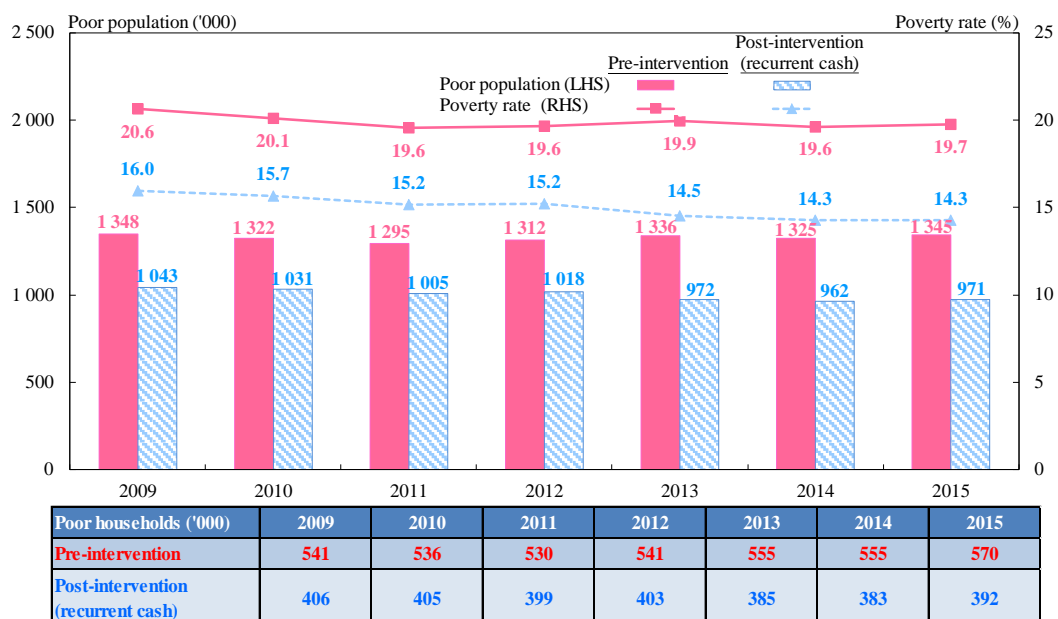


**Box 1.2****An analysis of the poverty situation of Hong Kong, 2009-2015**

The current-term Government attaches great importance to the poverty issue. As an unprecedented move to demonstrate the Government's commitment to this priority policy area, the first official poverty line was announced by the reinstated Commission on Poverty (CoP) in September 2013, to analyse the poverty situation, assist policy formulation and assess policy effectiveness. Based on the official poverty statistics released annually, this box article analyses the trends in the poverty situation of Hong Kong from 2009 to 2015 with respect to the economic cycles, and discusses the challenges faced by the Government's poverty alleviation work in the future amid the structural trend of population ageing.

**The poverty line framework set by CoP**

In 2013, the first-term CoP agreed that the poverty line should be based on the concept of "relative poverty" and set at 50% of the median monthly household income before policy intervention (i.e. before taxation and social welfare transfer)<sup>(1)</sup>. On top of the pre-intervention household income, deducting taxes and adding back all recurrent cash benefits gives the post-intervention household income. Households and persons living therein are classified as poor if their household incomes are below the poverty line for the corresponding household size. As such, there are two sets of poverty statistics: pre- and post-intervention; and a comparison of the two sets of poverty indicators facilitates the evaluation of the poverty alleviation impact of the Government's recurrent cash intervention.

**Overall trends in the poverty situation of Hong Kong****Chart 1: Poor population and poverty rate, 2009-2015**

On the whole, the poverty situation saw improvements between 2009 and 2015, with both the pre- and post-intervention poverty rates<sup>(2)</sup> following general downward trends during the period (*Chart 1*). In 2015, before policy intervention, the size of the poor population and

(1) The poverty line thresholds are set on the basis of household income before policy intervention, so as to avoid distortion by the Government's policy measures, which is in cognisance with one important function of the poverty line, i.e. to assess policy effectiveness. For details of the poverty line and its analytical framework, please refer to **Appendix 1** of the *Hong Kong Poverty Situation Report 2015*.

(2) Poverty rate is the share of the poor population to the total population living in domestic households.

