4 Macroeconomic Policy

- In April, the outlook for inflation was raised, due to commodity price spikes following the outbreak of the Russia-Ukraine war and the boost to demand from the easing of domestic COVID restrictions. MAS shifted two parameters of the S$NEER policy band, re-centring up the mid-point of the band and increasing its slope slightly. In July, MAS re-centred the S$NEER policy band upwards once more while keeping the slope unchanged. Business costs were accumulating rapidly amid strong external price pressures and a tight domestic labour market, and their pass-through to consumer prices had lifted the profile of MAS Core Inflation for the rest of 2022. Risks to inflation were also tilted towards the upside. Even as growth momentum was slowing, the Singapore economy remained on track to expand at an above-trend pace this year. On balance, MAS assessed that a further re-centring up of the policy band would be prudent so as to lean against price pressures becoming more persistent.

- In October, MAS undertook its third consecutive re-centring of the policy band in six months. The mid-point was raised to a level close to the top of the previous policy band. Core inflation is expected to remain elevated through the first half of 2023, as higher costs along global and domestic value chains continue to be passed through to final consumer prices in Singapore. It is expected to ease more discernibly in the second half of next year, although risks remain tilted to the upside. While global growth prospects have deteriorated, MAS assessed that a tightening of monetary policy was appropriate to help dampen price pressures in the immediate quarters ahead, when inflation is likely to peak. This would help ensure medium-term price stability as a basis for sustainable growth in the economy.

- Fiscal policy stepped up support for small businesses and households in light of rising costs. The support for vulnerable households in particular has been progressively enhanced in line with the stronger-than-expected inflation outturns. Nevertheless, fiscal measures have been calibrated so as to avoid both stoking further inflationary pressures in the economy and distorting important relative price signals. Overall, macroeconomic policy in Singapore will help ensure medium-term price stability and sustainable growth in the economy.

4.1 Monetary Policy

In April 2022, MAS tightened monetary policy amid fresh shocks to global inflation

Since late 2021, MAS has been progressively tightening monetary policy alongside the economy's recovery from the pandemic and rising inflation. In October 2021, MAS embarked on monetary policy normalisation by slightly increasing the rate of appreciation of the Singapore dollar nominal effective exchange rate (S$NEER) policy band. This was a pre-emptive move in light of the steady economic recovery and modest pickup in inflation then. In January 2022, MAS increased slightly the rate of appreciation of the policy band, as imported and domestic cost pressures rose and risks to inflation became increasingly skewed to the upside.

Subsequently, war broke out between Russia and Ukraine in late February. The conflict would weigh on the global economy, especially in Europe, but it was not expected to derail the domestic post-pandemic recovery. Singapore's external-oriented sectors were projected to continue expanding, albeit at a slower pace, while the further significant relaxation of domestic safe management measures and re-opening of borders to all vaccinated travellers from 1 April would pave the way for the domestic-oriented and travel-related sectors to recover strongly. These would support above-trend GDP growth for the second consecutive year, causing a mildly positive output gap to emerge. At the same time, as the recovery broadened to more sectors in the economy, the labour market would reach full employment, underpinning firm wage growth.

However, spillovers from the conflict had significantly lifted the outlook for global and domestic inflation. World prices for food, energy, and industrial commodities surged due to supply disruptions and the uncertainty caused by the war. These added to pre-existing price pressures associated with the reopening of many economies, with the strong upturn in global demand occurring amid supply constraints. As a result of the fresh shocks, global inflation was expected to step up discernibly and pass through to Singapore's imported costs. The forecast ranges for MAS Core Inflation and CPI-All Items inflation in 2022 were accordingly revised up to 2.5–3.5% and 4.5–5.5% respectively. In addition, the risks to inflation remained tilted to the upside, and there was a growing likelihood that strong inflation would persist into 2023.

MAS therefore decided to tighten monetary policy by adjusting two parameters of the S$NEER policy band in April—re-centre the mid-point up to the S$NEER's then-prevailing level, which was near the top of the band, and increase the rate of appreciation of the band slightly. These adjustments, building on previous tightening moves, would help tamp the gathering inflation momentum.

In July 2022, MAS re-centred the S$NEER policy band up once more to lean against price pressures becoming more persistent

Following the April Monetary Policy Statement (MPS), core inflationary pressures in Singapore intensified and became more broad-based. Although global supply chain bottlenecks showed nascent signs of easing, inflation in Singapore's key trading partners stepped up to its fastest pace in 14 years. The strong inflation momentum was driven by elevated commodity prices and rising wage costs in many economies. Despite major central banks rapidly lifting policy rates, global growth was expected to slow only gradually, with

attendant lagged effects on inflation. Demand in the advanced economies would also remain supported by robust balance sheets and strong wage incomes, while activity in several regional economies would be bolstered by their full re-opening. Nevertheless, the risk of a more significant slowdown in global growth had emerged, against increasingly tighter global financial conditions.

Slowing external growth momentum was anticipated to weigh on Singapore's trade-related sectors. Singapore's GDP had contracted marginally in Q2 due to a pull-back in the manufacturing and wholesale trade sectors, following strong outturns in the preceding quarters. However, the strong recovery in the domestic-oriented and travel-related industries was expected to offset the soft patch in the external-oriented sectors, supporting an above-trend pace of growth for 2022 as a whole. Reflecting the firm demand for workers in consumer-facing clusters, as well as lingering shortfalls in the non-resident workforce, the domestic labour market continued to tighten, with the resident unemployment rate edging below its pre-pandemic level.

