Economics & Strategy

DBS Focus

Singapore Budget 2023: Balancing near and long-term priorities

Economics/growth/fiscal

Group Research

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- *Budget 2023 strikes a balance between near and long-term priorities*
- *Measures were introduced to help household tackle rising costs*
- *Additional efforts were made to support families, home ownership, and vulnerable groups*
- *Significant emphasis was placed to encourage innovation and internationalisation*
- *Further adjustments in tax policies were put forth to ensure tax progressivity*
- *A budget deficit of about SGD 0.4bn (0.1% of GDP) was allocated for FY23*

Budget 2023

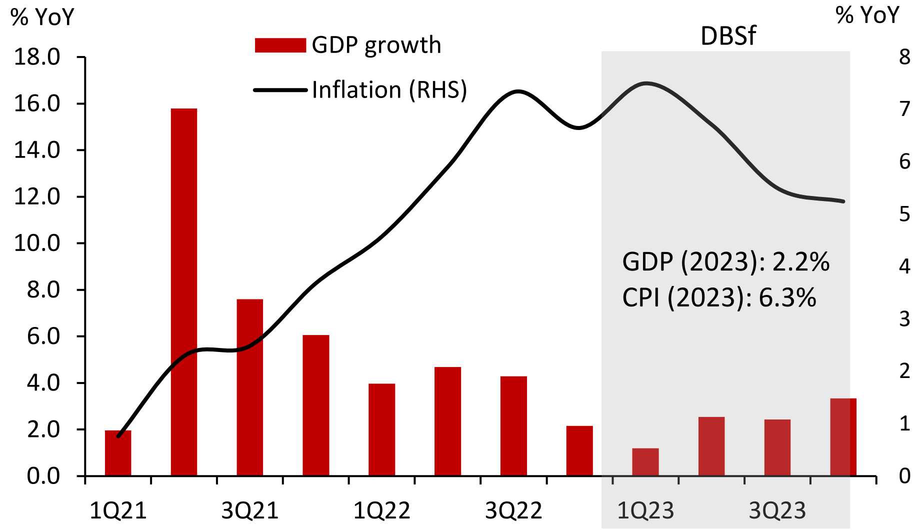
Budget 2023 is a multi-facet package that aims to secure the future of Singapore while attempting to address many of the near-term concerns. New initiatives and enhancements were announced to help Singaporeans cope directly with immediate cost pressure. Concomitantly, the budget also focuses on long-term issues such as enhancing the competitiveness and growth of local companies, supporting family planning, strengthening the social safety net to ensure equality and income mobility, as well as coping with the challenges of aging.

Juggling high inflation and slow growth

Budget 2023 was announced amid the backdrop of slow growth, high inflation. External headwinds are picking up and as a result, economic growth momentum is slowing. While the economy still managed to register an expansion of 3.6% in 2022, overall GDP growth for 2023 is expected to moderate further to just 2.2% (DBSf). Tighter monetary conditions, high inflation and geopolitical tensions have exerted significant pressure on global demand, weighing down on Singapore's growth prospects.

Challenging economic climate

Slower growth, high inflation



Source: DBS

Yet, inflation remains the biggest risk. Though imported inflation has been the main trigger at the early stage of the inflation cycle, domestic factors such as spikes in COE premiums, increase in housing rentals, manpower crunch leading to upward wage pressure, and the strong revenge spending by consumers have compounded the inflation woes. While inflation has peaked at 7.5% in Aug/Sep22, and has since moderated to 6.5% in December, the 1%-pt hike in GST in Jan23 could push headline CPI inflation back above 7%. Overall CPI inflation is expected to average 6.3%, while core inflation will remain elevated at 4.2% in 2023 [1].

The challenging economic climate has created a conundrum for policymakers. The government would have to ensure that the help rendered to households to cope against inflation is sufficient, but yet does not stoke further demand-pull inflationary pressure. Likewise, the support to companies would need to be calibrated to ensure sufficient emphasis is placed on long-term capability investment rather than resulting in excessive short-term business spending.

In this regard, **Budget 2023 has struck the right balance in addressing immediate needs of households amid rising costs and helping businesses level up their productivity and overall competitiveness**.

