Economics

DBS Focus

Singapore Budget 2025: Managing dual priorities

Economics/GDP/Fiscal

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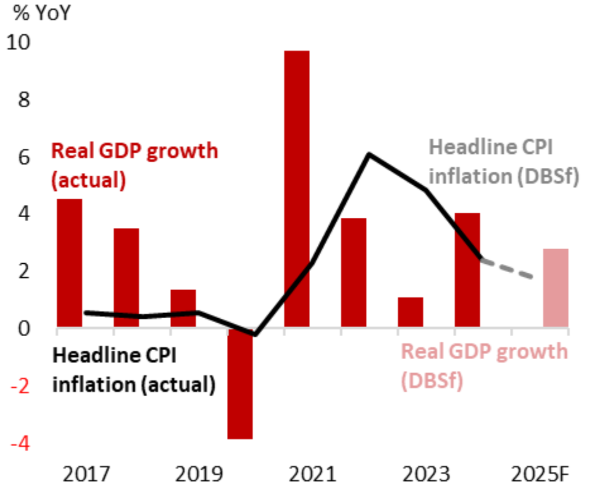
- *Singapore's Budget 2025 will address near-term cost challenges and Forward Singapore initiatives.*
- *Fiscal flexibility in FY2025 stems from recent budgetary outperformance.*
- *We expect an overall fiscal deficit of SGD3.8bn (0.5% of GDP) in FY2025, following a higher-than-expected surplus of SGD5.5bn (0.8% of GDP) in FY2024.*
- *Measures will look to cushion households' cost of living pressures and support families.*
- *Initiatives will aim at sharpening long-term economic competitiveness.*

Budget 2025, to be announced on February 18, will likely focus on the dual priorities of addressing near-term cost challenges, and rolling out further initiatives under Forward Singapore (Forward SG) to refresh the social compact and position Singapore's economy to thrive amid global uncertainty.

Increasingly volatile and uncertain world

Singapore will be navigating an increasingly volatile and uncertain world. As detailed in *Singapore's Dynamic Outlook in 2025*, we expect Singapore's economic expansion to be buoyant at 2.8% in 2025, in line with our estimated medium-term potential rate of 2-3%, but with considerable downside uncertainties.

Singapore's favourable but uncertain growth, cooler inflation



Source: CEIC, DBS. *:Advance estimate for 2024 GDP growth.

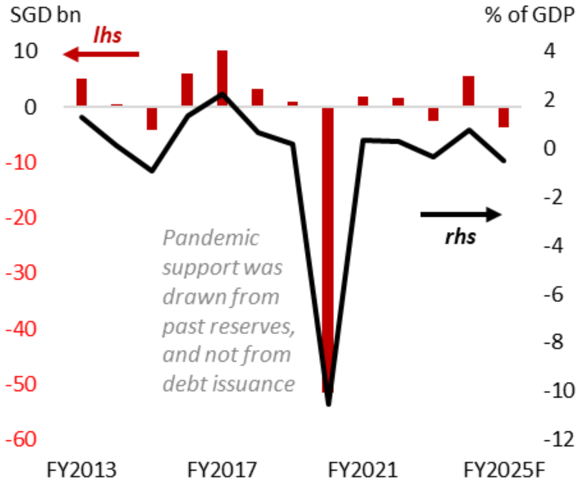
Global economic policy uncertainty especially on trade will be elevated in 2025 and in the coming years. A more protectionist global trade landscape from higher tariffs led by Trump's US government poses medium-term challenges and downside risks to highly trade dependent economies like Singapore. Other geopolitical tensions from regional conflicts, technological disruptions, and climate change also exacerbate global volatility, and not forgetting binding domestic constraints such as land and labour.

At least global inflation and in price taker Singapore will ease further in 2025. We forecast Singapore's headline inflation to return to the pre-pandemic 2010-2019 average of 1.7% in 2025. However, past price increases have resulted in higher global and domestic costs in the post-pandemic era, placing pressures on households and businesses.

Room for fiscal support in Budget 2025

We see the Singapore government having some fiscal room to provide support in Budget 2025, and expect an overall fiscal deficit of SGD3.8bn (0.5% of GDP) for FY2025.

