



DAILY INFORMATION BULLETIN

WEDNESDAY, FEBRUARY 26, 1975

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WEDNESDAY, FEBRUARY 26, 1975

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HIGHER TAXES AND FEES PROPOSED

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THE FINANCIAL SECRETARY TODAY PROPOSED A SERIES OF TAX INCREASES AND HIGHER FEES AND CHARGES ON A VARIETY OF ITEMS, INCLUDING POSTAL SERVICES, THE GENERAL RATE, LIQUOR AND TOBACCO, BUSINESS AND COMPANY REGISTRATIONS, BANK LICENCES, AND A REINTRODUCTION OF ENTERTAINMENT TAX.

HE ESTIMATED THAT THE TAX INCREASE PACKAGE WOULD RAISE AN EXTRA \$467 MILLION IN REVENUE, BUT THAT THE ULTIMATE EFFECT ON THE CONSUMER PRICE INDEX WOULD NOT EXCEED ONE-HALF OF A PER CENT.

MOST OF HIS PROPOSED INCREASES ARE TIMED FOR APRIL 1 THIS YEAR OR LATER, BUT NEW DUTIES ON LIQUOR AND TOBACCO CAME INTO EFFECT AT 2.30 P.M. TODAY (WEDNESDAY).

LIQUOR AND TOBACCO

THE DUTY ON SPIRITUOUS LIQUOR AND WINES IMPORTED FROM NON-COMMONWEALTH COUNTRIES IS RAISED BY \$6 PER GALLON AND 10 PER CENT, RESPECTIVELY. A GALLON OF BEER WILL COST 60 CENTS MORE. THE EFFECT WILL BE THAT A BOTTLE OF BRANDY AND WHISKY WILL COST \$1 MORE, A STANDARD (REPUTED QUART) BOTTLE OF SPARKLING WINE AN EXTRA 90 CENTS, STILL WINE A MAXIMUM OF 50 CENTS MORE, A SMALL AND LARGE BOTTLE OF BEER FIVE CENTS AND 10 CENTS MORE, RESPECTIVELY.

THESE INCREASES ARE EXPECTED TO BRING IN AN EXTRA \$11 MILLION TO THE GENERAL REVENUE.

ENTERTAINMENT TAX

THE FINANCIAL SECRETARY RE-INTRODUCED ENTERTAINMENT TAX, WHICH WAS ABOLISHED TWO YEARS AGO, AND SAID THE NEW TAX WOULD BE AT RATES LESS ONEROUS THAN BEFORE FOR BOTH OPERATORS AND PATRONS.

HIS PROPOSED NEW ENTERTAINMENT TAX ENVISAGES DUTY OF 40 CENTS ON \$4 SEATS, 60 CENTS DUTY FOR \$6 SEATS AND 80 CENTS DUTY FOR \$8 SEATS.

HE ESTIMATED THAT THE YIELD OF THE REINTRODUCED TAX WOULD BE ABOUT \$21 MILLION, BASED ON VARIOUS ASSUMPTIONS SUCH AS THE SEATING CAPACITY OF CINEMAS CURRENTLY IN OPERATION, THE NUMBER OF SEATS IN EACH AND THE DAILY SEAT OCCUPANCY RATE.

/TRAVELLERS TO

PASSENGER CHARGE

TRAVELLERS TO AND FROM MACAU WILL HAVE TO PAY \$5, INSTEAD OF THE PRESENT 50 CENTS, AT THE MACAU FERRY TERMINAL AS FROM APRIL 1 THIS YEAR UNDER ANOTHER INCREASE PROPOSED BY THE FINANCIAL SECRETARY.

WHILE HE DID NOT THINK THAT THIS CHARGE WOULD AFFECT TRAVEL TO MACAU, MR. HADDON-CAVE SAID HE DID NOT WISH TO DAMAGE THAT CITY'S PROSPERITY, AND IF IT BECAME APPARENT THAT THE NUMBERS OF TRAVELLERS WERE SERIOUSLY AFFECTED, HE WOULD BE PREPARED TO RECONSIDER THE TAX-LOADING ELEMENT OF THIS CHARGE.

CORPORATIONS PROFITS TAX

THE FINANCIAL SECRETARY PROPOSED TO RAISE THE RATE OF TAX ON THE PROFITS OF CORPORATIONS BY ONE-AND-A-HALF PERCENTAGE POINTS, NAMELY FROM 15 PER CENT TO 16-1/2 PER CENT FOR THE YEAR OF ASSESSMENT 1975/76. PROVISIONAL TAX FOR THAT YEAR WOULD ALSO BE CALCULATED AT THE NEW RATE.

+THIS MODEST INCREASE OF 10 PER CENT IN THE RATE,+ HE SAID, +SHOULD PRODUCE \$100 MILLION IN 1975/76.+

ASSUMING A COMPANY RETAINS 50 PER CENT OF ITS PROFITS AFTER TAX AT THE PRESENT RATE OF 15 PER CENT, THE NEW RATE OF TAX OF 16-1/2 PER CENT WILL HAVE THE SAME EFFECT ON SHAREHOLDERS AS A WITHHOLDING TAX OF ABOUT 3.5 PER CENT. MR. HADDON-CAVE MADE IT CLEAR, HOWEVER, THAT HE WAS NOT COMMITTING HIMSELF TO A WITHHOLDING TAX OF ONLY 3.5 PER CENT, +BUT I AM MAKING THE POINT IN THE HOPE THAT THE PROPOSAL WILL NOT CAST A QUITE UNREALISTIC SHADOW OVER THE STOCK MARKET.+

HE ALSO MADE IT CLEAR THAT A CORPORATION WHICH IS IN A JOINT VENTURE WITH ANOTHER BUSINESS WILL SUFFER TAX AT 16-1/2 PER CENT ON ITS SHARE OF THE PROFITS.

ANOTHER PROPOSAL THE FINANCIAL SECRETARY INTENDS TO PUT BEFORE COUNCIL CONCERNS THE VALUE, FOR SALARIES TAX PURPOSES, OF QUARTERS PROVIDED BY AN EMPLOYER FOR HIS EMPLOYEES.

HE SAID HE INTENDS TO RAISE FROM 7-1/2 PER CENT TO 10 PER CENT THE FIGURE USED IN ASSESSING THE VALUE OF FREE OR SUBSIDISED QUARTERS. THIS HE INTENDED TO DO WITH EFFECT FROM THE FINAL ASSESSMENT FOR 1975/76. THERE WILL BE PROPORTIONATE INCREASES FOR PERSONS OCCUPYING HOTEL OR HOSTEL ACCOMMODATION. FREE OR SUBSIDISED QUARTERS PROVIDED BY A PERSON ASSOCIATED WITH THE EMPLOYER WILL ALSO BE BROUGHT TO CHARGE.

HE ALSO INDICATED THAT IT MAY BE NECESSARY TO CONSIDER FURTHER INCREASING THE PERCENTAGE AT A LATER DATE.

BUSINESS REGISTRATION

PROPRIETORS OF BUSINESSES WHO DO NOT PAY PROFITS TAX BECAUSE THEIR CHARGEABLE PROFITS ARE COVERED BY ALLOWANCES AVAILABLE UNDER PERSONAL ASSESSMENT ARE ALSO CAUGHT IN THE FINANCIAL SECRETARY'S NEW TAX NET.

SUCH PROPRIETORS WILL NOW HAVE TO PAY A HIGHER REGISTRATION FEE OF \$150, THREE TIMES THE PREVIOUS AMOUNT. THE INCREASED FEE WILL APPLY TO ALL REGISTERED BUSINESSES, EXCEPT THOSE AT PRESENT EXEMPTED FROM PAYMENT, BUT WILL REMAIN A DEDUCTIBLE EXPENSE FOR COMPUTING PROFITS TAX. MR. HADDON-CAVE SAID THIS INCREASE WILL HAVE THE EFFECT OF BROADENING THE TAX BASE AT A COST TO THE BUSINESSES CONCERNED OF \$8.30 A MONTH.

HE ALSO PROPOSED THAT CERTAIN CLUBS SHOULD BE BROUGHT WITHIN THE AMBIT OF THE BUSINESS REGISTRATION ORDINANCE.

COMPANY REGISTRATION

MR. HADDON-CAVE PROPOSED TO TRIPLE THE FEE FOR REGISTERING A BUSINESS FROM \$100 TO \$300 AND TO CHANGE THE ADDITIONAL CHARGE FOR EACH \$1,000 OF NOMINAL SHARE CAPITAL FROM \$2 TO \$4 WITH EFFECT FROM TOMORROW (THURSDAY) MORNING.

HE NOTED THAT NOT ALL REGISTERED COMPANIES WERE ALSO REGISTERED BUSINESSES SUCH AS, FOR EXAMPLE, THOSE THAT ARE REGISTERED IN HONG KONG BUT CARRY ON THEIR BUSINESS OFF-SHORE.

BANK LICENCES

MR. HADDON-CAVE FELT THAT BANKS IN HONG KONG OUGHT TO PAY MORE FOR THEIR +PRIVILEGED TRADING POSITION+ AND PROPOSED TO RAISE THE ANNUAL FEE FOR A BANK LICENCE FROM \$40,000 TO \$200,000, AND THAT FOR A BRANCH BANK BE INCREASED TO \$10,000 AS COMPARED WITH THE PRESENT \$1,000.

FINANCE COMPANIES

THE FINANCIAL SECRETARY NOTED THAT A BILL PROVIDING FOR THE REGISTRATION OF DEPOSIT TAKING FINANCE COMPANIES WAS EXPECTED TO BE PUBLISHED SHORTLY.

HE PROPOSED AN ANNUAL REGISTRATION FEE FOR SUCH COMPANIES OF \$10,000, ON THE ASSUMPTION THAT 200 COMPANIES WOULD SEEK REGISTRATION.

AIRPORT CHARGES

TO RECOVER COSTS AND EARN A FAIR RETURN ON CAPITAL INVESTED, THE FINANCIAL SECRETARY PROPOSED TO RAISE AIRCRAFT LANDING FEES AT KAI TAK BY 15 PER CENT. ON THE ADVICE OF THE DIRECTOR OF CIVIL AVIATION, HE ALSO SOUGHT TO LEVY A SURCHARGE OF \$500 FOR MOVEMENTS BETWEEN MID-DAY AND 6 P.M. THIS WOULD BE CONSISTENT WITH OTHER INTERNATIONAL AIRPORTS. TO ENABLE THE AIRLINES TO PREPARE FOR THE ADDITIONAL CHARGES, MR. HADDON-CAVE PROPOSED TO BRING THEM INTO EFFECT ON JULY 1, 1975.

BUOY FEES

THE FINANCIAL SECRETARY PROPOSED TO INCREASE THE FEES FOR HIRE OF BUOYS IN THE HARBOUR BY 300 PER CENT TO \$600 A DAY FOR AN 'A' BUOY, AND TO \$400 A DAY FOR A 'B' BUOY. HE ALSO INCREASED THE ANCHORAGE FEES FROM \$3 TO \$12 PER 100 TONS A DAY INSIDE THE HARBOUR LIMITS AND FROM 80 CENTS TO \$3.20 PER 100 TONS A DAY ELSEWHERE IN HONG KONG WATERS. HE POINTED OUT THAT THESE NEW FEES WERE STILL VERY MUCH LOWER THAN DOCKAGE FEES.

BETTING DUTY

MR. HADDON-CAVE LEFT OPEN FOR THE TIME BEING HOW TO RAISE AN ADDITIONAL \$27.5 MILLION FROM BETTING DUTY FROM HORSE RACING. THERE WERE SEVERAL OPTIONS, HE SAID, WHICH HE WANTED TO DISCUSS WITH THE ROYAL HONG KONG JOCKEY CLUB BEFORE DECIDING WHICH ONE TO ADOPT.

