ARTICLE FOR THE EDGE

A BUDGET TO SECURE SINGAPORE'S FUTURE

For countries such as Singapore which follow the Westminster form of government, the annual budget statement is one of the most important political speeches of the year. The annual statement goes beyond just providing a dollars and cents account of how the government will raise funds and where it will spend these monies for the coming year. The finance minister also uses the occasion to articulate the challenges and opportunities the country faces and to explain what the government plans to do about those issues.

To understand the impact of the 2023 budget, we should first appreciate the economic context – how is the economy likely to fare and what is it that needs fixing? With these in mind, we will be able to assess whether the various measures in the budget are up to the task and how effective they will be. To this end, Finance Minister Lawrence Wong sketched out a sombre picture of the world economy and how it could affect Singapore. He then set out an array of budgetary measures that makes a good start in tackling some of our major challenges. However, we believe more can be done to tackle the structural challenges that the nation faces.

The economic context: challenges are growing and becoming more complex

In essence, Singapore has put the covid pandemic behind it. Just the day before the budget, the government did away with virtually all the remaining public health measures such as mask-wearing when taking public transport. The country is switching back from managing an emergency to the more humdrum work of keeping a normal economy on the right track, and the budget reflected that.

But the fading pandemic does not mean that all is clear for Singapore. The budget speech sent an important signal that the external environment was going to be a rough one. In the near term, the outlook was "mixed and uneven" with the prospect of elevated worldwide inflationary pressures. In the long term, the post-covid era could be a troubled one for small, highly open economies such as Singapore which depend on world trade and international finance. Minister Wong worried about how a tendency towards "zero-sum thinking" had created "…a dangerous dynamic towards greater economic nationalism and protectionism around the world." Thus, the era of globalisation which, in a sense, had made Singapore what it is today, was now over. This struck us as a serious, almost existential, challenge.

In other words, Singapore will need to craft policies which help to buffer its people against the shocks that a more turbulent world will generate. It must also reinvent its economy to be better positioned to handle a more fragmented world where protectionism is increasing and inward-looking policies proliferating. The Finance Minister explained that the country's response will be built on three pillars:

- First, ensuring continued economic growth through measures to up-skill the labour force which would improve productivity while also spurring more innovation.
- Second, to strengthen the social compact so that all Singaporeans have a stake in society and pull together when facing a crisis.
- And, finally, by building collective resilience that would help the nation absorb the more frequent shocks that are likely. Wong emphasised that this resilience had

multiple dimensions: economic, infrastructure, climate, financial reserves and as a people.

Indeed, the government is right to warn Singaporeans of the troubles ahead. We would add another key challenge that Singapore will have to overcome. The city-state's global business and finance hub has had a good run in recent years but this run is likely to come to an end soon:

- Hong Kong endured one crisis after another in the 2018-2022 period. That led to capital and talent bleeding away from it, with much of it flowing to Singapore. Now, with political stability restored and the severe pandemic-related restrictions a thing of the past, Hong Kong is determined to make a comeback – and China will certainly pull out the stops to ensure its success. While Hong Kong may have lost some of its shine, particularly to Western companies and financial institutions, it remains a formidable competitor to Singapore. Singapore should expect Hong Kong to introduce new measures to regain the business it has lost to Singapore.
- At the same time, existing competitors are also aggressively improving their acts. Facing new competition from Saudi Arabia, Dubai has introduced measures to attract high-net worth Asians and there is anecdotal evidence of some wealth moving from Singapore to Dubai.
- Moreover, new competitors are also emerging. Take India's Gujarat International Financial Tec-City as an example. While the latter will take a while to establish itself, it can eat into Singapore's large market share in financial services to support India's rapidly expanding economy. Thinking ahead, Singaporeans should take note of Air India's new order for a mind-boggling 470 new aircraft and what it tells us of the new India that is emerging. Under new, private sector management, Air India is hungry and ambitious and will compete feverishly with the likes of Singapore Airlines. The significance of what is happening in India goes beyond just the airline business. There is a new mood in large countries such as India and Indonesia – a growing ambition and confidence, a willingness to think big and take bold gambles. The result is going to be a lot more competition for Singapore in many areas. Singapore needs to keep ahead of the competition through bold efforts to keep re-inventing itself – or risk falling behind.

So, what does the budget propose to do about these severe challenges?

First, the budget struck a good balance in terms of the cyclical management of the economy.

