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Macro Note

Singapore Budget 2021 Preview: Charting The Path To Recovery

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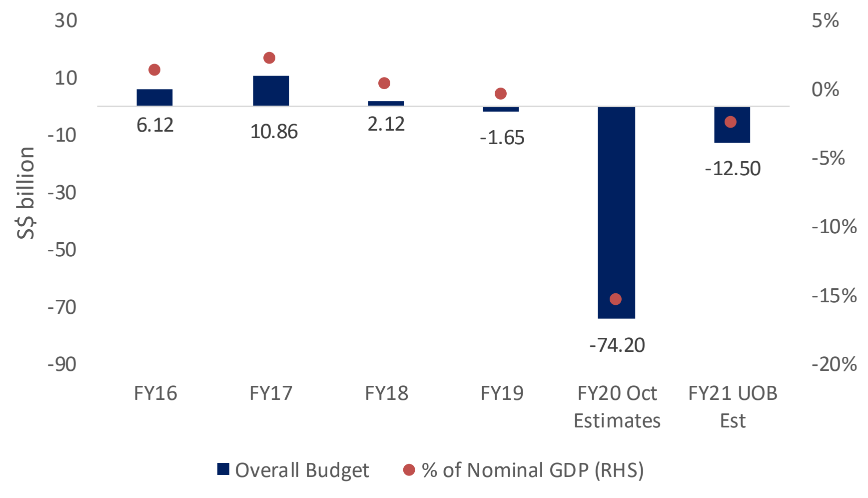
Highlights

- Singapore's 2021 Budget will be announced on 16 February 2021. We expect Budget 2021 to centre on helping the country recover from the COVID-19 pandemic and emerge stronger, while at the same time, revisit medium-to-long term measures to develop Singapore's advanced manufacturing capabilities, digital connectivity and accelerate Singapore's industry transformation.
- Economic data in the second half of 2020 suggests that the Singapore economy has been recovering since the trough in 2Q20. Coupled with the fact that Budget FY2021 will be the first budget for the new term of government for the next five years (2021 – 2025), policy-makers will likely be conservative in their fiscal planning.
- Budget 2021 is expected to stay expansionary but calibrated to target specific industries and segments of the workforce still affected by COVID-19. In this, we anticipate five key thrusts that Budget 2021 could introduce: (1) job creation and preservation, (2) provision of liquidity for businesses, (3) reinforced social safety nets, (4) extended aid for the tourism sector and (5) promoting Singapore to be a Global-Asia node of technology, innovation, and enterprise.
- We pencil Budget 2021 to see an overall deficit of S$12.5 billion (or 2.5% of nominal GDP). Operating revenue is projected to grow to S$70.0 billion (FY2020: S$63.7 billion) while total expenditure is anticipated to fall to S$80 billion (FY2020: S$102.1 billion) in the upcoming fiscal year.

Exhibit 1: Singapore's Budget Position (FY16 – FY21Est)

Source: Macrobond, UOB Global Economics & Markets Research



The First Budget Of A New Five-Year Term For The Government

Singapore's 2021 Budget will be announced on 16 February 2021. We expect Budget 2021 to centre on helping the country recover from the COVID-19 pandemic and emerge stronger, while at the same time, revisit medium-to-long term measures to develop Singapore's advanced manufacturing capabilities, digital connectivity and accelerate Singapore's industry transformation.

Note that Budget 2021 will be the first budget for the new term of government for the next five years (2021 – 2025). Given that the government must have a balanced budget over the said term, policy-makers will likely be conservative in their fiscal planning, while still providing sufficient support to a K-shaped, uneven economic recovery, which is hobbled by the COVID-19 pandemic.

On this assumption, we expect the upcoming Budget to stay expansionary but calibrated to target at specific industries and parts of society still affected by COVID-19. In this, we anticipate five key thrusts that Budget 2021 could introduce: (1) job creation and preservation, (2) provision of liquidity for businesses, (3) reinforced social safety nets, (4) extended aid for the tourism sector and (5) promoting Singapore to be a Global-Asia node of technology, innovation, and enterprise.

