

Singapore Economics

Budget Preview: A “Valentine Present”

Budget FY2023 on Valentine’s Day

Finance Minister Lawrence Wong will unveil his “Valentine” Budget on 14 Feb 2023 to help Singaporeans cope with rising costs of living, especially those in the more vulnerable and lower-income groups. Prime Minister Lee hinted of additional incentives to encourage more Singaporeans to have children. Social support will likely be expanded in the form of temporary cash support and training subsidies. The next 1% GST hike to 9% will likely proceed on 1 Jan 2024 as the economy is holding up and odds of recession have eased with China’s reopening.

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Budget FY2022 in Surplus as Tax Receipts Jump

Last year’s Budget FY2022 likely generated a surplus of about \$5.6bn or 0.9% of GDP, much better than the projected 0.5% deficit, by our estimates. Robust GDP (+3.8%) and record-high employment growth (+231.7k) in 2022 drove up fiscal revenue. Operating revenue rose by +11.1% in the first 9 months (Apr-Dec) of the fiscal year from a year ago, mainly led by corporate income tax (+27.8%), GST (+13.1%), and personal income tax (+8.9%). Expenditure has been coming in below budget projections, partly due to lower spending on Covid related measures. The surplus will help fund the remaining fifth and sixth, which may be “election” budgets, under this electoral term (where cumulative fiscal balances must not be in deficit). The next General Election is due by Nov 2025.

Net Investment Returns Supported by MAS Transfers to GIC

Net investment returns contribution (NIRC) likely came in within the budget estimate of \$21.6bn. The MAS’ transfer of S\$238bn of excess reserves to GIC for investment management likely supported returns, offsetting the possible impact from weaker global equity markets on Temasek and GIC. The MAS reported a loss (S\$7.4bn) in FY2021/22 for the first time in 9 years, although this may have limited impact, as the contribution is based on long-term expected returns.

Countering Rising Costs, Supporting Unemployed Workers

Budget FY2023 will focus on helping Singaporeans cope with rising inflation and businesses with rising costs, while supporting unemployed workers. The GST Assurance Package will be topped up by S\$1.4bn in Budget 2023 to bring the total to S\$8bn. There may be a more permanent safety net to support retrenched or unemployed workers, in the form of temporary cash support for a defined period. Subsidies for training and upskilling will likely be expanded. Progressive Wage Scheme may be expanded to cover more sectors, although this risks fanning wage cost pressures on inflation.

Help Businesses Cope with Costs, Pause on Wealth Tax

Support measures to help businesses may be similar to the \$500mn Jobs & Business Support Package (in Budget 2022), including Small Business Recovery Grants, Temporary Bridging Loan and Trade Loan schemes. The Workfare Income Supplement may not be expanded as the resident unemployment rate has fallen to pre-pandemic lows. More measures are expected for the green transition, particularly on sustainable financing. DPM Wong signalled in Aug 2022 that the wealthy may face more taxes as the government aims for more inclusive growth. As wealth taxes announced last year are still being implemented - property taxes, car duties & marginal personal income tax rate are rising further in 2024 - the government may pause on further wealth taxes in this Budget.

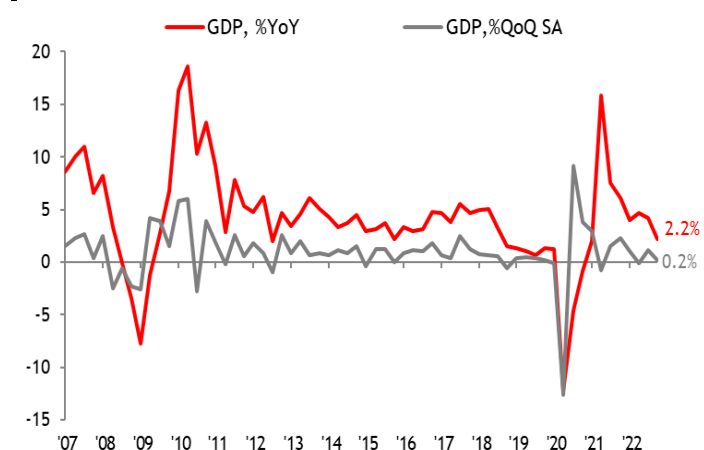
Budget Preview: A “Valentine Present”

“We recognize the concerns that many people have about cost-of-living issues... Hence, (we are) looking at additional measures in the budget to support Singaporeans over the coming year, especially those in the more vulnerable and lower income groups... The Budget would be announced on Feb 14. It will be my Valentine’s Day present to all of you.”

DPM and Finance Minister Lawrence Wong, 3 Jan 2023 at launch of CDC voucher scheme.

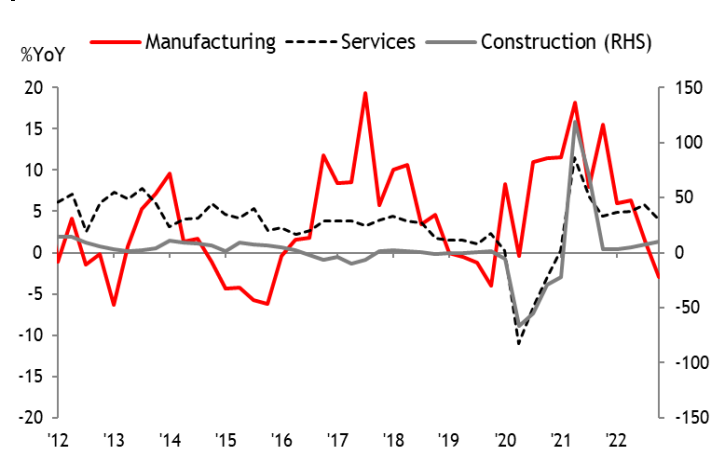
We forecast GDP growth at **+1.7% in 2023**, slightly above the mid-point of the government’s 0.5% to 2.5% forecast range, and **+2.2% in 2024**. Manufacturing and trade-related services will weaken this year on the back of a global growth slowdown, while the hospitality, aviation, and consumer-facing sectors will continue to recover and support growth. China’s reopening will cushion the impact from a slowing US and EU economy and reduce the odds of a recession. High US interest rates will keep Singapore’s interest rates elevated, weighing on the property market and dampening business investment.

Fig 1: 4Q GDP Growth Eased to +2.2% From a Year Ago, Rose Slightly by +0.2% from Preceding Quarter



Source: CEIC, Department of Statistics

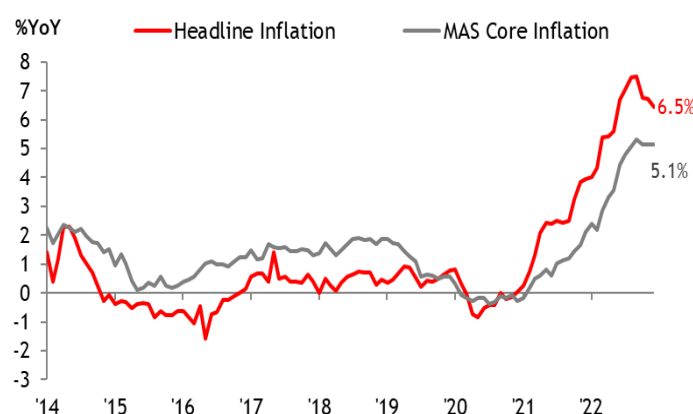
Fig 2: Manufacturing (-3%) Contracted for the First Time Since 2Q2020, Services (+4.1%) Growth Slowed



Source: CEIC, Department of Statistics

Inflation probably peaked in Sep 2022, but core inflation remains elevated and well above the MAS’ comfort range (see Fig 3). We forecast average headline inflation at **+6% in 2022** (vs. +6.1% in 2022) and core inflation at **+4% in 2022** (vs. +4.2% in 2022). Core inflation will likely be sticky and fall slowly in 2023 because of a tight labour market; housing shortage; a 1% GST hike and extension of GST to low-value imported goods starting 1 January 2023; and expansion of the Progressive Wage Model to larger sectors, including food services, waste management and occupational (administrators, drivers) on 1 March 2023. China’s reopening will complicate the inflation outlook and likely drive energy and other commodity prices higher (see *ASEAN Economics - When China Reopens*, 21 Oct 2022). Energy prices are included as a component of MAS core inflation.

Fig 3: Core CPI (+5.1%) Remains Elevated in Dec, Headline CPI (6.5%) Eased to 7-Month Low



Source: CEIC

Table 1: Prices of Food and Recreation & Culture Pushed Up Core CPI in Dec

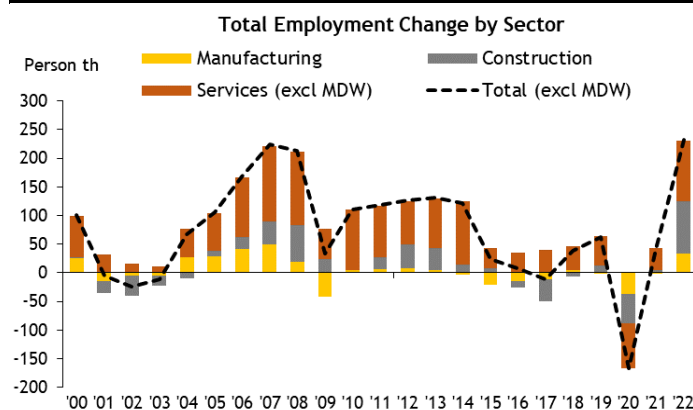
%YoY	Sep-22	Oct-22	Nov-22	Dec-22	2022	2021
CPI - All Items	7.5	6.7	6.7	6.5	6.1	2.3
Food	6.9	7.1	7.3	7.5	5.3	1.4
Clothing and Footwear	6.0	3.2	6.7	6.0	2.8	-5.5
Housing & Utilities	6.2	5.9	5.6	5.5	5.2	1.4
Household Durables & Services	2.3	2.4	2.4	2.0	2.0	1.5
Health Care	2.8	2.8	2.7	3.0	2.2	1.1
Transport	19.0	15.5	14.9	12.7	16.4	8.8
Communication	0.0	-0.1	-0.7	-0.7	-1.2	-0.6
Recreation & Culture	6.1	5.6	5.8	7.5	4.3	1.0
Education	2.1	2.0	1.9	2.1	2.1	1.3
Miscellaneous Goods & Services	0.8	0.9	1.5	1.1	0.5	-0.5
Core inflation	5.3	5.1	5.1	5.1	4.1	0.9

Source: CEIC

Total employment rose by a record high of +231.7k in 2022, mainly driven by the return of non-resident workers in the construction and manufacturing sectors (see Fig 4). Resident employment also rose in 2022 but at a slower pace from the previous year, with growth mainly in external-oriented sectors such as financial services and infocomm, as well as community, social, and personal services.

