

THE 2019-20 BUDGET

*Speech by the Financial Secretary, the Hon Paul MP Chan
moving the Second Reading of the Appropriation Bill 2019*

Wednesday, 27 February 2019

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Mr President, Honourable Members and fellow citizens,

I move that the Appropriation Bill 2019 be read a second time.

Introduction

2. This is the second Budget of the current-term Government, my third since I became Financial Secretary. It has been prepared against the backdrop of profound changes in the global political and economic landscape, a complicated and volatile external environment and heightened uncertainties.

3. As a small and totally open economy, Hong Kong has been susceptible to economic headwinds over the past few months, as evidenced by notable slackening growth and diminishing confidence of enterprises in the future outlook. Under such circumstances, it is all the more important for us to have a sound judgement of the prevailing global political and economic landscape, and set the direction for Hong Kong's economic development with due regard to our own strengths. I will take this opportunity to share my views in the Budget.

4. Every cloud has a silver lining. Even though we are not out of the woods yet, we have every confidence in our future.

5. Given the public and the business community's concerns about Hong Kong's economic outlook, I prepared this year's Budget along the direction of "supporting enterprises, safeguarding jobs, stabilising the economy, strengthening livelihoods". In fact, to support the implementation of various measures, including those proposed in the Policy Address, I will provide new resources ready for use of about \$150 billion in this Budget, with additional resources earmarked for various purposes. This demonstrates our determination to enhance public services, support enterprises, relieve people's burden and invest for the future. Resources will be allocated as appropriate to support these measures. I will provide details in the ensuing parts of my speech.

Economic Situation in 2018

6. The global economy expanded throughout 2018, with stronger growth momentum during the first half of the year. The momentum was checked by brewing trade tensions and other unfavourable conditions in the second half of the year. Production and trading activities in Asia saw notable growth for most of last year, but significantly weakened towards year end. Affected by the external environment, Hong Kong's total exports of goods had an annual growth of 3.5 per cent in real terms, but the growth in the fourth quarter decelerated, resulting in a slight year-on-year decrease of 0.2 per cent. Exports of services also moderated in the latter half of the year, though an overall growth of 4.9 per cent was recorded for 2018.

7. Domestic demand remained largely stable, contributing favourably to the labour market with solid rises in wages and earnings underpinning consumption. Private consumption expenditure grew by 5.6 per cent in real terms for the year, but slowed down through the year amid adjustments in asset prices and increasing external uncertainties. Although investment expenditure registered a growth of 2.2 per cent in real terms for the year, a number of surveys have reflected the weakened business sentiment in Hong Kong recently.

8. Under mounting external pressures, Hong Kong's economic growth moderated from 4.1 per cent in the first half of 2018 to 2.1 per cent in the second half of the year, with growth for the fourth quarter at a mere 1.3 per cent, the lowest since the first quarter of 2016. Overall, Hong Kong's economy grew by 3 per cent in 2018, at the lower end of the range projected in last year's Budget but still higher than the trend growth rate of 2.8 per cent over the past decade.

9. The labour market remained tight, with the unemployment rate remaining at 2.8 per cent, the lowest level in more than 20 years. Total employment sustained growth and salaries increased continuously in real terms.

10. As the economic growth had been above the trend growth for two consecutive years, the inflation rate rose slightly in 2018. Netting out the effects of the Government's one-off measures, the underlying inflation rate was 2.6 per cent, up by 0.9 percentage point from 2017.

Revised Estimates for 2018-19

11. The 2018-19 revised estimates on government revenue is \$596.4 billion, lower than the original estimate by 1.3 per cent or \$8.1 billion. This is mainly due to lower-than-expected revenues from land premium and stamp duties, while revenues from profits tax and salaries tax are higher than the original estimate by \$16.1 billion.

12. Revenues from stamp duties and land premium have always been highly susceptible to market fluctuations and therefore volatile. The revenue from land premium is \$115.9 billion, \$5.1 billion less than the original estimate, mainly due to the unsuccessful tendering of two sites in the year. Stamp duty revenue is \$80 billion, \$20 billion less than the original estimate, attributed to smaller-than-expected trading volumes brought about by adjustments in the property and stock markets over the year.

13. As for government expenditure, the revised estimate is \$537.7 billion, 5.6 per cent or \$31.9 billion lower than the original estimate. This is mainly because the expenditures on certain policy initiatives and public works projects were lower than the original estimates.

14. All in all, I forecast a surplus of \$58.7 billion for 2018-19. Fiscal reserves are expected to reach \$1,161.6 billion by 31 March 2019.

15. The civil service establishment increased by 6 700 posts in this financial year, representing a growth of 3.7 per cent, higher than the average growth of one to two per cent over the past decade. One of the main reasons is the additional manpower requirements arising from the commissioning of several boundary control points.

Economic Prospects for 2019 and Medium-term Outlook

16. Looking ahead for 2019, the global economy, beset with considerable uncertainties and downward pressures, has abruptly turned from synchronised robust growth early last year to the current synchronised slowdown. Market sentiment has become increasingly cautious. The International Monetary Fund (IMF) lowered its global economic growth forecast for 2019 twice in the past five months, from 3.9 per cent down to 3.5 per cent, an indication that the slowdown risks should not be ignored.

17. The US economy was affected by an array of factors, such as the escalated trade conflict since the fourth quarter of last year and the normalisation of interest rates, leading to heightened financial market volatility. Economic growth is expected to slow down in 2019. The Brexit deadlock and the lingering risk of a hard Brexit have cast a dim light on the economic performance of the UK post-Brexit. The Eurozone economy has also slackened, with year-on-year growth of only 1.2 per cent in the fourth quarter of last year and a further weakening in both economic activities and confidence indicators in recent months.

18. In Asia, Japan's economy markedly weakened in the second half of 2018 due to natural disasters and slackened external demand, with a year-on-year growth close to zero. The growth for this year is forecast to be somewhat slow. Meanwhile, Singapore, Taiwan and Korea also saw slower growth momentum. We anticipate that the growth in these high-income economies will remain modest this year. As for India and emerging economies in the Association of Southeast Asian Nations (ASEAN), although their exports may be constrained by external factors, domestic demand will remain steady and sustain growth in 2019.

19. The Mainland economy is also slowing down. A 6.4 per cent growth was recorded in the fourth quarter of last year, with the annual growth rate reducing to 6.6 per cent, close to the full-year growth target of around 6.5 per cent. This year, export growth may further slacken due to external uncertainties. That said, the Mainland has become less dependent on exports in recent years. This, coupled with a host of stimulus measures rolled out by the authorities recently, will help ensure solid economic growth.

20. As regards interest rates, the Federal Reserve stated after its Open Market Committee meeting in January this year that it “would be patient” in determining future rate adjustments, while pointing out that subsequent rate moves would depend on economic data. Market expectations of interest rates may vary with the economic environment, resulting in greater fluctuations in the financial markets.

21. In fact, these uncertainties have greatly affected investors’ risk appetite. The stock markets in the US, the Mainland and Hong Kong dropped significantly within a short time in the past year. The prices of investment products also saw marked fluctuations.

22. The uncertain global economic outlook this year will restrain Hong Kong’s economic performance. Having regard to the latest internal and external developments, I will make optimal use of the fiscal surplus for 2018-19 to introduce one-off measures to support enterprises and relieve people’s burden. Together with the stimulus effect of other measures in the Budget, I forecast economic growth of two to three per cent in real terms for Hong Kong in 2019.

23. However, should the external headwinds deteriorate, especially if the US-China trade conflict escalates, global trade, investment and financial markets will be subject to greater shocks. This will not only affect our exports and asset markets, but also dampen local investments and private consumption. On the contrary, improving US-China trade relations will help eliminate external uncertainties and may drive better-than-forecast growth for Hong Kong's economy.

24. On inflation, the moderate economic growth forecast for this year may reduce the pressure on local costs. Pressure on local rentals eased recently and may also contribute to a lower headline inflation rate. Imported inflation may also be moderated along with the strengthening of the US dollar. Taking various factors into account, I forecast that the headline inflation rate and the underlying inflation rate for 2019 will both be 2.5 per cent.

25. For the medium term, the average growth rate is forecast to be 3 per cent per annum in real terms from 2020 to 2023, slightly higher than the trend growth of 2.8 per cent over the past decade, while the underlying inflation rate is expected to average 2.5 per cent per annum. The above medium-term forecast is made on the assumption that there are no severe external shocks during the period. However, the external environment is still impeded by headwinds. If these headwinds persist in 2020 or beyond or even aggravate, global economic growth will be hindered, and Hong Kong's economy will in turn be affected. We have to stay vigilant.

Global Political and Economic Landscape

26. In last year's Budget, I mentioned three major global trends, namely rising trade protectionism, unstoppable wave of innovation and technology (I&T), and the shift of world economic gravity from West to East. The changes over the past year have unveiled a new situation, new landscape, and new norm of global politics and economics. We must analyse and study these to identify the positioning and future direction of Hong Kong when considering the way forward for our economic and social development.

US-China Relations

27. First, the US-China trade conflict over the past year has revealed the underlying differences between the two sides, which include technology matters as well as other more deep-seated considerations. While it would be encouraging if the trade issue could be resolved to some extent, their deep-rooted differences may remain. The fluctuating US-China relations may turn the global economy volatile for some time. Furthermore, trade conflicts will undermine multilateralism and the free trade regime, with far-reaching implications on the global governance system and international order. The future global industry setting will also be changed by the new trade regime and relationship.

International Co-operation

28. Second, the rise of nativism and populism in various countries has brought changes to their political scene, affecting their foreign and economic policies. Such development undermines the growth of multilateral free trade and affects international trade flows.

29. The financial tsunami in 2008 was the most severe economic crisis since the Great Depression in the 1930s. Thanks to concerted global effort, the world successfully averted catastrophic consequences, and the global economy gradually resumed growth. However, the growth of the major advanced economies have not yet returned to the levels before the financial tsunami, and still need to rely on ultra-low interest rates or unconventional monetary policies. Given that the interest rates remain very low, there would be little room for introducing rescue measures if a major economic or financial crisis were to happen again. More importantly, the rise of nativism nowadays may make an international concerted effort and a swift response more difficult.

Developing Asia

30. Third, emerging Asian economies (including ASEAN and India) have huge growth potential and present us with enormous business opportunities. With an average annual growth of 6.3 per cent over the past five years, they contribute about a quarter of global economic growth. Moreover, the IMF forecasts that emerging Asian economies (excluding the Mainland) will still attain a growth rate of over 6 per cent in 2019 and 2020.

31. In the past, the economic development of Asia was primarily based on the model of “production in Asia and consumption in Europe and the US”. With the emergence of a larger and richer middle class in Asia, it will not only lead to “production in Asia and consumption in Asia”, but also result in a growing demand for European and the US consumer products from Asia in the future. In addition, due to the US-China trade conflict and the rise of protectionism, some emerging Asian economies will benefit from the changing pattern of the global supply chain. Hong Kong must ride on these new developments, leveraging our strengths as the supply chain management centre and trade centre in Asia.

