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**Legislative Council**

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**Panel on Financial Affairs**

**Minutes of special meeting**  
**held on Monday, 21 November 2011 at 9:00 am**  
**in Conference Room 1 of the Legislative Council Complex**

**Members present** : Hon CHAN Kam-lam, SBS, JP (Chairman)  
Hon CHAN Kin-por, JP (Deputy Chairman)  
Hon Albert HO Chun-yan  
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP  
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 Abraham SHEK Lai-him, SBS, JP  
Hon LEE Wing-tat  
Hon Jeffrey LAM Kin-fung, GBS, JP  
Hon WONG Ting-kwong, BBS, JP  
Hon Ronny TONG Ka-wah, SC  
Hon CHIM Pui-chung  
Hon KAM Nai-wai, MH  
Hon Starry LEE Wai-king, JP  
Hon Paul CHAN Mo-po, MH, JP  
Hon Mrs Regina IP LAU Suk-yea, GBS, JP

**Members attending** : Hon WONG Kwok-hing, MH  
Hon WONG Kwok-kin, BBS  
Dr Hon PAN Pey-chyou

**Member absent** : Hon Andrew LEUNG Kwan-yuen, GBS, JP

**Public officers attending** : Agenda Items I and II

Mr John TSANG, GBM, JP  
Financial Secretary

Mr Arthur AU  
Administrative Assistant to Financial Secretary

Agenda Item I

Mrs Helen CHAN, JP  
Government Economist

Agenda Item II

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

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

Agenda Item III

Miss Emmy WONG  
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) 3

Mr Darren MCSHANE  
Executive Director (Regulation and Policy)  
Mandatory Provident Fund Schemes Authority

Ms Gabriella YEE  
Head (Policy Development and Research)  
Mandatory Provident Fund Schemes Authority

**Clerk in attendance** : Ms Anita SIT  
Chief Council Secretary (1)5

**Staff in attendance** : Mr Noel SUNG  
Senior Council Secretary (1)5

Ms Haley CHEUNG  
Legislative Assistant (1)5

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Action

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

(LC Paper No. CB(1)338/11-12(01) — Third Quarter Economic Report 2011 and the press release

LC Paper No. CB(1)351/11-12(01) — Administration's paper on Hong Kong's recent economic situation and near-term outlook)

At the invitation of the Chairman, the Financial Secretary (FS) briefed members on the latest economic situation by highlighting the following –

- (a) Recently the global economic situation had worsened amid the eurozone sovereign debt crisis and the slow economic recovery in the United States (US). As demand in the US and European markets was weak, growth in exports and manufacturing productions in many Asian countries saw some deceleration lately. As a small and open economy, Hong Kong would inevitably be affected.
- (b) Total exports of goods slackened to a modest year-on-year decline of 2.2% in real terms in the third quarter of 2011, the first decline since the fourth quarter of 2009. The fall-off was more distinct in September 2011 at 11%.
- (c) Consumer expenditure and investment spending remained strong in the third quarter, thereby rendering the key support to overall economic performance. With the decline in exports, economic growth in Hong Kong had moderated. The Hong Kong economy grew by 4.3% in real terms in the third quarter of 2011 over a year earlier, which represented a further slowdown from the 5.3% growth in the second quarter. On a seasonally adjusted

quarter-to-quarter basis, Gross domestic Product (GDP) grew slightly by 0.1% in real terms.