Coping with higher costs and strengthening social support

Support for households

On tackling inflation, enhancements were made to the GST Voucher (GSTV) and Assurance Package (AP) (raised to SGD 9.6bn) to help Singaporeans better cope with the high cost of living and the impact of the GST hike. The GSTV cash payout has been increased with households staying in lower annual value home getting more (i.e. up to SGD 850). The quantum for the Assurance Package was also raised to SGD 9.6bn, with further enhancements made to the cash component, CDC vouchers, utility rebates, subsidies for education, payout to elderly and an additional cost-of-living special payment [2].

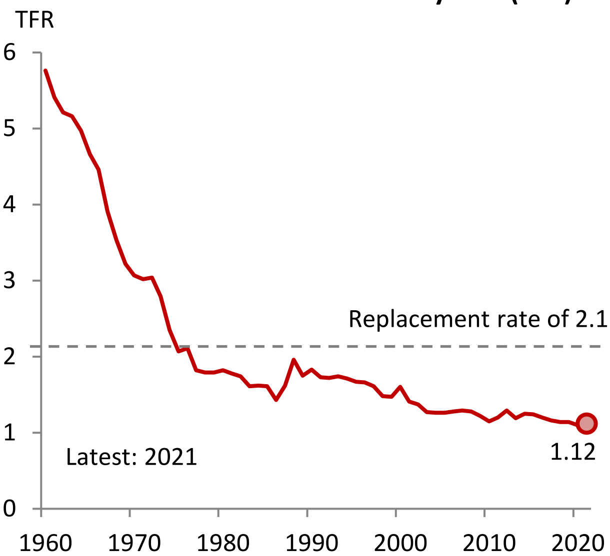
Enhancements to CPF Housing Grant

Resale Flat Type	Current	With immediate effect
4-rm or small	SGD 50,000	SGD 80,000
5-rm or larger	SGD 40,000	SGD 50,000

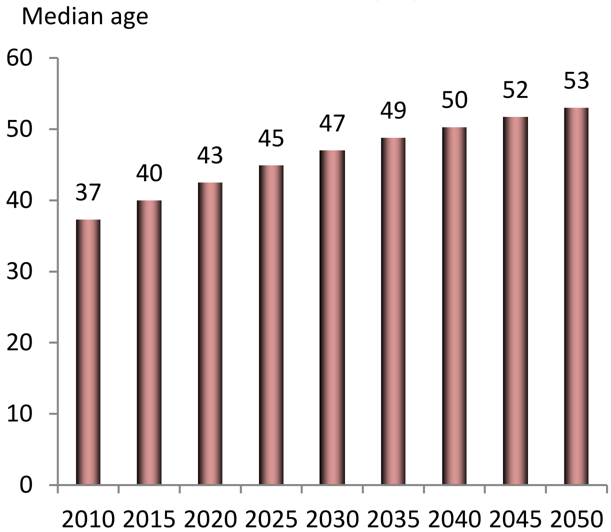
Significant emphasis has also been placed on housing, family support and mitigating the challenges of aging. **Housing constraints, be it in terms of supply or cost, is a major hindrance towards family planning**. An additional Build-To-Order (BTO) flat ballot will be given to families with children and young married couples who are buying their first home to increase their chance of owning their first home. There will also be additional housing grant (up to SGD 30,000 more) for first timer families to alleviate their concern pertaining affordability.

Moreover, **high inflation will exacerbate Singapore's rapidly falling total fertility rate (currently at only 1.12) by raising overall financial**

Persistent decline in total fertility rate (TFR)



Population is aging



Source: UN

burden of households, as well as potentially upend the retirement plans of elderly. In these regards, the Baby Bonus Cash Gift (up by SGD 3,000), Child Development Account (CDA), and Comcare Endowment Fund have been enhanced to buffer the cost of raising a family, while additional top-ups were made to the Eldercare Fund and Medifund to support eldercare. Indeed, the slew of measures in these areas are certainly welcoming for young couples, and families with young children and the elderly.

Driving enterprise development vs rising CPF costs

Mixed outcome for businesses

The budget also caters for businesses to stay relevant and innovate to capture new opportunities. Measures such as the top-up to the National Productivity Fund (SGD 4bn), the new Enterprise Innovation Scheme, as well as the SGD1bn boost to the Singapore Global Enterprises initiative will go a long way towards raising productivity and innovation and spurring greater internationalisation efforts. Beside extensions of the Enterprise Financing Scheme and the Energy Efficiency Grant to deal with cost pressure, **the focus of the measures pertaining to businesses has been reoriented from soothing the impact of COVID in previous years to focusing on long-term capability enhancement and strengthening competitiveness.**

Changes to the Buyers Stamp Duties may impact the high-end property market segment. Increases to the CPF salary ceiling and changes to contribution rates for senior workers would also add on to the manpower costs for companies. That said, the progressive four-year rise for the ceiling increase would allow for a gradual adjustment, while the transition offset for senior workers would somewhat alleviate the rise in business cost.

