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\$127b projects may put pressure on economy

By Business Editor
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THE Government's planned \$127 billion port and airport development could put pressure on inflation and the economy, according to the Hongkong Bank's chief economist, Dr Alan McLean.

But he told a luncheon meeting of the Hongkong Economic Association yesterday that the territory had no alternative but to go ahead with the projects if it was to continue to develop in the 1990s and beyond.

Dr McLean was giving the Hongkong Bank's annual forecast for the economy in 1990 - a modest three per cent growth along with inflation of between 8½ per cent and nine per cent for the full year.

Interest rates are also expected to remain relatively high with perhaps a little dip following American rates early in the year and then a rise again to present levels.

The outlook means that Hongkong residents will continue to feel the unpleas-

ant squeeze of stagflation - relatively low economic growth accompanied by large price rises - in the New Year.

Referring to the huge projects announced by the Government, Dr McLean, who 12 months ago was the Government's senior economist, said they were essential to the economy's future growth.

"If the economy is to have a long-term future it cannot afford not to undertake this project," he said.

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"Clearly it would be a vote of confidence in the future of Hongkong if a significant amount of private money was committed to its financing.

"But the project should go ahead even if private money is not forthcoming."

But he did warn of the stresses that the project would place on the economy, especially the building and construction sector.

"There is clearly a risk of

inflationary consequences," he said.

"This is likely to call for an anti-inflationary policy response from the Government - higher taxes or lower expenditure generally, lower expenditure by government on projects not related to the port and airport project or immigration.

"Of these three, the second is to be preferred," he said.

Dr McLean's predicted three per cent growth rate for 1990, as measured by the increase in Gross Domestic Product, is no more than the Government's latest official growth forecast for this year of three per cent.

But it is better than the average 2.3 per cent predicted for the major industrial economies in 1990 by the Organisation for Economic Co-operation and Development.

Full details of the Hongkong Bank's 1990 economic outlook will be presented in the bank's detailed economic report out later this month.