4 Macroeconomic Policy

Ensuring Price Stability And Sustainable Growth

In April 2016, MAS set the S$NEER policy band to a zero percent rate of appreciation. This measured adjustment was deemed appropriate as MAS Core Inflation was expected to pick up more gradually than previously anticipated, and could now fall below 2% on average over the medium term. Singapore's GDP growth outlook for 2016 has also moderated, compared to the last Review, against a less favourable external environment.

On the fiscal front, Budget 2016 offered some targeted relief measures to help businesses and households cope with near-term stresses arising from the confluence of the cyclical downturn and economic restructuring. Beyond that, the Budget built on the themes of previous Budgets, namely, facilitating economic restructuring and building a caring and inclusive society. In this vein, specific schemes were introduced to advance the process of economic restructuring, by helping firms and industries retool, as well as to minimise structural unemployment among workers. The Budget also provided support for the economically vulnerable as well as measures to ensure inter-generational social mobility.

Overall, the more accommodative monetary policy setting together with the mildly expansionary fiscal policy stance, constitute an appropriate and complementary macroeconomic mix to ensure medium-term price stability and sustainable growth.

4.1 Monetary Policy

A Zero Percent Rate Of Appreciation For The S$NEER Policy Band

In 2016, Singapore's GDP is likely to expand at a weaker-than-anticipated pace compared with the assessment in the October 2015 Review. Amid external cyclical headwinds, there are emerging signs of slack in the economy and labour market tightness has been reduced. Imported inflation is also likely to remain benign and the pass-through of wage and other business costs to consumer prices will be constrained by subdued economic sentiment. Consequently, core inflation should rise over the course of this year at a milder pace than earlier forecast, and continue to average below 2% over the medium term. MAS therefore set the S$NEER policy band to a zero percent rate of appreciation to safeguard medium-term price stability.

The rate of appreciation of the S$NEER policy band was reduced to zero.

Since the last policy review in October 2015, the outlook for the global economy has dimmed, with recent economic data indicating that growth momentum in the major economies has been slower than earlier anticipated. In the US, the headwinds posed by low oil prices, a strong US dollar and soft global demand have dampened capital expenditures and exports, and will continue to limit the strength of any upturn. In the Eurozone and Japan, the strengthening of their currencies will also adversely impact exports and investment, even though more aggressive monetary easing could provide some offset. In addition, the Japanese economy is hobbled by low wage increases and a hesitant recovery in domestic demand. Meanwhile, China's growth will continue to moderate, with stronger activity in the services sectors unable to fully compensate for the weakness in industrial production.

The slower expansion in the G3 and China will in turn weigh on trade-related activities in the rest of Asia. Already, the externally-oriented NEA-3 economies, as well as Malaysia and Thailand, have been affected by the slowdown in external demand. Moreover, demand in the US and China is increasingly being driven by consumption rather than investment, and services instead of manufacturing. Global trade volumes have thus persistently expanded at a below-trend pace over the last four years, and are unlikely to recover strongly in the near term. Moreover, some economies in Asia are contending with rising financial headwinds stemming from elevated debt levels and higher loan-servicing burdens, which could restrain spending.

These developments in the global economy have weighed on domestic GDP growth. The *Advance Estimates* indicated that the Singapore economy slowed in Q1 2016, with weakness in the trade-related sectors spilling over into supporting services segments. Demand for modern services and sentiment-sensitive activities also eased amid the slowdown in regional demand. The growth outlook for the Singapore economy has, therefore, moderated compared to the October *Review*, in tandem with the weaker external outlook. In EPG's assessment, even though an outright recession remains unlikely—barring significant shocks—the confluence of negative cyclical and structural factors will result in a second consecutive year of modest expansion, of 1–3% for 2016 as a whole.

On the inflation front, CPI-All Items inflation fell to −0.8% y-o-y in Q1 2016 from −0.7% in the previous quarter, due to lower car prices and housing rentals. In comparison, MAS Core Inflation rose from 0.2% y-o-y in Q4 2015 to 0.5% in Q1 2016 as the disinflationary effects of oil, budgetary and other one-off measures dissipated.

In February 2016, the forecast range for CPI-All Items inflation was downgraded to −1.0–0% from −0.5–0.5% on account of the significant step-down in global oil prices since October 2015, and the larger-than-expected decline in COE premiums at the start of the year. In y-o-y terms, CPI-All Items inflation is now expected to remain negative throughout this year.

In comparison, the forecast range for MAS Core Inflation in 2016 was kept unchanged at 0.5–1.5%, reflecting its smaller weight of oil-related items and the exclusion of private road transport costs. While MAS Core Inflation is still expected to pick up gradually over the course of 2016 as the transitory factors fade, the upturn in core prices is now expected to be milder than previously anticipated. In y-o-y terms, MAS Core Inflation will likely remain below its historical average even by end-2016 and for the full year, should come in at the lower half of the forecast range, barring upside surprises to oil prices.

The expected slower rise in underlying inflation assumes that external sources of inflation will continue to be benign, amid an ample supply of oil and food, as well as weak global demand. At the same time, domestic wage growth is likely to ease this year to around 2.5–3.0%, from 3.5% in 2015, given softening labour demand. Indeed, the resident unemployment rate could increase slightly in the period ahead alongside a gradual rise in redundancies and declining job vacancies. A softening labour market and the generally sluggish growth outlook will likely weigh on economic sentiment and restrain the extent to which businesses are able to raise prices. Other business cost pressures such as rentals and utilities have also subsided as vacancies in commercial properties rose and lower oil prices filtered through to the economy. The projected pickup in MAS Core Inflation in 2016 thus largely reflects smaller price declines in certain components of the CPI basket, rather than an acceleration of price increases arising from strengthening aggregate demand.

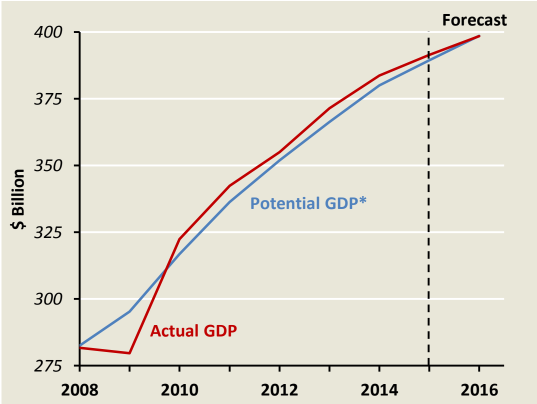
While the Singapore economy is not expected to experience a recession or widespread price declines in 2016, MAS' medium-term projection for the path of inflation has downshifted. Core inflation is likely to average slightly below 2% in view of the possibility of an extended period of low inflation in the global economy. At the same time, the anticipated pickup in core inflation beyond 2016 is unlikely to stem from stronger or more widespread price increases associated with resurgent aggregate demand.