Changes in CPF monthly salary ceiling

	CPF monthly salary ceiling (SGD)	Increment (SGD)	CPF annual salary ceiling (SGD)
Current	6,000	-	102,000
From Sep 1, 2023	6,300	300	
From Jan 1, 2024	6,800	500	
From Jan 1, 2025	7,400	600	
From Jan 1, 2026	8,000	600	

Changes to CPF contribution rates for senior workers

Age Band	Total	Employer	Employee	CPF transition offset for 2024
>55 to 60	31.0%	15.0%	16.0%	0.25%-pt
	+1.5%-pt	+0.5%-pt	+1.0%-pt	
>60 to 65	22.0%	11.5%	10.5%	
	+1.5%-pt	+0.5%-pt	+1.0%-pt	
>65 to 70	16.5%	9.0%	7.5%	
	+1.0%-pt	+0.5%-pt	+0.5%-pt	

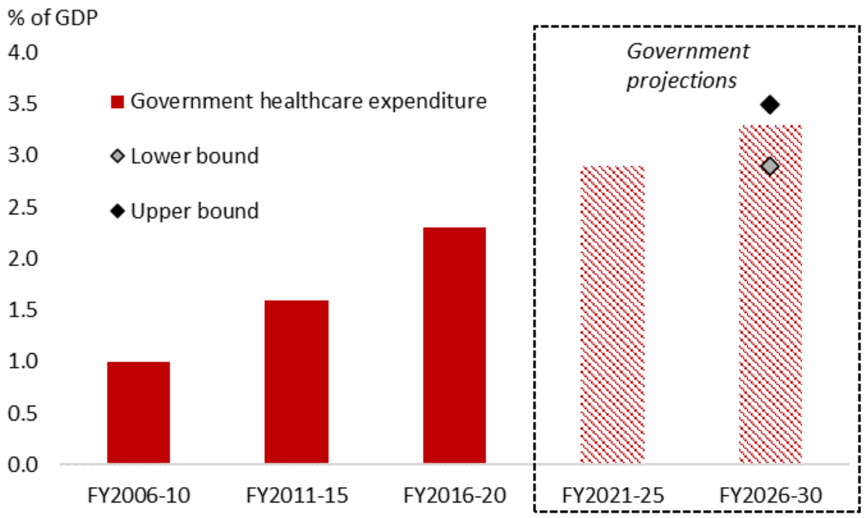
Source: MOF
Note: No changes in CPF contribution rates for workers below or at 55, and above 70

Progressive steps on fiscal sustainability

Singapore's strong economic fundamentals have been backed by its fiscal strength, and Budget 2023 takes an incremental but progressive effort towards ensuring medium-term fiscal sustainability, in our view. Expenditures are set to rise over the long term amid the need to support an aging population, to upskill and maintain a competitive work force, and upgrade infrastructure to enhance connectivity, as well as to guard against climate change risks. Increased spending especially recurrent ones would no doubt require additional and sustainable recurrent revenues to maintain fiscal discipline.

Public spending set to rise further

Rising healthcare expenditures on the horizon



Source: MOF Occasional Paper on Medium-Term Fiscal Projections, DBS

Notably, public healthcare spending will be a key driver of Singapore's rising recurrent expenditures, as highlighted in the *MOF's Occasional Paper on Medium-Term Fiscal Projections* and was also pre-empted previously. Healthcare alone is the largest category of total expenditures at ~18% of the total, and is set to rise further amid a fast-ageing population. Healthcare outlays have already jumped to ~2.3% of GDP (excluding COVID-related spending) from just 1.0% in the FY2006 to 2010 period. The government projects a possible increase to 2.9% to 3.5% of GDP in FY2026 to 2030 period. Moreover, healthcare spending remains subjected to high uncertainty from utilisation rates and costs of healthcare services.

