LCQ5: Measures to counter impacts of economic downturn
****

Following is a question by the Hon Paul Tse and a written reply by the Secretary for Commerce and Economic Development, Mr Gregory So, in the Legislative Council today (May 11):

Question:

The Hong Kong Monetary Authority announced on the 29th of last month that the number of residential mortgage loans in negative equity in the first quarter of this year was as high as 1 432, representing a sharp increase by 14 times when compared with that in the fourth quarter of last year. Some members of the industry expect that the number of such cases will further increase following the adjustments in property prices. Moreover, according to the survey findings of the "Standard Chartered Hong Kong SME Leading Business Index" for the latest quarter released by the Hong Kong Productivity Council on the 27th of last month, the business index concerned has dropped to a new record low. Nearly 20 per cent of the small and medium enterprises (SMEs) surveyed have indicated that they might wind up their businesses within one year should the economic downturn continue. Some reports have projected that probably some 60 000 SMEs would close down within this year and about 260 000 employees would join the unemployed population. There are views that the economic downturn will have a negative impact on job seeking by university students who will soon graduate. According to some academics' analyses, the reasons for SMEs being gloomy about their business prospects include, apart from the sluggish external economy, the tightening of issuance of Individual Visit Endorsements to Shenzhen permanent residents for visiting Hong Kong by the Mainland authorities, the implementation of various demand-side management measures by the Special Administrative Region Government for the property market (commonly known as "harsh measures"), and the current unstable political situation in Hong Kong. In this connection, will the Government inform this Council:

(1) whether, apart from the retail sector whose business prospects are being regarded as gloomy, the Government has studied the business indexes of the four major industries (i.e. financial services, logistics services, tourism and professional services) for the present time and the coming year; if it has, of the study outcome and whether those business indexes are regressing;

(2) whether it has assessed if the various relief measures implemented for various

industries in this year's Budget are sufficient to help enterprises tide over the economic trough; if it has assessed and the outcome is in the negative, whether the Financial Secretary will roll out more relief measures;

(3) whether it has assessed the impacts of the economic downturn on fresh graduates, and how the discontent with society bred among fresh graduates facing employment difficulties will affect the results of the Legislative Council Election in September this year; if it has, of the assessment outcome;

(4) whether it will consider reviewing the Non-means-tested Loan Scheme for Full-time Tertiary Students, with a view to extending the repayment period or waiving loan interests, so as to alleviate the financial burden on fresh graduates; and

(5) given that property prices have been falling gradually since September last year, whether the authorities will consider cancelling the various "harsh measures" and granting concessions on government rents to alleviate the financial burden on prospective home buyers and business operators; if they will, of the details?

Reply:

President,

Having consulted the Financial Services and Treasury Bureau, the Development Bureau, the Transport and Housing Bureau, the Education Bureau, the Economic Analysis and Business Facilitation Unit as well as the Labour Department, our reply to the five-part of the question is as follows:

(1) The Productivity Council has released since 2012 the Standard Chartered Hong Kong SME Leading Business Index, a forward-looking survey on local small and medium enterprises' (SMEs') outlook on the overall business environment for the next quarter. The Government has been closely observing the macro economic development and various economic statistics. Considering the global economic outlook, the Hong Kong economy is facing many challenges this year, including unfavourable factors such as slow growth in advanced economies and turbulence in the financial markets, etc. According to the Quarterly Business Tendency Survey for the second quarter published by Census and Statistics Department, business expectations among large enterprises remained cautious.

Facing an uncertain global economic outlook, the Government will continue to implement policies and measures to fortify and expand the economic base of Hong Kong, with a view to maintaining our overall competitiveness. Specifically, apart from continuing to expand and strengthen the four pillar industries (namely trading and logistics, tourism, financial services, and business and professional services) where Hong Kong enjoys an advantage, the Government will actively identify emerging industries with potential in order to promote diversified development of our economy, so that Hong Kong can better respond to the world's ever-changing economic environment. For this purpose, the Economic Development Commission (EDC) established in 2013 and led personally by the Chief Executive has been identifying industries which present opportunities for Hong Kong's further economic growth, with a view to recommending policies and other support measures to facilitate the sustained development of the industries concerned.

The four Working Groups under EDC (namely the Working Group on Transportation; the Working Group on Convention and Exhibition Industries and Tourism; the Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries (MICWG); and the Working Group on Professional Services) have submitted to EDC specific recommendations on promoting the development of the relevant industries, which were endorsed by EDC and accepted by the Government. Examples include refining the Innovation and Technology Fund, enhancing support for the post-production sector of the film industry, and promoting the development of the fashion industry. The Government is progressively implementing the recommendations and expects EDC to submit further specific recommendations.

