Singapore Budget FY2019

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Building a Strong, United Singapore

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Highlights

- FY2018 budget balance came in at a surplus of $2.1bn (0.4% of GDP), up from a budgeted deficit of -$0.6bn a year ago, mainly due to the suspension of the KL-SG High Speed Rail Project.
- For FY2019, overall budget balance is pencilled at a deficit of -$3.5bn (-0.7% of GDP), mostly due to the Merdeka Package ($6.1bn) and long-term care spending ($3.1bn). Bicentennial Bonus also takes up an additional $1.1bn, which includes individual income tax rebates of up to $200.
- 30% of Singapore's budget is set aside for defence and security spending – an increase from the past three years average of 27.5%.
- GST rates will be raised by 2% from 7% to 9% sometime in 2021 to 2025, a reiteration of last year's plan. There is still no firmed-up timing on this implementation.
- Government continues to drive Singapore's push for productivity improvement by tightening foreign worker rules, plans to reduce service sector S-Pass Sub-DRC to 10% by 1 Jan 2021.
- Singapore government to act as guarantor for Changi East borrowings to bring down funding costs, with mainly Changi Airport Group to take up loans to fund its share of Changi East infrastructure developments.

Backdrop: First budget deficit in three years

A budget deficit this year was largely expected due to previous high surpluses. In the past three years, Singapore has recorded budget surpluses of $5.8bn, $10.6bn and $2.1bn in FY2016, 2017 and 2018 respectively.

In his delivery, Finance Minister Heng Swee Keat highlighted four major challenges:

1) The shift in global economic trends from the West to Asia
2) Technological advancements as the new "Industrial Revolution"
3) Ageing demographics domestically
4) Decline in the support for globalisation

Much of the budget initiatives are geared towards creating a caring and inclusive society, especially for the less privileged; at the same time, a substantial amount was set aside, once again, to drive productivity through technological advancements.

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Key Highlights

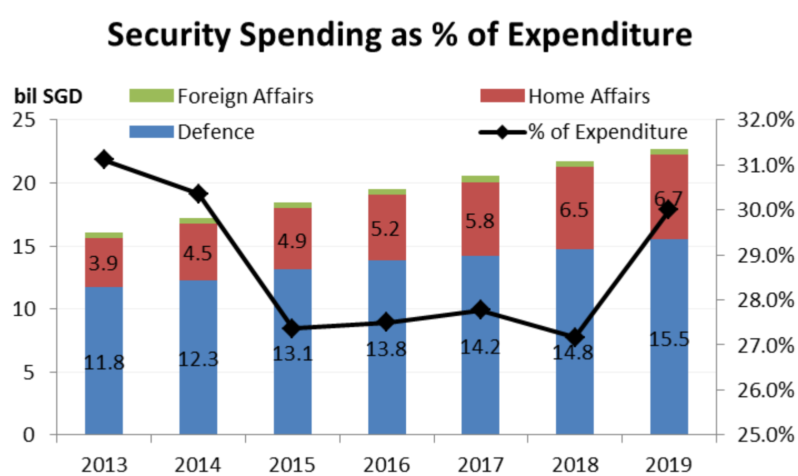
Here, we highlight key points from the 2019 budget and their implications

1) **Defence and security spending increases to 30% from 27.5%**

Minister Heng started his speech on a somewhat dour note regarding diplomacy and deterrence, mentioning that the country is vulnerable to an increasingly uncertain geopolitical environment. Commitment to national security remains important, and that deterrence will remain Singapore's pillar of defence "should diplomacy fail" – a somewhat surprising statement for a country known for its heavy emphasis on diplomacy.

Minister Heng also flagged out terrorism as the ever-present threat, and added the cyber defence as the new entrant to Total Defence.

With that somber backdrop, Minister Heng announced 30% of 2019 spending will go to defence and security. The last time budget spending accounted for such a large amount of the budget was in FY2014. In the past three years, defence spending only accounted for about 27.5% of government expenditure. The increase in spending highlights the risks Singapore faces regarding terrorism, geopolitical uncertainties and the ever-growing cyber risks, as demonstrated by the recent spate of cyber hackings.



Source: Singapore Budget, OCBC Bank

2) **Host of feel-good inclusive factors in an expansionary budget, from affordable healthcare to Merdeka Fund**

The ageing demographics in Singapore mean that increasingly, more funds are devoted to building infrastructure for an ageing society. $3.1bn has been set aside for the rising cost of long-term healthcare, in addition to the $2bn already budgeted last year. Other plans on healthcare include the launching of Elder Fund to take care of severely disabled low-income senior citizens; enhancing subsidies for some Singaporeans for doctor visits; enhancing healthcare assurance for complex chronic conditions; and also singling out the government's current efforts to reduce diabetes.