MAS Core Inflation rose to 3.8% in Q2, from 2.5% in the preceding quarter, with prices increasing more rapidly across a range of goods and services. Non-cooked food inflation picked up, partly due to sharply higher poultry prices following Malaysia's ban on exports of live chickens. At the same time, electricity & gas tariffs rose rapidly, lifting utilities inflation. Businesses confronting more expensive inputs passed costs on to consumers at a faster-than-expected pace in tandem with the rebound in private consumption expenditure. Household spending was particularly strong for in-person discretionary components such as food services, as domestic safe management measures were almost completely lifted in April.

On the whole, the confluence of strong cost-push and demand-pull shifts lifted the forecasted trajectory of core inflation for the remaining quarters of 2022. Core inflation would peak higher and taper by a smaller extent than envisioned in April. The forecast ranges for MAS Core Inflation and CPI-All Items inflation were therefore revised up once more, to 3–4% and 5–6%, respectively.

Against the elevated profile of price increases and continuing upside risks to inflation, MAS assessed that a further tightening of monetary policy was prudent, even though growth momentum was slowing. In an unscheduled policy move, MAS recentred the mid-point of the S$NEER policy band up to its prevailing level on 14 July, with no change to its slope or width. This further tightening move would facilitate a stronger and more expeditious appreciation of the S$NEER, to better lean against price pressures becoming more persistent.

Growth is expected to moderate to below trend in 2023, amid rising risks of a sharper and more broad-based global downturn

In the quarters ahead, growth momentum in the global economy is expected to decelerate further. The pace of price increases in the major advanced economies have been stronger and more entrenched than expected, suggesting that central banks would have to incur a significant cost to growth to rein in inflation. Already, the US Federal Reserve has increased its target for the federal funds rate by 75 bps in each of its three meetings over Jun–Sep, and it is on track to tighten monetary policy further in subsequent meetings. The European Central Bank also raised rates by a cumulative 125 bps over Jul–Sep.

Amid the rapid pace of synchronised monetary policy tightening, erosion of real incomes due to high inflation and ongoing geopolitical uncertainty, global final demand is expected to

weaken, particularly in the US and the Eurozone. In Asia, China's growth will also be muted for some time as continuing COVID restrictions and the ongoing correction in the property market weigh on sentiment. Global goods trade is also expected to moderate alongside weaker demand conditions and rising economic and geopolitical uncertainty. In particular, the drag exerted by the ongoing downturn in the global electronics cycle will likely intensify and weigh more heavily on the export-dependent economies in the region. Global growth will therefore slow to 3.3% this year, and step down further to a slightly below-trend pace in 2023.

While the Singapore economy averted a technical recession in Q3 2022, GDP growth is likely to moderate in the quarters ahead. The slowdown will be led by the externally-driven sectors of the economy, in tandem with weaker global demand and—to a more modest extent—the appreciation of the S$REER since 2021. In contrast, the domestic-oriented and travel-related sectors should stay fairly resilient, buttressed by strong household balance sheets and pent-up demand. From the expenditure perspective, growth this year and the next will mostly be driven by private consumption expenditure as well as government spending, with net exports acting as a drag in 2023. All in, Singapore's GDP growth is projected to come in at 3–4% in 2022 and slow to a below-trend pace next year.

High inflation will persist into H1 next year, as elevated global and domestic costs continue to pass through to consumer prices

Against continuing large shifts in demand and constraints in supply, MAS Core Inflation came in stronger than expected in Q3 2022. A confluence of upstream cost pressures fed into a sharp pickup in discretionary goods & services inflation amid strong consumer spending. In particular, the m-o-m pace of price increase in food services reached its highest on record over Jun–Sep, as raw material, labour and utilities costs increased rapidly. This occurred alongside a robust pace of increase in private consumption expenditure. Likewise, travel-related services inflation surged as demand for international travel rebounded but the capacity of flight and accommodation providers remained constrained. Electricity & gas and non-cooked food CPI inflation also rose further from Q2 on the back of the continuing impact of earlier energy and food price shocks.

Inflation in Singapore's major trading partners, on aggregate, should ease in the quarters ahead. However, the pace of decline could be slow, and global inflation could remain well above its historical average for some time. While food and energy commodity prices have moderated from their peaks earlier in 2022, they are unlikely to decline significantly due to underlying supply factors and ongoing geopolitical tensions. Most firms globally will therefore continue to face higher input prices compared to a year ago. In addition, wage costs have continued to rise firmly amid persistent labour shortages in most economies. Singapore will therefore be confronted with rising costs for a range of imported goods and services in 2023, even as their pace of increase should slow compared to 2022.

On the domestic front, wage-cost pressures will remain firm into the first half of next year given the tight labour market. Nevertheless, the moderating pace of economic expansion and sustained inflows of non-resident workers should allow labour demand and supply to be restored to a better balance in the quarters ahead. Unit labour cost growth should therefore ease in 2023, although it is likely to remain elevated compared to its historical pace.

