



DAILY INFORMATION BULLETIN

ISSUED BY GOVERNMENT INFORMATION SERVICES
BEACONSFIELD HOUSE, HONG KONG. TEL.: 5-8428777

WEDNESDAY, MARCH 1, 1989

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WEDNESDAY, MARCH 1, 1989

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MR ZHOU NAN HOLDS TALKS WITH GOVERNOR

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THE CHINESE VICE FOREIGN MINISTER, MR ZHOU NAN, HAD A MEETING WITH THE GOVERNOR, SIR DAVID WILSON, AT GOVERNMENT HOUSE THIS (WEDNESDAY) MORNING TO DISCUSS A RANGE OF ISSUES.

THE GOVERNOR DESCRIBED THE THREE-HOUR MEETING AS A FRUITFUL AND FRIENDLY DISCUSSION.

"WE DISCUSSED VARIOUS ASPECTS OF IMPLEMENTATION OF THE JOINT DECLARATION. HE ALSO BRIEFED ME ON THE QUESTION OF DRAFTING OF THE BASIC LAW, AND WE TOUCHED ON THE SUBJECT OF THE VIETNAMESE BOAT PEOPLE PROBLEM," SIR DAVID SAID.

MR ZHOU LATER MET A GROUP OF YOUNG PROFESSIONALS AT A LUNCH HOSTED BY THE CHIEF SECRETARY, SIR DAVID FORD.

IN THE AFTERNOON, THE CHINESE VICE FOREIGN MINISTER WAS BRIEFED ON VARIOUS FACILITIES AND OPERATIONS OF THE PORT AND CONTAINER PORT, AS WELL AS PROPOSED PLANS FOR THE FURTHER DEVELOPMENT OF ONE OF THE WORLD'S BUSIEST PORTS.

THE BRIEFING, GIVEN BY THE SECRETARY FOR ECONOMIC SERVICES, MRS ANSON CHAN, WAS HELD ON BOARD THE GOVERNMENT LAUNCH "TIN HAU" WHICH TOURED THE WESTERN HARBOUR BEFORE ARRIVING AT THE CONTAINER PORT IN KWAI CHUNG, WHERE MR ZHOU VISITED THE MODERN TERMINALS LIMITED.

HE WAS MET BY THE MTL CHAIRMAN, MR D.A. GLEDHILL, AND WAS BRIEFED ON VARIOUS ACTIVITIES AND OPERATIONS OF THE TERMINAL.

IN THE EVENING, MR ZHOU ATTENDED A RECEPTION HOSTED BY THE SENIOR MEMBER OF THE EXECUTIVE COUNCIL, DAME LYDIA DUNN, AT THE HONG KONG CONVENTION AND EXHIBITION CENTRE. HE WAS ALSO TAKEN ON A TOUR OF THE COMPLEX TO SEE VARIOUS FACILITIES.

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EXCO APPROVES PROPOSAL ON CONTROL OF ADVERTISEMENT SIGNS

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A PROPOSAL TO EMPOWER THE DIRECTOR OF BUILDINGS AND LANDS TO TAKE IMMEDIATE ACTION AGAINST DANGEROUS ADVERTISEMENT SIGNS IN THE INTEREST OF PUBLIC SAFETY HAS BEEN APPROVED BY THE EXECUTIVE COUNCIL.

"ONE OF THE GOVERNMENT'S PRIMARY CONCERNS IN RESPECT OF ADVERTISEMENT SIGNS IS TO REDUCE THE RISK OF DEATH AND INJURY BY IMPROVING CONTROL OVER POTENTIALLY DANGEROUS SIGNS," A GOVERNMENT SPOKESMAN SAID TODAY (WEDNESDAY).

/ "IN ORDER

"IN ORDER TO ACHIEVE THIS, IT IS PROPOSED TO AMEND THE PUBLIC HEALTH AND MUNICIPAL SERVICES ORDINANCE TO EMPOWER THE DIRECTOR OF BUILDINGS AND LANDS TO TAKE IMMEDIATE ACTION TO RENDER SAFE OR REMOVE DANGEROUS ADVERTISEMENT SIGNS WITHOUT HAVING FIRST TO SERVE A NOTICE ON THE OWNER IN URGENT SITUATIONS WHERE THERE IS A REAL AND IMMEDIATE THREAT TO PUBLIC SAFETY."

AT PRESENT, WHERE DANGEROUS ADVERTISEMENT SIGNS OUGHT TO BE IMMEDIATELY REMOVED IN URGENT SITUATIONS, THE DIRECTOR OF BUILDINGS AND LANDS NEEDS TO LOCATE THE OWNER AND SERVE A NOTICE ON HIM IN THE FIRST INSTANCE.

"IT IS ONLY WHEN THE OWNER CANNOT BE READILY LOCATED THAT THE AUTHORITY CAN TAKE ANY IMMEDIATE REMEDIAL ACTION. VERY OFTEN, IT IS NOT EASY TO IDENTIFY THE OWNER OF A DANGEROUS SIGN WITHIN A SHORT PERIOD OF TIME," THE SPOKESMAN EXPLAINED.

"THE PROPOSED BILL, IF ENACTED, WOULD ENABLE THE DIRECTOR OF BUILDINGS AND LANDS TO RESPOND MORE SWIFTLY AND EFFECTIVELY IN REMOVING DANGEROUS ADVERTISEMENT SIGNS IN URGENT SITUATIONS WHERE SUCH SIGNS BECOME A REAL AND IMMEDIATE THREAT TO PUBLIC SAFETY," HE EMPHASISED.

THE OPPORTUNITY IS ALSO TAKEN TO INCLUDE IN THE SAME AMENDMENT BILL SEVERAL OTHER MISCELLANEOUS AMENDMENTS TO UPDATE, RATIONALISE AND STRENGTHEN THE PROVISIONS OF THE PUBLIC HEALTH AND MUNICIPAL SERVICES ORDINANCE PERTAINING TO THE CONTROL OF DANGEROUS ADVERTISEMENT SIGNS.

THESE AMENDMENTS WILL BE INCLUDED IN THE PUBLIC HEALTH AND MUNICIPAL SERVICES (AMENDMENT) (NO. 2) BILL, 1989, TO BE PUBLISHED IN THE GAZETTE SOON.

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DEEDS OF MUTUAL COVENANT ON DB AGENDA

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THE KWAI TSING DISTRICT BOARD WILL DISCUSS THE PROPOSALS TO REMEDY THE UNFAIR PROVISIONS IN THE EXISTING DEEDS OF MUTUAL COVENANT FOR MULTI-STOREY BUILDINGS AT ITS MEETING TOMORROW (THURSDAY).

MEMBERS WILL ALSO BE BRIEFED ON THE LATEST DEVELOPMENT PROGRAMME FOR KWAI TSING DISTRICT.

BOARD MEMBERS WILL MOVE TWO MOTIONS AT THE MEETING. ONE MOTION REQUESTS THE ECONOMIC SERVICES BRANCH TO STUDY THE DATA ON THE FAULT ZONE DISCOVERED NEAR THE DAYA BAY NUCLEAR POWER PLANT AND MAKE PUBLIC ITS FINDINGS.

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THE OTHER MOTION PROPOSES THAT THE POLICE, THE HOUSING DEPARTMENT AND THE ELECTRICAL AND MECHANICAL SERVICES DEPARTMENT SHOULD SET UP A JOINT WORKING GROUP TO STUDY CRIMES COMMITTED IN LIFTS AND SUGGEST IMPROVEMENT MEASURES.

THE BOARD WILL ALSO DISCUSS A NUMBER OF HOUSEKEEPING MATTERS. THESE INCLUDE PROCEDURES TO ELECT REPRESENTATIVES TO THE REGIONAL COUNCIL, THE STRUCTURE AND COMPOSITION OF COMMITTEES UNDER THE BOARD, AND NEW INITIATIVES FOR NEXT YEAR'S WORK PLAN.

MEMBERS WILL ENQUIRE ABOUT THE MAINTENANCE AND SAFETY ASPECTS OF CHILDREN'S AMENITY FACILITIES IN HOUSING ESTATES, DEVELOPMENT PLAN FOR SHEK LEI AND SHEK YAM ESTATES, AND THE DISORDER INCIDENT WHICH HAPPENED AT SHEK YAM ROAD ON JANUARY 21 THIS YEAR.

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NOTE TO EDITORS:

YOU ARE INVITED TO COVER THE KWAI TSING DISTRICT BOARD MEETING TO BEGIN AT 2.30 PM TOMORROW (THURSDAY) IN THE CONFERENCE ROOM, 10TH FLOOR, KWAI HING GOVERNMENT OFFICES (NEXT TO KWAI HING MTR STATION), KWAI CHUNG.

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DB COMMITTEE TO REVIEW GUIDELINES ON FUND ALLOCATION
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THE NORTH DISTRICT BOARD'S RECREATION AND CULTURE COMMITTEE WILL REVIEW THE GENERAL GUIDELINES ON THE ALLOCATION OF FUNDS FOR ORGANISING RECREATIONAL AND SPORTS ACTIVITIES FOR RESIDENTS AT ITS MEETING TOMORROW (THURSDAY).

MEMBERS WILL ALSO CONSIDER THE COMMITTEE'S FINANCIAL STATEMENT AND A REPORT FROM THE NORTH DISTRICT ARTS ADVANCEMENT ASSOCIATION.

OTHER ITEMS ON THE AGENDA INCLUDE THE USAGE PATTERN OF MAJOR RECREATIONAL VENUES IN THE DISTRICT; THE REGIONAL COUNCIL'S ENTERTAINMENT PROGRAMME FOR THE DISTRICT IN MARCH AND APRIL; AND THE ATTENDANCE RATE AT CULTURAL PRESENTATIONS IN THE NORTH DISTRICT TOWN HALL.

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NOTE TO EDITORS:

YOU ARE INVITED TO COVER THE MEETING OF THE NORTH DISTRICT BOARD'S RECREATION AND CULTURE COMMITTEE TO BEGIN AT 2.30 PM TOMORROW (THURSDAY) IN THE CONFERENCE ROOM OF THE NORTH DISTRICT OFFICE, JOCKEY CLUB ROAD, FANLING.

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WEDNESDAY, MARCH 1, 1989

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TEMPORARY TRAFFIC ARRANGEMENTS IN CENTRAL

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THE TRANSPORT DEPARTMENT ANNOUNCED THAT FROM 10 AM ON FRIDAY (MARCH 3), THE FOLLOWING TRAFFIC ARRANGEMENTS WILL BE IMPLEMENTED IN CENTRAL FOR ABOUT FOUR WEEKS FOR ROAD WORKS:

- * ALL VEHICLES WILL NOT BE ALLOWED TO TURN LEFT FROM COTTON TREE DRIVE SOUTHBOUND TO DRAKE STREET; AND
- * DRAKE STREET BETWEEN COTTON TREE DRIVE AND TAMAR STREET WILL BE RE-ROUTED TO ONE-WAY WESTBOUND.

DURING THE WORKS PERIOD, VEHICLES MAY GAIN ACCESS TO FAR EAST FINANCE CENTRE BY USING ONE OF THE FOLLOWING ROUTEINGS;

- * COTTON TREE DRIVE SOUTHBOUND, QUEENSWAY EASTBOUND, TAMAR STREET AND DRAKE STREET; OR
- * RODNEY STREET, DRAKE STREET, TAMAR STREET AND DRAKE STREET.

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TEMPORARY LANE CLOSURE ON TOLO HIGHWAY

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THE TRANSPORT DEPARTMENT ANNOUNCED THAT THE INNER LANE OF TOLO HIGHWAY NORTHBOUND BETWEEN TAI PO KAU MARINE POLICE BASE AND THE SLIP ROAD LEADING TO TAI PO CENTRAL WILL BE CLOSED TO TRAFFIC BETWEEN SATURDAY (MARCH 4) AND MARCH 11.

THE CLOSURE IS TO FACILITATE THE REPLACEMENT OF GANTRY SIGNS.

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KWUN TONG URBAN CLEARWAY

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THE TRANSPORT DEPARTMENT ANNOUNCED THAT FROM 10 AM ON SATURDAY (MARCH 4), HUNG TO ROAD IN KWUN TONG BETWEEN A POINT ABOUT 25 METRES EAST OF ITS JUNCTION WITH CHONG YIP STREET AND ITS JUNCTION WITH HOW MING STREET WILL BE DESIGNATED A PEAK HOUR (7 AM - 10 AM AND 4 PM - 7 PM) DAILY URBAN CLEARWAY.

NO VEHICLES EXCEPT FRANCHISED BUSES WILL BE ALLOWED TO STOP FOR PASSENGERS OR GOODS THERE.

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BUDGET SUPPLEMENT

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WEDNESDAY, MARCH 1, 1989

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BUDGET A COMPLEX TASK, FS SAYS

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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID TODAY (WEDNESDAY) THAT HIS TASK IN PREPARING THIS YEAR'S BUDGET HAD BEEN TO TRY TO MEET THE ASPIRATION OF THE COMMUNITY WITHOUT EXACERBATING THE CURRENT INFLATIONARY SITUATION OR PLACING IN JEOPARDY HONG KONG'S PROSPERITY IN THE LONGER TERM.

HE SAID THE TASK HAD BEEN A COMPLEX ONE, AS HE HAD HAD TO RECONCILE MAJOR CONFLICTING PRESSURES, BUT THE SOLUTIONS HE HAD ADOPTED INEVITABLY REPRESENTED A COMPROMISE.

HE REMAINED ACUTELY AWARE OF THE NEED FOR STABILITY AND CONTINUITY IN THE MANAGEMENT OF THE TERRITORY'S PUBLIC FINANCES.

PRESENTING HIS BUDGET FOR 1989-90 IN THE LEGISLATIVE COUNCIL, MR JACOBS SAID THERE WERE THREE KEY FACTORS WHICH HE HAD HAD TO TAKE INTO ACCOUNT.

"FIRST, INFLATION; SECONDLY, THE ACCUMULATION OF SUBSTANTIAL BUDGET SURPLUSES; AND THIRDLY, THE NEED TO EMBARK UPON A MAJOR PROGRAMME OF INFRASTRUCTURAL WORKS TO ENABLE HONG KONG TO DEVELOP IN THE 1990'S AND BEYOND," HE SAID.

