



DAILY INFORMATION BULLETIN

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

WEDNESDAY, MARCH 2, 1988

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EFFECTIVE INTELLECTUAL PROPERTY REGIME VITAL TO ECONOMIC GROWTH

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THE GOVERNMENT RECOGNISES THAT THE PROVISION OF AN EFFECTIVE INTELLECTUAL PROPERTY REGIME IS ESSENTIAL TO HONG KONG'S ECONOMIC GROWTH AND TECHNOLOGICAL ADVANCEMENT, THE SECRETARY FOR TRADE AND INDUSTRY, MR HAMISH MACLEOD, SAID TODAY (WEDNESDAY).

SPEAKING AT THE OPENING OF A SYMPOSIUM ON INDUSTRIAL PROPERTY AND ECONOMIC AND TECHNOLOGICAL DEVELOPMENT, HE SAID A STRONG LEGISLATIVE/JUDICIAL FRAMEWORK WAS IMPORTANT TO PROMOTE LOCAL INNOVATION AND DEVELOPMENT.

"EQUALLY IMPORTANT IS THE COMMITMENT TO EFFECTIVE ENFORCEMENT OF LEGISLATION AND IN THIS, HONG KONG HAS A VERY GOOD RECORD."

MR MACLEOD SAID HOWEVER THAT HONG KONG WAS NOT COMPLACENT AND WAS REVIEWING ITS EXISTING LEGISLATION AND ENFORCEMENT CONTROLS TO ENSURE THAT IT COULD CONTINUE TO MEET THE CHALLENGES OF THE FUTURE.

ON COPYRIGHT, HE SAID HONG KONG'S PRESENT LAW WAS BASED ON THE U.K. COPYRIGHT ACT OF 1956 WHICH HAD BEEN OVERTAKEN BY TECHNOLOGY IN A NUMBER OF IMPORTANT WAYS.

"THE LAW REFORM COMMISSION IS NOW CONSIDERING IN DETAIL HONG KONG'S FUTURE REQUIREMENTS AND AS AN INTERIM MEASURE WE HAVE RECENTLY EXTENDED THE U.K. COPYRIGHT (COMPUTER SOFTWARE) AMENDMENT ACT 1985 TO HONG KONG TO ENSURE THAT COMPUTER PROGRAMMES ARE PROTECTED BY COPYRIGHT," HE SAID.

AS TO PATENT PROTECTION, MR MACLEOD SAID A PATENT STEERING COMMITTEE HAD BEEN STUDYING HONG KONG'S FUTURE NEEDS SINCE THE BEGINNING OF LAST YEAR, AND HOPED TO REPORT IN THE MIDDLE OF THIS YEAR.

HE ALSO NOTED THAT AT PRESENT, REGISTERED DESIGNS PROTECTION IN HONG KONG COULD BE ACHIEVED BY REGISTERING DESIGNS IN THE U.K.

"THIS IS A PARTICULARLY CONFUSED AREA OF THE LAW, AND BOTH THE LAW REFORM COMMISSION SUB-COMMITTEE STUDYING COPYRIGHT AND THE PATENT STEERING COMMITTEE HAVE IDEAS ON HOW THE POSITION SHOULD BE CLARIFIED.

"THE TWO COMMITTEES WILL BE LIAISING ON THIS SUBJECT TO MAP OUT A WORKABLE SOLUTION."

WHILE NOTING THAT HONG KONG WAS THE WORLD'S FOREMOST PRACTITIONER OF FREE TRADE, MR MACLEOD SAID THERE WERE PARALLELS BETWEEN FREE TRADE IDEALS AND INTELLECTUAL PROPERTY IDEALS.

HE ADDED THAT HONG KONG WAS COMMITTED TO THE IDEALS OF FREE TRADE AND THE PROTECTION OF INTELLECTUAL PROPERTY.

THE THREE-DAY SYMPOSIUM, WHICH IS ORGANISED BY THE WORLD INTELLECTUAL PROPERTY ORGANISATION AND THE JAPANESE PATENT OFFICE WITH THE ASSISTANCE OF THE HONG KONG GOVERNMENT, IS ATTENDED BY MORE THAN 40 LOCAL DELEGATES AND REPRESENTATIVES OF 14 ASIAN-PACIFIC COUNTRIES.

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COMMISSIONER FOR NARCOTICS PAYS TRIBUTE TO ACAN

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THE POLITICAL WILL THAT EXISTS IN HONG KONG AND THE PRACTICAL CO-OPERATION OF ALL MEMBERS OF THE ACTION COMMITTEE AGAINST NARCOTICS ARE REASONS FOR THE TERRITORY'S ACHIEVEMENTS IN THE FIGHT AGAINST DRUGS, THE COMMISSIONER FOR NARCOTICS, MR GARETH MULLOY, SAID IN NEW YORK ON MONDAY (FEBRUARY 29, NEW YORK TIME).

HE SAID THIS WHEN ASKED WHY HONG KONG WAS CITED BY U.S. OFFICIALS AS A MODEL FOR THE U.S. AND OTHER COUNTRIES.

MR MULLOY MENTIONED, IN PARTICULAR, THE ROYAL HONG KONG POLICE FORCE AND CUSTOMS AND EXCISE OFFICERS, THE CORRECTIONAL SERVICES AND MEDICAL AND HEALTH DEPARTMENTS, THE SOCIETY FOR THE AID AND REHABILITATION OF DRUG ABUSERS (SARDA) AND VOLUNTARY ORGANISATIONS IN HONG KONG.

MR MULLOY WAS IN NEW YORK CITY EN ROUTE TO WASHINGTON, D.C. WHERE HE IS A PANELLIST IN THE WHITE HOUSE CONFERENCE FOR A DRUG FREE AMERICA BETWEEN FEBRUARY 28 AND MARCH 3.

IN HARLEM, HE VISITED THE INTERIM METHADONE CLINIC WHICH IS MODELLED PRECISELY ON THE LINES OF HONG KONG'S METHADONE CLINICS AND WHICH IS KNOWN AS AN "INNOVATIVE AIDS RISK REDUCTION PROJECT".

LATER, AT A WORKING LUNCH ORGANISED BY THE PRESIDENT OF THE BETH ISRAEL MEDICAL CENTER, DR ROBERT NEWMAN, MR MULLOY MET AND ADDRESSED A DISTINGUISHED GATHERING OF U.S. MEDICAL AUTHORITIES AND OFFICIALS INVOLVED IN THE FIGHT AGAINST DRUGS.

HE OUTLINED THE HISTORY OF HONG KONG'S DRUG TRAFFICKING AND ABUSE AND DETAILED THE VARIOUS SERVICES PROVIDED TO COMBAT DRUGS.

MANY MEMBERS OF THE AUDIENCE COMMENTED FAVOURABLY ON SEVERAL ASPECTS OF HONG KONG'S ANTI-DRUG PROGRAMME, IN PARTICULAR THE METHADONE CLINICS, THE CENTRAL REGISTRY OF DRUG ABUSE AND THE PREVENTIVE EDUCATION AND PUBLICITY PROGRAMMES.

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\$213 MILLION CONTRACT AWARDED TO IMPROVE NT CIRCULAR ROAD
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THE HIGHWAYS DEPARTMENT TODAY (WEDNESDAY) AWARDED A \$213 MILLION CONTRACT TO THE CHINA FUJIAN CORPORATION FOR INTERNATIONAL TECHNO-ECONOMIC CO-OPERATION (CFC) FOR BUILDING A ROAD AS PART OF THE NEW TERRITORIES CIRCULAR ROAD IMPROVEMENT PROJECT.

THE CONTRACT WAS SIGNED BETWEEN THE DIRECTOR OF HIGHWAYS, MR HAROLD BEATON, AND THE VICE-PRESIDENT OF CFC, MR HUANG XUNGENG.

THE CONTRACT MAINLY COVERS A THREE-KILOMETRE-LONG HIGH CAPACITY DUAL TWO-LANE TRUNK ROAD FROM FAIRVIEW PARK TO AU TAU.

CONSTRUCTION WILL START SOON AND BE COMPLETED IN LATE 1990.

THE NEW TERRITORIES CIRCULAR ROAD IMPROVEMENT PROJECT IS BEING CARRIED OUT IN FIVE PHASES AT A TOTAL COST OF \$1.3 BILLION.

THE FIRST FOUR PHASES INVOLVE THE CONSTRUCTION OF A 12-KILOMETRE-LONG HIGH CAPACITY TRUNK ROAD FROM FAN KAM ROAD TO AU TAU, RUNNING ALONG THE ALIGNMENT OF THE EXISTING CASTLE PEAK ROAD THROUGH KWU TUNG, SAN TIN, MAI PO AND SAN WAI. THE FIFTH PHASE IS THE CONSTRUCTION OF THE AU TAU BYPASS.

THE WORKS COVERED BY THE NEW CONTRACT WILL FORM THE FOURTH PHASE OF THE IMPROVEMENT PROJECT.

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GROUND BREAKING FOR NEW PTU HEADQUARTERS
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THE ACTING COMMISSIONER OF POLICE, MR LI KWAN-HA, TODAY (WEDNESDAY) OFFICIATED AT A GROUND BREAKING CEREMONY MARKING THE COMMENCEMENT OF THE PHASE II BUILDING CONTRACT FOR THE FUTURE POLICE TACTICAL UNIT (PTU) HEADQUARTERS AT VOLUNTEER SLOPES, FANLING.

THE NEW BASE, AT AN ESTIMATED COST OF \$170 MILLION, WILL INCLUDE AN ADMINISTRATION BLOCK, BARRACKS, CLASSROOMS, RANGES, A GYMNASIUM, AND A SWIMMING POOL.

IT IS EXPECTED THAT THE PTU WILL MOVE INTO THE NEW COMPLEX IN EARLY 1990.

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REGIONAL SECRETARY URGES VOTERS TO CAST VOTES
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THE REGIONAL SECRETARY FOR THE NEW TERRITORIES, MR MICHAEL SUEN, TONIGHT (WEDNESDAY) URGED VOTERS IN THE TAI PO DISTRICT TO CAST THEIR VOTES IN THE DISTRICT BOARD ELECTIONS ON MARCH 10.

SPEAKING AT THE CLOSING CEREMONY OF THE TAI PO DISTRICT LUNAR NEW YEAR PROGRAMME AT THE TAI PO CIVIC CENTRE, MR SUEN SAID THAT BY VOTING, THEY WOULD BE ABLE TO ELECT PEOPLE WHO WERE WILLING TO SERVE THE PUBLIC TO HELP BUILD A SUCCESSFUL COMMUNITY.

DISTRICT BOARD MEMBERS HAD PROVIDED VALUABLE OPINIONS ON DISTRICT MATTERS TO THE GOVERNMENT SINCE THE IMPLEMENTATION OF THE DISTRICT ADMINISTRATION SCHEME IN 1981, MR SUEN NOTED.

THE MEMBERS HAD ALSO PARTICIPATED ACTIVELY IN THE PLANNING AND LAUNCHING OF RECREATIONAL, SPORTS, CIVIC EDUCATION AND SOCIAL SERVICES ACTIVITIES.

NOTING THAT MANY DEVELOPMENTS IN THE TAI PO NEW TOWN WOULD BE COMPLETED WITHIN FIVE TO SEVEN YEARS, MR SUEN POINTED OUT THAT THE GOVERNMENT HAD TO SEEK RESIDENTS' VIEWS IN ORDER TO ENSURE A BALANCED DEVELOPMENT FOR THE NEW TOWN.

THE DISTRICT BOARD HAD PLAYED A VERY IMPORTANT ROLE IN REFLECTING THESE VIEWS, HE SAID.

THE LUNAR NEW YEAR PROGRAMME WAS CONCLUDED WITH A SHOW FEATURING DANCE PERFORMANCES BY THE TAI PO DISTRICT ARTS ADVANCEMENT ASSOCIATION, KINDERGARTENS AND SECONDARY SCHOOLS IN THE DISTRICT, AND SINGING PERFORMANCES BY POPULAR SINGERS.

ABOUT 800 RESIDENTS ATTENDED THE FUNCTION WHICH WAS ORGANISED BY THE TAI PO DISTRICT LUNAR NEW YEAR PROGRAMME CO-ORDINATING COMMITTEE 1988 WITH ASSISTANCE FROM THE ARTS ADVANCEMENT ASSOCIATION AND THE REGIONAL COUNCIL. IT WAS SPONSORED BY THE DISTRICT BOARD.

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DISTRICT PROBLEMS CONTAINED THROUGH CO-OPERATION
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THROUGH THE CO-OPERATION OF THE DISTRICT BOARD AND THE GOVERNMENT, VARIOUS PROBLEMS ENCOUNTERED BY THE NORTH DISTRICT HAVE BEEN CONTAINED, THE NORTH DISTRICT OFFICER, MR MATTHEW CHEUNG, SAID TODAY (WEDNESDAY).

SPEAKING AT A JOINT SPRING RECEPTION HOSTED BY THE DISTRICT OFFICE AND THE DISTRICT BOARD, MR CHEUNG SAID CONSTRUCTION OF THE 1,200-BED NORTH DISTRICT HOSPITAL WAS EXPECTED TO BE COMPLETED BY THE END OF 1996 TO MEET THE DISTRICT'S NEED FOR MEDICAL SERVICES.

/TRAFFIC CONGESTION

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TRAFFIC CONGESTION AT MAN KAM TO ROAD, WHICH WAS NOW UNDER CONTROL, WOULD BE FURTHER ALLEVIATED WHEN THE FINAL STAGE OF ROAD WIDENING WAS COMPLETED IN APRIL OR MAY.

TO RELIEVE THE SHORTFALL OF SCHOOL PLACES IN THE DISTRICT, A NEW SECONDARY SCHOOL WOULD BE COMPLETED, TWO YEARS AHEAD OF SCHEDULE, IN 1989 IN SHEK WU HUI, SHEUNG SHUI, HE ADDED.

ON COMMUNITY BUILDING, HE NOTED THAT THE FORMATION OF THE NORTH DISTRICT LADIES' ASSOCIATION SIGNIFIED A STEP FORWARD IN THE LOCAL COMMUNITY AND THE PRESENCE OF WOMEN LEADERS IN THE DISTRICT.

LOOKING AHEAD, MR CHEUNG INDICATED THAT THE GOVERNMENT WOULD SPEND \$350 MILLION ON NEW PROJECTS IN THE FANLING-SHEUNG SHUI NEW TOWN.

