BUDGET HIGHLIGHTS
Financial Year 2009

Keeping Jobs,
Building for the Future

Misc. 2 of 2009

Presented to Parliament by Command of
The President of the Republic of Singapore

Ordered by Parliament to lie upon the Table:

22nd January 2009

EXPLANATORY NOTES

The revenue estimates in the Budget Highlights for FY2009 document include tax changes announced in the 2009 Budget Statement. These estimates, where they are affected by tax changes, supercede the estimates in the Revenue and Expenditure Estimates for the FY2009 document presented earlier to Parliament on 19th January 2009 as Paper Cmd No. 1 of 2009.

Similarly, the expenditure estimates in the Budget Highlights for FY2009 document include Special Transfers announced in the 2009 Budget Statement, which the expenditure estimates in the Revenue and Expenditure Estimates for FY2009 document do not.

[II] FEATURE ARTICLES

- DISCRETIONARY FISCAL POLICY IN ECONOMIC DOWNTURNS
- MAXIMISING VALUE IN PUBLIC SECTOR PROJECTS THROUGH SMART PROCUREMENT
- COMPETITIVE TAX REGIME

3 Discretionary Fiscal Policy in Economic Downturns

Fiscal policy refers to a government's decisions on taxes and expenditures (either on the purchase of goods and services, or transfer payments). Together with monetary policy, it is one of the two traditional tools of macroeconomic management.

3.1 Smoothing Effect of Automatic Stabilisers

Procyclical Tax Collections

Taxes typically work as an automatic stabiliser. During high growth years, tax revenues from corporate profits and personal incomes, as well as from consumption such as Goods and Services Tax tend to be higher. As taxes are extractions from the economy, the higher tax collections serve to dampen aggregate demand, thereby reducing inflationary pressures.

Conversely, during years of low GDP growth or even contraction, tax collections would automatically adjust themselves to lower levels and reduce the extractions from the economy to mitigate the effect of slowing aggregate demand.

In Singapore, most tax revenues are highly procyclical, which help to dampen economic cycles. This can be seen from the following Table 3.1.

Table 3.1: Correlation Coefficients of Key Revenue Sources with GDP[8]

All Revenues	CIT	PIT	GST	Stamp Duty	Property Taxes	Motor Vehicle Taxes
0.92	0.98	0.97	0.93	0.68	0.78	0.53

Smoothing Government Expenditures in Singapore

In addition, the expenditures of most government ministries in Singapore are pegged to a seven-year moving average of past and projected GDP. Government expenditures are injections into the economy as they add to the aggregate demand for goods and services. Therefore, volatility in government spending is reduced by pegging government spending to a smoothed average of GDP growth. In years when actual GDP growth is high, government spending increases are muted to mitigate inflationary pressures. Conversely, government spending would not fall in tandem with sharp GDP contractions and exacerbate falling aggregate demand[9] during a downturn.

3.2 Discretionary Fiscal Policy in a Sharp Downturn

Automatic stabilisers (viz. procyclical tax revenues and more stable Government expenditures) could be supplemented by discretionary fiscal policy especially during a sharp downturn. Discretionary fiscal policy includes measures to further reduce extractions from the economy such as providing additional tax rebates to effectively reduce tax collections, and measures to introduce injections into the economy such

[8] Based on correlations of revenue, adjusted for rate changes for GDP between 1998 and 2007.
[9] See Budget Highlights (2006) for a full description:
http://www.mof.gov.sg/budget_2006/budget_speech/downloads/FY2006_Budget_Highlights.pdf

as additional government spending on goods and services, and grants and tax credits to increase the incomes of households and businesses.

3.3 Limitations of Discretionary Fiscal Policy

Discretionary fiscal policy has several limitations which reduce its effectiveness as a countercyclical tool.

Long Time Lags. It takes time for government agencies to implement discretionary fiscal policies. For example, additional government projects to be implemented in a recession needs to be designed, tendered out and evaluated for cost-effectiveness before the projects are awarded. In addition, where transfers are made to increase incomes of households and businesses, there is a time lag between their actual receipt of cash and actual expenditures into the economy.

