

'\$10b surplus a record for Government

By STANLEY LEUNG

THE Government is faced with an embarrassing \$10 billion surplus for the past fiscal year — more than four times the Budget prediction made by Financial Secretary Piers Jacobs last year.

And the surplus is \$2.3 billion more than that forecast only last month when Mr Jacobs revised all his estimates upwards.

The record surplus is the result of a generally strong economy as revenue continued to pour in from stock market stamp duties, huge profits and land sales taxes.

It appears the October stock market crash has done little to dent the flow of Government revenue.

A buoyant economy allowed Mr Jacobs to boast the second consecutive year of double-digit growth and reduce taxes when he released his Budget on March 2.

In that Budget, Mr Jacobs was forced to drastically revise his prediction last year of a \$2.4 billion surplus and a 5.5 per cent growth rate.

These were adjusted, with 29 days left in the fiscal year, to a forecast of a \$7.6 billion surplus and a 13.5 per cent rise in gross domestic product.

But when the Government closed the books on the current financial year on March 31, these figures had clearly been overtaken.

The final tally has shown that Mr Jacobs was far too conservative in his estimates and that the surplus is between \$10 billion to \$10.2 billion.

As Legislative Council prepares to debate the Budget when the session opens on Wednesday, Mr Jacobs will be looking for reasons to explain his embarrassing bounty.

One reason was the significant growth in domestic exports and re-exports last year with the upward trend continuing during the first quarter.

Besides boasting a record surplus, Mr Jacobs will be forced to revise his estimates of gross domestic product growth upwards.

It is likely he will boost growth from the original 5.5 per cent to seven per cent or more. This is against an expected slowdown to five per cent this year and fears of a worldwide economic downturn.

By the same token, the Government's fiscal reserves at the end of last month will be boosted to \$43 billion instead of Mr Jacobs' estimated \$40.5 billion.

Most of the 46 non-government members of the council are slated to speak during the Budget debate.

They will grill Mr Jacobs

and his colleagues on spending patterns and revenue raising measures.

Councillors are expected to criticise the Government for not introducing separate taxation for married women and plans to broaden the tax base with indirect taxes.

Mr Jacobs made it clear in his Budget speech that Hongkong could no longer rely on direct taxes and that the tax net had to be widened.

In his Budget speech last month, Mr Jacobs briefly explained why the surplus was revised to \$7.6 billion, including \$6 billion on the General Revenue Account and \$1.6 billion derived from five major funds.

The Government has traditionally adopted a conservative view when projecting economic growth.

In explaining the surplus last month, he said: "Stamp duty at \$5 billion is nearly double the original estimate; while salaries tax, profits tax, motor vehicle first registration tax and land sales revenue, all of which normally benefit from a strong economic performance, also have higher than expected yields."

Despite the huge surplus, Mr Jacobs reminded the public that "it was the product of two years of exceptional economic performance".

There were also greater-than-estimated surpluses for the years 1985/86 and 1986/87. In 1985/86, the surplus amounted to \$1.2 billion as compared with the estimate of \$98 million, while the figures in the following year were \$3 billion and \$350 million respectively.