



# DAILY INFORMATION BULLETIN

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WEDNESDAY, FEBRUARY 29, 1984

SIR JOHN SEES 'CLEARER SKIES AHEAD'

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THE 1984-85 BUDGET INDICATED CLEARER SKIES AHEAD, THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMRIDGE, TOLD THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

SUBJECT TO NO UNFORESEEN SHOCK, SIR JOHN BELIEVED THAT:

- \* THE GROSS DOMESTIC PRODUCT WILL INCREASE BY MORE THAN SIX PER CENT;
- \* INFLATION WILL DROP TO SEVEN PER CENT BY THE END OF THE YEAR;
- \* CAPITAL INVESTMENT WILL GROW AGAIN;
- \* REAL WAGES WILL BEGIN TO RISE WITH STABILISED EMPLOYMENT, AND
- \* THE HONG KONG DOLLAR WILL REMAIN STRONG.

IN HIS FORECAST OF THE ECONOMY FOR 1984, SIR JOHN SAID LAST YEAR ENDED WITH THE ECONOMY ENJOYING THE BENEFITS OF STRONG EXPORT GROWTH AND WITH THE FIRST SIGNS OF THE CONSEQUENT REVIVAL OF DOMESTIC DEMAND APPARENT.

HE SAID IT WAS LIKELY THE ECONOMY'S PERFORMANCE IN 1984 WOULD AGAIN PRIMARILY BE DETERMINED BY THE GROWTH RATE OF EXPORTS.

THE UNITED STATES ECONOMY, HAVING PERFORMED BETTER THAN GENERALLY EXPECTED IN 1983 WITH A GROWTH RATE OF 3.5 PER CENT, IS EXPECTED TO GROW EVEN FASTER IN 1984, WITH A RATE OF GROWTH OF ABOUT FIVE PER CENT BEING FORECAST BY OECD.

BUT, HE SAID, A NUMBER OF FACTORS SUGGEST THAT HONG KONG WOULD BE UNLIKELY TO BENEFIT IN PROPORTION TO THIS INCREASE IN GROWTH.

THE EMPHASIS SEEMED LIKELY TO MOVE AWAY FROM THE RE-STOCKING OF CONSUMER GOODS, WHICH WAS A FACTOR IN THE 26 PER CENT GROWTH RATE IN REAL TERMS OF EXPORTS FROM HONG KONG TO THE US IN 1983.

+THE EXHAUSTION OF CLOTHING AND TEXTILES QUOTAS IN 1983 LEAVES LITTLE ROOM FOR FURTHER GROWTH FOR THESE ITEMS IN 1984. FINALLY IN 1983 THE SURGE IN EXPORTS TO THE US WAS UNDOUBTEDLY HELPED BY THE DEPRECIATION OF THE HONG KONG DOLLAR AGAINST THE US DOLLAR,+ HE SAID.

BUT SOME RECOVERY WAS LIKELY IN THE ECONOMIES OF HONG KONG'S OTHER MAJOR MARKETS AND THIS RECOVERY, PLUS A FURTHER SUBSTANTIAL GROWTH IN EXPORTS TO THE US, WOULD GIVE A FORECAST FOR DOMESTIC EXPORTS IN 1984 OF 10 PER CENT IN REAL TERMS, COMPARED WITH THE 14 PER CENT ACHIEVED IN 1983, HE SAID.

THIS, HE SAID, COMBINED WITH A FORECAST GROWTH RATE OF RE-EXPORTS OF 16 PER CENT, WOULD GIVE A GROWTH FORECAST FOR TOTAL EXPORTS OF 12 PER CENT, AGAINST 15 PER CENT IN 1983.

/SIR JOHN .....

SIR JOHN SAID THAT GIVEN THE STRONG EXPORT PERFORMANCE ACHIEVED IN 1983 AND EXPECTED IN 1984, EARNINGS INCLUDING WAGES SHOULD RISE IN REAL TERMS. THE FORECAST GROWTH FOR PRIVATE CONSUMPTION EXPENDITURE IN 1984 WAS SEVEN PER CENT.

+GOVERNMENT CONSUMPTION EXPENDITURE IS FORECAST TO INCREASE BY FIVE PER CENT, COMPARED WITH FOUR PER CENT IN 1983,+ HE SAID.

PRIVATE INVESTMENT EXPENDITURE, WHICH FELL BY EIGHT PER CENT LAST YEAR, WOULD PARTICULARLY BE DIFFICULT TO FORECAST, HE SAID. BUT THE ECONOMIC RECOVERY, WHICH BEGAN IN 1983 AND WAS EXPECTED TO CONTINUE THIS YEAR, SHOULD INDICATE A STRONG RECOVERY IN PRIVATE SECTOR INVESTMENT EXPENDITURE, WHICH, HOWEVER, THE CONTINUED UNCERTAINTY AND THE OVERHANG OF VACANT PREMISES IN THE PROPERTY SECTOR TENDED TO OFFSET.

HE SAID THAT IN PARTICULAR, PRIVATE SECTOR BUILDING INTENTIONS, WHICH DECLINED BY 24 PER CENT IN 1982, FELL BY ANOTHER 30 PER CENT LAST YEAR, INDICATING LITTLE SCOPE FOR POSITIVE GROWTH IN PRIVATE BUILDING AND CONSTRUCTION EXPENDITURE.

BUT, SIR JOHN ADDED, THERE WERE WELCOME SIGNS OF A REVIVAL IN PRIVATE INVESTMENT IN PLANT AND MACHINERY TOWARDS THE END OF LAST YEAR.

HE SAID THAT PRIVATE INVESTMENT IN BUILDING AND CONSTRUCTION WAS THUS FORECAST TO DECLINE BY TWO PER CENT THIS YEAR, AGAINST A DECLINE OF 13 PER CENT IN 1983.

TAKING THE PRIVATE AND PUBLIC SECTORS TOGETHER, OVERALL INVESTMENT IN PLANT AND MACHINERY WAS FORECAST TO INCREASE BY SIX PER CENT, AGAINST MINUS-ONE PER CENT LAST YEAR.

THESE FORECASTS, WHEN COMBINED WITH A FORECAST OF NINE PER CENT FOR PUBLIC SECTOR EXPENDITURE ON BUILDING AND CONSTRUCTION (WITH GROWTH COMING PRIMARILY FROM THE MASS TRANSIT RAILWAY CORP) AND FORECASTS OF SOME OTHER, SMALLER COMPONENTS, WOULD GIVE A FORECAST GROWTH RATE FOR GROSS DOMESTIC FIXED CAPITAL FORMATION FOR 1984 OF THREE PER CENT AGAINST MINUS-SEVEN PER CENT FOR 1983, HE SAID.

SIR JOHN SAID THAT THE FORECAST GROWTH RATE OF IMPORTS ASSOCIATED WITH THESE FORECASTS OF FINAL DEMAND WAS 11 PER CENT, ONLY SLIGHTLY HIGHER THAN LAST YEAR'S OUTCOME OF 10 PER CENT.

+NET EXPORTS OF SERVICES ARE FORECAST TO INCREASE AT TWO PER CENT, COMPARED WITH A DECLINE OF EIGHT PER CENT IN 1983.+

HE SAID THAT THE COMBINATION OF THESE FORECASTS FOR THE INDIVIDUAL COMPONENTS OF EXPENDITURE WOULD GIVE A GROWTH FORECAST FOR GROSS DOMESTIC PRODUCT OF SLIGHTLY ABOVE SIX PER CENT.

IF THESE FORECASTS WERE BORNE OUT, HE SAID, ECONOMIC GROWTH IN 1984 WOULD CONTINUE TO BE EXPORT-LED, BUT WITH AN INCREASING CONTRIBUTION FROM DOMESTIC DEMAND. AND, HE ADDED, THE GROWTH RATE OF TOTAL FINAL DEMAND, EXCLUDING RE-EXPORTS, WAS EXPECTED AT SEVEN PER CENT, TO EXCEED THAT OF GROSS DOMESTIC PRODUCT, AT SIX PER CENT, BUT NOT SUFFICIENTLY TO GENERATE SIGNIFICANT INTERNAL INFLATIONARY PRESSURES.

HE SAID THAT INFLATION WAS EXPECTED TO REMAIN AT OVER 10 PER CENT FOR THE EARLY PART OF THE YEAR, BUT TO FALL STEADILY IN THE LATER MONTHS UNDER THE INFLUENCE OF A STABLE EXCHANGE RATE AND LOW INFLATION RATES ELSEWHERE.

THE RATE OF FALL WOULD BE LARGELY A FUNCTION OF THE LEVEL OF THIS YEAR'S WAGE AWARDS, HE EXPLAINED.

+THE FORECAST RATE OF INCREASE OF BOTH THE GDP DEFLATOR AND THE CONSUMER PRICE INDICES IS NINE PER CENT. AGAIN THIS MAY BE CONSERVATIVE, BUT WE SHALL TAKE STOCK IN SIX MONTHS' TIME,+ HE SAID.

SIR JOHN SAID IT REFLECTED AN ESTIMATED AVERAGE FOR 1984 AS A WHOLE -- IN THE OPENING MONTHS INFLATION HAD BEEN RUNNING AT ABOUT 12 PER CENT BUT WAS EXPECTED TO TREND DOWN TO ABOUT SEVEN PER CENT AT THE END.

+ONCE AGAIN THE TREND IS ALL IMPORTANT. CONSEQUENTLY THE PROGNOSIS FOR 1985 IS GOOD. AS I HAVE SAID EARLIER, POLICY MUST BE LONG-TERM AND NOT CONCENTRATED JUST ON ONE YEAR,+ HE SAID.

SIR JOHN SAID THE FORECAST GROWTH RATE FOR GDP THIS YEAR IN MONEY TERMS WAS THUS 16 PER CENT, AT CURRENT PRICES, PER CAPITA GDP IN 1984 SHOULD BE ABOUT \$44 700 OR JUST OVER US\$5 700. THE GDP ITSELF SHOULD BE ABOUT \$240 BILLION.

A FORECAST GROWTH RATE OF GDP OF SIX PER CENT MIGHT SEEM SOMEWHAT DISAPPOINTING IN HISTORICAL TERMS FOR THE SECOND YEAR OF AN ECONOMIC RECOVERY BUT, IF ACHIEVED, IT WOULD REPRESENT AN EXCELLENT PERFORMANCE GIVEN THE PRESENT OVERALL SITUATION, SIR JOHN SAID.

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**\$33.7 BILLION EXPECTED IN TOTAL COLLECTIONS**  
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THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMRIDTE, ANTICIPATES IN HIS 1984-85 REVENUE ESTIMATES TO COLLECT A TOTAL OF \$33.7 BILLION -- \$29 BILLION IN RECURRENT REVENUE AND \$4.7 BILLION IN CAPITAL REVENUE.

+THIS DEPRESSINGLY LOW IF REALISTIC FORECAST REFLECTS THE LAGGED EFFECTS OF THE RECENT RECESSION,+ SIR JOHN TOLD THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

RECURRENT REVENUE AT \$29 BILLION WAS ONLY \$1.9 BILLION HIGHER THAN THE REVISED ESTIMATE FOR FISCAL 1983, HE SAID IN EXPLAINING THE BACKGROUND.

HE SAID THAT EARNINGS AND PROFITS TAX SHOULD YIELD JUST OVER \$12.4 BILLION, OR ONLY ABOUT \$840 MILLION MORE THAN THE REVISED 1983-84 ESTIMATES.

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+I EXPECT A MODERATE INCREASE IN THE YIELD FROM INDIRECT TAXES, MAINLY FROM IMPORT DUTIES, BETTING DUTY AND RATES. AT \$8.2 BILLION, INDIRECT TAXES ARE ESTIMATED TO BE \$858 MILLION HIGHER,+ HE SAID.

FOR ALL OTHER RECURRENT REVENUE, HE ANTICIPATED A YIELD OF \$8.4 BILLION OR ONLY \$182 MILLION HIGHER THAN THE REVISED ESTIMATE. WHILE ALL OTHER COMPONENTS SHOULD YIELD \$342 MILLION MORE, HE EXPECTED REVENUE FROM PROPERTIES AND INVESTMENTS TO BE \$160 MILLION LOWER, REFLECTING THE DECREASE IN THE GENERAL REVENUE BALANCE.

SIR JOHN SAID THE ON-GOING EXERCISE TO KEEP FEES AND CHARGES UP TO DATE WOULD CONTINUE DURING FISCAL 1984 AND WHERE JUSTIFIED BY RISING COSTS, PROPOSALS FOR INCREASES WOULD BE MADE DURING THE YEAR.

CONTINUING, HE SAID THE ESTIMATE OF CAPITAL REVENUE FOR FISCAL 1984 WOULD BE \$4.73 BILLION WITH THE MAJOR ELEMENT CONTINUING TO BE LAND REVENUE ESTIMATED AT \$4.23 BILLION AGAINST THE ACTUAL REVENUE OF \$5.05 BILLION IN 1982-83 AND A REVISED ESTIMATE FOR 1983-84 OF \$2.27 BILLION.

+LAND REVENUE REMAINS PARTICULARLY DIFFICULT TO ESTIMATE,+ HE SAID, ADDING THAT THE REVENUE IN FISCAL 1982 REFLECTED TO SOME EXTENT LINGERING EFFECTS OF THE PROPERTY BOOM OF 1980 AND 1981.

+AS I EXPLAINED IN MY BUDGET SPEECH LAST YEAR, THIS FIGURE DEPENDED PRIMARILY ON THE SUCCESSFUL SALE OF A NUMBER OF RELATIVELY LARGE SITES, AND I WARNED THEN THAT THE MARGINS FOR ERROR WERE CONSIDERABLE. THE REVISED ESTIMATE IS INDEED \$730 MILLION LESS,+ HE SAID.

SIR JOHN SAID THE 1983-84 LAND SALE PROGRAMME BY AUCTION AND TENDER CONSTITUTED THE SINGLE LARGEST PROSPECTIVE COMPONENT OF LAND REVENUE ORIGINALLY COMPRISING 96.7 HECTARES AND FROM WHICH HE HAD EXPECTED REVENUE OF \$1.7 BILLION.

IN THE COURSE OF THE YEAR THE PROGRAMME WAS CONSIDERABLY REVISED, TAKING THE FORM OF TWO LISTS -- SITES WHICH SEEMED LIKELY TO ATTRACT GENERAL BIDDER INTEREST AND SHOULD THEREFORE BE PUT ON THE MARKET, AND SITES WHICH SHOULD REMAIN AVAILABLE FOR SALE WHEN READY BUT WOULD ONLY BE OFFERED ON APPLICATION BY DEVELOPERS READY TO MEET MINIMUM PRICE CRITERIA.

HE SAID THE RESHAPED PROGRAMME CONSISTED OF 53.4 HECTARES, WITH A REVISED ESTIMATE OF 1.2 BILLION, EXCLUDING ADMIRALTY II.

SIR JOHN SAID HE MENTIONED LAST YEAR THERE WERE FIVE WELL-KNOWN, LARGE AND VALUABLE SITES WHICH HAD NOT BEEN INCLUDED IN THE ORIGINAL PROGRAMME AND OF THESE, ADMIRALTY II WAS THE ONLY ONE IN WHICH SPECIFIC INTEREST WAS SHOWN THE AUCTION ACTUALLY REALISED \$380 MILLION.

+OVER \$1 BILLION MORE WILL BE SPENT ON THE SUPERSTRUCTURE THUS DEMONSTRATING A MAJOR RENEWAL OF DEVELOPMENT INTEREST,+ HE ADDED.

/SIR JOHN .....

SIR JOHN SAID REVENUE FROM PRIVATE TREATY GRANTS HAD FALLEN MARKEDLY BELOW EXPECTATIONS IN FISCAL 1983, PRINCIPALLY BECAUSE OF THE RESCHEDULING OF THE DATES ON WHICH SITES ON THE ISLAND LINE WERE TO BE GRANTED TO THE MASS TRANSIT RAILWAY CORPORATION.

HE POINTED OUT THAT THE ESTIMATED TOTAL LAND REVENUE FOR FISCAL 1984 WOULD BE CONSIDERABLY DISTORTED BY THE FINAL INSTALMENT PAYMENT DUE OF \$1.9 BILLION IN RESPECT OF EXCHANGE SQUARE.

+OTHERWISE THE TOTAL LAND REVENUE -- WHICH DOES NOT REPRESENT ONLY LANDS SALES -- SHOULD BE OVER \$2 BILLION, MUCH THE SAME AS I NOW EXPECT TO RECEIVE IN RESPECT OF 1983-84,+ HE SAID.

SIR JOHN SAID THE 1984-85 LAND SALES PROGRAMME WOULD MAINTAIN THE DISTINCTION BETWEEN SITES INTENDED TO BE PUT ON SALE DURING THE YEAR (33 HECTARES) AND SITES TO BE PUT ON SALE ONLY IF A DEVELOPER INDICATED A FIRM INTEREST (32.1 HECTARES).

HE ANTICIPATED REVENUE OF \$730 MILLION FROM SALES BY AUCTION OR TENDER, \$1 BILLION FROM PRIVATE TREATY GRANTS, AND \$570 MILLION FROM MODIFICATIONS AND REGRANTS.

THE GOVERNMENT, HE EXPLAINED, HAD DECIDED IN 1983 THAT FROM APRIL 1, 1984, LETTERS B WOULD BE MONETISED AND THEIR USE EXTENDED TO PAY FOR LAND PURCHASES AT AUCTIONS AND IN TENDERS, FOR PRIVATE TREATY GRANTS, FOR MODIFICATIONS AND EXCHANGES AND FOR OTHER LAND-RELATED TRANSACTIONS IN THE NEW TERRITORIES.