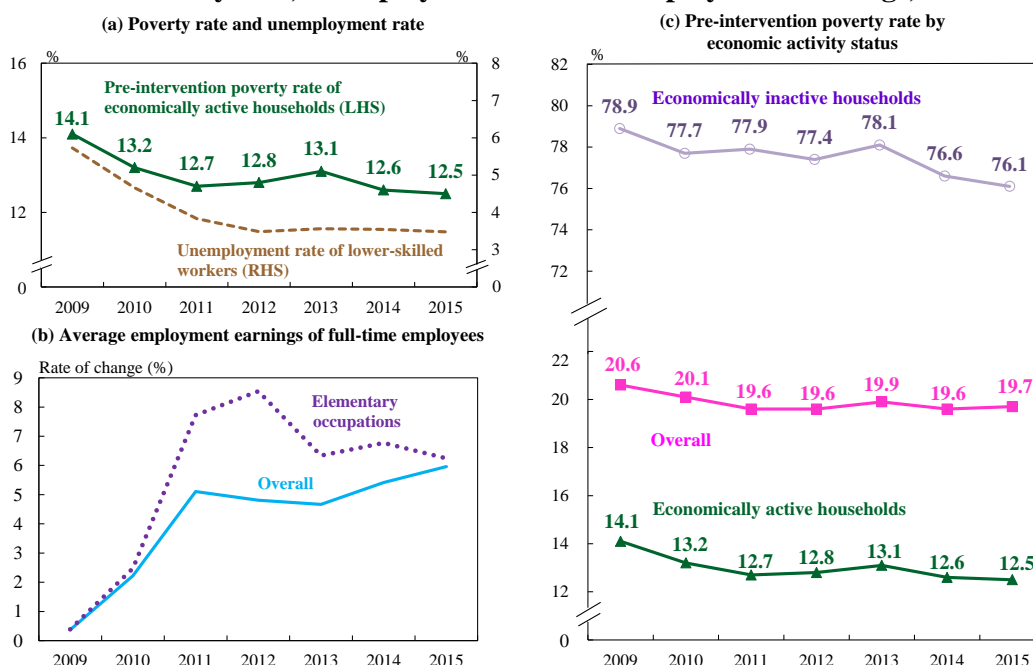
**Box 1.2 (Cont'd)**

the poverty rate were 1 345 000 and 19.7% respectively. The corresponding poverty figures after policy intervention were 971 400 (the third consecutive year below the one million mark) and a seven-year low of 14.3%, down from 1 043 400 and 16.0% respectively in 2009.

**Relationship between poverty and economic cycle**

The improvement in the pre-intervention poverty situation is mainly attributable to economic growth and more favourable labour market conditions. The relationship between poverty situation and economic cycle is more discernible when we focus on the poverty rate of economically active households<sup>(3)</sup>. With improved economic conditions, these households can conceivably more directly benefit from more job opportunities and sustained income growth, resulting in lower poverty risk.

After the shock of the Global Financial Crisis in 2008, the Hong Kong economy has experienced a speedy recovery since 2010, with an average annual growth rate of 3.6% in real terms. In parallel, the unemployment rate in overall terms and that of lower-skilled workers fell to a low level from 2012 onwards, signifying a state of full employment. This, coupled with the implementation of Statutory Minimum Wage since May 2011 and the upratings in 2013 and 2015, led to notable increase in the employment earnings of grassroots workers. As a result, the pre-intervention poverty rate of economically active households also improved when the unemployment rate and employment earnings had more substantial improvements (*Charts 2a and b*), and it trended down to 12.5% in 2015, at a seven-year low. Specifically, the size of the poor population residing in unemployed and working poor households before policy intervention fell significantly by 53 700 and 20 500 respectively from 2009.

**Chart 2: Poverty rate, unemployment rate and employment earnings, 2009-2015**

While the overall poverty rate also exhibited decline over the same period, its magnitude of change was smaller due to dilution by poverty statistics of economically inactive households. As the latter do not engage in economic activities, their poverty situation appears to have little direct linkage to the macroeconomic and labour market conditions. With no

(3) Economically active households include working households (households with working member(s)) and unemployed households (households with all members in the labour force being unemployed).

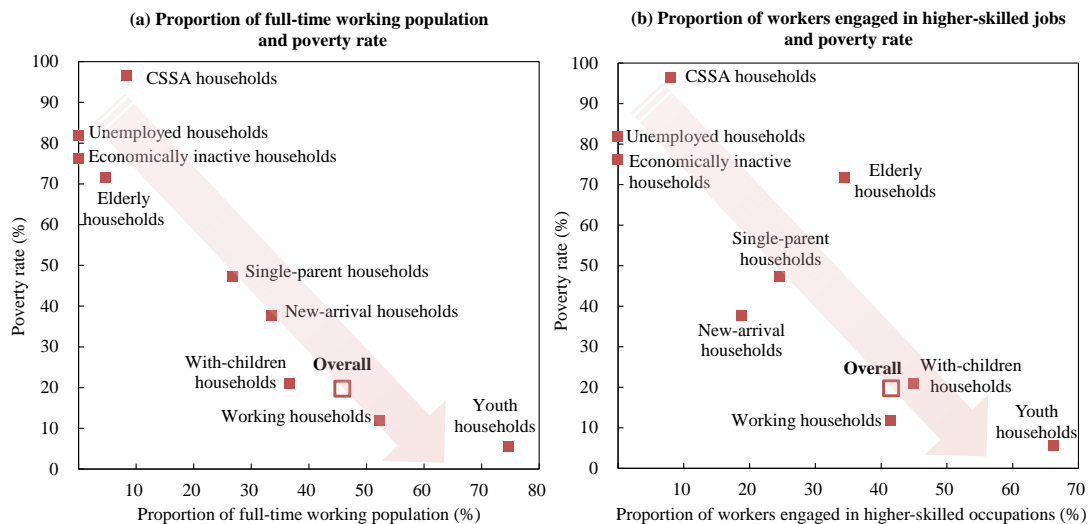
**Box 1.2 (Cont'd)**

employment earnings, their poverty rate is also far higher than that of their economically active counterparts (*Chart 2c*). Furthermore, measuring poverty solely based on income, the poverty statistics would unavoidably include some “asset-rich, income-poor” persons, especially retired elders, which is a main limitation of the existing poverty line framework that should be borne in mind.

