

立法會
Legislative Council

LC Paper No. CB(1)680/08-09
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by the Administration)

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Panel on Financial Affairs

Minutes of meeting
held on Monday, 1 December 2008 at 8:30 am
in the Chamber of the Legislative Council Building

Members present : Hon CHAN Kam-lam, SBS, JP (Chairman)
Hon Ronny TONG Ka-wah, SC (Deputy Chairman)
Hon Albert HO Chun-yan
Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon James TO Kun-sun
Dr Hon Philip WONG Yu-hong, GBS
Hon Emily LAU Wai-hing, JP
Hon Vincent FANG Kang, SBS, JP
Hon WONG Ting-kwong, BBS
Hon CHIM Pui-chung
Hon KAM Nai-wai, MH
Hon Starry LEE Wai-king
Hon Paul CHAN Mo-po, MH, JP
Hon CHAN Kin-por, JP
Hon CHAN Tanya

Members attending: Hon WONG Kwok-hing, MH
Hon IP Wai-ming, MH

Members absent : Hon Abraham SHEK Lai-him, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon Jeffrey LAM Kin-fung, SBS, JP

**Public officers
attending**

: Agenda Item IV and V

Mr John C TSANG, JP
Financial Secretary

Mr Freely K CHENG
Administrative Assistant to Financial Secretary

Agenda item IV

Mrs Helen CHAN, JP
Government Economist

Agenda item V

Prof K C CHAN, SBS, JP
Secretary for Financial Services and the Treasury

Mr Stanley Y H YING, JP
Permanent Secretary for Financial Services and the
Treasury (Treasury)

Agenda item VI

Ms Bernadette LINN
Deputy Secretary for Financial Services and the Treasury
(Treasury)¹

Ms Shirley LAU
Principal Assistant Secretary for Financial Services and
the Treasury (Treasury)^H

Agenda item VII

Mr Patrick HO
Deputy Secretary for Financial Services and the Treasury
(Financial Services)

Ms Jenny CHAN
Principal Assistant Secretary for Financial Services and
the Treasury (Financial Services)

- Attendance by invitation** : Agenda item VII
Mandatory Provident Fund Schemes Authority
Mr Darren MCSHANE
Executive Director (Regulation & Policy)

Ms Gabriella YEE
Chief Manager (Policy Development & Research)
- Clerk in attendance:** Ms Rosalind MA
Chief Council Secretary (1)5
- Staff in attendance :** Mrs Constance LI
Assistant Secretary General 1

Mr KAU Kin-wah (only items VI and VII)
Assistant Legal Adviser

Mr Noel SUNG
Senior Council Secretary (1)4

Miss Haley CHEUNG
Legislative Assistant (1)8

Action

- I Confirmation of minutes of meeting and matters arising**
(LC Paper No. CB(1)278/08-09 — Minutes of special meeting on
17 October 2008)
- The minutes of the special meeting held on 17 October 2008 were confirmed.
- II Information papers issued since the last meeting**
2. Members noted that no information papers had been issued since the last meeting.
- III Date of next meeting and items for discussion**
(LC Paper No. CB(1)275/08-09(01) — List of outstanding items for
discussion
- LC Paper No. CB(1)275/08-09(02) — List of follow-up actions)

3. Members agreed that the following items should be discussed at the regular meeting scheduled for 5 January 2009:

- (a) Asian Development Bank – Hong Kong's contribution to the 9th replenishment of the Asian Development Fund (ADF X);
- (b) Downgrading of an Assistant Director of Accounting Services post to a Chief Treasury Accountant post in the Official Receiver's Office;
- (c) Plan for the 2011 Population Census; and
- (d) Review of Hong Kong Monetary Authority's work on banking stability.

4. To allow sufficient time for discussion of the four items, members agreed that the meeting on 5 January 2009 be held from 9:30 am to 12:45 pm.

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

(LC Paper No. CB(1)215/08-09 — Third Quarter Economic Report 2008 and the press release

LC Paper No. CB(1)275 /08-09(03) — Administration's paper on recent situation and near-term outlook for the Hong Kong economy

LC Paper No. CB(1)316 /08-09(01) — Powerpoint presentation material provided by the Administration (tabled at the meeting and soft copy issued to members on 3 December 2008)

Briefing by the Administration

5. At the invitation of the Chairman, the Financial Secretary (FS) gave a brief introduction on the challenges facing Hong Kong arising from the global financial turmoil. Suffering from the adverse impact of the financial turmoil, Hong Kong's economy had slowed down. There were signs that the unemployment rate might go up. To stimulate the economy and improve employment, the Government was committed to speeding up the implementation of infrastructure projects, with plans to submit about 100 public works funding proposals to the Legislative Council (LegCo) in the 2008-2009 session, which would create about 40 000 jobs. The RMB 4 000 billion economic stimulus package recently announced by the Central Government would also bring benefits to Hong Kong. The Government was confident that with its robust financial and monetary system, its level of fiscal reserves and support of the community, Hong Kong would be able to tide over the current global financial crisis.

6. At the invitation of the Chairman, the Government Economist (GE) briefed members on the latest developments in the Hong Kong economy, the updated economic forecasts for 2008 as a whole and a preliminary analysis of the factors which might affect the economic outlook of 2009. The salient points highlighted in the presentation were as follows:

