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Budget 2024: Renewed Focus On Singapore's Social Compact

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BUDGET 2024
RENEWED FOCUS ON SINGAPORE'S SOCIAL COMPACT

Introduction

Singapore's economy grew by a modest 1.1% in 2023, narrowly avoiding a recession. This took place amidst a troubled international political environment, with wars raging in Europe and the Middle East, and the major powers placing an emphasis on national security over economic interdependence. The global peace and stability of past decades are no longer a given.

Responding to this global crisis, the Singapore government (the "**Government**") launched the Forward Singapore campaign in 2022 with a view to refreshing Singapore's social compact. The goal is ultimately to build a nation that is vibrant and inclusive, fair and thriving, as well as resilient and united.

On 16 February 2024, Deputy Prime Minister and Minister for Finance, Mr Lawrence Wong ("**DPM Wong**") delivered his Budget Statement 2024, setting out the roadmap for the first instalment of the Forward Singapore programmes.

We take a deep dive into some of the labour and economic measures introduced in Budget 2024 and cast our eyes on their likely impact on Singapore's near and middle term future.

Building on Quality Investments and Developing Local Enterprises

This year's Budget has a particular focus on ensuring that the Singapore economy remains strong, innovative and vibrant. There is no room for complacency and the Government's goal is for the economy to continue growing by 2 to 3% every year in the next decade.

The Economic Development Board (EDB) was able to create over 20,000 new jobs over the past year because of the nation's strong investment pipeline.

To facilitate continued growth, the Government will top up the Financial Sector Development Fund by S$2 billion, giving the Monetary Authority of Singapore (MAS) more resources to extend Singapore's lead in the financial services sector and to continue enhancing Singapore's reputation as a stable and trusted financial centre.

To push the frontiers of innovation, an additional S$3 billion will be injected into the Research, Innovation and Enterprise 2025 (RIE2025) plan, increasing the total planned commitment to S$28 billion.

In the area of Artificial Intelligence ("**AI**"), the Government intends to invest more than S$1 billion into AI compute, talent and industry development. This forms part of the National AI Strategy 2.0 and will ensure Singapore secures access to advanced chips crucial to AI development and deployment, as well as encourage leading companies to set up their AI Centres of Excellence here to drive industry collaboration and innovation. The Government will also allocate resources to the upgrading of the Nationwide Broadband Network, driving broadband speeds to be 10 times faster than what they are in Singapore homes today.

The Partnerships for Capability Transformation ("**PACT**") scheme is currently being used to help local companies gain greater opportunities to collaborate with multinational enterprises ("**MNEs**"). By enhancing the PACT scheme, the Government hopes to help more local businesses plug into the global supply chain and compete in markets abroad, thereby growing into industry leaders in their own right.

To promote sustainability and reduce firms' carbon footprint in line with the world's leading MNEs, the Government will extend the enhanced support for green loans under the Enterprise Financing Scheme, and expand its scope to help more small and medium enterprises ("**SMEs**") adopt green solutions. The Energy Efficiency Grant, first introduced in 2022, will likewise be enhanced. The Grant will be extended to the Manufacturing, Construction, Maritime sectors as well as Data Centres and their users, where previously it was only made available to companies in the Food Services, Food Manufacturing and Retail sectors.

Enterprise Support Package

The Government recognises that businesses need help to support rising costs. Many businesses have seen an increase in, among other things, their wage bills, rental and utilities. The Government therefore intends to introduce an Enterprise Support Package, which will provide S$1.3 billion in support to companies.

This will comprise a 50% Corporate Income Tax Rebate, capped at S$40,000, in the Year of Assessment 2024. For unprofitable companies that cannot benefit from this rebate, the Government will provide a minimum benefit of S$2,000 in cash payouts for firms that employ at least one Singapore employee in 2023.

The current Enterprise Financing Scheme will be enhanced to help Singapore enterprises with their financing needs. The maximum working capital loan quantum will be permanently raised to S$500,000. The enhanced maximum trade loan quantum as well as the Government's support of project loans for domestic construction projects will be extended to 31 March 2025.

Separately, the SkillsFuture Enterprise Credit will be extended by a year to 30 June 2025. This Credit aims to reward companies for putting in effort into business restructuring and transformation, and will cover eligible employers for their out-of-pocket expenses when carrying out said workforce and business transformation.

SkillsFuture upgrade

Currently, every Singaporean gets a S$500 SkillsFuture Credit, and all employers get support to train their workers. The Government intends to introduce a new SkillsFuture Level-up Programme to support mid-career workers.

From May 2024, all Singaporeans aged 40 and above will receive a top-up of S$4,000 in their SkillsFuture Credit. This new credit will be confined to usage in selected training programmes with better employability outcomes, including part-time and full-time diploma, post-diploma, undergraduate programmes, and courses for the Progressive Wage Model sectors. The objective is for participants of the programme to have better employment outcomes post-completion of their training.

In addition, the Government will provide subsidies to all Singaporeans aged 40 and above to pursue another full-time diploma at the Polytechnics, ITEs, and Arts institutions from Academic Year 2025 onwards. Graduates from Institutes of Higher Learning who meet the age criteria will likewise be enabled to pursue another full-time diploma at subsidised rates.

Further, Singaporeans who enrol in selected full-time courses will be given a monthly training allowance. Such training allowance will be equivalent to 50% of the individual's average income over the latest 12-month period, capped at S$3,000 a month. Each Singaporean can receive up to 24 months of such training allowance over their lifetime.

This upgrade to the SkillsFuture programme is a significant step forward and is intended to deepen the culture of lifelong learning and skills mastery that has been one of the Government's mainstays in enhancing the employability of the Singapore workforce.

