4 Macroeconomic Policy

- In October 2022, MAS re-centred the mid-point of the S$NEER policy band up to the then-prevailing level of the trade-weighted exchange rate (which was near the top of the band). There was no change to the slope and width of the band. This was MAS' fifth consecutive policy tightening move in 12 months. While Singapore's GDP growth was expected to come in below trend in 2023, MAS Core Inflation had come in higher than expected in the prior months, and its near-term momentum was expected to still be firm. Upside risks to inflation remained. MAS had therefore assessed that, on balance, a further tightening of monetary policy was needed to ensure that price pressures were dampened over the next few quarters.

- In April 2023, MAS maintained the prevailing rate of appreciation of the S$NEER policy band, with no change to its width and the level at which it was centred. The momentum of MAS Core Inflation has slowed decisively while downside risks to Singapore's GDP growth have increased. Although core inflation will remain elevated in the near term, it is expected to ease more discernibly in y-o-y terms in H2 2023, reflecting declining import prices and easing domestic wage pressures. The effects of MAS' five most recent monetary policy tightening moves will continue to filter through to the economy and dampen inflation further. As core inflation is expected to end the year significantly lower, MAS assessed that the prevailing monetary policy stance is sufficiently tight and appropriate for securing medium-term price stability.

- Amid slowing economic growth and still-high inflation, Budget 2023 sought to address cost-of-living and cashflow concerns among vulnerable households and firms. There were also structural measures to address Singapore's economic competitiveness and demographic challenges, while strengthening the social compact and building a more inclusive and resilient society. The Budget was carefully calibrated to provide the appropriate fiscal stimulus amid elevated inflation conditions. Overall, macroeconomic policy in Singapore will help ensure medium-term price stability and sustainable growth in the economy.

4.1 Monetary Policy

In October 2022, MAS re-centred the mid-point of the exchange rate policy band up to the then-prevailing level of the S$NEER, near the top of the band

At the October 2022 monetary policy review, growth momentum among Singapore's key trading partners had slowed and was expected to moderate further in the quarters ahead. At the same time, inflation in the advanced economies remained strong and was more persistent than expected. However, the drag from central banks' rapid, synchronised tightening of monetary policy that had already occurred, alongside likely further policy moves, would eventually dampen final demand and inflationary pressures in the advanced economies. The downturn in the global electronics manufacturing sector would, in turn, intensify and weigh on export-dependent economies in the region.

Although Singapore's GDP growth had remained resilient in Q3 2022, it was forecast to ease in 2023. Activity in the trade-related sectors was expected to weaken in line with the slowdown in external demand. Meanwhile, the domestic-oriented and travel-related sectors would expand at a steady pace, buttressed by strong household balance sheets and pent-up demand. In aggregate, growth in the Singapore economy would moderate to a slightly below-trend pace in 2023, which could cause the positive output gap to reverse.

Global supply chain frictions had begun to ease and commodity prices were declining from their peaks. The supply of non-resident workers in Singapore was recovering strongly following the near-complete removal of border restrictions from April. However, imported inflation in Singapore was firm and domestic wage growth robust. Pent-up demand was also significant, especially for consumer services. MAS Core Inflation outturns were stronger than expected for several months between the April and October policy reviews. Inflation momentum, as measured by m-o-m annualised increases in the core CPI, averaged 6.0% in Q2, and rose to 6.3% in Q3.

Core inflation breached 5% in y-o-y terms in August 2022 and was expected to stay elevated over the remainder of the year. MAS' assessment was that core inflation would rise further in early-2023, alongside the increase in the GST rate from 7% to 8% in January, as well as the continuing pass-through of accumulating business costs. The latter stemmed from expected robust wage increases supported by a tight domestic labour market, as well as imported inflation that was expected to remain significant across a range of intermediate and final goods.

MAS therefore decided to further tighten monetary policy by re-centring the mid-point of the Singapore dollar nominal effective exchange rate (S$NEER) policy band up to the prevailing level of the trade-weighted exchange rate on 14 October 2022. The new mid-point was close to the top of the previous band. This third consecutive upward re-centring move was assessed to be necessary to dampen price pressures over the next few quarters.

The outlook for the Singapore economy has since dimmed

Global economic activity demonstrated some resilience in Q1 2023. Lower energy costs, together with firm wage growth in the advanced economies, boosted consumer and business sentiment, which in turn supported activity in the services sector. In addition, economic activity in China rebounded after pandemic restrictions were lifted at the end of 2022.

However, overall growth in Singapore's major trading partners is expected to decelerate markedly in the quarters ahead. The continuing erosion of real incomes from high inflation, together with further increases in interest rates, will exert an increasing drag on global demand. In economies where the banking system has come under stress, tighter credit conditions will further dampen business spending and the demand for housing. The rotation in spending globally from goods towards services will also continue to weigh on international manufacturing and trade, accentuating the downturn in the global electronics industry. Consequently, for many export-reliant regional economies outside of China, growth prospects have weakened. The boost to domestic spending from the reopening of many regional economies last year is also expected to fade. China's reopening in late 2022 will lead to a step up in its GDP growth this year, but cross-border spillovers could be modest apart from through the tourism channel.

Overall, the boost to global growth from China's earlier-than-expected reopening is projected to be more than offset by growing drags from the advanced economies. The pace of expansion in Singapore's major trading partners is expected to slow to 2.8% in 2023, considerably lower than the 4.6% average recorded in the previous two years.

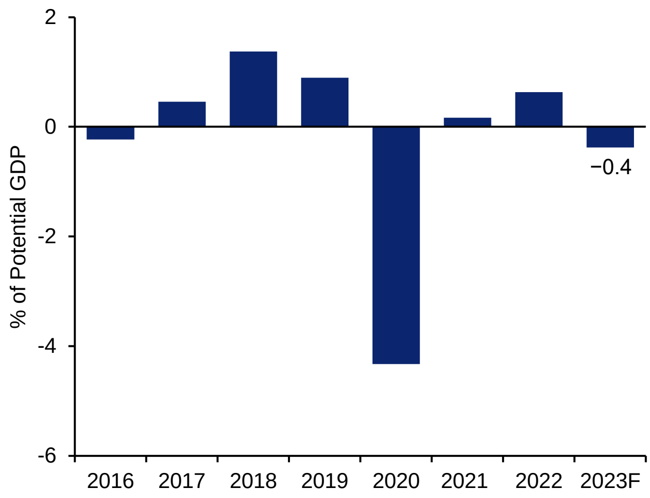
Singapore's economic output was broadly flat in Q1 2023 in y-o-y terms but contracted by 0.7% on a q-o-q SA basis, as activity in the trade-related cluster and modern services receded. In contrast, the domestic-oriented and travel-related sectors remained resilient, underpinned by steady consumption and investment spending, as well as the ongoing recovery in tourism inflows.

Near-term prospects for Singapore's growth have weakened alongside the dimming global economic outlook. Activity in the manufacturing sector is expected to remain muted amid the current downturn in global chip demand. More broadly, waning international trade will dampen activity in the wholesale trade and transportation & storage sectors, with the latter already seeing output prices normalise as global shipping bottlenecks have eased. Meanwhile, tighter financial conditions and increasing uncertainty will curtail demand for Singapore's financial, information & communications and professional services. The compression of real incomes as well as higher interest rates should also exert a drag on private consumption growth and, in turn, activity in domestic-oriented sectors.

