

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 18 February 1998

The Council met at half-past Two o'clock

MEMBERS PRESENT:

THE PRESIDENT

THE HONOURABLE MRS RITA FAN, J.P.

THE HONOURABLE WONG SIU-YEE

THE HONOURABLE JAMES TIEN PEI-CHUN, J.P.

THE HONOURABLE DAVID CHU YU-LIN

THE HONOURABLE HO SAI-CHU, J.P.

THE HONOURABLE EDWARD HO SING-TIN, J.P.

DR THE HONOURABLE RAYMOND HO CHUNG-TAI, J.P.

THE HONOURABLE NG LEUNG-SING

PROF THE HONOURABLE NG CHING-FAI

THE HONOURABLE ERIC LI KA-CHEUNG, J.P.

DR THE HONOURABLE DAVID LI KWOK-PO, J.P.

THE HONOURABLE LEE KAI-MING

THE HONOURABLE ALLEN LEE, J.P.

THE HONOURABLE MRS ELSIE TU, G.B.M.

THE HONOURABLE MRS SELINA CHOW, J.P.

THE HONOURABLE MRS PEGGY LAM, J.P.

THE HONOURABLE HENRY WU

THE HONOURABLE NGAI SHIU-KIT, J.P.

THE HONOURABLE HENRY TANG YING-YEN, J.P.

THE HONOURABLE RONALD ARCULLI, J.P.

THE HONOURABLE YUEN MO

THE HONOURABLE MA FUNG-KWOK

THE HONOURABLE CHEUNG HON-CHUNG

DR THE HONOURABLE MRS TSO WONG MAN-YIN

THE HONOURABLE LEUNG CHUN-YING, J.P.

DR THE HONOURABLE LEONG CHE-HUNG, J.P.

THE HONOURABLE MRS SOPHIE LEUNG LAU YAU-FUN, J.P.

THE HONOURABLE MOK YING-FAN

THE HONOURABLE HUI YIN-FAT, J.P.

THE HONOURABLE CHAN CHOI-HI

THE HONOURABLE CHAN YUEN-HAN

THE HONOURABLE CHAN WING-CHAN

THE HONOURABLE CHAN KAM-LAM

THE HONOURABLE TSANG YOK-SING

THE HONOURABLE CHENG KAI-NAM

THE HONOURABLE FREDERICK FUNG KIN-KEE

THE HONOURABLE ANDREW WONG WANG-FAT, J.P.

DR THE HONOURABLE PHILIP WONG YU-HONG

THE HONOURABLE KENNEDY WONG YING-HO

THE HONOURABLE HOWARD YOUNG, J.P.

DR THE HONOURABLE CHARLES YEUNG CHUN-KAM

THE HONOURABLE YEUNG YIU-CHUNG

THE HONOURABLE IP KWOK-HIM

THE HONOURABLE CHIM PUI-CHUNG

THE HONOURABLE BRUCE LIU SING-LEE

THE HONOURABLE LAU KONG-WAH

THE HONOURABLE LAU WONG-FAT, J.P.

THE HONOURABLE MRS MIRIAM LAU KIN-YEE, J.P.

THE HONOURABLE AMBROSE LAU HON-CHUEN, J.P.

THE HONOURABLE CHOY KAN-PUI, J.P.

THE HONOURABLE PAUL CHENG MING-FUN, J.P.

THE HONOURABLE CHENG YIU-TONG

DR THE HONOURABLE TANG SIU-TONG, J.P.

THE HONOURABLE TIMOTHY FOK TSUN-TING

THE HONOURABLE KAN FOOK-YEE

THE HONOURABLE NGAN KAM-CHUEN

THE HONOURABLE LO SUK-CHING

DR THE HONOURABLE LAW CHEUNG-KWOK

THE HONOURABLE TAM YIU-CHUNG, J.P.

THE HONOURABLE CHOY SO-YUK

PUBLIC OFFICERS ATTENDING:

THE HONOURABLE MRS ANSON CHAN, J.P.
CHIEF SECRETARY FOR ADMINISTRATION

THE HONOURABLE DONALD TSANG YAM-KUEN, J.P.
THE FINANCIAL SECRETARY

THE HONOURABLE ELSIE LEUNG OI-SIE, J.P.
SECRETARY FOR JUSTICE

MR MICHAEL SUEN MING-YEUNG, J.P.
SECRETARY FOR CONSTITUTIONAL AFFAIRS

MR CHAU TAK-HAY, J.P.
SECRETARY FOR BROADCASTING, CULTURE AND SPORT

MR GORDON SIU KWING-CHUE, J.P.
HEAD, CENTRAL POLICY UNIT

MR NICHOLAS NG WING-FUI, J.P.
SECRETARY FOR TRANSPORT

MR DOMINIC WONG SHING-WAH, J.P.
SECRETARY FOR HOUSING

MRS KATHERINE FOK LO SHIU-CHING, J.P.
SECRETARY FOR HEALTH AND WELFARE

MR RAFAEL HUI SI-YAN, J.P.
SECRETARY FOR FINANCIAL SERVICES
MR JOSEPH WONG WING-PING, J.P.

SECRETARY FOR EDUCATION AND MANPOWER

MR PETER LAI HING-LING, J.P.
SECRETARY FOR SECURITY

MR BOWEN LEUNG PO-WING, J.P.
SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS

MR KWONG KI-CHI, J.P.
SECRETARY FOR THE TREASURY

MR LAM WOON-KWONG, J.P.
SECRETARY FOR THE CIVIL SERVICE

MR STEPHEN IP SHU-KWAN, J.P.
SECRETARY FOR ECONOMIC SERVICES

MR BENEDICT KWONG HON-SANG, J.P.
SECRETARY FOR WORKS

MR LO YAT-FAT, J.P.
SECRETARY FOR HOME AFFAIRS

MR TAM WING-PONG, J.P.
SECRETARY FOR TRADE AND INDUSTRY

CLERK IN ATTENDANCE:

MR RICKY FUNG CHOI-CHEUNG, J.P., SECRETARY GENERAL

PAPERS

The following papers were laid on the table pursuant to Rule 21(2) of the Rules of Procedure:

Subject

Subsidiary Legislation	<i>L.N. No.</i>
Airport Authority (Automated People Mover) (Safety) Regulation	74/98
Road Traffic (Public Service Vehicles) (Amendment) (No. 3) Regulation 1998.....	75/98
Mass Transit Railway (Transport Interchange) Regulation	89/98
Tai Lam Tunnel and Yuen Long Approach Road Regulation	90/98
Hong Kong Special Administrative Region Passports (Appeal Board) Regulation.....	91/98
Banking Ordinance (Declaration under section 2(14)(b)) Notice 1998.....	92/98

Sessional Papers

- No. 72 — Estimates of Revenue and Expenditure of the Provisional Urban Council for 1998-99 together with a list of works which it proposes to undertake during 1998-99
- No. 73 — Estimates of Revenue and Expenditure of the Provisional Regional Council for 1998-99 together with a list of works which it proposes to undertake during 1998-99

- No. 74 — Draft Estimates for the year ending 31 March 1999;
Volume IA and Volume IB - General Revenue Account
- No. 75 — Draft Estimates for the year ending 31 March 1999;
Volume II - Fund Accounts

MISCELLANEOUS

Code of Practice on Employment under the Family Status Discrimination Ordinance

WRITTEN ANSWERS TO QUESTIONS

The Most Courteous Immigration Control Officer Election

1. **MR CHOY KAN-PUI** (in Chinese): *It is learnt that the Immigration Department organized an event known as "The Most Courteous Immigration Control Officer Election" several months ago. In this connection, will the Government inform this Council:*

- (a) *of the details of the event, including:*
- (i) *the election period;*
 - (ii) *the coverage — whether all immigration control points were involved;*
 - (iii) *reasons for holding the election — whether the election is related to complaints lodged by incoming and departing travellers against immigration control officers;*
 - (iv) *the total number of election forms given out;*
 - (v) *the total number of valid election forms returned; the immigration control points which received the highest and the lowest number of election forms and the numbers thereof;*

- (vi) *the respective numbers of local and overseas travellers who cast their votes; and*
- (b) *whether the Administration has conducted a review on the effectiveness of the event; if so, what the results are?*

SECRETARY FOR SECURITY (in Chinese): Madam President,

- (a) (i) The "Most Courteous Immigration Control Officer Election" campaign is an annual event which was introduced in 1996 and last held between 24 and 30 November 1997.
- (ii) The campaign took place at all the eight immigration control points, except the Harbour Control Section which mainly deals with the clearance of vessels.
- (iii) The objectives of the campaign are to enhance customer relations, promote Immigration Service members' awareness of the importance of courteous service to the public and help promote tourism. It was not prompted by complaints lodged by travellers against immigration control officers.
- (iv) As the election forms were placed on the counters for travellers to obtain freely, there is no accurate figure on the number of forms distributed.
- (v) A total of 3 854 valid election forms were collected. The Lo Wu control point received the highest number which was 1 349. The number for the Hung Hom Station Office was 121 which was the smallest.
- (vi) Voters were not required to indicate on the election forms whether they were Hong Kong residents or foreign visitors. There is therefore no breakdown of the statistics regarding voters' immigration status.

- (b) The Immigration Department has conducted a review on the campaign. It is satisfied that the campaign was a success and that it achieved the objectives by reiterating to the staff and the public that the Department is committed to serving the community courteously. It is noted that following the introduction of the campaign, the number of complaints against immigration control officers had dropped from 153 in 1995 to 108 in 1996, and 96 in 1997. The number of appreciation letters relating to control points received by the Department had risen from 27 in 1995 to 35 in 1996, and 41 in 1997. The campaign is supported by staff members and will be continued.

Promotion of Health Education

2. **MR HUI YIN-FAT** (in Chinese): *The Report of the Working Party on Primary Health Care (the Report) published by the Government in 1990 put forward recommendations on the steps to be taken by the Central Health Education Unit (CHEU) in promoting health education (such as the training of staff) and the membership and objectives of the Health Education Co-ordinating Committee. In this connection, will the Government inform this Council whether:*

- (a) *the CHEU has been re-organized as a specialist service and its establishment;*
- (b) *an audio-visual production team has been established in the CHEU; if so, of the establishment of the team;*
- (c) *the CHEU has organized training programmes on health education for those undertaking work related to health education (such as school teachers, social workers and volunteers) over the past five years; if so, of the respective themes, objectives and numbers of participants of these programmes; and*
- (d) *the existing Health Education Co-ordinating Committee has already strengthened its membership in accordance with the recommendation contained in the Report; and what the current*

working objectives of the Committee are?

SECRETARY FOR HEALTH AND WELFARE (in Chinese): Madam President,

- (a) The CHEU is now headed by a Senior Medical and Health Officer who regularly discusses with an Assistant Director to draw up the health education/promotion programme. Under the Unit, there are altogether 53 staff working in four regional health education centres, they include doctors, nurses, various grades of clerical and supporting staff. The Unit provides the following services:
 - (i) to provide professional advice on health education to government departments and other organizations which are interested in carrying out health education activities;
 - (ii) to co-ordinate and develop different health promotion activities through intersectoral collaboration and community participation; and
 - (iii) to serve as a resource centre on health education materials, such as to produce teaching materials and handouts for health education purpose.
- (b) The idea of setting up a dedicated audio-visual production team in the CHEU was not considered feasible in terms of cost effectiveness. At present, the CHEU is responsible for some small to medium-scale audio-visual productions. Sophisticated audio-visual productions are being contracted out to professional production companies.
- (c) Since 1983, the CHEU has organized a series of train-the-trainer programmes which initially included students and subsequently extended to primary and secondary school teachers. The Health Ambassador Programme was implemented in mid-1994, for the purpose of establishing a network of people from various community groups who are interested in health promotion so that they can be involved in community health education and promotion after being trained as Health Ambassadors. The programme involved two target groups, namely, students and women, at the

initial stage. It was extended to include school teachers and the elderly in 1996.

Over 3 000 people have participated in the Health Ambassador Programme, including 2 058 Student Health Ambassador, 688 Woman Health Ambassadors, 230 School Health Ambassadors and 223 Senior Health Ambassadors.

- (d) The CHEU was under the guidance of the Health Education Co-ordinating Committee (HECC) when it was first established. In 1992, a standing committee, the Health Education Subcommittee (HES) was formed by the Health and Medical Development Advisory Committee (HMDAC) to replace the HECC. This Subcommittee served similar functions as those of HECC in providing guidance on health education policy matters and facilitating co-ordination in health education activities. The HMDAC then conducted a review of the structure and work of HES, and decided to dissolve it in late 1994. Since then, the CHEU of the Department of Health continues to co-ordinate health education activities in various sectors. The Department of Health also makes reference to the advice of health care professions and takes into account the demand of the public in the formulation of the health education directions and activities.

