BUDGET HIGHLIGHTS

Financial Year 2007

Ready for the Future
Ready for the World

Misc. 2 of 2007

Presented to Parliament by Command of
The President of the Republic of Singapore

Ordered by Parliament to lie upon the Table:

15th February 2007

CONTENTS

I. BUDGET HIGHLIGHTS

II. FEATURE ARTICLES

III. STATISTICAL ANNEX

IV. GLOSSARY

BUDGET HIGHLIGHTS

- FISCAL UPDATE ON FY2006
- FISCAL OUTLOOK FOR FY2007

1 Fiscal Update on Financial Year 2006

1.1 Economic Performance in 2006

The Singapore economy registered a strong performance in 2006. Real Gross Domestic Product (GDP) expanded by 7.9%, higher than the 4% to 6% growth projected when the Budget for Financial Year (FY) 2006 was set out in February 2006. With the major economies continuing to expand and the Asian countries registering strong growth, Singapore was well positioned to ride on the global growth momentum.

Activity in the manufacturing sector remained strong, led by the transport engineering, biomedical manufacturing, and precision engineering clusters. Among the service industries, wholesale and retail, financial, and business services recorded impressive gains. The labour market continued to improve, with 173,300 new jobs created, up from 113,300 in 2005. The unemployment rate was down to 2.7% for 2006. Inflation remained subdued, with the increase in the Consumer Price Index (CPI) hovering around 1.0%.

1.2 Expected Budget Outturn for FY2006

Before taking into account Special Transfers (largely the Progress Package) and Net Investment Income Contribution (NIIC), the revised FY2006 position is a Primary Deficit of $0.5 billion (or 0.3% of GDP), an improvement of $1.1 billion from that budgeted. This reflects higher revenue collections that came on the back of stronger than expected economic growth. After taking into account NIIC of $2.8 billion ($0.5 billion higher than projected as financial markets performed better) and Special Transfers of $3.6 billion, the revised budget position for FY2006 is an Overall Deficit of $1.3 billion, slightly less than half the budgeted deficit of $2.9 billion. The revised FY2006 revenue and expenditure estimates are summarised in Table 1.1.

1.3 Operating Revenue

FY2006 Operating Revenue at $30.0 billion has been revised upwards by $1.0 billion, or 3.6%, driven primarily by higher economic growth in 2006. Higher collections from Corporate Income Tax, Goods and Services Tax, property tax, stamp duty, and various fees and charges have more than offset lower revenues from Motor Vehicle Taxes and Certificate of Entitlement (COE) receipts.

Corporate Income Tax (CIT)
CIT collections are estimated at $8.3 billion, or 7.4% higher than the budgeted FY2006 estimates. This is buoyed by higher profits for companies amid the low cost of input factors (labour, office space, etc.) owing to a temporary excess.

Personal Income Tax (PIT)
PIT collections are estimated at $4.7 billion, or 1.7% higher than the budgeted FY2006 estimates. Although nominal total wage levels have risen by 4.3% in line with strong economic growth in 2005, the growth in PIT collections has been tempered by PIT rate cuts for Year of Assessment (YA) 2006.

Goods and Services Tax (GST)
GST collections are estimated at $3.9 billion, or 4.8% higher than budgeted at the start of the FY. This is in line with the continued recovery in domestic consumption growth as wage and employment levels rose in tandem with robust economic growth.

Table 1.1: Fiscal Position in FY2005 and FY2006

	Actual FY2005	Estimated FY2006@	Revised FY2006	Revised FY2006 Compared to	
				Actual FY2005	Estimated FY2006
	$billion	$billion	$billion	% change	% change
OPERATING REVENUE	**28.17**	**28.96**	**30.00**	**6.5**	**3.6**
Corporate Income Tax	7.34	7.68	8.25	12.4	7.4
Personal Income Tax	4.32	4.60	4.68	8.2	1.7
Statutory Boards' Contributions	1.25	1.18	0.96	(23.5)	(18.9)
Assets Taxes	1.91	1.89	2.03	6.2	7.6
Customs and Excise Taxes	1.97	2.01	1.95	(1.1)	(2.8)
Goods and Services Tax	3.82	3.75	3.93	3.0	4.8
Motor Vehicle Taxes	1.43	1.78	1.65	15.0	(7.3)
Vehicle Quota Premiums	0.32	0.62	0.08	(76.2)	(87.7)
Betting Taxes	1.50	1.50	1.57	4.9	5.0
Other Taxes	2.14	2.06	2.81	31.3	36.7
Other Fees and Charges	1.92	1.75	1.95	1.5	11.9
Others	0.24	0.16	0.14	(40.9)	(9.5)
Less:					
TOTAL EXPENDITURE	**28.63**	**30.62**	**30.55**	**6.7**	**(0.2)**
Operating Expenditure	21.44	24.48	24.43	13.9	(0.2)
Development Expenditure	7.19	6.14	6.12	(14.9)	(0.3)
PRIMARY SURPLUS/(DEFICIT)♠	**(0.46)**	**(1.66)**	**(0.55)**		
Less:					
SPECIAL TRANSFERS	**0.83**	**3.59**	**3.58**	**331.9**	**(0.2)**
Growth Dividends	-	1.43	1.37		
National Research Fund	-	0.50	0.50		
Top-ups to Central Provident Fund (CPF) Accounts	0.41	0.50	0.48		
Workfare Bonus Scheme	-	0.40	0.40		
40th Anniversary NS Bonus	-	0.20	0.20		
U-Save Scheme	0.06	0.06	0.06		
S&CC and Rental Rebates	0.06	0.05	0.04		
Top-up to Edusave Accounts	0.04	-	-		
Top-up to Opportunity Funds	-	0.05	0.05		
Top-up to Medifund	-	0.10	0.10		
Top-up to ElderCare Fund	-	0.10	0.10		
Top-up to Lifelong Learning Fund	-	0.10	0.10		
Top-up to ComCare Fund	0.25	0.10	0.10		
Economic Restructuring Shares	-	-	0.08		
Add:					
NET INVESTMENT INCOME CONTRIBUTION	**2.78**	**2.39**	**2.84**	**2.3**	**19.1**
OVERALL BUDGET SURPLUS/(DEFICIT)	**1.49**	**(2.86)**	**(1.28)**		

@ Incorporating measures announced in the FY2006 Budget Statement.
♠ Surplus/(Deficit) before Special Transfers and Net Investment Income Contribution.

Assets Taxes

The revised FY2006 estimate for assets taxes of $2.0 billion is higher than budgeted by $0.1 billion or 7.6%, due to a buoyant property market and rising rental rates.

Motor Vehicle Related Revenues

Motor Vehicle Taxes and Vehicle Quota Premiums (i.e. receipts from COE premiums) are expected to be lower than budgeted by $0.1 billion (7.3%) and $0.5 billion (87.7%) respectively. Weaker demand from first-time car buyers coupled with a regular annual 3% expansion in vehicle quotas lowered COE premiums below levels expected as at Budget 2006. Rebates from the increased registration of Off-Peak Cars further dented collections.

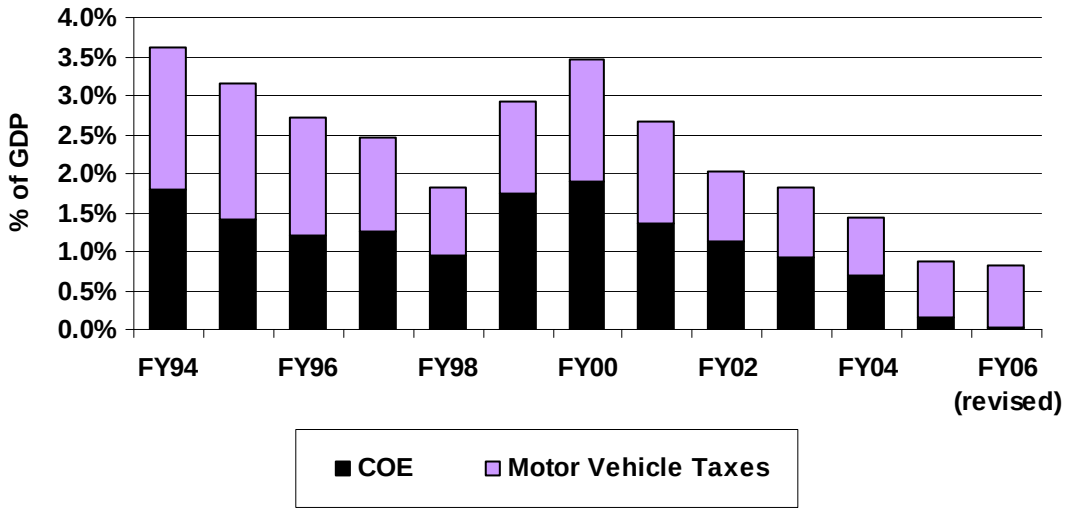
Box 1.1: Volatility in Motor Vehicle Related Revenues

The Government has historically relied on the imposition of Additional Registration Fees (ARF) on ownership to regulate the growth of the vehicle population, in a bid to reduce traffic congestion. In addition, progressive road taxes were levied annually, in a move to discourage the use of larger capacity engines.

In 1990, the Vehicle Quota System (VQS) was added on top of these measures to ensure certainty to vehicle population growth. Under the VQS, a Certificate of Entitlement (COE) had to be secured through a bidding process before a vehicle can be purchased. These measures, which were introduced to serve transport policy objectives, had contributed significantly to Government revenues in some years.

Prior to FY2000, Motor Vehicle Taxes (annual road tax plus ARF) and COE collections typically averaged 2% to 3% of GDP, higher than the GST collections of 1.3% of GDP during that time. Since FY2000, however, Motor Vehicle Taxes and COE collections have declined sharply in aggregate as a percentage of GDP; in FY2005 and FY2006, amounting to less than 1% of GDP (see Chart 1.1). COE prices are currently about a third of their FY2000 levels.

Chart 1.1: Motor Vehicle Related Revenues (FY1994 to FY2006)*



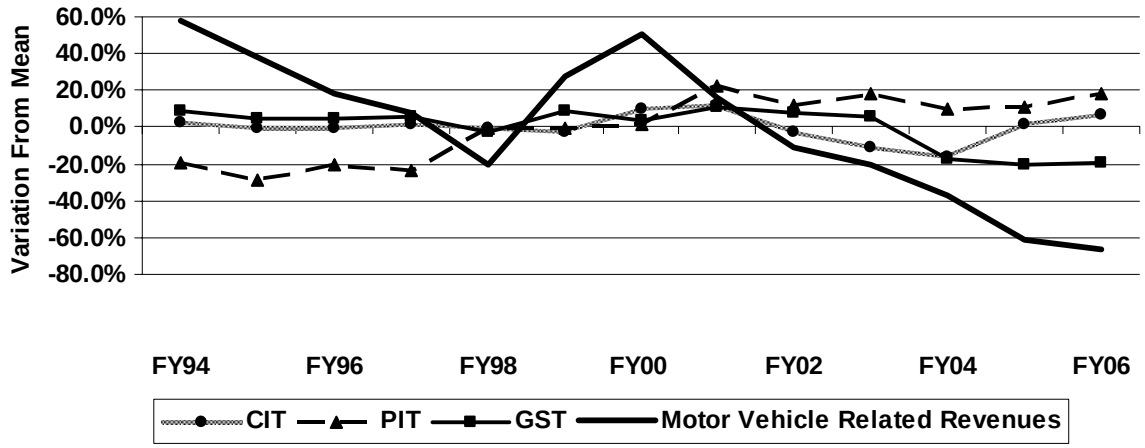
**Collections are net of rebates*

The sharp decline in motor vehicle related revenues has reflected several factors. First, the Open Market Value (OMV) of cars has declined owing to cheaper production costs of cars e.g. in Thailand or Korea instead of Japan. Second, the Government has made cars more affordable by reducing ARF as a percentage of OMV, and shifting the burden from upfront car ownership costs to usage costs via Electronic Road Pricing (ERP). Third, with more households already owning cars (car ownership has increased from 120 cars per thousand residents in 1995 to 130 cars per thousand residents in 2005[1]) and slower growth in the population of residents in the peak car-owning age, the underlying demand for cars has become weaker. This has been accentuated by weaker economic growth since 2001.

The reduction in motor vehicle related revenues from 3.6% of GDP in FY1994 to 0.8% in FY2006 has had a significant fiscal impact. As a percentage of total Operating Revenue, motor vehicle related revenues have declined from 16.8% in FY1994 to 5.7% in FY2006. As motor vehicle related revenues are a function of transport policy and not fiscal policy, and are susceptible to exogenous factors, they are volatile and cannot be relied on to sustain regular expenditures.

Indeed, the fiscal shortfall from lower motor vehicle related revenues must be met through more robust and resilient sources of revenue, such as the Corporate Income Tax (CIT), the Personal Income Tax (PIT), and the Goods and Services Tax (GST). Chart 1.2 illustrates the percentage volatility of the Government's revenue sources from FY1994 to FY2006 around their average values over the same period.

Chart 1.2: Sources of Government Revenue (FY1994 to FY2006)*



** GST was only introduced in 1994. CIT, PIT and GST are adjusted for rate changes.*

Other Taxes

Other Taxes are estimated at $2.8 billion, or 36.7% higher than budgeted. The higher revised estimate is driven mainly by higher stamp duty collections from the buoyant property market in 2006 and the withdrawal of the stamp duty deferment concession from December 2006, resulting in an overlap of the collection periods and a transient increase in stamp duty collections.

[1] The Government has allowed a 3% increase in the vehicle population; this is greater than road network expansion and growth of potential car owners (residents aged 25-65) in recent years.

Other Fees and Charges
Receipts from Fees and Charges, excluding Vehicle Quota Premiums, are estimated to be $2.0 billion, or 11.9% higher than expected at Budget 2006. This is largely due to an upward revision in Development Charge rates from September 2006 in line with the property market.

1.4 Total Expenditure

Total Expenditure for FY2006 is expected to be $30.5 billion (14.5% of GDP), and represents a budget utilisation rate of 99.8%. The revisions include a combination of $0.37 billion in savings by some ministries and supplementary requests for $0.30 billion of Operating and Development Expenditures. At $24.4 billion, Operating Expenditure in FY2006 is just 0.2% lower than budgeted. Development Expenditure is expected to be $6.1 billion or 0.3% lower than budgeted.

1.5 Special Transfers

As part of the Progress Package, the Government gave out $1.4 billion in the form of Growth Dividends and $200 million for the 40th anniversary National Service (NS) bonus to all citizens.

The Government also set aside $400 million in a trust fund for the Workfare Bonus Scheme, and transferred $480 million to top up the Central Provident Fund (CPF) accounts of older Singaporeans.

The Government also provided $50 million in Opportunity Funds, paid out $64 million in the Utilities-Save (U-Save) Scheme, as well as $36 million in rebates for Service and Conservancy Charges (S&CC) and rental rebates.

A total of $400 million was transferred in the form of $100 million top-ups into each of the four endowment funds that have yet to reach their target sizes (Medifund, ElderCare Fund, Lifelong Learning Fund, and ComCare Fund).

On account of the high dividend payouts in the past two years, an additional $80 million was transferred to the Economic Restructuring Shares (ERS) Trust Fund to meet future ERS dividend payouts and administrative costs.

1.6 Net Investment Income Contribution (NIIC)

Net Investment Income Contribution (NIIC) for FY2006 is expected to be $2.8 billion, or $0.5 billion higher than the Budget 2006 estimate. This is due to higher interest and dividend income from the investment of the Government's financial reserves.

Box 1.2: The Fiscal Role of Investment Income from Reserves

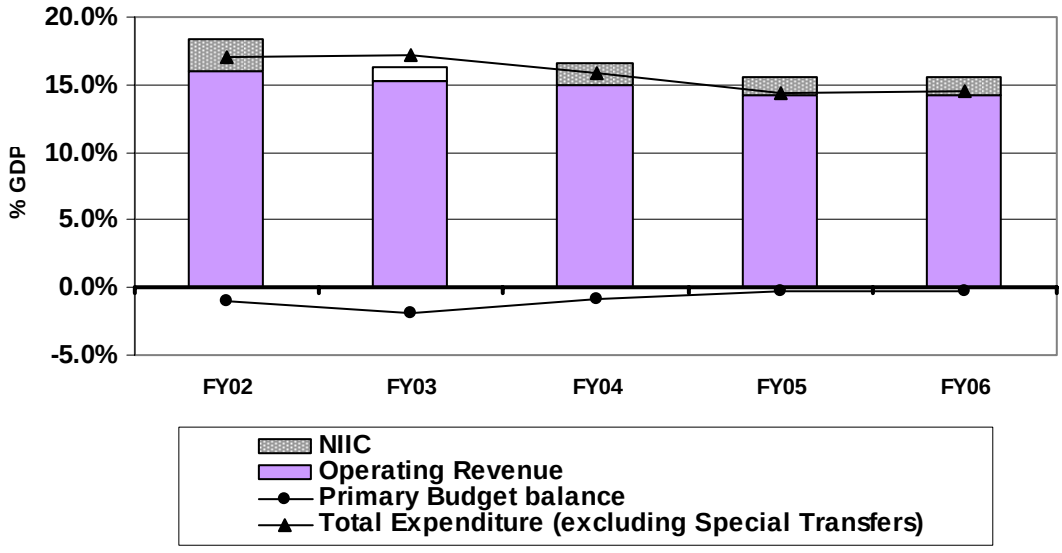
Structural Shift to Deficit on Primary Budget Balance

The Primary Budget position is defined as Operating Revenue less Total Expenditure. It measures the ability of the Government to meet its annual Operating and Development Expenditures through its regular collection of taxes, fees and charges. The Primary Budget balance has been in deficit for the past five years, averaging about -0.9% of GDP from FY2002 to FY2006 (see Chart 1.3). This is a reversal from the position in the 1990s, when the Primary Budget surplus averaged about 5.2% of GDP.