- (d) Given the sluggish demand, exports in the fourth quarter of 2011 were expected to remain weak, leading to a further moderation of economic growth. Fortunately, the unemployment rate, though edging up slightly in the most recent period, remained relatively low and the labour market was virtually in a state of full employment. With across-the-board improvements in income, domestic demand should hold up well and remain the key driver of economic growth in the near future. The thriving inbound tourism and the continued hectic pace in infrastructure investment should also render some cushion against negative impacts arising from the external economic environment.
- (e) Having regard to the actual outturn of a 5.6% GDP growth in the first three quarters of 2011, and with the cognizance of a still lacklustre export performance in the fourth quarter, the economy was now forecast to grow by 5% for 2011 as a whole, the lower bound of the earlier range forecast of 5-6% in the August round.
- (f) Consumer price continued to go up since early 2011. However, the pace of rising inflation showed some initial signs of slowing towards the end of the third quarter amid a slight ease-back of global and Mainland food prices. The inflation rate was envisaged to peak off during the fourth quarter. Judging from the actual outturn so far and the latest trend in global food prices, the forecast rates of headline and underlying consumer price inflation for 2011 as a whole were marked down slightly to 5.2% and 5.3% respectively, from 5.4% and 5.5% in August. The Government would keep a close watch on the situation, in particular on its impact on the low income households.
- (g) Amid the external uncertain environment, the property market showed some consolidation. Both flat transactions and prices had fallen. The measures introduced by the Government in the past two years aimed to reduce the speculation activities and stabilize the banking sector under increased headwind in the external environment, with a view to maintaining macro economic and financial market stability. In the light of the external uncertainties, the looming economic slowdown and possible increase in interest rates, members of the public should carefully assess their

expending ability in deciding whether they should acquire a property.

- (h) The structural financial problems faced by the US and European countries, which were results of loose financial policies and excessive expenditure in the past years, could not be resolved within a short period. With the US and eurozone both struggling with their own fiscal and structural fragility, global trade flows were set to lose momentum, and the risk of a global economic downturn had largely increased. Amid such an uncertain external environment, Hong Kong's export performance and overall economy would unavoidably be affected by the weakness of the US economy and the eurozone debt crisis in the near term. The economic situation in the latter half of 2012 would depend on the development of the eurozone debt crisis, and the pace of economic recovery of the US and the world.
- (i) Yet, with the shifting of global centre of gravity to the East after the outbreak of the global financial crisis in 2008, Mainland China had risen as the key driving force of global economy. Given its healthy fiscal position and the ample room for policy fine-tuning to cushion against the global slowdown, Mainland China would still be the major stabilizing force in 2012. At the same time, the sound fundamentals of Hong Kong's economy, the stability of the financial and banking sectors and the well established market-based financial system should enable Hong Kong to meet the challenges from external influences.
- (j) With the flexibility and resilience of Hong Kong people and the Government's prompt response to tackle external crisis, Hong Kong had tided over the challenges of the global financial crisis, and the economy had rebound strongly after 2009. The Government was capable and experienced in dealing with external crisis. It would remain vigilant to the downside risks in the external environment, and get prepared for any abrupt changes in the global economic financial situation.

2. The Government Economist (GE) gave a powerpoint presentation on the latest developments in the Hong Kong economy, the updated economic forecasts for 2011, the outlook for 2012 and the latest situation of low-income households.

(*Post-meeting note:* The powerpoint presentation materials (LC Paper No. CB(1)417/11-12(01)) were issued to Members by a Lotus Notes e-mail on 21 November 2011.)

## Discussion

### *Measures to support the economy*

3. Given the weak economy in Europe and the US and the uncertain external environment, Mr WONG Kwok-hing enquired what measures the Government would introduce to support local enterprises and protect employment, in particular for employees from the low-income households.

4. FS responded that the Government was aware of the possible impact of the uncertain economic situation in Europe and the US on Hong Kong's economy, and had introduced a series of measures in the 2011-2012 Budget to support enterprises and create job opportunities. These measures included the implementation of large infrastructure projects amounting to more than \$60 billion, which represented about three folds the average annual expenditure on infrastructure projects in the past ten years. The Government also included another \$60 billion, representing 3.7% of the GDP, in the 2011-2012 Budget to support the local economy. He envisaged that the economy should be able to attain around 5% growth for the whole year of 2011, which still represented an above-trend growth when compared to the 4% growth attained over the past ten years. In order to maintain the stability of the financial sector, the Hong Kong Monetary Authority (HKMA) had introduced measures to enhance the supervision and risk management of the banking sector. The Government would continue to keep a close watch on the external economic situation and would introduce appropriate measures to meet the challenges as and when necessary.

