

# Budget Speech 2009

## *Keeping Jobs, Building for the Future*

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## A. ECONOMIC PERFORMANCE AND OUTLOOK

Mr Speaker, Sir, I beg to move that this Parliament approve the financial policy of the Government for the Financial Year (FY) from 1 April 2009 to 31 March 2010.

### Global crisis and recession

A.1. This Budget comes at a time of grave economic crisis. Growth in the global economy as well as in Singapore last year fell well below what was expected. We are now in the midst of a simultaneous recession in all major regions of the world. Prospects for 2009 remain highly uncertain.

A.2. Economic activity has taken a sharp turn downwards in the last six months in the advanced economies. GDP is estimated to have fallen by about 5% in the US in the fourth quarter of 2008. The Euro area fared as badly, while the contraction in Japan is estimated to have been even larger. Global manufacturing production fell by almost 20% in the same quarter (on an annualised basis), while global trade and cargo volumes have also slumped.

A.3. Asia has not been decoupled from the decline in the advanced economies. Across the region, industrial production and exports have fallen dramatically in recent months. In China, industrial production towards the end of 2008 is estimated to have been below half the levels seen at the start of the year. Taiwan's exports contracted by 42% in December and Singapore's by 21%<sup>1</sup>. Korea's latest export data shows a decline of over 30%.

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<sup>1</sup> Singapore's data refers to non-oil domestic exports.

A.4. The result is that jobs are at risk everywhere. Job losses in the US in Dec 2008 were the worst in 60 years, and unemployment has risen to 7.2%. In the Euro area, it has risen to 7.8% and in Japan to 3.9%, and is expected to rise further. Even in China, despite positive economic growth overall, job losses have risen sharply in the coastal provinces.

A.5. Governments around the world are taking unprecedented steps to stimulate their economies and re-capitalise their banks. Central banks have cut interest rates aggressively. However, with little room left for interest rates to fall, most governments have turned to expansionary fiscal packages as their main policy response.

A.6. The new US Administration's fiscal package is currently expected to be US\$825 billion spread over two years, which will increase its government deficit by 2.8% of GDP each year. Including the government's existing deficit programmes, this will lead to a total deficit of about 10% of GDP in 2009. In the UK, the government has proposed a package of £20b or 1.4% of GDP. Germany has just announced a fiscal stimulus plan of about 1% of GDP a year over the next two years. China has announced a 4 trillion yuan package of expenditures to be rolled out over the next two years. Taiwan government intends to spend 4% of GDP spread over four years.

A.7. These measures are widely regarded as mitigating the severity of the recession. But it is too early to say if they will help in bringing forward a recovery in the global economy.

***Length of recession is uncertain***

A.8. No one knows how prolonged or deep this recession is going to be. The current downturn is unlike past recessions, and recovery, when it happens, may be weaker than in most past cycles. There are a few reasons for this.

A.9. First, all major regions of the world are experiencing economic decline at the same time, which makes this the first truly global recession in the post-war period. No economy is able to rely on exports to pull it out of recession.

A.10. Second, domestic spending in the US and other advanced economies, is also unlikely to recover for some time to come. Consumers in the US are over-stretched, having over-borrowed during the years of the housing bubble. The housing bubble has burst, but home prices are still falling and have yet to reach bottom. US consumers, who account for one-fifth of global consumption, will have to gradually reduce their debts and are therefore unlikely to move back to old ways of spending for some years to come. Consumers elsewhere, including those in China and Europe, are also facing declining values of their homes and assets. They are not expected to spend more and pick up the slack left by the Americans.

A.11. The third reason why there is great uncertainty over how long this recession will last is the continued fragility of the global financial system. Banks, especially in the US and Europe, have made heavy losses. Once the full extent of impaired assets becomes apparent, it is estimated that the loan losses will reach two trillion dollars in the US alone. These banks are therefore focused on building up their capital rather than making new loans. Furthermore, the de-leveraging that is taking place in financial markets as a whole still has some way to go. Although we are past the psychological panic that followed the collapse of Lehman Brothers in September 2008, there remains a high degree of risk aversion in the credit markets<sup>2</sup>. As a result, even good quality corporate borrowers are having difficulty obtaining credit.

A.12. We therefore cannot say when this recession will end. The key factor is the US economy. Although China's major government spending initiatives will boost domestic infrastructural demand, it is unlikely to provide a stimulus for the rest of the world. If we are fortunate and the US Government's fiscal stimulus spurs new demand, we may come out of the recession in late 2009. However, many careful observers believe it is equally likely that the recession will last into 2010, and that the recovery when it comes, will be weak.

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<sup>2</sup> One of the key indicators of risk in the markets is the Libor-OIS spread. It is now about 100 basis points (bp), down from its peak of about 360bp at the end of October, but is still well above normal levels of about 10 bp.

## Economic situation and prognosis for Singapore

A.13. Singapore's economic growth in 2008 was far below what we had expected at the start of the year. We had known and had highlighted the downside risks of a US recession and a worsening global credit crunch. But like other governments and the vast majority of private forecasters, we did not anticipate the speed and scale of the deterioration in the global economy in the last six months.

