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Economic QuickView

Hong Kong Budget: Nurturing New Growth Engines and Ensuring Fiscal Stability

- The 2025/26 Budget outlines the Government's plan to build new growth drivers from innovation and technology and consolidate strengths by upgrading traditional industries.
- The Government proposes to strictly control expenditure while increasing revenue sources to ensure an orderly path towards fiscal consolidation.
- Supported a continued expansion in services exports and a pickup of domestic demand, the Government forecasts Hong Kong's economic growth for 2025 at 2-3%.

Building new growth drivers on multiple fronts

The Budget underscores the pivotal role of innovation and technology in cultivating new quality productive forces. The Government is taking concerted efforts in promoting the development and application of artificial intelligence (AI). First, the Government will establish the Hong Kong AI Research and Development Institute, supported by a HKD 1 billion fund to support the research as well as industrial application of AI. Second, the Hong Kong Microelectronics Research and Development Institute will promote collaboration among universities and industries to advance third-generation semiconductor core technology. Third, financial support for technology and biotechnology firms will be enhanced through a dedicated "technology enterprises channel" for to facilitate their listing processes, alongside a review of tax deductions for intellectual property expenditures to promote intellectual property (IP)-intensive industries and stimulate IP trading. Fourth, a HKD 10 billion Innovation and Technology Industry-Oriented Fund will be established to channel more market capital to invest in strategic industries. These initiatives are set to foster advanced industries like AI as a new core industry for Hong Kong.

The Government is taking forward the development of Northern Metropolis (NM) in full steam. The NM development has been elevated to one of top policy priorities, with more details announced in the Budget. Notably, a comprehensive railway network will be developed to improve the accessibility of NM. Studies on two cross boundary railway projects will be commenced with Shenzhen authorities later this year. The Phase 1 construction works of the Northern Link is anticipated to be completed as planned in 2027. Second, a more diversified development approach will be adopted to press ahead with the NM development. Moreover, the Government is inviting the private sector to submit expressions of interest for three pilot areas under "large-scale land disposal", with the target of starting tendering from H2 2025.

Efforts to attract high-quality talents will continue. To further expand Hong Kong talent pool, the Government is considering to invite top and leading talents to come to Hong Kong under the Quality Migrant Admission Scheme. The Admission Scheme for Mainland Talents & Professionals and the General Employment Policy will also be enhanced by including young non-degree talents with professional technical qualifications and experience. In addition, the Hong Kong Talent Engage (HKTE) will host the second "Global Talent Summit" next year to reinforce Hong Kong's status as an international talent hub. Furthermore, the Government will continue the Belt and Road (B&R) Scholarship to attract more students from ASEAN and B&R countries to study in Hong Kong.

Strengthening traditional economic drivers

The Government rolls out a variety of key initiatives aimed at improving the competitiveness of the financial sector. First, the Government will facilitate the listing of the overseas enterprises, particularly from ASEAN and the Middle East, while seek to improve trading efficiency through the implementation of a T+1 settlement cycle. Second, in the fixed income and currency markets, the Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA) have formed a task force to develop a roadmap for expanding primary and secondary bond markets. The Government is also promoting a wider use of tokenisation in Hong Kong's bond market. Third, in asset and wealth management, the Government proposes to expand the tax exemption regime for funds, single family offices, and carried interest to attract more global capital and support industry growth. Fourth, as an offshore RMB business hub, Hong Kong is enhancing RMB liquidity and infrastructure, by launching an RMB Trade Financing Liquidity Facility to assist banks in providing RMB trade finance services. Additionally, the Government is promoting trading of stocks in RMB, including the inclusion of RMB trading counter under the Southbound trading of Stock Connect. Fifth, the Government will promote the formation of the offshore RMB yield curve by regularly issuing RMB bonds of different tenors. Lastly, the linkage of faster payment systems between the Mainland and Hong Kong for real-time cross-border remittances is anticipated to be ready in mid-2025.

Further easing measures are implemented to support the property markets. Given the high vacancy rates and abundant supply for Grade A offices, the Government decides not to roll out any commercial site for sale in fiscal year 2025/26 (FY2025/26). In addition, some commercial sites could be rezoned into residential uses for better flexibility of land use. A total of 8 residential sites will be put up for sales in FY2025/26, providing around 13,700 units and is largely in line with the estimated annual demand for private housing. Another notable measure is the reduction of stamp duty for homebuyers, as the price ceiling for homes eligible for the HKD 100 stamp duty from HKD 3 million to HKD 4 million, effective immediately. With 14% of residential property transaction valued between HKD 3-4 million in 2024, the relaxation is set to improve home buying sentiment for small units with increasing transaction volumes.

Fiscal consolidation to ensure sustainable public finance

The Government aims to enhance fiscal consolidation while supporting economic growth. For FY2024/25, the consolidated fiscal deficit is estimated to be HKD 87.2 billion, with fiscal reserves expected to be HKD 647.3 billion by 31 March 2025. The Government has adopted a prudent approach to contain the growth of public spending. A key initiative is the pay freeze for all personnel in executive authorities, the legislature, the judiciary and members of the Districts Councils for the FY2025/26. The Government is also enhancing the Productivity Enhancement Programme, targeting a cumulative 7% reduction in recurrent expenditure through FY2027/28. Furthermore, the civil service establishment will be reduced by 2% in both FY2026/27 and FY2027/28, resulting in around 10,000 fewer positions. There are also cuts in education and other welfare spending.

More bonds will be issued to support infrastructure investment. As annual capital expenditure is expected to increase from HKD 90 billion to HKD 120 billion, the Government will increase bond issuance to around HKD 150-195 billion in coming five years. The borrowing ceiling is also raised from HKD 500 billion to HKD 700 billion. Nevertheless, more bond issuance is not anticipated to materially impact the Government's financial position, as the debt-to-GDP ratio will stay at a healthy level of 12.0-16.5% in the coming years.

Additional measures are proposed to increase revenue. First, air passenger departure tax will be raised to HKD 200. The visa application fee will be charged or raised under various talent and capital investor admission schemes. Tolls of government tunnels, the annual licence fee for electric private cars, parking meter charges and traffic related penalties will be reviewed, while a boundary facilitates fee on private cars departing via land boundary control points will also be explored. Second, HKD 62 billion from six endowment funds will be brought back to the government accounts. Third, the implementation of global minimum tax plan is expected to raise HKD 15 billion revenue annually from FY2027/28.

The Hong Kong economy is expected to sustain stable growth in 2025. Supported a continued expansion in services exports and a pickup of domestic demand, the Government forecasts Hong Kong's GDP growth at 2-3% for 2025, with headline inflation at 1.8%. In the medium term, the Government anticipates the Hong Kong economy to expand by 2.9% annually from 2026 to 2029. The fiscal balance is projected to return to surplus in FY2028/29, supported by fiscal expenditure control measures, bond issuance proceeds, and new fiscal revenue sources.

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