

## Budget Preview: Coping With An Unprecedented Slowdown

- The budget will set out to address problems faced by the SMEs, though giving out cash, or helping financially sound companies obtain financing, as this will help protect jobs.
- The 20% Income tax rate could be reduced to be aligned with the 18% corporate tax. This would be useful in putting more disposable income in the hands of households. Putting more money in the hands of households would include measures like rental and utility rebates to individuals, rebates on income tax and property tax, rebates on HDB service and conservancy charges
- The government has already said it will not be cutting GST, so households could get help in this area from GST rebates.
- To boost the economy, the government has embarked on increasing its capital expenditure, and already announced an increase in infrastructure developments. Billions will be spent on building new infrastructure as well as sprucing up old ones.
- Previous measures during crisis years also included rebates, deferment of income tax and CPF cuts.
- We estimate a primary budget deficit of \$2.1 bn- (0.8% of GDP). The overall budget deficit should come up to \$6.6 bn (contingent on revenue in FY2008 in order to avoid dipping into reserves for current term of govt).

The severity of the current crisis, which has brought down venerable banks, caused the global economy to spiral down and extinguished any growth prospects here in Singapore, demands a comprehensive slew of measures to tackle. The upcoming budget to be announced on 22 Jan, will probably be the government's most comprehensive yet, designed to combat the effects of a protracted downturn.

Clearly, the effects of the global financial crisis will be the most pronounced on Singapore's SMEs, which employ majority of Singaporeans. The budget will set out to address problems faced by the SMEs, which are already struggling with cashflow and the lack of credit. This will be essential in protecting jobs. More participation is expected by the government – be it giving out cash, through immediate loans and rebates, or helping financially sound companies obtain financing.

With the severe cyclical downturn, unemployment will be an issue in the coming months. Rebates and handouts can be expected for the lower-income group. This time around, the white-collar segment can also expect some help, as they may not be spared.

With higher fiscal spending, coupled with lower revenues due to the economic downturn, we estimate a primary budget deficit of \$2.1 bn- (0.8% of GDP). The overall budget deficit should come up to \$6.6 bn (2.5% of GDP), much larger than the crisis years of 1998 (\$0.92 bn surplus, 0.7% of GDP), 2001 (\$2.7 bn deficit, 1.8% of GDP) and 2003 (\$1.89 bn deficit, 1.2% of GDP). This is contingent on revenue in FY2008 in order to avoid dipping into reserves for current term of govt.

Singapore Budget Statistics							
SGD bn	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
					Revised	Budgeted	Forecast
Operating Revenue	25.31	27.47	28.17	31.29	39.65	39.84	37.85
<i>Taxes and Fees</i>	<i>25.31</i>	<i>27.47</i>	<i>28.17</i>	<i>31.29</i>	<i>39.65</i>	<i>39.84</i>	<i>37.85</i>
Total Expenditure	28.50	28.95	28.63	29.90	33.31	37.45	39.95
<i>Operating Expenditure</i>	<i>19.99</i>	<i>20.35</i>	<i>21.44</i>	<i>23.92</i>	<i>26.22</i>	<i>29.00</i>	<i>30.74</i>
<i>Development Expenditure</i>	<i>8.51</i>	<i>8.60</i>	<i>7.19</i>	<i>5.98</i>	<i>7.09</i>	<i>8.45</i>	<i>9.21</i>
Primary Budget Balance**	(3.19)	(1.48)	(0.46)	1.39	6.34	2.39	(2.10)
<i>as % of GDP</i>	<i>(2.0)</i>	<i>(0.8)</i>	<i>(0.2)</i>	<i>0.6</i>	<i>2.6</i>	<i>0.9</i>	<i>(0.8)</i>
Less: Special Transfers	0.60	1.66	0.83	3.57	2.20	5.40	6.50
Add: NII Contribution	1.90	3.04	2.78	2.13	2.30	2.22	2.00
Overall Budget Balance	(1.89)	(0.10)	1.49	(0.05)	6.44	(0.79)	(6.60)
<i>as % of GDP</i>	<i>(1.2)</i>	<i>(0.1)</i>	<i>0.7</i>	<i>(0.0)</i>	<i>2.6</i>	<i>(0.3)</i>	<i>(2.5)</i>

