Hong Kong: Government plans continued fiscal consolidation with expanded bond issuance in FY2026/27

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Bottom line:

Hong Kong's Financial Secretary Paul Chan delivered the fiscal budget for FY2026/27 (which runs from April 1). The planned fiscal balance for FY2026/27 will be HK$22.1bn (around 0.6% of GDP, after adjusting for issuance and repayment of bonds and notes), vs. a fiscal surplus of HK$2.9bn (or 0.1% of GDP, according to the government's estimate) for FY2025/26. The current-year fiscal balance is expected to turn a surplus from the previously projected deficit, driven by larger-than-expected spending cuts and stronger stamp duty revenue amid improved property and equity markets. The government plans to modestly step up fiscal support in FY2026/27 mainly through one-off tax reliefs and higher tax allowances. Looking further ahead, the government projects modest surpluses over the next five years, thanks to continued fiscal consolidation and expanded government bond issuance. The government expects real GDP growth to be in the range of 2.5% yoy to 3.5% yoy in 2026 (vs. Bloomberg consensus and our forecast of 2.6%).

Main points:

Hong Kong's Financial Secretary Paul Chan introduced the FY2026/27 budget plan, which runs from April 1. The budget envisages a fiscal surplus of 0.6% of GDP, after adjusting for issuance and repayment of bonds and notes, vs. the HK$2.9bn surplus (0.1% of GDP) in the current fiscal year. The current-year fiscal balance is expected to turn a surplus from the previously projected deficit (2.0% of GDP), driven by larger-than-expected spending cuts and stronger stamp duty revenue amid improved property and equity markets (Exhibit 1).

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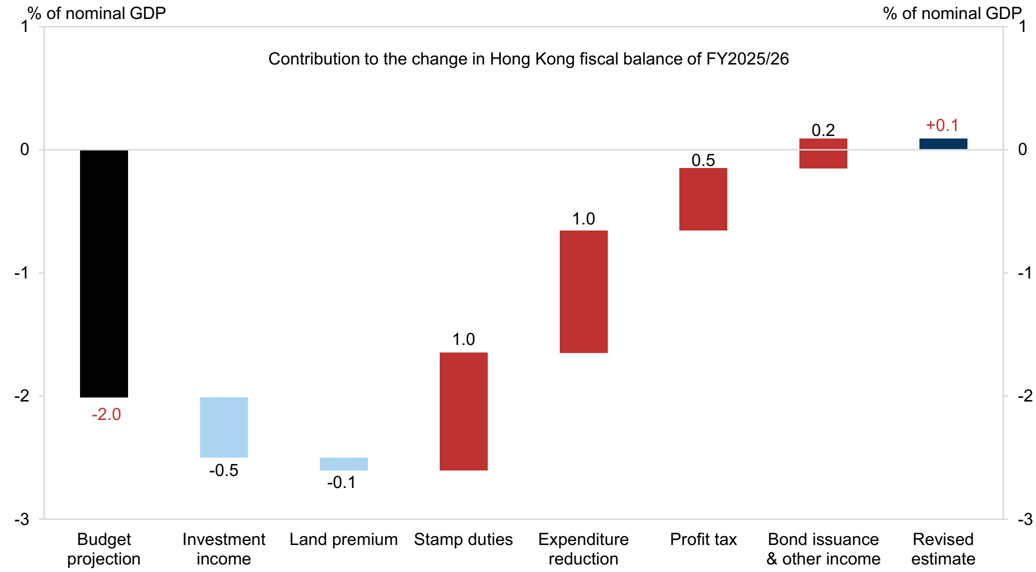
Exhibit 1: FY2025/26 fiscal balance revised to modest surplus from the previously projected 2% deficit on lower spending and stronger stamp duties



Source: Hong Kong Government, Data compiled by Goldman Sachs Global Investment Research

The government plans to roll out measures equivalent to around 0.6% of GDP to support households and corporates (vs. 0.2% in FY2025/26; Exhibit 2), which should modestly boost real GDP growth. The main fiscal measures for the upcoming fiscal year include:

- For enterprises, the government will rebate 100% of profits tax with a cap at HK$3,000 (vs. HK$1,500 previously), and provide rates concession with a cap of HK$500 for the first two quarters of FY2025/26 (vs. only the first quarter previously).
- For individuals, the government will rebate 100% of the salaries tax with a cap at HK$3,000 (vs. HK$1,500 previously), and provide rates concession with a cap of HK$500 for the first two quarters of FY2025/26 (vs. only the first quarter previously). The government will continue to give extra allowance to social security recipients.
- In addition, the government plans to raise various personal tax allowances, including basic, child and dependent parent allowances, and raise the deduction ceiling for elderly care expenses, starting from FY2026/27.