Child Care Services

3. **MR CHAN CHOI-HI** (in Chinese): *Will the Government inform this Council:*

- (a) *of the types of child care services (including day nursery and occasional care) and the respective numbers of places provided by the Social Welfare Department at present;*
- (b) *whether special arrangements have been made to provide newly-arrived families with such services; if so, of the details of such arrangements;*
- (c) *whether it will allocate additional resources to the Social Welfare Department of the expansion of child care services; and*

- (d) *of the measures in place to monitor and the plans to improve the quality of child care services?*

SECRETARY FOR HEALTH AND WELFARE (in Chinese): Madam President,

- (a) The child care services provided by the Social Welfare Department (SWD) include day nurseries, which offer education and care to children aged between two and six, and day crèches, which look after the developmental needs of children below the age of two. As at January 1998, there were 225 aided day nurseries providing approximately 26 000 places and 22 aided day crèches providing about 1 500 places. In addition, the private sector provides a further 14 500 places.

Some of the child care centres also offer occasional child care services. These provide short-term day care for children whose carers are unable to take care of them temporarily. These are available in full-day, half-day or two-hour sessions. As at January 1998, 220 aided child care centres provide about 700 occasional child care places.

- (b) New arrival families, as with other Hong Kong residents, have equal access to the full range of welfare services, including child care services, provided by the Government and non-governmental organizations. We take into account increases in demand for welfare services, in line with population growth, in the overall planning and development of welfare services. As regards the planning of child care service, in addition to applying the population-based planning ratio, we also take account of the characteristics and service needs of individual districts.
- (c) We continue to increase the number of places to meet the demand for child care services in the community. In 1998-99, we will provide around 3 000 additional aided child care centre places.
- (d) All child care centres in Hong Kong are subject to statutory control under the Child Care Services Ordinance. This requires registration, control and inspection by the Child Care Centres Advisory Inspectorate (CCCAI) of the SWD. Inspectors visit

child care centres regularly to ensure that their operation and service standards are in compliance with the statutory requirements, and proper care is given to the children in these centres.

To enhance communication among child care centres and to promote higher service standards, the SWD has established district co-ordinating committees on child care services. Membership of these committees comprises representatives from the SWD and supervisors of the child care centres.

We also accord priority to improving the training of child care workers. The minimum academic qualification for trainee child care workers was raised in September 1995. And to enable individual child care centres to meet the statutory requirement that not more than one-third of their staff are trainee child care workers, we have developed in-service basic child care work training programmes. To date, over 90% of child care staff have completed the required training. Management training programmes for centre supervisors are also arranged, on a regular basis, by the SWD.

Home Visits to CSSA Recipient Families

4. **MISS CHAN YUEN-HAN** (in Chinese): *Will the Government inform this Council:*

- (a) *of the number of Comprehensive Social Security Assistance (CSSA) recipient families visited by Social Welfare Department (SWD) staff in each month during the period from 1995 to 1997 and among these families, the respective proportions of those which were unemployed or low-income households;*
- (b) *whether SWD staff detected any signs of mental disturbance or suicidal tendency in the members of these families during home visits; if so, what the numbers of such family members were; whether the causes of such situation were known; and how the SWD followed up such cases; and*
- (c) *of the SWD's target number of home visits for these families each*

year; and whether there is any plan to increase the number of such home visits?

SECRETARY FOR HEALTH AND WELFARE (in Chinese): Madam President,

- (a) The SWD started to keep statistics on the number of home visits to CSSA recipients from November 1996. According to the records from January 1997 to December 1997, the average number of home visits paid is 8 500 per month. However, there is no breakdown of the number of home visits paid to different categories of CSSA recipients.
- (b) The main purpose of home visits is to verify the information provided by the applicants and to ascertain whether there are any changes in the recipients' circumstances upon case review. According to our records, there was no report from staff that they came across CSSA recipients who showed signs of mental disturbance or suicidal tendency during home visits. If Social Security Field Unit (SSFU) staff found that during home visits, CSSA recipients are in need of welfare services other than financial assistance, they will, with the consent of the recipients concerned, make referrals to the Family Services Centre of the SWD or other welfare agency for follow-up.
- (c) The SWD aims to pay a home visit to every CSSA applicant and every recipient upon case review. Owing to the rapid increase in CSSA caseload, some work easement measures which are intended to alleviate the work pressure on the frontline staff, including suspension of home visits to most of the CSSA elderly cases, have been introduced since 1 August 1997. When the SWD has created more than 100 additional posts in SSFUs in 1998-99, it plans to conduct more random checks through home visits on selected CSSA cases such as the unemployed, single-parent and

low earning CSSA families.

Termination of Purchase Agreements for HOS Flats

5. **MR TAM YIU-CHUNG** (in Chinese): *Does the Government know:*

- (a) *the number of public housing tenants who have, after signing agreements for the purchase of Home Ownership Scheme (HOS) flats, made requests to the Housing Authority (HA) for termination of the purchase agreements, refund of the deposits and retention of the status of public housing tenants, over the past three months; and*
- (b) *whether, in view of the current economic downturn in the territory, the HA will consider these requests on a discretionary basis?*

SECRETARY FOR HOUSING (in Chinese): Madam President, over the past three months, the HA received 390 applications from public housing tenants to rescind purchase of flats under the HOS and the Private Sector Participation Scheme (PSPS).

According to the conditions set out in the standard HOS and PSPS Agreement for Sale and Purchase, the HA may retain 5% of the purchase price if a buyer rescinds his purchase. However, the HA has discretion to waive forfeiture of deposits on compassionate grounds (such as death of the main income earner).

Public rental tenants who have signed agreements to purchase HOS or PSPS flats are allowed to retain their rental tenancies should they choose to rescind their purchases before assignment.

Hoisting of National Flag at Rented Provisional Regional Council Sports Grounds

6. **MR YEUNG YIU-CHUNG** (in Chinese): *It is learnt that in renting a*

sports ground under the Provisional Regional Council for the purpose of organizing activities, a secondary school was told that prior approval from the Director of Administration had to be sought if it wished to hoist the national flag at the venue. In this connection, will the Government inform this Council:

- (a) why schools are required to seek prior approval for hoisting the national flag at the rented Provisional Regional Council sports grounds; whether it will request the Provisional Regional Council to consider reviewing and revising such a requirement; and*
- (b) whether it knows the total number of applications for hoisting the national flag in the sports grounds of the Provisional Regional Council and the Provisional Urban Council since 1 July 1997, the number of applications approved and the details of such cases?*

CHIEF SECRETARY FOR ADMINISTRATION (in Chinese): Madam President,

- (a) According to the Administrative Guidelines for the Display of the National and Regional Flags and the National and Regional Emblems issued by the Administration Wing of the Chief Secretary for Administration's Office on 3 July 1997, other than those locations and occasions where it is required to display the national flag as specified in the Guidelines, prior approval of the Director of Administration should be sought for flying or displaying the national flag at any government buildings and offices. Such a requirement is to ensure that the national flag is displayed only at appropriate locations and on dignified occasions.

Consideration is being given to introducing administrative measures to streamline the procedures of processing applications for displaying the national flag at certain locations and on certain occasions (for example, schools organizing athletic meets at government venues).

- (b) Since 1 July 1997, the Administration Wing has received one application through the Provisional Regional Council from a secondary school for flying the national flag at the opening and

closing ceremonies of the school's athletic meet at a sports ground under the Provisional Region Council. Approval was granted by the Director of Administration on the day the application was received. So far, the Administration Wing has not received any applications from the Provisional Urban Council.

Installation of Escape Doors with Alarm System at Emergency Exits

7. **DR TANG SIU-TONG** (in Chinese): *Will the Government inform this Council whether:*

- (a) *escape doors equipped with alarm systems have been installed for emergency exits in all the housing blocks of the public housing estates in Hong Kong; if not,*
 - (i) *which housing blocks have still not been equipped with such facilities;*
 - (ii) *does the Administration have any plans to install such facilities for those housing blocks; if so, what the details are; and*
- (b) *there are any escape doors leading to the roofs in any housing blocks being locked up habitually; if so, how the authorities deal with this situation?*

SECRETARY FOR HOUSING (in Chinese): Madam President, there are security facilities in all the blocks in public housing estates managed by the Housing Authority, except for rental blocks due to be redeveloped in the next few years.

About 300 blocks are provided with "System A" security facilities which include, *inter alia*, security doors fitted with alarms at the emergency exits.

The remaining 700 rental blocks are provided with "System B" security facilities, which do not include security doors fitted with alarms at the emergency exits. The Housing Authority is considering to upgrade the security facilities of these blocks from System B to System A.

Access to roofs of public housing blocks is normally not restricted. In those cases where there is no access to the roof top, other means of emergency escape are provided.

Sub-quota of One-way Permits for Children of Hong Kong Permanent Residents

8. **MR HUN YIU-FAT** (in Chinese): *The Director of Immigration indicated that the Administration would, in conjunction with the mainland authorities, review at an appropriate time the existing daily quota of 150 One-Way Permits (OWPs) set in 1995. It is learnt that, within the overall daily quota of 150, there has already been an increase since 1 January 1998 in the sub-quota for children of Hong Kong permanent residents who have the right of abode in Hong Kong under Article 24(2)(3) of the Basic Law. In this connection, will the Government inform this Council:*

- (a) *of the present daily sub-quota and the waiting time for coming to Hong Kong in respect of the following categories of OWP applicants respectively:*
 - (i) *the aforesaid children of Hong Kong permanent residents, at or below the age of 20;*
 - (ii) *the aforesaid children of Hong Kong permanent residents, above the age of 20;*
 - (iii) *reunion of spouses;*
 - (iv) *dependant children coming to join relatives in Hong Kong;*
 - (v) *persons coming to Hong Kong to take care of their dependant parents;*
 - (vi) *dependant elderly people coming to join relatives in Hong Kong; and*
 - (vii) *inheritance of property;*

- (b) *of the implications on other categories of OWP applicants brought about by the increase in the daily sub-quota for the aforesaid children of Hong Kong permanent residents;*
- (c) *of the date of implementing its plan to review the present daily OWP quota in conjunction with the mainland authorities;*
- (d) *whether it has plans to discuss with the mainland authorities the question of assigning a separate OWP quota for the aforesaid children of Hong Kong permanent residents; if not, why not; and*
- (e) *whether it will consider negotiating with the mainland authorities for shifting the authority for approving OWPs from the mainland authorities to the Immigration Department of Hong Kong; if not, why not?*

SECRETARY FOR SECURITY (in Chinese): Madam President,

- (a) (i) - (vii)

We understand that the current distribution of the 150 daily quota of the One-way Permit (OWP) system is as follows:

- (1) a specified daily sub-quota of 60 for children of all ages who are eligible for the right of abode in Hong Kong under Article 24(2)(3) of the Basic Law;
- (2) another specified daily sub-quota of 30 for long-separated spouses (who had been separated from their spouses in Hong Kong for over 10 years); and
- (3) an unspecified daily sub-quota of 60 for others, 80% of which (that is, 48 per day) are granted on the grounds of reunion of spouses (these spouses can bring along with them

a child under the age of 14). The remaining 20% of the 60 unspecified sub-quota (that is, 12 per day) are allocated to other categories as described in the Points System introduced in May 1997. They include dependant children coming to Hong Kong to join their relatives; persons coming to Hong Kong to take care of their dependant parents; dependant elderly people coming to Hong Kong to join their relatives; and those who enter Hong Kong for inheritance of property. There is no further breakdown on the sub-quota allocated to each of these other categories.

As regards the waiting time for admission into Hong Kong in respect of various types of OWP applicants, the Administration is working on ways to collect accurate information on the subject.

- (b) The increase of the specified sub-quota for eligible children from 45 to 60 per day within the overall 150 OWP daily quota ceiling as from 1 January 1998 means a corresponding reduction in the unspecified sub-quota available to other categories.
- (c) A review will be carried out in the second half of 1998 to take stock of the progress of admission of eligible children and of other categories.
- (d) There is no plan to ask the mainland authorities to make available a separate type of OWPs to eligible children. This decision has been made taking into account our capacity to provide quality education, social services and infrastructure facilities to the community.
- (e) OWPs are issued to mainland residents under the relevant law of the Mainland to exit the mainland. It is not appropriate to shift the authority for OWP approvals from the mainland authorities to the Immigration Department of the Hong Kong Special Administrative Region (SAR). The current involvement of the SAR Government in the OWP system in general includes discussion and agreeing with the mainland authorities on the quota

and sub-quota, and playing a role in assessing the eligibility of those who claim to have the right of abode under Article 24(2)(3) of the Basic Law. This arrangement is consistent with Article 22 of the Basic Law, and has brought about a number of improvements to the OWP system, such as the introduction of the Points System in May 1997.

School Building Projects

9. **DR RAYMOND HO** (in Chinese): *It is reported that, owing to the sluggish property market and the reduction in government expenditure, the Education Department has withheld the implementation of two policies, namely, co-operating with estate developers to build school premises and revising the mode of funding for school maintenance projects. In this connection, will the Government inform this Council of the school building projects and schools affected as a result; and when the Education Department will implement these two policies?*

SECRETARY FOR EDUCATION AND MANPOWER (in Chinese): The proposals of jointly developing new schools with private developers and of revising the funding arrangement for maintenance of school premises are at a preliminary stage of consideration. Details are subject to further study. In the meantime, the School Building Programme and maintenance of government and aided schools are proceeding in accordance with established procedures and as scheduled without interruption.

