

LegCo Secretariat releases Research Brief on “The 2021-2022 Budget”

The following is issued on behalf of the Legislative Council Secretariat:

The Legislative Council Secretariat (the Secretariat) today (April 7) released a Research Brief on "The 2021-2022 Budget".

The Financial Secretary (FS) delivered the fourth Budget of the current-term Government on February 24, 2021 and reported the largest ever fiscal deficit of HK\$257.6 billion for the 2020-21 financial year, which was far above the original estimate of HK\$139.1 billion made in his previous year's Budget. The larger-than-expected fiscal deficit resulted in substantial reduction in fiscal reserves from the equivalent of 23 months of government expenditure in 2019-20 to 13 months in 2020-21. This arouses the concern over the fiscal space available for FS to revive the COVID-hit economy while ensuring the health of public finances.

In the Budget, FS unveiled an unprecedented initiative of giving out HK\$5,000 worth of electronic consumption vouchers to each adult resident to revive the local economy. The initiative would cost a total of about HK\$36 billion. While Hong Kong is new to the voucher scheme, several other Asian economies have implemented similar schemes. They have distributed the vouchers in one-go and allowed the transferability of vouchers. Some have also fine-tuned the distribution of vouchers to benefit low-income groups, COVID-hit industries and sectors, small and medium-sized enterprises, and/or goods with low import content.

Though FS expected that the consumption voucher scheme would contribute 0.7% of Gross Domestic Product (GDP) in 2021, the effectiveness of issuing consumption vouchers may be undermined by the "substitution effect" in which households may use the vouchers to buy goods and services they would have bought anyway and save the money that has originally been set aside for consumption; and the "inter-temporal effect" in which consumption vouchers can only bring forward consumption that would happen anyway without creating any new spending. According to the experience of Taiwan and Japan in issuing consumption vouchers/shopping coupons, such measure did not achieve the projected effect of stimulating spending and economic growth.

Another unprecedented initiative in the Budget was the introduction of the Special 100% Loan Guarantee for Individuals Scheme for the unemployed. There are calls for extending coverage of the scheme to the underemployed as the underemployment rate averaged 3.3% in 2020, visibly 2.2 percentage points higher than in 2019.

Similar government-guaranteed loan schemes in the United Kingdom and Australia target low-income households, whereas those in Japan also support the unemployed and those households whose income have been reduced during the COVID-19 pandemic. As a special measure in response to the pandemic, Japan

allows those households which continue to suffer from reduced income to be exempted from repaying the loan when repayment is due.

FS also announced in the Budget to expand the issue of green bonds to preserve fiscal strength. Hong Kong has ample room for further issuance of bonds in view of its hefty foreign exchange reserve assets and relatively low government debt to GDP ratio. Infrastructural bond is a possible efficient option to ease the Government's fiscal pressure amid the current low-interest environment and considerable infrastructure spending in the coming years.

The Legislative Council will resume the Second Reading debate on the Appropriation Bill 2021 at its meeting of April 21 and Members will speak on the Bill.

The Research Brief is prepared by the Secretariat's Research Office of the Information Services Division with a view to enhancing information support for Members. It is a concise summary aiming at explaining a subject matter which may be of interest to Members and the general public.

The Research Brief is now available on the Legislative Council Website at <https://www.legco.gov.hk/research-publications/english/2021rb03-the-2021-2022-budget-20210407-e.pdf>.