Economics & Strategy

DBS Focus

Singapore: A robust fiscal response

Economics/growth/FX/rates

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- *Budget 2020 projects a record fiscal deficit of SGD10.95bn (2.1% of nominal GDP), about half percent of GDP more than median analyst expectation*
- *The government delivered a robust response to the Covid-19 outbreak with a SGD4bn (0.75% of GDP) package*
- *Policymakers continued to persevere with longer term economic transformation*
- *Emphasis was also placed on helping Singaporeans and strengthening the social safety net*

Budget 2020 was announced amid an increasingly challenging economic backdrop. Right after posting the weakest annual growth since the Global Financial Crisis, the Singapore economy is being confronted by the ongoing Covid-19 outbreak. Besides cushioning the economy from the near-term negative shocks, policymakers have continued to persevere with longer term economic transformation.

Given the challenges, the government decided to go for a strong fiscal push. A record fiscal deficit of SGD 10.9bn (2.1% of GDP) is projected, absorbed by the accumulated surplus of SGD 17.4bn over the last four years. Beyond targeted countermeasures against the impact of the epidemic, broad-based growth strategies to prepare the economy for the future were introduced as well.

Countering the impact of the Covid-19 outbreak

As expected, **the government delivered a robust response to the Covid-19 outbreak**. Beyond the additional SGD 800mn committed to support the Ministry of Health for frontline needs, a Stabilisation and Support Package (SSP) worth SGD 4bn was rolled out to provide targeted and economy-wide support. Measures include enhancements to the wage credit schemes; a 25% corporate income tax rebate (capped SGD 15,000 per company); rental rebates and waivers, property tax rebates etc.

The policy focus is to help companies in order to safeguard jobs. A Jobs Support scheme was introduced to subsidize 8% of wages, up to a monthly cap of SGD 3,600 for three months. This will lower manpower costs and reduce the risk of retrenchments arising from the outbreak. Note unemployment rate spiked up to 4.8% during the previous SARS outbreak. In addition, emphasis was also placed on ensuring enough liquidity for companies during this difficult time. The loan quantum for the Enterprise Financing Scheme's (EFS) Working Capital component was doubled to SGD 600,000, and the government has increased its risk undertaking to 80%, from 50-70% previously.

A strong response to the outbreak

Indeed, the Covid-19 outbreak is expected to shave off about 0.5%-pt of Singapore's full year GDP growth based on our assessment [1]. The impact will be most deeply felt in the first quarter and the headline GDP is expected to contract by about 0.6-0.8% YoY. This will be the first quarterly (YoY) decline since the Global Financial Crisis, and more than twice as deep as the previous SARS outbreak. The tourism sector (including F&B) will be the worst hit due to the travel ban being imposed, and a double-digit decline can be expected. Sectors such as manufacturing, transport services, retail and construction will also be impacted, but comparatively less.

The government has also decided not to proceed with the GST hike in 2021 given the current state of the economy. Instead, an Assurance Package worth SGD 6bn over 5 years will be set aside to soften the effects of the eventual tax hike, which will take place before 2025. Ultimately, recurring expenditure such as healthcare costs, would have to be covered by recurring revenue to ensure fiscal sustainability. Hikes in GST is inevitable given rising fiscal needs amid an aging population.

A record budget

Overall budget position for FY19 came in better than originally allocated. A smaller deficit of SGD 1.7bn (0.3% of GDP) was registered as compared to a budgeted shortfall of SGD 3.5bn. More importantly, this will bring total accumulated surplus for the past four financial years to SGD 17.4bn. As such, policymakers are in a solid position to roll out a highly expansionary budget for FY20 [2].

A wider primary deficit of SGD 7.6bn was allocated in order to provide the necessary support for companies and Singaporeans. Revenue is likely to rise just marginally due to a still soft economic outlook while expenditure is set to rise by about 7% given the current circumstances. Special transfers surged by 44% to a record SGD 22bn to soften the pain on Singaporeans. Net Investment Return Contributions (NIRC) is projected to register SGD 18.6bn. **Overall, a record budget deficit of SGD 10.9bn was announced to buttress the economy.**

