Macro Note

Singapore Budget 2025 Preview: Expansionary stance

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- Singapore's Budget 2025 will be presented on 18 Feb 2025 (Tue) by Prime Minister and Finance Minister Lawrence Wong. This will likely be the final budget under the current term of government, and takes place ahead of the upcoming General Elections (GE) which must be held by 23 Nov and the country's 60th year of independence on 9 Aug.

- For FY2024, we estimate Singapore's overall fiscal position to turn in a stronger surplus of S$5.0bn or 0.7% of GDP, compared to the S$0.8bn, 0.1% of GDP budgeted earlier. This will provide greater flexibility in FY2025 to cushion lower-income households from the still elevated cost-of-living pressures while adhering to the principle of fiscal prudence under the Balanced Budget Rule (BBR). We expect Budget 2025 to be broadly expansionary and project a modest fiscal deficit of -S$2.7bn, -0.4% of GDP for FY2025.

- In our view, key themes of Budget 2025 could revolve around **(i) cost-of-living and job security measures (ii) strategies to boost fertility (iii) anchoring investments in key areas (AI, finance, green transition) to create good jobs and upskill the workforce and (iv) supporting families through every stage of life broadly following contours of Chapter 4 of the Forward Singapore Report and NDR 2024 announcements.**

Budget 2025 – Likely Expansionary Fiscal Stance Ahead of GE2025

Singapore's Budget 2025 will be presented on 18 Feb 2025 (Tue) by Prime Minister and Finance Minister Lawrence Wong. This will likely be the final budget under the current term of government and takes place ahead of the upcoming General Elections (GE) which must be held by 23 Nov and Singapore will also commemorate her 60th year of independence on 9 Aug 2025.

Based on historical revenue collection patterns and the monthly fiscal year-to-date data (from Apr to Dec 2024, Fig 1), the operating revenue for FY2024 **is likely to be significantly higher than projected during Budget 2024 (on 16 Feb 2024),** driven by stronger **corporate income taxes anchored by a positive outturn in economic growth (CY2024[1]: 4.0%) compared to the MTI's earlier estimate[2] of 1.0-3.0%** while improvement in nominal income growth[3] (2024: 5.8%, 2023: 2.5%) led to **larger personal income tax receipts.** The strong growth in **Goods and Services Tax (GST) receipts** are partly driven by the 1%-ppt increase in the GST to 9% on 1 Jan 2024.

Likewise, based on historical spending patterns and quarterly fiscal year-to-date expenditure data (from Apr to Sep 2024, Fig 2), **total expenditure could come in higher for FY2024,** with possible overshoots in National Development, Transport,

[1]CY: Calendar Year
[2] See 3Q23 Economic Survey of Singapore Press Release
[3] See Labour Force in Singapore 2024 Release

Right By You

Home Affairs, Defence but partially offset by potential undershoots in spending under Social and Family Development, Sustainability & the Environment and Manpower. On balance, we estimate Singapore's overall fiscal position for FY2024 to turn in a stronger surplus of S$5.0bn, or 0.7% of GDP, compared to the S$0.8bn, 0.1% of GDP estimated in the FY2024 Budget. Furthermore, the fiscal deficit for FY2023 could be narrowed slightly to the tune of -S$2.9bn, -0.4% of GDP from the previous projection of -S$3.6bn, -0.5% of GDP. These will **provide more fiscal space in FY2025 to cushion lower-income households from the heightened cost-of-living pressures while adhering to the principle of fiscal prudence as underpinned by the Balanced Budget Rule (BBR).**

With a stronger fiscal position, we thus expect Budget 2025 to be broadly expansionary and project a modest fiscal deficit of -S$2.7bn, -0.4% of GDP in FY2025. In our revenue assumptions, we expect a moderation in the growth rate for corporate and personal income tax collections, in-line with the projected softening in nominal GDP growth driven both by a lower real GDP growth forecast of 2.5% in CY2025 (CY2024: 4.0%) as well as a normalization in the pace of general price increases. We expect nominal wage growth to soften in 2025 in tandem with a cooling (but still tight) labour market where firms' intention to raise wages according to MOM's latest polls[4] was a tad lower at 31.6% for 4Q24 compared to the same period a year ago (4Q23: 32.6%).

However, the softening of corporate income tax growth is likely to be cushioned by the implementation of both the Income Inclusion Rule (IIR) and the Domestic Top-up Tax (DTT) under Pillar Two of BEPS 2.0 which will take effect for businesses' financial years starting on or after 1 Jan 2025 (see Appendix for the details on the mechanics). The y/y growth in GST collections is likely to slow considerably from the near 20% increases seen in FY2023 and FY2024 which was driven by the two successive 1%-ppt GST hikes on 1 Jan 2023 and 1 Jan 2024, respectively. Stamp duty collections could remain resilient as private property transaction volumes has likely bottomed out, with tailwinds from the ongoing easing of interest rates by the Federal Reserve and its consequent passthrough to domestic SG SORA rates, albeit with a lower sensitivity. The increase of COE supply[5] should bode well for Vehicle Quota Premiums especially if accompanied by robust demand for motor vehicles.

On expenditure & top-ups to endowment and trust funds, healthcare-related expenses are likely to rise materially over the long-term driven by higher spending requirements (e.g. subsidies associated with the enhancement in the MediShield Life scheme[6] announced in Oct 2024) owing to an ageing population, with 1 in 4 citizens projected[7] to be aged 65 or above by 2030 (from around 1 in 5 presently).

In the occasional Paper on Medium-Term Fiscal Projections published by the MOF in 2023, the government expects healthcare expenditure to increase to around 2.9-3.5% of GDP in the FY2026-2030 period compared to 2.3% in FY2016-2020 and 2.9% in FY2021-2025.

While Singapore's defence spending has been on a general downtrend as a share of nominal GDP, in line with the trends seen in OECD member countries (see World

[4] See 4Q24 Labour Market Advance Release
[5] Straits Times (30 Oct 2024): Up to 20,000 additional COE will be injected across the five vehicle categories over the next few years from Feb 2025 and LTA may consider further injections of COEs to the vehicle population in the future as (i) post COVID-19 pandemic, there has been lower traffic demand and congestion in the CBD areas and (ii) the implementation of ERP 2.0 and switch to distance-based charging allows authorities to regulate vehicle usage and manage traffic congestion more responsively
[6] MOH To help Singaporeans manage the premium increases, the Government will provide an additional $4.1 billion in support measures, comprising $3.4 billion in MediSave top-ups and $0.7 billion in premium subsidies for the next three years.
[7] National Population and Talent Division The proportion of citizens aged 65 and above increased from 12.4 per cent in 2014 to 19.9 per cent in 2024. By 2030, around 1 in 4 citizens (24.1 per cent) will be aged 65 and above.

Bank data), the share is likely to stabilize in the years ahead given the rising need to bolster defence capabilities and uphold deterrence in an environment of heightened geopolitical tensions and cybersecurity threats.

