



Chapter 5

MACROECONOMIC POLICIES

FISCAL POLICY

OVERVIEW

Robust economic growth and buoyant property market boosted operating revenue. Increased spending in education, health and housing...

Singapore's fiscal policy aims to promote sustained, non-inflationary economic growth by:

- ensuring a balanced budget over the medium-term;
- creating a competitive tax environment that supports investment, entrepreneurship, and job creation; and
- building capabilities for longer-term competitiveness by investing in R&D, education, and infrastructure.

The Budget 2007 focused on positioning Singapore as "Ready for the Future, Ready for the World". The highlights are as follows:

- Reduction of Corporate Income Tax rate from 20 per cent to 18 per cent.
- Increase of Goods and Services Tax (GST) rate from 5 per cent to 7 per cent.
- A \$4 billion "GST offset package", including \$1.8 billion worth of cash to be disbursed over a period of 5 years. This is estimated to offset at least 5 years of additional household expenditure due to the GST increase, with the lower-income households getting more.
- Changes to the Central Provident Fund (CPF) structure and the introduction of Workfare Income Supplement Scheme to supplement the wages and enhance savings of low-wage workers.
- Tax measures to promote "High-Trust" services, the details of which are in Annex 5.1.

The 2007 total operating revenue was \$39.5 billion, 27 per cent higher compared to 2006, reflecting the robust economic growth and buoyant property market.

Operating expenditure accounted for \$24.4 billion or 78 per cent of total expenditure while development expenditure accounted for \$7.0 billion or 22 per cent of total expenditure in 2007.

GOVERNMENT OPERATING REVENUE

[Table A4.1 and Charts 5.1–5.2]

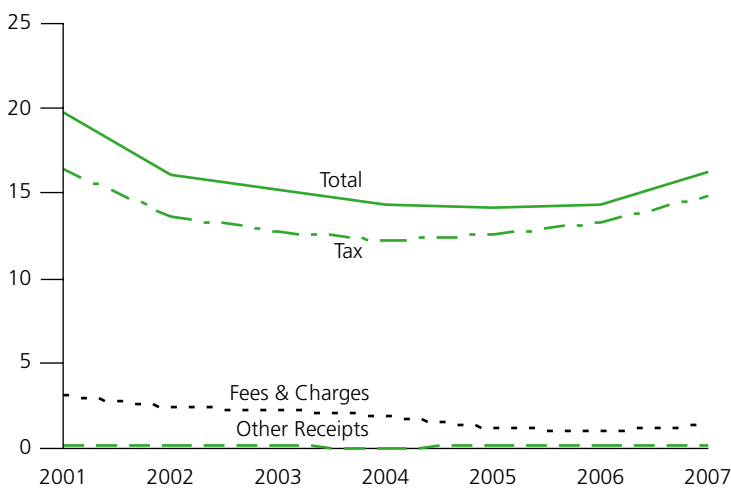
Higher Government operating revenue due to strong economic growth and buoyant property market...

Government operating revenue increased by 27 per cent from \$31.1 billion in 2006 to \$39.5 billion in 2007.

GOVERNMENT OPERATING REVENUE AS A PERCENTAGE OF GDP

[Chart 5.1]

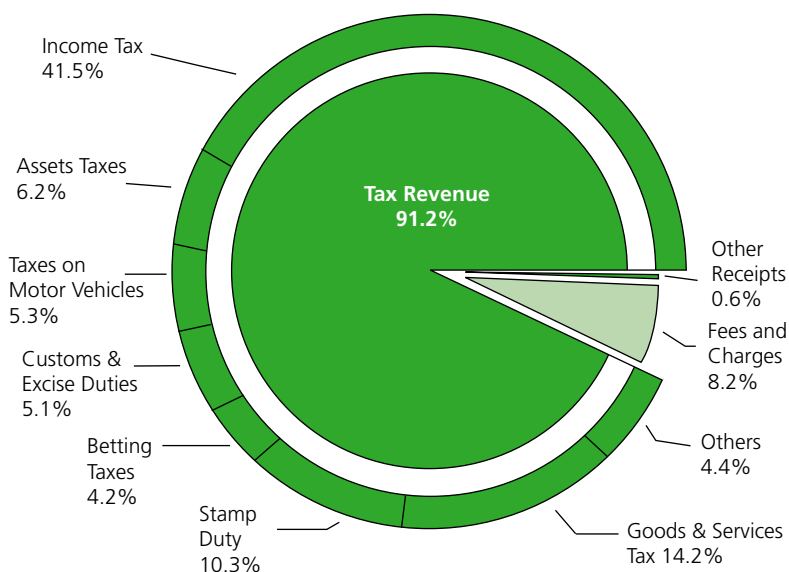
Per Cent



GOVERNMENT OPERATING REVENUE, 2007

\$39,516 MILLION

[Chart 5.2]



Tax Revenue

Tax revenue, which formed 91 per cent of total operating revenue, comprised mainly income taxes, the GST, assets taxes, motor vehicle taxes, customs and excise taxes, betting taxes, and stamp duty.

