

Working Group on Long-Term Fiscal Planning

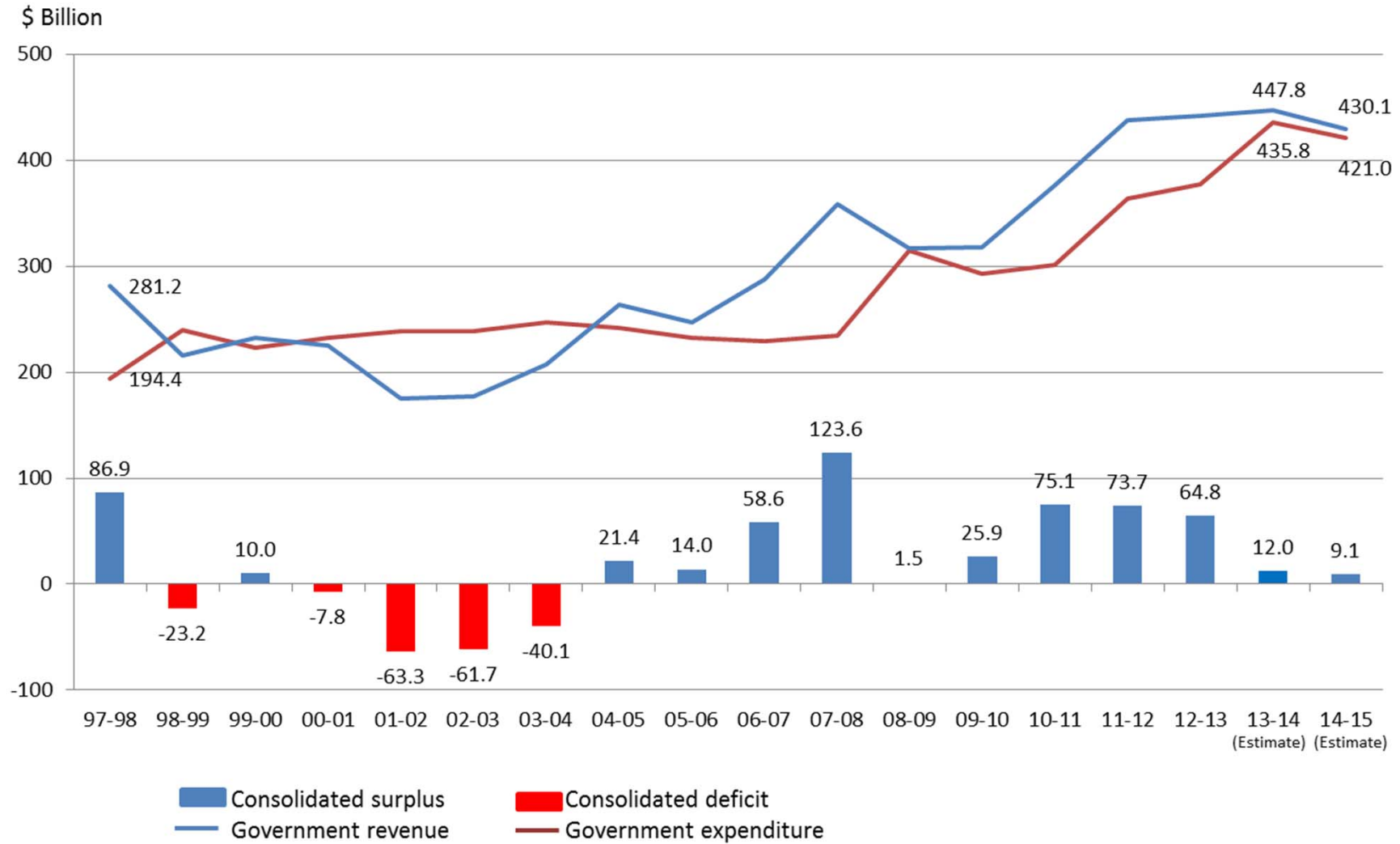
April 2014

Our Tasks

- Projections up to 2041
 - Economic growth
 - Government revenue
 - Government expenditure
- Overseas reference
- Fiscal measures

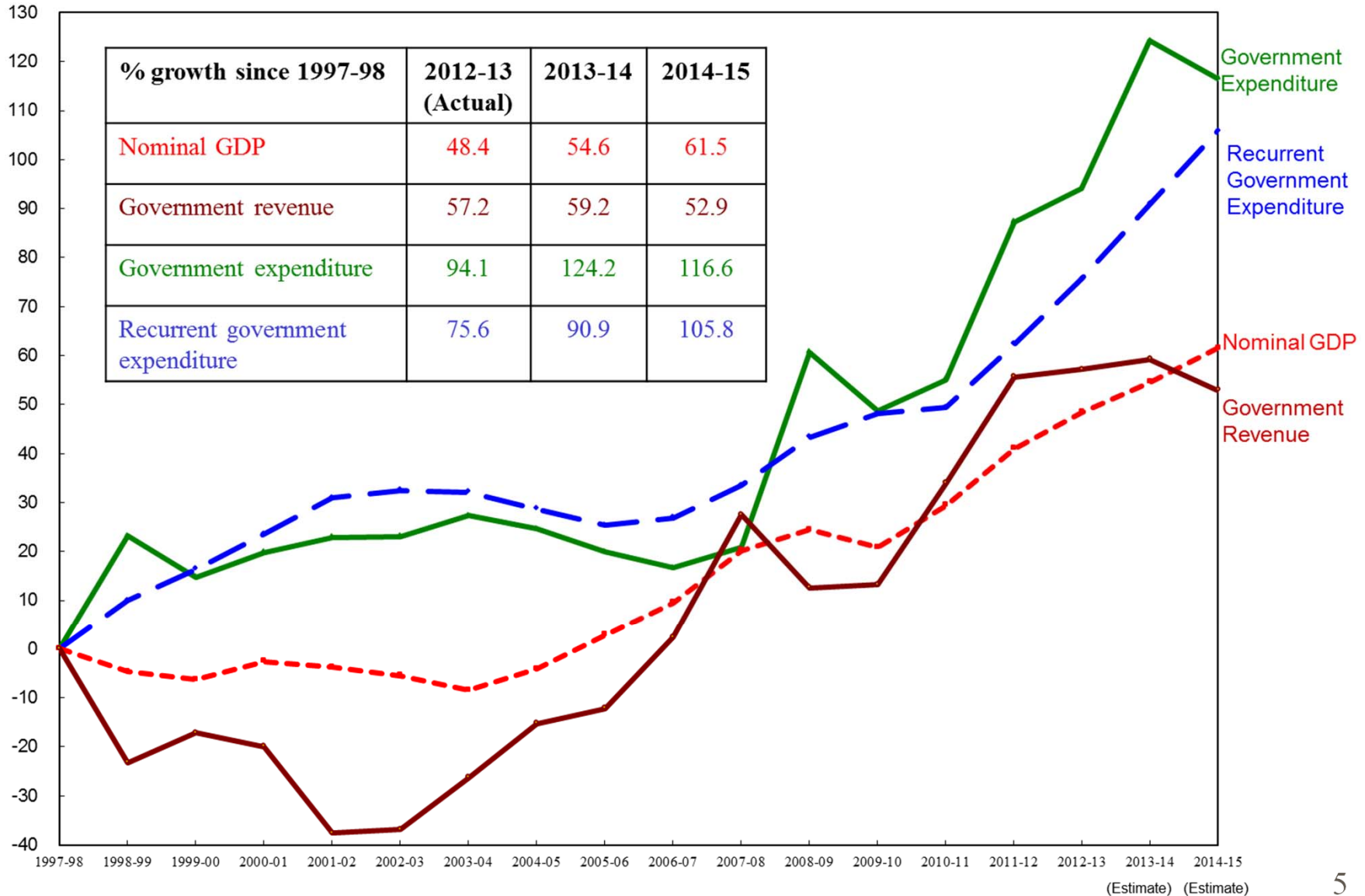
Fiscal Health Check

Fiscal Performance

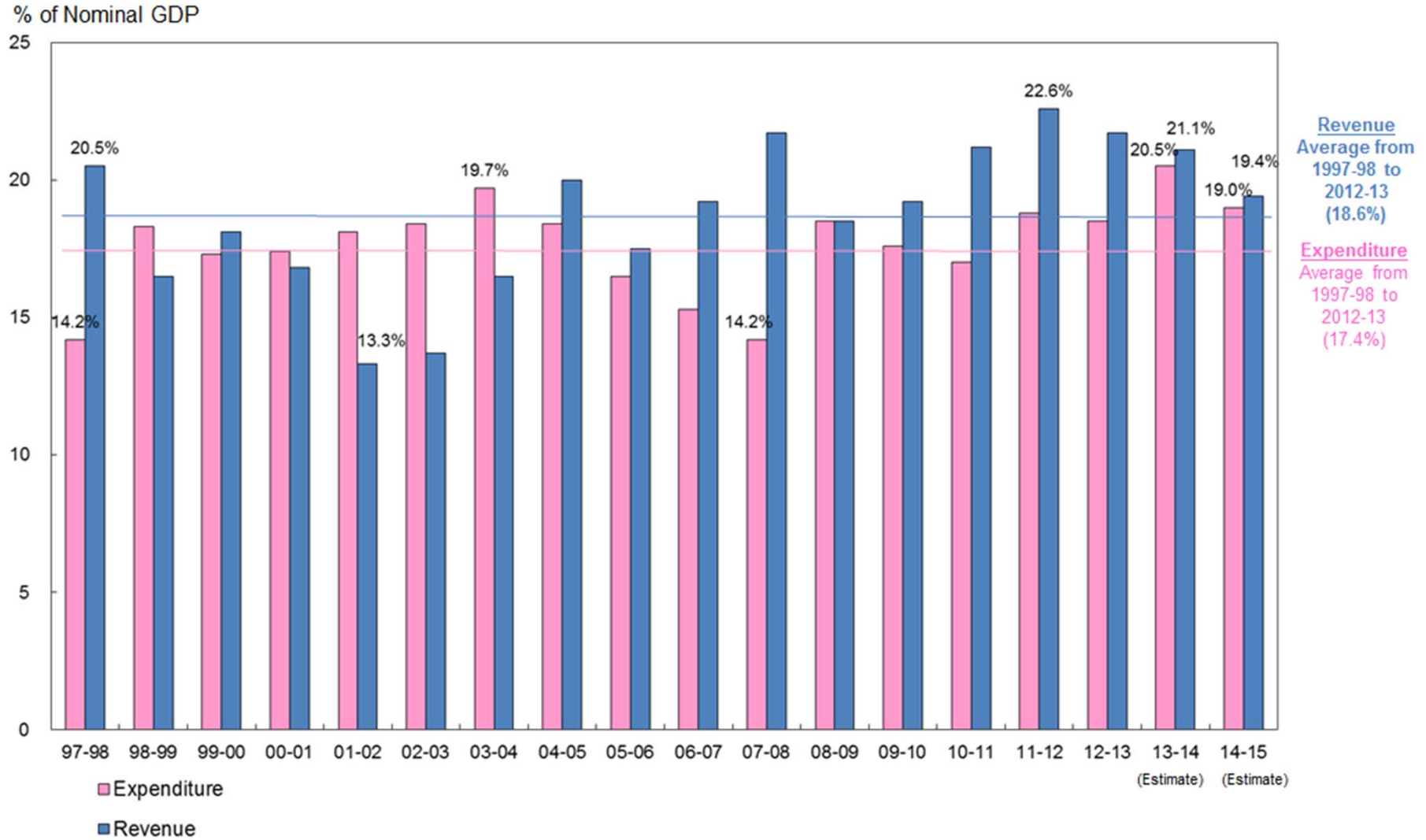


Growth since 1997-98

Cumulative Growth (%)

