



DAILY INFORMATION BULLETIN

ISSUED BY GOVERNMENT INFORMATION SERVICES
BEACONSFIELD HOUSE, HONG KONG. TEL: 5-233191

WEDNESDAY, FEBRUARY 26, 1986

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WEDNESDAY, FEBRUARY 26, 1986

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MOTION MOVED TO AMEND SECURITIES REGULATIONS
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A MOTION TO AMEND THE SCHEDULE OF THE SECURITIES (STOCK EXCHANGE LISTING) RULES 1986 WAS MOVED BY THE HON MARIA TAM IN THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

EXPLAINING THE BACKGROUND OF THE REGULATIONS, MISS TAM SAID PARAGRAPH 7 OF THE SCHEDULE DEALT WITH NOTIFICATION OF ACQUISITION OR DISPOSAL OF THE ASSETS OF LISTED COMPANIES TO THE COMMISSIONER OF SECURITIES.

SHE SAID PARAGRAPH 7(1)(A)(II) OF THE SCHEDULE AS DRAFTED PLACED AN ONUS ON THE LISTED COMPANY TO NOTIFY ITS SHAREHOLDERS OF ACQUISITION OR DISPOSAL OF ASSETS OF THE COMPANY OR ANY OF ITS SUBSIDIARIES +WHERE THE ASSETS ARE REQUIRED FROM OR DISPOSED OF TO ANY OF THE COMPANY'S OR ITS SUBSIDIARY'S DIRECTORS OR CHIEF EXECUTIVE, OR ANY ASSOCIATE OR ANY SUCH DIRECTOR OR CHIEF EXECUTIVE.+

MISS TAM SAID THE AD HOC GROUP STUDYING THESE REGULATIONS UNDER HER CONVENORSHIP HAD RECEIVED REPRESENTATIONS FROM THE BUSINESS SECTOR EXPRESSING FEAR THAT THE INTERPRETATION OF THIS PARAGRAPH, IF CARRIED TO ITS LOGICAL EXTREME, MIGHT CREATE AN ABSURD EFFECT.

SHE CITED AS AN EXAMPLE THAT THE DIRECTOR OF A HOLDING COMPANY PURCHASING A BOTTLE OF MILK FROM A SUBSIDIARY COMPANY WOULD IMPOSE UPON THE HOLDING COMPANY THE OBLIGATION TO NOTIFY ALL ITS SHAREHOLDERS OF SUCH A TRANSACTION.

WHILE THE AD HOC GROUP WAS AWARE THAT THE COMMISSIONER OF SECURITIES COULD WAIVE ANY REQUIREMENT FOR NOTIFICATION UNDER ANOTHER SECTION OF THE REGULATIONS, THEY FELT THAT THE ASSETS IN QUESTION SHOULD BE CONFINED TO THE EQUITY OF THE COMPANY OR SUBSIDIARY COMPANY.

MISS TAM SAID THEY HAD MET WITH THE COMMISSIONER TO LOOK INTO ALL THE REPRESENTATIONS ON THE ISSUE.

AS TO THESE REPRESENTATIONS, SHE NOTED THAT THE VIEWS OF THE HONG KONG SOCIETY OF ACCOUNTANTS AND THE LAW SOCIETY WERE DIVIDED.

SHE SAID THE HONG KONG SOCIETY OF ACCOUNTANTS WAS IN FAVOUR OF THE EXISTING WORDING WHILE THE HONG KONG LAW SOCIETY WISHED TO SEE THE OBLIGATION OF NOTIFICATION REMOVED FOR ACQUISITION AND FOR DISPOSAL OF TRADING ASSETS IN THE ORDINARY COURSE OF BUSINESS.

/ON BALANCE,

ON BALANCE, THE AD HOC GROUP DECIDED THAT THE ORIGINAL WORDING WAS TOO WIDE AND NOT IN SPIRIT WITH THE SCHEDULE AND THEREFORE HAD PROPOSED THE PRESENT AMENDMENT, SHE SAID.

FOLLOWING THE AMENDMENT, PARAGRAPH 7(1)(A)(II) OF THE SCHEDULE NOW READS:

+WHERE THE ASSETS ARE ACQUIRED FROM OR DISPOSED OF TO ANY OF THE COMPANY'S OR ITS SUBSIDIARIES' DIRECTORS OR CHIEF EXECUTIVE, OR ANY ASSOCIATE OF ANY SUCH DIRECTORS OR CHIEF EXECUTIVE OTHER THAN TRADING ASSETS SO ACQUIRED OR DISPOSED OF IN THE ORDINARY COURSE OF BUSINESS; OR+

COMMENTING ON THE SECURITIES REGULATIONS IN GENERAL, MISS TAM POINTED OUT THAT THEY WOULD FORM A NEW BASIS FOR THE OPERATIONAL RULES OF THE UNIFIED STOCK EXCHANGE TO BE LAUNCHED IN APRIL THIS YEAR.

+WHILE THE HONG KONG COMMUNITY DEFINITELY WANTS HONG KONG TO MOVE FORWARD AS A VIBRANT FINANCIAL CENTRE, THEY ALSO LOOK TO THE GOVERNMENT FOR LEGISLATIVE MEASURES TO STRENGTHEN OUR PRUDENTIAL CONTROLS,+ MISS TAM SAID.

MISS TAM STRESSED THAT COOPERATION AND UNDERSTANDING BETWEEN THE BUSINESS COMMUNITY AND THE COMMISSIONER OF SECURITIES WAS VITAL TO MAKE THE RULES AND LISTING REQUIREMENTS WORK.

+AND IN THIS CONTEXT, I MUST ALSO EXPRESS CONCERN THAT OTHER PARTS OF THE LISTING REQUIREMENTS, WHICH ARE NOT SUBJECT TO THE STATUTORY RULES BUT WHICH ARE OF EQUAL IMPORTANCE TO THOSE AFFECTED, HAVE GIVEN RISE TO REPRESENTATIONS BY LISTED COMPANIES AND ARE IN SOME RESPECTS UNACCEPTABLE IN THEIR PRESENT FORM.

+IT IS A MATTER OF REGRET THAT THESE RULES, UNLIKE THE STATUTORY RULES, APPEAR TO HAVE BEEN BROUGHT INTO FORCE WITHOUT ANY PROCESS OF PRIOR CONSULTATION,+ SHE SAID.

MISS TAM ALSO DREW ATTENTION TO THE FACT THAT A STATUTORY MONOPOLY HAD BEEN CREATED IN THE FORM OF THE NEW UNIFIED STOCK EXCHANGE AND WIDE POWERS HAD BEEN CONFERRED ON THE NEW EXCHANGE COMPANY.

HOWEVER, SHE EXPRESSED CONCERN THAT THE LEGISLATIVE COUNCIL DID NOT HAVE ANY CONTROL OVER THE MANNER IN WHICH THESE POWERS WERE EXERCISED.

+IT MAY THEREFORE BE APPROPRIATE TO SEND A MESSAGE TO THOSE ENTRUSTED WITH THE CONTROL AND MANAGEMENT OF THIS VITAL AND HIGHLY VISIBLE ORGAN OF OUR FINANCIAL CENTRE ACTIVITIES THAT WE EXPECT THEM TO BE AT LEAST AS DILIGENT AS GOVERNMENT ITSELF IN CONSULTING WITH ALL INTERESTED PARTIES AND SEEKING CONSENSUS WHEN EXERCISING THE POWERS VESTED IN THEM,+ MISS TAM URGED.

ALSO SPEAKING IN SUPPORT OF THE MOTION, DR THE HON KIM CHAM DESCRIBED THE ENACTMENT OF THE NOTICE AND THE RULES UNDER THE SECURITIES ORDINANCE AS AN IMPORTANT LANDMARK IN THE DEVELOPMENT OF THE SECURITIES INDUSTRY IN HONG KONG.

+EVIDENTLY, THESE TWO PIECES OF SUBSIDIARY LEGISLATION CONTRIBUTE TOWARDS THE PERTINENT GOAL OF ENHANCING AND BUTTRESSING HONG KONG'S POSITION AS AN INTERNATIONAL FINANCIAL CENTRE,+ HE SAID.

DR CHAM NOTED THAT ELSEWHERE IN THE WORLD THERE HAD BEEN CASES OF STOCK BROKERS BEING OVER-STRETCHED IN THEIR COMMITMENTS, CREATING CREDIT AMID A PYRAMID OF SPECULATIVE TRANSACTIONS, THUS RESULTING IN A PROLIFERATION OF CREDIT BETWEEN STOCK BROKERS AND THEIR CLIENTS.

HE WARNED THAT THE FAILURE TO HONOUR COMMITMENTS WOULD BRING DOWN THE MARKET AND ITS MEMBERS AND SAID THE PAINFUL LESSON DRAWN FROM THIS OVERSEAS INCIDENT WAS THAT THE DOMINO EFFECT MUST BE CONTAINED AND MINIMISED.

+THE NOTICE OF SPECIFICATION OF ASSETS AND LIABILITIES SEEKS TO ENSURE THAT SECURITIES DEALERS ARE FINANCIALLY STABLE,+ DR CHAM EXPLAINED.

HE SAID SUCH SPECIFICATION OF ASSETS OBLIGED THE DEALERS TO MAINTAIN QUALITY CONTROL WITHIN THEIR CAPITAL STRUCTURE.

HE POINTED OUT THAT IF THE QUALITY OF ASSETS FELL SHORT OF THE MINIMUM REQUIREMENT, THE BROKER MUST CEASE TRADING.

+THIS ENSURES THAT THE OBLIGATIONS OF ONE INSOLVENT STOCK BROKER ARE NOT PASSED ON TO OTHER BROKERS, THEREBY THREATENING THE SOUNDNESS OF THE ENTIRE SYSTEM.

+THIS MEASURE, IN TURN, THEREFORE ENHANCES THE INTEGRITY OF THE MARKET AS A WHOLE,+ HE SAID.

DR CHAM ALSO NOTED THAT AN ADDITIONAL ELEMENT OF CAUTION AND PRUDENCE WOULD BE INSTILLED WITHIN THE BROKERING COMMUNITY IN THAT DEALERS WOULD HAVE TO REVIEW THEIR ASSET PORTFOLIO ON A REGULAR AND CONTINUOUS BASIS THROUGH THEIR INTERNAL CONTROL SYSTEMS IN ORDER TO MAINTAIN A +FLOOR+ BASKET OF SPECIFIED ASSETS.

TURNING TO THE SECURITIES (STOCK EXCHANGE LISTING) RULES 1986, DR CHAM SAID IT REQUIRED DISCLOSURE OF INFORMATION BY NEW LISTING COMPANIES IN THEIR LISTING APPLICATION.

+THIS OBLIGATION ENSURES THAT THE NECESSARY INFORMATION AFFECTING ASSETS, PROFIT, SUBSIDIARIES OR INTER-GROUP TRANSACTIONS IS ADEQUATELY DISCLOSED,+ HE SAID.

HE STRESSED THAT THE OVERALL PURPOSE WAS TO STREAMLINE THE PROCESS OF INFORMATION FLOW AND BELIEVED THAT AS A RESULT THE MARKET WOULD BE MADE MORE EFFICIENT AND WOULD PERFORM BETTER, LEADING TO INCREASED INVESTORS' CONFIDENCE AND PARTICIPATION.

+UNDOUBTEDLY, THEIR ENHANCED CONFIDENCE WILL IN TURN IMPROVE LIQUIDITY IN THE MARKET PLACE,+ DR CHAM SAID.

CONCLUDING HIS SPEECH, DR CHAM POINTED OUT THAT THESE TWO SUBSIDIARY LEGISLATION WERE BY NO MEANS SUBSIDIARY IN IMPORTANCE FOR THEIR ROLE TO NURTURE THE CRYSTALLISATION OF A SOUND MARKET MECHANISM IN OUR CITY WHICH TOOK PRIDE IN ITS FREE ENTERPRISE MARKET ECONOMY.

THANKING MISS TAM AND DR CHAM FOR THEIR COMMENTS, THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMRIDGE, SAID THE MINOR AMENDMENT TO PARAGRAPH 7 (I) (A) (II) SHOULD REMOVE ANY DOUBTS ON THAT PARTICULAR PROVISION DEALING WITH IN-HOUSE TRANSACTIONS.

+LET US HOPE ALL CONCERNED BUY THEIR BOTTLES OF MILK AS NECESSARY,+ SIR JOHN SAID, ADDING: +LET US SEE HOW THE NEW RULES WORK, THEY CAN BE CHANGED IF NECESSARY.+

SIR JOHN SAID LIKE HIS LEGISLATIVE COUNCIL COLLEAGUES, HE WAS LOOKING FORWARD TO THE OPENING OF THE UNIFIED EXCHANGE.

+A SUCCESSFUL SELF-REGULATED STOCK EXCHANGE OPERATING WITHIN THE APPROPRIATE LEGAL FRAMEWORK WILL FURTHER ENHANCE HONG KONG'S POSITION AS A WORLD FINANCIAL CENTRE,+ HE SAID.

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TRANSPORT STUDY TO BE UPDATED IN FEW MONTHS

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WORK SHOULD START IN A FEW MONTHS TO UPDATE THE TEN-YEAR-OLD COMPREHENSIVE TRANSPORT STUDY WHICH FORMED THE BEDROCK OF THE TERRITORY'S TRANSPORT POLICY, THE SECRETARY FOR TRANSPORT, MR IAN MACPHERSON SAID TODAY (WEDNESDAY).

THE TWO-YEAR EXERCISE WILL ENABLE THE GOVERNMENT TO ASSESS PRECISELY OPTIONS STEMMING FROM THE MORE GENERALISED LAND USE AND TRANSPORT OPTIMISATION STUDIES OF THE LANDS AND WORKS BRANCH, MR MACPHERSON TOLD A LUNCHEON MEETING OF THE PO LEUNG KUK DIRECTORS.

+THE END PRODUCTS SHOULD INCLUDE ROAD AND RAIL DEVELOPMENT PLANS AND FURTHER STATEMENTS ON THE DEVELOPMENT OF PUBLIC TRANSPORT SERVICES,+ HE SAID.

HOWEVER, MR MACPHERSON STRESSED THAT HONG KONG'S TRANSPORT POLICY ITSELF WAS GENERALLY SOUND AND NOT IN NEED OF RADICAL CHANGE.

HE POINTED OUT THAT THERE WERE THREE MAIN +PLANKS+ WHICH COULD BE CONTINUALLY SUPPORTED. THEY WERE THE EXTENSION AND IMPROVEMENT OF THE TRANSPORT INFRASTRUCTURE= IMPROVEMENT OF THE AVAILABILITY AND EFFICIENCY OF PUBLIC TRANSPORT= AND BETTER USE OF THE ROAD SYSTEM.

ADDRESSING THE QUESTION ON WHETHER THE DEVELOPMENT OF THE TRANSPORT INFRASTRUCTURE SHOULD BE BY THE PUBLIC OR PRIVATE SECTOR, MR MACPHERSON SAID IT WAS CLEAR THAT OVERALL PLANNING HAD TO BE FOR THE GOVERNMENT TO COORDINATE BUT HE WELCOMED PRIVATE SECTOR INVESTMENT IN COMMERCIALLY VIABLE PROJECTS.

THE OPERATION OF PUBLIC TRANSPORT SHOULD BE BY THE PRIVATE SECTOR OR BY PUBLIC CORPORATIONS WORKING ON COMMERCIAL LINES, HE SAID.

AND ON THE OPTIMUM USE OF ROADS, MR MACPHERSON REITERATED THAT DUE TO PUBLIC OPINION, THE GOVERNMENT WOULD RECONSIDER THE ERP ONLY AFTER A PERIOD OF SUSTAINED GROWTH IN VEHICLE OWNERSHIP AND/OR INCREASED CONGESTION. IN THE MEANTIME, THE POLICY OF RESTRAINING CAR OWNERSHIP THROUGH FISCAL MEANS WOULD REMAIN IN FORCE.

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FLEXIBLE RESPONSE TO YOUTH NEEDS URGED

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THE GOVERNMENT AND THE COMMUNITY SHOULD ENSURE THAT EDUCATION, INSTITUTIONS, WORK AND PLAY REMAIN FLEXIBLE AND RESPONSIVE TO THE CHANGING NEEDS AND ASPIRATIONS OF YOUNG PEOPLE, THE DIRECTOR OF SOCIAL WELFARE, MRS ANSON CHAN, SAID TODAY (WEDNESDAY).

SPEAKING AT A ZONTA CLUB OF HONG KONG LUNCHEON FOR THE PRESENTATION OF THE ZONTA STUDENT PROJECT AWARD, SHE NOTED THAT 20 PER CENT OF THE POPULATION FELL BETWEEN THE AGES OF 15 AND 24 AND WERE A FORCE TO BE RECKONED WITH.

+TODAY'S GENERATION OF YOUNG PEOPLE HAVE HIGH EXPECTATIONS, AND A DIFFERENT SENSE OF MORALITY, VALUES AND ENTITLEMENT THAT MANY OF US AS PARENTS OR GRANDPARENTS MAY FIND SOMEWHAT STRANGE AND PERHAPS EVEN UNACCEPTABLE.

+IT IS FUTILE TO BEMOAN THE PASSING OF TRADITIONAL BELIEFS AND VALUES,+ SHE SAID.

SHE EXPLAINED THAT CHANGES HAVE OCCURRED IN HONG KONG SOCIETY, AND FOR THE MOST PART, THERE HAVE BEEN CHANGES FOR THE BETTER.

WHEN YOUNG PEOPLE WERE DISCUSSED IN OPEN FORUMS, IT WAS OFTEN IN THE CONTEXT OF SOME SOCIAL PROBLEMS, THAT IS A LACK OF CONCERN FOR OTHERS, INABILITY TO COPE WITH SCHOOL WORK, TRIAD INFLUENCES, DRUG ADDICTION, PREOCCUPATION WITH MATERIAL ACQUISITIONS.

+IT IS OF COURSE ENTIRELY RIGHT THAT THE GOVERNMENT AND THE COMMUNITY SHOULD BE AWARE OF THESE PROBLEMS AND SHOULD TAKE POSITIVE STEPS TO COUNTERACT THEIR INFLUENCE.

+AT THE SAME TIME, WE SHOULD REMEMBER THAT THE MAJORITY OF OUR YOUNG PEOPLE, DESPITE SOMETIMES ADVERSE CIRCUMSTANCES AND ENVIRONMENT, GROW INTO WELL-ADJUSTED, RESPONSIBLE AND CARING CITIZENS WHO BRING TO THEIR WORK, WHETHER IT IS IN SCHOOL, AT THEIR WORK PLACE, OR IN LEISURELY PURSUITS, A DEEPLY-ROOTED DESIRE TO DO A GOOD JOB.

+THEY ASPIRE TO WORK THAT WILL SATISFY SOME OF THEIR BASIC CRAVINGS FOR PARTICIPATION, FOR FELLOWSHIP, FOR CHALLENGES, FOR SELF-FULFILMENT, FOR FREEDOM AND FOR EQUALITY,+ MRS CHAN SAID.

