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The 2025-26 Hong Kong Budget: Advancing economic growth with reform and innovation

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Deloitte China welcomes the series of measures in today's Hong Kong SAR Budget 2025-26 delivered by Financial Secretary Paul Chan, which aim to enhance competitive industries while unleashing "new quality productive forces" to accelerate economic growth. The Government expects a fiscal deficit of HKD87.2 billion for the FY2024-25, with fiscal reserves projected to be HKD647.3 billion by 31 March 2025. While adhering to the principle of prudent financial management, the Government anticipates achieving a balanced operating account from FY2025-26 onwards, with a return to fiscal surplus in the coming years.

Deloitte China Vice Chair and Government & Public Services Industry Leader Dr Norman Sze says, "This year's Budget strikes a careful balance between future economic development and fiscal sustainability. It pledges significant investments in major development initiatives and emerging industries, particularly accelerating the Northern Metropolis development and advancing innovation in AI and other technologies. Meanwhile, it introduces targeted measures to optimise government expenditure, including streamlining the civil service structure and certain social welfare spending, addressing public concerns about fiscal responsibility. The Budget's initiatives are a positive response to the Central Government's vision for Hong Kong to 'embrace reform, break new ground, and continuously innovate'.

"Hong Kong stands at a crucial juncture of economic transformation. Despite near-term fiscal challenges, we are now at an opportune moment to pursue proactive change and breakthrough developments. By fostering 'new quality productive forces', deepening integration with the mainland and expanding connections across international markets – particularly regions along the Belt and Road Initiative – Hong Kong is well-positioned to leverage its unique advantages within our country's development framework, creating broader horizons for future growth."

Deloitte China Southern Region Managing Partner Edward Au says, "The latest Budget demonstrates the Government's strong commitment to embracing, adapting to and driving change. We are particularly encouraged to see substantial resources being allocated to develop 'new quality productive forces', with a strategic focus on AI, life sciences, green technology and other emerging industries to accelerate Hong Kong's economic transformation. We also welcome the Government's proposal to expand bond issuance, leveraging market capital to fund major infrastructure projects, including the Northern Metropolis. These initiatives will help unlock Hong Kong's economic potential.

"We welcome the Government's various new measures to boost capital market liquidity and diversity, such as exploring the expansion of the GBA Cross-boundary Wealth Management Connect Scheme, promoting RMB-denominated stock trading and facilitating family office investments. These steps will enhance Hong Kong's connectivity with the GBA and global markets, reinforcing its status as an international financial centre. The Budget aligns with national strategies and maximises Hong Kong's unique role as a global financial bridge."

Deepening interconnectivity to enhance market vitality

Deloitte welcomes the ongoing modernization of Hong Kong's capital market through proactive enhancements in trading mechanisms, investment products, listing requirements and market structure. These initiatives strengthen Hong Kong's position as an international financial centre, deepen its connectivity with the mainland and global markets, and reinforce its role as a vital bridge between domestic and international capital flows.

Edward Au adds, "As the HKEX prepares for a dedicated 'technology enterprises channel' for technology enterprises with the SFC's support, we believe this initiative will further increase the efficiency and predictability of new economy enterprises seeking listings in Hong Kong. We recommend that the HKEX further leverage the expertise of professional intermediaries and provide timely guidelines and briefings to better support technology enterprises in their listing preparations and enhance market operational efficiency."

Regarding the proposed establishment of a post-delisting over-the-counter trading mechanism, Deloitte suggests the Government and regulatory authorities develop a clear regulatory framework with information disclosure standards. This would enhance market transparency and resilience, ultimately contributing to a more robust multi-tiered capital market in Hong Kong while promoting financial innovation and diversified development.

Targeted support for industries while enhancing fiscal consolidation

In this Budget, the Financial Secretary proposed to review the tax deduction arrangements for intellectual property (IP) rights, including the cost incurred in the acquisition of IP rights from associates, and lump sum licensing fees for the acquisition of the right to use IP. The Government also plans to introduce a bill into the Legislative Council for a half-tax concession for eligible commodity traders. These tax concessionary measures can enhance the competitiveness of Hong Kong's tax system and accelerate the development of related industries.

