

## Singapore Budget FY2017 Moving Forward Together

**Monday, February 20, 2017**

### Highlights

- A fiscally prudent Budget to move forward to a future economy, even as the Government believes in doing more with less.
- FY2017 targets a budget surplus of \$1.9 billion (0.4% of GDP), following a larger than expected FY2016 budget surplus of \$5.2 billion (1.3% of GDP).
- Adopts many of the Committee of the Future Economy (CFE) recommendations and key thrusts, focusing on business support and innovation.
- Surprises include the carbon tax and tiered ARF for motorcycles, as well as water price hikes which could be inflationary in nature.
- Sweeteners include the Corporate and Personal Income Tax Rebates, Foreign Worker Levy deferral for Marine & Process sectors for 1 more year.
- Social issues not sidelined and encompass pro-family measures, help for lower-income households and community/environment measures.

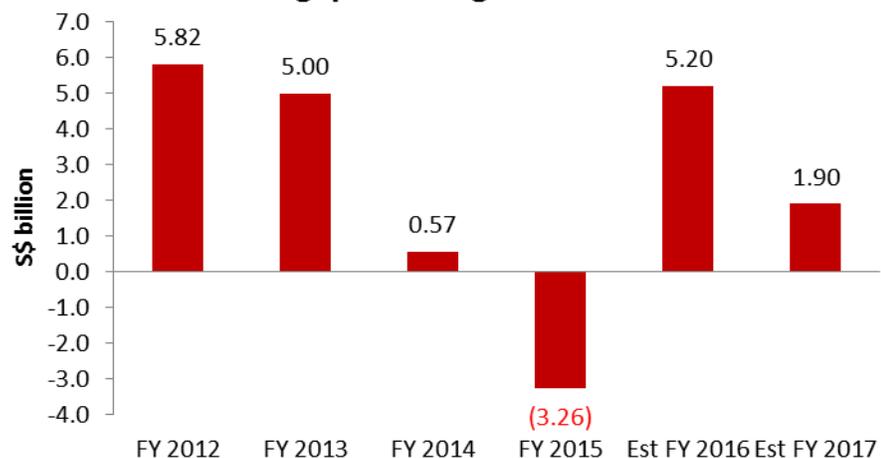
**Treasury Advisory**  
**Corporate FX & Structured Products**  
 Tel: 6349-1888 / 1881  
**Interest Rate Derivatives**  
 Tel: 6349-1899  
**Investments & Structured Products**  
 Tel: 6349-1886

**GT Institutional Sales**  
 Tel: 6349-1810

### **The importance of moving forward, together**

With the current global uncertainties plaguing investor confidence and overall global economic growth, the marching call of “Moving Forward Together” cannot come at a more appropriate time. As the Singapore Budget FY2017 is aptly titled, there is a crucial need for policy-makers and businesses alike to recognise the advances in technologies and evolving circumstances that could create new challenges while opening up new opportunities for those who can adapt quickly. In a nut-shell, the budget is an outline of the measures for the Singapore economy and its society, to take a learning and adaptive approach to the new technological methods in the global arena, as well as supporting local business and households during this transition.

### Singapore Budget Position



**Barnabas Gan**  
 Tel: 6530-1778  
[BarnabasGan@ocbc.com](mailto:BarnabasGan@ocbc.com)  
[m](#)

Source: Singapore Budget, CEIC, OCBC Bank.

**The emphasis to stay competitive and grow**

Indeed, the need to develop Singapore's enterprises to stay competitive and grow is crucial in the current transition. To that end, the government has recognised three capabilities for firms: (1) to be able to use digital technology, (2) embrace innovation and (3) scale up. To aid this process, the government will make available \$80 million to promote the building of digital capabilities through the *SMEs Go Digital Programme*, support firms in tapping on innovation and technology through partnership with A\*STAR and Intellectual Property Intermediary (IPI), as well as setting up an *International Partnership Fund* of \$600 million to co-invest with Singapore firms to aid in their efforts to internationalise, and enhancements to IE Singapore's *Internationalisation Finance Scheme* to co-share default risk of loans especially in higher-risk developing markets.

