

Budget Speech by the Financial Secretary (1)

Following is the full text of the Speech on the 2021-22 Budget delivered by the Financial Secretary, Mr Paul Chan, in the Legislative Council today (February 24):

Mr President, Honourable Members and fellow citizens,

I move that the Appropriation Bill 2021 be read a second time.

Introduction

2. Over the past year, we all have experienced a very different life. The epidemic has aggravated the economic recession. Face masks have become a daily necessity. We might have spent more time at home, but we have fewer opportunities to gather with our relatives and friends. The year 2020 has become our common memory.

3. The epidemic has made us realise that globalisation is not only a driving force for economic development, but also the key to victory in the fight against viruses and epidemics. No place on earth can stay aloof and remain unaffected. Only with concerted efforts can we successfully beat this pandemic of the century that has plagued the entire world.

4. Hong Kong went through tribulations in the past two years. International political tensions have dampened local exports and market sentiments; violent clashes have endangered the stability and safety of our society; and the epidemic has exerted additional pressure on the whole community and economy. In the past year, Hong Kong's economy recorded a negative growth of 6.1 per cent with the latest unemployment rate rising to seven per cent. The Government of the Hong Kong Special Administrative Region has committed a total of nearly \$300 billion for supporting measures, with a view to stabilising the economy and relieving people's burden. However, this has also brought the fiscal deficit to a record high.

5. With the epidemic still lingering, our economy is yet to come out of recession. Our most urgent task is to contain the epidemic and press ahead with the vaccination programme, so that people and businesses can be back on track, and safe travelling between Hong Kong and the Mainland as well as the rest of the world can be resumed as soon as possible. I will, as always, provide the resources required to fully support the anti-epidemic work.

6. This year's Budget focuses on stabilising the economy and relieving people's burden. It aims to alleviate the hardship and pressure caused by the economic downturn and the epidemic through the introduction of counter-cyclical measures costing over \$120 billion; and seeks to create a leverage effect to benefit our people, workers as well as enterprises. It is equally important that we should grasp the major directions and new trends of future

development to strategically enhance our policy steering, support measures and resources allocation in key areas. This will not only bring new impetus to our industries, but also enable them to have a more dynamic, diverse and interactive development. I will go into more details in the ensuing paragraphs.

Economic Situation in 2020

7. Last year, the COVID-19 pandemic ravaged the world, causing unprecedented repercussions on the global economy. The International Monetary Fund (IMF) estimated that the global economy contracted significantly by 3.5 per cent for the year as a whole. At the onset of the outbreak, governments around the world implemented stringent social distancing requirements and widespread lockdowns, plunging many major economies into a deep recession in the first half of last year. Amid a sharp fall in external demand caused by the epidemic, Hong Kong's total exports of goods tumbled by 9.7 per cent year-on-year in real terms in the first quarter of last year. Later, with a strong rebound in the Mainland economy after its epidemic situation was kept under control and the gradual recovery of other major economies in the second half of the year, Hong Kong's total exports of goods resumed growth in the second half of the year. Yet, there was still a mild decrease of 0.3 per cent for the year as a whole.

8. Under the threat of the epidemic, inbound tourism was brought to a frozen state for most of the time last year amid extensive travel restrictions worldwide. Exports of travel services fell drastically by 90.5 per cent for the year as a whole. Exports of financial services saw a moderate growth in the period, but total exports of services still registered a record decline of 36.8 per cent for the year as a whole.

9. Given the volatile local epidemic situation, social distancing measures were tightened from time to time. This, coupled with the weak job and income conditions, has dampened local consumer sentiments. Private consumption expenditure dropped significantly by 10.1 per cent for the year as a whole despite some narrowing of the decline in the second half of the year. Amid the highly uncertain business outlook, investment expenditure fell by 11.5 per cent.

10. Hong Kong's overall economy contracted substantially by nine per cent in the first half of last year. While a slight improvement was seen in the third quarter, it has been hit again by the epidemic since the latter part of the fourth quarter. For 2020 as a whole, the economy contracted by 6.1 per cent, the largest annual decline on record. It is also the first time for Hong Kong to register two consecutive years of negative growth.

11. The labour market deteriorated sharply. The seasonally adjusted unemployment rate went up from 3.3 per cent in the fourth quarter of 2019 to seven per cent in the latest period, the highest in close to 17 years. Amid the epidemic, the consumption-and tourism-related sectors were hit hard. The unemployment rate of the retail, accommodation and food services sectors combined rose to 11.3 per cent. In particular, the unemployment rate of the food and beverage services sector reached a high level of 14.7 per cent. The

unemployment rate of the construction sector also reached a double-digit level. Household incomes fell markedly in the year.

12. Amid a lacklustre economy, pressures on consumer price inflation were modest. Netting out the effects of the Government's one-off measures, the underlying inflation rate was 1.3 per cent for last year as a whole, down 1.7 percentage points from the year before.

13. As for the property market, the residential property market was generally stable last year. Prices of commercial and industrial properties fell visibly from their peak in 2019, and transaction volume dropped to a record low. Following the relaxation of macro-prudential measures for mortgage loans on non-residential properties by the Hong Kong Monetary Authority (HKMA), as well as the abolition of the Doubled Ad Valorem Stamp Duty on non-residential property transactions by the Government, there was a slight rebound in transactions in the latter part of last year.

(To be continued.)