# **Economics & Strategy**

# **DBS Focus**

# Singapore Budget 2023: Balancing near and long-term priorities

Economics/growth/fiscal

Group Research February 15, 2023

Irvin Seah Senior Economist



Chua Han Teng, CFA Economist



Please direct distribution queries to Violet Lee +65 68785281 violetleeyh@dbs.com

- 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**

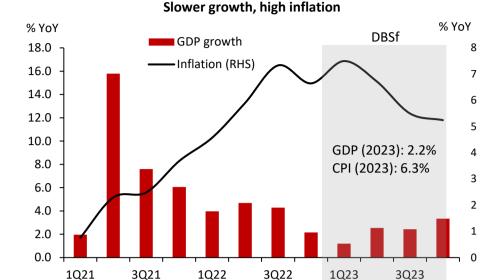
Budget 2023 is a multi-facet package that aims to secure the future of Singapore while attempting to address many of the near-term concerns. New initiatives and enhancements were announced to help Singaporeans cope directly with immediate cost pressure. Concomitantly, the budget also focuses on long-term 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.



Source: DBS



Challenging economic climate

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

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].

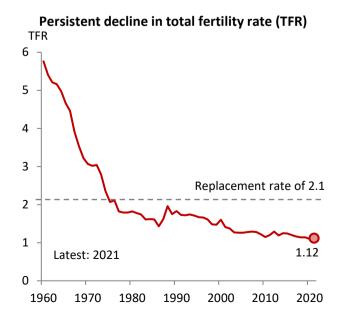
Support for households

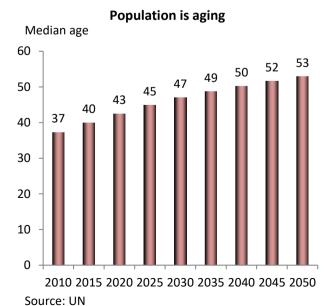
#### **Enhancements to CPF Housing Grant**

| 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





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**

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.

Mixed outcome for businesses

Changes in CPF monthly salary ceiling

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

Source: MOF

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

Changes to CPF contribution rates for senior workers

| Age Band  | Total    | Employer | Employee | CPF<br>transition<br>offset for<br>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 |   |  |

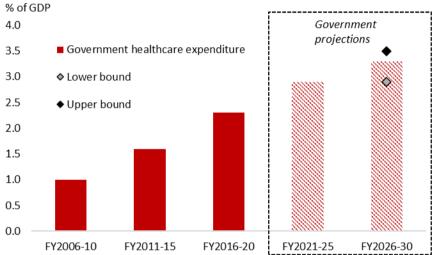


### Progressive steps on fiscal sustainability

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.

# Rising healthcare expenditures on the horizon

Public spending set to rise further



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 <u>MOF's Occasional Paper on Medium-Term Fiscal Projections</u> 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 fastageing 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   | <b>Marginal Buyer's Stamp Duty rates</b> |  |  |
|--|--|--|--|
| 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        |  |  |
| Non-residential property value In excess of SGD1.0mn & up to 1.5mn | Marginal Buyer's Stamp Duty rates 4%     |  |  |

Source: MOF, DBS

# FY2023 fiscal deficit, but balanced budget achievable in current term

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.

On track to achieving balanced budget

Singapore's overall fiscal position

|   | Actual<br>FY2021<br>SGD bn | Revised<br>FY2022<br>SGD bn | Budgeted<br>FY2023<br>SGD bn | Change over<br>Revised FY2022 |          |
|---|----------------------------|-----------------------------|------------------------------|-------------------------------|----------|
|   |                            |                             |                              | 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                          | 0.7                        | 2.3                         | 3.5                          |                               |          |
| infrastructure  |                            |                             |                              |                               |          |
| 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.



# **Group Research**

**Economics & Macro Strategy** 

Taimur Baig, Ph.D.
Chief Economist

Global

taimurbaig@dbs.com

# **Chang Wei Liang**

FX & Credit Strategist
Global
weiliangchang@dbs.com

#### **Nathan Chow**

Senior Economist China, Hong Kong SAR nathanchow@dbs.com

# Chua Han Teng, CFA

Economist
Asean
hantengchua@dbs.com

#### **Violet Lee**

Associate Publications violetleeyh@dbs.com

# **Eugene Leow**

Senior Rates Strategist G3 & Asia eugeneleow@dbs.com

#### **Chris Leung**

Chief Economist
China, Hong Kong SAR
chrisleung@dbs.com

#### Ma Tieying, CFA

Senior Economist

Japan, South Korea, Taiwan

matieying@dbs.com

#### Radhika Rao

Senior Economist
Eurozone, India, Indonesia
radhikarao@dbs.com

#### **Irvin Seah**

Senior Economist
Singapore
irvinseah@dbs.com

# **Daisy Sharma**

Analyst
Data Analytics
daisy@dbs.com

#### **Duncan Tan**

Rates Strategist
Asia
duncantan@dbs.com

#### **Samuel Tse**

Economist
China, Hong Kong SAR
samueltse@dbs.com

# **Philip Wee**

Senior FX Strategist Global philipwee@dbs.com



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

# **GENERAL DISCLOSURE/ DISCLAIMER (For Macroeconomics, Currencies, Interest Rates)**

The information herein is published by DBS Bank Ltd and/or DBS Bank (Hong Kong) Limited (each and/or collectively, the "Company"). This report is intended for "Accredited Investors" and "Institutional Investors" (defined under the Financial Advisers Act and Securities and Futures Act of Singapore, and their subsidiary legislation), as well as "Professional Investors" (defined under the Securities and Futures Ordinance of Hong Kong) only. It is based on information obtained from sources believed to be reliable, but the Company does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. The information herein is published for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Company and its associates, their directors, officers and/or employees may have positions or other interests in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking or financial services for these companies. The information herein is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction (including but not limited to citizens or residents of the United States of America) where such distribution, publication, availability or use would be contrary to law or regulation. The information is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction (including but not limited to the United States of America) where such an offer or solicitation would be contrary to law or regulation.

This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) which is Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Singapore recipients should contact DBS Bank Ltd at 65-6878-8888 for matters arising from, or in connection with the report.

DBS Bank Ltd., 12 Marina Boulevard, Marina Bay Financial Centre Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.

DBS Bank Ltd., Hong Kong Branch, a company incorporated in Singapore with limited liability. 18th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong SAR.

DBS Bank (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability. 13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong SAR

Virtual currencies are highly speculative digital "virtual commodities", and are not currencies. It is not a financial product approved by the Taiwan Financial Supervisory Commission, and the safeguards of the existing investor protection regime does not apply. The prices of virtual currencies may fluctuate greatly, and the investment risk is high. Before engaging in such transactions, the investor should carefully assess the risks, and seek its own independent advice.

