



Civil Service Pay Level Survey

Report on Way Forward

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Prepared by

Korn Ferry

15/F, St. George's Building

2 Ice House Street,

Central, Hong Kong

Contents

	Page
1. Introduction	1
2. Recommendation on whether and when to proceed with Stage 2	3



Chapter 1

Introduction

1.1 Background

1.1.1 The pay policy of the Government of the Hong Kong Special Administrative Region (“Government”) for the civil service is to offer sufficient remuneration to attract, retain and motivate staff of suitable calibre to provide the public with an effective and efficient service, and to maintain broad comparability between civil service pay and private sector pay. In support of this policy, three types of surveys, one of which is the Pay Level Survey (“PLS”)¹, are carried out under the Improved Civil Service Pay Adjustment Mechanism (“Improved Mechanism”) to determine the pay levels of the civil service. The last PLS was conducted in 2013 (“2013 PLS”) and a review of both the PLS and the Starting Salaries Survey on aspects covering the methodologies, application of findings and frequencies, was completed in 2018 (“2018 Review”).

1.1.2 In December 2019, the Government invited the Standing Commission on Civil Service Salaries and Conditions of Service (“Standing Commission”) to conduct the PLS. In May 2020, the Standing Commission accepted the Government’s invitation. The primary objective of the PLS is to ascertain whether civil service pay remains broadly comparable with private sector pay. In November 2020, the Standing Commission decided, against the backdrop of the unique and unprecedented local and global circumstances arising from the COVID-19 pandemic, to adopt a two-stage approach for the exercise, under which the preparatory steps and the actual fieldwork of the survey are to be conducted in two separate stages. Stage 1 covers all the steps that have to be completed before the actual fieldwork. These include a review of the survey methodology, compilation of a list of civil service benchmark jobs (“benchmark jobs”) and a process of job inspection for ascertaining the major functions and key responsibilities of the benchmark jobs. Stage 2 encompasses the actual fieldwork (i.e. a job matching process through which private sector jobs that are broadly comparable with the benchmark jobs are identified as “private sector job matches”, and collection and consolidation of pay data and job-related information on the private sector job matches), and at the conclusion of Stage 2, submission of analyses and recommendations to the Standing Commission. After Stage 1 is completed, the Standing Commission will have

¹ The other two surveys are the Starting Salaries Survey and the annual Pay Trend Survey.



a maximum of nine months to decide whether and when to proceed with Stage 2 of the exercise, after taking into account all relevant considerations.

1.1.3 On the basis of the above two-stage approach adopted for the survey, in December 2021, the Standing Commission appointed us, Korn Ferry (HK) Limited, through the Joint Secretariat for the Advisory Bodies on Civil Service and Judicial Salaries and Conditions of Service, to provide professional advice on and support for the present PLS. We are first of all required to complete the following major tasks in Stage 1 of the consultancy services:

- (a) reviewing the preliminary framework which the Standing Commission has previously endorsed for the present PLS and recommending a survey methodology;
- (b) conducting a brief study to verify if (and the extent to which) private sector organisations in the education field, medical and health care field and social welfare field continue to follow the civil service pay practice, and recommending if these three fields should continue to be excluded from the survey;
- (c) formulating the implementation details, with major milestones and work steps, of the present PLS;
- (d) collecting information on the selected benchmark jobs through the job inspection process (“JIP”); and
- (e) recommending whether and when to proceed with Stage 2 of the exercise.

1.1.4 In early 2022, we commenced the preparatory work for the survey, starting with a review of the survey methodology and proposing a list of benchmark jobs. In September 2022, we completed the tasks in relation to paragraph 1.1.3 (a) to (c) above and obtained the Standing Commission’s endorsement of our recommendations on the survey methodology, implementation details and proposed list of benchmark jobs. After the endorsement, the Standing Commission directed us to proceed to the JIP (i.e. the task under paragraph 1.1.3 (d)) and, subsequent to the JIP, assess and formulate our recommendation on whether and when to proceed with Stage 2 of the exercise (i.e. the task under paragraph 1.1.3 (e)). Now that we have completed the JIP and our subsequent assessment, we set out in this Report on Way Forward our recommendation on whether and when it is appropriate and prudent to proceed with Stage 2 with detailed analyses.



Chapter 2

Recommendation on whether and when to proceed with Stage 2

2.1 Overview

2.1.1 It is the policy of the Government to conduct the PLS to ascertain whether civil service pay remains broadly comparable with private sector pay as part of the Improved Mechanism. The Standing Commission has decided to adopt a two-stage approach for the exercise, under which the preparatory steps and the actual fieldwork of the survey are to be conducted in two separate stages such that the Standing Commission can, by the time when Stage 1 is completed, take into account relevant considerations to decide whether and when to proceed with Stage 2. We have previously elaborated in detail the background against which the Standing Commission decided on the two-stage approach, instead of a “one-stage” approach adopted in the 2013 PLS. The two-stage approach facilitates the Standing Commission to take an informed view on the timing to conduct the fieldwork when the data so collected can be perceived as useful and reliable.

2.1.2 In deciding whether and when to proceed with Stage 2 of the exercise, the Standing Commission may wish to have regard to a basket of objective criteria such as:

- (a) the then prevailing state of the labour market and other aspects of the economy and their projected developments;
- (b) the anticipated response rate from the proposed list of private sector organisations under the then prevailing circumstances which may have a bearing on the statistical representativeness of the data points receivable;
- (c) the statistical reliability of the data points receivable which are subject to factors including the breadth of economic sectors represented by the participating private sector organisations and the economic situation when the data are collected; and
- (d) the likelihood of the fieldwork being disrupted or frustrated based on indications available at the material time.