Leakages and Savings. The scope for using discretionary fiscal policy as a tool for macroeconomic stabilisation is more limited for countries with open economies due to import leakages. The effect of fiscal transfers on aggregate demand would also be blunted in economies with high savings rates because the injections into households or businesses are not fully spent but kept as precautionary savings.

Fiscal Sustainability: Trading off Long-term Investments. Discretionary fiscal policy means running a larger deficit in a year of low growth. Such measures can lead to persistent deficits, and threaten long-term sustainability and competitiveness. This is because the deficits are typically financed by increased borrowing which would eventually be repaid through higher taxes. In addition, the Government’s borrowing could lead to higher interest rates and crowd out funds for private investments and in turn reduce long-term growth prospects.

3.4 Discretionary Fiscal Policy’s Role in Severe and Prolonged Downturns

There are however the following arguments for discretionary fiscal policy especially in a severe and prolonged downturn.

Enhancing Fiscal Multipliers through Better Targeting and Timing. The effectiveness of discretionary fiscal policy can be enhanced if the measures are delivered in a timely manner and targeted at individuals and companies that would need them the most during a prolonged downturn. The probability of mistiming due to lags is also reduced in a prolonged downturn.

Value in Providing Relief. Regardless of the economic impact, fiscal policy can do much to improve the well-being of households and individuals. It can reduce the loss of incomes of individuals and provide relief in a recession even if the fiscal impulse is weakened through “leakage”, e.g. by spending on imports.

Improvement of Expectations. By providing help to counter a downturn, businesses and households would have more confidence that the economy would recover. This reduces the precautionary savings inclination that could further dampen consumption, and stem a downward spiral.

Box 3.1: Conducting Fiscal Policy in a Downturn

In a downturn, fiscal policy should ideally be:

Targeted. Government measures should be targeted at individuals and companies that would need them the most. Their tendency to spend the resources provided to them will also enhance the multiplier of the fiscal measure. In addition, the measures should take into account the nature and dynamics of the downturn – for example, a downturn caused by a contraction of a specific sector such as tourism would warrant different measures from a downturn characterised by credit constraints.

Timely. The measures should ideally have short implementation and effect lags. This means that it should not take too long to implement, and the time taken before the resources are spent within the economy should be minimal. Direct government expenditure into the economy that leverages on existing schemes and systems would have the shortest time lag.

Temporary. The measures should be temporary to prevent them from becoming a permanent drain on resources in the long-term. It is important to ensure that the measures should not compromise long-term budgetary health.

It should also be noted that the actual effect the same fiscal measure would have on the economy can differ across downturns because of the structure of the economy and the nature of the downturn. Taking into account the additional uncertainty in terms of the duration and severity of each downturn, discretionary fiscal policy in any downturn should comprise a broad spectrum of different measures.

3.5 Effectiveness of Discretionary Fiscal Policy in Singapore

Multiplier of Discretionary Fiscal Measures Not Insignificant

In Singapore, the multiplier from previous applications has typically been positive but small, depending on how they are targeted (see Box 3.2 for the fiscal multipliers of various measures). Targeted transfers at the lower income tend to have a higher multiplier, as does the Government's direct consumption of goods and services. For example, measures such as WIS, GST Credits and Government hiring plans would have a significant economic multiplier. While taxes and investments tend to have a lower multiplier, they tend to provide a longer term boost to economic growth.