HE SAID THAT IT WAS AGREED AT THE SAME TIME THAT, EXCEPTIONALLY, CONSIDERATION WOULD BE GIVEN TO OFFERING CERTAIN MAJOR SITES IN THE URBAN AREA WHERE PAYMENT BY MONETISED LETTERS B WOULD BE ACCEPTABLE.

+TWO OF THESE HAVE BEEN INCLUDED IN THE 1984-85 PROGRAMME. IT IS ESTIMATED THAT LETTERS B TO THE VALUE OF ROUGHLY \$400 MILLION MIGHT BE REDEEMED IN THE COMING YEAR AS A RESULT OF MONETISATION. THE ESTIMATE OF REVENUE RECEIVABLE HAS BEEN REDUCED ACCORDINGLY,+ HE SAID.

THE TOTAL ESTIMATED LAND REVENUE OF \$4.2 BILLION IN 1984-85 WOULD UNLIKELY BE REPEATED IN THE FOLLOWING YEAR, HE SAID.

+BEARING IN MIND THAT THIS ESTIMATE INCLUDES THE EXTRAORDINARY INSTALMENT PAYMENT OF \$1.9 BILLION AND THE PAYMENTS OF PRIVATE GRANT PREMIA FOR THE ISLAND LINE, LAND REVENUE IN 1985-86 CANNOT BE EXPECTED TO BE ABOVE \$2 BILLION. THIS CONSIDERABLE REDUCTION IN PROBABLE REVENUE FOR 1985-86 HAS OBVIOUS IMPLICATIONS FOR NEXT YEAR'S BUDGET,+ SIR JOHN WARNED.

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## \$3.3 BILLION DEFICIT EXPECTED

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THE BUDGET DEFICIT FOR THE CURRENT FINANCIAL YEAR IS EXPECTED TO BE ABOUT \$3.3 BILLION, COMPARED WITH THE ENVISAGED DEFICIT OF \$3.2 BILLION, THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMRIDGE, SAID TODAY IN THE LEGISLATIVE COUNCIL.

BOTH REVENUE AND EXPENDITURE WOULD BE APPRECIABLY LOWER THAN ORIGINALLY EXPECTED, SIR JOHN EXPLAINED.

THE REVISED ESTIMATES ARE \$30.3 BILLION FOR REVENUE AND \$33.6 BILLION FOR EXPENDITURE.

+STATISTICALLY SPEAKING, THIS IS VERY CLOSE TO THE ESTIMATE. IT REPRESENTS MUCH HARD WORK BY ALL CONCERNED. THE BASIC BUDGETARY DILEMMA EMERGES FROM THE FACT THAT TOTAL REVENUE IN 1983-84 WILL ACTUALLY BE LOWER THAN IN BOTH THE PREVIOUS YEARS,+ HE POINTED OUT.

ON RECURRENT ACCOUNT, REVENUE IN 1983-84 IS EXPECTED TO BE \$1.56 BILLION LOWER THAN THE ORIGINAL ESTIMATE.

THIS SHORTFALL ARISES LARGELY FROM LOWER THAN EXPECTED YIELDS FROM BOTH DUTIES AND MOTOR VEHICLE FIRST REGISTRATION TAX (WHERE RESISTANCE TO THE NEW RATES WAS HIGHER THAN EXPECTED), FROM EARNINGS AND PROFITS TAX AND FROM STAMP DUTIES.

HOWEVER, THE REVISED ESTIMATE OF RECURRENT EXPENDITURE IS ALSO EXPECTED TO BE \$528 MILLION LOWER THAN THE ORIGINAL ESTIMATE, REFLECTING THE MODERATE LEVEL OF THE 1983 CIVIL SERVICE SALARIES ADJUSTMENT AND TIGHT FINANCIAL CONTROL.

+THIS IS THE SECOND YEAR RUNNING IN WHICH RECURRENT EXPENDITURE HAS BEEN HELD DOWN BELOW BUDGET,+ SIR JOHN POINTED OUT, THANKING ALL VOTE CONTROLLERS FOR THEIR EFFORTS.

ON CAPITAL ACCOUNT, HE SAID, REVENUE IS EXPECTED TO BE \$427 MILLION LOWER THAN THE ORIGINAL ESTIMATE.

HE EXPLAINED THAT THIS WAS BECAUSE OF LESS THAN EXPECTED REVENUE FROM LAND TRANSACTIONS, OFFSET PARTIALLY BY A TRANSFER OF \$250 MILLION FROM THE EXCHANGE FUND TO COMPENSATE FOR THE LOSS OF REVENUE RESULTING FROM THE REMOVAL OF THE TAX ON INTEREST EARNED ON HONG KONG DOLLAR DEPOSITS.

CAPITAL EXPENDITURE, ON THE OTHER HAND, IS EXPECTED TO BE \$1.3 BILLION LOWER THAN THE ORIGINAL ESTIMATE.

SIR JOHN NOTED THAT THIS RESULTED MAINLY FROM SLOWER THAN EXPECTED EXPENDITURE ON CAPITAL WORKS, PLUS AN INCREASE IN DEVELOPMENT LOAN FUND REVENUE, WHICH HAD ENABLED REDUCTIONS TO BE MADE IN THE TRANSFERS TO FUNDS.

THE INCREASE IN THIS REVENUE, HE ADDED, HAD RESULTED FROM THE PURCHASE BY THE EXCHANGE FUND OF THE DEVELOPMENT LOAN FUND'S EQUITY HOLDINGS.

/THE DEFICIT .....

THE DEFICIT ON CAPITAL ACCOUNT IS CONSEQUENTLY EXPECTED TO BE \$7.2 BILLION, \$900 MILLION LESS THAN ORIGINALLY EXPECTED, SIR JOHN SAID.

+WITH THE TRANSFER OF THE 1983-84 DEFICIT TO THE GENERAL REVENUE BALANCE, OUR REASSURING FISCAL RESERVES WILL BE ABOUT \$15.8 BILLION. MOST IS LENT TO THE EXCHANGE FUND AGAINST INTEREST BEARING DEBT CERTIFICATES.

+AFTER ALLOWING, ON THE BASIS OF THE USUAL GEARING OF THREE, \$7.6 BILLION AS COVER FOR OUR FORMAL CONTINGENT LIABILITIES (WHICH WILL BE ABOUT \$22.7 BILLION BY MARCH 31, 1988, THE LAST YEAR OF THE NEW FORECAST PERIOD), WE SHOULD HAVE AT APRIL 1, 1984 'FREE' FISCAL RESERVES OF ABOUT \$8.2 BILLION,+ HE SAID.

WHILE THESE FREE RESERVES ARE AVAILABLE FOR USE IN A +DISCIPLINED AND INTELLIGENT MANNER,+ THE LIMITS ARE OBVIOUS, HE NOTED.

+AS WE DIP INTO THE WELL WE MUST REMEMBER THAT THERE IS NO INFLOW,+ SIR JOHN ADDED.

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#### PUBLIC SPENDING SET AT \$44 BILLION

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THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMRIDGE, IN HIS BUDGET SPEECH TODAY PROPOSED \$44 BILLION AS THE TOTAL PUBLIC SECTOR EXPENDITURE FOR FISCAL 1984-85 ON THE CONSOLIDATED ACCOUNT.

THIS REPRESENTS AN INCREASE OF 9.5 PER CENT IN MONEY TERMS OVER THE REVISED ESTIMATE OF \$40.2 BILLION FOR FISCAL 1983-84.

+IN REAL TERMS THIS IS BELOW THE EXPECTED GROWTH RATE OF THE GDP TO ALLOW FOR SENSIBLE MARGINS,+ SIR JOHN SAID.

BUT HE POINTED OUT THAT THE EXPENDITURE FOR THE REVISED ESTIMATES WERE NECESSARILY BASED ON ONLY NINE MONTHS' PERFORMANCE SO THAT SIGNIFICANT CHANGES IN THE LAST THREE MONTHS OF THE FINANCIAL YEAR COULD RENDER THE ESTIMATES INACCURATE.

BUT, SIR JOHN SAID THAT THE NEW COMPUTERISED SYSTEM OF UPDATING THE ACCOUNTS HAD AT LEAST ENABLED HIM TO BASE HIS REVISED ESTIMATES ON NINE-MONTH, INSTEAD OF SEVEN-MONTH, FIGURES.

+TO THAT EXTENT, I HOPE THEY WILL PROVE MORE PRECISE THAN IN THE PAST, BUT THEY CAN NEVER BE WHOLLY ACCURATE,+ HE ADDED.

SIR JOHN REAFFIRMED HIS INTENTION TO ENSURE THAT THE GROWTH RATE IN REAL TERMS IN PUBLIC SECTOR EXPENDITURE ON CONSOLIDATED ACCOUNT WOULD NOT EXCEED, OVER A PERIOD OF YEARS, THE GDP GROWTH RATE.

THE PUBLIC SECTOR'S SHARE OF THE GDP HAS BEEN COMPLICATED THIS FINANCIAL YEAR BY THE AMENDMENTS MADE TO THE GDP ESTIMATES.

ON THE BASIS OF THE OLD GDP ESTIMATES, CONSOLIDATED EXPENDITURE IN 1982-83 REPRESENTED 22.4 PER CENT OF GDP, AND IN 1983-84, IT WOULD HAVE REPRESENTED 22 PER CENT, SIR JOHN SAID.

ON THE BASIS OF THE NEW GDP FIGURES, THE COMPARISON WOULD BE 19.4 PER CENT IN 1983-84 AND ONLY 18.3 PER CENT IN 1984-85, HE ADDED.

+THIS CONTINUING FALL, THE FIRST FOR SEVERAL YEARS, ILLUSTRATES MY PROMISES TO KEEP PUBLIC SECTOR EXPENDITURE UNDER TIGHT CONTROL, WHILE STILL PROCEEDING STEADILY WITH MAJOR PROGRAMMES. THE TASK IS NOT EASY,+ SIR JOHN SAID.

EXPLAINING HIS EXPENDITURE PROPOSALS IN BROAD TERMS, HE SAID THAT THE PROPOSED GROWTH IN GENERAL REVENUE ACCOUNT EXPENDITURE, EXCLUDING TRANSFERS TO FUNDS, BUT INCLUDING A PROVISION OF \$2 BILLION FOR ADDITIONAL COMMITMENTS, WOULD BE ABOUT 15.5 PER CENT IN MONEY TERMS.

THE LOWER GROWTH OF 9.5 PER CENT IN EXPENDITURE REFLECTED THE FACT THAT TOTAL CAPITAL EXPENDITURE IN 1984-85 IS EXPECTED TO BE SLIGHTLY LESS THAN IN 1983-84, HE POINTED OUT.

+I MUST STRESS, HOWEVER, THAT THIS REDUCTION DOES NOT REFLECT ANY CUT BACK IN THE PROGRAMME OF CAPITAL WORKS, AS I WILL DEMONSTRATE LATER,+ SIR JOHN SAID.

HE ATTRIBUTED THE APPARENT SLOWDOWN IN CAPITAL EXPENDITURE IN 1984-85 TO TWO MAIN REASONS.

THE FIRST WAS AN INEVITABLE FLATTENING OUT OF ANNUAL EXPENDITURE FROM THE CAPITAL WORKS RESERVE FUND AS A NUMBER OF LARGE PROJECTS APPROACH COMPLETION.

SIR JOHN MENTIONED IN PARTICULAR THE MODERNISATION OF THE KOWLOON-CANTON RAILWAY WHICH IS NEARING THE END, WITH THE KCR'S CAPITAL EXPENDITURE HAVING NOW FALLEN FROM \$650 MILLION IN 1982-83 TO \$340 MILLION IN 1983-84.

THE SECOND REASON WAS THE NEED TO MAKE AN UNEXPECTED PAYMENT IN 1983-84 OF \$388 MILLION FROM THE HOME OWNERSHIP FUND FOR THE MELODY GARDEN PROJECT, THE SUM REPRESENTING THE DIFFERENCE BETWEEN THE GUARANTEED SALE PRICE TO THE DEVELOPER AND THE ACTUAL SALES REVENUE RECEIVED.

ESTIMATED EXPENDITURE FROM ALL THE FUNDS AND ASIAN DEVELOPMENT BANK LOANS IN 1984-85 IS EXPECTED TO BE \$11.5 BILLION, SIR JOHN SAID.

THIS FIGURE COMPARES WITH A REVISED ESTIMATE OF ALMOST \$11.9 BILLION IN 1983-84, A DECREASE OF \$376 MILLION OR 3.2 PER CENT.

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\$37 BILLION TO BE SPENT ON GENERAL REVENUE ACCOUNT

\* \* \* \*

THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMRIDGE, THIS AFTERNOON ESTIMATED GOVERNMENT GENERAL REVENUE ACCOUNT EXPENDITURE FOR 1984-85 AT \$37.3 BILLION.

THIS TOTAL, SIR JOHN TOLD THE LEGISLATIVE COUNCIL IN PRESENTING HIS BUDGET PROPOSALS, WOULD INCLUDE A CONTINGENCY ALLOWANCE OF \$2 BILLION FOR ALL ADDITIONAL COMMITMENTS AND \$8.7 BILLION FOR TRANSFERS TO THE CAPITAL WORKS RESERVE FUND, THE DEVELOPMENT LOAN FUND, THE STUDENT LOAN FUND AND THE MASS TRANSIT FUND.

HE EXPLAINED THAT THE NECESSARY INCLUSION OF \$2 BILLION FOR ADDITIONAL COMMITMENTS HAD THE EFFECT OF INCREASING THE GROWTH OF GENERAL REVENUE ACCOUNT EXPENDITURE, EXCLUDING TRANSFERS TO THE FUNDS, FROM 7.4 PER CENT TO 15.5 PER CENT.

BUT EXPENDITURE FROM THE FUNDS IN 1984-85 WAS EXPECTED TO BE SLIGHTLY LESS THAN IN 1983-84, SO THAT TOTAL EXPENDITURE ON CONSOLIDATED ACCOUNT - AT \$44 BILLION - WAS EXPECTED TO GROW AT ONLY 9.5 PER CENT, HE SAID.

+ON THE VITALLY IMPORTANT RECURRENT ACCOUNT THE PROVISION SOUGHT OF \$25.1 BILLION, PLUS \$1.8 BILLION FOR ADDITIONAL RECURRENT COMMITMENTS, REPRESENTS AN INCREASE OF \$3.7 BILLION, OR 15.7 PER CENT, ON THE REVISED ESTIMATE FOR 1983-84,+ HE SAID.

SIR JOHN SAID PERSONAL EMOLUMENTS AT \$8.9 BILLION ACCOUNTED FOR OVER 35 PER CENT OF RECURRENT EXPENDITURE, COMPARED WITH AN AVERAGE OF 37 PER CENT OVER THE PAST FIVE YEARS.

+THIS PROVISION MAKES NO ALLOWANCE FOR ANY SALARY ADJUSTMENT THAT MAY BE AGREED,+ HE ADDED.

THE FINANCIAL SECRETARY SAID THAT IF REQUIRED ANY FUNDS NEEDED WOULD HAVE TO BE FOUND FROM THE ADDITIONAL COMMITMENTS VOTE. +I MAKE NO ASSUMPTIONS. THE PROVISION OF \$1.8 BILLION SOUGHT FOR THIS VOTE IS FOR ALL UNFORESEEN RECURRENT COMMITMENTS NOT PROVIDED FOR IN THE DRAFT ESTIMATES. CASH LIMITS WILL BE STRICTLY OBSERVED ONCE AGAIN. THEY HAVE BEEN MOST SUCCESSFUL.+

CIVIL SERVICE

SIR JOHN SAID THE APPROVED ESTABLISHMENT OF CIVIL SERVICE POSTS IN THE DRAFT ESTIMATES WAS 147 000, INCLUDING 4 264 NEW POSTS CREATED DURING 1983-84, A MARKED REDUCTION OF 2 436 ON THE 6 700 NEW POSTS FOR WHICH PROVISION HAD BEEN ACTUALLY INCLUDED IN THE 1983-84 ESTIMATES.

THE SUCCESSFUL EFFORTS TO RESTRAIN THE GROWTH OF THE CIVIL SERVICE ESTABLISHMENT WILL CONTINUE IN 1984-85 AS THE DRAFT ESTIMATES PROVIDED FOR AN INCREASE OF ONLY 4 000 POSTS, OR 2.7 PER CENT.

/+ A LARGE .....

+A LARGE NUMBER OF THESE ARE REQUIRED FOR THE NEW PRINCE OF WALES HOSPITAL IN SHA TIN AND FOR THE POLICE FORCE,+ HE SAID ADDING, +OUR AIM NOW WILL BE TO KEEP ANNUAL CIVIL SERVICE GROWTH OVERALL TO BELOW 2-1/2 PER CENT FOR THE FORESEEABLE FUTURE.+

SIR JOHN CONTINUED:-+WHILE WE MUST FIND STAFF FOR NEW FACILITIES AS THEY COME ON STREAM, WE SHALL SEEK TO PROVIDE THEM SO FAR AS POSSIBLE BY INCREASED PRODUCTIVITY AND REDEPLOYMENT. VALUE FOR MONEY STUDIES WILL CONTINUE TO SEEK OUT MEANS OF ACHIEVING THESE AIMS. I ATTACH GREAT IMPORTANCE TO MEASURES DESIGNED TO PROMOTE INCREASES IN PRODUCTIVITY AND VALUE FOR MONEY. SO DOES THE CIVIL SERVICE AS A WHOLE.+

HE SAID PERSONNEL RELATED EXPENSES AT \$2.15 BILLION ACCOUNTED FOR 8.6 PER CENT OF RECURRENT EXPENDITURE COMPARED WITH AN AVERAGE OF 7.2 PER CENT OVER THE PAST FIVE YEARS, THE INCREASE BEING DUE PRINCIPALLY TO HOME PURCHASE ALLOWANCES PAYABLE TO CIVIL SERVANTS JOINING THE HOME PURCHASE SCHEME INTRODUCED IN NOVEMBER 1981 AND TO INCREASES IN THE NUMBER OF PENSIONERS AND IN THE COST OF EDUCATION AND PASSAGE ALLOWANCES.

