S.C.M.P 26 April 1984

$100m cut in Budget deficit

The Financial Secretary, Sir John Bremridge, yesterday brought "good news" that the Budget deficit for the 1983-84 financial year has been reduced by $100 million.

The revised overall deficit for the last financial year now stands at $3.1 billion instead of $3.3 billion, he said at the resumption of the Budget debate at the Legislative Council.

Sir John explained that in his Budget speech delivered in late February, he had given the revised estimates of revenue and expenditure as $30.3 billion and $33.6 billion respectively.

"Our latest assessment of total revenue is slightly higher, while total expenditure is somewhat lower.

"Because of this improved situation, following last year's pattern the opportunity has been taken to transfer a further $200 million to the Capital Works Reserve Fund and $180 million to the Development Loan Fund," he explained.

The additional transfers will leave both funds with improved surpluses at the end of the 1984-85 financial year.

He said this in turn would mean that in the 1985-86 Budget, it would be possible for him, if necessary, to reduce transfers and consequently expenditure on the General Revenue Account.

Recurrent revenue for the last financial year is now expected to be $27.23 billion and recurrent expenditure $22.94 billion.

Although he cautioned against "counting our chickens too soon," the Financial Secretary held out the possibility that in the wake of a series of Budget deficits, the books might be balanced over a cycle of years from 1986.

He said: "I do not accept that an endemic budgetary deficit exists in Hongkong.

"Though this is not the general experience elsewhere, we seek to present a unique example."

The last two annual deficits have stood at $3.5 billion and $3.1 billion.

For 1984-85 a deficit of $2.1 billion is forecast.

There will probably be a deficit in 1985-86 but according to the Financial Secretary it should again be well under one per cent of GDP.

The improving trend does not arise by chance, he said.

And this "calm and deliberate adjustment" in the face of an unexpected 25 per cent drop in revenue, is preferable to "wielding a fundamentalist axe."

The Financial Secretary noted that there could be no objection to moderate borrowing for clearly profitable capital investment in the future, as long as recurrent revenue comfortably exceeds recurrent expenditure.

At the same time, he also took the opportunity to serve notice that next year he might wish to restore the yield in real terms of taxes and duties which were not increased this year.

"There must be no element of shock in this.

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Budget deficit cut by $100m

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"Ample warning has been given," he said.

On the question of economic prospects this year, Sir John said there are "grounds for some optimism" about private investment in plant and machinery.

There were also signs that long-term investment is reappearing.

After declining generally since the fourth quarter of 1981, retained imports of capital goods increased by five per cent in real terms in the fourth quarter of last year.

This was due largely to an increase in retained imports of textile and electrical machinery.

He said that although figures for the first quarter of this year were not yet available, indications were that there was continued improvement.

Furthermore industrialists are looking for factory premises to expand their operations.

He said the fall in property prices, coupled with the export-led recovery, have resulted in some increases in the take-up of commercial and industrial property in the second half of last year.

This trend too appears to have continued in recent months.

"It is again good news that signs of long-term investment are reappearing," he said.

While some members have suggested that the Financial Secretary's forecast of a drop in inflation to seven per cent by the end of the year was over-optimistic, Sir John said he would hold on to this, subject to an alteration in his mid-year review.

So far this year inflation has been slowing down from a year on year rate of about 12.5 per cent in January to slightly over nine per cent last month.

Sir John expects the linked exchange rate system to bring this down further in due course.

He defended his proposals to raise the ceiling of salaries tax by two percentage points, from 15 per cent to 17 per cent, which has been criticised for being excessively harsh on the sandwich class.

"I must suggest that many self-interested defenders of the middle class are over-egging their cake," he countered.

Out of a working population of about 2.5 million only about 18,500 people will pay salaries tax of 17 per cent, a very low level by most international comparisons, he said.

"No one likes paying tax.

"No Financial Secretary can expect to propose higher taxation without arousing opposition.

"I have done so because the Government is sensitive to public opinion, which clearly supports the continuation of existing programmes and policies against a background of increased GDP," he said.

Furthermore, there had been "a deliberate exaggeration" of the problems that may accompany a corporate profits tax increased to 18½ per cent with a changed ambit, Sir John said.

"The apocalypse is not here.

"Exaggeration is the mother of distortion," he said.

Sir John also noted that the increased tax revenue from the higher profits tax will still represent only about 11.3 per cent of gross domestic product.

"This is the lowest figure that I know of in industrial economies," he added.

Sir John rejected a call for the Hongkong dollar to be refloated.

He said the link to the US$ at HK$7.80 — a stabilisation measure taken in response to worldwide speculation against the local currency last autumn — "has been more successful than I dared to hope.

"To suggest that a patient restored into good health should deliberately again be exposed to risk seems exuberant lateral thinking," he said.