A slight easing of the monetary policy stance is therefore warranted to secure medium-term price stability. Accordingly, MAS reduced the rate of appreciation of the S$NEER policy band to zero percent in April 2016. The level at which the policy band is centred was kept unchanged, as it was deemed appropriate for the projected trajectories of inflation and growth in the economy. The width of the policy band was also kept unchanged.

This measured adjustment to the policy stance followed the gradual reductions in the slope of the policy band adopted in January and October 2015. Cumulatively, these policy recalibrations will help keep the level of real GDP close to its potential in 2016 and 2017. (Charts 4.1 and 4.2) These moves will also ensure price stability over the medium term by providing a partial offset to disinflationary pressures, boosting CPI-All Items inflation by an average of 0.7% point p.a. over the next two years.

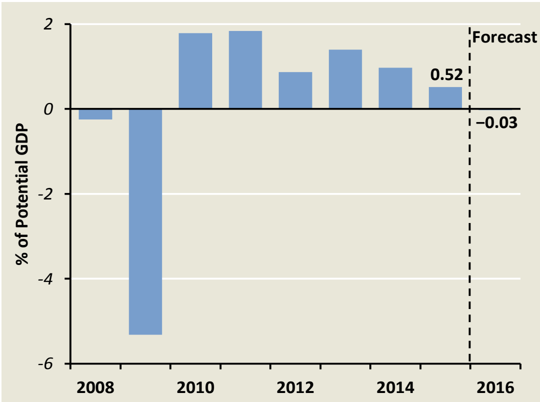
Chart 4.3 traces the evolution of monetary policy in relation to growth and inflation developments in the Singapore economy.

Chart 4.1
Actual and Potential Real GDP



* EPG, MAS estimates.

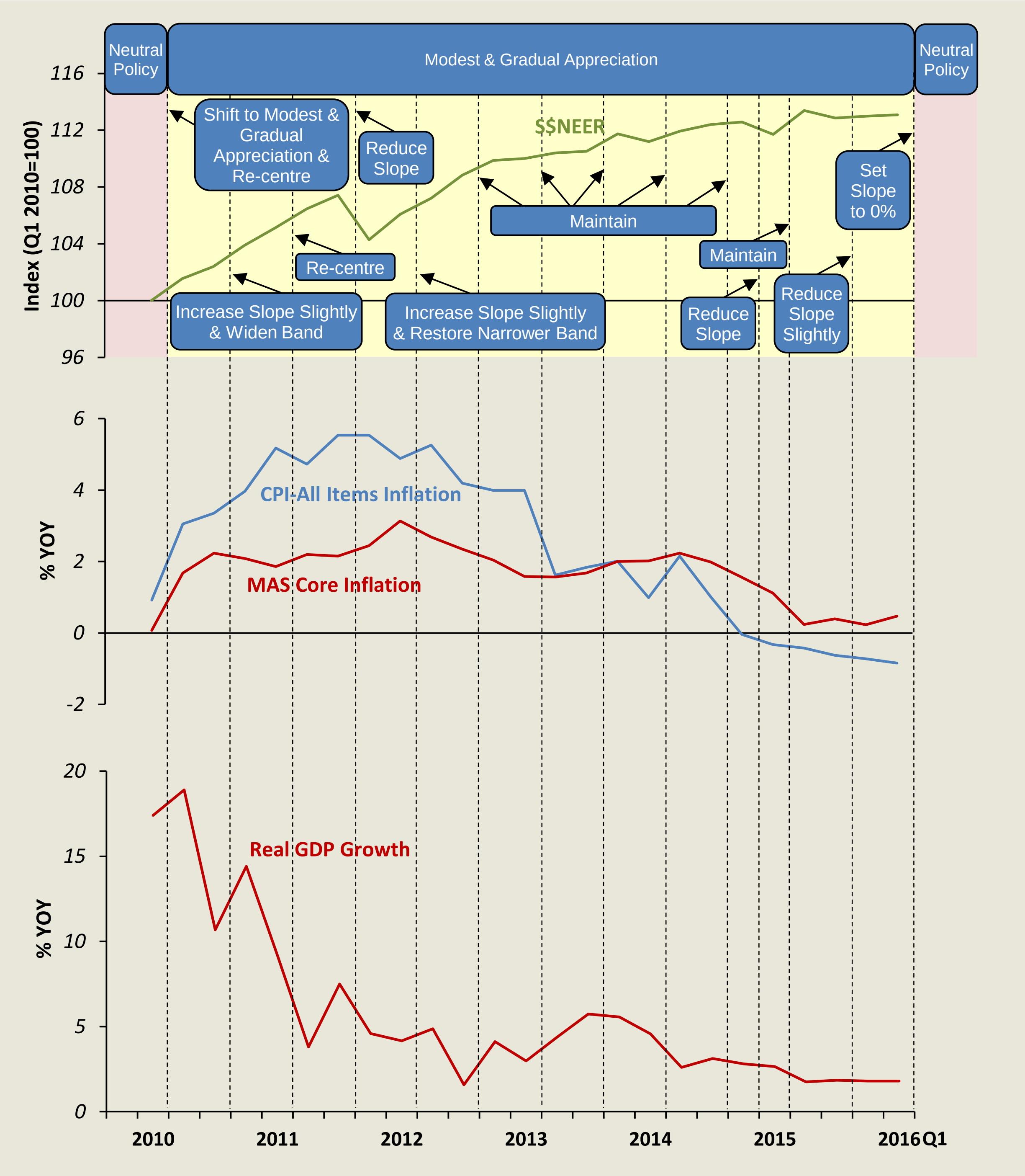
Chart 4.2
Output Gap



Source: EPG, MAS estimates

Note: EPG's estimate of Singapore's output gap is derived from a weighted average of three methods—a structural vector autoregression (SVAR) approach using the Blanchard-Quah decomposition, the Friedman variable span smoother and a simple univariate Hodrick-Prescott filter. The forecast for 2016 takes into account the policy stance adopted in April 2016.

Chart 4.3
Key Macroeconomic Variables and Changes in the Monetary Policy Stance



The S$NEER generally strengthened over October 2015 – April 2016.

Following the October 2015 MPS, the S$NEER broadly strengthened over Q4 2015, before undergoing a brief depreciation episode in January 2016. (Chart 4.4) The downward pressure on the S$ occurred amid a spike in global risk aversion precipitated by concerns about China's economic growth as well as renewed volatility in its equity and forex markets. As a result, regional currencies, including the S$, weakened against the major reserve currencies. For example, between the weeks of 9 Oct 2015 and 15 Jan 2016, the S$ depreciated by 5.2% against the Japanese yen and 3.1% against the US$. (Chart 4.5)

The S$ subsequently resumed its appreciation trend when volatility in the Chinese markets abated. In particular, the S$NEER was boosted by a series of dovish comments from senior US Federal Reserve officials in February, followed by the downward revision in the FOMC's outlook for the US economy in March, which indicated that the Federal funds rate was likely to be raised only twice this year, rather than the four times previously projected. Accordingly, the US$ exhibited broad-based weakness and the S$ appreciated against it by 6.8% between 15 January and 8 April. Over the same period, the S$ also strengthened by 8.9% against the pound sterling and 2.1% against the euro, amid growing risks of "Brexit" and the ECB's announcement of another round of monetary easing in March.