National Development

32. Fourth, China's 40 years of reform and opening up has not only transformed its economy and society, but also made it the second largest economy in the world and the main engine of global economic growth. This is a remarkable achievement. Since the 19 National Congress of the Communist Party of China, the Mainland has been steering its economy from rapid growth to high-quality development. The Mainland is seeking to change its mode of development, optimise its economic structure and identify new growth engines. We should pay particular attention to the following areas in which our nation is pushing ahead in full steam:

- (a) intensifying supply-side structural reform, accelerating the development of advanced manufacturing, and promoting deeper integration of the internet, big data and artificial intelligence with the real economy;
- (b) using innovation to foster economic development, with emphasis on scientific research and technology application;
- (c) building a strong domestic market with domestic consumption remains the main engine of economic growth;
- (d) implementing the Greater Bay Area development and the Belt and Road Initiative; and
- (e) pursuing further reforms and opening up to stabilise foreign businesses and investments; and promoting the new direction of two-way opening up with equal emphasis on "going global" and "attracting foreign investment" to boost two-way investment and trade flows between China and other countries.

33. As seen from the above, although the Mainland is facing a complicated external environment and its economic development is encountering challenges, we should focus on the long term trend and recognise that our country is at an era of the strategic opportunities which offers promising development prospects in the long run.

Development of Innovation and Technology

34. Fifth, the rapid development of I&T is ushering in a new era. Not only does it reshape production and business models, but also brings significant changes to our daily lives and consumption. For example, artificial intelligence may bring significant breakthroughs in advanced areas such as healthcare. However, some of our jobs may be replaced, causing a blow to the labour market. While we benefit from the convenience and opportunities brought by the rapid development of I&T, we should be well-prepared for the change by making corresponding adjustments in areas such as development of industries, education and vocational training.

Direction of Hong Kong's Economic Development

35. While we are amidst a new situation, new landscape and new norm of global politics and economies, we should maintain a clear and flexible mind, identifying the unique positioning of Hong Kong, grasping the opportunities, leveraging on and giving full play to our strengths.

Developing a Diversified Economy

36. Our economic development relies heavily on service industries. In particular, financial services, tourism, trading and logistics, and professional and business support services are the pillars of our economy and employment, collectively accounting for over 57 per cent of our GDP in 2017. These service industries share one thing in common, that is, they are highly susceptible to changes in the external economy. Any economic downturn in the major markets will deal a direct blow to these service industries and hence Hong Kong's economic outlook. As such, I believe Hong Kong should endeavour to diversify its economy. Apart from strengthening the industries currently enjoying competitive edges, we should identify new areas of growth by vigorously developing emerging industries. This will not only broaden the foundation of our economy, but also provide a wider range of quality employment opportunities for our young people to unleash their potential.

37. Owing to the lack of natural resources and high land and production costs, it is difficult for Hong Kong to revert to labour-intensive production industries or pursue land-demanding economic activities. We should therefore develop "talent-intensive" industries and focus on high value-added activities.

38. A holistic strategy is needed for the development of industries. We must recognise our positioning, strengths and weaknesses, and leverage Hong Kong's edges by utilising resources and policy measures. I will illustrate this by elaborating on two major areas, namely financial services and I&T.

Financial Services Industry

39. Hong Kong is the third largest financial centre in the world, ranked high in areas such as stock market, asset management and banking. We have a stable and flexible capital market with ample liquidity, free flow of capital, commodities and information, a wealth of talent, a sound legal system and an independent judiciary. These are the key attributes underpinning our success.

40. However, to cope with the increasing competition, we have set out a clear vision and blueprint for boosting the development of Hong Kong's financial services industry. Apart from deepening and widening our financial markets, we need to further strengthen Hong Kong's role as a bridge linking the Mainland with the international market. We should not only seize the opportunities brought by the Greater Bay Area development and the Belt and Road Initiative, but should also eye on the world, particularly the Asian regions with potential for development. Moreover, we have to enhance the resilience of our financial system, further improve our regulatory regime to strengthen financial security, and increase investor confidence and protection.

41. We have been introducing reforms in various areas and made considerable progress. Aside from consolidating our strengths, we have developed new competitive edges to further enhance the overall competitiveness of our financial services sector.

Stock and Bond Markets

42. Hong Kong's capital markets are thriving. To enhance our attractiveness to the new economy sector, the Stock Exchange of Hong Kong launched a new listing regime last April, under which emerging and innovative enterprises with weighted voting rights structure, as well as pre-revenue or pre-profit biotechnology companies, are allowed to list in Hong Kong. By end-2018, seven enterprises had listed in Hong Kong under the new regime. Last year, we raised a total of \$286.5 billion through initial public offerings, the highest in the world for the sixth time over the past decade.

43. The Government has introduced a host of measures to promote the development of Hong Kong's bond market. These include launching the Pilot Bond Grant Scheme to encourage enterprises to issue bonds in Hong Kong, as well as offering tax concessions to attract more investors to our bond market.

44. To improve the quality of listed companies, legislation was enacted in January this year to expand the remit of the Financial Reporting Council (FRC), enhance the independence of the regime for auditors of listed entities and strengthen investor protection. I have decided to increase the amount of seed capital for the FRC to \$400 million to help it migrate to the new regime, and exempt the levy under the new regime for the first two years.

Green Finance

45. There is now a global shift towards sustainable development. To promote the development of green finance in Hong Kong and diversification of related products, the Government rolled out the Green Bond Grant Scheme last year to attract organisations to arrange financing for their green projects through our capital markets and encourage them to make use of the green finance certification services in Hong Kong. We are glad to see that many local, Mainland and even international organisations, such as the World Bank, the Asian Development Bank and the European Investment Bank, have chosen to issue green bonds in Hong Kong. Last year, green bonds issued in Hong Kong amounted to some US\$11 billion, more than triple that of 2017. Besides, we are gearing up for the inaugural issuance of government green bonds and will encourage the relevant sectors to incorporate green elements into corporate governance and operation in a more effective manner.

Offshore Renminbi Business

46. Hong Kong is a global offshore Renminbi (RMB) business hub and the world's largest offshore RMB liquidity pool, processing more than 70 per cent of RMB transactions globally. We are also one of the busiest RMB foreign exchange trading centres. With the advantages of well-established market system and financial infrastructure, close ties with the Mainland market and the support of the Central Government, Hong Kong is set to become a premier platform for international investors to access the Mainland market and allocate RMB assets.

47. In collaboration with the industry and the Mainland authorities, we will continue to explore expansion of the channels for two-way flow of cross-boundary RMB funds. This will give us further room for exceling our distinct role in the Mainland's gradual liberalisation of the capital account, internationalisation of RMB and integration with global financial markets. We will continue to contribute to our country in opening up its financial market in an orderly manner.

Mutual Market Access

48. Apart from developing Hong Kong's capital markets, we have also been actively promoting mutual access with the Mainland. This will not only benefit our financial services industry, but also contribute to the two-way opening-up of the Mainland market to the world. The Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect, the Bond Connect as well as the Mutual Recognition of Funds Arrangement are important milestones of mutual access between the capital markets of Hong Kong and the Mainland. We will continue our efforts to increase the quotas for and expand the scope of mutual access as well as extend the Bond Connect to cover southbound trading.

49. The weighting of China A-shares in various international indices has been increasing since its inclusion into MSCI, FTSE Russell, etc. in 2018. Rising international investment inflows into the Mainland's capital markets will help enhance Hong Kong's role as an offshore intermediary risk management centre for the Mainland's capital markets, thereby promoting the development of more financial products and services.

Wealth and Asset Management Industry

50. Hong Kong has an unparalleled edge in developing asset management business. We are one of the leading international wealth and asset management centres in Asia. In 2017, the total value of asset managed by Hong Kong's asset management industry amounted to over \$24 trillion. Over 2 200 public funds were approved for distribution in Hong Kong last year. The Greater Bay Area development will bring enormous business opportunities for Hong Kong.

51. In recent years, private equity funds are developing rapidly in the global market, drawing in the capital, talent and expertise necessary for the business development of a large number of business entities, technology companies and start-ups, while driving demand for related professional services such as management, accounting and law. The related economic activities brought by the operation of private equity funds also create business opportunities in the service industry, in particular conference and exhibition, hotel, and tourism.

52. Following the implementation of the open-ended fund company regime in July 2018, we are now studying the establishment of a limited partnership regime for private equity funds, with a view to providing the industry with more fund structure choices. We will also study the case of introducing a more competitive tax arrangement to attract private equity funds to set up and operate in Hong Kong.

53. Starting from 1 April this year, different types of onshore and offshore funds meeting certain conditions will be eligible for profits tax exemption. As regards fund distribution channels, following the agreements with the Mainland, Switzerland, France, the UK and Luxembourg, we will continue our work on mutual recognition of funds arrangements with other jurisdictions to broaden the distribution network of local fund products.

A Hub for Regional Headquarters

54. Having more enterprises outside Hong Kong to establish their regional headquarters here will help consolidate Hong Kong's status as an international financial centre and expand the size of our treasury market. Last year, the total number of companies with regional headquarters in Hong Kong increased to over 1 500, representing a year-on-year growth of over eight per cent. Besides, more and more Mainland enterprises have chosen Hong Kong as the platform for their businesses to go global.

55. Given that many multinational corporations co-locate their corporate treasury centres (CTCs) with their regional headquarters, we have been offering tax concessions to qualifying CTCs since 2016. The Government will continue to enhance the relevant tax measures to strengthen our competitiveness.

Insurance Industry

56. Hong Kong's insurance industry is well-developed and is an integral part of our diversified financial businesses. We are committed to promoting Hong Kong's role as an international risk management centre and helping the industry seize the business opportunities brought by the Greater Bay Area development and the Belt and Road Initiative.

57. In fact, businesses such as captive insurance, reinsurance and marine insurance have considerable development potentials in Hong Kong. To promote their development, we have introduced relevant taxation and regulatory measures. For example, last year we amended the legislation to extend the 50% tax concession for captive insurance companies' businesses to cover both offshore and onshore risks, with a view to drawing more enterprises to set up captive insurance companies in Hong Kong. Moreover, the Government will propose legislative amendments to provide tax concessions for marine insurance and the underwriting of specialty risks, and allow for the formation of special purpose vehicle companies specifically for issuing insurance-linked securities. We will continue to look into measures that are conducive to the development of the industry.

Financial Technologies

58. There are currently over 550 financial technologies (Fintech) companies in Hong Kong with wide business coverage. We have been keeping up our efforts to provide a conducive environment for Mainland and overseas Fintech companies and attract them to Hong Kong.

59. Last year saw significant progress in the application of Fintech. The Faster Payment System (FPS) and the Common QR Code Standard for Retail Payments launched by the Hong Kong Monetary Authority (HKMA) in September 2018 has received overwhelming response. The Government is planning for the use of the FPS to provide the public with greater convenience in paying taxes, rates and water charges. The Transport Department, the Immigration Department and the Leisure and Cultural Services Department (LCSD) will examine the feasibility of accepting payments through the FPS at their shroff counters on a pilot basis.

60. The HKMA will shortly issue virtual banking licences. Banks will also implement the Open Application Programming Interface functions in phases. These will bring more innovative banking services to the public. The Insurance Authority (IA) also approved the first authorisation of virtual insurers last December, marking a new chapter for insurance technology development in Hong Kong.

61. On the regulatory front, the Securities and Futures Commission (SFC) announced a new regulatory approach for virtual assets in November 2018 with a view to exploring ways for encouraging market innovation while protecting investors. Moreover, the HKMA and the SFC are making use of the Global Financial Innovation Network to share with other regulators the experience and knowledge in relation to the supervision of Fintech applications.

Talent Training

62. In last year's Budget, I announced the establishment of the Academy of Finance, which will serve to pool the strengths of tertiary institutions, the financial services sector, professional training bodies and regulators so as to attain two major goals, namely nurturing financial leadership and encouraging applied research in cross-sectoral areas. The HKMA is taking the plan forward in full swing, with a view to establishing the Academy in mid-2019.

