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Analysis of the Policy Factors that Promote the Economic Recovery of Hong Kong in 2023

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The Hong Kong Special Administrative Region Government has announced a comprehensive package of economic policies in the 2023-24 Budget to promote economic growth in 2023 from various aspects, such as promoting recovery, opening up new horizons, and expanding domestic demand. The policies also indicate a direction for the future development of the Hong Kong economy, and play a positive role in promoting local economic recovery and consolidating Hong Kong's position as an international financial centre. From the scale of the current stimulus, it can be seen that the economic policies in the budget achieved a balance between the principle of "maintaining balance" and "proactive governance" in fiscal policy, regarding the needs of local development and transformation. Specifically, the economic policies introduced in the budget aim to support the economy in moving towards high-quality development, and work through multi-field financial supports, helping Hong Kong achieve breakthroughs in the areas, such as integrating into the national development agenda, realizing the "eight centres" positioning, consolidating financial advantages, nurturing emerging industries, and constructing new urban areas. These policies reflect Hong Kong's new atmosphere, new appearance, and new prospects under the leadership of the new government. This article will analyze the government's core economic policies for 2023 from three dimensions: consolidating economic foundation and strong growth potential, pushing forward industrial transformation, and expanding domestic demands.

1. Regathering Growth Potential: Enhancing International Image and Boosting Enterprises' Vitality

In recent years, Hong Kong has been putting itself in the progress of realizing the "eight centres" positioning set out in the 14th Five-Year Plan. With the gradual resumption of commercial and social activities between Hong Kong, the Mainland, and overseas markets, Hong Kong's role as a multilateral trade platform in the region has become more prominent than ever. The Hong Kong government consequently pledged in the new budget to launch promotion programs, new development focuses, and new activity models to further strengthen the Hong Kong's image as an international city and its market competitiveness, which are unprecedentedly important for attracting domestic and foreign enterprises to capture business opportunities through Hong Kong's two-way trade platform with the Mainland. Some notable economic policies include: (1) allocating HKD 350 million to enhance Hong Kong's international image and attract more large-scale business, artistic, and sporting events to be held in Hong Kong; (2) holding the

Belt and Road Initiative 10th Anniversary Summit Forum to promote Hong Kong's key role in the business; (3) attracting more overseas tourists to Hong Kong to boost the recovery of the tourism industry through the "Hello! Hong Kong" promotion month and giving out free airline tickets; (4) launching the "Happy Hong Kong" campaign with themes such as food, entertainment, and cultural creativity, providing more diverse consumption choices for tourists and residents, which will come up with the growth of retailing, catering, and other relevant industries as the economic consequences.

The Hong Kong government also pledged to launch large-scale counter-cyclical stimulus measures within the year, involving a total amount of more than HKD 170 billion. Along with the increase in infrastructure and other expenditures, this package is estimated to provide a boost of about 1.5 percentage to the economic growth by comprehensively alleviating the financial pressure on enterprises during the recovery. To ensure and enhance the living standards of the public and drive the recovery of local consumption, the Hong Kong government has decided to continue to launch a series of measures to support the people within the year after weighing the current economic recovery situation, social livelihood, and fiscal situation. These measures include reducing profits tax, salaries tax, non-residential and residential property rates, continuing to issue consumption vouchers to eligible citizens, and providing additional Comprehensive Social Security Assistance payments, Old Age Living Allowance, and Disability Allowance. These measures embody the governing spirit of helping the society to recover its vitality and strengthen its foundation practicing by the government. Economically, they will not only help release domestic private consumption demand, but also comprehensively boost market investment confidence.

Since the outbreak of Covid-19, the Hong Kong government has launched multiple financial measures to support small and medium-sized enterprises (SMEs). In order to provide more stable cash flow for SMEs and accelerate economic recovery, the government stated that the application period for all loan guarantee products under the "SME Financing Guarantee Scheme" under the Hong Kong Monetary Authority will be extended until the end of March 2024. Enterprises that successfully joined the program could obtain a loan amount of up to HKD 9 million through the "100% guarantee preferential loan" for a maximum of 27 months of total employee salaries and rent, with a maximum repayment period of ten years.