In contrast, the S$ was volatile *vis-à-vis* the Japanese yen from 15 January to 8 April. It initially appreciated against the yen in late January in light of the Bank of Japan's introduction of a negative interest rate policy, but quickly reversed its gains and depreciated through to mid-February. Subsequently the S$ strengthened against the yen until end-March, before weakening again in early April.

Over the last six months (the week of 9 Oct 2015 to the week of 8 Apr 2016), the S$NEER has risen from the lower half of the policy band to the upper half, appreciating by 2.3% from point to point. However, its average level from October 2015 to April 2016 has largely been unchanged from that in the preceding six-month period.

Chart 4.4
S$NEER

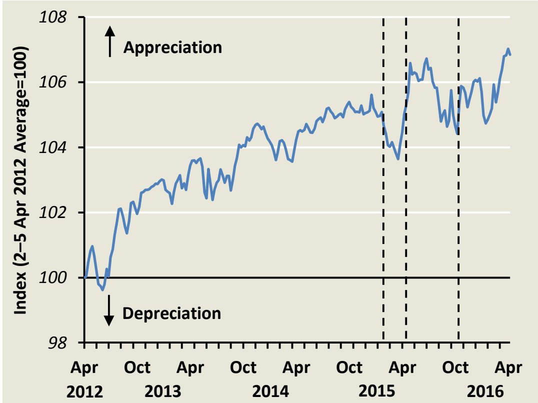


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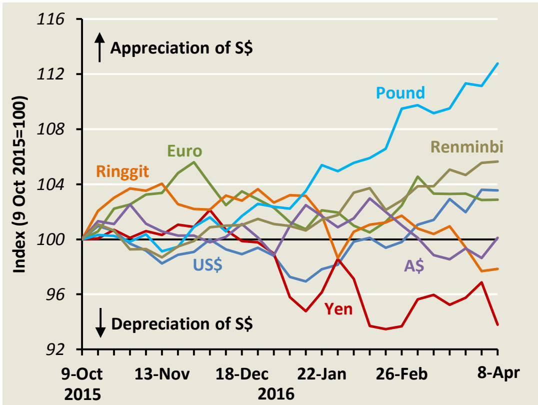
Chart 4.5
Singapore's Bilateral Exchange Rates



The CPI-deflated S$REER has depreciated from its peak in Q1 2013.

The S$ real effective exchange rate (S$REER) is a measure of the prices of goods and services in Singapore relative to its trading partners, expressed in terms of a common currency index, the S$NEER. Using the CPI as the measure of prices, the S$REER depreciated by 3.6% between Q1 2013 and Q4 2015. (Chart 4.6)

Although the S$NEER strengthened in line with the modest and gradual appreciation stance of monetary policy, relative prices fell by a greater extent, as Singapore's CPI-All Items inflation declined while overall inflation in its trading partners recorded a sustained increase. The fall in domestic prices was largely due to the moderation in the cost of private road transport and imputed rentals on owner-occupied accommodation, as supply conditions in the COE and housing markets loosened.

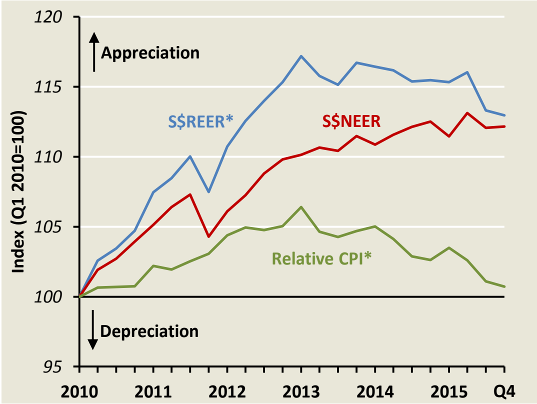
Liquidity conditions have been driven by movements in the S$NEER.

Overall liquidity conditions in the economy are captured by changes in the Domestic Liquidity Indicator (DLI), which reflects movements in the S$NEER and the three-month S$ SIBOR. Since October 2015, changes in liquidity have primarily been driven by changes in the exchange rate rather than in interest rates. Domestic liquidity tightened over October to December 2015 as the S$NEER strengthened but eased briefly in January as the depreciating S$NEER outweighed the tightening arising from higher domestic interest rates. (Chart 4.7) Thereafter, liquidity began to tighten again as the trade-weighted exchange rate resumed its appreciation path.

Domestic interbank rates have risen since the beginning of 2015.

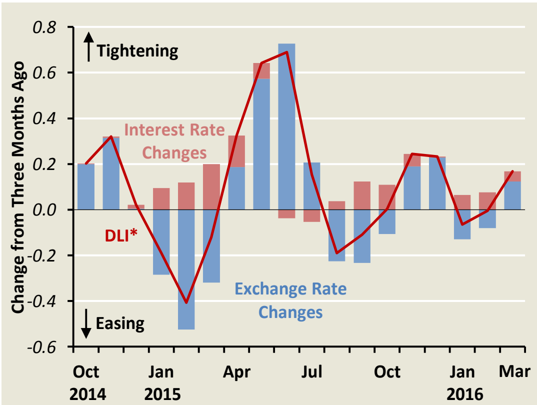
The three-month S$ SIBOR has been at a premium over the three-month US$ LIBOR since September 2012 (Chart 4.8), but the gap narrowed over Q4 2015, as US$ LIBOR rose by more than S$ SIBOR. While the S$ SIBOR eased from a peak of 1.14% in September 2015 to 1.07% in October and November, US$ LIBOR increased by 29 bps between end-September and December 2015, in line with the US Federal Reserve's 25 bps hike of the Federal funds rate. In all, the

Chart 4.6
Components of the S$REER Deflated by CPI



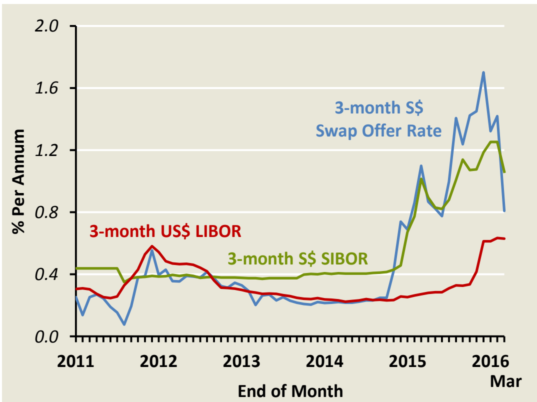
* EPG, MAS estimates.

