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**1979 BUDGET STATEMENT
MADE BY MR GOH CHOK TONG
SENIOR MINISTER OF STATE FOR FINANCE
IN PARLIAMENT ON 5 MARCH, 1979**

Mr Speaker, Sir,

I beg to move

"That Parliament approves the financial policy of the Government for the financial year 1st April 1979 to 31st March 1980".

Sir, I would like to inform the House that I am delivering the Budget Statement on behalf of my Minister, the Minister for Finance.

Sir, I have earlier distributed to Honourable Members of the House my "Economic Survey of Singapore 1978". Before spelling out the financial policy for the coming year, I would like to highlight the more important features of our economic performance last year, and set out our economic objectives for the coming year.

Singapore's Economy in 1978

World economic performance in 1978 was lackadaisical. The industrialised countries grew at 3.5 per cent, a quarter of a per cent lower than the previous year. The volume of world trade grew at 5 per cent, marginally higher than the rate in 1977. The rate of inflation, however, eased slightly, and for the Organisation for Economic Cooperation and Development (OECD) countries, it was around 8 per cent.

Last year was the Year of the Horse and my confidence that Singapore would put on the extra gallop to challenge and beat the 1977 growth rate was not misplaced.

The Singapore economy grew by 8.6 per cent, better than our expectation of a 6-8 per cent growth, and higher than the 7.8 per cent achieved in 1977. At current prices, growth was 9.7 per cent. Growth was achieved amidst price stability as the GDP deflator rose by only 1.0 per cent compared to 1.5 per cent in 1977. However, as a result of rising food prices, particularly of rice, the Consumer Price Index rose by 4.8 per cent against an increase of 3.2 per cent in 1977.

While our growth can be considered satisfactory, our workhorse was no match for the swifter stallions in Hong Kong, Taiwan and South Korea. Their economies raced along at between 10-13 per cent last year.

The engine of growth in Singapore last year was the transport and communications sector. It grew by 16 per cent and accounted for 30 per cent of the increase in GDP. The manufacturing sector came second, growing by 12 per cent and contributing 28 per cent of the incremental GDP. Especially heartening was the invigorating **recovery** in private investments in capital equipment. After 3 years of continuous decline following the oil crisis in 1974, private investments in plant and machinery increased by 20 per cent in 1978. This augurs well for the manufacturing sector and the economy in the next few years.

In 1978, 41,000 jobs were created, mostly in the manufacturing sector (21,000), and the commerce sector (12,000). As a result, unemployment fell to a record low of 3.6 per cent.

Singapore's external trade rose by 15 per cent to reach \$52.6 billion in 1978. This was, however, lower than the rate of 18 per cent achieved in 1977. Imports increased at a faster rate than exports thus widening the visible trade deficit by \$1,183 million to \$6.6 billion.

This is a reversal of the trend since 1975. The main reason for this was the slower expansion of our exports, both domestic and re-exports. Notwithstanding this, Singapore's balance of payments continued to be in healthy surplus because of higher capital inflows.

Visitor arrivals in the tourist sector exceeded 2 million during the year, registering a growth of 10 per cent. Our financial and business services also continued to expand. Loans and advances of banks and ACUs increased by 20 per cent and 21 per cent respectively. Activity was much higher in the local stock market than the previous year's.

All in all, 1978 was a satisfactory year for us.

Problems and Prospects for 1979

I am not optimistic about the outlook for world economic growth in 1979. The present cautious growth policies of industrialised countries are not expected to generate growth of more than 3 per cent in 1979. Many believe that the United States economy in the wake of recent stringent monetary policies will decelerate. It is hoped that there will be an off-setting expansion in Japan, West Germany and other smaller industrialised countries. Given our open economy, and our dependence on industrialised countries for export markets, any slowdown in the world economy will have an adverse effect on Singapore.

An added depressant to the world economic outlook is the proposed 4-stage oil price increase totalling 14.5 per cent in 1979 by OPEC. Even more sombre is the prospect of a world oil shortage following disruption of supply from Iran. The future supply and price of oil will determine the world economic performance. As for ourselves, we should step up

efforts to economise on the consumption of oil and electricity.