63. Apart from grooming local talent, we also encourage financial talent from outside to pursue their careers in Hong Kong through various talent admission schemes.

Innovation and Technology

64. The development of I&T will bring huge economic benefits to Hong Kong. The intellectual property so generated can be commercialised to drive ancillary economic activities, thus creating quality employment opportunities and enabling people to live comfortably by adopting new technology.

65. The current-term Government spares no effort in promoting I&T development, focusing on four areas, namely biotechnology, artificial intelligence, smart city and Fintech. I have allocated sufficient resources, with a commitment of over \$100 billion so far.

66. To develop I&T, we need a robust ecosystem and the Government aims to establish through various I&T policy initiatives. We have stepped up support for the scientific research and I&T sectors by developing I&T infrastructure, promoting research and development (R&D), pooling talent, supporting enterprises and promoting re-industrialisation. All these efforts have brought significant enhancements to the local I&T ecosystem.

Developing Innovation and Technology Infrastructure

67. “One cannot make bricks without straw”. We need quality infrastructure to attract I&T talent, and facilitate the operation of I&T enterprises. In last year’s Budget, I allocated \$3 billion to the Hong Kong Science and Technology Parks Corporation (HKSTPC) for constructing R&D infrastructure and facilities such as laboratories. The construction of some facilities has commenced and they will gradually come into operation. Meanwhile, Stage 1 of the Science Park Expansion Programme is also underway. It will provide an additional floor area of around 74 000 square metres upon its scheduled completion this year.

68. The HKSTPC is also working in full swing to develop a Data Technology Hub and an Advanced Manufacturing Centre in Tseung Kwan O Industrial Estate to support and promote smart production activities and high-end manufacturing industries which have great demand for data services. The two projects are expected to be completed in 2020 and 2022 respectively.

69. Meanwhile, Cyberport has built a digital technology ecosystem with over 1 200 companies and start-ups, and nurtured over 500 start-ups after years of growth. I will earmark \$5.5 billion for the development of Cyberport 5. This will serve to attract more quality technology companies and start-ups to set up their offices in Cyberport and provide a pathway for young people to pursue a career in I&T. The expansion project is expected to provide about 66 000 square metres of floor area, and include facilities such as offices, co-working space, conference venues and data service platforms. We will proceed with the statutory town planning procedures with a view to commencing construction in 2021 for completion in 2024 at the earliest.

70. The Hong Kong-Shenzhen Innovation and Technology Park at the Lok Ma Chau Loop will become the basecamp for I&T development in Hong Kong. In last year's Budget, I set aside \$20 billion for the Park's first stage construction works, which is now in good progress. Our target is to make the first batch of land available by 2021 for Phase 1 superstructure development. The Park will provide essential infrastructure for the sustainable I&T development in Hong Kong. I will allocate additional resources to ensure timely development of the Park as a world-class R&D hub.

Promoting Research and Development

71. R&D is the foundation of the development of I&T. Hong Kong enjoys a unique edge in this area. To promote local R&D activities, we injected \$10 billion into the Innovation and Technology Fund (ITF) last year to support the continued operation of existing ITF funding schemes and introduce various new initiatives. Furthermore, the Policy Address announced the injection of \$20 billion into the Research Endowment Fund of the Research Grants Council under the University Grants Committee (UGC) to provide sufficient funding.

72. The Government has provided funding of \$10 billion to establish two innovative clusters in the Science Park, namely “Health@InnoHK” focusing on healthcare technologies and “AIR@InnoHK” focusing on artificial intelligence and robotics technologies. The two clusters give us an edge in pooling top-notch local, Mainland and overseas universities, scientific research institutions and enterprises to undertake R&D activities together. They can also seek research funding from the ITF. A number of leading universities like Harvard University, Stanford University, Imperial College London, University College London and Johns Hopkins University have expressed interest in joining the two clusters and collaborating with local universities.

73. In respect of applied R&D, funding for Technology Transfer Offices of designated universities, the Technology Start-up Support Scheme for Universities, State Key Laboratories and Hong Kong branches of the Chinese National Engineering Research Centre will be doubled to support more R&D work and the realisation of R&D results. An additional sum of not less than \$800 million will be provided over five year starting from 2019-20.

74. Technology enterprises are essential drivers of a technology-based economy. To encourage more enterprises to engage in R&D in Hong Kong, the Government has provided a two-tiered enhanced tax deduction for eligible R&D expenditure of enterprises incurred after 1 April 2018.

75. Scientific exploration and academic research in universities lay the foundation for Hong Kong's I&T development. I will set aside a dedicated provision of \$16 billion for UGC-funded universities to enhance or refurbish campus facilities, in particular the provision of additional facilities essential for R&D activities (such as laboratories), with a view to creating an optimal teaching and research environment for university students and R&D staff. I hope that universities will, in developing or enhancing hardware, give due and priority consideration to I&T needs to ensure that their teaching and research facilities can meet the objective of nurturing I&T talent.

Pooling Innovation and Technology Talent

76. In the face of keen global competition for technology talent, we introduced the Technology Talent Admission Scheme in June last year to expedite the admission of such talent to undertake R&D activities in Hong Kong. Participating enterprises are required to employ local employees and interns concurrently. So far, over 200 places have been approved under the scheme. We will review the implementation details of the scheme in the first half of this year.

77. The Researcher Programme has so far sponsored over 3 700 local graduates to join the I&T industry. The Postdoctoral Hub Programme launched last year has also sponsored over 350 postdoctoral talents to pursue a career in R&D. To attract more local graduates to the industry, we will increase, with immediate effect, the monthly allowance from \$16,000 to \$18,000 for researchers with a Bachelor's degree, and from \$19,000 to \$21,000 for researchers with a Master's degree. We will also extend the funding period of both the Researcher Programme and the Postdoctoral Hub Programme from two years to three years with immediate effect. This means R&D institutes or enterprises can hire relevant R&D talents for three years which give them ample time for demonstrating their professional strengths in R&D projects.

78. Accommodation is an issue pertaining to the recruitment of researchers. The HKSTPC is constructing an InnoCell, which will offer about 500 residential units with flexible design to tenants, incubatees or visiting researchers in the Science Park. This project is expected to be completed by 2021.

79. To pave the way for nurturing local technology talents, we will also encourage the promotion of popular science education in schools. I will deploy \$500 million to implement the IT Innovation Lab in Secondary Schools Programme in the coming three school years. Each secondary school benefiting will be granted \$1 million to procure the necessary information technology (IT) equipment and professional services, and organise more relevant extra-curricular activities to deepen students' knowledge of cutting-edge IT, such as artificial intelligence, blockchain, cloud computing and big data, with a view to helping young people build a good IT foundation early during their secondary school years. In addition to financial support, the Office of the Government Chief Information Officer (OGCIO) will set up a one-stop professional support centre to provide assistance.

Supporting Technology Enterprises

80. Technology enterprises and start-ups in particular, are an integral component of the I&T ecosystem, with an important role in facilitating commercialisation and application of R&D results as well as developing innovative ideas. In 2014, we launched the Technology Start-up Support Scheme for Universities, which has so far supported 188 start-ups established by university teams to venture beyond their campus. Some of the funded start-ups have secured investment exceeding \$300 million. I will raise the maximum annual funding for each university from the existing \$4 million to \$8 million starting from 2019-20 to better nurture university start-ups.

81. Last year, I reserved \$7 billion for the HKSTPC to enhance support for its tenants and incubatees, with part of the funding dedicated to expand Incubation Programme. The programme has been well-received, with over 120 applications so far. Besides, the Corporate Venture Fund (CVF), launched by the HKSTPC in 2015, co-invests on a matching basis with angel investors or venture capital funds in tenants and incubatees of the Science Park. The CVF has already committed the entire fund of \$50 million to invest in nine projects and acted as a catalyst in attracting more than \$670 million from co-investors. Building on the success, the HKSTPC will expand the CVF to \$200 million to support the growth of its tenants and incubatees.

82. In last year's Budget, I injected \$200 million into Cyberport to enhance the support for its tenants and start-ups. In this connection, Cyberport has increased the financial subsidy under its incubation programme to \$500,000 and introduced the Overseas/Mainland Market Development Support Scheme to offer an additional subsidy of \$200,000. Moreover, Cyberport launched the Easy Landing Scheme to attract multinational corporations to set up offices and R&D units in Cyberport through rental concessions.

83. To encourage private investments in local I&T start-ups, the Government set up the \$2 billion Innovation and Technology Venture Fund to co-invest in local I&T start-ups together with venture capital funds. We selected a total of six Co-investment Partners in mid-2018, and have been receiving co-investment proposals.

Promoting Re-industrialisation

84. The Policy Address proposed allocating an additional \$2 billion for the HKSTPC to build dedicated facilities required by the advanced manufacturing sector in industrial estates to facilitate more manufacturers to set up operations in Hong Kong. We plan to inject \$2 billion into the ITF for launching a Re-industrialisation Funding Scheme to subsidise manufacturers on a matching basis to help them set up smart production lines in Hong Kong. These initiatives for developing real high-end production will help reduce our economy's over-reliance on service industries. The Innovation and Technology Bureau (ITB) will seek funding approval from the Legislative Council (LegCo) as soon as possible, with a view to implementing these initiatives in the second half of this year.

85. I visited five local R&D centres last year to see for myself their work on applied R&D. I am impressed with the immense potential Hong Kong has in pursuing the commercialisation of R&D results and technology transfer in areas such as advanced materials, nanotechnology, microelectronics, etc. which can boost the development of industries and re-industrialisation. The Committee on Innovation, Technology and Re-industrialisation, which I chair, will explore appropriate measures for promoting the development in this regard.

Other Supporting Measures

86. The Government is striving to remove unnecessary constraints for I&T development and create more opportunities for the procurement of I&T products and services. We will introduce a pro-innovation government procurement policy this April so that innovative proposals stand a better chance of winning government contracts. The Policy Innovation and Co-ordination Office has started reviewing existing laws which are outdated and impede I&T development.

The Way Forward

87. We are now in an excellent position to promote I&T development, and are presented with unprecedented opportunities arising from the Greater Bay Area development. From the perspective of regional development, with our strong R&D capabilities, world-class universities, advantages as an international and market-oriented economy and robust intellectual property protection regime, Hong Kong serves as an I&T pioneer in the region. On the other hand, with a sizeable market, the Greater Bay Area offers more cooperation opportunities for local I&T enterprises as well as capabilities in commercialising R&D results and advanced manufacturing. We can promote technological collaboration, interaction among industries and productisation of scientific and technological achievements, thereby facilitating the development of the Greater Bay Area into an international I&T hub.

88. Financial services and I&T aside, the Government will also roll out measures in other economic sectors to promote the development of industries. I will talk about these measures later.

Expanding Market Coverage

89. Hong Kong is a fully open economy. Diversification is the key to sustain our economic vibrancy. We also need to expand our market coverage to create more room for development. We have before us a rare opportunity arising from the two development strategies that our country is pressing ahead with, namely the Greater Bay Area development and the Belt and Road Initiative. Both strategies are at the core of the national development agenda, offering opportunities for us to contribute to our country's development and give full play to our strengths.

Guangdong-Hong Kong-Macao Greater Bay Area

90. The Greater Bay Area development is an important part of the national strategy to promote co-ordinated regional development. This also creates golden opportunities for Hong Kong to explore new directions, open up new horizons, and add new impetus. With a population of 70 million and an aggregate GDP roughly the size of Korea, the Greater Bay Area presents us with enormous business opportunities in close proximity to us.