STAMP DUTY

AS REGARDS STAMP DUTIES, THE FINANCIAL SECRETARY PROPOSED AN EXTRA 30 CENTS ON TRAVELLERS' CHEQUES, CHEQUES DRAWN WITHIN HONG KONG, AND CASHIER ORDERS AND DIVIDEND WARRANTS. THE INCREASED DUTY ON TRAVELLERS CHEQUES, CASHIER ORDERS AND DIVIDEND WARRANTS WILL COME INTO EFFECT ON APRIL 1, 1975, BUT THE NEW DUTY APPLICABLE TO BLANK CHEQUE FORMS COMES INTO EFFECT TOMORROW (THURSDAY).

AD VALOREM DUTY CHARGEABLE ON CERTAIN CONVEYANCES ON SALE, VOLUNTARY DISPOSITIONS INTER VIVOS, AND ALLIED DOCUMENTS WILL ALSO BE RAISED FROM TWO PER CENT TO TWO-AND-A-QUARTER PER CENT. THE INCREASED RATE WILL APPLY TO DOCUMENTS EXECUTED ON OR AFTER APRIL 1, 1975. DOCUMENTS RELATING TO LAND OF A VALUE NOT EXCEEDING \$150,000 WILL NOT BE AFFECTED IN ANY WAY.

PUBLIC SPENDING BILL CONTINUES TO GROW
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GOVERNMENT SPENDING IN THE COMING FINANCIAL YEAR ON SOCIAL, COMMUNITY AND OTHER SERVICES FOR THE PEOPLE OF HONG KONG IS ESTIMATED AT \$6,615.3 MILLION.

THIS REPRESENTS AN INCREASE OF \$431 MILLION OR SEVEN PER CENT OVER THE REVISED ESTIMATE FOR THE 1974/75 YEAR, EXCLUDING EXPENDITURE RE-IMBURSEMENTS FROM THE URBAN COUNCIL AND THE HOUSING AUTHORITY.

TAKING ESTIMATED EXPENDITURE FROM GENERAL REVENUE TOGETHER WITH THAT FROM THE DEVELOPMENT LOAN FUND, THE LOTTERIES FUND, THE HOUSING AUTHORITY AND THE URBAN COUNCIL, THE TOTAL EXPENDITURE COMES TO \$7,318.7 MILLION.

THIS MONEY WILL MAINLY BE SPREAD OUT OVER FIVE MAIN GROUPS OF SERVICES. (SEE APPENDIX VIII IN THE SUPPORTING FINANCIAL STATEMENTS AND STATISTICAL APPENDICES).

TOPPING THE LIST AS IN PREVIOUS YEARS IS THE SOCIAL SERVICES GROUP WHICH COMPRISES EDUCATION, MEDICAL AND HEALTH, HOUSING, SOCIAL WELFARE AND LABOUR.

A RECORD SUM OF \$3,057.0 MILLION -- REPRESENTING 41.8 PER CENT OF TOTAL EXPENDITURE -- WILL BE CHANNELLED INTO THESE AREAS, MOST OF IT TOWARDS EDUCATION. COMPARED TO THE REVISED ESTIMATE FOR 1974/75, THIS REPRESENTS AN INCREASE OF \$337.4 MILLION.

THIS WILL BE ALLOCATED AS FOLLOWS: (THE FIGURES IN BRACKETS REFER TO THE REVISED ESTIMATE FOR 1974/75).

EDUCATION	:	\$1,336.5	MILLION	(\$1,209.3 M)
HOUSING	:	\$793.9	MILLION	(\$ 660.5 M)
MEDICAL AND HEALTH	:	\$583.2	MILLION	(\$ 563.8 M)
SOCIAL WELFARE	:	\$326.7	MILLION	(\$ 270.1 M)
LABOUR	:	\$ 17.2	MILLION	(\$ 15.9 M)

THE NEXT BIGGEST GROUP, IN TERMS OF EXPENDITURE, IS COMMUNITY SERVICES ON WHICH \$1,896.3 MILLION OR 25.9 PER CENT WILL BE SPENT. THIS WILL BE DIVIDED AS FOLLOWS:

TRANSPORT, ROADS AND CIVIL ENGINEERING	:	\$813.9	MILLION	(\$813.1 M)
WATER SUPPLY	:	\$602.3	MILLION	(\$642.8 M)
AMENITIES AND RELATED SERVICES (INCLUDING THOSE TO BE PROVIDED BY THE URBAN COUNCIL)	:	\$389.7	MILLION	(\$313.7 M)

FIRE SERVICES : \$ 90.4 MILLION (\$ 89.8 M)

NEXT IN LINE IS GENERAL SERVICES WITH AN ESTIMATED \$1,038.8 MILLION, REPRESENTING 14.2 PER CENT OF TOTAL REVENUE. THIS GROUP INCLUDES:

LAW AND ORDER	:	\$672.8 MILLION (\$603.8 M)
DEFENCE	:	\$132.0 MILLION (\$122.6 M)
ADMINISTRATION	:	\$120.9 MILLION (\$122.5 M)
REVENUE COLLECTION AND FINANCIAL CONTROL	:	\$ 89.4 MILLION (\$ 87.0 M)
PUBLIC RELATIONS	:	\$ 23.7 MILLION (\$ 27.1 M)

ECONOMIC SERVICES WILL TAKE UP AN ESTIMATED \$633.8 MILLION OR 8.6 PER CENT OF THE TOTAL ESTIMATED EXPENDITURE. IT INCLUDES:

COMMUNICATIONS	:	\$250.9 MILLION (\$317.8 M)
AIRPORT AND HARBOUR SERVICES	:	\$182.8 MILLION (\$123.9 M)
OTHER ECONOMIC SERVICES	:	\$141.3 MILLION (\$125.7 M)
PRIMARY PRODUCTS	:	\$ 36.9 MILLION (\$39.5 M)
COMMERCE AND INDUSTRY	:	\$21.9 MILLION (\$19.4 M)

THE NEXT GROUP, COMMON SUPPORTING SERVICES, WILL RECEIVE AN ESTIMATED \$284.8 MILLION, WHICH REPRESENTS 3.9 PER CENT OF TOTAL EXPENDITURE IN 1975/76.

OF THIS, \$218.5 MILLION WILL GO TOWARDS BUILDING DEVELOPMENT AND ELECTRICAL AND MECHANICAL ENGINEERING (\$225.9 M)= \$23.7 MILLION (\$21.8 M) TO GOVERNMENT LAUNCHES AND THE GOVERNMENT DOCKYARD= \$19.0 MILLION TO GOVERNMENT SUPPLIES (\$33.2 M)= AND \$23.6 MILLION TO GOVERNMENT PRINTING (\$23.7 M).

OTHER EXPENDITURE WHICH CANNOT BE ALLOCATED TO ANY OF THESE GROUPS AMOUNTS TO \$231.6 MILLION OR ABOUT 3.2 PER CENT OF TOTAL EXPENDITURE. IT INCLUDES \$185.7 MILLION FOR PASSAGES, TELEPHONES, TELEGRAMS ETC. (\$108.9 M)= AND \$45.9 MILLION FOR GOVERNMENT QUARTERS (\$67.1 M).

THE BALANCE OF THE TOTAL ESTIMATED EXPENDITURE FOR THE COMING YEAR IS MADE UP BY PENSIONS AND GRATUITIES AND THE PUBLIC DEBT WHICH TOGETHER ACCOUNT FOR \$176.4 MILLION (\$152.9 M).

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MODEST INCREASE IN GENERAL RATES PROPOSED
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THE FINANCIAL SECRETARY, MR. PHILIP HADDON-CAVE SAID RATES WOULD NOT BE REVALUED THIS YEAR BUT ONLY DURING 1976, AND NEW ASSESSMENTS WOULD ONLY BE EFFECTIVE FROM APRIL 1, 1977.

HE SAID THE LAST REVALUATION CAME INTO EFFECT IN APRIL 1973 AND AS A MATTER OF GENERAL POLICY REVALUATIONS SHOULD BE CARRIED OUT AT FREQUENT INTERVALS.

+I AM OF THE VIEW THAT THE REVALUATION SHOULD BE POSTPONED FOR YET ANOTHER YEAR,+ HE SAID, +HAVING REGARD TO THE PROBLEM OF REVISING ASSESSMENTS IN THE PRESENT UNCERTAIN ECONOMIC CLIMATE AND, IN PARTICULAR, THE LIKELY RESULTANT SHIFT IN THE BURDEN OF THIS TAX FROM THE NON-DOMESTIC SECTOR TO THE DOMESTIC SECTOR.+

BUT TO RESTORE THE REVENUE WHICH HE HAD ANTICIPATED THIS TIME LAST YEAR WITH ANOTHER REVALUATION EFFECTIVE THIS YEAR, MR. HADDON-CAVE SAID RATES FOR SOME AREAS WOULD HAVE TO BE INCREASED BY AT LEAST 2-1/2 PERCENTAGE POINTS.

HOWEVER, HE SAID, HE PROPOSED TO INCREASE THE GENERAL RATES BY TWO PERCENTAGE POINTS ONLY TO YIELD \$91 MILLION IN 1975-76.

THIS INCREASE, HE EXPLAINED, WOULD RESULT IN ONLY MODEST INCREASES IN THE MONTHLY SUM PAID BY OCCUPIERS OF TENEMENTS.

FOR EXAMPLE, OCCUPIERS OF A SMALL PRIVATE DOMESTIC POST-WAR TENEMENT WITH A MONTHLY RENT OF \$530 (EXCLUSIVE OF RATES) WILL PAY \$5 MORE A MONTH FOR RATES UNDER THE TWO-POINT PERCENTAGE INCREASE. THIS REPRESENTS 0.88 PER CENT OF THE RENT PLUS RATES.

SIMILARLY, A FAMILY IN A SMALL FLAT PAYING A MONTHLY RENT (EXCLUSIVE OF RATES) OF \$1,015 WILL PAY AN EXTRA \$10.20 RATES PER MONTH, OR 0.93 PER CENT MORE.

IN THE CASE OF A LARGE FLAT WITH A MONTHLY RENTAL OF \$4,180 THE EXTRA RATES PER MONTH WILL BE \$40.20, OR 0.9 PER CENT.

THE FINANCIAL SECRETARY SAID THE INCREASE WOULD BE EFFECTED BY A RESOLUTION UNDER THE RATING ORDINANCE, AND A REVENUE PROTECTION ORDER WOULD BE NECESSARY TO ENABLE DEMAND NOTES FOR THE FIRST QUARTER TO GO OUT BEFORE APRIL 1.

AS TO PUBLIC HOUSING ESTATES, IT WAS AGREED LAST YEAR THAT RATES WOULD NOT BE PASSED ON TO TENANTS OF GROUP B (OLD RESETTLEMENT) ESTATES UNTIL 1976-77. THE GOVERNMENT WOULD THEREFORE PROVIDE AN ADDITIONAL \$5.6 MILLION TO THE HOUSING AUTHORITY TO BE PAID OVER IN 1975-76.

/MR. HADDON-CAVE

MR. HADDON-CAVE EXPLAINED THAT RATES WERE BASICALLY A TAX ON OCCUPIERS FOR THE PAYMENT OF LOCAL SERVICES +RATHER THAN A DEMONSTRABLE ABILITY TO PAY AS WITH, SAY, EARNINGS AND PROFITS TAXES.+

+RATES CATCH MANY WHO WOULD OTHERWISE CONTRIBUTE LITTLE OR NOTHING TO THE REVENUE AND THIS SHOULD BE BORNE IN MIND BY THOSE WHO VOCIFEROUSLY COMPLAIN THAT THE DIRECT TAX NET IS CAST ACROSS TOO RESTRICTED A FIELD,+ HE SAID.