MR JACOBS SAID THE INFLATION HONG KONG WAS EXPERIENCING WAS CAUSED BY THE VERY SUCCESS OF ITS ECONOMY.

"QUITE SIMPLY, DEMAND FOR VARIOUS RESOURCES, INCLUDING LABOUR, IS OUTSTRIPPING SUPPLY. THIS STRONG DEMAND IS BEING TRANSLATED INTO HIGHER PRICES AND COSTS OF PRODUCTION.

"IN DUE COURSE, THE ECONOMY WILL ADJUST AND INFLATIONARY PRESSURES WILL EASE. BUT IN THE MEANTIME, WE MUST ENDEAVOUR TO ENSURE THAT OUR POLICIES DO NOT MAKE MATTERS WORSE."

THE ACCUMULATION OF BUDGET SURPLUSES, WHILE APPROPRIATE IN AN INFLATIONARY SITUATION, DID CREATE OTHER PROBLEMS, MR JACOBS SAID.

"THERE IS AN UNDERSTANDABLE EXPECTATION BY THE PUBLIC THAT THE SURPLUSES SHOULD BE USED TO FUND NEW OR IMPROVED SERVICES. MY COLLEAGUES WITHIN THE ADMINISTRATION WHO PROVIDE THESE SERVICES ARE NATURALLY KEEN TO RESPOND POSITIVELY.

"HOWEVER, GIVEN THAT THE ECONOMY IS ALREADY OPERATING AT FULL CAPACITY, IF THE GOVERNMENT WERE TO REDUCE THE SURPLUSES BY INCREASING ITS EXPENDITURE SUBSTANTIALLY, INFLATIONARY PRESSURES WOULD BE INTENSIFIED," HE SAID.

"IF EXPENDITURE IS NOT TO INCREASE, THEN THERE WILL NO DOUBT BE CALLS TO REDUCE THE SURPLUSES BY INTRODUCING TAX CONCESSIONS, BUT TAX CONCESSIONS THEMSELVES CAN BE JUST AS INFLATIONARY AS INCREASED GOVERNMENT EXPENDITURE."

/MR JACOBS

MR JACOBS SAID THIS BROUGHT HIM TO THE THIRD FACTOR THAT HE HAD MENTIONED -- THE NEED TO PROVIDE FOR A NUMBER OF LARGE AND EXPENSIVE INFRASTRUCTURAL DEVELOPMENTS.

"THE DILEMMA, OF COURSE, IS THAT RAPIDLY INCREASING EXPENDITURE ON CAPITAL WORKS RUNS COUNTER TO MY CONCLUSION ON EXPENDITURE GENERALLY, BUT WE SIMPLY CANNOT AFFORD TO DELAY UNDULY THE UPGRADING OF OUR INFRASTRUCTURAL FRAMEWORK IF HONG KONG'S ECONOMY IS TO CONTINUE TO DEVELOP IN THE YEARS AHEAD.

"THESE, THEN, ARE THE MAJOR CONFLICTING PRESSURES THAT I HAVE HAD TO RECONCILE IN THE FORMULATION OF THE BUDGET FOR 1989-90. THE TASK HAS BEEN COMPLEX AND THE SOLUTIONS I HAVE ADOPTED INEVITABLY REPRESENT A COMPROMISE.

"I REMAIN ACUTELY AWARE OF THE NEED FOR STABILITY AND CONTINUITY IN THE MANAGEMENT OF OUR PUBLIC FINANCES," HE SAID.

DESCRIBING THE PERFORMANCE OF THE ECONOMY, MR JACOBS SAID THE ECONOMY SLOWED DOWN TO A MORE MODERATE PACE LAST YEAR, BUT THIS COULD BE ATTRIBUTED MAINLY TO SUPPLY-SIDE CONSTRAINTS.

"FOLLOWING TWO CONSECUTIVE YEARS OF DOUBLE-DIGIT GROWTH, THE ECONOMY SLOWED DOWN TO A MORE MODERATE PACE LAST YEAR. IT IS ESTIMATED THAT OUR GROSS DOMESTIC PRODUCT GREW BY ABOUT 7.5 PER CENT IN REAL TERMS IN 1988. THIS COMPARES WITH ABOUT 14 PER CENT IN 1987."

HE SAID THE ECONOMY HAD ESCAPED LARGELY UNSCATHED FROM THE STOCK MARKET CRASH IN OCTOBER 1987, AND BUSINESS CONFIDENCE HAD GENERALLY RETURNED BY EARLY 1988. THE SLOW-DOWN IN ECONOMIC GROWTH COULD THUS BE ATTRIBUTED MAINLY TO SUPPLY-SIDE CONSTRAINTS.

"THE LABOUR MARKET REMAINED TIGHT, WITH THE UNEMPLOYMENT RATE FALLING TO A RECORD LOW OF 1.3 PER CENT IN THE FOURTH QUARTER OF THE YEAR. AS THE ECONOMY CONTINUED TO OPERATE VIRTUALLY AT FULL CAPACITY, KEEN COMPETITION FOR RESOURCES DROVE UP COSTS," HE SAID.

IN OVERALL TERMS, MR JACOBS SAID, THE EXTERNAL SECTOR PERFORMED REMARKABLY WELL.

"THE SINGLE MOST NOTEWORTHY FEATURE HAS BEEN THE DEVELOPMENT OF OUR RE-EXPORT TRADE, AND IN 1988, RE-EXPORTS OVERTOOK DOMESTIC EXPORTS. OUR ROLE AS AN ENTREPOT SERVING CHINA AND THE ASIA-PACIFIC REGION HAS AGAIN BECOME OF MAJOR SIGNIFICANCE," HE SAID.

AS REGARDS DOMESTIC EXPORTS, SUBSTANTIAL INCREASES WERE ATTAINED IN CHINA, THE UNITED KINGDOM AND JAPAN ALTHOUGH THERE WAS A DECLINE IN RESPECT OF THE UNITED STATES MARKET.

"WE ARE THUS WITNESSING THE CONTINUATION OF A USEFUL DIVERSIFICATION OF OUR MARKETS. IMPORTS ALSO ROSE RAPIDLY, WITH THE RESULT THAT OUR VISIBLE TRADE ACCOUNT SHOWED A LARGER DEFICIT LAST YEAR THAN IN 1987," HE SAID.

/MR JACOBS

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MR JACOBS SAID DOMESTIC DEMAND HAD CONTINUED TO BE BOOSTED MAINLY BY CONSUMER SPENDING AND BY INVESTMENT IN PLANT AND EQUIPMENT. IN NATIONAL ACCOUNTS TERMS, PUBLIC SECTOR EXPENDITURE GREW MORE SLOWLY THAN THAT OF THE PRIVATE SECTOR.

"LET ME ADD THAT, IN THE CURRENT INFLATIONARY SITUATION, THERE IS PARTICULAR MERIT IN SEEKING TO KEEP DOWN THE SHARE OF AVAILABLE RESOURCES ABSORBED BY THE PUBLIC SECTOR.

"AS DOMESTIC EXPORTS GREW BY NEARLY NINE PER CENT WHILE DOMESTIC DEMAND GREW BY ABOUT SEVEN PER CENT, THE FORCES DRIVING ECONOMIC GROWTH IN 1988 WERE MORE BALANCED THAN IN THE PREVIOUS TWO YEARS.

"HOWEVER, THE GROWTH RATE OF DEMAND EXCEEDED THAT OF OUTPUT. THUS, WITH FULL EMPLOYMENT, NOT ONLY WAS THERE A DEFICIT ON VISIBLE TRADE, BUT ALSO THE RATE OF INFLATION INCREASED DURING THE YEAR," HE SAID.

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INFLATION A MAIN PROBLEM

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ONE OF THE MAIN PROBLEMS HONG KONG HAD TO FACE WAS INFLATION, BUT WHAT THE GOVERNMENT COULD DO TO EASE THE PROBLEM WAS LIMITED, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID IN HIS BUDGET SPEECH TODAY (WEDNESDAY).

HE SAID THAT THE 7.5 PER CENT RISE IN CONSUMER PRICES IN 1988 WAS HIGH FOR HONG KONG, HIGHER THAN THE SEVEN PER CENT HE HAD FORECAST LAST YEAR.

THE PLAIN FACT OF THE MATTER WAS THAT THERE WERE FEW VIABLE POLICY OPTIONS OPEN TO A SMALL, EXTERNALLY-ORIENTED ECONOMY LIKE HONG KONG'S TO CURB INFLATION, HE SAID.

ON THE MONETARY SIDE, HE SUGGESTED THAT INTEREST RATES SHOULD, AS FAR AS POSSIBLE, BE KEPT HIGH.

"BUT IT IS IMPORTANT TO RECOGNISE THAT WHAT WE CAN DO IN THIS AREA IS CONSTRAINED BY THE OVER-RIDING NEED TO ENSURE EXCHANGE RATE STABILITY WITHIN THE LINKED EXCHANGE RATE SYSTEM," HE SAID.

HE NOTED THAT IN RECENT MONTHS, US DOLLAR INTEREST RATES HAD FIRMED UP SIGNIFICANTLY IN RESPONSE TO THE THREAT OF HIGHER INFLATION IN THE UNITED STATES. THEY SEEMED LIKELY TO REMAIN HIGH FOR THE TIME BEING, AND IF SO, THAT WOULD BE OF SOME HELP TO HONG KONG IN CURBING INFLATION.

/ "ON THE

"ON THE FISCAL SIDE THERE IS AGAIN LITTLE SCOPE FOR ACTION, PRIMARILY BECAUSE THE SMALL SIZE OF THE PUBLIC SECTOR AND THE OPENNESS OF THE ECONOMY LIMIT THE LEVERAGE THAT CAN BE EXERTED THROUGH CHANGING EITHER TAX RATES OR THE LEVEL OF PUBLIC EXPENDITURE," HE SAID.

NEVERTHELESS, IT WAS NECESSARY FOR THE GOVERNMENT TO ENSURE THAT ITS ACTIONS HELPED RATHER THAN EXACERBATED THE SITUATION.

IN THIS RESPECT, RUNNING A LARGER-THAN-PLANNED BUDGET SURPLUS IN THE CURRENT YEAR WAS, IN ECONOMIC TERMS, ENTIRELY THE RIGHT COURSE TO TAKE IN THE FACE OF INFLATIONARY PRESSURE.

"IN OUR PRESENT CIRCUMSTANCES, INCREASED PUBLIC SECTOR EXPENDITURE IS ACCEPTABLE ONLY SO LONG AS THE INCREASE IS MANAGEABLE, AND ONLY SO LONG AS REVENUE RISES MORE RAPIDLY, WITH THE RESULT THAT, OVERALL, THE GOVERNMENT IS REMOVING SPENDING POWER FROM THE ECONOMY," HE SAID.

TURNING TO THE IMPACT ON THE LOCAL ECONOMY OF INFLATION IN CHINA, THE FINANCIAL SECRETARY SAID THAT WHILE CHINA'S INFLATION WAS RUNNING AHEAD OF THAT IN HONG KONG, SO FAR THIS HAD ONLY A LIMITED EFFECT ON PRICES IN HONG KONG.

IMPORT PRICES OF CHINESE GOODS INCREASED BY ABOUT 1.5 PER CENT IN 1988, AND ALTHOUGH AT THE RETAIL LEVEL THE PRICES OF CHINESE GOODS ROSE MORE RAPIDLY THAN THIS FIGURE, THE INCREASES WERE NOT SIGNIFICANTLY OUT OF LINE WITH THOSE OF GOODS FROM OTHER SOURCES, BOTH DOMESTICALLY PRODUCED AND IMPORTED.

LOOKING AHEAD, THE FINANCIAL SECRETARY SAID THAT IN DUE COURSE, POSSIBLY OVER A LONGER PERIOD OF TIME THAN HONG KONG WOULD WISH, THE ECONOMY WOULD ADJUST.

THERE WERE SIGNS THAT THIS ADJUSTMENT PROCESS WAS ALREADY UNDERWAY, IN THE SENSE THAT THE GROWTH RATE OF DEMAND WAS LOWER IN 1988 THAN IN 1987. HE SAID.

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SIX PER CENT GDP GROWTH RATE PREDICTED

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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, TODAY (WEDNESDAY) PREDICTED A SIX PER CENT GROWTH IN THE GROSS DOMESTIC PRODUCT (GDP) FOR 1989.

AS A REFLECTION OF GROWING AFFLUENCE, PER CAPITA GDP IN CURRENT PRICE TERMS WAS EXPECTED TO RISE TO US\$11,000.

"THIS IS A REMARKABLE ACHIEVEMENT, OF WHICH WE CAN BE JUSTLY PROUD," HE SAID IN PRESENTING HIS BUDGET TO THE LEGISLATIVE COUNCIL.

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MR JACOBS SAID HONG KONG CONTINUED TO FACE CAPACITY CONSTRAINTS, BUT HE EXPECTED DOMESTIC EXPORTS TO RISE BY SEVEN PER CENT AND RE-EXPORTS BY 22 PER CENT THIS YEAR.

"TRADE IN SERVICES SHOULD CONTINUE TO CONTRIBUTE SIGNIFICANTLY TO ECONOMIC GROWTH," HE SAID.

DOMESTIC EXPORTS TO THE UNITED STATES, HE SAID, MIGHT PICK UP SOMEWHAT, BUT THOSE TO THE FEDERAL REPUBLIC OF GERMANY WERE EXPECTED TO REMAIN SLUGGISH.

MR JACOBS POINTED OUT THAT RE-EXPORTS SHOULD CONTINUE TO INCREASE, PARTLY BECAUSE OF THE EXPANSION OF OUTWARD PROCESSING ACTIVITIES AND PARTLY BECAUSE OF THE FAST GROWTH IN INDIRECT TRADE BETWEEN CHINA AND SOME OF THE OTHER INDUSTRIALISING ECONOMIES IN THE REGION.

THERE WERE IMPLICATIONS TO HIS SIX PER CENT GDP FORECAST, HE SAID.

"FIRST, AS IN 1988, A FAIRLY CLOSE BALANCE IS EXPECTED TO BE MAINTAINED BETWEEN THE GROWTH RATES OF DOMESTIC DEMAND (AT 5.9 PER CENT IS CLOSE TO THAT OF DOMESTIC EXPORTS AT SEVEN PER CENT) AND EXTERNAL DEMAND.