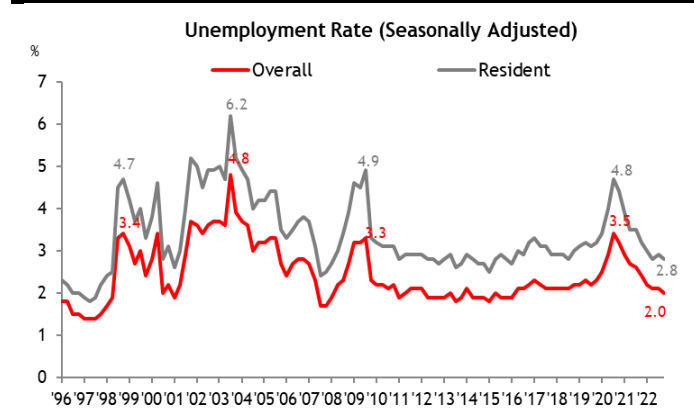
The unemployment rate returned to pre-pandemic lows of 2% in 4Q2022 (see Fig 5), amid the tight labour market and sustained economic growth. The resident unemployment rate has fallen below the pre-pandemic levels to a low of 2.8%, the lowest since 3Q2018. While retrenchments picked up to 3k in 4Q from the lows of the previous 3 quarters (between 800 and 1,300), the Ministry of Manpower expects hiring sentiments to stay positive with 64.6% of firms surveyed planning to hire in the next 3 months (down from 69.3% in 3Q).

Fig 4: Total Employment Rose by a Record High of +231.7k in 2022, Beating the +223.5k Growth in 2007



Source: Ministry of Manpower

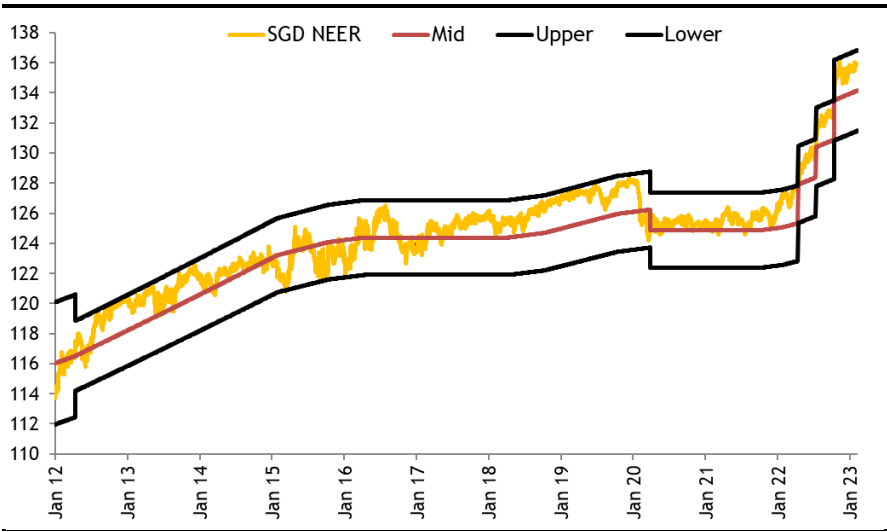
Fig 5: Overall Unemployment Rate Fell to 2% in 4Q, the Lowest Since 1Q2016



Source: CEIC

The MAS will likely tighten again at the mid-April 2023 policy meeting via another re-centering of the S\$NEER band. We are not expecting the MAS to change the slope or width of the band. The S\$NEER is currently trading at about 1.3% above the mid-point of the band (see Fig 6). We are not expecting a pre-meeting move, as there is still room for the S\$NEER to appreciate within the topside of the band.

Fig 6: SGD NEER Currently Trading at Around +1.3% Above Implied Mid-Point



Source: Maybank GM FX Research

FY2022 Fiscal Balance Likely a Surplus

Budget FY2022 likely registered a surplus of about 0.9% of GDP, better than the projected 0.5% of GDP deficit estimated in the original budget in Feb 2022 (see Table 2). Operating revenue rose by +11.1% in the first 9 months (Apr-Dec) from a year ago, mainly driven by corporate income tax (+27.8%), goods & services tax (+13.1%), and personal income tax (+8.9%). Expenditure has been coming below budget projections due to lower operating and development expenditure, partly due to lower spending on Covid related measures.

The surplus will help fund the remaining fifth and sixth, which may be “election” budgets, under this electoral term (where cumulative fiscal balances must not be in deficit). The next General Election is due by Nov 2025. This year’s Budget FY2023 will likely be planned around a balanced or small surplus. The cumulative fiscal balances for the first 3 years of budget under this electoral term is still in a deficit of around -\$2.3bn, by our estimates (see Table 7).

Actual FY2021 fiscal balance also likely came in at a small surplus of 0.1% of GDP (versus government estimates of a deficit of 0.9% of GDP), given the better than expected operating revenue and lower than expected expenditure, resulting in a smaller primary deficit.

Table 2: Fiscal Position in FY202 and FY2022

	FY2021 (in Feb 2022)	FY2021 (Actual)	FY2022 (Budgeted)	FY2022 (Maybank Forecast)
	SGD mn	SGD mn	SGD mn	SGD mn
Operating Revenue	80,365	82,487	81,754	88,000
Less:				
Total Expenditure	98,406	94,796	102,406	100,000
Primary Surplus / Deficit	-18,040	-12,310	-20,652	-12,000
Less:				
Special Transfers Excluding Top-ups to Endowment and Trust Funds	7,897	7,897	2,192	2,192
Basic Surplus / Deficit	-25,937	-20,207	-22,844	-14,192
Top-ups to Endowment and Trust Funds	-	-	4,050	4,050
Add:				
Net Investment Returns Contribution	20,329	20,329	21,558	21,558
Less:				
Interest Costs and Loan Expenses	-	-	97	97
Overall Budget Surplus / Deficit	-5,609	122	-5,433	3,219
Add:				
Capitalisation of Nationally Significant Infrastructure	656	656	2,395	2,395
Overall Fiscal Position (% of GDP)	-4,953 (-0.9%)	778 (0.1%)	-3,037 (-0.5%)	5,614 (0.9%)

Note: Numbers in red refer to Maybank estimates.

Source: Ministry of Finance, Maybank estimates

Operating Revenue Surged, Expenditure Fell

Operating revenue rose by +11.1% in the first 9 months of the FY2022 financial (Apr to Dec) from a year ago (see Table 3). Corporate income tax (+27.8% from a year ago) has already exceeded the budgeted amount of S\$18.2bn. Personal income tax (+8.9%) and goods & services tax (+13.1%) are more than 80% of their respective budgeted amount as of Dec 2022, or within the first 9 months of the financial year. Betting taxes (+23.5%) and vehicle quota premiums (+14.5%) are rising strongly on the back of the return of tourists and strong COE bidding. Stamp duty (-15.7%) has fallen from last year as property sales volume were dampened by cooling measures, but will likely meet the budget target of S\$5.2bn. The latest

1% GST hike on 1 Jan 2023 and higher property taxes will help increase the fiscal receipts by roughly another +\$600mn for the Jan-Mar quarter for the fiscal year.

Table 3: Government Operating Revenue (First 9 Months of Fiscal Year)

	Apr to Dec 2021	Apr to Dec 2022	FY2022 Budgeted	Apr to Dec 2022	
	SGD mn	SGD mn	SGD mn	% of budgeted	%YoY
Total Operating Revenue	60,085	66,779	81,754	81.7%	+11.1
Tax Revenue	54,404	60,898	73,709	82.6%	+11.9
Income: Corporate	14,805	18,921	18,193	104.0%	+27.8
Income: Personal	11,057	12,044	13,983	86.1%	+8.9
Income: Withholding	1,157	1,446	1,829	79.1%	+25.1
Assets Taxes	2,873	3,016	4,613	65.4%	+5.0
Customs & Excise Duties	2,719	2,543	3,706	68.6%	-6.5
Goods and Services	9,273	10,490	12,797	82.0%	+13.1
Motor Vehicles	1,708	1,590	2,527	62.9%	-6.9
Betting Taxes	1,611	1,991	2,737	72.7%	+23.5
Stamp Duty	5,259	4,432	5,241	84.6%	-15.7
Others	3,943	4,425	6,049	73.2%	+12.2
Vehicle Quota Premiums	2,410	2,760	3,930	70.2%	+14.5
Fees & Charges (excl. Vehicle Quota Premiums)	2,424	2,738	3,549	77.2%	+12.9
Other Receipts	801	361	566	63.7%	-55.0

Source: CEIC, Ministry of Finance

Total expenditure, on the other hand, declined by -2.2% in the first 6 months of the fiscal year (Apr to Sep) (see Table 4). Spending fell for both social development (-5.1%) and economic development (-2.1%), mainly weighed down by expenditure on trade & industry (-20.9%), health (-4.7%), national development (-11.5%), and environment & water resources (-11.9%). On the other hand, spending on security & external relations (+4.3%) and manpower for economic development (+39%) improved from the previous year.

