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# The Government Budget Focuses on Strengthening Fiscal Foundations and Driving Sectoral Transformation through Innovation

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On February 26, 2025, the Financial Secretary, Mr Paul Chan, delivered the 2025-26 Budget under the theme "Accelerating Development through Reform and Innovation." The Budget emphasizes strengthening fiscal consolidation, reinforcing traditional strengths, promoting emerging industries, and accelerating the development of the Northern Metropolis. By investing in the future, it aims to enhance Hong Kong's overall competitiveness.

## I. Strengthening Public Finance Consolidation to Lay a Solid Foundation for Economic Development

### 1. Prioritizing Expenditure Reduction, Prudently Promoting Revenue Growth, and Ensuring Fiscal Stability

**Fiscal stability is the cornerstone of Hong Kong's long-term economic development. The Government adopts a strategy of "prioritizing expenditure reduction, supplemented by increasing revenue" to control spending while avoiding impacts on market vitality.** From 2019/20 to 2024/25, Hong Kong has experienced six fiscal years, five of which recorded deficits due to the Covid-19 pandemic, slowing economic growth, and reduced land sale revenues. The Government estimates that the consolidated fiscal deficit for 2024/25, after accounting for bond issuance and repayments, will reach HK$87.2 billion. Fiscal reserves have fallen to HK$647.3 billion, a nearly 45% decline from the historical high of HK$1.17 trillion six years ago. Facing persistent fiscal pressure, this year's Budget intensifies consolidation efforts with a series of measures to reduce expenditure and increase revenue. The strategy prioritizes expenditure cuts as the primary approach, with revenue increases as a supplementary measure (Table 1). This approach is appropriate given the current economic recovery phase and uncertain external environment, as introducing new taxes or raising tax rates could weaken residents' consumption capacity and businesses' investment willingness, thereby dampening economic growth momentum. In contrast, a strategy focused on reducing government expenditure can improve fiscal health without directly undermining market confidence, while supplementary revenue measures can be cautiously implemented without compromising Hong Kong's tax competitiveness, striking a balance between fiscal stability and economic growth. The Government

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Please follow BOCHK on WeChat for the latest economic and financial markets analyses projects that the consolidated deficit will gradually narrow, from HK$67 billion in 2025/26 to HK$16.8 billion in 2027/28, with surpluses resuming from 2028/29. Moving forward, whether further savings—through compressing infrastructure project costs, leveraging market resources for investment, and utilizing technology and process optimization—can accelerate the restoration of fiscal balance will be a key issue to watch.

**Table 1: Key Expenditure Reduction and Revenue Enhancing Measures Compared to Last Year**

| Direction | Measure | This Year's Budget | Last Year's Budget |
|---|---|---|---|
| Expenditure Reduction | Step up the Productivity Enhancement Programme | Cumulative reduction of Government recurrent expenditure by 7% over four years | Cumulative reduction of Government recurrent expenditure by 3% over three years |
| | Control of civil service expenditure | Reduction of approximately 10,000 posts within this term of Government; pay freeze for all executive authorities, the legislature, the judiciary and members of the District Councils | Zero growth in establishment |
| | Adjustments to transport subsidies | "$2 Scheme" revised to "$2 flat rate cum 80 per cent discount"; higher threshold for Public Transport Fare Subsidy Scheme; savings of HK$6.2 billion over five years | Review of the"$2 Scheme" and the Public Transport Fare Subsidy Scheme |
| | Adjustments to UGC-funded university grants | HK$68.1 billion over three years, saving HK$2.8 billion from the original allocation | HK$63.2 billion over three years |
| | Reduction in one-off relief measures ("handouts") | HK$7.86 billion | HK$11.5 billion |
| Revenue Increase | Adjustments to border departure fees | Increase air passenger departure tax from HK$120 to HK$200 per passenger; study on boundary facilities fee for private cars departing via land boundary control points; expected annual revenue of HK$2.6 billion | Not applicable |
| | Adjustments to government service and infrastructure fees | Including application and visa fees for various talent and capital investor admission schemes, and review of tunnel and trunk roads charges; expected annual revenue of HK$2.6 billion | Not applicable |
| | Implementation of OECD's global minimum tax under Base erosion and profit shifting | Estimated annual tax revenue remains the same at HK$15 billion | Expected to generate HK$15 billion annually from 2027/28 |

Sources: 2025-26 Government Budget, Hong Kong Financial Research Institute of Bank of China

