

Budget Speech by the Financial Secretary (5)

Developing a Diversified Economy

50. Financial services, tourism, trading and logistics, business and professional services are the pillars of Hong Kong's economy. Apart from strengthening the industries with competitive edges, I see the need to identify new growth engines by actively developing emerging industries. This will not only broaden the foundation of our economy, but also provide diversified and quality employment opportunities for young people to unleash their potential.

Financial Services

51. We have been continuously enhancing our financial market infrastructures and regulatory regime, with the aim of boosting the competitiveness of Hong Kong as an international financial centre. The financial market is highly volatile. To ensure financial security, under my steer, financial regulators have taken great efforts on shock-resistance and market surveillance for the operation of a stable and orderly financial market. We will continue to fulfil the dual roles of facilitator and regulator. While consolidating our strengths and developing the market, we will ensure that our regulatory framework can keep pace with the times, manage systemic risks effectively and provide protection for investors.

Securities Market

52. The securities market in Hong Kong enjoyed flourishing development in the past year. Since the launch of the reform in end-April 2018 to facilitate the listing of new-economy companies in Hong Kong, a total of 17 enterprises have listed in Hong Kong under the new regime and raised more than \$200 billion, representing more than one-third of the funds raised through initial public offerings during the same period.

53. The rapid growth of the Exchange Traded Fund (ETF) market in recent years has brought new opportunities for the development of our securities market. In order to strengthen the competitiveness of Hong Kong as an ETF listing platform, I propose to waive the stamp duty on stock transfers paid by ETF market makers in the course of creating and redeeming ETF units listed in Hong Kong. This initiative will further reduce the transaction cost of ETFs listed and spur the development of the ETF market in Hong Kong.

Green Finance

54. Last year, we saw the successful offering of our inaugural green bond of US\$1 billion under the Government Green Bond Programme. The issuance was well received by investors worldwide and set an important new benchmark for

potential issuers in Hong Kong and the region. We plan to issue green bonds totalling \$66 billion within the next five years, having regard to the market situation. This will further consolidate and develop Hong Kong's position as a premier green hub in the region.

Retail Bond Market

55. In view of three rounds of interest rate cuts in the US last year and the low interest rates prevailing in Europe and Japan, I expect the global low interest rate environment to persist for a long time. Given that past issuances of inflation-linked retail bonds (iBond) were generally well-received, we plan to launch a further issuance of iBond this year to promote the further development of the retail bond market.

56. We will also continue to issue Silver Bonds to provide Hong Kong residents aged 65 or above with more appropriate investment products, and to encourage the financial sector to continue to develop the silver market.

57. Depending on the market situation, the issuance size of the two types of bonds above will not be less than \$13 billion. The Hong Kong Monetary Authority will announce the details in due course.

Public Annuities

58. On retirement financial planning, the Government launched the Hong Kong Mortgage Corporation Limited (HKMC) Annuity Plan in 2018 to assist the elderly in turning their assets into a lifelong stable cashflow. Over the past two years, the public and the retirees have raised their awareness of life annuity. This gives new impetus to the annuity market.

59. I will lower the minimum entry age of the HKMC Annuity Plan from 65 to 60 so as to facilitate early participation by those in need. The HKMC Annuity Limited will announce the details as soon as possible.

Fixed-rate Mortgage Loans

60. To provide potential homebuyers with more loan options and reduce the risks of interest rate volatility, HKMC will launch a pilot scheme to offer through banks fixed-rate mortgage loans, with interest rates of 2.75, 2.85 and 2.95 per cent per annum for periods of 10, 15 and 20 years respectively, capped at a ceiling of \$10 million per loan transaction. The total loan amount under the scheme is \$1 billion, subject to review based on market response.

Asset and Wealth Management

61. Hong Kong is an international asset and wealth management centre. The development of the Greater Bay Area presents enormous opportunities for the sector. To attract more funds to Hong Kong, we have been making full efforts to introduce new fund structures, including the preparation of new legislation on the establishment of a limited partnership regime that meets the operational needs of funds, so as to encourage the setting up of private equity funds in Hong Kong.

