Macro Note

Singapore Budget 2024 Preview: Focus Likely On Cost-Of-Living Measures And Enhancing Workforce Productivity

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Global Economics & Markets Research
GlobalEcoMktResearch@uobgroup.com
www.uob.com.sg/research

Alvin Liew
Senior Economist
Alvin.LiewTS@uobgroup.com

Jester Koh
Associate Economist
Jester.Koh@uobgroup.com

- Singapore's Budget 2024 will be announced on 16 Feb 2024 (Fri) and in our view, the focus will be on targeted cost-of-living measures to help the lower- and middle-income households cope with the recent 1%-pt GST increase and rise in public transport and utility costs. Labour policies to elevate the productivity and competitiveness of Singapore's workforce could be a nexus with further incentives deployed to encourage individuals to equip themselves with knowledge and skills in the areas of digitalization, artificial intelligence and the green transition.

- Based on fiscal year-to-date revenue and expenditure data and factoring in historical patterns, we think Singapore's overall fiscal position in **FY2023** could post a small surplus of **0.2%** of nominal GDP instead of the budgeted fiscal deficit of -0.1% of GDP, owing to higher than projected operating revenue from stronger corporate and personal income taxes although partially offset by lower than projected GST collections. We estimate total expenditure could be marginally higher than budgeted while the allocation for special transfers will likely be revised upwards given the S$1.1bn Cost-of-Living package announced in Sep 2023, with a S$0.8bn enhancement to the Assurance Package (AP), taking the total allocation under the AP to the tune of over S$10bn.

- **Outlook For FY2024 Budget:** For FY2024, real GDP growth is likely to continue to recover in tandem with an anticipated pickup in external demand from FY2Q24 onwards as tight financial conditions ease progressively, driven by the projected commencement of rate cuts from the central banks in the advanced economies. Nonetheless, issues of cost-of-living could remain a concern, given that core inflation is likely to stay above long-term historical averages through FY2024 owing to a slew of tax or administrative policy adjustments such as the recent GST increases, the carbon tax hike, the rise in bus and train fares, and utilities. Following two consecutive years of overall fiscal deficit, we project FY2024 fiscal position to post a small surplus of **0.4%** of GDP, reinforcing the importance of fiscal prudence and maintaining a balanced budget.

- **Possible Support Measures for Budget 2024:**
  For Households - Enhancement to the cash payouts or U-save utility rebates **under the existing AP** alongside a possible one-off cost-of-living special cash payment in FY2024. Additional **CDC vouchers for each Singaporean household or one-off top-ups to PSEA/Edusave/CDA accounts.**

  For Businesses – Extension of the Enterprise Financing Scheme – Trade Loan and SME Working Capital Loan by one year; Annual Skillsfuture credit top-up funded via a capped co-matching scheme with employers or training allowances for mid-career workers to take time off to pursue full-time, longer-form courses; Enhancing the co-funding share under the **Progressive Wage Credit Scheme (PWCS)** for 2024-2026 and raising the **Local Qualifying Salary (LQS)**; Additional **one-off CPF transition offset** to mitigate the impact on business costs from the upcoming scheduled increases in the CPF monthly salary ceiling to S$8K by 2026.

FY2023 Overall Fiscal Position Likely To Return To A Small Surplus

Singapore's Budget 2024 will be announced on 16 Feb (Fri). This marks the fourth budget of the current five-year term of government and the third budget to be delivered by Deputy Prime Minister (DPM) and Finance Minister, Mr Lawrence Wong. This year's budget is still set against the backdrop of cost-of-living pressures from the GST hike alongside utilities and transport fare increases. It also comes ahead of the upcoming leadership transition of the ruling People's Action Party (PAP) where the incumbent PM Lee Hsien Loong had announced his intentions to hand over the Party leadership to DPM Lawrence Wong before the PAP's 70th anniversary on 21 Nov 2024 and before the next General Election (GE), which is slated to take place by Nov 2025.

As at the time of last year's Budget 2023, MTI's projections for Singapore's 2023 real GDP growth was "0.5 to 2.5 percent" (which was subsequently revised lower to "0.5 to 1.5 percent") and based on the 4Q23 advance estimates, the full year outturn disappointed to the downside and came in at 1.2%, a tad below the midpoint of 0.5%-2.5% i.e. 1.5%. Singapore's 2023 GDP growth was dragged by sustained weakness in manufacturing, which contracted -3.6% (2022: +2.5%) but services activity remained somewhat resilient and expanded +2.3% (2022 +4.8%). Nonetheless, activity in externally-oriented sectors (manufacturing, wholesale trade, transportation & storage) has troughed in our view and should improve in the coming quarters while tailwinds from the post-pandemic boost in consumer-facing sectors (retail and F&B) are likely to dissipate.

