Hong Kong's Recent Economic Situation and Near-term Outlook

The Government released the Third Quarter Economic Report 2020 on 13 November. The Economic Report, together with the press release containing the updated economic forecasts for the whole year of 2020, have been furnished to Members of the Legislative Council.

This paper analyses Hong Kong's overall economic development in the most recent period and near-term outlook, and provides some preliminary analyses on the economic prospects for 2021.

Office of the Government Economist
Financial Secretary's Office
30 November 2020

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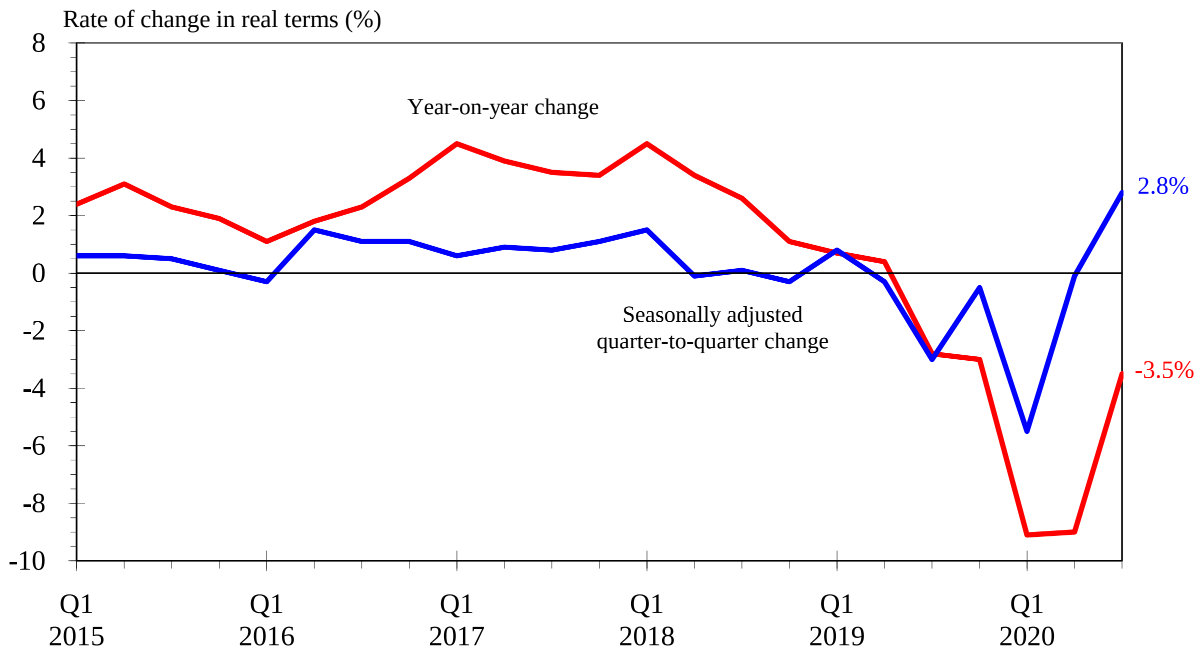
Introduction

This paper analyses the latest development of the Hong Kong economy and provides some preliminary analyses on the outlook for 2021.

Recent economic situation

2. The Hong Kong economy saw some improvement in the third quarter of 2020. Gross Domestic Product (GDP) registered a year-on-year decline of 3.5%(1) in the quarter, visibly narrower than the 9.0% contraction in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP rebounded by 2.8%, arresting the declines in the preceding five quarters ***(Chart 1)***. This was mainly due to an improved external trading environment amid the accelerated growth of the Mainland economy, the stabilisation of the local epidemic situation in the latter part of the quarter and stronger financial market activity. However, economic activity was still notably below the pre-recession level. In the first three quarters of 2020 combined, GDP declined by 7.2%.

Chart 1 : Real GDP posted a visibly narrower year-on-year contraction in the third quarter of 2020



(1) Unless otherwise specified, all figures on changes in the recent economic situation, external trade and domestic sector sections of this paper are year-on-year changes in real terms.

External trade

3. Economic activities in major economies revived in the third quarter. The US and the euro area economies recorded much narrowed year-on-year contractions. The Mainland economy posted accelerated growth as the epidemic there had been well contained since March. Many other Asian economies showed improvement of varying degrees. Yet, a number of advanced economies have seen increasingly severe epidemic situations since late September and have to retighten social distancing measures or reinstate lockdowns of varying degrees, casting a shadow over the near-term global economic outlook. While the International Monetary Fund (IMF) slightly revised upwards its global economic growth forecast for 2020 to -4.4% in October, it warned that there remains tremendous uncertainty around the economic outlook.

4. Hong Kong’s total exports of goods showed some improvement in the third quarter and grew by 3.9% ***(Chart 2(a))***, thanks to the strengthening of the Mainland economy and the gradual revival of import demand in many major markets. Exports to the Mainland continued to stage a strong growth. Exports to the US and the EU showed narrowed declines. Exports to many other major Asian markets also improved.

5. Hong Kong’s exports of services plummeted by 34.6% in the third quarter ***(Chart 2(b))***, albeit narrower than the record fall of 45.6% in the preceding quarter. Exports of travel services almost vanished as inbound tourism remained at a standstill. Exports of transport services fell sharply as passenger flows tumbled, but the pace of decline moderated somewhat alongside improved regional trade and cargo flows. Exports of business and other services continued to record a double-digit decline as global economic conditions remained weak. In contrast, exports of financial services saw further growth, buttressed by active cross-border financial and fund-raising activities.

Chart 2(a) : Total exports of goods resumed moderate growth

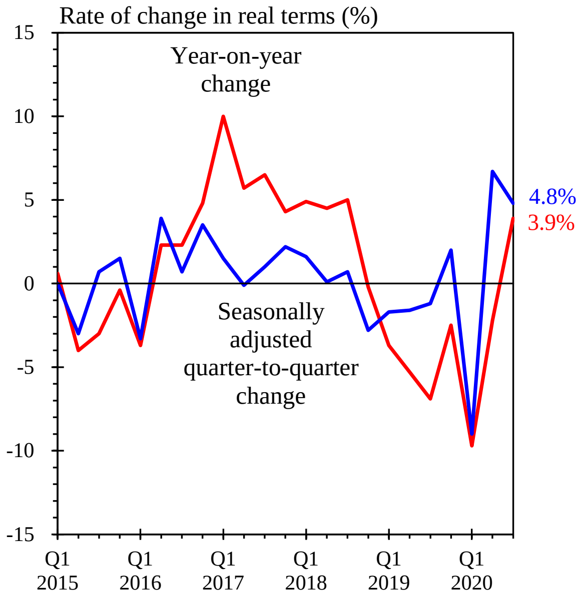
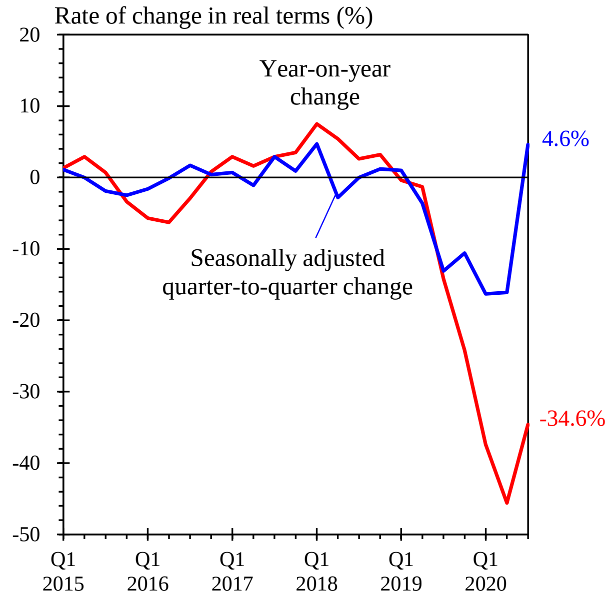


Chart 2(b) : Exports of services plummeted further



Domestic sector

6. Domestic demand improved somewhat but stayed weak. Private consumption expenditure posted a notable decline of 8.2% in the third quarter, albeit considerably narrower than the fall in the preceding quarter ***(Chart 3(a))***. Local consumption sentiment took a big hit amid the third wave of COVID-19 infections in July and August and austere labour market conditions, but revived somewhat in September alongside the stabilised epidemic situation and relaxation of social distancing measures. Outbound tourism remained frozen through the quarter amid widespread travel restrictions. The decline in retail sales volume remained notable at 17.2% in the third quarter, albeit narrowed from the 34.9% decrease in the first half of the year. However, total restaurant receipts declined by a record 34.8% in real terms in the third quarter, reflecting the serious disruptions to the catering industry brought by the epidemic in July and August.

7. Overall investment spending in terms of gross domestic fixed capital formation continued to fall noticeably by 11.1% in the third quarter ***(Chart 3(b))***. Within the total, expenditure on acquisitions of machinery, equipment and intellectual property products recorded another double-digit fall of 20.9% as the business outlook remained exceptionally uncertain. Expenditure on building and construction declined further by 10.4%, as spending from both the private and public sectors remained subdued. In contrast, the costs of ownership transfer rose visibly, as property transactions were much more active than a year earlier.

Chart 3(a) : Private consumption expenditure posted a smaller though still notable decline

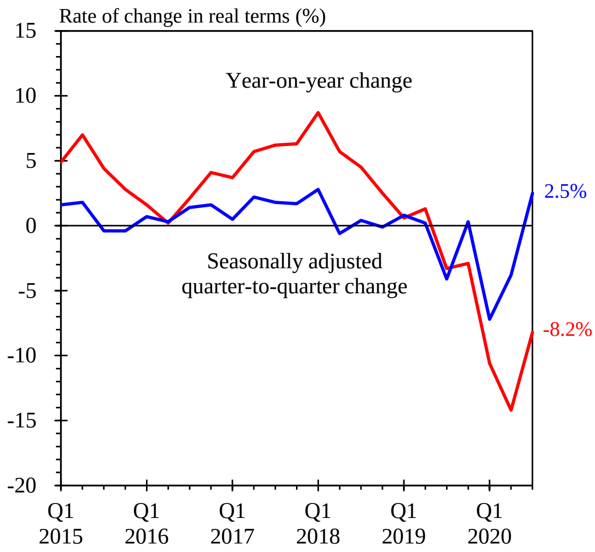
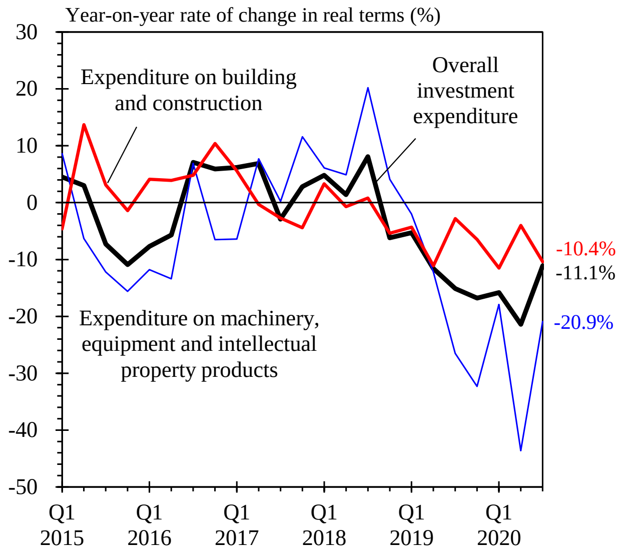


Chart 3(b) : Overall investment expenditure continued to fall visibly



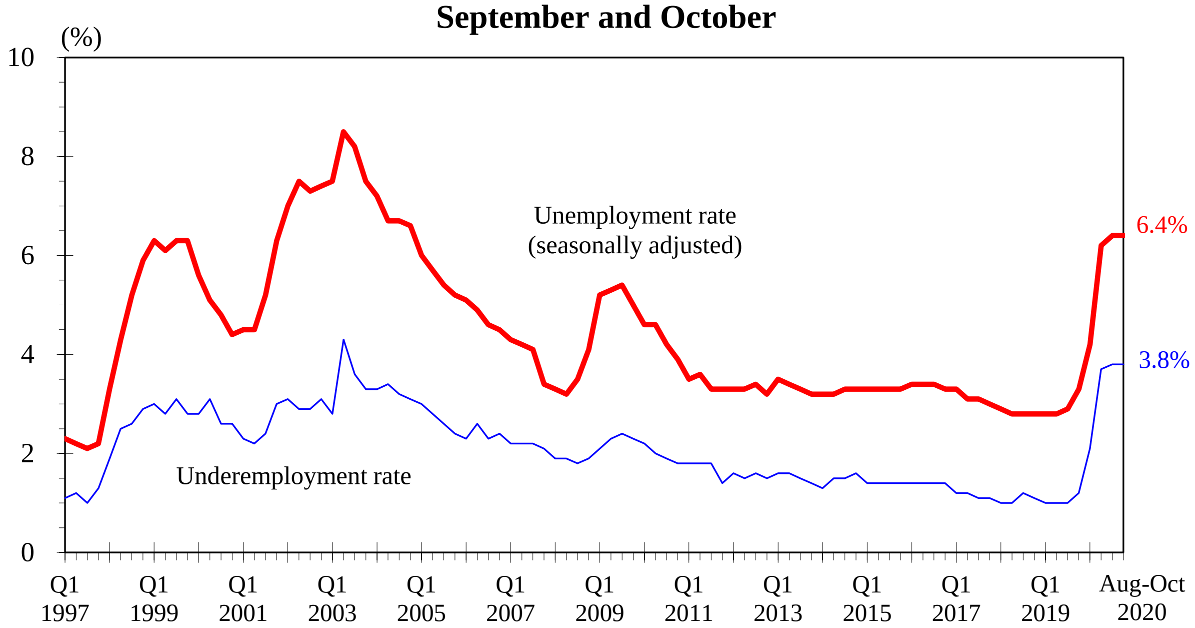
8. As for external direct investment (DI), the total stock of inward DI amounted to $15.2 trillion at end-June 2020, equivalent to 5.5 times of GDP. According to the latest available figures analysed by source, at end-2018, the Mainland continued to be a major source of Hong Kong's inward DI, accounting for around 27% of the total stock. Separately, according to the survey results for 2020, the number of business operations in Hong Kong with parent companies either overseas or in the Mainland remained high at over 9 000, reflecting Hong Kong's business-friendly environment as well as its prominent role as a conduit between the Mainland and the rest of the world.