62. Promoting the development of private equity funds in Hong Kong will not only draw in capital, talent and expertise for a large number of business entities, technology companies and start-ups, but also drive demand for related professional services such as management, accounting and law while creating business opportunities in the service industry, including conference and exhibition, hotel, and tourism. With a view to attracting more private equity funds to domicile and operate in Hong Kong, we plan to provide tax concession for carried interest issued by private equity funds operating in Hong Kong subject to the fulfilment of certain conditions. We will consult the industry on the proposal, and the relevant arrangement will be applicable starting from 2020-21 upon completion of the legislative exercise.

Comprehensive Regulation

63. The Financial Action Task Force (FATF), an international regulatory body, completed a comprehensive evaluation of Hong Kong's anti-money laundering and counter-terrorist financing (AML/CTF) regime in mid-2019. Hong Kong is the first jurisdiction in the Asia-Pacific region having successfully passed the FATF assessment. The Government will further enhance Hong Kong's AML/CTF regime having regard to the recommendations of the evaluation report, and consider incorporating virtual asset service providers and dealers in precious metals, stones and jewellery into the AML/CTF regulatory framework. We plan to consult the public on detailed proposals this year.

64. Furthermore, we will continue to implement the latest international standards on banking regulation as promulgated by the Basel Committee on Banking Supervision, with a view to safeguarding the financial stability of Hong Kong.

Innovation and Technology

65. Innovation and technology (I&T) is an important growth engine for future economic development. In the past three years, the Government introduced a number of policies and allocated over a hundred billion dollars to support a series of measures for the development of I&T. The local I&T ecosystem has become more vibrant. Schools and parents are attaching greater importance to STEM education. Local I&T companies have won awards time and again in international competitions, whereas a number of "unicorns" have emerged. While there is still some way to go to develop I&T into mature industries, I am convinced that our current investments will bear fruits in future.

Promoting Research and Development

66. Promoting research and development (R&D) is a crucial part of I&T development. The Government is developing two InnoHK research clusters at the Hong Kong Science Park (Science Park), one focusing on healthcare technologies and the other on artificial intelligence and robotics technologies. They have received overwhelming response from many world renowned universities and research institutes. With the first batch of R&D centres expected to be set up progressively this year, we are actively exploring the establishment of a third InnoHK research cluster.

67. The Government will continue to provide enhanced tax deduction for qualifying R&D expenditure incurred by enterprises and subsidise local R&D work through the Innovation and Technology Fund (ITF), with a view to fostering technology transfer as well as application and commercialisation of R&D results. The Government will extend next month the coverage of the Public Sector Trial Scheme to all technology companies conducting R&D activities in Hong Kong.

68. On R&D and application, with the recent anti-epidemic work as an example, the Government has used the electronic wristbands developed by the Logistics and Supply Chain Multi-tech R&D Centre to facilitate home quarantine. The Nano and Advanced Materials Institute has also authorised a mask manufacturer to use its patented nanofibre technology to produce a highly breathable mask that is capable of killing bacteria. The government is also exploring the technology solutions related to reusable masks.

Re-industrialisation and Industry Development

69. The Government has been promoting re-industrialisation in Hong Kong through the provision of infrastructural, financial, technological and talent support. We will inject \$2 billion into the ITF for launching the Re-industrialisation Funding Scheme to provide financial support for manufacturers on a matching basis for setting up new smart production lines in Hong Kong. We will also provide the Hong Kong Science and Technology Parks Corporation (HKSTPC) with an additional funding of \$2 billion for converting an old factory in the Yuen Long Industrial Estate into a Microelectronics Centre to provide modern manufacturing facilities.

70. From April 2020 onwards, the Government will enhance the Technology Voucher Programme to promote the wider use of technological services and solutions among local enterprises for increasing their productivity or upgrading and transforming business processes. The Government's funding ratio will increase from the current level of two-thirds to three-fourths, and the funding ceiling from \$400,000 to \$600,000. The ceiling on the number of approved projects will also rise from four to six.

Developing I&T Infrastructure

71. The HKSTPC is exploring the feasibility of Phase 2 of the Science Park Expansion Programme. I will earmark \$3 billion for the programme.

72. The Data Technology Hub and the Advanced Manufacturing Centre being developed by the HKSTPC in the Tseung Kwan O Industrial Estate will be completed as scheduled in the first half of this year and in 2022 respectively.