Figure 1: Downturn In Externally-Oriented Sectors Has Likely Troughed In 3Q23 ...

Source: Macrobond, UOB Global Economics & Markets Research

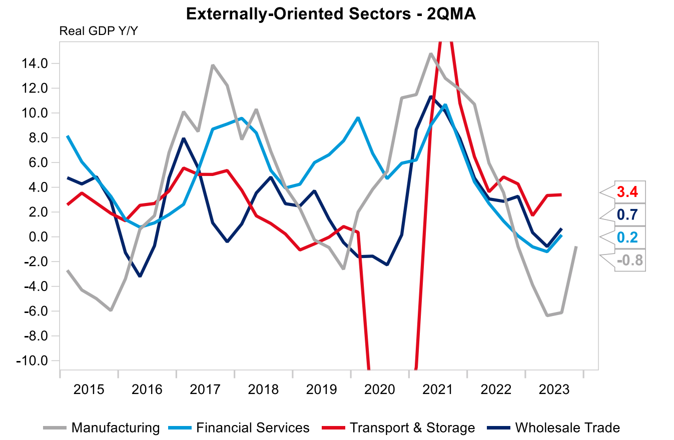
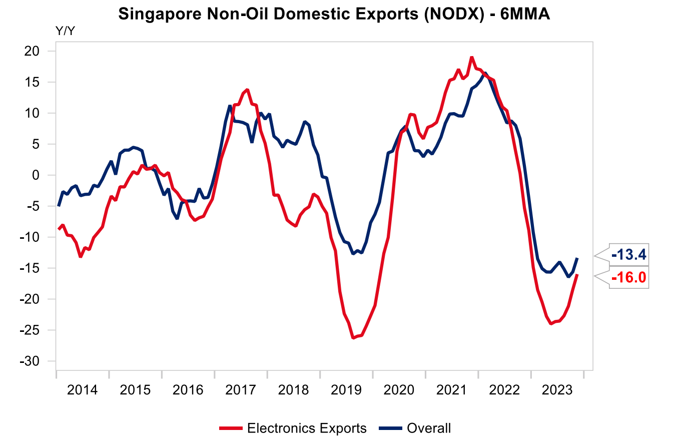


Figure 2: ... With Upturn In Electronics & Trade Cycle Positive For Manufacturing, Wholesale Trade, Transportation & Storage

Source: Macrobond, UOB Global Economics & Markets Research



Based on historical revenue collection patterns and year-to-date revenue data (from Apr to Dec 2023), the operating revenue for FY2023 is likely to be higher than projected, driven by stronger corporate and personal income taxes, although partially offset by lower than projected Goods and Services Tax (GST) collection. Likewise, based on historical spending trends and quarterly fiscal year-to-date expenditure data (from Apr to Sep 2023), total expenditure could come in a tad higher for FY2023, with possible overshoots in social development outlays (education, national development, health) but partially offset by undershooting in the spending for defence, home affairs and transport. **On balance, we estimate Singapore's overall fiscal position in FY2023 to return to a small surplus of S$1.5bn, or 0.2% of nominal GDP**, in contrast with MOF's original projection for a slight deficit of S$-0.4bn, -0.1% of GDP in Budget 2023.

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Figure 3: Summary Of Budget Position For FY23 (Official vs UOB's Estimates) and FY24 (UOB's Estimates)

Source: Ministry of Finance (Singapore), Macrobond, UOB Global Economics & Markets Research

