News Focus
No.1 2024

Hong Kong Budget 2024/25

KELLY MOK

ADVISORY DEPARTMENT
JAPANESE CORPORATE BANKING DIVISION
(HONG KONG)

T +852-2823-6091
E KELLY_MY_MOK@HK.MUFG.JP
MUFG Bank, Ltd.
(Incorporated in Japan with limited liability)
A member of MUFG, a global financial group

30 APRIL 2024

On 28th February 2024, Mr. Paul MP Chan, the Financial Secretary of the Hong Kong government, announced the Hong Kong Financial Budget for FY2024/25(hereinafter the Budget). This budget proposal expresses a policy centred on fiscal reconstruction arising from the economic slump caused by the Coronavirus pandemic. This article will give an overview of the Budget, focusing on the areas of high interest to citizens and corporates.

Fiscal Balance for the 2023/24 Budget and Summary of the 2024/25 Budget

In 2023, Hong Kong's economic growth was 3.2%, reflecting positive growth in comparison with the ▲3.5% in 2022, as the Coronavirus pandemic subsided and business activities significantly recovered. The unemployment rate also remained at a low level, improving further from 3.4% (November 2022 – January 2023 period) to 2.9% (November 2023 – January 2024 period).

In terms of the fiscal balance, due to the downturn in the real estate market, revenue from land sales and stamp duties were lower than expected, resulting in a shortfall of HK$100.6 billion. The overall revenue is estimated to be HK$554.6 billion, while total expenditure is estimated to be HK$727.9 billion. The overall balance, including the government bond issuance, will be a deficit of HK$101.6 billion, far exceeding the previously forecast deficit of HK$54.4 billion. As a result, fiscal reserves at the end of March 2024 are expected to be HK$733.2 billion, demonstrating a decrease of HK$84.1 billion from the previous year).

The global economic recovery is expected to be more unstable due to geopolitical instability such as the situations in Ukraine and the Middle East, as well as risks such as the cumulative impact of interest rate hikes. The real economic growth in 2024 is expected to be 2.5%-3.5%. For the medium-term outlook, the average real growth rate from 2025 to 2028 is expected to be 3.2%.

In terms of the fiscal balance, while general revenue is estimated to be HK$633 billion, expenditures will reach HK$776.9 billion. Taking into account the government bonds of HK$120 billion and other revenues that are not included in general revenue, the budget deficit will be HK$48.1 billion. The breakdown of expenditure plan in 2024 consists of HK$379.9 billion(about 49%) for livelihood-related policy areas including health, social welfare and education, HK$105.8 billion (about 14%) for infrastructure, and HK$68.4 billion (about 9%) for security, HK$51.7 billion(about 7%) for economy. Overall, spending in infrastructure will increase by approximately 20% compared to the previous year, making it the category with the highest increase.

Fiscal reserves hit a record high of HK$1.17 trillion in FY2018-19, but are expected to decline to HK$685.1 billion by the end of March 2025. Due to increased spending to boost the economy, fiscal reserves have decreased by 42% over the past few years. However, the government expects economic growth to start from FY2025-26 and is forecasting a surplus from FY2027-28 (excluding income from government bond issuance). Fiscal reserves are estimated to rebound to HK$832.2 billion by the end of March 2029.

MAIN CONTENTS OF THE BUDGET REGARDING ECONOMIC RECOVERY AND BUSINESS SUPPORT

The Budget focuses on reducing the budget deficit and restoring balance between income and expenditure. It sets out initiatives to increase revenue and reduce expenditures, including diminishing the scope of tax exemption policies and adjusting taxes. Economic stimulus measures are also specified, such as the removal of measures to curb housing speculation and measures to revitalize the tourism industry. Even though there is fiscal pressure due to the budget deficit, priorities for budget allocation have been assigned to areas such as the environment, digital economy, and innovation and technology, which are positioned as the driving forces for Hong Kong's economic growth in the medium to long term.

