

**For Information
on 21 April 2009**

Legislative Council Panel on Commerce and Industry

Enhancement measures to boost the economy of Hong Kong

This paper reports on the Administration's preliminary response to the proposal of issuing consumption vouchers, and provides an update on the progress of the SME Loan Guarantee Scheme (SGS) and the Special Loan Guarantee Scheme (SpGS).

Issuing Consumption Vouchers

2. We note that the community has diverse views on the effectiveness of issuing consumption vouchers to stimulate the economy. We believe that members of the public may only save the cash that they have originally set aside for consumption when given one-time vouchers. In other words, there will be a "substitution" or "advancement of future spendings" effect. It is therefore doubtful whether issuing consumption vouchers will be able to bring about sustained stimulating effect on the economy. Overseas experiences¹ also show that issuing consumption vouchers will only bring about limited stimulus to the economy, and will also incur substantial administrative costs.

Progress Update on the Loan Guarantee Schemes

3. In face of the financial tsunami, one of our key tasks is to relieve our enterprises from their difficulties through the SGS and the SpGS. Between 6 November 2008 and 9 April 2009, the Trade and Industry Department has received 7 419 loan applications under the two schemes, of which 6 617 have been approved, involving a total loan amount of about \$13.5 billion.

¹ The initial effect of consumption vouchers to stimulate the economy in Taiwan is not quite visible. Taiwan registered a 9.55% year-on-year decrease in retail sales in February, whereas taking January and February together, the cumulative retail sales have dropped by 4.65%, compared with the same period last year. The statistics show that the substitution effect of consumption vouchers may have outweighed its multiplier effect. Separately, experience from the consumption coupon programme in Japan in 1999 shows that due to the substitution effect and advancement of spendings, the multiplier effect of consumption vouchers was estimated to be only 0.1 for the whole year.

4. We have commenced a review on both schemes. The outcome of the review and the way forward will be reported to the Panel on Commerce and Industry once the review is completed.

Commerce and Economic Development Bureau
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