Maintaining fiscal progressivity

Budget 2023 sees the government pressing on with further efforts to bolster Singapore's fiscal position but ensuring that they continue to be achieved in a progressive manner. 2023's announcements (higher marginal Buyer's Stamp Duties (BSD) for higher-value residential and non-residential properties starting from Feb 15, and further tweaks to the Additional Registration Fee for the luxury cars) are in similar fashion to the tax changes in Budget 2022. High income earners are ultimately made to contribute more to the government's tax coffers, but may also dampen their sentiment towards high-end consumption and property investment going forward. At the same time, the tobacco excise duty will be raised by 15%, which not only helps to bring in additional government revenues, but also dovetails with government efforts to promote healthy living. Overall, the changes to BSD, vehicle, and sin taxes are expected to generate SGD 800mn in additional revenues per year. Recalibration to tax incentives for MNCs in compliance with BEPS 2.0 Pillar 2 from 2025 could also result in additional revenues, but developments on this front are still fluid.

Raising Buyer's Stamp Duty rates for higher value properties

Residential property value	Marginal Buyer's Stamp Duty rates
In excess of SGD1.5mn & up to 3.0mn	5%
In excess of SGD3.0mn	6%
Non-residential property value	**Marginal Buyer's Stamp Duty rates**
In excess of SGD1.0mn & up to 1.5mn	4%
In excess of SGD1.5mn	5%

Source: MOF, DBS

FY2023 fiscal deficit, but balanced budget achievable in current term

On track to achieving balanced budget

While FY2022 has surprised on the downside with a deficit of SGD 2.0bn (0.3% of nominal GDP), the actual overall position of FY2021 has come in significantly better than the previous estimate of SGD 5.0bn shortfall (0.9% of GDP). Even with the budgeted deficit of SGD 0.4bn for FY23, the accumulated deficit for the current term of government stands at SGD 0.5bn. This is expected to be easily overcome considering that Singapore's average annual fiscal balance prior to COVID is about SGD 3.3bn. **Barring any unforeseen risk, there shouldn't be any issue for the government to achieve an overall balanced budget in the current term.** Moreover, additional impetus will also come from the revenues from the GST hikes, changes to property related measures, personal income tax, wealth and sin taxes announced in recent budgets.

Singapore's overall fiscal position

	Actual FY2021	Revised FY2022	Budgeted FY2023	Change over Revised FY2022	
	SGD bn	SGD bn	SGD bn	SGD bn	% change
Operating revenue	**82.5**	**90.3**	**96.7**	**6.4**	**7.1**
Less:					
Total expenditure	**94.8**	**107.0**	**104.2**	**-2.8**	**-2.6**
Operating expenditure	78.5	86.3	83.6	-2.7	-3.1
Developmental expenditure	16.3	20.6	20.5	-0.1	-0.5
Primary surplus/deficit	**-12.3**	**-16.7**	**-7.5**		
Less:					
Special transfers	**6.8**	**9.2**	**19.6**	**10.4**	**113.8**
Special transfers excluding top-ups to endownment and trust funds	6.8	2.9	2.8		
Basic surplus/deficit	**-19.1**	**-19.6**	**-10.2**		
Top-ups to endownment & trust funds	-	6.3	16.8		
Add:					
Net investment returns contribution	**20.4**	**21.6**	**23.5**	**1.9**	**8.7**
Overall budget surplus/deficit	**1.2**	**-4.2**	**-3.6**		
Add:					
Capitalisation of nationally significant infrastructure	0.7	2.3	3.5		
Overall fiscal position	**1.9**	**-2.0**	**-0.4**		
Overall balance as % of GDP	**0.3**	**-0.3**	**-0.1**		

Source: MOF

Budget 2023 would also mark a move in the post-pandemic era, where the government will no longer need to draw on the past reserves [3]. This reflects Singapore's long-held prudent approach towards its fiscal finances and reserves. As Deputy Prime Minister and Finance Minister Lawrence Wong said in his Budget 2023 speech, Singapore's reserves are the country's greatest insurance, and would provide the country with the resources to rebuild Singapore, if the island state were to be hit by a bigger calamity or disaster. Henceforth, **preserving the reserves would be fundamental to the aim of ensuring fiscal sustainability, economic resilience and ultimately, the long-term relevance of this nation**.

Notes:

[1] More details in DBS report "*Singapore Outlook 2023: Soft patch ahead*" dated 29 Nov22

[2] More details in Ministry of Finance, Budget 2023 wesbite

[3] Overall, the total draw on past reserves across FY2020 to FY2022 is expected to amount to SGD 40bn, lower than the initial amount of SGD 52bn.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)

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