



DAILY INFORMATION BULLETIN

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

WEDNESDAY, FEBRUARY 25, 1987

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SINO-BRITISH LAND COMMISSION MEETS

THE SINO-BRITISH LAND COMMISSION HELD ITS 11TH MEETING TODAY (WEDNESDAY).

THE TWO SIDES AGREED THAT THE EXTENSION OF NEW TERRITORIES LEASES IN ACCORDANCE WITH THE TERMS OF PARAGRAPH 2 OF ANNEX III TO THE JOINT DECLARATION SHOULD BE EFFECTED BY LEGISLATION, AND SPECIAL PURPOSE LEASES WOULD BE DEALT WITH INDIVIDUALLY IN ACCORDANCE WITH THE PRINCIPLES AGREED BY THE LAND COMMISSION.

THE TWO SIDES HAVE ALSO REACHED A COMMON VIEW ON THE CONTENT OF THE NECESSARY LEGISLATION, DETAILS OF WHICH WILL BE PUBLISHED AT A LATER DATE IN THE NORMAL MANNER.

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IMMIGRATION DEPARTMENT FEES INCREASED

FEES CHARGED FOR A NUMBER OF SERVICES PROVIDED BY THE IMMIGRATION DEPARTMENT WERE INCREASED TODAY (WEDNESDAY).

AN IMMIGRATION SPOKESMAN EXPLAINED THAT THE REVISION, WHICH TOOK EFFECT AT 2.30 PM UNDER A PUBLIC REVENUE PROTECTION ORDER, WAS THE OUTCOME OF A NORMAL ADJUSTMENT EXERCISE TO TAKE ACCOUNT OF INCREASED OPERATING COSTS.

THE REVISED FEES ARE:

	OLD FEES \$	NEW FEES \$
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EMERGENCY PASSPORT	40.00	45.00
SEAMAN'S IDENTITY BOOK VALID FOR FIVE YEARS	50.00	55.00
RENEWAL OF A SEAMAN'S IDENTITY BOOK VALID FOR FIVE YEARS	35.00	40.00
SEAMAN'S CERTIFICATE OF NATIONALITY AND IDENTITY	50.00	55.00
ORDINARY VISA	100.00	115.00
TRANSIT VISA	55.00	60.00
CHANGE OF CONDITIONS OF STAY OR EXTENSION OF LIMIT OF STAY	100.00	115.00

/HONG KONG

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HONG KONG CERTIFICATE OF IDENTITY
(WHETHER OF FULL OR RESTRICTED
VALIDITY) -

(I) 44-PAGE CERTIFICATE	140.00	150.00
(II) 92-PAGE CERTIFICATE	280.00	300.00
VISITOR'S PERMIT FOR RESIDENT OF MACAU VALID FOR ONE VISIT	20.00	25.00
VISITOR'S PERMIT FOR RESIDENT OF MACAU FOR MULTIPLE VISITS AND VALID FOR ONE YEAR	40.00	45.00
VISITOR'S PERMIT, VALID FOR ONE VISIT, FOR RESIDENT OF MACAU WHO WAS FORMERLY RESIDENT IN CHINA AND SETTLED IN MACAU AFTER JANUARY 14, 1979	100.00	115.00
ENTRY PERMIT	100.00	115.00
ENDORSEMENT TO A TRAVEL DOCUMENT FOR WHICH NO SPECIFIC FEE IS PROVIDED	35.00	40.00
SERVICE CHARGE FOR SUPPLYING, ON APPLICATION, A COPY OF ANY DOCUMENT, OR FOR MAKING OR FORWARDING, OR BOTH, A REQUEST OR RECOMMENDATION TO ANY AUTHORITY OF A FOREIGN STATE OR COMMONWEALTH COUNTRY, FOR CONSULAR OR NATIONALITY REGISTRATION OR FOR THE ISSUE OR RENEWAL OF A PASSPORT OR OTHER TRAVEL DOCUMENT OR OF A DOCUMENT OF IDENTITY OR FOR THE GRANT OF A VISA OR ENTRY PERMIT	40.00	45.00
DOCUMENT OF IDENTITY VALID FOR SEVEN YEARS -		
(I) 44-PAGE DOCUMENT	100.00	115.00
(II) 92-PAGE DOCUMENT	200.00	230.00

ENQUIRIES MAY BE MADE TO THE IMMIGRATION DEPARTMENT'S
INFORMATION OFFICE ON 3-7333111.

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**DB COMMITTEE TO CONSIDER WELFARE ACTIVITIES

THE SHAM SHUI PO DISTRICT BOARD COMMUNITY BUILDING COMMITTEE WILL MEET TOMORROW (THURSDAY) TO DISCUSS THE INTRODUCTION OF CO-OPTED MEMBERS TO ITS SOCIAL WELFARE WORKING GROUP AND THE EXTENSION OF THE GROUP'S FUNCTIONS.

MEMBERS WILL ALSO DISCUSS ALLOCATION OF DISTRICT BOARD FUNDS FOR COMMUNITY INVOLVEMENT PLANS FOR 1987-88; IMPROVEMENT OF FACILITIES IN LAI KOK COMMUNITY MALL; PROPOSALS TO IMPROVE SOCIAL WELFARE SERVICES FACILITIES AND THE PROPOSED ESTABLISHMENT OF A DISTRICT BOARD CIVIC EDUCATION WORKING GROUP.

NOTE TO EDITORS:

YOU ARE INVITED TO COVER THE MEETING WHICH WILL START AT 2.15 PM TOMORROW IN THE DISTRICT BOARD CONFERENCE ROOM ON THE SECOND FLOOR, 39 TONKIN STREET, KOWLOON.

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**MEDICAL STAFF RECEIVE LONG SERVICE AWARDS

A TOTAL OF 101 STAFF MEMBERS OF THE MEDICAL AND HEALTH DEPARTMENT - INCLUDING DOCTORS, NURSES, PARA-MEDICAL STAFF, WORKMEN, DRIVERS, WARD ATTENDANTS, AMAS AND DARKROOM TECHNICIANS - WERE PRESENTED WITH LONG SERVICE MERIT CERTIFICATES TODAY (WEDNESDAY).

UNDER THE LONG SERVICE MERIT CERTIFICATE SCHEME, LAUNCHED LAST YEAR BY THE DEPARTMENT, ALL STAFF WHO HAVE PERFORMED THEIR DUTIES SATISFACTORILY WITHIN THE PAST 30 YEARS ARE ELIGIBLE FOR THE AWARD. LAST YEAR 383 STAFF MEMBERS RECEIVED THE CERTIFICATES.

TO MARK THE OCCASION, A PRESENTATION CEREMONY WAS HELD TODAY AT THE KWAI CHUNG HOSPITAL ASSEMBLY HALL WHERE CERTIFICATES WERE PRESENTED TO RECIPIENTS BY THE DIRECTOR, DR. K.L. THONG, AND OTHER DIRECTORATE STAFF.

PRAISING RECIPIENTS FOR THEIR DEVOTION AND LOYALTY, DR. THONG SAID THE FIRST MONTH OF THE CHINESE NEW YEAR WAS AN AUSPICIOUS TIME TO PAY TRIBUTE TO STAFF WHO HAD WORKED LONG YEARS TO PROVIDE ESSENTIAL SERVICES TO THE COMMUNITY.

/+THE INAUGURAL

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+THE INAUGURAL PRESENTATION LAST YEAR WAS VERY WELL RECEIVED BY MEMBERS OF THE DEPARTMENT, TO THE EXTENT THAT THERE WAS AN INSTANT REQUEST TO WIDEN THE SCOPE OF THE SCHEME TO INCLUDE THOSE WHO HAVE COMPLETED 20 YEARS OF SERVICE.

+THE INTEREST SHOWN IN THE SCHEME IS GRATIFYING BECAUSE IT REFLECTS PRIDE AND COMMITMENT IN THE VARIOUS OCCUPATIONAL GROUPS,+ HE SAID.

+IT ALSO HIGHLIGHTS THAT STAFF EXPECT TO WORK HARD AND TO HAVE GOOD WORK RECOGNISED BY THE DEPARTMENT,+ DR. THONG ADDED.

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INDUSTRIAL SITES FOR SALE

TWO INDUSTRIAL SITES WILL BE PUT UP FOR SALE TOMORROW (THURSDAY) BY THE BUILDINGS AND LANDS DEPARTMENT.

THE FIRST LOT, AT SIU LEK YUEN ROAD, SHA TIN, MEASURES ABOUT 5 600 SQUARE METRES; THE SECOND LOT, OF 1 094 SQUARE METRES, IS AT TUI MIN HOI, SAI KUNG.

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NOTE TO EDITORS:

YOU ARE INVITED TO COVER THE AUCTION WHICH WILL TAKE PLACE AT THE CITY HALL THEATRE AT 2.30 PM.

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YOUNG MUSICIANS LEAVE FOR FESTIVAL IN ITALY

THE HONG KONG YOUTH CHINESE MUSIC ENSEMBLE LEFT FOR ITALY TODAY (WEDNESDAY) TO PARTICIPATE IN THE THIRD HONG KONG-MANTUA FRIENDSHIP FESTIVAL FROM MARCH 1 TO 7.

LED BY THE MUSIC ADMINISTRATOR, MRS BORIS HO, AND SENIOR MUSIC OFFICER (CHINESE), MR TONG LEUNG-TAK, THE MUSIC OFFICE ENSEMBLE COMPRISES EIGHT MEMBERS.

/BEFORE THEIR

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BEFORE THEIR DEPARTURE, MRS HO SAID OVERSEAS TOURS WERE AN INTEGRAL PART OF THE MUSIC OFFICE'S INSTRUMENTAL MUSIC TRAINING SCHEME.

BESIDES ENABLING THE YOUNG MUSICIANS TO SHARE IN AN EXCHANGE OF MUSIC, THE TOURS GIVE THEM AN OPPORTUNITY TO PERFORM BEFORE FOREIGN AUDIENCES AS WELL TO RECEIVE INTERNATIONAL TUITION NOT OTHERWISE AVAILABLE, SHE POINTED OUT.

+THERE HAVE BEEN NO LESS THAN 35 INTERNATIONAL MUSIC EXCHANGE PROGRAMMES ORGANISED SINCE 1978,+ MRS HO ADDED.

DURING THEIR STAY IN ITALY, THE MEMBERS OF THE ENSEMBLE WILL PERFORM IN THE FESTIVAL'S OPENING CONCERT ON MARCH 1 AND IN THE FINAL CONCERT ON MARCH 7. OTHER ACTIVITIES, INCLUDING A STUDENT CONCERT, WILL ALSO BE ARRANGED TO PROMOTE CHINESE MUSIC IN ITALY.

APART FROM MUSIC PERFORMANCES, THE HONG KONG-MANTUA FRIENDSHIP FESTIVAL, ORGANISED BY THE UGO CONTA INTERNATIONAL MUSIC SOCIETY IN HONG KONG, WILL ALSO FEATURE AN EXHIBITION OF PAINTINGS ENTITLED + EAST MEETS WEST+.

THE ENSEMBLE WILL RETURN ON MARCH 11.

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BUS DIVERSION IN YUEN LONG TOWN
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TO FACILITATE THE CONSTRUCTION OF THE TUEN MUN-YUEN LONG LIGHT RAIL TRANSIT SYSTEM, BUSES WILL NOT BE ALLOWED TO TURN RIGHT FROM CASTLE PEAK ROAD (YUEN LONG) WESTBOUND TO KIK YEUNG ROAD NORTHBOUND FROM FRIDAY (FEBRUARY 27) FOR ABOUT ONE MONTH.

ON JOURNEY TO YUEN LONG (WEST) BUS TERMINUS, KMB ROUTES 54, 56, 64K, 76K, 77K WILL BE DIVERTED TO CASTLE PEAK ROAD, MA MIU ROAD, ON NING ROAD AND KIK YEUNG ROAD.

THESE BUS ROUTES WILL OBSERVE THE BUS STOP ON CASTLE PEAK ROAD OUTSIDE YUEN LONG TRADE ASSOCIATION PRIMARY SCHOOL DURING THE PERIOD OF DIVERSION.

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DAILY INFORMATION BULLETIN – SUPPLEMENT

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STABLE FUNDING, STEADY DEVELOPMENT KEY FACTORS
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THE EFFICIENT PROVISION OF PUBLIC SERVICES REQUIRES STABLE FUNDING AND STEADY RATHER THAN ERRATIC DEVELOPMENT, THE FINANCIAL SECRETARY, THE HON PIERES JACOBS, TOLD THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

SUMMING UP HIS BUDGET SPEECH, MR JACOBS SAID THE MANAGEMENT OF PUBLIC FINANCES DEPENDED TO A GREAT EXTENT ON THE GOVERNMENT CONTINUING TO PAY CLOSE ATTENTION TO TRENDS AND ON THE TAKING OF EARLY ACTION WHERE NECESSARY TO AVOID MORE EXTREME MEASURES AT A LATER DATE.

