Macro Note

Singapore 2023 Budget: Comprehensive Measures Into A New Era

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- Singapore's Budget FY2023 was tabled in an environment of sustained higher inflation, rising business costs and higher economic uncertainty and volatility. Themed "Moving Forward In A New Era", this is the first post-pandemic budget as Singapore lowered its Dorscon level from yellow to green as the remaining of its COVID-19 measures were lifted on 13 Feb.

- Overall, strong and comprehensive measures were announced to help cushion the impact of GST and higher inflation, build capabilities in local enterprises while addressing the demographic challenges of an ageing population and falling fertility with generous incentives to support parenthood into a new era. Notably absent were further measures to advance Singapore's green transition ahead of the increase in Singapore's carbon tax from 2024. Another one was the lack of measures to address the ongoing manpower issues.

- The three key thrusts in Budget FY2023 are 1) Support Measures For Singaporeans, 2) Growing Our Economy And Equipping Our Workers, and 3) Strengthening Our Social Compact.

- Key Budget Figures: The government reported an overall deficit in its fiscal position for FY2022 of S$2.0 bn (-0.3% of GDP) which is marginally smaller than its initial budgeted deficit of S$3.0bn (-0.5% of GDP) while we were anticipating a balanced position due to the stronger economic recovery. For FY2023, Singapore is projected to continue to register a small fiscal deficit of S$0.4 bn (-0.1% of GDP), in line with our anticipation that a more expansionary budget may be needed to respond to an uncertain global environment amid still elevated inflation. Having said that, should the economy turn out to be stronger than expected, a more favourable revenue collection could turn the FY2023 fiscal position to a small positive.

Singapore's FY2023 Budget: Wide-Ranging Measures Covering Family, Social & Company Support, Build Capabilities, Retirement Adequacy And Wealth-Related Taxes

Singapore's economy has continued to recover from the COVID-19 pandemic over the last two years, with the real GDP rebounding by 3.6% in 2022 and 8.9% in 2021 from -3.9% in 2020. The labour market is now tighter than pre-pandemic as the overall and resident unemployment rates (seasonally adjusted) fell to 2.0% and 2.8% respectively in Dec while employment gains over the past two years (+273.1k) more than offset job losses in 2020 (-166.6k).

In 2023, the MTI is expecting GDP growth to slow to the range of "0.5-2.5%" while we forecast a modest rise of 0.7% (closer to the lower end of the official forecast). Meanwhile, the official forecast for core inflation is at 3.5-4.5% and CPI-All Items inflation at 5.5-6.5% for 2023 after factoring in the 1% point increase in the Goods & Services Tax (GST) that came into effect on 1 Jan.

Right By You

Singapore's Budget FY2023 was tabled in an environment of sustained higher inflation, rising business costs and higher economic uncertainty and volatility. Themed "Moving Forward In A New Era", this is the first post-pandemic budget as Singapore lowered its Dorscon level from yellow to green with the remaining of its COVID-19 measures lifted on 13 Feb.

Deputy Prime Minister and Finance Minister Mr Lawrence Wong announced a suite of strong and comprehensive measures to help cushion the impact of GST and higher inflation, build capabilities in local enterprises while addressing the demographic challenges of an ageing population and falling fertility with generous incentives to support parenthood.

Notably absent was the lack of further measures to advance Singapore's green transition including more support to local companies ahead of the sharp increase in Singapore's carbon tax from 2024. Another one was the lack of measures to address the ongoing manpower issues (including labour shortages and rising labour costs) impacting many businesses, especially the in-person services sectors, although we do note that the dependency ratio ceiling (DRC) was not mentioned in the budget, implying at least no further tightening for any sector this time round.

All in all, the measures were comprehensive and broadly address the most pertinent concerns of both individuals and businesses. The three key thrusts in Budget FY2023 are 1) Support Measures For Singaporeans, 2) Growing Our Economy And Equipping Our Workers, and 3) Strengthening Our Social Compact.

1) Support Measures For Singaporeans

Inflation is expected to stay higher for a longer period of time and thus more support is needed to help households manage their cost-of-living issues. This has remained a key priority area as the 1% point hike in GST rate to 8% on 1 Jan added to the already high inflation pressure from elevated global prices. Another 1% point increase in the GST to 9% will be implemented as scheduled on 1 Jan 2024.