"HOWEVER, GIVEN THE PRESSURE OF DEMAND ON THE ECONOMY AS A WHOLE, IT IS LIKELY THAT MORE IMPORTS WILL BE REQUIRED AND THAT THE VISIBLE TRADE DEFICIT WILL INCREASE."

AS AN INDICATION OF THE PRESSURE OF DEMAND, TOTAL FINAL DEMAND (EXCLUDING RE-EXPORTS) WAS FORECAST TO INCREASE BY 6.9 PER CENT (11.2 PER CENT IF RE-EXPORTS ARE INCLUDED), WHICH IS HIGHER THAN THE SIX PER CENT GDP GROWTH RATE.

AS A RESULT, HE PREDICTED A 9.5 PER CENT GROWTH RATE FOR RETAINED IMPORTS (AND OF 15.5 PER CENT FOR TOTAL IMPORTS OF GOODS).

MR JACOBS ALSO EXPECTED THE VISIBLE TRADE DEFICIT TO INCREASE FROM \$8.1 BILLION TO \$12.6 BILLION.

HE SAID CONSIDERABLE INFLATIONARY PRESSURES STILL EXISTED AND THAT THESE WOULD TEND TO PUSH THE INFLATION RATE HIGHER BEFORE FALLING, PROBABLY IN THE LATER PART OF THE YEAR.

"THIS YEAR, THE CONSUMER PRICE INDEX (A) IS EXPECTED TO RISE BY AN AVERAGE OF 8.5 PER CENT," HE SAID.

THE FORECAST RATE OF INCREASE IN THE GDP DEFLATOR WAS NINE PER CENT AND THAT OF THE DOMESTIC DEMAND DEFLATOR, 9.3 PER CENT.

"A MUCH FASTER RATE OF INCREASE IS, HOWEVER, EXPECTED FOR BUILDING AND CONSTRUCTION COSTS, AT AN AVERAGE OF AROUND 20 PER CENT," HE SAID.

/MR JACOBS

MR JACOBS ALSO SAID THE LABOUR MARKET WAS LIKELY TO REMAIN TIGHT AND THAT THE PRESSURE TO ADOPT LABOUR-SAVING PROCESSES AND TECHNIQUES WOULD BE SUSTAINED.

WHILE EMPLOYERS WERE EXPERIENCING LABOUR SHORTAGES AND INCREASED LABOUR COSTS, HE SAID IT SHOULD BE REMEMBERED THAT EMPLOYEES AS A GROUP SHOULD CONTINUE TO BE ABLE TO SHARE IN THE FRUITS OF PROSPERITY THROUGH AMPLE JOB OPPORTUNITIES AND BETTER PAY.

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MOVE TO HELP GROWTH OF DOLLAR PAPER MARKET

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THE GOVERNMENT IS SEEKING TO CREATE A MORE FAVOURABLE ENVIRONMENT FOR THE DEVELOPMENT OF THE HONG KONG DOLLAR PAPER MARKET, THE FINANCIAL SECRETARY TOLD THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

DELIVERING HIS BUDGET SPEECH, THE HON PIERS JACOBS SAID THAT THOSE WHO USED THE MARKET HAD TO DECIDE FOR THEMSELVES ON WHERE THE MARKET WENT FROM HERE.

"MY TASK IS TO REMOVE IMPEDIMENTS TO HEALTHY GROWTH," HE SAID.

"I INTEND TO SEEK AMENDMENTS TO THE PROTECTION OF INVESTORS ORDINANCE IN ORDER TO STREAMLINE THE AUTHORISATION PROCEDURES FOR ADVERTISEMENTS CONCERNING THE ISSUE OF COMMERCIAL PAPER AND FOR CONSULTING THE PARTIES CONCERNED.

"AND, SUBJECT TO THE ADVICE OF THE EXECUTIVE COUNCIL, I HOPE TO BE ABLE TO INTRODUCE A BILL INTO THIS COUNCIL IN THE NOT TOO DISTANT FUTURE," MR JACOBS ADDED.

IN OUTLINING THE MONETARY ISSUES IN THE PAST YEAR, HE SAID 1988 SAW THE INTRODUCTION OF VARIOUS ARRANGEMENTS HELPFUL TO THE MAINTENANCE OF EXCHANGE RATE STABILITY.

"IN THE EARLY PART OF LAST YEAR, THE HONG KONG ASSOCIATION OF BANKS INTRODUCED THE SPECIFIED RATE RULES AND THE SUBSEQUENT AMENDMENTS TO THE RULES ON INTEREST RATES IN ORDER TO MAKE IT POSSIBLE TO HAVE NEGATIVE INTEREST RATES SHOULD THE NEED ARISE.

"IN JULY, THE GOVERNMENT INTRODUCED THE NEW ACCOUNTING ARRANGEMENTS, WHICH ENABLED THE ADMINISTRATION TO EXERT MORE EFFECTIVE INFLUENCE ON MONETARY CONDITIONS IN THE INTERBANK MARKET," MR JACOBS SAID.

/HE SAID

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HE SAID ALL THOSE INVOLVED IN CONTRIBUTING TOWARDS PUTTING TOGETHER THESE ARRANGEMENTS HAD GIVEN A CLEAR DEMONSTRATION OF THEIR SUPPORT TO THE FIRM POLICY OF MAINTAINING EXCHANGE RATE STABILITY AND OF THEIR COMMITMENT TO ENSURING THE GENERAL STABILITY OF THE MONETARY SYSTEM.

"WHEN INTERVENTION THROUGH THE NEW ACCOUNTING ARRANGEMENTS IS NECESSARY, MONEY MARKET OPERATIONS ARE CARRIED OUT AND THE MARKET INFORMED.

"SO FAR, THESE OPERATIONS HAVE TAKEN THE FORM OF DIRECT BORROWING OR LENDING, AND THE BUYING OR SELLING OF FOREIGN CURRENCY. THE SAME EFFECT COULD BE ACHIEVED THROUGH THE BUYING OR SELLING OF HONG KONG DOLLAR FINANCIAL ASSETS OF ACCEPTABLE QUALITY," MR JACOBS SAID.

"IN OTHER FINANCIAL CENTRES THESE ARE USUALLY IN THE FORM OF DEBT INSTRUMENTS ISSUED BY THE GOVERNMENT. SUCH INSTRUMENTS PROVIDE A FLEXIBLE, LOW RISK, AND POSSIBLY MORE COST-EFFECTIVE ALTERNATIVE FOR CONDUCTING MONEY MARKET OPERATIONS," HE ADDED.

"BUT THERE IS IN HONG KONG A LACK OF SUCH INSTRUMENTS BECAUSE THERE IS VIRTUALLY NO GOVERNMENT DEBT," HE SAID.

A STUDY OF THIS MATTER HAD BEEN CARRIED OUT AND INFORMAL CONSULTATION HAD BEEN HELD WITH THE HONG KONG CAPITAL MARKETS ASSOCIATION AND WITH LEADING BANKS, THE ADVICE OF THE EXCHANGE FUND ADVISORY COMMITTEE HAD ALSO BEEN SOUGHT.

"FOLLOWING UPON THIS CONSULTATION AND ADVICE, MY PRESENT INTENTION IS TO DEVELOP A PROGRAMME FOR THE ISSUE OF SHORT TERM EXCHANGE FUND BILLS.

"THE BILLS WOULD CONSTITUTE DIRECT, UNSECURED, UNCONDITIONAL AND GENERAL OBLIGATIONS OF THE GOVERNMENT FOR THE ACCOUNT OF THE EXCHANGE FUND.

"GIVEN THAT THE BILLS WOULD BE USED FOR MONETARY PURPOSES, THEY WOULD BE FOR THE ACCOUNT OF THE EXCHANGE FUND AND NOT FOR THE GENERAL REVENUE AS IS THE CASE FOR TREASURY BILLS ELSEWHERE.

"I MUST EMPHASISE THAT THE PROCEEDS COULD NOT BE USED FOR THE PURPOSE OF FINANCING FISCAL DEFICITS OR PUBLIC EXPENDITURE," HE SAID. THE PROCEEDS WOULD BE SUITABLY INVESTED ALONG WITH OTHER ASSETS OF THE EXCHANGE FUND AND WOULD BE AVAILABLE ONLY FOR THOSE PURPOSES FOR WHICH THE RESOURCES OF THAT FUND MAY PROPERLY BE USED.

"IN OTHER WORDS, WE WOULD NOT BE BORROWING TO FINANCE PUBLIC EXPENDITURE," MR JACOBS EXPLAINED.

HE SAID OPERATIONAL DETAILS WERE STILL BEING WORKED OUT AND FURTHER DISCUSSION WOULD BE NEEDED WITH POTENTIAL MARKET MAKERS AND MARKET PARTICIPANTS ON SECONDARY MARKET DEVELOPMENT.

/ "OUR POLICY

"OUR POLICY HAS ALWAYS BEEN TO LEAVE THE INITIATIVE OF MARKET DEVELOPMENT TO THOSE WHO DEAL IN THE MARKET ITSELF. BUT WHERE FISCAL OR INSTITUTIONAL FACTORS ARE IDENTIFIED AS INHIBITING DEVELOPMENT, WE ARE PREPARED TO CONSIDER APPROPRIATE MODIFICATIONS.

"THIS POLICY REMAINS UNCHANGED. THE UNDER-DEVELOPED STATE OF THE HONG KONG DOLLAR PAPER MARKET HAS BEEN ATTRIBUTED BY SOME MARKET PARTICIPANTS NOT ONLY TO THE LACK OF GOVERNMENT DEBT BUT ALSO TO THE INCIDENCE OF INTEREST TAX.

"THE ISSUE OF EXCHANGE FUND BILLS, AS I HAVE EXPLAINED, SHOULD BE HELPFUL TO THE DEVELOPMENT OF THIS MARKET," HE SAID.

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\$14.2 BILLION SURPLUS IN 1988-89 EXPECTED
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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, TOLD THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY) HE EXPECTED AN OVERALL SURPLUS IN 1988-89 OF \$14.2 BILLION COMPARED WITH A BUDGETTED SURPLUS OF \$5.5 BILLION.

"THIS SUBSTANTIAL SURPLUS, WHICH IS CLEARLY MORE THAN SUFFICIENT TO MAINTAIN OUR RESERVES IN REAL TERMS, IS THE PRODUCT OF THREE YEARS OF EXCEPTIONAL ECONOMIC PERFORMANCE," HE SAID IN HIS BUDGET SPEECH.

"BUT IT SHOULD BE SEEN IN THE CONTEXT OF OUR TOTAL ECONOMIC ACTIVITY DURING THE YEAR; THE GDP IN 1988 AMOUNTED TO \$426 BILLION," HE NOTED.

ON THE PRESENT STATE OF PUBLIC FINANCES, MR JACOBS SAID THE REVENUE OUTTURN AT THE END OF 1988-89 WOULD BE SIGNIFICANTLY HIGHER THAN FORECAST, WHILE FOR THE FIRST TIME FOR SOME YEARS EXPENDITURE WOULD ALSO EXCEED THE FORECAST.

GENERAL REVENUE ACCOUNT EXPENDITURE, EXCLUDING TRANSFERS TO FUNDS, OF \$43.3 BILLION EXCEEDED THE ORIGINAL ESTIMATE BY ABOUT TWO PER CENT -- THE BULK OF THE INCREASE BEING DUE TO THE IMPLEMENTATION OF THE "RENNIE" REPORT ON PAY FOR THE DISCIPLINED SERVICES.

THE REVISED ESTIMATE OF EXPENDITURE ON GENERAL REVENUE ACCOUNT OF \$49.6 BILLION, INCLUDING TRANSFERS TO FUNDS, WAS CLOSE TO THE ORIGINAL ESTIMATE.

MR JACOBS SAID EXPENDITURE OF \$14.5 BILLION FROM VARIOUS FUNDS WAS ABOUT 12 PER CENT ABOVE BUDGET.

THIS CONSIDERABLE INCREASE WAS CAUSED LARGELY BY THE REVISED FINANCIAL ARRANGEMENTS WITH THE HOUSING AUTHORITY.

OTHER INCREASES IN FUND EXPENDITURE WERE FROM THE CAPITAL WORKS RESERVE FUND, BECAUSE OF HIGHER THAN EXPECTED COST INCREASES IN THE CONSTRUCTION INDUSTRY AND SOME ACCELERATION OF CAPITAL PROJECTS.

SPENDING IN CASH TERMS FROM THE GENERAL REVENUE ACCOUNT AND FROM THE FUNDS TOGETHER WAS LIKELY TO BE ABOUT 20 PER CENT ABOVE THE ACTUAL FIGURE FOR 1987-88 AND ABOUT FOUR PER CENT ABOVE THE ORIGINAL ESTIMATES, HE ADDED.

CONSOLIDATED ACCOUNT EXPENDITURE, WHICH INCLUDED HOUSING AUTHORITY AND URBAN AND REGIONAL COUNCILS EXPENDITURE, WAS, IN CASH TERMS, EXPECTED TO BE ABOUT 22 PER CENT ABOVE THE ACTUAL FIGURE FOR 1987-88.

EXPRESSED IN REAL TERMS, THE INCREASE WAS ABOUT NINE PER CENT COMPARED WITH AN ORIGINAL ESTIMATE OF SEVEN PER CENT.

MR JACOBS SAID THE GROWTH IN THE ESTABLISHMENT OF THE CIVIL SERVICE WAS ABOUT 3.3 PER CENT.

"THIS IS STILL IN EXCESS OF OUR GUIDELINE OF 2.5 PER CENT, AND WE MUST CONTINUE OUR EFFORTS TO CONTROL THE SIZE OF THE CIVIL SERVICE AS WELL AS OVERALL EXPENDITURE," HE SAID.

REFERRING TO REVENUE, MR JACOBS SAID THAT THE HIGHER THAN EXPECTED OUTTURN WAS PARTICULARLY NOTEWORTHY.

"IN PREPARING THE 1988-89 ESTIMATE WE MADE ALLOWANCE FOR THE ANTICIPATED EFFECTS OF THE EVENTS OF OCTOBER 1987," HE SAID.

"AS I HAVE ALREADY SAID, THOSE EVENTS HAD REMARKABLY LITTLE IMPACT. FURTHERMORE, THE ESTIMATE WAS BASED ON A GDP GROWTH OF AROUND 14 PER CENT IN 1987 AND FIVE PER CENT IN 1988.

