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The 2021-2022 Budget

April 2021

The Financial Secretary announced the largest ever fiscal deficit of HK$257.6 billion for 2020-2021. The resulting rapid depletion of fiscal reserves inevitably arouses the concern over how the 2021-2022 Budget can support the COVID-hit economy while ensuring the health of public finances.

In the Budget, the Financial Secretary unveiled an unprecedented initiative of issuing consumption vouchers to revive the local economy. While Hong Kong is new to the voucher scheme, several other Asian economies have implemented similar schemes. They have distributed the consumption vouchers in one-go and some have allowed the transferability of vouchers. Some have also fine-tuned the distribution of vouchers to benefit low-income groups, COVID-hit industries and sectors, small and medium-sized enterprises, and/or goods with low import content.

Another unprecedented initiative in the Budget is the introduction of government-guaranteed personal loans to the unemployed. Similar schemes have been announced or implemented in some developed economies. In particular, Japan supports not only unemployed, but also low-income households and those households whose incomes have been reduced during the pandemic. It permits exemption of repayment obligation of households which continue to suffer from loss of income when repayment is due.

The Financial Secretary also announced in the Budget to expand the issue of green bonds to preserve fiscal strength. Hong Kong has ample room for further issuance of bonds in view of its hefty foreign exchange reserve assets and relatively low government debt to GDP ratio. Infrastructural bond is a possible efficient option in view of the current low-interest environment and considerable infrastructure spending in the coming years.

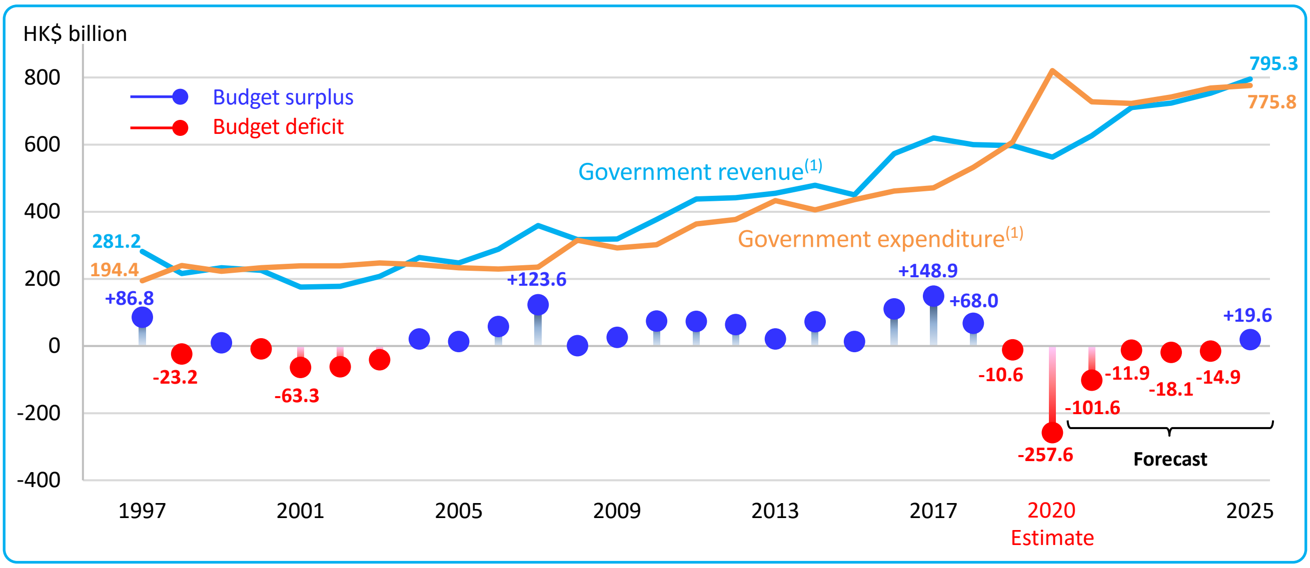
The Council will resume the Second Reading debate on the Appropriation Bill 2021 at its meeting of 21 April 2021.

1. Introduction

1.1 The Financial Secretary delivered the fourth Budget of the current-term Government on 24 February 2021. He reported the largest ever fiscal deficit of HK$257.6 billion for the Financial Year 2020-2021 (**Figure 1**), equivalent to 9.5% of Gross Domestic Product ("GDP") and far above the original estimate of HK$139.1 billion made in his previous year's Budget. The larger-than-expected fiscal deficit was mainly due to the Government's one-off expenditure related to the coronavirus disease ("COVID-19") relief measures. A total of HK$317.9 billion has been allocated for implementing various relief measures, including an allocation of HK$120 billion made out of the 2020-2021 Budget and an injection of HK$197.9 billion into four rounds of the Anti-epidemic Fund. The sharp fall in revenue from land premium[1] and a 7.6% increase in recurrent government expenditure also contributed to the large fiscal deficit.

[1] Revenue from land premium was HK$87 billion in 2020-2021. It was substantially 26% or HK$31 billion lower than the original estimate, consequential to the deferment of the disposal timetable of a high-value commercial site in the year.

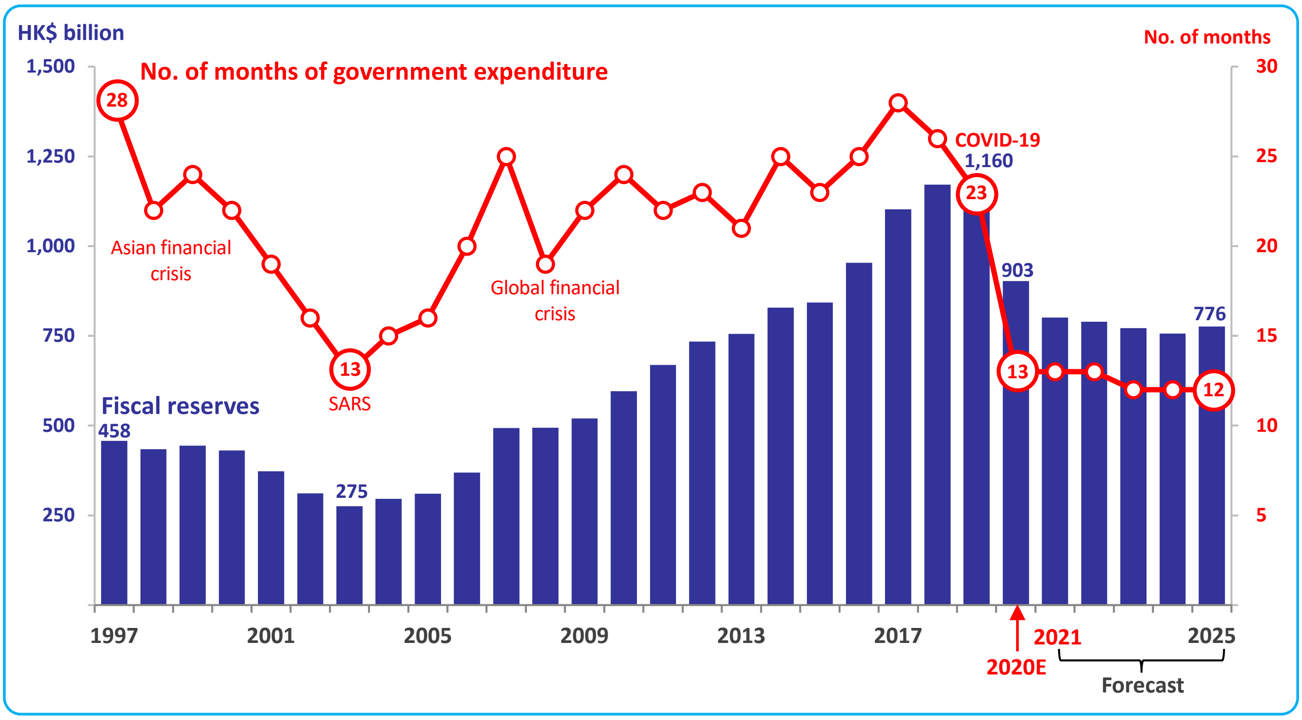
Figure 1 – Government's fiscal position, 1997-2025