All in, Singapore's GDP growth is projected to step down to 0.5–2.5% in 2023, from 3.6% last year. This below-trend pace of growth will cause the output gap to turn slightly negative this year, reversing last year's positive reading **(Chart 4.1)**.

Chart 4.1 Singapore's output gap is expected to turn negative this year

Output Gap



Source: EPG, MAS estimates

Inflation will remain elevated in the near term, but should progressively moderate and end the year significantly lower

MAS Core Inflation picked up in January 2023, amid the increase in the GST rate from 7% to 8%. The rise in core inflation to 5.5% y-o-y in January was in line with MAS' expectations. From February, the hike in tobacco duties announced in Budget 2023 added further to inflation.

Looking beyond the step-up in the pace of price increases from these tax factors, MAS assesses that the disinflationary process that began since core inflation peaked in September 2022 is still underway. MAS Core Inflation will stay elevated in the next few months, as accumulated business costs continue feeding through to consumer prices. However, it is expected to slow more discernibly in the second half of this year, absent further shocks to costs.

The macroeconomic drivers underpinning the broad easing profile of Singapore's imported inflation remain in train. Prices of global industrial, energy, and food commodities continue to decline or remain relatively stable at well below their peaks seen last year. Amid softening demand in the major economies and the resolution of production backlogs and international shipping logjams, global goods inflation is easing substantively alongside falling producer prices. Together with the effects of the stronger S$NEER, Singapore's imported inflation had consequently turned negative in y-o-y terms in Jan–Feb 2023.

Singapore's overall import prices for both oil and non-oil products should be lower compared to their peaks last year and will pass through to a wider range of domestic CPI components with a lag. Specifically, imported food price inflation appears to have peaked, while prices of imported retail goods are already on a declining trend.

Cost pressures on the domestic front should also moderate somewhat as resident wage growth slows. Excessive tightness in the domestic labour market should continue to ease, with hiring in the modern services and trade-related sectors pulling back and the non-resident workforce continuing to expand. Likewise, wage growth is anticipated to be weaker in the externally-oriented sectors, especially when flexible components of overall remuneration are impacted by the current downturn. However, overall wage pressures will still be firm by historical standards this year. Despite some easing in tightness, the labour market is expected to remain at effectively full-employment conditions in the quarters ahead. Demand for manpower will remain robust in the domestic-oriented and travel-related sectors, which, together with policies to uplift the incomes of lower-wage workers, will limit the extent of moderation in average wage growth. All in, the pace of wage increases will remain slightly above trend, though it will moderate compared to 2022, and there will be significant variation across sectors.

On the whole, business cost pressures, which are still elevated in some sectors, are expected to slowly ease. At the same time, businesses could be increasingly confronted by an emerging softness in consumer spending, reflecting tighter financial conditions, the impact of higher prices, and moderating wage growth. These factors would tamp somewhat the degree of pass-through of business costs to consumer prices. To the extent that some pent-up consumer demand remains, it is likely to be for overseas travel, which will become increasingly preferred to domestic spending due to the strong S$ exchange rate.

In addition, MAS assesses that inflation expectations in the Singapore economy remain broadly well-anchored. Notably, the extent of GST hike pass-through in January was relatively modest compared to that seen during the previous GST increase in 2007. The step-up in the sequential pace of core CPI increases in January also did not appear to persist in February and March, suggesting that the disinflation trend following the inflation shocks in 2022 remains intact. Resident wage growth is also easing as the recovery matures, in line with the trajectory seen in previous episodes of cyclical recoveries. Together, these factors are indicative of well-anchored inflation expectations. Against the backdrop of moderating labour demand and receding supply shocks, the risk of second-round effects, where wages seek to keep pace with price increases and cause high inflation to persist, is assessed to be low.

Overall, MAS Core Inflation is projected to ease from 5.4% in Q1 to reach around 2.5% y-o-y by the end of 2023. When the impact of the GST hike is excluded,[1] core inflation should come in closer to its historical average at year end. For the year as a whole, MAS Core Inflation is expected to average 3.5–4.5%. CPI-All Items inflation is forecast to come in higher at 5.5–6.5% as private transport and accommodation inflation remain firm. Excluding the effects of the GST increase, core inflation is projected to average 2.5–3.5%, and headline inflation 4.5–5.5%.

In April 2023, MAS kept the S$NEER on its current appreciating path

The growth-inflation dynamics confronting MAS at the April 2023 monetary policy review have shifted compared to October 2022. There is greater evidence that core inflation pressures would gradually ease through 2023, while output in the Singapore economy could slip more significantly below potential amid the intensifying risks to the global growth outlook.

MAS assesses that the prevailing monetary policy stance is sufficiently tight, given that the five most recent monetary policy tightening moves have tempered the momentum of domestic price increases and a broad disinflationary trend in core inflation is in train. Moreover, an estimated one-third of the cumulative restraining effects of the previous five

1 Although subject to significant uncertainty, MAS estimates' indicate that a full pass-through of the GST rate hike will occur over the course of 2023.

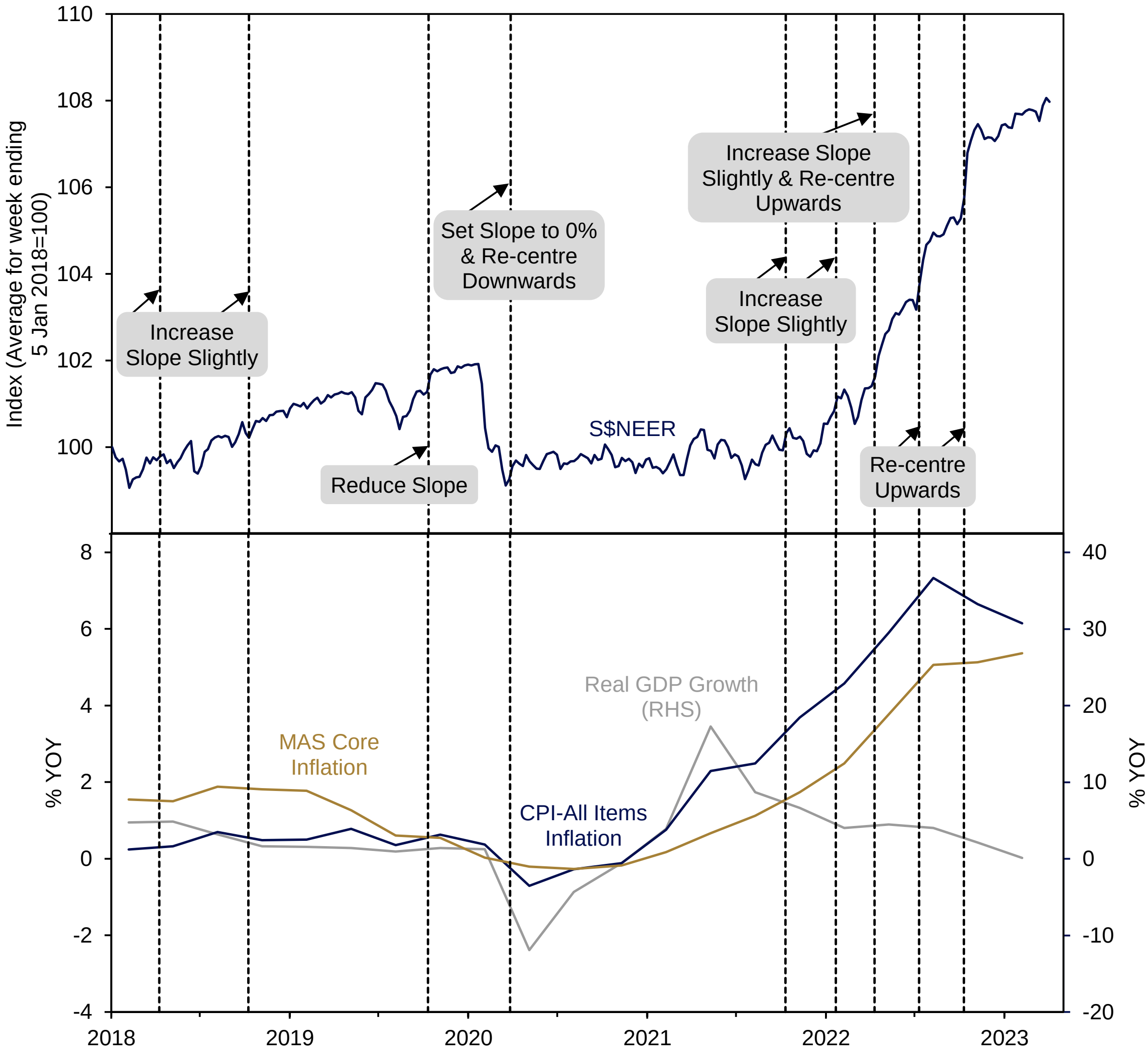
moves remain in the pipeline. Abstracting from the impact of the GST increase, MAS Core Inflation is expected to come closer to its historical average by the end of the year.