The structural shift from surplus to deficit in the Primary Budget balance position reflects the progressive lowering of income tax rates to maintain Singapore's competitiveness and reduction of fees and charges to lighten the overall regulatory burden on businesses and individuals. This trend has continued in the last five years. Operating Revenue has declined from 16.0% of GDP in FY2002 to 14.2% by FY2006.

Total Expenditure has remained higher than Operating Revenue, despite budget cuts and cost-saving measures that have helped to lower Total Expenditure from 17.1% of GDP in FY2002 to 14.5% by FY2006. This does not even include Special Transfers that have cost the Government on average an additional 0.9% of GDP annually over the same five-year period.

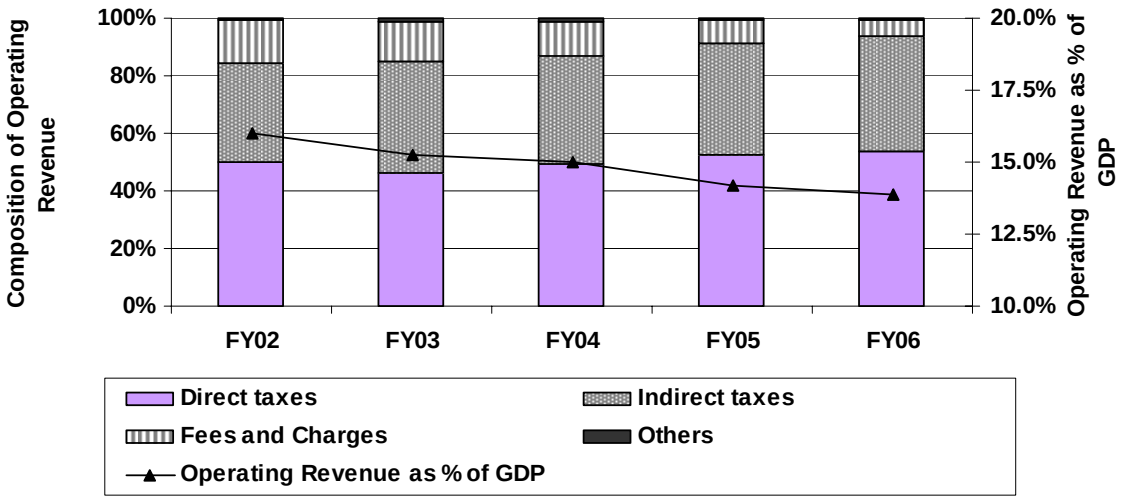
Chart 1.3: Operating Revenue, NIIC, Total Expenditure and Primary Budget Balance



Revenue Sustainability

With the Block Budget Framework, which caps ministries' expenditures as a percentage of GDP, medium-term fiscal sustainability hinges on revenues growing in line with GDP. Direct taxes, e.g. CIT and PIT make up about 50% of Operating Revenue on average, while indirect taxes (e.g. GST and excise taxes) account for another 38% (see Chart 1.4).

Chart 1.4: Composition of Operating Revenue



CIT, PIT and GST are *buoyant* with respect to GDP (i.e. these revenue sources grow in line with GDP) and will continue to be our three key sources of Operating Revenue. However, competitiveness pressures imply that CIT and PIT rates have to be kept low to attract investments and talent to Singapore. Most of the other tax revenues (e.g. motor vehicle related revenues) are not very buoyant. Hence, we must leverage more on non-tax revenues – chiefly the investment income from reserves - to maintain overall fiscal sustainability.

Leveraging More on Net Investment Income (NII)

Despite the emergence of structural deficits in the Primary Budget position, the Government has been able to avoid chronic Overall Budget deficits, by augmenting its Operating Revenue with Net Investment Income Contribution (NIIC) from the reserves accumulated in the past. Under the Constitution[2], NII refers to the dividends, interest and other income received from investing Government's reserves, as well as interest received from loans, after deducting expenses associated with investing and managing the reserves. The Government is allowed to use up to 50% of NII earned from past reserves for current spending needs.

The NIIC reflected in the budget statements is the part of the NII that is taken into the budget to augment the Government's fiscal position. Averaging around 1.6% of GDP over the past five years (see Chart 1.3), NIIC has emerged as an important fiscal buffer. It has allowed Singapore to maintain a regime of low direct taxes while having the flexibility to implement countercyclical measures during economic downturns without dipping into the reserves built up by past governments. Given the growing competitive challenges of a more globalised world and the investment needs of the future, it is necessary to augment this fiscal buffer.

Currently, the NII is conservatively defined to include only dividends and interest. The Government is studying how the definition of NII can be broadened to include capital gains as part of the total returns earned from the investment of reserves, while ensuring a fair and equitable distribution of NII for present and future generations.

[2] Article 142(2) & (4) of the Constitution of the Republic of Singapore (1999 revised edition).

2 Fiscal Outlook for Financial Year 2007

2.1 Budget for FY2007

The FY2007 Budget is summarised in Table 2.1.

2.2 Operating Revenue

Assuming GDP growth of 4.5% to 6.5% in 2007, Operating Revenue for FY2007 is projected at $32.4 billion, an increase of $2.4 billion or 7.9% over the revised FY2006 estimates. FY2007 Operating Revenue is expected to be 14.4% of GDP, marginally higher than 14.2% of GDP in FY2006.

Corporate Income Tax (CIT)
CIT collections are expected to grow by only 1.9% (or $0.2 billion) from the revised FY2006 estimates to $8.4 billion in FY2007. While sustained strong economic growth in 2006 and 2007 is expected to boost corporate revenues, profits could be weighed down by higher compensation for factor inputs, with office rental and wages increasing appreciably in 2006. The cut in CIT rate from YA2008 to 18% and the increase in Partial Tax Exemption threshold from $100,000 to $300,000 are also both expected to dent collections in FY2007.

Personal Income Tax (PIT)
PIT collections are expected to grow by 10.2% (or $0.5 billion) to $5.2 billion. Although the top PIT rate for YA2007 was cut from 21% to 20%, strong GDP growth in 2005 has boosted wage levels in 2006 with a lag, thereby increasing the PIT base and expected collections.

Goods and Services Tax (GST)
GST collections are expected to increase by 23.4% to $4.9 billion in FY2007, arising from the effect of the 2% increase in the GST rate for part of the FY, and a boost in consumption fuelled by the GST offset measures.

Motor Vehicle Related Revenues
With the eventual exhaustion of the stock of cars with high claimable rebates, FY2007 collections for Motor Vehicle Taxes and Vehicle Quota Premiums are expected to rise to $1.7 billion and $0.3 billion respectively, inclusive of the announced changes in road tax in FY2007.

2.3 Total Expenditure

Total Expenditure in FY2007 is estimated to be $33.0 billion, an increase of $2.5 billion or 8.0% over FY2006. Operating Expenditure is expected to increase by $1.4 billion (5.9%) while Development Expenditure will increase by $1.0 billion (16.4%) compared to the revised FY2006 estimates.

The increase in Operating Expenditure is accounted for by the Ministry of Defence (MINDEF), Ministry of Health (MOH), Ministry of Home Affairs (MHA) and Ministry of Community Development, Youth and Sports (MCYS).

The increase in operating expenditures of MINDEF and MHA are in line with our continued emphasis on security.

Table 2.1: Budget for FY2007

	Revised FY2006	Estimated FY2007	Change over Revised FY2006	
	$billion	$billion	$billion	%
OPERATING REVENUE	**30.00**	**32.36**	**2.36**	**7.9**
Corporate Income Tax	8.25	8.40	0.15	1.9
Personal Income Tax	4.68	5.16	0.48	10.2
Statutory Boards' Contributions	0.96	1.36	0.41	42.6
Assets Taxes	2.03	2.09	0.06	2.8
Customs and Excise Taxes	1.95	1.96	0.01	0.4
Goods and Services Tax	3.93	4.85	0.92	23.4
Motor Vehicle Taxes	1.65	1.74	0.09	5.7
Vehicle Quota Premiums	0.08	0.26	0.18	240.4
Betting Taxes	1.57	1.62	0.05	3.0
Other Taxes	2.81	2.83	0.01	0.4
Other Fees and Charges	1.95	1.94	(0.01)	(0.7)
Others	0.14	0.16	0.01	10.5
Less:				
TOTAL EXPENDITURE	**30.55**	**33.00**	**2.45**	**8.0**
Operating Expenditure	24.43	25.88	1.45	5.9
Development Expenditure	6.12	7.12	1.00	16.4
PRIMARY SURPLUS/(DEFICIT)♣	**(0.55)**	**(0.64)**		
Less:				
SPECIAL TRANSFERS	**3.58**	**2.07**	**(1.51)**	**(42.1)**
GST Credits	-	0.53		
National Research Fund	0.50	0.50		
Workfare Income Supplement Scheme	-	0.20		
Top-ups to Post-Secondary Education Account	-	0.20		
U-Save Scheme	0.06	0.15		
Senior Citizens' Bonus	-	0.10		
S&CC and Rental Rebates	0.04	0.08		
Other GST offset measures@	-	0.01		
Growth Dividends	1.37	-		
Top-ups to CPF Accounts	0.48	-		
Workfare Bonus Scheme	0.40	-		
40th Anniversary NS Bonus	0.20	-		
Economic Restructuring Shares	0.08	-		
Top-up to Opportunity Fund	0.05	-		
Top-up to ComCare Fund	0.10	-		
Top-up to Medifund	0.10	0.20		
Top-up to ElderCare Fund	0.10	-		
Top-up to Lifelong Learning Fund	0.10	0.10		
Add:				
NET INVESTMENT INCOME CONTRIBUTION	**2.84**	**2.02**	**(0.83)**	**(29.0)**
OVERALL BUDGET SURPLUS/(DEFICIT)	**(1.28)**	**(0.69)**		

♣ Surplus/(Deficit) before Special Transfers and Net Investment Income Contribution.
@ This includes grants to Citizens' Consultative Committee (CCC) ComCare Fund, Self-Help Groups (SHGs) and Public Transport Fund.

The increase in MOH's operating expenditure is due to enhanced manpower training and career development in the healthcare sector and additional resources required to support greater involvement of healthcare practitioners in clinical and translational research.

The increase in MCYS' operating expenditure is due to higher provisions for transfers linked to parenthood programmes, and additional resources required to support both the growing number of grassroots organisations and to expand the outreach of existing organisations.

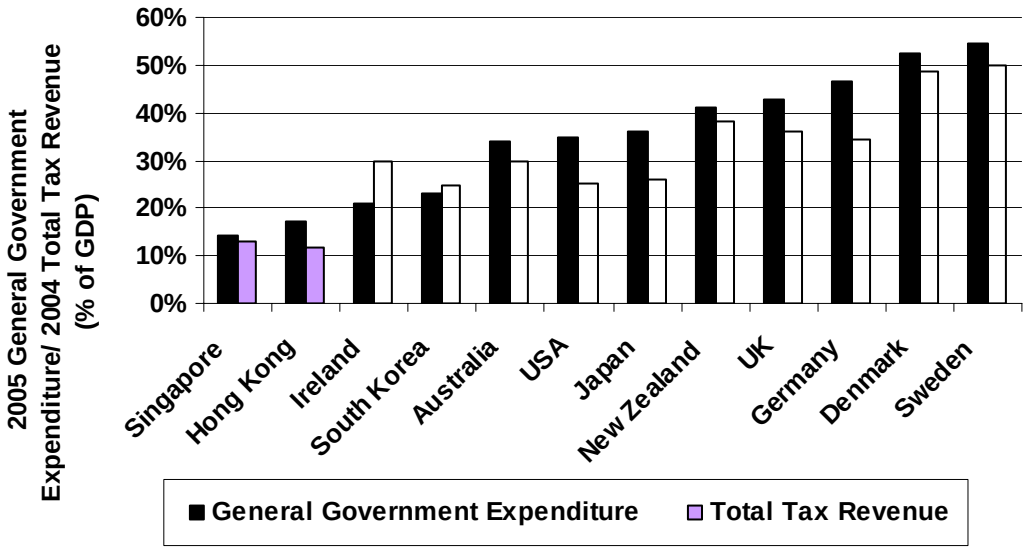
The increase in Development Expenditure is due to several factors. First, public housing expenditure will rise by $0.5 billion, mainly to fund Housing Development Board's (HDB) upgrading programmes. Second, there will be increased capital grants to Agency for Science, Technology and Research (A*STAR) to support activities and programmes to strengthen industry R&D and develop R&D manpower capabilities. Third, MOH projects such as the proposed Alexandra Hospital@Yishun, Chronic Disease Management Programme and the redevelopment of National University Hospital (NUH) will require a boost in resources.

Excluding Special Transfers, Total Expenditure in FY2007 will be 14.7% of GDP, broadly unchanged from 14.5% in FY2006.

Box 2.1: How Small and Lean is Government in Singapore?

One of the most direct measures of government size is total government spending in relation to the size of the economy. Total tax revenue as a percentage of GDP also gives an indication of the burden that government places on the economy as a whole. Chart 2.1 shows that from the perspectives of both expenditure and revenue, Singapore has one of the leanest governments in the world.

Chart 2.1: Government Spending and Tax Revenue



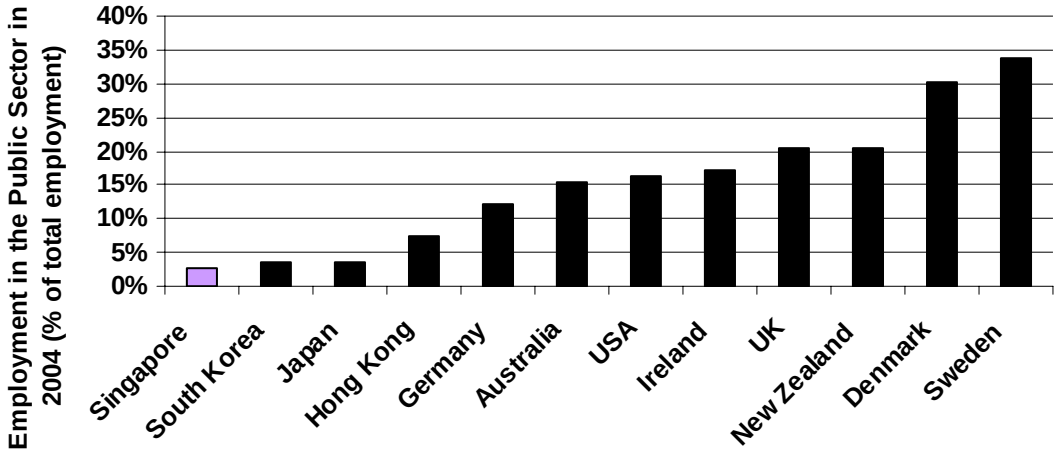
Source: Singapore (FY2005) based on the budget documents.
For other countries: IMD World Competitiveness Yearbook 2006.

Total government expenditure in Singapore has averaged about 16% of GDP over the past five years (FY2001 to FY2005) and is currently at about 14% (FY2006). Expenditures by most Asian countries range from 15% to 30% of GDP; while the Organisation for Economic

Co-operation and Development (OECD) countries tend to incur much larger government expenditure (30% to 55% of GDP), due primarily to higher spending on social security funded by higher taxation on the population. Even after excluding social security contributions and related transfers for these countries[3], Singapore remains one of the leanest countries in terms of government spending and tax collections.

Another conventional measure of government size is public sector employment. It reflects the consumption of manpower resources to deliver public goods and services. Chart 2.2 shows public sector employment across various countries. In general, countries with smaller government expenditure and tax revenue have correspondingly lower public employment rates.

Chart 2.2: Employment in the Public Sector



Source: IMD World Competitiveness Yearbook 2006

There is no optimal size of government that can be applied across the board. There are numerous country-specific factors which influence the level of government spending, including the national security situation, demographics, the stage of economic development, and the particular social compact between state and citizens in that country. Moreover, just as important as the overall size of government is *how* government resources are allocated across different and often competing needs.