In this Chapter, we will assess whether and when it is appropriate and prudent to proceed with Stage 2 with regard to the prevailing labour market and overall economic conditions and set out our recommendation.



2.2 Key considerations and relevant statistics

2.2.1 To begin with, fieldwork of the PLS should be conducted at a time point when Hong Kong's labour market as well as the overall economic situation are not in turbulence or a state of flux (or are relatively stabilised) such that data collected will provide useful and reliable references for the Government to make an informed decision on the salary structure of the civil service. In line with this logic, we will first recount the impact of the pandemic on the business activities in Hong Kong during the past few years and the latest post-pandemic situation. We will then examine the prevailing state of the labour market and relevant economic indicators. In gist, with the global pandemic largely under control, the current external environment is not under the influence of the same set of extreme circumstances that plagued Hong Kong and other parts of the world during the times. However, with the impact of the pandemic and the developments that it has induced (and other factors) lingering on, we notice that Hong Kong's labour market has been experiencing pronounced instabilities, and such volatility will possibly continue for a period of time.

Impact of COVID-19

2.2.2 The COVID-19 pandemic had significantly impacted the global economy, and locally, with the implementation of various anti-epidemic measures (including the social distancing ones) by the Government to contain multiple waves of the epidemic, social and business activities were seriously affected. These measures, coupled with the impact of the global pandemic on the economy, had profoundly affected the business environment and organisational practice (i.e. resource management and work practices) in Hong Kong.

2.2.3 At present, the global pandemic is under control². Following the Government's lifting of all social distancing measures in Hong Kong by the end of 2022, society and the business sector are steadily recovering. In respect of the criteria set out in paragraph 2.1.2 above, we anticipate that operationally, it is unlikely for the fieldwork to be disrupted or frustrated by the pandemic and related extreme circumstances that plagued Hong Kong and other parts of the world during the pandemic.

² On 4 May 2023, the World Health Organization announced that COVID-19 had become an established and ongoing health issue which no longer constituted a public health emergency of international concern ([https://www.who.int/news/item/05-05-2023-statement-on-the-fifteenth-meeting-of-the-international-health-regulations-\(2005\)-emergency-committee-regarding-the-coronavirus-disease-\(covid-19\)-pandemic#:~:text=The%20WHO%20Director%20General%20concur,of%20international%20concern%20\(PHEIC\)](https://www.who.int/news/item/05-05-2023-statement-on-the-fifteenth-meeting-of-the-international-health-regulations-(2005)-emergency-committee-regarding-the-coronavirus-disease-(covid-19)-pandemic#:~:text=The%20WHO%20Director%20General%20concur,of%20international%20concern%20(PHEIC).)).



2.2.4 That said, with reference to the criteria stated under paragraph 2.1.2(a), (b) and (c) above, we notice that Hong Kong's labour market has been experiencing unprecedented instability during the present post-pandemic times with serious shortage issues. We do consider that uncertainties are still looming over the overall local economy and labour market. The unstable circumstances may affect the perceived reliability of survey results in their application by the Government in deciding civil service pay adjustments, and subsequently calling into question whether a meaningful PLS had been conducted to achieve its purposes. Besides, under manpower constraints, some organisations to be invited to participate in the fieldwork may not be able to allocate sufficient resources to provide quality and timely responses to the survey. It is doubtful whether the response rate or even the statistical reliability could be as satisfactory as expected. We will examine in paragraphs 2.2.5 to 2.2.21 below the pertinent changes in the labour market, as well as other factors related to the economic situation that will have an impact on the former.

Labour market

2.2.5 According to information published by the Government³, Hong Kong is facing a labour force shrinkage, structural in nature, largely due to population ageing as well as various pandemic-induced transitory factors. According to our market experience, the structural shrinkage is further aggravated by the outflow of population. Subsequent to the COVID-19 pandemic and the intensified global competition for talents, the local labour force (excluding foreign domestic helpers) recorded a significant drop of about 140 000 persons from 2020 to 2022.

2.2.6 In the present context, it is only imperative for us to examine, and give due weight to, the labour market situation, as it exerts a considerable influence on market pay levels. Pay data receivable at any time point during the period in which the labour market is volatile will be perceived as having a limited reference value when they are to be applied practically. In the remainder of this section, we will set out the key statistics showing the current conditions of the labour market from multiple perspectives, i.e. the size and structure of labour force, the state of employment (as indicated by the unemployment rate) and the vacancies level. We will also give a brief account of some of the Government's new measures for facilitating the admission of talents into Hong Kong for replenishing and developing the declining labour force. In our view, it will take some time for such measures to realise their full effect on the labour market, and in the meantime, the private sector may have to resort to other strategies, such as changes

³ See the Legislative Council Briefs on “Enhancing the Talent Admission Regime” (https://www.legco.gov.hk/yr2022/english/brief/lwbmcr11131_20221223-e.pdf) and “Importation of Labour” (https://www.legco.gov.hk/yr2023/english/brief/ldslc1205c_20230613-e.pdf) dated 23 December 2022 and 13 June 2023 respectively.



in recruitment and remuneration practices, in getting around the manpower issue⁴. The measures being implemented by the Government, as well as the recent changes in the private sector practices, will both give rise to a substantial impact on the level of private sector pay, resulting in uncertainties and fluctuations.