Deloitte China Tax Partner Polly Wan says, "The relaxation of IP-related tax deductions favours innovative technology enterprises. This policy not only encourages companies to invest more in R&D, but also enhances Hong Kong's image as an innovation hub. With the global emphasis on IP rights, such measures will help attract more international enterprises and investments, further promoting the development of IP trading in Hong Kong. The half-tax concession for international commodity traders will attract more traders to Hong Kong and enhance the city's position as a trade hub in Asia. It could also promote the development of the maritime service industry and create more employment opportunities for related sectors.

"These policies reflect the Government's emphasis on innovation and international trade, and its active pursuit of new growth opportunities in the context of globalisation. The implementation of these measures is expected to bring more economic opportunities to Hong Kong."

Boosting wealth management ecosystem to attract international funds

Deloitte Private Hong Kong Leader Anthony Lau says, "We are delighted to see Hong Kong's excellence in asset and wealth management, and particularly excited that the number of open-ended fund companies (OFCs) registered here has doubled in just the past year, while the number of Hong Kong-registered limited partnership funds (LPFs) has risen by 40%. To further boost the development of LPFs in Hong Kong, we propose that the Government refer to the grant scheme for Hong Kong OFCs to also provide funding support to Hong Kong LPFs who pay for eligible expenses charged by local professional service providers.

At the same time, with Singapore mentioning in its Budget that if a fund’s investment in locally-listed equities reaches a certain scale, the qualifying income of Singapore fund managers arising from the fund could be tax exempt, Deloitte recommends the Government also explore the provision of preferential tax treatment for fund management companies and single family offices in Hong Kong.

“We also welcome the Budget’s mention of enhancements to mutual market access with the mainland. Building on this foundation, we propose that the Government could explore the establishment of a 'Capital Investment Entrant Scheme (CIES) Connect'," **Lau** adds. “This would allow greater flexibility for high-net-worth individuals from the mainland to conduct cross-border investments via Hong Kong. Given the wealth of many CIES applicants is in the mainland, if there were a special cross-border investment channel for CIES applicants which mirrors the closed-loop fund flow arrangement under Cross-boundary Wealth Management Connect, we expect more individuals would be interested in applying for CIES.”

Enhancing regulatory framework for innovative growth

Deloitte also welcomes the Budget’s new measures to drive innovation in virtual asset and fintech. As an international financial centre, Hong Kong has a robust financial infrastructure and a diverse pool of professional talent, offering unique advantages for integrating digital and traditional economies.

Deloitte China Hong Kong Digital Asset Leader Robert Lui says, “Balancing facilitation with regulation, Hong Kong has actively supported the development of virtual assets and the Web3 industry in recent years. The Securities and Futures Commission recently introduced the ASPIRe roadmap, while the Budget announced plans to consult on licensing regimes for over-the-counter virtual asset trading and custodian services within the year. This demonstrates the Government’s commitment to enhancing the regulatory framework for sustainable growth.

“Furthermore, the Government will soon release its second policy statement on the development of virtual assets in Hong Kong, exploring how to combine Hong Kong’s strengths in traditional financial services with technological innovation in virtual assets. With strong policy support and growing market demand, Hong Kong’s financial services sector and other industries are expected to further embrace virtual asset innovation and foster more applications.”

Establishing regular tokenised bond issuances is a key step forward for Hong Kong. As public awareness increases, Deloitte would welcome further advances—such as security token offerings—being encouraged to diversify financial products, enhance capital market liquidity and expand fundraising avenues.

The recent success of major virtual asset events highlights Hong Kong’s ability to attract international stakeholders. With more global institutions, enterprises, and talent converging in Hong Kong, our city is well-positioned to bridge traditional finance and innovative technology, reinforcing its role as a global hub for virtual assets and Web3 while strengthening its status as an international financial centre.

