

# Country Analyst

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## Singapore Budget 2010 Preview: Positioning For The Next Phase of Growth

- Increasing productivity, nurturing Singapore companies, and sustaining growth will likely be the dominant theme. Budget 2010 has to ensure that the economy continues to expand and that low unemployment, high productivity is maintained.
- The deficit for FY 2009 is expected to be smaller than the \$8.7 bn (or about 3.5% of nominal GDP) budgeted. We estimate a primary budget deficit of \$7.5 bn (2.9% of GDP) for FY 2010, with the overall budget deficit coming up to \$7 bn (2.7% of GDP).
- To achieve productivity growth, the government will probably set aside a substantial amount to improve the skill sets and expertise of the work force. Continuing education will be encouraged probably through the use of subsidies as well as tax deduction for expenses incurred by individuals pursuing academic qualifications, related to their employment.
- In looking to raise productivity growth rates, the issue of managing foreign worker dependence will be touched on. We can expect more concrete measures on how the government will implement the progressive hike in foreign worker levies, as well as a timeline at which this will take place.
- Nurturing indigenous companies is another key proposal of the ESC. The budget could address this goal in the form of increased funding for start-ups, as well as tax breaks on foreign income.
- Tax cuts might probably not be touched on during Budget 2010, seeing as to how corporate income tax rates are already very competitive and was cut last year during Budget 2009, from 18% to 17%.
- The escalating price of property in Singapore is of importance, and the government should be making some announcement/clarification on this topic.

Singapore Budget Statistics							
	FY2005	FY2006	FY2007	FY2008	FY2009	FY2009	FY2010
				Revised	Budget*	UOB Forecast for Actual	UOB Forecast for Budgeted
<b>Operating Revenue</b>	<b>28.17</b>	<b>31.29</b>	<b>39.65</b>	<b>40.50</b>	<b>33.43</b>	<b>36.60</b>	<b>38.50</b>
Taxes and Fees	28.17	31.29	39.65	40.50	33.43	35.70	38.50
<b>Total Expenditure</b>	<b>28.63</b>	<b>29.90</b>	<b>33.31</b>	<b>38.90</b>	<b>43.62</b>	<b>45.50</b>	<b>46.00</b>
Operating Expenditure	21.44	23.92	26.22	29.95	32.16	33.00	33.00
Development Expenditure	7.19	5.98	7.09	9.65	11.46	12.50	13.00
<b>Primary Budget Balance**</b>	<b>(0.46)</b>	<b>1.39</b>	<b>6.34</b>	<b>1.60</b>	<b>(10.19)</b>	<b>(8.90)</b>	<b>(7.50)</b>
<b>% of GDP</b>	<b>(0.2)</b>	<b>0.6</b>	<b>2.6</b>	<b>0.6</b>	<b>(3.9)</b>	<b>(3.6)</b>	<b>(2.9)</b>
Less: Special Transfers	0.83	3.57	2.20	7.40	6.15	6.15	6.50
Add: NII Contribution	2.78	2.13	2.30	3.65	7.67	7.67	7.00
<b>Overall Budget Balance</b>	<b>1.49</b>	<b>(0.05)</b>	<b>6.44</b>	<b>(2.15)</b>	<b>(8.67)</b>	<b>(7.38)</b>	<b>(7.00)</b>
<b>% of GDP</b>	<b>0.7</b>	<b>(0.0)</b>	<b>2.6</b>	<b>(0.8)</b>	<b>(3.4)</b>	<b>(3.0)</b>	<b>(2.7)</b>

Source: Ministry of Finance  
\* Figures may not add up due to rounding  
\*\* Surplus (Deficit) before Special Transfers and Net Investment Income (NII) contribution

Now that we are past the worst of the crisis, and the economy looks on track to recovery, Budget FY2010 will now focus on the next phase of Singapore's development, in line with what the Economic Strategies Committee has identified. Increasing productivity, nurturing Singapore companies, and sustaining growth will likely be the dominant theme. Budget 2010 has to ensure that the economy continues to expand and that low unemployment, high productivity is maintained. And all this, while making sure that low-income households and the elderly do not become marginalized.

