

LegCo Secretariat releases Research Brief on “The 2020-2021 Budget”

The following is issued on behalf of the Legislative Council Secretariat:

The Legislative Council Secretariat (the Secretariat) today (April 3) released a Research Brief on "The 2020-2021 Budget".

The Financial Secretary delivered his third Budget of the current-term Government on February 26 and reported a fiscal deficit of HK\$37.8 billion in 2019-2020 financial year. The budget deficit is expected to more than triple to HK\$139.1 billion in 2020-2021, mostly due to a new package of relief measures of HK\$122 billion, or 4.3 per cent of Gross Domestic Product (GDP) in 2019, to combat COVID-19.

Within this largest fiscal relief package in the history of Hong Kong, 28 per cent are tax refunds and 9 per cent are targeted for enterprises. For the rest of 63 per cent, they are universal cash payout scheme (CPS) which pays HK\$10,000 to all permanent residents aged 18 or above in Hong Kong and other initiatives to support lower-income families, both bringing forth stronger income redistributive effect than the previous five Budgets.

There are concerns over the practical arrangement of CPS, in view of the past practice of taking about 19 months to complete cash payout. This is deemed to be much longer than that of only 4-10 months in Macao and Singapore. The administrative cost of about HK\$140 per successful application under CPS also appears to be on the high side.

Globally, many governments have introduced pandemic-induced fiscal relief packages in February to March 2020 to combat COVID-19. These packages exceed 10 per cent of GDP in many advanced places, including the United Kingdom (22 per cent), the United States (11 per cent) and Singapore (11 per cent). Majority of them are loan guarantees assisting enterprises to survive amidst business shutdown.

After recording fiscal surplus for 15 years in a row, Hong Kong's fiscal balance is expected to stay in red for the next five years. Some are concerned about local fiscal discipline, while others view it as a good use of the accumulative fiscal surplus of over HK\$1.13 trillion for rainy days. But the risks of structural deficits in the longer term cannot be dismissed, due to profound impacts of ageing on demand for social services, shrinking workforce and intertwined relationship between tax base and the structure of income distribution. Also, there is more overseas skepticism over Hong Kong as a global financial centre and best place to do business after social unrest last year, which might have implications for local tax base in the longer term.

Meanwhile, public housing plays a key role in social mobility, with

greater poverty alleviation effect than the Comprehensive Social Security Assistance. Yet the share of housing in public expenditure halved from 10.2 per cent in 1997-1998 to 5.0 per cent in 2019-2020, along with a plunge in the supply of public rental housing (PRH) flats. As supply of PRH flats is forecast to hover at a low average annual level till 2023-2024, its adverse impact on income disparity will still be felt in the medium term.

The Legislative Council will resume the Second Reading debate on the Appropriation Bill 2020 at its meeting of April 22 and Members will speak on the Bill.

The Research Brief is prepared by the Secretariat's Research Office of the Information Services Division with a view to enhancing information support for Members. It is a concise summary aiming at explaining a subject matter which may be of interest to Members and the general public.

The Research Brief is now available on the Legislative Council Website at www.legco.gov.hk/research-publications/english/1920rb01-the-2020-2021-budget-20200403-e.pdf.