9. In face of increasingly fierce competition from neighbouring economies, the Government has been committed to further consolidating and elevating Hong Kong's status as an international financial centre. Please refer to ***Annex 1*** for relevant policies and measures.

Labour market

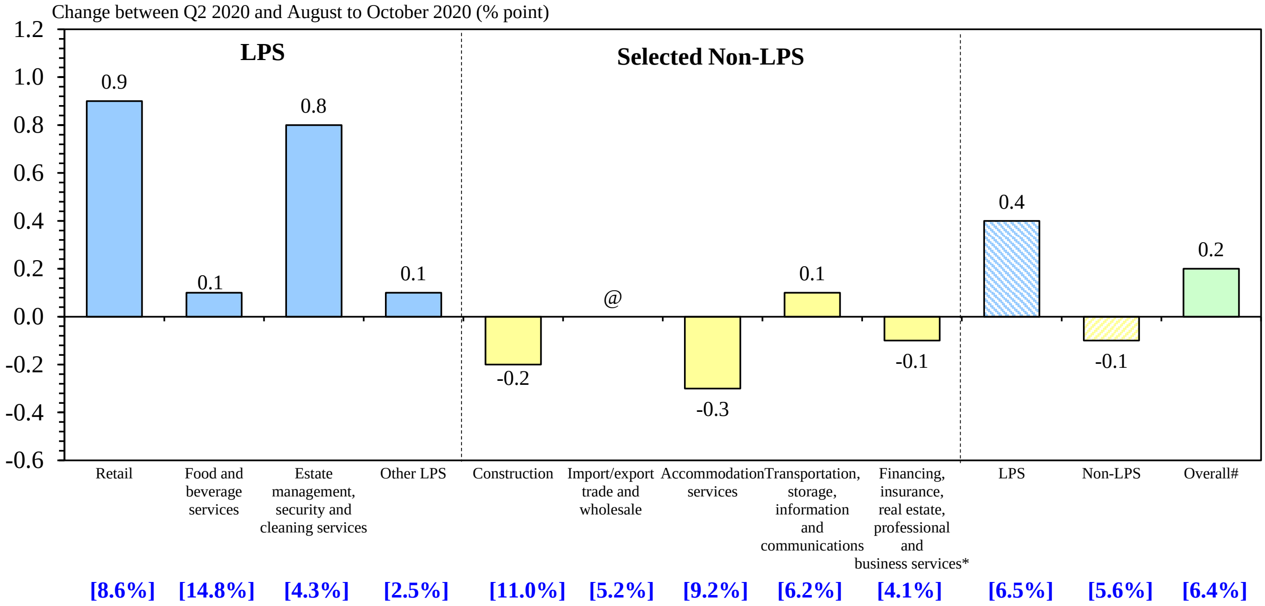
10. The labour market showed further deterioration for the third quarter of 2020 as a whole amid the third wave of the local epidemic, but the pressure faced by the labour market tended to stabilise in September and October as the epidemic became stable. Meanwhile, the Employment Support Scheme continued to provide support. The seasonally adjusted unemployment rate was 6.4% in the third quarter, the highest in close to 16 years, up slightly by 0.2 percentage point from 6.2% in the second quarter, while that of the latest survey period (i.e. August – October 2020) remained unchanged. The underemployment rate edged up from 3.7% in the second quarter to 3.8% in the third quarter, and remained unchanged in August – October, but it was still at the post-SARS high ***(Chart 4)***. The unemployment rate of the consumption- and tourism-related sectors combined rose to 11.7% in the third quarter, the highest since the SARS episode, and then declined somewhat to 11.2% in August – October. Overall labour demand slackened further. Results of establishment surveys indicated that in June 2020, private sector employment recorded the largest year-on-year decline since December 1998, while the number of vacancies continued to plunge. More recent statistics from the General Household Survey (GHS) suggested that total employment in the latest period was 5.6% lower than the level a year ago, but went up slightly by 0.2% over the second quarter of 2020.

Chart 4 : The labour market showed further deterioration for the third quarter as a whole, but the pressure faced by the labour market tended to stabilise in September and October



11. The unemployment rate of the low-paying sectors (LPS)[(2)] as a whole increased from 6.1% in the second quarter of 2020 to 6.7% in the third quarter, and then fell to 6.5% in August – October ***(Chart 5)***. Analysed by sector, compared with the second quarter of 2020, the unemployment rate of the retail sector surged by 0.9 percentage point to 8.6% in the latest survey period. The unemployment rate of the estate management, security and cleaning services sector rose by 0.8 percentage point to 4.3%. The unemployment rate of the food and beverage services sector edged up by 0.1 percentage point to 14.8%. On the other hand, compared to the second quarter of 2020, the unemployment rate of the non-LPS edged down by 0.1 percentage point to 5.6% in August – October. Within the non-LPS, the unemployment rates of the accommodation services sector and the construction sector decreased by 0.3 and 0.2 percentage point to 9.2% and 11.0% respectively. Analysed by skill segment, the unemployment rate of the lower-skilled workers stayed at 7.3% in the latest survey period, unchanged from the second quarter of 2020, but it remained much higher than that of the higher-skilled workers (at 4.0% in the latest survey period).

Chart 5 : The unemployment rate of the low-paying sectors as a whole increased over the second quarter of 2020



Notes: Figures in square brackets refer to the unemployment rate for that sector in Aug-Oct 2020 (provisional figures).
(*) Excluding real estate maintenance management, security and cleaning services.
(#) Seasonally adjusted, and including first-time job-seekers and re-entrants into the labour force.
(@) Less than 0.05 percentage point.

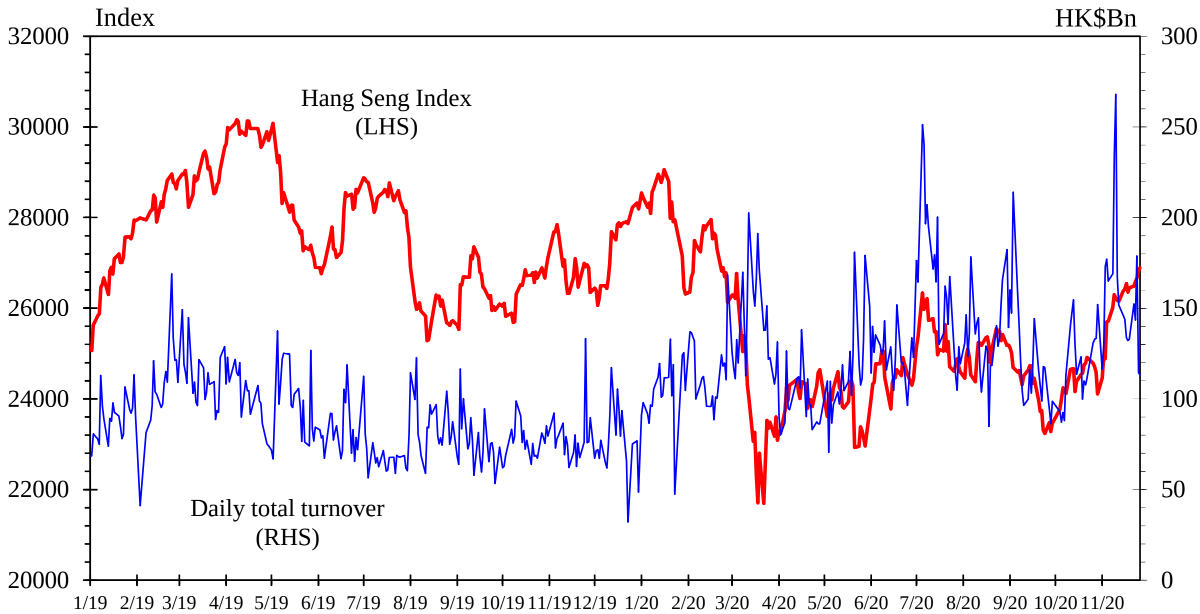
(2) The fifth-term Minimum Wage Commission identified LPS as (i) retail; (ii) food and beverage services; (iii) estate management, security and cleaning services; and (iv) other low-paying sectors, including elderly homes; laundry and dry cleaning services; hairdressing and other personal services; local courier services; and food processing and production.

12. Nominal wages and earnings continued to increase, but the rates of increase decelerated further. Nominal wages went up by 1.3% in June 2020, and labour earnings (as measured by the nominal index of payroll) rose by 2.2% in the second quarter of 2020, both the slowest in around 10 years. Nominal wages in all selected sectors saw decelerated growth. Labour earnings in all major sectors also saw decelerated growth, having even switched to decline or registered enlarged declines. More recent statistics from the GHS suggested that earnings of low-income workers recorded a slower increase in the third quarter of 2020. Average monthly employment earnings of full-time employees (excluding foreign domestic helpers) of the lowest three decile groups combined increased by 3.2% year-on-year in nominal terms, slower than the 3.7% increase in the second quarter of 2020, albeit still faster than the inflation rate of 0.5% as measured by the underlying Consumer Price Index (A) which netted out the effects of Government's one-off relief measures. However, caution should be exercised when interpreting these earnings growth figures, as the job loss over the past year was more concentrated in the lower-paid segment, thereby distorting the year-on-year comparison of the average monthly employment earnings of the lower-decile groups. Meanwhile, the median monthly household income (excluding foreign domestic helpers) continued to fall sharply by 8.2% year-on-year in nominal terms, partly reflecting the decreased number of working members in the households amid the sharp fall in total employment. Please refer to ***Annex 2*** for details on the recent situation of household income.

Asset markets

13. The local stock market underwent some consolidation in July – October as sentiment was dampened by tense China-US relations and the still-uncertain global economic outlook amid the COVID-19 pandemic. The Hang Seng Index (HSI) fell from a high of 26 339 on 6 July to a low of 23 235 on 25 September, before rising back to 24 107 in end-October, albeit still 1.3% lower than end-June ***(Chart 6)***. The HSI rebounded further in November, closing at 26 895 on 27 November, up 11.6% from end-October. The average daily turnover of the stock market was $136.0 billion during July – October, surging by 77.2% year-on-year. Fund raising activities in the financial market also stayed active.

Chart 6 : The local stock market underwent some consolidation in July – October

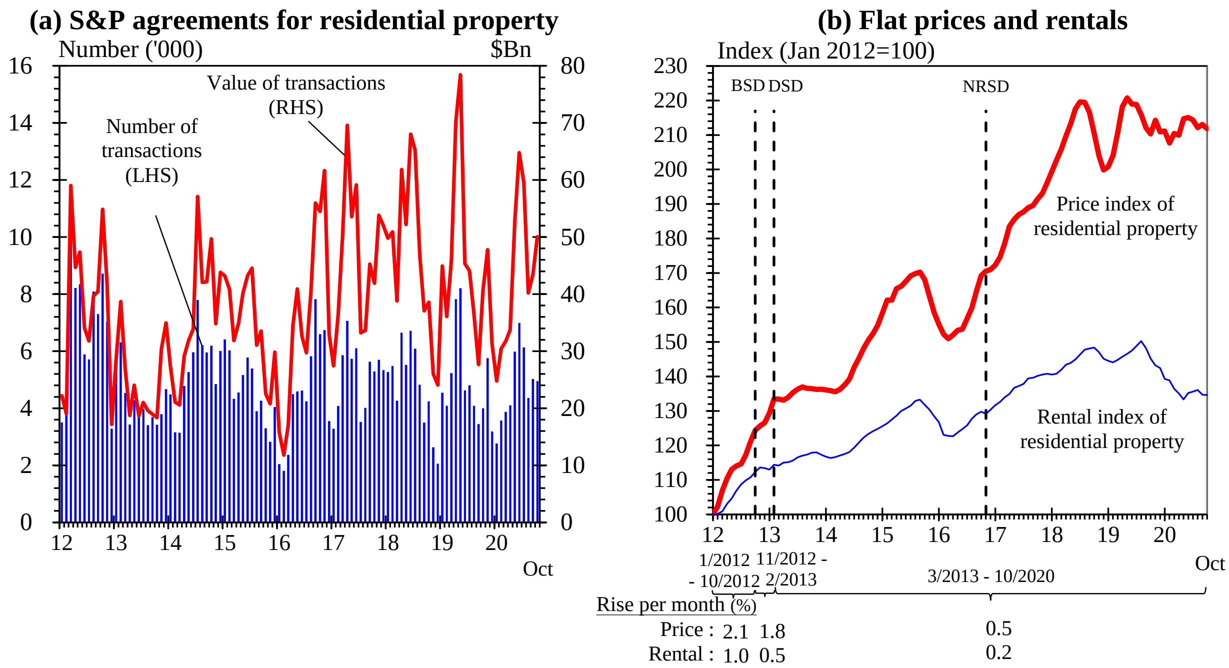


14. The residential property market softened somewhat upon entering the third quarter, as sentiment was affected by the third wave of the local epidemic in July and early August. However, the market showed some signs of revival since September as the epidemic situation stabilised. The low interest rate environment and firm end-user demand also appeared to render support to the market. The monthly average number of sale and purchase agreements for residential property received by the Land Registry was 5 117 from July to October, compared with the monthly average of 4 546 in the first half of 2020 ***(Chart 7(a))***.