### 2. Expanding Bond Issuance Scale, Enhancing Capital Efficiency, and Supporting Infrastructure Investment with Market Funds

To meet the substantial funding needs of future infrastructure investments, the Government is expanding its bond issuance scale to improve cash flow management efficiency and reduce short-term fiscal pressure. With the Northern

Metropolis projects progressively underway, infrastructure expenditure is expected to rise further in the coming years. Medium-term forecasts indicate that average annual capital works expenditure will increase by 33% from last year's estimate to approximately HK$120 billion. To support large-scale infrastructure projects, the Government plans to expand bond issuance and optimize cash flow management for Northern Metropolis-related projects. Under the Government Sustainable Bond Programme and the Infrastructure Bond Programme, the Government intends to issue bonds totaling HK$150 billion to HK$195 billion annually from 2025/26 to 2029/30, an increase of about HK$60 billion from the original plan of HK$95 billion to HK$135 billion per year. Additionally, the combined borrowing ceiling for these two programs will rise from HK$500 billion to HK$700 billion, a 40% increase. Following this expansion, Hong Kong's government debt-to-GDP ratio is projected to range between approximately 12% and 16%, slightly higher than last year's medium-term estimate of 9% to 13%. If we classify the 41 advanced economies as defined by the International Monetary Fund by government debt-to-GDP ratios in 2024 (Table 2), even at the upper end of the government's medium-term forecast, Hong Kong's debt level remains significantly lower than most advanced economies.

**Table 2: Government Debt-to-GDP Ratios of Advanced Economies**

| Government Debt-to-GDP Ratio (%, 2024) | Number of Economies | Examples (Ratio) |
|---|---|---|
| 0-20 | 3 | Macao SAR (0), Hong Kong SAR (12-16) |
| 21-40 | 8 | Switzerland (32), Sweden (36) |
| 41-60 | 11 | Australia (49), South Korea (53) |
| 61-80 | 7 | Germany (63), Israel (68) |
| 81-100 | 2 | Finland (81), Portugal (94) |
| >100 | 10 | UK (102), US (121), Singapore (175) |

Sources: IMF, Hong Kong Financial Research Institute of Bank of China

## II. Consolidating and Enhancing the "Three Centres" Advantages and Promoting Emerging Industries

### 1. Continuously Deepening the International Financial Centre, Promoting Market Innovation and Connectivity

**The Budget's financial industry-related measures aim to reinforce capital market strengths, promote new areas of development, integrate traditional finance with digital technology, enhance regional connectivity, and boost Hong Kong's status as an international financial centre through promotion. First, it optimizes market systems and infrastructure to enhance liquidity and investment convenience.** A highlight is the first-time proposal to study an over-the-counter trading mechanism for delisted stocks, which would strengthen Hong Kong's OTC market, improve the capital market ecosystem, and enhance investor protection. Other measures focus on refining listing thresholds and approval processes, upgrading systems for T+1 settlement, improving the "board lot" trading unit system, increasing position limits for key index derivatives, and optimizing structured product issuance mechanisms. These initiatives will boost market efficiency and attract more enterprises and capital inflows. **Second, it emphasizes financial product innovation and market development. The Budget proposes regularizing tokenized bond issuance and studying legal and regulatory frameworks to promote tokenization in Hong**

**Kong's bond market.** To facilitate financing for specialist technology and biotech firms, the HKEX is preparing a "technology enterprises channel" to streamline listing applications. Additionally, the Government will release a second virtual asset policy statement, consult on licensing regimes for virtual asset OTC trading and custodian services within the year, and refine the regulatory framework. Other measures include enhancing tax incentives for asset and wealth management, proposing gold market development plans within the year, and extending the Insurance-linked Securities Grant Scheme for three years. **Third, it strengthens connectivity with the Mainland and promotes RMB internationalization,** with measures such as launching a Mainland-Hong Kong fast payment system interconnection by mid-year, introducing a RMB100 billion RMB trade financing liquidity arrangement, launching offshore government bond futures in Hong Kong, and including RMB trading counters in Stock Connect, further solidifying Hong Kong's role as a global offshore RMB hub. **Fourth, it enhances market promotion** through international forums, such as a flagship forum on fixed income and currency markets, the inaugural Hong Kong Global Finance and Industry Summit, and the third edition of the Wealth for Good in Hong Kong Summit, to boost Hong Kong's global influence and attract enterprises and capital.

