

FY2010 SINGAPORE BUDGET**Tuesday, February 23, 2010****The FY2010 Budget unveiled a \$5.5b plan to boost productivity over the next five years through tax benefits, grants and training subsidies.**

Fiscal consolidation and the absence of “relief” measures mark a return to more normalized growth conditions (official growth forecast has been upgraded from initial 3-5% to 4.5-6.5% yoy) and medium-term budget priorities rather than crisis-type relief measures. The FY2009 budget out-turn was a much milder \$2.88b (1.1% of GDP), which is only one-third of the initial estimates of a \$8.7b shortfall, and the planned FY2010 budget is another modest deficit of \$2.96b (1.1% of GDP). This is within our expectations for the FY2010 overall budget deficit to be pared to below \$3 billion, essentially implying a marginal budget deficit position as a percentage of GDP, should the elections be called before the FY2011 Budget. Should 2010 growth continue to surprise on the upside, with tax revenues more buoyant again, especially for the GST, stamp duty etc, then the budget position could very well swing back into a surplus, albeit likely a marginal one.

FY2010 focus has shifted to medium-term economic restructuring priorities.

The focus on improving productivity and continuous education and training (CET) for workers is in response to the ESC’s recommendations to target 2-3% p.s. productivity growth to achieve 3-5% p.a. GDP growth, and raise real incomes by one-third. To this end, the Singapore government will spend \$5.5b in the next 5 years to spur productivity through tax benefits, grants and training subsidies. Also initiatives included were higher foreign worker levies, supporting business restructuring, establishing a National Productivity and Continuing Education Council, and expanding the CET system, enhancing Workfare Income Supplement (WIS), providing innovation and productivity credits, as well as introducing a progressive property tax system.

While the bulk of the Fy2010 Budget appears to be targeted more towards corporates and workers, households will also receive \$1.4 billion in direct transfers. Including the WIS scheme, the amount of transfers to households rises to \$1.8 billion. The absence of across-the-board monetary “handouts” in the form of Growth Dividends also reflects the policy preference for more targeted help. On balance, this is a forward-looking Budget that should prove welcome to both corporates as well as households.

Corporate FX &
Structured Products
Tel: 6349-1888 / 1881

Fixed Income &
Structured Products
Tel: 6349-1810

Investments &
Structured Product
Tel: 6349-1886

Interest Rate Derivatives
Tel: 6349-1899

Treasury Research &
Strategy
Tel: 6530-4887

Selena Ling
+65 6530 4887
lingsselena@ocbc.com

Growth prognosis is good:

Near-term growth should be encouraging on a year-on-year basis, with the first half performance likely to outshine that of the second half. Looking beyond 2010, only time will tell if the productivity “experiment” will pay off, but the emphasis on lifelong training and learning should bode well for the potential of the Singaporean workforce, and the shift to a more inclusive society suggests that the Singapore government is cognizant of the risks of divisive economic growth. In particular, the specific attention paid to low-wage workers, through the WIS which provides 90-95% subsidies of absentee payroll and course fees for employers, as well as cash grants when WIS recipients complete their training, suggest that a potential structural unemployment problem may be nipped in the bud as the Singapore economy transits to a different phase of growth.

Market reaction:

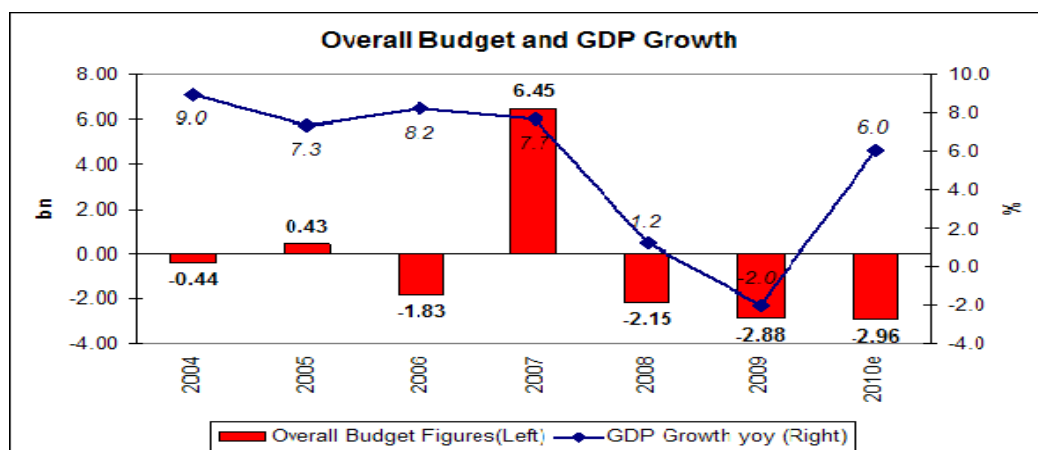
The STI ended largely flat (-0.01% at 2757.21), mainly due to the medium-term economic restructuring focus in the Budget, while SGS bonds remained rangebound following the FY2010 Budget announcement. The FY2010 Budget does not have any SGS bond issuance implications, and market is focused more on the 15-year SGS bond re-opening tomorrow.