SIR JOHN SAID \$6.66 BILLION FOR SUBVENTIONS REPRESENTED 26.5 PER CENT OF RECURRENT EXPENDITURE, COMPARED WITH AN AVERAGE OF 26 PER CENT OVER THE PAST FIVE YEARS.

+THIS IS LARGELY DUE TO SUBSTANTIAL INCREASES IN EXPENDITURE ON TERTIARY EDUCATION, WHICH I AM SURE THAT MEMBERS WELCOME,+ HE ADDED.

ON CAPITAL ACCOUNT, HE SAID THE PROVISION SOUGHT WAS \$10.4 BILLION, INCLUDING \$200 MILLION IN ADDITIONAL COMMITMENTS AND \$8.7 BILLION FOR TRANSFERS TO FOUR OF THE FUNDS, THE LARGEST PORTION GOING TO THE CAPITAL WORKS RESERVE FUND.

THERE WAS NO NEED THIS YEAR FOR A TRANSFER TO THE HOME OWNERSHIP FUND, WHICH HAD SUFFICIENT RESERVES AS A RESULT OF INTERNAL GENERATION OF INCOME. THE TRANSFERS TO THE FUNDS PLUS THE ESTIMATED REVENUE EARNED BY THEM WAS LESS BY \$1.1 BILLION THAN THE EXPECTED EXPENDITURE FROM THE FUNDS.

+THUS THE CONSIDERABLE SURPLUS BALANCES LEFT IN THEM AT MARCH 31, 1984, WILL BE SERVING PROPERLY AS CUSHION IN DIFFICULT TIMES. BUT THIS USE OF RESERVES AGAIN IS FINITE,+ SIR JOHN ADDED.

## NO CUTBACKS IN WORKS PROGRAMME

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THERE HAVE BEEN NO CUTBACKS IN THE PROGRAMME OF WORKS FOR 1984-85, WHICH ACCOMMODATES AGREED LAND PRODUCTION, TRANSPORT AND INSTITUTIONAL PROJECTS THAT ARE READY TO PROCEED, THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE SAID TODAY IN THE LEGISLATIVE COUNCIL.

HE EXPLAINED THAT WHILE TOTAL CAPITAL EXPENDITURE ON TRANSPORT PROJECTS IN THE CONSOLIDATED ACCOUNT HAD FALLEN FROM ITS PEAK OF JUST OVER \$2.5 BILLION IN 1982-83 TO \$2.2 BILLION IN 1983-84, AND AN ESTIMATED \$1.9 BILLION IN 1984-85, THIS WAS MAINLY DUE TO THE COMPLETION OF MANY OF THE KOWLOON-CANTON RAILWAY MODERNISATION PROJECTS.

ADDITIONALLY, HE SAID, EXPENDITURE ON SOME OF THE LARGER ROAD PROJECTS HAD PEAKED.

+NEVERTHELESS CAPITAL EXPENDITURE ON PROJECTS IN THE LAND AND CIVIL ENGINEERING, WATER SUPPLY, PUBLIC SAFETY, RECREATION AND CULTURE AND EDUCATION SECTORS HAS INCREASED; IN SOME CASES SUBSTANTIALLY, + SIR JOHN SAID.

THE SPECIAL COMMITTEE ON LAND SUPPLY CONTINUED TO RECOMMEND TARGETS FOR LAND PRODUCTION AND TO MONITOR THE ACHIEVEMENTS OF THOSE TARGETS.

IN THE LIGHT OF THE PRESENT ECONOMIC CLIMATE, HE SAID, THE SPECIAL COMMITTEE ON LAND SUPPLY HAS BEEN PAYING PARTICULAR ATTENTION TO:

- (A) SETTING TARGETS FOR THE SUPPLY OF LAND FOR ALL CATEGORIES OF USE (OTHER THAN FOR PUBLIC HOUSING, WHICH HAS PRIORITY AND FOR WHICH THE SUPPLY IS GEARED TO THE HOUSING AUTHORITY'S REQUIREMENTS) ON THE BASIS OF ESTIMATES OF POTENTIAL DEMAND RATHER THAN ON ESTIMATES OF PRODUCTION OF NEW LAND;
- (B) REVIEWING THE ALTERNATIVE USES OF INDUSTRIAL LAND IN THE LIGHT OF POSSIBLE SUBSTANTIAL SUPPLY OVER REQUIREMENTS AND THE IMPLICATIONS OF INDUSTRIAL EMPLOYMENT OPPORTUNITIES CONTINUING TO BE CONCENTRATED IN THE MAIN URBAN AREAS AND EXAMINING WAYS IN WHICH DECENTRALISATION COULD BE ACHIEVED;
- (C) MONITORING THE POSSIBILITIES OF EXPANDING THE EXISTING URBAN RENEWAL PROGRAMMES; AND
- (D) MONITORING THE PROGRESS OF THE CONSULTANCY STUDY ON LAND DEVELOPMENT CORPORATIONS, WHICH HAS NOW BEEN COMPLETED.

GOVERNMENT GROSS LAND PRODUCTION IN 1984-85 IS ESTIMATED TO BE 523 HECTARES AS COMPARED WITH 390 HECTARES IN 1983-84.

THE REDUCTION IN ESTIMATED LAND PRODUCTION IN 1983-84 FROM THE ORIGINAL FORECAST OF 669 HECTARES FOLLOWED A REVIEW OF THE WORKS SCHEDULE FOR THE NEW TOWNS DEVELOPMENT PROGRAMME.

TOTAL PRODUCTION OVER THE THREE YEARS OF THE NEW FORECAST PERIOD 1985-86 TO 1987-88 IS EXPECTED TO REACH 1 990 HECTARES, HE SAID.

WEDNESDAY, FEBRUARY 29, 1984

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SPENDING ON EDUCATION TO GO UP 18 PER CENT  
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THE CONSOLIDATED ACCOUNT EXPENDITURE ON EDUCATION IN 1984-85 WILL BE \$7.06 BILLION, NEARLY 18 PER CENT MORE THAN LAST YEAR.

THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMIDGE, SAID IN PRESENTING HIS BUDGET IN THE LEGISLATIVE COUNCIL TODAY, THAT THIS EXPENDITURE WAS 16 PER CENT OF TOTAL CONSOLIDATED ACCOUNT EXPENDITURE AND A 17.9 PER CENT INCREASE OVER 1983-84.

CONSTRUCTION AND EQUIPPING OF NEW BUILDINGS WOULD ACCOUNT FOR \$719 MILLION, WHICH WAS 26 PER CENT HIGHER THAN THE REVISED ESTIMATE FOR 1983-84.

SIR JOHN SAID THE GOVERNMENT'S POLICY WAS TO PROVIDE PRIMARY SCHOOLS WITHIN REASONABLE WALKING DISTANCE FOR ALL PRIMARY SCHOOL AGE CHILDREN, TO PROVIDE A SUBSIDISED PLACE FOR ALL PRIMARY 6 LEAVERS AND TO INCREASE THE NUMBER OF SENIOR SECONDARY PLACES IN SCHOOLS AND PLACES AT TECHNICAL INSTITUTES AND ADULT EDUCATION CENTRES TO MEET THE FULL DEMAND FROM FORM III LEAVERS WHO WERE SUITABLE FOR THE COURSES PROVIDED.

TO MEET THESE OBJECTIVES 18 PRIMARY SCHOOLS, PROVIDING 37 800 PLACES MAINLY IN THE NEW TOWNS, AND 15 SECONDARY SCHOOLS PROVIDING INITIALLY 3 640 FORM I AND 2 320 FORM IV PLACES WOULD BE COMPLETED IN 1984-85.

SIR JOHN SAID PLANNING FOR TWO NEW VOCATIONAL TRAINING INSTITUTES - ONE AT SHA TIN AND ONE AT TUEN MUN - WAS AT AN ADVANCED STAGE. THESE WOULD PROVIDE AN EXTRA 2 735 FULL TIME AND 13 875 PART TIME PLACES.

IN ADDITION, THE VOCATIONAL TRAINING COUNCIL WOULD COMPLETE TWO NEW TRAINING CENTRE COMPLEXES AT KOWLOON BAY AND KWAI CHUNG IN 1984-85. THESE WOULD PROVIDE 8 080 TRAINING PLACES IN NINE INDUSTRIAL TRAINING CENTRES.

TOTAL GRANTS TO THE VOCATIONAL TRAINING COUNCIL WOULD INCREASE FROM \$255 MILLION IN 1983-84 TO \$388 MILLION IN 1984-85.

EXPANSION OF TERTIARY EDUCATION INCLUDED NEW BUILDINGS FOR THE UNIVERSITY OF HONG KONG AND THE CHINESE UNIVERSITY OF HONG KONG, AND ALSO THE COMMENCEMENT OF COURSES AT THE CITY POLYTECHNIC IN TEMPORARY PREMISES AT THE ARGYLE CENTRE. PLANNING FOR THE CITY POLYTECHNIC'S PERMANENT ACCOMMODATION AT TAT CHEE AVENUE WAS PROCEEDING AND SITE FORMATION SHOULD START NEXT YEAR.

TOTAL EXPENDITURE ON THE UNIVERSITIES AND THE POLYTECHNICS WOULD BE A SIGNIFICANT \$1.57 BILLION IN 1984-85 COMPARED WITH \$1.32 BILLION IN 1983-84.

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GOVERNMENT TO SPEND MORE ON MEDICAL AND  
SOCIAL WELFARE SERVICES

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THE GOVERNMENT EXPECTS TO SPEND \$3.55 BILLION ON PUBLIC AND SUBVENTED MEDICAL SERVICES IN FISCAL 1984-85, AN INCREASE OF ALMOST 16 PER CENT ON THE REVISED ESTIMATE OF THE 1983-84 EXPENDITURE, THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMRIDGE, SAID TODAY.

AND, CONSOLIDATED ACCOUNT EXPENDITURE ON SOCIAL WELFARE SERVICES WILL BE ABOUT \$2.4 BILLION, AN INCREASE OF ALMOST 19 PER CENT ON THE REVISED ESTIMATE OF THE 1983-84 EXPENDITURE.

THE \$645 MILLION PRINCE OF WALES HOSPITAL WITH 1 488 BEDS WILL START OPERATIONS IN MAY THIS YEAR, SERVING AS THE REGIONAL HOSPITAL FOR THE EASTERN NEW TERRITORIES AND AS THE TEACHING HOSPITAL FOR THE MEDICAL FACULTY OF THE CHINESE UNIVERSITY OF HONG KONG, SIR JOHN REPORTED.

WORK WILL CONTINUE ON THE TUEN MUN HOSPITAL AND THE QUEEN MARY HOSPITAL EXTENSION, AND SITE FORMATION WORK WILL START FOR A NEW HOSPITAL IN THE EASTERN DISTRICT OF HONG KONG ISLAND.

IN THE SUBVENTED SECTOR, SIR JOHN SAID, DEVELOPMENT PROGRAMMES ARE UNDER WAY IN FIVE HOSPITALS TO EXPAND AND UPGRADE THEIR FACILITIES.

THE SOCIAL WELFARE SERVICES INCLUDE SOCIAL SECURITY, SERVICES FOR OFFENDERS, FAMILY WELFARE, SERVICES FOR THE ELDERLY, COMMUNITY BUILDINGS, PERSONAL SOCIAL WORK AMONG YOUNG PEOPLE AND REHABILITATION AS WELL AS SUBVENTIONS TO VOLUNTARY AGENCIES.

SIR JOHN POINTED OUT THAT THE BASIC RATES FOR PUBLIC ASSISTANCE AND THE SPECIAL NEEDS ALLOWANCES WERE INCREASED BY 13.3 PER CENT IN FEBRUARY THIS YEAR.

THE PUBLIC ASSISTANCE RATE FOR A SINGLE PERSON IS NOW \$510 A MONTH, WITH THE DISABILITY ALLOWANCE BEING PAID AT THE SAME RATE, AND THE OLD AGE ALLOWANCE AT HALF THIS RATE.

PROVISION OF \$540 MILLION IS INCLUDED IN THE DRAFT ESTIMATES FOR PUBLIC ASSISTANCE, COMPARED WITH THE REVISED ESTIMATE OF \$497.4 MILLION FOR 1983-84, SIR JOHN SAID.

THERE WERE 54 700 HOUSEHOLDS ON THIS ASSISTANCE SCHEME AT THE END OF 1983.

FOR SPECIAL NEEDS ALLOWANCES, \$845.5 MILLION IS PROVIDED IN THE BUDGET ESTIMATES, COMPARED WITH THE REVISED ESTIMATE OF \$713.8 MILLION FOR 1983-84.

THIS ALLOWS FOR AN ESTIMATED MONTHLY CASELOAD OF ABOUT 204 000 FOR OLD AGE ALLOWANCE AND 41 000 FOR DISABILITY ALLOWANCE, COMPARED WITH 195 000 AND 39 000 RESPECTIVELY AT THE END OF 1983.

INCREASED FOUR-YEAR HOUSING PLAN FORECAST

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THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMIDGE, TODAY (WEDNESDAY) PREDICTED HOUSING AUTHORITY PRODUCTION FROM 1984-85 TO 1987-88 TO EXCEED PRODUCTION IN THE PREVIOUS FOUR YEARS BY 6.5 PER CENT.

PRESENTING HIS BUDGET PROPOSALS AT THE LEGISLATIVE COUNCIL, HE SAID THAT OF THE TOTAL CONSOLIDATED ACCOUNT EXPENDITURE ON HOUSING IN 1984-85, \$3.7 BILLION WOULD BE SPENT ON THE ACTUAL CONSTRUCTION OF HOUSING, INCLUDING TEMPORARY HOUSING AREAS, AGAINST A REVISED ESTIMATE OF \$3.5 BILLION IN FISCAL 1983.

THE GOVERNMENT'S POLICY, HE SAID, WAS THAT THE PUBLIC HOUSING PROGRAMME SHOULD ACHIEVE A LEVEL OF PRODUCTION OF AT LEAST 35 000 FLATS A YEAR FOR BOTH RENTAL AND SALE BY THE HOUSING AUTHORITY, WITH A SUBSTANTIAL ADDITION BY THE HOUSING SOCIETY THROUGH THE DEVELOPMENT OF RENTAL HOUSING AND THE URBAN IMPROVEMENT SCHEME, AND BY THE PRIVATE SECTOR PARTICIPATION SCHEME.

SIR JOHN SAID TOTAL PRODUCTION IN THE NEXT FOUR YEARS, INCLUDING HOUSING SOCIETY FLATS AND PRIVATE SECTOR PARTICIPATION SCHEME FLATS WAS ESTIMATED AT 176 000 FLATS, WITH AN AVERAGE COMPLETION RATE OF 44 000 A YEAR: 39 082 IN 1984-85, 46 047 IN 1985-86, 44 872 IN 1986-87 AND 46 780 IN 1987-88.

+THIS WILL HAVE A MAJOR IMPACT ON MANY NOW WAITING PATIENTLY FOR DECENT HOUSING. IN THE NEXT FOUR YEARS WE SHALL BE PROVIDING NEW, HIGH CLASS SUBSIDISED HOUSING FOR OVER 700 000 PEOPLE. WE SHOULD ALL BE PROUD OF THIS PROGRAMME,+ HE SAID.

SIR JOHN SAID 41 623 HOME OWNERSHIP SCHEME FLATS OUT OF 47 010 IN THE FIRST FIVE PHASES WOULD HAVE BEEN COMPLETED BY THE END OF FISCAL 1984, AND WORK WAS IN HAND ON THE BALANCE AS WELL AS 13 610 FLATS IN PHASES VI, VII AND VIII.

HE ADDED THAT FOLLOWING A REVIEW IN MARCH 1983, THE GOVERNMENT DECIDED THAT THE MIDDLE INCOME HOUSING PROGRAMME SHOULD BE STOPPED AS A RESULT OF THE DECLINE IN PROPERTY PRICES.

+DISCIPLINED SPENDING+ TO CONTINUE  
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THE GOVERNMENT REMAINS DETERMINED TO BUILD UP HONG KONG'S GENERAL INFRASTRUCTURE EVEN THOUGH IT IS +NOT OUT OF THE WOODS YET+ AFTER THE DIFFICULT ECONOMIC SITUATION EXPERIENCED DURING 1982-83, THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMIDGE, SAID IN PRESENTING HIS 1984-85 BUDGET IN THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

SPENDING WOULD CONTINUE STEADILY WITHOUT ARBITRARY CUTBACKS AND IN A DISCIPLINED MANNER ON ALL LONG-TERM PROGRAMMES FOR LAW AND ORDER, SOCIAL, HEALTH AND MEDICAL SERVICES, HOUSING, EDUCATION AND TRANSPORT, SIR JOHN SAID.

SIR JOHN WENT ON: +WE MUST, HOWEVER, FACE THE FACT THAT ALL THIS HAS TO BE PAID FOR. RAISING OF REVENUE IS A HIGHLY SUBJECTIVE MATTER. THERE ARE MANY WAYS OF SKINNING A CAT; AND MY PROPOSALS TODAY REMAIN OPEN TO DEBATE.