WORK WOULD START SOON TO BUILD A \$52 MILLION SEVEN-STORY CENTRAL GOVERNMENT OFFICES BUILDING NEXT TO THE EXISTING TEMPORARY OFFICE PREMISES AT JOCKEY CLUB ROAD IN FANLING, HE SAID.

HE ADDED THAT CONSTRUCTION WORK ON THREE LARGE SPORTS VENUES IN THE DISTRICT, COSTING A TOTAL OF \$100 MILLION, WOULD BE COMPLETED WITHIN THE NEXT TWO OR THREE YEARS.

THEY INCLUDED A SWIMMING POOL, AN INDOOR RECREATION CENTRE AND A STANDARD ATHLETIC GROUND WITH A 2,500-SPECTATOR STAND.

ON THE REDEVELOPMENT OF THE BORDER TOWNSHIP OF SHA TAU KOK, MR CHEUNG SAID THE FIRST TWO PHASES OF A RURAL PUBLIC HOUSING ESTATE WOULD BE COMPLETED THIS YEAR TO PROVIDE ACCOMMODATION FOR MORE THAN 1,000 PEOPLE FROM THE YIM LIU HA SQUATTER AREA.

IN ADDITION, A CENTRAL PRIMARY SCHOOL COSTING OVER \$10 MILLION AND EQUIPPED WITH MODERN TEACHING FACILITIES WOULD BE OPENED THIS SEPTEMBER TO IMPROVE THE STANDARD OF RURAL EDUCATION IN SHA TAU KOK.

TO STRENGTHEN THE LINK AMONG THE DISTRICT BOARD, RURAL COMMITTEES AND LOCAL ORGANISATIONS, TWO AREA COMMITTEES WOULD BE SET UP IN SHEUNG SHUI AND FANLING IN SEPTEMBER, HE SAID.

TURNING TO INDUSTRY, MR CHEUNG NOTED THAT THERE WAS ENCOURAGING DEVELOPMENT IN ON LOK TSUEN, SHOWING THAT THE PRIVATE SECTOR HAD AN INCREASING INTEREST IN THE DEVELOPMENT OF NEW TOWNS.

AT THE JOINT SPRING RECEPTION, HE THANKED THE DISTRICT BOARD MEMBERS, THE CO-OPTED MEMBERS OF THE BOARD'S FIVE COMMITTEES, THE RURAL COMMITTEE MEMBERS AND LOCAL ORGANISATIONS FOR THEIR SUPPORT TO THE GOVERNMENT ESPECIALLY IN THE DEVELOPMENT OF SHEUNG SHUI NEW TOWN AND THE REDEVELOPMENT OF SHA TAU KOK.

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SHA TIN DB TO DISCUSS WHITE PAPER

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THE SHA TIN DISTRICT BOARD WILL DISCUSS THE WHITE PAPER ON THE DEVELOPMENT OF REPRESENTATIVE GOVERNMENT AT A MEETING ON FRIDAY (MARCH 4) MORNING.

A MEMBER, MR CHIU SIN-KUI, WILL ASK ABOUT THE PRIMARY AND KINDERGARTEN DEVELOPMENT PLANS FOR MA ON SHAN AREA IN THE NEXT THREE YEARS, PARTICULARLY THE NUMBER OF SCHOOL PLACES AVAILABLE IN VARIOUS GRADES.

HE WILL ALSO ASK ABOUT MEASURES TO MINIMISE THE INCONVENIENCE EXPERIENCED BY RESIDENTS IN QUEUING FOR PAYMENT AT THE SHROFF'S OFFICE OF SHA TIN DISTRICT OFFICE.

ANOTHER MEMBER, MR LAU KWONG-WAH, WILL ENQUIRE ABOUT THE DECISION MAKING PROCEDURE INVOLVED IN THE INCREASE OF FARES BY THE KOWLOON-CANTON RAILWAY CORPORATION AND THE EFFECT CAUSED BY THE CONSTRUCTION OF LIGHT RAIL TRANSIT SYSTEM AND OTHER BASIC FACILITIES ON THE TRAIN FARES.

THE BOARD WILL ALSO DISCUSS A PAPER TO BE PRESENTED BY THE HIGHWAYS DEPARTMENT ON STAGE III OF TAI PO ROAD IMPROVEMENT WORK BETWEEN SHA TIN AND TAI WO PING INTERCHANGE.

OTHER ITEMS ON THE AGENDA INCLUDE APPLICATION FOR FUNDS UNDER THE REGIONAL COUNCIL'S DISTRICT FESTIVAL SUBSIDY SCHEME, DRAFT ESTIMATES FOR THE 1988-89 FINANCIAL YEAR AND PROGRESS REPORTS BY CHAIRMEN OF VARIOUS DB COMMITTEES.

NOTE TO EDITORS:

YOU ARE INVITED TO COVER THE SHA TIN DISTRICT BOARD MEETING ON FRIDAY (MARCH 4) IN THE DB CONFERENCE ROOM ON THE SIXTH FLOOR, KCR HOUSE, SHA TIN STATION. THE MEETING WILL START AT 9.30 AM.

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DB TO DISCUSS ISSUES CONCERNING TSING YI

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THE KWAI CHUNG AND TSING YI DISTRICT BOARD WILL DISCUSS A NUMBER OF ISSUES CONCERNING TSING YI AT THE LAST MEETING OF THIS TERM TO BE HELD TOMORROW (THURSDAY).

MEMBERS WILL ASK QUESTIONS CONCERNING THE PARKING OF CONTAINER TRUCKS, TRAFFIC NOISE, INDUSTRIAL AIR POLLUTION, AND THE OPERATION OF THE CHEUNG HONG HOSTEL BY THE SOCIETY OF BOYS' CENTRES ON THE ISLAND.

OTHER QUESTIONS CONCERNING THE COMMERCIAL TENANCY OF GROUP B MARK III HOUSING ESTATES AND STATISTICS ON ROBBERY CASES OCCURRED INSIDE LIFTS WILL ALSO BE RAISED.

THE MEETING WILL ALSO DISCUSS THE HOUSING AUTHORITY'S NEW POLICY TO ALLEVIATE OVERCROWDING IN HOUSING UNITS AND ITS PRESENT POLICY ON TRANSIT CENTRES.

NOTE TO EDITORS:

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

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BOE CHAIRMAN AND MEMBERS VISIT NEW TOWN SCHOOLS

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THE CHAIRMAN AND FIVE MEMBERS OF THE BOARD OF EDUCATION (BOE) TODAY (WEDNESDAY) VISITED TWO SECONDARY SCHOOLS AT TUEN MUN TO TAKE A CLOSE LOOK AT THE EDUCATION SERVICES IN THE NEW TOWN.

THE CHARIMAN, MRS RITA FAN, AND MEMBERS, MISS BOW SUI-MAY, MR DAVID C.K. CHEUNG, TAM MAN-KWAN, MR DOMINIC S.W. WONG, AND THE REVEREND J.G. FOLEY, WERE ACCOMPANIED ON THE VISIT BY THE ASSISTANT DIRECTOR OF EDUCATION (SCHOOLS), MR S.W. WONG.

THE PARTY FIRST WENT TO SHUN TAK FRATERNAL ASSOCIATION LEUNG KAU KUI COLLEGE IN ON TING ESTATE WHICH HAS BEEN OPERATING IN A STANDARD SECONDARY SCHOOL PREMISES SINCE SEPTEMBER 1981.

/THE VISITORS

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THE VISITORS NOTED THAT THE SCHOOL WAS ONE OF THOSE REQUIRED TO INTRODUCE TWO ADDITIONAL FLOATING CLASSES OF SECONDARY 1 IN 1986 AS A TEMPORARY MEASURE TO RELIEVE THE SHORTAGE OF SCHOOL PLACES IN THE NEW TOWN. THE SCHOOL WILL RESUME THE CLASS STRUCTURE OF 6664422 IN 1989.

THE BOE CHAIRMAN AND MEMBERS LATER PROCEEDED TO THE TUNG WAH GROUP OF HOSPITALS YAU TZE TIN MEMORIAL COLLEGE AT SIU HONG COURT.

THEY HEARD THAT THE SCHOOL WOULD TAKE PART IN A PROJECT TO CONVERT PART OF THE COVERED PLAYGROUND INTO A CLASSROOM AND TWO REMEDIAL TEACHING ROOMS TO PROVIDE MORE TEACHING SPACE. THE GOVERNMENT WOULD BE RESPONSIBLE FOR THE CONSTRUCTION COST.

DURING THEIR TOUR, THE VISITORS ALSO GAINED FIRST-HAND INFORMATION ABOUT THE WIDE RANGE OF EXTRA-CURRICULAR ACTIVITIES PROVIDED BY THE TWO SCHOOLS.

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HEAVY VEHICLE BAN IN BOWRINGTON ROAD

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VEHICLES EXCEEDING FOUR TONNES GROSS WILL NOT BE ALLOWED TO ENTER BOWRINGTON ROAD IN CAUSEWAY BAY BETWEEN WAN CHAI ROAD AND HENNESSY ROAD FROM 10 AM ON SATURDAY (MARCH 5).

THIS MEASURE WILL LAST FOR ABOUT FOUR MONTHS BECAUSE OF ROAD WORKS.

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IMMEDIATE PROSPECTS FOR ECONOMY GOOD, SAYS FS
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ALMOST ALL THE ECONOMIC INDICATORS SHOW THAT HONG KONG HAS DONE EXTREMELY WELL IN THE LAST 12 MONTHS AND OUR IMMEDIATE PROSPECTS ARE GOOD, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID TODAY (WEDNESDAY).

PRESENTING THE BUDGET FOR 1988-89 AT THE LEGISLATIVE COUNCIL, MR JACOBS SAID WHAT HE WOULD BE SAYING THIS AFTERNOON WOULD REVEAL THE EXTENT TO WHICH OUR BUOYANT ECONOMY WOULD ENABLE HIM NOT ONLY TO INCREASE THE PROVISION OF GOVERNMENT SERVICES BUT ALSO TO EASE THE TAX BURDEN ON THE COMMUNITY WITHOUT PUTTING OUR ECONOMY OR THE LONGER TERM STABILITY OF OUR BUDGETARY MANAGEMENT AT UNDUE RISK.

MR JACOBS SAID A BUDGET SPEECH GAVE THE OPPORTUNITY TO EXAMINE OUR PERFORMANCE SINCE THE LAST BUDGET AND TO FORECAST WHAT THE ECONOMY MIGHT HAVE IN STORE FOR HONG KONG NEXT YEAR AND IN THE YEARS BEYOND.

"THIS APPROACH REFLECTS WHAT I BELIEVE SHOULD BE THE UNDERLYING THEME IN THE MANAGEMENT OF OUR PUBLIC FINANCES -- THE CAREFUL PLANNING OF PUBLIC SERVICES IN THE LIGHT OF WHAT WE CAN AFFORD OVER THE LONGER TERM.

"I MUST STRESS THAT THE PRUDENT MANAGEMENT OF OUR PUBLIC FINANCES, GIVEN THE CYCLICAL NATURE OF OUR ECONOMY, DEPENDS TO A GREAT EXTENT ON OUR CONTINUING TO PAY CLOSE ATTENTION TO TRENDS AND ON TAKING EARLY ACTION WHERE NECESSARY TO AVOID MORE EXTREME MEASURES AT A LATER DATE," HE SAID.

LOOKING BACK AT THE ECONOMY IN 1987, MR JACOBS SAID THE TREND BEGUN IN 1986 OF STRONG EXPORT-LED GROWTH CONTINUED THROUGH 1987.

"THE SHARP RISE IN OUR DOMESTIC EXPORTS AND RE-EXPORTS IN TURN BOOSTED INCOMES AND DOMESTIC DEMAND. AS A RESULT, OUR GROSS DOMESTIC PRODUCT (GDP) RECORDED A GROWTH RATE OF ABOUT 13.5 PER CENT IN REAL TERMS.

"THUS WE HAVE ENJOYED TWO CONSECUTIVE YEARS OF DOUBLE-DIGIT GROWTH," HE SAID.

MR JACOBS SAID THIS REMARKABLE ECONOMIC PERFORMANCE HAD BENEFITED HONG KONG IN A NUMBER OF WAYS.

"FIRST, THE BUOYANT ECONOMIC CONDITIONS LED TO A SUBSTANTIAL INCREASE IN CAPITAL INVESTMENT AND AN ACTIVE PROPERTY MARKET.

"SECONDLY, WITH THE UNEMPLOYMENT RATE STAYING AT A HISTORIC LOW LEVEL OF 1.8 PER CENT DURING MUCH OF 1987, WE HAD IN EFFECT FULL EMPLOYMENT THROUGHOUT THE YEAR.

/"THIRDLY, WAGES

"THIRDLY, WAGES AND SALARIES ROSE RAPIDLY, RESULTING IN A SIGNIFICANT INCREASE IN PERSONAL INCOMES, EVEN AFTER ALLOWING FOR INFLATION. THE COMMUNITY AT LARGE SHARED IN THE FRUITS OF OUR ECONOMIC SUCCESS," HE SAID.

MR JACOBS SAID THAT DURING THE YEAR HONG KONG'S IMPORTS ALSO INCREASED RAPIDLY IN LINE WITH THE STRONG GROWTH IN THE ECONOMY AND OVERALL THE VISIBLE TRADE ACCOUNT IN 1987 WAS ROUGHLY IN BALANCE.

"SO ALTHOUGH WE HAVE BEEN MAINTAINING TRADE SURPLUSES WITH MANY OF OUR MAJOR MARKETS WE HAVE USED OUR EXPORT EARNINGS TO BUY WHAT WE NEED FROM OUR MAJOR SUPPLIERS, WITH MANY OF WHOM WE RUN LARGE TRADE DEFICITS," HE SAID.

"WE DO NOT AMASS VAST SURPLUSES ON OUR VISIBLE TRADE ACCOUNTS. WE ARE FREE TRADERS IN THE FULL SENSE OF THAT TERM," HE ADDED.

MR JACOBS SAID HE DREW PARTICULAR ATTENTION TO OUR VISIBLE TRADE ACCOUNT AND OUR LARGE TRADE DEFICITS WITH A NUMBER OF ECONOMIES BECAUSE OUR TRADE SURPLUSES WITH SOME ECONOMIES, PARTICULARLY THE UNITED STATES, HAD BEEN CITED AS A REASON FOR CHANGING THE LINKED EXCHANGE RATE.

