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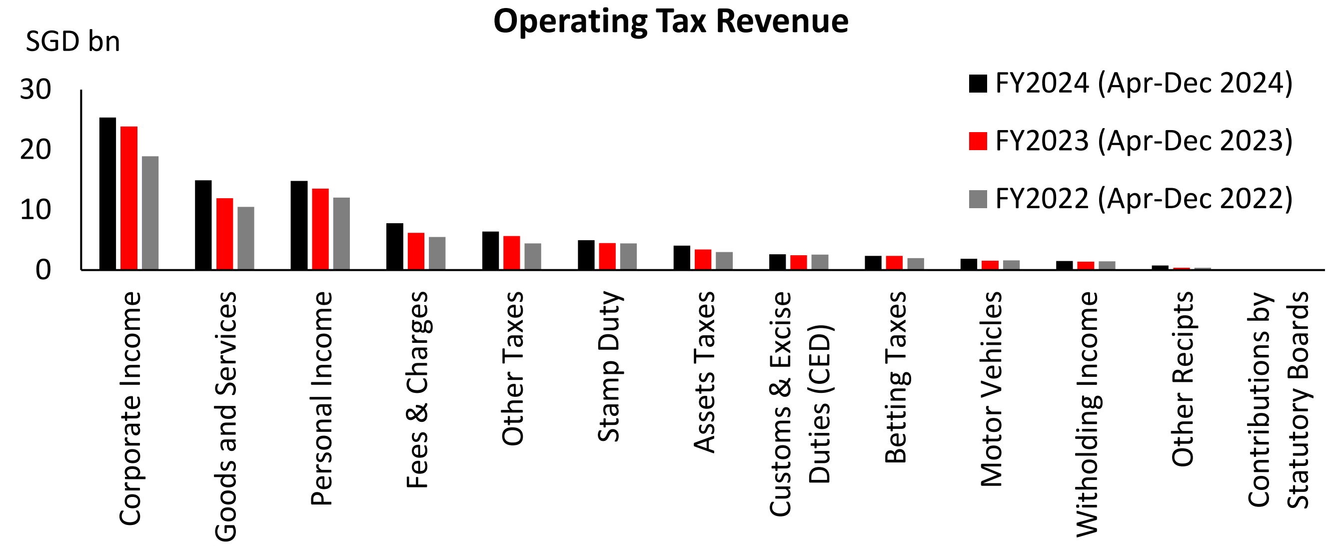
Budget Preview: Tackling Cost of Living and Securing the Future

Selena Ling
Head of Research and Strategy
LingSSSelena@ocbc.com

- Budget 2024 outturn may see a bumper surplus of $6.8 billion (0.9% of GDP) amid buoyant tax revenues including GST, asset taxes and vehicle quota premiums, as well as healthy corporate and personal income taxes.
- Budget 2025 may pencil in a stimulative deficit of $5.7 billion (0.7% of GDP) given it is likely the last budget for this current term of government and the external economic outlook remains challenging amidst the Trump 2.0 policy shifts.
- Budget 2025 will focus on bread-and-butter issues like cost of living, jobs, parenthood, while not forgetting initiatives to strengthen economic resilience, social cohesion and long-term competitiveness. Digitalisation/AI and the green transition also remain medium-term structural themes.

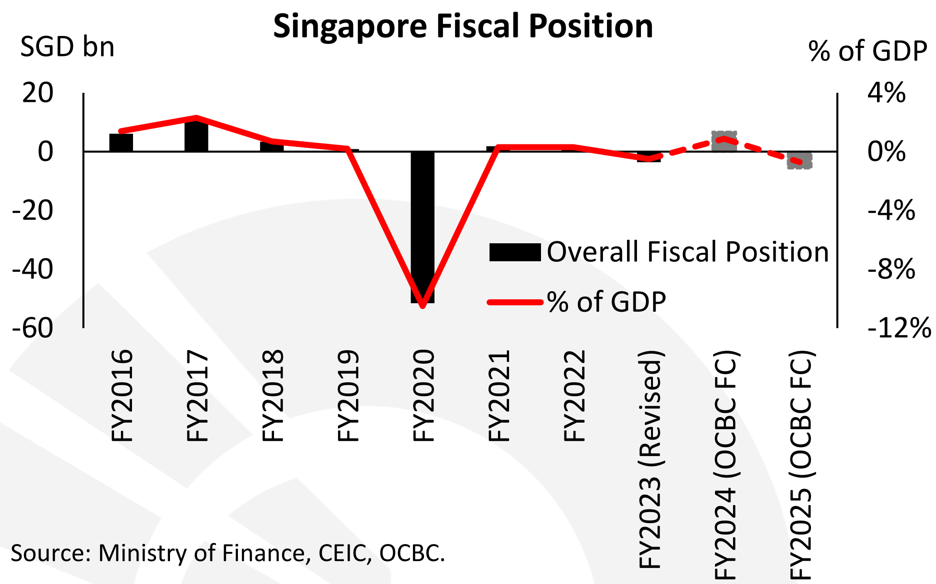
To recap, Budget 2024 which was announced on 16 February 2024 was titled "Building Our Shared Future Together" and focused on key needs like tackling immediate challenges faced by households and businesses, pursuing better growth and jobs, equipping workers for lifelong learning and skills, creating more pathways to equality and social mobility, as well as providing more assurance for families and seniors. The Budget formed a platform to provide more assurance and support on cost-of-living relief measures for Singaporeans, a strengthened socioeconomic compact, and a stronger, more resilient and united nation. Some notable key initiatives included the SkillsFuture Level-Up Programme, the Refundable Investment Credit Scheme, a $5 billion Future Energy Fund, a national AI Strategy 2.0 as well as temporary support for the involuntarily unemployed. The FY2024 overall fiscal position was planned at a modest surplus of $0.8 billion (equivalent to 0.1% of GDP), as compared to the revised FY2023 outturn for a deficit of $3.6 billion or (equivalent 0.5% of GDP).