Electricity prices are forecast to remain high in 2023. While declines in crude oil prices have filtered through to slightly lower electricity prices for households in Q4 compared to Q3, households renewing OEM contracts will be confronted with sharply higher tariffs. Likewise,

businesses operating on the basis of tariffs that had been fixed at lower levels in previous years will face significantly higher utility costs as contracts are renewed.

The 1%-point increase in GST in January 2023 will also add to inflation next year. However, it represents a one-off increase in prices to a higher *level* and should have a transitory effect on inflation—the *rate* of price increases. In general, as monetary policy impacts inflation with a significant lag, it looks past tax or administrative policy changes that have temporary effects on inflation and which do not reflect underlying demand-supply mismatches.

Taking all factors into account, MAS Core Inflation is likely to remain high, at slightly above 5%, for the rest of 2022. With the implementation of the GST hike in January 2023, it will step up further in Q1. Nonetheless, even including the effect of the GST increase, core inflation is expected to ease in H2 2023, as both domestic and imported cost pressures abate.

For 2022 as a whole, core inflation will average around 4%, and should come in at 3.5–4.5% on average over next year. With private transport and accommodation inflation remaining firm, CPI-All Items inflation will come in around 6% this year, and 5.5–6.5% in 2023. Excluding the effects of the GST increase, core and headline inflation would average 2.5–3.5% and 4.5–5.5%, respectively, well above their long-term historical averages.

MAS assessed that a further upward re-centring of the policy band was necessary to dampen the upcoming peak in inflation

Inflation outturns have been stronger than expected for several months. This is even as global supply chain frictions have eased, commodity prices have moderated from their peaks, and the non-resident labour supply in Singapore has expanded. The persistent upside surprises to CPI inflation, both in Singapore and abroad, suggest that price-setting behaviour may have begun to incorporate factors that are not well captured in historical models of inflation. The magnitude of price increases in a number of domestic CPI components are some of the largest in years, reflecting the unprecedented rebound from the pandemic, the accompanying sharp shifts in demand patterns and the confluence of shocks to global and domestic supply. Core inflation will therefore remain elevated, at least until the middle of next year, when some of these effects begin to fade. However, upside risks remain from fresh global price shocks and if inflation expectations become entrenched at higher levels.

At the same time, the global economy has entered a late stage of the business cycle. In the advanced economies, growth is slowing amid the maturing recovery and tighter financial conditions. Near-term prospects for the Chinese economy are uncertain. Against a backdrop of synchronous global tightening of monetary policy and heightened geopolitical tensions, downside risks for the US, Europe and China—three key sources of final demand for Singapore's output—have risen. In particular, a sharp global downturn in 2023 cannot be ruled out.

On balance, MAS assessed that monetary policy needed to be tightened further to help dampen price pressures over the next few quarters, when inflation is likely to reach a peak. A stronger S$NEER in the near term would help to further curb imported inflation and exert some restraint on economic activity, thereby reducing domestic cost pressures.

MAS therefore re-centred the mid-point of the S$NEER policy band up to the prevailing level of the trade-weighted index on 14 October, which was close to the top of the previous band. The frontloading of the S$NEER appreciation should ensure that the impact of the

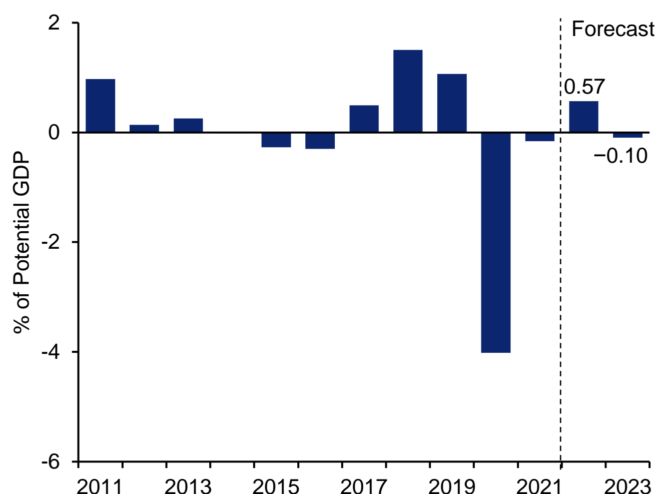
additional tightening filters through to the economy in the immediate quarters ahead. There was no change to the band's width or rate of appreciation. MAS assessed that the prevailing slope is compatible with medium-term price stability, given the baseline expectation that inflation will ease more discernibly in H2 2023 as well as of the increasing downside risks to growth.

Over the last twelve months, monetary policy has been tightened at a pace that is unprecedented since MAS began issuing Monetary Policy Statements in 2001. The cumulative restraining effects of MAS' moves since October last year are estimated to dampen core inflation by an average of 1.5% points each year over 2022–23. All in, the positive output gap this year is expected to turn mildly negative in 2023 **(Chart 4.1)**. Even as Singapore's GDP growth declines in the near term, low and stable inflation will provide a sound basis for sustainable growth in the longer term.

MAS will continue to closely monitor global and domestic economic developments, amid heightened risks on both the inflation and growth fronts. **Chart 4.2** summarises the recent shifts in monetary policy, GDP growth and inflation in the Singapore economy.