- (a) The growth of the Hong Kong economy slowed notably further in the third quarter of 2008. The Gross Domestic Product (GDP) expanded by 1.7% from a year earlier, down further from 4.2% in the second quarter of 2008. Total export of goods slackened to only a modest growth of 1.4%, the lowest growth since the first quarter of 2002. Consumer spending still held rather firm in July and August, but slackened distinctly in September amid increasing concern over the global economic outlook. Private consumption expenditure (PCE) rose marginally by 0.2%, compared with a distinctly high base of consumption a year ago when PCE grew by 10.6%.
- (b) Overall investment spending still recorded a modest growth of 3% in the third quarter of 2008 over a year earlier. Companies had recently turned more cautious in making new investments and in hiring new hands in the wake of a highly uncertain global financial and economic environment and strains in the credit market. The seasonally adjusted unemployment rate rose marginally to 3.5%, which was still a relatively low level. Consumer price inflation tended to level off, the headline inflation went lower further to 1.8% in October 2008.
- (c) On impact of the financial turmoil, the global crisis had mutated into synchronized downturn. The credit crunch that ensued had added woes to the already rapidly faltering global economy. The key risk facing advanced economies was downward spiral between asset prices and real economy, leading to prolonged slump. Increasing impact of the global financial crisis on Asia was expected in the coming quarters. For many advanced economies, including the United States and the European Union, a recession was already underway. The export-dependent economies in Asia would inevitably be affected. The substantial fall-off in stock market triggered by the global-wide stock market crash and the spillover to the property market, coupled with the less promising job prospect, would continue to affect consumer spending. The tight credit market would have impact on small and medium-sized enterprises (SMEs).
- (d) Taking into account GDP growth of 4.3% in the first three quarters of the year, economic growth for the year of 2008 as a whole was forecast at 3%-3.5%, revised down from the earlier range forecast of 4%-5%. The forecast headline Composite Consumer Price Index (CCPI) inflation for 2008 as a whole remained unchanged at 4.2%. Netting out

the effects of Government relief measures, the forecast underlying CCPI inflation rate for 2008 was also maintained at 5.5%.

Discussion

Unemployment and job opportunities

7. Noting that the economic downturn might worsen and the unemployment rate was rising, Mr WONG Kwok-hing said that Members belonging to the Hong Kong Federation of Trade Unions (HKFTU) considered that the Government should accord top priority in tackling the problem of unemployment. He was concerned about the Government's plan for job creation. Mr WONG also commented that as the largest employer, the Government should refrain from laying off its contract staff, and should create new temporary jobs to improve the employment situation, for example, jobs for demolition of the abandoned signboards. The Government might also consider other measures which could create job opportunities such as issuing temporary hawker licences and providing subsidies to private enterprises for employment of additional staff. Mr WONG said that according to HKFTU's rough estimates, the above-mentioned initiatives could create a total of about 100 000 new jobs. Ms Emily LAU shared Mr WONG's concern about job creation.

8. In response, FS agreed that unemployment was one of the priority areas which the Government would have to tackle and took note of Mr WONG Kwok-hing's proposals for consideration. FS advised that measures to minimize the impact of the current global financial turmoil on the economy should be implemented in a timely manner to achieve the intended effect. To this end, the Government had adopted a four-pronged approach. First, measures to stabilize the monetary system such as the temporary full deposit guarantee arrangement to foster confidence in the banking system, and the Contingent Bank Capital Facility to improve the liquidity of banks. Second, enhancing the existing SMEs funding schemes and introducing a time-limited Special Loan Guarantee Scheme for SMEs to relieve the liquidity difficulties faced by SMEs. Third, speeding up public sector works including major infrastructure projects to create more job opportunities. Fourth, relief measures were being considered for incorporation in the 2009-2010 Budget to assist those most hard hit under the economic downturn.

9. Mr Ronny TONG was concerned that the implementation of infrastructure projects and the relief measures to be introduced in the 2009-2010 Budget could not tackle the problem of unemployment timely, as the construction of the projects would not start immediately and the 2009-2010 financial year would only commence in April 2009. Pointing out that the unemployment problem was expected to deteriorate in the coming months, Mr TONG was concerned that the Government had not responded as promptly as governments in other places (such as Singapore and Australia) in the introduction of necessary relief measures. He asked whether the Government would accord top priority to tackling the unemployment problem.

10. FS said that the Government was committed to boosting economic development through the expeditious implementation of infrastructure projects. In the three months from November 2008 to January 2009, construction of 44 projects would commence, involving a total expenditure of \$10.5 billion and creating about 6 900 jobs. During the same period, tenders for another 22 projects would be invited and the construction works would commence shortly after the award of tenders. These 22 projects would incur a total expenditure of \$8.8 billion, and create about 5 500 jobs.

11. Mr Ronny TONG pointed out that implementation of infrastructure projects would only bring job opportunities for the construction sector but would not help unemployment in other sectors. Mr KAM Nai-wai referred to Chart 13 of the powerpoint presentation material and noted that sectors expected to be harder hit under the financial turmoil included the financial services sector, trading and logistics sectors, tourism and consumption-related sectors, and real estate and construction sectors. Mr KAM was of the view that other than efforts to expedite the implementation of infrastructure projects, the Government should also put forward measures to increase employment in the other affected sectors.

12. In response, FS advised that the Government aimed to tackle the challenges posed by the economic downturn through various measures to revive the economy and facilitate sustainable development, under which all sectors of the economy could benefit as a result. In addition to expedition of public works project delivery, relevant government bureaux and departments were exploring measures to revive the economy and create job opportunities, details of which would be announced once available.

13. Mr WONG Kwok-hing was disappointed that the Task Force on Economic Challenges did not put forward concrete proposals to tackle the unemployment problem and provide assistance to the unemployed. Mr WONG asked whether the Government would consider setting up an inter-departmental and cross-sector committee to work out measures to tackle the unemployment problem.

14. Noting that some members of the Task Force on Economic Challenges had taken the lead to lay off the staff of their enterprises, Mr Albert HO was concerned whether the Task Force could effectively perform its role of mapping out strategies for Hong Kong to meet the challenges posed by the global financial tsunami. Mr HO asked whether the Government would liaise with major enterprises to solicit their cooperation, such as calling on these enterprises to refrain from laying off their staff during the economic downturn. Mr HO was of the view that effective measures should be devised to facilitate economic development, in addition to short-term measures of providing direct financial incentives/assistance.