+I FIRMLY BELIEVE THAT ECONOMIC GROWTH MUST PROVIDE ROOM FOR GROWTH IN WISE PUBLIC SECTOR SPENDING. THE COROLLARY IS THAT ONLY ECONOMIC GROWTH MAKES THIS POSSIBLE, THOUGH A SENSIBLE GOVERNMENT SETS ITS SIGHTS ON THE LONG-TERM AND IS NOT SIDETRACKED BY SHORT-TERM DIFFICULTIES.+

THERE WAS A RESURGENCE IN HONG KONG'S EXPORT TRADE IN 1983, SAID SIR JOHN, AND THE GROWTH OF 15 PER CENT IN REAL TERMS WAS IMPRESSIVE, PARTICULARLY AS THE FIRST QUARTER WAS RELATIVELY FLAT.

+A MAJOR THRUST OF OUR ECONOMIC, MONETARY, FINANCIAL AND FISCAL POLICIES IS DIRECTED TOWARDS THE PROMOTION OF EXPORTS -- GOODS AND SERVICES ALIKE.

+THIS IS ARGUABLY OUR MOST IMPORTANT OBJECTIVE, FOR WITHOUT THE EARNINGS AND EMPLOYMENT PROVIDED BY EXPORTS HONG KONG HAS LITTLE EXCEPT A FINE HARBOUR AND 5.3 MILLION PEOPLE.

+AN OUTCOME WAS A REAL GROWTH IN GDP OF 5.9 PER CENT. IN DIFFICULT CIRCUMSTANCES OUR POLICIES HAVE THUS MET WITH A DEGREE OF SUCCESS.+

SIR JOHN SAID THAT WHILE HAPPINESS WAS NOT ENSURED BY PROSPERITY, AT LEAST GROWING PROSPERITY MUST RESULT IN FEWER PEOPLE FACING INEVITABLE UNHAPPINESS.

+AT THE SAME TIME THE MAJORITY IN HONG KONG HAVE BY NOW LEARNED, I BELIEVE, THE LESSONS THAT INCOME MUST BE EARNED BEFORE IT IS SPENT; THAT INCENTIVES MUST BE OFFERED; THAT TAXATION SHOULD BE MODERATE, FALLING MORE HEAVILY ON THE BETTER OFF; THAT THE PROCLIVITIES OF DECENT MEN AND WOMEN TO SPEND HUGELY ON SOCIAL AND OTHER MEASURES CAN BE RESTRAINED ONLY BY TOUGH BUDGETARY POLICIES; AND ABOVE ALL THAT GROWTH OF PUBLIC SECTOR EXPENDITURE MUST BE RELATED TO GROWTH IN GDP.

+THOSE WHO COMPARE OUR PROGRAMMES WITH THOSE OF PRESENTLY FAR RICHER COUNTRIES IN THE WEST DO SO AT THEIR -- INDEED OUR -- PERIL. WE MUST NOT IN PARTICULAR GET LOCKED IN TO OVER-GENEROUS RECURRENT EXPENDITURE WITH THE INEVITABLE OUTCOME OF REALLY DRASTIC INCREASES IN TAXATION.+

SIR JOHN SAID HE DID NOT HIDE HIS CONCERN AT CERTAIN WORRYING TRENDS IN GOVERNMENT'S REVENUE AND EXPENDITURE -- PARTICULARLY RECURRENT EXPENDITURE. A RIGOROUS APPROACH MUST AND WOULD BE MAINTAINED.

+THIS IS PARTICULARLY NECESSARY IN THE LIGHT OF THE SUBSTANTIAL FALL IN REVENUE FROM LAND SALES, WHICH HAS REQUIRED MAJOR CHANGES IN BUDGETARY STRATEGY,+ HE SAID.

+THE ISSUE IS CLEAR. THE BUDGETED REVENUE FOR 1982-83 FROM LAND SALES SPECIFICALLY WAS \$9.2 BILLION: THE ACTUAL REVENUE IN 1983-84 WILL BE ABOUT \$1.6 BILLION.

+THOUGH NATURALLY WELCOME, REVENUE FROM LAND SALES AT THE TIME OF THE RELATIVELY SHORT-LIVED PROPERTY BOOM WAS OF A WINDFALL NATURE. SUBSEQUENTLY IN ONLY TWO YEARS OUR ANNUAL REVENUE HAS SUFFERED PRIMA FACIE ABOUT A 25 PER CENT DROP. WE THUS MOVED IN ONE YEAR FROM A LARGE SURPLUS TO A LARGE DEFICIT.

+NOR IS RAPID IMPROVEMENT IN LAND PRICES LIKELY. IN ADDITION THE SECOND PAYMENT OF \$1.9 BILLION FOR EXCHANGE SQUARE DUE IN 1984-85 WILL NOT BE DUPLICATED IN 1985-86 LAND SALES REVENUE.+

SIR JOHN SAID IT WAS THEREFORE ESSENTIAL THERE BE A CALM, STEADY, CLEARLY UNDERSTOOD AND BALANCED APPROACH TOWARDS MODERATING THE UNFORESEEN DEFICITS NOW FACING US.

SUCH A MAJOR ADJUSTMENT REQUIRED TIME. HIS PRIME AIM WAS TO GET BUDGET DEFICITS BELOW ONE PER CENT OF GDP. A DEFICIT OF THIS ORDER COULD BE HANDLED, PROVIDED THAT RECURRENT EXPENDITURE WAS AMPLY COVERED.

+I STARTED ON THIS APPROACH IN AUTUMN 1982 WHEN FACED WITH AN EXPECTED DEFICIT OF \$3.8 BILLION FOR 1982-83 IN PLACE OF THE BUDGETED SURPLUS OF \$2.8 BILLION, AND I MUST CONTINUE IT IN THIS BUDGET -- AND AGAIN WITHOUT DOUBT IN NEXT YEAR'S,+ SIR JOHN SAID.

+WHAT IS REQUIRED CAN ONLY BE A JUDICIOUS MIX OF CONTROLLED EXPENDITURE AND INCREASED REVENUE. GOVERNMENT BORROWING AND USE OF FISCAL RESERVES ARE THEN AVAILABLE. THIS APPROACH MAY SOUND SIMPLE, BUT IT IS NOT. MUCH DEPENDS ON ASSESSMENT OF INCREASED YIELDS FROM INCREASED PROSPERITY. AND THE NECESSARY SUBJECTIVE JUDGMENTS MUST BE SUBJECT TO CONSTRUCTIVE OPEN DEBATE. IN PARTICULAR I WISH TO AVOID SUDDEN SHOCKS.+

HE SAID A MAJOR THEME MUST ALSO BE POLICIES THAT MODERATE INFLATION, WITH PARTICULAR ATTENTION TO THE BURDEN OF INCREASING CONSUMER PRICES ON THE LESS WELL OFF. A GOOD BUDGET WAS NOT JUST A STRING OF FIGURES. +IT IS THE STUFF OF PEOPLE'S LIVES. AND THE LESS WELL OFF HAVE ABSORBED SEVERAL BLOWS IN THE LAST TWO YEARS.+

/SIR JOHN .....

SIR JOHN SAID THE PROBLEMS OF THOSE COUNTRIES WHOSE APPETITES HAD EXCEEDED THEIR INCOMES FILLED THE NEWSPAPERS. DEBT WITHOUT DISCIPLINE HAD SAVAGED THEM.

+HONG KONG, WITH ITS HARD-WORKING AND INTELLIGENT PEOPLE, MUST CONTINUE TO ILLUSTRATE THE BENEFITS OF COMMONSENSE, WORK AND THRIFT. WE ARE ONE OF THE FEW COMMUNITIES IN THE WORLD WHERE REAL EARNINGS WILL SOON AGAIN BE RISING.

+THIS IS NOT FORTUITOUS. IT REPRESENTS THE OUTCOME OF THE GOVERNMENT'S STEADY AND CONSISTENT POLICIES, THOUGH OUR EXPORTS WILL ALWAYS REMAIN SUBJECT TO THE PURCHASING POWER AND IMPORT POLICIES OF THOSE WHO BUY OUR PRODUCTS.

+THERE IS NOTHING WRONG WITH CHANGE; BUT WE MUST BE CAREFUL NOT TO CAST EXPERIENCE ASIDE.+

SIR JOHN NOTED THAT NOT ALL IS GOOD IN THE ECONOMY. THINGS HAD TAKEN PLACE THAT WERE CLEARLY DISGRACEFUL.

+FURTHER LEGISLATION MAY WELL BE NECESSARY,+ HE SAID, +BUT GREED CANNOT BE CURED ONLY BY NEW LAWS, AND SELF REGULATION IS PREFERABLE. EQUALLY REQUIRED IS A PROPER SENSE OF SHAME. I SHARE IN IT.+

SIR JOHN SAID IT WAS GENERALLY USEFUL FOR THE GOVERNMENT'S ACTIONS OR FAILURES TO ACT TO BE INTELLIGENTLY CRITICISED BY VARIOUS PRESSURE GROUPS AND THE FREE PRESS. ONE OUTCOME WAS RECOGNITION OF MISTAKES THAT MAY ARGUABLY HAVE BEEN MADE, THUS PROVIDING A SPUR TO PROGRESS.

+WE ALL KNOW THAT NO COMMUNITY CAN STAND STILL AND THAT NO GOVERNMENT IS FREE OF ERROR. NEVERTHELESS THE ESSENTIAL BALANCING OF SPENDING PRIORITIES AGAINST THE NEED TO CONTROL PUBLIC SECTOR GROWTH, AND TO LIMIT TAXATION, IS REGARDED BY SOME AS A SIMPLE ADMINISTRATIVE TASK. WHEN AFFAIRS GO WELL THERE IS ALSO SOME RELUCTANCE TO ACCEPT THAT SENSIBLE GOVERNMENT POLICIES HAVE PLAYED THEIR PART.

+I EMPHASISE PART, FOR OF COURSE SEVERAL FACTORS ARE INVOLVED. NOT LEAST A COMPETENT AND LOYAL CIVIL SERVICE.+

EXPANDING ON THE EXPORT-LED RECOVERY EXPERIENCED IN 1983, SIR JOHN SAID THIS WAS PARTICULARLY NOTICEABLE IN THE LAST THREE QUARTERS OF THE YEAR, AND FOR THE YEAR AS A WHOLE THE REAL GROWTH RATE OF DOMESTIC EXPORTS WAS 14 PER CENT. THIS LARGELY REFLECTED THE STRONG ECONOMIC RECOVERY IN THE UNITED STATES, WHICH REMAINED HONG KONG'S MAJOR MARKET; BUT IT WAS HELPED BY DEPRECIATION IN THE EXCHANGE VALUE OF THE HONG KONG DOLLAR.

THE INCREASE IN REAL TERMS OF 49 PER CENT IN DOMESTIC EXPORTS TO CHINA WAS ALSO MARKED. IMPORTS INCREASED BY NINE PER CENT IN REAL TERMS. THE BALANCE OF TRADE IMPROVED ACCORDINGLY.

THERE WAS ALSO A RECOVERY IN PRIVATE CONSUMPTION EXPENDITURE IN THE SECOND HALF OF THE YEAR, WHICH PROVIDED A GROWTH RATE FOR THE YEAR AS A WHOLE OF NINE PER CENT.

/NEVERTHELESS, THE .....

NEVERTHELESS, THE IMPROVEMENT IN EXPORT DEMAND WAS NOT MATCHED BY A RECOVERY IN PRIVATE SECTOR INVESTMENT. THIS WAS GENERALLY DEPRESSED, ESPECIALLY FOR BUILDING AND CONSTRUCTION, WHERE A FALL OF 13 PER CENT IN REAL TERMS OCCURRED.

THERE WERE SIGNS TOWARDS THE END OF THE YEAR THAT THE SLUMP IN THE PROPERTY MARKET MIGHT BE BOTTOMING OUT AND THAT INVESTMENT IN PLANT AND MACHINERY HAD BEGUN TO RECOVER IN THE FOURTH QUARTER. HOWEVER THERE WAS A FALL OF EIGHT PER CENT IN REAL TERMS IN PRIVATE SECTOR INVESTMENT EXPENDITURE FOR THE YEAR AS A WHOLE.

SIR JOHN SAID THE GROWTH RATE OF PUBLIC SECTOR EXPENDITURE ON BOTH CONSUMPTION AND CAPITAL ACCOUNT WAS LOWER THAN IN EARLIER YEARS. IN REAL TERMS IT WAS ONLY FOUR PER CENT REFLECTING THE ACCOMPLISHMENT OF BUDGETARY RESTRAINT.

IN NET TERMS THE INCREASES IN THE VARIOUS COMPONENTS OF THE EXPENDITURE ON THE GDP GAVE AN OVERALL GROWTH RATE OF 5.9 PER CENT IN 1983, WHICH REPRESENTED A CONSIDERABLE IMPROVEMENT OVER THE GROWTH RATE FOR 1982 OF ONLY 1.1 PER CENT BASED ON THE REVISED GDP ESTIMATES.

+THE RECENT REVISIONS, OR RATHER THE UPDATING OF THE METHOD OF ESTIMATING EXPENDITURE ON THE GDP, HAVE HAD THE EFFECT OF CHANGING THE ESTIMATED GROWTH RATES FOR 1982 AND 1983. ON THE OLD BASIS THEY WERE 2.4 PER CENT AND WOULD HAVE BEEN OVER EIGHT PER CENT RESPECTIVELY. THIS OPTIMISTIC LAST FIGURE WOULD HAVE HAD A MAJOR (IF MISLEADING) IMPACT.+

THE ACCELERATED GROWTH RATE IN THE ECONOMY IN THE 1983 RESULTED IN MARKED IMPROVEMENTS IN BOTH THE UNEMPLOYMENT AND UNDER-EMPLOYMENT RATES. IN THE FOURTH QUARTER THE SEASONALLY-ADJUSTED UNEMPLOYMENT RATE WAS FOUR PER CENT AND THE UNDER-EMPLOYMENT RATE WAS 1.4 PER CENT.

THE IMPROVEMENT IN THE UNDER-EMPLOYMENT RATE MADE A MAJOR CONTRIBUTION TO A NOTICEABLE INCREASE OF 4.9 PER CENT IN OUTPUT PER EMPLOYED PERSON.

+MEMBERS WELL KNOW THE IMPORTANCE THAT I ATTACH TO EMPLOYMENT FIGURES,+ SIR JOHN SAID. +FULL EMPLOYMENT HERE IS PROBABLY REPRESENTED BY AN UNEMPLOYMENT RATE BETWEEN THREE PER CENT AND 3-1/2 PER CENT.

SIR JOHN SAID AMONG THE UNSATISFACTORY ASPECTS OF THE ECONOMY IN 1983 WAS THE RATE OF INFLATION. ALTHOUGH LOWER THAN IN 1982, THIS, IN TERMS OF THE CONSUMER PRICE INDEX AT ABOUT 10 PER CENT, WAS ONE PER CENT ABOVE HIS ESTIMATE.

+IT COULD EASILY HAVE BEEN WORSE. MANY THOUGHT IT WAS. ALTHOUGH MOST INFLUENCES ON THE OVERALL PRICE LEVEL, SUCH AS PRESSURE OF DEMAND WITHIN THE ECONOMY, MOVEMENTS OF PRICES AND RENTALS FOR PROPERTY, AND LOWER INFLATION IN HONG KONG'S MAJOR TRADING PARTNERS, WERE HELPING TO DAMPEN DOWN THE RATE OF INFLATION, THEY WERE INSUFFICIENT TO OFFSET THE EFFECT OF THE DEPRECIATION OF THE EXCHANGE RATE.

+IN PARTICULAR, FOLLOWING THE SHARP DEPRECIATION IN SEPTEMBER, THE RATE OF INFLATION INCREASED IN THE FOURTH QUARTER TO 11.9 PER CENT, COMPARED WITH 9.1 PER CENT IN THE THIRD QUARTER. NOW THAT THE EXCHANGE RATE HAS SUCCESSFULLY BEEN STABILISED THIS ACCELERATION IN THE RATE OF INFLATION WILL SOON REVERSE.+

SIR JOHN SAID HE DID NOT INTEND TO TOUCH ON THE COURSE OF THE DIPLOMATIC NEGOTIATIONS NOW UNDER WAY IN PEKING. IT WAS, HOWEVER, CLEAR THAT SENTIMENTS ABOUT THEM HAD HAD SOME INFLUENCE ON ECONOMIC AND MONETARY TRENDS, HE SAID.

+UNCERTAINTY IS POSSIBLY A LARGER THREAT THAN LACK OF CONFIDENCE. FIXED CAPITAL FORMATION HAS REMAINED LOW THOUGH THERE ARE RECENT INDICATIONS OF IMPROVEMENT.

+NON-PERFORMING BANK LOANS REMAIN A SOURCE OF CONCERN. BUT EVEN SO MANY WILL ENVY US. FEW OTHER PLACES IN THE WORLD CAN OFFER VIRTUALLY NO CENTRAL GOVERNMENT DEBT, LITTLE UNEMPLOYMENT, BUSTLING INDUSTRY AND SIGNIFICANT REAL GROWTH. ALL IS ACCOMPLISHED IN FREEDOM. AND THERE IS GOOD REASON TO BELIEVE IN, AND TO INVEST IN, THE FUTURE PROSPERITY AND STABILITY OF HONG KONG.+

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POSITION AS FINANCIAL CENTRE STRENGTHENED

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DESPITE THE VARIOUS PROBLEMS OF 1983, HONG KONG'S POSITION AS AN INTERNATIONAL FINANCIAL CENTRE HAS STRENGTHENED, THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMRIDGE, TOLD THE LEGISLATIVE COUNCIL THIS (WEDNESDAY) AFTERNOON.