### *Inflation*

5. Ms Emily LAU expressed concern about the impact of the Eurozone sovereign debt crisis on Hong Kong's economy. She enquired what measures would be introduced by the Government to help the community to meet the challenges of high inflation and to maintain a favourable business environment for different trades and industries, in particular the small and medium sized enterprises (SMEs). Ms Starry LEE also expressed concern about high inflation, in particular the rising food prices, and the decline in export.

6. FS concurred that the rising inflation had been a cause for concern. The growth of the inflation rate was mainly attributable to the rise in food prices

and rentals. Recent indications were that global food prices had started to level off, whereas food inflation in the Mainland had also tapered successively over the past few months. In the past two years, the Government had introduced measures to forestall the further build-up of bubble risks in the property market. Speculative activities had subsided; property transactions were down and flat prices had fallen. The overall economic conditions in Hong Kong remained largely stable, but the Government would keep close watch on the development of the sovereign debt crisis in Europe.

7. In response to Mr Ronny TONG's enquiry regarding the decline in employment in transportation services during the third quarter of 2011, GE explained that the job loss in the transportation sector was mainly a result of the setback in exports which had adversely affected the business of the logistics industry.

#### *Property market*

8. Mr LEE Wing-tat expressed grave concern that although the number of property transactions had dropped significantly and speculation activities had to a large extent been contained as a result of the anti-speculation measures introduced by the Government in the past two years, property prices for residential units had only reduced marginally. Mr Paul CHAN echoed Mr LEE's concern and remarked that a clear and steady policy would help stabilise the property market. Mr CHAN opined that an increase in land supply would help solve the housing problem in the long term.

9. FS said that an abrupt and sharp decline in property prices would bring instability to Hong Kong's economy, and a "soft landing" of the property market was a more desirable development. The Government would keep close watch on the property market, including the inflow and outflow of capital, and would continue to implement appropriate measures, such as maintaining adequate supply of land and continuation of the special stamp duty, to ensure the stability and long term healthy development of the property market.

10. The Deputy Chairman opined that a rapid rise or drop in property prices would not be a healthy sign, as property owners would suffer if a negative equity situation re-emerged. Given that property prices had fallen recently, the Deputy Chairman enquired what measures would be taken to prevent a negative equity situation.

11. FS responded that the measures were introduced by the Government to combat speculation activities in the past two years had proved to be very effective. While the number of transactions on residential units had declined

significantly, property prices had eased back somewhat. The Government would like to see a "soft landing" of the property market. FS pointed out that although the number of negative equity had surged from 48 cases in June 2011 to some 1 600 cases in September 2011, the number of cases remained low in comparison with the record high of over 100 000 cases in 2003 and over 10 000 cases in 2008. An analysis of the 1 600 negative equity cases showed that many of the cases involved mortgage loans amounting to 90% of the property price. FS added that the default rate of mortgage loans was still at a very low level.

### *Rental for commercial premises*

12. Ms Starry LEE expressed grave concern about the sharp increase in rentals, especially for commercial premises. Based on a report of Jones Lang LaSalle, the rental for an 80-square-metre shop in Canton Road of Tsim Sha Tsui amounted to \$1.7 million to \$1.86 million per month, and the rentals for shops in Causeway Bay had also shot up considerably. The rentals for commercial premises in To Kwa Wan had also increased by about 8% to 10%.

13. FS replied that the robust increase in shop rentals was mainly driven by the strong growth in the business of the retail sector. While retail business had surged by 46% since 2008, the increase in shop and office rentals had increased by 18% and 11% respectively over the same period. With the expected slowdown in economic growth, the pace of increase in office and shop rentals was also looked set to ease off in the course of time.

