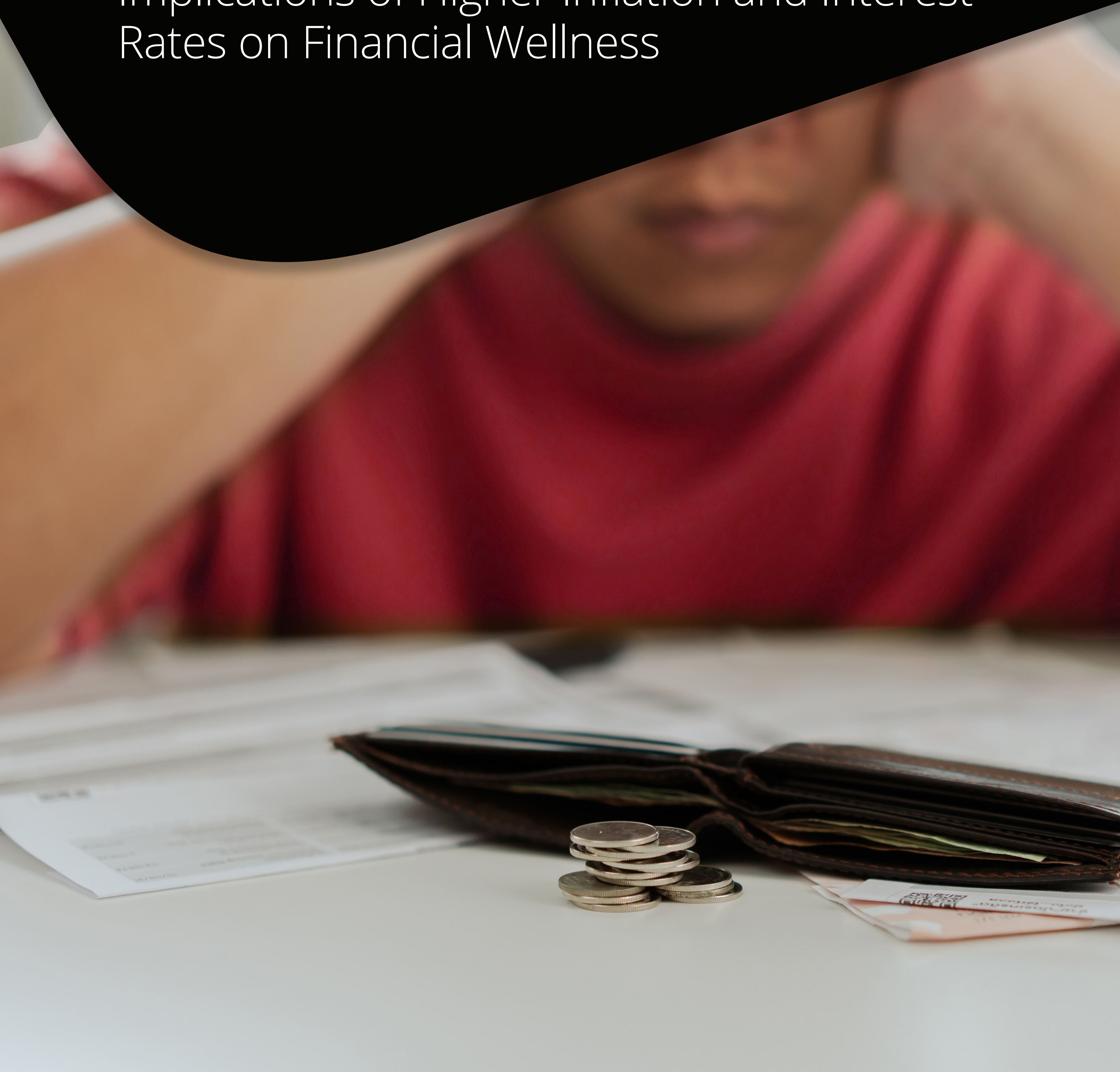
DBS Asian Insights

DBS Group Research • July 2023

# Between a Rock and a Hard Place

## Implications of Higher Inflation and Interest Rates on Financial Wellness



DBS

# Between a Rock and a Hard Place

## Impact of higher inflation and interest rates on financial wellness

This is the fifth instalment of our special DBS Financial Health (formerly known as NAV) series.

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# Executive Summary

As Singapore moved into a post-COVID era, new challenges have emerged. Growth momentum has slowed, yet inflation, despite easing from last year's peak, remains elevated. Such sustained price pressure has prompted global interest rates to rise sharply to levels not seen since the Global Financial Crisis, and could stay higher for longer.

High inflation dilutes everyone's purchasing power, while high interest rates take a toll on the balance sheets of those with existing financial liabilities (e.g., credit cards debt and mortgages). As a result, some may find their cashflows getting tighter and/or squeezed by higher debt payment due to higher interest rates.

In this report, we analysed the aggregated and anonymised database of about 1.2 million of our non-wealth customers in May 2023[1], relative to May last year, to shed light on the impact of high inflation and interest rates on our customers' financial wellness. Some of our key findings include:

- **Customers saw improved expense-to-income ratios at 57%, down from 59% last year.** Income of a median customer grew 7.2%, which is 2.7x faster than that of expenses at 2.7%, which led to declining expense-to-income ratios.

- **Boomers and low-income customers saw worsening wallet bandwidth.** Contrary to other customers, both groups saw expense-to-income ratios inch up to 86% and 93%, respectively, as expenses grew 5.5x and 1.2x faster than that of income.

- **Savings dipped but remain healthy, except for the low income.** The median customer saw their savings decline marginally from 3.7 to 3.5 months of expenses. Yet, savings for low-income customers could only last them 1.5 months, which may be concerning.

- **Gig workers are the most financially stretched.** Their expense-to-income ratio of 112% in May 2023 was significantly higher than that of the median customer. Their savings of just 1.7 months of expenses are deemed too low.

- **Investments were partly channelled from savings, while flows shifted towards short-duration risk-free assets amid a volatile investment landscape.** The move towards risk-free assets was observed in all generation and income groups. Singapore T-bills accounted for an overwhelming >70% of total flows in May 2023.

[1] Our database covers specifically 1.2 million of our non-wealth salary-crediting customers which excludes work permit holders.

- **Credit card debt looks manageable despite the 12.8% increase in card spending.** Higher growth in non-interest bearing, non-revolving balances at 23.6% suggests most customers are making timely payments to avoid hefty interest charges.

- **Higher monthly mortgage payments leave lesser for customers earning below $5,000 to enjoy from their income growth.** They could use more than 50%[2] of income growth to service the increase in monthly mortgage payment.

- **Watch for further impact on mortgages as higher rates linger.** Additional stresses could come when mortgages are refinanced on higher interest rates, as more than half of customers earning below $5,000 have mortgage loans under floating rates.

> *Higher monthly mortgage payments leave customers earning below $5,000 with lesser to enjoy from their income growth.*

[2] Figure is based on individual and will be lower for dual-income household.

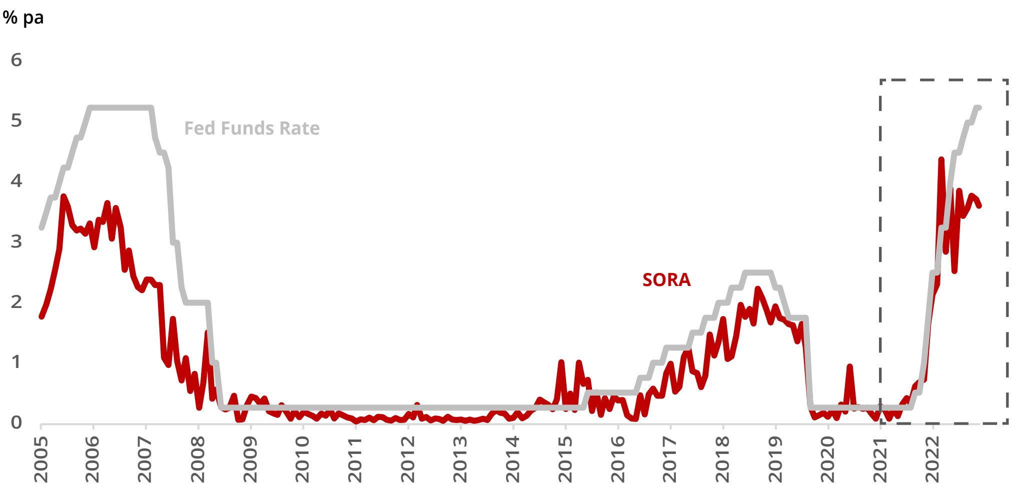
# Introduction

After more than three years of fighting the pandemic, Singapore entered a new normal of living with endemic COVID-19. Yet, in the new normal, fresh challenges have emerged. These include an uncertain global economic environment clouded by geopolitical tensions, easing but elevated inflation, and likely higher-for-longer interest rates.

The economy grew 3.6% in 2022, and we forecast real GDP growth to slow to 1.7% in 2023 amid the challenging external backdrop. Inflation, meanwhile, has eased gradually from its 7.3% year-on-year (YoY) peak in 3Q22, but remains high, and would bite into Singapore consumers' purchasing power. Imported prices have moderated, but inflation is supported by the 1%-point GST hike to 8%, effective January 2023, and domestic cost pressures. Singapore's average headline consumer price index (CPI) and core inflation in the first five months of 2023 stood at 5.9% and 5.1%, respectively, versus pre-pandemic 2010 to 2019 historical averages of 1.7% and 1.5%.

Lofty inflation is not just a Singapore phenomenon, but a global one. Major central banks, notably the US Federal Reserve, have been forced to raise interest rates aggressively to levels not seen since the Global Financial Crisis to tame inflation. Singapore's short-term interest rate, measured by the Singapore Overnight Rate Average (SORA), has also experienced a similar sharp rise, and could remain higher for longer on the backdrop of elevated inflation.