Last year, I warned the House of the protectionist sentiments in the world. Protectionism has now been extended to the air.

The new duopolistic end-to-end International Civil Aviation Policy initiated by Australia and apparently supported by other developed countries, will stifle the growth of airlines of intermediate developing countries and affect their tourist-related industries. Singapore stands to lose about 50 per cent of the present number of Australian tourists, besides the loss of revenue for our national carrier. Singapore together with ASEAN and the Group of 77 developing countries must resist the protectionist tendencies of developed countries and help bring about an international economic order that will benefit the developing countries.

In the light of the above problems, we must improve on our past efforts and performance if we wish to achieve the same growth rate in 1979 as in 1978.

I would now like to examine in more detail the specific objectives that we will be pursuing in 1979.

Industrial Development

1978 was the best year for the manufacturing investments since 1975. Investment commitments totalled \$825 million, representing an increase of 100 per cent over 1977. If a major petroleum project of \$330 million was excluded, the increase was still a creditable 43 per cent. Our major investors continued to be Japan and United States. Expansions and diversifications of existing industries in 1978 as a percentage of total commitments rose to 56 per cent, from 48 per cent last year. This

testimonial on our investment climate from those who are here is our best promotional tool for new investments.

If the volume of commitments matters, the quality of such commitments matters even more. Over the years, the type of industries that we have attracted has become increasingly sophisticated, with higher value added per worker. The value added per worker in manufacturing has risen in real terms by 31 per cent since 1970. In 1978 the value added per worker was \$21,000. But we still have many more rungs to climb. The value added per worker in 1976 was \$47,000 in Germany and \$53,000 in the United States. We have therefore a long way to go before our industries can reach the standards of those of the developed countries.

In our future investment promotion, we should recognise our strengths and weaknesses. We should promote industries that can take full advantage of our intrinsic strengths such as a good geographical location with developed infrastructure and a pool of increasingly skilled and semi-skilled labour available at competitive costs. We should recognise our limitations of a small domestic market, lack of energy and other natural resources, and a small land area. The industrial products we would favour in the future should be small, high value, readily transportable, non-pollutive, and which use relatively less natural resources such as land, water and energy. Thus the products that EDB will be promoting in the future will include precision instruments such as watches, cameras and measuring instruments, pharmaceuticals and other fine chemicals, aircraft servicing and parts production, automotive components and computer related products. In promoting specific products, we must also be aware of the need to have those which would be less sensitive to protectionist sentiments in the industrialised countries.

Thus far our industrialisation drive has depended largely on foreign expertise and technology through the multinationals. This is inevitable if we wish to have access to modern technology. But it is also time that we complement this with indigenous research and development, if only to imbibe foreign technology and adapt them to local uses. The Product Development Assistance Scheme which was introduced last year has received a fair response. Some 10 applications are being considered. To further assist product development, we will be prepared to extend to new manufacturing companies the existing provision which currently permits only existing companies to deduct expenditure incurred on research and development for income tax purposes.

My Ministry is currently developing a long term research and development plan for Singapore in conjunction with interested bodies such as the Singapore Institute of Standards and Industrial Research (SISIR), the Science Council of Singapore, the Applied Research Corporation (ARC), and the Ministry of Science and Technology. Such a plan must provide for the development and training of sufficient scientists, researchers and designers to make our efforts successful. We do not intend to undertake the type of basic research that can best be done by large countries with ample resources. There are, however, areas where product related research can help us raise the technological sophistication of our industries.

Trade Development

The prospects for world trade expansion in 1979 are not bright.

The much delayed Multilateral Trade Negotiations which will reduce or eliminate tariff and non-tariff barriers to trade appear ready for endorsement soon by participating countries. But its effects on trade liberalisation will be very gradual as the implementation of the MTN Agreement will be spread over a number of years.

To overcome this dim outlook, aggressive export promotion of competitively produced goods is our only answer. In 1978, Singapore

participated in 11 international trade fairs and 9 trade missions overseas. These efforts enabled 130 Singapore companies to secure \$88 million worth of orders. Greater emphasis was given to the promotion of higher value products. Local firms were also encouraged to pool their resources in joint marketing efforts. A trade office was established in Los Angeles in 1978 whilst new offices in West Asia will be opened in 1979. During the year, 10 training programmes and export promotion were also organised to enhance the skills of local exporters.

