

## CHAPTER 5

**MACROECONOMIC POLICIES****OVERVIEW**

**Fiscal Policy:** Strong economic growth and high profit margins from earlier years continued to contribute to operating revenues. Expenditures increased due to spending on key investments in human capital, healthcare and infrastructure.

**Monetary Policy:** In October 2008, against a weakening external economic environment and easing inflationary pressures, the Monetary Authority of Singapore shifted its monetary policy stance to a zero per cent appreciation of the S\$NEER policy band, without re-centering or altering the width of the band.

**BUDGET 2008**

Budget 2008 focused on "Creating a Top Quality Economy, Building a Resilient Community". The forward-looking budget aimed to create new advantages and fresh opportunities for Singapore in a competitive world. Leveraging on Singapore's strong fiscal position at the end of FY2007, the Budget shared a significant proportion of the budget surplus with Singaporeans. Some of the key budget initiatives were:

- Tax measures to enhance business competitiveness, support start-ups, and make innovation pervasive in the Singapore economy (details in [Annex 5.1](#))
- More than \$3 billion in surplus sharing, comprising: \$1.06 billion worth of Growth Dividends (GD), including a 50 per cent enhancement to the second installment of GD in August 2008; \$560 million in GST credits and Senior Citizens' Bonus; \$300 million in Workfare Income Supplements; \$200 million in Utilities-Save and Service & Conservancy Charges rebates; \$480 million in property and income tax rebates; \$500 million in top-ups to Post-Secondary Education Accounts; and \$226 million in Medisave top-ups.

## GOVERNMENT OPERATING REVENUE

Total operating revenue for 2008 was \$41.4 billion, 4.7 per cent higher compared to 2007. Strong economic growth in 2006 and 2007 translated into higher taxable profits for 2008. However, revenue collections were dampened slightly by much slower GDP growth in 2008, especially in the second half of the year, which adversely impacted the motor vehicle and property markets ([Exhibit 5.1](#)).

### Tax Revenue

Strong profits in 2006 and 2007, as well as consumption growth in 2008, continue to buoy revenue collections.

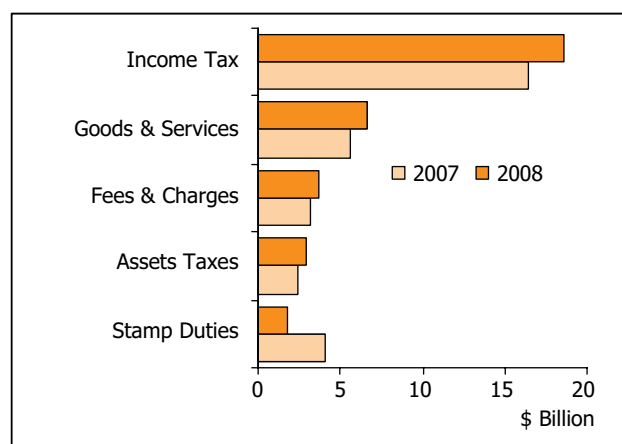
Income tax collections increased by 13 per cent to \$18.6 billion in 2008. Strong economic growth in 2006 and 2007 boosted corporate profits and thus higher corporate income tax collections. In addition, GST revenues increased by 18 per cent to \$6.6 billion in 2008. This was largely because of the 2 per cent hike in GST rate (which took effect from 1 July 2007) that affected the whole of 2008 but only the second half of 2007.

Assets tax collection (property tax, estate duty, stamp duty) for 2008 increased by 19 per cent to \$2.9 billion. However, motor vehicle tax collection dipped by 4.7 per cent to \$2.0 billion as a result of the 15 per cent reduction in road taxes (with effect from 1 July 2008). Collections from betting taxes increased by 6.7 per cent to \$1.8 billion, while stamp duty decreased by 55 per cent to \$1.8 billion as activity in the property market slowed in comparison to the previous year's buoyant high. Customs and excise collections increased marginally by 2.4 per cent to \$2.1 billion.

### Fees and Charges

Revenue from fees and charges in 2008 was \$3.7 billion, a 15 per cent increase from 2007 levels. This was mainly due to higher development charges and vehicle quota premium collections.

**Exhibit 5.1: Selected Components of Operating Revenue**



## Other Operating Revenue

Miscellaneous financial receipts amounted to \$0.1 billion in 2008, a decrease of 41 per cent as compared to 2007.

