

For information on  
18 February 2021

## **Legislative Council Panel on Manpower**

### **Review of the Statutory Minimum Wage Rate**

#### **Purpose**

At the meeting of the Executive Council on 2 February 2021, the Council ADVISED and the Chief Executive (CE) ORDERED that the recommendation of the Minimum Wage Commission (MWC) on maintaining the prevailing Statutory Minimum Wage (SMW) rate at \$37.5 per hour should be accepted. In addition, MWC will be required to submit the next recommendation report by 31 October 2022. The Government on 2 February 2021 issued the Legislative Council Brief on “Review of the SMW rate”. This paper briefs Members on the review of the SMW rate.

#### **Background**

2. The Minimum Wage Ordinance (Cap. 608) (MWO) establishes the SMW regime to provide a wage floor which forestalls excessively low wages, without unduly jeopardising Hong Kong’s labour market flexibility, economic growth and competitiveness, and minimising the loss of low-paid jobs. SMW is not intended to be a living wage and should not be taken as the only means to address financial problems faced by the low-income workers or the complex issue of ‘working poverty’.

3. According to MWO, CE must require that a report by MWC<sup>1</sup> and its recommendation about the SMW rate be made to CE in Council at least once in every two years.

#### **Maintaining the Prevailing SMW Rate**

4. On 31 October 2020, MWC submitted its biennial review report and recommendations to CE in Council upon completing a comprehensive review of

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<sup>1</sup> MWC is chaired by a non-official, comprising three members each from the labour sector, business community, academia and the Government.

the SMW rate. On 2 February 2021, CE in Council adopted the recommendation of MWC to maintain the prevailing SMW rate at \$37.5 per hour. In addition, MWC will be required to submit the next recommendation report by 31 October 2022.

5. MWC conducted the current round of review amid an economy in deep recession with elevated unemployment rates. Consumer prices might adjust downwards owing to weak economic conditions and the possibility of deflation could not be ruled out. Pursuant to its statutory function, MWC has given careful consideration to all relevant factors in its deliberation. Members of MWC unanimously agreed not to adopt any proposal that would lower the SMW rate so as to avoid further impacting on the earnings of low-paid employees. Having taken into account the serious blow to the Hong Kong economy and the highly uncertain economic outlook, the majority of MWC members did not support any upward adjustment and reached the consensus recommendation that the prevailing SMW rate at \$37.5 per hour should be maintained.

6. The Government has carefully studied the findings, deliberations and recommendations tendered by MWC. The Government appreciates its effort and dedication as the difficult economic conditions and uncertain economic outlook rendered this round of review more challenging than those in the past. It is worth pointing out that the latest labour market situation has become even more challenging than the time when MWC drew up its recommendation in the third quarter of 2020. The seasonally adjusted unemployment rate went up further to 6.6% in the fourth quarter of 2020, the highest in 16 years, amid the fourth wave of local epidemic which started in the latter part of November 2020. The sectors employing low-paid workers are particularly hard hit, with the unemployment rate of the retail, accommodation and food and beverage services sectors combined reaching 10.6%.

7. MWC has ably and conscientiously discharged its statutory function of reviewing the SMW rate with thorough and balanced deliberations. MWC has upheld the evidence-based approach by conducting comprehensive analyses and assessment of various socio-economic data, and undertaken extensive and intensive consultations to take full account of the views of various sectors (in

particular low-paying sectors (LPS)<sup>2</sup>) as well as small and medium enterprises. Maintaining the SMW rate at the current level of \$37.5 per hour would avoid putting additional pressure on enterprises, especially those in LPS which hire relatively more low-paid employees, amid the economic recession of an unprecedented scale. Keeping the rate unchanged with an unequivocal stance to resist any rate reduction despite economic recession would also be crucial to maintain the basic livelihood of low-paid workers. It should help minimise the risk of additional job loss in an austere labour market which already saw sizable job cuts particularly in the lower-paid segment. On balance, MWC's recommendation to maintain the SMW rate at \$37.5 per hour should help meet the overall objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while giving due regard to the need to sustain Hong Kong's economic growth and competitiveness.