There is, however, substantial empirical evidence suggesting that the larger the size of the government, the lower the country's economic performance. Folster and Henrekson (2000) studied the growth effects of government spending and taxation using a sample of OECD countries, and found a robust negative relationship between government expenditure and economic growth[4]. Some empirical studies have also gone further to show that social progress, measured by indicators such as life expectancy and literacy, is no worse in countries with smaller governments than it is in those with medium-sized governments (those with expenditures between 40% to 50% of GDP). Smaller governments are able to provide essential services and minimum social safety nets while avoiding the disincentive effects of high taxes (Tanzi and Schuknecht 1995, 1997, 1998).

[3] Expenditures for OECD countries not inclusive of social security spending still range from 25% to 40% of GDP.
[4] Stefan Folster and Magnus Henrekson (2000), "Growth Effects of Government Expenditure and Taxation in Rich Countries", European Economic Review. They concluded that a 10% increase in government expenditure as percentage of GDP is associated with a decrease in the economic growth rate by 0.7 to 0.8 percentage points. The negative relationship holds true even when extended to non-OECD countries.

The Singapore Government will continue to keep lean by international standards even as it gradually increases spending to invest for the future and prepare for demographic challenges. Our budgeting and financing frameworks, such as the Reinvestment Fund and Best Sourcing, will continue to ensure an efficient allocation of resources and value for every dollar spent.

2.4 Key Changes in Taxes, Fees and Charges

Budget 2007 introduces various incentives to further the development of R&D, services and philanthropy. The net impact of these tax changes is to increase Operating Revenue annually by $0.3 billion. The key changes in taxes are summarised in Table 2.2.

Table 2.2: Key Changes in Taxes

Tax Change	Estimated Revenue Gain/(Loss) per annum $million
Increase in Goods and Services Tax rate by 2%	1500
Reduction of Corporate Income Tax rate by 2%	(800)
Increase Partial Tax Exemption Threshold from $100,000 to $300,000	(150)
Income Tax Deduction for borrowing costs	(110)
Reduction of Foreign Domestic Worker Levy (FDWL) and extension of concessionary FDWL to families with disabled members	(80)
Reduction of Road Tax	(50)
Net Impact	**310**

2.5 Special Transfers

The Second Minister for Finance also announced Special Transfers in FY2007 worth a total of $2.1 billion.

These include the GST Offset Package of $1.1 billion comprising GST Credits, Senior Citizens' Bonus, Post-Secondary Education Account (PSEA) top-ups, Utilities-Save rebates, S&CC and rental rebates, Public Transport Fund and other social assistance through Citizens' Consultative Committees and Self-Help Groups.

The Workfare Income Supplement scheme is expected to cost $0.2 billion in FY2007.

Medifund and Lifelong Learning Fund will be topped up by $0.2 billion and $0.1 billion respectively.

Another $0.5 billion is to be transferred to the National Research Fund managed by the National Research Foundation (NRF) to fund projects that are targeted at boosting research and development activity in Singapore.

Box 2.2: Expenditure Highlights for FY2006 to FY2010

Expenditure initiatives announced in Budget 2007 build on on-going policies to advance the Government's long-term objectives. This section highlights some recent budget allocations and their additional near-term expenditure needs on top of ministries' existing block budgets.

Building Capabilities for the Future

Over FY2006 to FY2010, the Government plans to invest an additional $5 billion to build up Singapore's R&D capabilities through the National Research Foundation (NRF). An additional $0.5 billion will be invested in education to nurture the diverse talents of our children and to equip every child with the skills to succeed in a fast changing world. The Government will continue to invest in the quality of the workforce, with programmes to enhance services' competitiveness and promote workplace safety and work-life harmony. This will cost some $0.2 billion. Education will not just be about pre-work education, but also post-work education. Continuing Education and Training (CET) for workers at all levels will become a key focus of national efforts to safeguard the employability of our workers.

An additional $1.4 billion will be allocated to develop new sectors of economic activities that can leverage on the premium that Singapore commands in the global marketplace for being trustworthy and reliable. These investments will serve to consolidate Singapore's status as a financial hub, develop interactive digital media, strengthen links with new markets, strengthen Singapore's position as an oil trading hub, and grow local small and medium enterprises (SMEs) into global players.

The Government will continue to invest in economic and social infrastructure to enhance Singapore's competitive edge and improve its living environment. These include projects such as the Downtown Line (Mass Rapid Transport), the rejuvenation of HDB estates, and the development of the Gardens by the Bay.

The Government will set aside an additional $0.9 billion to enhance the quality of life of Singaporeans. $0.3 billion will be invested in infrastructure that enhances the living environment, such as the Active, Beautiful and Clean Waters programme, the Park Connectors Network development programme and projects to enhance the buzz in Singapore's nightlife. An additional $0.5 billion will also be allocated to HDB to bring forward the Lift Upgrading Programme as promised by the Government. As the HDB estates mature, the Government will also continuously invest in rejuvenation projects, with $1.1 billion earmarked for FY2007.

Strengthening the Social Security System

Over FY2006 to FY2010, an additional $8.3 billion will be allocated to strengthen Singapore's social security system. Greater emphasis will be placed on the lower income, both by short-term assistance to tide them through hard times as well as by setting aside resources to provide income supplements to augment the take home pay of low-wage workers on an ongoing basis.

Up to $3.8 billion will be disbursed as Special Transfers in the form of short-term assistance packages over FY2006 to FY2010, tilted in favour of the lower-income households. Another $1.9 billion will go into the long-term assistance for low-wage workers mainly through the new Workfare Income Supplement (WIS) scheme.

Another $0.8 billion will be allocated to projects that ensure retirement adequacy of our ageing population and build a disabled-friendly society.

On top of the $7.0 billion that is already being spent on education annually, an additional $40 million will be spent annually on special programmes like the NorthLight School, a new school for autism, the placement of special needs officers and counsellors in schools, and outreach programmes fo children not attending school.

An additional $0.9 billion will be allocated over FY2006 to FY2010 to improve the quality and affordability of the healthcare system. Most of this will go towards increasing the number of nurses, doctors and health professionals, building integrated IT platforms and integrated service delivery modes such as the Chronic Disease Management Programme, and expanding healthcare delivery capacity through better medical infrastructure.

2.6 Budget Position

With NIIC of $2.0 billion, the estimated outturn for FY2007 before the announced tax changes and Special Transfers is a budget surplus of $1.1 billion (0.5% of GDP). After factoring in the Special Transfers of $2.1 billion and tax restructuring initiatives announced in Budget 2007 (including the 2% increase in GST rate and the 2% cut in CIT rate) which will yield a net tax gain of $0.3 billion in FY2007, the estimated outturn for FY2007 is a modest budget deficit of $0.7 billion (0.3% of GDP).

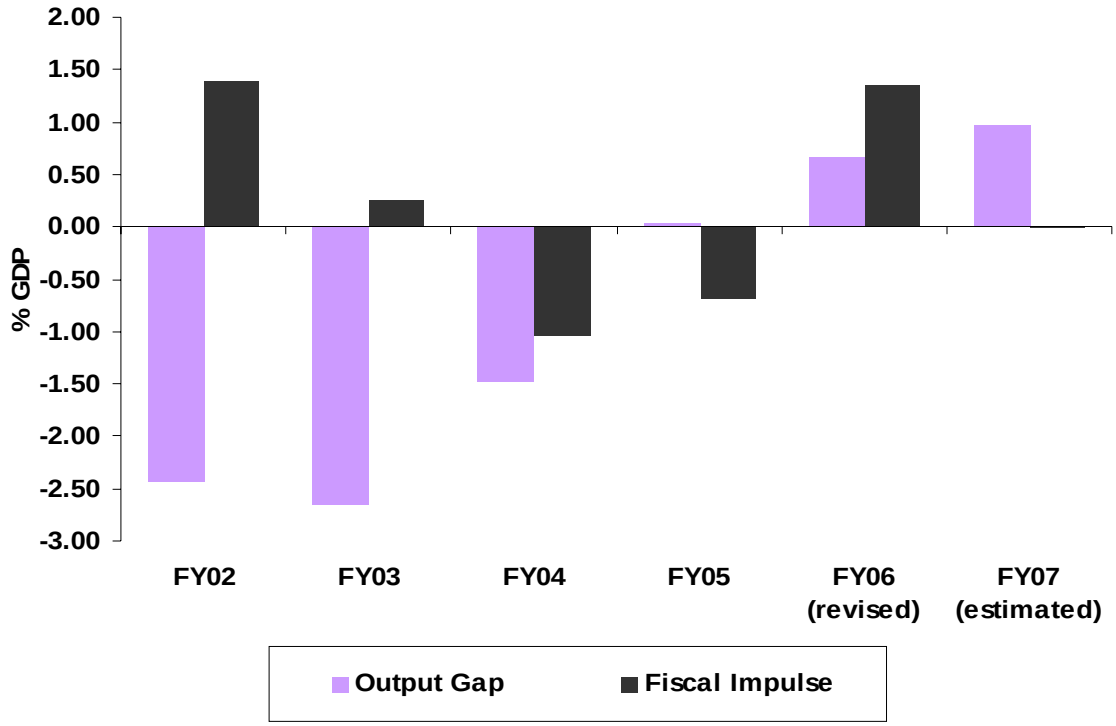
Box 2.3: Macroeconomic Impact of Recent Fiscal Policy

The macroeconomic impact of the Budget may be assessed through the *fiscal impulse* measure, which estimates the first-order stimulus to aggregate demand arising from fiscal policy during a given period. It focuses on the *change* in fiscal stance from year to year. A positive fiscal impulse indicates a more expansionary fiscal stance *compared to the previous year*, while a negative fiscal impulse indicates a less expansionary (or more contractionary) stance than the year before. A deficit position can thus still be contractionary (i.e. a negative fiscal impulse) if it is smaller than the deficit occurred in the previous year.

The appropriateness of the fiscal impulse is often assessed against the prevailing state of the economy. The latter is sometimes measured by the *output gap,* which is the difference between the *actual* level of activity in an economy (as measured by GDP) versus the sustainable amount of activity given the *capacity* of the economy (i.e. the maximum level of GDP that can be sustained without creating inflationary pressures).

Fiscal policy provided a strong injection to the economy in FY2006 (see Chart 2.3). This is due to higher overall expenditure (including operating and development outlays as well as the Progress Package last year), which offset the larger withdrawal from the economy on account of higher tax collections in line with the strong economic performance between 2005 to 2006.

Chart 2.3: Fiscal Policy Neutral amidst Continued Economic Expansion



Although revenue collections are expected to be strong in FY2007 due to good economic growth projections and the increase in GST rate, they will be tempered by the CIT rate reduction. The rise in overall government expenditure (including the GST Offset Package, land-related expenditure for HDB's Selective En-bloc Redevelopment Scheme (SERS) and reclamation projects in Tuas and Jurong Island) will offset this withdrawal from the economy. Overall, the fiscal impulse for FY2007 will be close to zero i.e. neutral, amidst strong

economic expansion. This is despite the sizeable fiscal deficit in FY2007, as it is comparable to the similarly large deficit in FY2006.

From the perspective of pure countercyclical macroeconomic stabilisation, a negative fiscal impulse would seem appropriate in FY2007 to minimise the chances of overheating the economy. However, macroeconomic considerations need to be balanced against the socio-economic objective of alleviating the negative impact of the GST increase, especially for the lower income by giving them a generous GST Offset Package. Moreover, although the output gap is positive, there are no overheating pressures in the economy, suggesting that there is less need for countercyclical fiscal policy. A neutral fiscal impulse is a reasonable stance that balances these considerations.

FEATURE ARTICLES

- CONSUMPTION TAX AS A SOURCE OF GOVERNMENT REVENUE
- WHERE DOES GOVERNMENT EXPENDITURE GO TO?
- WAGE SUPPLEMENTATION – HELPING LOW-WAGE WORKERS
- TOWARDS AFFORDABLE HEALTHCARE
- iGOV2010 – TOWARDS AN INTEGRATED GOVERNMENT

3 Consumption Tax as a Source of Government Revenue

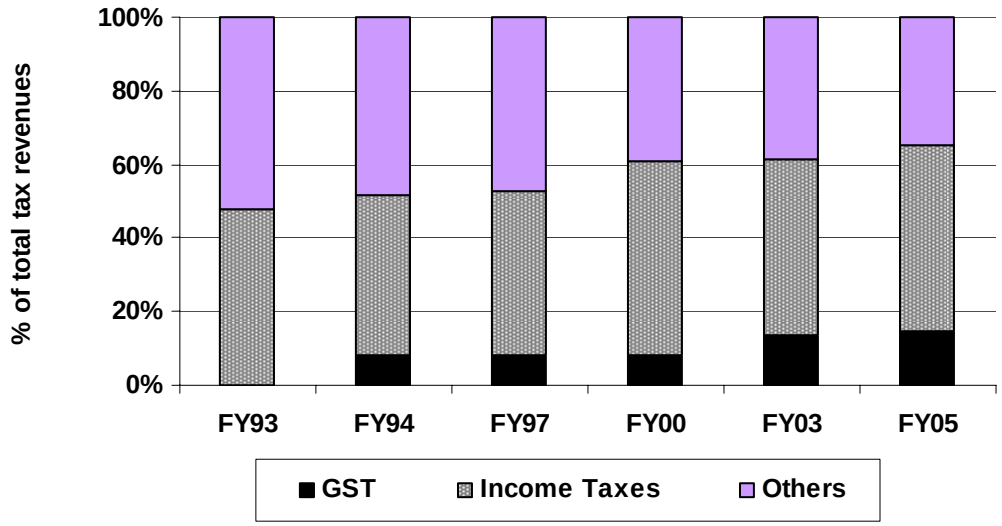
3.1 Shift Towards Indirect Taxation

The Goods and Services Tax (GST) was introduced in Singapore on 1 April 1994 as part of a restructuring of the tax system away from direct taxation of income. This shift, which is also occurring globally, reflects a number of factors.

As our population ages, the resident income tax base will shrink. This in turn will impose an increasingly heavy tax burden on younger Singaporeans. By taxing consumption, the tax base is broadened and diversified, reducing future pressures to increase income taxes to meet expenditure needs. It allows us to keep income taxes low, which maintains the incentive for people to work and strive for higher incomes, and ensures that Singapore remains competitive for investment and other high-value activities that create good jobs and opportunities.

GST has been a stable source of revenue for the Government. Chart 3.1 shows that GST collections have increased to 14.9% of total tax revenues in FY2005. The increase reflects the GST rate increase in 2003 and 2004 and strong economic growth thereafter.

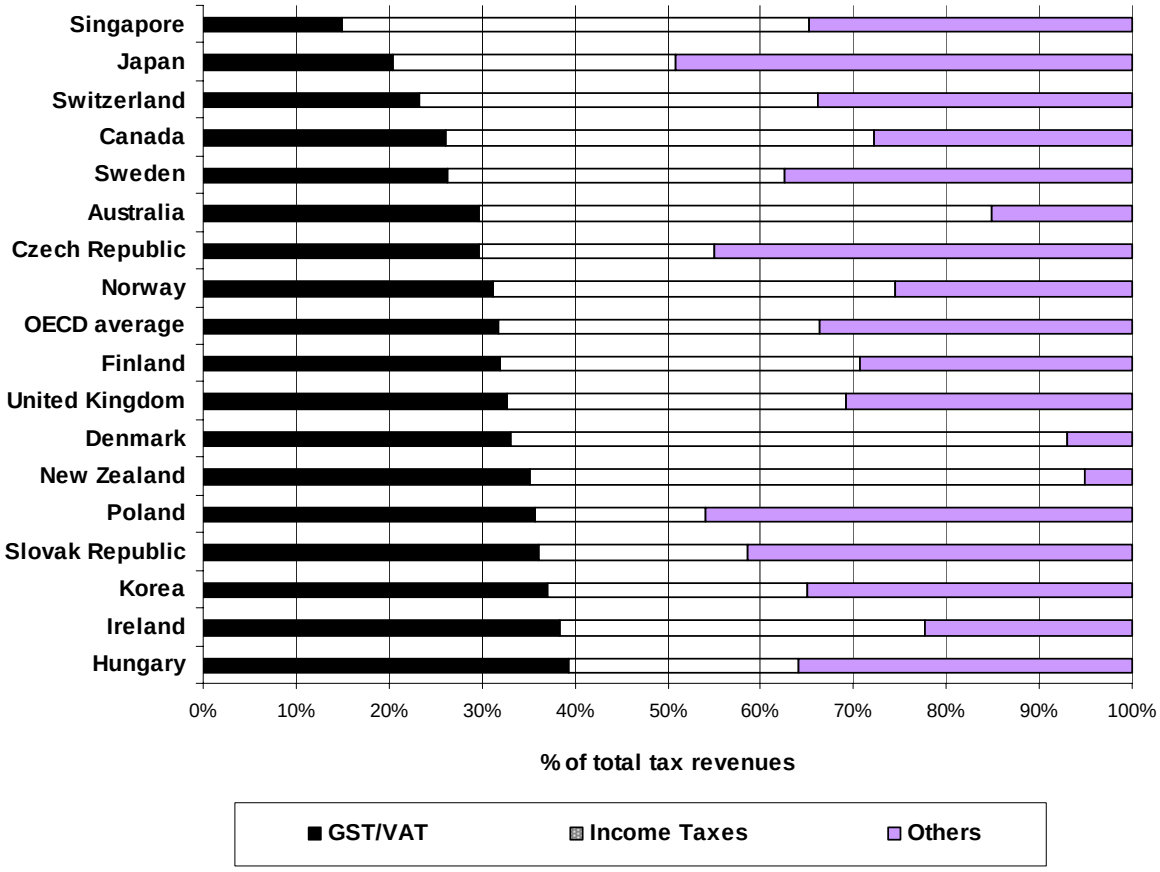
Chart 3.1: Singapore's Changing Tax Mix



Although GST has diversified Singapore's tax base, the tax mix remains highly skewed towards direct taxes compared to other countries with a consumption tax. Chart 3.2 shows that Singapore's reliance on GST as a revenue source is the lowest (15%) among 18 tax jurisdictions that impose GST or Value Added Tax (VAT), while reliance on income taxes is one of the highest (50%) among these jurisdictions. In contrast, the OECD averages 32% for GST or VAT and 35% for income taxes as a percentage of total tax revenues.