## GOVERNMENT EXPENDITURE

Expenditures increased due to investment in economic infrastructure and human capital, as well as spending on healthcare, the marriage and parenthood incentives, and national security. Operating expenditure accounted for \$28.6 billion or 76 per cent of total expenditure while development expenditure accounted for \$8.9 billion or 24 per cent of total expenditure in 2008 ([Exhibit 5.2](#)).

### Operating Expenditure

Compared to 2007, operating expenditure in 2008 increased by \$4.2 billion or 17 per cent to \$28.6 billion. The security and external relations sector, and social development sector continued to take up the largest shares of operating expenditure at 48 per cent and 44 per cent respectively.

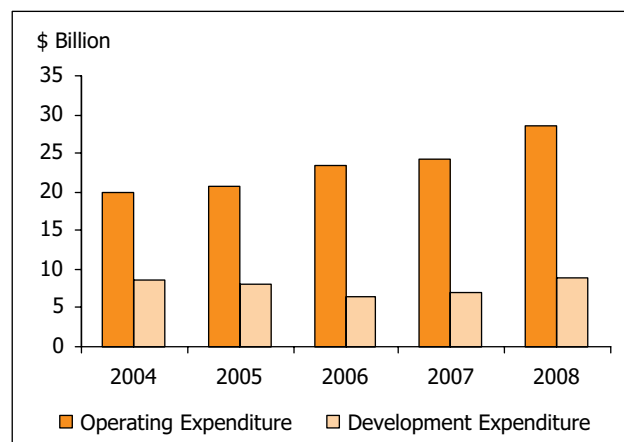
The main increases in operating expenditure in 2008 came from higher expenditure on national security, education, healthcare subsidies and manpower recruitment and training, Enhanced Marriage and Parenthood Package, and Workfare Income Supplement scheme ([Exhibit 5.3](#)).

### Development Expenditure

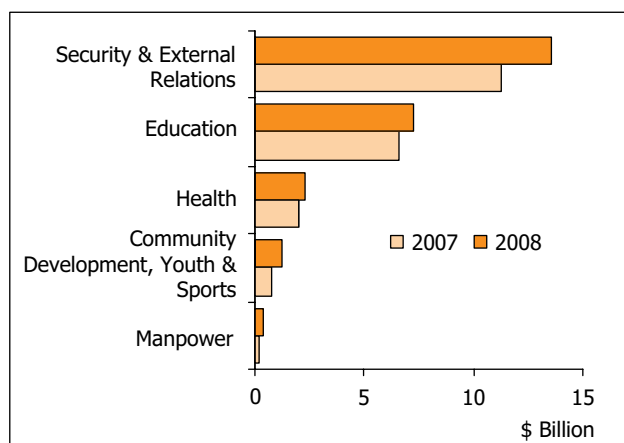
Development expenditure increased by \$1.9 billion or 27 per cent to \$8.9 billion. The bulk of development spending was on the economic development sector (55 per cent) and social development sector (32 per cent).

Expenditure on economic development saw a rise of 50 per cent. This was mainly due to investments by the Ministry of Transport on rail and road transport projects; and the Ministry of Trade and Industry on projects such as the Economic Development Assistance Scheme 5, Science and Technology Plan 2010, and the Formula One Project ([Exhibit 5.4](#)).

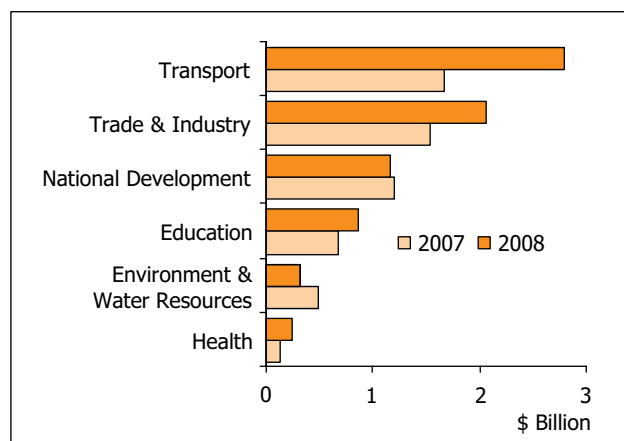
**Exhibit 5.2: Operating and Development Expenditure**



**Exhibit 5.3: Selected Components of Operating Expenditure**



**Exhibit 5.4: Selected Components of Development Expenditure**



The increase of 3.9 per cent on social development expenditure was mainly due to higher spending by the Ministry of Education on projects under the Programme for Rebuilding and Improving Existing Schools and other school building projects such as the Provision of Indoor Sports Halls to Schools; and by the Ministry of Health on the construction of Khoo Teck Puat Hospital and the redevelopment of the Pathology Building.

