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Article

Singapore delays consumption tax hike

Expansionary fiscal policy suggests the Monetary Authority of Singapore will maintain its neutral policy stance at April's semi-annual meeting

Content

No GST hike until 2021

In a pleasant surprise, Singapore's 2018 Budget released today did not include the most anticipated Goods and Service Tax hike from this year. The rumoured two percentage point hike in the GST to 9% (phased over two years) was postponed by the government to sometime between 2021 to 2025, although it would still be dependent on the state of the economy, the buoyancy of taxes and expenditure growth. However, the authorities would still bring e-services (not e-commerce for goods) from overseas suppliers under the GST net from 2020.

Secure future amid ageing population

The budget aims to develop a vibrant and innovative economy with a fiscally sustained and secure future amid Singapore's ageing population. The proposed GST hike is one initiative to cope with future challenges to the economy and strengthen public finances.

> In the next decade, between 2021 to 2030, if we do not take measures early, we will not have enough revenues to meet our growing needs. - Finance Minister Heng Swee Keat.

Expansionary budget initiatives in 2018

- Increased social spending (proximity housing grants, extended conservancy and service charges rebate for public housing, retirement and healthcare spending)
- One-off payback of some of the 2017 budget surplus to Singaporeans
- Extended corporate tax rebate and wage credit scheme
- Funding support for companies to adopt productivity-enhancing technology and solutions
- Increased tax deductions on licensing payment for commercial use of intellectual property
- Increased infrastructure spending

Among key revenue-raising measures are:

- Hike in stamp duty on residential properties
- Introduction of carbon tax
- Hike in domestic workers' levy
- Increase in sin tax on tobacco

9.6bn

2017 fiscal surplus in SGD
2.1% of GDP

Better than expected

A small fiscal deficit in 2018

The expenditure in fiscal year 2018 is projected to rise by 8.3% and the overall budget shortfall is projected at SGD 0.6bn (about 0.1% of GDP). This marks a sharp reversal from the SGD 9.6bn (2.1% of GDP) fiscal surplus in 2017, which beat the projection of a SGD 1.9bn surplus (0.4% of GDP), thanks mainly to a surge in investment income and stamp duty collection. The Budget assumes GDP growth in 2018 slightly above the middle of the official forecast range of 1.5-3.5% (3.6% in 2016).

Reduced odds of MAS tightening

The expansionary fiscal policy suggests the Monetary Authority of Singapore, the central bank, will maintain its neutral policy stance at its semi-annual meeting in April. Whether growth will be sustained at the 3%-plus pace of the last two years depends on how exports perform, especially after a strong run in the last year. Recent export data hasn't been encouraging. And the continued macro-prudential tightening measures for the housing and automobile sectors will keep inflation subdued. The MAS is only forecasting inflation in a 0-1% range in 2018. This not a cause for concern, nor a strong argument for the central bank to join the global tightening cycle as yet.

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