A.14. On latest estimates, the Singapore economy grew by 1.2% in 2008. GDP in the fourth quarter declined by 3.7% compared to a year earlier, or by 17.0% on a quarter-on-quarter annualised basis.

A.15. Inflation averaged 6.5% last year – or by 5.4% if we exclude the increase in the Annual Values of homes which had no impact on household expenditures. Inflation was higher than expected because of the spike in food and fuel prices globally. It has however been declining since the middle of last year and is expected to be close to zero in 2009.

A.16. The key risks for us this year therefore have to do with the scale of the recession and loss of jobs, rather than inflation. All recent indicators point to a continuing downward momentum in the economy. We have been affected by the decline in the advanced economies which has reduced demand for our manufacturing exports. Our services industries are also being impacted by the sharp contraction in global and regional finance, and in intra-Asian trade and tourism.

A.17. The Government has updated its economic forecasts for 2009. We are projecting GDP to contract by between 2% and 5% this year.

A.18. We start from a position of low unemployment, the lowest in Asia last year. The resident unemployment rate was 3.3% in September. However, given the severe economic recession, we have to expect many more jobs to be at risk this year.



## **B. RESILIENCE PACKAGE**

### *Keeping jobs, building for the future*

B.1. The Government will implement a major fiscal package in response to this crisis. We are likely to experience the deepest recession in the Singapore economy since our independence, arising from the worst global economic decline in 60 years.

B.2. Budget 2009 will deliver a Resilience Package totalling \$20.5 billion this year, to help Singapore see through this period of exceptional difficulty. The Package aims to save jobs to the maximum extent possible in the recession, and to help viable companies stay afloat. It also prepares Singapore to emerge with strength when the global economy recovers, and enhances our capabilities and competitiveness for the long term.

B.3. The Resilience Package will not get us out of the recession, as long as the global economy continues to contract. But it will help avert an even sharper downturn, and more lasting damage to the economy.

B.4. The Government will keep a close watch on the global situation and its impact on Singapore. We remain ready to undertake further measures if necessary over the course of the year and the next few years.

#### ***Key objective is jobs***

B.5. Our key objective in this package is to help Singaporeans keep their jobs. The best way to give our people confidence during this crisis is to help them stay employed and retain their ability to support their families.

B.6. This is why the Resilience Package will focus especially on helping businesses to retain workers, by helping them to meet their costs and strengthen their cash-flow, and by enhancing their competitiveness. It is mainly a *supply-side* approach, aimed at keeping jobs. It will provide more support and confidence for the domestic sector of the economy than efforts to stimulate consumption demand directly.

***Keeping our focus on the future***

B.7. We will help businesses and Singaporeans with their immediate needs, so that they can stay afloat in the recession and look towards the future. But even as we deal with the immediate problems, this cannot be a Budget that is *only* about the short term. We should take the opportunity of this downturn to build up our capabilities and infrastructure, and position Singapore for its next phase of growth.

B.8. The Resilience Package will therefore keep up and accelerate our investments for the future. It will mean stepping up our efforts to equip Singaporeans with a world-class education in their youth, broadening training opportunities during their working lives, and providing the best care services for those in their silver years. We will provide further incentives for investments across our industries and help build up innovative capabilities among businesses small and large. And we will rejuvenate our neighbourhoods and develop suburban nodes, and move ahead with initiatives to ensure sustainable development, so that Singaporeans will enjoy an extremely liveable city in all its facets, even as our economy grows in the years to come.

### Resilience Package: Five components

B.9. The Resilience Package of \$20.5 billion for FY2009 will have five components:

- First, jobs for Singaporeans. We will spend \$5.1 billion to help preserve jobs.
- Second, stimulating bank lending. We expect to extend \$5.8 billion in government capital for a Special Risk-Sharing Initiative (SRI). Of this, a small fraction is likely to be eventually expended on provisions for loan losses.
- Third, enhancing business cash-flow and competitiveness. We will implement tax measures and grants for businesses that will cost \$2.6 billion.
- Fourth, supporting families. We will spend \$2.6 billion to support Singaporean households this year. This is on top of the benefits they will derive from the measures to preserve jobs.
- Fifth, building a home for the future. We will spend \$4.4 billion on developing first class infrastructure for the island and on expanded provisions for education and healthcare.

B.10. These amounts are what the Package will spend this year. We will front-load some of the measures, beginning in March 2009. Certain measures will also stretch beyond 2009 and will therefore have an impact on future budgets, on top of the \$20.5 billion package this year.

B.11. Together these initiatives will mean a significantly expansionary Budget in the financial year 2009. The Basic Balance is expected to be in deficit by 6% of GDP in FY2009 (before accounting for NIR or transfers to endowment and trust funds). This is the largest deficit the Government has budgeted for to-date.

## Emerging stronger

B.12. This is therefore a major package for tackling an unprecedented recession and preparing for recovery. We will help our businesses and people with their immediate problems in this economic crisis. More than this, we will reduce taxes, and invest in every new skill and capability that will help us come out of this crisis more competitive. We will emerge stronger and ready to seize new opportunities, just as we did when we responded to the Asian Financial Crisis a decade ago.