14. Dr PAN Pey-chyou opined that the robust increase in shop rentals was partly a result of the increase of patronage from consumers coming from the Mainland, and the rental increase had led to increased prices for consumer goods and affected the livelihood of the general public. He enquired whether the Government would increase the supply of commercial premises, such as through provision of shopping units on the ground level of government office buildings, in order to solve the high rental problem for commercial premises.

15. FS responded that in 2011, the Government had put up six commercial sites for auction, which together would provide about 300 000 square metres of commercial premises. The development of Kowloon East as a Central Business District would also help to meet the demand for commercial premises. The Government would continue to monitor the situation, and take steps to ensure adequate supply of commercial premises.

16. Mrs Regina IP enquired whether the Government would consider imposing a tax on vacant commercial premises in view of the rapid upsurge in

the rentals for commercial premises. Mr Paul CHAN opined that the Government should carry out a relevant study and the study should also cover the imposition of a tax on vacant residential units.

17. The Deputy Chairman opined that the Government should be careful in considering the imposition of a tax on vacant commercial and residential units, as many property owners relied on rental incomes to support their living, and these owners would suffer heavily if they could not rent out their units and had to pay a tax for the vacant units as well.

18. FS remarked that the Government would be very cautious in considering the proposal of imposing a tax on vacant commercial and/or residential properties.

*Small and medium sized enterprises*

19. Mr Jeffrey LAM was gravely concerned that if the economic situation in Europe and the US worsened, Hong Kong's exports would be adversely affected. Given that many SMEs had to repay the loans obtained under the Special Loan Guarantee Scheme during the 2008 global financial crisis and faced problems in obtaining credits from banks, Mr LAM enquired what measures would be introduced to support SMEs, and whether consideration would be given to waiving the payment of provisional taxes for SMEs.

20. FS responded that the provisional taxes were not taxes paid in advance and could not be waived. While there was not a credit crunch for SMEs for the time being, the Government would keep a close watch on the situation, and would introduce appropriate measures to support SMEs as and when necessary.

*Six priority industries*

21. Mrs Regina IP was concerned that the tourist industry was mainly supported by Mainland visitors, and the number of Mainland visitors might decrease as a result of a less vibrant economy in the Mainland. Mrs IP enquired whether, in case the number of Mainland visitors had dropped significantly, the six priority industries could help to support the economy.

22. FS remarked that the development of the six priority industries would take time to achieve results. He had reported the progress of the development of the six priority industries in the last Budget, and would continue to keep Members informed of the latest situation.

23. Mrs Regina IP opined that while the development of Hong Kong into a medical and education services hub might undermine the interest of local people, the development of environmental industries should help boost Hong Kong's economy. Mrs IP enquired what measures had been taken to help develop the environmental industries.

24. FS remarked that a number of environmental industry projects undertaken at the Hong Kong Science and Technology Parks had been very successful and efforts would continue to be made to develop the industries in Hong Kong.

*Labour market*

25. Mr Ronny TONG was concerned that the employment situation of the transportation sector had worsened in the third quarter of 2011. Mr WONG Ting-kwong expressed concern that compared with a year earlier, there was a decrease of 5 800 posts in the transportation, storage, postal and courier service sectors in the third quarter of 2011. During the same period, there was only an increase of 900 posts in the import/export trade and wholesale sector. Mr WONG enquired what measures would be taken to support the various sectors.

26. FS responded that the employment situation of various trade-related sectors had been affected by slackened exports to the US and Europe resulting from the weakened economic situation in the two regions. In view of the decrease in exports to the traditional major markets such as the US and European countries, the Government had endeavoured to enhance trade relations with new emerging markets, including Russia, India, Brazil and South Africa. Indeed, between 2007 and 2010, exports to India had leaped by over one-fold, and those to Russia also saw a 65% surge.

27. Noting that the Hong Kong and Shanghai Banking Corporation (HSBC) had a plan to lay off 3 000 staff, Dr PAN Pey-chyou enquired whether the Government had evaluated the impact of the arrangement on the labour situation in the banking sector, and drawn up measures to cope with the situation.