The double tax deduction scheme currently applicable to expenses incurred in the participation in trade fairs, trade missions and setting up of overseas offices has been found to be useful to exporters. Since its introduction, 503 companies have taken advantage of the scheme. To encourage more aggressive marketing overseas, the double tax deduction scheme will now also apply to expenses incurred in advertising and promotional campaigns overseas, the production of sales literatures and brochures, and the undertaking of market surveys.

A Trade Development Committee was set up in my Ministry in August 1978 to consider the feasibility of setting up a Trade Development Council, its organisational structure and financial requirements. The Committee has the participation of the various Chambers of Commerce and the Singapore Manufacturers' Association as well as the Trade Department and the EDB. The Committee is expected to make its recommendation very soon to Government. We are prepared to support the setting up of such a Council provided it serves the real needs of our exporters and have their active support and participation.

Services Development

Our services sector continued to be a major growth sector, led by air and sea transport and telecommunication services.

In the development of financial services, two significant events took place. Firstly, exchange controls were completely removed in June last year. This should facilitate the growth of trade. Secondly, a gold exchange was established in November. It is the first gold exchange for the Asian Pacific region to be opened to international investors. Trading on the exchange so far has been encouraging. Meanwhile the Asian Dollar Market continued to grow, by 29 per cent in 1978. For the coming year, we will see to it that our financial centre develops further.

In the field of tourism, there was further growth in 1978. The average hotel room occupancy rose by 4 per cent to 87 per cent, indicating a tight hotel room supply situation even though 960 rooms were added during 1978. An additional 3,300 rooms which have been approved for construction will be available in mid-1981.

If the protectionist policy in civil aviation of Australia succeeds, and worse, proliferates, the volume of tourist stopover traffic in Singapore will decrease. We must therefore increasingly develop Singapore as a destination point in the Pacific area. Tourists can only be attracted to Singapore if there are sufficient attractions and diversions here and in the neighbouring countries. One way to do this is to develop Singapore into a resort destination. Unfortunately there are currently no resort hotels of international class in Singapore. We are therefore prepared to consider giving incentives to a limited number of first class resort hotels which could be developed on Sentosa.

We need also to further develop our convention business in Singapore. Some success has been achieved so far with 151 conventions held in Singapore in 1978 compared to 120 in 1977. To ensure the availability of convention services, the Raffles International Centre project will incorporate a convention centre.

We have not been maximizing the export of our professional and technical expertise. I hope the reduction in company taxation for such overseas earnings to 20 per cent on which legislation will be introduced in the immediate future, will stimulate more efforts by the private sector in this direction. It has been contended that a good track record in the home country is a sine qua non for penetration of an overseas market. In order to beef up the experience of our local contractors and builders we will be introducing a scheme to provide a preferential margin for local contractors of up to 5 per cent with regard to Government tenders for building projects.

ASEAN Economic Cooperation

There was further progress made in ASEAN economic cooperation in 1978. ASEAN countries decided to accelerate the pace on trade liberalisation by increasing the number of items exchanged in each round of negotiations to 100 per country. At the end of 1978, 1326 items were exchanged under the Preferential Trading Arrangements of which 836 items were already in force with the rest to be implemented in March. In the industrial sector, the industrial projects of 3 countries namely Indonesia, Malaysia and Thailand have already been approved and are now ready for financing consideration by Japan. In the case of Singapore, we have decided to proceed with our diesel engine project as a normal national project.

ASEAN's major achievement during the year was in the field of external dialogues with the industrialised countries. Through meetings with the EEC and the USA at ministerial level, ASEAN won international recognition at the highest political level, setting the stage for future closer economic relations with the industrialised countries. We shall do our part to foster closer economic cooperation within ASEAN and to build up its strength as a regional entity.