There was buoyant tax collections for the April-December 2024 period, especially for Goods and Services Tax (GST), Asset taxes (mainly property tax), and Vehicle Quota Premiums which expanded by double-digit year-on-year growth rates. This meant that operating revenue had risen by 13.2% YoY for this period, reflecting the blockbuster 4% GDP growth flash estimates for the full-year of 2024, albeit this was marginally slower when compared to April-December 2023 revenue data (15.7% YoY). Apart from GST, corporate income tax (CIT) and personal income tax (PIT) also remained the main pillars of the total revenue base, accounting for 29% and 16.9% respectively. In fact, with the second 1% point hike in the GST rate to 9% in January 2024, the GST collections for April-December 2024 had overtaken that of PIT to be the second largest contributor after CIT, notwithstanding the nominal wage growth in 2023 and the hike in top marginal tax rate wef from Year of Assessment (YA) 2024.



Source: Ministry of Finance, CEIC, OCBC.

We estimate that the FY2024 fiscal outturn will likely surprise on the upside, possibly as high as $6.8 billion or equivalent to as much as 0.9% of GDP. This assumes that expenditures materialize as planned whilst revenue growth, which had surprised on the upside for April-December 2024, do not see a sudden sharp drop off for the remaining months of the FY2024. This estimated fiscal surplus would be substantially above the FY2024 Budget assumptions and may put the accumulated fiscal surplus for the current term of government up to FY2024 on a very strong footing, somewhere in the range of $6.8 billion, which allows for a very generous FY2025 budget**.**

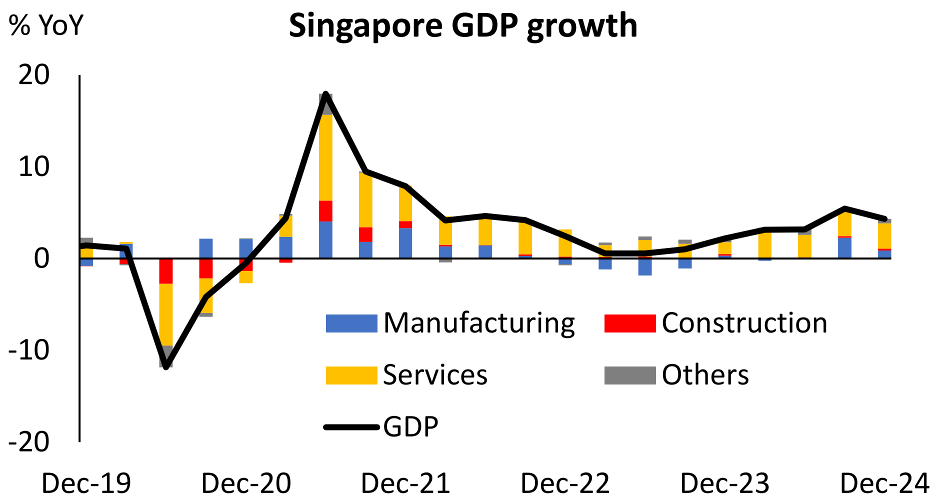


Source: Ministry of Finance, CEIC, OCBC.

In 2024, the global economy saw both resilience and challenges across different economies. While the global economy defied earlier market worries about recessionary risks, nevertheless there were some idiosyncratic risks. Global growth was surprisingly resilient last year, buoyed by US exceptionalism and relatively steady growth in the EU, Japan, and ASEAN. Although China was initially perceived as one of the weakest links due to a whole host of domestic structural constraints, it still managed to achieve its 5% growth target. Progress on disinflation also continued, albeit at a slower pace than was expected at the start of 2024. This provided global central banks, including the US Federal Reserve, ECB, and some Asian central banks with room to lower policy rates over the course of the year. Despite the various challenges, financial markets, particularly in the US, demonstrated remarkable strength. Advancement in Artificial Intelligence (AI) and US economic exceptionalism underpinned the stock market optimism.

