

## Press Releases

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LC: FS' speech on "Ten Major Infrastructure Projects for Economic Growth" for Motion of Thanks Debate for the Policy Address

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Following is the speech (English translation) of the Financial Secretary, Mr John C Tsang, on "Optimising Ten Major Infrastructure Projects for Economic Growth" for the debate session of Motion of Thanks on the Policy Address in the Legislative Council today (October 26):

Madam President,

The Chief Executive's Policy Address has set out a clear and new direction for Hong Kong. We will insist on promoting economic development as our primary goal; we will insist that development be sustainable, balanced and diversified; and we will insist that development should bring along social harmony.

As the Financial Secretary, I will do anything in regard to economic and financial management to help steer Hong Kong along the new direction for development as put forward by the Chief Executive.

First of all, I firmly believe that "Big Market, Small Government" is the guiding principle of Hong Kong's economic policy. A market-led economy has proved to work well in Hong Kong. The SAR Government will do what is needed, through infrastructure development and various other ways, to foster the effectiveness of our market mechanism.

Secondly, on fiscal policy, I uphold the principle of prudent management of public finances by keeping expenditure within the limits of revenues. The aim is to maintain the stability of Hong Kong's public finances in order to support the long-term development of Hong Kong. But we also need to ensure adequate fiscal reserves to enhance investors' confidence as well as to withstand the possible shocks brought about by external economic downturn.

Furthermore, I am aware that economic development may not have benefited every stratum of our society to the same extent. On this, I will

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follow the principle of "from welfare to self-help" to create employment and render relief to the problems faced by the low-income people, with a view to promoting balanced development in our society.

Now, let me discuss Hong Kong's economic situation and how the Government's public finance management will gear in with the new direction for development put forward by the Chief Executive.

#### Recent Economic Performance

First, I will briefly describe Hong Kong's economic situation and the uncertainties that we are facing.

The recent global credit market turmoil caused by the US sub-prime mortgage problem so far has not brought about any visible severe impact on Hong Kong's overall economic performance. With our motherland's economy growing robustly, the Hong Kong economy still held up well in recent period, with many segments displaying vibrancy. I am confident that the economy will achieve real growth of 5 to 6 per cent as forecast earlier.

I am very glad to see the further distinct growth in many major sectors in the first half of the year. Business confidence is strong. The corporate sector continued to hire new hands. The economy is forging ahead on all fronts. Among the major sectors, the performance of the financial sector is particularly spectacular, a manifestation of the significant benefits brought about by the financial integration between the Mainland and Hong Kong. Hong Kong's status as an international financial centre has also strengthened further. For Hong Kong, the financial services sector is the most important pillar of economic development. We will strive to reinforce the depth and breadth of Hong Kong's financial market to provide investors with a large variety of financial instruments, including developing an Islamic financial platform. Our vision is to develop Hong Kong into a world-class international financial centre.

In spite of the weakening US demand, Hong Kong's total exports continued to show notable growth in the third quarter - thanks to the robust performance in the Mainland and other emerging markets. Nevertheless, the growth momentum of exports has shown some signs of slowing in recent months when compared with the pace in the first half

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of the year. We will closely monitor the development.

Fortunately, Hong Kong's domestic demand continued to display strength. The thriving retail business, upbeat consumer sentiment, improving labour market, rising income and a booming stock market, all reflect the people's confidence in Hong Kong's economic future. Overall investment showed distinct growth in the first half of the year. As and when the mega infrastructure projects proposed by the Policy Address commence work, overall investment spending can be expected to advance further.

Furthermore, the labour market has continued to improve, with the unemployment rate now down to its lowest level since mid-1998. Economic expansion in the past four years has created over 330,000 net additional jobs. Even more encouraging is the general rise-back in employment earnings, which has enabled the people of Hong Kong to share the fruits brought about by the economic recovery.

The economic uncertainties and inflation risks

Although the performance of the Hong Kong economy has fared well so far, the prevailing risks and uncertainties in our external environment cannot be taken lightly. First, the US economy, being overshadowed by the housing correction and sub-prime mortgage problems, is likely to slow in the coming quarters. If the situation turns out to be worse than expected, then the global economy as well as the Hong Kong economy will inevitably feel the pinch.

Secondly, the global financial markets have been very volatile this year. The financial market turbulence in February, August and also lately points to the clear fact that risks are with us always. Small investors in Hong Kong should be careful in their deliberations of investment strategy to make wise investment decisions considering their own capabilities.