Chart 4.7
Domestic Liquidity Indicator



* EPG, MAS estimates.

Chart 4.8
Interest Rates



Source: ABS Benchmarks Administration Co Pte Ltd and ICE Benchmark Administration Ltd

S$ SIBOR's premium over the US$ LIBOR fell from 81 bps in September 2015 to 57 bps in December.

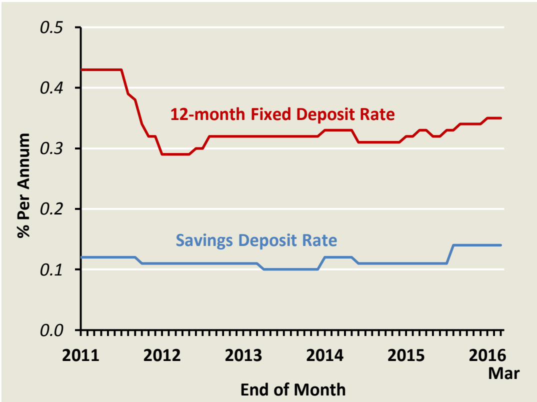
In Q1 2016, the S$ SIBOR rose to 1.25% in January before falling to 1.06% in March, as expectations of a US$ weakening against the S$ built up. Meanwhile, US$ LIBOR inched up in February but remained unchanged in March. Over the first three months of 2016, the S$ SIBOR premium widened to an average of 56 bps.

In comparison, the three-month S$ Swap Offer Rate (SOR) was more volatile over the last six months. It surged to a seven-year high of 1.7% as at end-December, and then fell by a cumulative 89 bps to reach 0.8% in March 2016, on the back of rising expectations of US$ weakness *vis-à-vis* the S$.

Recent econometric work by EPG found evidence of a time-varying exchange rate risk premium for the S$ SIBOR. A model based on the uncovered interest parity condition, augmented with a time-varying risk premium, had significant explanatory power for S$ SIBOR rates, and was generally able to capture the movements of S$ SIBOR since 2000. Although actual and predicted rates based on the estimated model have diverged more recently, the analysis suggests this could be due to systematic forecast errors, possibly related to the episodic disruption caused by the hike in the Federal funds rate in December 2015. All in, there is no evidence to suggest that the risk premium in Singapore has settled at a permanently higher level.[1]

Despite the broad increase in the three-month S$ SIBOR, savings and fixed deposit rates have remained low. Savings deposit rates have been unchanged at 0.14% p.a. since August 2015, while the 12-month fixed deposit rate only inched up to 0.35% in January 2016, and has been stable ever since. (Chart 4.9) However, these board rates belie the significantly higher promotional rates that banks offered on deposit accounts.

Chart 4.9
Deposit Rates

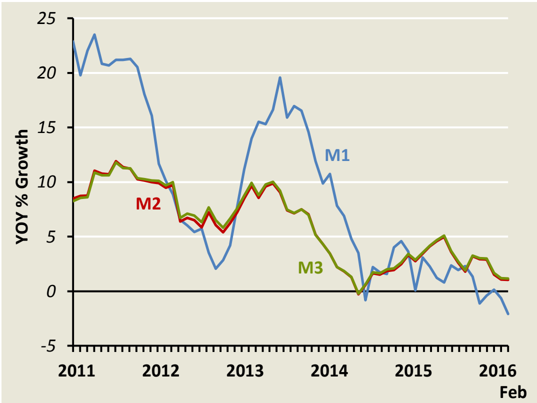


Note: Each line represents the simple average of the top 10 banks' deposit rates.

Money supply growth slowed further into 2016.

Growth in monetary aggregates continued to decline, with M1 contracting by 2.1% y-o-y in February 2016. (Chart 4.10) This was due to weaker growth in currency in active circulation and shrinking demand deposits.

Chart 4.10
Money Supply



[1] EPG's estimate of the time-varying risk premium, using a GARCH-in-Mean model, showed that after rising since early 2014, the risk premium had fallen in H2 2015 to the stable level that prevailed before the GFC.

The latter fell by 3.9% in February, registering its sixth consecutive month of negative growth. (Chart 4.11)

Likewise, growth in the broader monetary aggregates, M2 and M3, decelerated from above 3% y-o-y in Q3 2015 to 1.0% and 1.2%, respectively, in February 2016. Although savings deposits growth slowed from 4.5% y-o-y in Q3 to 0.7% in February, fixed deposits grew more rapidly over this period, rising from 3.5% to 4.1%, probably because households took up the promotional rates offered by banks.

The stock of outstanding credit continued to fall in February 2016.

The stock of outstanding DBU non-bank loans continued to contract in recent months, by 1.2% y-o-y in February 2016 compared to an expansion of 0.6% in Q3 2015. (Chart 4.12) Business loans shrank more rapidly in February given lacklustre demand for credit from the manufacturing and commerce sectors. At the same time, growth in consumer lending slowed further to 2.2% y-o-y in February 2016 from 3.1% in Q3 2015. Although the decline in car loans moderated over this period, credit card loans and other credit to professionals and private individuals fell more rapidly.

Chart 4.11
Components of the Money Supply

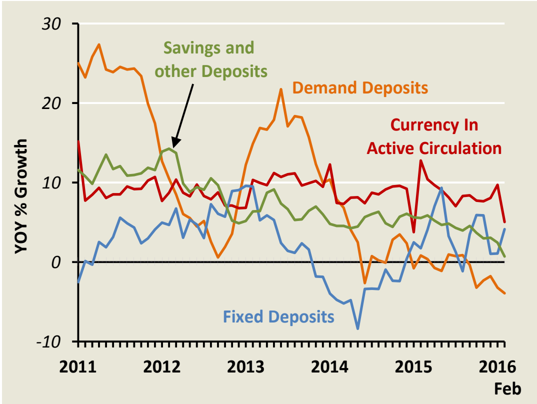
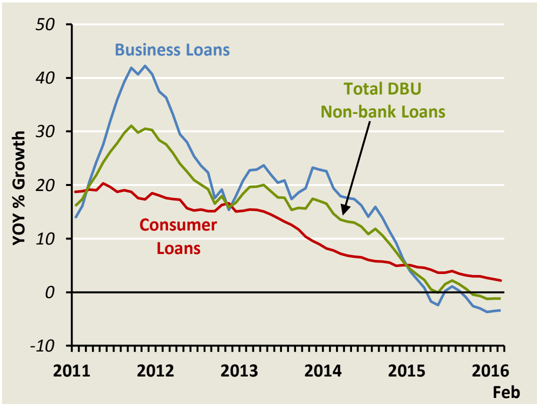


Chart 4.12
DBU Non-bank Loans



4.2 Fiscal Policy

Targeted Measures To Sustain Restructuring Momentum

Budget 2016 provided near-term relief measures for households and small and medium enterprises facing pressures from the economic downturn and restructuring. At the same time, it built on the longer-term themes of previous Budgets to restructure the economy and foster a more inclusive society. Business measures were largely targeted initiatives aimed at encouraging individual firms and whole sectors to innovate and scale up, while providing help to workers affected by the cyclical weakness and restructuring. The Budget also enhanced support for the economically vulnerable groups. Overall, the fiscal policy stance for CY2016 is projected to be mildly expansionary.