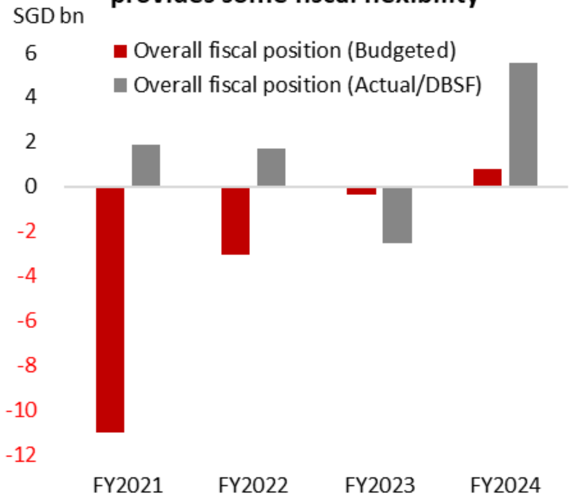
Some room for fiscal support in FY2025



Source: CEIC, MOF, DBS. Note: FY2023 is calculated by DBS based on MOF, AGD release. F=DBS forecasts.

Singapore's long-standing commitment to prudent public finances, and better-than-expect budgetary performance in recent years provide some near-term fiscal flexibility in the final budget under the current term of government. The external uncertainties could also prompt a counter-cyclical fiscal stance.

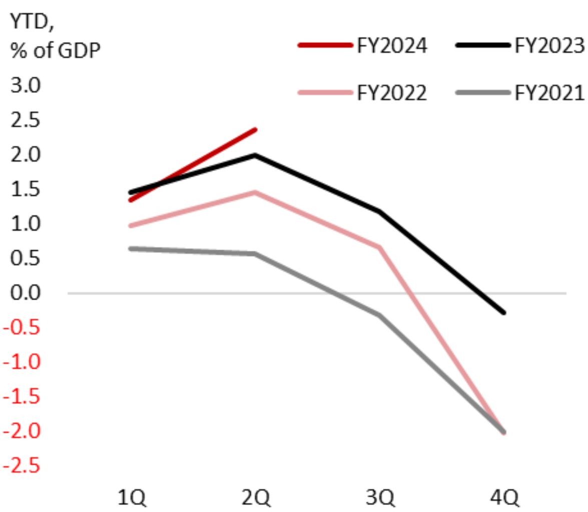
Fiscal outperformance in recent years provides some fiscal flexibility



Source: CEIC, MOF, DBS

The overall fiscal position in FY2021 and FY2022 surprised with surpluses instead of initially budgeted deficits, as public finances benefitted from a strong post-pandemic economic recovery. We also see potential for a positive surprise to the slight overall fiscal surplus that was initially budgeted for FY2024, given the economic growth rebound. **We estimate that the cumulative overall fiscal surplus from FY2021 to FY2024 could therefore exceed SGD1.8bn, registering at SGD6.6bn, implying greater fiscal ammunition for FY2025.**

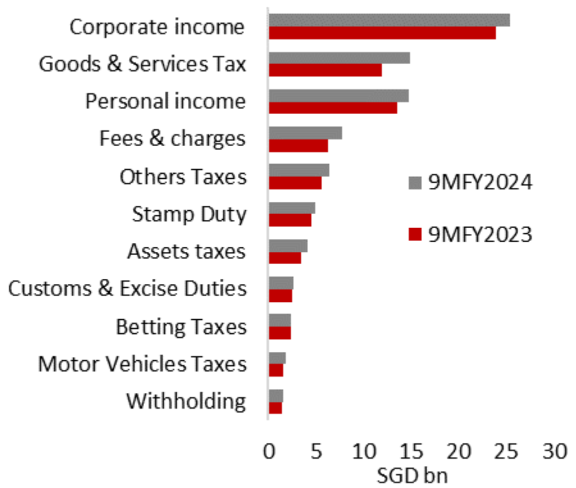
Singapore's primary fiscal balance



Source: CEIC, DBS

We estimate a higher overall fiscal surplus of SGD5.5bn (0.8% of GDP) in FY2024, compared to the budgeted SGD0.8bn (0.1% of GDP). The government's primary fiscal balance in 1HFY2024 was already better than in the past few years. The primary fiscal balance could potentially register a modest full-year surplus, supporting an overall fiscal surplus. Government operating revenue collection was robust in 1HFY2024, amid improved economic growth momentum, despite rising expenditures.

