Singapore's Unity Budget 2020:
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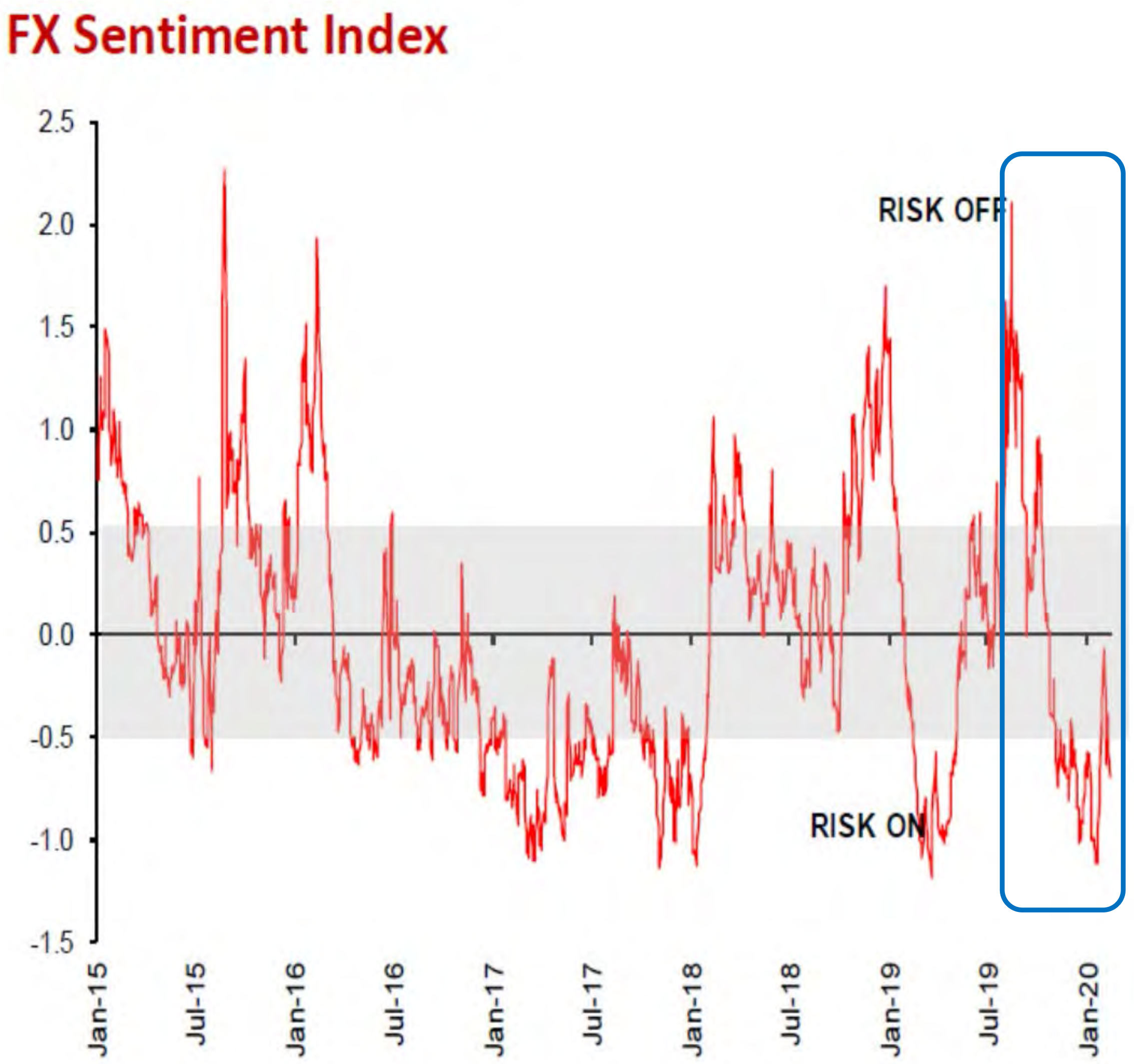
Diminishing tail risks in 2019, but off to a rocky start in 2020:



Source: Google images, OCBC

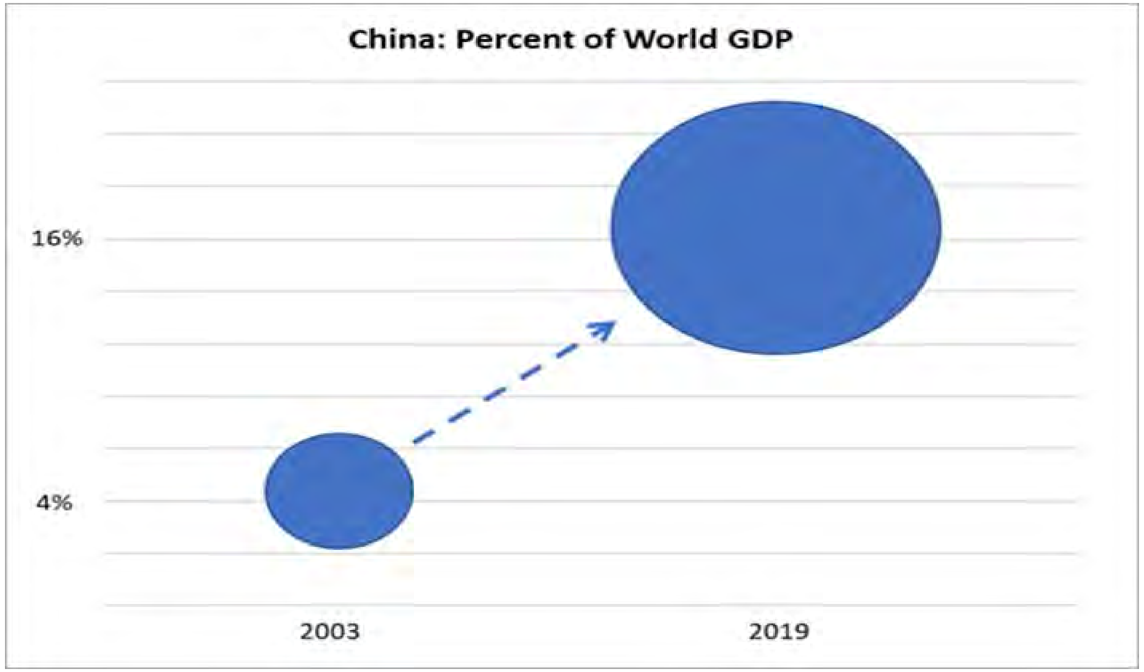
Lets focus on if the glass is half-empty or half-full?

1. **The bad:** Covid-2019.

2. **The silver lining:** central banks and governments are rushing to downgrade growth guidance, cut interest rates and push out fiscal stimulus. For Singapore, policy accommodation is also forthcoming.

When China sneezes, will the global economy catch a cold?

- China's economic size has risen from about 4.3% of global economy in 2003 to 16.3% in 2019.
- Meanwhile, Chinese tourists are estimated to have spent about US$277 billion overseas in 2018.
- Airline, hotel and tour cancellations are starting to hurt. Macau has announced its casinos will close for half a month. Hong Kong school closure will be extended till



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Source: IMF, UN, OCBC

When China sneezes, will the global economy catch a cold?

- **Is the glass half-empty or half-full?** Despite the initial delay, China has now reacted in an unprecedented way with greater transparency, city lockdowns and an extended Chinese New Year holiday, as well as cut both 7- and 14-day reverse repo rates and injected liquidity to support market sentiments. More easing measures are also anticipated.

- **China's GDP growth may slow to around 4% in 1Q20 and 5.5% for this year.** Note CNOOC has also invoked force majeure for some LNG import contracts. Apple has warned of supply chain delays.

Source: Google images, OCBC

2020 GDP growth downgrades are coming fast & furious:

- China, Hong Kong, Macau and Singapore are clearly seeing downside risk for at least 1Q20, if not 1H20.