Assistance to Rural Families

10. **MR LEE KAI-MING** (in Chinese): *It is reported that over 40% of the rural families in Hong Kong are on average earning less than \$10,000 per month. In this connection, will the Government inform this Council whether:*

- (a) *it knows the number of such families; and among these, the number of families which are receiving Comprehensive Social Security*

Assistance (CSSA); and

- (b) *whether it has formulated plans and considered allocating additional resources to help these rural families; if so, what the details are; if not, why not?*

SECRETARY FOR HEALTH AND WELFARE (in Chinese): Madam President,

- (a) According to the July to September 1997 round of the General Household Survey, about 32 000 domestic households living in the New Territories excluding New Towns had monthly household income less than \$10,000. We do not have the number of such families who are on CSSA as we do not classify CSSA families as "rural" or otherwise in our administrative record.
- (b) Low income rural families, like other families in need, may apply for services/assistance provided by government and subvented non-government organizations.

Those in need of financial assistance may, subject to eligibility, apply for assistance under the CSSA scheme. In addition, there is a whole range of social services that are, subject to eligibility, accessible to all in Hong Kong. These include subsidized education, public housing, medical and health care, and welfare services all of which help to improve the living standard of the low income households.

Specifically to improve the living environment of the rural parts of the New Territories, the Home Affairs Department carries out projects under the Rural Planning and Improvement Strategy and Local Public Works programme. The total expenditure under these two programmes in 1997-98 and 1998-99 is estimated at \$365 million and \$453 million respectively.

The Regional Services Department (RSD) also provides a wide range of environmental health facilities (for example, public toilets,

refuse collection points) and leisure services facilities (for example, sportsgrounds, sitting-out areas and recreation and sports facilities) in the New Territories to serve our rural population.

In 1997-98 and 1998-99, the expenditure on the environmental health facilities is estimated at \$59 million and \$71 million respectively. In addition, the RSD will spend \$415 million and \$423 million on planned leisure services projects in 1997-98 and 1998-99 respectively.

Cross-border Traffic

11. **MR NGAN KAM-CHUEN** (in Chinese): *In view of the busy traffic commuting between Hong Kong and the Mainland, will the Government inform this Council:*

- (a) *whether it knows the number of Hong Kong drivers holding driving licences issued by the mainland authorities and the number of mainland drivers holding driving licences issued by the Hong Kong authorities;*
- (b) *of the types and the respective numbers of Hong Kong vehicles which are allowed to enter the mainland; and*
- (c) *of the types and the respective numbers of Mainland vehicles which are allowed to enter Hong Kong?*

SECRETARY FOR TRANSPORT (in Chinese): Madam President,

- (a) Hong Kong drivers who have obtained mainland driving licences or indeed any driving licences outside Hong Kong are not required to report it to the Government. We therefore do not have statistics on the number of Hong Kong drivers holding driving licences issued by mainland authorities.

Likewise when an applicant applies for a Hong Kong driving licence, we do not require him to provide information on his domicile origin. We therefore do not have record of the number of drivers of mainland origin holding Hong Kong driving licences.

In any case there is no legal definition of "mainland drivers".

Nevertheless, we are able to provide statistics on the number of Hong Kong driving licences issued to holders of overseas driving licences in accordance with Regulation 11 of the Road Traffic (Driving Licences) Regulations. In the past 10 years, the Transport Department issued 18 848 Hong Kong driving licences to holders of mainland driving licences under this Regulation. However, as explained in the previous paragraph, we are not able to distinguish whether these drivers are Hong Kong residents or are currently living in the Mainland.

- (b) As at the end of 1997, the types and numbers of Hong Kong vehicles having permission to enter the Mainland are:

<i>Types</i>	<i>Vehicles</i>
Goods vehicles	22 160
Private cars	4 200
Buses	590
Hire cars	110

- (c) As at the end of 1997, the types and numbers of mainland vehicles having permission to enter Hong Kong are:

<i>Types</i>	<i>Vehicles</i>
Chinese official vehicles (except PLA vehicles)	630
Goods vehicles	610
Buses	60

Improving Recreational Facilities and Other Services in Rural Areas

12. **MR LEE KAI-MING** (in Chinese): *It is reported that while the aging of the population in the rural areas of Hong Kong has become serious, recreational facilities and other services in the areas have not been geared to the changing needs of the population. In this connection, will the Government*

inform this Council:

- (a) *of the size of the population aged 65 or above in rural areas, and its percentage of the total rural population in Hong Kong; and*
- (b) *whether it has any specific plans to strengthen the services and improve the recreational facilities and other services for the elderly in these areas; if so, what the details are; if not, why not?*

SECRETARY FOR HEALTH AND WELFARE (in Chinese): Madam President,

- (a) According to the July to September 1997 round of the General Household Survey, there are about 311 000 people living in areas in the New Territories excluding New Towns. Among them, about 40 000 (13%) are aged 65 or above.
- (b) To meet the elderly people's recreational and other welfare needs, various government departments provide a wide range of services to the elderly in various districts throughout the territory. For instance, the Provisional Regional Council provides a wide range of facilities and services to cater for the needs of residents in the New Territories, including elderly people living in more remote areas. To enhance the services to the elderly, the Regional Services Department (RSD) has the following plans:
 - (i) On leisure services, more activities will be organized for the elderly according to the needs of individual district. Regarding leisure facilities, to cater for the needs of the elderly, the RSD will provide jacuzzi pools at some of the swimming complexes, to provide gateball courts, bowling greens and Tai Chi areas in various Provisional Regional Council venues under planning, and to provide birdcage hooks, chess tables and quiet corners in new park facilities.
 - (ii) On cultural services, the Provisional Regional Council has plans to provide housebound service for members of the community (including the elderly) who find it difficult to gain access to public libraries. For the half-price tickets for

cultural presentations organized by the Provisional Regional Council, a 20% quota is set for each ticket price category in each performance, shared between the elderly and full-time students.

The Social Welfare Department (SWD) also provides recreational and other social welfare services to the elderly. For examples, there are social centres for the elderly in various districts which organize healthy social activities for the elderly residents in the vicinity. In addition, there is home help service to provide meals, personal care and domestic help to the elderly in need. The SWD in conjunction with the local organizations also organizes volunteer service networks to visit elderly persons and provide services to them.

Since rural population is more scattered than the urban population, a flexible approach is being adopted in planning services and facilities for the local elderly people. For examples:

- (i) Some agencies are flexible in utilizing the existing resources with a view to serving a greater number of clients which comprise the elderly as well as other target groups. The elderly-cum-youth centre run by the Hong Kong PHAB Association in Peng Chau, which makes full use of resources through the provision of services for the elderly and the youth at staggered hours is an example.
- (ii) The subvented outdoor and recreational bus service for the elderly is being flexibly deployed to regularly visit rural areas and provide activities to the elderly people living in these areas.
- (iii) To provide home help services to those elderly and other persons who are living in remote areas, some agencies adopt a more flexible approach in delivering the service through home based centres.
- (iv) Since villagers in rural areas enjoy harmonious relationships among themselves and the tradition of mutual aid and

support is well preserved, most of the elderly people who require a support network are taken care of through visits, care and attention from their neighbours, volunteer workers and fellow villagers. Cases requiring special attention are referred to social workers for suitable services. In this connection, the SWD will take part in promoting the virtuous rural ethic of care and mutual support so that elderly people in rural areas can receive support and care while they are living in the community.

Central Poultry Abattoir

13. **DR TANG SIU-TONG** (in Chinese): *Will the Government inform this Council:*

- (a) *of the progress regarding the plan to set up a central abattoir for slaughtering poultry; and*
- (b) *whether it will consider designating a location in every market for slaughtering poultry, in place of the current practice of slaughtering poultry at individual market stalls.*

SECRETARY FOR HEALTH AND WELFARE (in Chinese): Madam President,

- (a) We intend to examine the feasibility of a central system of slaughtering poultry. As a first step, we are currently exploring with the trade the feasibility of having all ducks, geese and other water-fowl for human consumption slaughtered only at the Western Wholesale Poultry Market. Under this proposal, all locally bred and imported water-fowl will be delivered directly to the Western Wholesale Poultry Market for slaughtering.
- (b) Some 71 of the Provisional Urban Council and Provisional Regional Council markets have poultry stalls. Slaughtering of poultry is carried out either in communal scalding rooms or in scalding areas located in the poultry stall, depending on the facilities provided in the market concerned.

Scalding areas in each stall are preferred for public health and

market management reasons. They reduce the risk of bacterial cross-contamination among poultry in different stalls of the same market. If contamination is detected, only the affected stall needs to be closed, whereas in a market with a communal scalding room, all of the poultry stalls would need to be closed. They also encourage better hygiene as the stall operator has a clear interest in maintaining the hygiene standard of his scalding area. Accordingly, poultry stalls in all new markets managed by the Municipal Councils are being provided with individual scalding areas, wherever practicable.

Shortage of Coins

14. **DR DAVID LI:** *In connection with the continuing problem of shortage of coins in circulation in Hong Kong, will the Government inform this Council:*

- (a) *why the problem still exists, as demonstrated by queues of people in front of banks every morning for coin-changing, despite the pledge in September 1997 by the authority to address it;*
- (b) *whether it recognizes that because of the shortage of coins, passengers on public transport have, for several months now, had no choice but to pay more than the exact fares in many cases; and how it proposes to assist passengers on public transport to avoid paying more than the exact fares due to the shortage of coins;*
- (c) *what other measures are in place to address the problem, especially in consideration of the current economic downturn; and*
- (d) *bearing in mind the reply by the Secretary for Transport in response to a question raised in this Council on 10 December 1997 that about 100 million pieces of new coins would be issued per month during the first half of 1998, whether this has been put into practice and if so, the number of new coins that have been issued so far?*

SECRETARY FOR FINANCIAL SERVICES (in Chinese): Madam President,

- (a) We believe that the underlying reason for the shortage was the withdrawal of almost all Queen's Head coins and the 1997 commemorative issue of coins from active circulation by collectors and members of the general public. In 1997, we issued 800 million pieces of new coins to replace the estimated 800 million Queen's Head coins withdrawn. In recent months, some end-users are hoarding new coins in excess of their normal needs for fear of coin shortage. Such hoarding effect has exacerbated the shortage of new coins in active circulation.
- (b) As stated in the Secretary for Transport's reply to this Council on 10 December 1997, shortage of coins has not affected passengers using the Mass Transit Railway, Kowloon-Canton Railway and Light Rail Transit, and those using the Octopus cards on certain routes of franchised bus and ferry services. As regards franchised bus service, we acknowledge that the shortage of coins may render passengers paying a fee which is not parity of the fare. The Government will therefore continue to encourage franchised bus companies to extend the use of Octopus card beyond the existing 40 routes. By mid-February 1998, more than 3.8 million Octopus cards have been sold.
- (c) We believe there are three main solutions to the problem of coin shortage. Firstly, we will continue to supply new coins. Secondly, we will increase the velocity of turnover of coins in circulation. In addition to distributing new coins through the regular channel of banks, we are working with the banks for arrangements to provide new coins to retailers directly. Thirdly, we will seek to extend the use of the Octopus cards as mentioned in (b).
- (d) In the first six weeks of 1998, 206 million pieces of new coins were issued. Between January and September 1998, we expect to issue a total of 1.4 billion pieces of new coins, which is an average of about 150 million pieces per month.

New White Paper on Social Welfare

15. **MR CHAN CHOI-HI** (in Chinese): *In 1991, the Government published the White Paper on Social Welfare into the 1990s and Beyond. In this connection, will the Government inform this Council:*

- (a) *whether there is any plan to draw up a new White Paper on social welfare;*
- (b) *if the answer to (a) is in the affirmative, of the details of the White Paper, including:*
 - (i) *when it will be published;*
 - (ii) *the items to be included for review;*
 - (iii) *whether the formulation of the policy on family services will be covered; if not, why not; and*
- (c) *if the answer to (a) is in the negative, of the reasons for not planning to draw up such a White Paper?*

SECRETARY FOR HEALTH AND WELFARE (in Chinese): Madam President, the White Paper *Social Welfare into the 1990s and Beyond*, published in March 1991, sets out in clear terms the objectives and future direction of growth in the social welfare sector. This has provided, and continues to provide, a solid basis for us to develop our welfare services.

We regularly update our welfare policies and programme targets to meet the changing needs of the community through the Five Year Plan Review. This is a biennial exercise in which, representatives of the welfare sector actively participate. The Review provides a regular opportunity for the Government and the sector to review and examine service needs, taking into account the views of the appropriate advisory committees including the Social Welfare Advisory Committee, the Elderly Commission and the Rehabilitation

Advisory Committee. In the past years, these Committees have examined a wide range of issues covering elderly, family and youth welfare services, rehabilitation services, social welfare manpower planning and the social security system. The Five Year Plan is regarded by the sector as an ongoing and forwarding-looking plan for the provision of social welfare services.

Thus, the present mechanism to review the demand for and supply of the welfare services has worked well. As such, we consider the broad directions and policies, set out in the 1991 White Paper, will continue to be valid and we therefore do not see an immediate need to prepare a new White Paper at this stage.

BILL

First Reading of Bill

PRESIDENT (in Cantonese): Bill: First Reading.

APPROPRIATION BILL 1998

CLERK (in Cantonese): Appropriation Bill 1998.

Bill read the First time and ordered to be set down for Second Reading pursuant to Rule 53(3) of the Rules of Procedure.

