SINGAPORE INSTITUTE OF INTERNATIONAL AFFAIRS

SIIA Note on Singapore Budget 2022

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For SIIA Corporate Members and Advisors

Minister of Finance Lawrence Wong delivered Singapore's budget for FY 2022/2023 to parliament on 18 February, with members of parliament debating key issues in following weeks. This note by the Singapore Institute of International Affairs provides an analysis of the budget. With the global pandemic entering a third year, the budget recognized the need to "live with COVID-19" and extend measures to keep the economy afloat. While some policies prioritised social welfare and improving inclusivity, the looming challenges noted are the threat of inflation and climate concerns.

In this brief note, we summarise information on key aspects and then provide brief comments from the perspective of the SIIA's work and focus areas. **Please note that this information is provided on a confidential basis to you, as our member and friend.**

Summary

1. **Covid support continues but not in focus**: After committing nearly S$100 billion in the last two years for COVID-19 support measures, the government has shown fiscal prudence and able to revise lower withdrawals from past reserves. In FY2020, the government was looking to draw $52 billion from past reserves and that has gone down to $31.9 billion. For FY2021 $11 billion now down to $5 billion. This shows that the government's measures were enough to support businesses and reinvigorate economy growth while weaning off covid support. Other avenues of support will continue through the Jobs and Business Support Package and the $24 billion Emerging Stronger budget announced in FY2021 to enable firms and workers to emerge stronger over a span of three years. With the focus on transforming industries, especially SMEs to cope with the new business environment shaped by the pandemic, businesses have been able to adapt.
2. **Revenue from taxes:** The government announced in 2018 it would increase its Goods and Services Tax (GST) rate as a source of revenue to found social and healthcare spending, given Singapore's ageing population. After postponements due to the pandemic, the finance minister has announced GST rates will increase gradually from 7% to 8%, on 1 January 2023, and then 8% to 9% increase on 1 January 2024. Raising the GST rate has been understandably unpopular and controversial. Even with the government's "Assurance Package" worth S$6.6 billion that is meant to tide over the GST increase. The Leader of the Opposition has said he will object to the budget because he is opposed to the GST hike and has said there are alternative ways of raising revenue including corporate and wealth taxes. On this front the government has announced they are exploring a top-up tax large Multi-National Enterprises. In addition, the wealth taxes have been implemented through tax hikes on property and luxury cars, while personal income tax of the top 1.2% in Singapore have also been raised.
3. **Social support and inclusive policies:** The focus on more social support is a directional trend with the government moving towards a compassionate stance and away from previous practical positions that were seen as transactional. Singapore's ageing population has also led to an increase in social spending with healthcare costs expected to increase. With increasing taxes and the threat of rising inflation, the government has provided support packages for households and businesses. Hard hit sectors have been targeted to receive this support e.g., hawker centres, retail and performing arts. The Progressive Wage Model that aims to uplift

lower-wage workers has been extended to more sectors including retail, food services and drivers.

4. **Higher wage requirements for foreign workers:** Minimum qualifying salaries for new Employment Pass (EP) and S Pass applicants have been raised and despite commitments to continue welcoming foreign talent they may not be seen as business friendly. Singapore is already facing a tight labour market, especially with COVID-19 border restrictions. It will now be more costly to bring in manpower and skills from around the world. Not only will there be additional cost pressures on employers, but vacancies will be harder to fill. This will be a continuing problem that will affect MNCs and SMEs that employ foreign workers which can be partially resolved through reskilling and upskilling.
5. **Building on 'Emerging Stronger' themes**: A chapter of this year's budget was to invest in new capabilities and areas of digital and the green economy were highlighted. S$200 million would set aside to build digital capabilities for business and workers while S$600 million would be funnelled towards SMS to implement digital and automation solutions. A new initiative called Singapore Global Enterprises was introduced to promote internationalisation of businesses and foster partnerships with firms in overseas markets. This builds on previous announcements to promote Singapore as a 'Global-Asia Node'. The budget announcement emphasised it will keep air and seaports open and endeavour to be a strategic launch pad for businesses around the world.
6. **Net-zero targets**: Singapore has shown more commitment to achieving net zero targets with the goal set at "by or around mid-century" (i.e., around 2050). The updated net-zero target is also more in line with major economies such as the European Union, Japan and South Korea, and with the IMF's recommendation that the carbon price floor should be US$75 (S$100) per tonne of emissions for advanced economies and US$50 for high-income emerging-market economies in 2030. The net-zero target is likely to prompt faster development of the voluntary carbon markets, which Singapore has previously identified as a growth area, as more firms will want to offset Scope 3 emissions in the immediate term. Beyond the macro-level moves, it is good to note that attention is also being paid to consumer-level behavioural change – e.g., more charging points closer to homes to enhance EV adoption, vouchers to cushion impact of carbon tax on utility bills.
7. **Carbon taxes:** Singapore previously implemented a carbon tax at S$5 per tonne in 2019. This is now being raised to S$25 per tonne in 2024 and 2025, and S$45 per tonne in 2026 and 2027, with a view to reaching S$50 to S$80 per tonne by 2030. The announcement sends a directional signal that will jolt the industry into action, and its calibrated implementation will provide stability for investments. The move is to encourage businesses to go green, but the carbon tax hike in Singapore is part of a broader global context. The EU is currently discussing, and is likely to implement, a proposed Carbon Border Adjustment Mechanism (CBAM) - when the system is fully in place by 2026, it will begin charging importers bringing in goods to the EU based on the estimated carbon intensity. This will initially impact only a few categories of imports but the EU has signalled this may be eventually expanded to cover all goods. In this context, Singapore's latest moves are in response to global pressures to move towards or strengthen carbon tax and carbon pricing systems. Moving forward there will be some key issues to watch regarding carbon tax implementation:
   - How the carbon tax increase impacts Singapore's trade-oriented industries, especially in the context of competitiveness given other ASEAN countries' carbon pricing schemes. In the context of the EU's CBAM, carbon prices paid in the goods' country of origin can be deducted by importers to reduce the CBAM levy. Although the EU has not specified the