STRESSING THE NEED FOR CONTINUITY OF POLICIES, HE SAID: +WE HAVE ENJOYED REMARKABLE ECONOMIC GROWTH AND FROM THIS WE HAVE GAINED THE RESOURCES TO FINANCE THE MANY DEVELOPMENTS AND PUBLIC SERVICES THAT OUR COMMUNITY HAS RIGHTLY COME TO EXPECT.+

+THE UNDERLYING TRENDS NOW SEEM FAVOURABLE, AND IT IS FOR THIS REASON THAT I HAVE FELT ABLE TO PROPOSE A BUDGET THAT REPRESENTS BOTH FURTHER IMPROVEMENTS IN PUBLIC SERVICES AND A LOWERING OF THE BURDEN ON THE TAXPAYER.+

+BUT WE MUST BE CAUTIOUS,+ HE ADDED. +OUR ECONOMY REMAINS SUBJECT TO EXTERNAL FACTORS, INCLUDING THE THREAT OF PROTECTIONISM.+

+WE MUST THEREFORE BE CAREFUL NOT TO MOVE QUICKLY IN TERMS OF COMMITTING OURSELVES TO GREATER EXPENDITURE OR FOREGOING REVENUE.+

IN SHAPING HONG KONG'S PUBLIC FINANCES, MR JACOBS SAID HE WISHED TO PRESERVE AND FOSTER AN ENVIRONMENT IN WHICH BUSINESS COULD FLOURISH, NOT SIMPLY BECAUSE HE WANTED TO SEE BUSINESS MORE PROFITABLE, BUT ALSO BECAUSE IT WAS ONLY IN A FAVOURABLE BUSINESS ENVIRONMENT THAT INVESTMENT WOULD GROW AND WELL PAID JOBS WOULD CONTINUE TO BE CREATED.

+THIS IS THE WAY TO MAINTAIN STABILITY,+ HE SAID.

TURNING TO THE FINANCIAL SECTOR, MR JACOBS REITERATED THAT A SOUND REPUTATION WAS VITAL TO HONG KONG'S CONTINUING GROWTH IN THIS AREA.

+PROBLEMS ARE NOT UNIQUE TO ANY PARTICULAR FINANCIAL CENTRE,+ HE SAID.

+ALL THOSE INVOLVED WITH FINANCIAL SERVICES, WHETHER IN BUSINESS OR IN REGULATORY OR SUPERVISORY ACTIVITIES, HAVE A COMMON INTEREST.

/+WE MUST

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+WE MUST ALL PLAY OUR PART IN MAINTAINING THE INTEGRITY OF THE SYSTEM BECAUSE IF THE ACTIVITIES OF A FEW ARE ALLOWED TO DAMAGE THAT SYSTEM OR MAR ITS REPUTATION THEN ALL WILL SUFFER.+

+LET US NOT IMAGINE THAT IN THIS AREA WE ARE DEALING WITH VICTIMLESS CRIMES.+

MR JACOBS POINTED OUT THAT HONG KONG HAD ENJOYED A REMARKABLE YEAR IN 1986, AND +THE RESULTS OWE MUCH TO THE HARD WORK AND IMAGINATION OF THE COMMUNITY AS A WHOLE.+

+HONG KONG HAS A JUSTIFIABLE REPUTATION FOR GETTING ON WITH THE JOB IN HAND,+ HE SAID.

+OUR BUSINESS COMMUNITY IS VIGOROUS IN ITS PURSUIT OF NEW MARKETS AND OPPORTUNITIES, AND OUR LABOUR FORCE IS KNOWN FOR ITS SKILL AND ENERGY.

+THESE ARE THE TRADITIONAL QUALITIES OF HONG KONG, AND WE WILL CONTINUE TO PROSPER IF WE HOLD TRUE TO THEM.+

CONCLUDING HIS SPEECH, MR JACOBS SAID: +HONG KONG WILL IN THE YEARS AHEAD FACE MANY PROBLEMS; BUT WITH COURAGE, HONESTY AND STRENGTH OF PURPOSE IT WILL OVERCOME THEM.+

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1986-87 SURPLUS RISES TO \$3 BILLION

THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, TODAY (WEDNESDAY) FORECAST A MUCH STRONGER OUTTURN OF JUST OVER \$3 BILLION IN SURPLUS ON GENERAL REVENUE ACCOUNT FOR 1986-87, COMPARED WITH THE MODEST ESTIMATE OF \$0.35 BILLION AT THE START OF THE FINANCIAL YEAR.

THIS GENERAL REVENUE ACCOUNT SURPLUS, ALONG WITH THE INCREASE IN FUND BALANCES, GAVE AN OVERALL SURPLUS OF \$4.9 BILLION FOR THE YEAR, HE SAID.

PRESENTING HIS BUDGET, MR JACOBS SAID HE WAS PLEASED TO RECORD THAT THE RAPID ECONOMIC RECOVERY IN 1986 EXCEEDED HIS EXPECTATIONS AND HAD GENERATED CONSIDERABLE IMPROVEMENTS IN THOSE REVENUE AREAS MOST CLOSELY LINKED TO ECONOMIC PERFORMANCE.

HE NOTED THAT THE MOST SIGNIFICANT GAINS HAD COME FROM PROFITS TAX, SALARIES TAX AND STAMP DUTY WHICH, TOGETHER, WERE ESTIMATED TO YIELD A TOTAL OF \$2.8 BILLION MORE THAN BUDGETTED.

+PROFITS AND SALARIES TAX YIELDS HAVE GROWN AHEAD OF EVEN THE PRELIMINARY ESTIMATE OF GDP GROWTH FOR 1986, REFLECTING BOTH A MAJOR RESURGENCE IN THE PROFITS OF PROPERTY AND EXPORT ORIENTED BUSINESSES, AND SUBSTANTIAL SALARY INCREASES,+ HE SAID.

AS TO STAMP DUTY, HE NOTED THAT THE TURNOVER ON THE STOCK MARKET HAD BEEN RUNNING WELL AHEAD OF THE LEVEL OF THE PREVIOUS FEW YEARS.

MR JACOBS ADDED THAT THERE HAD BEEN SOME EARLY REPAYMENTS OF DEBTS DUE TO THE GOVERNMENT AMOUNTING TO A TOTAL OF \$0.9 BILLION.

+ABOUT HALF OF THIS IS DUE TO REPAYMENT OF THE REMAINING KCR DEBT, WHICH WAS REFERRED TO AS A POSSIBILITY IN LAST YEAR'S BUDGET,+ HE SAID.

+VARIANCE FROM ESTIMATES IN OTHER REVENUE AREAS IS RELATIVELY MINOR, AND THE ITEMS LARGELY OFFSET EACH OTHER.

+OVERALL, REVENUE IS NOW FORECAST TO BE SOME \$4 BILLION HIGHER THAN PREVIOUSLY EXPECTED REPRESENTING A GAIN OF 8 PER CENT EXCLUDING THE EARLY DEBT REPAYMENTS, OR 10 PER CENT IF THEY ARE TAKEN INTO ACCOUNT,+ HE SAID.

MR JACOBS SAID TOTAL EXPENDITURE ON GENERAL REVENUE ACCOUNT BEFORE TRANSFERS TO FUNDS WAS NOW EXPECTED TO BE \$33.9 BILLION, WHICH WAS IN LINE WITH BUDGET.

+WE ARE SEEING THE RESULTS OF ANOTHER YEAR OF TIGHT BUDGETARY PERFORMANCE. ALL CONTROLLING OFFICERS HAVE PLAYED THEIR PART AND I AM GRATEFUL TO THEM. OUR SYSTEM OF CASH LIMITS IS CLEARLY EFFECTIVE,+ HE SAID.

HE NOTED THAT, IN PRACTICE, THE COMBINED EFFECT OF THE TWO PAY AWARDS TO STAFF GRANTED DURING 1986 WAS SLIGHTLY MORE THAN HAD BEEN ANTICIPATED IN FRAMING THE BUDGET. BUT THIS WAS OFFSET BY SOME UNDER-SPENDING ON NON-STAFF DEPARTMENTAL RUNNING COSTS AND AN ADJUSTMENT TO PAYMENTS UNDER THE DEFENCE COSTS AGREEMENT.

THE SIZE OF THE CIVIL SERVICE REMAINED THE MAJOR DETERMINANT OF THE GOVERNMENT'S SPENDING, AND THE DECEMBER ON DECEMBER GROWTH RATE OF 2 PER CENT WAS WITHIN THE PLANNING TARGET AND REFLECTED BOTH FIRM CONTROL AND FURTHER IMPLEMENTATION OF THE SUCCESSFUL PROGRAMME OF VALUE FOR MONEY STUDIES, HE SAID.

NET TRANSFERS TO FUNDS HAD INCREASED BY \$1.3 BILLION DUE PARTLY TO THE TRANSFER TO THE MASS TRANSIT FUND OF THE EXCEPTIONAL LOAN REPAYMENT MADE BY THE KCR.

/MR JACOBS

MR JACOBS SAID THAT, IN THE LIGHT OF THE IMPROVING OVERALL SITUATION, IT HAD NOT BEEN NECESSARY TO TRANSFER SURPLUS FUNDS BACK TO GENERAL REVENUE ACCOUNT FROM THE HOME OWNERSHIP FUND AS ORIGINALLY INTENDED.

AS TO CAPITAL EXPENDITURE FINANCED FROM THE FUNDS OUTSIDE THE GENERAL REVENUE ACCOUNT, MR JACOBS SAID THERE HAD BEEN A DOWNWARD TREND IN RECENT YEARS.

+THIS REFLECTS MORE THE PHASING OF MAJOR COMMITMENTS THAN ANY DELIBERATE POLICY. THUS, THERE HAS BEEN LESS OF A DRAWDOWN OF THE FUNDS THROUGH WHICH GOVERNMENT FINANCES CAPITAL EXPENDITURE AND LOANS THAN MIGHT HAVE BEEN EXPECTED,+ HE SAID.

+ALTHOUGH THE LATEST FORECAST FOR THE CURRENT YEAR INDICATES SOME UNDER-SPENDING, THERE ARE SIGNS THAT THE DECLINE IS BOTTOMING OUT. IN TOTAL, CAPITAL EXPENDITURE FROM THE FUNDS WAS BELOW BUDGET BY SOME \$0.4 BILLION OR 4 PER CENT.

MR JACOBS POINTED OUT THAT A SIGNIFICANT NEW FACTOR WAS THE INCREASING ABILITY OF THE HOUSING AUTHORITY TO FINANCE A HIGHER PROPORTION OF ITS CAPITAL SPENDING FROM ITS OWN RESOURCES, RESULTING IN A REDUCTION IN THE NEED FOR THE AUTHORITY TO DRAW ON THE DEVELOPMENT LOAN FUND IN 1986-87.

THIS TREND TOWARDS LOWER REQUIREMENTS FROM THE DEVELOPMENT LOAN FUND WAS ON PRESENT INDICATIONS LIKELY TO CONTINUE, HE SAID.

IN RESPECT OF REVENUE ACCRUING DIRECTLY TO THE FUNDS, THE HOME OWNERSHIP FUND'S REVENUE WAS BOOSTED BY A MAJOR SALE OF FLATS DELAYED FROM 1985-86.

+AFTER MAKING THE TRANSFERS TO THEM FROM GENERAL REVENUE ACCOUNT, WE HAVE CONTINUED TO SEE AN INCREASE IN THE BALANCES OF THE FUNDS. THE TOTAL AMOUNT AVAILABLE SHOWS A NET INCREASE OF \$1.9 BILLION.

+TAKING THE GENERAL REVENUE ACCOUNT SURPLUS TOGETHER WITH THIS INCREASE IN FUND BALANCES GIVES AN OVERALL SURPLUS FOR THE YEAR OF \$4.9 BILLION.+

IN THE LIGHT OF THE IMPROVEMENTS IN 1986-87, MR JACOBS NOW EXPECTED GENERAL RESERVES TO STAND AT AROUND \$20 BILLION AT THE END OF THIS YEAR PLUS BALANCES OF A FURTHER \$12 BILLION CARRIED IN VARIOUS FUNDS.

+WE HAVE A NUMBER OF CONTINGENT LIABILITIES AND THESE MUST BE ALLOWED FOR. THERE IS NO ABSOLUTE RULE AS TO THE CORRECT LEVEL OF RESERVES. IT SHOULD BE RECOGNISED, HOWEVER, THAT ALTHOUGH OUR RESERVES ARE INCREASING AGAIN, THEY REMAIN IN REAL TERMS SLIGHTLY BELOW THEIR LEVEL AT THE START OF THIS DECADE BEFORE WE FELL INTO DEFICIT.

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+AND THE AVERAGE ANNUAL SURPLUS OF \$1.5 BILLION THAT WE HAVE PROJECTED OVER THE FORECAST PERIOD IS NO MORE THAN SUFFICIENT TO MAINTAIN THE REAL VALUE OF OUR RESERVES.+

MR JACOBS SAID THE BULK OF THE GOVERNMENT'S ACCUMULATED FISCAL RESERVES WAS INVESTED BY THE TREASURY WITH THE EXCHANGE FUND AGAINST THE ISSUE BY THE FUND OF INTEREST-BEARING DEBT CERTIFICATES.

+THE EXCHANGE FUND ORDINANCE CURRENTLY LIMITS THE AMOUNT WHICH THE FUND MAY BORROW FROM ANY SOURCE AT HK\$30 BILLION, BUT THE LIMIT MAY BE ALTERED BY RESOLUTION OF THE LEGISLATIVE COUNCIL WITH THE APPROVAL OF THE SECRETARY OF STATE,+ HE SAID.

+GIVEN THE PRUDENT BUILD UP WHICH WE FORECAST FOR OUR FISCAL RESERVES, IT WILL NOW BE NECESSARY TO RAISE THIS LIMIT, AND IT IS MY INTENTION TO MOVE A RESOLUTION IN THIS COUNCIL FOR THIS PURPOSE.+

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EXPECTED SURPLUS PUT AT \$2.1 BILLION OR \$1.8 BILLION
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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, EXPECTS A SURPLUS OF \$2.1 BILLION ON THE GENERAL REVENUE ACCOUNT NEXT FINANCIAL YEAR, OR \$1.8 BILLION IF A PACKAGE OF REVENUE MEASURES IS ACCEPTED.

