

LEGISLATIVE COUNCIL BRIEF

Additional Relief Measures

Introduction

As the economic data for the latest quarter indicate that the challenges facing our economy are indeed very severe, we have decided to introduce additional relief measures to counter the financial crisis, help our citizens to tide over the difficulties, and prepare ourselves for economic recovery.

The local economic situation of the latest quarter

2. Following a contraction of 2.6% in the fourth quarter of 2008, our GDP registered a sharp decline of 7.8% in the first quarter of 2009 over a year earlier. Total exports of goods plunged by 22.7% in real terms year-on-year in the first quarter of 2009. Moreover, exports of services dropped significantly by 8.2%, and private consumption expenditure fell by 5.5% in real terms in the same period. As to overall investment, the performance remained much in a sluggish state, down by 12.6% in the first quarter over a year earlier. The latest unemployment rate rose to 5.3%.

3. Hence, the Government has revised downwards the full-year

GDP forecast for 2009 from a decline of between 2 and 3% as projected in this year's Budget to a contraction of between 5.5 and 6.5%.

Additional Relief Measures

4. Since there remain a lot of uncertainties in 2009-10, including the developments in the global and local economies, and the possible impacts of the Human Swine Influenza (Influenza A H1N1) on our economy and people's livelihood, when considering the new relief measures and their intensity, we want them to be forward-looking, simple and direct, without involving major policy changes, so that they can benefit the people as early as possible. The new measures should also be targeted, timely and effective to help our citizens ride out the financial turmoil and prepare for economic recovery. While we increase the intensity and take short-term exceptional fiscal measures, we should also take account of fiscal discipline.

Supporting enterprises, preserving jobs

5. One of our main focus is still on relieving the unemployment problem. We must stress that in tackling this problem, the Government should not and cannot by itself provide all jobs for every sector. Otherwise, this will distort the normal operation of the job market. The market must continue to play the most important role in providing employment, and

enterprises can provide the primary impetus for the recovery of our economy. In addressing the problem of unemployment, we need to consider providing other support to different groups of people besides creating jobs.

6. Therefore, the new measures should meet different needs of different people. We will also strengthen measures to support enterprises which will contribute to the recovery of our economy and reinforce the market's role in providing employment. We propose the following measures:

- (i) in light of the current needs of the community, we will continue to roll out the necessary services and create new jobs at the same time, including stepping up our fight against the H1N1 pandemic and enhancing the "Operation Building Bright" project. The anti-pandemic work is still going on and future plans will have to be made in response to the developments of the pandemic. The Social Welfare Department, the Leisure and Cultural Services Department, the Food and Environmental Hygiene Department and the Home Affairs Department are working out plans to promote environmental hygiene and publicise anti-pandemic measures. Such plans will involve creating short-term posts. Up to now, the additional funding required by these projects is around \$300 million. But we must emphasize that this is only the amount requested by the relevant departments to date and not

the ceiling. If the developments of the pandemic demand new measures, we will give our full financial support to ensure that additional funding is available for all the necessary measures.

As for the “Operation Building Bright”, there are views that the \$1 billion jointly provided by the Government, the Hong Kong Housing Society and the Urban Renewal Authority cannot fully meet the demand and can cover the maintenance cost of only about 1 000 of all eligible old buildings. In view of the grave unemployment situation in the construction industry, we will earmark an additional \$1 billion for this purpose. Subject to the number of applications received, we will provide additional funding for this project and create more job opportunities.

- (ii) We propose to make an injection of \$1.2 billion into the Continuing Education Fund (CEF). The CEF should not be considered as a standing fund in the long run. However, under the present exceptional circumstances, extending its operation for some time as a one-off measure can provide an incentive for our people, including the middle class and white-collar workers, to grasp the opportunity and make good use of the CEF subsidy of up to \$10,000 per applicant to pursue further studies and self-advancement. We will also appeal to the course providers to offer a wider range of courses for people from different backgrounds.

- (iii) Some citizens, especially the youth, may like to do voluntary work so as to broaden their horizons and contribute to the community. We will allocate an additional \$10 million to the Home Affairs Bureau for promoting volunteerism through the Commission on Youth and other channels.

- (iv) To extend the application period for loans under the Special Loan Guarantee Scheme till end of 2009, and make the following enhancement for the scheme, including proposing to raise the Government's loan guarantee ratio from 70% to 80% of the loans granted, as a result of which the Government will have to bear a higher default risk and the expenditure arising from the default is expected to increase from the original estimate of \$10 billion to around \$12 billion; substantially increasing the loan ceiling for each enterprise from \$6 million to \$12 million, of which the amount that can be used for revolving credit facilities will be increased from \$3 million to \$6 million; extending the maximum guarantee period from three years to five years. Moreover, regarding the SME Loan Guarantee Scheme, we propose to increase the Government's total loan guarantee commitment from \$12.6 billion to \$20 billion. It is estimated that the expenditure arising from default will increase by \$550 million. We also propose to inject an additional \$1 billion into the SME Export Marketing Fund and further expand its ambit. The Hong Kong Export Credit Insurance Corporation will introduce further

measures to give more protection to the export trade, including raising the ceiling of “small credit limit” applications from \$0.5 million to cover those of \$1 million or below and processing these applications with greater flexibility and within two to three days.

