



DAILY INFORMATION BULLETIN

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GDP TO GROW BY 8 PER CENT AT CONSTANT PRICES

THE FINANCIAL SECRETARY, THE HON SIR PHILIP HADDON-CAVE TODAY FORECAST THAT THE GROSS DOMESTIC PRODUCT IN 1981 WILL GROW BY 8 PER CENT AT CONSTANT PRICES COMPARED WITH THE ACHIEVED GROWTH RATE IN 1980 OF 9 PER CENT.

THIS FORECAST IMPLIES THAT AT CONSTANT (1973) PRICES, TOTAL EXPENDITURE ON THE GDP WILL BE ABOUT \$65 300 MILLION. +ASSUMING THAT THE GROWTH RATE OF THE POPULATION WILL BE 2.4 PER CENT, THE GROWTH RATE OF GDP PER CAPITA IN 1981 WILL BE 5.5 PER CENT WHICH IS THE SAME, FOR ALL INTENTS AND PURPOSES, AS THE ACHIEVED GROWTH RATE IN 1980 OF 5.4 PER CENT,+ SIR PHILIP SAID.

AT CURRENT PRICES, THE GROWTH RATE OF GDP IN MONEY TERMS IN 1981 IS 19 PER CENT COMPARED WITH THE ACHIEVED GROWTH RATE IN 1980 OF 23.2 PER CENT, TOTAL EXPENDITURE ON THE GDP IN 1981 WILL BE ABOUT \$126 400 MILLION. IN PER CAPITA TERMS, GDP AT CURRENT PRICES WILL BE ABOUT \$24 400 REPRESENTING A GROWTH RATE OF 16 PER CENT, COMPARED WITH THE ACHIEVED GROWTH RATE IN 1980 OF 19.1 PER CENT.

SIR PHILIP ALSO FORECAST A 12 PER CENT RATE OF INCREASE IN CONSUMER PRICES IN HONG KONG IN 1981, REPRESENTING A SLOW DOWN FROM THE ACTUAL RATE OF INCREASE RECORDED IN 1980 OF 15.5 PER CENT. THIS FORECAST WAS MADE AGAINST THE BACKGROUND THAT THE RATE OF INFLATION IN THE WORLD ECONOMY WILL SLOW DOWN IN 1981. THE RATE OF INCREASE IN CONSUMER PRICES IN THE O.E.C.D. GROUP OF COUNTRIES, FOR EXAMPLE, IS EXPECTED TO SLOW DOWN FROM 13 PER CENT IN 1980 TO ABOUT 10 PER CENT IN 1981.

HOWEVER, HE SAID MUCH STILL DEPENDED UPON THE FUTURE COURSE OF WORLD OIL PRICES. +RETAINED IMPORTS OF OIL PRODUCTS NOW REPRESENT 9 PER CENT OF TOTAL RETAINED IMPORTS BY VALUE, COMPARED WITH 7 PER CENT IN 1976 AND ONLY 2 PER CENT IN 1973- AND, GIVEN THAT DEMAND IS FAIRLY PRICE INELASTIC IN THE SHORT TERM, THE IMPACT OF INCREASES IN THE PRICES OF THESE PRODUCTS ON OUR BALANCE OF TRADE AND THE INTERNAL PRICE LEVEL HAS BECOME MUCH MORE SIGNIFICANT.+

SIR PHILIP ALSO EXPECTED THE RATE OF INCREASE IN THE GENERAL PRICE LEVEL -- THE GDP DEFLATOR -- TO SLOW DOWN AND HIS FORECAST IS THAT IT WILL INCREASE IN 1981 BY 10 PER CENT COMPARED WITH THE ACTUAL RATE OF INCREASE RECORDED IN 1980 OF 13 PER CENT.

THE FOLLOWING ARE THE FORECASTS OF EXPENDITURE ON GDP BY COMPONENTS IN 1981 AT CONSTANT (1973) PRICES:

- (A) PRIVATE CONSUMPTION EXPENDITURE: SIR PHILIP EXPECTED LESS BUOYANT EXPORT EARNINGS IN THE SECOND HALF OF 1980 AND PROBABLY IN THE FIRST HALF OF 1981 TO EXERT A DAMPENING EFFECT. HIS FORECAST FOR THE GROWTH RATE OF THIS COMPONENT IN 1981 IS EIGHT PER CENT AGAINST THE ACHIEVED RATE IN 1980 OF 8.8 PER CENT.
- (B) GOVERNMENT CONSUMPTION EXPENDITURE: TO GROW BY 15 PER CENT COMPARED WITH THE ACHIEVED GROWTH RATE IN 1980 OF 7.9 PER CENT.

/(C) GROSS

- (C) GROSS DOMESTIC FIXED CAPITAL FORMATION: TO GROW BY 13 PER CENT, THE SAME AS THE ACHIEVED GROWTH RATE IN 1980. THE GROWTH RATE OF INVESTMENT IN PLANT AND MACHINERY IN 1981 IS 16 PER CENT, A SLOW DOWN FROM THE ACHIEVED GROWTH RATE IN 1980 OF 18.7 PER CENT. GROWTH RATE OF TOTAL EXPENDITURE ON BUILDING AND CONSTRUCTION IN 1981 IS 7 PER CENT COMPARED WITH THE ACHIEVED RATE IN 1980 OF 2 PER CENT. (EXPENDITURE BY THE PRIVATE SECTOR ON BUILDING AND CONSTRUCTION TO GROW BY 5 PER CENT WHILE THAT BY THE PUBLIC SECTOR TO GROW BY 8 PER CENT).
- (D) TOTAL EXPORTS OF GOODS: THE GROWTH RATE IN 1981 IS 12 PER CENT COMPARED WITH THE ACHIEVED RATE OF 17.7 PER CENT.
- (E) IMPORTS OF GOODS: THE GROWTH RATE IS 13 PER CENT AGAINST THE ACHIEVED RATE OF 18.6 PER CENT IN 1980.
- (F) NET EXPORTS OF SERVICES: TO GROW BY 3 PER CENT IN 1981 COMPARED WITH THE ACHIEVED RATE OF MINUS 2.5 PER CENT.
- (G) STOCKS: A SMALL ACCRETION OF STOCKS IN 1981 AS IN 1980.

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GLOOMY PREDICTIONS NOT BORNE OUT BY BUDGET FORECAST * * *

THE FINANCIAL SECRETARY TODAY FORECAST AN EIGHT PER CENT GROWTH IN HONG KONG'S ECONOMY AND SAID THE GLOOMY PREDICTIONS OF IMMINENT DISASTER, SO FASHIONABLE RECENTLY IN SOME QUARTERS, ARE SIMPLY NOT BORNE OUT BY HIS FORECAST.

IN HIS BUDGET SPEECH, HE SAID THE EIGHT PER CENT GROWTH COMPARED FAVOURABLY WITH THE TREND GROWTH RATE ACHIEVED BY OUR ECONOMY IN ALMOST ANY OTHER PERIOD ONE CHOSE TO SELECT DURING THE PAST 15 YEARS.

FURTHERMORE, HE SAID, SHOULD THE FORECAST BE BORNE OUT, IT WOULD BE ASSOCIATED WITH A FAIR MEASURE OF STABILITY WHICH EXPLAINED AS FOLLOWS:

FIRST, HE PREDICTED THAT THE GROWTH RATE OF FINAL TOTAL DEMAND, AT EIGHT PER CENT, WILL BE THE SAME AS THE GROWTH RATE OF GDP WHICH DOES NOT SUGGEST ANY SUBSTANTIAL IMBALANCE BETWEEN AGGREGATE DEMAND AND SUPPLY.

SECONDLY, THE GROWTH RATE OF DOMESTIC DEMAND, AT 10 PER CENT, WILL BE SIGNIFICANTLY HIGHER THAN THE GROWTH RATE OF DOMESTIC EXPORTS AT SEVEN PER CENT IMPLYING A CONTINUATION OF THE SHIFT IN THE DISTRIBUTION OF LABOUR AWAY FROM THE MANUFACTURING SECTOR WHICH STARTED IN THE SECOND HALF OF 1980.

THIRDLY, THE GROWTH RATE OF PUBLIC SECTOR DEMAND, AT 14 PER CENT, WILL BE HIGHER THAN THE GROWTH RATE OF PRIVATE SECTOR DEMAND AT NINE PER CENT. SO THE PUBLIC SECTOR WILL COMMAND A LARGER SHARE OF AVAILABLE RESOURCES IN THE ECONOMY, A REVERSE OF THE SITUATION IN 1980.

/FOURTHLY

FOURTHLY, THE OVERALL GROWTH RATE OF EXPENDITURE ON BUILDING AND CONSTRUCTION IS FORECAST TO BE ONLY SEVEN PER CENT, WHICH IS PROBABLY NOT MUCH GREATER THAN THE LIKELY GROWTH IN CAPACITY, THUS THE CROWDING OUT EFFECT, CAUSED BY THE HIGHER GROWTH RATE IN THE PUBLIC SECTOR EXPENDITURE THAN THE PRIVATE SECTOR, SHOULD NOT BE TOO SERIOUS.

FIFTHLY, THE GROWTH RATE OF PRIVATE CONSUMPTION EXPENDITURE, AT EIGHT PER CENT, WILL BE CONSISTENT WITH THE ACHIEVED GROWTH RATE OF REAL INCOME IN 1980 OF 9.1 PER CENT, AND THE FORECAST GROWTH RATE IN 1981 OF 7.5 PER CENT.

SIXTHLY, THE GROWTH RATE OF IMPORTS OF GOODS, AT 13 PER CENT, AND THAT OF TOTAL EXPORTS OF GOODS, AT 12 PER CENT, WILL BE ROUGHLY IN LINE WITH EACH OTHER AS THEY WERE IN 1980.

SEVENTHLY, THE VISIBLE TRADE GAP WILL WIDEN SLIGHTLY TO 13.2 PER CENT IN 1981 FROM 12.1 PER CENT IN 1980, BUT STILL WITHIN THE RANGE OF OUR HISTORICAL EXPERIENCE, AND THE VISIBLE AND INVISIBLE TRADE GAP WILL WIDEN TO FIVE PER CENT FROM 3.7 PER CENT. BUT IN RELATION TO FLOWS OF FUNDS ACROSS THE EXCHANGES, THIS SHOULD NOT PRESENT A FINANCING PROBLEM.

FINALLY, THERE WILL BE LOWER RATES OF INCREASE IN PRICES AS WORLD INFLATION SLOWS DOWN AND AS THE INTERNAL COST/PRICE STRUCTURE DEFLATES.

REVIEWING OUR ECONOMY IN 1980, SIR PHILIP SAID THERE WERE TWO REALLY SIGNIFICANT DEVELOPMENTS IN THE SECOND HALF OF 1980.

THE FIRST WAS A SHARP SLOW DOWN IN THE GROWTH RATE OF DOMESTIC EXPORTS, FROM A HIGH 18 PER CENT, IN REAL TERMS, IN THE FIRST HALF, TO ONLY FIVE PER CENT IN THE SECOND HALF. THIS SLOW DOWN REFLECTED DEVELOPMENTS IN THE ECONOMIES OF OUR MAJOR MARKETS, PARTICULARLY IN THE UNITED STATES, WHERE THERE WAS A SHARP DECLINE IN RETAIL SALES IN THE SECOND QUARTER OF 1980 WITH ONLY A LIMITED RECOVERY IN THE SUBSEQUENT TWO QUARTERS.

THE SECOND SIGNIFICANT DEVELOPMENT WAS AN ACCELERATION IN THE GROWTH RATE OF PRIVATE CONSUMPTION EXPENDITURE, FROM 22 PER CENT IN THE FIRST HALF TO 35 PER CENT IN THE SECOND HALF.

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PERSONAL ALLOWANCES TO GO UP

THE FINANCIAL SECRETARY, SIR PHILIP HADDON-CAVE TODAY PROPOSED AN INCREASE OF THE PERSONAL ALLOWANCES FOR SINGLE PEOPLE TO \$22 500 FROM \$15 000, AND FOR MARRIED PERSONS TO \$45 000 FROM \$30 000.

HE ALSO PROPOSED AN INCREASE IN CHILD ALLOWANCES FROM \$5 000 TO \$7 000 FOR THE FIRST CHILD= AND FROM \$4 000 TO \$5 000 FOR THE SECOND CHILD. BUT THERE WILL BE NO CHANGE IN ALLOWANCES FOR OTHER CHILDREN.

SIR PHILIP ALSO PROPOSED A 40 PER CENT INCREASE IN THE DEPENDENT PARENT ALLOWANCE TO \$7 000, WHICH HE SAID WAS CLAIMED BY 65 000 TAXPAYERS FOR 80 000 DEPENDENT PARENTS.

/HIS PACKAGE

HIS PACKAGE OF PROPOSALS, IF APPROVED, WILL BE EFFECTIVE FOR FINAL SALARIES TAX AND PERSONAL ASSESSMENTS FOR 1980-81 AND FOR PROVISIONAL SALARIES TAX FOR 1981-82.

HIS CONCESSIONS FOR PERSONAL TAXATION ARE MADE UP OF AN INCREASE IN THE LEVEL OF PERSONAL ALLOWANCES FROM \$12 500 TO \$15 000 FOR SINGLE PEOPLE AND FROM \$25 000 TO \$30 000 FOR MARRIED PEOPLE, AND SUPPLEMENTARY PERSONAL ALLOWANCES TO INCREASE FROM \$2 500 TO \$7 500 FOR SINGLE PEOPLE AND FROM \$5 000 TO \$15 000 FOR MARRIED PEOPLE.

HE ALSO PROPOSED THAT THE CLAW-BACK CONTINUE TO BE ZERO RATED MEANING THAT TAXPAYERS AT ALL LEVELS OF INCOME WILL ENJOY THE FULL BENEFIT OF THE SUPPLEMENTARY PERSONAL ALLOWANCES, SAVE THOSE ON HIGH INCOMES TO WHOM THE STANDARD RATE APPLIES.

+THE EFFECT OF THE PACKAGE,+ SAID SIR PHILIP, +WILL BE TO EXEMPT 85 000 PEOPLE PREVIOUSLY LIABLE TO SALARIES TAX AND ANOTHER 55 000 WHO WOULD HAVE BECOME LIABLE IN 1981-82 BUT WHO WILL NOW REMAIN OUT OF THE TAX NET.

+THUS THE NUMBER OF SALARIES TAXPAYERS FOR THE YEAR OF ASSESSMENT 1981-82 WILL BE 255 000 AS OPPOSED TO THE 395 000 PRESENTLY ENVISAGED IN THE NET WITHOUT THIS PACKAGE OF CONCESSIONS.

+ADDITIONALLY, 237 000 OF THESE TAXPAYERS WILL BENEFIT BY WAY OF REDUCED LIABILITY. THE REMAINING 18 000 OR SEVEN PER CENT OF THE TOTAL NUMBER OF TAXPAYERS LEFT IN THE NET WILL NOT BENEFIT FOR THEY WILL REMAIN ON THE STANDARD RATE OF 15 PER CENT AND THIS GROUP WILL CONTINUE TO CONTRIBUTE WELL OVER HALF OF THE TOTAL YIELD FROM SALARIES TAX,+ SAID SIR PHILIP.

+SO MUCH FOR THE CLAIM THAT THE LESS WELL PAID SUBSIDIES THE BETTER OFF,+ HE SAID.

HIS TAX CONCESSIONS, IF IMPLEMENTED, WOULD RAISE THE LIMIT OF THE STANDARD RATE ZONE OF 15 PER CENT FROM \$87 500 TO \$106 250 FOR A SINGLE PERSON ON A SCALE TO A MARRIED TAXPAYER WITH NINE CHILDREN FROM \$172 000 TO \$222 500.

+I WOULD EARNESTLY SUGGEST,+ SAID SIR PHILIP, +THAT THIS PACKAGE OF PROPOSALS WILL MEET THE CLAIMS OF THOSE WHO ARGUE THAT THE LOW INCOME EARNER IS IN DIRE NEED OF RELIEF FROM HIS TAX 'BURDEN', ALTHOUGH I WOULD DENY THAT THE LOW INCOME EARNER IS SIGNIFICANTLY AFFECTED BY OUR SALARIES TAX SYSTEM AT ALL. THE PACKAGE WILL ALSO AFFORD CONSIDERABLE RELIEF FOR THOSE WHO CLAIM TO BELONG TO THE 'SANDWICH' SOCIETY- AND TO MIDDLE INCOME EARNERS AS WELL FOR, EVEN THEIR TAX LIABILITY IS, IN PERCENTAGE TERMS, VERY MODEST COMPARED WITH THEIR OTHER PERSONAL LIABILITIES.+

SIR PHILIP DREW ATTENTION TO THE +VERY CONSIDERABLE RELIEF+ OUTLINED IN HIS TABLES: A SINGLE PERSON ON AN ANNUAL INCOME OF \$23 500 WOULD PAY \$50, A REDUCTION OF \$375 ON HIS PRESENT LIABILITY OF \$425. A MARRIED PERSON WITH AN ANNUAL INCOME OF \$46 000 WOULD PAY \$50 A REDUCTION OF \$1 050 ON HIS PRESENT LIABILITY OF \$1 100 WHILE A MARRIED PERSON WITH TWO CHILDREN AND WITH TWO DEPENDENT PARENTS ON AN ANNUAL INCOME OF \$72 000 WOULD ALSO PAY \$50, A REDUCTION OF \$1 900 ON HIS PRESENT LIABILITY OF \$1 950.