73. We are now going through the statutory town planning procedures for the Cyberport 5 development site and plan to submit a funding proposal to LegCo in the first half of 2021. Construction is expected to complete in 2024 at the earliest. The expansion will attract more technology companies and start-ups to Cyberport.

Supporting Start-ups

74. We support start-ups through various means, including strengthening the support of the HKSTPC and Cyberport for their tenants and incubatees, backing university start-ups through the Technology Start-up Support Scheme for Universities, making use of the Innovation and Technology Venture Fund for co-investing with venture capital funds in local technology start-ups.

(To be continued.)

Budget Speech by the Financial Secretary (4)

Strengthening the Healthcare System

Fight the Epidemic

38. Currently, the most pressing tasks for the Government are to control the epidemic and stabilise our economy. On epidemic prevention and control, the Government is proactively sourcing anti-epidemic supplies worldwide, while subsidising and facilitating local production of these supplies to meet part of the demand. The Anti-epidemic Fund will help strengthen such efforts. I will also provide sufficient financial support for the Hospital Authority (HA) and the Department of Health (DH) in combating the epidemic.

39. We should plan ahead to enhance the capability of our healthcare system in preventing and treating infectious diseases, such as building additional medical and quarantine facilities, increasing our stock of medical supplies as well as strengthening scientific research on infectious disease prevention and control, pathology and medication. At the same time, we should also pay more attention to environmental hygiene so as to reduce the risk of infectious diseases spreading in the community. I will provide resource support on this front.

Enhance Services

40. In my last two Budgets, I announced, among others, the second 10-year Hospital Development Plan (HDP), enhancement of healthcare manpower training, expediting the upgrading and acquisition of medical equipment, introduction of advanced medical devices for treating cancer and other diseases requiring specialty services, expansion of the scope of the HA Drug Formulary, establishment of a public healthcare stabilisation fund, development of Chinese medicine (CM) services, and promotion of primary healthcare services. In sum, I have devoted substantial resources to healthcare and public health services.

Development of Healthcare Facilities

41. In 2016, the Government proposed the first 10-year HDP and earmarked \$200 billion for its implementation. Various projects are under way. The whole project is expected to provide a total of over 6 000 additional beds and more than 90 operating theatres.

42. The HA is also actively taking forward the planning of the second 10-year HDP. It is expected that the provision of over 9 000 additional beds and other new hospital facilities can meet the projected service demand up to 2036.

43. Around \$180 million has been allocated to the University of Hong Kong, the Chinese University of Hong Kong and the Hong Kong Polytechnic University in 2018-19 for carrying out short-term renovation works, enhancing facilities and strengthening professional healthcare training. Furthermore, the DH will renovate its clinics in phases.

Healthcare Manpower

44. Given a surge in demand for public hospital services in recent years, it is our top priority to provide sufficient manpower.

45. The HA established a Task Group on Sustainability in December 2019 to focus on reviewing, among other things, strategies for retaining staff. Three major proposals have been put forward as follows:

(a) the HA will enhance the Special Retired and Rehire Scheme to encourage experienced doctors to continue their service on contract terms in the HA after retirement until 65;

(b) the HA will consider creating opportunities for around 200 Associate Consultants to be promoted to Consultants within the next five years so as to retain experienced medical personnel; and

(c) the HA will provide registered nurses who have attained specialty qualifications with additional allowance so as to retain manpower and encourage their continuing professional development in nursing.

It is estimated that the additional expenditure for the above three initiatives will increase substantially by 6.5 times, from around \$160 million in 2021-22 to around \$1.2 billion in 2025-26. The Government has already committed resources on this front. The HA will continue to look into other possible proposals for retaining manpower.

46. In the coming year, the Government will continue to increase the recurrent funding for the HA by \$3 billion, having regard to population growth and demographic changes. An additional funding of about \$600 million will also be provided to the HA for increasing manpower to implement new measures and enhance existing services. Overall, a total recurrent funding of \$75 billion will be provided to the HA in 2020-21, representing an increase of 35 per cent over the provision of \$55.6 billion in 2017-18.