Elsewhere, there are also measures to support businesses during this transition will span over the next two to three years. These measures include the *Wage Credit Scheme* (over \$600 million till March '17) in which 70% of the pay outs will be to Small and Medium Enterprises (SMEs), the *Special Employment Credit* to provide employers with support for wages of older workers till 2019 (over \$300 million in FY2017), the *SME Working Capital Loan* which co-shares 50% of the default risks (\$300,000 per SME). First, there will be an enhancement of the *Corporate Income Tax (CIT) Rebate*, in which the cap of \$20,000 is raised to \$25,000 for YA2017, while extending it to YA2018 at a reduced 20% tax payable, capped at \$10,000. Second, there will be an extension of the *Additional Special Employment Credit* till end-2019, where the re-employment age will be raised to 67 years (previous 65) with effect from 1<sup>st</sup> July 2017 while a wage offset of up to 3.0% is given for workers who earn under \$4,000/month.

To aid industries facing cyclical weaknesses, namely in the Marine & Process sectors, and the Construction sectors, the government will defer the foreign worker levy increases in these two sectors by one more year. Moreover, to support the construction sector, a total of \$700 million worth of public sector infrastructure projects will start in FY2017 and FY2018.

**Deepening people's capabilities and innovation**

Aside from aiding Singapore enterprises to grow and stay competitive, the budget also seeks to aid workers to (1) develop new skills to operate overseas and (2) deepen skillsets to remain relevant in jobs. To that end, the Singapore government seeks to set up a *Global Innovation Alliance* for Singaporeans to collaborate among educational institutions, economic agencies and businesses. Elsewhere, there will also be the *SkillsFuture Leadership Development Initiative* that will aid in grooming leaders for specialized courses and overseas postings. Moreover, there will also be funding support for Singaporeans to take approved courses through the SkillsFuture program. All in all, the government seeks to set aside over \$100 million under the *Global Innovation Alliance and Leadership Development Initiative*, and another \$150 million to match donations to the NTUC-Education and Training Fund for SkillsFuture selected courses.

Moreover, the urge to further innovate stems from the additional funding to the National Research Fund by \$1.5 billion to support innovation efforts and industry transformation. All in, the government seeks to set aside \$2.4 billion over the next four years to implement the CFE strategies, above the \$4.5 billion set aside for the Industry Transformation Programme. Also, the government aims to develop *Industry Transformation Maps (ITMs)* for 17 sectors (6 has already been launched) which covers 80% of the economy within FY2017.

### Supporting Families

The effort to support families can also be seen in the recent budget, specifically from the increase in grants made in the CPF housing grant, increase in the capacity of centre-based infant care, and the increase in annual bursary amounts for Post-Secondary Education Institutes. More importantly however, is the *increase in GST vouchers*, as well as the extension of the *Service and Conservancy Charges (S&CC) rebate* to offset some of the increase in water prices. Specifically, families living in 1 and 2 room HDB flats will receive \$380 of U-save rebates, while families in 3 – 4 rooms will get \$340 and \$300 per year, respectively. Also, a *one-off GST voucher – Cash Special Payment* will also be given to eligible Singaporeans, on top of a personal income tax rebate of 20% payable capped at \$500. All-in-all, these policies will provide additional support of over \$850 million to aid in household expenses.

We note however that there are additional tax expenses that are introduced, although the above mentioned support should aid in fraying away some of the burden. These include increased water price charges by 30%, and a Water Conservation Tax on NEWater. Aside from this, companies will also face with higher carbon tax of between \$10 - \$20 per tonne of greenhouse gas emission. Moreover, a restructure of diesel tax to a volume-based duty of \$0.10 per litre of automotive diesel, industrial diesel and diesel component in biodiesel will also be implemented. To aid in business adjustment, a 100% road tax rebate will be given for year for commercial diesel vehicles.

### Conclusion – Thriving in an uncertain and rapidly changing world

In a nut-shell, the budget serves as a call for the government, firms, and individuals to come together and develop resilience and improve the ability to adapt to an uncertain and rapidly changing world. On one end, there are numerous supports geared in aiding businesses to thrive. Individuals themselves can also find comfort in the support given to train and retrain in the evolving labour market. Importantly as well, although there are introductions of increased carbon, water, and diesel taxes, measures are also in place to aid household and businesses to fray away some of the burden.

Given that Budget FY2017 is but only the second year in the current 5-year framework, an estimated budget surplus of \$1.9 billion (above our expectations of \$0.99 deficit) in FY2017, on top of a generous \$5.2 billion surplus seen in FY2016, does give the Singapore economy ammunition for subsequent budget years ahead should the need arise.

---

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

Co.Reg.no.:193200032W