Economics & Strategy

Singapore Budget 2019: Deepening enterprise capabilities, strengthening social support

Group Research

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- *While facing external headwinds, the government has continued to focus on strengthening Singapore's security, enhancing economic transformation, and fostering an inclusive society*
- *Policy measures pertaining to economic transformation are focused on deepening enterprise capabilities*
- *In addition to a few new measures, policymakers have opted to "double-down" on existing schemes and worked on enhancing the effectiveness of these schemes*
- *A generous social support package was announced to strengthen the safety net and to mitigate the challenges of an aging population*
- *The Merdeka Generation Package (SGD 6.1bn), the Bicentennial Bonus (SGD 1.1bn) and the Long-Term Care Support Fund (SGD 5.1bn) are some of such measures*
- *Overall fiscal balance for FY19 is projected to record a deficit of SGD 3.5bn (0.7% of GDP), from a surplus of SGD 2.1bn (0.4%) in FY18*
- *Fiscal prudence is preserved despite an expansionary budget, considering the robust accumulated surpluses*

Budget 2019

Budget 2019 was announced amidst a challenging economic climate, and uncertain global geopolitics. While facing external headwinds, the government has continued to focus on strengthening Singapore's security, enhancing economic transformation, and fostering an inclusive society.

Doubling down on economic transformation

Policy measures pertaining to economic transformation are focused on deepening enterprise capabilities. Besides the Scale-up SG, SME Co-Investment Fund III and the Innovation Agent programmes, which are new initiatives to help start-ups and younger companies, **policymakers have opted to "double-down" on existing schemes and worked on enhancing the effectiveness of these schemes**, which is in line with our expectations [1].

For example, past policy measures such as the Enterprise Development grant (EDG), the Productivity Solution Grant (PSG), the Working Capital Loan, and the Automation Support Package have been extended. The previously announced SME Go Digital programme has also been expanded in scope to spur broader adoption of digital technologies by SMEs. In terms of enhancing policy effectiveness, the Enterprise Financial Scheme (EFS) will be streamlined and consequently include the SME Working

Capital Loan to pack more punch in providing financial support for SMEs across the various stages of their growth. In addition, the government will also increase its share of the risk to 70%, up from 50% for schemes under the EFS. **Increasing the government's share of the risk will encourage Participating Financial Institutions (PFIs) to loan to smaller companies with relatively weaker financial standings instead of favoring bigger corporates**.

Persevering with economic transformation

Indeed, smaller companies typically require more help. And in the current age of technological advancement, innovation matters more than just sheer size of the organisation. Moreover, against the backdrop of an aging population and risk of losing our appeal to MNCs, many **SMEs could potentially become global champions and serve as the drivers for the Singapore economy if given appropriate support today.**

Changes to services sector DRC and S Pass sub-DRC

	DRC for WP holders	S Pass sub-DRC
Now	40%	15%
From 1 Jan 2020	38%	13%
From 1 Jan 2021	35%	10%

Perhaps the only surprise came from the tightening in foreign manpower in the services sector. The foreign worker dependency ratio ceiling (DRCs) for the services sector will be reduced from 2020 to 2021 in a staggered manner. The aim is to encourage businesses to leverage on technologies and to reduce their reliance on foreign workers. **Compared to the previous rounds of tightening, the announced policy move is comparatively mild**. In addition to the absence of levy hike, companies are also given more time to adjust. Moreover, there is a whole slew of policy measures to help companies enhance their technologies, redesign jobs and processes, or hire more elderly workers (Special Employment Credit, SEC). These should ultimately help to reduce their need for lower skilled foreign workers.

There are plans to develop a pipeline of global-ready talent for Singapore enterprises looking to internationalise. More support for the trade associations (TACs) will also help in the internationalization efforts. With a better understanding of the various types of businesses and markets, the TACs would be able to leverage on their local contacts and resources to help their members explore overseas markets. **These efforts are especially crucial amid the ongoing trade disputes between China and the US, which will likely spur a reshuffling in global supply chains and investment diversification towards ASEAN**. Singapore companies must be ready to leverage on the resulting opportunities. Beyond that, effective implementation will be just as crucial in determining the policy outcome. Some SMEs are still finding it difficult to apply for many of these assistance schemes. Perhaps this can be achieved by simplifying the documentation requirements in the grant application process.

Strengthening social support

A generous social support package

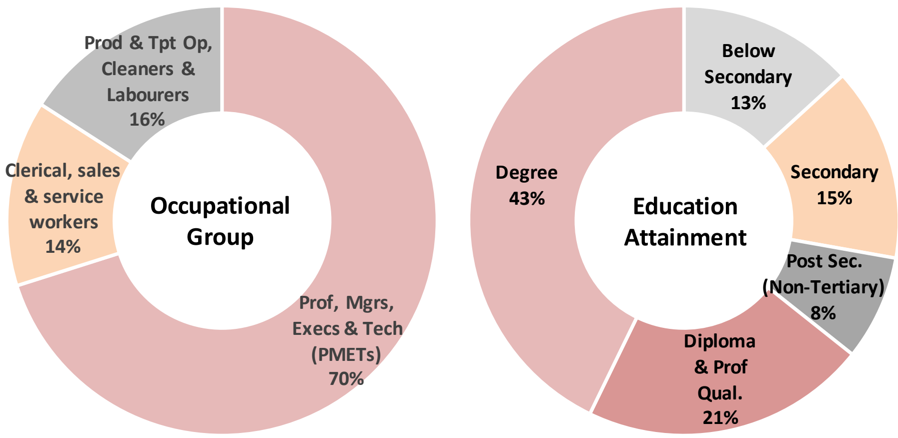
In line with past budgets, Budget 2019 aims to foster an inclusive society. The Merdeka Generation Package (SGD 6.1bn) was announced to offer more healthcare support for those aged between 60-69 in the coming years. The SGD 1.1bn Bicentennial Bonus will help to defray cost of living for the lower income groups. It includes measures such as GST Cash Vouchers, Workfare Bonus, Personal Income tax rebate, top-up to CPF and Edusave accounts. Significant efforts were also made to enhance healthcare support.