ON THE ZONTA STUDENT PROJECT SHE SAID IT WAS A WORTHWHILE PROJECT WHICH COMPLEMENTED THE EFFORTS OF THE SOCIAL WELFARE DEPARTMENT IN ENCOURAGING YOUNG PEOPLE TO ENGAGE IN COMMUNITY ACTIVITIES OUTSIDE THEIR HOMES, THEIR CLASSROOMS AND LECTURE-HALLS.

/DURING THE

DURING THE PAST FIVE YEARS, THE DEPARTMENT HAD APPROVED GRANTS EXCEEDING \$1 MILLION FOR VOLUNTARY COMMUNITY PROJECTS BY YOUNG PEOPLE WHICH PROVIDED OPPORTUNITIES FOR SELF-MOTIVATED INVOLVEMENT, COMMITMENT AND PARTICIPATION.

+WE MUST CONTINUE TO PROVIDE OPPORTUNITIES FOR SELF-FULFILMENT AND SERVICE, FOR BY ENCOURAGING VOLUNTARY ACTION BY THE PEOPLE AND NOT JUST GOVERNMENT ACTION FOR THE PEOPLE WE GIVE HEALTH AND VITALITY TO OUR SOCIETY,+ SHE SAID.

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INSURANCE COMPANY WOUND UP
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THE REGISTRAR GENERAL, MR NOEL GLEESON, IN HIS CAPACITY AS INSURANCE AUTHORITY, ANNOUNCED TODAY (WEDNESDAY) THAT MOW TAI INSURANCE AND REINSURANCE CO., LTD HAD INITIATED STEPS TO PLACE ITSELF IN LIQUIDATION BY WAY OF A CREDITORS' VOLUNTARY WINDING-UP.

THE COMPANY HAD MADE THAT DECISION AFTER CONSULTATION WITH THE INSURANCE DIVISION OF HIS DEPARTMENT, HE SAID.

THE COMPANY WAS INCORPORATED UNDER THE COMPANIES ORDINANCE ON DECEMBER 22, 1962 AND WAS AUTHORISED TO CARRY ON THE MAJOR CLASSES OF GENERAL BUSINESS (EXCEPT MOTOR VEHICLE INSURANCE) UNDER THE INSURANCE COMPANIES ORDINANCE.

HOWEVER, MR GLEESON SAID, FOLLOWING NEGOTIATIONS WITH HIS INSURANCE DIVISION, THE COMPANY CEASED ISSUING ANY NEW INSURANCE POLICIES, OR RENEWING EXISTING POLICIES IN MAY 1985 AND IN AUGUST 1985 TERMINATED ALL INSURANCE CONTRACTS THAT WERE TERMINABLE.

SINCE THAT TIME THE COMPANY HAD BEEN DEALING ONLY WITH OUTSTANDING CLAIMS AND LIABILITIES.

IT IS NOW CONSIDERED DESIRABLE FOR THE COMPANY TO BE WOUND UP IN ORDER THAT ITS REMAINING LIABILITIES MAY BE RUN OFF IN AN ORDERLY MANNER.

MR GLEESON EXPLAINED THAT LIQUIDATORS ARE EXPECTED TO BE APPOINTED AT A MEETING OF CREDITORS SCHEDULED FOR EARLY APRIL 1986.

HE ADVISED INSURANCE CLAIMANTS AND CREDITORS OF THE COMPANY WHOSE CLAIMS HAVE NOT YET BEEN MET TO LODGE THEIR CLAIMS WITH THE LIQUIDATORS WHEN THEIR APPOINTMENT IS ANNOUNCED.

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VOTE ON MARCH 6 APPEAL TO ELECTORS

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THE DEPUTY REGIONAL SECRETARY FOR HONG KONG AND KOWLOON, MR T.H. CHAU, THIS (WEDNESDAY) EVENING LIKENED ELECTORS TO THAT OF ADJUDICATORS OF A CONTEST AS THEY WOULD BE THE ONES TO GIVE POINTS TO CANDIDATES WITH THEIR VOTES IN THE FORTHCOMING ELECTIONS ON MARCH 6.

SPEAKING AT THE 15TH OPEN DANCE CONTEST PRIZE-PRESENTATION CEREMONY AND WINNERS' PERFORMANCE, HE SAID, +WHILE NOT ALL OF US COULD ADJUDICATE A DANCE CONTEST, THE 'ADJUDICATORS' FOR THE URBAN COUNCIL AND REGIONAL COUNCIL ELECTIONS ARE NO OTHER THAN THE VOTERS.+

MR CHAU SAID THE WORK OF THE TWO COUNCILS, SUCH AS PROVIDING CULTURAL AND RECREATIONAL FACILITIES AND ACTIVITIES, MAINTAINING ENVIRONMENTAL HYGIENE AND PUBLIC HEALTH, WAS CLOSELY RELATED TO THE DAILY LIVES OF LOCAL RESIDENTS.

+AS THE SUCCESS OF THEIR WORK DEPENDS ON RESIDENTS' PARTICIPATION AND SUPPORT, I CALL ON EVERY VOTER TO POLL ON MARCH 6 AND ELECT THOSE WHO ARE WELL PREPARED TO BUILD A HEALTHY COMMUNITY FOR US,+ HE SAID.

THE 302 POLLING STATIONS THROUGHOUT THE TERRITORY WILL BE OPEN BETWEEN 7.30 AM AND 10.30 PM ON MARCH 6 NEXT THURSDAY.

THIS EVENING'S PERFORMANCE WAS STAGED AT CITY HALL BY 17 WINNING DANCE GROUPS OF THE 15TH OPEN DANCE CONTEST HELD LAST YEAR WITH 119 PARTICIPATING TEAMS.

THE CONTEST WAS JOINTLY ORGANISED BY THE KWUN TONG DISTRICT CULTURE AND RECREATION PROMOTION ASSOCIATION AND THE DISTRICT OFFICE, AND SPONSORED BY KWUN TONG DISTRICT BOARD.

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EXHIBITION ON UC ELECTION STARTS TOMORROW

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A TWO-WEEK EXHIBITION TO PUBLICISE THE MARCH 6 URBAN COUNCIL ELECTION WILL BE HELD AT THE LOBBY OF THE WESTERN DISTRICT COMMUNITY CENTRE IN WESTERN STREET, SAI YING PUN, STARTING TOMORROW (THURSDAY).

COLOURFUL PHOTOGRAPHS INTRODUCING URBAN COUNCIL FACILITIES AND SERVICES IN THE DISTRICT TOGETHER WITH PLATFORMS OF THE TWO CANDIDATES STANDING FOR ELECTIONS WILL BE ON DISPLAY.

THE FREE EXHIBITION WILL BE OPENED DAILY TO THE PUBLIC FROM 9 AM TO 10 PM.

+IT IS HOPED THAT THROUGH THE EXHIBITION, RESIDENTS OF CENTRAL AND WESTERN DISTRICT WILL KNOW MORE ABOUT THE WORK OF URBAN COUNCIL AS WELL AS THE FACILITIES AND SERVICES IT PROVIDES IN THE DISTRICT SO THAT MORE REGISTERED ELECTORS WILL COME OUT AND VOTE ON MARCH 6,+ CENTRAL AND WESTERN DISTRICT OFFICER, MR LAM KAM-KWONG, SAID.

+RESIDENTS SHOULD EXERCISE THEIR CIVIC RESPONSIBILITY AND VOTE IN THE ELECTIONS AS IT IS ANOTHER STEP TOWARD REPRESENTATIVE GOVERNMENT IN HONG KONG,+ HE POINTED OUT.

THE EXHIBITION FORMS PART OF THE URBAN COUNCIL ELECTION PUBLICITY PROGRAMME ORGANISED BY THE CENTRAL AND WESTERN DISTRICT OFFICE, WHICH HAS ALSO ARRANGED A PRESS CONFERENCE AND TWO FORUMS FOR CANDIDATES TO MEET THE PRESS AND THE PUBLIC.

THE FIRST FORUM WAS HELD YESTERDAY AT THE KENNEDY TOWN KAI FONG WELFARE ASSOCIATION, AND THE SECOND ONE WILL BE HELD AT 7.30 PM ON SATURDAY (MARCH 1) AT THE WESTERN DISTRICT COMMUNITY CENTRE.

APART FROM PUTTING UP COLOURFUL POSTERS AND ATTRACTIVE BANNERS AT VARIOUS PROMINENT LOCATIONS THROUGHOUT THE DISTRICT TO REMIND RESIDENTS TO VOTE, THE DISPLAY WINDOWS OF THE CENTRAL AND WESTERN DISTRICT OFFICE AND ITS SUB-OFFICES HAVE ALSO BEEN DECORATED WITH THE EYE-CATCHING MESSAGES.

TO FURTHER PUBLICISE THE UC ELECTIONS, THE DISTRICT OFFICE HAS ALSO PRODUCED SOME PUBLICITY SOUVENIRS SUCH AS KEY HOLDERS AND BALL PENS FOR FREE DISTRIBUTION TO THE PUBLIC AT VARIOUS DISTRICT FUNCTIONS AND LUNAR NEW YEAR CELEBRATION ACTIVITIES.

IN ADDITION TO SENDING OUT PUBLICITY PAMPHLETS TO ALL REGISTERED VOTERS, THE CENTRAL AND WESTERN DISTRICT NEWSPAPER WILL ALSO ISSUE A SPECIAL SUPPLEMENT ON THE ELECTIONS AND THE WORK OF THE UC IN ITS LATEST EDITION.

TWO TRAMS DECORATED WITH COLOURFUL PUBLICITY POSTERS WILL BE PLYING BETWEEN HAPPY VALLEY AND KENNEDY TOWN DAILY FROM MARCH 1 TO 6 TO REMIND PEOPLE OF THE ELECTIONS. A BROADCASTING VEHICLE CALLING ON THE ELECTORS TO VOTE WILL ALSO TOUR THE DISTRICT ON MARCH 4 AND 5.

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RESIDENTIAL SITE FETCHES \$42 MILLION
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A RESIDENTIAL SITE IN WATERLOO ROAD, KOWLOON, WAS RE-SOLD AT AN AUCTION TODAY (WEDNESDAY) FOR \$42 MILLION.

THE 1 635-SQUARE-METRE SITE WAS BOUGHT BY LAI SUN GARMENTS, ONE OF FOUR ACTIVE BIDDERS AT THE AUCTION. BIDDING STARTED AT \$35 MILLION AND WENT UP IN \$1 MILLION BIDS.

THE SITE WAS ORIGINALLY SOLD AT AN AUCTION IN NOVEMBER LAST YEAR TO WORLD WIDE EXHIBITION CO. LTD. WHO BID \$60 MILLION BUT LATER FAILED TO GO THROUGH WITH THE TRANSACTION.

TODAY'S AUCTIONEER, MR NIGEL BURLEY, SAID HE WAS HAPPY WITH THE PRICE OF \$42 MILLION. +IT WAS ABOUT WHAT WE EXPECTED. THE PRICE AT THE LAST SALE WAS OBVIOUSLY TOO HIGH,+ HE SAID.

+I DON'T VIEW THE PRICE AS A LOSS ON THE LAST SALE AS THE LAST TRANSACTION DID NOT GO THROUGH.+

THE BUYERS WILL HAVE TO DEVELOP THE SITE TO A MINIMUM OF 4 400 SQUARE METRES BEFORE THE END OF DECEMBER 1989.

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TENANCIES SOUGHT FOR THREE SITES
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TENDERS ARE BEING INVITED FOR SHORT TERM TENANCIES OF THREE SITES -- TWO IN KOWLOON AND ONE IN THE NEW TERRITORIES.

ONE OF THE KOWLOON SITES IS AT THE JUNCTION OF HONG NING ROAD AND KUNG LOK ROAD IN KWUN TONG.

MEASURING ABOUT 1 980 SQUARE METRES, THE SITE IS TO BE USED AS A FEE-PAYING PARKING AREA FOR VEHICLES WITH THE EXCEPTION OF CONTAINERS.

THE OTHER LOT OF ABOUT 750 SQUARE METRES AT YUET LUN STREET, LAI CHI KOK, IS FOR OPEN STORAGE PURPOSES.

TENANCY FOR THE KWUN TONG SITE IS FOR ONE YEAR AND RENEWABLE QUARTERLY AFTERWARDS WHILE FOR THE LAI CHI KOK ONE IT IS TWO YEARS, ALSO RENEWABLE QUARTERLY AFTERWARDS.

THE NEW TERRITORIES SITE IS AT SAI KUNG TUK AND IS FOR VEHICLE PARKING, VEHICLE REPAIRING AND OPEN STORAGE PURPOSES.

/THE 1 719-SQUARE-METRE

THE 1 719-SQUARE-METRE SITE IS FOR A THREE-YEAR TENANCY, RENEWABLE QUARTERLY AFTERWARDS.

THE CLOSING DATE FOR SUBMITTING TENDERS IS NOON ON MARCH 14.

TENDER FORMS, NOTICES AND CONDITIONS MAY BE OBTAINED FROM, AND TENDER PLANS INSPECTED AT:

- * LANDS DEPARTMENT, SURVEY DIVISION, MURRAY BUILDING, FIFTH FLOOR, GARDEN ROAD, HONG KONG;
- * DISTRICT LANDS OFFICE, KOWLOON, YAU MA TEI CAR PARK BUILDING, 10TH FLOOR, 250 SHANGHAI STREET, KOWLOON; AND
- * DISTRICT LANDS OFFICE, SAI KUNG.

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ILLEGAL STRUCTURES TO BE DEMOLISHED

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THE BUILDING AUTHORITY IS SEEKING THE CLOSURE OF A NUMBER OF ILLEGAL STRUCTURES ON THE ROOF OF A BUILDING AT 253-259 CASTLE PEAK ROAD, YUEN LONG, SO THAT THE STRUCTURES CAN BE DEMOLISHED.

THIS FOLLOWS THE OWNERS' FAILURE TO COMPLY WITH THE ORDERS ISSUED UNDER THE BUILDINGS ORDINANCE IN APRIL, 1985 REQUIRING DEMOLITION OF THE ILLEGAL STRUCTURES.

A NOTICE OF INTENTION TO APPLY FOR A CLOSURE ORDER FROM THE TSUEN WAN DISTRICT COURT AT 9.30 AM ON MARCH 26 WAS POSTED ON THE STRUCTURES TODAY (WEDNESDAY).

DEMOLITION WORK WILL BE CARRIED OUT IMMEDIATELY THE CLOSURE ORDER IS OBTAINED.

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TSUEN WAN, MONG KOK TRAFFIC CHANGES

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TEXACO ROAD BETWEEN ITS JUNCTION WITH MA TAU PA ROAD AND THE ROUNDABOUT UNDERNEATH TSUEN WAN ROAD WILL BE CONVERTED INTO TWO-WAY TRAFFIC FROM 10 AM ON SATURDAY (MARCH 1).

VEHICLES FROM LUNG TAK STREET WILL NOT BE ALLOWED TO TURN RIGHT ONTO WESTBOUND CARRIAGEWAY OF TEXACO ROAD.

/ALSO, THE

ALSO, THE WESTBOUND CARRIAGEWAY OF TEXACO ROAD CONNECTING MA TAU PA ROAD AND THE ROUNDABOUT UNDERNEATH TSUEN WAN ROAD WILL BE DESIGNATED A 24-HOUR DAILY RESTRICTED ZONE.

WITH EFFECT FROM THE SAME TIME, YIM PO FONG STREET SOUTHBOUND BETWEEN ITS JUNCTION WITH ARGYLE STREET AND A POINT 130 METRES SOUTH OF THE SAME JUNCTION WILL BE DESIGNATED A RESTRICTED ZONE FROM 7 AM TO 10 AM AND FROM 4 PM TO 7 PM DAILY.

YIM PO FONG STREET NORTHBOUND BETWEEN WATERLOO ROAD AND PAK PO STREET WILL BE MADE A 24-HOUR DAILY RESTRICTED ZONE.

NO VEHICLES WILL BE ALLOWED TO STOP FOR PASSENGERS OR GOODS WITHIN THE RESTRICTED AREA.

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RIGHT TURN NOT ALLOWED

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VEHICLES EXCEEDING 5.5 TONNES GROSS WILL NOT BE ALLOWED TO TURN RIGHT FROM LOWER ALBERT ROAD TO ICE HOUSE STREET FROM 1 PM ON SATURDAY (MARCH 1) TO 6 AM ON MONDAY (MARCH 3) BECAUSE OF ROAD WORK.

TRAFFIC WILL BE DIVERTED TO UPPER ALBERT ROAD, ARBUTHNOT ROAD AND WYNDHAM STREET.

AT THE SAME TIME, CROSS HARBOUR TUNNEL BUS ROUTE NO. 103 ON ITS JOURNEY TO KOWLOON WILL BE RE-ROUTED TO CAINE ROAD, ARBUTHNOT ROAD, WYNDHAM STREET AND ICE HOUSE STREET WHILE CMB ROUTE NO. 23A ON ITS JOURNEY TO LAI TAK TSUEN WILL BE DIVERTED TO GARDEN ROAD, UPPER ALBERT ROAD, ARBUTHNOT ROAD, WYNDHAM STREET AND ICE HOUSE STREET BEFORE RESUMING THEIR NORMAL ROUTEINGS.

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DAILY INFORMATION BULLETIN - SUPPLEMENT

ISSUED BY GOVERNMENT INFORMATION SERVICES
BEACONSFIELD HOUSE, HONG KONG. TEL: 5-233191

WEDNESDAY, FEBRUARY 26, 1986

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IMPROVING INFRASTRUCTURE TOP PRIORITY - SIR JOHN
* * * * *

HONG KONG'S FIRST DOMESTIC PRIORITY REMAINED THE STEADY IMPROVEMENT OF THE TERRITORY'S INFRASTRUCTURE, A TASK THAT WAS CERTAINLY WITHIN LOCAL CAPABILITIES, THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, SAID IN SUMMING UP HIS 1986-87 BUDGET SPEECH TODAY (WEDNESDAY).

SIR JOHN WARNED THAT CONFIDENCE ABOUT THE FUTURE STATE OF HONG KONG'S ECONOMY HAD TO BE ACCOMPANIED BY CONTINUAL AWARENESS THAT HONG KONG DEPENDED LARGELY ON WHAT HAPPENED ELSEWHERE IN THE WORLD.

WHILE FORMER U.S. PRESIDENT THEODORE ROOSEVELT HAD BELIEVED IN SPEAKING SOFTLY AND CARRYING A BIG STICK, SIR JOHN SAID, FOR HONG KONG HE PREFERRED SCEPTICISM ABOUT ECONOMIC FORECASTS AND CARRYING LARGE RESERVES.