15. In response, FS advised that the Task Force on Economic Challenges had only met once since its formation. It would hold further discussions on mid-term and long-term measures to meet the challenges posed by the global financial crisis. As to the idea of setting up a committee to facilitate job creation and alleviate

unemployment, FS said that this could be further examined. FS pointed out that the Government had taken immediate measures to relieve the impact of the global financial turmoil on the economy, and would continue to devise appropriate measures to revitalize the economy and reduce unemployment. FS reiterated that the Government had attempted to alleviate the impact of the global financial turmoil with a four-pronged approach, as mentioned earlier at the meeting. FS said that the Government would encourage private enterprises to refrain from laying off their staff and work jointly with their employees in overcoming the current economic difficulties.

Assistance to small and medium-sized enterprises

16. Noting that the economic situation would worsen in the coming months, Ms Emily LAU commented that the Government should draw up immediate measures to support and boost the economy, pending relief measures to be introduced in the 2009-2010 Budget. To relieve the liquidity problem faced by SMEs under the financial crisis, the Government should liaise with the banking sector with a view to ensuring that banks would grant loans to SMEs with the introduction of enhancement to the SME Loan Guarantee Scheme and the proposed Special Loan Guarantee Scheme for SMEs. Referring to plans of the government of the United Kingdom to facilitate lending to enterprises through legislation, Ms LAU urged the Administration to take proactive steps to enhance support measures for SMEs. Mr Ronny TONG shared Ms LAU's concern and said that SMEs might not benefit from the enhancements to SME funding schemes if banks did not relax their credit policy accordingly. Mr TONG also enquired whether the Government would consider proposals put forward by Members belonging to the Civic Party to stimulate economy growth, such as deferred payment of provisional tax and direct financial assistance to individuals or SMEs.

17. FS stressed that significant financial commitment was involved in the proposed Special Loan Guarantee Scheme for SMEs, which would create contingent liability of up to \$7 billion for the Government. With an assumed default rate of 10%, the expected maximum Government expenditure was estimated at \$700 million. While lending institutions would be willing to grant loans to private enterprises, they had to exercise their usual prudential professional judgement in assessing loan applications, having regard to risk management consideration. The Government would maintain liaison with the banking sector to encourage lending to SMEs with the implementation of enhancements to loan guarantee for SMEs. Responding to Ms Starry LEE's enquiry on whether the Government would consider further increasing the ratio of loan guarantee to 100%, FS stated that the Government had reservation in using public money to provide full loan guarantee for SMEs as the proposal would involve high risk and give rise to concern about moral hazards. Under the proposed Special Loan Guarantee Scheme for SMEs, the Government had increased the ratio of loan guarantee from 50% to 70%.

18. Mr Ronny TONG opined that the maximum Government expenditure of \$700 million for the proposed Special Loan Guarantee Scheme for SMEs was a

relatively small sum compared with the public resources allocated by some overseas economies in their rescue plans. Mr TONG called on the Government to utilize the substantial sum of fiscal reserves in hand to implement immediate support measures for the survival of various trades and industries. This could in turn help prevent surge in unemployment resulting from corporate failures.

19. Mr Vincent FANG was of the view that in light of the worsening economic situation, measures to sustain the continued operation of existing businesses should be given priority over development of new business to facilitate job creation. Mr FANG was particularly concerned about the liquidity problems faced by SMEs under the current economic environment. He opined that the 70% loan guarantee offered by the Government through the proposed Special Loan Guarantee Scheme for SMEs could not adequately help SMEs to obtain loans under the current economic condition. Mr FANG urged the Government to take more proactive steps to assist SMEs in resolving the liquidity problem, including making reference to practices of overseas jurisdictions. Mr FANG sought information on details of the proposed Special Loan Guarantee Scheme for SMEs.

20. Mr WONG Ting-kwong shared Mr Vincent FANG's concern and said that the banks' response to the enhancement to the SME Loan Guarantee Scheme was less forthcoming than envisaged, and many of them still continued with their credit tightening. Mr WONG asked whether the Government would take further steps to assist SMEs in resolving their difficulties in raising funds.

21. In response, FS said that in examining support measures for different sectors of the economy under the economic downturn, the Government had to exercise prudence and fairness in the allocation of public resources. As a matter of fact, a number of support measures for SMEs had been proposed to address their concerns about liquidity problem. He reiterated that in anticipation of the slackening economy in late 2008, the Government had introduced relief measures through initiatives in the 2008-2009 Budget to stimulate the economy. In the coming months, the Government would introduce further economic stimulus measures involving more than \$40 billion. The enhancement to SME Loan Guarantee Scheme had attracted positive responses from SMEs, in terms of the number of applications received since the launching of the scheme in November 2008. The Administration was working in collaboration with the banking sector on implementation arrangements for the proposed Special Loan Guarantee Scheme for SMEs to raise the Government guarantee ratio from 50% to 70%, which was expected to be launched around mid-December.

Inflation and consumer spending

22. Mr KAM Nai-wai pointed out that although the headline CCPI leveled off to 1.8% as at October 2008, CCPI for basic foodstuffs still recorded a significant increase over the past year. Such an increase had adversely affected the livelihood of the public, in particular the middle and lower-income groups. The Chairman expressed similar concern and pointed out that the prices for basic foodstuff, such as

rice and pork, remained at high levels despite the drop in the import prices. The Chairman enquired about the forecast of inflation in the coming months and measures to contain prices of daily necessities for the well-being of the community.

23. In response, FS advised that prices of basic foodstuff were expected to drop gradually in the coming months. To alleviate the impact of inflation on the livelihood of the middle and lower-income groups, a package of relief measures had been implemented in the context of the 2008-2009 Budget. FS said that the Government would try to facilitate smooth operation of the retail market for protection of consumer interests. In this regard, the Government would explore different importing sources to increase the supply of pork and stabilize the retail price. On forecast of changes in CCPI, GE advised that prices of commodities, fuel and foodstuff were expected to drop as a result of the economic downturn in the exporting countries. Prices for clothing in the local market were declining since the last quarter of 2008 and rentals were also envisaged to come down in the first half of 2009. In general, inflationary pressure would reduce in the near future.