### **Another Budget Deficit for FY2010, a Smaller Budget Deficit for FY2009**

The deficit for FY 2009 is expected to be smaller than the \$8.7 bn (or about 3.5% of nominal GDP) budgeted. Operating revenue likely came in higher as the property market performed much better than expected, despite the downturn. Even if expenditure comes in slightly more than government estimates, the overall budget deficit should still be lower at around \$7.4 bn (or 3% of nominal GDP), keeping special transfers and NII contribution constant. We estimate that for FY 2010, fiscal spending will still be kept up, seeing as to how Singapore is being positioned for the next phase of growth. Higher revenues, in line with the economic recovery, should help bolster the increased spending. We expect a primary budget deficit of \$7.5 bn (2.9% of GDP), with the overall budget deficit coming up to \$7 bn (2.7% of GDP).

### **Increasing Productivity**

One of the key recommendations of the ESC centre on achieving 2-3% productivity growth per year, over the next 10 years, from the current rate of 1%. This will see not just skills upgrade, but also a restructuring and transformation of the way businesses are run. To this end, the government will probably set aside a substantial amount to improve the skill sets and expertise of the work force. Continuing education will be encouraged probably through the use of subsidies as well as tax deduction for expenses incurred by individuals pursuing academic qualifications, related to their employment. Central to the theme of productivity would be the upgrading of technology, where the government could offer tax breaks for firms to invest in technology. In looking to raise productivity growth rates, the issue of managing foreign worker dependence will be touched on. We can expect more concrete measures on how the government will implement the progressive hike in foreign worker levies, as well as a timeline at which this will take place.

### **Helping Companies**

Nurturing indigenous companies is another key proposal of the ESC. The committee set a target to grow 1000 Singapore companies with revenues over \$100 mn in 10 years' time, as well as helping home-grown firms to expand. The budget could address this goal in the form of increased funding for start-ups, as well as tax breaks on foreign income. At the same time, the government still wants to continue attracting the MNCs, which will mean tax incentives for MNCs, especially those that locate their regional HQs in Singapore. For Singapore to better serve these companies, the ESC has recommended increasing R&D expenditure to 3.5% of GDP over the next 5 years.

### **Corporate, Income Tax and GST**

Tax cuts might probably not be touched on during Budget 2010, seeing as to how corporate income tax rates are already very competitive and was cut last year during Budget 2009, from 18% to 17%. Personal income tax cuts do not help the poor and unemployed if they are not even earning an income. GST will also not likely be cut, as consumer spending is strong and does not require any boost. Besides, any move to help the low-income folk will be something more targeted, such as GST rebates.

### **Households**

There has been speculation that this could possibly be the last budget before the elections. If this is indeed the case, then households should benefit, as has traditionally been the case. We can look to past budgets prior to an election, as an indication of what households can expect. In the 1996 Budget, a tax rebate of 10% on individual income tax was granted, the top marginal income tax rate was lowered from 30% to 28%, rental and Service & Conservancy rebates, and rebates on public utilities bills, CPF Medisave Top-Up. In 2001, a cut in individual income tax rates, personal income tax rebate of 10%, CPF top-ups and money in the form of new Singapore shares was announced. In 2006, \$1.4 billion worth of Growth dividends were distributed, Workfare Bonus to older, lower-income workers, rebates for utilities and S&C charges.

## **Property Market**

The escalating price of property in Singapore is of importance, and the government should be making some announcement/clarification on this topic. We might expect some figures to shed more light on the property market eg, how much of the price increase is due to foreigner purchases, the transactions and prices so far, and how the government views the property market. There has been talk of asset bubbles in China and Hong Kong and where the governments have introduced various measures to curb the price increases. The government could restate their position on whether they see an asset price bubble here and if there will be further measures to slow the price increases. If the government does see asset prices continuing to be a worry, despite recent measures such as increasing land sales and the scrapping of the interest absorption scheme, then they may introduce more measures. Recall last year the debate surrounding the proposed change to a law, on the issue of taxation on the profit from selling property. The market took this as a signal to speculators.

## **Monetary Policy**

We see inflation beginning to pick up speed at year-end and next year, prompting a tightening of monetary policy in Apr, achieved through an upward shift of the policy band. This sort of tightening in the context of the economy recovering should however, be seen more as a normalization. Beyond that, we need to see more concrete signs of recovery, which at this point is still quite mixed. Also monetary policy might be normalized in concert with other countries in Asia. We have projected Indonesia, Philippines and South Korea to begin tightening monetary policy in the 2Q of 2010. Despite recent weakness, the SGD NEER has begun trading in the upper half of the policy band, again, near the 2.0% above the midpoint level of the policy band, and we see the SGD NEER continuing to hover at this level.

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