A Budget that gives you a leg-up
Analysts expect focus on the poor and infrastructure

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Going by the way that economic commentators are talking about it, Budget 2012 does not sound like one of the most exciting budgets to be unveiled in recent years.

But it will still be important.

Unlike the blockbuster pre-election Budget last year, which gave Singaporeans a $3.2 billion Growth and Share package, analysts are not expecting the Government to dish out billions in cash handouts.

Instead, they expect Budget 2012 to set the tone for the next five years and beyond. Indeed, it will be closely watched for several reasons.

For one thing, this is the first Budget after the watershed General Election last year, when the Workers' Party made a major breakthrough by winning a multi-member constituency, the first for any opposition party.

A second reason for the close attention is that the economy is being restructured with moves to drive economic growth through productivity gains rather than more manpower.

Then there is the global backdrop, and vital questions of just how the Government plans to help mitigate the economic slowdown that is expected to hit Singapore this year.

As former Nominated MP Zulkifli Baharuddin puts it: 'It may not be exciting but it will be an important Budget to watch.'

Inclusive growth
In the aftermath of the General Election last year, many analysts called for a new social contract to be forged between the public and the PAP Government.

A group of economists made this point recently in a paper presented at an Institute of Policy Studies forum.

It argued that past policies were for a time when there was a 'youthful population and steady economic growth'.

The current social compact is built on ideas of self-reliance, individual responsibility and economic growth - tenets that flourished in an era when the population was young and growth was plentiful.

But with a maturing economy, an ageing population and erratic economic growth, it has become more difficult to achieve equitable growth.

There is therefore a need for a new social compact that strikes a better balance between growth and equity, between individual responsibility and social insurance, argued the group.

This is why even though the pursuit of economic growth is still important to voters, the concept of inclusive growth - that everyone should benefit, not just certain segments - matters just as much.

Analysts agree the Government looks set to spend more on social safety nets and on the lower-income group, who, despite the best efforts of policymakers, still lag behind in terms of wage growth, a fact the Government acknowledges.

At a pre-Budget forum last week for the labour movement, Prime Minister Lee Hsien Loong foreshadowed a rise in social spending. 'We need to take care of those who are not so successful in society, the low end, the low-income, those with broken families unable to take care of themselves,' he said.

But he said it will be done carefully as 'we don't want to give people the impression that anything you want, come to the Government, the Government will have'.

While it is clear that the Government will spend more, the questions, arguably, are how much and on what.

The Government already spends the bulk of its resources every year on social spending. Based on the forecasts given by the Finance Ministry, in the last financial year, 45 per cent of total expenditure was on social development, followed by 33 per cent on defence and external relations.

In any case, as Holland-Bukit Panjang MP Liang Eng Hwa notes, tackling the wage gap is not something entirely new.

He notes that the Government had already boosted social spending years before the last election and the Government's financial statements bear this out.

From 2005 to 2011, total expenditure as a percentage of gross domestic product - that is, annual economic output - has remained roughly the same, between 12 per cent and 15 per cent of GDP.

But special transfers have been rising. This is the part of the official books where transfers such as CPF top-ups, cash handouts and top-ups to endowments and trusts are accounted for.

In 2005, special transfers were about $829 million; in the last fiscal year, the Government budgeted over 10 times that sum - $8.7 billion - for these transfers.

Social transfers to individuals, a subset of special transfers, rose to an estimated $1.74 billion last year, from $546 million in 2005. This sum tends to be spent on those on the bottom rung financially.

But observers such as Economic Society of Singapore vice-president Yeoh Lam Keong believe much more can be done.

He suggests, for instance, doubling the money spent on the Workfare Income Supplement, which is a bonus given by the Government to low-wage workers.

Government Parliamentary Committee for Community Development, Youth and Sports chairman Seah Kian Peng also believes that some of the social assistance schemes can be reviewed.

'Some needy just fall on the wrong side of the criteria. I hope the schemes, such as the Public Assistance (PA) scheme, can be reviewed,' he says.

On another key front, Citigroup economist Kit Wei Zheng says just 3.3 per cent of GDP is spent on health care.

This is about a quarter of the average of 11.1 per cent that high-income countries spend, and even lower than the average 5.4 per cent that low-income countries spend.

But other analysts say they doubt the Government will depart radically from its pragmatic approach to social welfare.

The worry is that once the Government starts spending huge sums on social welfare, it might erode the spirit of self-reliance it has been nurturing, says Singapore Management University law lecturer Eugene Tan.

There is also no need for new measures as there are sufficient support mechanisms such as the ComCare fund and the PA scheme, says Jurong GRC MP David Ong. 'But the Government may want to tweak them by increasing the quantum of help slightly or extending the length of period in which help can be rendered,' he says.

So while spending may increase, it will probably be done at a slow and moderate pace as opposed to dramatic shifts in spending, say analysts.

IPS senior research fellow Gillian Koh says the Government will respond to the issue but will regard it as a long-term social investment.

She says as there are many who would oppose baldly populist schemes, 'even in the new normal in politics, suggestions from the Government or opposition bench for outright handouts will probably be shouted down'.

One area almost certain to see increased spending is infrastructure, a hot-button issue the Budget may tackle, after reports of frequent flooding, train disruptions and crowded buses.

DBS economist Irvin Seah says land transport infrastructure has been ramped up in recent years, especially since 2008, and this will probably continue.

