

臨時立法會
Provisional Legislative Council

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**Notes on the Financial Secretary's Briefing
on Friday, 20 February 1998,
at 10:45 am in the Legislative Council Chamber**

Members present:

Hon Ronald ARCULLI, JP (Chairman)
Hon Henry WU (Deputy Chairman)
Hon WONG Siu-yee
Hon James TIEN Pei-chun, JP
Hon David CHU Yu-lin
Hon Edward HO Sing-tin, JP
Hon NG Leung-sing
Prof Hon NG Ching-fai
Hon Eric LI Ka-cheung, JP
Hon LEE Kai-ming
Hon Allen LEE, JP
Hon Mrs Selina CHOW, JP
Hon Mrs Peggy LAM, JP
Hon YUEN Mo
Dr Hon Mrs TSO WONG Man-yin
Hon Mrs Sophie LEUNG LAU Yau-fun, JP
Hon HUI Yin-fat, JP
Hon CHAN Choi-hi
Hon CHAN Yuen-han
Hon CHAN Wing-chan
Hon CHAN Kam-lam
Hon Andrew WONG Wang-fat, JP
Dr Hon Philip WONG Yu-hong
Hon Kennedy WONG Ying-ho
Hon Howard YOUNG, JP
Dr Hon Charles YEUNG Chun-kam
Hon YEUNG Yiu-chung
Hon IP Kwok-him
Hon Bruce LIU Sing-lee
Hon Ambrose LAU Hon-chuen, JP
Hon CHENG Yiu-tong

Hon Timothy FOK Tsun-ting
Hon NGAN Kam-chuen
Hon LO Suk-ching
Dr Hon LAW Cheung-kwok
Hon TAM Yiu-chung, JP
Hon CHOY So-yuk

Members absent:

Hon HO Sai-chu, JP
Dr Hon Raymond HO Chung-tai, JP
Dr Hon David LI Kwok-po, JP
Hon Mrs Elsie TU, GBM
Hon NGAI Shiu-kit, JP
Hon Henry TANG Ying-yen, JP
Hon MA Fung-kwok
Hon CHEUNG Hon-chung
Hon LEUNG Chun-ying, JP
Dr Hon LEONG Che-hung, JP
Hon MOK Ying-fan
Hon TSANG Yok-sing
Hon CHENG Kai-nam
Hon Frederick FUNG Kin-kee
Hon CHIM Pui-chung
Hon LAU Kong-wah
Hon LAU Wong-fat, JP
Hon Mrs Miriam LAU Kin-yee, JP
Hon CHOY Kan-pui, JP
Hon Paul CHENG Ming-fun, JP
Dr Hon TANG Siu-tong, JP
Hon KAN Fook-yee

Public officers attending:

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| Mr Donald TSANG, JP | Financial Secretary |
| Mr K C KWONG, JP | Secretary for the Treasury |
| Mrs Carrie LAM, JP | Deputy Secretary for the Treasury |
| Mr Thomas CHOW | Administrative Assistant to the Financial Secretary |

Clerk in attendance:

Ms Pauline NG Assistant Secretary General 1

Staff in attendance:

Mrs Vivian KAM Chief Assistant Secretary (1)5
Ms Anita SIT Senior Assistant Secretary (1)8

The Chairman welcomed Mr Donald TSANG, the Financial Secretary (FS), and his colleagues to the briefing. He advised that the purpose of the briefing was to provide an opportunity for members to ask questions on the 1998-99 Budget announced by the Financial Secretary on 18 February 1998, but questions regarding details of the expenditure proposals should be dealt with at the Special Finance Committee meetings scheduled for 3 to 6 March 1998.

Financial Secretary's opening remarks

2. FS said that since the announcement of the Budget, responses from the community in general had been supportive. As resources were not unlimited, it had not been possible to accommodate all the suggestions made by Members during the Budget consultation exercise. However, the Government had introduced the revenue proposals to help to strengthen the confidence of the community in Hong Kong at this difficult time.