	Content (Extract)
Increase Revenue	▪ Implement a two-tiered standard rates regime for salaries tax. Taxpayers whose net income exceeds HK$5 million, the first HK$5 million of their net income will continue to be subject to the standard rate of 15%, while the portion of their net income exceeding HK$5 million will be subject to the standard rate of 16% ▪ Change the Rates (property tax) from the current standard tax rate of 5% to a progressive rating system (5%, 8%, 12%) for domestic properties from the fourth quarter of 2024-25 onwards[1] ▪ Increase the Business registration fees by HK$200 to $2,200 per annum with effect from 1 April 2024[2] ▪ Increase the duty on cigarettes by 80 cents per stick with immediate effect ▪ Resume the collection of the Hotel Accommodation Tax (HAT) at a rate of 3% with effect from 1 January 2025[3] ▪ Apply the global minimum tax[4] rate of 15% on large multinational enterprise groups ▪ Issue HK$120 billion worth of bond, of which HK$70 billion will be retail tranche that includes HK$50 billion worth of Silver Bond, and HK$20 billion worth of green bonds and infrastructure bonds ▪ Issue bonds worth approximately HK$95 billion to HK$135 billion per annum in the next five years to drive the development of the Northern Metropolis and other infrastructure projects
Reduce Expenditure	▪ Suspend “Consumption Voucher Scheme” ▪ Halve the tax exemption amounts for salaries tax, profits tax and land rates ▪ Cut subsidy for residential electricity bills ▪ Continue 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
Support People and Enterprises	▪ Provide rates concession for domestic properties for the first quarter of 2024/25, subject to a ceiling of HK$1,000 for each rateable property ▪ Reduce salaries tax for the year of assessment 2023/24 by 100%, subject toa ceiling of HK$3,000
Support Enterprises	▪ Reduce profits tax for the year of assessment 2023/24 by100%, subject to a ceiling of HK$3,000 ▪ Provide rates concession for non-domestic properties for the first quarter of 2024/25, subject to a ceiling of HK$1,000 for each rateable property ▪ 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 ▪ Invite SMEs in the food and beverage industry and the retail industry to select suitable options among ready-to-use basic digital solutions (digital payment and shopfront sales, online promotion and customer-management solutions) and apply for subsidies ▪ inject HK$500 million more into the Branding, Upgrading and Domestic Sales (BUD Fund[5])

[1]The estimated annual rent of HK$550,000 or less will remain at the current rate of 5%. The portion exceeding HK$550,000 will increase to 8%, and the portion exceeding HK$800,000 will increase to 12%. Annual tax revenues are expected to increase by approximately HK$840 million per year

[2]Government revenue is expected to increase by approximately HK$300 million per year

[3] Small facilities with 10 rooms or below and those operated by non-profit organizations are exempted, and they are expected to generate HK$1.1 billion annually

[4]A minimum effective corporate tax rate of 15% was agreed upon by 131 OECD member countries in November 2021. It allows large multinational corporations with consolidated sales exceeding €750 million to collect the shortfall in the region where the headquarters or parent company is located if they are based in a country or region with a lower tax rate

[5] Short for “Branding, Upgrading and Domestic Sales Fund”. A special fund for companies' overseas brand development, business transformation, and domestic sales expansion in China

	to help SMEs boost their competitiveness and tap into Mainland and overseas markets ▪ Grant tax deduction for expenses incurred in reinstating the condition of the leased premises to their original condition. Remove the time limit for claiming the allowances for industrial buildings and structures as well as commercial buildings and structures ▪ Set up the business version of “iAM Smart” (a digital identity of enterprises platform) and the expenditure involved is estimated to be about HK$300 million
Financial Service	▪ Earmark HK$100 million to promote the sustainable development of financial services ▪ Extend the Green and Sustainable Finance Grant Scheme for 3 years and expand the scope of subsidies to cover transition bonds and loans ▪ Work on the listing of an Exchange Traded Fund(ETF) in the Middle East that tracks Hong Kong stock indices to open up new capital sources ▪ Commence Phase 2 of the e-HKD Pilot Programme. Phase 1 of “Project mBridge”, a project to interconnect central bank digital currency (CBDC) systems in various countries, is expected to be launched this year ▪ 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 ▪ Waive stamp duties payable on the transfer of real estate investment trust (REIT) units and the jobbing business of option market-makers ▪ Extend the Grant Scheme for Open-ended Fund Companies and Real Estate Investment Trusts (REIT)[6] for 3 years
Innovation・ Digital Economy	▪ Implement the first batch of direct investment and co-investment projects by "Hong Kong Investment Corporation Limited", a government-affiliated investment company in the first half of 2024 ▪ Establish the Hong Kong Microelectronics Research and Development Institute (HKMSRDI) in 2024 ▪ Allocate HK$6 billion to provide subsidies for local universities to set up life and health technology research institutes ▪ Launch a HK$10 billion New Industrialisation Acceleration Scheme (NIAS) in 2024. 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 HK$200 million ▪ Allocate HK$3 billion to support local universities, research institutes and enterprises to leverage AI Supercomputing Centre’s computing power ▪ Allocate HK$3 billion to assist local universities’ research projects which cover various fields such as AI, quantum information, integrated circuit, biotechnology etc. ▪ Allocate HK$2 billion to support the “InnoHK” (government-supported R&D platform) research clusters to establish presence in the Lok Ma Chau Loop ▪ Target to announce White Paper on the Development of the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop in 2024 ▪ Complete Batch 1 of Stage 2 of the Science Park Expansion Programme in the first quarter of 2025. The Cyberport 5 expansion project is expected to be completed by the end of 2025
Green Development	▪ Extend the first registration tax (FRT) concessions for electric vehicles for two years[7] ▪ Continue to waive the FRT for other types of electric vehicles, including electric commercial vehicles, electric motorcycles and electric motor tricycles in full over the next two years ▪ Provide HK$65 million in funding incentives for Hong Kong-registered ships that have attained high ratings under the international standards on decarbonisation formulated by the International Maritime Organization ▪ Launch a pilot scheme to explore photovoltaic technology applications on the facades of government buildings
Energise Tourism	▪ Allocate additional funding totalling HK$1,095 million funding to organise events and activities ▪ Hold pyrotechnic and drone shows every month and revamp light-and-sound show “A Symphony of Lights” ▪ Earmark HK$100 million to boost mega-event promotions over the next three years and hold more than 80 mega-events in the first half of 2024 ▪ Include Xi’an and Qingdao into the Individual Visit Scheme to strengthen Hong Kong’s tourism market