Second Reading of Bill

PRESIDENT (in Cantonese): Bill: Second Reading. Financial Secretary.

APPROPRIATION BILL 1998

FINANCIAL SECRETARY (in Cantonese): Madam President,

INTRODUCTION

I move that the Appropriation Bill 1998 be read a Second time.

2. This is the third Budget that I have presented for Hong Kong but the first wholly for the new Hong Kong Special Administrative Region of the People's Republic of China. The conditions under which I have framed this Budget are the most complex faced by a Financial Secretary for many years. The historic change in Hong Kong's status in 1997 has put the integrity of Hong Kong's public finances to the proof. The first three quarters of 1997 saw a booming economy in Hong Kong, which brought unprecedented revenues. The Land Fund boosted our reserves significantly. Then came the profound shocks of economic turbulence that swept Asia in the fourth quarter of last year. The effects still linger. In the aftermath lie grave uncertainties for 1998 that demand cool thinking and careful action.

3. I have to find the balance under which we can take forward the new policy programme that the Chief Executive has laid down, meet the ambitious investment programme, advance the social objectives and strengthen Hong Kong's competitiveness, while giving assurance that our public finances will remain stable. Our approach to the economy must be based on sound premises, so that none have grounds to lose faith in Hong Kong. Giving assurance of continuity, matched with incentive for new growth, ranks the highest in my mind.

4. The particular time pressure this year adds complexity to the Budget exercise. The Legislative Council election on 24 May has advanced the presentation of the Budget several weeks earlier than normal, because I wish to give Honourable Members enough time to consider and debate the proposals before this Council rises in early April. I would like to say how grateful I am to Members, despite the tight deadlines, for your constructive and wide-ranging comments during the consultations that I carried out last year. It will become apparent this afternoon that I have drawn heavily on many of your ideas.

5. The main thought that has shaped this Budget is that in this time of economic uncertainty, when many people and businesses have experienced reduction of asset values or face gloomier prospects, the measures that I set out must aim to provide comfort, bolster confidence and strengthen competitiveness. Their object is to help us to ride out the present storm and to work to renew Hong Kong's distinctive strengths.

6. We might meet that objective in two ways. First, by reducing burdens on individuals and giving them new incentives. Second, through measures that strengthen our economy, that help to propagate competitive, enterprising business activity. These two approaches reinforce each other. Individuals who feel less burden or worry are more likely to spend, helping to sustain business activity. Business that is adapting and growing, new start-ups or companies finding new markets, all sustain employment. They also create wealth for investment in education, services and infrastructure that will bring future benefit. All this in time will help to give confidence back to individuals to invest, to spend and to develop new skills.

7. It is the aggregate of all the millions of individual economic decisions made each day by the citizens and the businesses of this city that drives our economy. We must give room for the power of diversity, the natural growth of the free market, and the efficiency of individual choice to work. The Government, while exercising imagination, will not impose an unnatural economic strategy. We will direct our actions to removing constraints; to providing a common stock of education, social services and infrastructure; and to instituting sound, efficient regulation. That creates conditions in which the greatest diversity of individual endeavour has opportunity to develop to our common advantage. A healthy, sustainable economy depends on this.

8. Today, the economic outlook for Hong Kong is not as bright as we all had hoped last year. While our finances are robust, the financial climate around us in Asia has changed and bears have been roaming through the markets. Things will get better, but it will take time, and there may be more knocks along the way. Given our exposure to external events, we cannot avoid collateral damage. But remember this: we are in Asia, but Asia with a difference. We own a truly free market, a modern, resilient economy, able to evolve rapidly with changing conditions.

9. We are that because your Government has kept itself small, has left each individual the freedom to make his or her own economic choices. Our fiscal prudence has sometimes been criticized but I hope that the virtues of that prudence will become more apparent today.

10. Let me now look in more detail at how our economy performed last year and our prospects for 1998. After that I will give reports on the crucial issues of the maintenance of the linked exchange rate system and banking and market

regulation, before moving on to budgetary details.

THE ECONOMY IN 1997

11. 1997 was an eventful year for the Hong Kong economy. Reunification with China took place without any disruption of economic activity. Indeed, strengthening confidence in the run-up to 1 July provided a significant boost to activity in the first half of the year. The stock and property markets went through a period of exceptional growth. In retrospect, the markets were becoming overheated, and correction was becoming likely even without the external shock in the fourth quarter. (Table 1)

12. By the middle of last year, our economic growth rate had increased for six consecutive quarters, one better than the other. Bolstered by continued growth in real incomes and by the wealth effect created by the surge in the stock and property markets, consumer spending grew at the highest rate for several years.

13. Investment spending strengthened further. Of particular significance was the well sustained momentum of investment in machinery and equipment in the private sector, which was instrumental in lifting our productivity and efficiency.

Private sector building activity also picked up markedly, reflecting demand in the property market and consistent with our objective of raising supply.

14. Despite strong performance in the first three quarters, GDP for the year grew by 5.2%¹ only, slightly above the 5% growth in 1996. This reflects the effects in the final quarter of the regional financial turmoil. (Table 2) Still, growth remained in line with the projected medium-term trend rate of 5%. Private consumption expenditure grew by 7.3%, and gross domestic fixed capital formation by 12.8%. Unlike the preceding two years, the private sector once again provided the major impetus for growth. That was as it should be, given the predominance of private enterprise in our economy.

15. On the trade side, total exports of goods grew by 6.1% in 1997.

¹ All figures are in real terms (that is adjusted to remove the effects of inflation) unless otherwise stated.

Though improved from 1996, this was below the growth rate attained in previous years. The growth in re-exports moderated to 6.8% but domestic exports reversed their earlier decline to grow by 2%. Modest import demand in many of our major markets, along with the strength of the US dollar, continued to restrain our export growth.

16. Inbound tourism suffered badly. That was the key reason for the setback in our overall exports of services to virtually zero growth in 1997. An expected surge in visitors for the reunification ceremonies did not come about. Visitors were deterred by a perceived shortage of hotel accommodation and, very likely, by the level of room tariff charged at that time. The number of visitors from Japan fell sharply, though this followed a large increase in the preceding year. There were fewer visitors, too, from other parts of East Asia. The regional financial turmoil contributed to this.

17. One positive trend has been the continued moderation in inflation. The Composite Consumer Price Index rose by 5.8% and the Consumer Price Index (A) by 5.7% in 1997, the lowest for 10 years. (Table 3) The labour market had been tightening for the most part of 1997, with the unemployment rate coming down to 2.2% in the third quarter, before easing back to 2.5% by the turn of the year. Yet this tightening did not generate great pressure on labour costs, as productivity continued to rise in the economy. (Table 4) Equally, the earlier exuberance in the property market did not add too much pressure to property rentals. Meanwhile, the prices of our imports generally declined, thanks to the linked exchange rate and the strength of the US dollar.

Effect of the regional financial turmoil on the economy

18. The financial upheavals in many ASEAN countries during July and August, and in Northeast Asia during November and December, sent successive shock waves across the region, extending into the major global financial centres. Delay in taking credible action to deal with the roots of the problem in certain countries deepened and prolonged the pain beyond anything one could have expected. Hong Kong could not avoid the contagion effect. The turmoil induced a major speculative attack on the Hong Kong dollar, tight liquidity at the banks, higher local interest rates and a severe setback in the local stock market. Although our currency link and the financial sector as a whole stood firm throughout the turmoil, business suffered and the economy took a significant downturn towards the year end. The setback in the stock

market has been a painful experience for many of us. It has also accelerated consolidation in the property market. The adverse wealth effect thus created placed a brake on consumer spending. As the property market slowed, investment in new development projects also eased.

19. The likely effect of the financial turmoil on our external trade has aroused concern. The financial fallout has dealt a heavy blow to growth in many economies in the region. The substantial depreciation in the currencies of the primarily affected economies may weaken the price competitiveness of our exports against theirs in the world market. But our export product mix differs from that of other regional exporters. The higher costs of their imported raw materials will offset much of the price advantage their products may have gained. And, with nearly 85% of our GDP derived from services, our external competitiveness hinges not merely on price, but ever more on product differentiation, service diversity, quality and sophistication — the adding of high value to all that we do.

Economic Reform in the Mainland of China

20. Particularly in a period of turbulence elsewhere in the region, we were fortunate to have the Mainland of China as our economic hinterland. The economy there continued to grow robustly, at around 9% in 1997, with near zero inflation and with little spill-over effect from the regional financial situation. These conditions have served as the platform for yet more extensive economic reform.

21. For Hong Kong's part, it is our keen desire as well as our strong interest for these reforms to succeed. We welcome the process of liberalization in trade, investment and the tertiary sector proceeding further and deeper. This will underline the case for China's accession to the World Trade Organisation, which we firmly support. We believe that Hong Kong's economy and systems have a lot to offer to the Mainland's reform and modernization drive. In turn, reform there will provide our companies and workforce with wider opportunities and will give our economy at large more prospects for advancement.

ECONOMIC OUTLOOK FOR 1998

22. Much uncertainty still prevails on the regional financial scene.

Restoration of a stable financial environment is a pre-condition for returning to good economic growth for the region. Until this happens, Hong Kong's opportunities will be constrained, and we will continue to suffer from the spilling over of uncertainty.

23. On the other hand, economic growth in the Mainland of China should continue to be steady. Overall, the economy there is expected to move forward in reasonable shape, with GDP rising by 8% this year and with the ongoing process of reform and structural change adding potential for further growth.

24. I expect growth in Hong Kong's own economy to be moderate for much of 1998. For the year as a whole, I forecast GDP to grow by 3.5%. Although much depends on the duration of the region's financial instability and on the speed of our own adjustment process, I consider this growth forecast realistic.

25. For the two major components of domestic demand in 1998, I forecast private consumption expenditure to grow by 3%, and gross domestic fixed capital formation by 2.5%.

26. In the external sector, given the strength of the US dollar relative to other Asian currencies, exports of goods in 1998 may have a slightly slower growth than in 1997. The demand situation in our major markets is mixed. Economic growth in most of East Asia, except the Mainland of China, has been set back considerably, and the Japanese economy is expected to stay sluggish. The United States and the United Kingdom should continue to enjoy solid growth, if perhaps at a lower rate than they have seen over the past few years. Continental Europe may pick up gradually, but the conditions required for European Monetary Union could inhibit a fast revival. Trade with the Mainland should remain a bright spot. Taking these factors together, I forecast total exports of goods in 1998 to grow by 4.8%, comprising increases of 1% in domestic exports and 5.5% in re-exports.

27. Although our tourism industry has been making intensive efforts to regain business for Hong Kong, it may take some time to recover from the recent blows. Nevertheless, the edge we possess in a wide range of service

areas should help sustain growth in our trade-related services, as well as in our export of financial and other professional and business support services. Taken together, I forecast exports of services in 1998 to grow by 3.5%.

28. As the economy slackens, unemployment is likely to rise in the months ahead. The Secretary for Education and Manpower has already taken the initiative to co-ordinate all the agencies involved in giving services to those who lose employment, to ensure that quick and efficient help is given, especially in retraining and finding new jobs. Training and retraining programmes have been amply funded. We are pressing ahead with major public sector construction programmes which provide much direct employment. To ensure that those seeking jobs can take advantage from the opportunities in this area, we will shortly be approaching the Finance Committee of this Council for a grant of \$80 million to the Construction Industry Training Authority to expand its programmes. We will do all that we can to ensure that adjustments to the downturn can take place quickly, and that the economy is able to generate new jobs again promptly as conditions start to improve.

29. On inflation, I forecast the increase in the Composite Consumer Price Index to settle further to an average of around 5% in 1998. Inflation from external sources is expected to remain subdued, given the continued strength of the US dollar; currency depreciation in the East Asian economies; low inflation in our major suppliers; and, soft world commodity prices. Domestically generated inflationary pressures are likely to recede as overall economic growth moderates, placing less strain on local resources. The easing in property prices and rentals will improve home affordability and reduce the cost of doing business in Hong Kong.

30. Today I will be setting out budgetary measures that should help the economy as a whole to manage in these difficult times, to adjust and to achieve the growth I expect. But those measures will be fully consistent with our traditionally prudent fiscal principles.

CURRENCY STABILITY AND MONETARY MANAGEMENT

31. Crucial to Hong Kong's prospects in the years ahead is the stability of the currency. There is understandable public concern at the price we are paying

for defending the Hong Kong dollar. The sharp interest rate hike on 23 October last year, though very short-lived, was unprecedented and hit business hard at the time. Higher local interest rates since then have triggered corrections in the stock and property markets and exerted pressure on businesses and home buyers. The downward adjustment in asset values is painful, but we need to keep a sober perspective. Exuberant sentiment last year had been pushing up the price of stocks and property to levels which were hardly sustainable.

32. A free floating exchange rate would not be a panacea. Regional economies with floating exchange rates have seen sharper falls in their asset values. From the start of 1997 to early February this year, the value of stocks in Thailand, Malaysia, Indonesia and South Korea have fallen by 62%, 65%, 76% and 54% respectively in US dollar terms; and that in Singapore by 47%, compared to the drop in value in the Hang Seng Index of 22%. (Table 5) The ongoing experience in regional economies shows that financial markets are having difficulty in finding sustainable levels. The uncertainty and disturbance that would be caused by a change in our exchange rate regime could destroy public confidence in the monetary system. That would fatally damage Hong Kong as the leading international financial centre in the region. The loss of the stability that we have provided in the region could also trigger a fresh wave of devaluation that would wash back on us.