Labour force

2.2.7 Overall speaking, Hong Kong is facing an acute manpower shortage. The local labour force (excluding foreign domestic helpers) recorded a net loss of 140 000 persons from 2020 to 2022. Indeed, it is fair to assume that more than 140 000 persons quitted during the period, as the gross loss was offset by the participation (or re-participation) of senior persons aged 60 or above, who amounted to some 35 000 persons.

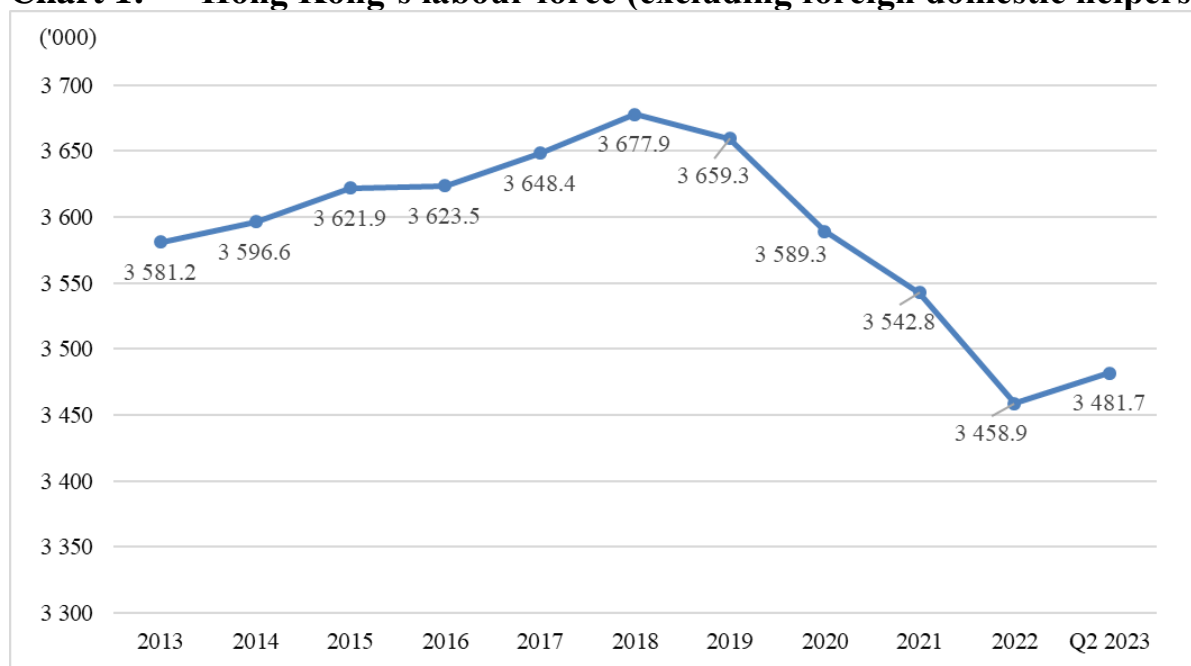
2.2.8 Taking a wider time horizon, as shown in Chart 1 below, the size of the labour force recorded a 6.0% reduction from 3.68 million in 2018 to 3.46 million in 2022⁵. While the labour force expanded slightly to 3.48 million (a 0.7% increase) as of Q2 of 2023, the increase is largely attributable to the age group of 60 or above. Whether this growth can sustain, and how the growth itself will be composed of in the future, and more fundamentally, whether the growth can redress the imbalance arising from the contraction in the size of the labour force, are undetermined matters at the moment.

⁴ In October 2023, the Hong Kong Institute of Human Resource Management released the results of a survey covering some 900 respondents in Hong Kong. According to the survey results, the changing labour market has placed the responding employers in an intensifying competition for talents, demanding a shift in their recruitment strategies. Such strategies include recruiting from non-traditional groups of candidates, such as those from other sectors who possess relevant skills and experience, those who have quitted the labour force, workers from outside Hong Kong, retirees and ethnic minorities.

⁵ In addition to making reference to Chart 1 which shows the size of Hong Kong's labour force from 2013 (when the last PLS was conducted) to Q2 of 2023, we have also looked into the labour force statistics since 1993, which is the year when C&SD compiled the first set of figures on the size of the local labour force that excludes foreign domestic helpers. During the two decades between 1993 and 2013, Hong Kong experienced a decline in the size of the labour force in 2003 (with a 0.3% decrease from that in 2002) and 2010 (with a 1.1% decrease from that in 2009). On these two occasions, the magnitude and duration of the shrinkage in labour force were not as significant as the recent shrinkage between 2018 and 2022.