Budget 2016 took steps to address cyclical and structural challenges.

The Budget was delivered against the backdrop of mounting cyclical and structural headwinds facing the Singapore economy. The economy is projected to grow at a modest pace of 1–3% in 2016, with output slipping slightly below potential and the labour market seeing a reduction in tightness. At the same time, while the economy's shift towards productivity-driven growth is proceeding apace, restructuring has likely reached a phase where resource reallocation may be intensifying. The interaction of structural challenges, exacerbated by weak cyclical demand globally could, therefore, weigh on firms and individuals in the short term.

This prudently accommodative Budget therefore provided targeted measures to relieve some near-term pressures, but also laid out programmes to help industries and enterprises transform and innovate for the longer run. It further introduced new measures to help workers affected by redundancies and built on earlier social programmes to protect the economically vulnerable. Table 4.1 summarises the key measures of Budget 2016.

The Budget offered relief measures targeted at vulnerable businesses and households.

Recognising the impact of external weakness and restructuring on businesses and workers, the Budget introduced a suite of measures aimed at relieving the cash flow of small and medium enterprises (SMEs) and households. The corporate income tax rebate was raised from 30% of tax payable to 50%, for Years of Assessment (YA) 2016 and 2017, capped at $20,000 per YA. At the same time, the scheduled hike in the foreign worker levy for the Marine and Process sectors[2] was deferred by another year in view of the challenges facing the oil and gas sectors. The Budget recognised that SMEs could be concerned about credit constraints amid the turning of the credit cycle, which could hinder firms' investment and restructuring efforts. Accordingly, the new SME Working Capital Loan was introduced to ensure that viable SMEs have continued access to funding.

For households, relief was provided in the form of one-off GST Voucher special payments and Service and Conservancy Charges (S&CC) rebates, with the former targeted at helping lower-income households.

The Budget built on previous restructuring initiatives …

In 2009, the Economic Strategies Committee envisioned that restructuring would result in an economy that was more in line with Singapore's inherent comparative advantage. Growth was expected to be driven by human capital-intensive activities and innovation, and to leverage on Singapore's strengths in institutional quality and infrastructure, rather than the import of low-wage labour. The government had expected that

2 Activities in the Marine and Process sectors comprise the building & repairing of ships and boats, and the construction and maintenance of plants in specific industries such as chemicals and pharmaceuticals, respectively.

restructuring would take several years and involve not only raising productivity levels but reshaping the economy's fundamental macro- and micro-level characteristics. The economy's sectoral structure, export composition, as well as firm-level processes were anticipated to evolve and transform. Since 2010, Budget measures have kept in step with the different phases of restructuring.

Previous Budgets laid the groundwork for restructuring by allowing factor prices to better reflect the true underlying relative factor scarcities. Foreign worker levies and dependency ratio ceilings were progressively tightened over successive Budgets. To alleviate the transitional pains on firms and incentivise their shift towards local workers and the increased use of capital, previous Budgets introduced and expanded on schemes such as the Wage Credit Scheme (WCS) and Productivity and Innovation Credit (PIC). As the relative price of capital declined, businesses began to progressively shift reliance away from scarce labour inputs towards labour-saving modes of production. As a result, total foreign employment gains in 2015 have fallen by more than 60% from the post-GFC peak of around 85,000 in 2011. There is now widespread acceptance, especially among SMEs, of the need to raise productivity.

Budget 2016 built on these themes, underscoring the labour and land resource constraints confronting businesses, despite the cyclical downturn. As such, the Budget proceeded with the scheduled hikes in the foreign worker levy for the construction and services sectors. The foreign worker levy for work permit holders in the manufacturing sector remained unchanged, as announced in Budget 2015.

… but shifted the focus to helping firms and industries grow.

Nevertheless, Budget 2016 marked a significant milestone in Singapore's restructuring journey, as the focus shifted from dealing with economy-wide challenges, towards taking a sector-based approach to build up firms' capabilities to leverage on new growth opportunities.

In this spirit, a more targeted approach was adopted that recognised that restructuring needed to progress at the micro level, in partnership with industry associations and government agencies. A $4.5 billion Industry Transformation Programme (ITP) was introduced to help firms and industries move into the next phase of restructuring. First, the ITP provided new measures to encourage firms and industries to adopt labour-saving techniques and new technology. The Automation Support Package and the National Robotics Programme will help companies scale up automation and support the development and deployment of robots in key sectors such as healthcare and construction.

Second, the ITP made provisions to encourage companies to increase scale and internationalise. For example, there were financing and tax incentives to help SMEs scale up through mergers & acquisitions, and to internationalise and develop new markets.

Third, the ITP sought to reduce frictions that could hinder business development and expansion. The newly-proposed Business Grants Portal will provide a one-stop location for companies seeking to access the range of government grants available. At the same time, the creation of a National Trade Platform would serve as one-stop trade information management system to support firms, particularly those in the trade finance and logistics sectors.

Fourth, the ITP positioned the government as a proximate facilitator of innovation. This new role recognised that it was necessary to encourage industry to spearhead innovation, and to drive research and development of solutions that are relevant to industry needs. The government will continue to partner industry through its top-ups to the National Research Fund and the new Research, Innovation and Enterprise (RIE) 2020 Plan. To foster entrepreneurship, the ITP also launched the SG-Innovate scheme to match budding entrepreneurs with skilled mentors, as well as funding and business opportunities.

EPG used the Monetary Model of Singapore (MMS) to simulate the effects of the ITP, which, in essence, can be regarded as a “supply-side” measure. The results show that the funding provided under the ITP to support firms’ innovation and investment would boost GDP in level terms by 0.2%, as compared to the baseline level, by 2020. However, as the spending will be phased in over several years, there would be no significant inflationary effect.

The Budget also focused on workers who are at risk of structural unemployment …

One of Singapore’s core strengths is its stock of human capital. In recognition of this, earlier Budgets had introduced several initiatives to expand paths to tertiary and advanced technical education. Budget 2015, in particular, had established the SkillsFuture programme to cultivate lifelong learning, and encourage Singaporeans to develop mastery in growing fields.

Budget 2016 noted that an extended period of restructuring could result in a rise in frictional unemployment as workers moved across sectors and activities. With the restructuring process entering a more intensive phase of resource reallocation, some workers who lack the requisite skills risk becoming structurally unemployed. To mitigate the consequences, the Budget launched the “Adapt and Grow” initiative, to enable affected workers, especially PMETs, to adjust to industry and firm changes and increase their employability. For example, “Adapt and Grow” would focus on enabling PMETs to re-skill and undertake mid-career professional conversion programmes. This was complemented by expanded wage support schemes to encourage firms to hire mature PMETs who have been made redundant, and younger long-term unemployed PMETs.

