

# THE 2016-17 BUDGET

*Speech by the Financial Secretary, the Hon John C Tsang  
moving the Second Reading of the Appropriation Bill 2016*

*Wednesday, 24 February 2016*

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**Mr President,**

I move that the Appropriation Bill 2016 be read a second time.

## **Introduction**

2. This is my ninth year as Financial Secretary. Over the past years, the people of Hong Kong and I together have witnessed the incessant ups and downs in the global economy. I feel blessed that Hong Kong has managed to ride out the storms. We have secured decent economic growth. We have maintained low unemployment and we have managed healthy public finances. I am deeply indebted to the previous generations for the solid foundations that they have built. I am profoundly impressed too by the tenacity of the Hong Kong people.

3. Openness, diversity, freedom and the rule of law, which have all along been the core values of the people of Hong Kong, have guided our way. Even though the development path of Hong Kong has not been an easy one, our direction is clear and, step by step, we have been charting our course, a course that we call our own. I think we, the Hong Kong people, are proud of our ability to persevere through these turbulent years.

4. It is only two months since the start of 2016, but the occurrence of incidents in Hong Kong has given rise to grave concerns.

5. Two weeks ago, in the early hours of the second day of the Lunar New Year, a serious unlawful incident broke out in Mong Kok. A handful of people lost their rationality and attacked the police officers and reporters that were present, provoking a large-scale riot and causing dozens of injuries.

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6. I believe many people share my feelings towards the incident. Distressed and angry, I was perplexed as to why violence had flared in Hong Kong. I was shocked that our city could have turned overnight into such a strange and alien place that I hardly recognised. I was troubled why the core values that we long cherished had been devoured by violence and hatred.

7. Acute social conflicts will add uncertainties to the already adverse economic environment. 2016 is an election year. Apart from the Legislative Council (LegCo) By-election to be held four days from today, a LegCo General Election is scheduled to be held in six months' time. We anticipate that political disputes will only intensify over the coming months.

8. Politics and economics are closely intertwined. Political volatility will unavoidably impact on our economy.

9. It is the duty of Government to take on challenges in our society. As Financial Secretary, it is my duty to mobilise resources effectively to maintain Hong Kong's economic development and fiscal health; to support local enterprises, in particular the small and medium enterprises (SMEs), to cope with economic volatilities; and to safeguard the jobs of workers.

10. Government should also continue to fortify the economic foundation of Hong Kong, promote diversity, and channel public resources towards improving people's livelihood and supporting the disadvantaged. All sectors should have a fair chance in sharing the fruits of our economic success, and everyone in Hong Kong, regardless of age, gender and race, should be able to unleash their potential and lead a better life through hard work.

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## **Economic Performance in 2015**

11. Export performance of the Asian region was hit by the global economic setback and highly volatile financial markets in 2015. Our exports of goods recorded the first annual decline since 2009, down by 1.7 per cent in real terms. Exports of services dropped by 0.6 per cent, the first annual decrease since 1998. Inbound tourism was weak and visitor arrivals dropped by eight per cent in the fourth quarter, down by 2.5 per cent for the whole year. Retail sales slackened, recording the first annual decrease since 2009.

12. Domestic demand was the key driving force of economic growth last year. Although the investment atmosphere turned more cautious, local consumption as well as expenditures on infrastructure and private construction projects remained resilient. These, together with the stimulus effect of the relief measures introduced in last year's Budget, led to an overall economic growth of 2.4 per cent. This is the fourth consecutive year that our economic growth was lower than the annual average of 3.4 per cent over the past ten years. The economy saw significant downward pressure in the latter half of the year, further slowing down to a 1.9 per cent growth in the fourth quarter.

13. The unemployment rate averaged at a low level of 3.3 per cent for the year as a whole. Wages and income improved generally. Employment earnings for the lowest three income decile groups of full-time employees rose by five to six per cent as compared with the year before. But the recent decline in labour demand in the sectors related to inbound tourism is giving us cause for concern.

14. Given the slowdown of the local economy and the mild imported inflation, inflation has dropped for four consecutive years. The headline inflation rate in 2015 was three per cent. Netting out the effects of Government's one-off measures, the underlying inflation rate, at 2.5 per cent, was down by one percentage point from 2014.



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## **Economic Outlook for 2016**

15. Since the start of 2016, the global economic climate has continued to be unsteady, marked by increasing risks, amid the modest and patchy economic growth of advanced economies, downward pressures on emerging markets and heightened geopolitical tension.

16. The US Federal Reserve Board started an interest rate increase last year, but the central banks of the Eurozone and Japan have maintained their quantitative easing policies and adopted negative interest rate measures. The divergent monetary policies are causing volatility in the international financial markets and capital flows.

17. Emerging economies will be under the dual pressure of falling commodity prices and suppressed financial markets. The Mainland's economy will also face downward pressure.

18. As for Hong Kong, local consumption and investor sentiment have been dented by concerns over the uncertainties associated with the US interest rate increases and the dimmer global economic outlook, the lull in external trade and the slowdown in inbound tourism. The pressure may spill over into the job market and business operation of enterprises. The value of total exports of goods and the number of visitor arrivals in Hong Kong have both recorded a year-on-year decline since mid-2015, and the fall is likely to be more severe in 2016. I forecast Gross Domestic Product (GDP) growth in real terms at one to two per cent in 2016, lower than last year's growth.

19. Given the subdued global commodity prices, imported inflation is expected to be relatively mild. Slower economic growth and the adjustment in the property market will reduce rental pressure. I forecast that the headline inflation rate for 2016 will be 2.3 per cent, with the underlying inflation rate at two per cent.

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## Support Measures

20. The local economy is laden with risks in the year ahead; the outlook is far from promising. We need to take timely and appropriate measures to stimulate the economy, support local enterprises and safeguard employment.

### Helping Small and Medium Enterprises

21. There are 320 000 SMEs in Hong Kong, employing 50 per cent of the private sector workforce. This underscores the role of SMEs as the mainstay of our economy. To gear up for the adversities ahead, I shall provide SMEs with appropriate support measures to stabilise the employment market.

22. To help SMEs tide over their liquidity needs, I shall introduce three measures –

- (a) extend the application period for the “special concessionary measures” under the “SME Financing Guarantee Scheme” to 28 February 2017;
- (b) reduce the annual guarantee fee rate for the measures by ten per cent; and
- (c) remove the minimum guarantee fee for the measures.

23. To ease the burden on enterprises, I shall reduce profits tax for 2015-16 by 75 per cent, subject to a ceiling of \$20,000. This proposal will benefit 130 000 taxpayers and reduce government revenue by \$1.9 billion.

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24. I shall waive the business registration fees for 2016-17 to benefit 1.3 million business operators. This proposal will reduce government revenue by \$2.5 billion.

25. To enhance the long-term competitiveness of SMEs, I shall launch a Pilot Technology Voucher Programme under the Innovation and Technology Fund (ITF) to subsidise their use of technological services and solutions to improve productivity and upgrade or transform business processes. The three-year pilot programme will provide, on a matching basis, a maximum subsidy of \$200,000 for each eligible SME. The estimated expenditure of this programme is \$500 million.

### Supporting Tourism

26. Tourism contributes five per cent to our GDP and employs 270 000 people. It provides plenty of job opportunities. For some ten years, tourism and other related industries have experienced rapid growth through the support of the Mainland's Individual Visit Scheme and its related policies. The number of inbound visitors has increased to 60 million, four times that of 2003. The local tourism industry is facing keen competition as a result of a weakening external economy, devaluation of currencies of neighbouring places and their relaxation of visa requirements for Mainland tourists since last year. This, coupled with the "one trip per week" measure for Shenzhen residents, has caused a drop in visitor arrivals.

27. Apart from external factors, some recent incidents in Hong Kong are causing concern. These include a handful of people choosing to express their views and political demands using irrational and uncivilised tactics, such as hurling abuses at visitors and kicking their suitcases. Furthermore, problems arising from coerced shopping have been plaguing the tourism sector.

