

Economic outlook and Budget 2019

Steering through choppy waters

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Key global themes...

- Trade war
- Brexit
- Fed hike

Trade war



Deciphering the trade war

- A global **power struggle** – economics and geopolitics
- A ballooning US **trade deficit** with China (USD 375bn in 2017, USD 382bn between Jan-Nov18)
- To slow China's ascension in **technology**
 - At the core of the rivalry is the “**Made in China 2025**” blueprint that aims at making China a global superpower in 10 strategic industries, namely: robotics, new-energy vehicles, biotechnology, aerospace, high-end shipping, advanced rail equipment, electric power equipment, new materials (such as those used in screens and solar cells) and new generation information technology and software (including integrated circuits and telecommunications devices), as well as agricultural machinery.
- To pressure China towards more **economic reforms, i.e. liberalisation.**

China's longer term strategies

- **Accelerate investment** into technology and move up the value chain
- **Acquire technologies** and innovative companies from Europe and other parts of Asia
- Intensify efforts to **promote trade liberalisation** and closer economic cooperation with major economies / regions
- **Liberalise its domestic sectors** for foreign investment
- **Strengthen IP regime** and promote domestic value creation

Brexit



What could happen to Brexit?

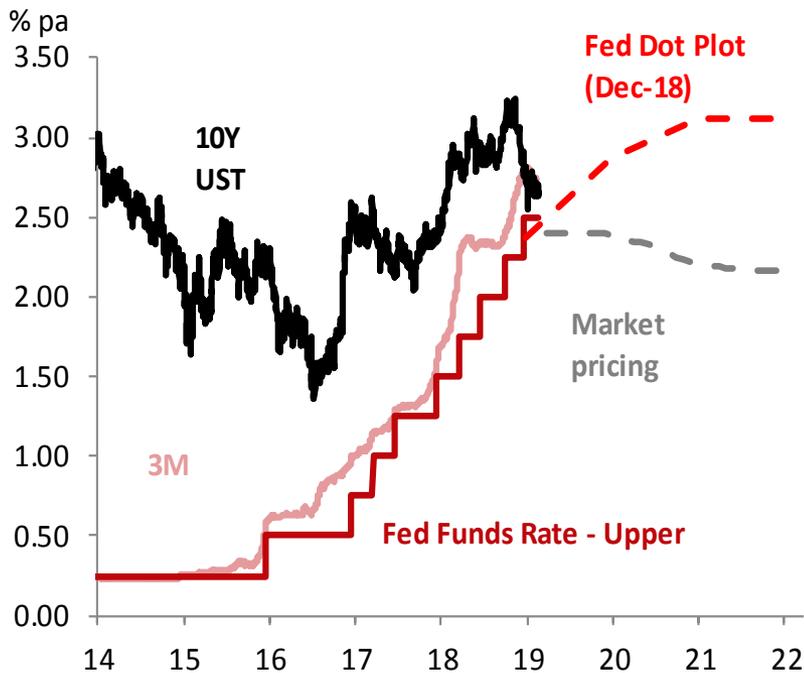
Brexit (Most likely)	Delay Brexit (Unlikely)	No Brexit (Improbable)
With May's deal	To avert no-deal	Revoke Article 50 & maintain status quo
Without a deal	Election and/or 2 nd referendum	

The worst-case scenario of a **disorderly Brexit** is a 25% devaluation that **would return the pound to its all-time low of 1.05 in 1985**

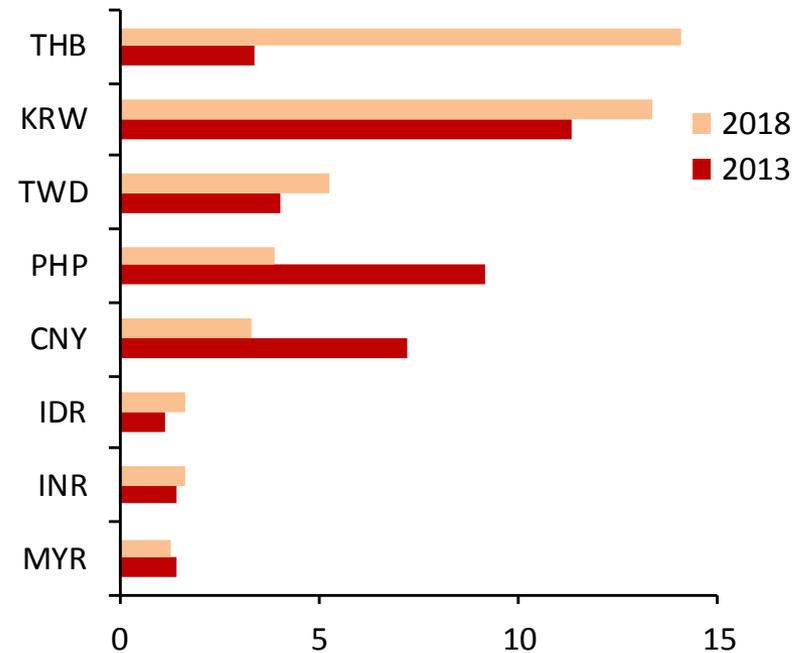
Bank of England

Fed hike on Asian economies

Fed tightening cycle.