To boost the transportation and tourism industry, the Hong Kong government has pledged to provide 100% loan guarantees for eligible cross-border passenger transport and tourism companies, starting in April of this year, following the operating model of the "SME Financing Guarantee Scheme." It is expected to involve about HKD 2.7 billion in funding. At the same time, the Hong Kong government will also allocate HKD 30 million to upgrade the "Travel Agent Technology Development Matching Fund Scheme" to help the tourism industry use more new technologies to enhance its operational capabilities. At the same time, the government has also proposed three additional tax and fee reduction measures (see Table 1), which definitely will play a key role on alleviating the operational pressure on SMEs, easing the downward risk of the Hong Kong economy, protecting employment positions, and generating more vitality in the market for economic growth.

Table 1. Policies to Support Enterprises in the 2023-24 Budget

Fiscal Policies	Budget Changes
1. Reducing profits tax by 100 per cent, subject to a ceiling of \$6,000, which will benefit 134,000 businesses.	Reduce Revenue by 720 million
2. Providing rates concession for non-domestic properties, subject to a ceiling of \$1,000 per quarter, which is estimated to involve 430,000 properties	Reduce Revenue by 740 million
3. Granting 50 percent rental or fee concession to eligible tenants of government premises and eligible short-term tenancies and waivers under the Lands Department for six months until end-2023	Reduce Revenue by 1 billion

Source: The Hong Kong Government's 2023-24 Budget, Bank of China Hong Kong Financial Research Institute.

Overall, the Hong Kong government is optimistic about the city's economic growth in 2023. The 2023-24 Budget projects that Hong Kong's economic growth will be between 3.5% and 5.5%, and will reach an average annual growth rate of about 3.8% until 2027. As the interconnection between the Mainland and foreign markets and Hong Kong has been gradually recovered, the government's fiscal stimulus will lead to a significant rebound of economic indicators, such as the volume of cross-border land transportation and airport air cargo. Business trip and tourism between Hong Kong and the Mainland will recover as well. The Hong Kong government plans to hold multiple international events this year, and it is expected that the number of visitors to Hong Kong will rebound strongly. The catering and retail industries will benefit from the growth in the number of tourists while the government's fiscal measures will stimulate domestic resident's consumption, thereby promoting the recovery of Hong Kong's tourism, retail, hotel, and catering industries.

2. Promoting High-quality Development: Consolidating Financial Strength, Catalysing Technological Transformation

The 2023-24 Budget outlined the economic development strategy for Hong Kong by specifying that "we need to make better use of our unique advantages under 'One Country, Two Systems' to fully grasp the Mainland's enormous market, bring together local and overseas talents, capital and other resources, and to attain mutual benefits that can be shared by everyone and bring about better development for everyone under the operation of an open economy". In terms of macro strategy, the SAR government emphasizes that the city will build on Hong Kong's existing advantages as an international financial centre, continuously expand and optimize its financial market, and enhance the "interconnectivity" schemes with the Mainland's financial market.

The Hong Kong government pledged to optimize of the Cross-boundary Wealth Management Connect Scheme with the Mainland's regulatory bodies in the year ahead to promote interconnections between Hong Kong and the Mainland's financial market and the development of offshore RMB businesses. Specific measures include increase on usage volume, expanding the scope of investable products, increasing the number of participating institutions, and improving sales arrangements. In view of the fact that the study group composed of the Securities and Futures Commission, Hong Kong Exchange and Clearing Limited (HKEX), and the Hong Kong Monetary Authority has completed the study on allowing southbound trading under Shanghai – Hong Kong Stock Connect to include stocks denominated in RMB in 2022, the Hong Kong government proposed to introduce more supporting measures this year, including exempting the stamp duty payable for certain transactions by dual-counter market makers. In addition, the HKEX will collaborate with local issuers to establish RMB trading counters in order to increase the circulation of RMB-denominated stocks and promote the issuance and trading of RMB securities in Hong Kong.

