

LegCo Secretariat releases Research Brief on “The 2025-2026 Budget”

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

The Legislative Council Secretariat (the Secretariat) today (March 13) released a Research Brief on "The 2025-2026 Budget".

The Financial Secretary (FS) presented the third Budget of the current-term Government on February 26, 2025. Even though the revenue from profits tax and salaries tax has increased, the continued plunge in land-related revenue amidst ongoing property market corrections, along with further growth in public expenditure on infrastructural investment and health services, as well as other factors, led to another fiscal deficit of HK\$87.2 billion for the 2024-2025 fiscal year. The fiscal reserves have declined to HK\$647.3 billion, representing a cumulative reduction of 45 per cent in six years.

To tackle the fiscal deficit, FS unveiled the "reinforced" fiscal consolidation programme, aiming to trim down the deficit by 23 per cent to HK\$67 billion or 2 per cent of GDP in the 2025-2026 fiscal year. The programme covers a number of revenue-generating initiatives worth of some HK\$20.2 billion per annum and cost-saving initiatives worth of some HK\$113.4 billion across the next few years (see Annex 1). FS expected that the overall fiscal balance will revert to surplus three years later in the 2028-2029 fiscal year.

The Research Brief highlighted several key consolidation initiatives in the Budget. Amongst the initiatives, FS planned to freeze the pay of civil service. Assuming a 3 per cent increase in market wages, the potential savings are about HK\$8.7 billion. The Budget also proposed to cut the civil service establishment by about 10 000 posts in two years. However, the downsizing seems to have limited manpower savings since the current civil service establishment exceeds the actual number of civil servants by 18 900 and therefore, most of the 10 000 posts would not have been filled regardless of the post deletion policy.

In addition, there are public calls to review the efficiency of civil service. The Research Brief compared the size of the civil service in advanced economies in the Asia-Pacific region and found that Hong Kong's civil service accounted for 4.7 per cent of the total workforce in 2023, higher than that of South Korea, Singapore and others (see Annex 2). Based on recent experiences in several Asian economies, artificial intelligence holds significant potential to enhance civil service efficiency.

Another cost-cutting measure of this year's Budget was the proposed fine-tuning of the Government Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities (\$2 Scheme). The fine-tuning included putting a cap on the number of subsidized trips to optimize the use

of government subsidy. However, the cost savings of HK\$680 million per annum seems to be insignificant. The Research Brief examined similar fare concession schemes in 12 selected cities across the world, noting that the fine-tuned \$2 Scheme fares well in terms of generosity, particularly so for persons aged 60 to 64 as only four of the cities offer concessionary fares to them. The rest do not offer any fare concessions to this aged group, conceivably because a majority of them are still capable of working (see Annex 3).

On the revenue side, FS unveiled the plan to issue more bonds with annual value from HK\$150 billion to HK\$195 billion in the next five fiscal years, with the tenure stretching from 3 to 5 years to longer duration to commensurate with long-term infrastructure projects such as the Northern Metropolis and for repaying short-term debts. Despite concerns over Hong Kong becoming a debt-laden economy, the city's ratio of gross government debt to GDP was just 9 per cent in the 2024-2025 fiscal year, far lower than the average figure of 109 per cent of 37 advanced economies (see Annex 4). The Research Brief noted that economists and market analysts affirm debt financing is normal and positive for the economy if the proceeds are used for long-term investment.

The Legislative Council (LegCo) will resume the Second Reading debate on the Appropriation Bill 2025 at its meeting of April 16 and Members will speak on the Bill.

The Research Brief is prepared by the Secretariat's Research Office of the Research and Information 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 interests to Members and the general public. The Research Brief is now available on LegCo website (app7.legco.gov.hk/rpdb/en/uploads/2025/RB/RB01_2025_20250313_en.pdf)

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