

立法會
Legislative Council

LC Paper No. CB(1)2316/06-07

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Ref : CB1/PL/FA/1

Panel on Financial Affairs

**Minutes of meeting
held on Monday, 4 June 2007 at 9:30 am
in the Chamber of the Legislative Council Building**

- Members present** : Hon CHAN Kam-lam, SBS, JP (Chairman)
Hon Bernard CHAN, GBS, JP (Deputy Chairman)
Hon James TIEN Pei-chun, GBS, JP
Hon Albert HO Chun-yan
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Dr Hon David LI Kwok-po, GBS, JP
Hon James TO Kun-sun
Hon Emily LAU Wai-hing, JP
Hon Abraham SHEK Lai-him, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon WONG Ting-kwong, BBS
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Hon TAM Heung-man
- Members attending** : Hon CHAN Yuen-han, JP
Hon WONG Kwok-hing, MH
Hon Alan LEONG Kah-kit, SC
Dr Hon Fernando CHEUNG Chiu-hung
- Member absent** : Hon SIN Chung-kai, JP

**Public officers
attending**

: Agenda Item IV

Mr Joseph YAM, GBS, JP
Chief Executive
Hong Kong Monetary Authority

Mr William RYBACK, JP
Deputy Chief Executive
Hong Kong Monetary Authority

Mr Y K CHOI, JP
Deputy Chief Executive
Hong Kong Monetary Authority

Mr Peter PANG, JP
Deputy Chief Executive
Hong Kong Monetary Authority

Agenda item V

Mr Henry TANG, GBS, JP
Financial Secretary

Mr K C KWOK, BBS, JP
Government Economist

Ms Vivian SUM
Administrative Assistant to Financial Secretary

Clerk in attendance:

Miss Polly YEUNG
Chief Council Secretary (1)5

Staff in attendance :

Ms Pauline NG
Assistant Secretary General 1

Ms Annette LAM
Senior Council Secretary (1)3

Ms Rosalind MA
Senior Council Secretary (1)8

Ms Sharon CHAN
Legislative Assistant (1)8

I. Confirmation of minutes of meeting and matters arising

(LC Paper No. CB(1)1776/06-07 —Minutes of special meeting on 27 March 2007

LC Paper No. CB(1)1777/06-07 —Minutes of meeting on 2 April 2007)

The minutes of the special meeting held on 27 March 2007 and the meeting held on 2 April 2007 were confirmed.

II. Information papers issued since the last meeting

(LC Paper No. CB(1)1753/06-07(01) —A letter dated 16 May 2007 from the Hong Kong Institute of Trade Mark Practitioners to the Secretary for Financial Services and the Treasury)

2. Members noted that the above paper had been issued for the Panel's information.

III. Date of next meeting and items for discussion

(LC Paper No. CB(1)1775/06-07(01) —List of outstanding items for discussion

LC Paper No. CB(1)1775/06-07(02) —List of follow-up actions

LC Paper No. CB(1)1809/06-07(01) —Letter dated 31 May 2007 from Hon Albert Ho)

Meeting in July 2007

3. Members agreed that the following items be scheduled for discussion at the next regular meeting to be held on Thursday, 5 July 2007:

- (a) Progress of the work of the Financial Reporting Council;
- (b) Issues related to the cooperation between the securities regulators of Hong Kong and the Mainland; and
- (c) Issues relating to the listing of companies which are incorporated outside Hong Kong.

4. Members noted that item (b) had been proposed by Mr Albert HO at the Panel meeting on 7 May 2007 and that the issues to be addressed had been set out

in Mr HO's letter dated 31 May 2007 (LC Paper No. CB(1)1809/06-07(01)). As for item (c), members noted that this had been proposed by Mr James TO and that the Hong Kong Exchanges and Clearing Limited had provided an information paper on the subject in March 2007 (LC Paper No. CB(1)1270/06-07(01)). To allow sufficient time for discussion of the above items, members agreed that the meeting on 5 July 2007 should start at 10:00 am.

(Post-meeting note: Pursuant to the advice of the Panel Chairman and in response to the concerns raised by the Newspaper Society of Hong Kong, the discussion item on "Electronic Disclosure Project launched by the Hong Kong Exchanges and Clearing Limited" had been added to the agenda for the meeting on 5 July 2007. The starting time of the meeting was advanced to 9:30 am. Members were informed of the meeting arrangements vide LC Paper No. CB(1)1848/06-07 on 6 June 2007.)

Conflict of interest issue involved in and after the listing of The Link Real Estate Investment Trust (Item 4 on the Panel's "List of outstanding items for discussion")

5. The Chairman recapped that after the last discussion of the above subject at the meeting on 3 April 2006, the Panel had agreed at the meeting on 14 December 2006 to invite Mr LEUNG Chin-man (former Permanent Secretary for Housing, Planning and Lands (Housing)) to attend a meeting of the Panel on a date convenient to him. The subject had since then been included in the Panel's "List of outstanding items for discussion". Members noted that so far, Mr LEUNG had not been able to ascertain his availability as he was not always in Hong Kong. He had also indicated that he had nothing to add to his letter of 7 December 2006. Members had been advised of Mr LEUNG's responses vide LC Paper No. CB(1)1025/06-07 on 27 February 2007.

6. In this connection, the Chairman sought members' views on whether and how the Panel should follow up the subject. Ms Emily LAU said that as the arrangement of inviting Mr LEUNG Chin-man to a Panel meeting was proposed by Mr James TO (who was not at the meeting at this juncture), his view would be relevant to how the subject should be followed up. The Chairman suggested and members agreed that a circular should be issued again to invite members' suggestions, if any, on the way forward. Subject to members' views, the Chairman would decide whether and how the subject should be followed up.

(Post-meeting note: LC Paper No. CB(1)1845/06-07 was issued on 5 June 2007 to invite members' views on the matter in paragraph 6 above. As the Secretariat had not received any further comments from members, the Chairman agreed that the item should be removed from the Panel's "List of outstanding items for discussion".)