Table 4: Government Operating Expenditure (First 6 Months of Fiscal Year)

	Apr to Sep 2021	Apr to Sep 2022	FY2022 Budgeted	Apr to Sep 2022	
	SGD bn	SGD bn	SGD bn	% of budgeted	%YoY
Total Expenditure	40.0	39.1	102.4	38.1%	-2.2
Security & External Relations	9.4	9.8	25.0	39.1%	+4.3
Government Administration	1.3	1.3	3.6	35.9%	-5.4
Social Development (SD)	19.9	18.9	49.2	38.4%	-5.1
Education	4.5	4.4	13.6	32.6%	-2.3
Health	8.1	7.8	19.3	40.3%	-4.7
Culture, Community & Youth	0.8	0.6	2.4	26.6%	-14.0
Communications & Info	0.2	0.2	0.8	25.5%	-7.4
Environment & Water Resources	1.4	1.2	3.0	41.9%	-11.9
National Development	2.5	2.2	4.6	46.7%	-11.5
Social and Family	1.6	1.7	3.9	43.2%	+3.9
Manpower	0.8	0.8	1.7	45.4%	-2.8
Economic Development (ED)	9.3	9.1	24.6	37.0%	-2.1
Transport	5.3	5.2	10.3	51.1%	-1.4
Trade & Industry	2.6	2.1	6.4	32.2%	-20.9
Manpower	1.1	1.5	7.1	21.3%	+39.0
Info-Comm & Media	0.3	0.3	0.8	34.7%	+0.1

Source: CEIC, Ministry of Finance

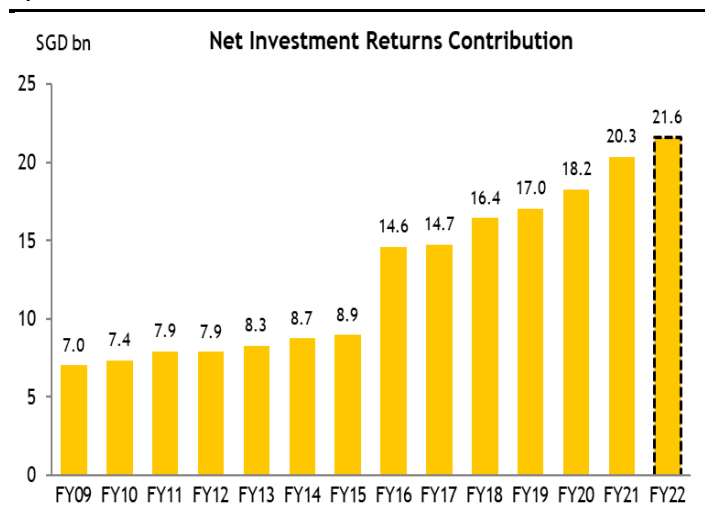
Net Investment Returns Likely in Line, Supported by MAS Transfers to GIC

Net investment returns contribution (NIRC) likely came in at the budgeted estimate of \$21.6bn. The MAS' transfer of S\$238bn worth of reserves to GIC for investment management likely helped to provide some lift to returns, offsetting the weaker performance in the global equity market. Both the global MSCI index (-8.8%) and Asia MSCI index (-6.9%) fell between Apr 2022 and Jan 2023. GIC's portfolio allocation to equities was 30% as of end-March 2022, and 47% when combined with private equity (see Fig 8). Temasek's return may be weighed down by the US and China markets, which account for a cumulative 43% of its total portfolio (see Fig 9).

While the MAS reported a loss (S\$7.4bn) in FY2021/22 for the first time in 9 years (see Table 5), DPM Lawrence Wong clarified that this will have limited impact on the funds available for the government's budget¹. This is because the Net Investment Returns (NIR) framework - which allows the government to spend up to 50% of the net investment returns on net assets invested by GIC, the MAS and Temasek, and up to 50% of the net investment income derived from past reserves from the remaining assets - is based on the three entities' long-term expected returns, and is not affected by their short-term performance.

DPM Wong added that despite MAS' net loss in the last financial year, it will still contribute \$1.1bn to the government as a statutory board (but no contribution to the Consolidated Fund), as it recorded net profits in the two years prior to that. This is in line with the government's requirement since FY2019 for the MAS' annual contributions to be paid in equal proportions over a period of 3 years, to smoothen revenue volatility.

Figure 7: Net Investment Returns Contribution Budgeted at S\$21.6bn in FY2022



Note: FY2022 number refers to budgeted amount.

Source: CEIC, Ministry of Finance

Table 5: MAS' Contribution to the Consolidated Fund Fell to S\$1.1bn in FY2021 from S\$2.1bn in FY2020

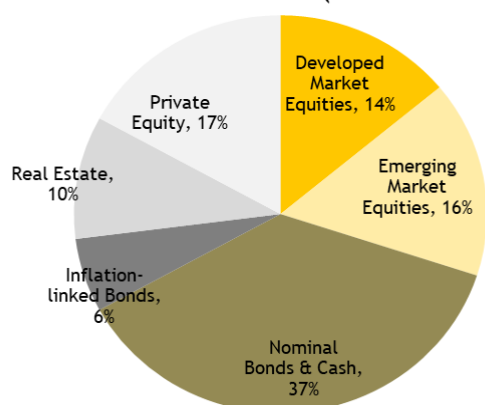
	Net Profit (before Contribution to Consolidated Fund)	Contribution to Consolidated Fund
FY10/11	-10,940	Based on the framework for Contributions to Consolidated Fund, no contribution to the Consolidated Fund was required as there were carried forward losses from previous financial years to offset against the net profit for the year.
FY11/12	2,771	
FY12/13	-10,613	
FY13/14	15,837	
FY14/15	281	
FY15/16	157	
FY16/17	28,724	4,457
FY17/18	6,398	1,088
FY18/19	23,111	3,930
FY19/20	12,761	2,174
FY20/21	6,297	1,070
FY21/22	-7,389	No contribution to the Consolidated Fund.

Source: MAS Financial Reports

¹ Straits Times, "MAS' contributions to Govt budget under NIR framework not affected by recorded loss: DPM Wong", 2 Aug 2022.

Fig 8: GIC Portfolio Allocation to Equities at 30%, Private Equities at 17%

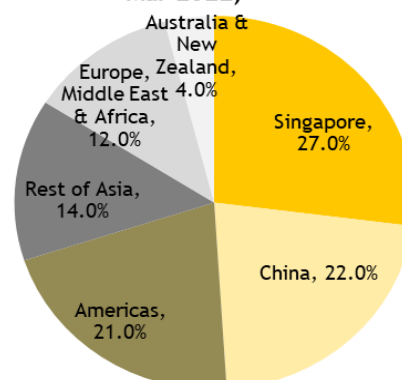
Asset Mix of the GIC Portfolio (as of end Mar 2022)



Source: GIC 2021/22 Report

Fig 9: Temasek Portfolio Allocation Mainly in Singapore (27%) and China (22%)

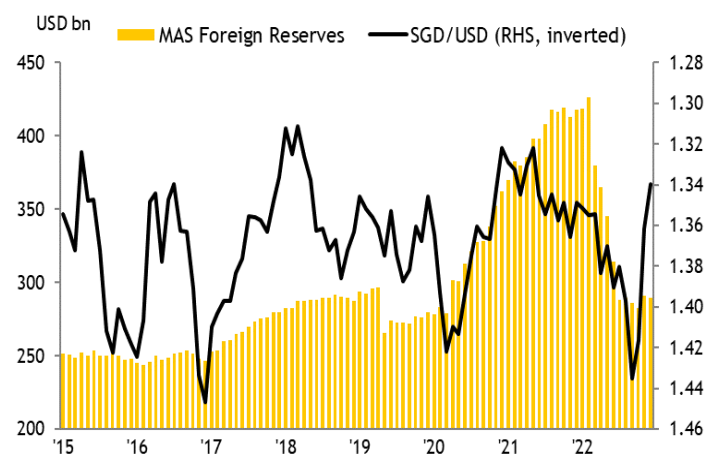
Temasek Portfolio by Underlying Assets (as of end Mar 2022)



Source: Temasek Review 2022 Highlights

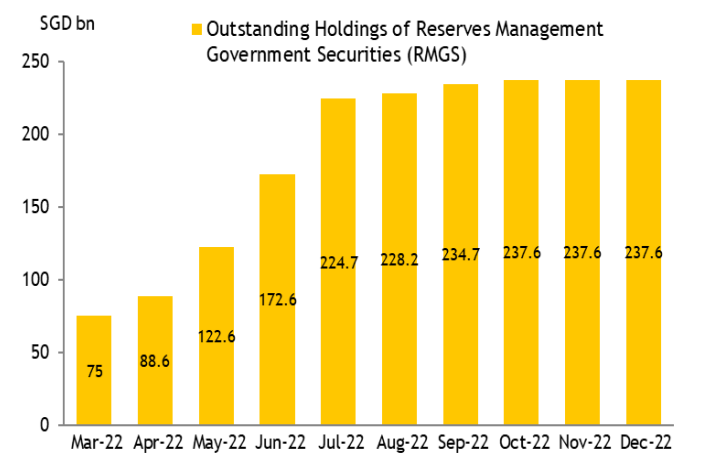
MAS foreign reserves fell by US\$30.7bn to US\$289bn in end 2022 from the previous year, following the US\$172bn (S\$238bn) transfer to GIC between March and December 2022 (see Figures 10 & 11). This was following Parliament's passing of a bill in Jan 2022 allowing the MAS to buy a new type of non-marketable security issued by the government - Reserves Management Government Securities (RMGS) - to reduce MAS' foreign reserves from 110% of GDP to a rate equal to 65%-75% of GDP. The remaining amount would be managed by GIC.

Fig 10: MAS Foreign Reserves Has Fallen to US\$289bn in End 2022 After the S\$238bn Transfer to GIC



Source: CEIC, Bloomberg

Fig 11: Outstanding Holdings of RMGS Rose to S\$273.6bn as of Dec 2022



Source: MAS

Government assets were resilient as of end FY2020. Government assets rose by +\$51bn (+3.8%) to \$1.4 trillion in FY2020 (see Table 6). Government investments (excluding cash) rose by \$24bn (+1.8%) to \$1.32 trillion in FY2020. Government assets has risen to 297% of GDP. Investment assets has risen to 281% of GDP.