Primary Healthcare

47. On the other hand, the Government will continue to allocate resources to promote district-based primary healthcare services, with a view to enhancing the public's capability in self health management and providing community support for chronic patients. The first District Health Centre (DHC) in Hong Kong was set up in Kwai Tsing District last year. The Government plans to set up DHCs in six other districts in the coming two years. I have earmarked \$650 million for meeting their recurrent expenditure. For the remaining 11 districts where DHCs have yet to be set up, I will allocate about \$600 million to subsidise the setting up of smaller interim "DHC Express" by non-governmental organisations (NGOs).

Development of Chinese Medicine

48. The Government has incorporated CM into Hong Kong's healthcare system and increased the provision of recurrent resources to provide the public with more desirable and subsidised CM services. The Food and Health Bureau (FHB) is undergoing the open tender process in identifying an operator for the first CM hospital in Hong Kong, and intends to launch the tender process for the construction works later this year. On the other hand, FHB established in 2019 a dedicated fund with \$500 million for promoting CM development in Hong Kong. Since its operation in less than a year, the fund has approved a total of about \$10 million to provide funding for the CM sector to nurture talent, conduct research and studies, and promote CM.

Mental Health Services

49. The social incidents and the novel coronavirus epidemic have affected the mental health of many people in Hong Kong. I will allocate sufficient resources to the FHB, the Labour and Welfare Bureau and the Education Bureau for providing appropriate support to people suffering from mental distress.

(To be continued.)

Budget Speech by the Financial Secretary (3)

Riding Out the Crisis Together

23. In view of the tough economic environment, we will adopt an expansionary fiscal stance and make optimal use of our fiscal reserves to implement counter-cyclical measures, with the objective of "supporting enterprises, safeguarding jobs, stimulating the economy and relieving people's burden", so as to help Hong Kong tide over the difficulties.

24. Hong Kong's economy has seen negative growth since the second half of 2019. I have since August last year announced four rounds of support measures targeted at enterprises and individuals, involving a total of over \$30 billion.

Overcoming Current Challenges

25. Since January 2020, Hong Kong has come under the threat posed by the novel coronavirus outbreak, which further dealt a blow to the economy. We must take decisive measures to tackle the situation.

26. The Government earlier announced the setting up of a \$30 billion Anti-epidemic Fund to implement 24 measures to further enhance our capability in combating epidemic and provide assistance to enterprises and members of the public. To provide further relief to the community, I will implement the following measures.

Support Enterprises and Safeguard Jobs

27. For enterprises, new relief measures include:

(a) introducing a concessionary low-interest loan under the SME Financing Guarantee Scheme, under which 100% guarantee will be provided by the Government. The application period will last for six months. The maximum amount of loan for eligible enterprises is based on their salary and rental expenditures for six months, subject to a ceiling of \$2 million. The repayment period is up to three years and, on an opt-in basis, a principal moratorium is available for the first six months during which only interest payments have to be made. The Government will provide guarantee of up to \$20 billion under this concessionary loan scheme;

(b) reducing profits tax for the year of assessment 2019/20 by 100 per cent, subject to a ceiling of \$20,000. The reduction will be reflected in the final tax payable for the year of assessment 2019/20. This will benefit 141 000 taxpayers and reduce government revenue by \$2 billion;

(c) waiving rates for non-domestic properties for four quarters of 2020-21, subject to a ceiling of \$5,000 per quarter in the first two quarters and a ceiling of \$1,500 per quarter in the remaining two quarters for each rateable non-domestic property. This proposal is estimated to benefit 420 000 non-domestic properties and reduce government revenue by \$3.2 billion;

(d) waiving the business registration fees for 2020-21. This will benefit 1.5 million business operators and reduce government revenue by \$3 billion;

(e) waiving the registration fees for all annual returns (except for late delivery) charged by the Companies Registry for two years. This will benefit about 1.4 million companies and reduce related revenue by about \$212 million in total; Moreover, I will continue to implement the following measures:

(f) providing a subsidy to each eligible non-domestic household accounts for four extra months to cover 75 per cent of their monthly billed electricity charges, subject to a monthly cap of \$5,000 per account. This will involve

an expenditure of about \$2.9 billion;