IV. Briefing on the work of the Hong Kong Monetary Authority (including its 2006 Annual Report)

(LC Paper No. CB(1)1775/06-07(03) —Paper provided by the Hong Kong Monetary Authority (Updated version of pages 17a, 40 and 41 of the paper tabled at the meeting were issued to members vide LC Paper No. CB(1)1834/06-07 on 5 June 2007)

LC Paper No. CB(1)1464/06-07 —Hong Kong Monetary Authority Annual Report 2006

Briefing by the Hong Kong Monetary Authority

7. At the invitation of the Chairman, the Chief Executive of the Hong Kong Monetary Authority (CE/HKMA) gave a power-point presentation on HKMA's key areas of work, as follows:

- (a) On currency stability, the Hong Kong dollar exchange rate had softened slightly since February 2007, attributable to market participants taking advantage of the difference between Hong Kong dollar and the United States (US) interest rates and the conversion of Initial Public Offerings (IPOs) proceeds out of the Hong Kong dollar following a series of large IPOs. Since early 2007, the correlation between the 12-month Hong Kong dollar forward rate and 12-month renminbi (RMB) non-deliverable forward rate further diminished, reflecting increasing acceptance in financial markets that movements in RMB exchange rate were unlikely to affect the Hong Kong dollar's fixed link with the US dollar. This also reflected the efforts made by HKMA in managing market expectation, including the introduction of the three refinements to the Linked Exchange Rate (LER) System two months before the announcement of reform to the RMB exchange rate regime in 2005, and the frequent open discussions of the HKMA's objective assessment of the LER System.
- (b) Regarding interbank liquidity, the Aggregate Balance remained stable at around \$1.3 billion in 2007. At present, the Hong Kong interbank interest rates were lower than those of the US. A certain level of spread of Hong Kong dollar interest rates against US dollar interest rates was not inconsistent with a credible Convertibility Zone. HKMA did not see the need to carry out market operations to smooth the relationship between interest rate and exchange rate for the time being because the interest rate spreads had not created any abnormal or unhealthy impacts on the economy. However, HKMA would continue to closely monitor the development, particularly the relationship between the exchange rates and interest rates.
- (c) As to the implications of the Mainland's overheated economy on Hong Kong, the possibility of further macroeconomic

administrative measures in the Mainland could not be ruled out and their impact on the Hong Kong economy should not be underestimated. HKMA research suggested that Hong Kong would be resilient to Mainland shocks through the trade channel, but the impact through the financial channel would be more pronounced. It was highly probable that financial market volatility might increase suddenly and market participants should prepare themselves for managing the risks. On domestic factors affecting currency stability, the overall environment had been benign, but care should be taken to ensure that the currently buoyant IPO activities would not undermine risk management by individual investors, securities brokers, other market participants, and banks which provided credit facilities. All parties concerned should do more stress tests to assess their respective risks.

- (d) On currency notes, HKMA's strategy had been successful in achieving a speedy and orderly return of the 2000 and 2002 series Hongkong and Shanghai Banking Corporation (HSBC) \$1,000 banknotes following the emergence of counterfeit HSBC \$1,000 banknotes in March 2007. Up to the end of May, over 11 million (more than half) of the old series banknotes had been withdrawn from circulation. HKMA had kept the security features of the Hong Kong banknotes under constant review so as to stay ahead of the counterfeiters. HKMA had announced the trial issue of the HK\$10 polymer note in March 2007 and the new notes would be put into circulation in a few weeks' time.
- (e) On banking sector performance, the banking sector remained well capitalized. Net interest margin remained flat at 1.80% in the first quarter of 2007, reflecting a very competitive business environment in the banking sector. The number of residential mortgages in negative equity continued to decline, from 8 400 cases at the end of December 2006 to around 6 700 cases at the end of March 2007. The implementation of Basel II and the Anti-money Laundering and Counter Terrorist Financing initiatives were in good progress. On the oversight system for remittance agents and money changers, HKMA continued to assist the Government in the review. Since the launching of the Deposit Protection Scheme (DPS) in September 2006, the Hong Kong Deposit Protection Board had collected over HK\$390 million of contribution from Scheme members and was managing the DPS Fund in accordance with the relevant Ordinance.
- (f) Considering the large number of banks operating in the highly competitive environment in Hong Kong, it was natural to rely on the market to help harmonise the relationship between banks and their customers. But it was also understandable for the community to expect a certain level of corporate responsibility from the banks, since they were engaged in a licensed business under the Banking

Ordinance (Cap. 155) (BO). On matters affecting the livelihood of the community, HKMA's stance was that all parties concerned should be as pragmatic as possible. The Hong Kong Association of Banks (HKAB), which represented its member banks, and the various representative bodies of the community were encouraged to communicate more with each other. HKMA stood ready to assist if necessary.

- (g) On the financial market infrastructure, the objective of HKMA was to develop Hong Kong into a regional payment and settlement hub. In this connection, HKMA had developed a multi-currency real time gross settlement (RTGS) system for the US dollar, Euro and the Hong Kong dollar. HKMA was ready to include the renminbi into the system. The development of the Regional Cross-border Payment System was underway to use the US dollar and Euro payment systems to process cross-border payments in the region through Hong Kong. The link between Hong Kong's US dollar RTGS system and Malaysia's ringgit RTGS system was successfully launched on 13 November 2006. As planned, the establishment of RMB RTGS system in Hong Kong was completed on 26 February 2007, in preparation for the first RMB bond issue in Hong Kong.
- (h) On maintaining the status of Hong Kong as an international financial centre (IFC), HKMA's work focused on enhancing regional and Mainland cooperation. The financial systems of the Mainland and Hong Kong should work to further develop a mutually-assisting, complementary and interactive relationship, as urged by Premier WEN at the National Finance Working Meeting earlier this year. The expansion of the Qualified Domestic Institutional Investors (QDII) Scheme announced in May 2007 would open up a new channel for the orderly outflow of funds from the Mainland.
- (i) On management of the Exchange Fund (EF), it should be noted that EF was not a pure investment fund and its investment had to be consistent with the statutory objectives of the Fund : (i) to preserve capital; (ii) to ensure that the entire Monetary Base at all times would be fully backed by highly liquid US dollar denominated assets; (iii) to ensure sufficient liquidity for the purpose of maintaining monetary and financial stability; and (iv) subject to (i) – (iii), to achieve an investment return that would preserve the long-term purchasing power of the Fund. A proper evaluation of the investment performance of EF should be made by comparing the actual return of EF with the return of the benchmark portfolio.
- (j) For the first quarter of 2007, the net investment income of EF was \$18.4 billion and the Treasury's share was \$6.4 billion (based on the

previous sharing arrangement). Under the new fee arrangement announced by the Financial Secretary (FS) in his Budget Speech, which took effect on 1 April 2007, the fiscal reserves placed with EF would be paid an annual fee at a pre-determined rate fixed each year, being the higher of the average annual rate of return of EF's investment portfolio in the past six years, or the average annual yield of three-year EF Notes of the preceding year. The fixed rate for 2007 was 7%. The new fee arrangement would help make the estimate of investment income of the fiscal reserves more accurate.