Support for the Involuntarily Unemployed

The past few years have seen unprecedented technological changes that disrupt the economy. The fallout from this is that some industries and businesses have had to cut costs and reduce employment. In other sectors, new and better roles are being created.

Recognising that losing a job is a major setback for employees and their families, the Government intends to provide for the involuntarily unemployed by introducing a temporary financial support scheme whilst the affected individuals undergo training or look for jobs that are a good fit.

The Government is carefully working out the details of this scheme, as they delve into the suitable quantum of support and the conditions that ought to come with such support. These deliberations aim to support involuntarily unemployed persons without falling into the traditional perils that plagued other nations when they introduced unemployment benefits to the local workforce. More details on the scheme will be provided later in the year.

Reducing Wage Gaps

Recognising that rising social inequality is a threat to the social fabric in many developed nations, the Government promulgated the Forward Singapore campaign to avoid the pitfalls of rising inequality and slowing mobility.

In the past decade, Singapore's income inequality has declined to its lowest over the past 20 years as measured by the Gini coefficient.

With a view to continuing this positive trajectory, the Government will enhance the Workfare Income Supplement scheme by raising the qualifying income cap from S$2,500 to S$3,000. This will ensure lower-wage workers continue to be covered even as salaries increase.

The Local Qualifying Salary (LQS) will also be raised from S$1,400 to S$1,600 from 2024, and the minimum hourly rate from S$9 to S$10.50 to keep pace with wage growth.

Employers who raise the wages of their lower-wage workers will be rewarded via the Progressive Wage Credit Scheme ("**PWCS**"), where the Government co-funds the wage increase of lower-wage workers with employers. The co-funding levels will be raised from a maximum of 30% to a new maximum of 50%, and the PWC wage ceiling from S$2,500 to S$3,000. The overall top up to the PWCS Fund will amount to S$1 billion.

Strengthening Retirement Adequacy

Amidst very real cost-of-living concerns, Singapore seniors also stand to receive financial support from the Government. Acknowledging the recommendations of the Tripartite Workgroup on Older Workers, the Government will increase the Central Provident Fund ("**CPF**") contribution rates for those aged 55 to 65 by a further 1.5 percentage points in 2025.

The Government will also provide the CPF Transition Offset to employers for another year, to cover half the increase in employer contributions for 2025 and help cushion the impact on business costs.

The Enhanced Retirement Sum ("**ERS**") will also be raised to four times the Basic Retirement Sum by 2025 (the ERS is currently three times the Basic Retirement Sum). This means that the ERS will be S$426,000 by 2024, allowing more members aged 55 and above to fully commit their accumulated CPF savings to receive higher CPF payouts. The scheme is voluntary and members have the option not to increase their ERS if they so choose.

The Special Account ("**SA**") of members aged 55 and above will also be closed, and the SA savings transferred to the Retirement Account ("**RA**") up to the Full Retirement Sum, with the balance transferred to the Ordinary Account ("**OA**"). This is to facilitate Singapore seniors earning higher interest from their CPF accounts and receiving higher retirement payouts.

The Silver Support Scheme provides quarterly payments to seniors who had low incomes in their working years and with less family support. The qualifying per capital household income threshold will be raised from S$1,800 to S$2,300, and the quarterly payments will increase by 20% to keep pace with inflation. The Matched Retirement Savings Scheme (MRSS) will be adjusted to extend to those aged above 70, with the annual matching cap raised from S$600 to S$2,000, up to a lifetime maximum cap of S$20,000.

"Young Seniors" in their 50s and early 60s will receive a further boost in their retirement through the Majulah Package. The first component of this is the Earn and Save Bonus, which will help seniors earning up to S$6,000 per month accumulate more retirement savings. They will receive a yearly bonus of up to S$1,000 for as long as they work, with more going to those who earn lower incomes.

Further, a one-time Retirement Savings Bonus worth S$1,000–S$1,500 will be provided to seniors with retirement savings below the Basic Retirement Sum. A one-time MediSave Bonus will be provided to all seniors born in 1973 or earlier. In all, the Majulah Package will benefit about 1.6 million Singaporeans, at a total lifetime cost of S$ 8.2 billion.

Conclusion

Budget 2024 continues a strong focus on Singapore's social fabric whilst aiming to strengthen the economy from its foundations.

In FY2023, Singapore ended with a fiscal deficit of S$3.6 billion, or 0.5% of Growth Domestic Product ("**GDP**"). FY2024 promises some improvement, as the Government budgeted a minor surplus of $0.8 billion, or 0.1% of GDP. This balanced fiscal position shows the Government's desire to maintain fiscal discipline and responsibility to secure Singapore's long-term financial future.

The Budget statement is comprehensive in covering all major trending topics, from AI to sustainability, and the maintenance of Singapore's edge as a trusted international financial centre for global investors. There is also an increased focus on improving the lives of the man and woman on the street. This includes measures to help local employees realise their full working potential via the SkillsFuture programme, addressing the cost-of-living concerns of the involuntarily unemployed and lower-wage workers, to securing the twilight years of present and future retirees through changes to the CPF Scheme. The urgency of such measures is further necessitated by the drop in Singapore's resident total fertility rate (TFR) to below 1 for the first time in the nation's history, signalling a greying population and a threat to the dynamism of Singapore's future workforce.

In DPM Wong's words, we live "*in a world which will become more violent, more fragmented and more unpredictable in the years to come.*" Whilst external factors are invariably outside the Government's control, Budget 2024 brings a renewed focus on strengthening Singapore's social compact with a view to securing the country's future. Some of these measures may not yield immediate results, and their true impact will be more keenly felt in the next 5 to 10 years.

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