Table 6: Government Assets & Investments FY2014 to FY2020

	Assets		Investments	
	Amount (SGD bn)	% of GDP	Amount (SGD bn)	% of GDP
FY2014	878	218	761.6	189
FY2015	941.3	222	814.3	192
FY2016	997.4	223	913.6	205
FY2017	1,087.8	232	1,019.4	217
FY2018	1,174.3	229	1,130.0	221
FY2019	1,349.4	265	1,300.0	256
FY2020 (as at 31 Mar 2021)	1,400.8	297	1,323.9	281

Source: Ministry of Finance Budget documents, CEIC, Maybank

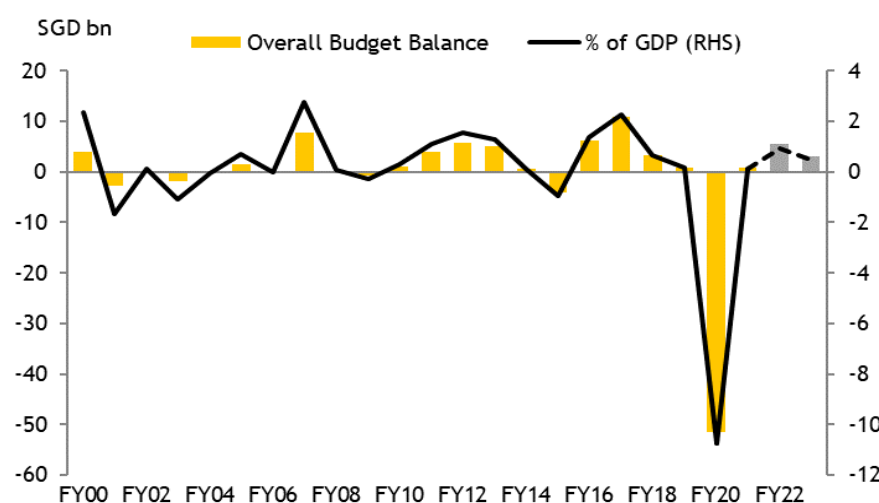
FY2023: Expect Small Fiscal Surplus as 1% GST Hike Kicks In

We expect a surplus of around 0.5% of GDP in Budget FY2023 (see Fig 12). This will be fourth year of the new electoral term and we expect the government to continue restoring and normalizing its finances. This follows the aggressive spending in FY2020 during the Covid pandemic, when the fiscal deficit widened to \$51.6bn, or 10.8% of GDP, although the drawdown of past reserves of S\$42.9bn will not be part of the cumulative balanced budget accounting.

There will no longer be any drawdown of past reserves in FY2023, after the estimated S\$42.9bn total drawdown in FY2020 to FY2022 for the Covid-19 Resilience Package and response measures. For FY2022, a \$6bn fund was set aside from past reserves to fund Covid public health expenditure including testing & tracing, vaccination, and isolation facilities.

The accumulated balance over FY2020 to FY2022 amounts to a deficit of \$2.3bn, by our estimates, after offsetting the \$42.9bn drawdown in reserves (see Table 7). The Constitution requires the government to keep a balanced budget over its term, and hence the government will likely want to have some fiscal space with the next General Election to be held by 2025. The fifth and final Budget of the electoral term next year will be an “election budget.”

Fig 12: Expect Small Fiscal Surplus (0.5% of GDP) in FY2023



Note: FY2022 and FY2023 numbers refer to Maybank's estimates.

Source: CEIC, Ministry of Finance, Maybank estimates

We expect the second 1% GST hike on 1 Jan 2024 to proceed as the economy is holding up and odds of a recession have eased with the China reopening. The 1% GST hike on 1 Jan 2023, bringing the GST rate to 8%, will likely raise \$1.8bn (0.3% of GDP) in annual proceeds. A second 1% GST hike is scheduled for 1 Jan 2024, although Finance Minister Wong said that should the economic situation worsen in 2023, such as through a major global downturn, the government will take a “careful review” of whether to proceed with the second hike in 2024².

Table 7: Government’s Fiscal Position (FY2007 to FY2022)

	Govt Revenue: Operating: Total	Govt Expenditure: Total	Special Transfers	Budget Surplus/ Deficit	Accumulated Surplus/ Deficit
	SGD mn	SGD mn	SGD mn	SGD mn	SGD mn
After May 2006 election					
FY2007	40,375	32,982	2,142	7656	12,059
FY2008	41,086	38,091	7,099	239	
FY2009	39,547	41,891	5,481	-819	
FY2010	46,060	45,338	7,095	980	
FY2011	51,077	46,563	8,427	4,003	
After May 2011 election					
FY2012	55,815	49,004	8,860	5,821	7,341
FY2013	57,020	51,728	8,584	4,998	
FY2014	60,838	56,648	12,356	572	
FY2015	64,823	67,447	10,369	-4,050	
After Sep 2015 election					
FY2016	68,964	71,045	6,372	6,125	21,170
FY2017	75,816	73,556	6,122	10,861	
FY2018	73,738	77,824	8,989	3,339	
FY2019	74,274	75,337	15,129	845	
After Jul 2020 election					
FY2020	67,376	86,366	50,822	-51,567	**-2,275
FY2021	82,487	94,796	7,897	778	
*FY2022	88,000	100,000	6,242	5,614	

*Refers to Maybank estimates.

**Accumulated deficit for FY2020 to FY2022 after accounting for S\$42.9bn funded by past reserves.

Source: CEIC, Ministry of Finance

Inflationary pressures remain high amid a tight labour market, housing shortage, the GST hike, and expansion of the Progressive Wage Model to larger sectors, including food services, waste management and occupational (administrators, drivers) on 1 March 2023. We estimate that a 1%pt GST hike could increase inflation by about +0.6%pt.

A revised GST rate of 9% will place Singapore’s consumption tax above Thailand, Malaysia and Taiwan, but still below Japan, Korea, Indonesia and Australia; and well below the UK, Germany and New Zealand (see Table 9). Hong Kong has managed to maintain a zero consumption tax.

² Business Times, “Extra S\$1.4b for GST Assurance Package; 2024 hike to be reviewed if economy ‘sharply deteriorates’: DPM Wong”, 7 Nov 2022.

Table 8: GST Hike Impact on Inflation and GST Revenue

	GST rate	Inflation change from previous year (%-pt)	*Additional GST revenue (SGD mn)
Jan-03	4%	+0.9	+626
Jan-04	5%	+1.2	+574
Jul-07	7%	+4.8	+2,687

[^]Refers to %-pt change in headline inflation growth 12 months since the GST hike vs. 12 months before the GST hike.

^{*}Refers to difference in GST revenue between the sum of 4 quarters since the GST hike and the sum of 4 quarters before the hike.

Source: CEIC, Maybank estimates

Table 9: GST, VAT and Sales Tax Rates

Country	Standard Rate
United Kingdom	20%
Germany	19%
New Zealand	15%
China	13%
Philippines	12%
Indonesia	11%
Korea	10%
Japan	10%
Australia	10%
Singapore	8%
Thailand	7%
Malaysia	Sales Tax: 10%
	Services Tax: 6%
Taiwan	5%
Hong Kong	0%

Source: PWC, Maybank

Countering Rising Costs, Supporting Workers

Budget FY2023 will likely focus on helping Singaporeans cope with rising inflation and businesses with rising costs, while supporting unemployed workers.

The GST Assurance Package will be topped up by S\$1.4bn in Budget 2023 to bring the total amount to S\$8bn, as announced in Nov 2022. The package covers cash payouts, GST vouchers, U-Save rebates, MediSave top-ups and CDC vouchers. The package will cover at least 5 years of additional GST expenses for a majority of Singaporean households, and 10 years for lower income households.

Given the weakening economic outlook, there may be some measures to support retrenched workers. There was a temporary cash support of S\$700/month during the pandemic for retrenched workers for 3 months (Covid-19 Recovery Grant). Some variation of the scheme can be made more permanent, for example a cash payout for 6 months which decline over the time period for retrenched workers. The pandemic support package showed that the fiscal costs of such support for the unemployed was far lower than the costs of the generous Job Support Scheme, which amounted to billions and paid out to companies for retaining workers. Cash support for the retrenched is far less sweeping, more targeted at the workers who need the funds, and cost far less.

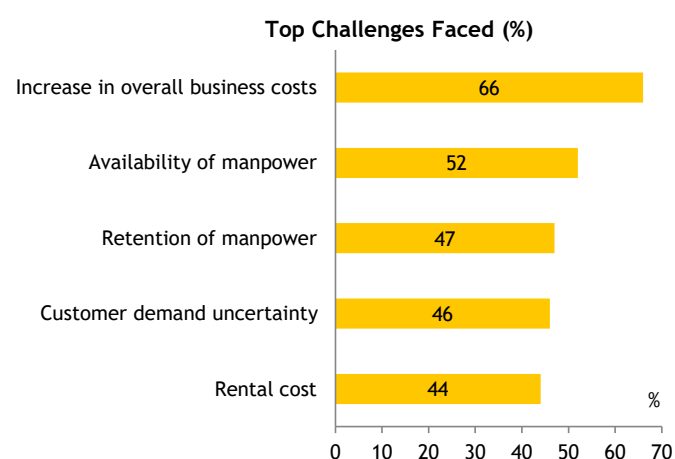
The government may provide training subsidies or grants for the unemployed to upskill during this period. For example, during the pandemic the government subsidized training courses under the Adapt & Grow initiative, and offered wage subsidies and training support to employers participating in the programme. Some expansion of such schemes to a wider range of technical courses, possibly leveraging on Skills Future, will help retrain workers to fields that are in short supply. Monthly allowances can be provided to workers for the short time period while they are enrolled in the course. For re-employment, the government can leverage on the existing wage credit scheme which incentivises firms to hire with the government co-funding the wages for the first few years.

Measures to help companies with rising costs of businesses are also in the cards. Based on a survey by the Singapore Business Federation (SBF)³ conducted between Aug and Nov 2022, top challenges reported by firms were increasing costs - mainly in wages, logistics, procurement and utilities; availability of manpower; and retention of manpower (see Figures 13 & 14).

