

# 2025-26 Budget

## Briefing for Legislative Council

27 February 2025



# 2025-26 Budget

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**Budget and Support Measures**

**Public Finance Management Strategies**

**Medium Range Forecast**



# Budget and Support Measures



# 2025-26 Budget Highlights

- (1) Strengthening Foundation to Accelerate Development
- (2) Upholding Principles and Innovation, and Cultivating New Quality Productive Forces
- (3) Innovation and Technology, Northern Metropolis
- (4) Strengthening Industries with Competitive Edge, Talent Hub
- (5) Enhancing Collaboration with Cities in the Greater Bay Area
- (6) Accelerating Green Development
- (7) Land and Housing Supply, Infrastructure Development
- (8) A Caring and Inclusive Community
- (9) Public Finance, Reinforcing Fiscal Consolidation Programme

# Economic Indicators

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|                         | <b>2023</b>   | <b>2024</b>   | <b>2025</b>     |
|-------------------------|---------------|---------------|-----------------|
| <i>(Rate of change)</i> | <b>Actual</b> | <b>Actual</b> | <b>Forecast</b> |
| Real GDP                | 3.2%          | 2.5%          | 2% - 3%         |
| Nominal GDP             | 6.2%          | 6.5%          | 5.5% - 6.5%     |
| Underlying CCPI         | 1.7%          | 1.1%          | 1.5%            |

# 2024-25 Revised Estimate

*\$ billion*

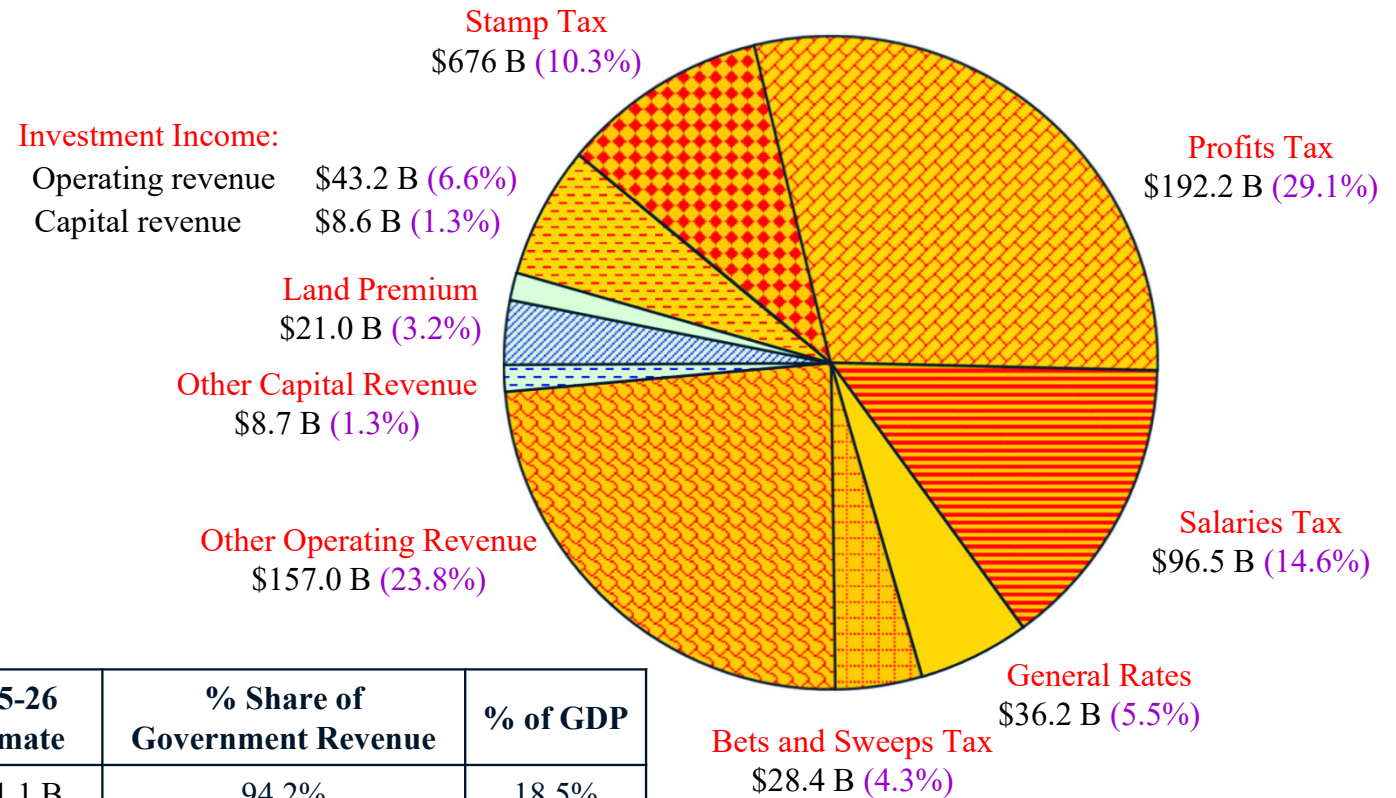
|  | <b>Original<br/>Estimate</b> | <b>Revised<br/>Estimate</b> | <b>Variance</b> |
|--|------------------------------|-----------------------------|-----------------|
| Government revenue   | 633.0                        | 559.6                       | (73.4)          |
| Government expenditure   | (776.9)                      | (754.7)                     | 22.2            |
| Consolidated deficit before issuance and repayment of Government Bonds | (143.9)                      | (195.1)                     | (51.2)          |
| <i>Operating deficit</i>   | <i>(33.1)</i>                | <i>(73.1)</i>               | <i>(40.0)</i>   |
| <i>Capital deficit</i>   | <i>(110.8)</i>               | <i>(122.0)</i>              | <i>(11.2)</i>   |
| Proceeds from issuance of Government Bonds                             | 120.0                        | 130                         | 10              |
| Repayment of Government Bonds  | (24.2)                       | (22.1)                      | 2.1             |
| Consolidated deficit after issuance and repayment of Government Bonds  | (48.1)                       | (87.2)                      | (39.1)          |
| Forecast balance of fiscal reserves as at end-March 2025               | 686.4 <sup>#</sup>           | 647.3                       | (39.1)          |