**Figure 1: Singapore short-term interest rate, SORA, and US Fed funds rate**




*Source: Bloomberg, DBS Bank*

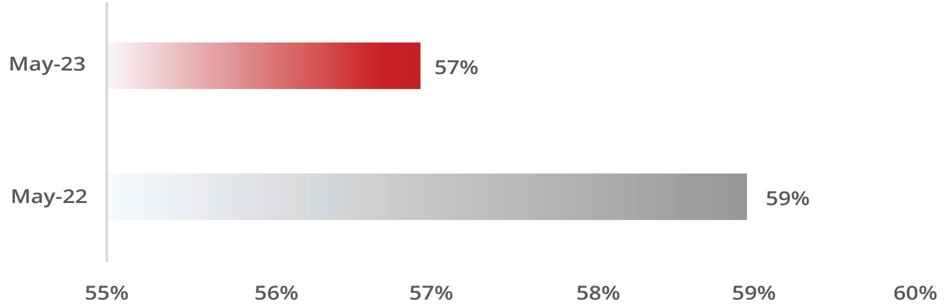
In this report, we analysed the aggregated and anonymised database of about 1.2 million of our non-wealth customers in May 2023, relative to May last year, to shed light on the impact of high interest rates and inflation on our customers' financial wellness. We examine how these two factors impact the balance sheets of various segments of customers from the perspectives of cashflows, assets, and liabilities. Specifically, are there certain segments of the society who may be caught between a rock and a hard place?

> *Lofty inflation is not just a Singapore phenomenon, but a global one ... Major central banks have been forced to raise interest rates aggressively to levels not seen since the Global Financial Crisis to tame inflation.*

# Cashflows improved, except for vulnerable groups

**Customers saw improving wallet bandwidth over the past year.** The median customer[3] has seen an improving expense-to-income ratio, which declined to 57% in May 2023, from 59% in May 2022.

**Figure 2: Expense-to-income (%) of a median customer in May 2023 versus May 2022**

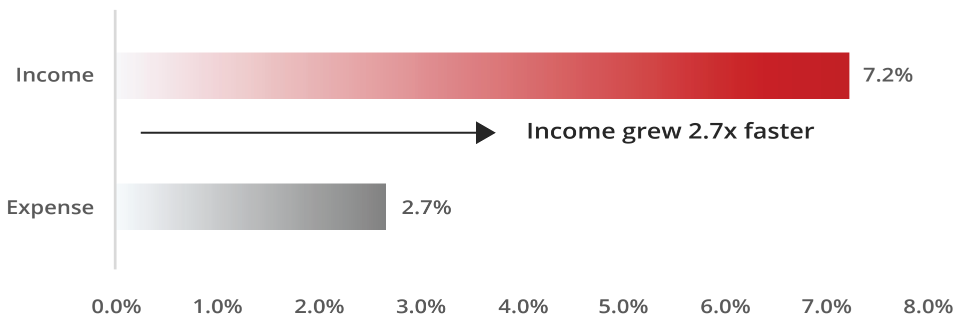



*Note: Expenses include housing, food, transportation, healthcare, insurance, education, shopping, travel, entertainment, Giro, eNets, withdrawals, and other expenses. Source: DBS Bank*

*Wallet bandwidth has improved as compared to a year ago.*

**Income grew almost 3x faster than expenses on aggregate.** Over the past year, the median customer saw income growth outpace that of expenses. Income[4] grew 7.2%, which is 2.7x the rate of expense growth of 2.7%. The slower growth in expenses can be attributed to the moderation of post-pandemic pent-up spending.

**Figure 3: Expense versus income growth rate, for the median customer**




*Note: Expenses include housing, food, transportation, healthcare, insurance, education, shopping, travel, entertainment, Giro, eNets, withdrawals, and other expenses. Growth period refers to May 2022 and May 2023. Source: DBS Bank*

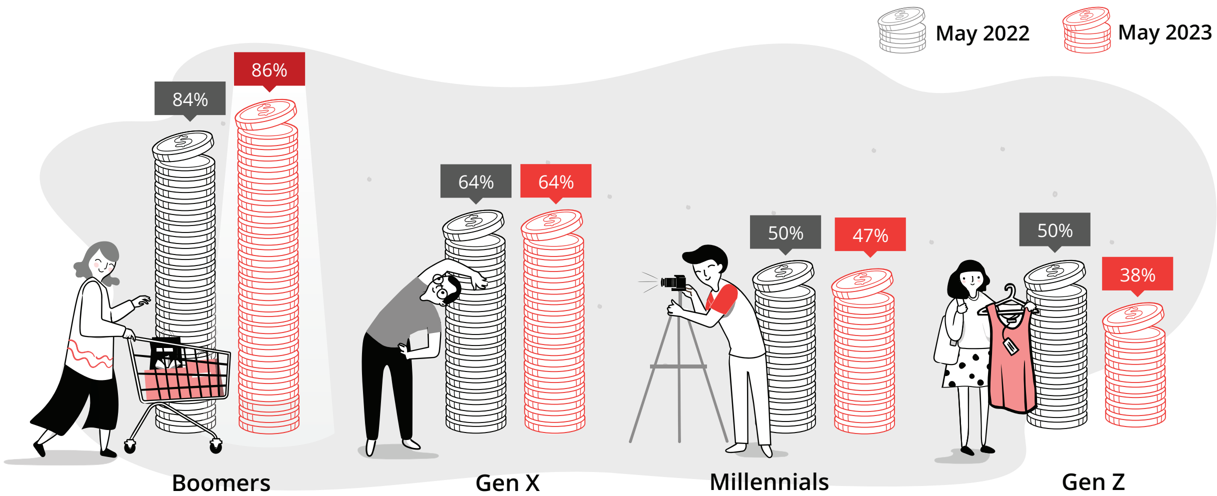
[3] We are analysing the median customer for this report, which is different from our previous report which analyses the average customer. For this report, our analysis includes Gen Zs and gig workers, which are prone to having outliers. Due to the presence of outliers, we deem an analysis based on median numbers to be more appropriate.

[4] We define income as credited income, i.e., take-home employment income.

*Boomers & low-income customers saw worsening wallet bandwidth.*

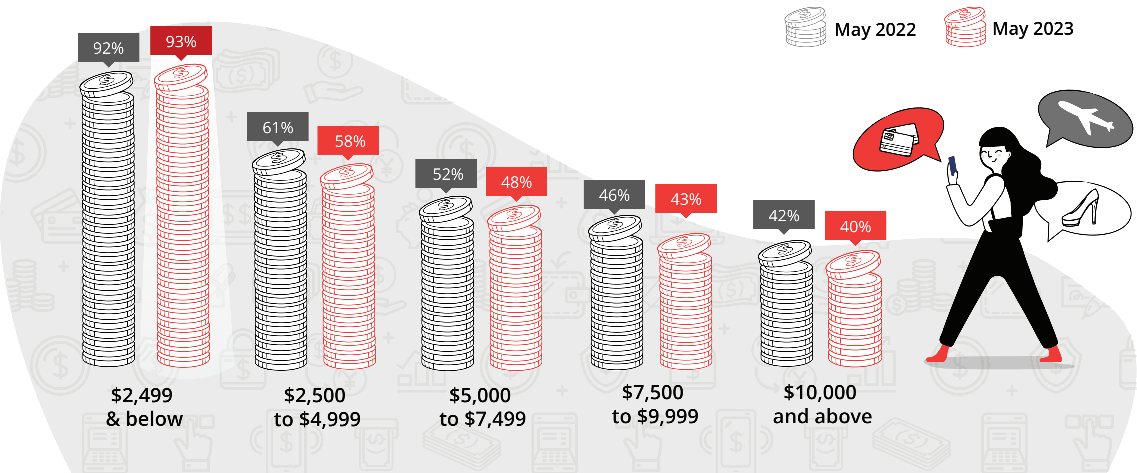
**On the other hand, Boomers and low-income customers saw worsening wallet bandwidth.** Boomers (aged 59 to 77) and low-income customers saw an increase in their expense-to-income ratios in May 2023. Their expenses made up 86% and 93% of their take-home incomes respectively, suggesting worsening cashflows over the past year.

**Figure 4: Expense-to-income (%), by generation**




*Note: Boomers (aged 59 to 77), Gen X (aged 43 to 58), Millennials (aged 27 to 42), and Gen Z (aged 26 and below). We only include customers with take-home employment income in both periods, i.e., May 2022 and May 2023. Source: DBS Bank*

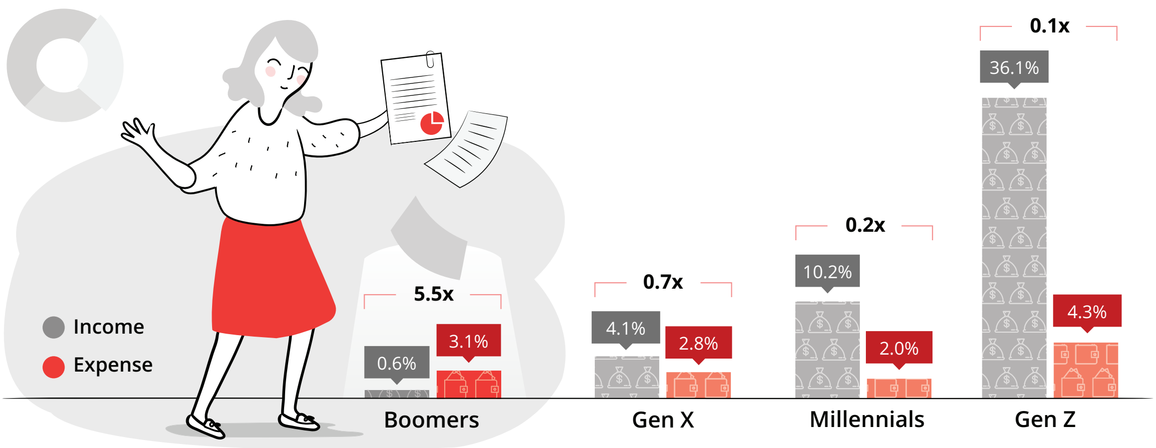
**Figure 5: Expense-to-income (%), by income groups**




*Note: We only include customers with take-home employment income in both periods, i.e., May 2022 and May 2023. Source: DBS Bank*