28. FS responded that the manpower arrangement of the HSBC was purely a commercial decision to meet the business needs of the corporation. It should be viewed as an isolated case as similar arrangements had not been found in other banks.

*Investments from overseas and the Mainland*

29. Mr Albert HO enquired about the situation of investments from overseas countries and the Mainland, and the sectors which had benefited from such investments. Mr HO opined that it would not be a healthy situation if investments from overseas countries and the Mainland were made only in the property market. Mr HO further enquired about the factors contributing to the increase in expenditure of the enterprises on machines and equipment.

30. GE responded that the breakdown on foreign direct investment by different countries for 2010 would not be available until end of 2011. However, the broad picture was that Hong Kong continued to attract substantial foreign direct investment over the past few years. In particular, the amount of foreign and Mainland investments in Hong Kong had grown substantially, and the investments were made across different service sectors. More analysis would be included in the next briefing for the Panel on Hong Kong's latest economic situation. As to the increase in machinery and equipment acquisition in the third quarter, GE explained that the surge was in line with the sanguine business sentiment during most of the quarter.

*Information on Mainland's economy*

31. Mr Ronny TONG was concerned that the information provided by the Administration mainly concentrated on the economic situations in Europe and the US. Mr TONG requested that the briefing by the Administration should include comparable information on the economic situations in the Mainland, Europe and the US, including a comparison of investments from the Mainland, European countries and the US in Hong Kong. Mr Paul CHAN shared Mr TONG's concern.

32. FS responded that a more detailed analysis on the Mainland economic development and outlook could be included in the materials for the next briefing. GE pointed out that the US and European economies taken together accounted for around half of the global economy, and were the traditional major markets for Hong Kong's exports. Given that they were the major sources of instability in the global economic arena, an analysis of the economic outlook in the US and European countries was essential in understanding the downside risks facing Hong Kong's trade sector and the overall economy.

33. Mr Paul CHAN opined that a mechanism to maintain frequent and close dialogue between the relevant Hong Kong and Mainland authorities on financial and trade matters would help the Government to more accurately

monitor the international and local economic situations, and map out the relevant policies and measures.

34. FS responded that formal and informal mechanisms had been established between the Hong Kong and Mainland financial authorities to frequently share information and views on financial matters, and he personally met and discussed matters of mutual concern with key officials of the Mainland financial authorities on numerous occasions in a year.

*Chairman's comment*

35. The Chairman remarked that vibrant inbound tourism had been the major source of support to the growth of the retail and service sectors, and the Government should ensure the sustainable development of the tourist industry. While the current unemployment rate was at a relatively low level, the Government should look into ways to create more job opportunities for the low skilled labour, and introduce measures to relieve the pressure of inflation on the community, including the middle income groups, such as tax breaks. As high rentals of commercial and residential premises were a major cause for concern, the Government should ensure adequate supply of land to meet market demands. The Chairman remarked that the Government should consider ways to tackle the various issues based on the "big market, small government" principle.

36. FS responded that while the Government upheld the "big market, small government" principle, the Government would continue to introduce measures to help the needy and improve the livelihood of the community.

## **II 2012-2013 Budget consultation**

(LC Paper No. CB(1)351/11-12(02) — Information pack for the Financial Secretary's consultations on the 2012-2013 Budget)

### Briefing by the Administration

37. FS remarked that Hong Kong had tided over the challenges of the volatile external economic environment in the past four years. The global financial crisis stemmed from the US subprime mortgage crisis had pushed Hong Kong's economy to the doldrums in the first quarter of 2009. With the hard work of the community, and the timely measures introduced by the Government to meet the challenges and stimulate the economy, Hong Kong's