/SIR PHILIP

SIR PHILIP ALSO PRESENTED A TABLE COMPARING HIS PROPOSED TAXES WITH SINGAPORE, MALAYSIA AND THE U.K. A SINGLE PERSON EARNING \$36 000 WOULD PAY 2.4 PER CENT IN HONG KONG (\$850), 6.7 PER CENT IN SINGAPORE (HK\$2 427), 8.4 PER CENT IN MALAYSIA (HK\$3 037) AND 15.7 PER CENT IN THE U.K. (HK\$5 644). SIMILARLY, A MARRIED PERSON WITH NO CHILDREN AND EARNING \$120 000 A YEAR WOULD PAY 11.5 PER CENT IN HONG KONG (\$13 750), 18.4 PER CENT IN SINGAPORE (HK\$22 137), 24.4 PER CENT IN MALAYSIA (HK\$29 232) AND 23.3 PER CENT IN THE U.K. (HK\$27 956). THE COMPARISON DOES NOT INCLUDE COMPULSORY LEVIES SUCH AS THE UK NATIONAL INSURANCE CONTRIBUTION, THE PAYROLL TAX IN SINGAPORE AND CAPITAL GAINS TAX IN THE UK AND MALAYSIA.

THE FINANCIAL SECRETARY SAID SOMEWHAT VOCIFEROUS CLAIMS HEARD RECENTLY TO THE EFFECT THAT OUR DIRECT TAX SYSTEM IS ONE WHEREIN THE 'RICH' ARE SUBSIDISED BY THE 'POOR', BUT THE RESPECTIVE CONTRIBUTIONS TO THE REVENUE OF SALARIES TAX AND PROFITS TAX JUST DO NOT SUPPORT SUCH CLAIMS.

ON THE CONTRARY, HE SAID, OVER THE YEARS, THE CONTRIBUTION FROM PROFITS TAX HAD OUTSTRIPPED THAT FROM SALARIES TAX. THUS IN 1979-80, THE CONTRIBUTION FROM PROFITS TAX AMOUNTED TO 67 PER CENT OF THE TOTAL COLLECTIONS OF EARNINGS AND PROFIT TAXES COMPARED WITH ONLY 22 PER CENT FROM SALARIES TAX,+ HE SAID.

IN 1980-81 THE CONTRIBUTION FROM PROFITS TAX WAS NO LESS THAN 69 PER CENT WHILE THAT FROM SALARIES TAX, DESPITE FISCAL DRAG, HAD DECLINED TO 18 PER CENT.

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REVENUE TO TOP \$33 700 M IN 1981/82
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THE TOTAL REVENUE COLLECTIONS FOR THE COMING FINANCIAL YEAR, AFTER ADJUSTMENTS ON CAPITAL ACCOUNT, WILL BE \$33 774 MILLION, AN INCREASE OF \$4 774 MILLION, OR 16.5 PER CENT, ON THE REVISED ESTIMATE FOR 1980/81.

OF THESE, ABOUT \$21 842 MILLION WILL BE IN RECURRENT REVENUE AND \$11 932 IN CAPITAL REVENUE.

IN HIS BUDGET SPEECH IN THE LEGISLATIVE COUNCIL TODAY, THE FINANCIAL SECRETARY, THE HON SIR PHILIP HADDON-CAVE, SAID INCOME FROM DIRECT TAXES WILL AMOUNT TO \$10 005 MILLION, AN INCREASE OF \$1 970 MILLION, OR 24.5 PER CENT, ON THE REVISED ESTIMATE FOR 1980/81 OF \$8 035 MILLION, WHICH WAS 40 PER CENT UP ON ACTUAL COLLECTIONS IN 1979/80.

+SUCH HAS BEEN THE GROWTH RATE OF MONEY INCOMES IN RECENT YEARS, PARTICULARLY IN THE FINANCIAL AND RELATED BUSINESS SERVICES AND PROPERTY SECTORS,+ SIR PHILIP REMARKED.

HE ESTIMATED THAT REVENUE FROM PROFIT TAX WOULD GO UP BY 20 PER CENT TO \$6 675 MILLION AS TOTAL PROFITS ASSESSABLE TO TAX IN 1981/82 WOULD BE AROUND 25 PER CENT HIGHER THAN PROFITS ASSESSED TO TAX IN 1980/81.

/+HOWEVER

+HOWEVER, IF THERE WERE TO BE A SHARP DOWNTURN IN THE ECONOMY, THE EFFECT ON PROFITABILITY OF BUSINESS COULD LEAD TO THE HOLD-OVER PROVISIONS OF THE PROVISIONAL TAX SYSTEM BEING INVOKED ON A LARGER SCALE THAN THIS AND ACTUAL COLLECTIONS IN 1981/82 BEING DOWN ON THE ESTIMATE.+

THE FINANCIAL SECRETARY ALSO EXPECTED THAT REVENUES FROM SALARIES TAX WOULD GO UP BY 32 PER CENT TO \$1 950 MILLION AS PROVISIONAL TAX PAID IN 1980/81 WOULD PROBABLY BE MUCH LESS THAN THE FINAL TAX COLLECTIBLE IN 1981/82.

+THIS IS BECAUSE MONEY INCOMES IN 1980/81 WERE ON A FAST RISING TREND AND, THEREFORE, THERE WILL BE SUBSTANTIAL BALANCES TO BE COLLECTED IN 1981/82,+ HE SAID.

+THE ESTIMATE ENVISAGES THAT THE NUMBER OF SALARIES TAXPAYERS IN THE NET WILL BE AROUND 395 000 IN 1981/82, AS OPPOSED TO 340 000 IN 1980/81,+ SIR PHILIP ADDED.

HE ALSO FORECAST THAT REVENUE FROM PROPERTY TAX WOULD GO UP BY 100 PER CENT TO \$640 MILLION. THIS REFLECTS THE HIGHER ASSESSABLE VALUES LIKELY TO BE ESTABLISHED BY THE REASSESSMENT EXERCISE NOW IN HAND.

+THE APPLICATION OF THESE HIGHER ASSESSABLE VALUES WILL GO SOME WAY TOWARDS CORRECTING THE PRESENT INEQUITY OF TREATMENT BETWEEN NON-CORPORATE AND CORPORATE PROPERTY OWNERS (INCLUDING, IN EFFECT, NON-CORPORATE BUSINESS PROPERTIES), THE LATTERS' ACTUAL INCOME FROM PROPERTY BEING BROUGHT INTO PROFITS TAX CHARGE,+ HE SAID.

AS REGARDS INDIRECT TAXES, THE FINANCIAL SECRETARY ESTIMATED THAT REVENUE WOULD BE ABOUT \$4 977 MILLION. THIS INCLUDES \$1 300 MILLION ON STAMP DUTIES, \$1 061 MILLION ON RATES, \$1 020 MILLION FROM TAXES ON BETS AND SWEEPS AND \$943 MILLION FROM DUTIABLE COMMODITIES.

CAPITAL REVENUE FOR THE COMING FISCAL YEAR WILL BE \$11 932 MILLION, WHICH IS AN INCREASE OF \$1 306 MILLION, OR 12.3 PER CENT, ON THE REVISED ESTIMATE FOR 1980/81. LAND TRANSACTIONS ARE EXPECTED TO BRING IN \$11 498 MILLION (AS OPPOSED TO THE REVISED ESTIMATE FOR 1980/81 OF \$10 077 MILLION), TAXI CONCESSIONS \$86 MILLION AND ESTATE DUTY \$250 MILLION.

+IN THE FIVE POST-RECESSION YEARS, LAND SALES BY PUBLIC AUCTION AND TENDER HAVE BEEN 38 ACRES, 34 ACRES, 58 ACRES, 76 ACRES AND 156 ACRES RESPECTIVELY. THE FACT THAT, IN 1981/82, A FURTHER SUBSTANTIAL AREA WILL BE SOLD, NAMELY 196 ACRES, IS A REFLECTION OF THE BUILD UP OF EXPENDITURE ON DEVELOPMENT WORKS RECENTLY,+ SIR PHILIP SAID.

25 PER CENT RISE IN GOVT SPENDING TIPPED

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GOVERNMENT EXPENDITURE FOR 1981-82 IS ESTIMATED TO INCREASE BY 25 PER CENT TO \$24 643 MILLION AFTER ADJUSTMENTS TO THE CAPITAL ACCOUNT, THE FINANCIAL SECRETARY, THE HON SIR PHILIP HADDON-CAVE SAID IN HIS BUDGET SPEECH TODAY.

THE RECURRENT EXPENDITURE IS ESTIMATED AT \$15 188 MILLION, UP 27 PER CENT COMPARED WITH THAT FOR 1980-81.

PERSONAL EMOLUMENTS AT \$5 271 MILLION ACCOUNT FOR 36 PER CENT OF THE RECURRENT EXPENDITURE. OF THIS \$493 MILLION IS FOR SOME 17 600 POSTS WHICH MIGHT BE CREATED DURING THE FINANCIAL YEAR. THE PROVISION SOUGHT DOES NOT ALLOW FOR THE COST OF ANY REVISION OF CIVIL SERVICE SALARIES IN 1981-82.

OTHER ITEMS WHICH FEATURE PROMINENTLY ON THE RECURRENT EXPENDITURE INCLUDE PUBLIC WORKS AT \$891 MILLION WHICH ACCOUNTS FOR 6.1 PER CENT, DEFENCE AT \$1 375 MILLION (9.4 PER CENT) AND SUBVENTIONS AND U.P.G.C. AT \$3 525 MILLION (24.2 PER CENT).

TAKING RECURRENT AND CAPITAL SUBVENTIONS TOGETHER, SIR PHILIP SAID, NO LESS THAN \$3 958 MILLION, OR 17 PER CENT OF TOTAL EXPENDITURE ON GENERAL REVENUE ACCOUNT, WILL BE DISBURSED BY SUBVENTED ORGANISATIONS. EXPENDITURE BY THESE ORGANISATIONS FINANCED FROM THE GENERAL REVENUE WILL BE NO LESS THAN 10 PER CENT UP ON THE REVISED ESTIMATE FOR 1980-81 OF \$3 590 MILLION WHICH IS UP BY 39 PER CENT ON ACTUAL EXPENDITURE IN 1979-80.

ON THE PATTERN OF EXPENDITURE, SIR PHILIP SAID THE GENERAL SERVICES WILL ABSORB 16.9 PER CENT OF TOTAL EXPENDITURE- ECONOMIC SERVICES 7.7 PER CENT- COMMUNITY SERVICES 22.5 PER CENT- AND SOCIAL SERVICES 42.1 PER CENT.

SIR PHILIP POINTED OUT THERE WAS A RECURRENT MISCELLANEOUS COMPONENT OF \$1 364 MILLION OF WHICH \$600 MILLION WAS BEING SOUGHT FOR UNQUANTIFIABLE, BUT LIKELY, COMMITMENTS AND FOR COMMITMENTS UNFORESEEN WHEN THE ESTIMATES WENT TO PRINT.

+SOME OF THESE HAVE BEEN KNOWN TO FINANCE BRANCH RECENTLY, INCLUDING A REVISION OF THE SCHEMES FOR GRANTS AND LOANS TO POST SECONDARY STUDENTS, A REVISION OF THE SCHEME FOR SUBSIDISING STUDENTS TRAVELLING ON PUBLIC TRANSPORT, A POSSIBLE SCHEME OF ASSISTANCE FOR STUDENTS FROM HONG KONG UNDERTAKING COURSES OF STUDY LEADING TO A FIRST DEGREE/DIPLOMA IN THE UNITED KINGDOM, THE COST OF BACK-PAYMENTS INTO APPROVED PROVIDENT FUNDS FOR STAFF EMPLOYED BY SUBVENTED ORGANISATIONS, THE COST OF THE 1981-82 KEEP HONG KONG CLEAN CAMPAIGN, ANY INCREASED EXPENDITURE WHICH MAY BE APPROVED BY FINANCE COMMITTEE UNDER VARIOUS VOTES AS THE DISTRICT ADVISORY BOARDS ARE FORMED AND START OPERATING, AND THE COST OF IMPROVEMENTS TO CERTAIN FACILITIES FOR THE CARE OF HANDICAPPED CHILDREN.+

HE ADDED THAT \$280 MILLION HAD ALSO BEEN SET ASIDE FOR AN EX-GRATIA ONE-OFF GRANT TO THE URBAN COUNCIL TO MEET AN ANTICIPATED DEFICIT IN ITS ACCOUNTS IN 1981-82, THIS GRANT BEING IN LIEU OF AN INCREASE IN THE URBAN COUNCIL RATE.

FS: \$7 881 MILLION SURPLUS FOR 1981-82
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THE FINANCIAL SECRETARY, THE HON SIR PHILIP HADDON-CAVE, HAS BUDGETTED FOR A SURPLUS OF \$7 881 MILLION FOR THE 1981-82 FINANCIAL YEAR.

THE SURPLUS WOULD BE DERIVED FROM AN ESTIMATED TOTAL REVENUE OF \$32 524 MILLION AS AGAINST AN ESTIMATED TOTAL EXPENDITURE OF \$24 643 MILLION, HE SAID.

ALSO TAKEN INTO ACCOUNT WAS THE COST TO THE REVENUE OF THE FIVE TAX CONCESSIONS, WHICH WAS \$1 250 MILLION.

HE SAID THE ESTIMATED SURPLUS REPRESENTS 24 PER CENT OF REVENUE AS NOW ESTIMATED AND, WHILST IT IS ABOUT TWICE THE RELATIVE SIZE OF THE SURPLUS IN THE FIRST THREE YEARS OF THE POST-RECESSION PERIOD, IT IS BELOW THE RELATIVE SIZE OF THE EXPECTED SURPLUS FOR 1980-81 OF 32 PER CENT.

+THE REASON IS, OF COURSE, THAT THE INCREASE IN EXPENDITURE IN 1981-82 ON 1980-81 IS 25 PER CENT, BUT THE INCREASE IN REVENUE IS ONLY 12 PER CENT, COMPARED WITH THE INCREASE IN EXPENDITURE IN 1980-81 ON 1979-80 OF 42 PER CENT AND THE INCREASE IN REVENUE OF 73 PER CENT,+ SIR PHILIP SAID.

HE ADDED: +SHOULD THIS BUDGETTED FOR SURPLUS MATERIALISE OUR 'FREE' FISCAL RESERVES AT APRIL 1, 1982 WILL BE OF THE ORDER OF \$18 100 MILLION.+

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1980-81 SURPLUS EXPECTED TO BE ABOUT \$6 000 M
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THE FINANCIAL SECRETARY, THE HON SIR PHILIP HADDON-CAVE, SAID TODAY THE ACTUAL SURPLUS FOR THE CURRENT FINANCIAL YEAR WOULD BE ABOUT \$6 000 MILLION.

THIS WOULD PROBABLY BE THE FIGURE, HE SAID, ALTHOUGH THE REVISED ESTIMATES OF REVENUE AND EXPENDITURE FOR 1980-81 AT \$29 000 MILLION AND \$19 677 MILLION RESPECTIVELY INDICATED A SURPLUS OF \$9 323 MILLION.

HE GAVE TWO REASONS FOR THE DIFFERENCE: FIRST, BECAUSE OF VARIOUS ADJUSTMENTS TO BOTH REVENUE AND EXPENDITURE MADE FOR ANALYTICAL REASONS AMOUNTING TO A NET ADDITION TO EXPENDITURE OF \$3 815 MILLION, INCLUDING A TRANSFER OF \$3 500 MILLION TO THE MASS TRANSIT FUND= AND SECONDLY, BECAUSE THE REVISED ESTIMATES MAY OVERSTATE EXPENDITURE AND UNDERSTATE REVENUE BY RELATIVELY SMALL MARGINS.

THE SURPLUS OF \$9 323 MILLION WOULD BE THE HIGHEST ON RECORD IN BOTH ABSOLUTE AND RELATIVE TERMS (I.E. AS A PERCENTAGE OF TOTAL REVENUE), HE SAID.

+FOR THE FOURTH YEAR RUNNING, THIS LARGER THAN BUDGETTED FOR SURPLUS -- \$9 323 MILLION RATHER THAN \$2 904 MILLION -- IS DUE TO A FLUSH OF REVENUE RATHER THAN A FAILURE OF EXPENDITURE.