As expected, the government announced enhancements to the permanent GST Voucher (GSTV) scheme and Assurance Package as well as a higher amount of Community Development Councils (CDC) Vouchers for Singaporeans in 2024:

a) For those residing in homes with Annual Values of S$13,000 and below, the **GSTV Cash quantum** will be increased from S$500 to S$700 in 2023, and to a further S$850 from 2024 onwards. For residents in homes with Annual Values of above S$13,000 and up to S$21,000, the GSTV Cash quantum will be raised from S$250 to S$350 in 2023, and then to S$450 from 2024 onwards.

b) The enhancements to the Assurance Package include additional one-off support measures including a **Cost-of-Living Special Payment** of between S$200 and S$400 for each eligible adult Singaporean, and a **Cost-of-Living Seniors' Bonus** of between S$200 and S$300 for eligible Singaporeans aged 55 and above. The **U-Save Rebates** provided to eligible households over the next three tranches of disbursement this year will be doubled. Children aged six and below will receive a top-up of S$400 to their **Child Development Account** and older children will receive top-up of S$300 to their Edusave account or Post-Secondary Education Account.
c) CDC Vouchers for all Singaporean will be increased by S$100 in 2024 to bring the total amount to S$300 of CDC vouchers in Jan 2024.
The Assurance Package first announced in FY2020 Budget was meant to cushion the impact of the GST increase for all Singaporeans, to cover at least five years of

additional GST expenses, or ten years for lower income households. It was enhanced to S$6.6bn in 2022 Budget (from the original S$6.0bn). These new enhancements to the Assurance Package will cost S$3 bn which will raise the total amount of the Package to S$9.6 bn.

2) Growing Our Economy And Equipping Our Workers

With Singapore moving into COVID-19 endemicity and further recovery expected in the pandemic-hit sectors including F&B, retail, travel and construction this year, there are other more pressing issues including manpower shortages and rising costs. As we pointed out in our budget preview, the long-term solution for businesses especially in the labour-intensive industries will continue to be in the areas of improving their productivity through upskilling/reskilling of workers, technology and digitalization.

Supporting Businesses: To further sharpen the competitiveness of the local businesses and nurture innovation, the government has announced further support under the Singapore Global Enterprises initiative (S$1bn injection) and, SME Co-Investment Fund (S$150mn injection), and the National Productivity Fund to develop local companies and help companies expand globally. A new **Enterprise Innovation Scheme** was also announced to support businesses' innovation activities via enhanced tax deductions/allowances, with a cash conversion option. This reflects the Government's continued commitment to encourage R&D and innovation.

Supporting Workers: There are also a number of measures targeted at upskilling, reskilling as well as uplifting the lower-income group. Notably the government announced a top-up of S$2.4bn to the Progressive Wage Credit Scheme (PWCS) fund introduced in Budget FY2022 to co-fund eligible wage increases in 2023. Measures such as the extension of Senior Employment Credit and Part-time Re-employment Grant for senior workers till 2025 will help to address concerns over Singapore's ageing workforce. The government will also provide incentives for the employment of persons with disabilities and ex-offenders as it moves towards a more inclusive society.

Cost Pressures: To help businesses deal with the cost pressures, the government has announced an extension of the Enterprise Financing Scheme enhancements till 31 Mar 2024 to facilitate firms' access to credit. Similarly, the Energy Efficiency Grant will also be extended till 31 Mar 2024 for SMEs in Food Services, Food Manufacturing, and Retail sectors to adopt energy-efficient equipment, given higher electricity prices.

3) Strengthening Our Social Compact

Generous Incentives To Support Parenthood: The biggest surprise in this year's announcement was the extent of the fertility and childcare-related measures, which were quite comprehensive and show the government's commitment to reverse the declining resident fertility rate.

The measures to support young families and encourage parenthood are numerous and generous in Budget FY2023 which include more cash support in the form of higher Baby Bonus and increase in the government contributions to the Child Development Account (CDA). The government-paid paternity leave will be doubled while Working Mother's Child Relief (WMCR) will be revamped to be a fixed dollar relief instead of a percentage of the mother's earned income which will provide more government support for eligible lower- to middle-income working mothers. In terms of housing support, first-timer families will be prioritised to secure a BTO flat and CPF Housing Grant will be raised by up to S$30,000.