THIS PACKAGE WOULD REDUCE REVENUE BY A NET \$325 MILLION IN 1987-88 AND \$690 MILLION IN A FULL YEAR.

TOTAL REVENUE WAS ESTIMATED TO BE \$46.5 BILLION, WHICH +REFLECTS THE GOOD ECONOMIC PERFORMANCE WE HAVE ENJOYED IN THE CURRENT YEAR, WHICH WILL STILL BE FEEDING THROUGH INTO TAX RECEIPTS IN 1987-88.

+AS IN 1986-87, PROFITS TAX RECEIPTS ARE AGAIN EXPECTED TO RUN AHEAD OF ECONOMIC GROWTH. BUT I MUST BE CAUTIOUS IN ESTIMATING THE YIELD IN SOME OTHER AREAS WHERE THE LEVEL OF ACTIVITY IN 1986 MIGHT NOT BE FULLY SUSTAINED,+ HE SAID IN THIS BUDGET SPEECH TODAY (WEDNESDAY).

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EXPENDITURE TO TOTAL \$44.4 BILLION
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TOTAL EXPENDITURE ON GENERAL REVENUE ACCOUNT FOR THE COMING FINANCIAL YEAR WILL AMOUNT TO \$44.4 BILLION.

GIVING THE FIGURE IN HIS BUDGET SPEECH TODAY (WEDNESDAY), THE FINANCIAL SECRETARY, THE HON PIERRE JACOBS, SAID HIS ESTIMATES FOR 1987-88 ACCOMMODATED AN OVERALL EXPENDITURE GROWTH RATE OF 4.9 PER CENT IN REAL TERMS, WHICH WAS JUST UNDER 1 PER CENT MORE THAN FOR 1986-87.

+IF WE ARE TO MAINTAIN A SATISFACTORY BUDGETARY POSITION, WE MUST CONTAIN EXPENDITURE GROWTH TO WITHIN THE PLANNING ASSUMPTION OF A 5.5 PER CENT AVERAGE ANNUAL GROWTH RATE IN THE ECONOMY,+ HE SAID.

+I AIM TO HOLD PUBLIC EXPENDITURE A LITTLE BELOW THIS FIGURE IN ORDER TO ALLOW ROOM FOR UNFORESEEN EVENTS,+ HE ADDED.

IN SETTING THE LIMITS TO PUBLIC EXPENDITURE, MR JACOBS SAID HE MUST HAVE REGARD TO A PENT UP DEMAND FOR SERVICES FOLLOWING A PERIOD OF RESTRAINT.

+BUT I DO NOT BELIEVE THAT EXPENDITURE SHOULD BE ALLOWED TO RISE AUTOMATICALLY.

+IT REMAINS VITAL THAT ALL NEW EXPENDITURE PROPOSALS BE JUDGED ON THEIR MERITS.+

MR JACOBS CONSIDERED IT ESSENTIAL THAT ANY GROWTH SHOULD BE RELATED TO CLEAR AND ESTABLISHED POLICY OBJECTIVES RATHER THAN BEING BROUGHT ABOUT BY A GENERAL SLACKENING OF CONTROL.

+WITH THE NEED FOR CONTROL FIRMLY IN MIND, I SET GUIDELINES FOR DEPARTMENTS LAST AUTUMN FOLLOWING A CRITICAL EXAMINATION OF THEIR EXISTING ACTIVITIES,+ HE SAID.

+I ALSO TOOK INTO ACCOUNT THE NEED FOR SERVICING NEW FACILITIES AND FOR A RESPONSE TO NATURAL GROWTH.+

A PROVISION OF \$180 MILLION, EQUIVALENT TO \$270 MILLION IN A FULL YEAR, HAD BEEN ACCOMMODATED IN THE BUDGET TO FINANCE THE RECURRENT COST OF NEW OR IMPROVED SERVICES.

IN TERMS OF STAFFING, MEDICAL SERVICES ALONE ACCOUNTED FOR ABOUT A QUARTER OF THE INCREASE REQUIRED IN 1987-88. AND SOCIAL WELFARE SERVICES ACCOUNTED FOR ANOTHER 8 PER CENT OF THE STAFF INCREASE.

+OVERALL, CIVIL SERVICE GROWTH IS EXPECTED TO BE JUST OVER 3 PER CENT IN 1987-88,+ MR JACOBS SAID.

/+THIS IS

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+THIS IS HIGHER THAN BOTH THE 2 PER CENT ARISING IN 1986-87 AND THE MEDIUM TERM PLANNING ASSUMPTION OF AROUND 2.5 PER CENT BUT IS NECESSITATED BY THE TIMING OF FACILITIES COMING ON STREAM.+

WITHIN THE TOTAL EXPENDITURE FIGURE, A SUM OF \$1.6 BILLION HAD BEEN ALLOWED FOR ADDITIONAL COMMITMENTS AND CONTINGENCIES.

PROVISION WAS ALSO MADE FOR TRANSFERRING A TOTAL OF \$6.6 BILLION TO VARIOUS FUNDS TO FINANCE CAPITAL EXPENDITURE.

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PUBLIC FINANCES NOW STRONG, SAYS JACOBS

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HONG KONG'S PUBLIC FINANCES WERE NOW IN A STRONG POSITION AND WE COULD LOOK FORWARD WITH REASONABLE CONFIDENCE TO BROADLY BALANCED BUDGETS OVER THE NEXT FEW YEARS, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID IN PRESENTING HIS FIRST BUDGET TO THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

MR JACOBS SAID HONG KONG WAS IN AN EXCELLENT TRADING POSITION AND ITS CURRENCY WAS STABLE, DESPITE DIFFICULTIES IN THE PAST WHICH HAD BEEN OVERCOME.

IN THIS CONNECTION, HE SAID HE OWED A CONSIDERABLE DEBT TO HIS PREDECESSOR, SIR JOHN BREMRIDGE.

+THE EARLY NINETEEN EIGHTIES WERE NOT EASY. HONG KONG WENT THROUGH POLITICAL UNCERTAINTIES WITH ALL THE ECONOMIC CONSEQUENCES,+ MR JACOBS SAID.

+BY TAKING THE LONG TERM VIEW SIR JOHN WAS ABLE TO ACHIEVE THE ADJUSTMENTS REQUIRED, AVOIDING BOTH DRACONIAN REVENUE MEASURES AND ANY MAJOR DISRUPTION TO SERVICES. BUSINESS WENT ON, AND THAT IS WHAT ANY FINANCIAL SECRETARY MUST SEEK TO ENSURE.+

HOWEVER, MR JACOBS NOTED THAT ALTHOUGH HONG KONG WAS NOW IN A MUCH SOUNDER POSITION, THE LESSONS WHICH HAD BEEN LEARNED REMAINED VALID.

HE CONTINUED: +HONG KONG IS AS VULNERABLE AS EVER TO EXTERNAL FORCES. IT IS INEVITABLE THAT WE WILL EXPERIENCE VOLATILITY IN OUR ECONOMIC PERFORMANCE.

/+WHILE THE

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+WHILE THE ECONOMY HAS IMPROVED IN 1986, PERHAPS BEYOND OUR EXPECTATIONS, THERE ARE, AS USUAL, SOME CLOUDS ON THE HORIZON. PROTECTIONISM STILL REMAINS A WORRYING THREAT.

+I HAVE NO DOUBT THAT IN MANAGING OUR PUBLIC FINANCES WE SHOULD NOT TAKE ACTION THAT IS LIKELY TO AGGRAVATE THE VOLATILITY IN OUR ECONOMY. WE MUST AT ALL TIMES PAY CAREFUL ATTENTION TO THE UNDERLYING TRENDS, AND ENSURE THAT OUR BUDGETARY MANAGEMENT IS CHARACTERISED BY STABILITY.+

MR JACOBS SAID THAT HE INTENDED TO ADHERE TO THE POLICIES THAT HONG KONG HAD SUCCESSFULLY FOLLOWED IN THE PAST, AND HE SAW NO PLACE FOR DEFICIT FINANCING AS A PERMANENT FEATURE OF FISCAL POLICY, ALTHOUGH HE RECOGNISED THAT ON OCCASIONS IT MIGHT BE INEVITABLE THAT DEFICITS HAD TO BE FACED.

HE ALSO SAID HE WAS CONVINCED THAT THE GOVERNMENT SHOULD ENDEAVOUR TO MAINTAIN A LOW AND PREDICTABLE TAX REGIME.

+HONG KONG'S REPUTATION AS A PLACE IN WHICH BUSINESS CAN BE CONDUCTED PROFITABLY DEPENDS TO A LARGE EXTENT UPON OUR KEEPING TAX RATES LOW. I CAN, NEVERTHELESS, SEE MERIT IN AT LEAST CONSIDERING DIFFERENT MIXES OF TAX RESOURCES FROM TIME TO TIME,+ HE ADDED.

THE FINANCIAL SECRETARY POINTED OUT THAT IF THE OBJECTIVE OF MAINTAINING LOW TAXATION WAS TO BE ACHIEVED, THE GROWTH IN EXPENDITURE ON PUBLIC SERVICES MUST STAY WITHIN, RATHER THAN RUN AHEAD OF, THE EXPANSION OF THE ECONOMY.

+EVEN IN THE IMPROVED SITUATION THAT WE ARE NOW EXPERIENCING, RESOURCES REMAIN LIMITED AND CHOICES MUST BE MADE. WE MUST NOT ALLOW THE PUBLIC SECTOR TO BECOME A MILLSTONE AROUND THE NECK OF ECONOMY, SOMETHING THAT HAS HAPPENED IN MANY OTHER PLACES,+ HE SAID.

IN OUTLINING THE ECONOMY'S RECENT PERFORMANCE, MR JACOBS NOTED THERE WAS A GENERAL REVIVAL IN ECONOMIC ACTIVITY IN 1986. DOMESTIC EXPORTS HAD PICKED UP SUBSTANTIALLY SINCE LAST MARCH AND ACHIEVED A GROWTH RATE OF ABOUT 16 PER CENT IN REAL TERMS FOR THE YEAR AS A WHOLE.

+WE HAVE BEEN HELPED, PARTICULARLY IN OUR EUROPEAN MARKETS AND IN JAPAN, BY THE DEPRECIATION OF THE HONG KONG DOLLAR IN LINE WITH THE U.S. DOLLAR. THIS STRONG EXPORT PERFORMANCE IS IN SHARP CONTRAST TO THE DECLINE OF 5 PER CENT RECORDED IN 1985.

/+RE-EXPORTS ALSO

+RE-EXPORTS ALSO PICKED UP IN THE SECOND QUARTER OF 1986, WITH INCREASED RE-EXPORTS OF GOODS COMING FROM CHINA. THE GROWTH RATE OF RE-EXPORTS FOR 1986 WAS ABOUT 14 PER CENT AND THAT OF RETAINED IMPORTS ABOUT 13 PER CENT. A VIRTUAL BALANCE EMERGED ON THE VISIBLE TRADE ACCOUNT,+ HE SAID.

MR JACOBS SAID THAT PRIVATE CONSUMPTION EXPENDITURE FIRMED UP IN THE LATTER PART OF 1986, RESULTING IN A GROWTH RATE OF 7 PER CENT FOR THE YEAR AS A WHOLE.

CAPITAL INVESTMENT ALSO SHOWED A MARKED IMPROVEMENT, GROWING BY 7 PER CENT IN 1986, AFTER A DECLINE OF 2 PER CENT IN 1985. EXPENDITURE ON PLANT AND MACHINERY RECORDED AN INCREASE OF ABOUT 8 PER CENT.

+THERE WAS A PARTICULARLY WELCOME INCREASE IN SUCH EXPENDITURE BY MANUFACTURERS, REFLECTING GREATER ACTIVITY IN THE MANUFACTURING SECTOR, AND CONFIDENCE THAT THIS ACTIVITY WOULD CONTINUE,+ HE ADDED.

IN NATIONAL ACCOUNTS TERMS, PUBLIC SECTOR EXPENDITURE RECORDED A GROWTH OF 1 PER CENT IN 1986, WITH THE DECLINE IN GOVERNMENT CAPITAL EXPENDITURE OFFSET BY AN INCREASE IN CONSUMPTION EXPENDITURE.

+SO, IN 1986, WE ENJOYED BUOYANT PRIVATE SECTOR ACTIVITY LED BY A STRONG GROWTH IN EXPORTS. THIS RESULTED IN A HIGHLY SATISFACTORY OVERALL ECONOMIC PERFORMANCE,+ HE SAID.

+THE GROWTH RATE OF THE GROSS DOMESTIC PRODUCT (GDP) IN 1986 WAS SLIGHTLY BELOW 9 PER CENT, MUCH HIGHER THAN THE GROWTH RATE IN 1985 OF AROUND 1 PER CENT, AND JUST BELOW THAT ACHIEVED IN 1984.

+IT IS CONSIDERABLY BETTER THAN MY OWN MID-YEAR FORECAST. WHAT WE HAVE SEEN IS THE RESULT OF A PARTICULARLY GOOD SECOND HALF.+

ON THE UNEMPLOYMENT RATE AND THE UNDEREMPLOYMENT RATE, MR JACOBS NOTED THEY HAD DECLINED TO 2.2 PER CENT AND 1.2 PER CENT RESPECTIVELY IN THE FOURTH QUARTER.

HE POINTED OUT THAT EMPLOYMENT ROSE IN PRACTICALLY ALL SECTORS, AND EARNINGS IN MOST SECTORS INCREASED SIGNIFICANTLY IN REAL TERMS, AS THE RAPID INCREASE IN NOMINAL EARNINGS WAS ACCOMPANIED BY ONLY MODEST INFLATION.

