Economic Research Department

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Economic QuickView

Hong Kong 2023 Policy Address: Concerted efforts to lift the economy

- The easing measures in the housing market provide timely support to a steady market development.
- A holistic plan to foster the development of "eight centres" as outlined in the 14th Five-Year Plan.
- New initiatives to promote fertility reflect a policy priority to address socio-economic challenges.

The Policy Address presents a comprehensive plan to address Hong Kong's near-term economic challenges and introduces new initiatives to promote sustainable and long-term growth. On 25 October 2023, Hong Kong's Chief Executive John Lee delivered his second annual policy address, themed 'A Vibrant Economy for a Caring Community'. The Policy Address outlines about 640 policy measures, spanning from housing to building a diversified economy with the development of "eight centres", enhancing the talent and enterprise schemes, updates on mega development projects, promoting fertility, etc. These underscore the Government's commitments to supporting a steady housing market, fostering economic growth, and enhancing long-term economic prosperity.

The easing measures of the housing market provide timely support for steady market development. The Policy Address recognises the changes in the current market environment compared to when demand-side management measures were introduced in 2010, particularly the global monetary tightening has exerted increasing downward pressure. First, reducing the rates of the Buyer's Stamp Duty and the New Residential Stamp Duty from 15% to 7.5% will significantly lower the initial costs for purchases by the buyers for 2nd home buyers and non-locals. This can unlock potential market demand, stimulate market transactions and stabilise prices.

Second, the introduction of a stamp duty suspension arrangement for incoming talents purchasing homes in Hong Kong is a welcome move from the last year's stamp duty refund arrangement. As of the end of September, Hong Kong received 160,000 talent applications, with over 100,000 approved cases. Among them, about 60,000 talents have already arrived Hong Kong, nearly 1.6% of the labour force. These new migrants will need housing to settle in Hong Kong. The enhanced measure of suspending stamp duty will increase the incentive for incoming talents to purchase their own homes in Hong Kong, as they will not need to wait for 7 years to get a refund.

Third, shortening the applicable period of the Special Stamp Duty (SSD) from 3 years to 2 years is expected to positively impact the housing market. While more housing units exempt from the SSD would mean more supply in the secondary market in the near term, the relaxation can also increase demand thanks to reduced concerns on selling the property under unexpected circumstances. The change can also facilitate households moving to a bigger house when their family sizes expand.

Overall, these measures are likely to render support to Hong Kong's residential property market, though a meaningful turnaround is not expected until the interest rate cycle turns and Hong Kong's economic growth momentum regains strength.

The Policy Address proposes a holistic plan to foster the development of "eight centres" as outlined in the 14th Five-Year Plan. Last year, priority was given to the development of financial, innovation and technology (I&T) and arts & culture. This year, the Government adopts a holistic and balanced approach to enhance Hong Kong's competitive advantages in the "eight centres". This underscores the Government's endeavour to dovetail with national strategies, which will allow Hong Kong to benefit from Chinese Mainland's growth. Here are a few highlights of the measures concerning the development of "eight centres":

Key Measures in Development of "Eight Centres"
International Financial Centre • cut the stamp duty rate on stock trading from 0.13% to 0.1% • revise Listing Rules to cater for R&D-focused companies • establish a new platform to expand fund distribution • launch a dedicated proof-of-concept subsidy scheme for green Fintech • examine the feasibility to maintain stock market trading under severe weather
International Innovation and Technology Centre • a HK$ 10 billion new industrialisation acceleration scheme for downstream development of life & health technologies, AI & data science, advanced manufacturing, new energy technologies, etc. • set up the New Industrialisation Development Office • expedite the establishment of a supercomputing centre to foster AI development
East-meets-West Centre for International Cultural Exchange • Establish the Cultural and Creative Industries Development Agency • Inject HK$ 4.3 billion to the Film Development Fund and the CreateSmart Initiative • launch the Signature Performing Arts Programme Scheme to fund and nurture representative and large-scale major performing arts productions

Key Measures in Development of "Eight Centres"
International Trade Centre • Expand Hong Kong's global trade networks by organising outbound missions and visits to the GBA • raise the statutory cap on the contingent liability of the Hong Kong Export Credit Insurance Corporation from HK$ 55 billion to HK$ 80 billion to enhance its underwriting capacity • provide more flexible repayment options under the SME Financing Guarantee Scheme • publish the Action Plan on Modern Logistics Development to promote smart development, modernisation, green and sustainability, internationalisation and facilitation of logistics • raise Hong Kong's convention and exhibition (C&E) space by 40% to 220,000 square metres by expanding facilities at the Asia World-Expo and building new C&E facilities in Wan Chai North
Regional Intellectual Property Trading Centre • implement the "patent box" tax incentive by reducing the tax rate for qualifying profits derived from patents from 16.5% to 5%
International Shipping Centre • publish an action plan on maritime and port development strategy • strengthen collaboration in the GBA to enhance logistics co-operation with other GBA cities
International Aviation Hub • open up opportunities for cargo transport • introduce autonomous transportation system
Centre for International Legal and Dispute Resolution Services in the Asia-Pacific Region • extend the adoption of Hong Kong law and usage of Hong Kong's dispute resolution