³ Singapore Business Federation [National Business Survey 2022/2023](#), Jan 2023.
February 2, 2023

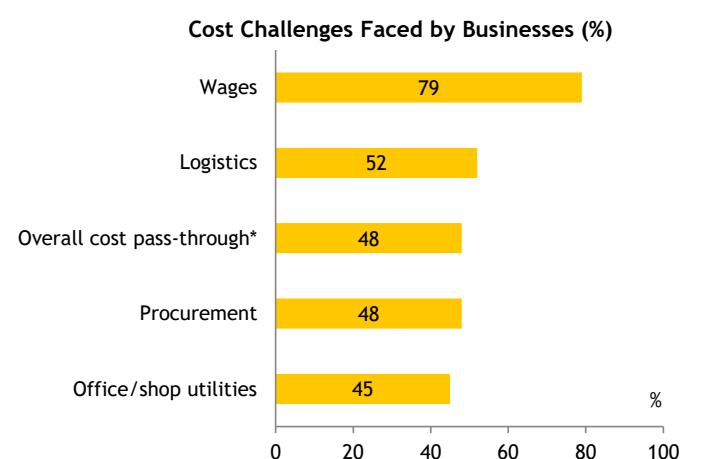
Technology industry trade association SGTech called for the government's support in developing digital trust-capabilities, adopting skills-based assessments, and providing cash rebates to encourage sustainability. Recommendations included offering grants and subsidies to incentivise greater adoption of cyber hygiene among SMEs; forming industry work groups to examine common standards for tech skills; and offering tiered cash rebates to SMEs that submit e-waste to NEA-appointed operators⁴.

Fig 13: Top Challenges Faced by Businesses Include Rising Cost and Availability of Manpower



Source: Singapore Business Federation

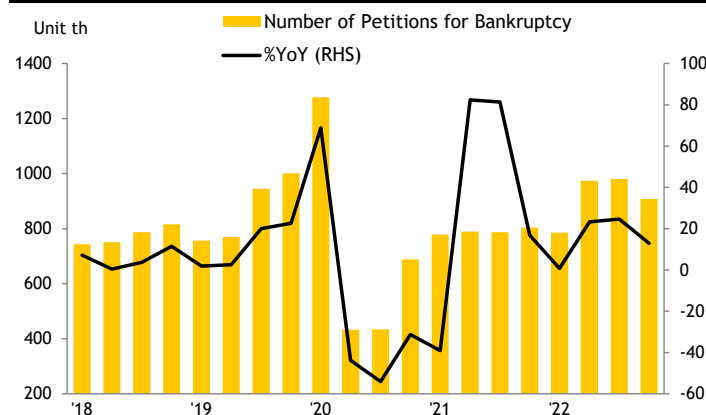
Fig 14: Businesses' Top Cost Challenges Related to Wages



*Includes "pass through" expenses like insurance, security, cleaning, property tax, and business expenses.

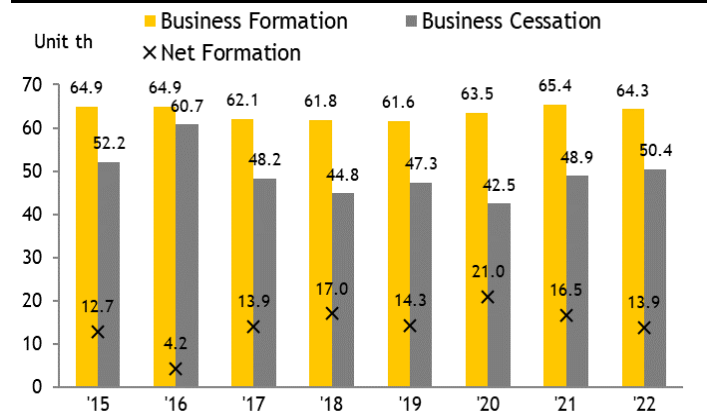
Source: Singapore Business Federation

Fig 15: Bankruptcy Petitions Up by +20% Between Apr and Nov 2022, Highest Since Pre-Covid



Source: CEIC

Fig 16: Business Cessation Rose to 50.4k in 2022, the Highest Since 2016



Source: CEIC

There has been an uptick in petitions for bankruptcy and business cessations as fiscal support and temporary relief measures were halted after the generous support in 2020 and 2021. Petitions for bankruptcy rose by +20.2% between Apr and Nov 2022 (see Fig 15), while business cessations rose to 50.4k in 2022, the highest annual level since 2016 (see Fig 16). Bulk of the business cessations were in retail trade and F&B services sectors.

Support measures similar to the \$500mn Jobs and Business Support Package in Budget 2022 may be introduced to help businesses. The support package included a Small Business Recovery Grant for SMEs; extension of access to Project Loans for the construction sector (from Apr 2022 to Mar 2023); and the extension

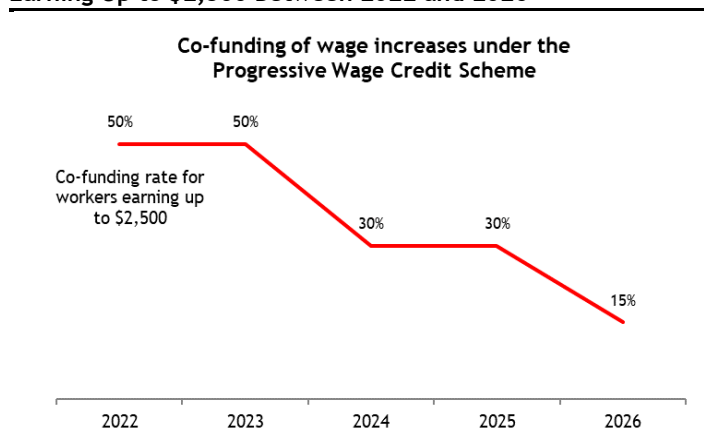
⁴ Business Times, "Tech industry group calls for support for digital trust, talent, sustainability in Budget 2023", 30 Jan 2023.

of the Temporary Bridging Loan Programme and enhanced Trade Loan Scheme (until end Sep 2022) to support companies with cashflow needs.

The government may provide more transitional support for businesses to help cushion rising costs and wages. Under Budget 2022, the Progressive Wage Credit Scheme (PWCS) was introduced to co-fund the wage increases of lower-wage workers earning up to \$2.5k between 2022 and 2026. The co-funding rate will be tapered from 50% in 2022-23 to 30% in 2024-25, and finally 15% in 2026 (see Fig 17).

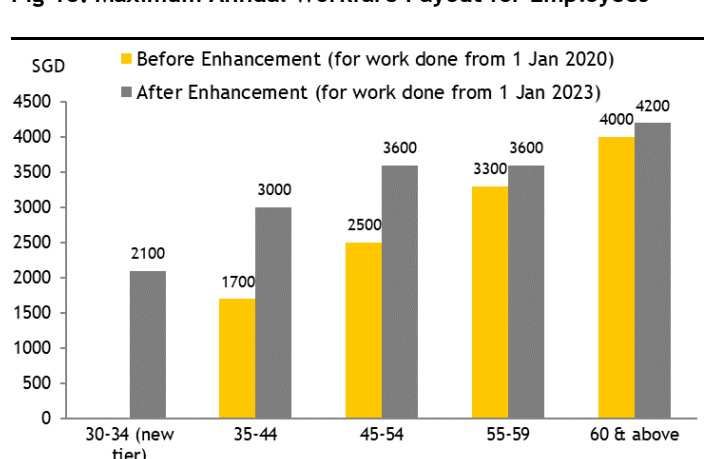
The Workfare Income Supplement was enhanced to benefit more than 500k workers, with the increase in qualifying income cap to \$2.5k (from current \$2.3k) per month starting 1 Jan 2023. The Workfare scheme will be extended to younger workers aged 30 to 34 (with maximum annual payout of \$2.1k), and payouts will be raised for those in older age groups (see Fig 18). The combination of PWCS and the enhanced Workfare scheme will cost the government an average of \$1.8bn per year over the next 5 years. We are not expecting any further expansion of the Workfare Income Supplement in this Budget given the tight labour market and low resident unemployment rates.

Fig 17: Government to Co-Fund Wage Increases For Workers Earning Up to \$2,500 Between 2022 and 2026



Source: Budget 2022

Fig 18: Maximum Annual Workfare Payout for Employees



Source: Budget 2022

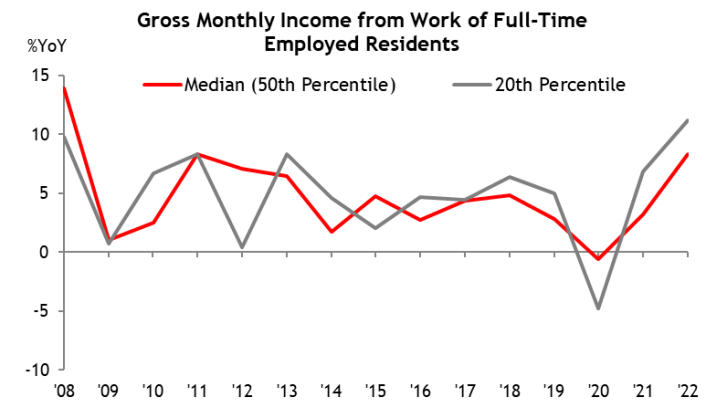
The Progressive Wage Model (PWM) may be expanded to cover more sectors, although this risks fanning inflation and wage cost pressures. Starting 1 March 2023, the PWM will be expanded to cover another 70k workers in the waste management, food services, and occupational PWM sectors (see Table 10). Lower-wage workers saw stronger income growth than the median worker in 2022 thanks to initiatives such as the PWM⁵. Nominal income at the 20th percentile rose +11.2% (vs. +6.8% in 2021), compared to nominal median income growth of +8.3% (vs. +3.2% in 2021) (see Fig 19).