24. Mr James TO enquired whether the Government had examined the proposal of providing shopping vouchers to encourage consumer spending, and the possible assistance this proposal might provide for the business operation of SMEs. He opined that the effectiveness of the proposal should be examined with reference to the multiplier effects of the increased consumption on the economy. Mr TO pointed out that if consumers had chosen to use the shopping vouchers for purchasing basic foodstuff or daily necessities, the proposal would not be helpful in stimulating economic growth.

25. In response, FS said that in drawing up the 2009-2010 Budget, the Administration would examine the merits of possible initiatives, aiming to provide relief to the needy as well as promote the benefit of the community as a whole. On the effectiveness of shopping vouchers in boosting the economy, overseas experience had revealed that some consumers might use the vouchers to purchase basic foodstuff and necessities, without increasing their overall spending. On the other hand, imposing excessive restrictions on the use of shopping vouchers would reduce consumers' flexibility and hence their interest in using these vouchers. Consideration had to be given to the cost involved for administration of a shopping voucher scheme. FS assured members that the Administration would devise appropriate measures to facilitate economic growth. He believed that SMEs, as well as other sectors of the community, would benefit from the economic improvement of Hong Kong.

26. Mr WONG Ting-kwong pointed out that judging from the overwhelming public response to the sales campaign recently launched by a department store and the clearance sale of a bankrupt electrical appliances shop, the potential spending power of the public would be activated if adequate incentives were provided. Mr WONG asked whether the Government would introduce measures to stimulate internal spending, in particular during the upcoming festive season. The Chairman shared Mr WONG's concern and said that Members belonging to the Democratic

Alliance for the Betterment and Progress of Hong Kong (DAB) had put forward the proposal of launching a \$500 million lucky draw programme to stimulate internal spending.

27. FS said that the examples quoted by Mr WONG Ting-kwong illustrated how consumers could be encouraged to increase spending. The crux of the question was to boost consumer confidence in the economy, so that they would be willing to spend.

Co-ordination with the Mainland

28. Noting the substantial funds provided by the Central Government for the economic stimulus package, Ms Starry LEE enquired whether and how the Government would, in devising measures to stimulate economic growth, work in collaboration with the Mainland authorities.

29. In response, FS advised that the economic stimulus package of the Mainland would benefit Hong Kong enterprises operating in the Mainland. The Hong Kong Special Administrative Region (HKSAR) Government would maintain liaison with the relevant Mainland authorities on measures related to strategies for economic recovery. FS reiterated that the HKSAR Government would take forward its measures to revive the economy with a four-pronged approach, namely, maintaining financial and monetary stability, providing assistance to SMEs for securing loans, creating job opportunities and providing relief for those most hard hit by the economic downturn.

Remuneration of Hong Kong Monetary Authority senior staff

30. Mr KAM Nai-wai was concerned that since a loss of more than \$83 billion had been incurred in the investments of the Exchange Fund, and the Hong Kong Monetary Authority (HKMA) had been criticized for its unsatisfactory performance in the supervision of banks' distribution of Lehman Brothers-related minibonds, it would not be justified to offer bonus to the Chief Executive and senior staff of HKMA in 2008. Mr KAM sought FS's view on the subject.

31. In response, FS said that under the extremely unfavourable investment environment amid the global financial crisis, the investments of the Exchange Fund had incurred a loss of 5.8% in the third quarter of 2008, and the performance was considered acceptable in comparison with the performance of similar funds in other jurisdictions during the same period, as most of these funds had recorded double-digit negative rates of return. FS added that he would take into consideration the advice of the Governance Subcommittee of the Exchange Fund Advisory Committee in determining whether bonus should be offered to the senior staff of HKMA.

- (LC Paper No. CB(1)275/08-09(04) — Information pack for the Financial Secretary's consultations on the 2009-2010 Budget (tabled at the meeting and issued to members on 2 December 2008)
- LC Paper No. CB(1)317/08-09(01) — Speaking note of Mr John C TSANG, Financial Secretary (tabled at the meeting and issued to members on 2 December 2008))

Briefing by the Financial Secretary

32. At the invitation of the Chairman, FS gave a powerpoint presentation on the background information for the 2009-2010 Budget consultation. FS highlighted the following points:

- (a) On economic performance and prospects, the recent financial tsunami triggered by the sub-prime crisis in the United States had widespread impact on the global economy. Being a small open economy, Hong Kong's well-being was inevitably affected by global events. Economic growth in Hong Kong slowed notably to 1.7% in the third quarter of 2008. While a series of measures to "leave wealth with the people" was introduced in 2008-2009, the question of how the targets for assistance should be prioritized had to be considered given that the economy was expected to suffer further from the global downturn.
- (b) On government expenditure, the total recurrent expenditure increased by some \$41.3 billion or 24% over the past ten years. Recurrent spending on education, social welfare, health and security together accounted for about 68.4% of total recurrent government expenditure in the 2008-2009 Original Estimates. The Government had committed to increasing the share of health care expenditure from 15% to 17% of its recurrent expenditure by 2011-2012. The issue in question was which policy areas should have a smaller share. Over the next few years, capital works expenditure was likely to stay at a higher level with the implementation of various infrastructure projects, including the ten major infrastructure projects announced by the Chief Executive in the 2007-2008 Policy Address. These ten major projects were expected to help create over \$100 billion of added value to the Hong Kong economy and some 250 000 additional new jobs.
- (c) On the revenue side, profits and salaries taxes were the major sources of government revenue, accounting for 35.6% of total government revenue in the 2008-2009 Original Estimates. The next largest single source was land premium, which accounted for 14% of the total. Only 36.6% of the working population paid salaries tax and the share

contributed by the top 100 000 taxpayers was 64.7% of the total revenue from salaries tax in 2008-2009. In the year of assessment of 2006-2007, about 67% of the profits tax was contributed by the top 1 000 taxpaying corporations out of more than 74 000 corporations. The revenue from land premium had been volatile, fluctuating from 5.4 billion to 62.3 billion in the past ten years.