SIR JOHN, IN PRESENTING HIS 1984-85 BUDGET PROPOSALS, SAID ALTHOUGH THE NUMBER OF REGISTERED DEPOSIT-TAKING COMPANIES HAS DECREASED, MORE BANK AND DEPOSIT-TAKING COMPANY LICENCES HAVE BEEN GRANTED AND +A FINANCIAL FUTURES MARKET IS ALSO BEING STUDIED+.

HE ADDED THAT TOTAL DEPOSITS IN ALL DEPOSIT-TAKING INSTITUTIONS WERE \$167 BILLION AT THE END OF FEBRUARY 1982 WHEN THE INTEREST TAX ON FOREIGN CURRENCY DEPOSITS WAS REMOVED. BUT BY THE END OF DECEMBER 1983 THE TOTAL WAS \$292 BILLION.

HE SAID HONG KONG'S FINANCIAL SECTOR HAD EVOLVED IN MUCH THE SAME FUNDAMENTAL WAY AS HAD OTHER SECTORS OF ITS ECONOMY — THROUGH MARKET FORCES WITH NO SPECIAL STIMULUS FROM THE GOVERNMENT.

+AS HAS ALWAYS BEEN THE CASE, THE GOVERNMENT WILL INTERVENE IN THE FINANCIAL SECTOR WHEN CLEARLY NECESSARY, BUT WILL LIMIT MEASURES TO THE MINIMUM REQUIRED TO ENSURE SOUND BUSINESS PRACTICE AND A MEASURE OF PROTECTION FOR DEPOSITORS AND INVESTORS. THIS APPROACH WILL CONTINUE,+ SIR JOHN SAID.

HE SAID THAT AS ANNOUNCED EARLIER, A TEAM FROM THE BANK OF ENGLAND WAS HERE TO ASSIST IN A REVIEW OF SYSTEMS OF PRUDENTIAL SUPERVISION OF BANKS AND DEPOSIT-TAKING COMPANIES.

+THE BANKING ORDINANCE WAS INTRODUCED IN 1964 WITH THE ASSISTANCE OF THE BANK OF ENGLAND. AFTER 20 YEARS IT SEEMS SENSIBLE TO TAKE AN OVERALL LOOK AT WHERE WE STAND. IF SO INDICATED, FURTHER LEGISLATION CAN BE INTRODUCED. THIS IS AN AREA WHERE NO GOVERNMENT CAN EVER BE SATISFIED WITH THE STATUS QUO,+ HE ADDED.

SIR JOHN SAID THE EXCHANGE RATE STABILISATION SCHEME, STARTED IN MID-OCTOBER LAST YEAR, HAD ACHIEVED ITS IMMEDIATE GOAL OF STABILISING THE EXCHANGE RATE AND RESTORING CONFIDENCE IN THE HONG KONG CURRENCY.

HE SAID THE HONG KONG DOLLAR 7.80 RATE WAS NOW FAMILIAR, AND THE LOW OF \$9.60 TO THE US DOLLAR WAS HISTORY.

+THE FINANCIAL COMMUNITY HAS ADAPTED QUICKLY TO THE NEW EXCHANGE RATE SYSTEM AND HAS THUS CONTRIBUTED TO ITS SUCCESS. I THANK ALL CONCERNED,+ HE SAID.

SIR JOHN ADDED THAT THE HONG KONG DOLLAR DEPOSIT BASE HAD AGAIN INCREASED, THOUGH PART OF THE INCREASE REFLECTED THE RE-DENOMINATION OF FOREIGN CURRENCY SWAP DEPOSITS INTO HONG KONG DOLLAR DEPOSITS AFTER THE 10 PER CENT INTEREST WITHHOLDING RATE WAS REMOVED.

STATISTICS, SIR JOHN SAID, HAD BEEN AFFECTED BY RECENT EVENTS BUT IT WAS CLEAR THAT FUNDS HAD BEEN FLOWING INTO HONG KONG ON A LARGE SCALE.

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#### BILLION DOLLAR BOND ISSUE PROPOSED

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THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, SAID HE WOULD MOVE A RESOLUTION IN THE LEGISLATIVE COUNCIL NEXT MONTH TO PROVIDE THE GOVERNMENT WITH THE AUTHORITY TO RAISE A LOAN OF UP TO \$1 BILLION BY THE ISSUE OF BONDS UNDER THE LOANS (GOVERNMENT BONDS) ORDINANCE.

THE LOAN WILL BE RAISED IN HONG KONG, IN HONG KONG CURRENCY, AND FOR THE PURPOSE OF THE GENERAL REVENUE.

IN HIS BUDGET SPEECH TODAY, SIR JOHN SAID THE PROCEEDS OF THE BOND ISSUE WILL BE TRANSFERRED TO THE CAPITAL WORKS RESERVE FUND.

/HE SAID .....

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HE SAID THE NATURE OF THE ISSUE WILL PROBABLY BE IDENTICAL TO THE PREVIOUS ISSUE IN 1975, IN THE FORM OF FIXED RATE HONG KONG DOLLAR DENOMINATED BEARER BONDS WITH A TERM OF FIVE YEARS, WHICH WILL BE SOLD BY TENDER.

+OTHER FORMS OF BORROWING HAVE BEEN CAREFULLY CONSIDERED, BUT THIS SYSTEM, OF WHICH WE HAVE SOME EXPERIENCE, SEEMS WELL SUITED TO OUR NEEDS AT THIS TIME,+ HE SAID.

SIR JOHN SAID HE WAS ADVISED THAT THE HONG KONG DOLLAR MARKET COULD EASILY ABSORB A BOND ISSUE OF THE SIZE ENVISAGED, PARTICULARLY AS THE BONDS WOULD QUALIFY AS LIQUID ASSETS UNDER THE BANKING AND DEPOSIT-TAKING COMPANIES ORDINANCE.

EARLIER, HE EXPLAINED THAT WHEN HE MENTIONED THE POSSIBILITY OF GOVERNMENT BORROWING LAST YEAR, HE HAD SPECIFICALLY SAID THAT IT WOULD HAVE TO BE ACCOMPANIED BY A CONSIDERABLE EXCESS OF RECURRENT REVENUE OVER RECURRENT EXPENDITURE, AND BE JUSTIFIABLE AS EARMARKED FOR PROFITABLE CAPITAL INVESTMENT.

+WITHOUT TAKING ACCOUNT OF THE REVENUE PROPOSALS I HAVE JUST OUTLINED, RECURRENT EXPENDITURE NEXT YEAR WOULD REPRESENT 93 PER CENT OF RECURRENT REVENUE, COMPARED WITH 86 PER CENT IN 1983-84 AND A NOTIONAL GUIDELINE OF NO MORE THAN 85 PER CENT.

+TO BORROW AGAINST THIS BACKGROUND COULD BE CONSIDERED TYPICAL OF THE WORST PRACTICES PREVALENT ELSEWHERE. I WOULD SO REGARD IT. IT IS QUITE IRRESPONSIBLE TO BORROW AS AN ALTERNATIVE TO EXERTING PROPER DISCIPLINE.

+BUT GIVEN AGREEMENT TO MY REVENUE PROPOSALS AND ACCEPTANCE OF OUR DETERMINATION TO CONTINUE TIGHT CONTROL ON RECURRENT EXPENDITURE, THE RATIO SHOULD COME DOWN FROM 93 PER CENT TO 88 PER CENT.

+ALTHOUGH THIS LATTER FIGURE IS STILL HIGHER THAN I LIKE, TO REDUCE IT FURTHER WOULD INVOLVE EITHER CUTS IN EXPENDITURE OR EVEN HIGHER TAXATION, OR AN ELEMENT OF BOTH.+

SIR JOHN SAID HE DID NOT CONSIDER THAT IT WOULD BE APPROPRIATE AT THIS POINT IN TIME SO TO BURDEN THE COMMUNITY AND CONSEQUENTLY, UNDER THE CIRCUMSTANCES A MODERATE DEGREE OF GOVERNMENT BORROWING APPEARED PRUDENT.

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NEED FOR PROPER TAX BALANCE STRESSED

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HAVING LAST YEAR RESTORED THE PROPER BALANCE BETWEEN INDIRECT AND DIRECT TAXATION, IT IS CLEARLY NECESSARY TO BEAR THIS RELATIONSHIP IN MIND WHEN CONSIDERING HOW TO RAISE ADDITIONAL REVENUE, THE FINANCIAL SECRETARY, THE HON. SIR JOHN BREMRIDGE, TOLD THE LEGISLATIVE COUNCIL TODAY.

SIR JOHN SAID THE POTENTIAL DEFICIT WAS \$3.6 BILLION, AND THE MEANS AVAILABLE TO REDUCE THIS WERE LIMITED.

+AS A GENERALISATION, DIRECT TAXATION DOES NOT ADVERSELY AFFECT INFLATION TO THE EXTENT THAT INDIRECT TAXATION DOES. WHILE, THEREFORE, BOTH MUST BE INVOLVED IN THE NEED TO INCREASE RECURRENT GOVERNMENT REVENUES, INSOFAR AS INDIRECT TAXATION IS CONCERNED, I MUST ALSO SEEK TO ENSURE THAT ANY ADDITIONAL BURDEN IS SKEWED AWAY FROM THE LESS WELL OFF,+ HE SAID.

HE SAID HIS GENERAL INTENTION WITH REGARD TO THE POTENTIAL DEFICIT OF \$3.6 BILLION WAS TO INCREASE RECURRENT REVENUE BY \$1.5 BILLION (ONLY HALF OF WHAT WAS NECESSARY LAST YEAR), TO RAISE \$1 BILLION BY SELLING GOVERNMENT BONDS AND TO MAKE UP THE BALANCE OF \$1.1 BILLION BY REDUCING THE FREE FISCAL RESERVES TO ABOUT \$7.1 BILLION BY THE END OF MARCH 1985.

+CONSEQUENTLY I AM BUDGETING FOR A TRUE DEFICIT OF \$2.1 BILLION. THIS WILL REPRESENT UNDER 0.9 PER CENT OF ESTIMATED CURRENT PRICE GDP. ASSUMING \$1 BILLION FROM THE BOND ISSUE THE SHORTFALL WILL BE \$1.1 BILLION.

+THE TREND FROM \$3.5 BILLION IN 1982-83 AND \$3.3 BILLION IN 1983-84 TO \$2.1 BILLION NEXT YEAR IS CLEAR AND WILL BE REASSURING. I HOPE IT WILL CONTINUE IN 1985-86, THUS AGAIN HITTING MY TARGET OF BELOW 1 PER CENT OF GDP. BUT THE TREND IS MORE IMPORTANT THAN THE IMPACT OF PARTICULAR YEARS.+

SIR JOHN SAID THAT FACED WITH THE +HIGHLY UNPOPULAR NEED TO RAISE \$1.5 BILLION+, HE HAD DECIDED TO SEEK \$900 MILLION FROM DIRECT TAXATION AND \$600 MILLION FROM INDIRECT TAXATION.

FURTHERMORE, HE INTENDED THAT THE INDIRECT TAX MEASURES WOULD HAVE THE MINIMUM EFFECT ON CONSUMER PRICES AND IN PARTICULAR ON THE LESS WELL OFF.

HE WENT ON : +I AM AWARE OF THE UNPLEASANT SHOCK THAT RESULTED FROM MY EFFORTS TO INCREASE REVENUE LAST YEAR BY \$3 BILLION THROUGH INDIRECT TAXES. THE MOVE WAS ESSENTIAL BECAUSE OF THE NEED FOR BUDGETARY STRINGENCY AND BALANCE. I SHALL NEED NEXT YEAR, FOR THE 1985-86 BUDGET AT LEAST, TO RESTORE THE YIELDS IN REAL TERMS IN MOST AREAS, THOUGH WE MUST NOT UNDERESTIMATE CONSUMER RESISTANCE.+

/SIR JOHN .....

SIR JOHN SAID THAT TODAY, AS FAR AS INDIRECT TAXATION WAS CONCERNED, HE PROPOSED PRACTICALLY NO INCREASES ON THE MOTORIST AND USER OF TRANSPORT. THERE WOULD BE NO CHANGE IN TAXATION OF TOBACCO, HYDROCARBON OILS (INCLUDING BOTH PETROL AND DIESEL), DRIVING LICENCES, VEHICLE LICENCES, COMPANY REGISTRATION FEES, ENTERTAINMENT, HOTEL ACCOMMODATION AND AIR PASSENGER DEPARTURES. FOR THE ROAD USER HE WAS PROPOSING ONLY INCREASES RELATING TO TWO TUNNELS.

OTHER INCREASES IN INDIRECT TAXATION WOULD ARISE ON BETTING DUTY, RATES, DUTIES ON IMPORTED WINES AND SPIRITS AND SELECTED FEES AND CHARGES, INCLUDING FEES FOR DEPOSIT-TAKING INSTITUTIONS.

FOLLOWING IS A SUMMARY OF THE PROPOSALS:

<u>BUDGET PROPOSALS</u>	<u>ADDITIONAL REVENUE</u>
	(\$ MN)
EARNINGS AND PROFITS TAX	903
DUTIES ON LIQUOR	50
ADJUSTMENTS TO THE GENERAL RATE	175
BETTING DUTIES	151
CROSS HARBOUR TUNNEL TAX	140
FEES AND CHARGES	35
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TOTAL	1 454
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PROCEEDS FROM THE ISSUE OF BONDS	1 000
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NEW MEASURES PROPOSED TO PROTECT TAX YIELDS  
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THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMRIDGE, TODAY (WEDNESDAY) PROPOSED TWO NEW MEASURES TO PROTECT THE YIELD FROM PROFITS TAX FOLLOWING THE REMOVAL OF INTEREST TAX ON DEPOSITS, AND TO BRING WITHIN THE PROFITS TAX NET ALL INTEREST FROM DEPOSITS, INCLUDING SO-CALLED OFFSHORE DEPOSITS WHERE SUCH INTEREST IN REALITY ARISES FROM THE BUSINESS OPERATIONS IN HONG KONG.

SIR JOHN HOPED THAT THE PROVISIONS WHICH WILL BE PUBLISHED SHORTLY IN BILL FORM, WOULD NOT MEET WITH GENERAL OPPOSITION FROM RESPONSIBLE PEOPLE IN THE BUSINESS SECTOR. INDEED, HE BELIEVED THAT THE PROPOSALS WERE ESSENTIAL FOR THE PROTECTION OF REVENUE AND SHOULD DETER TAX AVOIDERS.

+AT THE SAME TIME THEY ARE CAREFULLY DESIGNED TO LEAVE AMPLE SCOPE FOR THE GENUINE BUSINESS BORROWER TO OBTAIN FULL DEDUCTIONS FOR INTEREST EXPENSES INCURRED. THERE ARE MORE DRACONIAN MEASURES THAT COULD HAVE BEEN INTRODUCED, WHICH I TRUST WILL NOT BE NECESSARY,+ HE ADDED.

SIR JOHN SAID THAT IN OCTOBER LAST, AS PART OF THE PACKAGE OF PROPOSALS TO STABILISE THE CURRENCY, THE DECISION WAS TAKEN TO RESTRICT SEVERELY THE AMBIT OF THE INTEREST TAX. ACCORDINGLY, FROM OCTOBER 17, 1983, INTEREST PAID OR PAYABLE ON DEPOSITS MADE IN HONG KONG CURRENCY WITH A FINANCIAL INSTITUTION CARRYING ON BUSINESS IN HONG KONG BECAME EXEMPT FROM INTEREST TAX.

FROM FEBRUARY 1982 A SIMILAR EXEMPTION HAD BEEN ACCORDED TO FOREIGN CURRENCY DEPOSITS WITH LOCAL FINANCIAL INSTITUTIONS AS PART OF THE 1982 BUDGET PROPOSALS.

HE SAID HE HAD REFERRED FREQUENTLY TO THE POSSIBLE EFFECTS WHICH THE REMOVAL OF THE INTEREST TAX MIGHT HAVE ON THE PROFITS TAX AND THUS THE FURTHER SERIOUS CONSEQUENCES FOR GOVERNMENT REVENUE.

SIR JOHN SAID HE DID NOT NEED TO SPELL OUT IN PRECISE TERMS THE DETAILS OF THE TAX AVOIDANCE DEVICES WHICH WERE NOW AVAILABLE TO BUSINESS ENTERPRISES BY VIRTUE OF THE REPEAL OF INTEREST TAX ON DEPOSITS.

+IN ESSENCE THEY INVOLVE A REDUCTION OF THE LIABILITY TO PROFITS TAX THROUGH THE USE OF HIGH DEBT TO EQUITY CAPITALISATION ARRANGEMENTS, WHILST AT THE SAME TIME THE BUSINESS PROPRIETORS CAN ENJOY TAX-FREE INTEREST INCOME OUTSIDE THE BUSINESS THROUGH THE PLACING OF DEPOSITS WITH FINANCIAL INSTITUTIONS,+ HE SAID.

SIR JOHN SAID THERE WAS ALREADY EVIDENCE THAT BANKERS AND TAX AVOIDANCE SPECIALISTS HAD SET ABOUT ADVISING CUSTOMERS AND CLIENTS OF THE OPPORTUNITIES FOR TAX DIMINUTION UNDER THE PRESENT LAW.

/+THE LONGER .....

+THE LONGER TERM PROSPECTS ARE THAT HUGE PROFITS TAX REVENUE COULD BE LOST. IN ALL PRUDENCE IMMEDIATE STEPS MUST BE TAKEN TO MINIMISE THESE LOSSES, WHILE REMAINING THEMSELVES NEUTRAL IN EFFECT,+ HE SAID.