economy had rapidly recovered and recorded a growth of 7% in real terms last year. The economy was projected to grow by 5% in 2011. The growth rate had exceeded the average growth rate in the past 10 years. Since the announcement of the Budget in February 2011, the external environment became uncertain. The economic situation in Europe and the US had weakened and the effectiveness of the rescue programmes introduced by the relevant governments had yet to be seen. In Hong Kong, the total value of exports dropped by 11% in September 2011, representing the first double-digit percentage decrease since October 2009. Despite the relatively stable markets in Mainland China and Asia, the weak economic situation in the western countries had adversely affected the growth rate of Asian countries. In face of greater downside risks to the economy next year, Hong Kong had to stay vigilant to external developments. Hiring sentiment among enterprises had already turned more cautious. Given that about one quarter of the labour force was engaged in the export sector, the slackened export trade would put pressure on the employment market. Hong Kong therefore had to get prepared to meet the challenges arising from potential external shocks in 2012. Based on past experiences in coping with financial crises, the Government was confident that Hong Kong would be able to meet the challenges of external economic uncertainties. Apart from making available resources for the policy initiatives announced in the Chief Executive's Policy Address, the Budget for 2012-2013 would include measures to meet the needs of the society, develop the economy and improve the living standard of the community. This year the budget consultation arrangements had been revised. The first round of budget consultation on expenditure was conducted as part of the Policy Address consultations in August/September 2011. Combining the Policy Address and Budget consultations would improve the coordination and interaction between policy formulation and budgetary planning. This arrangement facilitated more comprehensive consultations and informed discussion with Legislative Council and the community. The second round of consultation focused on the revenue for the Government and Members' views would be most welcomed.

38. The Permanent Secretary for Financial Services and the Treasury (Treasury) (PS(Tsy)) briefed members, through a powerpoint presentation, on the latest economic performance and prospects, the key new expenditure initiatives, revenue, fiscal reserves and medium range forecast.

*(Post-meeting note: The powerpoint presentation materials (LC Paper No. CB(1)417/11-12(01)) were issued to Members by a Lotus Notes e-mail on 21 November 2011.)*

## Discussion

### *Public transport concessionary fare*

39. Mr WONG Kwok-hing remarked that about 57 600 people with disabilities would not be able to benefit from the public transport concessionary fare scheme. Mr WONG enquired whether the eligibility criteria for the concessionary fare scheme could be extended to cover all people holding a "registration card for people with disabilities".

40. FS responded that as the issue raised by Mr WONG was basically a policy issue, he would relay Mr WONG's view to the Labour and Welfare Bureau for consideration.

### *Profits tax*

41. Mr WONG Kwok-hing enquired whether consideration would be given to adjusting the profits tax rate upward by 0.5%, which should be acceptable by the business sector. Mr WONG said that Members belonging to the Federation of Trade Unions considered that based on the principle that people/corporations with higher income/profit should pay more tax, it would be fair for corporations with higher profits to pay more tax.

42. FS responded that there was a suggestion from the business sector that the profits tax rate should be reduced by 1.5% to 15%. In drawing up the Budget for 2012-2013, he would consider the views from different sectors and Legislative Council Members.

### *Tax allowances*

43. Given the high rentals for residential units, and the high fees for tertiary education, e.g. the fees for overseas studies and associate degrees which were not subsidised by the Government, Mr KAM Nai-wai enquired whether consideration would be given to granting tax allowances for payments of rentals of residential units and fees for tertiary education. Mr KAM opined that such tax allowances would relieve the tax burden on the middle income group. Since the issue was related to the Government's taxation policy, it should be considered by the FS and the Financial Services and the Treasury Bureau, instead of the policy bureaux.

44. FS responded that during the consultation stage he would listen to the views from Members and the public on the Budget, and would not comment on

individual issues. Members' suggestions would be relayed to the relevant policy bureaux for consideration before the Government considered the financial implications of the proposals. PS(Tsy) supplemented that during the Budget consultation, the Government had received different suggestions from different sectors, and would pass such suggestions to the relevant policy bureaux to consider their policy implications. In drawing up the Budget, FS would take into consideration the input from the policy bureaux on the various suggestions made by different groups/sectors and the public.