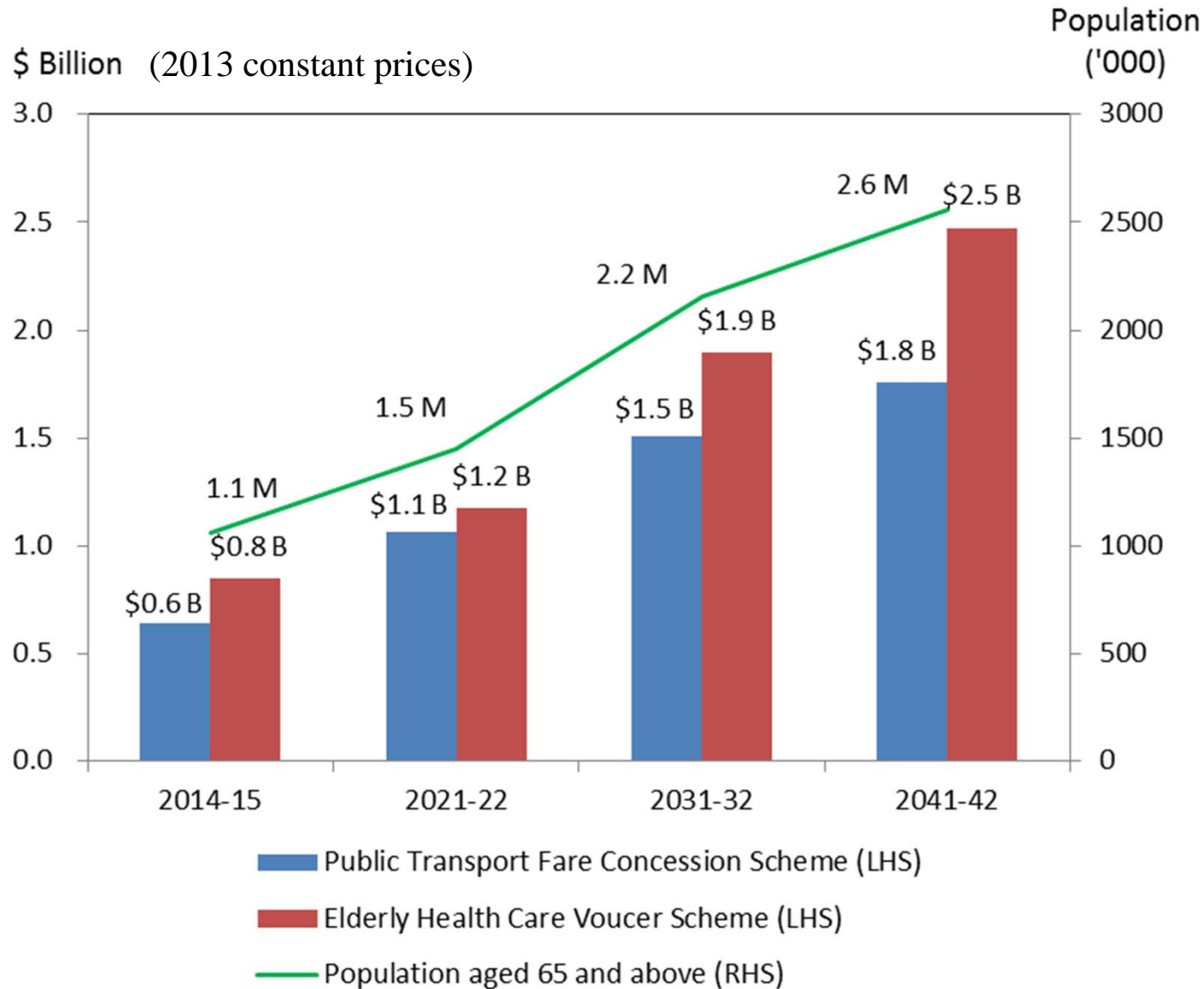


Government Revenue and Expenditure

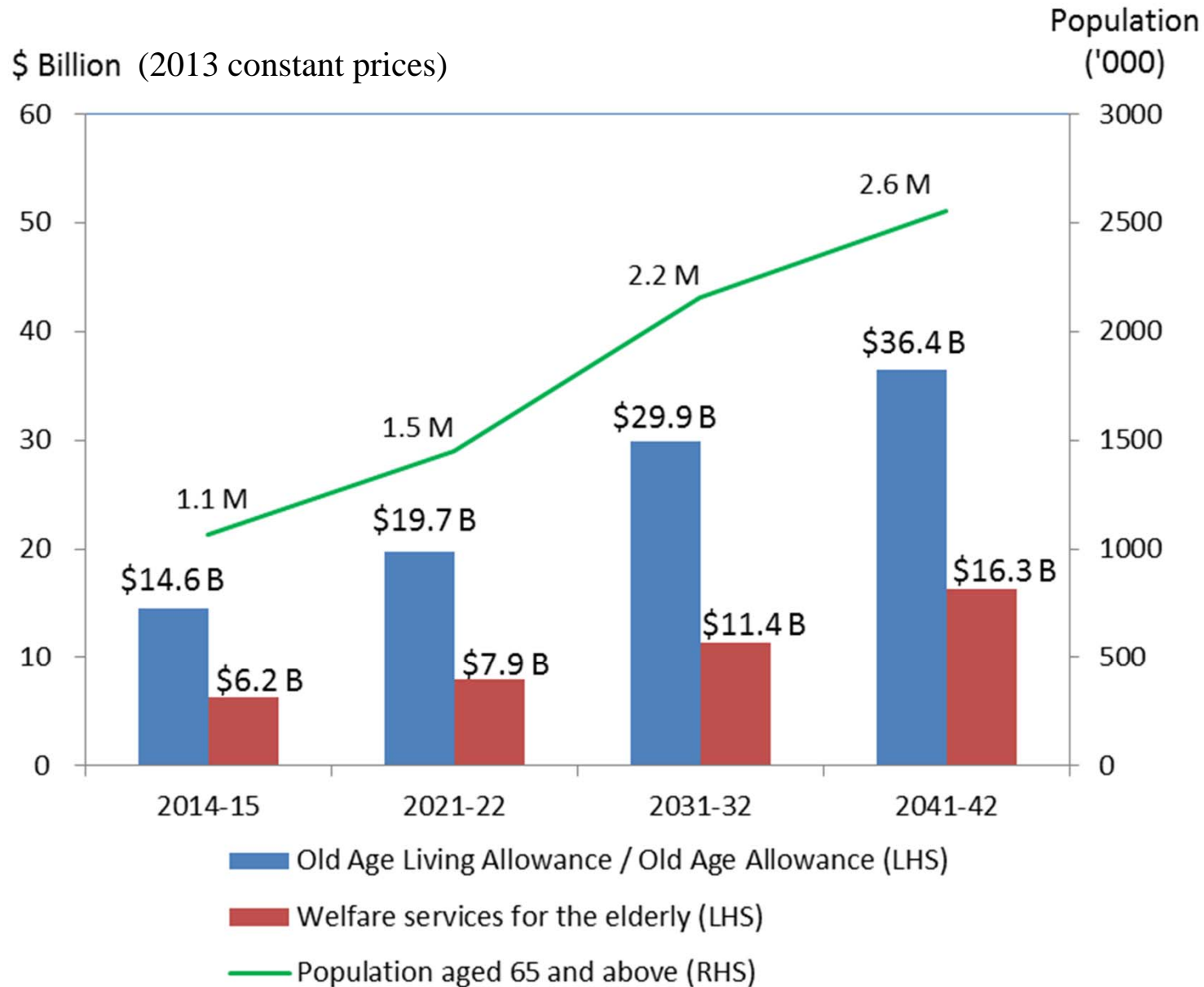


Population Ageing

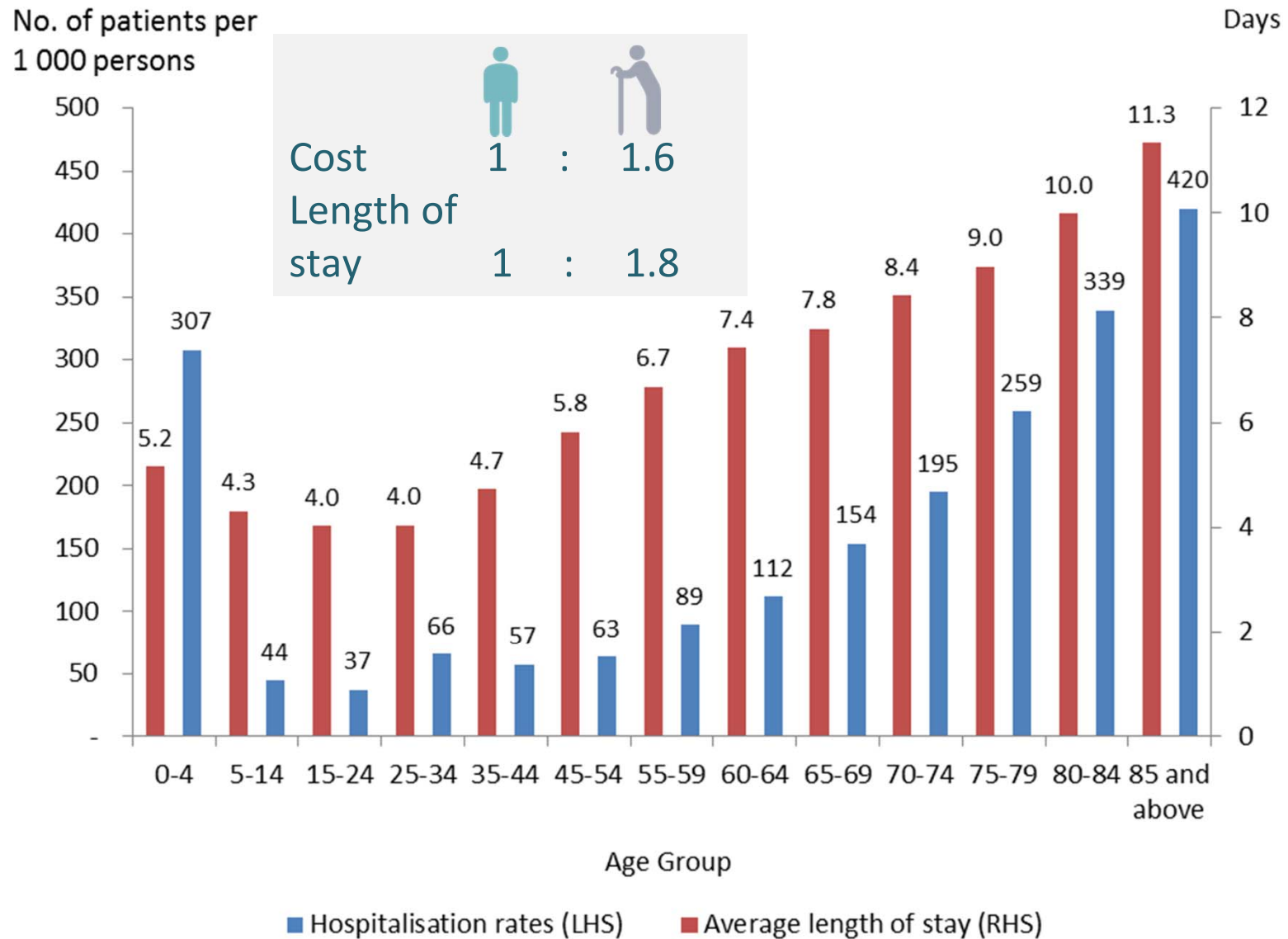
Population ageing drives up expenditure



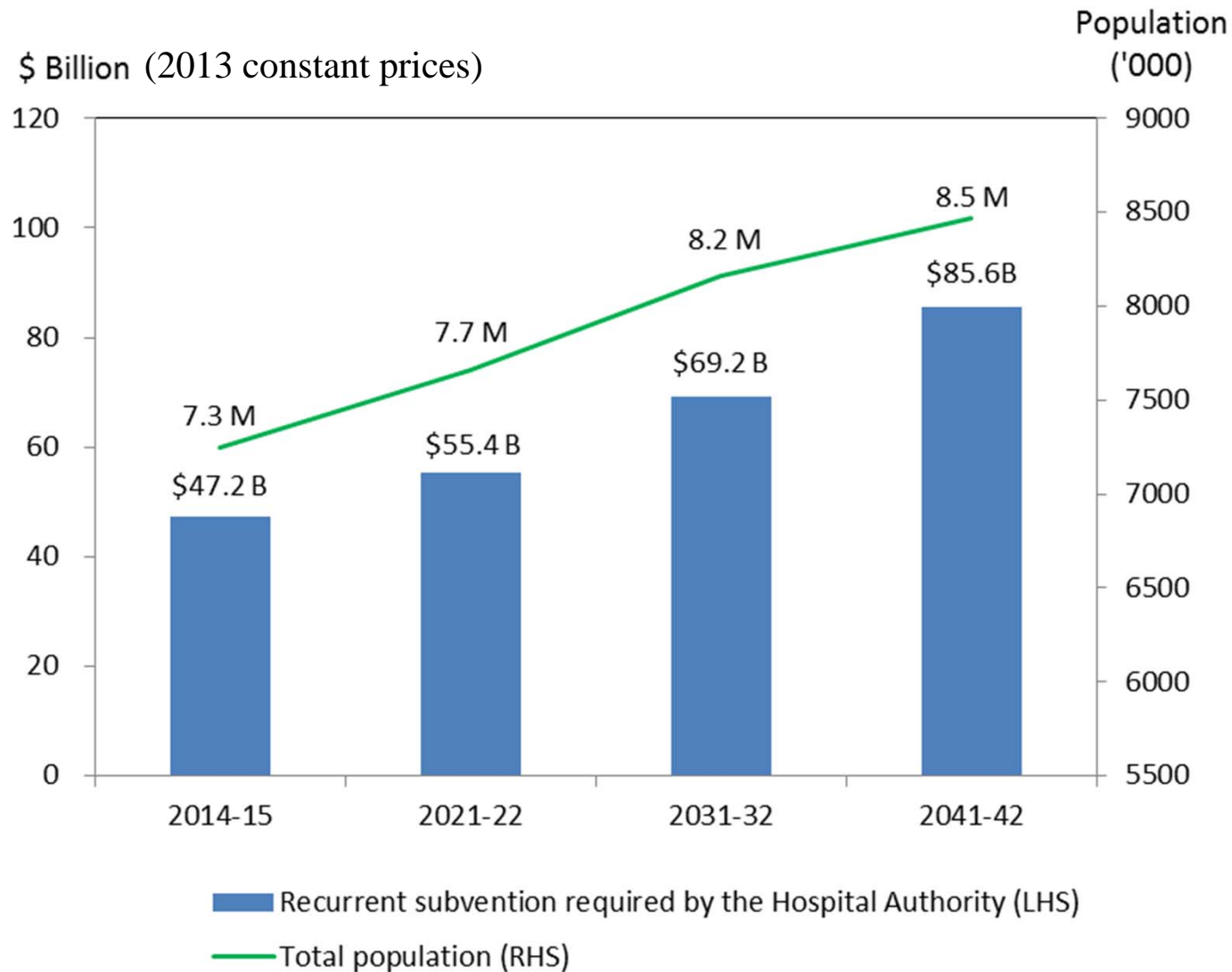
Population ageing drives up expenditure



Hospitalisation Rates and Average Length of Stay

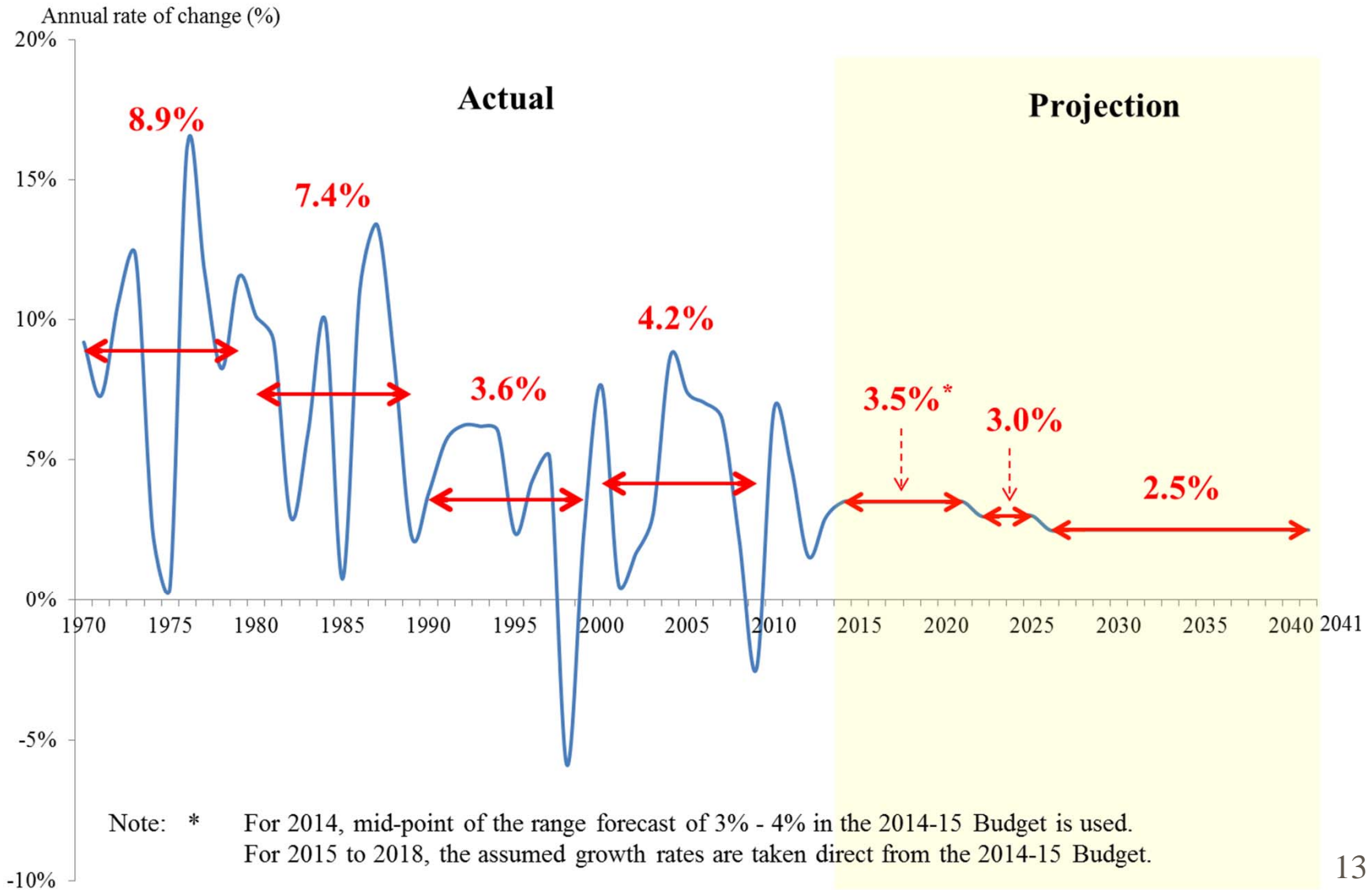


Recurrent Subvention to Hospital Authority