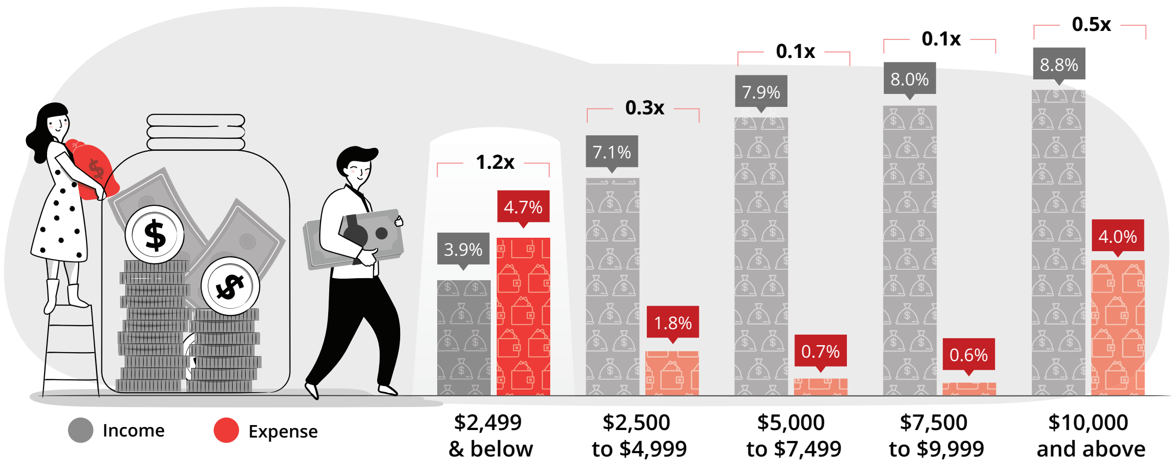
**Keep an eye on spending patterns.** Boomers and low-income customers saw their expenses grow 5.5x and 1.2x faster than their income respectively, which contributed to rising expense-to-income ratios. While policy support can help, Boomers and the low-income group would have to be even more mindful of their spending habits and exercise prudent budgeting.

**Figure 6: Expenses growth versus income growth, by generations**




*Note: Boomers (aged 59 to 77), Gen X (aged 43 to 58), Millennials (aged 27 to 42), and Gen Z (aged 26 and below). We only include customers with take-home employment income in both periods, i.e., May 2022 and May 2023. Growth period refers to May 2022 and May 2023. Multiple refers to expenses growth divided by income growth. Source: DBS Bank*

**Figure 7: Expenses growth versus income growth, by income groups**

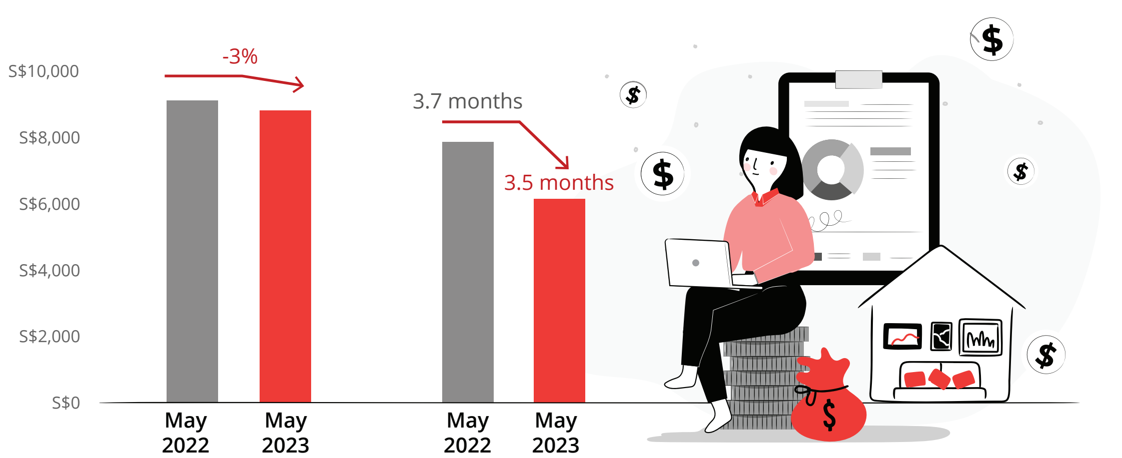



*Note: We only include customers with take-home employment income in both periods, i.e., May 2022 and May 2023. Growth period refers to May 2022 and May 2023. Multiple refers to expenses growth divided by income growth. Source: DBS Bank*

# Savings still healthy, though some need to be watchful

**Savings dipped but remain healthy.** In terms of absolute dollar amounts, the median customer saw a 3% dip in their savings. Further, when categorised according to the number of months' worth of expenses, the median customer saw their savings decline from 3.7 months to 3.5 months over the year. Despite that, savings remain well within the recommended 3 to 6 months range[5] for a median customer, albeit at the lower end.

**Figure 8: Savings (S$) and Savings (as number of months of expenses) for the median customer**



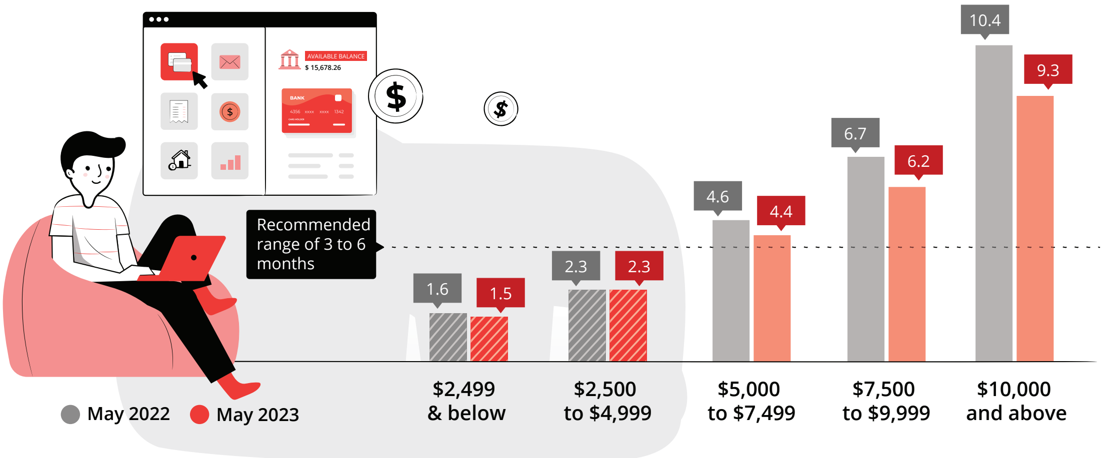

*Note: Savings (as number of months of expenses) are defined as the absolute S$ savings divided by median monthly expenses. Source: DBS Bank*

**However, customers earning below $5,000 should remain mindful of their savings.** We found that both groups do not have sufficient savings to cover three months' worth of expenses. As at May 2023, customers earning below $5,000 only had around two months' worth of savings, below the recommended range of 3 to 6 months. If expense growth continues to outpace income growth, we could see cashflow and savings dwindle further. Prudent budgeting is warranted for these two groups, particularly against the current backdrop of elevated inflation.

*Some do not have sufficient savings to last them at least 3 months.*

[5]Based on DBS Consumer Banking Group's recommendations.

**Figure 9: Savings (as defined by number of months' worth of expenses), by income groups**

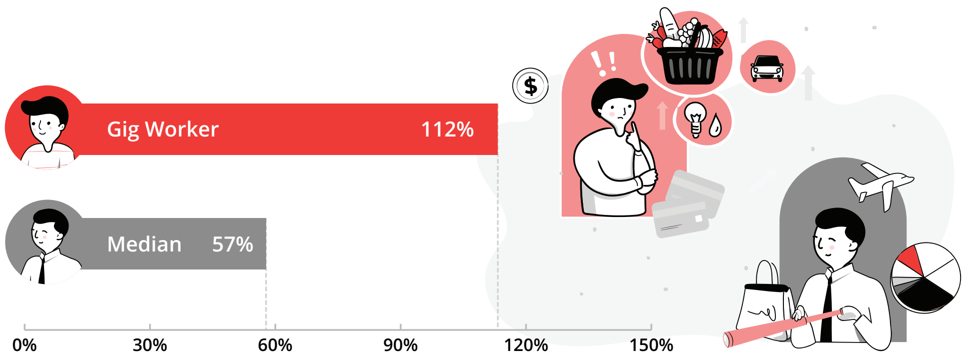



*Note: Savings (as number of months of expenses) are defined as the absolute S$ savings divided by median monthly expenses. Source: DBS Bank*

## Gig workers: A vulnerable group

**Among all customer groups, gig worker[6] customers are the most financially stretched.** Gig workers saw an expense-to-income ratio of 112%[7] in May 2023, significantly higher than that of a median customer at 57%. With relatively less stable income flows, gig workers' incomes were insufficient to cover their spending.

**Figure 10: Expense-to-income (%) of gig worker vs median customer in May 2023**




*Source: DBS Bank*

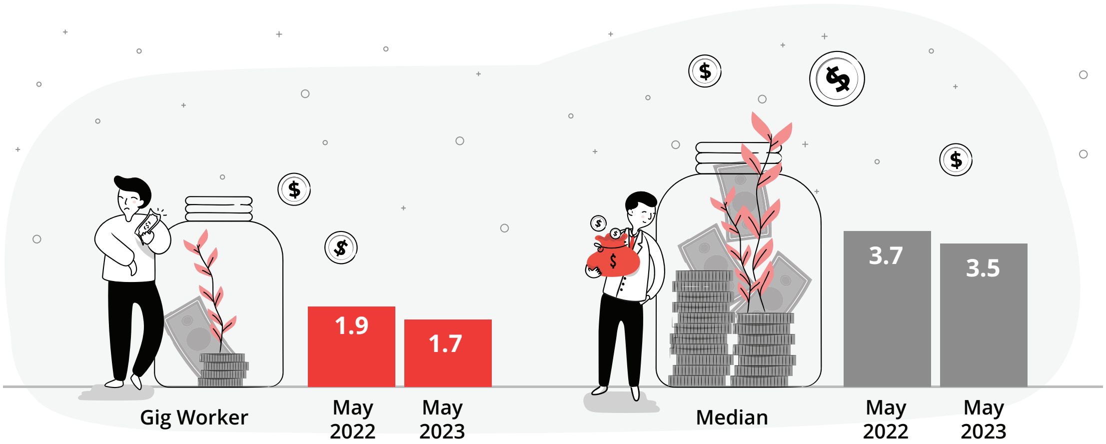
[6] Gig workers are generally self-employed and provide their services under a contract to earn an income. These would include platform workers, who derive a significant part of their income through online matching platforms. Data for this segment of customers are derived based on their source of income.