Internationally, there has been a shift from income taxes to consumption taxes as countries find it increasingly difficult to rely on taxes on corporate profits and personal incomes while maintaining their competitiveness for foreign investments and talent. In particular, Eastern European countries (e.g. Hungary, Slovak Republic and Poland), which are characterised by highly competitive corporate tax rates, rely on VAT to provide at least 30% of their total tax revenues.

Chart 3.2: Comparison of Tax Mix Across Countries



Source: World Competitiveness Yearbook 2005, 2.2.04, OECD Resource Statistics (1965-2004) published in 2005 and country survey responses. Singapore's tax revenues are based on FY2005 statistics.

Box 3.1: Is a Multi-tier GST a Good Idea?

Our current GST policy seeks to maintain a broad-based system with minimal exemptions. This means that both necessities such as basic foodstuffs and luxuries like high-end sports cars and country club memberships are taxed at the same rate.

When the Government implemented GST in 1994 as well as when it subsequently raised the rate in 2003 and 2004, it implemented measures to mitigate the effects. While these measures have largely softened the impact of the additional GST for the lower-income group, some have called for a multi-tier GST system to permanently address the regressivity of GST by exempting or reducing the GST rate on basic necessities. Indeed, most European countries have a multi-tier system to alleviate the impact of GST on the poor. Some, like Norway, have higher taxes on luxuries. Yet the experience of many of these countries also reveals the high costs of a multi-tier GST system.

The first cost is *administrative*. The inherent difficulty in a multi-tier GST system is the definition of basic necessities and luxuries. What is a luxury good today might not be one in the future. What appears to be an obvious necessity, like rice, starts to break down when one considers the many varieties of rice, ranging from cheaper grades of regular rice to the more expensive ones like Japanese short-grain, Basmati, organic, etc. Bread is often considered a necessity, and chocolate as a luxury. But how does one treat bread that contains substantial amounts of chocolate?

The definitions of basic necessities and luxuries would have to be constantly reviewed, and businesses would incur costs to keep up with the changes. Differences in the legal interpretations of these definitions between retailers and the tax authorities would have to be settled in courts. For example, in the UK, biscuits are zero-rated. However, considerable time was spent by the UK authorities and businesses on disputing whether consumers who bought biscuits in beautiful decorative tins were paying for the biscuits or the decorative tin itself. This cascaded into the controversial decision to treat food packaging as separate supplies and thus subject to VAT. A multi-tier system would result in higher administrative and compliance costs which will have to be borne by companies including small and medium enterprises (SMEs) and consumers.

The second cost is *economic*. Even if clear definitions for products could be created, a multi-tier system would be economically inefficient because it would distort the relative prices of goods and services and hence the choices of consumers and producers. For example, when the UK first stipulated that meals eaten in suppliers' premises were subject to VAT while 'take-away' meals were not, many shifted from consuming restaurant meals to 'take-away' meals. VAT was subsequently extended to hot 'take-away' meals in 1984 as takeaway meals were felt to be in competition with meals served in restaurants and cafés. Luxury taxes would distort consumer behaviour in a different way. The consumers of luxuries tend to be mobile enough to buy the same item somewhere else and could deprive our businesses of income. The end result is inefficient for the economy as a whole.

The third cost is *fiscal*. A multi-tier GST would result in lower revenues disproportionate to the intended savings for the poor. Higher-income households tend to consume more of all items in absolute terms – both necessities and luxuries. Hence, for every $1 forgone on GST exemption on basic necessities, only 10 cents of the tax savings would accrue to the bottom 20% of the population[5]. To maintain the same amount of revenue from GST, the lower rate on necessities would have to be matched by a much higher rate on all other goods and services.

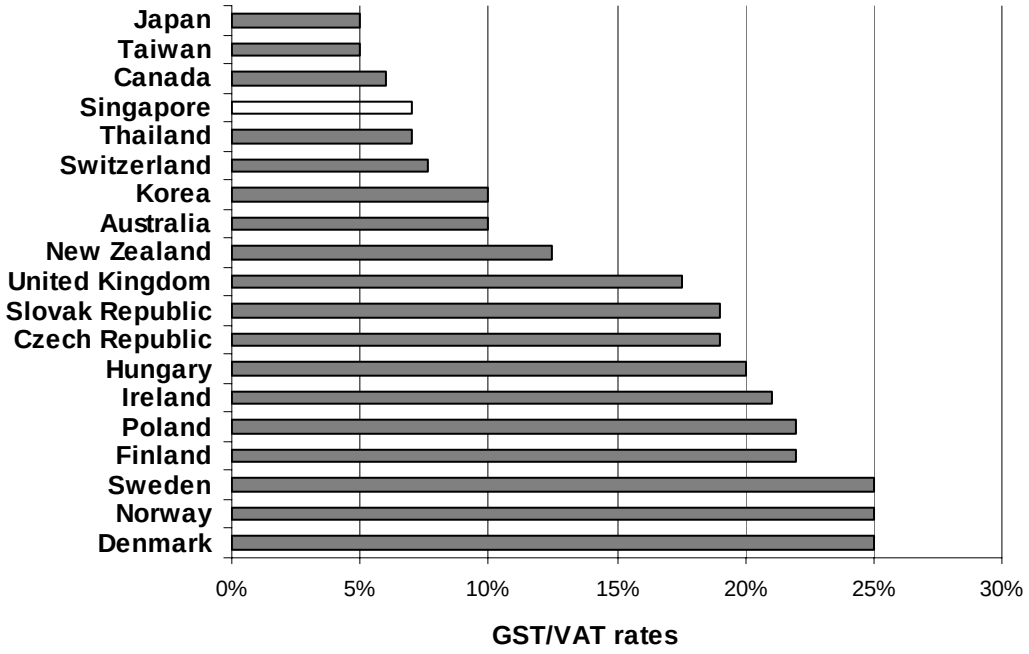
In sum, while a multi-tier GST system is conceptually appealing, a single low rate for all supplies of goods and services is a more economically efficient way to tax consumption. It is far more efficient for the Government to help the middle and lower-income households directly through mitigating measures.

[5] Source: Household Expenditure Survey (HES) 2002/03 Report – Table 13A Average Monthly Household Expenditure by Type of Goods and Services (Detailed) and Monthly Household Income.

3.2 Low Consumption Tax in Singapore

Singapore's proposed GST rate of 7% is also relatively low by international comparison. As shown in Chart 3.3, Scandinavian countries such as Denmark, Norway and Sweden have the highest consumption tax rates at 25%, whereas countries like Japan and Taiwan have the lowest rate at 5%.

Chart 3.3: Comparison of GST/VAT Rates Across Countries



Source: International VAT Monitor, March/April 2006, No.02, Article 8 – Overview of General Turnover Taxes and Tax Rates

Box 3.2: Does GST Disadvantage SMEs?

Businesses in Singapore need to register for GST only if their turnover exceeds $1 million a year. Otherwise, GST registration is on a voluntary basis. Thus, most small and medium enterprises (SMEs) will have the choice of whether to register or not.

SMEs that register for GST

GST registration is clearly advantageous for exporters. It will allow them to claim GST paid on their purchases and imports (i.e. input tax) and yet not have to collect GST (i.e. output tax) on their zero-rated exports. For non-exporters, GST registration will not have an impact on profits where they are able to pass on the output tax on their supplies fully to their customers. Table 3.1 shows how the gross profits of both non-exporters and exporters are not affected by registering for GST.

Table 3.1: Gross profits of Non-Exporters and Exporters

	Non-Exporter		Exporter	
	Without GST	With 7% GST	Without GST	With 7% GST
Price of input (A)	$1	$1.07	$1	$1.07
Price of good (B)	$2	$2.14[6]	$2	$2[7]
Net GST payable/ (refundable) (C)	$0	$0.07[8]	$0	($0.07)[9]
Gross Profit (B-A-C)	$1	**$1**	$1	**$1**

Where the customers are non-GST registered persons, SMEs (non-exporters) that do not register for GST will enjoy a price advantage over GST-registered companies. They are unable to claim the input tax paid on their purchases and imports. But they need not charge GST on their supplies either. Therefore, even though these SMEs may have to raise prices to maintain profits, their prices would still be lower than the GST-inclusive price charged by competing GST-registered companies. Only if SMEs are unable to raise prices (because the market is very competitive) will their profit be lower. But they are not worse off in profits compared to competing GST-registered companies that are also unable to raise prices (see Table 3.2).

Table 3.2: Impact of GST on Businesses

	Before GST	SME that chose not to register for GST (maintain profit)	GST-registered company (maintain profit)	SME that chose not to register for GST (maintain price)	GST-registered company (maintain price)
Price of input (A)	$1	$1.07	$1.07	$1.07	$1.07
Price of good (B)	$2	$2.07	$2.14	$2	$2
Net GST payable (C)	$0	$0	$0.07	$0	$0.06[10]
Gross Profit (B-A-C)	**$1**	**$1**	**$1**	**$0.93**	**$0.87**

Where the customers are GST-registered persons, they will prefer to buy from GST-registered companies rather than non-GST registered SMEs in spite of the higher price because the output tax charged by the company can be claimed as input tax credits and hence no GST is paid on the purchase (see Table 3.3).

[6] With 7% GST on $2 good, final price is 107% of $2 = $2.14.
[7] Exports are zero-rated (i.e. GST at 0%), final price remains at $2.
[8] Pay net $0.07 to IRAS because output tax is $0.14 and input tax is $0.07.
[9] Claim net $0.07 from IRAS because output tax is $0 and input tax is $0.07.
[10] Pay net $0.06 to IRAS because output tax is $0.13 (7/107 x $2) and input tax is $0.07.

Table 3.3: Selling to GST-registered and Non-GST registered Customers

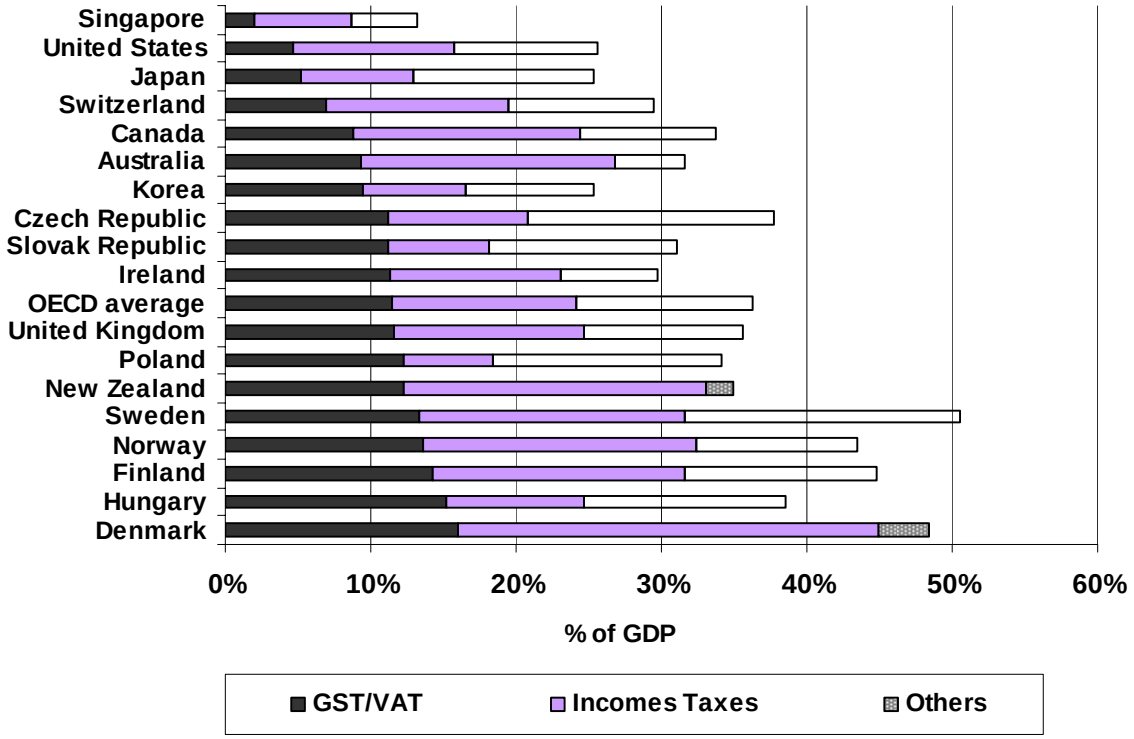
		Buy from GST-registered company	Buy from non-GST registered SME
GST-registered customer	Cost	$2.14	$2.07
	Input tax credits	($0.14)	$0
	Net cost	**$2**	**$2.07**
Non-GST registered customer	Cost	**$2.14**	**$2.07**

SMEs have a choice on whether to register for GST. How they choose depends very much on whether their customers are GST-registered persons, their pricing strategies in relation to their competitiveness and price elasticity of their products or services.

Unlike large businesses however, SMEs may find the burden of GST compliance cost to be relatively heavy. The Government will make available a one-time grant of up to $5,000 to help these SMEs with the installation of software to comply with the requirements upon registering for GST and training to use this software.

The burden of consumption tax on the economy is also lower in Singapore compared to most countries. Chart 3.4 shows that Singapore's GST revenue, at 1.96% of GDP, is the lowest amongst countries with a consumption tax, below even Japan. With the increase in GST rate from 5% to 7%, the percentage of GST collection is expected to increase to 2.7% of GDP. This would still be one of the lowest in the world and is less than a quarter of the OECD average (11.5%).

Chart 3.4: Comparison of GST Burden Across Countries



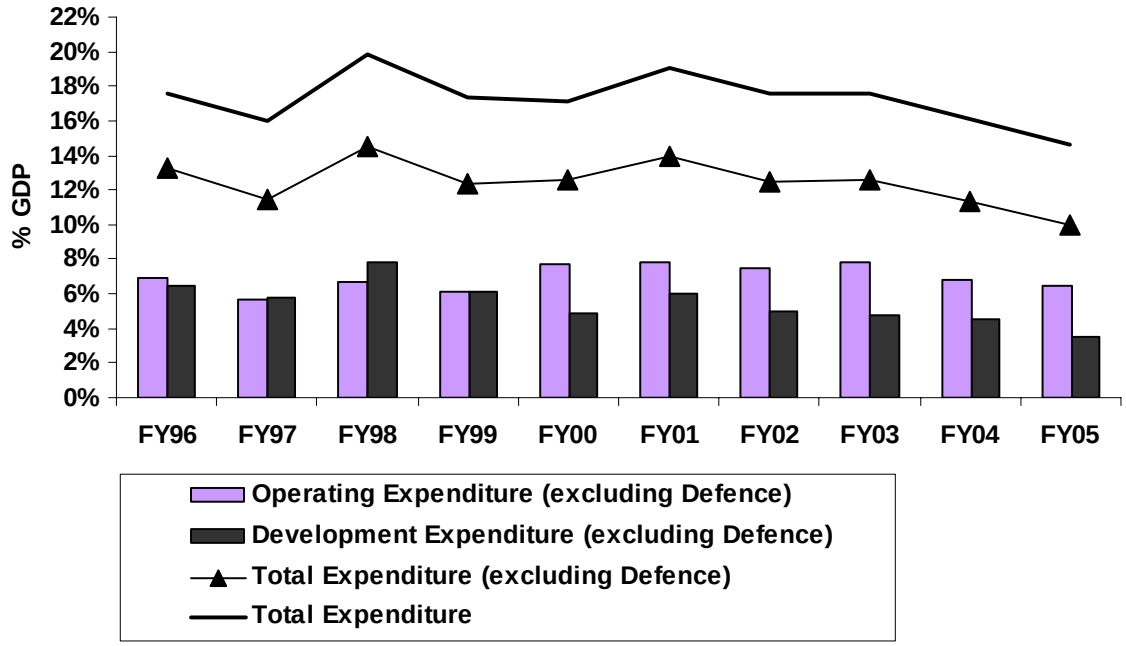
Source: World Competitiveness Yearbook 2005, 2.2.04, OECD Resource Statistics (1965-2004) published in 2005 and country survey responses. Singapore's tax revenues are based on FY2005 statistics.