## C. JOBS FOR SINGAPOREANS

C.1. The first and most important thrust in the Resilience Package is jobs for Singaporeans. We will introduce a Jobs Credit scheme to help employers to keep their workers. We will also strengthen our subsidies for training and provide additional support for lower-income workers who face a reduction in pay during the downturn. Finally, the Government will also expand recruitment across ministries and statutory boards, for all levels of employees, and including mid-career professionals.

### Jobs Credit

C.2. To sustain jobs for Singaporeans, we will introduce a Jobs Credit which will encourage our businesses to preserve jobs as much as is possible in the downturn.

*Everybody has a part to play*

C.3. Everybody has to make adjustments in this downturn. Workers are already facing cutbacks in bonuses, reduced overtime and in some instances, involuntary no-pay leave. The National Wages Council has recommended that companies may implement a wage freeze or wage cut to remain competitive and save jobs. Workers will therefore be making significant adjustments in this crisis to allow businesses to survive and to keep their jobs.

C.4. But wages are only part of the total cost of doing business. We expect businesses to find every way to cut unnecessary costs in their operations, improve efficiency so as to reduce overheads without having to retrench workers. As NTUC Secretary-General Lim Swee Say has urged, businesses should cut costs to save jobs, not cut jobs to save costs.

C.5. The Government will however, provide a significant incentive for companies to retain existing workers, and where their business warrants, to employ new ones. The Jobs Credit will provide every employer with a cash grant to reduce their costs of employing Singaporean workers during the crisis.

***Jobs Credit will have broadest impact***

C.6. The Jobs Credit that an employer receives will comprise 12% of the first \$2,500 of the wages of each employee who is on the CPF payroll. It will be given in four quarterly payments, with each payment being based on the workers who are with the employer at the time. This will therefore provide incentive for employers to retain their local workers. For example, for a worker whose wage is \$2,500, an employer will get \$900 a quarter, or \$300 a month.

C.7. Employers will receive the first payment at the end of March this year. The next three payments will be in June, September and December 2009. (Details of the Jobs Credit are in Annex A.)

C.8. The Jobs Credit of 12% of wages, will be equivalent to a 9 percentage point CPF cut<sup>3</sup>. The Government did consider cutting the employer CPF contribution rate but has decided against it. The fundamental problem in this recession is not that of wage competitiveness but that of a slump in global demand. There is therefore no need for an across-the-board cut in wages at this time. Furthermore, by designing the Jobs Credit to cover the first \$2,500, which is in fact pegged at the median wage in Singapore, we are also giving companies special incentive to retain low and middle-income workers – more than a CPF contribution rate cut would achieve.

C.9. The Jobs Credit is also better than the alternative of giving companies a corporate tax rebate during the crisis. It helps all companies, including our SMEs as well as those who pay much lower income tax under our tax schedule. This broad-based approach is important because our SMEs account for six of 10 Singaporean jobs. The Jobs Credit will add to the resilience of companies that are still viable but have been caught by the severity of the crisis and would otherwise be forced by cash-flow difficulties to shed workers.

C.10. The Jobs Credit will cost the government \$4.5 billion. This is not intended to be, and must not be, a permanent scheme to subsidise employment. It is a temporary scheme to help companies through an exceptional downturn.

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<sup>3</sup> The Jobs Credit is based on wages up to the first \$2,500, whereas CPF contributions are based on the first \$4,500. This explains why the 12% Jobs Credit is equivalent to a 9% CPF contribution rate cut for employers.

C.11. However, if the downturn continues, it may be necessary to extend the Jobs Credit, in some form, over the following year as well. We will review this later depending on the state of the economy.

Re-skilling: SPUR for workers and professionals

C.12. The second component of our Jobs programme is to help Singaporeans upgrade their skills so that they can stay employed or seek re-employment. This is the reason why the Government launched the Skills Programme for Upgrading and Resilience (SPUR) last December which provided higher course fee support for companies and individuals and absentee payrolls for companies that send their workers for training.

C.13. Workforce Development Agency (WDA) has recently expanded by five times, the number of courses covered under SPUR including courses in human resource, healthcare, precision engineering, and ICT. We have also extended SPUR support to in-house training that meets quality training standards, for companies that commit to the Tripartite Guidelines for Managing Excess Manpower. With the recent expansion, there will now be more than 800 courses, covering 24 industries, and a total of 230,000 training places under SPUR.

***Help for PMETs***

C.14. We have to step up training across all levels of the workforce, including our PMETs (professionals, managers, executives and technicians). To cater to the needs of PMETs, WDA aims to double the number of Professional Conversion Programmes over the coming year, from 23 currently.



C.15. We will make two more enhancements to SPUR to help PMETs re-train. SPUR currently provides course fee subsidies of 80% for PMET-level courses. We will be increasing the subsidy rate for PMET courses that are eligible for SPUR to 90%, the same subsidy level as rank-and-file level courses. This includes all Specialist and Advanced Diplomas offered by our polytechnics.

C.16. Further, WDA will bring under SPUR, selected tertiary courses at UniSIM and our three publicly funded universities.