15. Flat prices in October on average decreased by 1% as compared to those in June and were 4% below the recent peak in May 2019. Meanwhile, flat rentals in October were on average little changed as compared with those in June, but were still

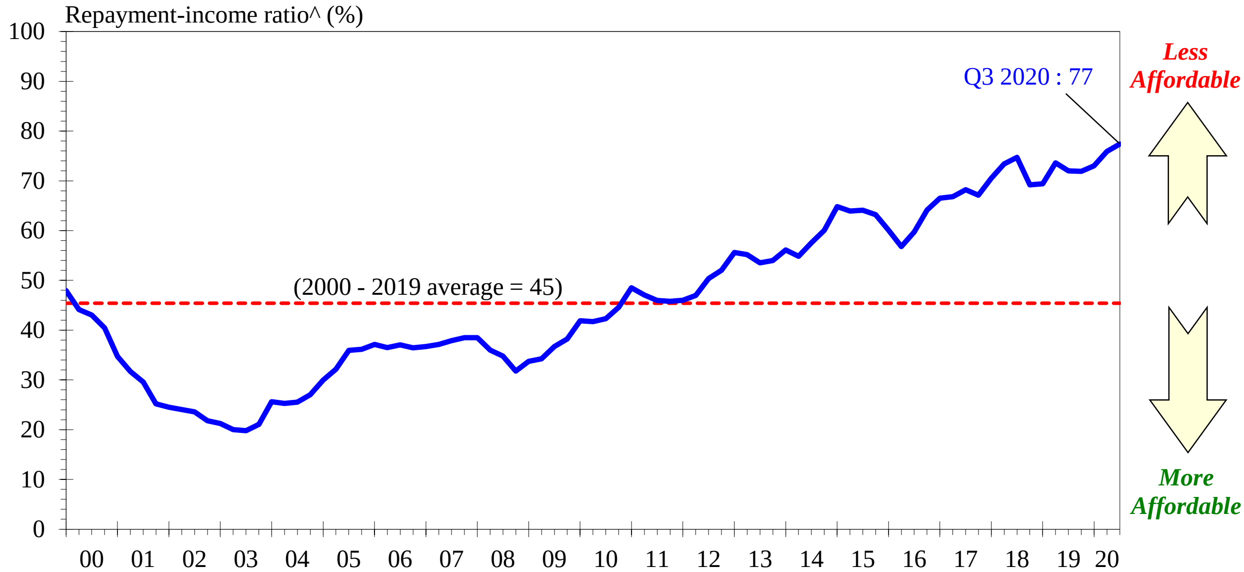
10% lower than the peak in August 2019. During the first 10 months of 2020, flat prices showed virtually no change, while rentals declined by 5% ***(Chart 7(b))***.

Chart 7 : Prices of residential property softened somewhat in June – October 2020



16. Flat prices in October 2020 exceeded the 1997 peak by 120%. The index of home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) remained elevated at around 77% in the third quarter of 2020, significantly above the long-term average of 45% over 2000 – 2019 ***(Chart 8)***.

Chart 8 : The index of home purchase affordability remained elevated



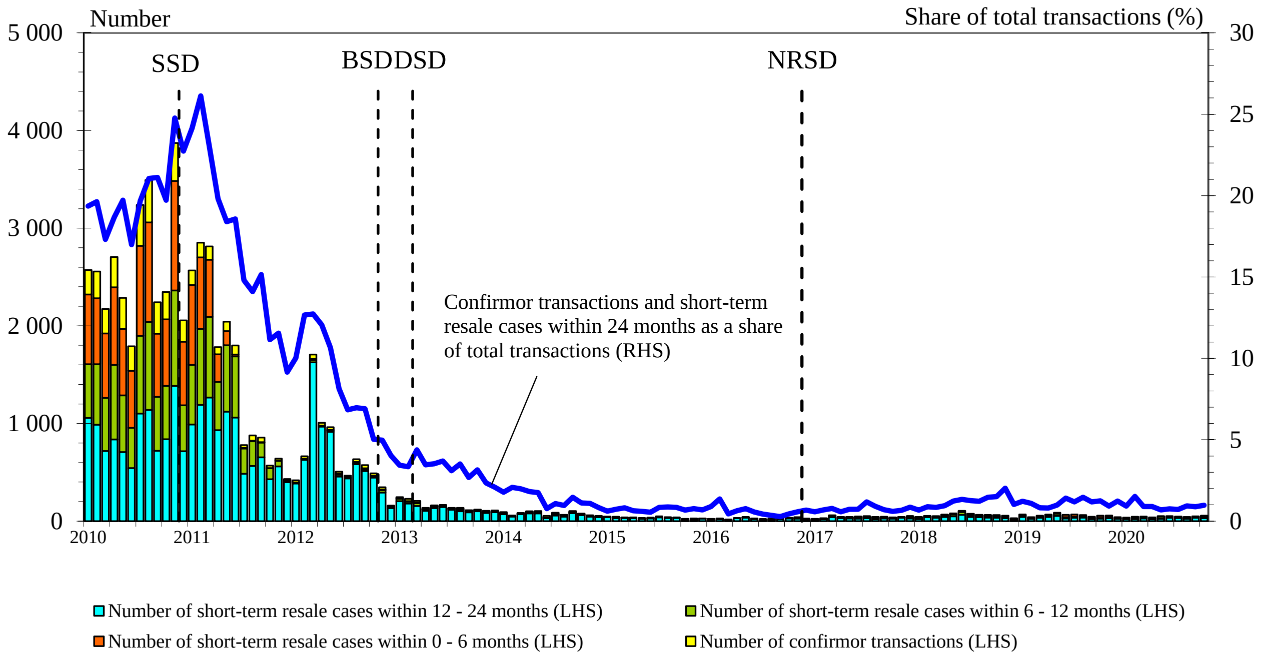
Note : (^) The ratio of the mortgage payment for a flat with saleable area of 45 sq m (assuming 70% loan-to-value ratio and tenor of 20 years) to the median income of households (excluding those living in public housing). This ratio is different from the debt servicing ratio published by the HKMA, which is the ratio of actual monthly debt obligations of mortgagees to their monthly income of newly approved mortgages.

17. Raising the flat supply by increasing land supply is a policy priority of the Government. In September, the Government announced to put up two residential sites for sale in the fourth quarter. Combining the various sources (including Government land sales, railway property development projects as well as private development and redevelopment projects), the total potential private housing land supply in the first three quarters of 2020-21 is estimated to have a capacity to produce about 7 400 units. The total supply of flats in the private sector in the coming three to four years (comprising unsold flats of completed projects, flats under construction but not yet sold, and flats on disposed sites where construction can start any time) would stay at a high level of 92 000 units as estimated at end-September.

18. Over the past several years, the Government has also implemented demand-side management and macro-prudential measures to dampen speculative, investment and non-local demand, and to reduce possible risks to financial stability arising from an exuberant property market. These measures have yielded notable results. On speculative activities, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) remained low at 46 cases per month or 0.9% of total transactions in the first ten months of 2020, well below the monthly average of 2 661 cases or 20.0% from January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty) ***(Chart 9)***. Reflecting the effects of the Buyer's Stamp Duty, purchases by non-local individuals and non-local companies also stayed low at 17 cases per month or 0.3% of total transactions in the first 10 months of 2020, much lower than the monthly average of 365 cases or 4.5% from January to October 2012 ***(Chart 10)***. As an indicator of investment activities,

purchases subject to the New Residential Stamp Duty stayed at a modest level of 196 cases per month or 3.7% of total transactions in the first 10 months of 2020, markedly lower than the monthly average of 1 412 cases subject to Doubled Ad Valorem Stamp Duty (DSD) or 26.5% from January to November 2016 ***(Chart 11)***. As to mortgage lending, the average loan-to-value ratio of new mortgages was 57% from January to October 2020, likewise below the average of 64% from January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority (HKMA).

Chart 9 : Short-term speculative activities stayed subdued



Note : Confirmor transactions refer to resale before assignment.

Chart 10 : Purchases by non-local buyers remained low

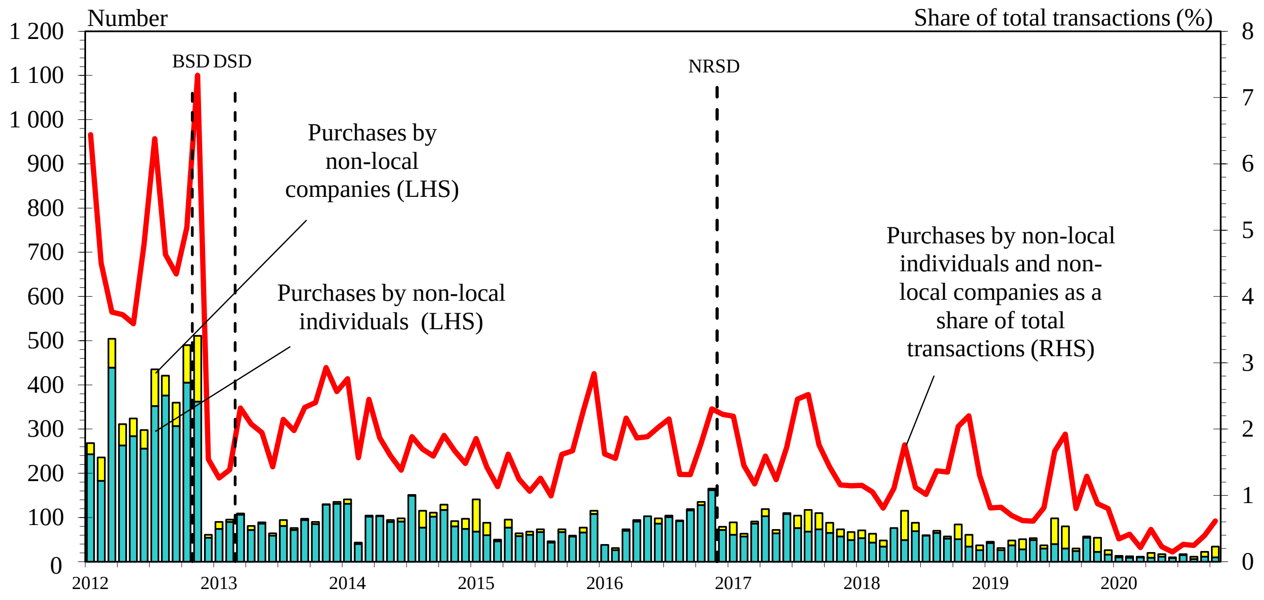
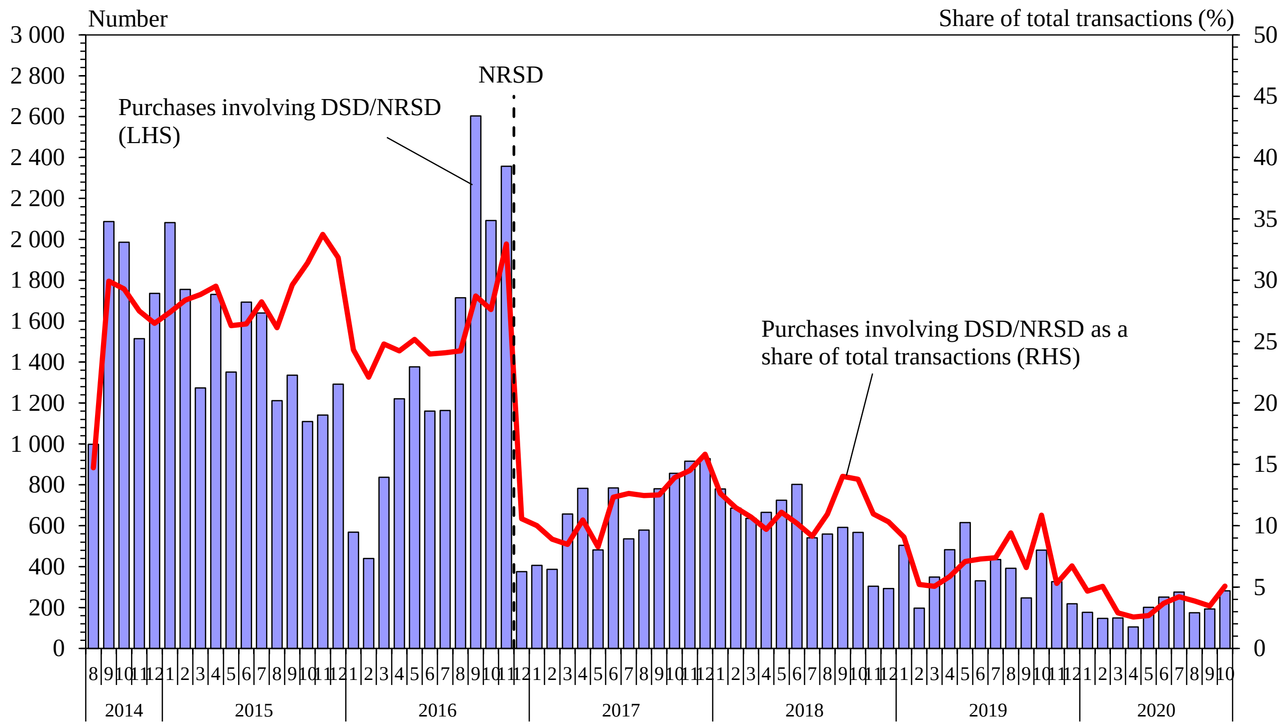


Chart 11 : Investment activities were modest



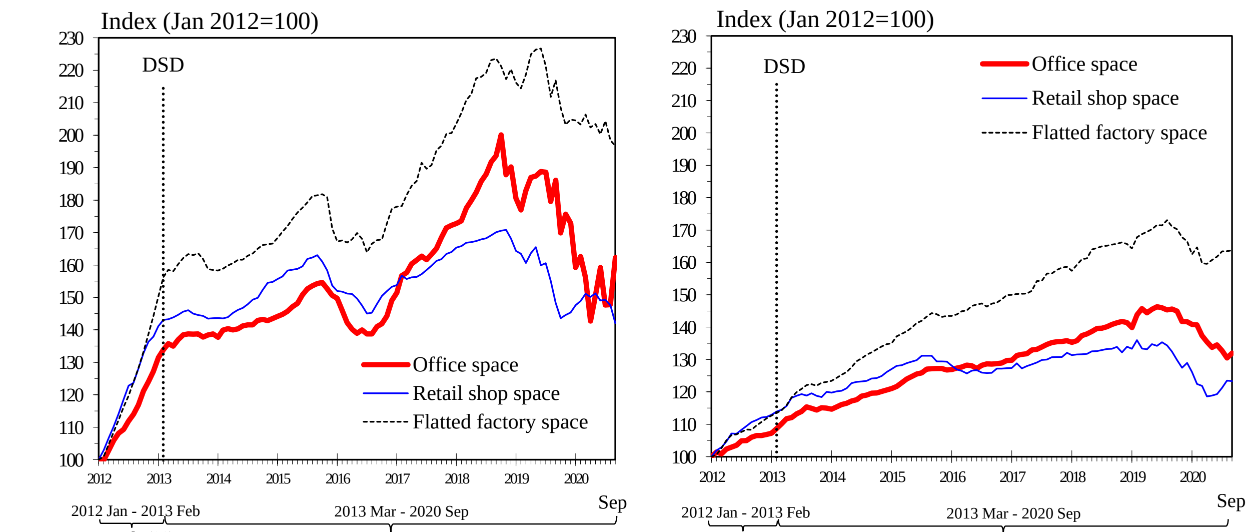
19. Meanwhile, the commercial and industrial property markets stayed generally weak in the third quarter amid the third wave of the local epidemic, weak economic conditions and exceptionally uncertain economic outlook. Trading activities stayed at low levels. With the relaxation of the macro-prudential measures for mortgage loans on non-residential properties by the HKMA in August, trading activities showed some signs of rebound towards the end of the quarter. Prices and rentals of major market segments exhibited diverse movements. Sale prices of office space on

average increased by 2% during the third quarter, while rentals declined by 2%. For retail shop space, sale prices declined by another 5% between June and September, while rentals increased by 3%. As for flatted factory space, sale prices decreased by 2% during the third quarter, while rentals rose by 1% ***(Chart 12)***.