Business implications:

While foreign worker levies will be raised in a “phased” and “calibrated” manner over the next three years, the proportion of foreign workers in the workforce will not be tweaked through quantitative adjustments, which imply that the issue for business is more of higher operational costs in the near-term, especially for the construction companies. This dovetails with our expectation that the construction sector will take a backseat this year given the completion of the two Integrated Resorts, while the services industry will play a more prominent role in driving growth and jobs going forward. Besides, the varied incentives provided under the auspices of the FY2010 Budget to restructure and upgrade their operations to rely less on lower skilled foreign workers should prove to be sufficient sweetener. More importantly, there is no official picking of winners or losers, and most businesses will receive “significant financial support” from the government to boost productivity, innovation and training.

Parings of monetary policy tightening odds for April?

With the technical rebasing of the CPI to 2009 weights, the official inflation forecast was also adjusted from 2.5-3.5% to 2-3% yoy. At this juncture, there are few signs of core CPI or domestic cost pressure at this juncture, and hence the odds of a monetary policy tightening has been trimmed to less than even, despite the official growth forecast upgrade.



Source: OCBC

Fiscal position for FY2009 and FY2010

	Revised FY2009	Estimated FY2010 [@]	Change over Revised FY2009	
	\$ billion	\$ billion	\$ billion	%
OPERATING REVENUE	38.57	40.73	2.16	5.6
Corporate Income Tax	9.26	7.61	(1.65)	(17.8)
Personal Income Tax	6.20	6.96	0.76	12.3
Withholding Tax	1.16	1.25	0.09	7.5
Statutory Boards' Contributions	0.41	1.19	0.78	191.0
Assets Taxes	1.98	2.72	0.74	37.4
Customs and Excise Tax	2.10	2.24	0.15	6.9
Goods and Services Tax	6.66	6.98	0.32	4.7
Motor Vehicle Related Taxes	1.80	1.50	(0.30)	(16.5)
Vehicle Quota Premiums	0.61	0.90	0.29	47.2
Betting Taxes	1.74	2.08	0.34	19.4
Stamp Duty	2.29	2.68	0.38	16.7
Other Taxes	2.12	2.37	0.25	11.8
Other Fees and Charges	2.09	2.15	0.05	2.6
Others	0.15	0.11	(0.04)	(25.7)
Less:				
TOTAL EXPENDITURE	42.88	46.37	3.49	8.1
Operating Expenditure	31.75	33.90	2.15	6.8
Development Expenditure	11.14	12.47	1.34	12.0
PRIMARY SURPLUS / (DEFICIT)[†]	(4.31)	(5.64)		
Less:				
SPECIAL TRANSFERS[‡]	5.60	5.15	(0.45)	(8.0)
Special Transfers Excluding Top-Ups to Endowment and Trust Funds	4.19	1.56		
Jobs Credit Scheme	3.19	0.25		
Special Risk-Sharing Initiative (SRJ)	0.01	-		
Growth Dividends	0.01	-		
GST Credits	0.46	0.47		
Senior Citizens' Bonus	0.12	0.13		
Workfare Income Supplement Scheme Special Payment	0.12	0.02		
U-Save Scheme	0.12	0.10		
Service & Conservancy Charges and Rental Rebates	0.07	0.04		
Top-Up to CPF Medisave Accounts	-	0.31		
Top-Up to Post-Secondary Education Accounts	0.00	0.23		
Other measures for Elderly and Lower Income [#]	0.02	0.02		
Assistance to Small and Medium Enterprises (SMEs)	0.02	-		
R&D Incentive for Start-up Enterprises	0.05	0.01		
BASIC SURPLUS / (DEFICIT)[^]	(8.50)	(7.20)		
Top-Ups to Endowment and Trust Funds	1.41	3.59		
Top-Up to Endowment Funds	0.30	0.40		
National Research Fund	0.40	1.50		
National Productivity Fund	-	1.00		
CPF Deferment and Voluntary Deferment Bonus	0.45	0.44		
LIFElong Income (LIFE) Bonus	0.26	0.25		
Add:				
NET INVESTMENT RETURNS CONTRIBUTION	7.03	7.83	0.80	11.4
OVERALL BUDGET SURPLUS / (DEFICIT)	(2.88)	(2.96)		