SGD $bn	(A) Actual FY2021	(B) Revised FY2022	FY22 vs FY21 (B) / (A)	(C) Official Est FY2023	FY23 vs FY22 (C) / (B)	(D) YTD FY23	YTD FY23 % of Estimate (D) / (C)	Historical YTD % FY16-18, FY21-22	(E) UOB's Forecast FY2023	(F) UOB's Forecast FY2024	FY24 vs FY23E (F) / (E)
Operating Revenue	**82.49**	**90.28**	**9.4%**	**96.70**	**7.1%**	**77.27**	**79.9%**	**73.5%**	**101.72**	**108.03**	**6.2%**
Corporate Income Tax	18.20	22.74	25.0%	24.26	6.7%	23.87	98.4%	82.6%	28.91	31.55	9.1%
Personal Income Tax	14.22	15.38	8.2%	16.84	9.5%	13.52	80.3%	78.1%	17.31	19.14	10.6%
Withholding Tax	1.86	2.12	14.0%	2.21	4.2%	1.41	63.7%	65.4%	2.15	2.31	7.3%
Statuory Boards' Contributions	2.86	1.45		0.57		0.00			0.57	1.63	
Asset Taxes	4.67	5.06	8.4%	5.55	9.7%	3.40	61.2%	62.4%	5.44	5.06	-7.0%
Custom and Excise Taxes	3.75	3.48	-7.2%	3.73	7.2%	2.23	59.8%	71.3%	3.13	3.45	10.4%
Goods and Services Tax	12.63	14.46	14.5%	17.38	20.2%	11.92	68.6%	74.7%	15.96	18.85	18.1%
Motor Vehicle Taxes	2.23	2.27	1.8%	2.54	11.9%	1.57	61.7%	75.2%	2.09	2.20	5.3%
Vehicle Quota Premiums	3.22	3.87	20.2%	3.88	0.3%	3.42	88.2%	76.1%	4.50	3.86	-14.1%
Betting Taxes	2.31	2.83	22.5%	2.84	0.4%	2.33	82.0%	70.9%	3.29	2.81	-14.5%
Stamp Duty	6.76	5.82	-13.9%	5.75	-1.2%	4.51	78.4%	76.6%	5.89	6.16	4.6%
Other Taxes	5.28	6.36	20.5%	6.63	4.2%	5.63	85.0%	70.4%	8.00	6.55	-18.2%
Fees and Charges (Excluding Vehicle Quota Premiums)	3.61	3.88	7.5%	3.95	1.8%	2.79	70.7%	72.9%	3.83	3.77	-1.5%
Others	0.90	0.56		0.58		0.66			0.66	0.71	
Total Expenditure	**94.80**	**106.95**	**12.8%**	**104.15**	**-2.6%**	**43.68**	**41.9%**	**40.8%**	**106.18**	**113.91**	**7.3%**
Operating Expenditure	78.54	86.32	9.9%	83.62	-3.1%	34.55	41.3%	40.3%	84.82	90.75	7.0%
Development Expenditure	16.25	20.63	26.9%	20.52	-0.5%	9.13	44.5%	42.7%	21.36	23.16	8.4%
Primary Surplus/Deficit	(12.31)	(16.67)		(7.45)					(4.46)	(5.88)	
% of GDP	-2.1%	-2.6%		-1.1%					-0.7%	-0.8%	
Special Transfers	**6.83**	**9.16**		**19.58**					**20.68**	**19.58**	
Special Transfers Excluding Top-ups to Endowment and Trust Funds	**6.83**	**2.91**		**2.76**					**3.86**	**2.76**	
COL Special Payment	0.00	1.13		1.33					1.83	1.33	
CDC Vouchers	0.00	0.41		0.60					0.86	0.60	
Other Transfers	6.83	1.37		0.84					1.18	0.84	
Basic Surplus/Deficit	(19.14)	(19.58)		(10.21)					(8.32)	(8.64)	
% of GDP	-3.2%	-3.0%		-1.5%					-1.2%	-1.2%	
Top-ups to Endowment and Trust Funds	**0**	**6.25**		**16.82**					**16.82**	**16.82**	
Net Investment Returns Contribution	**20.36**	**21.61**		**23.48**					**23.48**	**25.33**	
Overall Budget Surplus/Deficit	1.23	(4.22)		(3.55)					(1.66)	(0.13)	
% of GDP	0.2%	-0.7%		-0.5%					-0.2%	0.0%	
(+) Capitalisation of Nationally Significant Infrastructure	**0.65**	**2.28**		**3.53**					**3.53**	**3.53**	
(-) Depreciation of Nationally Significant Infrastructure	0.00	0.00		0.00					0.00	0.00	
SINGA Interest Costs and Loan Expenses	0.00	0.09		0.33					0.33	0.33	
Overall Fiscal Position	1.88	(2.04)		(0.35)					1.54	3.07	
% of GDP	0.3%	-0.3%		-0.1%					0.2%	0.4%	

(1) Due to rounding, figures may not add up. Negative figures are shown in parentheses.
(2) YTD Revenue estimates are based on data from the first 9 months of the FY i.e. from Apr - Dec
(3) YTD Expenditure estimates are based on data from the first two quarters of the FY i.e. from Apr - Sep

In the details, based on the operating revenue collected for the **first nine months of FY2023 (Apr to Dec 2023)**, two of the three key operating revenue sources have seen the share of receipts exceeding historical collection patterns. Namely, corporate income tax receipts stood at 98.4% of the official FY2023 Budget projections which is significantly higher than the historical[1] (FY16-18 and FY21-22) share of 82.6%, implying a high possibility of overshooting. Likewise, personal income tax receipts stood at 80.3% of the official FY2023 Budget projections, a tad above the historical share of 78.1%. Meanwhile, GST collections have been disappointing to date, with the FY9M23 share at 68.6% of the MOF official projection, markedly below the historical share of 74.7%, implying a possible undershoot. **Some retailers may have decided to absorb the GST increase and kept**

[1] The fiscal years FY19 and FY20 were omitted given possible differences in revenue collection and spending patterns during the COVID-19 pandemic which may not be representative of fiscal trends in a normal year.

prices unchanged in order to maintain competitiveness and customer goodwill, thus resulting in a lower GST payable (see IRAS invoicing requirements) which corroborates the weaker-than-expected passthrough from the GST to core inflation in 2023 (see Jan 2024 MPS note). That said, with the 1ppt hike in GST to 8% in early 2023, GST collections were still about 13.7% higher in the first 9 months of 2023 compared to the same period in 2022. On balance, we estimate operating revenue to be approximately S$5bn higher than official MOF projections (FY9M23 share: 79.9%, historical: 73.5%).