In FY2020, Singapore's fiscal deficit is pencilled at S$74.2 billion after allocating almost S$100 billion of funds to combat COVID-19. This will translate to an accumulated budget deficit of S$56.8 billion in the previous term of government (FY2016 to FY2020). For more details, please read our latest Budget Report: A Three Pronged Plan For The Next Decade (6 October 2020). Given the recently refreshed data by the Ministry of Finance in October 2020, we expect the budget balance in FY2020 to be in line with the budget deficit estimate of S$74.2 billion (-15.3% of GDP).

Economic Performance Is Picking Up

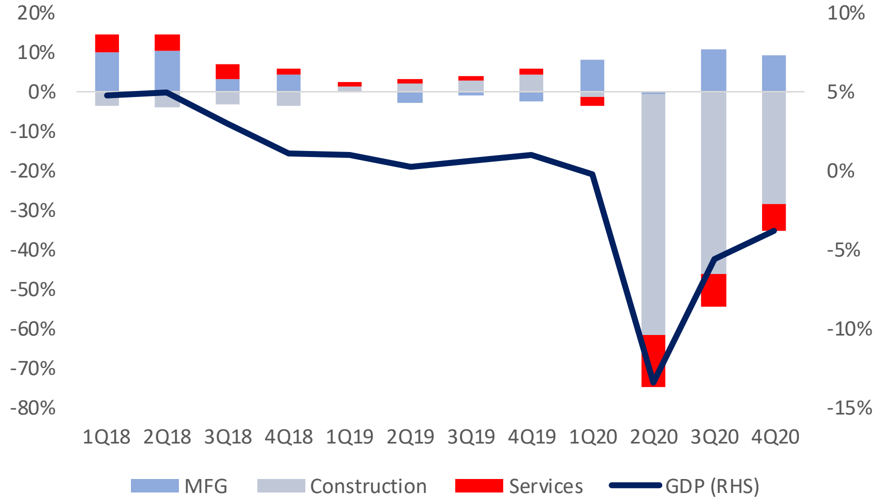
Economic data in the second half of 2020 suggests that the Singapore economy has been recovering since the trough in 2Q20. Based on advance estimates by the Ministry of Trade and Industry, Singapore's 4Q20 GDP contracted 3.8% y/y, improving from 3Q20's pace of -5.6% y/y. On a q/q seasonally adjusted basis, the economy expanded 2.1% in 4Q20, extending the +9.5% q/q sa growth in 3Q20. Note that the data was better than market estimates which was expecting a deeper contraction of 4.7% y/y (+1.3% q/q sa). For the year, the Singapore economy fell 5.8% in 2020.

Despite the recovery momentum, economic performance was uneven across the key sectors. The manufacturing sector was the key outperformer, which rose 9.5% y/y in 4Q20 (3Q20: +10.8% y/y). The expansion was led by output expansions in the electronics, biomedical manufacturing and precision engineering clusters, and outweighed the contractions seen transport engineering and general manufacturing clusters. On the other hand, Singapore's services and construction sectors continued to stay in the doldrums - the construction sector declined for its fourth consecutive quarter at -28.5% y/y in 4Q20, while the services sector contracted 7.8% y/y in 4Q20, compared to -8.4% y/y in 3Q20.

We think that the construction and services sectors may see further headwinds in 1H21. Even as the vaccination continues its rollout globally, the resurgent waves of COVID-19 could further depress tourism-related services clusters in the near term such as wholesale & retail trade, transportation & storage and hotels & restaurants. In the same vein, the construction sector is also facing a slow restart.