Buoyant tax revenues



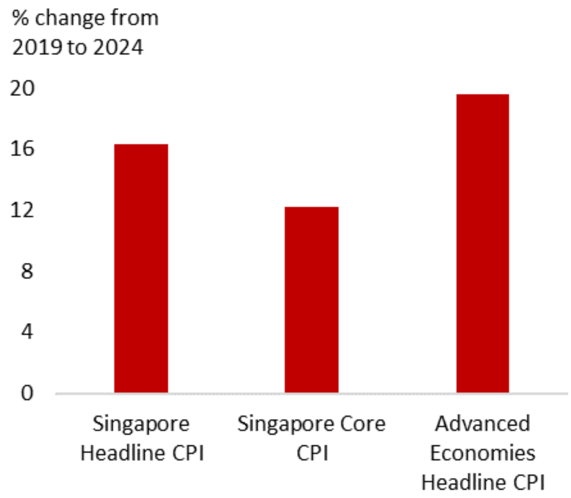
Source: CEIC, DBS
Note: 9MFY2024 refers to Apr to Dec 2024.

Higher monthly frequency government operating revenue collection was strong in the first nine months of FY2024 (9MFY2024), driven by good progress across the three largest tax sources: corporate income taxes, personal income taxes, and goods and service taxes (GST). We estimate that corporate income taxes, personal income taxes, and GST reached 90%, 82%, and 77% of their respective full-year FY2024 budgeted amounts in 9MFY2024, and they look on track to surpass initial allocations.

Cushioning cost of living pressures and supporting families

Budget 2025 will likely continue efforts to mitigate Singaporeans' near-term cost of living concerns and support families to refresh the social compact.

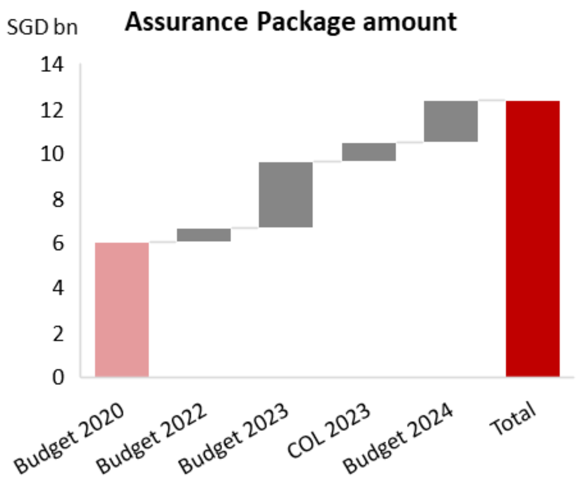
Significant increase in consumer prices



Source: Singstat, IMF WEO Oct 2024, DBS

High cost of living remains a top and near-term concern for households. Consumer prices globally and in Singapore have increased significantly from the pre-pandemic 2019 levels, even though inflation has eased from its 2022 peak. Singapore's headline and core CPI rose by around 16% and 12%, respectively, from 2019 to 2024, although lower than the approximately 20% experienced by advanced economies over the same period.

Singapore's government has committed to more targeted support to alleviate households' cost of living pressures. The nation is also commemorating its 60th year of independence (SG60) in 2025. **We therefore expect further top-up of the Assurance Package (AP) that could be tied together with SG60.** Support should be generous considering that the nation is also gearing up for general elections that are due by November 2025. Recognising cost worries over the past few years, the government enhanced the AP in past budgets and through the Cost-of-Living Support Package in September 2023, bringing the AP cumulative amount to over SGD12bn. We think the measures would resemble those in previous budgets, such as additional support/handouts through CDC vouchers, cash, and utilities rebates.