20. However, dented by the US-Mainland trade tensions, the local social incidents and the COVID-19 pandemic in the past two years, the commercial property market has undergone a visible correction as compared to the situation in 2013 when the Doubled Ad Valorem Stamp Duty (DSD) for non-residential properties was introduced(3). Under the current economic environment, many companies with commercial properties may wish to take out a mortgage loan or sell their property to meet urgent needs when facing operational or cash-flow pressures. In view that abolishing the DSD for non-residential properties should not lead to a revival of the intense speculation activities seen in the past, this is considered the appropriate timing for exiting from such demand-management measure. Abolishing the DSD would lower the relevant transaction costs and assist owners in need of selling their properties for working capital. Against this background, the Chief Executive has announced this decision in the recently-delivered Policy Address.

Chart 12 : Prices and rentals of non-residential properties exhibited diverse movements during the third quarter

(a) Prices **(b) Rentals**



(a) Prices

Rise per month (%)	2012 Jan - 2013 Feb	2013 Mar - 2020 Sep
Office space :	2.0	0.2
Retail shop space :	2.7	*
Flatted factory space :	3.3	0.3

Note : (*) Change of less than ±0.05%.

(b) Rentals

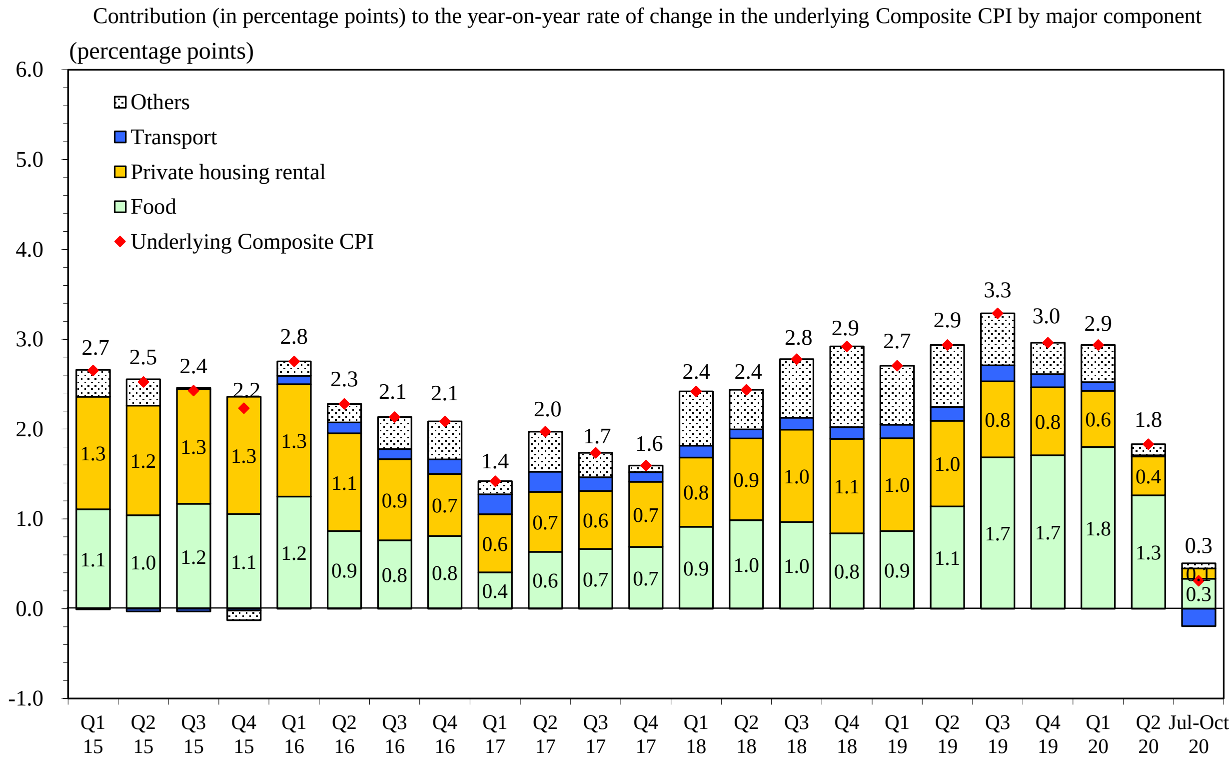
Rise per month (%)	2012 Jan - 2013 Feb	2013 Mar - 2020 Sep
Office space :	0.7	0.2
Retail shop space :	1.0	0.1
Flatted factory space :	1.0	0.4

(3) For example, prices of office space in September 2020 have risen cumulatively by 21% over February 2013 (i.e. before the implementation of the DSD), similar to the rate of inflation over the same period, while prices of retail shop space have even declined by 1%. As for trading activities, the monthly average number of transactions in January to September 2020 have dropped by around 80% to 90% from the second half of 2012 (i.e. before the implementation of the DSD).

Inflation

21. Consumer price inflation eased visibly in recent months, reflecting a notably smaller year-on-year rise in prices of basic foodstuffs, particularly pork, due to the high base effects, the fall in charges for meals-out, as well as softening price pressures on many other major consumer price index (CPI) components amid austere economic conditions. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, underlying consumer price inflation eased visibly from 1.8% in the second quarter of 2020 to 0.3% during July – October, and averaged 1.5% in the first ten months of the year ***(Chart 13)***.

Chart 13 : Consumer price inflation eased visibly in recent months



22. Analysed by major component of the underlying Composite CPI ***(Table 1)***, the year-on-year rate of increase in food prices, the component with the largest weight other than housing, eased notably to 1.2% during July – October 2020. Within the food prices, prices of basic foodstuffs increased moderately by 3.4%, as the impact of a high base of comparison stemming from the surge in pork prices which started in May last year dissipated further. Prices of meals bought away from home turned to a 0.2% decline, as the third wave of the local epidemic severely hit the business of restaurants. Meanwhile, the rise in the private housing rental component narrowed further to 0.4%, as the softening in fresh-letting residential rentals in the past year or so continued to feed through. Public housing rental component showed a larger increase due to the upward adjustment in public housing rentals in September [(4)]. Moreover, as consumption-related activities remained weak, prices of miscellaneous goods and miscellaneous services rose at a slower pace, while those of clothing and footwear registered an enlarged decline. Prices of transport fell mainly due to the extra MTR fare rebate starting from July. Prices of electricity, gas and water turned to a modest decline, thanks to the plunge in international energy prices. Prices of durable goods stayed on its secular downtrend.

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(4) To alleviate to the economic pressure faced by the grassroots, the Government paid one-month rent for public housing tenants for July, and the Hong Kong Housing Society waived two-thirds of rent for tenants of Group B estates in the same month. The Hong Kong Housing Authority also waived the rent for public housing tenants for September.

Table 1 : Underlying Composite Consumer Price Index by component
(year-on-year rate of change, %)

			2019				2020		
Expenditure component	Weighting (%)	Annual	Q1	Q2	Q3	Q4	Q1	Q2	Jul-Oct
Food	27.29	4.9	3.1	4.1	6.1	6.2	6.4	4.5	1.2
Meals bought away from home	17.74	2.2	2.3	2.1	2.1	2.1	1.8	1.5	-0.2
Other foodstuffs	9.55	9.9	4.6	7.7	13.4	13.7	14.9	9.9	3.4
Housing[(a)]	34.29	3.2 (3.5)	3.9 (2.9)	3.6 (4.2)	3.1 (3.7)	2.4 (3.1)	2.2 (0.7)	1.6 (1.6)	0.9 (-2.2)
Private housing rent	29.92	2.9 (3.1)	3.4 (2.3)	3.1 (3.8)	2.7 (3.4)	2.5 (3.1)	2.0 (2.7)	1.4 (1.4)	0.4 (0.4)
Public housing rent	1.94	6.5 (7.1)	10.1 (11.6)	9.8 (10.9)	6.5 (6.9)	0.4 (-0.2)	0.4 (-31.1)	0.2 (0.4)	4.7 (-45.0)
Electricity, gas and water	2.67	1.0 (-5.4)	1.4 (-4.9)	1.5 (-4.8)	0.8 (-5.6)	0.2 (-6.3)	3.7 (-16.0)	0.8 (-19.0)	-0.2 (-19.8)
Alcoholic drinks and tobacco	0.54	1.2	2.7	2.4	0.5	-0.7	-0.3	0.3	1.0
Clothing and footwear	3.21	-1.7	-0.2	-1.7	-1.5	-3.4	-4.2	-5.0	-6.2
Durable goods	4.65	-1.9	-2.1	-2.0	-1.5	-2.0	-2.5	-3.1	-3.3
Miscellaneous goods	3.56	2.5	1.6	2.0	2.9	3.3	3.8	2.8	2.1
Transport	7.98	2.0	1.9	2.0	2.3	1.9	1.2	0.2	-2.5
Miscellaneous services	15.81	2.0 (2.0)	1.9 (1.8)	2.5 (2.5)	1.8 (1.7)	1.9 (1.9)	1.5 (1.5)	0.8 (0.8)	0.5 (0.5)
All items	100.00	3.0 (2.9)	2.7 (2.2)	2.9 (3.0)	3.3 (3.3)	3.0 (3.0)	2.9 (2.0)	1.8 (1.3)	0.3 (-1.3)

Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public housing rents as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public housing rents is slightly less than the weighting of the entire housing component.

( ) Figures in brackets represent the headline rates of change before netting out the effects of Government's one-off relief measures.

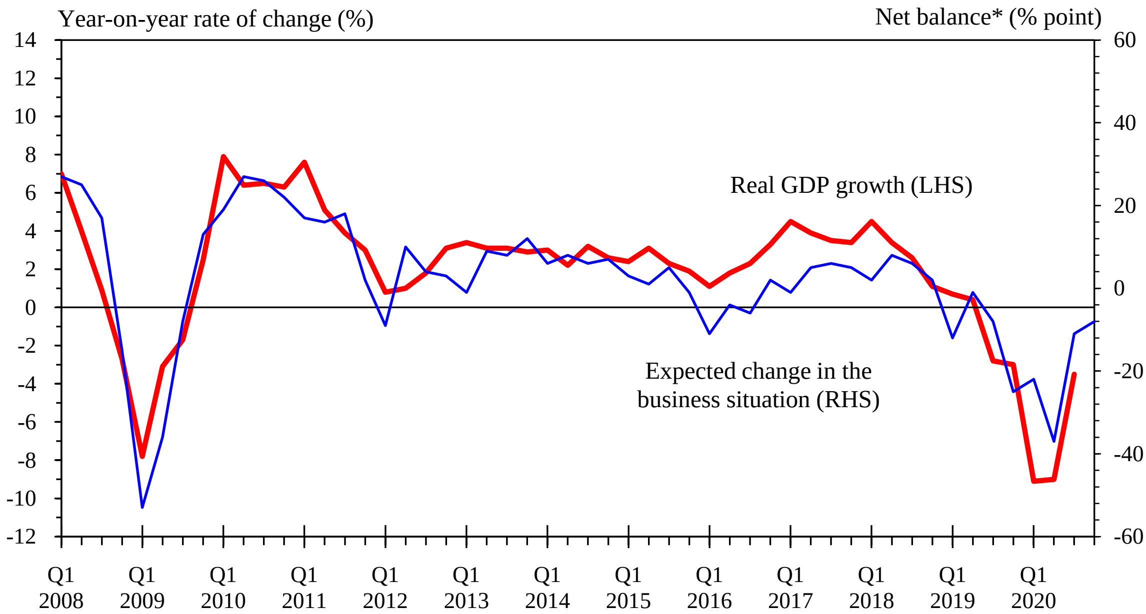
Updated economic forecasts for 2020

23. While local consumption and business sentiments have shown relative improvement in recent months (***Chart 14***), the near-term outlook will hinge critically on the development of the local COVID-19 situation. In particular, Hong Kong's epidemic situation saw an abrupt deterioration recently amid the fourth wave of local infections, leading to the re-tightening of anti-epidemic measures and thus posing pressures on the economy. We must stay vigilant. Unless the extent of the local epidemic rebound far exceeds expectation, domestic economic activities will likely see further modest improvement in the fourth quarter of the year. However, the still-weak job and income conditions will inevitably continue to constrain private consumption. The highly uncertain economic outlook would also dampen business investment.

24. As for the external environment, the global economy recovered in the third quarter, but the short-term outlook still faces considerable uncertainties. On the one hand, the Mainland economy is expected to strengthen further. On the other hand, the recent surge of COVID-19 infections and the resultant re-tightening of social distancing measures or even lockdowns in a number of advanced economies will inevitably slow the pace or even reverse the course of their recovery. Apart from the development of the pandemic, the evolving China-US relations, heightened geopolitical tensions and the Brexit negotiations would cast uncertainties around the sustained recovery of the Hong Kong economy. Moreover, travel restrictions around the globe will continue to hard hit our inbound tourism.