Exhibit 2: Singapore GDP Improved Since The Trough In 2Q20

Source: Macrobond, UOB Global Economics & Markets Research



In all, we keep to our call for Singapore to expand by 5.0% in 2021, against MTI's forecast of between +4.0% and +6.0%. We recognise that the global backdrop will likely be favourable for Singapore's economy for the year ahead. This includes the signing of the RCEP (albeit with some uncertainty over when RCEP agreement gets ratified) which Singapore will likely benefit immensely, while US president Joe Biden may take on a more constructive and multilateral approach in trade with other countries. Singapore's position in producing and supplying biomedical products and supplies especially during this COVID-19 pandemic will also continue to lift overall manufacturing activities into 2021.

First Thrust: Job Creation And Preservation

Even with the recovery in 2H20, Singapore's labour market remained weak – unemployment stayed elevated at 3.3% in November 2020 versus an average of 2.0% seen between 2010 and 2019. We expect labour prospects to remain muted at least into 1H21 until the economic recovery becomes more evident in 2H21. Until then, industries such as transport, hospitality and trade could continue to struggle against the COVID-19-induced risks. The acceleration in corporate restructuring as a result of the COVID-19 pandemic may have also led to an increase in job redundancies, which suggests that some jobs that were lost in 2020 may never return.

The data also suggested that the labour market would have weakened further if not for the timely intervention of the various relief measures and schemes announced such as the Job Support Scheme (JSS), SGUnited Traineeships Programme and the SGUnited Mid-Career Pathways Programme. These initiatives served to preserve jobs for local workers, as well as hastened job creation for workers across skills and qualifications. According to the Ministry of Finance, these support measures had "substantially cushioned" the increase in resident unemployment rate by about 1.7%, which translates to about 155,000 jobs saved. Over S$5.5 billion in JSS pay-outs has been disbursed as of 29th October 2020, and had benefitted over 140,000 employers. Nonetheless, the JSS is slated to end in March 2021, while some of the jobs created through SGUnited Jobs and Traineeship Programmes could be temporary positions.

As such, employment, jobs and skills training will likely continue to be key priorities in the Budget 2021. The current circumstances highlight the need for companies to retrain and to upskill their workers so that they will be future-ready. As these restructuring efforts take time, measures are still necessary to support the labour market. We expect Budget 2021 to extend the JSS beyond March 2021, albeit with a scaled-back version to provide more calibrated assistance to support specific sectors, such as transport, trade and hospitality. We also expect further enhancements to the SGUnited Jobs and Skills Package. These could include an extension of the Enhanced Training Support Package (ETSP) beyond July 2021 and support for companies in the private sector through monetary incentives to redesign jobs and to retrain employees.

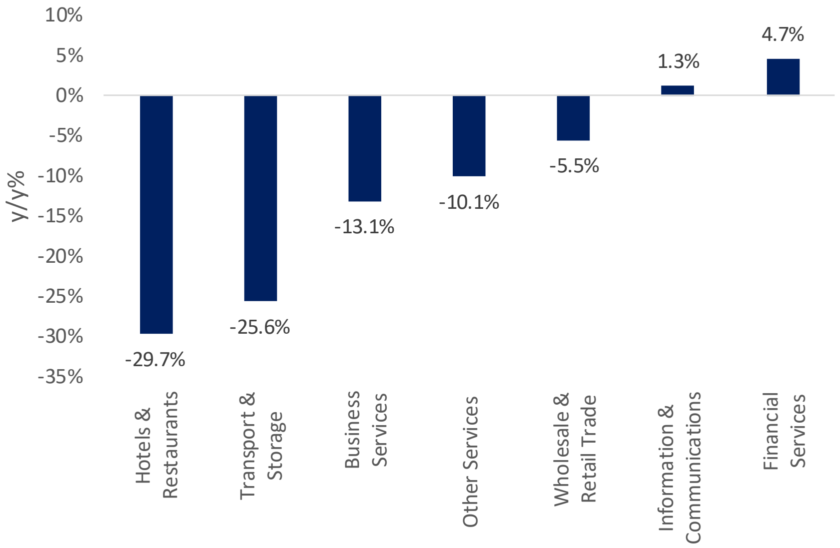
Second Thrust: The Provision Of Liquidity For Businesses

With the recovery expected to be uneven especially for the transport, services and trade industries, government-supported programmes which provided affected businesses with cash flow support measures to stay afloat may remain necessary for 2021.