While the US Federal Reserve has now shifted course to pause mode at the January FOMC meeting with Fed chair Powell signalling that there is no hurry with “policy stance now significantly less restrictive than it had been and the economy remaining strong”. He also noted the labour market is “broadly in balance” and “not a source of significant inflationary pressures”, and it would be unwise to speculate on tariff policy at this time, hence “reducing policy restraint too fast or too much could hinder progress on inflation”. Financial markets have clearly turned less dovish to price in only slightly more than one 25bp cut this year, possibly starting as late as September 2025 (as of 12 February 2025). Meanwhile, US President Donald Trump has been busy announcing tariffs on Mexico, Canada and China, as well as on steel and aluminium, and threatened that reciprocal tariffs are also forthcoming. The Fed’s approach is to wait-and-see if the impact of tariffs, whether on consumer or intermediate goods, will have more lasting effects on prices.

The Singapore economy ended on a strong note in 2024, with advance estimates of 4Q24 GDP growth at 4.3% YoY to bring full-year 2024 growth to 4%. Given the better-than-expected December industrial production data, the flash 4Q24 and full-year GDP growth estimates are likely to be revised up to 5.0% YoY and 4.2% YoY respectively. For 2025, the official GDP growth forecast is at the familiar 1-3% range, with our house forecast around 2.2%. Notably, all three engines of growth – manufacturing, services and construction, were firing in 2H24. However, the external economic environment has turned slightly cautious amid Trump 2.0 tariffs, the potential impact on inflation and the likely upending of global monetary policy easing prospects. US-China tensions remain par for the course, which could continue to weigh on China’s growth prospects in the near-term. That said, the business expectations survey for manufacturers have improved, with a net weighted 16% anticipating a stronger 1H25 (up from 10% three months ago), whereas that for services firms dipped from 13% to 7% for the same period. The most upbeat manufacturing firms were in electronics and transport engineering whereas the biomedical cluster was the weakest link. The most optimistic services firms were in infocomms and finance & insurance, whilst the most pessimistic were F&B services, transportation & storage, and professional services.

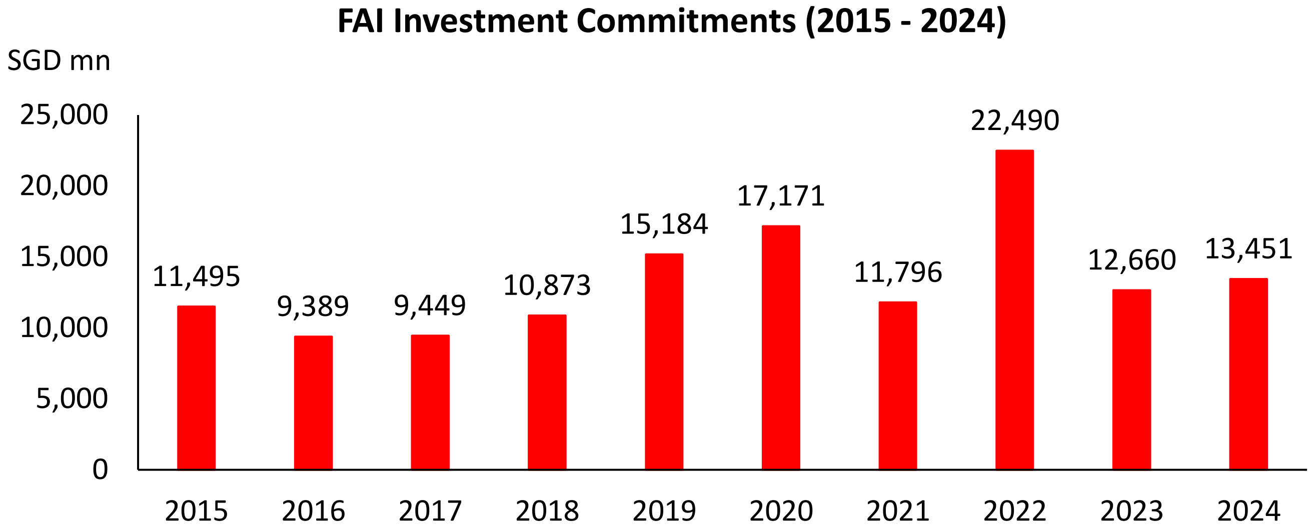


Note: 4Q24 numbers are based on MTI's advance estimates
Source: Singstat, CEIC, OCBC.