Fig 1: Summary Of Budget Position For FY24 (Budgeted vs UOB's Estimates) and FY25 (UOB's Estimates)

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

	(A)	(B)	(C)		(D)		(E)			(F)	(G)		
	Actual	Actual	Actual	FY23 vs FY22	Estimated	FY24E vs FY23	YTD FY24*	YTD FY24 % of Estimate (Apr-Dec)	Past 5Y YTD%	UOB's Forecast	UOB's Forecast	FY24F vs FY23	FY25F vs FY24F
SGD $bn	FY2021	FY2022	FY2023*	(C) vs (B)	FY2024	(D) vs (C)		(E) vs (D)	FY17-18, FY21-23	FY2024	FY2025	(F) vs (C)	(G) vs (F)
Operating Revenue	**82.49**	**91.02**	**103.44**	13.6%	**108.64**	5.0%	**87.50**	**80.5%**	**73.2%**	**118.53**	**130.45**	14.6%	10.1%
Corporate Income Tax	18.20	23.07	28.99	25.6%	28.03	-3.3%	25.36	90.5%	82.4%	30.79	32.41	6.2%	5.3%
Personal Income Tax	14.22	15.52	17.51	12.8%	18.08	3.2%	14.80	81.9%	77.9%	18.99	19.95	8.4%	5.1%
Goods and Services Tax	12.63	14.09	16.65	18.1%	19.39	16.5%	14.90	76.9%	74.1%	20.12	22.63	20.8%	12.5%
Stamp Duty	6.76	5.95	5.81	-2.4%	5.73	-1.3%	4.96	86.6%	77.2%	6.43	7.46	10.7%	16.0%
Assets Taxes	4.67	5.10	5.94	16.5%	6.67	12.4%	4.07	60.9%	60.9%	6.67	7.17	12.4%	7.4%
Vehicle Quota Premiums	3.22	3.76	4.49	19.3%	4.73	5.3%	4.77	100.9%	76.6%	6.23	7.67	38.7%	23.2%
Others**	22.79	23.52	24.06	2.3%	26.01	8.1%	18.64	71.7%	63.6%	29.32	33.17	21.9%	13.1%
Total Expenditure	**94.80**	**104.86**	**105.31**	0.4%	**111.76**	6.1%	**48.30**	43.2%	40.6%	**117.43**	**127.67**	11.5%	8.7%
Operating Expenditure	78.54	84.44	83.83	-0.7%	88.43	5.5%	38.56	43.6%	40.3%				
Development Expenditure	16.25	20.42	21.49	5.2%	23.33	8.6%	9.73	41.7%	42.0%				
Primary Surplus/Deficit	(12.31)	(13.84)	(1.88)		(3.12)					1.11	2.78		
% of GDP	-2.0%	-2.0%	-0.3%		-0.4%					0.2%	0.4%		
Special Transfers	**6.83**	**8.94**	**27.17**		**23.30**					**23.30**	**33.27**		
Special Transfers Excluding Top-ups to Endowment and Trust Funds	**6.83**	**2.69**	**2.85**		**2.94**					**2.94**	**6.90**		
Basic Surplus/Deficit	(19.14)	(16.53)	(4.73)		(6.06)					(1.84)	(4.13)		
% of GDP	-3.1%	-2.4%	-0.7%		-0.8%					-0.3%	-0.5%		
Top-ups to Endowment and Trust Funds	**0.00**	**6.25**	**24.32**		**20.35**					**20.35**	**26.37**		
Net Investment Returns Contribution	**20.37**	**22.38**	**22.92**	2.4%	**23.50**	2.6%				**23.50**	**24.08**	2.6%	2.5%
Overall Budget Surplus/Deficit	1.23	(0.41)	(6.13)		(2.91)					1.31	(6.41)		
% of GDP	0.2%	-0.1%	-0.9%		-0.4%					0.2%	-0.8%		
(+) Capitalisation of Nationally Significant Infrastructure	**0.65**	**2.21**	**3.50**		**4.09**					**4.09**	**4.09**		
(-) Depreciation of Nationally Significant Infrastructure	0.00	0.00	0.00		0.00					0.00	0.00		
SINGA Interest Costs and Loan Expenses	0.00	0.09	0.23		0.40					0.40	0.40		
Overall Fiscal Position	1.88	1.72	(2.86)		0.78					5.00	(2.72)		
% of GDP	0.3%	0.3%	-0.4%		0.1%					0.7%	-0.4%		

Due to rounding, figures may not add up. Negative figures are shown in parentheses.
*Computed based on monthly government operating revenue and quarterly government expenditure data
**Includes Withholding Tax, Statutory Boards' Contributions, Customs, Excise and Carbon Taxes, Motor Vehicles Taxes, Betting Taxes, Other Taxes, Fees and Charges and Others

Fig 2: Total Expenditure By Ministry For FY24 (Budgeted vs UOB's Estimates)

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

	(A)	(B)	(C)		(D)		(E)			(F)	
	Actual	Actual	Actual	FY23 vs FY22	Estimated	FY24E vs FY23	YTD FY24*	YTD FY24 % of Estimate	Past 5Y YTD%	UOB's Forecast	FY24F vs FY23
SGD $mn	FY2021	FY2022	FY2023*	(C) vs (B)	FY2024	(D) vs (C)		(E) vs (D)	FY17-18, FY21-23	FY2024	(F) vs (C)
Total Expenditure	**94796**	**104855**	**105314**	0.4%	**111759**	6.1%	**48297**	43.2%	40.6%	**117428**	11.5%
Social Development	**47049**	**51811**	**51995**	0.4%	**56065**	7.8%	**25373**	45.3%	41.3%	**60312**	16.0%
Education	12910	13061	13992	7.1%	14752	5.4%	5023	34.0%	33.6%	14949	6.8%
National Development	5820	9072	8500	-6.3%	9014	6.0%	6142	68.1%	44.3%	13850	62.9%
Health	17322	17112	17259	0.9%	18772	8.8%	8605	45.8%	45.6%	18856	9.3%
Sustainability and the Environment	2737	2680	3261	21.7%	3401	4.3%	1634	48.0%	51.6%	3164	-3.0%
Culture, Community and Youth	2373	3844	2378	-38.1%	2448	3.0%	769	31.4%	30.8%	2495	4.9%
Social and Family Development	3676	3737	4102	9.8%	4685	14.2%	1962	41.9%	46.6%	4207	2.6%
Communications and Information	615	743	743	0.0%	1105	48.7%	380	34.4%	35.7%	1066	43.5%
Manpower (Financial Security)	1596	1562	1761	12.7%	1888	7.2%	859	45.5%	49.8%	1725	-2.0%
Security and External Relations	**23734**	**25419**	**27960**	10.0%	**29072**	4.0%	**11915**	41.0%	39.0%	**30492**	9.1%
Defence	15294	16952	19367	14.2%	20250	4.6%	8389	41.4%	39.6%	21202	9.5%
Home Affairs	8010	7992	8096	1.3%	8271	2.2%	3329	40.3%	37.8%	8797	8.7%
Foreign Affairs	430	475	497	4.7%	551	10.8%	196	35.6%	39.8%	494	-0.7%
Economic Development	**20713**	**24303**	**21747**	-10.5%	**22384**	2.9%	**9453**	42.2%	41.6%	**22229**	2.2%
Transport	10272	12849	12950	0.8%	14239	10.0%	6506	45.7%	44.1%	14758	14.0%
Trade and Industry	5384	6708	6015	-10.3%	5971	-0.7%	2276	38.1%	40.1%	5672	-5.7%
Manpower	4263	3852	1645	-57.3%	1301	-20.9%	424	32.6%	34.1%	1243	-24.4%
Info-Communications and Media Development	794	894	1138	27.3%	873	-23.3%	248	28.4%	44.6%	556	-51.1%
Government Administration	**3300**	**3322**	**3612**	8.7%	**4238**	17.3%	**1556**	36.7%	38.0%	**4395**	21.7%
Finance	980	1032	1213	17.5%	1348	11.1%	504	37.4%	46.4%	1087	-10.4%
Law	404	260	302	16.0%	666	120.7%	410	61.6%	35.9%	1142	278.6%
Organs of State	639	718	741	3.2%	816	10.2%	299	36.6%	35.0%	853	15.1%
Prime Minister's Office	1277	1313	1356	3.3%	681	-49.8%	195	28.6%	33.2%	586	-56.8%
Others	0	-1	0		727		149			727	

(1) Figures may not add up due to rounding.