Note: (1) Including issuance/repayment of government bonds and notes.
Data sources: Budget speech (various years) and Financial Services and the Treasury Bureau.

1.2 The surge in the fiscal deficit resulted in a rapid decline in the Government's fiscal reserves to HK$902.7 billion by the end of 2020-2021, down by 22% from HK$1.16 trillion a year ago (**Figure 2**). The current fiscal reserves level – equivalent to around 13 months of government expenditure – dwindled sharply from 23 months in 2019-2020. It is very close to the level in 2003-2004 when Hong Kong was hit by the Severe Acute Respiratory Syndrome ("SARS") epidemic.

Figure 2 – Fiscal reserves of the Government, 1997-2025



Data sources: Budget speech (various years) and Financial Services and the Treasury Bureau.

1.3 The substantial depletion of fiscal reserves inevitably arouses the concern over the fiscal space available for the Financial Secretary to address the challenge of supporting the COVID-hit economy[2] while ensuring the health of public finances. In the 2021-2022 Budget, he unveiled the unprecedented initiatives of (a) giving out consumption vouchers instead of cash to revive the economy; and (b) providing government-guaranteed personal loan for the unemployed to relieve their hardship. In preserving the fiscal strength, the Financial Secretary announced plans to expand the issue of green bonds, in an effort to relieve the Government's fiscal pressure arising from the need to use existing resources to meet capital expenditure. This Research Brief looks into the above policy initiatives, after reviewing the Government's fiscal position in 2021-2022.

2. Government revenue and expenditure initiatives in 2021-2022

2.1 While the 2021-2022 Budget is still expansionary, the Financial Secretary forecasts a significant narrowing of the fiscal deficit to HK$101.6 billion or 3.6% of GDP from the estimate of HK$257.6 billion or 9.5% in 2020-2021[3]. The fiscal consolidation represents the Government's effort to strengthen various revenue streams and scale back one-off economic stimulus expenditures related to COVID-19 relief measures.

Revenue initiatives

2.2 The total government revenue for 2021-2022 is forecast to be HK$591.1 billion (**Figure 3**). This represents an increase of 8.8% over a year earlier, a turnaround from the decrease of 8.0% in 2020-2021. The Government's revenue projection is based on its forecast for a real GDP growth of 3.5% to 5.5% in 2021 as the Hong Kong economy rebounds[4]. The economic recovery is expected to help sustain or boost revenue sourced from profits tax, salaries tax, land premium and stamp duties, which together continue to account for a significant share of total government revenue at 64.4% in 2021-2022.

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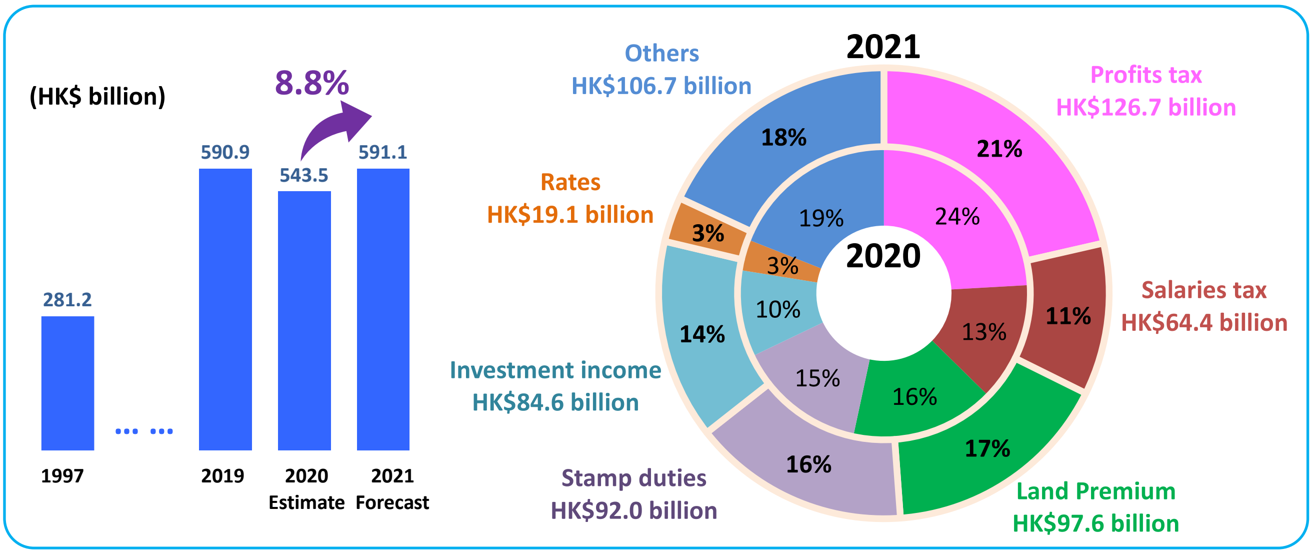
[2] The Hong Kong economy declined by 6.1% year-on-year in 2020, the second consecutive year of economic contraction and the sharpest annual decline on record.

[3] Nevertheless, the Government is expected to run deficits until 2024-2025 when the fiscal reserves will fall to HK$756.3 billion to finance 12 months of government expenditure.

[4] The Government's GDP projection is in line with the consensus forecast of 4.5% from a pool of private-sector economists made in February 2021. See Consensus Economics (2021).