Chart 4.1 Tighter monetary policy will cause the output gap to be mildly negative next year

Output Gap

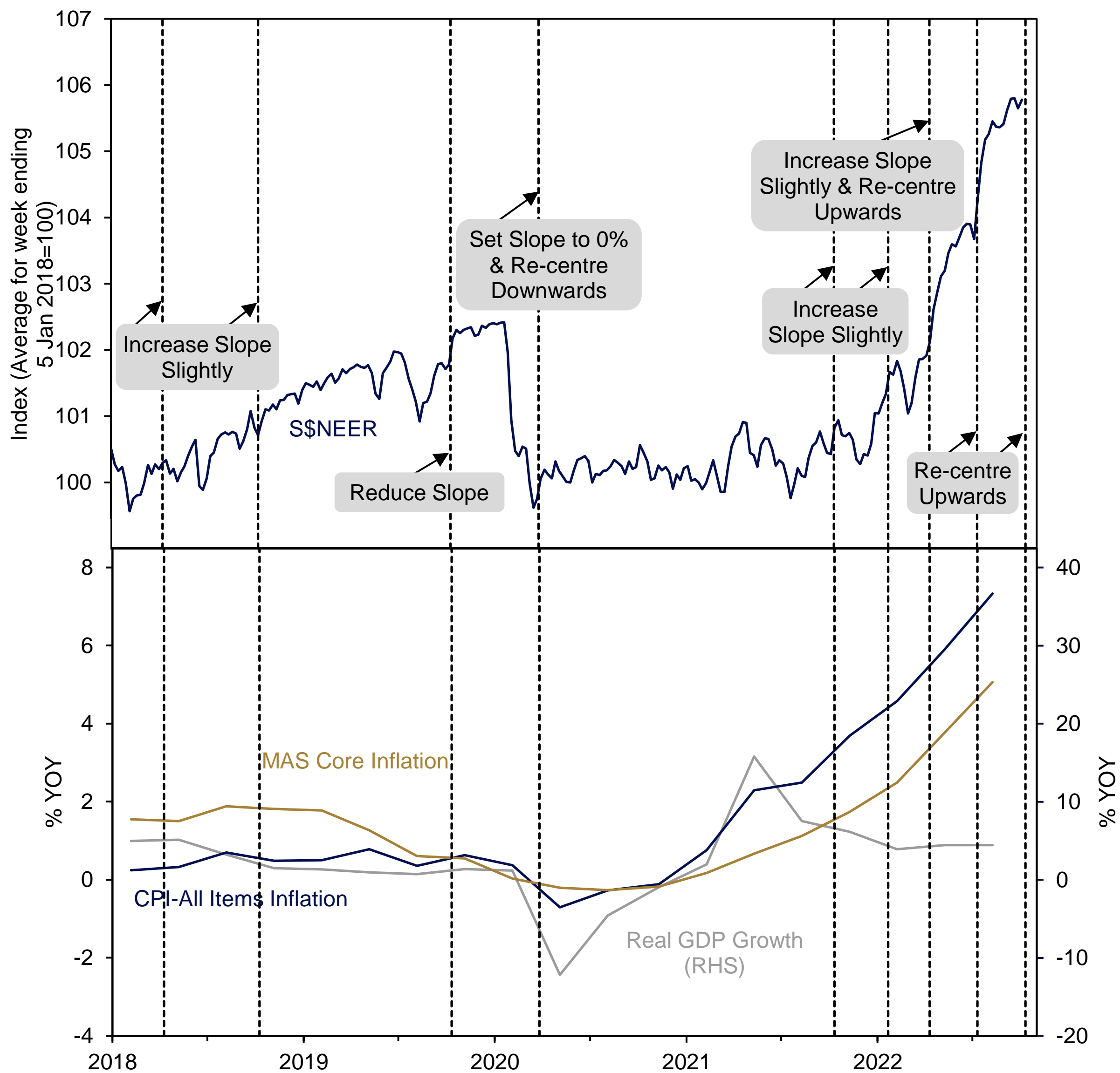


Source: EPG, MAS estimates

Note: The forecasts for 2022 and 2023 take into account the changes to the policy settings over 2022.

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 rose within the appreciating policy band

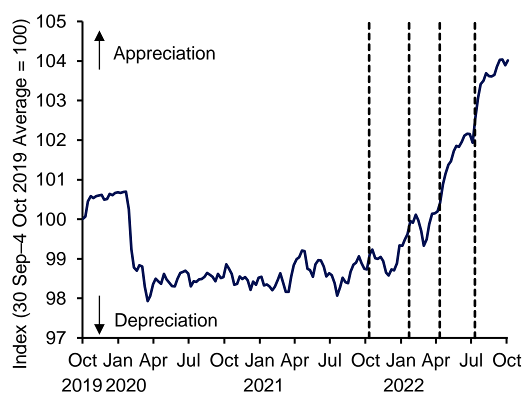
In the six months prior to the October 2022 MPS, the S$NEER strengthened further within the upper halves of the policy bands prevailing over Apr–Jul, and Jul–Oct, in line with MAS' policy intent to curb inflationary pressures **(Chart 4.3)**. Over this period, the S$NEER appreciated by 4%. By mid-October, it was near the top of the policy band.