Source: Ministry of Finance; figures may not add up due to rounding;  
\*\* Surplus (Deficit) before Special Transfers and Net Investment Income (NII) contribution

## For Businesses

The biggest benefactor of the package-companies of all sizes and from all sectors should be getting help with their costs, cash flow and staff. Given that SMEs are an important driver of the economy, accounting for \$100 billion or 46% of total value added, SMEs need help to survive. For the last three years, total SME value added has outpaced overall GDP growth. Employing the majority of Singaporeans- six out of every 10 workers work for an SME- they would likely receive the most help.

## Corporate Tax

Corporate tax rates may be lowered, but we think this is unlikely as Singapore already has a competitive tax regime in place. Tax rates do not immediately address the cash flow problems faced by some companies. Corporate tax rebates can be given instead. Besides, companies will not be able to take advantage of lowered tax rates if they are not generating any profits. Companies could also be allowed to defer paying corporate taxes till the economy recovers. New companies may also be exempt from paying tax.

## Rebates

Rental costs, a vital component of company expenditure can be alleviated with rebates or freezes on rent. In 1997, the government bodies such as Jurong Town Corporation (JTC) and HDB implemented several measures to moderate or defer rental increases for its industrial and commercial tenants. These included freezing their posted land rentals, rentals of its factories, workshops and warehouses for 2 years. We could see this coming up again. Utilities rebates will also help, as well as rebates on property taxes. To reduce the other costs incurred by businesses, transaction costs such as stamp duty could also be reduced.



## Financing

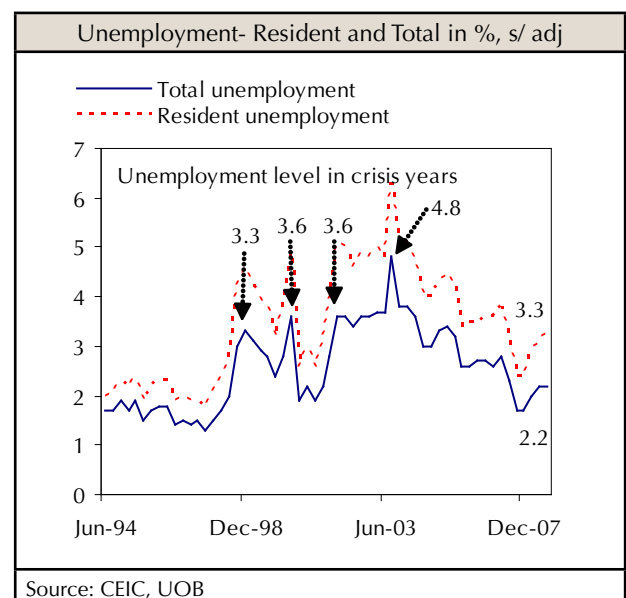
Financing, a bugbear of companies, has already been addressed. A slew of measures announced in the past few months are already aimed at securing financing for companies. These include:

- enhancements to its business financing schemes to support an additional S\$2.3 bn of loans. This will be achieved by increasing the government's risk sharing in the greater credit access to the local companies, higher loan limit and widening of the eligibility criteria. There will also be greater incentives for start-ups and overseas expansion with the enhancements.
- lowering interest rates by 1.25 percentage points on Government-backed business loans to help reduce borrowing costs. Key business financing schemes include the Micro Loans, Bridging Loans and Local Enterprise Finance Scheme.
- the Government is also increasing its share of premiums under the Loan Insurance Scheme from 50 to 90 per cent. Businesses pay an insurance premium of only 0.15 per cent of the loan quantum instead of 1.5%. The Government comes up with the rest. (See table on current measures in place)

## Dealing with Unemployment

The government has so far said it would help displaced workers find new ones and enhance employability. The government has already announced the Retraining Skills Programme for Upgrading and Resilience (SPUR) which pays for part of the salary of a worker on training. The \$600-million Spur programme will pay for about 220,000 training places over two years.