As the leading bond hub in Asia, the Hong Kong government has already issued offshore RMB bonds in size to 10 billion under the Government Green Bond Programme in January 2023 and has proposed to attract more Mainland local government at different levels, domestic and foreign institutions to issue bonds in Hong Kong throughout the year. On this basis, the Hong Kong government will also continue to promote the development of the Hong Kong dollar dominated retail bond market, including the issuance of at least HKD 50 billion in Silver Bond and HKD 15 billion in Green Retail Bond this year. The issuance of these bonds will not only promote the concept of inclusive finance but also provide citizens with stable investment options. Overall, the Hong Kong government's measures to develop the bond market will not only enrich the depth and breadth of the Hong Kong bond market but also attract more issuers, institutions, and retail investors, further consolidating Hong Kong's position as an international financial centre.

With the aim of accelerating the development of the innovation and technology industry in Hong Kong, the government proposed to bring up a substantial amount of financial resources this year to implement the Hong Kong Innovation and Technology Development Blueprint. In terms of specific strategies, the government has planned to strengthen the complementary effects of industrial chains between Hong Kong and other cities within the Greater Bay Area, which will grant Hong Kong the leading role in promoting high-quality development throughout the entire region. According to the

latest statistics released by the Innovation, Technology and Industry Bureau, as of 2022, the number of start-ups in Hong Kong had increased from around 1,000 to over 4,000 over the past nine years, and the amount of investment by venture capital funds had also increased from HKD 1.24 billion to HKD 41.7 billion. Looking at Hong Kong's medium- to long-term development, the innovation and technology industry is not only a new engine for economic growth but can also revitalize traditional industries through technological means. The Financial Secretary further suggested in his speech that Hong Kong shall leverage the city's unique advantage as a platform for international scientific research collaboration and attract leading I&T talents, research teams and enterprises from the Mainland and overseas to Hong Kong, thereby promoting cross-sectoral research cooperation.

To lead Hong Kong becoming the international innovation and technology centre in the region, the government has proposed an additional funding plan in this year's budget. HKD 6 billion will be allocated from the HKD 10 billion fund for promoting the development of the life sciences and health technology industry to subsidize the establishment of theme-based research institutes by universities and research institutions. The funds will be mainly used to promote the translation of scientific research results and the research and development of life sciences and health technologies, as well as to facilitate cooperation across disciplines, institutions, and academia. Digitalization will also play a crucial role in achieving high-quality development. To accelerate the transformation of digital economy, the Digital Economy Development Committee, chaired by the Financial Secretary, will conduct feasibility studies on digital infrastructure, cross-border data connection, digital transformation of enterprises, and human resources support, and the result will submit to the government this year. In addition, to help the country solve the bottleneck of chip technology, the government has planned to establish a microelectronics R&D institute, with the aim of building an ecosystem by pooling together Mainland and overseas talents in relevant fields and strengthen the nurturing of local R&D talents, thereby further enhancing the I&T ecosystem.