C.17. Complementing SPUR, the Economic Development Board (EDB) will introduce a \$100 million programme where EDB co-shares manpower, training and related costs with companies, especially focused on engineering and technical jobs. It will also fund on-the-job training opportunities for fresh graduates.

C.18. These re-training and upgrading measures are expected to cost \$750 million over the next two years. It is money well invested in the human capital of our workers.

***WIS Special Payment to help with lower wages***

C.19. The third component of our Jobs programme will be a temporary top-up to the Workfare Income Supplement (WIS) received by low-income workers. Some of them may have to accept lower wages or work less overtime because of the downturn, which means they will take home less pay. We will give them a temporary WIS Special Payment, to supplement their pay and encourage them to stay at work.

C.20. The WIS Special Payment will provide low-income workers with an additional 50% of the WIS payments that they will receive over the course of this year. As an illustration, a 50-year old employee who has been working throughout 2008 and 2009, earning \$1,000 a month, will receive \$600 in WIS Special Payment, fully in cash. This will be on top of the \$1,200 in WIS that he will receive for this year's work.

C.21. As this is a special measure for the downturn, we will relax the work eligibility criteria of the WIS Special Payment to allow those with less regular employment to also qualify. The WIS Special Payment will cost the Government \$150 million.

***Government will hire more now***

C.22. The Government will also be expanding recruitment.

C.23. In all, we expect a total of 18,000 public sector jobs to be made available over the next two years<sup>4</sup>. (This includes government-supported jobs outside of the Government in areas such as childcare, tertiary education, and restructured hospitals.)

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<sup>4</sup> This includes close to 7,500 in teaching positions and teaching support staff for our schools and tertiary institutions, 4,500 healthcare professionals and administrative staff for our hospitals and 1,400 for our Home Team and over 2,000 for MINDEF, which has been announced earlier by the respective ministries. In addition, the rest of the public service have plans to recruit an additional 2,600 jobs over the next 2 years. These jobs comprise policy, operational and administrative positions in various government agencies, as well as positions in more specialised areas such as Project Management, IT, Accounting and Urban Planning.

C.24. The Government is not expanding hiring simply to pad up our ranks. We are doing this so as to build up capabilities and strengthen quality. The downturn is the right time to do so, and enhance our ability to deliver quality education, healthcare and other essential services. We also need more people to handle an increased workload and scope of services such as in security and for social schemes. In all these areas we will remain lean and efficient, and avoid over-manning.

## **D. STIMULATING BANK LENDING**

D.1. Globally, the most serious immediate problem is the credit crunch. What we are seeing is a level of risk aversion that has gone well beyond what happens in normal downturns.

D.2. This is a systemic problem and requires a systemic solution. This is why governments all over the world are trying to find solutions to free up credit.

D.3. The approach taken in some of the developed economies where banks have suffered large write-downs on their assets has been to partially nationalise financial institutions by injecting government capital. However, these measures have so far not succeeded in unfreezing the credit markets.

D.4. The Government has not had to bail out Singapore banks. They are already well-capitalised and have no lack of liquidity available to them. Singapore banks are also not burdened with toxic assets. Their non-performing loans are low at about 1%.

D.5. The credit situation in Singapore held fairly steady until October but loans have begun to decline since then. A decline in credit occurs in every recession both because the demand for credit goes down, and because banks become more cautious over the prospects of loan recovery. However this time we have to expect a more severe contraction if nothing is done. Firstly, several of the foreign banks, especially those with weak balance sheets globally, have been focusing on recapitalisation in their head offices. Secondly, even the stronger players, including our local banks, have taken a step back to reassess their lending strategies because of the uncertainty over the depth and duration of this recession.

### Special Risk-Sharing Initiative (SRI)

D.6. We therefore have to do more to avoid a situation where good and viable companies are unable to get the funding they need to stay afloat and grow.

D.7. The Government has therefore decided to take on a significant share of the risks of bank lending. However, we will not take over the lending business ourselves. The credit decisions are best made by the banks themselves because they are the ones who have the direct relationships with their customers and a close understanding of their businesses. They also have the expertise in credit assessment across a wide range of businesses that the Government does not possess.

D.8. In November 2008, the Government announced enhancements to our SME loan schemes. In particular, we enhanced the Local Enterprise Finance Scheme (LEFS) and Micro Loan Programme (MLP) to increase the government share of risk to 80%. We also introduced a Bridging Loan Programme for working capital loans, with the Government taking 50% of the risk.

D.9. It is too early to assess how effective these enhancements will be. However, since the introduction of these enhancements, there has been significant increase in applications by firms and approvals by the banks.

D.10. We will now move to extend Government support to a broader segment of the credit market besides the SMEs. We want to help other viable companies, especially the mid-sized ones, who do not have significant internal sources of funding and need access to credit to sustain their operations. Further, the Government will for the first time, share in the risks of trade financing.

D.11. We will do this under a new, Special Risk-Sharing Initiative (SRI). It will have two components, as follows.