THE FOLLOWING ARE TABLES SHOWING THE EFFECT OF THE TWO PERCENTAGE POINT INCREASE IN THE GENERAL RATES TO 11 PER CENT:-

EFFECT OF INCREASE IN THE GENERAL RATE TO 11%

PRIVATE SECTOR

DOMESTIC (POST-WAR)

(1) CLASS	(2) AVERAGE RENT (*) (PER MONTH EXCLUDING RATES)	(3) RATES PER MONTH AT EACH 15%	(4) AVERAGE RENT (PER MONTH INCLUDING RATES) (2)+(3)	(5) RATES PER MONTH AT EACH 2%	(6) (5) AS A % OF (4)
SMALL TENEMENTS	\$ 530	\$ 37.50	\$ 567.50	\$ 5.00	0.88%
LARGE TENEMENTS	695	48.00	743.00	6.40	0.86%
SMALL FLATS	1,015	76.50	1,091.50	10.20	0.93%
MEDIUM FLATS	2,175	144.50	2,319.50	19.30	0.83%
LARGE FLATS	4,180	301.00	4,481.00	40.20	0.90%
HOUSES	6,190	476.00	6,666.00	63.50	0.95%

PRIVATE SECTOR

NON-DOMESTIC
(PRE-WAR AND POST-WAR)

GROUND FLOOR SHOPS	2,320	211.50	2,531.50	28.20	1.11%
OFFICES	3,850	286.50	4,136.50	38.20	0.92%
COMMERCIAL PREMISES	5,610	547.50	6,157.50	73.00	1.19%

/FACTORY PREMISES

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FACTORY PREMISES	5,520	625.00	6,145.00	83.30	1.36%
STORAGE PREMISES	12,475	1,252.50	13,727.50	167.00	1.22%

PUBLIC SECTOR

(HONG KONG HOUSING AUTHORITY (GROUP A) AND HONG KONG HOUSING SOCIETY)

SMALL TENEMENTS	275	23.00	298.00	3.10	1.04%
LARGE TENEMENTS	480	38.00	518.00	5.00	0.97%
SMALL FLATS	580	43.00	623.00	5.80	0.93%
GROUND FLOOR SHOPS	1,235	123.00	1,358.00	16.40	1.21%

(*) AVERAGE FAIR MARKET RENT AS ESTIMATED BY THE COMMISSIONER OF RATING AND VALUATION.

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\$429 MILLION DEFICIT FORECAST IN 1975/76 BUDGET
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THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, TODAY BUDGETED FOR A DEFICIT OF \$429 MILLION FOR THE COMING FINANCIAL YEAR.

THIS HAS ALREADY TAKEN INTO CONSIDERATION THE \$467 MILLION TO BE RAISED THROUGH REVENUE PROPOSALS. (THE DEFICIT FORECAST IN THE 1975-76 DRAFT ESTIMATES IS \$896 MILLION).

HOWEVER, MR. HADDON-CAVE SAID HE DID NOT PROPOSE TO FINANCE THE DEFICIT BY RUNNING DOWN THE FISCAL RESERVES.

IN VIEW OF THIS, HE SAID HE HAD TO LOOK TO VARIOUS FORMS AND SOURCES OF LOAN FINANCE.

ON THE ECONOMIC IMPLICATIONS OF THE BUDGET, THE FINANCIAL SECRETARY SAID THE RATIO OF TOTAL EXPENDITURE FINANCED FROM PUBLIC FUNDS TO THE GROSS DOMESTIC PRODUCT AVERAGED 15 PER CENT OVER THE TEN YEARS TO 1973-74.

+AS A RESULT OF THE VERY LARGE INCREASE IN EXPENDITURE IN 1974-75, THERE WAS A JUMP TO NEARLY 20 PER CENT,+ HE SAID. +IN 1975-76 I EXPECT A FURTHER, BUT SMALL, INCREASE TO A LITTLE OVER 20 PER CENT.+

MR. HADDON-CAVE SAID THAT THE INCREASE IN TOTAL EXPENDITURE FINANCED FROM PUBLIC FUNDS IN 1975-76, AT 7-1/2 PER CENT IN MONEY TERMS, WOULD REFLECT SOME INCREASE IN REAL TERMS, SINCE THE UPWARD TREND OF COSTS, PARTICULARLY IN THE BUILDING AND CONSTRUCTION INDUSTRY, WAS NOW EASING.

+INDEED,+ HE SAID, +IT IS ON THIS INDUSTRY THAT PUBLIC EXPENDITURE IMPINGES MOST HEAVILY.+

HE SAID THAT BECAUSE OF THE PRESENT RECESSION, WHICH IS AFFECTING THE BUILDING AND CONSTRUCTION INDUSTRY AS MUCH AS ANY OTHER, IT WAS APPROPRIATE TO MAINTAIN, AND EVEN INCREASE, THE LEVEL OF SPENDING THROUGH THE PUBLIC WORKS PROGRAMME AND THE HOUSING AUTHORITY.

MR. HADDON-CAVE SAID THAT IN 1974-75 THERE WAS A MAJOR SWING FROM SURPLUS TO DEFICIT, WITH EXPENDITURE RISING MUCH FASTER THAN REVENUE.

HE SAID: +THE IMPACT OF THIS SWING ON THE ECONOMY WAS, OF COURSE, EXPANSIONARY, THOUGH LIMITED BY THE HIGH LEAKAGE INTO IMPORTS.

/+IN 1975-76

+IN 1975-76 THERE IS NO FURTHER INCREASE IN THE ESTIMATED DEFICIT, BUT THE METHOD OF FINANCING IT, THAT IS BY BORROWING RATHER THAN DRAWING ON THE RESERVES, IS DIFFERENT AND EXTRA FISCAL REVENUE IS TO BE RAISED TO FINANCE INCREASED EXPENDITURE,+ MR. HADDON-CAVE SAID.

THEREFORE, THE FINANCIAL SECRETARY THOUGHT THAT THE IMPACT OF THE DEFICIT HE WAS BUDGETING FOR NEXT YEAR WOULD BE MORE EXPANSIONARY THAN THIS YEAR'S DEFICIT. THE REASONS HE GAVE WERE (1) BORROWING OFFSHORE INCREASES THE RESOURCES AVAILABLE TO THE ECONOMY, THAT IS TO SAY, IT ALLOWS AN INCREASE IN THE MONEY SUPPLY AND (2) AS THE INCREASES IN TAXES AND FEES, PARTICULARLY THOSE FALLING ON BUSINESSES, ARE LIKELY TO BE PARTLY AT THE EXPENSE OF SAVINGS, THE NET IMPACT OF THESE INCREASES AND OF THE EXPENDITURE THEREBY FINANCED IS LIKELY TO BE IN THE DIRECTION OF INCREASING DEMAND, AT LEAST IN THE SHORT TERM.

MR. HADDON-CAVE SAID: +THE 1975-76 BUDGET IS, WITHOUT DOUBT, EXPANSIONARY BY COMPARISON WITH 1972-73 AND 1973-74 WHEN WE RAN VERY LARGE SURPLUSES AND WHEN COMPARED WITH ANOTHER OBVIOUS OPTION: FURTHER CUTS IN EXPENDITURE.

+IF I HAD REDUCED DEPARTMENTAL SUBMISSIONS BY MORE THAN A NET \$1,372 MILLION AND SO ELIMINATED THE NEED FOR LOAN FINANCE, I ESTIMATE THAT THE GROSS DOMESTIC PRODUCT WOULD HAVE BEEN REDUCED BY UP TO 1-1/2 PER CENT.+

AS IT IS, MR. HADDON-CAVE SAID, THE BUDGET WILL MAKE A MODEST CONTRIBUTION TO THE MAINTENANCE OF THE LEVEL OF DEMAND AND EMPLOYMENT.

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HIGHER WATER CHARGES PROPOSED
EIGHTY PERCENT OF CONSUMERS NOT AFFECTED
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THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, TODAY ANNOUNCED PROPOSALS FOR AN INCREASE IN WATER CHARGES WHICH, HE STRESSED, WOULD AFFECT ONLY ABOUT 20 PER CENT OF THE DOMESTIC CONSUMERS.

HIS PROPOSED NEW WATER CHARGE STRUCTURE IS AS FOLLOWS:

- * THE PRESENT FREE SUPPLY OF 2,700 GALLONS THROUGH EACH DOMESTIC METER IN A FOUR-MONTH BILLING PERIOD WILL BE MAINTAINED.
- * A CONSUMER USING 14,000 GALLONS OR LESS THROUGH EACH DOMESTIC METER IN A FOUR-MONTH BILLING PERIOD WILL CONTINUE TO PAY THE EXISTING CHARGE OF \$3 PER 1,000 GALLONS, AND 80 PER CENT OF THE DOMESTIC CONSUMERS STAY WITHIN THIS 14,000-GALLON LIMIT AND THEY WILL NOT PAY ANY MORE.
- * A CONSUMER USING MORE THAN 14,000 GALLONS WITHIN THE BILLING PERIOD, HE WILL PAY, AS AT PRESENT, THE CURRENT RATE OF \$3 PER 1,000 GALLONS FOR WATER CONSUMED UP TO THAT LEVEL. FOR WATER CONSUMED ABOVE THIS 14,000 GALLON LEVEL, HE WILL HAVE TO PAY ACCORDING TO THE NEW RATE, THAT IS, \$6 PER 1,000 GALLONS.

THESE CONSUMERS REPRESENT ONLY 20 PER CENT OF THE TOTAL, BUT USE ABOUT TWO-THIRDS OF THE DOMESTIC SUPPLY.

THE FINANCIAL SECRETARY SAID: +THEY ARE THE TAKERS OF BATHS, RATHER THAN SHOWERS, AND THE OWNERS OF WASHING MACHINES AND WASHING-UP MACHINES, BOTH OF WHICH CONSUME FAR MORE WATER THAN DOES WASHING BY HAND.

+IN OTHER WORDS, THEY ARE A GROUP WHICH CAN AFFORD TO PAY FOR THE STRAIN THEY IMPOSE ON OUR EVER MORE EXPENSIVE SUPPLY SYSTEM.+

HE SAID THESE PROPOSALS WOULD YIELD AN EXTRA \$22 MILLION IN 1975-76 AFTER ALLOWING FOR LAGS IN THE BILLING SYSTEM.

MR. HADDON-CAVE ALSO CITED EXAMPLES OF HOW THE NEW CHARGES WOULD AFFECT THE CONSUMERS.

THOSE NOW PAYING \$34 OR LESS WOULD PAY NO MORE THAN THEY ARE NOW. BUT IF A FAMILY USES 60 GALLONS A HEAD A DAY, IT WILL PAY \$190 RATHER THAN ITS PRESENT \$112.

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THE BILLS OF THOSE USING 100 GALLONS A HEAD A DAY WILL RISE FROM \$190 TO \$346. THE FLAT RATE CHARGE FOR CIVIL SERVANTS ON UNMETERED SUPPLY WILL ALSO HAVE TO BE RAISED, POSSIBLY TO A PERCENTAGE OF RENT.

HE SAID HE COULD NOT PROPOSE A MORE SOPHISTICATED FORM OF DIFFERENTIAL PRICING BECAUSE OF THE LIMITATION OF THE PRESENT BILLING SYSTEM. *DUT PLANS ARE ALREADY IN HAND FOR COMPUTERISING THE ACCOUNTS.*

HE ADDED THAT IN 1977-78, IT SHOULD BE READY TO SUBDIVIDE THE TOP \$6 BRACKET AND CHARGE THE VERY HIGH USERS OF WATER AT AN EVEN STEEPER RATE.

