Singapore

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Singapore Budget 2020: Advancing as One Singapore

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- FY2020 overall budget balance is pencilled at a deficit of $10.95bn (2.1% of GDP), more than our estimate of $8.0bn (1.5% of GDP).
- $6.4bn in total has been set aside to tackle the economic impacts from COVID-19 and the US-China trade war, including a $800mn package dedicated to frontline staff in the healthcare industry.
- The GST rate hike from 7% to 9% has been delayed to 2022 to 2025, as priority is given to economic recovery at this stage.
- The recurring themes of upskilling financial support for needy families (especially in education and healthcare costs), childcare relief and climate change continue to dominate discussions.
- Overall, the expansionary budget policy was not unexpected given the US-China trade war, COVID-19 impacts and election anticipations. The announced measures should prove to be an encouraging boost for the economy as a whole, especially industries heavily affected by the coronavirus.

Backdrop: expansionary budget was highly expected since 2019

In light of slowing global economic growth since last year, economies around the world, including Singapore, were largely expected to roll out fiscal stimulus this year to spur economic growth. With the onset of COVID-19 threatening to derail the recovery the Singapore economy has been making since late 2019, an expansionary Budget 2020 was largely expected. The Singapore Government duly delivered, with a $6.4bn package aimed at supporting industries affected by the COVID-19 and general economic slowdown.

Key Highlights

1. A timely expansionary budget amid economic uncertainty.

Prior to the budget release, PM Lee Hsien Loong had already cast a downbeat outlook on the Singapore economy as the COVID-19 situation continues to add headwinds to an already-fragile economy battered by the US-China trade war. A recession was not ruled out while MTI downgraded Singapore's 2020 growth forecast to -0.5% to 1.5% from 0.5% to 2.5%.

A total of $6.4bn has been pencilled to help tackle the economic fallout brought about by the COVID-19 and lingering economic weakness from 2019, of which $4bn is targeted at supporting industries via the Stabilisation and Support Package:

- $800mn is set aside, mostly to the Ministry of Health, to aid frontline workers in their fight against the coronavirus.
- $4bn to aid industries affected by both the coronavirus and the economy slowdown, including the Jobs Support Scheme and Wage Credit Scheme. This is in addition (but not limited) to property tax rebates for the tourism sector, rental rebates for the aviation industry, and support packages for the transport sector.
- $1.6bn to households in defraying their costs of living, including (but not limited to) a one-time cash pay-out and other utility and grocery rebates.

The measures doled out to tackle the economic headwinds are well-timed and suitably aggressive. It sends a strong message that support from the government is available, which is likely to placate uncertainty among businesses that are heavily affected by the coronavirus outbreak.

2. GST hike to commence after 2021, but before 2025.

DPM Heng had already outlined plans to raise the GST rate from 7% to 9% in 2018. This was initially expected to take place as early as 2021, but has now been postponed to 2022 at the earliest. The GST hike will not be put off indefinitely however – it is expected to commence by 2025 at its latest.

The Singapore economy took a hard hit from the US-China trade conflict last year. Nascent emergence of economic green shoots in Q4 was quickly snuffed out by the COVID-19 outbreak. Japan also demonstrated the challenges in timing consumption tax increases – the country posted an annualized 6.3% GDP contraction in Q4 2019 on a quarterly basis. Amid the coronavirus situation and US-China tensions, it is probably prudent for Singapore to delay the implementation till 2022.

3. Ability to tackle downturn a result of consistent fiscal prudence.

The expected overall budget deficit of $10.9bn in 2020 (2.1% of GDP) is the deepest deficit on record since data began in 1997. Nominally, the previous

record deficit was in 2015 ($4bn) and as a percentage of GDP, the record deficit was in 2001 (1.7%). 2020's budget also exceeded our forecast of an $8bn budget deficit (1.5% of GDP). A sizeable amount of expenditure this year is filed under Special Transfers: at $21.98bn, it completely exceeded our expectations of $15.7bn and is 44% larger than the previous year's.

The ability to dish out such a significant increase to Special Transfers – the $4bn Stabilisation and Support Package is recorded under this segment – is hugely made possible due to the accumulation of surpluses since 2016. As the economy faced the double headwinds of the COVID-19 and the US-China trade war, it sorely needed fiscal stimulus to jolt growth out of its slump. The accumulation of surpluses since 2016 meant fiscal firepower was strong going into 2020, and the much-needed stimulus was duly delivered.

4. Long-term focus in digitalisation still remains

As part of the Government's vision of Singapore as a Global-Asia node of technology, innovation and enterprise, $8.3bn has been set aside for the next three years to drive Singapore's transformation and growth strategy. In particular, the 5-fold rise in fintech investments has shown that enhancing digitalisation can pave the way for creating value. That looks to be the path that Singapore will continue pursuing for all industries in the medium to long term. $300mn has also been set aside for deep-tech start-ups for emerging technology sectors such as pharmbio and medtech.

Conclusion: a feel-good budget designed to tackle short and long-term economic challenges

It is perhaps tempting to term Budget 2020 as election-friendly given the plethora of feel-good factors, but we think there is more than meets the eye. In an environment beset by low interest rates and trade protectionism, there was an urgency for the Singapore Government to dole out fiscal stimulus to shore up growth. The stimulus was duly delivered, in large part due to the accumulation of reserves from 2016. The cash hand-outs – ranging from the GST Assurance package to the Care and Support Package – will help to spur spending and consumption amid the COVID-19 outbreak. This is classical Keynesian economics at work and the economic support packages would have been welcomed under such a challenging environment – election year or otherwise.

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