

Introduction

On February 25, the Financial Secretary, Mr John Tsang, has delivered the [2009-10 Budget Speech](#) at the Legislative Council. The original speech has been uploaded onto this web page: www.budget.gov.hk

Economy + Finance

HK-owned mainland factories extend holiday on lack of orders: Manufacturers say HK-owned factories on the mainland have extended workers' Lunar New Year holiday to early March in the face of declining overseas orders. Federation of HK Industries vice-chairman Stanley Lau said orders had fallen significantly in recent months amid the global economic turmoil. Mr Lau predicted difficulties may persist for six months. While the factories struggled, he said, many had opted to extend the Lunar New Year holiday to cut staff costs.

HK business activity shrinks for seventh month: Private-sector business activity in HK contracted for a seventh month in January as the volume of new orders plunged amid weak global demand, prompting companies to cut more jobs, a purchasing managers' survey showed. The survey's main index rose slightly for a second month but remained close to a five-and-a-half year low.

Negative equity soars: The number of HK homeowners in negative equity quadrupled to nearly 11,000 in the last quarter of 2008 as the financial crisis took its toll on property prices. And analysts expect the figure to double this year as property prices fall by a widely expected 10 to 15%.

Land revenue misses target by 63pc, says Lam: The HK government's land revenue, one of its main income sources, for the first nine months of this fiscal year will be almost 65% less than expected, Secretary for Development Carrie Lam said.

Weak home sales see property plays pounded: Property shares took a hit as home sales in HK slumped in January for the seventh straight month year on year. The grim figures came as the financial crisis pushed more homeowners into negative equity. Home sales last month plunged 67% to 4,875 deals from a year earlier, Land Registry data show.

Investor sentiment plunges further: Recent surveys have signalled that local investors are pulling back from the market and stashing cash in their savings accounts as they come to grips with news that the global economy may be sinking deeper into recession. ING's barometer of HK investor sentiment plunged further into negative territory last quarter, dropping from 79 to 62 on a scale of 0 to 200. Only Singapore and Thailand ranked lower in Asia excluding Japan.

Glut of unused containers as trade slumps: Officials are seeking a site to house the hundreds of thousands of unused shipping containers expected to flood HK in the next few months as the global financial crisis slows China's exports. The city's 17 big storage depots were full to their 160,000 capacity and cargo business was still falling fast. Container handling volume at HK's port fell 23% year on year in December. The number of empty containers handled rose 12.8%. Mainland imports in January fell 43.1%, and exports 17.5%, by value. HK's exports fell 11.4% year on year - the most since the September 11, 2001 attacks.

Officials downbeat on jobs and HK economy: Government officials painted a bleak picture of the year ahead for HK, saying the economy was most likely shrinking already and figures this week would show more people out of work. The officials also urged bosses to avoid sacking staff unless absolutely necessary. Secretary for Labour and Welfare Matthew Cheung Kin said 10,000 jobs had been lost since September, when the global financial meltdown began to bite, and the trend was set to continue.

Cargo volume in record fall at airport: Cargo volume at HK International Airport plunged 28.9% in January - the biggest drop since the airport opened in 1998 - the Airport Authority said. The airport handled 210,000 tonnes of cargo, down from 295,000 tonnes the same month last year.

Tang calls in top bosses as layoff rumors grow: A worried government has held talks with two of HK's top companies at the center of layoff rumors. Chief Secretary for Administration Henry Tang met PCCW chief financial officer Alex Arena and HSBC Asia Pacific chairman Vincent Cheng to express his concerns over the rumors, adding the administration fears there may be labor unrest if there are more layoffs.

Record fall in Peak home prices as global financial crisis bites: Property prices on The Peak slumped 41.4% in the final three months of last year compared with the previous quarter. The fall was the biggest on record in HK's luxury real estate market - worse even than during the 1997-98 East Asian financial crisis - underscoring the seriousness of the global economic slump.

Biggest rise in jobless rate since dotcom bubble burst: The unemployment rate last month rose half a percentage point to 4.6%, the highest level since October 2006, government data shows. The increase in January's jobless rate was the biggest month-on-month jump since November 2001, when unemployment reached 6% after the dotcom bubble burst. The rapid increase surprised many economists, who were predicting around 4.3% unemployment. Standard Chartered Bank economist Kelvin Lau said he expected the jobless rate to rise to 6% this year.