4 Where Does Government Expenditure Go To?

4.1 Prudence in Spending, Effectiveness in Outcomes

The Government's expenditure policy is to live within its means and allocate resources efficiently and effectively to ensure security and safety, create an economic environment and infrastructure for the private sector to flourish, invest in building capabilities and capacities for the future, and improve the quality of life of Singaporeans (see Chart 4.1).

Chart 4.1: Trends in Government Expenditure



** For comparability across periods, land-related expenditures (expenditure spent on land-reclamation or land improvements that augment the value of land, and which are charged to past reserves since FY2001) are added back as part of Development Expenditure for FY2001 to FY2005. Grants to HDB for bottom-line financing has been reclassified as Operating Expenditure since FY2006 as it is primarily for housing subsidies extended to buyers of HDB flats. The revised definition has been applied to the data series to reflect the breakdown more accurately.*

The last decade has been characterised by a gradual decline in government expenditure as a percentage of GDP. Although total government expenditure has steadily risen from $23.3 billion to $29.1 billion between 1996 and 2005, the increase has not matched GDP growth over the same period, except during the 1998 and 2001 downturns. As a result, expenditure as a percentage of GDP declined over the same period from 17.6% to 14.6% of GDP. Measured as a percentage of GDP, Singapore remains among the lowest spending governments in the world.

The Block Budget Framework has helped to establish spending ceilings in ministries, while budget cuts in FY2004 and FY2005 trimmed expenditures further. Operating expenditure has been broadly stable as a percentage of GDP during the last decade while development expenditure has declined significantly[11].

[11] The analysis of operating and development expenditures in the following two paragraphs hereafter excludes expenditures on defence.

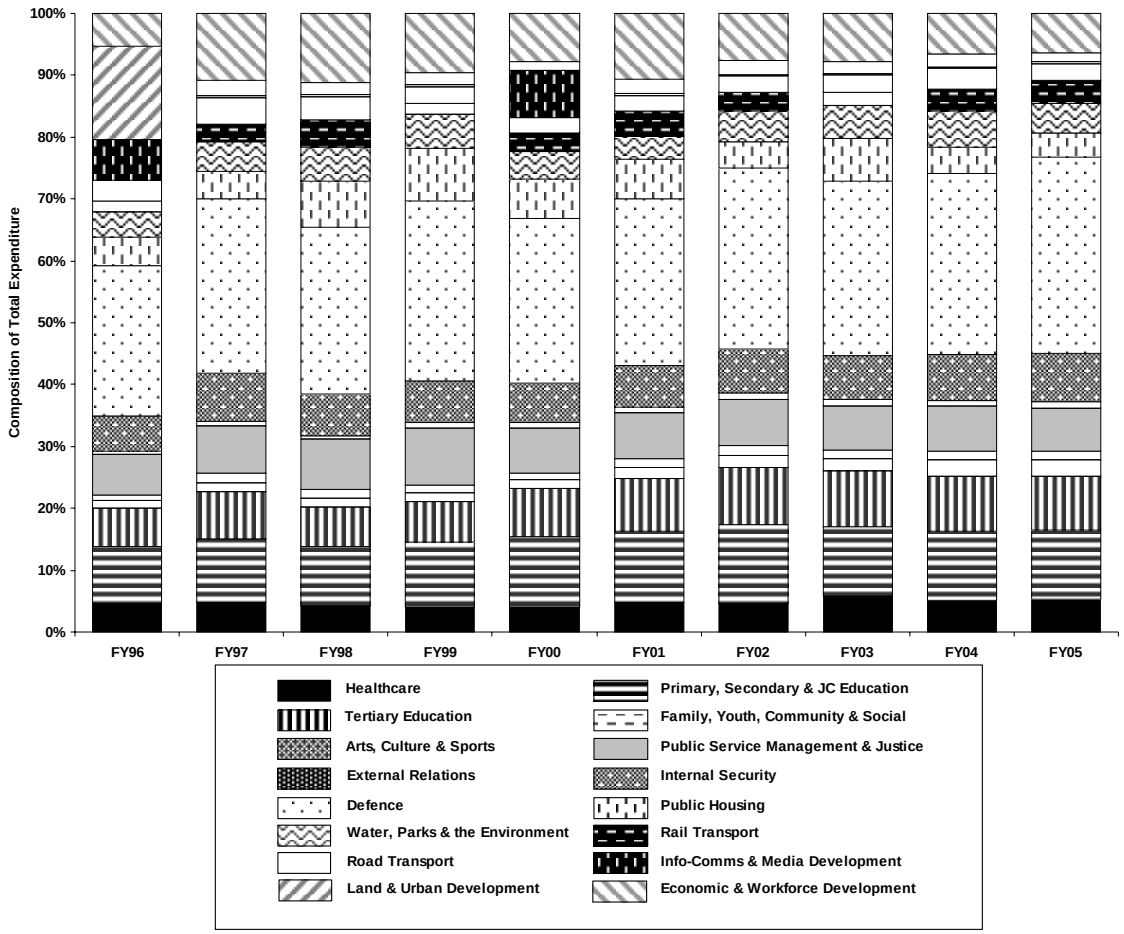
While operating expenditure has been broadly stable over the last decade, it has declined in recent years, easing from a high of 7.9% of GDP in FY2001 to 6.5% of GDP in FY2005. In particular, expenditure on manpower (EOM) dropped steadily from 2.2% to 1.8% of GDP over the same period, reflecting the emphasis on keeping the government workforce lean via measures such as the Manpower Management Framework (MMF).

Development expenditure has declined even more sharply, from 6.0% of GDP in FY2001 to 3.5% of GDP in FY2005, largely due to the completion of major land reclamation projects, and the stepping down or eventual completion of several major infrastructure projects such as the Deep Tunnel Sewerage System, the Programme for Rebuilding and Improving Existing Schools (PRIME) and the North East Line rail project. Where appropriate, private-sector financing (such as bonds and Public Private Partnerships going forward) has been tapped, and has replaced some development expenditure with operating expenditure.

4.2 Distribution of Government Expenditure by Function

The distribution of government expenditures across functions over the last 10 years shows a gradual shift towards healthcare and education (see Chart 4.2).

Chart 4.2: Trends in Government Expenditure by Functions*



** Expenditures have been classified according to nature of programmes instead of conventional breakdown by ministries. For comparability across periods, land-related expenditures are added back as part of total expenditure.*

Economic development. The immediate years after the Asian financial crisis saw an increase in the share of government expenditure on economic development, reflecting the need to inject spending into the economy and cushion the impact of successive bouts of economic slowdown. Expenditure on economic development as a share of total expenditure doubled from about 5% in FY1996 to a high of about 10% in FY1997 to FY1999. Resources were also directed at developing Singapore's research and development (R&D) capabilities, with government expenditure on R&D doubling in FY1997 and maintaining its share of total expenditure since.

Infrastructure development (e.g. road and rail, communications, land and urban development) as a share of total expenditure dipped from an average of around 14% during the second half of the 1990s to around 8% during the first half of the 2000s as land acquisition by the Government for rail development slowed down. There was also a one-off spike in expenditure on info-communications and media development due to compensation paid to telecommunications companies for accelerating the liberalisation of telecommunication sector in FY1996 and FY2000. Otherwise, the share of total expenditure on road and rail infrastructure has remained largely unchanged over the past ten years.

Public housing. Around FY1998 and FY1999, the share of public housing expenditure rose to an average of about 8% of total expenditure. This increase was largely due to upgrading programmes and a surge in the demand for public housing which implied higher housing subsidies by the Government. When demand for public housing abated, the share of total expenditure in public housing dipped to an average of about 5% from FY2000 to FY2005.

Education. Government expenditure on education (primary, secondary and post-secondary) has remained relatively stable at about 10% to 11% of total expenditure. But expenditure on tertiary education increased from an average of about 7% before FY2001 to about 9% since FY2001. This is largely attributed to higher operating grants and subsidies to Institutes of Higher Learning as well as the establishment of Republic Polytechnic and Singapore Management University to cater to growing demand for tertiary education.

Healthcare. Healthcare expenditure has increased slowly but steadily from an average of about 4% of total expenditure between FY1996 to FY2000 to an average of about 5% since FY2001. This increase is largely attributable to higher subventions to restructured institutions, polyclinics and Voluntary Welfare Organisations (VWOs) to better enable them to provide subsidised medical care. During the outbreak of Severe Acute Respiratory Syndrome (SARS) in 2003, the share of total expenditure on healthcare escalated to about 6% as measures were put in place to contain the outbreak.

Family and social development. While family and social development took up a small share of total expenditure, there has been greater focus in recent years as its share increased from about 1% to 2% over the last five years. Government support for parenthood through the enhancement of the Baby Bonus Scheme and introduction of the Paid Maternity Leave Scheme has contributed about 58% of the increase in this area over the recent years. Expenditure on promoting racial harmony and social cohesion (People's Association) and social support for the disabled, destitute and needy Singaporeans has also seen significant increases in its share of total expenditure over the recent years (130% increase over ten years), even though as an absolute share of total expenditure it remains small at about 3%.

Security. The security sector (defence, internal security and external relations) has always been a key priority of government expenditure. But following September 11 2001, expenditure on homeland security has increased. Security as a share of total expenditure rose from an average of around 34% in the five years before FY2001 to an average of 37% between FY2001 to FY2005.

Box 4.1: Government Expenditure on Essential Public Goods and Services

Another way to look at government expenditure would be to see how much the Government spends on essential public goods and services and what it has achieved with its spending (see Table 4.1).

Table 4.1: Government Expenditure on Key Public Goods

Key Expenditure Item	For every $1 you spend, the Government pays …	What Singapore has accomplished with this spending
Education	**$2.79**	The Government has devoted $6 billion to $7 billion annually over the past years in education – the bulk of it going to subsidies for students. Ministry of Education (MOE) spent $370 million to build the first regional Institute of Technical Education (ITE) campus and $470 million for the Republic Polytechnic. The number of teachers has also been boosted by 1,200 over the past three years. The education system has delivered outcomes that place Singapore at the head of many international league tables. • *Ranked No.1 in Quality of Educational System. (Global Competitiveness Report 05/06)* • *World No. 1 in Mathematics and Science for Grade 4 and 8. (Institute of Education Sciences, US Dept of Education, 2003)* • *NUS ranked Top 20 (19th) in the World and Top 3 (2nd) in Asia. (QS World University Rankings 2006)*
Health	**$1.20**	The Government seeks to ensure that all Singaporeans have access to good and affordable healthcare that is appropriate to their needs. A continuum of subsidised healthcare services from polyclinics, acute hospitals, community hospitals, nursing homes to day care facilities has been developed. Singapore's healthcare outcomes are among the best in the world (WHO Report, 2004). • *Lowest infant mortality rate in the world at 2.1 per 1000 births. (OECD Health Data, 2006)* • *Average life expectancy of 81.7 years is 3rd highest in the world. (CIA World Factbook 2006)*

Key Expenditure Item	For every $1 you spend, the Government pays …	What Singapore has accomplished with this spending
Public Transport	**$1.05**	With government expenditure on transport at about $2.1 billion a year, Singaporeans now have access to a high quality, well-integrated and affordable transport system. More than 3 million passenger trips are made daily on the mass transit system. New Mass Rapid Transit (MRT) and Light Rail Transit (LRT) lines were constructed to meet the commuting public's growing needs: $4.7 billion was spent on the North East Line while $680 million was spent on the Changi Airport Line. The expansion of the road and expressway networks (new roads, flyovers, underpasses, and road-widening projects) has reduced congestion and kept our overall transport network effective and efficient despite our growing population. • *Average door-to-door travelling times via rail has improved from 57.3min to 54.8min from 1997 to 2004.*
Housing	**$0.44**	The Government has spent about $1.6 billion a year to provide quality and affordable public housing, and rejuvenate older HDB estates to improve living conditions. Eligible buyers have benefited from subsidised new flats, CPF Housing Grants of $30,000 or $40,000 and HDB mortgage loans at concessionary interest rates. Eligible lower-income households can also apply for the Additional CPF Housing Grant of $5,000 to $20,000 to help them purchase their first flat. The Government also heavily subsidises rental flats for households who are unable to afford their own flat. The upgrading programmes have enhanced flats, blocks and precincts with lifts that stop at every floor, covered linkways and children's playgrounds. The Selective En-bloc Redevelopment Scheme (SERS) has further optimised land use, and allowed residents in older HDB estates to upgrade their flats on fresh 99-year leases. • *82% of Singapore households own a HDB flat.*

5 Wage Supplementation – Helping Low-Wage Workers

"A good economy not only sustains growing output and national income; it also ensures its participants' capacity for self-sufficiency and ability to realise their potential. A substantial low-wage employment subsidy is a fair and efficient way to achieve this important goal."

- Edmund Phelps, 2006 Economics Nobel Prize Winner

5.1 Rising Income Inequality – A Global Trend

Increasing income inequality is a global phenomenon, faced not only by developed economies like the US and Europe but also by emerging economies like China. Singapore has not been immune to this phenomenon. Worsening income distribution has in turn reflected *wage dispersion*, with the wages of professionals, executives, and other knowledge workers growing much faster than median wages and wages at the bottom deciles of the workforce.

Wage dispersion has been driven by two key forces: *globalisation* and *technological change*. Global economic integration – especially the opening up of China and India and the large increase in the supply of cheap labour this has brought about – is exerting downward pressure on wages among lowly-skilled, lowly-educated workers everywhere. Rapid technological change has led to wage dispersion in two ways. First, it has increased automation and other labour-saving production processes that have depressed the wages of less-skilled workers. Second, it has increased the demand for knowledge workers who can understand and apply technology – especially information technology (IT). Quite often, however, the effects of globalisation and technological change cannot be separated. For instance, advances in IT have accentuated the pace of offshoring, enabling many business processes to be undertaken more cheaply abroad. While the relative importance of these two driving forces varies across countries, Singapore is keenly subject to both forces given the size and structure of our economy.

Retreating from globalisation and technological change is not a sound response to the challenge of wage dispersion and widening income inequality. Technological progress and economic integration have been the basis of the unparalleled advance in incomes and living standards seen in much of the world over the last thirty years. This has been particularly so for Singapore. Shielding the economy from globalisation or technology will only serve to retard economic growth and depress living standards across the board. This is why most developed countries have sought to specifically address the downsides of globalisation – in particular wage dispersion – rather than to reject globalisation per se.

5.2 Wage Supplementation – Theory and Practice

Social welfare progammes have traditionally been the mechanism through which developed economies have addressed the problems of the lower income and income inequality. However, these schemes have increasingly fallen out of favour because of their high fiscal cost and corrosive effects on the work ethic. One of the newer and more efficient ways that some developed countries have sought to help low-wage workers has been through *wage supplementation*, which refers to a wide range of programmes in which the government provides income support to workers based on their wages.

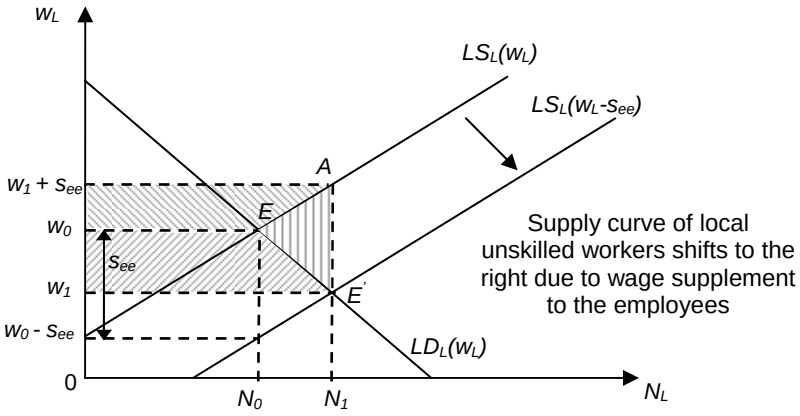
There is good support for wage supplementation in both theory and practice. Economic theory suggests that as long as the demand for labour is not inelastic, wage supplementation will help increase the incomes of workers as well as encourage more people to enter or

remain in the workforce. In short, wage supplementation makes work pay (see Box 5.1 for a partial equilibrium analysis of wage supplementation).

Box 5.1: Partial Equilibrium Analysis of Wage Supplementation

In a typical low-wage labour market, the local labour market equilibrium will be at point *E*, with a market-clearing wage of w_0 and employment level at N_0 corresponding to the intersection of the labour demand and labour supply curves, $LD_L(w_L)$ and $LS_L(w_L)$ respectively, as shown in Figure 5.1.

Figure 5.1 : Local Unskilled Labour Market Outcome of Wage Supplementation



Providing workers a wage supplement raises the supply of workers at all levels of employment, effectively shifting the labour supply curve rightwards from $LS_L(w_L)$ to a new supply curve $LS_L(w_L-s_{ee})$, where s_{ee} is the per-worker supplement given to employees. The distribution of the wage supplement is given by the rectangle, $(W_1+S_{ee})AE'W_1$, which equals the total amount of wage supplement given by the government. Employers will receive a surplus amounting to $W_0EE'W_1$ while workers will receive a surplus as given by $(W_1+S_{ee})AEW_0$, with the triangle AEE' being the deadweight loss. The equilibrium wage is now lower: employment increases from N_0 to N_1 and wages paid by the employer drop from w_0 to w_1. However, with the wage supplement of s_{ee}, wages received by the workers rise from w_0 to $w_1 + s_{ee}$.