Figure 3 – Total government revenue and its major sources, 1997-2021



Data sources: Budget speech (various years) and Financial Services and the Treasury Bureau.

2.3 Nevertheless, the Financial Secretary has proposed two "bold" moves in the 2021-2022 Budget to strengthen government revenue sources. He announced raising the stamp duty on stock transfers from 0.1% to 0.13%[5] and significantly increasing first registration tax and vehicle licence fee for private cars. The stamp duty has remained unchanged at 0.1% since last reduction in 2001, whereas the first registration tax and vehicle licence fee for private cars have not been adjusted since 2011 and 1991 respectively.

2.4 As a further means of increasing the government revenue, the Financial Secretary will bring back the investment return of the Future Fund into the operating account, the first time since the Government set up the Fund in 2016[6]. Added to this, the 2021-2022 Budget also includes the revenue from the transfer from the Housing Reserve and the annual proceed from the expansion of the Government Green Bond Programme. If it were not for the above funding re-allocation and bond issuance, the fiscal deficit would have been HK$83 billion higher than the HK$101.6 billion forecast in the 2021-2022 Budget.

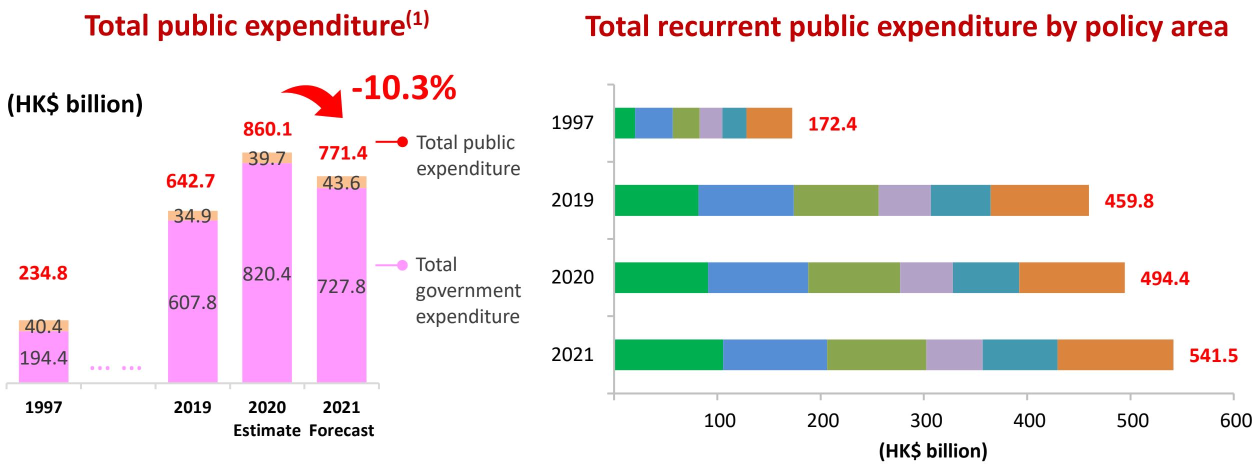
5 The new tax rate will take effect on 1 August 2021.

6 When announcing the establishment of the Future Fund in December 2015, the Government remarked that it would be a long-term savings scheme and withdrawal before 31 December 2025 was not allowed except in emergencies. In response to the ploughing back of the investment return of the Future Fund, the Hong Kong Institute of Certified Public Accountants believes that the Government needs to maintain transparency in relation to existing or newly established funds to ensure that the funds are used appropriately. See Hong Kong Institute of Certified Public Accountants (2021).

Expenditure initiatives

2.5 The total public expenditure for 2021-2022 is estimated to be HK$771.4 billion, representing a decrease of 10.3% from HK$860.1 billion for 2020-2021 (**Figure 4**). This year's budget reins in economic stimulus spending expenditure visibly, as evidenced by the 33% decrease in the amount of one-off relief measures to HK$81 billion from HK$122 billion a year ago. Reflecting the retrenchment, most of the support measures and handout that were introduced in 2020-2021 to offset the impact of COVID-19 are reduced in size or even withdrawn. For example, the salaries tax and profits tax rebates are halved and there is no longer one-month rent waiver for lower income tenants living in public rental units[7].

Figure 4 – Total public expenditure and its major components, 1997-2021



	1997	2019	2020	2021
Social welfare	11.8%	17.7%	18.4%	19.5%
Education	21.2%	20.1%	19.6%	18.6%
Health	15.1%	17.9%	18.0%	17.7%
Security	12.8%	11.0%	10.4%	10.1%
Support	13.4%	12.6%	12.9%	13.4%
Others(2)	25.7%	20.7%	20.7%	20.7%
Total amount	**HK$172.4 bn**	**HK$459.8 bn**	**HK$494.4 bn**	**HK$541.5 bn**

Notes: (1) Public expenditure is the sum of government expenditure as well as spending of Housing Authority and Trading Funds.

(2) Others include the policy areas (a) Infrastructure; (b) Environment and Food; (c) Economic; (d) Housing; and (e) Community and External Affairs.

Data sources: Budget speech (various years) and Financial Services and the Treasury Bureau.

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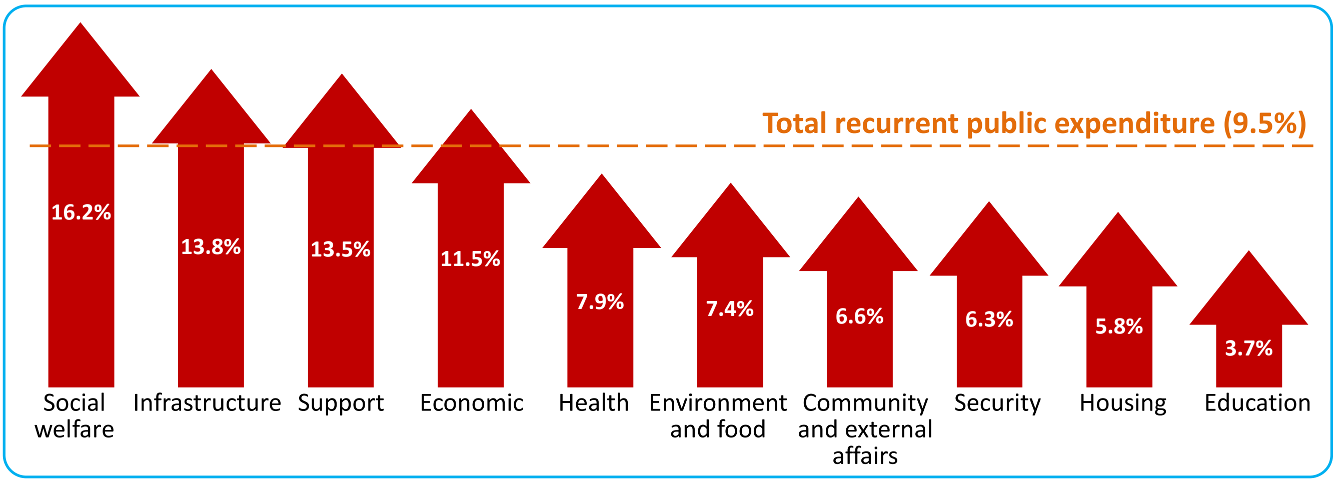
7 In addition, the cash payout to residents is also halved to HK$5,000 and now takes the form of consumption vouchers instead of cash. Furthermore, an extra half-month worth of welfare, old-age, and disability allowances instead of a full month as before is provided to the needy.