Discussion

Impacts of the overheated Mainland economy on Hong Kong

8. Mr Andrew LEUNG expressed concern about the volatility of the Mainland stock market and whether the expansion of the QDII Scheme could provide an effective and adequate channel for the orderly outflow of the excess liquidity from the Mainland. He was also concerned that the capital outflow might have the adverse effect of passing on asset-price bubbles from the Mainland stock and capital markets into the Hong Kong markets.

9. CE/HKMA responded that although the process of the stock market development in the context of the socialist-market economy of the Mainland might cause concern from a free-market perspective, the Mainland authorities had adopted the policy of encouraging the orderly outflow of capital to address the issue. The expansion of the QDII Scheme was one of the measures to reduce excess liquidity on the Mainland with a view to cooling down the overheated stock and capital markets. CE/HKMA believed that if the expansion of the QDII Scheme was unable to achieve the intended objective, the Mainland authorities might consider further measures to expand the investment scope for Mainland investors. As to Mr LEUNG's concern about the impact on the Hong Kong stock market, CE/HKMA was of the view that the outflow of capital from the Mainland would unlikely create bubbles in the Hong Kong stock market, given its highly efficient price discovery mechanism and the high degree of international participation by overseas investors.

10. Noting Premier WEN's remark that the financial systems of the Mainland and Hong Kong should seek to develop a mutually-assisting, complementary and interactive relationship, Mr Andrew LEUNG enquired about HKMA's plans and measures in facilitating the development of such relationship. In response, CE/HKMA confirmed that HKMA stood ready to co-operate with the Mainland, such as through establishing and strengthening the position of Hong Kong as a link between the Mainland financial market and international fund raisers/investors. He pointed out that Hong Kong could contribute to the financial reform and liberalization on the Mainland while at the same time capitalize on the many potential business opportunities arising from the process.

11. Noting that according to HKMA's research, Hong Kong would be resilient to Mainland shocks (Chart 15), the Chairman was concerned about the impact of such shocks on the economy of Hong Kong and how Hong Kong would demonstrate its resilience. He also enquired about the possible impact on Hong Kong of shocks from other sources such as the weak US economy.

12. In this regard, CE/HKMA advised that HKMA had done research on the implications of fluctuations in Mainland macroeconomic variables on the economy of Hong Kong through the trade and financial market channels, and conducted relevant stress-testing. He pointed out that being an externally oriented economy, Hong Kong was more prone to the impact of other economies in Europe and US than to the Mainland economy. While simulations of large shocks from the Mainland showed that their effects on Hong Kong were relatively moderate compared with the hardship experienced by Hong Kong during the Asian financial crisis, uncertainties would arise from such shocks through the financial market channel as market sentiment was quite unpredictable. CE/HKMA therefore considered it crucial for stakeholders including HKMA, government officials, Members of the Legislative Council (LegCo) and market participants to engage in active discussion for better management of market expectations and risks.

13. Ms Emily LAU appreciated the need for more open discussion which could help manage market expectations, in particular for the purpose of reminding investors to be vigilant of market volatilities. She was however concerned about the impact of the higher degree of volatility transmission from the Mainland stock market as a result of the increasing share of Mainland stocks in the local equity market (Chart 16). In this connection, Ms LAU enquired whether and how stress-testing would help to assess the extent to which the financial system of Hong Kong was able to cope with the risks posed by stock market volatility. She also questioned whether, in addition to HKMA, financial institutions or individual investors should also conduct stress-testing.

14. In response, CE/HKMA said that it would be advisable for every investor to conduct stress tests to assess his own ability to cope with market volatility. Regular stress-testing was more important for financial intermediaries such as banks for risk management. He advised that stress tests could be conducted through devising different scenarios with variables such as changes in interest rates or movements in stock prices for the purpose of assessing how far the individual or institution could withstand market volatilities. CE/HKMA added that stress tests were conducted by HKMA and banks on a regular basis. Where the results of such tests indicated that banks were over-exposed to high-risk activities (e.g. holding a large number of high-risk financial products) to the extent that the solvency of the banking sector or individual banks would be at risk, HKMA would request the banks concerned to take necessary measures to manage or lower their risks.

15. Ms Emily LAU remained concerned about the resilience of Hong Kong to Mainland shocks through the financial market channel and further enquired about HKMA's assessment in this respect. Noting that both HKMA and financial

institutions such as banks would conduct stress-testing on a regular basis, Ms LAU enquired whether and how HKMA would disclose to the public the results of such tests and/or the actions it had taken to manage the risks detected.

16. In reply, CE/HKMA pointed out that given the rapid evolution and high volatility of the global financial market as seen from the decoupling of the US economy and the US stock market, market sentiment had become increasingly unpredictable. As such, possible shocks through the Mainland financial market channel would give rise to uncertainties. Regarding the disclosure of information on stress tests or risk management actions, CE/HKMA advised that HKMA had all along adopted a transparent approach in providing information to the public on its analyses and assessments of various risks to the financial market and the economy of Hong Kong, even before the issues had become a subject of public concern. For example, HKMA had introduced the three refinements to the LER System in May 2005 to remove uncertainty about the extent to which the exchange rate might strengthen, well before the announcement of the reform of the RMB exchange rate regime in July 2005. While HKMA aimed to maintain high transparency in its work, disclosure of information involving individual banks might be market sensitive and involve considerations on compliance with confidentiality requirements. He assured members that HKMA, as the regulator of the banking sector, had all along managed the systemic risks of the banking sector in a prudent manner.

Hong Kong's status as an international financial centre

17. While noting the close relationship between the financial markets of the Mainland and Hong Kong, Mr Albert HO was of the view that apart from benefiting from the business opportunities on the Mainland, Hong Kong should continue to boost its position in the international market, such as by establishing itself as an Asian bond centre. In this connection, Mr HO was concerned about HKMA's strategy for strengthening the position of Hong Kong as an IFC and how Hong Kong's role as an IFC could contribute to the development of the Mainland.

18. CE/HKMA said that maintaining the status of Hong Kong as an IFC was clearly stipulated in the Basic Law. In addition to facilitating co-operation with the Mainland, HKMA had continued its work in other areas to maintain the position of Hong Kong as IFC. These included development of the bond market in the region through the launch of the Asian Bond Fund (ABF)1 and ABF 2 in collaboration with central banks and monetary authorities in the region, and preparation for ABF 3. He pointed out that as an IFC, Hong Kong could serve as an important link between the financial market of the Mainland and international investors interested in the Mainland market. HKMA stood ready to work with Mainland authorities in facilitating the flows of capital into and out of the Mainland. A number of practical proposals in this regard had been included in the Report of the Focus Group on Financial Services under the Economic Summit on "China's 11th Five-Year Plan and Development of Hong Kong".