MR JACOBS ALSO SAID THAT AT 2.8 PER CENT, THE AVERAGE RATE OF INCREASE IN THE CONSUMER PRICE INDEX (A) WAS LOWER THAN THE RATE OF 3.2 PER CENT RECORDED IN 1985. THIS WAS BROUGHT ABOUT BY SOFT WORLD COMMODITY PRICES AND, IN PARTICULAR, LOWER IMPORT PRICES OF GOODS FROM CHINA.

/BUT HE

BUT HE SAID THAT AS A RESULT OF THE DEPRECIATION OF THE HONG KONG DOLLAR, IMPORT PRICES OF CONSUMER GOODS HAD SHOWN MORE RAPID INCREASES SINCE THE SECOND QUARTER OF 1986 AND THIS, COUPLED WITH FIRMER DOMESTIC DEMAND, WOULD LIKELY RESULT IN SOME INCREASED INFLATION.

MR JACOBS SAID HE EXPECTED THE GROWTH RATE OF THE GDP THIS YEAR TO BE LOWER THAN THAT OF LAST YEAR. THE GROWTH RATE OF DOMESTIC EXPORTS WAS LIKELY TO SLOW DOWN, WHILE THAT OF DOMESTIC DEMAND WAS EXPECTED TO INCREASE.

+ECONOMIC GROWTH IN OUR MAJOR OVERSEAS MARKETS, INCLUDING THE UNITED STATES, IS EXPECTED TO BE SLIGHTLY FASTER THAN LAST YEAR. BUT THE QUOTA RESTRAINT LIMITS PARTICULARLY FOR THE UNITED STATES MARKET WILL PROBABLY CONSTRAIN EXPORT PERFORMANCE.

+MOREOVER, IF THE RATE OF DEPRECIATION OF THE U.S. DOLLAR MODERATES IN 1987, AS SEEMS LIKELY, THE GAIN IN THE PRICE COMPETITIVENESS OF OUR EXPORTS MAY BE LESS THAN IN 1986,+ HE SAID.

REFERRING TO HONG KONG'S TRADE WITH CHINA, MR JACOBS SAID THIS HAD BEEN AFFECTED BY MEASURES ADOPTED TO RESTRICT IMPORTS AND TO CONTROL THE USE OF FOREIGN EXCHANGE RESERVES. WHILE CHINA WOULD NEED TO IMPORT IN ORDER TO IMPLEMENT ITS MODERNISATION PROGRAMMES, SOME CONTROL MEASURES SEEMED LIKELY TO CONTINUE.

NOTING THAT PROSPECTS FOR DOMESTIC EXPORTS WOULD CONTINUE TO BE AFFECTED BY EVENTS OUTSIDE HONG KONG'S CONTROL, MR JACOBS SAID HE EXPECTED THAT DOMESTIC EXPORTS IN 1987 WOULD GROW BY ABOUT 7 PER CENT, AND RE-EXPORTS BY ABOUT 13 PER CENT. THIS WOULD GIVE A FORECAST GROWTH RATE OF SLIGHTLY LESS THAN 10 PER CENT FOR TOTAL EXPORTS, COMPARED WITH A GROWTH RATE FOR 1986 OF ABOUT 15 PER CENT.

ON PRIVATE CONSUMPTION EXPENDITURE, THE FINANCIAL SECRETARY FORECAST IT WOULD GROW BY 7 PER CENT, AND THAT OF GOVERNMENT BY 6 PER CENT.

CAPITAL INVESTMENT WAS EXPECTED TO GROW BY JUST OVER 9 PER CENT, WITH ROUGHLY THE SAME GROWTH RATES FOR BOTH THE PRIVATE AND THE PUBLIC SECTORS. CONSISTENT WITH THESE FORECASTS, THE GROWTH RATE OF IMPORTS FOR 1987 WAS LIKELY TO BE 11 PER CENT; AND THE VISIBLE TRADE DEFICIT WAS EXPECTED TO BE ABOUT \$8 BILLION.

+COMBINING THE FORECAST GROWTH RATES OF THE VARIOUS COMPONENTS OF EXPENDITURE GIVES A FORECAST GROWTH RATE OF GDP FOR 1987 OF JUST OVER 6 PER CENT,+ HE SAID.

/MR JACOBS

MR JACOBS SAID HE EXPECTED 1987 TO BE A YEAR OF MORE BALANCED GROWTH BETWEEN DOMESTIC AND EXTERNAL DEMAND, THE EMPLOYMENT SITUATION WOULD CONTINUE TO BE GOOD, AND DEMAND IN THE ECONOMY WOULD REMAIN STRONG RELATIVE TO SUPPLY.

+THIS, PLUS THE LAGGED EFFECT OF INCREASED IMPORT PRICES, MAY GIVE RISE TO SOME ADDITIONAL INFLATIONARY PRESSURES. THE AVERAGE RATE OF INCREASE IN CONSUMER PRICES IS FORECAST TO BE ABOUT 6 PER CENT, WHICH IS HIGHER THAN THE CORRESPONDING RATE OF 3.7 PER CENT IN 1986. THE FORECAST RATE OF INCREASE IN THE GDP DEFLATOR IS ABOUT 5.5 PER CENT,+ HE SAID.

MR JACOBS FORECAST THE GROWTH RATE OF THE GDP IN MONEY TERMS THIS YEAR TO BE 12 PER CENT, IMPLYING A CURRENT PRICE GDP OF ABOUT \$330 BILLION.

+AT CURRENT PRICES, PER CAPITA GDP IN 1987 SHOULD THUS BE ABOUT \$58 000, EQUIVALENT TO US\$7 400,+ HE ADDED.

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CONTROLLED RISE IN SPENDING WHILE LOWERING TAX BURDEN
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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, TODAY (WEDNESDAY) PROPOSED A BUDGET WHICH INCLUDES A CONTROLLED INCREASE IN PUBLIC SPENDING TOGETHER WITH A MODEST LOWERING OF THE BURDEN ON TAXPAYERS.

DELIVERING HIS BUDGET SPEECH IN THE LEGISLATIVE COUNCIL, MR JACOBS SAID HE HAD A RANGE OF OPTIONS TO TAKE IN MAPPING OUT THE STRATEGY FOR THE NEXT FINANCIAL YEAR, GIVEN THE PRESENT IMPROVED OUTLOOK FOR THE PUBLIC FINANCES.

THESE INCLUDED FURTHER GROWTH IN FACILITIES AND SERVICES; A REDUCTION IN THE BURDEN ON TAXPAYERS; THE ACCUMULATION OF FISCAL RESERVES; OR A PRUDENT MIXTURE OF ALL OF THEM.

+THE LAST OPTION IS, IN MY VIEW, THE RIGHT WAY FORWARD,+ HE SAID.

MR JACOBS STRESSED THE IMPORTANCE OF AN ECONOMIC GROWTH RATE ASSUMPTION IN THE FORECAST AND ACCORDINGLY IN PLANNING.

+IN THE LIGHT OF THE HIGHER THAN EXPECTED GROWTH RATE ACHIEVED IN 1986 AND WHAT WE NOW FORESEE FOR 1987, I CONSIDER THAT A LIMITED UPWARD REVISION OF THE GROWTH RATE ASSUMPTION IS NEEDED,+ HE SAID.

/MR JACOBS

MR JACOBS THEREFORE ADOPTED A MEDIUM RANGE PLANNING ASSUMPTION OF 5.5 PER CENT GROWTH IN GDP.

TURNING TO PUBLIC EXPENDITURE, HE SAID THE GOVERNMENT HAD SOUGHT TO CONTAIN THE RELATIVE SIZE OF THE PUBLIC SECTOR BY LIMITING EXPENDITURE GROWTH TO WITHIN THE TREND GROWTH RATE OF THE ECONOMY.

+IN RELATION TO GDP THE SHARE OF PUBLIC EXPENDITURE IS AN ESTIMATED 16.5 PER CENT FOR BOTH THE YEARS 1985-86 AND 1986-87.

+THE SHARE IS FORECAST TO MOVE UP SLIGHTLY OVER THE NEXT TWO YEARS, TO JUST UNDER 17 PER CENT BY 1988-89, IN THE LIGHT OF SOME SIGNIFICANT NEW COMMITMENTS, BUT SHOULD BEGIN TO FALL BACK THEREAFTER ON THE ASSUMPTION THAT OUR CONTROL OVER RECURRENT SPENDING REMAINS FIRM.+

FOR THE FUTURE, HE ADDED, THERE WAS ROOM FOR SOME FURTHER IMPROVEMENT IN FACILITIES AND SERVICES GIVEN THE HIGHER GROWTH LIMIT IMPLIED BY THE REVISED MEDIUM TERM PROJECTION OF ECONOMIC GROWTH.

AGAINST THIS BACKGROUND, HE PROPOSED THAT THE TOTAL EXPENDITURE GROWTH BE HELD TO AN AVERAGE OF AROUND 5 PER CENT OVER THE FORECAST PERIOD.

+RECURRENT EXPENDITURE IS ALREADY GROWING AT AN ANNUAL RATE OF JUST OVER 5 PER CENT AND I WOULD BE RELUCTANT TO SEE IT GROW MUCH FASTER HAVING REGARD TO THE IMPLICIT LONG-TERM COMMITMENT,+ HE SAID.

+WHILE, THEREFORE, I HAVE ALLOWED FOR SOME INCREASE IN PROVISION FOR NEW OR IMPROVED SERVICES, MY MAIN EMPHASIS IS ON A RESUSCITATION OF CAPITAL SPENDING AND AN INCREASE IN THE PACE AT WHICH WE ARE TACKLING THE LIST OF OUTSTANDING PROJECTS,+ HE SAID, ADDING THAT CAPITAL EXPENDITURE HAD FALLEN BY ABOUT 20 PER CENT OVER THE LAST THREE YEARS.

ON THE REVENUE SIDE, MR JACOBS MENTIONED THE RELATIONSHIP BETWEEN DIRECT AND INDIRECT TAXES.

HE SAID THERE WAS NO IMMUTABLE OR CLEARLY CORRECT RATIO BETWEEN THE YIELDS FROM DIRECT AND INDIRECT TAXES, +BUT FOR THE LONGER TERM I DO NOT BELIEVE THAT A HIGHER RELATIVE CONTRIBUTION FROM DIRECT TAXATION IS DESIRABLE FOR HONG KONG.+

+IF OUR REVENUE IS OVERLY DEPENDENT ON NARROWLY BASED DIRECT TAXES, THEN IT IS ALL TOO EASY IN DIFFICULT TIMES TO BE FORCED INTO A POSITION WHERE ONE HAS TO INCREASE THOSE DIRECT TAXES SIGNIFICANTLY IN ORDER TO PROVIDE FOR COMMITTED RECURRENT EXPENDITURE.+

TURNING TO TAXATION, MR JACOBS SAID AS BOTH THE ECONOMY AND GOVERNMENT SERVICES GREW, THE STABILITY OF PUBLIC FINANCES COULD BEST BE ASSURED BY ENDEAVOURING TO DEVELOP A BROADLY BASED TAX SYSTEM + BECAUSE SUCH A SYSTEM IS MORE RESILIENT+.

+I AM NOT SUGGESTING A CASE FOR HIGHER OVERALL TAXATION; SIMPLY A WAY OF SPREADING THE TAX BURDEN MORE WIDELY ACROSS OUR COMMUNITY,+ HE NOTED.

+WE MUST BE PRACTICAL IN OUR APPROACH. WE DO NOT WANT COMPLEX NEW TAXES. NEITHER DO WE WANT TAXES THAT ARE COSTLY TO ADMINISTER OR DAMAGE INCENTIVE. WE HAVE DONE VERY WELL WITHOUT THEM.+

MR JACOBS SAID ONE WAY OF ACHIEVING A BROADER TAX BASE WAS THROUGH WIDENING THE SCOPE OF INDIRECT TAXES, WHICH THE GOVERNMENT CURRENTLY LIMITED TO A RELATIVELY SMALL NUMBER OF SPECIFIC ITEMS.

AN EXAMPLE WAS AN EVENTUAL WIDENING OF THE SALARIES TAX NET, HE SAID.

MR JACOBS SAID IF THE GOVERNMENT WERE TO MOVE IN THE DIRECTION OF A MORE BROADLY BASED INDIRECT TAX, POSSIBLY IN PLACE OF SOME OF EXISTING TAXES, IT WOULD HAVE TO THINK THE PACKAGE THROUGH WITH METICULOUS ATTENTION TO THE CONSEQUENCES THAT MIGHT FOLLOW.

+A PACKAGE THAT HAD A MARKEDLY ADVERSE EFFECT ON THE COST OF LIVING AND WAS MOREOVER EXPENSIVE AND DIFFICULT TO ADMINISTER WOULD NOT BE RIGHT FOR HONG KONG,+ HE NOTED.

+FOR THE MOMENT, HOWEVER, I PROPOSE TO LIMIT THE RENEWED UPWARD DRIFT OF DIRECT TAXES AS A PROPORTION OF THE TOTAL TAX REVENUE BY MAKING ADJUSTMENT WITHIN THE EXISTING SYSTEM,+ HE ADDED.

ON INDIRECT TAXATION, MR JACOBS SAID A NUMBER OF THESE TAXES AND CHARGES WERE FIXED IN CASH TERMS, AND THESE REQUIRED REGULAR REVIEW IF THEIR YIELDS IN REAL TERMS WERE TO BE MAINTAINED.