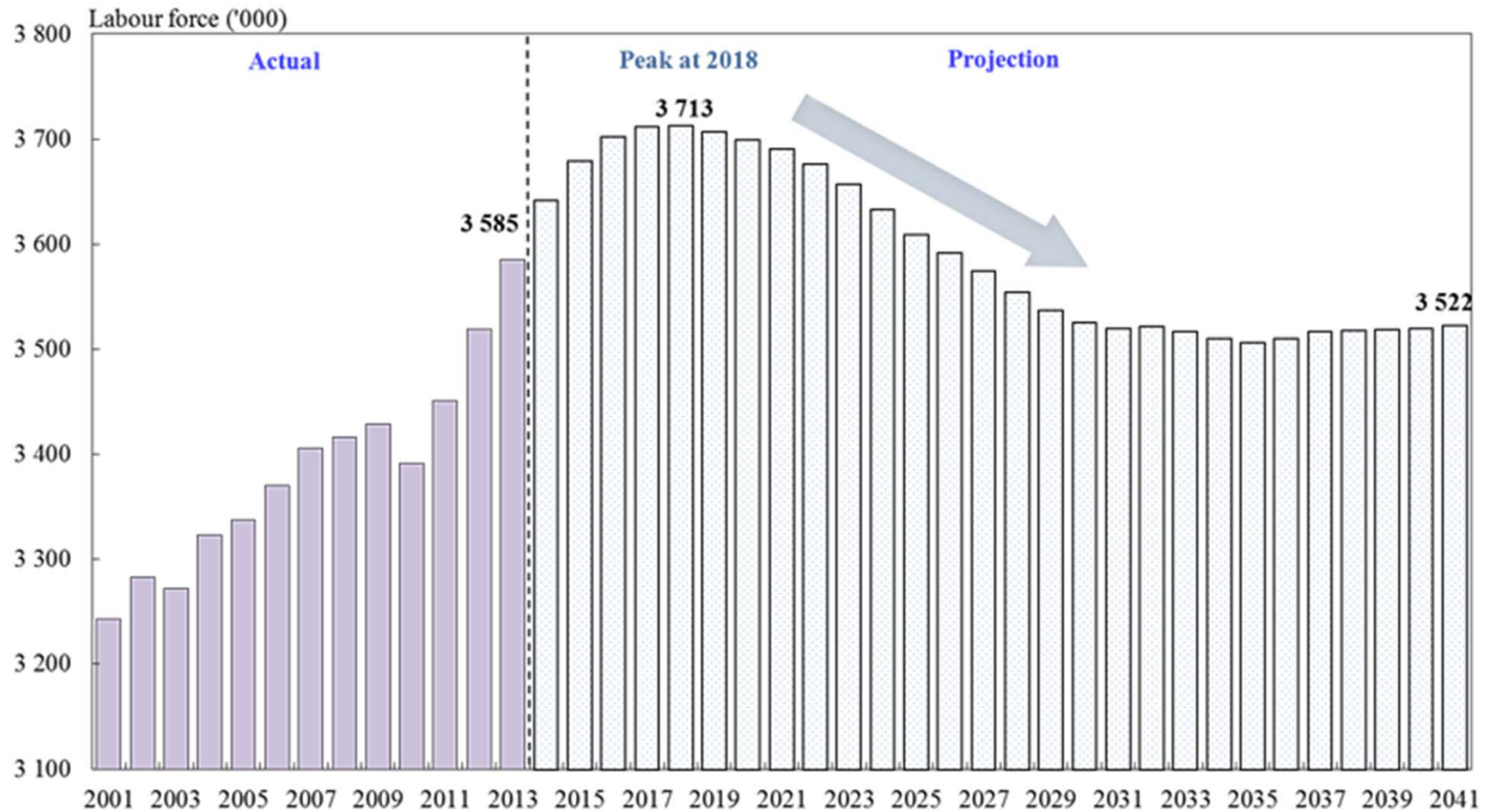


Macroeconomic Assumptions

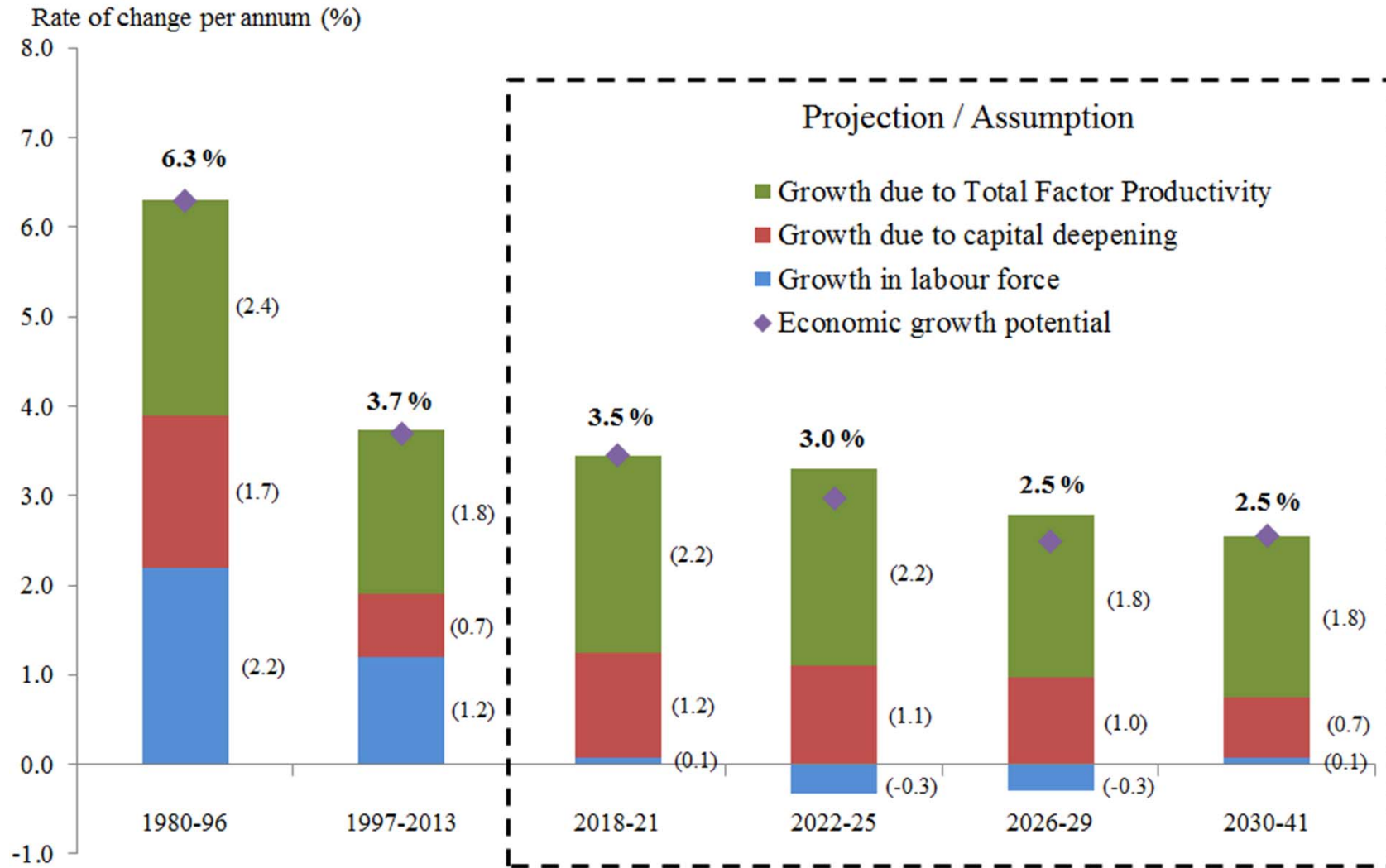
Economic growth is expected to settle at a slower pace



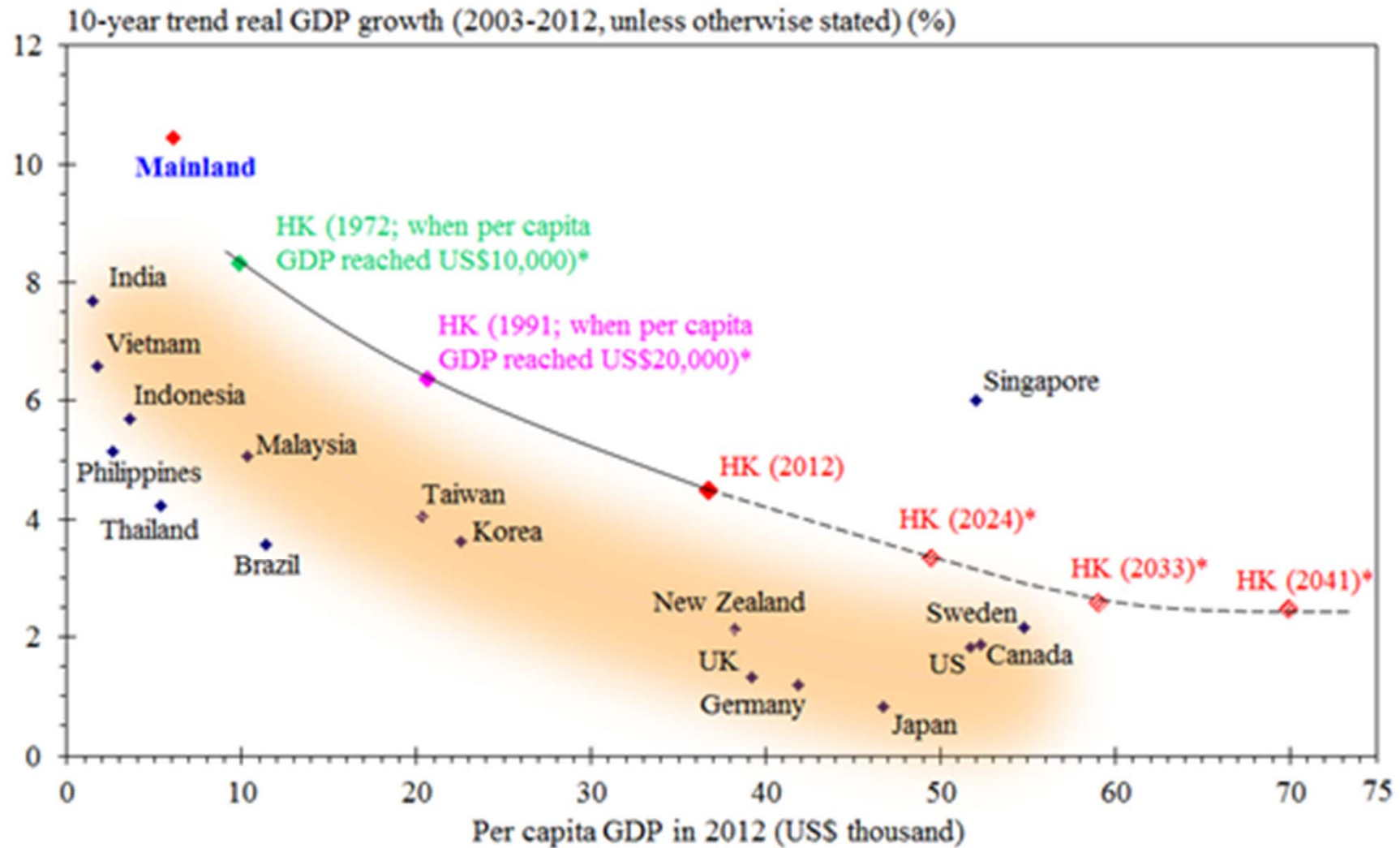
Labour force is expected to decline after 2018, only to stabilise in the 2030s



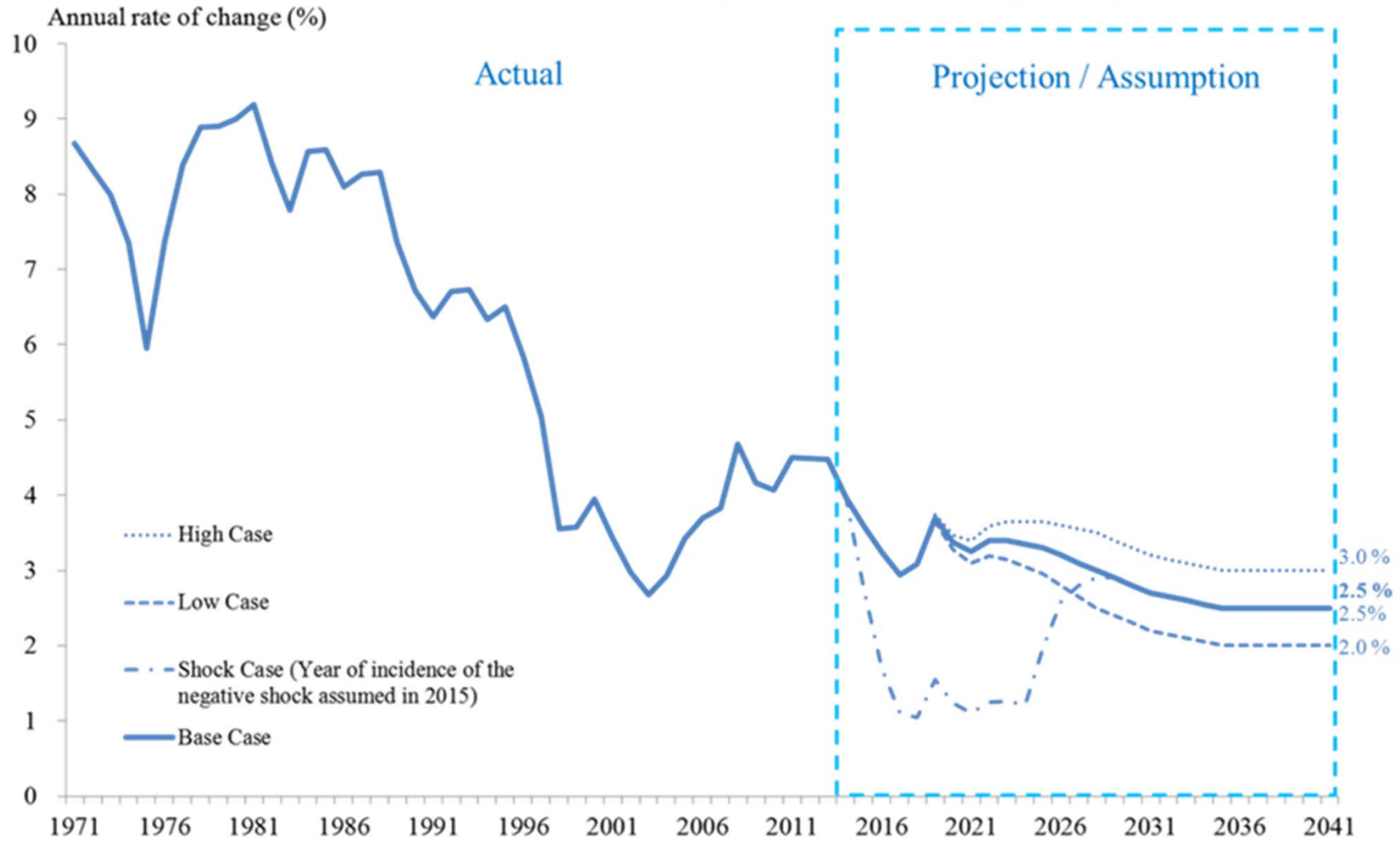
Economic growth potential looks set to decelerate over the long term as labour force starts to stagnate