MAS therefore decided to maintain the prevailing rate of appreciation of the S$NEER policy band in April 2023. There was no change to the width of the band or the level at which it was centred. The current rate of appreciation of the S$NEER policy band is expected to ensure medium-term price stability.

MAS will remain vigilant over developments in the economy and financial markets, amid heightened uncertainty on both inflation and growth. **Chart 4.2** summarises the recent shifts in monetary policy, GDP growth and inflation in the Singapore economy.

Chart 4.2 Key macroeconomic variables and changes to the monetary policy stance

S$NEER, real GDP growth, CPI-All Items inflation and MAS Core Inflation



Source: DOS and EPG, MAS estimates

Note: Vertical dashed lines indicate changes to the settings of the S$NEER policy band. For a summary of MAS' past policy decisions, please see "Past Monetary Policy Decisions".

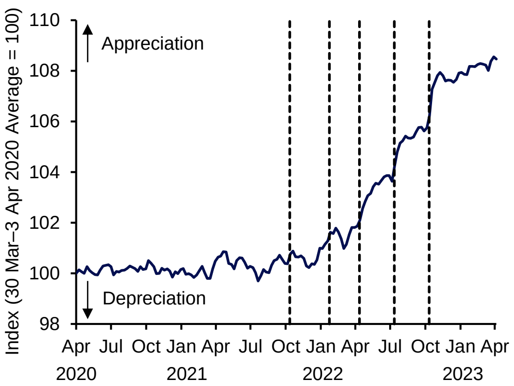
The S$NEER continued to appreciate within the upper half of the policy band

The S$NEER took a step up following the October 2022 re-centring of the policy band. In the six months thereafter, the trade-weighted exchange rate generally appreciated within the upper half of the policy band **(Chart 4.3)**. Point to point, the S$NEER rose by 2.6% over this period.

The S$ has strengthened against the US dollar since mid-October, as the Federal Reserve slowed its pace of interest rate hikes in line with market expectations. The S$ also appreciated against some regional currencies, such as the Indonesian rupiah and Chinese renminbi. In contrast, the S$ weakened against the Japanese yen and Euro, reflecting expectations of further monetary policy tightening in these economies **(Chart 4.4)**.

Chart 4.3 The S$NEER has broadly appreciated in the upper half of the policy band

S$NEER, weekly average

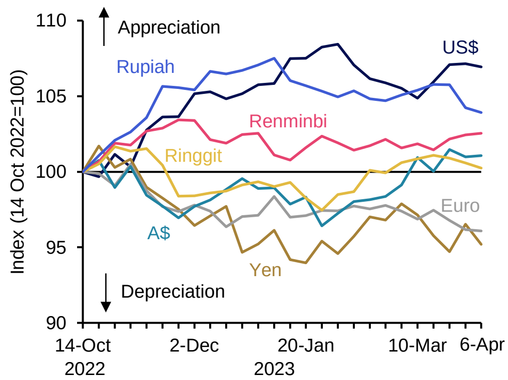


Source: EPG, MAS estimates

Note: Vertical dashed lines indicate the last five releases of the MPS.

Chart 4.4 Shifts in expectations of policy stances drove bilateral FX movements

Bilateral exchange rates, weekly average



Source: EPG, MAS estimates

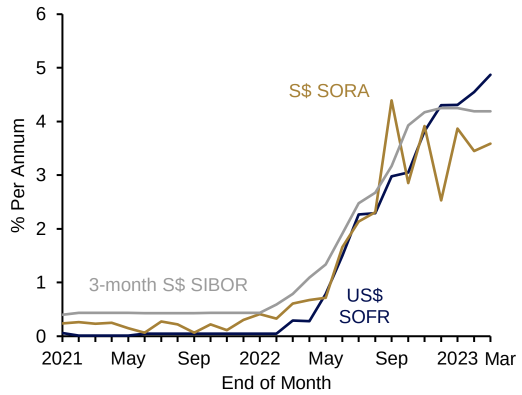
Short-term US$ interest rates picked up over the last six months, with the US$ Secured Overnight Financing Rate (SOFR) rising to 4.9% as at end-March 2023, from 3.1% in October 2022. This reflected the Federal Reserve raising its policy rates multiple times, albeit at a more gradual pace in recent months. Domestic S$ interest rates broadly increased in tandem, with the S$ Singapore Overnight Rate (SORA) and 3-month S$ SIBOR reaching 3.6% and 4.2%, respectively, from 2.9% and 3.9% six months ago **(Chart 4.5)**.

Changes in the Domestic Liquidity Indicator (DLI)[2] were driven by developments in both the S$NEER and domestic interest rates over the same period. Singapore's monetary conditions, as proxied by the DLI, continued to tighten, but by less compared to six months previously, as the pace of S$NEER appreciation and interest rate increases broadly moderated **(Chart 4.6)**.