The era of globalisation over the past decade has led to much closer interdependence in financial markets and economies across the globe. It has brought about substantial business opportunities but at the same time also brought us considerable risks. While the credit market turmoil in Europe and the United States triggered by the US sub-prime mortgage problems has eased recently, and the Hong Kong economy is relatively unscathed so far, the global credit markets have yet to return to normal

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and the impacts of the turbulence on the external economic environment have yet to fully emerge. We will have to pay attention to the second, or even the third round effect on the Hong Kong market. On top of this, the huge volume of yen carry trade is another potential threat to the global financial markets, an area which warrants close attention.

Thirdly, the global trade imbalances caused by the persistently large current account deficits of the US economy have yet to be redressed. If the unwinding of the global imbalances turns out to be sharp and disorderly, this could be destabilising to the global economy and international financial markets.

Fourthly, protectionist sentiment primarily out of political considerations is apparently rising in some regions. This, coupled with the slow progress of multilateral trade talks, has added to the uncertainties facing the external trade environment.

Apart from the uncertainties in the external environment, we also have to keep a close watch over our inflation situation. With the full-fledged economic upturn continuing now for a rather long period, inflation has been climbing up gradually recently. In the first nine months of this year, inflation averaged at 1.5% year-on-year. Netting out the effects of the rates concession and the public housing rental waiver in February, the underlying inflation rate has reached 2.5% in the first nine months of this year, up 0.5 percentage point from the average inflation rate of 2% in 2006. The headline inflation rate is expected to go higher in the fourth quarter. I expect consumer price inflation for 2007 as a whole to be close to 2%.

Increasing upward pressures on local costs as the economy stays on an upturn, renminbi appreciation, the continued weakness of the US dollar, and rising global food and energy prices, are posing inflation risks which we cannot take lightly. We have to guard against the risk of Hong Kong falling back into the vicious cycle of cost-price inflation spiral, as it would impede Hong Kong's sustainable economic development.

The major infrastructure projects put forward in the Policy Address will help expand the production capacity of the Hong Kong economy. The heavy investment made by the Government in education will also raise the quality and productivity of our human

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resources. In the longer term, these measures will help lower inflation, relieve pressures on costs and prices, and increase the real income of the Hong Kong people.

I am especially concerned about the impact of rising inflation on low-income families. One of the Government's priority tasks in the Policy Address is to help people with low income through a multi-pronged policy approach, to enable them to also share the fruits of economic development, to foster social mobility and reduce cross-generational poverty. The Secretary for Labour and Welfare will strive to help people with low income through various measures, including measures to further improve the livelihood of the elderly.

The principles underlying tax cuts and expenditure increase

Now, let me explain further the principles underlying the Government's public finance management.

In the management of public finances, we have to take into account both the needs arising from the development of our society as well as the needs to promote the competitiveness of our economy. Thanks to the economic upturn, rising corporate profits and salaries, buoyant stock market activity as well as a steadily improving property market, government revenue in the current financial year is higher than earlier expected, particularly so for stamp duties and land premium. The overall fiscal position of the Government is also better than originally forecast in the Budget Speech. I expect the fiscal surplus for 2007-08 to reach \$50 billion, higher than the original estimate of \$25 billion.

Under the principle of "keeping wealth with people where affordable", the Chief Executive announced in this year's Policy Address to cut the standard salaries tax rate and profits tax rate by one percentage point each, and to offer rates concession for the last quarter of 2007-08. I will continue to explore the feasibility of adjusting the levels of salaries tax bands and related tax rates, for full announcement in next year's Budget Speech.

Globalisation has intensified intra-regional competition. It has become a world trend to lower tax rates to attract investment and talents. Hong Kong also needs to keep tax rates low to strengthen our competitiveness provided that fiscal situation

allows. In addition, the rates concession in the first quarter of 2008 will help relieve the burden of rising inflation on households, and will have the effect of dragging down the headline consumer price inflation in the coming year by 0.3 of a percentage point.

In the medium term, I am confident that the Hong Kong economy can continue to cruise ahead under the concept of "leveraging the Mainland and engaging ourselves globally". Also, the Government will stick to the principle of prudent management of public finances, striving to keep expenditures within the limits of revenues.

Madam President, our nation's reform and development are now at a key stage of cruising ahead on all fronts. The big leap in her economic strength and power will not only render substantial opportunities for the Hong Kong economy, but will also bring about more and newer challenges. The Chief Executive's Policy Address has put forward a series of policy measures based on a visionary and pragmatic approach, focusing on ways to enable Hong Kong to play an important role in our nation's economic development; to create a brand new Hong Kong; and to enhance the quality of the city and life in Hong Kong to build a harmonious society so that all strata of our society can enjoy the benefits of its development.

I implore Members to support this years' Policy Address. I so submit.

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