HE WENT ON TO SAY THAT A DIFFERENTIAL PRICING SYSTEM ON THE LINES HE HAD PROPOSED MIGHT BE MORE DIFFICULT TO APPLY TO NON-DOMESTIC USERS. IT COULD BE ARGUED THAT IT WOULD PENALISE LARGE SCALE ENTERPRISES AND OTHER ENTERPRISES IN CERTAIN INDUSTRIES WHICH, ALTHOUGH THEY USE WATER ON A LARGE SCALE, ARE ESSENTIAL TO THE ECONOMY.

NOR DO I PROPOSE ANY INCREASE IN THE PRESENT FLAT RATE CHARGE OF \$4 A THOUSAND GALLONS, AT LEAST UNTIL NEXT YEAR. AND I DO NOT PROPOSE TO CHANGE THE RATES CHARGED FOR OTHER PURPOSES, HE SAID.

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INCREASE IN POSTAL CHARGES PROPOSED
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THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, TODAY PROPOSED THAT THE INLAND LETTER RATE BE RAISED, WITH EFFECT FROM APRIL 1 THIS YEAR, TO 20 CENTS AN OUNCE WITH CORRESPONDING, BUT NOT QUITE SO STEEP, INCREASES FOR HEAVIER LETTERS.

HE POINTED OUT THAT IT WAS TO THE CREDIT OF THE PRESENT POSTMASTER GENERAL AND HIS PREDECESSORS THAT HONG KONG HAD MAINTAINED A BASIC 10 CENTS INLAND LETTER RATE SINCE 1949, STRESSING AT THE SAME TIME THAT THE PROPOSED HIGHER RATES WOULD BE LOWER THAN FOR MANY OTHER COUNTRIES IN THE REGION.

THE PROPOSED INCREASES FOR HEAVIER LETTERS ARE AS FOLLOWS :-

	<u>PRESENT</u>	<u>PROPOSED</u>
	\$	\$
1 OZ.	0.10	0.20
2	0.30	0.40
4	0.40	0.50
8	0.80	1.00
1 LB.	1.50	2.00
2	2.50	4.00
4	4.00	6.00

THE FINANCIAL SECRETARY ALSO PROPOSED, ON THE ADVICE OF THE POSTMASTER GENERAL, THAT THE DIFFERENTIAL BETWEEN THE RATE FOR LETTERS AND POST CARDS BE RESTORED BY INCREASING THE LATTER TO 15 CENTS ONLY.

AS A RESULT OF THE INCREASE IN THE INLAND RATE, HE ADDED, THERE WILL BE AN INCREASE IN THE SURFACE RATE TO CHINA, MACAU AND TAIWAN. THE BASIC RATE FOR THE FIRST OUNCE WILL BE RAISED FROM 20 CENTS TO 30 CENTS WITH APPROPRIATE INCREASES FOR HEAVIER LETTERS. THESE INCREASES ARE :-

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	<u>PRESENT</u>	<u>PROPOSED</u>
	\$	\$
1 OZ.	0.20	0.30
2	0.40	0.50
4	0.50	0.65
8	1.10	1.30
1 LB.	2.10	2.50
2	3.50	4.50
4	5.50	6.50

AS FOR OTHER RATES FOR OVERSEAS MAIL, MR. HADDON-CAVE DISCLOSED THAT THE POSTMASTER GENERAL WAS REVIEWING THEM IN THE LIGHT OF THE NEW CRITERIA ESTABLISHED BY THE LAUSANNE CONVENTION OF THE UNIVERSAL POSTAL UNION.

THE FINANCIAL SECRETARY ALSO PROPOSED THAT THE COST OF REGISTERING MAIL, BOTH INLAND AND OVERSEAS ITEMS, BE INCREASED FROM THE PRESENT CHARGE OF \$1 TO \$2.

IT IS ESTIMATED THAT THESE INCREASES IN POSTAL CHARGES WILL BRING IN AN ADDITIONAL REVENUE OF \$17 MILLION FOR NEXT YEAR.

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CONSIDERABLE POTENTIAL FOR ECONOMIC GROWTH IN 1976

HONG KONG'S OVERALL ECONOMY IS LIKELY TO PICK UP SPEED AGAIN IN 1976/77 FOLLOWING A VIRTUAL STANDSTILL IN 1974 AND 1975.

ACCORDING TO THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, THE POTENTIAL FOR ECONOMIC GROWTH OVER THE THREE-YEAR FORECAST PERIOD 1976/77 TO 1978/79 APPEAR TO BE VERY CONSIDERABLE, AND RAPID GROWTH OVER THESE YEARS COULD COMPENSATE FOR THE LACK OF GROWTH LAST YEAR AND THIS YEAR.

REVIEWING HONG KONG'S ECONOMIC PROSPECTS IN THE LONGER TERM, THE FINANCIAL SECRETARY SAID HE ADHERED TO HIS BELIEF THAT A SEVEN PER CENT REAL GROWTH RATE FOR THE ECONOMY WAS A REALISTIC ASSUMPTION FOR BUDGETARY PLANNING PURPOSES.

+BUT TO ALLOW A LITTLE TIME FOR THE GROWTH RATE TO PICK UP I AM ASSUMING FIVE PER CENT IN 1976 AND SEVEN PER CENT THEREAFTER,+ HE SAID.

MR. HADDON-CAVE THOUGHT THAT A RAPID GROWTH RATE DURING THE FORECAST YEARS WOULD BE AN UNDULY OPTIMISTIC BASIS FOR BUILDING A REVENUE AND EXPENDITURE FORECAST, ALTHOUGH IT WAS POSSIBLE THAT SUCH AN ABOVE AVERAGE RATE OF GROWTH WOULD TAKE PLACE.

MORE REALISTICALLY, HE SAID IT MIGHT WELL BE QUITE DIFFICULT FOR HONG KONG TO MAINTAIN THE SEVEN TO EIGHT PER CENT REAL GROWTH RATES ACHIEVED IN THE PERIOD 1966-73 AS HONG KONG NOW FACED STIFFER COMPETITION IN MANY OF ITS TRADITIONAL EXPORT LINES AND MARKETS.

+NOR CAN WE DISCOUNT THE POSSIBILITY THAT THE GROWTH IN WORLD TRADE WILL NOT REGAIN THE HISTORICALLY VERY HIGH PRE-1974 RATES.+

YET THE FINANCIAL SECRETARY WAS CONFIDENT THAT THE ECONOMY WOULD BE IN A POSITION QUICKLY TO TAKE ADVANTAGE OF WHATEVER EXPANSION OF WORLD TRADE WHEN IT OCCURRED.

VIEWING THE ECONOMIC PROSPECTS IN THE SHORT TERM, MR. HADDON-CAVE FORECAST THAT THE GROWTH RATE OF THE GROSS DOMESTIC PRODUCT IN REAL TERMS IN 1975 WOULD, IN EFFECT, AGAIN BE ZERO LIKE IN THE PREVIOUS YEAR.

+IT COULD EVEN BE NEGATIVE TO A SMALL EXTENT,+ HE SAID, STRESSING THIS FORECAST WAS BASED ON A WHOLE RANGE OF ASSUMPTIONS, INCLUDING THE VIEW THAT OUR EXPORTS WILL FALL, IN QUANTITY TERMS, BY UP TO FIVE PER CENT AND IMPORTS BY ABOUT THE SAME AMOUNT.

THE FINANCIAL SECRETARY FORECAST THAT THE VISIBLE TRADE DEFICIT WOULD FALL FROM LAST YEAR'S RECORD \$4,100 MILLION TO UNDER \$3,000 MILLION, IN MONEY TERMS, TO A LITTLE BELOW THE LEVEL FOR 1973.

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THE MONEY SUPPLY, HE SAID, WOULD LIKELY INCREASE AT A SLOWER RATE IN 1975 THAN IN 1974. +TO A CONSIDERABLE EXTENT, THIS REFLECTS THE SLOWING DOWN OF INFLATION AND SHOULD NOT BE TAKEN TO MEAN THAT LIQUIDITY WILL BECOME GENERALLY TIGHTER.

+NOR SHOULD IT BE ASSUMED THAT ANY SLOWING DOWN IN THE GROWTH OF MONEY SUPPLY WILL, IN ITSELF, BRING ABOUT AN INCREASE IN INTEREST RATES; THESE WILL CONTINUE TO MOVE LARGELY IN SYMPATHY WITH INTEREST RATES ABROAD.+

IN GENERAL, MR. HADDON-CAVE PREDICTED THAT INCOME AVAILABLE FOR CONSUMPTION AND INVESTMENT WOULD BE MUCH THE SAME, IN MONEY TERMS, AS LAST YEAR.

CONSUMER PRICES WOULD CONTINUE TO INCREASE, AND HE PREDICTED THAT, EVEN ALLOWING FOR THE UTILISATION OF HOUSEHOLD SAVINGS, REAL PRIVATE CONSUMPTION EXPENDITURE WOULD FALL, PERHAPS BY UP TO FIVE PER CENT.

+THIS REFLECTS THE LIKELIHOOD THAT WAGES AND SALARIES, AS WELL AS OTHER INCOMES, WILL INCREASE VERY MODESTLY THIS YEAR, IN MONEY TERMS, AS WELL AS THE EFFECTS OF A LOWER LEVEL OF EMPLOYMENT AND MORE SHORT TIME WORKING.+

PRIVATE INVESTMENT EXPENDITURE ALSO SEEMED LIKELY TO FALL, IN REAL TERMS. PRIVATE SECTOR DEMAND FOR BUILDING AND CONSTRUCTION WORK HAD ALREADY FALLEN FROM THE PEAK IN 1973 AND THERE WAS NO SIGN YET OF ANY RECOVERY, DESPITE THE EASING IN BUILDING COSTS SINCE MID-1974.

THERE HAD BEEN SUGGESTIONS THAT ASSURANCES ON FUTURE RENT CONTROL POLICIES AND RELIEF FROM THE PAYMENT OF RATES ON VACANT DOMESTIC PREMISES WOULD MATERIALLY INFLUENCE THE CLIMATE OF DEMAND FOR DOMESTIC PREMISES. +I HAVE MY DOUBTS FOR WE ARE NOW WITNESSING THE INEVITABLE REACTION TO THE EARLIER BOOM= YET BOTH SUGGESTIONS ARE BEING CONSIDERED BY THE GOVERNMENT.+

HOWEVER, HE STRESSED THAT GOVERNMENT EXPENDITURE ON BOTH CONSUMPTION AND INVESTMENT WOULD CONTINUE TO INCREASE, IN MONEY TERMS, AND THIS WOULD REFLECT LIMITED REAL GROWTH.

THE FINANCIAL SECRETARY POINTED OUT THAT THE VIEW HE HAD TAKEN OF THE HONG KONG ECONOMY 1975 WAS A VIEW OF THE YEAR AS A WHOLE AND CONCEALED MOVEMENTS WITHIN THE YEAR.

HE ADDED THAT HE WAS NOT EXPECTING ANY SUBSTANTIAL UPTURN IN OVERSEAS DEMAND THIS YEAR, BUT HE ASSUMED THAT THE ECONOMY WOULD SHOW SOME SIGNS OF INCREASED ACTIVITY TOWARDS THE END OF THE YEAR.

MOVING ON

MOVING ON TO THE WORLD ECONOMY, HE SAID IT WAS IN RECESSION AT THE BEGINNING OF 1975. THE MAJOR ECONOMIES OF THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (O.E.C.D.) HAD, ON AVERAGE, EXHIBITED LITTLE OR NO GROWTH IN OUTPUT IN 1974.