The Long-Term Care Support Fund worth $5.1bn was announced to address the healthcare needs of Singaporeans going forward. **Together, these three initiatives account for 80% of the entire Special Transfer package**.

More support for PMETs

And in line with our expectations, retrenched Professional, Managers, Engineers and Technicians (PMETs) will get more help from an extended Career Support Programme, and the expansion of the Professional Conversion Programme (PCP) [2]. Indeed, the PMETs are becoming exceptionally vulnerable. For the past nine years, the percentage share of 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. The situation is even 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. 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.

Retrenchments by occupation and by education profile, 3Q18



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. This seems to defy conventional wisdom that being better skilled, the PMETs would be relatively more employable. **Perhaps more policy focus on this segment of the labour force may be required should the trend persist**.

Building a sustainable city

Measures on enhancing the living environment and fostering inclusivity have also been announced. The new Carbon Tax that would take effect this year could affect the bottom-line of some sectors in the longer term, although this is certainly a sustainable and responsible way forward. The excise duty for diesel will also be by SGD 0.10/litre, to SGD 0.20/litre. This is partially offset by reduction in the Special Tax for diesel vehicles, as well as road tax and cash rebates for commercial vehicles and school bus operators.

There was also extensive discussion on Singapore's infrastructure needs, and more importantly, to fund these long-term projects via borrowing. The government will pursue new investments using a differentiated fiscal strategy, taking one approach for major infrastructure investments, and another for recurrent social and security expenditures. Specifically, for these large and lumpy infrastructure spending, borrowing is deemed a fairer and more efficient approach as the financial burden of these costs will be borne across different generations, likewise for the benefits of these projects. In contrast, **recurring spending should be offset by recurring revenue in order to preserve fiscal sustainability as well as inter-generation equitability**.

Preserving fiscal prudence despite an expansionary budget

Overall budget position for FY18 has turned in a surplus. The FY18 overall fiscal balance registered a surplus of SGD 2.1bn (0.4% of GDP), compared to a budgeted deficit of SGD 600mn. This came on the back of marginally better outcome in both revenue collection and expenditure. A smaller primary deficit of SGD 5.3bn was posted, compared to what was previously assumed in the budget (-SGD 7.3bn).

Fiscal prudence remains intact

Singapore's overall fiscal position

	Revised FY2018	Budgeted FY2019	Change over Revised FY2018	
	SGD bn	SGD bn	SGD bn	% change
Operating revenue	**73.7**	**74.9**	**1.2**	**1.7**
Less:				
Total expenditure	**79.0**	**80.3**	**1.3**	**1.6**
Operating expenditure	58.6	60.8	2.2	3.7
Developmental expenditure	20.4	19.5	-0.9	-4.4
Primary surplus/deficit	**-5.3**	**-5.4**		
Less:				
Special transfers	**9.0**	**15.3**	6.3	70.0
Special transfers excluding top-ups to endownment and trust funds	1.7	1.7		
Basic surplus/deficit	**-7.0**	**-7.1**		
Top-ups to endownment and trust	7.3	13.6		
Add:				
Net investment returns contribution	**16.4**	**17.2**	**0.7**	**4.4**
Overall budget surplus/deficit	**2.1**	**-3.5**		
Overall balance as % of GDP	**0.4**	**0.7**		

For FY19, a marginally wider primary deficit of SGD 5.4bn is projected. Revenue is likely to rise only marginally (+1.7%) on the back of a softer economic outlook. Growth in expenditure is also expected to be modest. With a slight uptick in the assumption on the NIRC (SGD 17.2bn), the government is able to roll out a very generous Special Transfer package worth SGD 15.5bn, an astounding jump of 70% from the previous budget**.** With that, **overall fiscal balance for FY19 is projected to record a deficit of SGD 3.5bn (0.7% of GDP)**.

Despite catering for a wider overall budget deficit, we reckon that the government has remained fairly prudent. This is considering the accumulated surplus of about $14-15bn even after accounting for the projected deficit in FY19. With the accumulated surpluses, policymakers could afford to be slightly more aggressive. **Fiscal prudence is preserved despite an expansionary budget.** Moreover, this also implies that policymakers are in a solid position to roll out counter-cyclical measures should economic conditions warrant that [3].

Notes:

[1] see DBS article, “Singapore Budget 2019: Sustained support for firm level restructuring” dated 29 Jan19

[2] see DBS article, “Singapore Budget 2019: Helping the newly vulnerable”, dated 28 Jan19

[3] see DBS article “Singapore Budget 2019: Room for more expansion”, dated 31 Jan19

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