33. Some commentators have suggested that Hong Kong would benefit from a competitive devaluation. Frankly speaking, devaluation is not a way out. Everything that we manufacture we make with imported products. Almost everything we consume we import. Devalue today and tomorrow all those imports will cost us more. That would mean a surge in inflation and an immediate economic disruption. I do not see what gain there would be for Hong Kong to add the pains of high inflation to the hard times we already face.

34. The linked exchange rate mechanism has protected the value of the Hong Kong dollar. We should remember that as our economy moves ever further into high value added services and manufacture, the depreciation of other currencies in the region affects us less. Our flexible economic system and increasingly well educated, well trained management and workforce can maintain competitiveness through tighter cost controls, productivity improvement and expansion into new markets. And there is an upside to the painful adjustment process that is now going on. As property prices, rentals

and other costs come down, the competitiveness of our economy is steadily strengthening.

35. Most people understand the need for currency stability. The question is, could we achieve it in a less painful way? As Members know, I have been consulting widely on this issue and last October, I asked the Hong Kong Monetary Authority (HKMA) to conduct a review of the currency defences. As well as to the International Monetary Fund (IMF) and overseas experts, I want to give my personal thanks to all those local academics, analysts, businessmen and market participants who gave us much helpful advice and raised many pertinent questions for consideration.

36. A clear consensus that emerged from the consultations and review is that the linked exchange rate mechanism has served us well for the last 14 years. It has been the anchor for monetary policy and stable economic growth. It should continue.

37. The system has been working as designed. This was the verdict of the IMF last year, and I quote: "It is important to recognize that allowing interest rates to rise in response to exchange market pressures is an essential element of the currency board mechanism that lies at the heart of Hong Kong's monetary arrangements. Recent events demonstrate the system is working exactly as intended....." end quote. The reforms that the HKMA has introduced over the past decade have proved themselves in practice. Indeed, the international banking community has warmly hailed the Hong Kong dollar exchange rate system as a pillar of stability and the greatest moderating force during the financial turmoil.

38. Some suggestions have been made, designed to maintain both exchange rate and interest rate stability under exchange market pressures. We are studying these proposals carefully. Our analysis so far suggests that, to a varying degree, they carry downside risks of undermining the credibility of the linked exchange rate mechanism and incurring contingent liabilities on our foreign reserves. The virtues of the present linked rate mechanism are its simplicity and transparency. We must be careful not to complicate the operations of the currency board. That would detract from its robustness and add to uncertainty.

39. There has been some controversy over the exercise of discretion in

monetary management by the HKMA, arising from its role as the lender of last resort for the banking system. Discretion is necessary, and I am satisfied that it has been exercised in a manner consistent with the discipline of the currency board system. I am pleased that the HKMA has issued clarification on how banks can access the Liquidity Adjustment Facility, which has had the effect of calming market sentiment. To the extent to which this would not undermine the effectiveness of its actions, the HKMA intends to provide further clarification of the circumstances in which its discretion would be exercised, for the benefit of market participants.

40. The review since October has highlighted useful lessons for Hong Kong from the regional turmoil. It has reinforced our conviction that we must maintain sound macroeconomic fundamentals in terms of a consistent monetary policy, prudent fiscal discipline and a non-interventionist economic philosophy. At the micro level, we must reinforce our efforts to ensure that banks in Hong Kong manage their risks prudently; that they pay special attention to the quality of their assets, so as not to be overly exposed to those that are vulnerable to interest rate volatility; and that they have regard to the conditions imposed by the currency board system.

41. The HKMA has done well in banking supervision. Generally our banks are well managed. They have some of the highest capital adequacy ratios in the world. They are efficient and competitive. But we are not complacent. The HKMA has announced a consultancy study into the banking system this year. This will address whether measures are needed to improve the resilience of the system to internal and external shocks.

42. Many have asked me how long the present relatively high interest rates will last. That all depends on how long the regional economic situation remains unsettled. The higher interest rates reflect the perceived risks in Asia and the slowdown in capital flows to the region. Other regional currencies with floating exchange rates are also facing higher interest rates. I cannot predict when better conditions will return. The situation varies greatly from country to country, and it is clear that the problems are not only financial. Structural, political, institutional and social problems have to be addressed in many different combinations. I am heartened by the steps being taken in South Korea, by the signs in Japan and by the support provided by the IMF and the Asia-Pacific Economic Co-operation. I will continue to hope and to work

for the best. But we will also continue to guard Hong Kong against the threat of further squalls.

Stock and financial market regulation : cleaning up our act

43. The review that I began last October was not limited to the linked exchange rate mechanism. I sought views on the whole range of issues affecting our securities and futures markets. While I am generally satisfied that the regulatory framework that we have built up since 1987 provides us with a reliable and efficient trading and settlement system, even at times of extreme volatility, there are certainly areas where we can make further improvements.

44. Events in January have given added urgency to reforms. With hindsight, there are areas where we have allowed more manoeuvring room in the system than is appropriate for the protection of investors and shareholders. These events have led me to ask for certain issues to be re-examined. That is the reason why I am not yet in a position to publish a full report on the review. I expect to be able to do this within March. Today I want to let this Council and the community know the issues we are addressing.

45. Hong Kong is an international financial centre and an integral part of the world's financial market. We cannot immunize our markets from the volatilities that the rest of the region and the world experience. But there are suggestions that the combined effects of a number of trading activities might have exacerbated market volatility in October last year. These activities include derivative trading, particularly in index futures and derivative warrants, and borrowing and short selling of stocks. We are examining these suggestions very carefully. In particular, we are looking at allegations of market manipulation. We will take appropriate counter-measures where these are justified.

46. There are also questions of whether intermediaries and their related companies have been managing their risk exposure in a prudent manner, and whether any individual default cases could have systemic implications. We are looking at the adequacy of the Financial Resources Rules on registered entities and the regulators' capability in surveillance, monitoring and enforcement of compliance. We are examining whether the margins and marks are adequate to ensure a secure settlement system. We are also

considering how we should expand the existing regulatory regime to govern companies dealing with margin financing. We are mindful of the need to strike a balance between prudent risk management at the institutional and market levels and the flexibility that businesses require to remain viable and for markets to develop and flourish.

47. We are also addressing the issues of disclosure and investors' education. Timely disclosure of adequate and accurate information by companies is essential in the making of a fair, efficient and transparent market. This will enable investors to make informed decisions and take their own investment risks. At the same time, it is also necessary to extend our efforts to educate investors, so as to enhance their understanding of their risks and of their rights.

48. Some of these matters are complex. We are working closely with the Securities and Futures Commission, the exchanges and clearing houses, as well as the financial industry to implement improvements. I am determined to do this promptly and thoroughly. The commitment to reform the securities and futures market in 1987 has been the foundation stone for the success of our financial services industry since then. Over the last four months our markets have again been tested severely. The fact that they have functioned well gives us no grounds for complacency. We will make good our commitment to achieve the very highest standards of market management and probity, so as to safeguard the reputation and resilience of Hong Kong as a leading international financial market.

THE PUBLIC FINANCES

49. I now turn to the state of our public finances and I begin with the anticipated out-turn for the current financial year.

1997-98 Out-turn

50. A year ago, I said that this would be a unique year. In the event, it has proved to be so in ways which I could not then have foreseen. I have already referred to the unprecedented turmoil experienced in regional currency and stock markets, to our defence of the linked exchange rate, and to the impact this has had on Hong Kong's asset markets.

51. But there has been another factor which marked 1997-98 as a unique year. That was the exceptional and record level of government receipts from land

premiums and stamp duty in the first half of the financial year.

52. As a result (and before taking account of the Land Fund), I am now forecasting a surplus for 1997-98 of \$77 billion, \$45.3 billion higher than the surplus of \$31.7 billion I originally estimated in my 1997 Budget. Our total fiscal reserves at the end of March 1998 (including the Land Fund) are expected to be \$445.6 billion.

Revenue

53. I now expect revenue for the year to be \$39.9 billion more than originally estimated.

- Recurrent receipts are forecast to be \$23.7 billion higher than originally estimated. Of this, \$16.2 billion comes from higher than expected receipts from stamp duty, reflecting the exceptional level of turnover in both the stock and property markets in the first half of the financial year. Stamp duty collections for the first six months of 1997-98 were more than two and a half times the level in the corresponding period in 1996-97. Firmer interest rates, together with the increased surpluses in 1996-97 and 1997-98, have brought in higher interest earnings on our fiscal reserves. We have also seen slightly better receipts from Salaries and Profits Taxes.
- Capital receipts are now expected to be \$16.2 billion above the original estimate. This is explained almost entirely by higher than anticipated receipts from land premiums which are now forecast to be \$16.8 billion greater than estimated. This is partly because during the year we made available more land for sale than was anticipated at the time of preparing the 1997-98 Estimates. The other reason is the surge in property values in the first half of 1997.

Expenditure

54. On the expenditure side, the revised estimate for 1997-98 is \$197.7 billion, an underspending of \$5.4 billion. Mainly as a result of some slippage in capital projects and a lower than expected redemption rate of New

Territories land exchange entitlements, spending from the various special funds will be \$7.8 billion lower than originally estimated. This is offset by higher than budgeted spending of \$2.4 billion on the General Revenue Account where, as Members of this Council are aware, we have taken advantage of our strong financial position to set up the Quality Education Fund for which no provision was made in the original estimates.

The Use of Reserves

55. Before looking at our finances for 1998-99, I would like to turn to the matter of our fiscal reserves, which I promised to address when replying to the budget debate last year.

56. Two events since then have brought this matter into the centre of my concerns. First is the addition of the Land Fund to the fiscal reserves. This marked an unparalleled increase in our reserves and a unique boost to public finances that can offer Hong Kong an enduring advantage. Second has been the crisis affecting Asian financial markets. This has made good reserves more than ever a matter of necessity.

Purposes and Levels of Reserves

57. I see three purposes for which it is necessary for the Administration to hold substantial public funds in reserve. I define these as reserves needed to meet the operating, the contingency and the monetary requirements of public finance. Let me elaborate.

58. The operating requirement is for the Administration to have money on hand to meet its day to day cash flow needs and to cover the several months in the financial year when expenditure exceeds revenue. This is the smallest of the reserve requirements. An amount equivalent to three months of government expenditure is adequate for operational purposes.

59. The contingency requirement is to offset the effects of any downswing in the economic cycle, or to cope with the consequences of unforeseen events in the world or the region that would have serious implications for public finance. At such times, an adequate level of contingency reserves enables us to hold fast to our investment and spending plans without the need for increased taxation, helping the economy adjust quickly to new conditions. There can be no absolute definition of what an adequate level of contingency reserves is. I

think it makes sense to set a range, in proportion to total annual expenditure. During years of strong economic growth, we could aim for the high end of the range. During down turns, we can let this portion of the reserves fall back towards the lower end of the range while we maintain public investment and expenditure programmes. Taking into account the three months' government expenditure I propose to set aside as our operational reserve, I consider that an amount equal to nine months' expenditure should be sufficient to meet our contingency requirement. Given the unpredictability of contingencies, a margin of plus or minus three months' expenditure should be allowed.

60. On the monetary side, a reserve to underpin exchange rate stability is desirable. Both the HKMA and the IMF have emphasized the importance of placing our fiscal reserves with the Exchange Fund to strengthen public confidence in our policy framework. I accept this need. Recent events have underlined it. It is not easy to define the appropriate level of fiscal reserves for monetary purposes, except that experience has shown that the higher the fiscal reserves, the greater the public confidence. We have decided to adopt the Hong Kong Dollar money supply under the M1 definition as the benchmark. Again, a range would apply of plus or minus 25% of M1.

61. It is important to stress that I have proposed these guidelines in the light of present conditions, fresh from the experience of an historic regional financial crisis. My colleagues and I will review the guidelines once we have built up some experience in following them.

Adequacy and Integrity of Reserves

62. Our estimated government expenditure in 1997-98 is \$198 billion. M1 money supply averaged \$202 billion in 1997. This indicates that, to meet the guidelines, the fiscal reserves at the present time should stand at between \$300 and \$500 billion. (Table 6)

63. Thanks to the Land Fund, which came into our accounts during the year, our accumulated fiscal reserves of \$446 billion at 31 March 1998 do fall within the range needed to cover all our requirements. But the addition of the Land Fund is a one-off contribution. This brings us to the heart of the matter. How can we ensure that we maintain the fiscal reserves at a satisfactory level in future?

64. We have, in recent years, placed those reserves with the Exchange Fund. We have received a fixed rate of return, free of market risk. But that return has not kept pace with inflation. With effect from 1 April, we will link the return to that achieved by the entire Exchange Fund. While there will now be no guaranteed revenue, and still no certainty that the interest will match inflation, the return for the active Exchange Fund portfolio over the past four years has been consistently above the fixed rate of return we received previously. In addition, I will consider declaring a special dividend from the Exchange Fund if necessary to maintain the real value of that portion of the fiscal reserves which is kept for monetary purposes.