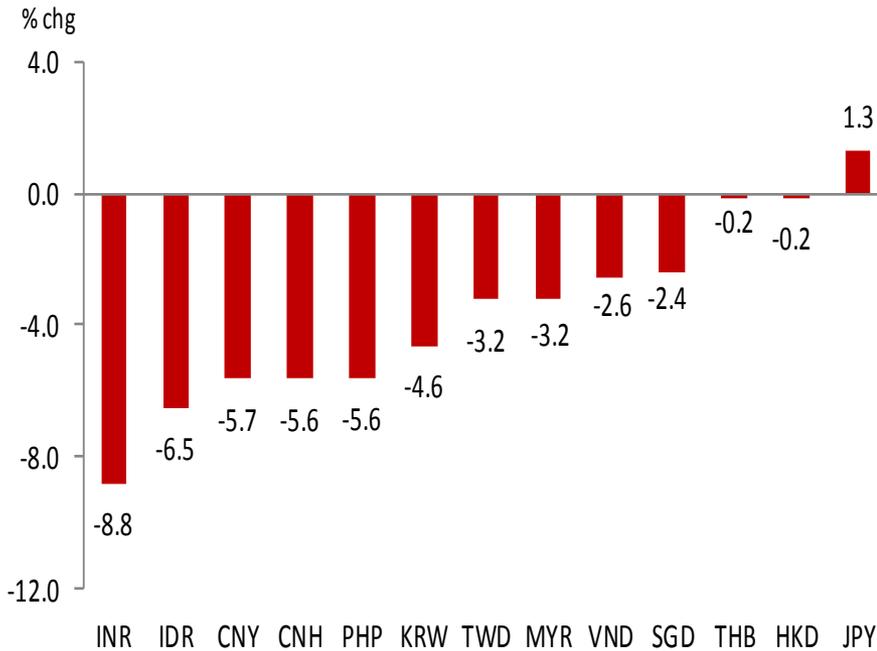


Reserves to Gross External Financing



Asia currencies

Asia currencies 2018

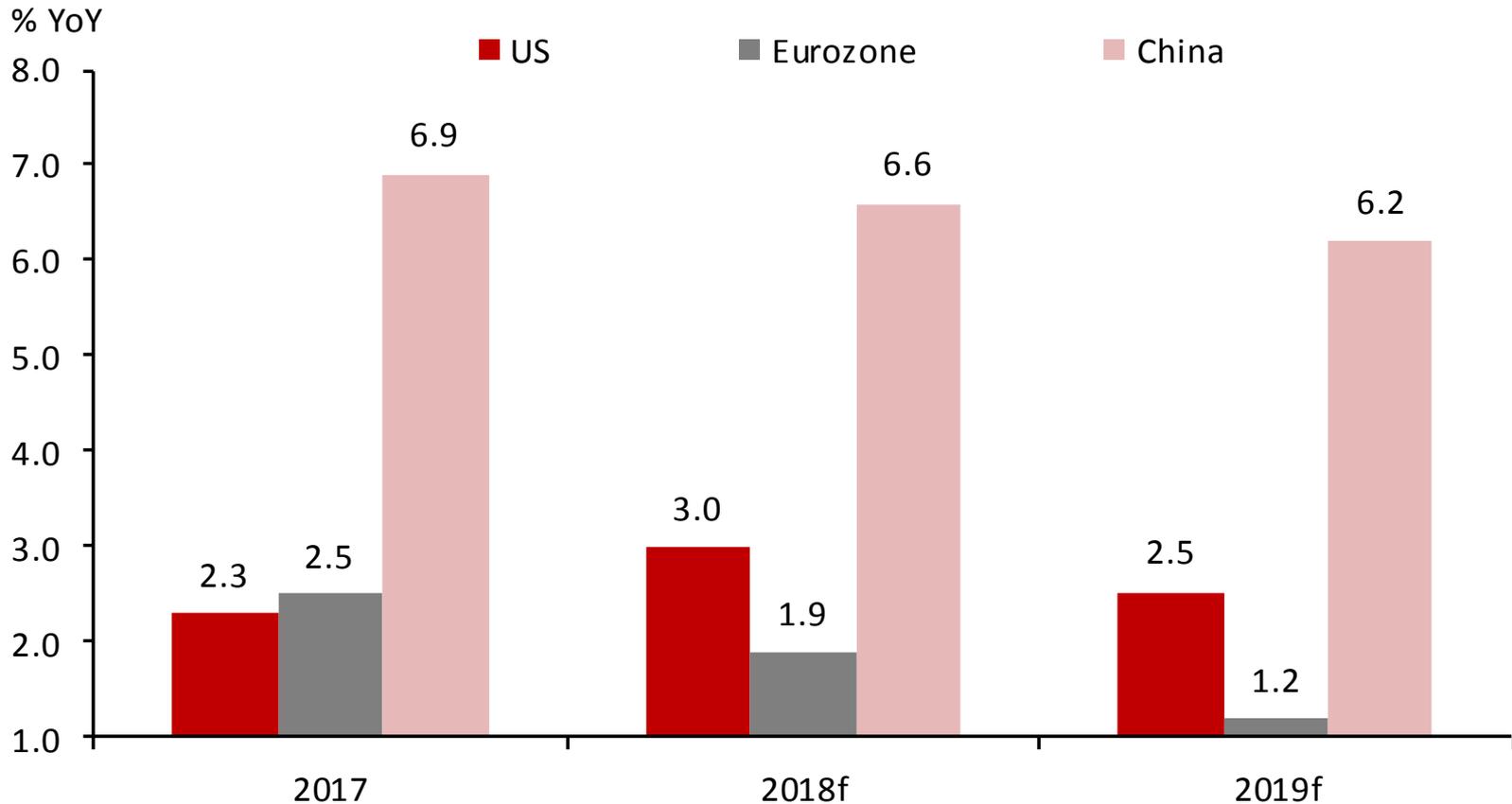


	Q1 19	Q2 19	Q3 19	Q4 19
China	6.90	7.00	7.10	7.05
Hong Kong	7.85	7.85	7.85	7.84
India	72.0	73.0	74.0	73.5
Indonesia	14200	14600	14800	14700
Malaysia	4.10	4.20	4.30	4.25
Philippines	53.0	54.0	55.0	54.5
Singapore	1.38	1.40	1.42	1.41
South Korea	1140	1160	1180	1170
Thailand	32.0	33.0	34.0	33.5
Vietnam	23200	23300	23400	23350
Australia	0.70	0.68	0.66	0.67
Eurozone	1.10	1.08	1.06	1.07
Japan	111	113	115	114
United Kingdom	1.26	1.24	1.22	1.23

Australia, Eurozone and United Kingdom are direct quotes

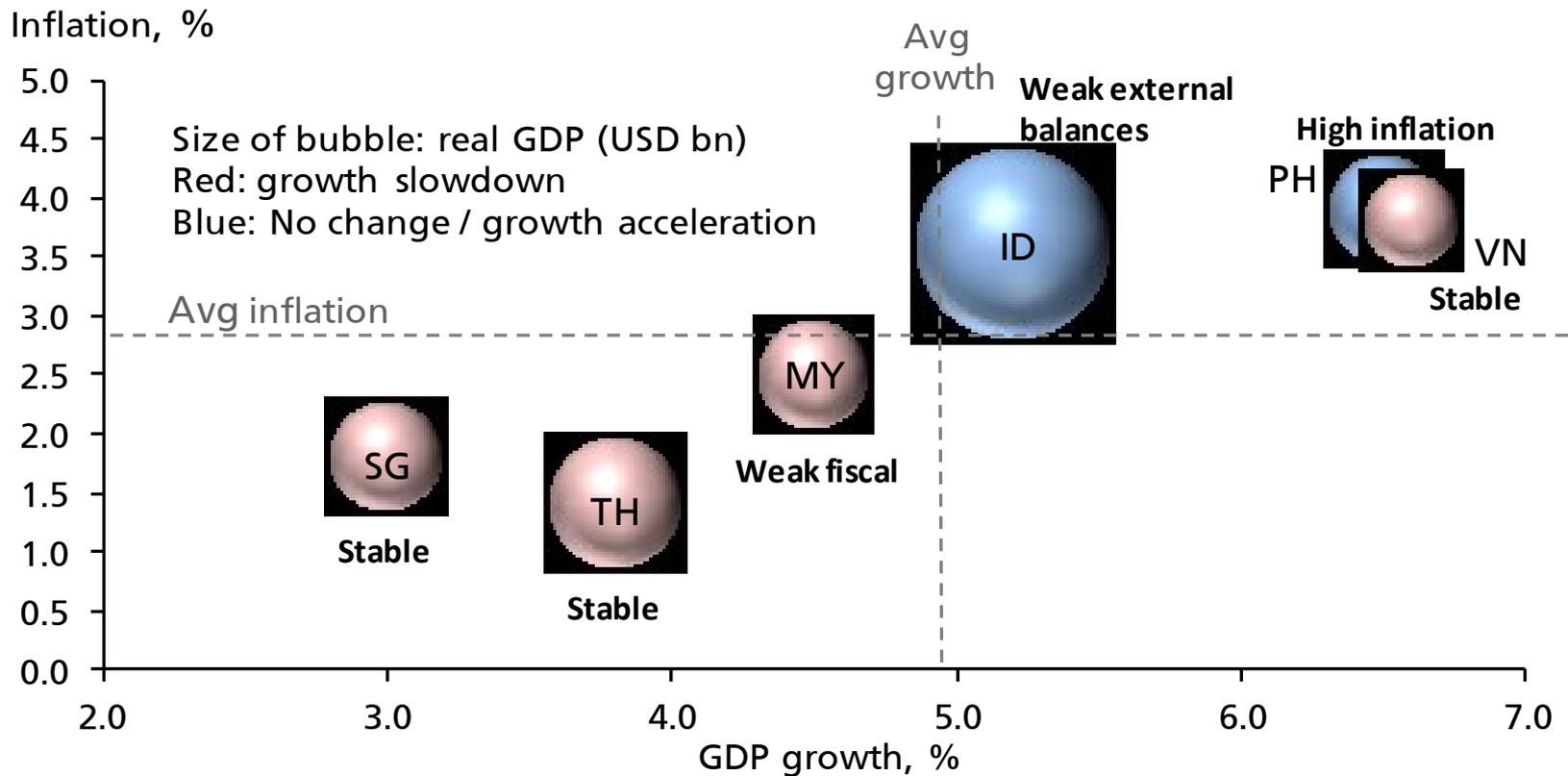
Economic outlook for key markets, 2019

Growth prospects for key markets



ASEAN economic outlook, 2019

Relative economic performance map, 2019



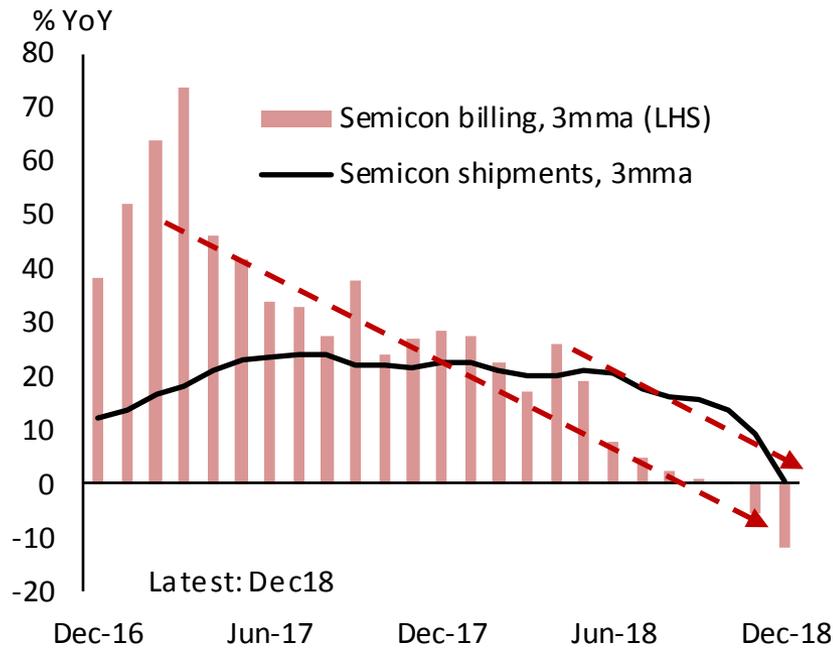
Near term outlook for the Singapore economy

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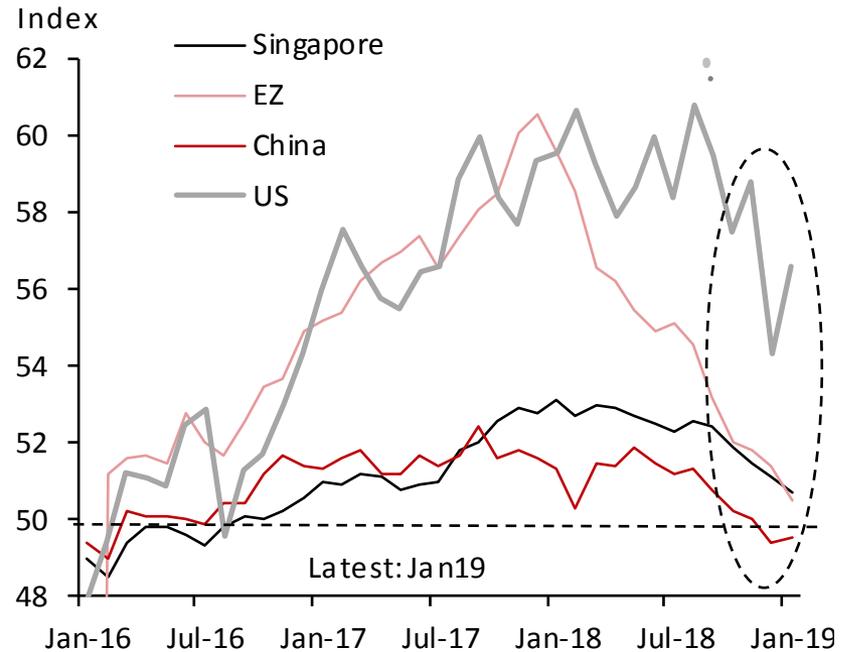


