

# The Hong Kong Consumer Voucher Scheme Attempts to Rehabilitate the Economy from the Shock of Covid-19 Pandemic

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## ABSTRACT

The Consumer Voucher Scheme (CVS) is an unprecedented policy in Hong Kong that is implemented to aid the economy's recovery from the Covid-19 pandemic. The CVS's effectiveness is debatable in terms of its cost benefits analysis, since it accounts for a sizable budget in the sake of boosting consumption and therefore accelerating economy recovery. The method of research is based heavily on government official websites and news reports, which provides the most authoritative information on the policy. This paper critically evaluates the pros and the cons of CVS, and the final judgement was that the scheme can be an effective policy to stimulate local consumption, rescue retail and catering industries and improve people's living standards in the short-term, but the long-term effect of this policy remains to be seen.

**Keywords:** *Consumption Voucher Scheme, Covid-19, Hong Kong, Economic Recovery*

## 1. INTRODUCTION

Recovering from the COVID-19 pandemic is one of the major tasks for economies in the world. To quickly bring economic activities back on track, the Hong Kong Monetary Authority (HKMA) is supporting the Government in the launch of the Consumer Voucher Scheme, planning to boost consumption. Yet, there is currently an apparent gap in research on in-depth study of the Hong Kong consumption vouchers[1]. This may be due to the fact that it is a novel policy that has not been extensively adopted by the government. To acquire accurate information, this paper will reference government-issued material and articles published by reputable news organisations.

Consumption voucher analysis is significant to some extent because the government, as a key role in the economy, should have an understanding of the types of policies that are most appropriate for a particular nation. In this paper, the aim is to evaluate and make a judgment on whether the Consumption Voucher Scheme in Hong Kong is a successful approach that can be replicated in the future through analysing both the benefits and limitations of CVS.

## 2. THE BRIEF ANALYSIS ON THE CVS

### 2.1. Understanding the CVS

The Consumption Voucher Scheme was opened for registration on July 4, 2021. It is eligible for permanent residents and new arrivals aged 18 or above, who currently reside in Hong Kong.[2] The CVS allows qualified personnel to obtain electronic consumption vouchers worth a total of \$5,000 HKD in instalments. According to the CVS official website, vouchers acquired through AlipayHK, Tap & Go, or WeChat Pay HK will be distributed in two instalments and each of two months apart. The first \$2,000 voucher is valid for five months, while the second \$3,000 voucher is valid for three; in other words, a total of \$5000 HKD will be valid for 5 months. Another option to collect the vouchers is Octopus cards, which is a reloadable stored value smart card for electronic payments in Hong Kong, and the vouchers will be disbursed by three instalments, and offering the same voucher amount and expiry dates. The latter is targeted for the convenience of local citizens, notably the elders who feel troublesome to access online payment.

Unlike coupons, which is a common way that firms use to promote sales, it does not exactly parallel with consumption vouchers. The traditional mechanism of coupons issued by a specific firm can only be used after spending a certain amount of money, while consumption vouchers can be seen as a directed currency. This means that it can be used as cash when purchase goods or services from local retail, catering and service outlets, but the vouchers are not allowed to transfer, or to pay taxes, public utilities, education expenses, purchase of financial products, donation, merchants located outside Hong Kong, person to person payments, and encashment. The intention of which is to boost domestic consumption, and increase GNI by minimising the money flowing to foreign countries[3].

## ***2.2. The mechanism of the CVS for recovering the economy***

The Hong Kong Consumer Voucher Scheme is an expansionary fiscal policy that aids the recovery of the economy to some extent, especially under the context of Covid-19. On the one hand, the CVS will allow eligible residents for more disposable income, and this will theoretically stimulate the consumption aspect of aggregate demand. From the government's perspective, the operating cost of CVS is accounted for in the government expenditure, which refers to the government spending component of AD. With an increase of both consumption and government spending, the CVS is anticipated to accelerate Hong Kong's Real GDP growth in the third and fourth quarters of 2021. This is backed up by Mr. Andrew Au Sik-hung, the Government Economist, who forecasted that real GDP growth for 2021 as a whole would be around 5.5%-6.5%[4].