Separately, Minister Heng also announced details on the $6.1bn Merdeka Generation Fund, providing additional subsidies for outpatient care, a MediSave top-up of $200 per year for the next five years, and a one-off $100 top-up to Passion Silver cards. At $6.1bn, this package is on the higher end of our estimate range of $4-$7bn for the Merdeka Fund.

Finally, Minister Heng also said that Singaporeans aged 50 and above who are not part of the Merdeka or Pioneer generation schemes will get a MediSave top-up of $100. There are also efforts to support older workers in getting support.

Unlike last year's budget where the increase in GST dominated most of the delivery, this year's budget had a larger emphasis on providing more healthcare support for seniors.

3) Labour-intensive services sectors lose out

Minister Heng insisted that relying on more foreign workers is not the long-term solution to Singapore's economy, and called for increased productivity via technology to drive economic growth. Singapore will be reducing the services sector Dependency Ratio Ceiling (DRC) – the maximum ratio of foreign workers to total workforce – from 40% to 38% in 2020, and 35% by 2021. The service sector's S Pass Sub DRC will also be reduced from 15% to 13% by 2020, and 10% to 2021. Foreign worker levy rates for the marine shipyard and process sectors, however, will be deferred for another year.

Labour-intensive service sectors, particularly restaurants, are likely to feel the pinch under this policy. In a period of low inflation, most businesses are struggling to raise prices; at the same time, the economic gloom this year will provide challenging headwinds to these sectors as consumers tighten their purse strings. Affected businesses will have to tread very carefully in their shifts from labour dependency to investing in capital under such an environment.

4) Government to act as guarantor for Changi East infrastructure spending

In a rare move, the Singapore government will provide a guarantee for Changi East borrowings as part of its plan for long-term infrastructure projects. This brings down the cost of financing for the borrower – namely Changi Airport Group – by allowing it to tap on the government's strong fiscal balance sheet. The country is also studying the option of using government debt as part of the financing mix for long-term infrastructure projects that involves the government directly.

For the development of Changi East, the government has thus far act as a guarantor and expects the main project stakeholders to achieve funding from banks and other financing companies.

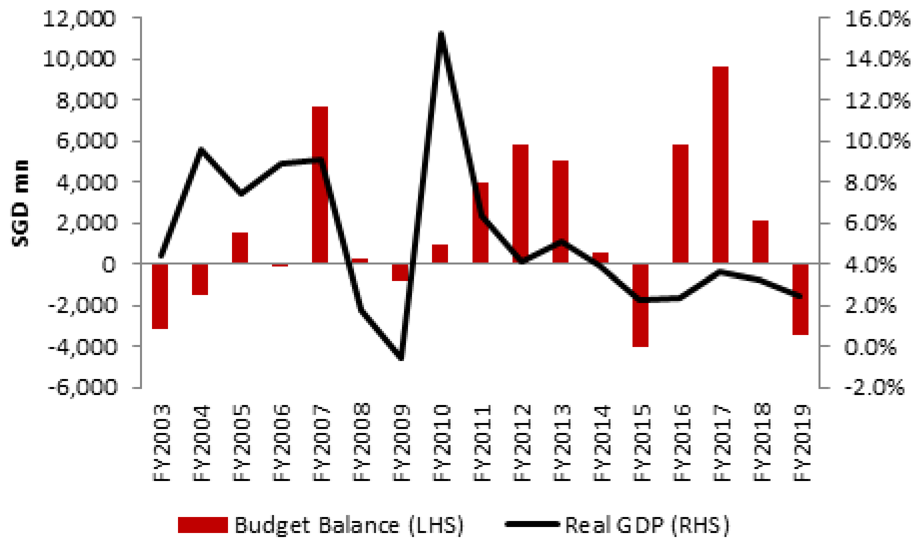
Conclusion – an inclusive Singapore to guard against external risks

The budget started off a on a somber note regarding national defence, with Minister Heng noting that increased risks geopolitically and on the cyber-front require an increase outlay on national security. The rest of the budget discussions, however, appeared more inviting and inclusive, with a wide array of feel-good policies including enhanced healthcare schemes; a continuation of WIS and other work schemes; the Bicentennial Bonus; the

Merdeka Generation Fund; and the government's involvement in infrastructure spending.

This year's budget took a more nuanced tone that seeks to create a caring society for everyone in Singapore. Minister Heng stressed that despite the expansionary budget this year, there is "no drop" in past reserves to finance spending. Attention will now turn to the Budget debate beginning next week, when more details of the policies will be unveiled in Parliament.

Singapore Budget Balance: First budget deficit since 2015



Source: Singapore Budget, CEIC, OCBC Bank