[6] A scheme which subsidizes 70% of fees paid to Hong Kong service providers for open-ended fund companies successfully incorporated or resettled in Hong Kong, and Real Estate Investment Trust (REIT) listed on the HKEX approved by the SFC
[7] Private EVs with a unit price exceeding HK$500,000 are excluded from the tax break

Housing supply	▪ Cancel all SSD, BSD or NRSD for any residential property transactions with immediate effect[8] ▪ Make further adjustment to the countercyclical macroprudential measures for property mortgage loans[9] ▪ Plan to sell eight residential sites in the 2024-25 Land Sale Programme, and anticipate having a capacity for providing about 15,000 units ▪ Anticipate over 19,000 units annually in the five years from 2024 on private housing supply. The potential supply of first hand private residential units for the next three to four years will be around 109,000 units ▪ Identify sufficient land for meeting the supply target of 308,000 public housing units over the next ten years

COMMENTS

The Budget focuses on the government's financial reconstruction. In addition to the fact that the deficit in the previous fiscal year was larger than expected, the government plans to cut spending in view of future interest rate hikes in major countries and a slump in the global economy due to geopolitical risks. The government has shown a more cautious stance than in previous years through measures such as suspending consumption vouchers, lowering the amount of tax exemptions and maintaining zero growth in the civil service. In terms of the fiscal balance, non-recurrent expenditures allocated to temporary relief and mitigation measures for FY2024-25 will be down 48% to HK$33.6 billion, a significant decrease from the previous year.

On the other hand, government spending on "social welfare, health and education" and "infrastructure" still accounts for around 60% of total expenditures. Particularly, spending on "infrastructure" has increased (by about 20% to HK$105.8 billion) compared to the previous year. At a press conference after the budget speech, Financial Secretary Chan said that the Kau Yi Chau artificial islands project will continue to be under consideration, but the specific implementation schedule will be determined after considering the financial situation. On another note, he stated that the Northen Metropolis project is “progressing according to schedule”. According to Chan, the Northern Metropolis is positioned as an important hub for Innovation and Technology (I&T) in Hong Kong's industrial development. The Northern Metropolis not only has more land available, Chan also emphasized its importance of fostering cooperation with neighbouring Shenzhen, the Greater Bay Area and other cities.

Along with measures to reduce spending to prevent the deterioration of financial conditions, emphasis is also placed on securing financial resources for key infrastructure projects including the Northen Metropolis and expanding revenue to maintain fiscal balance. Regarding infrastructure, it is said that about HK$95 billion to 135 billion will be raised by the issuance of bonds every year over the next five years. In addition, as a short-term countermeasure, rates and personal income tax review as well as special taxes such as tobacco tax and accommodation tax will be introduced. In terms of medium to long-term revenue sources, in order to achieve new sources of growth from traditional industries such as trade, financial services and real estate, priority is allocated to new industries such as technology and green industries despite the budget deficit widening. The South China Morning Post on 29th February, reported that the measures will also be expected to ensure "high-quality growth" from a medium to long-term perspective. Patrick Yeung, CEO of the Hong Kong General Chamber of Commerce, remarked that this direction is healthy and positive, evaluating it as "a solid step to face difficulties".