"OUR OVERALL VISIBLE TRADE BALANCE PROVIDES NO JUSTIFICATION WHATSOEVER FOR A CHANGE IN THE LINKED RATE, ESPECIALLY SINCE A CHANGE WOULD INVOLVE A REVALUATION OF THE HONG KONG DOLLAR AGAINST THE CURRENCIES OF TRADING PARTNERS WITH WHOM WE ALREADY HAVE LARGE VISIBLE TRADE DEFICITS," HE SAID.

IN THE LIGHT OF THE INTENSIVE SPECULATIVE PRESSURE TO WHICH THE EXCHANGE RATE HAD BEEN SUBJECTED FROM TIME TO TIME, MR JACOBS WISHED TO EMPHASISE THAT THE GOVERNMENT MUST HAVE REGARD TO THE LONG-TERM OVERALL INTERESTS OF HONG KONG AND ITS COMMUNITY.

"THE LINKED RATE SYSTEM IS A VITAL ELEMENT OF STABILITY FOR HONG KONG; AND IT PROVIDES A MECHANISM FOR MONETARY CONTROL.

"I HAVE NO INTENTION OF ALTERING THE CURRENT RATE," HE SAID.

MR JACOBS SAID THE ESSENCE OF THE SYSTEM WAS THAT ADJUSTMENTS DID NOT TAKE PLACE THROUGH THE EXCHANGE RATE ITSELF, BUT THROUGH CHANGES IN OTHER ASPECTS OF THE ECONOMY, A PROCESS WHICH MIGHT INCLUDE CHANGES IN THE RATE OF INFLATION.

HE SAID THE RECENT INFLATION RATE CREPT UP OVER THE COURSE OF 1987, BUT REMAINED FAIRLY MODERATE BY HISTORICAL STANDARDS.

"IN THE FOURTH QUARTER OF 1987, THE CONSUMER PRICE INDEX (A) WAS 6.7 PER CENT HIGHER THAN A YEAR EARLIER, WHILE FOR 1987 AS A WHOLE THE AVERAGE ANNUAL INCREASE WAS 5.5 PER CENT.

"SOME OF THE INFLATION WAS IMPORTED, PARTLY REFLECTING THE WEAKENING OF THE HONG KONG DOLLAR AGAINST MOST OTHER MAJOR CURRENCIES, AND SOME AROSE FROM THE HIGH LIQUIDITY AND PRESSURE OF DEMAND WITHIN THE ECONOMY," HE SAID.

MR JACOBS SAID THAT WITH THE ECONOMY OPERATING AT FULL CAPACITY, LABOUR SHORTAGES BECAME WIDESPREAD IN 1987.

IN RESPONSE, HE SAID, LOCAL PRODUCERS HAD DISPLAYED A REMARKABLE DEGREE OF FLEXIBILITY AND INGENUITY IN INCREASING PRODUCTIVITY.

"THEY HAVE ALSO MADE SIGNIFICANTLY MORE USE OF OUTWARD PROCESSING FACILITIES IN CHINA. THIS INCREASED INTER-RELATIONSHIP OF OUR ECONOMY WITH THAT OF CHINA WAS A MARKED FEATURE OF LAST YEAR AND SEEMS LIKELY TO CONTINUE THIS YEAR.

"THERE ARE BENEFITS FOR ALL IN THE DEVELOPMENT OF THIS RELATIONSHIP," HE SAID.

MR JACOBS SAID THE PRESSURE OF DEMAND AND THE RESULTING LABOUR SHORTAGES SET IN TRAIN THE ADJUSTMENT PROCESS, WHICH WAS BRINGING ABOUT A GRADUAL SLOWDOWN IN THE GROWTH RATE OF THE ECONOMY.

"IN THE LATER PART OF LAST YEAR, THE GROWTH RATE OF OUR EXPORTS EASED SOMEWHAT, AND MORE RECENTLY THERE HAVE BEEN SOME SIGNS THAT THE PRESSURE OF DEMAND ON RESOURCES IS BEGINNING TO SLACKEN," HE SAID.

TURNING TO THE EVENTS OF LAST OCTOBER IN THE WORLD'S STOCK MARKET, MR JACOBS SAID WHAT TOOK PLACE IN THE MARKET WAS IN PART A RESPONSE TO WORLD EVENTS AND THE SHARP FALLS WERE NOT A REFLECTION OF WEAKNESSES IN THE ECONOMY.

NEVERTHELESS, HE ADDED, THERE WAS NO DOUBT THAT OUR SYSTEMS WERE SHOWN TO BE LESS THAN ADEQUATE AND IT WAS FOR THIS REASON THAT THE SECURITIES REVIEW COMMITTEE WAS APPOINTED TO EXAMINE CRITICALLY THE RELEVANT STRUCTURES AND SYSTEMS WITH A VIEW TO RECOMMENDING IMPROVEMENTS.

"WE IN HONG KONG ARE NOT ALONE IN RECOGNISING THE NEED TO DRAW LESSONS FROM THE CRASH. OTHER MAJOR MARKETS, INCLUDING LONDON AND NEW YORK, ARE CONDUCTING SIMILAR REVIEWS," HE SAID.

IN THE MEANTIME, HE SAID, VARIOUS IMPROVEMENTS WERE BEING CARRIED OUT BY BOTH THE STOCK EXCHANGE AND FUTURES EXCHANGE IN ORDER TO DEAL WITH IMMEDIATE PROBLEMS THAT HAD BEEN IDENTIFIED.

"IT IS IMPORTANT THAT WHERE STEPS CAN BE TAKEN TO FURTHER SAFEGUARD INVESTORS THESE STEPS SHOULD NOT BE DELAYED PENDING THE RECOMMENDATIONS OF THE SECURITIES REVIEW COMMITTEE," HE SAID.

"THE GOVERNMENT, FOR ITS PART," HE ADDED, "CONTINUES TO PUT TOGETHER PROPOSALS IN RELATION TO THE DISCLOSURE OF BENEFICIAL INTERESTS IN THE SHARES HELD BY DIRECTORS AND OTHER SUBSTANTIAL SHAREHOLDERS OF PUBLIC LISTED COMPANIES."

HE SAID COMMENTS ON THE PUBLISHED WHITE BILL HAD BEEN RECEIVED AND HE INTENDED TO SEEK THE ADVICE OF THE EXECUTIVE COUNCIL IN THE NEAR FUTURE.

"THE SUBJECT OF INSIDER TRADING IS ALSO UNDER ACTIVE CONSIDERATION, AND AGAIN I AM ON THE POINT OF TAKING PROPOSALS TO THE EXECUTIVE COUNCIL," HE SAID.

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1987-88 SURPLUS STANDS AT \$7.6 BILLION

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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, HAS EXPECTED A MUCH HIGHER THAN BUDGETTED SURPLUS ON GENERAL REVENUE ACCOUNT OF SOME \$6.1 BILLION FOR THE FINANCIAL YEAR 1987-88.

WHEN COMBINED WITH THE GOVERNMENT'S FUND ACCOUNTS, THE SURPLUS BECAME \$7.6 BILLION, MR JACOBS TOLD THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY) WHEN PRESENTING HIS BUDGET SPEECH.

HE NOTED HOWEVER THAT "SUBSTANTIAL AS THIS SURPLUS MAY SEEM, IT MUST BE REMEMBERED THAT IT IS THE PRODUCT OF TWO YEARS OF EXCEPTIONAL ECONOMIC PERFORMANCE."

HE SAID THAT THE ORIGINAL REVENUE ESTIMATES FOR THE YEAR WERE FORMED ON THE ASSUMPTION AT THAT TIME OF GDP GROWTH OF AROUND 8.5 PER CENT IN 1986 AND SIX PER CENT IN 1987.

"AS WE HAVE SEEN, ACTUAL ECONOMIC GROWTH HAS BEEN CONSIDERABLY BETTER.

"I NOW EXPECT THE REVENUE YIELD ON GENERAL REVENUE ACCOUNT TO BE NINE PER CENT ABOVE THE ORIGINAL ESTIMATE. COMBINING GENERAL REVENUE ACCOUNT AND FUND ACCOUNT REVENUE THE INCREASE ON THE ORIGINAL ESTIMATE IS 11 PER CENT."

MR JACOBS SAID THAT STAMP DUTY AT \$5.0 BILLION WAS NEARLY DOUBLE THE ORIGINAL ESTIMATE; WHILST SALARIES TAX, PROFITS TAX, MOTOR VEHICLE FIRST REGISTRATION TAX AND LAND SALES REVENUE, ALL OF WHICH NORMALLY BENEFITTED FROM A STRONG ECONOMIC PERFORMANCE, ALSO HAD HIGHER THAN EXPECTED YIELDS.

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ON THE PRESENT STATE OF THE GOVERNMENT'S PUBLIC FINANCES, HE SAID THE EXPECTED POSITION AT THE END OF THE FINANCIAL YEAR 1987-88 WAS ONE OF HIGHER THAN FORECAST REVENUE YIELDS BUT WITH EXPENDITURE CLOSE TO BUDGET.

"THE SURGE IN GOVERNMENT REVENUE WHICH BEGAN IN 1986-87 HAS CONTINUED THROUGH 1987-88. TWO YEARS OF DOUBLE-DIGIT ECONOMIC GROWTH HAVE LIFTED OUR REVENUE BASE SIGNIFICANTLY."

HE SAID THE REVISED ESTIMATE OF EXPENDITURE ON GENERAL REVENUE ACCOUNT OF \$44.5 BILLION, INCLUDING TRANSFERS TO FUNDS, WAS CLOSE TO THE ORIGINAL ESTIMATE FOR THE YEAR.

"EXPENDITURE ON OUR VARIOUS FUNDS OF \$11.3 BILLION IS ABOUT FIVE PER CENT ABOVE BUDGET, DUE MAINLY TO A PURCHASE OF QUARTERS FOR THE POLICE FORCE WHICH WAS NOT ALLOWED FOR IN THE ORIGINAL ESTIMATES.

"THEREFORE, SPENDING IN CASH TERMS ON GENERAL REVENUE ACCOUNT AND FUNDS TAKEN TOGETHER IS ABOUT ONE PER CENT ABOVE THE ORIGINAL ESTIMATES.

"NEVERTHELESS, HIGHER THAN EXPECTED INFLATION MEANS THAT 'REAL' EXPENDITURE GROWTH FOR THE YEAR IS, IN FACT, SLIGHTLY BELOW THE BUDGETTED FIGURE," MR JACOBS SAID.

IN CONSOLIDATED ACCOUNT TERMS, HE SAID REAL EXPENDITURE GROWTH WAS NOW EXPECTED TO BE ABOUT 4.6 PER CENT COMPARED WITH AN ORIGINAL ESTIMATE OF 4.9 PER CENT.

"FURTHERMORE, AS A RESULT OF THE EXCEPTIONAL GROWTH RATE IN THE ECONOMY, CONSOLIDATED ACCOUNT EXPENDITURE AS A PROPORTION OF GDP HAS FALLEN FROM 16 PER CENT IN 1986-87 TO AROUND 15 PER CENT."

MR JACOBS ADDED THAT THE GROWTH IN THE ESTABLISHMENT OF THE CIVIL SERVICE AT JUST OVER THREE PER CENT WAS IN LINE WITH THE BUDGETTED FIGURE.

TRANSFERS TO THE VARIOUS FUNDS FROM GENERAL REVENUE ACCOUNT OF \$6.6 BILLION WOULD BE AS BUDGETTED, HE ADDED.

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1988 TO BE YEAR OF CONSOLIDATION

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HONG KONG'S ECONOMIC PROSPECTS FOR 1988 WOULD BE ONE OF CONSOLIDATION, WITH A MORE BALANCED PATTERN OF GROWTH BETWEEN EXTERNAL AND DOMESTIC DEMAND, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID TODAY (WEDNESDAY) WHEN PRESENTING HIS 1988-89 BUDGET TO THE LEGISLATIVE COUNCIL.

"ECONOMIC FORECASTING IS ALWAYS DIFFICULT; THIS YEAR IT IS MADE EVEN MORE SO BY THE PREVAILING CLIMATE OF UNCERTAINTY IN THE WORLD ECONOMY," HE SAID.

MR JACOBS SAID THE DEMAND FOR HONG KONG'S PRODUCTS IN MAJOR OVERSEAS MARKETS REMAINED CRUCIAL TO THE OVERALL ECONOMIC PERFORMANCE.

"IN THE UNITED STATES, THE LIKELY SETBACK IN CONSUMER DEMAND CARRIES WITH IT THE EXPECTATION OF ONLY A SMALL GROWTH IN DOMESTIC EXPORTS TO OUR LARGEST OVERSEAS MARKET.

"AND, LOOKING FURTHER AHEAD, THE FORTHCOMING EXCLUSION OF OUR EXPORTS FROM THE U.S. GENERALISED SYSTEM OF PREFERENCES SEEMS LIKELY TO AFFECT ADVERSELY OUR ECONOMIC PERFORMANCE IN 1989.

"FORTUNATELY, THE OUTLOOK IS BRIGHTER FOR OUR DOMESTIC EXPORTS TO JAPAN, THE FEDERAL REPUBLIC OF GERMANY AND THE UNITED KINGDOM," HE ADDED.

NOTWITHSTANDING CONTINUED IMPORT CONTROLS, THE RECENT GROWTH TREND IN HONG KONG'S DOMESTIC EXPORTS TO CHINA WAS STILL STRONG, ALTHOUGH SOME REDUCTION IN GROWTH DURING THE COURSE OF THIS YEAR SEEMED LIKELY AS A RESULT OF A SLOWER DEVELOPMENT IN OUTWARD PROCESSING, MR JACOBS SAID.

THE FINANCIAL SECRETARY FORECAST AN INCREASE IN DOMESTIC EXPORTS OF SIX PER CENT, WHILE RE-EXPORTS WERE EXPECTED TO GROW BY 12 PER CENT. "TOGETHER THESE TWO FORECASTS RESULT IN A FORECAST GROWTH RATE OF NINE PER CENT FOR TOTAL EXPORTS."