The government chose to go for fiscal consolidation despite the threat of a slower economy, given that inflationary pressures remain high. Using the government's definition, the budget deficit shrinks substantially. Using a broader measure of the budget deficit that is used in other countries, we find that the turnaround in the fiscal impulse (the impact of the budget on the economy) to be even starker, perhaps as taking as much as two percentage points off GDP.

There are two reasons why we believe that this is probably appropriate. One is that we see the economic slowdown getting worse in coming months but then turning around later in the year as China and the US regain momentum. The downturn will be short and shallow and does not require a large fiscal response. At another level, it is also worth noting the massive inflow of fixed asset investment that the Economic Development Board has won for Singapore. These investments – a record SGD22.5 billion in 2022 – will translate into higher investment and new production starting from the end of this year

onwards. That and the ongoing recovery in sectors where output is still below pre-pandemic levels such as construction, accommodation and aviation should give Singapore's economy sufficient buffers.

Second, the budget also brought in a range of measures that will address the concerns of the household sector.

- Raising the GST rate during an inflationary period was always a risky move, which could feed into higher inflationary expectations which could then feed into rising wages chasing rising prices. The government's Assurance Package was substantially expanded to SGD9.6bn in order to cushion the blow to living standards. There will be more GST vouchers, a one-off cost-of-living special payment of between SGD200 and SGD400 for each eligible adult Singaporean, additional support for elders including an increase in the Community Silver Trust of SGD1 billion to support social service agencies that deliver community care services for seniors, and expanded help for families with children.
- The government also stepped up measures to tackle the growing angst over housing affordability and the long wait for public housing flats. A number of measures, targeted at young couples mainly were announced. Young families will be given an additional ballot for their BTO applications to help them secure flats in a timely manner. Other support measures included the increase of SGD30,000 in the CPF Housing Grant for eligible first-timer families buying four-room or smaller resale flats. To tamp down house price pressures, further cooling measures were announced such as additional stamp duty
- The Government is also boosting assistance to low-wage workers. The scheme under which it co-funds wage increases for such workers will be topped up by SGD2.4 bn.

Third, however, the measures announced to address longer term challenges of a more structural kind appeared to be somewhat underwhelming:

- Policy makers continue to fret about Singapore's low fertility rates. The expansion of paid paternity leave to four weeks was certainly a welcome move. The baby bonus cash gift will also be increased by SGD3,000. However, experience elsewhere suggests that these measures will not suffice. A much more aggressive expansion of highly subsidised infant and child care facilities is needed but is too slow to emerge.
- There is a growing appreciation that more needs to be done to strengthen the position of local, Singapore-owned firms. So SGD150 million will be added to the SME Co-Investment Fund – but this seems to us to be too small an amount to move the needle. The SGD1 billion addition to the Singapore Global Enterprises initiative which provides customised assistance to promising large local enterprises seems more promising, though.
- Another area where Singapore needs to step up is innovation. The government will increase tax deductions to 400% from the current 250% of qualifying expenditure to help businesses innovate. As we have pointed out in previous columns, Singapore has a problem with extracting a good return on the resources it is able to mobilise for innovation – the innovation outcomes seem to lag the tremendous amounts of capital and high-tech professionals Singapore mobilises. What is needed is a more thorough overhaul of the innovation eco-system, without which measures such as tax credits will achieve little.

Conclusion: what policies should we expect in future?

This year's budget reflected a continuance of the government's conservative approach which emphasises fiscal rectitude. Where social transfers are given they remain highly targeted and limited in scale and duration – handouts are ad hoc in nature rather than part of a broader and more permanent social welfare system. The preference seems to be for cautious and incremental policy moves rather than bold moves.

The government probably realises that it might need to do more. Finance Minister Wong observed that the Forward Singapore exercise he is leading will be completed in the second half of 2023. He suggested that there would be more policy measures introduced then:

- Actions are being discussed on uplifting the wages in particular of lower-income citizens.
- With the likelihood of greater insecurity in employment created by economic restructuring and new technologies, other policies might be introduced to support workers who might be displaced. One set of measures will probably focus on an enhanced system of reskilling and upskilling so workers so that they can be placed in new occupations.
- The budget statement made a promise of improved social mobility so that the circumstances of one's birth would not determine how far a Singaporean can go in life.
- The issue of elder care remains a high priority and the government is not done in addressing their needs. Expanded arrangements to allow folks to age with grace, dignity and security are being planned.

Hopefully, the Forward Singapore exercise will offer new policy directions that can make a real difference in Singapore's ability to address major structural challenges of the future.

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