"THE GDP GREW FASTER IN 1988 THAN EXPECTED, AND THE REVISED ESTIMATE FOR GENERAL REVENUE EXCEEDS THE BUDGET BY 21 PER CENT."

MR JACOBS SAID REVENUE FOR THE ACCOUNT OF THE VARIOUS FUNDS WAS NOW EXPECTED TO BE ABOUT SEVEN PER CENT BELOW THE ESTIMATE MAINLY BECAUSE REVENUE WHICH WAS EXPECTED TO ACCRUE TO THE HOME OWNERSHIP FUND WOULD NOW ACCRUE TO THE HOUSING AUTHORITY.

BUT THIS REDUCTION WAS LARGELY OFFSET BY HIGHER THAN EXPECTED PROCEEDS FROM LAND SALES. COMBINING GENERAL REVENUE ACCOUNT AND FUND ACCOUNT REVENUE, THE INCREASE ON THE ORIGINAL BUDGET WAS 18 PER CENT.

"ON THE BASIS OF THIS INCREASED REVENUE OUTTURN, AND DESPITE EXPENDITURE BEING ABOVE THE ESTIMATE, I EXPECT AN OVERALL SURPLUS IN 1988-89 OF \$14.2 BILLION COMPARED WITH A BUDGETTED SURPLUS OF \$5.5 BILLION," HE SAID.

"IN SUM, CONSOLIDATED ACCOUNT EXPENDITURE IN 1988-89 IS ESTIMATED TO BE 15.4 PER CENT OF GDP.

"RECURRENT EXPENDITURE ABSORBED ONLY TWO THIRDS OF RECURRENT REVENUE, THUS LEAVING A COMFORTABLE MARGIN TO FINANCE CAPITAL EXPENDITURE.

"THIS ENABLED ABOUT HALF OF OUR CAPITAL EXPENDITURE TO BE SO FINANCED, IN ACCORDANCE WITH OUR AIM OF LIMITING DEPENDENCY ON CAPITAL REVENUE."

HOWEVER, MR JACOBS POINTED OUT THAT SOME "DISTURBING TRENDS" WERE BECOMING EVIDENT.

"FIRST, GROWTH IN PUBLIC SECTOR EXPENDITURE EXCEEDS THE GROWTH RATE OF THE ECONOMY.

"SECONDLY, THE GROWTH IN CIVIL SERVICE ESTABLISHMENT REMAINS HIGHER THAN OUR TARGET.

"THIRDLY, ALTHOUGH RECURRENT REVENUE IS BUOYANT, IT IS INCREASINGLY DEPENDENT ON DIRECT TAXES WHICH ARE VULNERABLE TO THE VOLATILITY OF THE ECONOMY," HE EXPLAINED.

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STEADY GROWTH WITHIN BUDGETARY GUIDELINES ESSENTIAL
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STEADY GROWTH WITHIN BUDGETARY GUIDELINES IS ESSENTIAL TO THE ORDERLY DEVELOPMENT AND EXPANSION OF PUBLIC SERVICES, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID IN THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

SPEAKING ON THE STRATEGY FOR PUBLIC FINANCES WHEN PRESENTING HIS BUDGET, MR JACOBS SAID THAT CENTRAL TO THIS STRATEGY WAS THE DISCIPLINE THAT PUBLIC EXPENDITURE SHOULD BE BASED ON THE TREND GROWTH RATE OF GROSS DOMESTIC PRODUCT.

"IN THIS CONNECTION, CLEARLY, THE ASSUMPTIONS BUILT INTO THE MEDIUM RANGE FORECAST ARE FUNDAMENTAL," HE SAID.

MR JACOBS SAID FOR PLANNING PURPOSES HE HAD, DURING THE CURRENT FINANCIAL YEAR, ADJUSTED THE TREND GROWTH RATE ASSUMPTION FOR THE FORECAST PERIOD FROM 5.5 TO SIX PER CENT.

"RECENTLY, WE HAVE EXPERIENCED PARTICULARLY RAPID ECONOMIC GROWTH, AND WE CAN EXPECT REASONABLE GROWTH IN THE NEXT FEW YEARS.

"I THEREFORE CONSIDER SIX PER CENT AS A TREND GROWTH RATE TO BE AN APPROPRIATE PLANNING ASSUMPTION," HE SAID.

/MR JACOBS

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MR JACOBS SAID IT WAS INEVITABLE THAT WE WOULD EXPERIENCE CONSIDERABLE YEAR TO YEAR VARIATIONS IN REVENUE, DEPENDENT AS IT WAS ON ECONOMIC PERFORMANCE.

"NOTWITHSTANDING THIS, WE SEEK TO MAINTAIN STABILITY IN PUBLIC EXPENDITURE GROWTH," HE SAID.

REFERRING TO ORDERLY DEVELOPMENT AND EXPANSION OF PUBLIC SERVICES, MR JACOBS SAID: "IF WE ARE TO MANAGE OUR FINANCES EFFECTIVELY WE NEED TO PLAN AHEAD AND DETERMINE OVER A PERIOD OF FOUR OR FIVE YEARS THE LEVELS OF PUBLIC EXPENDITURE THAT WE CAN SUSTAIN WITHOUT THE PUBLIC SECTOR CLAIMING TOO GREAT A SHARE OF THE TERRITORY'S RESOURCES."

BY ESTABLISHING BUDGETARY GUIDELINES, THE GOVERNMENT SOUGHT TO ENSURE THAT SPENDING LEVELS WERE PLANNED BY REFERENCE TO WHAT THE ECONOMY COULD SUPPORT AND NOT BY THE REVENUE AVAILABLE.

"AT THE SAME TIME, THERE IS A NEED FOR ESSENTIAL INFRASTRUCTURAL DEVELOPMENT, AND THIS MAY REQUIRE US TO ACCEPT LEVELS OF EXPENDITURE WHICH FROM TIME TO TIME TAKE US OUTSIDE OUR GUIDELINES," HE SAID.

"IT MUST BE REMEMBERED, HOWEVER, THAT CAPACITY CONSTRAINTS IN THE ECONOMY CAN MEAN THAT HIGHER SPENDING TRANSLATES INTO HIGHER PRICES WITH LITTLE REAL GAIN."

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PROVISIONS FOR 3.9 PER CENT CIVIL SERVICE GROWTH

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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, HAS MADE PROVISIONS IN HIS BUDGET ESTIMATES FOR A 3.9 PER CENT GROWTH IN THE SIZE OF THE CIVIL SERVICE IN 1989-90, COMPARED WITH THE TARGET OF 2.5 PER CENT GROWTH PER YEAR.

PRESENTING HIS BUDGET TO THE LEGISLATIVE COUNCIL, HE SAID THE GOVERNMENT HAD ALREADY PLANNED FOR INCREASES IN STAFF REQUIRED FOR NEW MEDICAL FACILITIES AND FOR THE BUILD UP OF THE POLICE FORCE, PARTLY TO ASSUME THE DUTIES OF THE BRITISH GARRISON, HE SAID.

"IN ADDITION WE NOW HAVE TO PROVIDE FOR HIGHER STAFFING LEVELS IN, FOR EXAMPLE, THE IMMIGRATION DEPARTMENT AND THE POST OFFICE TO MEET THE INCREASED DEMAND FOR THEIR SERVICES," HE SAID.

MR JACOBS SAID THE GOVERNMENT HAD IDENTIFIED PROBABLE COMMITMENTS AND REQUIREMENTS FOR INCREASED EXPENDITURE OVER THE NEXT DECADE.

/WHEN CONSIDERATION

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"WHEN CONSIDERATION WAS GIVEN TO THE ALLOCATION OF THE RESOURCES AVAILABLE TO FUND NEW OR IMPROVED SERVICES FOR THE PERIOD TO 1992-93, THE PLANNED LEVEL OF SPENDING ON CAPITAL ACCOUNT WAS INCREASED BY \$2 BILLION IN TOTAL OVER THE FOUR YEARS UP TO AND INCLUDING 1992-93.

"THIS REDUCED THE ADDITIONAL RESOURCES AVAILABLE FOR RECURRENT ACCOUNT SPENDING ON NEW OR IMPROVED SERVICES, BUT I WOULD STRESS THAT IT SHOULD STILL BE POSSIBLE TO MAKE SOME PROVISION FOR SUCH SERVICES DURING THE PERIOD."

IN THE LIGHT OF THE CONSTRAINTS AND TO IMPROVE SERVICES TO THE PUBLIC WITHIN AVAILABLE RESOURCES, POLICY SECRETARIES AND CONTROLLING OFFICERS WOULD HAVE TO CARRY OUT A RIGOROUS EXAMINATION OF ON-GOING OR BASELINE EXPENDITURE.

"OVER TIME IT IS INEVITABLE THAT SOME FAT ACCUMULATES, AND PERIODIC DIETING IS GOOD FOR HEALTH," MR JACOBS SAID.

HE SAID THAT OVERALL, THE PROFILE OF TOTAL GOVERNMENT EXPENDITURE INDICATED THAT THE ALLOCATION OF RESOURCES OVER THE VARIOUS PROGRAMME AREAS HAD REMAINED FAIRLY STEADY IN RECENT YEARS.

SOCIAL SERVICES AND EDUCATION MADE UP ABOUT 32 PER CENT OF THE TOTAL CONSOLIDATED ACCOUNT EXPENDITURE, AND HOUSING 14 PER CENT. SPENDING ON INFRASTRUCTURE ACCOUNTED FOR 15 PER CENT, AND ON SECURITY, ALSO 15 PER CENT.

HOWEVER, OVER THE FORECAST PERIOD THE SOCIAL SERVICES AND EDUCATION PROGRAMMES WERE EXPECTED TO ACCOUNT FOR AN INCREASING SHARE OF RESOURCES.

ON AN IMPORTANT MATTER CONCERNING THE ESTABLISHMENT OF AUTHORITIES OUTSIDE THE ADMINISTRATION, HE POINTED OUT THAT THE GOVERNMENT WOULD CONTINUE TO LOOK FOR BETTER MEANS OF DELIVERING SERVICES TO THE PUBLIC.

"SOME SERVICES CAN BE MORE EFFICIENTLY PROVIDED BY AGENCIES FREED FROM THE CIVIL SERVICE STRUCTURE. HOWEVER, THIS IS NOT ALWAYS SO," HE SAID.

MR JACOBS STRESSED THAT THE HIVING OFF OF SERVICES SHOULD NOT BE INTERPRETED AS AN ABDICATION OF RESPONSIBILITY BY THE GOVERNMENT.

"THE BODIES ESTABLISHED WILL REMAIN A PART OF THE PUBLIC SECTOR, MOST WILL STILL RELY ON PUBLIC FUNDS FOR THEIR OPERATIONS AND ALL WILL BE EXPECTED TO PROVIDE THEIR SERVICES TO THE SATISFACTION OF THE COMMUNITY," HE SAID.

MANAGEMENT WOULD BE AUTONOMOUS AND SHOULD BE MORE RESPONSIVE TO CHANGING NEEDS, HE SAID.

/MR JACOBS

MR JACOBS SAID THE HOUSING AUTHORITY AND THE URBAN AND REGIONAL COUNCILS WERE ALREADY WELL ESTABLISHED AND THE NEW HOSPITALS AUTHORITY WOULD BE SET UP NEXT YEAR.

AS A RESULT, IN MONEY TERMS ALMOST HALF OF THE PUBLIC SERVICES WOULD BE PROVIDED BY STATUTORY BODIES OR AGENCIES, INCLUDING THE KOWLOON-CANTON RAILWAY CORPORATION, THE MASS TRANSIT RAILWAY CORPORATION AND GOVERNMENT-SUBVENTED EDUCATIONAL, MEDICAL AND OTHER ORGANISATIONS, HE SAID.

"BUT IT STILL REMAINS NECESSARY FOR THE GOVERNMENT TO EXERCISE OVERALL FINANCIAL CONTROL AND TO SET OBJECTIVES AND TARGETS," HE SAID.

MR JACOBS SAID THAT THE NEW FINANCIAL ARRANGEMENTS FOR THE HOUSING AUTHORITY HAD COME INTO OPERATION ABOUT A YEAR AGO.

"SIMILAR ARRANGEMENTS WILL BE MADE WITH OTHER BODIES APPROPRIATE TO THEIR INDIVIDUAL CIRCUMSTANCES, AND WE ARE FORMULATING PLANS TO MODIFY THE ROLE OF THE DEVELOPMENT LOAN FUND TO ACCOMMODATE SUCH ARRANGEMENTS," HE SAID.

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SALES TAX COULD BRING SIGNIFICANT BENEFITS

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THE INTRODUCTION OF A SALES TAX COULD BRING TO HONG KONG SOME SIGNIFICANT BENEFITS AND WOULD PROVIDE SCOPE TO REDUCE SOME EXISTING TAXES, BOTH DIRECT AND INDIRECT, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID TODAY (WEDNESDAY).

DELIVERING HIS BUDGET SPEECH IN THE LEGISLATIVE COUNCIL, MR JACOBS SAID THAT THE TYPE OF SALES TAX BEING EXAMINED WAS A TAX AT THE WHOLESALE LEVEL AND ITS INTRODUCTION WOULD HAVE TO BE CAREFULLY TIMED.

"AT THE MOMENT WE ARE SUFFERING FROM INFLATION, AND IN THESE CIRCUMSTANCES I DO NOT BELIEVE THAT WE ARE YET READY FOR THIS TAX. BUT THE PREPARATORY WORK MUST BE DONE NOW," HE SAID.

"WE MUST ENSURE THAT PRESENT ADVANTAGES THAT WE ENJOY FROM OUR TAX SYSTEM ARE NOT ERODED OVER TIME.

"MEMBERS WILL BE AWARE THAT THE REST OF THE WORLD IS MOVING TOWARDS LOWER DIRECT TAXES."

MR JACOBS SAID HE WAS CONSCIOUS OF THE FACT THAT THE INTRODUCTION OF A SALES TAX WOULD REPRESENT A FUNDAMENTAL SHIFT IN TAXATION POLICIES.

/"NEVERTHELESS, I

"NEVERTHELESS, I AM ANXIOUS TO REDUCE OUR DEPENDENCE ON SOURCES OF REVENUE WHICH ARE MOST VULNERABLE TO THE VICISSITUDES OF THE ECONOMY," HE SAID.