The S$ strengthened significantly against the Australian dollar and Japanese yen, with the latter weighed down by the Bank of Japan's pledge to continue with its accommodative monetary stance. It has also risen considerably against the Chinese renminbi and Euro. In

contrast, the S$ weakened against the US$ due to broad strength in the latter, amid the aggressive pace of monetary policy tightening by the Federal Reserve **(Chart 4.4)**.

Chart 4.3 The S$NEER appreciated to the upper end of the policy band

S$NEER, weekly average

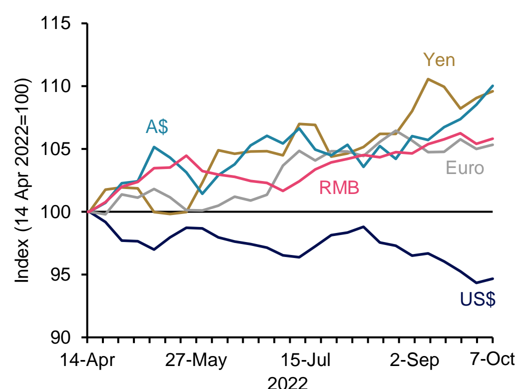


Source: EPG, MAS estimates

Note: Vertical dashed lines indicate the four releases of the MPS prior to October.

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

Bilateral exchange rates, weekly average



Source: EPG, MAS estimates

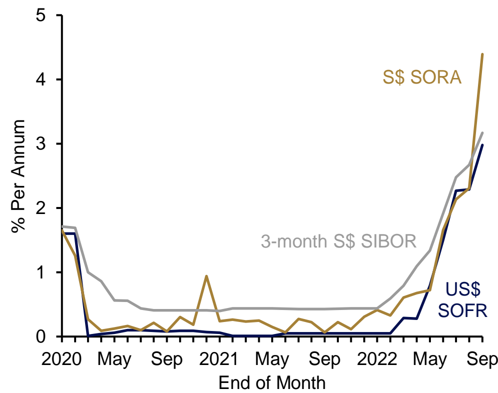
Short-term S$ interest rates picked up with higher global interest rates over the last six months. The S$ Singapore Overnight Rate (SORA) and 3-month S$ SIBOR rose to 4.39% and 3.17% in September, from 0.68% and 1.09% in April **(Chart 4.5)**. This was broadly in tandem with the increase in the US$ Secured Overnight Financing Rate (SOFR) to 2.98%, from 0.28% over the same period.

Overall liquidity conditions tightened in Singapore as reflected by changes in the Domestic Liquidity Indicator (DLI)[1] over the past half a year. Singapore's monetary conditions, as proxied by the DLI, tightened steadily due to both the strengthening of the S$NEER and higher domestic interest rates **(Chart 4.6)**.

[1] 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

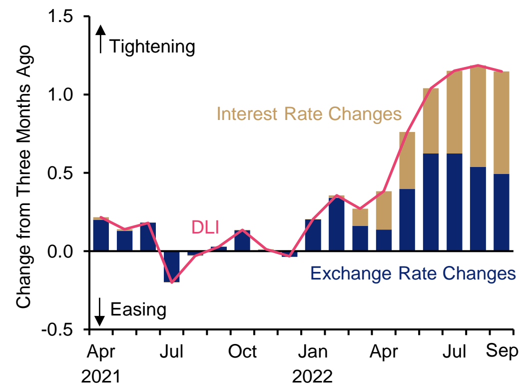
US$ and S$ interest rates, end of month



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

Chart 4.6 Liquidity conditions have tightened

DLI and components



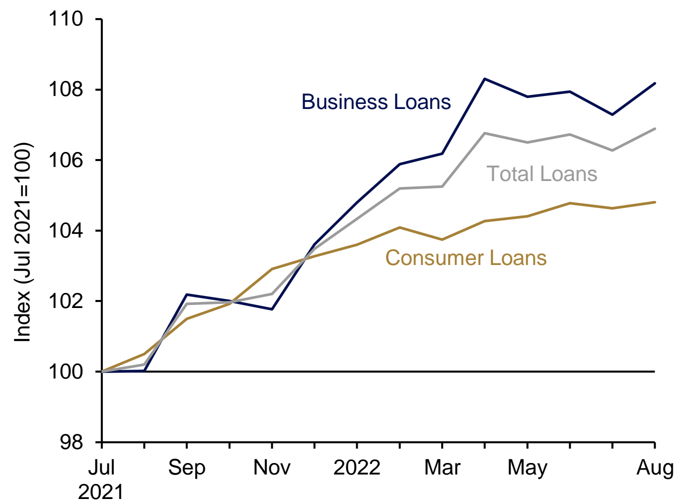
Source: ABS Benchmarks Administration Co Pte Ltd and EPG, MAS estimates

Loan growth has eased while the broader money supply declined from its peak

Overall credit growth eased sequentially in recent months. Consumer loans are growing at a slower pace compared to earlier in the year, while the stock of business loans has been broadly unchanged since April **(Chart 4.7)**.