Income tax collections increased 9.8 per cent to \$16.4 billion in 2007 due to the strong, sustained economic growth in 2006 and 2007, which boosted corporate profits and correspondingly corporate income tax collections. Revenue from GST increased by 42 per cent to \$5.6 billion, in line with strong consumption growth and increase in GST rate.

Assets tax collection (property tax and estate duty) in the year 2007 increased by 19 per cent to \$2.4 billion. Motor vehicle tax collection climbed by 22 per cent to \$2.1 billion attributable to lower rebates paid out from vehicle deregistration. Collections from betting taxes increased by 7.5 per cent to \$1.7 billion, while stamp duty increased by 211 per cent to \$4.1 billion on the back of buoyant property market and more En Bloc sales. Customs and excise collections also increased marginally by 4.6 per cent to \$2.0 billion, as compared to 2006.

Fees and Charges

Revenue from fees and charges in 2007 was \$3.2 billion, an increase of 52 per cent from the collections received in 2006. This was mainly due to higher collections from vehicle quota premium and other licences and permits.

Other Operating Revenue

Miscellaneous financial receipts decreased marginally by 4.7 per cent to \$0.2 billion in 2007.

GOVERNMENT EXPENDITURE

[Tables 5.1–5.2, A4.2–A4.3 and Charts 5.3–5.4]

Increased spending in education, health and housing...

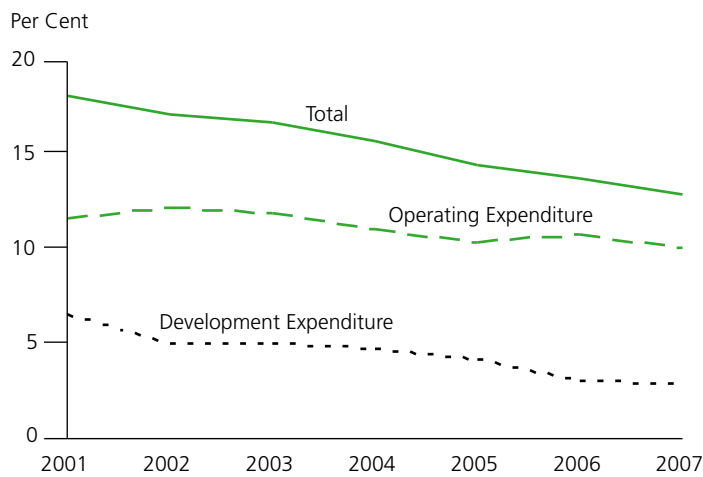
Operating expenditure accounted for \$24.4 billion or 78 per cent of total expenditure while development expenditure accounted for \$7.0 billion or 22 per cent of total expenditure in 2007.

Operating Expenditure

Compared to 2006, operating expenditure in 2007 increased by \$0.9 billion or 3.8 per cent to \$24.4 billion.