SUMMING UP, MR JACOBS SAID THE FORECAST INDICATED AN AVERAGE ANNUAL SURPLUS OVER THE REMAINDER OF THE FORECAST PERIOD OF CONSOLIDATED REVENUE OVER EXPENDITURE OF SOME \$1.5 BILLION PER ANNUM.

+I REGARD THIS AS NO MORE THAN A REASONABLE CUSHION, WHICH MUST BE SEEN IN THE LIGHT OF AN AGGREGATE OF CONSOLIDATED REVENUE AND EXPENDITURE EXCEEDING \$100 BILLION IN EACH YEAR.

+CLEARLY, RELATIVELY SMALL PERCENTAGE CHANGES IN EITHER REVENUE OR EXPENDITURE COULD HAVE A MAJOR IMPACT ON THE RESIDUAL SURPLUS,+ HE ADDED.

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HALF PER CENT CUT IN PROFITS TAX SOUGHT
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THE FINANCIAL SECRETARY, THE HON PIERES JACOBS, TODAY (WEDNESDAY) PROPOSED A CUT IN THE RATE OF TAX ON CORPORATE PROFITS FROM 18.5 TO 18 PER CENT.

THE NEW CORPORATE RATE, HE SAID, WOULD APPLY TO PROVISIONAL AND FINAL ASSESSMENTS FOR 1987-88.

+THE COST OF THE REDUCTION PROPOSED IS \$135 MILLION IN 1987-88 AND, FOR A FULL YEAR, \$310 MILLION.+

MR JACOBS SAID THAT SOME PEOPLE HAD ARGUED FOR A MORE SUBSTANTIAL CUT IN THE RATE ON THE GROUND THAT THIS WOULD PROVIDE A STIMULUS TO THE BUSINESS SECTOR, BUT +I DO NOT CONSIDER THAT WE SHOULD MOVE TOO SHARPLY AT THIS STAGE+.

+BUT I HOPE THAT THIS CLEAR INDICATION OF THE DIRECTION IN WHICH I WOULD LIKE TO MOVE WILL PROVIDE, IF NOT A STIMULUS TO THE CORPORATE SECTOR, THEN AT LEAST SOUND REASON FOR CONFIDENCE THAT WE REMAIN DETERMINED TO MAINTAIN A LOW TAX REGIME IN WHICH BUSINESS CAN FLOURISH.

+GENTLE PROGRESS WILL SERVE US BEST.+

MR JACOBS SAID THE REDUCTION PROPOSED IN THE STANDARD RATE WOULD AFFECT THE AMOUNT OF PROFITS TAX TO BE PAID BY UNINCORPORATED BUSINESSES, AND REDUCE YIELDS FROM PROPERTY TAX AND INTEREST TAX.

+TAKEN TOGETHER, I ESTIMATE THIS WILL COST A FURTHER \$35 MILLION IN 1987-88 AND \$75 MILLION IN A FULL YEAR,+ HE SAID.

THE NEW STANDARD RATE WOULD APPLY TO PROVISIONAL AND FINAL ASSESSMENTS FOR 1987-88 ON UNINCORPORATED BUSINESSES, TO PROVISIONAL AND FINAL ASSESSMENTS FOR THE SAME PERIOD IN RESPECT OF PROPERTY TAX, AND ALSO TO FINAL INTEREST TAX ASSESSMENTS FOR THAT YEAR, HE ADDED.

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INCREASED TAX ALLOWANCES, RATE CUT PROPOSED
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INCREASES IN PERSONAL AND CHILD ALLOWANCES, AND A MODEST REDUCTION IN THE STANDARD RATE FOR PERSONAL TAXATION WERE PROPOSED BY THE FINANCIAL SECRETARY, THE HON PIERES JACOBS, TODAY (WEDNESDAY).

PRESENTING HIS BUDGET FOR 1987-88, MR JACOBS PROPOSED TO COMBINE THE EXISTING BASIC AND ADDITIONAL PERSONAL ALLOWANCES TO FORM THE NEW BASIC ALLOWANCE, AND TO SET THE ADDITIONAL PERSONAL ALLOWANCE AT \$5 000 FOR SINGLE PERSONS, AND \$10 000 FOR MARRIED PERSONS.

+TAKEN TOGETHER, THE NEW BASIC ALLOWANCE PLUS THE ADDITIONAL PERSONAL ALLOWANCE WILL TOTAL \$34 000 FOR SINGLE PERSONS AND \$70 000 FOR MARRIED COUPLES; BELOW THESE INCOME LEVELS THERE WILL BE NO LIABILITY TO TAX,+ HE SAID.

+THE NEW ALLOWANCES AT THEIR MAXIMUM LEVELS WILL BE NEARLY 17 PER CENT HIGHER THAN THE PRESENT COMBINED BASIC AND ADDITIONAL PERSONAL ALLOWANCES.+

MR JACOBS PROPOSED THAT THE CHILD ALLOWANCE BE INCREASED, FOR A FIRST CHILD FROM \$9 000 TO \$11 000, AND FOR A SECOND CHILD FROM \$6 000 TO \$8 000.

THE NEW ALLOWANCES WOULD BE RESPECTIVELY SOME 22 PER CENT AND 33 PER CENT HIGHER THAN THE PRESENT ALLOWANCES WHICH WERE SET IN 1985.

HE ALSO PROPOSED THAT THE THIRD BAND IN THE SECOND SCHEDULE OF THE ORDINANCE - THE BAND TO WHICH THE 15 PER CENT MARGINAL RATE OF TAX AT PRESENT APPLIES - BE WIDENED FROM \$10 000 TO \$20 000.

+THIS WILL DEFER BY \$10 000 OF INCOME THE POINT AT WHICH THE 20 PER CENT RATE TAKES EFFECT AND, AT THE SAME TIME, WILL INCREASE THE INCOME LEVELS AT WHICH TAXPAYERS ENTER THE STANDARD RATE ZONE,+ MR JACOBS SAID.

MR JACOBS PROPOSED TO REDUCE THE STANDARD RATE FOR PERSONAL TAXATION FROM 17 PER CENT TO 16.5 PER CENT.

HE ADDED: +BECAUSE AN ACROSS THE BOARD INCREASE IN ALL ALLOWANCES WOULD BE EXTREMELY EXPENSIVE, I FURTHER PROPOSE THAT THE NEW ADDITIONAL PERSONAL ALLOWANCES OF \$5 000 FOR A SINGLE PERSON AND \$10 000 FOR A MARRIED COUPLE BE SUBJECT TO A 10 PER CENT CLAWBACK.

+BY REINTRODUCING THE CLAWBACK, I AM ABLE TO FOCUS THE PROPOSED ALLOWANCES MORE FULLY ON THE LESS AFFLUENT OF THOSE WHO PAY SALARIES TAX OR ELECT FOR PERSONAL ASSESSMENT.

/+THE CLAWBACK

+THE CLAWBACK WILL OPERATE TO REDUCE THE ALLOWANCE BY 10 PER CENT OF THE AMOUNT BY WHICH A TAXPAYER'S INCOME EXCEEDS \$34 000 IN THE CASE OF A SINGLE PERSON AND \$70 000 FOR A MARRIED COUPLE.

+THUS, WHEN A SINGLE PERSON'S INCOME REACHES \$84 000 AND A MARRIED COUPLE'S \$170 000, THE ADDITIONAL PERSONAL ALLOWANCE WILL HAVE BEEN EXHAUSTED BY THE CLAWBACK.+

MR JACOBS SAID HE BELIEVED THAT COUNCILLORS, AND THE PUBLIC AT LARGE, WOULD WELCOME THE CONCESSIONS.

+THEY WILL ALSO SAVE THE INLAND REVENUE DEPARTMENT THE CONSIDERABLE TASK OF PROCESSING A LARGE NUMBER OF TAX RETURNS FOR A RELATIVELY LOW YIELD, AND WILL EXCLUDE FROM THE TAX NET SOME 100 000 PERSONS WHO WOULD OTHERWISE HAVE BECOME LIABLE TO SALARIES TAX NEXT YEAR,+ HE SAID.

IN PROPOSING THE CONCESSIONS, MR JACOBS WAS AWARE THAT THERE WAS SOME LACK OF CONSISTENCY WITH HIS DESIRE TO SEE TAXES MORE BROADLY BASED.

+I HAVE, HOWEVER, TAKEN INTO ACCOUNT THE PRESENT STRUCTURE OF DIRECT TAXES AND THE RELATIONSHIP BETWEEN DIRECT AND INDIRECT TAXES,+ HE SAID.

+I BELIEVE THAT, IN THE CONTEXT OF THE PRESENT TAX STRUCTURE, WHAT I AM PROPOSING IS BOTH EQUITABLE AND COST EFFECTIVE.+

MR JACOBS PROPOSED TO INTRODUCE THE NEW CONCESSIONS FROM APRIL 1, 1987.

+THE FIRST OCCASION ON WHICH THEY WILL APPLY, THEREFORE, WILL BE TO PROVISIONAL AND FINAL SALARIES TAX ASSESSMENTS FOR THE FISCAL YEAR 1987-88, AND ALSO TO 1987-88 PERSONAL ASSESSMENTS.

+I ESTIMATE THAT THE COST TO THE REVENUE IN 1987-88 WILL BE ABOUT \$470 MILLION, AND FOR A FULL YEAR, \$650 MILLION.+

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LINKED EXCHANGE RATE SYSTEM TO CONTINUE
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THE GOVERNMENT HAS NO INTENTION OF TAMPERING WITH THE LINKED EXCHANGE RATE SYSTEM, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID TODAY (WEDNESDAY).

PRESENTING HIS BUDGET SPEECH IN THE LEGISLATIVE COUNCIL, MR JACOBS SAID THE SYSTEM WAS A CRUCIAL ELEMENT UNDERLYING THE STABILITY OF THE MONETARY SYSTEM AND THE STABILITY AND PROSPERITY OF HONG KONG ITSELF.

/+THIS AND

+THIS AND THE FACT THAT WE BELIEVE IN AND PRACTISE FREE TRADE PUT US IN A UNIQUE POSITION,+ HE SAID.

MR JACOBS NOTED THAT THE EXCHANGE RATE HAD CONTINUED TO DEMONSTRATE REMARKABLE STABILITY OVER THE YEAR, ALTHOUGH THERE WAS SPASMODIC SPECULATION BASED ON UNFOUNDED RUMOURS OF A POSSIBLE CHANGE IN THE LINK.

ON OTHER MONETARY ISSUES, MR JACOBS SAID THE BETTER THAN EXPECTED PERFORMANCE OF THE ECONOMY LAST YEAR AND LOWER AND DECLINING INTEREST RATES OVER THE YEAR HAD LED TO A GENERAL IMPROVEMENT IN ASSET PRICES, MOST NOTABLY THOSE OF FINANCIAL ASSETS.

+THE STOCK MARKET, FOR EXAMPLE, HAS PERFORMED STRONGLY, HELPED BY THE INFLOW OF FOREIGN INVESTMENT FUNDS INTO HONG KONG TO TAKE ADVANTAGE OF THE POTENTIAL RETURNS AVAILABLE HERE,+ HE SAID.

HE SAID THAT THE INFLOW OF FUNDS INTO THE HONG KONG DOLLAR HAD RESULTED IN AN ACCELERATION IN THE GROWTH RATE OF THE MONEY SUPPLY DURING 1986.

+HK\$M3, FOR EXAMPLE, GREW BY 12 PER CENT IN THE SECOND HALF OF THE YEAR, COMPARED WITH 4 PER CENT IN THE FIRST HALF ALTHOUGH THE FIGURE FOR THE SECOND HALF WAS INFLATED BY SUBSCRIPTIONS TO A NEW SHARE ISSUE IN DECEMBER.

+THE INFLOW HAS ALSO RESULTED IN A WIDENING OF THE GAP BETWEEN HONG KONG DOLLAR INTEREST RATES AND THOSE FOR THE U.S. DOLLAR, MAKING IT EXPENSIVE TO KEEP IDLE FUNDS IN HONG KONG DOLLARS AND INDUCING THE NECESSARY OFFSETTING OUTFLOW,+ HE SAID.

IN TIME, HE ADDED, THE ACCELERATION IN THE MONEY SUPPLY SHOULD WORK THROUGH THE ECONOMY RESULTING IN INCREASED IMPORTS OF GOODS AND SERVICES, THUS REDUCING OR ELIMINATING THE NET INFLOW OF FUNDS.

WHILE NOTING THAT A HIGHER GROWTH RATE OF THE MONEY SUPPLY WOULD BRING ABOUT UNWELCOME IMPLICATIONS LIKE INFLATION, MR JACOBS EXPRESSED DOUBTS ABOUT THE STRENGTH OF THIS PARTICULAR RELATIONSHIP IN HONG KONG'S OPEN ECONOMY.

+ALTHOUGH IN THE LAST QUARTER OF 1986, THERE HAS BEEN A TENDENCY FOR THE COST OF LIVING OF THOSE IN THE HIGHER INCOME BRACKETS TO INCREASE FASTER, I DO NOT THINK THAT WE NEED AS YET BE UNDULY CONCERNED,+ HE SAID.

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**GOOD QUALITY, SUBSIDISED HOUSING FOR 800 000 TARGETTED
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THE GOVERNMENT WILL PROVIDE ADDITIONAL GOOD QUALITY FLATS IN THE FORM OF SUBSIDISED HOUSING FOR NEARLY 800 000 PEOPLE IN THE NEXT FOUR YEARS, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, TOLD THE LEGISLATIVE COUNCIL THIS (WEDNESDAY) AFTERNOON.