Maintaining a fiscal balance

3. Dr TSO WONG Man-yin pointed out that notwithstanding the budgeted surplus of 2%, the current economic downturn might result in a deficit for Government's revenue. She opined that the Administration should try to maintain a fiscal balance and enquired about measures for avoiding a deficit. In this respect, Mr LAW Cheung-kwok also commented that the projection of 3.5% Gross Domestic Product (GDP) real growth was on the high side while some projections on Government revenue were also too optimistic. He was worried that if Government's revenue turned out to be lower than expected, the Administration would use administrative measures to substantially cut expenditure on infrastructural projects, thereby causing undue delay.

4. Responding to the above, FS said that while there could be no absolute certainty for a fiscal balance for the coming year, he had adopted a very prudent, objective and conservative approach in projecting the GDP growth and in estimating the revenue from Rates, profits and salaries taxes, and land sales. The projections by economic experts and academics in general tallied with those of the Government. He also allayed members' concern by stressing that given the favourable financial position of the Government, members should not worry too much about having a large deficit, if indeed there was a deficit.

5. In continuing, he stressed that the Administration was committed to a long term infrastructural programme to achieve the goals of providing adequate housing and enhancing the continued development of Hong Kong. Expenditure in capital works projects would have a real growth of 5.8% in 1998-99. He reiterated that funding was not a problem for implementing the infrastructural programme, but that there might be difficulties with the supply of professional expertise and skilled labour.

6. Mrs Peggy LAM expressed concern about the provision of only 14 additional school social workers for 1998-99, which was far behind the target of one social school worker for one school. Given the anticipated budgetary surplus of 2% and the large number of social work graduates not being able to find jobs in the social work field, she urged the Administration to take a more progressive step in this regard. FS responded that with the uncertainties of the economy in 1998, a budgetary surplus of 2% was necessary in planning for a balanced budget. He stressed that the Government must be seen by the international community as upholding the prudent fiscal management principle.

7. In reply to Mr Howard YOUNG, FS advised that the medium range forecasts were based on the trend over a number of years. Therefore, although the 1997 GDP growth was revised downwards to 5.2% and the forecast for the 1998 GDP growth was only 3.5%, he considered it reasonable to maintain the medium range assumption of annual GDP growth for the period 1997-98 to 2001-02 at 5%. He however stressed that the Administration would carefully review this assumption from time to time as it had direct implications on the annual budget on public expenditure. He also agreed with Mr YOUNG that while public expenditure was budgeted based on the medium range GDP growth assumption and hence would not be adjusted according to short term fluctuations, a contingency reserve was required to enable the Government to hold fast to investment and spending plans during a downswing in the economic cycle.

Use of fiscal reserves

8. Mr Eric LI enquired about the rationale for adopting the Hong Kong Dollar money supply under the M1 definition as the benchmark for setting aside an amount of reserve for meeting the monetary requirements. FS replied that the purpose of the monetary reserve was to support the Hong Kong dollar and the M1 definition was adopted because it was nearest to the monetary base adopted by the Hong Kong Monetary Authority. He remarked that no useful reference could be made on the policies of other Governments, and the guidelines for the use of the fiscal reserves had been proposed in the light of the fresh experience of an historic regional financial storm. These guidelines would be reviewed as and when more experience was built up.

9. Mr Kennedy WONG remarked that it was important to maintain strong fiscal reserves to defend the HK/US dollar peg, as this was essential for maintaining a stable business environment for Hong Kong. He enquired how FS would send a clear message to speculators that the Government had sufficient reserves to combat speculative activities against the HK/US dollar peg. FS responded that the Budget was published through various means including the Internet. Speculators should be well aware of the financial position of the Government and its strategies for defending the linked exchange rate system.

