Singapore Budget

S’pore 2019 post-Budget thoughts

Thursday, February 21, 2019

Treasury Research
Tel: 6530-8384

Selena Ling
Tel: 6530-4887
LingSSSelena@ocbc.com

Healthy fiscal position from previous years bode well for an expansionary FY2019 Budget.

Once again, the planned FY2018 Budget deficit of $0.6 billion did not materialize, even though GDP growth moderated from 3.9% in 2017 to 3.2% in 2018. Instead, the Fy2018 outturn was an overall surplus of $2.12 billion (0.4% of GDP), which was largely attributed to the suspension of the Kuala Lumpur-Singapore High Speed Railway (HSR) project and better than expected stamp duty collection (23% higher than estimated). Actually, both the corporate and personal income taxes came in higher than 2017 at 8.0% yoy and 9.2% respectively, and also 6.8% and 2.5% higher than planned. In line with the fiscal prudence philosophy, FY2018 total expenditure was revised down by $1.0 billion (1.3%) to $79.0 billion (still 7.4% higher than FY2017), while the Net investment returns contribution came in at $16.4 billion (higher than budgeted by 3.7%). This meant that for the three fiscal years, the accumulated overall surpluses amounted to a substantial $19.1 billion. Compared to the planned $3.5 billion overall fiscal deficit planned for FY2019, there would still be some $15.6 billion left in the kitty for deployment in FY2020 if needed.

Below I share my 6 key take-aways from the FY2019 Budget:

1. **A general crowd-pleasing expansionary budget that address key concerns about security, capability-building and healthcare costs, but not necessarily a pre-election budget per se.**

The Budget theme of a “Strong, United Singapore” focused on the bicentennial year commemoration, the need for beefing up digital defence as the sixth pillar of Total Defence (which will now account for 30% of expenditure), building deep enterprise capabilities (through a new Scale-up SG programme and positioning S’pore as a global-Asia node of technology and innovation etc), and promoting a caring and inclusive society (through a $1b Bicentennial bonus and the highly awaited new $6.1b Merdeka package to address healthcare costs for seniors aged 50-59). There’s something for everyone, especially when it comes to heavyweight issues like healthcare cost concerns, so the feel-good factor is definitely there.

That said, while the FY2019 Budget is a fairly generous budget, but it is not overly so in my opinion. As mentioned above, there is still another $15.6 billion left in the kitty for FY2020. Moreover, the expansionary fiscal impulse can be attributed to the growth moderation underway, both globally and domestically. Compared to FY2015 when Singapore last ran an overall budget deficit which coincided with an election year, then it was also larger at $4.05 billion (1% of GDP). Special transfers excluding top-ups to endowment and trust funds budgeted amounted to 3.0% of

GDP for FY2019, which is the highest since FY 2014 (3.1%), which was partly matched by the NIRC rising 4.5% yoy to $17.2 billion. NIRC now amounts to 3.4% of GDP for FY2019 Budget, the same as FY2018, and is rapidly catching up with the planned development expenditure of $19.5 billion. It is incredible that the NIRC can fund 88% of development expenditure, up from 69% back in FY2013, even without a further adjustment to the NIRC formula.

2. The key challenges highlighted in the Budget are familiar, albeit with the addition of a decline in support for globalization.

The FY2019 Budget speech flagged four key forces reshaping the global environment, namely the shift in global economic weight towards Asia, rapid technological advancements, changing demographic patterns, and a decline in support for globalization. In fact, in his FY2018 Budget speech, he had also referenced the shift in global economic weight towards Asia, the emergence of new technologies, and ageing. However, if you examine the FY2019 Budget closely, there appears to be less focus on internationalization per se (even though previous incentives and schemes remain intact), and more priority given towards building deep enterprise capabilities through supporting start-ups via a vibrant ecosystem, helping firms scale up and SMEs access financing and adopt digital technologies. Perhaps this is because of a global decline in support for globalization which tilts the policy balance towards building domestic capabilities during this interim period until there is greater clarity on the outcome of the US-China trade tensions. The “occasional differences” between neighbouring countries the need for “diplomacy and deterrence” cited by Finance Minister Heng are a somber reminder that Singapore is vulnerable to fluctuations in the region and the world.