Strengthen Retirement Adequacy And Support For Healthcare Needs: In view of the ageing population and rising retirement needs of Singaporeans, further increase in the CPF contribution rates for senior workers in 2024 (in addition to increases in 2022-23) and lifting of CPF monthly salary ceiling from S$6,000 to S$8,000 by 2026 are timely. The minimum CPF monthly payout for seniors on the Retirement Sum Scheme will be raised to S$350 a month. Other announcements to support the seniors' healthcare needs include top ups to the ElderCare Fund and MediFund.

Base Erosion and Profit Shifting Initiative (BEPS 2.0)

Changes to the corporate tax system will have far reaching consequences for Singapore's biggest tax revenue component. DPM Wong said that the government intends to implement Pillar 2 from 2025, as part of the broader international move to align minimum global corporate tax rates for large MNE groups. Concurrently, a Domestic Top-up Tax (DTT), which will top up the MNE groups' effective tax rate in Singapore to 15% will be implemented. These will continue to be reviewed and updated to ensure Singapore remains competitive in attracting and retaining investments. The developments on BEPS 2.0 are still fluid and any impending changes will be given sufficient notice.

Ensuring A Competitive, Resilient And Fair Tax System

In Budget FY2022, the government had raised the top marginal personal income tax rate and residential property tax rates for higher-end and non-owner-occupied properties as well as introduced a new ARF (Additional Registration Fee) tier for cars.

The move towards a fairer tax system continued in the current budget with a number of measures including higher marginal Additional Registration Fee (ARF) rates for higher-end and luxury cars, and the Preferential ARF rebates capped at S$60,000.

There is an increase in Buyer's Stamp Duty (BSD) rates for higher-value properties, with effect from 15 Feb 2023. The higher BSD rates may further dampen the property market in Singapore amid higher interest rates and a more uncertain economic environment.

FY2022 And FY2023 Fiscal Position

The government reported an overall deficit in its fiscal position for FY2022 of S$2.0 bn (-0.3% of GDP) which is marginally smaller than its initial budgeted deficit of S$3.0bn (-0.5% of GDP). In comparison, we were anticipating a balanced position due to the stronger economic recovery and the stronger revenue especially from corporate and personal income tax.

For FY2023, Singapore is projected to continue to register a small fiscal deficit of S$0.4 bn (-0.1% of GDP). This slightly expansionary stance budgeted for 2023 is in line with an uncertain global environment amid still elevated inflation. Having said that, should the economy turn out to be stronger than expected, a more favourable revenue collection could turn the FY2023 fiscal position to a small positive. With FY2023 being the third year of the current 5-year term and deficits reported in the past two years, there will be pressure for the government to return to a fiscal surplus position by 2024.

Fiscal sustainability is one of the top priority areas as Singapore emerges from the COVID-19 pandemic. Singapore had drawn on past reserves from FY2020 to FY2022 of an estimated S$40.0 bn to fight the pandemic, smaller than the initial planned withdrawal of S$52.0 bn. Further indicating fiscal discipline, the government will be reducing the balance of the Contingencies Funds from S$16 bn to S$6 bn as the economy returns to normalcy, although this is still above S$3 bn prior to the COVID-19 pandemic.

However, DPM Wong said that unlike during the Global Financial Crisis when Singapore similarly drew on past reserves (S$4 bn then), the government is unlikely able to replenish the withdrawal this time round due to its tight fiscal position. Notably, past reserves contribute significantly to the Net Investment Returns Contribution (NIRC) which at 3.5% of GDP per annum over the last five years, will support about one-fifth of government spending. Faced with rising spending needs (Occasional Paper on Medium-Term Fiscal Projections) which is forecast to increase to around 19-20% of GDP in the FY2026-30 period (currently around 18% of GDP), and possibly exceed 20% of GDP by FY2030, we expect the government to continue to maintain its prudent fiscal approach ahead.

Table 1: Budget Position For FY2022 (Revised) and FY2023 (Budgeted)

Source: Ministry Of Finance Singapore, Macrobond, UOB Global Economics & Markets Research