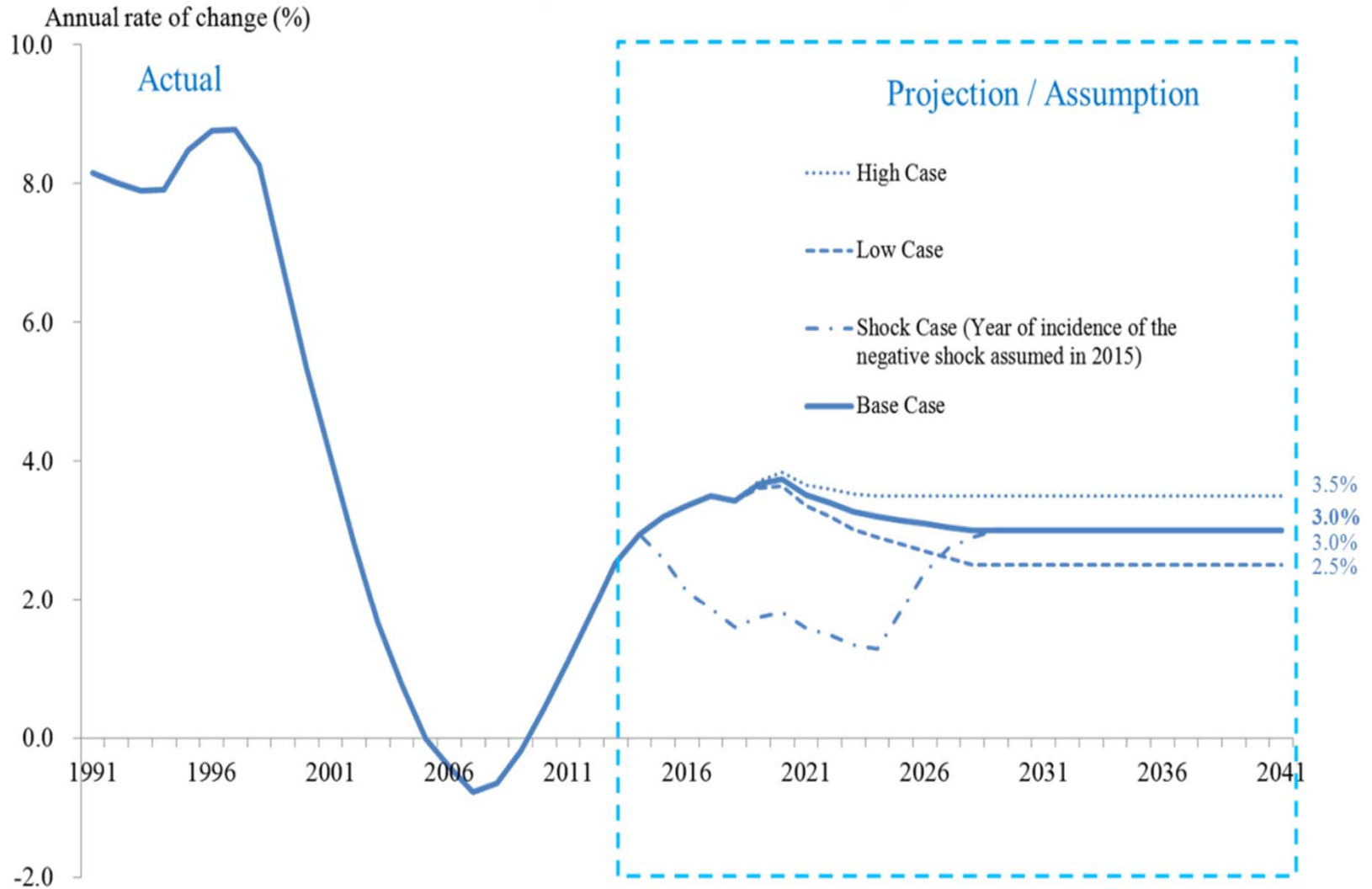
Economic growth bound to go lower as the economy becomes more mature



Real GDP 10-year trend growth rates

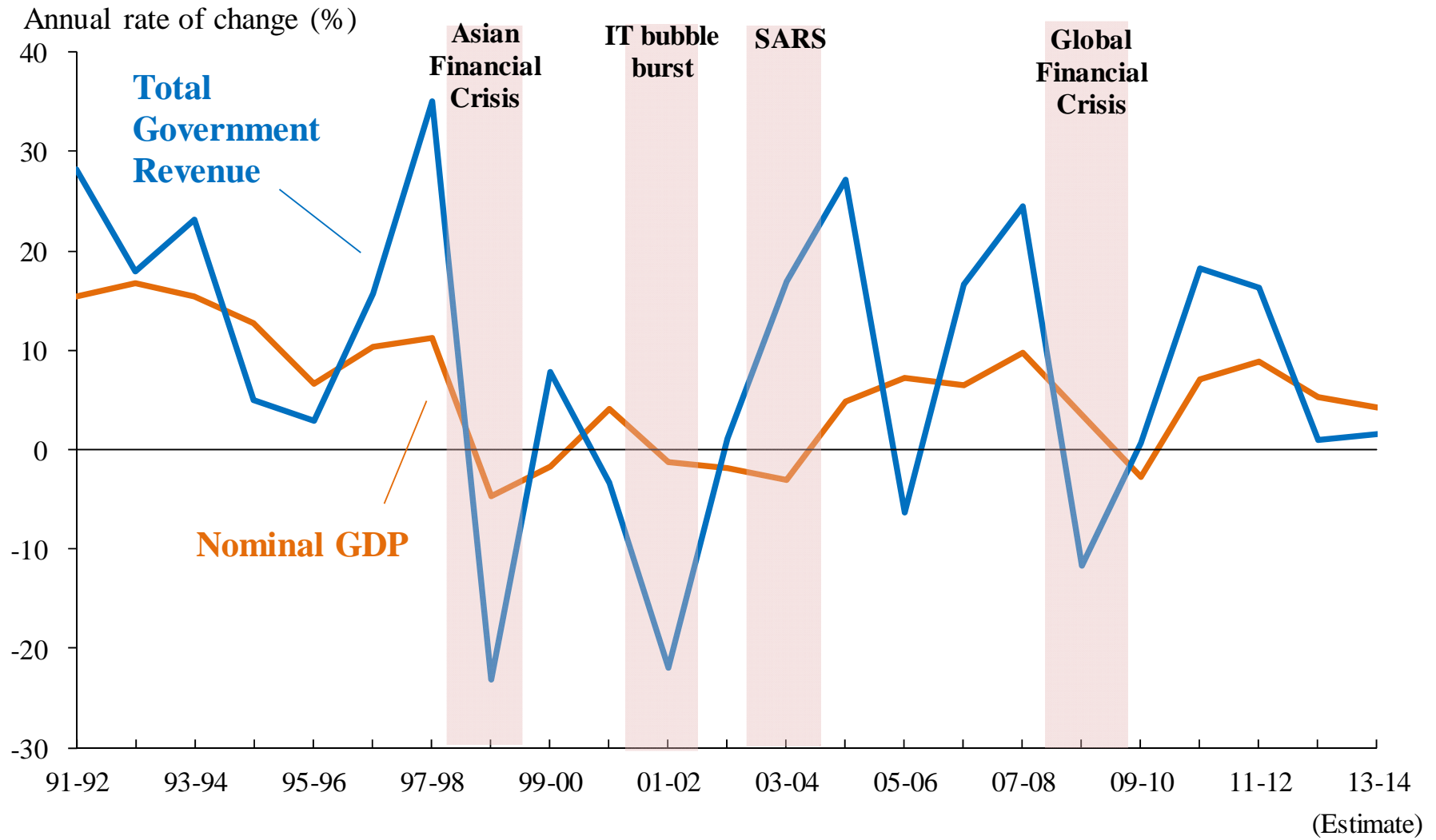


Consumer price inflation 10-year trend rates of change

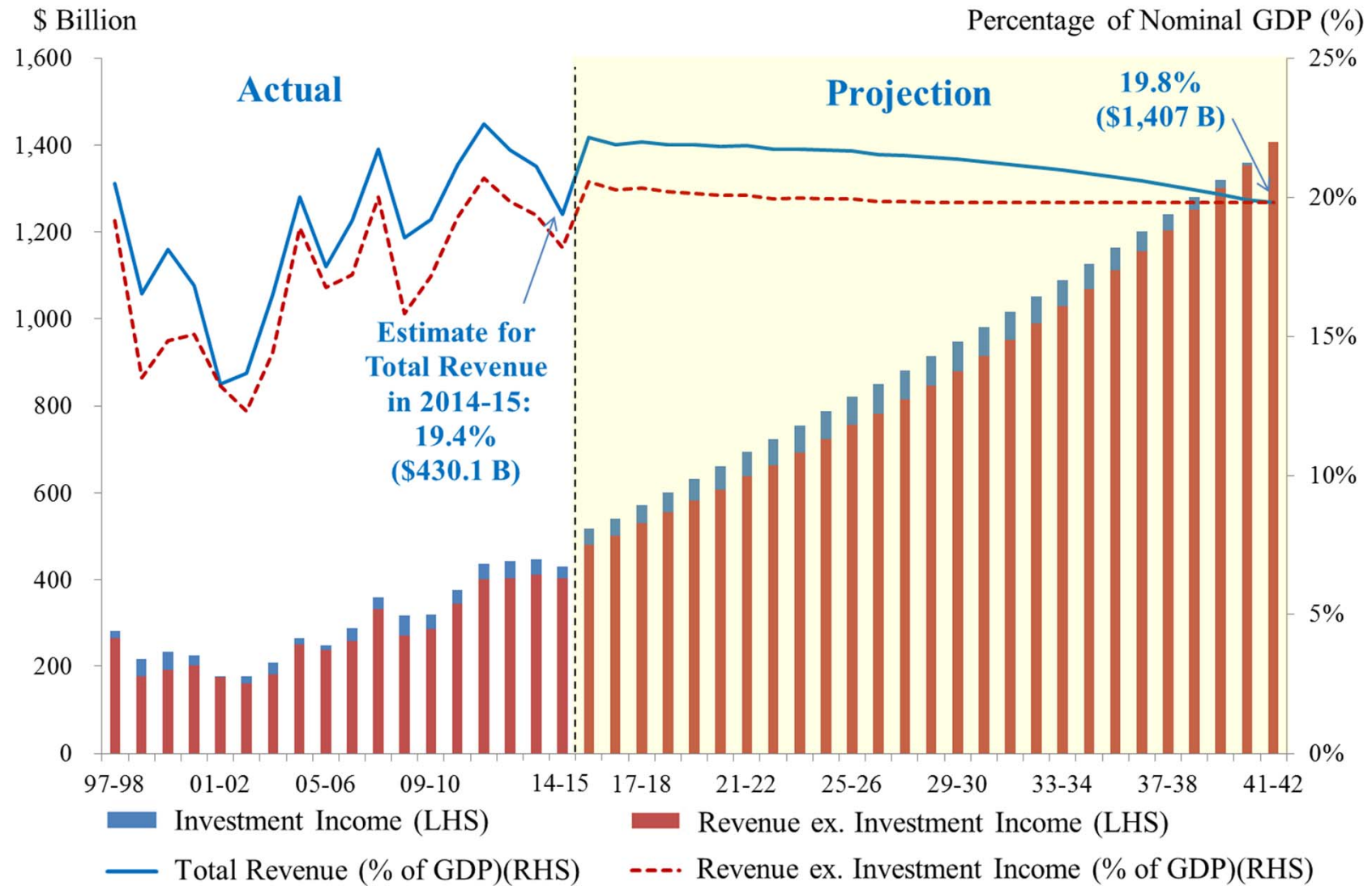


Revenue Projections

Government Revenue



Revenue Projection



(Base Case, No Service Enhancement)

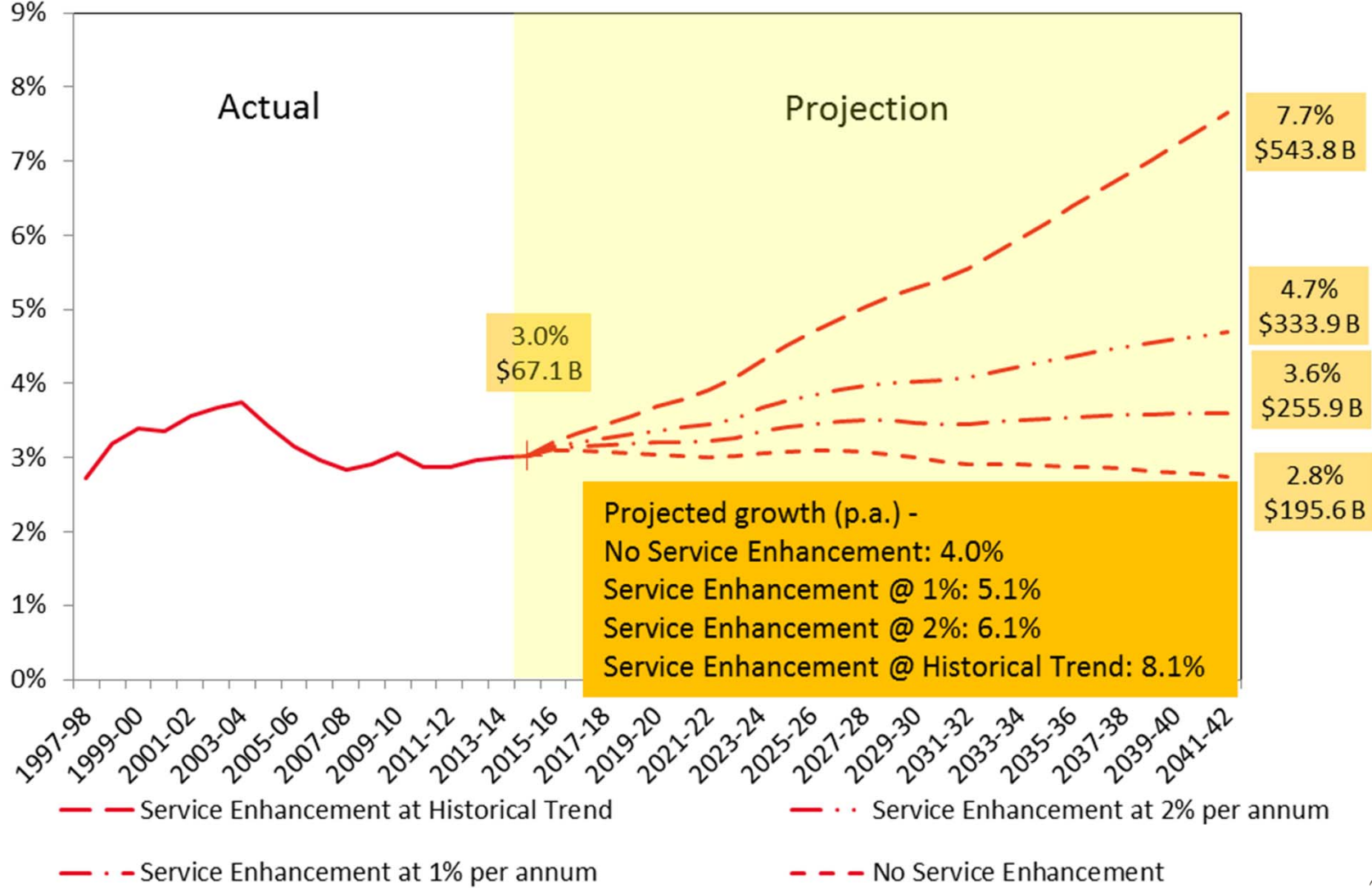
Expenditure Projections

Projection for recurrent expenditure on Education, Social Welfare and Health

- No Service Enhancement
- Service Enhancement at
 - 1%
 - 2%
 - Historical Trend
 - Education – 3.86%
 - Social Welfare – 2.8%
 - Health – 2.63%
 - ➡ on average – 3%