GOVERNMENT EXPENDITURE AS A PERCENTAGE OF GDP

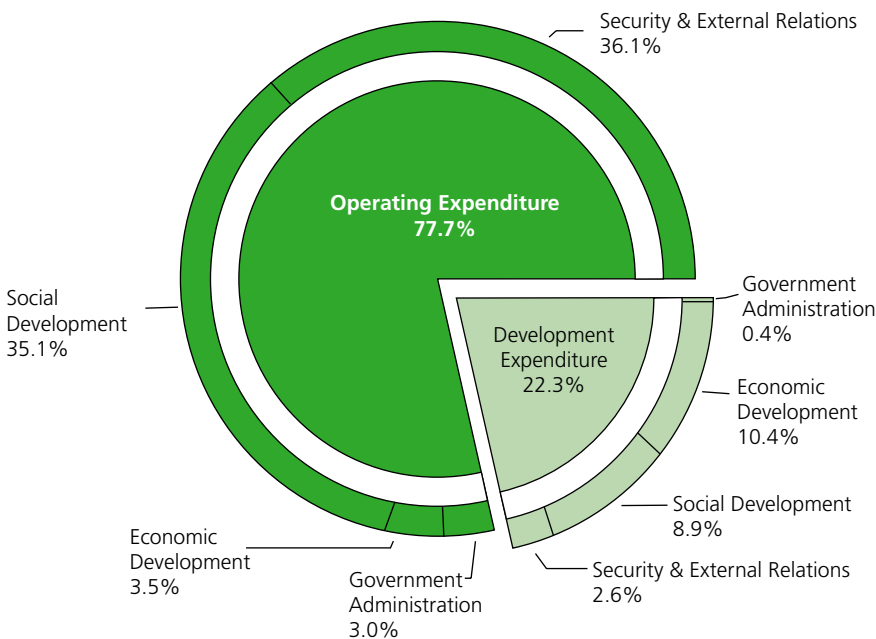
[Chart 5.3]



GOVERNMENT EXPENDITURE, 2007

\$31,334 MILLION

[Chart 5.4]



GOVERNMENT OPERATING EXPENDITURE

[TABLE 5.1]

	2004	2005	2006	2007
	Million Dollars			
TOTAL¹	19,935.8	20,674.6	23,463.0	24,351.7
Security & External Relations	9,347.5	10,443.4	11,973.0	11,308.5
Social Development	8,985.2	8,548.0	9,684.6	10,995.9
Education	5,161.9	4,980.7	5,684.6	6,566.8
Health	1,889.9	1,670.7	1,764.4	2,015.6
Community Development, Youth & Sports	808.0	817.7	898.0	832.9
Information, Communications & the Arts	272.4	274.5	320.3	351.6
Environment & Water Resources	460.0	442.7	418.1	436.3
National Development	393.0	361.8	599.3	792.7
Economic Development	866.5	924.2	953.8	1,116.7
Transport	287.2	285.1	284.1	284.1
Trade & Industry	381.9	443.7	459.2	579.2
Manpower	168.5	165.2	179.7	215.1
Info-Communications and Media Development ²	29.0	30.2	30.8	38.3
Government Administration	736.6	759.0	851.6	930.6

Source: Ministry of Finance

¹ Government operating expenditure refers to expenditure on manpower, other operating expenditure (excluding expenses on investment and agency fees on land sales) and operating grants.

² Re-classified from Info-Communications Technology to include expenditure related to Media Development Programme from April 2007 onwards.

Note: Figures may not add up due to rounding.

The security and external relations sector, and the social development sector continued to take up the largest shares of operating expenditure at 46 per cent and 45 per cent respectively.

The main increases in operating expenditure in 2007 came from higher expenditure on education, healthcare subsidies, Public Housing Development, and Workforce Development.

Higher operating budgets to fund the activities of statutory boards in the economic and tourism development sectors also contributed to the rise.

Development Expenditure

Development expenditure increased by \$0.6 billion or 8.9 per cent to \$7.0 billion. The bulk of development spending was on the economic development (47 per cent) and social development sector (40 per cent). Expenditure on social development registered a rise of 32 per cent. This was mainly due to higher spending by Ministry of National Development on estate renewal through the Selective En-Bloc Redevelopment Scheme, and upgrading of HDB flats and estates under the Public Housing

GOVERNMENT DEVELOPMENT EXPENDITURE

[TABLE 5.2]

	2004	2005	2006	2007
	Million Dollars			
TOTAL¹	8,482.2	8,106.8	6,411.5	6,982.7
Security & External Relations	874.0	916.2	821.8	817.7
Social Development	4,031.5	3,388.0	2,101.8	2,776.9
Education	1,224.0	993.8	687.5	680.9
Health	89.9	107.8	82.2	131.2
Community Development, Youth & Sports	89.2	120.4	65.0	159.3
Information, Communications & the Arts	109.4	183.9	110.3	111.4
Environment & Water Resources	1,071.3	877.2	548.6	493.3
National Development	1,447.6	1,104.9	608.2	1,200.8
Economic Development	2,755.4	3,323.8	3,017.5	3,273.4
Transport	1,401.7	1,952.8	1,738.7	1,669.8
Trade & Industry	1,281.6	1,320.4	1,227.7	1,542.1
Manpower	49.0	39.4	20.3	20.7
Info-Communications and Media Development ²	22.9	11.2	30.7	40.9
Government Administration	821.4	478.9	470.4	114.7

Source: Ministry of Finance

¹ Government development expenditure excludes land-related expenditure items and loans to statutory boards and industrial and commercial enterprises.

