Publication: Invest, pp 79-82
Date: February / March 2009
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A Big 'Hong Bao', But Impact Remains To Be Seen

By Jason Lee

INVEST speaks to market watchers for their reactions to the massive $20.5 billion Resilience Package that was recently unveiled by Finance Minister Tharman Shanmugaratnam on January 22.

Budget 2009 has generally been hailed as a bold budget that includes several innovative measures aimed at helping companies stay afloat amid the current economic turmoil. However, some observers are quick to caution against placing too much optimism over the impact of several initiatives aimed at boosting both businesses as well as the employment market.

Take for instance the $4.5 billion Jobs Credit Scheme, an initiative which will provide financial relief to employers in the form of a 12 per cent cash grant on the first $2,500 of the salaries of each staff on the Central Provident Fund (CPF) payroll. To a certain extent, such a scheme will generally help to preserve jobs although it remains to be seen if it will indeed provide a significant boost to the employment rate in Singapore.

JOBS CREDIT SCHEME: LIMITED IMPACT IN SAVING JOBS

While the Jobs Credit Scheme will help companies to get cash in hand and cut costs, economist Selena Ling reckons it may only sway retrenchment decisions at the fringe. "A company may not keep workers if the business is unviable, or if the employee is unproductive, just to get the $300 per month as the cost of employing the worker is probably significantly higher," says Ms Ling, Head, Treasury Research & Strategy, OCBC Bank. "The other limitation is that if a foreign company HQ decides to shut a plant/operation here for instance, the Jobs Credit probably will not affect the overall scheme of things. Also, it may tilt the balance between foreign and local workers," she adds.

While Mr Inderjit Singh, Member-of-Parliament for Ang Mo Kio GRC, believes the Jobs Credit Scheme will be useful for "larger companies who may now scale down less", he notes that it will be "of limited value for companies where demand has dropped significantly, as they will still not be able to cut cash burn significantly."

Even as he hails the scheme as "a concerted attempt to save jobs", Mr Eugene Tan, Assistant Professor of Law at Singapore Management University's School of Law, notes that "there's a limit to which you can cut costs without retrenching." In view of Singapore's reliance on the global economy, Mr Tan reckons that the Budget may not be able to save "a significant number of jobs".

The impact of the scheme might also be limited in certain industries, some observers say. "Based on conversations with my friends and business associates, I believe that some banks may continue to lay off workers if more bad news come out of the woodwork," says Ms Sulian Tan-Wijaya, Senior Director, Retail / Lifestyle, Savills (Singapore) Pte Ltd.

Echoing similar sentiments, Qian Hu Corporation's Managing Director Kenny Yap says of industries which are badly hit by the declining global demand: "If the companies in these sectors need to lay off jobs, Singaporean workers will face the same fate as foreign workers – regardless of whether there is a Jobs Credit Scheme."

INCREASING GOVERNMENT'S COMPONENT OF RISK SHARING: WILL THE BANKS BITE?

Besides efforts to preserve jobs during the current downturn, the Government is also committed to ensuring that viable companies continue to have access to credit. Hence, more than one quarter ($5.8 billion) of the Budget has been allocated to key initiatives aimed at stimulating bank lending amid the global credit crunch. Such efforts include enhancements to some of the existing loan schemes as well as the introduction of a new Special Risk-Sharing Initiative (SRI) that includes new risk-sharing schemes for trade financing.

But amid the failures and near-collapses of several leading financial institutions around the world over the past year, some are doubtful that these measures will be effective in persuading local banks and financial institutions – which have since tightened credit controls – to continue lending to companies, especially SMEs.

"While I can understand why the Government is sticking to tried and tested methods to lend money through the financial institutions, we must be mindful that the banks and FIs are all facing restructuring issues and will not go back to being aggressive lenders even if the Government takes a greater share of the risk," says Mr Singh.

Hence, the question arises: Could, and should, the Government take a more 'active' role in these loan schemes?

Several industry watchers certainly think so. "If the banks are still not willing to offer loans after the introduction of these initiatives, the Government should lend directly to the businesses," says Mr Yap, who is suggesting that the Government establish a national bank for two years to provide loans directly to those who genuinely need the money.

"There is a case for the Government being more actively or even directly involved in lending," says Mr Singh, who is also the Chairman of the Government Parliamentary Committee for Finance and Trade and Industry.

"In our early days when the banking system did not work in Singapore, we had a development bank to help finance companies. Today our financial system also doesn't seem to work. We may have to go back to basics again," reckons Mr Singh, who also suggests that Singapore establish a "corporate rescue task force" which will help the government decide which companies are worth helping.