External demand slipping

Global electronics cycle heading south



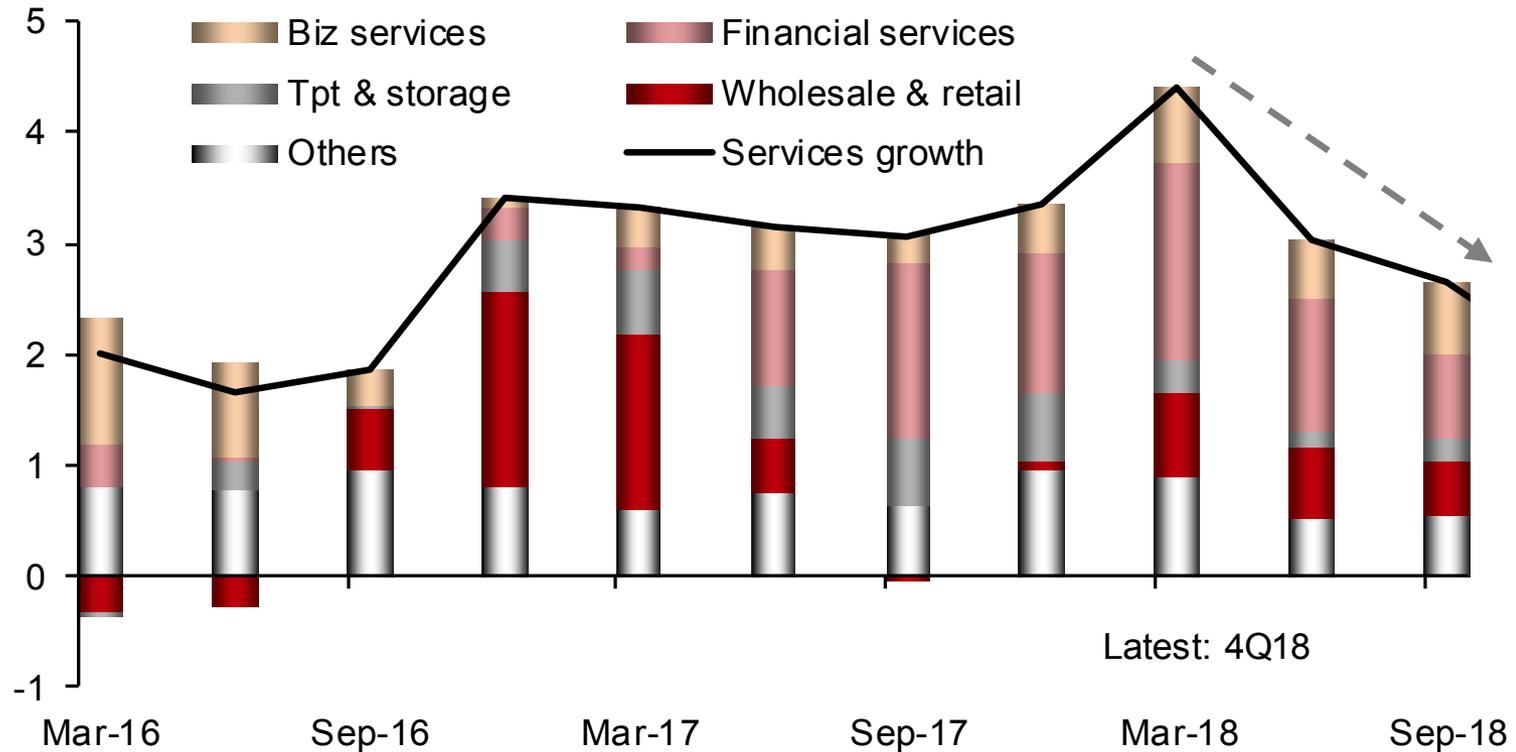
PMIs down across the board



Services feeling the drag

Services sector easing

YoY %-pt contribution

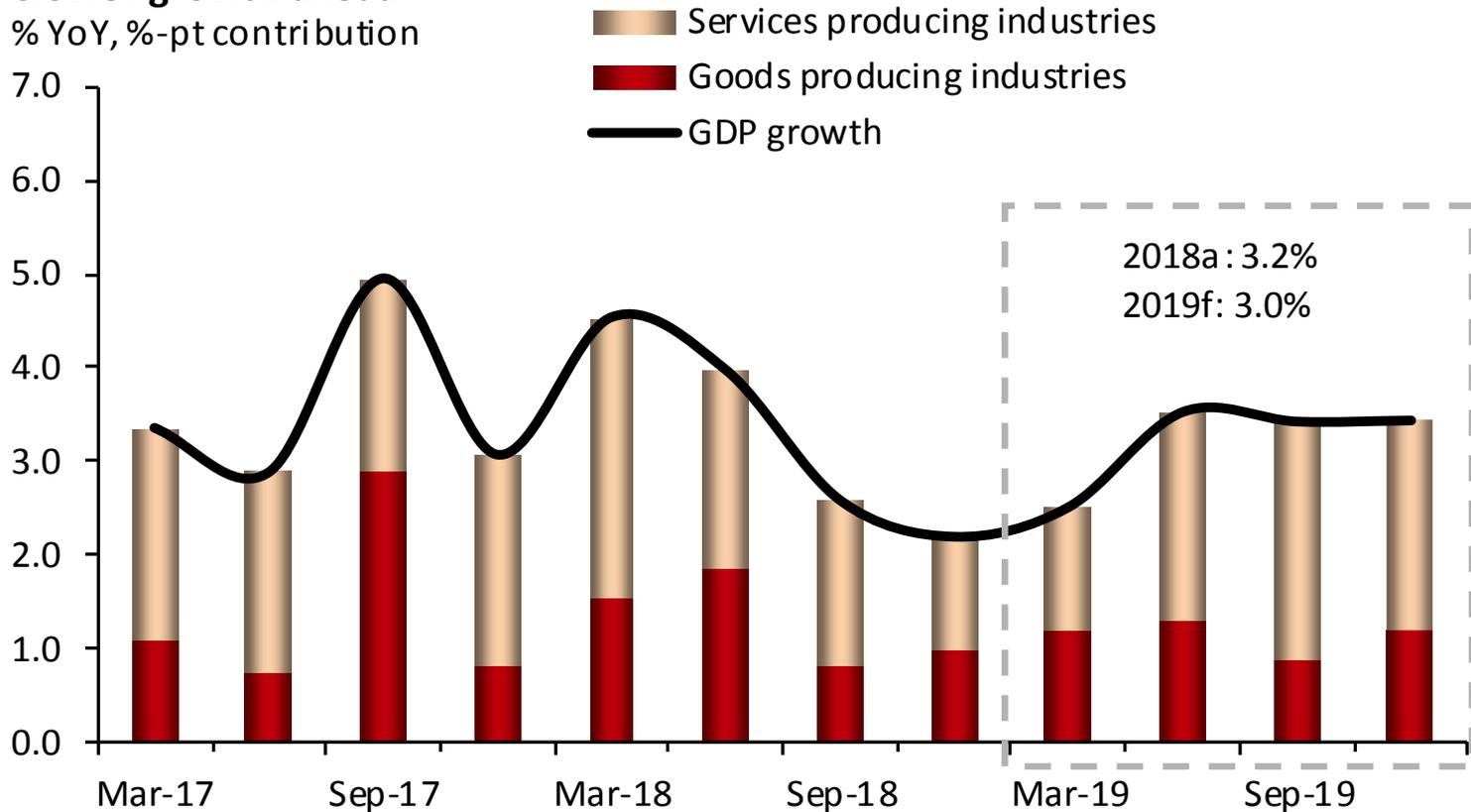


Slower growth ahead

- GDP growth to register 3.0% in 2019, and 3.2% in 2018

Slower growth ahead

% YoY, %-pt contribution

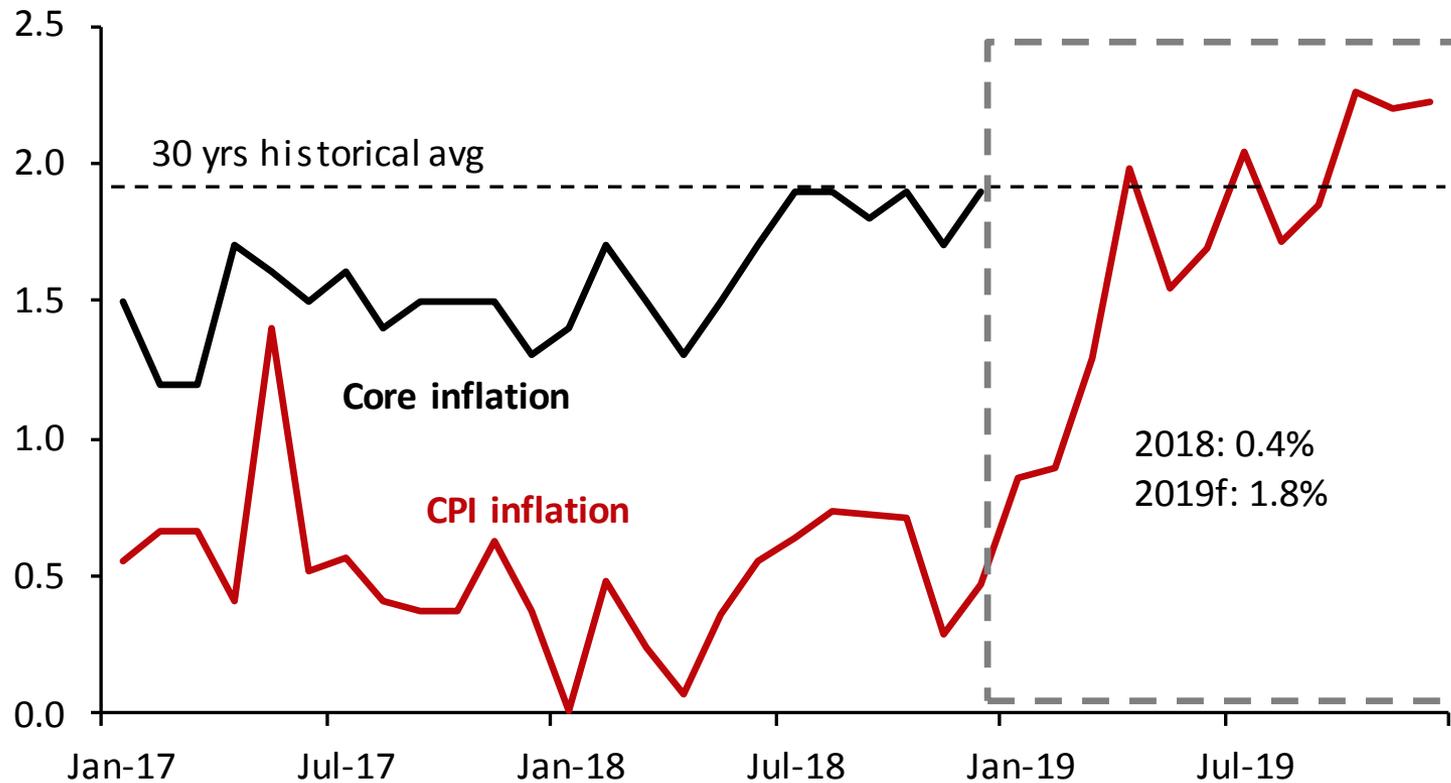


Inflation creeping up

- Inflation to rise to 1.8% in 2019

Inflation creeping up

% YoY



Budget 2019

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Budget 2019

- Overall budget deficit: SGD 3.5bn
- Primary deficit: SGD 5.4bn
- Govt expenditure up 1.6%

PIT: Personal Income Tax
 S&CC: Services and Conservancy Charges
 WIS: Workfare Income Supplement
 SEC: Special Employment Credit
 PSG: Productivity Solutions Grant
 EDG: Enterprise Development Grant
 ASP: Automation Support Package
 EFS: Enterprise Financing Scheme
 PCP: Professional Conversion Programme
 CSP: Career Support Programme
 MGP: Merdeka Generation Package
 CHAS: Community Health Assist Scheme
 LTCSF: Long Term Care Support Fund

Near term measures