Crisis proves expensive for jewellery industry: HK's jewellery industry has lost some of its sparkle as a result of the global financial crisis. As the city prepares to host the HK International Jewellery Show next month, industry chiefs say exports to key markets in Europe and the United States dropped between 10 and 40% in the first two months of this year. And they are predicting a grim year ahead, despite the volume of exports from HK rising by 10% last year compared with 2007. Jewel traders say cracking new and emerging markets will be a priority in the coming year.

Bankruptcies up 37pc: Personal bankruptcies in HK last month were up 37.5% on those in January last year, further evidence that the effects of the global financial crisis are deepening. Last month's total far surpassed the 921 in January last year, and was the second highest since March 2004, when 1,296 were recorded.

Retail trading on HK bourse slumps to lowest in 17 years: Trading by local retail investors on the city's stock market last year dropped to the lowest level since records began in 1991, while the benchmark Hang Seng Index suffered its worst performance since the 1973 global market crash. The stock exchange said local retail investors represented just 26% of the market for the year to September last year, down from 28% a year earlier. This was the lowest since the bourse started collating the data in 1991.

Minibonds saga hurts Yam: HK Monetary Authority chief executive Joseph Yam said he is sad that the reputation of HK banks has been tarnished by the Lehman Brothers minibond fiasco, which remains unsettled. "What banks are doing in their banking business has been acceptable and the banking system is rather robust," Yam told legislators. "Only this issue has left them with a black mark, and I feel very distressed." However, he revealed that in early 2008 some banks did not follow the HKMA's guidance to adjust the ratings of investment products when they turned more risky.

Tsang gives HK a crisis cushion: The economy might contract by 2 to 3% in 2009 and the government expected to face five years of budget deficits, the financial secretary warned. Delivering his second budget, for the year 2009-10, John Tsang unveiled a HK\$10 billion package of measures aimed at cushioning the impact of the worst economic situation to hit HK since the Asian financial crisis in 1998. The measures include spending HK\$1.6 billion to create 61,760 jobs and giving each taxpayer a rebate of up to HK\$6,000. But Mr Tsang admitted the worsening situation prevented him from coming up with additional giveaways.

Employers despair at absence of immediate relief action: The near-absence of any mention of small and medium-sized enterprises in the budget left businesses disappointed, frustrated and desperate. There are mounting fears that without relief measures, scores of such firms, which account for about 98% of companies in HK and employ the bulk of the workforce, will be forced to go bankrupt or sack workers. Many in the business community were hoping for some concessions in profits tax, said Joe Chau, vice-president of the HK Chamber of Small and Medium Business. HK General Chamber of Commerce chairman Andrew Brandler said: "We felt this was the time to make bold, competitiveness-enhancing moves such as moving toward fiscal relief for SMEs, group loss relief and loss carry back." Under loss carry back, deficits in the current year could be used to offset profitable years in the past, resulting in tax refunds.

Local bond market set for massive lift: John Tsang unveiled a series of measures to promote the development of HK's bond market and improve the SAR's financial infrastructure in the aftermath of the Lehman Brothers minibond fiasco. The government will launch a program to issue sovereign bonds to provide more choices for institutional and retail investors. "In view of the current investment market conditions and low interest rates, we believe that there is a demand for quality bonds," Tsang said. A government source said the bond-issuance plan is not due to any fiscal problems, but solely aimed at deepening the bond market in HK.

HK takes world lead in office rental costs: HK overtook London as the most expensive place to rent offices last year, but the No 1 position may be fleeting as local landlords brace for a big decline in the market this year. A faster pace of decline in rents in Britain's capital helped HK gain the dubious honour for the first time in almost a decade. Although analysts forecast a stronger performance from the Asian property market than Europe or North America, HK is expected to suffer the biggest drop in office rents across the region, with the top position likely to be taken by Tokyo.

Crisis hits home - HK exports suffer biggest slump for 50 years: HK's exports suffered their biggest year-on-year decline in value in half a century last month, plunging 21.8% to HK\$187.8 billion as international trade dried up amid the deepening global downturn, government data shows. January's imports fared no better, falling 27.1% to HK\$180.5 billion. The last time HK's trade performance recorded such steep deterioration was in March 1958, when exports shrank 22.4%. A government spokesman said that while January's data was distorted by the Lunar New Year, it was clear the global economic crisis had severely affected HK's trade. "The short-term trade outlook is not promising, as many of HK's major markets are now deep in recession and the global financial crisis is still evolving," he said. David O'Rear, chief economist at the HK General Chamber of Commerce, warned of more negative news to come and that the recession was "a whole lot more serious".