91. The Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (Development Plan), promulgated last week, is a milestone setting out the development directions for the Greater Bay Area up to 2035. The Development Plan identifies Hong Kong, Guangzhou, Shenzhen and Macao as the four core cities as well as core engines for regional development. Hong Kong, positioned as international financial, transportation and trade centres as well as an international aviation hub in the Greater Bay Area, will strengthen its roles as a global offshore Renminbi business hub and an international asset and risk management centre; and will devote great efforts to develop I&T industries as well as international legal and dispute resolution services. With all these advantages, we will seize the opportunity and make dedicated efforts to promote development in the Greater Bay Area to enhance its global competitiveness.

Belt and Road

92. The gradual development of the Belt and Road into an economic and trade co-operation corridor spanning Europe, Asia and Africa has resulted in strengthening ties between different regions along the route. This will create greater room for Hong Kong's economic and social development. We are seeing positive outcomes in areas such as supporting industries in exploring markets, establishing business matching platforms for enterprises and encouraging our professional services sector to participate in Belt and Road projects.

93. Hong Kong has been serving as the premier platform for helping Mainland enterprises go global and bringing in foreign investment. Our well-developed fund-raising and insurance markets will enable us to serve as a financing and risk management centre for Belt and Road infrastructure projects. The Infrastructure Financing Facilitation Office under the HKMA is committed to promoting infrastructure finance and information exchange. The SFC has also set out the factors to be considered when reviewing listing applications of infrastructure companies, providing a clear guideline for them to seek listing in Hong Kong. Hong Kong is an international financial, trade, maritime and professional services centre. The Government will continue to encourage the Mainland and other Belt and Road economies to leverage on our strengths, including our professional services and talent.

94. The Policy Address indicated support for the development of a dispute resolution online platform by non-governmental organisations (NGOs) to enhance the development of LawTech in Hong Kong and consolidate Hong Kong's position as an international dispute resolution services centre. The NGO concerned is preparing for the development of a cross-boundary, efficient, secure and cost-effective platform for the provision of online arbitration and mediation, as well as smart contract and related services. I will provide \$150 million to support the development and initial operation of the platform. The platform will benefit local micro-enterprises and SMEs, as well as those in the Belt and Road economies, members of the ASEAN and beyond, and facilitate deal making as well as dispute avoidance and resolution.

The Government's Role

95. The Government strives to expand our market coverage to create business opportunities for enterprises. In the past year, we continued to expand our Free Trade Agreement (FTA) and Investment Promotion and Protection Agreement networks to provide protection for Hong Kong businesses to explore markets and invest in outside markets, and for foreign businesses to do the same in Hong Kong. Hong Kong has signed three FTAs with 12 economies since this term of Government took office. Our FTA negotiations with Australia and the Maldives were concluded last year. Our discussions with the UK on the proposals for closer economic ties are underway. We are exploring an FTA with the four members of the Pacific Alliance (namely Chile, Colombia, Mexico and Peru). We also plan to seek accession to the Regional Comprehensive Economic Partnership after completion of negotiations between ASEAN and relevant economies.

96. We have also been actively expanding our network of Comprehensive Avoidance of Double Taxation Agreements (CDTAs) to enhance our business environment and draw in investment. Taking into account the CDTAs concluded with India and Finland last year, we have already signed CDTAs with 40 tax jurisdictions, of which 13 are among Hong Kong's major trading partners and are accounting for 73 per cent of our total value of trade in 2017. Our target is to bring the total number of our CDTAs to 50 in the next few years.

97. The Government is also committed to expanding its Economic and Trade Office (ETO) network to strengthen external promotion, thereby exploring new business opportunities for Hong Kong enterprises. At present, the Government has two ETOs in ASEAN, one in Jakarta and the other in Singapore. With the establishment of the Bangkok ETO, we will forge stronger economic and trade ties with ASEAN. We are making good progress in our negotiations with the United Arab Emirates government to set up the Dubai ETO. We will also continue our discussion with the governments of India, Korea and Russia on the detailed arrangements for setting up ETOs in their territories.

Building Capacity

98. Looking ahead, we should be more proactive in diversifying the economy and extending market coverage so as to offer more opportunities for our young people. I believe capacity constraints are the obstacles hindering the development of emerging industries and a diversified economy in Hong Kong. A large pool of talent with innovative capabilities will be required to develop such talent-intensive industries as I&T. Also, land will be required to support emerging economic activities. We will continue to introduce measures to overcome these obstacles and build capacity for the sustainable economic development of Hong Kong. I will elaborate on the Government's measures to develop other industries, produce land and build capacity later in my speech.

Public Finances

99. During the Budget consultation, many people told me that they are concerned about whether the Government will tighten its spending or launch stimulus measures amid the economic slowdown and uncertain outlook. I believe the Government should continue to allocate resources to improve and enhance public services. Hence, in formulating this year's Budget, I have adhered to the new fiscal philosophy of the current-term Government of adopting forward-looking and strategic financial management principles to invest for Hong Kong and relieve people's burden on the premise of ensuring healthy public finances.

100. Since taking office, the current-term Government has launched a series of measures to improve people's livelihood. Operating expenditure for 2018-19 increased by 17.2 per cent, with an increase in total government expenditure by 14.2 per cent. The operating expenditure for the new financial year will further increase by 15.4 per cent, demonstrating the Government's determination to optimise the use of resources, develop our economy and improve people's livelihood. Public expenditure will account for about 22 per cent of our GDP during the five-year period up to 2023-24 in the Medium Range Forecast.

Optimal Use of Fiscal Reserves

101. As I mentioned just now, our fiscal reserves are expected to reach \$1,161.6 billion at the end of this financial year.

Housing Reserve

102. The Government established the Housing Reserve in 2014 with the investment income from the fiscal reserves to support the development of public housing and related infrastructure. The current accumulated balance of the Housing Reserve, which is kept separately from the fiscal reserves, is \$82.4 billion. On the other hand, the balance of the Hong Kong Housing Authority in the coming few years is expected to exceed \$40 billion. There will be no need to draw on the Housing Reserve in the foreseeable future. I also appreciate views in the community that keeping the Housing Reserve outside of the fiscal reserve may not fully reflect the Government's financial position. Hence, I will bring back the Housing Reserve to the fiscal reserves. At the same time, I will earmark the same amount in the fiscal reserves for public housing development to demonstrate the Government's firm commitment. To avoid distorting the Government's financial position in a particular year, the money to be brought back will be spread over the current term of Government until 2022-23, that is, over four financial years.

Future Fund

103. The Government set up the Future Fund in 2016. In its first two years of operation, the Fund achieved a composite rate of return of 4.5 per cent and 9.6 per cent respectively. To further optimise the use of the Fund, I will invite several experienced persons in the financial services sector to advise me on the Fund's investment strategies and portfolios to achieve more diversified investments. The objective is to enhance return, while also consolidating Hong Kong's status as a financial, commercial and innovation centre, and raising Hong Kong's productivity and competitiveness in the long run.

Tax Policy

104. In the light of Hong Kong's robust economic performance and healthy public finances over the past few years, we have the capacity to introduce various tax measures to enhance our competitiveness and ease the tax burden, in particular for small and medium enterprises (SMEs) and the middle class.

105. In the face of a diversifying economy, the Government will continue to introduce tax measures strategically to enhance our competitiveness and stabilise our revenue.

106. I will transfer the Tax Policy Unit, currently under the Financial Services and the Treasury Bureau, to come directly under the Financial Secretary's Office, and provide additional resources as and when necessary.

Relieving People's Burden

107. I am very concerned about the tax burden on salary earners. On salaries tax, apart from the one-off tax concessions proposed in my previous two Budgets, I have also raised various allowances and deduction ceilings, widened and increased the number of tax bands, and adjusted the marginal tax rates. These measures aim to relieve the long-term tax burden of citizens through a structural approach and increase taxpayers' disposable income, so that they can take better care of their personal as well as family needs. I have also proposed tax deductions for eligible voluntary health insurance products, deferred annuity premiums and Mandatory Provident Fund voluntary contributions as incentives for the public to get financially prepared for healthcare and retirement needs.

108. Having regard to the economic outlook in the coming year and the Government's fiscal position, I will introduce a series of relief measures, including:

- (a) reducing salaries tax and tax under personal assessment for 2018-19 by 75 per cent, subject to a ceiling of \$20,000. The reduction will be reflected in the final tax payable for 2018-19. This will benefit 1.91 million taxpayers and reduce government revenue by \$17 billion;
- (b) reducing profits tax for 2018-19 by 75 per cent, subject to a ceiling of \$20,000. The reduction will be reflected in the final tax payable for 2018-19. This will benefit 145 000 taxpayers and reduce government revenue by \$1.9 billion;
- (c) waiving rates for four quarters of 2019-20, subject to a ceiling of \$1,500 per quarter for each rateable property. This proposal is estimated to benefit 3.29 million properties and reduce government revenue by \$15 billion;
- (d) providing 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 about \$3.84 billion. Similar arrangements will apply to recipients of the Working Family Allowance and Work Incentive Transport Subsidy, involving an additional expenditure of about \$149 million;
- (e) providing to each student in need a one-off grant of \$2,500 to support learning, involving an expenditure of about \$890 million;

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- (f) paying the examination fees for school candidates sitting for the 2020 Hong Kong Diploma of Secondary Education Examination, involving an expenditure of about \$160 million; and
 - (g) providing, on a one-off basis, an additional \$1,000 worth of vouchers to the elderly eligible for the Elderly Health Care Voucher Scheme, involving an expenditure of about \$1.02 billion. The accumulation limit of vouchers will also be raised from \$5,000 to \$8,000 to allow users greater flexibility. The Food and Health Bureau is reviewing the Scheme to ensure that it can better serve the needs of the elderly. The findings will be announced upon completion of the review.

Support for Enterprises

109. Recent changes in the global economic and trade environment have affected Hong Kong enterprises, especially those engaging in external trade and SMEs. I will introduce measures to support local enterprises in tiding over uncertainties in the present environment, with a view to achieving our goal of “supporting enterprises, safeguarding jobs and stabilising the economy”. They include:

- (a) waiving the business registration fees for 2019-20, benefiting 1.4 million business operators. This will reduce government revenue by \$2.9 billion;
- (b) regularising the Technology Voucher Programme and rolling out enhancement measures, including doubling the funding ceiling for each enterprise from \$200,000 to \$400,000 to encourage the wider adoption of technology by local enterprises to improve their efficiency and services;

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- (c) injecting another \$1 billion into the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) this year, following the injection of \$1.5 billion last year;
 - (d) following the extension of the geographical scope of the BUD Fund from the Mainland to ASEAN countries in August 2018, to further extend the scope to include all economies which have entered into an FTA with Hong Kong, thereby enabling enterprises to take advantage of the FTAs to explore new markets and new business opportunities;
 - (e) following an increase in the funding ceiling per enterprise under the BUD Fund from \$0.5 million to \$2 million last year, to further increase the ceiling to \$3 million this year, including \$1 million for the Mainland market and \$2 million for other FTA markets; and
 - (f) to help SMEs facing liquidity problems, we implemented enhancements to the special concessionary measures under the SME Financing Guarantee Scheme operated by the HKMC Insurance Limited last November, including reducing the guarantee fee rates by 50 per cent, increasing the maximum loan amount to \$15 million, and lengthening the maximum loan guarantee period to seven years. We also extended the application period of the special concessionary measures. I have decided to further extend the application period of the special concessionary measures under the scheme and the three enhancement measures mentioned above to 30 June 2020.