DOMESTICALLY, HE SAID, PRIVATE CONSUMPTION EXPENDITURE WAS EXPECTED TO GROW MORE MODERATELY IN 1988, ALTHOUGH AT A HIGHER RATE THAN THAT OF GDP, LARGELY REFLECTING THE RECENT RAPID GROWTH IN INCOMES.

CAPITAL EXPENDITURE ON BUILDING AND CONSTRUCTION WAS EXPECTED TO RISE MODERATELY WITH MOST OF THE GROWTH ATTRIBUTABLE TO THE PRIVATE SECTOR, WHILE SPENDING ON PLANT AND MACHINERY WAS ALSO EXPECTED TO SHOW ONLY A MODEST INCREASE, FOLLOWING THE SUBSTANTIAL GROWTH RECORDED LAST YEAR, HE SAID.

THE FINANCIAL SECRETARY FORECAST A GROWTH RATE OF GDP FOR 1988 OF FIVE PER CENT.

/MR JACOBS

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MR JACOBS SAID THIS FORECAST LED HIM TO THE FOLLOWING CONCLUSIONS: THAT GIVEN THE TIGHT LABOUR MARKET IN 1987 THE UNEMPLOYMENT RATE WAS LIKELY TO REMAIN LOW THIS YEAR DESPITE A REDUCED RATE OF ECONOMIC GROWTH; THAT THE RATE OF INFLATION WAS EXPECTED TO AVERAGE ABOUT SEVEN PER CENT; AND THAT AS TOTAL FINAL DEMAND IN THE ECONOMY WAS LIKELY TO RISE FASTER THAN THE SUPPLY OF OUTPUT, SOME OF THIS GROWTH IN DEMAND WOULD HAVE TO BE MET BY ADDITIONAL IMPORTS.

"THUS, OUR IMPORTS ARE FORECAST TO GROW BY 9.5 PER CENT, AND OUR RETAINED IMPORTS BY SLIGHTLY OVER SEVEN PER CENT," HE SAID.

"THIS, COUPLED WITH A SLIGHT FURTHER DETERIORATION IN THE TERMS OF TRADE, SHOULD RESULT IN AN INCREASED VISIBLE TRADE DEFICIT, GIVING FURTHER WEIGHT TO SOME OF THE ARGUMENTS I ADVANCED AGAINST REVALUATION OF OUR CURRENCY," HE ADDED.

MR JACOBS FORECAST THE GROWTH RATE OF THE GDP IN MONEY TERMS AT ABOUT 13 PER CENT IN 1988.

"AT CURRENT PRICES, PER CAPITA GDP WOULD THUS REACH ABOUT \$72,000, EQUIVALENT TO US\$9,200," HE SAID.

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STRATEGY FOR PUBLIC FINANCES IS STABILITY

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PRESENTING HIS BUDGET SPEECH IN THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY), THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID THE AIM OF THE STRATEGY FOR PUBLIC FINANCES WAS TO MAINTAIN STABILITY IN PUBLIC EXPENDITURE GROWTH.

"THIS STRATEGY IS ESSENTIAL TO THE ORDERLY AND EFFICIENT DEVELOPMENT OF GOVERNMENT SERVICES AND THE STABILITY OF OUR TAX SYSTEM," HE SAID.

"IT IS ONLY THROUGH PRUDENT AND CAREFUL MANAGEMENT, WHICH INVOLVES LOOKING AHEAD A NUMBER OF YEARS, THAT WE CAN ENSURE THAT THE GOVERNMENT'S FINANCES DO NOT ADD TO THE INNATE VOLATILITY THAT AFFECTS OUR ECONOMY," HE SAID.

MR JACOBS SAID VOLATILITY AND UNCERTAINTY CONTINUED TO BE FACTS OF OUR ECONOMIC LIFE, AND ALMOST INEVITABLY, WE WOULD EXPERIENCE CONSIDERABLE YEAR TO YEAR VARIATION IN REVENUE DEPENDENT AS IT WAS ON THE PERFORMANCE OF OUR ECONOMY.

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DESPITE THE FACT THAT HONG KONG EXPERIENCED TWO YEARS OF DOUBLE-DIGIT ECONOMIC GROWTH, HE NOTED THAT THE NEGATIVE GROWTH IN 1985 WAS A SALUTARY WARNING THAT WE SHOULD NOT BE OVER-INFLUENCED BY RECENT RESULTS.

"FURTHERMORE, I HAVE ALREADY COMMENTED ON THE LIKELY IMPACT OF RECENT WORLDWIDE PROBLEMS.

"IN THE LIGHT OF THESE CONSIDERATIONS, I PREFER TO MAINTAIN THE 5.5 PER CENT TREND GROWTH RATE ASSUMPTION FOR THE PURPOSES OF THIS BUDGET," MR JACOBS SAID.

TURNING TO THE MEDIUM RANGE FORECAST, MR JACOBS SAID IT FORMED THE BASIS FOR HIS SPECIFIC BUDGET PROPOSALS AND DESERVED CAREFUL STUDY.

SOME OF THE MORE IMPORTANT FEATURES OF THE FORECAST WERE:

- * FIRST, OUR AVERAGE SURPLUS OVER THE FORECAST PERIOD UP TO 1991-92 WOULD RUN AT ABOUT \$5.9 BILLION A YEAR, IF NO FURTHER FISCAL MEASURES WERE TAKEN;
- * SECONDLY, THIS LEVEL OF SURPLUS WAS WELL IN EXCESS OF THE \$2 BILLION OR SO THAT WE NEEDED EACH YEAR JUST TO MAINTAIN THE REAL VALUE OF OUR RESERVES;
- * AND THIRDLY, GOVERNMENT EXPENDITURE IN CONSOLIDATED ACCOUNT TERMS AS A PROPORTION OF GDP WAS FORECAST TO REMAIN SLIGHTLY BELOW THE 16 PER CENT MARK AND THE AIM OF NOT CROWDING OUT THE PRIVATE SECTOR WITH PUBLIC SECTOR DEMAND WAS BEING ACHIEVED.

MR JACOBS REITERATED THAT IF WE WERE TO MAINTAIN STABILITY IN OUR PUBLIC FINANCES, EXPENDITURE PLANS MUST BE RELATED TO OUR LONGER TERM PROSPECTS RATHER THAN SHAPED ON THE BASIS OF JUST TWO YEARS OF EXCEPTIONAL REVENUE YIELDS.

"IT FOLLOWS, THEREFORE, THAT ANY ADJUSTMENTS IN 1988-89 SHOULD RELATE PRIMARILY TO REVENUE.

"IN THE LIGHT OF THE RESULTS WE HAVE ACHIEVED AND TAKING ACCOUNT OF OUR PROJECTIONS OVER THE PERIOD OF THE MEDIUM RANGE FORECAST, SOME FURTHER LOWERING OF TAX RATES IS THUS POSSIBLE; IT HAS BEEN EARNED BY THE EFFORTS OF THE COMMUNITY," HE SAID.

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PRIORITIES VITAL FOR SUSTAINED EXPENDITURE GROWTH

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ATTENTION TO PRIORITIES AND TO THE EFFECTIVE DEPLOYMENT OF RESOURCES IS PARTICULARLY IMPORTANT IN A PERIOD OF SUSTAINED EXPENDITURE GROWTH, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID IN THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

IN HIS BUDGET SPEECH, MR JACOBS SAID IT WAS THEREFORE ESSENTIAL THAT THE SYSTEMS FOR APPRAISING RESOURCE ALLOCATION BE FURTHER REFINED.

"WE AIM TO ENSURE THAT DECISIONS ARE MADE IN THE CONTEXT OF PLANNING FOR SEVERAL YEARS AHEAD," HE SAID.

MR JACOBS SAID AVERAGE ANNUAL GROWTH IN CONSOLIDATED ACCOUNT EXPENDITURE OVER THE FORECAST PERIOD WAS PROJECTED TO BE 5.4 PER CENT IN REAL TERMS.

"THIS IS JUST A LITTLE HIGHER THAN THE 5.0 PER CENT CONTAINED IN MY 1987-88 BUDGET STRATEGY, BUT REMAINS WITHIN THE TREND GROWTH RATE ASSUMPTION FOR GDP," HE SAID.

HE SAID IT WAS IMPORTANT NOT TO LOSE SIGHT OF THE FACT THAT SUCH A GROWTH RATE IN EXPENDITURE MEANT THAT PUBLIC SECTOR EXPENDITURE WOULD ALMOST DOUBLE BY THE END OF THE NEXT DECADE.

MR JACOBS DREW ATTENTION TO THE FACT THAT THE DETAILED ESTIMATES WHICH HE PRESENTED TODAY MADE PROVISION FOR GROWTH IN THE SIZE OF THE CIVIL SERVICE OF SOME FOUR PER CENT IN 1988-89.

"THIS IS LARGELY DUE TO THE STAFFING IMPACT OF SOME MAJOR NEW MEDICAL FACILITIES AND THE BUILD UP OF THE POLICE TACTICAL UNIT IN PREPARATION FOR TAKING OVER THE WORK OF THE BRITISH GARRISON.

"THESE AND OTHER FACTORS PUSH STAFF GROWTH BEYOND OUR TARGET OF 2.5 PER CENT A YEAR," HE SAID.

MR JACOBS SAID THERE WERE POTENTIALLY SERIOUS IMPLICATIONS IF SUCH A HIGH GROWTH RATE OF FOUR PER CENT IN THE SIZE OF THE CIVIL SERVICE WERE TO CONTINUE.

HE SAID THE TOTAL LABOUR FORCE, WHICH EXPANDED BY AN AVERAGE OF 3.8 PER CENT IN THE 1970'S AND 2.4 PER CENT IN THE FIRST PART OF THIS DECADE, WAS EXPECTED TO GROW BY ONLY 1.4 PER CENT FOR THE REMAINDER OF THIS DECADE.

"ALSO, THIS RAPID GROWTH IN THE SIZE OF THE CIVIL SERVICE OCCURS AT A TIME WHEN THE UNEMPLOYMENT RATE IS PARTICULARLY LOW," HE SAID.

"IT MAY BE UNAVOIDABLE IN THE SHORT TERM, BUT IT CANNOT BE PERMITTED TO CONTINUE INDEFINITELY," HE ADDED.

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TURNING TO SOME OF THE MAJOR FEATURES OF THE EXPENDITURE STRATEGY, MR JACOBS SAID THERE WERE MEASURES TO IMPROVE WELFARE ASSISTANCE FOR THE ELDERLY AND THE DISABLED WHO REQUIRED CONSTANT ATTENDANCE, A PLANNED EXPANSION OF VARIOUS WELFARE SERVICES, AND MAJOR NEW FACILITIES COMING ON STREAM SUCH AS THE HONG KONG UNIVERSITY OF SCIENCE AND TECHNOLOGY, THE TUEN MUN HOSPITAL AND THE PAMELA YOUDE HOSPITAL AT SHAUKEIWAN.

"TAKEN TOGETHER THESE RESULT IN A GROWTH PATTERN IN RESPECT OF SOCIAL SERVICES THAT WILL ENSURE THIS SECTOR AN INCREASINGLY LARGE SLICE OF THE CAKE IN THE COMING YEARS," HE SAID.

HE SAID ALTHOUGH THIS TREND SHOULD BE ACCEPTED AS A REFLECTION OF THE ASPIRATIONS OF A DEVELOPING COMMUNITY AS IT GREW MORE PROSPEROUS, THE BURDEN ON THE BUDGET WAS SOMETHING THAT WE MUST RECOGNISED AND PLANNED FOR.

"ALSO," HE ADDED, "WHEN CONSIDERING MY REVENUE PROPOSALS, OR INDEED ANY POSSIBLE REVENUE MEASURES IN FUTURE, IT IS IMPORTANT TO BEAR IN MIND THAT THIS INCREASED EXPENDITURE LARGELY BENEFITS THE LESS AFFLUENT MEMBERS OF OUR COMMUNITY."

MR JACOBS SAID THAT FOR MANY YEARS, THE DRIVING FORCE BEHIND DEVELOPMENT PLANS HAD BEEN THE GOVERNMENT'S DETERMINATION TO ENSURE THAT ADEQUATE HOUSING WAS AVAILABLE FOR ALL.

"AS A FURTHER STEP IN THIS PROCESS IT IS INTENDED THAT THE HOUSING AUTHORITY WILL, WITH EFFECT FROM NEXT MONTH, ASSUME FULL FINANCIAL RESPONSIBILITY FOR THE HOME OWNERSHIP SCHEME, THE HOME PURCHASE LOAN SCHEME, TEMPORARY HOUSING AREAS AND COTTAGE AREAS.

"THE NEW ARRANGEMENTS WILL ENSURE THAT THE AUTHORITY IS ABLE TO PLAN A COMPREHENSIVE HOUSING PROGRAMME IN COOPERATION WITH THE PRIVATE SECTOR, AND WITH GREATER FLEXIBILITY THAN BEFORE.

"THE GOVERNMENT WILL, OF COURSE, CONTINUE TO SUPPORT THE HOUSING PROGRAMME WITH FINANCE AND LAND AS NECESSARY, RETAINING ITS OVERALL POLICY RESPONSIBILITY," HE SAID.

ON TRANSPORT, MR JACOBS SAID THE GOVERNMENT WAS COOPERATING CLOSELY WITH THE PRIVATE SECTOR IN THE PLANNING AND CONSTRUCTION OF SEVERAL MAJOR TRANSPORT PROJECTS SUCH AS THE EASTERN HARBOUR CROSSING AND THE TATE'S CAIRN TUNNEL.

HE SAID WE ALSO HAD TO ENSURE THAT HONG KONG'S EXTERNAL TRANSPORT LINKS -- BY LAND, SEA AND AIR -- REMAINED ADEQUATE FOR ECONOMIC NEEDS.

"WE ARE CONTINUING TO IMPROVE OUR CROSS BORDER ROAD LINKS; WE ARE EXPANDING THE EXISTING CONTAINER PORT, AND WE ARE DEVELOPING BETTER FACILITIES AT KAI TAK," HE SAID.

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"BUT THERE IS A NEED TO LOOK BEYOND THE SHORT AND MEDIUM TERM, TOWARDS THE POSSIBLE RELOCATION OF THE AIRPORT AND NEW PORT FACILITIES. THESE LONG TERM DEVELOPMENTS AND THEIR IMPLICATIONS ARE RECEIVING CLOSE GOVERNMENT SCRUTINY," HE ADDED.