Short Implementation Lags

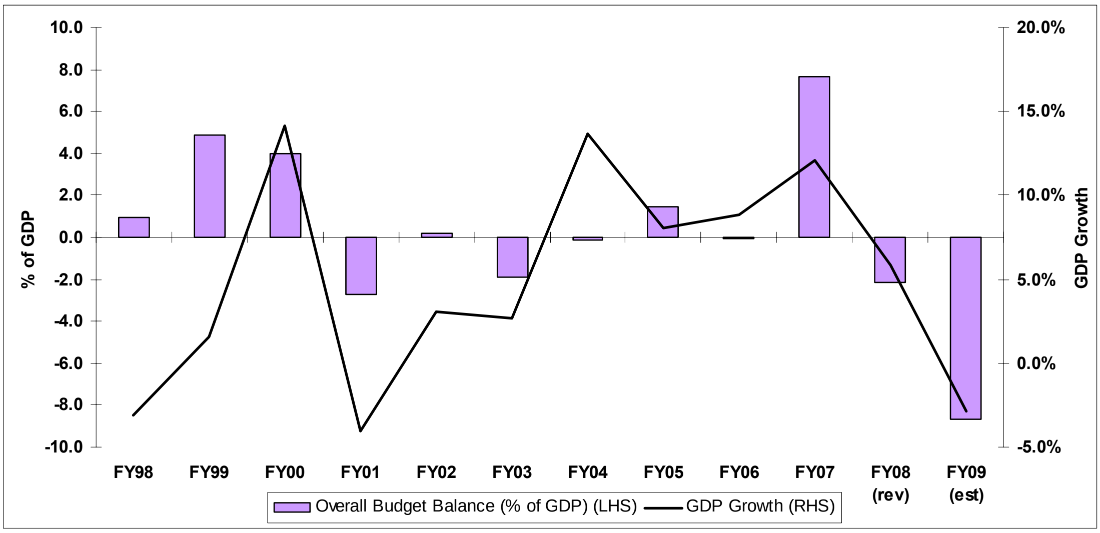
The effectiveness of discretionary fiscal policy is enhanced by the short implementation lags in Singapore. This is due to our efficient tax and CPF systems that enable the Government to distribute transfers quickly.

No Trade-Off on Long-Term Objectives

Given Singapore's policy of running a balanced budget over a business cycle, fiscal policy in Singapore tends to be financed from accumulated budget surpluses rather than from borrowing. This enhances the impact of temporary measures, as the Government is unlikely to need to finance fiscal policy through higher future taxes. Neither would the Government need to borrow to finance the deficit – therefore it would not draw on the credit in the market and crowd out private investments.

Singapore has therefore made judicious use of discretionary fiscal stimulus measures to supplement the fiscal automatic stabilisers built into our system - Overall Budget Balance has been broadly countercyclical over the past ten years (see Chart 3.1 and Chart 2.2 of Box 2.2 Macroeconomic Impact of Recent Fiscal Policy).

Chart 3.1: Overall Budget Balance has been largely countercyclical



3.6 Expansionary Budget 2009

Budget 2009 is a significantly expansionary budget given that Singapore could be entering the worst recession in the last three decades. We will therefore run a sizeable budget deficit, even after taking into account the higher investment returns of our reserves that we will tap on through the new Net Investment Returns framework (see Table 3.2).

Table 3.2: Comparison of 2009 Overall Budget Balance and Basic Balance with Previous Budgets

FY	Overall Budget Balance		Basic Balance (excludes Net Investment Income and Endowment Fund Top-ups)	
	$ (Billions)	% of GDP	$ (Billions)	% of GDP
1998	0.93	0.7	0.93	0.7
1999	4.88	3.4	5.19	3.6
2000	3.98	2.4	2.50	1.5
2001	(2.70)	(1.8)	(2.27)	(1.5)
2002	0.19	0.1	(2.89)	(1.8)
2003	(1.89)	(1.1)	(3.79)	(2.3)
2004	(0.11)	(0.1)	(2.45)	(2.3)
2005	(1.49)	(0.7)	(1.04)	(0.5)
2006	(0.06)	(0.0)	(1.29)	(0.6)
2007	7.66	3.1	6.05	2.4
2008	(2.15)	(0.8)	(2.80)	(1.1)
2009	(8.67)	(3.5)	(14.94)	(6.0)

Components of Discretionary Fiscal Measures

The Resilience Package of $20.5 billion as announced in Budget 2009 will have five components:

(i) *Jobs for Singaporeans*. $5.1 billion would be spent to help preserve jobs through Job Credits Scheme and related programmes. These measures would have the additional benefit of helping businesses with costs and cash-flow as well.

(ii) *Stimulating bank lending*. Budget 2009 introduced the Special Risk-Sharing Initiative that would be supported by $5.8 billion of government capital which will generate a potential $11 billion worth of credit. However, only a small fraction of this would eventually be expended as loan losses.