***The New Bridging Loan Programme***

D.12. First, we will introduce a new Bridging Loan Programme (BLP), that will be substantially enhanced from the scheme introduced in November. The new BLP will cater to loans of up to \$5 million (up from \$500,000 currently), which will meet the working capital needs of most mid-sized firms, and also some of the larger ones. We will also increase the Government's share of risk on these loans from 50% to 80%. Further, the new BLP will enable banks to set their own interest rates. This will allow higher-risk borrowers to still gain access to credit, even if it is at a higher interest rate. However, with the Government taking the bulk of the risk, I am sure that the banks will be fair and price their loans reasonably.

D.13. The new BLP will apply to all new loans from 1 February 2009, and will include refinancing of existing loans when they fall due. The scheme will be in operation for one year in the first instance and cater to loans of up to four years maturity. We welcome all licensed banks in Singapore to participate in the programme.

D.14. Second, the Government will take on a significant part of the risk in trade financing. This is an important dimension for companies that already have orders. They need loans to fulfill their orders as well as insurance against the risk of their buyers defaulting on payments.

D.15. The current trade financing schemes are working well but face constraints because of the limited private insurance capacity and a reduced risk appetite in the industry. Mid-sized and large exporters have had difficulty obtaining loans on the scale they need.

D.16. To address the situation, the Government will step in to share the risk for trade financing, including 75% for trade loans. Further details of enhanced and new loan schemes are set out in Annex B and will be elaborated upon by MTI shortly.

D.17. Besides the SRI, I will extend the tax deduction on loss provisions made pursuant to Monetary Authority of Singapore (MAS) Notice 612 for banks, as well as other equivalent MAS notices for finance companies and merchant banks, for three Years of Assessment. This will encourage banks to continue making adequate loan impairment provisions and bolster their financial strength to underpin continued lending in the downturn.

***Government providing unprecedented support; banks should play their part***

D.18. The programmes under the SRI will be in operation for a year but with possible extension for another year if the situation warrants. We estimate that this and other enhancements the Government is making could lead to \$11 billion of loans this year. (This includes \$5.8 billion of government capital.)

D.19. This is a major move by the Government. We had previously only taken on the risk of lending for secured loans to SMEs. We are now taking on substantially more risk including on loans to larger corporate players and on unsecured loans. We have to expect that there will be a cost on the government budget because not every loan will be recovered. But it is the right thing for Government to intervene in this fashion to help viable companies through this crisis so that they can keep jobs and prepare for the upturn.

D.20. The banks have in fact fed back to us that these Government measures to share a large portion of the risk will make a difference. The Government indeed expects that the banks will take advantage of these schemes, and play their responsible part to ensure that viable companies continue to get the funding they need to see them through the crisis.



## **E. ENHANCING BUSINESS CASH-FLOW AND COMPETITIVENESS**

### Preparing for opportunities

E.1. We will complement our initiatives to preserve jobs and to catalyse bank lending with other measures to support business cash-flow and strengthen Singapore's competitiveness. The tax measures and grants that we will provide, together with the Jobs Credit and substantial subsidies for training, will give companies significant support in this crisis.

E.2. What we can do is to help sound companies weather this storm and sharpen their competitiveness. What we will not be able to do however, is to save companies that are inefficient or whose products have lost relevance or appeal in the marketplace.

E.3. The speed of the decline in trade and economic activity in the last few months has understandably taken most companies by surprise. However businesses will soon have to reassess their strategies, in order to survive this crisis and to emerge in a better position. Even after the global economy recovers, markets will not return to where they were before the crisis.

E.4. The major measures we are undertaking in this Budget therefore are not aimed at preserving the status quo. How well companies are able to benefit from the Government's support will depend on how they themselves review their business models, restructure, and put effort into improving their products and exploring new markets. As with all previous crises, there will be opportunities for the entrepreneurial and the innovative.

E.5. Many of our businesses are in fact beginning to look at new opportunities, even in the midst of recession. The emergence of the Asian middle-classes remains the big story of the next 10 to 15 years. China, India and regional economies like Vietnam are slowing down in the crisis but are widely expected to come back up. India, even today, has a booming domestic consumption market.

E.6. Our companies have the skills and the Singapore brand to help them in these rapidly growing markets. Take healthcare for example, where our Singapore players have developed a strong reputation for top quality and reliable service, across a full spectrum of healthcare. The Asian healthcare market, valued at about US\$240 billion last year, is expected to grow by up to 10% this year despite the global slowdown.

E.7. AsiaMedic Limited, a locally-listed company which provides diagnostic imaging and specialist medical services, announced plans just this week to manage a diagnostic imaging centre in Abu Dhabi. Our larger players too are growing. Thomson Medical Centre (TMC) took a stake in a hospital in Vietnam last year. Likewise, Raffles Medical Group is still growing and sees a unique window of opportunity in this crisis to expand into other Asian markets.

E.8. There are examples in other sectors. Singapore's education is expanding abroad – from pre-school to tertiary providers, and offering a range of products such as software aimed at bilingual language learning. Singapore's fashion brands too have taken off, and are still growing in the recession. Local brand Raoul, which started out in 2002, has over 30 stores around the region and in the Middle East and is now making their presence felt in London. Others like alldressedup are seeing their creations in stores and magazine covers around the world.

E.9. We must also use this opportunity to enhance Singapore's attractiveness to global firms. The multinationals are reassessing where they should put their investments around the world. We will give them more reasons to be in Singapore and to grow their operations here.