Chart 1: Hong Kong's labour force (excluding foreign domestic helpers)⁶



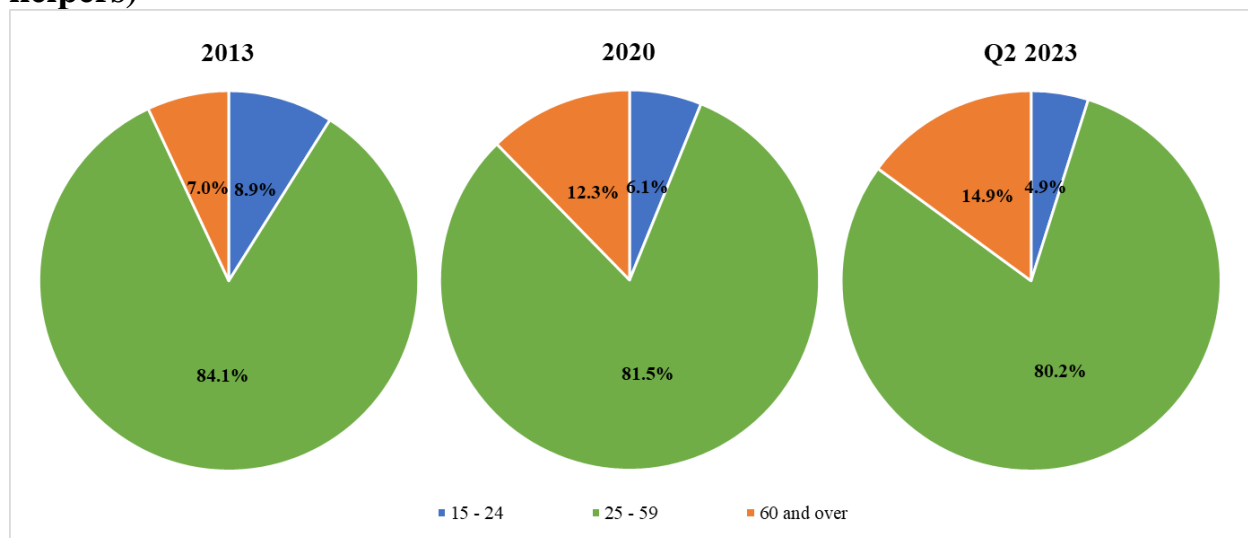
2.2.9 As for structural changes, according to the Government's information, of those who left the local workforce between 2020 and 2022, the majority were of the age between 25 and 59, and over 60% were higher-skilled workers in managerial and professional positions⁷. Chart 2 below compares the age profile of the present labour force with those of 2020 and 2013. In Q2 of 2023, the youngest group (i.e. aged below 25) and the age group 25 to 59 took up 4.9% and 80.2% of the total labour force respectively, representing a decrease by 1.2 and 1.3 percentage points respectively when compared with the position in 2020, and a decrease by 4.0 and 3.9 percentage points respectively when compared with the position in 2013. The group of 60 or above, which took up 7.0% of the labour force in 2013, has increased its share to 12.3% (an increase of 5.3 percentage points) as of 2020 and has more than doubled its share (an increase of 7.9 percentage points) to 14.9% as of Q2 of 2023. The shrinkage in labour force, particularly the youngest group and higher-skilled workers in managerial and professional positions, coupled with the shift in the overall age profile (induced possibly by tightness in the labour market, a deferral of the retirement age and other factors), have affected the local labour market in ways such as recruitment difficulties for skilled talents. We believe that these demographic changes constitute part of the context in

⁶ The figures are extracted from the website of C&SD (https://www.censtatd.gov.hk/en/web_table.html?id=210-06201A#).

⁷ According to C&SD, as of June 2023, the vacancies in the occupational groups of managers, professionals and associate professionals accounted for 37.4% of the total number of vacancies, representing an increase of 11.1 percentage points in comparison with the position in March 2016 (which is earliest time point when C&SD compiled the statistics on private sector vacancies) (https://www.censtatd.gov.hk/en/web_table.html?id=215-16007#).

which the Government is minded to implement a package of measures to trawl talents in a bolder and more targeted manner. We will set out these measures in greater detail in paragraph 2.2.13 below.

Chart 2: Age profile of Hong Kong’s labour force (excluding foreign domestic helpers)⁸



2.2.10 At the same time, the global competition for talent and labour has been intensifying. Overseas countries have implemented different measures to attract labour, some of which are specifically targeted at residents from Hong Kong. For example, the Canadian Government, which provides two streams for Hong Kong residents who are in Canada to apply for permanent residency, has relaxed the pathway by removing the education requirement for eligible Hong Kong applicants under the Canadian work experience stream (Stream B) as of 15 August 2023. The Australian Government has also stepped up their efforts recently in competing for global talent by measures such as ensuring a higher pay for newly arrived temporary visa holders starting from July 2023 and simplifying the procedural path to permanent residency for skilled worker visa holders from 25 November 2023, in addition to rolling out a Hong Kong stream to let eligible Hong Kong people apply for permanent residence and other measures. It is reasonable to anticipate that the talent and labour trawling measures being implemented by overseas countries (especially English speaking countries) and the relaxation of such will have an impact on the labour landscape in Hong Kong, especially the younger population that possess English proficiency. While it is uncertain for how long the overseas countries’ attempts at trawling of Hong Kong talent and labour will persist, the outflow of younger workforce from Hong Kong to other regions may continue should the trawling measures remain in place.