THUS, MR JACOBS CONTINUED, IT FOLLOWED THAT BEYOND THE PRESENT FORECAST PERIOD A HIGHER PROPORTION OF THE GOVERNMENT'S TOTAL SPENDING MIGHT HAVE TO BE DEVOTED TO TRANSPORT AND INFRASTRUCTURAL DEVELOPMENT EVEN THOUGH WE MIGHT LOOK TO THE PRIVATE SECTOR TO ASSUME SOME OF THE FINANCIAL BURDEN.

"BEARING IN MIND OUR INCREASING COMMITMENTS TO THE SOCIAL SERVICES ANY ADDITIONAL PUBLIC SECTOR INVESTMENT ON OUR TRANSPORT INFRASTRUCTURE WILL NEED TO BE CAREFULLY COORDINATED IN ORDER TO ENSURE THAT OUR OVERALL EXPENDITURE GUIDELINES ARE NOT BREACHED," HE SAID.

AS REGARDS THE MANUFACTURING INDUSTRY, MR JACOBS SAID THE WELL-PUBLICISED RAPID GROWTH IN IMPORTANCE OF THE FINANCIAL AND OTHER SERVICES SECTORS HAD SOMETIMES OVERSHADOWED THE VITAL CONTRIBUTION THAT THE MANUFACTURING INDUSTRY HAD MADE TO HONG KONG'S ECONOMIC SUCCESS.

"INDUSTRY REMAINS A MAINSTAY OF OUR ECONOMY, ACCOUNTING FOR SOME 22 PER CENT OF OUR GROSS DOMESTIC PRODUCT AND 34 PER CENT OF TOTAL EMPLOYMENT," HE SAID.

HE POINTED OUT THAT THE TIME HONOURED PHILOSOPHY WAS THAT MARKET FORCES SHOULD BE ALLOWED TO DETERMINE THE DIRECTION OF THE INDUSTRY AND BUSINESS DECISIONS SHOULD BE MADE BY BUSINESSMEN.

"NEVERTHELESS, THE GOVERNMENT ACCEPTS A RESPONSIBILITY TO ENSURE A FAVOURABLE ENVIRONMENT FOR INDUSTRY, WITH THE AVAILABILITY OF THE NECESSARY INFRASTRUCTURE AND SUPPORT SERVICES."

SO, HE SAID, ON SERVICES RELATED TO INDUSTRIAL DEVELOPMENT, THE GOVERNMENT WAS PLANNING TO SPEND, SUBJECT TO THE LEGISLATIVE COUNCIL'S APPROVAL, SIGNIFICANTLY MORE IN 1988-89 THAN IN EARLIER YEARS.

MOVING TOWARDS A MORE ROBUST FISCAL REGIME

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SPEAKING ON THE GOVERNMENT'S STRATEGY FOR PUBLIC REVENUE OVER THE NEXT FEW YEARS, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID THE BALANCED TAXATION PACKAGE THAT HE PROPOSED WAS MORE THAN JUST A SIMPLE LOWERING OF SOME TAX RATES.

"THE PARTICULAR MEASURES I AM PROPOSING ARE DESIGNED TO MOVE OUR OVERALL FISCAL REGIME TOWARDS WHAT I BELIEVE WILL BE A MORE ROBUST AND EQUITABLE SHAPE FOR THE FUTURE," HE SAID.

THE PACKAGE OF TAXATION MEASURES WOULD OVERALL REDUCE THE GOVERNMENT'S RECURRENT REVENUE BY ABOUT FIVE PER CENT OF PRESENT YIELDS. THE EFFECT WOULD BE TO REDUCE THE AVERAGE OVERALL SURPLUS IN THE MEDIUM RANGE FORECAST PERIOD TO \$2.7 BILLION A YEAR.

"THIS WILL STILL LEAVE A COMFORTABLE MARGIN TO MAINTAIN THE VALUE OF OUR RESERVES IN REAL TERMS AND TO PROVIDE A CUSHION FOR UNFORESEEN EVENTS," HE SAID.

MR JACOBS SAID WHEN LEGISLATIVE COUNCIL MEMBERS COMMENTED LAST YEAR ON HIS REMARKS ABOUT THE POTENTIAL VALUE OF A WIDER AND MORE STABLE TAX BASE, HE GAVE AN ASSURANCE THAT NOTHING WOULD BE PROPOSED TO ALTER THE BALANCE BETWEEN DIRECT AND INDIRECT TAXES WITHOUT THE MOST CAREFUL CONSIDERATION OF THE POTENTIAL EFFECTS.

HE ADDED THAT SINCE THEN, THE GOVERNMENT HAD BEEN WORKING TO IDENTIFY THE ADVANTAGES AND DISADVANTAGES OF DIFFERENT WAYS OF BRINGING ABOUT SUCH A MOVE TOWARDS INDIRECT TAXES.

"IN THIS REGARD, LET ME REMIND MEMBERS OF THE BASIC CRITERIA WHICH I CONSIDER ANY MAJOR NEW INDIRECT TAX SHOULD MEET," HE SAID.

"FIRST, IT 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."

MR JACOBS NOTED THAT WHILST THE GOVERNMENT'S RESEARCHES WERE FAR FROM COMPLETE, THEY HAD TENDED TO CONFIRM HIS BELIEF THAT A MEASURE OF TAX DIVERSIFICATION, TOGETHER WITH SOME RATIONALISATION OF EXISTING INDIRECT TAXES, WAS A PRACTICAL PROPOSITION.

"WHAT WE HAVE DONE SO FAR SUGGESTS THAT A FORM OF SALES TAX, THOUGH PROBABLY NOT AT THE RETAIL LEVEL, BEST MEETS THE CRITERIA I HAVE DESCRIBED.

"BUT THIS IS A COMPLEX AREA AND MANY FACTORS REMAIN TO BE CONSIDERED. THERE IS, THEREFORE, MUCH MORE TO BE DONE BEFORE I AM ABLE TO PRESENT ANY PROPOSALS FOR PUBLIC DEBATES," HE SAID.

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ON THE GOVERNMENT'S CONSOLIDATED RESERVES, MR JACOBS SAID IT HAD RISEN FROM \$40.5 BILLION AT THE END OF 1987-88 TO ABOUT \$46.0 BILLION BY THE END OF 1988-89 AFTER ALLOWING FOR THE TAXATION PROPOSALS HE HAD PROPOSED TODAY.

HE SAID THE MEDIUM RANGE FORECAST SHOWED THAT MAINTENANCE OF THESE RESERVES IN REAL TERMS WOULD BE ACHIEVED OVER THE FORECAST PERIOD UP TO 1991-92.

HOWEVER, HE SAID OVER THIS PERIOD THE RESERVE BALANCES WOULD FALL AS A PERCENTAGE OF ANNUAL SPENDING FROM ABOUT 77 PER CENT TO 65 PER CENT.

"IN THIS RESPECT, OUR RESERVES HAVE BEEN HIGHER ONLY BRIEFLY IN THE EARLY YEARS OF THIS DECADE WHEN WE EXPERIENCED SUBSTANTIAL WINDFALL RECEIPTS FROM LAND SALES."

MR JACOBS SAID THERE COULD BE NO ABSOLUTE GUIDELINE AS TO A SATISFACTORY LEVEL OF RESERVES.

"NEVERTHELESS, THE PRESENT POSITION NOT ONLY PROVIDES ESSENTIAL COVER FOR OUR CONTINGENT LIABILITIES AND FOR FLUCTUATIONS IN OUR SHORT TERM CASH FLOW BUT ALSO ASSISTS US IN MAINTAINING FISCAL STABILITY OVER THE LONGER TERM," HE NOTED.

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HIGH SPENDING ON SOCIAL SERVICES TO CONTINUE

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SOCIAL SERVICES WILL CONTINUE TO RECEIVE A HIGHER PROPORTION OF OUR TOTAL RESOURCES IN THE COMING YEAR, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, TOLD THE LEGISLATIVE COUNCIL THIS AFTERNOON.

IN PARTICULAR, \$6.1 BILLION WOULD BE SPENT ON MEDICAL SERVICES, INCREASING THE SHARE ON THE CONSOLIDATED ACCOUNT FROM 9.4 PER CENT TO 9.7 PER CENT, TO SERVICE SOME OF THE MAJOR NEW PROJECTS COMING ON STREAM.

ON SOCIAL WELFARE SERVICES, TOTAL SPENDING WAS ESTIMATED AT \$3.9 BILLION, AN INCREASE IN THE SHARE FROM 5.7 PER CENT TO 6.3 PER CENT, MR JACOBS SAID.

"THIS IS PARTLY DUE TO THE IMPROVEMENTS IN WELFARE BENEFITS FOR THE ELDERLY AND FOR THE DISABLED WHO REQUIRE CONSTANT ATTENDANCE, BUT ALSO IS A RESULT OF THE EXPANSION OF VARIOUS WELFARE SERVICES," HE SAID.

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TAKING INTO ACCOUNT THE IMPACT OF PAST BUDGETS, THE CUMULATIVE REAL INCREASE IN SPENDING ON MEDICAL AND SOCIAL WELFARE SERVICES SINCE 1983-84 WOULD BE 46 PER CENT AND 45 PER CENT RESPECTIVELY, HE ADDED.

IN THE DRAFT ESTIMATES OF EXPENDITURE FOR NEXT YEAR, EXPENDITURE ON GENERAL REVENUE ACCOUNT INCLUDING TRANSFERS TO FUNDS WOULD AMOUNT TO \$50.0 BILLION. EXPENDITURE ON VARIOUS FUNDS WAS ESTIMATED TO BE \$13.0 BILLION.

"TAKING GENERAL REVENUE ACCOUNT AND FUNDS TOGETHER, BUT EXCLUDING TRANSFERS, THESE ESTIMATES REPRESENT AN INCREASE OF ABOUT 13 PER CENT IN CASH TERMS OVER THE REVISED ESTIMATE FOR 1987-88," MR JACOBS SAID.

THE FINANCIAL SECRETARY SAID \$3.8 BILLION WAS INCLUDED FOR ADDITIONAL COMMITMENTS TO COVER THE USUAL RANGE OF NEW AND UNFORSEEN ITEMS THAT AROSE EACH YEAR INCLUDING POSSIBLE SALARIES ADJUSTMENTS.

"IN ADDITION, THIS YEAR, THE PROVISION ALLOWS FOR PAYMENTS UNDER A NEW DEFENCE COST AGREEMENT WHEN A NEW AGREEMENT IS, IN FACT, CONCLUDED," MR JACOBS SAID.

WHEN COUPLED WITH THE ESTIMATED EXPENDITURE OF OTHER PUBLIC BODIES SUCH AS THE HOUSING AUTHORITY AND THE URBAN AND REGIONAL COUNCILS, THE ESTIMATED GROWTH RATE ON CONSOLIDATED ACCOUNT WAS 15.7 PER CENT IN CASH TERM AND 7.0 PER CENT IN REAL TERMS, WHICH WAS 1.5 PERCENTAGE POINTS ABOVE THE BUDGETARY GUIDELINE, THE FINANCIAL SECRETARY SAID.

HOWEVER, THE KOWLOON WALLED CITY PROJECT ACCOUNTS FOR SOME 1.2 PERCENTAGE POINTS OF THIS REAL GROWTH IN CONSOLIDATED ACCOUNT EXPENDITURE.

"I AM, THEREFORE, SATISFIED THAT AFTER EXCLUDING THIS EXCEPTIONAL AND ONE-OFF PROJECT, THE REMAINING GROWTH IS BROADLY CONSISTENT WITH MY INTENTION OF KEEPING THE UNDERLYING TREND TO AROUND 5.5 PER CENT," MR JACOBS SAID.

IN ARRIVING AT THESE FIGURES, FULL ALLOWANCE HAD BEEN MADE FOR THE COST OF RUNNING NEW FACILITIES AND FOR RESPONDING TO THE UNDERLYING GROWTH IN DEMAND FOR NUMEROUS SERVICES, MR JACOBS ADDED.

IN ADDITION, THERE HAD BEEN ROOM WITHIN THE GUIDELINES TO FINANCE A NUMBER OF MAJOR IMPROVEMENTS OR ENTIRELY NEW SERVICES.

"IN ALL, THE IMPROVEMENTS IN SERVICES PLANNED FOR 1988-89 WILL COST \$560 MILLION IN THE BUDGET YEAR AND ABOUT \$1.1 BILLION IN A FULL YEAR," MR JACOBS SAID.

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SPENDING ON CAPITAL PROGRAMMES, INCLUDING THE KOWLOON WALLED CITY CLEARANCE, WAS FORECAST TO BE \$16.9 BILLION -- AN INCREASE OF ABOUT 19 PER CENT ON THE PREVIOUS YEAR IN CASH TERMS, THE FINANCIAL SECRETARY SAID.

MAJOR NEW PROJECTS TO START IN THE YEAR INCLUDE SEVERAL HIGHWAY DEVELOPMENTS IN BOTH THE NEW TERRITORIES AND URBAN AREAS, AND LAND FORMATION CONTRACTS IN RESPECT OF THE TIN SHUI WAI DEVELOPMENT.

ON HOUSING, THE FINANCIAL SECRETARY SAID THE ALLOCATION WAS 12.6 PER CENT OF THE CONSOLIDATED ACCOUNT EXPENDITURE.

" IN 1988-89, THE HOUSING AUTHORITY EXPECTS TO PRODUCE SOME 45,000 RENTAL FLATS, THE HIGHEST NUMBER OF SUCH FLATS EVER PRODUCED IN A SINGLE YEAR," MR JACOBS SAID.

IN ADDITION, 12,160 FLATS WERE EXPECTED TO BE PRODUCED UNDER THE HOME OWNERSHIP AND PRIVATE SECTOR PARTICIPATION SCHEMES NEXT YEAR, WHICH WAS 21 PER CENT OVER THE AVERAGE ANNUAL PRODUCTION TARGET UNDER THESE SCHEMES, HE SAID.

NET LAND PRODUCTION IN 1988-89 WAS EXPECTED TO BE 165 HECTARES COMPARED WITH A REVISED ESTIMATE OF 174 HECTARES FOR 1987-88. OVER THE THREE YEARS OF THE FORECAST PERIOD 1989-90 TO 1991-92, TOTAL PRODUCTION WAS EXPECTED TO 1,092 HECTARES, HE ADDED.