But beyond such loan schemes, the greater value to these companies would be to help them gain access to markets so as to add to their declining demand, says Mr Singh. "More than before, we need direct involvement by the Government agencies to effectively tap new markets. I also think the Government can also tweak their procurement policies to give more business to SMEs. This will be fastest way to boost demand for many companies," he adds.

OTHER FORMS OF ASSISTANCE WHICH WILL COME IN HANDY

While market watchers whom INVEST spoke to have generally given the thumbs-up to the Resilience Package, could some of the Budget initiatives have been made more relevant and useful to the targeted groups?

For instance, while the 40 per cent property tax rebate for industrial and commercial properties will certainly benefit the landlords (typically the large corporations), there is little guarantee that they will pass on these savings to their tenants (typically the ordinary men-in-the-street).

"I do agree that the 40 per cent property tax rebate – while it seems good – will not result in the desired outcome. We need a persuasion or even an edict form the Government that the savings be passed on," says Mr Singh. "Instead of property tax rebate, we could have given rental coupons to tenants, [which can] be encashed by the landlords from the government," he suggests.

Observers also reckon there are other initiatives which could help the nation overcome the current challenges.

One such initiative is a cut in GST, a move which "would have benefitted everyone", says Mr Singh. "I am very disappointed that a GST cut was not implemented as I feel this would have had the greatest impact for almost everyone and every company struggling with the still high cost of living and high cost of business."

Sharing similar sentiments, Ms Tan-Wijaya notes that a reduction in GST is not only something shoppers keep pushing for, but it is also on the wish-list of the retailers. Amid speculation that off-Budget measures may be announced later this year, Ms Tan-Wijaya – who has held several retail-related portfolios during her career to date – hopes to see adjustments to the GST rate which will "breathe more life into the retail sector".

Besides lowering the GST rate, "a cut in government charges would have gone a long way," says Mr Singh, who notes that a reduction in foreign maid levies for one to two years, reducing Electronic Road Pricing (ERP) charges and transport costs are some of the measures which would "clearly be felt by everyone".

SHOPPING VOUCHERS: A BOOST IN CONSUMPTION OR A TRANSIENT 'FEEL-GOOD' EFFECT?

At the same time, the distribution of shopping vouchers – similar to what Taiwan had introduced recently – also remains on the wish list of some Singaporeans, even though others are cynical over such a scheme.

Among those in favour of issuing shopping vouchers to boost domestic spending is Ms Tan-Wijaya. "Considering that many retailers have reported a significant slowdown in sales, giving out shopping vouchers would have been a direct boost to the retail sector. Every little voucher would have added up," says Ms Tan-Wijaya. "Maybe the Government

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Mr Inderjit Singh, Member of Parliament & Chairman of the Government Parliamentary Committee for Finance and Trade and Industry

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Ms Sulian Tan-Wijaya, Senior Director, Retail / Lifestyle, Savills (Singapore) Pte Ltd

can consider vouchers for groceries which everyone can benefit from," she suggests.

Expressing his disappointment over the non-introduction of shopping vouchers, Qian Hu's Mr Yap argues: "Gifts' certificates will force people to consume and although the benefit might be temporary, what we are tackling right now is immediate and temporary too."

Others such as academic Mr Tan however caution against "artificially boosting consumer demand". Says Mr Tan: "Shopping vouchers only create a transient "feel-good" effect. They do not provide sustained confidence and there comes a point where such strategies become an exercise in futility for they draw down the public coffers without being able to boost the domestic economy. We are too small a domestic economy to be able to self-generate and self-sustain our economy."

Mr Singh also does not seem to favour the distribution of shopping coupons. Instead, a GST cut will have far-reaching effects in triggering cost reduction and, to some extent, help to boost consumption, he reckons. "I would rather give people cost savings and leave them to decide whether they want to spend the extra cash saved than to encourage spending with coupons when we should be delivering a message of prudence in difficult times," Mr Singh says.

WISH LISTS IN ANTICIPATION OF OFF-BUDGET MEASURES

Despite having unveiled an unprecedented Budget which has led to the Government dipping into its past reserves for the first time, observers expect some off-Budget measures to be announced later this year.

"Yes, I think the Government will have to come back with off-budget measures as the whole economic landscape plays out. As we get a clearer picture of where things are heading and as corporate failures settle to a manageable rate and as companies know how they need to restructure, the Government can come in with the appropriate help measures," says Mr Singh, adding that measures to cut costs further and a GST cut would be at the top of his wish list.

For Mr Yap, who has expressed disappointment that the Government did not lower the upper personal tax rate to be in line with corporate tax rate during Budget 2009, his wish list includes the introduction of shopping vouchers and the reduction in personal income tax rate.