110. With uncertainties prevailing in the global political and economic scenes, we need to get well prepared at all times. I will keep a close watch on the external and local economic situation and introduce appropriate measures when necessary to support enterprises and stabilise the economy.

Budget Measures for 2019-20

Developing the Economy

111. In addition to financial services and I&T as mentioned earlier, the Government will strive to develop other economic sectors, with a view to assisting enterprises in exploring new business opportunities, driving sustainable economic development and providing broader pathways for our next generation to realise their potential.

International Transportation Centre

112. In my last Budget, I put forward several measures to develop our air cargo industry. I also indicated that the Government was mapping out strategies to facilitate the development of the maritime industry. We are making good progress in these areas.

113. Hong Kong enjoys the unique advantages of a strategic geographical location, world-class infrastructure, and various inter-modal transportation services. Moreover, the Development Plan has also affirmed the status of the Hong Kong International Airport (HKIA) as an international aviation hub among the airports in the Greater Bay Area. We will continue to promote the development of high value-added aviation business and enhance our competitiveness.

114. The HKIA is the world's busiest cargo airport and its passenger throughput is also among the highest in the world. The adjacent Lantau Island has become a "double gateway" connecting the world and Greater Bay Area cities upon the commissioning of the Hong Kong-Zhuhai-Macao Bridge (HZMB). The Government has invited the Airport Authority Hong Kong to submit a proposal for the topside development at the HZMB Hong Kong Boundary Crossing Facilities Island. It is hoped that the topside development, together with the three-runway system and other development projects and facilities at the Airport Island, will produce synergy and render Lantau an Aerotropolis connecting the Greater Bay Area and the world.

115. In addition, the Government has offered profits tax concessions to aircraft leasing and related businesses. The measure has been well received by the market since its introduction. A number of large-scale aircraft leasing companies have negotiated or reached deals with airlines around the world through Hong Kong.

116. On maritime transport, despite declining container throughput in recent years, we still have considerable advantages in our maritime tradition, geographical location as well as shipping registration, financial and legal services. Hong Kong has a vibrant maritime services cluster, with over 800 maritime companies providing ship agency and management, ship brokering, marine insurance as well as maritime law and arbitration services. Hong Kong is also a ship finance centre in the region. Shipping loans and advances in Hong Kong have more than doubled in the past 10 years. In the face of keen competition, we must leverage our advantages to seize the business opportunities brought by the Greater Bay Area development and the Belt and Road Initiative for the continuous development of high value-added maritime services.

117. Ship leasing is an emerging business model of ship finance. The Government has commissioned the Hong Kong Maritime and Port Board to set up a dedicated task force to study tax and other measures, with a view to attracting ship finance companies to establish their presence in Hong Kong and developing Hong Kong as a ship leasing centre in the Asia-Pacific region. The study is expected to be completed in the second half of this year. Moreover, to promote the development of marine insurance so that shipowners and shipping companies can enjoy better support, the Government will offer a 50 per cent profits tax concession to eligible insurance businesses including the marine insurance industry.

Tourism

118. With the efforts of the Government, the Hong Kong Tourism Board (HKTB) and the travel trade, the tourism industry regained growth after several years of consolidation. Full-year overnight arrivals increased by nearly five per cent, and the number of visitors from long-haul markets with higher spending power also recorded a steady growth. We will strive to bring the edges of local tourism resources into full play and promote our diverse culture with Hong Kong characteristics, with a view to drawing more high-spending overnight visitors from different source markets, and promoting the healthy development of the tourism industry having regard to the receiving capacity of Hong Kong.

119. The Government will continue to join forces with the HKTB and the trade to implement the Development Blueprint for Hong Kong's Tourism Industry released in 2017. I will allocate an additional sum of around \$353 million to enable the HKTB to step up promotion of Hong Kong's image as a premier tourism destination, entice visitors to experience Hong Kong's local culture in different districts, and enhance publicity on Hong Kong's major festivals and events, etc. Various new initiatives will be rolled out, including:

- (a) enhancing the capability of the Ngong Ping Nature Centre in providing hiking information for visitors, improving the facilities of country trails in the vicinity, and commissioning a consultancy study for enhancing the facilities of the Hong Kong Wetland Park;
- (b) allocating additional funding to the Travel Industry Council of Hong Kong to encourage the development of more thematic tourism products, organise business forums or business co-operation and exchange activities outside Hong Kong, and provide training subsidies for practitioners to enhance service quality of the trade; and
- (c) commissioning a consultancy study on strategies and initiatives to promote smart tourism in Hong Kong and enhance visitors' travelling experience through the application of technology. We will extend the official landing page progressively to all boundary control points. The Tourism Commission will continue to work with the OGCIO to provide free Wi-Fi service at tourist hotspots.

Creative Industries

120. Hong Kong's creative industries, blessed with a wealth of talent, are emerging industries worthy of vigorous development. Following the injection of \$1 billion into the CreateSmart Initiative, the Government will inject another \$1 billion into the Film Development Fund in 2019-20 to help the local film industry thrive further. This will bring the new resources we devoted to the creative industries to a total of \$2 billion within two years, a manifestation of the Government's determination to developing the creative industries in Hong Kong. We will make optimal use of the funding to enhance talent grooming and support for novices, promote start-ups, tap new markets for the industries, and build local branding for relevant sectors to facilitate long-term development of the film industry.

121. With the injection of new funds, we will upscale the sixth First Feature Film Initiative by doubling the number of winning teams to six and increasing funding by about 50 per cent, thereby giving new impetus to the Hong Kong film market. We will also raise the production budget limit of the Film Production Financing Scheme to \$60 million and the maximum subsidy for each film to \$9 million to support local mid-budget film productions.

122. We are now collaborating with the Urban Renewal Authority (URA) and the Hong Kong Design Centre to press ahead with the Sham Shui Po Design and Fashion Project. A five-storey commercial space within a redevelopment project in the district has been reserved for the construction of a landmark for nurturing young designers and supporting start-ups in fashion design. Construction works will commence this year for anticipated completion in 2023-24.

Construction Industry

123. In the next few years, the annual capital works expenditure is expected to rise to over \$100 billion, and the annual total construction output will increase to over \$300 billion, covering the construction of public and private housing, implementation of hospital development and redevelopment projects, development and expansion of new towns and new development areas, as well as construction of a third runway for our airport.

124. Recently, some projects have aroused public concern about the quality of works and tarnished the reputation of the construction industry gained over the years. The industry must endeavour to enhance the public's confidence in them.

125. In order to enhance the standard and efficiency of works supervision, we will promote digitisation of the supervision system. Pilot projects will be launched to motivate site supervisors and contractors to use innovative technology to collect real-time data on site environment and works progress for record, monitoring and analysis purposes. The Development Bureau (DEVB) will set up a task force to plan and co-ordinate inter-departmental work in this regard.

126. We will also upgrade the Project Cost Management Office and rename it as the Project Strategy and Governance Office for implementing strategic initiatives and enhancing capabilities in cost surveillance and project governance. We will also adopt a holistic approach to strengthen cost management and uplift the performance of public works projects. Moreover, the DEVB is gearing up for the establishment of a Centre of Excellence for Major Project Leaders to equip public officers with more innovative minds and enhanced leadership skills for delivering public works projects. We have earmarked \$40 million for the first three years of operation of the centre, and plan to offer courses starting from mid-2019.

127. In view of the challenges of labour shortage and an ageing workforce in the construction industry, and the keen demand for skilled workers arising from infrastructure development projects in the short to medium term, I will allocate \$200 million to expand the apprenticeship scheme for the construction industry to cover more trades with manpower shortage, and increase the allowances for new trainees pursuing one-year full time programmes to encourage and attract in-service workers to pursue continuing education.

128. Besides, the Government will lead the construction industry to implement Construction 2.0 for improving productivity, quality, safety and environmental performance of the industry by advocating innovation, professionalisation and revitalisation.

A Liveable City

129. People work hard every day to enhance the quality of life. We will also strive for economic development to make Hong Kong a more ideal place for living. The Government will continue to make good use of our resources to achieve this goal and serve people's needs.

Land Resources

130. I will ensure that adequate resources are provided to support fully the short, medium and long-term measures to increase land and housing supply.

Land for Housing

131. Over the past two years, we increased short-term land supply through land sale, rezoning, railway property development and projects of the URA, etc. 78 sites were identified, capable of providing about 93 000 units.

132. The estimated public housing production for the next five years is about 100 400 units, including about 74 200 units for public rental housing and under the Green Form Subsidised Home Ownership Scheme, and about 26 300 other subsidised sale units.

133. Housing land supply increased steadily in the past few years. In 2018, 21 000 private residential units were completed, a record high in 14 years. The supply of first-hand private residential units is expected to remain at a relatively high level in the coming three to four years, including 9 000 unsold units in completed projects, 64 000 units under construction and not yet sold through pre-sale, and 20 000 units from disposed sites where construction may start anytime. Based on preliminary estimation, the private sector will, on average, complete about 18 800 residential units annually in the next five years (i.e. from 2019 to 2023), representing an increase of about 20 per cent over the annual average of the past five years.

134. The 2019-20 Land Sale Programme comprises a total of 15 residential sites, including seven new sites, capable of providing 8 800 plus residential units in total. Together with railway property development projects, the URA's projects and private development/redevelopment projects, the potential land supply for the whole year is expected to have a capacity to provide about 15 500 units. The Secretary for Development will announce the details of the Land Sale Programme for the next financial year tomorrow.

135. On the property market, residential property transactions and prices fell in the latter half of last year, but current flat prices are still out of line with people's affordability. The Government has no intention to withdraw any demand-side management measures at this stage. The global economic slowdown, coupled with political and economic uncertainties, may affect investment sentiment and intensify the volatility in the global financial markets. Members of the public must carefully assess the risks and their own financial position before making a home purchase decision.

136. Apart from continuing to rezone sites and increase development density, we will press ahead with a number of new development area projects this year. These include seeking funding approval respectively for the first batch of infrastructure works of Kwu Tung North/Fanling North and Hung Shui Kiu new development areas, and gradually commencing land resumption and clearance for the projects for commencing construction as soon as possible. In parallel, we will initiate the statutory planning procedures for the Yuen Long South development this year. These three development projects, together with the Tung Chung New Town Extension project of which reclamation works are in progress, will provide about 210 000 residential units in phases from 2023.

Transitional Housing

137. Transitional housing serves to alleviate the housing problem of those living in inadequate accommodation. To facilitate community-initiated transitional housing projects, the Transport and Housing Bureau (THB) has set up a task force to co-ordinate and provide one-stop support. The task force will work with relevant bureaux and departments to render appropriate assistance. I will set aside \$2 billion to support NGOs in constructing transitional housing. The THB will map out the detailed arrangements and seek funding approval.

Industrial/Commercial Land

138. The Government has all along strived to increase the supply of commercial floor area to meet the needs of industrial and commercial development. The Government will include seven commercial sites in the 2019-20 Land Sale Programme, estimated to provide about 814 600 square metres of floor area, including the provision of a maximum of about 2 900 hotel rooms. Among the seven commercial sites, the one above the West Kowloon Station of the Guangzhou-Shenzhen-Hong Kong Express Rail Link is the largest one for sale by the Government in recent years, capable of providing a total floor area of about 294 000 square metres. A number of commercial sites will be put up for sale in the next few years, including those at the Kai Tak Development Area, the new Central Harbourfront, Caroline Hill Road and Queensway Plaza.