Manpower Development

Since my last Budget Statement, the unemployment rate has dropped further to 3.6 per cent, the lowest on record. Inevitably, the tighter labour market has given rise to shortages in some sectors of the economy, particularly in labour intensive operations. This has been alleviated by a more liberal work permit policy which enabled the recruitment of more workers from neighbouring countries. At some future time when these workers return home, they could add to their supply of skilled and semi-skilled manpower for their industrial development.

The tighter labour market, however, underlines the importance of our policy to upgrade all our operations, whether in servicing or in manufacturing. Every worker must increase his skills and contribute his ~~maximum~~. Labour intensive operations should restrain their labour demands and switch to more capital intensive investments to achieve an increase in productivity. At the same time the Government will be increasing its institutional capability to produce more skilled workers. The EDB will be expanding its enrolment in the Government-industry training centres while the ITB will also be building up its capacity for vocational training.

A significant development during the year was the acceptance by the University of Singapore of graduates from the Singapore Polytechnic and Ngee Ann Technical College for admission into the undergraduate courses for engineering. This would help to increase our pool of higher level manpower.

Wage Policy

We will continue with our policy on orderly wage increases through the National Wages Council mechanism. It is only by rewarding workers commensurate with their productivity that our industries can remain competitive. Our objective must also be to narrow the wage differentials between blue collar and white collar jobs. Last year, it was gratifying to note that wage increases for production and related workers increased by 7 per cent, higher than the national average of 6 per cent. This in part reflects the intention of the 1978 NWC wage recommendation to narrow the differentials between industrial and service workers.

Monetary Policy

We shall continue to strive for monetary and exchange rate conditions which will help achieve our overall growth objectives. In our monetary policy we must ensure that there is adequate liquidity in our banking system to cater for economic growth. In our exchange rate policy, we aim to keep the Singapore dollar strong and stable.

Concluding Remarks on Economic Policy

In 1978, we trotted like the Horse, outpacing our performance in 1977 despite the sluggishness of the world economy. In 1979, the world looks like becoming a more difficult place to make a living in. Nevertheless, I am confident that Singaporeans will put on their mettle and will respond with that extra spurt. In the Year of the Goat, we should not lack the resilience, adaptability and cooperative effort to make 1979 another good year.

THE FY 79 BUDGET

Mr Speaker, Sir, I would now like to move on to the FY 79 Budget.

Expenditure

The total estimated expenditure for FY 79 is \$5,934 million. Of this, \$2,560 million or 43 per cent is for development, principally for economic services and public housing, which together account for 75 per cent of the proposed development expenditure. The allocation for economic services is \$1,071 million, of which a sum of \$562 million is to be spent on industrial and commercial development (largely as loans to the Jurong Town Corporation and Industrial and Commercial Enterprises) and \$393 million on development of Changi Airport and roads. Expenditure on public housing takes up \$836 million or 33 per cent of the development budget.

The total expenditure under the Main Estimates will be \$3,374 million, excluding transfer to the Development Fund. This is 12 per cent higher than for FY 78. It is required to maintain the present level of Government services.

Staff increases have been provided only for new functions or the expansion of present activities. The net increase in the permanent establishment for FY 79 including those posts created by Establishment Warrants during FY 78 is 926 posts or 1 per cent over the FY 78 establishment. Recruitment, to meet the shortages of officers in a number of Ministries, is progressing satisfactorily.

Stringent criteria have been used in approving increases in Other Operating Expenditure. The increase in such Expenditure, excluding the Armed Forces Expenditure, of \$31 million or 12 per cent over the FY 78 figure is because of expenditure on the replacement of Marine Police boats and on RTS engineering and production equipment, on rentals for the CPF Building and World Trade Centre by Ministries and Departments, and on the new Residents' Committees in Constituencies.

Grants, Subsidies and Other Transfers, comprising largely grants for the recurrent expenditure of Statutory Boards, tertiary education institutions and aided schools will increase by \$45 million or 12 per cent over the current provision. This increase is to cater for normal salary increments, increase in CPF contributions and provision for new posts.

Revenue

The total estimated revenue for FY 79 at existing tax rates is \$3,885 million, representing an increase of 5.6 per cent over the revised estimate for FY 78. This increase compares favourably with the expected revenue growth of 3.4 per cent for FY 78 over FY 77.