+IN ADDITION, FOR THE FIRST TIME EVER, THERE IS A SURPLUS ON CAPITAL ACCOUNT, AND OF NO LESS THAN \$2 899 MILLION AS OPPOSED TO A BUDGETTED FOR DEFICIT OF \$701 MILLION,+ HE SAID.

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WEDNESDAY, FEBRUARY 25, 1981

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FISCAL RESERVES SET TO REACH \$10 300 M
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HONG KONG'S FISCAL RESERVES WILL INCREASE FROM \$5 716 MILLION LAST APRIL TO \$10 300 MILLION AT APRIL 1 THIS YEAR, THE FINANCIAL SECRETARY TOLD THE LEGISLATIVE COUNCIL THIS (WEDNESDAY) AFTERNOON.

THIS WAS THE EQUIVALENT OF 42 PER CENT OF THE 1981-82 BUDGETTED EXPENDITURE OF \$24 670 MILLION COMPARED WITH THE 31 PER CENT OR \$18 332 MILLION FOR 1980, THE HON SIR PHILIP HADDON-CAVE SAID IN PRESENTING HIS BUDGET REPORT.

THIS PERCENTAGE, HE SAID WAS DISTINCTLY BETTER THAN THE GUIDELINE OF 15 PER CENT.

FISCAL RESERVES, SIR PHILIP EXPLAINED, TOGETHER WITH THE BALANCES IN VARIOUS FUNDS AND THE EXCHANGE FUND'S SURPLUS, REPRESENTED THE NET FINANCIAL ASSETS OF THE HONG KONG GOVERNMENT.

+APART FROM THE TREASURY'S CURRENT CASH REQUIREMENTS, THE BULK OF THE FINANCIAL ASSETS ARE HELD IN THE EXCHANGE FUND, AND PLACED BY THE FUND IN BANK DEPOSITS IN HONG KONG DOLLARS AND FOREIGN CURRENCIES AND IN VARIOUS INTEREST BEARING INSTRUMENTS IN FOREIGN CURRENCIES,+ HE SAID.

SIR PHILIP SAID THE FUND TRANSACTED ITS BUSINESS THROUGH 87 BANKING, SAFE CUSTODY AND SECURITY ACCOUNTS LOCATED IN 13 COUNTRIES, REFLECTING THE EXTENSIVE PROGRAMME OF DIVERSIFICATION, IN TERMS OF BOTH CURRENCIES AND MANAGEMENT, OF OUR FINANCIAL ASSETS OVER THE PAST SEVEN YEARS SINCE THE END OF 1974.

FISCAL RESERVES, HE SAID, HAD SEVERAL ROLES, THE FIRST BEING PROVISION HAVING TO BE MADE TO COVER CONTINGENT LIABILITIES WHICH WOULD ALSO SECURE CREDIT RATING IN INTERNATIONAL CAPITAL MARKETS.

WITH +FREE+ FISCAL RESERVES AVAILABLE, IMPLEMENTATION OF THE GOVERNMENT'S ON-GOING POLICIES AND PROGRAMMES WOULD NOT BE AFFECTED IF COMMITMENTS AND SITUATIONS INVOLVED EXPENDITURE EXCEEDING REVENUE OR REVENUE YIELDS FELL BELOW EXPECTATIONS.

HE ALSO EXPLAINED THAT IF OUR +FREE+ FISCAL RESERVES EXCEEDED THE MINIMUM GUIDELINE RATIO OF 15 PER CENT OF BUDGETTED FOR EXPENDITURE IN THE FOLLOWING YEAR, THEY WOULD BE AVAILABLE FOR SUCH PURPOSES AS THE PURCHASE OF EQUITY IN TRADING ENTERPRISES (SUCH AS THE MTRC) AND THE PLACING OF STATUTORY FUNDS, SUCH AS THE DEVELOPMENT LOAN FUND, IN A POSITION TO MEET THEIR COMMITMENTS, +FOR THERE IS NO REASON WHY ANNUAL REVENUES SHOULD NECESSARILY HAVE TO MEET THESE PARTICULAR CALLS.+

+IN ADDITION, THEY WILL ENABLE US TO BLEND GRANTS FROM GENERAL REVENUE WITH DEBT FINANCE FOR SUCH LARGE, LUMPY AND EXPENSIVE WORKS PROJECTS AS A NEW AIRPORT OR FIXED HARBOUR CROSSINGS WHICH WE MAY EVENTUALLY DECIDE TO EMBARK UPON IN THE 1980'S OUTSIDE THE PUBLIC WORKS PROGRAMME ITSELF,+ HE ADDED.

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PROPER MANAGEMENT - KEY TO HK'S ECONOMIC DESTINY
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HONG KONG, WITH PROPER MANAGEMENT, WILL FULFIL ITS ECONOMIC AND FINANCIAL DESTINY TO BECOME THE INTERNATIONAL CITY IN THE FAR EAST, IF DUE RESPECT IS PAID TO THE TWIN CONCEPTS OF THE MARKET DISCIPLINED ECONOMY AND THE FREE ENTERPRISE SYSTEM, THE FINANCIAL SECRETARY, THE HON SIR PHILIP HADDON-CAVE SAID.

IN HIS BUDGET SPEECH, SIR PHILIP SAID OUR ECONOMY AND PUBLIC FINANCES HAD ACQUIRED NEW DIMENSIONS SINCE 1975 AND HE HAD NO DOUBT THAT, NOTWITHSTANDING DIFFICULTIES BEYOND OUR CONTROL THAT WERE BOUND TO ARISE FROM TIME TO TIME, BY 1985 YET FURTHER DIMENSIONS WOULD BE ACQUIRED.

ON PUBLIC FINANCE, HE NOTED THAT THE HIGHER PLATEAU OF COMMITMENTS THAT THE GOVERNMENT ENTERED INTO IN 1980-81 IS THE MAXIMUM THAT THE ECONOMY CAN COPE WITH FOR THE TIME BEING, IF PROJECTS IN HAND ARE TO BE COMPLETED WITHIN A REASONABLE TIME FRAME= AND, AS MANY OF THESE COMMITMENTS ARE IRREVERSIBLE, AS OUR FISCAL RESERVES ARE FINITE AND HAVE SEVERAL OTHER FUNCTIONS APART FROM MEETING BUDGETARY DEFICITS AND +AS OUR RESERVES OF TAXABILITY ARE NOT UNLIMITED EVEN IN A PURELY FINANCIAL SENSE, WE MUST NOT OVER-EXTEND OURSELVES.+

+IN SAYING THIS, I AM NOT UNMINDFUL OF THE CRITICAL ROLE OF THE GOVERNMENT'S CAPITAL WORKS PROGRAMMES IN SECURING OUR FUTURE ECONOMIC AND SOCIAL PROGRESS,+ HE SAID.

HE ALSO POINTED OUT THAT IF GOVERNMENT EXPENDITURE IS ALLOWED TO GROW AT 10 PER CENT, IT MIGHT INCREASE TO \$41 000 MILLION BY 1984-85 AT CURRENT PRICES. +THIS MIGHT MEAN THAT THE RELATIVE SIZE OF THE PUBLIC SECTOR WOULD INCREASE TO 24 PER CENT WHICH WOULD BE QUITE UNACCEPTABLE.+

HOWEVER, HE SAID THAT IN ORDER TO MAINTAIN THE SERVICES ENVISAGED IN THE DRAFT ESTIMATES, AND TO EXPAND THEM TO MEET DEMAND AT EXISTING STANDARDS, RECURRENT EXPENDITURE AT 1981 PRICES IS LIKELY TO INCREASE FROM AROUND \$15 200 MILLION IN 1981-82 TO \$19 000 MILLION IN 1984-85. +IF OUR PRESENT VERY HIGH LEVEL OF CAPITAL EXPENDITURE OF AROUND \$9 500 MILLION AT 1981 PRICE IS MAINTAINED, THIS WILL LEAVE LITTLE ROOM FOR ADDITIONAL EXPENDITURE ON NEW SERVICES FOR OUR FIRST OBLIGATION IS TO MAINTAIN PRESENT SERVICES AND EXPAND THEM TO MEET DEMAND AT EXISTING STANDARDS,+ SIR PHILIP SAID.

THE FINANCIAL SECRETARY NOTED THAT THE RELATIVE SIZE OF THE PUBLIC SECTOR IS NOW MUCH LARGER THAN FIVE OR TEN YEARS AGO AND THE IMPACT OF PUBLIC SECTOR DECISIONS ON THE ECONOMY HAS BECOME MORE SIGNIFICANT. THIS WILL REMAIN SO IN THE YEARS AHEAD.

HE ALSO POINTED OUT THAT THE REAL INCOMES PER CAPITA INCREASED VERY RAPIDLY IN THE FIVE POST-RECESSION YEARS AT AN AVERAGE ANNUAL GROWTH RATE OF 8.6 PER CENT AND WILL NOT EXACTLY COME TO A STANDSTILL IN 1981. THIS, HE SAID, ENABLED THE FULFILMENT OF MANY ECONOMIC NEEDS, BUT ACCOMPANIED BY SOME EROSIONS OF TRADITIONAL ATTITUDES AND CERTAINLY BY GROWING ASPIRATIONS. SUCH ASPIRATIONS HAVE HAD, AND ARE LIKELY TO CONTINUE TO HAVE, IMPLICATIONS FOR THE PUBLIC SECTOR, HE SAID.

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SEVEN PER CENT GROWTH IN DOMESTIC EXPORTS FORECAST
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HONG KONG'S DOMESTIC EXPORTS TO ALL MARKETS IN 1981 IS TO GROW BY SEVEN PER CENT COMPARED WITH THE ACHIEVED GROWTH RATE IN 1980 OF 10.9 PER CENT, THE FINANCIAL SECRETARY, SIR PHILIP HADDON-CAVE SAID TODAY.

SIR PHILIP IS ALSO OPTIMISTIC ABOUT THE GROWTH RATE OF RE-EXPORTS IN 1981 AND HIS FORECAST IS FOR A GROWTH RATE OF 25 PER CENT, ONLY JUST BELOW THE AVERAGE ANNUAL GROWTH RATE IN THE PAST THREE YEARS, ALTHOUGH DOWN ON THE ACHIEVED GROWTH RATE IN 1980 OF 37.3 PER CENT.

THE FORECAST FOR THE GROWTH RATE OF TOTAL EXPORTS OF GOODS IN 1981 IS 12 PER CENT COMPARED WITH THE ACHIEVED RATE IN 1980 OF 17.7 PER CENT.

REVIEWING OUR EXPORT PROSPECTS AGAINST THE BACKGROUND OF THE WORLD ECONOMY, SIR PHILIP SAID SHARP INCREASES IN OIL PRICES, COMBINED WITH TIGHT FISCAL AND MONETARY POLICIES ADOPTED BY THE GOVERNMENTS OF O.E.C.D. GROUP OF COUNTRIES, RESULTED IN THE OVERALL GROWTH RATE OF THESE ECONOMIES SLOWING DOWN TO ONE PER CENT IN 1980, COMPARED WITH THREE PER CENT IN 1979. THE SLOWING DOWN IN THE GROWTH RATE OF THEIR IMPORTS WAS EVEN MORE DRASTIC, TO AN ESTIMATED ZERO TO MINUS ONE PER CENT IN 1980, COMPARED WITH ABOUT EIGHT PER CENT IN 1979.

+NEGATIVE GROWTH RATES WERE RECORDED BY SEVERAL O.E.C.D. COUNTRIES AS THEIR ECONOMIES MOVED INTO THE TROUGH OF THE DOWNTURN, BUT THE PROSPECTS ARE FOR A WEAK RECOVERY STARTING IN THE FIRST HALF OF THIS YEAR,+ HE SAID.

+THIS VIEW IS BASED ON THE ASSUMPTION THAT, FOLLOWING THE INCREASE IN POSTED PRICES LAST DECEMBER, THERE WILL BE NO SUBSTANTIAL INCREASE IN THE REAL PRICE OF OIL AND THAT GOVERNMENTS WILL PERSIST WITH FISCAL AND MONETARY POLICIES AIMED AT RESTRAINING AGGREGATE DEMAND SO AS TO REDUCE INFLATION.+

SIR PHILIP EXPECTED THE ECONOMIES OF THE O.E.C.D. GROUP OF COUNTRIES AS A WHOLE TO GROW BY ONE PER CENT IN 1981, ROUGHLY THE SAME AS THAT IN 1980. BUT HE SAID THE VOLUME OF IMPORTS INTO THESE COUNTRIES WAS EXPECTED TO BE marginally LESS IN 1981 THAN IN 1980. +IN THESE CIRCUMSTANCES -- AND REMEMBER THAT ABOUT 75 PER CENT OF OUR DOMESTIC EXPORTS ARE SOLD IN THE MARKETS OF THE O.E.C.D. GROUP OF COUNTRIES -- IT IS ESSENTIAL THAT OUR COST/PRICE STRUCTURE IS ALLOWED TO ADJUST DOWNWARDS RELATIVELY SO AS TO RESTORE OUR EXTERNAL COMPETITIVENESS AS SOON AS POSSIBLE.+

AS REGARDS THE UNITED STATES WHICH TOOK 33 PER CENT OF OUR DOMESTIC EXPORTS BY VALUE IN 1980, THE FINANCIAL SECRETARY SAID THAT THERE SEEMED TO BE A CONSENSUS AMONG FORECASTERS THAT THE U.S. ECONOMY WOULD PROGRESSIVELY RECOVER, ALBEIT SLOWLY, THIS YEAR. IF THIS IS SO, THEN THE GROWTH RATE OF OUR DOMESTIC EXPORTS TO THIS MARKET SHOULD RECOVER SHORTLY, REVERSING THE TREND WHICH SAW A SLOW DOWN FROM 21 PER CENT IN THE SECOND QUARTER OF 1980 TO SEVEN PER CENT IN THE THIRD QUARTER AND TO ZERO IN THE FOURTH QUARTER.

HE SAID IF THE RECOVERY IN THE U.S. ECONOMY WAS ACCOMPANIED BY A REBUILDING OF INVENTORIES -- THIS WAS POSSIBLE IN VIEW OF THEIR DEPLETION IN THE SECOND HALF OF 1980, PARTICULARLY IF INTEREST RATES DECLINE -- THE RECOVERY COULD WELL BE AS SHARP AS THE SLOW DOWN HONG KONG HAS JUST EXPERIENCED.

HIS FORECAST FOR THE GROWTH RATE OF DOMESTIC EXPORTS TO U.S.A. FOR 1981 IS FIVE PER CENT AGAINST THE ACHIEVED GROWTH RATE IN 1980 OF 10 PER CENT.

ON THE WEST GERMAN MARKET, HE FORECAST OUR DOMESTIC EXPORTS TO THAT COUNTRY TO GROW IN 1981 BY SIX PER CENT, ROUGHLY THE SAME AS THE ACHIEVED GROWTH RATE IN 1980.

AS REGARDS THE UNITED KINGDOM WHICH TOOK 10 PER CENT OF OUR DOMESTIC EXPORTS BY VALUE IN 1980, THE LATEST FORECAST IS FOR A GROWTH RATE OF THE GROSS NATIONAL PRODUCT (GDP) OF MINUS TWO PER CENT IN 1981 AS IN 1980. SIR PHILIP EXPECTED THE DEPRECIATION OF THE HONG KONG DOLLAR AGAINST STERLING OF ABOUT 10 PER CENT DURING 1980 TO FACILITATE SOME GROWTH IN DOMESTIC EXPORTS TO THIS MARKET IN 1981. HIS FORECAST FOR THE GROWTH RATE OF DOMESTIC EXPORTS TO UK IN 1981 IS THREE PER CENT, AN IMPROVEMENT OVER 1980 WHEN VIRTUALLY NO GROWTH WAS RECORDED.

REGARDING THE REST OF THE WORLD WHICH TOOK 46 PER CENT OF OUR DOMESTIC EXPORTS BY VALUE IN 1980, THE FINANCIAL SECRETARY SAID OUR PROSPECTS WERE RATHER MORE PROMISING, PARTICULARLY IN THE COUNTRIES OF THE EAST ASIAN REGION BECAUSE HE EXPECTED THE REGION'S GROWTH MOMENTUM IN 1981 WOULD BE MAINTAINED. HIS FORECAST FOR THE GROWTH RATE OF DOMESTIC EXPORTS TO THE REST OF THE WORLD IN 1981 IS NINE PER CENT COMPARED WITH THE ACHIEVED GROWTH RATE IN 1980 OF 15 PER CENT.

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FS OPTS NOT TO RAISE TAXES

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THE FINANCIAL SECRETARY HAS NO INTENTION OF INCREASING DIRECT AND INDIRECT TAXES TO BALANCE TAX CONCESSIONS, THE LEGISLATIVE COUNCIL WAS TOLD THIS (WEDNESDAY) AFTERNOON.

