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SINGAPORE'S BUDGET: A LITTLE BIT FOR EVERYONE

Finance Minister Heng Swee Keat had to shape the 2020 budget under difficult circumstances. The COVID-19 crisis was a black swan event that no one could have foreseen. It forced policy makers to sharply rethink their basic assumptions for the budget and refocus fiscal priorities at the very last minute. This had to be done when there was still little clarity on how bad the economic impact of the virus outbreak could get. Yet, while tackling the very real threat to short term growth posed by the COVID-19 virus, policy makers had to still keep an eye on the longer term structural challenges which could arguably be a greater source of downside risks for Singapore.

The budget that came out of this challenging background achieved a good balance among the conflicting objectives that a budget has to reconcile. It offered significant support for the economy to tackle the cyclical challenges while also providing solace to the more vulnerable segments of the populace in areas such as coping with cost of living challenges. But at the same time it also took account of long term challenges by expanding the government's range of strategies to sustain growth while tackling climate change and the increasingly hostile trade environment for small and open economies.

In general, two big themes emerged from the budget statement.

First, the government is buffering the economy against the fallout from COVID-19 but saving its ammunition in case things turn out much worse.

While there is uncertainty about how badly – and for how long - economic prospects will be damaged by the COVID-19 crisis, it is likely that the downside risks could be very serious. Thus, the most important mission this budget had to execute was to act as a shock absorber, preventing the initial disturbance created by the virus from amplifying through the economy, while still keeping the powder dry in case things get horribly worse.

Typically, this shock amplification comes from two sources – distressed companies laying off workers, thus causing demand to drop sharply and/or financial difficulties in firms causing banks to cut back on lending to affected sectors, depriving tottering firms of the credit they desperately need. Policy incentives need to be put in place therefore so that troubled firms do not retrench workers. Similarly, incentives need to be given to financial institutions to ensure that credit keeps flowing.

The budget focused on the first objective rather than the second, possibly because financing is not yet a danger. The measures on jobs and wages will certainly help in this respect as will the targeted measures to help particular sectors.

- **Jobs Support Scheme will prevent large-scale retrenchments**: The government will offset 8% of the wage bill of a company, up to a generous monthly cap of SGD3,600 for three months. This will help prevent a downward spiral of job losses feeding into a demand decline which then causes even more distressed firms to lay off even more workers. The existing Wage Credit Scheme will also be enhanced to channel more support to companies that raise wages of their staff. These packages will involve additional spending of SGD2.4bn.

- **Targeted help for five sectors**, namely, the tourism, aviation, retail, food services, and point-to-point transport services sectors. The support comprises a range of measures such as a Temporary Bridging Loan Programme, corporate and property tax rebates, rebates on aircraft landing and parking charges, assistance to ground handling agents, and rental rebates for shops and cargo agents at Changi Airport. These measures are confined to very specific niches of the economy rather casting a wide net.

- **Expanded measures to help households:** The budget also offers a plethora of measures to ease the burden on households as they struggle to meet the costs of education, housing and healthcare. A Care and Support Package was also unveiled which will involve additional spending of about SGD1.6 billion mostly for low-income families including one-off cash payouts, grocery vouchers and help with paying utilities and conservancy fees. There is also an Enhanced Housing Grant under which first-time home buyers could enjoy up to SGD160,000 in housing grants. Moreover, the government will raise the monthly household income ceilings for subsidised flats and executive condominiums to SGD14,000 and SGD16,000 respectively, benefiting around 16,000 households.

- **The overall stimulatory impact is more expansionary than recent budgets:** The projected overall fiscal deficit of SGD10.9bn is hugely more than the actual deficit of SGD1.7bn in 2019. But we all know that "budget deficits" in Singapore tend to turn out to be much smaller or even turn into a surplus in Singapore. However, even after making adjustments for the actual amounts that are likely to be spent and the actual revenues that the government is likely to achieve, our best guess is that the budget will produce a stronger stimulus impact on the economy than last year's budget.

Could more have been done? All these schemes are welcome and will go some way to bolster the economy's ability to absorb the COVID-19 shock. But they are also characterised by caution and many are of limited scale and duration, thus reducing their impact. For example:

- Could the budget have added even more stimulus than above? The massive surplus of SGD18.7bn built up over the current government's term gave the government a huge amount of fiscal space to do more. It could be that the government decided that it was prudent to wait and see how badly things turned out. If the COVID-19 crisis deepened, the government could offer a supplementary budget to provide more support.

- The corporate tax rebate will be welcomed by businessmen but it is not clear how much help it will be to an economy on the brink of recession. Firms with low profits or which were making losses last year are the ones which are most at risk in this virus crisis – but they will not benefit much from this.