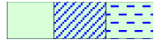
# The forecast fiscal reserves balance is revised to take into account the actual results in 2023-24

# 2025-26 Estimate

|  | <i>\$ billion</i>    |
|--|----------------------|
| Government revenue   | 659.4                |
| Government expenditure   | (822.3)              |
| Consolidated deficit before issuance and repayment of Government Bonds | <u>(162.9)</u>       |
| <i>Operating deficit</i>   | <i>(3.1)</i>         |
| <i>Capital deficit</i>   | <i>(159.8)</i>       |
| Proceeds from issuance of Government Bonds                             | 150.0                |
| Repayment of Government Bonds  | (54.1)               |
| Consolidated deficit after issuance and repayment of Government Bonds  | <u><u>(67.0)</u></u> |
| Forecast balance of fiscal reserves as at end-March 2026               | 580.3                |

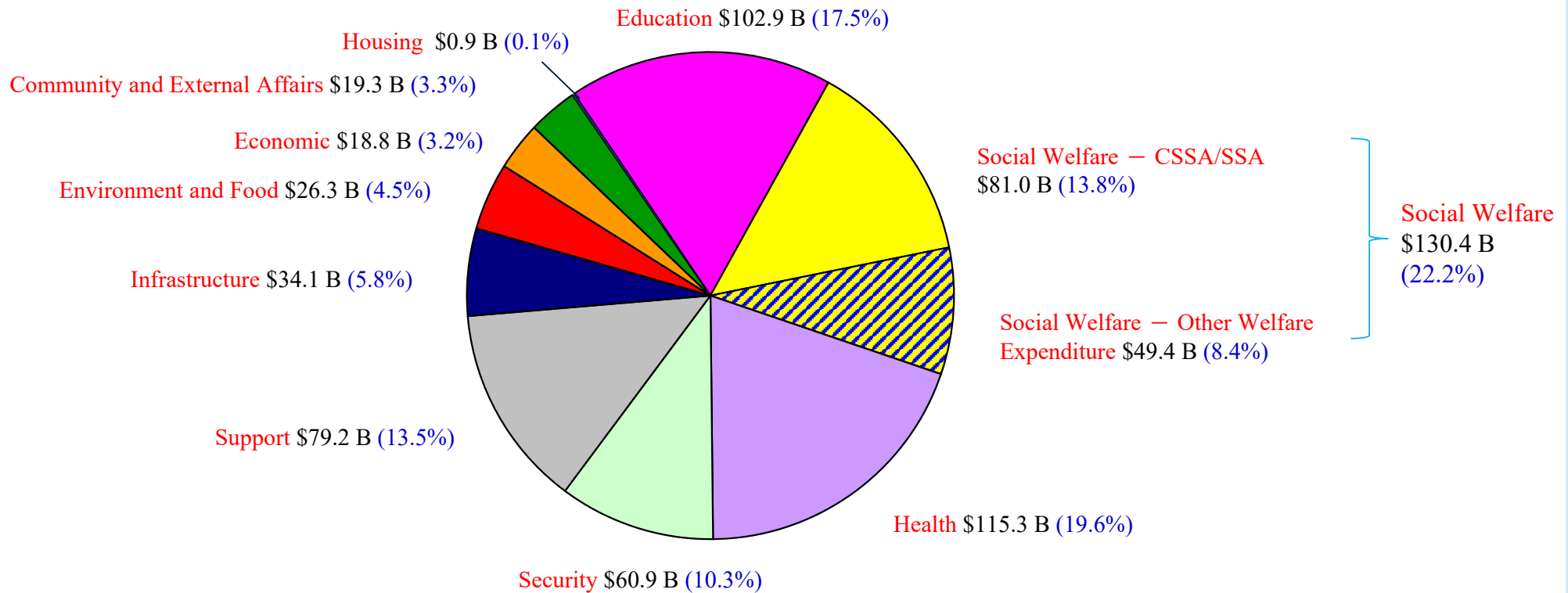
# 2025-26 Revenue Estimates



|  | 2025-26 Estimate | % Share of Government Revenue | % of GDP     |
|--|------------------|-------------------------------|--------------|
|  Operating Revenue | \$621.1 B        | 94.2%                         | 18.5%        |
|  Capital Revenue   | \$38.3 B         | 5.8%                          | 1.1%         |
| <b>Total</b>   | <b>\$659.4 B</b> | <b>100%</b>                   | <b>19.6%</b> |



# 2025-26 Recurrent Expenditure Estimates



Recurrent government expenditure: \$588.1 billion (71.5% of total government expenditure of \$822.3 billion)  
 Increase of 4.5% against 2024-25 Revised Estimate

# Support Measures

|   | Implications |
|---|--------------|
| 1. Provide rates concession for domestic and non-domestic properties for the first quarter of 2025/26<br>(subject to a ceiling of \$500 for each rateable property)                   | \$1.7 B      |
| 2. Reduce salaries tax, tax under personal assessment and profits tax for the year of assessment 2024/25 by 100%<br>(subject to a ceiling of \$1,500)                                 | \$3.1 B      |
| 3. Provide an equivalent of half month extra allowance to eligible recipients of social security payments and apply similar arrangements to the Working Family Allowance (WFA) Scheme | \$3.1 B      |
