Economics & Strategy

DBS Focus

Singapore Budget 2019: Helping the "newly vulnerable"

Group Research

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Irvin Seah
Senior Economist

Please direct distribution queries to
Violet Lee +65 68785281
violetleeyh@dbs.com

- *Budget 2019 is coming at a time when growth momentum is slowing and could potentially weigh on the labour market in the coming quarters*
- *Additionally, several structural changes and medium-term concerns are in the pipeline*
- *Some budgetary provisions to alleviate the uncertainties faced by skilled professionals could be expected, as this segment is becoming the "newly vulnerable" group*
- *Mitigating against the challenges of an aging population and the need to manage healthcare costs will be another focus of the budget*
- *Beyond that, the budget will continue to aim at preparing Singaporeans for the future via upgrading of skills, investing into education and healthcare, and strengthening the social safety net.*
- *This is the first of a three-part series on the Singapore Budget 2019*

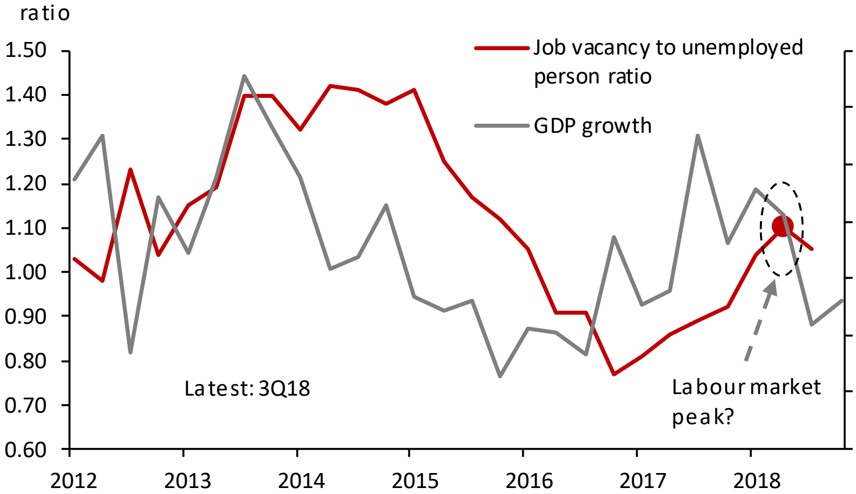
Budget 2019

Finance Minister Heng Swee Keat will be announcing Budget 2019 on 18 February.

Labour market may have peaked

GDP growth momentum started slowing down towards the end of 2018. The trade war, weaker external demand, and tighter liquidity conditions have all weighed down

Labour market may have peaked



Source: Ministry of Manpower

on growth impetus. In some ways, this turning of cycle seems to be manifested in the labour market as well.

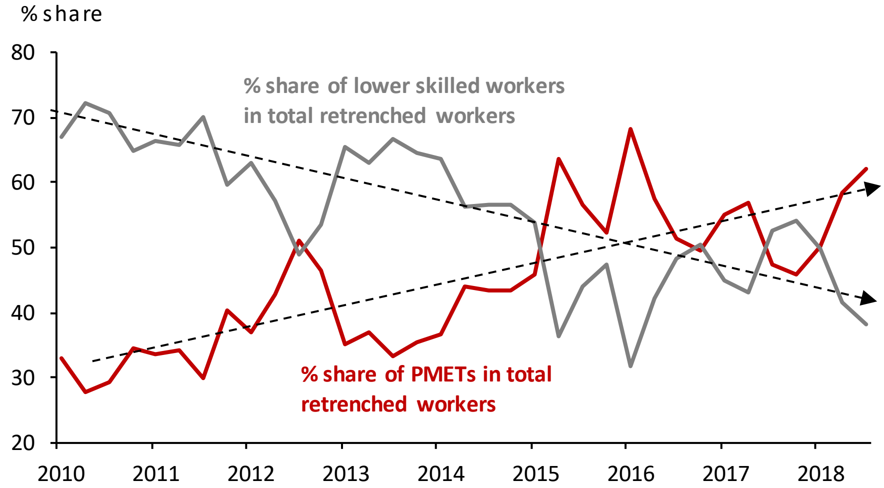
Although employment growth has been brisk, with retrenchment falling for most of 2018, the job vacancy to unemployed person ratio appears to have peaked. The ratio dipped in 3Q18, the first decline in more than two years. This implies that there are now less job vacancies for one unemployed person compared to the previous quarter. While the ratio continues to remain above parity (i.e. more job vacancies than number of unemployed person), further downward shift in this series could suggest a softer employment outlook. Moreover, the series tend to lag the GDP growth cycle. With growth already easing in 2H18, labour market could potentially follow suit in subsequent quarters.