New mortgages tumble: The value of new mortgages in HK fell last month by 62% year on year due to the economic downturn and rising unemployment. According to the HK Monetary Authority, new mortgage loans approved in January dived to HK\$11.2 billion from HK\$29.4 billion in the same month last year.

Domestic politics

Push to bring democratic reform under UN scrutiny: Human rights groups have urged the international community to show more concern over HK's pace of democratic reform and place the central and HK governments under the spotlight during the forthcoming UN hearing on the city's human rights situation.

Democratic Party vice-chairwoman Emily Lau, who will travel to Geneva for the Human Rights Council's review of China, said she was under no illusion that the UN review process would "bring democracy next week".

Britain accused of ignoring HK: Democratic Party deputy chairwoman Emily Lau accused the British government of ignoring HK's development. The lawmaker, attending the UN meeting in Geneva with two other activists, said Britain had been "disgraceful". "In its speech, the United Kingdom did not mention HK at all, not even one country, two systems," Ms Lau said. "It signed the Sino-British Joint Declaration. How can it simply miss out HK in the speech?"

Tsang accused of losing trust over poll U-turn: Pan-democrat lawmakers accused Chief Executive Donald Tsang of "bankrupting his credibility" with a U-turn that shelved a public consultation on constitutional reform. But government supporters voted down the motion after officials insisted focusing on the economy was more important at this stage than talking about universal suffrage.

Relations HK - Mainland China

Beijing defends new rules for HK and Macau media: Beijing said that new rules requiring HK and Macau-based journalists going to the mainland for work to obtain permits beforehand were not "backsliding" from previous arrangements. Under the new rules, journalists from the two cities going to the mainland for work must carry a permit from the central government's liaison office. It is issued by the All-China Journalists Association. HK and Macau correspondents based on the mainland are not affected.

Trade volume between Chinese mainland and HK drops 37 percent (People's Daily, 19.2.2009): According to statistics from the Department of Taiwan, HK and Macao Affairs of the Ministry of Commerce, the trade volume between Chinese mainland and HK in January this year was 9.99 billion USD, a decline of 37% year-on-year. Of which the Chinese mainland's exports to HK stood at 9.53 billion USD, a decline of 35.4% year-on-year, while Chinese mainland imports from HK was 460 million USD, a decrease of 57.8% year-on-year.

International affairs

Region could lead economic recovery: Asia could be the first region to recover from the current economic meltdown, said Sandy Flockhart, HSBC's Asia-Pacific chief executive. "The bad news is that we are experiencing a severe global economic downturn," he said. "Global gross domestic product could even shrink in 2009." The economic downturn has prompted governments around the world to introduce sweeping measures to stimulate growth. But he said that in Asia, countries such as China and India still have relatively higher growth rates than developed economies. Mr Flockhart expected Asia to emerge more quickly from the downturn, partly because it would be among the first to benefit from a recovery in global trade flows.

Transborder affairs

Guangdong braces for job-seeking hordes: Guangdong authorities are expecting millions of unemployed migrant workers to pour into the province in search of work, despite official warnings that the prospects are slim. Provincial labour authorities say 10.25 million migrant workers left for the Lunar New Year holiday, and of the 9.7 million expected to return soon, about 20% would find it extremely difficult to find work.

Proposal to relax delta travel restrictions: HK, Guangdong and Macau have agreed in principle that travel restrictions should be eased to allow more mainlanders to visit the two special administrative regions. The proposal seeks to extend the special scheme devised for Shenzhen residents, under which they can make multiple visits to HK within a year, to include all residents in Guangdong province.

Legal affairs and human rights

HKMA asks banks to allay deposit protection fears: Hundreds of thousands of worried bank clients will soon have their fears about the security of their deposits put to rest. A new guideline issued by the HK Monetary Authority aims to ensure all holders of integrated accounts are contacted - whether their savings are fully, partly or not covered. Previously there had only been a requirement to notify holders of unprotected deposits.

Macau denies it has entry blacklist: HK's secretary for security said that the government respected Macau's right to manage its own immigration controls and that he was assured there was no blacklist. His comment came as a photographer from this newspaper was denied entry to the city. Pan-democrats lambasted security chief Ambrose Lee for failing to stand up for HK people, noting that Mr Lee had only expressed "concern" over the matter.