THE HON SIR PHILIP HADDON-CAVE, PRESENTING HIS BUDGET REPORT, SAID HE DID NOT INTEND TO INVOKE OPTIONS AVAILABLE NOW BECAUSE OF THE PRESENT STATE OF PUBLIC FINANCES, EVEN THOUGH IT WOULD BE JUSTIFIED ON A MACRO-ECONOMIC POLICY GROUND TO DO SO.

SPEAKING ON GOVERNMENT'S PUBLIC UTILITY-TYPE UNDERTAKINGS, SIR PHILIP SAID THE POSTMASTER-GENERAL INTENDED DURING THE COMING YEAR TO ADJUST POSTAL CHARGES TO MEET INTERNATIONAL OBLIGATIONS AND TO RATIONALISE PART OF THE SYSTEM OF POSTAL RATES AND FEES.

+A FEW SERVICES WILL BECOME MORE EXPENSIVE AND A FEW SLIGHTLY CHEAPER, + HE EXPLAINED.

SIR PHILIP SAID THE KOWLOON-CANTON RAILWAY AND WATERWORKS UNDERTAKINGS WERE MAKING LOSSES AND OVER THE NEXT FOUR YEARS, 1981-82 TO 1984-85, THE POSITION OF EACH WOULD BECOME WORSE, PARTICULARLY AS FURTHER SUBSTANTIAL CAPITAL INVESTMENT WAS BEING MADE IN BOTH UNDERTAKINGS.

/+I FEAR

+I FEAR, THEREFORE, THAT THEIR FARE/TARIFF STRUCTURES WILL HAVE TO BE LOOKED AT AGAIN CLOSELY BEFORE VERY LONG (BUT THIS WILL BE COUPLED WITH A RE-EXAMINATION OF THE ASSUMPTIONS UNDERLYING THEIR OPERATING ACCOUNTS),+ HE SAID.

EXPLAINING HIS FISCAL POLICY, SIR PHILIP SAID EQUITY OF THE TAX SYSTEM, ACCORDING TO THE REVENUE ESTIMATES, WOULD FURTHER DETERIORATE WITH ONE EXCEPTION: REVENUE FROM PROPERTY TAX IN 1981-82 IS ESTIMATED TO DOUBLE COMPARED WITH 1980-81, PARTLY AS A RESULT OF THE ADDITION OF NEW BUILDINGS, BUT MAINLY AS A RESULT OF THE REASSESSMENT OF ASSESSABLE VALUES NOW IN TRAIN.

THE CONTRIBUTION OF PROPERTY TAX TO TOTAL COLLECTIONS OF EARNINGS AND PROFITS TAXES WOULD INCREASE TO 6.4 PER CENT IN 1981-82 FROM FOUR PER CENT IN 1980-81 AND COULD BE COMPARED WITH 9.4 PER CENT IN 1976-77, THE YEAR OF ASSESSMENT IN WHICH THE LIST OF ASSESSABLE VALUES WAS ESTABLISHED AS A BY-PRODUCT OF THE 1976 REVALUATION OF RATEABLE VALUES.

OTHER INDIRECT TAXES ESTIMATED TO CONTRIBUTE TO TOTAL RECURRENT REVENUE IN 1981-82 WERE :

RATES: 4.9 PER CENT COMPARED WITH 5.4 PER CENT IN 1980-81 AND 8.9 PER CENT IN 1977-78. +THE ONLY WAY THAT THIS TREND CAN BE REVERSED IS BY AN INCREASE IN THE GENERAL RATE PERCENTAGE, BECAUSE A REVALUATION OF RATEABLE VALUES IS NOT POSSIBLE SO LONG AS RENT CONTROLS EXTEND TO ALL RESIDENTIAL PREMISES,+ HE EXPLAINED.

STAMP DUTIES: SIX PER CENT COMPARED WITH A PREDICTED HIGH OF 10.5 PER CENT IN 1980-81 AND BETWEEN SIX PER CENT AND 7.5 PER CENT IN THE FIRST FOUR POST-RECESSION YEARS.

DUTIABLE COMMODITIES: 4.3 PER CENT COMPARED WITH 4.9 PER CENT IN 1980-81. HE EXPLAINED THAT THE CONTRIBUTION OF DUTIABLE COMMODITIES HAD, IN FACT, BEEN DECLINING STEADILY SINCE 1976-77, WHEN IT WAS 10 PER CENT, PARTLY BECAUSE EARNINGS AND PROFITS TAXES WERE SO INCOME SENSITIVE AND PARTLY BECAUSE EXCISE DUTIES WERE SPECIFIC AND NOT AD VALOREM AND RATES HAD NOT BEEN UPDATED TO MAINTAIN INCIDENCE.

BETS AND SWEEPS TAXES: 4.1 PER CENT FROM A PEAK OF FIVE PER CENT IN 1977-78 AND DOWN TO 4.6 PER CENT IN 1980-81.

+FINALLY, OF THE OTHER INDIRECT TAXES, THE ONLY ONE THAT IS WORTH WORRYING ABOUT IN TERMS OF EQUITY BETWEEN CLASSES OF TAXPAYERS IS FIRST REGISTRATION TAX ON MOTOR VEHICLES WHICH IS ESTIMATED TO CONTRIBUTE TWO PER CENT TO TOTAL RECURRENT REVENUE IN 1981-82, COMPARED WITH 2.2 PER CENT IN 1980-81, HAVING PEAKED AT 2.6 PER CENT IN EACH OF THE TWO PREVIOUS YEARS 1978-79 AND 1979-80,+ SIR PHILIP CONTINUED.

HE ADDED: +WHETHER THIS REPRESENTS A REASONABLE CONTRIBUTION TO THE REVENUE IS DEBATABLE.+

SIR PHILIP DID NOT WISH TO BE DRAWN INTO ARGUMENTS ABOUT WHICH OF THE THREE IMPOSTS CARRIED BY PRIVATE MOTORISTS --- FIRST REGISTRATION TAX, ANNUAL LICENCE FEES FOR VEHICLES AND DRIVERS, AND EXCISE DUTY ON HYDROCARBON OILS --- WOULD BE THE WEAPON MOST EFFECTIVE TO ENSURE THAT AVAILABLE ROAD SPACE WAS USED AS EFFECTIVELY AS POSSIBLE AS OUR PUBLIC TRANSPORT SERVICES WERE DIVERSIFIED AND IMPROVED OR, INDEED, INTO AN ARGUMENT AS TO WHETHER ANY OF THESE WEAPONS SHOULD BE USED.

/+BUT IT

+BUT IT IS ALSO DEBATABLE WHETHER THE TOTAL CONTRIBUTION OF ROAD USERS TO TOTAL RECURRENT REVENUE IS AS HIGH AS IT SHOULD BE, HAVING FALLEN FROM AN AVERAGE OF 6.8 PER CENT IN THE FIRST FOUR POST-RECESSION YEARS TO 5.3 PER CENT IN 1980-81 AND BEING ESTIMATED AT ONLY 4.8 PER CENT IN 1981-82,+ HE SAID.

DISCUSSING OPTIONS OPEN TO HIM TO INCREASE REVENUE, SIR PHILIP SAID THE GENERAL RATE PERCENTAGE AND STAMP DUTIES ON CONTRACT NOTES AND ASSIGNMENTS OF PROPERTY COULD BE RAISED.

HE ALSO SAID SOME ADJUSTMENTS TO SOME RATES OF DUTY ON DUTIABLE COMMODITIES OUGHT TO BE PRODUCTIVE OF MORE REVENUE, ALBEIT CARRYING A POSSIBLE RISK OF ADDING TO INFLATIONARY PRESSURES.

SIR PHILIP SAID EXTRA REVENUE FROM BETS AND SWEEPS TAXES COULD BE RAISED AS HE COULD NOT BELIEVE PUNTERS AS A CLASS OF TAXPAYER SHOULD BE CONTRIBUTING LESS THAN FIVE PER CENT TO TOTAL RECURRENT REVENUE PARTICULARLY WHEN TOTALISATOR TURNOVER HAD INCREASED FROM \$2 580 MILLION IN FISCAL 1976-77 TO WELL OVER \$8 200 MILLION IN 1980-81 AND WAS PREDICTED TO BE ABOUT \$10 500 MILLION IN 1981-82.

THERE WAS, HE SAID, ALSO SCOPE FOR SOME INNOVATIONS IN THE TAXATION OF MOTORISTS -- FRT, ANNUAL LICENCE FEES FOR VEHICLES AND DRIVERS AND DUTY ON HYDROCARBON OILS -- +AGAIN ON THE GROUNDS OF EQUITY BETWEEN CLASSES OF TAXPAYERS AND LIKELY PRICE ELASTICITIES.

REGARDING ROYALTY-LOADED AND TAX-LOADED FEES AND CHARGES, SIR PHILIP SAID MANY OF THEM SHOULD BE INCREASED BY UP TO 100 PER CENT AND MORE TO RESTORE THE ORIGINAL LOADINGS.

+AND, AS REGARDS COST-RELATED CHARGES, MANY OF THESE ARE, FOR ONE REASON OR ANOTHER, UP TO FIVE YEARS OR MORE OUT OF DATE,+ HE ADDED.

SIR PHILIP POINTED OUT THAT PHASE III OF THE FINANCIAL INFORMATION SYSTEM MEANT THE AVAILABILITY IN DUE COURSE OF UP-TO-DATE INFORMATION ON COSTS TO ADJUST ALL FEES AND CHARGES ON A ROUTINE BASIS ANY TIME DURING A YEAR AS A PURELY MANAGEMENT BASIS.

+I EMPHASISE ON A ROUTINE BASIS, BECAUSE NOT TO KEEP THEM UP TO DATE MEANS THAT USERS ARE CROSS-SUBSIDISED FROM GENERAL REVENUE OR CROSS-SUBSIDISED TO A GREATER EXTENT THAN INTENDED,+ HE STRESSED.

SIR PHILIP ADDED THAT THIS WAS PARTICULARLY OBJECTIONABLE IN PRINCIPLE IN THE CASE OF FEES AND CHARGES PAYABLE BY BUSINESS ENTERPRISES.

THOUGH IT WAS APPARENT THAT VARIOUS OPTIONS WERE AVAILABLE TO FINANCE ANY NECESSARY AND DESIRABLE TAX CONCESSIONS AND TO CORRECT THE FALLING TREND OF RECURRENT REVENUE TO TOTAL EXPENDITURE, HE SAID:

+HOWEVER, I DO NOT INTEND TO INVOKE ANY OF THESE OPTIONS AT THIS TIME IN VIEW OF THE PRESENT STATE OF OUR PUBLIC FINANCES GENERALLY, EVEN THOUGH IT COULD BE ARGUED THAT, TO DO SO, WOULD BE JUSTIFIED ON MACRO-ECONOMIC GROUNDS.+

\$3 976 M TO BE SPENT ON HOUSING IN 1981/82

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THE TOTAL EXPENDITURE ON HOUSING IN 1981-82 IS ESTIMATED TO RISE TO \$3 976 MILLION FROM THE 1980-81 ESTIMATE OF \$3 287 MILLION, THE FINANCIAL SECRETARY, THE HON SIR PHILIP HADDON-CAVE SAID TODAY (WEDNESDAY).

THESE FIGURES, HE SAID, EXCLUDED THE VALUE OF LAND USED BY THE HOUSING AUTHORITY FOR RENTED HOUSING.

+THE GOVERNMENT'S PUBLIC HOUSING PROGRAMME WAS RECAST IN 1979 AS A FOUR-YEAR PROGRAMME AIMED AT ACHIEVING A LEVEL OF PRODUCTION, FOR BOTH RENTAL AND SALE, OF ABOUT 35 000 FLATS A YEAR,+ SIR PHILIP SAID.

THIS ANNUAL TARGET FIGURE, HE SAID, SHOULD BE ACHIEVED FOR THE FIRST TIME IN 1980-81 AND WILL BE MAINTAINED AT THIS LEVEL THEREAFTER.

HE NOTED THAT THE FORECAST OF PRODUCTION IN THE FOUR YEARS, 1981-82 TO 1984-85, AT 147 100 FLATS EXCEEDS PRODUCTION IN THE FIVE POST-RECESSION YEARS, 1976-77 TO 1980-81, BY 42 432 FLATS.

+THESE PRODUCTION FIGURES DO NOT INCLUDE 7 620 HOUSING SOCIETY FLATS AND 2 250 HOME OWNERSHIP (PRIVATE SECTOR PARTICIPATION) SCHEME FLATS EXPECTED TO COME ON STREAM DURING THE SAME FOUR YEAR PERIOD,+ SIR PHILIP SAID.

AS REGARDS THE HOME OWNERSHIP SCHEME, SIR PHILIP SAID 15 500 FLATS OUT OF A TOTAL OF ABOUT 23 200 FLATS IN PHASES I, II AND III HAD BEEN COMPLETED BY THE END OF 1981-82.

+WORK WILL BE IN HAND ON THE BALANCE, AND ALSO ON A FURTHER 13 800 FLATS IN PHASES IV AND V,+ HE SAID.

HE NOTED THAT MORTGAGE FINANCE, AMOUNTING TO \$1 255 MILLION, WAS OFFERED BY 18 BANKS AND FINANCIAL INSTITUTIONS, OUT OF A TOTAL OF WELL OVER 300 ORGANISATIONS, FOR ELIGIBLE PURCHASERS OF FLATS IN PHASE I AND THE FIRST PART OF PHASE II.

HE SAID HE HAD WRITTEN AGAIN TO ALL BANKS AND DEPOSIT-TAKING COMPANIES INVITING THEM TO COMMIT ABOUT \$900 MILLION FOR THE REMAINDER OF PHASE II AND THE FIRST PART OF PHASE III.

+I SHALL BE MOST DISAPPOINTED IF MY INVITATION TO PROVIDE THESE FUNDS DOES NOT GENERATE A WIDER RESPONSE, PARTICULARLY AS THERE ARE NOW OVER 400 SUCH INSTITUTIONS,+ SIR PHILIP SAID.

SIR PHILIP SAID ALTHOUGH THE ANNUAL PUBLIC HOUSING TARGET OF PRODUCTION OF 35 000 FLATS FOR RENTAL AND FOR SALE HAS NOW BEEN ACHIEVED, AND WILL BE MAINTAINED, THE LENGTH OF THE HOUSING AUTHORITY'S WAITING LIST HAS REMAINED FAIRLY STATIC IN RECENT YEARS AND IS LIKELY TO REMAIN SO FOR SOME TIME IN VIEW OF CONTINUING CLEARANCES.

+THERE IS THUS A CLEAR NEED TO REVIEW THE SCOPE OF THE HOME OWNERSHIP SCHEME, IF NOT ITS AMBIT.

/+ACCORDINGLY

+ACCORDINGLY, AS YOUR EXCELLENCY FORESHADOWED RECENTLY, THE GOVERNMENT INTENDS SHORTLY TO RECONVENE THE ORIGINAL WORKING PARTY TO REVIEW THE HOME OWNERSHIP SCHEME AND THE HOME OWNERSHIP (PRIVATE SECTOR PARTICIPATION) SCHEME.

+THE INTENTION WOULD BE TO BUILD MORE FLATS, IF FEASIBLE, TO MEET THE DEMONSTRATED ASPIRATIONS OF THE INCOME CLASS COVERED BY THESE SCHEME FOR HOME OWNERSHIP (AND POSSIBLY TO WIDEN THEIR AMBIT A LITTLE).+ SIR PHILIP ADDED.

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FS CAUTIONS AGAINST USING PRICE CONTROLS TO FIGHT INFLATION
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THE GOVERNMENT SHOULD NOT INTERVENE TO HOLD DOWN LAND PRICES TO COMBAT INFLATION, NOR SHOULD IT CONTROL RENTS OF COMMERCIAL AND INDUSTRIAL PROPERTY, THE FINANCIAL SECRETARY TOLD THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

SPEAKING ON INFLATION IN HIS BUDGET REPORT, THE HON SIR PHILIP HADDON-CAVE SAID THE HONG KONG ECONOMY WOULD PROBABLY HAVE TO LIVE WITH IMPORTED INFLATION FOR SOME TIME TO COME INTO THE 1980'S, AND CERTAINLY UNTIL LATE 1982 OR EVEN 1983.

HE SAID: +TO THE EXTENT THAT OUR GROWTH MOMENTUM HAS TENDED IN RECENT YEARS TO BE ACCOMPANIED, FROM TIME TO TIME, BY A MEASURE OF DOMESTICALLY GENERATED INFLATION, THE LINK BETWEEN GROWTH AND INFLATION HAS BEEN DIFFICULT TO BREAK, BUT WE MUST SEEK TO ENSURE THAT OUR POLICIES INCLUDING, OF COURSE, OUR BUDGETARY POLICIES, AND OUR INSTITUTIONAL ARRANGEMENTS DO NOT CEMENT THE LINK.+

ANY ANTI-INFLATIONARY ACTION ON GOVERNMENT'S PART WHICH INVOLVED ABANDONING, EVEN IN PART, OUR COMMITMENT TO FREE TRADE AND TO THE FREE FLOW OF FUNDS ACROSS THE EXCHANGES WOULD SEVERELY DAMAGE THE GROWTH RATE OF THE ECONOMY AND SIMPLY COULD NOT BE CONTEMPLATED, HE SAID.