2.6 While scaling back one-off relief measures, the Financial Secretary allows for a budgeted increase of 9.5% in recurrent public expenditure in 2021-2022. Reflecting the Government's commitment to improving people's livelihood, recurrent public expenditure for education, social welfare and health will increase by 9.2% year-on-year, accounting for 55.8% of the total in 2021-2022. Social welfare takes up the largest share of total recurrent public expenditure at 19.5% (Figure 4), followed by education (18.6%) and health (17.7%). This marks the first time in which education has been displaced from its former position in the previous Budgets as the policy area being consistently allocated the most funds for spending by the Government.

2.7 Among the policy area groups, social welfare also has the largest growth rate of recurrent public expenditure at 16.2% in 2021-2022 (**Figure 5**). This may be due to the Government's accelerated spending on elderly and rehabilitation services to catch up with the shortfall in the previous years. For example, expenditure on services for the elderly as a share of recurrent social welfare expenditure will increase to 13.4% in 2021-2022, after having remained largely stable at around 10%-11.5% throughout most of the past decade.

Figure 5 – Year-on-year growth rate of recurrent public expenditure by policy area groups, 2021-2022



Data source: The 2021-2022 Budget.

2.8 Another noteworthy trend is the halving of the share of housing expenditure to total public expenditure over the past 24 years to just 5.5% in 2021-2022. In Hong Kong, public housing has been playing a key role in poverty reduction. In 2019, there were 1.5 million poor people before any policy intervention, with an overall poverty rate of 21.4%. According to the Government's Hong Kong Poverty Situation Report 2019, provision of public rental housing was equivalent to granting average monthly benefits of HK$4,100 to each beneficiary family, helping to reduce local poverty rate by some

3.7 percentage points. This was even larger than the poverty reduction effect of recurrent cash benefits under the Comprehensive Social Security Assistance scheme, estimated at 2.2 percentage points only.

3. Consumption vouchers

3.1 Many economies around the world have made use of direct cash transfers to individuals or households as a tool to promptly relieve their economic distress amid the pandemic. Although cash transfers certainly benefit the needy, it is unclear to what extent they affect consumer spending and, consequently, support business. Some people might spend the money on goods and services with high import content and this will dilute the multiplier effect. More importantly, there are some others who may not spend the money and save it for future use, thus defeating the purpose of encouraging consumption.

3.2 Some economies have thus made use of consumption vouchers instead of direct cash transfers to help stimulate the economy. These vouchers are generally time-limited to be consumed within a validity period, which have the characteristics of compulsory consumption and avoiding saving. Given the weight of private consumption expenditure in GDP, there is a strong case to boost consumer spending in order to kick-start the economic recovery. This is particularly so for Hong Kong's economy as consumer spending has been severely disrupted by the pandemic and the resulting social distancing requirements.

3.3 Nevertheless, a voucher system might come with considerable administrative costs, including the costs of distributing vouchers[8]. The effectiveness of issuing consumption vouchers may be undermined by the "substitution effect". Households may use the vouchers to buy goods and services they would have bought anyway, and they save the money that has originally been set aside for consumption. There can also be "inter-temporal effect" where consumption vouchers can only bring forward consumption that would happen anyway without creating any new spending. Furthermore, economic benefits from the voucher system might be short term, and sustained recovery of consumption demand is likely to be possible only after a significant turnaround of consumer confidence[9].

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8 According to the Government, issuing consumption vouchers involves additional and more complicated administrative arrangements than handling out cash, including determining the scope of coverage, the terms of usage, the redemption arrangements, the control and anti-counterfeiting measures etc., which may result in relatively high administrative costs. See GovHK (2020).

9 Theoretically, consumers would not change their consumption behaviour in response to an anticipated but temporary change to their income under the permanent income hypothesis. They would change only when there is absolute certainty that the current change in income is a permanent one, such as finding a new long-term job that brings higher, sustained pay. See Lin and Chen (2020).

3.4 Against the above, one of the most discussed measures in the 2021-2022 Budget is the issuance of electronic consumption vouchers in instalments with a total value of HK$5,000 to each eligible Hong Kong permanent resident and new arrivals aged 18 or above. According to the Financial Secretary, one option is to hand out the sum in five monthly instalments of HK$1,000 each, and people would be required to spend each instalment within a specific period of time. The vouchers can be used at local stores, as well as in online purchases but only for local merchants. The Government will identify suitable stored value facilities operators to roll out the e-voucher scheme.

3.5 The consumption voucher scheme will cost HK$36 billion, of which some HK$600 million is for administrative expenses. The Financial Secretary expects the consumption voucher scheme to contribute 0.7% to GDP in 2021. The Government has yet to announce the details of the voucher scheme. Nevertheless, there are concerns over the design of the scheme on several fronts. Currently, many small shops and market stalls do not have Octopus card readers or other electronic payment machines to handle digital payments. In addition, should the vouchers be distributed in five monthly instalments, HK$1,000 each month is such a small amount that people are likely to spend the money on daily items[10]. Consumers might hesitate to top up the value of their vouchers to purchase more expensive items (e.g. electrical appliances) unless the HK$5,000 vouchers are distributed in one-go.

3.6 While Hong Kong is new to the consumption voucher scheme, several other Asian economies had launched similar schemes before to help stimulate the local economy. The arrangements in these places were not exactly the same due to their different policy objectives and design of the consumption voucher system. They had fine-tuned administrative arrangements such as the targeted beneficiaries, validity period, distribution method, and the types of spending allowed. Rather than having everybody benefiting, there were cases that the distribution of consumption vouchers had been inclined to low-income group, sectors or industries seriously affected by the COVID-19 pandemic, small and medium-sized enterprises ("SMEs"), and/or goods with low import content (**Figure 6**). The paragraphs below study the consumption voucher schemes in selected economies in greater detail with respect to their administrative arrangements and effectiveness in boosting local consumption.

[10] According to the chairperson of the Hong Kong Retail Management Association, retailers of foods and beverages, grocery goods and household products are expected to benefit the most as locals are typically more willing to spend on these daily items. See Magramo (2021) and 明報 (2021).