On the other hand, when the economy is struggling, businesses are also in dire straits, and some opt to close, which results in mass layoffs, leading to an increasing unemployment rate. Fortunately, CVS creates employment opportunities while boosting spending because of the customer demand. Stimulating consumption implies that consumers will have a greater demand for businesses' goods and services, which means the company will need to increase supply and hire additional employees to achieve productivity gains. Financial Secretary Paul Chan Mo-po stated that the job market and unemployment rate would improve as private consumption increased, owing to the fact that one-third of workers were employed in retail, catering, tourism, logistics, and transportation, all of which are closely related to the consumer market. He predicted that the unemployment rate would continue to decline from its current 5.5% level and that the economy would continue to strengthen[5].

Additionally, CVS may serve as a positive feedback loop for economic recovery, as unemployment rates

decline and firm profits increase. The former, theoretically, will result in households obtaining a steady stream of income, allowing them to pay salary tax. With possibly higher sales and profits, the latter will be able to pay profit tax. This implies that the CVS's tax revenues may greatly exceed the expenses of implementation, providing the government with additional sources of revenue. Looking ahead, the government may utilise the budget to further stimulate economic growth, creating a positive feedback loop.

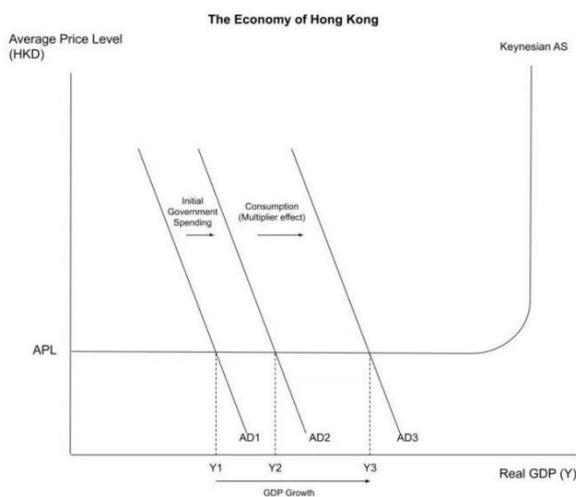
## ***2.3. Critical evaluation of the Hong Kong CVS***

The CVS, planning to hand out vouchers worth HK\$5,000 to more than seven million Hong Kong residents, was projected to pay HK\$71 billion (9.1 billion USD) in operation cost. Which indicates that this policy has an exorbitant level of sunk cost<sup>1</sup> that creates greater uncertainty and possesses higher risks for this scheme to achieve its goals. It is most likely that the CVS will have some increase in short-term local consumption, but it is very unlikely that the scheme will cause enough impact to re-boost the economy owing to Hong Kong's high living costs. According to NUMBEO, A single person's estimated monthly living expenses are at HK\$ 8,582.21 excluding rent.[6] Given which, the per person amount of vouchers will have little impact in boosting the economy during post-pandemic periods. In fact, a projected 7.2 million residents will receive the e-vouchers; however, according to Terence Chong Tai-leung, an associate professor of economics at the Chinese University of Hong Kong, who estimates that "the economic benefit will only be between 0.05% to 0.1%[7]."

Note that the scheme differentiates only the age and the resident status but not the income. Which means that all income groups in Hong Kong, both low and high income households, will receive the same voucher amounts to spend. The former are much more likely to utilise these vouchers for what economists refer to as non-discretionary spending, or expenditure on necessities such as food and transportation. While the latter may be inclined to engage in discretionary spending, this is an egregiously wasteful method of stimulating the economy during the periods of economic recovery. Low income households spending on necessity goods would anyways be necessary expenses, so the launch of CVS would not have immense impact on one's spending habits, but rather, the low income households could retain a little more savings for later expenditures by prioritizing in paying with consumption vouchers[8]. On the other hand, HK\$5,000 is most likely an insignificant amount for high income households, so they would have lower incentives to increase local consumption during the 5 months use

period. Such untargeted release of vouchers will only increase the operation cost of the scheme, while making little effect in boosting the economy.