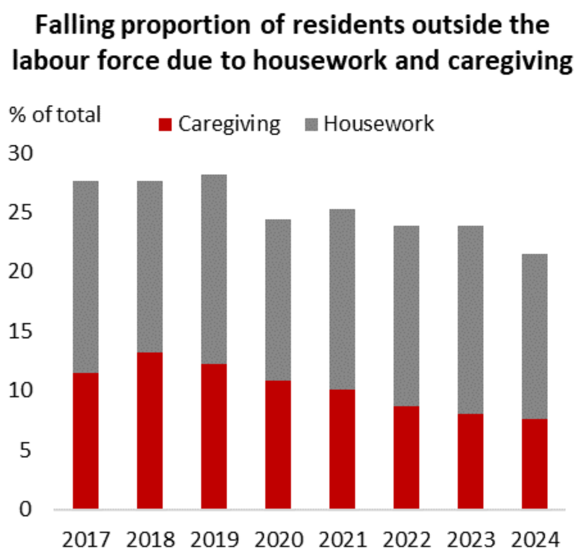


Source: Various news sources, DBS
Note: COL 2023 refers to Cost-of-Living Support Package announced in September 2023.

The budget could continue to support middle-income taxpayers through the personal income tax rebate that was already offered in Budget 2024[1]. It could also include one-off 'goodies and bonuses' for seniors, who played a key part in nation building, through additional cash, GST vouchers, and CPF-related top-ups. Tax deductions for donations might be enhanced in SG60 to encourage a more generous society. SG60 babies born in 2025 will receive a special gift, as indicated by Minister Indranee Rajah in November 2024, and details could emerge.

Families are likely to be a focus in Budget 2025, as part of efforts to renew the social compact. Prime Minister Lawrence Wong reiterated in his 2025 Chinese New Year Message that families are the bedrock of Singapore's society, which has been highlighted in the Forward SG report. Supporting families through every stage is one of the seven key shifts in Forward SG.

Family support will be a continuation of initiatives announced during the National Day Rally (NDR) 2024 (*see 'Singapore: National Day Rally 2024 – policies for inclusive growth')*. Mandatory government-paid parental leave was enhanced during the NDR 2024 in a push to reverse Singapore's falling and low fertility rate. Details of a new scheme for Large Families that was mooted during the NDR 2024 will be released to support parents looking to have a third child, and those who have three or more children[2].



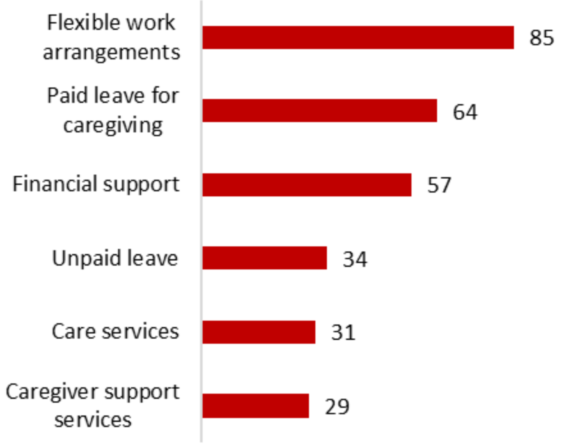
Source: MOM, DBS

[1] A personal income tax (PIT) rebate of 50% capped at SGD200 was provided in Budget 2024. During SG50 in 2015 (also an election year), a PIT rebate of 50% capped at SGD1,000 was provided.

[2] Some of the existing government schemes to encourage three or more children include: Third Child Priority Scheme for housing, Parenthood Tax Rebate, Baby Bonus Scheme (Baby Bonus Cash Gift and Child Development Account benefits), and Working Mother's Child Relief.

The government is also looking to provide greater support to caregivers, who are critical in Singapore's families. The share of residents outside the labour force due to housework and caregiving has been falling, based on the Ministry of Manpower (MOM) data. The decline has been due to rising labour force participation among women and seniors, and more flexible work arrangements to balance work with caregiving roles in recent years.