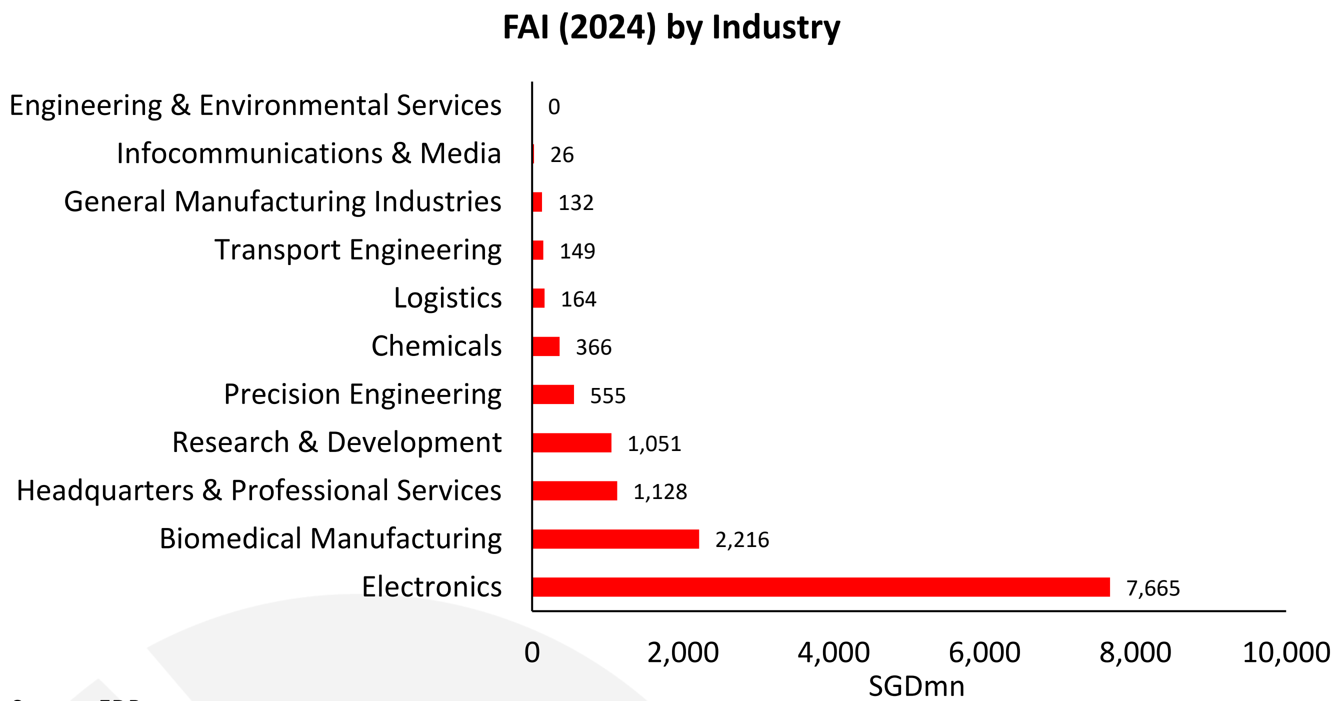
At this juncture, it is unclear if Singapore will escape from any future US tariffs although one is hopeful that our Free Trade Agreement with the US will sustain. Domestically, the MAS has eased its monetary policy stance at the January policy review by slightly flattening the S$NEER policy slope, citing a lower core inflation forecast of 1-2%. Nevertheless, cost-of-living issues remains a bugbear for many Singaporeans as consumer prices remain elevated, albeit the pace of price increases had moderated. In addition, there is supposedly some reported job insecurity sentiments despite low unemployment rates, which could be attributable to the cooling labour market, the rise of AI (potential disruptor to some jobs), and the struggles of mid-career workers and young seniors.

The labour market continued to grow, albeit at a slower pace in 4Q24. Total employment rose by 8,700, lower than the 22,300 in 3Q24. The increase in employment for residents were in key sectors such as Professional Services, Financial Services, and Health & Social Services, while the increase in employment for non-residents was primarily driven by the construction sector. For the full year, total employment growth for is projected to be 45,500, down from the 78,800 increase in 2023. Looking ahead, the Ministry of Manpower anticipates that employment growth will slow in 2025 due to global uncertainties. That said, 32% of surveyed companies plan to raise wages (up from 16% in September) and hiring intentions also rose from 43% to 46%.

The silver lining is that in a VUCA world, Singapore is still thriving in attracting high-quality investments and flourishing as a regional financial hub, with $13.5 billion in fixed asset investments, $8.4 billion in total business expenditure and over 2,000 single family offices (+43% from 2023 and more than double that of 2023) set up in 2024. In turn, the investment commitments will create 18,700 jobs in the next five years and contribute $23.5 billion in Value-Added per annum. Companies across a broad spectrum of diverse industries continue to expand existing operations, as well as locate/expand HQ functions etc.



Source: EDB.



Source: EDB.