HE WAS COMMENTING ON SOME OF THE MAJOR PROGRAMMES AND POLICIES FOR 1987-88, IN WHICH THE CONSOLIDATED ACCOUNT EXPENDITURE WAS FORECAST TO BE \$53.4 BILLION.

+I SHALL REFER SPECIFICALLY TO OUR LAND PRODUCTION, HOUSING, EDUCATION, MEDICAL AND SOCIAL WELFARE PROGRAMMES BECAUSE THEY ARE SO IMPORTANT AND, TOGETHER, MAKE UP MORE THAN HALF OF THE CONSOLIDATED ACCOUNT EXPENDITURE,+ HE SAID.

MR JACOBS SAID GROSS LAND PRODUCTION IN 1987-88 WAS EXPECTED TO BE 357 HECTARES COMPARED WITH A REVISED ESTIMATE FOR 1986-87 OF 356 HECTARES, AND THE TOTAL PRODUCTION FOR THE NEXT THREE YEARS WAS EXPECTED TO BE 1 572 HECTARES.

ON PUBLIC HOUSING, HE SAID \$3.4 BILLION WOULD BE ALLOCATED FOR THE CONSTRUCTION OF HOUSING, INCLUDING TEMPORARY HOUSING AREAS, COMPARED WITH THE REVISED ESTIMATE OF \$3.2 BILLION FOR 1986-87.

NOTWITHSTANDING THE HIGH LEVEL OF THIS EXPENDITURE, HE ADDED, THE FIGURES HAD EXCLUDED THE VALUE OF LAND USED BY THE HOUSING AUTHORITY FOR RENTAL HOUSING AND FOR FLATS BUILT UNDER THE HOME OWNERSHIP SCHEME.

MR JACOBS SAID THAT IT WAS GOVERNMENT POLICY THAT THE PUBLIC HOUSING PROGRAMME SHOULD ACHIEVE A LEVEL OF PRODUCTION OF AT LEAST 40 000 FLATS A YEAR FOR RENTAL AND SALE.

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

MR JACOBS SAID THE FORECAST OF HOUSING AUTHORITY PRODUCTION IN THE FOUR YEARS 1987-88 TO 1990-91 EXCEEDED PRODUCTION IN THE PREVIOUS FOUR YEARS BY 14 PER CENT.

THIS INCLUDED A TOTAL OF 7 200 FLATS TO BE PRODUCED UNDER THE EXTENDED REDEVELOPMENT PROGRAMMES -- THE REDEVELOPMENT PROGRAMME OF THE 26 SUB-STANDARD BLOCKS, AND THE ANNUAL PRODUCTION TARGET OF 30 000 FLATS.

/+THE TOTAL

+THE TOTAL PRODUCTION IN THE NEXT FOUR YEARS INCLUDING PRIVATE SECTOR PARTICIPATION SCHEME FLATS AND HOUSING SOCIETY FLATS IS ESTIMATED AT 197 000 WITH AN AVERAGE COMPLETION RATE OF 49 000 A YEAR, COMFORTABLY EXCEEDING OUR TARGET.

+THUS, IN THE NEXT FOUR YEARS WE WILL PROVIDE ADDITIONAL GOOD QUALITY, SUBSIDISED HOUSING FOR NEARLY 800 000 PEOPLE,+ HE ADDED.

AS REGARDS THE HOME OWNERSHIP SCHEME, MR JACOBS SAID SOME 62 000 FLATS OUT OF 68 000 FLATS IN THE FIRST EIGHT PHASES WOULD HAVE BEEN COMPLETED BY THE END OF 1987-88, AND WORK WAS IN HAND ON THE BALANCE AND ON A FURTHER 20 000 FLATS IN LATER PHASES. +MORE WILL FOLLOW,+ HE SAID.

ON EDUCATION, HE SAID EXPENDITURE IN 1987-88 WILL BE \$9.8 BILLION. THIS REPRESENTS 18.3 PER CENT OF CONSOLIDATED ACCOUNT EXPENDITURE COMPARED WITH 14.3 PER CENT FIVE YEARS BEFORE.

+IT IS A WISE INVESTMENT IN OUR FUTURE+ HE SAID, ADDING THAT THE MEDIUM RANGE FORECAST TOOK ACCOUNT OF LIKELY CONTINUED GROWTH IN THIS AREA AND THE FINANCIAL IMPACT OF THE EDUCATION COMMISSION'S PROPOSALS WHERE THEY HAD BEEN ACCEPTED.

ON MEDICAL AND HEALTH SERVICES, TOTAL EXPENDITURE IN 1987-88 WOULD BE \$5.2 BILLION REPRESENTING 9.6 PER CENT OF CONSOLIDATED ACCOUNT EXPENDITURE AS COMPARED WITH 7.4 PER CENT FIVE YEARS AGO, MR JACOBS SAID.

+IN ADDITION TO THE TOTAL ESTIMATED PROJECT COST OF \$1.2 BILLION FOR THE NEW GOVERNMENT HOSPITAL IN TUEN MUN, \$1 BILLION WILL BE SPENT OVER THE NEXT YEARS ON IMPROVEMENTS AND EXTENSIONS TO QUEEN MARY, QUEEN ELIZABETH AND TANG SHIU KIN HOSPITALS.

+A FURTHER \$120 MILLION WILL BE SPENT ON SITE FORMATION WORKS AND CONSULTANTS FEES FOR THE NEW EASTERN DISTRICT HOSPITAL. DEVELOPMENT PROGRAMMES AT AN ESTIMATED TOTAL COST OF \$1.4 BILLION ARE ALSO UNDER WAY AT A NUMBER OF SUBVENTED HOSPITALS,+ HE SAID.

ON SOCIAL WELFARE, MR JACOBS SAID EXPENDITURE WOULD BE \$3.1 BILLION IN 1987-88 OR 5.8 PER CENT OF CONSOLIDATED EXPENDITURE AS COMPARED WITH 4.8 PER CENT FIVE YEARS AGO.

+EXPECTATIONS IN THIS AREA ARE ALWAYS RISING -- UNDERSTANDABLY SO, BUT AS WITH ANY AREA OF EXPENDITURE RESOURCES ARE NOT UNLIMITED,+ HE ADDED.

REFERRING TO OTHER SERVICES, MR JACOBS SAID WORKS ON PHASE IV OF THE NEW TERRITORIES CIRCULAR ROAD -- BETWEEN FAIRVIEW PARK AND AU TAU -- WOULD START IN 1987-88, AND SPENDING ON ENVIRONMENTAL PROTECTION WOULD RECEIVE A BOOST WITH THE IMPLEMENTATION OF CONTROL MEASURES IN CONNECTION WITH AGRICULTURAL WASTE AND AIR QUALITY.

NO INTENTION TO 'STIFLE FINANCIAL INNOVATION'
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IT IS THE GOVERNMENT'S PHILOSOPHY TO LEAVE THE FINANCIAL MARKET TO DEVELOP ON ITS OWN WITH ONLY THE MINIMUM AMOUNT OF REGULATION NECESSARY TO UPHOLD ITS INTEGRITY, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID TODAY (WEDNESDAY).

+I DO NOT WANT TO STIFLE FINANCIAL INNOVATION.+ YET THE SUPERVISOR OF AUTHORISED FINANCIAL INSTITUTIONS MUST ALSO HAVE REGARD TO THE INTERESTS OF DEPOSITORS, HE SAID.

TURNING TO BANKING AND THE SECURITIES MARKET, MR JACOBS SAID THE LATEST FASHION WAS WHAT WAS DESCRIBED AS +SECURITISATION+.

+AS WITH SOME OTHER FASHIONS, ONE IS LEFT WITH THE FEELING THAT THE WEARER MAY BE IN DANGER OF BEING OVER-EXPOSED. SHE NEEDS ADEQUATE COVER- OTHERWISE SHE MAY CATCH A COLD.

+NOW THAT THE BANKING SECTOR HAS BEEN NURSED BACK TO HEALTH, IT TOO MUST TAKE CARE TO MAINTAIN ADEQUATE CAPITAL COVER- OTHERWISE IT TOO MAY CATCH A COLD.+

MR JACOBS SAID SECURITISATION OF DEBTS EXPOSED FINANCIAL INSTITUTIONS TO WHAT WAS FOR THEM A NEW TYPE OF RISK- A RISK CHARACTERISED IN PARTICULAR BY THE REPLACEMENT OF ASSETS WHICH WERE GENERALLY SECURED BY UNSECURED PAPER ASSETS- AND THE PRICE OF THOSE PAPER ASSETS WAS VERY OFTEN HIGHLY SENSITIVE TO CHANGES IN INTEREST RATES.

+IN HONG KONG INTEREST RATES DO AND WILL CONTINUE TO CHANGE FREQUENTLY UNDER THE LINKED EXCHANGE RATE SYSTEM,+ HE ADDED.

MR JACOBS SAID THE NEW BANKING ORDINANCE HAD INTRODUCED PROVISIONS WHICH REQUIRED ADEQUATE CAPITAL TO SUPPORT RISK ASSETS ON THE BOOKS OF AUTHORISED INSTITUTIONS.

ALTHOUGH THESE PROVISIONS HAD NOT YET COME INTO EFFECT BECAUSE IT WAS FELT THAT A TRANSITIONAL PERIOD OF AROUND TWO YEARS WOULD BE REQUIRED FOR ADJUSTMENT, HE SAID HE HOPED THESE INSTITUTIONS WERE TAKING EARLY ACTION TO CAPITALISE THEMSELVES ADEQUATELY.

THE BANKING ORDINANCE HAD GONE SMOOTHLY, HAVING ONLY BEEN IN OPERATION FOR SIX MONTHS, HE SAID.

BUT SOME AMENDMENTS TO CLARIFY THE MEANING OF CERTAIN PROVISIONS HAD BEEN FOUND NECESSARY, AND THESE AMENDMENTS WERE UNDERGOING THE USUAL CONSULTATIVE PROCESS.

/SUBJECT TO

SUBJECT TO THE ADVICE OF THE EXECUTIVE COUNCIL, MR JACOBS SAID HE HOPED TO INTRODUCE A BILL WITHIN THIS SESSION.

HE ADDED THAT THE COMMISSIONER OF BANKING WAS CONSIDERING THE ISSUE OF GUIDELINES ON PARTICULAR MATTERS SUCH AS THE UNDERTAKING OF SECURITIES AND OTHER BUSINESS BY AUTHORISED INSTITUTIONS AND ON EXPOSURE TO A SINGLE PARTY.

AFTER CONSULTATION, THESE GUIDELINES WOULD SOON BE INTRODUCED BY THE COMMISSIONER UNDER THE APPROPRIATE SECTIONS OF THE ORDINANCE.

ON THE SECURITIES SIDE, MR JACOBS SAID THE TWO CONTROVERSIAL SUBJECTS - DISCLOSURE OF OWNERSHIP OF SHARES IN PUBLIC LISTED COMPANIES AND INSIDER DEALING - WERE BEING PURSUED.

+RECENT EVENTS IN OTHER FINANCIAL CENTRES HAVE ADDED A NEW DIMENSION TO OUR THINKING.+

AS TO DISCLOSURE, THE STANDING COMMITTEE ON COMPANY LAW REFORM AND THE SECURITIES COMMISSION HAD BOTH CONSIDERED AND ENDORSED A DRAFT BILL, WHICH WOULD BE PUBLISHED FOR FURTHER CONSULTATION WITH THE GENERAL PUBLIC, SUBJECT TO THE ADVICE OF THE EXECUTIVE COUNCIL.

ON INSIDER DEALING, MR JACOBS SAID THE STANDING COMMITTEE ON COMPANY LAW HAD ALREADY DONE MUCH USEFUL WORK AND HE EXPECTED TO RECEIVE RECOMMENDATIONS SHORTLY.

+IN 1986 WE HAVE SEEN RAPID DEVELOPMENTS IN FINANCIAL MARKETS WORLDWIDE. WE HAVE ALSO SEEN SIGNIFICANT CHANGES IN THE FIELD OF REGULATION.+

HONG KONG MUST BE ABLE TO RESPOND QUICKLY AS THE NEED AROSE, OTHERWISE IT WOULD FIND ITSELF LOSING OUT AS A MAJOR FINANCIAL CENTRE.

+FURTHERMORE, THERE IS THE VITAL QUESTION OF REPUTATION. WE MUST NOT ALLOW THE INTEGRITY OF OUR MARKETS TO BE TARNISHED BY THE IMPRUDENT ACTIVITIES OF THE GREEDY.

+BUT EQUALLY WE MUST AVOID THE DANGERS OF OVER-REGULATION. THIS IS A DIFFICULT BALANCE TO STRIKE, BUT WE SHALL DO OUR BEST,+ HE ADDED.

STEPS PLANNED TO COUNTER ASSET REFINANCING SCHEMES

THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, PROPOSED IN HIS BUDGET SPEECH TODAY (WEDNESDAY) THAT SUBJECT TO THE ADVICE OF THE EXECUTIVE COUNCIL SPECIFIC ANTI-AVOIDANCE LEGISLATION BE INTRODUCED TO COUNTER ASSET REFINANCING ARRANGEMENTS WHICH CONVERTED AN INCOME FLOW INTO A NON-TAXABLE CAPITAL RECEIPT.

SUCH LEGISLATION SHOULD APPLY TO ARRANGEMENTS ENTERED INTO AFTER TODAY, HE ADDED.