(g) waiving 75 per cent of water and sewage charges payable by non-domestic households for four extra months, subject to a monthly cap of \$20,000 and \$12,500 respectively per household. This will reduce government revenue by \$340 million;

(h) providing a new round of rental subsidy for six months to local recycling enterprises. This will involve an expenditure of about \$100 million;

(i) reducing rental by 50 per cent for another six months for eligible tenants of government properties, government land and EcoPark. This will reduce government revenue by \$573 million;

(j) reducing rental and fees by 50 per cent for another six months for eligible operators of properties covered by short-term waivers. This will reduce government revenue by \$265 million;

(k) providing hirers of civic centres under the Leisure and Cultural Services Department (LCSD) with a 50 per cent reduction of hire charges for another six months. This will reduce government revenue by \$23 million; and

(l) offering another six months of fees and rent reduction for cruise lines and existing tenants of the Cruise Terminal. This will reduce government revenue by \$18 million.

28. The above initiatives will cost a total of \$18.3 billion. I hope that they will not only help support our enterprises but also safeguard jobs for more than three million workers. I appeal to all employers and employees to stand together to ride out the difficult times.

Support Employees

29. In light of the deteriorating employment situation, I will provide an additional annual funding of \$30 million to enhance the employment programmes of the Labour Department, with a view to further encouraging employers to hire the elderly, young people and persons with disabilities. These initiatives include raising the ceiling of the on-the-job training allowance payable to employers under the Employment Programme for the Elderly and Middle-aged, the Youth Employment and Training Programme as well as the Work Orientation and Placement Scheme. The enhanced measures are expected to be implemented in the second half of this year and benefit some 4 000 persons annually.

30. The Employees Retraining Board (ERB) will enhance the new tranche of the Love Upgrading Special Scheme to be launched in July this year and provide about 10 000 additional places, in order to provide training and allowance for employees affected by the economic downturn. The ERB will also, through legislative amendment, increase the maximum amount of monthly allowance of each eligible trainee from \$4,000 to \$5,800. This initiative will benefit over 40 000 trainees annually and incur an additional expenditure of about \$2.5 billion.

31. The Construction Industry Council (CIC) will draw \$200 million from its levy income to provide around 6 000 eligible small and medium-sized contractors and registered subcontractors with a financial subsidy, capped at \$20,000 each, to tide the industry over the present difficulties. The CIC will also provide training allowances to those underemployed inâ€‘service workers attending its training courses so as to upgrade their skills.

32. In view of the deteriorating economic and employment conditions as a result of the novel coronavirus epidemic, the Government will provide a one-off special allowance to about 200 000 eligible low-income households under the Anti-epidemic Fund.

Relieve People's Burden

33. I will also introduce the following measures to ease the financial burden of the public:

(a) reducing salaries tax and tax under personal assessment for the year of assessment 2019/20 by 100 per cent, subject to a ceiling of \$20,000. The reduction will be reflected in the final tax payable for the year of assessment 2019/20. This will benefit 1.95 million taxpayers and reduce government revenue by \$18.8 billion;

(b) waiving rates in respect of residential properties for four quarters of 2020-21, subject to a ceiling of \$1,500 per quarter for each rateable property. This proposal is estimated to involve 2.93 million domestic properties and reduce government revenue by \$13.3 billion;

(c) providing an extra allowance to eligible social security recipients, equal to one month of the standard rate Comprehensive Social Security Assistance payments, Old Age Allowance, Old Age Living Allowance or Disability Allowance. Similar arrangements will apply to recipients of the Work Incentive Transport Subsidy. This will involve an expenditure of about \$4.225 billion;

(d) paying one month's rent for lower income tenants living in public rental units of the Hong Kong Housing Authority and the Hong Kong Housing Society, involving an expenditure of about \$1.829 billion; and

(e) paying the examination fees for school candidates sitting for the 2021 Hong Kong Diploma of Secondary Education Examination, involving an expenditure of about \$150 million.

Cash Payout

34. The social incidents in the past months and the novel coronavirus epidemic have dealt a heavy blow to Hong Kong's economy.