The actual experience of wage supplementation has generally been encouraging. For example, both the Working Tax Credit in the UK and the Earned Income Tax Credit (EITC) in the US have been relatively effective in raising the incomes of low-wage workers at much lower administrative costs than other social welfare programmes. As a result, these programmes tend to enjoy support across the political spectrum. The experience of the Anglo-Saxon countries with wage supplementation has also prompted European countries such as Denmark to introduce wage supplementation programmes of their own[12].

While wage supplementation – as with most government interventions in the market – introduces some economic distortion, it is theoretically a more efficient way of redistributing

[12] The 2004 tax reform in Denmark saw the introduction of an earned income tax credit, which is extended to all workers, in the form of a tax credit amounting to 2.5% of the taxable income below the threshold for paying the medium tax bracket. For Danes with income above the threshold, EITC is a fixed deduction per year of DKK 7,000. The Danish EITC has been shown to induce a small but positive effect on labour supply.

incomes than other social welfare programmes such as large payouts for the unemployed, minimum wages, in-kind subsidies, and targeted wage support. Because it is conditional on work rather than based on need, it does not erode incentives for individuals to work. By enhancing the rewards from work, it also increases labour supply and enhances the attractiveness of work relative to welfare. In contrast, other social welfare programmes suffer from the following drawbacks:

(a) *Welfare Payouts for the Unemployed*. Large welfare payouts erode work incentives, and are usually unsustainable and ineffective in alleviating poverty in the long run. They also undermine government efforts to raise employment rates and encourage workers to train and upgrade, while doing little to enhance the opportunity and mobility of less-skilled workers.

(b) *Minimum Wage*. Minimum wages have generally been shown to be poorly targeted and economically inefficient since they introduce rigidities in the labour market. In addition, high minimum wages lead to job losses since they raise hiring costs. Finally, minimum wages may lead to price inflation in goods and services that lower-income families consume[13].

(c) *In-kind Subsidies (e.g. child care, food stamps)*. Low-wage workers tend to have related financial challenges, ranging from day care, transportation, food and health care. In-kind subsidies tend to be inadequately tailored towards individual families' circumstances, thus over-providing for some households and under-providing for others. Customisation, on the other hand, tends to be administratively onerous[14]. In contrast, wage supplements tend to be flexible, and encourage low-wage workers to find cheaper and effective alternatives (e.g. informal care rather than formal child care). Contrary to popular belief, most low-wage workers *do not* spend their supplements on frivolous expenditures[15]. An analysis of the EITC found that EITC payouts were generally used for bill payments for essential items.

(d) *Targeted Wage Support*. Wage support is a way of subsidising the employer's wage costs by giving him money to hire a worker. This is unlike wage supplementation where money is given to the employee. Many employers tend to see targeted wage support as a signal of a worker's inadequacies. This stigmatises the worker receiving help and reduces his future prospects. Fixed compliance costs also mean that large employers are the only ones who can afford to sign up to such programmes. Furthermore, due to imperfect monitoring by the government, firms may be able to exploit and abuse the system by not adjusting the wage of these workers accordingly and keeping the subsidy all for themselves or using it for non labour-based expenditures (e.g. reducing product prices). In contrast, a broad-based wage supplement is administratively less costly, and does not stigmatise any particular group of low-wage workers. It also acts as a direct motivation to workers to seek employment and ensures that the subsidy provided by the government goes to the workers. For example, the EITC targeted at employees has been much more efficient than the previous Targeted Jobs Tax Credit in the US[16].

[13] Vedder, Richard, and Galloway, Lowell (June 2001), "Does the Minimum Wage Reduce Poverty?", Employment Policies Institute.

[14] Ronald A. Wirtz (2003), "Anti-Poverty Design: The Cash Out Option", The Region, Federal Bank of Minneapolis.

[15] Smeeding et al (2000) and Romich et al (2000) found similar effects on the pattern of consumption of EITC recipients. See Smeeding et al (2000), "The EITC: Expectation, Knowledge, Use, and Economic and Social Mobility", National Tax Journal, Part 2, Dec. 2000, 53(4): 1187-1209.

[16] Katz, Lawrence F. (1996), "Wage Subsidies for the Disadvantaged", NBER Working Paper No. WP5679.

Despite criticisms that wage supplementation would reduce the intensity of effort, well-designed programmes appear to have been effective in moving people to work, without disincentivising them from working harder. In the US, labour force participation increased due to the EITC, without a corresponding decrease in hours worked[17]. This could be because the key decision faced by workers is whether to work, rather than how many hours to work.

However, wage supplementation on its own is *not* a cure for structural unemployment and skills mismatch. Job retraining still plays a central role in moving low-wage workers to sustain self-reliance and promoting long-term employability. However, it is a useful complement to job retraining schemes as it encourages workers to get back to work, thus enhancing their employability. Wage supplementation also increases the returns to employment, hence encouraging workers to take up retraining.

5.3 Do Employers Absorb the Wage Supplement?

There is a long-run risk of employers reducing wages in response to the wage supplement[18]. This risk is present for all forms of redistribution in the long term. However, it is unlikely that the entire wage supplement would go to the employer, though it may lead to a partial reduction in wages. The evidence for the reduction of wages is mixed. Leigh (2004) shows that a 10% increase in the EITC causes a 4% decrease in wages for high school drop outs and a 2% decrease in wages for high school graduates[19]. Rothstein (2005) shows almost no negative effects on wages[20].

In theory, the higher the elasticity of labour demand, the less likely employers will reduce wages in response (see Box 5.2 for analysis). In view of the buoyant economic growth and the large number of jobs created in Singapore in the last two years[21], labour demand is likely to be elastic, suggesting that a wage supplement would benefit workers more than it benefits employers.

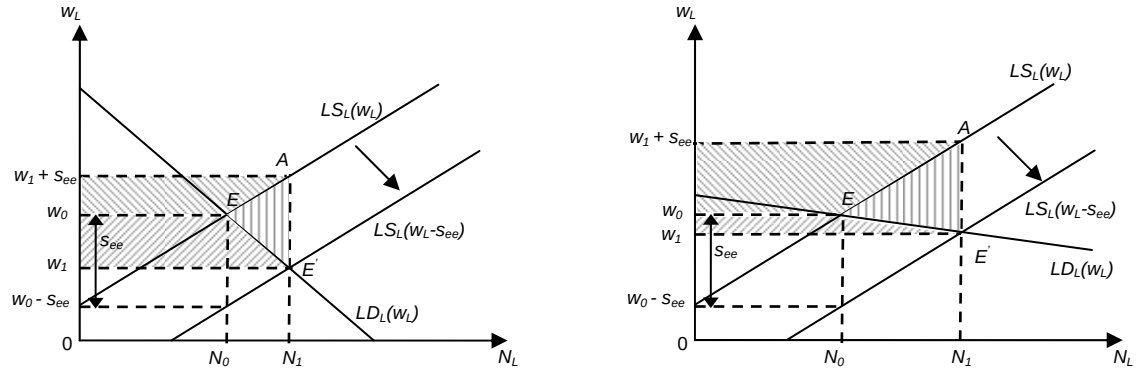
5.4 Workfare Income Supplement (WIS) Scheme in Singapore

As an open economy, Singapore faces the full effects of globalisation and technological change and the concomitant income inequalities. There will be pressure to buffer Singaporeans from these effects. Rather than go down the road of welfare, Singapore should seek a long-term, systematic approach to encourage work and help low-wage workers increase their take-home pay. Such an approach also helps to strengthen Singaporeans' work ethic and provide an incentive-compatible, market-based way to share the fruits of economic growth with those who may not benefit as much from the growth. A wage supplementation scheme is a useful instrument in ensuring that work is a superior option to welfare. It is a more efficient way to redistribute income to lower-income Singaporeans while preserving the work ethic.

[17] Eissa, Nada, and Liebman, Jeffrey (1996), Labor Supply Response to the Earned Income Tax Credit. *The Quarterly Journal of Economics* 111 (2): 605-637.
[18] This usually takes the form of slower increments, rather than outright reduction in wages.
[19] Leigh, Andrew (2004), "Who Benefits from the Earned Income Tax Credit", mimeo, Australia National University.
[20] Rothstein, Jesse (2005), "The Mid-1990s EITC Expansion: Aggregate Labor Supply Effects and Economic Incidence," mimeo, Princeton University.
[21] The economy added 173,300 workers in 2006, compared to 113,300 in 2005.

Box 5.2: Effect of Labour Demand Elasticity on Wage Supplementation

Figure 5.2: Effect of Labour Demand Elasticity on Wage Supplementation



Less Elastic Labour Demand | **More Elastic Labour Demand**

The effect of wage supplementation is sensitive to the elasticity of labour demand. Figure 5.2 summarises the effect of labour demand elasticity, where higher labour demand elasticity results in a higher employment increase ($N_1 - N_0$). Furthermore, the wages received by the workers ($w_1 + s_{ee}$), as well as the employee surplus ($(W_1+S_{ee})AEW_0$) are higher under a higher labour demand elasticity.

The Workfare Income Supplement (WIS) scheme, introduced in Budget 2007 will add to Singapore's key social safety nets of housing, healthcare and retirement provision through the CPF. These pillars will strengthen the support for lower-income Singaporeans and better prepare our ageing population for the future.

Unlike wage supplementation schemes in other countries which are typically administered through the tax system, the WIS scheme will be administered through the CPF system. This is because most citizens, particularly low-wage workers, do not pay income tax in Singapore. Hence, the CPF system has the broadest coverage of citizens in Singapore. Part of the WIS will also be put into CPF, as low-wage workers often face the greatest difficulties in providing for their long-term needs.

The WIS scheme is specifically designed to avoid some of the pitfalls of wage supplementation schemes observed in other countries. These include:

(a) *Phase-in and Phase-out of Benefits*. Based on the experience of other countries, a gradual phase-in and phase-out of benefits is essential for ensuring that the incentive to work is not distorted, e.g. additional work should not lead to a reduction of income. Hence, the WIS scheme has a gradual phase-out of benefits, unlike the previous Workfare Bonus Scheme.

(b) *Automatic Administration*. One problem faced by wage supplementation schemes implemented via a tax credit is the difficulty of ascertaining the right levels of payment. This leads to the potential for fraud[22]. The WIS scheme avoids this by implementation through the CPF system, which automates the administration of the scheme.

[22] A 2002 report by the US Treasury Department found that about 27 percent to 32 percent of the $31 billion paid out in 2000 were erroneously paid out. The Balanced Budget Act of 1997 gave the IRS more than $700 million over five years solely to improve EITC compliance.

The WIS scheme by itself is not sufficient in enhancing workers' employability and reducing structural unemployment in the Singapore economy. It is only one prong of Workfare, the Government's long-term response to address the challenges confronting low-wage workers. Workfare will encourage low-wage workers to take on jobs, upgrade their skills and stay employed, as well as focus on children of low-wage workers to equip them with the skills and knowledge to thrive in a knowledge-based economy.

The WIS scheme will not eliminate the widening income disparity arising from globalisation, but it will help to ameliorate the disparity by increasing the amount of transfers lower-income groups receive from the Government. It will also help low-wage workers share in the fruits of the nation's progress and alleviate some of the difficulties they face. This, together with other components of Workfare, will help uplift low-wage workers as Singapore moves ahead.

6 Towards Affordable Healthcare

The Government's mission in healthcare policy is to promote a nation of healthy Singaporeans. The public sector works with the private and people sectors to ensure that good quality and appropriate healthcare is available and affordable to all. The key principles underlying the provision of healthcare in Singapore are personal responsibility, early intervention, and integrated evidence-based services.

Singapore's healthcare financing framework seeks to ensure fiscal sustainability and affordability for all Singaporeans. This is possible only if healthcare is a shared responsibility between the individual and society. For the poor who cannot afford their share of healthcare costs, targeted subsidies and Medifund provide a healthcare safety net.

6.1 Rising Healthcare Expenditure

As a nation, Singapore has been spending more on healthcare over the years. National Healthcare Expenditure (NHE) as a share of GDP has grown from 2.7% in 1990 to 3.8% in 2005. This includes government as well as private expenditure. Nominal NHE grew by 9.8% per annum over the same period, outpacing nominal GDP growth of 7.3% per annum. Going forward, NHE may even double by the mid-2020s. This is a challenge that must be faced collectively, to avoid a scenario where the Government may face difficulties financing healthcare expenditure and Singaporeans may be faced with medical bills they cannot cope with.

The key drivers of NHE growth include: (1) an ageing population; (2) changing disease patterns; (3) medical advances; and (4) rising public expectations.

Ageing Population. Our population is ageing rapidly. The number of elderly persons will double to 600,000 by 2020. The elderly consume more healthcare services and incur a higher cost per episode of care than the general population. They are also more prone to chronic diseases such as stroke, diabetes and hypertension which require long-term medical care.

Changing Disease Patterns. In the 1960s, mortality was predominantly caused by infectious diseases such as tuberculosis and malaria. Today, the leading causes of death are stroke, heart disease and cancer. These are more expensive to treat; the cost per episode of hospitalisation is higher, and they require longer cycles of care.

Medical Advances. While medical advances have helped improve clinical outcomes, better medical solutions often come at a higher price. As is the experience of most countries, medical cost inflation has been outstripping general inflation.

Rising Public Expectations. As Singaporeans become more affluent and well-informed, they are likely to consume newer, more expensive technology, seek more frequent therapy for illnesses and expect more discretionary treatments. For example, Magnetic Resonance Imaging (MRIs) are gradually replacing Computer Tomography (CT) scans despite the much higher cost of the former. Discretionary aesthetic surgery has become socially more acceptable and popular. This is a common trend in developed countries, where healthcare costs have been inflated by rising public expectations[23].

[23] Kotlikoff et al (2005), "Who's Going Broke? Comparing Growth in Healthcare Costs in Ten OECD Countries", NBER Working Paper No. 11833. JEL No. H51 I11.

How can we keep good healthcare affordable in the long term? The Government will continue to provide direct subsidies and Medifund for the needy, and strengthen the Medisave and MediShield frameworks to help Singaporeans meet their needs. In particular, the Government will address the following main concerns of Singaporeans:

(a) Ability to deal with high medical bills;
(b) Depletion of Medisave savings, especially for older Singaporeans; and
(c) Insufficient coverage of medical care, including outpatient services, by employers.

Equally important, Singaporeans themselves must play an active role in their healthcare.

6.2 Preventive Healthcare and Health Insurance

The key to keeping good healthcare affordable is for people to adopt a healthy lifestyle themselves – by exercising regularly, watching their diet, managing stress and not smoking. They must plan for their long-term healthcare needs and choose wisely when they have to consume healthcare services.

In the area of healthcare financial planning, insurance plays an important role. Health insurance allows us to pool the risk of high medical expenses across a large number of people, providing protection against large hospital bills at affordable premiums. For example, each year, only 10 out of every 100 Singaporeans are hospitalised and 2 out of these 10 persons account for more than 60% of the total medical costs. So, the wider the insured risk pool, the lower the premiums to be paid by subscribers.

Singapore's MediShield framework is as near-universal as feasible, minimising adverse selection and cherry picking (see Box 6.1). With a wider risk pool, premiums become generally more affordable to all. To mitigate against the "buffet syndrome", we have incorporated patient co-payment features (such as deductibles[24] and co-insurance[25]) into the MediShield plans (basic and private riders) to give policyholders the incentive to exercise discretion in their consumption of healthcare services. A study conducted by the US RAND Corporation[26] shows that the healthcare bill for a person subject to co-payment was lower than that for a person without any co-payment, with no negative impact on health outcomes arising from this difference.

While the subscription and coverage of MediShield have been progressively expanded in recent years, there is scope for insurance to play an even larger role in Singapore's healthcare financing. However, this has to be done carefully to ensure that appropriate safeguards are put in place to manage the undesirable aspects of insurance. With the appropriate insurance design, expanding the role of insurance can help improve healthcare affordability in Singapore.

[24] Deductibles refer to the portion of the claim not covered by the insurance provider.
[25] Co-insurance indicates how the policyholder and the insurance provider will share the costs of a bill that exceeds the deductibles.
[26] Brook et al (December 1984), "The Effect of Coinsurance on the Health of Adults", The Rand Corporation.

Box 6.1: Pitfalls to Consider in Designing Good Health Insurance Schemes

The most commonly-cited problems associated with insurance are adverse selection, moral hazard, and cherry picking.

Adverse Selection. Adverse selection occurs when there are more unhealthy policyholders in an insurance plan than healthy policyholders. An unhealthy person or one who anticipates ill health in the future is more likely to want insurance coverage than a healthy one. When this happens, the insurer will typically raise premiums to recover the cost of insuring unhealthy policyholders, causing the relatively healthier policyholders to drop out of the plan. This results in a smaller and unhealthier risk pool which further escalates premiums.