MR JACOBS SAID THAT WHILE REVENUE CONTINUED TO BE BUOYANT IN LINE WITH THE PERFORMANCE OF THE ECONOMY, THE RATES OF ECONOMIC GROWTH SEEN IN THE LAST THREE YEARS COULD NOT BE EXPECTED TO CONTINUE UNABATED.

"MY PLANS FOR REVENUE ARE AS USUAL BASED ON AN ASSESSMENT OF THE POSITION OVER THE NEXT FEW YEARS," HE SAID.

"WHILST WE MUST AVOID ADDING TO INFLATIONARY PRESSURES THERE IS SOME SCOPE FOR LOWERING THE TAX BURDEN."

MR JACOBS POINTED OUT THAT LAST YEAR WHEN DISCUSSING THE VALUE OF A WIDER AND MORE STABLE TAX BASE HE HAD INFORMED MEMBERS THAT A FORM OF SALES TAX, THOUGH PROBABLY NOT AT A RETAIL LEVEL, BEST MET THE CRITERIA OUTLINED.

"WE HAVE NOW CARRIED OUT CONSIDERABLY MORE RESEARCH AND ARE PREPARING A CONSULTATIVE DOCUMENT," HE SAID.

"WE SHOULD BE IN A POSITION TO ISSUE THIS DOCUMENT TO A NUMBER OF PROFESSIONAL BODIES AND OTHER ORGANISATIONS TOWARDS THE MIDDLE OF THIS YEAR.

"THE PURPOSE OF THIS CONSULTATIVE DOCUMENT WILL SIMPLY BE TO ENABLE ME TO EXAMINE, WITH THE ASSISTANCE OF THOSE TO WHOM THE DOCUMENT WILL BE ISSUED, THE TECHNICAL ASPECTS OF TAX DIVERSIFICATION AND ANY POSSIBLE DIFFICULTIES IN MY PROPOSALS," MR JACOBS SAID.

"I SHALL NOT GO OVER ALL THE ARGUMENTS AT THIS STAGE BUT I WOULD LIKE TO REPEAT THE CRITERIA THAT I CONSIDER MUST BE MET IF WE ARE TO INTRODUCE ANY INDIRECT TAX OF THE NATURE THAT I HAVE DESCRIBED," HE SAID.

"FIRST, SUCH A TAX SHOULD PRODUCE A STABLE AND WORTHWHILE REVENUE YIELD AT A LOW TAX RATE; SECONDLY, IT SHOULD CAUSE MINIMAL DISTORTION TO THE ECONOMY; AND THIRDLY, IT SHOULD BE SIMPLE AND CHEAP TO ADMINISTER.

"THE TYPE OF SALES TAX THAT I AM EXAMINING IS A TAX AT THE WHOLESALE LEVEL AND OUR RESEARCHES SO FAR HAVE INDICATED THAT SUCH A TAX DOES, INDEED, MEET THE CRITERIA THAT I HAVE MENTIONED."

RESERVES NOT A 'POT OF GOLD'

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IT IS WRONG TO LOOK UPON THE GOVERNMENT'S RESERVES AS A "POT OF GOLD" AVAILABLE TO BE SPENT REGARDLESS, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID IN HIS BUDGET SPEECH TODAY (WEDNESDAY).

"OUR BUDGETARY GUIDELINES ARE RELATED TO THE GROWTH OF THE ECONOMY, AND NOT TO THE SIZE OF THE RESERVES," HE TOLD THE LEGISLATIVE COUNCIL.

FURTHERMORE, THE GOVERNMENT HAD TO PROTECT ITS SPENDING PROGRAMMES AGAINST CYCLICAL CHANGES IN REVENUE LEVELS, AND THE GOVERNMENT ALSO HAD CONTINGENT LIABILITIES WHICH HAD TO BE COVERED.

MR JACOBS SAID THE CONSOLIDATED RESERVES WERE EXPECTED TO SHOW A BALANCE OF ABOUT \$60 BILLION AT THE END OF 1988-89, RISING TO ABOUT \$71 BILLION AT THE END OF 1989-90.

THE MEDIUM RANGE FORECAST SHOWED THAT IN THE PERIOD TO 1992-93, ALTHOUGH THE LEVEL OF RESERVES WOULD BE MORE THAN MAINTAINED IN REAL TERMS OVER THE FORECAST PERIOD, THE RESERVE BALANCES, WHEN EXPRESSED AS A PERCENTAGE OF ANNUAL SPENDING, WOULD FALL FROM 91 PER CENT TO 87 PER CENT.

HE SAID THE POSITION HAD IMPROVED SINCE LAST YEAR WHEN HE FORECAST THAT THE LEVEL OF RESERVES AS A PERCENTAGE OF ANNUAL EXPENDITURE WOULD FALL TO ABOUT 65 PER CENT BY 1991-92.

"I AM NOT PROPOSING ANY GUIDELINES AS TO WHAT LEVEL OF RESERVES IS APPROPRIATE. WE ARE COMFORTABLE BUT NOT EXCESSIVELY SO," HE SAID.

MR JACOBS ALSO SAID THE GOVERNMENT HAD TO MAKE PROVISION FOR SOME MAJOR INFRASTRUCTURAL PROJECTS THAT WERE LIKELY TO START IN THE YEARS AHEAD, SUCH AS ROAD AND RAIL NETWORKS, PORT DEVELOPMENT AND DRAINAGE AND SEWAGE PROJECTS.

ALSO, IT WAS INCREASINGLY CLEAR THAT HONG KONG WAS GOING TO NEED A NEW AIRPORT.

THAT WOULD BE A MASSIVE UNDERTAKING INVOLVING NOT ONLY THE AIRPORT ITSELF BUT ALSO A VAST AMOUNT OF INFRASTRUCTURAL DEVELOPMENT SUCH AS ROADS, TUNNELS, POSSIBLY BRIDGES AND PERHAPS A RAILWAY LINK.

"OUR STUDIES, INCLUDING OUR EXAMINATION INTO THE FINANCIAL AND INSTITUTIONAL ARRANGEMENTS, ARE PROGRESSING WELL, AND WE EXPECT TO BE IN A POSITION TO ANNOUNCE A DECISION BEFORE THE END OF THIS YEAR," HE SAID.

IN ORDER TO ANTICIPATE SOME OF THE CONSIDERABLE EXPENDITURE INVOLVED IN INFRASTRUCTURAL DEVELOPMENT, MR JACOBS PROPOSED TO MAKE REGULAR TRANSFERS FROM THE GENERAL REVENUE ACCOUNT TO APPROPRIATE FUNDS BEGINNING IN THE 1989-90 FINANCIAL YEAR.

"IN THIS WAY, WE WILL BE EARMARKING SOME OF OUR ACCUMULATING SURPLUSES TO FINANCE OUR INFRASTRUCTURAL DEVELOPMENT PROGRAMME OVER THE NEXT 10 TO 15 YEARS," HE SAID.

THE DETAILED ACCOUNTING ARRANGEMENTS WERE NOT YET FINALISED BUT HE ENVISAGED TRANSFERS BOTH TO THE CAPITAL WORKS RESERVE FUND IN RESPECT OF THOSE PROJECTS WHICH WOULD BE A PART OF THE PUBLIC WORKS PROGRAMME, AND ALSO TO A NEW FUND FOR INVESTMENT IN THOSE PROJECTS WHICH MIGHT ATTRACT THE PRIVATE SECTOR OR WHICH MIGHT BE IMPLEMENTED BY STATUTORY AUTHORITIES.

"AFTER THESE TRANSFERS, THE UNASSIGNED RESERVES WILL STILL PROVIDE COVER FOR OUR CONTINGENT LIABILITIES AND PROTECTION AGAINST SHORT TERM CASH FLOW FLUCTUATIONS, AND WILL ASSIST IN MAINTAINING FISCAL STABILITY," HE SAID.

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SURPLUS FORECAST FOR 1989-90

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THE DRAFT ESTIMATES OF EXPENDITURE AND REVENUE FOR 1989-90, BEFORE REVENUE MEASURES, INDICATE A SURPLUS ON GENERAL REVENUE ACCOUNT OF \$3.4 BILLION AND AN INCREASE IN THE BALANCES OF VARIOUS FUNDS OF \$8.7 BILLION, GIVING AN OVERALL SURPLUS OF \$12.1 BILLION, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID IN THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

HOWEVER, MR JACOBS EXPLAINED THAT TAX CONCESSIONS WOULD REDUCE THE SURPLUS ON GENERAL REVENUE ACCOUNT TO \$2.8 BILLION, AND THE OVERALL SURPLUS TO \$11.5 BILLION.

MR JACOBS SAID THE DRAFT ESTIMATES SHOWED EXPENDITURE ON GENERAL REVENUE ACCOUNT, INCLUDING TRANSFER TO FUNDS, OF \$70 BILLION.

IN TERMS OF CONSOLIDATED ACCOUNT EXPENDITURE, THE GOVERNMENT PLANNED TO SPEND \$11.9 BILLION ON SOCIAL SERVICES, REPRESENTING AN INCREASE OF 13 PER CENT IN REAL TERMS OVER 1988-89; \$13.1 BILLION ON EDUCATION, AN INCREASE OF FIVE PER CENT; AND \$10.6 ON HOUSING, ALSO AN INCREASE OF FIVE PER CENT.

SPENDING IN THESE AREAS WOULD REPRESENT 45 PER CENT OF TOTAL EXPENDITURE.

EXPENDITURE ON SECURITY, THE ENVIRONMENT, AND THE TRANSPORT, WORKS AND WATER SUPPLY GROUP WOULD, TAKEN TOGETHER, INCREASE BY 10 PER CENT.

"THESE INCREASES IN EXPENDITURE, WHICH I WOULD EMPHASISE ARE IN REAL TERMS, REPRESENT THE GOVERNMENT'S CONTINUING EFFORTS TO SECURE AN IMPROVEMENT IN THE LIVING STANDARDS OF THE COMMUNITY, ESPECIALLY OF THOSE WHO RELY HEAVILY ON PUBLIC SERVICES," MR JACOBS SAID.

MR JACOBS SAID THE TOTAL CONSOLIDATED ACCOUNT EXPENDITURE WAS EXPECTED TO GROW BY NINE PER CENT IN REAL TERMS - THREE PERCENTAGE POINTS ABOVE THE TREND GROWTH RATE OF GDP OF SIX PER CENT OVER THE PERIOD OF THE MEDIUM RANGE FORECAST.

HE SAID THE ESTIMATES PROVIDED FOR THE COST OF MAINTAINING EXISTING SERVICES, OPENING NEW FACILITIES IN 1989-90 AND MEETING INCREASING DEMAND FOR GOVERNMENT SERVICES.

THE ESTIMATES ALSO PROVIDED FOR SEVERAL NEW SERVICES TO BE INTRODUCED.

THESE INCLUDED SETTING UP NEW OVERSEAS ECONOMIC AND TRADE OFFICES IN NORTH AMERICA AND AUSTRALIA AND THE DIVISION OF THE MEDICAL AND HEALTH DEPARTMENT INTO THE HOSPITAL SERVICES DEPARTMENT AND THE DEPARTMENT OF HEALTH.

"EXPENDITURE ON CAPITAL ACCOUNT ALLOWS FOR AN INCREASE IN SPENDING ON THE CAPITAL WORKS PROGRAMME, INCLUDING THE CLEARANCE OF THE KOWLOON WALLED CITY, ON WHICH EXPENDITURE IS EXPECTED TO PEAK IN 1989-90," MR JACOBS SAID.

"EXPENDITURE ON CAPITAL PROGRAMMES IS EXPECTED TO BE \$14.5 BILLION OR 33 PER CENT HIGHER IN CASH TERMS THAN 1988-89."

MR JACOBS SAID THE 3.9 PER CENT PROJECTED GROWTH RATE IN THE CIVIL SERVICE INCLUDED ABOUT 5,700 POSTS IN THE GOVERNMENT ALONE.

OF THIS INCREASE, 40 PER CENT WOULD BE FOR POSTS IN THE DISCIPLINED SERVICES AND 25 PER CENT FOR THE HEALTH AND HOSPITAL SERVICES DEPARTMENTS.

THE DRAFT ESTIMATES ALSO PROVIDED FOR TRANSFERS TO FUNDS FROM GENERAL REVENUE ACCOUNT TALLING \$17.7 BILLION.

PROVISION WAS ALSO MADE FOR EQUITY INVESTMENT IN THE HOUSING AUTHORITY IN 1989-90 AND FOR THE REDEMPTION OF THE GOVERNMENT BONDS FOR \$1 BILLION ISSUED IN 1984, WHICH WERE REPAYABLE ON APRIL 9 THIS YEAR.

TURNING TO THE DRAFT ESTIMATES OF REVENUE, MR JACOBS SAID THE GENERAL ACCOUNT REVENUE WAS ESTIMATED TO BE \$73.4 BILLION, OR AN INCREASE OF ABOUT 13 PER CENT OVER LAST YEAR.

REVENUE FROM DIRECT TAXES WAS EXPECTED TO BE 18 PER CENT OVER THE FIGURE FOR LAST YEAR, AND FOR OTHER REVENUE, EIGHT PER CENT.

"ON THE BASIS OF THIS FORECAST, DIRECT TAXES WILL REPRESENT 65 PER CENT OF THE TOTAL OF DIRECT AND INDIRECT TAXES TAKEN TOGETHER, COMPARED WITH 62 PER CENT IN 1988-89 AND 60 PER CENT IN 1987-88," MR JACOBS SAID.

REVENUE ACCRUING TO THE VARIOUS FUNDS WAS ESTIMATED AT \$7.8 BILLION - AN INCREASE OF ABOUT 13 PER CENT OVER LAST YEAR - WHICH WAS LARGELY ACCOUNTED FOR BY REVENUE FROM EXPECTED LAND SALES.

COMBINED REVENUE ON GENERAL REVENUE ACCOUNT AND THE FUNDS WOULD THEREFORE BE ABOUT \$81.2 BILLION - AN INCREASE OF 13 PER CENT OVER 1988-89.

EXPLAINING THAT TAX REVENUES WOULD CONTINUE TO REFLECT HONG KONG'S RECENT ECONOMIC PERFORMANCE, MR JACOBS PREDICTED THAT REVENUE WOULD REMAIN BUOYANT NEXT YEAR DESPITE THE SLOW DOWN IN THE RATE OF ECONOMIC GROWTH WHICH HE HAD FORECAST.