### 2. Enhancing Trade and Maritime Competitiveness, Promoting Diversified Development

**The Budget proposes measures in trade, maritime, and key emerging industries to enhance Hong Kong's competitiveness as an international trade and maritime centre while fostering new economic drivers in aviation, healthcare, cultural and creative industries, tourism, and education. In trade,** the Government will continue promoting Hong Kong as a multinational supply chain management centre and study legislative amendments to facilitate electronic trade documentation, improving cross-border transaction efficiency. It is also negotiating investment and tax agreements with various countries to strengthen and expand Hong Kong's trade network. **In maritime,** the Government will establish the Hong Kong Maritime and Port Development Board to oversee industry research, training, and promotion, offering halved tax rates to qualified commodity traders to bolster the sector. Additionally, it will develop smart ports, allocating over HK$215 million to build a port community system to enhance information sharing among shipping, port, and logistics sectors, and accelerate logistics land development in the Northern Metropolis to support Greater Bay Area (GBA) supply chain collaboration. **In aviation,** the Airport City plan will expand commercial, arts, and tourism functions on the Airport Island, with proposals to establish Hong Kong as Asia's first centre for aircraft disassembly, parts recycling, processing, and trading. The Government will also support the C919 aircraft's entry into international markets, reinforcing Hong Kong's strategic role as an international aviation hub. For healthcare, cultural and creative industries, tourism, and education, the strategy focuses on improving systems, increasing resources, and promoting internationalization. **In healthcare,** reforms to drug and medical device regulations will attract international firms and innovations, alongside efforts to nurture local talent for sustainable growth. **Cultural and creative industries** will benefit from funding, enterprise attraction, and IP commercialization to boost competitiveness. **Tourism** will leverage "mega-event economy" and "tourism is everywhere" strategies, integrating smart tourism, cruise economy, waterfront development, and high-end market expansion to enhance appeal and economic benefits. **In education,** increased research funding and resource allocation will strengthen Hong Kong's position as an international higher education hub. These initiatives will help Hong Kong build a more competitive and sustainable industrial structure, integrating into regional and global economic development to unlock growth opportunities.

## III. Accelerating Northern Metropolis Development, Promoting Technological Innovation and High-Value Economy

**This year's Budget emphasizes artificial intelligence (AI) as a key industry, leveraging it to empower other sectors, while accelerating Northern Metropolis development.** Unlike last year's Budget, which mentioned "orderly and phased approach in developing the Northern Metropolis", this year's Budget dedicates separate sections to the Northern Metropolis and innovation and technology (I&T), signaling a more proactive approach with priority resource allocation. **First, it adopts a more diversified development model for the Northern Metropolis,** piloting tenders for three zones starting in the second half of this year. Developers winning these projects will undertake comprehensive development, including land preparation and infrastructure, while the government focuses on overall planning and oversight, streamlining land development, shortening timelines, and accelerating infrastructure and industrial deployment. **Second, it leverages market forces** by inviting private development proposals for suitable sites in the Hetao Co-operation Zone's Hong Kong Park this year, introducing funds and enterprise resources to expedite progress. **Third, it increases resources for preparatory work,** including HK$3.7 billion to expedite the provision of infrastructure and public facilities of Phase 1 development of the Hong Kong Park, the HKSTPC's master planning study for San Tin Technopole (due Q3 this year), rezoning completion for Sandy Ridge Data Park by middle of this year, identifying sites for conference and exhibition facilities, and starting feasibility and design studies for the Hong Kong-Shenzhen Western Rail Link (Hung Shui Kiu to Qianhai) and detailed planning and design for the Northern Link Spur Line within the year, enhancing regional connectivity. In I&T, the Budget focuses on cultivating new quality productive forces, proposing measures to reinforce Hong Kong's edge in technological transformation. AI is identified as a core industry, with strong support for life and health technology and the low-altitude economy. The Government underscores technology's strategic value in upgrading traditional industries, enhancing competitiveness and value-add across sectors. Overall, the Budget's Northern Metropolis and I&T policies aim to accelerate development through a more efficient land development model, a more flexible market participation mechanism, and more targeted resource allocation, while leveraging AI to boost industrial competitiveness and economic resilience.