- (d) On measures to cope with economic and fiscal challenges, the Government had maintained expenditure at a relatively stable level despite reductions in GDP and revenue during economic difficulties in the past years. Looking ahead, the Government had to respond to calls of the community and work out strategies to weather the economic downturn, to promote economic growth through innovative measures, maintain financial resilience through means such as setting priority for government spending and broadening the tax base, sustain the competitiveness of Hong Kong and prepare Hong Kong for the challenges of an ageing population.

Discussion

Measures to meet the challenges of economic downturn

33. Pointing out that initiatives to be promulgated in the 2009-2010 Budget would only be implemented in the new financial year starting in April 2009, Mr KAM Nai-wai was of the view that the Administration should formulate immediate relief measures to assist different sectors of the economy in tiding over the current global financial crisis. He suggested that measures such as providing subsidies to participants of local tours might help revive the tourist industry. Moreover, to upgrade the skills and qualification of the workforce so as to enhance Hong Kong's competitiveness, Mr KAM said that the Government could provide more facilities such as libraries to facilitate the public in pursuing further studies.

34. FS advised that a series of relief measures announced in the last Budget had been implemented to boost economic growth and help the community to cope with challenges under the changing economic environment. FS recapped that as highlighted during the discussion of the previous item, the Government had responded promptly to the challenges posed by the recent global financial crisis with a four-pronged approach, namely: maintaining financial and monetary stability; enhancing the existing funding schemes for SMEs; creating job opportunities through speeding up public sector works; and formulating relief measures in the 2009-2010 Budget to provide assistance to those most hard hit by the economic downturn. The Government would take into consideration views and suggestions on the relief measures put forward by Members and the public during the Budget consultation.

35. Ms Emily LAU was concerned that in light of the drastic economic downturn following the global financial crisis outbreak in September 2008, the Administration

should act in a more proactive manner instead of adhering to the conventional budgeting principle of "Big Market, Small Government". Ms LAU was of the view that the Government should deploy its abundant fiscal reserves to implement measures to assist different sectors of the community, including support measures for SMEs to resolve their problems in raising funds, measures to alleviate parents' burden in educational expenses, and rental concessions of Government-owned premises in order to set an example for other real estate owners such as The Link Real Estate Investment Trust (The Link REIT).

36. Mr Ronny TONG was concerned that the relief measures introduced by the Government earlier on were inadequate given the rapid deterioration of the economy in the last quarter of 2008. Echoing Ms Emily LAU's view that the Government should take the lead to offer rental concessions, Mr TONG pointed out that other measures should be formulated to contain the escalating costs in Hong Kong, which had adverse impact on its competitiveness. He suggested the Administration consider measures such as imposing rental control and providing transport subsidies to lower the costs in rental and transport.

37. In response, FS stressed that the Government had started to implement measures to cope with the economic downturn and to maintain the economic development in Hong Kong since the last Budget. While the Government had anticipated an economic slowdown in the second half of 2008, the outbreak of the global financial crisis had given rise to worsening of the economic environment more drastically than expected and therefore additional measures had to be devised to revive the economy. As regards the rental of Government-owned premises, FS advised that these were determined with reference to the market price and revisions should be examined having regard to the circumstances of the premises concerned instead of applying standard concessions across-the-board. To support business enterprises in tiding over the current difficult operating environment, the Government would call on real estate owners like The Link REIT to let their premises at reasonable and affordable prices. He noted members' suggestions on rental concession and transport subsidies and agreed to take these into consideration in the preparation of the 2009-2010 Budget. On the suggestion of imposing rental control, FS advised that this subject would require further discussion in the community.

38. While supporting the Government's strategies of creating jobs, enhancing competitiveness and fostering sustainable economic development, Mr Albert HO shared Ms Emily LAU's view that the Government should turn from its conventional approach in the management of public finance to think "out of the box" in order to formulate innovative and effective measures to revive the economy. Mr HO pointed out that Members belonging to the Democratic Party had previously put forward a number of proposals to boost the economy and create job opportunities. He called on the Administration to give thought to the proposals including (a) measures to enhance building safety such as stepping up actions for removal of unauthorized building works, regulation of signboards, and introduction of the Mandatory Building Inspection Scheme; (b) promoting environment friendly initiatives such as

rooftop and vertical greening, and support measures for the recycling industry; and (c) providing subsidies to encourage continued learning of the workforce.

39. Mr CHAN Kin-por shared the view that actions to remove unauthorized building works should be stepped up to create more jobs. Mr CHAN opined that the Government should be decisive in drawing up an effective economic recovery plan, and if necessary, make use of the abundant fiscal reserves to take Hong Kong out of the doldrums of the economic downturn. Mr CHAN said that economic recovery would bring about increase in Government revenue and help replenish the fiscal reserves as a result. Citing the example of the Singaporean government's provision of land at concessionary premium to an international insurance company, Mr CHAN said that Hong Kong should draw reference to practices in other places for financing or supporting projects which would create job opportunities and benefit the economy.

40. FS appreciated members' view that the Government should devise and implement measures to revive the economy in a proactive manner. He said that the Government would exercise prudence in the management of public finances, but would not confine itself to any conventional way of thinking in examining measures to revive the economy. In fact, the Government would adopt a pragmatic approach in formulating the relevant measures and meet the challenges of the global financial crisis, and would prepare the 2009-2010 Budget taking into account the views and suggestions of Members and the public during the upcoming consultation.

