Good MornING Asia - 20 February 2018

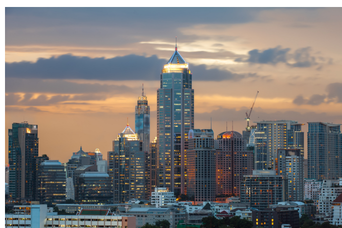
Singapore's growth-friendly budget for 2018 suggests no change to the central bank's neutral policy stance at April's semi-annual meeting. Slowdown in Thailand's economic growth reinforces consensus forecast of stable central bank policy through 2018

In this bundle

Singapore

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



Thailand's growth ends 2017 on a weak note

Persistent weak domestic demand undermines official optimism on 2018 growth outlook

Article | 19 February 2018 **Singapore**

Singapore delays consumption tax hike

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Container yard

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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Source: Shutterstock

4%

4Q17 GDP growth

YoY

Worse than expected

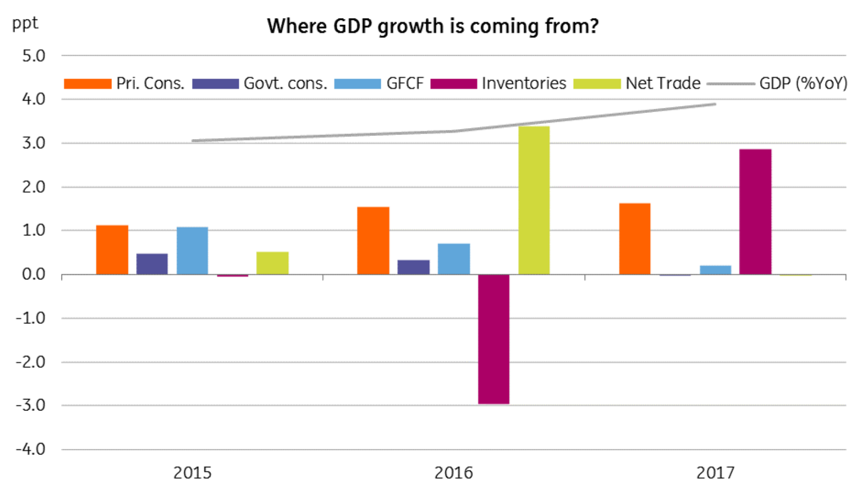
GDP growth slows in 4Q17

Consistent with our forecast, Thailand joined the majority of Asian economies in posting an economic slowdown in the final quarter of 2017. At 4.0% year-on-year in 4Q17, GDP growth came in below the consensus forecast, which was centred on an unchanged pace of 4.3% posted in 3Q17 (ING forecast 3.9%). A moderation of both exports and industrial production growth, as well as persistent weak domestic spending, were behind our below-consensus 3.9% forecast.

The slowdown from 3Q17 was broad-based. The contribution of all main domestic spending components – private consumption, government consumption and gross fixed capital formation –

to headline GDP growth narrowed. The same was true for net exports despite an acceleration in trade growth. Inventories remained the main expenditure-side driver of GDP growth, accounting for more than half of the GDP growth in the last quarter. On the industry side, agriculture and manufacturing were the main drags.

What's driving GDP growth?



Source: Bloomberg, ING

Outlook for 2018

This puts the full-year 2017 GDP growth at 3.9%, an acceleration from 3.3% in the previous year (revised up from 3.2%). The pick up in growth in the last year was mostly an inventory story rather than improvement in underlying economic fundamentals (see chart). Thailand's National Economic and Social Development Board (NESDB), the agency responsible for national accounts statistics, forecasts 2018 GDP growth in a 3.6-4.6% range. The Bank of Thailand (BoT), the central bank, forecasts it at 3.8%. We are again below consensus with our 3.5% growth forecast for this year (consensus 3.9%).

We consider the official optimism on growth unfounded unless it receives support from a recovery in domestic spending, while de-stocking will likely weigh on growth. This means the economy will need further support from exports. However, the Thai baht's (THB) appreciation works to dampen external demand. We do not think the BoT will want to complicate matters by joining the global tightening cycle, while weak domestic demand and low inflation warrant no BoT tightening anytime soon.

What's driving THB appreciation?

There has been no let-up in the THB uptrend coming into 2018, with 4.2% year-to-date appreciation already against the USD. The key force behind the THB strength is the high current account surplus. At about 11% of GDP in 2017, the surplus was barely changed from 2016. The large current account surplus is the result of weak domestic demand. The textbook remedy for such an imbalance is demand-boosting economic policies. With no scope for monetary easing, more needs to come from the fiscal side. Without this, a repeat of 2017's THB performance looks difficult this year. The NESDB forecasts THB averaging somewhere between 31.5-32.5 per USD in

2018 (spot 31.3). We are reviewing our end-2018 forecast of 30.6 for upward revision (consensus 31.3).

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