THE SYMPTOMS OF RECESSION INCLUDED A RAPIDLY RISING LEVEL OF UNEMPLOYMENT, PARTICULARLY MARKED IN SOME OF HONG KONG'S MAJOR MARKETS, TOGETHER WITH FALLS IN THE QUANTITIES OF SOME TRADE FLOWS.

AT THE SAME TIME, THE EASING OF DEMAND PRESSURES HAD LED TO A FALL IN THE PRICES OF RAW MATERIALS, OTHER THAN OIL. INTEREST RATES, TOO, HAD DECLINED SHARPLY BY THE END OF 1974.

DUE TO THE WEAKNESS OF DEMAND AND ALSO BECAUSE INFLATIONARY PRESSURES WERE BEGINNING TO SHOW SIGNS OF EASING, THE STANCE OF POLICY IN MOST COUNTRIES HAD NOW SHIFTED IN THE DIRECTION OF EXPANSION. +BUT THE FEAR OF INFLATION AND THE BALANCE OF PAYMENT PROBLEMS THAT DEVELOPED IN THE WAKE OF THE HUGE INCREASE IN OIL PRICES HAD COMBINED TO RESTRICT THE SCOPE FOR EXPANSIONARY POLICIES.+

ALL IN ALL, THE FINANCIAL SECRETARY THOUGHT IT REASONABLE TO LOOK FORWARD TO THE BEGINNING OF A RECOVERY IN WORLD OUTPUT AND TRADE BEFORE THE END OF 1975. +BUT BECAUSE THE FIRST HALF OF 1975 IS LIKELY TO CONTINUE DEPRESSED, THE YEAR AS A WHOLE IS UNLIKELY TO SHOW MUCH GROWTH OF OUTPUT OR TRADE.+

MR. HADDON-CAVE ALSO SPOKE ON THE ECONOMIC AND FINANCIAL BACKGROUND IN 1973 AND 1974.

IN TERMS OF REAL GROWTH, HE SAID 1973 WAS A REMARKABLY GOOD YEAR FOR THE ECONOMY. THE GROSS DOMESTIC PRODUCT IN REAL TERMS INCREASED BY 12-1/2 PER CENT OR AT DOUBLE THE AVERAGE ANNUAL RATE OVER THE PREVIOUS THREE YEARS.

IN PER CAPITA TERMS THE INCREASE WAS TEN PER CENT IN 1973 COMPARED WITH AN AVERAGE ANNUAL RATE OF FOUR PER CENT OVER THE PREVIOUS THREE YEARS.

INCOME DERIVED FROM VISIBLE EXPORTS WAS EQUIVALENT TO ALMOST HALF THE GROSS DOMESTIC PRODUCT. A MAJOR FACTOR IN THIS GROWTH WAS THE BUOYANCY OF OVERSEAS DEMAND, BUT IT WAS ACHIEVED IN THE FACE OF WIDE FLUCTUATIONS IN EXCHANGE RATES AND AN EXCEPTIONAL RATE OF INFLATION ABROAD WHICH LED TO A DETERIORATION IN OUR TERMS OF TRADE.

BY THE END OF 1973 AND THE EARLY PART OF 1974 IT WAS CLEAR THAT THE RAPID GROWTH IN 1973 COULD NOT BE SUSTAINED, EITHER IN THE WORLD ECONOMY OR IN OUR OWN, HE SAID.

THE OIL CRISIS WAS THE SINGLY MOST IMPORTANT REASON FOR THIS. WHILE THE THREAT OF A SHORTAGE OF SUPPLIES WAS SOON LIFTED, THE REPERCUSSIONS OF THE 350 PER CENT INCREASE IN CRUDE OIL PRICES BETWEEN SEPTEMBER 1973 AND JANUARY 1974 HAD CONTINUED TO SPREAD THROUGHOUT THE WORLD AS A HIGHER PROPORTION OF NON-OIL PRODUCING COUNTRIES' FOREIGN EXCHANGE EARNINGS HAD BEEN APPLIED TO THEIR FUEL BILLS.

IN ADDITION, THE WEAKNESS IN DEMAND IN HONG KONG'S MAJOR OVERSEAS MARKETS WAS PARTICULARLY NOTICEABLE IN THE LATTER PART OF THE YEAR AND RESULTED IN A FALL IN THE ACTUAL VOLUME OF OUR EXPORTS OF SEVEN PER CENT OVER THE YEAR AS A WHOLE, INTERRUPTING A PROLONGED GROWTH TREND DATING FROM AT LEAST 1959.

PRIVATE CONSUMPTION EXPENDITURE DURING 1974 INCREASED BY 18 PER CENT IN MONEY TERMS, ONLY A LITTLE LESS THAN WAS FORECAST. GOVERNMENT CONSUMPTION EXPENDITURE, HOWEVER, INCREASED BY 22-1/2 PER CENT IN MONEY TERMS OR BY MORE THAN THE 14 PER CENT ANTICIPATED.

THE RAPID TURNROUND UNDERGONE BY THE WORLD ECONOMY, FROM BOOM IN 1973 TO RECESSION IN 1974, BROUGHT ABOUT A SHARP SLOWDOWN IN THE HONG KONG ECONOMY, THROUGH A SLACKENING DEMAND FOR OUR EXPORTS.

HE SAID THE SAME FORCES WERE ALSO RESPONSIBLE FOR THE EASY SUPPLY POSITION AND THE FALLING PRICES OF MANY COMMODITIES. THUS, WHILE MANUFACTURING EMPLOYMENT FELL BY 11 PER CENT IN THE 12 MONTHS ENDING DECEMBER 1974 AND MONEY WAGE RATES HARDLY ROSE AT ALL, CONSUMERS BEGAN TO FEEL THE BENEFIT OF STEADIER PRICES.

THE FALL IN DOMESTIC EXPORTS, IN QUANTITY TERMS, WAS ACCOMPANIED BY A REDUCTION IN THE QUANTITIES IMPORTED OF RAW MATERIALS, CONSUMER GOODS AND, TO AN EXTENT, FOODSTUFFS.

IN 1974, THE MONEY SUPPLY INCREASED AT ABOUT THE SAME RATE AS THE GROSS DOMESTIC PRODUCT, IN CURRENT PRICE TERMS, BY 12-1/2 PER CENT. ADVANCES AND LOANS FOR TRADE AND INDUSTRY INCREASED, AT ABOUT THE SAME RATE AS IN 1973, BUT THEY LEVELLED-OFF IN THE SECOND HALF OF THE YEAR.

INTEREST RATES BEGAN TO FALL TOWARDS THE END OF THE YEAR, IN LINE WITH MOVEMENTS ABROAD. THIS HELPED TO SUPPORT STOCK MARKET PRICES WHICH HAD BEEN FALLING FOR MOST OF THE YEAR IN THE LIGHT OF GENERALLY UNFAVOURABLE SHORT-TERM WORLD TRADING PROSPECTS.

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PROPOSALS TO RAISE EXTRA REVENUE OUTLINED
FOR 1976-79 FORECAST PERIOD
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THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, TODAY OUTLINED SEVERAL PROPOSALS FOR RAISING EXTRA REVENUE TO FINANCE WHAT HE DESCRIBED AS +ACCEPTABLE RATE OF EXPENDITURE+ FOR THE THREE-YEAR FORECAST PERIOD OF 1976-79.

THESE MEASURES INCLUDED THE APPOINTMENT OF AN INLAND REVENUE ORDINANCE REVIEW COMMITTEE, THE INTRODUCTION OF DIVIDENDS WITHHOLDING TAX AND REVALUATION OF PROPERTIES IN RELATION TO RATING.

IN HIS BUDGET SPEECH TO THE LEGISLATIVE COUNCIL, HE NOTED THAT THE PRESENT TAX SYSTEM WAS UNLIKELY TO BE SUFFICIENTLY PRODUCTIVE EVEN FOR A CAREFULLY CONTROLLED EXPANSION OF THE GOVERNMENT'S SERVICES AND IMPLEMENTATION OF CAPITAL WORKS PROGRAMMES.

+AND AS THERE MUST BE A LIMIT ON BORROWINGS, I MUST NOW INDICATE THE WAYS IN WHICH I THINK THE EXTRA FISCAL REVENUE REQUIRED MUST BE FOUND, BUT WITHOUT BEING TOO SPECIFIC AS TO TIMING AND NUMBERS.+

ON THE PROPOSED APPOINTMENT OF THE REVIEW COMMITTEE, MR. HADDON-CAVE POINTED OUT THAT IN HIS BUDGET SPEECHES IN 1973 AND 1974, HE HAD SAID THAT HE HOPED TO INTRODUCE A BILL TO AMEND THE INLAND REVENUE ORDINANCE TO RESTORE THE AMBIT OF THE PROFITS TAX CHARGE IN RESPECT OF BUSINESSES GENERALLY AND TO WIDEN THE DEFINITION OF CHARTER HIRE SO AS TO MAKE A LARGER PROPORTION OF RESIDENT SHIPOWNERS' PROFITS CHARGEABLE TO HONG KONG PROFITS TAX.

A BILL WAS INDEED DRAFTED LAST YEAR BUT IT HAD BEEN DECIDED NOT TO PROCEED WITH THE BILL, AND FOR THE TIME BEING THERE THE MATTER MUST REST.

HE PROPOSED THAT THE NEXT STEP SHOULD BE THE APPOINTMENT OF A COMMITTEE TO REVIEW THE ORDINANCE. +THE TERMS OF REFERENCE WILL BE SO DRAFTED AS TO MAKE IT CLEAR THAT THE COMMITTEE WILL BE CONCERNED WITH BASIC PRINCIPLES RATHER THAN ADMINISTRATIVE DETAILS.+

THE FINANCIAL SECRETARY HOPED THAT THE APPOINTMENT, MEMBERSHIP AND TERMS OF REFERENCE OF THE COMMITTEE COULD BE ANNOUNCED AROUND THE MIDDLE OF 1976. +THE PUBLIC WILL, OF COURSE, BE GIVEN AMPLE OPPORTUNITY TO MAKE THEIR VIEWS KNOWN TO THE COMMITTEE.+

ON DIVIDENDS WITHHOLDING TAX, HE SAID PENDING THE REPORT OF THE PROPOSED INLAND REVENUE ORDINANCE REVIEW COMMITTEE AND THE INTRODUCTION OF THE LEGISLATION NECESSARY TO GIVE EFFECT TO WHATEVER RECOMMENDATIONS THEY MIGHT MAKE, THIS TAX WOULD BE ONE MEASURE WHICH COULD BE INTRODUCED FOR THE YEAR OF ASSESSMENT 1976-77.

THIS TAX, BEING MODEST AND REASONABLE IN NATURE, COULD BE INTRODUCED BY WAY OF AN AMENDMENT TO THE INLAND REVENUE ORDINANCE. (A SUMMARY OF THE MAIN FEATURES OF THE TAX IS GIVEN IN APPENDIX (6) OF THE PRINTED VERSION OF THE BUDGET SPEECH.)

ON RATING, MR. HADDON-CAVE SAID HE HAD ALREADY MENTIONED THAT THE NEXT REVALUATION OF PROPERTIES WOULD BE UNDERTAKEN IN 1976 TO COME INTO EFFECT ON APRIL 1, 1977. +TO PROTECT THE REVENUE, A FURTHER UPWARD MOVEMENT OF THE GENERAL RATE IN 1976-77 MAY, THEREFORE, BE NECESSARY.+

REFERRING TO THE BASIS OF ASSESSMENT OF PROPERTY TAX, HE SAID QUITE APART FROM THE ADMINISTRATIVE DESIRABILITY OF PROVIDING A SEPARATE ROLL OF PROPERTY OWNERS, VALUES FOR PROPERTY TAX PURPOSES SHOULD BE ASSESSED INDEPENDENTLY OF THE RATING VALUATION LISTS.