+OUR ECONOMY IS CHANGING RAPIDLY UNDER OUR EYES AS HONG KONG AGAIN BECOMES A MAJOR ENTREPOT FOR CHINA. I WONDER IF WE REALLY YET UNDERSTAND WHAT IS GOING ON,+ SIR JOHN SAID.

+AS A NON-ECONOMIST I PERSONALLY FIND IT DIFFICULT TO COMPREHEND HOW PRESENT PROSPERITY INCLUDING FULL EMPLOYMENT, RISING REAL WAGES, A SWING TO A VISIBLE TRADE SURPLUS AND LOW INFLATION CAN BE RECONCILED WITH LAST YEAR'S OSTENSIBLE LOW FIGURE OF GROWTH IN GDP.+

TURNING TO THE INTERNATIONAL SCENE, SIR JOHN SAID HE HAD A FEELING OF SLIGHT UNEASE AS PERHAPS BEFITTED THE YEAR OF THE TIGER. THE U.S. BUDGET DEFICIT WAS AN OBVIOUS GENERATOR OF PROTECTIONIST SENTIMENT, WHILE OTHER PROBLEMS INCLUDED CONTINUING MONETARY INSTABILITY AND THE OIL SITUATION.

+WHILE CHEAP ENERGY WILL BE OF ASSISTANCE TO EVERYONE, EXCEPT THE OIL PRODUCERS, A SUDDEN COLLAPSE IN OIL PRICES WILL NOT NECESSARILY BE IMMEDIATELY HELPFUL FOR HONG KONG. I FEAR A POSSIBLE RIPPLE EFFECT IN SOME OF OUR EXPORT MARKETS,+ SIR JOHN SAID.

HE SAID HONG KONG HAD CLEARLY PROSPERED IN THE LAST 40 YEARS ALTHOUGH NOT EVERYTHING HAD BEEN DONE WELL IN EITHER THE PUBLIC OR PRIVATE SECTORS, THE LOT OF THE INDIVIDUAL MAN AND WOMAN WAS NOW TRANSPARENTLY BETTER. FURTHER CONTINUED INCREASES IN WEALTH, WHICH HAD TO BE CREATED BEFORE IT COULD BE DIVIDED, DEPENDED ON SEVERAL FACTORS.

FIRST, SIR JOHN SAID, HONG KONG HAD THE JOINT DECLARATION WITH ITS OBJECTIVE OF STABILITY AND PROSPERITY, AND THE COMMITMENT OF THE BRITISH AND CHINESE GOVERNMENTS TO ITS FAITHFUL IMPLEMENTATION.

/SECOND,

SECOND, HONG KONG'S INFRASTRUCTURE HAD NOT ONLY TO BE GOOD, BUT TO BE SEEN TO BE GETTING BETTER - A TASK FOR WHICH THE GOVERNMENT ACCEPTED RESPONSIBILITY. THERE HAD TO BE LAW AND ORDER; A STEADY STATE OF THE PUBLIC FINANCES INCLUDING PROPER RESERVES; A DECENT SYSTEM OF MEDICAL CARE; STEADILY IMPROVING HOUSING; BETTER TRANSPORT AND COMMUNICATIONS; APPROPRIATE SOCIAL WELFARE AND THE BEST POSSIBLE EDUCATIONAL SYSTEM.

+THIRD, THE TOTAL SYSTEM MUST PROVIDE PROPER INCENTIVES TO OUR ENTREPRENEURS AND BUSINESSMEN. HONG KONG'S WHOLE ECONOMY DEPENDS ON INCREASING EXTERNAL TRADE. THIS IN TURN REQUIRES FOR THOSE CREATIVELY INVOLVED THE MAXIMUM POSSIBLE FREEDOM WITHIN AN APPROPRIATE AND IMPROVING FRAMEWORK OF LAWS AND REGULATIONS.

+I AM NOT PHILOSOPHICALLY OPPOSED TO GOVERNMENT INTERVENTION IN INDUSTRY. IF, INDEED, SUCH INTERVENTION WERE EVER TO ACHIEVE THE PLANNED RESULTS, WHY NOT? IT IS HOWEVER A TRUISM THAT GOVERNMENTS USUALLY MAKE LARGE MISTAKES IN THIS APPROACH.

+SUCH MISTAKES TEND THEN TO BE VERY EXPENSIVE INDEED. THE BURDENS THAT HAVE TO BE CARRIED BY THE WRETCHED TAXPAYER AND INDUSTRY ITSELF SUBSEQUENTLY BECOME UNBEARABLE. FOR OBVIOUS REASONS OF TACT I DO NOT POINT A FINGER BUT THE WORLD IS LITTERED WITH EXAMPLES.

+IF BRIEF, MY OBJECTION TO GOVERNMENT INTERVENTION IN INDUSTRY IS NOT PHILOSOPHICAL BUT WHOLLY PRAGMATIC. ON THE RECORD IT IS TOTALLY INAPPROPRIATE FOR HONG KONG. BUSINESS HERE IS BEST CONDUCTED BY RISK BEARING BUSINESSMEN,+ SIR JOHN SAID.

FINALLY, SIR JOHN SAID, THE IMPLICATIONS FOR HONG KONG WERE CLEAR. THEY WERE NOT NECESSARILY APPLICABLE TO EVERYWHERE ELSE IN THE WORLD, FOR IN MANY WAYS HONG KONG WAS UNIQUE.

+SUCCESS HERE REQUIRES A PRUDENT FREEDOM, THE ABILITY TO OPERATE FEARLESSLY WITHIN SOUND AND INDEPENDENTLY ADMINISTERED LAW, THE POSSIBILITY OF SELF IMPROVEMENT FOR THE SUCCESSFUL AND THE CERTAINTY OF SENSITIVE TREATMENT FOR THE UNSUCCESSFUL.

+ABOVE ALL THE BURDEN OF DIRECT TAXATION MUST REMAIN MODERATE AND PUBLIC SECTOR EXPENDITURE MUST BE CONSTRAINED.

ALL GOVERNMENTS MAKE MISTAKES. LET US MAKE FEWER THAN MOST.+

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\$98 MILLION SURPLUS SHOWN FOR THIS YEAR
* * * *

THE GENERAL REVENUE ACCOUNT FOR 1985-86 NOW SHOWS AN ESTIMATED SURPLUS OF \$98 MILLION COMPARED WITH THE BUDGETED DEFICIT OF \$961 MILLION, THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, ANNOUNCED TODAY.

SIR JOHN WAS PRESENTING THE 1986-87 BUDGET, HIS FINAL BUDGET.

HE DESCRIBED THE SWING AS RELATIVELY INSIGNIFICANT GIVEN TOTAL REVENUE PLUS EXPENDITURE OF ABOUT \$80 BILLION. REVENUE HAD BEEN UNEXPECTEDLY BUOYANT AND RECURRENT EXPENDITURE WAS BELOW BUDGET.

+THIS IS THE LUCK OF ONE YEAR'S DRAW. WE MUST ANTICIPATE OPPOSITE SWINGS. THE NEED TO SMOOTH ONE YEAR WITH ANOTHER IS CLEAR,+ HE SAID.

SIR JOHN SAID HIS NEW BUDGET WAS SHAPED BY AN ANNUALLY UPDATED FIVE YEAR MEDIUM RANGE FORECAST OF PUBLIC FINANCES.

+DURING THE FINANCIAL YEAR 1982-83 OUR REVENUE DROPPED PRECIPITOUSLY MAINLY BECAUSE OF THE COLLAPSE OF THE REAL ESTATE MARKET. THE ADVERSE BUDGETARY SWING WAS OVER \$9 BILLION IN JUST ONE YEAR. IT WAS NEARLY MUCH MORE. WE THEREAFTER FACED THE VICISSITUDES BROUGHT ABOUT BY ACKNOWLEDGED AND INEVITABLE POLITICAL UNCERTAINTIES AGAINST A BACKGROUND OF A GENERAL WORLD RECESSION. BANKING AND CURRENCY PROBLEMS WERE ONLY PART OF THE STORY.+

SIR JOHN SAID THAT WHERE POSSIBLE AND APPROPRIATE, IT HAD ALWAYS SEEMED FAR SIGHTED TO BUILD UP WORKING RESERVES, WHICH IN THE PRESENT CONTEXT MEANT THE BALANCES IN THE MAJOR FUNDS. TO THIS END, THE CAPITAL WORKS RESERVE FUND WAS ESTABLISHED IN EARLY 1982.

+AS IS THE GENERAL RULE FOR GOVERNMENTS, THE HONG KONG GOVERNMENT'S ACCOUNTS ARE ATTUNED TO CASH ACCOUNTING. AT THE START OF NEXT FINANCIAL YEAR, THE BALANCES IN THE FUNDS WILL HAVE INCREASED BY \$1.7 BILLION. THEY FORM IN EFFECT OUR FIRST LINE OF DEFENCE AGAINST POSSIBLE FUTURE UNTOWARD TURNS IN AFFAIRS OUTSIDE OUR CONTROL, WHICH COULD LEAD TO DOMESTIC CASH FLOW PROBLEMS.

+THIS OUTCOME, INTER ALIA, REFLECTS RATIONAL TREATMENT OF WINDFALL LAND REVENUE IN 1985-86 OF A CAPITAL NATURE, WHICH WILL BE SOME \$2.5 BILLION MORE THAN EXPECTED.+

/SIR JOHN

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SIR JOHN SAID THERE WAS LAST A SURPLUS, A VERY CONSIDERABLE ONE, ON THE GENERAL REVENUE ACCOUNT IN 1981-82, AND COMMENTED: +I DO NOT WISH TO DWELL ON HISTORY BECAUSE HONG KONG LOOKS FORWARD NOT BACK. PUNDITS ARE SOUNDER ON PAST THAN FUTURE EVENTS. BUT IT IS ARGUABLE NOW WITH HINDSIGHT THAT FOR VARIOUS GOOD REASONS WE ARRIVED IN A POSITION WHERE EXUBERANT RECURRENT EXPENDITURE WAS OVER DEPENDENT ON BURGEONING CAPITAL INCOME FROM LAND SALES. THAT IS TO SAY ON EXTRAORDINARY PROFITS. THIS WAS CERTAINLY TRUE OF MY FIRST BUDGET FOR 1982-83. WE LIVE AND LEARN.+

NO IMPORTANT PROGRAMMES HAD HAD 'STOP AND GO' PROCEDURES INFLICTED ON THEM, HE SAID, BUT +WE HAVE NEVERTHELESS SINCE 1982 SUCCEEDED IN CONTAINING EXPENDITURE AND INCREASING REVENUE SO THAT THE PUBLIC FINANCES ARE NOW BACK IN EQUILIBRIUM.+

THIS WAS A MAJOR ACHIEVEMENT.

LAND SALES PROCEEDS, WELCOME IN THEMSELVES, NO LONGER FUELLED RECURRENT EXPENDITURE. TOUGH THOUGH NOT INDISCRIMINATE MEASURES HAD BEEN NECESSARY, TO WHICH HONG KONG RESPONDED WELL.

+I SEE NO REASON WHY WE SHOULD NOT BE ABLE OVER A PERIOD OF YEARS TO MAINTAIN THIS BALANCE WITHOUT INCREASING THE OVERALL BURDEN OF TAXATION PROVIDED THAT WE ENSURE BROADLY THAT PUBLIC SECTOR EXPENDITURE GROWTH INCLUDING ALL NEW PROGRAMMES AND INITIATIVES OVER A PERIOD OF YEARS DOES NOT EXCEED GROWTH IN GDP.

+OF COURSE, THIS IS EASY TO SAY BUT MORE DIFFICULT TO PUT INTO PRACTICE IN THE FACE OF RISING ASPIRATIONS. MOREOVER, AS TAX REVENUE LAGS ECONOMIC PERFORMANCE, WHICH IS ITSELF CYCLICAL, IT WOULD BE EXTREMELY FOOLISH TO MAKE SNAP DECISIONS BASED ON JUST ONE YEAR'S OUTCOME.

+IT IS THUS ABSOLUTELY ESSENTIAL THAT WE OBSERVE CAREFULLY THE OVERALL TRENDS, SAY OVER TWO OR THREE YEARS, AND DO NOT ALLOW OURSELVES TO BE BLOWN OFF A SMOOTHED COURSE INTO EITHER OPTIMISM OR PESSIMISM BY THE RESULTS OF ONE YEAR. THIS WILL REQUIRE RESPONSIBLE JUDGEMENT FROM BOTH THE ADMINISTRATION AND THIS COUNCIL.+

SIR JOHN AT THIS POINT COMMENTED ON THE DEPRESSED GROWTH OF THE GDP IN 1985, FOR SEVERAL REASONS THE LOWEST RATE OF GROWTH FOR MANY YEARS. BUT HE NOTED THAT OVER THE FIVE YEARS 1981-85 EXPORTS INCLUDING RE-EXPORTS HAD INCREASED IN REAL TERMS BY AN AVERAGE OF 10.4 PER CENT PER YEAR AND GDP BY 5.7 PER CENT. FOR 1986, GDP WAS AT PRESENT ESTIMATED TO BE ABOUT 4.5 PER CENT.

+IT IS THE TREND THAT MATTERS AND WE MUST NOT BE OVER SENSITIVE TO ONE DISAPPOINTING YEAR,+ HE SAID.

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\$39.5 BILLION SPENDING SET FOR '86-87
* * * * *

TOTAL EXPENDITURE OF \$39.5 BILLION ON GENERAL REVENUE ACCOUNT WAS BUDGETED FOR THE 1986-87 FINANCIAL YEAR, THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMRIDGE, TOLD THE LEGISLATIVE COUNCIL TODAY.

PRESENTING HIS BUDGET, SIR JOHN SAID CIVIL SERVICE GROWTH WAS EXPECTED TO BE AROUND 2.5 PER CENT IN 1986-87.

EVEN WITH DUE REGARD TO CONTINUING AND MOST SUCCESSFUL VALUE FOR MONEY EFFORTS IT WAS CLEAR THAT THE STAFFING REQUIREMENTS OF NEW HOSPITALS, SCHOOLS, FIRE STATIONS, IMMIGRATION POSTS, POLICE AND SO ON MAKE SOME GROWTH INEVITABLE, HE NOTED.

NEVERTHELESS, HE SAID THIS FIGURE STILL REPRESENTED A CONSIDERABLE CONTAINMENT OF DEPARTMENTAL ASPIRATIONS.

+IT IS BELOW THE PROJECTED RATE OF GROWTH OF TOTAL EXPENDITURE IN REAL TERMS REFLECTING FURTHER IMPROVEMENTS IN THE EFFECTIVE DEPLOYMENT OF STAFF AND INCREASING PRODUCTIVITY,+ HE ADDED.

SIR JOHN SAID A SUM OF \$1.75 BILLION WITHIN THE TOTAL EXPENDITURE HAD BEEN ALLOWED FOR ADDITIONAL COMMITMENTS AND CONTINGENCIES.

+THIS MAKES PROVISION FOR, WITHOUT ASSUMING, POSSIBLE SALARIES ADJUSTMENTS, PLUS THE USUAL RANGE OF NEW AND UNFORESEEN ITEMS THAT ARISE EACH YEAR,+ HE SAID.

WITHIN THE TOTAL EXPENDITURE BUDGET ON GENERAL REVENUE ACCOUNT SIR JOHN PROPOSED THE TRANSFER OF \$5.6 BILLION TO THE GOVERNMENT'S VARIOUS FUNDS FOR FINANCING OF CAPITAL EXPENDITURE.

+THIS WILL STABILISE THE SIZE OF THE FUNDS AT AROUND THEIR PRESENT LEVEL,+ HE SAID.

SIR JOHN SAID THAT THE MEDIUM RANGE STRATEGY AGAINST WHICH GOVERNMENT'S FINANCES WAS NOW MONITORED REQUIRED TOTAL EXPENDITURE TO GROW BY NO MORE THAN THE EXPECTED GROWTH IN THE ECONOMY.

+INDEED AT LAST EXPENDITURE IS EXPECTED TO BE SHAPED BY LIKELY REVENUE OVER A PERIOD OF YEARS,+ SIR JOHN SAID.

HE ADDED: +IN THE SHORT TERM THIS BALANCE MAY NOT BE AVAILABLE BECAUSE THERE IS NO EXACT CORRELATION BETWEEN REVENUE AND GDP GROWTH. MOREOVER GDP GROWTH MUST BE CYCLICAL.

+FOR 1986-87 THE CONSOLIDATED ESTIMATES WHICH I NOW PUT BEFORE YOU IMPLY TOTAL EXPENDITURE GROWTH OF 3.8 PER CENT IN REAL TERMS. THIS REAL GROWTH COMPARES WITH A REVISED ESTIMATE OF 3.4 PER CENT IN 1985-86, WHICH WAS HIGH WHEN TESTED AGAINST ACTUAL RATHER THAN ESTIMATED GDP GROWTH.+

/SIR JOHN

SIR JOHN SET OUT THE BUDGETED GENERAL REVENUE ACCOUNT EXPENDITURE AS FOLLOWS:

	DRAFT ESTIMATES

	1986-87

	(\$MN)
RECURRENT EXPENDITURE	30 763
CAPITAL EXPENDITURE	1 431

	32 194
ADDITIONAL COMMITMENTS	1 750
TRANSFERS TO FUNDS	5 600

	39 544

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\$40 BILLION REVENUE EXPECTED

THE TOTAL REVENUE ON GENERAL REVENUE ACCOUNT FOR THE 1986-87 FINANCIAL YEAR IS ESTIMATED TO BE \$39.9 BILLION, SIR JOHN BREMRIDGE, SAID TODAY.

THIS TOOK INTO ACCOUNT THE EFFECTS OF THE FIRST FULL YEAR OF THE NEW LAND REVENUE SHARING ARRANGEMENTS WITH THE FUTURE SAR GOVERNMENT, UNDER WHICH REVENUE FROM NEW SALES ACCRUED DIRECT TO THE CAPITAL WORKS RESERVE FUND.

HE SAID A FURTHER \$500 MILLION MIGHT BE AVAILABLE DURING 1986-87 IF THE KCRC REPAID THE REMAINDER OF THE OUTSTANDING LOAN TO GOVERNMENT.

HOWEVER, SIR JOHN ADDED THAT SINCE THIS WAS AT KCRC'S OPTION, AND MIGHT DEPEND ON COMPARATIVE INTEREST RATES AT THE TIME, NO ALLOWANCE WAS MADE IN THE REVENUE ESTIMATES.

+IT IS UP OUR SLEEVE. BUT THERE ALSO MAY WELL BE UNFORESEEABLE ITEMS OF EXPENDITURE ARISING FROM LEGAL CLAIMS,+ HE ADDED.

AS THE HOME OWNERSHIP FUND CONTINUED TO RUN IN SURPLUS, HE PROPOSED TRANSFERRING \$800 MILLION BACK FROM THE FUND IN 1986-87. SIR JOHN STRESSED THAT THIS WOULD NOT AFFECT ANY HOUSING PROGRAMMES.