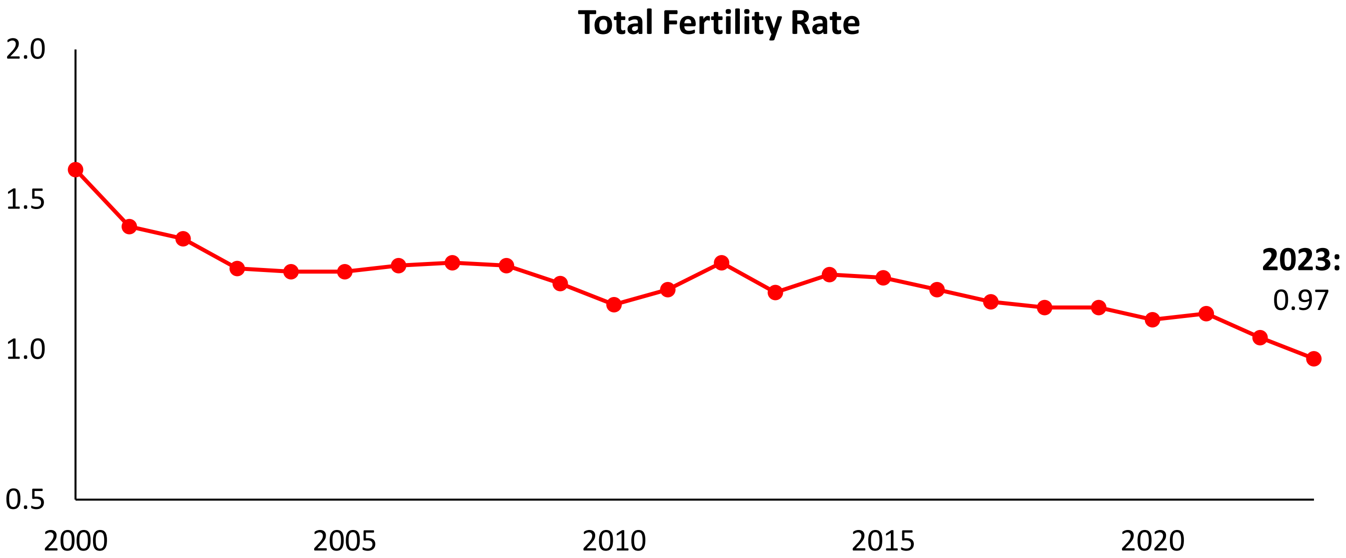
Expectations for Budget 2025 are running high due to the fact that elections are due by November 2025, and this is likely a pre-election budget. 2025 also marks SG60 celebrations and given the complex and unpredictable external geopolitical and economic policy environment, Budget 2025 may mark a pivotal moment to shape policies that will drive economic resilience, socioeconomic inclusivity and long-term prosperity under the new 4G leadership, by addressing immediate economic pressures while laying the foundation for sustainable medium-term growth.

Revenue growth in 2025 is likely to expand in line with our 2.2% YoY GDP growth forecast, while expenditure and net investment returns contributions should both remain relatively remain stable and proportionate to GDP, and with headroom to be more accommodative on special transfers. This would imply a FY2025 fiscal deficit of around $5.7 billion (equivalent to 0.7% of GDP), which could still imply around $1.1 billion accumulated fiscal surplus for FY21-FY25, by our estimates. This domestic fiscal flexibility should help to mitigate the potential downside risk from a polarised global economy, where free and open trade may be significantly hindered under the Trump 2.0 administration as part of its strategy to “Make America Great Again”.

The overarching principles of fiscal prudence with a long-term fiscal policy orientation is likely to continue. The new spending priorities that have been highlighted by the Ministry of Finance (MOF) include health and aged care, early childhood education and SkillsFuture, strengthening retirement adequacy, renewing the city infrastructure, managing the green transition, improving economic competitiveness, and protecting against new security threats. While there are rapidly growing expenditure needs, there should still be laser focus on ensuring strong outcome achievements with taxpayers’ money to tackle challenges arising from demographic trends, technological disruption, geopolitics and climate change.

Given that it is a pre-election budget, addressing the cost-of-living challenge remains top of the agenda. Singaporean households are still struggling with elevated costs even though growth momentum had picked up speed in 2H24 and the 1H25 prognosis looks reasonably upbeat. As Singapore is not in immediate danger of a recession or a crisis at this juncture, so there is less urgency to frontload fiscal transfers per se, but the timing of the general elections may of course be a consideration. CDC vouchers have become a regular feature of the Assurance Package (AP) in recent years to help mitigate cost-of-living challenges. As such, it would not surprise that the levers to help with cost of living would take the traditional forms of CDC vouchers, cash, S&CC rebates, education and healthcare account top-ups, and even PIT rebate. As far as fiscal assistance is concerned, it is likely that both low to middle-income households will benefit, albeit it will still be targeted and calibrated according to means testing (usually proxied by housing type as well as income).