On expenditure, based on the expenditure outlay in the **first half of FY2023 (Apr to Sep 2023)**, the operating expenditure and development expenditure are at 41.3% (historical: 40.3%) and 44.5% (historical: 42.7%) of FY2023 Budget projections respectively, both a tad higher than historical norms, and could exceed the quantum budgeted. This is likely driven by expenditure overshoots in **social development**, in particular, **education** (fiscal YTD vs FY2023 Budget: 34.8%, historical: 32.3%), **national development** (fiscal YTD: 55.2%, historical: 43.0%) and **health** (fiscal YTD: 47.1%, historical: 45.1%) but partly offset by possible undershoots in **defence** (fiscal YTD: 39.1%, historical: 41.0%), **home affairs** (fiscal YTD: 36.9%, historical: 37.9%) and **transport** (fiscal YTD: 45.6%, historical 46.4%).

The allocation for special transfers could be revised upwards given the S$1.1bn Cost-of-Living package announced in Sep 2023, with a S$0.8bn enhancement to the AP, taking the total allocation under the AP to the tune of over S$10bn.

For the overall FY2023 fiscal position, we expect a return to a small surplus of S$1.5bn, 0.2% of nominal GDP, instead of the budgeted deficit of S$-0.4bn, -0.1% of GDP.

Figure 4: Total Expenditure By Ministry For FY23 (Official vs UOB's Estimates)

Source: Ministry of Finance (Singapore), Macrobond, UOB Global Economics & Markets Research

SGD $mn	(A) Actual FY2021	(B) Revised FY2022	FY22 vs FY21 (B) / (A)	(C) Estimated FY2023	FY23 vs FY22 (C) / (B)	(D) YTD FY23	YTD FY23 % of Estimate (D) / (C)	Historical YTD % FY16-18, FY21-22	(E) UOB's Estimate FY2023
Total Expenditure	**94,796**	**106,948**	**12.8%**	**104,146**	**-2.6%**	**43,679**	**41.9%**	**40.8%**	**106,180**
Social Development	**47,049**	**52,437**	**11.5%**	**52,800**	**0.7%**	**22,991**	**43.5%**	**40.4%**	**55,817**
Education	12,910	13,247	2.6%	14,600	10.2%	5,076	34.8%	32.3%	15,710
National Development	5,820	9,114	56.6%	8,739	-4.1%	4,820	55.2%	43.0%	11,212
Health	17,322	17,213	-0.6%	16,883	-1.9%	7,944	47.1%	45.1%	17,609
Sustainability and the Environment	2,737	2,726	-0.4%	3,446	26.4%	1,459	42.3%	52.0%	2,804
Culture, Community and Youth	2,373	3,973	67.4%	2,366	-40.4%	710	30.0%	34.2%	2,078
Social and Family Development	3,676	3,831	4.2%	4,161	8.6%	1,830	44.0%	47.9%	3,823
Communications and Information	615	745	21.1%	744	-0.1%	286	38.4%	33.9%	842
Manpower (Financial Security)	1,596	1,588	-0.5%	1,861	17.2%	866	46.5%	49.8%	1,738
Security and External Relations	**23,734**	**25,479**	**7.4%**	**26,793**	**5.2%**	**10,298**	**38.4%**	**40.1%**	**25,714**
Defence	15,294	17,021	11.3%	17,977	5.6%	7,029	39.1%	41.0%	17,127
Home Affairs	8,010	7,976	-0.4%	8,293	4.0%	3,063	36.9%	37.9%	8,075
Foreign Affairs	430	483	12.3%	523	8.3%	207	39.5%	40.3%	512
Economic Development	**20,713**	**25,613**	**23.7%**	**20,571**	**-19.7%**	**9,019**	**43.8%**	**43.1%**	**20,940**
Transport	10,272	13,113	27.7%	11,971	-8.7%	5,462	45.6%	46.4%	11,773
Trade and Industry	5,384	7,001	30.0%	5,450	-22.2%	2,696	49.5%	38.5%	7,000
Manpower (excluding Financial Security)	4,263	4,604	8.0%	2,005	-56.5%	538	26.9%	35.2%	1,529
Info-Communications and Media Development	794	895	12.7%	1,145	27.9%	322	28.1%	50.5%	638
Government Administration	**3,300**	**3,418**	**3.6%**	**3,982**	**16.5%**	**1,371**	**34.4%**	**36.7%**	**3,708**
Finance	980	1,044	6.5%	1,360	30.3%	515	37.8%	45.6%	1,127
Law	404	278	-31.2%	316	13.7%	132	41.6%	30.0%	439
Organs of State	639	737	15.3%	796	8.0%	274	34.4%	34.5%	794
Prime Minister's Office	1,277	1,359	6.4%	1,510	11.1%	451	29.9%	33.5%	1,348

