# A Unity Budget 2020

**Selena Ling**
*Head of Research and Strategy*
*+65 6530 4887*
*LingSSSelena@ocbc.com*

DPM and Finance Minister Heng unveiled an extraordinary Budget 2020 on 18 February to tackle the Covid-19 outbreak with $6.4 billion, address economic uncertainties and press on with economic transformation. Below are our thoughts post-Budget 2020 announcement.

1. **A blockbuster Budget as promised**, wi**th an eye-catching $10.9 billion overall budget deficit equivalent to 2.1% of GDP**. This fiscal latitude is unprecedented in terms of dollar amount in nearly two decades, but is a clear acknowledgement of the significant downside growth risk posed by the Covid-19 outbreak. Like we mentioned earlier, the downward revision of the official 2020 GDP growth forecast from 0.5-2.5% to -0.5% to 1.5% had essentially set the stage for a strong fiscal stimulus, coming on the back of the monetary policy easing seen in October 2019. The extraordinary fiscal response to uncertain times sends a clear strong signal that policymakers would do whatever it takes to mitigate and cushion the economic impact of the Covid-19 outbreak. Singapore is one of the fortunate economies that have the fiscal ammunition to respond to any crisis through its fiscal prudence principle. That said, the domestic economic data has probably not hit bottom yet and we expect the February-March numbers to take another leg down due to the softening business and consumer sentiments, especially for the SMEs. Our 1Q20 GDP growth forecast is for a 0.6% yoy contraction. In addition, it remains to be seen if the realised 2020 Budget outturn will materialise as planned – for instance, the $3.48b deficit planned for Budget 2019, which was supposed to have been the largest deficit since 2015, also eventually became significantly smaller at $1.65 billion (equivalent to 0.3% of GDP) despite the muted 2019 GDP growth of 0.7% yoy, albeit this was attributed to lower-than-expected military and transport spending.

2. **Hurray, there will be no GST hike in 2021**. It came as welcome but unsurprising news that the 2% GST hike from 7% to 9% will be delayed beyond 2021, given the lacklustre economic environment. However, the GST hike would still materialise sometime between 2022-2025, albeit it would be coupled with a $6 billion GST Assurance Package that would give all Singaporean adults cash payouts between $700-1600 over five years. This would ensure Singapore households will get offsets for at least 5-10 years of additional GST expenses. Note that GST remains the third largest tax revenue source after the corporate and personal income taxes, with an estimated $11.2 billion anticipated in Budget 2020. To fund the ageing population and need to keep corporate tax rates competitive globally, the GST hike still appears to be the fiscally prudent route in the medium term to fund ever-growing socio-economic needs including recurrent healthcare needs. Healthcare spending alone accounts for $13.4 billion in Budget 2020 expenditure, second to defence spending with $15.1 billion.

3. **More help for businesses in the short-term to tide over this challenging period, but some SMEs will still ask if it will be enough given they are badly affected by the Covid-19 outbreak.** In my view, it was a generous Budget with $4 billion in the Stabilization and Support Package, comprising $1.3 billion to the Jobs Support Scheme that will benefit more than 1.9 million local employees, the 25% corporate income tax rebate for YA2020 capped at $15,000 per company, the one-year enhancement to the Enterprise Financing Scheme's Working Capital Loan to help SMEs access financing, 30% property tax rebate for hotels and MICE venues for 2020 etc. Hawkers in government hawker centers will receive a one-month rental waiver, while qualified tenants in government-managed properties will also receive a half-month rental waiver. However, the latter may fall short of what the F&B industry for example is hoping for. Some food services and retail businesses had probably hoped for more direct and extended help for a longer duration given the uncertainties about the Covid-19 outbreak. In addition, the 8% wage subsidy would only come in July and may not come in time for some SMEs facing liquidity challenges. Moreover, we have to wait and see if commercial landlords will fully pass on the property tax rebates, albeit CapitaLand Group has announced that it will fully pass on the property tax rebate savings.

4. **The only sting, albeit a modest one, from the Budget 2020 was the tightening of the S-Pass sub-dependency ratio ceilings which will be cut from 20% to 15% for the construction, marine shipyard and process sectors.** The adjustment will be in two phases to 18% on a January 2021 and to 15% on 1 January 2023, to combat the 3.8% per annum growth in the number of S Pass holders in these sectors over the last two years. This probably comes as unwelcomed news to the three sectors, but may signify that policymakers still see a manpower-lean trajectory as the way to go and these sectors still have room to step up. The outlook for these affected sectors may have already bottomed too. Meanwhile, the S-Pass sub-DRC for the manufacturing sector will not be adjusted at this point given the current economic uncertainties.

5. **No deviation from the fiscal prudence principle.** From FY16-FY19, the accumulated fiscal surpluses amounted to $18.7 billion. Even after factoring in the planned FY20 budget deficit of $10.9 billion, there is still $7.8 billion to be transferred to Singapore's reserves. This is not insignificant even though special transfers ballooned to nearly $22 billion (up 44% from FY19). Note that the net investment returns contribution (NIRC) also surged 9.3% yoy to $18.6 billion for Budget 2020, which is double that seen back in Budget 2015 following which Temasek was added into the NIR framework. While there is so much market focus on the highly anticipated upcoming 2% point GST hike, the NIRC is single-handedly the most important revenue source and will stay so in the years ahead.