Given that three of the headwinds are familiar, it is unsurprising then that the number of new and bold schemes to transform the economy and build deep enterprise capabilities is relatively limited to the Merdeka Generation Package (MGP), the Scale-up SG program and the pilot digital services lab. Many of the other Budget announcements were an extension or enhancement of the existing schemes and programs. Nonetheless, SMEs would welcome initiatives like the SME Co-investment Fund III, streamlining of existing financing schemes to enhance support for firms incorporated for less than five years, extension of enhanced working capital support and automation support package till 31 March 2021. As we had indicated in our pre-Budget report, we do not see an immediate need for a major recalibration of priorities yet as the global and S’pore economy does not appear to be facing an imminent financial crisis or recession even though financial markets are volatile.

3. Social spending takes the forefront again, which extends the caring and inclusive society theme.

Despite all the talk about buffing total defence spending which now accounts for $22.7 billion or 28.3% of total expenditure in FY2019, actually the lion’s share still goes to social development at $37.7 billion or 47% of total expenditure. In particular, education and health alone accounts for 31.3% of total expenditure, which is larger than the total allotment to security and external relations at $22.7 billion in the

FY2019 budget. That said, health expenditure as a percentage of GDP is still hovering around 2.3%. While this is significantly higher than the 1.5% of GDP spent on health back in FY2013, it remains relatively low compared to other OECD countries.

While the MGP was not a surprise, having been announced in advance earlier, nevertheless the details given in the Budget were interesting. The MGP is meant to defray healthcare costs for 500,000 Singaporeans born between 1950-59. Trade and Industry Minister Chan Chun Sing had also given the assurance that the funds will be set aside by this term of government “because the rule in the Singapore system is that no government can make - or should make - empty promises on behalf of a future government” and it will not come from a future hike in the GST. The MGP comprised of $6.1 billion set aside in the Merdeka Generation Fund which was funded in one-go (categorized under the top-ups to endowment and trust funds). This was in addition to one-off $100 Passion Silver Card top-ups, $200 per year Medisave top-ups from 2019-2023, special subsidies for Community Health Assist Scheme (CHAS) GP and dental clinics, additional 25% off subsidized bills at polyclinics and public Specialist Outpatient Clinics, Medishield life premium subsidies and an additional Careshield Life participation of $1,500. As a comparison, the Pioneer Generation Package (PGP) introduced in 2014 to benefit about 450,000 Singaporeans (who were born on or before 31 December 1949 and obtained citizenship before 31 December 1986) in terms of their healthcare costs for life (including additional 50% off subsidised services and medications at polyclinics and Specialist Outpatient Clinics), support for MediShield Life premiums through subsidies and MediSave top-ups, MediSave top-ups of $200-800 annually for life, and assistance through the Pioneer Generation Disability Assistance Scheme. One nagging worry may be that subsequent generations may also be emboldened to expect similar healthcare support packages down the road.

Actually, the real surprise to me beyond the MGP is that all Singaporeans with chronic conditions will also benefit **regardless of income** from enhanced CHAS, with increased subsidies for complex chronic conditions. This is probably a policy milestone in that it recognizes the chronic conditions will increasingly impact ageing Singaporeans and the decision to extend CHAS regardless of income is a step towards addressing the concerns specific to chronic conditions which can be either increasingly debilitating or costly.

4. The only sting from the FY2019 Budget would be the gradual phased-in foreign worker tightening for the services sector.