Yet, theoretically speaking and also supported by the Financial Secretary Paul Chan Mo-po, the CVS is “expected to create multiplier effects, stimulating consumption sentiment, and benefiting citizens and businesses.[7]” In reality, the multiplier effect, where the initial government spending (HK\$71billion) will cycle repeatedly through the economy, may result in a larger increase in GDP. This attempts to create an impact on GDP growth by accounting the immense government spending and the extra consumption with the e-vouchers. Which pushes up the government spending and consumption aspects of AD, and causing it to shift outwards as illustrated through the Keynesian model in fig.1 below. In addition, the AD continues to increase due to the expected multiplier effects, which stimulates the growth of real GDP(Y) and it is theoretically assumed that the average price level may remain constant.



**Figure 1** The Economy of Hong Kong

The assumption that government spending will consume the bulk of their tax revenue, which causes an opportunity cost where the government is obliged to forego the next best alternatives in their spending, will usually hold. In fact, there are many social issues that the government could address that may result in greater long-term benefits to the economic growth and well-being of Hong Kong. For instance, According to the Hong Kong Poverty Situation Report for 2019, 32% of residents aged 65 and above (391,200 elderly persons) live in poverty, which equates to three out of every 10 elderly people.[9] Not only is the ageing population a real threat to Hong Kong's long-term economic development, but such a high rate of elderly poverty will also contribute to the spread of the virus. It is objectively perceived as unwise for the Hong Kong government to randomly distribute cash and try to force consumption to rise while neglecting the serious socio

economic problems that should be prioritised, and which may have a greater impact on the economy's recovery and prosperity.

### 3. SIMILAR POLICIES ISSUED BY OTHER COUNTRIES

Policies that aim to stimulate consumption to drag the economy out of a recession are not rare. Prior to the Hong Kong CVS, there were several similar measures taken in different countries, yet they may differ from each other.

In 2020, a stimulus payment program was issued by the South Korean government, with a sum up to KRW 1 million (US\$873) for each household, and for Korean citizens only. Eligible citizens were able to receive the payment in the form of a gift voucher or a prepaid gift card which could only be spent on small local stores, excluding online and large-scale retail business, until August 2020. This act was set to help small businesses and their employees, and was also trying to reduce infection risks. Increase in spending was recorded in the sectors where vouchers were applicable. However, a large proportion of households indicated that they had difficulty in using up all the vouchers, perhaps due to the fact that the restriction on usage affected consumers' choice, which, as a consequence, reduced welfare gains and economic efficiency[10]. By contrast, the restriction on the usage of the CVS initiated in Hong Kong is not as great as the precedent one in Korea. Vouchers in HK could be used in business entities, regardless their sizes and locations, as well as online purchases. Thus the economy is likely to be boosted in a more well-rounded way, covering more consumption sectors and producing more spending.

Macau government launched its first-phase e-vouchers in 2020, similar to the CVS in HK, distributing 2.2 billion patacas(US\$274 million). According to the mid-term report from the Macao Economic Bureau, the overall influence on the economy was estimated to be 1.8-2.4 billion patacas(US\$224-300 million), and the inflation level due to this scheme is moderate. Whether the amount of extra spending will match the authority's prediction and the time required to achieve are still unclear. Yet evidence from Taiwan, which issued a total amount of NT\$85.7 billion(US\$3 billion) consumer vouchers in 2009 to stimulate the economy after the financial crisis, showed that the actual economic percentage growth(0.28-0.43 percentage point) is far below the predicted number(0.66 percentage point). Apart from that, Terence Chong Tai-leung, an associate professor at the Chinese University of Hong Kong, pointed out that a consumption voucher scheme would normally produce only 10-15 percent extra spending of the total amount distributed. Therefore, it is possible that sometimes the projection is too optimistic and the overall benefits are

not worth the efforts which the government commits on the consumption voucher scheme[7] .