² Re-classified from Info-Communications Technology to include expenditure related to Media Development Programme from April 2007 onwards.

Note: Figures may not add up due to rounding.

Development Programme; higher expenditure by Ministry of Community Development, Youth and Sports on payment of the Sports Hub land costs; and Ministry of Health on construction of major projects such as the Khoo Teck Puat Hospital. This was offset by lower expenditure by Ministry of the Environment and Water Resources on projects such as the Deep Tunnel Sewerage System Phase 1 as the tunnel, outfall and influent pumping station components of the project had been completed and major civil works for Changi Water Reclamation Plant are nearing completion.

The increase of 8.5 per cent on economic development expenditure was mainly due to higher expenditure by the Ministry of Trade and Industry on projects such as the Economic Assistance Scheme 5, Science and Technology Plan 2010, and Enterprise Development Fund 3.

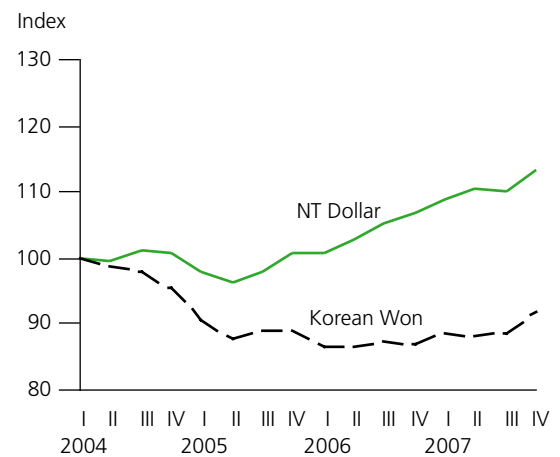
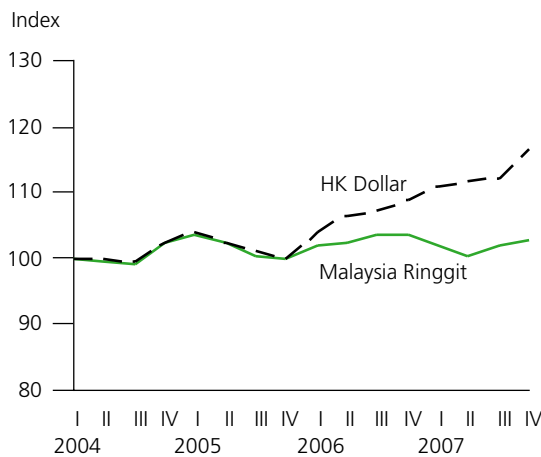
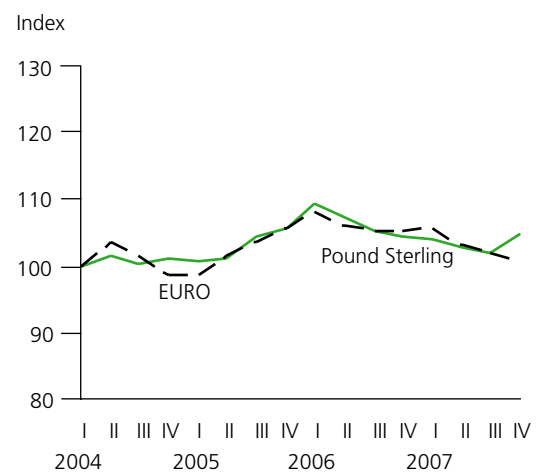
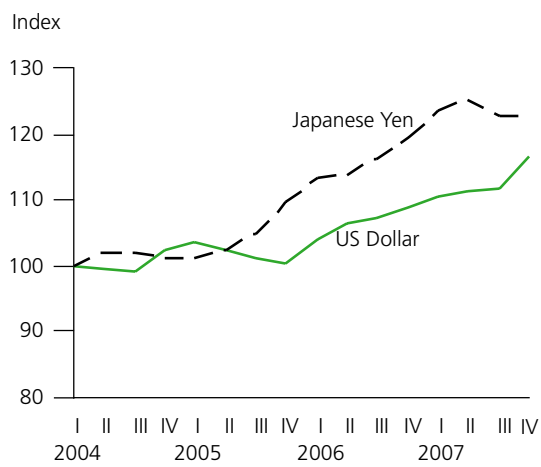
MONETARY DEVELOPMENT

OVERVIEW

The Singapore economy continued to expand robustly in 2007. CPI inflation for the year as a whole came in higher, partly due to the 2 per cent GST increase in July. In October 2007, the Monetary Authority of Singapore maintained the policy of a modest and gradual appreciation of the S\$NEER, but increased slightly the slope of the policy band.