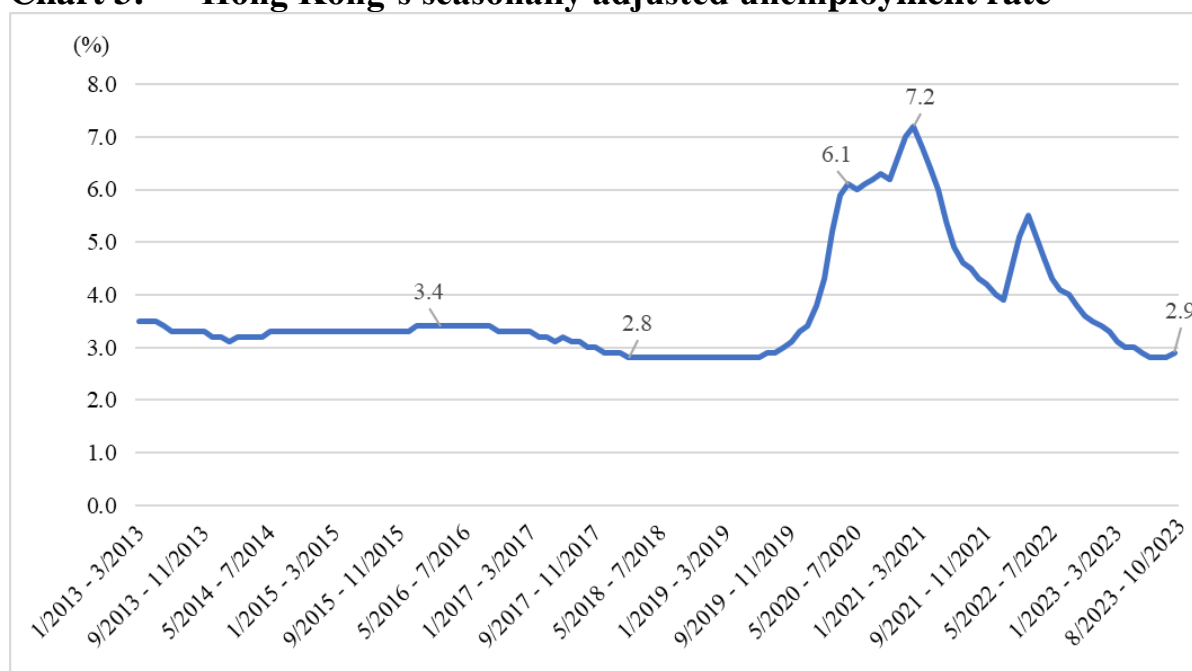
⁸ Chart 2 is drawn with reference to the figures extracted from the website of C&SD (https://www.censtatd.gov.hk/en/web_table.html?id=210-06201A#).



State of employment

2.2.11 In parallel, we observe a recent decrease in the unemployment rate after the COVID-19 pandemic. As shown in Chart 3 below, as a result of the disruptions to economic activities brought about by the pandemic causing substantial job losses especially in the tourism and retail sectors, the unemployment rate spiked to 6.1% in Q2 of 2020, and further peaked at 7.2% in early 2021. With the pandemic now under control, the position as of Q3 of 2023 shows that the employment situation in Hong Kong has continuously improved alongside the economic recovery. The seasonally adjusted unemployment rate from July to September 2023 was 2.8%, back to the low level before 2019. The rate remains largely the same at 2.9% for August to October 2023. That unemployment has eased is in line with our above observation of a shrinking labour force.

Chart 3: Hong Kong's seasonally adjusted unemployment rate⁹



Vacancies level

2.2.12 At the same time, we also observe a significant rise in private sector vacancies since the pandemic eased. This is understandable, in view of the shrinkage of the labour force and the related drop in unemployment, and the vacancy situation has become more acute as a result of the general revival in the economy. As shown in Chart 4 below, according to the Government's statistics, while the total number of

⁹ The figures are extracted from the website of C&SD (https://www.censtatd.gov.hk/en/web_table.html?id=210-06101#).

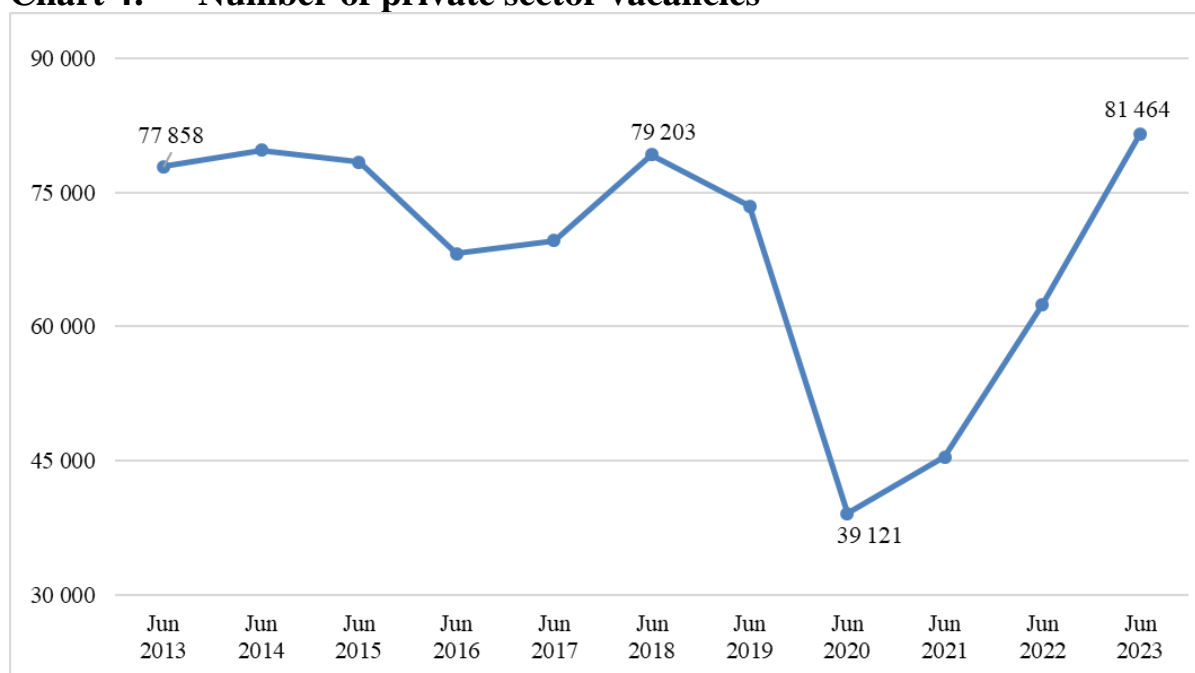
vacancies in the private sector¹⁰ plummeted in 2020, it increased significantly in 2021 and 2022 from the trough, soaring further to 81 464 as of June 2023¹¹, representing a double over the past three years. How the vacancy situation will fare in the future remains to be observed. Employers in the private sector have been actively deploying appropriate strategies and measures (such as moving some of the operations offshore, outsourcing locally, employing more part-time staff, initiating automation) as well as retaining measures introduced during the pandemic (such as work-from-home and flexi hours) to relieve the strain on manpower demand. Nonetheless, we have observed that private sector employers, on top of these strategies and measures, still need to offer additional financial incentives, such as more attractive compensation for qualified individuals, as a means of retaining and recruiting talents.