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28. These destructive acts have not only damaged the economy, but have also severely tarnished Hong Kong's reputation as a hospitality city internationally. While some have claimed that the acts were committed out of concern for "local" interests, their actions are in fact not the kind of behaviour that reflects love for Hong Kong. If they truly care about the development of Hong Kong, they should by no means exercise their right to freedom of expression at the expense of peace in our society and livelihood of innocent citizens.

29. The tourism industry has entered a period of consolidation. In view of the changing mix and spending pattern of visitors, we need to review the development strategy of our tourism industry. Other than seeking growth in visitor numbers, we should move towards diversified and quality-driven high value-added services, with a view to attracting more high-spending overnight visitors to Hong Kong.

30. In light of this new situation, I shall launch short, medium and long-term measures to reduce the industry's costs of operation and enhance Hong Kong's attractiveness and competitiveness. I shall introduce three short-term measures, costing a total of \$140 million, for related trades and industries –

- (a) waive the licence fees for 1 800 travel agents for one year;
- (b) waive the licence fees for 2 000 hotels and guesthouses for one year; and
- (c) waive the licence fees for restaurants and hawkers and fees for restricted food permits for one year, benefiting 27 000 restaurants and operators.

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31. In the medium term, I shall allocate \$240 million for Government and the industry to jointly launch five measures –

- (a) expand the scale of major events to be held this year, including holding the Formula E Championship for the first time, expanding the venue for the Hong Kong Wine and Dine Festival with more featured themes, extending the race of the Hong Kong Cyclothon to 50 kilometres to attract more overseas cyclists, staging additional Pulse 3D Light Shows at the Hong Kong Cultural Centre, and stepping up publicity for international sports events such as the Rugby Sevens, the tennis open tournament and the golf open tournament;
- (b) through the Hong Kong Tourism Board (HKTb), re-package Hong Kong's tourism image with new promotional videos, launch a new round of publicity for short-haul markets, and step up publicity in the Mainland for quality and honest tours;
- (c) through the HKTb, assist the industry to open up new visitor sources through various means, including implementation of the matching fund for promoting tourist attractions, promotion of shopping and spending, promotion of MICE (Meetings, Incentive Travels, Conventions and Exhibitions) tourism and "fly-cruise" tours, as well as waiving of local traders' participation fees for overseas promotion fairs;

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- (d) through the Travel Industry Council of Hong Kong, subsidise small and medium-sized travel agents, on a matching basis, to make use of information technology (IT) so as to enhance the competitiveness of the industry; and
  - (e) continue to promote Hong Kong's natural scenery as well as our unique history and culture, including enriching the contents of the Dr Sun Yat-sen Historical Trail with the theme of "Art across Time", in tune with PMQ and the former Central Police Station Compound which will open this year.

32. In the long run, we shall upgrade our tourism infrastructure. Hong Kong Disneyland will open in 2016 and 2017 respectively a new themed area based on Marvel's Iron Man franchise and a new hotel with a theme dedicated to the spirit of exploration. Government will continue to discuss with the Walt Disney Company the overall development of the theme park. The first hotel in Ocean Park and the Water World in Tai Shue Wan are also scheduled for completion in 2017 and 2018 respectively. Government will continue preparatory work for the tourism projects in Kai Tak and Lantau. The design work for the conference facilities above the proposed Exhibition Station of the Shatin to Central Link is underway.

33. We shall embark on a pilot scheme on food trucks this year. The concept has attracted wide interest from the community. I shall increase the number of designated spaces for the food trucks to 16. The initiative will enhance the appeal of our tourist attractions and enrich the local food culture.

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## Easing Financial Pressure

34. Local consumption has been a key driver for Hong Kong's economic growth in recent years. Easing the burden of citizens will have a stimulus effect. Taking into account the current macro environment, Government's fiscal capacity and the need to boost the economy in the short term, I shall introduce three relief measures –

- (a) reduce salaries tax and tax under personal assessment for 2015-16 by 75 per cent, subject to a ceiling of \$20,000. This proposal will benefit 1.96 million taxpayers and reduce government revenue by \$17 billion;
- (b) waive rates for four quarters of 2016-17, subject to a ceiling of \$1,000 per quarter for each rateable property. This will benefit 3.17 million properties and reduce government revenue by \$11 billion; and
- (c) provide an extra allowance to 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. This will involve an additional expenditure of \$2.8 billion.

35. As regards recurrent measures, I shall adjust two categories of allowances under salaries tax and personal assessment from 2016-17. First, the basic allowance and the single parent allowance will be raised from \$120,000 to \$132,000 and the married person's allowance from \$240,000 to \$264,000. These proposals will benefit 1.93 million taxpayers and reduce tax revenue by \$2.9 billion a year.

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36. Second, I shall increase the allowances for maintaining a dependent parent or grandparent. Benefiting 600 000 taxpayers and reducing tax revenue by \$860 million a year, the adjustments include

- (a) increasing the allowance for maintaining a dependent parent or grandparent aged 60 or above from \$40,000 to \$46,000. The same increase applies to the additional allowance for taxpayers residing with these parents or grandparents continuously throughout the year;
- (b) increasing the allowance for maintaining a dependent parent or grandparent aged between 55 and 59 from \$20,000 to \$23,000. The same increase applies to the additional allowance for taxpayers residing with these parents or grandparents continuously throughout the year; and
- (c) raising the deduction ceiling for elderly residential care expenses from \$80,000 to \$92,000 for taxpayers whose parents or grandparents are admitted to residential care homes.

37. This set of tax and short-term relief measures will cost \$38.8 billion in total. Together with other spending initiatives in the Budget, they will have a fiscal stimulus effect of boosting GDP for 2016 by 1.1 per cent.

38. I have to emphasise that relief measures are different from recurrent expenditure. Relief measures aim to help citizens copewith the current financial pressure and serve as a counter-cyclical measure to preserve economic stability and safeguard employment. These are subject to adjustments in light of the economic and financialposition of the year. Recurrent expenditure is deployed for new policies, new services or enhancement of existing services.



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## New Economic Order

39. Since the 2008 financial tsunami, the global economy has undergone sweeping changes. With the global economic gravity shifting towards the East, emerging markets are playing a much more important and influential role. Breakthroughs in IT development have also brought about paradigm shifts in different economic and social spheres, changing our daily lives and business modalities.

40. These two new forces have changed the global economic landscape, gradually shaping a “new economic order” globally, offering new directions and providing room for developments for both traditional and emerging industries. They have also lowered the threshold for start-ups and created a more open market ecosystem. These ground-breaking paradigm shifts have disrupted the conventional modalities, and unavoidably impacted on existing market players.

41. We should not shy away from challenges in today’s ever-changing world. Instead, we should rise to the challenges by taking a longer perspective and keeping an open mind. We should weigh the impact of these changes on the society and solve problems with an innovative mindset. Government will uphold the long-held principles of technology-neutrality and protection of consumer rights in promoting the application of technology, ensuring the healthy development of the market with appropriate regulatory control.

42. Over the years, Hong Kong has sustained its competitive edge because our trade network is highly internationalised, our market is transparent and open, and our society is clean and law-abiding. Under the “new economic order”, we must act swiftly, get prepared, identify development opportunities and position Hong Kong as a key player in the competition. Building on our strengths, together with Hong Kong people’s flexibility, resourcefulness and market acumen, we shall, as always, be able to stand out in the face of stiff global competition.

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## **Nurturing Innovation**

43. The application of many epoch-making innovative technologies such as cloud computing, big data, robotics, artificial intelligence and biotechnology is growing fast, bringing us many revolutionary business models and services. More trading is being done virtually, and is no longer constrained by geographical boundaries. The highly-efficient global supply chains have connected markets in every corner of the world and presented different industries with a wider range of possibilities.

### **Application of Research and Development Results**

44. Hong Kong has world-class IT facilities, research and development (R&D) institutes and personnel, financing platforms, and above all a well-developed system to safeguard intellectual property (IP) rights. The neighbouring Pearl River Delta Region, and Shenzhen in particular, has developed into a manufacturing hub of advanced technology products in recent years. The immense synergy effects so generated will provide powerful support for Hong Kong's internationalised corporations in material application, prototyping and production.