Exhibit 2: The government plans to modestly step up fiscal support in FY2026/27

Fiscal measures (% of nominal GDP)	2020	2021	2022	2023	2024	2025	2026
Support for household consumption	2.7	1.3	2.2	1.2	-	-	-
of which:							
Cash subsidy to eligible residents	2.7	-	-	-	-	-	-
Consumption vouchers to eligible residents	-	1.3	2.2	1.2	-	-	-
Support for employment	3.7	0.2	1.7	-	-	-	-
of which:							
Employment support scheme	3.4	-	1.4	-	-	-	-
Creating 30,000 temporary jobs	0.2	0.2	0.2	-	-	-	-
Other measures	4.2	1.3	2.2	0.8	0.4	0.2	0.6
of which:							
*Support measures for households and enterprises**	0.9	0.5	0.8	0.3	0.1	0.1	0.2
Reducing salaries tax	0.7	0.4	0.4	0.3	0.2	0.1	0.3
Subsidizing rates for residential properties	0.5	0.4	0.4	0.2	0.1	0.0	0.1
One-off government subsidies to industries impacted by the virus outbreak	2.1	-	0.6	-	-	-	-
Total	**10.5**	**2.8**	**6.1**	**2.0**	**0.4**	**0.2**	**0.6**

Note: The year shown in the column above refers to the fiscal year, not the calendar year.
* Relief measure includes profit tax rebate, rent reduction, water and electricity bills, rates concession, transportation subsidies, business registration fee waiver, etc.

Source: Hong Kong Government, Data compiled by Goldman Sachs Global Investment Research

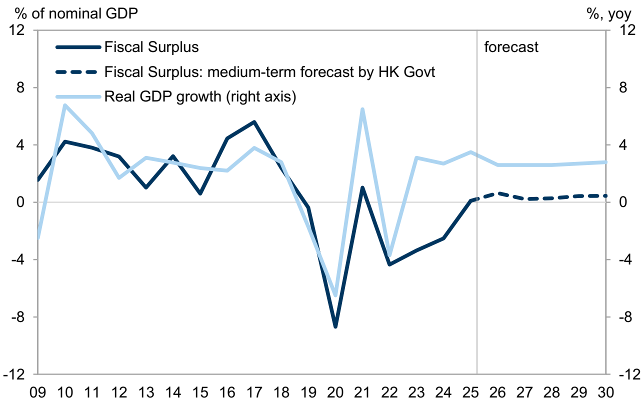
Looking further ahead, the government projects modest surpluses over the next five years, thanks to continued fiscal consolidation and expanded government bond issuance (Exhibit 3).[1] After excluding expanded bond issuance, the government still projects narrowing fiscal deficit for the next five fiscal years, from around 3% of GDP in FY2025/26 to 0.9% of GDP in FY2030/31. They will continue the consolidation measures outlined in the FY2025/26 Budget to contain expenditure growth and boost revenue. Specifically, it plans to cut recurrent expenditure by 2% per year for the next two fiscal years, raise stamp duty on high-end property (above HK$100mn transaction value), mobilize off-budget funds and surpluses, and introduce the global minimum tax for multinationals to curb profit shifting. As such, the government projects the fiscal reserves will gradually increase to HK$734bn in FY2030/31 (vs. HK$657bn expected on March 31, 2026). This amount will be equivalent to 10 months of fiscal expenditures.

The government also plans to issue more government bonds to support infrastructure spending and achieve fiscal surplus at the same time. Note that the Budget now projects infrastructure spending to grow by 9.1% yoy in FY2026/27 (vs. 20.7% yoy projected in the FY2025/26 Budget), stabilizing at around HKD$120bn per year. They plan to issue around HKD160-220bn government bonds per fiscal year under the Government Sustainable Bond program and the Infrastructure Bond program. The government strives to keep the government debt-to-GDP ratio relatively low (within 14.4% - 19.9% by FY2030/31 vs. 12.4% by the end of 2025; Exhibit 4).[2]

[1] Hong Kong government defines fiscal balance as fiscal revenue minus expenditure, plus net government bond issuance, which differs from the conventional budget balance measure.

