

\$30b bonus shapes Budget

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A MASSIVE \$30 billion plus turnaround in Budget expectations for the fiscal year beginning on April 1 helped the Financial Secretary, Sir Hamish Macleod, design his unashamedly populist 1994-95 Budget.

To appreciate the extent of the dramatic change in the Budget figures and Government's fortunes since this time last year, it is necessary to understand this \$30 billion figure.

For the new financial year about to begin, the Financial Secretary is predicting a Budget surplus of \$7.7 billion. Yet in the medium range forecast just 12 months ago, he predicted a deficit for the 1994-95 year of \$16.6 billion.

That is a turnaround in itself of \$24.3 billion.

But in the 1994-95 Budget year starting on April 1 he is also planning to forgo revenue of a further \$6.6 billion in potential revenue by way of tax allowances and other handouts.

That makes a total turnaround of \$30.9 billion on the forecasts of just 12 months ago.

There is one caveat on all of this of course, and that is actually being able to achieve the results intended.

The Financial Secretary maintains that he has been fiscally conservative, but he is looking to a buoyant economic outlook to produce the goods.

This includes 5.5 per cent real growth in Hong Kong, better than 10 per cent real growth in China, a 15 per cent growth

in intra-Asian trade, a 17 per cent growth in Hong Kong's trade and inflationary restraint.

He does admit to some uncertainties, including maintaining China's Most Favoured Nation (MFN) status and the success of the Chinese Government in maintaining fast growth and cutting inflation.

What makes the figures projected astonishing, however, is that they come on top of a big turnaround in the outcome of the 1993-94 Budget year just ending.

After predicting a deficit for the year of \$3.4 billion, Sir Hamish is now predicting a surplus of \$15.1 billion – and that could well be understated.

First, it excludes money put aside to start a trading fund for sewage schemes of \$6.8 billion which has not yet been allocated and, if included, under-spending would take the surplus to \$21.9 billion.

There have also been some additional monies salted away in other funds during the year.

Second, it is likely the surplus figure will rise anyway between now and when the final figures for the year to March 31 are issued in July.

Only last week, the Government got a better than expected result at the auction of two parcels of land, adding to the Government coffers and the surplus.

In his budget addresses, including his latest, Sir Hamish Macleod exudes confidence. Yet his fiscal policies are ones of caution, with emphasis still on the building up of incredi-



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ble reserves without any adequate explanation.

The only two admitted reasons – apart from saving for a "rainy day" – are the \$25 billion required under the Memorandum of Understanding (MOU) on airport funding and the \$7 billion needed for the civil service pension reserve fund.

Most Western governments are criticised for being fiscally irresponsible in their budgets for running large deficits year after year.

Yet it is also possible for a Government to be charged with fiscal irresponsibility for running surpluses every year.

Fortunately for the Hong Kong Government, it is able to justify surpluses, not just on the grounds of "prudence" but on the grounds of economic realities as well.

For the Government to actually inject back into the economy all the revenue generated would be inflationary.

From an economic point of view, then, fiscal policy is on the right track, but that still does not explain the need for the huge reserves.

While on this issue, it is worth pondering the worth of the Government's medium range forecasts.

As the figures in the Budget papers year after year have shown, these medium-term estimates are notorious for their inaccuracy.

The only accurate part is estimates of recurrent spending and they are presumably only on target because of the Government's rule of not increasing this item faster than nominal economic growth.

As far as revenue and capital spending is concerned they have not even been close.

SIR Hamish made the proud boast – in the first three lines of his Budget speech – to have presided over the "27th successive year in which the economy grew in real terms since the start of the GDP figures in 1966."

But it was only a Government revision of previous GDP figures published in August, 1991, which expunged from the record books for all time a small decline – as measured by GDP – of 0.1 per cent in the economy in 1985.

The revision of the figures, however, resulted in this decline being transformed into a mere 0.2 per cent rise for the year.

Three points should be made about this.

First, the alteration in the growth rate was not achieved by increasing GDP for 1985 from the original estimates.

but by reducing the 1984 figure.

Second, real per capita GDP – a better measure of overall economic progress, actually fell in 1985. It was only a 0.9 per cent fall, but it was a fall nonetheless. There were also minor falls in per capita GDP in 1967, 1974 and 1975.

Third, in 1985 there were two quarters of negative growth in 1985 – a fall of 3.2 per cent in the second quarter and three per cent in the third quarter.

Other quarterly falls in GDP have included the fourth quarter of 1974 when there was a 3.6 per cent drop, the first quarter of the following year when it fell 4.1 per cent, and the third quarter of that year with a fall of 0.8 per cent.

That is an impressive record and worth the boast in Sir Hamish's third Budget.

The Hong Kong General Chamber of Commerce was delighted with the business specific aspects of the Budget having achieved most of things it sought in its pre-Budget submission sent to Sir Hamish back in October, 1993.

These included the one per cent cut in the profits tax, the \$100 reduction in the airport duty, no increase in tobacco tax due to smuggling and no further lowering of the stamp duty on stock transactions, among other things.

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