45. Having regard to Hong Kong's practical circumstances, comparative advantages and the direction of our urban development, we can widely apply and commercialise R&D results in the three areas of robotics, healthy ageing and smart city to boost economic development and enhance the quality of life.

46. With an ageing population and a shrinking work force, the application of smart production technologies, in particular robotics, is vital. Robotics can enhance production efficiency and quality. The manpower spared can be devoted to high value-added processes to increase the value of output.

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47. The Hong Kong Science and Technology Parks Corporation (HKSTPC) is considering promoting smart production and research at the Tseung Kwan O Industrial Estate. Advanced manufacturing industries using robotics and IT will be brought together to drive the development of the entire value chain, covering product R&D, design, production, testing, as well as marketing and branding. It is estimated that this project will cost \$8.2 billion and will be completed in 2021-22.

48. The use of intelligent home care equipment, Internet of Things and medical rehabilitation devices helps improve the elderly's quality of life, alleviate burden on the healthcare system and promote healthy ageing, thereby enabling the elderly to lead an enjoyable life in the community. Many innovative technologies such as electronic wheelchair, medical image scanning system and medical equipment for stroke rehabilitation developed by local manufacturers and supported by the Science Park have come on stream. Biotechnology, healthcare and medicine will remain the key R&D focuses of the Science Park. Government has earmarked \$500 million to set up an Innovation and Technology Fund for Better Living to encourage different sectors to apply innovation and technology to improve the quality of living.

49. In respect of the development of smart city, a locally-developed optical sensing system, which has won numerous international awards, has been in use in many countries and regions to monitor the conditions of tracks, cables and ducts to guard against system irregularities, and reduce the maintenance and operating costs of infrastructural facilities. Government will implement the Water Intelligent Network project in phases by installing sensors in water supply networks to continuously monitor their conditions and reduce the risks of water main bursts and leakages, thereby ensuring the efficient use of freshwater resources.

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50. A new desalination plant using the latest reverse osmosis technology will be constructed at Tseung Kwan O. The design work for the first stage of the plant commenced at the end of 2015. The output of the plant, with a water production capacity of 130 000 cubic metres per day, which can be further expanded to 270 000 cubicmetres per day, will account for five to ten per cent of Hong Kong's total freshwater consumption.

51. Since last year, Government has released 5 000 datasets in digital formats free of charge through the Public Sector Information portal *data.gov.hk*. This is to facilitate the industry to develop more mobile applications. To foster IT application and development, we shall refine the existing geographic information systems and explore ways to align and integrate the spatial data in Hong Kong, including the location and relevant information of facilities that are above, on and under ground level.

52. I shall allocate an additional \$200 million to install traffic detectors along some strategic routes to provide the public with more real-time traffic information and enhance transport efficiency.

53. Government is committed to promoting the use of electric vehicles. We are actively installing more and better charging facilities and promoting the use of electric vehicles in the publictransport sector. With the growing popularity of electric vehicles, there will be more retired batteries which can still be reused for energystorage. We shall organise an international competition this year to encourage the sector to explore ways to make good use of retired batteries.

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54. According to the Global Information Technology Report 2015 published by the World Economic Forum, Hong Kong's mobile network coverage ranks first in the world. Hong Kong is also among the world leaders in terms of the speed of broadband services and the number of Wi-Fi hotspots. Government has earmarked \$500 million to further increase the number of Wi-Fi.HK hotspots to over 30 000, bringing greater convenience to our citizens and tourists.

55. Government will introduce and enhance various funding schemes to encourage more private enterprises to invest in R&D and applied technology, and to translate outstanding local R&D achievement into products and services with commercial value. Other than injecting a sum of \$5 billion into the ITF as intended, we shall introduce five measures –

- (a) inject \$2 billion to launch a Midstream Research Programme for Universities to provide funding support for universities to carry out more midstream and applied research projects in key technology areas;
- (b) increase the level of cash rebate under the R&D Cash Rebate Scheme to 40 per cent to encourage private enterprises, SMEs in particular, to put more resources into R&D works;
- (c) extend the Public Sector Trial Scheme to cover the incubatees of the Cyberport and the Science Park for funding their production of prototypes or samples and conduct trials of their R&D results in the public sector, with a view to facilitating commercialisation of R&D results;

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- (d) extend the scheme that provides funding support for the technology transfer work of six universities by three years to 2018-19; and
  - (e) continue with the Technology Start-up Support Scheme for Universities to assist technology start-ups established by university teams in commercialising research results.

## Fintech

56. Taking advantage of technologies such as mobile communications technology and artificial intelligence, financial technologies (Fintech) offer consumers novel experiences in managing their finances and provide financial institutions with tools to improve their operational efficiency. Provision of financial services is no longer confined to traditional financial institutions such as banks and insurance companies. By leveraging the Internet and mobile technologies, telecommunication companies, e-commerce enterprises and start-ups are now able to provide financial services to individuals and enterprises.

57. Fintech can be applied to a wide range of areas such as electronic payments, robo-advisors, distribution of financial products, big data analytics, cyber security, equity crowdfunding and peer-to-peer (P2P) lending. Some studies predicted that global investments in Fintech will surge from US\$12 billion in 2014 to over US\$46 billion in 2020.

58. The Steering Group on Financial Technologies which I set up last year has examined the direction for Hong Kong's Fintech development jointly with the industry, R&D institutions and relevant regulatory authorities. It has recommended a number of measures for creating a conducive environment and encouraging financial institutions and professionals from around the world to drive the development and application of Fintech in Hong Kong. We shall actively follow up.

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59. In recent years, a number of international financial institutions and professional services firms, including Accenture, the Commonwealth Bank of Australia, KPMG, Nest and Tuspark, have chosen to establish laboratories and incubation programmes in Hong Kong. This underlines our edge in developing Fintech. Government will set up a dedicated team under the Invest Hong Kong (InvestHK) to organise international events and facilitate start-ups, investors and R&D institutions to establish their presence in Hong Kong.

60. The Enterprise Support Scheme under ITF will provide financial support to Fintech start-ups and financial institutions. The Cyberport will set aside a dedicated space of 3 000 square metres in its co-working space Smart-Space, and roll out a designated programme to provide support to 150 Fintech start-ups over the next five years. In addition, it will arrange for 300 university students to join Fintech training camps in overseas universities to gain more in-depth understanding of the career prospects in the sector.

61. The Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC) and the Office of the Commissioner of Insurance will set up Fintech dedicated platforms to liaise with the industry to ensure that the market will balance between market demand and investors' understanding and tolerance of risk when introducing innovative financial products and services.

62. Consumer protection is an important consideration in Fintech development. The Payment Systems and Stored Value Facilities Ordinance, which came into effect last year, has enhanced consumer protection. HKMA is working with the Hong Kong Applied Science and Technology Research Institute, the Hong Kong Institute of Bankers and the Hong Kong Association of Banks to setup a cyber security programme, including the establishment of a cyberintelligence-sharing platform, and the conduct of risk assessment and professional certification.

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63. Government will encourage the industry and relevant organisations to explore the application of “Blockchain” technology in the financial services industry, with a view to developing its potential to reduce suspicious transactions and bring down transaction costs. The Cyberport will provide training to the industry through its incubation programme to promote relevant technologies for developing more services and products.

### Start-ups

64. Hong Kong is one of the most popular start-up hubs in the world. Last year, I introduced a series of measures to improve the ecosystem for start-ups to enable local industries to further diversify. According to InvestHK, there are now 1 600 local start-ups, representing an increase of 50 per cent over 2014.

65. Entrepreneurship is not exclusive to the young. Older people with societal experience and professional expertise can join the ranks of entrepreneurs to bring forth new possibilities by applying creativity and technology.

66. I shall continue to offer comprehensive support to start-ups in various areas such as business incubation, financing, business expansion and office space. The new measures include the following –

- (a) Government will set up a \$2 billion Innovation and Technology Venture Fund to co-invest with private venture capital funds on a matching basis in local technology start-ups;
- (b) the Science Park will expand in stages to provide additional floor area of 70 000 square metres for start-ups and other technology companies by 2020, with the project estimate amounting to \$4.4 billion to be borne jointly by Government and HKSTPC; and



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- (c) the Cyberport will earmark \$200 million to invest in its start-ups. HKSTPC will continue to support start-ups through its Corporate Venture Fund and incubation programmes.

