

Motion Debate on
“Urging the Government to take measures for ameliorating inflation and
alleviating people’s livelihood pressure”

Progress Report

At the Legislative Council meeting of 5 January 2011, the motion on “urging the Government to take measures for ameliorating inflation and alleviation people’s livelihood pressure” moved by Hon WONG Sing-chi as amended by Hon CHAN Kam-lam was carried. The motion reads as follows:

“That Hong Kong has seen rapid economic growth and the re-emergence of inflation since 2004, but the increases in wages of grass-root people have failed to catch up with increases in prices, resulting in the decline in their real wages and living standards; in the recent year or so, there has been an influx of outside capitals into Hong Kong and a substantial increase in property values, bringing significant rental increases, and further boosting inflation; moreover, in the recent month, the fees and charges of many public utility services have been adjusted and the rates of increases are higher than the inflation rate, and the livelihood of the grass-root people will be very difficult; in this connection, this Council urges the Government to implement measures to ameliorate inflation and alleviate pressure on people’s livelihood; the relevant measures should include:

- (a) to set up a \$30 billion public transport fare stabilization fund to alleviate the pressure of public transport fare increases on people;
- (b) to strengthen the Food Assistance Service Projects, so as to benefit a greater number of needy persons;
- (c) to continue to freeze those government fees and charges directly affecting people’s livelihood, as well as the rents of stalls in the markets under the Food and Environmental Hygiene Department and the Hong Kong Housing Authority;

- (d) to provide short-term rental assistance for those households on the Waiting List who can meet the income and asset requirements for public rental housing but fall outside the coverage of the existing Comprehensive Social Security Assistance rent allowance;
- (e) to set up a short-term unemployment supplement for providing assistance for those low-income persons who become unemployed due to the implementation of the minimum wage system;
- (f) to provide a subsidy of \$3,600 to each of the 2.5 million or so residential electricity accounts in Hong Kong; in order to encourage the public to reduce electricity consumption, to provide a subsidy of \$1,200 to members of the public whose electricity consumption in any half-year period is 5% or more less than that for the same period of the preceding year;
- (g) to pay two months' rent for tenants living in the rental units of the Hong Kong Housing Authority and the Hong Kong Housing Society;
- (h) rates concession: to waive rates for the entire year of 2011-2012, subject to a ceiling of \$3,000 per quarter for each household;
- (i) to provide two additional months of payments for recipients of Old Age Allowance (i.e. 'fruit grant'), Comprehensive Social Security Assistance and Disability Allowance;
- (j) to increase land supply and resume the Home Ownership Scheme and the Sale of Flats to Sitting Tenants Scheme, so as to increase the supply of small and medium flats, meet people's demand for home ownership, balance supply and demand in the property market, and alleviate the upward pressure of property prices and rents;
- (k) salaries tax deduction: to increase the basic allowance according to the inflation rate from the present \$108,000 to \$113,000; to increase the married person's allowance according to the inflation rate from the present \$216,000 to \$226,000; to increase

the child allowance from the present \$50,000 to \$60,000; and to increase the dependant parent allowance from the present \$30,000 to \$60,000;

- (l) to comprehensively review the salaries tax regime, including studying the abolition of the standard rate for salaries tax, so that members of the public pay their salaries tax according to the marginal tax rate;
- (m) to provide members of the public with tax deductions for retirement protection savings: where members of the public purchase any retirement savings schemes the accrued benefits of which can only be claimed at the age of 65, or if they make any additional contributions to the Mandatory Provident Fund schemes, the contributions concerned may be deducted from the chargeable incomes for salaries tax, subject to a ceiling of \$20,000;
- (n) to increase the salaries tax deduction for expenses of self-education from \$60,000 to \$100,000;
- (o) to introduce anti-inflation retail bonds solely for sale to Hong Kong permanent residents and persons aged 65 or above have priority in buying such bonds, and the total value of such bonds should be about \$30 billion, with the face values of bonds ranging from \$50,000 to \$100,000 and the maturity periods ranging from two years to five years; the Government should distribute annual inflation-linked interests to the purchasers of such bonds, while the principals of the bonds should be entrusted to the Hong Kong Monetary Authority for investment; and the Government should develop the second bond market to facilitate bond redemption by members of the public; and
- (p) to extend the entitlement period for home loan interest deduction from 10 years to 15 years.”