¹⁰ C&SD conducts quarterly surveys on employment and vacancies in the private sector. These surveys cover 17 industry sections under the Hong Kong Standard Industrial Classification Version 2.0: (1) mining and quarrying; (2) manufacturing; (3) electricity and gas supply; (4) water supply, sewerage, waste management and remediation activities; (5) construction (manual workers only); (6) import/export, wholesale and retail trades; (7) transportation, storage, postal and courier services; (8) accommodation and food service activities; (9) information and communications; (10) financial and insurance activities; (11) real estate activities; (12) professional, scientific and technical activities; (13) administrative and support service activities; (14) education; (15) human health and social work activities; (16) arts, entertainment and recreation; and (17) other service activities. The four industry sections that are not surveyed by C&SD are (1) agriculture, forestry and fishing; (2) public administration; (3) work activities within domestic households; and (4) activities of extraterritorial organisations and bodies.

¹¹ It is true that the number of private sector vacancies as of June 2023 (standing at 81 464) is just marginally greater than that in June 2018 (at 79 203). The situation however is different, as the former represents a surge from a trough whereas the latter is a point on a flat.



Chart 4: Number of private sector vacancies¹²



Talent attraction measures

2.2.13 With Hong Kong’s economy gradually walking away from the shadow of the pandemic, its future success and prosperity will hinge on whether an adequate and stable supply of quality talents can be maintained to meet growing market demands. Facing the severe shrinkage in the labour force and mitigating the cost impact on businesses that arises from the tightness in the labour market, the Chief Executive announced in the 2022 Policy Address an array of initiatives to proactively trawl for talents¹³. Among the initiatives, on 28 December 2022, the Government launched the

¹² The figures are extracted from the website of C&SD (https://www.censtatd.gov.hk/en/web_table.html?id=215-16001#).

¹³ For details, please refer to the Legislative Council Brief on “Enhancing the Talent Admission Regime” dated 23 December 2022 (https://www.legco.gov.hk/yr2022/english/brief/lwbmcr11131_20221223-e.pdf).



Top Talent Pass Scheme¹⁴ to attract quality talents with rich work experience and good academic qualifications to Hong Kong to replenish the loss of higher-skilled workers with experience. On the same date, the Government also expanded the coverage of the existing Immigration Arrangements for Non-local Graduates¹⁵ to include graduates from campuses of Hong Kong universities in the Guangdong-Hong Kong-Macao Greater Bay Area. With effect from 1 January 2023, the Government has also suspended the annual quota under the Quality Migrant Admission Scheme¹⁶ with a view to attracting more quality talents to Hong Kong. In addition to the above initiatives covered by the 2022 Policy Address, on 4 September 2023, the Government further launched the Enhanced Supplementary Labour Scheme, a feature of which is to suspend the exclusion of 26 job categories and the unskilled or low-skilled posts such that employers with genuine difficulties in local recruitment for the relevant job categories or posts can apply

¹⁴ Under the Top Talent Pass Scheme, the Government will grant the following categories of persons a two-year pass for staying in Hong Kong to explore opportunities:

- (a) persons with an annual salary reaching HK\$2.5 million or above in the year immediately preceding the date of application;
- (b) degree graduates from the world's top 100 universities with at least three years of work experience over the past five years immediately preceding the date of application; or
- (c) degree graduates from the world's top 100 universities in the past five years with less than three years of work experience.

There will not be a quota for eligible persons in categories (a) and (b) above. An annual quota of 10 000 will be set for persons in category (c).

In the first nine months of 2023, some 160 000 applications in total were received under the various talent admission schemes, including the Top Talent Pass Scheme, with over 100 000 of them approved. Around 60 000 talents have had their visas approved to come to Hong Kong.

¹⁵ The Government introduced the Immigration Arrangements for Non-local Graduates in 2008 to attract non-local graduates who have obtained undergraduate or higher qualifications in a full-time and locally-accredited programme in Hong Kong to stay in or return to Hong Kong for work after graduation. Under the relaxed arrangements which took effect on 28 December 2022, upon approval, recent graduates (i.e. those who apply to stay and work in Hong Kong within six months after their graduation date) will initially be granted a two years' stay (extended from the previous limit of a one year's stay). Non-recent graduates (i.e. those who submit applications beyond six months of their graduation date) are required to have secured an offer of employment in Hong Kong which is at a level commonly taken up by degree holders and the remuneration package is on par with market level upon application. Both recent and non-recent graduates can apply for further extensions of stay in Hong Kong.