Since Singapore’s Total Fertility Rate (TFR) has fallen below for the first time in history to a record low of 0.97 in 2023, similar to the experience of many developed societies, ongoing efforts to encourage parenthood will likely be stepped up. This will complement the policy push to mitigate the ageing population by reskilling/upskilling the local workforce and to selectively supplement with foreign talent. Previous budgets already saw additional government-paid paternity leave and shared parental leave being provided, as well as lower fee caps for full-day childcare and the Parenthood Provisional Housing Scheme (Open Market) Voucher which provides temporary support for young couples and families who are renting from the open market. The question remains what more can be done to help support parents? This could take the form of enhanced financial support, whether through a higher amount of the Baby Bonus Cash Gift and/or a longer payout duration, and higher government co-matching for CDA savings. There could also be additional tax relief for families with more children, or even a one-time lump sum parenthood bonus for SG60 babies born this year. Parents also hope to enjoy lower fees for government-funded preschools which would help to ease their financial burden.



Source: Singstat

As part of the social compact under the Forward Singapore policy moves, the spending of $5 billion in FY2024 is likely to eventually add up to close to $40 billion by 2030. For instance, the education front saw Budget 2024 deliver numerous incentives for workers, especially mid-career Singaporeans through the SkillsFuture Level-Up programme where Singaporeans aged 40 and above get a one-time top-up of $4,000 SkillsFuture Credit (Mid-Career), as well as the Mid-Career Enhanced Subsidy for another publicly-funded full-time Diploma, and the new SkillsFuture Mid-Career Training Allowance for selected full-time long-form programmes which provides for 50% of one's average income capped at $3,000 a month for up to 24 months.

Will Budget 2025 be all carrots and no sticks? Housing remains a sensitive topic as recent new articles flagging million-dollar resale HDB transactions fuelled concerns of affordability. The appreciation in HDB resale flat prices had nearly doubled from 4.9% in 2023 to 9.6% in 2024. This outstripped the growth of private residential home prices which moderated from 6.8% in 2023 to 3.9% in 2024. As resale HDB prices is a springboard for many aspiring Singaporeans to private residential properties including condominiums, a calibrated approach is necessary to cool the market if there are signs of irrational exuberance but without endangering the health of the public housing market. If you recall in August 2024, the Loan-to-value (LTV) ratio for HDB flats was cut from 80% to 75% while the enhanced CPF Housing Grant was increased to help lower-to middle-income first-time home buyers. This came after a 15-month wait-out period for private homeowners downgrading to resale HDB flats introduced in September 2022, and the hike in ABSD in April 2023 for Singaporeans and PRs for second and subsequent properties as well as foreign buyers which doubled from 30% to 60%.

More recently, National Development Minister Desmond Lee said the government is "not averse" to implement more property cooling measures if needed, but highlighted that the approach in recent years have been to ramp up BTO supply and called for more time for these efforts to take effect. With more than 50,000 BTO flats to be launched from 2025-2027, including 19,600 flats to be rolled out in 2025, this would bring the total number of flats to about 130,000 between 2021-2027. In our view, there has already been significant differentiation under the Standard, Plus and Prime BTO categories, but there could be policy tweaks along the way on the resale restrictions such as on the 10-year MOP and resale subsidy clawback if prices continue to balloon faster than expected from 2025-2027.

Retirement adequacy remains relevant as seen in the sequential introduction of the Pioneer Generation, then the Merdeka Generation Package and the Majulah Package for the young seniors. While there may some hopes for another package for those born after 1973, the probability of this is not high unless an exceptional case can be made. That said, there is room for ad-hoc top-ups to the CPF retirement accounts and/or raise the annual contribution cap for the SRS.

For corporates, a prevalent challenge has been rising business costs. Budget 2024 already announced details of the re-employment assistance, tax changes to prepare for implementation of Base Erosion and Profit Sharing (BEPS) 2.0 Pillar 2 next year, helping SMEs overcome challenges in adopting technology (including AI), internationalization and sustainability. Nevertheless, SMEs remain challenged by the slowing external demand conditions, the escalating trade war, while domestically costs are high and manpower constraints persist. Therefore, SNEF is urging for continued financial relief, including the Corporate Income Tax Rebate, the Enterprise Financing Scheme, and rental rebates to alleviate near-term cost pressures and give businesses the breathing space to invest in long-term strategic capabilities which would ultimately make them more productive and support better wage growth for employees. To assist workforce reskilling and upskilling, continued funding through the SkillsFuture Enterprise Credit (SFEC) and greater subsidies for AI-related training under the SkillsFuture Series (Digital Economy) would likely be appreciated. The latter may help local companies to leverage on AI to enhance productivity and overcome their perennial manpower constraints. While the foreign manpower policies are unlikely to be loosened, there is scope to step up the attraction of global talent to address skill shortages in critical industries and to ramp up the IHL local supply.