[7] The data for gig workers are prone to having outliers. Hence, an analysis based on median numbers is more appropriate.

*Gig worker customers are the most financially stretched.*

**Gig worker customers tapped into their savings to cover expenditure needs, with savings in the unhealthy range.** Savings of the median gig worker (in months' worth of expenses) fell to 1.7 months in May 2023, from 1.9 months in May 2022. Their savings were considerably lower than the 3.5 months among median customers. Savings of gig worker customers were way below our recommended 12 months for those with unstable income streams, and under the recommended 3 to 6 months range for other customers.

**Figure 11: Savings (as number of months of expenses) of gig worker vs median customer**




*Note: Savings (as number of months of expenses) are defined as the absolute S$ savings divided by median monthly expenses. Source: DBS Bank*

**Gig workers should exercise financial prudence given their tight budgets, while also balancing short- and long-term needs.** In this regard, the government's efforts to strengthen protection for gig workers (announced during the Ministry of Manpower's Committee of Supply 2023[8] and Budget 2023) aim to strike a balance between take-home income and long-term savings adequacy for housing and retirement. The key change is to align CPF contributions of gig workers with that of salaried workers, starting from the second half of 2024. Transition support will be provided over 2024 to 2027, alongside tweaks to Workfare Income Supplement. This would cushion the hit on gig workers' take-home income and provide them with sufficient time to adjust, particularly given their stretched situation as suggested by our data.

[8] See infographic on strengthening protections for Platform Workers for more information.

# Investments grew strongly, with a shift towards less risky assets

**Investments grew strongly overall and appeared to be channelled from savings.** Investment assets under management (AUM) for the median customer rose by a robust 16.5% between May 2022 and May 2023, at a time when absolute savings dipped by 3.3%. Median customers had the appetite to plan for and grow long-term wealth, having secured healthy savings and improved wallet bandwidth over the past year.

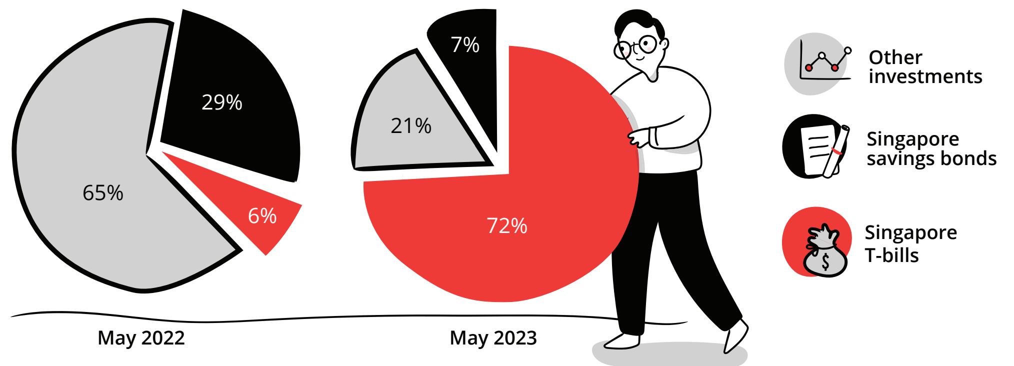
**Figure 12: Investment AUM and savings growth**


*Note: Growth period refers to May 2022 and May 2023. Source: DBS Bank*

**We see customers' investment flows shifting towards short-duration risk-free assets, while riskier assets such as equities fell out of favour.** Across all generations and income groups, investments moved towards fixed income securities in May 2023 versus May 2022, especially into Singapore Treasury bills (T-bills). T-bills accounted for an overwhelming >70% of total flows in May 2023. The share of other investments (e.g., equities, ETFs, mutual funds) fell significantly compared with May 2022.

> *Shift towards risk-free assets, particularly Singapore T-bills.*

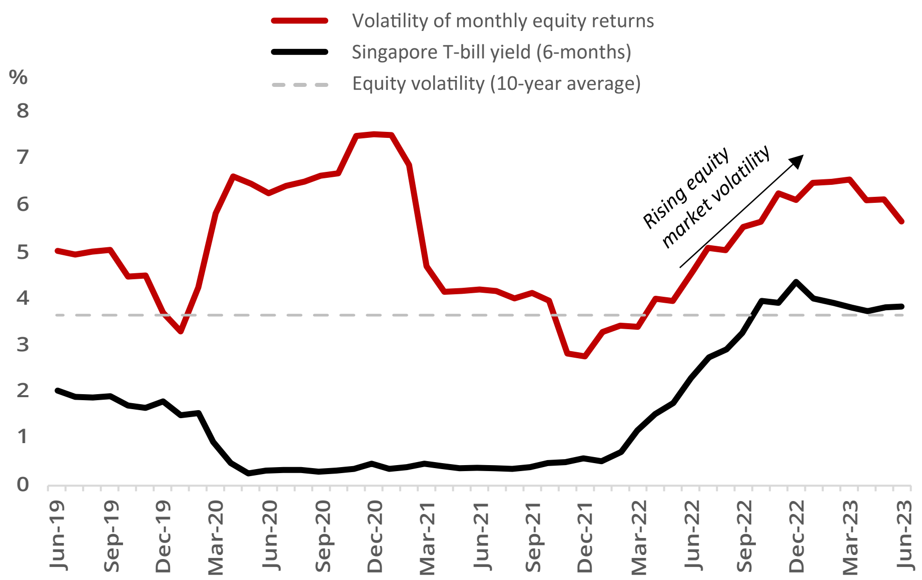
**Figure 13: % share of investment flows, by asset classes**




*Note: Investment amount made in separate months of May 2022 and May 2023. Other investments include asset class such as equities, ETFs, mutual funds, and more. Source: DBS Bank*

**The shift in customers' risk appetite came amid a more volatile and uncertain investment landscape.** This can be seen from the increased volatility of global equity returns over the past year, which remains well above its 10-year average. Increased equity volatility came in tandem with rising global interest rates, mainly spurred by the US Federal Reserve's aggressive monetary tightening cycle. As such, yields on Singapore T-bills, which broadly track US interest rates, have also increased significantly.

**Figure 14: Volatility of global equity returns and Singapore T-bill 6-month yield**



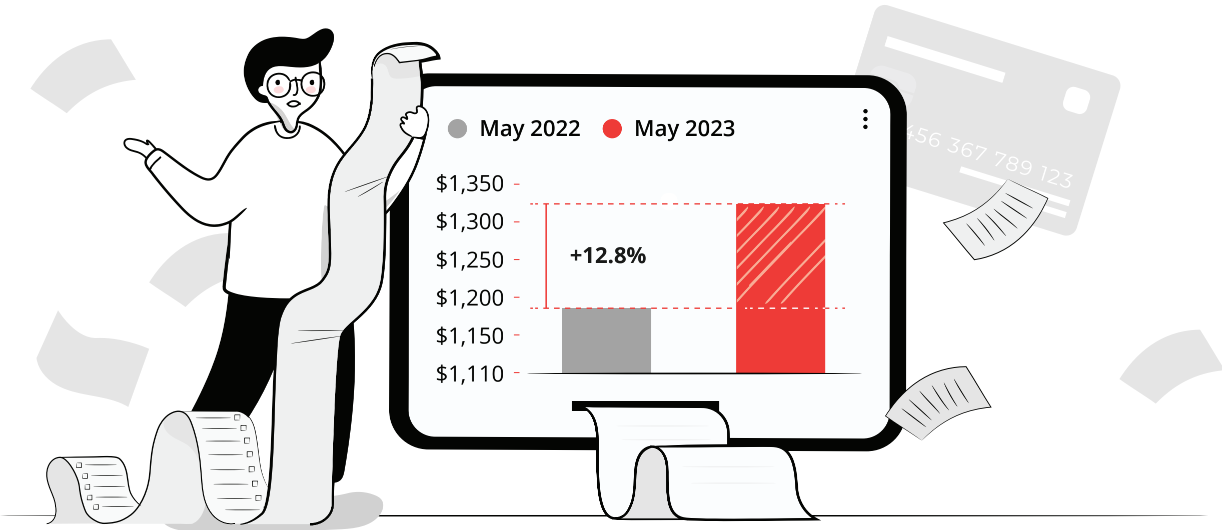

*Note: Volatility of monthly equity returns is calculated based on 12-month rolling standard deviation of monthly returns of MSCI ACWI Index, which represents the performance of equities across 23 developed and 24 emerging markets. Source: Bloomberg, MAS, DBS Bank*

# Credit card bills saw a pick-up, prudence is key

Potential stresses could stem from liabilities such as credit card debt and mortgage loans, given the high 27.8% p.a. interest rates imposed on revolving credit card balances, and significant 73% contribution of mortgages to household liabilities. Furthermore, mortgages and credit cards were two components that saw year-on-year growth (2.5% and 16.8%, respectively) while overall liabilities remained flat, based on the latest Singstat data as at 1Q23[9].

**Higher credit card spending in 2023.** The average DBS customer is now spending more on their credit card in May 2023, where we saw a 12.8% jump from May 2022 levels. This is ahead of (i) expense growth (2.7%) registered by DBS customers over the same period, and (ii) rate of inflation over the course of 2022-23.