… and built on earlier social reforms to build a caring and resilient society.

As laid out in previous Budgets, the government’s primary strategy for promoting an inclusive society comprised upstream interventions aimed at ensuring equality of opportunity and preserving intra- as well as inter-generational social mobility. There were also direct transfers to reduce inequality of outcomes and strengthen social safety nets. As the social security programmes introduced in recent years—Workfare, GST Vouchers, Pioneer Generation Package, and Silver Support Scheme—provided a firm base of support for the economically vulnerable in Singapore, there was no need for a new major plank to enhance Singapore’s social security system. Instead, Budget 2016 announced details for the implementation of the Silver Support Scheme, which was introduced in Budget 2015 and will come into effect this year. Under this scheme, the bottom 20–30% of Singaporeans aged 65 and above will receive payments of up to $750 per quarter.

The social mobility measures in Budget 2016 built on the themes of previous years and enhanced support for specific vulnerable groups. There were, for example, new measures to ensure that young Singaporeans continue to have equal access to opportunities. In particular, the KidSTART and Fresh Start Housing Scheme sought to provide assistance to children from disadvantaged families, and to give low-income families living in rental flats a second chance to own their homes, respectively. In addition, to encourage employment of Persons with Disabilities (PWDs), the Workfare Training Support scheme was extended to PWDs under the age of 35. The Budget also raised the income ceiling for the Workfare Income Supplement (WIS) to $2,000 a month, while increasing the amount and frequency of payouts to eligible workers.

In addition, Budget 2016 gave a boost to Corporate Social Responsibility (CSR) activities, and made it easier for employees to contribute through their workplaces. From 1 July 2016 till the end of 2018, businesses that organise employees to volunteer and provide services to Institutions of Public Character (IPCs) will receive a 250% tax deduction on the associated cost incurred, up to a yearly cap of $250,000 per business and $50,000 per IPC. The government also pledged to match dollar-for-dollar any additional donations through Community Chest’s (ComChest) SHARE over and above the FY2015 level.

The Budget laid a solid foundation for the next phase of restructuring.

In sum, Budget 2016 judiciously balanced near- and medium-term economic concerns and built upon previous initiatives to increase social support. It sought to alleviate short-term pressures caused by the cyclical downturn and more intensive resource reallocation, but at the same time, consolidated previous restructuring efforts and fine-tuned existing policies. By focusing the new measures at firms and households, the Budget has taken the economic restructuring process to its next crucial phase. This involves tackling the most binding constraints at the worker, firm and industry levels, thereby nudging businesses and industries to grow new activities, and helping workers to re-skill and re-train. Meanwhile, the broader considerations of Singapore’s long-term economic future are being taken up by the Committee on the Future Economy (CFE), which is due to report on its recommendations in late 2016. Through Budget 2016, the government has laid a solid foundation for the CFE to build on.

Table 4.1
Key Initiatives of Budget 2016: "Partnering for the Future"

Measures for Businesses
(A) Addressing Near-term Concerns • The Corporate Income Tax Rebate will be raised from 30% of tax payable to 50%, with a cap of $20,000 per YA, in YA2016 and YA2017. • The Special Employment Credit will be modified and extended until end-2019 to provide employers with a tiered wage offset for workers aged 55 and above and earning up to $4,000 per month and the fund will receive a top-up of $1.1 billion. • There will be a new SME Working Capital Loan scheme for SMEs, for loans of up to $300,000 per SME. The Government will co-share 50% of the default risk of these loans with participating financial institutions, to encourage lending to local SMEs. • HDB's Revitalisation of Shops package will be enhanced. • Foreign Worker Levy Changes o Marine and Process Sectors: WPH levy increases for 2016 to be deferred for one year. o Manufacturing Sector: WPH levy will be unchanged as announced in Budget 2015. o Services and Construction Sectors: WPH levy to be increased as announced in Budget 2015. o S-Pass Holders: All sectors to see increase in S-Pass levy as announced in Budget 2015.
(B) Industry Transformation Programme • Transforming Enterprises o Business Grants Portal to help firms access the many grants from government agencies more easily. o The Automation Support Package will enhance funding support for companies to automate, drive productivity, and scale up. The Package will be available for 3 years. o To encourage firms to scale up, the Mezzanine Growth Fund will be expanded from $100 million to up to $150 million. o To support more mergers and acquisitions (M&A), M&A allowance will be available on up to $40 million of consideration paid for qualifying deals (up from the current $20 million). The upfront certainty of non-taxation of companies' gains on disposal of equity investment will be extended until 31 May 2022. o IE Singapore will support firms' internationalisation efforts through the Global Company Partnership and Market Readiness Assistance programmes. The Double Tax Deduction for Internationalisation scheme will also be extended to 31 Mar 2020. • Transforming Industries o Develop a National Trade Platform as a one-stop trade information management system to support firms, particularly those in the logistics and trade finance sectors. o Set aside $450 million over the next 3 years under the National Robotics Programme to support robotics development and deployment across sectors such as Healthcare, Construction, Manufacturing and Logistics. o Help trade associations and chambers increase their outreach and take the lead in developing industry solutions. Government will also second public officers to interested trade associations and chambers to improve partnership and enable the public sector to better understand business needs. • Transforming through Innovation o Up to $4 billion will be available under the RIE 2020 Plan for industry-research collaboration, to deepen industry capabilities in innovation and R&D. $1.5 billion top-up to the National Research Fund in 2016 to support RIE 2020 initiatives. o Businesses now have flexibility to write down the cost of acquiring IP over different periods of 5, 10 or 15 years, instead of the current 5 years only. o SG-Innovate platform to promote start-ups in new and existing industries. o To build an industrial park of the future, the Jurong Innovation District, which will bring together learning, research, innovation and production.
(C) Reducing Structural Unemployment • An Adapt & Grow Initiative to help Singaporeans adjust to changing job demands, develop their skills and encourage re-employment. • TechSkills Accelerator, a skills development and job placement hub to enable Singaporeans to learn ICT skills and find jobs in the sector.