SIR JOHN HAS PROPOSED, FROM APRIL 1, 1984, FOR PROFITS TAX PURPOSES, THAT:

- \* THE DEDUCTION OF INTEREST AND RELATED EXPENSES ON BORROWINGS FROM FINANCIAL INSTITUTIONS (OTHER THAN BORROWINGS BY OTHER FINANCIAL INSTITUTIONS) WILL BE PROHIBITED WHERE THE MONEYS BORROWED ARE SECURED OR GUARANTEED, IN WHOLE OR IN PART, AGAINST A DEPOSIT MADE WITH A FINANCIAL INSTITUTION (WHETHER THE LENDING INSTITUTION OR ANY OTHER SUCH INSTITUTION) BY A CLOSELY CONNECTED PERSON;
- \* THE DEDUCTION OF INTEREST AND RELATED EXPENSES ON BORROWINGS WILL BE PROHIBITED WHERE THE MONEYS BORROWED, IN RESPECT OF WHICH THE INTEREST AND RELATED EXPENSES ARE PAID, ARE MADE AVAILABLE OUTSIDE HONG KONG;
- \* CLOSELY CONNECTED PERSONS WILL BE DEFINED TO INCLUDE THE PROPRIETORS OF UNINCORPORATED BUSINESSES AND THEIR CLOSE RELATIVES AND ASSOCIATED CORPORATIONS OF LIMITED LIABILITY ENTERPRISES; AND
- \* FOR THE PURPOSES OF THE PROHIBITIONS OUTLINED ABOVE THE PRESENT DEFINITION OF +FINANCIAL INSTITUTION+, WHICH IS LIMITED TO INSTITUTIONS CARRYING ON BUSINESS IN HONG KONG, WILL BE ENLARGED TO INCLUDE SIMILAR INSTITUTIONS OPERATING OVERSEAS RATHER THAN IN HONG KONG.

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#### REVENUE PROTECTION ORDERS SOUGHT

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THE FINANCIAL SECRETARY, SIR JOHN BREMIDGE, SAID HE WOULD BE SEEKING THE GOVERNOR'S AUTHORITY FOR THE ISSUE OF APPROPRIATE REVENUE PROTECTION ORDERS FOR THE PROPOSED INCREASES IN BETTING DUTY AND TAXES.

THE PROPOSALS ARE DESIGNED TO COME INTO EFFECT ON APRIL 1, 1984.

REVENUE PROTECTION ORDERS HAVE ALREADY BEEN SIGNED TODAY FOR THE DUTIES IMPOSED ON IMPORTED WINES AND SPIRITS, AND THE NEW RATE PERCENTAGE.

SIR JOHN SAID THERE WOULD BE FULL OPPORTUNITY FOR DEBATE AFTER THE NECESSARY NEW LEGISLATION IS INTRODUCED INTO THE LEGISLATIVE COUNCIL.

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BETTING DUTY RAISED  
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THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, PROPOSED INCREASING BETTING DUTY IN 1984-85 TO RAISE ADDITIONAL REVENUE OF \$151 MILLION OVER THE YEAR.

DUTY ON STANDARD BETS WOULD BE RAISED FROM THE PRESENT RATE OF EIGHT AND A HALF PER CENT TO NINE PER CENT, TO BE BORNE ENTIRELY BY THE JOCKEY CLUB.

DUTY ON EXOTIC BETS WOULD BE INCREASED FROM 13.5 PER CENT TO 15 PER CENT, WITH HALF OF ONE PER CENT TO BE BORNE BY THE JOCKEY CLUB AND ONE PER CENT BY THE PUNTER. THIS WOULD REDUCE THE POOL OF PRIZE MONEY MARGINALLY FROM 78.6 PER CENT TO 77.6 PER CENT OF TOTAL EXOTIC BETS PLACED.

ON LOTTERIES, THE DUTY WOULD BE INCREASED BY THREE PER CENT FROM THE PRESENT RATE OF 27 PER CENT TO 30 PER CENT, WITH TWO PER CENT COMING FROM THE JOCKEY CLUB AND LOTTERIES FUND SHARE, AND ONE PER CENT FROM THE PRIZE POOL SHARE.

SIR JOHN SAID THE INCREASES IN BETTING DUTY FOR 1983-84 WERE EXPECTED TO YIELD AN EXTRA \$50 MILLION ON THE ESTIMATED \$1.58 BILLION APPROVED FOR THAT YEAR, AS EVIDENCED BY THE CONTINUED INCREASE IN THE JOCKEY CLUB TOTALISATOR TURNOVER.

HE SAID THE MAJOR PORTION OF THE INCREASES WOULD BE SHOULDERED BY THE JOCKEY CLUB.

HOWEVER, HE ADDED THAT THIS WAS THE SECOND YEAR THE JOCKEY CLUB WAS REQUIRED TO SHOULDER THE INCREASE RESPONSIBLY, AND HE EXPECTED THEY WOULD HAVE THE EFFECT OF DIMINISHING THE CLUB'S ABILITY TO PROVIDE FINANCIAL SUPPORT TO THOSE WHO LOOK TO IT FOR FUNDS FOR PROJECTS WHICH CANNOT BE SUPPORTED BY A GOVERNMENT INTENT ON CONTROLLING PUBLIC SECTOR EXPENDITURE.

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LIQUOR TAX POLICY EXPLAINED  
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THERE SEEMED TO BE NO REASON IN LOGIC OR EQUITY WHY PURCHASERS OF CHEAPER BRANDS IN A CLASS OF DRINKS SHOULD PAY EXACTLY THE SAME DUTY PER BOTTLE AS THAT IMPOSED ON A MORE EXPENSIVE BRAND, THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMRIDGE, SAID TODAY (WEDNESDAY) WHEN PROPOSING MODIFICATIONS IN LEVYING DUTY IN HIS BUDGET SPEECH.

SIR JOHN SAID THAT AFTER FULL CONSIDERATION, HE PROPOSED A MODIFICATION OF THE EXISTING SYSTEM BY APPLYING A UNIFORM REDUCTION OF ABOUT 10 PER CENT TO THE CURRENT SPECIFIC RATES, COUPLED WITH THE IMPOSITION OF A UNIFORM AD VALOREM RATE OF 20 PER CENT.

/+THIS WILL .....

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+THIS WILL RESULT IN A REDUCTION IN DUTY AT THE CHEAPER END OF THE MARKET WITH INCREASES APPLYING PROGRESSIVELY TO THE MORE EXPENSIVE TYPE WINES AND SPIRITS.

THESE CHANGES WILL NOT APPLY TO NON-EUROPEAN TYPE OF WINES AND SPIRITS, INDUSTRIAL TYPE ALCOHOL, CIDER OR BEER.

+DUTY ON THESE CATEGORIES WILL CONTINUE TO BE CHARGED AT THE EXISTING RATE, AS THE PRICE RANGES ARE NOT GREAT, AND THE INHERENT PROBLEMS OF APPLYING AD VALOREM DUTIES IN THESE CASES APPEAR TO OUTWEIGH ANY ADVANTAGES TO BE GAINED,+ HE EXPLAINED.

SIR JOHN SAID THERE HAD BEEN A DROP IN RELEASES EX-BOND AND A GENERAL INCREASE IN COST INSURANCE AND FRIEGHT VALUES SINCE LAST YEAR.

THE REVENUE FIGURES FOR FISCAL 1983 INDICATED THAT THE YIELD FROM LIQUOR DUTIES WOULD BE SOME \$100 MILLION LESS THAN THE APPROVED ESTIMATE OF \$492 MILLION.

+I HAVE ASSUMED SOME RECOVERY IN 1984-85 AND MY ESTIMATE OF REVENUE FROM IMPORTED LIQUOR AT CURRENT RATE IS \$436 MILLION,+ HE SAID.

SIR JOHN SAID TODAY'S PROPOSAL WOULD RESULT IN THE MORE EXPENSIVE BRANDS OF WINES AND SPIRITS BEING CHARGED A HIGHER DUTY THAN THEIR LESS EXPENSIVE COUNTERPARTS:

- \* EXPENSIVE WINE -- INCREASE IN DUTY BY ABOUT \$8.80 PER BOTTLE;
- \* CHEAP WINE -- DECREASE BY ABOUT \$0.50 PER BOTTLE;
- \* EXPENSIVE WHISKY -- INCREASE BY ABOUT \$2.30 PER BOTTLE;
- \* CHEAP WHISKY -- DECREASE BY ABOUT \$0.60 PER BOTTLE;
- \* XO BRANDY -- INCREASE BY ABOUT \$29 PER BOTTLE;
- \* VSOP BRANDY -- INCREASE BY ABOUT \$3.70 PER BOTTLE; AND
- \* +THREE STAR+ BRANDY -- DECREASE BY ABOUT \$2.90 PER BOTTLE.

+RETAIL PRICES WILL, OF COURSE, DEPEND ON THE PRICING POLICY ADOPTED BY THE RETAILERS AND THE TRADE,+ SIR JOHN SAID.

HE ADDED THAT THESE PROPOSALS SHOULD BRING IN INCREASED REVENUE OF ABOUT \$50 MILLION NEXT YEAR SO THAT THE OVERALL YIELD FROM DUTY WOULD AT LEAST REMAIN STABLE IN REAL TERMS.

TWO PER CENT TAX RISE PROPOSED

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THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, TODAY PROPOSED RAISING DIRECT TAXATION BY INCREASING THE STANDARD RATE OF TAX FROM 15 PER CENT TO 17 PER CENT AND THE PROFITS TAX RATE FOR CORPORATIONS FROM 16.5 PER CENT TO 18.5 PER CENT.

IN HIS BUDGET SPEECH IN THE LEGISLATIVE COUNCIL, SIR JOHN SAID THE INCREASES WERE INEVITABLE IN THE LIGHT OF BUDGET DEMANDS.

+I HOPE THAT EVEN MY SEVEREST CRITICS WILL AGREE THAT IN THE CIRCUMSTANCES THESE INCREASES ARE MODEST AND THAT THE PROPOSED NEW RATES STILL COMPARE EXTREMELY FAVOURABLY WITH MOST TAX RATES IN ASIA, AND INDEED, INTERNATIONALLY,+ HE SAID.

HE EXPLAINED THAT A TYPICAL FAMILY OF HUSBAND, WIFE AND TWO CHILDREN WOULD NOT ENTER THE 17 PER CENT THRESHOLD UNTIL SALARIES EXCEEDED \$23 300 PER MONTH.

SIR JOHN SAID THAT FOR MANY YEARS, HONG KONG HAS BEEN COMMITTED, WITH CONSIDERABLE SUCCESS, TO A FISCAL POLICY IN RELATION TO DIRECT TAXES WHICH DICTATES THAT OUR SYSTEM SHOULD BE AS PRODUCTIVE OF REVENUE AS POSSIBLE, BUT AT THE SAME TIME BE SIMPLE AND INEXPENSIVE TO ADMINISTER WITH RATES SET AT COMPARATIVELY LOW LEVELS.

+THESE OBJECTIVES WE HAVE ACHIEVED. HONG KONG IS FAIRLY UNIQUE IN HAVING NO UNIFIED INCOME TAX,+ HE SAID.

+WE HAVE BY ALL NORMAL STANDARDS KEPT OUR EARNINGS AND PROFITS TAXES LOW. MOREOVER I FIRMLY BELIEVE THAT WE SHOULD CONTINUE TO DO SO.+

+NONETHELESS SOME INCREASES ARE NOW INEVITABLE IN THE LIGHT OF BUDGET DEMANDS,+ HE ADDED.

+INDEED MOST MEMBERS WILL AGREE THAT MODEST INCREASES NOW MUST BE PREFERABLE TO SHARPER INCREASE LATER, AND I NEED TO LOOK MORE THAN ONE YEAR AHEAD.+

SIR JOHN SAID THE STANDARD RATE OF TAX OF 15 PER CENT HAD BEEN IN FORCE SINCE 1966-67 AND THE CORPORATE RATE OF 16.5 PER CENT SINCE 1975-76.

+THIS IS TO SAY, OUR STANDARD RATE HAS REMAINED UNCHANGED FOR 18 YEARS AND THE CORPORATE SURCHARGE HAS BEEN AT LOW LEVELS FOR EIGHT YEARS,+ HE POINTED OUT.

SIR JOHN SAID THAT LAPSE OF TIME WAS NO ARGUMENT FOR INCREASED TAXES, BUT STRESSED THAT OUR PRESENT CIRCUMSTANCES REQUIRED THAT +INCREASES THERE MUST BE+.

THE NEW STANDARD RATE OF 17 PER CENT WILL APPLY TO PROVISIONAL AND FINAL ASSESSMENTS FOR 1984-85 IN RESPECT OF PROFITS TAX ON UNINCORPORATED BUSINESSES, SALARIES TAX AND PROPERTY TAX= AND TO FINAL PERSONAL AND INTEREST TAX ASSESSMENTS FOR THAT YEAR ALSO.

THE NEW CORPORATE RATE OF 18.5 PER CENT WILL ALSO APPLY TO CORPORATIONS' PROVISIONAL AND FINAL ASSESSMENTS FOR 1984-85.

THE PROPOSED INCREASES ARE ESTIMATED TO PRODUCE IN 1984-85 AN ADDITIONAL \$903 MILLION FROM EARNINGS AND PROFITS TAX AFTER TAKING INTO ACCOUNT THE TWO INSTALMENTS SYSTEM. IN A FULL YEAR, AT PRESENT LEVELS OF CHARGEABLE INCOME AND PROFITS, THE INCREMENT TO THE REVENUE SHOULD OF THE ORDER OF \$1.32 BILLION, SIR JOHN SAID.

+I HOPE VERY MUCH THAT THIS SECOND WIND PLUS HIGHER YIELDS AS THE ECONOMY IMPROVES WILL ENABLE US TO FACE 1985-86 WITHOUT FURTHER DIRECT TAX INCREASES,+ HE ADDED.

SIR JOHN SAID THAT IN THE AREA OF PERSONAL TAXATION, HE ESTIMATED THE NEW STANDARD RATE WILL AFFECT SOME 30 000 SALARIES TAXPAYERS +WHO ARE ARGUABLY BEST PLACED TO AFFORD IT.+ ABOUT 18 500 WOULD CONTINUE TO PAY AT THE STANDARD RATE BUT AT THE NEW LEVEL, AND ABOUT 11 500 WOULD PAY MORE TAX AT THE MARGINAL RATES, BUT AT AN EFFECTIVE RATE OF TAX (ON GROSS INCOME) BELOW THE NEW STANDARD RATE.

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PROPOSED CROSS-HARBOUR TUNNEL TAX +OF TRANSPORT NATURE+  
\* \* \* \*

A BILL WILL SHORTLY BE INTRODUCED INTO THE LEGISLATIVE COUNCIL PROPOSING A NEW TAX RANGING FROM \$2 TO \$5 ON SOME USERS OF THE CROSS-HARBOUR TUNNEL.

THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, TOLD THE COUNCIL TODAY WHEN PRESENTING HIS 1984-85 BUDGET, THERE WOULD ALSO BE INCREASES IN BUOYS AND ANCHORAGE FEES, FEES FOR DEPOSIT-TAKING INSTITUTIONS, AND TOLLS FOR THE GOVERNMENT-OPERATED LION ROCK TUNNEL.

HE SAID THE BILL ON THE CROSS HARBOUR TUNNEL WOULD BE INTRODUCED AFTER MEMBERS HAD SPOKEN IN THE DEBATE ON HIS BUDGET.

+THIS MEASURE STRICTLY SPEAKING IS OF A TRANSPORT NATURE BECAUSE ITS PRIMARY FUNCTION IS TO ALLEVIATE CONGESTION. BECAUSE, HOWEVER, IT ALSO HAS SIGNIFICANT BUDGETARY IMPLICATIONS IT IS APPROPRIATE THAT IT BE CONSIDERED FIRST AS PART OF MY BUDGETARY PROPOSALS.+

SIR JOHN SAID A FULL EXPLANATION WOULD BE GIVEN WHEN THE BILL IS INTRODUCED, AND THERE WOULD THEN BE OPPORTUNITY FOR FURTHER DEBATE. +BUT IN BRIEF, THERE IS CLEARLY NOW A PERSUASIVE ARGUMENT FOR USING FISCAL MEANS TO DETER NON-ESSENTIAL USAGE OF THE TUNNEL ON TRAFFIC MANAGEMENT GROUNDS.+

/HE SAID .....

HE SAID THE REAL COST OF USING THE TUNNEL TODAY IS APPROXIMATELY ONE THIRD OF THE LEVELS CHARGED IN 1972 AND UNCHANGED SINCE THEN. IF NEW RATES WERE TO BE SET TO OFFSET INFLATION ONLY, THEY WOULD REQUIRE TO BE THREE TIMES HIGHER THAN THEY ARE NOW.

+IT WOULD OBVIOUSLY BE IMPROPER IF THESE INCREASED CHARGES WERE TAKEN BY THE CROSS-HARBOUR TUNNEL COMPANY IN ORDER TO INCREASE THEIR PROFITS. THE INCREASE SHOULD BE TAKEN BY THE REVENUE AND USED IN THE INTERESTS OF THE COMMUNITY AS A WHOLE.

+IT IS, HOWEVER, REASONABLE IF THESE NEW MEASURES REDUCE CROSS-HARBOUR TRAFFIC, WHICH IS THEIR SPECIFIC PURPOSE, THAT THE COMPANY SHOULD RECEIVE EQUITABLE COMPENSATION FOR REVENUE LOST.