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+SMALL+ \$348M SURPLUS SEEN FOR '86-87
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A +SMALL SURPLUS+ OF \$348 MILLION FOR THE 1986-87 FINANCIAL YEAR WAS FORECAST TODAY BY SIR JOHN BREMRIDGE.

PRESENTING HIS FINAL BUDGET SPEECH, SIR JOHN SAID, +IT WOULD APPEAR THAT THE TARGET OF A BALANCED BUDGET COULD BE ACHIEVED IN 1986-87 WITHOUT FURTHER REVENUE MEASURES+.

HE SAID THAT TAKEN TOGETHER, THE DRAFT ESTIMATES OF REVENUE AND EXPENDITURE ON GENERAL REVENUE ACCOUNT IMPLIED A SMALL SURPLUS OF \$388 MILLION.

+THIS IS A GREAT RELIEF AFTER FOUR DIFFICULT YEARS,+ HE NOTED.

NEVERTHELESS, SIR JOHN SAID SOME TAXES AND CHARGES WERE FIXED IN CASH TERMS AND WERE, THEREFORE, NON-RESPONSIVE TO INFLATION.

+IN ALL EQUITY SALARIES TAX ALLOWANCES MUST ALSO BE REVIEWED. I THUS PROPOSE A SMALL PACKAGE OF INCREASES IN TAX AND CHARGES MORE THAN OFFSET BY TAX CONCESSIONS. IT WILL COST A NET \$40 MILLION IN 1986-87,+ HE SAID.

+THE ESTIMATED SURPLUS IN 1986-87 WILL CONSEQUENTLY FALL FROM \$388 MILLION TO \$348 MILLION,+ HE ADDED.

THE 1986-87 DRAFT ESTIMATES OF REVENUE AND EXPENDITURE ON GENERAL REVENUE ACCOUNT IS AS FOLLOWS:

	<u>RECURRENT</u>	<u>CAPITAL</u>	<u>TOTAL</u>
	(\$MN)	(\$MN)	(\$MN)
REVENUE (EXCL. TRANSFERS)	38 231	901	39 132
EXPENDITURE (EXCL. TRANSFERS)	<u>32 363</u>	<u>1 581</u>	<u>33 944</u>
SURPLUS/(DEFICIT)	<u>5 868</u>	<u>(680)</u>	5 188
LESS TRANSFERS TO FUNDS (NET)			<u>4 800</u>
			388
LESS COST OF REVENUE MEASURES			<u>40</u>
SURPLUS			<u>348</u>

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HYDROCARBON OILS: 4.5 PER CENT DUTY RISE SOUGHT

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THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMRIDGE, TODAY PROPOSED AN OVERALL INCREASE OF 4.5 PER CENT IN DUTY RATES FOR ALL HYDROCARBON OILS - MOTOR SPIRIT FROM \$2.20 TO \$2.30 PER LITRE AND DIESEL OIL FROM \$1.10 TO \$1.15 PER LITRE.

SIR JOHN SAID IN HIS BUDGET SPEECH THAT THE 1985 INCREASE OF 10 PER CENT WAS SIGNIFICANTLY LESS THAN THAT REQUIRED TO MAINTAIN THE REVENUE YIELD IN REAL TERMS IN THE LIGHT OF INFLATION SINCE 1983.

NEVERTHELESS, HE PROPOSED FOR THE 1986 BUDGET AN OVERALL INCREASE FOR ALL HYDROCARBON OILS OF 4.5 PER CENT ONLY.

SIR JOHN SAID, +THIS WILL MAINTAIN THE 1985 YIELD IN REAL TERMS,+ ADDING THAT FALLING OIL PRICES WERE LIKELY TO EASE THE ACTUAL BURDEN ON CONSUMERS.

ASSUMING NO CONSUMER RESISTANCE, HE ESTIMATED THAT THE ADDITIONAL YIELD WOULD BE \$50 MILLION IN 1986-87.

HE SAID CONSUMPTION OF MOTOR SPIRIT HAD DECLINED 21 PER CENT SINCE 1982-83 WHILE REVENUE OVER THE SAME PERIOD HAD INCREASED 62 PER CENT DUE TO DUTY INCREASES.

+A DECLINE IN YIELD IS PRESENTLY ESTIMATED FOR 1986-87,+ HE SAID.

CONSUMPTION OF DIESEL OIL HAD GROWN BY 18 PER CENT AND REVENUE BY 320 PER CENT SINCE 1982-83, REFLECTING THE GROWTH IN NUMBERS OF DIESEL ENGINED ROAD VEHICLES, HE ADDED.

SIR JOHN SAID THE CURRENT REFUND ON DIESEL OIL TO THE FRANCHISED BUS COMPANIES WOULD REMAIN AT 65 CENTS A LITRE.

+THE COST TO THESE COMPANIES SHOULD BE OF THE ORDER OF \$6 MILLION,+ HE ADDED.

THE EFFECT ON BUS FARES WOULD ON AVERAGE BE LESS THAN ONE HALF OF ONE CENT, SIR JOHN SAID.

HIS PROPOSALS FOR DUTIABLE COMMODITIES AND TRANSPORT LICENCE FEES HAD BEEN THE SUBJECT EARLIER, IN THE MORNING, OF PUBLIC REVENUE PROTECTION ORDERS SIGNED BY THE GOVERNOR, SIR JOHN SAID.

THEY INCLUDED UNMANUFACTURED AND MANUFACTURED TOBACCO AND HYDROCARBON OILS.

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TOBACCO DUTY RISE PROPOSED
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THE 1986-87 BUDGET INCLUDES PROPOSED INCREASES IN DUTY ON TWO TYPES OF TOBACCO, SIR JOHN BREMRIDGE, TOLD THE LEGISLATIVE COUNCIL TODAY.

SIR JOHN SAID THE DUTY ON BOTH IMPORTED RAW TOBACCO AND MANUFACTURED TOBACCO (OTHER VARIETIES) WOULD RISE FROM \$170 A KILOGRAM TO \$190. THE DUTY RATE OF \$210 A KILOGRAM ON IMPORTED MANUFACTURED CIGARETTES WOULD REMAIN UNCHANGED.

SIR JOHN SAID THAT AS THE NEW DIFFERENTIAL WOULD BE AS LOW AS 10.5 PER CENT, IT COULD NOT BE CONSTRUED AS PROVIDING AN IMPROPER PROTECTION TO LOCAL MANUFACTURERS.

EXPLAINING THE CHANGES, SIR JOHN SAID THAT DUTY ON IMPORTED TOBACCO HAD BEEN INCREASED IN THE 1985 BUDGET, REDUCING THE DIFFERENTIAL BETWEEN UNMANUFACTURED RAW TOBACCO AND IMPORTED MANUFACTURED CIGARETTES. AT THE TIME, HE HAD WARNED THE TRADE THAT HE WOULD REVIEW THE MERITS OF IMPOSING A PURE AD VALOREM DUTY ON TOBACCO.

+THE TOBACCO TRADE HAS BEEN CONSULTED. THEIR RESPONSE HAS BEEN DIVIDED, TO PUT IT MILDLY. SOME OPPOSE THE IMPOSITION OF AN AD VALOREM BASED DUTY, WHILE OTHERS - AND I HAVE NOTED THIS WITH GREAT INTEREST - SUPPORT ITS INTRODUCTION ON THE GROUNDS THAT THOSE WHO CAN AFFORD TO PAY MORE BY BUYING MORE EXPENSIVE TOBACCO PRODUCTS SHOULD DO SO,+ SIR JOHN SAID.

HE SAID FINANCE BRANCH AND THE TOBACCO INDUSTRY HAD HELD INTENSIVE AND CONSTRUCTIVE DISCUSSIONS DURING 1985. A NUMBER OF COMPANIES HAD EXPENDED CONSIDERABLE RESOURCES TO MAKE VERY COMPLETE PROPOSALS.

+IT HAS NEVERTHELESS BECOME PLAIN THAT THE TOBACCO TRADE DOES NOT, INDEED CANNOT, SPEAK WITH UNANIMITY ON THE MERITS OR OTHERWISE OF IMPOSING AN AD VALOREM DUTY - OR INDEED ON ANYTHING EXCEPT THE VIRTUES OF LOW TAX,+ SIR JOHN SAID.

SIR JOHN SAID THAT DESPITE THE LOWERING OF THE DUTY DIFFERENTIAL TO AN ALL TIME LOW, UNITED STATES COMPANIES HAD CONTINUED TO MAKE ALLEGATIONS OF HONG KONG PROTECTIONISM.

+I DO NOT ACCEPT THAT THESE ALLEGATIONS HAVE REAL SUBSTANCE BECAUSE THE DUTY DIFFERENTIALS THAT EXIST REFLECT ESTABLISHED INTERNATIONAL PRACTICE WHEREBY RAW MATERIALS ARE NORMALLY TAXED AT A LOWER RATE THAN THE RELATED MANUFACTURED PRODUCT.

+I MUST NOT, HOWEVER, PROVIDE ANY EXCUSE FOR A REPETITION OF THESE UNFAIR ALLEGATIONS IN 1986 WHEN TRADE NEGOTIATIONS WILL HAVE SUCH A HIGH PROFILE,+ SIR JOHN SAID.

/HE SAID

HE SAID THE RETAIL PRICE OF LOCALLY-PRODUCED CIGARETTES SHOULD INCREASE MUCH LESS THAN THE DUTY RATE INCREASE OF 11.8 PER CENT.

SIR JOHN SAID THAT CONSUMPTION OF MANUFACTURED TOBACCO (OTHER VARIETIES) HAD INCREASED MARKEDLY IN RECENT YEARS BECAUSE OF THE INCREASED USE OF PUFF OR CUT TOBACCO BY LOCAL CIGARETTE MANUFACTURERS.

EVEN AFTER AN INCREASE IN THE DUTY RATE OF 21 PER CENT IN THE 1985 BUDGET, CONSUMPTION IN THE FIRST SEVEN MONTHS OF THIS FINANCIAL YEAR HAD GROWN BY AN ENORMOUS 192 PER CENT. IN RECOGNITION OF THIS RISE, AND TO BE CONSISTENT WITH THE DUTY RATE INCREASE ON IMPORTED RAW TOBACCO, HE PROPOSED THE \$20 A KILOGRAM RISE IN THE DUTY RATE ON MANUFACTURED TOBACCO (OTHER VARIETIES).

SIR JOHN SAID TOTAL ADDITIONAL REVENUE FROM THE TWO DUTY RATE INCREASES WAS ESTIMATED AT \$55 MILLION FOR 1986-87 -- \$40 MILLION FROM IMPORTED RAW TOBACCO AND \$15 MILLION FROM MANUFACTURED TOBACCO (OTHER VARIETIES). IN BOTH CASES HE HAD ALLOWED FOR CONSUMER RESISTANCE.

THESE PROPOSALS WERE ALSO THE SUBJECT OF REVENUE PROTECTION ORDERS SIGNED BY THE GOVERNOR EARLIER IN THE DAY.

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BANK, DTC LICENCE FEE RISE PROPOSED 8
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PROPOSALS FOR AN INCREASE OF 20 PER CENT IN BANK LICENCE FEES AND 13 PER CENT IN DEPOSIT-TAKING COMPANY LICENCE FEES WERE MADE BY SIR JOHN BREMRIDGE TODAY.

THE TWO LICENCE FEES WERE LAST INCREASED IN 1983 AND 1984 RESPECTIVELY. SIR JOHN PROPOSED THAT THE ANNUAL LICENCE FEE FOR A BANK BE INCREASED FROM \$300 000 TO \$360 000. THE LICENCE FEE FOR A DEPOSIT-TAKING COMPANY WOULD GO UP FROM \$150 000 TO \$170 000.

HE ALSO PROPOSED SIMILAR INCREASES IN RELATED FEES. FOR BANKS, THESE INCLUDED THE FEES REQUIRED FOR ESTABLISHING A LOCAL BRANCH AND AN OVERSEAS BRANCH. THE FORMER WOULD RISE FROM \$15 000 TO \$17 000, AND THE LATTER FROM \$30 000 TO \$34 000.

FOR DEPOSIT-TAKING COMPANIES, THE FEE FOR ESTABLISHING A LOCAL BRANCH WOULD RISE FROM \$7 500 TO \$8 500, AND THE REGISTRATION FEE WOULD INCREASE FROM \$45 000 TO \$50 000.

OVERALL, THE INCREASES WOULD YIELD AROUND \$15 MILLION IN 1986-87.

/HE ADDED

HE ADDED THAT THESE PROPOSALS WOULD BE THE SUBJECT OF FURTHER PUBLIC REVENUE PROTECTION ORDERS AT THE END OF MARCH AND AMENDING LEGISLATION WOULD BE INTRODUCED INTO THE LEGISLATIVE COUNCIL SHORTLY AFTERWARDS.

SIR JOHN SAID EFFORTS TO KEEP FEES AND CHARGES GENERALLY AS UP TO DATE AS POSSIBLE HAD BEEN ASSISTED IN RECENT YEARS BY COMPUTER SYSTEMS DESIGNED SPECIALLY FOR THIS PURPOSE.

DURING THE NEXT FINANCIAL YEAR, A NUMBER OF AREAS WERE SCHEDULED FOR THEIR NORMAL REGULAR REVIEW. THESE WOULD INCLUDE WATER CHARGES AND IMMIGRATION DEPARTMENT CHARGES. IN ADDITION, A FRESH LOOK WOULD BE TAKEN AT PARKING METER CHARGES, WHICH HAD BEEN UNCHANGED SINCE 1981.

+I EXPECT THAT THESE TOGETHER WITH THE FAR MORE NUMEROUS, BUT INDIVIDUALLY SMALLER ITEMS THAT WILL COME UP FOR REVIEW IN 1986 WILL YIELD A TOTAL OF ABOUT \$135 MILLION.+

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TAX ALLOWANCE TO BENEFIT 96 PER CENT
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TAX PROPOSALS IN THE 1986-87 BUDGET WOULD BENEFIT ABOUT 96 PER CENT OF THOSE WHO MIGHT EXPECT TO PAY SALARIES TAX, SIR JOHN BREMRIDGE SAID IN HIS BUDGET SPEECH TODAY.

UNDER SIR JOHN'S PROPOSALS, THE ADDITIONAL PERSONAL ALLOWANCE (SINGLE) WOULD RISE FROM \$7 500 TO \$8 500, AND THAT FOR MARRIED PERSONS FROM \$17 000 TO \$19 000.

THE BASIC PERSONAL ALLOWANCE PLUS ADDITIONAL ALLOWANCE WOULD TOTAL \$29 000 FOR A SINGLE PERSON AND \$60 000 FOR A MARRIED COUPLE.

SIR JOHN ALSO SAID THAT A RISE IN THE BASIC DEPENDENT PARENT ALLOWANCE FROM \$8 000 TO \$9 000 WOULD TAKE THE TOTAL ALLOWANCE AVAILABLE FOR A DEPENDENT PARENT RESIDING WITH THE TAXPAYER TO \$12 000.

THE CHANGES WOULD TAKE EFFECT FROM APRIL 1, 1986 AND WOULD THEREFORE FIRST APPLY TO PROVISIONAL SALARIES TAX ASSESSMENTS FOR 1986-87, FINAL TAX ASSESSMENTS FOR THAT YEAR, AND TO 1986-87 PERSONAL ASSESSMENTS.

SIR JOHN SAID THAT WHILE THE CONCESSIONS MIGHT NOT BE AS LARGE AS SOME MIGHT WISH, HE BELIEVED THEM TO BE REASONABLE IN THE CONTEXT OF THE PRESENT LOW INFLATION RATE AND THE PERSONAL TAXATION CHANGES MADE IN THE LAST BUDGET.

HE ESTIMATED THE COST TO REVENUE IN 1986-87 TO BE ABOUT \$127 MILLION, AND \$180 MILLION FOR A FULL YEAR.

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REPEAL OF OFFSHORE DEPOSITS LAW PROPOSED
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THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, PROPOSED TODAY THAT THE AMENDMENTS MADE IN 1984 TO THE INLAND REVENUE ORDINANCE WHICH RENDERED SOME INTEREST EARNED ON OFFSHORE DEPOSITS CHARGEABLE TO PROFITS TAX, BE REPEALED FROM APRIL 1 THIS YEAR.

SIR JOHN EXPLAINED THAT THE PROPOSAL TO REVERSE THE LEGISLATION THAT HAD ONLY BEEN IN EFFECT FOR A SHORT TIME DID NOT MEAN THAT HE CONSIDERED IT TO HAVE BEEN PHILOSOPHICALLY MISCONCEIVED IN THE FIRST PLACE.

+IT HAS, HOWEVER, PROVED TO BE FAR MORE CONTENTIOUS AND DIFFICULT TO INTERPRET THAN I AT FIRST EXPECTED,+ HE SAID.

SIR JOHN SAID HE BELIEVED IN PRINCIPLE THAT INTEREST DERIVED THROUGH OR FROM THE CARRYING ON OF A BUSINESS IN HONG KONG SHOULD BE LIABLE TO PROFITS TAX IRRESPECTIVE OF WHETHER THAT INTEREST AROSE FROM ONSHORE OR OFFSHORE DEPOSITS.

'THE PROVISION OF CREDIT' TEST IN THIS TECHNOLOGICAL AGE IS BOTH ARTIFICIAL AND INAPPROPRIATE IN DETERMINING THE TRUE TERRITORIAL SOURCE OF INTEREST INCOME DERIVED BY BUSINESS, HE ADDED.

+WHILE PHILOSOPHICALLY THERE IS A CONSIDERABLE DIFFERENCE BETWEEN THE MERE HOLDING OF INVESTMENT FUNDS OFFSHORE AND THE MAKING OF DEPOSITS OFFSHORE AS PART OF A BUSINESS CARRIED ON IN HONG KONG, IT HAS HOWEVER PROVED IMPOSSIBLE TO DIFFERENTIATE BETWEEN THE TWO IN THE FORM OF THE CRISP LEGAL DRAFTING ESSENTIAL TO REVENUE LAW,+ SIR JOHN SAID.

+UNCERTAINTY IN THE LAW IS ALWAYS UNSATISFACTORY,+ HE SAID, +IN THIS CASE THE UNCERTAINTY HAS TENDED TO STRENGTHEN THE CASE OF THOSE WHO SEEK TO PRETEND THAT WE HAVE DEPARTED IN SOME WAY FROM THE IMPORTANT TERRITORIAL SOURCE CONCEPT OF TAXABLE PROFITS.+

+ACCORDINGLY, AND ON THE ADVICE OF THE HELPFUL UMELCO AD HOC INLAND REVENUE REVIEW PANEL SET UP TO EXAMINE THIS MATTER AMONGST OTHERS, I AGREED THAT THE PRACTICE NOTES ISSUED BY THE COMMISSIONER OF INLAND REVENUE ON THE ASSESSIBILITY OF INTEREST SHOULD BE SUITABLY AMENDED TO MAKE THE CIRCUMSTANCES UNDER WHICH OFFSHORE INTEREST IS LIABLE TO TAX MUCH CLEARER,+ SIR JOHN SAID.