Focus on PMETs

PMETs are relatively more vulnerable to job losses

Amid a subdued employment outlook, one segment of the labour force looks exceptionally vulnerable. **For the past nine years, the percentage share of Professional, Managers, Engineers and Technicians (PMETs) amongst all retrenched workers has been rising.** In fact, the share of PMETs amongst retrenched workers has now surpassed that for lower skilled workers. This may suggest that this segment of the labour force is increasingly facing more difficulties in maintaining their employability. This seems to defy conventional wisdom that being better skilled, the PMETs would be relatively more employable. The data is now suggesting otherwise.

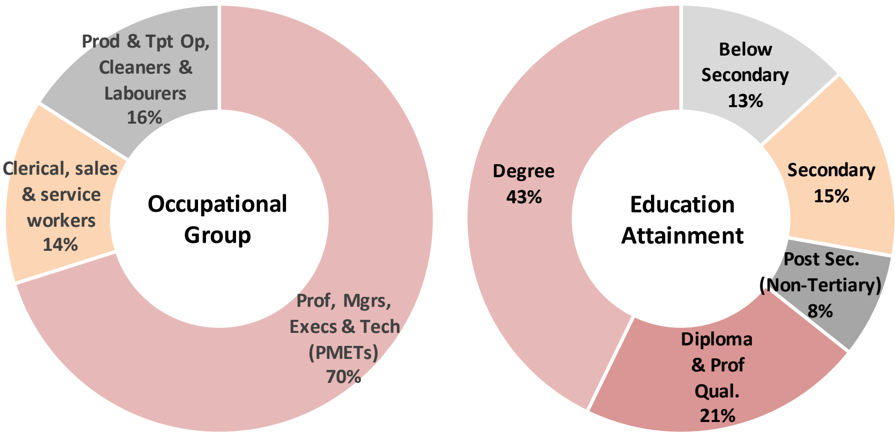
Rising share of PMETs amongst retrenched workers - A disconcerting trend



Source: Ministry of Manpower

The situation is more acute for resident (Singaporeans and PRs) PMETs. The percentage share of resident PMETs amongst total retrenched residents is as high as 70% in 3Q18 (see chart next page). This is far more than the share of resident PMETs (56%) in the total resident employment. Additionally, degree holders account for the largest segment (43%) amongst those who were retrenched in that quarter. Though this is just a snap-shot of one quarter, similar phenomenon was evident in past quarters as well [1].

Retrenchments by occupation and by education profile, 3Q18



Re-employment rate for PMETs is also lower

Re-entry rate of retrenched residents (6 months post retrenchment)		
	2Q18	**3Q18**
Total	64.3	61.7
Occupational Group		
Prof, Mgrs, Execs & Tech (PMETs)	**59.1**	**59.7**
Clerical, sales & service workers	70.4	67.1
Prod & Tpt Op, Cleaners & Labourers	80.2	67.9
Education Attainment		
Below Secondary	72.4	63.5
Secondary	73.9	62.6
Post Secondary (Non-Tertiary)	64.0	64.8
Diploma & Professional Qualification	62.6	64.7
Degree	**59.9**	**60.1**

Source: Ministry of Manpower

Beyond accounting for a relatively higher percentage of the retrenched workers, resident PMETs also face relatively greater difficulties getting back into the workforce. The re-entry rate for PMETs and degree holders have persistently been much lower than the other segments of the workforce and the national average. This is despite their better qualification and higher skill-sets. Considering the significant amount of resources put into education and emphasis on skills upgrading, this emerging trend is disconcerting.