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REVENUE-RAISING MEASURES OUTLINED

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DESPITE THE LARGE FORECAST SURPLUS FOR THE YEAR AHEAD, THERE IS A NEED TO ENSURE THAT REVENUE PROPOSALS ARE COMPATIBLE WITH THE OVERALL ECONOMIC SITUATION, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID IN PRESENTING HIS BUDGET TO THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

MR JACOBS SAID HIS PROPOSALS INCLUDED A NUMBER OF REVENUE-RAISING MEASURES WHICH WOULD YIELD SOME \$550 MILLION IN 1989-90, EQUIVALENT TO \$620 MILLION IN A FULL YEAR.

THE ADDITIONAL REVENUE WAS MORE THAN OFFSET BY TAX CONCESSIONS ESTIMATED TO COST \$1.1 BILLION IN 1989-90, AND \$1.7 BILLION IN A FULL YEAR.

"THE EFFECT WILL BE TO REDUCE THE SURPLUS ON GENERAL REVENUE ACCOUNT IN 1989-90 FROM \$3.4 BILLION TO \$2.8 BILLION AND THE OVERALL SURPLUS FROM \$12.1 BILLION TO \$11.5 BILLION," HE EXPLAINED.

DUTIABLE COMMODITIES

MR JACOBS SAID THE PRINCIPLE UNDERLYING HIS PROPOSALS REMAINED THAT SPECIFIC DUTY RATES SHOULD BE MAINTAINED IN REAL TERMS BY REGULAR SMALL ADJUSTMENTS.

THE DUTY RATES ON HYDROCARBON OILS, LIQUOR AND TOBACCO WERE ALL REVISED LAST YEAR. TO MAINTAIN THE REVENUE YIELD, HE PROPOSED TO INCREASE THE DUTY RATES ON THESE COMMODITIES BROADLY IN LINE WITH INFLATION.

HE SAID HE WAS AWARE THAT THESE INCREASES MIGHT BE CRITICISED AS ADDING TO INFLATIONARY PRESSURES, BUT THE DANGER OF NOT MAINTAINING SPECIFIC DUTY RATES WAS SIMPLY MUCH LARGER INCREASES AT A LATER DATE.

IMPORTED HYDROCARBON OILS

MR JACOBS PROPOSED AN INCREASE IN THE DUTY RATE ON MOTOR SPIRIT FROM \$2.55 A LITRE TO \$2.75 A LITRE, AND ON DIESEL OIL FOR ROAD VEHICLES FROM \$1.27 A LITRE TO \$1.37 A LITRE.

THE REFUND ON DIESEL OIL TO THE FRANCHISED BUS COMPANIES WOULD REMAIN AT 65 CENTS A LITRE, HE SAID.

THE ESTIMATED ADDITIONAL REVENUE ARISING FROM THESE INCREASES WOULD BE SOME \$143 MILLION IN 1989-90.

INTOXICATING LIQUOR AND ALCOHOL

MR JACOBS MADE A NUMBER OF PROPOSALS IN RELATION TO INTOXICATING LIQUOR AND ALCOHOL.

THE FIRST CONCERNED BEER ON WHICH DUTY WAS CURRENTLY ASSESSED ON THE QUANTITY AND THE ORIGINAL SPECIFIC GRAVITY OF THE PRODUCT RELEASED TO THE LOCAL MARKET.

MR JACOBS SAID THE "ANTIQUATED" PROCEDURES INVOLVED, WHICH DATED BACK TO THE EARLY YEARS OF THIS CENTURY, WERE CUMBERSOME AND EXPENSIVE TO ADMINISTER, AND WERE NOT APPROPRIATE IN TODAY'S RAPIDLY EXPANDING BEER MARKET.

TO OVERCOME THESE PROBLEMS, HE PROPOSED THAT DUTY BE ASSESSED SOLELY ON THE VOLUME OF BEER, WHETHER RELEASED FROM A LOCAL BREWERY OR IMPORTED.

"I EXPECT BOTH THE TRADE AND THE CUSTOMS AND EXCISE DEPARTMENT TO BENEFIT FROM THE IMPROVED EFFICIENCY AND REDUCED COSTS THIS NEW ARRANGEMENT WILL BRING," HE SAID.

"AFTER TAKING ACCOUNT OF THE INCREASE REQUIRED TO MAINTAIN THE REVENUE YIELD IN REAL TERMS, THE REVISED DUTY RATE WILL BE \$220 A HECTOLITRE."

THE FULL DUTY INCREASE IS EQUIVALENT TO LESS THAN ONE CENT ON A CAN ON LOCALLY BREWED BEER.

MR JACOBS ALSO PROPOSED AN INCREASE IN THE SPECIFIC DUTY RATE ON LIQUEURS, WHISKY, GIN, RUM, VODKA AND ALL OTHER SPIRITUOUS LIQUORS, EXCEPT BRANDY, BY \$4 A LITRE FROM \$48 TO \$52.

IN ADDITION, HE PROPOSED TO ELIMINATE THE EXISTING DIFFERENTIAL ON SPECIFIC DUTY RATES BETWEEN BRANDY AND ALL OTHER SPIRITUOUS LIQUORS, BY REDUCING THE SPECIFIC DUTY RATE ON BRANDY BY \$3 A LITRE FROM \$55 TO \$52.

/IN ORDER

IN ORDER TO RESTORE THEIR REAL VALUE, HE PROPOSED TO INCREASE BY EIGHT PER CENT THE SPECIFIC DUTY RATES IN RESPECT OF CHAMPAGNE AND SPARKLING WINES, STILL WINES, CIDER AND PERRY, NON-EUROPEAN TYPE WINES AND CHINESE TYPE SPIRITS.

HIS LAST PROPOSAL IN RELATION TO DUTIES ON INTOXICATING LIQUORS AND ALCOHOL WAS TO INCREASE THE BASIC RATES FOR ETHYL ALCOHOL AND METHYL ALCOHOL FROM \$455 TO \$490 A HECTOLITRE.

ASSUMING NO CONSUMER RESISTANCE, MR JACOBS SAID, HE ESTIMATED THE ADDITIONAL REVENUE YIELD TO BE \$21 MILLION IN 1989-90.

TOBACCO

MR JACOBS PROPOSED AN INCREASE IN THE DUTY ON CIGARETTES FROM \$175 TO \$190 PER 1,000 STICKS.

THE DUTY ON CIGARS WOULD BE INCREASED FROM \$233 TO \$250 A KILOGRAM; ON SMOKING TOBACCO FROM \$212 TO \$230 A KILOGRAM; AND ON CHINESE PREPARED TOBACCO FROM \$45.50 TO \$50 A KILOGRAM.

HE ESTIMATED THE ADDITIONAL REVENUE YIELD TO BE \$102 MILLION IN 1989-90.

ALL THE CHANGES IN DUTY RATES WERE THE SUBJECT OF PUBLIC REVENUE PROTECTION ORDERS AND CAME INTO EFFECT THIS AFTERNOON.

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INCREASES IN FEES, CHARGES TO YIELD \$287 MILLION
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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, TODAY (WEDNESDAY) PROPOSED INCREASES IN A NUMBER OF FEES AND CHARGES WHICH ARE EXPECTED TO YIELD SOME \$287 MILLION IN REVENUE IN 1989-90.

THE INCREASES AFFECT BUSINESS REGISTRATION FEES, VEHICLE AND DRIVING LICENCE FEES, DEPOSIT-TAKING COMPANY LICENCE AND REGISTRATION FEES, AND FERRY PASSENGER EMBARKATION AND PORT RELATED FEES.

PRESENTING HIS BUDGET IN THE LEGISLATIVE COUNCIL, MR JACOBS NOTED THAT THE POLICY ON FEES AND CHARGES CONTINUED TO BE THAT SERVICES SHOULD GENERALLY BE PAID FOR BY THOSE WHO USED THEM.

HE PROPOSED THAT WITH EFFECT FROM APRIL 1 THIS YEAR, THE BUSINESS REGISTRATION FEE SHOULD BE INCREASED FROM \$550 TO \$630.

"THE FEE WILL APPLY TO ALL REGISTERED BUSINESSES, BUT SMALL BUSINESSES WILL CONTINUE TO BE GRANTED EXEMPTION IF THEIR MONTHLY TURNOVER DOES NOT EXCEED CERTAIN PRESCRIBED LIMITS," HE SAID.

/MR JACOBS

MR JACOBS ESTIMATED THE ADDITIONAL REVENUE ARISING FROM THE INCREASE TO BE SOME \$37 MILLION IN 1989-90.

THE LEVY OF \$100 FOR THE PROTECTION OF WAGES ON INSOLVENCY FUND WAS SEPARATE AND NOT AFFECTED BY THE PROPOSAL, HE ADDED.

ON VEHICLE AND DRIVING LICENCE FEES, MR JACOBS PROPOSED INCREASES BY EIGHT PER CENT FROM THE LEVELS SET LAST YEAR.

THE FOLLOWING TABLE SHOWS THE EXISTING AND PROPOSED VEHICLE AND DRIVING LICENCE FEES:

	EXISTING FEES ----- (\$)	PROPOSED FEES ----- (\$)
1. DRIVING LICENCES		

FULL	190 P.A.	205 P.A.
DRIVING INSTRUCTOR'S	580 P.A.	625 P.A.
LEARNER'S	390 P.A.	420 P.A.
TEMPORARY	190	205
DRIVING TEST	390	420
DRIVING INSTRUCTOR'S TEST	390	420
INTERNATIONAL DRIVING PERMIT	60 P.A.	65 P.A.
DUPLICATE LICENCE	85	90
DUPLICATE INTERNATIONAL DRIVING PERMIT	60	65
RECORD OF CONVICTIONS	45	50
CERTIFICATE OF NO RECORDED CONVICTION	45	50

2. VEHICLE LICENCES

GOODS VEHICLES AND SPECIAL PURPOSE VEHICLE

NOT EXCEEDING 1.9 TONNES	900	970
EXCEEDING 1.9 TONNES BUT NOT EXCEEDING 5.5 TONNES	1,750	1,890
EXCEEDING 5.5 TONNES	3,500	3,780
TAXI	2,330	2,515

/PRIVATE CAR

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PRIVATE CAR

NOT EXCEEDING 1,500 CC	2,915	3,150
EXCEEDING 1,500 CC BUT NOT EXCEEDING 2,500 CC	4,345	4,690
EXCEEDING 2,500 CC BUT NOT EXCEEDING 3,500 CC	5,775	6,235
EXCEEDING 3,500 CC BUT NOT EXCEEDING 4,500 CC	7,210	7,785
EXCEEDING 4,500 CC	8,585	9,270
ADDITIONAL FEE FOR PRIVATE CAR USING DIESEL FUEL	1,115	1,205

ELECTRICALLY POWERED PASSENGER VEHICLES

NOT EXCEEDING 1 TONNE	340	365
FOR EACH ADDITIONAL 250 KG	70	75

MOTOR CYCLE	920	990
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MOTOR TRICYCLE	920	990
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PUBLIC LIGHT BUS	6,360	6,870
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PRIVATE LIGHT BUS	2,015	2,175
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PUBLIC BUS

FOR THE DRIVER	17	20
ADDITIONAL FEE FOR EACH SEAT	39	40

PRIVATE BUS

FOR THE DRIVER	17	20
ADDITIONAL FEE FOR EACH SEAT	34	35

TRAILER

FOR EACH 250 KG OR PART THEREOF	22	25
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INVALID CARRIAGE	10	10
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MR JACOBS ESTIMATED THE INCREASES WOULD YIELD ADDITIONAL REVENUE OF \$103 MILLION IN 1989-90.

/AS REVENUE

WEDNESDAY, MARCH 1, 1989

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AS REVENUE FROM THE LICENSING AND REGISTRATION OF DEPOSIT-TAKING COMPANIES DID NOT COVER THE COSTS OF SUPERVISION, MR JACOBS PROPOSED TO INCREASE THESE LICENCE AND REGISTRATION FEES BY 15 PER CENT.

FOR INSTANCE, THE REGISTRATION FEE WOULD BE INCREASED FROM \$54,000 TO \$62,100, AND THE DEPOSIT-TAKING LICENCE FEE WOULD BE RAISED FROM \$183,600 TO \$211,140.

"THE ESTIMATED ADDITIONAL YIELD OF \$3 MILLION IN 1989-90 WILL REDUCE, THOUGH NOT ELIMINATE, THE UNDER-RECOVERY OF SUPERVISION COSTS," HE SAID.

ON PORT RELATED FEES, MR JACOBS POINTED OUT THAT A NEW VESSEL TRAFFIC MANAGEMENT SYSTEM FOR THE PORT WOULD BE COMMISSIONED LATER THIS YEAR.

TO DEFRAY IN PART THE COSTS OF INSTALLING AND OPERATING THE NEW SYSTEM, THE EMBARKATION FEE FOR PASSENGERS DEPARTING FROM THE MACAU AND CHINA FERRY TERMINALS WOULD BE INCREASED FROM \$15 TO \$17.

THE INCREASE WOULD BE IMPLEMENTED WHEN THE NEW VESSEL TRAFFIC MANAGEMENT SYSTEM WAS COMMISSIONED, HE SAID.

AT THE SAME TIME, PORT AND LIGHT DUES WOULD ALSO BE INCREASED.

MR JACOBS ESTIMATED THE TOTAL ADDITIONAL REVENUE YIELD IN 1989-90 TO BE \$14 MILLION, AND \$29 MILLION IN A FULL YEAR.

HE ALSO NOTED THAT A NUMBER OF OTHER FEES AND CHARGES, INCLUDING WATER CHARGES, WERE SCHEDULED FOR NORMAL REVIEW THIS YEAR.

ADDITIONAL REVENUE OF ABOUT \$130 MILLION IN 1989-90 AND \$180 MILLION IN A FULL YEAR WAS EXPECTED FROM THESE SOURCES, HE ADDED.

THE INCREASES IN THE BUSINESS REGISTRATION FEE, DEPOSIT-TAKING COMPANY LICENCE AND REGISTRATION FEES, AND VEHICLE AND DRIVING LICENCE FEES TOOK EFFECT THIS AFTERNOON UNDER PUBLIC REVENUE PROTECTION ORDERS.