**Figure 15: Average credit card outstanding balance (May 2022 vs May 2023)**



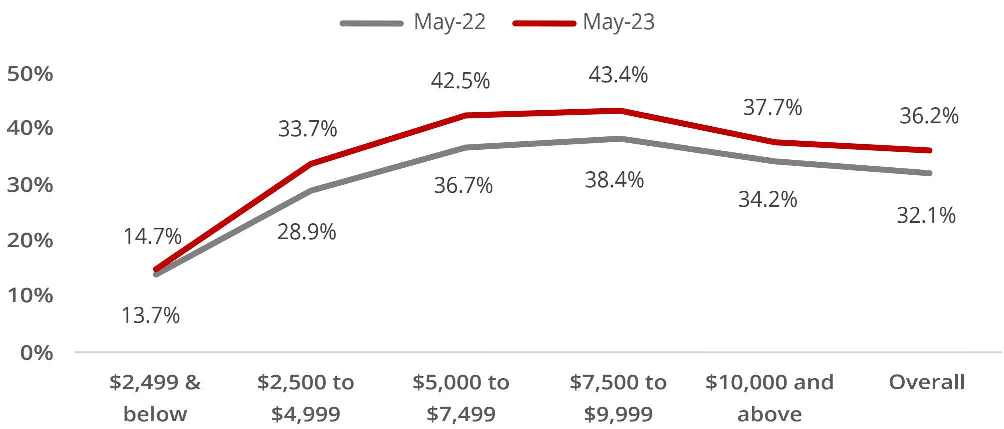

*Note: Computed by dividing aggregate credit card outstanding balances over sample size.*
*Source: DBS Bank*

**Credit cards saw higher utilisation rates in 2023.** Higher credit card utilisation may explain the increase in outstanding balance, with one-third of DBS customers' spending made through credit cards. This increase in credit card utilisation, even amid a period of higher inflation and interest rates, shows its popularity as a mode of payment in Singapore, especially among the middle- to upper-income segments of the population.

[9]Refer to Household Sector Balance Sheet, 1Q2023 from Department of Statistics

Indeed, they can be a great way to stretch one's dollar, if used *wisely*. For one, credit card promotions and rewards (e.g., miles, cashback) provide more benefits than cash payments. Cash outflows can also be better managed with the help of credit cards, i.e., pay nothing until bill/payment date. Moreover, higher interest may be earned as credit card spending counts towards eligible transactions under the DBS Multiplier scheme[10].

**Figure 16: Credit card utilisation, by income groups**




*Note: Computed by dividing aggregate credit card outstanding balances over aggregate expenses.*
*Source: DBS Bank*

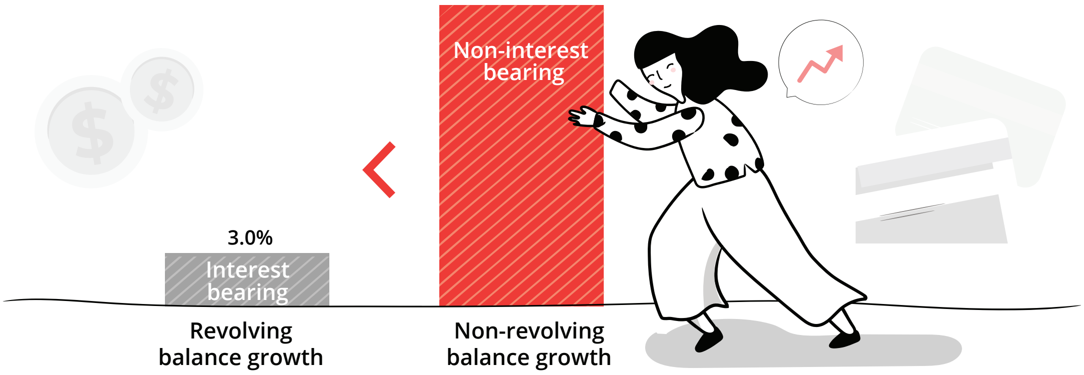
**Credit card debt looks manageable despite higher utilisation, as customers look to pay their credit card bills on time.** Two datapoints suggest that customers, while spending and utilising credit cards more, look to avoid high interest charges on credit card debt.

First, we observe that the growth in revolving-balances (interest-bearing) remains manageable at 3.0%, which is well below that of non-revolving balances (non-interest-bearing) at 23.6%. Second, the proportion of revolving balances against total outstanding balance narrowed from 52.3% in May 2022 to 47.4% in May 2023, which implies a much lower and prudent use of interest-bearing balances over the year.

*"Credit cards can be a great way to stretch one's dollar, if used wisely."*

[10] Click here for information pertaining to DBS Multiplier scheme

**Figure 17: Growth in revolving versus non-revolving balances, on an overall basis**

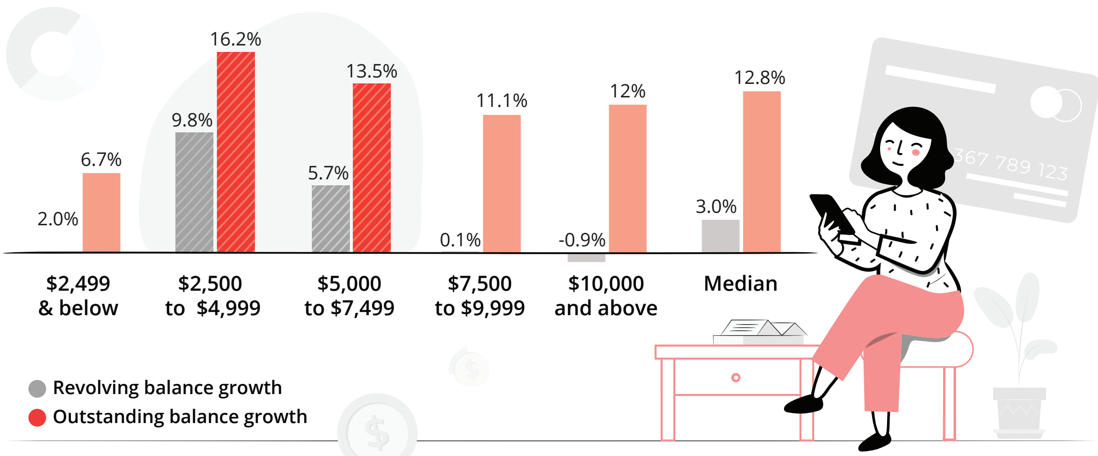



*Note: Y-o-Y growth from May 2022 to May 2023. Source: DBS Bank*

*Important for new credit card users and low-income customers to be mindful of their credit card spending.*

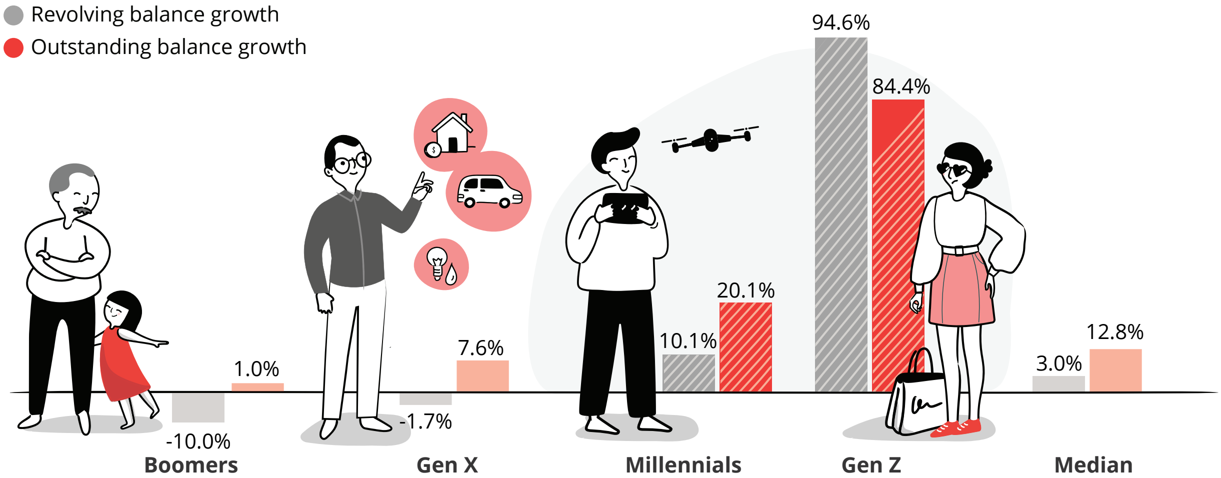
**However, it is important for new credit card users to be mindful of their credit card spending.** We identified customers in income bracket $2,500 to $4,999 and Gen Z as two groups that may be more vulnerable to credit card stress. The former (customers who barely meet the minimum income requirement of $30,000 in annual income for credit cards) saw the sharpest growth in both their outstanding card and revolving balances among all income groups in May 2023; a similar narrative was also observed for the latter. While still manageable, the pickup in credit card spending and usage of revolving balances by customers in the $5,000 to $7,499 income group and Millennials is also an area that bears watching.

**Figure 18: Credit card revolving and outstanding balance growth, by income groups**




*Note: Y-o-Y growth from May 2022 to May 2023. Revolving balance refers to interest-bearing credit card balances, which is a subset of total outstanding credit card balance. Source: DBS Bank*

**Figure 19: Credit card revolving and outstanding balance growth, by generations**




*Note: Y-o-Y growth from May 2022 to May 2023. Revolving balance refers to interest-bearing credit card balances, which is a subset of total outstanding credit card balance. Source: DBS Bank*

In contrast, customer groups with presumably more financial experience and/or capacity (based on age and income) saw milder increases in outstanding balances, as seen in Gen X customers and income groups earning above $7,500. Specialised financial knowledge and experience are not necessarily mandatory for prudent credit card usage, but ensuring that credit card payments are made in full and on time as they come is key.