Overall Fiscal Position for FY2022 & FY2023

	(Revised) FY2022	(Budgeted) FY2023	Change Over Revised FY2022	
	$bn	$bn	$bn	% change
Operating Revenue	**90.28**	**96.70**	6.42	7.1
Tax Revenue	85.84	92.18	6.34	7.4
Fees and Charges (excluding Vehicle Quota Premium)	3.88	3.95	0.07	1.8
Others	0.56	0.58	0.02	3.6
Total Expenditure	**106.95**	**104.15**	(2.80)	(2.6)
Operating Expenditure	86.32	83.62	(2.70)	(3.1)
Development Expenditure	20.63	20.52	(0.11)	(0.5)
Primary Surplus / Deficit	(16.67)	(7.45)		
Special Transfers	**9.16**	19.58	10.42	113.8
Special Transfers Including Jobs Support Scheme & other Transfers, Excluding Top-ups to Endowment and Trust Funds	2.91	2.76		
Basic Surplus / Deficit	(19.58)	(10.21)		
Top-ups to Endowment and Trust Funds	6.25	16.82		
Net Investment Returns Contribution	**21.61**	23.48	1.87	8.7
Overall Budget Surplus / Deficit	(4.22)	(3.55)		
Add:				
Capitalisation of Nationally Significant Infrastructure	**2.28**	3.53	1.25	54.8
Less:				
Depreciation of Nationally Significant Infrastructure	-			
SINGA Interest Costs and Loan Expenses	**0.09**	0.33	0.24	255.3
Overall Fiscal Position	(2.04)	(0.35)		
Overall Fiscal Position (% of GDP)	-0.3%	-0.1%		

Note: Figures may not add up due to rounding. Negative figures are shown in parentheses.

Summary of Key Fiscal Measures	
Support For Singaporeans	GST Voucher (GSTV) Scheme (Permanent)
	▪ For those residing in homes with Annual Values of S$13k and below, GSTV Cash quantum to increase from S$500 to S$700 in 2023, and to a further S$850 from 2024 onwards

	▪ For those residing in homes with Annual Values of above S$13k and up to S$21k, GSTV Cash quantum to increase from S$250 to S$350 in 2023, and then to S$450 from 2024 onwards	
	Assurance Package (Not Permanent) – enhanced from S$6.6bn to S$9.6bn	
	Individuals	Households
	Cash ▪ Age 21 to 54: up to S$1700 ▪ Age 55 & above: up to S$2300 MediSave Top-Ups ▪ Age 20 & below: S$150 ▪ Age 55 & above: S$140-S$600 Child Development Account (CDA) Top-Up ▪ S$400 Edusave Account & Post-Secondary Education Account Top-Ups ▪ S$300 One-Off ▪ Cost-of-living special payment between S$200 and S$400 for every adult Singaporean ▪ Cost-of-living senior bonus payment between S$200 and S$300	CDC vouchers ▪ S$300 in Jan 2025 U-Save Rebates ▪ Doubled up to S$760 S&CC Rebates ▪ 1.5-3.5 months

Three Key Thrusts	1. Growing Our Economy; Equipping Workers	
	Businesses	Workers
	Developing local enterprises ▪ S$1bn of customized support for promising local companies under **Singapore Global Enterprises** initiative ▪ Additional S$150mn via **SME Co-Investment Fund** to invest in promising SMEs Building capabilities and anchoring quality investments ▪ Top up S$4bn to **National Productivity Fund** Nurturing and Sustaining Innovation ▪ Introduce **Enterprise Innovation Scheme** to support businesses' innovation activities via enhanced tax deductions/allowances - Tax deduction raised to 400% of qualifying income (from 250%) - For non-profitable companies, to allow them to convert 20% Dealing with cost pressures ▪ Extend **Enterprise Financing Scheme** enhancements till 31/03/2024 to facilitate access to credit ▪ Extend **Energy Efficiency Grant** till 31/03/2024 for SMEs in Food Services, Food Manufacturing, and Retail sectors to adopt energy-efficient equipment	Integrate training and job placement ▪ Pilot **Jobs-Skills Integrators** in Precision Engineering, Retail, and Wholesale Trade sectors to bring together key players to develop industry-relevant training and facilitate job matching Enhance employment support ▪ Top up S$2.4bn to **Progressive Wage Credit Scheme** fund for lower-wage workers, and maintain higher Government co-funding share of eligible wage increases in 2023 ▪ Extend **Senior Employment Credit** and **Part-time Re-employment Grant** for senior workers till 2025 to continue providing wage offsets, and encourage employers to offer flexible work arrangements and structured career planning ▪ Enhance **Enabling Employment Credit** to encourage employment of persons with disabilities ▪ Introduce **Uplifting Employment Credit** to encourage employment of ex-offenders

	2. Strengthening Our Social Impact		
	Building families	Supporting lower-income families	Providing assurance in silver years