Figure 6 – Consumption voucher schemes in selected economies

	Macao	Taiwan		Japan	South Korea
Timing	Two rounds implemented in May and Aug 2020	Jan 2009	1st round: Jul 2020 2nd round: Nov 2020	Mar 1999	May 2020
Target beneficiaries	Residents(1)	Taiwanese citizens	1st round: Taiwanese citizens 2nd round: foreigners(2)	Families with children (below aged 15) and elderly (aged 65+)	Universal transfer (originally targeting households in the bottom 70% income bracket)
Amount	1st round: MOP3,000 (HK$3,090) 2nd round: MOP5,000 (HK$5,150)	NT$3,600 (HK$940)	NT$3,000 (HK$783) worth of Triple Stimulus Vouchers	20,000 yen (HK$1,454) worth of shopping coupons	Differed by household size 1 million won (HK$6,600) in max. for a household of four or above
Distribtuion method	Store-valued e-voucher cards	Paper vouchers	Paper vouchers Digital vouchers	Paper vouchers	Paper vouchers Digital vouchers
Validity period	1st round: 3 months 2nd round: 5 months	5 months (calculated from the deadline for collecting the vouchers at end-April)	31 Dec 2020 (deadline for using the vouchers)	6 months	4 months
Special features	Daily limit of spending: MOP300 (HK$309) to benefit SMEs in various sectors Transferrable vouchers(3)	Transferrable vouchers(4)	Eligible people paid NT$1,000 (HK$261) and received NT$3,000 (HK$783) worth of Triple Stimulus Vouchers Low-income households could receive the vouchers for free Online purchases were not allowed	Coupons had to be spent in the recipient's local community (city, town or village)	Vouchers had to be used in the recipient's local community Vouchers could not be spent online, at entertainment facilities (e.g. bars and clubs), or in large-sized retail stores

Notes: (1) Including both permanent and non-permanent residents.
(2) Aliens with resident certificates and foreign diplomats.
(3) E-voucher cards were transferrable to allow recipients to use other people's cards.
(4) Vouchers were transferrable to be used for purchasing goods and services with few restrictions.
Data sources: Various government websites.

Macao

3.7 Amid the COVID-19 pandemic, the Macao government has implemented two phases of consumer subsidy scheme covering local businesses such as retail shops, restaurants and department stores[11]. The first phase of scheme was implemented on 1 May 2020 where every permanent and non-permanent resident received a store-valued e-voucher card of MOP3,000 (HK$3,090) for local spending between 1 May and 31 July[12]. The second phase of scheme was launched on 1 August 2020 where residents could each spend MOP5,000 (HK$5,150) between 1 August and 31 December. For both rounds of voucher scheme, a daily limit of MOP300 (HK$309) was set specifically to support local SMEs. In addition, the e-voucher cards were transferable so that residents could use other people's cards[13].

3.8 According to a mid-term report on the consumer subsidy scheme released by the Macao Economic Bureau in June 2020[14], some 600 170 or 91% of registered residents had received e-voucher cards and made 15.64 million transactions totalling MOP1.46 billion (HK$1.5 billion) during 1 May-15 June 2020. Around 63% of local SMEs had benefited from the scheme.

3.9 Most recently, the Macao government announced on 15 March 2021 to earmark MOP5 billion (HK$5.2 billion) for the launch of a third round of electronic consumption voucher scheme. The eight-month voucher scheme will be launched from May to December, and targeted beneficiaries are extended to all people residing in Macao (including local residents, foreign workers and non-local tertiary students). In comparison to the two previous electronic consumption voucher schemes, the third round scheme requires an individual to spend first before being granted an e-voucher[15]. It also involves more constraints regarding the granting and redemption of e-vouchers[16].

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11 According to Moura (2020), the Macao government reportedly spent MOP2.2 billion (HK$2.3 billion) and MOP3.6 billion (HK$3.7 billion) for the first and second round of consumption subsidy scheme respectively.

12 The e-voucher card could not be used for paying bills such as water and electricity services, nor could it be used in casinos, pawnshops, banks, insurance companies and other financial institutions.

13 The Macao government reportedly decided not to restrict residents from using other people's e-voucher cards for the simple reason that the scheme was aimed to boost local consumption. See Macau Post Daily (2021).

14 See 澳門特別行政區政府入口網站 (2020).

15 For every MOP50 (HK$51.5) an individual spends, he or she can receive five electronic vouchers worth MOP10 (HK$10.3) each. For the consumption of MOP100 (HK$103), 10 vouchers worth MOP10 (HK$10.3) each will be provided.

16 For example, an individual is allowed to use one voucher worth MOP10 (HK$10.3) for each MOP30 (HK$30.9) he or she consumes. The validity period of the vouchers will be 15 days with the limit value of the vouchers obtained being MOP600 (HK$618) per month and MOP200 (HK$206) per day.

Taiwan

3.10 Hit by the global financial crisis in 2008, Taiwan issued paper consumption vouchers worth NT$3,600 (HK$940) to each citizen in 2009 as a short-term stimulus to the economy[17]. The distribution of vouchers began on 18 January 2009, and the vouchers had to be picked up before 30 April and used before 30 September. The time-limited vouchers were transferrable, and they could be used to purchase all kinds of goods and services with the exception of paying utility bills and payments due to government entities (e.g. taxes and fines)[18]. Subsequent assessment reports showed that the issue of consumption vouchers only raised Taiwan's GDP by about 0.28%-0.43%, lower than the government's original estimation of 0.66%. In addition, 72% of the consumption vouchers were used for purchases that would have occurred in cash without the vouchers.

3.11 During the outbreak of the COVID-19 pandemic, the Taiwanese government launched the Triple Stimulus Vouchers (振興三倍券) scheme in 2020 to boost consumer spending disrupted by the pandemic. The vouchers came in paper and electronic forms and could be used from 15 July to 31 December 2020 for local spending[19]. All Taiwanese citizens could purchase vouchers worth NT$3,000 (HK$783) for NT$1,000 (HK$261)[20], and hence additional spending took place when people purchased the vouchers. Low-income households could receive the vouchers for free[21]. According to the Ministry of Economic Affairs[22], the voucher scheme cost NT$50 billion (HK$13 billion) and was estimated to bring in between NT$70 billion (HK$18 billion) and NT$100 billion (HK$26 billion) in business revenue.

Japan

3.12 In March 1999, the Japanese government distributed "shopping coupons" worth 20,000 yen (HK$1,454) to families with children under the age of 15 and to the elderly aged 65 or above. In total, 620 billion yen (HK$45 billion) worth of

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17 The Taiwanese government drew up a special budget of NT$85.6 billion (HK$22.3 billion) for the implementation of the voucher scheme.