Between 2002 and 2007, spending on transport infrastructure was, on average, below 1 per cent of GDP. From 2008 to 2010, that rose significantly to between 1 per cent and 1.5 per cent.

Already, contracts worth more than $600 million have been awarded by LTA and SMRT to improve train services and prepare for a demand spike, says Mr Kit.

'While it is not clear to what extent these new purchases had been previously budgeted for, it seems likely that land-transport spending will be front-loaded in 2012, possibly above the $4 billion average expected for the next nine years,' he says.

Most of the higher spending could be funded by contributions from investment returns the Monetary Authority of Singapore, Temasek Holdings and the Government of Singapore Investment Corp will make to official coffers, say analysts.

In 2008, the Government made changes to the way investment returns can contribute to the Budget. The change, which took effect in 2009, means Net Investment Returns now contribute about $7 billion a year to government coffers, more than double the $2 billion to $3 billion figures seen before the changes were made.

But over the longer term, as PM Lee has hinted, raising revenues, probably through taxes, will probably be the only way to cope with increased demands in spending, without having to tap on Singapore's reserves.

Economic restructuring
For businesses, the challenges are clear.

Many say they are wilting under the higher costs of doing business here, including higher levies on foreign workers.

In fact, some bosses were hoping that the Government, post General Election, would relax its foreign worker policy.

Instead, after the election, Finance Minister Tharman Shanmugaratnam announced another wave of tightening and stressed that this was a long-term policy.

The economic boom in the past two years has led to higher rents while the threat of a slowdown this year has caused many bosses to feel vulnerable.

As the president of the Association of Small and Medium Enterprises, Mr Chan Chong Beng, puts it: 'SMEs are crying out for help.'

But the Government is unlikely to budge on its tough stance, says UOB economist Chow Penn Nee. 'The foreign worker policy probably will not be reversed in the light of sensitivities of the immigration policy, and levies for foreign workers might even continue to increase.'

The Government will probably continue its 'carrot and stick' approach to get firms engaged on productivity.

If the stick is the tough stance on foreign workers, then the carrots are the various incentives and rebates since 2010 to help firms get more out of their business. The biggest carrot arguably is the Productivity and Innovation Credit (PIC) scheme, enhanced last year to allow firms to claim up to 400 per cent in tax deductions to help lift productivity.

Still, surveys have shown the take-up rate among SMEs to be poor, largely due to the complexity of the scheme.

Analysts and tax experts believe the solution would be to simplify the process of getting tax breaks under PIC.

And to help firms tackle the slowdown, the Government may introduce cost-containment measures, including rental rebates from JTC and possibly even cash rebates for SMEs, says OCBC economist Selena Ling.

'The extension of the corporate tax rebate, and the ability of JTC to make industrial rents more affordable, are discretionary items that could feature,' she says.

But even then, analysts do not think the Government will do a lot to help firms, as much help was already extended to them in the last recession in 2009.

Says Bank of America Merrill Lynch economist Chua Hak Bin: 'They've done a lot for firms in the past few years. Firms are probably lowest on their priorities.'

Slowing growth in 2012

For the Government, pushing the productivity frontier requires a delicate balance.

If business costs keep rising but not productivity, the result will be higher prices which will hurt consumers, says Barclays Capital economist Leong Wai Ho.

'The Government will have its work cut out for it, in managing both sides of the equation,' he adds.

So far, progress has not been encouraging, says Dr Chua. 'Productivity improvements are, so far, not clear, with labour productivity starting to fall off again with the economic downturn,' he says.

And some of the negative effects are already being felt.

Last year, inflation hit 5.2 per cent, although some of this was due to imported inflation and the rising cost of owning cars.

The MAS is forecasting a rate of between 2.5 and 3.5 per cent this year - slightly above the expected GDP growth rate of 1 to 3 per cent.

This will add to a potential problem that economists have flagged for 2012: inflation outpacing the rise in incomes, resulting in slowing real wages.

Says Ms Ling: 'The 2012 challenge of below-trend growth and elevated inflation will likely imply a need for some immediate counter-cyclical measures and help for needy households.'

Mr Grahame Wright, a partner at Ernst & Young Solutions, outlines several options the Government could take. For lower-income groups, rental and utilities rebates are probably the most practical tool it could put in the Budget, as the rebates reduce families' cash outlay.

For middle-income earners, it may allow income tax rebates, capped at a certain level, as it has before. Some easing of early childhood care and education costs may also be on the cards.

There is a chance that older workers will get a boost through higher CPF contributions in this Budget, said analysts.

Employer CPF contributions decline as the workers grow older, which makes them cheaper to hire for firms.

But as many people are working longer, PM Lee recently said, 'we need to push CPF rates up for the people in their 50s. We have to do this gradually'.

But how much in goodies the Government will give out this year will also depend largely on the global economy.

So far economic data seems to be pointing upwards recently, with the US job market doing better than expected.

But risks aplenty lurk on the horizon, from the sovereign debt crisis in Europe, to geo-political risks in the Middle East and elections in France and the US. Ms Ling says 'policymakers would likely want to calibrate the short-term measures to keep some policy powder dry should the global economic environment deteriorate further'.

And if there is one thing to watch for in this Budget, it will be how the Government views social welfare.

Dr Chua believes this Budget will mark a subtle but distinct shift towards slightly more socialist ideas, with so much focus on the less well-off in society.

The Government's tough stance on self-reliance and individual responsibility seems to be softening, he says. 'The pendulum is moving gently towards the left.'