ON THE GOVERNMENT'S PROPOSAL TO INCREASE EXPENDITURE SIGNIFICANTLY IN SUPPORT OF THE MANUFACTURING INDUSTRY, MR JACOBS SAID MORE THAN \$1 BILLION A YEAR HAD ALREADY BEEN COMMITTED ON SERVICES FOR INDUSTRY.

"OUR PLANS FOR INCREASED EXPENDITURE IN 1988-89 INCLUDE A GRANT TO THE HONG KONG PRODUCTIVITY COUNCIL FOR THE FIRST YEAR OF A NEW THREE-YEAR PROGRAMME FOR UPGRADING AND EXPANDING ITS PRODUCTIVITY ENHANCEMENT SERVICES, A GRANT TO ASSIST TOWARDS THE CREATION OF A PLASTICS TECHNOLOGY CENTRE BASED ON THE HONG KONG POLYTECHNIC AND ADDITIONAL APPROPRIATIONS TO ENABLE THE INDUSTRY DEPARTMENT TO IMPROVE ITS PROMOTIONAL ACTIVITIES," HE SAID.

"ALTHOUGH I AM SATISFIED THAT MY OVERALL EXPENDITURE PROPOSALS FOR 1988-89 CAN BE CONTAINED WITHIN MY BUDGETARY STRATEGY THIS MEANS A GROWTH IN THE CIVIL SERVICE ESTABLISHMENT OF ABOUT FOUR PER CENT," MR JACOBS SAID.

SOME 26 PER CENT OF THE STAFF GROWTH WOULD ACCRUE TO THE MEDICAL AND HEALTH DEPARTMENT AND 15 PER CENT TO THE POLICE.

"IT IS LIKELY THAT WE SHALL WITNESS A SIMILAR OVERALL GROWTH RATE IN 1989-90, BUT I SHALL LOOK FOR A MOVE TOWARDS OUR 2.5 PER CENT GUILDLINE THEREAFTER," HE SAID.

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IN THE ESTIMATES, PROVISION HAD BEEN MADE TO TRANSFER \$7.4 BILLION FROM THE GENERAL REVENUE ACCOUNT TO VARIOUS FUNDS TO SUPPORT THE ACTIVITIES THEY FINANCED, THE FINANCIAL SECRETARY SAID.

"THE TRANSFERS ARE BROADLY SUFFICIENT TO ENSURE THAT THE BALANCES IN THE FUNDS ARE MAINTAINED IN REAL TERMS. I HAVE ALSO TAKEN INTO ACCOUNT A SWITCH OF CERTAIN ITEMS TO THE CAPITAL WORKS RESERVE FUND 1988-89 WHICH WERE PREVIOUSLY FUNDED FROM GENERAL REVENUE ACCOUNT," MR JACOBS SAID.

"OVERALL, AS A RESULT OF THESE ESTIMATES, CONSOLIDATED ACCOUNT EXPENDITURE AS A PROPORTION OF GDP IS ESTIMATED TO INCREASE FROM 15 PER CENT IN 1987-88 TO AROUND 15.5 PER CENT," HE ADDED.

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11 PER CENT GROWTH IN REVENUE

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TOTAL REVENUE ON GENERAL REVENUE ACCOUNT AND VARIOUS FUNDS FOR THE NEXT FISCAL YEAR IS ESTIMATED TO BE \$62.9 BILLION, REPRESENTING A GROWTH RATE OF ABOUT 11 PER CENT, THE FINANCIAL SECRETARY, THE HON PERS JACOBS, SAID IN HIS BUDGET SPEECH TODAY (WEDNESDAY).

HE SAID REVENUE IN 1988-89 WOULD STILL BE BENEFITING FROM TWO YEARS OF EXCEPTIONAL ECONOMIC PERFORMANCE IN 1986 AND 1987 ALTHOUGH HE HAD FORECAST A SLOWDOWN IN ECONOMIC GROWTH.

"IN PARTICULAR, YIELDS FROM PROFITS TAX, SALARIES TAX, VEHICLE FIRST REGISTRATION TAX AND MANY OF OUR FEES AND CHARGES ARE EXPECTED TO REMAIN BUOYANT.

"THE YIELD FROM RATES WILL BENEFIT FROM THE RECENTLY ANNOUNCED PROPERTY REVALUATION," MR JACOBS SAID.

HOWEVER, HE EXPRESSED CAUTION ON STAMP DUTY BECAUSE STOCK MARKET TURNOVER RECORDED IN THE FIRST HALF OF 1987-88 WAS EXCEPTIONALLY HIGH AND UNLIKELY TO BE REPEATED IN THE COMING YEAR.

"WHILST THE IMPACT OF THE SLOWDOWN IN ECONOMIC GROWTH ON LAND PRICES IS NOT YET CLEAR, I HAVE AGAIN PREFERRED TO USE RELATIVELY CONSERVATIVE ASSUMPTIONS AS TO LAND SALE YIELDS," MR JACOBS SAID.

IN TERMS OF THE PROPORTION OF DIRECT TO INDIRECT TAXES, MR JACOBS SAID THE DIRECT ELEMENT WAS FORECAST TO RISE SLIGHTLY TO ABOUT 61 PER CENT IN 1988-89, THE COMPARABLE REVISED ESTIMATE FOR 1987-88 WAS 58 PER CENT AND THE ACTUAL SHARE FOR 1986-87 WAS 60 PER CENT.

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TAKING THE DRAFT ESTIMATES OF REVENUE AND EXPENDITURE FOR 1988-89 TOGETHER, HE SAID THEY SHOWED A NET SURPLUS ON GENERAL REVENUE ACCOUNT OF \$5.6 BILLION AND AN INCREASE IN THE BALANCES OF THE FUNDS OF \$1.7 BILLION.

"IN TOTAL, THEREFORE, A POTENTIAL OVERALL SURPLUS FOR THE YEAR OF \$7.3 BILLION IS INDICATED."

MR JACOBS NOTED THAT THERE WAS SCOPE FOR SOME REDUCTION IN TAXATION. "IN FORMULATING MY PROPOSALS, I HAVE LOOKED BEYOND 1988-89."

HE EMPHASISED THAT IT WOULD TAKE TIME BEFORE THE SLOWER ECONOMIC GROWTH THAT HE HAD FORECAST WOULD AFFECT THE REVENUE YIELDS.

THE FULL IMPACT ON REVENUE YIELDS OF ANY TAX CONCESSIONS WOULD NOT BE FELT UNTIL 1989-90, HE ADDED.

"WITH THESE CONSIDERATIONS IN MIND, I AM PROPOSING A PACKAGE OF MEASURES WHICH WILL REDUCE OUR REVENUE YIELDS BY \$1.8 BILLION IN 1988-89, BUT MORE IMPORTANTLY, BY \$2.7 BILLION IN A FULL YEAR,"

THE FULL YEAR COST WAS EQUIVALENT TO ABOUT FIVE PER CENT OF RECURRENT REVENUE YIELDS, HE SAID.

"IN 1988-89, THESE PROPOSALS WILL, THEREFORE, REDUCE THE ESTIMATED OVERALL SURPLUS ON GENERAL REVENUE ACCOUNT FROM \$5.6 BILLION TO \$3.8 BILLION AND THE OVERALL SURPLUS, WHEN TAKEN TOGETHER WITH OUR FUNDS, FROM \$7.3 BILLION TO \$5.5 BILLION," HE SAID.

IN TERMS OF THEIR IMPACT ON THE RATIO BETWEEN DIRECT AND INDIRECT TAXES, MR JACOBS SAID HIS PROPOSALS WOULD REDUCE THE DIRECT ELEMENT IN 1988-89 FROM WHAT WOULD HAVE BEEN 61 PER CENT OF TAX REVENUE TO 60 PER CENT.

"PENDING THE FURTHER CONSIDERATION OF NEW INDIRECT SOURCES, TO WHICH I HAVE REFERRED, MY PROPOSALS ARE INTENDED MERELY TO CONTAIN WHAT IS A TENDENCY FOR THE NATURALLY BUOYANT DIRECT SOURCES TO INCREASE AS A SHARE OF THE WHOLE," MR JACOBS SAID.

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REVENUE-RAISING MEASURES TO YIELD \$390 MILLION
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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, TODAY (WEDNESDAY) PRESENTED A PACKAGE OF REVENUE-RAISING MEASURES DESIGNED TO YIELD \$390 MILLION IN 1988-89.

THE ADDITIONAL REVENUE WOULD BE MORE THAN OFFSET BY TAX CONCESSIONS ESTIMATED TO COST \$2.2 BILLION IN 1988-89.

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INCLUDED IN THE PACKAGE OF REVENUE-RAISING MEASURES WERE INCREASES IN DUTY RATES ON HYDROCARBON OILS, INTOXICATING LIQUOR AND IMPORTED ALCOHOL AND TOBACCO WHICH WERE EXPECTED TO YIELD \$207 MILLION IN 1988-89.

MR JACOBS EXPLAINED THAT THE PRINCIPLE UNDERLYING THE REVISIONS CONTINUED TO BE THAT SPECIFIC DUTY RATES SHOULD BE MAINTAINED IN REAL TERMS BY MEANS OF REGULAR SMALL CHARGES BROADLY IN LINE WITH INFLATION.

ON HYDROCARBON OILS, HE PROPOSED TO INCREASE THE DUTY RATE ON MOTOR SPIRIT FROM \$2.40 TO \$2.55 A LITRE, AND ON DIESEL OIL FOR ROAD VEHICLES FROM \$1.20 TO \$1.27 A LITRE.

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

THE ADDITIONAL REVENUE YIELD FROM THESE TWO INCREASES WOULD BE \$98 MILLION IN 1988-89.

MR JACOBS SAID HE HAD THREE PROPOSALS TO MAKE REGARDING INTOXICATING LIQUOR: FIRST, FOR CIDER AND PERRY, BEER, NON-EUROPEAN TYPE WINES AND CHINESE TYPE SPIRITS, AN INCREASE OF SIX PER CENT IN THE SPECIFIC DUTY ELEMENTS; SECONDLY, AN INCREASE IN THE BASIC RATES FOR IMPORTED ETHYL ALCOHOL AND METHYL ALCOHOL FROM \$4.30 TO \$4.55 A LITRE; AND THIRDLY, TO REDUCE THE SPECIFIC DUTY RATE ON BRANDY BY \$12 PER LITRE - FROM \$67 TO \$55 PER LITRE - WHILE LEAVING WHISKY, GIN, LIQUEURS, RUM, VODKA AND OTHER SPIRITUOUS LIQUORS AT THE EXISTING SPECIFIC DUTY RATE OF \$48 PER LITRE. HOWEVER, TO PROTECT THE REAL REVENUE YIELD, THE AD VALOREM RATES FOR ALL THESE LIQUORS WOULD BE INCREASED FROM 20 PER CENT TO 30 PER CENT.

MR JACOBS EXPLAINED THAT THIS PROPOSAL WAS CONSISTENT WITH THE VIEW OF HIS PREDECESSOR THAT A PURCHASER OF A CHEAPER BRAND SHOULD NOT BE REQUIRED TO PAY THE SAME DUTY PER BOTTLE AS A PURCHASER OF A MORE EXPENSIVE BRAND.

THE EFFECT OF LOWERING THE DIFFERENTIAL BETWEEN THE DUTY RATES IMPOSED ON BRANDY AND WHISKY WILL MEAN THAT THE DUTY ON THE CHEAPER BRANDIES WILL BE REDUCED BY SOME 12.5 PER CENT, THAT IS \$9 PER LITRE, WHEREAS THERE WILL BE A MODEST RISE IN THE DUTY ON THE CHEAPER WHISKIES.

NO CHANGES WERE PROPOSED TO EXISTING DUTY RATES FOR CHAMPAGNE AND SPARKLING OR STILL WINES.

MR JACOBS SAID THAT HE ESTIMATED THE ADDITIONAL REVENUE YIELD FROM ALL THESE CHANGES IN RATES TO BE \$40 MILLION IN 1988-89 ASSUMING NO CONSUMER RESISTANCE.

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TURNING TO TOBACCO, MR JACOBS SAID THAT HE PROPOSED TO INCREASE THE DUTY ON CIGARETTES FROM \$165 TO \$175 PER 1,000 STICKS. THE DUTY ON CIGARS WOULD BE INCREASED FROM \$220 TO \$233 A KILOGRAM; ON SMOKING TOBACCO FROM \$200 TO \$212 A KILOGRAM; AND ON CHINESE PREPARED TOBACCO FROM \$43 TO \$45.50 A KILOGRAM.

MR JACOBS ESTIMATED THE ADDITIONAL REVENUE YIELD FROM THESE INCREASES TO BE \$69 MILLION IN 1988-89.

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

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INCREASE IN FEES AND CHARGES PROPOSED

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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, HAS PROPOSED INCREASES IN A NUMBER OF FEES AND CHARGES WHICH ARE EXPECTED TO YIELD ABOUT \$100 MILLION IN REVENUE FOR 1988-89.

ADDITIONAL REVENUE OF ABOUT \$81 MILLION IN 1988-89 IS EXPECTED FROM THE NORMAL REGULAR REVIEW OF SOME OTHER FEES AND CHARGES.

PRESENTING HIS BUDGET IN THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY), MR JACOBS SAID THESE PROPOSED INCREASES WERE IN RESPECT OF VEHICLE AND DRIVING LICENCE FEES; BANK AND DEPOSIT-TAKING COMPANY LICENCE AND REGISTRATION FEES; PASSENGER EMBARKATION AND BERTHING FEES, AND POSTAL AND TELECOMMUNICATION FEES AND CHARGES.

MR JACOBS PROPOSED THAT VEHICLE REGISTRATION AND DRIVING LICENCE FEES BE INCREASED WITH IMMEDIATE EFFECT BY ABOUT SIX PER CENT.

HE ESTIMATED THAT THE ADDITIONAL REVENUE ACCRUING FROM THESE INCREASES WOULD BE \$62 MILLION IN 1988-89.

ON BANK AND DTC LICENCE AND REGISTRATION FEES, MR JACOBS PROPOSED AN EIGHT PER CENT INCREASE IN THESE AND RELATED FEES WITH EFFECT FROM APRIL 1, 1988. THE YIELD IN 1988-89 WOULD BE AROUND \$11 MILLION.