 (e.g., Bicentennial Bonus – PIT rebate, CPF & Medisave top-up, Edusave; S&CC rebate, road tax rebate, WIS, SEC)

Companies
 Deepen capabilities and encourage internationalisation

Budget 2019

Singaporeans
 Promote inclusive growth and strengthen social support

Sustainability
 (Carbon tax, diesel excise duty hike, borrowing to fund infrastructure development)

Medium term structural measures
 (e.g., DRC reductions, PSG, EDG, SME Go Digital, ASP, EFS, Scale-up SG, SME Co-Investment fund, PCP, CSP, MGP, Enhanced CHAS, LTCSF)

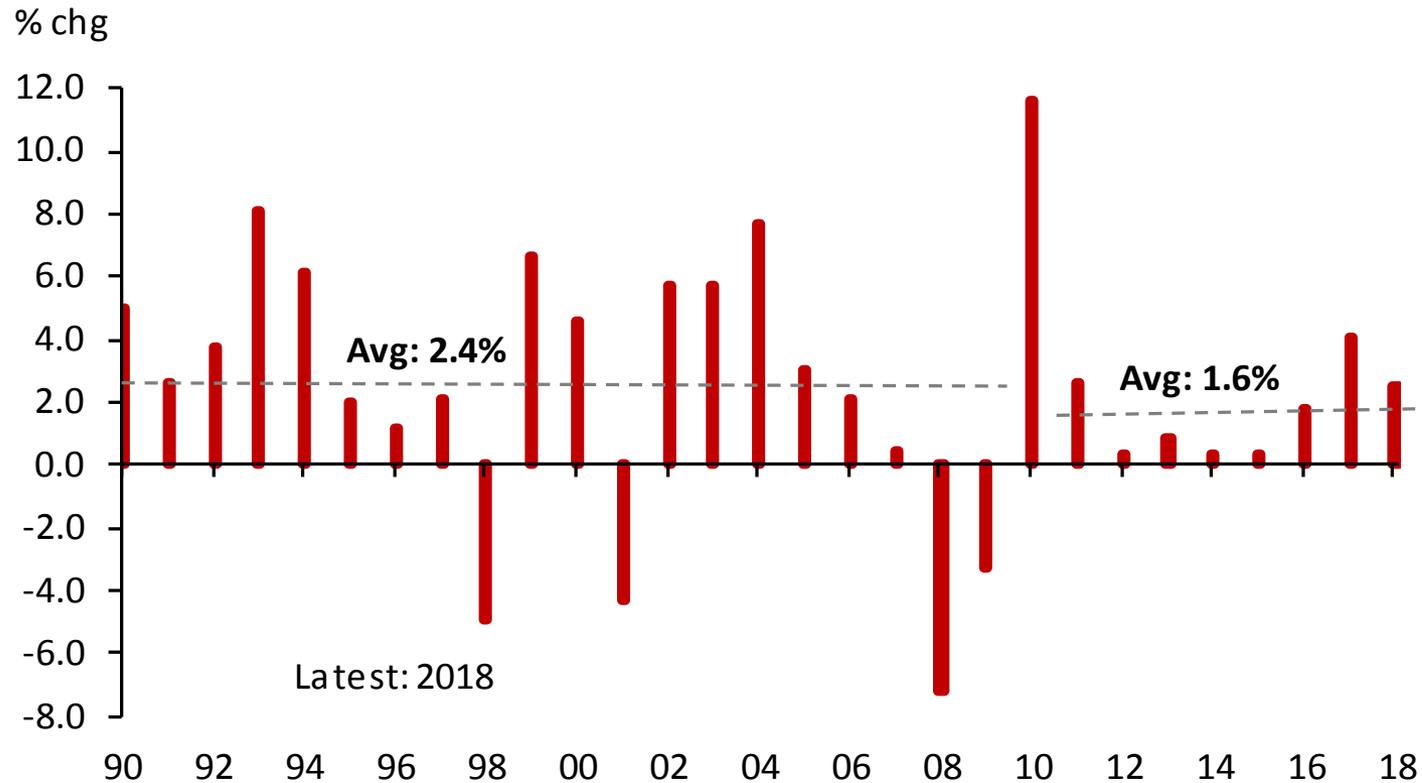
Is this an election budget?

Deepening enterprise capabilities

- **Double down on restructuring**
 - Instead of more new policies, many of the existing measures were extended or enhanced
 - e.g., Automation Support Package, Enterprise Development Grant, Productivity Solution Grant, SME Go Digital Programme
- **Enhance policy effectiveness**
 - Streamlining of the policies
 - e.g., Enterprise Financing Scheme (EFS)
 - Government to undertake higher share of the risk (from 50% to 70%)
 - More resources for trade associations (TACs)
- **Pain points**
 - Reductions in foreign workers Dependency Ratio Ceilings (DRCs)
 - Hike in diesel excise duty