methodology to account for this, Singapore's carbon tax should qualify towards reducing the CBAM burden on Singapore exports to the EU.

- Whether and how the government will expand coverage of the carbon tax over time, as the current framework covers just 30 to 40 large emitters that contribute 80 per cent of Singapore's greenhouse gas emissions.

Brief Comments

1. **From Pandemic to Endemic:** There are a number of transitions anticipated in the coming year and embedded in the Budget. The first is to move on from "defensive", high expenditure pandemic policies. There will be assistance but only for selected new sectors and for identified types of expenditure, rather than across the board supplements. Some companies and sectors will have reduced support and may struggle.

2. **Carbon Pricing and Transition**: A second transition will be in the pricing of carbon. While presently low, the announcement of planned steps up are considerable multiples; from $5 to as much as $80 per tonne by 2030. This represents a 16-fold increase over less than a decade. Moreover, with the rise in energy prices from last year and the additional spike from the Russian action in the Ukraine, the low pricing for energy that prevailed in Singapore just a few years ago has rapidly and quite radically flipped. Some companies are ready for this transition and can benefit but many others may struggle to adjust.

3. **Social Equity**: The ministerial budget statement contained a clear message on the need to increase revenues for social spending and other needs, and therefore to increase taxes on the rich. This is broadly welcome and even most of those who face higher taxation seem willing to accept their increased obligations. However, the current steps are relatively modest and there is no clear indication about any future steps for wealth taxes. Indeed, the general position of government is that other forms of wealth taxes are counter-productive and will not be implemented. However, the balance will not only be to increase revenue and balance the government budget, but to keep the majority satisfied that the burden is fair -- especially when GST will be raised. This is not moreover a technical and purely rational exercise. Social equity and taxation on the wealthy are now political issues for Singapore, where it was kept silent before. This is especially if the Opposition plays to it, as it has done with the foreign talent issue. Public sentiment can also be assuaged or else played up on specific issues such as the rapid rise in Certificate of Entitlement (COE) prices, especially for the middle-class cars.

4. **Timing for the GST Hike:** With inflationary pressures increasing at present, the plan to increase GST from next year will come under new pressures. This is notwithstanding the pledge to provide assistance to those in need, since many in the lower-middle and middle class may not qualify for such assistance.

5. **Multiple Transitions and Uncertainty:** The Budget was announced by Lawrence Wong who is not only Finance Minister but one of the possible candidates for the job of prime minister, or at least to be a core member of the incoming leadership. As the GST hikes will be played up over the coming two years, this political factor may potentially also play into the financial policy. The policy context is as such being churned by a mix of transitions: a rational need to make the budget sustainable; a shift from defensive, across-the-board pandemic assistance to endemic and emerging stronger strategies that are selective; a socio-political dimension in the question of equity, and the expectations of the middle class; and the issue of leadership change and policy continuity. These factors are largely at the national level. There are, additionally, factors emerging from the global economy and from current

crises and changes from inflation and from the situation in Ukraine. While the pandemic hit the economy hard, the response to that crisis provided a clear focus in terms of the Budget and policy. The period we are entering is more complex and may be less certain.