| 4. Adjust the value band of the \$100 ad valorem stamp duty payable for the sale and purchase of residential and non-residential properties from \$3 million to \$4 million           | \$0.4 B      |

An aerial photograph of the Hong Kong skyline, featuring several prominent skyscrapers. The Bank of China Tower is the central focus, with its distinctive white lattice structure. To its right is the International Finance Centre (IFC) with its rounded top. The Victoria Harbour is visible in the background, with other buildings and the city extending to the hills. The sky is clear and blue.

# Public Finance Management Strategies

# Two Major Accounts For Government Revenue and Expenditure

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## Government Consolidated Account

### Operating Account

- Various types of tax revenue
- Investment income
- Government fees and charges
- Government's daily expenses

### Capital Account

- Land-related revenue
- Infrastructure works projects expenditures
- Land acquisition

# Fiscal Targets For Two Major Accounts

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## Government Consolidated Account

### Operating Account

- Keeping expenditure within the limits of revenues
- With a target of achieving a surplus

### Capital Account

- Expenditure is investment for the future
- Meeting the needs for social and economic development

# Government's Fiscal Targets

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- **Operating Account** will return to a surplus starting from 2026-27
- Level of deficit of the **Capital Account** will decline year on year
- **Consolidated Account** will return to a surplus starting from 2028-29

# Public Finance Management

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## Reinforcing Fiscal Consolidation Programme

- Managing expenditure growth (Government will lead by example)
- Making good use of the Government's fiscal resources
- Identifying new revenue resources ("user pays" and the "affordable users pay" principles)