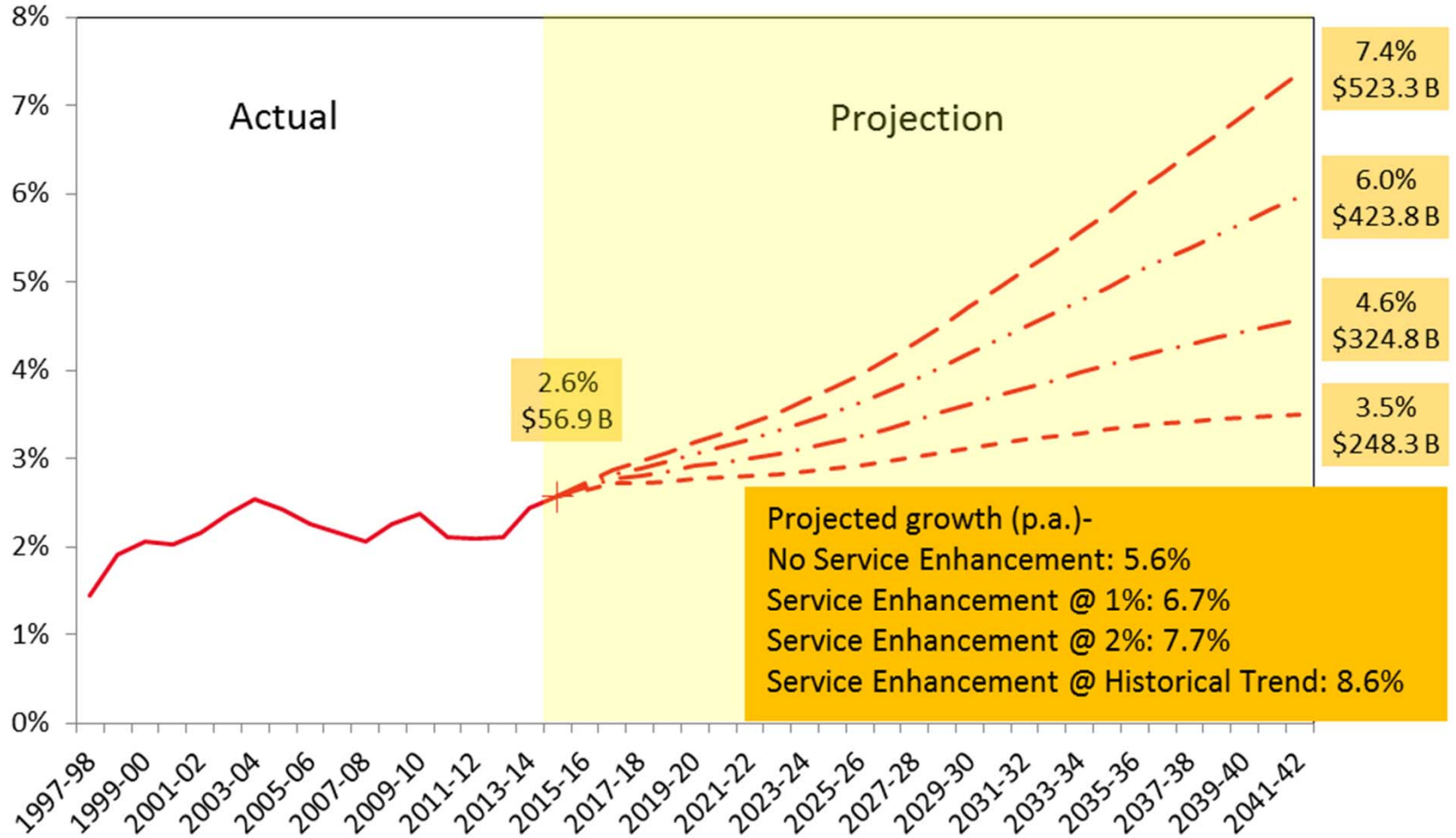
Education

% of
Nominal GDP



Social Welfare

% of
Nominal GDP



— Service Enhancement at Historical Trend

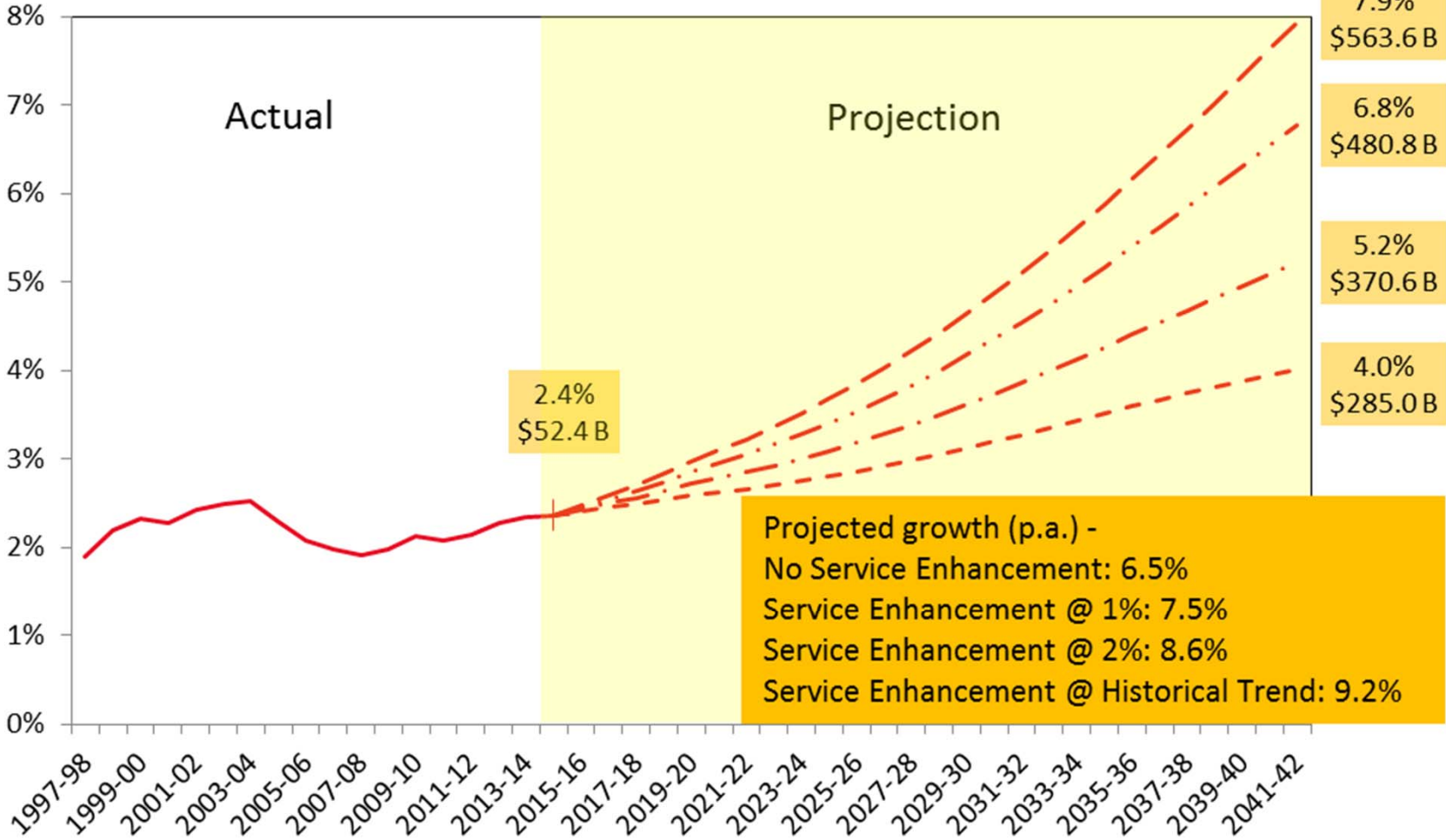
- · - Service Enhancement at 1% per annum

- · · Service Enhancement at 2% per annum

- - - No Service Enhancement

Health

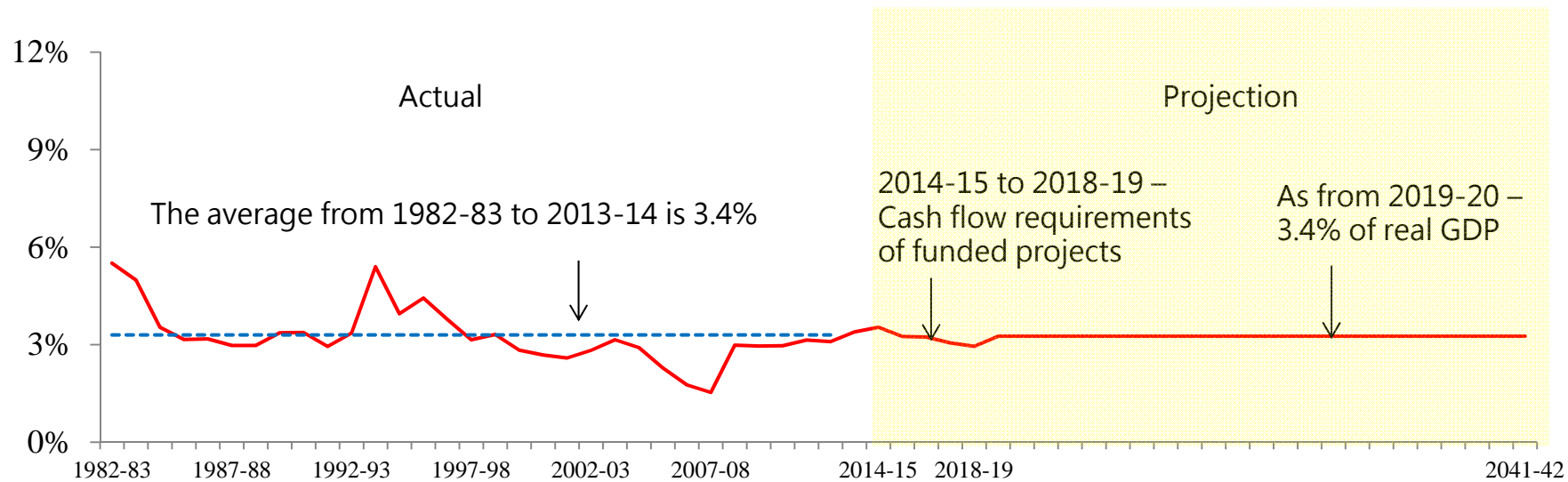
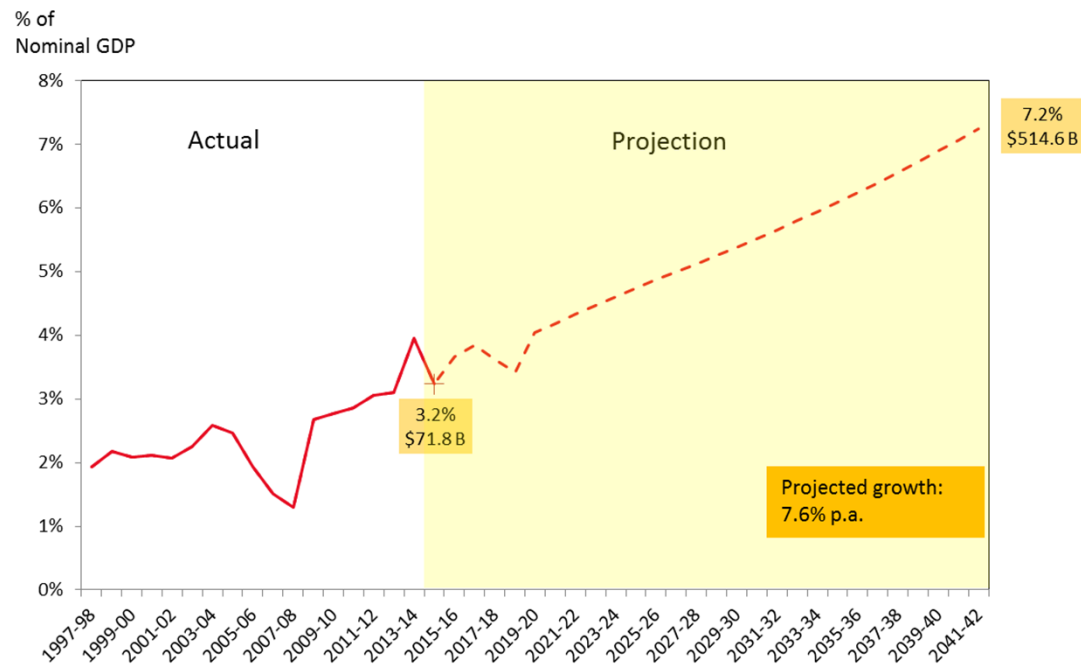
% of
Nominal GDP



Projected growth (p.a.) -
 No Service Enhancement: 6.5%
 Service Enhancement @ 1%: 7.5%
 Service Enhancement @ 2%: 8.6%
 Service Enhancement @ Historical Trend: 9.2%

- Service Enhancement at Historical Trend
- . - Service Enhancement at 1% per annum
- . . Service Enhancement at 2% per annum
- - - No Service Enhancement