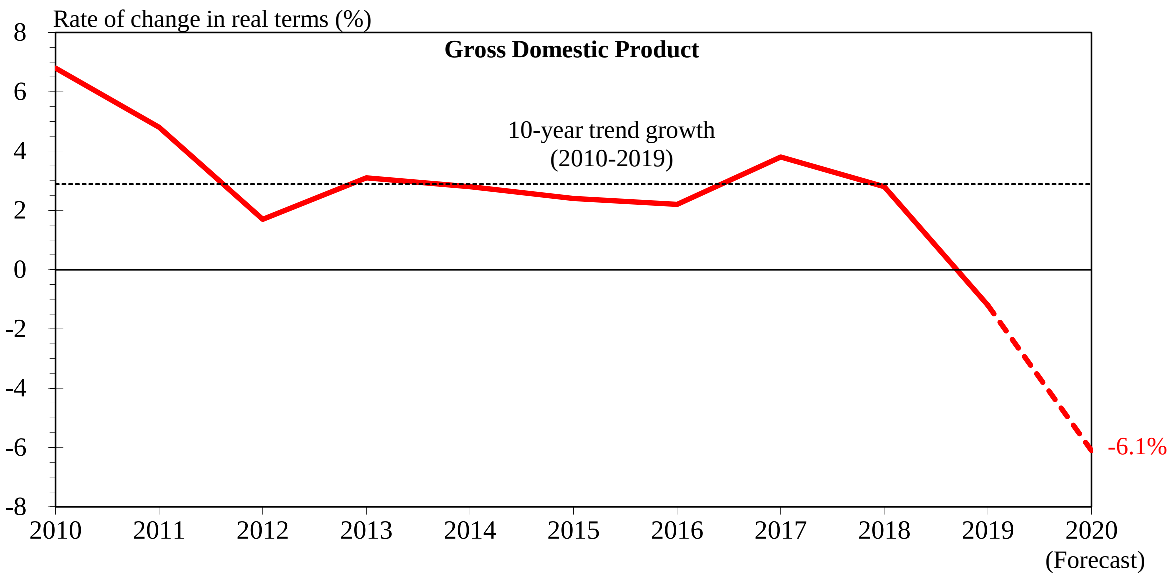
25. On balance, the Hong Kong economy is likely to see further modest improvement in the fourth quarter of 2020. Considering the actual outturn in the first three quarters of the year and the cushioning effects of the Government's massive relief measures, the real GDP growth forecast for 2020 as a whole is revised from -6% to -8% as announced in the August round of review to -6.1% in the current round ***(Chart 15)***. The Government will continue to closely monitor the situation, contain the epidemic and introduce measures as necessary to support economic recovery. For reference, the latest forecasts of Hong Kong's economic growth in 2020 by the IMF and private sector analysts ranged from -4.2% to -8.5%, averaging around -6.5%.

Chart 14 : Business sentiment among large enterprises showed relative improvement on entering the fourth quarter



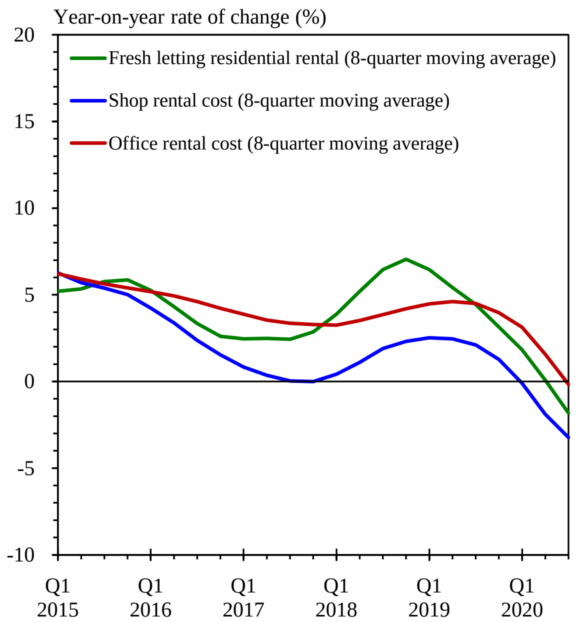
Note : (*) Net balance indicates the direction of expected change in the business situation versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

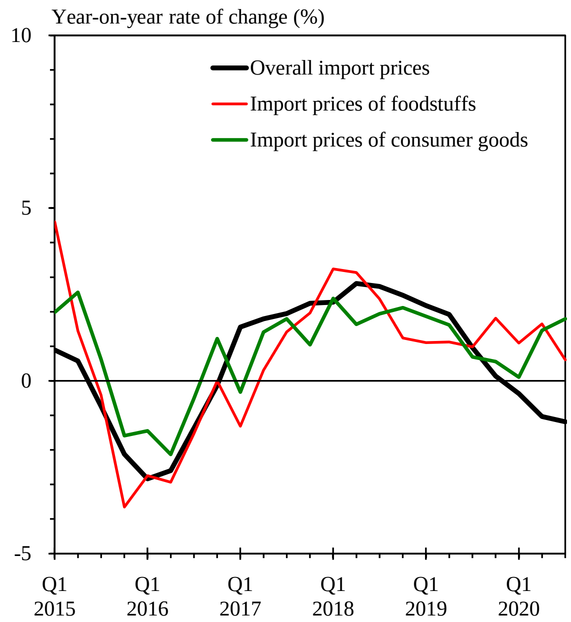
Chart 15 : Economic growth for 2020 as a whole is forecast at -6.1%



26. On inflation, the underlying and headline consumer price inflation rates for the first 10 months of 2020 averaged 1.5% and 0.5% respectively. Overall inflationary pressures should stay mild in the near term as global and local economic conditions remain subdued amid the threat of COVID-19 ***(Chart 16)***. Taking into account the actual outturns so far this year, the forecasts of underlying and headline consumer price inflation for 2020 as a whole are revised downwards to 1.3% and 0.3% respectively. For reference, the forecasts of Hong Kong's consumer price inflation for 2020 by the IMF and private sector analysts ranged from 0.0% to 1.9%.

Chart 16 : Domestic cost pressures receded further amid the weak economy; external price pressures continued to abate



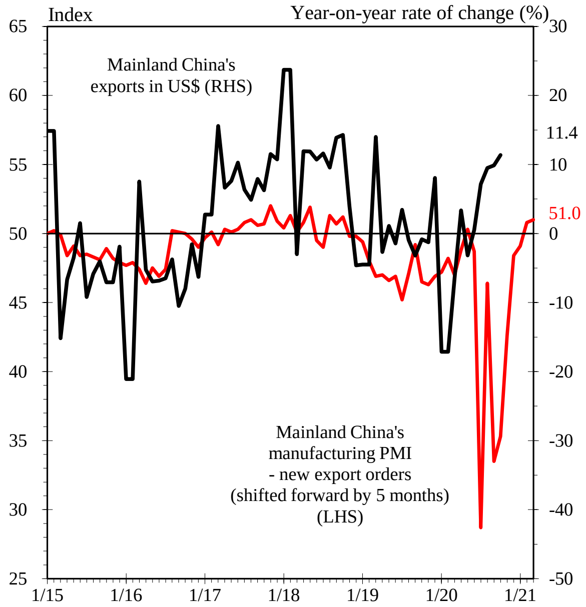


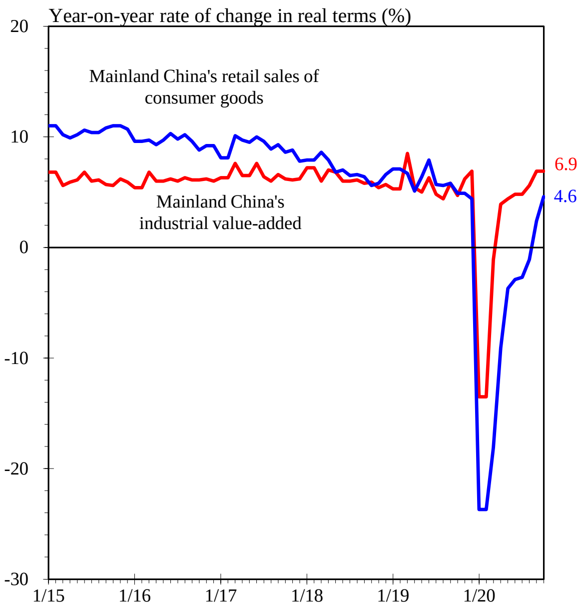
Economic outlook for 2021

27. The market generally expects that effective vaccines will be available for use in 2021, and the global economy will improve gradually next year from the trough this year. In mid-October 2020, the IMF forecast that the global economy would rebound by 5.2% in 2021 (projected growth for 2020 was -4.4%). This forecast was based on the assumption that social distancing measures would gradually ease over time alongside the expansion of vaccine coverage. As the actual situation will hinge on the epidemic development in different regions, their respective pace of recovery is expected to be uneven and full of uncertainties. In particular, the IMF forecast that advanced economies would grow by 3.9% in 2021 (projected growth for 2020 was -5.8%), and that emerging and developing Asia would grow by 8.0% (projected growth for 2020 was -1.7%).

28. The Mainland economy contracted visibly in the first quarter of 2020 with the onslaught of the COVID-19. Nonetheless, the economy has staged a notable rebound from the second quarter after the epidemic was contained in March, with growth accelerating to 4.9% in the third quarter. Latest data indicated that the Mainland economy is likely to gather further momentum in the fourth quarter. In October, growth in industrial output was better than expected, while exports continued to see considerable increase. Growth in retail sales accelerated in real terms, and the official Purchasing Managers' Indices (PMIs) stayed in the expansionary zone ***(Chart 17)***. The Mainland economy has swiftly emerged from the shadow of the epidemic and resumed its upward track, with a much brighter outlook than other economies for the next year. The future development of China-US politico-economic relations, however, still warrants close attention. Separately, the year 2021 marks the beginning of the 14th Five-Year Plan (14th FYP) of our country. As underscored in the Fifth Plenary Session in October 2020, our country will seek to promote high-quality development during the 14th FYP period, foster technological innovation and industrial structure upgrading, with reform and innovation taken as the underlying driving forces. Our country will accelerate the establishment of a new development pattern featuring "dual circulation", which takes the domestic market as the mainstay while letting domestic and foreign markets reinforce each other, with a view to forming a vast domestic market, promoting consumption, expanding investment and pursuing high-quality opening-up. The new development pattern will be conducive to the sustainable and healthy development of the Mainland economy.

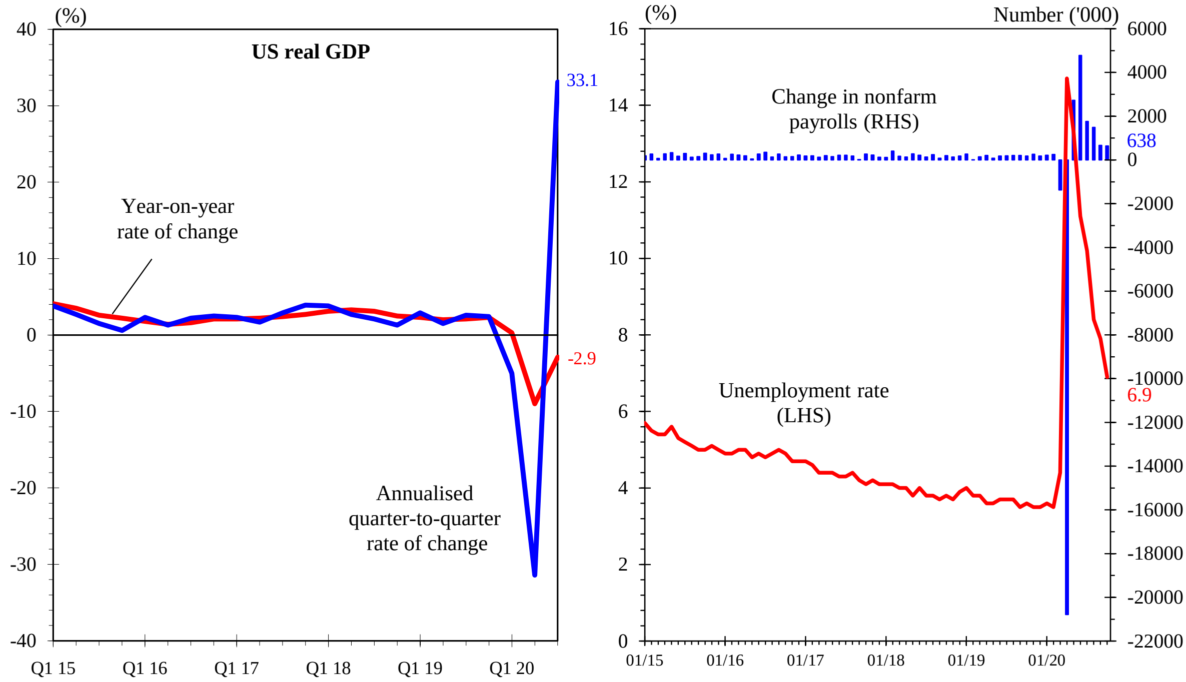
Chart 17: The Mainland economy rebounded notably, and the growth momentum picked up further in recent months





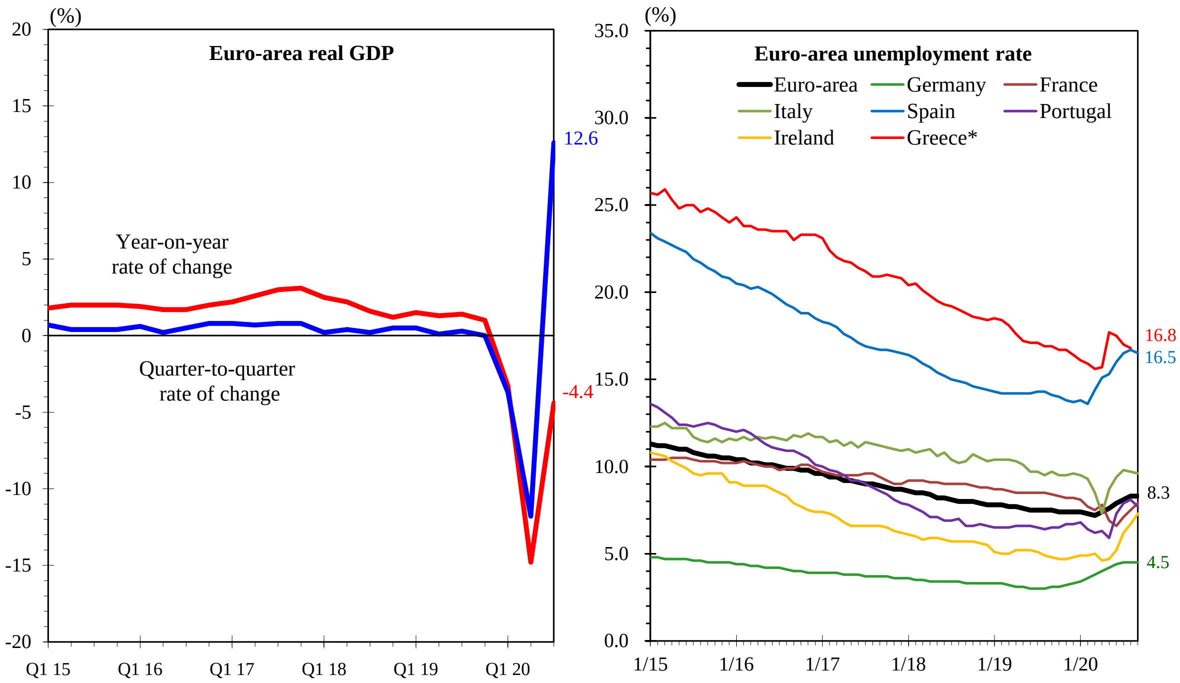
29. Affected by COVID-19, the US economy contracted sharply by 9.0% year-on-year in the second quarter of 2020 but rebounded at a faster-than-expected pace in the third quarter, with the year-on-year contraction narrowing visibly to 2.9% ***(Chart 18)***. The Institute of Supply Management manufacturing and services PMIs continued to stay above the level of 50 in October, indicating sustained activity expansion. The labour market recovered gradually, with the unemployment rate falling from 14.7% in April to 6.9% in October. Nonetheless, the epidemic in the US deteriorated recently and consumption sentiment softened somewhat. This may affect the pace of its economic recovery. Moreover, uncertainties surrounding the fiscal policy remains high as the Republican and Democratic Parties have yet to agree on a new round of fiscal stimulus. The direction of foreign and economic policies of the new US administration, particularly its implications on China-US relations, remains to be seen.