Rates and Government rent

10. Some members expressed concern about the burden shouldered by property owners who had to pay Rates as well as Government rent since 1 July 1997. Mr LEE Kai-ming opined that with increased revenue from Government rent, the Administration should relinquish its share of Rates altogether, such that the Rates percentage charge could be further reduced to 4.2% (the Rates funding of the Municipal Councils) instead of 4.5% as proposed. Mr LO Suk-ching opined that as rental values had lowered recently, the Administration should reduce the ratable values of properties by a certain percentage, say by 20%, across the board.

11. FS responded that the proposed reduction in Rates was already the greatest concession that could be made, given the scale of revenue concessions on other taxes and the uncertain economic outlook. He also stressed that the alternative to paying Government rent was to pay a lump sum premium, which would probably be an even greater burden on property owners. The charging of Government rent was fair as it had been made known in the early 1980s' at the signing of the Sino-British Joint Declaration.

12. Mr Andrew WONG did not agree with FS's view, as expressed in the Budget Speech, that the charging of Government rent in itself represented a massive concession in respect of extension of non-renewable leases and the grant of new leases beyond 1997. He pointed out that some property owners paying Government rent might in fact have to pay more than those who had paid a lump sum land premium. At the time the Joint Declaration was negotiated and signed, the leasing market was at a low, and it might be the intention of the Chinese and British Governments to set a high percentage charge of 3% for Government rent in order to protect the revenue of the Government of the Hong Kong Special Administrative Region. He questioned if the 3% was meant only to be an upper limit in the Basic Law, and suggested that the Basic Law could be amended to that effect. He also opined that when there was an economic downturn, the Administration should respond positively by conducting an overall revaluation of ratable values, which would result in lowering the actual amounts of both Rates and Government rent. FS responded that Article 121 of the Basic Law clearly stated a fixed percentage of 3% for Government rent, and that no flexibility was implied in this regard.

13. Mr NG Leung-sing expressed support to FS's budget proposal on Rates, including the rationale on why the paying of Government rent should not be a reason for reduction in Rates. In reply to Mr NG, FS said that the Administration would review in the middle of the financial year whether the proposed Rates reduction should be continued or varied after 1998-99 by consulting the then legislature, and taking into account the outcome of the review of the structure of district organisations.

14. On the feasibility of conducting general revaluation of rental values on an annual basis instead of triannually as at present, FS advised that he would need more time to ascertain the general inclination of Council Members in this regard as he had heard diverse opinions. He added that annual revaluation was possible as the requisite computerized programme was already in place.

Duty on fuel

15. Some members commented that the increase in light diesel oil duty would have a serious impact on the livelihood of operators and drivers in the taxi, minibus and lorry trades, and was incompatible with the objective of the Budget to help the community to ride out the storm. FS responded that only a slight duty increase of 6% on fuel, tobacco and methyl alcohol had been proposed in line with inflation in order to maintain the real value of the duties on these commodities. Besides, the fuel duty increase accorded with the Government's policies of controlling the increase of vehicles on roads and reducing air pollution. Taking also into account the fact there had been no

increase in light diesel oil duty last year, the proposed increase was reasonable and fair.

16. The members did not subscribe to FS's justifications for the duty increase, which they considered a blow to the trade at a time when they were already suffering from a downturn in the economy.

Profits tax

17. Mr James TIEN said that some overseas media held the view that the 0.5% cut in profits tax rate was too small to have any real impact. He suggested that this could be improved by a further reduction of 0.5%, which would only reduce the overall budget surplus of \$10.7 billion by about \$1.6 billion. FS responded that overseas media regarded the 0.5% cut on profits tax rate an important measure of the Government in boosting incentives to invest and to continue business in Hong Kong. He however considered that a further 0.5% cut in profits tax as proposed by Mr TIEN would definitely upset the fiscal balance.

Hotel Accommodation Tax

18. Mr Bruce LIU commented that the reduction in the Hotel Accommodation Tax rate from 5% to 3% was too small to give impetus to inbound tourism. FS reiterated the need for prudent fiscal management and considered that further reduction in this tax item might upset this principle.