Singapore's latest economic data suggests that the recovery across the services sector has been uneven – sectors such as Finance & Insurance and Information & Communications have performed well in 2020, as many of the activities could be conducted online. In contrast, sectors such as the Wholesale & Retail Trade, Transportation & Storage, Hotels & Restaurants, and Business Services bore the brunt of the economic slowdown as borders closed and movement restrictions were imposed (see Exhibit 3). The Hotels & Restaurants sector saw the sharpest fall in employment in the first three quarters of 2020 (34,600 jobs), followed by Wholesale & Retail (-25,900) and Transportation & Storage (-7,100) as these industries saw direct negative impact from COVID-19.

Exhibit 3: Singapore's Services Performance (1Q – 3Q 2020)

Source: Macrobond, UOB Global Economics & Markets Research



Given that the above-mentioned sectors are likely to see further headwinds in 1H21, there is a need to continue providing affected businesses with the necessary cash flow for them to stay afloat in the fiscal year ahead. We see a good chance for an extension of several related schemes - the Loan Insurance Scheme and Enterprise Financing Scheme (EFS)-SME Working Capital Loan will expire on 31 March 2021 while the Temporary Bridging Loan Programme and the Enterprise Financing Scheme (Trade Loan) are slated to last till 30 September 2021. These financing schemes could be extended beyond their planned expiry, albeit with some tweaks to reflect the recovering economic fundamentals seen to-date. Further aid, especially for the aviation sector, may also be on the cards, including waivers and rebates for airline-related fees and charges as well as the extension of the Enhanced Aviation Support Package which is slated to end by March 2021.

Nonetheless, we note that the measures will likely be targeted and calibrated to support selected industries – other support measures for industries that have outperformed will likely lapse or taper off in 2021. We also expect some calibration of broad-based measures such as property tax rebates, rental relief for SME tenants, loan deferments and foreign worker levies to aid targeted industries instead.

Third Thrust: Reinforced Social Safety Nets

As discussed above, Singapore's economic recovery has been uneven across various industries. As COVID-19 wears on in 2021, these sectors and its workers may face a challenging backdrop amid potential rise in jobless rates should the pandemic exacerbates. Moreover, other parts of society – especially the self-employed persons and low-income earners – may also require further social safety nets.

In the previous budget, there had been cash pay-outs such as the Solidarity Payment (S$600 per adult Singaporean), grocery vouchers (S$300 for eligible households) and additional GST vouchers (S$480 – S$1,000 depending on HDB flat type) under the Care and Support Package and Solidarity Utilities Credit (S$100). To aid the lower-income group, labour-related schemes such as the Enhanced Wage Credit Scheme and Workfare Special Payment had also been introduced in previous Budgets.

Similar to Budget 2020, the upcoming Budget 2021 may also introduce measures to aid households and individuals that remain affected by the aftermath of COVID-19. We think that the COVID-19 Support Grant – a scheme to help Singaporeans and PRs who were retrenched or placed on involuntary no-pay leave for three consecutive months as a result of the economic impact of COVID-19 – could be revisited in Budget 2021. To defray some living expenses for affected households, grocery vouchers and GST tax vouchers may also be given to eligible households. To support the low-income workers, measures such as the Jobs Growth Incentive (to support employers to accelerate hiring local labour), Enhanced Wage Credit Scheme (to supplement wage increases) and Workfare Special Payment (cash payout above Workfare Income Supplement (WIS)) could be extended further to support the labour market and provide supplementary income to the low-income group.