2 The DLI captures movements in the S$NEER and the 3-month S$ SIBOR.

Chart 4.5 Domestic interest rates rose in line with global interest rates

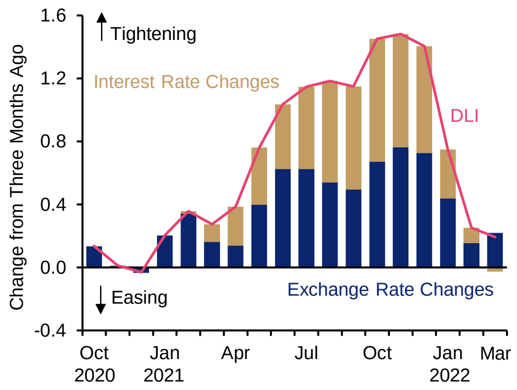
US$ and S$ interest rates, end of month



Source: ABS Benchmarks Administration Co Pte Ltd, Federal Reserve Bank of New York and MAS

Chart 4.6 Domestic liquidity conditions continued to tighten albeit more gradually

DLI and components



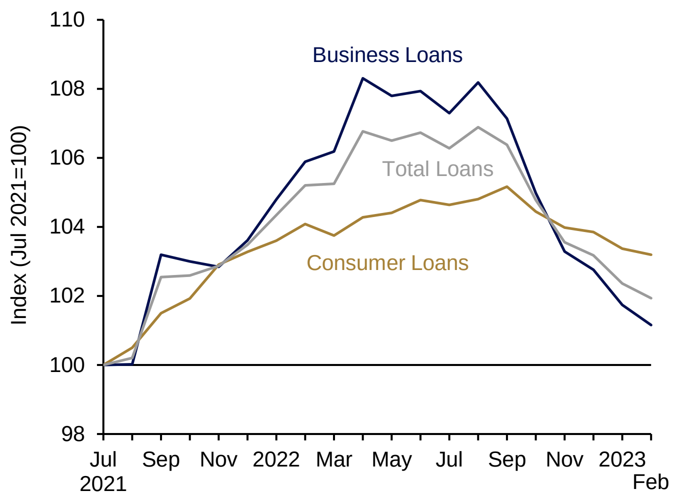
Source: ABS Benchmarks Administration Co Pte Ltd and EPG, MAS estimates

The stock of loans and the money supply have fallen steadily in recent months

The overall stock of loans has fallen over the past six months, alongside tighter global and domestic financial conditions as well as the weakening economic outlook. Outstanding business loans declined to $493 billion in February 2023, from $527 billion in August 2022 while consumer loans edged down to $311 billion, from $316 billion over this period. Overall, the stock of outstanding loans has fallen by 4.6% from its recent peak in August 2022 **(Chart 4.7)**.

Chart 4.7 Credit has fallen amid tighter global and domestic financial conditions

Outstanding stock of non-bank loans



Source: MAS

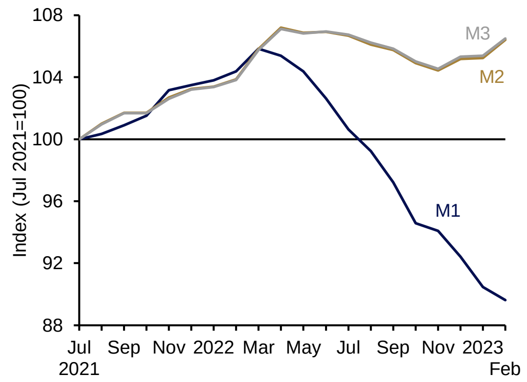
Note: Data on credit levels are only available from July 2021, due to the changes to the statistics reported in MAS' Monthly Statistical Bulletin.

Broad monetary aggregates declined in tandem with outstanding bank credit over Q4 2022 **(Chart 4.8)**. However, M2 and M3 picked up from end-2022 while M1 continued to decline sharply, reflecting account holders' shift away from demand deposits to higher-yielding fixed deposits. Overall, the significant rise in fixed deposits more than offset the fall in demand deposits as well as savings & other deposits **(Chart 4.9)**.

The contraction in M1 and slower growth in the broader monetary aggregates have been consistent with the moderation in nominal GDP growth over the last six months. The impact of tighter money supply on the economy was partially offset by a continuing pick up in the velocity of money (M1), in line with the rise in interest rates and the normalisation of opportunities to spend.

Chart 4.8 Money supply broadly fell in tandem with credit…

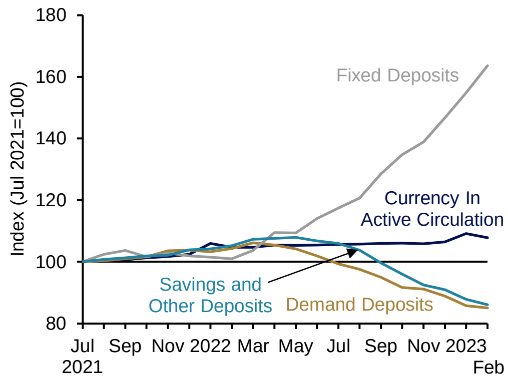
Monetary aggregates



Source: MAS

Chart 4.9 …while account holders shifted away from demand deposits to fixed deposits

Components of money supply



Source: MAS

Note: Data on credit levels are only available from July 2021, due to the changes to the statistics reported in MAS' Monthly Statistical Bulletin.

4.2 Fiscal Policy

Addressing cyclical strains as well as structural priorities

Budget 2023 was delivered in February against a backdrop of slowing economic growth and still-elevated inflation. The global manufacturing downturn was expected to intensify and exert a more severe drag on Singapore's trade-related sectors, with the weakness only partially offset by the resilience in the domestic-oriented sectors. Meanwhile, inflation was forecast to ease over the course of the year as demand and supply imbalances, both externally and in the domestic economy, became less acute. Nonetheless, inflation would remain high for the year as a whole, as the hike in the GST rate from 7% to 8% and accumulated business costs passed through to consumer prices.

Against this backdrop, Budget 2023 sought to address cost-of-living and cashflow concerns among vulnerable households and firms. There were also structural measures to address Singapore's economic competitiveness and demographic challenges, while strengthening the social compact and building a more inclusive and resilient society. (See **Table 4.1** below for a list of key measures). Overall, the near-term effects of Budget 2023 were carefully calibrated for an economy where households and firms continued to need support amid elevated inflation even as a slightly negative output gap emerged.

Helping households and businesses cope with higher costs

Amid the rapid rise in consumer prices, Budget 2023 set aside $2.6 billion (0.4% of GDP) for special transfers to households to help cushion the strain on household finances. This included about $0.6 billion for Community Development Council (CDC) Vouchers, $1.3 billion for Cost-of-Living special payments and $0.7 billion in other transfers.

Budget 2023 also enhanced payouts to Singaporeans under the permanent GST Voucher scheme as well as the Assurance Package. Under the enhanced Assurance Package, eligible adult Singaporeans will receive additional $300 to $650 in cash over the remaining years of the Assurance Package, bringing total payouts to between $700 and $2,250 per person from 2022 to 2026. Children will also receive additional top-ups to either their Child Development Account (CDA) or education-related accounts. In addition, all Singaporean households will receive a further $300 of CDC Vouchers in January 2024, up from the $200 distributed at Budget 2022. Taking into account these additional enhancements, the Assurance Package is expected to offset additional GST expenses from the 2%-point GST rate increase for at least five years for the majority of Singaporean households, and for about 10 years for lower-income households.

The Budget extended the Energy Efficiency Grant for a year till March 2024 to help companies in the food services, food manufacturing and retail sectors adopt energy-efficient solutions to reduce the impact of higher energy prices. Enhancements to the Enterprise Financing Scheme were also extended to help firms adjust to the challenges of tighter financial conditions.

The Budget sought to tackle challenges associated with Singapore's demographic constraints…

Cross-border movement restrictions imposed during the COVID-19 pandemic led to a protracted shortfall of non-resident workers and a significant tightening in domestic labour market conditions. Even though the increase in the resident employment rate to a record high in 2022 helped to fill some of the gaps, significant labour shortages persisted, highlighting Singapore's underlying labour force constraints and underscoring the need for continuing measures to boost the quality of local human capital.