The need for more policy support and recalibration

More support for PMETs is required

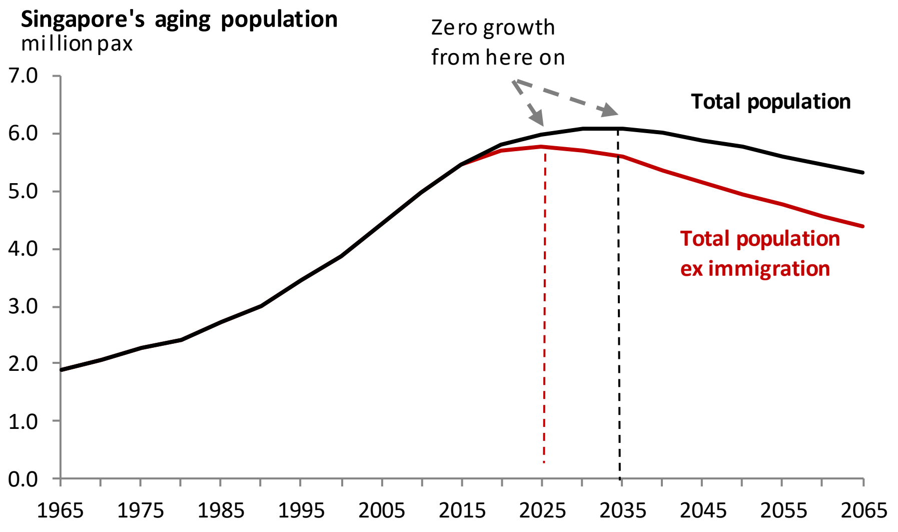
Given the rising vulnerability of the PMETs, we expect more forceful policy measures to tackle this emerging concern in the upcoming budget. Expect further enhancement to schemes such as the Professional Conversion Programme (PCP) and the Adapt and Grow initiative. The level of wage support could be increased. More training grants to upgrade skills, and additional resources directed at job matching could also be announced. Beyond that, a temporary deferment or extension of their income tax payment, or a one-off tax rebate for these retrenched professionals could help in alleviating their cost burden

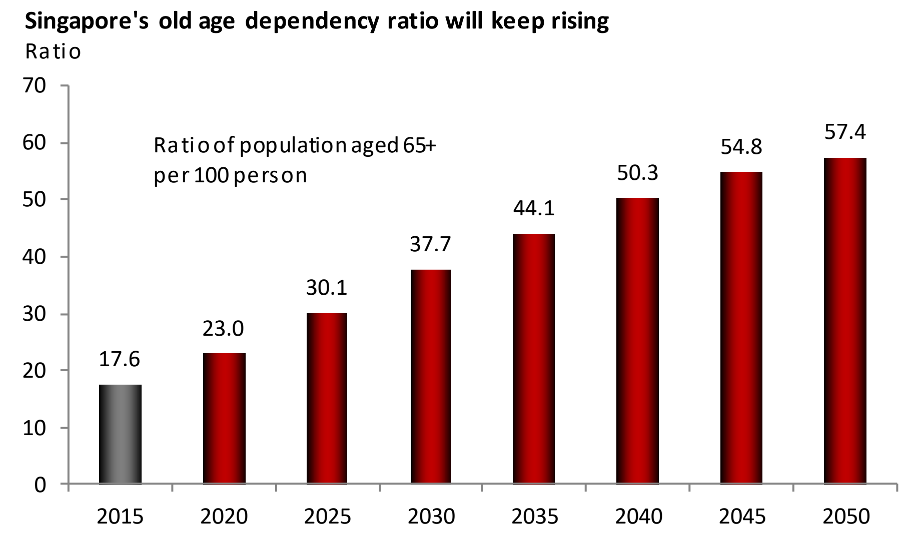
Beside enhancing some of the existing schemes targeted at the PMETs, **there could be a review on existing guidelines pertaining to skilled foreign workers.** Unlike the tightening for the lower skilled work permit holders in previous years, whereby a two-prong approach of levy hikes and reduction in the foreign worker DRCs (Dependency Ratio Ceilings), regulations on the employment pass (EP) segment mainly revolve around the minimum salary requirement (SGD 3,600) and guidelines under the Fair Consideration Framework (FCF) [2]. Given the above, upward adjustment in the minimum salary requirement for EPs and/or tighter requirement beyond the Job Bank could be considered. However, such policy adjustment could also be announced after the budget.

