

LCQ3: Proposal to hand out consumption vouchers

Following is a question by the Hon Mrs Regina Ip and a reply by the Acting Secretary for Financial Services and the Treasury, Mr Joseph Chan, in the Legislative Council today (January 15):

Question:

Since June last year, the ongoing demonstrations and violent acts have dealt a heavy blow to Hong Kong's economy and various sectors, especially the tourism, catering and retail industries. The real Gross Domestic Product for the whole of last year is expected to see a drop of 1.3 per cent, and the unemployment rate may rise continuously. In this connection, will the Government inform this Council, in order to stimulate consumer spending for boosting economic recovery and employment, whether it will consider the following proposal put forward earlier on by the New People's Party: handing out to each of the Hong Kong residents aged above 18 a local consumption voucher, with a six-month validity period and a total value of \$10,000 (of which the amounts to be spent on catering and retail services are both \$4,000 and the amount on tourism services is \$2,000); if not, of the reasons for that?

Reply:

President,

The social incidents over the past seven months have dealt a heavy blow to Hong Kong's economy, with the tourism, catering and retail industries bearing the brunt. Retail sales volume fell visibly by nearly 20 per cent year-on-year in the third quarter of last year and the decline widened further to about 26 per cent in October and November combined, which was the biggest drop on record. Total restaurant receipts registered a year-on-year decline of 13.7 per cent in real terms in the third quarter. Observations from the trade suggested that the business situation of the catering industry would be even more difficult in the fourth quarter. With lingering social unrest, the business of these industries will hardly improve in the near future, giving cause for grave concern. To boost consumer sentiment, revitalise the economy and safeguard employment, we must, first and foremost, stop violence, so as to bring the city back to normal, thereby allowing citizens to go out shopping with peace of mind, tourists to resume visiting Hong Kong and investors to be willing to conduct business activities here.

The Government understands the pressure that enterprises and citizens face in the current economic environment. We have been paying close attention to the impacts of social incidents and violent clashes on various trades and industries, maintaining close communication with them and offering appropriate assistance. In light of the evolving economic situation, the Government has, since August last year, announced a series of measures to

"support enterprises, safeguard jobs and relieve people's burden", with total financial implications exceeding \$25 billion.

The Government has received views from individuals and organisations proposing the handing out of consumption vouchers or, more directly, cash to citizens to boost consumption, help the affected trades and industries as well as stabilise the economy and the employment market.

There are views that issuing consumption vouchers is more effective in boosting consumption and promoting local economic activities than handing out cash. However, issuing consumption vouchers involves additional and more complicated administrative arrangements, including determining the scope of coverage, the terms of usage, the redemption arrangements, the control and anti-counterfeiting measures, etc. which may result in relatively high administrative costs.

Moreover, the effectiveness of issuing consumption vouchers may be undermined by the "substitution effect". For example, if some people use consumption vouchers mainly for meeting their basic living expenses rather than on additional consumption, the effect on boosting consumption and stimulating the economy may not meet the expectation.

According to the experience of Taiwan and Japan in issuing consumption vouchers, such measure did not achieve the projected effect of stimulating spending and economic growth. Hit by the financial tsunami in 2008, Taiwan issued consumption vouchers worth NT\$3,600 (equivalent to around HK\$840) each to its citizens in 2009 as a short-term stimulus to the economy. Subsequent assessment reports showed that the measure only raised its Gross Domestic Product (GDP) by about 0.28 per cent to 0.43 per cent, lower than the original estimation of 0.66 per cent. Japan also issued consumption coupons, as akin to consumption vouchers in nature, worth JPY20,000 (equivalent to around HK\$1,300) each to target recipients in 1999. Survey results showed that the consumption stimulated by the consumption coupons only accounted for 32 per cent of the value of the coupons, or about 0.1 per cent of the country's GDP. There has not been other large-scale overseas consumption voucher programmes in recent years for our reference.

In formulating budget measures, the Government has to take into account the long-term fiscal position in addition to the effectiveness of the measures. As pointed out by the Financial Secretary earlier, we will likely have a deficit for the current financial year. Issuing consumption vouchers or hand out cash to the public will lead to an increase in the fiscal deficit. We should carefully consider public acceptance of a large deficit and assess the reaction of international rating agencies. The Government must therefore be very prudent in this regard.