To that end, Budget 2023 appointed Jobs-Skills Integrators (JSIT) to optimise training and job placement in targeted sectors: precision engineering, retail trade and wholesale trade, which were selected for their higher concentration of mature workers. JSITs will engage firms in each sector to understand manpower and skills gaps, while also working with training providers and industry partners to update existing training programmes or develop new ones. The JSITs should increase the effectiveness of training programmes by helping to ensure that training is suitably tailored to industry-specific needs, hence raising the likelihood that training translates into better employment and earnings prospects for workers. The scheme will augment existing efforts to raise labour productivity.

In addition, the Budget included various wage offset schemes and grants to encourage companies to employ seniors, persons with disabilities as well as ex-offenders. These measures should raise the labour force attachment of these workers, who tend to be at the margins of the workforce. The measures should help entrench the significant gains in the resident labour force participation rate over the last two years.

Budget 2023 also contained various measures targeted at families and addressing Singapore's low fertility rate, which is behind the country's population ageing and resident workforce constraints. Key measures include greater financial support in a child's early years, doubling Government-Paid Paternity Leave, and encouraging more pervasive uptake of flexible work arrangements.

…while strengthening the social compact by targeting wage and wealth inequality

The government has in recent years implemented several policies aimed at raising the wages of lower-income workers. These included broadening the coverage of the Progressive Wage Model to more sectors and occupations, as well as requiring firms employing foreign workers to pay all local workers at least the Local Qualifying Salary. These measures have contributed towards a decline in income inequality in Singapore, with the ratio of income at the 20th percentile relative to the median reaching 0.55 last year, the highest reading since 2004. Significant government transfers to lower-income households and individuals during the pandemic also ameliorated the fall in incomes for the most vulnerable. Notably, government intervention has been sufficiently large and targeted to significantly reduce Singapore's Gini coefficient, after taxes and transfers, to 0.378 in 2022 from 0.398 in 2019.

Budget 2023 built on these efforts by enhancing the Progressive Wage Credit Scheme (PWCS). Under the PWCS, which was first introduced in Budget 2022, the government will co-fund wage increases of lower-income workers from 2022 to 2026. Budget 2023 raised the extent of co-funding support for 2023 and provided a $2.4 billion top-up to the PWCS fund. The enhancement to the scheme will ensure that companies can sustain the momentum of wage and job reform, even as they grapple with near-term challenges due to slowing economic activity. In particular, the support provided by the PWCS should further incentivise employers to adhere to the recent and upcoming expansion of the Progressive Wage Model, while providing some relief to business costs until labour productivity improves.

The Budget also contained tax adjustments that reflected the government's continued commitment to shift to a fairer fiscal system. Taxes on higher-value residential and non-residential property transactions were raised, while the vehicle tax schedule was made more progressive. These measures will modulate wealth inequality in Singapore, while providing a small boost to the long-run fiscal position.

The Budget included measures to ensure Singapore continues to attract innovative, high-quality investments

Budget 2023 acknowledged the need to continually enhance and refresh Singapore's public infrastructure. Amid the ongoing weakness in external demand, public infrastructure investment will be a relatively significant driver of Singapore's growth in the near term. In the longer term, as the stock of public capital increases, and in tandem with a more skilled resident labour force, private investment should be crowded in, which would then further enhance potential growth. Accordingly, ensuring that global firms at the technological frontier across a wide range of industries retain a strong presence in Singapore is a critical complementary strategy. By anchoring high-value activities and best-in-class facilities here, Singapore will be able to build new capabilities, develop key industries, and create good jobs for Singaporeans, hence strengthening incentives for local enterprises to invest and workers to upgrade.

To this end, the Budget announced a top-up to the National Productivity Fund, of $4 billion, and an expansion in its scope to include investment promotion as a supportable activity. The Fund will be used to anchor more high-quality investments in Singapore, by encouraging companies to build new capabilities and upskill workers. The Budget also introduced a new Enterprise Innovation Scheme that will significantly enhance tax deductions for key activities in the innovation value chain, to encourage businesses to engage in research and development (R&D), and capability development activities in Singapore.

Table 4.1 Summary of key measures in Budget 2023

KEY BUDGET INITIATIVES

A. DEALING WITH INFLATION

Helping Businesses Weather Immediate Challenges

A1. Extension of the Enhanced Enterprise Financing Scheme

- Extend the current enhancements to the Enterprise Financing Scheme for another year till 31 March 2024.
- This includes the 70% Government risk-share for trade loans, the enhanced maximum quantum for trade and working capital loans, and support for domestic construction projects via project loans.

A2. Extension of the Energy Efficiency Grant

- Extend the Energy Efficiency Grant for one year until 31 March 2024. This will provide continued support for businesses in the Food Services, Food Manufacturing, and Retail sectors to invest in energy efficiency, and thereby reduce the impact of higher electricity prices.

Enhancement of support measures for Singaporeans

A3. Enhanced permanent GST Voucher Scheme

- Increase in cash payout to $700 this year, from $500 in 2022 and to $850 from 2024 for eligible Singaporeans residing in homes with an Annual Value of $13,000 or below.
- Increase in cash payout to $350 this year, from $250 in 2022 and then to $450 from 2024 for those living in a property with an Annual Value above $13,000 and up to $21,000.
- The enhanced permanent GST Voucher Scheme benefits about 1.5 million adult Singaporeans every year.

A4. Enhancements to Assurance Package (AP)

- Top up of $3 billion, bringing the total amount of the AP to $9.6 billion.
- Increase the AP Cash by between $300 and $650 for eligible Singaporeans over the remaining years of the Assurance Package. This will bring the total AP Cash payments received by eligible adult Singaporeans to between $700 and $2,250 from 2022 to 2026.
- Increase the CDC Vouchers by $100 in 2024 so all Singaporean households will receive $300 CDC Vouchers in January 2024.
- Cost-of-Living Special Payment of between $200 and $400 for each eligible adult Singaporean in 2023.
- Cost-of-Living Seniors' Bonus of between $200 and $300 for eligible Singaporeans aged 55 and above in 2023.
- Double the U-Save Rebates provided to households over the next three tranches of disbursement in 2023. In total, eligible households will receive up to $760 in U-Save Rebates this year.
- Children aged six and below will receive a top-up of $400 to their Child Development Account, and older children will receive a top-up of $300 to their Edusave account or Post-Secondary Education Account in 2023.
- Taking into account the additional enhancements, AP will offset additional GST expenses from the 2%-point GST rate increase for at least five years for the majority of Singaporean households, and for about 10 years for the lower-income households.

B. GROWING OUR ECONOMY AND EQUIPPING OUR WORKERS

Anchoring Quality Investments, Nurturing Innovation and Developing Local Enterprises

B1. National Productivity Fund

- Top up the National Productivity Fund with $4 billion.
- Expand the scope of the Fund to include investment promotion as a supportable activity.
- Anchor more quality investments that include supporting companies to build new capabilities, add greater value to our domestic ecosystems, and upskill our workers. These efforts will lead to better-paying jobs for Singaporeans.