2. This note informs Members of the follow-up actions taken by the Administration in respect of the motion.

3. The average inflation rate for 2010 as measured by the Composite Consumer Price Index was 2.4%. Netting out the effects of the Government's one-off relief measures, the underlying inflation rate was 1.7%. In light of the rapid economic expansion of 6.8% in 2010, inflation for the year was rather moderate. However, the Government has been mindful of the risk of inflation which may further increase. The Financial Secretary made it clear in the 2011-12 Budget announced on 23 February 2011 that fighting inflation would be a major task of the Government this year.

4. In the short term, the Government will strive to ease the domestically generated price pressure by forestalling property market exuberance, preventing excessive credit growth and pursuing a prudent fiscal policy. In the medium to long term, Hong Kong must keep enhancing its productivity to alleviate the inflationary pressure. Regarding macroeconomic management, the Government will adopt a counter-cyclical fiscal strategy to contain the growth of government expenditure. To maintain monetary stability, we will continue with macro-prudential regulation to strengthen credit risk management of the banking system.

5. The Government also plans to issue \$5 billion to \$10 billion worth of Hong Kong-dollar inflation-linked retail bonds or "iBond". This will provide our citizens with another investment option for coping with inflation while promoting the development of the local retail bond market. The preliminary plan is to issue iBond with a maturity of three years to Hong Kong residents. Interest will be paid to bond holders once every six months at a rate linked to the inflation of the last half-year period. The Hong Kong Monetary Authority is working out the implementation details and formulating the sales arrangements, with a view to launching the bonds in six months.

6. To help ease pressure of inflation on the people, the Financial Secretary has proposed a series of relief measures. Among such, one-off measures include:

- (a) Granting each residential electricity account a subsidy of \$1,800. This will cost the Government about \$4.7 billion. The Government has considered carefully the proposal to grant extra subsidy to those who have reduced their electricity usage, and concluded that there will be practical difficulties in implementation. The Budget has proposed a flat-rate subsidy to benefit about 2.6 million households;

- (b) Waiving rates for 2011-12, subject to a ceiling of \$1,500 per quarter for each rateable property. It is estimated that about 82% of properties will be subject to no rates in the year. This proposal will cost the Government approximately \$9.9 billion;
- (c) Paying two months' rent for public housing tenants. The Government will pay two months' base rent for tenants who are required to pay extra rent to the Hong Kong Housing Authority (HKHA). For non-elderly tenants of the Hong Kong Housing Society (HKHS)'s Group B estates, the Government will pay two-thirds of their rent for two months. This measure will involve expenditure of approximately \$1.9 billion; and
- (d) Providing an extra allowance to Comprehensive Social Security Assistance (CSSA) recipients, equal to one month of the standard rate CSSA payments; and an extra allowance to Old Age Allowance and Disability Allowance recipients, equal to one month of the allowances. This proposal will involve an additional expenditure of about \$1.9 billion.

7. In addition, the short-term food assistance services funded by the Government, which have achieved satisfactory results since implementation, provide immediate support to people in need. The operating organisations have the discretion to provide assistance beyond the specified period in exceptional circumstances. Given the stable utilisation of the services, the funding already allocated should be sufficient for financing the operation of the services until 2013. The Social Welfare Department will closely monitor the demand for the services and the related arrangements. The Government has also reserved an additional \$100 million for the continuation of the services as and when needed.

8. In addition to the above one-off measures, to alleviate the burden of people in supporting their parents and raising their children, recurrent measures for raising the tax allowances include:

- (a) Increasing the allowance for maintaining dependent parents/grandparents by 20%. The allowance for maintaining a dependent parent/grandparent aged 60 or above will increase from the present \$30,000 to \$36,000. At the same time, the

additional allowance for a taxpayer residing with his/ her parent/ grandparent will increase from \$30,000 to \$36,000. The allowance for maintaining a dependent parent/ grandparent aged between 55 and 59 will increase from the current \$15,000 to \$18,000. The same increase applies to the additional allowance for taxpayers residing with these parents/ grandparents. For taxpayers whose parents/ grandparents are admitted to a residential care home, the deduction ceiling for elderly residential care expenses will be raised from the current \$60,000 to \$72,000. This measure will benefit about 510 000 taxpayers and cost the Government \$570 million a year; and

- (b) Raising both the child allowance and the additional one-off child allowance in the year of birth by 20% from \$50,000 to \$60,000 for each child. It is estimated that this measure will benefit about 300 000 taxpayers, costing the Government \$650 million a year.

