

Prepare for a downturn, John Tsang warns

Hong Kong's economy could shrink in the first quarter of 2012 due to weak export markets, before rebounding to post growth of 1-3 percent over the year the finance secretary said.

John Tsang warned the global economy was facing a downturn worse than the 2008 financial meltdown as he released his annual budget.

"Despite our resilience, we will not lower our sense of crisis," he said.

Turmoil in financial markets and "unresolved economic troubles" related to the debt crisis in Europe and the United States "could deal a more serious blow to the global economy than the 2008 financial tsunami", he warned.

"We must, therefore, stay alert to unexpected crises and take precautions against any impact on our society," he added in a budget speech that promised a series of stimulus measures in the form of lower taxes and one-off perks.

Tsang said the SAR would "inevitably" experience lower economic growth this year than the average rate over the past decade.

Exports could take a hit in the early months before recovering in the second half, he said in a speech that was interrupted by shouted protests from opposition lawmakers.

"I am not optimistic about Hong Kong's export performance in the first half of this year, and if exports of goods were to plunge in the first quarter, the overall economy might take a downturn in that quarter."

The city's economy contracted in the second quarter of 2011 before returning to positive territory in the third quarter.

"I forecast GDP growth of one to three per cent in real terms for 2012," Tsang said.

The range between the upper and lower estimates "reflects the unusually large degree of uncertainties in the external environment this year, especially when the European debt crisis is still twisting and turning," he said.

"It is difficult to predict with any certainty the possibility of a severe recession in Europe and, if so, the precise ramifications on Asia."

In his last budget ahead of March elections to select a new chief executive, he promised HK\$80 billion in measures to "better prepare our people for the difficult time ahead."

He pledged to increase loan guarantees for lenders to small businesses, slash profits tax and spend more on education,

including construction of a new International Cuisine College to train chefs.

Seven one-off measures included a waiver of quarterly property rates amounting to HK\$11.7 billion and covering 90 percent of properties, and a 75-percent cut in salaries tax to a ceiling of HK\$12,000.

The salaries tax cut alone would inject almost HK\$9 billion back into the economy.

Median household income had climbed 5.1 percent in real terms to HK\$20,000, meaning an "improvement in the livelihood of grass roots" residents over the past year.

Even so the gap between rich and poor in Hong Kong is among the largest in the world and Chief Executive Donald Tsang has identified it as one of the territory's biggest challenges.

His government has been criticized for running up large budget surpluses -- fiscal reserves stood at HK\$654.9 billion on December 31 -- and clinging to a low tax regime instead of spending more to stimulate growth, boost employment and improve social services.

Reform of the city's narrow tax base, which currently relies heavily on profits and salaries taxes, has been discussed for years but several options including a value added tax are still under review.

Only 40 percent of Hong Kong's working population currently pays tax, and only one percent of those account for 35 percent of salaries tax revenues, according to KPMG accounting firm.

The government says surpluses are required to prepare for an ageing population and guard against a possible economic downturn amid an uncertain global economic outlook.

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