Which would help you most in managing your work and caregiving responsbilities? (% of respondents)

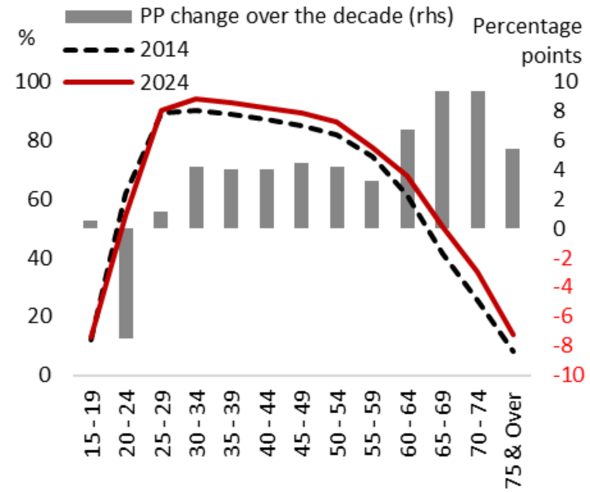


Source: #EveryWorkerMatters Conversations Report

The National Trades Union Congress (NTUC)'s #EveryWorkerMatters Conversations report released in September 2023 found that workers with caregiving responsibilities highly preferred support through FWA. The government also views FWA as sustainable and providing greater flexibility to meet diverse caregiving needs. According to the report, working caregivers' preference for support is followed by paid caregiving leave, and financial support. Support through enhanced caregiver-related tax reliefs could be considered in the upcoming budget. The government is studying suggestions including caregiving leave as indicated in the Forward SG report. However, general caregiving leave will have to be carefully deliberated alongside business manpower and cost considerations. Any announcement could be gradual to minimise business impact.

Seniors are also likely to be of attention in the upcoming budget, with the government looking to help them to 'age with dignity and purpose.' We expect extensions of existing schemes such as the Senior Employment Credit and the Part-time Re-employment Grant beyond 2025. Extending these schemes would be in line with increasing the retirement age to 64 and re-employment age to 69 in 2026, as part of ongoing gradual steps to raise them to 65 and 70, respectively, by 2030. These schemes would continue to help businesses retain and hire seniors, and offset some business costs.

Largest increase in resident labour force participation rate among seniors



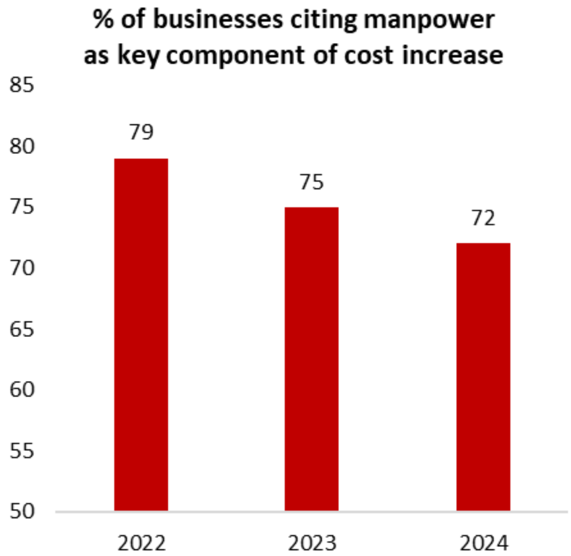
Source: MOM, DBS

More than half of older workers (58% of respondents) surveyed in the NTUC's #EveryWorkerMatters Conversations report expressed that they want to work beyond the statutory retirement age and to be re-employed in their current job. Staying in the workforce beyond the retirement age would help seniors maintain active minds and good health. Reflecting proactive and successful efforts to raise the employability of seniors considering a rapidly ageing population, Singapore's resident labour force participation rate increased the most among seniors aged 65 to 69 years and 70 to 74 years over the past decade (2014 to 2024), according to the MOM.

Sharpening economic competitiveness

Singapore's upcoming budget will also likely focus on sharpening economic competitiveness to navigate a more uncertain and volatile external economic landscape, as well as tighter domestic constraints. Key initiatives will aim to build on the country's leading position as a highly trusted and vibrant global business hub, and a reputable international finance centre.

Manpower cost continues to be the top business challenge, and the major source of cost pressure in the immediate term, but is less acute than two years ago, according to the Singapore Business Federation (SBF)'s National Business Surveys.