The Hong Kong dollar exchange rate

19. Mr Albert HO was concerned about the impact on the Hong Kong dollar exchange rate in the event that a floating exchange rate regime for RMB was introduced in the long run. In response, CE/HKMA said that as observed from the decoupling of RMB and the Hong Kong dollar spot and forward exchange rates, market participants had reckoned that the appreciation of RMB would not have a significant impact on the Hong Kong dollar exchange rate. As he had explained to the Panel at previous meetings, the business cycle synchronization was greater between Hong Kong and US than that between Hong Kong and the Mainland. The US dollar therefore remained as the appropriate anchor for the Hong Kong dollar. He said that no change to the current arrangement was envisaged in the foreseeable future.

20. Noting from Chart 9 of the power-point presentation material that HKMA did not see the need for market operations to smooth the relationship between interest rate and exchange rate for now, Miss TAM Heung-man was concerned whether the Hong Kong dollar interest rates would be under pressure for upward adjustment in the event of capital outflow from Hong Kong. In response, CE/HKMA explained that under the LER System, when the Hong Kong dollar exchange rate reached 7.85 Hong Kong dollar to one US dollar, the weak-side Convertibility Undertaking would be triggered under which HKMA would buy Hong Kong dollar from licensed banks at the rate of one US dollar to 7.85 Hong Kong dollars. The Aggregate Balance of Hong Kong dollar would decrease, thereby pushing up Hong Kong dollar interest rates to induce capital inflow to restore exchange rate stability.

Provision of banking services

21. Mr Ronny TONG recalled that LegCo Members had on a number of occasions expressed concern about the provision of basic banking services to the underprivileged. He was concerned that no significant progress had been seen and enquired about HKMA's effort in liaising with the banking sector for the provision of basic banking services.

22. CE/HKMA said that HKAB had met with the Panel on Financial Affairs to discuss issues relating to the provision of banking services. To follow up Members' concerns, HKAB had implemented a number of initiatives to facilitate access to banking services by underprivileged sectors of the population. These included the introduction of simplified Automatic Teller Machine screen and expansion of the coverage of retail outlets offering purchase-based cash withdrawal services with EPS facilities, with about 25% of these retail outlets being located in public housing estates.

23. Mr Ronny TONG opined that the cash withdrawal services at retail outlets could hardly meet the demand of the community for banking services such as cash deposit or large amount cash withdrawal. He considered that further information on the progress of HKAB's initiatives should be provided to the Panel to enable members to follow up the matter. In this connection, CE/HKMA and the

Chairman advised that HKAB had agreed at the last meeting with the Panel to provide a progress update in due course. As to Mr TONG's further enquiry about the role of HKMA in facilitating the implementation of the improvement initiatives, CE/HKMA said that the BO provided HKMA with the responsibility and powers for regulating and supervising banking activities to ensure the stability and soundness of Hong Kong's banking system. However, the legislation did not provide HKMA an explicit mandate to take up the responsibility of consumer protection. Nevertheless, HKMA had all along been supportive of initiatives to enhance consumer protection and the provision of banking services; and would be prepared to provide assistance in this regard where possible.

24. Mr Albert HO concurred that HKMA did not have a statutory role in safeguarding the consumer rights of bank customers. Notwithstanding, he recalled that HKMA had been involved in resolving consumer-related issues. Referring to the recent incident in which operators of the money changing and remittance business were refused banking services, Mr HO opined that the Administration should review the existing regulatory framework for the banking sector and examine measures to enhance consumer protection, in particular the provision of banking services to consumers with little or no bargaining power. He considered that if circumstances so warranted, the Administration should propose appropriate legislative amendments to provide HKMA with a clear statutory mandate in consumer protection. If necessary, HKMA should allocate additional resources to take up the enhanced role.

25. In this connection, CE/HKMA remarked that the subject raised by Mr Albert HO involved the question of corporate social responsibility and how far banks, as private enterprises, were expected to fulfil the responsibility. It should also be noted that some conflict might arise between the role of enhancing consumers' rights and that of prudential regulation of the banking system. Nevertheless, CE/HKMA said that he had an open mind on the subject and would welcome Members' views. Under the current regulatory regime, HKMA did not have the legal mandate to perform the role of a consumer watchdog. However, where necessary, HKMA would not hesitate to provide assistance in facilitating the parties concerned to formulate viable solutions. Responding to Mr Albert HO's further enquiry on the role of overseas banking regulators in safeguarding the consumer rights of bank customers, CE/HKMA informed members that HKMA had conducted a comparative study on the subject. At the request of Mr Albert HO, he would provide information on the study for members' reference.

Management of the Exchange Fund

26. Noting that FS had announced a revised income-sharing arrangement between the fiscal reserves and EF with effect from 1 April 2007, Miss TAM Heung-man enquired about the impact of the revised arrangement on the Treasury's share of the EF investment return. She was also concerned about the implications, if any, on the Treasury's share under the revised arrangement if the investment portfolio and strategy of EF was adjusted.

27. In response, CE/HKMA advised that under the revised income-sharing arrangement, the fiscal reserves placed with EF would be paid an annual fee at a pre-determined rate fixed each year, being the higher of the average annual rate of return of EF's investment portfolio in the past six years, or the average annual yield of three-year EF Notes of the preceding year. While the new arrangement would provide stability and predictability to the Treasury's share of the investment income, the effect arising from fluctuations in the investment return of EF on the income of the fiscal reserve would be spread over a longer period of time. He further pointed out that the benchmark portfolio for the investment of EF was determined by the Exchange Fund Advisory Committee (EFAC) under the chairmanship of FS. Both the investment portfolio and strategy were subject to ongoing review.

Currency notes and electronic money

28. Noting HKMA's plan on the trial issue of the HK\$10 polymer note, Mr WONG Ting-kwong sought information on the latest progress, including the publicity for the trial issue and whether the use of polymer note would be extended to other denominations. In response, CE/HKMA advised that preparatory work for the trial issue of the HK\$10 polymer note such as machine calibration and testing was in good progress and the new notes would be put into circulation shortly. On publicity, CE/HKMA said that education seminars were arranged for bank tellers, money changers and retailers. Extensive public education programme would be held to inform the public of the new security features and characteristics of the note. The performance and public acceptance of the new note would be assessed during the trial before deciding whether the polymer note would be extended to other denominations.

29. Referring to the recent incidents of failed Octopus EPS add-value transactions a few months ago, Mr WONG Ting-kwong enquired about the progress of the independent review and HKMA's regulatory actions, if any. In reply, CE/HKMA said that HKMA had required the Octopus Cards Limited (OCL) to commission an independent auditor under section 59(2) of BO to review the incident and to submit to HKMA a report on the review. The review undertaken by the auditor was underway and a report would be published for public perusal in due course. CE/HKMA added that HKMA had also appointed Prof CHAN Chi-fai as an Advisor to OCL.