Fig 3: Rising healthcare expenses as a % of nominal GDP; Heightened need for defense spending to bolster capabilities and uphold deterrence

Source: Macrobond, UOB Global Economics & Markets Research

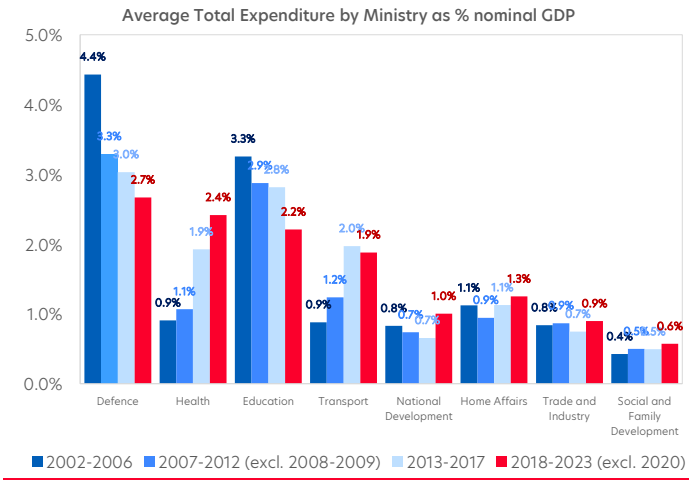
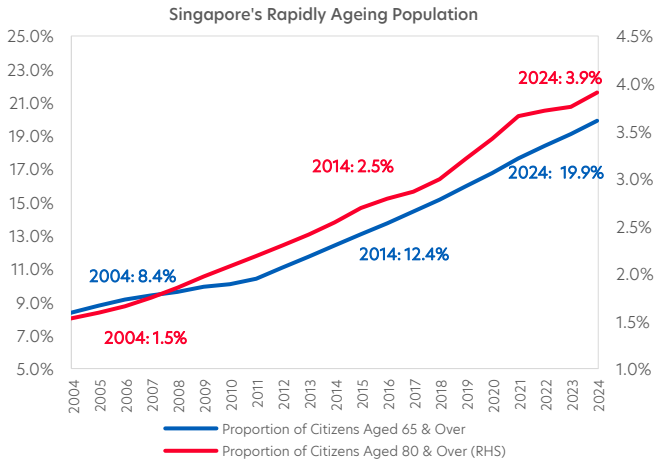


Fig 4: Rising healthcare costs associated with ageing population where around 1 in 4 citizens are projected to be above the age of 65 by 2030

Source: Macrobond, UOB Global Economics & Markets Research



The Net Investment Returns Contribution (NIRC[8]) has been an increasingly important **supplement** to operating revenues **while the facilitation of the transfer of excess Official Foreign Reserves (OFR) to the government for long-term management by GIC via the Reserve Management Government Securities (RMGS) since early 2022 should continue to have a positive impact on NIRC in the long-run (see MOF Q&A response[9]).**

As a percentage of operating revenues, NIRC has risen from under 15% in FY2013 to slightly over 22% in FY2023. Separately, we expect ongoing capitalization of development expenditure under the Significant Infrastructure Government Loan Act (SINGA[10]) on projects such as the North South Corridor, Deep Tunnel Sewerage System, the Cross Island Line and the Jurong Region Line.

Fig 5: NIRC has been an increasingly important supplement to operating revenues

Source: Macrobond, UOB Global Economics & Markets Research

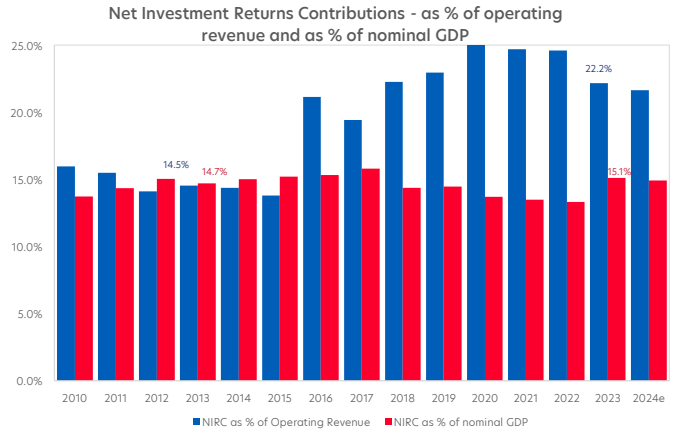
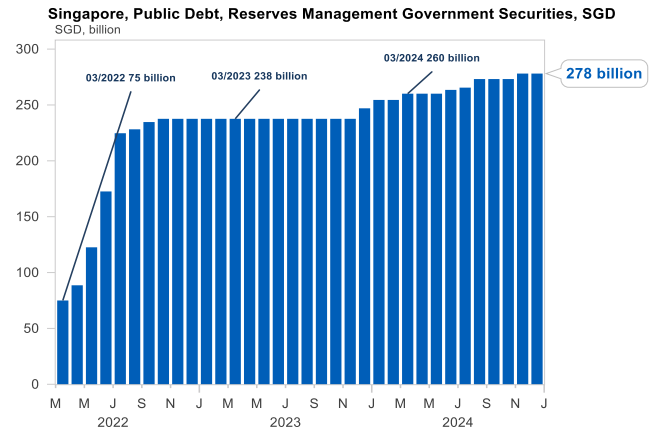


Fig 6: Transfer of excess official foreign reserves to GIC via RMGS should continue to have a positive impact on NIRC in the long-run

Source: Macrobond, UOB Global Economics & Markets Research



[8] The annual Net Investment Returns Contribution (NIRC) amount is published in each year's Government Budget. NIRC comprises: Up to 50% of the Net Investment Returns (NIR) on the net assets invested by GIC, MAS, and Temasek; and Up to 50% of the Net Investment Income (NII) derived from past reserves from the remaining assets. NII refers to the actual dividends, interest and other income received from investing our reserves, as well as interest received from loans, after deducting expenses arising from raising, investing and managing the reserves. Under the NIR framework, the Government can spend up to 50% of the expected long-term real return (including capital gains) on the relevant assets. (See MOF).

[9] ***MOF Q&A Response:*** *The transfers of OFR not needed by MAS to the Government (for longer-term investment by GIC) enabled by RMGS should have a positive impact on NIRC. This is because we are investing such foreign assets with GIC, which has a higher return-seeking portfolio, than that of MAS. Nevertheless, long-term returns take time to materialize and we need to recognize that there are external factors beyond our control that could affect returns and NIRC. Such transfers have been a longstanding practice.*

[10] 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.

Macro Outlook for 2025 – The balance of risks is likely to shift from inflation to growth in 2025, given that Singapore's disinflation progress has been quite durable as evidenced by the slowing core inflation momentum in the recent prints while price pressures are also becoming less broad-based.

Core inflation, on a year-on-year basis has fallen below the 2%-handle for the first time in Nov 2024 and we forecast core inflation to average 1.7% in 2025 (2024: 2.7%), returning to a desired pace of price increase.

The growth outlook remains clouded and downside risks could emanate from further protectionist measures under Trump's 'America First' policy, elevated geopolitical tensions, possible peak in the electronics cycle and uncertainty over the pace of monetary easing by major central banks. **For 2025, we project real GDP growth at 2.5% (2024: 4.0%), factoring in a slowdown in growth momentum in trade-related sectors in 2H25 owing to the impact of tariffs and our forecast sits closer to the upper end of MTI's forecast range of "1.0 to 3.0 per cent".**

In our Jan 2025 MPS Preview – Tariff risks under Trump 2.0, we argued that while Singapore may be less susceptible to **direct** US tariff risks, we will not be shielded from a negative shock to the global trade environment given our extensive reliance on trade as a small and open economy as reflected by the significantly higher share of domestic value added embodied in foreign final demand amongst the ASEAN-6 economies.

