

# Budget Speech 2009

## (H) SINGAPORE'S FISCAL ADVANTAGE

H.1. This is not a normal Budget. It is a not even a normal countercyclical Budget.

H.2. The economic decline that we are seeing globally is the most severe and widespread that has been seen in the last 60 years. It has yet to bottom out. There remains considerable uncertainty as to when the major economies will recover, and no assurance that 2010 will be better than 2009.

H.3. Singapore, highly exposed to the world, is going through the most serious downturn that we have experienced since independence. The Resilience Package, totalling \$20.5 billion, is the largest the Government has undertaken in response to an economic downturn. It includes extraordinary measures to prevent a more severe loss of jobs and lasting damage to our economy. Depending on how deep and long the recession is, we are prepared to do more.

H.4. The Resilience Package aims first and foremost to save jobs, to the maximum extent possible in the recession. It will also provide direct support for Singaporeans, on top of the measures to help keep their jobs. It will strengthen our workers' skills and capabilities and the competitiveness of our businesses, so that we are ready to seize opportunities in the recovery. Further, the Package allows us to press ahead with investments in a first-class infrastructure for a global city that will be known for its liveability, and the best possible upbringing for the young and care for the old.

### ***Prudent fiscal policies have given us critical resources***

H.5. Singapore's advantage in this global crisis is that we have the resources to respond to the immediate needs of our businesses and households, while not compromising our focus on long-term initiatives. We can address our short-term needs without crowding out the investments needed for our future.

H.6. We have the resources to do this because we have for many years rigorously adhered to a prudent fiscal policy, spending within our means, maintaining a stable base of revenues, and building up a nest egg of reserves for contingencies.

H.7. We have restructured our revenues over the last two years by raising the GST and amending the framework for spending out of Net Investment Returns (NIR).

H.8. The GST has allowed us to put in place major social supports. It has enabled the Government to introduce Workfare, which provides a top-up to the wages of lower income workers on a continual basis. It also allows us to move ahead with significantly higher healthcare expenditures, including increased support for the low income and better care for the aged. In the current downturn, the GST has also given us the revenue to provide additional benefits to Singapore households, and especially for low and middle income families.

H.9. The new NIR framework has also strengthened our resources. The Constitutional amendments which we made last October, allow us to tap on more of the returns on the investment of our reserves. We now have an enhanced and steady stream of income which enables us to keep building for the future even in difficult years. We are pressing ahead with improvements in education, enhancing our competitiveness through innovation and R&D, and reinvigorating our infrastructure.

*No need to borrow*

H.10. The GST and NIR have therefore given us a stable revenue base that allows us to respond to this crisis both with significant immediate relief to households and businesses as well as to reduce taxes for the longer term and make investments in Singapore's future.

H.11. However, the Resilience Package also contains temporary extraordinary measures which are not part of a normal countercyclical Budget - the Jobs Credit for all businesses and Special Risk-Sharing Initiative. These extraordinary measures will add to our deficit this year and should be separately funded. There are two ways of doing so - either by borrowing or by relying on our accumulated savings.

H.12. Other governments are having to finance the major packages they are undertaking in this crisis by borrowing. They will have to raise revenues later in order to repay the borrowings. The markets are already making estimates of the amount of future tax increases or spending cuts that they will need to make in order to repay borrowings. In some instances, the new borrowings have also put at risk the governments' sovereign credit ratings – especially as the new debts come on top of substantial previous borrowings used to fund past deficits. Spain, Greece and Russia have just seen recent downgrades in their credit ratings, while Portugal and Taiwan have been "placed on negative outlook". In the UK, the bond markets have recently pushed up the government's borrowing costs because of concerns over its increased borrowings to fund its response to the crisis.

H.13. Unlike most countries, we do not borrow to fund the government budget. Our borrowings in the Singapore Government Securities market serve only to develop our capital markets and to provide a safe investment vehicle for the CPF Board. We will likewise not have

to borrow to fund our response to the crisis. We will not have to burden either current or future generations with the need to repay our spending in this Package.

*Judicious use of past reserves to fund extraordinary measures*

H.14. The Government has sufficient savings built up during this term of government to fund the measures we are taking and the resulting budget deficit. Nevertheless, we have decided instead to fund the two extraordinary measures within the Resilience Package from our past reserves.

H.15. We have substantial reserves for Singapore, well in excess of our liabilities. They are a valuable asset for us in responding to this unprecedented crisis.