B2. Enterprise Innovation Scheme

- Enhance the tax deductions to 400%, up from 250% of qualifying expenditure for five key activities in the innovation value chain:
    - R&D conducted in Singapore;
    - Registration of intellectual property, including patents, trademarks, and designs;
    - Acquisition and licensing of intellectual property rights;
    - Innovation carried out with Polytechnics and ITE;
    - And training via courses approved by SkillsFuture Singapore and aligned to the Skills Framework.
- Allow eligible businesses to opt for a non-taxable cash payout at a cash conversion ratio of 20% on up to $100,000 of total qualifying expenditure across all qualifying activities per Year of Assessment, in lieu of tax deductions and allowances, capped at $20,000.
- Businesses that make full use of the scheme could enjoy tax savings of nearly 70% of their investment.

B3. SME Co-Investment Fund

- Set aside additional $150 million to invest in promising SMEs and catalyse an additional $300 million of private investments to support SMEs.

B4. Singapore Global Enterprise Initiative

- Set aside $1 billion to further boost the initiative to support companies with secure resources to execute growth plans and build sustained research and innovation capabilities to strengthen their value proposition and stay competitive.

Equipping and Empowering Workers

B5. Jobs-Skills Integrators

- Pilot JSIT programmes will be conducted in the Precision Engineering, Retail, and Wholesale Trade sectors, where there are higher concentrations of mature workers and SMEs.

B6. Senior Employment Credit

- Extend till 2025 to continue providing wage offsets to employers that hire senior workers.

B7. Part-time Re-employment Grant

- Extend till 2025 to encourage employers to offer part-time re employment, other flexible work arrangements, and structured career planning to senior workers.

B8. Progressive Wage Credit Scheme

- Top up the PWCS Fund by $2.4 billion.
- Maintain higher Government's co-funding share of eligible wage increases in 2023.
    - Wages up to $2,500: increase from 50% to 75%.
    - Wages up to $3,000: increase from 30% to 45%.

B9. Enhanced Enabling Employment Credit

- Enhance to cover a larger proportion of wages and a longer duration for persons with disabilities who have not been working for at least six months.

B10. Uplifting Employment Credit

- Introduce a time-limited wage offset to encourage firms to employ ex-offenders.

C. STRENGTHENING OUR SOCIAL COMPACT

Building a Singapore Made For Families

C1. Prioritisation for First-Timer Families

- Additional BTO ballot for prioritised First-Timer families with children, and young married couples aged 40 years and below for new HDB flats in any estate.

C2. CPF Housing Grant

- Increase the CPF Housing Grant by $30,000 for eligible First-Timer families purchasing 4-room or smaller resale flats, and by $10,000 for those purchasing 5-room or larger resale flats.
- The additional grant amount will be credited into their CPF account from April this year onwards.

C3. Working Mother's Child Relief (WMCR)

- WMCR will be changed from a percentage of the mother's earned income to a fixed dollar relief, effective from Year of Assessment 2025, for Singaporean children born or adopted on or after 1 January 2024.
- Eligible working mothers will be able to claim the same amount of WMCR for a child in the same child order: $8,000 in tax relief for her first child, $10,000 for her second child, and $12,000 each for her third and subsequent child.
- For Singaporean children born or adopted before 1 January 2024, there is no change to the WMCR that their eligible working mothers can claim.

C4. Lapse Foreign Domestic Worker Levy Tax Relief

- The Foreign Domestic Worker Levy Tax Relief will be lapsed for all taxpayers from the Year of Assessment 2025 as we already have a migrant domestic worker levy concession, which provides more targeted support for families who need help caring for their dependants, including young children below 16 years old.

C5. Baby Bonus Cash Gift

- Increase the Baby Bonus Cash Gift by $3,000 for all eligible Singaporean children.
- Eligible first- and second-born children will receive $11,000 instead of $8,000. And for the third child onwards, the Baby Bonus Cash Gift will be increased from $10,000 to $13,000.
- The disbursements will be restructured to be paid out over a longer period, up until the child is six-and-a-half years old.

C6. Child Development Account

- The CDA First Step Grant will be increased from $3,000 to $5,000 for all eligible Singaporean children. This is automatically credited into the CDA, and parents can immediately benefit from it once they open the account.
- The Government will increase the Government co-matching caps for the CDA by $1,000 each for children in the first two birth orders, to $4,000 for the first child and $7,000 for the second child.

C7. Government-Paid Paternity Leave

- Government-Paid Paternity Leave will be doubled from two weeks to four weeks, on a voluntary basis, for eligible working fathers of Singaporean children born on or after 1 January 2024.

C8. Unpaid Infant Care Leave

- Unpaid Infant Care Leave for each parent in the child's first two years will be increased from the current six days per year to 12 days per year.
- This will apply from 1 January 2024 onwards for eligible working parents with Singaporean children aged under two years old.

Additional Support for Lower-income Families

C9. Social Service Offices

- Better integrate the common functions across the different programmes in Government that support lower-income families.
- The Social Service Offices will deliver these functions, and bring partners together to work in tandem, coordinating and integrating all the efforts for maximum impact.

C10. ComCare Endowment Fund

- Top up the fund by $300 million to provide necessary social assistance to lower-income families.

C11. KidSTART Initiative

- Scale up the programme nationwide to support 80% of eligible children in lower-income families, starting from the children born this year.

C12. Increase full-day childcare places and MOE Kindergartens

- The Government will work with Anchor Operators to create 22,000 more full-day childcare places and expand the number of MOE Kindergartens.
- This will help support higher preschool participation rates across the board, and especially amongst lower-income families.

Providing Assurance in Our Silver Years

C13. Action Plan for Successful Ageing

- The refreshed Action Plan for Successful Ageing was launched in January 2023 to support Healthier SG by setting out a comprehensive set of initiatives for seniors to better care for themselves, continue contributing, and stay connected.

C14. ElderCare Fund

- Top up ElderCare Fund by $500 million to support means-tested subsidies for seniors who need home-based, centre-based, or institutional care.

C15. MediFund

- Top up MediFund by $1.5 billion to strengthen the safety net for lower-income individuals and seniors facing financial difficulties with their medical bills, even after Government subsidies, MediShield Life, and MediSave.

C16. Platform Workers CPF Transition Support

- Provide CPF Transition Support to lower-income Platform Workers in the first four years of implementation, to cushion the impact of their increased CPF contributions.

C17. CPF Adjustments for Older Workers

- Continue with the next increase in CPF contribution rates for senior workers in 2024.
- Provide employers of senior workers with a one-year CPF Transition Offset.
- Increase the minimum CPF monthly payout for seniors on the Retirement Sum Scheme to $350 a month.

C18. CPF Adjustments for Middle-Income

- Raise the CPF monthly salary ceiling from $6,000 to $8,000 in 2026 to help middle-income Singaporeans save more for their retirement.
- The increases will be phased in over four years, starting from this year, to allow employers and employees to adjust to the changes.

D. BUILDING A RESILIENT NATION

D1. Extension of 250% Tax Deduction for Donations

- Extend the 250% tax deduction for donations to Institutions of a Public Character (IPC) and eligible institutions by three years to end-2026.

D2. Corporate Volunteer Scheme

- Enhance the existing Business and IPC Partnership Scheme into a broader Corporate Volunteer Scheme, which will be extended by three years to end-2026.
- Expand eligible activities to include off-site and virtual activities.
- Double qualifying per-IPC cap to $100,000 per calendar year to facilitate deeper partnerships between businesses and IPCs.

