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Macro Note

Singapore: A Three Pronged Plan For The Next Decade

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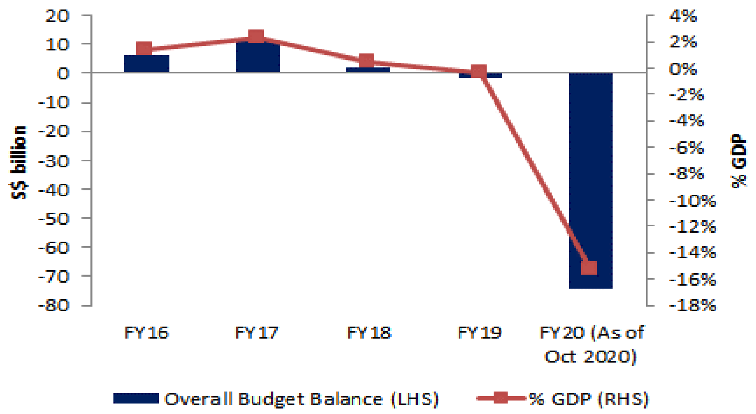
Highlights

- Deputy Prime Minister Heng Swee Keat delivered a ministerial statement on 5th October 2020, providing the context of a Supplementary Supply Bill, and highlighting Singapore's strategies to emerge stronger from the current economic downturn. The additional measures seen from the Supplementary Supply Bill will be funded via the reallocation of monies from areas with reduced spending. There will not be any further draw on past reserves, and the total draw remains within S$52.0 billion.
- The ministerial statement has given focus on building an economic strategy that will impact Singapore for the next five to ten years. Specifically, Minister Heng emphasised on three priority areas: (1) Singapore as a Global-Asia node, (2) Foster Inclusive Growth and (3) Invest in economic resilience and sustainability.
- More support measures have also been introduced in the October ministerial statement to support businesses, workers and households. These include the extension of the (1) Enhanced Training Support Package (ETSP) and (2) the Temporary Bridging Loan Programme. Other measures also include the extensions and enhancements of specific grants and providing a one-off support for newborns.
- A full-year recession may still be on the cards at a range of between -5% and -7% according to the latest MTI GDP outlook. Nonetheless, the MAS estimated that the combined budgets, which committed S$92.9 billion of support measures to deal with COVID-19, will prevent the Singapore economy from contracting by a further 5.6% of GDP in 2020, and 4.8% in 2021.
- All-in-all, accounting for the latest refreshed government budget estimates, Singapore's revised budget balance for FY2020 is projected at a deficit of S$74.2 billion (15.3% of GDP), up from a prior deficit of S$74.3 billion (15.4% of GDP) projected at the Fortitude Budget on 26 May 2020. Operating revenue is estimated at S$63.7 billion, lower compared to FY2019's S$74.7 billion handle, while special transfers including top-ups to endowment and trust funds are expected to surge to S$54.5 billion, up from FY2019's S$15.3 billion.
- Notwithstanding the massive fiscal response year-to-date, there remains a high degree of uncertainty over Singapore's economic prospects. As cited in the ministerial statement, one major uncertainty is "how effective" other economies are in containing the COVID-19 pandemic, as well as whether an "effective and safe" vaccine can be developed. We note that the very nature of the pandemic is fluid and it could still be more severe and protracted than previously anticipated. In view of the evolving economic landscape, we keep our Singapore's full-year GDP outlook at -5.0% with downside risks, given that any exacerbation of the COVID-19 pandemic globally will be detrimental for Singapore's trade and manufacturing environment.

Deputy Prime Minister Heng Swee Keat delivered a ministerial statement on 5th October 2020, providing the context of a Supplementary Supply Bill, and highlighting Singapore's strategies to emerge stronger from the current economic downturn. Minister Heng also revisited the August Ministerial Statement (please read our report for more details) where the government will inject an additional S$8.0 billion in FY2020 to support Singapore's fight against COVID-19. Note that the additional measures seen from the Supplementary Supply Bill will be funded via the reallocation of monies from areas with reduced spending. There will not be any further draw on past reserves, and the total planned draw remains within S$52.0 billion.

Chart 1: Singapore's Budget Balance (FY2016 – FY2020)

Source: Macrobond, UOB Global Economics & Markets Research



The ministerial statement has given focus on building an economic strategy that will impact Singapore for the next five to ten years. Specifically, Minister Heng emphasised on three priority areas: (1) Singapore as a Global-Asia node, (2) Foster Inclusive Growth and (3) Invest in economic resilience and sustainability. These measures will include growing and rebuilding Singapore's physical connectivity and expanding her digital connectivity with Asia and the world, provide opportunities in the extensive upskilling of Singapore's workforce, and invest in Singapore economic position as a source of growth and competitive advantage.

More support measures have also been introduced in the October ministerial statement to support businesses, workers and households. Noteworthy measures will include the extension of the Enhanced Training Support Package (ESTP) for six months to 30 June 2021, as well as extending it to the Marine & Offshore sector, on top of the existing sectors such as Air Transport, Retail and Tourism. There will also be an extension of the Temporary Bridging Loan Programme and the MAS Singapore Dollar Facility for Enterprise Singapore Loans for six months until September 2021. Moreover, a one-off additional support for newborns in response to "feedback that COVID-19 has caused some aspiring parents to postpone their parenthood plans". For more details on the measures, please refer to the infographic by the Ministry of Finance.

