

Economic QuickView



Hong Kong Budget: A timely and balanced approach to bolster confidence and ensure fiscal sustainability

- The 2024/25 Budget lifts all demand-side management measures for residential properties.
- The Government is set to adopt a fiscal consolidation strategy, with the aim of exercising expenditure control and maintaining fiscal discipline.
- With various targeted supportive measures, the Government forecasts economic growth for 2024 at 2.5-3.5%.

Timely policy adjustments to support steady property market development

The 2024/25 Budget took a decisive move to stabilise the property market downturn. Faced with the most aggressive monetary tightening cycle in recent decades, the Hong Kong residential property market has entered an orderly consolidation. The official residential price index fell by 15% in 2022 and another 7% in 2023. While houses have become more affordable than before, many potential homebuyers have taken a wait-and-see attitude, weighing down the average monthly transactions of residential properties to a historical low of 3,583 in 2023. On the other hand, housing supply will stay elevated. According to the Housing Bureau, there were 20,000 units of unsold first-hand residential private units at the end of 2023. And there will be an estimated completion of over 19,000 units per annum from 2024 to 2029. If demand does not keep pace with supply, the property market is likely to remain under pressure. Against this backdrop, it is appropriate for the Government to remove all demand-side management measures (Special Stamp Duty, Buyer's Stamp Duty and New Residential Stamp Duty) in the Budget 2024/25. Meanwhile, the Hong Kong Monetary Authority adjusts the countercyclical macroprudential measures for property mortgage loans and other related supervisory requirements, such as a relaxation on the maximum loan-to-value (LTV) ratio for residential and non-residential mortgage loans, a suspension of the interest rate stress testing requirement and higher financing caps for property development projects.

Economic Research Department**29 February 2024****The easing measures are expected to provide a timely support to property market sentiment.**

While the global economic slowdown and high borrowing costs remain the major external uncertainties surrounding the property market, there is potential for home purchases to recover, given the rise of real household income and a surge in talent inflows. Indeed, Hong Kong's underlying demand for housing has remained steady, as indicated by a rise in rental prices of 6.0% in 2023 and the popularity of the stamp duty suspension arrangement for incoming talents. Given the easing measures introduced in the Budget 2024/25, potential homebuyers will see more incentives from lower upfront costs and loosened loan requirements to own houses in Hong Kong.

Furthermore, many domestic households used to invest in residential properties, seeking steady income from rentals. With the lifting of all demand-side management measures, investment demand for residential properties is likely to revive, particularly when interest rates start moving lower later this year. Overall, the measures in the Budget 2024/25 should help stabilise property market sentiment. Along with the expected rate cuts by major central banks around mid-2024, Hong Kong's property market should see a gradual recovery in 2H 2024.

Transitioning from a moderately liberal fiscal stance to a fiscal consolidation strategy

The Government outlines a plan to narrow the fiscal deficit to restore fiscal balance ahead. For the fiscal year 2023/24 (FY23/24), the fiscal deficit is estimated to be HKD 101.6 billion, with fiscal reserves expected to be HKD 733.2 billion at March 2024, down by nearly 40% from HKD 1,170.9 billion at March 2019. Even though the Government reduced the relief package for support to households and enterprises, total government expenditure for FY24/25 is estimated to rise by 6.7% to HKD 776.9 billion. The rise is partly led by higher capital expenditure from the implementation of various infrastructure projects, but government expenditure on social welfare is another major driver, which is expected to grow by 15.7% to HKD 136.2 billion in FY24/25. It likely reflects the challenges to public finance amid an ageing population. Indeed, the rise of social spending has led to a faster rise in government expenditure than government revenue over the past few years.

In order to contain the growth of public spending, the Government announced an important change in policy stance: the implementation schedule of capital works will be adjusted, which hints that the implementation of the Kau Yi Chau Artificial Islands project will take into account factors like public finance position. Besides, the medium-term projections for capital works expenditure are revised down from an average of over HKD 100 billion per annum to HKD 90 billion. The Government will also maintain zero growth in the civil service establishment and implement the Productivity Enhancement Programme, under which recurrent government expenditure will be cut by 1% for two consecutive years.

More bond issuances and new measures to boost revenue will be imposed. To provide sufficient capital for infrastructure projects, the Government announces that it will take forward the Government Green Bond Programme and the Infrastructure Bond Scheme, with a total borrowing ceiling of HKD 500 billion. In FY24/25, the Government plans to issue HKD 120 billion worth of bonds. For the next 3 years, starting from FY25/26, annual bond issuance is projected at HKD 135 billion. In terms of fiscal health, higher bond issuances will not have material impacts on Hong Kong,

Economic Research Department**29 February 2024**

as the ratio of Government debt to GDP will remain comfortably low in a range of 9-13% in the coming years.

Moreover, the Government proposed new measures to boost tax income based on the "affordable users pay" principle. First, a two-tiered standard rate regime for salary tax and tax under personal assessment will be implemented. For taxpayers with net income above HKD 5 million, the portion of their net income exceeding HKD 5 million will be subject to a higher standard rate of 16% (up from 15%). Second, a new progressive rating system for domestic properties will be introduced. Domestic properties with a rateable value over \$550,000 will face a higher rate percentage charge. Third, the Hotel Accommodation Tax at a rate of 3% is proposed to be resumed in 2025. These new tax measures mark a good starting point for the Government to expand its revenue source while maintaining the simple and low tax regime of Hong Kong.

Targeted policies to strengthen recovery momentum and promote high-quality development

More measures will be implemented to support the financial sector. The Budget 2024/25 reveals that more support measures for the stock market are expected to be launched in 2024, such as a treasury share buy-back regime, maintaining trading operations under severe weather, a waiver of stamp duty charges on REIT unit transfers and jobbing businesses of option market-makers, as well as some other measures to boost market efficiency and liquidity. In addition, Hong Kong's role as a global offshore RMB business hub will be enhanced with a plan to develop the Central Moneymarkets Unit (CMU) into Asia's major international central securities depository platform by providing better support for cross-border RMB businesses. Further deepening of the mutual market access between the Chinese Mainland and Hong Kong will also be explored.

The Budget 2024/25 highlights Green Finance and the Digital Economy as new emerging sectors.

To keep abreast of the development of other international financial centres, the Government lists green finance and the digital economy as the two major development areas. Specifically, the Budget 2024/25 proposes a holistic plan to develop Hong Kong as a rising international green finance centre. Relevant measures include: hosting various international green finance events, extending the Green and Sustainable Financial Grant Scheme for another 3 years to 2027, and formulating a roadmap and vision statement to assist companies and financial institutions in sustainability reporting and analysis of relevant data. On the digital economy, the Government will undertake an in-depth study on building a data trading ecosystem in Hong Kong, launch phase 1 of Project mBridge to settle cross-boundary transactions for corporates, expand the scope of e-CNY pilot testing in Hong Kong, including topping up e-CNY wallets by FPS, and so on.

The Hong Kong economy is envisaged to grow steadily in 2024. In the Budget 2024/25, the Government forecasts a continued recovery for the Hong Kong economy. GDP growth for 2024 is estimated to be in the range of 2.5-3.5%, with headline inflation at 2.4%. In the medium term, the Hong Kong economy is expected to grow by an average of 3.2% from 2025 to 2028. Taking into consideration the proceeds from bond issuance, the fiscal balance is estimated to return to surplus in FY25/26.

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