⁵ Ministry of Manpower, "Labour Force in Singapore 2022", 31 Jan 2023.
February 2, 2023

Table 10: Roadmap for Progressive Wage Model Implementation

2021	1 Sep 2022	1 Mar 2023
28,000	Cumulatively: 164,000	Cumulatively: 234,000
Existing PWMs (Cleaners, security officers, landscape maintenance workers): 28,000 workers	Local Qualifying Salary: 99,000 workers Retail PWM: 13,000 workers In-house PWM (Cleaners, security officers, landscape maintenance workers): 24,000 workers	Waste management PWM Occupational PWM (Administrators, drivers): 55,000 workers Food services PWM: 15,000 workers

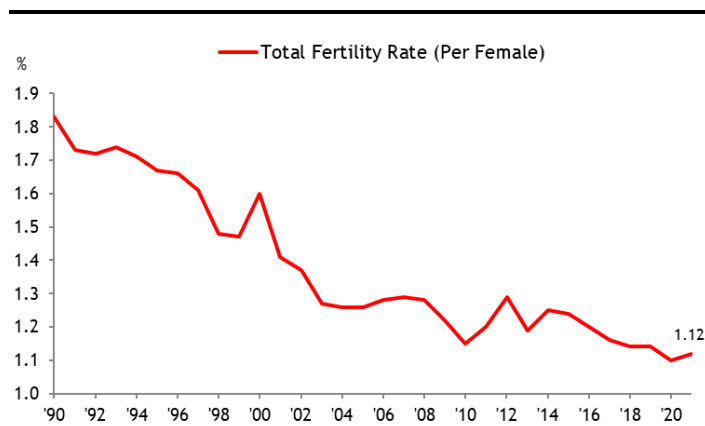
Source: Business Times

Fig 19: Income Growth at the 20th Percentile Jumped by +11.2% in 2022, Faster than the Median (+8.3%)

Source: Ministry of Manpower

There may be measures to boost birth rates and support parents with cost of raising children, as hinted by Prime Minister Lee Hsien Loong in his Chinese New Year speech. Fertility rate has fallen to near record lows of 1.12 in 2021, and citizen growth has remain nearly unchanged at 3.55mn in 2022 from 3.52mn in 2020 (see Fig 20 & Table 11). Population growth was driven largely by non-residents in 2022.

Fig 20: Fertility Rate Hovering at Record Low of 1.12 in 2021



Source: Singstat

Table 11: Singapore Citizens at 3.5mn in June 2022, Nearly Unchanged from June 2020

Year	Total Population	Total Resident	Singapore Citizens	Singapore Permanent Residents	Non-Residents
Person th (as of June)					
2000	4,028	3,273	2,986	287	755
2010	5,077	3,772	3,231	541	1,305
2020	5,686	4,044	3,523	521	1,642
2021	5,454	3,987	3,498	489	1,467
2022	5,637	4,073	3,554	520	1,564
%YoY					
2020	-0.3	+0.4	+0.6	-0.8	-2.1
2021	-4.1	-1.4	-0.7	-6.2	-10.7
2022	+3.4	+2.2	+1.6	+6.3	+6.6

Source: Singstat

Existing support measures under the Baby Bonus Scheme include: (1) Baby Bonus Cash Gift (see Table 12) - provides S\$8k to \$10k for each child to support parents' out-of-pocket caregiving costs; and (2) Child Development Account (see Table 13) - a special savings account for Singaporean children to help build up savings that can be spent on approved uses at Baby Bonus Approved Institutions.

Table 12: Baby Bonus Cash Gift - Parents Receive the Cash in 5 Instalments Ove 18 Months

Time	Amount of cash gift disbursed	
	First and Second Birth Orders	Third and Subsequent Birth Orders
Within 7 to 10 working days from birth registration or joining the scheme	\$3,000	\$4,000
When the child turns 6 months old	\$1,500	\$2,000
When the child turns 12 months old	\$1,500	\$2,000
When the child turns 15 months old	\$1,000	\$1,000
When the child turns 18 months old	\$1,000	\$1,000
Total	\$8,000	\$10,000

Source: Ministry of Social and Family Development

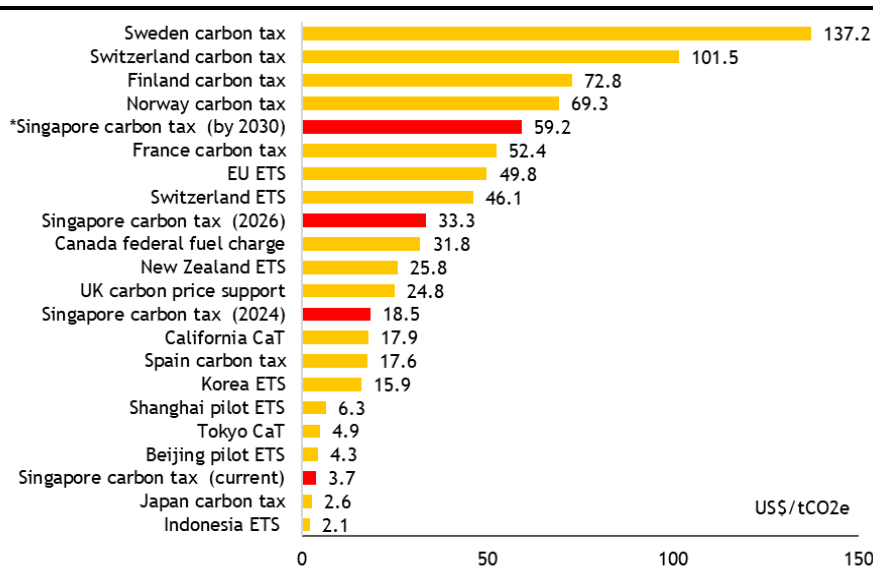
Table 13: Child Development Account (CDA) - Components and Total Benefits

Birth Order	CDA Components		Total CDA Benefits
	First Step Grant (no initial deposit from parents required)	Maximum Government co-matching	
1st Child	\$3,000	Up to \$3,000	Up to \$6,000
2nd Child		Up to \$6,000	Up to \$9,000
3rd & 4th Child		Up to \$9,000	Up to \$12,000
5th Child and Higher		Up to \$15,000	Up to \$18,000

Source: Ministry of Social and Family Development

There may be additional measures to support the green transition and renewables shift, particularly in sustainable financing. In Oct 2022, the MAS injected seed capital into a S\$5mn Asia Climate Solutions Design Grant to fund innovations in blended finance to scale up transition funding. MAS managing director Ravi Menon highlighted that blended finance programmes are too few and too small - with global annual flows averaging less than US\$10bn since 2015 - and added that close partnership between the public and private sectors is required to enable effective transition finance⁶.

Budget 2022 had announced a sharp increase in carbon taxes from the current S\$5 to \$25 per tonne in 2024, followed by further increases to \$45 per tonne in 2026/27 and ultimately to \$50-\$80 per tonne by 2030 (see Fig 21).

Fig 21: Carbon Taxes in Selected Countries - Singapore's Carbon Tax to Rise in 3 Stages Between 2024 and 2030

*Refers to maximum amount of Singapore's carbon tax by 2030, which will range between S\$50-80 per tonne.

Note: Prices for Beijing, Chongqing, Guangdong, Hubei, Shanghai and Shenzhen refer to pilot ETS (Emission Trading System).

Source: World Bank Carbon Pricing Dashboard, February 2022

⁶ Business Times, "MAS to seed S\$5m blended finance innovation grant amid call to scale up transition funding", 4 Oct 2022.

Foreign Worker Measures

We think the government will likely refrain from announcing further tightening of foreign worker measures amid the tight labour market. The sub-Dependency Ratio Ceiling (DRC) for the manufacturing and construction, process & marine shipyard sectors was already cut to 15% (from 18%) from Jan 2023 (see Table 14). Minimum qualifying salaries for Employment Pass (EP) and S Pass holders are already set to rise in Sep 2023 and Sep 2025, as announced in Budget 2022 (see Table 16). Starting Sep 2023, all new applications for EPs will be assessed using a points-based system called the Complementarity Assessment Framework, to ensure a more comprehensive evaluation of foreign talent.

Table 14: Reduction in S Pass Sub-Dependency Ratio Ceiling for Manufacturing Sector

Sector	Current	Changes
DRC		
Services	35%	No change
Manufacturing	60%	No change
Construction	87.5%	No change
Process	87.5%	No change
Marine Shipyard	77.8%	No change
S Pass sub-DRC		
Services	10%	No change
Manufacturing	18%	Reduced to 15% on 1 January 2023
Construction	18%	Reduced to 15% on 1 January 2023 as announced at Budget 2020
Process		
Marine Shipyard		

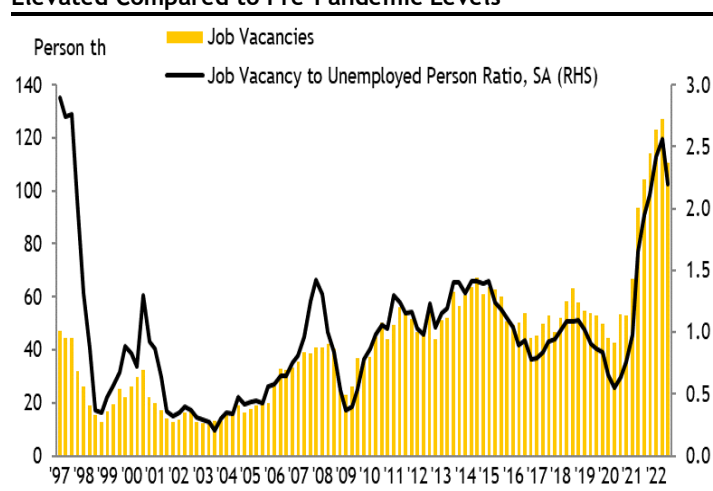
Note: When a DRC or a sub-DRC cut is implemented, firms will not be able to renew work passes of foreign workers that have exceeded the revised DRC or sub-DRC. However, for the foreign workers above the DRC/sub-DRC limits, firms can retain them until their work passes expire to avoid disrupting existing operations.

Source: Budget 2021

The labour market remains tight with the job vacancy ratio staying elevated at 2.2 in 3Q22, much higher than pre-pandemic levels of less than 1 in 2019 (see Fig 22). Sectors with the highest job vacancy rates were mostly consumer and tourism-related sectors such as accommodation, entertainment, retail trade and F&B services.

While nearly 95k foreign workers (excluding maids) have returned in the first half of 2022, the foreign workforce remains around 116k lower compared to end 2019 levels (see Table 15). In particular, S Pass and EP holders are still 15% and 13% below 2019 levels.