Fig 7: Stronger evidence of trade rerouting in VN, TH and somewhat in MY but limited in the case of SG, PH and ID

Source: Macrobond, UOB Global Economics & Markets Research

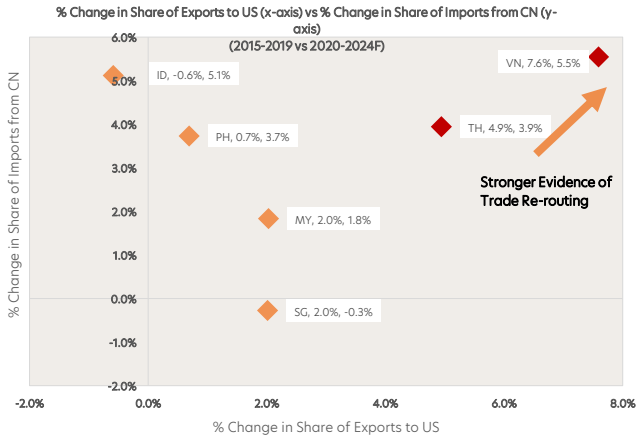
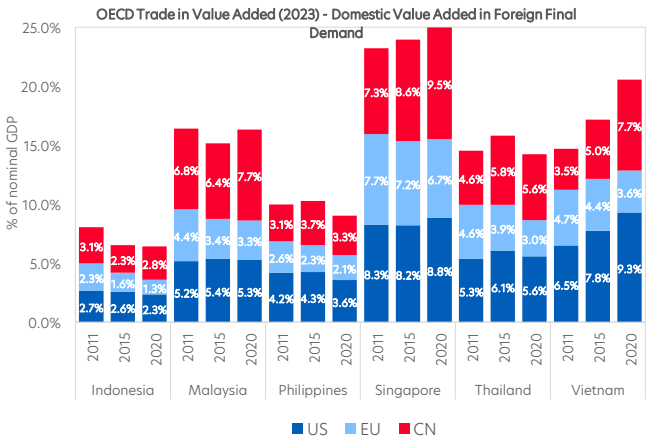


Fig 8: SG, VN and MY most vulnerable to an external slowdown while ID and PH are relatively more shielded given domestic buffers

Source: OECD, Macrobond, UOB Global Economics & Markets Research



Likely Expansionary Fiscal Stance Ahead of GE2025

Since 2005, we observe that the overall fiscal position tends to be more expansionary (i.e. wider deficit) in the final two years of the 5-year terms of government (Fig 9), possibly due to increased spending ahead of the General Elections and this could also be the upshot of adhering to the principles of fiscal prudence where precautionary spending led to meaningful accumulation of fiscal surpluses in the first three years of the terms of government (except in 2021-2023 during the post-COVID recovery phase) and spending is subsequently augmented in the last two years, nonetheless keeping within the limits of the Balanced Budget Rule (BBR). We acknowledge the paucity of reliable observations to draw patterns in this regard as 2009 (Global Financial Crisis) and 2020 (COVID-19 Pandemic) were

crisis years, naturally necessitating higher spending to cushion the economy which in fact resulted in a drawdown of Past Reserves[11] [12] in both of these episodes.

Taking into account historical patterns, we expect Budget 2025 to be broadly expansionary with a modest fiscal deficit of -S$2.7bn, -0.4% of GDP in FY2025, culminating in a positive fiscal impulse of +0.3% (Fig 10), which could help to partly cushion the Singapore economy from an external slowdown should Trump's tariffs indeed materialize in a significant way in 2025.

In addition, the economic backdrop is rather benign and favourable for the incumbent as characterized by our iteration of the Misery Index (Fig 11) which seeks to quantify how the average citizen is doing economically in a stylized fashion. The index considers the average monthly citizen unemployment rate which is fairly low at 2.9% in 2024 and projected to remain healthy in 2025F at 3.1% while the overall headline inflation has moderated significantly to 2.4% in 2024 and could soften further to 1.7% in 2025F signifying an expected improvement in economic sentiment in 2025. **A noteworthy observation is that the Misery Index has been relatively low during the General Election (GE) years, likely aided by the more expansionary fiscal stance during and prior the year of the GE. In our view, the General Elections should be held sooner rather than later post Budget 2025 to ride on the constructive economic window and macro backdrop. If history serves as a guide, May could be a possible month as was the case in the 2006 and 2011 GEs. The 2025 GE must be held by 23 Nov 2025.** On 22 Jan 2025, in a media release by the Elections Department, it was noted that the Prime Minister has convened the Electoral Boundaries Review Committee.

Fig 9: Overall fiscal position tends to be more expansionary in the last two years of the 5-year terms of government

Source: Macrobond, UOB Global Economics & Markets Research
*FY2024 is based on Budgeted estimates and FY2025 based on UOB's forecasts

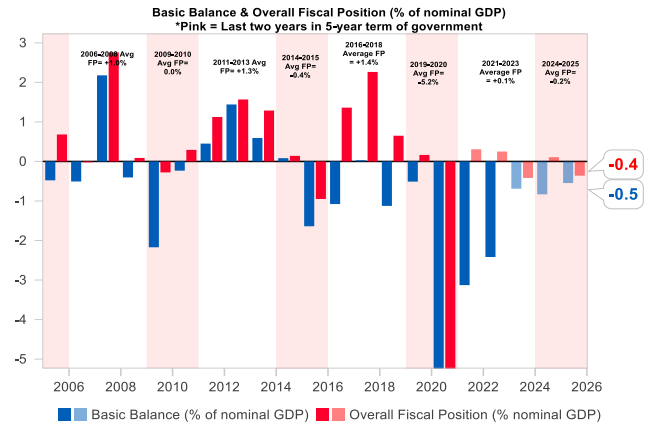
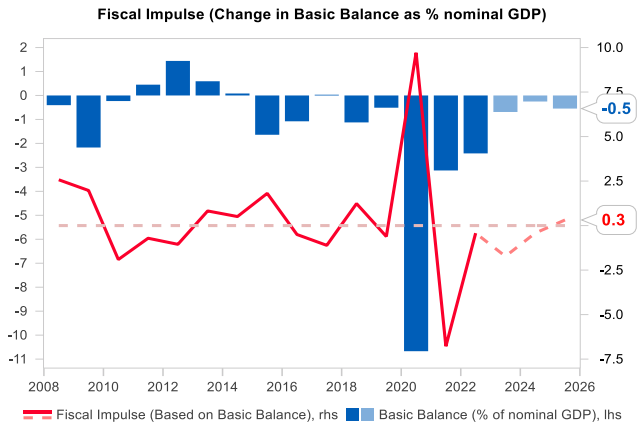


Fig 10: Estimated positive fiscal impulse of +0.3% for FY2025

Source: Macrobond, UOB Global Economics & Markets Research

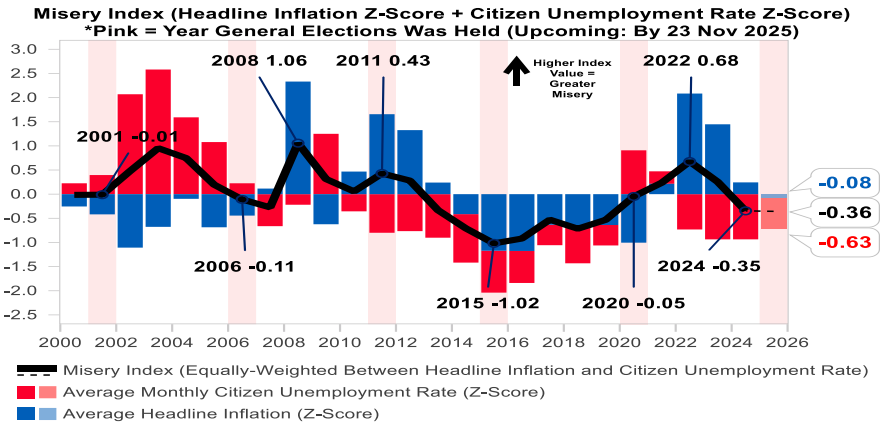


[11] *In response to the COVID-19 crisis, the Government had to protect lives through public health measures, as well as protect livelihoods through economic and social support measures. The Government obtained then-President Halimah Yacob's approval to draw from Past Reserves up to $52 billion in FY2020, $11 billion in FY2021, and $6 billion in FY2022.The total draw on Past Reserves from FY2020 to FY2022 is around $40 billion.* (MOF)

[12] *In January 2009, the Government obtained then-President S R Nathan's approval to draw S$4.9 billion from the Past Reserves for the first time to fund special schemes in light of Singapore's worst recession then since Independence. The two measures were the Jobs Credit Scheme which subsidised employers' wage bills and the Special Risk-Sharing Initiative which helped viable companies gain access to credit. The actual amount drawn for these two measures was S$4.0 billion, less than expected. This was the first time that Past Reserves were drawn.* (MOF)

Fig 11: Economic backdrop is benign for GE2025 as reflected by the Misery Index

Source: Macrobond, UOB Global Economics & Markets Research



#1 Cost-of-Living & Job Security Measures

Budget 2025 is likely to continue to feature support measures to alleviate cost-of-living pressures and job security concerns, as Prime Minister Lawrence Wong noted that these are issues frequently raised among residents during his walkabouts (Straits Times, 27 Dec 2024).