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WEDNESDAY, MARCH 1, 1989

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CUTS IN PERSONAL TAXATION PROPOSED

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REDUCTION IN PERSONAL TAXATION AND INCREASES IN PERSONAL ALLOWANCES, EFFECTIVE FROM APRIL 1, WERE PROPOSED BY THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, IN THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

PRESENTING HIS BUDGET, MR JACOBS PROPOSED A REDUCTION IN THE STANDARD RATE OF TAX, INCREASES IN PERSONAL ALLOWANCES, INCREASES IN CHILD AND DEPENDENT PARENT ALLOWANCES, AND THE INTRODUCTION OF A NEW ALLOWANCE FOR SINGLE PARENTS RESPONSIBLE FOR THE CARE OF DEPENDENT CHILDREN.

HE PROPOSED THAT THE STANDARD RATE OF PERSONAL TAXATION BE REDUCED FROM 15.5 PER CENT TO 15 PER CENT AND THAT BASIC PERSONAL ALLOWANCE BE INCREASED FROM \$29,000 TO \$32,000 FOR A SINGLE PERSON, AND FROM \$60,000 TO \$66,000 FOR A MARRIED COUPLE.

"TAKEN TOGETHER, THE NEW BASIC ALLOWANCE PLUS THE EXISTING ADDITIONAL PERSONAL ALLOWANCE WILL TOTAL \$39,000 FOR SINGLE PERSONS AND \$80,000 FOR MARRIED COUPLES; BELOW THESE INCOME LEVELS THERE WILL BE NO LIABILITY TO TAX," THE FINANCIAL SECRETARY SAID.

"AT THEIR MAXIMUM LEVELS, THE NEW ALLOWANCES WILL BE SLIGHTLY MORE THAN EIGHT PER CENT HIGHER THAN THE PRESENT COMBINED BASIC AND ADDITIONAL PERSONAL ALLOWANCES," MR JACOBS ADDED.

HE PROPOSED THAT THE CHILD ALLOWANCE BE INCREASED, FOR A FIRST CHILD, FROM \$12,000 TO \$13,000, AND FOR A SECOND CHILD FROM \$8,500 TO \$9,000.

AS FOR THE ALLOWANCE FOR A DEPENDENT PARENT, HE PROPOSED THAT THIS BE INCREASED FROM \$10,000 TO \$11,000, AND THAT THE TOTAL ALLOWANCE IN RESPECT OF A DEPENDENT PARENT WHO RESIDES WITH A TAXPAYER BE \$14,000.

MR JACOBS PROPOSED THAT A NEW ALLOWANCE OF \$20,000 BE PROVIDED FOR THOSE PARENTS, SUCH AS WIDOWS OR SINGLE PARENTS, WHO ARE SOLELY OR PREDOMINANTLY RESPONSIBLE FOR THE CARE OF DEPENDENT CHILDREN, BUT WHO ARE CURRENTLY INELIGIBLE FOR A PERSONAL ALLOWANCE AT THE HIGHER RATE APPLICABLE TO MARRIED PERSONS.

"I INTEND TO INTRODUCE THESE CONCESSIONS WITH EFFECT FROM THE YEAR OF ASSESSMENT COMMENCING APRIL 1, 1989. THEREFORE, THE FIRST OCCASION ON WHICH THEY WILL APPLY WILL BE TO PROVISIONAL AND FINAL TAX ASSESSMENTS FOR 1989-90, AND ALSO TO 1989-90 PERSONAL ASSESSMENTS.

"I ESTIMATE THAT THE COST TO THE REVENUE IN 1989-90 WILL BE ABOUT \$465 MILLION, AND \$650 MILLION FOR A FULL YEAR," MR JACOBS SAID.

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WEDNESDAY, MARCH 1, 1989

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REDUCTION IN PROFITS TAX TO 16.5 % PROPOSED

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A REDUCTION FROM 17 PER CENT TO 16.5 PER CENT IN THE RATE OF TAX ON CORPORATE PROFITS WAS PROPOSED IN THE BUDGET TODAY (WEDNESDAY).

THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, TOLD THE LEGISLATIVE COUNCIL THAT HE ALSO PROPOSED:

- * EXEMPTION FROM STAMP DUTY ON CERTAIN STOCK LENDING TRANSACTIONS;
- * INCREASING THE INITIAL ALLOWANCE FOR EXPENDITURE INCURRED ON QUALIFYING MACHINERY AND PLANT FROM 55 TO 60 PER CENT; AND
- * THE NEW STANDARD RATE ALSO APPLICABLE TO UNINCORPORATED BUSINESSES AND PROPERTIES.

MR JACOBS ESTIMATED THAT THE 0.5 REDUCTION IN PROFITS TAX WOULD COST \$345 MILLION IN 1989-90 AND \$695 MILLION IN A FULL YEAR.

THE NEW CORPORATE RATE OF 16.5 PER CENT WOULD APPLY TO PROVISIONAL AND FINAL ASSESSMENTS FOR 1989-90.

ON CAPITAL ALLOWANCES, HE SAID THIS WAS LAST REVISED, TO 55 PER CENT, IN 1982.

"IN GENERAL, I HOLD THE VIEW THAT IT IS BETTER TO REDUCE THE RATE OF TAX ON BUSINESS PROFITS, LEAVING IT OPEN TO BUSINESSMEN TO MAKE THEIR OWN DECISIONS ABOUT INVESTMENTS," HE SAID.

BUT HE POINTED OUT THAT A MORE GENEROUS REDUCTION THAN WHAT HE WAS PROPOSING WOULD BE INAPPROPRIATE AT THIS TIME, HAVING REGARD TO INFLATIONARY PRESSURES.

HE BELIEVED THAT IT WAS PREFERABLE THIS YEAR TO GIVE AN INCREASE IN CAPITAL ALLOWANCES BY WAY OF DIRECT ENCOURAGEMENT, BECAUSE MUCH OF THE ADDITIONAL INVESTMENT EXPENDITURE BY BUSINESSES WAS LIKELY TO BE SPENT ON IMPORTED GOODS AND SHOULD NOT CONTRIBUTE TO INFLATIONARY PRESSURES.

HE ESTIMATED THE COST TO REVENUE TO BE ABOUT \$110 MILLION IN 1989-90 AND \$150 MILLION IN A FULL YEAR.

THE INCREASED INITIAL ALLOWANCE OF 60 PER CENT WOULD BE APPLICABLE TO PROVISIONAL AND FINAL ASSESSMENTS FOR 1989-90.

MR JACOBS ALSO SAID THAT THE REDUCTION IN THE STANDARD RATE OF TAX WOULD AFFECT THE AMOUNT OF PROFITS TAX TO BE PAID BY UNINCORPORATED BUSINESSES, AND REDUCE YIELDS FROM PROPERTY TAX.

/HE ESTIMATED

HE ESTIMATED A \$40 MILLION COST TO REVENUE IN 1989-90 AND \$100 MILLION IN A FULL YEAR.

THE NEW STANDARD RATE, HE SAID, WOULD APPLY TO PROVISIONAL AND FINAL ASSESSMENTS ON UNINCORPORATED BUSINESSES, AND TO PROVISIONAL AND FINAL PROPERTY TAX ASSESSMENTS, FOR 1989-90.

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INTEREST TAX TO BE ABOLISHED

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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, TOLD THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY) THAT HE PROPOSED TO COMPLETELY ABOLISH INTEREST TAX FROM THE YEAR OF ASSESSMENT STARTING APRIL 1, 1989.

MR JACOBS SAID IN HIS BUDGET SPEECH THAT EXEMPTIONS FROM INTEREST WITHHOLDING TAX WERE GIVEN IN 1982 AND 1983 TO INTEREST ON FOREIGN CURRENCY DEPOSITS AND HONG KONG DOLLAR DEPOSITS WHERE THESE WERE HELD WITH FINANCIAL INSTITUTIONS.

"THIS HAS RESULTED IN THE YIELD FROM THIS TAX DECLINING SIGNIFICANTLY," HE SAID.

MR JACOBS SAID HE WAS PROPOSING THE ABOLITION OF INTEREST TAX TO SIMPLIFY THE TAXATION SYSTEM BECAUSE PRESENT DISCRIMINATION BETWEEN INTEREST PAID BY FINANCIAL INSTITUTIONS AND INTEREST PAID BY OTHER ENTITIES WAS SAID TO HAVE INHIBITED THE DEVELOPMENT OF HONG KONG.

HE ESTIMATED THE OVERALL COST OF THIS CONCESSION TO BE SOME \$140 MILLION IN 1989 - 90.

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IMPLEMENTATION OF REVENUE PROPOSALS

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BUDGET PROPOSALS FOR THE BUSINESS REGISTRATION FEE, DEPOSIT-TAKING COMPANY LICENCE AND REGISTRATION FEES, DUTIABLE COMMODITIES, AND VEHICLE AND DRIVING LICENCE FEES WERE THE SUBJECT OF PUBLIC REVENUE PROTECTION ORDERS SIGNED BY THE GOVERNOR YESTERDAY (TUESDAY).

THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID THIS WHEN PRESENTING HIS BUDGET IN THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

/DURING THE

DURING THE CURRENT LEGISLATIVE SESSION, A BILL TO AMEND THE INLAND REVENUE ORDINANCE WOULD BE INTRODUCED INTO THE LEGISLATIVE COUNCIL TO GIVE EFFECT TO THE TAX CONCESSIONS PROPOSED, MR JACOBS SAID.

OTHER INCREASES IN FEES AND CHARGES WOULD BE IMPLEMENTED DURING THE YEAR WHEN THE RELEVANT COSTING REVIEWS WERE COMPLETED, HE ADDED.

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PROPOSALS ON SEPARATE TAXATION EXPECTED LATER THIS YEAR

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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID TODAY (WEDNESDAY) THAT SUBJECT TO THE ADVICE OF THE EXECUTIVE COUNCIL HE HOPES TO BE ABLE TO PUT TO THE LEGISLATIVE COUNCIL LATER THIS YEAR DETAILED PROPOSALS ON SEPARATE TAXATION FOR MARRIED WOMEN.

ASSUMING THAT THIS TIMETABLE COULD BE MET, IT SHOULD BE POSSIBLE TO GIVE EFFECT TO THE PROPOSALS IN FINAL TAX ASSESSMENTS FOR 1989-90, MR JACOBS SAID IN HIS BUDGET SPEECH.

HE RECALLED THAT IN HIS SPEECH CONCLUDING THE DEBATE ON LAST YEAR'S BUDGET, HE UNDERTOOK TO INTRODUCE SEPARATE TAXATION AS SOON AS PRACTICABLE, HOPEFULLY DURING 1990.

SINCE THEN, MUCH WORK HAD BEEN DONE ON THE NECESSARY ADMINISTRATIVE AND LEGAL ARRANGEMENTS, HE SAID.

TURNING TO OTHER TAXATION MATTERS, MR JACOBS NOTED THAT THERE HAD BEEN CALLS FOR AN AMENDMENT TO THE INLAND REVENUE ORDINANCE TO ALTER THE DEFINITION OF SECURITIES SO THAT A WIDER RANGE OF PROFITS MADE BY AUTHORISED UNIT TRUSTS WAS EXCLUDED FROM PROFITS TAX.

"I HAVE ALSO RECEIVED REPRESENTATIONS THAT MUTUAL FUND CORPORATIONS BE EXEMPTED FROM PROFITS TAX IN A SIMILAR MANNER TO UNIT TRUSTS," HE SAID.

THERE HAD ALREADY BEEN CONSULTATION WITH THE SECURITIES INDUSTRY, AND THE GOVERNMENT WAS GIVING FURTHER THOUGHT TO THESE PROPOSALS, HE SAID.

ON TAXATION OF THE SHIPPING INDUSTRY, MR JACOBS SAID THAT THE GOVERNMENT HAD IN RECENT MONTHS CONSULTED WITH THE UNITED STATES AUTHORITIES AS TO HOW THE LOCAL SHIPPING INDUSTRY MIGHT OVERCOME THE PROBLEMS POSED BY THE 1986 U.S. TAX REFORM ACT.

"WE HAVE AGREED THAT THE BEST WAY TO RESOLVE THE PRESENT DIFFICULTIES IS TO FORMALISE ARRANGEMENTS FOR THE RECIPROCAL TAX EXEMPTION OF INCOME DERIVED FROM THE INTERNATIONAL OPERATION OF SHIPS.

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"I HOPE TO BE IN A POSITION TO ANNOUNCE DETAILS OF THE ARRANGEMENTS IN THE NOT TOO DISTANT FUTURE," HE SAID.

MR JACOBS ALSO NOTED THAT THERE HAD BEEN GROWING INTEREST IN HONG KONG IN THE USE OF VENTURE CAPITAL, WHICH WAS A FORM OF FINANCING WHEREBY VENTURE CAPITALISTS MADE EQUITY INVESTMENTS IN NEW BUSINESS WITH GROWTH POTENTIAL.

THE MAJOR RETURN TO THE VENTURE CAPITALIST AROSE WHEN HE DISPOSED OF HIS INVESTMENT.

MR JACOBS SAID THAT ONE OF THE RESTRICTIONS ON THE GROWTH OF VENTURE CAPITAL FINANCING IN HONG KONG WAS SAID TO BE THE UNCERTAINTY WHICH AT PRESENT EXISTED AS TO WHETHER PROFITS ARISING ON DISINVESTMENT WERE LIABLE TO PROFITS TAX.

IN SOME JURISDICTIONS THE PROBLEM HAD BEEN RESOLVED BY COMPLEX LEGISLATION.

"I AM ALWAYS WARY OF COMPLICATING OUR TAX SYSTEM UNNECESSARILY BUT I AM, NEVERTHELESS, GIVING THIS MATTER CAREFUL CONSIDERATION IN ORDER TO ASSESS WHETHER A SUITABLE CONCESSION WOULD BE HELPFUL TO THE FURTHER DEVELOPMENT OF INDUSTRY IN HONG KONG," HE SAID.

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BUDGET MEETS OUR CHALLENGES

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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, BELIEVED THAT THIS YEAR'S BUDGET SUCCESSFULLY MET THE CHALLENGE OF RECONCILING THE CONFLICTING PRESSURES OF INFLATION, BUDGET SURPLUSES, AND THE NEED TO PROVIDE FOR MAJOR INFRASTRUCTURAL REQUIREMENTS.