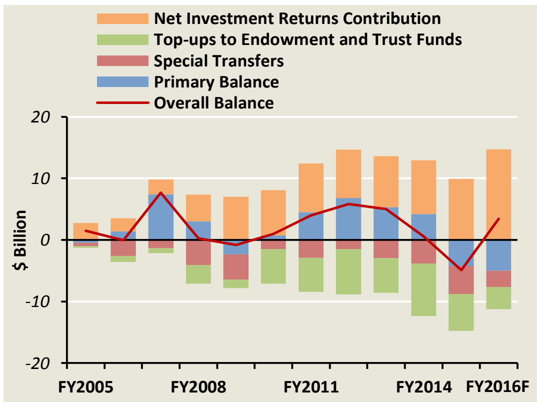
Measures for Households	
(A)	**Caring for Our Young**
•	New First Step grant of $3,000 for the Child Development Account of all eligible Singaporean children.
•	Increased Medisave withdrawal limit for pre-delivery expenses from $450 to $900.
•	Pilot KidSTART initiative to provide children from disadvantaged family backgrounds with appropriate learning, developmental, and health support in their first six years.
•	Fresh Start Housing Scheme to provide a grant up to $35,000 to help second-timer families with young children in rental housing to own their own home.
•	Develop Outward Bound School campus on Coney Island.
(B)	**Caring for Our Low-Wage Workers and PWDs**
•	Workfare Income Supplement (WIS) Scheme ○ Qualifying income ceiling raised from $1,900 to $2,000 a month. ○ WIS payouts for eligible workers raised, depending on age and income. ○ WIS will be paid for every month worked, with payouts made monthly rather than quarterly.
•	Workfare Training Support scheme will be extended to PWDs, who earn low wages and are below 35 years of age.
•	Public service to expand job opportunities for persons with disabilities.
•	Review of next Enabling Masterplan.
(C)	**Caring for Our Seniors**
•	Silver Support Scheme will provide a supplement of $300–750 every quarter to the bottom 20–30% of Singaporeans aged 65 years and above.
•	Pilot the Community Network for Seniors to form networks of community partners and coordinate local services to keep seniors active and engaged.
(D)	**Building a Caring Society**
•	Business & IPC Partnership Scheme.
•	Dollar-for-dollar matching for additional donations to ComChest's monthly donation programme, SHARE, over and above the FY15 level, from FY2016 to FY2018.
•	Our Singapore Fund.
(E)	**Other Measures**
•	Increase in basic monthly allowance for persons on ComCare Long-Term Assistance.
•	Increase in the Singapore Allowance and monthly pension ceiling for government pensioners.
•	S&CC Rebate.
•	One-off GST Voucher Cash Special Payment of up to $200 in 2016, totaling up to $500 when combined with regular GST Voucher–Cash.
•	Cap on Personal Income Tax Reliefs to $80,000 per Year of Assessment.

Source: MOF

An overall Budget surplus is projected for the first year of the new term of Government.

An overall Budget surplus of $3.4 billion or 0.8% of GDP is projected for FY2016, compared to the $4.9 billion deficit (1.2% of GDP) in FY2015. (Chart 4.13 and Table 4.2) The projected surplus arises mainly from an increase in Net Investment Returns Contribution (NIRC), due to the inclusion of Temasek's expected returns into the Net Investment Returns framework in this fiscal year, as well as increases in operating revenue from one-off factors such as vehicle-related revenues. The primary balance is expected to record a larger deficit of $5.0 billion due to an increase in operating expenditure. The basic balance, which is the primary balance less special transfers excluding top-ups to endowment and trust funds, is projected to be slightly smaller in FY2016 as special transfers for

Chart 4.13
Components of the Budget



the WCS and PIC are expected to decline relative to the last FY. Meanwhile, top-ups to endowment and trust funds will also ease to $3.6 billion this year.

Table 4.2
Budget Summary

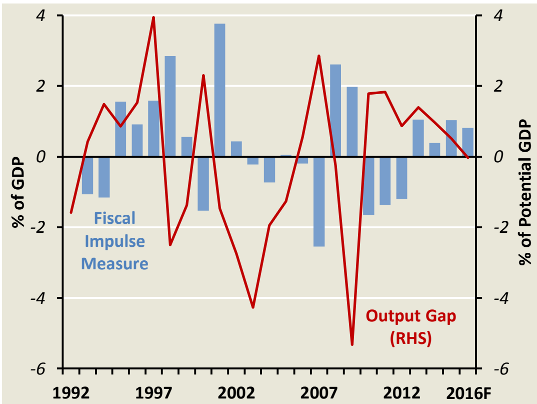
	FY2015 Revised		FY2016 Budgeted	
	$ Billion	**% of GDP**	**$ Billion**	**% of GDP**
Operating Revenue	64.2	15.9	68.4	16.7
Total Expenditure	68.4	17.0	73.4	17.9
Operating Expenditure	48.7	12.1	54.4	13.2
Development Expenditure	19.7	4.9	19.0	4.6
Primary Surplus/Deficit (–)	**(4.3)**	**(1.1)**	**(5.0)**	**(1.2)**
Less: Special Transfers (excluding top-ups to endowment/trust funds)	4.5	1.1	2.7	0.6
Basic Surplus/Deficit (–)	**(8.8)**	**(2.2)**	**(7.7)**	**(1.9)**
Less: Special Transfers (top-ups to endowment/trust funds)	6.0	1.5	3.6	0.9
Add: Net Investment Returns Contribution	9.9	2.5	14.7	3.6
Budget Surplus/Deficit (–)	**(4.9)**	**(1.2)**	**3.4**	**0.8**

The fiscal stance will be appropriately expansionary in 2016.

Despite the overall Budget position turning in a small surplus in FY2016, the fiscal impulse (FI) is estimated to be mildly expansionary at around 0.8% of GDP in CY2016. (Chart 4.14) The $5.0 billion increase in total expenditure this FY is supported by higher government revenues from NIRC, which are derived from returns from overseas investments and are not included in the FI computation.

The positive FI captures the short-term stimulus to aggregate demand and is appropriate given the slightly negative output gap in 2016. The near-term measures and programmes to help businesses and industries transform, as well as the enhancements to existing social schemes should provide support to an economy undergoing restructuring amid cyclical headwinds. Apart from the small boost to growth imparted by the ITP, the Budget measures targeted at different household segments will also collectively raise disposable incomes and private consumption. The positive impact on GDP growth in 2016 has been estimated at about 0.2% point, while headline inflation will rise by 0.1% point in 2017.

Chart 4.14
Fiscal Impulse and Output Gap



Source: EPG, MAS estimates

Review of Government's CY2015 Basic Balance

Government operating revenue rose modestly in CY2015.

This section compares the government's budgetary outturn in CY2015 to that in CY2014.

In 2015, operating revenue increased by $3.6 billion to $63.6 billion (15.8% of GDP) on the back of higher revenues from fees & charges, corporate and personal income taxes, and GST. These increases more than offset the decline in revenues from statutory boards' contributions, "other taxes"[3] and stamp duties. (Chart 4.15)

In 2015, receipts from income taxes and GST rose, alongside modest growth in the economy. Personal income taxes increased by $0.9 billion, while revenue from corporate income tax rose by $0.7 billion. Meanwhile, revenues from GST recorded an increase of $0.3 billion due to muted growth in consumer spending.