HE HAD ALSO PROMISED THE PANEL THAT CONSIDERATION SHOULD BE GIVEN TO REPEALING THE AMENDMENTS ALTOGETHER WHEN THE FISCAL AND BUDGETARY POSITION PERMITTED, HE SAID.

/WITH THE

WITH THE IMPROVED BUDGET POSITION, SIR JOHN SAID HE WAS ABLE TO CONTEMPLATE TAX CONCESSIONS FOR BUSINESS EARLIER THAN HE HAD EXPECTED.

+I HAVE, THEREFORE, DECIDED TO ADVANCE THE REPEAL OF THESE PARTICULAR AMENDMENTS, WHICH INADVERTENTLY HAVE CREATED ABSURD LEVELS OF DISPUTE,+ HE SAID.

IT WAS DIFFICULT TO ESTIMATE THE COST OF THIS PROPOSAL WITH ANY ACCURACY BUT HE BELIEVED THE LOSS TO THE REVENUE IN 1986-87 WOULD BE ABOUT \$200 MILLION FALLING TO \$150 MILLION PER ANNUM THEREAFTER, HE SAID.

THE REDUCTION AFTER 1986-87 TAKES ACCOUNT OF HIS EXPECTATION THAT THE YIELD FROM THIS SOURCE WOULD HAVE BEEN REDUCED FROM ITS INITIAL LEVEL, ESTIMATED AT \$350 MILLION IN 1985-86, AS METHODS OF AVOIDANCE WERE INEVITABLY FOUND TO MITIGATE THE EFFECT OF THE LEGISLATION, SIR JOHN SAID.

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RISE IN VEHICLE, DRIVING LICENCE FEES PLANNED
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PROPOSALS TO RAISE VEHICLE AND DRIVING LICENCE FEES BY AROUND FOUR PER CENT WERE ANNOUNCED BY SIR JOHN BREMRIDGE TODAY.

SIR JOHN SAID THAT ALTHOUGH HE HAD INCREASED VEHICLE AND DRIVING LICENCE FEES IN LAST YEAR'S BUDGET, THIS WAS A SENSITIVE AREA TO WHICH HE FELT THE +LITTLE AND OFTEN+ PRINCIPLE PARTICULARLY APPLIED. THE INCREASES WERE ESTIMATED TO YIELD ABOUT \$40 MILLION IN 1986-87.

UNDER THE PROPOSALS, THE FEE FOR A FULL DRIVING LICENCE WILL RISE FROM \$160 A YEAR TO \$170.

THE FEE FOR A PRIVATE CAR UNDER 1 500 CC WILL RISE FROM \$2 500 TO \$2 600= THE FEE FOR A PRIVATE CAR BETWEEN 2 501 CC AND 3 500 CC WILL RISE FROM \$5 000 TO \$5 200, AND THAT FOR A PRIVATE CAR EXCEEDING 4 500 CC WILL RISE FROM \$7 400 TO \$7 700.

RATES FOR OTHER TYPES AND SIZES OF VEHICLES WILL RISE IN PROPORTION.

THESE PROPOSALS WERE ALSO THE SUBJECT OF REVENUE PROTECTION ORDERS SIGNED EARLIER IN THE DAY BY THE GOVERNOR.

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WEDNESDAY, FEBRUARY 26, 1986

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+REGULAR REVISIONS BEST GUARANTEE+
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REGULAR SMALL REVISIONS OF MAJOR CHARGES AND TAX RATES, TO MAINTAIN THEIR YIELD IN REAL TERMS, WAS THE BEST GUARANTEE OF A CONTINUING SOUND BASIS FOR THE GOVERNMENT'S FINANCES, THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, SAID IN SUMMARISING THE REVENUE MEASURES IN THE 1986-87 BUDGET TODAY (WEDNESDAY).

SIR JOHN SAID IT HAD REQUIRED A RIGOROUS DISCIPLINE OVER THE LAST FEW YEARS TO REGAIN A SITUATION WHICH HAD BEEN GRADUALLY DETERIORATING BECAUSE OF THE FALSE SENSE OF SECURITY ENGENDERED BY ABUNDANT LAND REVENUES.

THE PROCESS OF UPDATING MAJOR CHARGES AND TAX RATES HAD NOW LARGELY BEEN COMPLETED.

+A FIRM WATCH MUST BE KEPT ON THE RELATIONSHIP BETWEEN DIRECT AND INDIRECT TAXATION.

+I HAVE STATED IN PREVIOUS BUDGET SPEECHES MY VIEW THAT BY 1983 TOO MUCH EMPHASIS HAD COME TO BE PLACED ON DIRECT TAXATION AND NOT ENOUGH ON INDIRECT TAXATION. MY BUDGETS SINCE THEN HAVE SERVED TO REDUCE THE DIRECT:INDIRECT RELATIONSHIP FROM 69:31 IN 1982-83 TO 59:41 IN 1985-86. CONSOLIDATION SEEMS APPROPRIATE AT ABOUT THIS LEVEL,+ SIR JOHN SAID.

SIR JOHN SAID THE BUDGET PROPOSALS WOULD COST A NET \$40 MILLION IN 1986-87 -- REVENUE RAISING MEASURES DESIGNED TO YIELD \$295 MILLION, OFFSET BY TAX CONCESSIONS ESTIMATED TO COST \$335 MILLION.

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EXCLUSION FROM CHARGE TO STAMP DUTY SOUGHT
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THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMRIDGE, TODAY PROPOSED TO EXCLUDE FROM THE CHARGE TO STAMP DUTY HONG KONG BEARER INSTRUMENTS WHICH ARE IN RESPECT OF LOAN CAPITAL AND OF UNITS IN UNIT TRUSTS INVESTING ONLY IN SUCH INSTRUMENTS.

HE SAID THE STAMP DUTY CHARGE OF ONE PER CENT ON HONG KONG BEARER INSTRUMENTS RELATING TO LOAN CAPITAL HAD BROUGHT IN A NEGLIGIBLE AMOUNT OF REVENUE.

THIS WAS BECAUSE OVER THE PAST FEW YEARS MOST HONG KONG COMPANIES SEEKING LOAN CAPITAL HAD EITHER ISSUED NON-HONG KONG DOLLAR EURO BONDS OR USED OFFSHORE SUBSIDIARIES AS THE ISSUING VEHICLES, HE EXPLAINED.

/+CLEARLY, THIS

+CLEARLY, THIS STAMP DUTY CHARGE IS HAVING AN INHIBITING EFFECT ON THE RAISING OF CAPITAL THROUGH THE ISSUE OF BONDS DENOMINATED IN HONG KONG DOLLARS,+ SIR JOHN SAID.

IF THE PROPOSED AMENDMENT ENCOURAGED THE ISSUE OF CORPORATE BONDS BY HONG KONG AND FOREIGN COMPANIES, THE REVENUE COULD EXPECT TO GAIN EVENTUALLY FROM THE ADDITIONAL PROFITS AND SALARIES TAX FLOWING FROM THE INCREASED ACTIVITY IN HONG KONG'S FINANCIAL SECTOR, HE SAID.

+FURTHERMORE, THE EXISTENCE OF MORE BONDS DENOMINATED IN HONG KONG DOLLARS SHOULD ENCOURAGE THE GROWTH OF SECONDARY MARKETS, THUS ENHANCING THE STATUS OF HONG KONG AS A MAJOR FINANCIAL CENTRE,+ SIR JOHN SAID.

AS FOR ESTATE DUTY, SIR JOHN PROPOSED THAT THE WORDING OF THE ORDINANCE BE AMENDED TO ENSURE THAT THE EXEMPTION WOULD APPLY IN ALL CASES WHERE THERE WAS BOTH A PRINCIPAL MATRIMONIAL HOME AND A SURVIVING SPOUSE.

HE SAID THAT LEGISLATION ENACTED EARLIER EXEMPTED FROM DUTY A PRINCIPAL MATRIMONIAL HOME WHICH HAD BEEN PASSED TO THE SURVIVING SPOUSE UNDER A WILL OR BY OPERATION OF LAW.

HOWEVER, IN SOME CASES WHERE A PERSON DIED INTESTATE, THE SURVIVING SPOUSE HAD NO RIGHT TO THE MATRIMONIAL HOME. CONSEQUENTLY THE EXEMPTION AVAILABLE UNDER THE EXISTING LEGISLATION COULD NOT APPLY.

THE COST OF THIS PROPOSAL WOULD BE ABOUT \$8 MILLION IN 1986-87, HE SAID.

HE SAID THAT HE HAD CONSIDERED SUGGESTIONS THAT THE ESTATE DUTY ORDINANCE MIGHT BE FURTHER AMENDED IN A NUMBER OF WAYS, BUT AFTER CAREFUL EXAMINATION HAD FOUND THE PROPOSALS UNACCEPTABLE AS THEY HAD SERIOUS DRAWBACKS.

+THE IMPLEMENTATION OF ALL OR ANY OF THE CHANGES WOULD BE VERY COSTLY TO THE REVENUE,+ SIR JOHN SAID.

+IN ADDITION THEY WOULD COMPLICATE OUR TAX SYSTEM FURTHER AND WOULD BE DIFFICULT TO ADMINISTER.+

THE PRESENT EXEMPTION LEVELS, SIR JOHN SAID, WERE GENEROUS AND THE RATES WERE LOW BY ANY STANDARDS.

IN MANY CASES, BECAUSE DIVIDENDS AND INCOME WITH A SOURCE OUTSIDE HONG KONG WERE NOT CHARGEABLE TO PROFITS TAX, ESTATE DUTY WAS THE ONLY DIRECT TAX WHICH SOME HONG KONG RESIDENTS WOULD EVER PAY.

+ESTATE DUTY IS THEREFORE A WAY OF ENSURING THAT SOME OF THOSE ABLE TO AFFORD IT MAKE AT LEAST ONE CONTRIBUTION TO THE EXCHEQUER,+ SIR JOHN SAID.

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COMMISSION STUDYING LAND SALES PLAN

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A DETAILED PROGRAMME OF LAND DISPOSAL FOR 1986-87 IS CURRENTLY BEING CONSIDERED BY THE LAND COMMISSION AND SHOULD BE AGREED SHORTLY, SIR JOHN BREMRIDGE SAID TODAY.

IN HIS BUDGET SPEECH, SIR JOHN SAID FROM A PROVISIONAL DRAFT PROGRAMME, WHICH INCLUDED AT LEAST TWO MORE LARGE SITES IN THE URBAN AREAS AND A NUMBER OF VALUABLE SITES FOR PRIVATE SECTOR PARTICIPATION SCHEME HOUSING, THE GOVERNMENT ESTIMATED THAT THE GROSS LAND REVENUE TO BE SHARED IN 1986-87 SHOULD BE \$3.4 BILLION.

+ABOUT \$1.4 BILLION WOULD ACCRUE TO THE FUTURE SAR GOVERNMENT AND \$2 BILLION TO THE WORKS ACCOUNT,+ HE SAID.

+THESE FIGURES, HOWEVER, ARE DEPENDENT ON SO MANY UNKNOWNNS THAT THEY CANNOT BE RELIABLE, THEY REPRESENT ONLY A BEST GUESS,+ HE ADDED.

THE GROSS ESTIMATE OF \$3.4 BILLION FOR THE SUSPENSE ACCOUNT TOGETHER WITH THE REVENUE OF \$500 MILLION ACCRUING TO THE GENERAL REVENUE COMPARED WITH A REVISED ESTIMATE FOR 1985-86 TOTALLING \$4.6 BILLION AND ACTUAL REVENUE IN 1984-85 OF \$4.3 BILLION, SIR JOHN SAID.

ON EXPENDITURE UNDER THE FUND ACCOUNTS, SIR JOHN ESTIMATED A SPENDING OF \$9.4 BILLION.

+THIS WILL BE MET PARTLY BY INTERNAL REVENUE GENERATED BY THE FUNDS THEMSELVES IN TERMS OF LAND TRANSACTIONS, LOAN REPAYMENTS AND INTEREST AND PARTLY BY A TRANSFER OF FUNDS FROM GENERAL REVENUE ACCOUNT,+ HE SAID.

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+I WISH I HAD BEEN MORE FAR SIGHTED+
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THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, SAID TODAY THAT HE ALWAYS ACKNOWLEDGED HIS MISTAKES.

SIR JOHN SAID THAT DURING DELIBERATION OF THE BUDGET IN 1982 HE HAD NOTED +APPREHENSIVE (AND INDEED PERCEPTIVE) COMMENTS BY MISS LYDIA DUNN AND MR BILL BROWN ON POSSIBLE FUTURE PROBLEMS CONCERNING THE RELATIONSHIP BETWEEN CAPITAL EXPENDITURE AND CAPITAL REVENUE AND THE ALLIED POSSIBILITY OF FALLING REVENUE FROM LAND SALES.

/+I WISH

+I WISH LIKE THEM I HAD BEEN MORE FAR SIGHTED, THOUGH I WAS NOT ALONE. BUT I ALWAYS ACKNOWLEDGE MY MISTAKES. I DID REPLY: IF FOR INSTANCE GOVERNMENT LAND SALES OR PROFITS TAX OR ANY OTHER MAJOR HEAD OF REVENUE FALL OFF SHARPLY THEN INITIALLY ANY DEFICIT IN OVERALL RETURN WOULD BE TAKEN UP BY OUR SATISFACTORY RESERVES. THAT IS WHAT SAVINGS ARE FOR AND WE MUST NOT GET EXCITED ABOUT ONE OR POSSIBLY TWO DIFFICULT YEARS. FOR SUBSEQUENT BUDGETS WE WOULD THEN HAVE TO CONSIDER WHETHER TO RAISE TAXATION, CUT EXPENDITURE, USE THE RESERVES OR RAISE LOANS.+

SIR JOHN SAID THIS WAS EXACTLY WHAT HAD BEEN DONE, ALL OF IT, AND IT HAD SUCCEEDED.

HE ALSO COMMENTED THAT HE HAD STATED IN 1982 THAT IT WAS ESSENTIAL FOR THE FINANCE BRANCH TO SET UP A PLANNING UNIT TO WORK ON MODELS FOR PROJECTION OVER A FIVE YEAR PERIOD SO THAT +WE COULD SEE WHAT MIGHT HAPPEN TO FUTURE BUDGETS IN THE LIGHT OF VARIOUS ASSUMPTIONS.+

THIS WAS ONLY A PLANNING TOOL, AND ALL EXPERIENCED BUSINESSMEN WOULD BE AWARE THAT IT MUST NOT BE TAKEN AS A LONG RANGE FORECAST -- +NOT LEAST BECAUSE OF THE HEROIC ASSUMPTIONS THAT HAVE TO BE MADE AND THE IMPOSSIBILITY OF FORESEEING WHAT NEW POLICY INITIATIVES OR PROGRAMMES MAY BE AGREED OR WHAT UNEXPECTED CONTINGENCIES HAVE TO BE MET. I REMAIN VERY SCEPTICAL ABOUT THE RELIABILITY OF FINANCIAL SOOTHSAYING.+

SIR JOHN SAID THAT LAST YEAR IN THE BUDGET DEBATE HE HAD BEEN UNWILLING TO EXPOSE THE MEDIUM RANGE FORECAST, BECAUSE IT WAS STILL CLEARLY IN NEED OF FURTHER REFINEMENT.

+IT CAN, HOWEVER, NOW STAND IN THE OPEN TO MAKE THE BUDGETARY PROPOSALS MORE COMPREHENSIBLE TO THIS COUNCIL. DO BEAR IN MIND THAT IMPROVEMENTS WILL INEVITABLY BE FOUND POSSIBLE IN LATER YEARS.

+WE ARE THEREFORE IN A POSITION TO TAKE AN OPEN VIEW EACH YEAR ON THE ESSENTIAL MEDIUM TRENDS. THIS FIRSTLY MEANS KEEPING AN EYE ON PROBABLE OPERATING SURPLUSES. IT IS ALSO POSSIBLE TO SEE PROBLEMS COMING UP AND THUS TO TAKE EARLY CORRECTIVE ACTION.+

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INFLATION UNDER 4 PER CENT

INFLATION HAD FALLEN MORE THAN HE DARED HOPE, THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, SAID,

THE RATE WAS UNDER FOUR PER CENT ON CONSUMER PRICE INDICES FOR 1985.

A SLIGHT UPTURN WAS EXPECTED IN 1986 AS A RESULT OF THE EFFECTS ON IMPORTS OF THE DROP IN THE VALUE OF THE U.S. DOLLAR, TO WHICH REPRESENTING LONG TERM GOVERNMENT POLICY THE HONG KONG DOLLAR WAS FIRMLY LINKED AND WOULD REMAIN LINKED.

SIR JOHN SAID THE FALL IN THE TRADE WEIGHTED INDEX OF THE HONG KONG DOLLAR SHOULD, HOWEVER, BE OF ASSISTANCE IN EXPORT MARKETS. MOREOVER, THE CURRENT PRIME RATE OF SEVEN PER CENT HAD BEEN UNCHANGED FOR SIX MONTHS, AND WAS LOW BY COMPARISON WITH OTHERS, FOR EXAMPLE IN THE UNITED STATES, THE UNITED KINGDOM AND AUSTRALIA.

REFERRING TO EMPLOYMENT, SIR JOHN SAID: +AS I THINK YOU ALL KNOW, THE GOVERNMENT HAS ALWAYS ATTACHED GREAT IMPORTANCE TO OUR UNEMPLOYMENT FIGURES. IT REMAINS SATISFACTORY THAT WE HAVE IN EFFECT FULL EMPLOYMENT IN HONG KONG WITH REAL WAGES INCREASING MODERATELY. APART FROM IMPORTANT SOCIAL ISSUES, CLEARLY CONSIDERABLE UNEMPLOYMENT WOULD REQUIRE AN APPRECIABLE INCREASE IN PUBLIC ASSISTANCE IN PARTICULAR+.

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MORE SALARIES TAX ALLOWANCE PROPOSED

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REVENUE PROPOSALS FOR 1986-87 INCLUDE FURTHER INCREASES IN SALARIES TAX ALLOWANCES, A SMALL AMENDMENT TO ESTATE DUTY AND REMOVAL OF THE UNPOPULAR 1984 OVERSEAS INTEREST TAX PROVISIONS, THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, SAID TODAY.

THERE WOULD BE MODERATE ADJUSTMENTS IN SOME LICENCE FEES, DUTIES AND CHARGES, BUT OVERALL IN MONEY NOT IN REAL TERMS, AND DESIGNED TO MAINTAIN REAL REVENUE YIELDS.

+I BELIEVE THAT THESE PROPOSALS WILL PROVE TO BE SENSITIVE TO THE SITUATION IN WHICH WE ALL ACTUALLY LIVE, THOUGH THEY CANNOT EXPECT UNIVERSAL APPROVAL+, SIR JOHN SAID.