Note: Due to rounding, figures may not add up.

Table 1.1: Fiscal Position in FY2008 and FY2009

	Actual FY2008	Estimated FY2009	Revised FY2009	Revised FY2009 Compared to	
				Actual FY2008	Estimated FY2009
	\$billion	\$billion	\$billion	% change	% change
OPERATING REVENUE	41.09	33.43	38.57	(6.1)	15.4
Corporate Income Tax	10.55	8.21	9.26	(12.3)	12.8
Personal Income Tax	5.41	5.22	6.20	14.5	18.7
Withholding Tax	1.18	0.83	1.16	(1.4)	39.3
Statutory Boards' Contributions	2.14	0.31	0.41	(80.9)	31.4
Assets Taxes	2.90	1.03	1.98	(32.0)	91.9
Customs and Excise Tax	2.07	2.00	2.10	1.6	4.9
Goods and Services Tax	6.49	6.56	6.66	2.7	1.5
Motor Vehicle Related Taxes	1.83	1.59	1.80	(1.9)	12.8
Vehicle Quota Premiums	0.37	0.32	0.61	66.4	91.6
Betting Taxes	1.77	1.86	1.74	(1.9)	(6.6)
Stamp Duty	1.43	0.99	2.29	60.2	131.9
Other Taxes	1.93	2.37	2.12	9.9	(10.4)
Other Fees and Charges	2.85	2.02	2.09	(26.4)	3.5
Others	0.17	0.11	0.15	(7.6)	33.1
Less:					
TOTAL EXPENDITURE	38.09	43.62	42.88	12.6	(1.7)
Operating Expenditure	28.73	32.16	31.75	10.5	(1.3)
Development Expenditure	9.36	11.46	11.14	19.0	(2.9)
PRIMARY SURPLUS / (DEFICIT)*	3.00	(10.20)	(4.31)		
Less:					
SPECIAL TRANSFERS†	7.10	6.15	5.60	(21.2)	(9.0)
Special Transfers Excluding Top-Ups to Endowment and Trust Funds	4.09	4.74	4.19		
Jobs Credit Scheme	0.92	3.38	3.19		
Special Risk-Sharing Initiative (SRI)	-	0.39	0.01		
Growth Dividends	1.01	-	0.01		
GST Credits	0.88	0.46	0.46		
Senior Citizens' Bonus	0.24	0.12	0.12		
Workfare Income Supplement Scheme Special Payment	0.05	0.10	0.12		
U-Save Scheme	0.20	0.12	0.12		
Service and Conservancy Charges and Rental Rebate	0.06	0.07	0.07		
Top-Up to CPF Medisave Accounts	0.22	-	-		
Top-Up to Post-Secondary Education Account	0.48	0.00	0.00		
Other measures for Elderly and Lower Income‡	0.01	0.03	0.02		
Assistance to Small and Medium Enterprises (SMEs)	0.02	0.02	0.02		
R&D Incentive for Start-Up Enterprises	-	0.05	0.05		
BASIC SURPLUS / (DEFICIT)*	(1.09)	(14.94)	(8.50)		
Top-Ups to Endowment and Trust Funds	3.01	1.41	1.41		
Top-Up to Endowment Funds®	1.60	0.30	0.30		
National Research Fund	0.80	0.40	0.40		
CPF Deferment and Voluntary Deferment Bonus	0.35	0.45	0.45		
LIFELong Income (LIFE) Bonus	0.26	0.26	0.26		
Add:					
NET INVESTMENT INCOME / RETURNS CONTRIBUTION	4.34	7.67	7.03	62.0	(8.3)
OVERALL BUDGET SURPLUS / (DEFICIT)	0.24	(8.67)	(2.88)		

Note: Due to rounding, figures may not add up.