- (v) The 20% rental reduction for most government properties and short-term tenancies of government land will be extended for another three months. During this three-month period, tenants paying a monthly rent of \$2,500 or less are entitled to a rental reduction of 100% or \$500, whichever is the lower. This will provide further assistance to tenants operating small business. Tenants paying more than \$2,500 are eligible for a 20% reduction. It is estimated that this proposal will further cost the Government about \$100 million.

- (vi) We propose to waive the business registration fee for one year so as to help alleviate the difficulties facing all enterprises, especially the small ones. This will cost the Government about \$1.7 billion.

- (vii) To strengthen the support to business sectors directly hit by the financial crisis and the Human Swine Influenza, we propose to exempt the transport, the tourism, the catering and the entertainment sectors from the relevant licence fees for one year.

This will cost the Government about \$670 million. As the impacts of the Human Swine Influenza on our economy and people's livelihood have generated uncertainties, we should adopt a cautious approach and, by drawing on the experience during the SARS outbreak, provide relief measures for those sectors that are directly affected.

(viii) Besides, we propose to allocate \$180 million to the 18 districts for providing more community tours and leisure activities, so as to foster community building, enhance social cohesion, promote cultural and sports activities, stimulate consumption and domestic demand, and create business opportunities for local tourism.

Providing Relief to the Public

7. In the current economic and employment situation, people may encounter various difficulties that will persist for some time. For those who have been affected by the financial crisis, we have introduced a number of measures to relieve their pressure. To further reduce the burden of daily expenditure on our citizens, help them relieve their difficulties, and bolster public confidence, we will introduce the following additional one-off and fast-acting measures. When considering these measures, we have also taken into account the positive effect of the extra cash on the retail, the catering and the transport sectors and hence domestic demand.

- (i) To provide timely relief to those in need, especially the middle class affected by unemployment and pay cuts, we have decided to increase the concession for the salaries tax and tax under personal assessment for 2008-09 from 50%, subject to a ceiling of \$6,000, to 100%, subject to a ceiling of \$8,000. It is estimated that the proposal will further cost the Government about \$2 billion in tax revenue.

- (ii) We will waive rates for the last two quarters of 2009-10, subject to a ceiling of \$1,500 per quarter for each rateable tenement. This proposal will further cost the Government \$4.2 billion.

- (iii) We propose that the Government will pay two months' rent for public housing tenants to relieve the burden of about 700 000 public housing tenants in Hong Kong. The Government will pay the base rent for tenants paying additional rent to the Hong Kong Housing Authority. For non-elderly tenants of the Hong Kong Housing Society's Group B estates, the Government will pay two-thirds of the unit rent. This measure will involve expenditure of about \$2 billion.

- (iv) We have increased the rates of Comprehensive Social Security Assistance (CSSA) and Disability Allowance by 9.3% in the past 12 months. We have also increased the Old Age Allowance to

\$1,000 starting from January 2009. However, considering the profound impacts of the financial turmoil and the fact that many at the grassroots level have also been affected, we propose to provide one additional month of the standard rate of CSSA payment, Old Age Allowance and Disability Allowance. The proposal will involve an additional expenditure of about \$1.8 billion.

- (v) We propose to provide a one-off grant of \$1,000, on top of the existing government assistance, for each student receiving CSSA or student financial assistance (including students of kindergartens, primary and secondary schools, and tertiary institutions) in the coming school year to help ease the financial burden on parents in the new school year. The proposal will involve an additional expenditure of about \$570 million.

- (vi) To help relieve the financial pressure on graduates (including tertiary graduates and continuing education participants) in repaying student loans, we propose to relax the arrangement for deferred repayment for two years. This arrangement is applicable to successful applicants for deferment of repayment on grounds of financial hardship, further studies or serious illness. They will be granted a maximum interest-free deferment period of two years. We estimate that this will cost the Government about \$50 million in loan interest.

8. Details of the above relief measures are set out in the Annex.

Total Additional Cost and Implementation Plan

9. Excluding the estimated loan default expenditure arising from loan guarantee schemes, it is estimated that the implementation of the above measures will cost the Government a total of \$16.8 billion. With this latest round of measures, the intensity of our stimulus package will increase further to an estimated total cost of about \$87.6 billion, which amounts to 5.2% of our GDP. According to the report published by the International Monetary Fund in March, the average expenditure of the G-20 nations in this respect accounts for 2.3% of their GDP. Evidently, the intensity of our stimulus package is stronger than those of many other economies. The above package has not yet taken into account the additional commitment of about \$107.4 billion under the various SME loan guarantee schemes launched at the end of last year and the expenditure arising from default estimated at about \$12.5 billion.