FocusEconomics Consensus

Real GDP, annual variation in %

	2017	2018	2019	2020	2021
World	**3.4**	**3.2**	**2.7**	**2.7**	**2.9**
United States	2.4	2.9	2.3	1.7	1.8
Euro Area	2.7	1.9	1.1	1.0	1.3
Asia	**5.3**	**4.9**	**4.5**	**4.3**	**4.5**
Japan	2.2	0.3	0.9	0.4	0.8
Asia (ex Japan)	**6.2**	**6.0**	**5.3**	**5.3**	**5.3**
China	6.9	6.7	6.1	5.9	5.7
India	7.2	6.8	5.2	6.0	6.5
Asean	**5.2**	**5.0**	**4.4**	**4.5**	**4.8**
Brunei	1.3	0.1	2.5	2.9	3.4
Cambodia	7.0	7.5	6.9	6.7	6.6
Indonesia	5.1	5.2	5.0	5.1	5.2
Laos	6.9	6.2	6.2	6.4	6.4
Malaysia	5.7	4.7	4.5	4.4	4.5
Myanmar	5.8	6.4	6.8	6.8	6.8
Philippines	6.7	6.2	5.9	6.2	6.3
Singapore	3.7	3.1	0.7	1.5	2.1
Thailand	4.0	4.1	2.5	2.8	3.3
Vietnam	6.8	7.1	7.0	6.6	6.5

OCBC forecasts:

GDP growth (%)	Q1	Q2	Q3	Q4	Full Year 2020
Singapore	-0.6	0.8	1.6	1.9	1.0
China	4.1	5.4	6.0	6.3	5.5
Hong Kong	-4.1	-2.1	1.8	3.3	-0.2
Macau	-26.4	-2.4	6.3	8.0	-3.5
Malaysia	3.5	4.3	4.1	4.0	4.0
Indonesia	5.0	5.1	5.1	5.1	5.1

Singapore: GDP growth to take a hit in 1Q20, if not 1H20.

- The coronavirus outbreak is posing a clear downside risk to 2020 growth prospects. 1Q20 GDP growth may contract given the sombre mood prevailing after the government raised the DORSCON alert level from yellow to orange on 7 February. Given the uncertainty about when the coronavirus outbreak will peak and subside, but the risk of a protracted slump cannot be fully discounted at this juncture.

- The Singapore Tourism Board has warned that tourist arrivals and spending could fall by 25-30% this year and the impact is likely to be worse than the 2003 SARS pandemic. China accounts for about 20% of international visitor arrivals (versus 9% in 2003) or 3.6 million visitors in 2019. Singapore is currently losing an average of 18,000-20,000 international visitors a day due to travel restrictions.

GDP growth (% yoy)	Baseline (pre COVID-19)	Mild scenario	Severe scenario
1Q20 GDP	1.1%	-0.6%	-1.2%
Full-year 2020	1.5%	0.7%	0%

Source: OCBC

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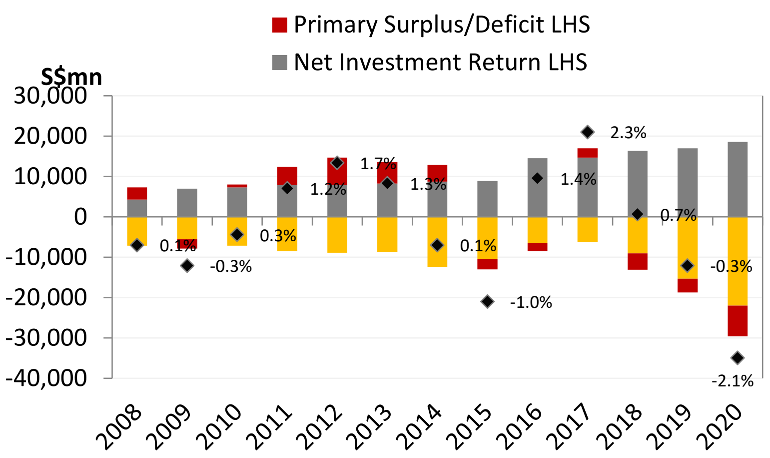
Unity Budget 2020: Record deficit for extraordinary circumstances