Productivity growth still weak

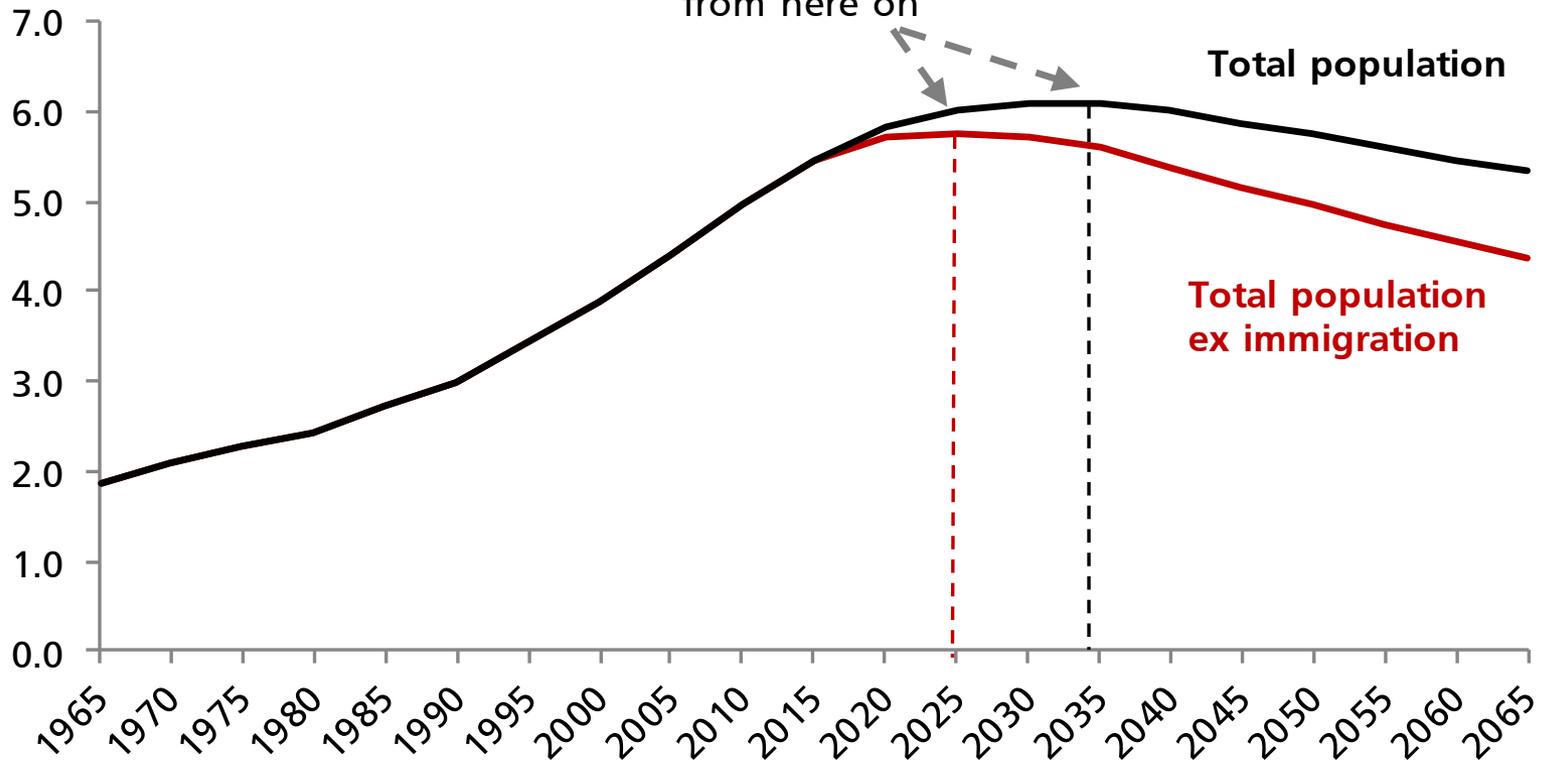
SG: Productivity growth still low



A rapidly aging population

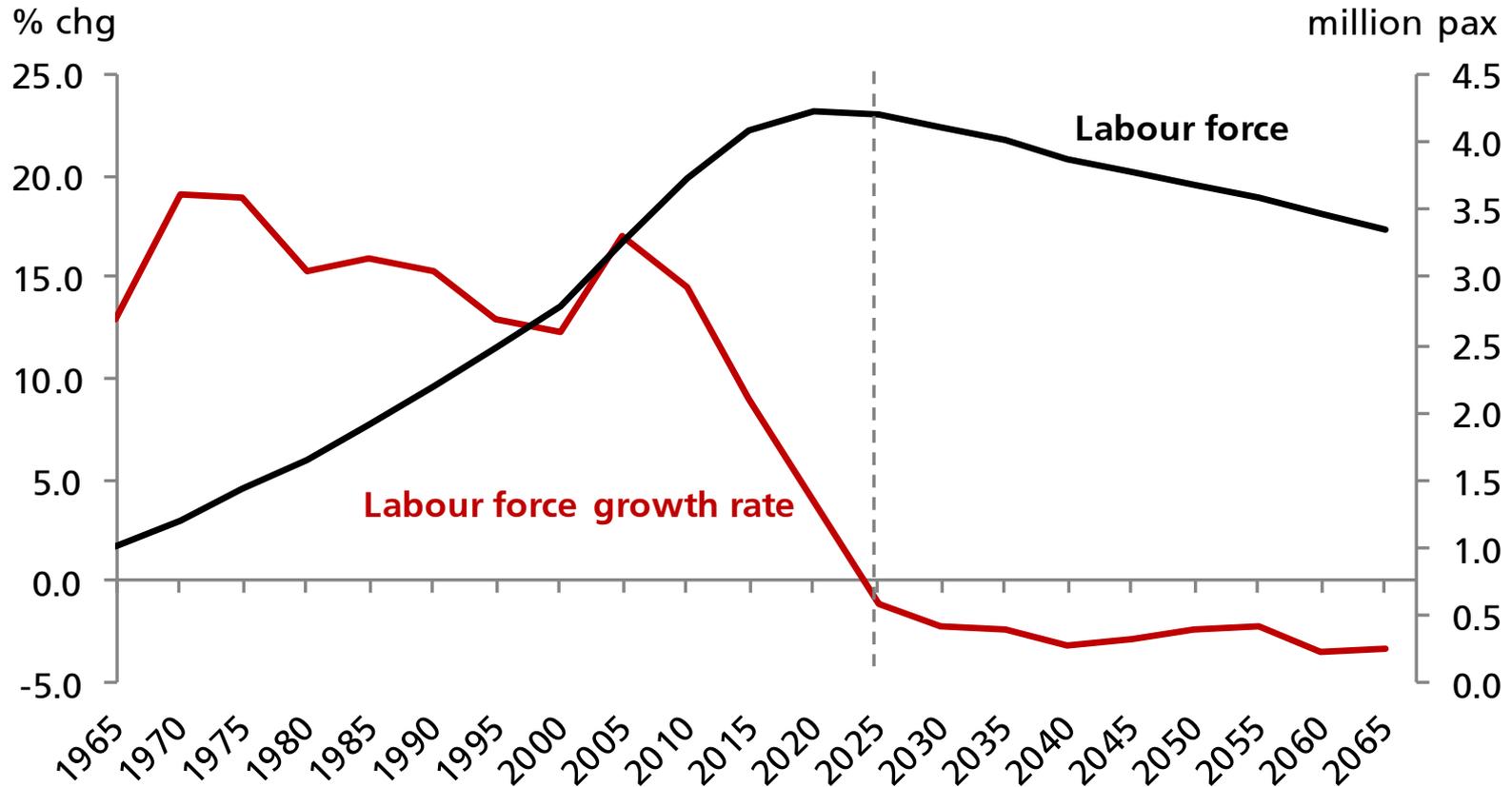
SG: An aging population

million pax



A shrinking workforce ...

SG: Workforce will shrink from 2025 onwards



Trade war ... a threat to the rules-based global trading system

- Tariff on US\$12.8bil of US imports takes effect on 1 July in retaliation to US tariffs on steel/aluminium



- 25% tariff on steel and 10% tariff on aluminium imports from China, Canada, Mexico and EU



- 10% tariff on US\$ 200bil worth of Chinese goods. The proposed increase to 25% is now on hold as a result of a 90 days trade truce.
- 25% tariff on US\$50bil worth of Chinese goods



- 25% tariff on €2.8bil worth of US imports effective 22 June in retaliation to US tariffs on steel/aluminium



- US\$241mil retaliatory tariff hike on 30 US products

- Tariff hikes on USD 60bn of US products at 5% and 10%.
- Retaliates with 25% tariff on US\$50bil worth of US imports effective 6 July that includes soybeans and electric vehicles
- Up to 25% tariffs on 128 US food imports, valued at up to US\$3bil, in retaliation to US tariffs on steel/aluminium

Trade dilution versus trade diversion



Diversification and regionalisation

Southeast Asia – Countries



Global Air Travel Hub

- Best Airport in the World - Skytrax World Airport Awards (2017)

Global Shipping Hub

- 2nd busiest port in the world – 30.9 TEU (2015)
- Total trade is 212% of GDP
- Near zero tariff regime

Global Financial Centre

- 3rd most competitive financial centre – Global Financial Centre Index (2016)
- Largest FX centre in Asia and 3rd in the world – daily volume >USD 500bn

Regional Integration

- ASEAN Chair in 2018, key driver of AEC and Asean FTA

Overcome barriers with Singapore's FTA

Singapore has an extensive network of over 20 FTAs

Implemented FTAs

- China-Singapore FTA (CSFTA)
- India-Singapore Comprehensive Economic Cooperation Agreement (CECA)
- Japan-Singapore Economic Partnership Agreement (JSEPA)
- Korea-Singapore FTA (KSFTA)
- NZ-Singapore Comprehensive Economic Partnership (ANZCEP)
- Panama-Singapore FTA (PSFTA)
- Peru-Singapore FTA (PeSFTA)
- Singapore-Australia FTA (SAFTA)
- Singapore-Costa Rica FTA (SCRFTA)
- Singapore-Jordan FTA (SJFTA)
- Sri Lanka-Singapore (SLSFTA)
- Turkey-Singapore FTA (TRSFTA)
- US-Singapore FTA (USSFTA)

Regional FTAs

- ASEAN-Australia-NZ FTA (AANZFTA)
- ASEAN-China FTA (ACFTA)
- ASEAN-India FTA (AIFTA)
- ASEAN-Korea FTA (AKFTA)
- ASEAN FTA (AFTA)
- EFTA-Singapore FTA (ESFTA)
- GCC-Singapore FTA (GSFTA)
- Trans-Pacific Strategic Economic Partnership (TPSEP)