Income tax continues to account for the largest single source of revenue at 36 per cent of total revenue receipts. For FY 79, income tax is expected to yield \$1,400 million, an increase of 8 per cent over the expected receipts in FY 78.

The revenue estimate of \$3,885 million covers the estimated recurrent expenditure of \$3,374 million, leaving a surplus of \$511 million available for transfer to the Development Fund.

Despite this transfer, however, there is still a deficit of \$1,186 million to finance the large development expenditure. This will be met by borrowings and a drawdown of the Development Fund. The question can be asked whether this deficit should not also be partially financed by additional taxes - which brings me to the bugbear of every Budget Session - tax changes.

TAX CHANGES

For FY 79, I intend to introduce no new taxes. Instead, I intend to give the following tax concessions.

It is our policy that effort, talent and skills at all levels should be equitably rewarded. Tax is a necessary evil of any good government but it must never be so high as to become a disincentive to work harder.

Last year, the burden of personal income tax was lightened. The tax reduction varied from 7.7 per cent to 20.7 per cent, depending on the tax bracket. The average tax cut was 14.8 per cent.

The tax cut last year has checked the rising trend of personal income tax expressed as a percentage of total revenue. In 1970, personal income tax represented 7.3 per cent of total government revenue. It rose steadily every year until 1977 when it reached 13.8 per cent. With the substantial revision to personal income tax last year, its proportion to total government revenue has been brought down to within 10 per cent.

I am satisfied that the general tax burden on individuals in Singapore is well within the international average. I shall therefore not make any changes to personal income tax rates this year but will periodically review them to ensure that both the marginal tax rates and the effective average tax rates of tax payers in various income brackets will never be so high as to deter them from wanting to strive for more rewards through excellence in performance and diligence in application of time and effort.

The first three concessions which I intend to give are therefore aimed at rewarding hard work and encouraging saving for home ownership and old age security.

First. Members will recall that after the general revision to personal income tax rates last year, the CPF contribution was raised from 15½ per cent to 16½ per cent in July 1978. The maximum allowable deduction for CPF contribution and life insurance premia remained at \$4,000 per year. As a result, the benefits gained from the concession by the lower-middle income groups were eroded by their increased CPF contributions. Relatively most affected are those earning between \$1,900 and \$2,500 per month whose

CPF contributions at the present rate of 16½ per cent exceed \$4,000 per year and those whose income brackets are in the ranges which did not benefit from the reduced tax rates last year, ie, those with chargeable income between \$20,000 and \$35,000. To rectify this, I have decided to increase the allowable deduction for statutory CPF contributions to \$5,000 per year. This will also benefit all other tax payers whose CPF contributions exceed \$4,000 per year.

This exemption applies equally to contributions to other approved pension and provident fund schemes in lieu of CPF.

Where the statutory contributions exceed \$4,000 a year, no tax relief will be given for life insurance premia and other voluntary contributions to superannuation schemes. However, where the statutory contributions do not exceed \$4,000 a year, the difference is allowable for tax deduction on contributions made to other approved pension and provident fund schemes and premia on life insurance policies.

This concession will take effect from Year of Assessment 1980.

The revenue loss is estimated at \$4.9 million per year.

Second. At present, only half the pension received by resident pensioners is taxed. Out of the total number of 1,240 resident pensioners who paid income tax in 1977, 800, or 64.5 per cent of them, had chargeable income, including pension income, of less than \$7,500 per year. 412, or 33.2 per cent, had chargeable income of \$2,500 per year or less. For this group of pensioners, the pension income constitutes 82 per cent of the chargeable income. For them, the pension is practically the only source of income and sustenance. Another 260 pensioners, or 21.0 per cent of the total number of tax-paying pensioners, had chargeable income

including pension of between \$2,500 to \$5,000 per year. Having considered this, and recognising both the past services rendered to the nation by pensioners and the ravages of inflation, I have decided to remove the tax burden on resident pensioners, even though as I have told the House on another occasion that there was nothing immoral in taxing pension which is income for past services. We have to be a hard-headed Government, but we are not hard-hearted. Wherever we can afford to we shall show in some tangible way that those who have served are not forgotten.