(iii) *Enhancing business cash-flow and competitiveness*. Various tax measures and grants costing $2.6 billion would be put in place to help businesses with cash-flow and enhance competitiveness.

(iv) *Supporting families*. $2.6 billion would be allocated to support Singaporean households this year, with lower-income households receiving more.

(v) *Building a home for the future.* The Government will commit $4.4 billion to infrastructure development. In the short term, this provides some fiscal stimulus; and in the longer term, it helps to position Singapore for any future economic recovery. The ability to continue such investments for the future is a key feature of Singapore’s fiscal strategy.

To minimise the implementation time lag, some measures of the package will be front-loaded beginning March 2009, thereby increasing the Overall Budget Deficit for FY2008.

Fiscal Sustainability

The Budget 2009 Resilience Package includes exceptional measures to cope with the global economic downturn. Such measures go well beyond normal countercyclical responses such as rebates, but are appropriate given the scale and nature of the downturn.

The Government has thus decided to seek the President’s concurrence to fund two of the extraordinary measures – the Jobs Credit scheme targeted at preserving jobs during the downturn, and the Special Risk-Sharing Initiative aimed at stimulating bank lending.

3.7 Conclusion

The global economic and financial crisis has placed increasing emphasis on fiscal policy as a tool to manage economic cycles. This is because the transmission mechanism of monetary policy to the real economy has been weakened significantly due to the credit crunch resulting from the financial crisis. Many countries around the world have thus introduced fiscal stimulus packages to provide significant countercyclical boost to their economy.

Singapore has also chosen to respond to this economic downturn with significant but temporary discretionary fiscal measures that would not come at the expense of fiscal sustainability. Bearing in mind our major trading partners in the US, Europe, and East Asian economies are also undertaking significant fiscal measures at around the same time, we expect the effectiveness of our fiscal measures to be enhanced despite the high leakages of the Singapore economy; ultimately the world is a closed economy.

Although the fiscal actions are unlikely to forestall a recession, they would mitigate the impact and avert an even sharper downturn where more businesses fail and unemployment soars.

Box 3.2: Fiscal Multipliers in Singapore

The budget balance shows the state of a government's finances. During an economic downturn, a government tends to run a budget deficit as it spends more than the revenue it takes in order to bolster the economy. Fiscal multipliers measure how a government's *fiscal stimulus* (i.e. the budget deficit) translates into *economic stimulus* i.e. how much does GDP change for every additional dollar in government spending or revenue.

Table 3.3: Studies on Singapore's Fiscal Multipliers

Fiscal Policy	Impact on GDP	
	MAS (2008)[10]	**Abeysinghe and Choy (2007)**[11]
Increase in Government Consumption	High	Moderate
Increase in Government Investment	Low	Moderate
Increase in Transfers to Lowest 40th Percentile of Households	High	-
Increase in Transfers to All Households	Moderate	-
Cut in Corporate Tax Rate	Moderate	-

There is large uncertainty over the size of fiscal multipliers; fiscal multipliers across the world range from less than zero to larger than four, depending on the methodology and assumptions used, the type of fiscal policy, and the country of interest[12]. They also seem to have declined over time with increasing globalisation. Studies for Singapore have shown that the fiscal multipliers for Singapore tend to be positive but fall in the lower range of international studies (see Table 3.3). The small fiscal multiplier is due to Singapore's small open economy, and increases in spending are likely to leak out of the economy due to Singapore's high reliance on imports. Our high savings rate also limits the impact of fiscal policy.

[10] MAS's Monetary Model of Singapore.
[11] Abeysinghe and Choy (2007), "The Singapore Economy: An Econometric Perspective", Chapter 8.
[12] IMF (Dec 08) Staff Position Note SPN/08/01 "Fiscal Policy for the Crisis".