In addition to the "eight-centres", the Policy Address emphasises that efforts to promote the tourism sector will be further enhanced. The Development Blueprint for Hong Kong's Tourism Industry 2.0 will be published in 2024. There are also plans to develop signature tourism products and enhance cruise tourism economy to enhance the Hong Kong's tourism competitiveness.

Mega development and transport infrastructure projects provide significant business opportunities for the financial sector. As the Government advances numerous mega development projects like the Northern Metropolis and the Kau Yi Chau Artificial Islands, along with other major transport infrastructure projects (On top of the planned 3 major railways and 3 major roads, 2 more railways, 1 major road and a smart and green mass transit in Kowloon are announced in the Policy Address), there will have substantial funding need for the Government to implement these projects in the future. After an infrastructure bond scheme was mentioned in the Budget 2023/24, the Policy Address reveals that the Government will establish the Committee on the Financing of Major Development Projects, led by the Financial Secretary, to advise on feasible investment and financing options, including an assessment on the feasibility of bringing in private investors. It is expected that private capital will play a larger role in financing these public investments. Given Hong Kong's high credit rating, these mega development projects will provide attractive investment and funding opportunities for the financial sector.

The long term potential for the Northern Metropolis is worth monitoring. The Policy Address sets out that the Action Agenda for the Northern Metropolis will soon be released. The agenda will integrate deeply with the planning of Shenzhen and other GBA cities. The latest development concept of the Northern Metropolis consists of four major zones from the west to the east:

I. a high-end professional services and logistics hub, connecting Qianhai Shenzhen and Hong Kong;
II. an I&T zone, covering San Tin Technopole and the Shenzhen Innovation and Technology Zone;
III. a boundary commerce and industry zone, including the largest stretch of land at Lo Wu, Man Kam To and Heung Yuen Wai for advanced construction, green environment, health care, food technology and modern logistics industries;
IV. a blue and green recreation, tourism and conservation circle, with rich cultural heritage and natural resources to promote recreation and tourism development.

The Policy Address also highlights that upon its full development, the Northern Metropolis will provide 500,000 new housing units and create 500,000 new jobs. These updates demonstrate that the Northern Metropolis will not only serve as a new I&T hub for Hong Kong but also a crucial cooperation platform for Hong Kong to yield greater synergies with other GBA cities. Such a vibrant community hosting an array of high-value-added industries will possibly offer a bright outlook for financial services like corporate financing, cross-border settlements, investment, insurance, personal credit, financial advisory, etc.

The new initiatives to promote fertility and create a childbearing environment represent a policy priority to tackle socio-economic challenges. Like other high-income economies, Hong Kong faces significant challenges due to low birth rates and an ageing population. A package of new measures to boost birth rates and reduce burdens on working families in childbearing is another major feature of this year's Policy Address. Some of the new incentives from cash to tax, housing and child care support are listed below:

I. a one-off cash bonus of HK$ 20,000 for each baby born in Hong Kong to a HKPR parent;
II. raise the accommodation-related tax deduction ceiling from HK$ 100,000 to HK$ 120,000;
III. priority for families with newborns to purchase subsidised sale flats;
IV. priority for families with newborns to have 1-year shorter waiting time for public rental housing;
V. increase child care centre spaces and related services.

While overseas experiences have showed that childbearing involves many considerations and policy incentives have their limitations in boosting fertility, the new initiatives are a good starting point for the Government to stimulate population growth in Hong Kong. It is recommended that periodic reviews and adjustments of these measures should be conducted to enhance policy effectiveness.

In conclusion, the Policy Address indicates a policy orientation to ensure a balanced and sustainable development of the Hong Kong economy. Looking ahead, the easing measures on the housing market will play an imperative role in bolstering confidence and driving a pickup in demand. A steady housing market will be conductive to a sustained recovery in domestic consumption and mitigate the drag of global monetary tightening on private investment. Last but not least, a number of mega development projects and the continued focus of "eight centres" development will likely keep public investment at elevated levels. Even as fiscal spending normalises from the high levels during the pandemic, public investment is likely to remain a crucial supporting force for the Hong Kong economy ahead.

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