(1) Figures may not add up due to rounding.
(2) YTD Expenditure estimates are based on data from the first two quarters of the FY i.e. from Apr - Sep

FY2024 Budget: Focus Likely On Cost-of-Living Relief Measures And Workforce Productivity

For FY2024, real GDP growth is expected to continue to recover in tandem with an anticipated pickup in external demand from FY2Q24 onwards as tight financial conditions ease progressively, driven by the projected commencement of rate cuts from the Fed (in the Jun 2024 FOMC) and ECB (in 4Q24). Furthermore, the ongoing upturn in the electronics and broader goods trade cycle supported by base effects may be indicative of an impending recovery in sectors such as wholesale trade and transportation & storage.

Nonetheless, the topics of cost-of-living remain a concern, given that core inflation is projected to remain above long-term historical averages through FY2024 due to a slew of tax or administrative policy adjustments such as the recent rise in bus and train fares (Dec 2023), GST hike (Jan 2024), carbon tax hike (Jan 2024) and the upcoming scheduled increase in water tariffs (Apr 2024). However, these cost-of-living pressures are unlikely to be matched by a corresponding rise in nominal wages in the near-term, given the ongoing softening of labour market tightness as characterized by a decline in the job vacancies to unemployed ratio and a slower pace of average monthly earnings growth. Towards the second-half of FY2024 (i.e. Oct 2024 onwards), labour demand could improve owing to a pickup in external demand while the finance sector could benefit from an uplift in credit intermediation activities from a recovery in appetite for loans in tandem with a gradual decline in interest rates.

For FY2024, we project a stronger operating revenue at S$108.0bn (+6.2% higher than our FY2023 estimate) driven by stronger corporate (+9.1%) and personal (+10.6%) income tax collections in tandem with a broader recovery in Singapore's economy from FY2Q24 onwards. The recent 1%-pt increase in GST will also bolster revenue collection as we pencil in an 18.1% surge in GST collections compared to FY2023. Total expenditure is projected to expand by 7.3%, driven by the structural long-term uptrend in healthcare spending, for example, costs of developing more active-ageing centres (AACs) and organizing programmes for the senior citizens to lead enriching lives in their silver years. Defence spending is likely to see a boost amidst heightened geopolitical tensions and surge in the cost of overseas military training in recent years. In addition, operating expenditure under education could see an uptick in the coming years as resources are tapped for the complete rollout of Full Subject-Based Banding (Full SBB) in place of streaming in secondary schools from 2024 onwards.

As announced during PM Lee's speech during the 2023 National Day Rally (NDR), a new S$7.0bn "Majulah Package" will be launched to benefit 1.4 million Singapore citizens aged 50 and above in 2023. The benefits include an Earn and Save Bonus which is an annual CPF bonus of S$0.4-1.0K to assist young seniors build up their CPF savings as they work, a one-off retirement savings bonus of S$1.0-1.5K into the CPF Retirement Account or Special Account (depending on age) and a one-off S$0.5-1.0K Medisave top-up, with details on timing of issuance and eligibility criteria likely to be revealed during Budget 2024. According to PM Lee's NDR speech, MOF will create a new Fund to meet the full lifetime costs of the Majulah Package, using resources from this term of government.

We expect ongoing capitalization of development expenditure under the Significant Infrastructure Government Loan Act (SINGA[2]) on projects such as the North South Corridor, Deep Tunnel Sewerage System, the Cross Island Line and the Jurong Island Line. We project FY2024 overall fiscal position to post a small surplus of **0.4%** of nominal GDP, following two earlier years of mild deficits (Official FY2023 Estimate: -0.1%, FY2022: -0.3%) and the largest deficit of -10.5% of GDP incurred in FY2020 since the nation's independence, to tide the economy through the COVID-19 pandemic, which culminated in a S$40.0bn drawdown on past reserves for FY2020-2022, based on the latest estimate provided by MOF during Budget 2023. Link

Support And Measures For Households

According to the Labour Force in Singapore 2023 report, real median income fell by -2.2% at the median income group (P50) and by a sharper -3.0% at the 20th percentile (P20) but the decline in real incomes at the P20 category was softer at -2.0% if the support from the Workfare Income Supplement (WIS) scheme and other related payments were factored in.