SUMMING UP HIS BUDGET SPEECH TO THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY), MR JACOBS SAID BECAUSE THE SITUATION WAS COMPLEX, IT WAS MORE IMPORTANT THAN EVER FOR HIM TO EXPLAIN THE PRECISE NATURE OF THE PROBLEMS FACED AND THE RATIONALE BEHIND HIS PROPOSALS.

ON INFLATION, HE POINTED OUT THAT INCREASED PUBLIC EXPENDITURE IN PRESENT CIRCUMSTANCES RAN THE RISK OF FUELLING INFLATION.

"TAX CONCESSIONS CAN HAVE THE SAME EFFECT. I COULD NOT, HOWEVER, RULE OUT ALL EXPENDITURE INCREASES, SINCE THAT COULD DAMAGE OUR FUTURE ECONOMIC GROWTH AND THE WELL BEING OF OUR COMMUNITY.

"NEITHER COULD I RULE OUT ALL TAX CONCESSIONS, WHEN CLEARLY THE SIZE OF THE BUDGET SURPLUS LEADS TO STRONG EXPECTATIONS OF SOME REDUCTION IN TAX RATES.

/MY PROPOSALS

"MY PROPOSALS HAVE BEEN CONSCIOUSLY FRAMED WITH DUE REGARD TO THE RISKS INVOLVED, AND I DO NOT BELIEVE THAT THIS BUDGET WILL ADD SIGNIFICANTLY TO INFLATION," MR JACOBS SAID.

THE PROPOSED REDUCTIONS IN THE RATES OF SALARIES TAX AND PROFITS TAX WOULD RESTORE HONG KONG TO THE POSITION WHICH OBTAINED FIVE YEARS AGO WHEN THE RATES HAD TO BE RAISED IN THE FACE OF A SHARP SLOWDOWN IN THE ECONOMY, HE SAID.

"THE RESTORATION HAS BEEN ACHIEVED STEADILY AND WITHOUT DISTURBING THE STABILITY OF OUR PUBLIC FINANCES," MR JACOBS SAID.

ON EXPENDITURE, HE STRESSED THAT ACTIVITIES IN THE PUBLIC SECTOR MUST NOT BE REVENUE LED.

"WE SHOULD NOT SPEND MORE SIMPLY BECAUSE WE HAVE COLLECTED MORE. THE PRINCIPAL CONSIDERATION MUST BE TO ESTABLISH AND THEN MAINTAIN A PROPER RELATIONSHIP OVER TIME BETWEEN PUBLIC EXPENDITURE AND THE PERFORMANCE OF THE ECONOMY.

"THERE MAY BE OCCASIONS WHEN THE BREACHING OF OUR BUDGETARY GUIDELINES CAN BE JUSTIFIED.

"SOME ARGUE THAT THE PUBLIC SECTOR'S SHARE OF THE ECONOMY SHOULD BE INCREASED TO PROVIDE THE KIND OF QUALITATIVE IMPROVEMENTS IN SERVICES THAT OUR ECONOMY NOW EXPECTS.

"BUT THE PUBLIC SECTOR SHARE OF GDP MUST NOT BE INCREASED TO THE POINT WHERE THE WEALTH-PRODUCING CAPACITY OF THE PRIVATE SECTOR IS SERIOUSLY IMPAIRED.

"I MENTION THIS MATTER NOT AS A PRECURSOR TO A CHANGE IN BUDGETARY POLICY, BUT AS AN INDICATION OF THE PROBLEM THAT WE FACE," HE SAID.

MR JACOBS SAID IT WAS CLEAR THAT IN ORDER TO PROVIDE RESOURCES FOR NEW OR IMPROVED SERVICES, IT WAS NECESSARY TO BE INCREASINGLY VIGOROUS IN ATTACKING BASELINE EXPENDITURE.

"IN OTHER WORDS, WE MUST ENSURE THAT WE MAKE MAXIMUM USE OF THE REDEPLOYMENT OF EXISTING RESOURCES IN ORDER TO ACHIEVE THE NATURE AND QUALITY OF SERVICES THAT ARE NEEDED TODAY AND IN THE FUTURE," HE SAID.

MR JACOBS SAID THAT DIRECT TAXATION RATES WERE BACK TO WHERE THEY WERE BEFORE HONG KONG FACED A DEFICIT IN PUBLIC FINANCES.

"OUR PROGRAMME OF PUBLIC EXPENDITURE HAS BEEN MAINTAINED, AND WE HAVE BEGUN TO SET ASIDE FUNDS TOWARDS THE CONSIDERABLE INFRASTRUCTURAL PROGRAMME THAT IS VITAL TO OUR FUTURE ECONOMIC GROWTH.

"I HAVE PROPOSED OTHER TAXATION MEASURES DESIGNED TO PROMOTE INVESTMENT AND TO STIMULATE AND ENCOURAGE FURTHER THE DEVELOPMENT OF HONG KONG AS A FINANCIAL CENTRE AND CAPITAL MARKET.

"THIS IS A BUDGET WHICH I CAN COMMEND TO THIS COUNCIL," MR JACOBS CONCLUDED.

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FS'S SPEECH ON TV AND RADIO

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FOLLOWING IS THE TEXT OF THE BUDGET SUMMARY DELIVERED BY THE FINANCIAL SECRETARY ON TELEVISION AND RADIO STATIONS THIS (WEDNESDAY) EVENING:

"EARLIER TODAY IN THE LEGISLATIVE COUNCIL I PRESENTED MY BUDGET FOR THE COMING FINANCIAL YEAR. IN PREPARING THIS BUDGET, I HAD TO TAKE INTO ACCOUNT THREE KEY FACTORS. LET ME BEGIN, THEREFORE, BY SAYING SOMETHING ABOUT EACH OF THEM, AND EXPLAINING WHY THEY ARE IMPORTANT AND HOW THEY INTERACT.

"FIRST, INFLATION. HONG KONG CONTINUES TO PROSPER, AND THE INFLATION WE ARE EXPERIENCING IS CAUSED BY THE VERY SUCCESS OF OUR ECONOMY. THE CURRENT STRONG DEMAND FOR OUR GOODS AND SERVICES HAS PUSHED UP PRICES. WE ARE ALL FEELING THE EFFECTS OF THIS. BUT OVER TIME, THE ECONOMY WILL ADJUST, AND INFLATION SHOULD EASE. I AM FORECASTING THAT THIS WILL HAPPEN LATER THIS YEAR. WHAT I HAVE HAD TO DO IS TO ENSURE THAT MY BUDGET PROPOSALS WILL NOT MAKE MATTERS WORSE.

"THE SECOND KEY FACTOR IS THE CONSIDERABLE BUDGET SURPLUS. SOME WILL SEE THIS SURPLUS AS PROVIDING AN OPPORTUNITY TO EXPAND PUBLIC SERVICES OR REDUCE TAXATION. I CAN UNDERSTAND THIS POINT OF VIEW. BUT SUBSTANTIAL INCREASES IN GOVERNMENT SPENDING OR SHARP REDUCTIONS IN TAXATION WOULD ADD TO THE INFLATIONARY PRESSURE. NEVERTHELESS, I AM PLEASED TO SAY THAT IT HAS BEEN POSSIBLE TO MAKE SOME PROVISION NOT ONLY FOR FURTHER IMPROVEMENTS IN SERVICES BUT ALSO FOR MODEST REDUCTIONS IN TAX RATES.

"THIRDLY, THERE IS A NEED TO BUILD FOR OUR FUTURE. IMPROVEMENTS TO OUR ROAD AND RAIL NETWORKS, THE PORT, AND THE ENVIRONMENT ALL HAVE TO BE PROVIDED FOR IF WE ARE TO CONTINUE TO FORGE AHEAD IN THE 1990'S AND BEYOND. A NEW AIRPORT, TOGETHER WITH THE ASSOCIATED INFRASTRUCTURE, WOULD INVOLVE FURTHER MASSIVE EXPENDITURE. AND SO I HAVE DECIDED TO BEGIN PUTTING MONEY ASIDE NOW. THIS YEAR, AS A FIRST STEP, I AM SETTING ASIDE \$7 BILLION TOWARDS THE MAJOR WORKS WHICH WE WILL NEED AS WE APPROACH THE 21ST CENTURY.

"SO MY TASK HAS BEEN TO RECOGNISE THE IMMEDIATE ASPIRATIONS OF OUR COMMUNITY, WHILST AT THE SAME TIME SAFEGUARDING HONG KONG'S PROSPERITY IN THE LONGER TERM.

"WHEN I SPOKE TO YOU AFTER MY BUDGET LAST YEAR, I EXPECTED THAT OUR ECONOMIC GROWTH WOULD BEGIN TO SLOW DOWN IN 1988. THIS PROVED TO BE THE CASE. THE GROWTH RATE FOR 1988 WAS 7.5 PER CENT. AND IN 1989 I EXPECT 6 PER CENT. EVEN SO WE SHOULD CONTINUE TO ENJOY ECONOMIC GROWTH AT A RATE WHICH MANY WOULD ENVY.

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"DESPITE THE NEED TO CONTROL THE GROWTH OF PUBLIC SPENDING, I HAVE BEEN ABLE TO PROVIDE FOR SIGNIFICANT IMPROVEMENTS IN SOME PUBLIC SERVICES. WE PLAN TO SPEND NEARLY \$12 BILLION ON HEALTH AND WELFARE, AN INCREASE OF 12 PER CENT. EXPENDITURE ON EDUCATION WILL INCREASE TO \$13 BILLION AND ON HOUSING TO NEARLY \$11 BILLION. SPENDING IN THESE THREE AREAS ALONE WILL REPRESENT 45 PER CENT OF OUR TOTAL BUDGET. AND EXPENDITURE ON COMMUNITY RELATIONS AND ON THE ENVIRONMENT, TRANSPORT AND WATER SUPPLIES WILL ALL INCREASE. THIS UNDERLINES OUR CONTINUING COMMITMENT TO IMPROVING THE QUALITY OF LIFE IN HONG KONG.

"FIVE YEARS AGO THE STATE OF OUR PUBLIC FINANCES OBLIGED US TO RAISE SALARIES AND PROFITS TAX RATES. TODAY OUR REVENUE REFLECTS HONG KONG'S RECENT ECONOMIC SUCCESS, AND I AM PLEASED TO BE ABLE TO TELL YOU THAT I AM NOW IN A POSITION TO COMPLETE THE PROCESS OF RESTORING THESE DIRECT TAXES TO THEIR 1983 LEVELS. THIS MEANS THAT THE STANDARD RATE OF TAX FOR SALARIES WILL BE 15 PER CENT AND FOR CORPORATE PROFITS 16.5 PER CENT.

"I HAVE ALSO INCREASED A NUMBER OF PERSONAL ALLOWANCES AND HAVE PROPOSED A NEW ALLOWANCE OF \$20,000 FOR THOSE PARENTS, SUCH AS WIDOWS OR SINGLE PARENTS, WHO ARE SOLELY OR PREDOMINANTLY RESPONSIBLE FOR THE CARE OF DEPENDENT CHILDREN. I CONSIDERED THAT THIS GROUP DESERVED SOME ADDITIONAL RELIEF.

"AND IN ORDER TO FOSTER THE DEVELOPMENT OF HONG KONG AS A FINANCIAL CENTRE, I HAVE ALSO DECIDED TO ABOLISH INTEREST TAX COMPLETELY.

"ALL THE CONCESSIONS I HAVE PROPOSED, WHEN TAKEN TOGETHER, WILL REDUCE REVENUE BY \$1.7 BILLION IN A FULL YEAR. PART OF THIS COST IS, HOWEVER, BEING OFFSET BY THE USUAL ADJUSTMENTS TO DUTIES, FEES AND CHARGES SO THAT THEIR REAL VALUE MAY BE RESTORED.

"LOOKING AHEAD, WE ARE MAKING GOOD PROGRESS WITH ARRANGEMENTS FOR SEPARATE TAXATION FOR MARRIED WOMEN; MY AIM IS TO GIVE EFFECT TO THIS IN FINAL TAX ASSESSMENTS FOR 1989-90. THIS WILL IN DUE COURSE GIVE SOME ADDITIONAL RELIEF TO MANY SALARIES TAX PAYERS.

"SOME WOULD NO DOUBT HAVE LIKED ME TO REDUCE TAX RATES STILL FURTHER IN VIEW OF OUR HEALTHY FINANCIAL STATE, BUT IN OUR PRESENT CIRCUMSTANCES, IT WOULD HAVE BEEN UNWISE TO DO SO BECAUSE THIS COULD WELL HAVE ADDED TO INFLATION.

"IN PREPARING MY BUDGET I HAVE, AS USUAL, BEEN CONSCIOUS OF THE NEED FOR PRUDENT LONG TERM PLANNING. THE CAPITAL WORKS PROGRAMME IS BEING EXPANDED AND A SUBSTANTIAL SUM HAS BEEN SET ASIDE TOWARDS THE COST OF MAJOR INFRASTRUCTURAL DEVELOPMENTS WHICH HONG KONG IS GOING TO REQUIRE IN THE NEXT DECADE AND BEYOND. THE BUDGET CATERS NOT ONLY FOR THE NEEDS AND AMBITIONS OF THE COMMUNITY TODAY BUT IS ALSO DESIGNED TO FURTHER HONG KONG'S PROGRESS AND PROSPERITY FOR THE FUTURE.

"GOOD NIGHT."

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BUDGET PRESS CONFERENCE

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THE FINANCIAL SECRETARY, MR PIERS JACOBS, WILL GIVE A PRESS CONFERENCE ON THE BUDGET TOMORROW (THURSDAY) IN THE GIS PRESS CONFERENCE ROOM, FIFTH FLOOR, BEACONSFIELD HOUSE, CENTRAL.

THE PRESS CONFERENCE WILL BEGIN AT 4 PM.

ALSO PRESENT WILL BE THE DEPUTY SECRETARY FOR MONETARY AFFAIRS, MR JOSEPH YAM; GOVERNMENT ECONOMIST, DR ALAN MCLEAN; AND THE COMMISSIONER OF INLAND REVENUE, MR ANTHONY AU-YEUNG.

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NOTE TO EDITORS:

YOU ARE INVITED TO COVER THE PRESS CONFERENCE.

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