[IV] GLOSSARY

6 Glossary of Terms

Avoidance of Double Taxation Agreement (DTA)
A DTA is a bilateral treaty entered into between two countries to avoid double taxation. It provides better certainty and lowers the burden to taxpayers by defining taxing rights of the source and resident countries and lowering source taxation for income earned from cross-border trade and investments. In addition, the DTA provides for relief against double taxation and an official channel for taxpayers to dispute cases of double taxation which may occur in contradiction to the DTA's arrangements.

Automatic Stabilisers
In macroeconomics, automatic stabilisers work as a tool to dampen fluctuations in real GDP without any explicit policy action by the Government.

Best Sourcing
A tool under the Economy Drive designed to determine the most economic provider of government services through market-testing, i.e. comparing in-house service provision with market alternatives, so that the Government can select the service channel and service provider that offers the best value for money.

Block Budget Framework
Under the Block Budget Framework, ministries' budgets are capped as a fixed percentage of a smoothened measure of the nominal GDP. Their budgets therefore adjust in line with the overall state of the economy. Block budgets establish limits on spending by each ministry and by Government as a whole.

Call for Collaboration (CFC)
A process through which proposals that lead to collaborative work between two parties are solicited. Unlike a tender, where specific procurement parameters are laid out for bidders, CFCs spell out broad parameters around which a joint working relationship can be assembled.

Central Provident Fund (CPF)
A fully-funded compulsory defined contribution scheme in which workers and employers set aside a portion of wages in individualised accounts for retirement.

Centre-based Financial Assistance Scheme for Childcare (CFAC)
A subsidy scheme for childcare fees, on top of the Government childcare subsidy, to encourage low-income families to place their children at childcare centres while the parents are at work.

Chargeable Income
The portion of income assessable to tax after accounting for exemptions, deductions and allowances.

Continuing Education and Training (CET)
CET refers to the education and training activities for adults who have left the formal school system. This fulfils the social and economic objectives of keeping our people employed in the changing economy.

Countercyclical
Moving in the opposite direction compared to the overall economic cycle: rising when the economy is weakening, and falling when the economy is strengthening. See also *Procyclical*.

Customs Duty
A tax on goods imported into Singapore. In Singapore, customs duty is principally imposed on stout and porter, beer and ale, medicated samsu and other samsu.

Development Expenditure
Generally refers to expenses that represent a longer-term investment and results in the formation of a capitalisable asset of the Government. Examples of spending areas are the acquisition of heavy equipments, as well as capitalisable assets, e.g. buildings and roads.

Effective Tax Burden
The amount of tax suffered by a taxpayer after accounting for the all relevant provisions of the tax system, and not just

focusing on a single characteristic such as the headline corporate tax rate.

Estate Duty
Duty charged on the assets of a deceased person.

Excise Tax
A tax on goods whether manufactured in Singapore or elsewhere. In Singapore, excise tax is imposed principally on tobacco, petroleum products, motor vehicles and liquor to achieve social and transport policy objectives.

Fiscal Impulse (FI)
A measure of the first-order impact of the Government's net injection or withdrawal from the economy arising from its fiscal policy. If the Government extracts more revenue than it spends as compared to a previous year, it is subtracting from the aggregate demand pressures inherent in the economy, fiscal impulse would be deemed as contractionary. Conversely, if the Government extracts less revenue than it spends as compared to a previous year, this would be deemed as an expansionary fiscal impulse.

Financial Year (FY)
Singapore Government's Financial Year 2009 is from 1 April 2009 to 31 March 2010.

Goods and Services Tax (GST)
Goods and Services Tax (GST) is a tax on domestic consumption of almost all goods and services in Singapore. The tax is paid when money is spent on goods or services, including imports. It is a multi-stage tax which is collected at every stage of the production and distribution chain. GST is often used inter-changeably with the Value Added Tax (VAT).

Government Endowment Fund
A fund established with an injection of Government monies as principal on which the income generated will be used to finance specific programmes on an ongoing basis. The 5 government endowment funds include the Lifelong Learning Fund, the Eldercare Fund, Medifund, Edusave Fund and ComCare Fund.

Gross Domestic Product (GDP)
A measure of the total flow of goods and services produced by the economy over a specified time period, normally a year. It is obtained by valuing outputs of goods and services at market prices. Real GDP refers to GDP figures adjusted for inflation.