18 The vouchers could not be used for (a) paying loan principal/interest, bank fees and credit card bills; or (b) purchasing stocks, corporate bonds, warrants, insurance policies and other financial products.

19 The vouchers could not purchase goods such as cigarette products and stocks, nor could they be used to pay taxes, fines or utility fees. According to Liao et al. (2020), retail sales decreased significantly and e-commerce continued to prosper during the pandemic. As such, individuals could not use the vouchers for online purchases as well.

20 On 16 November 2020, the Taiwanese government expanded the Triple Stimulus Vouchers scheme to cover foreign residents with Alien Permanent Resident Certificate and foreign diplomats. The deadline to use the vouchers was 31 December 2020.

21 In order to avoid labelling low-income households, the government deposited NT$1,000 (HK$261) into their bank accounts for them to choose freely paper or digital vouchers.

22 See 3000.gov.tw (2021).

coupons were distributed to 31 million people. The coupons had to be spent in the recipient's local community (city, town or village) and expired within six months.

3.13 Most people used the shopping coupons to bring forward the planned purchase of semi-durable goods, such as bicycles, clothing, and computer software[23]. As such, the coupons had a positive effect on semi-durables, but no effect on spending on non-durables or services. The marginal propensity to consume on semi-durables was 0.2-0.3 when the coupons were distributed. The incremental consumption eased gradually to 0.1 in the medium term as the families/elders that received coupons spent less in subsequent months.

South Korea

3.14 In May 2020, the South Korean government launched a national voucher programme with the goal of bolstering domestic consumption and supporting SMEs and their employees[24]. All households were entitled to the consumption vouchers[25] and the amount of which differed by household size up to a maximum of 1 million won (HK$6,600) for a household of four or above. Consumption vouchers had to be consumed by the end of August 2020 and used in the recipient's local community. Furthermore, they could not be spent online, at entertainment facilities (e.g. bars and clubs), or in large-sized retail stores[26]. According to an academic study[27], the voucher scheme successfully increased consumption spending among 36% of the households, and 82% of people used vouchers to purchase necessities that they regularly consumed.

Others

3.15 Alternatively, a voucher system could work to boost spending in those industries that have been directly impacted by the COVID-19 pandemic. For example, Singapore has launched a voucher scheme – SingapoRediscovers Vouchers – specifically aiming to support local tourism-related industries. Under the scheme, every Singaporean citizen aged 18 or above could receive S$100 (HK$563) worth of vouchers to spend on local attractions, hotel stays and tours from 1 December 2020 to 30 June 2021.

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23 See Hsieh et al. (2020).

24 The voucher programme was part of a second supplementary budget (worth 12.2 trillion won (HK$81 billion)) approved by the National Assembly on 30 April 2020.

25 The programme was originally designed to target households in the bottom 70% income bracket, and it was subsequently redesigned as universal transfer.

26 Large-sized retail stores included department stores, large supermarkets and other stores whose annual sales were over US$830,000 (HK$6.4 million).

27 See Kim et al. (2020).

3.16 In Australia, Tasmania's *Make Yourself at Home* scheme gave vouchers to people living in the state for them to spend on accommodation or tourism experiences during 7 September-1 December 2020. New South Wales ran a trial programme – *Out and About Voucher* – in December 2020 which gave AUS$100 (HK$536) worth of digital vouchers to spend on eating out and entertainment activities. Furthermore, South Australia has so far issued two rounds of travel vouchers – *Great State Voucher* – to stimulate the state's tourism sector during the COVID-19 pandemic. The above three voucher schemes have reportedly received favourable response from local residents[28].

4. Guaranteed loans to the unemployed

4.1 In addition to the consumption voucher scheme, the Financial Secretary announced another unprecedented initiative – a 100% Personal Loan Guarantee Scheme ("PLGS") – in the 2021-2022 Budget. PLGS assists the unemployed with the Government offering a guarantee for loans taken out by them under the scheme. The maximum loan amount per applicant is set at six times of his or her average monthly income during employment, subject to a ceiling of HK$80,000. There will be a principal moratorium for the first 12 months. Afterwards, the principal and interest can be repaid over a period of up to five years with an interest rate fixed at 1% per annum. Applicants who have repaid loans in full as scheduled will be offered full reimbursement for the interest paid. Freelancers who provide proof of loss of income may also apply for the loan.

4.2 The government-guaranteed loan scheme should provide an extra financing option for the unemployed, particularly offering immediate financial assistance to those who possess few financial assets. There are calls for extending the coverage of the scheme to the underemployed[29], in view of increasing number of employees being put on no-pay leave and experiencing substantial reduction in income during the pandemic. Indicative of this, the underemployment rate soared to a post-SARS high of 3.8% in the third quarter of 2020 and stayed elevated at 3.4% in the fourth quarter (**Figure 7**). For 2020 as a whole, the underemployment rate averaged 3.3%, visibly 2.2 percentage points higher than in 2019. Reflecting partly the trend, the median household income fell markedly during 2020. The decline accelerated from 4.1% in the first quarter to 10.2% in the second quarter, the largest decline in 17 years, before easing to 8.4% and 7.3% in the third and fourth quarter respectively.

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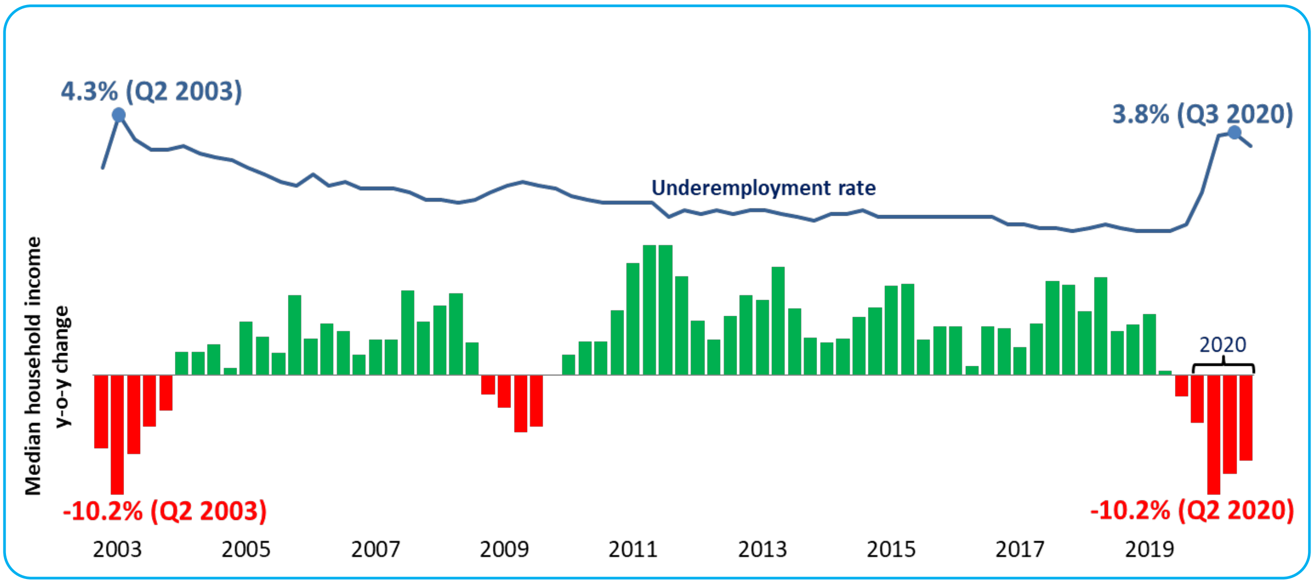
[28] See Masige (2020), Ideas (2021) and Marshall (2021).