World Digital Competitiveness Ranking: Singapore's Overall and Factor Ranking

Year	Overall	Knowledge	Technology	Future
2020	2	2	1	12
2021	5	4	3	11
2022	4	5	1	10
2023	3	3	1	10
2024	1	2	1	1

Given the recent buzz over the Johor – Singapore Special Economic Zone (JS-SEZ), companies are also keen to expand or relocate some resource-intensive operations there. As such, any clarity on how to leverage or facilitate the transition, which may or may not come in this Budget, would likely be welcomed. The broader impetus for SMEs to expand beyond domestic shores to seek fresh markets, scale up and tap growth opportunities remain evergreen. The Enterprise Financing Scheme (EFS) has already been enhanced to support businesses' internationalisation endeavours, but the maximum loan quantum of $10 million will expire on 31 March 2025. Separately, the additional resources from the SME Co-Investment Fund and the Productivity Solution Grant (PSG) will continue to support SMEs expanding internationally and in the adoption of more digital solutions to improve efficiency and reduce costs. Enhanced support in these areas could help bolster SMEs' competitiveness.

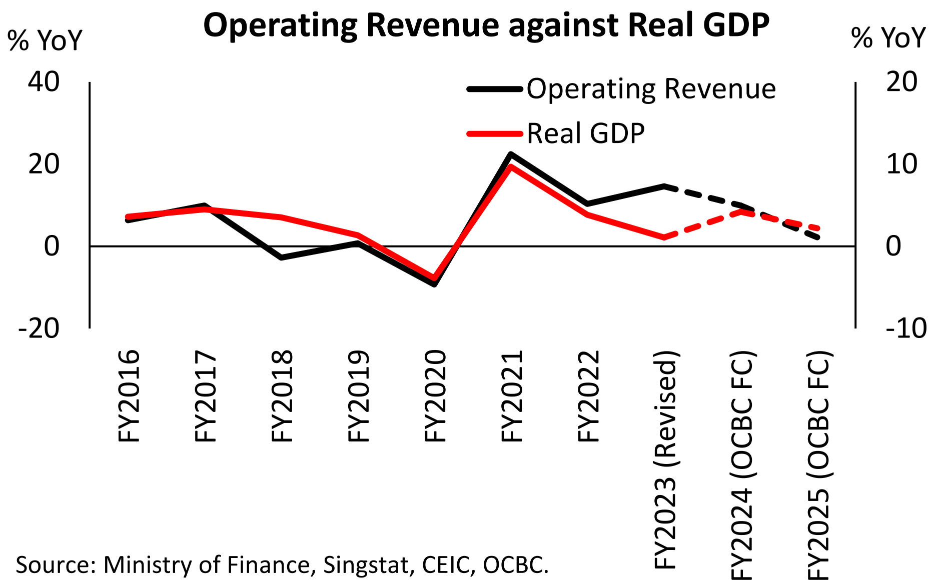
What are some of the individual measures we are looking out for in Budget 2025 on February 18:

- **Whether to further extend the Parenthood Provisional Housing Scheme (PPHS)** to support eligible families for a temporary housing option while waiting for their new flats to be completed.
- **Whether to maintain the co-funding support levels for this year in the Progressive Wage Credit Scheme,** to alleviate rising business costs. In Budget 2024, it was announced that the co-funding levels for 2024 was raise from a maximum of 30%, to a maximum of 50%.
- **Launch the next iteration of the 'Research, Innovation and Enterprise' (RIE) plan to sustain progress from past RIE plans, beyond the $25 billion earmarked for 2021-2025.**
- **Enhance the investment of more than $1 billion over the next five years into the National AI Strategy 2.0** to facilitate AI industry and talent development as announced in Budget 2024. Given the heightened global competition in the AI space, especially with the US-China race for dominance as illustrated by the Deepseek development, Singapore also needs to leverage on AI to prepare for the future.
- Whether to extend the Enterprise Financing Scheme – Trade Loan (EFS-TL) to provide better access to trade financing amid concerns about disruption to global supply chains.
- Whether to extend the Enterprise Financing Scheme – Project Loan (EFS-PL) to support for domestic construction projects.
- Whether to extend the SkillsFuture Enterprise Credit by another year to support businesses' aspirations to transform their workforce and businesses.
- Whether to extend or even provide an additional one-off top up to SkillsFuture Credit for Singaporeans to prepare themselves ahead of rising economic challenges. In Budget 2020, the government announced a one-off top-up of $500, which is set to expire in 2025.