35. In the face of an economic downturn, we expect a decline in government revenue in the coming year. The Government must exercise fiscal prudence to ensure healthy public finance. That said, I believe that the Government should also do a bit more, notwithstanding the fiscal deficit, when we are facing an economic setback and overwhelmed by a heavy atmosphere.

36. After careful consideration, I have decided to disburse \$10,000 to Hong Kong permanent residents aged 18 or above, with a view to encouraging and boosting local consumption on the one hand, and relieving people's financial burden on the other. This measure, which involves an expenditure of about \$71 billion, is expected to benefit about seven million people. The Government will announce the details of the scheme as soon as possible after obtaining funding approval from the Legislative Council (LegCo).

37. I have to emphasise that, although the cash payout scheme involves a huge sum of public money, it is an exceptional measure taken in light of the current unique circumstances and will not, therefore, impose a burden on our long-term fiscal position. I consider that, with ample fiscal reserves, the Government has to increase public expenditure amid an economic downturn to stimulate the economy and ride out the difficult times with members of the public.

(To be continued.)

Budget Speech by the Financial Secretary (2)

Economic Outlook for 2020 and Medium-term Outlook

12. Entering 2020, the rapid spread of the novel coronavirus has dealt a severe blow to economic activities and sentiment in Hong Kong. The tourism- and consumption-related sectors, already hard hit by the social unrest, are suffering from a more serious setback and entering a "harsh winter". Although the impact of the epidemic on our economy in the near term could possibly be greater than that of the SARS outbreak in 2003, and the labour market is also subject to significant pressure, Hong Kong's economic fundamentals remain solid and therefore our core competitiveness will not be shaken. The economy of Hong Kong should be able to recover once the epidemic is over.

13. On the Mainland, while its economy showed some deceleration, it still recorded a solid growth of 6.1 per cent for 2019 as a whole. Regarding the economic outlook for this year, the US-China trade relations remain complex and constantly evolving, and the near-term economic performance is also facing notable downward pressure from the novel coronavirus epidemic. Nonetheless, economic fundamentals of the Mainland are solid and there are adequate policy tools to maintain macro-economic stability. Once the epidemic is over, the growth of the Mainland economy is expected to continue to outpace that of other major economies.

14. On the external front, the global economy is still struggling and the growth momentum of many advanced economies remains feeble. Although the

economic growth in the US eased last year, the resilient labour market would still continue to support private consumption. Nevertheless, market forecasts generally point to a further growth moderation in the US economy this year. Besides, economic growth of the euro area would remain modest this year amid subdued manufacturing activities.

15. After the consumption tax hike in October last year, Japan's economy has already seen visible downward pressure. This, coupled with structural issues such as an ageing population and huge public debt, suggests that economic growth should be rather subdued this year. Elsewhere in Asia, the emerging economies of the Association of Southeast Asian Nations will likely continue to see solid economic growth in the medium to long term given resilient domestic demand.

16. The development of US-China trade relations is the most significant uncertain factor facing the global economy. Moreover, the geopolitical risks in the Middle East and uncertainties surrounding the Brexit negotiations could possibly send shocks to the global financial market and slow down economic recovery.

17. The outbreak of the novel coronavirus epidemic will also affect production and transportation in the Mainland and Asia as well as the global supply chain operation. This will deal a further blow to the global economy. The International Monetary Fund has therefore lowered the Mainland and global economic growth forecasts for this year recently.

18. To sum up, Hong Kong's economy is facing enormous challenges this year. The outlook is far from promising in the near term. Having regard to the stimulus effect of the fiscal measures, I forecast our economy will grow by -1.5 per cent to 0.5 per cent in real terms in 2020.

19. On inflation, global inflation is expected to remain modest. Subdued local economic conditions in the near term will contain the upward pressure on local costs. The moderation in residential rentals will also help lower overall inflation. Taking the various factors into account, I forecast that the headline inflation rate and underlying inflation rate will ease to 1.7 per cent and 2.5 per cent respectively in 2020.

20. On property market, the residential property market has been largely quiet since last June with transactions and prices generally retreating. Yet, the current flat prices are still out of line with economic fundamentals and people's affordability. The Government will continue its endeavour to increase land and housing supply.