Tackling concerns of an aging population

The population is aging. Singapore's population will start to shrink from 2025 onwards, if without the aid of immigration. Even with some immigration, it will at best push the timeline back by about 10 years. With low birth rates, longer life expectancy due to better medical care, Singapore's old age dependency ratio is set to rise. This implies higher financial burden and healthcare cost for Singaporeans and the government going forward.

Aging population implies persistent rise in healthcare costs





Source: World Bank and DBS estimates

A slew of policy measures has been put in place in recent years to prepare the nation for the impending challenges of an aging population. Health subsidies, universal insurance programmes (e.g., Medishield Life), enhancement to the CPF system, and many more were systematically introduced. We believe such efforts will continue in the upcoming budget, with more specific focus on managing healthcare costs.

While overall government spending has more than doubled within a decade (from SGD 30bn to SGD 70bn between 2007 and 2018), healthcare spending has increased at an even faster pace of about 4 times - from about SGD 2bn (2.8% of nominal GDP) to about SGD 8bn (7.6% of nominal GDP). Upward pressure on health spending, as well as other forms of social spending, will only continue to escalate unless measures are put in place to manage that. Beside subsidies and insurance coverage, there could even be a need to introduce health-related tax (e.g., Sugar Tax) to encourage public health consciousness. Singapore has one of the highest incidences of diabetes among developed countries, second only to the United States [3].

Preparing Singaporeans for the future

Healthcare, education and strengthening of the safety net will remain in focus

Beyond helping the PMETs and mitigating against challenges such as rising healthcare costs, policymakers will continue to focus on preparing Singaporeans for the future. For example, disruptive technologies could potentially make many jobs redundant. Hence, there is a need to continue to invest in education and skills upgrading. Periodic reviews and updates are also crucial to ensure relevance of the existing education and training schemes. Efforts directed at strengthening the social safety net and public support measures will also be featured in the budget given an increasingly difficult economic climate.

Overall, we expect the upcoming budget to stay focused on addressing longer term structural issues despite the rising economic risk in the external environment. Nonetheless, with the surpluses accrued in the past budgets, the government is in a good position to roll out strong counter-cyclical fiscal stimulus should economic conditions warrant that.

Notes:

[1] Kindly refer to past issues of the Ministry of Manpower Labour Market Report.

[2] The Fair Consideration Framework (FCF) is part of the Government's overall effort to strengthen the Singaporean core in the workforce. It sets out clear expectations for companies to consider Singaporeans fairly for job opportunities. Companies are required to advertise the job opening on the Jobs Bank before submitting an Employment Pass application.

[3] One in nine Singaporeans has diabetes (11%)

Group Research

Economics & Strategy

Taimur Baig, Ph.D.
Chief Economist - G3 & Asia
+65 6878-9548 taimurbaig@dbs.com

Nathan Chow
Strategist - China & Hong Kong
+852 3668-5693 nathanchow@dbs.com

Masyita Crystallin
Economist – Indonesia & Philippines
masyita@dbs.com

Joanne Goh
Regional equity strategist
+65 6878-5233 joannegohsc@dbs.com

Neel Gopalakrishnan
Credit Strategist
+65 68782072 neelg@dbs.com

Eugene Leow
Rates Strategist - G3 & Asia
+65 6878-2842 eugeneleow@dbs.com

Chris Leung
Economist - China & Hong Kong
+852 3668-5694 chrisleung@dbs.com

Ma Tieying
Economist - Japan, South Korea, & Taiwan
+65 6878-2408 matieying@dbs.com

Radhika Rao
Economist – Eurozone, India, & Thailand
+65 6878-5282 radhikarao@dbs.com

Irvin Seah
Economist - Singapore, Malaysia, & Vietnam
+65 6878-6727 irvinseah@dbs.com

Samuel Tse
Economist - China & Hong Kong
+852 3668-5694 samueltse@dbs.com

Duncan Tan
FX and Rates Strategist - Asean
+65 6878-2140 duncantan@dbs.com

Philip Wee
FX Strategist - G3 & Asia
+65 6878-4033 philipwee@dbs.com

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