+THEY ACTUALLY CUT EXPECTED REVENUE BY \$40 MILLION NEXT FINANCIAL YEAR IN MONEY TERMS. I HOPE THAT THIS BUDGET MAY MARK THE END OF REGULAR REAL TAX INCREASES+.

SIR JOHN REMINDED MEMBERS AGAIN OF THE POSSIBLE YIELDS FROM INCREASES IN DIRECT TAXATION, WHICH HE +CERTAINLY DID NOT RECOMMEND+. HE SAID HIS VIEW HAD NOT CHANGED FROM HIS BUDGET STATEMENT LAST YEAR THAT +ENTERPRISE AND HARD WORK ARE STIMULATED BY LOW DIRECT TAXATION AND BY CONFIDENCE THAT IT WILL REMAIN LOW.+

/SIR JOHN

SIR JOHN WENT ON: +SETTING ASIDE OTHER ARGUMENTS, THE ADDITION OF ONE PERCENTAGE POINT TO THE PRESENT STANDARD RATE OF 17 PER CENT IS NOW ESTIMATED TO YIELD \$150 MILLION IN THE FIRST YEAR AND \$300 MILLION IN A FULL YEAR. SIMILARLY, THE ADDITION OF ONE PERCENTAGE POINT IN THE CORPORATE RATE OF 18.5 PER CENT WOULD YIELD \$230 MILLION IN THE FIRST YEAR AND \$485 MILLION IN A FULL YEAR.

+IF, THEREFORE, THERE IS SUPPORT FOR FURTHER INCREASES IN PUBLIC SECTOR EXPENDITURE, WHICH I BELIEVE WOULD BE MOST UNWISE PARTICULARLY AT THIS JUNCTURE, MEMBERS CAN SEE WHAT IT WOULD COST TO BALANCE INCREASED SPENDING BY HIGHER DIRECT TAXATION.

+THEY CAN ALSO EASILY JUDGE WHAT INCREASES IN INDIRECT TAXATION WOULD BE INVOLVED. NATURALLY A DEGREE OF JUGGLING OR DIFFERENTIAL SLICING REMAINS POSSIBLE THOUGH LONG TERM STABILISATION OF ALL TAX MEASURES IS AN IMPORTANT CONSIDERATION. A SALES OR VALUE ADDED TAX REMAINS A THEORETICAL POSSIBILITY. WHATEVER WE DO MUST BE SUITABLE FOR HONG KONG. I ASSUME THAT FEW WILL ADVOCATE DEFICIT FINANCING IN OUR CIRCUMSTANCES+.

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EXPENDITURE OVER 16 PER CENT OF GDP
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PUBLIC SECTOR EXPENDITURE IN 1985-86 WILL BE OVER 16 PER CENT OF THE GROSS DOMESTIC PRODUCT, BUT WOULD BE APPRECIABLY LOWER IF GDP ITSELF HAD NOT BEEN LOWER THAN FORECAST, THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, SAID TODAY.

THE CUT OF ABOUT THREE PERCENTAGE POINTS IN THREE YEARS WAS STILL VERY LARGE, SIR JOHN SAID. HOWEVER PAINFUL, CONTROL OF PUBLIC SECTOR EXPENDITURE WAS OF FUNDAMENTAL IMPORTANCE. HONG KONG HAD TO BE FRUGAL.

HE BELIEVED EXPENDITURE SHOULD RUN AT ABOUT THE SAME PERCENTAGE LEVEL IN 1986-87 AND IN THE YEARS BEYOND, THOUGH IT WAS IMPOSSIBLE TO MAKE ACCURATE FORECASTS.

HE SAID: +AS ONE EXAMPLE OF ADMINISTRATIVE PROBLEMS, THE PROVISIONAL ACCEPTABLE LEVELS OF EXPENDITURE FOR THE NEXT YEAR HAVE TO BE RELEASED TO BRANCHES AND DEPARTMENTS OF THE GOVERNMENT IN SEPTEMBER, THAT IS AT LEAST FIVE MONTHS BEFORE THE BUDGET DATE, ITSELF A MONTH BEFORE THE NEW FINANCIAL YEAR STARTS. THEY CANNOT THEREFORE BE BASED ON ANY (RELATIVELY) ACCURATE FORECAST OF THE CURRENT YEAR'S EXPENDITURE OR OF EXPECTED GROWTH IN THE SUBSEQUENT FINANCIAL YEAR'S GDP.

/+THOUGH WE

+THOUGH WE DO ADJUST SUBSEQUENTLY AS MUCH AS POSSIBLE, GENERALLY SPEAKING WE HAVE TO WORK ON THE BLUNT ASSUMPTIONS OF THE MEDIUM RANGE FORECAST. THESE ASSUMPTIONS SHOULD BE DEPENDABLE WHEN AVERAGED OVER A SERIES OF YEARS. BUT THEY WILL NOT BE ACCURATE FOR ONE YEAR, UNLESS WE ARE EXTRAORDINARILY LUCKY. IN 1985-86, PUBLIC SECTOR EXPENDITURE GROWTH THUS UNWITTINGLY NOSED AHEAD OF GDP GROWTH. THERE WAS OF COURSE AN OPPOSITE SWING THE PREVIOUS YEAR.+

SIR JOHN SAID THAT ON APRIL 1, 1986, FISCAL RESERVES ON GENERAL REVENUE ACCOUNT WILL BE ABOUT \$15.6 BILLION. THE GOVERNMENT HAD NO NET DEBT. THIS WAS A STRONG POSITION, AS FOR MOST GOVERNMENTS SERVICE OF THE NATIONAL DEBT REPRESENTED A LARGE PORTION OF PUBLIC SECTOR EXPENDITURE. THE HONG KONG GOVERNMENT EARNED INCOME. FOR MOST GOVERNMENTS UNEXPECTED DISASTERS MEANT MORE BORROWING. HONG KONG HAD RESOURCES IN HAND.

STATING HE DID NOT WANT TO BE ACCUSED OF MISLEADING OPTIMISM, SIR JOHN NOTED THAT THE ECONOMY WAS NOW ENTIRELY EXTERNALLY ORIENTED, AND VISIBLE TRADE NOW REPRESENTED ABOUT 175 PER CENT OF GDP.

+AS HAS BEEN UNDERLINED IN 1985 WE ARE ALWAYS EXPOSED TO THE CYCLICAL WINDS THAT HOWL AROUND WORLD TRADE.

+FREQUENTLY WE CAN DO LITTLE TO HELP OURSELVES BEYOND PRUDENT MANAGEMENT OF PUBLIC FINANCES AND RELIANCE ON MARKET FORCES AND ON THE VIGOURS OF OUR PROPERLY MOTIVATED ENTREPRENEURS.

+OUR ECONOMY IS ALSO CHANGING SHAPE UNDER OUR EYES. I THUS MAKE NO APOLOGIES FOR WHAT SOME WILL UNDOUBTEDLY CALL EXCESS CONSERVATISM IN MY APPROACH TOWARDS HONG KONG'S PUBLIC FINANCES. THEY ARE NOW, I BELIEVE, AGAIN IN SOUND SHAPE. BUT EVEN THIS COMMENT WOULD BE PROVED SANGUINE BY EVENTS WHOLLY OUTSIDE OUR CONTROL.+

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GDP UP BY ONE PER CENT
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THE GROSS DOMESTIC PRODUCT (GDP) GREW BY ABOUT ONE PER CENT IN 1985, REPRESENTING A SIGNIFICANT SLOWING DOWN COMPARED WITH THE GROWTH RATE OF OVER NINE PER CENT IN 1984, THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, SAID IN HIS BUDGET SPEECH TODAY.

SIR JOHN SAID THE PERFORMANCE OF THE ECONOMY WAS DISAPPOINTING, WITH THE MAJOR FACTOR BEING A FALL IN DOMESTIC EXPORTS THOUGH TOTAL EXPORTS STILL GREW BY SIX PER CENT.

DOMESTIC EXPORTS DECLINED BY FIVE PER CENT IN REAL TERMS, REFLECTING THE SLOWDOWN IN ECONOMIC GROWTH IN OUR MAJOR EXPORT MARKETS, IN PARTICULAR THE UNITED STATES, AND THE RELATIVE STRENGTH OF THE HONG KONG DOLLAR.

RE-EXPORTS CONTINUED TO GROW, AS DID IMPORTS, BY 25 PER CENT AND SIX PER CENT RESPECTIVELY.

+AS A RESULT, THE VISIBLE TRADE ACCOUNT RECORDED A SURPLUS EQUIVALENT TO 1.6 PER CENT OF THE VALUE OF IMPORTS, A UNIQUE OUTCOME FOR HONG KONG IN THE POST-WAR PERIOD,+ SAID SIR JOHN.

WITHIN DOMESTIC DEMAND, PRIVATE CONSUMPTION EXPENDITURE GREW BY FIVE PER CENT. OVERALL EXPENDITURE ON BUILDING AND CONSTRUCTION, HOWEVER, DECLINED BY 10 PER CENT DUE TO THE COMPLETION OF A NUMBER OF PUBLIC WORKS PROJECTS AND THE MAJOR PART OF THE MTR ISLAND LINE. OVERALL EXPENDITURE ON PLANT AND MACHINERY DECLINED BY THREE PER CENT, REFLECTING THE EFFECT OF THE POOR DOMESTIC EXPORT PERFORMANCE ON MANUFACTURERS' INVESTMENT PLANS.

SIR JOHN SAID IN NATIONAL ACCOUNT TERMS, PUBLIC SECTOR EXPENDITURE OVERALL DECLINED BY EIGHT PER CENT.

DESPITE THE POOR DOMESTIC EXPORT PERFORMANCE, THE UNEMPLOYMENT AND UNDEREMPLOYMENT RATES REMAINED AT A LOW LEVEL. THE EFFECT OF JOB LOSSES IN MANUFACTURING WAS OFFSET BY INCREASED EMPLOYMENT IN THE SERVICES SECTORS, PARTICULARLY THOSE ASSOCIATED WITH THE RE-EXPORT TRADE. THE LATTER HAD BECOME OF GREATER VALUE TO HONG KONG THAN WAS GENERALLY ACKNOWLEDGED, SIR JOHN SAID.

IN THE FOURTH QUARTER OF 1985, THE SEASONALLY ADJUSTED UNEMPLOYMENT RATE STOOD AT 3.2 PER CENT -- EFFECTIVELY FULL EMPLOYMENT AND LOWER THAN 12 MONTHS BEFORE -- AND THE UNDEREMPLOYMENT RATE AT ONLY 1.1 PER CENT. DURING THE YEAR, EARNINGS IN MOST SECTORS INCREASED IN REAL TERMS, HELPED BY THE SLOWING DOWN IN THE RATE OF INFLATION.

THE AVERAGE RATE OF INFLATION, AS MEASURED BY THE CONSUMER PRICE INDEX (A), WAS 3.2 PER CENT IN 1985, COMPARED WITH 8.1 PER CENT IN 1984.

SIR JOHN SAID: +THIS WELCOME OUTCOME IS ATTRIBUTABLE TO A NUMBER OF FACTORS, INCLUDING THE WEAK GROWTH IN DOMESTIC DEMAND, THE MODEST RATES OF INFLATION IN OUR MAJOR TRADING PARTNERS, GENERALLY SOFT COMMODITY PRICES, SOUND GOVERNMENT POLICIES, AND THE RELATIVE STRENGTH OF THE HONG KONG DOLLAR IN EARLY 1985.+

HE ADDED: +THUS IN 1985 IN COMMON WITH A NUMBER OF OTHER ECONOMIES IN THIS REGION, MORE DIFFICULT INTERNATIONAL TRADING CONDITIONS RESULTED IN A GDP GROWTH RATE SUBSTANTIALLY BELOW THAT EARLIER FORECAST.+

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4.5 PER CENT GDP GROWTH SEEN FOR '86
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PRESENT FACTORS INDICATE THAT THE GROSS DOMESTIC PRODUCT (GDP) WILL GROW AT A RATE OF ABOUT 4.5 PER CENT IN 1986, THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, SAID IN HIS BUDGET SPEECH.

EXPLAINING THE REASONS FOR AN IMPROVEMENT IN THE GROWTH RATE OF THE GDP, SIR JOHN SAID THE DOMESTIC EXPORT SECTOR SHOULD BENEFIT FROM THE EXPECTED IMPROVED GROWTH IN MOST MAJOR ECONOMIES. IN PARTICULAR, THE GROWTH RATES OF SEVERAL MAJOR MARKETS, INCLUDING THE UNITED STATES AND WEST GERMANY, WERE EXPECTED TO ACCELERATE. MOREOVER, THE TRADE-WEIGHTED DEPRECIATION OF THE HONG KONG DOLLAR IN THE LATTER PART OF 1985 WOULD HELP TO ENHANCE THE PRICE COMPETITIVENESS OF OUR DOMESTIC EXPORTS IN WORLD MARKETS.

BUT PROTECTIONISM REMAINED A CONSTANT THREAT, AND THE FORTHCOMING NEGOTIATIONS ON THE MULTI-FIBRE ARRANGEMENT WERE GOING TO BE TOUGH. EVEN THE UNCERTAINTY CREATED BY THE THREAT OF GROWING PROTECTIONISM HAD SOME ADVERSE EFFECT ON DOMESTIC EXPORT PERFORMANCE.

SIR JOHN SAID: +CHINA IS NOW HONG KONG'S SECOND LARGEST DOMESTIC EXPORT MARKET. THE UNDERSTANDABLE MEASURES ADOPTED BY CHINA IN EARLY 1985 TO RESTRICT IMPORTS AND TO CONTROL THE USE OF FOREIGN EXCHANGE RESERVES HAVE NEVERTHELESS RESULTED IN A SLOWING DOWN IN THE GROWTH RATES OF HONG KONG'S DOMESTIC EXPORTS AND RE-EXPORTS TO CHINA. THESE MEASURES ARE LIKELY TO PERSIST THROUGHOUT 1986.+

SIR JOHN SAID THAT, AS ALWAYS, THE FORECAST OF DOMESTIC EXPORTS WAS THE MOST CRUCIAL PART OF THE WHOLE FORECASTING EXERCISE. IT WAS ALSO THE MOST DIFFICULT BECAUSE OF THE IMPACT OF FACTORS WHICH WERE SIMULTANEOUSLY OUTSIDE OUR CONTROL AND DIFFICULT TO PREDICT.

+WITH THIS WARNING, THE FORECAST OF THE GROWTH RATE OF DOMESTIC EXPORTS IN 1986 IS 7.5 PER CENT, A MARKED IMPROVEMENT COMPARED WITH THE DECLINE IN 1985. THIS FORECAST, COMBINED WITH AN EXPECTED GROWTH RATE OF RE-EXPORTS OF FOUR PER CENT, GIVES A FORECAST FOR TOTAL EXPORTS OF SIX PER CENT, ABOUT THE SAME AS IN 1985. SUCH AN OVERALL GROWTH RATE OF EXPORTS IS MODEST BY HONG KONG STANDARDS BUT THE SHIFT IN FAVOUR OF DOMESTIC EXPORTS IMPLIES A GREATER INCREASE IN DOMESTIC VALUE-ADDED CONTENT.+

/PRIVATE

PRIVATE CONSUMPTION EXPENDITURE WAS FORECAST TO GROW AT 3.5 PER CENT AND GOVERNMENT CONSUMPTION EXPENDITURE AT TWO PER CENT. SIR JOHN SAID IN LINE WITH IMPROVEMENT IN EXPORT PERFORMANCE, PRIVATE SECTOR EXPENDITURE ON PLANT AND MACHINERY WAS FORECAST TO GROW BY THREE PER CENT AND PRIVATE SECTOR EXPENDITURE ON BUILDING AND CONSTRUCTION BY SIX PER CENT.

THE LATTER TOOK ACCOUNT OF WORK IN PROGRESS FOR MANY LARGE SCALE PROJECTS, SUCH AS THE NEW CONTAINER TERMINALS AND THE EASTERN HARBOUR CROSSING. PUBLIC SECTOR EXPENDITURE ON BUILDING AND CONSTRUCTION WAS FORECAST TO GROW BY THREE PER CENT, TAKING INTO ACCOUNT WORK IN PROGRESS FOR THE PUBLIC HOUSING PROGRAMME AND SUCH LARGE PUBLIC WORKS PROJECTS AS THE ROUTE 5 LINKING SHA TIN WITH KWAI CHUNG AND THE TUEN MUN LIGHT RAIL TRANSIT SYSTEM.

THESE FORECAST, WHEN COMBINED WITH THE FORECASTS OF OTHER, SMALLER, COMPONENTS, GAVE A GROWTH RATE FOR GROSS DOMESTIC FIXED CAPITAL FORMATION FOR 1986 OF THREE PER CENT, A SIGNIFICANT IMPROVEMENT OVER 1985.

SIR JOHN SAID: +THE FORECAST GROWTH RATE OF IMPORTS ASSOCIATED WITH THESE FORECASTS OF FINAL DEMAND IS SIX PER CENT, THE SAME AS IN 1985. NET EXPORTS OF SERVICES ARE FORECAST TO GROW BY NINE PER CENT COMPARED WITH A DECLINE OF ONE PER CENT FOR 1985.

+LET ME GET TO THE CRUX. THESE FORECASTS FOR THE INDIVIDUAL COMPONENTS OF EXPENDITURE, WHEN COMBINED, GAVE A FORECAST GROWTH RATE OF THE GDP OF ABOUT 4.5 PER CENT.+

SIR JOHN SAID IF THESE EXPECTATIONS WERE FULFILLED, ECONOMIC GROWTH IN 1986 WOULD BE LARGELY EXPORT-LED. THE GROWTH RATE OF TOTAL FINAL DEMAND (EXCLUDING RE-EXPORTS), AT FIVE PER CENT, WAS EXPECTED TO BE ONLY SLIGHTLY HIGHER THAN THAT OF THE GDP AND SHOULD NOT THEREFORE GENERATE SIGNIFICANT INTERNAL INFLATIONARY PRESSURES. THERE WOULD, HOWEVER, BE SOME INFLATIONARY PRESSURES IF THE HONG KONG DOLLAR DEPRECIATED FURTHER, ALONG WITH THE U.S. DOLLAR UNDER THE LINKED EXCHANGE RATE SYSTEM.

HE ADDED: +THE AVERAGE RATE OF INFLATION OF CONSUMER PRICES IN 1986 IS EXPECTED TO BE ABOUT FIVE PER CENT, AND THUS SLIGHTLY HIGHER THAN IN 1985. THE FORECAST RATE OF INCREASE IN THE GDP DEFLATOR IS FOUR PER CENT. I DISTINGUISH BETWEEN THE ESTIMATE OF FIVE PER CENT OF GROWTH IN CONSUMER PRICE INFLATION AND OF 4.5 PER CENT ASSUMED FOR GOVERNMENT COST INFLATION IN THE MEDIUM RANGE FORECAST.

