Singapore Budget FY2018

OCBC Bank

Singapore Budget FY2018
Together, A Better Future

Tuesday, February 20, 2018

Treasury Research
Tel: 6530-8384

Highlights

- FY2017 budget balance came in at a surplus of $9.6bn (2.1% of GDP), up from a budgeted $1.9bn and higher than our estimate of $5.4bn. For FY2018, overall budget balance is pencilled at a deficit of $0.6bn (0.1% of GDP).
- The FY2018 budget remains to be expansionary; ministries' total expenditures are expected to be $80.0bn (8.3% higher than FY2017). Even so, GDP grew by 3.6% in 2017, exceeding government's outlook of 1 – 3%, while productivity growth was 4.5%, highest since 2010.
- GST rate will be raised by 2% from 7% to 9% sometime in 2021 to 2025, as a measure of long-term planning. The exact timing of the rate hike will depend on the state of the Singaporean economy. Further, the much awaited e-commerce tax on imported goods did not materialize.
- "Lumpy investments" to be watched out for, including a Changi Airport Development Fund ($4bn) to develop Terminal 5, as well as a new Rail Infrastructure Fund ($5bn) to save up for major rail lines. Revenue initiatives include GST for imported services, Buyer's Stamp Duty hike to 4% and 10% increase in Tobacco excise duty.

A better than expected year in many ways

The FY2018 Budget comes at a time where the global economy is in full gear, trade is on a positive trajectory and economic growth remains supported. However, it is expected that a new phase of growth awaits. Finance Minister Heng Swee Keat highlighted three major trends in the coming decade to look out for (1) A shift in global economic weight towards Asia, (2) The emergence of new technology and (3) The pertinent issue of an aging population in Singapore – and these points could not be any more accurate. The foreboding transition hence warrants the need for fiscal prudence and better preparation. To summarize, the budget serves as a roadmap for the decade ahead, a strategic and integrated plan that encompasses one's vision for Singapore. It is thus pivotal that we come together to make a better future for everyone.

Even with a better-than-expected economic year in 2017, Finance Minister Heng iterated the need to position Singapore for the future. Let's talk numbers first: Singapore's GDP growth in 2017 has surprised higher at 3.6% on a year-on-year basis in 2017, much higher than the government's growth outlook of between 1 – 3% at the start of 2017. Productivity growth picked up robustly as well to 4.5% as measured by value-added per actual hour worked, highest since 2010, which inevitably also led to a marked rise in real median income for Singapore citizens by 5.3% over the same period. But what is better in the overall scheme of things, was the $7.7bn upside surprise in Singapore's overall budget surplus in FY2017.

Barnabas Gan
Tel: 6530-1778
BarnabasGan@ocbc.com

Together, A Better Future

With this year's budget theme as "Together, A Better Future", much of the budget initiatives is geared a forward looking view towards supporting business innovation, supporting the development of a caring and cohesive society and eventually ensuring a fiscally sustainable and secure future into the next decade.

In order to stay relevant in the midst of the current transition, Singapore needs to position itself as a node for technology and enterprise. On that note, the Singapore government sees the importance of making innovation pervasive in the city state and has recognized three areas for further development: (1) Supporting workers to overcome future challenges, (2) Developing deep capabilities in firms and workers and (3) Establishing partnerships locally and abroad. It was found that firms still remained concerned over rising business costs, in particular that of wage costs.

Key economic policies include extending the Wage Credit Scheme (WCS) by another three more years which will cost the government about $1.8bn, enhancing and extending the Corporate Income Tax Rebate to 40%, capped at $15,000 for FY2018, and 20% capped at $10,000 for FY2019 which will cost the government an additional $475 million over the said period. Moreover, there will be support for firms to innovate to prepare for future developments, including the Productivity Solutions Grant (PSG) which replaces the Productivity and Innovation Credit (PIC) Scheme, as well as tax deduction for both Intellectual Property registration fees and qualifying expenses incurred on R&D, amongst other initiatives.

Infrastructure spending also includes "lumpy investments", including a Changi Airport Development Fund ($4bn) to develop Terminal 5, as well as a new Rail Infrastructure Fund ($5bn) to save up for major rail lines. Notably, infrastructure plans over the next decade include expanding the rail network by over 100km, redeveloping Jurong Lake District, Punggol Digital District and Woodlands North Coast. Moreover, there are plans to build the Changi Airport Terminal 5, Tuas Port and the KL Singapore High-speed rail.