Moral Hazard. Moral hazard occurs when the redistribution of risk from the policyholder to the insurer changes the policyholder's behaviour. When the cost of healthcare is borne by the insurer, the policyholder loses the incentive to exercise discretion in the consumption of healthcare services and tends to consume more healthcare services than necessary, i.e. the "buffet syndrome". This in turn escalates healthcare costs.

Cherry Picking. Cherry picking occurs when insurers choose to offer their insurance coverage only to healthy and younger individuals in an attempt to reduce their underwriting cost. When this happens, the risk pool becomes fragmented. Those insurers who do not actively engage in "cherry picking" will be left with the less healthy policyholders and forced to raise premiums to mitigate the higher risks, making premiums unaffordable to those who really need the insurance.

6.3 Seeking the Right Treatment at the Right Setting

There are many players in Singapore's healthcare system, ranging from private General Practitioners (GPs), polyclinics, specialist outpatient clinics, ambulatory centres, acute hospitals and national specialty centres, to community hospitals, nursing homes and day care centres. As each player has its own cost structure and areas of expertise, the patient can benefit if he seeks treatment in the most effective setting that provides him with the optimal health outcome. For example, chronic diseases such as diabetes and high blood pressure are best treated early and holistically at the primary care level, i.e. at the GPs and polyclinics, rather than only at a late stage in specialist outpatient clinics. Right-siting will enable our healthcare system to serve as many patients as effectively as possible.

6.4 Conclusion

Healthcare costs in Singapore are expected to rise further with the ageing population, changing disease patterns, medical advances and rising public expectations. Collective effort by both the Government and citizens is necessary to ensure that healthcare remains affordable in the long term. Expanding the role of insurance in healthcare financing and deploying resources more efficiently and effectively through the right-siting of care will be key areas of focus in healthcare reforms going forward.

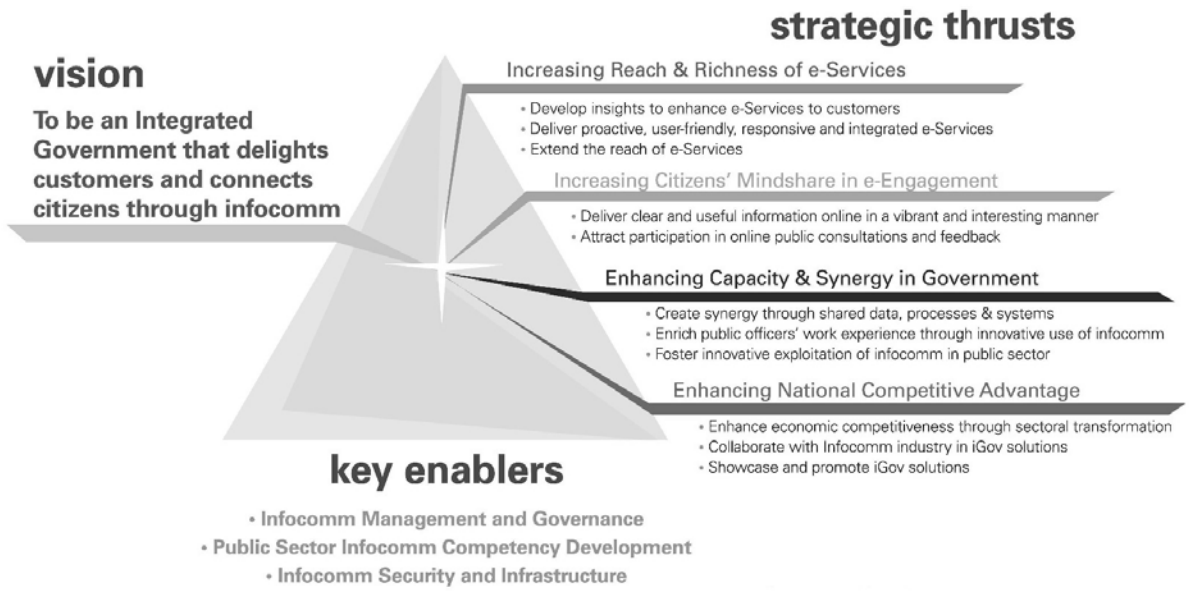
7 iGov2010 – Towards an Integrated Government

E-government is a big contributor to Singapore's reputation for being efficient and effective. We have been consistently ranked among the top three in international e-government benchmarking studies. Over 1,600 services that are offered over the counter are available on the Internet. 85% of Singaporeans who transacted with the Government on the Internet are satisfied with the standard and suite of e-services. To make these services accessible to Singaporeans who have no home Internet connection, 27 Citizen-Connect centres have been set up for them to transact electronically with the Government free of charge. Dedicated service staff are there to help users who need assistance in the Internet transactions.

Making government services accessible on a 24/7 basis is one thing. Offering services that cut across different parts of the Government in a seamless way is quite another. To bring about a greater integration of the Government and government services, an iGov2010 programme has been initiated. The "i" stands for "integration", and 2010 is when we hope the full benefits of the programme will be realised.

iGov2010 is a $2 billion five-year masterplan to bring about a new orientation of the Government – many government agencies working together in an integrated way to bring Singapore to a higher level of service excellence that all Singaporeans can be proud of (see Figure 7.1).

Figure 7.1: Vision and Strategic Thrusts of iGov2010



The Government will continue to involve the private and people sectors in public sector offerings through Public-Private-People Integration, or 3PI. 3PI projects are able to offer services to the customer which are not only provided by the Government, but also by the private and people sectors as well.

The *MyeCitizen* (www.myecitizen.sg) portal is an example of a 3PI project. Initially launched in 2002, the MyeCitizen portal provides personalised government alerts and notification services for citizens via email or Short Message Service (SMS). A more customer-centric version of 3PI MyeCitizen portal was launched in December 2006.

Customers who intend to travel can now book air tickets, purchase travel insurance, and apply for exit permit(s) within the same portal, while citizens moving house can choose to notify private sector organisations of their change in mailing address. This bundling of private and public sector services will offer a new level of convenience to the public when transacting online.

Another key focus is to enable transactions with the Government 24/7 and on the move. We call this *Mobile Government*. Many applications are possible. Today, more than 150 government services can be accessed via mobile phones. Only one common SMS number is required to access a wide range of government services for greater user friendliness and convenience. By 2008, services available via the mobile phone will be doubled to 300.

The Government will continue to invest heavily in Information Communication Technology (ICT) in its work and in service transformation and delivery. In line with the vision of an integrated public service and leveraging on the economies of scale, we are working towards a certain level of standardisation in the ICT environment within the Government. This will reap significant savings and pave the way for even greater service integration across the public service. The Government will bring this about through the *Standard ICT Operating Environment* (SOE) which will be implemented across all ministries, departments, organs of state and statutory boards. This is expected to be fully in place by 2010.

STATISTICAL ANNEX

Table 8.1: Overall Fiscal Position for FY1998 to FY2007 ($million)

	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006 (Revised)	FY2007 (Budgeted)
Operating Revenue	**27,911**	**30,645**	**31,439**	**28,496**	**25,469**	**25,315**	**27,469**	**28,171**	**29,999**	**32,359**
Tax Revenue	21,551	22,623	25,628	24,172	21,502	21,501	23,799	25,687	27,827	30,004
Fees and Charges	3,152	4,564	5,650	4,134	3,805	3,492	3,366	2,246	2,031	2,200
Others [1]	3,208	3,458	162	190	162	321	305	238	141	156
Total Expenditure	**26,934**	**25,079**	**27,908**	**27,305**	**27,152**	**28,499**	**28,957**	**28,634**	**30,547**	**32,998**
Operating Expenditure	**14,652**	**14,868**	**18,415**	**18,536**	**19,359**	**19,991**	**20,355**	**21,445**	**24,427**	**25,876**
Running Costs	13,359	13,589	15,047	16,387	17,051	17,295	17,797	18,874	20,151	21,720
Transfers	1,292	1,278	3,368	2,149	2,308	2,696	2,558	2,570	4,277	4,155
Development Expenditure [2]	**12,282**	**10,211**	**9,494**	**8,769**	**7,793**	**8,508**	**8,602**	**7,189**	**6,120**	**7,122**
Direct Development	6,986	6,371	5,462	4,503	3,962	4,221	4,349	3,522	2,908	3,176
Capital Grant	5,296	3,840	4,032	4,266	3,831	4,287	4,150	3,663	3,166	3,818
Capital Injections	-	-	-	-	-	1	-	4	46	128
Primary Surplus/(Deficit)	**977**	**5,566**	**3,531**	**1,190**	**(1,683)**	**(3,184)**	**(1,487)**	**(463)**	**(549)**	**(639)**
Special Transfers:			**1,835**	**5,264**	**1,802**					
New Singapore Shares	**52**	**682**				**603**	**1,661**		**3,580**	**2,071**
Growth Dividends				2,450				**829**		
Economic Restructuring Shares									1,370	
GST Credits	-	-	-		1,201	-	-	-		-
Senior Citizens' Bonus	-	-	-	-		600	854	-	80	-
Workfare Bonus Scheme Fund and Workfare Income Supplement Scheme	-	-	-	-	-	-	-	-	-	530
Utilities-Save Scheme	-	-	-	-	-	-	-	-	-	102
Service and Conservancy Charges/Rental Rebates [3]	-	-	-	-	-	-	-	-	400	200
40th Anniversary NS Bonus	-	-	-	-	-	-	-	63	64	150
Top-Up to Endowment Funds[4]/ Skills Development Fund	-	-	-	-	-	-	8	59	36	83
National Research Fund	-	-	-	1,800	-	-	-	-	200	-
CPF Top-Ups [5]	-	300	800		600	-	700	250	400	300
Edusave Account, Opportunity Funds and PSEA	-			1,010		-			500	500
MediShield Scheme for the Elderly	-	382	913		-	-	-	412	480	
Other measures for Elderly and Lower Income[6]	52			-	0	4	99	45	50	200
NII Contribution	-	-	108		-	-	-			
	-	-		4	-	-	-	-	-	-
Overall Budget Surplus/ (Deficit)	-	-	**2,287**	**1,325**	**3,675**	**1,901**	**3,043**	**2,777**	**2,845**	**2,019**
			14							6
	925	**4,885**	**3,983**	**191**				**1,486**		

* Fiscal position might not be comparable across financial years due to reclassification of revenue and expenditure items. Figures may not add up due to rounding.
[1] Prior to the Constitutional amendments to protect 50% of NII in FY2007, interest on development loans was classified as 'Others'.
[2] Development Expenditure excludes land-related expenditure from FY2001.
[3] Prior to FY2005, Service and Conservancy Charges and rental rebates were subsumed under Ministry of National Development's Operating Expenditure.
[4] Consist of top-ups to Edusave, Medical, Lifelong Learning, Community Care (formerly known as Community Assistance) and ElderCare Endowment Funds.
[5] Consist of CPF Ordinary Account, Pre-Medisave, Medisave and CPF Share Ownership Top-Up Schemes.
[6] Consist of Senior Pensioners Grant Scheme, Public Transport Fund and assistance through CCCs, SHGs and VWOs.

Table 8.2: Revenue Collections for FY1998 to FY2007 ($million)

	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006 (Revised)	FY2007 (Budgeted)
Operating Revenue	**27,911**	**30,645**	**31,439**	**28,496**	**25,469**	**25,315**	**27,469**	**28,171**	**29,999**	**32,359**
Corporate Income Tax	6,256	6,565	8,316	7,821	6,822	5,921	6,107	7,340	8,250	8,403
Personal Income Tax	3,275	3,507	4,030	4,547	4,049	3,862	3,956	4,324	4,676	5,155
Statutory Boards' Contributions	1,800	1,676	1,192	1,517	1,308	1,512	1,405	1,249	955	1,362
Assets Taxes	1,529	1,314	1,606	862	625	488	2,058	1,910	2,028	2,086
Customs and Excise Taxes	1,566	1,574	1,847	1,803	1,730	1,901	1,924	1,973	1,952	1,961
Goods and Services Tax	1,657	1,995	2,121	2,134	2,165	2,957	3,470	3,815	3,930	4,850
Motor Vehicle Taxes	1,205	1,719	2,506	1,972	1,446	1,486	1,392	1,432	1,647	1,740
Vehicle Quota Premiums	1,271	2,513	3,105	2,089	1,778	1,543	1,257	321	16	260
Betting Taxes	1,272	1,373	1,494	1,575	1,550	1,524	1,534	1,501	1,574	1,621
Other Taxes [1]	2,990	2,901	2,516	1,939	1,809	1,851	1,952	2,143	2,815	2,826
Other Fees and Charges	1,881	2,051	2,545	2,045	2,027	1,949	2,109	1,925	1,954	1,940
Others [2]	3,208	3,458	162	190	162	321	305	238	141	156

* Figures may not add up due to rounding.

[1] Consist of Stamp Duty, Foreign Worker Levy, etc.

[2] Prior to the Constitutional amendments to protect 50% of NII in FY2000, interest on development loans was classified as 'Others'.

Table 8.3: Operating Expenditure by Sector for FY1998 to FY2007 ($million)

	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006 (Revised)	FY2007 (Budgeted)
Total	**14,652**	**14,868**	**18,415**	**18,536**	**19,359**	**19,991**	**20,355**	**21,445**	**24,427**	**25,876**
Social Development	**5,433**	**5,410**	**6,654**	**7,770**	**7,946**	**8,615**	**8,500**	**8,778**	**10,547**	**11,067**
Education	3,167	3,257	4,277	4,767	4,824	4,997	4,975	5,215	6,357	6,352
National Development										
Health	402	358	325	398	409	414	377	336	661	784
Environment and Water Resources	992	936	1,072	1,445	1,451	1,904	1,604	1,680	1,843	2,058
Community Development, Youth and Sports	314	329	390	414	448	453	479	408	420	469
Information, Communications and the Arts	363	310	377	513	572	619	814	844	922	1,047
	194	220	213	234	241	228	251	294	344	357
Security and External Relations	**7,661**	**7,901**	**8,041**	**8,865**	**9,468**	**9,634**	**10,228**	**10,981**	**11,967**	**12,742**
Defence	6,481	6,647	6,561	7,089	7,694	7,714	8,243	8,889	9,691	10,227
Home Affairs	1,032	1,101	1,300	1,580	1,563	1,708	1,752	1,825	2,019	2,198
Foreign Affairs	148	153	180	196	211	212	233	267	257	316
Economic Development	**893**	**865**	**2,908**	**1,113**	**1,133**	**995**	**884**	**919**	**1,003**	**1,092**
Transport	442	409	2,390	406	385	292	289	277		
Trade and Industry	315	366	412	553	564	497	392	436	293	325
Manpower	136	91	107	130	156	158	161	166	481	510
Info-Communications and Media Development[1]	-	-	-	24	28	47	42	39	191	219
Government Administration	**664**	**692**	**811**	**788**	**812**	**747**	**743**	**768**	37	37
Finance	310	339	388	352	379	333	318	345	**910**	**975**
Law	97	109	120	112	103	96	97	100	435	447
Organs of State	135	136	170	173	186	182	167	186	112	122
Prime Minister's Office	123	108	134	151	143	135	141	136	202	213
									161	193

* Figures may not add up due to rounding.

[1] Media Development programme has been reclassified from social development to economic development.

Table 8.4: Development Expenditure by Sector for FY1998 to FY2007 ($million)

	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006 (Revised)	FY2007 (Budgeted)
Total[1]	**12,282**	**10,211**	**9,494**	**8,769**	**7,793**	**8,508**	**8,602**	**7,189**	**6,120**	**7,122**
Social Development	**5,278**	**5,141**	**4,517**	**4,170**	**3,971**	**4,387**	**3,858**	**2,944**	**2,169**	**2,863**
Education	1,686	1,601	1,591	1,473	1,774	1,218	1,239	867	609	681
National Development	2,003	2,172	2,069	1,770	1,089	1,865	1,153	1,010	678	1,208
Health	251	153	140	145	82	103	114	85	89	222
Environment and Water Resources	1,042	945	528	502	771	952	1,101	775	586	401
Community Development, Youth and Sports	138	132	92	118	112	90	97	97	103	231
Information, Communications and the Arts	158	139	97	162	143	160	155	110	102	119
Security and External Relations	**1,647**	**1,403**	**1,585**	**1,362**	**1,068**	**1,020**	**899**	**869**	**813**	**842**
Defence	775	620	861	730	509	524	377	363	355	351
Home Affairs	847	729	654	570	478	439	473	460	372	407
Foreign Affairs	24	53	70	62	81	57	49	46	86	84
Economic Development	**4,488**	**2,882**	**3,147**	**2,906**	**2,255**	**2,615**	**3,016**	**2,746**	**2,826**	**3,100**
Transport	1,737	720	1,130	1,508	1,203	1,115	1,776	1,617	1,501	1,574
Trade and Industry	2,646	2,073	1,820	1,293	1,009	1,421	1,154	1,055	1,266	1,473
Manpower										
Info-Communications and Media Development[2]	12	6	18	82	38	54	52	36	24	25
Government Administration	**870**	**786**	**245**	**331**	**499**	**486**	**828**	**630**	**312**	**318**
Finance	338	199	57	70	100	214	308	350	100	148
Law	402	310	131	213	325	184	329	218	170	128
Organs of State	98	251	38	30	33	47	151	31	15	16
Prime Minister's Office	32	25	18	18	41	42	40	32	28	26

* Figures may not add up due to rounding. Expenditure on Research and Development has been reclassified as part of ministry's expenditure for FY1998 to FY2000.

