Hong Kong
17 October 2024

2024 Policy Address: Consolidate edges and explore new growth areas

Keung Ching (Cindy)
Greater China Economist
cindyckeung@ocbc.com

- The 2024 Policy Address can be interpreted as a continuity of previous policy direction, though with more focus back on “prosperity” instead of “stability”. Overall speaking, it attempts to consolidate Hong Kong’s existing edges and search for new growth areas, while offering supports to selected sectors facing structural challenges.

- The most impactful policies were likely regarding the housing sector. Mortgage rules are eased further, with loan-to-value ratio for all residential property loans raised to 70%. Investment in residential properties is now allowed under the New Capital Investment Entrant Scheme, provided that the transaction price of the residential property concerned is no less than HKD50mn. Separately, Hong Kong government moved to phase out the subdivided units, which used to symbolize the city’s inadequate housing problem.

- There were an array of new initiatives to develop the local financial industries, including attracting new capital and products to the stock market. Meanwhile, for the first time, the authorities pushed to establish an international gold-trading market in Hong Kong.

Focus back to “prosperity”
Hong Kong’s Chief Executive John Lee delivered his third Policy Address on 16 October. The 2024 Policy Address can be interpreted as a continuity of previous policy direction, though with more focus back on “prosperity” instead of “stability”. Overall, it attempts to consolidate Hong Kong’s existing edges and search for new growth areas, while offering support to selected sectors facing structural challenges. On livelihood issues, the government plans to phase out the substandard sub-divided units and enhance the housing ladder.

The Policy Address laid out development plans for a wide range of industries, but the most impactful policies were likely regarding the housing sector. Several new ideas were also pitched, including “low-altitude economy” (i.e. economic activities in airspace below 1000m), and building of an International Gold Trading Market. However, the ideas seem more like feasibility studies or preliminary proposals than actionable plans in the current phase. Market reactions to the policy announcement are largely muted, with the Hang Seng Index down by 0.16% during the day. While the Hang Seng Properties Index rose by 1.9%, it may be driven by optimism related to potential stimulus measures for China’s property market.

Marginal step in bolstering the property market

The government proposed to further ease the mortgage rules, following the removal of all demand-side management measures early this year. The loan-to-value ratio for all residential property loans, regardless of use, will be raised to 70% (***Table 1***). Separately, investment in residential properties is now allowed under the New Capital Investment Entrant Scheme, provided that the transaction price of the residential property concerned is no less than HKD50 million. Previously, the permissible investment asset classes under the scheme only cover equities, debt securities etc.

These policies unequivocally benefit the luxury segment of the housing market but are considered to have limited impact on the overall sentiment. In fact, in the first nine months this year, less than 30% of the residential property transactions had a total consideration (i.e. property value) of HKD8 million or above. Near-term challenges in housing market remained, but we expect to see some stabilisation in the housing prices down the road, given the recent prime rate cut and easing of financial conditions. A more forceful rebound of prices will however require help from banks to loosen their mortgage scrutiny, while Hong Kong stays the course of economic recovery.

Table 1: Loan-to-value ratio caps for property mortgage loans

Property value	Before	After
Self-use		
≤ HK$30 million	70%	70%
> HK$30 million and ≤ HK$35 million	60-70%	
> HK$35 million	60%	
Non-self-use		
Regardless of value	60%	70%

Sources: Hong Kong Policy Address 2024, HKMA, OCBC

Enhancing the housing ladder

On public housing policies, the ratio between public rental housing (PRH) and subsidized sale flats (SSF) was adjusted from the current setting of 7:3 to 6:4. At the same time, further measures were put forward to encourage PRH tenants to buy units under the Home Ownership Scheme (HOS), with the tightened Well-off Tenants Policies, and the ratio between Green Form and White Form in respect of HOS flats revised from 4:6 to 5:5. On that note, young families and young single-person applicants below the age of 40 would be allocated with increased chances to ballot for HOS sale exercises.

Phasing out the subdivided units

Hong Kong government moved to phase out the subdivided units (SDUs), which used to symbolize the city’s inadequate housing problem. Under the proposed new legislation, SDUs have to meet a set of standards (include the provision of windows, an individual toilet, a floor area of no less than 8 square metres) and be recognized as Basic Housing Units by professionals before letting out. A grace period would be given to pre-existing SDU owners to make necessary conversion in order to meet these standards. It was however noted that “cage homes” or “coffin homes” will not fall under the remit of this legislation.

Sharpening the existing edges

One of the core focuses of the Policy Address was to consolidate and enhance the existing edges of local economy. To this end, there were an array of new initiatives to develop the financial industries, including:

- Setting up a central clearing system for RMB-denominated bond repo transactions
- Increase issuance of RMB bonds and RMB sovereign bonds
- Enhance the Cross-boundary Wealth Management Connect Scheme
- Expand night-time, cross-border service capability of RMB Real Time Gross Settlement System to facilitate global settlement
- HKEx to encourage more listed companies to have shares listed in the RMB stock trading counter
- Expand the Bond Connect (Southbound Trading)
- Encourage large-scale Mainland enterprises to list in Hong Kong
- Link the Faster Payment System (FPS) in Hong Kong and the Internet Banking Payment System (IBPS) in the mainland, to facilitate real-time, cross-boundary small-value payments by residents
- Add qualifying transactions eligible for tax concessions for funds and single-family offices

Meanwhile, for the first time, the authority introduced an initiative to establish an international gold-trading market, in a bid to enhance Hong Kong's capabilities in storage, trading, settlement and delivery of the precious metal.

Stepping up I&T investment

Another core focus of the Policy Address was exploring new growth areas. To answer this call, the Hong Kong government once again stepped up investment in research and innovation and technology (I&T) industries. A HKD10 billion I&T Industry-Oriented Fund to channel more market capital to invest in specified emerging and future industries of strategic importance (eg. life and health technology, AI and robotics, semi-conductors and smart devices, advanced materials and new energy). In addition, the third InnoHK research cluster with focuses on advanced manufacturing, materials, energy and sustainable development would be taken forward.

Supports to selected sectors facing structural challenges

Acknowledging the difficulties faced by the small-and-medium sized enterprises (SMEs) amid ongoing structural challenges, the government re-launched the principal moratorium arrangement, a Covid-era special relief measure for SMEs. Aside from that, the HKMA is also actively considering providing flexibility in banks' capital requirement to facilitate their lending to SMEs.

On a separate note, the government continued to support the retail and tourism industries, through organising more mega events and enabling more mainland tourists to visit. There were proposals on further enhancements of Mainland residents' tourism visit endorsements to Hong Kong, including resuming the "multiple-entry" Individual Visit Endorsements for Shenzhen residents and expanding the coverage of pilot cities for implementing policies on the "one trip per week" Individual Visit Endorsements. Meanwhile, the government also planned to cut tax levied on liquor with import price of HKD200 or above, from 100% to 10%, as part of plan to boost the "Night Economy".

Not the game changer

Grappled by weak consumption sentiment and more outbound travels by residents, Hong Kong's retail sales have been consistently weak. While the liquor tax cut and other tourism industry support measures could offer a one-off stimulus, they are unlikely to be an immediate game changer. Meanwhile, little was offered to revive investment confidence and stimulate consumption demand. As for structural challenges, the government continues to make progress in tackling housing problem (average waiting time for public rental housing fell from 6.1 years to 5.5 years), but the drive for economic transformation has yet to bear fruits. In the near term, the economic outlook still hinges on stimulus measures unveiled in China and further loosening of financial condition, and we keep our growth forecast for 2024 and 2025 unchanged at 2.4% and 2.2%.

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com