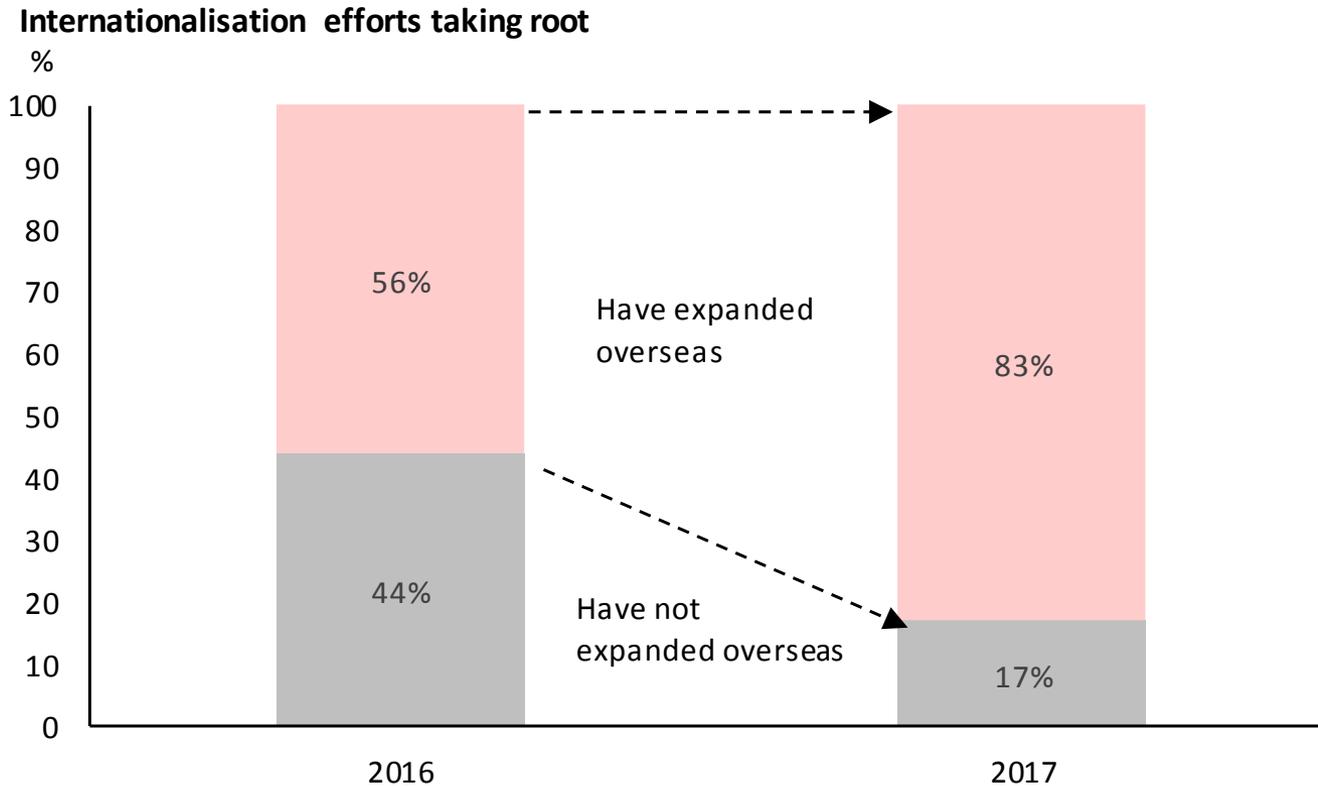
Concluded/signed FTAs

- EU-Singapore FTA (EUSFTA)
- Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

FTAs undergoing negotiation

- ASEAN-India (Services & Investment)
- ASEAN-Japan (Services & Investment)
- Eurasian Economic Union-Singapore FTA (EAEU)
- Pacific Alliance – Singapore FTA
- Regional Comprehensive Economic Partnership (RCEP)

Keen interest to regionalise



Source: National Business Survey, Singapore Business Federation

Strengthening social support

- **To mitigate against an aging population**

- Significant focus on health care
 - e.g., Merdeka Generation Package (SGD 6.1bn), Long Term Care Support Fund (SGD 5.1bn), Enhanced Community Health Assist Scheme (CHAS), Medisave and CPF top-ups
- Helping elderly workers
 - e.g., Special Employment Credit (SEC), higher payouts for older workers under the Workfare Income Supplement (WIS) scheme

- **Redistribute growth dividends**

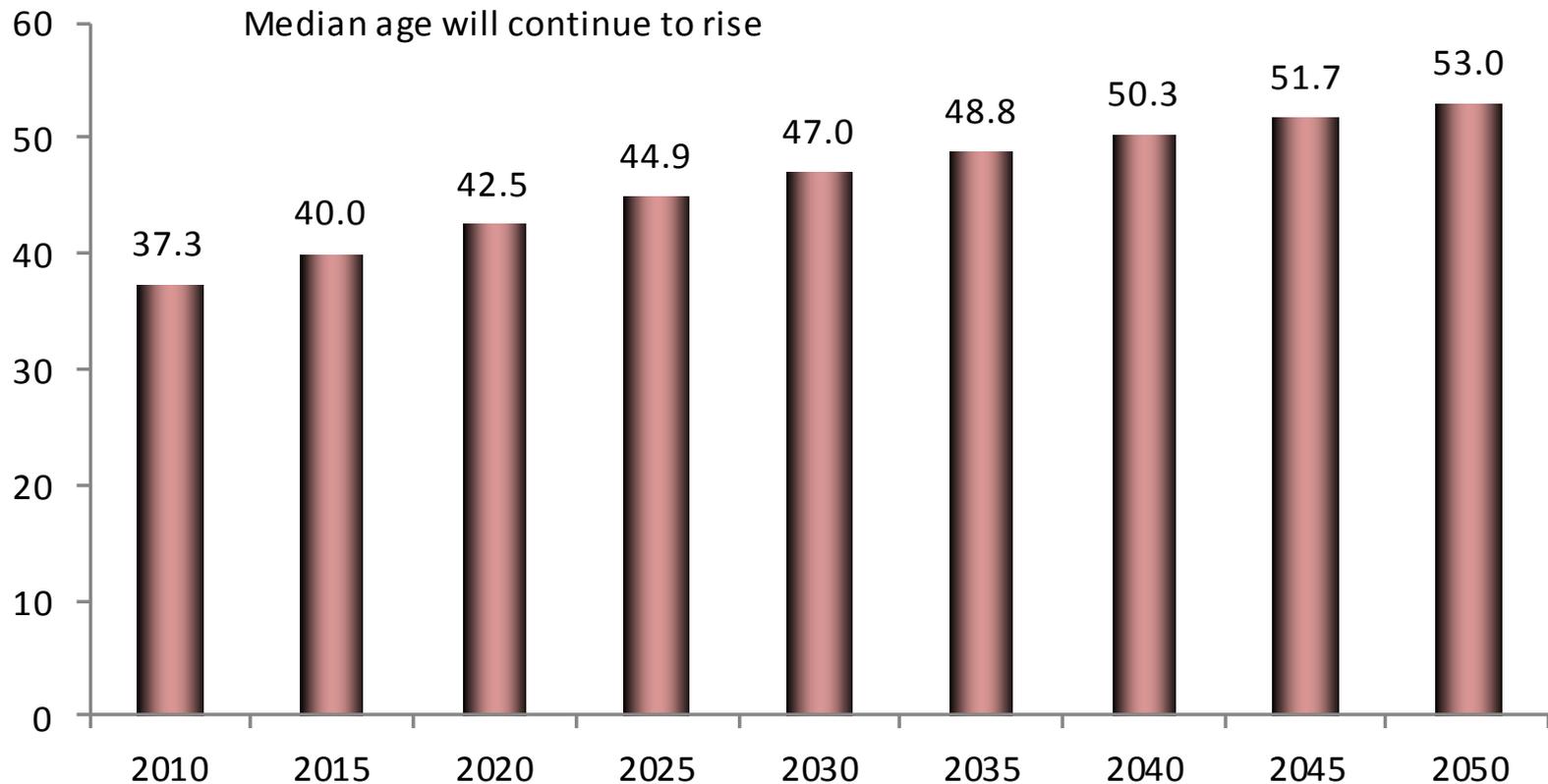
- Bicentennial Bonus (SGD 1.1bn)
 - GST vouchers, additional WIS payout, tax rebate. Edusave and CPF top-ups

- **Support for PMETs, the “newly vulnerable”**

- e.g., Enhanced Professional Conversion Programme (PCP), extension of Career Support Programme (CSP)