19. Replying to Miss CHOY So-yuk's enquiry on how the Administration could ensure that the reduction would be transferred totally to hotel clients, FS advised that the benefits of the reduction should be directly passed onto the clients, although the hotel room rates would be decided by market forces.

Stamp duty on stock transactions

20. Mr Henry WU conveyed the securities trade's support of the reduction in the Stamp Duty rate on stock transactions. He commented that it was the trend of financial markets worldwide that brokerage charges formed the major part of stock transaction costs. The reduced Stamp Duty rate would be on par with the existing minimum brokerage charge rate of 0.25% which many brokerage firms were already charging under the current market conditions. He enquired if consideration would be given to abolishing the Stamp Duty charge altogether to provide more incentives to invest in the financial market. FS

replied that he hoped that brokerage firms would take their own initiatives to reduce brokerage charges, and hence contribute to making Hong Kong an attractive place for financial investment. With increasing automation for transactions, brokers' operating costs should have been reduced to enable them to reduce charges. Mr Henry WU responded that the minimum brokerage charge rate of 0.25% had not been increased for many years. As the trade was already operating under much pressure, abolition of the Stamp Duty rate would help the trade as well as revive investors' incentives to a certain extent.

21. Mr NGAN Kam-chuen enquired about measures for improving investors' confidence in Hong Kong's financial regulatory framework. FS advised that the Administration would complete the review of the financial market in March 1998. He remarked that the strength of the regulatory framework would not be undermined by the collapse of any single financial institution, but would be shown from its ability to handle such incidents in a fair and efficient manner.

Review of the tax system

22. Miss CHAN Yuen-han suggested that the Administration should conduct an overall review of the tax system, which was warranted as a result of changes which had taken place since the establishment of the Government of the Special Administrative Region of Hong Kong. FS responded that the Administration did not see any need to change the existing tax system, which had operated well for Hong Kong, and this had been clearly stated by the Chief Executive.

Mortgage relief

23. In relation to the mortgage relief proposal, Mr Andrew WONG asked whether a couple could enjoy up to ten years' tax deduction for mortgage interest payments by changing property and claiming property title alternately. FS responded that this was theoretically possible but the costs to the property owners of doing so might outweigh the benefits that could be derived. The Chairman suggested that the implementation details be examined in the context of the relevant revenue bill.

24. In reply to Mr YEUNG Yiu-chung as to whether the mortgage relief proposal implied a message that this was the opportune time to buy homes, FS emphasised that there was no intention to use any budgetary measure to uplift the property market. The proposal was intended to provide some relief to salaries taxpayers with home mortgage commitments, and the present condition of the property market allowed the Government to do so.

25. Miss CHOY So-yuk welcomed the mortgage relief proposal but expressed concern that frenzied property speculative activities might revive. She enquired about budgetary measures to curb such speculative activities in the long term. FS responded that mechanisms were already in place for curbing speculative activities on residential properties. He added that applying administrative measures to influence the operation of the property market was a controversial issue and that the Administration should refrain from interfering with the market's normal operation.

The low income group

26. While appreciating that the proposed tax concessions would benefit taxpayers at large and in particular the sandwich class, Mr HO Sing-tin expressed concern about difficulties faced by the low income group at this time of economic recession. He enquired about measures for helping the low income group who would not benefit from the tax concessions as they had not reached the salaries tax bracket.

27. In response, FS said that the Government must refrain from spending thrivingly for the benefit of a particular sector of the community, although some might benefit indirectly from the Budget. Provisions for the Comprehensive Social Security Assistance (CSSA) Scheme, social welfare services and elderly services, for example, would have a real growth of 21%, 13.6% and 16.3% respectively. These were significantly higher than the overall real growth in public expenditure. Adequate resources were also provided for employee training and retraining programmes to enhance the prospect of the unemployed and underemployed amid the changing demands of the labour market. On another front, expenditure on housing and infrastructural projects, the tax concessions and the freezing of fees and charges for Government services would all help stimulate business activities, which in turn would provide greater employment opportunities. The impact of these measures together should be no less significant on the lower income group than on the middle income group.