+BE THAT AS IT MAY, A SEPARATE APPLICATION FOR AN INCREASE IN THE TOLL CHARGES HAS BEEN RECEIVED WITHIN THE LAST FORTNIGHT FROM THE CROSS-HARBOUR TUNNEL COMPANY. THIS WILL BE CAREFULLY EXAMINED, BUT UNTIL THIS HAS BEEN DONE IT IS NOT POSSIBLE FOR ME TO SAY WHETHER ANY INCREASES THAT MAY BE APPROVED AS A RESULT OF THIS APPLICATION WILL BE ADDITIONAL TO THE PROPOSED CROSS-HARBOUR TUNNEL TAX,+ SIR JOHN SAID.

THE FINANCIAL SECRETARY SAID THAT APART FROM TRAFFIC MANAGEMENT REASONS HE HAD ALSO TO CONSIDER HIS MAJOR THEME: TO COUNTER INFLATION AND CONSUMER PRICE INDEX INCREASES ON THE LESS WELL OFF.

+IT HAS THEREFORE BEEN AGREED THAT THE NEW TAX SHOULD BE LOWER THAN IS PRIMA FACIE INDICATED AND SHOULD NOT FALL AT ALL ON OMNIBUSES AND PUBLIC LIGHT BUSES.

+THE PROPOSED TAXES ARE \$2 FOR A MOTORCYCLE, AND \$5 FOR PRIVATE CARS, TAXIS, PRIVATE LIGHT BUSES, AND ALL GOODS VEHICLES. TAXIS WILL BE ENTITLED TO IMPOSE A MAXIMUM ADDITIONAL CHARGES OF \$20 INSTEAD OF \$10 AT PRESENT.+

SIR JOHN SAID THE ADDITIONAL ANNUAL REVENUE WAS EXPECTED TO AMOUNT TO ABOUT \$140 MILLION AFTER TAKING ACCOUNT OF POSSIBLE REDUCTION IN USAGE -- WHICH WAS HOPED.

SIR JOHN EMPHASISED THAT HE WOULD REGARD THIS INCREASED REVENUE AS ESPECIALLY AVAILABLE FOR TRANSPORT PURPOSES.

+IT WOULD BE IMPROPER TO ACCEPT ANY STRICT HYPOTHECATION, BUT I CONFIRM AGAIN -- IF FURTHER CONFIRMATION IS NEEDED -- THAT IT IS GOVERNMENT'S POLICY TO PROCEED WITH ALL AGREED PROGRAMMES AND POLICIES AND ON A JUDICIOUS BASIS TO INTRODUCE NEW ONES.

+THESE INCLUDE IMPROVEMENTS IN ALL TRAFFIC FIELDS. FOR THIS THE COMMUNITY MUST PAY. IN PARTICULAR WE ALL ACCEPT THAT A NEW FIXED CROSS-HARBOUR CROSSING IS NEEDED. THIS WILL CLEARLY INVOLVE CONSIDERABLE GOVERNMENT EXPENDITURE,+ HE SAID.

SIR JOHN SAID THE INCREASES IN BUOYS AND ANCHORAGE FEES, FEES FOR DEPOSIT-TAKING INSTITUTIONS AND TOLLS FOR THE LION ROCK TUNNEL WOULD YIELD ABOUT \$35 MILLION IN ADDITIONAL REVENUE.

HE SAID LION ROCK TUNNEL TOLLS HAD NOT BEEN REVISED SINCE 1975, AND PRESENT REVENUE FROM GOVERNMENT-OPERATED TUNNELS DID NOT EVEN COVER OPERATING COSTS.

HE PROPOSED THAT THE CHARGES FOR ALL VEHICLES USING THE TUNNEL SHOULD BE \$2 WITH EFFECT FROM APRIL 1 THIS YEAR. THIS WILL MEAN THAT CHARGES FOR SMALL LORRIES, LIGHT BUSES AND SINGLE-DECKER BUSES WILL BE INCREASED FROM \$1.50 TO \$2, FOR PRIVATE CARS FROM \$1 TO \$2 WITH NO INCREASE FOR DOUBLE-DECKER PUBLIC OMNIBUSES AND LARGE LORRIES. THE YIELD WOULD BE AN ADDITIONAL \$14 MILLION.

THE ABERDEEN TUNNEL WAS NOT UTILISED TO FULL CAPACITY AND ANY INCREASE AT THIS TIME MIGHT POSSIBLY CREATE AN UNACCEPTABLE RESISTANCE FACTOR. WHEN THE OPERATIONAL PATTERN HAD BEEN FULLY ESTABLISHED HE WOULD RECONSIDER WHETHER THE EXISTING CHARGES FOR THE ABERDEEN TUNNEL WERE STILL APPROPRIATE.

REFERRING TO DEPOSIT-TAKING COMPANIES, SIR JOHN NOTED THAT IN 1983 THE LICENCE FEES FOR BANKS WERE INCREASED BY 50 PER CENT. THE FEES FOR REGISTERED DEPOSIT-TAKING COMPANIES HAD NOT BEEN INCREASED SINCE 1978 AND THOSE FOR LICENSED DEPOSIT-TAKING COMPANIES NOT FOR TWO YEARS.

THE SITUATION HAD NOW IMPROVED SUFFICIENTLY FOR THERE TO BE A REVIEW OF DEPOSIT-TAKING COMPANY FEES.

FOR LICENSED DEPOSIT-TAKING COMPANIES, THE INCREASE WILL BE FROM \$100 000 TO \$150 000, WITH PROPORTIONATE INCREASES FOR LOCAL BRANCH, OVERSEAS BRANCH AND OVERSEAS REPRESENTATIVE OFFICES.

SIR JOHN ALSO PROPOSED THAT LICENCE FEES FOR AN OVERSEAS BRANCH OR REPRESENTATIVE OFFICE OF A BANK INCORPORATED IN HONG KONG. AND FOR A LOCAL REPRESENTATIVE OFFICE OF A BANK INCORPORATED OUTSIDE HONG KONG SHOULD ALSO BE INCREASED BY 50 PER CENT AS THEY WERE NOT COVERED LAST YEAR.

THE INCREASES WOULD TAKE EFFECT FROM APRIL 1. SIR JOHN STRESSED, HOWEVER, THAT THESE PROPOSALS ONLY PARTLY RECOVERED THE EROSION THAT HAD TAKEN PLACE SINCE THE LAST REVISIONS AND THE INCREASING COST OF THE OFFICE OF THE COMMISSIONER OF BANKING AND COMMISSIONER OF DTCS.

+IF THE FULL INDICATED INCREASES HAD BEEN APPLIED, IT WOULD HAVE BEEN NECESSARY FOR EXAMPLE, TO INCREASE THE FEES FOR REGISTERED DEPOSIT-TAKING COMPANIES FROM \$30 000 TO \$110 000. I RECOGNISE THAT SUCH INCREASES IN FEES WOULD BE TOO GREAT AT ONE STEP.+

THE PROPOSED INCREASES IN FEES IN 1984-85 WOULD YIELD AN ADDITIONAL \$7 MILLION.

SIR JOHN SAID THAT LAST YEAR AFTER A LAPSE OF FOUR YEARS HE HAD INCREASED FEES FOR BUOYS AND ANCHORAGES. TO BRING THESE FEES MORE UP-TO-DATE, HE PROPOSED THAT THE FEE FOR CLASS A BUOYS BE INCREASED FROM \$1 500 TO \$2 100 A DAY, CLASS B BUOYS FROM \$1 000 TO \$1 400 A DAY, IN-HARBOUR ANCHORAGE FEES FROM \$14 TO \$28 A DAY AND OTHER ANCHORAGE CHARGES FROM \$4 TO \$8 A DAY.

HE ESTIMATED THE NEW CHARGES, TO TAKE EFFECT FROM APRIL 1, WOULD YIELD \$14 MILLION, BUT ADDED: +WE WILL STILL BE SUBSIDISING HARBOUR USERS.+

SIR JOHN SAID REVIEWS OF OTHER FEES AND CHARGES WOULD CONTINUE DURING THE YEAR AND TWO MAJOR AREAS CURRENTLY UNDER CONSIDERATION WERE IMMIGRATION DEPARTMENT FEES AND WATER CHARGES.

HE RECALLED THAT HIS 1983 BUDGET PROPOSALS INTRODUCED SOME FAIRLY SUBSTANTIAL INCREASES TO CERTAIN FEES AND CHARGES FOR SERVICES PROVIDED BY THE GOVERNMENT, AND IN ADDITION A NUMBER OF FEES AND CHARGES WERE INCREASED DURING 1983 AS PART OF A REGULAR REVIEW PROGRAMME OF INDIVIDUAL DEPARTMENTS.

+A COMPUTERISED FEES AND CHARGES REVIEW SYSTEM NOW ESTABLISHED PROVIDES THE INFORMATION NECESSARY TO CONTINUE THIS PROCESS AND THUS ENABLES THE INNUMERABLE FEES AND CHARGES TO BE REGULARLY REVIEWED.

+WHERE JUSTIFIED BY RISING COSTS, WHICH CANNOT BE OFFSET TOTALLY OR IN PART BY INCREASED PRODUCTIVITY, PROPOSALS FOR INCREASES FOR FEES AND CHARGES WILL BE MADE DURING THE CURRENT YEAR — THE ESTIMATE OF TOTAL RECURRENT REVENUE DOES NOT ANTICIPATE THESE INCREASES,+ SIR JOHN SAID.

HE SAID THAT LAST YEAR HE BUDGETTED TO RAISE \$1.95 BILLION FROM UTILITIES AND \$2.53 BILLION FROM FEES AND CHARGES AND INDICATIONS WERE THAT THIS WOULD JUST ABOUT BE ACHIEVED.

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TAX PROPOSED ON INTEREST TO BUSINESSES  
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THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, PROPOSED TODAY THAT SUMS RECEIVED OR ACCRUING BY WAYS OF INTEREST TO BUSINESSES CARRIED ON IN HONG KONG WILL BE CHARGEABLE TO PROFITS TAX FROM APRIL 1 THIS YEAR.

SIR JOHN SAID THAT THESE SUMS WILL BE TAXED IRRESPECTIVE OF THE CURRENCY IN WHICH THE TRANSACTION IS DENOMINATED AND NOTWITHSTANDING THAT THE MONEYS FOR WHICH THE INTEREST IS RECEIVED OR ACCRUES ARE MADE AVAILABLE TO THE BORROWER OUTSIDE HONG KONG.

AS IT IS INTENDED THAT THE PROPOSAL WILL APPLY ONLY TO INTEREST ACCRUING ON OR AFTER APRIL 1, IT WILL HAVE EFFECT FOR THE FIRST TIME IN RESPECT OF FINAL ASSESSMENTS FOR 1984-85, WHICH ARE GENERALLY NOT DUE FOR PAYMENT UNTIL AFTER MARCH 31, 1985, SIR JOHN POINTED OUT.

BUT HE ESTIMATED THAT IF THE PROPOSAL IS ENACTED, THE REVENUE FROM THIS SOURCE WILL BE SOME \$350 MILLION IN 1985-86.-

/+I WOULD .....

+I WOULD ADD THAT, QUITE APART FROM THE ADDITIONAL REVENUE YIELDS WHICH WILL ACCRUE FROM THIS PROPOSAL, I SEE IT AS A MINOR BUT USEFUL SUPPORT MEASURE FOR THE HONG KONG DOLLAR, SINCE THERE WILL NO LONGER BE A TAX INCENTIVE FOR BUSINESSES TO HOLD DEPOSITS OFFSHORE,+ SIR JOHN SAID.

HE POINTED OUT THAT IT WAS COMMONPLACE FOR BUSINESS PROPRIETORS WITH SURPLUS FUNDS TO PUT THEM TO WORK BY PLACING THEM WITH FINANCIAL INSTITUTIONS AND OTHERS TO EARN INTEREST.

+FOR MANY YEARS NOW THE INLAND REVENUE DEPARTMENT, IN DETERMINING WHETHER OR NOT SUCH INTEREST INCOME IS EXIGIBLE TO PROFITS TAX, HAS APPLIED THE SAME TEST OF LIABILITY AS IS APPLIED IN DETERMINING THE LIABILITY OF NON-BUSINESS LENDERS TO INTEREST TAX.

+IN REVENUE JARGON, THAT TEST IS KNOWN AS THE 'PROVISION OF CREDIT' TEST: IN LAYMAN'S TERMS, LIABILITY TO HONG KONG TAX HAS ARISEN ONLY WHERE THE MONEY LOANED IS MADE AVAILABLE TO THE BORROWER IN HONG KONG,+ SIR JOHN SAID.

HE ADDED THAT WHILE THIS APPROACH MIGHT BE ALL VERY WELL IN DETERMINING THE LIABILITY OF PRIVATE DEPOSITORS TO INTEREST TAX, IT BEGGED THE QUESTION WHERE THE MONIES WERE LOANED AS PART AND PARCEL OF THE OPERATIONS OF A BUSINESS CARRIED ON IN HONG KONG.

HE RECALLED THAT IN 1976, THE THIRD INLAND REVENUE ORDINANCE REVIEW COMMITTEE EXPRESSED DOUBTS ABOUT THE VALIDITY OF THIS APPROACH.

+THE PRESENT COMMISSIONER OF INLAND REVENUE - AND HIS PREDECESSOR - HAVE LONG HELD THE VIEW THAT THE PROVISION OF CREDIT TEST IS BOTH ARTIFICIAL AND INAPPROPRIATE IN DETERMINING THE TRUE TERRITORIAL SOURCE OF INTEREST INCOME ACCRUING TO BUSINESSES.

+I SHARE THEIR VIEW, PARTICULARLY AS IN THE TECHNOLOGICAL AGE IN WHICH WE LIVE, THE PLACING OF A DEPOSIT IN A BANK ACCOUNT IN LONDON OR NEW YORK IS ONLY A QUICK TELEPHONE CALL OR A TELEX MESSAGE AWAY.

+ALL IN ALL, I BELIEVE THAT A MORE REALISTIC APPROACH IS TO LOOK AT THE LOCALITY OF THE BUSINESS CARRIED ON, RATHER THAN THE PHYSICAL LOCATION OF THE MONEYS LOANED, IN ORDER TO DETERMINE THE SOURCE OF THE RESULTANT INTEREST INCOME,+ SIR JOHN SAID.

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CAPITAL WORKS RESERVE FUND  
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THE 1984-85 EXPENDITURE FROM THE CAPITAL WORKS RESERVE FUND IS ESTIMATED AT \$7.9 BILLION, THE FINANCIAL SECRETARY, THE HON SIR JOHN BREMRIDGE, SAID TODAY IN THE LEGISLATIVE COUNCIL.

HE SAID THE PROVISION OF \$7.3 BILLION SOUGHT FOR TRANSFER TO THE FUND, AND A SURPLUS OF ABOUT \$2.8 BILLION IN THE FUND AT THE END OF FISCAL 1983, WERE SUFFICIENT TO COVER THE EXPENDITURE AND TO RETAIN A PRUDENT SURPLUS AT THE END OF THE FINANCIAL YEAR.

+AT LEAST \$1.5 BILLION MUST ANYWAY BE RETAINED IN THE FUND TO OFFSET THE ADVANCE OF \$1.45 BILLION TO THE CONSORTIUM FOR THE DEVELOPMENT OF TIN SHUI WAI,+ HE SAID.

SIR JOHN EXPLAINED THAT THE LIABILITY WOULD REMAIN IN THE ACCOUNTS FOR THE NEXT 12 YEARS OR SO UNTIL THE LAND WAS FORMED AND A PORTION HANDED BACK TO THE CONSORTIUM.

+AS SOON AS THE CONSORTIUM STARTS TO SPEND ON BUILDING WORKS THE ADVANCE CAN BEGIN TO BE CLEARED PROGRESSIVELY AND CHARGED TO THE FUND. ANY UNDERSPENDING BY THE CONSORTIUM ON THE DEVELOPMENT IS RECOVERABLE UNDER THE AGREEMENT+, HE ADDED.

SIR JOHN SAID THE ESTIMATED 1984-85 EXPENDITURE FROM THE FUND ON THE PUBLIC WORKS PROGRAMME WOULD BE \$6.8 BILLION OR ABOUT THE SAME AS THE REVISED 1983-84 ESTIMATE, BUT LESS IN REAL TERMS.

THE ESTIMATED LAND ACQUISITION EXPENDITURE WOULD BE \$1.1 BILLION, ALSO THE SAME AS THE REVISED 1983-84 ESTIMATE, HE SAID.

SIR JOHN SAID: +THE OUTSTANDING COMMITMENT - OR OVERHANG - IN RESPECT OF PROJECTS IN HAND ON MARCH 31, 1983, WAS ABOUT \$21.4 BILLION. THIS WAS INCREASED BY ABOUT \$5.1 BILLION AS A RESULT OF THE INJECTION OF NEW PROJECTS DURING 1983-84, BUT REDUCED BY ROUGHLY 7.9 BILLION IN EXPENDITURE.

+DURING 1984-85 WORK IS SCHEDULED TO START ON NEW PROJECTS HAVING A TOTAL COMMITMENT VALUE OF ABOUT \$4.9 BILLION. THE OVERHANG ON APRIL 1, 1984, WILL BE ABOUT \$23.5 BILLION.+

HE SAID THAT AFTER ALLOWING FOR THE ESTIMATED EXPENDITURE DURING 1984-85 OF \$7.9 BILLION, THE OUTSTANDING COMMITMENT AT MARCH 31, 1985, COULD NOT BE LESS THAN \$15.6 BILLION, BUT WOULD CERTAINLY BE MUCH HIGHER AS FURTHER NEW WORKS WERE APPROVED DURING THE YEAR.

+THIS REPRESENTS A MAJOR COMMITMENT FOR THE FUTURE,+ HE ADDED.