**i. Easing business cash-flow**

E.10. I will lighten the tax burden of businesses in the coming year.

***Property market measures***

E.11. I will provide a 40% property tax rebate for industrial and commercial properties for 2009. This will cost the Government about \$800 million.

E.12. The Government strongly urges landlords to pass on the benefits of this rebate to their tenants. Landlords should also consider further adjustments of rentals and more flexible leasing arrangements and payment terms, in light of the severe downturn in demand faced by their tenants. JTC, HDB and SLA will play their part by providing a 15% rental rebate to their tenants and land lessees, exceeding the savings due to the property tax rebate. The rental rebate will also be extended to stallholders who are paying market rents in markets and food centres managed by NEA.

E.13. IRAS will also be bringing forward its property tax assessments for 2009, in view of the change in market conditions. The assessed Annual Values of properties went up last year, in line with actual market rentals. Most property owners have therefore seen increased tax bills. IRAS's move to accelerate assessments for this year will help property owners in addition to the savings they will be getting from the property tax rebate.

E.14. I will also defer property tax for land which is approved for development. This will help developers which intend to hold back their developments that they had originally planned. The deferral will be for up to two years from today (until 21 Jan 2011), or the TOP date of the development, whichever is earlier. (Details are in Annex C-1.) This measure will cost the Government \$290 million per year for 2009 and 2010.

E.15. To give further flexibility to developers to phase out their projects, the Government will allow a one-year extension of the project completion period for private residential projects. The Government will also extend the period for developers with qualifying certificates to dispose of all residential units in their developments, from two to four years, and allow developers to rent out unsold residential units during this period. In addition, we will allow the reassignment of Government sale sites and private land owned by foreign developers.

***Loss carry-back***

E.16. More of our businesses will make losses in the recession. To help them with their cash-flow, I will enhance the current loss carry-back relief system for this year and the next (YA2009 and YA2010). This enhanced system allows them to get a cash refund on taxes that they had paid in previous years.

E.17. I will raise the cap on losses that can be claimed against past taxable income to \$200,000 from \$100,000 currently. I will also allow businesses to claim losses against their preceding three years of taxable income, instead of just the immediate preceding year under the current scheme. In addition, IRAS will allow provisional claims for the tax refund to be based on estimated losses (instead of waiting for the finalisation of their chargeable income and tax assessments). This will allow businesses to obtain their refunds much earlier - by six to 18 months in most cases.

***Foreign-Sourced Income Exemption***

E.18. Over the years, many of our companies have internationalised their operations and earned a growing proportion of their income overseas. To help these companies, I will temporarily expand the scope of the Foreign-Sourced Income Exemption scheme which was introduced in 2003 to cover all foreign-sourced income. I will also temporarily lift the conditions that are currently required for foreign-sourced income to be exempted from tax when remitted to Singapore. With these temporary changes, they will be able to make the best use of all their sources of funds to meet business financing needs in Singapore at this time of credit tightness. All foreign incomes which have been earned before today will be exempted from tax when they are remitted, with immediate effect for one year.

***Transport-related taxes***

E.19. To provide further help to businesses on their cash-flow, I will grant rebates and concessions on transport-related taxes and fees.

E.20. First, a 30% road tax rebate for goods vehicles, buses and taxis for one year. The rebate will take effect on 1 July 2009 and will yield savings of about \$40 million for businesses. In addition, I will waive the special (diesel) tax for un-hired taxis for one year which will yield savings of about \$6 million. MOT will work with the taxi operators and the taxi operator associations to have the savings passed on to taxi drivers.

E.21. Second, I will extend the special tax exemption for CNG (Compressed Natural Gas) vehicles for two years till 31 December 2011. However, from January 2012, a CNG unit duty will be introduced at \$0.20 per kg. With this further two-year extension of tax exemption, CNG vehicle owners would have time to adjust to the changes. The CNG duty rate of \$0.20 per kg will be significantly below the equivalent duty that we currently levy on petrol<sup>5</sup>. We will study the appropriate long-term CNG duty rate, which should be benchmarked against the prevailing petrol duty rate, taking into account the relative impact that these two fuels have on the environment. (The measures are summarized in the [Annex C-1](#).)

E.22. Third, a 20% concession in port dues will be granted to all harbour craft engaged in commercial activities. This will help to lower the business cost of port service providers. This is in addition to the increased rebates on aircraft landing fees which were announced in December. (Details are in [Annex C-2](#).)

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<sup>5</sup> The CNG rate equivalent to \$0.41 per litre of petrol would have been \$0.53 per kg.

***Further extension of the government fee freeze***

E.23. As a further short-term measure to help businesses, the Government will freeze government fees and charges with immediate effect, to the end of 2009. Like the fee freeze in 2008, it will be applied to all government-provided services (including all license fees).

**ii. Sharpening competitiveness and capabilities for innovation**

**Reducing taxes to encourage investments**

E.24. The Resilience Package will provide further incentive for both local and foreign businesses to strengthen their operations here and make investments for the future.