[1] Development Expenditure excludes land-related expenditure from FY2001.

[2] Media Development programme has been reclassified from social development to economic development.

Table 8.5: Total Expenditure by Sector for FY1998 to FY2007 ($million)

	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006 (Revised)	FY2007 (Budgeted)
Total[1]	**26,934**	**25,079**	**27,908**	**27,305**	**27,152**	**28,499**	**28,957**	**28,634**	**30,547**	**32,998**
Social Development	**10,711**	**10,551**	**11,171**	**11,940**	**11,917**	**13,001**	**12,358**	**11,721**	**12,716**	**13,930**
Education	4,853	4,857	5,868	6,240	6,598	6,214	6,214	6,082	6,966	7,034
National Development	2,405	2,529	2,393	2,167	1,498	2,278	1,529	1,346	1,340	1,992
Health	1,243	1,089	1,212	1,591	1,533	2,007	1,718	1,765	1,932	2,280
Environment and Water Resources	1,356	1,274	918	916	1,219	1,405	1,579	1,183	1,007	870
Community Development, Youth and Sports	501	442	469	631	684	709	912	941	1,025	1,278
Information, Communications and the Arts	352	359	311	396	385	388	406	404	447	476
Security and External Relations	**9,308**	**9,303**	**9,626**	**10,228**	**10,536**	**10,654**	**11,127**	**11,850**	**12,780**	**13,584**
Defence	7,256	7,267	7,422	7,819	8,203	8,238	8,620	9,252	10,046	10,578
Home Affairs	1,880	1,830	1,954	2,150	2,040	2,147	2,225	2,285	2,391	2,605
Foreign Affairs	172	206	250	258	293	270	282	313	343	400
Economic Development	**5,382**	**3,747**	**6,055**	**4,020**	**3,389**	**3,610**	**3,900**	**3,665**	**3,829**	**4,192**
Transport	2,179	1,129	3,520	1,914	1,588	1,408	2,066	1,894	1,794	1,900
Trade and Industry	2,961	2,439	2,232	1,846	1,573	1,918	1,545	1,491	1,747	1,983
Manpower	148	97	124	212	194	212	213	202	215	244
Info-Communications and Media Development[2]	94	82	179	47	33	73	75	78	73	65
Government Administration	**1,534**	**1,478**	**1,056**	**1,118**	**1,310**	**1,233**	**1,571**	**1,398**	**1,222**	**1,293**
Finance	648	538	445	422	479	547	626	696	535	594
Law	499	419	251	325	427	280	426	318	282	250
Organs of State	233	387	208	202	219	229	338	217	217	229
Prime Minister's Office	155	133	152	169	185	177	181	167	189	219

* Figures may not add up due to rounding. Expenditure on Research and Development has been reclassified as part of ministry's expenditure for FY1998 to FY2000.
[1] Development Expenditure excludes land-related expenditure from FY2001.
[2] Media Development programme has been reclassified from social development to economic development.

Table 8.6: Total Expenditure by Expenditure Type for FY1998 to FY2007 ($million)

	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006 (Revised)	FY2007 (Budgeted)
Total Expenditure	**26,934**	**25,079**	**27,908**	**27,305**	**27,152**	**28,499**	**28,957**	**28,634**	**30,547**	**32,998**
Operating Expenditure	**14,652**	**14,868**	**18,415**	**18,536**	**19,359**	**19,991**	**20,355**	**21,445**	**24,427**	**25,876**
Running Costs	**13,359**	**13,589**	**15,047**	**16,387**	**17,051**	**17,295**	**17,797**	**18,874**	**20,151**	**21,720**
Expenditure on Manpower	2,896	2,872	3,276	3,351	3,370	3,375	3,535	3,629	3,956	4,038
Operating Grant	2,248	2,247	3,031	3,735	3,858	4,042	4,039	4,244	3,896	4,226
Other Operating Expenditure	8,215	8,469	8,740	9,302	9,824	9,878	10,222	11,001	12,298	13,456
Transfers	**1,292**	**1,278**	**3,368**	**2,149**	**2,308**	**2,696**	**2,558**	**2,570**	**4,277**	**4,155**
Social Transfers	228	295	309	394	491	457	485	546	636	722
Subventions	1,064	983	3,058	1,754	1,817	2,240	2,073	2,024	3,640	3,434
Development Expenditure[1]	**12,282**	**10,211**	**9,494**	**8,769**	**7,793**	**8,508**	**8,602**	**7,189**	**6,120**	**7,122**
Direct Development	6,986	6,371	5,462	4,503	3,962	4,221	4,349	3,522	2,908	3,176
Capital Grant	5,296	3,840	4,032	4,266	3,831	4,287	4,150	3,663	3,166	3,818
Capital Injections	-	-	-	-	-	1	103	4	46	128

* Figures may not add up due to rounding.

[1] Development Expenditure excludes land-related expenditure from FY2001.

Table 8.7: Headcount by Ministry for FY1998 to FY2007

	FY1998[1]	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006 (Revised)[2]	FY2007 (Budgeted)[3]
Civil List	47	45	45	50	47	51	53	52	54	54
Attorney-General's Chambers	212	209	212	255	276	282	274	270	302	302
Auditor-General's Office	178	167	150	163	157	146	127	112	127	127
Cabinet Office	12	11	11	10	10	10	10	10	15	12
Judicature	699	752	739	707	678	716	571	540	793	793
Parliament	41	47	48	53	55	54	48	52	57	57
Presidential Councils	6	6	5	7	8	8	8	8	10	10
Public Service Commission	8	8	9	8	9	8	9	9	10	10
Community Development, Youth and Sports	3,448	3,568	3,968	4,054	4,194	4,009	3,719	3,709	3,782	4,070
Defence	805	1,525	1,525	1,526	1,527	1,524	1,525	1,524	1,525	1,525
Education	43,731	45,640	48,933	49,370	51,128	51,099	51,462	52,844	58,204	58,662
Environment and Water Resources	5,472	5,449	4,958	4,751	4,757	4,500	4,501	3,817	3,531	3,713
Finance	3,893	3,944	3,569	3,900	3,614	3,044	2,649	2,529	2,936	3,052
Foreign Affairs	1,048	1,002	1,062	1,081	1,082	1,111	1,074	1,121	1,269	1,287
Health	5,052	4,855	1,670	948	939	1,038	1,125	1,097	1,211	1,219
Home Affairs	16,847	18,366	18,135	18,928	19,373	20,173	20,965	20,899	22,100	23,050
Information, Communications and the Arts	1,393	1,405	1,454	2,002	2,058	2,063	2,547	2,530	3,019	3,051
Law	698	773	820	787	853	741	709	677	757	763
Manpower	776	970	1,020	1,069	1,208	1,277	1,327	1,397	1,895	1,905
National Development	11,947	10,985	10,601	10,596	10,259	7,391	7,136	6,666	7,360	7,360
Prime Minister's Office	654	528	558	421	425	421	415	450	552	531
Trade and Industry	2,027	2,097	1,970	2,487	2,545	2,503	2,491	2,544	2,746	2,816
Transport	2,766	3,230	3,977	3,822	3,756	3,776	3,623	3,534	3,719	3,726
Total	**101,760**	**105,582**	**105,439**	**106,995**	**108,958**	**105,945**	**106,368**	**106,391**	**115,974**	**118,095**

[1] Numbers for FY1998 to FY2005 are for actual headcounts.
[2] Numbers for FY2006 are for revised establishments.
[3] Numbers for FY2007 are for budgeted establishments.

Note:
Establishments reflect the number of officers that ministries *could* hire, but is not reflective of actual headcount, as establishments may not be filled by ministries even though they may be kept in anticipation of a future need. E.g., The revised establishments for FY2005, as reported in Budget Highlights 2006, was 112,156, but the actual headcount for FY2005, reported here, was only 106,391.

GLOSSARY

9.1 Glossary of Terms

Assets Taxes
Assets taxes in Singapore comprises property tax and estate duty.

Best Sourcing
A tool under the Economy Drive designed to determine the most economic provider of government services through market-testing, i.e. comparing in-house service provision with market alternatives, so that the Government can select the service channel and service provider that offers the best value for money.

Betting Taxes
Covers all taxes on gambling activities, including horse racing, four-digit (4D) numbers, Toto, Singapore Sweep, football betting, slot machines in private clubs, and casino games when the Integrated Resorts are in operation.

Block Budget Framework
Under the Block Budget Framework, ministries' budgets are capped as a fixed percentage of a smoothened measure of the nominal GDP. Their budgets therefore adjust in line with the overall state of the economy. Block budgets establish limits on spending by each ministry and by Government as a whole.

Budget Outturn
Refers to the resulting budget position for a specified time period. It may be positive (budget surplus) or negative (budget deficit).

Buoyancy/Buoyant
Buoyancy measures the percentage change in revenue for a given percentage change in tax base *as observed*. E.g. a buoyancy of 1 with respect to GDP (as tax base) means that the revenue grows by 1% for every 1% growth in GDP. Buoyancy shows the total response of the tax system due to both changes in the base as well as changes in tax laws, e.g. deliberate changes in rates, expansion of legal tax base etc. Buoyant revenue sources (with buoyancy of close to 1 or greater) include Corporate Income Tax, Personal Income Tax and the Goods and Services Tax.

Consumer Price Index (CPI)
Inflation is a rise in the aggregate level of prices. A common measure of inflation is the Consumer Price Index (CPI), which tracks the prices of a specified basket of goods and services purchased by a typical consumer, and multiplies these prices by the relative importance of each of these goods and services to obtain an aggregate index for the price increase experienced by consumers.

Countercyclical
Moving in the opposite direction compared to the overall economic cycle: rising when the economy is weakening, and falling when the economy is strengthening (see also procyclical).

Customs Duty
A tax on goods imported into Singapore. In Singapore, customs duty is principally imposed on stout and porter, beer and ale, medicated samsu and other samsu.

Deadweight Loss
A loss in social welfare arising from a policy or action that has no corresponding gain. It represents economic inefficiency. From the policy perspective, it reflects the part of the cost of a policy that has to be incurred but does not further the objective of the policy. For example, the cost of providing subsidies to those who are unemployed to encourage them to return to work includes some deadweight loss as some subsidies will also be paid to people who would have returned to work even without the subsidy.

Development Expenditure
Generally refers to expenses that represent a longer-term investment and result in the formation of a capitalisable asset of the Government. Examples of spending areas are the acquisition of heavy equipment as well as capitalisable assets, e.g. buildings and roads.

Direct Tax
Tax levied on the income and capital of individuals or organisations, over which

the taxpayer has no direction. Examples of direct taxes include Personal Income Tax and Corporate Income Tax. (see also indirect tax)

Elasticity
Elasticity measures the relative sensitivity of a variable to changes in another variable. E.g. elasticity of labour demand measures the percentage change in labour demand (quantity) given a percentage change in wage (price). The elasticity of a tax thus measures the percentage change in tax revenue to a percentage change in the tax base (often GDP) with a *given* tax structure, i.e. the built-in responsiveness of the tax to variations in its base only.

Endowment Funds
Funds established with an initial injection of Government monies, and set up to finance specific programmes on an ongoing basis, catering to various needs of Singaporeans. The income generated by endowment funds is used to fund ongoing programmes. The five key Government endowment funds include the Lifelong Learning Fund, the ElderCare Fund, Medifund, Edusave Fund and ComCare Fund.

Estate Duty
Duty charged on the assets of a deceased person.

Excise Tax
A tax on goods whether manufactured in Singapore or elsewhere. In Singapore, excise taxes is imposed principally on tobacco, petroleum products, motor vehicles and liquor.

Financial Year (FY)
Singapore Government's Financial Year 2007 is from 1 April 2007 to 31 March 2008.

Fiscal Impulse
A measure of the first-order impact of the Government's net injection or withdrawal from the economy arising from its fiscal policy. If the Government extracts more revenue than it spends as compared to a previous year, it is subtracting from the aggregate demand pressures inherent in the economy, fiscal impulse would be deemed as contractionary (negative). Conversely, if the Government extracts less revenue than it spends as compared to a previous year, this would be deemed as an expansionary (positive) fiscal impulse.

Goods and Services Tax (GST)
Goods and Services Tax (GST) is a tax on domestic consumption of almost all goods and services in Singapore. The tax is paid when money is spent on goods or services, including imports. It is a multi-stage tax which is collected at every stage of the production and distribution chain. GST is often used inter-changeably with the Value Added Tax (VAT).

Gross Domestic Product (GDP)
A measure of the total flow of goods and services produced by the economy over a specified time period, normally a year. It is obtained by valuing outputs of goods and services at market prices. Real GDP refers to GDP figures adjusted for inflation.

Indirect Tax
Tax levied on expenditure usually collected by intermediaries, e.g. betting duties, excise duties, Value Added Tax (see also direct tax).

Inflation (see CPI)

Manpower Management Framework (MMF)
MMF was introduced in August 2004 to encourage ministries to examine and reprioritise their functions carefully, and keep the public sector lean and trim. It applies to all ministries, departments and statutory boards with an across-the-board target headcount reduction of 3% *per year* from FY2004 to FY2006. This framework is further extended via the 3-year Headcount Freeze to ensure that ministries continue to exercise restraint in the use of manpower.

Net Investment Income (NII)
Under the Constitution (Article 142(2) & (4)), Net Investment Income (NII) refers to

the dividends, interest and other income received from investing our reserves, as well as interest received from loans, after deducting expenses arising from raising, investing and managing the reserves.

Net Investment Income Contribution (NIIC)
NIIC, as reflected in the budget statements, is the part of NII that is taken into the budget to augment the Government's revenues, and ensure a sustainable fiscal position.

Operating Expenditure
Generally refers to expenses incurred to maintain the operations and other regular activities of the Government. Components include Expenditure on Manpower (EOM) – for wages of public service officers, Other Operating Expenditure (OOE) – for all other forms of expenditure incurred in the running of the Government, and operating grants to statutory boards and aided educational institutions, which support the day-to-day running of these agencies.

Operating Revenue
Refers to Government receipts credited to the Consolidated Revenue Account and Development Fund Account excluding investment and interest income, capital receipts (lumpy and less regular in timing) and investment adjustments.

Output Gap
The output gap is the difference between the actual level of activity in an economy (as measured by GDP) versus the sustainable amount of activity given the capacity of the economy (i.e. the level of GDP that the economy could potentially achieve without creating unhealthy inflationary pressures). It measures the degree of resource utilisation of the economy. The output gap is typically reported as a percentage of GDP to give a sense of the proportion by which the economy is over- or under-capacity. Where the output gap is negative (deflationary gap), the economy is not operating at full capacity, and may well be in danger of sliding into a recession if demand is not boosted. Where the output gap is positive (inflationary gap), it indicates that the economy is operating over-capacity, resources are stretched and inflation pressures are strong.

Primary Budget Position
The Primary Budget position, defined as Operating Revenue less Total Expenditure, measures the ability of the Government to meet its annual expenditures through its regular collection of revenue (taxes, fees and charges).

Procyclical
Moving in the same direction as the overall economic cycle: falling when the economy is weakening, and rising when the economy is strengthening (see also countercyclical).

Public Private Partnership (PPP)
A model under the Best Sourcing framework, Public Private Partnerships (PPP) is a long-term partnering relationship between the public and private sectors to bring together the expertise and resources of the public and private sectors to provide services to the public more efficiently and effectively, particularly in those that require the use of new infrastructure assets.

Reinvestment Fund (RF)
First set up in FY2004, it is a systematic mechanism to reallocate fiscal resources across ministries to adjust to new priorities across the whole of government. A certain percentage of the budget of each ministry is extracted and pooled into the RF. Ministries then bid competitively for funding from this RF for new and worthwhile initiatives.

Stamp Duty
A tax imposed on commercial and legal documents relating to stock and shares and immovable property.

Total (Government) Expenditure
Sum of Operating and Development Expenditure. It excludes Special Transfers unless mentioned.

Value Added Tax (VAT)
An indirect tax levied on domestic consumption of most goods and services. Often used inter-changeably with the Goods and Services Tax (GST).

Wage Subsidy
A subsidy typically aimed at increasing the wages of the working poor to encourage the supply of labour (higher take home pay for workers) or increase the demand for labour from employers (lower perceived hiring cost for workers). This could either take the form of ***wage support***, where the subsidy is targeted at the employers to encourage them to hire, or ***wage supplementation***, where the wage subsidy is directed at the employee.

Wage Supplementation (see Wage Subsidy)

Wage Support (see Wage Subsidy)