Contrary to industry hopes that the status quo would be maintained, the FY2019 budget included a two-step reduction of services sector dependency ratio ceilings from 40% to 35% between 2020-2021 and the S Pass sub-DRC from 15% to 10% for the same period. This is likely to be unwelcome music to the services firms, especially SMEs who are already facing a challenging macro-economic environment, high operational costs and a tight manpower situation. The rationale is that productivity growth has been uneven across sectors, and the S Pass and Work Permit holders in the services sector has been accelerating. In addition, some segments like F&B and retail remain very labour-intensive. Since the workforce growth is tapering, companies need to double down on restructuring efforts. The latest labour market report revealed that services employment had spiked nearly 24% yoy to 48.3k in 2018 (highest since 2013), whereas the construction sector shed jobs for the third consecutive year and the fifth consecutive year for manufacturing. Hence this is probably a timely reminder that the economic restructuring efforts building on the Committee of Future Economy recommendations remain relevant. As compensatory measures, the 70% funding support level for the Enterprise Development Grant will be extended for three more years to 31 March 2023 and similarly for the Productivity Solutions Grant to expand its scope to 70% support for out-of-pocket cost of training. Given that the domestic labour market is already relatively tight, with the overall unemployment rate at 2.1% (resident: 2.9% and Singapore citizens: 3.0%) in 2018, this measure may exacerbate the domestic labour crunch and potentially drive wage inflation, which in turn if passed on to consumers may also lift MAS core inflation down the road. Unless labour participation rates rise further, or companies quickly adopt new technologies to improve productivity, there may be some short-term pain involved.

The Marine Shipyard and Process sectors, however, will see another year of deferral of earlier-announced increase in Foreign Worker Levy rates as they have only begun to show early signs of recovery.

5. **For individual Singaporeans, more help on the way for workers to remain competitive and relevant, but a top-up to the SkillsFuture Credit was not forthcoming**.

To tackle Singaporean workers facing job displacement and skills obsolescence, especially for PMETs, there is more support in terms of new professional conversion programmes (eg. in blockchain, embedded software development, and prefabrication) There is also a two-year extension to provide wage support for companies that hire Singaporeans who are mature and retrenched, or in long-term unemployment until 31 March 2021. That said, a top-up to the SkillsFuture would have been helpful.

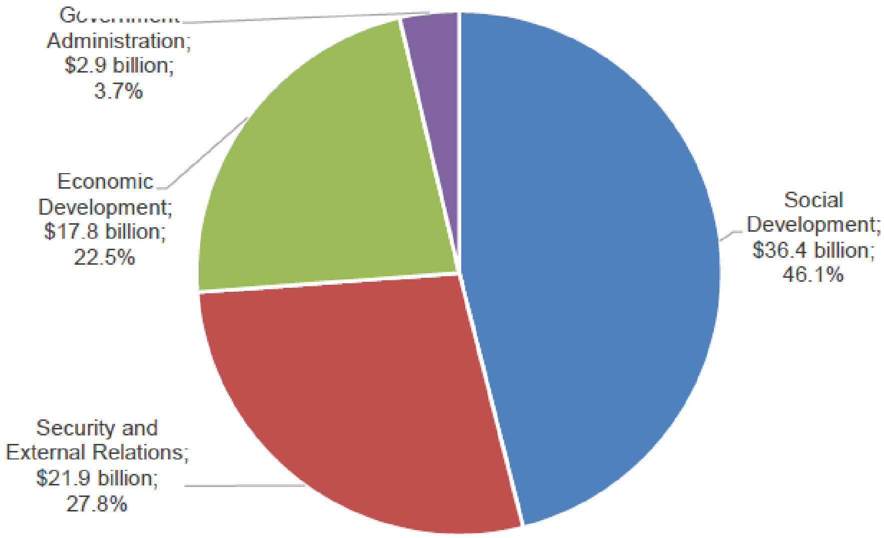
However, the Bicentennial Bonus appears to be targeted at the low-come Singaporeans (through GST vouchers and Workfare Bicentennial Bonus amounting to 10% of WIS payouts), 50% personal income tax rebate capped at $200 for YA2019, top-ups to Edusave and Post-Secondary Education Accounts for school-going kids, and $300-$1k CPF top-ups to eligible Singaporeans with lower CPF balances (below $30k and above $30k but less than $60k for combined CPF Ordinary and Special Account or Retirement Account balances as at 31 December 2018).