3. Expanding Domestic Demands: Encouraging Residents to Spend, Accelerating the Supply of Public Housing

Over the past three years, COVID-19 has severely affected the Hong Kong economy, especially on the tourism and retail industries. Regarding this background, unsurprisingly, the Hong Kong government's direct fiscal supports to economic recovery have remained unchanged this year. To effectively stimulate demand, the Hong Kong government is going to distribute consumption vouchers of HKD 5,000 to eligible residents, with the first-instalment of HKD 3,000 to be distributed as early as April, benefiting around 6.4 million citizens who have registered earlier. The remaining value will be distributed in mid-year together with the newly registered residents. According to the data released by the government's Census and Statistics Department, the average household expenditure on food accounts for 26.8% of the monthly total expenditure, which ranked second to housing expenditure. In a survey of over 6,000 citizens by Lingnan University, nearly 70% of respondents expressed their intention to use the vouchers to purchase daily necessities (67.2%) and eating out (66.7%). Younger consumers tend to use the vouchers to purchase clothing, entertainment and travel-related products, while older respondents are more willing to buy daily necessities and food. Therefore, the new round of consumption vouchers will not only stimulate citizens' basic living consumption but also work together with other external measures such as border reopening, placing a positive effect on the overall economic recovery of Hong Kong this year.

Additionally, the Hong Kong government is going to introduce more stimulating fiscal policies within the year to continuously increase citizens' purchasing power by reducing taxes and fees. The government proposed a policy package of total HKD 24.778 billion in the budget of this year (see Table 2). Some of the most significant policies include: the widening of the salary tax and personal income tax by 100% for the previous tax year, with a cap of HKD 6,000, which is expected to benefit about 1.9 million taxpayers in the city. Continuing to extend the temporary subsidy under the Public Transport Fare Subsidy Scheme, where the government will provide a one-third subsidy for citizens' actual public transport expenses exceeding HKD 200 per month, with a limit of HKD 500 per month. This policy will directly subsidize approximately 3.5 million citizens' expenses on communication, which will help reducing the commuting costs of working people and encourage citizens to spend more on travel.

Table 2. Policies to Support Citizens in the 2023-24 Budget

Fiscal Policies	Budget Changes
1. Reducing salaries tax and tax under personal assessment to a ceiling of \$6,000, which will benefit 1.9 million taxpayers	Reduce Revenue by 8.5 billion
2. Providing rates concession for domestic properties for the first two quarters of 2023-24, subject to a ceiling of \$1,000 per quarter for each ratable property, which involve 3.03 million properties.	Reduce Revenue by 5.2 billion
3. Providing an allowance to eligible social security recipients, equal to one half of a month of the standard rate Comprehensive Social Security Assistance payments, Old Age Allowance, Old Age Living Allowance or Disability Allowance.	Additional Expenditure of about 2.837 billion
4. Extending the temporary special measures under the Public Transport Fare Subsidy Scheme for a period of six months till October 2023 to provide commuters with a subsidy amounting to one-third of their actual monthly public transport expenses in excess of \$200, subject to a maximum of \$500 per month.	Additional Expenditure of about 1.08 billion
5. Paying the examination fees for school candidates sitting for the 2024 Hong Kong Diploma of Secondary Education Examination	Additional Expenditure of about 151 million
6. Granting each eligible residential electricity account a subsidy of \$1,000 and extending current relief of \$50 a month to each eligible residential electricity to the end of 2025	Additional Expenditure of about 6.4 billion
7. Increase the basic child allowance and the additional child allowance for each child born during the year of assessment from the current \$120,000 to \$130,000 starting from the year of assessment 2023-24, which will benefit 324,000 taxpayers.	Reduce Revenue by 610 million

Source: The Hong Kong Government's 2023-24 Budget, Bank of China Hong Kong Financial Research Institute.

Last but not the least, the Hong Kong government proposed to speed up the supply of housing by leveraging the construction of the Northern Metropolis and Kau Yi Chau Artificial Island to stimulate strong growth in multiple industries including infrastructure and real estate in the medium to long term. In particular, in expanding the scale of public housing construction, the Hong Kong government has planned to further increase the units supply to 360,000 in this year based on the target set out in the Long-term Housing Strategy. Meanwhile, the government will also strive to expand the scale of transitional housing from 7,000 to 21,000 units. In addition, the government is going to arrange for the construction of Light Public Housing on 8 newly identified sites, which is to fill the short-term gap of public housing supply in a timely manner and to improve the living conditions of people living in inadequate housing. The Pilot Scheme on Private Developer Participation in Subsidised Housing Development, which will be released with more details, is to encourage more private developers to build subsidized units for sale, providing more discounts for middle-income families in purchasing small and medium-sized units. The ultimate goal of the housing policy is to ease the economic burden on citizens and accelerating the formation of an Olive-shaped Society when the middle class outnumbers the other classes.

