

# Budget Speech by the Financial Secretary (1)

Following is the full text of the Speech on the 2025-26 Budget delivered by the Financial Secretary, Mr Paul Chan, to the Legislative Council today (February 26):

Mr President, Honourable Members and fellow citizens,

I move that the Appropriation Bill 2025 be read a second time.

## Introduction

2. The Budget is presented at the halfway stage of the current-term Government.

3. Over the past year, we have seen a number of positive developments in Hong Kong. Our economy has grown for two consecutive years. The employment market has been stable, while inflation remains moderate. Our efforts to attract talent and enterprises have been remarkably successful. The successive staging of large scale international mega events has been coupled with a notable increase in visitor arrivals. And sentiment in the stock market continues to improve alongside a generally buoyant atmosphere across the city.

4. Nevertheless, Hong Kong has also experienced a lot of challenges. The international geopolitical landscape has caused disruptions to trade, supply chain, cash flow and sentiment in the investment market. Local asset prices are contained under a relatively high interest rate environment, whereas the retail and catering markets are still troubled by changes in the consumption pattern of visitors and our residents.

5. While putting Hong Kong's economic resilience to the test, these challenges signify to us the necessity to reform, innovate and relentlessly improve in the process of economic development. Although the large-scale, counter-cyclical measures launched over the last few years in response to the pandemic have helped us achieve our goal of "supporting enterprises, safeguarding jobs, stabilising the economy and easing the burden on people", we have experienced fiscal deficits these few years as a result. Last year, revenue related to the asset market was far lower than expected due to a host of internal and external factors, and we continue to record a higher deficit this year.

6. In this Budget, I propose a "reinforced version" of the fiscal consolidation programme, including a cumulative reduction of government recurrent expenditure by seven per cent from now through 2027-28. Strictly containing public expenditure is a must, but we should proceed in a steady and prudent manner and be careful to find a balance among the various impacts

that may arise in the process. While laying a sustainable fiscal foundation for future development, this approach represents our all-out effort to minimise the impact on public services and people's livelihood. It gives us a clear pathway towards the goal of restoring fiscal balance in the Operating Account, in a planned and progressive manner, within the current term of the Government.

7. To seize the opportunities brought about by the rapid advancement of innovation and technology, we must accelerate the development of the Northern Metropolis (NM). It is an investment in our future. Given our prerequisites and capabilities, we can suitably expand the size of bond issuance on the premise of maintaining healthy public finances and use the funds raised in a proper and flexible manner to invest in Hong Kong's future and create value for our society.

8. In the midst of global changes, technological innovation is our core engine. We must expedite our economic development, in particular boosting new economic driving forces while enhancing the competitive edge of traditional industries at an accelerated pace. Technology reform and artificial intelligence (AI) development are remolding the global landscape, leading to the emergence of new industries, new forms of business, new products and new services. We have to seize the opportunity to make the most out of this critical window to speed up our development, establishing the new before abolishing the old. Transformation and innovation will lead our way into the future, and we are poised to fast-track the high quality development of Hong Kong's economy. I will elaborate on this a little later.

#### Economic Situation in 2024

9. Last year, Hong Kong's economy progressed steadily amid a complicated and changing environment. The unstable international geopolitical situation, escalated trade conflicts and elevated global interest rates exerted adverse impact on local economic activities and confidence. Nevertheless, our country's economy is making steady progress and has rolled out measures benefitting Hong Kong one by one. Together with the Government's initiatives to boost the economy and interest rate cuts by the US since mid-September, they all provided support to different economic segments in Hong Kong. Hong Kong's economy recorded moderate growth of 2.5 per cent last year.

10. The International Monetary Fund (IMF) estimated that the global economy grew by 3.2 per cent last year. Supported by the continuing expansion of external demand, Hong Kong's total exports of goods grew by 4.7 per cent in real terms.

11. As a result of our country's various measures benefitting Hong Kong, together with a large number of mega events organised throughout the year and the recovery of our air traffic capacity, the number of visitors increased by about 30 per cent to approximately 45 million last year, boosting the travel and transport services. Other cross-boundary economic activities also improved. Total exports of services grew by 4.8 per cent for the year.