D3. Community Silver Trust

- Top up the Community Silver Trust by $1 billion to support our social service agencies (SSAs) that deliver community care services for seniors.
- Charities and SSAs can also continue to tap on the Charities Capability Fund and the Community Capability Trust to drive innovation and transform their operations.

D4. Self-Help Groups

- Provide a $10 million top-up to Self-Help Groups over the next three years (from FY2023 to FY2025).

E. FORTIFYING OUR FISCAL POSITION

E1. Buyer's Stamp Duty Regime

- For residential properties, portion of the value of the property in excess of $1.5 million and up to $3 million will be taxed at 5%, while that in excess of $3 million will be taxed at 6%; up from the current rate of 4%. The changes are expected to affect 15% of residential properties.
- The Additional Conveyance Duties regime will be adjusted accordingly.

- For non-residential properties, the portion of the value of the property in excess of $1 million and up to $1.5 million will be taxed at 4%, while that in excess of $1.5 million will be taxed at 5%; up from the current rate of 3%. These changes are expected to affect 60% of non-residential properties.
- The changes are expected to generate an additional $500 million in revenue per year.

E2. Additional Registration Fee (ARF)

- The ARF has been adjusted to five tiers to better differentiate the higher-end cars, and also tax luxury cars at a higher rate.
- The ARF for cars with an Open Market Value (OMV) above $40,000 has been increased.
  - For portion of the OMV of the vehicle in excess of $40,000, up till $60,000, the ARF rate is 190%.
  - For portion of the OMV of the vehicle in excess of $60,000, up till $80,000, the ARF rate is 250%.
  - For portion of the OMV of the vehicle in excess of $80,000, the ARF rate is 320%.
  - Buyers of cars with an OMV of $40,000 or less will not be affected.
- The Preferential ARF rebates will be capped at $60,000 to avoid providing excessive rebates to more expensive cars when they are deregistered.
- The ARF change is expected to generate about $200 million in additional revenue per year.

E3. Tobacco Excise Duty

- The Government will implement a 15% increase in tobacco excise duty across all tobacco products.
- The increase is expected to generate about $100 million in additional revenue per year.

Source: MOF

Budget 2023 is projected to result in a smaller deficit

The basic budget deficit is expected to narrow to $10.2 billion (1.5% of GDP) in FY2023, from the previous year's deficit of $19.6 billion (3.0% of GDP) **(Table 4.2)**. The smaller deficit mainly reflects an increase in operating revenue owing to higher tax and fee collections, even as operating expenditure is forecast to step down modestly. Concomitantly, the primary deficit is projected to narrow to $7.4 billion (1.1% of GDP) from $16.7 billion (2.5% of GDP) in FY2022.

Excluding top-ups to endowment and trust funds, and including the Net Investment Returns Contribution, the deficit in the overall balance is forecast to be smaller at $3.6 billion (0.5% of GDP), compared to $4.2 billion in FY2022 (0.6% of GDP). When the capitalisation of nationally significant infrastructure, depreciation, and related interest costs and loan expenses are taken into account, Singapore should record a marginal deficit in its overall fiscal position, amounting to $0.4 billion (0.1% of GDP).

Table 4.2 Budget summary (FY basis)

	FY2022 Revised		FY2023 Estimated	
	$ Billion	% of GDP	$ Billion	% of GDP
Operating Revenue	90.3	13.8	96.7	14.2
Total Expenditure	106.9	16.4	104.1	15.3
Primary Surplus (+) / Deficit (−)	**−16.7**	**−2.5**	**−7.4**	**−1.1**
Less: Special Transfers (excluding top-ups to endowment/trust funds)	2.9	0.4	2.8	0.4
Basic Surplus (+) / Deficit (−)	**−19.6**	**−3.0**	**−10.2**	**−1.5**
Less: Special Transfers (top-ups to endowment/trust funds)	6.3	1.0	16.8	2.5
Add: Net Investment Returns Contribution	21.6	3.3	23.5	3.5
Overall Budget Surplus (+) / Deficit (−)	**−4.2**	**−0.6**	**−3.6**	**−0.5**
Add: Capitalisation of Nationally Significant Infrastructure	2.3	0.3	3.5	0.5
Less: Depreciation of Nationally Significant Infrastructure	-	0.0	-	0.0
Less: SINGA Interest Costs and Loan Expenses	0.1	0.0	0.3	0.0
Overall Fiscal Position (+) / Deficit (−)	**−2.0**	**−0.3**	**−0.4**	**−0.1**

Source: MOF

Fiscal policy is expected to be mildly expansionary this year

The cyclically adjusted budget balance (CABB)[3] is a gauge of the discretionary fiscal injection to demand, separate from changes in revenue and expenditure that arise endogenously from the level of economic activity. The CABB in calendar year 2023 (CY2023) is projected to be a deficit of 2.3% of GDP, indicating that the fiscal stance is expansionary amid below-trend growth.

Comparing the CABB from year to year gives the fiscal impulse (FI), a broad measure of the net incremental fiscal support to GDP growth. The FI is estimated to be +1.1% of GDP in CY2023, implying some increase in support to the economy.[4]

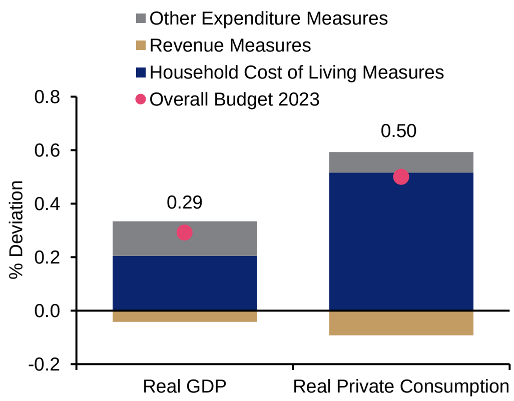
To quantify the impact of Budget 2023 in a general equilibrium context and account for its dynamic effects, key measures were simulated using the Monetary Model of Singapore (MMS), MAS' flagship macroeconomic model. Budget 2023 is estimated to increase real GDP levels by 0.3% in CY2023, thus helping to offset some of the weakness in external demand **(Chart 4.10)**. The increases in GDP will be driven mainly by transfers to households to alleviate cost-of-living concerns. MAS' simulations show that transfers to help households with cost-

[3] In line with the standard international methodology used by the IMF, the MAS estimate uses a base year where output is assessed to be close to potential to determine the benchmark revenue and expenditure ratios. These ratios are then used to compute the CABB.

[4] The CY2023 estimate differs from the fiscal impulse estimate published in MOF's Analysis of Revenue and Expenditure, which is computed for FY2023. The difference reflects the quarterly profile of projected revenues and spending, particularly for some projects where the spending profile is less evenly spread over the year. However, adjusting for this timing difference, the fiscal impulse estimates over a four-quarter period would be similar.

of-living pressures will raise real disposable incomes by 0.7% this year and is the primary factor underpinning the boost to real consumption.