65. I shall also ask both the Land Fund Advisory Committee and the Exchange Fund Advisory Committee to examine how to maximize investment returns while minimizing risk, and how to adjust the asset allocation of the two Funds so that their investment policies can be aligned by 1 April 1999, as envisaged when the Government took over the Land Fund. This will bring about administrative efficiency and economies of scale. In the interim, the HKMA continues to pass to the Government the actual return of the Land Fund, net of costs.

Funds

66. The present difficulties have led me to re-examine how much more I can do with our reserves and fund arrangements to give support to individuals and to the economy. I have also been examining the suggestion made in the Economic Sub-Group of the Preparatory Committee that we should set up more funds for investment purposes. On that point, Members are aware that we have the Capital Works Reserve Fund and the Capital Investment Fund, established under section 29 of the Public Finance Ordinance. The estimates published last Friday make clear that in the coming year we intend to commence work on \$62.9 billion worth of major capital projects to be funded from the Capital Works Reserve Fund. We will also be making substantial investments from the Capital Investment Fund. \$15.2 billion will be provided in 1998-99, chiefly as equity for the West Rail Project. We have the Loan Fund, which extends financial assistance to worthwhile projects or individuals in need. Members will be aware of the massive new loans that the Chief Executive announced last October. Expenditure from the Loan Fund will amount to another \$16.4 billion in the coming financial year. There is also the

Lotteries Fund, providing a steady source of financial support to development of welfare facilities. It will provide over \$1.1 billion in 1998-99. All the funds I have mentioned are operating well and are not short of liquidity. There is no need to establish more general funds of this nature. We can, however, inject resources into specific funds when needed. The \$5 billion Quality Education Fund recently approved by this Council is one example. The \$80 million grant to the Construction Industry Training Authority I proposed earlier would be another. In the remainder of this financial year, I also intend to approach the Finance Committee for approval to make one-off grants to the Environment and Conservation Fund, the Occupational Safety and Health Council and the Consumer Council. We will continue to consider other areas where one-off injections may be beneficial.

67. I am acutely aware that the size of fiscal reserves which I propose to maintain may be the subject of debate. But I am convinced that present circumstances fully justify them. Good reserves are vital to international confidence in our finances and in the maintenance of the linked exchange rate. They are fundamental to our economic prospects.

68. For me, as for all Financial Secretaries of this small city, it is wise to recall the words of a foreign Finance Minister, years ago, confronted with a need for maintaining expenditure in difficult days. "I have no nest eggs", he said: "I am looking for someone else's nest to rob next year." I hold responsibility for safeguarding Hong Kong's nest egg, our reserves. We have today the unprecedented opportunity to set those reserves upon a largely self-sustaining basis: a basis that will underpin our financial stability and economic prospects no matter whether the future brings more storm clouds or sunshine. I could justify to no one: not to this Council; not to the community; not to my successors, were I to compromise the safety that Hong Kong's hard earned reserves have established for us all. I will not set in train actions today, however well-intentioned, that will drain away those reserves and risk my successors having to become robbers of the community's wealth.

69. I want to emphasize though, that even as our reserves have been strengthening, we have been increasing support to the community. Over the last 10 years, recurrent government expenditure has grown by 65%. I emphasize that that is growth in real terms, almost precisely in line with GDP growth. Over that period, recurrent expenditure on social welfare has grown by 202%. Again, that is growth in real terms. Next year it will grow by

13.6%. Consistent, substantial improvements in social services are being made.

70. I am deeply aware of the needs that many people in the community have, and of the fears that have been aroused by the difficulties we are now going through. No one in a position of public responsibility can be insensitive to them. I trust that what I have said already, and the measures I am about to set out, will show my commitment to respond to those needs and concerns. But I must stress that my actions are not based on impulse. They are made possible because of the prudent management of our finances and careful control of the public sector's role within the economy. We have saved, not run up debts. We have not committed ourselves to spend more than we can afford. We have made sensible investments. These simple principles will remain inviolate in their application to our public finances.

The Prospects for 1998-99 and Beyond

71. Let me now turn to the prospects for 1998-99 and beyond. In a time of financial turmoil, those like myself who are responsible for public finance find themselves faced with two contradictory demands. The first is from global financial markets and international financial institutions to demonstrate that we are living within our means, maintaining or strengthening revenues, controlling expenditure and not squandering reserves to shore up unsound policies and practices. The second is from our own people, faced with loss or hardship, for relief through more public expenditure or less taxation.

72. Thanks to the care with which our finances are managed, I can respond positively to both those demands. Three significant buttresses to our revenue base help us do this.

- First, since 1 July 1997 we now retain the full proceeds of revenue from land transactions.
- Second, we will benefit from the investment earnings on the substantially increased level of fiscal reserves.
- Third, the introduction of Government rent for the new grant or extension of land leases beyond 30 June 1997 results in an

additional and stable source of revenue yielding over \$4 billion a year.

73. These boosts to our revenue are reflected in my Medium Range Forecast which, as in the past, is published as an Appendix to the printed version of this speech. It is a critical feature of our management of the public finances that we look at the impact of our expenditure and revenue proposals not only in the context of the coming financial year but also over the medium term. This is to assure ourselves and the community at large that our proposals are affordable, not just this year but in the years ahead. Such a discipline is more important than ever in this time of uncertainty.

74. The Forecast is based on conservative assumptions. It shows that in each of the next four years, the coming budget year and the following three, we should continue to achieve budget surpluses, although much less than the exceptional surplus for 1997-98. In 1998-99, we estimate there will be a balance of \$10.7 billion, followed by a further \$70.8 billion over the remaining three years of the Medium Range Forecast period. By the end of 2001-2002, our fiscal reserves should have grown to \$527 billion. This remains within the guidelines I have just announced. The lowering in the proportion of reserves to expenditure reflects the difficult economic conditions we are now facing.

75. Set against the size of the Budget, the uncertainties we face in 1998, and the need to preserve the real value of the reserves over time, the surplus forecast for 1998-99 is prudent. It is just over 2% of budgeted revenue and expenditure. A variation of this order, particularly in today's uncertain circumstances, is insignificant in budgetary forecasting terms. What I am presenting is essentially a balanced budget for 1998-99.

Expenditure in 1998-99

76. After allowing for the initiatives set out by the Chief Executive in October, government expenditure will amount to \$233 billion in 1998-99. (Table 7) This is consistent with our guideline of keeping growth in government expenditure within the trend rate of growth of the economy over time. It does not include the investment of \$15.2 billion which I have earlier

said we would make from the Capital Investment Fund.

77. That expenditure provides a range of benefits to the community. Some go directly to individuals, for example, through the education and training programmes; the payments to Comprehensive Social Security Assistance recipients; or health care. Some expenditure, such as on construction or better market management, has consequential benefits for individuals by providing employment in building work or by stimulating business activities that provide wider employment opportunities. In turn, the education and training that we provide to our children and workforce increases the pool of skills and ideas upon which business can draw. At another level, the welfare payments we make are passed on in turn to the shops where they are spent, and the taxes on the profits of those shops then go towards the next round of government expenditure. Understanding those relationships as they have built up over time, and allowing for the complex network of exchanges in which we all participate is vital for judging how best we can position ourselves for the future.

78. The expenditure required for the deal that we have reached with Hong Kong Telecom to end its international monopoly early is a case in point. It will not just bring lower IDD bills for customers. It will bring lower costs for business, opportunities for new companies, higher capital investments and a strengthening of our competitive position. All of that will lead on to better employment prospects for individuals and growth for the economy.

79. It is not just by expenditure that we encourage growing economic relationships. Revenue concessions are a powerful tool. They spread their beneficial effects well beyond the individuals or the businesses that receive them directly. Lower taxes leave them with more money to spend and invest. Tax allowances and deductions can stimulate spending and investment, productivity gains and innovation that will sustain employment.

80. I invite you to keep all these relationships in mind as I now proceed to set out how I intend to use revenue measures to reinforce our expenditure programme to help individual citizens; to help advance home ownership; to help the elderly; to improve the competitive environment for our business; and, overall, to help Hong Kong bounce back from the battering of the regional financial crisis.

Tax Incentives for Individuals

81. I have divided up my proposals on Salaries Tax to emphasize underlying policy objectives, where this is appropriate, but overall the package that I am about to present will result in my reducing the burden on salaries taxpayers by \$8 billion in the coming year and by \$56.8 billion up to 2001-02.

82. I propose to raise the basic personal allowance from \$100,000 to \$108,000 and the married person's allowance from \$200,000 to \$216,000. This is an increase of 8%. It follows a cumulative increase of 144% in the allowances between 1991-92 and 1997-98, which far exceeds the cumulative inflation of 66% during the same period. In addition, I propose to raise:

- ❑ the allowance for the first and second child by 11.1%, from \$27,000 to \$30,000;
- ❑ the allowance for the third to the ninth child by 7.1%, from \$14,000 to \$15,000; and
- ❑ to raise the basic allowance for a dependent parent or grandparent by 11.1%, from \$27,000 to \$30,000, and make a similar increase to the dependent brother and sister allowance.
- ❑ I also propose a substantial increase in the maximum deduction for training expenses by 50%, from \$20,000 to \$30,000 a year.

83. Those increases exceed the rate of inflation. Members have impressed upon me the particular difficulties of those people struggling to bring up children on their own. I intend to raise the single parent allowance by 44%, from \$75,000 to \$108,000, the same level as the proposed basic personal allowance.

84. Of greatest significance for the overall impact of taxation are the tax bands and marginal rates. All sectors in the community responded favourably to the changes I made to the marginal tax structure last year. Middle-income salaries taxpayers, the "sandwich class" in particular, benefit most. I consider that we can go further this year to once again reduce their tax burden. I

propose to widen the marginal tax bands from the present \$30,000 to \$35,000. I also propose to reduce the marginal tax rates by changing the incremental steps from 6% to 5% so that the top marginal tax rate will be reduced from 20% to 17%.

85. What will this mean? At the lower end, a single person will have to earn more than \$9,000 a month to pay any tax at all, while a married couple with two children will need to earn more than \$23,000 a month. At the upper end, a single person will need to earn more than \$120,000 a month to pay salaries tax at the standard rate of 15%, while a married couple with two children would have to earn more than \$239,000 a month. (Table 8) Everyone in between will pay less.

- A single person earning the median income of \$18,670 a month will pay \$4,780 less tax, a 34% cut.
- A couple on median income with no children will have their tax bill cut by 67% to only \$160.
- At typical sandwich class earnings of \$45,000 a month, a married couple with two children will have their tax bill cut by \$12,020 or 25.9%.

86. A simple cut in the standard rate of Salaries Tax would have benefited only those in the top income bracket. The proposals I have set out make the whole tax structure fairer. Once a person enters the tax net, the weight of tax will increase more gently and more evenly than under the present structure. The number who have to pay Salaries Tax at the standard rate will be reduced from 71 000 at present to 10 000. The total number of salaries taxpayers will not be reduced by these measures but 99% will pay less. They will have the encouragement of keeping more of the wealth that they earn. They will have greater freedom to plan for their own economic security.

Incentives for Home Ownership

87. One of the greatest sources of security is home ownership. The Chief Executive has made this a matter of the highest priority and has announced the

target of achieving a home ownership rate of 70% in 10 years.

88. Financially we are giving housing top priority. In 1998-99, total public spending on housing will be \$48.9 billion, an increase of 52.1% over 1997-98. Over the five years up to 2001-02 we will spend \$11 billion to accelerate housing-related infrastructure development.

89. Organizationally, we are now fully geared up for the higher level of land supply and flat production that is needed to meet our housing targets. We have cut the planning and construction times for both public and private sector flats, and have set up a comprehensive, computerized monitoring system for the flat production programme in the Housing Bureau. We have also set up efficient problem-solving mechanisms at district and central government level.

90. The Tenants Purchase Scheme that we are now implementing represents a massive transfer of wealth to the families that will benefit. But there is much more to it than that. It will help tens of thousands of families to achieve the desire to own their own home. Over time, it will help to create a broader, less distorted housing market. And as the momentum for the Scheme builds up, the Housing Authority and Housing Department can refocus their work on their key task of serving those in real need of public rental housing. The Chief Executive has pledged to reduce applicants' waiting times from six and a half to three years. We are committed to achieving that.

91. We are also committed to extending the ability of far more than just one group of people to own their own homes. We have already introduced a number of measures to provide help and incentive for home ownership. The \$18 billion Home Starter Loan Scheme will help 30 000 families over the next five years. Our loans to the Housing Society to help Sandwich Class Housing Schemes have already helped about 15 000 families to acquire their own homes and should benefit another 40 000 families up to 2005. I have been looking for other means to give help to the widest possible number of families that want to own their own homes.

92. I know that there is much concern over the state of the property market at present, and there is worry at the effects of measures to increase housing supply. Taking a long-term view, the present difficulties are exceptional. Historically, property has always been at a premium in Hong Kong. A growing population,

deeply attached to the ideal of having one's own home in which to bring up a family, creates strong demand. This demand will endure, whatever the state of the property market today.