+THE FORECAST GROWTH RATE OF THE GDP IN 1986 IN MONEY TERMS IS NINE PER CENT, IMPLYING A CURRENT PRICE GDP OF \$289 BILLION. AT CURRENT PRICES, PER CAPITA GDP IN 1986 SHOULD THUS BE \$53 000, OR ABOUT US\$6 800.+

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STABILITY THROUGH U.S.\$ LINK

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HONG KONG HAS EXPERIENCED REMARKABLE STABILITY IN THE EXCHANGE RATE DESPITE VOLATILE CONDITIONS IN THE FOREIGN EXCHANGE MARKETS IN 1985 - THANKS TO THE LINK WITH THE U.S. DOLLAR, THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, TOLD THE LEGISLATIVE COUNCIL TODAY.

MAINTENANCE OF THE LINK CONTINUED TO BE GOVERNMENT POLICY, SIR JOHN SAID.

+THIS SHOULD NOW BE TAKEN FOR GRANTED. IT HAS SERVED HONG KONG WELL,+ HE SAID.

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22 MAJOR BILL ON BANKING READY FOR STUDY

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A MAJOR BILL TO REPLACE THE EXISTING BANKING AND DEPOSIT-TAKING COMPANIES ORDINANCES IS NOW READY AND WILL TAKE THE USUAL LEGISLATIVE COURSE, ALLOWING TIME FOR SCRUTINY AND AMENDMENT, SIR JOHN BREMRIDGE SAID TODAY.

INTRODUCING HIS FINAL BUDGET, SIR JOHN SAID THE NEW BILL WOULD EMBODY A DIFFERENT APPROACH TO PRUDENTIAL SUPERVISION.

+THIS APPROACH IS ONE THAT RELIES MORE ON THE COMMISSIONER OF BANKING'S DIRECTION AND QUALITATIVE JUDGEMENT THAN ON QUANTITATIVE COMPLIANCE WITH TECHNICAL REQUIREMENTS.

+AT THE SAME TIME IT INTRODUCES A GREATER DEGREE OF ACCOUNTABILITY BY THE COMMISSIONER IN THE EXERCISE OF HIS POWERS,+ HE SAID.

IT WAS INTENDED THAT IMPLEMENTATION OF SOME OF THE NEW REQUIREMENTS WOULD BE PHASED IN OVER A PERIOD OF TIME, SIR JOHN SAID.

COMMENTING ON THE TAKEOVER OF THE INSOLVENT OVERSEAS TRUST BANK BY THE GOVERNMENT AND THE FACT THAT A FEW SMALLER LOCAL BANKS HAD SOUGHT STRONG PARTNERS TO IMPROVE THEIR POSITIONS, SIR JOHN SAID THE CAUSES OF THE PROBLEMS WHICH HAD EMERGED IN THE BANKING SECTOR WERE COMPLEX, AND OUTDATED PRUDENTIAL SUPERVISION HAD NOT HELPED.

NOTING THAT HE HAD MENTIONED IN HIS LAST BUDGET SPEECH THAT THE GOVERNMENT WAS EXAMINING VARIOUS OPTIONS FOR IMPROVEMENT IN THIS AREA, HE SAID EXTENSIVE CONSULTATION HAD BEEN UNDERTAKEN LAST YEAR WITH THE TWO ADVISORY COMMITTEES, THE HONG KONG ASSOCIATION OF BANKS, THE HONG KONG DEPOSIT-TAKING COMPANIES ASSOCIATION, THE SOCIETY OF ACCOUNTANTS, AND OTHERS.

/+THOUGH IT

+THOUGH IT IS IMPOSSIBLE TO SUIT ALL INTERESTS, THERE HAS RESULTED A GENERAL CONSENSUS ON A COMPREHENSIVE PACKAGE, AND ON THE NEED FOR A SINGLE PIECE OF NEW LEGISLATION TO REPLACE THE PRESENT BANKING AND DEPOSIT-TAKING COMPANIES ORDINANCES,+ SIR JOHN SAID.

HE ADDED THAT DURING THE PROCESS OF CONSULTATION IT WAS REPEATEDLY EMPHASIZED BY THE BANKING INDUSTRY THAT THE QUALITY AND ADEQUACY OF THE STAFF IN THE COMMISSION WAS CRUCIAL TO EFFECTIVE SUPERVISION.

+THE COMMISSIONER HAS ARRANGED - AND WILL CONTINUE TO ARRANGE - TRAINING AND DEVELOPMENT FOR HIS PROFESSIONAL STAFF. THE DRAFT ESTIMATES OF EXPENDITURE I AM PRESENTING ALSO CONTAIN APPROPRIATE INCREASES IN RESOURCES FOR THE COMMISSION,+ SIR JOHN SAID.

HE ADDED THAT THE GOVERNMENT WAS DETERMINED TO PROMOTE SOUND BUSINESS PRACTICE AMONG ALL FINANCIAL INSTITUTIONS AND TO PROVIDE A MEASURE OF PROTECTION FOR DEPOSITORS.

WHILE THERE WOULD BE SUSTAINED EFFORTS TO IMPROVE PRUDENTIAL SUPERVISION, SIR JOHN SAID, IT HAD TO BE REALISED THAT THIS DID NOT AND COULD NOT PROVIDE A FOOLPROOF SYSTEM WHICH FULLY SAFEGUARDED ALL INTERESTS.

+OUR BANKING SYSTEM, DESPITE RECENT DIFFICULTIES, IS INTRINSICALLY SOUND. BUT IT MUST DEPEND ON HONEST PRACTICES.

+IN THE FINAL ANALYSIS THE INTEGRITY OF THE SYSTEM RESTS ON THE BEHAVIOUR OF OUR BANKERS, WHO BEAR THE TRUST OF THE COMMUNITY,+ HE SAID.

SIR JOHN SAID THE INTENSIVE CONSULTATIONS CARRIED OUT IN THE PAST YEAR OR SO ALSO FOCUSED ON WHETHER THERE SHOULD BE SOME FORM OF DEPOSIT INSURANCE.

+ALL RECOGNISED THAT THE PROTECTION OF DEPOSITORS WAS IMPORTANT. THERE WAS, HOWEVER, ALSO GENERAL AGREEMENT THAT PRACTICAL DIFFICULTIES MAKE DEPOSIT INSURANCE A NON-STARTER IN HONG KONG.

THE MAJOR BANKING GROUPS WOULD HAVE TO BEAR AN UNFAIR SHARE OF THE BURDEN, SIR JOHN SAID, ADDING THAT DEPOSIT INSURANCE COULD NOT PREVENT THE PROBLEMS OF ONE BANK SPREADING ACROSS THE BANKING SYSTEM AS A WHOLE AS A RESULT OF INTER-BANK RELATIONSHIPS.

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+OPERATING SURPLUS VITAL+
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THE MAINTENANCE OF A RECURRENT, OR OPERATING, SURPLUS WAS VITAL TO THE STABILITY OF THE GOVERNMENT'S FINANCES, THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, SAID IN HIS BUDGET SPEECH.

EVEN WITH THE RECENT RECOVERY IN PROPERTY PRICES, THE GOVERNMENT HAD HAD TO LEARN TO ACCEPT A MUCH LOWER PROPORTION OF ITS CAPITAL PROGRAMMES BEING FINANCED FROM CAPITAL REVENUE.

THIS SHIFT IN EMPHASIS HAD NOW BEEN ACHIEVED, SIR JOHN SAID, AND TO MAINTAIN IT WOULD REQUIRE CONSTANT CARE THROUGH REGULAR REVIEWS OF SPECIFIC RATES OF TAXES AND CHARGES TO ENSURE THAT THEIR REAL VALUE WAS KEPT UP TO DATE.

+THE LESSON OF THE LATE 1970'S AND EARLY 1980'S IS CLEAR,+ SIR JOHN SAID. +IF WE EVER ALLOW THIS OPERATING SURPLUS TO SLIP, FALSELY REASSURED BY A TEMPORARY ABUNDANCE OF CAPITAL REVENUE, IT WILL BE A PAINFUL PROCESS TO EFFECT REPAIR.+

SIR JOHN SAID TOTAL EXPENDITURE GROWTH IN REAL TERMS WAS PROJECTED TO BE BETWEEN ABOUT 3.5 AND 4 PER CENT A YEAR, WHICH WAS SLIGHTLY BELOW ASSUMED ECONOMIC GROWTH. THIS SHOULD BE SUFFICIENT, AVERAGED OVER SEVERAL YEARS, TO FINANCE ADDITIONAL STAFFING AND OTHER RECURRENT COSTS FLOWING FROM THE COMPLETION OF NEW PROJECTS AND FACILITIES, AND TO RESPOND REASONABLY TO PROJECTED DEMANDS FOR NEW OR IMPROVED SERVICES.

+AT THIS RATE OF GROWTH, PUBLIC SECTOR EXPENDITURE SHOULD STAY AROUND 16 PER CENT OF GROSS DOMESTIC PRODUCT (GDP), HAVING FALLEN IN RECENT YEARS FROM A HIGH OF JUST OVER 19 PER CENT IN 1982-83,+ SIR JOHN SAID.

+VIEWED IN ANOTHER WAY, ON CONSERVATIVE ASSUMPTIONS, ABOUT 16 PER CENT OF GDP REPRESENTS THE LEVEL OF PUBLIC ACTIVITY SUPPORTABLE BY PRESENT FISCAL POLICY.

+NOTHING THAT I HAVE SAID IMPLIES THAT A FIGURE LOWER THAN 16 PER CENT IS NOT ACHIEVABLE. IT WILL COME IF GDP GROWTH BURGEONS. ON THE OTHER HAND, SOME WILL PRESS FOR GREATER PUBLIC SECTOR EXPENDITURE. IF CONCEDED, IT WOULD HAVE TO BE PAID FOR BY HIGHER TAXES,+ SIR JOHN SAID.

COMMENTING ON THE GOVERNMENT'S LATEST MEDIUM-RANGE FORECAST FOR GOVERNMENT FINANCES UP TO THE END OF THE DECADE, SIR JOHN SAID IT WAS NOT A PLAN, BUT A BASELINE AGAINST WHICH PROGRESS COULD BE MEASURED AND THE NEED FOR FURTHER ACTION ASSESSED.

/+I MUST

+I MUST EMPHASISE THAT WE PRODUCE THIS FORECAST NOT BECAUSE ANYBODY SERIOUSLY BELIEVES THAT FUTURE FINANCIAL PERFORMANCE IN HONG KONG'S CIRCUMSTANCES CAN BE PRECISELY ANTICIPATED, BUT TO ENSURE THAT BEFORE IMPORTANT DECISIONS ARE TAKEN, WE HAVE A FIRM EYE ON THEIR POSSIBLE LONGER-TERM IMPACT,+ SIR JOHN SAID.

SIR JOHN SAID THAT AS PROMISED IN HIS BUDGET SPEECH LAST YEAR, THE FORECAST ALSO EMBODIED A REVIEW OF THE FORMER BUDGETARY GUIDELINES. THESE HAD NOW EFFECTIVELY BEEN REPLACED BY EIGHT KEY ASSUMPTIONS.

+TWO ARE BASIC ECONOMIC ASSUMPTIONS HAVING A SIGNIFICANT EFFECT ON GOVERNMENT FINANCES -- THEY ARE THE AVERAGE ANNUAL GROWTH IN GDP AND THE AVERAGE RATE OF INFLATION AS IT AFFECTS PUBLIC SECTOR COSTS. WE HAVE TAKEN 4.5 PER CENT FOR BOTH. THEY CAN BE CHANGED ON REGULAR UPDATE IF NECESSARY,+ SIR JOHN SAID.

HE SAID THE REMAINING SIX ASSUMPTIONS WERE SPECIFIC TO GOVERNMENT FINANCES AND WERE THUS ARGUABLY SUBJECT TO DIRECT CONTROL. THEY COVERED TOTAL NET CASH FLOW, TOTAL EXPENDITURE GROWTH, CAPITAL EXPENDITURE GROWTH, TAXATION POLICY, THE RELATIONSHIP BETWEEN RECURRENT REVENUE AND EXPENDITURE, AND THE SIZE OF THE CIVIL SERVICE.

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MTRC, KCRC FINANCES STILL SEPARATE

THE GOVERNMENT HAD DECIDED NOT TO INCORPORATE THE FINANCES OF THE MASS TRANSIT RAILWAY CORPORATION AND THE KOWLOON-CANTON RAILWAY CORPORATION IN PUBLIC SECTOR EXPENDITURE, THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, SAID.

THE ARGUMENT FOR THE INCLUSION OF MTRC AND KCRC FINANCES IN PUBLIC SECTOR EXPENDITURE WAS A RESPONSIBLE AND REASONED ONE WHICH HAD REQUIRED MUCH THOUGHT, HE SAID.

+THE GOVERNMENT'S VIEW HOWEVER HAS NOT CHANGED THAT, GIVEN FULL PUBLIC KNOWLEDGE OF ALL THE FIGURES, THERE IS GREATER MERIT IN LIMITING THE DEFINITION OF CONSOLIDATED EXPENDITURE TO THAT VOTED FROM PUBLIC FUNDS,+ HE SAID.

THE GOVERNMENT'S MEDIUM-RANGE FORECAST IDENTIFIED ALL EQUITY INJECTIONS INTO THE MTRC, BUT DID NOT INCLUDE THE DAY-TO-DAY OPERATING EXPENDITURE AND REVENUE OF THE MTRC.

+TO INCLUDE THESE WOULD, I SUGGEST, BE MISLEADING, SINCE THE WHOLE CONCEPT OF THE MTRC AS AN AUTONOMOUS CORPORATION SETS IT CLEARLY IN THE PRIVATE SECTOR AS A COMPETING TRANSPORT MODE,+ SIR JOHN SAID.

/+ANYWAY, WE

+ANYWAY, WE TAKE NO ACCOUNT OF THE PROFITS ALREADY BEING MADE BY THE KCRC AND WHICH WE EXPECT FROM THE MTRC IN THE MID-1990'S. IT MAY ALSO APPEAR APPROPRIATE ONE DAY TO OFFER A SHAREHOLDING TO THE PUBLIC.+

SIR JOHN SAID THE GOVERNMENT'S MEDIUM-RANGE FORECAST PROJECTED A SURPLUS IN TOTAL CONSOLIDATED CASH FLOW IN 1986-87, FOLLOWED BY A SMALL DEFICIT IN 1987-88 BECAUSE OF A FURTHER EQUITY INJECTION INTO THE MTRC IN THAT YEAR, AND A RETURN TO SURPLUS IN 1988-89. IN 1989-90, THE FORECAST PROVIDED FOR A POSSIBLE FURTHER EQUITY INJECTION INTO THE MTRC AND FOR REPAYMENT OF THE 1984 BOND ISSUE.

+OVER THE FORECAST PERIOD AS A WHOLE THE APPARENT POSITION IS ONE OF A SMALL UNDERLYING SURPLUS OF LESS THAN \$600 MILLION.

+I EXPECT THIS TO BE A MINIMUM FIGURE,+ SIR JOHN SAID.

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NEW MOVE IN LIABILITIES COVER
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THE GOVERNMENT HAD TAKEN A DIFFERENT APPROACH TO THE COVER IT REQUIRED FOR CONTINGENT LIABILITIES FOLLOWING A CRITICAL REVIEW OF INDIVIDUAL ITEMS, SIR JOHN BREMRIDGE SAID IN HIS BUDGET SPEECH.

THE CONCLUSION HAD BEEN THAT THE PREVIOUS DEVICE OF A BLANKET OVERALL COVER OF ONE THIRD OF THE TOTAL VALUE OF CONTINGENT LIABILITIES WAS NOW SOMEWHAT SIMPLISTIC. INSTEAD, THE GOVERNMENT HAD TAKEN A FRESH AND CRITICAL LOOK AT EACH ITEM AND ASSESSED THE NATURE AND AMOUNT OF EACH RISK.

+IN SOME CASES THE EFFECTIVE RISK IS MINIMAL AND IN OTHERS FULLER COVER IS PRUDENT,+ SIR JOHN SAID.

+WHILE IT IS IMPRUDENT FOR ME TO QUOTE PUBLICLY OUR ASSESSMENT OF RISK IN EACH CASE, I NOW REGARD A TOTAL COVER OF \$7.5 BILLION AS PROPER.

+I CONTINUE, AS YOU WOULD EXPECT, TO BE SOMEWHAT CONSERVATIVE. THERE ARE ALSO ALL SORTS OF CONTINGENCIES WHICH ANY GOVERNMENT MUST BE PREPARED TO FACE BUT WHICH ARE UNQUANTIFIABLE. WE HAVE IN ADDITION MANY UNQUANTIFIABLE ASSETS.+

SIR JOHN SAID THAT ABOUT \$8 BILLION FROM GENERAL REVENUE ACCOUNT BALANCES WAS READILY AVAILABLE TO MEET CASH FLOW FLUCTUATIONS AND TO BE A CUSHION AGAINST POSSIBLE FURTHER SHOCKS. HE WOULD NOT LIKE TO SEE THIS FIGURE GO SIGNIFICANTLY LOWER.

/SIR JOHN

SIR JOHN SAID THAT ON MARCH 31 THIS YEAR, THE BALANCES IN THE VARIOUS FUNDS WOULD AMOUNT TO SOME \$10 BILLION. THEIR PURPOSE WAS TO SMOOTH OUT THE OFTEN UNEVEN ANNUAL CASH FLOW IN AND OUT OF THE FUNDS, AND TO PROVIDE FIRM BACKING FOR LONG-TERM CAPITAL COMMITMENTS.

+THE MAGNITUDE OF THIS FIGURE, WHICH IS OFTEN OVERLOOKED, MUST BE RELATED TO THE OUTSTANDING COMMITMENTS FOR PROJECTS WHICH WILL HAVE ALREADY STARTED BY APRIL 1, 1986,+ SIR JOHN SAID.

+FOR THE CAPITAL WORKS RESERVE FUND, THE DEVELOPMENT LOAN FUND, THE HOME OWNERSHIP FUND, AND THE MASS TRANSIT FUND, THESE COMMITMENTS ARE IN EXCESS OF \$26.5 BILLION. THIS FIGURE WILL INCREASE TO WELL OVER \$30 BILLION AS NEW PROJECTS ARE STARTED DURING THE COMING FINANCIAL YEAR.+

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LATEST FIGURES SHOW \$98M SURPLUS
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LATEST FORECASTS INDICATED A SURPLUS ON GENERAL REVENUE ACCOUNT FOR 1985-86 OF \$98 MILLION COMPARED WITH A DEFICIT OF \$961 MILLION IN THE PRINTED ESTIMATES, FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, SAID IN HIS BUDGET SPEECH.

SIR JOHN SAID THE \$961 MILLION DEFICIT ESTIMATE WAS A CONTINUED AND DELIBERATELY PLANNED DOWNWARD TREND FROM DEFICITS OF \$3.5 BILLION IN 1982-83, \$3 BILLION IN 1983-84, AND \$1.6 BILLION IN 1984-85.