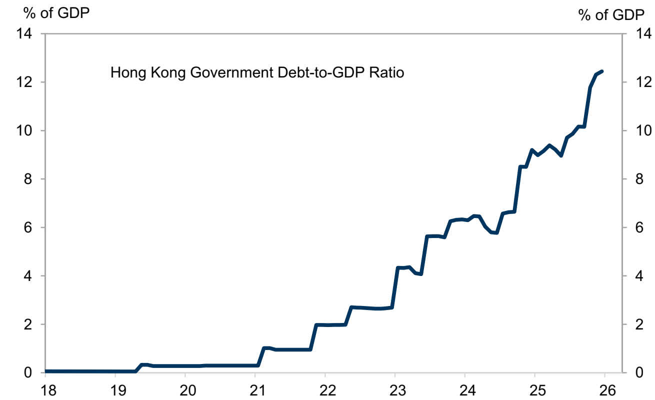
[2] The “government bonds” here refer to those under the Infrastructure Bond Program (IBP) and Government Sustainable Bond Program (GSBP). The government plans to raise the borrowing ceiling to HK$900bn from FY2026/27 (vs. HK$700bn in FY2025/26). Bonds issued under the Government Bond Program (GBP) are booked under the Bond Fund to help the development of the local bond market, and their proceedings are placed in the Exchange Fund for re-investment. Therefore, the bonds under GBP are not counted as government debt. The GBP is being gradually replaced by the IBP and GSBP.

Exhibit 3: Hong Kong government projects modest surpluses over the next five years



Source: Hong Kong Government, CEIC, Goldman Sachs Global Investment Research

Exhibit 4: Hong Kong government's debt-to-GDP ratio climbed over the past few years



Source: CEIC, Goldman Sachs Global Investment Research

On the economy, the government noted that activity continues to expand across major economies, with investment in AI and other new technologies expected to support regional trade growth, while also flagging downside risks from geopolitical tensions and a potentially slower-than-expected pace of Fed rate cuts. The government expects real GDP growth to be in the range of 2.5% yoy to 3.5% yoy in 2026 (vs. Bloomberg consensus and our forecast of 2.6%; Exhibit 5).

Exhibit 5: The government targets fiscal surplus of 0.6% of GDP in FY2026/27

	FY 2025/2026		FY 2026/2027	
	HK$bn	%GDP	HK$bn	%GDP
Revenue				
budget proj.	659.4	*19.6*	765.2	*22.0*
estimate	688.8	*20.4*		
Expenditure				
budget proj.	822.3	*24.4*	843.4	*24.2*
estimate	789.2	*23.4*		
Net bond issuance	103.3	*3.1*	100.3	*2.9*
Fiscal balance*				
budget proj.	-67.0	*-2.0*	22.1	*0.6*
estimate	2.9	*0.1*		
Memo items (for calendar year):		*2025#*		*2026*
Real GDP growth (%)				
Govt proj.		2.5		2.5-3.5
GS proj.				2.6

**after adjusting for issuance and repayment of bonds and notes*
 # figure in this column is the actual outturn

Source: Goldman Sachs Global Investment Research, Hong Kong Census and Statistics Bureau

To foster Hong Kong's long-term growth, the Budget outlines initiatives to cultivate new growth engines and reinforcing Hong Kong's position as an international financial center. On the former, the government plans to align with Mainland China's 15th Five-Year Plan to develop AI-related industries and high-tech manufacturing in Hong Kong. On the latter, they aim to advance RMB internationalization, promote digital assets, and build an international gold trading market in Hong Kong. On RMB internationalization, the government proposes a series of measures, including potential launch of offshore CGB future market, developing the Dim Sum bond market, improving offshore RMB yield curve formation, boosting RMB FX liquidity, and enhancing various cross-border Connect programs.

Xinquan Chen and Chelsea Song

Disclosure Appendix

Reg AC

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