Fig 22: Job Vacancy Ratio (2.2 in 3Q22) Remains Very Much Elevated Compared to Pre-Pandemic Levels



Source: CEIC

Table 15: Foreign Workforce Rose in June 2022, But Remains Below Pre-Pandemic Levels

Pass Type	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Dec 2021	Jun 2022
Employment Pass (EP)	192,300	187,700	185,800	193,700	177,100	161,700	168,800
S Pass Holders	179,700	184,400	195,500	200,000	174,000	161,800	169,200
Work Permit (Total)	992,700	965,200	972,600	999,000	848,200	849,700	943,400
- Work Permit (FDW)	239,700	246,800	253,800	261,800	247,400	246,300	256,300
- Work Permit (Construction, Marine Shipyard and Process)	407,500	360,700	355,700	370,100	311,000	318,400	369,400
Other Work Passes	28,300	30,700	32,100	34,700	32,200	27,200	24,400
Total Foreign Workforce	1,393,000	1,368,000	1,386,000	1,427,400	1,231,500	1,200,400	1,305,800
Total Foreign Workforce (excluding FDW)	1,153,200	1,121,300	1,132,200	1,165,600	984,100	954,100	1,049,500
Total Foreign Workforce (excluding FDW & Work Permits in Construction, Marine Shipyard and Process)	745,700	760,600	776,500	795,500	673,100	635,700	680,100

Source: Ministry of Manpower

Table 16: Revised Qualifying Salaries for EP and S Pass Holders

Sector(s)	Revised Minimum Qualifying Salary		
EP Holders	From 1 Sep 2022		
All sectors, except for Financial Services	\$5,000 (increases up to \$10,500 for a candidate in mid-40s)		
Financial Services sector	\$5,500 (increases up to \$11,500 for a candidate in mid-40s)		
S Pass Holders	1 Sep 2022	1 Sep 2023	1 Sep 2025
All sectors, except for Financial Services	\$3,000 (increases up to \$4,500 for a candidate in mid-40s)	At least \$3,150*	At least \$3,300*
Financial Services sector	\$3,500 (increases up to \$5,500 for a candidate in mid-40s)	At least \$3,650*	At least \$3,800*

*The finalised values will be announced closer to the implementation date based on prevailing local APT wages at the time.

Source: Budget 2022

To ease the tightness in the labour market, the government in Dec 2022 launched a new Manpower for Strategic Economic Priorities scheme, which will give eligible firms more S Pass and work permit quotas of up to 5% of their base workforce headcount temporarily (subject to a cap of 50 workers for each firm). To qualify, firms have to take part in programmes or initiatives that are in line with Singapore's "key economic priorities", and have to commit to hiring or training resident workers.

Pause on Wealth Taxes

We think that there will likely be a pause on wealth taxes, as the taxes announced last year - property taxes, car duties & marginal personal income tax rate - are still being implemented throughout 2024, and the government may wait to assess the impact. DPM Lawrence Wong signalled in a Bloomberg interview⁷ in Aug 2022 that the wealthy may still face more taxes as the government aims for more inclusive growth.

As announced in Budget 2022, property taxes for both owner-occupied and non-owner occupied residential properties will be raised in 2 steps from 2023 to 2024, and luxury cars will be taxed with an additional registration fee tier. The top marginal personal income tax levels will also be raised to up to 24% effective YA2024 as announced in Budget 2022 (see Table 17).

Table 17: New Personal Income Tax Rate Structure Effective YA2024

Chargeable Income	Income Tax Rate (%)	Gross Tax Payable (\$)	Chargeable Income	Income Tax Rate (%)	Gross Tax Payable (\$)
First \$20,000	0	0	First \$200,000	-	21,150
Next \$10,000	2	200	Next \$40,000	19	7,600
First \$30,000	-	200	First \$240,000	-	28,750
Next \$10,000	3.5	350	Next \$40,000	19.5	7,800
First \$40,000	-	550	First \$280,000	-	36,550
Next \$40,000	7	2,800	Next \$40,000	20	8,000
First \$80,000	-	3,350	First \$320,000	-	44,550
Next \$40,000	11.5	4,600	Next \$180,000	22	39,600
First \$120,000	-	7,950	First \$500,000	-	84,150
Next \$40,000	15	6,000	Next \$500,000	23	115,000
First \$160,000	-	13,950	First \$1,000,000	-	199,150
Next \$40,000	18	7,200	In excess of \$1,000,000	24	

Source: Budget 2022

New property cooling measures were introduced in Dec 2021 and Sep 2022 to cool the booming private residential and HDB resale markets. Measures in Dec 2021 included raising the Additional Buyer's Stamp Duty (ABSD) rates, tightening the Total Debt Servicing Ratio (TDSR) threshold and lowering the Loan-to-Value (LTV) limit for loans from the HDB (see Table 18). Starting 30 Sep 2022, the medium-term interest rate floor used to compute the TDSR and Mortgage Servicing Ratio (MSR) was raised by 0.5%pt (to 4% up from 3.5% for residential property purchase loans); the LTV limit for HDB housing loans was lowered from 85% to 80%; and a wait-out period of 15 months was imposed for private residential property owners to buy a non-subsidised HDB resale flat.

Table 18: Property Cooling Measures - Higher Additional Buyers' Stamp Duty (ABSD) Rates for Residential Property

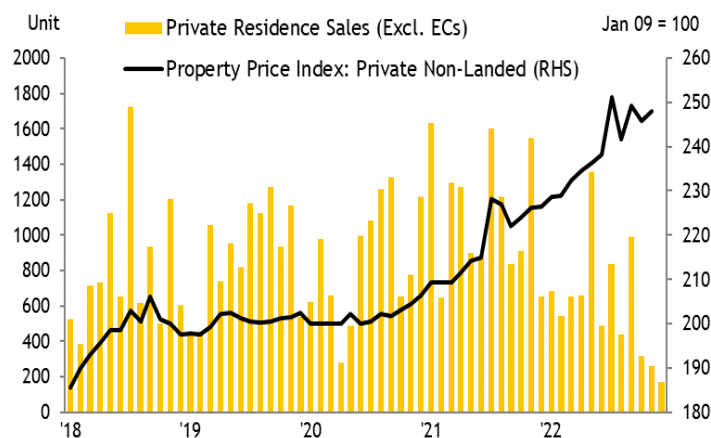
Type of buyer		Existing rates	Rates on or after 16 Dec 2021
Singapore citizens	First property	0%	0% (no change)
	Second property	12%	17%
	Third property	15%	25%
Permanent residents	First property	5%	5% (no change)
	Second property	15%	25%
	Third property	15%	30%
Foreigners	Any property	20%	30%
Entities	Any property	25% (Plus additional 5% for housing developers; non-remittable)	35% (Plus additional 5% for housing developers; non-remittable)

Source: Ministry of Finance, Ministry of National Development and MAS

⁷ Bloomberg, "Singapore's Wong Signals Rich May Have to Pay More Taxes", 16 Aug 2022. February 2, 2023

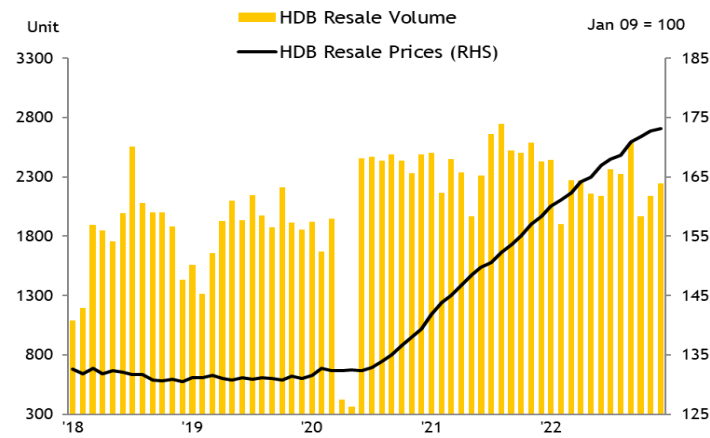
The cooling measures resulted in a slower housing market. Private residential prices decelerated to +8.6% in 2022 (vs. +10.6% in 2021), while prices of HDB resale flats also moderated to +10.4% (vs. +12.7% in 2022). Sale volumes have also plunged, with private residential (excl. ECs) transactions declining by -44.7% in 2022 (vs. +29.4% in 2021) to 7.4k (see Fig 23), the lowest annual level since 2008. Likewise, HDB resale volume fell by -8.1% (vs. +24.6% in 2021) (see Fig 24).

Fig 23: Property Price Index Rising, But Private Sales Slumped to Just 170 Units in December



Source: CEIC, URA, SRX

Fig 24: HDB Resale Prices Continued to Rise in 4Q, But Volumes Fell by -15.6% from a Year Ago

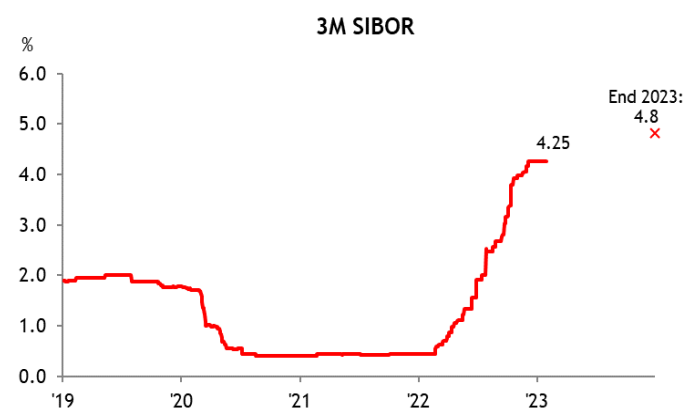


Source: SRX

Mortgage rates have climbed to the highest in decades in tandem with rising domestic interest rates. DPM Heng Swee Keat recently commented that the 3M SORA (see Fig 26) - a commonly used benchmark for floating-rate mortgage packages - could rise further in the coming months before stabilising⁸. The government will continue to watch prices and borrowing.

Household balance sheets remain resilient and most households should still be able to service their mortgages if interest rates rise further, but there are specific segments of vulnerabilities. The MAS Financial Stability Review 2022 reported that even under the scenario of a simultaneous and immediate 400bps increase in interest rates and a 10% reduction in income, most households are expected to be able to continue servicing their debt. Household net wealth remains robust at 435% of GDP in 3Q22 (see Fig 27), while household debt had fallen to 63% of GDP in 3Q22 from the recent peak of 71% in 1Q21 (see Fig 28).