Home Ownership Plus Education (HOPE)
A package of comprehensive assistance to young low-income families and their children to help them break out of the poverty cycle.

Intergenerational Equity
In the context of endowment fund spending, it is the concept of striking a fair balance in wealth distribution between the present and future generations.

Net Investment Income (NII)
Under Article 142(4) of the Constitution, Net Investment Income (NII) refers to the dividends, interest and other income received from investing our reserves, as well as interest received from loans, after deducting expenses arising from raising, investing and managing the reserves.

Net Investment Income Contribution (NIIC)
As reflected in the budget statements, it is the part of NII that is taken into the budget to augment the Government's revenues, and ensure a sustainable fiscal position.

Net Investment Returns (NIR)
The sum of: (1) the long-term expected real returns on the reserves invested by GIC and MAS and (2) the NII on the remaining reserves.

Net Investment Returns Contribution (NIRC)
As reflected in the budget statements, it is the part of NIR that is taken into the budget for spending.

Nominal Returns
Nominal returns are the rate of return on an investment without adjustment for inflation. See also *Real Returns.*

Operating Revenue
Refers to Government receipts credited to the Consolidated Revenue Account and Development Fund Account excluding investment and interest income, capital receipts (lumpy and less regular in timing) and investment adjustments. The main components are Corporate Income Tax, Personal Income Tax and Goods and Services Tax.

Operating Expenditure
Generally refers to expenses incurred to maintain the operations and other regular activities of the Government. Components include expenditure on manpower (EOM) – for wages of public service officers, other operating expenditure (OOE) – for all other forms of expenditure incurred in the running of the Government, and operating grants to statutory boards and aided educational institutions, which support the day-to-day running of these agencies.

Output Gap
The difference between the actual level of activity in an economy (as measured by GDP) versus the sustainable amount of activity given the capacity of the economy (i.e. the level of GDP that the economy could potentially achieve without creating unhealthy inflationary pressures). It measures the degree of resource utilisation of the economy. The output gap is typically reported as a percentage of GDP to give a sense of the proportion with which the economy is over or under capacity. Where the output gap is negative (deflationary gap), the economy is not operating at full capacity, and may well be in danger of sliding into a recession if demand is not boosted. Where the output gap is positive (inflationary gap), it indicates that the economy is operating over-capacity, resources are stretched and inflation pressures are strong.

Past Reserves
Refers to the reserves not accumulated by the Government during its current term of office, with reserves being the excess of assets over liabilities.

Primary Budget Position
The Primary Budget Position, defined as Operating Revenue less Total Expenditure, measures the ability of the Government to meet its annual expenditures through its regular collection of revenue (taxes, fees and charges).

Procyclical
Moving in the same direction as the overall economic cycle: falling when the economy is weakening, and rising when the economy is strengthening. See also *Countercyclical*.

Public Private Partnership (PPP)
A model under the Best Sourcing framework, Public Private Partnership (PPP) is a long-term partnering relationship between the public and private sectors to bring together the expertise and resources of the public and private sectors to provide services to the public more efficiently and effectively, particularly in those that require the use of new infrastructure assets.

Real Returns
Real returns refer to the gains from an investment over and above the rate of inflation. See also *Nominal Returns*.

Stamp Duty
A tax imposed on commercial and legal documents relating to unlisted stock and shares and immovable property.

The Enterprise Challenge (TEC)
An initiative driven by the Prime Minister's Office that provides funding for testing innovative ideas that have the potential to improve the delivery of public services

Workfare Income Supplement (WIS) Scheme
Targeted at older low wage workers, it complements the changes to CPF employer and employee contribution rates that came into effect on 1st July 2007. It

provides incentives for older low wage workers to find work and stay in work, while at the same time helping them to save for their longer term needs.

Total Returns
All the returns arising from an investment, including income from dividends and interest, as well as appreciation or depreciation in value of the investment.

Total (Government) Expenditure
Sum of Operating and Development Expenditure. It excludes Special Transfers unless otherwise mentioned.

Year of Assessment (YA)
Refers to the year in which tax on the income earned in the preceding year is assessed.