AS REGARDS PASSENGER EMBARKATION AND BERTHING FEES, MR JACOBS SAID THAT IN RECENT YEARS THE GOVERNMENT HAD INVESTED CONSIDERABLE ADDITIONAL RESOURCES TO CATER FOR THE GROWTH IN PASSENGER FERRY TRAFFIC TO CHINA.

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"IN ACCORDANCE WITH OUR GENERAL POLICY OF COST RECOVERY, I PROPOSE THAT WHEN THE CHINA FERRY TERMINAL IN CANTON ROAD OPENS LATER THIS YEAR, THE PASSENGER EMBARKATION FEE OF \$15 BE EXTENDED TO THOSE DEPARTING FROM THIS NEW TERMINAL," HE SAID.

HE ADDED THAT BERTHING FEES AT THE CHINA FERRY TERMINAL WOULD THEN BE SET AT THE SAME LEVEL AS THOSE FOR VESSELS USING THE MACAU FERRY TERMINAL.

"THESE FEES WILL BE REVIEWED REGULARLY IN LINE WITH THE EXISTING POLICY OF RECOVERING THE FULL OPERATING COSTS," HE SAID.

HE ESTIMATED THE TOTAL ADDITIONAL REVENUE YIELD FROM THESE FEES IN 1988-89 TO BE \$6 MILLION, AND \$12 MILLION IN A FULL YEAR.

IN RESPECT OF POSTAL AND TELECOMMUNICATION FEES AND CHARGES, MR JACOBS PROPOSED TO IMPLEMENT A PACKAGE OF MODERATE INCREASES IN THESE FEES AND CHARGES DURING THE NEXT FINANCIAL YEAR TO RESTORE THEIR REAL VALUE. THE ADDITIONAL REVENUE YIELD IN 1988-89 IS ESTIMATED AT \$23 MILLION, AND \$70 MILLION IN A FULL YEAR.

MR JACOBS ADDED THAT A NUMBER OF OTHER FEES AND CHARGES, INCLUDING THOSE IN RELATION TO CERTAIN SERVICES PROVIDED BY THE IMMIGRATION DEPARTMENT, THE MEDICAL AND HEALTH DEPARTMENT, THE TRADE DEPARTMENT AND THE WATER SUPPLIES DEPARTMENT, WERE SCHEDULED FOR THEIR NORMAL REGULAR REVIEW IN 1988.

"FROM THESE SOURCES, I EXPECT ADDITIONAL REVENUE OF ABOUT \$81 MILLION IN 1988-89, EQUIVALENT TO \$145 MILLION IN A FULL YEAR," HE SAID.

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TAX BURDEN OF MIDDLE-INCOME GROUP EASED

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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS TODAY (WEDNESDAY) PROPOSED A NUMBER OF TAX RELIEF MEASURES FOR PERSONAL-TAX PAYERS WHICH WOULD BE OF PARTICULAR ASSISTANCE TO THOSE IN THE MIDDLE-INCOME GROUP.

THE PROPOSED CONCESSIONS WERE:

- * FIRST, TO REDUCE THE STANDARD TAX RATE FROM 16.5 PER CENT TO 15.5 PER CENT;
- * SECONDLY, TO PROVIDE BOTH A LOWER INITIAL TAX RATE - FROM FIVE PER CENT AT PRESENT TO THREE PER CENT - AND A MORE GRADUAL PROGRESSION THROUGH THE VARIOUS MARGINAL RATES AS INCOME INCREASES. FURTHERMORE, THE POINT AT WHICH THE MAXIMUM 25 PER CENT MARGINAL RATE WOULD BEGIN TO APPLY WOULD BE RAISED BY \$10,000;

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- * THIRDLY, TO INCREASE THE ADDITIONAL PERSONAL ALLOWANCE FROM \$5,000 TO \$7,000 FOR A SINGLE PERSON, AND FROM \$10,000 TO \$14,000 FOR A MARRIED COUPLE. THUS, THE BASIC ALLOWANCE PLUS THE INCREASED ADDITIONAL ALLOWANCE WOULD TOTAL \$36,000 FOR A SINGLE PERSON, AND \$74,000 FOR A MARRIED COUPLE. BELOW THESE INCOME LEVELS THERE WOULD BE NO LIABILITY TO TAX. THE NEW ALLOWANCES AT THEIR MAXIMUM LEVELS WOULD BE NEARLY SIX PER CENT HIGHER THAN THE PRESENT BASIC AND ADDITIONAL PERSONAL ALLOWANCES;
- * FOURTHLY, TO INCREASE THE CHILD ALLOWANCE, FOR A FIRST CHILD FROM \$11,000 TO \$12,000, AND FOR A SECOND CHILD FROM \$8,000 TO \$8,500; AND
- * LASTLY, TO INCREASE ALLOWANCE FOR A DEPENDENT PARENT FROM \$9,000 TO \$10,000. THUS, THE TOTAL ALLOWANCE IN RESPECT OF A DEPENDENT PARENT RESIDING WITH A TAXPAYER WOULD BE \$13,000.

MR JACOBS SAID HE INTENDED TO INTRODUCE THESE CONCESSIONS WITH EFFECT FROM THE YEAR OF ASSESSMENT COMMENCING APRIL 1 THIS YEAR.

"THEREFORE, THE FIRST OCCASION ON WHICH THEY WILL APPLY WILL BE TO PROVISIONAL AND FINAL SALARIES TAX ASSESSMENTS FOR 1988-89, AND ALSO TO 1988-89 PERSONAL ASSESSMENTS."

THE COST OF THE CONCESSIONS TO THE REVENUE IN 1988-89 WILL BE ABOUT \$1.1 BILLION, AND FOR A FULL YEAR, \$1.5 BILLION.

MR JACOBS SAID HIS PERSONAL TAXATION PACKAGE HAD BEEN CAREFULLY STRUCTURED TO SLOW DOWN THE RATE AT WHICH PEOPLE MOVE TO HIGHER TAX BRACKETS. AT THE SAME TIME, ALTHOUGH WLLOWANCES WOULD BE RAISED BROADLY IN LINE WITH INFLATION, THUS KEEPING A NUMBER OF PEOPLE OUTSIDE THE TAX NET, INCREASES IN REAL INCOME WOULD HAVE THE OVERALL EFFECT OF INCREASING THE NUMBER OF TAXPAYERS.

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WORKING WIVES TO GET TAX ALLOWANCE CONCESSION

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A TAX CONCESSION IN THE FORM OF AN ANNUAL ALLOWANCE OF UP TO \$15,000 FOR WORKING WIVES WAS PROPOSED BY THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, TODAY (WEDNESDAY).

IN HIS BUDGET SPEECH TO THE LEGISLATIVE COUNCIL, HE SAID THIS WOULD COST A FURTHER \$240 MILLION IN 1988-89, AND \$340 MILLION IN A FULL YEAR.

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"AS THIS CONCESSION WILL BE INTRODUCED WITH EFFECT FROM THE YEAR OF ASSESSMENT COMMENCING APRIL 1, 1988, THE FIRST OCCASION ON WHICH IT WILL APPLY WILL BE TO PROVISIONAL AND FINAL SALARIES TAX ASSESSMENTS FOR 1988-89, AND ALSO TO 1988-89 PERSONAL ASSESSMENTS."

MR JACOBS RECALLED THAT IN DEBATING HIS BUDGET PROPOSALS LAST YEAR, A NUMBER OF LEGISLATIVE COUNCIL MEMBERS CALLED FOR SEPARATE TAXATION FOR WORKING WIVES.

WHILE CONCLUDING THE DEBATE LAST YEAR, HE THEN EXPLAINED WHY HE DID NOT CONSIDER THAT SEPARATE TAXATION WAS APPROPRIATE.

"SINCE THAT TIME, THERE HAS BEEN CONTINUED PUBLIC DEBATE ON THIS SUBJECT; I AM ALSO AWARE OF THE TREND IN SOME OTHER TAX ADMINISTRATIONS IN THE DIRECTION OF SEPARATE TAXATION," HE SAID.

"IN ALL THE CIRCUMSTANCES, I AM NOW PREPARED TO CONSIDER FURTHER HOW SEPARATE TAXATION FOR WORKING WIVES MIGHT BEST BE INTRODUCED.

"I MUST WARN, HOWEVER, THAT THERE ARE A NUMBER OF DIFFICULT QUESTIONS TO BE RESOLVED NOT THE LEAST OF WHICH IS THE QUESTION OF TRANSFERABILITY OF ALLOWANCES BETWEEN SPOUSES.

"THIS IS A COMPLEX SUBJECT WITH MANY OPTIONS TO BE CONSIDERED IF WE ARE TO ENSURE BROADLY EQUITABLE TREATMENT. IT WOULD THEREFORE NOT BE FEASIBLE TO INTRODUCE SEPARATE TAXATION OVERNIGHT."

MR JACOBS ADDED THAT HE PROPOSED THE LATEST CONCESSION BECAUSE OF THE DIFFICULTIES INVOLVED IN IMPLEMENTING SEPARATE TAXATION AND SO THAT SOME BENEFIT COULD BE ENJOYED NOW.

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CONCESSIONS TO BENEFIT BUSINESSMEN, HOME BUYERS, TRAVELLERS

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CONCESSIONS HAVE BEEN PROPOSED IN THE 1988-89 BUDGET ESTIMATES WHICH WOULD BENEFIT BUSINESSMEN, PROPERTY OWNERS, HOME PURCHASERS AND TRAVELLERS, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, TOLD THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

"AS TO PROFITS TAX, I PROPOSE A REDUCTION IN THE RATE OF TAX ON CORPORATE PROFITS FROM 18 PER CENT TO 17 PER CENT," HE SAID.

THE COST OF THE REDUCTION PROPOSED WAS \$370 MILLION IN 1988-89 AND, FOR A FULL YEAR, \$760 MILLION. THE NEW CORPORATE RATE OF 17 PER CENT WOULD APPLY TO PROVISIONAL AND FINAL ASSESSMENTS FOR 1988-89, HE ADDED.

/MR JACOBS

MR JACOBS SAID SOME HAVE ARGUED THAT A STIMULUS SHOULD BE PROVIDED TO THE MANUFACTURING SECTOR THROUGH AN INCREASE IN CAPITAL ALLOWANCES FOR EXPENDITURE INCURRED ON THE PROVISION OF PLANT AND MACHINERY.

"IN 1987 THERE WAS NO RELUCTANCE ON THE PART OF MANUFACTURERS TO INVEST. WE ARE SEEING MORE AND MORE EFFORT BEING MADE TO INCREASE CAPACITY, IMPROVE PRODUCTIVITY AND ENHANCE PROFITABILITY.

"I DO NOT BELIEVE THAT THE SELECTIVE INDUCEMENT OF AN INCREASE IN CAPITAL ALLOWANCES IS WHAT IS NEEDED THIS TIME," HE SAID.

"INSTEAD, I CONSIDER THAT THE PROPOSED REDUCTION IN THE RATE OF TAX ON CORPORATE PROFITS WILL PROVIDE APPROPRIATE AND PROPER ENCOURAGEMENT TO ALL THOSE IN BUSINESS."

MR JACOBS SAID THAT THE REDUCTION PROPOSED IN THE STANDARD RATE FROM 16.5 PER TO 15.5 PER CENT WOULD LOWER THE YIELDS FROM PROPERTY TAX, INTEREST TAX AND PROFITS TAX PAID BY UNINCORPORATED BUSINESSES.

"TAKEN TOGETHER, I ESTIMATE THAT THIS WILL COST A FURTHER \$70 MILLION IN 1988-89 AND \$160 MILLION IN A FULL YEAR.

"THE NEW STANDARD RATE WILL APPLY TO PROVISIONAL AND FINAL PROFITS TAX AND PROPERTY TAX ASSESSMENTS FOR 1988-89; IT WILL APPLY ALSO TO FINAL INTEREST TAX ASSESSMENTS FOR THAT YEAR," MR JACOBS SAID.

ON STAMP DUTY, THE FINANCIAL SECRETARY SAID THE CONCESSION WAS DESIGNED TO FACILITATE WIDER HOME OWNERSHIP AND ASSIST THE MIDDLE INCOME GROUP.

"AT PRESENT, THE RATE OF DUTY PAYABLE ON ASSIGNMENTS VARIES ACCORDING TO THE SALE PRICE OR MARKET VALUE OF THE PROPERTY, WHICHEVER IS THE HIGHER.

"I INTEND TO RELAX THE RATES APPLICABLE TO SMALL AND MEDIUM-SIZED PROPERTIES," MR JACOBS SAID.

"I PROPOSE WITH EFFECT FROM APRIL 1, TO LIFT THE THRESHOLD AT WHICH 2.75 PER CENT RATE BEGINS TO APPLY FROM THE PRESENT \$500,000 TO \$1.5 MILLION; TO CUT THE RATE OF DUTY FOR PROPERTIES COSTING BETWEEN \$250,000 AND \$1.5 MILLION; AND TO INTRODUCE A NEW FORMULA FOR DETERMINING MARGINAL RELIEF, WHICH WILL PROVIDE A GREATER BENEFIT TO DUTY PAYERS AND HAVE THE EFFECT OF PUSHING THE VARIOUS DUTY RATE THRESHOLD UPWARD," HE EXPLAINED.

"I ESTIMATE THAT SOME 100,000 PERSONS WILL BENEFIT FROM THESE PROPOSALS, WHICH WILL COST A FURTHER \$300 MILLION IN 1988-89," HE SAID.

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MR JACOBS SAID THAT IN THE PAST THREE YEARS THE VALUE OF THE AIR PASSENGER DEPARTURE TAX, AT \$120 FOR AN ADULT AND \$60 FOR A CHILD, HAD BEEN ERODED BY INFLATION.

"BALANCING ONE FACTOR AGAINST ANOTHER, AND IN THE LIGHT OF MY OVERALL BUDGETARY STRATEGY, I PROPOSE THAT FROM APRIL 1, THE TAX ON PASSENGERS DEPARTING FROM HONG KONG BY AIR BE REVISED TO \$100 FOR AN ADULT AND \$50 FOR A CHILD," MR JACOBS SAID.

"THIS CONCESSION WILL COST \$120 MILLION IN 1988-89," HE ADDED.