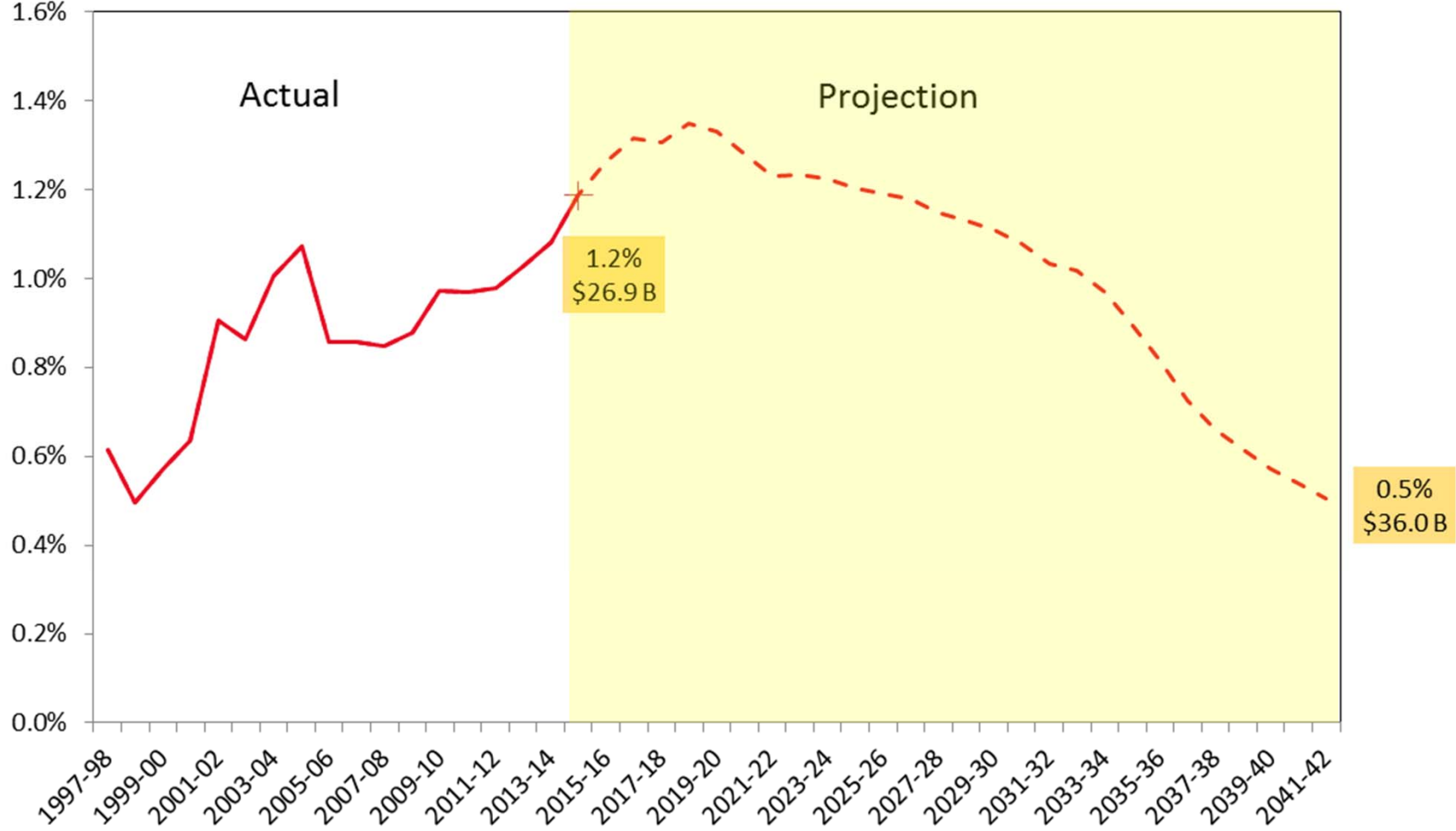
Capital Works



— Capital works expenditure as a % of real GDP

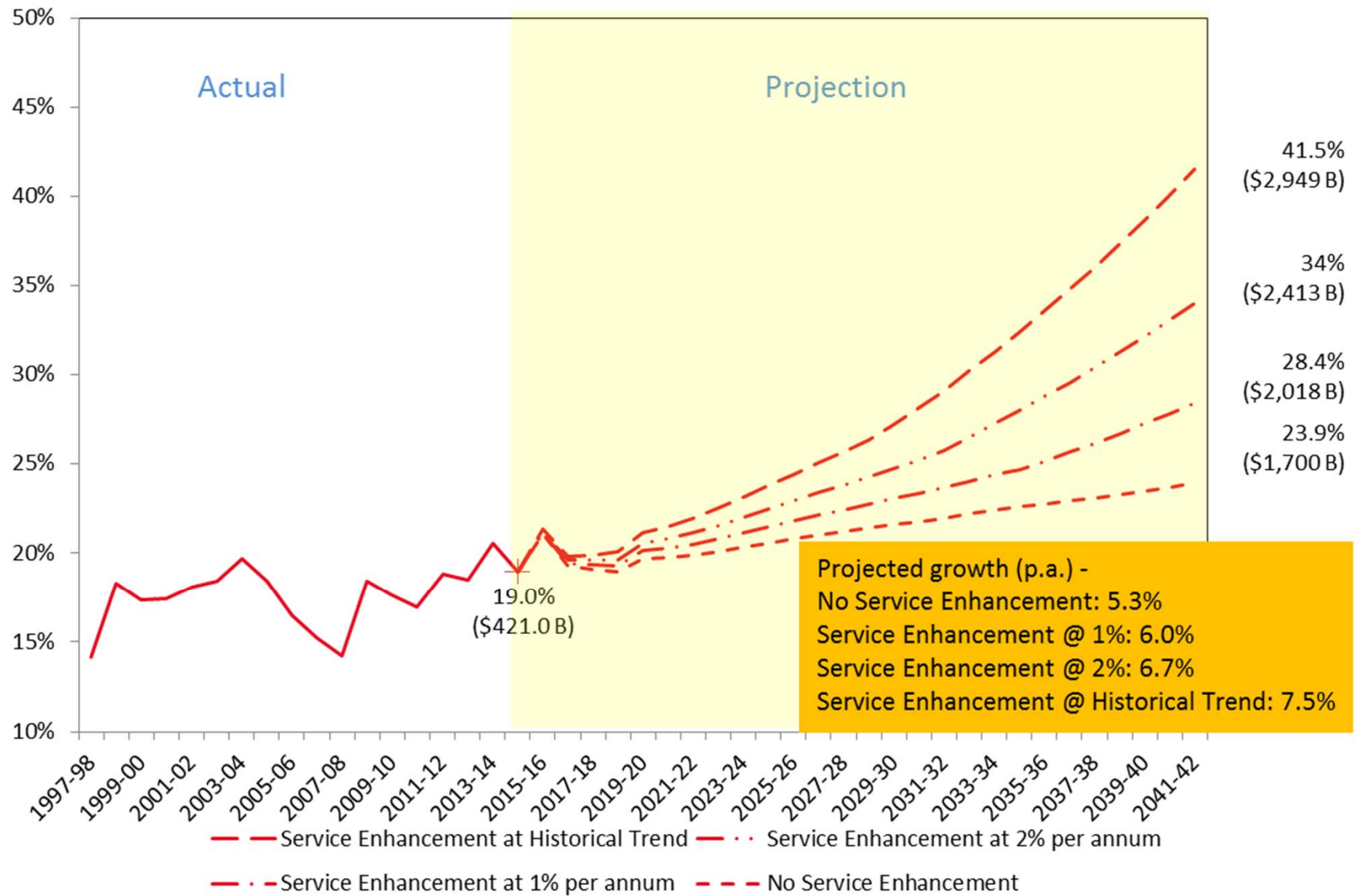
Pensions

% of
Nominal GDP



Total Government Expenditure

% of Nominal GDP



Trend Growth

	Projected Trend Growth (Base Case, No Service Enhancement)	Trend Growth in recent years	
	2014-15 to 2041-42	1997-98 to 2014-15	2009-10 to 2014-15
(Annual rate of change)			
Real GDP	2.8%	3.4%	3.9%
Nominal GDP	4.4%	2.9%	6.0%
Government revenue	4.5%	2.5%	6.2%
Government expenditure	5.3%	4.7%	7.5%

Housing Authority

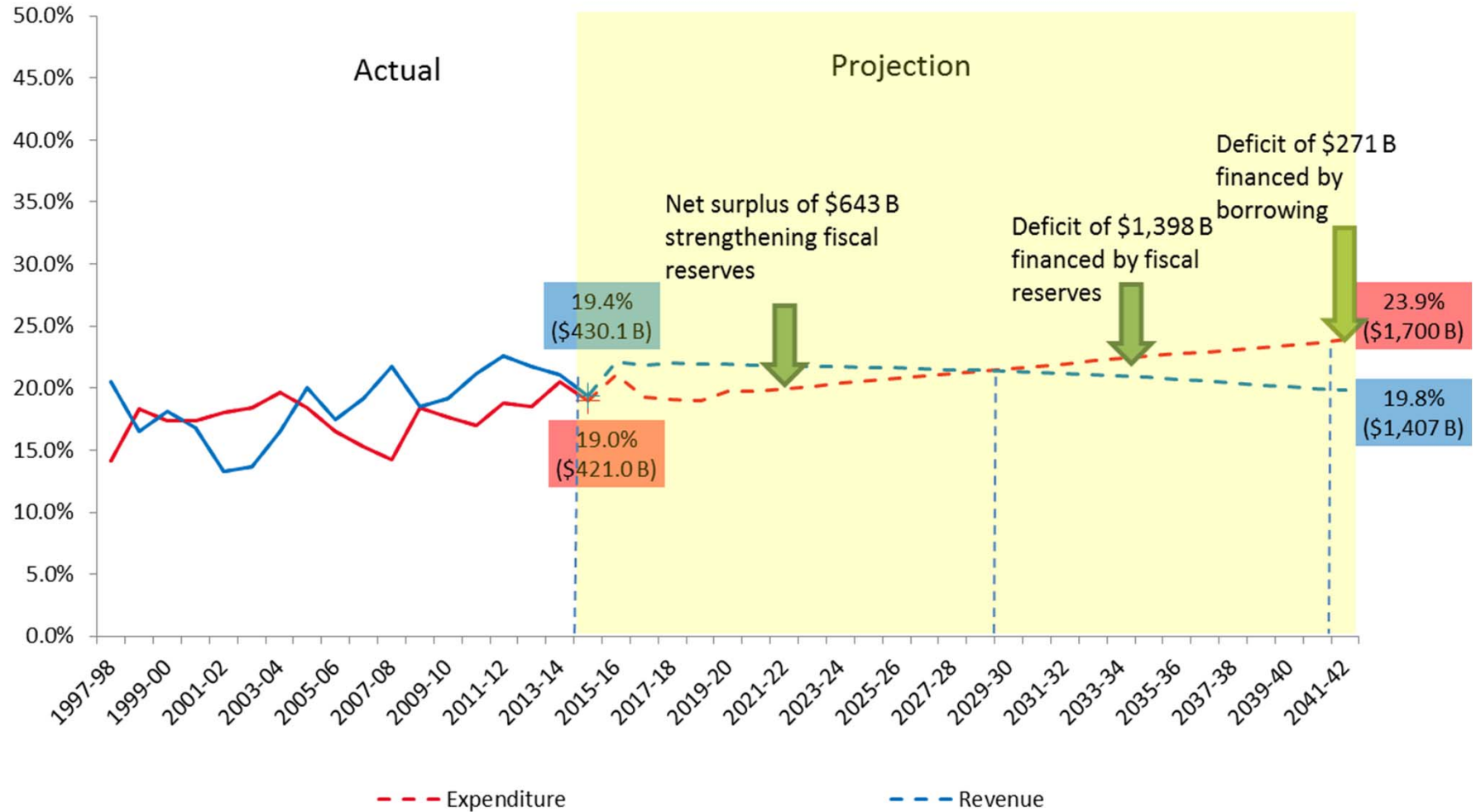
- Flats production
 - PRH – 20 000 p.a. (unit cost : \$0.54 M[#])
 - HOS – 5 000* p.a. (unit cost: \$0.99 M[#])
 - Cash shortfall
 - \$490 B (rent increase @ 5% biennially)
 - \$130 B (rent increase @ 10% biennially)
- * 8 000 p.a. announced in 2014 Policy Address
- # Figures provided to FC of LegCo in April 2013 based on HA's June 2012 Construction Cost Yardstick

Fiscal Sustainability

Fiscal Outlook

(Base Case, No Service Enhancement)

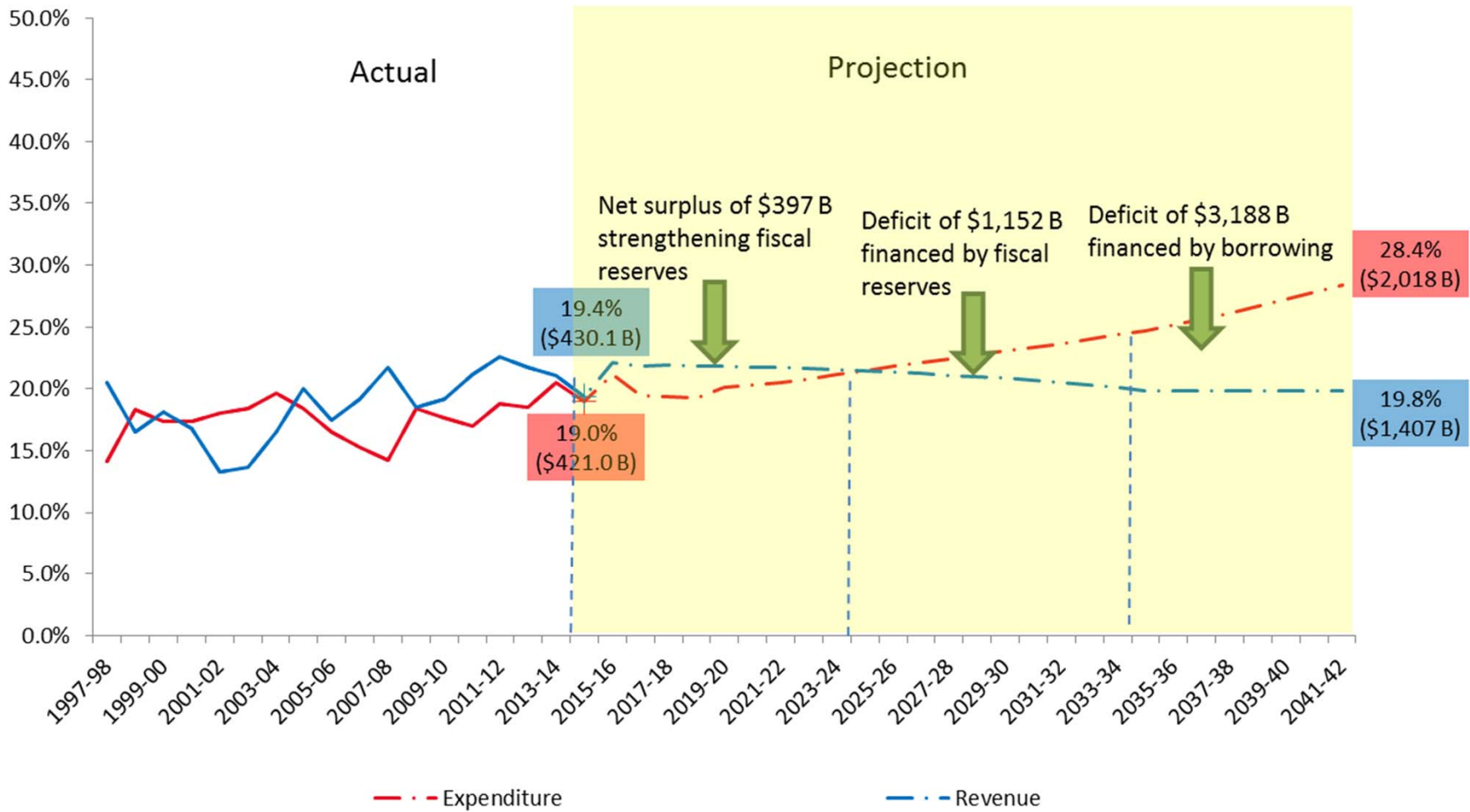
% of Nominal GDP



Fiscal Outlook

(Base Case, Service Enhancement @ 1%)