Manpower resources at HKMA

30. Noting from the HKMA Annual Report 2006 that there were 30 vacancies in HKMA as at 1 January 2007 (Page 103 of the Annual Report), Ms Emily LAU was concerned whether HKMA was facing a loss of talent to the private sector and if so, the measures adopted to tackle the problem. In response, CE/HKMA said that HKMA was confronted by a drain of experienced personnel. For example, for the team involved in reserves management, more than three officers at the division head level or above had resigned and left HKMA in the past year or so. The manpower situation had been conveyed to the Governance Sub-committee of

EFAC for consideration. CE/HKMA also highlighted that while some officers were leaving HKMA for the private sector, some individuals previously working in the private sector had decided to join HKMA and remuneration was not their major consideration. As to Ms Emily LAU's further enquiry about the post-termination employment arrangements applicable to HKMA, CE/HKMA advised that guidelines governing these arrangements were in place and relevant information was available in HKMA's Annual Report. At the request of Ms Emily LAU, CE/HKMA agreed to provide the latest figures on the staffing establishment and strength of HKMA.

(Post-meeting note: The information provided by HKMA on its staffing and its comparative study on banking consumer protection and competition arrangements in the United Kingdom, Australia and Hong Kong in 2001 was issued to members vide LC Paper No. CB(1)2014/06-07 on 28 June 2007.)

V. Briefing by the Financial Secretary on Hong Kong's latest overall economic situation

(LC Paper No. CB(1)1660/06-07 —First Quarter Economic Report 2007 and the press release

LC Paper No. CB(1)1775/06-07(04) —Paper provided by the Administration

LC Paper No. CB(1)1835/06-07(01) —Powerpoint presentation material provided by the Administration (tabled at the meeting and soft copy issued to members on 4 June 2007))

31. At the invitation of the Chairman, the Government Economist (GE) gave a power-point presentation on the recent developments in the Hong Kong economy, the updated economic forecasts for the whole year of 2007 released by the Government in mid-May, and the economic outlook for 2007. The salient points highlighted in the presentation were as follows:

- (a) The Hong Kong economy continued to show broad-based growth in the first quarter of 2007. With domestic demand sustaining strong momentum and export performance staying resilient, the Gross Domestic Product (GDP) grew solidly by 5.6% in real terms in the first quarter over a year earlier. Since the upturn in mid-2003, the economy had been growing at above-trend pace for 14 consecutive quarters.

- (b) External demand held up well in the first quarter. Merchandise exports recorded a further notable growth at 8.2% in real terms in the first quarter. Trade flows involving the Mainland remained vibrant, largely offsetting the weakness in the US market. Export of services leaped by 8.4% led by the surge in exports of financial and business services and the brisk expansion of both offshore trade and inbound tourism.
- (c) On the domestic front, private consumption expenditure recorded a 5.6% notable growth in the first quarter on account of rising income, improving job market and generally buoyant stock market activity. Overall investment spending grew moderately further by 3.9% in the first quarter over a year earlier. Business sentiment still held up well generally as suggested by the results of the latest Quarterly Business Tendency Survey.
- (d) The overall building and construction activity was still slack, registering an 5.4% decline in the first quarter, dragged mainly by the continued fall-off in public-sector construction. Construction activity in the private sector, however, held largely stable.
- (e) In tandem with the economic upturn, the improvement in the labour market continued to be broad-based. The seasonally adjusted unemployment rate fell further to 4.3% in the three months ending April 2007, the lowest in more than eight and half years. The unemployment rate of lower-skilled workers fell from the peak of 10% in 2003 to 5% in the first quarter of 2007 while that for professional and managerial staff edged down from 3.8% in 2003 to 2.1% in the first quarter of 2007. A total of nearly 300 000 net additional jobs had been created since the trough in 2003. Wages and earnings picked up more notably in the fourth quarter of 2006.
- (f) Household income continued to improve, underpinned by further increases in job opportunities and labour earnings. The average household income at \$27,000 in the first quarter of 2007 was higher in money terms than a year earlier. However, the number of households with monthly household income below \$4,000 (low-income households) rose slightly by 1 000 or 0.6% over a year earlier to 176 600. This was primarily due to the rise in the number of economically inactive low-income households (i.e. with all of their members being economically inactive). The number of economically active low-income households (i.e. with at least one economically active household members) actually fell further due to the improvement in the employment situation for the lower-skilled workers. Analysis of the composition of low-income households in the first quarter of 2007 showed that more than two-thirds of the low-income households were one-person households, the majority of which were elderly persons aged 60 or above.

- (g) Inflation remained benign in the first quarter of 2007. The Composite Consumer Price Index (CCPI), averaged at 1.7% in the first quarter, due partly to the public housing rental waiver in February 2007, and edged down to 1.3% in April 2007. As to the inflation outlook, although the underlying inflationary pressures continued to build up moderately due to tighter labour market conditions, weakening of the US dollar and renminbi appreciation, the upturn in CCPI was likely to proceed in a modest pace, being cushioned by a concurrent notable growth in labour productivity. Moreover, various one-off measures including the rates waiver for two quarters, the public housing rental cut to be implemented later this year, and the implementation of the Pre-primary Education Voucher Scheme would bring down the CCPI level. With the actual outturn of consumer price inflation so far in line with expectations, the forecast rate of increase in the CCPI for 2007 was maintained at 1.5%.
- (h) Overall, the Hong Kong economy was forecast to have another year of above- trend growth in 2007. With the actual GDP outturn of a 5.6% growth in the first quarter largely in line with expectations, the GDP forecast at 4.5 to 5.5% for 2007 announced in the Budget in late February remained unchanged. The prevailing forecasts by private sector analysts was averaging around 5.3%.

Discussion

Economic performance and development of Hong Kong

32. Referring to recent press reports speculating on changes in holders of senior government positions including the FS, Miss TAM Heung-man enquired about the advice, if any, which the incumbent FS would give to his successor, such as the major challenges facing FS in the next term in relation to the economic performance and development of Hong Kong.

33. In reply, FS said that since he had taken up the office of FS in 2003, he had all along worked towards the objectives of "revitalizing the economy, promoting employment and improving people's livelihood". As a result of the economic revival in the recent years, the unemployment rate had gone down from the peak of 8.5% to 4.3%, with a total of nearly 300 000 net additional jobs created since the trough in 2003. The Government attached great importance to improving people's livelihood and would keep under review relevant policies for providing assistance to the needy. Looking ahead, FS said that Hong Kong would be facing challenges as well as opportunities in the face of rapid economic development on the Mainland.