### Creative Industries

67. Hong Kong's creative industries are well-established, blessed with immense development potential and a wealth of talents. Government will continue to support their healthy growth in line with market principles.

68. The CreateSmart Initiative (CSI) was set up in 2009 to assist the trade in organising projects for the development of creative industries. Government will inject \$400 million into CSI this year, with priority given to supporting start-ups and nurturing talents.

### *Fashion and Design*

69. I announced last year that \$500 million would be allocated to further the development of the fashion industry. I shall implement the three proposals made by the Advisory Group on Implementation of Fashion Initiatives, including –

- (a) strengthening the promotion of local fashion designers and emerging fashion brands in Hong Kong and overseas;
- (b) establishing an incubation programme for fashion designers, drawing on the experience of other fashion capitals like London, New York and Seoul; and
- (c) setting up a resource centre to provide technical training and support for young designers.

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70. I shall launch the third phase of the Design Incubation Programme in the coming financial year to help design start-ups build their business networks, publicise their products and conduct market promotions. The overall admission quota will be increased to 90 design start-ups.

71. I shall also subsidise through CSI designers of ten emerging local fashion brands to participate in the Paris Fashion Week, while the Hong Kong Trade Development Council (HKTDC) will organise fashion shows for Hong Kong designers in the New York Fashion Week, to showcase their brands, raise their profiles and attract overseas buyers. We shall launch a series of activities in the latter half of this year. Among them are the first CENTRESTAGE, an annual international fashion trade fair hosted by HKTDC, and fashion shows and forums organised for Hong Kong and Asian brands during the Business of Design Week.

### *Film Industry*

72. Last year, I injected \$200 million into the Film Development Fund (FDF) and implemented a series of measures to promote local filmmaking and encourage young people aspiring to a film career to join the industry. The First Feature Film Initiative (FFFI) was relaunched last year to provide funding to budding directors. The award winners of the first FFFI have completed their works, and I look forward to the screening of these three films. As for the two pieces of winning work of the second FFFI, their production is under preparation.

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73. Locally-produced Cantonese films, a key component of the local culture, have all along been well-received by audiences in the Mainland and Southeast Asia. Cantonese is a common dialect shared by Guangdong and Hong Kong. The Guangdong Province has a population of over 100 million with box office receipts exceeding four billion Renminbi (RMB) in 2014, offering an extensive market for our locally-produced Cantonese films. I shall inject an additional \$20 million into the FDF to subsidise the expenses incurred by locally-produced Cantonese films for distribution and publicity conducted in the Mainland. The funding is proposed to be increased from the current \$250,000 to \$500,000 per film. This will assist the film industry in leveraging the enhanced measures under CEPA to promote Cantonese films to the Mainland. The Hong Kong Film Development Council will announce the details in due course.

#### *Arts and Sports*

74. To build a supportive atmosphere for arts and culture in the community and promote the development of local professional arts, the Art Development Matching Grants Pilot Scheme, funded in last year's Budget, will be launched this year. The pilot scheme will help the more established arts groups and organisations enhance their ability in raising private donations and sponsorships through matching grants, thereby widening their funding sources and promoting a culture of donation.

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75. Government established the \$7 billion Elite Athletes Development Fund in 2012 to provide financial resources for the Hong Kong Sports Institute and offer greater support to athletes, and at the same time identify and nurture young athletes with potential. Since the establishment of the fund, the number of full-time athletes has increased by 60 per cent. The outstanding performance of Hong Kong athletes in international competitions in recent years is well-recognised and can foster the development of sports and attract more international competitions to take place in Hong Kong. Hosting international events not only provides more opportunities for athletes to demonstrate their strengths, but also brings economic benefits, enhances our international profile and develops the potential of the sports industry.

## **Finding New Markets**

76. Under the “new economic order”, emerging markets are of growing importance in the global economy. In view of this trend, we need to expand our trading ties with the rest of the world and develop more markets for Hong Kong enterprises.

77. The Proposal on Formulating the National 13th Five-Year Plan promulgated by the Central Authorities in November last year suggested that the Mainland would step up efforts to further open up its markets to Hong Kong and Macao. Moreover, it expressed support for Hong Kong to continue to consolidate our competitive industries, to participate in our nation’s two-way opening up and the Belt and Road Initiative, and to strengthen our status as the global offshore RMB business hub.

78. Hong Kong enjoys unique advantages under “one country, two systems”. We have not only a free and open market, but also efficient and transparent regulatory regimes well aligned with international standards. We are well placed to endure any threat that comes with the volatilities in external markets.

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79. Looking ahead, we should further leverage these advantages and provide appropriate support for our nation in the deepening of reforms, development of the economy in the process of opening up.

### Belt and Road Initiative

80. Our nation is taking forward the Belt and Road Initiative, a strategy for long-term development. The outcomes will not emerge overnight. Yet, what is certain is that the emerging markets along the routes are likely to become the new impetus for the future development of Hong Kong. Government will continue the promotion efforts to deepen the understanding of the business sector and the community of these new markets.

81. HKTDC has launched a series of measures, including the creation of websites, to provide information on relevant business environment to assist the sector in their business expansion. In addition, Government and HKTDC will jointly organise the inaugural Belt and Road Summit in May this year. We shall invite key officials from the markets along the routes, representatives of international organisations and business sectors as well as experts in related trades to engage in in-depth exploration of co-operation opportunities and the unique role that Hong Kong can play.

82. I led the first Belt and Road Initiative business mission of the Hong Kong Special Administrative Region Government to visit Hungary, Poland and Germany last September. I plan to lead another business mission to Central Asia this year. The visit will enable participants from the business sectors to gain first-hand knowledge about the development potential and business opportunities in the region.

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83. Financial services will be in growing demand in emerging markets. Hong Kong is well-equipped to serve as a platform for financing and fund management for these markets. I have asked HKMA to establish an office to facilitate the financing of infrastructure projects and provide a platform for pooling the efforts of investors, banks and the financial sector to offer comprehensive financial services for various infrastructure projects.

84. The Asian Infrastructure Investment Bank (AIIB) was officially launched last month. We shall continue our active discussion with AIIB and the Central Government on Hong Kong's participation in AIIB as a non-sovereign territory. We shall also continue to support the work of AIIB, and seek to leverage our expertise to service AIIB in capital markets financing, asset management and dispute resolution.

85. The success of the two sukuk issuances by Government in the past two years has demonstrated the ability of our financial market to support the launch of Islamic financial products and meet their financing needs. We shall seize the opportunity to issue the third sukuk in a timely manner.

## Commerce and Logistics

### *Trade Agreements*

86. Government will strive to pursue trade and investment agreements to expand our commercial and trading networks, creating more favourable conditions for Hong Kong enterprises to access the Mainland and overseas markets. We have conducted five rounds of free trade agreement (FTA) negotiations with the Association of Southeast Asian Nations (ASEAN). We hope that the negotiations will be concluded this year. We shall also actively seek to participate in the FTAs that have been or will be concluded between the Mainland and other places.

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87. Last November, the Mainland and Hong Kong signed an Agreement on Trade in Services under the framework of CEPA. The agreement has basically achieved the full liberalisation of trade in services between the two places, facilitating our services industry's access to the Mainland market. We shall also seek to conclude discussions on a closer economic partnership arrangement with Macao this year.

### *Commercial Connectivity*

88. We have an advanced and efficient transportation network. The cargo handled by the Hong Kong International Airport makes up 40 per cent of our exports in value terms. The eastward shift of the global economic balance has fuelled the rapid rise of spending power and growing demand for high-end consumer goods in the Asian region. This is conducive to the positioning of Hong Kong as an aviation and maritime centre and the development of our high value-added logistics services.