[29] See, for example, RTHK (2021) and 龍眠山 (2021).

Figure 7 – Underemployment and median household income, 2003-2020



Data source: Census and Statistics Department.

4.3 While the 100% Personal Loan Guarantee Scheme represents a novel measure for Hong Kong, similar government-guaranteed personal loan schemes have been announced or implemented in the United Kingdom ("UK"), Australia and Japan. The UK and Australia assist low-income households, whereas Japan supports not only the unemployed but also low-income households and those households whose incomes have been reduced during the pandemic.

4.4 In the latest budget delivered by the Chancellor on 3 March 2021, the UK government will trial a no-interest loan scheme to help low-income households pay off any unexpected costs, such as falling behind on rent due to the loss of income. The loan aims to support vulnerable households which would otherwise have to rely on high-cost credit to get them through. In Australia, Good Shepherd Microfinance[30] has teamed up with the federal government to offer AUS$3,000 (HK$16,080) "Household Relief Loans" to help COVID-affected households with rent and utility bills. The means-tested loan can be paid back in instalments without interest or fees over two years. It can be used in conjunction with Good Shepherd Microfinance's "No Interest Loan Scheme", which offers up to another AUS$1,500 (HK$8,040) to pay for essentials such as medical bills and education expenses.

4.5 In Japan, a means-tested loan scheme in the form of "Emergency Small Loan" and "General Support Fund" has been in place to assist low-income household with living expenses. In light of the impact of the COVID-19 pandemic, the loan scheme has been expanded to include the unemployed as well as those

30 Being the largest microfinance charity in Australia, Good Shepherd Microfinance is a not-for-profit organization that offers affordable financial programmes for people on low incomes to enable them to bounce back from hardship.

households whose income has been reduced due to the pandemic even if the working members have not lost their employment. Under the scheme, an interest-free "Emergency Small Loan" of up to 200,000 yen (HK$14,540) is provided to each successful applicant who requires an urgent temporary loan to maintain their livelihood. The loan must be paid back after one year within a repayment period of two years. Households that need more to maintain their livelihood can additionally borrow a monthly "General Support Fund" of 200,000 yen (HK$14,540) per month, up to a maximum period of nine months. The loan is interest-free and repayable after one year within 10 years of time. As a special measure in response to the pandemic, eligible low-income households[31] which continue to suffer from reduced income can be exempted from repaying the loan when repayment is due.

5. Issuance of green bonds

5.1 The transition to a sustainable economy through carbon neutrality has become a global trend. Many governments have strengthened their low-carbon efforts to achieve steep emissions reductions in the years ahead. Having regard to the goal of achieving carbon neutrality in Hong Kong by 2050, this year's Budget proposes to double the borrowing ceiling of the Government Green Bond Programme[32] to HK$200 billion. This allows the Government to issue additional green bonds totalling HK$175.5 billion within the next five years.

5.2 According to the Financial Secretary, further issuance of green bonds for financing eligible projects helps develop Hong Kong's bond market. It can also relieve the Government's fiscal pressure arising from the need to use existing resources to meet capital expenditure[33]. Nevertheless, Hong Kong's fiscal position is likely to remain under stress in the years ahead. According to the 2021-2022 Budget, the Government will run fiscal deficits until at least 2024-2025, after recording the first deficit in 15 years in 2019-2020. In other words, Hong Kong is bracing for six consecutive years of fiscal deficits, an exceptionally long period in Hong Kong's fiscal landscape. Such being the case, expanding the Government's bond programme might help improve the liquidity of the fiscal reserves to prepare for any contingencies in the current COVID and post-COVID environment.

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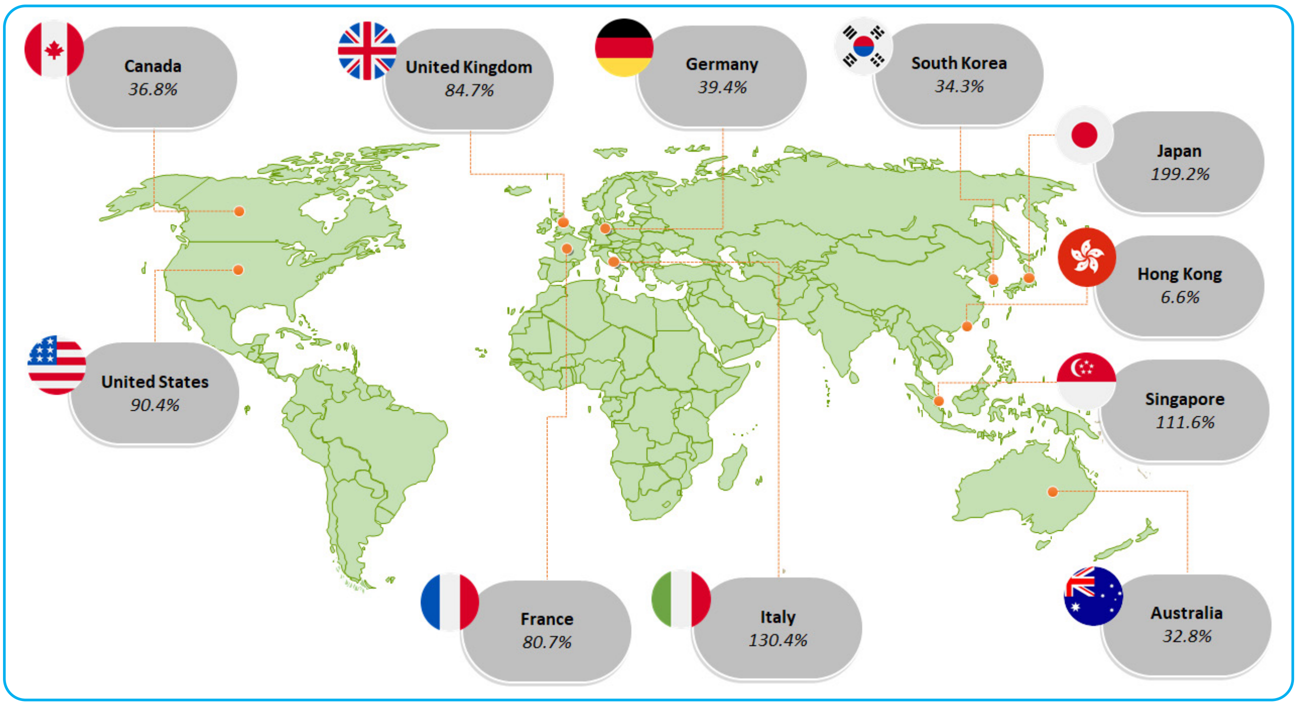
[31] Eligible low-income households refer to those with incomes at or lower than the municipal-tax-exemption level.