Source: SBF National Business Surveys, DBS compilation

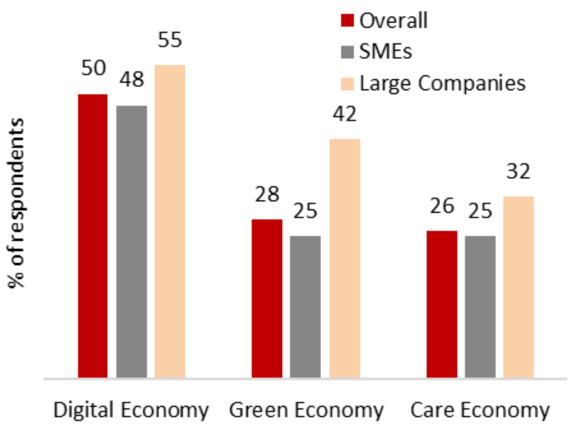
Budget 2025 could consider various recommendations from trade associations and chambers, and professional services firms to alleviate near-term business costs, such as tweaking the Progressive Wage Credit Scheme and deferring the increase in Foreign Worker S Pass Levy (to defray wage costs), and enhancing the Enterprise Financing Scheme (to support access to financing needs). Corporate income tax rebate, which was given in Budget 2024, was also among the proposals. However, they are not the government's permanent solutions to handle rising business costs.

We expect the government to continue focussing on long-term measures that build and grow sustainable and productive businesses, helping them transform to capture emerging opportunities, and scale internationally. Stronger enterprises will be better placed to succeed despite rising business costs. The Forward SG report also highlighted the need for a strong and vibrant economy by being open to attract quality investments, and improve productivity.

Building on existing strategies in emerging growth areas, including investments committed in Budget 2024, **we anticipate Budget 2025 to assist workers and businesses to transform and harness these leading opportunities in artificial intelligence (AI) and sustainability.**

Having the relevant skillsets is critical to AI and sustainability adoption. The SkillsFuture Enterprise Credit (SFEC) scheme has potential to be enhanced to support workforce upskilling in these areas, while defraying training costs. The SFEC was one of the recommendations in the Alliance for Action on Business Competitiveness report by the SBF and the Ministry of Trade and Industry released in November 2024.

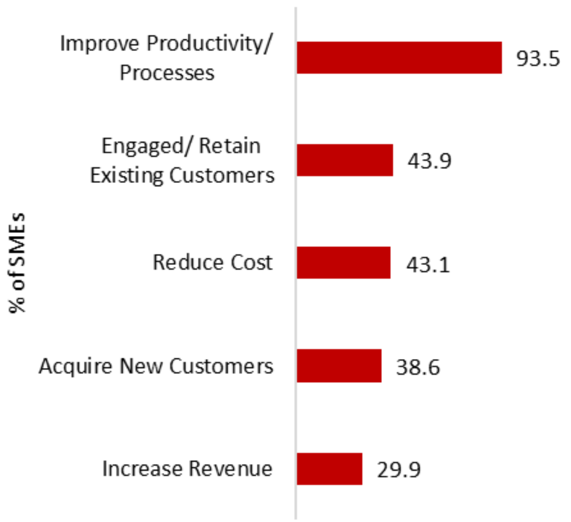
Emerging skillsets needed



Source: SBF National Business Survey 2024 - Manpower & Wages Edition;
Note: Survey period 18 Jun to 16 Jul 2024;
All respondents=796.

Companies are prioritising digital economy skills to drive innovation and stay competitive, while recognising green economy skills as an important emerging skillset, but see high training costs as one of the top challenges for staff training, according to the SBF's survey. Supporting continued upskilling would raise workers' resilience to disruptions and their job security.