### Rolling over credit card debt is no game

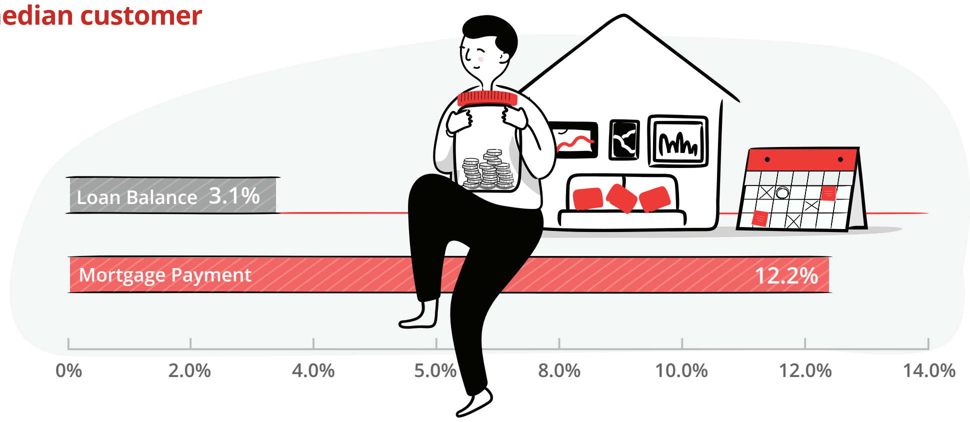
*Let's assume a credit limit of $5,000 and monthly expenditures of $500. Since credit card interest is calculated on a daily compounding basis, if you only pay the minimum balance each month, the remaining amount continues to roll over and grow every day. You will hit your credit limit of $5,000 in less than1 year.*

*When this happens, you will no longer be able to spend on your credit card and have a hefty balance to repay. Your minimum payment every month would have jumped from $50 to $150 (3% of $5,000) and the total amount for 1 year would have ballooned to around $7,540 – taking you more than 50 months (4.1 years!) to clear that one year of spending. Having to pay the credit card bill for more than 4 years can strain your monthly financial resources, leaving less cash on hand for other expenses.*

# Mortgages look manageable for now, but be watchful

**Housing loans have grown but remain moderate.** New homeowners are feeling the impact of higher loan balances on rising property values, and higher mortgage payments due to rising interest rates. The median DBS customer is now borrowing around 3% more for their home purchases, while median mortgage payments have increased by about 12%.

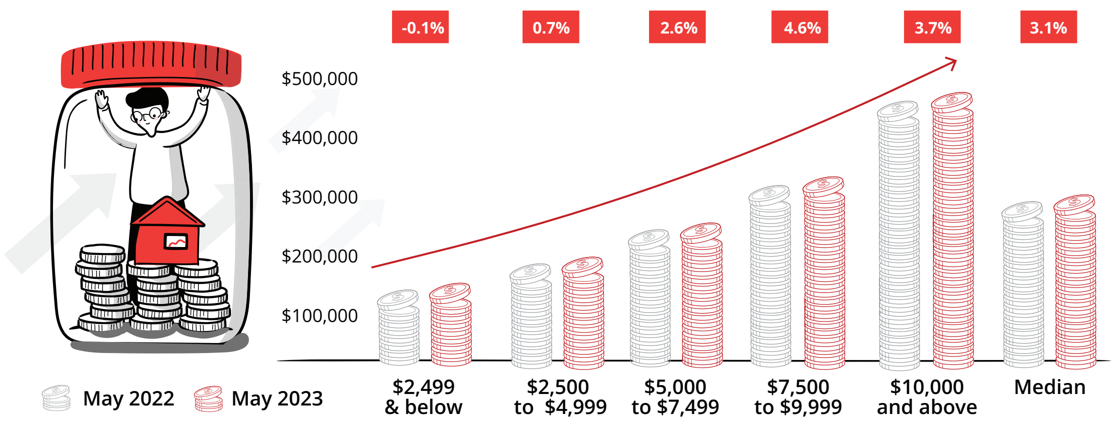
**Figure 20: Growth in housing loan balance and monthly mortgage payment, for median customer**




*Note: Y-o-Y growth from May 2022 to May 2023. Source: DBS Bank*

**Loan balances rising in tandem with income brackets.** Housing loan balances gradually increase as we move up the income groups, with the low-income group even seeing a slight 0.1% decrease in loan balance. This allays some concerns about low-income groups overstretching their housing budgets amid rising home prices and may be proof of effective policies in place, i.e., LTV, MSR and TDSR[11].

**Figure 21: Housing loan balance growth, by income groups**

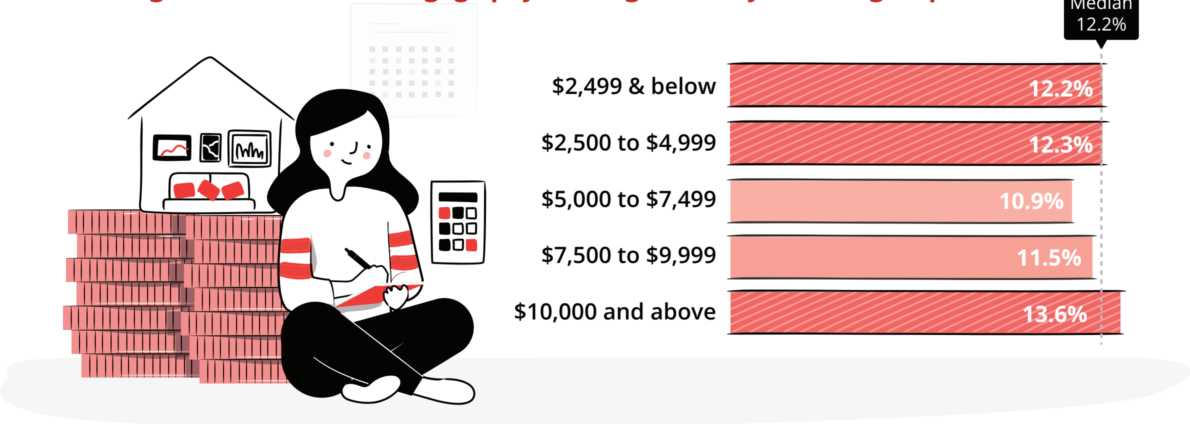



*Note: Figure in box denotes growth in percentage terms. Source: DBS Bank*

[11]Loan-to-value, mortgage servicing ratios, and total debt servicing ratios

**Rising mortgages, generally, look manageable for now.** While monthly mortgage payments of customers earning below $5,000 rose more than 12% over the year, the percentage increases are still moderate relative to median.

**Figure 22: Median mortgage payments growth, by income groups**

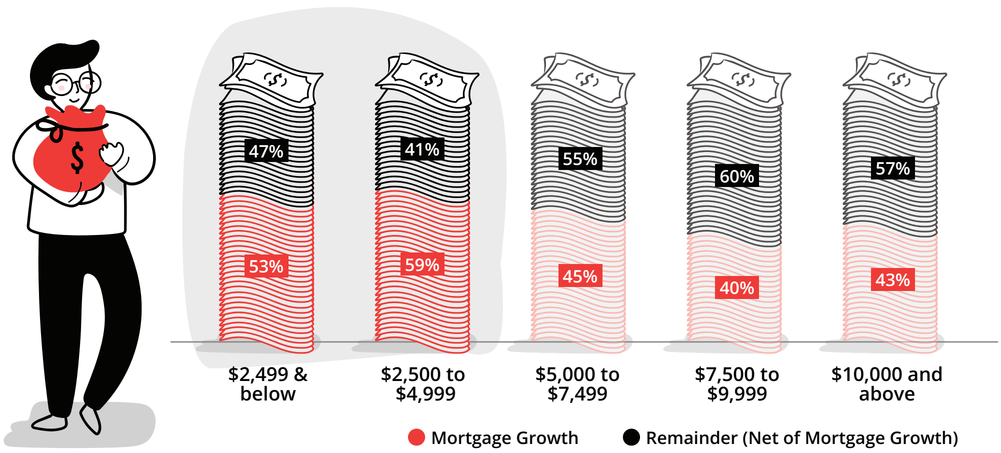



*Note: Dotted line represents median customer. Source: DBS Bank*

> *Higher mortgage payments have a greater impact on low-income customers.*

**However, customers earning below $5,000 are allocating a bigger portion of their income growth to repay higher mortgage payment.** While the actual impact of rising mortgages may be mitigated by a dual-household income and having a portion of mortgage payable through CPF, some concerns remain. These customers are still left with lesser (i.e., less than half) of their income growth to enjoy, given the higher incremental mortgage payment (due to higher interest rates) relative to their income growth.

**Figure 23: Percentage of income growth allocated to mortgage increases**




*Note: Remainder calculated by subtracting S$ increase in median mortgage from S$ increase in median income. Sample based on customers' income banding as of May-22 to better reflect mortgage growth and income growth/mobility over the period. Source: DBS Bank*

Potential stresses could emerge if income growth moderates going forward, and interest rates continue to remain high. The support from higher income growth to customers' mortgage servicing ability may fade if the economic outlook deteriorates. Some customers may have to dig deeper into their wallets when servicing their mortgages should income growth wane.

**Watch for further impact as higher rates linger.** Customers earning below $5,000 may be hit when mortgages eventually get repriced/refinanced on higher interest rates, with more than half of these customers having loans under floating rates. To this end, DBS Bank has introduced several measures[12] to help those earning below $2,500 and is looking to roll out more plans to provide targeted assistance to customers in need – especially if rates stay higher for longer.