REVIEWING THE ESTIMATES FOR 1985-86, SIR JOHN SAID THAT CAPITAL REVENUE HAD INCREASED BECAUSE OF HIGHER LAND PRICES, BECAUSE OF A NUMBER OF LAND SALES CONCLUDED BEFORE THE SINO-BRITISH JOINT DECLARATION REQUIRING SHARING CAME INTO EFFECT, BECAUSE OF THE USE OF CASH INSTEAD OF LETTERS B, AND TO THE KCRC'S EARLY REPAYMENT OF \$500 MILLION OUT OF A DEBT OF \$1 BILLION.

+WE HAVE LARGELY TUCKED THIS WINDFALL REVENUE INTO RESERVES TO HELP FINANCE THE \$1.5 BILLION EQUITY INJECTION INTO MTRC (WHICH WAS NOT ENVISAGED) AND TO PROVIDE FOR THE FURTHER INJECTION OF \$1 BILLION DUE IN 1987-88,+ SIR JOHN SAID.

APART FROM THESE EXCEPTIONAL MATTERS, SIR JOHN SAID, THERE HAD BEEN AN UNDERSPENDING OF 1.2 PER CENT ON RECURRENT ACCOUNT AND A GAIN OF 1.6 PER CENT IN RECURRENT REVENUE. THE CONTROL OF EXPENDITURE BUDGETS BY CASH LIMITS HAD CONTINUED VERY SUCCESSFULLY.

/SIR JOHN

SIR JOHN SAID ANOTHER SIGNIFICANT FACTOR HAD BEEN THE EFFECTIVE ACHIEVEMENT IN 1985-86 OF THE ZERO GROWTH TARGET FOR THE SIZE OF THE CIVIL SERVICE ESTABLISHMENT. BY DECEMBER 1985, TOTAL CIVIL SERVICE ESTABLISHMENT, AT 181 700, WAS A MERE 41 POSTS HIGHER THAN ONE YEAR PREVIOUSLY.

SIR JOHN SAID THAT THE GREATER PART OF THE GOVERNMENT'S CAPITAL EXPENDITURE WAS NOW UNDERTAKEN THROUGH A VARIETY OF FUND ACCOUNTS, RATHER THAN THROUGH GENERAL REVENUE ACCOUNT. THIS WAS ESSENTIAL TO SMOOTH THE INEVITABLE FLUCTUATIONS IN CAPITAL REVENUE AND EXPENDITURE.

THE TOTAL REVISED ESTIMATE OF EXPENDITURE ON THESE CAPITAL FUNDS IN 1985-86 WAS \$10.4 BILLION. THE BALANCES OF THE FUNDS WOULD HAVE INCREASED BY \$1.7 BILLION DUE PARTLY TO SOME UNDERSPENDING, BUT ALSO DUE TO THE DELIBERATE POLICY OF BUILDING UP THE BALANCES FROM EXTRAORDINARY CAPITAL REVENUE. SIR JOHN SAID.

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LAND PRODUCTION: 460 HECTARES EXPECTED
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GROSS LAND PRODUCTION IN 1986-87 IS EXPECTED TO BE 460 HECTARES COMPARED WITH A REVISED ESTIMATE OF 648 HECTARES FOR 1985-86, SIR JOHN BREMIDGE SAID TODAY.

OVER THE THREE YEARS OF THE NEW FORECAST PERIOD, HE SAID, TOTAL PRODUCTION WAS EXPECTED TO BE ABOUT 1 365 HECTARES - 480 IN 1987-88, 504 IN 88-89 AND 381 IN 89-90.

THESE FIGURES INCLUDED LAND FOR PUBLIC HOUSING, GOVERNMENT, INSTITUTIONAL AND COMMUNITY PURPOSES, OPEN SPACE AND ROADS IN BOTH THE URBAN AREAS AND THE NEW TERRITORIES, SIR JOHN EXPLAINED.

+THEY EXCLUDE 13.9 HECTARES WHICH THE HONG KONG INDUSTRIAL ESTATES CORPORATION PLANS TO FORM DURING 1986-87,+ HE SAID.

THE CORPORATION DID NOT COMPLETE THE FORMATION OF ANY NEW LAND IN 1985-86.

SIR JOHN SAID FOLLOWING THE DISSOLUTION OF THE SPECIAL COMMITTEE ON LAND SUPPLY, THE LAND AND BUILDING ADVISORY COMMITTEE HAD TAKEN ON RESPONSIBILITY FOR MONITORING THE AVAILABILITY OF LAND TO MEET FUTURE REQUIREMENTS.

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10 PER CENT HOUSING PRODUCTION GROWTH SEEN
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HOUSING AUTHORITY PRODUCTION FROM 1986-87 TO 1989-90 WAS TODAY FORECAST BY SIR JOHN BREMRIDGE TO EXCEED PRODUCTION IN THE PREVIOUS FOUR YEARS BY 10.4 PER CENT.

THIS INCLUDED 7 241 FLATS TO BE PRODUCED UNDER THE EXTENDED REDEVELOPMENT PROGRAMME FOR THE 26 SUB-STANDARD BLOCKS.

FLATS PRODUCED UNDER THE EXTENDED REDEVELOPMENT PROGRAMME ARE ADDITIONAL TO THE ANNUAL PRODUCTION TARGET OF 30 000 RENTAL FLATS.

SIR JOHN SAID THAT OF THE TOTAL CONSOLIDATED ACCOUNT CAPITAL EXPENDITURE IN 1986-87, \$3.4 BILLION WOULD BE SPENT ON THE CONSTRUCTION OF HOUSING, INCLUDING TEMPORARY HOUSING AREAS, AGAINST A REVISED ESTIMATE OF \$3.1 BILLION FOR 1985-86.

THE GOVERNMENT'S POLICY, HE SAID, WAS THAT THE PUBLIC HOUSING PROGRAMME SHOULD ACHIEVE A LEVEL OF PRODUCTION OF AT LEAST 40 000 FLATS A YEAR FOR RENTAL AND SALE.

+THIS TARGET COMPRISES THE HOUSING AUTHORITY'S RENTAL FLATS AND FLATS FOR SALE UNDER THE HOME OWNERSHIP SCHEME, FLATS SOLD UNDER THE PRIVATE SECTOR PARTICIPATION SCHEME, AND THE HOUSING SOCIETY'S PRODUCTION THROUGH THE DEVELOPMENT OF RENTAL HOUSING AND THE URBAN IMPROVEMENT SCHEME,+ HE SAID.

SIR JOHN SAID TOTAL PRODUCTION IN THE NEXT FOUR YEARS, INCLUDING PRIVATE SECTOR PARTICIPATION SCHEME FLATS AND HOUSING SOCIETY FLATS WAS ESTIMATED AT 188 000, WITH AN AVERAGE COMPLETION RATE OF 47 000 A YEAR: 41 932 IN 1986-87, 43 564 IN 1987-88, 48 532 IN 1988-89 AND 54 243 IN 1989-90.

+IN THE NEXT FOUR YEARS THERE WILL CONSEQUENTLY BE PROVIDED IN THE PUBLIC SECTOR NEW, GOOD QUALITY, SUBSIDISED HOUSING FOR SOME 750 000 PEOPLE,+ HE SAID.

+THIS IS A REMARKABLE FIGURE,+ SIR JOHN SAID, +I KNOW OF NO COMPARABLE PROGRAMME ANYWHERE ELSE IN THE WORLD.+

THE SUBSTANTIAL ADDITIONAL CONTRIBUTION OF PRIVATE SECTOR DEVELOPERS ALSO MUST NOT BE OVERLOOKED, AS THIS WAS AN ESSENTIAL ELEMENT, HE SAID.

SIR JOHN SAID SOME 56 650 HOME OWNERSHIP SCHEME FLATS OUT OF 62 250 IN THE FIRST SEVEN PHASES WOULD HAVE BEEN COMPLETED BY THE END OF 1986-87, AND WORK WAS IN HAND ON THE BALANCE AND ON A FURTHER 21 540 FLATS IN PHASES EIGHT-NINE AND TEN.

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EDUCATION SPENDING NEAR \$9 BILLION
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THE GOVERNMENT EXPECTS TO SPEND \$8.7 BILLION ON EDUCATION AND \$4.3 BILLION ON MEDICAL AND HEALTH SERVICES IN 1986-87, SIR JOHN BREMRIDGE SAID TODAY.

AND, CONSOLIDATED ACCOUNT EXPENDITURE ON SOCIAL WELFARE SERVICES WILL BE \$2.8 BILLION.

SIR JOHN SAID THAT THE \$8.7 BILLION EXPENDITURE ON EDUCATION IN 1986-87 REPRESENTED 18 PER CENT OF TOTAL CONSOLIDATED ACCOUNT EXPENDITURE, COMPARED WITH JUST OVER 14 PER CENT IN 1981-82.

THE MEDIUM RANGE FORECAST TOOK ACCOUNT OF LIKELY CONTINUED GROWTH IN EDUCATION AND THE FINANCIAL IMPACT OF EXPECTED EDUCATION COMMISSION PROPOSALS, HE SAID.

THE EDUCATION PROGRAMME COMPRISES NOT ONLY PRE-PRIMARY, PRIMARY SECONDARY AND SPECIAL EDUCATION BUT ALSO ADULT EDUCATION, TECHNICAL EDUCATION AND INDUSTRIAL TRAINING FOR THE DISABLED, TEACHER TRAINING AND RETRAINING AS WELL AS EDUCATION AT THE TWO UNIVERSITIES, THE TWO POLYTECHNICS, THE BAPTIST COLLEGE AND THE LINGNAN COLLEGE.

THE GOVERNMENT PROVIDES FINANCIAL ASSISTANCE TO NON-PROFIT-MAKING KINDERGARTENS BY REFUNDING RENT AND RATES. FEE ASSISTANCE IS ALSO PROVIDED TO NEEDY CHILDREN ATTENDING KINDERGARTENS.

FOR MEDICAL SERVICES, THE TOTAL EXPENDITURE OF \$4.3 BILLION IN 1986-87 WOULD BE 8.9 PER CENT OF CONSOLIDATED ACCOUNT EXPENDITURE AS COMPARED WITH 7.3 PER CENT IN 1981-82.

WITH REGARD TO SPECIFIC CAPITAL PROJECTS, IN ADDITION TO THE TOTAL ESTIMATED COST OF \$899 MILLION FOR THE GOVERNMENT HOSPITAL IN TUEN MUN, \$783 MILLION WOULD BE SPENT OVER A PERIOD ON IMPROVEMENTS AND EXTENSIONS TO QUEEN MARY AND TANG SHIU KIN HOSPITALS.

A FURTHER \$123 MILLION WOULD BE SPENT ON SITE FORMATION WORKS AND CONSULTANTS FEES FOR A NEW HOSPITAL TO SERVE THE EASTERN DISTRICT OF HONG KONG ISLAND.

SUCH MAJOR NEW FACILITIES WOULD GIVE RISE TO FURTHER CONSIDERABLE INCREASES IN RECURRENT OPERATING COSTS ON WHICH A STEADY EYE HAD TO BE KEPT, SIR JOHN ADDED.

SPEAKING OF THE SOCIAL WELFARE EXPENDITURE, SIR JOHN POINTED OUT THAT IT HAD SHOWN THE STEEPEST INCREASE IN GROWTH OF ALL MAJOR PROGRAMMES SINCE 1981-82.

/THE \$2.8

THE \$2.8 BILLION EXPENDITURE IN 1986-87 WAS 5.8 PER CENT OF TOTAL EXPENDITURE. THIS SHARE HAD RISEN FROM 4.2 PER CENT IN 1981-2.

AS TO WHETHER ITS EXPANSION WAS TOO PRONOUNCED, HE SAID HE FELT THAT A FAIR DEGREE OF BALANCE SEEMED TO BE EVIDENT, BUT, HE COULD NOT ACCEPT THE VIEW THAT MORE MONEY WAS THE ANSWER TO ALL PROBLEMS.

+CONTROL REMAINS ESSENTIAL. THERE IS OTHERWISE NO LIMIT TO WHAT DECENT PEOPLE CAN SPEND,+ HE SAID.

SOCIAL WELFARE SERVICES INCLUDE SOCIAL SECURITY, MAINLY PUBLIC ASSISTANCE AND SPECIAL NEEDS ALLOWANCES, SERVICES FOR OFFENDERS, FAMILY WELFARE, SERVICES FOR THE ELDERLY, COMMUNITY BUILDING, PERSONAL SOCIAL WORK AMONG YOUNG PEOPLE AND REHABILITATION.

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REVENUE PROTECTION ORDERS SIGNED
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THE FINANCIAL SECRETARY'S PROPOSALS CONCERNING DUTIABLE COMMODITIES AND TRANSPORT LICENCE FEES WERE THE SUBJECT OF PUBLIC REVENUE PROTECTION ORDERS SIGNED BY THE GOVERNOR, SIR EDWARD YOUDE, THIS (WEDNESDAY) MORNING.

SIR JOHN BREMIDGE SAID HIS PROPOSALS FOR BANK AND DEPOSIT-TAKING COMPANY LICENCE FEES WOULD BE THE SUBJECT OF FURTHER PUBLIC REVENUE PROTECTION ORDERS AT THE END OF MARCH, AND AMENDING LEGISLATION WOULD BE INTRODUCED INTO THE LEGISLATIVE COUNCIL SHORTLY THEREAFTER.

DURING THE CURRENT SESSION, THREE OTHER BILLS WOULD ALSO BE INTRODUCED INTO THE COUNCIL TO GIVE EFFECT TO HIS PROPOSALS ON STAMP DUTY, ESTATE DUTY AND TAX CONCESSIONS, HE ADDED.

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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:

+WE HAVE EXPERIENCED FOUR DIFFICULT YEARS AS GOVERNMENT REVENUE HAS BEEN INCREASED AND EXPENDITURE RESTRAINED. SUCCESS NOW ATTENDS OUR EFFORTS.

/+IN PLACE

+IN PLACE OF AN EXPECTED DEFICIT FOR THE CURRENT FINANCIAL YEAR OF ABOUT \$1 BILLION, THERE SHOULD BE A SMALL SURPLUS.

+MOREOVER FOR THE FINANCIAL YEAR 1986-87 I FORECAST A SURPLUS OF \$348 MILLION. THESE FIGURES SUGGEST THAT THE PUBLIC FINANCES ARE BACK IN EQUILIBRIUM.

+FOR THE FOURTH YEAR RECURRENT EXPENDITURE IS BELOW BUDGET. MOREOVER IN 1985 THE CIVIL SERVICE ESTABLISHMENT INCREASED BY ONLY 41 POSTS. WE MUST NOW ACCEPT GROWTH IN ORDER TO PROVIDE PROPER STAFFING FOR HOSPITALS, THE IMMIGRATION DEPARTMENT, THE POLICE AND OTHER DEPARTMENTS. BUT THE GOVERNMENT WILL CONTINUE TO BE FRUGAL.

+THUS WE INTEND TO ENSURE THAT GROWTH IN PUBLIC SECTOR EXPENDITURE IS CONTROLLED BY GROWTH IN GROSS DOMESTIC PRODUCT. IT IS VITAL NOT TO SPEND MORE THAN WE EARN. OTHERWISE TAXES MUST RISE.

+IT IS IMPORTANT NOT TO PAY TOO MUCH ATTENTION TO ANY ONE YEAR. WE MUST BE IN A POSITION TO CONSIDER LONGER TERM TRENDS. TO THIS END WE HAVE NOW PUBLISHED A FIVE-YEAR MEDIUM RANGE FORECAST.

+THE GROWTH OF GDP LAST YEAR WAS ONLY ABOUT 1 PER CENT. THIS WAS DUE TO A FALL IN DOMESTIC EXPORTS, THOUGH OUR TOTAL EXPORTS, INCLUDING RE-EXPORTS, GREW BY 6 PER CENT. ON THE OTHER HAND INFLATION FELL TO 3.2 PER CENT ON THE CONSUMER PRICE INDEX A. WE ENJOYED EFFECTIVE FULL EMPLOYMENT. REAL WAGES HAVE AGAIN BEEN RISING MODERATELY.

+I EXPECT GDP GROWTH OF ABOUT 4.5 PER CENT THIS COMING YEAR. WHILE INFLATION MAY INCREASE SLIGHTLY BECAUSE OF THE FALLING US DOLLAR TO WHICH THE HONG KONG DOLLAR IS FIRMLY LINKED, IT SHOULD NOT EXCEED 5 PER CENT. OUR DOMESTIC EXPORTS SHOULD AGAIN GROW AND FULL EMPLOYMENT BE MAINTAINED.

+WITH THIS IMPROVED BACKGROUND MY REVENUE PROPOSALS INVOLVE A REDUCTION OF \$40 MILLION IN TAXATION. THEY INCLUDE INCREASES IN PERSONAL TAX ALLOWANCES, AMENDMENTS TO ESTATE DUTY, AND REPEAL OF THE UNPOPULAR 1984 OVERSEAS INTEREST TAX PROVISIONS.

+OFFSETTING THESE CUTS OF SOME \$335 MILLION WILL BE SMALL INCREASES IN VARIOUS INDIRECT TAXES AND FEES, DESIGNED TO CORRECT THE EFFECTS OF INFLATION.

+IN THE CASE OF TOBACCO, BECAUSE OF FORTHCOMING TRADE NEGOTIATIONS THERE IS NEED TO EMPHASISE HONG KONG'S FREE TRADE POSITION.

+IT IS CONSEQUENTLY NECESSARY TO LOWER THE DIFFERENTIAL IN DUTY BETWEEN IMPORTED CIGARETTES AND IMPORTED TOBACCO SO THAT WE MAY NOT SEEM UNFAIRLY TO BE PROTECTING OUR LOCAL CIGARETTE MANUFACTURING INDUSTRY.

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+THE TAX ON IMPORTED TOBACCO WILL THEREFORE BE INCREASED WHILE ON IMPORTED CIGARETTES IT WILL STAY UNCHANGED.

+IT IS IMPOSSIBLE TO PREDICT ACCURATELY THE ECONOMIC FUTURE BECAUSE WE CANNOT FORETELL WHAT WILL HAPPEN OVERSEAS, BUT BASICALLY OUR PUBLIC FINANCES ARE IN GOOD SHAPE.

+I HOPE THAT REAL INCREASES IN TAXATION WILL, THEREFORE, NO LONGER BE NECESSARY. TO ACHIEVE THIS CONTINUED CONTROL OF PUBLIC SECTOR EXPENDITURE IS ESSENTIAL.+

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BUDGET BRIEFING
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THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, WILL GIVE A PRESS BRIEFING ON THE BUDGET AT 4.30 PM TOMORROW (THURSDAY) IN THE GIS PRESS CONFERENCE ROOM, FIFTH FLOOR, BEACONSFIELD HOUSE, CENTRAL.

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