Chart 4.7 Credit growth eased as consumer and business loans grew at a slower pace

Outstanding stock of non-bank loans



Source: MAS

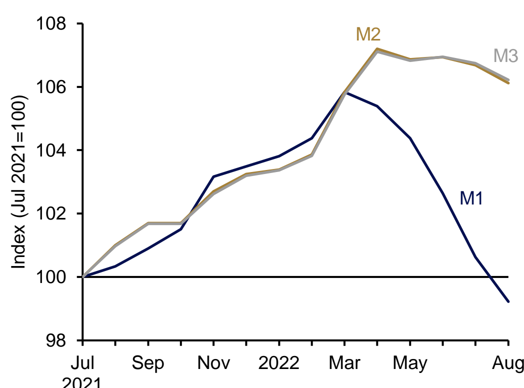
Note: Data on credit levels are only available from July 2021, due to the changes to the statistics reported in MAS' Monthly Statistical Bulletin.

Monetary aggregates have also contracted in recent months **(Chart 4.8)**. The decline in M1 was sharper, as the stock of demand deposits decreased 8.1% from end-March. M2 and M3 fell by a smaller extent, as they were supported by increased demand for fixed deposits amid rising interest rates. Compared to end-March, the stock of fixed deposits grew by 16.3%

(Chart 4.9). The impact of the contraction in money supply on nominal GDP was offset by the pickup in its velocity. The velocity of money (M1), computed using a four-quarter rolling sum of nominal GDP, saw a larger pickup in Q2 2022 compared to the preceding quarters, reflecting robust consumer spending amid the broader re-opening of the economy.

Chart 4.8 M1 has fallen sharply…

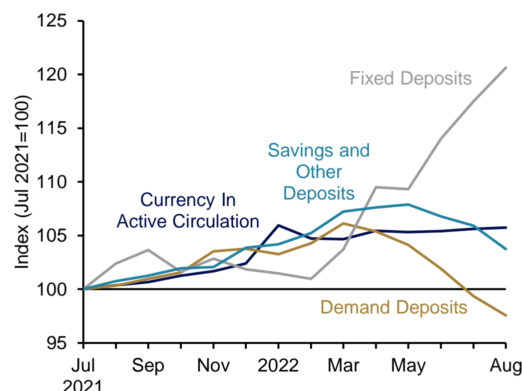
Monetary aggregates



Source: MAS

Chart 4.9 … led by a shrinking stock of demand deposits

Components of money supply



Source: MAS

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

4.2 Fiscal Policy

Budget 2022 sought to address the rising cost of living while confronting structural economic challenges

Budget 2022 was announced in February against a backdrop of lingering cyclical strains in the economy and emerging cost of living pressures. Even as the economy had broadly recovered from the COVID-induced recession, a few industries and segments of the labour force were still lagging. At the same time, domestic inflation was projected to rise alongside strong global inflationary pressures. The Budget therefore provided support to groups still affected by the pandemic, but the measures were tapered further, being targeted and sized in a manner that appropriately reflected the progress made in the recovery.

Measures provided by Budget 2022 helped to offset the impact of rising inflation on households and ensured that small businesses could access liquidity. In particular, under the $560 million Household Support Package, the GST Voucher – U-Save rebates were doubled for the rest of the year. Households also received $100 of Community Development Council (CDC) Vouchers in May 2022, while every child received a $200 top-up into their education-related accounts. For businesses, the government extended various loan schemes and allocated $500 million to the Jobs and Business Support Package.

Overall, these support measures were calibrated to avoid stoking inflation in a firming economy. They were also designed to allow important price signals, such as the increase in relative prices of carbon-intensive goods and services, to pass through to the economy. Indeed, policies to secure the transition towards a net-zero emissions economy were among the key structural features of Budget 2022, alongside other measures to facilitate the

digitalisation of the economy, uplift the income of lower-wage workers and optimise the economy's use of non-resident workers.

The Budget also announced additional revenue measures to put Singapore on a more secure fiscal footing in the longer term, while recognising concerns over the near-term economic outlook. Specifically, Budget 2022 delayed the increase in the GST and staggered the increase over two steps. The first increase from 7% to 8% would take place on 1 January 2023, and the second to 9% would occur on 1 January 2024. To ensure that the additional GST burden would be offset for the majority of Singaporean households for at least five years, Budget 2022 allocated an additional $640 million to top up the $6 billion Assurance Package previously announced in Budget 2020. Under the enhanced Assurance Package, each adult Singaporean will receive as much as $1,600 in cash payouts over the next five years, while households will receive two tranches of CDC vouchers in 2023 and 2024. Other transfers, such as GSTV – U-save rebates, special GSTV – Cash (Seniors' Bonus), and MediSave top-ups would also be given to eligible households or individuals.

Budget 2022 forecasted an overall budget deficit of $5.4 billion, down from $5.6 billion in FY2021. The fiscal stance remained expansionary, as indicated by the deficit in the cyclically-adjusted budget balance.[2] The estimated fiscal impulse[3] for CY2022 turned positive, reflecting continued support for vulnerable businesses and households to protect them from cyclical strains, as well as efforts in tackling structural economic challenges.

The government provided additional support amid intensifying increases in consumer prices and business costs over Q2 and Q3

Shortly after Budget 2022 was announced, the Russia-Ukraine war broke out. The surge in prices of global energy and agricultural commodities was forecast to eventually drive domestic costs of electricity, fuel, non-cooked food and imported goods up and exert further pressures on households' purchasing power and firms' cashflows. To alleviate the burdens on households and business more expeditiously, the government brought forward the implementation of support measures announced in Budget 2022 from their planned disbursement dates later in the year. For instance, the disbursement of the CDC Vouchers to all Singaporean households was brought forward to May, and the Small Business Recovery Grant for SMEs to June.