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NEW MEASURES PROPOSED FOR RATE CALCULATIONS

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THE GOVERNMENT HAS COMPLETED ITS REVALUATION OF RATEABLE VALUES WHICH NOW TOTAL \$55 BILLION, COMPARED WITH \$15 BILLION IN 1983-84, AND CONSEQUENTLY FINANCIAL SECRETARY, SIR JOHN BREMRIDGE HAS PROPOSED CHANGES TO THE RATE CALCULATIONS FOR THE COMING YEAR.

SIR JOHN SAID THAT GIVEN THE CONSIDERABLE INCREASE IN PROPERTY VALUES OVER THE LAST SEVEN YEARS, IT WAS NOT SURPRISING THAT THE NEW RATEABLE VALUES WERE SUBSTANTIALLY HIGHER THAN THOSE ON THE CURRENT VALUATION LISTS ESTABLISHED IN 1976.

THE INCREASE IN RATEABLE VALUES VARIES BETWEEN DIFFERENT CLASSES OF PROPERTY, THE AVERAGE BEING ABOUT THREE TIMES FOR NON-DOMESTIC PREMISES AND ABOUT FOUR TIMES FOR DOMESTIC PREMISES.

+THESE INCREASES IN RATEABLE VALUES DO NOT OF COURSE, DIRECTLY DETERMINE WHAT THE RATEPAYER MUST PAY. THIS DEPENDS ON THE PERCENTAGE RATE CHARGE TO BE APPLIED AND, IN MANY CASES, ON THE EFFECT OF THE LEVEL OF RATE RELIEF TO BE AFFORDED,+ SIR JOHN SAID.

THE RATES ACTUALLY PAYABLE FOR SOME TENEMENTS MAY ALSO BE AFFECTED BY THE ALLOWANCES TO BE MADE FOR THE LACK OF A POTABLE WATER SUPPLY.

SIR JOHN PROPOSED THAT:

- \* THE GENERAL RATE PERCENTAGE FOR THE URBAN AREAS BE REDUCED FROM 5-1/2 PER CENT TO 3 PER CENT, AND THE URBAN COUNCIL RATE PERCENTAGE BE REDUCED FROM 8 PER CENT TO 2-1/2 PER CENT, MAKING A TOTAL OF 5-1/2 PER CENT, INSTEAD OF THE 13-1/2 PER CENT APPLIED IN 1983-84. THE GENERAL RATE FOR THE NEW TERRITORIES SHOULD SIMILARLY BE REDUCED FROM 13-1/2 PER CENT TO 5-1/2 PER CENT. IN THOSE NEW TERRITORIES AREAS WHERE RATING IS BEING PHASED IN OVER A FIVE-YEAR PERIOD, THE PERCENTAGE FOR 1984-85 WILL BE REDUCED FROM 12 PER CENT TO 5 PER CENT.
- \* THE RATE RELIEF PERCENTAGE POINT BE SET AT 20 PER CENT. THIS MEANS THAT THE MAXIMUM INCREASE IN ANNUAL RATE PAYMENTS WILL BE LIMITED TO 20 PER CENT OF THAT PAYABLE THE YEAR BEFORE. IN 1983-84, RATE RELIEF WAS LIMITED TO PRE-WAR RENT-CONTROLLED TENEMENTS ONLY, AND THE MAXIMUM PERMITTED PERCENTAGE INCREASE WAS MUCH GREATER AT 33-1/3 PER CENT.
- \* THE MINIMUM RATEABLE VALUE BE SET AT \$1 000. TENEMENTS WITH AN ESTIMATED RATEABLE VALUE BELOW \$1 000 WILL THEN BE EXEMPT FROM ASSESSMENT TO RATES. IN 1983-84, THE MINIMUM RATEABLE VALUE WAS \$200.
- \* THE CONCESSION FOR THE FEW TENEMENTS WITHOUT FRESH WATER BE EFFECTED BY A 15 PER CENT REDUCTION IN THE RATES PAYABLE, AND FOR TENEMENTS WITH AN UNFILTERED WATER SUPPLY BY A 7.5 PER CENT REDUCTION.

/+THIS MEANS .....

+THIS MEANS THAT IN 1984-85 THE INCREASE IN RATES FOR A TYPICAL SMALL DOMESTIC FLAT WILL BE ABOUT \$18 A MONTH (FROM \$90 TO \$108) AND FOR A LARGE FLAT ABOUT \$80 A MONTH, (FROM \$400 TO \$480).

+MOST RATEPAYERS WILL HAVE AN INCREASED RATES BILL, BUT A SMALL PERCENTAGE WILL PAY LESS THAN BEFORE. A NUMBER OF TENEMENTS WHICH HAVE HITHERTO BEEN ASSESSABLE TO RATES WILL BE EXEMPT,+ SIR JOHN EXPLAINED.

HE POINTED OUT THAT TENANTS OF FLATS IN PUBLIC HOUSING ESTATES, WHO NOW REPRESENT SOME 43 PER CENT OF THE TOTAL POPULATION, WILL NOT BE AFFECTED IMMEDIATELY BY THE NEW RATEABLE VALUES.

THE BURDEN, HE SAID, WILL INITIALLY BE BORNE BY THE HOUSING AUTHORITY WHOSE RENTS, WHICH INCLUDE AN ELEMENT FOR RATES, ARE ONLY REVIEWED EVERY TWO YEARS AND TAKE INTO ACCOUNT INCOME LEVELS.

MOREOVER, RATE PAYMENTS ARE REGARDED AS PART OF THE RENT FOR THE PURPOSE OF CALCULATING PUBLIC ASSISTANCE, HE POINTED OUT.

SIR JOHN REPORTED THAT THE REVISED GENERAL RATE YIELD FOR 1983-84 IS \$1.05 BILLION.

ALLOWING FOR NATURAL GROWTH, THE ESTIMATED YIELD FOR 1984-85 WOULD HAVE BEEN \$1.18 BILLION.

HE SAID THAT WITH THE REVALUATION, THE REDUCTION IN POUNDAGE AND THE VARIOUS RELIEF MEASURES PROPOSED, THE ESTIMATED YIELD FOR 1984-85 WILL BE \$1.35 BILLION, AN INCREASE OF \$175 MILLION.

THE REVISED ESTIMATED YIELD FOR THE URBAN COUNCIL FOR 1983-84 ON THE OLD BASIS IS \$1.01 BILLION. ALLOWING FOR NATURAL GROWTH, THE ESTIMATED YIELD FOR 1984-85 WOULD HAVE BEEN \$1.06 BILLION.

WITH THE PROPOSAL, THE ESTIMATED YIELD FOR 1984-85 WILL BE \$1.19 BILLION, AN INCREASE OF \$135 MILLION, PROVIDING AN 18 PER CENT GROWTH FOR THE URBAN COUNCIL, SIR JOHN SAID.

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DEBATE ADJOURNED  
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DEBATE ON THE BUDGET WAS ADJOURNED TO MARCH 28 AND 29 WHEN UNOFFICIAL MEMBERS WILL SPEAK.

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SIR JOHN SPEAKS ON TELEVISION

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FOLLOWING IS THE TEXT OF THE SPEECH BY THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, TONIGHT ON TELEVISION.

+I WOULD LIKE TO TELL YOU ABOUT THE BUDGET, WHICH I INTRODUCED INTO THE LEGISLATIVE COUNCIL TODAY. A MAJOR THEME IS THE MODERATION OF INFLATION AND CONCERN FOR THE BURDENS OF THE LESS WELL OFF.

+THE GOVERNMENT IS COMMITTED TO MOVING FORWARD STEADILY IN ALL AREAS. WHILE HONG KONG IS NOT YET RICH, IT IS NOT POOR EITHER, AND WE CAN PALPABLY AFFORD STEADILY IMPROVING PROGRAMMES FOR EXAMPLE FOR EDUCATION, MEDICAL AND HEALTH, SOCIAL WELFARE AND HOUSING. THESE MUST, HOWEVER, BE PAID FOR.

+IN 1983 OUR TOTAL EXPORTS INCREASED BY 15 PER CENT IN REAL TERMS. THE GROSS DOMESTIC PRODUCT GREW BY 5.9 PER CENT. THE RATE OF UNEMPLOYMENT DROPPED. LARGELY BECAUSE OF THE FALL IN VALUE OF THE HONG KONG DOLLAR, THERE WAS A YEAR ON YEAR INCREASE IN INFLATION OF 10 PER CENT.

+THERE HAS BEEN A CONSIDERABLE SHORT-FALL IN GOVERNMENT'S REVENUE AND EXPENDITURE. THE DEFICIT WILL BE ABOUT \$3.3 BILLION, WHICH IS CLOSE TO THE FORECAST.

+THE REASSURING +FREE+ FISCAL RESERVES AT THE BEGINNING OF NEXT FINANCIAL YEAR WILL BE \$8.2 BILLION.

+BY CONTROLLING EXPENDITURE AND INCREASING REVENUE I INTEND TO CUT BUDGET DEFICITS TO A LEVEL WHICH CAN BE HANDLED BY A MIXTURE OF GOVERNMENT BORROWING AND USE OF RESERVES. THE LATTER, HOWEVER, ARE FINITE.

+THE DEFICIT OSTENSIBLY FACING US FOR 1984-85 IS \$3.6 BILLION. THIS IS MUCH BETTER THAN THE COMPARATIVE \$6.2 BILLION LAST YEAR. EVEN SO, IT IS TOO HIGH. I PROPOSE TO FINANCE IT BY USING \$1.1 BILLION OF OUR FREE FISCAL RESERVES; BY INCREASING TAX REVENUES BY \$1.5 BILLION, WHICH IS ONLY HALF WHAT WAS NECESSARY AT THIS TIME LAST YEAR; AND BY RAISING \$1 BILLION FROM THE SALE OF GOVERNMENT BONDS.

+TO MAINTAIN THE EXISTING BALANCE BETWEEN DIRECT AND INDIRECT TAXATION I INTEND TO RAISE AN ADDITIONAL \$900 MILLION FROM DIRECT TAXES AND ONLY \$600 MILLION FROM CAREFULLY SELECTED INDIRECT TAXES, BOTH OF WHICH WILL HAVE THE MINIMUM EFFECT ON PRICE INFLATION.

+THE INCREASES IN INDIRECT TAX WILL COME FROM A RISE IN THE BETTING LEVY; FROM HIGHER DUTIES ON FOREIGN WINES AND SPIRITS; FROM RATES, THOUGH NO ONE WILL FACE MORE THAN A 20 PER CENT INCREASE AND THE 43 PER CENT OF OUR POPULATION IN HOUSING ESTATES WILL BE LITTLE AFFECTED; AND FROM A TRANSPORT MEASURE DESIGNED TO DECREASE CONGESTION ON THE CROSS HARBOUR TUNNEL BY IMPOSING A TAX ON CARS, TAXIS AND LORRIES - BUT NOT ON PUBLIC LIGHT BUSES AND OMNIBUSES. THERE WILL BE OTHER INCREASES IN FEES AND CHARGES, INCLUDING A FLAT \$2 TOLL ON THE LION ROCK TUNNEL.

/+AS FOR .....

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+AS FOR DIRECT TAXATION, IT IS NECESSARY NOW TO INCREASE THE STANDARD RATE FOR PROFITS, SALARIES, PROPERTY AND INTEREST INCOME BY TWO PERCENTAGE POINTS. FOR SALARIES TAXPAYERS A 17 PER CENT MAXIMUM RATE WILL AFFECT ONLY THE MORE COMFORTABLY OFF. THE INCREASE FROM 16-1/2 PER CENT TO 18-1/2 PER CENT ON CORPORATION PROFITS TAX, WHILE PAINFUL, CAN I BELIEVE BE BORNE. MOST PROFITS SHOULD RISE MORE. IF THESE INCREASES WERE NOT IMPOSED THIS YEAR THERE WOULD HAVE TO BE HIGHER INCREASES NEXT YEAR.

+I AM ALSO PROPOSING TWO NEW MEASURES CONCERNING BUSINESSES OPERATING IN HONG KONG. FIRST, TO PROTECT THE YIELD FROM PROFITS TAX FOLLOWING THE REMOVAL OF INTEREST TAX ON DEPOSITS; AND SECOND TO BRING WITHIN THE PROFITS TAX NET ALL INTEREST FROM DEPOSITS, INCLUDING SO-CALLED OFFSHORE DEPOSITS, WHERE SUCH INTEREST IN REALITY ARISES FROM THE BUSINESS OPERATIONS HERE.

+AS A RESULT THE FORECAST DEFICIT FOR 1984-85 SHOULD DROP TO A TOLERABLE \$2.1 BILLION.

+SUBJECT TO NO UNFORESEEN SHOCKS, IN 1984 I BELIEVE THAT GDP WILL INCREASE BY RATHER OVER 6 PER CENT; THAT INFLATION WILL DROP TO 7 PER CENT BY THE END OF THE YEAR, THUS REDUCING THE YEAR ON YEAR AVERAGE TO ABOUT 9 PER CENT; THAT CAPITAL INVESTMENT WILL GROW AGAIN; THAT REAL WAGES WILL BEGIN TO RISE WITH STABILISED EMPLOYMENT; AND THAT THE HONG KONG DOLLAR WILL REMAIN STRONG.

GOOD NIGHT.+

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BUDGET BRIEFING  
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THE FINANCIAL SECRETARY, SIR JOHN BREMRIDGE, WILL GIVE A PRESS BRIEFING ON THE BUDGET AT 4.30 PM, TOMORROW (THURSDAY), AT THE GIS THEATRE.

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NOTE TO EDITORS:

TRADE MINISTER ARRIVING  
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THE MINISTER FOR TRADE, MR PAUL CHANNON, WILL ARRIVE IN HONG KONG TOMORROW (THURSDAY) FOR A THREE-DAY VISIT.

MR CHANNON IS DUE TO ARRIVE ON FLIGHT CA 501, ETA 10.40 AM.

A FACILITY HAS BEEN ARRANGED FOR PHOTOGRAPHERS AND CAMERAMEN TO COVER HIS ARRIVAL. PLEASE ADVISE THOSE COVERING THE EVENT TO ASSEMBLE AT THE AIRPORT PRESS CONFERENCE ROOM NOT LATER THAN 9.40 AM.

GIS OFFICERS WILL BE ON HAND TO ASSIST.

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NEW RATES EXPLAINED

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THE RATING AND VALUATION DEPARTMENT HAS PREPARED A BILINGUAL EXPLANATORY PAMPHLET FOR MEMBERS OF THE PUBLIC AND PROPERTY OWNERS, IN CONNECTION WITH THE NEW RATEABLE VALUES ON PROPERTY WHICH BECAME EFFECTIVE ON APRIL 1.

ENTITLED +YOUR RATES IN 1984-85+, THE PAMPHLET IS AVAILABLE FROM THE DEPARTMENT AT HENNESSY CENTRE, 17TH FLOOR, 500 HENNESSY ROAD, CAUSEWAY BAY, HONG KONG, GOVERNMENT PUBLICATIONS SALES CENTRE AT CONNAUGHT PLACE AS WELL AS FROM ALL DISTRICT OFFICES.

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SINGING AND SONG-WRITING CONTEST

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THE FINAL OF THE SECOND CENTRAL AND WESTERN DISTRICT SINGING AND SONG-WRITING CONTEST WILL BE HELD AT 8 PM ON SUNDAY (MARCH 4) AT HONG KONG CARITAS CENTRE, 2 CAINE ROAD.

SIX FINALISTS EACH WILL COMPETE FOR TOP HONOURS IN THE SOLO-SINGING, GROUP-SINGING AND SONG-WRITING CATEGORIES.

IN ADDITION, DANNY SUMMER, A POPULAR LOCAL SINGER WHO HAS JUST ENDED A TOUR WITH THE JAPANESE BAND - 'CREATION', AND THE VISA BAND, WILL APPEAR AS GUEST PERFORMERS.

THE CONTEST IS ORGANISED BY THE MUSIC OFFICE, RECREATION AND CULTURE DEPARTMENT, CENTRAL AND WESTERN DISTRICT BOARD, AND THE DISTRICT ASSOCIATION FOR THE ARTS AND CULTURE, CENTRAL AND WESTERN DISTRICT.

FREE ADMISSION TICKETS FOR THE FINAL CONTEST ARE NOW AVAILABLE AT THE HONG KONG MUSIC CENTRE OF THE MUSIC OFFICE, AND ALL ENQUIRY CENTRES OF THE CENTRAL AND WESTERN DISTRICT OFFICE. FOR ENQUIRIES, PLEASE TELEPHONE 5-283257.

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TRAFFIC DIVERSION

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JAVA ROAD BETWEEN TIN CHIU STREET AND HEALTHY STREET EAST WILL BE CLOSED FROM MIDNIGHT TOMORROW (MARCH 1) TO 6 AM THE FOLLOWING DAY FOR WORK ON THE ISLAND EASTERN CORRIDOR.

DURING THE CLOSURE, TRAFFIC ON JAVA ROAD HEADING FOR QUARRY BAY WILL BE DIVERTED VIA TIN CHIU STREET AND KING'S ROAD.

THE MEASURE WILL BE REPEATED ON FRIDAY (MARCH 2) NIGHT.

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PROHIBITED ZONE

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FROM 10 AM ON FRIDAY (MARCH 2), THE UNUSED PUBLIC LIGHT BUS TERMINUS OFF KWAI SHING CIRCUIT NEAR BLOCK 13, KWAI SHING ESTATE WILL BE DESIGNATED A PROHIBITED ZONE.

ALL MOTOR VEHICLES, EXCEPT THOSE AUTHORISED BY THE TRANSPORT DEPARTMENT WILL BE PROHIBITED FROM ENTERING THE UNUSED PUBLIC LIGHT BUS TERMINUS.

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