Conclusion

Overall, the Hong Kong government's latest economic policies demonstrate the unified coordination between Hong Kong's economic development and the overall development of the country. Against the current backdrop of "promoting development through stability," Hong Kong will focus on enhancing the core competitiveness of advantageous industries such as finance, as well as vigorously promoting the development of the innovation and technology industry, to drive the economy towards a full recovery in this year. The fiscal measures introduced in the budget focus on the long-term future of the welfare of the people and the development of Hong Kong's economy, with forward-looking vision and practical content. It is believed that the implementation of the policy package will further strengthen Hong Kong's economy recovery momentum within the year and enhance the stability and development potentials in long-term.

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主要經濟指標 (Key Economic Indicators)

	2021	2022	2022/Q3	2022/Q4
一. 本地生產總值 GDP				
總量 (億元) GDP(\$100 Million)	28,677	28,270	7,244	7,389
升幅 (%) Change(%)	6.4	-3.5	-4.6	-4.2
二. 對外貿易 External Trade			2023/01	2023/01
外貿總值 (億元) Total trade(\$100 Million)				
總出口 Total exports	49,607	45,317	2,909	2,909
進口 Total imports	53,078	49,275	3,163	3,163
貿易差額 Trade balance	-3,471	-3,958	-264	-264
年增長率 (%) YOY Growth(%)				
總出口 Total exports	26.3	-8.6	-36.7	-36.7
進口 Imports	24.3	-7.2	-30.2	-30.2
三. 消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	1.6	1.9	2.4	2.4
四. 樓宇買賣 Sale & Purchase of Building Units			2023/02	2023/01-02
合約宗數 (宗) No. of agreements	96,133	59,619	5,980	10,407
年升幅 (%) Change(%)	31.1	-38.0	49.6	5.0
五. 勞動就業 Employment			2022/10-2022/12	2022/11-2023/01
失業人數 (萬人) Unemployed(ten thousands)	250.9	195.9	12.6	11.8
失業率 (%) Unemployment rate(%)	5.5	4.3	3.5	3.4
就業不足率 (%) Underemployment rate(%)	2.7	2.4	1.5	1.4
六. 零售市場 Retail Market			2023/01	2023/01
零售額升幅 (%) Change in value of total sales(%)	8.1	-0.9	7.0	7.0
零售量升幅 (%) Change in volume of total sales(%)	6.5	-3.4	5.1	5.1
七. 訪港遊客 Visitors				
總人數 (萬人次) arrivals (ten thousands)	9.1	60.5	49.9	49.9
年升幅 (%) Change(%)	-97.4	561.5	6,959.6	6,959.6
八. 金融市場 Financial Market			2022/12	2023/01
港幣匯價 (US\$100=HK\$)	779.8	780.8	780.8	783.9
H.K. Dollar Exchange Rate (US\$100 = HK\$)				
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	8.0	-20.7	-20.7	-20.2
M2	4.3	1.6	1.6	0.5
M3	4.3	1.6	1.6	0.5
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	4.6	1.7	1.7	0.4
港元存款 In HK\$	1.4	0.7	0.7	1.9
外幣存款 In foreign currency	7.9	2.6	2.6	-1.0
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	3.8	-3.0	-3.0	-2.6
當地放款 use in HK	4.7	-0.2	-0.2	0.7
海外放款 use outside HK	1.7	-10.0	-10.0	-10.4
貿易有關放款 Trade financing	14.2	-13.5	-13.5	-14.4
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.6250	5.6250	5.6250
恒生指數 Hang Seng index	23,398	19,781	19,781	21,842