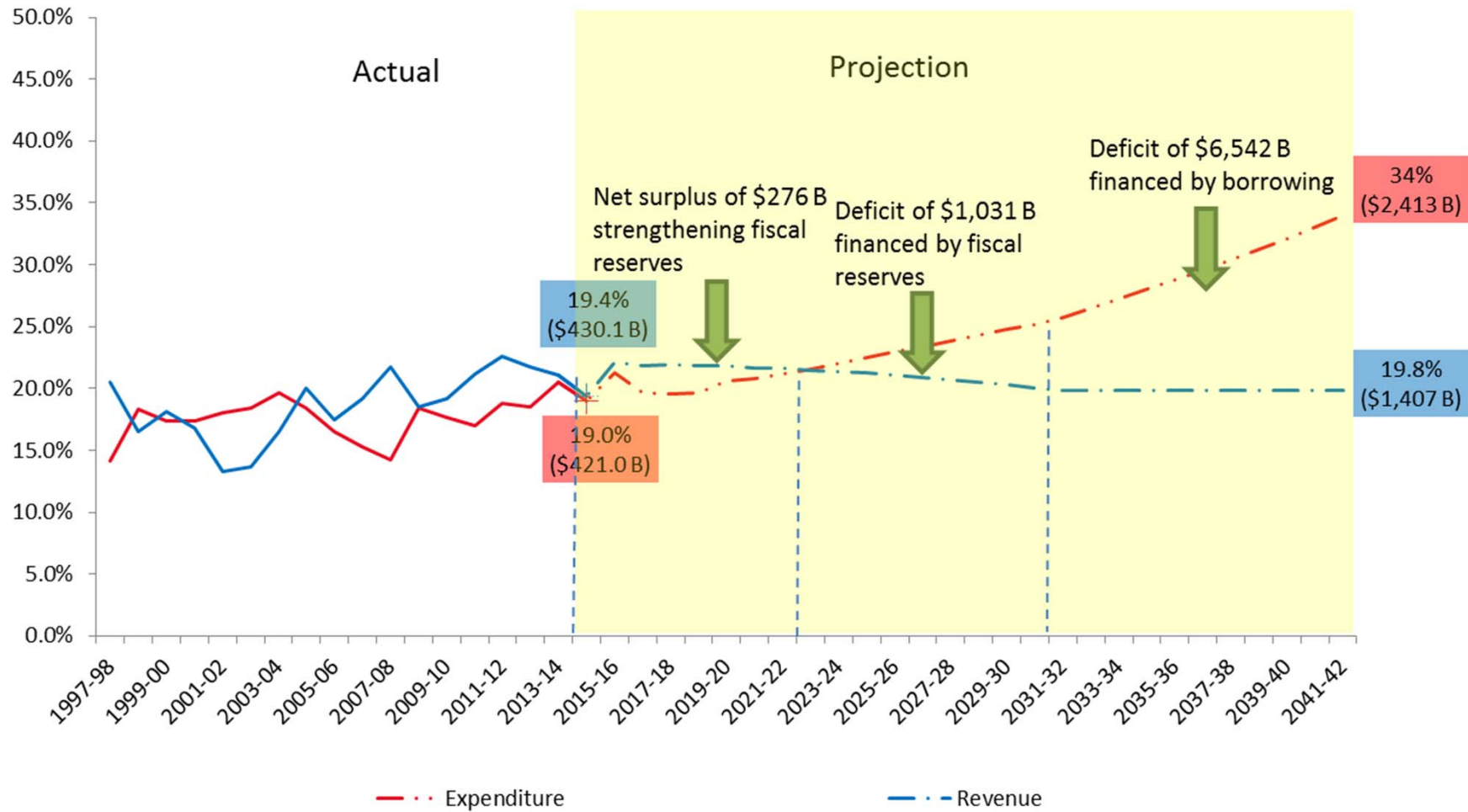
% of Nominal GDP



Fiscal Outlook

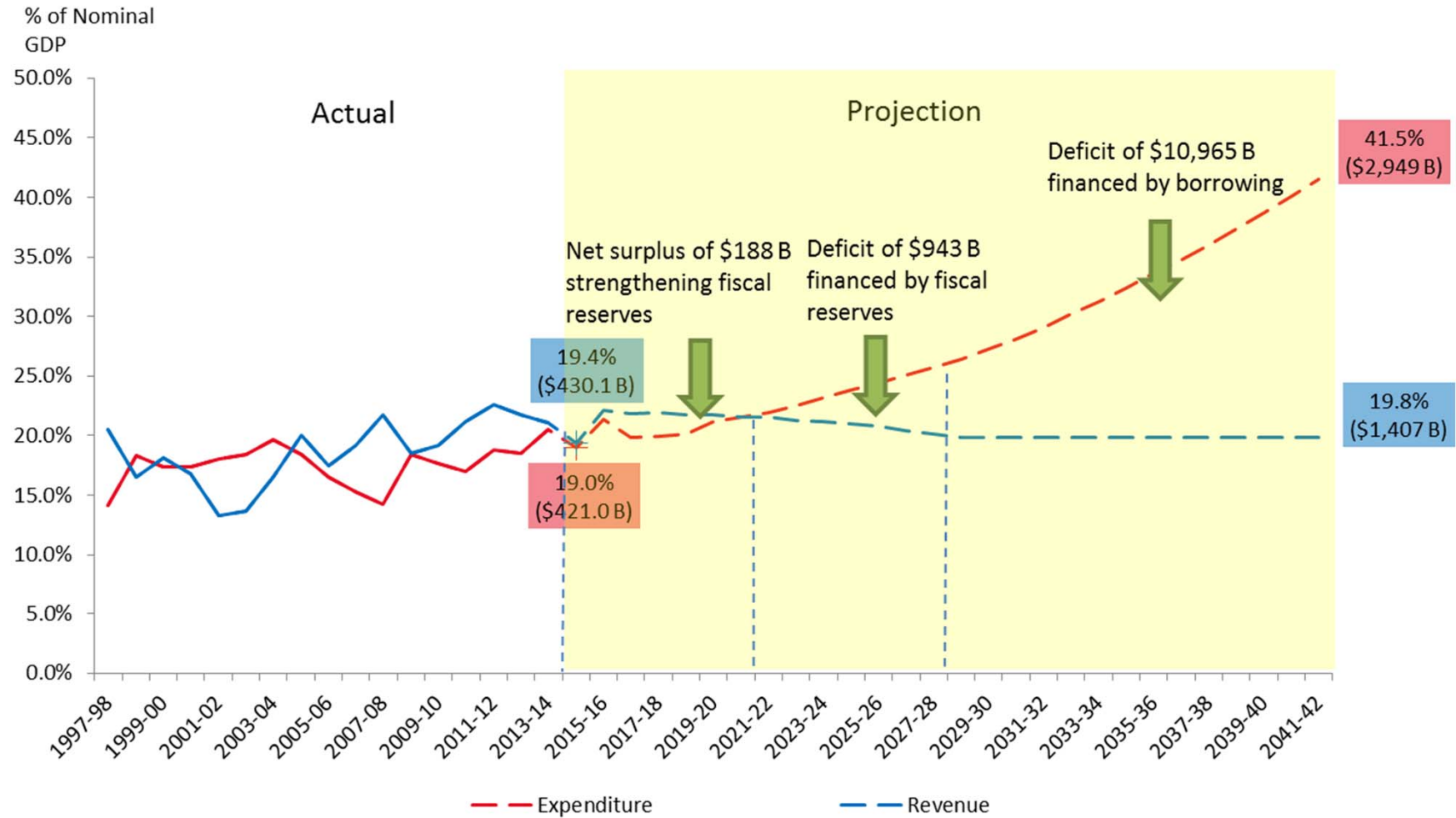
(Base Case, Service Enhancement @ 2%)

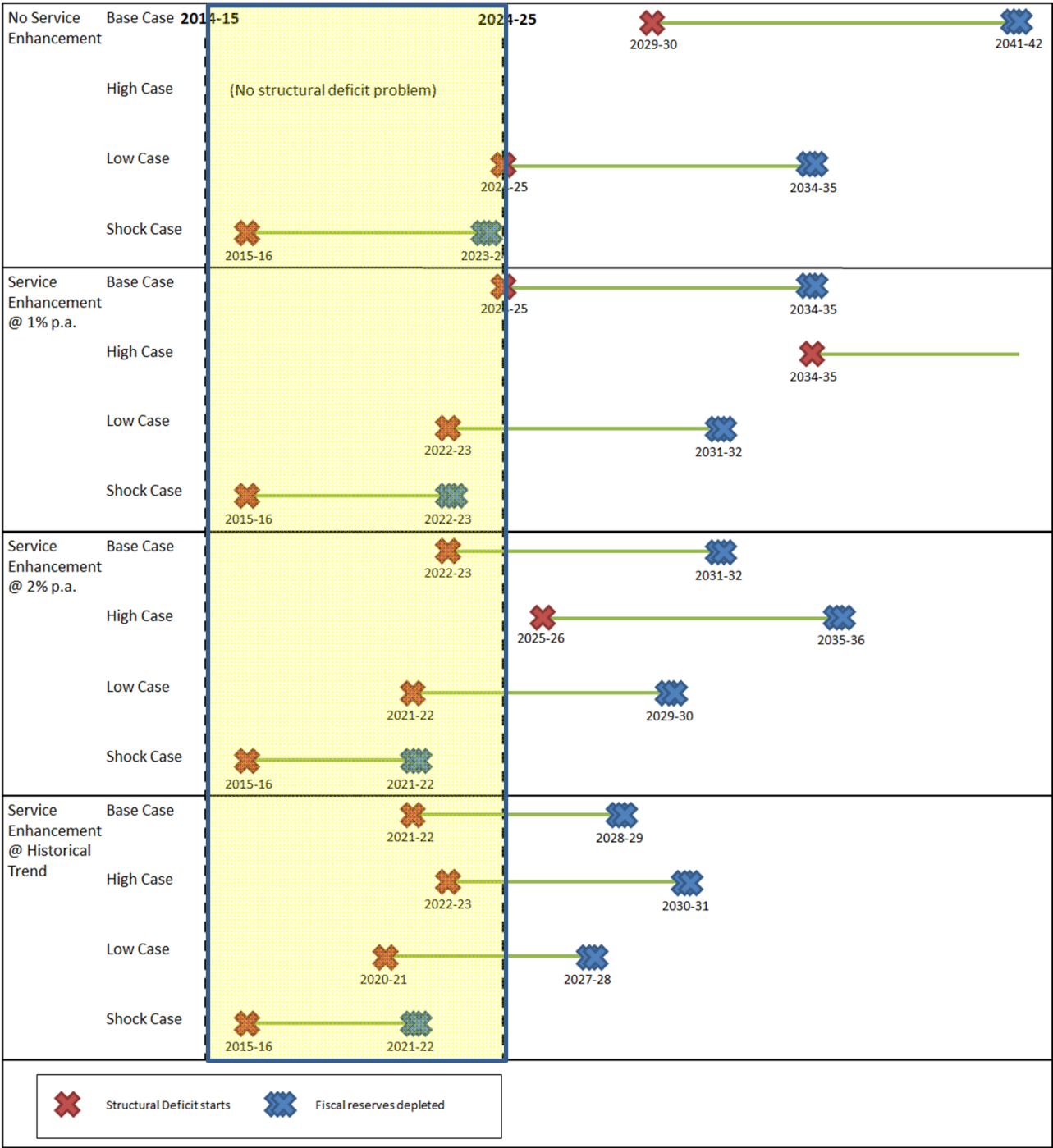
% of Nominal GDP



Fiscal Outlook

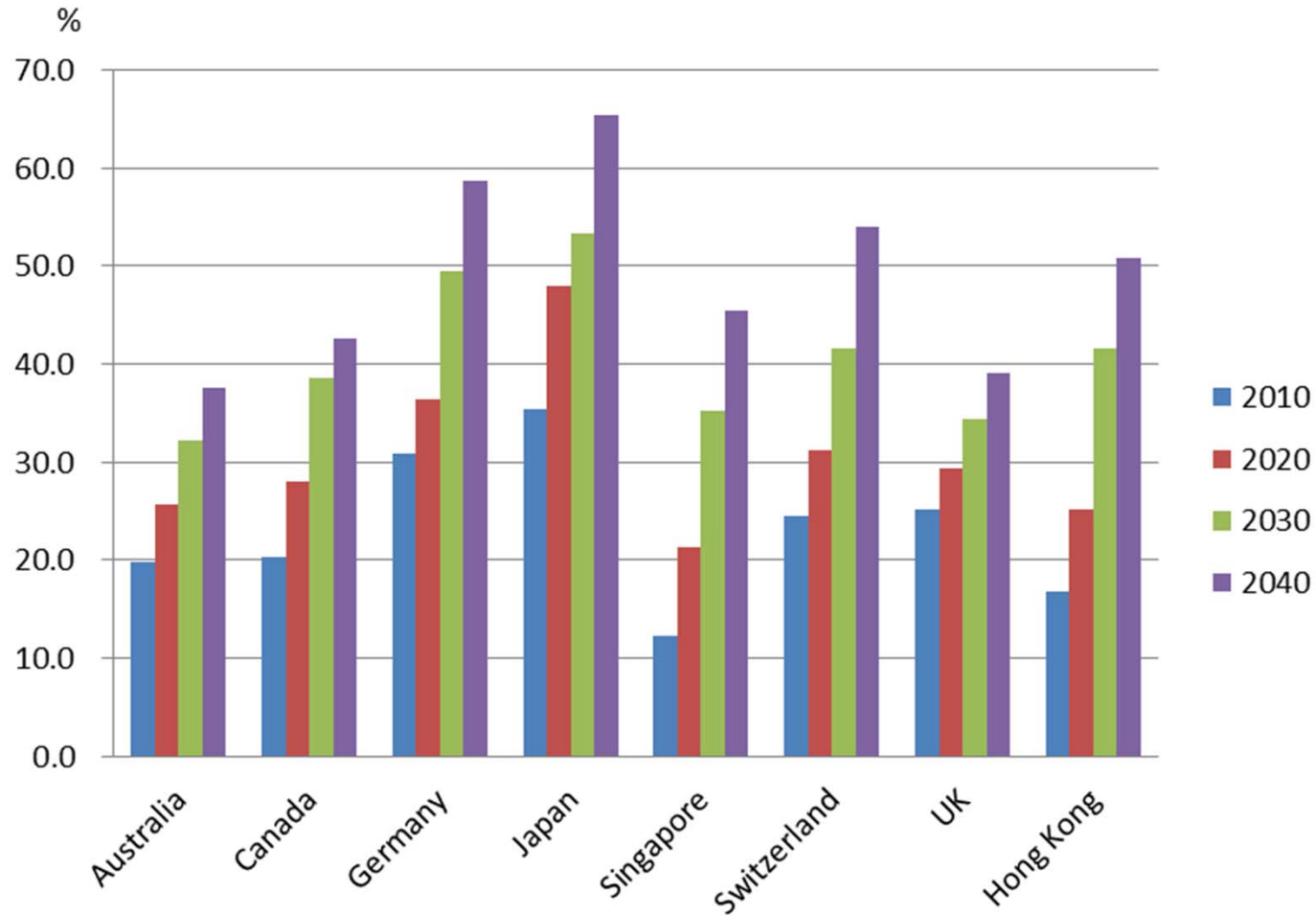
(Base Case, Service Enhancement @ Historical Trend)





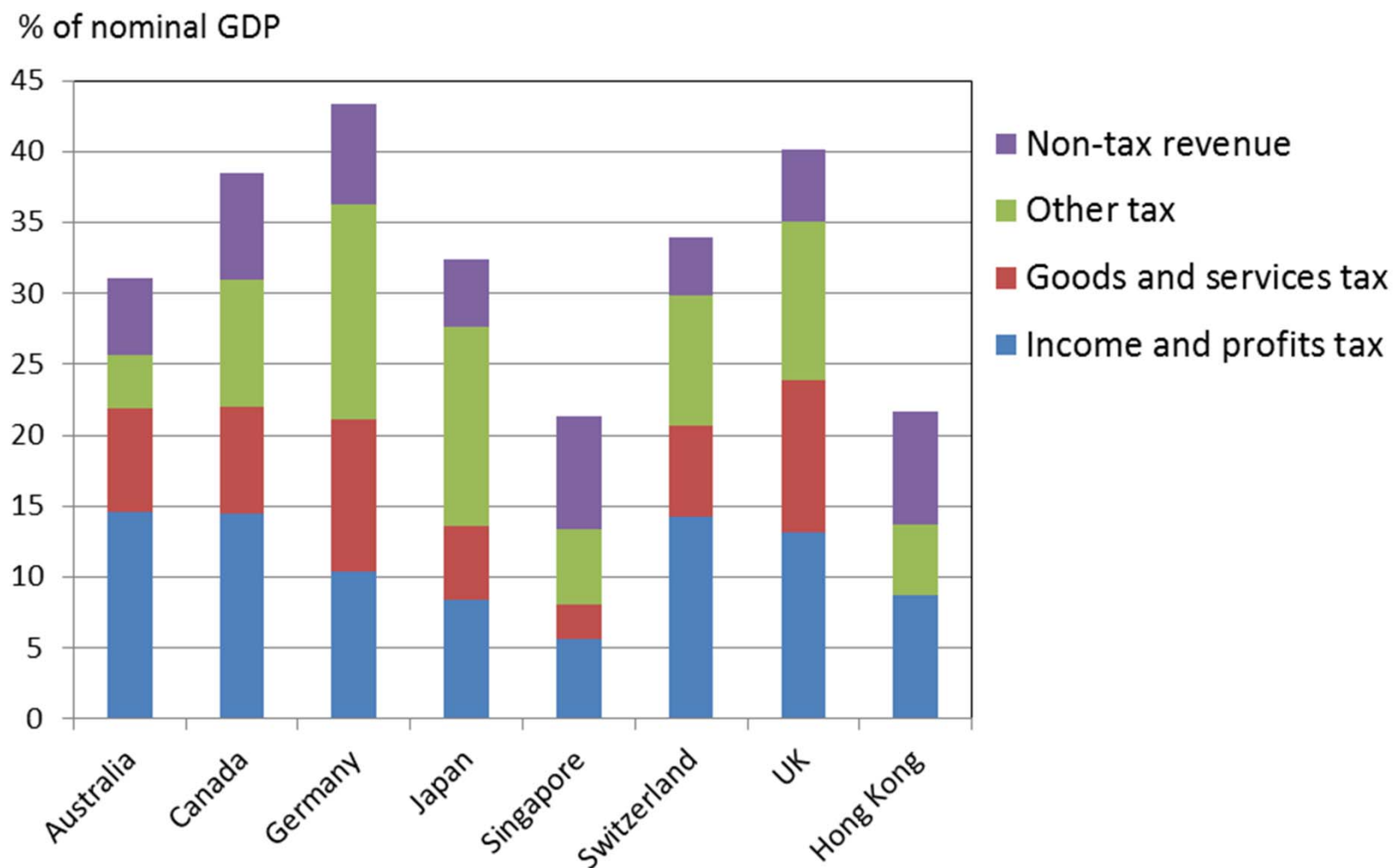
Other Economies

Elderly Dependency Ratio



Source: Other economies - United Nations Probabilistic Population Projections
Singapore - Department of Statistics, Singapore Government

