

Executive Counsel Limited

Political Risk Report No.11: Political Aspects of the 2021-22 Budget

Unlike rest of the world, the Hong Kong economy in early 2020 was reeling from domestic social troubles when it was engulfed by the COVID-19 pandemic. A year from then, today's 2021-2022 Budget aims to aid the recovery of Hong Kong economy. Loaded with a large dose of realism in the expectation of five more years of fiscal deficit, the Budget contained all the necessary balance sheet and income and expenditure figures and a healthy degree of prudence.

We will leave the many assurance professionals and economists to discuss the potential impact of the Budget details and deficit, the latter, which is the highest in the history of Hong Kong. However, we believe, from a political perspective, to the Financial Secretary, such an environment has allowed him to showcase this year's Budget with a hint of his blueprint for Hong Kong, bolted on for good measure.

Amongst the numbers, in this year's Budget, Mr. Chan boldly proposed some future directions for the Hong Kong economy that makes the Budget looks somewhat like a Policy Address or even a whispered manifesto. Indeed, whilst many of the indicated directions are nothing new around the globe, new directions like a green and sustainable finance, with industrial-scale green bond issuance, which he sees as making up for Budget shortfalls and contributing to combat climate change. Also pushing at an open door is the promotion of electric cars and the acceleration of digitalisation of government and business, which a both timely and required for Hong Kong and are worldwide trends. However, whilst some ideas may be more suitable for a Policy Address than a Budget, and the whole Budget speech also gave people a feeling that we could have witnessed the first Chief Executive (CE) electioneering speech of Chan rather than his ordinary beancounter's Budget speech.

Unlike last year's giveaways, there are no direct transfer of HK\$10,000 to each Hong Kong citizen's account. To gain support from the public, especially the grassroots and lower middle classes suffering the current economic hardship, the former accountant has initiated measures like Special 100% Loan Guarantee for Individuals Scheme which allow those unemployed to apply for a temporary loan up to \$80,000 and the basic working hours for Working Family Allowance Scheme were also lowered by half for one year (from 144 hours to 72 hours). These measures can offer some immediate and short-term economic help for grassroots in Hong Kong, a key election constituent.

The Financial Secretary has also stood up against many who warned him against increasing the Stamp Duty on stock transfer by raising the rate from 0.1% to 0.13%. Hong Kong Exchanges and Clearing Limited immediately expressed their disappointment and their stock price (HKG: 0388) was down nearly 10% today (24 Feb, 2021). Moreover, Mr Chan also raised the First Registration Tax for private cars

by 15% and the vehicle license fee by 30%, which counters the unfettered growth of private cars on Hong Kong's already over congested roads. Such policies obviously target the more affluent in society, which can possibly earn him the reputation for standing up firmly for the needy and to the narrowing of the wealth gap. Ultimately, the public may even be happy enough with his Budget plan and future view to support a bid for CE in 2022, were he and Beijing to be keen.

The last sentences of Chan's Budget "Together we will build a better Hong Kong" may have hinted at Chan's desire for the CE position, and this year's Budget delivered a vision of the Hong Kong he would like to turn into in the future. From that same perspective it may be less of a leap to consider last year's Policy Address and its "relaunching Hong Kong" theme as Mrs Lam's own re-election manifesto for another four-year term.

So quite possibly at least two contestants for the next CE may now have covertly launched their own 2022 election campaign, such that other likely contestants may now feel emboldened to show their hand and throw their hats into the ring in the next weeks and months. However, going forwards we will need to wait a while to see who would be a better fit for Hong Kong people and Beijing.

*Word Count: 703

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