

Budget Speech 2008

Mr Speaker, Sir,

I beg to move that this Parliament approve the financial policy of the Government for the Financial Year 1 April 2008 to 31 March 2009.

(1) ECONOMIC PERFORMANCE AND OUTLOOK

Economic Performance 2007

1.1 Our economy has done well over the past year. We had real growth of 7.7% in 2007, much higher than we had expected at the start of 2007. This was exceptional growth, and more so because it came after three previous years of strong growth.

1.2 The strong economy also brought unemployment down to 1.6% at the end of last year. Resident unemployment also fell sharply to 2.3%, the lowest level in a decade.

1.3 We have been aided by a favourable global environment. But Singapore's strong growth in recent years has mainly been the result of our broad-ranging efforts to restructure our economy, labour market and fiscal system. This is not a story of an old economy growing quickly, but of a new economy emerging out of the old. It is about how we are attracting new and cutting edge investments, capitalising on opportunities in new growth industries and markets abroad, upgrading our workers' skills and competing at an advantage. Indeed this is why we have been growing much faster than other developed countries – faster than any other country with the same standard of living as us. Our policies are working well, the economy is restructuring, and we are delivering superior performance.

Fiscal Position in 2007

1.4 With stronger than expected economic growth in 2007, the projected Budget outturn improved significantly. We expect the Overall Budget Balance to be a surplus of \$6.4 billion for Financial Year (FY) 2007, compared to the deficit of \$0.7 billion that was originally projected.

1.5 We started the year expecting a growth rate of 4.5% to 6.5%, which was also in line with market forecasts. With actual growth at 7.7%, Corporate and Personal Income Taxes came in some \$1.0 billion higher than projected. GST revenues also exceeded our projection by about \$1.2 billion, mostly from higher consumption.

1.6 GST collection arising from the 2 percentage point hike in July is estimated at about \$1.4 billion in total, which now just matches the size of the GST Offset Package and Workfare Income Supplement tranches that were distributed in FY2007.

1.7 However, the largest boost to revenues came from the exceptionally buoyant property market last year. Prices of private residential units rose by over 30%, much higher than industry forecasts of around 10% to 15% at the beginning of the year. The volume of property transactions went up by over 60%. Stamp duties consequently rose to an unprecedented \$3.8 billion, \$2.3 billion higher than expected. Other property related revenues were around \$1.1 billion above projections. These were large gains, out of the ordinary, and which we cannot expect to see very often.

1.8 The overall budget surplus of \$6.4 billion was therefore the result of a strong economy and property market. The surplus was also an appropriate fiscal stance to adopt, as it avoided adding further liquidity and stimulus to an already rapidly growing economy.

Economic Outlook for 2008

1.9 The key factor that will shape the growth of the Singapore economy in 2008 is the global economy, especially the state of the US economy. Many private forecasters now expect the US economy to enter a recession in the first half of the year, although it may be mild. If this happens, Asian exports will be affected. However, the IMF and other global forecasters still expect growth in Asia on the whole to remain healthy. China and India are expected to slow down, but still grow at 10% and 8% respectively on the back of strong domestic demand.

1.10 Overall, on all current indications of global conditions, we expect growth of 4.0% to 6.0% in the Singapore economy this year. This is lower than last year, but well in line with the economy's potential over the medium term. Our economic fundamentals remain strong. Our pipeline of manufacturing investments remains robust with EDB expecting \$16 billion worth of investment commitments this year, on top of the same volume last year. Our services sector too is well-positioned for growth. While demand for services will depend on the growth of the region and the rest of Asia, we have gained significant mindshare as a global financial and business centre.

1.11 However, there are major downside risks to this year's forecast of growth. A sharper than expected decline in US growth could add to the turmoil in the financial markets, and deepen the credit crunch that is still unfolding. This will inevitably spill over to the Asian economies and markets, and our own growth will be impacted. The outcomes cannot be predicted, but we must be watchful of the risks and be ready to respond to them.