A jobs centre for counseling, retraining and looking for new employment could be set up to assist displaced workers. The government is already trying to create jobs in education, security, defence, social and community services and IRs. We anticipate that the unemployment rate this time round could surpass 3.3%. Unemployment peaked in 2003 with 4.8%, and we think there is potential for unemployment to go up to that level.



## For Households Income Tax Cuts

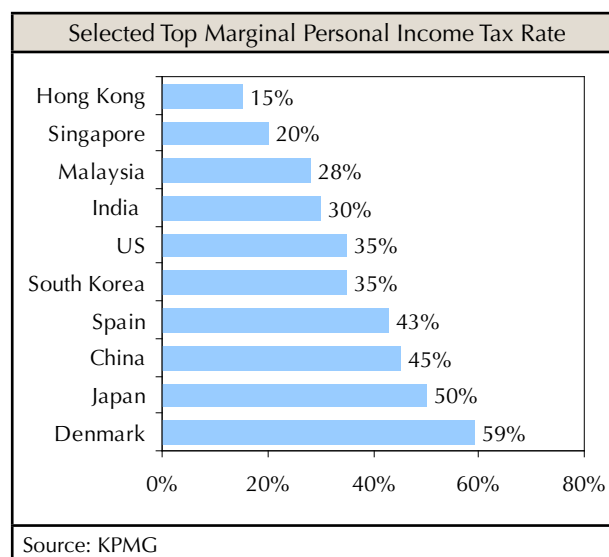
The 20% Income tax rate could be reduced to be aligned with the 18% corporate tax. This would be useful in putting more disposable income in the hands of households. Putting more money in the hands of households would include measures like rental and utility rebates to individuals, rebates on income tax and property tax, rebates on HDB service and conservancy charges.

To help households cope with the crisis, measures such as enhanced Growth Dividends and U-SAVE payouts. More than 780,000 eligible HDB households will receive \$125 million worth of Utilities-Save (U-Save) rebates this year in January and July. The U-Save rebates are part of the \$4 billion GST Offset Package announced in Budget 2007 to help Singaporeans, especially low and middle-income households, cope with the GST increase in July 2007. The U-Save rebates will cost the Government approximately \$620 million over 5 years (FY2007-FY2011).

Other rebates like the GST rebates could also be extended. A rebate on road and motor vehicle tax could also be considered. The budget could see top-ups in the Medisave accounts, subsidies for healthcare expenditure, and an allowance for pensioners.

### CPF

Employers' contribution rate was cut in October 2003 after the Sars crisis, from 16 per cent to 13 per cent. This was later restored to 14.5 per cent in July last year. The government has already said that adjustments to CPF would be a "last resort", but this measure is useful in helping businesses cut costs and to put more money into households' pockets. A cut in employer and employee CPF rates could be a possibility in this budget. If not, the government could also consider lowering the ceiling for CPF contribution as they did for 2003.



### GST

The government has already said it will not be cutting GST, so households could get help in this area from GST rebates.

### Stimulating the Economy

To boost the economy, the government has embarked on increasing its capital expenditure, and already announced an increase in infrastructure developments. Billions will be spent on building new infrastructure as well as sprucing up old ones. Building transport networks, such as extending the MRT network, building the national broadband network, making over schools, rejuvenating public housing, and improving public works.