89. The capacity of our airport remains a problem that must be addressed. The existing two-runway system will reach maximum capacity within two years. To cater for long-term air traffic demand and sustain Hong Kong's competitiveness as an aviation hub, the Airport Authority Hong Kong (AA) is pressing ahead with the implementation of the three-runway system (3RS) project, which is expected to complete in eight years. Upon full operation of the 3RS, the airport will be able to handle 100 million passengers and nine million tonnes of cargo annually in 2030.

90. The increasing demand for international air transport services will spur the rapid growth of the aviation business in Hong Kong and Asia. Hong Kong has well-developed transportation and financial services. We shall examine the use of tax concession to boost aircraft leasing business and explore business opportunities in aerospace financing.

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91. E-commerce is booming in Hong Kong, with sales doubling from \$140 billion in 2008 to \$280 billion in 2012. To meet the demand for logistics services brought by electronic trading, Hongkong Post will capitalise on its network to enhance the counter collection service for online purchases. In the first half of this year, Hongkong Post will install self-service collection lockers in the community to make it more convenient for members of the public to collect their online purchases.

92. Hongkong Post will promote the wider use of online postal portals, such as EC-Ship and My Speedpost, among their clients to facilitate the delivery of goods by internet shops. It will also continue to provide e-commerce support services to local SMEs in collaboration with HKTDC and the Hong Kong Productivity Council.

93. Shortage of land for the logistics industry has always been a matter of concern. Government will provide land for logistics use. We have reserved ten hectares of land in Tuen Mun West for logistics purpose. One of the reserved sites has gained the support of the District Council and will be released for use by the industry as soon as possible.

#### *“Single Window”*

94. At present, the import and export trade has to submit various trade documents to Government through different platforms. To further facilitate trade in goods, we shall establish a “single window” for “one-stop” lodging of all the 50-plus trade documents and submissions with Government for trade declaration and customs clearance purpose. The “single window” will connect with other governments’ systems as well as trade information platforms run by the private sector. Government will set up a dedicated office to coordinate with the relevant departments, engage the industries and prepare the detailed design and implementation programme for the “single window”. It is expected that the first phase of the initiative will be launched in 2018.



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## *Intellectual Property*

95. IP trading is vital to the growth of a knowledge-based economy. To encourage enterprises to engage in the development of related business, and to promote Hong Kong as an IP trading hub in the region, we shall expand the scope of tax deduction for capital expenditure incurred for the purchase of IP rights from the existing five categories to eight. The additions are layout-design of integrated circuits, plant varieties and rights in performance.

## Financial Services

### *Cross-boundary Services*

96. Hong Kong is the world's largest offshore RMB business hub, with the world's largest pool of RMB liquidity. In 2015, RMB trade settlement conducted through Hong Kong banks totalled RMB 6.8 trillion, representing a nine per cent increase over 2014. RMB lending business also continued to grow. Outstanding loans amounted to RMB 300 billion at end-2015, representing an increase of 58 per cent as compared with 2014.

97. With the wide use of RMB internationally, there will be growing demand for RMB trade settlement, RMB assets and related financial services which will drive various types of transactions in our offshore RMB market. We shall continue to explore with the Mainland authorities ways to open up more channels for the two-way cross-boundary RMB fund flows, including the possibility of increasing the investment quota for us under the RMB Qualified Foreign Institutional Investors (RQFII) Scheme.

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98. The successful implementation of the Shanghai-Hong Kong Stock Connect and the Mutual Recognition of Funds Arrangement is a key milestone for the mutual capital market access between Hong Kong and the Mainland. We have discussed with relevant authorities of the Central Government the launch of the Shenzhen-Hong Kong Stock Connect and the enhancement of the Shanghai-Hong Kong Stock Connect. We are all set with preparatory work and, subject to the announcement of the Central Government, shall implement the programme as soon as possible.

### *Asset Management*

99. Hong Kong is a major asset management centre and investment platform in the Asia-Pacific region. The business is burgeoning. As at the end of 2014, the combined fund management business amounted to \$18 trillion, representing a year-on-year growth of 10.5 per cent. Funds from overseas investors continued to increase and recorded growth of nine per cent in 2014, accounting for over 70 per cent of the fund management business.

100. In 2014, I proposed to waive the stamp duty for the transfer of all exchange traded funds (ETF) to promote the development of the ETF market in Hong Kong. The relevant legislation was passed by LegCo and became effective last year. The average daily turnover of ETFs in 2015 rose to \$8.8 billion, an increase of 86 per cent over 2014.

101. Hong Kong ranked second in Asia in terms of the total capital under management in private equity funds, which amounted to US\$120 billion as at September 2015. We are currently home to 410 private equity firms, of which 350 have their regional headquarters in our city.

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102. To promote further the development of the private equity industry, we have allowed private equity funds to enjoy profits tax exemption available to offshore funds. The aim is to attract more offshore private equity fund managers to set up business in Hong Kong, which will in turn drive the demand for other related professional services.

103. To attract more multinational and Mainland enterprises to establish corporate treasury centres in Hong Kong, we have introduced a bill into LegCo to allow, under specified conditions, interest deductions under profits tax for intra-group financing business of corporations and reduce profits tax of qualifying corporate treasury centres by 50 per cent.

104. We submitted a bill into LegCo in January this year to provide a legal framework for introducing an open-ended fund company structure to further diversify the fund domiciliation platform in Hong Kong.

### *Green Finance*

105. Green financial business investing in environmental projects is gaining attention in the global market. The development of green finance is also proposed in the Proposal on Formulating the National 13th Five-Year Plan. The Mainland's financial institutions are actively promoting relevant financing products such as green bonds to raise capital for environmental projects with a long payback period, such as renewable energy technology, waste treatment and sewage treatment. To encourage the participation of the financial sector, we shall strengthen our efforts to publicise our competitive capital market and highlight our edge in developing green financial products. AA will also explore the feasibility of financing through green bonds.

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### *Securities Market*

106. Last year, Hong Kong ranked first globally in terms of funds raised through initial public offerings, which amounted to \$260 billion, representing an increase of 12 per cent over 2014. Given the size and complexity of the securities market, we need to constantly review the relevant regulatory regimes, streamline procedures and enhance market efficiency and quality to reinforce Hong Kong's status as the premier capital formation centre. SFC and the Hong Kong Exchanges and Clearing Limited are planning to conduct shortly a joint public consultation exercise on enhancing the regulatory structure in respect of listing matters.

### *Retail Bonds*

107. We have launched five issuances of inflation-linked retail bonds (iBond) since 2011 under the Government Bond Programme. The issuances have all been well received and have enhanced people's understanding of and interest in retail bonds. I shall launch another iBond issue of up to \$10 billion with a maturity period of three years following the existing practice. HKMA will announce the details in due course.

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## **Fostering Talent**

108. There is keen competition among economies under the “new economic order”. For Hong Kong to stay competitive, we need to have a pool of talents familiar with innovation and technology and equipped with professional skills. The talents must have broad horizons and a solid grasp of international affairs, so that they can contribute towards the diversified development of Hong Kong as a knowledge-based economy and help open up new markets.

109. Education has long been a major area of recurrent government expenditure. Expenditure on education for 2016-17 is \$75 billion, accounting for 21.5 per cent of recurrent government expenditure. It represents an increase of 70 per cent over ten years.

110. With good basic education in general, the generations born in the 1980s and the 1990s have become the lifeblood of different sectors. Government will continue to invest heavily in nurturing talents. Apart from our ongoing efforts to enhance the quality of education, we shall also offer more internship and exchange opportunities to students and encourage the workforce to pursue continuing education, developing a good mix of generalists and professionals in Hong Kong. This will help our new generations maintain their competitive edge and realise their potential under the “new economic order”.

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## **Internship and Exchange**

111. In October last year, I launched the Enriched IT Programme in Secondary Schools, which offers intensive training to students with potential. We have set up a steering committee to coordinate and promote the programme. Members of the steering committee include IBM, Google, Microsoft and Huawei. In the next two years, we shall continue to collaborate with the industry to organise activities and internship programmes, with a view to nurturing IT professionals for the development of Hong Kong.