MOVEMENT OF SINGAPORE DOLLARS AGAINST MAJOR CURRENCIES

[Chart 5.5]



EXCHANGE RATES

[Table A5.1 and Chart 5.5]

The Singapore Dollar recorded further gains against the US Dollar...

Developments in the global foreign exchange market were again driven largely by the broad US Dollar weakness in 2007. The Singapore Dollar strengthened further by 6.4 per cent and 6.8 per cent against the US Dollar and Hong Kong Dollar respectively. The domestic currency also appreciated against the New Taiwan Dollar, the Korean Won and the Pound Sterling by 6.0 per cent, 7.1 per cent and 4.5 per cent respectively.

At the same time, the Singapore Dollar was largely unchanged against the Japanese Yen, the Malaysian Ringgit, and the Chinese RMB. It depreciated by 5.1 and 4.5 per cent against the Euro and the Australian Dollar respectively.

INTEREST RATES

[Table A5.2 and Chart 5.6]

Interbank rates trended lower in 2007...

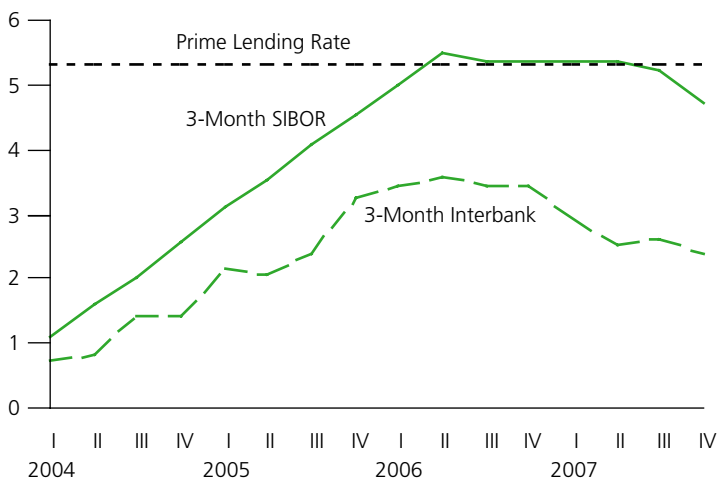
Domestic interbank interest rates softened over the first half of 2007, with the 3-month rate falling by 94 basis points from 3.44 per cent at end-2006 to 2.50 per cent at end-June. Over the same period, the 3-month US Dollar SIBOR remained at 5.36 per cent, against an unchanged US monetary policy stance. The disruption of US and European money markets in early August led to a temporary spike in the interbank rates, with the domestic 3-month interbank rate and the 3-month US Dollar SIBOR rising to 2.75 per cent and 5.63 per cent respectively at end-August. Thereafter, both rates fell to 2.38 per cent and 4.73 per cent by the end of the year, following the sustained easing in US monetary policy in September.

The short term interbank rate fell on the back of easing US monetary policy...

SELECTED INTEREST RATES

[Chart 5.6]

Per Cent Per Annum



Longer-term interest rates generally trended lower in 2007, with the exception of the benchmark 15-year Singapore Government Securities (SGS), which ended the year at 3.18 per cent, slightly higher than 3.16 per cent in 2006. SGS with shorter maturities recorded larger declines in their yields compared to those at the longer end of the yield curve. The yield on the benchmark 2-year SGS fell by 119 basis points to 1.82 per cent, while the benchmark 10-year SGS declined 37 basis points to 2.68 per cent.

Retail interest rates offered by banks was relatively stable in 2007. The savings deposit rate was unchanged at 0.25 per cent, while the 12-month fixed deposit rate edged marginally lower from 0.88 per cent to 0.83 per cent. Similarly, the average prime lending rate posted by banks remained at 5.33 per cent throughout the year.

