

LCQ5: Supporting operation of small and medium enterprises

Following is a question by the Hon Edmund Wong and a reply by the Under Secretary for Commerce and Economic Development, Dr Bernard Chan, in the Legislative Council today (July 10):

Question:

A survey conducted by an association of small and medium enterprises (SMEs) reportedly found a decline in turnover compared to pre-pandemic levels among nearly 70 per cent of SMEs. In addition, the value of total retail sales in April this year, provisionally estimated at \$29.6 billion, decreased by 14.7 per cent compared with the same month last year. In this connection, will the Government inform this Council:

(1) whether it has examined if the business situation of those SMEs in the retail sector (including supermarkets), catering industry, etc, operating in non-tourist districts has become increasingly difficult in the recent six months as impacted by the craze for going north for spending among members of the public; if it has, of the details; if not, whether it has plans to conduct a comprehensive survey;

(2) given that according to a survey, more than 70 per cent of the employers interviewed indicated that they would opt for business upgrading and transformation in order to cope with operating difficulties, whether the Government has, on top of the assistance it currently provides (e.g. the Technology Voucher Programme and the BUD Fund), plans to help SMEs with their business upgrading and transformation through more targeted measures; and

(3) given that the Hong Kong Monetary Authority, together with the Banking Sector SME Lending Coordination Mechanism, announced in March this year the introduction of nine measures to assist SMEs in obtaining financing from banks, whether the authorities will further request banks to adopt a more lenient approach in making credit limit adjustments for the retail sector, so as to help SMEs in the retail sector tide over the difficulties; if so, of the details; if not, the reasons for that?

Reply:

President,

The data of the Census and Statistics Department (C&SD) show that after recording an increase in the value of total retail sales in January and February 2024 as compared with the same period last year, a decrease occurred from March to May. The Government has been closely monitoring the economic situation, and implements measures to assist the industries having regard to the situation.

Having consulted the Innovation, Technology and Industry Bureau, the Office of the Government Economist, the C&SD and the Hong Kong Monetary Authority (HKMA), the reply to the three parts of the question is as follows:

(1) The Government compiles statistics or conducts surveys on different economic sectors (including the amount of retail sales), but does not compile statistics with breakdown by districts.

Hong Kong has been getting increasingly integrated into the Mainland in various aspects. As various large-scale infrastructure were completed, the cross-boundary transportation capacity has been greatly strengthened, facilitating the two-way flow of people between the Mainland and Hong Kong and promoting the retail industry of both places at the same time. Under the "one-hour living circle" within the Guangdong-Hong Kong-Macao Greater Bay Area, Hong Kong residents spending in the Mainland or Mainland residents spending in Hong Kong are economic activities that happen naturally.

In the first five months this year, the value of total retail sales was on average around \$32.3 billion per month, decreased by 6.1 per cent as compared with the same period in 2023. In addition, for the total restaurant receipts, the monthly average in the first quarter of 2024 was around \$9.4 billion, increased by 2.3 per cent as compared with the same period in 2023. The performance of both retail and catering industries is subject to change having regard to the consumption patterns of visitors and residents as well as the strength of the Hong Kong dollar. Nevertheless, the new measures benefitting Hong Kong as announced recently by the country, including extending the scope of the Individual Visit Scheme to 59 cities and increasing the duty-free allowance for luggage articles brought into the Mainland from Hong Kong by visitors who are Mainland residents to RMB12,000 should help attract the spending of Mainland visitors, thereby boosting the local retail and catering industries. The Hong Kong Special Administrative Region Government's continued efforts in promoting mega event economy and pursuing the concept of "Tourism is everywhere in Hong Kong" will also bring support to the retail and catering industries. The rise in employment earnings, coupled with the recent stabilisation of asset markets, is also beneficial to these two industries.

(2) Throughout the years, the Government has been assisting Hong Kong enterprises, especially small and medium enterprises (SMEs), in upgrading, restructuring and enhancing competitiveness through funding schemes. Among others, the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) provides funding support to non-listed Hong Kong enterprises to develop business in 39 economies with which Hong Kong has signed Free Trade Agreements and/or Investment Promotion and Protection Agreements. Besides, the Trade and Industrial Organisation Support Fund (TSF) provides funding support to organisations such as trade and industrial organisations and professional bodies to implement projects which aim at enhancing competitiveness, including assisting enterprises in upgrading and restructuring. As at end June 2024, around 8 400 applications have been approved under the BUD Fund, involving a total funding amount of over

\$5.1 billion. Around 50 per cent of these applications involve projects related to upgrading and restructuring. For the TSF, over 500 applications have been approved, involving a total funding amount of around \$880 million.

Furthermore, the Government established "SME ReachOut" in 2020 to help SMEs identify suitable government funding schemes. "SME ReachOut" has enhanced its services starting from October 2023, to provide more one-on-one consultation sessions and to focus on areas such as "environmental, social and governance", technology transformation, digitalisation and cyber security, with a view to assisting SMEs in enhancing their competitiveness through leveraging new technologies. As at end June 2024, "SME ReachOut" has handled over 24 200 enquiries, and has organised or participated in 10 exhibitions and over 50 seminars or webinars, as well as conducted over 240 promotional activities.

In order to assist enterprises/organisations in using technologies to improve productivity, or upgrade and transform their business processes, the Innovation and Technology Commission administers the Technology Voucher Programme (TVP) to subsidise local enterprises/organisations in using technological services and solutions. The TVP provides subsidies for projects on a 3 (Government):1 (enterprise/organisation) matching basis. For each enterprise/organisation, the cumulative funding ceiling is \$600,000 and the maximum number of projects to be approved is six.

In addition, the Government has allocated funding to launch the Digital Transformation Support Pilot Programme, under which subsidies will be provided on a one-to-one matching basis to assist SMEs in retail and food and beverage industries in applying e-payment and other ready-to-use basic digital solutions, so as to expedite their digital transformation.

(3) The HKMA has been encouraging the banking sector to support SME customers under prudent risk-management principles, including streamlining the procedures for loan application and providing more diversified loan products. It has also introduced the nine SME support measures jointly with the Banking Sector SME Lending Coordination Mechanism in March this year to support the financing needs of SMEs and increase their bargaining power. In the first two months following the announcement of the support measures, around 7 000 SMEs have benefitted, involving an aggregate credit limit of over \$15 billion, including:

(i) providing credit reliefs (including principal moratorium and partial principal repayment) to over 2 000 SMEs, involving an aggregate amount of \$8.2 billion;

(ii) approving about 1 700 credit applications from SMEs, providing \$7.3 billion of funds for their cash flow and business expansion; and

(iii) continuing to provide fee waivers and concessions to over 3 000 SMEs to ease their expenditure, including concessions on credit application fees, commitment fees and interest.

The HKMA, the Hong Kong Association of Banks and the Chinese Banking Association of Hong Kong co-organised a seminar on the banking sector's support measures for SMEs on June 24, bringing together more than 200 representatives from the banking sector, trade associations and chambers and SME operators, who have actively exchanged views on the banking sector's support measures as well as diverse services for SMEs. The discussions covered topics including how banks leverage financial technology to help SMEs obtain bank financing in an easier and faster manner, and how banks support the business transformation of SMEs.

The HKMA will continue to maintain close communication and exchange with the banking and commercial and industrial sectors to support the continuous development of SMEs in an inclusive manner and under proper management of credit risks.