Through most of 2024, nominal wage growth should continue to moderate in tandem with the gradual easing in labour market tightness on lingering external headwinds as firms seek to preserve profit margins in an elevated cost environment. The consequent impact on real wage growth may be partly softened by a slowing pace of price increases as we project both headline inflation (2024F: 3.5%, 2023: 4.8%) and core inflation (2024F: 3.0%, 2023: 4.2%) to recede through 2024 but remain above long-term historical averages.

Hence, we expect cost-of-living relief measures to be sustained into FY2024 to help households combat the elevated cost environment emanating from a slew of tax or administrative policy adjustments, in particular, the GST hike. Further support for households could take the form of an enhancement to the cash disbursements or U-save utility rebates **under the AP** alongside a possible one-off cost-of-living special cash payment in FY2024. Other possible channels of support include additional CDC vouchers for each Singapore household or one-off top-ups to PSEA/Edusave/CDA accounts. We do not exclude the possibility of more generous one-time measures in this budget given the current uncertain environment.

Support And Measures For Businesses

Operating Cashflow Support for SMEs – To help businesses cope with the elevated cost environment and relief pressures on cashflow, the government could consider extending by one year, the **Enterprise Financing Scheme – Trade Loan (EFS-TL)** Link and **SME Working Capital Loan (EFS-WCL)** Link which are both due to expire on 31 March 2024. The EFS-TL helps SMEs finance trade needs including inventory financing, structured pre-delivery working capital, with a maximum loan quantum of S$10mn per borrower from 1 Jul 2022 – 31 Mar 2024 and a EnterpriseSG risk share percentage of 70% (1 Apr 2021 – 31 Mar 2024). Likewise, the EFS-WCL helps SMEs finance their operational cashflow needs with a maximum loan quantum of S$500K per borrower from 1 Oct 2022 – 31 Mar 2024 with risk-sharing features.

[2] During the 2021 Budget Speech, DPM Heng Swee Keat announced the issuance of new bonds (up to a limit of S$90bn) to finance major, long-term infrastructure projects such as the development of new MRT lines and on infrastructure to protect against rising sea levels so as to spread the lumpy development expenditure across generations who will benefit.

Enhancing Productivity of Workforce via Digital and Green Upskilling – Apart from grants and support to help businesses upgrade their digital infrastructure, ensuring that workers are well-equipped with the knowledge to leverage effectively on these digital tools such as Artificial Intelligence (AI), machine learning (ML), data analytics (DA) and Cloud Computing is paramount. The government can consider an annual Skillsfuture credit top-up, funded via a **capped co-matching scheme** with their employers as well as expanding the scope of courses eligible for Skillsfuture claims, with a focus on training programmes related to digitalization, artificial intelligence, and the green transition. During the Economic Society of Singapore (ESS) Annual Dinner 2023, in DPM Wong's speech, providing training allowances for mid-career workers to take time off to pursue full-time training such as longer-form courses is a possible consideration. The government can also consider increasing the quantum under the **Course Fees Relief** (link) scheme and expand the scope of courses applicable for relief. Currently, up to S$5.5K per year of relevant course fees can be eligible for income tax relief and applies only to courses relevant to one's current or new employment.

Wage and CPF Transition Support – Firstly, the government can also consider enhancing the co-funding share under the **Progressive Wage Credit Scheme (PWCS)**[3] for 2024-2026 for both first tier and second[4] tier wages. (Link) Secondly, the government could consider raising the **Local Qualifying Salary (LQS)** from the existing S$1.4k. Finally, to help businesses cope with the phased increase in the CPF monthly salary ceiling[5] to S$8K by 2026 (current: S$6.8K as of 1 Jan 2024) as announced in Budget 2023, an additional **one-off CPF transition offset** can be issued to mitigate the impact on business costs for the upcoming scheduled increases on 1 Jan 2025 and 1 Jan 2026. Recently, the Senior Minister of State for Manpower Zaqy Mohamad alluded to upcoming tweaks to the PWCS and LQS at a tripartite commemorative event.

BEPS 2.0 - We expect further clarity on the timeline of the implementation of the Minimum Effective Tax Rate (METR) to raise the effective tax rate of MNE's in Singapore to 15%, in-line with the global tax rate under Pillar 2 of BEPS 2.0. In the Budget 2023 Speech, DPM Wong mentioned that Singapore will implement Pillar 2 of BEPS 2.0 from 2025 onwards, complemented by a Domestic Top-up Tax (METR) although he mentioned that the "developments on BEPS 2.0 are fluid" and "if there are additional delays, we will adjust our implementation timeline". Prima facie, the top-up tax may lift corporate tax revenues but industry development schemes to attract and retain investments would likely be considered, resulting in offsetting expenditure outlays. More importantly, with the implementation of METR, there may be some insights on possible measures that can be taken to ensure Singapore's competitiveness in attracting global enterprises, investment, and talent.