"I TRUST THAT NOT ONLY OUR OWN TRAVELLERS BUT ALSO OUR MANY VISITORS WILL WELCOME THIS REDUCTION," MR JACOBS SAID.

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MOVES TO IMPLEMENT REVENUE PROPOSALS

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THE FINANCIAL SECRETARY'S BUDGET PROPOSALS CONCERNING AIR PASSENGER DEPARTURE TAX, BANK AND DEPOSIT TAKING COMPANY LICENCE AND REGISTRATION FEES, DUTIABLE COMMODITIES, STAMP DUTY AND VEHICLE AND DRIVING LICENCE FEES, WERE CONTAINED IN PUBLIC REVENUE PROTECTION ORDERS SIGNED BY THE GOVERNOR THIS (WEDNESDAY) MORNING.

DURING THE CURRENT LEGISLATIVE COUNCIL SESSION, A BILL TO AMEND THE INLAND REVENUE ORDINANCE WILL BE INTRODUCED TO GIVE EFFECT TO THE PROPOSALS ON TAX CONCESSIONS.

"OTHER INCREASES IN FEES AND CHARGES WILL BE BROUGHT FORWARD DURING THE YEAR AS THE RELEVANT REVIEWS ARE COMPLETED," THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID IN HIS BUDGET SPEECH TODAY.

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'SOMETHING FOR ALL SECTORS OF OUR COMMUNITY'

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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID TODAY (WEDNESDAY) THAT HIS REVENUE PROPOSALS OFFERED "SOMETHING FOR ALL SECTORS OF OUR COMMUNITY".

SUMMING UP HIS BUDGET SPEECH IN THE LEGISLATIVE COUNCIL, HE SAID, "WE HAVE ADHERED TO OUR POLICY OF CONTINUITY AND WE ARE BUILDING FOR THE FUTURE."

"THE TAX CONCESSIONS, PARTICULARLY FOR MIDDLE-INCOME EARNERS, AND THE EFFORTS WE ARE MAKING TO ASSIST THE LESS ADVANTAGED OF OUR COMMUNITY ARE ESPECIALLY WORTHY OF NOTE," HE SAID.

IN PUTTING TOGETHER HIS TAX PROPOSALS, MR JACOBS SAID HE HAD DELIBERATELY SOUGHT A BROADENING OF THE TAX BASE TO ACHIEVE GREATER FISCAL STABILITY.

"AS AND WHEN PEOPLE ENJOY A REAL INCREASE IN THEIR INCOME, IT IS NOT UNREASONABLE THAT THEY SHOULD CONTRIBUTE TO THE FUNDING OF OUR PUBLIC SERVICES," HE SAID.

MR JACOBS ALSO MENTIONED THAT WORK WAS BEING CARRIED OUT IN RELATION TO A BROADLY BASED INDIRECT TAX, BUT REITERATED THAT THERE WOULD NOT BE A RUSH INTO SOMETHING THAT DID NOT SUIT US.

"IT IS IN THE CONTEXT OF MY THEME OF CONTINUITY AND FORWARD PLANNING THAT I BELIEVE WE MUST REMIND OURSELVES OF THE NEED FOR PRUDENCE," HE SAID.

THE GOVERNANCE OF HONG KONG WAS BECOMING INCREASINGLY COMPLEX AND THE RANGE OF FUNCTIONS REQUIRED OF THE ADMINISTRATION WAS EXPANDING.

THE PRIVATE SECTOR, TOO, WAS PLAYING ITS PART PARTICULARLY IN THE PROVISION OF INFRASTRUCTURE, HE SAID.

"AND WE ARE MAKING GREATER USE OF STATUTORY AUTHORITIES," HE ADDED.

POINTING OUT THE NEED FOR CONTINUING VIGILANCE REGARDING THE GROWTH IN PUBLIC SECTOR EXPENDITURE, MR JACOBS SAID EXPERIENCE ELSEWHERE SHOWED THAT AN EXPANDING PUBLIC SECTOR IN RELATION TO THE ECONOMY AS A WHOLE WAS OFTEN A MAJOR FACTOR IN DAMPENING LONG-TERM ECONOMIC PROSPECTS.

HE SAID HE RECOGNISED THAT HIS OVERALL BUDGETARY PACKAGE COULD WELL PROVIDE A STIMULUS TO THE ECONOMY THIS YEAR, BUT HE BELIEVED THAT THE EFFECT WOULD BE TOLERABLE.

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"I HAVE NO DOUBT, HOWEVER, GIVEN THAT THE ECONOMY WILL STILL BE OPERATING AT NEAR FULL CAPACITY, THAT ANY FURTHER STIMULUS WOULD BE INAPPROPRIATE AND COULD WELL RESULT IN HIGHER INFLATION RATHER THAN GREATER REAL GROWTH," MR JACOBS SAID.

HE SAID HE WAS PARTICULARLY CONSCIOUS THAT HIS EXPENDITURE PROPOSALS IMPLIED REAL GROWTH IN SPENDING IN 1988-89 HIGHER THAN HIS FORECAST FOR ECONOMIC GROWTH.

"FURTHERMORE, THE INDICATIONS ARE THAT THE SIZE OF THE CIVIL SERVICE IS SET TO INCREASE, FOR AT LEAST THE NEXT FEW YEARS, AT A RATE FASTER THAN THAT OF HONG KONG'S LABOUR FORCE," HE ADDED.

HE SAID IT WAS INEVITABLE, HOWEVER, THAT IN SOME YEARS SPENDING WOULD BE ABOVE THE TREND.

"CONTINUING CARE IS NEEDED TO ENSURE THAT IN THE LONGER TERM WE MOVE BACK TO OUR PLANNING CRITERIA. IF WE FAIL IN THIS REGARD, WE MAY FIND OURSELVES LOCKED INTO HIGH EXPENDITURE GROWTH RATES THAT CANNOT BE REDUCED IF AND WHEN CIRCUMSTANCES TURN AGAINST US.

"WE COULD THEN FIND OURSELVES IN A POSITION OF BEING FORCED TO INCREASE TAXATION, AND, THROUGH THAT INCREASE, ERODE SIGNIFICANTLY OUR COMPETITIVE EDGE BEARING IN MIND THE MOVE TOWARDS LOWER TAX RATES WORLDWIDE," MR JACOBS ADDED.

"BUT LET ME NOT END ON SUCH A SOMBRE NOTE.

"HONG KONG HAS PROSPERED OVER THE LAST TWO YEARS AND I HAVE BEEN ABLE TO RETURN TO OUR COMMUNITY SOME OF THE FRUITS OF THAT PROSPERITY.

"IT IS A TASK I HAVE ENJOYED," MR JACOBS SAID.

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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.

"THIS AFTERNOON I PRESENTED TO THE LEGISLATIVE COUNCIL MY BUDGET PROPOSALS FOR THE COMING FINANCIAL YEAR. I WAS IN THE HAPPY POSITION OF BEING ABLE TO DO THIS AGAINST A BACKGROUND OF STRONG ECONOMIC PERFORMANCE AND SOUND PUBLIC FINANCES.

"IN 1987 WE EXPERIENCED AN ECONOMIC GROWTH RATE OF AROUND 13.5 PER CENT, A FURTHER IMPROVEMENT ON THE HEALTHY 11 PER CENT THAT WE ACHIVED IN 1986. THE GROWTH RATE WE HAVE ENJOYED, THE HIGHEST SINCE 1976, WAS SOLIDLY BASED ON OUR EXPORT PERFORMANCE. UNEMPLOYMENT HAS REMAINED LOW, AND WAGES AND PROFITS HAVE BOTH INCREASED SUBSTANTIALLY.

"IN PUTTING TOGETHER MY PROPOSALS, I HAVE TAKEN INTO ACCOUNT NOT ONLY THE PERFORMANCE OF THE ECONOMY LAST YEAR BUT ALSO WHAT I FORESEE FOR 1988 AND THE YEARS BEYOND. IT IS IMPORTANT THAT WE HAVE REGARD TO THIS LONGER TERM VIEW IN ORDER TO ENSURE STEADY PROGRESS IN OUR EXPENDITURE AND IN THE SERVICES THAT WE PROVIDE.

"I AM PLEASED TO SAY THAT AT THE MOMENT THE ECONOMY IS CONTINUING TO PERFORM WELL. BUT IT IS UNLIKELY THAT THE GROWTH RATE IN 1988 WILL BE AS STRONG AS IN 1987. IN VIEW OF THE ECONOMIC UNCERTAINTIES THROUGHOUT THE WORLD, I EXPECT A SLOWDOWN IN OUR ECONOMIC GROWTH TO AROUND 5 PER CENT. EVEN THOUGH THIS FIGURE FALLS SHORT OF LAST YEAR'S EXCEPTIONAL GROWTH, IT WOULD BE VERY RESPECTABLE BY WORLD STANDARDS.

"IN MY EXPENDITURE PROPOSALS I HAVE CONTINUED MY POLICY OF PROVIDING FOR THE STEADY GROWTH OF PUBLIC SERVICES TO MEET THE ASPIRATIONS OF OUR COMMUNITY. I MENTION IN PARTICULAR INCREASED EXPENDITURE ON MEDICAL AND SOCIAL WELFARE SERVICES, ON HELP FOR THE ELDERLY AND FOR THE DISABLED, AND ON THE EDUCATION OF OUR YOUNG PEOPLE.

"OUR CAPITAL PROGRAMMES IN 1988 WILL INCLUDE EXPENDITURE ON THE KOWLOON WALLED CITY CLEARANCE, NEW HOSPITALS, WELFARE FACILITIES AND A WIDE RANGE OF INFRASTRUCTURAL PROJECTS. IN ADDITION, WE ARE TURNING OUR ATTENTION TO THE LONGER TERM DEVELOPMENT OF OUR TRANSPORT SYSTEMS WHETHER BY LAND, SEA OR AIR.

"EVEN WITH THE PLANNED INCREASE IN EXPENDITURE THAT I HAVE DESCRIBED, THE STRENGTH OF OUR REVENUE POSITION HAS FOR THE SECOND YEAR IN SUCCESSION GIVEN ME THE OPPORTUNITY TO PROPOSE REDUCTIONS IN THE TAX BURDEN. I AM PROPOSING TAX CONCESSIONS THAT WILL COST THE REVENUE \$3.2 BILLION IN A FULL YEAR. THIS WILL BE PARTLY OFFSET BY SOME RELATIVELY SMALL INCREASES IN A NUMBER OF INDIRECT TAXES AND CHARGES DESIGNED MAINLY TO RESTORE THEIR REAL VALUE.

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"THIS YEAR, IN PUTTING TOGETHER MY PACKAGE OF TAX CONCESSIONS, I HAVE SOUGHT PARTICULARLY TO ASSIST MIDDLE INCOME EARNERS. I HAVE PROPOSED BOTH A LOWER INITIAL TAX RATE AND A MORE GRADUAL PROGRESSION THROUGH THE VARIOUS TAX BANDS. IN ADDITION, I HAVE PROPOSED INCREASES IN ALLOWANCES TO PROTECT THEIR REAL VALUE.

"MORE GENERALLY, I HAVE ANNOUNCED THE LOWERING OF THE STANDARD RATE FOR SALARIES TAX, PROPERTY TAX AND INTEREST TAX BY ONE PERCENTAGE POINT; I HAVE ALSO ANNOUNCED A SIMILAR REDUCTION IN THE RATE OF PROFITS TAX ON CORPORATIONS. THIS MEANS THAT THE STANDARD RATE FOR SALARIES TAX WILL BE REDUCED TO 15.5 PER CENT, AND THE RATE ON CORPORATE PROFITS TO 17 PER CENT.

"THE IMPACT OF MY TAX CONCESSIONS ON A FAMILY OF FOUR WITH BOTH HUSBAND AND WIFE WORKING AND AN INCOME OF \$14,000 A MONTH IS THAT THEIR TAX BILL WOULD BE ROUGHLY HALVED.

"AGAIN, TO ASSIST MIDDLE INCOME EARNERS, I HAVE PROPOSED A REDUCTION IN STAMP DUTY ON THE PURCHASE OF SMALL AND MEDIUM SIZED PROPERTIES. THIS WILL LESSEN THE FINANCIAL BURDEN FALLING ON THOSE WHO ARE SEEKING TO BUY THEIR OWN HOMES.

"SINCE MY LAST BUDGET I HAVE LISTENED CAREFULLY TO THE CONTINUING DEBATE ON SEPARATE TAXATION FOR WORKING WIVES. I HAVE ALSO BEEN WATCHING TRENDS ELSEWHERE. ALTHOUGH THERE ARE QUITE DIFFICULT PROBLEMS INVOLVED IN THE INTRODUCTION OF FULL SEPARATE TAXATION, I AM PREPARED TO CONSIDER HOW THEY MIGHT BEST BE OVERCOME. IN THE MEANTIME, I HAVE PROPOSED A WORKING WIFE'S ALLOWANCE OF UP TO \$15,000.

"IN ACCORDANCE WITH MY GENERAL THEME OF LOWERING THE TAX BURDEN, I HAVE ALSO PROPOSED A REDUCTION OF THE AIR PASSENGER DEPARTURE TAX TO \$100 FOR AN ADULT AND TO \$50 FOR A CHILD.

"THUS, FOR THE SECOND YEAR RUNNING, I HAVE BEEN ABLE TO REDUCE TAXES WHILST INCREASING OUR EXPENDITURE ON THE MANY PUBLIC SERVICES WE PROVIDE. THIS HAS BEEN MADE POSSIBLE BY THE HARD WORK AND ENTERPRISE OF OUR COMMUNITY. DESPITE MY LOWER GROWTH FORECAST THIS YEAR, I AM CONFIDENT THAT AS LONG AS WE PAY ATTENTION TO LONG TERM TRENDS WE WILL BE ABLE TO SUSTAIN OUR POLICY OF THE STEADY EXPANSION OF PUBLIC SERVICES AND INVESTMENT FOR THE FUTURE."

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BUDGET BRIEFING

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THE FINANCIAL SECRETARY, MR PIERS JACOBS, WILL GIVE A PRESS BRIEFING ON THE BUDGET AT 3 PM TOMORROW (THURSDAY) IN THE GIS PRESS CONFERENCE ROOM, FIFTH FLOOR, BEACONSFIELD HOUSE, CENTRAL.

NOTE TO EDITORS:

YOU ARE INVITED TO COVER THE BRIEFING.

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