Chart 18 : The US economy improved in the third quarter, while the labour market recovered gradually



30. The euro area economy showed some rebound in the third quarter, with the year-on-year contraction narrowing to 4.4% from 14.8% in the second quarter ***(Chart 19)***. However, with the resurgence of the epidemic in a number of European countries since the latter part of the third quarter, many governments implemented again anti-epidemic measures of varying degrees. The composite PMI in the euro area retreated in recent months, pointing to moderated activity expansion. Industrial production and exports continued to record year-on-year declines, while unemployment rate rose. The economic outlook for the euro area in 2021 would thus hinge critically on whether its epidemic could ease in the near term. If the epidemic situation there remains volatile, its recovery pace would inevitably be hindered. On Brexit, the free trade agreement negotiations between the EU and the UK have yet to deliver any breakthroughs as gaps remained in various key areas. A disorderly Brexit, if occurs, would add uncertainties to the economic outlook for Europe in 2021.

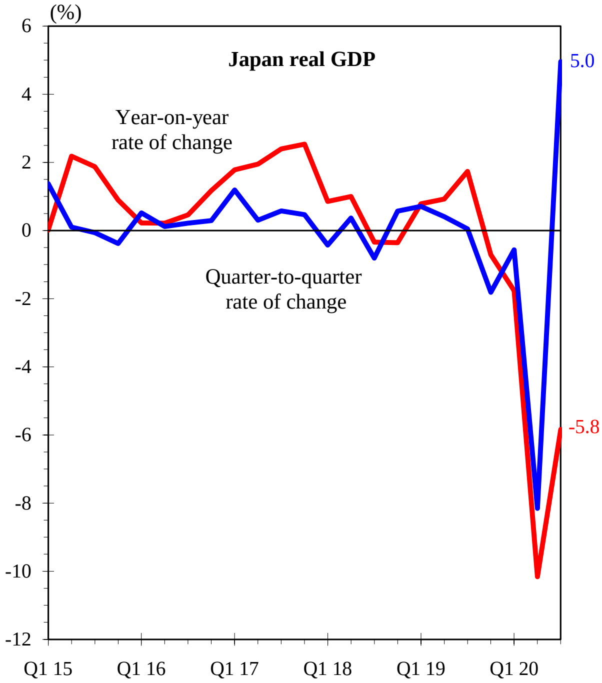
Chart 19 : The euro area economy showed a visibly narrowed contraction in the third quarter

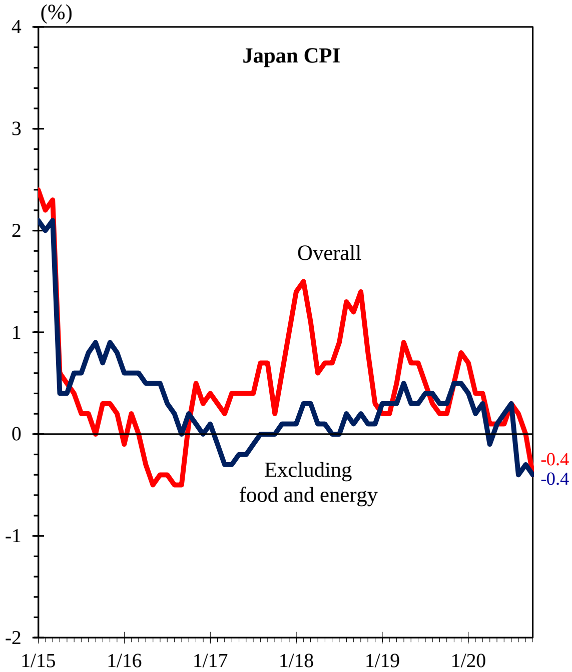


Note: (*) Latest figure available up to August 2020.

31. Japan's economy has entered into recession since the fourth quarter of 2019, mainly due to the consumption tax hike which affected domestic consumption activity. In the second quarter of 2020, the economy shrank at a record rate of 10.2% year-on-year due to the fallout from the pandemic, but the economic contraction narrowed to 5.8% in the third quarter ***(Chart 20)***. If the global economy continues to recover along with the gradual abatement of the pandemic, it would render some support to Japan's exports. Furthermore, the Tokyo Olympics, if successfully held next summer, would also render a boost to Japan's economy. However, weighed by various structural issues such as an ageing population and huge public debt, Japan's economic growth potential would be constrained. As for the rest of Asia, many economies have recovered gradually in recent months from the earlier trough. As production activity and trade flows in the region have regained momentum, if the pandemic could be contained, the economies in Asia should show a more notable revival in 2021.

Chart 20 : Japan's economy regained some momentum in the third quarter while inflationary pressures remained very mild





32. In response to the pandemic, central banks and governments in many major economies have stepped up their policy support to help businesses and individuals sail through the economic hardships. On monetary policy, the Mainland authorities stepped up their monetary policy support to the economy in the first half of 2020, including lowering reserve requirement ratios three times and injecting RMB1.8 trillion worth of liquidity through relending and rediscount. The US Federal Reserve (Fed) cut the target range for the federal funds rate by a total of 150 basis points to 0.00%-0.25% in March 2020. Participants of the Federal Open Market Committee projected that the federal funds rate would remain at current level until 2023. Moreover, the Fed increased the purchases of Treasury securities and agency mortgage-backed securities without setting a limit to the amount and duration with a view to injecting liquidity into the market in a timely manner to ensure financial stability. The European Central Bank maintained its policy rates at record lows and purchased sovereign bonds and corporate debts through the Pandemic Emergency Purchase Programme. The Bank of Japan also kept its policy rates at record lows, and a number of central banks in the emerging markets lowered their benchmark interest rates substantially within a short period of time. On fiscal policy, the Mainland Government Work Report noted that taxes and fees burden of enterprises would be reduced by over RMB2.5 trillion in 2020. The US rolled out a large package of stimuli, including direct cash payments, to support the economy. The EU leaders agreed on an instrument known as “Next Generation EU”, with a view to jumpstarting Europe’s recovery and providing support to economic segments most in need.

33. If the global economy continues to improve next year, the Hong Kong economy will likely resume positive growth in 2021, but the speed and strength of the recovery will be constrained by a number of external and internal factors. Externally, the Mainland economy is expected to grow strongly, rendering support to Hong Kong's exports. However, the COVID-19 epidemic is still spreading in many places around the world and the situation is volatile. Whether the epidemic can be alleviated and contained in the coming year would depend on when effective vaccines are rolled out and the speed at which they could be widely adopted. This in turn would affect the recovery pace of Hong Kong's tourism industry. Meanwhile, as differences between China and the US on various fronts (including trade and technology issues) remain, the bilateral relationship would likely be bumpy down the road and weigh on market confidence in the global economy. Moreover, geopolitical tensions and developments after the Brexit transition period also warrant close monitoring.

34. Domestically, the National Security Law has contributed significantly to restoring Hong Kong's stability since its implementation, providing a stable and conducive environment for businesses to thrive and the overall economy to continue to prosper and develop. In the face of the fourth wave of epidemic, the Government will spare no effort in its anti-epidemic work. As long as the epidemic is kept under control and the social environment stays safe and stable, local economic activities should recover further next year.

35. In fact, to address the significant impacts of the COVID-19 pandemic on the Hong Kong economy, the Government has rolled out relief measures of unprecedented scale since early 2020, involving over $300 billion in total, or around 11% of GDP[(5)]. Apart from providing support to the Hong Kong economy, these measures also serve to prepare for future economic recovery.

36. As to Hong Kong's inflation outlook, it will hinge on a host of factors, including overall economic performance, local cost pressures, inflation in our major import sources, international commodity prices, etc. As it would take time for the global economy to recover, external price pressures will likely stay largely moderate. Meanwhile, local cost pressures will hinge on the recovery pace of the Hong Kong economy. However, the softening in private residential rentals over the past year or so will continue to feed through and constrain consumer price inflation next year, especially in the first half.

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(5) Apart from the relief measures introduced to address the epidemic, considering the impacts of China-US trade tensions and the local social incidents on the Hong Kong economy, the Government has rolled out four rounds of support measures from mid-2019 to end-2019, relieving the operating pressure on enterprises and financial burdens on citizens. Please refer to ***<u>Annex 3</u>*** for details on the aforementioned measures.

37. The Government will closely monitor the developments on the domestic and external fronts and announce the economic growth and inflation forecasts for 2021 along with the 2021-22 Budget in February 2021. For reference, the latest forecasts of Hong Kong's economic growth for 2021 by the IMF and most of the private sector analysts were in the range of 2.2% to 8.0%, while those of consumer price inflation were in the range of 0.1% to 3.2%.

Office of the Government Economist
Financial Secretary's Office
30 November 2020

Annex 1

Hong Kong's Position as an International Financial Centre

Background

The financial services industry is an important pillar of the Hong Kong economy, contributing to about one-fifth of our Gross Domestic Product and providing more than 270 000 jobs which account for over 7% of the working population. Hong Kong's position as a leading international financial centre is widely recognised. This Annex outlines the work by the Government and financial regulators on consolidating and enhancing the competitiveness of Hong Kong as an international financial centre.

Financial stability

2. With the evolving COVID-19 situation and hence weakened economy in various regions, coupled with other uncertainties, the global financial markets have become more volatile. Nevertheless, the financial system of Hong Kong is resilient with robust risk management. The Linked Exchange Rate System and different facets of the financial services sector have been operating smoothly. The Hong Kong dollar (HKD) exchange rate is stable and has stayed near the strong side convertibility undertaking. There has not been any noticeable sign of fund outflow from the banking system. On the contrary, net inflow of nearly US$50 billion into the HKD system has been registered since April, reflecting investors' continuous confidence in Hong Kong's financial markets. The Government has the confidence and capability to safeguard Hong Kong's monetary and financial stability.

Enhancing the competitiveness of Hong Kong as an international financial centre

Banking industry

3. The banking system in Hong Kong is highly resilient. The average liquidity coverage ratio and capital adequacy ratio of banks(1) are both well above the international standards. Between end-2019 and end-October this year, total bank deposits increased by 14.1%. Excluding deposits created by initial public offering loans, bank deposits would still have increased by 7.7%. We will continue to implement regulatory standards promulgated by international organisations including the Basel Committee on Banking Supervision and the Financial Stability Board with a view to ensuring the robust development of the banking industry.

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(1) Major banks' average liquidity coverage ratio exceeded 156% (Q2 2020), and the industry's average capital adequacy ratio exceeded 20% (end-June 2020).

Developing Hong Kong into a broader and deeper fundraising platform

4. The Hong Kong Exchanges and Clearing Limited (HKEX) has implemented a new listing regime since end-April 2018 to enhance the attractiveness of Hong Kong's listing platform to companies from the new economy sector. HKEX also announced in end-October 2020 further grandfathering arrangements in respect of companies seeking secondary listing in Hong Kong, thereby further enhancing our competitiveness as an international premier fundraising platform. Furthermore, we will foster the establishment of an Uncertificated Securities Market regime in Hong Kong to enhance and modernise our financial market infrastructure.

Strengthening Hong Kong's position as a major asset and wealth management centre in the Asia-Pacific region

5. We introduced the open-ended fund company and limited partnership fund regimes in July 2018 and August 2020 respectively, with a view to attracting different types of funds (including private equity funds) to set up and operate in Hong Kong. We will provide tax concession for carried interest issued by private equity funds operating in Hong Kong subject to the fulfilment of certain conditions. To attract more family offices to set up and operate in Hong Kong, Invest Hong Kong will establish a dedicated team to step up promotion in Hong Kong and other major markets, and provide one-stop supporting services to prospective family offices planning to operate in Hong Kong.

6. Furthermore, we are considering various measures through a multi-pronged approach, including relaxing the investment restrictions of real estate investment trusts (REIT) as appropriate, broadening the investor base, facilitating market operation through legislative and regulatory enhancements, and stepping up market promotion and investor education, so as to promote REIT in Hong Kong.

Mutual access between the financial markets of Hong Kong and Mainland

7. Over the past few years, a number of mutual market access schemes between Hong Kong and the Mainland were launched, including Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect ("Stock Connect"), Bond Connect and the mutual recognition of funds. Since its launch, Northbound trading of Stock Connect has brought a net inflow of RMB1,083.1 billion to the Mainland stock market, while Southbound trading has brought a net inflow of HKD1,601.1 billion to the Hong Kong stock market (as at end-October this year).

8. We have accelerated the pace of the work in relation to the inclusion of pre-profit biotechnology companies listed in Hong Kong meeting certain prescribed criteria in the scope of eligible securities under Stock Connect. The stock exchanges in Hong Kong, Shanghai and Shenzhen published a joint announcement on 27

November 2020 regarding the details of the inclusion which would take effect in end-December 2020.