## Bond Issuance

# Reinforcing Fiscal Consolidation Programme

## Strictly Contain the Growth of Government Expenditure

- Step up the Productivity Enhancement Programme: To reduce recurrent government expenditure by 2% from 2025-26 to 2027-28  
(Using 2023-24 as the basis, a saving of around \$11.7B, \$19.5B and \$27.3B in each year)
- Reduce the civil service establishment by 2% each in 2026-27 and 2027-28  
(About 10 000 posts to be deleted within this term of Government)
- Reflect 2% reduction target each year in the Government's funding (\$68.1 billion) to the University Grants Committee-funded universities in the coming three years
- Comprehensive Social Security Assistance, Social Security Allowance and statutory expenditure not affected



# Reinforcing Fiscal Consolidation Programme

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## Strictly Contain the Growth of Government Expenditure (Cont')

- Enhance the \$2 Scheme and the Public Transport Fare Subsidy Scheme  
(Save \$6.2 billion in the coming five year)
- Review and enhance the Government's procurement regime
- Review the expenditures on social welfare, health and education
- The executive authorities, the legislature, the judiciary and members of the District Councils take a pay freeze  
(Saving of approximately \$2.9 billion for every 1% increase)

# Reinforcing Fiscal Consolidation Programme

## Consolidate and Optimise the Use of Government Financial Resources

- Bringing back six funds with relatively large unspent balance, totalling about \$62 billion to the Government's accounts in 2025-26



- Bringing back the remaining balance of about \$15 billion from the Anti-epidemic Fund to the Government's account  
(Already reflected in the revised estimate for 2024-25)

# Reinforcing Fiscal Consolidation Programme

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## Increase Revenue

- Increase the rate of air passenger departure tax from \$120 to \$200  
(Increase revenue by about \$1.6 billion per year)
- Introduce / increase the application fee and visa fees of various talent and capital investor admission schemes  
(Increase revenue by about \$620 million per annum)
- Review the tolls of relevant government tunnels and trunk roads, the annual licence fee for electric private cars, parking meter charges, as well as the fixed penalties for traffic offences  
(Increase revenue by about \$2 billion per annum)

# Reinforcing Fiscal Consolidation Programme

## Increase Revenue (cont')

- Explore introducing a boundary facilities fee on private cars departing via land boundary control points  
(Bring in revenue of about \$1 billion per annum by taking a fee of \$200 as an example)
- Implement the global minimum tax proposal drawn up by the Organisation for Economic Co-operation and Development to address base erosion and profit shifting  
(Bring in tax revenue of about \$15 billion starting from 2027-28)

# Bond Issuance

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- The capital works expenditure of the Government will start reaching its peak and is expected to increase to about \$120 billion per annum in the coming five-year
- Expand the scale of bond issuance: A total of about \$150 billion to \$195 billion worth of bonds will be issued each year during the coming five-year period
- Increase the existing borrowing ceiling level from \$500 billion to \$700 billion
- The ratio of government debt to GDP will stay at a prudent and manageable level (12% to 16.5%)
- Bond issuance will be used to invest in infrastructure, **but not to fund government recurrent expenditure**

# Medium Range Forecast



# 2025-26 Medium Range Forecast

| (\$ billion)  | 2025-26<br>Estimate | 2026-27<br>Forecast | 2027-28<br>Forecast | 2028-29<br>Forecast | 2029-30<br>Forecast |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Operating surplus / (deficit)   | (3.1)               | 28.4                | 41.0                | 42.3                | 55.8                |
| Capital deficit   | (159.8)             | (148.9)             | (118.5)             | (102.1)             | (87.6)              |
| Proceeds from issuance of government bonds                                    | 150.0               | 160.0               | 195.0               | 190.0               | 190.0               |
| Repayment of government bonds   | (54.1)              | (59.5)              | (134.3)             | (119.6)             | (133.2)             |
| <b>Consolidated surplus / (deficit) after issuance and repayment of bonds</b> | <b>(67.0)</b>       | <b>(20.0)</b>       | <b>(16.8)</b>       | <b>10.6</b>         | <b>25.0</b>         |
| <b>Fiscal reserves at 31 March</b>  | 580.3               | 560.3               | 543.5               | 554.1               | 579.1               |
| In terms of no. of months of government expenditure                           | 8                   | 8                   | 8                   | 8                   | 8                   |
| In terms of % of GDP  | 17.2%               | 15.8%               | 14.5%               | 14.0%               | 13.9%               |