45. Ms Starry LEE remarked that in view of the development of the economy and the sizable revenue from land auctions, a large surplus was expected in the current financial year. Ms LEE remarked that consideration should be given to making use of such surplus to improve the well-being of the community, and such improvement measures should not be limited to those mentioned in the Chief Executive's Policy Address. Ms LEE stated that Members belonging to the Democratic Alliance for the Betterment and Progress of Hong Kong were of the view that the Government should consider (a) using the dividends from the MTR Corporation Limited to establish a "Fare Stabilization Fund" in order to reduce the pressure on fare increase on the public; and (b) providing subsidies for payment of land rentals.

46. FS responded that the revenue in the current financial year would be more than estimated as the Government had put up additional sites for auction in order to counteract the heated property market. Meanwhile, expenditure on the \$6,000 Scheme in the current financial year would be lower than estimated as the number of eligible persons who chose to receive the \$6,000 payment in 2012 had exceeded the original estimate. The actual amount of surplus had yet to be calculated as the revenue from profits tax and income tax would not be received until early 2012. Despite the surplus in the current financial year, the Government would continue adhere to the principles of managing public finances prudently and committing resources as and when needed.

47. With reference to slide 18 of the powerpoint presentation on salary tax for 2009-2010, Mr Ronny TONG enquired whether the average tax amount had taken into account the tax allowances granted to individual taxpayers.

48. PS(Tsy) responded that the average tax amounts shown in the table on slide 18 were the taxable amounts, which had not taken into account the tax allowances available to individual taxpayers, and the one-off tax reduction of up to \$6,000 granted in 2009-2010.

49. Mr Ronny TONG opined that the measures introduced in the Chief Executive's Policy Address and the annual Budget seldom took care of the

middle income group, in particular those who earned \$10,000 to \$25,000 a month. Mr TONG remarked that the Government should consider granting more tax allowance to the middle income group in areas such as education, medical services and housing rental. Mr TONG pointed out that despite the Budget consultations, in the past two years the Government had introduced certain measures in the Budget, e.g. the \$6,000 Scheme, which had not been discussed with the various parties in the Legislative Council and had received great repercussion from the community. Mr TONG remarked that if the Government planned to introduce any major Budgetary measures, it should first consult the different parties in the Legislative Council.

50. FS responded that both in the Policy Address and the Budget the Government had introduced measures in areas such as education, medical and health services to improve the well-being of the whole community, including the middle income group. FS pointed out that the Government's expenditure in education and medical and health services had increased by about 60% in the past years.

#### *Fiscal reserves*

51. Given that Hong Kong had a healthy level of fiscal reserves which would continue to grow in the next five years, Mr LEE Wing-tat opined that in addition to making preparation for the lean years, the Government should consider measures to "leave wealth in the people". Mr LEE remarked that the Government should consider additional measures to solve the problem of credit crunch faced by SMEs, and granting tax reduction of up to \$12,000 to the middle income group. Mr LEE remarked that many people were greatly dissatisfied with the low efficiency of the Government. For instance, despite the good objectives of the \$6,000 Scheme and the public transport concessionary fare scheme, the Government needed to take several months for preparation before implementing the Schemes. Mr LEE said that he only requested the Government to note his comments, and did not request for a response from the FS.

52. Mr Albert HO enquired whether the returns from the investment of the Exchange Fund would be used for financing the recurrent expenditure of the Government.

53. FS replied that the investment returns of the Exchange Fund would be credited to the Exchange Fund. He was empowered under the relevant legislation to make use of the Exchange Fund to meet the needs of the Government where necessary.

54. Given the large amount of the fiscal reserves, Mr Albert HO opined that the Government should make use of part of the fiscal reserves to invest in long term development of Hong Kong. For instance, people living in the outlying islands had to pay very high fares for the ferry services, and the Government should draw up measures to help the residents. Despite the increased investment in education, the number of people receiving tertiary education in Hong Kong was only about 18%, which was much lower than the average percentage of 30% in the neighbouring jurisdictions.