Optimising the Use of Government Land

139. In last year's Budget, I set aside \$1 billion to support NGOs in using vacant government sites and restoring school premises for various short-term uses that are beneficial to the community. The initiative has been well received by the community. I welcome the funding approval by LegCo earlier and the DEVB has started inviting funding applications.

140. We will expedite the implementation of the “single site, multiple use” model in multi-storey development on government land, so as to optimise the use of limited land resources to meet the community’s demand for public services and provide more “Government, Institution or Community” (G/IC) facilities. The Government Property Agency will take forward multi-storey projects with cross-department facilities. Moreover, the Planning Department will tighten the reservation of a government site by any single department and recommend a higher development density as appropriate to optimise the development potential of government land. I have set aside about \$22 billion to take forward the first batch of projects under the “single site, multiple use” initiative, which will include redevelopment of Tuen Mun Clinic, development of a proposed ambulance depot near Sheung Wan Fire Station, and consolidation of several government sites in Tsuen Wan town centre.

Long-term Land Development

141. Last week, the Government announced full acceptance of the recommendations tendered by the Task Force on Land Supply to take forward eight land supply options. I will ensure that adequate resources are provided for the purposes. The Steering Committee on Land Supply, which I chair, will be re-structured to strengthen the co-ordination of land supply. Priority will be accorded to a number of strategic issues. These include using a vision-driven and forward-looking approach in realising our vision, re-assessing our land demand and setting the target of land reserve, and adopting an infrastructure-led and capacity building mindset in planning strategic transport infrastructure. So long as we make concerted efforts and persevere in our endeavours, we can resolve the problem of undersupply and provide sufficient land for the long-term development of Hong Kong.

Lantau Tomorrow

142. Lantau Tomorrow is a grand vision. The Government will take forward the projects concerned in phases to open up more land for improving our living environment and quality as well as meeting the need for social development. Apart from providing an ample supply of land, Lantau Tomorrow entails the construction of strategic road and rail networks linking the coastal areas of Tuen Mun, North Lantau, artificial islands in the Central Waters and Hong Kong Island North. This will improve the efficiency of the traffic network in the North West New Territories and Hong Kong as a whole.

143. The Government is financially capable of realising the Lantau Tomorrow Vision. In formulating the implementation strategies, we will conduct a detailed financial analysis, taking into account factors like the Government's fiscal sustainability and affordability, and implement the projects in phases.

144. Regarding the construction of the 1 000-hectare artificial islands near Kau Yi Chau and the related major transport networks, the Government will kick off studies as soon as possible. As to the study on near-shore reclamations covering Lung Kwu Tan, Sunny Bay and Siu Ho Wan, the Government plans to apply for funding approval within this year. Separately, we will conduct a planning study on the coastal areas of Tuen Mun, taking into account land uses and ancillary transport infrastructure in Lung Kwu Tan and the River Trade Terminal.

Healthcare

145. Our healthcare and supporting teams in the public sector have been safeguarding the health of the community with professionalism and passion. Yet, surges in demand coupled with manpower and facility constraints have added to their workload. They are no doubt hard-pressed. In last year's Budget, I proposed the second 10-year hospital development plan and measures to strengthen healthcare manpower training, which aim to take forward long-term planning to meet growing service demand. We have tentatively included 19 projects under the second 10-year hospital development plan, providing about 9 000 additional hospital beds. The nine projects under the first 10-year hospital development plan have already commenced and made good progress.

146. Meanwhile, the Government will provide sufficient resources to support the operation and development of the public healthcare system. The estimated recurrent government expenditure on public healthcare services will increase by 10.9 per cent to \$80.6 billion in 2019-20, accounting for 18.3 per cent of the total recurrent expenditure.

Hospital Authority

147. Our public healthcare system comes under even greater pressure in each outbreak of influenza. The long waiting time at the accident and emergency departments and the overloaded occupancy rates of wards have given rise to wide public concern. The Hospital Authority (HA), our frontline public healthcare provider, must properly plan and manage public hospital services and take timely and effective measures to cope with influenza surge and other possible public health challenges so as to live up to the expectations of the public. The Government will provide resources to fully support the work of the HA.

148. In view of the heavy workload of frontline healthcare workers, I have earlier asked the HA to propose ways to boost morale and retain talent. Having regard to the concrete recommendations from the HA, I will provide additional recurrent funding of over \$700 million for the HA to introduce the following measures:

- (a) increasing the rate of allowance for on-call medical officers, the rate of Special Honorarium Scheme allowance and the salary of ward supporting staff;
- (b) increasing the number of Advanced Practice Nurse posts to enhance evening ward services;
- (c) increasing the number of allied health professional posts to improve promotion prospects; and
- (d) allocating additional resources to continue implementing the Special Retired and Rehire Scheme.

The HA will strive for early implementation of the above measures in 2019-20 to benefit its frontline staff.

149. The HA spends on average about \$1 billion each year for upgrading and acquisition of medical equipment. I will earmark an additional \$5 billion for the HA to expedite the work in this area, so as to enhance the healthcare quality and efficiency. The additional resources will be used for general medical equipment, introducing advanced medical devices for treating cancer and other diseases requiring specialty services, as well as providing relevant training.

150. To facilitate resource planning by the HA, the current-term Government has adopted a triennium funding arrangement to increase progressively the recurrent funding for the HA having regard to population growth and demographic changes. In view of the importance of public healthcare, I will earmark \$10 billion to set up a public healthcare stabilisation fund so as to prepare for any additional expenditure which may be incurred by the HA in case of unexpected circumstances.

Subsidising Drug Treatments

151. I will provide an additional recurrent subvention of \$400 million for the HA to expand the scope of the Drug Formulary, with a view to including more drugs for patients. The HA's total expenditure on drugs will increase to \$6 billion in 2019-20. Complemented by the new measures to relax the means test mechanism for the Samaritan Fund and the CCF, this would alleviate the financial burden of patients' families arising from drug expenses. In addition, the HA has increased the frequency of the exercise for including self-financed drugs in the safety net to twice a year, hence shortening the lead time for including suitable new drugs in the scope of subsidy. With these measures in place, the total subsidy under the Samaritan Fund and the CCF Medical Assistance Programmes will double to \$1.5 billion in 2019-20, benefiting more needy patients.

Primary Healthcare

152. The Government will allocate resources to push ahead with district-based primary healthcare services to enhance public awareness of disease prevention and their self-health management capability. Hong Kong's first district health centre (DHC), located in Kwai Tsing, is expected to commence operation from the third quarter of this year. I have earmarked over \$150 million to meet the operating expenditure and staff cost of the centre, and will continue to provide resources needed for the future expansion of the network of DHCs.

Hong Kong Genome Project

153. The Policy Address announced the launch of the Hong Kong Genome Project to promote the clinical application and innovative scientific research on genomic medicine. I will allocate about \$1.2 billion to establish the Hong Kong Genome Institute and take forward the project, under which 40 000 to 50 000 whole genome sequencing will be performed in the next six years.

Smart City

154. The Government published the Hong Kong Smart City Blueprint in December 2017. A number of major initiatives were launched, including opening up government data, formulating a pro-innovation government procurement policy, as well as launching the FPS. We will set up a Smart Government Innovation Lab this April to engage the industry and solicit their assistance in using IT to improve public services, foster public-private partnership, and create business opportunities for start-ups and SMEs in Hong Kong. Furthermore, we are preparing for three smart city infrastructure projects, including providing an electronic identity for all Hong Kong residents, installing multi-functional smart lampposts, as well as enhancing the government cloud services and building a big data analytics platform. We have allocated over \$900 million to these projects, which will be completed progressively in the coming two years.

155. Through collecting, processing and analysing geographic information, the Government has acquired a large volume of relevant data. Accessibility of inter-connected geospatial data can facilitate policy planning and formulation by government departments. The DEVB is working with the ITB and major user departments to press ahead with the setting up of the Common Spatial Data Infrastructure (CSDI) for the consolidation, exchange and sharing of geospatial information to tie in with the development of various smart city applications by the community. I will earmark \$300 million to expedite the development of digital infrastructure, with a view to facilitating the dissemination, utilisation and innovative application of geospatial data. With the CSDI coming into full operation by the end of 2022 and the high-quality 3D digital maps of the whole territory being made available in phases, more spatial data which are easier to search and use will be provided for organisations in the public and private sectors.

156. Digital infrastructure is essential for a smart city to develop. All eyes are now on the development of the fifth generation mobile communications technology (5G). With its technical characteristics of high speed, high capacity, high reliability and low latency, 5G has immense potential for application in various business services and a smart city in the long run. The Government will assign and auction spectrums in different frequency bands in batches to prepare for the development of 5G networks and services.

Arts and Culture

157. Following the grand opening of the Xiqu Centre last month, other major facilities in the West Kowloon Cultural District will be coming on stream. The development plans for various cultural facilities put forward in my last year's Budget are also underway for the progressive commissioning of facilities in the next few years.

158. To enrich the arts and cultural life of our city and consolidate Hong Kong's position as an international cultural metropolis, I will provide an additional funding of \$176 million in total to the LCSD for hosting large-scale world-class performing arts programmes and arranging telecasts of selected mega shows in different places across the territory in the coming five years. The LCSD will also collaborate with the District Councils to strengthen community arts activities in phases.

159. To further promote the development of arts in Hong Kong, I will increase again the subvention for arts groups in 2019-20, which will involve about \$54 million. The subvention, which will benefit arts groups of various sizes, the Hong Kong Arts Development Council and the Hong Kong Arts Festival Society, can be used for improving staff remuneration, encouraging artistic creation, and organising more cultural exchange activities outside Hong Kong.

160. The Hong Kong Film Archive under the LCSD is dedicated to preserving Hong Kong's film heritage, fostering research and bringing film art to the community. I will allocate \$20 million to employ additional technicians and acquire specialist equipment for digital conversion of sole copies of films and celluloid films in urgent need of archiving. This will enable our younger generations to learn about and appreciate the invaluable film heritage of Hong Kong.

Sports

161. Hong Kong athletes made remarkable performance, and achieved outstanding and encouraging results in major international sports events last year. In 2019, our teams also excelled in cycling, table tennis, fencing, football and other events. I strongly believe that Hong Kong athletes will continue to shine and thrive.

162. Athletes strive for excellence in the arena but most of them retire from sports before the age of 40. It is important to plan early for turning a new chapter in life. In recent years, the Government has been providing additional resources and working jointly with universities to support athletes in pursuing athletic training and academic studies at the same time. I will inject \$250 million into the Hong Kong Athletes Fund to increase scholarship awards in support of the dual-track development of athletes, and will provide more cash incentives for full-time athletes when they retire from sports.

163. The LCSD is conducting a comprehensive review of the Sports Subvention Scheme. Before the outcome is available, I will allocate an additional recurrent provision of \$25 million and an extra two-year subsidy of \$17 million per year to enhance the financial assistance for 60 national sports associations (NSAs). The funds can be used to support participation in overseas competitions, offering squad training programmes and supporting under-privileged athletes, as well as other operating costs. Moreover, I will provide a one-off grant of \$15 million for staff training, further studies, procurement of equipment, improvement of office facilities, etc. In other words, the additional resources to be allocated to NSAs in the coming two years will amount to almost \$100 million. When concrete recommendations are available upon completion of the review, I will provide the required resources as necessary.