12. As the economy grew and the Government took forward infrastructure projects, overall investment expenditure rose by 2.4 per cent. Private consumption expenditure, however, slightly declined by 0.6 per cent for the year, as a result of changes in the consumption pattern of local residents.

13. The labour market remained tight. The latest unemployment rate stayed low at 3.1 per cent. The median monthly employment earnings of full-time employees grew by a solid 4.8 per cent, year-on-year, in the fourth quarter of last year.

14. Inflation was mild in overall terms. Netting out the effects of the Government's one-off measures, the underlying consumer price inflation rate was 1.1 per cent last year.

15. Sentiment in the asset markets improved during the year, benefitting from a series of measures of the Central Government to support Hong Kong's capital market, as well as the rate-cut cycle of the US. The stock market saw increases in both prices and turnover volume. The Hang Seng Index rose by 18 per cent for the year, and the average daily turnover increased by 26 per cent. Funds raised by new listings increased to \$88 billion.

16. The residential property market continued to adjust in the first three quarters of last year. But it stabilised after the interest rate cuts. For the year, the number of transactions increased by 23 per cent to about 53 000, while property prices fell by seven per cent. The non-residential property market remained stagnant.

#### Economic Outlook for 2025 and the Medium Term

17. The Hong Kong economy still faces a very challenging external environment, but there are quite a few positive factors at the same time.

18. Trade protectionism affects global trade and capital flows, dampens investment and consumer confidence, and weighs on global economic growth. It is encouraging that the Mainland economy continues to grow steadily. Our country's domestic and international circulation, expansion of high-standard opening-up, global setup of industry chains and supply chains by Mainland enterprises, etc. benefit the steady development of external trade. In addition, the Mainland economy is resilient and has a solid foundation. The Central Government's implementation of a more proactive fiscal policy and a moderately accommodative monetary policy, along with its efforts to expand domestic demand, add momentum to economic growth.

19. The gradual easing of monetary policies by major central banks should support their economic growth. However, the economic and trade policies of the US have brought uncertainties to the pace of rate cuts this year. The European Central Bank also indicated that it would lower interest rates further if inflation broadly trends towards its target level. According to the IMF's latest projections, the global economy will grow by 3.3 per cent this year, slightly higher than last year.

20. Against the above backdrop, Hong Kong's exports are expected to see steady performance this year. Moreover, riding on various policies and good momentum of last year, visitor arrivals should continue to increase. Together with the recovery of other cross-boundary economic activities, these should drive continuing growth in services exports.

21. On domestic demand, investors may be more cautious due to uncertainties in the external environment. However, the expected relaxing of the global financial conditions will bode well for fixed asset investment. After last year's adjustment, private consumption showed stabilising signs towards the end of the year. A sustained increase in residents' income and steady development of the asset markets would boost consumption further.

22. Based on the above considerations, we forecast that Hong Kong's economy will continue to grow moderately this year, rising by two to three per cent in real terms for the year.

23. As for prices, it is expected that domestic cost pressures might increase as the economy continues to grow. External price pressures should remain broadly in check, though geopolitical situation might bring risks. We forecast the underlying inflation rate and headline inflation rate this year to be 1.5 per cent and 1.8 per cent respectively.

24. In the medium term, monetary policy normalisation will help sustain solid growth in the global economy. The "Global South", in particular the Mainland, will continue to be an important driver of global economic growth.

25. Geopolitics will still bring challenges to Hong Kong's economy. However, the Mainland is promoting high-quality development through scientific and technological innovation, comprehensively deepening reform, and expanding high-standard opening-up. Hong Kong is also making every effort to promote market diversification and open up new growth areas, and the economy is expected to grow steadily.

26. Under "one country, two systems", Hong Kong is the only place in the world that combines the global advantage and the China advantage. The current term Government has been vigorously expanding economic capacity and enhancing competitiveness, and achieved considerable results. As long as we actively integrate into our country's development and proactively align with national development strategies, we will definitely continue to seize new opportunities arising from the economic development of our country and the world, creating a bright future.

27. We forecast that Hong Kong's economy will grow, on average, by 2.9 per cent a year in real terms from 2026 to 2029. The underlying inflation rate is forecast to be on average 2.5 per cent a year.