H.16. In view of the extraordinary circumstances, which require a commensurate response, the Government has sought the President's approval to draw on past reserves to fund these two measures now, rather than wait to exhaust the savings of the current government. Tapping on past reserves now gives us the resources that we need to deal decisively with the current economic crisis and also ensures that we have all the resources we need to respond to the considerable uncertainties that lie ahead. It will allow us full flexibility to respond as the situation requires, and to pre-empt the severe consequences that this crisis could have for our economy and society.

H.17. The total cost to the Budget of the two extraordinary measures that we will fund from past reserves - namely, the Jobs Credit, and the Special Risk-Sharing Initiative for bank lending<sup>7</sup> - will amount to \$4.9 billion (comprising \$1.1 billion in FY2008 and \$3.8 billion in FY2009).

H.18. The Government has made the case to the President and the Council of Presidential Advisers (CPA) for this cost of \$4.9 billion to be funded from the past reserves, on grounds that the circumstances we face are exceptional, and the extraordinary measures that the Government is undertaking are temporary and will not be built into longer-term government programmes. The President has given his in-principle approval for this draw of \$4.9 billion from past reserves. The President's assent to the Supply Bill will be obtained after Parliament has passed the Bill.

H.19. This is the first time we have sought the President's approval for an actual draw on past reserves since the Constitutional framework for protection of reserves was instituted in 1991. We had earlier sought the President's approval in October 2008, when the Government moved to guarantee all bank deposits in Singapore, for the guarantee to be backed by past reserves. However, this remains a potential draw, and the probability of an actual government payout remains low.

*Need for prudent fiscal rules*

H.20. It is only by practising fiscal prudence in normal times that we are able, in rare circumstances like today's crisis, to draw on our past reserves. By consistently accumulating savings over the years, we are able to respond in a major crisis with the confidence that we are not storing up problems further down the road.

H.21. We must ensure therefore that we keep to the practice in normal times of running a balanced budget over the course of a government's term of office. We should also continue to avoid waste in government spending, and make sure we derive value in every use in taxpayers' dollars. When we have large surpluses, like in FY2007, we make sure we save some for rainy days.

H.22. Further, the Government must only draw on past reserves in exceptional circumstances, and be able to satisfy the President of why it is critical to do so. The present situation clearly justifies a draw on past reserves. The current global financial and economic crisis is the type of severe contingency that our reserves have been accumulated for. The two major measures that will be funded from past reserves are of a temporary nature, and will not be built into ongoing government programmes.

H.23. We must therefore stay committed to our practice of prudence and living within our means. It is how we will safeguard and enhance our reserves as a key strategic asset of Singapore.


## ***Budget position***

H.24. The Resilience Package will result in a large deficit in our Budget position for both FY2008 and FY2009.

H.25. As some of the measures of the Resilience Package will be implemented in March 2009, the overall position for FY2008 will now show an increased deficit of \$2.2 billion or 0.8% of GDP.

H.26. For FY2009, we expect the Basic Balance to be in deficit of 6.0% of GDP. The Basic Balance excludes transfers to endowment and trust funds, as well as the contributions from Net Investment Returns. This is much larger than the deficit in the Basic Balance for the previous year<sup>8</sup> - difference of more than 5% of GDP - which means that we are imparting a large fiscal boost to the economy this year.

H.27. In total, we are making transfers to endowment and trust funds, including pre-committed transfers, of \$1.4 billion in FY2009<sup>9</sup>. Contributions from Net Investment Returns will be significantly higher in FY2009, at \$7.7 billion, following the changes to the Constitution to effect the revised framework on spending from investment returns. (This compares with a Net Investment Income Contribution of \$3.7 billion in FY2008, which was itself higher than the average over the previous five years.)

H.28. Our revised Overall Budget Balance for FY2009 will therefore be a deficit of \$8.7 billion which is 3.5% of GDP. (Details are in Annex E ( 74kb).)

<sup>7</sup> The new Bridging Loan Programme, new Loan Insurance Scheme and new Trade Credit Insurance Programme.

<sup>8</sup> The Basic Balance for FY2008 was in deficit by \$1.1b or 0.4% of GDP, before taking into account measures taken in Budget 2009 (which are to be implemented in March 2009)

<sup>9</sup> Lifelong Learning Endowment Fund (\$100m), Medical Endowment Fund (\$100m), ElderCare Fund (\$100m), National Research Fund (\$400m), CPF Deferment and Voluntary Deferment Bonus (\$450m), LIFElong Income (LIFE) Bonus (\$260m)