MR JACOBS SAID THE GENERAL ANTI-AVOIDANCE MEASURES INTRODUCED LAST YEAR MIGHT BE EFFECTIVE IN NEGATING THE PROFITS TAX BENEFIT SOUGHT FROM SUCH ARRANGEMENTS, AND THE COMMISSIONER OF INLAND REVENUE WOULD CHALLENGE CASES WHERE HE CONSIDERED THE PURPOSE OF ANY ARRANGEMENT FELL WITHIN THE TERMS OF THE GENERAL ANTI-AVOIDANCE PROVISIONS.

HOWEVER, HE WAS PROPOSING THAT NEW LEGISLATION BE INTRODUCED BECAUSE +THE AMOUNT OF REVENUE CAPABLE OF BEING PUT AT RISK IS SO LARGE AND SINCE IT HAS ALWAYS BEEN THE GOVERNMENT'S POLICY TO IMPLEMENT SPECIFIC LEGISLATION TO COUNTER SPECIFIC TAX-AVOIDANCE SCHEMES.+

IF LEFT UNCHECKED, THE MATTER COULD RESULT IN A SUBSTANTIAL DRAIN ON PROFITS TAX YIELD, HE ADDED.

MR JACOBS SAID HE WAS AWARE THAT A GROWING NUMBER OF TAXPAYERS WERE ENTERING INTO ASSET REFINANCING ARRANGEMENTS WHICH WERE VARIATIONS ON +MYER+ SCHEMES BY ASSIGNING THE INCOME FLOW TO ANOTHER PERSON WITHOUT ASSIGNING THE UNDERLYING ASSET.

+THE ARRANGEMENTS MAY ALSO INVOLVE EFFORTS TO GIVE INCOME AN OFF-SHORE SOURCE,+ HE SAID.

MR JACOBS POINTED OUT THAT +MYER+ SCHEMES WERE SO NAMED AFTER AN AUSTRALIAN CASE WHICH HAD BEEN GIVEN WIDE PUBLICITY IN PROFESSIONAL CIRCLES.

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TWO CONCESSIONS ON ESTATE DUTY PROPOSED

TWO CONCESSIONS RELATING TO ESTATE DUTY WERE PROPOSED BY THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, IN HIS BUDGET SPEECH TODAY (WEDNESDAY).

TO REDUCE THE INFLATIONARY ELEMENT INHERENT IN THE RISE IN VALUES IN RECENT YEARS, HE PROPOSED REPLACING THE PRESENT SCHEDULE OF RATES WITH A NEW SCHEDULE SCALED FROM 6 PER CENT ON ESTATES BETWEEN \$2 MILLION AND \$2.5 MILLION TO 18 PER CENT ON ESTATES OVER \$5 MILLION.

MR JACOBS ALSO PROPOSED THAT THE DUTY FREE LIMIT ON GIFTS BE INCREASED FROM \$50 000 TO \$100 000 TO TAKE ACCOUNT OF INFLATION.

+THE COST TO THE REVENUE OF THESE TWO PROPOSALS WILL BE APPROXIMATELY \$25 MILLION BOTH IN 1987-88 AND IN SUBSEQUENT YEARS,+ HE SAID.

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TAX CONCESSIONS BENEFITTING ALL -- +A HIGHER PRIORITY+
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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, SAID TODAY (WEDNESDAY) HE BELIEVED THAT HIS PROPOSED PERSONAL TAX CONCESSIONS, WHICH WOULD BENEFIT ALL RATHER THAN ANY PARTICULAR GROUP OF SALARIES TAXPAYERS, RATED A HIGHER PRIORITY AND WOULD BE MORE WIDELY ACCEPTABLE.

MR JACOBS WAS REFERRING TO THE +DIFFICULT AND SENSITIVE SUBJECT OF SEPARATE TAXATION FOR MARRIED WOMEN+ WHEN DELIVERING HIS BUDGET SPEECH.

HE NOTED THAT THE COST OF INTRODUCING SEPARATE TAXATION FOR MARRIED WOMEN WOULD BE SOME \$400 MILLION PER ANNUM AT 1986-87 LEVELS OF INCOME. AND THE COST OF ADMINISTERING THE SYSTEM COULD AMOUNT TO \$17 MILLION.

+IT SEEMS TO ME THAT EVEN IF THE REVENUE WERE ABLE TO FOREGO A FURTHER SUM OF THIS MAGNITUDE, IT WOULD BE PREFERABLE THAT THE BENEFIT SHOULD BE SPREAD AMONGST PERSONAL TAXPAYERS GENERALLY RATHER THAN BE ENJOYED BY ANY PARTICULAR GROUP.+

MR JACOBS, HOWEVER, PROPOSED TO AMEND THE LAW ON +TIME APPORTIONMENT+ CASES, WHICH INVOLVED THE ASSESSMENT TO SALARIES TAX OF EMPLOYEES WHO RENDERED SERVICES BOTH WITHIN AND OUTSIDE HONG KONG.

IN VIEW OF THE CONSIDERABLE AMOUNT OF TIME SPENT BY THE AUTHORITIES AND THE TAXPAYERS INVOLVED IN THESE CASES, HE PROPOSED TO AMEND THE INLAND REVENUE ORDINANCE TO PROVIDE FOR THE AUTOMATIC GRANTING OF TIME APPORTIONMENT WHERE, IN A YEAR OF ASSESSMENT, AN EMPLOYEE RENDERED SERVICES OUTSIDE HONG KONG FOR A PERIOD OF MORE THAN 60 DAYS IN TOTAL.

HE ALSO PROPOSED THAT WHERE SERVICES WERE RENDERED OUTSIDE HONG KONG FOR 60 DAYS OR LESS, THE WHOLE OF THE INCOME FROM THAT EMPLOYMENT SHOULD BE REGARDED AS ARISING FROM SERVICES RENDERED IN HONG KONG AND NO TIME APPORTIONMENT WOULD BE PERMITTED.

MR JACOBS ESTIMATED THAT THE COST TO THE REVENUE OF THESE AMENDMENTS WHICH HE PROPOSED TO TAKE EFFECT FROM THE YEAR OF ASSESSMENT 1987-88 TO BE ABOUT \$25 MILLION IN THE YEAR OF IMPLEMENTATION AND \$35 MILLION IN A FULL YEAR.

ON DOUBLE TAXATION, HE SAID WHILE IT WAS AGREED THAT DOUBLE TAXATION AT PRESENT OCCURRED TO SOME EXTENT, PARTICULARLY IN RELATION TO EMPLOYEES WHO MADE FREQUENT TRIPS TO THE PEOPLE'S REPUBLIC OF CHINA, THE EXTENT OF THE PROBLEM, AND THE COST TO THE REVENUE OF POSSIBLE REMEDIES, HAD PROVEN DIFFICULT TO QUANTIFY.

+THE QUESTION OF DOUBLE TAXATION IS CURRENTLY BEING EXAMINED AGAINST THIS BACKGROUND AND I AM HOPEFUL THAT SOME PROGRESS CAN BE MADE IN THE NOT TOO DISTANT FUTURE,+ HE SAID.

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TOTAL EXPENDITURE OF \$10.7 BILLION PROPOSED
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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, TODAY (WEDNESDAY) PROPOSED A TOTAL EXPENDITURE OF \$10.7 BILLION FOR THE VARIOUS FUNDS FROM WHICH EXPENDITURE OF A CAPITAL NATURE WAS FINANCED, COMPARED WITH A REVISED ESTIMATE OF \$9 BILLION FOR THE CURRENT YEAR.

HE ATTRIBUTED THE GROWTH IN EXPENDITURE PARTLY TO THE FURTHER EQUITY INJECTION OF \$1 BILLION INTO THE MASS TRANSIT RAILWAY CORPORATION, WHICH THE GOVERNMENT WAS COMMITTED TO MAKE IN 1987-88.

IT ALSO REFLECTED PROVISION FOR HIGHER CAPITAL EXPENDITURE, HE SAID.

POINTING OUT THAT CAPITAL SPENDING HAD FALLEN SUBSTANTIALLY IN RECENT YEARS, MR JACOBS SAID THERE WAS NOW SOME SCOPE FOR TACKLING THE LIST OF OUTSTANDING PROJECTS.

+WHILST I HAVE REGARD TO THE RECURRENT CONSEQUENCES OF PROJECTS ONCE COMPLETED, I PROPOSE TO ALLOCATE \$6 BILLION FOR NEW PROJECTS STARTING IN 1987-88, WHICH IS \$1.2 BILLION MORE THAN FOR THE CURRENT YEAR.+

/ALLOWING FOR

ALLOWING FOR INEVITABLE LEAD TIMES, HE SAID, IT WOULD TAKE A WHILE FOR THIS BOOST IN CAPITAL SPENDING TO BE REFLECTED IN CASH FLOWS.

+FOR 1987-88 THERE IS ROOM FOR MORE IMMEDIATE EXPENDITURE, WHICH WILL HAVE A POSITIVE IMPACT ON GOVERNMENT'S LONGER TERM POSITION BOTH FINANCIALLY AND IN TERMS OF EFFICIENCY,+ HE SAID.

+I HAVE IN MIND SOME RATIONALISATION OF GOVERNMENT'S ACCOMMODATION, AND A VARIETY OF MEASURES INVOLVING, FOR EXAMPLE, COMPUTERISATION AND EQUIPMENT RENEWAL.+

MR JACOBS CONTINUED THAT REVENUE ACCRUING DIRECTLY TO THE FUNDS COMPRISED RECEIPTS FROM A COMBINATION OF LAND SALES, LOAN REPAYMENTS, INTEREST PAYMENTS AND SALES OF FLATS UNDER THE HOME OWNERSHIP SCHEME.

+THE ESTIMATED REVENUE FOR 1987-88 IS \$4.7 BILLION COMPARED WITH A REVISED ESTIMATE FOR THE CURRENT YEAR OF \$4.8 BILLION.

+THE OVERALL SITUATION OF THE FUNDS AFTER MAKING THE TRANSFERS FROM GENERAL REVENUE ACCOUNT IS AN ESTIMATED SMALL INCREASE IN THEIR BALANCES OF \$0.6 BILLION OR ABOUT 5 PER CENT OF THEIR CURRENT LEVELS.

+THIS WILL MAINTAIN THE REAL VALUE OF THESE BALANCES. WE NEED SUFFICIENT IN THE FUNDS BEARING IN MIND THE BOOST THAT I AM PROPOSING IN CAPITAL SPENDING AND ITS LONGER TERM IMPACT ON CASH FLOW.

+TAKING THE GENERAL REVENUE ACCOUNT SURPLUS AND GROWTH IN FUND BALANCES TOGETHER GIVES AN ESTIMATED OVERALL SURPLUS FOR THE YEAR OF \$2.4 BILLION,+ HE SAID.

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DUTIABLE COMMODITIES MEASURES TO RAISE EXTRA \$165 MILLION
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MEASURES ARE AT HAND TO RAISE AN ADDITIONAL REVENUE OF \$165 MILLION FROM DUTIABLE COMMODITIES IN 1987-88, THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, TOLD THE LEGISLATIVE COUNCIL TODAY (WEDNESDAY).

THESE MEASURES -- ALL COMING INTO EFFECT THIS AFTERNOON -- ARE TO INCREASE THE DUTY RATES ON IMPORTED HYDROCARBON OIL, INTOXICATING LIQUOR AND IMPORTED ALCOHOL, AND IMPORTED TOBACCO.

/MR JACOBS

MR JACOBS SAID THIS ADDITIONAL REVENUE, HOWEVER, WOULD BE MORE THAN OFFSET BY TAX CONCESSIONS ESTIMATED AT \$690 MILLION IN 1987-88 AND \$1.1 BILLION IN A FULL YEAR.

ON IMPORTED HYDROCARBON OIL, HE PROPOSED TO INCREASE THE DUTY RATE ON MOTOR SPIRIT FROM \$2.30 TO \$2.40 A LITRE AND ON DIESEL OIL FOR ROAD VEHICLES FROM \$1.15 TO \$1.20 A LITRE.

WHILE RELUCTANT TO ADD TO THE BURDEN OF CONSUMERS DUE TO RECENT INCREASES IN FUEL PRICES, MR JACOBS SAID THERE WAS A NEED TO MAINTAIN THE REAL VALUE OF THE YIELD FROM THIS PARTICULAR TAX SOURCE.

IF THE FULL INCREASE WAS PASSED ON TO CONSUMERS, PETROL PRICES WOULD RISE BY ABOUT 2 PER CENT AND DIESEL PRICES BY ABOUT 1.5 PER CENT.

+THE REFUND ON DIESEL OIL TO THE FRANCHISED BUS COMPANIES WILL REMAIN AT 65 CENTS A LITRE,+ MR JACOBS CONTINUED.

+THE COST OF THE DUTY INCREASE TO ALL THESE COMPANIES TAKEN TOGETHER WILL BE \$6 MILLION. THE EFFECT, IF ANY, ON BUS FARES SHOULD BE MINIMAL.+

ADDITIONAL REVENUE FROM THE INCREASED DUTY RATES ON IMPORTED HYDROCARBON OIL WAS ESTIMATED AT \$60 MILLION IN 1987-88.

MR JACOBS THEN MADE TWO PROPOSALS RELATING TO INTOXICATING LIQUOR.

THE FIRST PROPOSAL WAS INCREASES VARYING FROM 6 PER CENT TO 13 PER CENT IN SPECIFIC DUTY ELEMENTS TO RESTORE THEIR REAL VALUES SINCE THEY WERE LAST REVISED. SOME HAD NOT BEEN REVISED SINCE 1984.

+THE AD VALOREM RATES WILL REMAIN UNCHANGED,+ HE ADDED.