THIS WOULD ENABLE SUCH VALUES TO BE FIXED IN LINE WITH CURRENT MARKET RENTAL VALUES AND NOT ON A TONE OF THE LIST BASIS AS PROVIDED FOR IN THE RATING ORDINANCE, AND ENABLE RESTRICTED RENTS TO BE TAKEN INTO ACCOUNT IN THE ASSESSMENTS.

+AS THE NEXT REVALUATION FOR RATING PURPOSES IS TO BE POSTPONED UNTIL 1976, THE COMMISSIONER FOR RATING AND VALUATION SHOULD HAVE TIME TO PROVIDE SEPARATE VALUATIONS FOR A NEW PROPERTY TAX ROLL WHICH WILL BE THE BASIS FOR THIS TAX IN 1976-77 AND MAKE IT MORE PRODUCTIVE.+

FOR OTHER POSSIBILITIES, HE SAID HE HAD IN MIND THE REVENUE IMPLICATIONS OF AN EVENTUAL EXTENSION OF THE SCOPE OF THE BETTING DUTY ORDINANCE TO NEW FORMS OF AUTHORISED OFF-COURSE BETTING.

HE HAD ALSO LOOKED INTO THE POSSIBILITY OF A PAYROLL TAX AND DUTIES ON A WIDER RANGE OF SO-CALLED LUXURY GOODS. +BUT THESE THREE IDEAS INVOLVE DIFFICULTIES AND DANGERS WHICH, IN MY VIEW, RULE THEM OUT FOR THE PRESENT.+

IN CONCLUSION, THE FINANCIAL SECRETARY NOTED THAT IF THE YEAR OF THE TIGER WAS DOUBLY DEPRESSING BECAUSE IT DID NOT REMOTELY RESEMBLE ANYONE'S PRECONCEPTIONS IT WOULD NOT BE EASY TO HAVE ANY PRECONCEPTIONS AT ALL ABOUT THE COMING YEAR.

+SO, WHEREAS THE KEYNOTE OF THE 1974 BUDGET WAS CAUTION, THE KEYNOTE OF THE BUDGET FOR THE YEAR OF THE RABBIT IS BELIEVED TO HERALD BETTER THINGS TO COME IN THE YEAR OF THE DRAGON. AND I AM SURE IT WILL, PROVIDED THAT, IN THE COMING MONTHS, WE TAKE PARTICULAR CARE WITH THE ECONOMY ON THE HEALTH OF WHICH ALL DEPENDS,+ HE ADDED.

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GOVERNMENT TO CONTINUE EXPANDING SOCIAL SERVICES

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GOVERNMENT EXPENDITURE ON BOTH CONSUMPTION AND INVESTMENT WILL CONTINUE TO INCREASE, IN MONEY TERMS, DESPITE A POSSIBLE FALL OF 5 PER CENT IN THE PRIVATE SECTOR IN THE COMING FINANCIAL YEAR, THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, SAID TODAY.

IN HIS BUDGET SPEECH, MR. HADDON-CAVE SAID THAT THIS WOULD REFLECT LIMITED REAL GROWTH.

AT \$6,615 MILLION, THE DRAFT ESTIMATES OF EXPENDITURE FOR 1975-76 REPRESENTS AN INCREASE OF \$431 MILLION OR 7 PER CENT ON THE REVISED ESTIMATE FOR 1974-75, AFTER ALLOWING FOR EXPENDITURE INCURRED ON BEHALF OF THE URBAN COUNCIL AND THE HOUSING AUTHORITY OF \$270 MILLION IN 1974-75.

IT IS SUBSTANTIALLY LOWER THAN INCREASES IN RECENT YEARS. IN 1974-75, THE INCREASE WAS 33 PER CENT, EXCLUDING THE TRANSFER OF \$300 MILLION TO THE MASS TRANSIT FUND IN 1973-74 AS WELL AS EXPENDITURE INCURRED ON BEHALF OF THE URBAN COUNCIL AND THE HOUSING AUTHORITY, WHILE THE INCREASE IN 1973-74 WAS 26 PER CENT.

THE FINANCIAL SECRETARY SAID THAT THE PROVISION FOR EXPENDITURE ON RECURRENT SERVICES SHOWED IN THE DRAFT ESTIMATES WAS \$4,618 MILLION.

THIS REPRESENTS AN INCREASE OF \$407 MILLION OR 10 PER CENT ON THE REVISED ESTIMATE FOR 1974-75. BUT IT IS SUBSTANTIALLY LOWER THAN IN RECENT YEARS. IN 1974-75 THE INCREASE WAS 30 PER CENT WHILE THE AVERAGE ANNUAL INCREASE IN THE THREE YEARS ENDING 1973-74 WAS 22 PER CENT.

MR. HADDON-CAVE SAID HE DID NOT PROPOSE THIS YEAR TO ANALYSE IN DETAIL THE REASONS FOR THE INCREASE IN RECURRENT EXPENDITURE BUT, INSTEAD, TO DRAW ATTENTION TO NEW DEVELOPMENTS WHICH HAD BEEN PROVIDED FOR.

HE SAID: +PROVISION HAS BEEN INCLUDED TO BRING AN ADDITIONAL 19,000 SECONDARY SCHOOL PLACES INTO THE PUBLIC SECTOR TO ALLOW THE INCREASED INTAKES AT FORM I IN PREVIOUS YEARS TO PROGRESS THROUGH THE SCHOOLS= AND TO MAINTAIN SUFFICIENT PLACES IN FORM I FOR 50 PER CENT OF THOSE LIKELY TO APPLY.+

CONTINUING THE EMPHASIS ON TECHNICAL EDUCATION, HE SAID, THE PROVISION WOULD ALLOW FOR THE OPENING OF TWO NEW TECHNICAL INSTITUTES WITH A COMBINED CAPACITY OF 2,400 FULL TIME STUDENTS AND FOR THE PLANNED EXPANSION OF THE POLYTECHNIC TO PROVIDE FOR A FURTHER 400 FULL TIME STUDENTS.

/+THE PROVISION

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+THE PROVISION FOR SOCIAL WELFARE ALLOWS FOR AN INCREASE IN THE NUMBER OF CASES ELIGIBLE FOR PUBLIC ASSISTANCE AND FOR DISABILITY AND INFIRMITY ALLOWANCES,+ MR. HADDON-CAVE SAID.

THE FINANCIAL SECRETARY ADDED THAT THE NEW PRINCESS MARGARET HOSPITAL, TWO POLYCLINICS AND A SPECIALIST CLINIC WOULD BE OPENED.

THE TUNG WAH GROUP OF HOSPITALS WOULD BE SUBVENTED FOR THE OPENING OF THE NEW CENTENARY BLOCK AND THE UNITED CHRISTIAN HOSPITAL TO ENABLE IT TO OPERATE AT FULL CAPACITY FOR A FULL YEAR.

HE SAID: + ALLOWANCE HAS BEEN MADE FOR OTHER SOCIAL WELFARE AND MEDICAL SUBVENTED ORGANIZATIONS TO MEET INCREASED PRICES, ALTHOUGH THEY WILL BE EXPECTED TO ECONOMISE AS WELL.+

MR. HADDON-CAVE SAID: +WE HAVE, UNFORTUNATELY, HAD TO ALLOW FOR A FAIRLY DRAMATIC INCREASE IN THE PRISON POPULATION, AND ALSO FOR A SUBSTANTIAL INCREASE IN THE STRENGTH OF THE POLICE FORCE.

TO CONTAIN THE GROWTH OF EXPENDITURE ON PERSONAL EMOLUMENTS, HE SAID, THE NET INCREASE IN THE STRENGTH OF THE ESTABLISHMENT OF THE CIVIL SERVICE AS A WHOLE WOULD BE LIMITED TO 1,600.

THE ESTABLISHMENT OF THE CIVIL SERVICE AS SHOWN IN THE DRAFT ESTIMATES REPRESENTED ONLY AN INCREASE OF 0.7 PER CENT ON THE ESTABLISHMENT THIS TIME LAST YEAR.

+THIS LIMITING OF INCREASES IN THE ESTABLISHMENT TO ESSENTIAL AREAS ONLY,+ HE SAID, +WILL BE CONTINUED IN 1975-76.+

+PROVISION FOR THE CIVIL SERVICE (INCLUDING ALLOWANCES, BUT EXCLUDING PENSIONS) WILL BE REDUCED BY THIS MEANS TO 39 PER CENT OF TOTAL RECURRENT PROVISIONS, COMPARED WITH 40 PER CENT FOR 1974-75 AND AN AVERAGE OF 42 PER CENT OVER THE THREE YEARS ENDING 1973-74.+

THE ESTIMATED CAPITAL EXPENDITURE FOR 1975-76 IS \$1,997 MILLION. IT REPRESENTS AN INCREASE OF ONLY \$24 MILLION ON THE REVISED ESTIMATES FOR 1974-75.

THIS FIGURE INCLUDES \$556 MILLION FOR PUBLIC WORKS PROGRAMME ON NEW TOWNS AND HOUSING AND \$1,070 MILLION FOR OTHER PUBLIC WORKS PROGRAMME.

HOWEVER, THE FINANCIAL SECRETARY EMPHASISED THAT THE INCREASE IN 1974-75 WAS 40 PER CENT AND THE AVERAGE ANNUAL INCREASE OVER THE THREE YEARS ENDING 1973-74 WAS 37 PER CENT, EXCLUDING TRANSFERS TO THE MASS TRANSIT FUND IN BOTH 1972-73 (\$500 MILLION) AND 1973-74 (\$300 MILLION).

/DESPITE THE

DESPITE THE POSTPONEMENT OF CERTAIN WORKS, MR. HADDON-CAVE POINTED OUT THAT PROVISION HAD BEEN INCLUDED FOR NEW CONTRACTS INVOLVING EXPENDITURE OF \$140 MILLION IN 1975-76 FOR THE PUBLIC WORKS PROGRAMME, INCLUDING BUILDING WORKS AT THE AIRPORT AND ON PRISONS, ROAD WORKS TO REDUCE CONGESTION WHEN THE MASS TRANSIT RAILWAY IS BEING BUILT AND WORKS RELATED TO THE HIGH ISLAND WATER SCHEME.

HE SAID: +CONTRACTS INVOLVING EXPENDITURE OF \$111 MILLION IN 1975-76 WILL BE LET IN THE NEW TOWNS.

+PROVISION OF \$41 MILLION HAS BEEN INCLUDED FOR HOUSING ESTATES UNDER WAY IN THE URBAN AREA AS PART OF THE PUBLIC WORKS PROGRAMME AND \$25 MILLION HAS BEEN INCLUDED AS A TRANSFER TO THE DEVELOPMENT LOAN FUND TOWARDS THE HOUSING AUTHORITY'S EXPENDITURE ON NEW HOUSING PROJECTS.+

AS REGARDS OTHER CAPITAL EXPENDITURE, MR. HADDON-CAVE SAID, PROVISION HAD BEEN INCLUDED TO ALLOW FOR CONTRACTS TO BE LET FOR THE POLYTECHNIC, FOR SUBVENTED SECONDARY SCHOOLS, FOR IMPLEMENTING PART OF THE APPROVED PROGRAMME FOR INTRODUCING ECONOMIES THROUGH A GREATER USE OF ELECTRONIC DATA PROCESSING, FOR THE DEVELOPMENT OF LICENSED AREAS FOR HOUSING THE HOMELESS, FOR OVERHAULING BUOYS AND MOORINGS IN THE HARBOUR, FOR LOCAL PUBLIC WORKS IN THE NEW TERRITORIES AND RADIOS FOR POLICE ON BEAT PATROL.