34. Mr Jeffrey LAM was glad to note the recent improvement in the economy and the employment market. Nevertheless, he was concerned about the inflationary pressure brought about by developments such as the gradual appreciation of RMB and the inflow of abundant capital from the Mainland and foreign countries. Mr LAM was particularly concerned about the impact of inflation on Hong Kong business enterprises operating on the Mainland and on the purchasing power of Hong Kong people.

35. In response, FS recapped that the forecast inflation rate for 2007 was 1.5% in the 2007-08 Budget and the forecast had remained unchanged so far. While inflation was expected to be on an upward trend in the coming five years, FS advised that moderate inflation was generally regarded by economists as healthy. In the case of Hong Kong, the rise in inflation was also cushioned by a concurrent growth in labour productivity. Nevertheless, FS said that the Administration was keenly aware of the impact of inflationary pressure on the grassroot level of the population and where necessary, would devise measures to alleviate the possible hardship faced by them as a result of the increase in the cost of living.

36. Ms Emily LAU recapped her question put to the CE/HKMA earlier on at the meeting about the implications of the Mainland's overheated financial market on Hong Kong. Noting CE/HKMA's response that uncertainties were involved in Hong Kong's resilience to Mainland shocks through the financial market channel in view of the unpredictability of market sentiment, Ms LAU sought FS's assessment on the impact of such shocks on Hong Kong, and enquired on the measures to manage the risks of volatility transmission from the Mainland stock market. Miss TAM Heung-man shared Ms LAU's concern and sought the Administration's assessment on the possibility of bubble formation in the Hong Kong stock market as a result of abundant capital inflow from Mainland investors.

37. While indicating his agreement with CE/HKMA's remarks, FS recalled that in a media interview in end 2006, he had pointed out that the capital market in Hong Kong was expected to be volatile in 2007 given the price differentials of Mainland-listed A-shares and locally listed H-shares. In this connection, the Administration and HKMA were exploring in consultation with the Mainland authorities an arbitrage mechanism to narrow down the price differentials of A-shares and H-shares. A number of practical proposals had been put up for the development of a complementary, cooperative and interactive relationship for the financial markets of the Mainland and Hong Kong as urged by Premier WEN in January 2007. Regarding the capital inflow from the Mainland into the Hong Kong stock market, FS considered that this would unlikely have an overwhelming impact as the local stock market was well-developed, highly internationalized and participated heavily by institutional investors. Moreover, the investing community was apprised from time to time of the possible risks arising from market volatilities and of the need for risks management.

38. Miss TAM Heung-man enquired whether the Administration would identify new growth engines in addition to the four existing pillars for the economic development of Hong Kong in the long run. In reply, FS advised that

the Government had spared no efforts in identifying new growth engines and new industries for furthering the economic development of Hong Kong. To facilitate the development of a knowledge-based economy, the Government would make greater efforts to promote scientific and technological research. In this connection, FS recalled his statement in the 2007-08 Budget that the University Grants Committee would be invited to consider how best to encourage higher education institutions to conduct more quality research, including that into innovation and technology.

39. Pointing out that the total exports of goods from Hong Kong had sustained notable growth in the past few years, Mr Andrew LEUNG was of the view that the industrial sector had an important role to play in the economy of Hong Kong. Notwithstanding, Mr LEUNG was surprised to note that the policy area of industrial development would no longer be reflected in the names of the policy bureaux under the Administration's re-organization proposal. In this connection, he was gravely concerned that the role and the development of industries in Hong Kong would be sidelined in the policy formulation of the next term of Government.

40. In response, FS stressed that he was keenly aware of the importance of industrial development for the economic growth of Hong Kong. It had always been the Government's policy to facilitate the development of innovative and high-value added industries in Hong Kong's transition to a knowledge-based economy. He assured members that while there were changes in the names of the policy bureaux under the re-organization proposal, the commitment and policies of, as well as the resources allocated by the Government in facilitating industrial development, would not be reduced.

The employment market

41. Referring to the figures in Tables 19 and 20 of the "First Quarter Economic Report 2007" (the Economic Report), Miss CHAN Yuen-han observed that despite the economic recovery in the past few years, the average labour earnings and wage levels had in fact dropped in a number of major economic sectors. Miss CHAN asked whether the Administration would take measures to tackle the problem of zero or negative growth in wages.

42. In this connection, GE advised that the figures on labour earnings and wage indices compiled by the Census and Statistics Department (C&SD) comprised different components. The average labour earnings in Table 19 comprised income components including wages, overtime pay and other non-guaranteed or irregular bonuses and allowances. In the past few years, the increase in average labour earnings might have been due to increased employment opportunities, more opportunities for workers to change to higher paid jobs, and more full-time jobs for those underemployed. Moreover, although there might not be any increases in basic wages, there might be considerable increases in other income components such as bonuses or allowances, thereby pushing up the labour

earnings received by employees. However, FS concurred that for unskilled or low-skilled jobs, the increases in wages had not been significant.

43. Miss CHAN Yuen-han did not subscribe to GE's explanation and opined that the population at the grassroots level would unlikely be able to benefit from increases in labour earnings in terms of bonuses or allowances. She was concerned that FS might have a wrong perception of the improved average labour earnings and overlooked the hardship experienced by the workforce at the grassroots level. Miss CHAN also referred to Table 15 of the Economic Report on the rates of change in business receipts indices for service industries/domains and pointed out that despite the substantial increase in business receipts in a number of industries in the fourth quarter of 2006, the average labour wages in these industries had only increased slightly or had even been reduced. She was of the view that the figures in Tables 15 and 20, when read in conjunction, clearly indicated that employees were unable to share the benefit of the economic upturn in the same way as their employers due to the former's weak bargaining power. She therefore called on the Administration to devise effective measures to assist these workers.

44. In clarification, GE said that his earlier analysis on the difference between average labour earnings and wages only served to explain why the rise in labour wages might lag behind that in total labour earnings. Regarding the difficulties faced by low-income workers, FS took note of Miss CHAN Yuen-han's concern and stressed that the Administration would take into account all relevant factors when formulating policies and measures to assist those in need. FS also pointed out that in the wake of economic recovery, there were signs of improvement in the labour market, as evidenced by the difficulties experienced by employers in recruiting employees with the needed skills.