28. Citing cases of elderly people who had retired but were not in such a desperate situation as requiring CSSA, Mr TAM Yiu-chung said that this group could not benefit from the proposed tax concessions and felt being left behind. A group of these elderly had asked for concessions in Government services, such as waiver of the out-patient clinic fee for elderly aged 65 or above. FS agreed to convey the member's concern to the Secretary for Health and Welfare, but remarked that such concessions would have implications on public revenue and thus would need to be considered in conjunction with other priorities.

29. In reply to Mr CHENG Yiu-tong's enquiry about the setting up of a fund specifically for assisting the unemployed, FS said that Government's strategy in addressing unemployment was to provide effective training and retraining programmes and implement measures to improve Hong Kong's business environment. Besides, financial assistance for the unemployed was already available under CSSA.

30. Mr Bruce LIU commented that the Budget had overlooked the interests of those who were paying high rentals while waiting for allocation of public housing. In reply, FS confirmed that the provision of adequate housing to the community was a priority area of the Government, but rental subsidy for private housing was not considered an effective way of achieving this objective.

Labour shortage

31. Mrs Sophie LEUNG commented that on improving the business environment, FS's proposals had focused mainly on providing for infrastructural facilities but little attention had been given to the provision of low skilled labour. She remarked that the manufacturing industries were facing serious shortage of low skilled labour, but Government's retraining programmes were of little assistance as less than 30% of the retrainees were willing to be employed in the industries.

32. In response, FS said that the community had diverse views on labour importation. The Administration's manpower policy was to make possible utilisation of the local workforce to the fullest extent. However, if it was proven that certain developments were impeded by the lack of a particular type of labour and if filling the vacancies concerned could help increase overall employment opportunities and the production of high value-added products, the Administration would try to find the best solutions through discussions with relevant parties.

Wealth creation and cost control

33. Mrs Selina CHOW pointed out that for Hong Kong to sustain continual growth, the Government must work on strengthening the community's ability in wealth creation. To attract inward investment and promote tourism, it was important to strengthen the promotion of Hong Kong to overseas communities to enhance their understanding of Hong Kong in various respects. She enquired if the Administration had any concrete plans on this. On controlling/reducing costs, feedback from the retail sector revealed that concrete results from the

Administration's efforts in cutting redtape were not obvious. She enquired about concrete targets set for cutting redtape to reduce the cost to users.

34. FS responded that on promoting inward investment and Hong Kong's commercial interests overseas, a number of innovative programmes of the Trade Development Council were in the pipeline to promote existing markets and explore new ones. The Trade and Industry Bureau and the Trade Department would continue to take prompt actions to protect Hong Kong's commercial interests overseas in response to any signs of trade restrictions on Hong Kong's products. On cost control, the Administration had already committed to freezing fees and charges for Government services for one year and would reduce the Airport Passenger Departure Tax. He had also urged bureaux and departments to examine possible savings on chargeable services. On helping business, a list of targets and indicators had already been set for improving services and cutting redtape, many of which were aimed at enhancing the business environment for medium and small firms.

35. Mrs CHOW commented that the Administration should do more on promoting Hong Kong in general, in particular conveying the message that Hong Kong remained a stable and orderly society. As progress on reducing cost to users was slow, she suggested that the Administration should take the opportunity when freezing fees and charges to vigorously examine ways to further reduce costs and simplify cumbersome procedures.

36. Mr Eric LI expressed concern that the expansion of the civil service appeared to outpace economic growth. He stressed the importance for restraining the growth of the civil service in order to allow more scope for the private sector to garner strength when the economy set to recover. FS shared the member's concern and requested members to carefully examine the Administration's funding proposals, in particular those related to the creation of posts.

37. The briefing ended at 12:25 pm.

Provisional Legislative Council Secretariat

21 April 1998