Promoting intelligent manufacturing to accelerate industry upgrading

Deloitte Southern Region TMT Leader Bong Chan says, “Since the Government optimised the New Industrialisation Funding Scheme last year, we are pleased to see that many local manufacturing enterprises have shifted towards smart manufacturing and are in the process of receiving the funding. We have been continuously helping relevant enterprises in the application process. The Budget mentions a two-year Pilot Manufacturing and Production Line Upgrade Support Scheme (Manufacturing+), which will provide funding of up to HKD 250,000 each on a one-to-two matching basis to enterprises operating production lines in Hong Kong to support their formulation of smart production strategies and introduction of advanced technologies into existing production lines. This measure will benefit a growing number of enterprises, promote the use of new technologies in production lines and facilitate Hong Kong's overall economic growth.”

The Budget also mentions that the Hong Kong Investment Corporation has so far invested in over 90 technology enterprises engaging mainly in hard and core technology, life technology, new energy, and green technology. Deloitte will continue to leverage the advantages and expertise of its Innovation & Assets Development Center at the Science Park in Hong Kong, working closely to source and assist technology companies and investors to expand their businesses in Hong Kong, as well as assist in investment and related merger activities.”

Accelerating AI development to forge an innovation hub

Deloitte China Hong Kong Government & Public Sector Industry Leader Rita Chan says, “The latest Budget strategically aligns with both national priorities and global technological opportunities, introducing forward-thinking initiatives across various frontier industries, particularly AI. Key measures include deepening AI integration across sectors and establishing the Hong Kong AI Research and Development Institute. These strategic deployments and policies will inject powerful momentum into Hong Kong's new economic growth engines. By increasing investment in scientific research and furthering integration with the GBA, the Budget paves the way for Hong Kong to attract global talent, realise the innovative 'Hong Kong R&D, GBA Manufacturing' development model, and prove itself as an international showcase for ‘new quality productive forces.’”

Deloitte also welcomes the Government’s efforts in leveraging innovative technology to drive comprehensive digital transformation of public services, while supporting local manufacturers in their transition to smart manufacturing. The Government's proactive enhancement of digital processes in public works, coupled with AI-powered big data analytics, will reduce project delays and cost overruns while strengthening site safety and construction quality.

“We recommend further consolidation of existing digital infrastructure, including supercomputing capabilities, data centres and urban data networks, to establish Hong Kong as a regional innovation & technology hub and a world-leading smart city,” adds **Chan**.

Unleashing regional potential through innovative transformation

Deloitte welcomes the Government adopting a diversified model in the development of the Northern Metropolis to accelerate progress. By adopting a “proactive government, efficient market” approach, the Government can actively utilise market resources, participate in and collaborate with the market to drive the industrial development of the Northern Metropolis through future investments and industrialisation.

Deloitte China Strategy & Economic Advisory Partner Alvis Kong says, "For the recently announced 'Large Scale Land Disposal', we recommend engaging market participants from diverse backgrounds, particularly those with industry expertise and patient capital, to complement the development process. This collaborative effort would enable the leveraging of specialised knowledge and long-term investment capabilities, ensuring a more sustainable and comprehensive development strategy.

"On the other hand, the Government should further clarify the principle of 'industry-oriented' development for the Northern Metropolis, concentrating fiscal resources to accelerate the development of strategic infrastructure necessary for industrial advances and perfecting the innovative technology ecosystem. These strategic infrastructure projects focus on clarifying the main developing industries of the Northern Metropolis, including life and health sciences, AI and data science, advanced manufacturing, advanced construction and new energy, among others. They will provide the necessary facilities for these sectors, such as high-standard laboratories, sample storage centres, data-sharing platforms, supercomputing centres and smart factories, and essential transportation links and ecological protection facilities. By taking the lead, the Government can unlock the untapped development potential of the Northern Metropolis that the market might not fully understand. This can attract leading domestic and international companies to invest in Hong Kong, establishing their international headquarters, R&D centres and production lines here, thereby forming a complete industrial chain.

"We welcome the Government's proposal to leverage innovative construction technologies, such as efficient construction robots and digitisation of works, with a view to minimising the risk of delays and cost overruns, as well as achieving cost-effectiveness in the implementation of the Northern Metropolis and enhancing the productivity of the construction industry."

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