Environmental Protection

164. In my previous two Budgets, I set aside a total of \$1 billion for departments to install renewable energy facilities at government buildings and venues and community facilities. Responses have been positive. In support of the Policy Address, I will provide another \$1 billion for departments to install relevant facilities.

165. The Government announced last month the relaxation of eligibility criteria of the “One-for-One Replacement” Scheme for electric private cars, raising the number of eligible vehicles under the scheme substantially by 30 per cent to over 250 000. Moreover, providing corresponding charging facilities is essential to promoting wider use of electric vehicles (EVs) in Hong Kong. We will explore ways to encourage the installation of EV charging facilities at car parks in existing buildings. In parallel, I will allocate \$120 million to extend the public EV charging networks at government car parks. Over 1 000 additional public chargers are expected to be in place by 2022, bringing the total number of chargers to 1 700. We will also identify suitable on-street parking spaces to install EV chargers on a trial basis and explore suitable locations to set up pilot quick charging stations for EVs.

Building the City

Harbourfront Enhancement

166. Following the gradual completion of the planning for the harbourfront areas and the commissioning of the related major infrastructure projects on both sides of the Victoria Harbour, the Government will adopt a forward-looking approach in pursuing harbourfront enhancement and vigorously seek to open up continuous and accessible harbourfront promenades. We will embrace versatile designs, management models and uses to make our harbourfront more vibrant. Harbourfront enhancement projects funded by a \$500 million allocation in early 2017 have been rolling out one by one. I will earmark another \$6 billion for developing new harbourfront promenades and open space as well as improving harbourfront facilities. It is the Government’s plan to extend the length of the harbourfront promenades from the current 20-odd kilometres to 34 kilometres in about 10 years, and provide 35 hectares of open space on both sides of the Victoria Harbour.

Urban Forestry Support Fund

167. To strengthen public education and promotion on proper tree care and uplift the professional standards of practitioners, I propose to set up a \$200 million Urban Forestry Support Fund for the implementation of various initiatives. These include encouraging students to pursue studies in arboriculture, and rolling out arboriculture and horticulture trainee programmes, as well as providing more training and internship opportunities for new recruits to tie in with the Specification of Competency Standards for the arboriculture and horticulture industry to be published by the end of this year, as a prelude to the introduction of a future registration system for tree management personnel. Moreover, we will organise international urban forestry conferences to facilitate exchanges with neighbouring regions, in a bid to upgrade the expertise and practice standards of the local industry. We will also strengthen co-operation with community organisations to provide the public with more information on tree planting and caring.

Traffic Improvement

168. Apart from constructing trunk roads, the implementation of electronic road pricing is also an effective way to tackle traffic congestion. The TD is conducting a feasibility study on the Electronic Road Pricing Pilot Scheme in Central and its Adjacent Areas. It expects to consult stakeholders in the first half of this year. Electronic road pricing does not aim to increase government revenue. As such, the Government will consider providing additional recurrent resources broadly equivalent to the net revenue to be generated from the pilot scheme for implementing measures to improve public transport services and encourage wider usage.

Municipal Facilities Improvement

169. Further to earmarking resources for the Market Modernisation Programme in last year's Budget, I will allocate more resources to the Food and Environmental Hygiene Department for refurbishing its public toilets by phases, improving ventilation and other facilities, as well as enhancing their cleanliness and hygiene. It is estimated that a total expenditure of over \$600 million may be incurred, involving about 240 public toilets in the coming five years.

A Caring Society

170. I will continue to provide resources for the Government to implement support measures for the needy to build a caring society.

Welfare Facilities

171. When planning for the provision of more welfare facilities, we are often faced with a shortage of venues. This problem is particularly prevalent in densely-populated areas, where demand for welfare services is indeed acute. I will allocate \$20 billion for the purchase of 60 properties for accommodating more than 130 welfare facilities, including day child care centres, neighbourhood elderly centres, on-site pre-school rehabilitation services, etc., which are expected to benefit about 86 000 people.

172. Provision of technology products in elderly and rehabilitation facilities can facilitate service enhancement. I will allocate some \$200 million for the Lotteries Fund to launch a four-year pilot project providing Wi-Fi service to around 1 350 service units operated by subvented organisations under the Social Welfare Department (SWD) to encourage them to make use of technology products to improve elderly and rehabilitation services. The SWD will also provide Wi-Fi service to 180 welfare facilities which it operates. This is expected to benefit a total headcount of about 100 000 per day.

Elderly Services

173. We will continue to enhance elderly services. In the next two years, the Government expects to provide more than 500 additional residential care places and 300 subsidised day care places for the elderly. Apart from ongoing provision of visiting medical practitioner services, the Government has recently launched a four-year pilot scheme to provide professional outreach services, including social workers and physiotherapists, etc., for some 45 000 residents in private residential care homes for the elderly. The additional recurrent expenditure for launching the new measures in 2019-20 is around \$1.36 billion. As mentioned earlier, I will provide, on a one-off basis, an additional \$1,000 worth of Elderly Health Vouchers to benefit elderly persons.

Rehabilitation Services

174. The Government will introduce measures to enhance the quality of existing rehabilitation services to step up support for persons with disabilities. Major new initiatives for 2019-20 include increasing 835 rehabilitation service places and purchasing 300 places from private residential care homes for persons with disabilities, gradually setting up five additional District Support Centres for Persons with Disabilities and two additional Support Centres for Persons with Autism, and strengthening the rehabilitation and support services provided by the centres by increasing the manpower of social workers and therapists. These initiatives will involve a total annual recurrent expenditure of around \$290 million and benefit about 9 000 service users a year.

Child and Youth Services

175. As regards child care, the Government will allocate an additional funding of about \$156 million from 2019-20 onwards to increase the level of subsidy for services provided by child care centres to alleviate parents' financial burden; improve the manning ratio of qualified child care workers in day and residential child care centres and enhance training to improve service quality; and provide in phases a total of about 400 additional aided standalone child care centre places in North District, Kwun Tong, Sha Tin, Kwai Tsing and Yuen Long to provide long full-day child care services for children aged below three.

176. I will also allocate additional resources to increase professional and supporting manpower for the Neighbourhood Support Child Care Project to strengthen training for home-based child carers so as to enhance the quality of services. Incentive payments to these carers will also be raised. Furthermore, the Government will restructure the services of the existing Mutual Help Child Care Centres and deploy additional social workers and supporting staff. The above initiatives will involve an additional annual recurrent provision of around \$52 million.

177. For early identification of, and to provide assistance to pre-primary children and their families with welfare needs, the Government has allocated \$990 million from the Lotteries Fund to launch a three-year pilot scheme to provide social work services in phases for about 150 000 pre-primary children and their families in subsidised/aided child care centres, kindergartens and kindergarten-cum-child care centres. The first phase of services was launched in February 2019.

178. To enhance support for divorced families and their children, the Government will set up five centres to be operated by NGOs to provide one-stop co-parenting support services from 2019-20, and strengthen the manpower of the SWD. These will involve an additional annual recurrent provision of around \$69 million.

179. To enhance teenagers' mental health and stress resilience, the Government will implement the measure of "two school social workers for each school" in more than 460 secondary schools in Hong Kong from the 2019/20 school year, and increase supervisory manpower accordingly. The annual recurrent expenditure involved will be around \$310 million.

Social Enterprises

180. Social enterprises (SEs) in Hong Kong have developed steadily in recent years. The Enhancing Self-Reliance Through District Partnership Programme has given impetus to the development of local SEs, and delivered long-term and sustainable benefits since its launch. To render continuous support to the development of SEs and the socially disadvantaged, I will provide an additional funding of \$150 million for the ongoing operation of the programme.

Estimates for 2019-20

181. The major policy initiatives announced in the 2018 Policy Address involve an operating expenditure of \$75.3 billion and capital expenditure of \$8.8 billion. I will ensure that adequate resources are provided to fully support the launch of these initiatives.

182. Total government revenue for 2019-20 is estimated to be \$626.1 billion. Earnings and profits tax is estimated to be \$235.9 billion. The revenue from land premium is estimated to be \$143 billion, an increase of 23.3 per cent compared with the revised estimate for 2018-19. The revenue from stamp duties is estimated to be \$76 billion, a decrease of 5 per cent compared with the revised estimate for 2018-19.

183. Operating expenditure is estimated to be \$501.5 billion, a year-on-year increase of 15.4 per cent or \$66.9 billion. This mainly involves an expenditure of \$11.2 billion on the Caring and Sharing Scheme last year. Recurrent expenditure, which accounts for over 80 per cent of operating expenditure, will reach \$441 billion, a year-on-year increase of nine per cent or \$36.3 billion.

184. In 2019-20, the estimated recurrent expenditure on education, social welfare and healthcare accounts for about 60 per cent of government recurrent expenditure, exceeding \$250 billion in total. Recurrent expenditure in these three areas recorded a cumulative increase of 45 per cent over the past five years.

185. We will increase the manpower of all departments as appropriate in 2019-20. The civil service establishment is expected to expand by 3 481 posts to 191 816. This represents a year-on-year increase of about 1.8 per cent, resuming the growth level of one to two per cent.

186. Taking all these into account, including bringing back \$21.2 billion from the Housing Reserve in 2019-20, I forecast a surplus of \$16.8 billion in the Consolidated Account in the coming year. Fiscal reserves are estimated to be \$1,178.4 billion by the end of March 2020, equivalent to 39.4 per cent of GDP.

Medium Range Forecast

187. The Medium Range Forecast projects, mainly from a macro perspective, the revenue and expenditure as well as financial position of the Government from 2020-21 to 2023-24. During this period, annual expenditure on the Government's infrastructure projects will exceed \$100 billion, while the growth of recurrent government expenditure ranges between 5 per cent and 8.8 per cent per annum, higher than the average annual nominal economic growth of 5 per cent over the same period.

188. Regarding revenue, the land premium estimate for 2019-20 mainly makes reference to the Land Sale Programme and the land supply target of the coming year. The medium range forecast on land premium from 2020-21 onwards is based on the average proportion of land revenue to GDP over the past decade, which is 3.9 per cent of GDP. I also assume that the growth rate of revenue from profits tax and other taxes will be similar to the economic growth rate in the next few years.

189. In addition, as I mentioned earlier (paragraph 102), I will bring back the Housing Reserve, with a current accumulated balance of \$82.4 billion, to the fiscal reserves over four years to better reflect the Government's financial position.

190. Based on the above assumptions and arrangements, I forecast an annual surplus in the Operating Account every year for the coming five financial years except for 2019-20. A small deficit would surface in the Capital Account in 2021-22 and 2022-23. The forecast deficit in the Operating Account in 2019-20 is mainly due to the expenditure arising from the one-off relief measures announced in this Budget and the Caring and Sharing Scheme. There is no structural change in the Government's financial position. Moreover, ample fiscal reserves also enable us to meet foreseeable expenditure needs. I remain cautiously optimistic about the forecast for the coming five years.

191. Fiscal reserves are estimated at \$1,224.6 billion by the end of March 2024, representing 33.7 per cent of GDP, equivalent to 19 months of government expenditure.

192. Taking all these into account, the Government will generally have an overall surplus in the next five years. That said, the above forecast has not taken into account the tax rebate and relief measures that the Government may implement during the Medium Range Forecast period.

Concluding Remarks

193. The consultation for this Budget started earlier than that for the last. Apart from holding around 40 consultation sessions to gauge views from various sectors and groups, I spent a lot of time interacting with people in the community to understand what they expect of the Government and the Budget.