SIR PHILIP COULD NOT SEE ANY SCOPE FOR REMEDIAL ACTION AGAINST INFLATION WHICH INVOLVED ANY FORM OF PRICE CONTROL OR SUBSIDY IN RELATION TO THE PRICES OF IMPORTED INPUTS AND DOMESTIC EXPORTS.

THE COST OF SUCH ACTION, HE SAID, WOULD BE REFLECTED IN LOWER REAL INCOMES IN HONG KONG AND, EVEN IF SUCH MEASURES WERE GATT-ABLE, MIGHT WELL RESULT IN RETALIATORY ACTION BEING TAKEN AGAINST US.

EXPLAINING HIS STAND AGAINST LAND PRICE CONTROL, SIR PHILIP SAID THERE WERE TWO QUESTIONS TO BE FACED:

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- * HOW TO INCREASE THE SUPPLY OF LAND -- THE GOVERNMENT'S LAND PRODUCTION PROGRAMME PROVIDES FOR AN INCREASING SUPPLY OF NEW LAND.
- * HOW TO ALLOCATE THE EXISTING SCARCE SUPPLY IN THE BEST INTERESTS OF THE ECONOMY -- LEAVING ASIDE THE LAND USED TO MEET LETTER A/B COMMITMENTS, THE GOVERNMENT BELIEVES THAT THE MOST EFFICIENT WAY OF ALLOCATING MOST OF THE LAND IT DISPOSES OF TO THE PRIVATE SECTOR IS BY SELLING IT TO THE HIGHEST BIDDER.

THE ALTERNATIVE, HE SAID, WOULD BE ARBITRARILY TO SET A LOWER PRICE FOR THE LAND AND THEN, BECAUSE THE AMOUNT DEMANDED AT THAT PRICE WOULD EXCEED SUPPLY, IT WOULD BE NECESSARY TO MAKE SUBJECTIVE JUDGEMENTS AS TO ITS ALLOCATION.

+ALTHOUGH THIS APPROACH WOULD REDUCE THE PRICE OF NEW LAND (AND NEW LAND ONLY), IT WOULD ALMOST CERTAINLY SATISFY CRITICS OF THE GOVERNMENT'S LAND DISPOSAL POLICY IN NO OTHER RESPECT,+ SIR PHILIP POINTED OUT.

ON CONTROLLING COMMERCIAL AND INDUSTRIAL PROPERTY RENTS, HE SAID THAT WHILE LAYING DOWN PERMITTED INCREASES IN RENTS OF DOMESTIC PREMISES HAD BEEN JUSTIFIED ON SOCIAL GROUNDS, DESPITE THE RISKS INVOLVED IN TERMS OF INHIBITING SUPPLY, INTERFERENCE IN THE RELATIONSHIP BETWEEN LANDLORD AND TENANT FOR NON-DOMESTIC PREMISES COULD NOT BE JUSTIFIED.

AS ALREADY DEMONSTRATED, HE SAID THE MARKET SHOWED EVERY SIGN OF PROVIDING ITS OWN SOLUTION AS SHOWN BY THE VERY HIGH LEVELS OF NEW SUPPLY -- BOTH PAST AND PROSPECTIVE -- OF THE TYPES OF PROPERTY IN HEAVIEST DEMAND, NAMELY, OFFICES AND SHOPS.

HE SAID THERE WAS NO CLEAR EVIDENCE THAT COMMERCIAL AND INDUSTRIAL PREMISES WERE BEING KEPT VACANT BECAUSE OF THE SYSTEM IN WHICH HALF THE RATES PAID ON SUCH PREMISES WERE REFUNDED.

+THEORETICALLY, THE RATING SYSTEM COULD BE ADAPTED SO AS TO CHARGE A PENAL RATE TO ENCOURAGE OWNERS TO LET OR SELL VACANT PREMISES,+ SIR PHILIP SAID.

BUT THERE WERE A NUMBER OF PRACTICAL OBJECTIONS TO DOING THIS, NOT THE LEAST OF WHICH WAS THE EXTENT OF THE POLICING REQUIRED TO ESTABLISH THAT PREMISES WERE VACANT.

WHILE UNDER THE RATE REFUND SYSTEM OWNERS HAD A FINANCIAL INCENTIVE TO DECLARE PREMISES VACANT, UNDER A PENAL RATING SYSTEM THEY WOULD HAVE AN INCENTIVE TO CONCEAL THE FACT, HE SAID.

+FURTHERMORE, NOT ALL VACANT PREMISES ARE KEPT VACANT BECAUSE THEIR OWNERS WISH IT,+ SIR PHILIP ADDED.

MORE LAND TO BE PRODUCED

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ABOUT 1 562 ACRES OF LAND WILL BE PRODUCED IN THE COMING FINANCIAL YEAR, COMPARED WITH 1 228 ACRES IN 1980-81 AND 238 ACRES IN 1976-77.

AND OVER THE THREE YEARS OF THE NEW FORECAST PERIOD 1982-83 TO 1984-85, LAND PRODUCTION WILL BE ABOUT 1 400 ACRES A YEAR, THE FINANCIAL SECRETARY, THE HON SIR PHILIP HADDON-CAVE, SAID TODAY.

HE ALSO FORECAST THAT ABOUT 300 ACRES OF LAND WOULD BE SOLD IN EACH OF THESE THREE YEARS.

SIR PHILIP SAID THE IMPORTANCE WHICH THE GOVERNMENT ATTACHED TO LAND PRODUCTION IS EVIDENCED BY THE ESTABLISHMENT OF THE SPECIAL COMMITTEE ON LAND PRODUCTION WHICH SETS TARGETS TO MEET THE NEEDS OF BOTH THE PUBLIC AND PRIVATE SECTORS AND MONITORS THE ADMINISTRATION IN THE ACHIEVEMENT OF THESE TARGETS.

IT IS ALSO EVIDENCED BY THE PROVISION WITHIN THE TWO PUBLIC WORKS PROGRAMME COMPONENTS OF THE CAPITAL ACCOUNT FOR LAND PRODUCTION IN RECENT YEARS, HE ADDED.

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LAW AND ORDER COSTS UP 11 PER CENT

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THE FINANCIAL SECRETARY, THE HON SIR PHILIP HADDON-CAVE, TODAY (WEDNESDAY) SAID THE 1981-82 DRAFT ESTIMATES FOR EXPENDITURE ON LAW AND ORDER WAS \$1 927 MILLION.

HE SAID THIS WAS AN INCREASE OF 11 PER CENT ON THE REVISED ESTIMATE OF 1980-81.

OF THE PROVISION, \$1 304 MILLION WOULD BE REQUIRED FOR THE ROYAL HONG KONG POLICE FORCE AND THE AUXILIARY POLICE FORCE.

SIR PHILIP SAID IT WAS ESTIMATED THE NET STRENGTH OF THE POLICE FORCE (AFTER RETIREMENTS, RESIGNATIONS AND DISMISSALS) WOULD INCREASE BY ABOUT 1 000 DISCIPLINED PERSONNEL TO 21 800 DURING THE YEAR.

SIR PHILIP SAID \$19 MILLION HAD BEEN INCLUDED IN THE DRAFT ESTIMATES FOR ANTI-ILLEGAL IMMIGRATION WORK BY POLICE OFFICERS.

+DESPITE THE REDUCTION IN ILLEGAL IMMIGRATION SINCE THE SUSPENSION OF THE FORMER 'REACH BASE' POLICY, IT IS NECESSARY TO MAINTAIN GUARD AGAINST THE CONTINUING THREAT,+ HE SAID.

A MAJOR EXPANSION PROGRAMME OF THE MARINE POLICE IN RESPONSE TO THIS THREAT INVOLVING 24 ADDITIONAL AND 34 REPLACEMENT LAUNCHES WAS STARTED IN 1980-81.

/+THREE LOGISTICS

+THREE LOGISTICS LAUNCHES AND NINE INSHORE LAUNCHES WILL BE DELIVERED IN 1981-82 AT A TOTAL CAPITAL COST OF \$31 MILLION,+ SIR PHILIP SAID.

THE BEAT RADIO SYSTEM OF THE POLICE COMMUNICATIONS SYSTEM WILL ALSO BE EXTENDED IN 1981-82 TO THE AIRPORT AND SHA TIN DIVISIONS. AT AN EXPENDITURE OF \$13 MILLION.

+A CONSULTANCY FOR A FEASIBILITY STUDY OF THE DEVELOPMENT OF THE ULTRA HIGH FREQUENCY RADIO SYSTEM WILL COMMENCE FOR WHICH \$1.5 MILLION IS ESTIMATED TO BE REQUIRED IN 1981-82,+ HE ADDED.

ON POLICE BUILDINGS AND INSTALLATIONS, \$43 MILLION HAS BEEN INCLUDED IN THE DRAFT ESTIMATES, COMPARED WITH \$5.5 MILLION FOR 1980-81, AND A FURTHER 21 NEIGHBOURHOOD POLICE UNITS AND REPORTING CENTRES ARE PLANNED TO OPEN IN 1981-82.

IMMIGRATION DEPARTMENT

SIR PHILIP SAID \$10 MILLION WAS INCLUDED IN THE DRAFT ESTIMATES FOR NEW POSTS TO BE CREATED IN THE DEPARTMENT IN 1981-82.

THE PROVISIONS INCLUDE \$5 MILLION TO BE SPEND ON A NEW COMPUTER INDEXING SYSTEM.

HE ADDED THAT THE MAN KAM TO BORDER CONTROL POINT WAS SCHEDULED TO OPEN IN 1981-82.

PRISONS DEPARTMENT

SIR PHILIP NOTED THAT THE PRISON MUSTER OF CONVICTED CRIMINALS AND PERSONS HELD ON REMAND ROSE FROM 5 919 IN JANUARY TO 6 611 IN DECEMBER 1980, AN INCREASE OF 12 PER CENT.

+AN ESTIMATED TOTAL OF \$90 MILLION IS REQUIRED IN 1981-82 FOR CAPITAL EXPENDITURE ON NEW PRISONS DEPARTMENT INSTALLATIONS, NOTABLY FOR THE NEW MAXIMUM SECURITY PRISON AT SHEK PIK,+ HE SAID.

JUDICIARY

SIX POSTS FOR HIGH COURT JUDGES, THREE POSTS FOR JUSTICE OF THE APPEAL COURT, AND EIGHT POSTS FOR DISTRICT COURT JUDGES WERE CREATED IN 1980-81, SIR PHILIP SAID.

+TWO NEW CENTRES CONTAINING A TOTAL OF 20 COURTROOMS WILL OPEN IN 1981-82, SOME OF THESE BEING NEW COURTS IN LINE WITH THE INCREASED JUDICIAL POSTS AND SOME REPLACEMENTS FOR PRESENT INADEQUATE FACILITIES.

+PLANNING IS NOW IN HAND FOR A FURTHER SIX COURTROOMS AND TWO TRIBUNALS IN BOTH SHA TIN AND TUEN MUN, AND SIMILAR PROVISION IS UNDER CONSIDERATION FOR FANLING,+ HE ADDED.

DEFENCE

SIR PHILIP SAID THE DRAFT ESTIMATES PROVIDED FOR TOTAL EXPENDITURE OF \$1 783 MILLION ON DEFENCE, COMPARED WITH THE REVISED ESTIMATE OF \$1 651 MILLION FOR 1980-81, AN INCREASE OF 8 PER CENT.

HE SAID A NEW DEFENCE COSTS AGREEMENT FOR A SEVEN YEAR TERM STARTING ON APRIL 1, 1981 WAS SIGNED LAST OCTOBER REPLACING ONE IN EFFECT SINCE 1976.

UNDER THE NEW AGREEMENT, SIR PHILIP SAID, THE RESIDENT GARRISON WOULD BE STRENGTHENED BY AN ADDITIONAL INFANTRY BATTALION, RAISING THE TOTAL FROM FOUR TO FIVE. ABOUT \$40 MILLION IS INCLUDED IN THE DRAFT ESTIMATES FOR WORK ON NEW BARRACKS NEEDED FOR THE NEW BATTALION.

HE SAID WORKS SERVICES WOULD TOTAL \$183 MILLION FOR BOTH CAPITAL WORKS AND MAINTENANCE AND THE REPROVISIONING OF LYEMUN AND SHAM SHUI PO CAMPS WAS ESTIMATED AT \$131 MILLION.

SIR PHILIP ALSO SAID CONSTRUCTION OF FIVE NEW PATROL CRAFT SHOULD START IN 1981-82 AND BE COMPLETE BY THE END OF 1984.

THE HONG KONG GOVERNMENT'S 75 PER CENT CONTRIBUTION TO CAPITAL COSTS IN 1981-82 WOULD BE \$66 MILLION.

OTHER PROVISIONS IN THE DRAFT ESTIMATES INCLUDE \$26 MILLION FOR THE RECONSTRUCTION, AND \$3 MILLION FOR THE MAINTENANCE OF THE BORDER FENCE SYSTEM, AND \$4 MILLION FOR THE MAINTENANCE OF THE ROYAL HONG KONG AUXILIARY AIR FORCE AIRCRAFT, INCLUDING THREE NEW TWIN ENGINE HELICOPTERS DELIVERED IN 1980-81.

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INCREASE IN PRIMARY SCHOOL PLACES

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EXPENDITURE ON EDUCATION IN 1981-82 IS ESTIMATED TO BE \$3 634.7 MILLION, THE FINANCIAL SECRETARY, THE HON SIR PHILIP HADDON-CAVE, SAID IN THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

SIR PHILIP SAID THE DRAFT ESTIMATES INCLUDED PROVISION OF \$1 023 MILLION FOR GOVERNMENT AND AIDED PRIMARY SCHOOLS.

HE SAID THAT IN LINE WITH THE GOVERNMENT'S POLICY THAT NO CHILD SHOULD HAVE TO TRAVEL AN UNREASONABLE DISTANCE TO ATTEND PRIMARY SCHOOL, 14 NEW PRIMARY SCHOOLS, PROVIDING AN ADDITIONAL 2 500 PLACES, ARE EXPECTED TO BE COMPLETED IN THE FISCAL YEAR IN CONJUNCTION WITH THE DEVELOPMENT OF PUBLIC HOUSING ESTATES IN THE NEW TOWNS AND OTHER DEVELOPING AREAS.

IN PURSUIT OF THE OBJECTIVE TO INCREASE, DURING THE 1980S, THE NUMBER OF PLACES IN SCHOOLS, TECHNICAL INSTITUTES AND ADULT EDUCATION CENTRES, SIR PHILIP SAID THAT BY SEPTEMBER 1981, SUBSIDISED FORM IV PLACES IN SECONDARY SCHOOLS WOULD BE INCREASED TO 58 400- FULL-TIME PLACES ON CRAFT AND DIPLOMA COURSES AT THE FIVE TECHNICAL INSTITUTES TO 4 200- AND PART-TIME DAY COURSES TO 16 000.

/THE ESTIMATES

THE ESTIMATES PROVIDE \$1 162 MILLION FOR SECONDARY SCHOOLS AND TECHNICAL INSTITUTES.

HE ALSO NOTED THAT MORE THAN 50 PRIVATE NON-PROFIT-MAKING SCHOOLS WOULD BE CONVERTED INTO FULLY AIDED SCHOOLS BY SEPTEMBER 1982.

AND, SOME 65 NEW SCHOOLS WOULD BE BUILT DURING THE NEXT THREE TO FOUR YEARS, SIR PHILIP SAID.

ON POST-SECONDARY COLLEGES, SIR PHILIP SAID THE ENROLMENTS OF BAPTIST COLLEGE AND LINGNAN COLLEGE WOULD INCREASE FROM 2 367 TO 3 217, WHICH WOULD ACCOUNT FOR EXPENDITURE OF \$17 MILLION IN 1981-82.

HE SAID THE DRAFT ESTIMATES PROVIDED \$840.6 MILLION FOR EXPENDITURE IN CONNECTION WITH UNIVERSITY AND POLYTECHNIC EDUCATION, AND THE RECOMMENDATIONS FOR GRANTS SUBMITTED BY THE UNIVERSITY AND POLYTECHNIC GRANTS COMMITTEE WOULD INVOLVE \$634 MILLION.

FULLY EARMARKED GRANTS OF \$20 MILLION AND \$38 MILLION ARE ALSO PROVIDED FOR IN THE DRAFT ESTIMATES FOR THE DEVELOPMENT OF A NEW MEDICAL SCHOOL AT THE CHINESE UNIVERSITY AND A NEW DENTAL SCHOOL AT THE UNIVERSITY OF HONG KONG RESPECTIVELY, HE SAID.