[32] The aim of green bonds is to fund projects that have positive environmental benefit. They differ from conventional bonds particularly in relation to restricting the use of the proceeds on climate-focused projects that promote sustainability and environmental protection.

[33] Proceeds raised under the Government Green Bond Programmes are credited to the Capital Works Reserve Fund to finance or refinance public works projects that provide environmental benefits and support the sustainable development of Hong Kong.

5.3 Hong Kong has ample room for borrowing in view of its vast foreign currency reserve assets and relatively low government debt to GDP ratio. According to the International Monetary Fund ("IMF"), Hong Kong's foreign currency reserve assets amounted to US$491.8 billion (HK$3,815 billion) as at end-December 2020, the eighth largest in the world. In addition, its government debt to GDP ratio stood at 6.6% in 2018, the second lowest among the 170 economies studied by IMF[34] (**Figure 8**).

Figure 8 – Government debt to GDP ratio in selected economies, 2018



Data source: International Monetary Fund.

5.4 In addition to issuance of additional green bonds, funding infrastructure projects with bonds can be an efficient option for Hong Kong to raise money amid the current low-interest environment. Indeed, the Government announced to continue investing in infrastructure in this year's Budget, and the annual capital expenditure will exceed HK$100 billion between 2021-2022 and 2025-2026[35]. The issue of infrastructural bonds also allows for a fair and efficient way of distributing the fiscal responsibility, as the debt burden is borne by generations who will directly benefit from improved infrastructure[36]. Furthermore, investment in public infrastructure is an effective way to help the construction industry which has been

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[34] Among the 170 economies, Brunei's government debt to GDP ratio was the lowest at 2.6% in 2018.

[35] In addition, Lantau Tomorrow, a mega-development project scheduled to start in 2025-2026, could cost HK$624 billion in September 2018 prices based on a ballpark estimate. The Secretary for Development has promised to look into financing models such as issuing bonds so as not to impose undue burden on Hong Kong's financial reserves. See Ng (2020) and Wong (2020).

[36] See Bangham et al. (2020) and Ministry of Finance of Singapore (2021).

seriously affected by the pandemic. The sector's unemployment rate surged to 10.4% in 2020 from the pre-COVID level of 5.1%.

5.5 Not long before Hong Kong announced its Budget, Singapore made its budget announcement on 16 February 2021. Apart from issuing green bond to accelerate Singapore's ascent as a green economy, the budget statement also features the issue of infrastructural bond to finance the country's long-term infrastructure for the benefit of current and future generations[37]. The Singaporean government intends to raise up to S$90 billion (HK$507 billion) of new infrastructural bonds under a proposed Significant Infrastructure Government Loan Act (or SINGA for short). The proceeds raised under SINGA will be used to finance major long-term infrastructure projects over the next 15 years, including new Mass Rapid Transit lines and coastal protection.

6. Observations

6.1 The following observations are made based on the findings above:

(a) the Government recorded the largest ever fiscal deficit of HK$257.6 billion in 2020-2021. This has resulted in substantial reduction in its fiscal reserves from the equivalent of 23 months of government expenditure in 2019-2020 to 13 months in 2020-2021. The substantial depletion of fiscal reserves inevitably arouses the concern over the fiscal space available for the Financial Secretary to revive the COVID-hit local economy while ensuring the health of public finances;

(b) in the 2021-2022 Budget, the Financial Secretary unveiled an unprecedented initiative of giving out consumption vouchers instead of cash to each eligible adult in a move to revive the economy. They will each receive HK$5,000 worth of consumption vouchers proposed to be disbursed in five monthly instalments through an e-payment operator. These vouchers are time-limited that have the characteristics of compulsory consumption and avoiding saving;

(c) while Hong Kong is new to the consumption voucher scheme, many other Asian economies have launched similar schemes before to help stimulate the local economy. These economies have distributed the vouchers in one-go, and some have allowed the transferability of

[37] Specifically, the government will issue green bonds on selected infrastructure projects with up to S$19 billion (HK$107 billion) in public sector green projects identified as a start.

vouchers by permitting recipients to use other people's vouchers. Furthermore, they have fine-tuned the distribution of consumption vouchers to favour low-income group (as in the case of Taiwan), sectors or industries seriously affected by the pandemic (Singapore and Australia), and/or SMEs (Macao and South Korea);

(d) the Financial Secretary expects the consumption voucher scheme to contribute 0.7% to GDP in 2021. Yet, the effectiveness of issuing consumption vouchers may be undermined by the "substitution effect" and the "inter-temporal effect". According to the experience of Taiwan and Japan in issuing consumption vouchers/shopping coupons, such measure did not achieve the projected effect of stimulating spending and economic growth. Taiwan issued consumption vouchers to each citizen in 2009. Subsequent assessment reports showed that the scheme only raised Taiwan's GDP by about 0.28%-0.43%, lower than the government's original estimation of 0.66%. Japan also issued shopping coupons in 1999, which contributed a mere 0.1% to the country's GDP;

(e) another unprecedented initiative in this year's Budget is the introduction of the 100% Personal Loan Guarantee Scheme for the unemployed. There are calls for extending coverage of the scheme to the underemployed. Similar government-guaranteed loan schemes have been announced or implemented in the UK, Australia and Japan. The UK and Australia target low-income households, whereas Japan supports not only the unemployed but also low-income households and those households whose income have been reduced during the pandemic. As a special arrangement under the pandemic, Japan permits exemption of repayment obligation of those households which continue to suffer from loss of income when repayment is due; and

(f) the Financial Secretary also announced in the 2021-2022 Budget to expand the issue of green bonds to preserve fiscal strength. Nevertheless, Hong Kong's fiscal position is likely to remain under stress in the years ahead as fiscal deficits will continue until at least 2024-2025. The territory has ample room for further issuance of bonds to relieve the fiscal pressure in view of its hefty foreign currency reserve assets and relatively low government debt to GDP ratio. Infrastructural bond is a possible efficient option in view of the current low-interest environment and considerable infrastructure spending in the coming years.

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