Rising median age

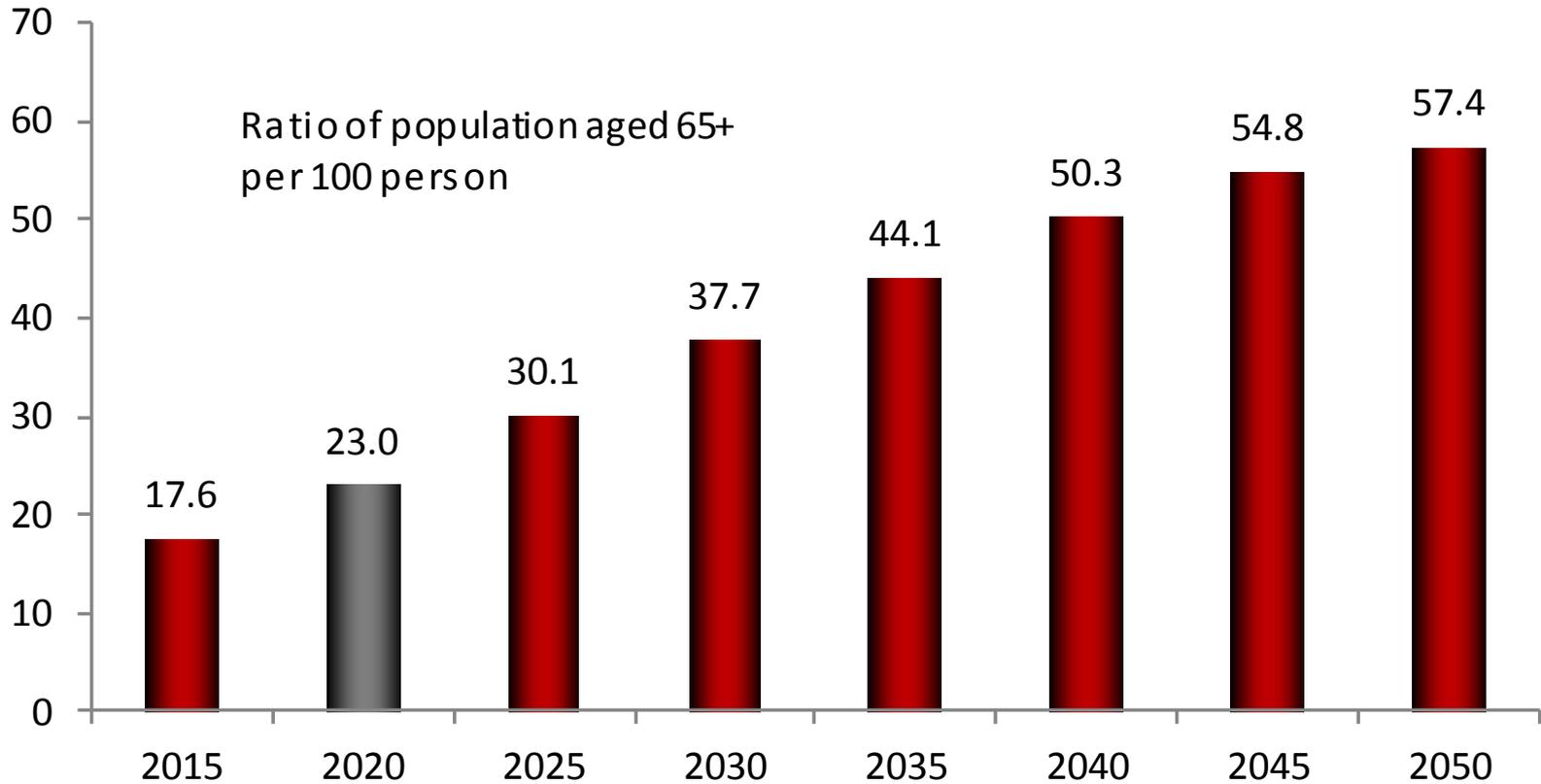
Population is aging
yrs old



Rising financial burden

Singapore's old age dependency ratio will keep rising

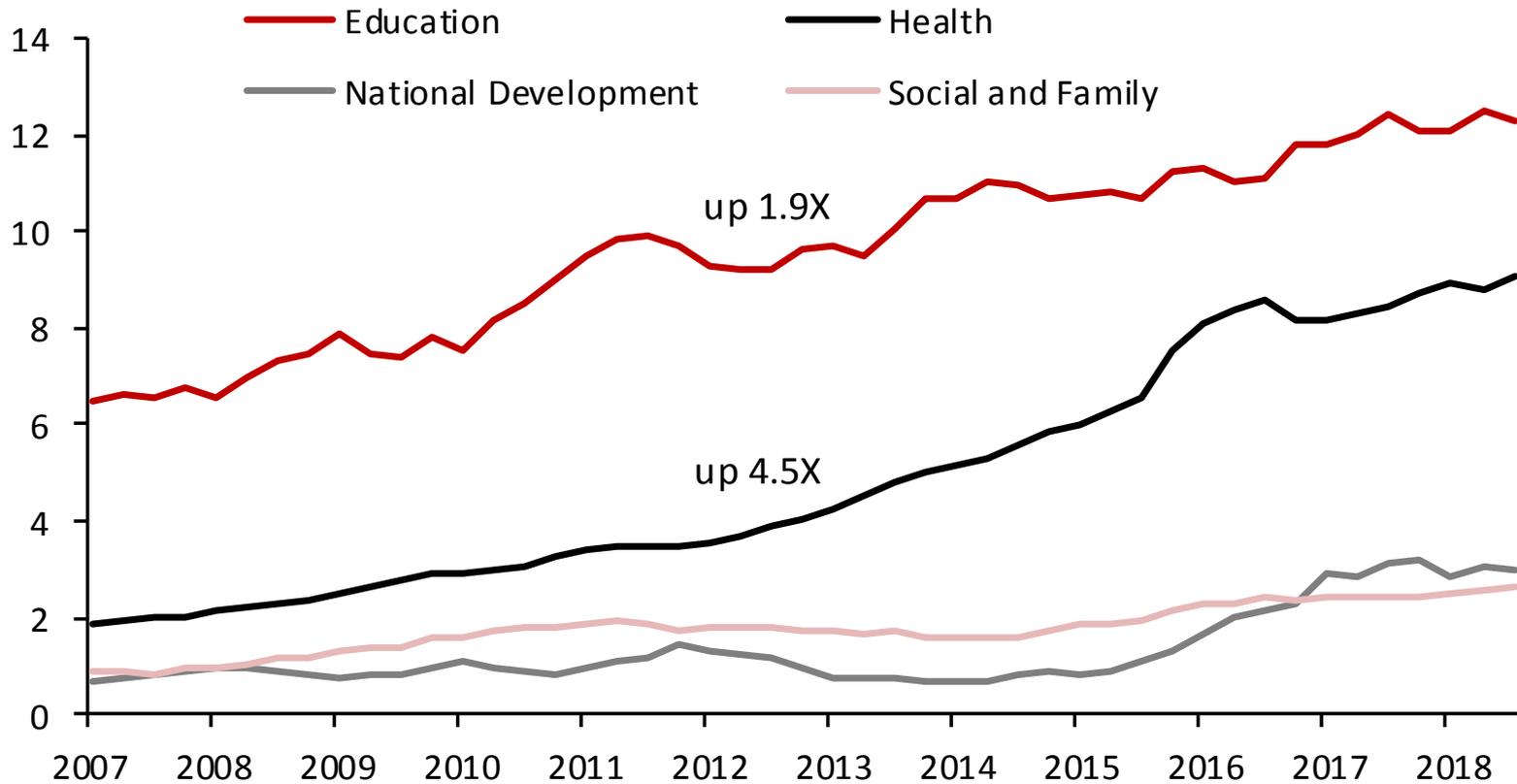
Ratio



Rising healthcare expenditure

Social expenditure (operational) rising

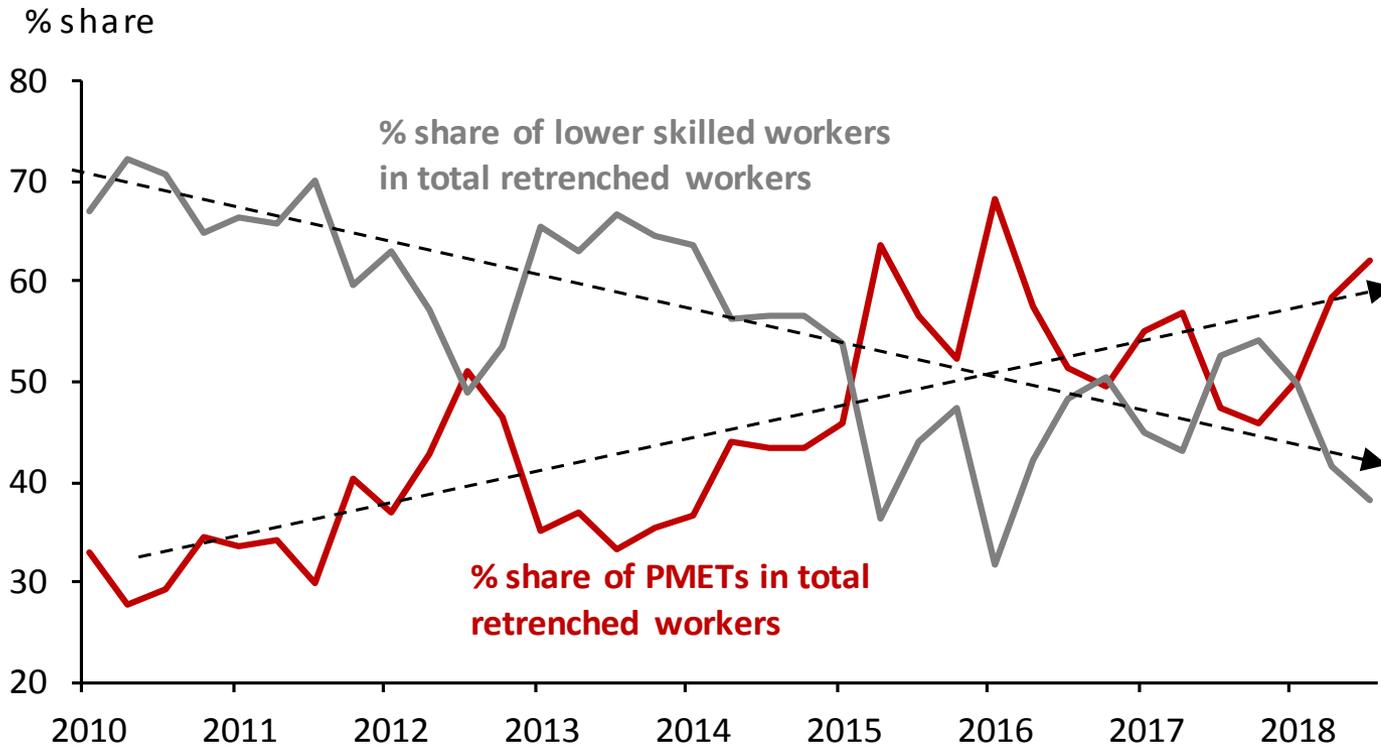
SGD bn



Sources: Department of Statistics, Singapore

PMETs – the “newly vulnerable”