Environment

Tax-break plan fails to put more green cars on the road: Tax breaks offered to buyers of environmentally friendly vehicles in an effort to improve air quality have failed, Environmental Protection Department figures show. In fact, the value of tax discounts given under one scheme is just 15% of what the government forecast when it was launched in April last year. That scheme allows buyers of commercial vehicles to save between 30 and 100% of first registration tax if they bought various classes of goods vehicles, taxis, light buses or non-franchised buses that meet the Euro V emissions standards. Just 196 vehicles have been registered under the scheme, representing tax forgone by the government of HK\$4 million, as opposed to the HK\$26 million annual budget for the programme.

Culture and education

Theatres fear crisis as ticket sales fall fast: The performing arts, which have seen a rise in attendance over the past few years, have been battered by the economic crisis, with audience numbers in sharp decline. Members of the arts community said that while the bigger groups were likely to ride out the crisis, smaller ones might not survive, and young artists might quit the theatre scene, leaving a gap that could hinder the development of performances for the West Kowloon Cultural District.

Macau

Pan-democrat fears blanket ban by Macau: Lawmaker Frederick Fung suspects that the Macau government has banned all pan-democrats from entering the former Portuguese colony. Fung, who is seen as one of the less radical pan-democrats, was denied entry to Macau. He became the fourth politician this year to be barred from entering Macau.

Macau denies entry to Post photographer: A South China Morning Post photographer was stopped from entering Macau - apparently the first time the city has barred a HK journalist. Felix Wong had been granted a Macau government permit to cover the trial of disgraced former secretary for transport and public works Ao Man-long. The Post lodged a strongly worded protest with Macau authorities.

Macau feels heat over barring of HK newsman: Pressure is mounting on the Macau authorities to give a full explanation of why they barred a HK newsman from entering the city to cover a major corruption trial. Chief Secretary for Administration Henry Tang expressed concern at the refusal to allow a South China Morning Post photographer to enter Macau. He said the government had contacted the Macau administration and hoped it could follow up the incident.

Varia

Tycoons hit hard as riches dwindle in financial crisis: The financial tsunami has swept away half the value of stocks and HK's 40 richest people saw their wealth fall to US\$82 billion from US\$179 billion last year. "Superman" Li Ka-shing of Cheung Kong (Holdings) still occupies the top spot, although his fortune dived from US\$32 billion to US\$16.2 billion.

HK population passes 7m on surge in births: HK's population finally passed 7 million last year, helped by a surge in births to a 25-year high. Net migration of 18,700 was the other factor in the 0.8% increase in the number of Hongkongers, to 7,008,900. A total of 78,674 babies were born in the city last year, but only 45,109 were born to native HK parents; another 7,228 have mainland mothers but HK fathers.

Press articles related to Switzerland and Swiss matters

Swiss Re gets 3b francs from Buffett (SCMP, 6.2.2009): Swiss Reinsurance, the world's second-biggest reinsurer, turned to Warren Buffett's Berkshire Hathaway for 3 billion Swiss francs to shore up capital depleted by record losses. The investment may give Berkshire a stake of more than 20% as Swiss Re struggles to keep its AA credit rating. The reinsurer fell as much as 18% after posting a loss of about 1 billion francs last year and announcing plans to cut the dividend.

UBS reports larger than expected 8.1b franc loss (SCMP, 11.2.2009): Swiss bank UBS said it made a larger than expected loss of 8.1 billion Swiss francs in the fourth quarter and it would cut a further 2,000 jobs as it refocused on its home market. The results fell short of analyst estimates of a net loss of 6.2 billion francs. A year earlier, Switzerland's biggest bank had reported a net profit of 1.33 billion francs. The latest results bring its full-year loss to 19.7 billion francs.

Credit Suisse posts loss of 6b francs on trading (SCMP, 12.2.2009): Credit Suisse Group, Switzerland's second-biggest bank, posted a fourth-quarter loss of 6.02 billion Swiss francs on wrong-way trading bets, and costs tied to cutting jobs and selling part of its fund unit. Analysts had estimated a deficit of 4.2 billion francs for the quarter.

UBS pact deals blow to Swiss bank secrecy (SCMP, 20.2.2009): Switzerland embarked on an uphill battle to retain its treasured banking secrecy, after UBS agreed to hand over client data to Washington in a landmark settlement of tax fraud charges. With observers fearing the deal marked the end of an era for the country's financial industry, Finance Minister Hans-Rudolf Merz said: "It is evident there has been tax fraud (at UBS) ... but bank secrecy will stay."

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