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Panel on Manpower

Meeting on 23 June 2025

**Background brief on the mechanism for
reviewing the Statutory Minimum Wage rate**

Purpose

This paper provides background information on the mechanism for reviewing the prescribed minimum hourly wage rate (also referred to as the “Statutory Minimum Wage (“SMW”) rate”) as specified in Schedule 3 to the Minimum Wage Ordinance (Cap. 608) (“MWO”), and summarizes the major concerns expressed by Members on the subject.

Background

Statutory Minimum Wage regime

2. MWO, enacted on 17 July 2010, establishes an SMW regime which provides a wage floor to protect grass-roots employees by forestalling excessively low wages and minimizing the loss of low-paid jobs, without unduly jeopardizing Hong Kong’s labour market flexibility, economic growth and competitiveness.

3. The Minimum Wage Commission (“MWC”) is an independent statutory body established under MWO with the main function to, when required by the Chief Executive (“CE”) to do so, make a recommendation about the SMW rate to CE in Council. In reviewing the SMW rate, MWC has all along adopted an evidence-based approach (“the original review mechanism”).¹ Section 14(1) of MWO provides that CE must require MWC to submit a report on its recommendation about the SMW rate at least once in every two years.

¹ When conducting reviews on the SMW rate, MWC analysed and considered the following four areas:

- (a) an Array of Indicators covering the general economic conditions, labour market conditions, competitiveness and social inclusion;
- (b) views from members of the public and stakeholders;
- (c) other relevant considerations; and
- (d) impact assessment.

Enhancing the review mechanism of the Statutory Minimum Wage

4. In January 2023, CE requested MWC to conduct a study on ways to enhance the review mechanism of SMW, including the review cycle, how to improve efficiency, and balancing a host of factors such as the minimum wage level and sustained economic development. MWC submitted its study report in October 2023, and its following recommendations were accepted by CE in Council in April 2024:²

- (a) reviewing the SMW rate once a year (“Annual Review”);
- (b) adopting a formula³ for implementing Annual Review; and
- (c) reviewing the new review mechanism (i.e. (a) and (b) above) 5 to 10 years after its implementation to determine whether adjustments are required.

5. On 18 February 2025, CE in Council adopted MWC’s recommendation on raising the SMW rate from \$40 to \$42.1 per hour,⁴ an increase of \$2.1 or 5.25%. The revised SMW rate came into effect on 1 May 2025.

Members’ views and concerns

6. Members’ views and concerns about the implementation and review mechanism of SMW are summarized below.

Formula for adjusting the Statutory Minimum Wage rate

7. Members noted that the formula for adjusting the SMW rate under the new review mechanism consisted of two indicators, namely the headline Consumer Price Index (A) (“CPI(A)”) inflation and the economic growth factor. Both indicators were subject to a lower bound of zero percentage point to ensure that the SMW rate would not be adjusted downwards. The Government expected that **the first SMW rate derived under the new review mechanism would take effect on 1 May 2026.**

² The details of MWC’s recommendations are set out in its [study report](#).

³ The formula is: the annual rate of adjustment in SMW (%) = the headline Consumer Price Index (A) inflation (subject to a lower bound of zero) + the economic growth factor. The calculation of the economic growth factor is: [(the growth rate of the real Gross Domestic Product (“GDP”) in the latest year) – (the trend growth rate of the real GDP in the latest decade)] x 20%, and this factor is subject to an upper bound of one percentage point and a lower bound of zero.

⁴ MWC adopted the formula approved by CE in Council in April 2024 (see footnote 3) to derive the recommended SMW rate.

8. Some Members expressed concern that the calculation of the economic growth factor in the formula **would make it difficult for grass-roots employees to share the fruits of economic development**, because even in years with very good economic performance, the degree of upward adjustment to the minimum wage level arising from the economic growth factor would still be very limited. These Members mentioned the country's work direction of "promoting the growth in personal income in step with economic growth", and requested the Administration to explain the rationale for setting the above formula. There was a view that consideration should be given to introducing the "living wage" concept or adjusting the SMW rate in accordance with the Nominal Wage Index, so as to ensure that the wages of grass-roots employees were reasonably adjusted.

9. Some other Members were gravely concerned that this **mechanism of "allowing increase but not reduction" would prevent the SMW rate from being suitably adjusted downwards in response to unfavourable factors such as an economic downturn or poor business environment**, and hence exert certain pressure on the operation of enterprises and even affect Hong Kong's competitiveness in the long run. There was a view that the Administration should, with reference to the Fare Adjustment Mechanism of the MTR Corporation Limited, adopt the following approach: if the SMW rate had to be adjusted downwards in a particular year, the downward adjustment could be deferred (to offset a future upward adjustment). This would not only preclude the possibility of employees having to face wage reductions in a particular year, but also help alleviate the operating pressure on enterprises. Some Members suggested that the Administration should **consider introducing measures to ease the operating pressure that enterprises might face under the new review mechanism**.