SIR PHILIP ALSO POINTED OUT THAT A SUBVENTION OF \$17 MILLION IS INCLUDED IN THE 1981-82 DRAFT ESTIMATES TO MEET THE OPERATING EXPENSES OF THE PRINCE PHILIP DENTAL HOSPITAL WHICH WOULD BE READY TO ACCEPT PATIENTS IN APRIL.

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\$1 800 MILLION EARMARKED FOR HEALTH
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THE GOVERNMENT HAS PROPOSED TO EARMARK \$1 884 MILLION FOR MEDICAL AND HEALTH SERVICES IN THE NEXT FINANCIAL YEAR, THE FINANCIAL SECRETARY, THE HON SIR PHILIP HADDON-CAVE SAID TODAY.

SIR PHILIP SAID THE DRAFT ESTIMATES PROVIDED FOR EXPENDITURE BY THE MEDICAL AND HEALTH DEPARTMENT OF \$1 077 MILLION, ON MEDICAL SUBVENTIONS OF \$590 MILLION AND ON CAPITAL WORKS OF \$212 MILLION.

HE SAID THE INTEGRATION OF GOVERNMENT AND SUBVENTED HOSPITALS WITHIN THE REGIONAL SYSTEM HAD ALLEVIATED OVER-CROWDING IN THE MAIN GOVERNMENT REGIONAL HOSPITALS.

+TO ENABLE SUBVENTED HOSPITALS TO MAKE A STILL GREATER CONTRIBUTION TO THE TREATMENT OF ACUTE HOSPITAL CASES, DEVELOPMENT PROGRAMMES ARE UNDERWAY IN THE YAN CHAI, CARITAS AND POK OI HOSPITALS.+

SIR PHILIP SAID NEARLY 1 300 ADDITIONAL BEDS WOULD BE PROVIDED TO GOVERNMENT AND SUBVENTED HOSPITALS IN THE NEXT FINANCIAL YEAR WHICH, TOGETHER WITH THE EXISTING 21 000 BEDS, +WILL MEET APPROXIMATELY 80 PER CENT OF THE ESTIMATED REQUIREMENT.+

/+THIS IS

+THIS IS EQUIVALENT TO FOUR BEDS PER 1 000 POPULATION,+ HE ADDED.

THE FINANCIAL SECRETARY SAID SEVERAL MAJOR PROJECTS IN SUBVENTED HOSPITALS WOULD BE COMPLETED IN 1981-82. THESE INCLUDED THE NEW PATHOLOGY WING AT THE KWONG WAH HOSPITAL, A CARDIAC-THORACIC CENTRE AT THE GRANTHAM HOSPITAL AND AN EXTENSION TO THE WONG TAI SIN INFIRMARY. SIX NEW CLINICS AND POLYCLINICS WERE ALSO DUE FOR COMPLETION IN THE FORTHCOMING FINANCIAL YEAR.

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WELFARE ALLOWANCES TO BE RAISED

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THE FINANCIAL SECRETARY HAS EARMARKED \$1 126.9 MILLION FOR SOCIAL WELFARE IN HIS 1981-82 DRAFT ESTIMATES, COMPARED WITH THE REVISED ESTIMATES OF \$830.5 MILLION FOR THE CURRENT YEAR.

THE HON SIR PHILIP HADDON-CAVE ALSO PROPOSED AT THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY) RAISING THE BASIC RATES OF PUBLIC ASSISTANCE AND SPECIAL NEEDS ALLOWANCES TO IMPROVE, IN REAL TERMS, THE STANDARD OF LIVING OF PEOPLE RECEIVING SOCIAL SECURITY.

THE DRAFT ESTIMATES, HE SAID, INCLUDED ADDITIONAL PROVISION OF \$145 MILLION, COMPRISING \$54.5 MILLION FOR PUBLIC ASSISTANCE, \$86.5 MILLION FOR SPECIAL NEEDS ALLOWANCES AND \$4 MILLION FOR RENTAL ALLOWANCES, SPECIFICALLY TO INCREASE BASIC RATES.

SIR PHILIP SAID A LARGE PORTION OF RECURRENT EXPENDITURE WOULD CONTINUE TO BE CHANNELLED THROUGH SOCIAL WELFARE SUBVENTIONS TO VOLUNTARY AGENCIES -- \$192 MILLION (INCLUDING \$26 MILLION FOR REHABILITATION SERVICES) FOR THIS PURPOSE, AN INCREASE OF 32 PER CENT OVER 1980-81.

THE BULK WOULD BE DISBURSED, ON THE ADVICE OF THE SOCIAL WELFARE ADVISORY COMMITTEE, IN DISCRETIONARY GRANTS TO VOLUNTARY AGENCIES.

OF \$78 MILLION FOR CAPITAL PROJECTS IN 1981-82, \$41 MILLION WOULD BE PROVIDED UNDER THE PUBLIC WORKS NON-RECURRENT HEADS AND \$37 MILLION WOULD BE PROVIDED FROM THE LOTTERIES FUND, COMPARED WITH \$15 AND \$31 MILLION IN THE REVISED 1980-81 ESTIMATES.

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CUTS IN BUSINESS TAX, ESTATE DUTY

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THE FINANCIAL SECRETARY, THE HON SIR PHILIP HADDON-CAVE TODAY PROPOSED CUTS IN BUSINESS TAXATION, ESTATE DUTY, STAMP DUTY ON CONVEYANCES OF LOW VALUE PROPERTIES AND AN INCREASE IN DEPRECIATION ALLOWANCES.

ON BUSINESS TAXATION, SIR PHILIP PROPOSED TO REMOVE THE HALF PERCENTAGE POINT LOADING LEVIED WITH EFFECT FROM THE YEAR OF ASSESSMENT 1976-77, THUS RETURNING THE EFFECTIVE RATE OF CORPORATION PROFITS TAX TO 16-1/2 PER CENT.

HE SAID, +LEST IT BE THOUGHT THAT THIS PROPOSAL WILL ONLY BENEFIT A FEW LARGE CORPORATIONS, MAY I REMIND MEMBERS THAT THE NUMBER OF LIMITED LIABILITY COMPANIES PAYING CORPORATION PROFITS TAX IS PRESENTLY OF THE ORDER OF 18 000, MANY OF WHICH ARE SMALL FAMILY-OWNED BUSINESSES.+

THE COST TO THE REVENUE IN 1981-82 WILL BE \$206 MILLION, OR 3.5 PER CENT OF ESTIMATED REVENUE FROM CORPORATION PROFITS TAX.

ON DEPRECIATION ALLOWANCES, THE FINANCIAL SECRETARY PROPOSED THAT THE INITIAL ALLOWANCES SHOULD BE INCREASED FROM 25 PER CENT TO 35 PER CENT AND THAT THE 33 HEADS WHICH ATTRACT DEPRECIATION ALLOWANCES BE RE-GROUPED UNDER THREE RATES OF ANNUAL ALLOWANCE OF 10 PER CENT, 20 PER CENT AND 30 PER CENT.

THESE TAX CONCESSIONS, SIR PHILIP SAID, ARE DESIGNED TO OFFER ENCOURAGEMENT TO MANUFACTURERS AND OTHERS TO RE-EQUIP AND UPGRADED THEIR PLANT AND EQUIPMENT AS OUR ECONOMY FACES UP TO THE CHALLENGES OF A CHANGING WORLD TRADING ENVIRONMENT. THE COST TO THE REVENUE OF THESE ALLOWANCES WILL BE \$119 MILLION IN A FULL ORDINARY YEAR.

THE FINANCIAL SECRETARY ALSO PROPOSED TO RAISE THE LIMIT BELOW WHICH ESTATE DUTY IS NOT PAYABLE FROM \$600 000 TO \$1 MILLION FOR PERSONS DYING AFTER THE ENACTMENT OF THE NECESSARY LEGISLATION. THE COST TO THE REVENUE WILL BE ABOUT \$13 MILLION IN 1981-82 AND PERHAPS \$17 MILLION IN 1982-83.

ON STAMP DUTY ON CONVEYANCES OF LOW VALUE PROPERTIES, SIR PHILIP PROPOSED THAT THE LIMIT FOR THE FIXED CONCESSIONARY RATE OF \$20 BE RAISED FROM \$100 000 TO \$250 000 WHILE THE LIMIT FOR THE FIXED CONCESSIONARY AD VALOREM RATE OF DUTY OF ONE PER CENT BE RAISED FROM \$250 000 TO \$500 000. ABOUT 48 000 FLAT PURCHASERS WILL BENEFIT FROM THESE HIGHER LIMITS AND THE COST TO THE REVENUE OF IMPLEMENTING THIS PROPOSAL WILL BE NO LESS THAN \$155 MILLION IN 1981-82. THESE NEW LIMITS WILL BE EFFECTIVE FROM THE OPENING OF BUSINESS TOMORROW (THURSDAY) MORNING.

BILLS TO AMEND THE INLAND REVENUE ORDINANCE TO PROVIDE FOR HIS PROPOSALS IN RESPECT OF PERSONAL TAXATION, CORPORATION PROFITS TAX, THE INITIAL DEPRECIATION ALLOWANCE FOR PLANT AND MACHINERY AND ESTATE DUTY WILL BE INTRODUCED INTO THE LEGISLATIVE COUNCIL AS SOON AS POSSIBLE.

THE COST TO THE REVENUE OF THESE FIVE CONCESSIONARY PROPOSALS INCLUDING THAT FOR PERSONAL TAXATION WILL BE \$1 250 MILLION IN 1981-82.

NEW LEGAL DEFINITION ON BANKING

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THE GOVERNMENT IS ABOUT TO DRAFT LEGISLATION ON A DEFINITION OF BANKING BUSINESS, THE FINANCIAL SECRETARY, THE HON SIR PHILIP HADDON-CAVE, SAID TODAY.

LEGISLATIVE AMENDMENTS ARE ALSO BEING CONSIDERED TO CREATE A NEW CATEGORY OF DEPOSIT-TAKING COMPANIES (DTCS) WHICH COULD BE LOOSELY DESCRIBED AS MERCHANT BANKS, SIR PHILIP SAID IN PRESENTING HIS BUDGET.

HE ALSO SAID THE NEW HONG KONG ASSOCIATION OF BANKS WOULD SOON BE REVIEWING THE RULES BINDING ON MEMBER BANKS AND HOPED IT WOULD PROVIDE A CHANCE TO CONSIDER THE EXTENT TO WHICH BANKS SHOULD BE FREE TO COMPETE ON THE RANGE AND COST OF THE DIFFERENT SERVICES WHICH THEY OFFERED TO THEIR CUSTOMERS.

TURNING TO THE BANKING BUSINESS DEFINITION, SIR PHILIP SAID IT HAD REMAINED UNCHANGED SINCE 1964.

+THE PRESENT DEFINITION OF BANKING BUSINESS REALLY NEEDS TO BE RECONSIDERED IN THE CONTEXT OF A CAREFUL EXAMINATION OF THE ROLE AND SCOPE OF THE DTCS INDUSTRY,+ HE SAID.

SIR PHILIP SAID THERE WERE TWO RELATED ASPECTS TO THE QUESTION OF THE DEFINITION:

- * THE NEED TO REINFORCE THE HONG KONG ASSOCIATION OF BANKS' INTEREST RATE AGREEMENT, SINCE THE INTEREST RATE MECHANISM IS, EFFECTIVELY, THE ONLY MONETARY POLICY WHICH IS AVAILABLE TO US WHATEVER MAY BE ARGUED TO THE CONTRARY BY SOME COMMENTATORS, WHO SEEM TO ASSUME THAT THEIR IDEAS, TO THE EXTENT THAT THEY ARE COMPREHENSIBLE, HAVE NOT ALREADY BEEN CONSIDERED AND REJECTED, FOR ONE REASON OR ANOTHER, BY US.
- * THE NEED TO SAFEGUARD THE INTERESTS OF DTCS, BOTH FROM THE POINT OF VIEW OF THEIR DEPOSITORS AND THE CUSTOMERS TO WHOM THEY HAVE LENT THEIR DEPOSIT RESOURCES (AND, ALSO, TO SOME EXTENT, FROM THE POINT OF VIEW OF THE PROPRIETY OF REMOVING FROM THEM THE ABILITY TO PURSUE A BUSINESS WHICH THEY HAVE BEEN CARRYING ON IN HONG KONG FOR UP TO 10 YEARS OR MORE).

SIR PHILIP SAID IT HAD BEEN ARGUED BY SOME THAT BANKS ALONE SHOULD BE PERMITTED TO TAKE DEPOSITS WITH AN ORIGINAL TERM OF MATURITY OF LESS THAN THREE MONTHS- AND THAT DTCS SHOULD ONLY BE ABLE TO ACCEPT DEPOSITS WITH AN ORIGINAL TERM TO MATURITY OF THREE MONTHS OR MORE.

+THE MAIN DIFFICULTY WITH SUCH A RE-DEFINITION OF THE BUSINESS WHICH DTCS WOULD BE PERMITTED TO UNDERTAKE IS THAT IT FAILS TO TAKE INTO ACCOUNT THE EXISTENCE OF WHOLESALE DEPOSITS,+ HE EXPLAINED.

HE SAID THESE WERE LARGE DEPOSITS PLACED WITH DTCS BY COMPANIES (OTHER THAN BANKS AND DTCS) AND BY SOME INDIVIDUALS, FOR ANY PERIOD, SHORT OR LONG.

+THE PRINCIPAL CHARACTERISTIC OF THESE DEPOSITS IS THAT THEY ARE VERY SENSITIVE TO INTEREST RATE CONSIDERATIONS: IF SUCH DEPOSITS CANNOT EARN IN HONG KONG A RATE OF INTEREST AT, OR VERY CLOSE TO, THE MARKET RATE, AS OPPOSED TO THE RATE PAID BY THE BANKS UNDER THE INTEREST RATE AGREEMENT, THESE DEPOSITS MAY VERY WELL, AND SUBJECT TO THE EXCHANGE RATE CONSIDERATIONS, BE MOVED OUT OF HONG KONG, WITH CONSEQUENTIAL PRESSURE ON THE EXCHANGE RATE.

+CLEARLY, AN INTERNATIONAL FINANCIAL CENTRE SHOULD BE ABLE TO OFFER A MARKET RATE OF INTEREST TO THOSE WISHING TO PLACE LARGE DEPOSITS HERE, WHETHER THEY ARE CONTROLLED FROM INSIDE HONG KONG, OR FROM ELSEWHERE,+ HE SAID.

BUT, HE ADDED, THIS WAS PRECISELY WHAT WOULD NOT BE AVAILABLE IN HONG KONG IF THE BANKING ORDINANCE WERE AMENDED TO GIVE THE BANKS THE SOLE RIGHT TO TAKE DEPOSITS WITH AN ORIGINAL TERM TO MATURITY OF LESS THAN THREE MONTHS, WITH NO OTHER LEGISLATIVE CHANGES, AND WITH THE INTEREST RATE AGREEMENT OF THE HONG KONG ASSOCIATION OF BANKS CONTINUING IN FORCE, AS MUST BE THE CASE.

ON THE PROPOSED MERCHANT BANK CATEGORY, SIR PHILIP SAID A SMALL NUMBER OF DTCS COULD BE LICENSED AS SUCH, IN ACCORDANCE WITH CRITERIA NOW BEING DEVELOPED:

+THEY WOULD BE PERMITTED TO TAKE DEPOSITS WITH NO LIMITATION AS TO THEIR TERM TO MATURITY, BUT THE MINIMUM SIZE OF ANY INITIAL DEPOSIT WOULD BE SET AT, SAY, \$500 000 FOR ANY TERM (WHICH SUM WOULD HAVE TO BE REVISED UPWARDS FROM TIME TO TIME).+

SIR PHILIP ADDED THAT ALL OTHER DTCS WOULD BE RESTRICTED TO DEPOSITS WITH AN ORIGINAL TERM TO MATURITY OF THREE MONTHS OR MORE AND THEY WOULD, AS NOW, BE RESTRICTED TO DEPOSITS OF \$50 000 OR MORE (WHICH SUM WOULD, ALSO, HAVE TO BE REVISED UPWARDS IN DUE COURSE FOR IT WAS SET AS LONG AGO AS 1976).

THE POSITION OF LICENSED BANKS IN THE MARKET, HE EXPLAINED, WOULD BE IN FUTURE AS FOLLOWS:

- * THEY WOULD CONTINUE TO HAVE A MONOPOLY FOR ALL DEPOSITS OF UP TO \$50 000.
- * THEY WOULD ALSO HAVE THE SOLE RIGHT TO TAKE DEPOSITS WITH AN ORIGINAL TERM TO MATURITY OF LESS THAN THREE MONTHS UP TO, SAY, \$500 000.
- * FOR LARGER DEPOSITS OF ANY MATURITY, THEY WOULD HAVE TO COMPETE WITH THE PROPOSED NEW CATEGORY OF MERCHANT BANKS.
- * FOR DEPOSITS OF \$50 000 OR MORE WITH AN ORIGINAL TERM TO MATURITY OF THREE MONTHS OR MORE, THEY WOULD HAVE TO COMPETE WITH THOSE DTCS NOT LICENSED AS MERCHANT BANKS, AS WELL AS THE LATTER IN RESPECT OF DEPOSITS OF \$500 000 OR MORE.

