Operating Account is projected to return to surplus starting in 2026-27, while the Capital Account deficit is expected to decrease from \$159.8 billion in 2025-26 to \$87.6 billion by 2029-30. The Consolidated Account was forecasted to achieve a surplus beginning in 2028-29, excluding potential tax concessions or relief measures post-2025-26. Fiscal reserves are projected to reach \$579.1 billion by March 2030, representing 13.9% of GDP and covering approximately eight months of government expenditure.

The Hong Kong Financial Secretary's Concluding Remarks to the Hong Kong Budget Speech 2025-26 (paragraphs 262 – 268)

Hong Kong's Financial Secretary, The Hon. Paul MP Chan highlighted the steady progress and growth momentum of Hong Kong's economy over the past year, creating favourable conditions for future development. Despite pressures on public finances, proactive measures to strengthen fiscal management are in place, fostering confidence in overcoming challenges. The Financial Secretary emphasised embracing technological transformation and innovation to drive high-quality development and contribute to national progress.

The Hon. Paul MP Chan acknowledged the need to address systemic constraints and challenges from imbalanced development, reinforcing the importance of transformation and innovation. He expressed confidence in Hong Kong's future, attributing it to the intelligence and creativity of its people, alongside strong support from the country. The Financial Secretary's remarks concluded with an acknowledgment of Hong Kong's advantageous position and the people's insight into future development trends.

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