¹⁶ The Government launched the Quality Migrant Admission Scheme in 2006 to attract top talents to settle and develop their career or business in Hong Kong. The annual quota of the scheme was increased from 1 000 to 2 000 in 2020, and further to 4 000 in 2021.



for labour importation¹⁷. The above four measures will be implemented over a period of two years tentatively. While it will be fair to predict that the measures will over time check the rise in the cost of labour for businesses in related segments of the labour market and the impact will likely spill over to other sectors, the measures will not yield immediate effect or change the scene in the labour market within a short period of time. Uncertainties in the labour market, including labour supply and pay levels, will hover for some time.

Peripheral factors with a bearing on labour market stability

2.2.14 While the foregoing paragraphs explain how the changes that have taken place within the labour market lead to its instabilities, the labour market is also directly influenced by the overall economic situation and external circumstances. In this section, we will examine other related factors indicating the prevailing economic circumstances and outlook, and their bearing on the uncertainties in the labour market and its future developments. Our view is that the volatile labour market conditions will persist, if not being intensified, amidst uncertainties looming over the economy, including the largely cautious business sentiments and the challenging external environment.

Overall state of economy and outlook

2.2.15 Hong Kong's economy has in recent years experienced significant fluctuations. After several years of steady growth from the last PLS conducted in 2013 till 2018, the economy was severely impacted by the combination of local social unrest and violence events, tightened trade-relations between the US and China and the outbreak of the COVID-19 pandemic in 2019. The real Gross Domestic Product ("GDP"), as an indicator of the overall state of the economy, contracted year-on-year by 1.7% in 2019, and worsened by a further contraction of 6.5% in 2020. With the easing of the pandemic, relaxation of anti-pandemic measures globally and locally and the offer of stimulus measures by the Government, the real GDP rebounded in 2021, seeing a handsome rate of growth at 6.4%. However, in 2022, it contracted again by 3.5% under the multiple impacts of the fifth wave of the local epidemic, the Russia-Ukraine conflict and the geopolitical tensions elsewhere around the world.

¹⁷ Administered by the Labour Department since 1996, the previous Supplementary Labour Scheme allowed employers with genuine difficulties in local recruitment to apply for importation of labour at the technician level or below. However, applications in 26 job categories as well as unskilled or low-skilled workers were normally not considered. The 26 job categories were sales representatives, sales assistants, waiters/waitresses, receptionists, cashiers, junior cooks, food processing workers, clerical workers, tellers, computer/key punch operators, telephone operators, linen attendants, washers, pressers, hair stylists, warehouse keepers, cutters, cutting room operatives, inspection operatives, delivery workers, drivers, demolition workers, masons, spray paint workers, drain layers and leakage workers. For details of the Enhanced Supplementary Labour Scheme, please refer to the Legislative Council Brief on "Importation of Labour" dated 13 June 2023 (https://www.legco.gov.hk/yr2023/english/brief/ldslc1205c_20230613-e.pdf).



2.2.16 As stated by the Office of the Government Economist in November 2023¹⁸, the Hong Kong economy continued to recover in Q3 of 2023 (by a year-on-year growth of 4.1%), supported by inbound tourism and private consumption with the global pandemic now under control. Nevertheless, the Government predicted that the difficult external environment amid increasing geopolitical tensions and tight financial conditions would continue to weigh on exports of goods and investment and consumption sentiment. The Government's latest projection of the real GDP growth for 2023 is 3.2%, a downward adjustment from the forecast of 4% to 5% in August 2023.

External environment and geopolitical tension

2.2.17 The weak external environment is manifested in Hong Kong's external trade, which has been under continuous pressure. For the first ten months of 2023 as a whole (i.e. January to October 2023)¹⁹, Hong Kong experienced a decline in the values of both the total exports of goods (by 11.0%) and imports of goods (by 8.6%) over the same period in 2022. Comparing the two periods, declines were recorded in the values of total exports to most major destinations²⁰.

2.2.18 Trade businesses are still cautious about future prospects due to the external backdrop and the concerns about world economic recession or weak demand in external markets. These concerns are exacerbated in the light of the on-going conflict between Russia and Ukraine, which has disrupted quite a number of supply chains and given rise to "cost-of-living crises" in quite a few advanced economies. Depending on how it evolves, the conflict in the Gaza Strip may have a similar impact, particularly when it spills over geographically and into the economic sphere (e.g. as a result of oil embargoes or sanctions).

Equity and real estate markets

2.2.19 On a more general score, the recent downturns in the equity and real estate markets will likely take both a psychological and practical toll on many businesses. Local stock market remained under pressure in Q3 of 2023, as concerns over the Mainland's economic outlook and expectations of a prolonged period of high interest rates continued to dampen sentiment. The Hang Seng Index closed Q3 at 17 810, by a decrease of 5.9% from the preceding quarter. Trading activities contracted further and

¹⁸ See the press release issued by the Office of the Government Economist (https://www.hkeconomy.gov.hk/en/pdf/23q3_pr.pdf).

¹⁹ See the press release issued by C&SD (https://www.censtatd.gov.hk/en/press_release_detail.html?id=5300).

²⁰ In particular Singapore (-23.9%), Japan (-20.1%), the Taiwan region (-14.0%), the mainland of China (-13.7%) and the US (-10.5%).



fund raising activities were extremely quiet. On real estate, the residential property market turned more sluggish in Q3 of 2023. The number of transactions (as indicated by the total number of sale and purchase agreements for residential property received by the Land Registry) recorded a visible fall by 25% from Q2 of 2023 or 21% from a year earlier. The non-residential property market was also quiet in Q3 of 2023, with trading activities for all major market segments staying subdued²¹. On price changes, as of Q3 of 2023, the prices of residential and non-residential properties (as indicated by the price indices compiled by the Rating and Valuation Department) also recorded a year-on-year decline²², 8.2% for residential properties and 3.2% to 7.4% for different kinds of non-residential properties.