## IV. Proactively Adapting to External Volatility, Strengthening Domestic Drivers for High-Quality Development

**Amid external uncertainties, Hong Kong seeks new growth drivers through industrial upgrading, technological innovation, and regional cooperation.** In 2024, Hong Kong's economy grew 2.5% in real terms, with the government forecasting moderate growth of 2-3% in 2025, below the pre-pandemic 10-year average of 2.9%. Medium-term projections suggest an average annual growth of 2.9% from 2026 to 2029, aligning with pre-pandemic levels. The increasingly complex global trade environment, heightened geopolitical tensions, and rising protectionism disrupting global supply chains and investment flows, posing challenges to external demand growth. To break through such constraints, Hong Kong must enhance domestic drivers and economic resilience by building a more competitive model through technological innovation. From a policy perspective, the Northern Metropolis and emerging industries will serve as key growth engines. The Government is accelerating technological innovation and deepening industrial transformation, promoting AI, life and health technology, and the low-altitude economy while also supporting the transition of traditional industries toward higher value-added activities. These efforts will help enhance Hong Kong's overall economic competitiveness, maintain its strategic advantages in a shifting global economic landscape, and drive high-quality economic development.

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# 主要經濟指標 (Key Economic Indicators)

| 一、本地生產總值 GDP | 2022 | 2023 | 2024 | 2024/Q4 |
|---|---|---|---|---|
| 總量 ( 億港元 ) GDP(HKD 100million) | 28,090 | 29,010 | 29,729 | 7,810 |
| 同比增長率 (%) YoY change(%) | -3.7 | 3.3 | 2.5 | 2.4 |
| **二、對外商品貿易 External merchandize trade** | | | **2025/1** | **2024/1-12** |
| 外貿總值 ( 億港元 ) Total trade(HKD 100million) | | | | |
| 總出口 Total exports | 45,317 | 41,774 | 3,891 | 45,424 |
| 總進口 Total imports | 49,275 | 46,450 | 3,870 | 49,221 |
| 貿易差額 Trade balance | -3,958 | -4,676 | 21.0 | -3,797 |
| 年增長率 (%) YoY Growth(%) | | | | |
| 總出口 Total exports | -8.6 | -7.8 | -4.3 | 8.7 |
| 總進口 Imports | -7.2 | -5.7 | -12.3 | 6.0 |
| **三、消費物價 Consumer Price** | | | | |
| 綜合消費物價升幅 (%) Change in Composite CPI(%) | 1.9 | 2.1 | 2.0 | 1.7 |
| **四、零售市場 Retail market** | | | | |
| 零售額同比升幅 (%) Change in value of total sales YoY(%) | -0.9 | 16.2 | -3.2 | -9.7 |
| **五、訪港遊客 Visitors** | | | | |
| 總人數 ( 萬人次 ) Total arrivals(10 thousands) | 60.5 | 3,400.0 | 474.2 | 4,450.3 |
| 年升幅 (%) YoY change(%) | 561.5 | 5,523.8 | 24.0 | 30.9 |
| **六、勞動就業 Employment** | | | **2024/11-2025/1** | **2024/12-2025/2** |
| 失業人數 ( 萬人 ) No. of unemployed(10 thousands) | 16.3 | 11.3 | 11.0 | 11.2 |
| 失業率 (%) Unemployment rate(%) | 4.3 | 2.9 | 3.1 | 3.2 |
| 就業不足率 (%) Underemployment rate(%) | 2.3 | 1.1 | 1.1 | 1.1 |
| **七、住宅買賣 Domestic property sales and price index** | | | **2024/12** | **2025/1** |
| 合約宗數 ( 宗 ) No. of agreements | 45,050 | 43,002 | 4,103 | 3,626 |
| 住宅售價指數 (1999=100) Domestic price index | 369.7 | 337.4 | 288.9 | 287.6 |
| **八、金融市場 Financial market** | | | **2025/1** | **2025/2** |
| 港幣匯價 (US$100=HK$) 期末值<br>HKD exchange rate (US$100 = HK$), end of period | 780.8 | 781.1 | 779.1 | 778.0 |
| 銀行體系收市總結餘 ( 億港元 ) 期末值<br>Closing aggregate balance(HKD 100million), end of period | 962.5 | 449.5 | 446.4 | 447.0 |
| 銀行總存款升幅 (%)<br>Change in total deposits(%) | 1.7 | 5.1 | 1.4 | - |
| 銀行總貸款升幅 (%)<br>Change in total loans & advances(%) | -3.0 | -3.6 | -0.2 | - |
| 最優惠貸款利率 (%) 期末值<br>Best lending rate (%), end of period | 5.6250 | 5.8750 | 5.2500 | 5.2500 |
| 恒生指數 Hang Seng Index | 19,781 | 17,047 | 20,225 | 22,941 |