**Table 1: Percentage of customers with loans under floating rates, as of May-23**

| By income group | $2,499 & below | $2,500 to $4,999 | $5,000 to $7,499 | $7,500 to $9,999 | $10,000 & above | Overall |
|---|---|---|---|---|---|---|
| % of floating loans | 60% | 50% | 45% | 48% | 52% | 50% |

*Note: % refers to the number of floating loans over total loans for each customer segment. DBS mortgage data refers to customers who have private mortgage loans with DBS, which may not be representative for all of DBS customers. There may be some HDB loans, although at small numbers. Source: DBS Bank*

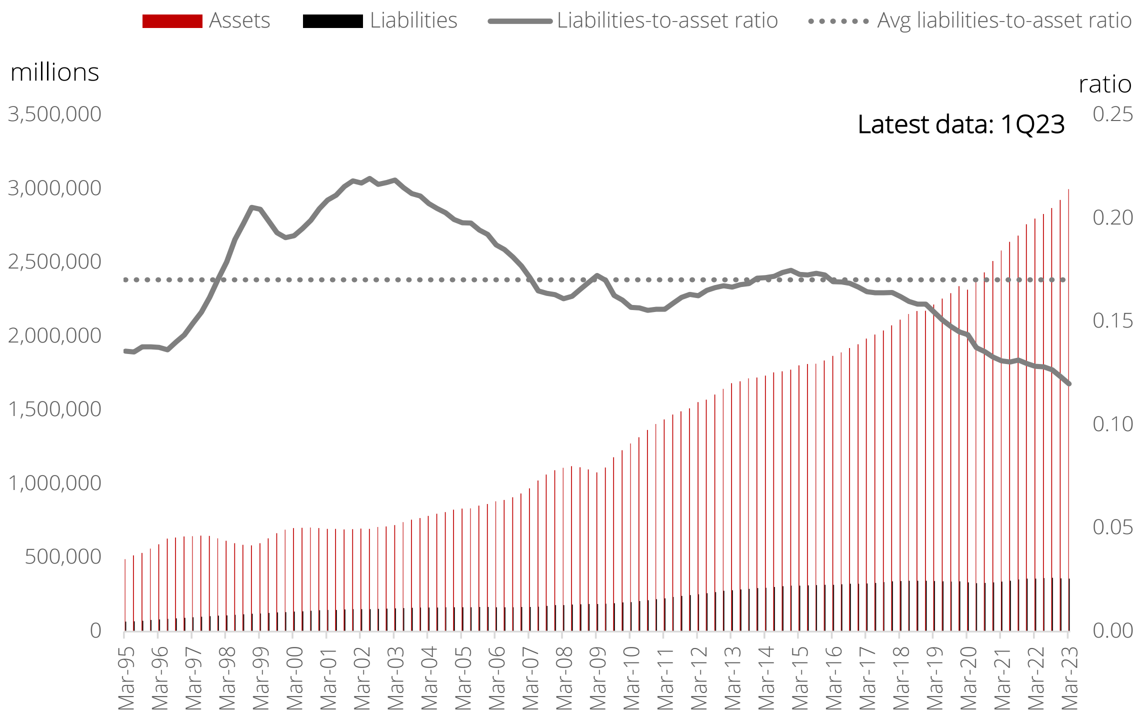
*Customers earning below $5,000 may be hit when mortgages eventually get repriced/ refinanced on higher interest rates, with more than half of these customers having loans under floating rates.*

[12] DBS Bank offers a 3-Year Lock-in CPF Home Rate + 0.1% per annum loan package for those earning $2,500 and below. Refer to DBS Website for more information.

# Watch for impact on household balance sheet

**Household balance sheet, generally, remains healthy.** As at 1Q23, according to Singstat data, household liabilities-to-assets ratios remain healthy at 0.12x, below historical averages of 0.17x. Our findings are consistent with Singstat's data, wherein we have observed that the average DBS customer's assets (savings, investments) and liabilities (credit cards, mortgages) remain healthy.

**Figure 24: Singapore household assets versus liabilities**




*Note: Data based on Household Sector Balance Sheet, as at 1Q23. Source: Department of Statistics, DBS Bank*

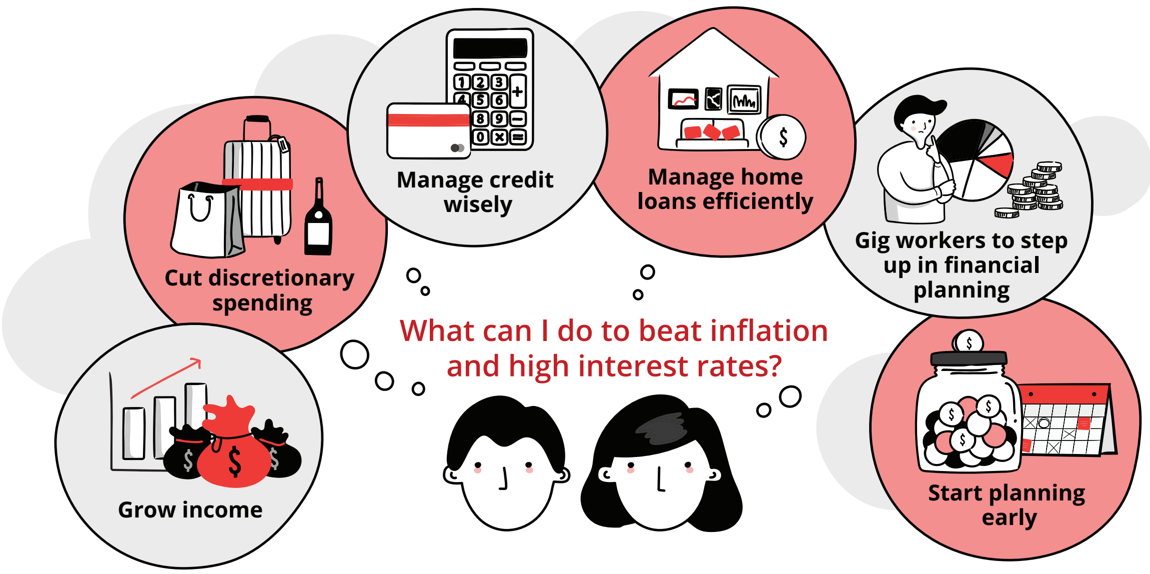
**However, vulnerable groups should keep watch.** Groups such as Boomers, gig workers, and low-income earners should remain vigilant of their balance sheets, as seen from the increase in expense-to-income ratios and lower savings (less than the recommended range of 3 to 6 months' worth of expenses). Furthermore, as highlighted in above sections, these groups should also be mindful of mortgage payments and their exposure to floating rate mortgages for potential refinancing risks.

# Strategies to manage household balance sheet health

In an economic climate of persistent high inflation and rising expenditures, we need to keep a tighter rein on our income and spending, and be on a constant lookout for ways to work our money harder.

In 2022, the DBS Foundation set up a Community Impact chapter, to equip the underserved and the vulnerable with digital and financial literacy skills. We will be doing more in this area.

Here are several key tips to boost financial resilience for everyone, especially vulnerable groups like low-income earners and gig workers:




### 1. Grow income

- Upskill your capabilities by taking advantage of your SkillsFuture credits and continue to stay relevant and employable. Look beyond your comfort zone and consider job opportunities in other sectors.

- Eligible individuals can take advantage of government support schemes like Workfare Income Supplement (WIS) that empower workers to uplift their lives. WIS considers the worker's age, employment status (employee or self-employed), and income when determining the disbursement amount.

- Side hustles can boost your income streams too. Try putting your baking skills to use by selling some of your home-baked cookies. If you are proficient in English, Chinese, and/or Mathematics, giving tuition in the evenings or during weekends can be a lucrative source of income. Love to create videos? You can sign up on freelancer platforms to earn some money and gain some job experience.

- Retirees are realising that working part-time helps to keep them mentally stimulated and connected to the community which enhances their general well-being. And the extra income helps to boost their nest egg so it can last longer to counter longevity and inflation risks.

- If you have saved up at least 3 to 6 months' worth of monthly expenses as emergency cash, make your money work harder via higher yielding accounts and suitable investments that are aligned to your financial situation, risk profile and time horizon.

- With an inflation rate of 5% to 6% in Singapore, not taking any investment risk is a risk as your purchasing power will erode with idle cash. With rising interest rates, this is an opportune time for new investors to embark on their investing journey by dipping their toes in low-risk products that can offer decent yields.

- Backed by the Singapore Government, Singapore Government Securities (SGS), Singapore Savings Bonds and T-bills are examples of extremely low risk investment vehicles that offer good yields. As such, they are popular among beginners and investors as a means to diversify their portfolios.

- However, while they can form part of the fixed income allocation of your investment portfolio, do note that the steady returns from these instruments are unlikely to help you stay ahead of high inflation, nor offer compounding benefits.

- To grow your wealth in the long-term, build a diversified mix of assets that includes equities, and reap the benefits of compounding. Invest in yourself by upgrading your financial knowledge on how investments and insurance work and set up a comprehensive plan.

**2. Cut discretionary spending**

With inflation eroding our purchasing power, we need to track our cashflows more diligently and reduce discretionary spend. While the DBS report showed that expense-to-income ratio has decreased for median customers compared to a year ago, we need to be mindful of lingering inflation and that income may not increase at the same rate in the coming year. Boomers and low-income customers are also seeing worsening wallet bandwidth, highlighting the need to reduce discretionary expenses.

Going back to the basics of tracking your expenses and setting up a monthly budget can help rein in excess discretionary spending, and offer clarity on your money leaks. Use the "Plan" tab in DBS digibank to help you set up a budget and track your spending categories. Here are 4 ways to keep expenses manageable:

- Reduce frequency of eating out and cutting usage of meal delivery services (prices of food are often marked up compared to ordering in-store).
- Unsubscribe from memberships that you no longer use (Netflix, gym, online software).
- Travelling has become more expensive due to rising fuel prices and inflation so look for cheaper alternatives, such as budget flights and travelling during non-peak periods. Compare prices of air tickets and hotel rooms before making a purchase and take advantage of discounts via credit cards and deals platforms.
- Have a habit of shopping around for cost-effective options. You can even make it a family challenge!

### 3. Manage credit wisely

- Although credit card usage has increased, the good news is that most customers are aware of the high interest chargeable on late credit card bill payments.

- Credit cards offer attractive benefits such as earning cashback, miles, rewards, and discounts on selected retailers. Make the best use by selecting credit cards that are aligned with your lifestyle spending and ensure that you keep expenses in check by setting a suitable credit limit. Most importantly, always pay your monthly bills in full and before the due date, to avoid hefty penalties.

- Buy-Now-Pay-Later (BNPL) schemes have gained gaining popularity among consumers, but there are pros and cons. They can be useful in the event you need to buy an expensive item immediately but want to reduce the amount of expenditure or credit for a period of time. For the younger generation who do not have substantial savings, using BNPL schemes can enable them to make necessary big-ticket purchases such as laptops without the need for a credit card.