The government further introduced a $1.5 billion support package in June, aimed at tempering the impact of the global energy and food price shock. All Singaporean households would receive a $100 Household Utilities Credit to offset their utilities bills. However, most of the support measures were tilted towards lower-income households and vulnerable groups. In particular, ComCare cash assistance rates as well as the Singapore Allowance and monthly pension ceiling were permanently increased to offset the higher cost of living for needy households and pensioners. A $300 cash grant under the GSTV – Cash Special Payment, which would come on top of the cash grants announced in Budget 2022, would also be given to lower-income households. Eligible self-employed persons who depended on their vehicles

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[2] The cyclically-adjusted budget balance gauges the discretionary fiscal injection to demand, separate from changes in revenue and expenditure that arise endogenously from the level of economic activity.

[3] This is different from the fiscal impulse estimate published in MOF's Analysis of Revenue and Expenditure, which is computed for financial year 2022 (FY2022). As pandemic-related spending will be tapered over the year, and some tax increases will only be implemented from Q1 2023, the fiscal impulse for FY2022 is expected to be lower than for CY2022.

for their livelihood, such as taxi and private hire drivers and delivery drivers, would also receive a one-off cash grant to offset higher fuel costs.

To help firms that were squeezed by the rapid step-up in costs, especially for electricity, the government introduced the Energy Efficiency Grant for businesses in the Food Services, Food Manufacturing and Retail sectors, to co-fund investments in energy-efficient equipment, providing up to 70% support. The June package also enhanced loan programmes to continue mitigating local enterprises' cashflow concerns. For instance, the maximum loan quantum of the Enterprise Financing Scheme – Trade Loan and Enterprise Financing Scheme – SME Working Capital Loan was increased till 31 March 2023. For slaughterhouses that were affected by Malaysia's export ban on chickens, the Foreign Worker Levy was also waived for a month.

The June package increased the co-funding share of wage increases under the Progressive Wage Credit Scheme (PWCS) for FY2022 from 50% to 75%. The PWCS was introduced in Budget 2022 as a means of providing transitional wage support for employers of lower-wage workers. The Jobs Growth Initiative scheme, which was designed to help segments of workers that are at greater risk of structural unemployment, was also extended until March 2023.

In Q3, inflation took a further step up on the back of both cost-push and demand-pull pressures. To help Singaporeans further, the government rolled out another $1.5 billion package in October to provide additional cost of living relief. For instance, around 2.5 million eligible Singaporeans would receive up to $500 in cash under the new Cost-of-Living Special Payment scheme. In addition, every Singaporean household would receive another tranche of $100 in CDC Vouchers in January 2023. Meanwhile, with rising costs of public transport operations leading to a partial upward adjustment in fares from December, the government provided for an additional subsidy of about $200 million in 2023 to mitigate the impact of the fare increase on commuters and pay for some of the higher costs of providing public transport services. For lower- to lower-middle income households, 600,000 Public Transport Vouchers worth $30 each would be provided to resident households with monthly household income per person of not more than $1,600.

Recognising that households would face permanently higher prices even after inflation eased, MOE's financial assistance schemes were adjusted to provide financial help to a larger pool of students from needy families. In particular, the income eligibility criteria for financial assistance schemes were raised to defray school expenses for more students. In addition, the bursary quanta for full-time Institute of Technical Education students were also enhanced, with those from lower-income households receiving the largest increase.

All in, the cost of living-related support measures introduced in Budget 2022 coupled with the two additional packages in June and October are expected to fully cover the average increase in living costs for lower-income households, and more than half of the increase for middle-income households, this year.

MAS quantified the effects of the direct fiscal outlays for households and businesses under Budget 2022 and the subsequent packages. The results show that the level of real GDP will be slightly boosted by about 0.1% on average in each year over 2022–23. The bulk of the measures aim to cushion the impact of higher costs on lower- and middle-income Singaporean households through what are effectively direct or indirect transfers of income. They will thus support real private disposable incomes and private consumption, with attendant effects on aggregate demand.

At the same time, the simulations show that the measures do not stoke inflationary pressures over 2022–24. This reflects the targeted and time-bound nature of the initiatives, which were designed to cushion the effects of higher inflation on the real purchasing power of households. The June package also comprised measures that help defray the labour costs borne by firms, such as the enhancements to the PWCS. These supply-side cost measures should help to temper inflation.

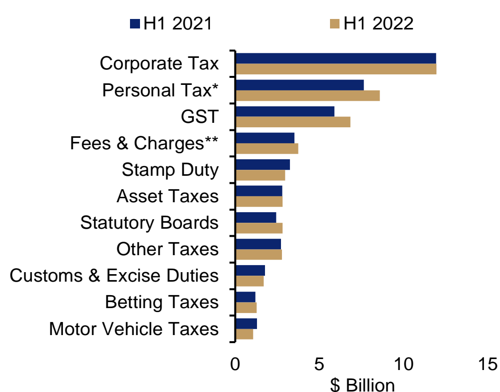
The June and October support packages will be funded through the better-than-expected fiscal outturns for FY2021 and H1 FY2022 respectively. Higher revenues were collected due to the strong economic recovery as more sectors of the economy reopened, while spending on COVID-19 response measures was lower than budgeted. Consequently, there was no need to draw on Past Reserves for these packages.