This was offset by lower expenditure by the Ministry of the Environment and Water Resources on projects such as the Deep Tunnel Sewerage System Phase 1, which was scaling down closer to completion; and lower outlays by the Ministry of National Development on the Selective En-bloc Redevelopment Scheme for HDB estates in 2008.

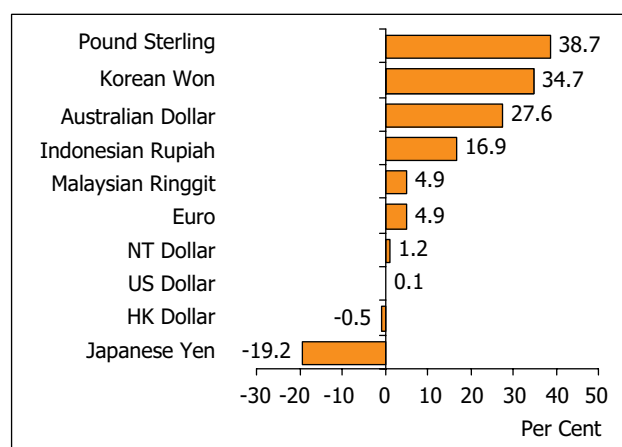
## MONETARY POLICY

### Exchange Rates

The key event of the global foreign exchange market in 2008 was the significant unwinding of carry trades in the later half of the year. High-yielding currencies including the Australian Dollar and the Pound Sterling fell sharply against the US Dollar, as these central banks aggressively cut their policy rates in a bid to stave off the impact of the global financial crisis. Amidst the heightened risk aversion, investors sought refuge in the safe-haven of the Japanese Yen.

Against these global developments, the Singapore Dollar ended the year largely unchanged against the US Dollar and the Hong Kong Dollar, but fell sharply by 19 per cent against the Japanese Yen (Exhibit 5.5). Against the Pound Sterling and the Australian Dollar, the domestic currency rose strongly by 39 per cent and 28 per cent, respectively. It also appreciated against the Korean Won and Indonesian Rupiah by 35 per cent and 17 per cent, respectively. At the same time, gains were recorded vis-à-vis the Malaysian Ringgit, the Euro, the New Taiwan Dollar and the Thai Baht, although their magnitudes were considerably smaller at less than 5 per cent.

**Exhibit 5.5: Changes of Singapore Dollar Against Major Currencies in 2008**



## Interest Rates

Domestic interbank interest rates edged lower over the first half of 2008, with the 3-month rate falling by 119 basis points from 2.38 per cent at end-2007 to 1.19 per cent at end-June ([Exhibit 5.6](#)). Reflecting aggressive monetary policy easing by the US Federal Reserve, the 3-month US Dollar SIBOR also declined, albeit by a larger extent of 192 basis points, to 2.81 per cent over the same period.

However, in the wake of the dislocation in global markets and growing market expectations of a weaker Singapore Dollar in September, both the domestic 3-month interbank rate and the 3-month US Dollar SIBOR rose to 1.88 per cent and 3.90 per cent, respectively, by the end of the month. Thereafter, both rates fell to 1.00 per cent and 1.44 per cent at end-2008, following the concerted and sustained policy actions by major central banks to alleviate the strains in the global financial system.

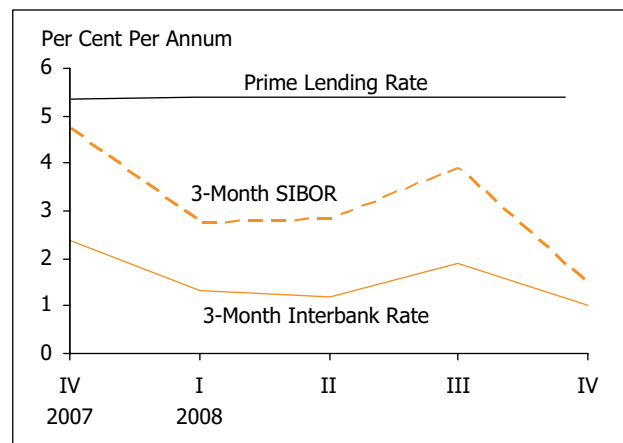
Longer-term interest rates ended the year lower, with the yields on the Singapore Government Securities (SGS) with shorter maturities recording larger declines compared to those at the longer end of the yield curve. The yield on the benchmark 2-year SGS ended at 0.83 per cent, a decline of 99 basis points from the start of the year. In comparison, the benchmark 10-year SGS fell by a smaller 63 basis points to 2.05 per cent.