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RESERVES NOW ONLY ABOUT ONE-THIRD OF ESTIMATED EXPENDITURE
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HONG KONG WILL PROBABLY BE ENTERING THE NEW FINANCIAL YEAR WITH FISCAL RESERVES REPRESENTING ONLY ABOUT FOUR MONTHS OF TOTAL ESTIMATED EXPENDITURE FOR THE YEAR, THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, INDICATED TODAY.

HE ESTIMATED IN HIS BUDGET SPEECH THAT THE RESERVES ON APRIL 1 THIS YEAR WOULD BE \$2,371 MILLION -- \$511 MILLION LESS THAN THE POSITION A YEAR AGO. THE NEW RESERVES ESTIMATE REPRESENTS ONLY 36 PER CENT OF THE ESTIMATED EXPENDITURE OF \$6,615 MILLION FOR 1975/76.

IN SHARP CONTRAST, THE RESERVES ON APRIL 1, 1974 AT \$2,002 MILLION REPRESENTED 52 PER CENT OF THE ESTIMATED \$5,493 MILLION EXPENDITURE FOR THAT YEAR. ON APRIL 1, 1973, THE RESERVES STOOD AT \$3,158 MILLION, REPRESENTING 75 PER CENT OF THE YEAR'S \$4,290 MILLION ESTIMATED EXPENDITURE.

MR. HADDON-CAVE SAID TWO FACTORS CAUSED AN EROSION OF THE FISCAL RESERVES IN THE CURRENT 1974/75 FINANCIAL YEAR.

ONE WAS THE DEFICIT ON BUDGETARY ACCOUNT WHICH WOULD BE OF THE ORDER OF \$410 MILLION, AND THE OTHER WAS THE STRENGTH OF THE HONG KONG DOLLAR IN THE FOREIGN EXCHANGE MARKET, INVOLVING A FALL IN THE VALUE OF OUR FOREIGN CURRENCY ASSETS IN HONG KONG DOLLAR TERMS OF PROBABLY \$80 MILLION. OF THIS \$80 MILLION LOSS \$35 MILLION CAN BE RELATED TO STERLING ASSETS, AND \$45 MILLION TO THE HONG KONG DOLLAR'S STRENGTHENING AGAINST OTHER CURRENCIES, LARGELY THE U.S. DOLLAR.

THIS LOSS, HE ADDED, HAD BEEN CALCULATED BY THE ACCOUNTANT GENERAL AFTER TAKING INTO ACCOUNT COMPENSATION OF \$45 MILLION RECEIVED FROM THE UNITED KINGDOM GOVERNMENT UNDER THE UNILATERAL STERLING GUARANTEE ARRANGEMENT COVERING THE PERIOD FROM SEPTEMBER 25, 1973 TO MARCH 31, 1974.

THE FINANCIAL SECRETARY SAID HE EXPECTED THAT \$315 MILLION OF THE \$2,371 MILLION RESERVES ON APRIL 1, 1975 WOULD BE HELD WITH BANKERS IN HONG KONG AND THAT \$2,056 MILLION WOULD BE HELD ABROAD TO FORM PART OF HONG KONG'S FOREIGN EXCHANGE RESOURCES. THESE WOULD CONSIST OF OVERSEAS ASSETS OWNED BY THE GOVERNMENT AND THE BANKING SYSTEM AND PRIVATELY HELD ASSETS.

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FINANCIAL SECRETARY DEFENDS DOLLAR FLOAT

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THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, TODAY RULED OUT THE POSSIBILITY OF IMPOSING AN EXCHANGE RATE CONTROL SYSTEM OR ARTIFICIALLY WEAKENING THE HONG KONG DOLLAR FOR THE SAKE OF HONG KONG'S EXPORT TRADE.

+IT WOULD BE COUNTER-PRODUCTIVE TO CHEAPEN THE CURRENCY ARTIFICIALLY BECAUSE, AS SOON AS IT BECAME APPARENT THAT THE MARKET WOULD NOT ACCEPT THE LOWER RATE, THERE WOULD BE A TENDENCY FOR FUNDS TO FLOW IN AGAIN,+ HE SAID IN HIS BUDGET SPEECH. +THE RESULT WOULD BE A RENEWED STRENGTHENING OF THE HONG KONG DOLLAR RATE.+

ANY WEAKENING OF THE HONG KONG DOLLAR AS A RESULT OF REFLATION WOULD NOW FOLLOW ONLY AFTER A LONG DELAY, BY WHICH TIME SUCH A WEAKENING MAY NO LONGER BE DESIRABLE, HE SAID. IN FACT, HE ADDED, IF DONE ON A LARGE SCALE IT COULD HAVE THE OPPOSITE EFFECT BY WEAKENING OUR BALANCE OF PAYMENTS ON CURRENT ACCOUNT AND PARTLY BY MAKING OUR EXPORT PERFORMANCE WORSE.

THE GOVERNMENT WOULD NOT HESITATE TO INTERVENE IN THE MARKET TO SMOOTH OUT OBVIOUSLY ERRATIC OR WAYWARD MOVEMENTS, MR. HADDON-CAVE STRESSED, BUT HE WAS TOTALLY OPPOSED TO ANY IDEAS WHICH WOULD INVOLVE A FORM OF EXCHANGE CONTROL, SUCH AS, FOR EXAMPLE, A TWO-TIER RATE SYSTEM.

HOWEVER, HE DID NOT RULE OUT THE USE OF INTEREST WITHHOLDING TAX AS A POSITIVE REGULATOR.

THE FINANCIAL SECRETARY APPRECIATED THAT THE FLOATING OF THE HONG KONG DOLLAR AGAINST THE U.S. CURRENCY, FROM LATE NOVEMBER LAST YEAR, HAD ADDED TO THE UNCERTAINTIES FACING THE HONG KONG BUSINESS COMMUNITY, AND THE PERSISTENT STRENGTHENING OF THE HONG KONG DOLLAR IN RELATION TO CURRENCIES OF SOME OF OUR MAJOR TRADING PARTNERS HAD BEEN DETRIMENTAL TO HONG KONG EXPORTERS.

HE ADDED, HOWEVER: +THEIR MAIN PROBLEM IS CLEARLY A LACK OF ORDERS AND EVEN IF A WEAKER HONG KONG DOLLAR ALLOWED THEM TO QUOTE PRICES WHICH WERE THREE OR FOUR PER CENT LOWER, THERE IS NO EVIDENCE THAT THIS WOULD ENABLE THEM TO ATTRACT ORDERS AT THE EXPENSE OF THEIR COMPETITORS ELSEWHERE, ALTHOUGH IT WOULD IMPROVE THE PROFITABILITY OF THE ORDERS ALREADY IN HAND.+

A FLOATING EXCHANGE, HE SAID, WAS IN ITSELF AUTOMATICALLY SELF-REGULATING LIKE ANY OTHER PRICE. IF THE HONG KONG DOLLAR RATE IS STRONG, REFLECTING EXCESS DEMAND FOR THE CURRENCY AND A TENDENCY FOR FUNDS TO FLOW IN FROM ABROAD, THEN THE HIGH PRICE IS ONE MEANS OF CONTAINING THE INFLOW.

/THE AUTOMATIC EFFECTS

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THE AUTOMATIC EFFECTS OF THE FLOATING RATE HAD PROBABLY BEEN OBSCURED SO FAR BECAUSE MANUFACTURERS' INVENTORIES OF MATERIALS WERE LARGE WHEN THE DOLLAR WAS FLOATED, SO THAT THE FALL IN EXPORTS WHICH WAS ALREADY TAKING PLACE WAS ACCOMPANIED BY AN EVEN SHARPER FALL IN IMPORTS, AND AN IMPROVEMENT IN THE OVERALL BALANCE OF PAYMENTS SURPLUS.

IT WAS CLEAR, HOWEVER, MR. HADDON-CAVE SAID, THAT THIS PARTICULAR COMBINATION OF CIRCUMSTANCES WOULD NOT CONTINUE FOR EVER.

HE EXPLAINED THAT REDUCTIONS IN INTEREST RATES IN HONG KONG HAD SEEMED TO THE GOVERNMENT AND THE BANKS TO BE THE OBVIOUS MEANS OF EASING THE PRESSURE OF FLOWS ON CAPITAL ACCOUNT -- APPARENTLY ONE OF THE MAIN FACTORS IN THE STRENGTH OF THE HONG KONG DOLLAR.

IN THE THREE MONTHS SINCE FLOATING, SIX REDUCTIONS IN INTEREST RATES HAD BEEN MADE. THE IMPACT, HOWEVER, HAD BEEN DISAPPOINTING PARTLY BECAUSE THE U.S. DOLLAR HAD CONTINUED TO WEAKEN IN OVERSEAS MARKETS AND PARTLY, PERHAPS, BECAUSE THE INTEREST RATE REDUCTIONS HAVE HAD A CONTRARY PSYCHOLOGICAL EFFECT.

THE FINANCIAL SECRETARY NOTED THAT PERHAPS IT WAS TOO EARLY YET TO ASSESS THE RESULTS OF LAST WEEK'S REDUCTIONS, AND IN ANY CASE, THEY WILL HAVE MADE THINGS EASIER FOR EXPORTERS IN OTHER WAYS.

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VIEWPOINT TALK BY FINANCIAL SECRETARY

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THE FOLLOWING IS THE TEXT OF TALK BY THE FINANCIAL SECRETARY
BROADCAST TONIGHT :-

+GOOD EVENING :

+THIS AFTERNOON I PRESENTED THE BUDGET FOR THE 1975-76 TO THE LEGISLATIVE COUNCIL. MY SPEECH WILL BE AVAILABLE IN BOTH ENGLISH AND CHINESE FROM THE INFORMATION SERVICES DEPARTMENT. I HOPE THOSE OF YOU WHO HAVE THE TIME WILL OBTAIN A COPY AND READ IT AT YOUR LEISURE BECAUSE IT IS, ESSENTIALLY, A REPORT ON THE MANAGEMENT OF YOUR AFFAIRS OVER THE PAST YEAR AND IT SETS OUT THE GOVERNMENT'S PROPOSALS ON HOW THEY SHOULD BE MANAGED DURING THE COMING YEAR AND, INDEED, THEREAFTER.

+AS YOU ARE ALL WELL AWARE OUR ECONOMY HAS STOPPED GROWING FOR THE TIME BEING NOT THROUGH ANY FAULT OF OURS BUT BECAUSE THE DEMAND FOR OUR EXPORTS OVERSEAS HAS EASED OFF. THIS HAS BEEN LARGELY DUE TO THE ENORMOUS INCREASE IN OIL PRICES WHICH HAS SHIFTED A SIZEABLE CHUNK OF WORLD SPENDING POWER INTO THE HANDS OF OIL PRODUCING COUNTRIES. THESE COUNTRIES TEND TO HOLD ON TO THIS SPENDING POWER IN THE FORM OF CASH DEPOSITS. SO UNTIL A RECYCLING OF THIS SPENDING POWER HAS BEEN ORGANIZED, WORLD DEMAND AND WORLD TRADE WILL NOT GROW AT THE RATE WE HAVE BECOME USED TO IN RECENT YEARS. THIS AFFECTS OUR EXPORT EARNINGS, THE LEVEL OF OUR WAGES AND PROFITS INTERNAL INCOMES AND, OF COURSE, THE YIELD FROM THOSE TAXES AND LEVIES ON WHICH THE GOVERNMENT DEPENDS TO FINANCE THE PUBLIC SERVICES AND CAPITAL WORKS PROGRAMMES.