10. The Administration advised that the SMW regime provided a wage floor to protect grass-roots employees, without unduly jeopardizing Hong Kong's labour market flexibility, economic growth and competitiveness, while minimizing the loss of low-paid jobs. In making the recommendations for enhancing the review mechanism of SMW, MWC had **given due regard to the relevant policy objectives and endeavoured to strike a proper balance between the interests of the labour and business sectors**. Both the CPI(A) inflation and the economic growth factor in the formula were subject to a lower bound of zero, **so that employees earning SMW would not have to face any pay cut**. The economic growth factor would enable employees to benefit as well when the economic performance of Hong Kong was favourable. The Administration would closely monitor the implementation of the new review mechanism, which was to be reviewed 5 to 10 years after its implementation. The Administration added that the wage system in Hong Kong was different from and could hardly be compared with that in the Mainland, and the SMW regime mainly sought to protect a small number of grass-roots employees who lacked bargaining power. In view of the current business environment in Hong Kong, the shortage of labour posed a relatively great challenge to local enterprises, and various measures had been introduced to help local enterprises cope with the manpower shortage problem.

11. Given that different industries had different skill requirements and working environments, some Members suggested that the Administration should **explore the feasibility of setting different SMW rates for different industries**. The Administration responded that many countries or regions with a minimum wage regime in place had adopted a single minimum wage rate, and it currently had no plan to set different SMW rates for different industries.

Amending the relevant legislation and timetable for reviewing the new mechanism

12. Some Members suggested that MWO should be amended to stipulate clearly the policy directions that the SMW rate must be reviewed annually in accordance with the formula, and that the minimum hourly wage rate would not be adjusted downwards. The Administration advised that the existing MWO provided that: (a) CE must require MWC to submit a report on its recommendation about the SMW rate to CE in Council at least once in every two years; and (b) CE in Council might, by notice published in the Gazette, amend Schedule 3 to MWO to increase or reduce the then current SMW rate. The Administration opined that the existing legal framework already provided a sufficient legal basis for the new review mechanism, and it was not necessary to give effect to the relevant enhancement measures by amending MWO. The Administration stressed that the implementation of the new review mechanism was a major policy decision made by CE in Council, which would not be changed arbitrarily.

13. Some Members suggested that consideration should be given to drawing up a clearer timetable for a review of the new review mechanism (e.g. by specifying that the review/a comprehensive review of the implementation of the new review mechanism would be conducted five years after its implementation) to enhance and improve the mechanism in a timely manner. According to the Administration, the implementation of the new review mechanism required a certain degree of stability, and the existing arrangements already allowed sufficient flexibility for the Government to conduct timely reviews having regard to the implementation of the new review mechanism, the social environment and other relevant factors.

Effectiveness of the Statutory Minimum Wage regime

14. Some Members were of the view that **the current SMW rate was on the low side, and SMW adjustments often failed to keep pace with inflation and to be reasonably increased in real terms**. They were also of the view that setting the SMW rate at a reasonable level would motivate the grass roots to work, thereby unleashing more labour force to alleviate the local manpower shortage problem. Conversely, if the SMW rate remained at a low level, low-income employees might have no incentive to continue to work, and thus fall into the social safety net, leading to an increase in the Government's social welfare expenses.

15. Some other Members, however, reckoned that **the original review mechanism of SMW could already achieve the policy objective of forestalling excessively low wages without unduly jeopardizing Hong Kong's economic development and competitiveness**. In their view, an SMW uprating would trigger a knock-on effect on pay hierarchies and induce a ripple effect on the local economy. Not only would it raise employees' salary expectation (thereby exacerbating recruitment difficulties), but it might even result in layoffs or business closures. Members were worried that an SMW uprating would exert pressure on inflation and, eventually, weaken Hong Kong's competitiveness and weigh on economic recovery.

16. There was a view that the competitiveness of a place and its wage levels were not necessarily correlated. In particular, among the many countries or regions of the Organisation for Economic Co-operation and Development, there were certain countries or regions which ranked higher than Hong Kong in terms of competitiveness, but their minimum wage levels were all higher than that of Hong Kong.

17. The Administration advised that many countries or regions (such as the Mainland) had put in place a minimum wage regime to provide wage protection for grass-roots employees. Changes in wages would be reflected in the production costs of enterprises, which would in turn affect their competitiveness. **It was therefore necessary to strike a reasonable balance between forestalling excessively low wages and maintaining Hong Kong's competitiveness in determining the SMW rate**. If enterprises could remain competitive, employees' earnings would also be safeguarded. According to the crude estimation results from the impact assessment conducted by MWC, the uprating of SMW in previous as well as the latest exercises had brought benefits to many low-paid employees, while its impact on the costs of enterprises, unemployment and inflation could be relatively contained on the whole.

Relevant papers

18. A list of the relevant papers on the Legislative Council website is in the [Appendix](#).

**Relevant papers on the mechanism for
reviewing the Statutory Minimum Wage rate**

Committee	Date of meeting	Papers
Panel on Manpower	17 May 2022	Agenda Item III: Implementation of statutory minimum wage Minutes
	16 December 2022	Agenda Item III: Mechanism for reviewing the Statutory Minimum Wage rate Minutes
	16 May 2023	Agenda Item IV: Enhancing the review mechanism of the Statutory Minimum Wage rate Minutes
	27 May 2024	Agenda Item IV: Enhancing the review mechanism of the Statutory Minimum Wage Minutes
House Committee	24 February 2023	Report of Subcommittee on Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2023 and Employment Ordinance (Amendment of Ninth Schedule) Notice 2023

Council meeting	Papers
9 November 2022	Question 5 : Reviewing the Statutory Minimum Wage regime