- Similarly, the rental rebates are only for those tenants operating under government agencies such as JTC, HDB, SLA and so on. It is not clear how big an impact this will have. NEA will provide a full month of rental waiver to stallholders in NEA-managed hawker centres and markets – but the downturn is likely to last longer than that. It would have been nice if government could use its moral suasion to get private sector landlords to offer substantial rebates.

Overall, however, while we would have preferred more firepower to have been used, the budget seems to have done enough to absorb the shock of the COVID-19 crisis and prevent a downward spiral in the economy.

Second, the government continues to facilitate the structural transformation that Singapore needs.

The Finance Minister spoke at length about the transformation of the economy. In essence, the budget was used to expand on, and strengthen, the government's existing strategy involving partnerships with other trading partners, deepening the capabilities of Singapore enterprises and further developing the skills of our workforce. There are many issues involved here but we will restrict our comments to just a few areas:

Reducing dependence on foreign workers

The government is continuing with its approach of calibrated pressure on firms to reduce their dependence on imported foreign labour, especially the lower-skilled variety. The government will reduce the S Pass sub-dependency ratio ceilings of the Construction, Marine Shipyard, and Process sectors from 20% to 15%. This will certainly not boost the government's popularity with these business segments but it has to be done. As the budget statement noted, the number of S Pass holders in these sectors has been growing by 3.8% per annum in the last two years. This is neither sustainable nor desirable. The signal has also been sent to firms in other sectors that the DRCs in their areas will also be reduced over time and they should therefore find ways to improve productivity and be less dependent on ever more foreign workers.

The over-dependence on cheaper foreign workers has been, in our view, bad for our economy in two ways. First, by giving them the easy option of hiring from abroad, it has deterred companies from moving up the value-added ladder – and that has limited the productivity growth we need to generate higher wages for our own citizen work force. Second, since the reduced wage growth is more evident for lower-income workers, this easy access to foreign workers may have inadvertently contributed to widening income inequality.

Stepping up Singapore's response to climate change

The Finance Minister was right in urging Singaporeans to turn "our carbon constraints into a strength, just like how we have turned our water vulnerabilities into an area of strength and opportunity". He outlined the government's vision to phase out internal combustion engine vehicles by 2040, when all vehicles will have to run on cleaner energy. Towards this end, the budget offered three measures - enhance incentives to encourage the adoption of cleaner and more environmentally friendly vehicles; expanding the availability of public charging infrastructure for electric vehicles; and the government's commitment to progressively procure and use cleaner vehicles.

Concluding thoughts – the budget in the context of overall government policy

Going beyond the immediate issues of the budget, the budget statement raises three further points:

An immediate consideration is monetary policy: As we approach the April monetary policy meeting, how does the fiscal boost affect the Monetary Authority of Singapore's monetary policy decisions? With the economy likely to be still facing downside risks in April and with inflation risks absent, it may be appropriate to shift from its current modestly tight monetary stance to a neutral one. That would mean that rather than the current mild appreciation of the trade-weighted exchange rate, the currency's trajectory would be flat.

A second consideration is that a budget statement is a useful platform for the government to signal its thinking on important issues to citizens. This year's signal was that Singapore had to look beyond short term issues such as COVID-19 and face up to the immense challenges in "a new decade – one marked by tectonic shifts in our operating environment, and major uncertainties" as Heng put it, referring to the risks of de-globalisation and a technologically bifurcated world but also the opportunities offered by the shift in global economic weight towards Asia and rapid technological progress. The question that we keep asking ourselves is whether the government's approach, repeated in the budget statement, of deepening partnerships with other trading partners, strengthening the capabilities of local enterprises and further developing the skills of our workforce is sufficient?

- There are some initial successes such as the burst of fintech and related entrepreneurial activity; the success of the Economic Development Board in bringing sizeable high-value manufacturing and associated activities to Singapore; and Singapore's enhanced attractiveness as a global heart of commerce.

- But while these successes will help maintain economic dynamism, more needs to be done to address other challenges – the ageing demographic profile of our society, widening income and wealth inequality, housing affordability and retirement adequacy. Despite some laudable government help to address these, they remain a challenge.

- In an age when globalisation is at risk and there is growing trade aggression on the part of some of the big powers, Singapore needs to engage better with its hinterland. Yet, there is no clear strategy in this critical area.

Finally, the COVID-19 crisis has reminded us that governments need to be more transparent and offer more information to the public. If there had been more transparency in Wuhan, the spread of this new virus could have been better contained. We in Singapore need to learn some lessons from this: getting good data from the government to properly analyse the economy remains a challenge. The budget is an example – we do not know the actual cash flow from net investment income, for example, which makes it difficult to calculate the true fiscal stance of the budget. Another example - we are told repeatedly that a GST rate increase is necessary but there are no projections of revenues and expenditures to substantiate that. It really is time Singapore got this right.

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