Promoting mutual access of financial services in the Guangdong-Hong Kong-Macao Greater Bay Area (Greater Bay Area)

9. We will maintain close communication with the Mainland authorities to implement more concrete measures to deepen financial cooperation within the Greater Bay Area. The People's Bank of China (PBoC), the Hong Kong Monetary Authority (HKMA) and the Monetary Authority of Macao jointly announced in June this year the decision to implement the two-way cross-boundary wealth management connect pilot scheme (Wealth Management Connect) in the Greater Bay Area. It is planned that for northbound and southbound, there will be an aggregate quota of RMB150 billion in each direction and an individual investor quota of RMB1 million. The HKMA is formulating the implementation details with relevant authorities with a view to expediting the implementation of the scheme.

10. Moreover, we are actively discussing the implementation details with relevant regulatory authorities, and will strive for early establishment of after-sales service centres by Hong Kong insurance industry in the Mainland cities of the Greater Bay Area under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) to provide Hong Kong, Macao and Mainland residents who are holders of Hong Kong policies with comprehensive support in different areas including enquiries, claims and renewal policies. We will also strive for early implementation of the "unilateral recognition" policy for motor insurance policies of Hong Kong vehicles entering Guangdong through the Hong Kong-Zhuhai-Macao Bridge.

Developing the local bond market

11. As a result of active promotion by the Government, the local bond market has continued to develop, with Hong Kong ranking third in Asia (excluding Japan) in terms of bond issuance volume. The Government will continue to issue government bonds and promote the strengths of our capital markets to issuers and investors in the Mainland and overseas with a view to deepening the development of the bond market.

Enhancing Hong Kong's status as an international risk management centre

12. To increase the competitiveness of the insurance industry and assist the industry to seize new business opportunities, we are actively taking forward various measures, which include reducing profits tax rate by 50% (i.e. 8.25%) for general reinsurance business of direct insurers, selected general insurance business of direct insurers and selected insurance brokerage business; facilitating the setting up of special purpose companies in Hong Kong for the issuance of insurance-linked

securities; and expanding the scope of insurable risks by captive insurers set up in Hong Kong.

Fintech and financial innovation

13. The Government has been adopting a multi-pronged approach to support the development of Fintech. Notwithstanding the challenges brought to the economy by the COVID-19 pandemic, there are new growth opportunities for Fintech applications and adoption at both the business and consumer levels. For instance, the delivery of financial services through virtual banks and virtual insurers, payments and remittance through Fintech-enabled infrastructure (e.g. Faster Payment System), client acquisition through remote onboarding and robo-advisory service for wealth management are becoming mainstreamed.

14. The Hong Kong Fintech Week was held in November as a fully virtual experience. During the Fintech Week, a series of new initiatives were announced, including a Commercial Data Interchange to facilitate lending to small and medium enterprises, a white paper on Regtech for the banking sector, as well as a Fintech Proof-of-Concept Subsidy Scheme. We are also following closely the development of Central Bank Digital Currency, including the Digital Currency/Electronic Payment being developed by the PBoC.

15. Furthermore, the Government will establish a robust regulatory framework to supervise virtual asset trading platforms through a licensing system. The Government launched a public consultation on the proposed licensing regime for virtual asset service providers on 3 November 2020.

Green and sustainable finance

16. Following the launch of the Green Bond Grant Scheme in 2018 and the successful inaugural Government green bond issuance last year, we plan to issue green bonds totalling $66 billion in the five years from 2020-21, having regard to the market situation, and encourage more entities to make use of Hong Kong's capital markets as well as financial and professional services for green and sustainable investment, financing and certification. Meanwhile, established in May this year, the Green and Sustainable Finance Cross-Agency Steering Group will provide strategic direction on regulatory policy and market development.

Concluding remarks

17. The Government and financial regulators will continue to enhance Hong Kong's position as an international financial centre, make good use of Hong Kong's connectivity with the Mainland and international markets, strengthen mutual market

access and capitalise on the opportunities presented by the Greater Bay Area development and the Belt and Road Initiative. We will also continue to develop Hong Kong into a broader and deeper fundraising platform, further enhance the city's position as a centre for asset and wealth management, international risk management and green and sustainable finance, as well as the world's largest offshore Renminbi business hub, and support the development of Fintech.

Annex 2

Recent Situation of Household Income[(1)]

Background

This Annex provides a regular update on the latest trends of household income and employment earnings among various groups. The benchmark of monthly household income for low-income households is adjusted upward based on inflation[(2)] from $8,800 (at constant Q2 2019 prices) to $9,000 (at Q3 2020 prices), so as to reflect the latest circumstance.

Overall situation of household income and employment earnings

2. While the local economy saw some improvement in the third quarter of 2020, economic activity was still notably below the level before recession and the labour market deteriorated for the quarter as a whole. The seasonally adjusted unemployment rate increased from 6.2% in the second quarter to 6.4% in the third quarter and remained unchanged in August – October. Total employment fell by 5.6% year-on-year in August – October, reflecting the weak overall labour demand.

3. Against a highly challenging macroeconomic backdrop, the median monthly household income, a reflection of the overall household income situation, plunged further by 8.2% in nominal terms or 6.7% in real terms[(3)] in the third quarter of 2020 from a year earlier. This partly reflected the decreased number of working members in households amid the sharp fall in total employment. Average employment earnings of full-time employees (excluding bonus) still increased by 7.0% year-on-year in nominal terms or 8.8% in real terms, and so did those of full-time unskilled employees (up by 4.7% and 9.3% respectively). Nevertheless, caution should be exercised when interpreting these earnings growth figures, as the job losses over the past year were more concentrated in the lower-paid segment, thereby distorting the year-on-year comparison of the average employment earnings ***(Table 1)***. In fact, the recent nominal wage and payroll indices registered the slowest increases in around a decade, and showed only marginal growth when expressed in real terms.

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(1) This annex was originally provided in response to a Member's request at the meeting of the Panel on Financial Affairs on 5 December 2005. It has since been updated regularly for Members' information. Foreign domestic helpers are excluded from the analysis except general labour market statistics.

(2) Being adjusted based on Consumer Price Index (A).

(3) Median monthly household income and average employment earnings of full-time employees in real terms are adjusted based on headline Composite Consumer Price Index. As regards the average employment earnings of full-time unskilled employees in real terms, it is adjusted based on headline Consumer Price Index (A). The two price indices fell by 1.7% and 4.2% respectively in the third quarter of 2020 over a year earlier.

Table 1 : Selected household income / employment earnings indicators (year-on-year rate of change (%))

Period		Median monthly household income		Overall employment earnings of employees*		Employment earnings of unskilled employees^	
2016		2.0	(-0.4)	6.1	(3.6)	5.7	(2.8)
2017		5.0	(3.5)	4.3	(2.8)	5.5	(3.9)
2018		6.7	(4.2)	5.5	(3.0)	4.9	(2.1)
2019	Q1	4.3	(2.0)	3.3	(1.1)	7.4	(4.7)
	Q2	5.1	(2.1)	4.5	(1.5)	2.9	(-0.4)
	Q3	0.3	(-2.9)	3.8	(0.5)	2.3	(-1.5)
	Q4	-1.6	(-4.5)	4.0	(1.0)	2.0	(-1.4)
2020	Q1	-4.1	(-6.0)	8.5	(6.4)	2.9	(1.8)
	Q2	-10.2	(-11.3)	6.3	(4.9)	4.5	(2.9)
	Q3	-8.2	(-6.7)	7.0	(8.8)	4.7	(9.3)

Notes:
(*) Average employment earnings of full-time employees (excluding bonus).
(^) Average employment earnings of full-time employees.
( ) Rate of change (%) in real terms.
Median monthly household income and overall employment earnings of employees in real terms are adjusted based on headline Composite Consumer Price Index, while employment earnings of unskilled employees in real terms is adjusted based on headline Consumer Price Index (A).

Economically active households with monthly household income below $9,000

4. Along with the deterioration in labour market and household income situations in the third quarter of 2020, the number of economically active households with monthly household income below $9,000 (referred to as "low-income households" thereafter) increased visibly to 131 200. Its proportion in total domestic households rose noticeably by 2.3 percentage points to 4.9% over a year earlier(4).

5. An analysis of the number and proportion of low-income households over the past two decades suggests that their changes generally followed economic vicissitudes. During 2000 and 2008, when the economy performed persistently well for most of the period, the proportion of low-income households fell successively from a peak of 5.5% in the third quarter of 2003 to 3.2% in the third quarter of 2007. After the onset of the global financial crisis in late 2008, the corresponding proportion bounced back to 4.1% in the third quarter of 2009. It declined afterwards with the economic recovery taking hold. In 2020, as the COVID-19 pandemic dealt heavy blows to economic activities and the labour market, the number and proportion of low-income households rose appreciably to 131 200 and 4.9% respectively in the third quarter ***(Table 2 and Chart 1)***.

(4) All figures pertaining to low-income households in the third quarter of 2020 are provisional figures.

Table 2 : Number and proportion of low-income households*

Period	Household type: Elderly households#	Non-elderly households	**Total**	Of which: Economically active persons therein
Q3 2003	3 000	113 400	**116 500**	140 600
	(0.1)	(5.3)	**(5.5)**	[4.3]
Q3 2007	2 700	70 500	**73 200**	80 600
	(0.1)	(3.1)	**(3.2)**	[2.4]
Q3 2008	2 700	79 100	**81 700**	91 200
	(0.1)	(3.5)	**(3.6)**	[2.7]
Q3 2009	1 700	91 800	**93 500**	107 600
	(0.1)	(4.0)	**(4.1)**	[3.1]
Q3 2011	3 800	55 600	**59 300**	66 000
	(0.2)	(2.3)	**(2.5)**	[1.9]
Q3 2013	4 400	67 600	**72 000**	79 300
	(0.2)	(2.8)	**(3.0)**	[2.2]
Q3 2015	3 900	56 200	**60 100**	67 400
	(0.2)	(2.3)	**(2.4)**	[1.9]
Q3 2017	7 000	65 400	**72 400**	79 800
	(0.3)	(2.6)	**(2.8)**	[2.2]
Q3 2018	6 400	62 700	**69 100**	76 200
	(0.2)	(2.4)	**(2.7)**	[2.1]
Q3 2019	6 200	62 400	**68 600**	73 600
	(0.2)	(2.4)	**(2.6)**	[2.0]
Q3 2020	9 100	122 100	**131 200**	152 000
	(0.3)	(4.6)	**(4.9)**	[4.3]

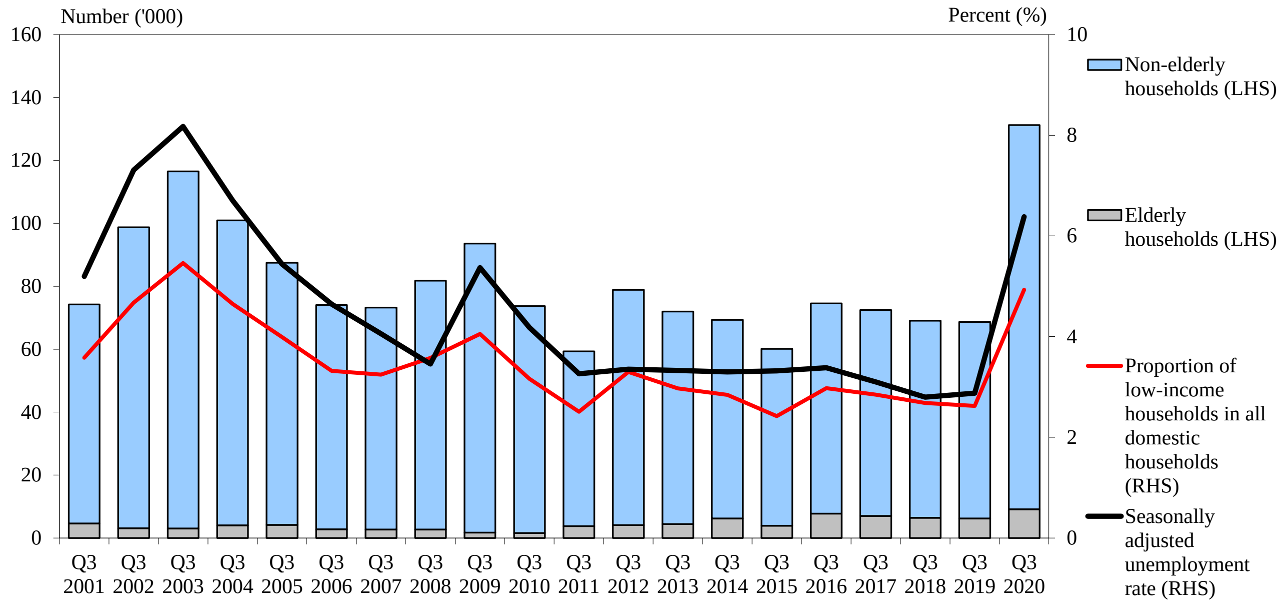
Notes : (*) Low-income households refer to households with monthly household income less than $9,000 (Q3 2020 prices). This does not include households with all members being economically inactive.

(#) Elderly households refer to domestic households with all members aged 65 and above.

( ) Proportion in all domestic households (%).

[ ] Proportion in total labour force (%).

Chart 1 : Number and proportion of low-income households*



Note : (*) Low-income households refer to households with monthly household income less than $9,000 (Q3 2020 prices). This does not include households with all members being economically inactive.

Socio-economic characteristics of low-income households

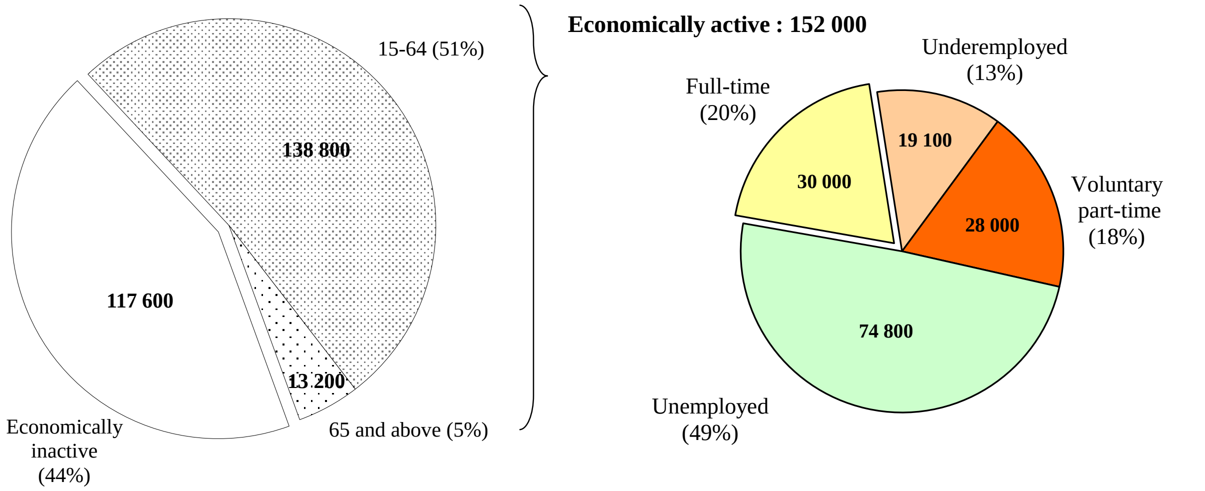
6. Further decomposition of low-income households in the third quarter of 2020 reveals the following observations:

- There were 269 600 persons in these households, among whom 152 000 were economically active. Most of these economically active individuals (138 800 or 91%) were aged 15-64, with the majority belonging to the older age group of 40-64 (95 000 or 63%) and with 9% (13 200) aged 65 and above.