#### **4. DISCUSSION**

The electronic CVS issued by the Hong Kong government, compared with other expansionary policies, has a unique edge in many aspects. The CVS has a more immediate impact on the sluggish economy. The stimulation on consumers made by CVS, in the short-term, is much stronger than any other policies, which means the economy would recover from a depression with shorter time needed. By contrast, other alternatives like an expansionary monetary policy, via lowering the interest rate to boost consumption and investment, may encounter a time lag for people to react, resulting in longer periods for the outcome to manifest. Whereas the mechanism of CVS is easier to be accepted by consumers, which induce them to actively consume, rather than being passive as an adjustment of interest rate. People are more willing to prompt actions on their own under the policy. There will be more people who respond to the policy with higher consumer enthusiasm, and some CVS may lead to favorable spending habits in the future.

Furthermore, stimulating consumption caused by the CVS can enhance the business ability and profit of enterprises fundamentally, or not sustain by reducing the burden on business through the supply-side policies like reduction in taxes, and provide employment opportunities gradually to some extent, thus driving the enterprise from the bottom up. As Billy Mak Sui-choi, an associate professor of the Department of Finance and Decision Sciences of Hong Kong Baptist University, says that “The policy is aiming to support the sectors hard hit by the pandemic, including retail and catering industry”. It is reasonable that the government attempted to transfer the stimulus funds to the retail industry through household consumption instead of direct subsidy. However, this approach may benefit mainly well-known brands and businesses that can attract more consumers. But this may also incentivise firms to enhance their brand competitiveness, hence benefiting them in both the short and long-term[7] .

When contrasted with traditional paper coupons, the electronic CVS also has non negligible superiorities in some ways. For consumers, the distribution of paper coupons has limitations, no matter in terms of time and location; also, there would be implicit cost when using paper coupons. However, with the development of technology, it offers easier access to the vouchers and more convenient user experiences. For the government, the process of producing and distributing paper coupons consumes a lot of resources, like labor and materials. Especially for the intermediate transition process, it is inevitable to cause some security problems, such as illegal trading, loss and forgery. What is more, while

some problems of CVS appear, the electronic one can adjust more quickly and expediently, in order to make people know the problem in time, and reduce deadweight loss. However, many local small firms still only accept cash payment or using Octopus payment system, and quoting from Simon Wong Ka-wo, president of Hong Kong Federation of Restaurants & Related Trades, who said that “only 30-40% of local restaurants have e-payment systems.” Which means that those small entrepreneurs that really need help may not receive too much benefit from the CVS, unless the majority of residents obtain their electronic vouchers via Octopus cards[7] . To further alleviate this issue, the idea came from Billy Mak Sui-choi ,who said “The government should increase education for small businesses about e-payment systems, which will help them achieve digital transformation, reduce infection risks, and improve cash management.”, can be a feasible approach[7].

If the CVS are to utilised again, some suggestions are necessary to ameliorate the CVS. It is known this scheme is eligible for people aged 18 or above, maybe minors should be considered to be given vouchers as well, but the vouchers are collected by their guardians and used reasonably. Additionally, although the CVS has helped enterprises immensely, it can become more targeted. Depending on the situations of different industries, the government can select some specific industries as the usable range of vouchers, which gets its way more effectively.

#### **5. CONCLUSION**

The aim of this paper is to analyze the recently-implemented Hong Kong Consumption Voucher Scheme from various aspects. Overall, the CVS is an effective approach to stimulate consumption and hence recover the overall economy from the shock of Covid-19. Growth in businesses, reduced unemployment and other potential benefits might increase welfare gains of participants in the economy on the whole. However, the total cost of the scheme is high, leading to a doubt about whether there are alternative issues waiting to be addressed to benefit the economy and well-being of HK in the long run. In addition, it may take a long time for the effects on the economy to be manifest, depending on the complicated economic and social factors. The actual economic benefit is likely to be overstated by the authorities, and it might end up not being worth the cost. Comparing the CVS in Hong Kong with other similar policies launched in oversea countries and regions, it has its own uniqueness which could enhance its feasibility and overall influences to the HK economy. The scheme is currently in progress so there is not much empirical data available to analyze what effects the scheme has, and the extent to which it has influence on the economy. Therefore, more data is needed to do

further examination on the CVS, and to decide whether other governments can adopt this sort of policy against economic recession in the future, and necessary changes they need to make to optimize the benefits.

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