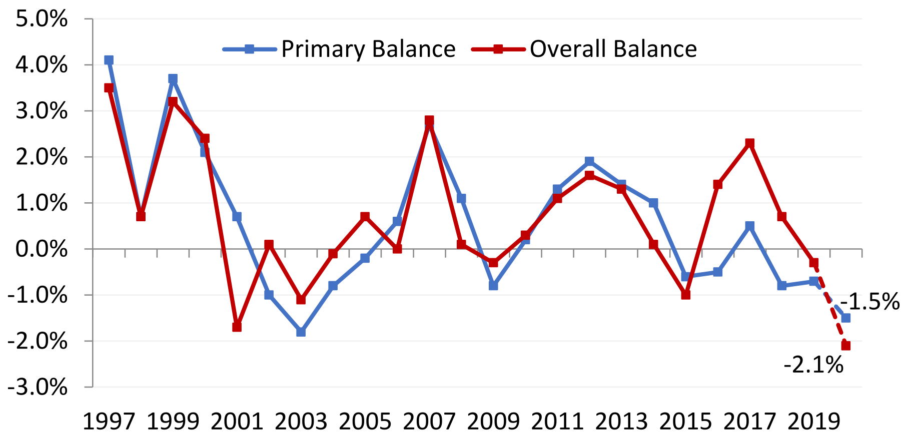
- **Budget 2020 plans for an overall balance deficit of $10.9bn (or 2.1% of GDP).** An expansionary budget was highly expected in light of the COVID-19 outbreak. The deficit is funded from $18.6bn surpluses accumulated in the current term of government. Even with the FY20 budget deficit estimate of $10.9bn, this still leaves $7.8bn to be transferred into reserves.

- **$6.4bn of economic measures were rolled out to spur short-term growth**, including a $800mn COVID-10 package, $4bn for industries (Stabilization & Support Package) and $1.6bn for households (Care & Support Package). For the medium-term, there is a $8.3bn economic transformation package.

Singapore Overall Fiscal Position Breakdown



Singapore Budget Balance as % of GDP



Source: MOF, CEIC, OCBC

Budget 2020 implications for corporates:

1. **Brace for further pain as the domestic economy may not have hit bottom yet**. Watch February-March data to reflect Covid-19 outbreak. Government forecast now stands at -0.5% to 1.5% yoy.
2. **Will the $10.9b deficit for 2020 materialize?** The planned 2019 deficit of $3.48b came in smaller at $1.65b (0.3% of GDP) despite muted growth of 0.7% yoy last year. Still uncertain about duration and severity of Covid-19 outbreak. Will it be a V-shaped recovery like SARs?
3. **No GST hike in 2021, but still 2% point increase is still forthcoming between 2022-2025**, albeit with a $6b GST Assurance Package that would give all Singaporean adults cash payouts between $700-1600 over five years (ensuring 5-10 years of offsets for additional GST expenses).
4. **Are the budget measures to assist businesses sufficient?** Depends on who you ask. My view is that the $1.3b Jobs Support Scheme that will benefit >1.9m local employees is generous. But some SMEs may have hoped for bigger and more extended help. The 8% wage subsidy only comes in July and may not come in time for some SMEs facing liquidity challenges. Moreover, we have to wait and see if commercial landlords will fully pass on the property tax rebates.
5. **There is a sting, albeit a modest one**, in the tightening of the S-Pass sub-dependency ratio ceilings which will be cut from 20% to 18% in January 2021 and to 15% in January 2023 for the construction, marine shipyard and process sectors. S-Pass sub-DRC for manufacturing will not be adjusted at this point.

Budget 2020 implications for corporates: continued

6. **Good balance between the immediate economic needs and medium-term structural needs**. Citing structural shifts such as the de-globalisation, technological bifurcation and an ageing population, $8.3 billion (which is 48% larger than the $5.6 billion set aside for the two support packages for firms and households) will be earmarked for enterprise transformation over the next three years. Take note of the SkillsFuture Enterprise Credit is targeted at SMEs to help defray 90% of out-of-pocket costs of transformation, job redesign and skills training, while the Enterprise Leadership for Transformation Programme will support business leaders of promising SMEs.

7. **Time to be proactive**: If employers hire local jobseekers aged 40 and above through a reskilling programme, the government will provide 20% salary support for six months capped at $6,000. In addition, there are the Senior Employment Credit which will take effect from 2021 will provide employers with wage offsets when they employ Singaporean workers aged 55 and above, as well as 50% CPF transition offset for 2021 when employer CPF contributions increase, and the Senior Worker Early Adopter Grant for enterprises that raise their own retirement and re-employment ages ahead of the legislated changes.

8. **The odds of a further monetary policy easing at the April MPS has risen**, with a potential reversion to a zero S$NEER appreciation path appearing increasingly likely if the Covid-19 outbreak persists. This follows earlier slope flattening in October 2019. Short-term domestic interest rates also remain soft.

Source: OCBC

Thank You