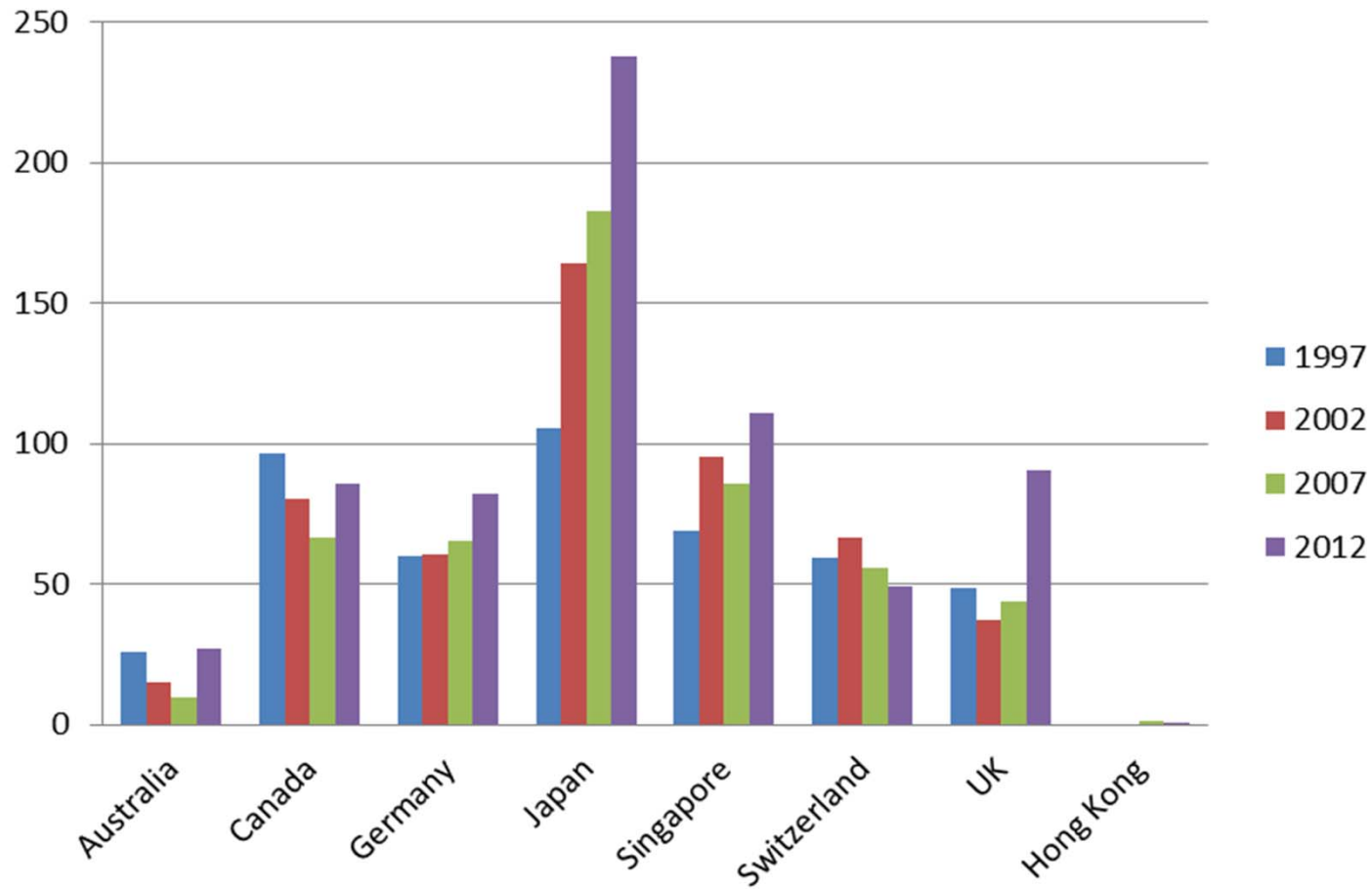
Revenue of selected economies



Sources: Other countries - OECD (for 2010)
Singapore - Singapore 2013 Budget
Hong Kong - Government's figures for 2012-13

Debt level of selected economies

% of Nominal GDP



Source: IMF WEO Database

Fiscal measures adopted in other economies

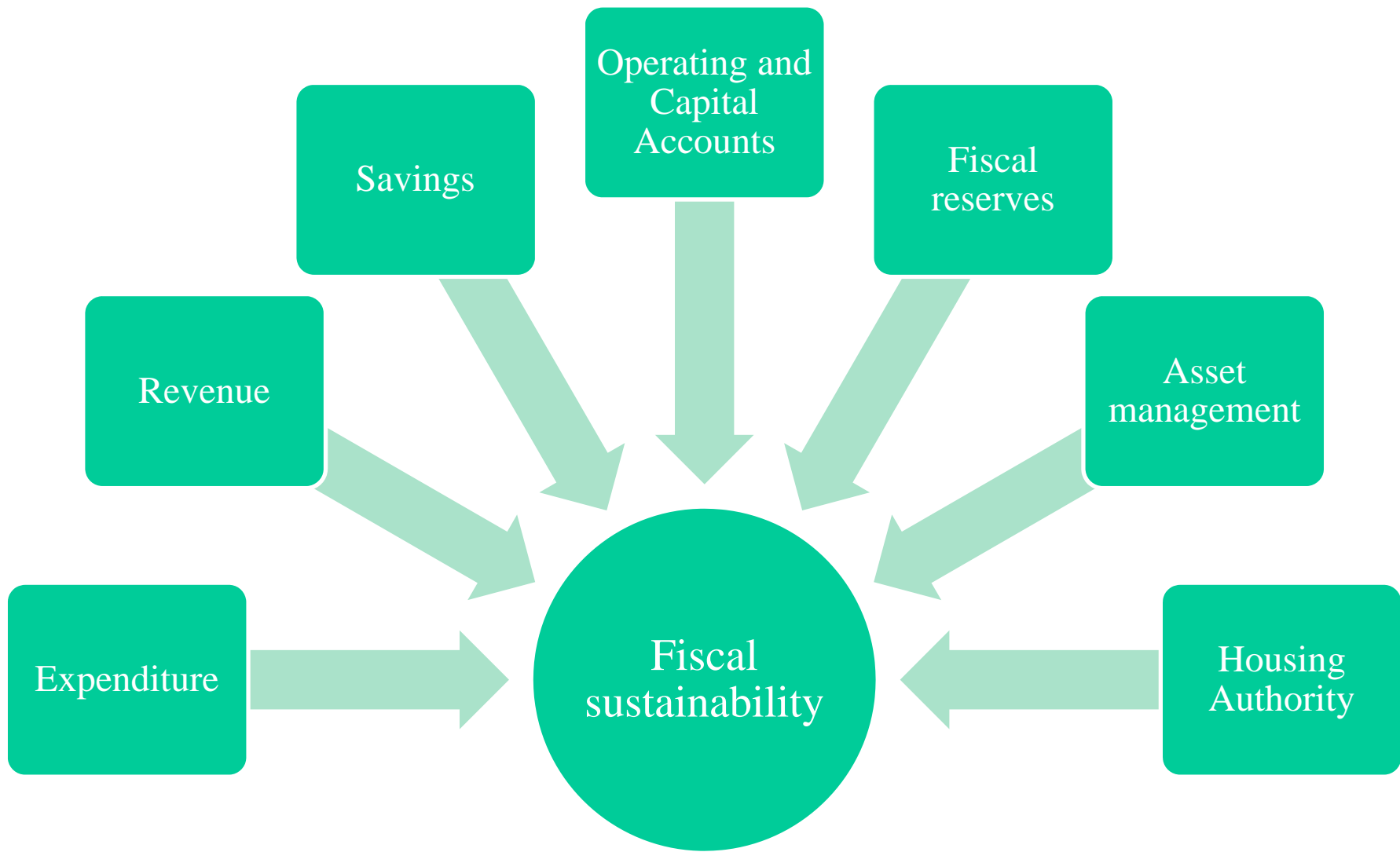
Major measures found

- Savings
- Enforce fiscal disciplines
- Contain expenditure
- Review operational efficiency
- Set limits on debt
- Preserve revenue base
- Increase GST
- Cut direct taxes

Proposed Fiscal Measures

Multi-pronged approach

- Promoting economic growth
- Policy formulation
- Fiscal measures



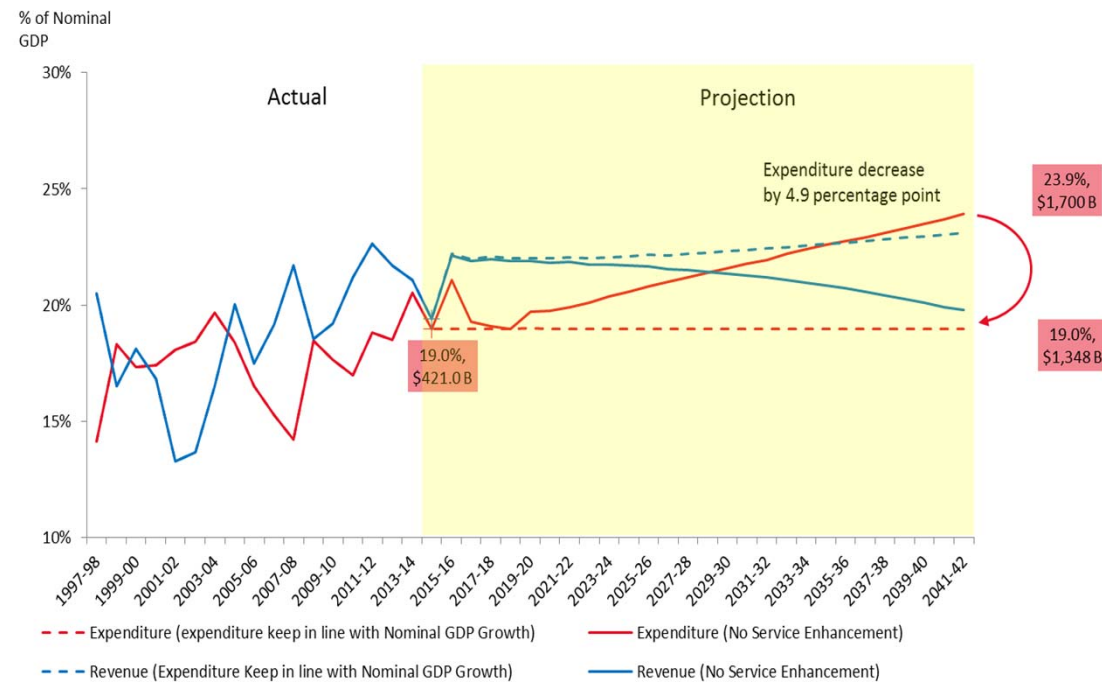
Economic growth needed to avoid structural deficit

- No Service Enhancement  3.1% p.a.
- Service Enhancement @ 1% per annum  3.6% p.a.
- Service Enhancement @ 2% per annum  4.4% p.a.
- Service Enhancement @ Historical Trend  5.4% p.a.

Recommendations

(A) Containing expenditure growth

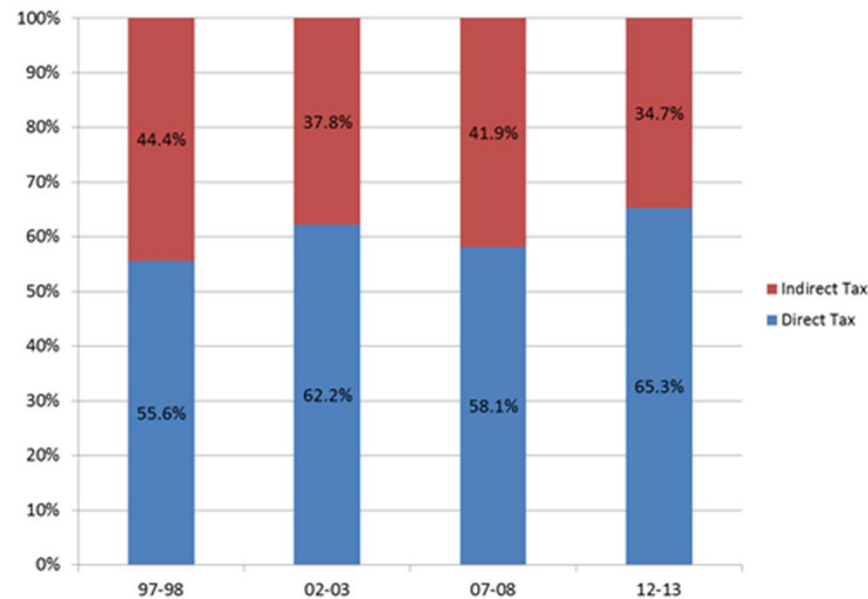
- contain expenditure growth within nominal GDP growth




- keep public expenditure at 20% of GDP
- assess fiscal sustainability of new initiatives

(B) Preserving, stabilising and broadening the revenue base

- avoid excessive reliance on direct taxation



- step up tax enforcement
- reinforce user pays principles
- if : profits tax and salaries tax rates doubled  8% of GDP

(C) Saving for the future

- “freeze” the Land Fund
- not account for as fiscal reserves
- endowment, withdrawal and operation
- consult stakeholders
- if : Land Fund (\$220 billion) +
one-third of surplus + investment return (5% p.a.)
- after 10 years  \$510 billion

(D) Segregating and balancing the Operating and Capital Accounts

(\$ Billion)	2013-14 Estimate	2014-15 Estimate	2015-16 Forecast
Operating Account			
Operating revenue	347.9	348.9	392.3
<i>Less:</i> Operating expenditure	(338.8)	(325.0)	(388.8)
Operating surplus	9.1	23.9	3.5
Capital Account			
Capital revenue	99.9	81.2	70.0
<i>Less:</i> Capital expenditure	(97.0)	(86.2)	(101.7)
Capital surplus/(deficit)	2.9	(5.0)	(31.7)
Bond repayment	-	(9.8)	-
Consolidated surplus/(deficit)	12.0	9.1	(28.2)
Fiscal reserves at 31 March	745.9	755.0	726.8
Represented by:			
Operating Account balance			
Opening balance		394.2	413.1
Operating surplus		23.9	3.5
Transfer to Capital Account		(5.0)	-
Closing balance	394.2	413.1	416.6
Capital Account balance			
Opening balance		351.7	341.9
Capital deficit		(5.0)	(31.7)
Bond repayment		(9.8)	-
Transfer from Operating Account		5.0	-
Closing balance	351.7	341.9	310.2

(E) Making clear what the fiscal reserves cover

(\$ million)	2013–14 Revised Estimate
General Revenue Account	394,241
Funds with designated use	131,957
Capital Works Reserve Fund	78,679
Capital Investment Fund	1,992
Civil Service Pension Reserve Fund	27,029
Disaster Relief Fund	29
Innovation and Technology Fund	1,801
Loan Fund	1,357
Lotteries Fund	21,070
Land Fund	219,730
Total	745,928

(F) Stepping up the management of the Government's assets

- disposal or securitization
- operational and management cost effectiveness

(G) Sustaining the financial health of the Housing Authority

- review the business mode



End