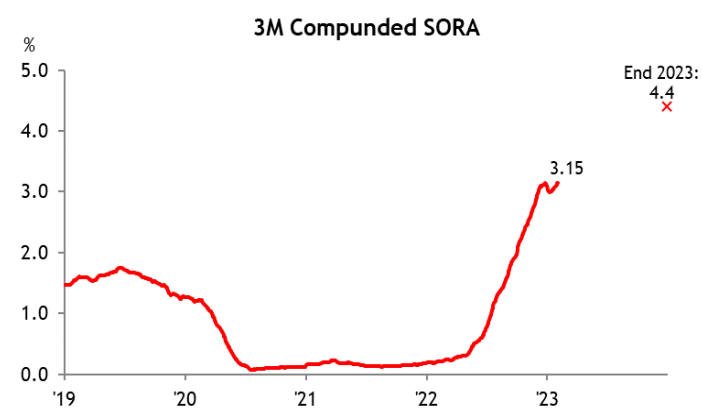
Fig 25: Expect 3M SIBOR to Rise to 4.8% in 2023



Note: Last datapoint as of 31 January 2023.

Source: Bloomberg, Maybank IBG Research estimates

Fig 26: Expect 3M SORA to Rise to 4.4% in 2023

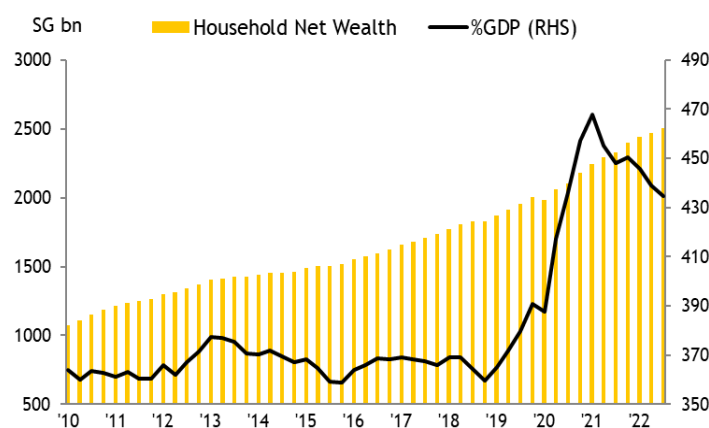


Note: Last datapoint as of 2 February 2023.

Source: Bloomberg, Maybank IBG Research estimates

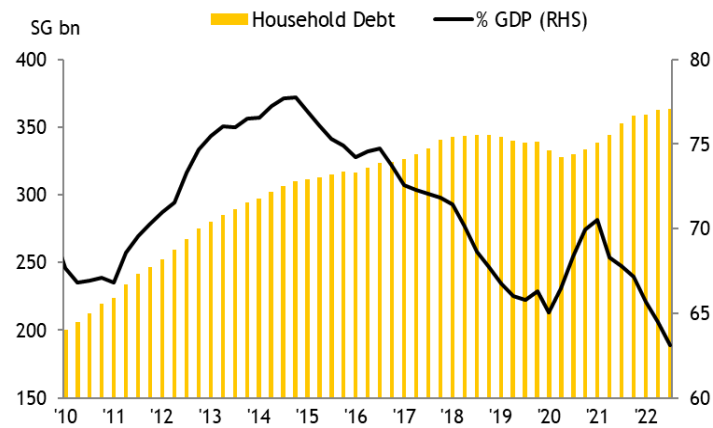
⁸ Business Times, "Housing market has slowed, government to monitor prices and borrowing: DPM Heng", 27 Jan 2023.

Fig 27: Household Net Wealth Remains Robust at 435% of GDP in 3Q22



Source: Singstat, CEIC

Fig 28: Household Debt Has Fallen to 63% of GDP in 3Q22, from Recent Peak of 71% of GDP in 1Q21



Source: Singstat, CEIC

Guidance on Global Tax Rules & Timing

Budget 2023 may provide some guidance on the impending global tax rules. The EU, Japan, and Switzerland have agreed to implement the global minimum tax for the fiscal year starting on or after 31 Dec 2023⁹. South Korea has passed legislation for the global minimum tax to come into effect in 2024. Budget 2022 had indicated that the corporate tax system will be adjusted in response to Pillar 2 Global Anti-Base Erosion (or GloBE) Model rules. A top-up tax called the Minimum Effective Tax Rate (or “METR”) will top up the MNE group’s effective tax rate in Singapore to 15%.

The net fiscal revenue impact on Singapore is uncertain due to the two offsetting adjustments from Pillar One (base erosion - negative) and Pillar Two (minimum tax - positive). Pillar One presents downside risks as large MNCs may shift their revenue base to countries which generate the sales. This shift is difficult to estimate but the magnitude may not be as large as originally feared as this rule will only apply to larger companies with revenue exceeding €750 million. Finance Minister Lawrence Wong commented in a Parliamentary Reply in July 2021 that there are around 1,800 multinational enterprises that are currently paying less than the global minimum corporate tax rate of 15%¹⁰.

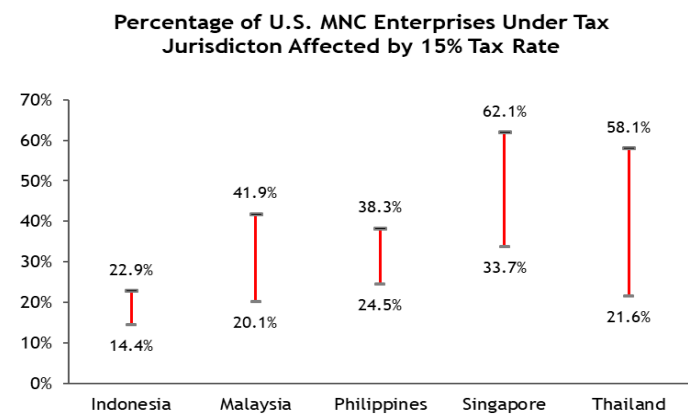
Pillar Two presents upside risks to fiscal revenue, as existing MNCS will have to pay a higher CIT tax rate. As US MNCs currently face such a low 4% effective CIT rate, the upside risk is material if the tax rate moves partially towards the 15% minimum global tax rate. There will be other factors for MNCs to maintain their headquarters and headcount in Singapore, including a strategic location, pro-business environment, infrastructure and a skilled workforce.

We think the global tax rules will likely not significantly impact Singapore’s fiscal revenue because of the carved-out sectors (financial services, extractive industries and shipping services) and current low effective tax rates on US MNCs (about 4% by our estimates) (see Fig 31 and *ASEAN Economics - Global Tax Rules & MNC Tax Rates*, 25 Jun 2021). Corporate income tax is the largest source of operating revenue for Singapore, accounting for around 20% to 24% of total revenue over the past decade (see Fig 30), or around 3%-3.5% of GDP.

⁹ Business Times, “Changes to Singapore’s FDI tax strategy may come only after Budget 2023”, 26 Jan 2023.

¹⁰ Parliamentary Reply, “Implications on Singapore from G7 Agreement on Global Minimum Corporate Tax Rate”, 5 Jul 2021.

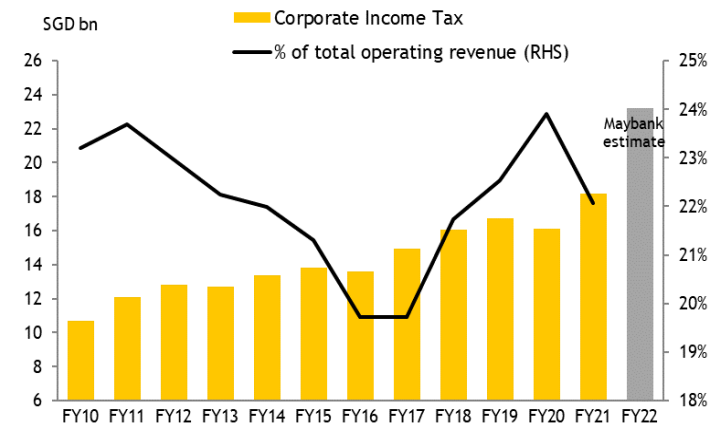
Fig 29: Up to 62% of Singapore-Based US MNCs May Lose Some Tax Benefits with the 15% Global Minimum Income Tax



Note: Data as of tax year 2018. The lower bound is the proportion of companies with less than 10% effective corporate tax rate; the upper bound is the proportion of companies with less than 25% effective corporate tax rate.

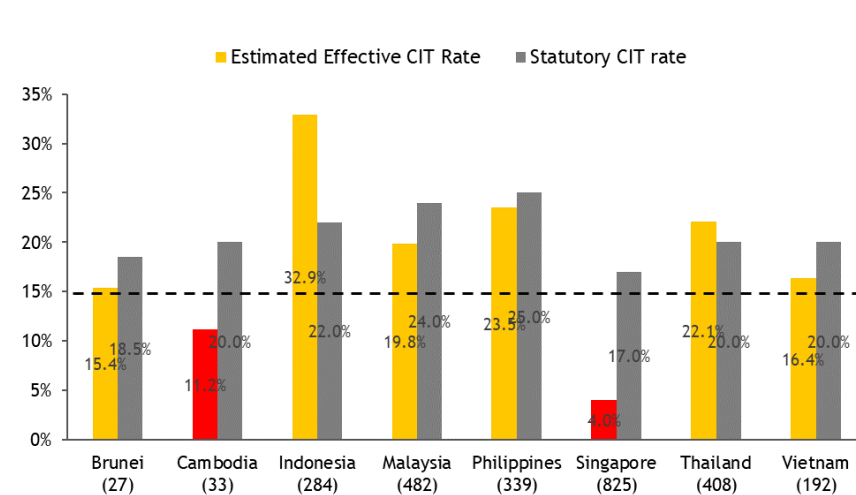
Source: IRS, Statistics of Income Division (March 2021)

Fig 30: Corporate Income Tax as a Share of Total Revenue Has Been Stable at Around 20%-24% in Past Decade



Source: Ministry of Finance, CEIC, Maybank IBG Research estimates

Fig 31: US Firms' Effective Corporate Income Tax (CIT) Rate vs. Statutory CIT Rate in ASEAN; US Effective CIT Rate Below 15% in Cambodia and Singapore



Note: Data as of tax year 2018. Numbers in brackets refer to sample size of US multinationals in selected tax jurisdictions.

Source: IRS, Statistics of Income Tax Division (March 2021), KPMG

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