E.25. More companies are expected to shift to Asia where markets are expected to grow most rapidly. We will do more to anchor them in Singapore, investing in high-value production operations as well as coordinating their base of Asian activities from here. By lowering taxes and providing added incentives for them to invest in human capital and infrastructure, we will ensure that Singapore remains a compelling destination.

***Singapore still preferred location for MNCs***

E.26. 2009 is going to be a challenging year for attracting foreign investments. Globally, investments are down. However, EDB is confident of bringing in more than \$10 billion dollars of new Fixed Asset Investments (FAI).

E.27. Many of the large global companies are in fact continuing to grow their investments in Singapore in the downturn. Rolls-Royce is an example. They are a world-leading supplier of power systems and are actively engaged in our aerospace, energy and marine industries. Rolls-Royce, which already has 1,300 employees in Singapore, intends to continue recruiting in 2009. It is also broadening the depth and range of both its operations and R&D work in Singapore.

E.28. Likewise for Procter and Gamble (P&G). They have a regional HQ and R&D operations in Singapore, and also their first Asian perfume plant. P&G expects continued growth in their business in Asia and is not letting up on recruitment in Singapore this year. Although nothing is recession proof, P&G calls its products “recession resistant” - people still want to look good in bad times.

***CIT cut from 18% to 17% for YA2010***

E.29. We will take a further step to sharpen our competitiveness. I have decided this year to reduce the corporate income tax from 18% to 17% effective from YA2010. This will cost us \$400 million to \$500 million a year over the medium term.

E.30. It is a signal of the Government’s continued and future commitment to being the best hub for enterprises, small and large, from all over the world. In particular, together with the changes we have made to the Partial Tax Exemption scheme over the last two years, our effective corporate tax rates are now lower than in any competing destination for small and medium-sized enterprises.



***Encouraging investment in equipment and business renovation***

E.31. I will complement this cut in corporate taxes with an accelerated capital allowance regime to encourage investments.

E.32. Currently, businesses can write down the costs incurred for acquisition of plant and machinery on a 3-year straight-line basis. I will grant an accelerated capital allowance for equipment acquired this year as well as in 2010. Such investments can be written down within two years with 75% of the write-down taking place in the first year.

E.33. Many of our service sector establishments also intend to use the period of the downturn to refit their business premises, in preparation for the recovery. I will accelerate the writing down of renovation and refurbishment expenses to help these businesses. They will be allowed to write down these expenses fully within one year, from the current three years. This concession likewise applies to expenses incurred this year and the next. (Claimable in YA2010 and YA2011)

***Simplify our tax framework for corporate amalgamations***

E.34. Downturns are typically a time of opportunity for companies to merge, acquire or restructure. We will simplify our tax framework to make it easier for companies to restructure and rationalise. This will significantly lower the tax burden when a company acquires another and takes over all its assets and liabilities.

### ***Fund management***

E.35. Globally, the fund management business has contracted over the last year. But it is a matter of time before it recovers - especially in Asia where wealth will be on an upward trajectory over the next 15 to 20 years. I will significantly enhance our tax incentives for fund management to reinforce our position as a leading Asian hub in the business. The current incentives inadvertently discourage resident corporates from having their funds managed from Singapore, as there are limits placed on their holdings in the incentivised funds. We will now remove all these limits on qualifying funds so that they can accept investments freely from resident corporates, in addition to resident individuals. This will allow our resident corporates to enjoy the full benefits of tax exemption on qualifying income derived by the funds.

E.36. I will also simplify the rules for recovering input GST for the fund management industry. Further, I will make enhancements to the Financial Sector Incentive – Headquarters Services scheme and the Commodity Derivatives Traders scheme. (Details of the tax changes to promote the financial sector are in the [Annex C-1](#).)

### ***Maintenance, Repair and Overhaul (MRO)***

E.37. Singapore is one of the largest and most comprehensive Maintenance, Repair and Overhaul (MRO) hubs in the Asia-Pacific. We account for a quarter of the total MRO market in Asia. To further enhance our competitiveness, I will expand the scope of GST zero-rating for the industry, and help facilitate the import of qualifying aircraft components and systems. (Details of the tax changes are in [Annex C-1](#).)

***Auction, exhibition and wine-trading***

E.38. To encourage the growth of the auction and exhibition industry, for example in art and collectibles, as well as wine trading activities, I will suspend duty and GST on goods temporarily removed from Zero-GST or licensed warehouses for auctions or exhibitions. (These and other related measures are summarised in Annex C-1.)

**Making innovation pervasive**

E.39. Besides tax competitiveness, we are moving ahead in developing our companies' capabilities for innovation and R&D. Innovation has to be pervasive in our economy and through good times and bad.

E.40. We have established a good foundation. Just recently, INSEAD ranked Singapore as Asia's most innovative economy and fifth in the world in its new Global Innovation Index. We rate well on our legal and regulatory framework relating to intellectual property and ICT, and ease of starting businesses. But we have a lot of catching up to do in other respects, especially in securing competitiveness through unique and innovative products amongst our enterprises.

