

## The AFP View of the 2011/12 Hong Kong Budget

### Introduction

The Financial Secretary, Mr. John Tsang Chun-Wah, delivered his fourth budget to the Legislative Council on 23 February 2011 and the AFP Group provides this commentary with the aim of helping clients understand the effects the budget may have on their personal circumstances and business interests, as well as Hong Kong society in general.

For 2010/11 Hong Kong recorded a budget surplus of \$39 billion, compared to a forecast deficit of \$25.2 billion and Mr. Tsang is optimistic about Hong Kong's economy but emphasised the need to contain inflation and asset bubbles. Following the 2009 downturn the economy staged a full recovery in 2010 at a faster pace than expected. This was on the back of strong growth in Mainland China and Asia and resulted in the economy surpassing pre-financial tsunami levels with GDP growing by 6.8% in real terms in 2010.

Although the Hong Kong economy is in the early stages of its recovery, Mr. Tsang warned that the road ahead may not be smooth. Specifically, he warned that whilst the European and US economies have returned to positive growth, their labour markets have yet to improve and their financial systems are still impaired. It remains uncertain what effects the end of the government stimulus measures will have on the global economy, although Mr. Tsang remains confident that the return to a stronger growth in the Mainland economy may offset the fragile economic recovery in overseas markets. However, in the short term, one of the main challenges facing Hong Kong is the risk of asset-price bubbles in the domestic property market.

Hong Kong's 2010 exports of goods rose by 17.3% in real terms, regaining ground lost in the financial tsunami. As the employment market improved and income increased, private consumption expenditure showed significant growth of 5.8% in 2010, and overall investment registered growth of 8.1% with the benefit of improved business sentiment and the commencement of major infrastructure projects. It is expected that the economy will grow solidly in 2011.

Whilst the outlook is considered to be positive, Mr. Tsang warned that the economy still faces challenges in 2011. Due to the second round of "quantitative easing" in the U.S., the risk of inflation and asset-price bubbles has increased in Asia, and there is still the sovereign debt crisis in Europe that has not been fully resolved.

Mr. Tsang considers that the risk of inflation is mounting in Asia and with the soft U.S. dollar and likely sustained increases in global food and commodity prices, this will put more inflationary pressure on Hong Kong. Also, the continued rise in Mainland China food prices and local rentals are expected to have a more noticeable effect on Hong Kong's inflation in 2011. It is forecast that the headline and underlying inflation rates will be 4.5% for 2011.

In view of the socio-economic conditions currently affecting Hong Kong Mr. Tsang proposed increased spending on areas related to people's livelihood, education, health, social welfare and community building. Over \$40 billion of handouts were proposed.

Hong Kong's model of taxation and economic operation will continue unchanged. No changes to tax rates were announced, although increases in some allowances were proposed.

**- [Click here to view the full document](#)**

Click [here](#) to visit the official home page of the 2011/12 Hong Kong budget where you can view John Tsang's full speech.

Welcome to a special issue of the AFP Group Newsletter. Our review of the 2011/12 Hong Kong Budget.

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