55. FS responded that the Government had adopted a prudent fiscal policy in its Budgets in order to meet the needs of the society. In the past four years since 2007-2008, the annual Government expenditure had increased from about \$230 billion to \$370 billion, representing an increase of about 60% while during the same period, the GDP had grown by about 16% only.

56. Mr Albert HO enquired, in view of the large fiscal reserves and the expected surplus in the current financial year, whether the Government would freeze the Government charges and fees in 2012-2013.

57. FS responded that the Government would consider Mr HO's proposal regarding Government charges and fees.

### **III Review of the Mandatory Provident Fund Schemes Compensation Fund**

(LC Paper No. CB(1)351/11-12(03) — Administration's paper on "Review of the Mandatory Provident Fund Schemes Compensation Fund"

LC Paper No. CB(1)350/11-12 — Background brief on Mandatory Provident Fund Schemes Compensation Fund prepared by the Legislative Council Secretariat)

#### Briefing by the Administration and the Mandatory Provident Fund Schemes Authority (MPFA)

58. The Principal Secretary for Financial Services and the Treasury (Financial Services)<sup>3</sup> (PAS(FS)<sup>3</sup>) and the Executive Director (Regulation and

Policy), MPFA (ED(RP)/MPFA) briefed Members, with the aid of a powerpoint presentation, on the review on the optimal reserve level of the Mandatory Provident Fund Schemes Compensation Fund (the Compensation Fund) and the mechanism for the suspension and resumption of levy.

*(Post-meeting note: The powerpoint presentation materials (LC Paper No. CB(1)417/11-12(02)) were issued to Members by a Lotus Notes e-mail on 21 November 2011.)*

### Discussion

59. Mr WONG Kwok-hing was concerned that the introduction of the Employee Choice Arrangement (ECA) might increase the risk of claims on the Compensation Fund as some trustees might encounter financial problems arising from ECA.

60. ED(RP)/MPFA responded that a Bill would be introduced into the Legislative Council to enhance regulation of the Mandatory Provident Fund (MPF) intermediaries before the introduction of ECA. Currently MPF scheme members were already allowed to transfer their voluntary contributions from one trustee to another, and there had been no claim on the Compensation Fund since its inception. PAS(FS)3 supplemented that the existing regulatory regime already imposed stringent financial requirements on MPF trustees who were also required to arrange insurance coverage for their MPF schemes. It was expected that trustees should be able to settle claims against misrepresentation in connection with transfers under ECA. The introduction of ECA would unlikely lead to a higher risk of claims on the Compensation Fund.

61. Given that the net asset value of the Compensation Fund would be known by the end of a financial year (i.e. 31 March of a year), the Deputy Chairman enquired why, if the net asset value exceeded the maximum level of \$1.4 billion, the levy would be suspended only on or after 1 January of the following calendar year. The Deputy Chairman opined that the suspension of levy should commence earlier, e.g. in June or July after the net asset value had exceeded \$1.4 billion on 31 March of the year.

62. ED(RP)/MPFA responded that the proposed timeframe had factored in time for audit of the Compensation Fund and time for MPFA to consider whether the levy should be suspended in case there were claims on the Compensation Fund where MPFA would need to consult the Financial Secretary on its recommendation before deciding on the suspension. Trustees would also need a few months to adjust their levy payment systems before the

suspension of levy could be effected. ED(RP)/MPFA remarked that MPFA and the Administration would however explore the feasibility of compressing the timetable for effecting the suspension as soon as possible after the net asset value of the Compensation Fund had exceeded \$1.4 billion. PAS(FS)3 added that the relevant subsidiary legislation would need to be amended for introduction of the new mechanism, and the Administration aimed to introduce the legislative proposals into the Legislative Council as soon as possible in 2012.

#### **IV Any other business**

63. There being no other business, the meeting ended at 11:53 am.

Council Business Division 1  
Legislative Council Secretariat  
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