Retail deposits interest rates offered by banks eased somewhat in 2008. The savings deposit rate fell by 3 basis points to 0.22 per cent while the 12-month fixed deposit rate edged lower from 0.83 per cent to 0.70 per cent. On the lending side, the average prime lending rate posted by banks rose to 5.38 per cent, a marginal increase of 5 basis points from end-December 2007.

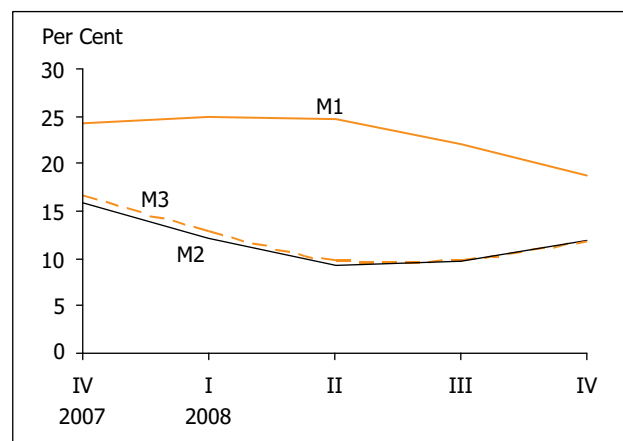
## Money Supply

The expansion of monetary aggregates moderated over the year in tandem with the slowing pace of economic activity. From a high 25 per cent year-on-year growth in the first quarter, growth of narrow money supply M1 slowed to 19 per cent at end-2008 on account of the deceleration in demand deposits growth ([Exhibit 5.7](#)). Average growth of broad money M3 also fell to 11 per cent in 2008 from 21 per cent a year earlier, largely reflecting the sharp pullback in the growth of fixed deposits.

**Exhibit 5.6: Selected Interest Rates**



**Exhibit 5.7: Changes in Money Supply**



## ANNEX 5.1

### MAJOR TAX MEASURES ANNOUNCED IN FISCAL YEAR 2008

#### (1) Research & Development (R&D) Tax Incentives

A comprehensive set of new R&D tax measures was introduced in Budget 2008 to encourage pervasive innovation. Businesses will now enjoy tax deduction of 150 per cent of expenditure incurred on R&D done in Singapore, increased from the current 100 per cent. Also, we will allow companies to claim this tax deduction, even if the R&D done in Singapore is not related to the company's existing trade.

A new incentive to grant R&D tax allowance has been introduced to incentivise our companies, especially SMEs, to do more R&Ds in Singapore. Companies will be granted a new tax allowance of up to \$150,000, which can be used to offset against taxable income in subsequent years if they incur incremental expenditure on R&D in Singapore.

Budget 2008 also introduced a new R&D Incentive for Start-up Enterprises (RISE). R&D-intensive start-ups are likely to incur losses in their initial years. Currently, for tax purpose, they can already carry forward their losses to offset taxable income in future years. Under RISE, the government will allow qualifying start-ups that incurred at least \$150,000 in a year on R&D done in Singapore to convert their tax losses into a cash grant of up to \$20,250 during their first 3 years of assessments (YAs).

These tax incentives are available from YA 2009 to YA 2013.

#### (2) Tax Incentive for Renovation & Refurbishment

With effect from YA 2009, businesses would be allowed to write down over three years the cost of qualifying renovation and refurbishment works, up to a cap of \$150,000 per business entity every 3 years. This new incentive is to help especially SMEs in the service sectors refurbish their business premises. This scheme will take effect on qualifying costs of renovation and refurbishment incurred after 15 February 2008 up to 15 February 2013.

#### (3) Enhancements to the Maritime Finance Incentive Scheme

The Maritime Finance Incentive was enhanced with effect from 1 April 2008 to include container leasing activity and to allow partnerships to enjoy the incentive. A container investment enterprise can enjoy a concessionary tax rate of either 5 per cent or 10 per cent on its entire onshore and offshore container leasing income, depending on its commitments. A container investment manager enjoys a 10 per cent concessionary tax rate on its management fee income.