Economic principles and level of the fiscal reserves

41. Miss Tanya CHAN was of the view that, with the substantial amount of fiscal reserves of around \$450 billion, the Government should be able to maintain public expenditure despite reduction in revenue amidst the adverse economic environment. She enquired whether FS would put forward a deficit budget for 2009-2010. Referring to previous analysis that the Government should maintain a level of reserves amounting to about 12 months of its expenditure, Miss CHAN sought FS's view on the adequate level of fiscal reserves.

42. In response, FS said that the fiscal reserves played a crucial role in enabling the Government to maintain public expenditure during economic downturn and reduction in revenue. On the adequate level of fiscal reserves, FS pointed out that the more reserves held by the Government would better enable it to cope with the uncertainties and challenges facing the economy. This was evident from the large sum of public resources involved in the various rescue plans implemented by overseas economies. Taking into account the reduction in revenue in 2008, expenditure for additional commitments such as Hong Kong's contribution to the reconstruction programme of the Sichuan earthquake-stricken areas and relief measures introduced in 2008, the deficit in 2008-2009 would far exceed the estimated deficit of \$7.5 billion. He said that a deficit would inevitably be expected in the 2009-2010 Budget.

43. Given that there was a significant drop in the revenue from stamp duties and land premium, Mr CHIM Pui-chung enquired whether the Government would consider withdrawing the Application List system and reverting to open land auctions. Mr CHIM further asked whether, in drawing up deficit budgets, the Government would contravene Article 107 of the Basic Law which required the HKSAR Government to follow the principle of keeping expenditure within the limits of revenues.

44. In response, FS said that the Application List system had operated effectively since its inception and the Government had no plan to change the arrangement. Moreover, holding land auctions under the current economic downturn might not receive favourable responses from property developers. As far as Article 107 of the Basic Law was concerned, FS pointed out that the principle of keeping expenditure within the limits of revenues enshrined in the Article was observed in the management of public finances over a period of time and did not equate to drawing up a balance or surplus budget for each financial year. Being a small open economy, Hong Kong's well-being was inevitably affected by global events. Moreover, government expenditure had remained relatively stable in the past ten years despite volatilities in revenue. Drawing up deficit budgets would sometimes be inevitable under economic difficulties and would not be in breach of Article 107.

Problem of unemployment

45. Mr WONG Kwok-hing was concerned that as large-sized international companies might stand a better chance in open tender for public works projects, job opportunities created by these projects available to local workers might reduce if companies based overseas succeeded in the tenders. Mr WONG was particularly concerned about the surge in unemployment under the adverse economic environment. He was of the view that priority should be given to rendering assistance to the unemployed and suggested the Administration consider setting up an unemployment assistance scheme to provide immediate relief to laid off workers as well as unemployed university fresh graduates. Assistance could be provided in the form of tax breaks to help those with burdens of mortgage loans and study loans repayment. Miss Tanya CHAN shared Mr WONG's concern about the hardship of university fresh graduates who could hardly get means to repay the study loans for their university education under the current economic climate and urged the Administration to put in place relief measures for these graduates.

46. FS agreed that priority should be given to tackling the problem of unemployment. To increase job opportunities, the Government would increase expenditure for public works projects and press ahead the ten major infrastructure projects, which would create some 250 000 jobs. Smaller scale projects at the district level would also be expedited. As regards assistance to the unemployed, FS advised that other than the employment services provided by Labour Department, a safety net was provided through the Comprehensive Social Security Assistance Scheme. FS took note of the concern about hardship of university graduates and agreed to consider measures to relieve their pressure of loan repayment.

Taxation system and competition from neighbouring places

47. Noting that FS had mentioned in his briefing that one of the challenges ahead for Hong Kong was the narrow tax base, Mr KAM Nai-wai was concerned whether FS would put forward proposals to broaden the tax base in the context of the 2009-2010 Budget, such as through the introduction of goods and services tax.

48. In response, FS pointed out that during the past discussions on options to broaden the tax base, there was no consensus in the community on the introduction of new tax. The idea of introducing goods and services tax was not welcome by the community in general both during times of economic growth and economic downturn, notwithstanding that such tax had been successfully introduced in many jurisdictions overseas. The Government would welcome views of Members on measures to tackle the problem of a narrow tax base in Hong Kong.

49. Pointing out that the developments in neighbouring places (such as the implementation of "Three Links" and the revision of taxation system in Singapore) would pose threats to Hong Kong's competitiveness in the region, Ms Starry LEE asked whether the Government had assessed the impact of these developments, and the need to review the existing taxation system in the context of the 2009-2010 Budget.

50. In response, FS remarked that in drawing up the budget, the Government could consider introducing measures to increase its revenue and/or reduce its expenditure in order to achieve budget balance. Since there was little scope for the Government to reduce its services and expenditure, and it was doubtful whether it was a right time for introducing new taxes, a deficit budget for 2009-2010 would seem to be inevitable. The Government, however, would take into consideration the need to provide relief measures for those most hard hit by the economic downturn in drawing up the 2009-2010 Budget. On the competition from neighbouring places, FS said that while "Three Links" would have short term impact on individual sectors e.g. the logistics industry, the development would bring better cost-effectiveness, more efficient resource allocation and better development of Hong Kong's advantages in the long run. This would bring about new opportunities and economic growth to Hong Kong, Taiwan and the Mainland.

Concluding remarks

51. The Chairman commented that the Government should provide assistance to people most hard hit by the economic downturn in order to maintain a harmonious society. The Chairman stressed that the impact of the global financial crisis on Hong Kong's economy should not be under-estimated and effective measures should be devised to stabilize and revive the economy, e.g. by controlling the prices of essential goods/services and encouraging internal spending.

52. FS thanked Members for their views and suggestions and assured Members that the Administration would draw up the 2009-2010 Budget having regard to the need to make best use of public resources for the sustainable development of Hong Kong's economy, and improvement in the livelihood of the general public.