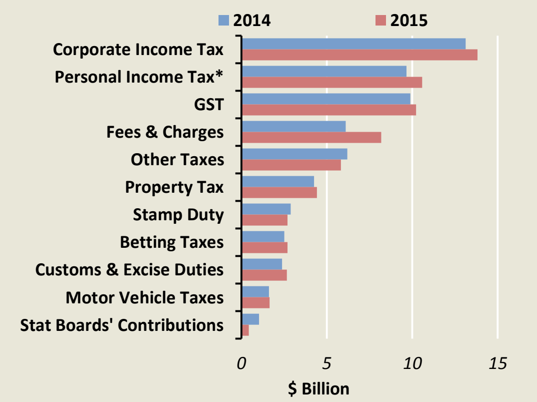
Fees & charges were boosted primarily by a rise in vehicle quota premium collections as new vehicle registrations increased by 55% in 2015 even as weighted COE premiums fell by 13.5%. (Chart 4.16) Overall, revenues from vehicle quota premiums rose by $1.9 billion to $5.0 billion over the year.

In comparison, "other taxes" declined by $0.4 billion and stamp duties by $0.2 billion. Stamp duties decreased mostly on account of the continued decline in property transactions. (Chart 4.17)

Both operating and development expenditures increased in 2015.

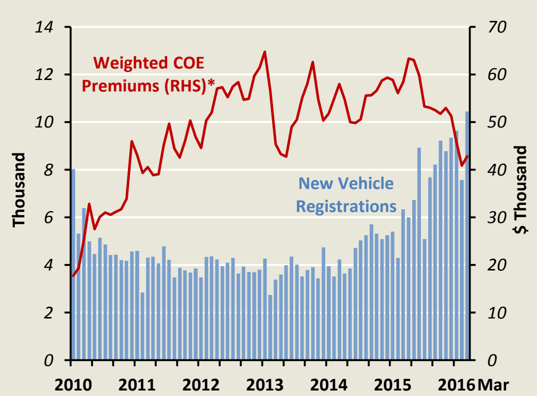
Total government expenditure rose by $6.3 billion to $61.2 billion (15.2% of GDP) in 2015 on account of higher spending on both operating and development items. (Chart 4.18) In terms of sectors, the bulk of the increase can be attributed to higher expenditure on social development and economic development, which offset a slight decline in government administration spending. (Chart 4.19)

Chart 4.15
Components of Operating Revenue



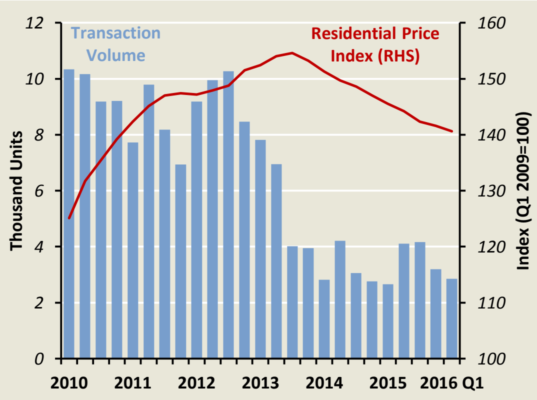
* Includes withholding tax.

Chart 4.16
COE Premiums and New COE Registrations



* Weighted by the COE quota of each category.

Chart 4.17
Residential Price Index and Property Transaction Volumes



[3] Other Taxes include the foreign worker levy, annual tonnage tax, water conservation tax and development charge.

Operating expenditure, which includes expenses on manpower, and operating grants to statutory boards and aided educational institutions, rose by $3.6 billion to reach $45.4 billion (11.3% of GDP) in 2015. In particular, the Ministry of Health recorded an increase in operating expenditure of $0.9 billion to cater for MediShield Life Premium subsidies, the increase in Medisave grants for newborns, and to channel more funds to public healthcare institutions. At the same time, operating expenditure by the Ministry of National Development increased due to the completion of more public housing units and higher grants to support home ownership. The Ministry of Social & Family Development also saw a rise in operating expenditure, in part to finance enhancements to the pre-school sector, the Baby Bonus, and Government-Paid Leave Schemes.

Development expenditure, which comprises longer-term investment in capitalisable assets, such as roads and buildings, increased by $2.7 billion to $15.8 billion (3.9% of GDP) in 2015. The bulk of the increase accrued to higher development expenditures by the Ministry of Transport and the Ministry of Culture, Community & Youth. Transport development expenditure rose on account of the ongoing expansion of Changi Airport as well as the rail network development for the Downtown Line, the Thomson-East Coast Line and the Tuas West Extension. Development expenditures also increased for the Ministry of Culture, Community & Youth due to the ongoing development of Tampines Town Hub, as well as the upgrading, improvement and replacement projects under the People's Association, Sport Singapore, and the National Heritage Board.

An increase in special transfers to businesses resulted in a small deficit in the basic balance.

As the increase in total expenditure exceeded that of operating revenue, the government recorded a smaller primary surplus of $2.4 billion (0.6% of GDP) in 2015, compared to the surplus of $5.2 billion in 2014. Moreover, because of higher special transfers to businesses under the Transition Support Package, the government's basic balance tipped into a slight deficit of $1.6 billion (0.4% of GDP), from a surplus of $2.0 billion in the preceding year. (Chart 4.20)

Chart 4.18
Government Operating and Development Expenditure

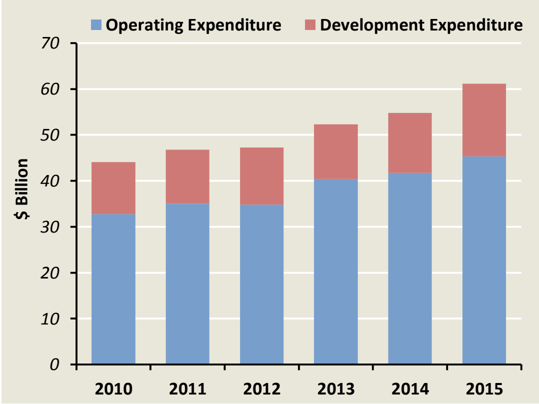


Chart 4.19
Components of Total Expenditure

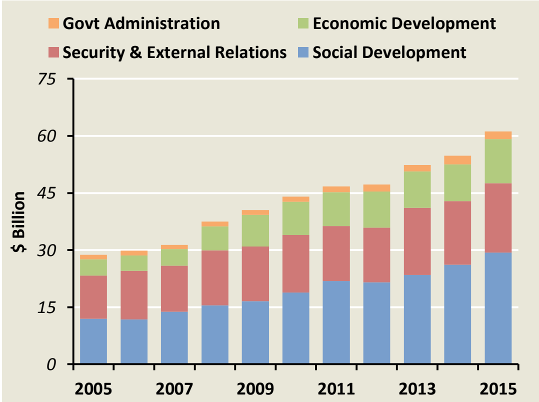


Chart 4.20
Government's Basic Balance