SINGAPORE:

SINGAPORE: PRE-BUDGET 2017 THOUGHTS

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Linking the Committee for Future Economy (CFE) to Budget 2017.
Now that the CFE recommendations have been laid on the table, we expect that many if not most of the CFE recommendations are likely to be endorsed and implemented. Some have asked how to measure if the CFE is successful given the absence of hard quantifiable targets such as the 2-3% productivity growth per annum goal in the earlier Economic Strategies Committee (ESC) report in 2010. The easiest metric is GDP growth since the CFE strategies are targeting 2-3% sustainable growth for the next decade or more. However, GDP growth is also a function of external demand and a pickup in global economic growth could beneficial.

Budget focus is likely charting a firm economic course
Budget 2017 may continue to steer a steady course amid the external uncertainties and domestic economic restructuring transition. The key thrusts will likely revolve around facilitating capability building for companies and potential short-term cost relief to help in the growth slowdown and economic transition, skills upgrading/deepening for the labour force, and reviewing the fiscal regime to ensure an equitable and progressive tax system.

Budget 2016 outturn is likely to afford headroom to be more generous
While the Budget 2016 had initially projected a $3.44b budget surplus, we note that tax receipts for the first half of FY16 have been healthy, particularly for corporate and income taxes, as well as GST, stamp duty, other taxes, and fees & charges (especially vehicle quota premiums). As such, the Budget 2016 budget surplus is likely to surprise on the upside at $5.05b (equivalent to 1.2% of GDP). Notwithstanding, the government would probably still be fiscally prudent given the Singapore economy avoided a technical or even outright recession in 2016, but is also likely to be able to afford to be more generous and target a modest fiscal deficit for 2017 – we have penciled in a $0.99 billion deficit (equivalent to 0.2% of GDP) as tax receipts and fees & charges are unlikely to see a similar pace of increase again this year.

Calibrated response for Budget 2017 rather than a lifeboat
2016 GDP growth was actually not too bad at close to the 2% yoy handle and 2017 growth is likely to again by around the 1-3% range, so market expectations for lots of subsidies and cash transfers are quite muted. Policymakers will calibrate the fiscal response accordingly to the immediate economic environment while focusing on implementation of the myriad recommendations encapsulated in the CFE report, but not forsaking the fiscal prudence and medium-term fiscal sustainability pillars.

Given the overarching shared themes of skills deepening, building new capabilities, strengthening innovation etc across previous budgets and

CFE, it will be hard to quantify/differentiate what is CFE-centered. However, immediate concerns for SMEs are economic viability given the high cost environment, keen competition, and need to scale up and innovate. For the Singapore worker, there is a need to embrace change and adapt to digitalization, disruptive technologies and be future-ready amidst the softening labour market conditions. For the Singapore economy, it is also increasingly facing an uphill climb as far as multilateral trade agreements (eg. TPP), attracting foreign direct investments (as more economies turn more protectionist), and generating more value-added, well-paying jobs (to cater to a more demanding but also ageing workforce).

For the short-term, policymakers will be more cognizant of the structural headwinds facing businesses, including costs, financing, manpower pressures and the need to scale up and internationalize, especially for SMEs. Government landlords could provide some rental rebates in view of the difficult business conditions, similar to what JTC has done for O&M lessees and tenants for 2017 to the tune of 3-10% in rental rebates. Should policymakers cast a more lenient eye towards the cost environment for local companies, we could see some room for “fees & charges” portion to be adjusted, particularly for licenses, permits, service fees, rental of premises etc.

One of the perennial corporate wish list is for an extension of sunset period for the PIC scheme which is set to expire in YA2018. However, we think the probability of an extension or a replacement scheme is relatively low, even though some have called for a modification of the existing R&D incentive scheme to provide local SMEs the option to convert qualifying R&D deductions into a non-taxable cash benefit. In addition, MAS has also recently announced regulatory changes to allow finance companies to enhance their ability to finance SMEs, including raising the limit on a finance company’s aggregate uncollateralized business loans from 10% to 25% of capital funds, and single-borrower limit from $5,000 to 0.5% of capital funds.

A more careful budgeting framework may be in the pipeline. In recent years, the Net Investment Income formula has been tweaked, but given the growing fiscal expenditure needs of an ageing population amid ongoing economic restructuring efforts, one important consideration has to be the medium-term fiscal sustainability for Singapore. What this means is that barring another tweak to the net investment income contribution formula, the need to beef up tax revenues could warrant at some stage another look at the Goods & Services Tax (GST) which was last adjusted a decade ago back in 2007 to the current 7% handle, especially since the top income tax brackets was recently adjusted to augment the progressive tax system. This could be partly in response to the CFE recommendation to review and reshape Singapore’s tax system amid rising domestic expenditures due to ageing and global changes in tax rules. In particular, the CFE called for the tax system to remain broad-based, progressive and fair, even as revenues need to be raised over time to meeting rising domestic needs, while balancing the need to remain competitive and pro-growth.

A hike to the GST is likely to be unwelcomed by the ground at this juncture given that the domestic labour market is softening and hiring intentions and nominal wage growth have been recalibrated lower and coupled with positive inflation prints, this could imply that real wage growth could stagnate if inflation should accelerate at a faster pace this year. While not our base-case scenario for now, any potential GST rate hike is likely to be gradual and pre-announced for the years to come, and probably coupled with sweeteners in the form of enhanced personal tax relief, especially for lower-income households, to remove the sting.

For the labour market, Singapore is expected to create about 25,000-40,000 jobs over the next three to five years, according to the Manpower Minister Lim Swee Say. Still, policymakers have acknowledged that the risk of mismatches between jobseekers and job created has increased with economic restructuring and slowing local workforce growth. So while the Professional Conversion Programme (PCP) was launched in 2007 to help local PMETs acquire new skills to take on new careers, and expanded under Adapt and Grow to allow conversion to different jobs within the same sector or different jobs within the same company for sectors with high risks of redundancy, coupled with the Career Support Programme (CSP) which helps provide wage support for the first year of employment for mature PMETs who are made redundant, more can be done. There is some scope for a bigger helping hand for tide these displaced PMETs with their commitments, whether tax or otherwise, while encouraging them to leverage on the Skillsfuture scheme to upgrade their skills and find new sources of employment.

While we do not expect that the foreign manpower tightening will be unwound in the near-term due to the need to press on with weaning off the dependency on foreign labour, albeit there could be a possible concession in terms of delaying any planned increase in Foreign Worker Levy. Instead, there will be continued and sustained efforts to encourage businesses to digitize and embrace new technologies. The support for the internationalization drive could also be strengthened, such as extending the period, type and quantum of support for SMEs.

For the property market, the official rhetoric also leans towards no near-term unwinding of cooling measures, but some consideration may be given to REDAS' call for the government to review the property tax for vacant private land, to exempt property tax for land under or slated for development or buildings undergoing renovations, to offer more transparency in valuation for computation of development charges to top up lease tenures and lower certain regulatory fees to reduce business costs. Private home sales came in at 381 units in January 2017, similar to the 367 units in December.