**Employment is the best route out of poverty**

Further analyses comparing the characteristics among various socio-economic groups reveal that employment is the key to stay away from poverty for those who are available for employment. Taking the 2015 situation for illustration, *Chart 3a* shows that the poverty risk is generally lower for household groups with higher proportions of full-time working population. Also, higher proportions of workers engaged in higher-skilled occupations are associated with lower poverty rates (*Chart 3b*). These demonstrate the importance of employment and skills upgrading to poverty prevention and alleviation.

**Chart 3: Proportion of full-time working population / working members engaged in higher-skilled occupations of different household groups, 2015**



Note: Poverty rates refer to statistics before recurrent cash intervention.

**Increasing Government's poverty alleviation efforts**

The Government provides assistance to help those who cannot provide for themselves through the social security system on a reasonable and sustainable basis. Indeed, the recurrent government expenditure on social welfare has risen by nearly 50% between financial years 2009/10 and 2015/16. Taking into account the recurrent cash measures of the Government, the observed post-intervention poverty rate declined by 1.7 percentage points between 2009 and 2015, with its level falling visibly below 15% since 2013, when the Old Age Living Allowance was fully implemented to provide targeted assistance to needy elders.

Indeed, the “actual” extent of poverty reduction during 2009-2015 would be even larger if not masked by changes in demographic factors<sup>(4)</sup> over the same period. A decomposition

(4) It should be noted that the change in demographic structure is also a key factor influencing poverty statistics since most elders are retirees with no employment earnings, living alone or with their spouse only. Elderly households take up a substantial (58% in 2015) and rising share of the overall economically inactive households, which feature a poverty rate far higher than that of their economically active counterparts.

**Box 1.2 (Cont'd)**

analysis of the changes in poverty rate between 2009 and 2015<sup>(5)</sup> indicates that the post-intervention poverty rate would have been lowered by 2.51 percentage points due to economic growth, improvement in employment conditions, stronger Government's poverty alleviation efforts, etc., but nearly one-third of the potential poverty reduction was counteracted by the opposite effects brought about by the changes in age structure and the trend toward smaller household size amid population ageing over the past six years (*Table 1*).

**Table 1: Decomposition of changes in the poverty rate between 2009 and 2015**

<b>Post-intervention poverty rate in 2009</b>	<b>16.0%</b>
<b>Decomposition of changes in the poverty rate between 2009 and 2015</b>	
a. Age structure (Ageing → overall poverty rate↑)	+0.51 % point
b. Household size (Smaller household size↑ → overall poverty rate↑)	+0.29 % point
<i>Sub-total (a + b)</i>	<i>+0.80 % point (-32%)</i>
c. <b>Other factors (including economic performance, the Government's poverty alleviation efforts, etc.)</b>	<b>-2.51 % points</b>
<b>Post-intervention poverty rate in 2015</b>	<b>14.3%</b>

Note: ( ) Figures in parentheses denote the offsetting ratio, i.e. (a + b) / c.

**More difficult for poverty rate to decline continuously against a fast ageing trend**

The above analyses illustrate that the observed poverty statistics are influenced by a dynamic interplay of factors such as economic cycle, demographic changes and Government measures. Looking forward, the issue of population ageing is set to become more acute, as the proportion of elders is expected to increase from 16% in 2015 to 30% in 2034, thereby posing further upward pressure on the overall poverty statistics, and entailing increasing difficulty for a continuous decline in the future poverty rate.

**Concluding remarks**

The analyses demonstrate the importance of economic growth, employment and skills upgrading to poverty prevention and alleviation at source. These affirm the direction of the Government's policy to provide more quality jobs by propelling economic development along with reduction in skills mismatch through manpower training, and to encourage employable persons to become self-reliant through employment, while assisting needy persons through social security system. Accordingly, the Government implemented the Low-income Working Family Allowance since May 2016 to relieve the financial burden of working families in need (especially those with children and youths) and encourage active employment. Thanks to economic development with job creation, and the achievements of the current-term Government's efforts in poverty alleviation, the overall post-intervention poverty rate stayed at a seven-year low in 2015. However, persistent population ageing will continue to have a lifting impact on the income-based poverty indicators. The Government is tackling challenges from population ageing on various fronts, and will continue to monitor the poverty situation in Hong Kong, as well as provide appropriate support to the most needy groups.

(5) For details, please see **Box 2.5** of the *Hong Kong Poverty Situation Report 2015*.