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## BUSINESS

### ECONOMIC MONITOR: HONG KONG

# Accidental Surplus

To Hong Kong's credit, Financial Secretary Sir Hamish Macleod got it wrong — again. The British colony's robust economy outperformed his forecasts for 1993, increasing government revenues and turning an expected fiscal deficit into another healthy surplus. So, for the second year running, Macleod has released the purse strings, producing a budget to gladden taxpayers' hearts.

Introducing the measure on March 2, Macleod claimed his tax concessions would return nearly HK\$7 billion (US\$905 million) to taxpayers in fiscal 1994, starting on April 1. By raising the basic allowances for the salaries tax by 29%, the government will relieve 420,000 people from paying any income tax and lighten the burden for another 1.1 million of the 2.8 million-strong labour force.

To the applause of businessmen, Macleod proposed lowering the corporate-profits tax by one percentage point to 16.5%. He also cut the airport departure tax by two thirds to HK\$50, raised the threshold for estate duty by 10% to HK\$5.5 million and reduced stamp duty on the sale of homes worth up to HK\$3 million. To broaden the revenue base, Macleod proposed increasing property rates, doubling the business registration fee and curbing tax-avoidance schemes.

"He gave away as much as he could without creating inflationary expectations," says Keith Ferguson, chief regional economist for broker Barclays de Zoete Wedd. "It is a fiscally prudent budget, only minimally expansionary."

That is because public spending equals a relatively small 18.1% of GDP, down from 18.7% last year. For the coming fiscal year, total expenditure by the government and other public-sector bodies will be HK\$174.4 billion, up 10% from the revised forecast for last year. Government spending will rise 7.4% in current-money terms to HK\$146 billion, including inflation-adjusted boosts of 8.4% for social welfare, 6.9% for health and 6.5% for education.

Despite his giveaways, Macleod forecasts a HK\$7.7 billion budget surplus for the year (see chart). For the year just ending, the surplus is expected to exceed HK\$15 billion; 12 months ago, Macleod had predicted a HK\$3.4 billion deficit.

The swing reflects the strength of the economy, which grew a real 5.5% in 1993 (and, Macleod forecasts, will do the same this year). That brought money tumbling into government coffers. Stamp-duty revenues, for example, leapt on the back of

soaring property prices and frenzied stock-market trading. Nonetheless, the result is all the more remarkable given that the government largely overcame its habit of failing to spend as much as it plans to. Underspending fell to 6% on capital works and 3% overall, compared with 31% and 5% respectively in fiscal 1992.

Macleod was also able to report encouraging economic indicators. Inflation slowed to 8.5% last year. To maintain that level, Macleod favours increasing the supply of land for development, thereby damping property-price rises. Wage pressures also eased. The labour market grew 2.9% after its standstill in 1992.

As always, China will have great bearing on the performance of Hong Kong's

## Fiscal Flip-Flop

### Hong Kong's revised budget outlook

HK\$ billion



Years starting April 1

March '93 forecast Latest estimate/forecast

\*No forecast Source: Hong Kong Budget

service-based economy. Macleod's forecasts assume Beijing will receive preferential trading status from the United States, and will succeed in reining in its economy while maintaining 10% annual growth. Still, Hong Kong's re-exports to countries other than China and the U.S. are expected to grow by 21%, up from 13% in 1993, giving the colony a better chance to absorb potential shocks from its two biggest trading partners.

Total exports and imports of goods grew by 13% and 12% in 1993, slower than their respective 21% and 23% growth rates in 1992. In absolute terms, they produced a merchandise-trade deficit of HK\$29.5 billion, down from HK\$33.5 billion a year earlier. In services, Hong Kong had a surplus of HK\$61.4 billion, up from HK\$46.9 billion, giving it an overall trade surplus of HK\$32 billion, up from HK\$13.4 billion.

Jonathan Karp