(2) The 2016-17 Budget proposed a series of measures to stimulate the economy, support local enterprise, and protect employment, for example reducing the annual guarantee fee rate for the Special Concessionary Measures under the SME Financing Guarantee Scheme by 10 per cent; reducing profits tax for 2015-16 by 75 per cent, subject to a ceiling of $20,000; waiving business registration fees for 2016-17; waiving one-year licence fees for 1 800 travel agents, 2 000 hotels and guesthouses, as well as around 27 000 restaurants and operators etc. These measures would ease the burden on enterprises. The set of tax and short-term relief measures proposed by the Budget, together with other spending initiatives, will have a fiscal stimulus effect of boosting Gross Domestic Product by 1.1 per cent.

The Government will continue to closely monitor the changes in the economic situation.

(3) As for the labour market, in recent quarters, total employment witnessed a persistent moderation in year-on-year growth, while the number of job vacancies had also eased back from its peak, thereby casting a shadow over the local employment outlook. The Government will stay vigilant and closely monitor the labour market situation.

In addition, the Labour Department (LD) will continue to organise job fairs of different scales to provide employment and recruitment information in order to assist job-seekers, including students who choose to enter the employment market upon graduation, in seeking employment. To cater for the employment needs of secondary school graduates, LD has launched a special programme entitled "Career Let's go" from May to August this year. The special programme aims to assist the graduates in grasping the latest employment information, devising career plans and enhancing their employability through organising various types of job fairs, talks, interactive drama and a series of diversified pre-employment training and employment services under the Youth Employment and Training Programme.

(4) The non-means-tested loan schemes (NLS) (including the Non-means-tested Loan Scheme for Full-time Tertiary Students (NLSFT), Non-means-tested Loan Scheme for Post-secondary Students and Extended Non-means-tested Loan Scheme) aim at providing financial assistance for post-secondary students who do not wish or fail to go through the means test. They are different from the means-tested loan schemes which cater for students from low-income families who lack the means to pursue post-secondary studies. To ensure the proper use of public funds, the NLS operate on a no-gain-no-loss and full-cost-recovery basis. Interest is accrued upon loan drawdown until the loan is repaid in full.

The Government has implemented a package of improvement measures to reduce the repayment burden of students since the 2012-13 academic year. The risk-adjusted-factor rate has been reduced from 1.5 per cent to 0 per cent per annum (which is currently under review) and the current interest rate for non-means-tested loans is 1.282 per cent per annum. In addition, the standard loan repayment period has been extended from 10 years to 15 years. Moreover, under the relaxed deferment arrangement, loan borrowers who have difficulty in repaying their loans on grounds of financial hardship, further full-time studies or serious illness and have been granted approval for deferment of loan repayment are allowed an extension of the loan repayment period without interest during the approved deferment period, subject to a maximum of two years. Together with the standard repayment period of 15 years, the entire repayment period can be up to 17 years. On the other hand, the Government introduced, in the 2012-13 and 2013-14 Budgets, a measure to give loan borrowers who completed their studies in 2012 and 2013 the option to start repaying their student loans one year after completion of studies. Since the measure can effectively ease the financial pressure of fresh graduates and allow them more time to secure a stable job, it was announced in the 2014 Policy Address that the Government would make this measure a standing arrangement.

If interest is waived under the NLSFT, it would mean students who do not wish or fail to go through the means test could take out loans at zero cost from the Government. This would induce some students to take out the interest-free loans, potentially leading to unnecessary and/or excessive borrowing, and increasing the borrowers' repayment burden in the future.

Taking the above into account, the Government considers that the present arrangements of the repayment period and interest charging on non-means-tested loans are appropriate. Nevertheless, the Government will continue to monitor closely the repayment situation of loan borrowers and conduct a review when necessary.

(5) Government rent is the rent paid by all property owners to the Government under land leases in return for the right to hold and occupy the land. The Government currently has no intention to grant concession on Government rent.

Separately, although residential property prices and the transaction volume scaled back in recent months, imbalance persists between the supply and demand in the local property market. The current property prices remain at levels beyond the affordability of the general public. The home purchase affordability ratio (i.e. for a 45-square metre flat to median income of households (excluding those living in public housing), for a tenure of 20 years at the prevailing mortgage rate), at around 62 per cent in the fourth quarter last year, was still significantly higher than the long-term average of 46 per cent over the 20-year period 1995 to 2014. Therefore, the Government has no intention to withdraw the demand-side management measures at the moment. The Government will stay vigilant and prudent, and closely monitor the property market movements and ever-changing external conditions with reference to a series of indicators, including property prices, home purchase affordability ratio, transaction volume, flat supply, changes in local and global economies.

Ends/Wednesday, May 11, 2016
Issued at HKT 14:15