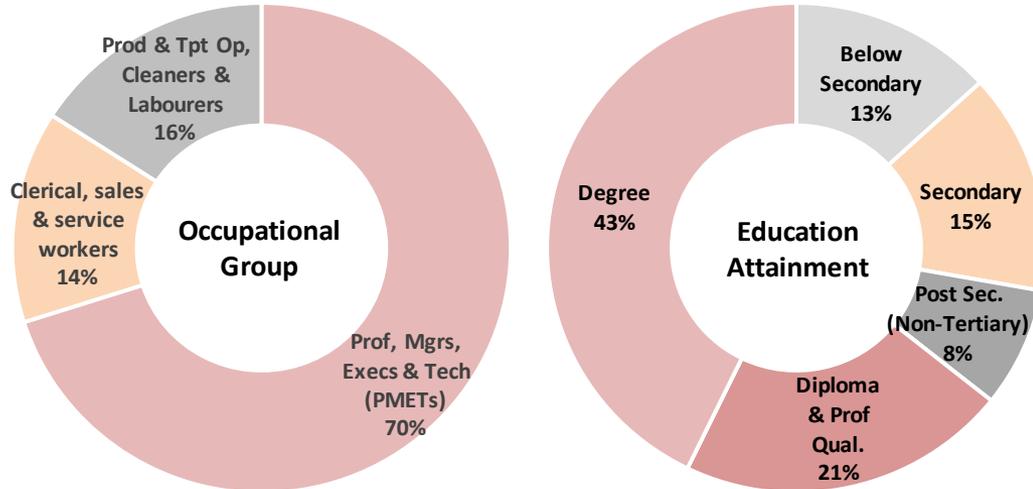
Rising share of PMETs amongst retrenched workers - A disconcerting trend



Source: Ministry of Manpower

The uncomfortable truth

Retrenchments by occupation and by education profile, 3Q18



Re-entry rate of retrenched residents (6 months post retrenchment)		
	2Q18	3Q18
Total	64.3	61.7
Occupational Group		
Prof, Mgrs, Execs & Tech (PMETs)	59.1	59.7
Clerical, sales & service workers	70.4	67.1
Prod & Tpt Op, Cleaners & Labourers	80.2	67.9
Education Attainment		
Below Secondary	72.4	63.5
Secondary	73.9	62.6
Post Secondary (Non-Tertiary)	64.0	64.8
Diploma & Professional Qualification	62.6	64.7
Degree	59.9	60.1

Source: Ministry of Manpower

Preserving fiscal prudence

Singapore's overall fiscal position

	Revised FY2018	Budgeted FY2019	Change over Revised FY2018	
	SGD bn	SGD bn	SGD bn	% change
Operating revenue	73.7	74.9	1.2	1.7
Less:				
Total expenditure	79.0	80.3	1.3	1.6
Operating expenditure	58.6	60.8	2.2	3.7
Developmental expenditure	20.4	19.5	-0.9	-4.4
Primary surplus/deficit	-5.3	-5.4		
Less:				
Special transfers	9.0	15.3	6.3	70.0
Special transfers excluding top-ups to endowment and trust funds	1.7	1.7		
Basic surplus/deficit	-7.0	-7.1		
Top-ups to endowment and trust	7.3	13.6		
Add:				
Net investment returns contribution	16.4	17.2	0.7	4.4
Overall budget surplus/deficit	2.1	-3.5		
Overall balance as % of GDP	0.4	0.7		

Is this an election budget?

Comparing Budget 2019 and 2015

	Revised FY2018	Budgeted FY2019	Revised FY2014	Budgeted FY2015
	SGD bn	SGD bn	SGD bn	SGD bn
Operating revenue	73.67	74.90	61.35	64.27
Less:				
Total expenditure	78.99	80.26	57.20	68.22
Primary surplus/deficit	(5.32)	(5.36)	4.15	(3.95)
Less:				
Special transfers	9.00	15.30	12.83	11.67
Special transfers excluding top-ups to endowment and trust funds	1.70	1.74	4.33	5.67
Basic surplus/deficit	(7.02)	(7.10)	(0.18)	(9.62)
Top-ups to endowment and trust funds	7.30	13.56	8.50	6.00
Add:				
Net investment returns contribution	16.44	17.17	8.55	8.94
Overall budget surplus/deficit	2.12	(3.49)	(0.13)	(6.67)

When is the next election?

Cabinet ministers to finish visiting every constituency by mid-2020



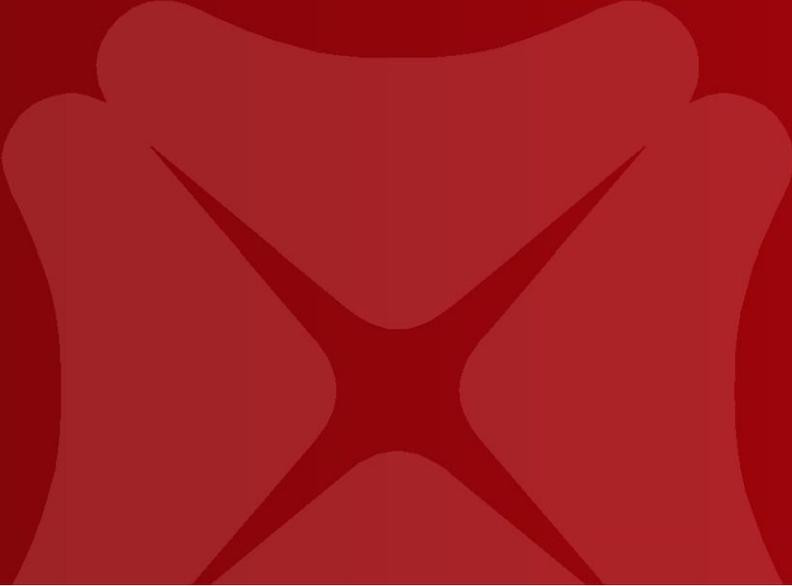
Education Minister Ong Ye Kung (right), accompanied by MPs Amrin Amin (in black), Baey Yam Keng (in red) and Sim Ann (in pink) during a visit to Sengkang Central on Feb 17, 2019. PHOTO: LIANHE ZAOBAO

SINGAPORE - Younger Cabinet ministers have completed one-third of the 90 visits they are making to all constituencies in Singapore by the middle of next year, as part of an effort to get a better sense of ground sentiment.

Mr Ong Ye Kung, who is coordinating the weekly visits which started last July, said on Sunday (Feb 17) that they are on schedule.

"We have done about 30; 60 more to go. If we work hard, maybe we can finish it in a year and three months."

Straits Times, 18 Feb 19



Thank you

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GDP & inflation forecasts

	GDP growth, % YoY				CPI inflation, % YoY, ave			
	2017	2018e	2019f	2020f	2017	2018e	2019f	2020f
China	6.9	6.6	6.2	6.0	1.6	2.1	2.3	2.3
Hong Kong	3.8	3.3	2.5	2.0	1.5	2.5	2.7	2.5
India*	7.1	6.7	7.1	7.4	4.5	3.6	4.0	4.2
Indonesia	5.1	5.2	5.2	5.1	3.8	3.2	3.6	3.6
Malaysia	5.9	4.7	4.5	4.2	3.8	1.0	2.5	1.6
Philippines**	6.7	6.3	6.5	6.4	2.9	5.2	3.9	3.8
Singapore	3.6	3.4	3.0	2.8	0.6	0.4	1.8	1.5
South Korea	3.1	2.7	2.6	2.4	1.9	1.5	1.7	1.6
Taiwan	3.1	2.6	1.9	1.8	0.6	1.4	1.0	1.0
Thailand	3.3	4.1	3.8	4.0	0.7	1.1	1.4	1.5
Vietnam	6.8	7.1	6.6	6.3	3.5	3.5	3.8	3.4
Eurozone	2.5	1.9	1.2	1.5	1.5	1.8	1.2	1.3
Japan	1.9	0.7	0.7	0.5	0.5	1.0	1.1	1.6
United States***	2.3	3.0	2.5	1.5	2.1	2.6	2.5	2.5

* refers to year ending March ** new CPI series *** eop for CPI inflation

Interest rate and FX forecasts

Policy interest rates, eop

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
China*	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
India	6.25	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Indonesia	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.00	3.00
Philippines	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
Singapore**	1.80	2.05	2.30	2.30	2.30	2.30	2.30	2.30
South Korea	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Taiwan	1.38	1.38	1.38	1.38	1.38	1.38	1.38	1.38
Thailand	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Vietnam***	6.25	6.25	6.25	6.25	6.00	5.75	5.75	5.75
Eurozone	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.00	0.00
United States	2.50	2.50	2.75	3.00	3.00	3.00	3.00	3.00

* 1-yr lending rate; ** 3M SOR; *** prime rate

Exchange rates, eop

	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
China	6.90	7.00	7.10	7.05	7.00	6.95	6.90	6.85
Hong Kong	7.85	7.85	7.85	7.84	7.83	7.82	7.81	7.80
India	72.0	73.0	74.0	73.5	73.0	72.5	72.0	71.5
Indonesia	14200	14600	14800	14700	14600	14500	14400	14300
Malaysia	4.10	4.20	4.30	4.25	4.20	4.15	4.10	4.05
Philippines	53.0	54.0	55.0	54.5	54.0	53.5	53.0	52.5
Singapore	1.38	1.40	1.42	1.41	1.40	1.39	1.38	1.37
South Korea	1140	1160	1180	1170	1160	1150	1140	1130
Thailand	32.0	33.0	34.0	33.5	33.0	32.5	32.0	31.5
Vietnam	23200	23300	23400	23350	23300	23250	23200	23150
Australia	0.70	0.68	0.66	0.67	0.68	0.69	0.70	0.71
Eurozone	1.10	1.08	1.06	1.07	1.08	1.09	1.10	1.11
Japan	111	113	115	114	113	112	111	110
United Kingdom	1.26	1.24	1.22	1.23	1.24	1.25	1.26	1.27

Australia, Eurozone and United Kingdom are direct quotes

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