On the other hand, former Financial Secretary John CW Tsang noted that Hong Kong has entered an era of structural fiscal deficit. As reported by HK01 on 4th March, Tsang pointed out that the measures to expand the revenue are "a drop in the bucket”. He expressed concerns about the effect of issuing bonds in a high-interest environment. Also, he warned that issuing bonds continuously for recurrent expenditure and repaying bonds could hollow out of finances and negatively affect Hong Kong's credit rating. In response, Financial Secretary Chan reassured, "There is no worry that the government will fall into a structural budget deficit," and said that the Operating Account excluding government bond issuance revenue is expected to recover in FY2026-27, with the overall balance likely to return to a surplus in FY2027-28. He also reemphasized that the income from government

[8] “Special Stamp Duty” (SSD), an additional tax on short-term resales; “New Residential Stamp Duty” (NRSD), a tax on the purchase of a second or subsequent residential property by a Hong Kong resident; “Buyer's Stamp Duty” (BSD), a tax on the purchase of a residential property by a foreigner

[9] The loan ceiling for owner-occupied housing will be increased to 70% of the price for properties under HK$30 million and to 60% of the price for properties between HK$30.001~35 million. For non-residential properties, the maximum loan limit is also changed from 60% to 70%. In addition, the bank's stress test obligation (a review which adds 2% to the interest rate to test whether the loan repayment burden does not exceed 60% of income) will be cancelled

bonds cannot be used for the government's regular expenses. The Financial Secretary is currently of the view that the government's borrowing is at a "moderate level", and from FY2024-25 to FY2028-29, Hong Kong's debt balance is forecasted to represent only 9-13% of GDP, a figure considerably lower than other economies.

In addition to fiscal consolidation measures, the total lifting of property restrictions in this budget is also gaining attention. The Policy Address issued in October 2023 announced the reduction of the New Residential Stamp Duty (NRSD) at the time of property purchase. However, against the backdrop of high interest rates and stock market downturn, the housing market is experiencing a slowdown. There are growing concerns that this will put downward pressure on the overall economy, including consumption, and many market participants have called for the abolition of stamp duty. (This trend is raising concerns about downward pressure on the overall economy, including consumption, leading many market participants to call for the abolition of stamp duty.) Chan explained that speculation control measures are "already unnecessary" given the current economic situation, and he announced the complete removal of property curbs. This move has been welcomed by the property industry. On the same day as the release of the Budget, Real Estate Developers Association of Hong Kong, issued a statement saying that "the property market is returning to healthy development and economy will regain momentum." According to the Hong Kong Economic Times on 28th February, Joseph Tsang, chairman of JLL Hong Kong, commented in response to the policy, the housing transaction volume in 2024 is expected to increase significantly by 10%-15%, slowing the downward trend in property prices and leading to a soft landing in the property market. Victor Lui, Deputy Director and General Manager of Sun Hung Kai Properties, expressed the belief that the policy will lead to "revitalization" and "early recovery" of the property market, and the company will start sales in Kai Tak, Yuen Long and Tuen Mun as scheduled in the near future.

Despite the continually complex external environment and uncertain outlook for the global economy, the government’s optimistic view of the Hong Kong's economic growth prospects is evident from this Budget. The Financial Secretary predicted the external environment will continue to put pressure on Hong Kong's exports in 2024, but he also pointed out that if monetary easing occurs within the year, it will have positive impacts on exports. Additionally, the government is working on attracting mega events, predicting an increase in inbound travellers and subsequently leading to growth in service exports. He mentioned that rising citizen incomes will support private consumption, and fixed asset investment will also expand with economic growth.

In addition to the external environment, the key to the future of Hong Kong's economy will be the effects of the property and tourism revitalisation measures as well as long-term funding policies set out in this budget proposal. We will continue to provide relevant information while keeping an eye on future policy developments.

- Please refer to the below links for previous News Focus:

(English) https://www.bk.mufg.jp/report/chi200402/Archive_ENG.pdf

(Japanese) https://www.bk.mufg.jp/report/chi200402/Archive_JPN.pdf