6. **Budget 2020 struck a good balance between the immediate economic needs and medium-term structural needs.** Citing structural shifts such as the declining globalisation support, the economic tilt towards Asia, the technological advances and bifurcation, and Singapore's transition to an ageing population, $8.3 billion (which is 48% larger than the $5.6 billion set aside for the two support packages for firms and households) will be earmarked for enterprise transformation over the next three years. In particular, I liked the new SkillsFuture Enterprise Credit which is targeted at SMEs to help defray 90% of out-of-pocket costs of transformation, job redesign and skills training, as well as the Enterprise Leadership for Transformation Programme which supports business leaders of promising SMEs (which has been on the wishlist for many SMEs). The SkillsFuture Enterprise Credit, coupled with the 8% wage subsidy for local employees, should go some way to deter Covid-19 firms from taking the easy way out of laying off workers to cut costs in the short-term.

7. **Consumer confidence is still the key to any Covid-19 turnaround.** All Singaporeans aged above 21 in 2020 will receive up to $300 cash payout, with $100 additional cash payout for every Singaporean with at least one child 20 years old and below this year. Singaporeans aged 50 and above in 2020 will also receive a $100 top-up for their Passion card, while there will be an additional 20% of Workfare payments for work done in 2019 with a minimum payment of $100. Eligible HDB households will also receive grocery vouchers, additional GST U-Save vouchers, S&CC rebates, higher pre-school subsidies, enhanced MOE Financial Assistance schemes and bursaries for higher education, enhanced cash payouts for the Silver Support scheme, and healthcare subsidies of up to 80% at Public Healthcare Institutions and aged care services. This is a comprehensive and holistic approach to addressing Singaporean's cost of living concerns.

8. **Timely top-ups to the SkillsFuture Credit of $500 for every Singaporean aged 25 years and above, with an additional $500 for every Singaporean aged 40-60 in 2020, to support continuous learning.** The "use it or lose it" principle is illustrated in the innovative 5 year expiry date of end-2025 which incentivizes early action. In addition, there is a special focus on mid-career workers in the 40s and 50s to help them stay employable with the introduction of a SkillsFuture Mid-Career Support Package. The government will double the annual job placement for locals in their 40s and 50s to around 5,500 by 2025 by increasing the capacity of reskilling programmes. If employers hire local jobseekers aged 40 and above through a reskilling programme, the government will provide 20% salary support for six months capped at $6,000. In addition, there are the Senior Employment Credit which will take effect from 2021 will provide employers with wage offsets when they employ Singaporean workers aged 55 and above, as well as 50% CPF transition offset for 2021 when employer CPF contributions increase, and the Senior Worker Early Adopter Grant for enterprises that raise their own retirement and re-

employment ages ahead of the legislated changes. This will go some way to assuaging the anxieties of workers, especially older PMETs, in view of digital and technological disruptions.

9. **Go electric** and buy electric vehicles (EVs). The signal is clear with up to 45% rebate on additional registration fee capped at $20,000 for those who buy fully electric cars and taxis. The government will progressively phase out vehicles with internal combustion engines by 2040 due to their pollution. On the infrastructure side, public charging infrastructure for EVs will also be expanded from 1,600 points to 28,000 points islandwide by 2030. There will also be incentives to help lower-income households buy energy-efficient household appliances and make sustainable living a key feature of HDB estates with a new Green Towns Programme to reduce energy consumption, recycle rainwater and cool HDB towns.

10. **At the end of the day, there are few governments which can unveil a $106 billion financial plan to chart its future**. In this sense, the Unity Budget is not one to be sniffed at and may set the tone for regional economies to follow. The market reaction was relatively muted for the STI, USDSGD and SGS bonds yesterday, maybe because it was already highly anticipated and has no need to draw on past reserves or increase SGS bond issuance. The expansionary fiscal stance outlined in Budget 2020, coupled with the close monitoring to ascertain the Covid-19 outbreak impact going ahead, gives more confidence that the Singapore economy is in good hands. The next milestone to watch would be the MAS monetary policy decision in April where a further easing is not off the table as yet.

# Treasury Research & Strategy

## Macro Research

**Selena Ling**
*Head of Research & Strategy*
LingSSSelena@ocbc.com

**Tommy Xie Dongming**
*Head of Greater China Research*
XieD@ocbc.com

**Wellian Wiranto**
*Malaysia & Indonesia*
WellianWiranto@ocbc.com

**Terence Wu**
*FX Strategist*
TerenceWu@ocbc.com

**Howie Lee**
*Thailand, Korea & Commodities*
HowieLee@ocbc.com

**Carie Li**
*Hong Kong & Macau*
carierli@ocbcwh.com

**Dick Yu**
*Hong Kong & Macau*
dicksnyu@ocbcwh.com

## Credit Research

**Andrew Wong**
*Credit Research Analyst*
WongVKAM@ocbc.com

**Ezien Hoo**
*Credit Research Analyst*
EzienHoo@ocbc.com

**Wong Hong Wei**
*Credit Research Analyst*
WongHongWei@ocbc.com

**Seow Zhi Qi**
*Credit Research Analyst*
ZhiQiSeow@ocbc.com



Co.Reg.no.:193200032W