Social policies will also likely aim to support selected eligible households. Previous broad-based measures such as the Solidarity Payment, deferment of repayment of residential property loans, student loans and renovation loans (lapsed on 31 December 2020) will likely not be re-introduced. In place of them, the Monetary Authority of Singapore had allowed individuals to apply for reduced instalment plans and loan tenure extensions till 30 July 2021.[1]

Fourth Thrust: Extended Aid For The Tourism Sector

Beyond measures aimed to support wages and cash flow for businesses, Budget 2021 could also introduce policies to encourage local tourism. As part of an S$8.0 billion response via a Ministerial Statement[2] in August 2020, the Singapore government introduced S$320 million of credits (SingapoRediscover Vouchers) for adult citizens in hope to boost local tourism. This is coupled with the COVID-19 Cleaning Support for Tourism-related Establishment which defrays third-party costs of professional cleaning services incurred by tourism-related establishments.

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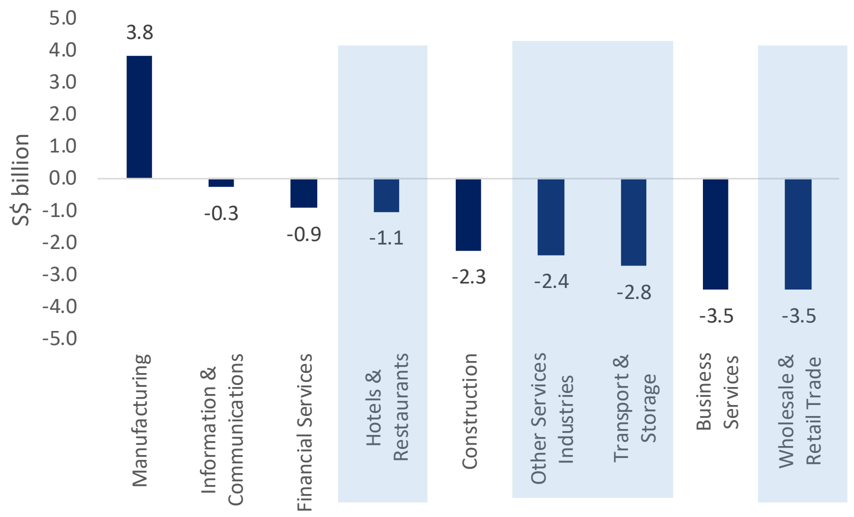
[1] Monetary Authority of Singapore, Helping Individuals Transit to Full Loan Repayments, 5 Oct 2020
[2] Ministry of Finance, Budget 2020 Ministerial Statement, 15 August 2020

While the introduction of SingapoRediscover Vouchers is a welcomed move for the tourism sector, the total injection of S$320 million is small compared to the sharp decline in nominal GDP for the tourism-related industries such as Hotels & Restaurant (-S$1.1 billion) and Other Services[3] (-S$2.4 billion) since 4Q19. Other industries such as Wholesale & Retail (-S$3.5 billion) and Transport & Storage (-S$2.8 billion) also declined likely on second-order effects from the shortfall in tourist arrivals (please see Exhibit 4). Given the recent spike in COVID-19 infection at the start of 2021 especially in Asia, we think that the return of tourists will be delayed, so more support is need especially for the tourism-related sectors.

Exhibit 4: Nominal GDP Decline Across Key Industries (3Q20 YTD)

Source: Macrobond, UOB Global Economics & Markets Research



As such, with international travel likely to be non-existent in 1H21, further support measures to encourage local tourism may be on the cards. There could be a top-up of the SingapoRediscover Voucher above the initial S$320 million injection, and potentially rebates for hotel reservations. Should more aid be needed to support the hospitality sector, the government may also extend further corporate tax rebates to specific sectors to improve their cash-flow.

Fifth Thrust: A Global-Asia Node Of Technology, Innovation, And Enterprise

Despite the unexpected downturn due to COVID-19, the fact remains that the advancement and convergence of new technologies will continue to transform the way people invest, trade and consume. Beyond the first four thrusts that we had identified to support households and businesses in the coming fiscal year, we also expect that Budget 2021 will likely gravitate towards medium-to-long-term goals.