Elsewhere, social policies such as education, housing and senior support were also introduced as well. These include raising the annual Edusave contributions provided by the government from $200 to $230 for each primary school student, as well as $240 - $290 for each secondary school student. The Proximity Housing Grant has been enhanced as well, while an extension of the S&CC rebates can also be expected. Notably as well, the government seeks to top up the Community Silver Trust ($300 million) and Seniors' Mobility and Enabling Fund ($150 mn). Of course, in the spirit of Chinese New Year, a special "hongbao" of between $100 - $300 will be given to each Singaporean.

An expansionary budget, where will the money come from?

Despite it all, Minister Heng iterated that FY2018 is an expansionary budget. There is a need to take into account rising education, infrastructure, security and healthcare costs into the next decade, as well as ensure a fiscally sustainable and secure future.

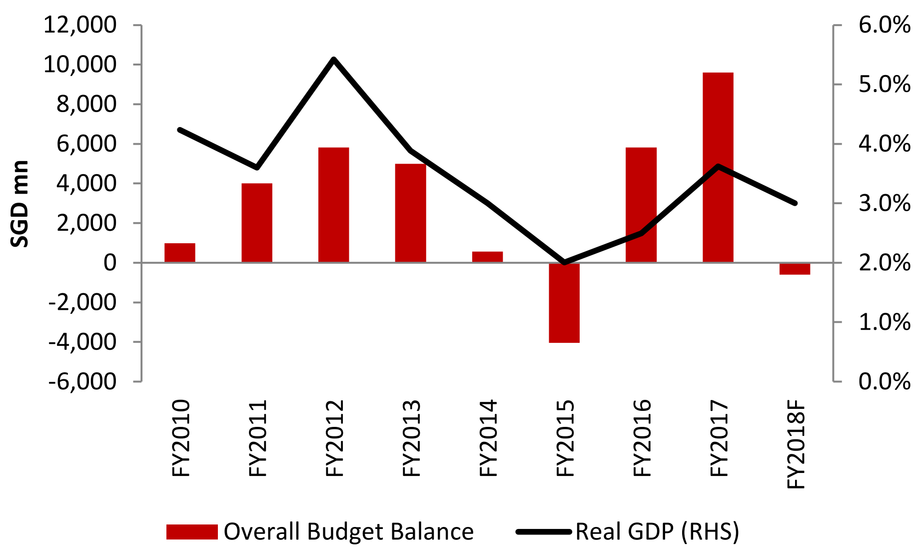
To position for potential upside increase in expenditure, Goods and Services Tax (GST) rate is expected to rise by 2 percentage points to 9% sometime in the period 2021 – 2025. GST will also be implemented on imported services, to take effect from 1st January 2020, while GST on imported goods are still under government review. Other revenue initiatives also include increasing the Buyer's Stamp Duty to 4% from 3%, which will apply to all residential properties with value in excess of $1 million with immediate effect, while tobacco excise tax will be raised by 10% with immediate effect as well. Additionally, a carbon tax of $5/ton of emission will be rolled out from 2019-2023. The tax will be increased to somewhere ranging from $10-$15 by 2030, taking into account the progress of emission and economic competitiveness. In order to defray the GST, a permanent GST Voucher will be implemented when the GST rate is eventually raised to 9%.

Conclusion – The need to build a better Singapore

In a nutshell, the budget serves as a "strategic and integrated financial plan to position Singapore" into the next decade. With the expanding expenditure expected to be seen in healthcare, education, security and infrastructure into the foreseeable future, there is indeed a need to stay fiscally sustainable, especially in the light of major shifts happening. On one end, the expanding economic environment as allowed Singapore to clock a massive $9.6bn budget surplus in FY2017, which does give the books the necessary ammunition for future expenditure needs. However, more is needed into 2020 – 2030, especially with expenditure rising rapidly then.

Budget FY2018 is heading into the third year of its current 5-year framework, with an estimated deficit of merely S$600 million, or 0.1% of GDP. Accounting for the three years, total accumulated budget surplus is over $14.8bn, the savings necessary to weather economic shocks as well as to provide the necessary funds to position Singapore into the next decade.

Singapore Budget Balance: A small deficit to be expected into FY2018



Source: Singapore Budget, CEIC, OCBC Bank

Co.Reg.no.:193200032W