- However, they may also give a false sense of financial security. By turning a large expense into something more "affordable" as the payments are stretched over time, it may result in impulsive buying and overspending. Furthermore, it becomes harder for you to track your exact expenses as well, resulting in potentially mismanaging your budget and finances. If late payments are incurred, additional charges will be imposed adding to the outstanding debt.

- Generally, BNPL plans are probably not a good idea for those who are often low in cash. Ultimately, affordability is key. Do ensure that the purchase is within your budget and that you will be able to repay them. Remember that paying your purchases in smaller amounts over time does not work for everyone. It will be more prudent to save harder and make these purchases later with money you already have.

- Loans or purchases funded by credit can accumulate through interest charges and fees, becoming a constant source of distress. If you find that your debts are spiralling out of control, you may want to consider the Debt Consolidation Plan (DCP) offered by banks or the Debt Management Programme (DMP) from Credit Counselling Singapore.

**4. Manage home loans efficiently**

Rising mortgage rates have made headlines since last year, with interest rates on home loans doubling within the year. Homeowners who did not manage to lock in rates before the rise may be grappling with a larger monthly home loan repayment.

As mortgage payments are likely to make up about a third or more of household expenses, borrowers need to keep an eye on their repayments and take steps to actively manage their mortgage. Here are 4 tips to manage your mortgage:

- **Delay making property purchases**
    - New homeowners will be hit by the double whammy of rising property prices and high mortgage rates. If possible, delay the purchase until rates are lower. Alternatively, consider making a bigger down payment to reduce the home loan amount. For those who are planning to buy investment properties, the recent announcement on higher ABSD would substantially increase the investment cost.
    - If buying an HDB flat is a priority, POSB is supporting home buyers and existing HDB owners earning less than S$2,500 per month with an exclusive HDB home loan rate package at 2.60% p.a. This rate is the same as the HDB home loan rate.

- **Tapping into CPF funds**
    - To help finance your monthly mortgage payment, consider utilising your CPF Ordinary Account (OA) savings temporarily instead of cash, if you are in a tight cashflow situation.
    - Once your financial health improves, consider switching back to using cash to fund your instalments, unless your investments can generate returns in excess of the risk-free 2.5% pa return from CPF OA. At all times, ensure that your OA savings can provide a buffer of monthly mortgage loan instalments for at least 12 months, in case of you lose your job.
- **Refinance or reprice your home loan**
    - If your current home loan is out of the lock-in period, look out for refinancing/repricing opportunities that can offer you a better rate than what you are paying for. If you have a large amount of idle cash, consider making partial repayments to your mortgage.
- **Synergise your banking products**
    - Look for accounts/products that give you a better overall deal in your banking relationships. For instance, you stand to earn higher interest with the DBS Multiplier account if you credit your salary, have a home loan, and invest with DBS.
    - Similarly, you stand to receive up to S$700 cash bonus when you save with POSB Save As You Earn (SAYE) account, take up a POSB home loan, and protect yourself by taking up a mortgage insurance plan with us.

**5. Gig workers to step up in financial planning**

- Our report has found that gig workers are the most financially stretched, with an expense-to-income ratio of 112% in May 2023. This is significantly higher than that of the median customer. In addition, the gig workers' savings of just 1.7 months' worth of expenses are deemed too low.

- Faced with the uncertain economic climate that may increase the volatility of their income, gig workers would need to work harder to ensure that their financial cushion can support them through tough times. For instance, gig workers should aim to set aside at least 12 months' worth of monthly expenses as savings.

- Come 2024, CPF contributions will be mandatory for younger gig workers aged 30 and below, while older workers will be given the choice to opt in. But why wait till then? All gig workers should consider contributing to their CPF, so that they can leverage the attractive interest in the long term.

- Gig workers are encouraged to optimise their CPF savings by transferring their OA savings to the Special Account (SA) to earn higher interest rates of up to 5% pa. When doing so, adopt a long-term view as such transfers are irreversible. Other avenues include investing your OA savings wisely, and performing cash top-ups to the SA to reap the power of compounding over time.

- Platform workers may be more susceptible to injuries during work. Check that the company provides insurance that covers accidents and injuries while working. If not, consider some coverage that can provide financial relief during times when they are unable to work. This includes hospitalisation, critical illness, and personal accident plans.

- If you have a limited budget, DBS has an insurance starter plan ProtectFirst that helps young Singaporeans kickstart their protection journey affordably at a lower premium. It offers varied coverage for critical illnesses (including early stage), life protection and serious accidents. Do review your protection needs regularly in view of changing lifestyle and life-stage needs to ensure adequate coverage.

**6. Start planning early**

Make time your ally by planning early for your financial well-being to take advantage of the longer runway for savings and investments to grow and compound. A key aspect is optimising the CPF nest egg, especially for the vulnerable groups who have limited savings.

Your CPF feature in DBS digibank app gives users a clearer picture of their future CPF savings against the projected CPF Retirement Sums for their age cohort. Coupled with your personalised consolidated financial information from SGFinDex (banks, insurers, CPF, HDB, IRAS, CDP), the Your CPF tool can harness the information and show whether you are on track. It will also offer customised insights for you to take the necessary steps to close the money gaps.

If you are not on track to meet your financial goals, you can make better informed decisions such as getting a smaller home, boosting income, and reducing unnecessary spend. Use the "Plan" tab in DBS digibank to set up a customised robust and comprehensive financial plan.

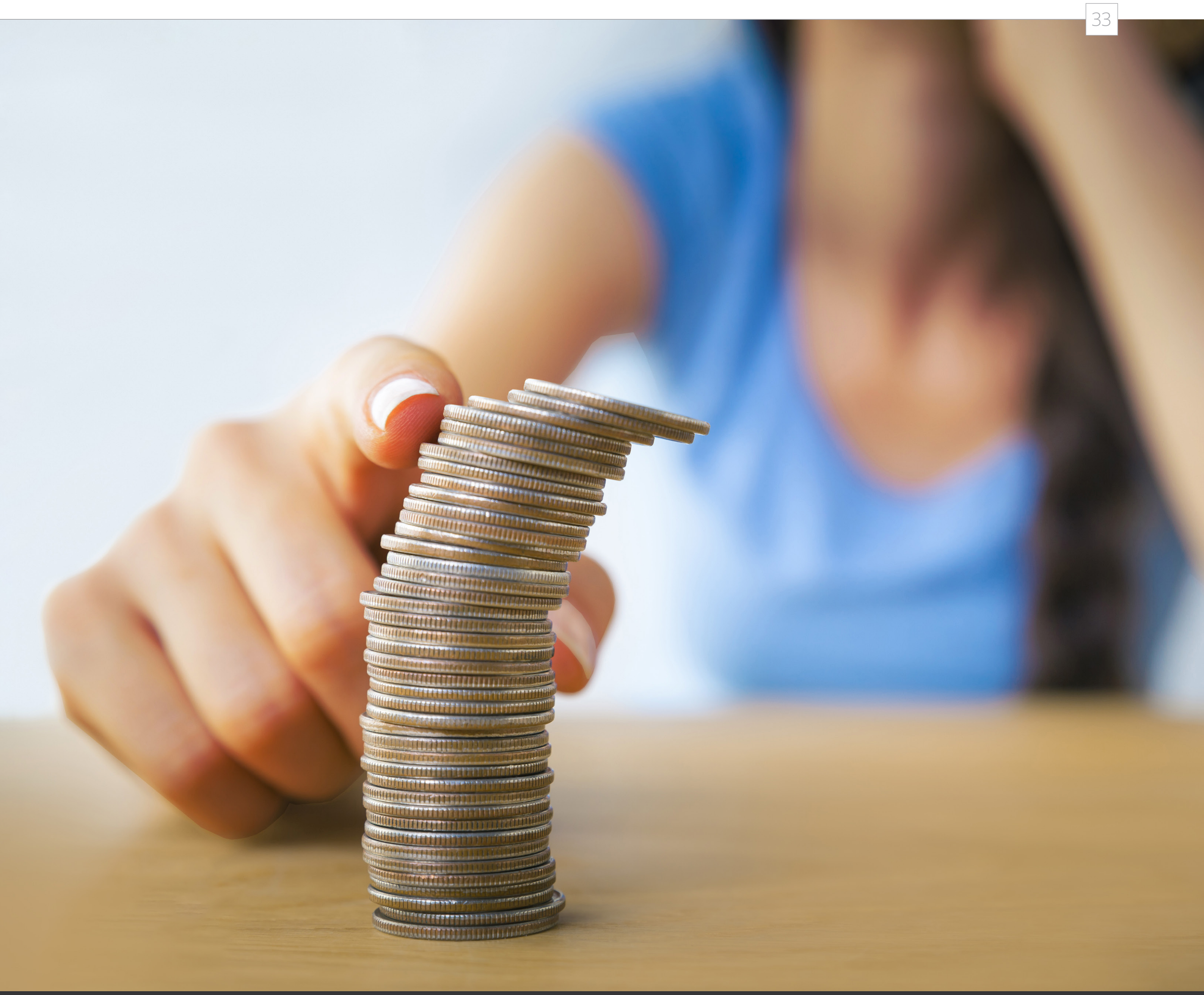
> *Use the "Plan" tab in DBS digibank to set up a customised robust and comprehensive financial plan.*

# Conclusion

**High inflation and interest rates have made the notion of prudent and sustainable financial planning even more important.** Though economic recovery from the COVID-19 crisis has improved the overall financial wellness of people, elevated inflation and high interest rates have posed new challenges to the financial wellness of certain segments of society. Beyond eroding purchasing power, the impact of high interest rates on financial obligations was felt by these vulnerable groups.

Though the financial wellness of most people remained stable, economic momentum is once again waning, which could weigh on income growth. At the same time, inflation could remain sticky in the medium term, while interest rates may stay higher for longer. Such a challenging economic outlook will likely exert even more pressure on those with weaker financial bandwidth. **Beyond fiscal policy support, vulnerable groups would have to exercise prudent and sustainable financial planning to avoid being stuck between a rock and a hard place.**

> *Exercise prudent and sustainable financial planning to avoid being stuck between a rock and a hard place.*



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