10. The directors of bureaux concerned will explain the measures in detail to the relevant LegCo panels as soon as possible and quickly proceed with the follow-up work, with a view to securing the necessary funding and authority before the LegCo recess this year, so that the measures can benefit the community early. The Government will introduce a Committee Stage Amendment to reflect the proposed higher level of reduction of salaries tax and tax under personal assessment during the

resumption of the Second Reading Debate of the Inland Revenue (Amendment) Bill 2009. The proposed fees and additional rates concession will be implemented as soon as possible through the relevant subsidiary legislation.

Financial Services and the Treasury Bureau

26 May 2009

Measures having the effect of promoting economic growth, assisting people's livelihood and preserving jobs

I. Summary

Measure	Total amount (\$m)
Revenue and expenditure measures	
Additional relief measures announced in May 2009 (See Part II below)	16,790
Measures announced in the 2008-09 Budget, in July 2008 and in the 2009-10 Budget	<u>70,765</u>
Total	<u>87,555</u>
Estimated loan default expenditure arising from loan guarantee schemes announced during the period (leading to increased commitment of \$107.4 billion)	<u>12,550</u>

II Additional relief measures announced in May 2009

Measure	Total amount (\$m)	Beneficiary
Revenue Measures		
1 Waiving rates for the last two quarters of 2009-10, subject to a cap of \$1,500 per quarter per rateable tenement	4,200	2.85 million properties, of which 90% of the domestic properties and 60% of the non-domestic properties will pay no rates
2 Increasing the reduction for 2008-09 salaries tax and tax under personal assessment to 100%, subject to a cap of \$8,000	2,010	All 1.4 million taxpayers
3 Waiving business registration fee for one year	1,700	Some 880 000 businesses

	Measure	Total amount (\$m)	Beneficiary
4	Exempting licence fees of the businesses directly hit by the financial crisis and the Human Swine Influenza for one year (see table attached)	670	Some 200 000 licensees
5	Extending rental reduction for government land (short term tenancies) and properties for another three months. In particular, the reduction for properties with monthly rental at \$2,500 or below will enjoy a waiver increased from the previous 20% to 100% or \$500 (whichever is less)	100	Some 23 000 lessees
6	For the next two years, successful applicants for a maximum two-year deferment of loan repayment will be waived interest payment during the deferment and granted corresponding extension of the loan repayment period	50	Depending on the number of applications (For reference : some 6 000 deferment cases approved in 2008-09)
Expenditure Measures			
7	Paying two months' rent for public housing tenants (including partial payment for Housing Authority tenants paying additional rent and Housing Society Group B Estates tenants)	2,000	Some 700 000 public rental housing tenants
8	Providing one extra month of standard rate Comprehensive Social Security Allowance (CSSA) payment, Old Age Allowance (OAA) and Disability Allowance (DA)	1,800	Some 480 000 CSSA, 490 000 OAA and 130 000 DA recipients
9	Injection into the Continuing Education Fund	1,200	At least 120 000 individuals pursuing further studies
10	Injection into SME Export Marketing Fund	1,000	Depending on the number of applications

	Measure	Total amount (\$m)	Beneficiary
11	Earmarking additional funding for “Operation Building Bright”	1,000	Depending on the number of applications
12	One-off payment of \$1,000 in the next school year for each student receiving CSSA or student financial assistance	570	Some 570 000 students
13	Fight against pandemic	300	Whole society
14	Enhancing community building activities	180	General Public
15	Promoting volunteerism	<u>10</u>	Volunteers and those being assisted
	Total	<u>16,790</u>	

In addition, the additional measures include :

- 16 Increasing the Government’s total backup commitment for the SME Loan Guarantee Scheme by \$7.4 billion. Estimated additional default expenditure is \$550 million.
- 17 Special Loan Guarantee Scheme :
- extending the application period until the end of 2009;
 - raising the level of the Government’s guarantee from 70% to 80% of the loans granted;
 - increasing the maximum loan for each enterprise from \$6 million to \$12 million, of which \$6 million is revolving loan; and
 - extending the maximum guarantee period from three years to five years.
- Estimated loan default expenditure will increase from \$10 billion to \$12 billion.
- 18 Hong Kong Export Credit Insurance Corporation introducing further measures to give more protection to the export trade and process the SMEs’ export credit limit applications with greater flexibility

Licence	Number of licences	Amount \$m
Tourism		
Travel agents licence	1,465	9.1
Hotel and guesthouse licence	1,277	8.4
Catering		
Restaurant licence	10,843	96.1
Liquor licence	5,384	13.8
Restricted food permit	5,686	3.9
Entertainment		
Karaoke establishment licence and permit	114	0.1
Cinema	63	1.0
Others		
Hawker licences	7,169	35.3
Vehicle Licence		
- Goods vehicle licences		
- Taxi licences		
- Public bus licences		
- Public light bus licences		
- School private bus licences		
- School private light bus licences		
- Trailer licences		
Passenger Service Licence and Passenger Service Licence Certificate		
School buses licences	1,655	1.5
- public buses for student service		
- private light buses for student service		
- private buses for student service		
Public light bus licences		
- red public light buses	877	0.6
- green public light buses	151	0.5
Non-franchised public buses licences (excluding public buses for student service)	468	0.7
Vessel licences for Class I, II, III and IV (except pleasure vessels)	7,783	17.0
	202,935	668