MONEY SUPPLY (M1, M2 AND M3)

[Table A5.3 and Chart 5.7]

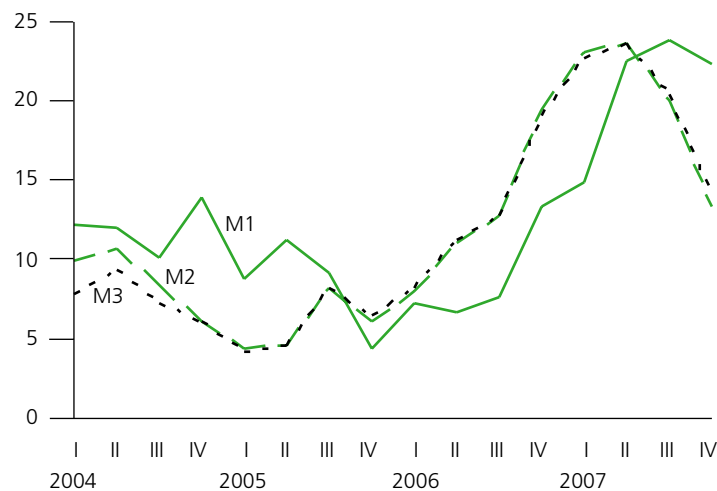
Growth of money supply continued apace in 2007...

The expansion of monetary aggregates continued apace on account of the robust economic activity. Underpinned by a sharp increase in demand deposits, average growth of narrow money supply M1 more than doubled to 20 per cent from the 8.7 per cent gain registered in 2006. Broad money M3 also recorded significant growth of 21 per cent, up from the 12 per cent a year earlier. The faster pace of expansion was in part due to the surge in savings deposits by residents with banks and non-bank financial institutions.

CHANGES IN MONEY SUPPLY

[Chart 5.7]

Per Cent



Contributed by:

Fiscal Policy Directorate
Ministry of Finance

Economic Policy Department
Monetary Authority of Singapore

MAJOR TAX MEASURES ANNOUNCED IN FISCAL YEAR 2007

ANNEX 5.1

(1) Reduce Corporate Tax Rate

The corporate tax rate is reduced from 20 per cent to 18 per cent with effect from the Year of Assessment (YA) 2008.

(2) Increased Partial Tax Exemption Threshold for Companies

The chargeable income of companies that qualify for partial income tax exemption is increased from the current \$100,000 to \$300,000 with effect from YA 2008. With the change, 75 per cent of the first \$10,000 of chargeable income and 50 per cent of the next \$290,000 of chargeable income will be exempt from income tax.

(3) Lifting Sunset Clause for Income Tax Exemption Scheme for Newly Incorporated Companies

To promote entrepreneurship, the current full tax exemption on the first \$100,000 of chargeable income of the first 3 YAs of newly incorporated companies is made a permanent feature of our income tax system.

(4) Promoting Singapore as a Philanthropy Hub

To promote charitable giving and develop Singapore as an attractive international hub for philanthropic and not-for-profit organizations, the following changes are introduced:

- (a) With effect from YA 2008, MOF is removing the requirement that charities must spend at least 80 per cent of their annual receipts on charitable objects in Singapore within 2 years in order to enjoy income tax exemption. All registered and exempt charities will enjoy automatic income tax exemption.
- (b) Introduce a new tax incentive scheme with effect from 15 February 2007 to provide income tax exemption to approved not-for-profit organisations that can either contribute to developing Singapore as a philanthropy hub, or bring economic value to Singapore with linkages to key industry clusters.

(5) Promoting Fund Management in Singapore

As part of Singapore's continuing efforts to promote the fund management industry, the tax exemption incentive scheme for non-resident funds will be enhanced to give certainty of tax exemption to foreign investors and provide fund managers based in Singapore with greater flexibility in sourcing for mandates.

(6) International Arbitration Tax Incentive

Approved law firms will be granted a 50 per cent income tax exemption on qualifying incremental income derived from international arbitration work. This scheme will be available from 1st July 2007 to 30th June 2012. The incentive duration will be up to five years.

(7) Implementation of Increase in Goods and Services Tax Rate

The Goods and Services Tax rate is increased to 7 per cent with effect from 1st July 2007.

(8) Zero-rating of Goods and Services Tax (GST) for servicing, sale and lease of containers

Given that sea or air containers are primarily used for the international transportation of goods, the supply of servicing, sale and lease of containers are recognized as international services and therefore qualify for zero-rating. Thus, both foreign and local customers will not pay any GST. The tax treatment will take effect from 1st April 2007.