9. In considering whether to increase the allowances, introduce new deductible items or change the tax rates, the Government has carefully examined the impact of these proposals on public finance. The above proposed recurrent tax measures seek to strike a balance between reducing tax burden of taxpayers and maintaining a prudent fiscal position.

10. In preparing the 2011-12 Budget, the Government aims at helping people in need to cope with inflationary pressure while avoiding any excessive stimulus to overall consumption. The Government understands that not all the measures will benefit every member of the public as needs vary depending on individual circumstances. The government expenditure for 2011-12 is estimated at \$371.1 billion, an increase of 22% over the current year. Recurrent expenditure will reach \$242 billion, registering a year-on-year growth of about 8%. Such allocations will be used to improve services and facilities of all kinds, with over 56% of total recurrent expenditure spent in the areas of education, welfare and health. They will benefit a wide spectrum of the community.

11. Since the announcement of the Budget, the Financial Secretary has received feedback and views through different channels. On 2 March, the Financial Secretary announced the following measures:

- (a) To give a sum of \$6,000 to all Hong Kong Permanent Identity Card holders aged 18 or above. Those who apply and are eligible may, having regard to his or her own wish, withdraw the sum upfront or choose to defer withdrawal in order to accumulate “savings bonus”. This proposal will benefit over 6.1 million people and involve an expenditure of almost \$37 billion.
- (b) Inject funds into the Community Care Fund to provide assistance to those who cannot benefit from the above measure but face financial hardship, including new immigrants. The Steering Committee on Community Care Fund and relevant Government departments will further examine the details.
- (c) Reduce salaries tax and tax under personal assessment for 2010-11 by 75%, subject to a ceiling of \$6,000. The extent of reduction is the same as that proposed in last year’s Budget. The reduction will be reflected in the taxpayers’ final tax payable for 2010-11. This proposal will benefit 1.5 million taxpayers and cost the Government about \$5.3 billion.

12. We believe the above proposals can leave wealth with the people and also respond to their demands.

13. On public transport fare increases, it is the Government’s established policy that public transport services should be run by the private sector in accordance with commercial principles with a view to providing cost effective and efficient services. The Government has also established mechanisms to regulate fares of major public transport services to ensure that the fare levels are reasonable, taking into consideration public acceptability and affordability. Moreover, the Government has all along been encouraging public transport operators to introduce fare reduction or concession as far as possible to help reduce passengers’ travelling expenses, taking into account the operators’ operating and financial conditions, the overall economic environment and passenger needs. When considering the proposal to set up a “public transport fare stabilisation fund”, the Government is mindful. We need to ensure the proper use of public money. We should also consider carefully various factors including the objective of the proposal, target beneficiaries, expected effect and impact, etc. The Government has to treat different public transport operators equitably, and avoid providing wrong incentives that undermines the operators’ efforts in cost saving and efficiency enhancement. Furthermore, if

taxpayers are to bear in full the increase in the expenditure of public transport services, it may invite unnecessary fare increase applications and be perceived as the Government offering direct subsidy to the public transport operators in contradiction to established policy.

14. On government fees and charges, the Government's policy in general is to apply the "user pays" principle to recover the full cost of services provided. It is an important financial discipline for the Government to observe. If the fees are insufficient to cover cost, the Government will have to use taxpayers' money to subsidise individual users of government services. This may not be fair to the general taxpayers. In addition, freezing government fees and charges is a short-term measure to respond to immediate crises (such as the global economic downturn following the financial tsunami in late 2008). After the crises, the Government will continue to review and formulate fee proposals in accordance with the "user pays" principle. In doing so, the Government will take into account considerations relevant to the specific services provided, public affordability and acceptability, and the views of Legislative Council (LegCo) Members.