VI Arrangement for the Vote on Account Resolution under section 7(1) of the Public Finance Ordinance (Cap.2)

(LC Paper No. CB(1)273/08-09 — Background brief on the arrangement for seeking funds on account prepared by the Legislative Council Secretariat

LC Paper No. CB(1)275/08-09(05) — Administration's paper on Resolution under Section 7(1) of the Public Finance Ordinance (Cap. 2)

53. The Deputy Secretary for Financial Services and the Treasury (Treasury)1 (DS(Tsy)1) highlighted salient points in the Administration's paper on proposed arrangements for resolutions under section 7(1) (Vote on Account (VOA) Resolution) of the Public Finance Ordinance (Cap. 2). She advised that the proposed arrangements were put forward after the Administration had considered suggestions of a Legislative Council (LegCo) subcommittee formed to study the VOA resolution for the 2008-2009 financial year on improving the arrangements for the moving of the VOA resolution, the amounts of funds on account to be sought for non-recurrent subheads and the power of the Financial Secretary (FS) to vary the funds on account. DS(Tsy)1 said that the following changes to the current arrangements were recommended:

- (a) the Administration would make its best endeavours to schedule the VOA resolution day at least two weeks after the Budget Day;
- (b) in respect of Subhead 689 and Subhead 789 Additional Commitments, the Administration would seek funds on a need basis under the VOA resolution; and
- (c) while retaining FS's power to vary the funds approved for individual subheads under the VOA resolution, the Administration would submit reports to the Finance Committee (FC) on any variations so approved by FS.

54. Ms Emily LAU called on the Administration to honour its undertaking of scheduling the VOA resolution day at least two weeks after the Budget Day, while stating that two weeks would still be too short for scrutiny of the resolution. Ms LAU asked the Administration to explain further how it would work out the funds on account for Subhead 689 and Subhead 789 under the VOA resolution. In response,

DS(Tsy)1 stated that the Administration would work out a realistic estimate of the expenditure under the two subheads having regard to the cashflow requirements during the VOA period for the relevant initiatives under planning, and seek approval for funding expressed in terms of a specific amount required for each of the two subheads under the VOA resolution.

55. Noting that the Administration would submit reports to FC on variations to funds on account approved by FS, Ms Emily LAU expressed concern that FC would not be consulted prior to the approval given by FS. She was concerned about the time gap between FS's approval for variations and submission of reports to FC, and what Members could do if they disagreed with the variations made.

56. DS(Tsy)1 advised that FS had only invoked the power to vary the funds on account 13 times over the past 25 years, and only small sums of variations ranging from a few hundred dollars to some \$800,000 had been involved. The Administration had been exercising prudence in making variations, as evidenced by the small sums involved. The Administration had proposed to retain FS's power to vary the funds approved for individual subheads under the VOA resolution so as to allow flexibility for the Administration to deal with unexpected circumstances during the VOA period. She assured members that the Administration would endeavour to report to FC any variations approved by FS as soon as practicable. The reporting arrangement could be reviewed if FC members considered that the arrangement would merit further consideration in the light of the approved variations.

VII Enhancing employee control over Mandatory Provident Fund investment – proposed legislative amendments

(LC Paper No. CB(1)274/08-09 — Background Brief on enhancing employee control over Mandatory Provident Fund investment – proposed legislative amendments prepared by the Legislative Council Secretariat

LC Paper No. CB(1)275/08-09(06) — Administration's paper on enhancing employee control over Mandatory Provident Fund investment – proposed legislative amendments)

57. The Deputy Secretary for Financial Services and the Treasury (Financial Services) (DS/FS) briefed members on the major legislative amendments for implementing the proposal to enhance employees' control over their Mandatory Provident Fund (MPF) investment (the Proposal), as set out in paragraphs 8 to 16 of LC Paper No. CB(1)275/08-09(06). DS/FS advised that subject to members' views,

the Administration aimed to introduce the relevant bill in the current legislative session.

Scope and merits of the Proposal

58. Mr WONG Kwok-hing was gravely concerned that employees would not be given full control of their MPF investments as they would not be allowed to choose their own scheme trustees for both employer and employee mandatory contributions. Mr IP Wai-ming shared Mr WONG's concern and called on the Administration to consider making legislative amendments to allow employees to transfer also the accrued benefits derived from employer mandatory contributions to a scheme of their own choice.

59. DS/FS advised that in examining the scope of the Proposal, the Administration had taken into consideration important issues which could not be resolved satisfactorily should the Proposal be extended to cover transfers of accrued benefits derived from employer mandatory contributions. As such an extension would give rise to difficulties in tracing the contribution records of employers for individual employees, there were concerns about disruption to the operation of the existing system whereby employers could apply the accrued benefits derived from employer contributions to offset the Severance Payment/Long Service Payment (the SP/LSP offsetting arrangement) and possible impact on the existing enforcement arrangements of the Mandatory Provident Fund Schemes Authority (MPFA) to deal with default contribution cases. DS/FS pointed out that according to the estimation of the MPFA, the current proposal would result in around 60% of MPF benefits being portable between trustees.. This would help promote competition in the MPF market and bring about benefits to the scheme members in general.

60. Mr WONG Kwok-hing was strongly of the view that employees should be given full control of their MPF investments. Mr IP Wai-ming was of the view that the SP/LSP offsetting arrangement should be abolished and asked whether the Administration would propose amendments to the MPF legislation to this effect.

61. DS/FS said that the SP/LSP offsetting arrangement permitted under the existing MPF legislation was a subject of great concern to different stakeholders. He recapitulated that the decision of incorporating the offsetting arrangement in the MPF System was made after extensive discussion by stakeholders during the scrutiny of the MPF legislation. Members' views on the SP/LSP offsetting arrangement in the recent rounds of discussion had been conveyed to another policy bureau which was responsible for the related policy.

62. Ms Emily LAU was concerned that the Administration's paper did not set out details of the views such as the supporting and opposing views expressed by different stakeholders and trade unions collected during the public consultation on the Proposal.