While both core and food inflation has softened in y/y terms (Dec 2024 core inflation: 1.8%, food: 2.5%), we argue that low-income households are still facing elevated and considerable cost-of-living pressures given that the price levels of both food and core items in the CPI basket are about 4.4% and 1.7% above our estimated implied long-run trend as of Dec 2024, partly exacerbated by the effects of the two successive 1%-ppt GST hikes on 1 Jan 2023 and 1 Jan 2024.

Furthermore, the strong acceleration in food prices since 2022 is likely to have an outsized impact on lower and middle income households given that food is a necessity and occupies a disproportionately higher weight **(2nd Decile: 23.25%, 5th Decile: 23.24%, 8th Decile: 17.7%, see Jul-Dec 2024 CPI by Household Income Group)** in their consumption baskets.

The tightness in Singapore's labour market has eased significantly since late-2022 as characterized by the continuous moderation in the job vacancies to unemployed persons ratio (sa) to 1.39 in 3Q24 from the peak of 2.54 in 2Q22. As the ratio remains above 1.0, this indicates that there are more jobs available in the market vis-à-vis the number of people actively seeking employment.

Overall, the job market remains fairly healthy with the overall unemployment rate (sa) at lows of 1.9% in Dec (residents: 2.8%, citizens: 2.9%) while the number of retrenchments remain fairly contained. **Nonetheless, there are still individuals contending with the prospects of retrenchment or those who wish to embark on a career path in a different industry.**

As unveiled during the National Day Rally (NDR) 2024 by PM Lawrence Wong, the SkillsFuture Jobseeker Support (JS) scheme provides up to $6,000 in payouts over 6 months to lower- and middle-income Singapore residents who are involuntarily unemployed and actively looking for a job while under the SkillsFuture Level-up Programme announced during Budget 2024, the SkillsFuture Mid-Career Training Allowance which will be based on 50% of one's average

income over the latest available 12-month period[13], allows mid-career Singaporeans aged 40 years and above to receive a substantive skills reboot while still receiving income to meet basic daily needs which will go a long way to encourage workers and allay job insecurity fears.

Wishlist:

- Additional **CDC Vouchers** of at least $600 in FY2025 for each household
- **Enhancement and rebranding of the Assurance Package (AP)** along the themes of "SG60": Raise the quantum of payouts and U-Save rebates under the AP in 2026 and extend the support scheme for low- and middle- income households beyond 2026
- **One-off cost-of-living cash support targeted at low-income households**
- **Augmentation of the SkillsFuture Jobseeker Support (JS) or SkillsFuture Level-up Programme**

Fig 12: Price levels of both food and core items in the CPI basket are about 4.4% and 1.7% above our estimated implied long-run trend as of Dec 2024

Source: Macrobond, UOB Global Economics & Markets Research

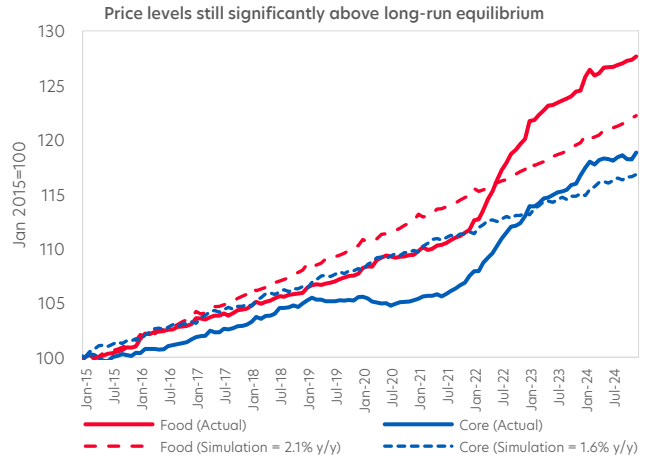
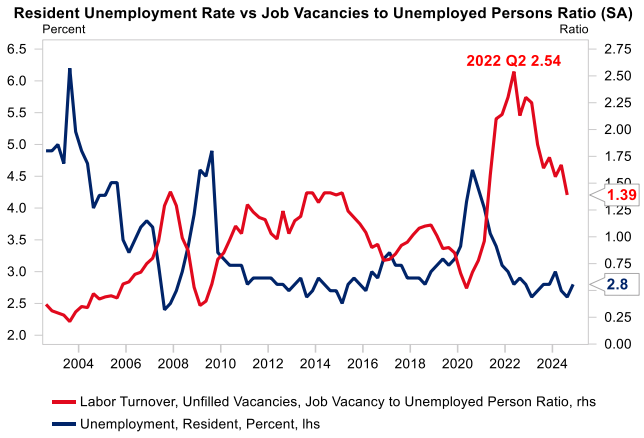


Fig 13: Tightness in Singapore's labour market has eased significantly since 2Q22

Source: Macrobond, UOB Global Economics & Markets Research



#2 Another Fertility Boost Is Needed

Singapore's total fertility rate (TFR) hit a record low of 0.97 in 2023, well below the replacement rate of 2.1 which is the level of fertility at which the population replaces itself from one generation to the next. This is also the first time the resident TFR has fallen below 1.0: This means that on average, each female is having fewer than one child. This is partly driven by long-term shifts in marriage patterns with people marrying later and consequently, the median age of mothers at first birth[14] has increased concomitantly from 27.5 in 1990 to 29.8 in 2010 and further to 31.6 in 2023.

We posit that the increase in the mean years of schooling over the generations could partly explain the upward drift in the median age of first marriages, with the proportion of singles rising clearly in the 25-29 and 30-34 years age group over the years (Fig 16) but the data suggests that the desire to eventually get married and settle down amongst residents remains intact as evidenced by the broadly stable share of singles in the older 40-44 and 45-49 years age groups.

The heightened cost-of-living (plus childrearing expenses) and rising cost of housing possibly fueled the need for young couples to prioritize their careers to

[13] capped at $3000 per month for up to 24 months over an individual's lifetime
[14] for resident births

meet practical needs which could potentially explain the gradual upward drift in the median marriage age as well as the downdrift in the TFR. We acknowledge that challenges surrounding a declining TFR is not unique to Singapore and evident in advanced economies such as South Korea (2023 TFR: 0.72) and even in emerging economies, China, for example.