With effect from Year of Assessment 1979, tax will be exempted on the whole of the pension income of resident pensioners. The largest group of pensioners who will benefit from this concession are those with chargeable income of less than \$5,000 per year.

The revenue loss as a result of this concession is estimated at \$290,000 per annum.

Third. Rising prices of properties have had the effect of increasing the value of estates, at all levels. The present exemption ceiling of \$100,000 for estate duty does not provide sufficient relief in many cases if the deceased had a house. Therefore, to further encourage home ownership and to relieve the hardship of those most affected by the escalation in property prices, I have decided to exempt from estate duty, any one house in a deceased's estate subject to a maximum value of \$200,000.

This concession is in addition to the existing exemption limit of \$100,000 which will still apply regardless of the composition of the estate, but excluding houses. The effect of this concession will be that the existing exemption limit of \$100,000 is being raised by \$200,000 only

if the deceased's estate includes "one" house. For example, if the estate comprises a house assessed at \$250,000 and other assets of \$100,000, estate duty will be payable on \$50,000 only, i.e. on the value of the house above \$200,000. If the \$350,000 estate comprises entirely of assets other than a house, estate duty will be payable on \$250,000, as at present.

The exemption limit of \$200,000 for the house will apply to the full share of any one house in a deceased's estate. This should cover most public and private flats, and terrace and semi-detached houses.

If the deceased is a part owner of a house, the exemption will depend on his proportionate share of that house. For example, if the deceased owned one fourth of a house valued at \$350,000, the maximum exemption granted to the estate for that house will be one-fourth of \$200,000 or \$50,000. A house which is given as an inter vivos gift will not qualify for the exemption, notwithstanding that the value of the house is included in the valuation of the estate if the gift is made within five years of the date of death.

This concession will apply only to residential units. Houses which are registered in the names of companies will not be eligible for the concession.

The concession, which will take effect from 1 April 1979, will ensure that in almost all cases, families will not lose their homes on account of estate duties. The revenue loss is estimated at \$16-\$17 million per year.

Fourth. In my 1977 Budget Statement I granted a 10 per cent concessionary tax on income derived from offshore reinsurance business. To further encourage offshore insurance business in Singapore, I have

decided to extend the 10 per cent concessionary tax rate to income derived from general inward direct insurance business covering offshore risks. This concession will take effect from Year of Assessment 1980.

Fifth. Under the income tax legislation, the existing capital allowance allowed for company registered cars is restricted to a maximum of \$15,000. With effect from 1 April 1979, I have decided to raise the ceiling of capital allowance for company-owned cars to \$25,000 to take into account the higher present day prices of company cars.

Conclusion

Mr Speaker, Sir, this year's Budget Statement does not match the excitement of last year's. This is as it should be as we should take stock of the effects of the various tax changes made last year before we embark on further tax changes. It is a completely painless budget, and even mildly pleasurable. But there is a moral to this, and that is, to achieve nirvana you must first experience pain. We have all worked hard in the past. We have all made sacrifices. We have never flinched from the harsh realities of the world. We have had the perseverance and courage to overcome the many obstacles to our survival and gone on to achieve a higher standard of living. We have exercised prudence in our financial policy and we will continue to exercise careful restraint on government expenditure. Now we have a sound foundation for sustained growth. Provided we continue to be practical and realistic, adapting rapidly to changed circumstances and always prepared to work hard to earn and pay for our needs we can face the uncertain and wintry economic climate without the fears and anxieties which plagued us from 1965-1969, and again from 1973-1974. The outlook for the world is sombre. Even

before the cut-off of oil supplies in Iran the U.S. was expected to have a downturn in its economy later this year. Now there are all the imponderables of when and at what levels oil will be exported by Iran.

The problems of unemployment and protectionism in the industrial countries are persisting. And the world is nervous over the dangers of further escalation and involvement in the conflicts caused by Vietnamese troops in Kampuchea and Chinese troops in Vietnam.

For Singapore in 1979 as it has been from time to time in 1965, 1968 and 1973, it means, prepare for the worst and work to achieve the best. This is the philosophy of this budget.

Sir, I beg to move.