Source: MOF

FY 2010 Budget Highlights		
Name	Description	Cost
For residents		
Continuing Education and Training	Build up an outstanding CET system for adults, to complement a first-rate education system for young.	S\$2.5 billion over the next 5 years
Workfare Training Scheme	Give further incentive for employers and low-wage workers to commit to training. Provide their employers with 90% to 95% of funding for absentee payroll and course fee outlays.	
Enhancement of Workfare Income Supplement	maximum payouts for the WIS will be increased by between S\$150 and S\$400	S\$100 million annually
Moderately progressive property tax system	Introduce three tiers of tax rates – 0%, 4% and 6% – under the new schedule for owner-occupied residences. The first S\$6,000 of AV will be exempted from property tax. The next tier will be taxed at 4%, and the balance of AV in excess of S\$65,000 will be taxed at 6%. This new schedule will apply for property tax payable from January 2011.	S\$230 million a year initially
Family-related reliefs	Increase in parent relief Expansion of wife relief to spouse relief Enhancing dependant reliefs	
Increase Course Fee Relief	Course fee relief from S\$3,500 to S\$5,500	
Support for Charitable Giving	Extend the 250% tax deduction for an additional year	
One-off top-up to the CPF Medisave Accounts of older Singaporeans aged 50 and above	Most Singaporeans aged 50 to 59 will receive a top-up of S\$200 to S\$300. The majority of those aged 60 to 69 will get a top-up of S\$300 to S\$400, while those aged 70 and above will receive a top-up of S\$400 to S\$500	S\$310 million.
Top-up to Post-Secondary Education Accounts		S\$230 million.
For businesses		
Productivity and Innovation Credit	The Credit will provide significant tax deductions, for investments in a broad range of activities along the innovation value chain. A tax deduction of 250% on the first S\$300,000 of R&D expenditures, and 150% on the remaining R&D costs.	S\$480 million a year available for five years
Construction sector initiatives	Include initiatives to help our local contractors develop capabilities in areas such as complex civil engineering and building projects, invest in new technologies, and upgrade to a higher quality workforce.	Around S\$250 million out of the first S\$1 billion of National Productivity Fund
Raising Foreign Worker Levies	Work Permit holder levy rates will be raised by between S\$10 and S\$30 from July 2010 S Pass workers levy rates will be raised by between S\$50 and S\$70 from July 2010	

Facilitate mergers and acquisitions	One-off tax allowance scheme to help defray a portion of acquisition costs. Waive stamp duty on the transfer of unlisted shares for such deals.	About S\$100 million per year available for five years
Enhancing Land Productivity	Promote the intensification of industrial land use, towards more land-efficient and higher value-added activities.	
Partnerships for Capability Transformation (PACT)	Include helping local companies develop the competencies needed to meet stringent manufacturing quality and certification requirements.	S\$250 million over five years
Business associations as growth champions	Scale up support for business associations to drive productivity at the industry level, and to facilitate international market access for their members.	S\$100 million over five years
Nurturing future business leaders	Attract young talent into SMEs, and groom a future generation of SME managers and entrepreneurs.	S\$45 million over five years
Sustain commitment to public sector R&D	Sustain commitment to public sector basic- and mission-oriented research at 1% of GDP	S\$1.5 billion into the National Research Fund
Public-Private Co-Innovation Partnership	Government agencies to work with private sector companies in co-developing innovative solutions for medium- to long-term needs, in areas such as urban mobility, environmental sustainability and energy security.	S\$450 million over five years
Incentive for angel investors	An eligible angel investor who commits a minimum of S\$100,000 of equity investment in a qualifying start-up in a given year can claim 50% tax deduction on his investment at the end of a two-year holding period.	S\$60 million for the next five years
Catalysing growth capital for SMEs	The Government will help catalyse financing for companies that have achieved initial success and are looking to scale up.	S\$1.5 billion of growth capital by seeding a range of funds over 10 years The first phase will be launched this year, with the Government providing up to S\$250 million to match private sector investments.
Catalysing cross-border funding	A specialized institution in Singapore along similar lines can help plug market gaps in cross-border financing.	Under study

Source: MOF, OCBC

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