+SECOND, I PROPOSE A MINOR STRUCTURAL ADJUSTMENT TO REDUCE THE NUMBER OF DUTY RATES.+

DUTY RATES ON CIDER AND PERRY WILL BE INCREASED TO \$1.28 PER LITRE -- BY RATHER LESS THAN THE RATE OF INFLATION -- TO BRING THEM INTO LINE WITH THE BASIC DUTY RATE ON BEER.

MR JACOBS ALSO PROPOSED TO INCREASE THE BASIC RATES FOR IMPORTED ETHYL ALCOHOL AND METHYL ALCOHOL FROM \$4 PER LITRE TO \$4.30 PER LITRE.

+THIS WILL MAINTAIN THE RATES IN REAL TERMS AND KEEP THEM IN LINE WITH THE RATES FOR NON-EUROPEAN TYPE SPIRITS,+ HE SAID.

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ASSUMING NO CONSUMER RESISTANCE, THESE CHANGES IN RATES WERE ESTIMATED TO RAISE AN ADDITIONAL REVENUE OF \$50 MILLION.

TURNING TO IMPORTED TOBACCO, MR JACOBS PROPOSED TO INCREASE THE DUTY ON IMPORTED UNMANUFACTURED TOBACCO FROM \$190 TO \$200 A KILOGRAM, AND THAT ON IMPORTED CIGARETTES FROM \$210 TO \$220 A KILOGRAM, RAISING AN ADDITIONAL REVENUE ESTIMATED AT \$47 MILLION IN 1987-88.

+ON THE BASIS PROPOSED, THE DUTY DIFFERENTIAL BETWEEN IMPORTED UNMANUFACTURED TOBACCO AND IMPORTED CIGARETTES WILL REMAIN AT ABOUT 10 PER CENT,+ HE SAID.

DUTY RATE ON CIGARS WAS ALSO PROPOSED TO INCREASE FROM \$210 TO \$220 A KILOGRAM, AND THAT ON MANUFACTURED TOBACCO (OTHER VARIETIES) FROM \$190 TO \$220 A KILOGRAM, KEEPING THEM IN LINE WITH THOSE ON IMPORTED MANUFACTURED CIGARETTES AND IMPORTED UNMANUFACTURED TOBACCO.

ON CHINESE PREPARED TOBACCO, MR JACOBS PROPOSED TO INCREASE DUTY RATE FROM \$40 TO \$43 A KILOGRAM, IN LINE WITH INFLATION SINCE 1985 WHEN IT WAS LAST REVISED.

ADDITIONAL REVENUE YIELDED FROM THESE TWO PROPOSALS WOULD BE \$8 MILLION.

QUOTING HIS PREDECESSOR, SIR JOHN BREMRIDGE, AS MENTIONING IN 1985 THE OPTION OF IMPOSING AN AD VALOREM DUTY ON TOBACCO, MR JACOBS SAID THE TRADE WAS SUBSEQUENTLY CONSULTED AND THEIR RESPONSE WAS FAR FROM UNANIMOUS.

HE ADMITTED THAT THE EXISTING DUTY STRUCTURE ON TOBACCO WAS +LESS THAN IDEAL+.

+IT IS MY PRESENT INTENTION TO MOVE IN DUE COURSE TO A SIMPLER DUTY STRUCTURE IN WHICH DUTIES WOULD BE LEVIED ON NUMBERS OF CIGARETTES RATHER THAN ON WEIGHT OF TOBACCO,+ HE SAID.

EXPLAINING THE PRINCIPLE UNDERLYING HIS PROPOSALS REGARDING DUTIABLE COMMODITIES, MR JACOBS SAID +DUTY RATES SHOULD BE MAINTAINED IN REAL TERMS+.

+MY OBJECTIVE IS TO SECURE REGULAR SMALL CHANGES BROADLY IN LINE WITH INFLATION RATHER THAN LESS FREQUENT, BUT INEVITABLY LARGER, INCREASES.

+THERE ARE SOME MINOR EXCEPTIONS TO THIS PRINCIPLE BUT, BY AND LARGE, I HAVE FOLLOWED IT CLOSELY,+ HE SAID.

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+SERVICES SHOULD BE PAID BY THOSE WHO USE THEM+
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THE FINANCIAL SECRETARY, THE HON PIERS JACOBS, TODAY (WEDNESDAY) PROPOSED TO INCREASE BUSINESS REGISTRATION FEES, VEHICLE AND DRIVING LICENCE FEES, AND CERTAIN VISA AND TRAVEL DOCUMENT FEES.

MR JACOBS POINTED OUT THAT THE GOVERNMENT'S POLICY WAS THAT SERVICES SHOULD GENERALLY BE PAID FOR BY THOSE WHO USE THEM.

+IT IS OF GREAT IMPORTANCE IN OUR LOW TAX ECONOMY THAT WE DO ALL WE CAN TO OBSERVE THE PRINCIPLE THAT SERVICES SHOULD NOT IN GENERAL BE SUBSIDISED.

+IN THIS REGARD, CONTROLLING OFFICERS ARE CONSTANTLY ENCOURAGED TO TAKE THE INITIATIVE IN PROPOSING NEW FEES AND CHARGES TO ENSURE THAT THOSE SERVICES THAT ARE NOT A FAIR CHARGE ON THE GENERAL TAXPAYER ARE PAID FOR BY THOSE WHO BENEFIT FROM THEM.+

MR JACOBS NOTED THAT THESE SPECIFIC INCREASES WOULD BE IN ADDITION TO THOSE DEPARTMENTAL FEES AND CHARGES COMING UP FOR THEIR NORMAL REGULAR REVIEW IN 1987.

+THE INCREASES WILL YIELD \$200 MILLION IN 1987-88 AND \$240 MILLION IN A FULL YEAR,+ HE ADDED.

THE PROPOSED INCREASE IN BUSINESS REGISTRATION FEE WAS 10 PER CENT, I.E. THE ANNUAL CHARGE OF \$500 WOULD GO UP TO \$550, STARTING FROM APRIL THIS YEAR.

+THE FEE WILL APPLY TO ALL REGISTERED BUSINESSES, BUT SMALL BUSINESSES WHOSE MONTHLY TURNOVER DOES NOT EXCEED CERTAIN PRESCRIBED LIMITS WILL CONTINUE TO BE GRANTED EXEMPTION.

+THE ADDITIONAL YIELD WILL BE \$20 MILLION IN 1987-88, AND THE LEVY FOR THE PROTECTION OF WAGES ON INSOLVENCY FUND, CURRENTLY AT A RATE OF \$100, IS SEPARATE AND IS NOT AFFECTED BY THIS PROPOSAL.+

AS TO VEHICLE AND DRIVING LICENCE FEES, MR JACOBS PROPOSED AN INCREASE OF AROUND 5 PER CENT, WITH IMMEDIATE EFFECT. THE ADDITIONAL REVENUE ACCRUING FROM THESE INCREASES WOULD BE \$45 MILLION.

CERTAIN VISA AND TRAVEL DOCUMENT FEES WOULD ALSO GO UP BY AN AVERAGE OF 12 PER CENT, WITH IMMEDIATE EFFECT.

HE NOTED THAT MOST OF THESE FEES WERE LAST INCREASED IN 1984, AND THE ADDITIONAL REVENUE WOULD BE AROUND \$20 MILLION.

A NUMBER OF OTHER FEES AND CHARGES, INCLUDING THOSE IN RELATION TO SERVICES PROVIDED BY THE WATER SUPPLIES DEPARTMENT, THE MARINE DEPARTMENT AND THE REGISTRAR GENERAL'S DEPARTMENT, WERE SCHEDULED FOR THEIR NORMAL REGULAR REVIEWS THIS YEAR.

MR JACOBS SAID HE EXPECTED FROM THESE SOURCES ADDITIONAL REVENUE OF ABOUT \$115 MILLION IN 1987-88, GIVING RISE TO \$155 MILLION IN A FULL YEAR.

REVENUE PROTECTION ORDERS SIGNED

THE FINANCIAL SECRETARY'S BUDGET PROPOSALS CONCERNING DUTIABLE COMMODITIES, VISA AND TRAVEL DOCUMENTS AND VEHICLE AND DRIVING LICENCE FEES WERE THE SUBJECT OF PUBLIC REVENUE PROTECTION ORDERS SIGNED BY THE ACTING GOVERNOR THIS (WEDNESDAY) MORNING.

THE INCREASE IN THE BUSINESS REGISTRATION FEE WILL, SUBJECT TO THE APPROVAL OF THE LEGISLATIVE COUNCIL, TAKE EFFECT ON APRIL 1.

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

BILLS TO GIVE EFFECT TO PROPOSALS ON ESTATE DUTY AND TAX CONCESSIONS WOULD BE INTRODUCED DURING THE COUNCIL'S CURRENT SESSION, HE ADDED.

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FS'S SPEECH ON TV AND RADIO

FOLLOWING IS THE TEXT OF THE BUDGET SUMMARY DELIVERED BY THE FINANCIAL SECRETARY ON TELEVISION AND RADIO STATIONS THIS (WEDNESDAY) EVENING:

+THIS AFTERNOON I PRESENTED MY FIRST BUDGET TO THE LEGISLATIVE COUNCIL. AFTER A DIFFICULT PERIOD OF ADJUSTMENT, THE GOVERNMENT'S FINANCES HAVE NOW MOVED INTO A STRONGER POSITION.

+WE ANTICIPATE A GENERAL REVENUE SURPLUS OF SOME \$3 BILLION FOR THE CURRENT FINANCIAL YEAR. THIS IS BETTER THAN WE HAD EXPECTED.

+WE ENJOYED A REMARKABLE ECONOMIC PERFORMANCE IN 1986. WITH A GROWTH RATE OF ALMOST NINE PER CENT OUR ORIGINAL FORECAST WAS COMFORTABLY EXCEEDED. OUR EXTERNAL TRADE, ON WHICH WE DEPEND SO MUCH, WAS BUOYANT. AND INFLATION REMAINED LOW.

+FURTHERMORE, THE PROSPECTS FOR 1987 ARE GOOD. UNEMPLOYMENT IS NOW AT THE LOWEST LEVEL EVER RECORDED. ECONOMIC GROWTH, ALTHOUGH FORECAST TO BE LOWER THAN IN 1986, IS STILL EXPECTED TO BE AROUND SIX PER CENT.

+AGAINST THIS BACKGROUND WE NOW HAVE A GREATER RANGE OF CHOICES FOR THE FUTURE DIRECTION OF OUR PUBLIC FINANCES. BUT WE MUST BE CAUTIOUS.

/+NEVERTHELESS, THE

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+NEVERTHELESS, THE BUDGET I HAVE PRESENTED TODAY RECOGNISES THE MANY ASPIRATIONS OF OUR COMMUNITY FOR IMPROVEMENTS IN PUBLIC SERVICES. IT ALLOWS FOR SOME ADDITIONAL EXPENDITURE IN THE YEAR AHEAD.

+MORE WILL BE SPENT ON HOSPITALS AND MEDICAL SERVICES, ON EDUCATION AND ON SOCIAL WELFARE. AND THE HOUSING PROGRAMME WILL PRODUCE MORE THAN 40 000 NEW FLATS.

+AT THE SAME TIME IT HAS BEEN POSSIBLE TO PROPOSE REDUCTIONS IN THE TAX BURDEN. MY BUDGET INCLUDES TAX CONCESSIONS COSTING THE REVENUE SOME \$1.1 BILLION IN A FULL YEAR.

+FOR SALARIES TAX I HAVE PROPOSED INCREASES IN PERSONAL ALLOWANCES AND A REDUCTION IN THE STANDARD RATE BY HALF A PERCENTAGE POINT. THIS IS THE FIRST EVER REDUCTION IN THE STANDARD RATE OF SALARIES TAX. OVER 235 000 PEOPLE WILL BE EXCLUDED FROM THE TAX NET ALTOGETHER.

+I HAVE ALSO PROPOSED A SIMILAR REDUCTION OF HALF A PERCENTAGE POINT FOR PROFITS TAX, PROPERTY TAX AND INTEREST TAX.

+THESE CONCESSIONS SHOULD BE TAKEN AS A CLEAR INDICATION OF OUR DETERMINATION THAT HONG KONG WILL REMAIN A LOW TAX AREA. I HOPE I SHALL BE ABLE TO MOVE FURTHER IN THIS DIRECTION IF OUR FINANCES IN FUTURE SO ALLOW. IN THIS RESPECT, FIRM CONTROL OF PUBLIC EXPENDITURE WILL REMAIN A CRITICAL FACTOR.

+OFFSETTING IN PART THESE TAX CONCESSIONS WILL BE SMALL INCREASES IN VARIOUS INDIRECT TAXES AND CHARGES. THESE INCREASES ARE DESIGNED TO TAKE INTO ACCOUNT THE MODEST INFLATION THAT WE HAVE EXPERIENCED.

+LOOKING AHEAD, WE MUST REMEMBER THAT WE RELY HEAVILY ON OUR TRADE WITH THE REST OF THE WORLD AND THUS REMAIN VULNERABLE TO EXTERNAL EVENTS. NEVERTHELESS, OUR PUBLIC FINANCES ARE IN GOOD SHAPE AND WE CAN FACE THE FUTURE WITH CONFIDENCE.+

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BUDGET BRIEFING
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THE FINANCIAL SECRETARY, MR PIERS JACOBS, WILL GIVE A PRESS BRIEFING ON THE BUDGET AT 3.30 PM TOMORROW (THURSDAY) IN THE G15 PRESS CONFERENCE ROOM, FIFTH FLOOR, BEACONSFIELD HOUSE, CENTRAL.

NOTE TO EDITORS:

YOU ARE INVITED TO COVER THE BRIEFING.

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