112. We shall increase the monthly allowances of the Internship Programme under ITF and extend the programme to cover the incubatees and SME tenants of the Cyberport and the Science Park, as well as the start-ups to be funded by the Innovation and Technology Venture Fund, in a bid to encourage more university graduates to enter the field of innovation and technology.

113. Last year, the Hong Kong United Youth Association and Y Society organised the first Future Leaders in Finance Internship Programme, a summer internship, supporting 20 local university students to work as interns at financial institutions in Beijing to broaden their networks and horizons. Government will provide subsidies and increase the internship places to 40 this year. Partners to the programme include the China Investment Corporation and the Silk Road Fund.

114. The Scheme for Cross-boundary Study Tour for Post-secondary Financial Talents, which we jointly launched with Shanghai in 2012, enables Hong Kong students to understand the prospects and dynamics of the financial markets in the Mainland. Government will subsidise 30 local university students to join the scheme this year.

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115. The ASEAN Internship Scheme launched by the Hong Kong Economic and Trade Office in Singapore in 2014 has so far provided internship opportunities for about 300 students. Through this scheme, students can gain first-hand knowledge about the economic and socio-cultural environments of the ASEAN countries. From 2016 onwards, the scheme will be extended to cover the Hong Kong Academy for Performing Arts, Hong Kong Shue Yan University and Hang Seng Management College, bringing the total number of participating tertiary institutions to 11.

## **Professional Training**

116. Government is committed to nurturing professionals to meet our needs. Since this academic year, we have launched a subsidy scheme of \$960 million for students pursuing self-financing undergraduate programmes in selected disciplines, including healthcare, architecture and engineering, testing and certification, creative industries, logistics as well as tourism and hospitality.

117. To further encourage continuing education, I shall implement a pilot scheme to provide tuition fee subsidy for three cohorts of students admitted to designated professional part-time programmes offered by the Vocational Training Council starting from the next academic year. Programmes in the disciplines of construction, engineering and technology will be covered. The total commitment will be \$200 million, benefiting 5 600 people.

118. As for the construction industry, we have allocated a total of \$420 million over the past six years to support the Construction Industry Council in enhancing its training and promotion efforts to attract more new entrants to the industry. As at 2015, 18 000 semi-skilled workers have completed their training. Government will continue to collaborate with the industry in upgrading practitioners' skills, putting in place a clear career ladder, improving the working environment, and ultimately increasing the manpower for the industry.

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119. The Earn and Learn Pilot Scheme for the Retail Industry has been implemented since 2014 to subsidise practitioners to enrol in diploma programmes and receive on-the-job training at the same time. Joined by 50 retail brands, the scheme has been well-received by the industry. It is expected that 1 500 practitioners will be trained. With recognition under the Qualifications Framework, the scheme will raise professional standards and show a clear career path for participants, contributing to the sustainable development of the retail industry.

120. Manpower shortage in the financial services industry is particularly pronounced in the insurance sector and the asset and wealth management sector. Last year, I proposed to allocate \$100 million to take forward a three-year pilot programme. Starting from the latter half of this year, we shall provide financial subsidies to practitioners to attend training courses to enhance their professional knowledge and competency. To attract more new blood to the financial services industry, we shall also offer university students internship opportunities to enhance their understanding of the job nature and career prospects of the sectors.



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## **Land Resources**

121. Land is an indispensable element for sustainable economic and social development. Government will continue to increase land supply to meet Hong Kong's needs in terms of housing, economic and social development for maintaining our long-term competitiveness.

### **Residential Land**

122. For public housing, based on the latest projection, Government has adopted the public housing supply target of 280 000 units for the ten-year period from 2016-17 to 2025-26.

123. The Hong Kong Housing Authority (HKHA) requires substantial resources to implement the ten-year public housing construction programme. It is estimated that HKHA's cash and investment balance will drop to \$16 billion by the end of March 2020. I have set aside the investment returns of \$45 billion in 2015 as an injection into the Housing Reserve. Taking this injection together with the 2014 allocation and accumulated investment returns, the balance of the Housing Reserve now stands at \$74 billion. When Government and HKHA have reached consensus on the necessary government financial support arrangements, we shall seek approval from the Finance Committee for funding to be drawn from the Housing Reserve to support the long-term public housing development.

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124. As for private housing, Government estimates that private housing land supply in 2015-16 has a capacity to produce over 20 000 units. The 2016-17 Land Sale Programme comprises 29 residential sites, including 14 new sites, capable of providing about 19 000 units. Taking into account railway property development projects, the Urban Renewal Authority's projects and private redevelopment and development projects, we estimate that the potential land supply for private housing in 2016-17 will have a capacity to produce 29 000 units. The Secretary for Development will announce tomorrow the Land Sale Programme for the next financial year.

125. Amid the increase in land supply over the recent past and the market expectation of US interest rate hikes, the property market has shown signs of correction since the middle of last year. Trading in the residential property market has turned quieter, and property prices have been falling for four consecutive months since last October, with a cumulative drop of nine per cent as at January 2016. There will be successive rises in interest rates, and the medium-term supply of local residential flats will increase. All these factors, coupled with various uncertainties overshadowing the economic outlook, could add pressure to further property market correction. The public should carefully assess the potential risks, in particular the impact of interest rate hikes on their home mortgages, and their own financial position when making a home purchase decision.

## **Commercial Land**

126. In 2015-16, Government put up for sale a total of three business sites, capable of providing 68 000 square metres of floor area. The Land Sale Programme for the coming financial year includes eight commercial/business sites and three hotel sites, capable of providing 540 000 square metres of floor area and 2 100 hotel rooms respectively.

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127. Government will continue to increase the supply of commercial floor area through various channels. Apart from putting on sale the Trade and Industry Department Tower in Mong Kok and implementing the relocation plan of the three government office buildings in Wan Chai by phases, we shall also –

- (a) reprovision government facilities in the two action areas in Kwun Tong and Kowloon Bay, and the land released is expected to provide 560 000 square metres of commercial and office floor area;
- (b) convert the Murray Road multi-storey car park to commercial use, which is estimated to provide 42 000 square metres of floor area; and
- (c) redevelop the Queensway Plaza site, which is capable of providing 93 000 square metres of floor area.

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## **Caring for People's Livelihood**

128. Government has devoted substantial resources to improving people's livelihood. Apart from education, healthcare services and social welfare are also the main areas of government spending. The estimated recurrent expenditure on these three areas for 2016-17 is \$198 billion, accounting for 60 per cent of recurrent government expenditure. This represents an increase of over 80 per cent when compared with ten years ago.

### **Investing in Healthcare**

129. Recurrent expenditure on medical and health in 2016-17 is \$57 billion, accounting for 16.5 per cent of recurrent government expenditure. This represents an increase of more than 90 per cent when compared with a decade ago. To cope with an ageing population, Government has set aside a dedicated provision of \$200 billion for a ten-year hospital development plan to enable the Hospital Authority (HA) to expand and upgrade healthcare facilities in a more flexible and long-term manner.

130. The development plan is a vast investment. It will provide 5 000 additional hospital beds, representing an increase of 18 per cent. Operating theatres will increase by 40 per cent to 320. Specialist outpatient service capacity will increase substantially by 40 per cent from 6.8 million to 10 million attendances a year. At the district level, community health centres will be set up in Mong Kok, Shek Kip Mei and North District. Additional services for 410 000 attendances will be provided at the general outpatient clinics each year.

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131. The development plan will cover the redevelopment and expansion of a number of hospitals including Kwong Wah Hospital, United Christian Hospital, Queen Mary Hospital, Kwai Chung Hospital, Prince of Wales Hospital, Haven of Hope Hospital, Our Lady of Maryknoll Hospital, Operating Theatre Block of Tuen Mun Hospital, North District Hospital, Lai King Building of Princess Margaret Hospital and Grantham Hospital.

132. As for new hospital projects, an acute general hospital will be built in the Kai Tak Development Area. The two-phased project will be commissioned in ten years and will provide 2 400 beds and facilities such as an oncology centre and the first neuroscience centre in Hong Kong.

133. Government will allocate \$10 billion to HA to set up an endowment fund to generate investment returns for enhancing public-private partnership programmes. Government will also provide a loan of \$4 billion to the Chinese University of Hong Kong for developing a non-profit making private hospital.