21. In the medium term, the economic outlook of Hong Kong remains positive. The development of our country and Asia will continue to be the key driving force of global growth. Given the huge market potential of the Mainland as well as the opportunities brought by the Belt and Road Initiative and the development of Guangdong-Hong Kong-Macao Greater Bay Area (Greater Bay Area), Hong Kong can leverage its strengths, grasp the opportunities and explore greater room for development.

22. Yet, on the other hand, we have to strive to overcome the constraints stemming from ageing population, a dwindling labour force and shortage of land. The social incidents also reveal that there are conflicts to be addressed. Balancing the various factors, I forecast Hong Kong's economy will grow by an average of 2.8 per cent per annum in real terms from 2021 to 2024, slightly lower than the trend growth of 2.9 per cent over the past decade. The underlying inflation rate is forecast to average 2.5 per cent.

(To be continued.)

Budget Speech by the Financial Secretary (1)

Following is the full text of the Speech on the 2020-21 Budget delivered by the Financial Secretary, Mr Paul Chan, in the Legislative Council today (February 26):

Mr President, Honourable Members and fellow citizens,

I move that the Appropriation Bill 2020 be read a second time.

Introduction

2. 2019 was an unsettling year fraught with obstacles and an unforgettable one for all Hong Kong people.

3. Early last year, we had already foreseen that our economy would be subject to considerable uncertainties due to the US-China trade conflict and other external factors. However, no one could have predicted that social incidents would break out in the middle of the year, which not only hit our economy but also broke our hearts. Before we could sort things out, there was an unexpected outbreak of the novel coronavirus disease.

4. Preventing and fighting against the epidemic, as well as deploying resources to alleviate the pressure on enterprises and the general public are our top priority. Last week, we established the \$30 billion Anti-epidemic Fund to relieve the burden on those industries and employees in the eye of the storm.

5. In preparing this Budget, I put the focus on "supporting enterprises, safeguarding jobs, stimulating the economy and relieving people's burden". I am well aware that financial resources alone are not enough to tackle the challenges we are facing. However, making good use of fiscal reserves to support enterprises and relieve people's hardship is certainly in line with our people's expectations towards the Government under the current difficult environment.

6. Therefore, I have decided to implement counter-cyclical measures of a massive scale involving above \$120 billion so as to meet the public's expectations as far as possible. Although a record high deficit is envisaged in next year's budget, I believe that only with such a budget can we help our community and local enterprises ride out their difficulties. I will go into more details about this in the ensuing paragraphs.

Economic Situation in 2019

7. The external environment was exceptionally austere in 2019. Confronted by the slowdown in growth across most economies and US-China trade conflict, Hong Kong's total exports of goods fell by 4.7 per cent in real terms for the year as a whole. Hit by the violent social incidents, exports of travel services plunged and led to a fall of 10.4 per cent in exports of services for 2019 as a whole, the largest annual decline on record.

8. On domestic demand, private consumption expenditure began to weaken in the first half of 2019, and deteriorated abruptly in the second half of the year, resulting in a decline of 1.1 per cent in real terms for the year. Investment expenditure fell by 12.3 per cent in real terms amid subdued business confidence.

9. Hong Kong's economy was already quite weak in the first half of 2019. Dragged by a host of headwinds, the economy entered recession in the third quarter and contracted by 1.2 per cent for the year as a whole, the first annual decline since the great recession of 2009.

10. As the economic situation worsened, the labour market gradually slackened. The seasonally adjusted unemployment rate went up from 2.8 per cent in the second quarter of 2019 to the latest 3.4 per cent, the highest in more than three years. Employment situations in many sectors came under pressure. The unemployment rate of the retail, accommodation and food services sectors as a whole rose to a three-year high of 5.2 per cent. The unemployment rate of the food and beverage services sector even rose sharply to 6.1 per cent, the highest in eight years, and its underemployment rate also went up substantially. Besides, household incomes began to weaken in the second half of 2019.

11. Overall price pressures remained largely moderate. However, consumer price inflation went up in the second half of 2019, mainly reflecting the sharp increase in prices of basic foodstuffs amid reduced supply of fresh pork. Netting out the effects of the Government's one-off relief measures, the underlying inflation rate was 3 per cent for 2019, up 0.4 percentage point from 2018.

(To be continued.)