194. I remember that one morning when I settled my bill at a *cha chaan teng* (Hong Kong-style café) in Hung Hom, the cashier lady told me that as the mother of a mentally-handicapped child, she was acutely aware how inadequate the support was and hoped that the Government would provide more care homes for people with disabilities. On another occasion, a girl from a grass-roots family attended a function in my official residence. Her mother told me that she had made use of the \$2,000 school expenses allowance for needy students introduced last year to enrol her child in an interest class outside school to develop her potential. She hoped the allowance would be granted again this year. In recent months, I also exchanged ideas with public healthcare personnel on a number of occasions. I gained insight into the problems they faced, and heard their suggestions on how to improve healthcare services. From these encounters, I was greatly inspired by the aspirations and strong hopes of the people I met, and deeply moved by their sincerity and candidness.

195. I set off from the bottom of my heart and listen with care. The opportunity to put forward measures that meet people's needs and expectations is what drives me in preparing this Budget.

196. However, resources are not infinite and trade-offs are inevitable. The Government has to prioritise its policy initiatives by taking into account the interests of all. No matter how many resources we put into solving problems, solutions do not happen overnight. This is especially true for difficult problems that have beset our community for many years. But I firmly believe that challenges are meant to be overcome as long as we devote resources and tackle them step by step.

197. Only with adequate resources can we improve services and enhance people's quality of life. We must continue to leverage our edges and seize opportunities to promote a diversified economy. Now that the economic environment is fraught with uncertainties and challenges, we must get ourselves well prepared.

198. Hard-working and flexible, Hong Kong people have weathered tough times and grown tougher. With confidence, hope and concerted efforts, we will definitely be able to see the sunshine through the clouds!

199. Thank you, Mr President.

THE 2019-20 BUDGET

Speech by the Financial Secretary, the Hon Paul MP Chan
moving the Second Reading of the Appropriation Bill 2019

Supplement and Appendices

Wednesday, 27 February 2019

SUPPLEMENT

Please visit our web-site at www.budget.gov.hk/2019/eng/speech.html for all documents, appendices and statistics relating to the 2019-20 Budget. The Chinese version can be found at www.budget.gov.hk/2019/chi/speech.html.

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EFFECT OF THE PROPOSED RATES CONCESSION ON MAIN PROPERTY CLASSES

2019-20

<i>Property Type</i>	<i>No Concession</i>		<i>With Rates Concession</i>	
	<i>Average Rates Payable (\$ for the year)</i>	<i>Average Rates Payable (\$ per month)</i>	<i>Average Rates Payable (\$ for the year)</i>	<i>Average Rates Payable (\$ per month)</i>
Private Domestic Premises				
Small	6,792	566	1,500	125
Medium	14,016	1,168	8,184	682
Large	29,424	2,452	23,532	1,961
Public Domestic Premises	3,276	273	24	2
All Domestic Premises	6,600	550	2,172	181
Shops and Commercial Premises	46,380	3,865	41,148	3,429
Offices	53,400	4,450	47,676	3,973
Industrial Premises	18,492	1,541	13,236	1,103
All Non-domestic Premises	41,832	3,486	37,080	3,090
All Properties	11,064	922	6,600	550

- (1) The proposed rates concession is for four quarters of 2019-20, subject to a ceiling of \$1,500 per quarter. About 60.5% of domestic ratepayers and 38.6% of non-domestic ratepayers (or 57.7% overall) will not need to pay any rates during 2019-20.
- (2) The rates payable have reflected the changes in rateable values for 2019-20 after the General Revaluation.
- (3) Domestic units are classified by saleable areas, as follows –

Small	up to 69.9m ²	(up to 752 ft ²)
Medium	70m ² to 99.9m ²	(753 ft ² to 1 075 ft ²)
Large	100m ² and over	(1 076 ft ² and over)
- (4) Including Housing Authority and Housing Society rental units.
- (5) Including car parking spaces in domestic premises.
- (6) Including factories and storage premises.
- (7) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools and car parking spaces in non-domestic premises.

SALARIES TAX

Changes to Allowances and Deductions

	<i>Present</i>	<i>Proposed/ New</i>	<i>Increase</i>	
	(\$)	(\$)	(\$)	(%)
Personal Allowances:				
Basic	132,000	132,000	—	—
Married	264,000	264,000	—	—
Single Parent	132,000	132,000	—	—
Disabled	75,000	75,000	—	—
Other Allowances:				
Child:				
1st to 9th child				
Year of birth	240,000	240,000	—	—
Other years	120,000	120,000	—	—
Dependent Parent/Grandparent:				
Aged 60 or above				
Basic	50,000	50,000	—	—
Additional allowance (for a dependant living with the taxpayer)	50,000	50,000	—	—
Aged 55 to 59				
Basic	25,000	25,000	—	—
Additional allowance (for a dependant living with the taxpayer)	25,000	25,000	—	—
Dependent Brother/Sister	37,500	37,500	—	—
Disabled Dependant	75,000	75,000	—	—
Deduction Ceiling:				
Self-Education Expenses	100,000	100,000	—	—
Home Loan Interest	100,000	100,000	—	—
(Number of years of deduction)	(20 years of assessment)	(20 years of assessment)		
Approved Charitable Donations	35% of income	35% of income	—	—
Elderly Residential Care Expenses	100,000	100,000	—	—
Contributions to Recognised Retirement Schemes	18,000	18,000	—	—
Qualifying Voluntary Health Insurance Scheme Policy Premiums	—	\$8,000 per insured person	New deduction	
Annuity Premiums and MPF Voluntary Contributions	—	60,000	New deduction	

Effective from year of assessment 2019/20.

Proposed to be effective from year of assessment 2019/20. The relevant bill is being considered by the Legislative Council.

EFFECT OF THE PROPOSED ONE-OFF REDUCTION OF SALARIES TAX, TAX UNDER PERSONAL ASSESSMENT AND PROFITS TAX

Year of Assessment 2018/19

Salaries tax and tax under personal assessment –
75% tax reduction subject to a cap at \$20,000 per case

Assessable income	No. of taxpayers	Average amount of tax reduction	Average % of tax reduced
\$200,000 and below	294 000	\$550	75%
\$200,001 to \$300,000	403 000	\$2,540	75%
\$300,001 to \$400,000	309 000	\$6,460	75%
\$400,001 to \$600,000	399 000	\$11,720	61%
\$600,001 to \$900,000	267 000	\$16,690	37%
Above \$900,000	236 000	\$19,780	8%
Total	1 908 000	—	—

Note: As at 31 December 2018, Hong Kong had a working population of 3.98 million.

Profits tax* –
75% tax reduction subject to a cap at \$20,000 per case

Assessable profits	No. of businesses	Average amount of tax reduction	Average % of tax reduced
\$100,000 and below	47 000	\$2,940	75%
\$100,001 to \$200,000	17 000	\$12,220	74%
\$200,001 to \$300,000	12 000	\$17,210	60%
\$300,001 to \$400,000	8 000	\$19,630	48%
\$400,001 to \$600,000	11 000	\$20,000	35%
\$600,001 to \$900,000	9 000	\$20,000	24%
Above \$900,000	41 000	\$20,000	1%
Total	145 000	—	—

Note: As at 31 December 2018, there were about 1.27 million corporations and 260 000 unincorporated businesses in Hong Kong.

* The two-tiered profits tax rates regime has been implemented since year of assessment 2018/19. The profits tax rates for the first \$2 million assessable profits have been reduced to 8.25% for corporations and 7.5% for unincorporated businesses. The rates for assessable profits exceeding \$2 million are 16.5% for corporations and 15% for unincorporated businesses.

Including 110 000 corporations and 35 000 unincorporated businesses.

ECONOMIC PERFORMANCE IN 2018

1. Rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2018 :

(%)

(a) Growth rates in real terms of:

Private consumption expenditure	5.6
Government consumption expenditure	4.2
Gross domestic fixed capital formation	2.2

of which :

Building and construction	-0.7
Machinery, equipment and intellectual property products	9.1

Total exports of goods	3.5
Imports of goods	4.9
Exports of services	4.9
Imports of services	2.2

Gross Domestic Product (GDP)	3.0
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<i>Per capita GDP in real terms</i>	2.2
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<i>Per capita GDP at current market prices</i>	HK\$381,900 (US\$48,700)
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(b) Rates of change in:

Underlying Composite Consumer Price Index	2.6
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GDP Deflator	3.7
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Government Consumption Expenditure Deflator	3.1
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(c) Growth rate of nominal GDP	6.9
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2. Annual rates of change in total exports based on external merchandise trade index numbers:

	<i>Total exports</i>	
	<i>In value terms</i> (%)	<i>In real terms</i> (%)
2016	0	1
2017	8	6
2018	7	5

3. Annual rates of change in real terms of total exports by major market based on external merchandise trade quantum index numbers:

	<i>Total exports</i>					
	<i>Total</i> (%)	<i>The Mainland</i> (%)	<i>EU</i> (%)	<i>US</i> (%)	<i>India</i> (%)	<i>Japan</i> (%)
2016	1	2	-1	-2	18	-2
2017	6	5	5	2	35	10
2018	5	5	8	6	-13	-1

4. Annual rates of change in real terms of imports and retained imports based on external merchandise trade quantum index numbers:

	<i>Imports</i> (%)	<i>Retained imports</i> (%)
2016	1	-1
2017	7	8
2018	6	9

5. Annual rates of change in real terms of exports of services by type:

	<i>Exports of services</i>				
	<i>Total</i> (%)	<i>Transport services</i> (%)	<i>Travel services</i> (%)	<i>Financial services</i> (%)	<i>Other services</i> (%)
2016	-3	1	-9	-5	0
2017	3	7	2	3	0
2018 <i>(Note 1)</i>	5	2	8	6	2

6. Hong Kong's goods and services trade balance in 2018 reckoned on GDP basis *(Note 1)*:

	(HK\$ billion)
Total exports of goods	4,457.9
Imports of goods	4,712.0
<i>Goods trade balance</i>	-254.1
Exports of services	892.3
Imports of services	635.9
<i>Services trade balance</i>	256.3
<i>Combined goods and services trade balance</i>	2.3

Note 1 Preliminary figures.

7. Annual averages of the unemployment and underemployment rates and growth in labour force and total employment:

	<i>Unemployment rate (%)</i>	<i>Underemployment rate (%)</i>	<i>Growth in labour force (%)</i>	<i>Growth in total employment (%)</i>
2016	3.4	1.4	0.4	0.4
2017	3.1	1.2	0.7	1.0
2018	2.8	1.1	1.0	1.3

8. Annual rates of change in the Consumer Price Indices:

	<i>Composite CPI</i>		<i>CPI(A)</i>	<i>CPI(B)</i>	<i>CPI(C)</i>
	<i>Underlying (%)</i>	<i>Headline (%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
2016	2.3	2.4	2.8	2.3	2.1
2017	1.7	1.5	1.5	1.4	1.5
2018	2.6	2.4	2.7	2.3	2.2

ECONOMIC PROSPECTS FOR 2019

Forecast rates of change in the Gross Domestic Product and main price indicators in 2019:

	(%)
Gross Domestic Product (GDP)	
<i>Real GDP</i>	2 to 3
<i>Nominal GDP</i>	4.5 to 5.5
<i>Per capita GDP in real terms</i>	1.3 to 2.3
<i>Per capita GDP at current market prices</i>	HK\$396,300-400,100 (US\$50,800-51,300)
Composite Consumer Price Index	
<i>Underlying Composite Consumer Price Index</i>	2.5
<i>Headline Composite Consumer Price Index</i>	2.5
GDP Deflator	2.5