Mortgage Relief

93. During my budget consultation with Members of this Council, I took note of the concerted view that we should provide tax relief for home buyers. I have much sympathy for families investing a substantial part of their monthly incomes to purchase homes. We have now established a long-term plan to provide a much greater, steadier supply of land for housing. The market will be in much better position to meet demand in future. I am now satisfied that I can introduce a tax concession for mortgage interest payments without grave risk that this will fuel property price increases or revive speculation. The sober atmosphere in the property market today gives added safety.

94. I propose to introduce a new Salaries Tax deduction of a maximum of \$100,000 per year per property for home mortgage interest payments. To ensure that only genuine home buyers may benefit, the deduction will only apply in respect of properties for self-occupation. Applicants may claim the deduction in any five tax years. To encourage home ownership and alleviate the burden on home buyers across the board, the deduction will apply to all owner-occupiers with a mortgage, not just first-time home buyers.

Helping the Elderly

95. Expanding the scale and increasing the quality of services available to the growing number of the elderly is another of this Administration's core programmes. Total spending on welfare payments and on direct social and medical services for the elderly will increase by 16.3% in the coming financial year to \$14.5 billion.

96. To advance our efforts to help improve care for the elderly today and to make better provision for them in future, I propose two significant revenue measures:

- First, I intend to increase the additional allowance for a dependent parent or grandparent living with a taxpayer by 275%, from \$8,000 to \$30,000. Together with the basic allowance for such

dependants this will give \$60,000 in allowances for taxpayers who have an elderly dependant living with them.

- Second, I recognize that while family care for the elderly is the most desirable form of support, some require institutional care because of advanced physical or mental impairment. I propose to introduce a new Salaries Tax deduction of up to \$60,000 a year for those who are supporting an elderly dependant in residential care. This will help relieve a financial burden on these taxpayers and may also serve to encourage the development of better quality private sector care services. Those claiming the deduction would not be eligible for the Salaries Tax allowances for that dependant.

97. I also intend to use the tax system to help the development of secure provision for the financial needs of the retired in future. As this Council knows, it is this Government's firm commitment to establish Mandatory Provident Fund schemes to give our working population a viable and sustainable retirement benefit system. The maximum statutory contribution will be \$12,000 a year. Since this contribution is compulsory and is employment related, a tax deduction to cover these contributions is justified. When the scheme comes into operation, I intend to introduce a Salaries Tax deduction of up to \$12,000 a year for employees' compulsory contributions. Self-employed people will be eligible for an equivalent deduction under the Profits Tax regime. Employees making contributions to recognized occupational retirement schemes exempted under the Mandatory Provident Fund Schemes Ordinance will also obtain the deduction.

Helping People with Disabilities

98. I also propose to use tax measures to do more to help individuals and families who are giving support to dependants who have disabilities. I intend to increase the disabled dependant allowance by 140%, raising it from \$25,000 to \$60,000, double the basic allowance for a dependant.

Lower Estate Duty

99. While still dealing with personal taxation, I also intend to make changes to Estate Duty. Last year, I revised the exemption level for Estate Duty and the duty band thresholds to offset the effect of inflation. This year, I consider that we can afford to go further. Apart from adjusting the exemption level and the band thresholds, we can reduce the duty rates. Let me explain the changes I propose.

- The level of estate value below which no duty is payable will be raised from \$7 million to \$7.5 million.
- The first duty band will cover estates over \$7.5 million up to \$9 million. The duty rate will be reduced from 6% to 5%.
- The second duty band will cover estates over \$9 million up to \$10.5 million. The duty rate will be reduced from 12% to 10%.
- The top duty rate, applying to estates valued at over \$10.5 million, will be reduced from 18% to 15%, the same level as that for the standard rate of Salaries Tax and Profits Tax for unincorporated businesses.

The reduction in Estate Duty will help to strengthen our position as a low tax regime. The cost of the proposal is \$90 million in 1998-99 and \$780 million up to 2001-02.

Duty Adjustment

100. I now turn to a small number of areas on the revenue side where I propose modest increases. To maintain the real value of the duty charged on fuel, tobacco and methyl alcohol, I propose to raise the duty rates by 6%, in line with inflation. This will bring in additional revenue of \$460 million in 1998-99 and \$2.2 billion up to 2001-02.

101. The former Legislative Council did not accept my proposal in the last Budget to adjust light diesel oil duty for inflation. I have strong grounds for recommending to this Council that the increase be passed this year. Diesel emissions are a serious source of air pollution. The differential duty rate already creates an incentive for users to stay with diesel rather than switch to cleaner fuels. As Members know, we are developing measures to address this

problem. In the interim, we should not allow the differential to increase further. We must work harder to clean up air quality. The adjustment I now propose will have a negligible impact on inflation.

Continuing the Scrapping Scheme

102. To continue to encourage the speedier conversion to more environmentally friendly vehicles, I propose to extend for another four years the scrapping scheme for old private cars which I introduced two years ago. The number of cars scrapped under the scheme doubled to nearly 300 a month in 1997. There have been no abuses. My proposal will allow all pre-1992 registered cars that may not have catalytic converters to be replaced when they turn 10 years old.

Incentives for Business

103. I now wish to turn to our business environment, to what we can do to make it more competitive and to provide the best conditions in which enterprise can flourish.

Business and Services Promotion

104. Last year I announced my intention to create a new unit in my own office to take forward both the Helping Business and Services Promotion Programmes. The unit was established in May last year with the mission of maintaining Hong Kong as the best place in the world for business and the premier services centre in the region. Already bureaux and departments have clocked up an impressive series of achievements with the unit's support.

105. For example, on the Helping Business side, the Industry Department has opened a one-stop Business Licence Information Centre. The Lands Department has reduced the processing time for lease modification and land exchange procedures by 25%, and is introducing measures to cut the processing time for consent to sales of units in uncompleted buildings by as much as three months. The Works Bureau has introduced new measures on utilities connections that can speed up issue of occupation permits by up to three months. The Buildings Department has relaxed requirements for windows in bathrooms. It may sound odd for a Financial Secretary to mention bathroom windows in a Budget speech, but that small change alone will save many millions of dollars

in the years ahead. It will allow more productive and environmentally friendly building techniques and will give scope for more efficient, more attractively designed flats.

106. There is a similar picture on the development of Hong Kong's service economy. Progress with the 125 initiatives outlined in the Final Report of the Task Force on Promotion of Services published with last year's Budget has been excellent. We are now preparing the Action Agenda for 1998-99. Studies are in hand on the need for additional convention facilities, the case for business parks, and the manpower needs of key service industries. The Industry Department is bringing forward a pilot credit guarantee scheme which will help both manufacturing and services companies.

107. These are just examples of a quiet revolution now taking place. Red tape is being cut. Services are being improved. The work will continue with full vigour. We aim to instil throughout the Government the understanding that our role is to find simple rules and principles that give guidance in a complex, dynamic world.

108. In all of this work we have been helped immeasurably by members of the business community and academia who have given up their time to fulfil duties as members of the Business Advisory Group and Services Promotion Strategy Group, both of which I chair. These are good examples of Hong Kong's partnership approach to problem solving.

109. The work of the Business and Services Promotion Unit is vital but is only one pillar in our programme of keeping Hong Kong as the best place to do business. Other pillars are:

- First, the building of transport and communications infrastructure. The world's largest infrastructure project, the Airport Core Programme, will be completed in July. We will not then be putting our feet up. We will be investing \$80 billion over the next five years on more new roads, railways and port facilities.
- Second, there is education. In the coming year, recurrent

expenditure in this area will increase by 6.3% and capital expenditure by 52.4%, to help ensure that the people of Hong Kong have the skills and outlook needed to create and to find employment in our complex, change filled modern world.

- Third is information technology and telecommunications. We are opening up markets and encouraging the development of new services. We are developing a framework in which the power of information and communications technology to add value, to improve services and to open up new opportunity can be brought to ever more people in our community.
- Fourth is our land and building development policies. The creation of industrial estates, a science park, and the redevelopment of old industrial structures and offices into flexible, "smart buildings", all help to provide the facilities that modern businesses need.
- Fifth, there is funding for applied research, industrial and services support and for productivity improvement. One billion dollars will be provided on this front in 1998-99. I trust, too, that the planned establishment of a second board for the Stock Exchange will provide an enduring basis for channelling venture capital into new business.

110. Overall, our objective is to provide an environment in which business in all its diversity has good conditions in which to flourish and good incentive to upgrade, add value and remain competitive. Business can then continue to generate employment and wealth for the community. No one can predict with certainty how circumstances will change, and how they will affect particular businesses, but what we can do is to ensure that in Hong Kong, anyone can respond to promising trends quickly; new ideas can be developed easily; market signals are clear, and obstacles and constraints are removed wherever possible.

111. Taking account both of the concerns of our business community in the current conditions and of the strength of our fiscal position, I consider it to be both necessary and affordable to make some significant refinements to our tax regime to enhance our competitive position.

Profits Tax Improvements

112. I undertook in the last Budget to conduct a comprehensive review of Profits Tax. The Secretary for the Treasury carried out a public consultation last year and received many helpful comments and proposals. He has done an excellent job and put to me a range of recommendations to which I would now like to respond.

113. The first point that emerged from the review was how favourable our Profits Tax regime is compared with our competitors, how much incentive it gives to enterprise. To help make this clear, we are publishing a booklet to highlight our advantages. We will circulate it widely here, through our overseas offices and on the Internet.

114. Next, it was clear that there is some uncertainty over the application of the territorial source principle to determine taxable profits. The Inland Revenue Department is publishing a simple guide for those who have no professional tax background. To provide greater certainty for businesses, from April the Department will provide, on a full cost recovery basis, an advance ruling service on the source of profits.

115. The matter of double taxation is a concern for many of our businesses. We are addressing this in a number of ways.

- I propose to select a few target countries for negotiation of comprehensive double taxation agreements, where this would be in our overall interest.
- We will continue with our policy of negotiation of double taxation relief arrangements on airline income with our aviation partners. In addition, I propose to amend the Inland Revenue Ordinance to provide reciprocal tax exemption for shipping income so that Hong Kong ship operators can benefit from the tax relief offered by those countries with similar reciprocal legislation. We will also enter into negotiation of double taxation relief arrangements for shipping with other places which do not provide reciprocal tax exemption in their legislation, in order to alleviate the tax burden on our shipping industry operating in those places. This will strengthen

the industry's competitiveness.

- We have reached an understanding with the relevant authorities in the Central People's Government on tax relief for Hong Kong airlines and shipping companies, and for avoidance of other cases of double taxation between the Mainland and Hong Kong. This will enhance cross-border business activities and strengthen the competitiveness of Hong Kong business operating in the Mainland.

116. There are a few more improvements that I think it is right to make.

- I propose to amend the Inland Revenue Ordinance to replace the present restrictive listing of the types of income derived by beneficiaries from fund management which qualify for tax exemption with a general definition which can keep pace with the fast-changing developments in fund management.
- I propose to provide a concessionary tax rate at 50% of the normal Profits Tax rate for the offshore business of professional reinsurance companies authorized in Hong Kong. This will allow Hong Kong to compete on level terms as a regional reinsurance centre. Reinsurance companies can opt for the concession on an irrevocable basis.
- As an incentive to achieve higher productivity and find ways to add higher value, I propose to expand the scope of deductions for capital expenditure on research and development. They will now also cover expenditure incurred on market research, feasibility studies and other research activities related to business and management sciences.
- I propose to extend the hotel refurbishment concession introduced in the 1996-97 Budget to all other business sectors. This will provide incentive to encourage them to maintain and upgrade the standards and quality of premises regularly. Capital expenditure on refurbishment and redecoration may be amortized over a period of five years, based on a 20% straight-line annual write-off.
- As an incentive to invest more in high value manufacture and modern business systems, I propose to allow an immediate 100%

write-off for new expenditure on plant and machinery specifically related to manufacturing, and computer hardware and software, which are owned by end users. The residual value of such items already in hand can also be written off immediately.

- Last, I propose to double the annual depreciation allowance for commercial buildings from 2% to 4%, to align it with that for industrial buildings.

Reduction in Profits Tax

117. There were divergent views on whether or not to reduce the corporate Profits Tax rate. After careful consideration, I believe that a moderate change is both affordable and necessary. Financially, we should not tax more than we need. Even after the major concessions on personal taxation that I have already announced, and leaving room for some further important measures that I will come to later, our financial strength still permits a modest reduction in the corporate Profits Tax rate without imperilling our ability to maintain a healthy revenue stream. Externally, while our tax rate is very low when compared with our regional competitors, there is no room for complacency. Our competitors are introducing a wide range of tax incentives to attract investors. We have to respond to these challenges. Accordingly, I propose to reduce the corporate Profits Tax rate from 16.5% to 16%. The current standard Profits Tax rate of 15% for unincorporated businesses will remain unchanged, in line with the standard rate for Salaries Tax.

118. The total cost of my Profits Tax package is \$1.6 billion in 1998-99. Because of our provisional tax payment arrangement, the first-year cost is comparatively low and does not reflect the full picture. The cumulative cost of the package for the four years up to 2001-02 is \$19.9 billion.

119. These concessions do not undermine one of our most significant and stable sources of revenue, nor do they in any way detract from our ability to spend money on community programmes. The published huge expenditure estimates for 1998-99 clearly show that there is no validity in that argument. This package is designed to sharpen our competitive edge, to emphasize that our business environment and tax system are second to none. Our Profits Tax will now be lower; the system will remain simple and predictable; it will be more competitive for all.