+SO THE ECONOMY IS PAUSING IN BETWEEN ONE PERIOD OF ECONOMIC GROWTH WHICH FADED AWAY EARLY LAST YEAR AND THE NEXT. JUST WHEN THE GROWTH OF WORLD TRADE WILL BEGIN TO PICK UP REALLY IS DIFFICULT TO PREDICT. BUT IN THIS AFTERNOON'S BUDGET SPEECH I SAID I THOUGHT THAT, AFTER A STANDSTILL FOR MOST OF THIS YEAR, A RECOVERY WOULD GET UNDER WAY IN TIME TO IMPROVE OUR PROSPECTS IN 1976.

+HONG KONG MUST BE READY TO RESPOND QUICKLY AND PROFITABLY TO A RENEWAL OF GROWTH IN WORLD TRADE WHEN IT DOES OCCUR. IF OUR PAST IS ANYTHING TO GO BY, WE SHOULD. AND I PREDICT THAT AFTER RECOVERING IN 1976, OUR ECONOMY REALLY WILL GET INTO FULL GEAR AGAIN IN 1977 AND 1978. MEANWHILE, OUR FINANCIAL AFFAIRS HAVE TO BE MANAGED IN SUCH A WAY AS NOT TO IMPAIR THE ECONOMY'S ABILITY TO RESPOND. AT THE SAME TIME, SOMEHOW, ESSENTIAL PUBLIC SERVICES MUST BE MAINTAINED AND, SOMEHOW, OUR SOCIAL DEVELOPMENT PROGRAMMES MUST PROCEED, AND ON A BROAD FRONT, IF NOT AT THE PACE WE WOULD PREFER.

/◊AGAINST THIS

*AGAINST THIS BACKGROUND THE BUDGET FOR 1975-76 PROVIDES FOR EXPENDITURE NEXT YEAR OF \$6,600 MILLION. THIS FIGURE HAS BEEN ARRIVED AT AFTER THE MOST THOROUGH SCRUTINY OF DEPARTMENTAL BIDS FOR FUNDS RESULTING IN REDUCTIONS TOTALLING NEARLY \$1,400 MILLION. EVEN SO IT IS A SUBSTANTIAL INCREASE OF \$430 MILLION ON WHAT ACTUAL EXPENDITURE IS LIKELY TO BE IN 1974-75 AND SOME OF THIS MONEY WILL PAY FOR A FURTHER EXPANSION OF OUR SOCIAL SERVICES. PROVISION HAS, FOR EXAMPLE, BEEN INCLUDED FOR 19,000 MORE PLACES IN SECONDARY SCHOOLS, FOR OPENING TWO NEW TECHNICAL INSTITUTES, FOR EXPANDING THE POLYTECHNIC, AND FOR OPENING THE NEW PRINCESS MARGARET HOSPITAL, THREE NEW CLINICS AND THE NEW CENTENARY BLOCK OF THE TUNG WAI GROUP OF HOSPITALS.

*BUT THIS PROVISION FOR EXPENDITURE IS NOT PAINLESS. UNFORTUNATELY, EVEN AFTER THE PRUNING EXERCISE, THE REVENUE WE COULD EXPECT NEXT YEAR AT PRESENT TAX RATES FALLS SHORT OF EXPENDITURE BY \$900 MILLION.

*SO THE QUESTION I HAD TO CONSIDER VERY CAREFULLY WAS THIS : HOW BEST COULD THE SHORTFALL BE COVERED? EXPENDITURE IN 1974-75 EXCEEDED REVENUE BY OVER \$400 MILLION. THIS MEANT THAT OUR FISCAL RESERVES WERE RUN DOWN TO \$2,370 MILLION, OR ONLY FOUR MONTHS WORTH OF EXPENDITURE. I DO NOT THINK WE SHOULD PLAN TO RUN THEM DOWN FURTHER. IN THESE UNCERTAIN TIMES, OUR RESERVES MUST BE KEPT INTACT TO FINANCE UNFORESEEABLE COMMITMENTS ARISING DURING THE YEAR AND TO COVER UNEXPECTED SHORTFALLS IN REVENUE.

*SO, I PROPOSED IN LEGISLATIVE COUNCIL THIS AFTERNOON THAT ROUGHLY HALF OF THE EXTRA \$900 MILLION REQUIRED SHOULD BE FOUND FROM NEW AND ADDITIONAL TAXATION AND HALF BY BORROWINGS LOCALLY AND OVERSEAS.

*I THINK MY TAX PROPOSALS SPREAD THE BURDEN EQUITABLY AND IN SUCH A WAY AS TO HAVE THE LEAST POSSIBLE EFFECT ON THE COST OF LIVING AND ON THE PROFITABILITY OF INDUSTRY. ABOUT \$100 MILLION WILL COME FROM AN INCREASE IN THE RATE OF CORPORATION PROFITS TAX AND WILL, IN EFFECT, LARGELY BE BORNE BY PERSONS RECEIVING DIVIDENDS FROM SHARES. AN EXTRA \$212 MILLION WILL BE RAISED FROM INDIRECT TAXES. HERE I HAVE TRIED TO SPREAD THE LOAD AS WIDELY AS POSSIBLE : MY PROPOSALS WILL LEAD TO INCREASES IN BETTING DUTY, IN THE GENERAL RATE, IN EXCISE DUTIES ON LIQUOR AND TOBACCO AND CERTAIN STAMP DUTIES AND I PROPOSE ALSO THE REINTRODUCTION OF ENTERTAINMENT TAX ON ADMISSIONS TO CINEMAS. FINALLY, \$155 MILLION WILL BE RAISED FROM INCREASING VARIOUS FEES AND CHARGES WHICH ARE AN IMPORTANT SOURCE OF REVENUE GIVEN OUR LOW AND NARROWLY BASED TAX STRUCTURE= AND WE MUST ALSO MAKE SURE THAT THE PUBLIC UTILITY UNDERTAKINGS RUN BY THE GOVERNMENT SUCH AS THE WATERWORKS, THE AIRPORT AND THE POST OFFICE PAY THEIR WAY. I SHOULD JUST MENTION HERE IN PASSING, HOWEVER, THAT THE PROPOSED INCREASE IN THE CHARGE FOR WATER WILL ONLY AFFECT 20 PER CENT OF DOMESTIC CONSUMERS.

/-BY BORROWING

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+BY BORROWING OVER \$400 MILLION WE SHALL BE ABLE TO FINANCE CAPITAL WORKS EXPENDITURE OF JUST ON \$2,000 MILLION OUT OF TOTAL EXPENDITURE OF \$6,600 MILLION. WITHIN THIS FIGURE OF \$2,000 MILLION, PROVISION HAS BEEN POSSIBLE FOR THE LETTING OF QUITE A NUMBER OF NEW CONTRACTS AS WELL AS THE CONTINUATION OF EXISTING CONTRACTS. THIS WILL BE HELPFUL TO THE CONSTRUCTION INDUSTRY AND GENERALLY I THINK THE BUDGET WILL HAVE A MILD EXPANSIONARY EFFECT ON THE ECONOMY WITHOUT, I FEEL CONFIDENT, INVOLVING BALANCE OF PAYMENTS PROBLEMS.

+I THINK THE BUDGET STRIKES THE RIGHT BALANCE BETWEEN THE CONTAINMENT OF EXPENDITURE AND THE RAISING OF ADDITIONAL TAX AND NON-TAX REVENUE. AND, CERTAINLY, I HAVE TRIED TO BEAR IN MIND THE IMPORTANCE OF MAINTAINING STEADY PROGRESS IN THE DEVELOPMENT OF THE PUBLIC SERVICES, WHILST AVOIDING ANY MOVE WHICH MIGHT DAMAGE THE ECONOMY, ON THE HEALTH OF WHICH OUR FUTURE DEPENDS.+

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NURSERIES PLAY INCREASINGLY IMPORTANT ROLE

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NURSERIES AND CHILD CARE CENTRES ARE PLAYING AN INCREASINGLY IMPORTANT ROLE IN HONG KONG WHERE THE TREND IS FOR MARRIED WOMEN TO LEAVE THE KITCHEN AND GO OUT TO WORK, THE DIRECTOR OF SOCIAL WELFARE, MR. THOMAS LEE, SAID TODAY (WEDNESDAY).

HE WAS SPEAKING AT THE OPENING OF THE TUNG WAH GROUP OF HOSPITALS' NEW NURSERY IN BLOCK 12 OF THE SHEK LEI ESTATE IN KWAI CHUNG. WITH PLACES FOR 60 CHILDREN, IT WILL CATER TO THE LOWER INCOME FAMILIES IN THE ESTATE AND NEARBY AREAS.

MR. LEE SAID NURSERIES HAD THE RESPONSIBILITY OF FILLING IN THE GAPS IN A CHILD'S LIFE IN AREAS WHICH PARENTS WERE UNABLE TO ATTEND TO THEMSELVES BECAUSE THEY WERE EITHER TOO BUSY OR PREOCCUPIED.

THE PURPOSE OF SETTING UP A NURSERY, HE WENT ON, WAS NOT MERELY TO DISTRIBUTE MEALS AND DAILY NECESSITIES, BUT TO PLAN OUT THE DAILY LIVES OF THE CHILDREN IN DETAIL, SO THAT THE DAILY ACTIVITIES WERE FULLY IN KEEPING WITH THE PHYSICAL AND MENTAL GROWTH, INTELLIGENCE AND EMOTIONAL DEVELOPMENT OF EACH AND EVERY CHILD.

IN OTHER WORDS, CHILD CARE SERVICE SUPPLEMENTS PARENTAL CARE, HE SAID, AND HE URGED ALL PARENTS TO KEEP IN CLOSE TOUCH WITH CHILD CARE WORKERS IN NURSERIES SO THAT THEIR YOUNG COULD BENEFIT FROM THE BEST POSSIBLE CARE.

TURNING TO THE WORK OF THE TUNG WAH GROUP OF HOSPITALS, MR. LEE SAID IT WAS THE OLDEST CHARITABLE ORGANISATION IN HONG KONG AND WAS RENOWN FOR PROVIDING A VAST SCOPE OF VALUABLE SERVICES TO THE PUBLIC.

CHILD CARE SERVICE WAS JUST ONE OF ITS AREAS OF ACTIVITY AND IT WAS EXPANDING THIS SERVICE IN LINE WITH THE SOCIAL WELFARE DEVELOPMENT PLAN TO MEET INCREASING DEMANDS.

THE TUNG WAH GROUP, HE NOTED, ALREADY HAD A NURSERY OPERATING IN WAN CHAI FOR A NUMBER OF YEARS PROVIDING CARE FOR ABOUT 100 CHILDREN FROM LOW-INCOME FAMILIES AND IT WAS ALWAYS FULL.

MR. LEE LOOKED FORWARD TO CONTINUED CO-OPERATION BETWEEN THE TUNG WAH GROUP AND THE SOCIAL WELFARE DEPARTMENT FOR THE FURTHER ADVANCEMENT OF WELFARE SERVICES IN HONG KONG.

NOTE TO EDITORS:

COPIES OF THE FULL TEXT OF MR. THOMAS LEE'S SPEECH, IN ENGLISH AND CHINESE, WILL BE BOXED FOR COLLECTION TODAY.

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WATER CUT
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WATER SUPPLY TO A NUMBER OF PREMISES IN SHEK KIP MEI DISTRICT WILL BE CUT OFF FOR FIVE HOURS ON FRIDAY (FEBRUARY 28) BEGINNING FROM 1 A.M. TO ENABLE A LEAKAGE TEST TO BE CARRIED OUT IN THE AREA.

AFFECTED WILL BE THE AREA BOUNDED BY TAI HANG TUNG ESTATE BLOCKS 9 - 14 AND TO YUEN STREET.

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