

## LCQ19: Various demand-side management measures for the property market

Following is a question by the Hon Tony Tse and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (November 21):

Question:

In order to address the overheated property market and maintain financial stability, the Government (including the Hong Kong Monetary Authority) has implemented a series of demand-side management measures since 2010. There are comments that the continuous fall in property prices in the past two months is reflective of the gradual emergence of the impacts of factors such as the trade war between China and the United States and the setting off of a cycle of rising interest rates, and property prices may drop by 30 per cent to 70 per cent from their peaks. It is therefore recommended that the Government expeditiously relax the various demand-side management measures (commonly referred to as "reduce the 'curb' measures"). However, there are other comments that if the timing, strength, priority or management of public expectation is inappropriate when reducing the curb measures, such a move might instead exacerbate the drop in property prices, thereby causing members of the public with lower risk appetite to become owners of properties with negative equity. In this connection, will the Government inform this Council:

(1) of the respective (i) dates of introduction and (ii) contents of the various demand-side management measures, as well as (iii) the respective amounts of taxes collected (if any) so far under such measures (set out in a table);

(2) whether it has formulated objective criteria for reducing the curb measures; if so, of the considerations in formulating the criteria and the details of the criteria; if not, the reasons for that; and

(3) whether it has assessed the timing, strength, priority and public expectation in reducing the curb measures and made preparation accordingly (including the formulation of contingency plans); if so, of the details?

Reply:

President,

Maintaining the healthy development of the private residential property market is one of the important objectives of Government's housing policies. In the past few years, due to tight housing demand-supply balance and the continued ultra-low interest rate environment, local property prices have been on the rise, with heightened risk of a bubble. The Government has

adopted a two-pronged approach by striving to increase land and housing supply to meet demand, and introducing several rounds of demand-side management measures as and when necessary to suppress external demand, short-term speculative demand and investment demand, with a view to stabilising the property market and preventing adverse consequences arising from an exuberant market. The Hong Kong Monetary Authority (HKMA) has also introduced several rounds of counter-cyclical macro-prudential measures to strengthen risk management of banks and resilience of the banking sector to cope with any possible impact in the event of a fall in property prices.

Having consulted the Financial Services and the Treasury Bureau, the Inland Revenue Department (IRD) and HKMA, I set out my consolidated reply to various parts of the question raised by the Hon Tony Tse as follows:

(1) Various demand-side management measures introduced by the Government since 2010 (including dates of introduction, contents of the measures, as well as amount of stamp duties collected by the Government so far) are set out at Table 1. Counter-cyclical macro-prudential measures introduced by HKMA since 2009 (including dates of introduction and contents of the measures) are set out at Table 2.

(2) and (3) The escalating trade conflicts between the United States and the Mainland have cast increasing uncertainties on the global and local macroeconomic outlook. In addition, as the monetary policy normalisation in the United States continues to proceed, local interest rates will rise further under the Linked Exchange Rate System. The Government has from time to time reminded the public to manage risks prudently. Prior to making home purchase decision, one should carefully assess various risks, particularly the impact of increasing interest rates on individual's repayment ability.

Faced with the changes in the local and global economy, the Government will remain vigilant as usual and make reference to a series of indicators, including property prices, home purchase affordability ratio (Note 1), transaction volume, housing supply, etc., and closely monitor the developments of the property market and the evolving external environment. The Government will take appropriate actions as and when necessary in response to market changes, with a view to ensuring a healthy development of the property market.

Although prices and transaction volume of private flats have subsided in recent months (Note 2), local housing is still in the state of demand-supply imbalance and the current property price level remains out of line with economic fundamentals and the general public's affordability. The home purchase affordability ratio in the third quarter of 2018 stayed high at 74 per cent, well above the 20-year long-term average of 44 per cent from 1998 to 2017. The Government has no intention to relax or withdraw any demand-side management measures at the moment, lest this would send a wrong message to the market and make the property market more exuberant.

As regards HKMA's counter-cyclical macro-prudential measures, the intent is to ensure stability of the banking system through implementation of appropriate measures according to the development of the property cycle,

taking into consideration key factors such as the trend of property prices, property transaction volume, economic fundamentals and the external environment. HKMA will consider appropriate relaxation of the counter-cyclical measures if a downward cycle in the property market is confirmed. However, as property prices had risen by more than two times since 2008 and decreased by only about 1.5 per cent in aggregate in the past two months, HKMA has not yet determined that the property market has entered into a downward cycle, and therefore does not consider it appropriate to relax the countercyclical measures at this juncture.

Note 1: Home purchase affordability ratio refers to the ratio of mortgage payment for a 45-square metre flat to median income of households (excluding those living in public housing), at the prevailing mortgage rate for a tenure of 20 years.

Note 2: According to information of the Rating and Valuation Department, the overall price index of private flat has subsided since August 2018, registering a cumulative drop of 1.5 per cent in August and September. Property transactions have also declined in recent months. The monthly average number of sale and purchase agreements for residential property received by the Land Registry from August to October 2018 was about 4 200, below the monthly average of about 5 700 in the first seven months this year.