## **Supporting the Underprivileged**

134. Government has made proactive efforts to help those in need through social welfare measures. Recurrent expenditure on social welfare for 2016-17 is estimated at \$66 billion, accounting for 19 per cent of recurrent government expenditure. This has doubled when compared with ten years ago.

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135. The Elderly Commission (EC) is pressing ahead with the formulation of the Elderly Services Programme Plan for Hong Kong. In the meantime, Government is putting in place a series of forward-planning initiatives to meet the challenges brought about by the continuous growth in demand for elderly services due to an ageing population, including –

- (a) strengthening and enhancing community care services to support “ageing in place”, the cherished wish of elderly persons. Since 2015-16, Government has increased recurrent expenditure by \$170 million to provide 1 600 additional places for the Enhanced Home and Community Care Services. Starting from 2016-17, a recurrent provision of \$17 million will be allocated to provide 160 additional day care places for the elderly;
- (b) speeding up the provision and improving the quality of residential care places for the elderly. We shall allocate a recurrent provision of \$140 million from 2016-17 onwards to provide more subsidised residential care places, enhance existing residential care services and progressively upgrade 1 200 places under the Enhanced Bought Place Scheme;
- (c) providing more elderly facilities. We have reserved space in 15 development projects or vacant buildings for the provision and conversion of existing facilities into residential care homes and day care centres for the elderly. We are pressing ahead with the Special Scheme on Privately Owned Sites for Welfare Uses to provide additional places for elderly services through the redevelopment or expansion of existing service facilities; and

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- (d) piloting a new model of elderly services. Since September 2013, Government has launched, with \$1 billion from the Lotteries Fund, the Pilot Scheme on Community Care Service Voucher for the Elderly which adopts the “money-following-the-user” and “co-payment” approaches. The pilot scheme will be extended to all 18 districts in the territory this year and the number of service vouchers will be increased to 3 000. EC is also actively examining the implementation of the Pilot Scheme on Residential Care Service Voucher for the Elderly. Government has earmarked \$800 million for providing 3 000 service vouchers under the three-year pilot scheme.

136. Since the launch of the Reverse Mortgage Programme in 2011, the Hong Kong Mortgage Corporation Limited (HKMC) has received 1 000 applications. The number of applications in 2015 increased by 80 per cent when compared with 2014. We shall step up promotion efforts to enable more eligible senior citizens to receive stable monthly income under the programme, with a view to improving the quality of life in their own home. To allow more elderly owners of subsidised housing units to join the programme, I propose that HKMC should explore with relevant organisations the feasibility of extending the programme to cover subsidised sale flats with premium not yet paid.

137. Many of our senior citizens are looking for investment products with steady returns. I encourage the sector to tap into the immense potential of this silver market by introducing a larger spectrum of appropriate products. Government will launch a pilot scheme to issue Silver Bond this year and next year, targeting at Hong Kong residents aged 65 or above, with a maturity of three years for the first issuance. HKMA will announce the details in due course.

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138. Our society is ageing. This has far-reaching implications for our future public finances. I have earmarked \$50 billion to improve the retirement protection for the elderly in need. The Commission on Poverty is conducting a public engagement exercise on how retirement protection can be improved. Any retirement protection scheme must be financially sustainable to avoid shifting the significant retirement protection expenses to future generations. I hope that all sectors of the community will keep an open mind and work together to explore sustainable proposals that meet the needs of Hong Kong.

139. In respect of children and family, Government will allocate a recurrent provision of \$2.9 billion to implement the Low-income Working Family Allowance Scheme starting this year. The scheme aims to alleviate intergenerational poverty through encouraging employment and assisting poor families with children.

140. Government seeks to help women to manage family commitments alongside work. On top of the additional places of Extended Hours Service for eligible child care centres last year, an additional 3 800 places will be provided in phases. A pilot scheme will also be introduced in the first quarter of this year to provide child care training for grandparents.

141. Starting from 2016-17, we shall allocate a recurrent provision of \$180 million to strengthen various residential care services, special transport services and community support services for persons with disabilities, and to provide support services for children with special needs and their families.



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142. Many people are concerned about how Government will deal with the unused subsidies of the one-off electricity charges subsidy scheme. The validity period of this relief measure will last until the end of June 2016. Up till last October, seven per cent of households eligible for the subsidy still had unused credits in their accounts. I shall extend for the last time the validity period of the unused subsidies for two years to 30 June 2018.

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## **Public Finances**

143. As Financial Secretary, I am obliged to ensure that our public finances are sustainable and can embrace the short, medium as well as long-term needs and development of Hong Kong. Government expenditure will be directed where required in line with our policies. Government revenue will be built around a simple and low tax regime, avoid over reliance on one or two types of tax and adhere strictly to the “user pays” principle. In drawing up the Budget, we must follow the principle of keeping expenditure within the limits of revenue, avoid deficits, and keep the budget commensurate with economic growth.

## **Use of Resources**

144. Government has to contain expenditure growth in the face of an ageing population, a shrinking labour force and the slowing economy. I initiated a three-year measure as from 2015-16 to contain expenditure by requiring policy bureaux to achieve more efficient use of resources through re-engineering, phasing out dated procedures and re-prioritising. We aim to reduce operating expenditure by two per cent in three financial years. Resources saved have all been re-allocated to policy bureaux for new services.

145. Recently the community has aired concerns about cost overruns of infrastructure projects. The progression of a project from planning and study, design and construction to commissioning takes years. It involves a host of uncertainties such as ground conditions, surges in prices of construction materials, wage hikes, economic fluctuations, as well as unforeseen circumstances in the course of construction. All these may lead to cost overruns. Large-scale infrastructure projects face even greater challenges.

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146. To strengthen cost control of public works, the task force I set up last year has examined the causes for the rising costs of works projects and formulated improvement measures. I have asked the Development Bureau to establish a multi-disciplinary office to conduct a comprehensive review of the guidelines on public works, reduce unnecessary design and contractual requirements, and scrutinise closely the cost estimates of 300 major new projects in the next three years. It will report progress to me on a regular basis with a view to controlling project costs.

147. We shall introduce more competition, and seek to fine-tune the works procedures and enhance training to improve productivity. Subject to safeguarding priority employment of local workers and their wage levels, we shall rely on the enhanced Supplementary Labour Scheme to alleviate the delays and cost overruns caused by labour shortage.

148. Recent fluctuations in construction costs have occasionally resulted in higher-than-expected tender prices. To avoid the need to seek additional funding for unexpectedly high tender prices, we have urged departments to invite tenders before submitting funding applications to LegCo for less controversial projects, such as schools and hospitals, which are livelihood-related. We can then present more accurate project estimates to LegCo.

## **Preserving Revenue Base**

149. Government has been committed to modernising the tax legislation in recent years to ensure that Hong Kong maintains a fair tax environment, aligns our tax system with international standards, and enhances our competitiveness.

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150. Government just introduced a bill into LegCo this January on the implementation of the international standard on Automatic Exchange of Financial Account Information in Tax Matters. I look forward to early completion of the legislative process to bring the first automatic exchange into effect in 2018 as pledged.

151. Hong Kong is also obliged to implement the project of the Group of Twenty against base erosion and profit shifting. We shall conduct analysis, consult the trade and consider participating in an international framework being developed by the Organisation for Economic Co-operation and Development.

152. Over the past three years, we have made strenuous efforts to remind all government departments to regularly review their fees and charges. Unless justified on policy ground, all fees and charges for government services have been set in accordance with the “cost-recovery” and “user pays” principles. The review mechanism has been re-activated in most of the departments. Relevant fees and charges have registered an average annual increase of \$400 million in the three years since 2012-13.

## **Fiscal Reserves**

153. With a relatively sound fiscal position, Government has recorded successive years of surpluses. Fiscal reserves are estimated to be \$860 billion by the end of March 2016, equivalent to 24 months of government expenditure.

154. The reserves are all that we have at our disposal. They have yet to take into account unavoidable commitments including \$300 billion for ongoing works projects and \$800 billion for statutory pension.