Broadly, we think that these measures will include developing Singapore's physical connectivity and expanding her digital connectivity with Asia and the world, providing opportunities in the extensive upskilling of Singapore's workforce, and investing in the country's economic position as a source of growth and competitive advantage. In all, these measures will serve to accelerate Singapore's industry transformation, open up new opportunities for workers and businesses, and build Singapore's position as a Global-Asia node of technology, innovation and enterprise.

[3] Other Services cluster includes Arts, Entertainment & Recreation, Public Administration & Defence, Education and Health & Social Services.

Moreover, the introduction of COVID-19 has effectively spurred Singapore's digital transformation. During the pandemic period, businesses have seen the importance of digital technology - specifically in the use of cloud computing, cybersecurity solution demand and the need to hire (or train) workers in specific skillsets such as systems architecture design, behavioural analytics, and digital forensics. According to a 2020 survey jointly published by Microsoft and IDC Asia Pacific[4], more than 80% of respondents said they had embraced digital transformation, while 72% of them commented that COVID-19 had accelerated the adoption of digital solutions. More disconcerting perhaps, is that 54% of the respondents cited delays in their digital transformation efforts due to COVID-19.

Budget 2021 is also likely to introduce measures to expand Singapore's manufacturing sector over the next 10 years. According to the Ministry of Trade and Industry (MTI), policy-makers are aiming to grow the manufacturing sector by 50% over the next decade, while keeping the manufacturing share to GDP at 20%. MTI Minister Chan Chun Sing added that this goal is a "qualitative transformation" in promoting advanced manufacturing to take up a bigger role in the future economy.[5]

As such, we expect Budget 2021 to potentially extend specific policies that are slated to expire, as well as increase the support levels for others. First, the Productivity Solution Grant (PSG) support for COVID-19 continuity measures which has ceased on 31 December 2020[6], may be restarted into 2021, especially for businesses which experienced digital transformation disruption in 2020. Second, the move to reduce PSG's maximum funding support level of 70% starting 1 October 2021 from 2020's 80% handle could be postponed for a year. Third and lastly, allocation of monies to promote Singapore's advanced manufacturing space, as well as to better support deep-tech start-ups and help enterprises identify overseas opportunities could also be made.

An Expansionary But Calibrated Budget

The fact remains that COVID-19 is likely here to stay for a considerable time, and presents downside risks for both workers and businesses should the pandemic exacerbate unexpectedly. Against the backdrop of an economic downturn induced by the pandemic, the pace of digital transformation has been extraordinary. This is coupled with the need for Singapore to position itself as an important player in the global economic space.

Thus, Budget 2021 is expected be expansionary, but also calibrated to help specific pockets of the economy still affected by COVID-19. Beyond short-term measures, medium-to-long-term measures to deepen Singapore's physical connectivity and expand her digital connectivity with Asia and the world will also likely be seen in the upcoming Budget.

Overall, we pencil the upcoming Budget 2021 to see an overall deficit of S$12.5 billion (or 2.5% of nominal GDP), similar to the projected shortfall in the Unity Budget FY2020 at S$10.9 billion. This is compared to the projected fiscal deficit of S$74.2 billion (-15.3% of nominal GDP) in FY2020. On the back of the expected economic recovery in 2021, we estimate operating revenue to grow to S$70.0 billion in FY2021, up from a projected S$63.7 billion in the previous year. Total expenditure, given the expected tapering of many temporary measures previously introduced in FY2020, is pencilled to fall to S$80 billion in the upcoming fiscal year.

[4] Microsoft, ASME-Microsoft study 2020, 22 October 2020
[5] Channel News Asia, Singapore aims to grow manufacturing sector by 50% over next 10 years, 25 January 2021
[6] Singapore Business Grant Portal, PSG Support for COVID-19 continuity measures, 30 November 2020

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