

Budget Speech by the Financial Secretary (12)

Bond Issuance

250. In the coming years, projects related to the NM will be rolled out progressively. Together with other important infrastructure works projects aimed at improving people's livelihood, the capital works expenditure of the Government will start reaching its peak. In the MRF, capital works expenditure is expected to increase from the previously estimated \$90 billion per annum on average to about \$120 billion per annum on average in future.

251. To ensure that these strategic infrastructure works projects can proceed on schedule and deliver early benefits to the economy and the public, we will leverage market resources more flexibly, including adopting more diverse development models to take forward the relevant projects, such as more public-private partnerships, in-situ land exchanges, pilot areas for large-scale land disposal, etc. We will also raise capital by issuing government bonds, with a view to ensuring that the progress of projects crucial to the future development of Hong Kong will not be impeded by the fiscal position.

252. Issuing government bonds is one of the public financial management tools. Issuing bonds to support infrastructure development is a common practice worldwide. As long as the amount of bonds issuance is contained at a level that ensures fiscal prudence, capital can be utilised flexibly and for investing in future economic development, bringing greater returns and benefits to the society.

253. Hong Kong has the prerequisite and capability to suitably increase bond issuance, thereby effectively utilising market resources. With the increase in capital works expenditure, I will expand the scale of bond issuance accordingly. It is expected that during the five-year period from 2025-26 to 2029-30, a total of about \$150 billion to \$195 billion worth of bonds will be issued under the Government Sustainable Bond Programme and the Infrastructure Bond Programme every year. About 56 per cent of the bonds issued will be used for re-financing short-term debts.

254. We expect the borrowing ceiling of the above two bond programmes to increase from the existing level of \$500 billion to \$700 billion in the MRF period. The ratio of government debt to GDP will stay at 12 to 16.5 per cent, which is a prudent and manageable level, and is much lower than most of the advanced economies.

255. I emphasise that proceeds from bond issuance will be used to invest in infrastructure, but not to fund government recurrent expenditure, which is the fiscal discipline that we have been strictly adhering to. Apart from leveraging market capital to support infrastructure works projects, the Government issues bonds with the aim of fostering the development of the bond market. On the other hand, economic activities and development of industries

driven by infrastructure investments will generate new development opportunities and revenues to Hong Kong. Issuing longer-term bonds to support longer-term projects could also align cash flow with project requirements.

Medium Range Forecast

256. The MRF projects, mainly from a macro perspective, the revenue and expenditure as well as financial position of the Government. It has fully reflected the impact of the measures under the reinforced fiscal consolidation programme. For 2025-26, a real economic growth rate of two to three per cent is adopted, and that for 2026-27 to 2029-30 is about 2.9 per cent per annum.

257. During the above period, the average annual capital works expenditure will be about \$120 billion, while recurrent government expenditure will grow at a rate of 3.5 per cent per annum. The ratio of total government expenditure to GDP will gradually fall from about 24.4 per cent for 2025-26 to about 20.9 per cent for 2029-30.

258. Regarding revenue from land premium, the forecast is made at a conservative level. For 2026-27 and onwards, it is assumed to be progressively rising to two per cent of GDP, which is lower than the 20-year average ratio of 3.3 per cent. I also assume that the growth rate of revenue from profits tax and other taxes will correspond to the economic growth rate in the next few years. Overall, the ratio of government revenue to GDP will maintain at about 20 per cent starting from 2025-26.

259. In addition, the MRF reflects the proceeds from the annual issuance of government sustainable bonds and infrastructure bonds worth about \$150 billion to \$195 billion in total.

260. Based on the above assumptions and arrangements, the deficits in the Operating Account and Capital Account in the next five years will gradually reduce every year. The Operating Account is estimated to return to a surplus from 2026-27 onwards, while the deficit in the Capital Account will fall progressively from \$159.8 billion in 2025-26 to \$87.6 billion in 2029-30. After taking account of net proceeds from the issuance of bonds, the Consolidated Account will return to a surplus starting from 2028-29. The above forecast has not taken into account any tax concessions or relief measures that the Government may implement after 2025-26.

261. Fiscal reserves are estimated at \$579.1 billion by the end of March 2030, representing 13.9 per cent of GDP, or equivalent to about eight months of government expenditure.

Concluding Remarks

262. Mr President, over the past year, the steady progress of our economy, along with a sustained growth momentum, has created favourable conditions for our future development.

263. In the face of pressure on public finances, we have proactively taken a

package of measures to strengthen fiscal management. We have every confidence and determination to overcome the challenges.

264. Riding on the wave of technology transformation, we stay bold in taking forward reform and ready to embrace innovation. This will enable us to make the most of the breakthroughs brought about by technology innovation to accelerate the high quality development of Hong Kong and contribute to our country.

265. We have to start with the system, removing the constraints and bottlenecks in the course of our development, while overcoming the challenges arising from imbalanced development and uneven share of the fruits of advancement. This reinforces our belief that we must respond to challenges with transformation, drive development with innovation, and lead the future with technology.

266. I have full confidence in and high expectation for the future of Hong Kong. I am confident because Hong Kong people are intelligent, creative and tireless in contributing to our economic development. More importantly, it is due to the staunch and unwavering support we receive from our country. I also owe my confidence to Hong Kong people's profound insight into the major development trend of the future, as well as the city's enviable and advantageous position.

267. The colour of the cover of this year's Budget is lake blue, which symbolises a blue ocean of limitless potential for future development. It also represents the deep reserves of strength and promising prospects of high-quality economic development, which resemble the deep waters that contain enormous vitality and infinite possibilities.

268. Together, we can shape our future with actions, break boundaries with innovation, and pitch in to create a more prosperous, caring, diverse and international Hong Kong, unravelling a new chapter exclusively for this city and contributing to the building of China into a great country through Chinese modernisation!