Should the Government indeed introduce off-Budget measures later in the year, Mr Tan hopes that it will use the opportunity to build an integrated social safety net. "In a global recession, people lose their jobs more often than not through no fault of their own. Who is to help families in distress in these unusual times? The Government has to step in. It should not fear that the safety net would be abused. We have been stringent and will continue to be so. But we need to emphasize the Government's social compact with the people," says Mr Tan.

Sharing similar concerns, Ms Tan-Wijaya says: "Depending on the performance of our economy and job security situation later this year, the Government could consider tweaking some of the Budget initiatives to help those most in need to weather the current crisis." Besides hoping for a GST cut and more income tax rebates to spur consumer spending, Ms Tan-Wijaya also hopes that the Government will assist low income families so that they would not have to suffer from job losses. ■

"This global crisis will see a reshuffling of the deck. Some countries will move up, while others falter and fall behind. We will do everything we need to ensure that Singapore emerges stronger and more competitive, and we open up space against the rest of the field."

— **Mr Tharman Shanmugaratnam**
Finance Minister

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A PRO-BUSINESS OR PRO-PEOPLE BUDGET?

With a series of measures aimed at helping companies ride out the economic crisis, many Singaporeans may inevitably perceive Budget 2009 as solely being 'pro-business', and perhaps as a Budget that has 'neglected' the ordinary man-in-the-street.

However, observers reckon such pro-business initiatives will ultimately benefit the ordinary Singaporeans.

"We often forget that the pro-business thrust ultimately is also about the Budget being pro- ordinary Singaporean. Certainly, the Government is hoping that businesses will exercise their social responsibility and pass on the benefits to their stakeholders. It's about everyone chipping in," says Mr Eugene Tan, Assistant Professor of Law at Singapore Management University's School of Law.

"I think the budget did strike the right balance between business and people. Even the Jobs Credit Scheme is targeted at the people, not companies. If not done, companies would have shed more people and those retrenched will be worse off. By helping companies retain employees, we are really targeting the people," says Member-of-Parliament Inderjit Singh.

Says economist Selena Ling from OCBC Bank: "I think the Government has chosen companies as the priority along the principle of 'cut costs to save jobs, rather than cut jobs to save costs'. The thinking is that if one has a job, at least there is regular income which is better than trying to supplement a case of zero income."

Sharing similar sentiments, both Qian Hu's Mr Kenny Yap and Savills Singapore's Ms Sulian Tan-Wijaya are optimistic that the $4.5 billion Jobs Credit Scheme will benefit workers who might otherwise be retrenched.

THEIR THOUGHTS ON BUDGET 09

The $20.5 billion budget did come as a surprise as I did not expect the Government to plan on a large expenditure ... What the Finance Minister did do was to strike an even balance between short term issues and the longer term goals of making Singapore more competitive for the future. This is where I feel we could perhaps do more for the shorter term without worrying too much about losing competitiveness in the longer term because the rest of the world is in worse position than Singapore and the measures announced will not be of top priority for most companies and investors anyway.

Mr Inderjit Singh, Member-of-Parliament & Chairman of the Government Parliamentary Committee for Finance and Trade and Industry

'Innovative' for the Jobs Credit scheme; 'calibrated' for its measured response to pre-empt and, where it's not possible, to mitigate the effects of the global economic downturn; and 'empathetic' for its proposed draw-down of Singapore's past reserves to help Singaporeans and businesses cope with the downturn.

Mr Eugene Tan, Assistant Professor of Law, School of Law, Singapore Management University

I was pleasantly surprised by some of the initiatives, especially the funding for SMEs. It will be a great boost to entrepreneurship in Singapore, not just during the crisis but in the long run. The income tax rebate was a nice surprise too, although I wish they raised the cap a bit more, as many high income earners have been or will be hit by this economic crisis too.

Ms Sulian Tan-Wijaya, Senior Director, Retail / Lifestyle, Savills (Singapore) Pte Ltd

The $20.5 billion resilience package reveals a prompt and appropriate fiscal policy response to meet the needs of the businesses and Singaporeans ... This is a 'hong bao' budget for businesses, covering comprehensive aspects including tax, cost reduction, financing and cash in the hands of businesses through innovative measures like jobs credit scheme to preserve jobs.

Ms Selena Ling, Head, Treasury Research & Strategy, OCBC Bank

I am a bit disappointed at the small amount of personal tax rebate and the Government did not lower the upper personal tax rate to be in line with corporate tax rate ... However I have to say the job credit is very creative and innovative!

Mr Kenny Yap, Managing Director of Qian Hu Corporation