

LCQ16: Loan guarantee schemes and measures to assist enterprises

Following is a question by Dr the Hon Lam Tai-fai and a written reply by the Secretary for Commerce and Economic Development, Mrs Rita Lau, in the Legislative Council today (May 20):

Question:

The Chief Executive put forward the policy objective of "supporting enterprises and preserving employment" at the end of last year, and indicated that support to Small and Medium Enterprises (SMEs) was an important part of preserving employment. Yet, the impact of the global financial tsunami has still not receded, and the Hong Kong economy has remained weak, coupled with the recent spread of human swine influenza (swine flu) globally, enterprises will be facing greater difficulties in operating and financing, thus leading to a continuous increase in the unemployment rate. Regarding the present situation of "supporting enterprises and preserving employment", will the Government inform this Council:

- (a) whether it will consider expanding the coverage of the Special Loan Guarantee Scheme (SpGS) to allow eligible mainland banks to participate in the scheme, and providing 70% guarantee for commercial loans granted by such banks to Hong Kong enterprises on the Mainland, so as to assist such enterprises in financing; if not, of the reasons for that;
- (b) whether it will increase the flexibility of the loan guarantee ratio under SpGS, and provide different ratios of loan guarantee for different levels of loans (such as a loan guarantee ratio of 80% for the first \$2 million of loan or below, 75% for the next \$2 million or below, and 70% for the remaining amount); if not, of the reasons for that;
- (c) whether it will consider lifting the ceiling for loan guarantee under SpGS; if it will, of the details; if not, the reasons for that;
- (d) whether it will increase the loan guarantee ratio of the SME Loan Guarantee Scheme (SGS) from 50% to 70%, making it on a par with SpGS; if not, of the reasons for that;
- (e) whether it will consider making reference to the loan guarantee scheme provided for the four sectors (i.e. travelling, catering, retailing and entertainment) which were affected by the Severe Acute Respiratory

Syndrome in 2003, and establishing a similar loan guarantee scheme providing 100% loan guarantee for sectors which have been hard hit by swine flu;

(f) apart from the existing SGS and SpGS, whether the Government will launch other schemes or measures in "supporting enterprises and preserving employment" to assist SMEs; if it will, of the details, if not, the reasons for that; and

(g) given that banks are still tightening credit facilities and SMEs are hiring fewer employees in face of financing difficulties, whether the authorities have assessed the resultant increase in unemployment rate when a large number of local students graduate and look for jobs in June and July this year, as well as whether it will adopt counter measures to solve the unemployment problem?

Reply:

President,

The Government launched the Special Loan Guarantee Scheme (SpGS) on December 15, 2008 to provide 70% guarantee for commercial loans granted to eligible enterprises. The total guarantee commitment is \$100 billion. As at May 18, 2009, we have approved more than 8,000 applications, involving a total loan amount of around \$15.1 billion.

As regards Dr the Hon Lam Tai-fai's questions, our replies are as follows:

(a) According to the conditions of the SpGS, all authorised institutions under the Banking Ordinance, including banks, restricted licence banks and deposit-taking companies, are eligible to participate in the Scheme. The Hong Kong branches or offices of Mainland banks may also participate in the Scheme if they meet the above criteria. In fact, several banks belonging to this category have already joined the SpGS. We have no plans to change the eligibility criteria for participating lending institutions (PLIs) at this stage.

(b), (c), (e) and (f) The application period of the SpGS will expire in mid June. We are now reviewing the effectiveness of the Scheme, whether to extend and improve it, and whether there are other feasible measures to assist SMEs. We will take into consideration all factors, including views of the trade, lending institutions and Members of the Legislative

Council. The Chief Executive has indicated last week that the relevant measures would be announced within one month.

(d) The SGS is a long-standing scheme, while the SpGS is a time-limited measure that aims to provide immediate relief to enterprises amid the financial tsunami. The objectives of the two schemes are different, hence their detailed features, including the scope and the Government's guarantee ratio, are also different. We believe that having both schemes in parallel can provide greater flexibility to the trade.

(g) According to past data, fresh graduates normally join the labour market between June and August, thereby increasing the labour supply. During economic downturn, the unemployment rate would rise more notably. As the global economy remains weak at the moment, the unemployment rate is expected to face upward pressure. To assist graduates to enter the labour market as early as possible and to enhance their employability, the Labour Department (LD) will integrate and enhance various employment programmes. For instance, the "Youth Pre-employment Training Programme" and the "Youth Work Experience and Training Scheme" will be enhanced and combined into a through-train programme comprising both pre-employment and on-the-job training, thus providing seamless and comprehensive youth training and employment support. In addition, LD will in August this year launch the "Internship Programme for University Graduates" to provide an additional option for university graduates to gain work experience and broaden their horizon, as well as to nurture talents for Hong Kong.

Ends/Wednesday, May 20, 2009