

# High inflation: A tale of two cities?



Headline inflation in Singapore breached 6.7 per cent in June, and looks set to continue rising at least till the year end. According to Deputy Prime Minister

Lawrence Wong, inflation may well settle at a higher rate, especially since geopolitical uncertainty, persistent supply chain difficulties and rising costs of the green transition do not look to be dissipating any time in the near future.

But we experience inflation in different ways. Two headlines this month highlight this. A DBS study examined 1.2 million customer bank balances. It found that two-fifths of the customers experienced income gains that failed to keep up with inflation. Put another

way, their real incomes have diminished since the start of the year. For the lowest income group earning less than \$2,500 a month, expenses have grown almost six times faster than their salaries.

In contrast, an HSBC study projects that by 2030, 13.4 per cent of adults in Singapore will be worth more than US\$1 million (S\$1.39 million), a higher proportion than in any other economy included in the study, and up from 7.5 per cent in 2021. Whilst Department of Statistics data shows inflation is now affecting high-income households to a greater extent – driven by the rising prices of cars and petrol – these are problems of a different magnitude than those faced by low-income Singaporeans.

Truth be told, there isn't such a thing as a single rate of inflation felt by households. This is because overall prices always comprise a basket of goods and services, and the basket consumed by one house-

hold isn't going to be the same as that by another. To paraphrase Tolstoy: Every unhappy family is unhappy about soaring costs in their own way.

Unfortunately, lower-income families have felt the effects of inflation more keenly. Poorer households tend to spend a greater share of their incomes on items such as food and utilities. And as anyone who has gone to the market or looked at their electricity bill lately will tell you, price rises in these categories have been among the most acute.

But those lucky enough to have sufficient savings to invest have (in some cases) been able to tap higher interest rates offered by the market to shore up their finances. Demand for high-end property and the continued economic recovery have helped many investment assets keep pace with inflation. Such discrepancies further exacerbate the gap between the wealthy and the rest.

What about those who have neither jobs with wages that rise to accommodate higher prices, nor investments that pay higher rates of return? For Singaporeans who survive on fixed incomes – retirees or those reliant on state financial assistance – the erosion of their limited savings and payouts has been even more painful, since they are reliant on one-off adjustments, such as slightly higher ComCare payouts, to cope. And these adjustments quickly fall behind high inflation.

What can be done? Nobody needs an economist to tell them that adjusting their spending away from things that have increased in price the most is the most practical way of coping with inflation. But this will not help families choose between keeping their lights on and putting food on the table. Our views turn, therefore, to policy choices.

Top of mind is the scheduled goods and services tax (GST) increase, starting in 2023. A GST hike with properly enhanced GST vouchers could, while contributing to headline inflation, nonetheless

have minimal effect on actual consumption by lower-to-middle-income families, and would provide financial headroom for targeted government assistance with living costs. However, as some have argued, pressing on with a GST hike – at a time where the economy remains fragile, and other potential sources of revenue are available – may also be unnecessary.

While I lean towards a GST increase being ultimately progressive (with strong offsets for low-income consumers), the decision is a difficult one.

Where Central Provident Fund (CPF) and retirement adequacy is concerned, if inflation is persistent, significant policy adjustments may be necessary. The Retirement Sum will, mechanically, rise based on inflation in the expected costs of retirement. But the funds will come from workers' contributions. This will also make no difference to the already and near-retired.

If the Government has been able to skilfully deploy CPF funds and our reserves into inflation-beating returns, it should consider

whether the CPF interest rate peg can be revised to provide CPF account holders with a guaranteed reasonable real rate of return, at least on retirement funds, and not a nominal rate eroded by inflation.

The Government has said it is closely monitoring the effects of inflation and is prepared to introduce more support measures. It is also sensible that the Government does not commit to eliminating all impacts of inflation, as this would prevent the adjustments to behaviour necessary to cost-effectively address inflation. At the same time, this may be cold comfort to the low-income and the elderly, who are likely to experience a significant decline in living standards without more assistance.

The inflation crisis is an opportunity to further rebalance our tax and social policies in favour of being more progressive, so that those with the least among us are protected the most.

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