120. A report on my proposals is published with the printed version of this speech. It marks the conclusion of the Profits Tax review.

Other Business Related Taxes

121. In addition to the measures that I have set out on Profits Tax, I have a number of other proposals to make that should help our businesses in the current times and work to improve Hong Kong's competitive position.

Capital Duty

122. In the 1996-97 Budget, I reduced the ad valorem capital duty charged under the Companies Ordinance from 0.6% to 0.3%. To augment the attractiveness of Hong Kong as a place for company incorporations and related activities, I propose to reduce capital duty from 0.3% to 0.1%. We will impose a cap at \$30,000 per case, which will benefit company mergers and restructuring activities involving large share issues. The concessions will cost \$500 million in 1998-99 and \$2.4 billion up to 2001-02.

Stamp Duty on Stock Transactions

123. I promised in the last Budget that I would be prepared to review the Stamp Duty rate on stock transactions if the securities industry reduced brokerage charges so as to lower overall transaction costs. The Securities and Futures Commission will lower its transaction levy while the Stock Exchange of Hong Kong will transfer a part of its transaction levy to a fund for its future development. In response to these initiatives and to help the competitiveness of our stock market, I propose to reduce the rate of Stamp Duty from 0.3% to 0.25% for a complete transaction.

124. While I fully appreciate the considerable difficulties the brokerage industry may now be facing in view of the recent developments in the market, the industry cannot avoid forever the question of transaction costs in the context of competitiveness. Brokerage charges are much the largest component in the total cost of transactions on the Stock Exchange. In the long-term interest of the industry as well as the investing public, I now appeal to the industry to adopt a more far-sighted view and come forward with their own cost-reduction initiatives as soon as possible.

125. To help the securities industry to continue to develop new products to meet different market needs, I also propose to make two further changes.

- First, to replace the current Stamp Duty remission for transactions in regional derivative options and convertible bonds or notes with a specific exemption, so as to simplify the process for granting the concession; and
- Second, to extend this exemption to cover transactions in regional derivative warrants which have no more than 40% weighting by value in Hong Kong stock.

126. The total cost of the concessions on stock transactions I have proposed is \$950 million in 1998-99 and \$4.6 billion up to 2001-02.

Revenue Measures for Tourism

127. The recent downturn in tourism has raised concerns. The industry has responded with attractive price-cutting and enhanced promotional activities. We can also help. Apart from providing funding for tourism facilities and attractions, I now propose to make two tax concessions.

- First, to reduce the rate of Hotel Accommodation Tax from 5% to 3%.
- Second, to reduce Air Passenger Departure Tax from \$100 to \$50 when the new airport opens on 6 July.

I trust that this will help underpin the efforts of our tourism industry. It will put our airport tax down to a level which is amongst the lowest in the region. The reduction in airport tax will also benefit local passengers and takes into account the higher cost for travelling to the new airport at Chek Lap Kok. The total cost of the two concessions is \$660 million in 1998-99 and \$3.7 billion up to 2001-02.

128. Taken together, the measures that I have proposed to help business will do much more than simply provide some comfort in these difficult days. They will provide permanent incentives for investment and a better environment for new businesses to flourish. They will help to strengthen our competitive position and to underscore our reputation as the best city in the world in which

to do business. That will be good for everybody in Hong Kong.

Lower Rates

129. I would now like to deal with the question of Rates. To alleviate the burden of Rates arising from the last general revaluation which came into effect in April 1997, in the last Budget I reduced the overall Rates percentage charge from 5.5% to 5%. This is an historic low. I also introduced a Rates relief scheme which limited increases in Rates payments to no more than 20% in 1997-98 and in 1998-99.

130. During the Budget consultation, some Members urged me to consider reducing Rates to alleviate the financial burden on property owners arising from the charging of Government rent. Many others have made the same proposal to me. My colleagues and I have carefully examined the subject. I do not consider reducing Rates on such grounds justified. First of all, Government rent is payable by less than 50% of the tenements subject to Rates. An across-the-board Rates reduction for this reason is not warranted. Second, it must be remembered that the charging of Government rent in itself represents a massive concession in respect of extension of non-renewable leases and the grant of new leases beyond 1997. The alternative to the rent was for the property owners concerned to pay a lump sum premium.

131. I am also very conscious that Rates represent the most widely based and one of the most secure sources of revenue. The uncertainties of the years ahead urge caution on me when considering whether I should tamper with this reliable support.

132. But I do share Members' view that some concession on Rates is the revenue measure that can give benefit to the greatest number of individuals and businesses in the community. I also have to apply the test of whether we really need the revenue now. I have decided that, in view of our healthy financial position and in line with our policy of not raising more revenue than necessary, I will reduce the overall Rates percentage charge from 5% to 4.5% for one year in 1998-99. The reduction will be borne entirely by the General Rates: the Rates funding of the Municipal Councils will not be affected. The Rates relief scheme for 1998-99 will also continue to apply.

133. I have to explain to Members why I have proposed only a one-year reduction. The recent turbulence in the financial markets has affected the property market. The impact is likely to be reflected in rental values over the next few years. Consequently, there is much uncertainty over the future growth of Rates revenue. Given the scale of revenue concessions I propose on other taxes, and the uncertain economic outlook, I cannot find assurance that a permanent concession on Rates is affordable.

134. As for the amount of the concession, I have to bear in mind that the Municipal Councils are mainly funded out of Rates revenue, and that in the New Territories, of the overall Rates charge of 5%, revenue from 4.2% is now required to meet the Regional Council's commitments. Given the uncertain yield from Rates over the next few years, any greater reduction than half a percentage point could well jeopardize the funding for the Regional Council. A 2% or 3% cut as proposed by some would completely undermine the funding of regional services and put that for urban services in peril.

135. As Members know, we are conducting a review of the structure of district organizations. Any substantial change arising from the review may have implications for the present financial arrangement for the Municipal Councils. It would be unwise to take action now which would pre-empt our options. When the review is completed and the funding implications are known, and when the effect on rental values of the recent financial turmoil is clearer, I will re-examine the situation. In the next Budget, I will then decide whether the reduction I now propose should be continued or varied in future years.

136. Almost all properties subject to Rates will benefit from the reduction that I have proposed. The cost to General Rates is \$1.7 billion in 1998-99.

137. In my last Budget speech, I reported that we were studying the possibility of conducting general revaluation on an annual basis. This already complex issue has been made more so by recent events in the property and rental market. We need more time to consider.

Freezing Fees and Charges

138. There have been calls for a freeze on increases to fees and charges. As Members know, at the heart of our charging policy is the principle that the user should make a due contribution to the cost of providing the services. I have been a vigorous defender of this principle over the years, for two reasons. First it is fair. Second, it enables us to maintain the benefits of our low tax system. In order to uphold this principle, we seek to increase fees and charges on an annual basis, generally in line with inflation. But exceptional times demand exceptional measures. This is a year in which the Government as far as possible should not be adding to the costs of individuals or of businesses. I am freezing most government fees and charges at their current levels with immediate effect for the next 12 months. This freeze will not apply to fees and charges for the commercially-oriented services provided by trading funds, which are required by law to ensure that revenues cover expenditure, nor to services provided at full cost to certain public entities. Nor will it apply to any new fees that are in the pipeline. I remain committed to the "user pays" principle. I will obviously need to take the effects of this freeze into account when considering fee increases in future. But we will remain vigilant in our efforts to keep service costs, and thus fees and charges, at the lowest possible level. In this context, I would like to announce that, following the latest costing review, we will reduce the passenger embarkation fee at the Marine Ferry Terminals by 28% from \$25 to \$18.

139. The cost to the revenue of the freeze on fees and charges will be about \$160 million in 1998-99. The reduction in the passenger embarkation fee will cost \$65 million in 1998-99 and \$335 million up to 2001-02.

Implementation

140. That finally concludes my revenue proposals for this year. The proposed increases in duties on fuel, tobacco and methyl alcohol come into immediate effect under a Public Revenue Protection Order issued today. My proposals on Rates, Stamp Duty on stock transactions, Capital Duty, Hotel Accommodation Tax, Estate Duty and Passenger Embarkation Fees will come into effect on 1 April this year. The reduction in Air Passenger Departure Tax will take place on 6 July 1998. My proposals on Salaries Tax and Profits Tax will, where appropriate, take effect from the year of assessment starting on 1 April 1998. My other proposals on Stamp Duty exemptions will be implemented as soon as the necessary legislative changes have been made. Details of the proposals are contained in the Supplement to the printed version

of this speech.

CONCLUSION

141. The package of revenue measures that I have put forward this afternoon will cost the revenue \$13.6 billion in 1998-99 and nearly \$100 billion up to 2001-02. Despite the harsher economic outlook in the year ahead, concessions on this scale are affordable, thanks to the underlying strength of our economy and our prudent fiscal management. I trust that this package will be seen as a serious attempt, within the constraints of economic uncertainties and the imperative of maintaining healthy public finances, to leave money with those who have earned it, to confront uncertain times by enhancing the competitiveness of our business and by reducing burdens on individuals and families.

142. Today's Budget is not going to lift Hong Kong overnight out of economic worries. External events over which we have little if any influence set our economic climate. Within Hong Kong, I must be realistic in what I forecast and what I attempt. The Government's task is to uphold the framework of the liberal, open society and free market economy assured to Hong Kong in the Basic Law.

143. What this Budget will do is provide a comprehensive and coherent set of measures which will ensure:

- that all the new expenditure pledges made by the Chief Executive in his policy address are met, so that even in these difficult days we are sustaining our long-term investment programmes on infrastructure, housing and education, preparing Hong Kong for new opportunities that will arise;
- that at the end of what will be a hard year, most taxes will be lighter;
- that every salaries taxpayer struggling with a home mortgage has relief;

- that almost every ratepayer pays less;
- that every company has a lower tax burden;
- that there are stronger incentives for investments that will improve competitiveness and the future performance of our economy;
- that the personal tax structure is more equitable, with a gentler, steadier gradation, and that it creates incentives to encourage family care and support for the elderly and for the disabled;
- that our fiscal balance remains strong so that we can keep investing to good effect in the community in the years ahead and have a firm cushion against any new contingencies; and
- most of all, that we have adhered to our prudent fiscal policy and have observed the provisions of the Basic Law relevant to the Budget.

144. If today's Budget also helps to demonstrate to the world how different Hong Kong's economy is from those elsewhere in Asia : how the turmoil around us has not seriously set back our prospects for the future — because we have devised our programme carefully, with clear vision for the long-term implications of our actions; and because we are working within a healthy, open, well regulated system — then that too will be good for Hong Kong.

145. Perhaps the best way to help restore the confidence of international investors is to maintain confidence in ourselves. It will be a difficult year, but Hong Kong has gone through many tough times before and has emerged the stronger from them. The new Hong Kong Special Administrative Region is home to no less enterprising spirits than the old Hong Kong. The Government is committed to no less prudent financial management, and has the means to make even more far-sighted investment in the people and the infrastructure that will keep this city steadily on course through all the sea changes in the world economy.

146. Today I have sought to give new impetus to past strengths. By judiciously applying the resources and revenue measures available to the Government in concert to increase opportunities, I have aimed to refresh the

spirits of business and community alike. It is your spirits, your vitality, your entrepreneurial élan that is the bedrock on which the economy of this city is built.

147. Honourable Members, like many other Asian economies, we are experiencing the effects of a severe and abrupt downswing after almost a decade of remarkable growth. But these will not last. We will ride out the storm. Our main markets, particularly the Mainland of China and the United States, remain prosperous. We can expect continued growth in 1998. Best of all, we can take this passing set back as a spur to new achievement. Self-pity and recriminations are pointless. Our businesses can tap the huge reward potential in Asian markets. Many are already mapping out new strategies for their next phase of growth. Our workforce has the skills, the flexibility and the determination to rise to the challenges of new conditions. Our country stands steadfast beside us. We are working to enable our economy to build on the advantage that our relationship with the Mainland gives us. The arrangements for avoidance of double taxation that we have made are an important first step to help develop new dimensions in the flow of trade and economic activity between us.

148. This Budget shows your Administration rising with you to the challenges we face. No gimmicks, no complaints. We seek to smooth the path ahead with a sensible package of targeted relief set beside intensive investments and a sharpening of our competitive edge to sustain long-term economic growth. My colleagues and I in the civil service stand by the community. Like you, we share their present worries. We need to work hard together to overcome them: everyone giving their honest best. Madam President, during these few months, a lot of people said to me, "Donald, it is up to you." Today, through you the President, I would like to turn to Members and say, "Honourable Members, now it is all up to you." *(Laughter)*

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the APPROPRIATION BILL 1998 be read the Second time.

PRESIDENT (in Cantonese): In accordance with Rule 68 and 72 of the Rules of Procedure, the debate on the Second reading of the APPROPRIATION BILL 1998 is now adjourned. The draft Estimates are referred to the Finance Committee for examination, before the debate on the Bill resumes.

NEXT MEETING

PRESIDENT (in Cantonese): In accordance with the Rules of Procedure, I now adjourn this Council until 2.30 pm on Wednesday, 25 February 1998.

Adjourned accordingly at fifteen minutes past Four o'clock.