Government operating revenue edged up in H1 2022

In H1 2022, total operating revenues increased to $46.7 billion (16.2% of GDP) from $44.8 billion the same period a year ago. The increase was mostly driven by higher receipts of GST, Personal Income Tax (PIT) and Fees & Charges. GST revenues rose to $6.8 billion in H1 2022, from $5.9 billion in H1 2021, due to the rebound in private consumption expenditure by residents and the return of tourist spending **(Chart 4.10)**. At the same time, PIT collection[4] increased to $8.6 billion in H1 2022, from $7.6 billion a year ago, reflecting the firm increase in wages and bonuses as the labour market tightened. Fees & Charges collected also edged up by $0.2 billion over the same period due to cessation of COVID-19 rental waiver measures.

Chart 4.10 GST and PIT rose, reflecting further economic recovery

Operating revenue by source



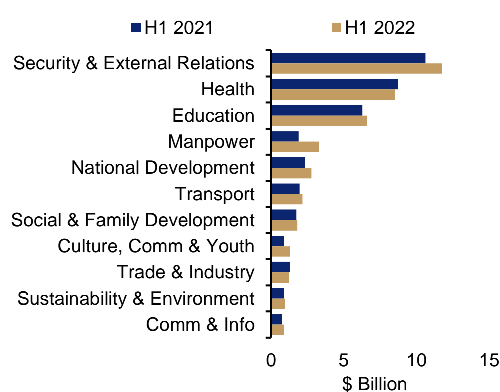
Source: MOF

* Includes withholding tax

** Includes Vehicle Quota Premiums

Chart 4.11 Outlays by MOM increased to support hiring and other COVID-19 related spending

Operating expenditure by sector



Source: MOF

[4] PIT collection includes withholding tax.

Operating expenditure stepped up while development expenditure fell

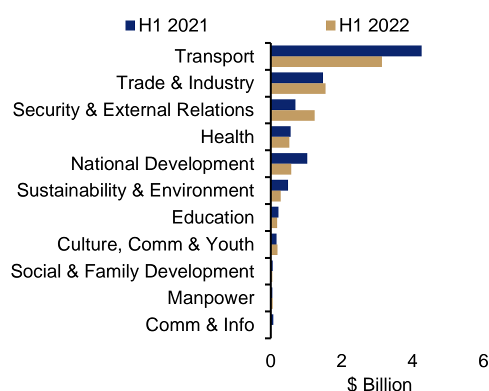
Total government expenditure increased by $2.8 billion to $50.8 billion (17.6% of GDP) in H1 2022 from the same period a year ago. Operating expenditure stepped up, which more than offset the decline in development expenditure.

Operating expenditure, which includes expenses on manpower, operating grants and subventions to statutory boards and other organisations, rose to $42.7 billion in H1 2022, from $38.7 billion a year ago. Operational outlays by the Ministry of Manpower (MOM) increased to $3.3 billion, from $1.9 billion in H1 2021, mainly due to the extended qualifying window for the Jobs Growth Incentive to support hiring, as well as other COVID-19 related spending **(Chart 4.11)**. The Ministry of Education spent $0.3 billion more in the first half of 2022 relative to a year ago as school activities resumed, in tandem with the easing of safe distancing measures.

In contrast, development expenditure, which comprises longer-term investment and capital assets such as buildings and roads, fell by $1.1 billion to $8.2 billion (2.8% of GDP) in H1 2022 **(Chart 4.12)**.

Chart 4.12 Development expenditure was lower than the same period a year ago

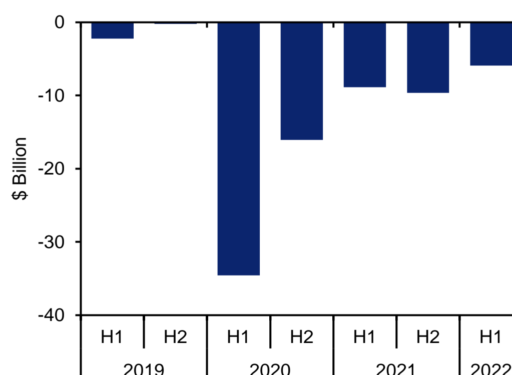
Development expenditures by sector



Source: MOF

Chart 4.13 The basic deficit contracted further in H1 2022

Government basic balance



Source: MOF

The government's basic deficit contracted further

The government registered a primary deficit of $4.1 billion (1.4% of GDP) in H1 2022, a slight increase from $3.2 billion in H1 2021, as the increase in operating expenditure more than offset the rise in operating revenue and fall in development expenses.

In comparison, special transfers (excluding top-ups to endowment and trust funds) declined to $1.8 billion, from $5.7 billion a year ago. This reflected the tapering of COVID-19 government assistance schemes as public health measures were gradually lifted and more economic activities resumed.

The government's basic balance, which takes into account the primary balance and special transfers to households and firms (excluding top-ups to endowment and trust funds), recorded a smaller deficit of $5.9 billion (2.1% of GDP) in H1 2022 compared to $8.9 billion a year ago **(Chart 4.13)**.