Fig 14: Delayed marriages and first births; TFR fell below 1.0 for the first time in 2023

Source: Macrobond, UOB Global Economics & Markets Research

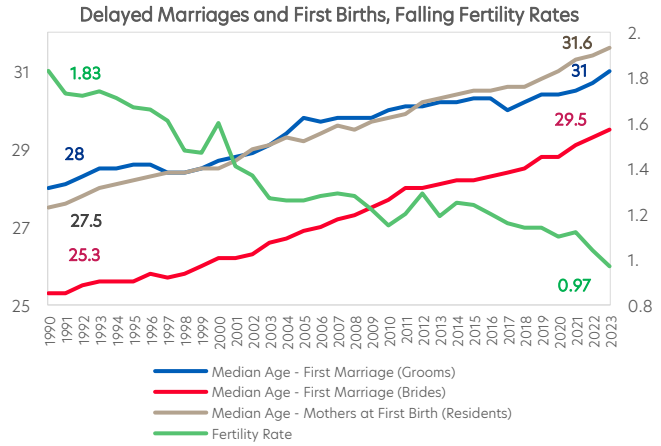


Fig 15: ... likely partly explained by the increase in the mean years of schooling over the years

Source: Macrobond, UOB Global Economics & Markets Research

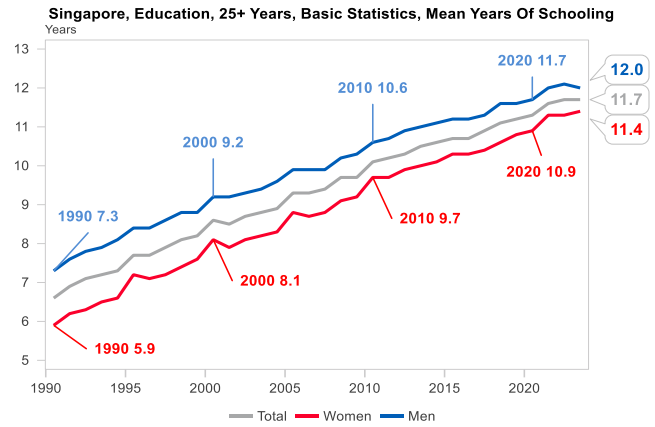
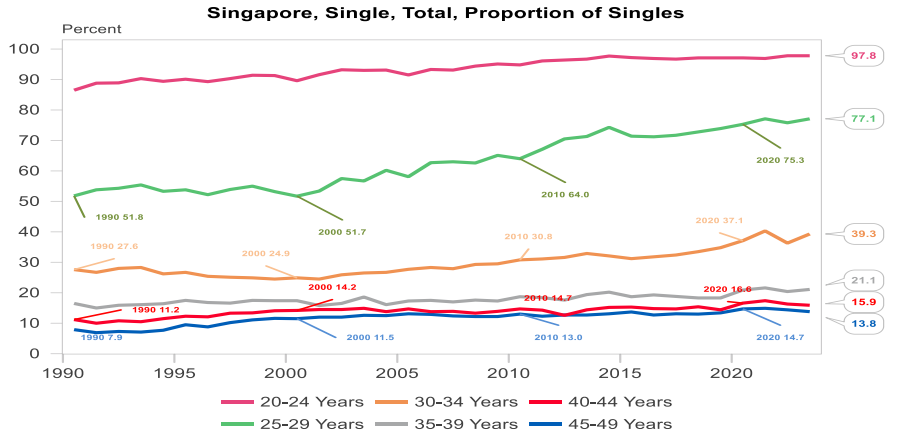


Fig 16: Proportion of singles rising clearly in the 25-29 and 30-34 years age group but broadly stable for the older age groups

Source: Macrobond, UOB Global Economics & Markets Research



Wishlist:

- Raise the **Baby Bonus Cash Gift** substantially and restructure the existing semiannual payout schedule to quarterly; extend the higher benefits for the Baby Bonus Cash Gift to the 2nd Child
- Raise the **First Step Grant** quantum
- Raise the fixed dollar tax relief under the **Working Mother's Child Relief (WMCR) scheme**
- Raise the co-funding percentage under the Government **co-funding scheme for Assisted Conception Procedures and for PGT-M[15] and PGT-SR[16] testing**

[15] Pre-implantation genetic testing for monogenic / single gene defects
[16] Pre-implantation genetic testing for chromosomal structural rearrangements

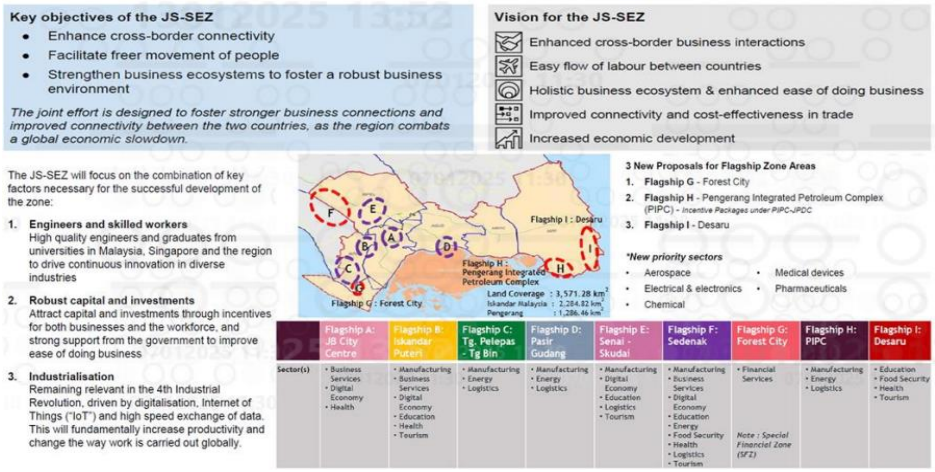
#3 Laying Out Singapore's Economic Strategies For The Next Decade

In our view, Budget 2025 will be opportune to layout Singapore's economic strategies for the next decade. Areas to consider: **(i) further incentives to anchor investments in key growth areas of artificial intelligence, finance and the green transition to create good jobs for locals (ii) streamlining of upskilling/reskilling initiatives in these areas with strong collaboration between leading MNCs, Institutes of Higher Learning (IHL) and SkillsFuture Singapore (iii) funding support package to facilitate Singapore companies to tap on the opportunities presented in the upcoming Johor-Singapore Special Economic Zone (JS-SEZ). In addition, economies globally will have to gradually pivot away from using tax incentives to attract foreign investments following the implementation of Pillar Two of BEPS 2.0 (see Appendix).**

The Joint Agreement on Johor-Singapore Special Economic Zone (JS-SEZ) was officially signed with both Prime Ministers of Singapore and Malaysia witnessing the exchange of the agreement at the 11th Malaysia-Singapore Leaders' Retreat on 7 Jan 2025. Concurrently, six Memorandum of Understanding (MOUs) and one Letter of Intent (LOI) on education, women and social welfare, climate change, carbon capture and storage, urban development and combatting transnational crimes were also endorsed during the two-day (6-7 Jan) official visit by Singapore's Prime Minister to Malaysia. We understand that the JS-SEZ Agreement has outlined some details relating to (i) JS-SEZ Areas; (ii) key areas of cooperation; and (iii) specific initiatives. In a briefing on 3 Jan, Malaysia's Economy Minister Rafizi Ramli updated that three new Flagship Zone Areas (FZAs) were proposed, in addition to the existing six FZAs, with new priority sectors (i.e. aerospace, electrical & electronics, chemical, medical devices and pharmaceuticals). Pro-business policies and incentives will be granted based on the 11 priority sectors across FZAs within the JS-SEZ. It also aims to promote and facilitate expansion of 50 projects, within the first five years and a cumulative 100 projects within the first ten years. See: Malaysia: JS-SEZ Update #3 – Joint agreement officially signed.