### Monetary Easing

We think there is a chance that an easing in monetary policy could be announced before the scheduled April policy meeting. This could come during February when the MTI announces the economic survey. A

	End 1Q09	End 2Q09	End 3Q09	End 4Q09
SGD/USD	1.49	1.52	1.49	1.46

Source: UOB

monetary policy easing has been talked about for some time now, to help Singapore's declining exports. As of now, the SGD nominal effective exchange rate does not seem to be trading out of the policy band. But with the grim economic outlook for an open economy like Singapore (UOB forecast: -2.6% GDP) this year, and relentless decline in non-oil domestic exports, the pressure is on for MAS to ease monetary policy to help with exports. And it's not just Singapore's exports that are suffering. All across Asia, the alarming nosedive in export numbers coming out of China, Korea, Taiwan and Malaysia, and the subsequent slashing for interest rates in these respective countries imply that Singapore has to do something to help its imports. The MAS can look at re-centring its monetary policy band downwards, translating to a weaker SGD. Our estimation for the Singapore dollar trade weighted index is trending downwards steadily towards the lower end of the policy band. The TWI, at about 1.485, is currently about 0.17% below the midpoint. Our forecast for the SGD remains the same for the year.

### Previous Measures During Crisis Years

We have included a list of selected budget measures put out by the government during previous crisis years in 1998 (Asian financial Crisis, post- Sept 11 and technology bubble, and the SARS crisis). We might see some of these measures re-enacted again this time round.

Selected Budget Measures in Past Crisis Years			
	1998	2002	2003
<b>For Businesses</b>	<ul style="list-style-type: none"> <li>HDB and JTC moderated or deferred rental increases, and staggered increases in rent for sub-letting and assignment cases</li> <li>froze posted land rentals</li> <li>15% rebate for commercial and industrial property tax.</li> <li>Property tax exemption for land under development for 5 years.</li> <li>Stamp duty on all instruments abolished, except for stock and shares, and immovable properties.</li> </ul>	<ul style="list-style-type: none"> <li>Corporate income tax rate reduced to 20% in 3 years (down from 24.5% in YA 2002)</li> <li>Loss-transfer system of group relief from YA 2003</li> <li>One-tier corporate taxation system (where the tax collected from corporate profits is final and dividends are exempt) from 1 Jan 2003</li> <li>Reduced minimum tax rate of 5% under the Development and Expansion Incentive</li> <li>Incentives for the financial sector</li> </ul>	<ul style="list-style-type: none"> <li>Deferred restoration of CPF employer contribution rate for 2 years</li> <li>Lowered CPF salary ceiling for employer contribution over 2 years how much</li> <li>Cut business costs by: <ul style="list-style-type: none"> <li>granting new property tax rebate, extending rental rebates for commercial and industrial tenants and reduced excise duties</li> <li>reduced excise duties on petrol</li> <li>extended foreign worker levy reduction</li> <li>extended reduction in diesel tax for taxis</li> </ul> </li> <li>help companies go global by: <ul style="list-style-type: none"> <li>exempting foreign income in the form of dividends, branch profits and services income</li> <li>allowed companies to defer their income taxes for 2 years if their approved overseas investment incurs operating losses during the first 3 years</li> </ul> </li> <li>enhanced labour market flexibility by: <ul style="list-style-type: none"> <li>introducing portable medical benefits</li> </ul> </li> <li>grow manufacturing and services by, for example, allowing approved companies to claim capital allowance on equipment used by subsidiaries outside Singapore</li> </ul>