Encouraging SMEs to Adopt Energy Efficient Appliances – The government can consider extending the deadline for the energy efficiency grant, which expires on 31 Mar 2024, by one year. The grant provides up to 70% support for SMEs to adopt energy-efficient equipment such as LED lighting, air-conditioners, refrigerators, etc with a cap of S$30,000 per company per year. Link

[3] The PWCS was introduced in Budget 2022 to provide transitional wage support for employers to adjust to upcoming mandatory wage increases for lower-wage workers in certain sectors and meet the Local Qualifying Salary (LQS) requirements. Since Sep 2022, firms employing foreign workers (on Work Permit, S-Pass or EP) are required to pay progressive wages to local workers covered by sectoral or occupational wages in cleaning, security, landscape maintenance, etc and at least the LQS (of S$1.4K) to all other local workers.

[4] The first-tier salary refers to those earning a gross monthly wage ceiling of not more than S$2.5K and the second-tier salary refers to those earning more than S$2.5K but not more than S$3.0K.

[5] The CPF monthly salary ceiling is the maximum portion of one's monthly wage that is subject to CPF contributions.

In conclusion, we expect MOF to maintain a broadly less expansionary fiscal stance, with a neutral fiscal impulse (0.0% of GDP) in FY2024 (UOB FY2023 Estimate: -1.7%), possibly to avoid adding to elevated inflationary pressures. However, the basic balance is projected to still remain in deficit at an estimated -1.2% of GDP in FY2024 (FY2023 Official Estimate: -1.5%, UOB FY2023 Estimate: -1.2%). **For the overall fiscal position, we estimate a small surplus of 0.2% of GDP in FY2023 (Budget Estimate: -0.1%) and a slightly larger surplus of 0.4% in FY2024.**

Figure 5: Overall Fiscal Position and Primary Balance (% of GDP)

Source: Macrobond, UOB Global Economics & Markets Research

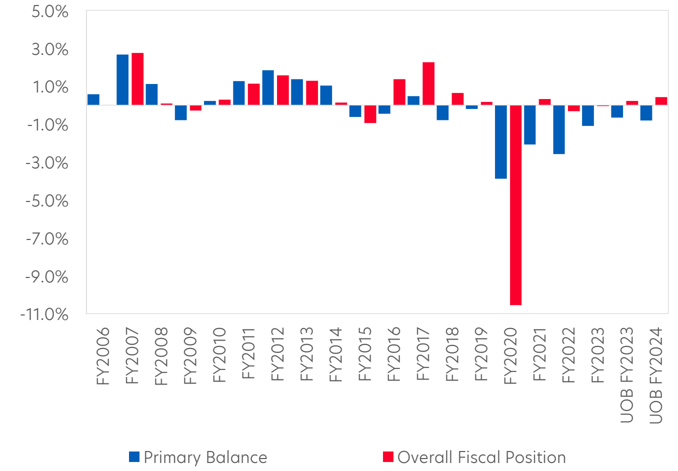
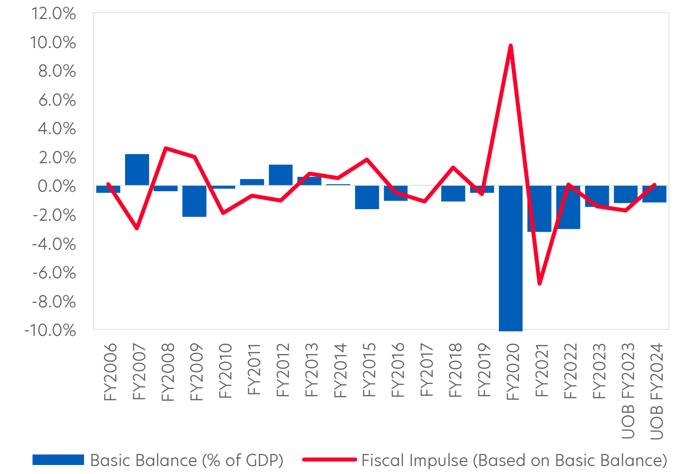


Figure 6: Fiscal Stance To Remain Less Expansionary

Source: Macrobond, UOB Global Economics & Markets Research



Long-Term Challenges – Ageing Population

Singapore is one of the fastest-ageing nations in the world, with a current proportion of around one in five Singaporeans aged 65 and older and by 2030, this proportion is projected to be one in four. As detailed in the fifth chapter of the Forward Singapore report released in Oct 2023, titled "Enabling Seniors to Age Well", a new national programme called **Age Well SG** will be launched to strengthen our aged care system and enable our seniors to age well in the community. Some initiatives under this programme include:

- **Expanding the network of Active Ageing Centres (AACs) and revamp their operations** – These AACs will serve as key community nodes and further leverage common spaces and community-wide efforts to engage seniors. By 2025, the government targets for 8 in 10 seniors to have access to AAC activities near their homes. The AACs will organize a wide range of activities such as communal meals and exercise programmes and encourage seniors to build social circles and lead active lifestyles.

