Special Coverage:

Singapore Budget 2024 – Positioning for long-term growth

Key takeaways

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- The 2024 Singapore budget was largely in line with market expectations. While the budget offers near-term fiscal support to ease the cost-of-living pressures, long-term initiatives to unlock Singapore's medium-term growth potential were the key focus.
- The budget indicated a return to fiscal surplus as the growth outlook improves relative to 2023. The government targets SGD0.8bn fiscal surplus which equates to 0.1% of GDP in FY 2024, lower than our expectations.
- We expect Singapore's growth to bounce back to 2.4% in 2024 (versus 1.2% in 2023) helped by rebound in industrial production and travel-related services. However, core inflation is likely to remain elevated given the impact of pre-planned GST hike, administrative hike in utility prices and still-tight labour market. Hence, we do not expect MAS to ease policy in 2024. We are neutral on Singapore equities. However, valuations are undemanding, and we see pocket of opportunity in high-quality REITs.

What happened?

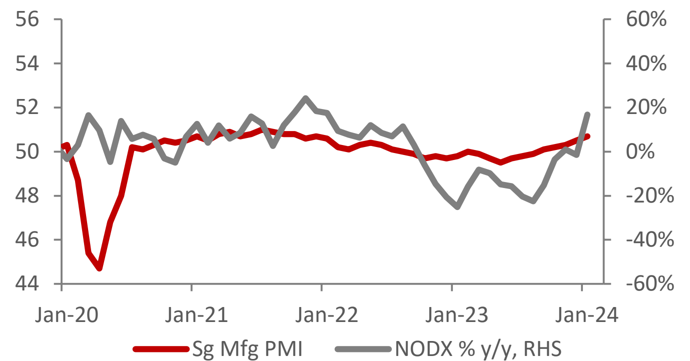
- The 2024 Singapore budget, announced on 16 February 2024, was largely in line with expectations. After multiple years of expansionary budgets to support post-covid recovery, the 2024 budget proposal returns to fiscal balance, with the government projecting a fiscal surplus of SGD0.8bn or nearly 0.1% of GDP.
- In the budget announcement, Deputy Prime Minister and Finance Minister Lawrence Wong acknowledged that cost-of-living pressures persist. The government announced several measures to help alleviate the impact of inflationary pressures.

1	The budget increased the Assurance Package by SGD1.9bn, bringing the total package to SGD12.3bn (1.8% of 2024 GDP). The package largely consists of targeted measures to benefit specific parts of the population. However, the government also announced additional SGD600 CDC vouchers, which should further support domestic consumption.
2	The budget also injected SGD6bn in the GST Voucher Fund to help mitigate the impact of recent rise in GST from 8% to 9% for the lower- and middle-income households.
3	To help the businesses cope with higher cost, the budget introduced Enterprise Support Package. The package (worth SGD1.3bn) would offer 50% corporate income tax rebate, capped at SGD40,000.

- The government also provided further details on the Base Erosion and Profit-Sharing Pillar II (BEPS 2.0). Under this, a 15% minimum corporate tax will be applied to large multinational corporations, with provision for Domestic Top-up tax (DTT).

- On the revenue front, the budget assumes a 4.2% increase in operating revenue, with 70% of the increase coming from the GST hike. The shift to a small budget surplus means that the government is on track to meet the constitutional fiscal requirement of having a balanced budget.
- Looking at long-term priorities, the budget announced additional top-ups for the National Productive Fund (SGD2bn), Financial Sector Development Fund (SGD2bn) and Future Energy Fund (SGD5bn).
- In particular, the government further bolstered the SkillsFuture scheme, which is aimed to upskill the local workforces. All citizens above the age of 40 will receive SGD4,000 top-up in SkillsFuture credit as well as subsidies to pursue full-time education.

Singapore's manufacturing PMI and Non-Oil Domestic Exports (NODX) are back in expansionary territory



Source: Bloomberg, HSBC Global Private Banking, as at 16 February 2024. Past performance is not a reliable indicator of future performance.

- Given the focus on managing the impact of an ageing society, the budget announced SGD7.5bn (1.1% of GDP) funding for the Majulah Package, which aims to help "young seniors" in their 50s and early 60s with retirement savings.
- We view the budget as supportive for Singapore's near-term growth outlook, as it strives to achieve a balance to support domestic consumption and supporting the most vulnerable segments, without stroking excessive inflation. The budget reinforces our positive outlook for Singapore's GDP growth to bounce towards 2.4% aided by a multitude of factors - 1) the reduction in risk of a deep US recession (or hard landing); 2) signs of bottoming out of the semiconductor sector; and 3) potential for travel-related services (which account for nearly 10% of GDP) to recover further. The recent visa-free travel policy announcement could act as a catalyst for increased tourists from mainland China.

Investment implications

- We continue to expect MAS to remain on hold for the rest of 2024, barring any unexpected surprises. Though Singapore's headline and core inflation has been on a downtrend, the "last mile" of inflation may prove difficult, as seen in many other Western economies.
- Overall, we believe that MAS easing decision remains largely domestic focussed and independent of the Fed. We expect the inflation to edge below 3% only towards the end of 2024. Hence, we expect MAS to retain the policy slope at 1.5% appreciation per annum for the rest of 2024.
- We are neutral on Singapore equities. While we are optimistic about the outlook for the economy, the sector composition of Singapore's equity markets tempers our enthusiasm. Nearly half of the index is comprised of the financial sector. We have a neutral stance on Asian Financials as the Net Interest Margins are likely to come under pressure and constrain earnings growth.
- However, we see pockets of opportunity in the market such as high-quality REITs, as they are likely to benefit from an eventual reduction in bond yields. Specifically, the enhanced Assurance package may spur more consumer spending and benefit the Retail REITs with a predominant focus on Singapore.

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