45. Noting that the percentage of unemployed and underemployed members of low-income households had reduced since 2004, Dr Fernando CHEUNG was concerned about the slight increase in the percentage of those underemployed in the first quarter of 2007 when compared with the first quarter of 2006. Dr CHEUNG enquired whether such an increase was indicative of an increasing trend of casual employment in the labour market, and sought information on the Administration's measures to deal with the problem of underemployment.

46. In response, GE said that along with the economic revival in the past few years, the unemployment rate had fallen considerably. He nevertheless pointed out that it might not be advisable to draw a conclusion on the basis of one or a few figures in the Economic Report. Moreover, the slight increase in the percentage of underemployed persons in low-income households might be attributable to the fact that some previously unemployed workers had rejoined the employment market but were still in the process of moving from unemployment to full-time employment.

47. Ir Dr Raymond HO observed that there might not be a remarkable increase in the number of lower-skilled jobs following the relocation of the manufacturing

industry to the Mainland. To maintain the competitiveness of the local workforce as Hong Kong moved up the value chain, Ir Dr HO was of the view that the Administration should devise appropriate measures to provide necessary training or retraining to workers and to upgrade their competency level. In this connection, he sought information on the competency level of Hong Kong's skilled labour of various trades/industries in comparison with that of other jurisdictions in the region such as Singapore.

48. In response, FS shared Ir Dr Raymond HO's concern about the importance of retraining to enhance the competency level of the workforce in Hong Kong to meet the challenges posed by globalization and economic transformation. At present, there was a great demand for personnel with professional knowledge and specialized skills. The Administration would strive to develop a quality workforce through education, retraining and attracting talent from around the world to pursue careers in Hong Kong. He welcomed Members' views and suggestions in this respect. Responding to Ir Dr Raymond HO's further enquiry about providing incentives such as tax exemptions to encourage employees to seek self-advancement through lifelong learning, FS advised that he had proposed to increase the maximum amount of deduction for self-education expenses under Salaries Tax from \$40,000 to \$60,000 in the 2007-08 Budget. At the request of Ir Dr Raymond HO, the Administration agreed to provide information, where practicable, on the comparison of the competency level of skilled labour in Hong Kong with that of other jurisdictions.

(Post-meeting note: The Administration's response to paragraph 48 above was issued to members vide LC Paper No. CB(1)1988/06-07(01) on 25 June 2007.)

Activities in the construction sector

49. Noting from Chart 10 of the power-point presentation material that overall building and construction activities remained weak despite improved private sector output, Mr WONG Kwok-hing enquired whether and how the Government would expedite the implementation of public works projects so as to boost activities in the construction sector and create more jobs to alleviate the serious unemployment problem in the industry. In this connection, Mr WONG noted with concern the underspending in recent years of the annual provision of \$29 billion earmarked by the Government for public works projects and enquired about the Administration's plan, if any, to achieve full spending of the funds earmarked for 2007-08.

50. In addressing Mr WONG Kwok-hing's concern about the slow revival of the construction industry, FS advised that according to the latest estimate, the expenditure on infrastructure projects in 2007-08 would unlikely exhaust the allocated provision of \$29 billion. The Administration would take forward infrastructure projects having regard to their cost-effectiveness in terms of their benefit to the economy and how far they could contribute to creating employment opportunities and improving the living environment. FS reiterated the

Government's commitment to implementing infrastructure projects in an expeditious manner and an average of \$29 billion a year would continue to be earmarked for infrastructure projects over the next few years. Major projects in the pipeline included the Central-Wan Chai Bypass, the Mass Transit Railway South Hong Kong Island Line and the West Kowloon Cultural District Development etc. Nevertheless, the pace of implementation of major infrastructure projects depended on a number of factors including the progress in complying with statutory procedures and public consultation. FS added that with a view to facilitating the speedy implementation of minor works projects, the Administration was consulting Members on the proposal to increase the financial ceiling of the delegated authority for approving Category D items from \$15 million to \$30 million.

51. Mr WONG Kwok-hing stated his view that the Administration should undertake to utilize the approved provision of \$29 billion each year for public works projects. In this regard, FS highlighted that the Administration had committed to earmarking \$29 billion a year on average for public works projects. However, the outturn spending would be determined by a host of other factors and subject to fluctuations to tie in with the implementation cycles of major infrastructure projects in different financial years.

52. Pointing out that the number of workers engaged at public sector building and construction sites (Table 18 of the Economic Report) had dropped from about 33 000 in 2003 to about 21 000 in 2006, Mr WONG Kwok-hing remained concerned about the efficacy of the Administration's effort in expediting the implementation of public works projects. Mr WONG considered that the current lead time for planning and preparatory work for public works projects was too long (being 45 months and 21 months for medium scale civil engineering projects and minor works projects respectively). He was of the view that instead of seeking approval from LegCo to increase the financial ceiling of the delegated authority, the Administration should demonstrate its determination by overhauling the existing lengthy planning process of public works projects.

53. Ms Emily LAU expressed similar concern. Noting that the 5.4% decline in building and construction activities in the first quarter of 2007 was mainly dragged by the continued fall-off in public-sector construction, Ms LAU considered that the Administration should step up efforts in expediting the implementation of public works projects. Referring to the discussion at the meeting of the Finance Committee meeting on 1 June 2007, Ms LAU said that members were generally concerned that the Administration's proposal to increase the financial ceiling of the delegated authority for minor works projects from \$15 million to \$30 million would bypass LegCo and undermine the monitoring role of LegCo in approving public spending. She was of the view that the lengthy planning and implementation process was by and large the result of complicated and time-consuming internal procedures within the Government rather than the time required for obtaining funding approval from LegCo. She therefore urged the Administration to streamline its internal procedures to expedite project implementation.

54. Ir Dr Raymond HO said that if the Administration could provide sufficient justification to convince members of the merits of the proposal, he would be prepared to support the Administration's proposal to increase the financial ceiling of the delegated authority. He considered that the proposal would be helpful in expediting the implementation of minor works projects which could in turn create more job opportunities for construction workers as most of these jobs were labour-intensive. Referring to a number of infrastructure projects which had taken a long lead time for planning or discussion but without significant progress, Ir Dr HO shared other members' view that the cumbersome internal procedures of the Government, in particular the lack of coordination among bureaux and departments, were mostly responsible for the lengthy implementation process. As far as scrutiny of funding proposals by LegCo was concerned, Ir Dr HO pointed out that this was only a small part of the lengthy process and the Public Works Subcommittee had tried to meet the Administration's timeframe by holding additional meetings where necessary to discuss funding proposals for public works projects.