### **Review Cycle of the SMW rate**

8. According to section 14(1) of MWO, CE must require that a report by MWC and its recommendation about the SMW rate be made to CE in Council under section 12(1) at least once in every two years.

9. Underpinning a consensus building approach, the established comprehensive review mechanism of MWC, which comprises extensive and in-depth consultations to gauge views and suggestions from various sectors of the community on the review of the SMW rate, and thorough analyses of relevant quantitative indicators and factors that are pertinent to the review of the SMW rate but might not be quantifiable, etc., could only be accomplished within a biennial review framework.

10. Generally speaking, an annual review might be made possible only if an index-based approach in reviewing the SMW rate is adopted. However, given the multi-faceted impact of SMW on Hong Kong, ranging from the economy,

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<sup>2</sup> MWC defined LPS as sectors employing a relatively large number of low-paid employees (i.e. employees with hourly wage rates below the 10th percentile of the overall hourly wage distribution) or sectors with a relatively large proportion of low-paid employees among all employees within the sectors. LPS identified by the current term of MWC included: (a) retail trade (including supermarkets and convenience stores and other retail stores); (b) food and beverage services (including Chinese restaurants, non-Chinese restaurants, fast food cafes, Hong Kong style tea cafes, and other food and beverage services); (c) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services, and membership organisations); and (d) other LPS (including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production).

labour market, social inclusion, inflation, productivity to our competitiveness, an indexation of the SMW rate to any pre-determined formula might not be able to fully and appropriately take into account all the relevant considerations. In this regard, it is worthwhile to note that the increase in SMW rates as recommended by MWC in the past reviews generally exceeded the corresponding inflation rates, which would not be possible if the SMW rates were strictly linked to a pre-determined formula<sup>3</sup>.

11. Looking ahead, as global and local economic conditions remain clouded by the threat of COVID-19, overall inflationary pressures are likely to stay very mild in the near term, and the possibility of deflation could not be ruled out. Hong Kong's economic outlook is faced with an extremely high degree of uncertainty. Even if the pace of economic recovery might increase notably in the second half of 2021, it would be difficult for the overall economic activity level in 2021 to return to that before the recession and this is not significantly different from the circumstances considered by MWC when it made the recommendation about the SMW rate in the review report. The Government considers that continuing with the biennial review is the best way forward and as such MWC will be required to submit the next recommendation report by 31 October 2022.<sup>4</sup>

## **Conclusion**

12. Members are invited to note the content of this paper.

Labour and Welfare Bureau  
Labour Department  
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<sup>3</sup> Specifically, between May 2011 and May 2019, the SMW rate rose cumulatively by 33.9% from \$28 per hour to \$37.5 per hour, exceeding the inflation over the same period as elaborated at [Annex](#).

<sup>4</sup> Since the implementation of SMW in May 2011, MWC submitted its recommendation reports on 31 October 2012, 31 October 2014, 31 October 2016, 31 October 2018 and 31 October 2020.

**Comparison between the Increases in the SMW Rate over its Past Upratings and Inflation over the Corresponding Periods**

	<b>Increase from May 2011 to May 2019</b>	<b>Increase from May 2017 to May 2019</b>
<b>SMW rate</b>	<b>33.9%</b> (upward adjustments from \$28.0 to \$37.5 cumulatively)	<b>8.7%</b> (upward adjustments from \$34.5 to \$37.5)
Headline Composite Consumer Price Index (CPI)	26.9%	4.9%
Underlying <sup>(^)</sup> Composite CPI	26.7%	5.2%

Note: (^) After netting out the effects of the Government's one-off relief measures.  
Source: Monthly Retail Price Survey, Census and Statistics Department.