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155. Our fiscal reserves are the mainstay of our economy. It helps us ensure the stability of the Hong Kong dollar and withstand challenges posed by economic cycles and ageing population. As one may recall, Hong Kong was beset with severe economic doldrums from 1998 to 2004. During the period, we experienced five years of fiscal deficits which depleted 40 per cent of our fiscal reserves.

156. Prolonged depletion of the reserves to meet ever-increasing recurrent expenditure is not sustainable. Recurrent expenditure must be funded by sustainable revenue. To maintain the health of our public finances and enable us to cope with possible threats, we must exercise fiscal prudence and live within our means.

157. To tackle the problems that come with an anticipated structural deficit, I have established the Future Fund to set aside part of our fiscal reserves for long-term investments when we can still afford to do so. I have instructed HKMA to allocate \$220 billion from the balance of the Land Fund, which is part of the fiscal reserves, as an initial endowment of the Future Fund, and to inject one-third of the actual surplus in 2015-16 into the Future Fund. HKMA will deploy half of the Future Fund for incremental placement with the Exchange Fund's Long-Term Growth Portfolio to achieve greater returns.

## **Forward Planning**

158. In preparing the Budget, I have been particularly mindful of the long-term needs of Hong Kong. I have set up the Housing Reserve in support of public housing development, set aside \$200 billion for the ten-year hospital development plan and established the Future Fund as part of our long-term investment strategy. Government will continue to make forward planning for major financial commitments to meet the needs of social development and people's livelihood.

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## **Revised Estimates for 2015-16**

159. The revised estimate for government revenue for 2015-16 is \$457 billion, 4.2 per cent or \$20 billion lower than the original estimate. It reflects mainly the provision of \$45 billion for the Housing Reserve and changes in different incomes.

160. Revenue from land sale is \$8 billion or 11.6 per cent lower than the original estimate because some sites were unable to be disposed of as scheduled. Given the fluctuation of the Hong Kong stock market, with trading hectic in the first half of the year, stamp duty revenue for the whole year is \$14 billion or 28 per cent higher than the original estimate. The total revenue from salaries tax and profits tax is \$17 billion or 8.9 per cent higher than originally estimated.

161. As for government expenditure, I forecast a revised estimate of \$427 billion, 3.1 per cent or \$14 billion lower than the original estimate. This is mainly because the Finance Committee may not be able to complete as scheduled the deliberation on the proposed endowment of \$10 billion to HA for public-private partnership initiatives in 2015-16.

162. For 2015-16, I forecast a surplus of \$30 billion. Fiscal reserves are expected to reach \$860 billion by 31 March 2016, equivalent to 24 months of government expenditure.

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## **Estimates for 2016-17**

163. Last month, the Chief Executive delivered the Policy Address covering a spectrum of policy initiatives which involve \$220 billion of expenditure. I shall ensure that financial resources are adequate to fully support the launch of these initiatives.

164. Operating expenditure for 2016-17 is estimated to be \$380 billion, representing an increase of 11.1 per cent or \$38 billion over the revised estimate for 2015-16. Recurrent expenditure, which accounts for over 90 per cent of operating expenditure, will reach \$350 billion, reflecting an increase of 6.7 per cent or \$22 billion over the revised estimate for 2015-16.

165. I forecast that capital expenditure will be \$110 billion, including \$79 billion on capital works. With a number of projects at their construction peaks, capital works expenditure is expected to remain at relatively high levels in the next few years. We are, however, concerned about the slow progress of deliberation in LegCo, resulting in a mounting backlog of funding proposals and delayed commencement of livelihood-related projects.

166. The civil service establishment is expected to expand by 2 223 posts to 178 495 in 2016-17, representing a year-on-year increase of 1.3 per cent. This has to do with manpower increase in government departments for implementing new policies and improving existing services.

167. Total government expenditure is estimated to reach \$490 billion in the next financial year, 14 per cent more than that of last year. Public expenditure will be equivalent to 21.2 per cent of GDP.

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168. Total government revenue for 2016-17 is estimated to be \$500 billion, of which earnings and profits tax is estimated at \$206 billion. Land revenue is estimated to be \$67 billion.

169. Taking all these into account, I forecast a surplus of \$11 billion in the Consolidated Account in the coming year. Fiscal reserves are estimated to be \$870 billion by the end of March 2017, representing 35.2 per cent of GDP or equivalent to 21 months of government expenditure.



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## Medium Range Forecast

170. The global economy has seen rather low and unbalanced growth in recent years. Uncertainties in the external economic environment will linger on in the next few years. For the medium term, the average growth rate is forecast to be three per cent per annum in real terms from 2017 to 2020, lower than the trend growth of 3.4 per cent over the past ten years; and the underlying inflation rate is expected to average 2.5 per cent per annum.

171. I forecast an annual surplus in the Operating Account and an annual deficit in the Capital Account in the four financial years from 2017-18. There will be deficit in the Consolidated Account in 2018-19 and 2019-20, which mainly reflects Government's financial allocation for the healthcare reform and retirement protection. On the whole, the financial position of Government over the medium term remains sound.

172. Fiscal reserves are estimated at \$835 billion by end-March 2021, representing 28.3 per cent of GDP or equivalent to 18 months of government expenditure.

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## Concluding Remarks

173. Mr President, I set up a Facebook account on the eve of the last Budget Speech, hoping that its contents could be presented to the wider community through a channel that was popular among young people in order to help broaden and rejuvenate my communication with the public. Social media enables me from another perspective to observe people's daily lives and to hear their voices, including messages that cannot be accessed through traditional media and views that have not been captured by the mainstream. In the past year, I have gained a much deeper appreciation for the current state of play.

174. I believe that many of you would share my feeling that tension and turbulence are mounting in Hong Kong. Many of us feel suffocated by and, indeed, helpless with the tiresome confrontations day in and day out. This highly charged atmosphere has continued to deteriorate since the unlawful occupy movement a year and a half ago, even after the defeat of the constitutional reform package. Confrontations have not eased, and worse still, our society has become even more polarised. Political disputes are spreading both inside and outside the Council Chambers, setting off a spiral of intensifying struggle between rival factions. Calm and rational discussions no longer have a place in this Council. There is not even room for dialogue in our society.

175. As a member of the Hong Kong community, I am deeply troubled by the current situation. What we are facing today is the result of a raft of intricately-related factors. We need to look squarely at these factors in resolving the differences and, more importantly, we need to have the determination to resolve these conflicts. If we should allow the situation to get worse, what lies in store for Hong Kong will be even greater chaos, and our future generations will grow up in the midst of hatred and malice.

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176. A statesman once said, “Our problems are man-made, therefore they can be solved by man.” For the problems of Hong Kong, they cannot be solved by anyone else except ourselves. As long as everyone is willing to set aside short-term political considerations in favour of the long-term overall interests of Hong Kong, we shall have a chance to return to rationality. It is a long journey. We must be patient and persevere in helping our community to heal, one step at a time.

177. The road trodden by the people of Hong Kong has been thorny and winding. Our journey has been fraught with wars, poverty, epidemics, economic recessions and financial crises. In spite of all these scourges and storms, we have always been able to find a way out; and the experience gained over the years has enabled our economy to progress, our system to become more refined, and our society more diverse.

178. Looking back on the road that we have travelled, I believe we have both the ability and the wisdom to cope with the problems that we are facing today. I also believe that one day we can break the deadlock. When the storms are over, we shall cherish all the more the harmonious and cohesive society that we have restored.

179. Last year, throughout their World Cup qualifying campaign, the Hong Kong team and their fans had never for a second lost hope in the face of strong competition. I remember clearly the evening match against Qatar. Although falling behind by three goals, our team and their fans remained united, and persisted to mount a comeback scoring two goals in the final five minutes. We lost the match, but the never-say-die spirit that they exhibited won the hearts of our city. To Hong Kong, this very match has taken on a significance beyond victory and defeat. It has led me to believe that, with our love for Hong Kong, we are able to overcome any challenge ahead of us, no matter how difficult it is.

180. Thank you, Mr President.