Fig 17: After signing the Agreement, a JS-SEZ blueprint is expected to be drawn in the near term

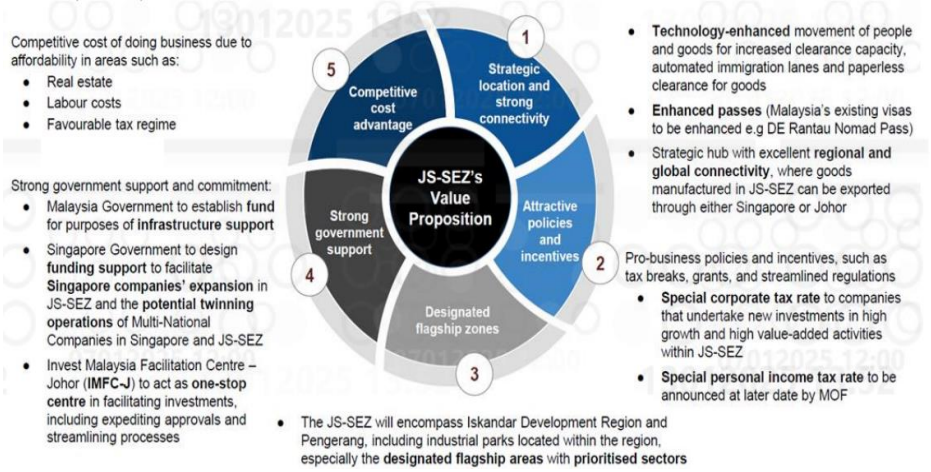
Source: Ministry of Economy (Malaysia), UOB Global Economics & Markets Research



Right By You

Fig 18: Distinctive value proposition of the JS-SEZ offers a wide range of opportunities

Source: Ministry of Economy (Malaysia), UOB Global Economics & Markets Research
Note: Attractive policies and incentives proposed are subject to negotiations between Johor and Singapore



According to the IMDA Singapore Digital Economy Report 2024, firms that took up AI reported various benefits from using the technology with 96.2% of non-SMEs and 93.5% of SMEs indicating that AI usage contributed to improvements in productivity and processes **however the share of SMEs (2023: 4.2%) employing AI technologies remains low and lags significantly behind that of non-SMEs (2023: 44.0%), with cost-related concerns as well as lack of infrastructure and knowledge gaps amongst staff cited as top reasons for not using AI technology amongst SMEs**. With SMEs contributing to slightly under half of our nominal value added and employing around 70% of the local workforce, it is imperative that existing support measures are strengthened so that SMEs are able to effectively tap on the latest technologies, applied to the correct use cases to unlock productivity gains.

Fig 19: More than 90% of SMEs and Non-SMEs indicated that AI usage led to improvements in productivity and processes

Source: IMDA Digital Economy Report 2024, UOB Global Economics & Markets Research

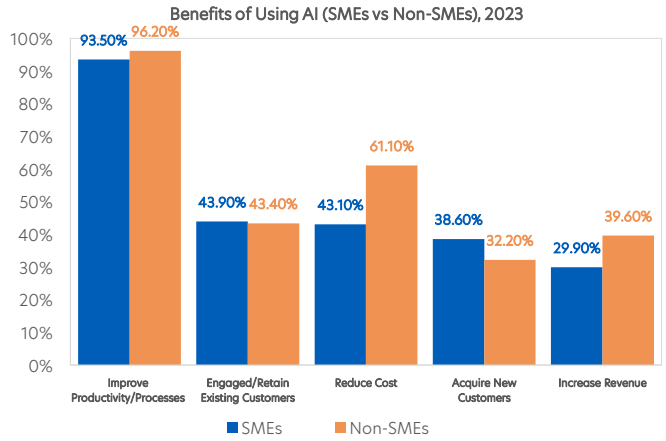
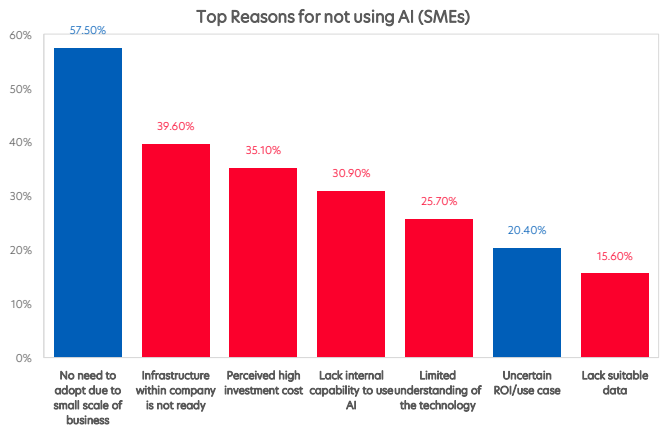


Fig 20: Cost-related concerns, lack of infrastructure and knowledge gap amongst staff cited as top reasons for SMEs to not use AI

Source: IMDA Digital Economy Report 2024, UOB Global Economics & Markets Research



Wishlist:

- **Funding Support Package to facilitate companies in Singapore (both local and MNCs) to tap on the JS-SEZ,** in collaboration with the Invest Malaysia Facilitation Centre – Johor (IMFC-J)
- Expansion of the **Refundable Investment Credit (RIC) scheme (see Factsheet)**
- Streamlining of upskilling/reskilling initiatives in key areas (AI, Finance, Green Transition) with stronger collaboration between MNCs, Institutes of Higher Learning (IHL) and SkillsFuture Singapore to create a local talent pipeline
- Augmentation of the **Productivity Solutions Grant (PSG)**[17] by raising the quantum cap or expanding flexibility of claims
- Launch of **Research, Innovation and Enterprise 2030 (RIE2030)**
- Greater clarity on the magnitude of the Carbon Tax from 2028 onwards (NCCS: 2026 and 2027: S$45/tCO2e, with a view to reach S$50-80/tCO2e by 2030) and further investments to establish Singapore as a leading **carbon services and trading hub**[18]
- Extension of the enhanced maximum trade loan quantum of S$10mn for another year to 31 Mar 2026 under the **Enterprise Financing Scheme** to support businesses' internationalization efforts amid global supply chain disruptions

#4 Chapter Four of Forward Singapore Report: Support Families Through Every Stage

During the Press Conference on 8 Nov 2024, PM Lawrence Wong emphasized providing support for Singaporeans across different life stages, such as when entering the workforce, starting families, or at a phase where they might feel sandwiched looking after elderly parents and their own children.

In this regard, the support measures in Budget 2025 are likely to follow the contours of Chapter 4 of the Forward Singapore Report and expand on the announcements made during the 2024 NDR and Budget 2024, with some already underway, which include:

- Expanding the number of preschool places and set up more centres
- Reduce the **monthly childcare fee caps** in Government-supported preschools for both Anchor Operators and Partner Operators further
- Doubling of paternity leave from 2 to 4 weeks, mandatory from 1 Apr 2025
- **Shared Parental Leave scheme:** 10 additional weeks of shared leave paid for by the government, starting with 6 weeks for babies born from 1 Apr 2025 and increase to the full 10 weeks a year later
- **New scheme for Large Families:** provide more support for those thinking about having a third child and more help to parents who already have three or more young children
- **Ramping up of BTO supply and future pipeline supply:** In the joint press release by MND & HDB on 16 Jan 2025, it was announced that 25,000 new flats will be launched in 2025 [19,600 Build-To-Order BTO and 5,500 Sale of Balance Flats or SBF) bringing the total launch to 102,300 BTO flats from 2021 to 2025, exceeding the earlier target of 100,000. Minister Desmond Lee also assured that HDB will continue to put out a steady pipeline of flats to meet housing demand in the next few years, with a total of about 130,000 flats from 2021 to 2027.

[17] https://www.enterprisesg.gov.sg/financial-support/productivity-solutions-grant
[18] See NCCS Carbon Services And Trading

- **Enhanced CPF Housing Grant (EHG)[19]:** On 20 Aug 2024, the EHG was increased to a maximum of $120K for families and $60K for singles, with higher increases for lower-income households.
- Expanding housing options for seniors including Community Care Apartments (CCA)
- Extend BTO priority access for singles when they apply for new BTO flats to live with or near their parents under the new **Family Care Scheme (FCS[20])** which will be rolled out in two phases starting from mid-2025
- **Possible unveiling of further details regarding the Voluntary Early Redevelopment Scheme (VERS)**

Appendix: Mechanics of Domestic Top-up Tax ("DTT") and the Income Inclusion Rule ("IIR") under Pillar Two of BEPS 2.0

As affirmed during the Budget 2024 speech, in response to the GloBE Model Rules under Pillar Two, Singapore will implement the Domestic Top-up Tax (DTT) and Income Inclusion Rule (IIR), which will impose a minimum effective tax rate (ETR) of 15% on large MNE groups with annual group revenue of 750 million euros or more in at least two of the four preceding financial years.