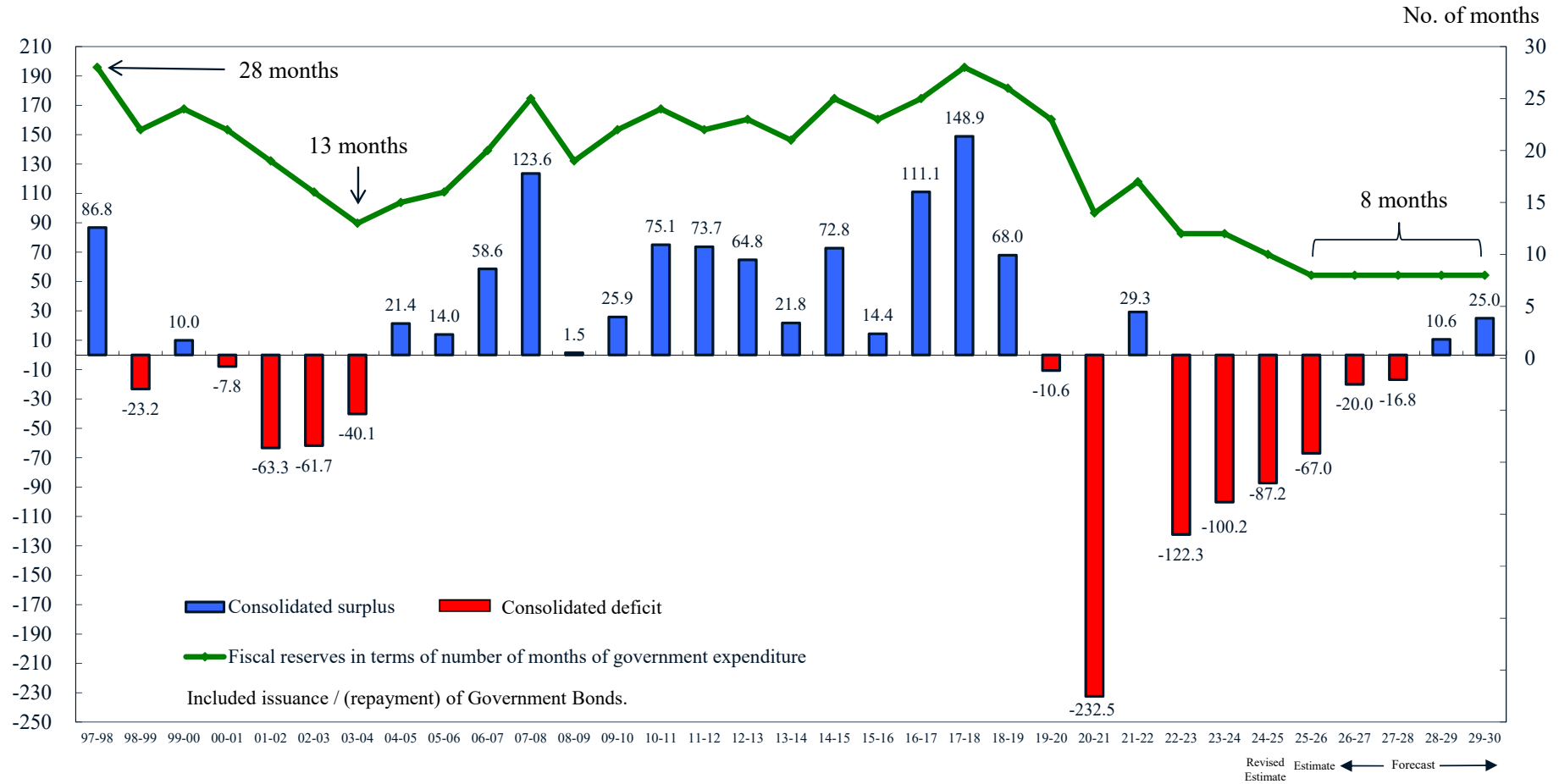
## Trend Growth

|                        | 2020-21 to<br>2025-26 Estimate | 2025-26 Estimate to<br>2029-30 Forecast |
|------------------------|--------------------------------|---|
| Government Revenue     | + 3.2%                         | + 6.2%                                  |
| Government Expenditure | + 0.2%                         | + 1.4%                                  |
| Nominal GDP            | +4.7%                          | +5.5%*                                  |

\* From 2026-27 to 2029-30, a real economic growth of 2.9% is assumed for the MRF.

# Fiscal Reserves

(in terms of number of months of government expenditure)







Thank you