Benefits of using AI by SMEs, 2023

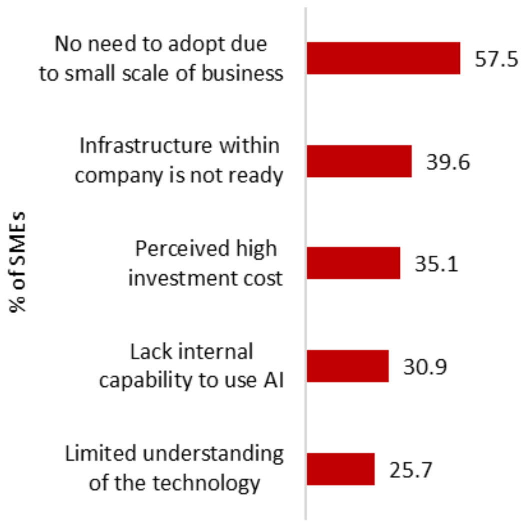


Source: Singapore Digital Economy Report 2024

The Productivity Solutions Grant (PSG) has been key in helping SMEs implement digital and automation solutions to raise productivity over the years. We see room for enhancements to the PSG to encourage wider adoption of AI functionalities and solutions, as proposed by the SBF (support for modular add-ons and more flexibility to tailor customised packages).

While more than half of SMEs see no need to adopt due to their small scale, according to Singapore Digital Economy Report 2024, tweaks to support measures could nudge them to accelerate digitalisation. Almost all SMEs assess that AI will help them increase productivity and processes.

Top five reasons for not using AI for SMEs, 2023



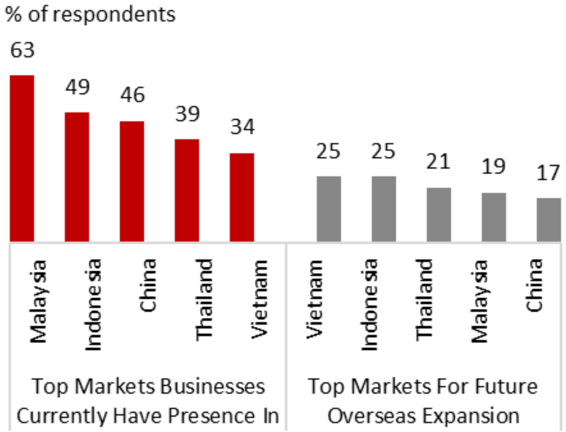
Source: Singapore Digital Economy Report 2024

Singapore is constrained by its small domestic market, and therefore, **we expect continued efforts to assist companies with their internationalisation plans to access growing overseas markets and scale up.** The Market Readiness Assistance (MRA) Grant could possibly be extended and enhanced beyond March 31, 2025.

Details regarding Singapore's dedicated fund to support the expansion and investments of Singaporean enterprises and multi-national corporations into the Johor-Singapore Special Economic Zone (JS-SEZ) could also be unveiled during the budget. As part of two dedicated funds by both countries to bolster the JS-SEZ under the agreement formalised during the during the 11th Malaysia-Singapore Leaders' Retreat on January 6-7, Malaysia has already committed to MYR5bn for infrastructure development.

Malaysia is among the top five markets that Singaporean businesses are interested to expand into, although 63% of respondents said in the SBF survey that they already have presence. Singapore's fiscal support towards the JS-SEZ will complement other favourable policies to make the dynamic and integrated economic hub a success (*see 'ASEAN-6 2025 Outlook: Crosswinds' for a discussion of the JS-SEZ Agreement).*

Overseas Presence and Future Overseas Plans of Singapore firms



Source: SBF Survey, DBS compilation
Note: Survey period 28 Aug to 29 Oct 2024; respondents =519.

Besides being a leading global business hub, Singapore is also a top international financial centre, and policymakers are looking to revitalise and bolster its local stock market. The Monetary Authority of Singapore established an Equities Market Review Group with two workstreams in August 2024, aiming to release phased recommendations over the entire review of up to 12 months. Policymakers are considering supply (defining companies to attract), demand (jump starting and sustaining investor interest), and ecosystem-level regulatory framework approaches. Regarding demand side measures, Deputy Prime Minister Gan Kim Yong stated on January 2 that the Review Group is studying the optimal use of government seed capital to attract more commercial capital, such as institutional wealth, individual investors and family offices, on a sustained and fiscally responsible basis. **The upcoming budget could include measures to catalyse the domestic equities market.**

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