On the personal consumption side, those travelling abroad will also see reduced GST import relief and alcohol duty-free concessions, but these are quite marginal in the overall scheme of things. There was also no property-related Budget announcements.

6. **Incoming economic data suggests MAS will likely be cautious and potentially stay pat at the April MPS**.

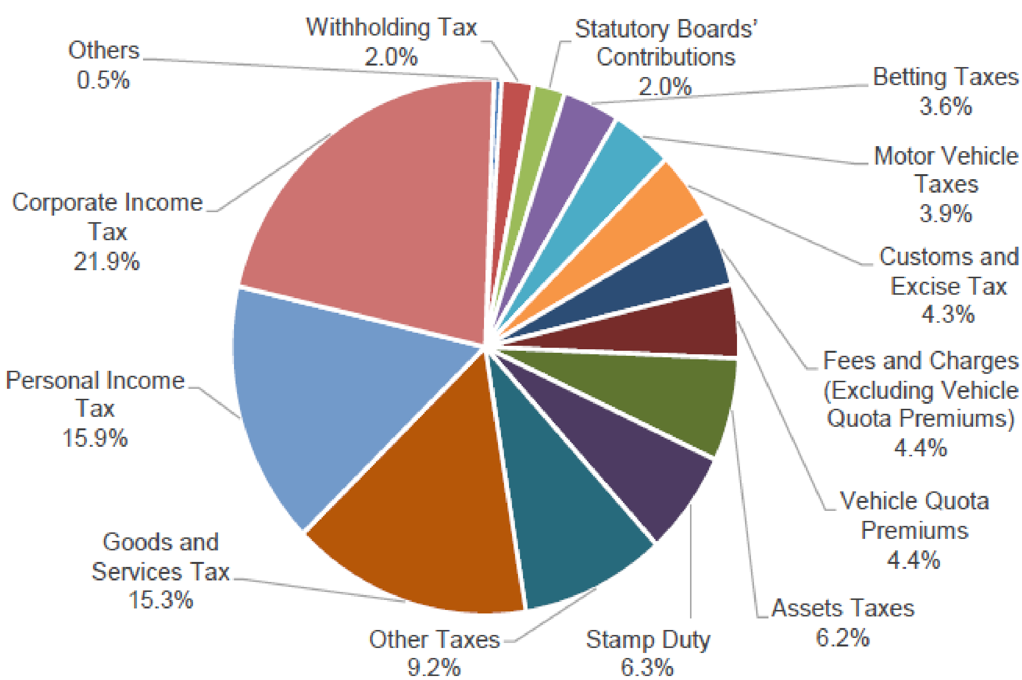
The global tide has turned in terms of monetary policy normalization. The US Federal Reserve has essentially backed away from further rate hikes and is in pause mode currently. Central bank rhetoric ranging from the European Central Bank, Bank of England, and many other Asian central banks as well had turned more accommodative if not outright dovish. At this juncture, the SGD NEER has backed away from the extreme strong band of its parity band. There is decreasing market conviction level that the MAS would need to execute another slope steepening at the April monetary policy meeting.