Nonetheless, a full-year recession may still be on the cards at a range of between -5% and -7% according to the latest MTI GDP outlook. Still, the MAS estimated that the combined budgets, which committed S$92.9 billion of support measures to deal with COVID-19, will prevent the Singapore economy from contracting by a further 5.6% of GDP in 2020, and 4.8% in 2021. Additionally, the fiscal response is also expected to "cushion the rise in resident unemployment rate by about 1.7%" in 2020, and save about 155,000 jobs in 2020 and 2021. Note that high-frequency data from Singapore's industrial production and non-oil domestic exports (NODX) have shown an observable recovery from the 2Q20 trough; Singapore's industrial production surprised market expectations with a 13.7% y/y (+13.9% m/m sa) surge in August 2020, while (NODX) grew for its third straight month by 7.7% y/y in August 2020, surprising market estimate for a 3.3% y/y gain. For more details, please refer to our reports[1] in the footnote below.

All-in-all, accounting for the latest refreshed government budget estimates, Singapore's revised budget balance for FY2020 is projected at a deficit of S$74.2 billion (15.3% of GDP). This is marginally higher from a previous estimate of S$74.3 billion (15.4% of GDP) as announced in the Fortitude Budget on 26 May 2020. Projected operating and development expenditure will fall by 1.7% and 29.2% respectively from the previous Fortitude Budget estimates, while special transfers will be increased by 6.3% given the extension of the Job Support Scheme.

[1] United Overseas Bank, Will A Strong Pace In Manufacturing Help To Dispel COVID-19 Concerns?, 25 Sept 2020
[1] United Overseas Bank, NODX Rose For The Third Month; Expected To Expand Further In 4Q20, 17 Sept 2020

Table 1: Singapore's Revised FY2020 Fiscal Position

Source: Singapore Ministry of Finance

	Estimated FY2020	Revised FY2020 (as at the Fortitude Budget on 26 May 2020)	Revised FY2020 (as at 5 October 2020)	Change Over Revised FY2020 as at the Fortitude Budget
	$billion	$billion	$billion	$billion
OPERATING REVENUE	76.0	68.8	63.7	(5.1)
Less:				
TOTAL EXPENDITURE	83.6	110.5	102.1	(8.4)
PRIMARY SURPLUS / DEFICIT[1]	(7.6)	(41.7)	(38.3)	
Less:				
SPECIAL TRANSFERS[2]	22.0	51.2	54.5	3.2
Special Transfers Excluding Top-ups to Endowment and Trust Funds	4.7	33.9	37.1	
BASIC SURPLUS / DEFICIT[3]	(12.3)	(75.6)	(75.5)	
Top-ups to Endowment and Trust Funds	17.3	17.3	17.3	
Add:				
NET INVESTMENT RETURNS CONTRIBUTION	18.6	18.6	18.6	-
OVERALL BUDGET SURPLUS / DEFICIT	(10.9)	(74.3)	(74.2)	

Note: Due to rounding, figures may not add up. Negative figures are shown in parentheses.

1 Surplus / Deficit before Special Transfers (including Top-ups to Endowment and Trust Funds) and Net Investment Returns Contribution.

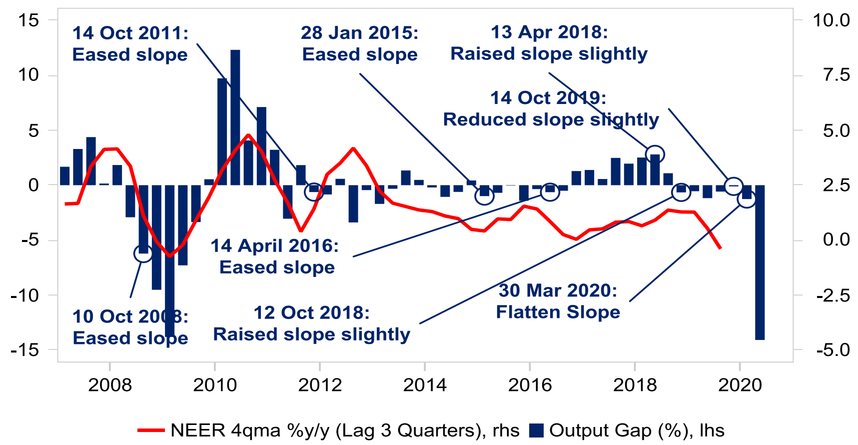
2 Special Transfers including Top-ups to Endowment and Trust Funds

3 Surplus / Deficit before Top-ups to Endowment and Trust Funds, and Net Investment Returns Contribution.

Notwithstanding the massive fiscal response year-to-date, there remains a high degree of uncertainty over Singapore's economic prospects. As cited in the ministerial statement, one major uncertainty is "how effective" other economies are in containing the COVID-19 pandemic, as well as whether an "effective and safe" vaccine can be developed. We note that the very nature of the pandemic is fluid and it could still be more severe and protracted than previously anticipated. In view of the evolving economic landscape, we keep our Singapore's full-year GDP outlook at -5.0% with downside risks, given that any exacerbation of the COVID-19 pandemic globally will be detrimental for Singapore's trade and manufacturing environment. A message of consolation perhaps, is the relative stabilisation of COVID-19 cases in Singapore, amid the observable recovery in the recent trade and manufacturing data in 3Q20.

Chart 2: Singapore's Output Gap Slumped In 2Q20 On The Back Of A Technical Recession

Source: Macrobond, UOB Global Economics & Markets Research



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