63. In response, DS/FS referred members to paragraphs 4 and 5 of the Administration's paper on the views of employer and employee associations on the Proposal presented at the special meeting of the Panel on Financial Affairs (FA Panel) held on 30 June 2008. Employer representatives had pointed out that in considering the scope of the Proposal, it was important to avoid imposing undue administrative burden on employers' operation. Some employee representatives, however, advocated that the Proposal should be extended to allow employees to also transfer the accrued benefits derived from their employer mandatory contributions during their current employment to an MPF scheme of their own choice. In this regard, the Administration had explained to the FA Panel at the meetings in April and June 2008 the impact of making further changes to the scope of the Proposal on the operation of the existing MPF System. DS/FS said that the Proposal had been worked out with due regard to the views and concerns of different stakeholders after thorough consultation, and the relevant parties generally agreed that it was a positive step forward.

64. Responding to Ms Emily LAU's enquiry on the legislative timetable for the proposed amendments, DS/FS advised that the Administration planned to introduce the relevant bill into LegCo in the first half of 2009.

65. Mr James TO was concerned whether the Proposal would have any impact on the voluntary contributions made by or in respect of the employees. The Executive Director (Regulation & Policy) Mandatory Provident Fund Schemes Authority (ED/MPFA) and DS/FS advised that the proposed legislative amendments would only apply to the accrued benefits derived from employee mandatory contributions, and would not affect any accrued benefits derived from voluntary contributions. DS/FS added that the terms and conditions for making voluntary contributions were governed by the governing rules of MPF schemes. The administration of mandatory and voluntary contributions could be separated since they were maintained in separate accounts. Nevertheless, the Administration/MPFA would monitor the impact after implementation.

66. The Chairman said that while Members belonging to DAB supported the Proposal in principle, they called on the Administration/MPFA to take heed of the need to ensure convenient transfer arrangements at minimal cost in the drafting of the bill. Noting the Administration/MPFA's proposal to require the transferor trustee to ensure that accrued benefits should be transferred in accordance with the employee's election within 30 days upon notification, the Chairman considered the lead time too long and opined that this should preferably be reduced to, say, 15 or seven days. In response, DS/FS advised that allowing a shorter lead time might give rise to concern of scheme trustees that they might not be able to cope with all requests for transfer within the time limit. He took note of the Chairman's view and agreed to give further consideration in this regard.

Fees and charges arising from the transfer of MPF benefits

67. Mr WONG Kwok-hing was concerned about the fees and charges incurred for transfer of the accrued benefits derived from employee mandatory contribution to an MPF scheme of the employee's own choice. He was concerned that in addition to the losses in MPF investment due to recent market volatilities, scheme members might suffer further reduction in their MPF benefits if exorbitant fees were charged for the transfer.

68. In response, DS/FS advised that the existing statutory requirement that a trustee might only charge the actual and reasonable expenses incurred as a result of redeeming funds in connection with the transfer would apply to the new type of transfer to be permitted under the Proposal.

69. Mr WONG Kwok-hing enquired about the number of "preserved accounts" and the level of charges imposed on these accounts. He was concerned whether scheme members would be subject to higher fees and charges as a result of the changing of "preserved account" to "personal account". In reply, ED/MPFA said that as far as he could recall, there were about two million "preserved accounts". The number of such accounts might reduce upon implementation of the proposal to rename "preserved account" as "personal account", as the change would instill a greater sense of ownership by the employees concerned and hence encourage them to consolidate their accounts to facilitate management of MPF investments. Based on the existing information, some scheme trustees were charging lower fees for "preserved account" than the contribution accounts as the former type of accounts normally required a lower degree of administration. In any case, the administration fees for MPF accounts would usually be calculated as a percentage of the amount of assets kept in the accounts instead of the number of accounts held. DS/FS supplemented that under the existing legislation, scheme trustees were not allowed to impose any termination fees. Hence, no additional charges would be incurred for the change from "preserved account" to "personal account" or the consolidation of accounts by scheme members.

Enforcement and administration of the MPF System

70. Mr IP Wai-ming expressed concern about the effective enforcement of the MPF System, pointing out that in some cases, employers had failed to make mandatory contributions for a long period of over 30 months despite that the amount of employee mandatory contribution had been deducted from the employees' pay.

71. ED/MPFA responded that to enhance enforcement of the MPF System, legislative amendments had been made in 2008, which, among other things, increased the maximum penalties on employers who failed to enroll or make contributions to the MPF scheme, removed the settlement period as well as amended the definition of "relevant income" under the MPF legislation to remove housing allowance and other housing benefits exclusion for computation of mandatory contribution purpose. DS/FS added that the legislative amendments were introduced through two amendment legislation enacted in the 2007-2008 session. The major amendments enacted through the Mandatory Provident Fund Schemes (Amendment)

(No. 2) Bill 2007 increased penalties on non-compliant employers, which could increase the deterrent effect of the legislation. ED/MPFA said that the MPFA was committed to taking appropriate and necessary enforcement actions against non-compliant employers and had devoted a lot of resources to its enforcement work.

72. Noting the establishment of a database of personal accounts by the MPFA, Mr WONG Kwok-hing opined that a passbook system should also be set up to facilitate scheme members in checking of MPF account balance. The Chairman expressed similar view and stated that he had put forward such a suggestion years ago. The Chairman pointed out that the gist of the issue was for scheme trustees to provide convenient means for their members to monitor their MPF accounts in order to facilitate their transfer or withdrawal of accrued benefits, should it be in the form of passbooks or other forms such as electronic cards. DS/FS noted the views of Mr WONG and the Chairman and agreed to examine this further. ED/MPFA said that the MPFA would look at the issue in the overall context of disclosure of information to scheme members.

73. In conclusion, the Chairman said that the Panel supported in principle the introduction of the relevant bill to give effect to the Proposal.

VIII Any other business

74. There being no other business, the meeting ended at 12:18 pm.