- The remaining 117 600 persons were economically inactive, among whom 54 600 (46%) were either children aged below 15 or elders aged 65 and above.

- Further analysis by employment status shows that among these 152 000 economically active persons, unemployed and underemployed persons accounted for 49% and 13% respectively, up visibly from 34% and 5% over a year earlier. This signifies the deterioration in the labour market over the period, particularly in the lower-skilled segment. The number of unemployed and underemployed workers increased further to 74 800 and 19 100 respectively. The proportion of full-time worker was 20%, lower than that of 27% from a year ago ***(Charts 2 and 3)***.

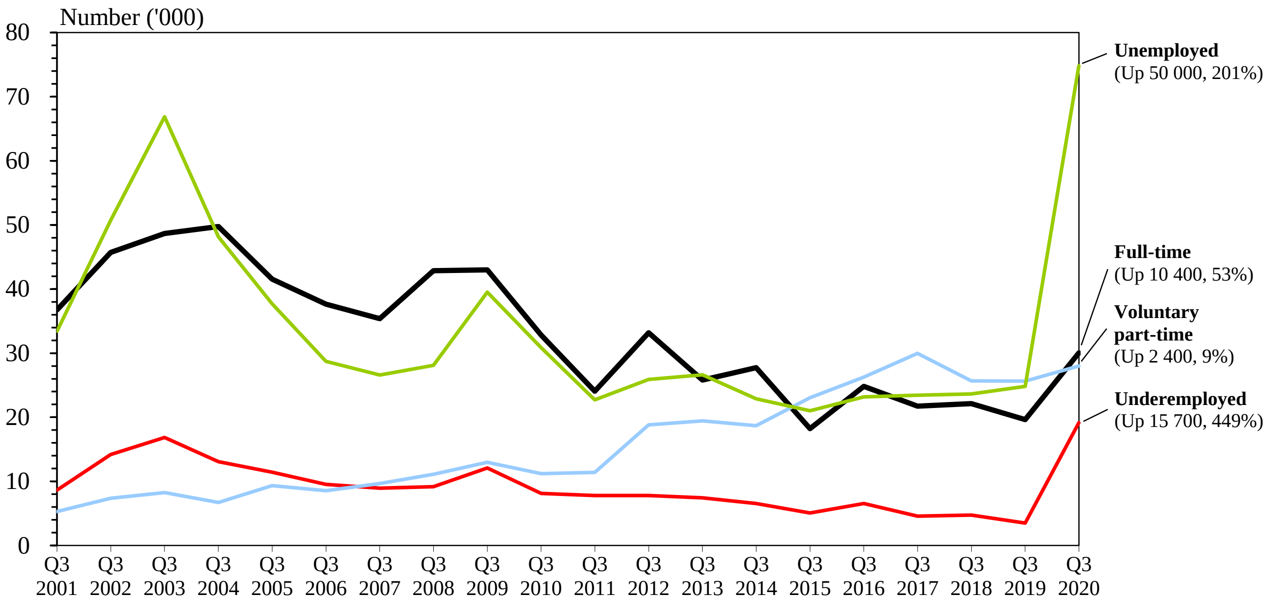
Chart 2 : Persons living in low-income households*
by age and economic activity status, Q3 2020



By age and economic activity status **By employment status**

Note : (*) Low-income households refer to households with monthly household income less than $9,000 (Q3 2020 prices). This does not include households with all members being economically inactive.

Chart 3 : Composition of economically active persons in low-income households*



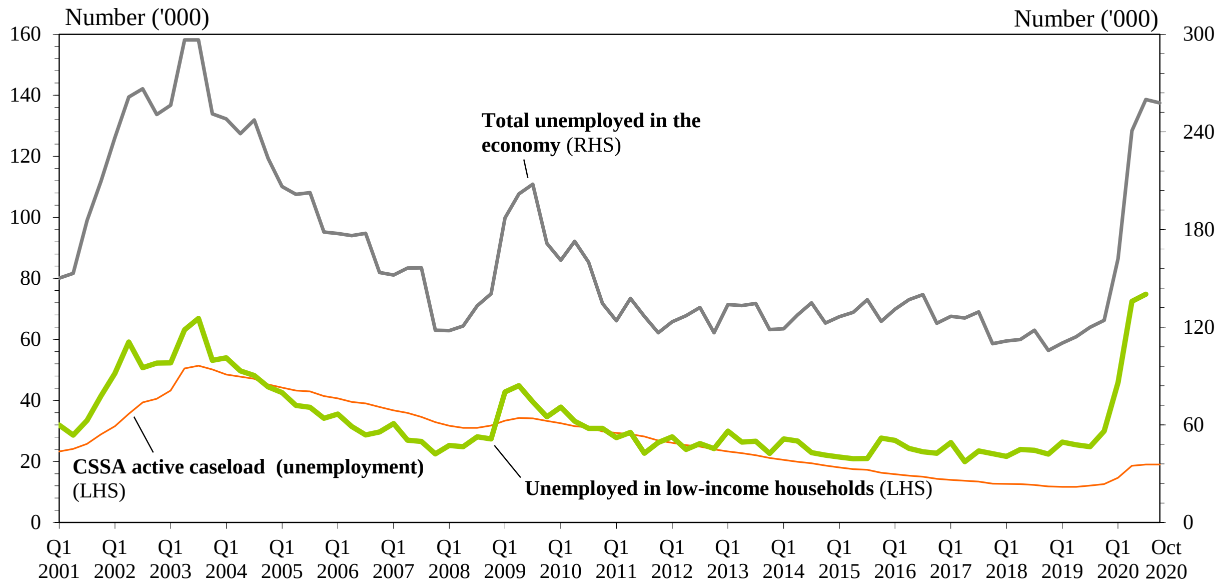
Notes : (*) Low-income households refer to households with monthly household income less than $9,000 (Q3 2020 prices). This does not include households with all members being economically inactive.
Figures in brackets are the year-on-year changes in number of economically active persons in Q3 2020.

- Analysed by occupation, the majority of the employed persons living in low-income households (77%) were lower-skilled workers (29% were service and sales workers, and 24% were elementary workers). A breakdown by economic sector reveals that most of them were engaged in the retail, accommodation and food services sector (20 000 or 26%), followed by the transportation sector (10 500 or 14%).

The number of CSSA cases

7. The unemployment rate of lower-skilled workers in August – October 2020 soared by 4.1 percentage points from a year earlier to 7.3%. With the labour market under persistent pressure, the number of CSSA unemployment cases broadly sustained its upward trend and rose by 6 734 or 54.8% from its year-ago level to 19 016 in October 2020 ***(Chart 4)***. Meanwhile, the number of overall CSSA caseload went up by 4 311 or 2.0% to 225 086 over the same period, which was 5 409 or 2.5% higher than its trough in January 2020 (219 677), but slightly lower than its peak in April by 2 424.

Chart 4 : The relationship between the unemployed in low-income households*, CSSA active caseload (unemployment)^, and total unemployment in the economy



Notes : (*) Low-income households refer to households with monthly household income less than $9,000 (Q3 2020 prices). This does not include households with all members being economically inactive.

(^) Monthly period-end figures.

Concluding remarks

8. To preserve the vitality of the economy, the Government has been implementing the relief measures under the Anti-epidemic Fund and the 2020-21 Budget at full steam, providing some cushioning effects to the economy and paving the way for continued recovery. The Government is committed to controlling the epidemic, so as to create conditions for reviving economic activities and relieving economic pressures facing our citizens. At the same time, the Government will closely monitor the employment and incomes situation of grassroots workers and low-income households, and will provide appropriate measures as and when necessary.

Annex 3

Support and Relief Measures Introduced by the Government since the Second Half of 2019

Background

This annex sets forth the relief measures rolled out by the Government since the second half of 2019 in response to the significant impacts of China-US trade tensions, local social incidents involving violence and the COVID-19 pandemic on the Hong Kong economy.

Relief measures in response to China-US trade tensions and local social incidents

2. The performance of Hong Kong's external trade has been weak since the fourth quarter 2018, when the global economy entered a synchronised slowdown with escalated China-US trade tensions. Consumption and investment sentiment has also been affected. The economy then worsened abruptly and recorded a sharp contraction of 2.9% year-on-year in the second half of 2019, as local social incidents involving violence dealt a heavy blow to economic sentiment and consumption- and tourism-related activities.

3. The Government announced four rounds of relief measures from August to December 2019 worth over $30 billion in total. Measures to support enterprises, amongst others, included waivers of certain government fees and charges; reducing the rental for most short-term tenancies of government land; reduction of water and sewage charges, provision of electricity subsidies and further concession of rates for non-domestic properties; fuel subsidy for the transport trades; fee waiving measures for the tourism and securities industries; and rental subsidy for the recycling industry. The Government also introduced a new loan scheme with a 90% guarantee under the SME Financing Guarantee Scheme, and made additional injections to the Dedicated Fund on Branding, Upgrading and Domestic Sales and the SME Export Marketing Fund for implementing further enhancements to help small and medium sized enterprises grasp business opportunities. On alleviating people's financial burden, measures including an enhanced rate for tax concessions, electricity subsidies for domestic accounts, additional allowances to social security recipients, allowances for students, and waiver of one month's public housing rental were announced. Targeted measures were also introduced to support hard-hit sectors.

Relief measures in response to the COVID-19 pandemic

4. Entering 2020, the COVID-19 pandemic dealt a severe blow to the Hong Kong economy, which showed sharp year-on-year contraction of 9.0% in the first half of the year. Consumption and tourism-related industries were particularly hard hit. Local consumption sentiment took another hit amid the third wave of COVID-19 infections in July and August and the resultant tightening of social distancing measures. As the third wave of epidemic abated since the latter part of August, the overall economic performance saw some improvement in the third quarter, with its pace of contraction slowing to 3.5% year-on-year. However, economic activity was still notably below the pre-recession level.

5. The Government has rolled out relief measures of unprecedented scale thus far this year to relieve the severe impact of the COVID-19 pandemic on the local economy, preserve economic vitality and relieve people's financial burdens, including:

- On 14 February, the Government announced the setting up of the Anti-epidemic Fund (AEF). The first round of $30 billion funding commitment covered 24 measures aiming at enhancing our capability in combating the epidemic and providing assistance to enterprises and members of the public hard hit or affected. In terms of anti-epidemic measures, the Government continued to step up its global sourcing efforts and subsidised firms to set up local production lines for producing reusable masks and conducting related research and development work. The Government also allocated an additional $4.7 billion to the Hospital Authority to ensure that they have sufficient resources to tackle the epidemic. In terms of supporting industries directly affected by the epidemic, many enterprises in those industries received one-off allowances, including travel agencies, licensed food premises, retailers, licensed hawkers, etc. The government also provided support to the exhibition, cultural and arts, innovation and technology sectors, kindergartens and childcare centres, as well as front-line cleansing workers.

- On 26 February, the Government released the 2020-21 Budget, unveiling a whole range of counter-cyclical measures involving over $120 billion to "support enterprises, safeguard jobs, stabilise the economy and relieve people's financial burdens". Key measures included a cash payout of $10,000 to Hong Kong permanent residents aged 18 or above, reduction of profits tax and salaries tax, waiver of rates and business registration fees, a subsidy to electricity bills and waiver of water and sewage charges payable by non-domestic household accounts, extra allowances for low-income groups such as eligible social security and Work Incentive Transport Subsidy recipients. The Budget also introduced a concessionary low-interest loan under the SME Financing Guarantee Scheme with 100% guarantee provided by the Government to help ease the cash flow problem of enterprises which have been severely affected by the pandemic.

- On 8 April, the Government announced the second round of AEF measures worth $137.5 billion to provide further assistance to the affected sectors and members of the public. Key measures included introducing an $80 billion Employment Support Scheme to provide wage subsidies to eligible employers; providing 16 types of support for specific sectors; enhancing the SME Financing Guarantee Scheme to provide interest subsidy and offering a principal moratorium for borrowers; helping the MTR Corporation to provide a 20% fare discount; temporarily relaxing the monthly threshold of the Public Transport Fare Subsidy Scheme; granting interest-free deferral of loan repayments to all student loan repayees; and allowing deferrals of tax payments.

- On 15 September, the Government announced the introduction of the third round of AEF and other support measures amounting to $24 billion so as to assist industries and people affected by the epidemic and help enhance Hong Kong's anti-epidemic capabilities. These measures included the procurement of vaccines, providing assistance to sectors and individuals whose income are directly affected by the Government's anti-epidemic measures or hard hit by the epidemic, increasing the exemption ceiling of the rates concession to non-domestic properties, extending the waiver of water and sewage charges payable by non-domestic households, extending the rental concessions/waivers for government premises and short-term tenancies, as well as extending the waivers of 27 groups of government fees and charges.

6. Overall, the four rounds of relief measures rolled out from August to December 2019, the introduction of the three rounds of measures under the AEF and the one-off relief measures in the 2020-21 Budget totalled over $340 billion or around 12% of GDP. The measures are expected to have a supporting effect of higher than 5 percentage points of GDP on our economy.

Concluding remarks

7. To preserve the vitality of the economy and relieve people's financial burdens, the Government has been implementing the relief measures under the third

round of AEF and the 2020-21 Budget at full steam, providing some cushioning effects to the economy and paving the way for continued recovery. The Government is committed to effectively controlling the epidemic, creating conditions for reviving economic activities and relieving economic pressures facing our citizens.