15. As regards public market rental, the rent of public market stalls under the management of Food and Environmental Hygiene Department was reduced across-the-board by 30% in 1998 and has been frozen since then. The current rental freeze will expire on 30 June 2011. The Government is discussing with the relevant LegCo Panel a sustainable rental adjustment mechanism for public market stalls. In considering whether to further extend the rent freeze, the Government will take into account various factors including the overall economic situation, the business environment of public markets and the affordability of tenants, etc.

16. The HKHA operates its commercial properties in accordance with prudent commercial principles. According to the established rental policy of the HKHA's commercial properties, when the tenancies of market stalls are due to expire and up for renewal, the HKHA will fix the rental by taking into account various factors such as the overall operating environment, change in the demographic profile of public housing estate population and the circumstances of each housing estate. The prevailing rental policy works well. When implementing the rental policy, the HKHA will closely monitor the local economic conditions and relevant statistics, and fix the rental of individual market stall with reference to its respective location, the trade under operation and other relevant factors.

17. As for the proposal to provide short-term rent subsidy for Public Rental Housing (PRH) Waiting List applicants, the purpose of the PRH Waiting List is to allow families and individuals who are eligible for PRH to wait for flat allocation in the order of their applications. The HKHA reviews the Waiting List Income and Asset limits every year so as to keep abreast of the prevailing socio-economic situation. While on the Waiting List, PRH applicants' circumstances may change over time, rendering them ineligible for PRH. Therefore, applicants are subject to detailed vetting at the time of PRH allocation. Having regard to the specific purpose of the PRH Waiting List and the fact that the housing needs of applicants on the Waiting List are subject to confirmation, it is not appropriate to use the Waiting List as the basis for providing assistance other than PRH.

18. On assistance for the unemployed, statutory severance payment or long service payment helps tide people who suffer redundancy or involuntary departure over financial difficulties resulting from unemployment. At present, the CSSA Scheme provides financial assistance to families which are faced with financial difficulties resulting from unemployment or other reasons. The best way to assist unemployed persons of different ages is to boost economic growth, thereby creating more employment opportunities. In parallel, training and retraining services will be enhanced to upgrade the competitiveness and employability of unemployed persons so as to help them re-enter the job market. We provide training and employment services for the needy through various training institutions and the Labour Department.

19. On increasing land supply for private housing development, the Financial Secretary has stated that the Government will take more proactive measures this year in response to market demand for residential sites. We will specify in the Application List four residential sites for government-initiated sale by open auction or tender this year. We will also put up for sale by tender five residential sites in addition to those sites on the Application List, and require by sale conditions they will be used for the construction of about 3 000 small and medium-sized flats in total. The total number of residential sites available for sale in 2011-12 is 52, comprising 18 new sites and 34 sites rolled over from this year's Application List. Together they can provide some 16 000 residential flats, an increase of more than 70% over the 9 000 or so flats provided in 2010-11. Along with the above-station projects, the two redevelopment sites of the Urban Renewal Authority, and the annual average supply from lease modifications and private redevelopment

projects for which lease modification is not required, it is estimated that housing land available in the coming year will provide a total of 30 000 to 40 000 private residential flats, far exceeding the target of an annual average of 20 000 flats.

20. On supply of public housing, relevant government departments will identify PRH sites to maintain the average waiting time for general PRH applicants at around three years. In the five-year period starting from 2010-11, the forecast production of new PRH flats is about 75 000 flats. The new PRH flat production forecast for 2011-12 and 2012-13 will be some 11 200 flats and 16 700 flats respectively, of which about 84% will be built in urban areas.

21. To relieve the pressure faced by the sandwich class in home purchase, the Government, in collaboration with the HKHS, will launch the My Home Purchase Plan for eligible applicants. The Government has already earmarked sites in Tsing Yi, Diamond Hill, Sha Tin, Tai Po, Tuen Mun and other areas for a total of some 5 000 flats to be built under the Plan. We expect to invite applications for the first project in Tsing Yi as early as next year, and plan to carry out the second project in Sha Tin. We will identify more suitable sites for the Plan.

22. To meet the demand for public and private housing sites, the Government will continue with our work on land use planning and urban design. The Government will also explore new ways to increase the supply of land, including exploring the possibilities of reclamation on an appropriate scale outside Victoria Harbour and rock cavern development.

23. The Government will administer measures when required to ensure that the property market continues to develop in a stable and healthy manner.

Financial Services and the Treasury Bureau
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