Breakdown of Government Spending by Sector in FY2018

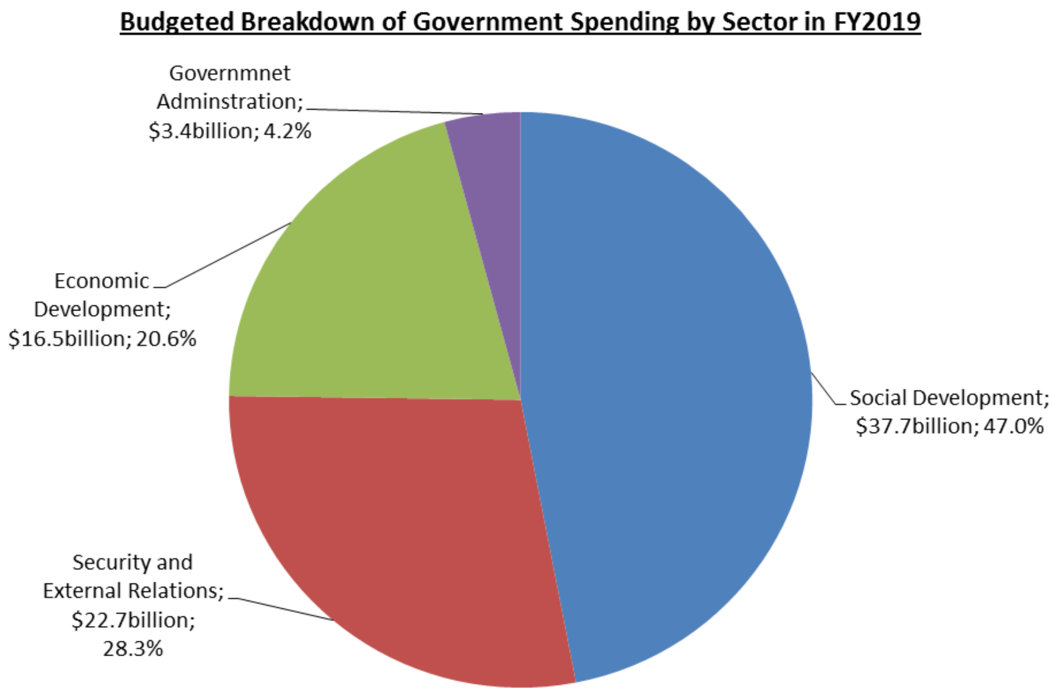


Source: Budget 2018

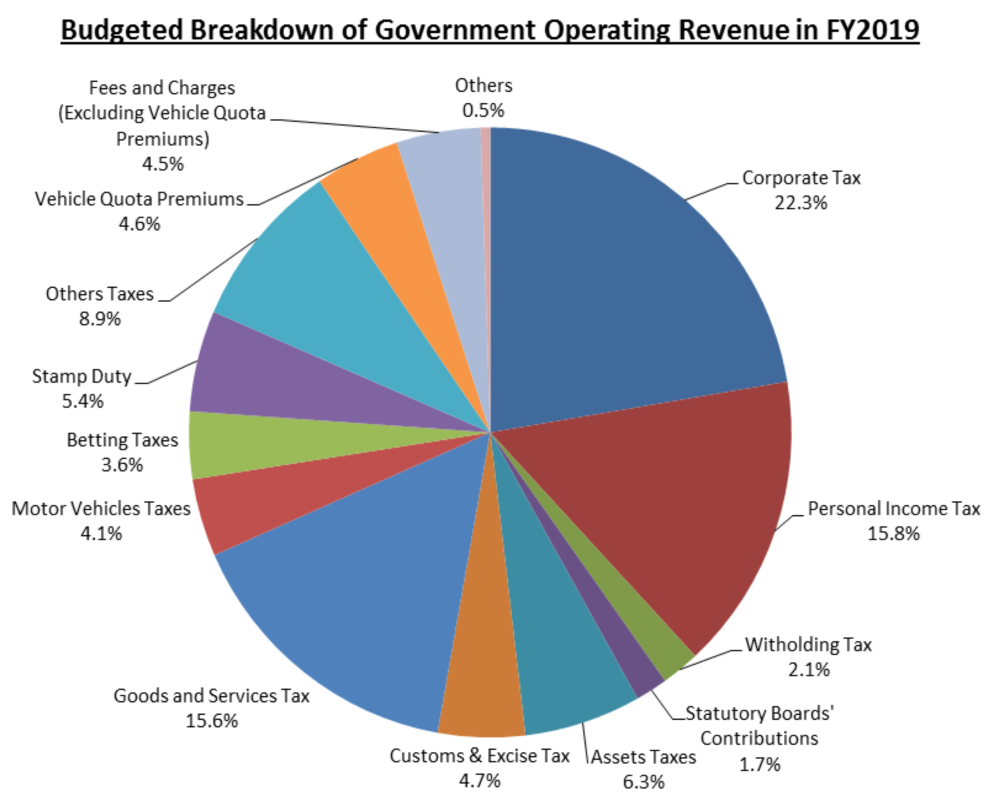
Breakdown of Government Operating Revenue in FY2018