<p><b>For Individuals</b></p>	<ul style="list-style-type: none"> <li>• Income tax rebate of 5%</li> <li>• Rebates on HDB Service and Conservancy (S&amp;C) and Rental charges for owner-occupied HDB flat dwellers</li> <li>• Utilities rebates and monthly S&amp;C grants were given to citizens living in 1 to 4-room HDB flats to offset the utilities rates increases for the lower income households</li> <li>• Raised CPF interest rates for special and retirement accounts, and voluntary transfer of CPF savings from ordinary account to special account</li> </ul>	<ul style="list-style-type: none"> <li>• Cut in Personal Income Tax rates from YA 2003 (Top marginal tax rate reduced to 20% in three years, from 26% in YA2002</li> <li>• Tax rates for all income tax bands reduced; taxpayers save \$620m a year</li> <li>• Economic Restructuring shares</li> <li>• Town council S&amp;C charges rebates and rental rebates of \$340 million over 5 years</li> <li>• GST offsets on subsidized healthcare, public education and town council S&amp;CC.</li> <li>• Public assistance rates and Singapore allowance for pensioners to be raised</li> <li>• Motor vehicles taxes reduced</li> <li>• Road tax reduced</li> </ul>	<ul style="list-style-type: none"> <li>• Increased special account and medisave account contributions for all Singaporeans from 1 Jan 2004</li> <li>• Lowered CPF employee contribution rate for workers aged 50-55 to 18% in 1 Jan 2004 and to 16% in 1 Jan 2005</li> <li>• Extended utilities rebates</li> <li>• Rebates for S&amp; C charges</li> <li>• Exempt leases with annual rents not exceeding \$1000 from stamp duty</li> <li>• Individual's savings, current and fixed deposit accounts exempted from tax on interest</li> <li>• Transferred \$500 mn to life-long learning fund</li> <li>• Enhanced course fee relief from \$2,500 to \$3,500 and expand its scope to seminars, conferences, as well as courses not directly related to one's current profession from 1 Jan 2003.</li> <li>• Established a statutory board for Continuing Education and Training to coordinate training and employment assistance efforts for workers</li> <li>• Exempt from tax employer-subsidised childcare benefits paid to licensed childcare centres from YA 2004</li> <li>• Lowered car ownership costs</li> </ul>
<p>Source: MoF</p>			

### Measures Already Announced to Help Businesses

#### **Business Financing Enhancements Announced Include:**

- New Bridging Loan Programme that will allow companies with more than 10 employees to borrow up to S\$500,000. The default risk is shared equally by the government and the financial institutions.
- Small businesses with no more than 10 employees will have access to SPRING's Micro Loan Programme. The limit of this loan will be doubled to S\$100,000.
- The government's risk sharing on SME loan defaults will increase to 80% from 50%.
- The government's investment quantum cap under SPRING's Start-up Enterprise Development Scheme will be raised to S\$1 mn from S\$300,000 and that for SPRING's Business Angel Scheme will be permanently raised to S\$1.5mn from S\$1mn.
- The government will temporarily co-match \$2 for every \$1 for start-up investors, up from 1:1 previously.
- To allow larger companies to tap SME financing such as the Loan Insurance Scheme (LIS) and the Local Enterprise Finance Scheme (LEFS).
- To help firms with overseas expansion, the eligibility criteria under the existing Internationalisation Finance Scheme (IFS) will be widened. Turnover caps will be raised to S\$300 mn for non-trading companies, private non-trading companies and listed trading companies. Government default risk sharing will increase to 80% from 70%. The turnover caps for LIS will be removed for exporter/trading firms.

#### **Lower interest rate and loan insurance premium to help local enterprises manage cost of credit:**

- **Lower interest rates for working capital and asset-based loans**  
Under the additional enhancements, interest rates for key business financing schemes (Micro Loan, Bridging Loan and Local Enterprise Finance Scheme) will be lowered by 1.25%. For loan tenures of 4 years and below, the interest rate will be fixed at 5.0% (down from 6.25%). For loan tenures above 4 years, the interest rate will be fixed at 5.5% (down from 6.75%). The variable interest rate loans under the Local Enterprise Financing Scheme (V-LEFS) will also enjoy a corresponding 1.25% interest rate reduction. Some 13,540 existing loans amounting to S\$554 million are expected to benefit from the lower interest rates.
- **Lower loan insurance premiums for companies**  
To further ease the cost of credit for local enterprises, the government will also increase its share of the insurance premium under the Loan Insurance Scheme (LIS) from 50% to 90%. The insurance premium currently stands at 1.5% of the loan quantum. With the increased insurance premium sharing by the government, enterprises will only need to pay 10% of the premium (ie. 0.15% of the loan quantum). These 2 enhancements will be valid for a year, with SPRING reviewing the need for extension thereafter. The Loan Insurance Scheme (LIS) provides SMEs and Singapore-based internationalising companies working capital financing and trade facilities by getting them insured against default. The insurance premiums are co-shared between the government through SPRING Singapore and International Enterprise Singapore (IE Singapore), and the SMEs.

Source: Spring Singapore

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