- **Work across the 3P (People, Private and Public) sectors under the Digital for Life movement to equip seniors with digital skills and literacy.**

- **Building more Senior Care Centres (SCCs) and nursing homes and increasing the capacity of home care services**. For seniors with lower care needs, the number of SCCs will be increased to provide custodial day care and rehabilitation services while for seniors with higher care needs, more home care options with more responsive support.

- Offer more housing options with integrated care provisions. The Community Care Apartment is a joint offering by MND, MOH, and HDB that aims to expand the continuum of housing options for seniors today. It integrates senior-friendly housing with care services that can be scaled according to care needs and social activities to support seniors to age independently in their silver years within the community. Link

- Improve existing homes, housing estates and neighborhoods to include more senior-friendly amenities and features so that seniors can go about their daily activities more easily and safely. Within homes, an enhanced version of the Enhancement for Active Seniors (EASE) programme will offer an expanded suite of senior-friendly fittings to make HDB flats safer and more comfortable for seniors. In addition, the Friendly Streets initiative will be expanded to incorporate more pedestrian crossings, more frequent and longer Green Man activations, wider and more accessible footpaths across neighborhoods.

- Possible review and update to the Silver Support Scheme, to better support seniors who have less for their retirement and enhancement to the matched retirement savings scheme which provides a dollar-for-dollar matching CPF grant of up to S$600 per year for cash top-ups to eligible seniors with lower retirement savings.

- The "Majulah Package" estimated to cost S$7.0bn will be launched to benefit 1.4 million Singapore citizens aged 50 and above in 2023 as aforementioned.

Government spending constitutes about 18% of GDP presently and the government projects this to increase to around 20% of GDP by 2030 largely on rising healthcare expenditure. Thus, in the long-run, there is a need to ensure that there are sufficient revenues to cover this increase in expenditure via a more progressive tax structure and prudent management of our reserves. We do not expect the government to further raise the GST in the upcoming budget, but the prospect of further GST adjustment before 2030 cannot be ruled out.

Figure 7: Healthcare Expenditure Has Seen Stronger Y/Y Growth And Is Projected To Strengthen Further

Source: Macrobond, UOB Global Economics & Markets Research

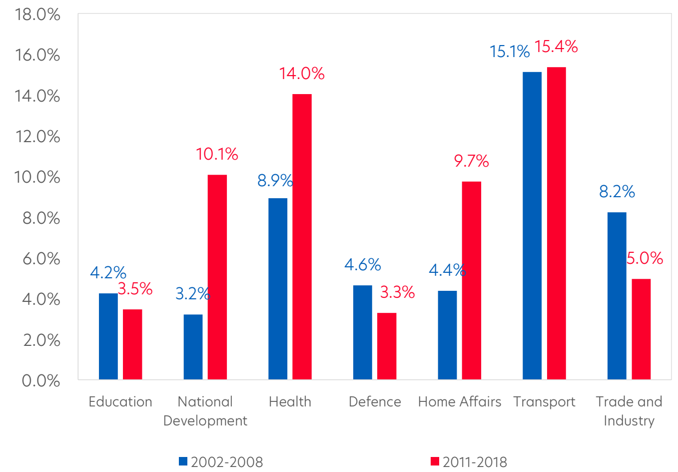
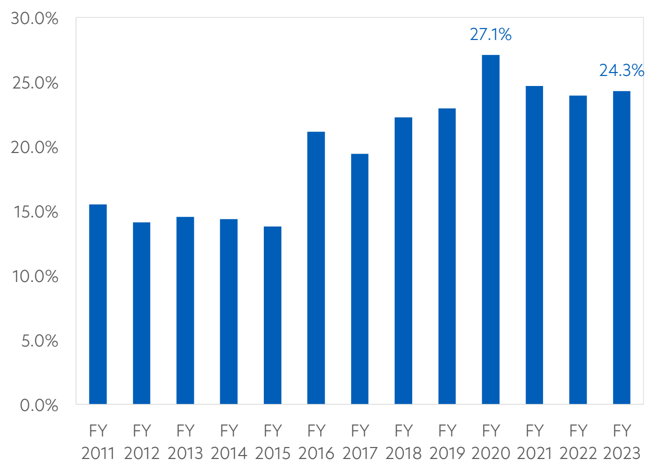


Figure 8: NIRC Has Been An Increasingly Important Supplement To Operating Revenues

Source: Macrobond, UOB Global Economics & Markets Research



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