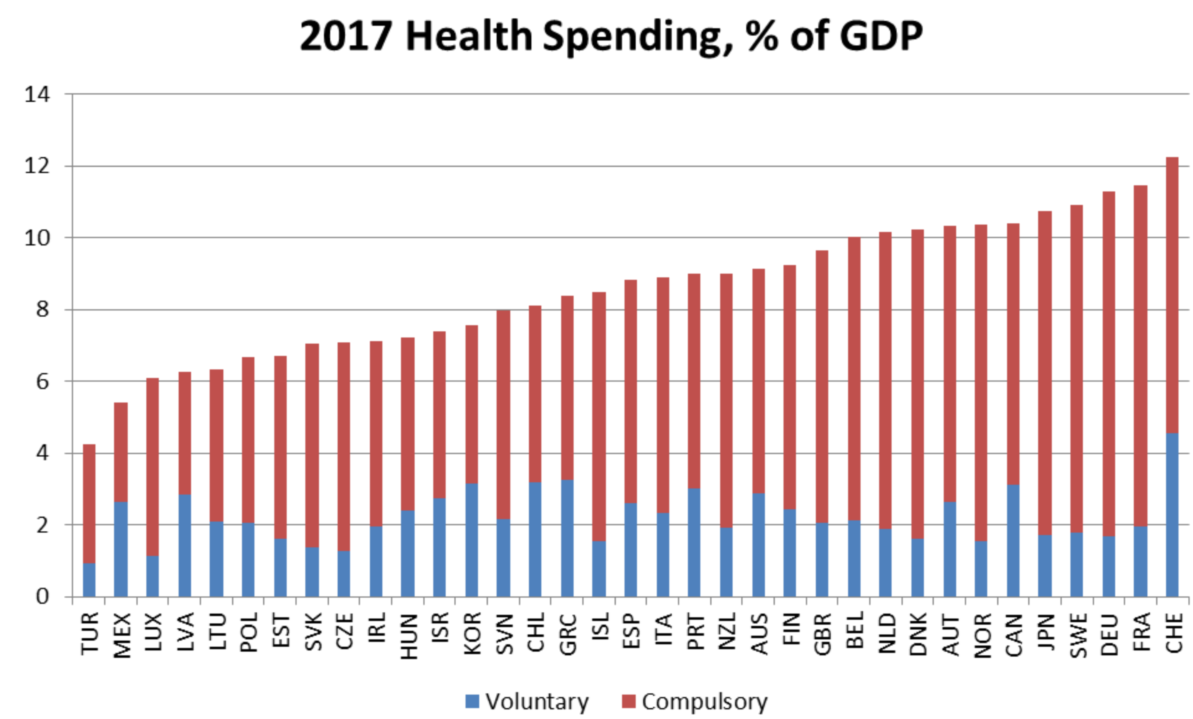
Source: Budget 2018



Source: Budget 2019



Source: Budget 2019



Source: OECD Data

Co.Reg.no.:193200032W