Chart 4.10 Budget 2023 is expected to raise real GDP and private consumption in CY2023



Source: EPG, MAS estimates

Table 4.3 Household transfers will help cushion the impact of GST hike and higher cost of living

Measure	% Deviation in Real Consumption Levels
GST Hike	−0.5
Budget 2022 **- Assurance Package** **- Jun and Oct Support Packages**	+0.8
Budget 2023 **- Household Cost-of-Living Measures**	+0.5

Source: EPG, MAS estimates

MAS' MMS was also used to assess the adequacy of GST-related and cost-of-living support packages announced over CY2022 and Budget 2023 in offsetting the impact of the GST hike this year. Measures from the previous year were also considered as some of these transfers were only disbursed later and will thus have an impact in CY2023. The GST offset package unveiled in last year's Budget, the subsequent support packages and Budget 2023's cost-of-living measures are estimated to sufficiently cushion the impact of the fall in disposable income in 2023. These will help maintain households' purchasing power and welfare **(Table 4.3)**. (See **Box C** for more details on the key transmission channels of households transfers and the impact on the broader economy).

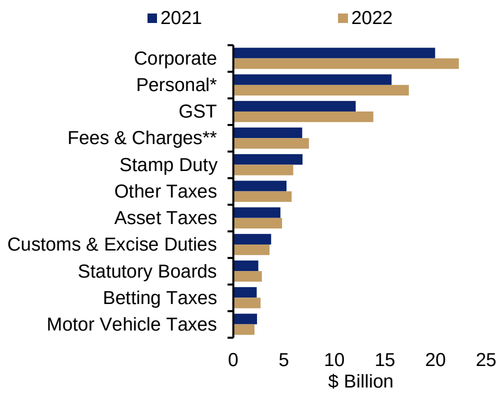
All in, MAS assesses that Budget 2023 has been calibrated appropriately for the evolving cyclical state of the economy. The Budget measures reflect the continued need to support households and firms amid elevated inflation and the emergence of a slightly negative output gap.

Government revenue further recovered in CY2022

Total operating revenue increased by $6.1 billion to $89.2 billion (13.9% of GDP) in CY2022, due to a broad-based increase in collections across most receipt sources **(Chart 4.11)**. Corporate Income Tax (CIT) collections for Year of Assessment 2022 rose by $2.4 billion due to firm economic growth in 2021. In tandem, strong nominal wage growth in 2021 led to an increase in Personal Income Tax (PIT) to $17.4 billion, from $15.7 billion. GST collections rose by $1.8 billion due to the robust growth in nominal private consumption, while Fees & Charges increased by $0.7 billion due to a recovery in Other Fees & Charges and higher COE premiums on the back of tighter quotas.

Chart 4.11 Strong economic growth drove larger increases in CIT and PIT collections

Operating revenue by source



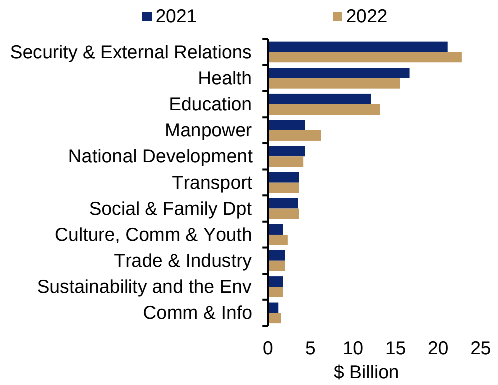
Source: MOF

* Includes Withholding Tax

** Includes Vehicle Quota Premiums

Chart 4.12 Increased outlays by MOM and MOE drove operating expenditure higher

Operating expenditure by sector



Source: MOF

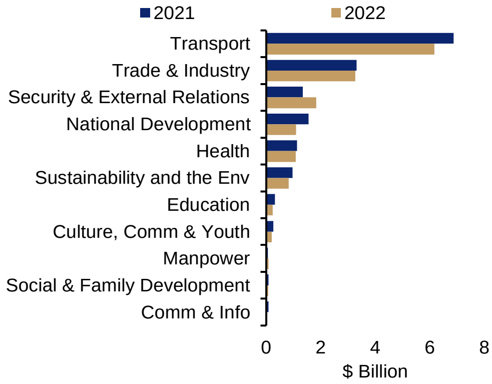
Total government expenditure increased by $3.4 billion to $95.0 billion (14.8% of GDP) in CY2022, as the increase in operating expenditure more than offset the slight reduction in development expenditure.

Operating expenditure, which includes expenses on manpower, operating grants and subventions to statutory boards and other organisations, increased by $4.4 billion to $79.6 billion in CY2022 **(Chart 4.12)**. Operational outlays by the Ministry of Manpower (MOM) rose by $1.9 billion due to the extended qualifying window for the Jobs Growth Incentive to support hiring. The Ministry of Education's (MOE) operating expenses increased to $13.1 billion, from $12.1 billion in 2021, due to annual cost adjustments and bonuses, as well as salary revisions for staff. The increases in operating expenditure on these fronts were partially offset by lower operating expenditure by the Ministry of Health (MOH), as COVID-19 health measures tapered off and the economy re-opened.

At the same time, development expenditure, which comprises longer-term investment in capitalisable assets such as buildings and roads, fell to $15.4 billion (2.4% of GDP) in CY2022, from $16.4 billion in the preceding year **(Chart 4.13)**.

Chart 4.13 Development expenditure fell compared to the preceding year

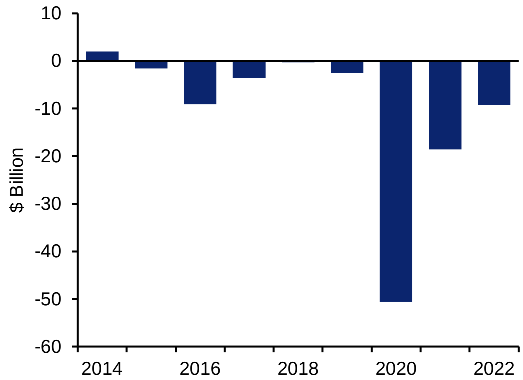
Development expenditure by sector



Source: MOF

Chart 4.14 The basic deficit halved in 2022

Government basic balance



Source: MOF

The government's primary and basic deficits narrowed compared to 2021

The step-up in operating revenue more than outweighed the increase in total government expenditure for CY2022, resulting in a narrower primary budget deficit of $5.8 billion (0.9% of GDP) in 2022, compared to $8.5 billion in 2021 **(Table 4.4)**.

Special transfers, excluding top-ups to endowment and trust funds, fell by $6.6 billion to $3.4 billion in 2022 as the government further tapered the scope of COVID-19 related support.

The government's basic deficit, which takes into account the primary balance and special transfers to households and firms (excluding top-ups to endowment and trust funds), halved to $9.3 billion (1.4% of GDP) in 2022 compared to $18.6 billion a year ago **(Chart 4.14)**.

Table 4.4 Budget summary (CY basis)

	CY2021		CY2022	
	$ Billion	% of GDP	$ Billion	% of GDP
Operating Revenue	83.1	14.6	89.2	13.9
Total Expenditure	91.6	16.1	95.0	14.8
Primary Surplus (+) / Deficit (–)	**–8.5**	**–1.5**	**–5.8**	**–0.9**
Less: Special Transfers (excluding top-ups to endowment/trust funds)	10.1	1.8	3.4	0.5
Basic Surplus (+) / Deficit (–)	**–18.6**	**–3.3**	**–9.3**	**–1.4**

Source: MOF