[Budget Speech by the Financial Secretary (10)]

Public Finance

210. The Government has been adhering to the principle of keeping the expenditure within the limits of revenues as enshrined under Article 107 of the Basic Law and strives to achieve fiscal balance over a period of time to ensure the resilience and sustainability of our public finances.

211. Let me elaborate on the Government's current fiscal position.

212. Government revenue and expenditure are broadly presented in two major accounts, namely the Operating Account and the Capital Account. The revenue of the Operating Account mainly comes from various types of tax revenue, investment income, government fees and charges, and so on, while its expenditure is largely attributed to the Government's daily expenses. As for the Capital Account, its revenue is mainly land-related, while its expenditure largely involves infrastructure works projects and land acquisition.

213. In view of the different composition and nature of the Operating Account and the Capital Account, we have to manage them separately with different fiscal targets and methods. The Operating Account should be managed on the basis of keeping expenditure within the limits of revenues with the target of achieving a surplus.

214. As for the Capital Account, expenditure on infrastructure works is our investment for the future. For instance, the NM development, which will bring economic and social benefits upon completion, has to be taken forward to meet the needs for social and economic development. However, as revenue is susceptible to economic cycles, there may be a shortfall between revenue and expenditure. Under such circumstances, we can utilise the surplus in the Operating Account or our fiscal reserves as support, or make flexible use of market resources, including various forms of public private partnership and bond issuance.

215. We forecast that the Operating Account will largely achieve balance in 2025-26 and return to a surplus starting from 2026-27. The Capital Account is estimated to record a deficit in the Medium Range Forecast (MRF) period due to the accelerated development of the NM and other public works projects relating to the economy and people's livelihood. Nevertheless, the level of deficit will decline year on year from 2026-27 onwards.

Revised Estimates for 2024-25

216. The 2024-25 revised estimate on total government revenue is $559.6 billion, lower than the original estimate by 11.6 per cent.

217. Among them, revenues from profits tax and salaries tax remain stable at $177.7 billion and $88 billion respectively, comparable to the original estimates, demonstrating the strong resilience of Hong Kong economy.

218. However, as asset market is under pressure, government revenues from land premium and stamp duties have declined. Revenue from land premium is $13.5 billion, substantially lower than the original estimate by $19.5 billion. Revenue from stamp duties of $58 billion is lower than the original estimate by $13 billion.

219. Government expenditure for 2024-25 is comparable to the original estimate. The revised estimate of total government expenditure for 2024-25 is $754.8 billion, lower than the original estimate by $22.1 billion. Of this, the recurrent expenditure is $562.5 billion, lower than the original estimate by $17.7 billion.

220. Taking into account the issuance of government bonds of $130 billion and repayments of $22.1 billion, it is expected that there will be a consolidated deficit of $87.2 billion for 2024-25. Fiscal reserves are expected to be $647.3 billion by March 31, 2025.

Estimates for 2025-26

221. Looking ahead to 2025-26, the Government will continue to provide resources for consolidating momentum on economic growth, promoting the accelerated development of I&T industries, and enhancing public services. We will also increase capital works expenditure to cater for the NM and other public works projects relating to the economy and people's livelihood, so as to support the sustained economic development of Hong Kong.

222. The major policy initiatives announced in the 2024 Policy Address involve operating expenditure of $8.1 billion and capital expenditure of $14.1 billion. The financial implications of such initiatives have been reflected in the estimates for 2025-26.

223. Total government expenditure for 2025-26 will increase by 8.9 per cent to $822.3 billion, with its ratio to nominal GDP projected to be 24.4 per cent.

224. Recurrent expenditure for 2025-26 will increase by 4.5 per cent to $588.1 billion. Of this, substantial resources will still be allocated to livelihood related policy areas including healthcare, social welfare and education, involving a total of $348.6 billion, representing about 60 per cent of recurrent expenditure. Non recurrent expenditure will decrease by 3.4 per cent to $36.1 billion.

225. Total government revenue for 2025-26 is estimated to be $659.4 billion, while earnings and profits tax are estimated to be $301.2 billion, increasing by 8.4 per cent over the revised estimate for 2024-25. On the basis of the Land Sale Programme and the land supply target of 2025-26, revenue from land premium is estimated to be $21 billion, increasing by 55.3 per cent over the revised estimate for 2024-25. Having regard to the recent trading conditions

of the stock market, revenue from stamp duties is estimated to be $67.6 billion, increasing by 16.5 per cent over the revised estimate for 2024-25. Besides, we will bring back about $62 billion from six endowment funds established outside the government accounts.

226. Taking into account the bond issuance of about $150 billion and repayments of about $54.1 billion in 2025-26, a deficit of $67 billion is expected for the year, and the fiscal reserve will decrease to $580.3 billion.

Support Measures

227. Having regard to the pressure faced by some industries and the people, and the Government's fiscal situation, we will introduce the following measures:

(a) provide rates concession for domestic properties for the first quarter of 2025/26, subject to a ceiling of $500 for each rateable property. This measure will involve 3.12 million domestic properties and reduce government revenue by $1.5 billion;

(b) provide rates concession for non-domestic properties for the first quarter of 2025/26, subject to a ceiling of $500 for each rateable property. This measure will involve 430 000 non-domestic properties and reduce government revenue by $200 million.

(c) reduce salaries tax and tax under personal assessment for the year of assessment 2024/25 by 100 per cent, subject to a ceiling of $1,500. The reduction will be reflected in the final tax payable for the year of assessment 2024/25. This measure will benefit 2.14 million taxpayers and reduce government revenue by $2.9 billion;

(d) reduce profits tax for the year of assessment 2024/25 by 100 per cent, subject to a ceiling of $1,500. The reduction will be reflected in the final tax payable for the year of assessment 2024/25. This measure will benefit 165 400 businesses and reduce government revenue by $200 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 also apply to recipients of the Working Family Allowance, altogether involving an additional expenditure of about $3.1 billion.

228. To ease the burden on buyers of residential and non-residential properties at lower values, I announce that the maximum value of properties chargeable to a stamp duty of $100 will be raised from $3 million to $4 million with immediate effect. This measure is expected to benefit about 15 per cent of property transactions and reduce government revenue by about $400 million annually.