#### (4) Promoting the Financial Sector

##### *The Financial Sector Incentive Scheme*

The Financial Sector Incentive (FSI) scheme has been renewed for a period of five years from 1 January 2009 to 31 December 2013 (both dates inclusive) and enhanced as follow:

- Introduction of a new Islamic Finance enhanced-tier award which gives a 5 per cent concessionary tax rate on income derived from performing specific Shariah-compliant activities. The approval period is from 1 April 2008 to 31 March 2013 (both dates inclusive);

- Inclusion of trading of Qualifying Debt Securities and Qualifying Project Debt Securities as a qualifying activity under the FSI-Bond Market enhanced-tier award with effect from 16 February 2008; and
- Inclusion of trading of exchange-traded financial derivatives as a qualifying activity under the FSI-Derivatives Market enhanced-tier award with effect from 16 February 2008.

### ***Insurance Activities***

The existing offshore insurance business incentive scheme has been enhanced to give a 5 per cent concessionary tax rate to an insurer (other than a captive insurer, a marine and hull liability insurer or an insurer underwriting specialised insurance risks) on income derived from offshore Islamic insurance (takaful) or reinsurance (retakaful) business. The approval period for this 5 per cent tax rate is from 1 April 2008 to 31 March 2013 (both dates inclusive).

A new tax incentive which grants a 10 per cent concessionary tax rate for insurance and reinsurance brokers has also been introduced. This incentive is valid from 1 April 2008 to 31 March 2013 (both dates inclusive).

### ***Asset Management Activities***

To promote wealth management activities, a new tax incentive has been introduced to grant tax exemption on locally-sourced investment income and foreign-sourced income received by qualifying family-owned investment holding companies, to the extent that such tax exemption mirrors the tax exemption on qualifying locally-sourced investment and foreign-sourced income exemption granted to individuals. The incentive is valid from 1 April 2008 to 31 March 2013 (both dates inclusive) and investment holding companies which satisfy the conditions (such as shareholders are connected persons) may apply.

### ***Others***

Existing tax incentive schemes (i.e. Qualifying Debt Securities scheme, Approved Special Purpose Vehicle scheme, project finance incentives) were extended and enhanced.

## **(5) Expand Tax Reliefs to Encourage Voluntary Savings for Retirement and Healthcare.**

The Government has broadened the tax reliefs and made it easier for Singaporeans to top up their own CPF accounts and that of their family members. This is to encourage Singaporeans to voluntarily put aside more savings for retirement whenever they can.

First, two separate tax reliefs are extended for top-ups to Minimum Sum. Individuals can claim tax relief up to \$7,000 per year for top-ups that they or their employers make to their own Minimum Sum and another \$7,000 for top-ups to the Minimum Sum of his family members irrespective of their age. Both tax reliefs will apply regardless of the recipients' age when the top-ups are made. Employers will also enjoy a full tax deduction for the top-ups they make to their employees' Minimum Sum.

Second, voluntary contributions directed specifically to the Medisave Account will enjoy tax relief, subject to the CPF annual contribution cap and Medisave Contribution Ceiling.

Third, employers will be able to contribute to the Supplementary Retirement Scheme (SRS) for their employees and will enjoy a tax deduction on such contributions, allowing them to provide retirement benefits for their employees in an inexpensive way. The age limit for contributions to the SRS and requirement for earned employment income before one can contribute to SRS will also be lifted.

## **(6) Tax Changes to Promote Marriage and Parenthood (M&P)**

To promote marriage and parenthood, the following tax changes will be enhanced with effect from Year of Assessment (YA) 2009:

- First, the quantum for Qualifying Child Relief (QCR) and Handicapped Child Relief (HCR) will be increased from \$2,000 to \$4,000 and from \$3,500 to \$5,500 respectively. QCR will now be extended to all qualifying children, even for the fifth child and beyond.
- Second, the percentage quantum for Working Mother's Child Relief (WMCR) will be enhanced. WMCR will now be extended to all qualifying Singaporean children, even for the fifth child and beyond. Working mothers can claim WMCR of up to 100 per cent of their earned income for all qualifying children. In addition, the cap for the total amount of QCR or HCR and WMCR claimable for each child has been doubled to \$50,000.
- Third, Parenthood Tax Rebate (PTR) of \$5,000 and \$20,000 will be extended to the first child and each child beyond the fourth child respectively.

## **(7) Removal of Estate Duty**

The Government removed estate duty on deaths occurring on or after 15 February 2008.