Singapore's overall fiscal position

	Revised FY2019	Budgeted FY2020	Change over Revised FY2019	
	SGD bn	SGD bn	SGD bn	% change
Operating revenue	**74.7**	**76.0**	**1.3**	**1.7**
Less:				
Total expenditure	**78.2**	**83.6**	**5.4**	**7.0**
Operating expenditure	59.6	64.6	5.1	8.5
Developmental expenditure	18.6	19.0	0.4	2.1
Primary surplus/deficit	**-3.4**	**-7.6**		
Less:				
Special transfers	**15.3**	**22.0**	6.7	44.0
Special transfers excluding top-ups to endownment and trust funds	1.7	4.7		
Basic surplus/deficit	**-5.1**	**-12.3**		
Top-ups to endownment and trust	13.6	17.3		
Add:				
Net investment returns contribution	**17.1**	**18.6**	**1.6**	**9.3**
Overall budget surplus/deficit	**-1.7**	**11.0**		
Overall balance as % of GDP	**0.3**	**2.1**		

Biggest budget on record

Most importantly, this is the hallmark of a remarkably prudent fiscal policy. The commitment to accumulate fiscal surpluses during good times has allowed the government to put forth a strong fiscal response in times of need.

Persevering with economic transformation

Economic transformation remains a key focus in Budget 2020. Besides helping companies and Singaporeans cope with the immediate concerns, enhancing capabilities and upgrading of skills are some of the key thrusts of the budget.

A Transformation and Growth package worth SGD 8.6bn will be introduced to prepare the economy for the future. The aim is to propel Singapore as the Global-Asia node of technology, innovation and enterprise. Focus will be on strengthening economic partnerships, deepening enterprise capabilities and developing human capital. There will be initiatives to strengthen the digital and economic linkages between Singapore and her partners around the world. Start-ups and enterprises at different stages of growth will also receive targeted support to scale up and to internationalise. Some of the specific measures include:

- Additional SGD 300mn under Startup SG Equity
- Launching of the GoBusiness Platform
- Expansion of SMEs Go Digital programme
- Enhancements to Market Readiness Assistance Grant
- Introduction of the Enterprise Leadership for Transformation programme

Sharpening the Skillsfuture scheme

Specifically, the Skillsfuture scheme will be sharpened. Besides additional top-ups to the existing Skillsfuture credit, a Skillsfuture Enterprise scheme will be introduced to address the mismatch between the types of training available and skills relevant to industries. A new Skillsfuture Mid-Career Support Package will also be implemented to help middle-aged workers remain employable.

However, to accelerate economic transformation and support local workers, the S-pass sub-DRCs for the construction and the offshore marine sector will be lowered from 20% to 15% by 2023. While this is expected to lead to higher manpower costs, it could also potentially prompt companies to focus on raising productivity.

Supporting Singaporeans and fostering an inclusive society

Budget 2020 continues to build on past efforts to strengthen the social safety net. A SGD1.6bn Care and Support Package has been put forth to provide more assurance for Singaporeans and to defray living expenses. Some of the measures include:

- More subsidies for education, particularly for lower income families
- One off cash payout of about SGD 100-300 for all Singaporeans aged 21 and above in 2020
- Double U-save rebates through a one-off GST voucher
- Extension of the S&CC rebate by another year
- Help on living expenses – additional workfare payment and grocery voucher for needy families
- SGD 100 top-up to Passion Card
- Introduction of the Matched Retirement Savings Scheme to encourage top up to the CPF Retirement Account

- Enhance the Silver Support Scheme in terms of the payout quantum and eligibility criteria to benefit more Singaporeans
- Enhance social assistance schemes by topping up the ComCare Fund (SGD 500mn), ElderCare Fund (SGD 750mn) and the MediFund (SGD 200mn)

Catering to future needs

Climate change agenda has also been featured in Budget 2020. The government will commit SGD 1bn to research in urban solutions and sustainability. Efforts will also be made to ensure all vehicles will run on cleaner energy by 2040. An initial capital of SGD 5bn will also be injected into a new Coastal and Flood Protection Fund to address rising sea level problems.

Notes:

[1] Refer to DBS report "Pandemic, economics and markets", dated 7 Feb20 for more details

[2] Refer to DBS report "Singapore Budget 2020: Support for companies" dated 30 Jan20, "Singapore Budget 2020: Helping Singaporeans" dated 3 Feb20 and "Singapore Budget 2020: Robust response needed" dated 4 Feb20

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