	▪ Extend S$3k **Baby Support Grant** for eligible Singaporean children born from 01/10/2022 to 13/02/2023 ▪ For all other eligible Singaporean children: Increase in Baby bonus cash gift by S$3k ▪ Government-paid **paternity leave** increased from 2 wks to 4 wks ▪ Working Mother's Child Relief (**WMCR**) is changed from a percentage of income earned to a fixed dollar relief ▪ For all Singaporean children aged under 2 years from 01/01/2024 onwards: **Increase Unpaid Infant Care Leave** from 6 to 12 days per year for each parent ▪ Provide more support to **First-Timer families** - to secure a BTO flat (given one more ballot) ▪ to buy resale HDB flats (via an increased **CPF Housing Grant** by up to S$30k for 4-room or smaller flat, and up to S$10k for 5-room or larger flat ▪ **Foreign Domestic Worker Levy Tax Relief** from Year of Assessment 2025, allowed to lapse	▪ Scale up **KidSTART** to support positive development outcomes for children ▪ Leverage **ComLink** to integrate delivery of social services ▪ Top up S$300mn to **ComCare Endowment Fund** to provide necessary social assistance to lower-income families	Support long-term care and healthcare needs ▪ Top up S$500mn to **ElderCare Fund** ▪ Top up S$1.5bn to **MediFund** Strengthen retirement adequacy ▪ Provide **CPF Transition Support** to lower-income Platform Workers in the first four years of implementation ▪ Increase CPF contribution rates for senior workers in 2024 and provide **CPF Transition Offset** to employers ▪ Increase minimum CPF monthly payouts for seniors on **Retirement Sum Scheme** to S$350 ▪ **Increase CPF monthly salary ceiling** from S$6k to S$8k by 2026

3. Building A Resilient Nation

Building organizational capabilities

- Build organisational capabilities within the public service by putting in place a more comprehensive system to train public servants, mobilise and cross-deploy them for various crisis roles based on their skillsets and expertise
- Tap on the capabilities of the private and people sectors in responding to crisis

Ensuring economic and infrastructure resilience

- Build up supply chains through diversification of import sources, stockpiling of food and essential items, and local production
- Review stockpiling strategies and improve diversification of critical supplies
- Design buildings to serve both peacetime and crisis functions

Safeguarding our climate resilience

- Accelerate low-carbon transition for our economy and society, to achieve net zero emissions by 2050
- Take steps to adapt to global warming and rising sea levels

Our resilience as a people

- Extend 250% tax deduction for donations to Institutions of a Public Character (IPCs) and eligible institutions to end-2026 to encourage giving
- Enhance **Corporate Volunteer Scheme** to deepen partnerships between businesses and IPCs
- Review salary benchmarks and raise salary guidelines for the social service sector
- Top up **Community Silver Trust** by S$1bn to support social service agencies
- Provide a S$10mn top-up to support Self-Help Groups over the next three years

Taxes	Corporate Income Tax ▪ Base Erosion and Profit Shifting Initiative (BEPS 2.0) - Stated intention to implement Global Anti-Base Erosion (GloBE) rules under BEPS Pillar 2 and Domestic Top-up Tax (DTT) for large Multinational Enterprise (MNE) groups from businesses' financial year starting on or after 01/01/2025. - This is still subject to review and update Vehicle Tax ▪ **Higher marginal Additional Registration Fee (ARF)** rates for higher-end and luxury cars - Portion of Open Market Value in excess of $40k and up to $60k will be taxed at 190%; in excess of $60k and up to $80k at 250%; and in excess of $80k at 320% ▪ Cap Preferential ARF (PARF) rebates at $60k Buyer's Stamp Duty and Additional Conveyance Duties for Buyers ▪ Increase **Buyer's Stamp Duty (BSD)** rates for higher-value properties, with effect from 15/02/2023 ▪ For residential properties, the portion of the property value: In excess of $1.5mn and up to $3mn will be taxed at 5% (up from 4%); in excess of $3mn will be taxed at 6% (up from 4%) ▪ For non-residential properties, the portion of the property value: In excess of $1mn and up to $1.5mn will be taxed at 4% (up from 3%); in excess of $1.5mn will be taxed at 5% (up from 3%) ▪ BSD rates on or before 14/02/2023 will apply for eligible transitional cases ▪ Additional Conveyance Duties for Buyers, which applies to qualifying acquisitions of equity interest in property holding entities, will be adjusted accordingly Tobacco Excise Duty ▪ Increase excise duty on tobacco products by 15%

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