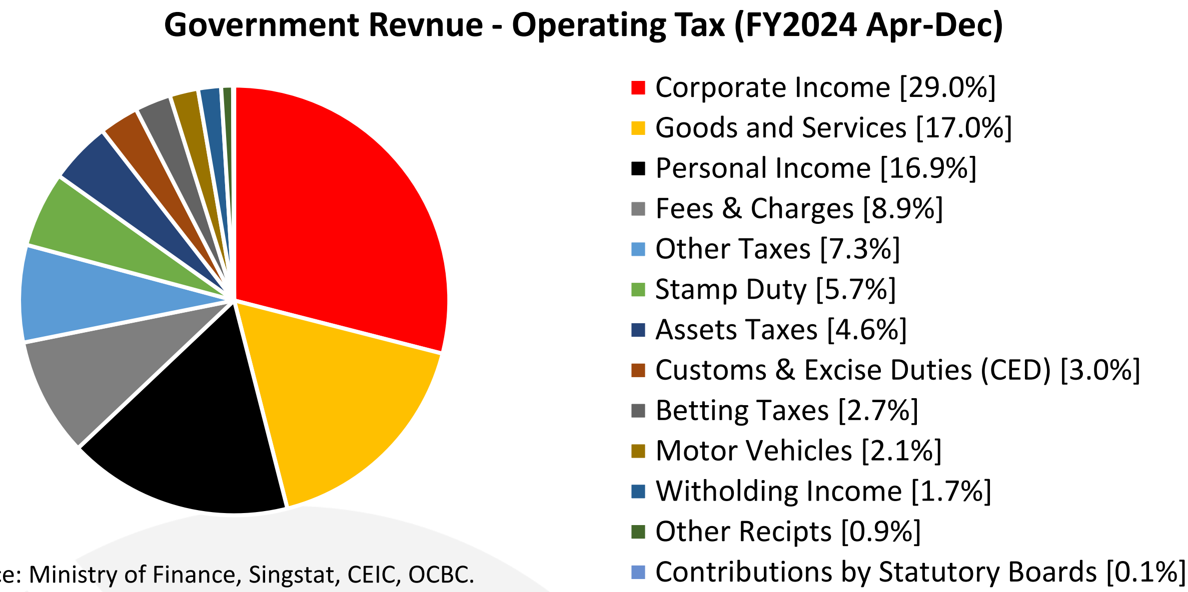
- Further cultivate a caring and gracious community, possibly through the extension of the Enabling Employment Credit beyond 2025, to support hiring for Persons with Disabilities.
- **Further cultivate resilience in the community,** possibly through more top-ups to the self-help groups.
- **Whether to pledge not to increase Government fees and charges for one year,** potentially applying to license fees, fees charged by Government for provision of services, and charges in public carparks.
- **Whether to offer another 50% Corporate Income Tax and Personal Tax Rebate for YA2025 to help manage rising costs and raise the cap from $40,000 and $200 respectively in Budget 2024, and/or a CIT rebate cash grant** if they employ at least one local employee.
- Strengthen the financial ecosystem to revitalise the Singapore stock market and position for new opportunities and sustainable growth. This could include incentives to attract institutional wealth and seed capital.
- **Ramp up energy resilience and green transition,** potentially with more investments into R&D for green technology and diversifying more renewable energy import sources, as well as provide more support for companies, especially SMEs, in their sustainability journey whether through investments into sustainable technologies and practices, aligning with global environmental standards and promoting long-term economic resilience.
- **Continue to finetune and proactively prepare for BEPS 2.0 framework.** The implementation of the Income Inclusion Rule (IIR) and Domestic Top-up Tax (DTT), as well as the introduction of the Refundable Investment Credit (RIC) was earlier announced in Budget 2024. Singapore should continue to monitor international developments, review and adapt its current tax incentive frameworks and even bolster non-tax competitive advantages to continue to attract and retain multinational enterprises and maintain its competitive edge.
- **Allocate more resources to tackling mental health issues, including postpartum and parental mental health support,** whether through increased subsidies, access to counselling services, workshops, helplines and support groups.

In summary, Budget 2025 will be pivotal in reshaping the Singapore economy and preparing for a more complex world with unpredictable policy outcomes, namely by strengthening support for Singaporean households, workers and businesses, and in the process foster a more resilient and inclusive economy. Small states like Singapore are vulnerable to the global forces of disruptive technologies and radical changes, but the longstanding principle of fiscal prudence and bumper FY24 fiscal surplus means Singapore is well-positioned to prepare for the challenges ahead.

Appendix



Source: Ministry of Finance, Singstat, CEIC, OCBC.



Source: Ministry of Finance, Singstat, CEIC, OCBC.

Fiscal Year	Overall Fiscal Position	Term of Government: Accumulated Surplus / Deficit
	S$mn	S$mn
January 1997 General Election		
FY1998	925	7094
FY1999	4884	
FY2000	3983	
FY2001	-2698	
November 2001 General Election		
FY2002	190	-373
FY2003	-1887	
FY2004	-106	
FY2005	1485	
FY2006	-55	
May 2006 General Election		
FY2007	7656	12059
FY2008	239	
FY2009	-819	
FY2010	980	
FY2011	4003	
May 2011 General Election		
FY2012	5821	7340
FY2013	4998	
FY2014	571	
FY2015	-4050	
September 2015 General Election		
FY2016	6125	9603 *
FY2017	10861	
FY2018	3339	
FY2019	845	
FY2020	-51567	
July 2020 General Election		
FY2021	1880	6822
FY2022	1716	
FY2023 (Revised)	-3571	
FY2024 (OCBC FC)	6797	
2025 General Election		

Note: Numbers in red are based on OCBC estimates.
* The accumulated deficit during the term of government takes into account of the S$40bn funding from our past reserves
Source: Ministry of Finance, CEIC, OCBC

GLOBAL MARKETS RESEARCH

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com