55. In response, FS assured members that the Administration would make every effort to take forward projects in an expeditious manner. Nevertheless, given the fact that a number of infrastructure projects had been completed or were near their completion (e.g. the Shenzhen Western Corridor and Lok Ma Chau Spur Line) while some major projects were yet to commence (e.g. Central-Wan Chai Bypass and the Kai Tak Development), the spending on public works projects was now in a low cycle and the spending in 2007-2008 would unlikely reach \$29 billion. FS pointed out that to better coordinate and take forward the development of infrastructure in Hong Kong, the Administration had proposed to set up a new Development Bureau under its re-organization proposal to enhance planning and implementation and achieve a clear interface at the policy level between development and heritage conservation. As to the streamlining of internal procedures, FS advised that as a result of the Administration's effort, the planning process for the proposed cruise terminal had been expedited. However, he highlighted the need for adequate planning and preparatory work for projects, in particular mega infrastructure projects, before these were ready for submission to LegCo for funding approval. He therefore stressed the importance of the support of LegCo and the community in any attempt to take forward projects speedily.

56. Ms Emily LAU said that major infrastructure projects would often require a longer process of consultation, in particular when there was a need to strike a balance between concerns for development and heritage conservation. She was of the view that the Administration should seriously consider taking forward relatively minor works projects which were supported by LegCo and the relevant District Councils in an expeditious manner.

Poverty and income disparity

57. Noting that that the term of the Commission on Poverty (CoP) ended in June 2007, Miss TAM Heung-man was concerned that as the population at the

grassroot level could hardly benefit from the recent economic revival, the problem of poverty remained acute in Hong Kong. In this connection, Miss TAM enquired about the Government's plans to help the needy and to ensure that the benefits of economic growth could reach all sectors of the community.

58. Noting from Chart 13 of the power-point presentation material that a small percentage of the economically active persons in the low-income households were working full-time, part-time or underemployed, Mr WONG Kwok-hing enquired about measures to encourage and facilitate low-income household members to take up full time employment. In this connection, Mr WONG was concerned that the pilot Transport Support Scheme would not provide long-term incentive to unemployed persons and low-income workers who lived in remote areas to work across district. Ms Emily LAU expressed similar concern about the upsurge in low-income households in the past decade. She also called on the Administration to work out support measures, including giving a positive response to the request for provision of concessionary public transport fares for people with disabilities (PwDs). Dr Fernando CHEUNG shared Ms LAU's concern about the hardship faced by PwDs given their disadvantaged position in the competitive labour market.

59. Miss CHAN Yuen-han also noted with concern the upsurge in the number of low-income households over the past ten years, from 92 300 in 1997 to 176 600 in 2007. Notwithstanding the Administration's explanation that the upsurge was mainly attributable to a significant increase in the number of retired elderly households and a decline in average household size during the period, Miss CHAN was of the view that the problem of poverty faced by an increasing number of persons in the low-income group should be properly addressed. In this connection, Miss CHAN enquired whether the Administration would formulate an official poverty line for the purpose of assessing the extent of the poverty problem in Hong Kong. She was also concerned about the way forward for combating poverty after the dissolution of CoP.

60. FS took note of members' concerns about providing necessary assistance to the underprivileged and the needy, in particular those low-income workers who were not in receipt of Comprehensive Social Security Assistance. FS recalled that several rounds of discussion had been held by CoP to consider the conceptual aspects of poverty and how it could be realistically measured. There was a general consensus among members of CoP that poverty should not be defined in terms of a single number or threshold. Instead, the concept of poverty should be multi-dimensional, focusing on the needs of disadvantaged groups and with a set of indicators to be developed to reflect the extent of poverty experienced by different sectors of the society. FS said that although CoP was disbanded after its last meeting on 1 June 2007, its work and study had formed solid groundwork upon which the Government could consider how best to follow up on its recommendations. He assured members that despite the dissolution of CoP, the work on combating poverty was ongoing and a long-term task. The Government of the next term would continue to take necessary action to follow up CoP's proposals.

61. Dr Fernando CHEUNG expressed serious concern about the problem of elderly in poverty, given the rapidly ageing population of Hong Kong and the increasing number of retired elderly households. Dr CHEUNG considered that Hong Kong was facing an imminent problem of elderly in poverty and the Administration should formulate concrete measures such as an old age pension scheme to address the problem. In this connection, Dr CHEUNG referred to the report on elderly in poverty prepared by the LegCo Subcommittee to Study the Subject of Combating Poverty (the Subcommittee), in which a number of recommendations had been put up for the Administration's consideration. He had nevertheless noted that these recommendations had not so far received any positive response from the Administration.

62. FS stressed that the Administration attached great importance to tackling the problem of poverty faced by the elderly. Bearing in mind the underlying principle that elderly persons should lead a decent retirement life, FS said that the Administration had been examining feasible support measures with CoP in a prudent and comprehensive manner. He reaffirmed the Government's commitment to addressing the problem by developing a package of support measures instead of implementing measures in a piece-meal manner.

63. Mr Albert HO shared other members' concern about the need for the Government to step up efforts to combat poverty. In addition to developing indicators to reflect the extent of poverty faced by different social groups, Mr HO was of the view that income disparity in Hong Kong could be assessed through a properly devised Gini Coefficient, which was an indicator widely used in other parts of the world to measure income distribution and disparity. Mr HO noted that the Administration had adopted a revised methodology to compile the Gini Coefficient and the relevant information would be released in the context of the Thematic Report on Household Income Distribution (the Thematic Report). In this connection, he enquired about the timing when the Gini Coefficient would be made available to the public. He also sought the Administration's view on whether it had targeted income disparity as a problem to be combated in Hong Kong and if so, the strategies to do so.

64. In reply, FS advised that the Administration was keenly aware of Members' concern about income disparity in Hong Kong and was examining the subject in the context of the Thematic Report to be published shortly. FS highlighted the importance of public support in the formulation of relief measures, in particular when taxation was called for to enhance the safety net to assist the needy. GE supplemented that as advised by C&SD earlier on, the Thematic Report would be released in mid-2007. The report would provide relevant statistics and indicators including the Gini Coefficient compiled to reflect the impact of different factors that affected income distribution. He considered that when the detailed information in the report was available, it would facilitate better understanding of household income distribution in Hong Kong and clarify relevant conceptual issues.

65. The Chairman recapped that subsequent to the special meeting of the Panel held on 12 April 2007 at which the summary results of the 2006 Population By-census were discussed, issues related to household income would be followed up by the Subcommittee after the publication of the Thematic Report.

(Post-meeting note: The Thematic Report was published on 18 June 2007 and the Subcommittee discussed the findings of the Thematic Report at its meeting on 10 July 2007.)

VI. Any other business

66. There being no other business, the meeting ended at 12:37 pm.

Council Business Division 1
Legislative Council Secretariat
3 September 2007