- **Income Inclusion Rule (IIR) (FY starting on or after 1 Jan 2025)** – A jurisdiction that introduces this will subject the overseas profits of MNE groups parented in that jurisdiction to a minimum ETR of 15%. Thus, MNE groups parented in Singapore will have **to pay a minimum ETR of 15% on their groups' overseas profits** regardless of where they operate.

- **Domestic Top-up Tax (DTT) (FY starting on or after 1 Jan 2025)** – Applies to Singapore profits of MNE groups operating here. Without this tax, these MNE groups will have had to **pay their parent jurisdiction the ETR of 15% on the Singapore profits**, thus it is in Singapore's interest to implement the DTT so that we collect the tax rather than having it go somewhere else.

- **Undertaxed Profits Rule (UPR) (Considered at a later stage)** – allows Singapore to collect a share of the top-up tax on any MNE with operations here, if any portion of its income overseas has not been subject to the minimum tax.

- **Pillar One of BEPS 2.0 (Implementation timeline unclear)** – Pillar One seeks to re-allocate some profits and in turn, taxes, from where the economic activities are conducted to where the markets (i.e. the customers) are. Singapore will have to give up some taxing rights over profits from economic activities conducted here but will receive very little in return due to our small domestic market. Nonetheless, the implementation timeline of Pillar One remains unclear.

Overall, the **implementation of Pillar Two of BEPS 2.0 will provide additional revenues although the revenues will likely be channeled to initiatives to support new investment, research and innovation to preserve competitiveness (such as the Refundable Investment Credit scheme), given that economies globally will have to gradually pivot away from using tax incentives to attract foreign investments, with potential risks that some businesses may consider relocating to other jurisdictions that have a lower cost base in terms of manpower, rent or resources**. (See: Separate update by IRAS, with further explanation of the mechanics, illustrations in Fig 21-24 below.)

[19] https://www.hdb.gov.sg/residential/buying-a-flat/understanding-your-eligibility-and-housing-loan-options/flat-and-grant-eligibility/couples-and-families/enhanced-cpf-housing-grant-families
[20] https://www.hdb.gov.sg/about-us/news-and-publications/press-releases/New-Family-Care-Scheme-to-Support-Parents-and-Children-to-Live-Closer-Together

Fig 21: Illustration on the Income Inclusion Rule (IIR) - P = Parent, S = Subsidiary

Source: IRAS, UOB Global Economics & Markets Research

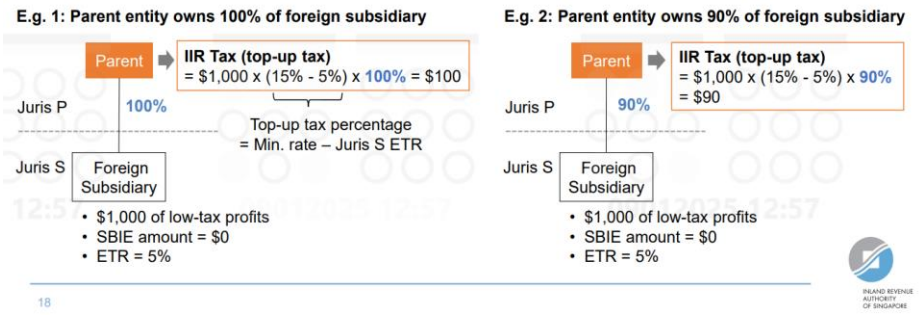
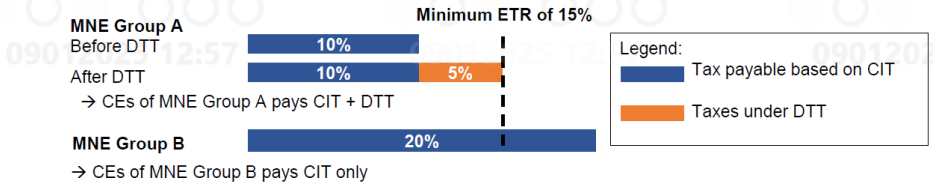


Fig 22: Illustration on the Domestic Top-up Tax (DTT) - It is in Singapore's interest to implement the DTT so that we collect the tax rather than having it go somewhere else

Source: IRAS, UOB Global Economics & Markets Research

- **MNE Group A:** Jurisdictional ETR < 15% → CEs of MNE Group A pays CIT + DTT to bring ETR to minimum rate.
- **MNE Group B:** Jurisdictional ETR ≥ 15% → CEs of MNE Group B pays CIT only.



DTT amount is deducted against IIR top-up tax

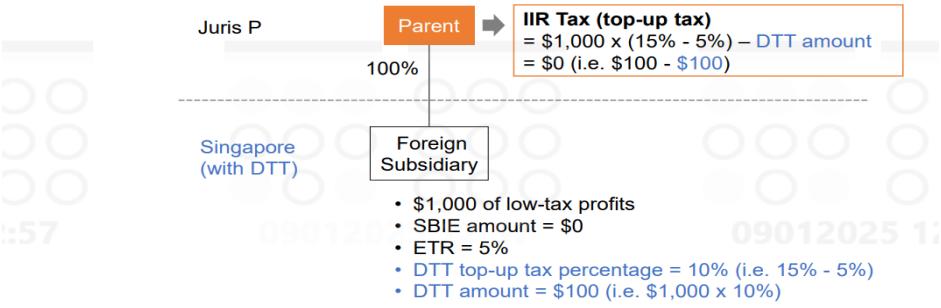


Fig 23: Foreign Constituent Entities ("CEs") are held directly by Singapore's Ultimate Parent Entity (UPE)

Source: IRAS, UOB Global Economics & Markets Research

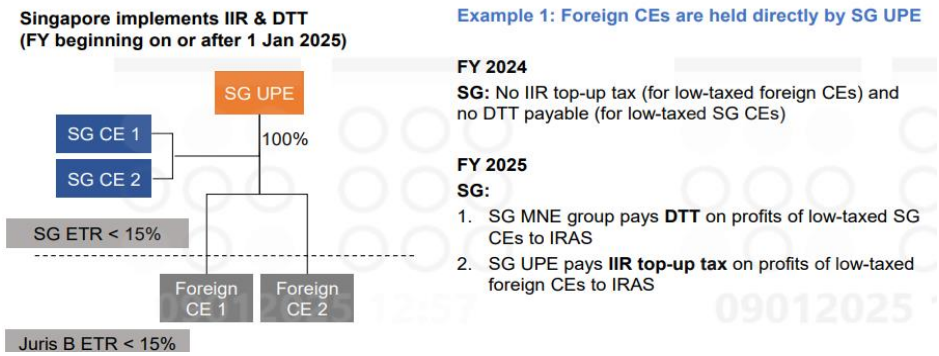
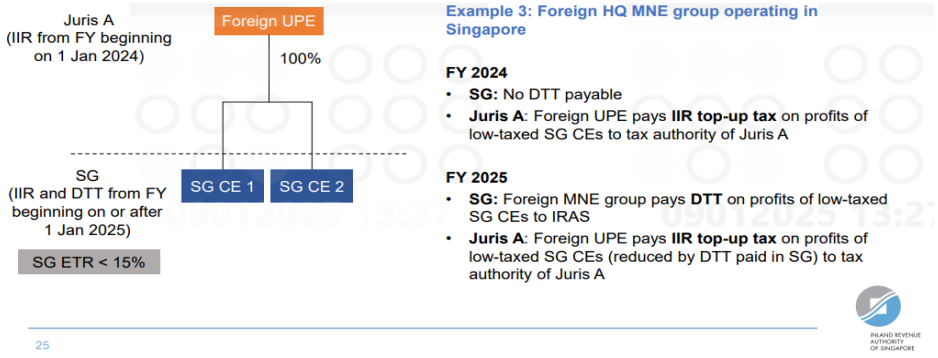


Fig 24: Foreign HQ MNE group operating in Singapore where IIR rule is adopted in the parent jurisdiction from FY2024

Source: IRAS, UOB Global Economics & Markets Research



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