2.2.20 Market sentiments are in the main cautious amid an uncertain global economic outlook, rising local interest rates and expectations of a prolonged period of high interest rates, the latter two of which indeed have a direct impact on the cost of corporate financing (by means of issuing bonds or borrowing for instance). These developments will have a negative impact on business expansion and employment and remuneration decisions, which may in turn affect pay levels in the private sector.

Inflation rate

2.2.21 It is not uncommon for employers and employees alike to reference the inflation rate²³, when the former decide on the magnitude of actual pay adjustments and when the latter negotiate on the adjustment rates with their employers such that their standard of living can largely be maintained. We note that according to the Government's assessment²⁴, changes in the Consumer Price Index in Hong Kong have stayed moderate in overall terms in 2023, the effect of which on the pay levels in the labour market is likely to be minimal.

Overall assessment

2.2.22 With the receding of COVID-19 pandemic and the absence of the same set of extreme circumstances that plagued Hong Kong during the pandemic, it is unlikely

²¹ Press release issued by the Office of the Government Economist (https://www.hkeconomy.gov.hk/en/pdf/23q3_pr.pdf).

²² The comparison was made with reference to the figures extracted from the website of the Rating and Valuation Department (https://www.rvd.gov.hk/en/publications/property_market_statistics.html).

²³ As indicated by the change in the Consumer Price Index which measures the total cost of a specified basket of consumer goods and services.

²⁴ Press release issued by the Office of the Government Economist (https://www.hkeconomy.gov.hk/en/pdf/23q3_pr.pdf).



that fieldwork will be severely disrupted. However, the labour market will, with the dwindling labour force and other uncertainties looming over the economy, continue to be under substantial pressure, as indicated by the figures we have introduced above. Whether the labour market can return to a more stable state will depend on multiple factors, including how long the fluctuations in the labour market will persist and how pronounced they will be and the time taken for the Government's package of talent-trawling measures to reinstate the balance in the supply and demand. On the one hand, businesses have been pressured to deploy means to attract talents amid the brain drain at a macro level. On the other hand, business sentiments, including those relating to remuneration and hiring, are presently on a conservative side, induced by global political uncertainties and other uncertainties in global and local markets. The Standing Commission should have due regard to the uncertainties in the labour market and in the overall economy when deciding on the timing to conduct the fieldwork. From the perspective of survey execution, the shortage of manpower resources in the local market may undermine the anticipated response rate from the organisations concerned or even the statistical reliability of the data points receivable. From the perspective of the purposes of survey, the timing to conduct the fieldwork should be decided with full regard to the principle that data collected should provide useful and reliable references for the Government to make an informed decision on the salary structure of the civil service.

2.3 Recommendation

2.3.1 It is the Government's policy to compare civil service pay and private sector pay levels in order to meet the objective of keeping civil service pay broadly comparable with private sector pay. We have assessed the question of whether and when to proceed with Stage 2 of the PLS against the criteria set out in paragraph 2.1.2, and in so doing, we have referred to relevant information and statistics. Specifically, we have examined whether the pay data collected during the time can eventually serve as a reliable reference for the Government to ascertain the comparability of civil service pay with private sector pay, and to subsequently make an informed decision on the civil service salary structure.

2.3.2 While Hong Kong's economy is on the road to recovery, the impact of the pandemic lingers on (for example, the flexible work practices introduced during the pandemic). More fundamentally, unprecedented changes in the size of the labour force, alongside the time required for the Government's talent-trawling measures to realise their full effect, have brought uncertainties looming over the labour market. Many business entities are still subjected to pressure for adjustments in their manpower measures and mode of operation. This state of uncertainties, which will likely involve or lead to changes in employment and recruitment practices (e.g. employing more part-time staff due to insufficient full-time staff), or even pay practices in recruitment and



retention in the private sector to adapt or respond to external environment, will stay with us for a considerable period of time. In our view, this is the backdrop against which a decision as to when to proceed with Stage 2 of the exercise should be taken.

2.3.3 To ensure that a meaningful survey can be conducted that can serve the purpose of PLS well, we believe that the fieldwork should only be conducted under the circumstances in which results yielded will not be perceived as having a limited reference value at the time of application owing to transient changes in the labour market. Should the fieldwork be conducted against such a fluctuating state of affairs in the labour market, it is likely that the results yielded may not match with the relevant latest circumstances at the time of application by the Government, which may then invite queries about the reliability of the results for application in deciding civil service pay levels. We firmly believe that the prerequisite is that any survey results that can be yielded must be perceived by the majority of stakeholders as reasonably reliable.

2.3.4 In the light of the preceding analysis, we recommend, as a matter of prudence, the Standing Commission not to proceed with Stage 2 of the exercise. A PLS should be conducted at a time when the labour market has largely stabilised. The reconvening of another round of PLS afresh should therefore be subject to review of the then prevailing circumstances (including the state of Hong Kong's labour market and overall economic situation in the sense that transient and episodic factors are not at work).

2.3.5 In addition, we note that the various talent-trawling measures introduced by the Government are tentatively for implementation for two years. We believe that a clearer picture as to whether the uncertainties in the labour market (as we set out in paragraphs 2.2.5 to 2.2.13 above) are transient in nature or manifest secular structural changes can be ascertained nearer the time.

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