

Remarks by FS at Budget press conference (with photos/video)

Following are the remarks by the Financial Secretary, Mr Paul Chan; the Secretary for Financial Services and the Treasury, Mr Christopher Hui; the Permanent Secretary for Financial Services and the Treasury (Treasury), Mr Andrew Lai; and the Government Economist, Mr Adolph Leung, at the Budget press conference at Central Government Offices, Tamar, today (February 26):

Reporter: Good afternoon, Mr Chan. Some English questions. Firstly, could the Government provide further details on the legalisation of basketball betting? What is the time frame for this, and how much money would the Government expect to gain from this measure? Secondly, what is your opinion on the suggestions of some observers that the Government would need to explore new forms of revenue in the long term to solve the Government's deficit? Would it consider something like a sales tax or other forms of increasing revenue to better balance its books? Thank you.

Financial Secretary: Thank you. First, about basketball betting, we are aware of the fact that there is a certain degree of illegal betting activities going on, so it is better to properly regulate it. On this, we have invited the Hong Kong Jockey Club to study the matter and give a proposal to the Government for consideration. Currently, according to rough estimates, depending on the final scheme, every year, if we are going to introduce betting duty to regulate basketball betting, that will give us about HK\$1.5 to HK\$2 billion in terms of revenue.

As to your question about the possibility of introducing a new form of tax, our guiding principle is that, in considering any revenue measures, particularly tax-related measures, we have to pay due regard to the following considerations: one is the competitiveness of Hong Kong in terms of attracting investment and talent; second, if we are to increase revenue, we try to minimise the impact on the average residents. At the moment, we have no intention to introduce any form of GST (goods and services tax) or sales tax. We think that we have put up a very credible fiscal consolidation plan. On the one hand, we increase revenue; the measures would not impair our competitiveness. And more importantly, we try to cut the expenditure growth of the Government as the major means to achieve fiscal balance. That is why in the coming few years, up to 2027-2028, cumulatively we will be able to reduce public government expenditure by about 7 per cent, and also cut the establishment. We have a plan and specific steps to move to achieve balance. Thank you.

Reporter: Good afternoon, some English questions from RTHK. First, how likely all the measures to make savings will help the Government's coffer to return to black? And will these measures block future development of Hong Kong? The second question, are you worried that the proposed pay freeze on civil servants will affect morale and any likelihood public services will be

affected as well? Thank you.

Financial Secretary: I will invite Mr Andrew Lai to give you a reply.

Permanent Secretary for Financial Services and the Treasury (Treasury): Thank you, FS. In terms of the expenditure cut programme and the enhanced fiscal consolidation programme, we are going to reduce government expenditure 2 per cent each year in the coming three years. That will give rise to an annual saving of about \$10 billion to nearly \$25 billion in the coming three years. It will contribute towards our saving programme and help bureaux and departments to redeploy these resources to other more important areas, and it is one of the important measures for us to restore the balance in our operating account.

And regarding your question about civil service pay, being a civil servant, I think we understand the sentiment in the community. We are willing to work hard together with the members of the public and also all sectors to promote the economic development of Hong Kong.

Reporter: Good afternoon. My first question is with the adjustments in monetary policy by major central banks, what influence do you think this will have on Hong Kong economy and financial markets? And my second question is, in the face of increasing uncertainty worldwide, what steps should Hong Kong take to mitigate external risks? Thank you.

Financial Secretary: Thank you. The central banks around the world are going to loosen their monetary policy, and so the liquidity in the market will be quickly enhanced. We are of the view that the capital market, given this more relaxed monetary situation, would see support. Of course, the capital market is influenced by a range of other factors, such as geopolitics affecting capital flow. So for us, I think the most fundamental matter is to enhance the competitiveness of our capital market, so that despite external uncertainties, we will be able to attract the best companies to come to Hong Kong for listing. And with quality companies being listed here, they will attract investments and investors from all over the world.

With regard to your second question, in order to mitigate the impact of geopolitics on capital flow and investment sentiment, we need to open up new markets, as well as new investor and capital sources. Our strategy is that, on the one hand, we will continue to engage developed economies, including the United States and Europe, to solidify the relationship and to secure investments. At the same time, we need to direct our efforts to new markets like the Middle East and Southeast Asia, to attract more investors and more quality issuers to Hong Kong. That is our response. Meanwhile, companies on the Mainland are going global. In this process, we would be able to serve as the best platform for their internationalisation. We will invite Mainland companies to set up their regional or international headquarters in Hong Kong and use this platform for trade finance, supply chain management and other high value-added services. Thank you.

Reporter: First, how have the rising China-US (United States) tensions and

the possibility of a trade war been factored into Hong Kong's growth target in the coming year, and also in the medium-range forecast? My second question is, revenue from land premiums last year is the lowest in two decades, and also for multiple years in a row it missed the estimates. With today's new estimate, is it an indication that land sales revival is unlikely, and how confident is the Government to hit that estimate? And finally, this may be the first year since 1998 that Hong Kong's Budget does not have a satisfaction rating from a reputable public poll. How will the Government assess whether the public supports the Budget?

Financial Secretary: Let me invite our Government Economist to respond to your first two questions.

Government Economist: On the issue of rising trade tension between China and the US (United States), of course it will have some sort of negative impact. But according to what we have done to adjust to the situation, like lowering our share of exports to the US, we believe that it should be manageable, and we should be able to manage the situation gradually and better and better. But at the same time, although there are some sort of rising trade tension between the two countries, there are also other favourable factors supporting the Hong Kong economy like the shifting of the global economic gravity to Asia, particularly to China. And the Central Government has now introduced a number of measures to support both the long-term growth and also the short-term growth. In the short run, they have a more proactive fiscal policy and also a more accommodative monetary policy. In the long run, it is rigorously promoting the growth of new quality productive force and developing high-quality growth. And these will all support Hong Kong's economic growth in the medium term from the demand side. And on the supply side, over the past few years, we have been doing a lot to expand our productive capacity, enhance our competitiveness and also develop new growth areas. And these efforts are all bearing fruit and will gradually contribute to Hong Kong's economic growth in the coming years.

Financial Secretary: Yes, we have introduced a fiscal consolidation programme in this Budget. So on the one hand, we try our best to diversify and grow our economy. But at the same time, it is a belt-tightening Budget, and so the community would contribute to this effort. We are trying to do the best we can in minimising the impact on our people. And I hope they will understand.

As to the land premium, we have been adopting a very conservative estimate. The land revenue for this year and the following year are based on the land sale programme, which have taken into account the market condition at the moment. As to the land income for the following three years, meaning for the rest of the medium-term period, on the basis of gradually increasing to about some 2 per cent of our GDP (Gross Domestic Product), and this percentage, compared with our historical average, which is about 3.3 per cent, is very conservative. But we do think that at the current economic situation, it would be responsible on the part of the Government to adopt a relatively conservative estimate about land income in the Budget that would be giving the market more confidence in the sense that, despite perhaps a slower rebound in the property market, overall, the financial position of the

Government remains robust and strong. Thank you.

(Please also refer to the Chinese portion of the remarks.)