+I BELIEVE THIS APPROACH WOULD STRENGTHEN THE MONETARY SYSTEM, AND ALSO THE GOVERNMENT'S INFLUENCE OVER INTEREST RATES, WHILE LEAVING AVAILABLE TO BOTH LARGE AND SMALL DEPOSITORS A REASONABLE CHOICE OF INSTITUTIONS WITH WHOM THEIR FUNDS CAN BE PLACED,+ HE SAID.

/SIR PHILIP

SIR PHILIP SAID THIS APPROACH WOULD BE SUBJECT TO THE ADVICE OF EXECUTIVE COUNCIL AND TRANSITIONAL ARRANGEMENTS WOULD HAVE TO BE VERY CAREFULLY DEvised. HE ALSO SAID HE INTENDED TO FORWARD TO THE COUNCIL A REVIEW OF THE POLICY ON LICENSING OF BANKS UNDER THE BANKING ORDINANCE.

SPEAKING ON TAXATION TREATMENT OF FOREIGN CURRENCY DEPOSITS, SIR PHILIP SAID HE WAS ABSOLUTELY SATISFIED THAT THERE WAS NO CASE, ON ANY GROUNDS, FOR THE TOTAL ABOLITION OF INTEREST TAX.

BUT, HE ADDED, THE FISCAL AND MONETARY ARGUMENTS HE HAD DEPLOYED IN 1973 AND 1974 AGAINST THE CONCEPT OF EXEMPTING FOREIGN CURRENCY DEPOSITS HELD IN HONG KONG MIGHT BE NO LONGER VALID IN PRESENT-DAY CIRCUMSTANCES.

HE SAID A PROPOSAL IS NOW BEING STUDIED IN WHICH INTEREST PAYABLE ON DEPOSITS DENOMINATED IN FOREIGN CURRENCIES ABOVE A CERTAIN MINIMUM SIZE, ACCEPTED BY INSTITUTIONS OF A CERTAIN STATUS (LICENSED BANKS AND THE PROPOSED MERCHANT BANKS), BE MADE EXEMPT FROM ANY WITHOLDING OBLIGATION.

+ IF THE OUTCOME OF THE EXAMINATION OF THIS PROPOSITION IS THAT THE FISCAL AND MONETARY IMPLICATIONS OF IMPLEMENTING IT ARE REASONABLY PREDICTABLE AND AT LEAST NEUTRAL, AND THE ECONOMIC IMPLICATIONS PROBABLY BENEFICIAL, THEN, SUBJECT TO THE ADVICE OF EXECUTIVE COUNCIL, AN APPROPRIATE AMENDMENT TO THE INLAND REVENUE ORDINANCE WILL BE INTRODUCED INTO THIS COUNCIL LATER THIS SESSION,+ HE SAID.

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HK'S TERTIARY SERVICES TO GROW WITH CHINA TRADE

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THE RELATIVE SIZE OF THE CONTRIBUTION OF HONG KONG'S TERTIARY SERVICES SECTOR IS ENVISAGED TO CONTINUE INCREASING DUE, IN NO SMALL MEASURE, TO DEMANDS LIKELY TO ARISE FROM THE EXPANSION OF CHINA'S INTERNATIONAL TRADE, A CONDITION AND A CONSEQUENCE OF THE FOUR MODERNISATIONS PROGRAMME.

THIS WAS STATED TODAY BY THE FINANCIAL SECRETARY, THE HON SIR PHILIP HADDON-CAVE IN HIS BUDGET SPEECH.

SIR PHILIP NOTED THAT ADDITIONAL FACILITIES ARE BEING PROVIDED TO COPE WITH THESE DEMANDS. THESE INCLUDE THE MODERNISATION OF THE KCR WHICH WILL IMPROVE RAIL LINKS WITH CHINA BY THE END OF 1982- RECLAMATIONS IN CHEUNG SHA WAN AND WESTERN WHICH WILL ENABLE IMPROVEMENTS TO BE MADE IN THE SEA LINK FACILITIES- AND THE IMPROVEMENTS TO THE ROAD LINKS WHICH WILL TAKE LONGER TO ACHIEVE. STUDIES ARE ALSO IN PROGRESS ON OIL RELATED FACILITIES AND THERE HAVE BEEN VARIOUS EXCHANGES OF MISSIONS WITH CHINA AS PART OF A MUTUAL EFFORT TO STRENGTHEN OUR ECONOMIC LINKS GENERALLY.

HE SAID THE PROVISION OF SUCH ADDITIONAL FACILITIES WOULD ALSO CONSTITUTE A FURTHER DIVERSIFICATION OF OUR ECONOMY AND SHOULD MAKE IT LESS VULNERABLE TO DOWNTURNS IN SPECIFIC TRADES.

+SO I ENVISAGE THAT INFRASTRUCTURAL AND INSTITUTIONAL DEVELOPMENTS IN HONG KONG WILL BE COMPATIBLE WITH TRADE AND OTHER FLOWS TO, AND FROM, CHINA THROUGH HONG KONG,+ SIR PHILIP SAID.

WITHIN THE TERTIARY SERVICES SECTORS, THE FINANCIAL SECRETARY ALSO ENVISAGED THAT THE FINANCIAL AND RELATED BUSINESS SERVICES SECTOR WILL CONTINUE TO DEVELOP AS A SOURCE OF FOREIGN EXCHANGE EARNINGS IN ITS OWN RIGHT.

+BUT THIS MEANS THAT WE SHALL HAVE TO ADAPT, AND MONITOR CONTINUOUSLY, THE GROUND RULES WITHIN WHICH THE CONSTITUENT MARKETS OPERATE SO AS TO ACHIEVE A BALANCE BETWEEN THE LOW LEVEL OF GOVERNMENT REGULATION DICTATED BY PARTICIPANTS - THOUGH SOME PARTICIPANTS CAN BE AMBIVALENT IN THEIR ATTITUDES - AND THE LEVEL OF PRUDENTIAL SUPERVISION NECESSARY TO KEEP IN LINE WITH DEVELOPING INTERNATIONAL STANDARDS,+ HE ADDED.

SIR PHILIP ALSO ENVISAGED THAT PARTLY AS A CONSEQUENCE OF PROTECTIONISM, THE RELATIVE SIZE OF THE CONTRIBUTION OF THE MANUFACTURING SECTOR TO THE GROSS DOMESTIC PRODUCT WILL DECLINE FURTHER, ALTHOUGH IT WILL CONTINUE TO BE THE LARGEST SINGLE SECTOR OF OUR ECONOMY, PARTICULARLY IN TERMS OF EMPLOYMENT.

HE NOTED THAT HONG KONG'S RECENT EXPERIENCE WHEN NEGOTIATING BILATERAL AGREEMENTS UNDER THE MULTI-FIBRE ARRANGEMENT (MFA) INDICATES THAT THE MAJOR INDUSTRIALISED COUNTRIES ARE MOVING TOWARDS DISCRIMINATORY TREATMENT OF DIFFERENT SUPPLIERS, THEREBY BREACHING THE SPIRIT AND EVEN THE LETTER OF MFA.

HOWEVER, HE SAID, WHATEVER THE COURSE OF DEVELOPMENT OF THE MANUFACTURING SECTOR IN THE 1980'S, IT WILL NEED TO BE SUPPORTED BY AN EVEN GREATER STRESS ON TECHNICAL EDUCATION, ON AREA WHICH HE HOPED TO SEE A GREATER INVOLVEMENT OF PUBLIC FUNDS.

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FACTS AND MYTHS OF THE MFA * * * * *

THE MULTILATERAL NEGOTIATIONS FOR A SUCCESSOR ARRANGEMENT TO THE MULTI-FIBRE ARRANGEMENT (MFA) WILL BE A MAJOR PREOCCUPATION DURING THE YEAR, THE FINANCIAL SECRETARY, THE HON SIR PHILIP HADDON-CAVE, SAID TODAY (WEDNESDAY).

IN HIS BUDGET SPEECH, SIR PHILIP SAID THE SIGNIFICANCE OF THE MFA TO HONG KONG WAS BEYOND QUESTION - OUR EXPORTS OF TEXTILES AND CLOTHING STILL ACCOUNTED FOR ABOUT 40 PER CENT OF TOTAL DOMESTIC EXPORTS, 45 PER CENT OF THE OUTPUT OF THE MANUFACTURING SECTOR AND 43 PER CENT OF EMPLOYMENT.

+THIS DEPENDENCE, DICTATED AS IT IS BY HONG KONG'S CIRCUMSTANCE, IS VERY MUCH GREATER THAN THE DEPENDENCE OF THE ECONOMIES OF OUR MAIN MARKETS ON THEIR TEXTILES AND CLOTHING INDUSTRY,+ HE SAID.

SIR PHILIP SAID THE SHORTCOMINGS OF THE MFA IN RECENT YEARS HAVE NOT BEEN SO MUCH THAT IT HAS BEEN INADEQUATE, BUT RATHER THAT, FOR ONE REASON OR ANOTHER, IT HAS BEEN INADEQUATELY RESPECTED.

/+NO DOUBT

+NO DOUBT THE 'DEVELOPED' COUNTRIES WILL DRAW HEAVILY ON THE PRESENT STATE OF THEIR ECONOMIES AND THEIR PRESENT LEVEL OF UNEMPLOYMENT AS EXCUSES, ALTHOUGH TRADE IN TEXTILES AND CLOTHING CANNOT BE HELD RESPONSIBLE FOR EITHER PLIGHT.+

SIR PHILIP SAID THE FALLACIES BEHIND THE WAY IN WHICH THE PRESENT MFA HAS BEEN APPLIED AS A RESULT OF THE SO-CALLED +REASONABLE DEPARTURES+ PROVISION WERE DISCLOSED IN THE PUBLICATION OF THE HONG KONG TEXTILE AND CLOTHING INDUSTRIES' JOINT CONFERENCE, +MYTHS, FACTS AND APPLICATION+.

IT ALSO DEMOLISHED MOST EFFECTIVELY THE ARGUMENTS THAT WERE SUPPOSED TO JUSTIFY THE MFA AND UNDERLINED THE DOMINANT POSITION OF THE DEVELOPED COUNTRIES IN WORLD TRADE.

THE PUBLICATION CAME TO TWO VERY SIGNIFICANT CONCLUSIONS, SIR PHILIP SAID.

+THE FIRST IS THAT IMPORTS HAVE NOT BEEN THE PRINCIPAL CAUSE IN THE DECLINE IN EMPLOYMENT. THE SECOND IS THAT, WHERE JOBS WERE LOST BECAUSE OF IMPORTS AS OPPOSED TO INCREASED PRODUCTIVITY, IT WAS IMPORTS FROM 'DEVELOPED' COUNTRIES THAT ACCOUNTED FOR THE BULK OF THE LOSSES NOT IMPORTS FROM 'DEVELOPING' COUNTRIES.+

OUR GENERAL POSTURE OVER THE COMING MONTHS, HE SAID, MUST BE ONE OF ATTACK, FOR THE ARGUMENTS ARE CERTAINLY ON OUR SIDE.

+BUT THOSE DIRECTLY CONCERNED IN THE TRADE INDUSTRY AND CUSTOMS DEPARTMENT WILL NEED TO BEAR IN MIND LORD CHALFONT'S MEMORABLE SPECIFICATION FOR A SUCCESSFUL NEGOTIATOR: HE MUST HAVE, HE ONCE WROTE, 'THE PRECIOUS GIFT OF LISTENING TO HOURS OF CANT, HYPOCRISY AND BARELY CONCEALED BLACKMAIL WHILE WEARING THE EXPRESSION OF ENTRANCED SERENITY NORMALLY RESERVED FOR THE SLOW MOVEMENT OF MAHLER'S FIFTH SYMPHONY'.+

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TELEVISION TALK ON BUDGET

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THE FINANCIAL SECRETARY, THE HON SIR PHILIP HADDON-CAVE, SPOKE ON THE 1981/82 BUDGET IN A TELEVISION BROADCAST THIS (WEDNESDAY) EVENING.

THE FOLLOWING IS THE FULL TEXT OF HIS TALK:

GOOD EVENING:

THIS AFTERNOON I PRESENTED MY TENTH BUDGET TO THE LEGISLATIVE COUNCIL.

I WAS ABLE TO REPORT THAT 1980 WAS ANOTHER GOOD YEAR FOR THE ECONOMY WHICH GREW BY 9 PER CENT IN REAL TERMS, THAT IS TO SAY, AFTER ALLOWING FOR INFLATION. INFLATION ACCELERATED IN 1980 AND NONE OF US LIKES THIS, BUT IT IS NOT EASY TO AVOID INFLATION IN A FAST DEVELOPING AND DIVERSIFYING ECONOMY AND PARTICULARLY ONE WHICH IS SO EXPOSED TO THE OUTSIDE WORLD LIKE OURS.

/BUT LET

BUT LET US NOT FORGET THAT HONG KONG'S EXPERIENCE HAS BEEN MARKEDLY DIFFERENT FROM THAT OF MANY OTHER PLACES WHERE INFLATION HAS BEEN ASSOCIATED WITH SLUGGISH ECONOMIC ACTIVITY AND HIGH UNEMPLOYMENT. SINCE THE RECESSION SIX YEARS AGO, OUR ECONOMY HAS INCREASED IN SIZE BY 70 PER CENT, THE AVERAGE INCOME OF THE POPULATION HAS INCREASED BY AS MUCH AS 50 PER CENT IN REAL TERMS, DESPITE THE FACT THAT OUR POPULATION INCREASED RAPIDLY, AND THE UNEMPLOYMENT RATE HAS BEEN CONSISTENTLY LOW.

IT IS TRUE THAT, IN THE SECOND HALF OF 1980 THERE WAS A SHARP SLOW DOWN IN OUR EXPORT PERFORMANCE AND THE UNEMPLOYMENT RATE INCREASED SOMEWHAT= AND THE IMMEDIATE OUTLOOK IS UNCERTAIN. BUT OUR TRADING PROSPECTS IN THE LATTER MONTHS OF 1981 ARE MORE PROMISING AND OUR PROSPERITY IS NOT AS DEPENDENT ON THE EXPORT OF GOODS MANUFACTURED HERE AS IT USED TO BE. SO I THINK OUR ECONOMY SHOULD ACHIEVE QUITE A RESPECTABLE GROWTH RATE IN 1981 OF PERHAPS 8 PER CENT IN REAL TERMS, AGAIN AFTER ALLOWING FOR INFLATION= AND INFLATION SHOULD EASE OFF THIS YEAR ANYWAY, BUT NOT, I REGRET, DRAMATICALLY FOR WE SHALL STILL HAVE TO LIVE WITH IMPORTED INFLATION AND OUR OWN ECONOMY WILL STILL BE FORGING AHEAD.

I WAS ALSO ABLE TO REPORT TO THE LEGISLATIVE COUNCIL THAT OUR PUBLIC FINANCES ARE IN GOOD SHAPE= EVEN AFTER ALLOWING FOR A FURTHER LARGE INVESTMENT IN THE MASS TRANSIT RAILWAY CORPORATION, THE GOVERNMENT'S ACCOUNTS FOR 1980-81 WILL SHOW A SURPLUS OF ABOUT \$6 000 MILLION OR TWICE WHAT I BUDGETTED FOR. THIS WAS NOT DUE TO ANY FAILURE TO SPEND IN ACCORDANCE WITH OUR STATED INTENTIONS.

INDEED, EXPENDITURE WILL EXCEED THE ORIGINAL ESTIMATE BY \$1 700 MILLION. BUT REVENUE, PARTICULARLY REVENUE FROM EARNINGS AND PROFITS TAXES, STAMP DUTIES AND LAND SALES ALSO EXCEEDED MY ORIGINAL EXPECTATIONS AND VERY SUBSTANTIALLY.

THE SURPLUS OF \$6 000 MILLION WILL BE ADDED TO OUR RESERVES WHICH WILL THEN STAND AT OVER \$15 000 MILLION. ABOUT ONE THIRD OF THESE RESERVES HAVE TO BE EARMARKED AS COVER FOR THE LOANS RAISED FOR THE CONSTRUCTION OF THE MASS TRANSIT RAILWAY AND OTHER POSSIBLE LIABILITIES. THE REMAINDER, ABOUT \$10 000 MILLION, REPRESENTS OUR ACCUMULATED SAVINGS AND PROVIDES US WITH A VERY NECESSARY DEGREE OF SECURITY AGAINST ANY UNEXPECTED, DECLINE IN REVENUE WE MAY SUFFER, AND ANY UNFORESEEN COMMITMENTS WHICH MAY BE THRUST UPON US. OUR RESERVES COULD ALSO BE USED TO HELP FINANCE ANY PROJECTS WHICH WE MAY EMBARK UPON IN THE 1980S AND WHICH ARE REALLY TOO LARGE TO BE FINANCED FROM CURRENT REVENUE ALONE.

THAT VERY BRIEFLY IS THE ECONOMIC AND FINANCIAL BACKGROUND AGAINST WHICH I PREPARED THE BUDGET: THE ESTIMATES, WHICH MEMBERS OF FINANCE COMMITTEE WILL BE EXAMINING IN DETAIL NEXT WEEK, ENVISAGE EXPENDITURE OF \$24 600 MILLION, A 25 PER CENT INCREASE ON EXPENDITURE IN 1980-81.

THIS IS A VERY LARGE INCREASE BUT I THINK OUR ECONOMY CAN JUST ABOUT STAND THE STRAIN. NEARLY TWO THIRDS OF TOTAL EXPENDITURE WILL BE ABSORBED BY THE RECURRENT COSTS OF OUR VARIOUS SERVICES SUCH AS THE POLICE, OUR HOSPITALS, OUR SCHOOLS, OUR SOCIAL SECURITY SCHEMES AND SO ON AND ONE THIRD WILL BE SPENT ON OUR VAST WORKS PROGRAMMES, INCLUDING HOUSING AND ROADS WHICH WILL, INCIDENTALLY, ACCOUNT FOR NO LESS THAN TWO THIRDS OF CAPITAL EXPENDITURE.

/I EXPECT

I EXPECT REVENUE COLLECTIONS TO BE MORE THAN SUFFICIENT TO FINANCE THIS EXPENDITURE AND SO I AM AGAIN BUDGETTING FOR A SUBSTANTIAL SURPLUS, THIS TIME OF NEARLY \$8 000 MILLION WHICH WILL BE TO THE BENEFIT OF THE ECONOMY, FOR THE EFFECT WILL BE ANTI-INFLATIONARY, AND OUR RESERVES WILL BE FURTHER AUGMENTED. THIS SURPLUS I AM BUDGETTING FOR IS AFTER DEDUCTING THE COST OF FIVE PROPOSED TAX CONCESSIONS WHICH I ANNOUNCED ON GROUNDS OF FISCAL EQUITY AND ON SOCIAL AND ECONOMIC GROUNDS. THESE FIVE CONCESSIONS WILL COST THE REVENUE \$1 250 MILLION IN 1981-82.

THE MAIN CONCESSION I ANNOUNCED - IT IS REALLY A PACKAGE OF CONCESSIONS - IS OF INTEREST TO SALARIES TAXPAYERS WHOSE PERSONAL ALLOWANCES ARE TO BE RAISED BY NO LESS THAN 50 PER CENT: FROM \$15 000 TO \$22 500 FOR A SINGLE PERSON= AND FROM \$30 000 TO \$45 000 FOR A MARRIED PERSON. THE ALLOWANCE FOR THE FIRST CHILD IS TO BE RAISED BY 40 PER CENT: FROM \$5 000 TO \$7 000= AND FOR THE SECOND CHILD BY 25 PER CENT: FROM \$4 000 TO \$5 000= AND FOR A DEPENDENT PARENT BY 40 PER CENT: FROM \$5 000 TO \$7 000. THUS, FOR EXAMPLE, A SINGLE MAN WITH TWO DEPENDENT PARENTS WILL NOW NOT ENTER THE TAX NET UNTIL HE IS EARNING \$36 500 A YEAR AS OPPOSED TO \$25 000 AT PRESENT= AND IF HE IS EARNING, SAY, \$72 000 A YEAR HE WILL PAY ONLY \$4 100 IN TAX IN FUTURE, COMPARED WITH \$6 750 AT PRESENT. AGAIN, A MARRIED MAN WITH TWO CHILDREN WILL NOW NOT ENTER THE TAX NET UNTIL HE IS EARNING MORE THAN \$57 000 A YEAR, COMPARED WITH \$39 000 AT PRESENT= AND IF HE IS EARNING, SAY, \$96 000 A YEAR HE WILL PAY ONLY \$4 800 IN TAX IN FUTURE, COMPARED WITH \$9 250 AT PRESENT. AT THE SAME TIME, NO FEWER THAN 140 000 PERSONS WILL NOT NOW BE INCLUDED IN THE TAX NET IN 1981-82 AND ALL BUT 18 000 OF THE 255 000 TAXPAYERS WHO WILL BE IN THE NET WILL BENEFIT FROM THESE NEW ALLOWANCES TO SOME EXTENT. I MIGHT ADD, FOR THE BENEFIT OF THOSE WHO THINK OUR SALARIES TAX SYSTEM FAVOURS THE BETTER OFF, MORE THAN HALF OF TOTAL SALARIES TAX COLLECTED WILL COME FROM THE 7 PER CENT OF TAXPAYERS ON THE STANDARD RATE OF 15 PER CENT - AS HAS ALWAYS BEEN THE CASE.

THE SECOND CONCESSION I ANNOUNCED WAS A REDUCTION OF THE RATE OF CORPORATION PROFITS TAX BY HALF A PERCENTAGE POINT TO THE ORIGINAL RATE OF 16-1/2 PER CENT SET IN 1975.

THE THIRD CONCESSION I ANNOUNCED INVOLVES A SIMPLIFICATION OF THE RATES OF DEPRECIATION ALLOWANCES FURTHER TO ENCOURAGE MANUFACTURERS TO RE-EQUIP AND UPGRADE THEIR PLANT AND EQUIPMENT. THE PRESENT FIVE RATES WILL BE RE-GROUPED UNDER THREE RATES OF 10 PER CENT, 20 PER CENT AND 30 PER CENT AND THE INITIAL ALLOWANCE WILL BE INCREASED FROM 25 PER CENT TO 35 PER CENT.

THE FOURTH CONCESSION I ANNOUNCED WAS AN INCREASE IN THE LIMIT BELOW WHICH ESTATES ARE NOT LIABLE TO ESTATE DUTY FROM \$600 000 TO \$1 000 000.

FINALLY, I ANNOUNCED THAT THE LIMIT FOR THE FIXED CONCESSIONARY RATE OF STAMP DUTY OF \$20 FOR CONVEYANCES OF LOW VALUE PROPERTIES IS TO BE LIFTED FROM \$100 000 TO \$250 000 AND THE LIMIT FOR THE CONCESSIONARY RATE OF DUTY OF 1 PER CENT IS TO BE LIFTED FROM \$250 000 TO \$500 000. TOGETHER THESE TWO CHANGES SHOULD BENEFIT SOME 48 000 PURCHASERS OF FLATS IN 1981-82.

/I CONCLUDED

I CONCLUDED MY SPEECH THIS AFTERNOON BY REFERRING TO A NUMBER OF IMPORTANT POLICY QUESTIONS WHICH MUST BE RESOLVED - AND, OF COURSE, RESOLVED IN A WAY BEST SUITED TO THE REALITIES OF OUR CIRCUMSTANCES AND TO OUR DEVELOPING AND DIVERSIFYING ECONOMY. IF THEY ARE SO RESOLVED, AND IF WE CONTINUE TO MANAGE OUR PUBLIC FINANCES PRUDENTLY AND IN SUCH A WAY AS TO ENCOURAGE, RATHER THAN DISCOURAGE, INDIVIDUAL EFFORT AND ENTERPRISE, THEN I HAVE NO DOUBT THAT THE GROWTH MOMENTUM OF OUR ECONOMY WILL BE SUSTAINED INTO THE 1980S. INDEED, THIS YEAR'S BUDGET BOTH ASSUMES THIS WILL BE THE CASE AND SEEKS TO ENSURE THAT IT WILL BE.

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NO LET UP IN FIGHT AGAINST ILLEGAL IMMIGRATION
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THE SECRETARY FOR SECURITY, MR LEWIS DAVIES TODAY EXPRESSED +CAUTIOUS OPTIMISM+ OVER THE RESULTS OF THE NEW ANTI-ILLEGAL IMMIGRATION MEASURES BUT STRESSED THERE WOULD BE NO RELAXATION.

+ANY SUGGESTION THAT WE MIGHT BE EASING UP OR START ISSUING IDENTITY CARDS TO ILLEGAL IMMIGRANTS WOULD STIMULATE A NEW INFUX. LET ME THEREFORE BE QUITE CLEAR. THE GOVERNMENT HAS EVERY INTENTION OF MAINTAINING THIS POLICY DETERMINEDLY AND EFFECTIVELY FOR AS LONG AS THE THREAT OF ILLEGAL IMMIGRATION EXISTS,+ HE SAID.

SPEAKING AT A LUNCHEON MEETING OF ZONTA CLUB OF HONG KONG TODAY, MR DAVIES SAID THERE WOULD BE NO LET UP BECAUSE WE JUST COULD NOT AFFORD IT.

+IN 1979 AND 1980 HONG KONG LIFE AS WE KNOW IT, A LIFE EVERYONE HAS WORKED HARD TO ACHIEVE, WAS BEING SERIOUSLY THREATENED,+ HE SAID.

+GIVEN THE INGENUITY AND RESOURCEFULNESS OF MANY WOULD-BE ILLEGAL IMMIGRANTS AND, EVEN MORE SO, THOSE WHO MAKE MONEY OUT OF THEM, WE SHOULD FACE THIS THREAT AGAIN UNLESS WE REMAIN VIGILANT, RESOLUTE AND EFFECTIVE.

+THAT WE SHALL DO,+ HE ADDED.

THE DETERRENT EFFECT OF THE MEASURES IS SHOWN BY ILLEGAL IMMIGRANT FIGURES. IN SEPTEMBER 1980, 23 000 CROSSED THE BORDER (OVER 13 000 WERE ARRESTED AND 10 000 REACHED BASE). IN NOVEMBER, DECEMBER AND JANUARY, THE TOTAL ARRESTS WERE 891, 716 AND 701 RESPECTIVELY.

ALTHOUGH THE NUMBER OF THOSE WHO EVADED ARREST IS NOT KNOWN, 268 HAVE BEEN DETECTED, OR HAVE GIVEN THEMSELVES UP, AND THOSE LYING LOW ARE LIKELY TO BE FOUND SOONER OR LATER.

CARRYING IDENTITY CARDS IS BECOMING A WAY OF LIFE, MR DAVIES ADDED, AND WHILE IT IS HOPED THIS WILL BECOME A HABIT, IN CASE IT IS NOT, THERE HAVE BEEN 7 500 WARNINGS BY THE POLICE, 4 000 SUMMONSES AND 300 CHARGES.

THE BURDEN ON EMPLOYERS OF HAVING TO KEEP RECORDS AND MAKE CHECKS HAS ALSO BEEN ACCEPTED WITH A REMARKABLE DEGREE OF GOODWILL AND SO FAR ONLY FOUR EMPLOYERS HAVE BEEN PROSECUTED.

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THE POLICE ESTIMATE THAT SINCE OCTOBER 27, THEY HAVE CHECKED THE IDENTITY OF ABOUT THREE QUARTERS OF A MILLION PEOPLE AND LABOUR INSPECTORS HAVE BEEN TO NEARLY 40 000 PLACES OF WORK.

+VERY FEW SUSPECTED ILLEGAL IMMIGRANTS HAVE BEEN FOUND IN ALL THESE OPERATIONS AND ALL THE INDICATIONS ARE THAT, SO FAR AT ANY RATE, NO ILLEGAL FRINGE NOR SUBMERGED SOCIETY OF ANY SIZE EXISTS,+ MR DAVIES SAID.

REFERRING TO THOSE ILLEGAL IMMIGRANTS FROM MACAU SO FAR INVESTIGATED BY THE IMMIGRATION DEPARTMENT, MR DAVIES SAID ABOUT 65 PER CENT HAD BEEN PERMITTED TO STAY AND 35 PER CENT HAD BEEN REMOVED.

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MORE SPECIAL CAR NUMBERS FOR SALE
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THE TRANSPORT DEPARTMENT WILL HOLD ANOTHER AUCTION OF SPECIAL CAR REGISTRATION NUMBERS ON SATURDAY (FEBRUARY 28) AT 10 AM IN THE CITY HALL LECTURE HALL.

A TOTAL OF 35 SPECIAL CAR NUMBERS WILL BE AVAILABLE FOR BIDDING. THEY ARE:

HK 1949	CH 9288	AX 1	CJ 1812	CJ 2173
729	CJ 128	CH 8082	BC 3231	CJ 380
CK 1000	CK 666	CL 3	CL 10	CH 3839
CC 23	CK 5	HK 14	CH 8798	CJ 2022
CC 38	CL 2	CC 606	398	CJ 1168
CH 2683	CH 8801	CJ 328	CH 6686	CJ 162
CJ 399	CH 3233	CK 888	CJ 125	CJ 4428

SUCCESSFUL BIDDERS MUST PAY IN CASH OR BY CHEQUE IMMEDIATELY AFTER THE BIDDING.

A TRANSPORT DEPARTMENT SPOKESMAN REMINDED BIDDERS THAT THE VEHICLE REGISTRATION NUMBER WOULD BE ASSIGNED ONLY TO A VEHICLE REGISTERED IN THE NAME OF THE SUCCESSFUL BIDDER WITHIN 12 MONTHS OF THE AUCTION.

PROCEEDS OF THE AUCTION, THE 61ST ORGANISED BY THE TRANSPORT DEPARTMENT SINCE MAY 1973, WILL GO TO THE GOVERNMENT LOTTERIES FUND.

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TEMPORARY ROAD CLOSURE IN SHA TIN AND
BUS DIVERSION ON HONG KONG ISLAND
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TO FACILITATE UTILITY WORKS IN SHA TIN THE KOWLOON-BOUND DOWN RAMP OF ROAD P5 LEADING ONTO ROAD T2 IN SHA TIN WILL BE TEMPORARILY CLOSED TO ALL TRAFFIC FROM MID-NIGHT TOMORROW (THURSDAY) TO 5 AM ON MARCH 7.

DURING THE CLOSURE, PUBLIC LIGHT BUSES AND KOWLOON-BOUND KMB ROUTES 48, 70, 70A, 70M, 71, 72, 72A, 86, 87, 88, 88A, 88B, 89 AND 170 WILL BE DIVERTED VIA ROADS P2 AND P6 BEFORE REJOINING ROAD T2.

APPROPRIATE TRAFFIC SIGNS WILL BE SET UP TO GUIDE MOTORISTS.

MEANWHILE ON HONG KONG ISLAND, FOUR KOWLOON-BOUND CROSS HARBOUR BUS ROUTES NOS. 112, 116, 122 AND 882 WILL BE DIVERTED TO THE NEWLY CONSTRUCTED UNNAMED ROAD BENEATH THE CANAL ROAD FLYOVER AND THE BUS LANE ON CANAL ROAD EAST WITH EFFECT FROM FRIDAY INSTEAD OF TRAVELLING VIA TIN LOK LANE, MORRISON HILL ROAD AND LEIGHTON ROAD.

AN ADDITIONAL BUS STOP WILL BE DESIGNATED AT THE UNNAMED ROAD UNDER THE CANAL ROAD FLYOVER OPPOSITE TO THE JUNCTION OF RUSSELL STREET.

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PRESENTATION OF COLONIAL PRISON SERVICE MEDAL
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THE PRISONS DEPARTMENT WILL HOLD A CEREMONIAL PARADE THIS FRIDAY (FEBRUARY 27) AT THE PARADE GROUND OF ITS STAFF TRAINING INSTITUTE IN STANLEY.

DURING THE PARADE, THE COMMISSIONER OF PRISONS, MR THOMAS GARNER, WILL PRESENT CLASPS TO THE COLONIAL PRISON SERVICE MEDAL TO MEMBERS OF THE STAFF FOR THEIR EXEMPLARY SERVICE.

ON PARADE WILL BE 200 PRISON OFFICERS FROM VARIOUS INSTITUTIONS OF THE DEPARTMENT COMMANDED BY THE PRINCIPAL OF THE STAFF TRAINING INSTITUTE, MR JOHN ASHWORTH.

A GROUP OF 50 DISABLED PERSONS HAS BEEN INVITED AS SPECIAL GUESTS OF THE PARADE WHICH IS ONE OF THE MAJOR EVENTS OF THE PRISONS DEPARTMENT.

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NOTE TO

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NOTE TO EDITORS:

YOU ARE INVITED TO SEND REPRESENTATIVES TO COVER THE CEREMONIAL PARADE AND PRESENTATION OF CLASPS TO THE COLONIAL PRISON SERVICE MEDAL BY THE COMMISSIONER OF PRISONS, MR THOMAS GARNER, AT 4.15 PM ON FRIDAY (FEBRUARY 27) AT THE PARADE GROUND OF THE STAFF TRAINING INSTITUTE IN TUNG TAU WAN ROAD, STANLEY.

PRESS TRANSPORT WILL LEAVE THE PRISONS HEADQUARTERS AT GUARDIAN HOUSE, 32 01 KWAN ROAD, WAN CHAI AT 3.30 PM SHARP.

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