E.41. We see it growing. There are more start-ups and smaller players who are making their mark by bringing innovative ideas to the market. Take local start-up Gothere.sg for example. It was started by four Singaporeans in their twenties in April last year, who felt that there was a need to do more to help people make sense of the whole range of transport options in any part of the island and at a glance - the quickest and cheapest way to get from A to B. They wanted to provide far more detail than what Google maps have. So they developed their own maps for Singaporeans – they drove through every single road on our island to do this – complete with information on bus routes, train routes and ERP charges at different times of the day. Gothere.sg is getting more than 15,000 hits daily and is currently collaborating with the LTA to develop a user-friendly travel advisory for public transport journeys.

E.42. In the last Budget, we put in place substantially enhanced tax incentives for innovation and R&D, which makes Singapore one of the most competitive locations in Asia for corporate R&D and especially for small enterprises. So a small company, around the 80<sup>th</sup> percentile of tax-paying companies, and which would be paying an effective tax rate of around 9%, would find its taxes reduced to zero if it spends an additional \$150,000 on R&D.

E.43. We are complementing these tax incentives with a range of grants in this Budget to develop new capabilities and spur innovation amongst our enterprises. In total we will commit \$900 million in the next few years towards this effort.

## ***Capability development***

E.44. We will spend \$130 million to enhance our grants and training schemes to encourage enterprises across various sectors to refresh and develop new capabilities so as to capture growth opportunities in the recovery. The Government will take a greater share of costs under SPRING's existing capability development schemes and IE Singapore's internationalisation schemes. We will also widen the scope of activities that qualify for grants. Further details will be announced at MTI's COS.

E.45. We will add \$45 million to the Maritime Cluster Fund (MCF) to support new projects that build business and manpower capabilities in the industry.

E.46. We will expand support for the media and digital entertainment industry where opportunities are growing rapidly. We will set up the \$230 million Singapore Media Fusion (SMF) fund to provide grants to help local enterprises export content, applications and services to the world, as well as to build up a world-class media talent base. This will complement our plans to develop Mediapolis at One-North, which will help position Singapore as a leading media hub in Asia.

E.47. Singapore is an emerging hub for firms in the interactive digital media arena. Two weeks ago for example, gaming peripherals company Razer launched the Razer Mamba, using advanced proprietary technologies developed out of Singapore. Selling for USD\$130 – it's not your everyday mouse. It is the fastest gaming mouse in the world.

E.48. To encourage the media and digital entertainment businesses to exploit intellectual property (IP) from Singapore, I will allow them to write down the cost of acquiring qualifying IP rights in two years instead of five years currently.

***Test-bedding ideas***

E.49. We will also do more to encourage test-bedding of new ideas. We will put \$200 million in a Test-Bedding Fund to make Singapore a “living lab” for companies and entrepreneurs to nurture new ideas, test innovative solutions and develop future global businesses. The first wave of test-bedding will be based on areas where we have key strengths such as urban planning and traffic management, water management and lifestyle products and services. EDB and other agencies will invite and support private sector players to test, develop and implement new solutions in Singapore before exporting them elsewhere.

E.50. Last year, we set up a Core Innovation Fund (CIF) to help private companies collaborate directly with government agencies to develop innovative solutions for public services. We will set aside \$180 million in the CIF over the next two years. In addition, the Government will take a more proactive approach in seeking collaboration with the private sector, through the use of Calls for Collaboration (CFC). This will bring clusters of companies together to develop solutions for government agencies, businesses and the public.

E.51. Finally, in addition to these sums that we will spend in promoting enterprise innovation, we will continue to expand R&D funding for our universities and research institutes this year. I will also top up the National Research Fund by \$400 million this year to support Singapore's continuing push forward in R&D.

#### Sharpening business capabilities

E.52. We are providing significant support in this Budget to help companies with their cash-flow in the current difficult economic situation and to encourage them to preserve jobs as far as possible. We are providing strong incentives for those who want to take the opportunity now to make investments or refurbishments in preparation for the upturn. We are also taking a further step to reduce corporate taxes to complement all our efforts to encourage enterprise and draw companies to Singapore in the coming years. At the same time, we are making a further push on innovation and R&D for enterprises small and large.

E.53. Together, our efforts will sharpen our business and workforce capabilities across the board and help us emerge stronger in the recovery.

E.54. Mr Speaker, with your permission I will continue later on with the measures we will implement to support Singaporean families in this downturn, and to strengthen our investments in both the social and economic infrastructure we need for our future.

## **F. SUPPORTING FAMILIES**

F.1. The Resilience Package will provide substantial support for Singaporeans during this downturn.

F.2. The key benefit that Singaporeans will derive from the Package will come from the measures to preserve jobs. That is the best way we can help households – to keep the breadwinners employed, so that they can provide for their families. We will complement these measures with direct assistance to all Singaporeans as well as targeted help for the most vulnerable groups.

F.3. However, this cannot be a job for Government alone. Families must take care of their members, and the community must take care of families in need. Everyone must pitch in, because that is far more fundamental to keeping our social fabric strong. Especially now, during difficult times, efforts by everybody – donors, community leaders and volunteers from all walks of life – to help the needy and vulnerable, is what will tie us together and strengthen our society. The Government will encourage them on by providing additional support for their efforts to help the needy.



## Direct assistance to households

### ***Additional GST Credits***

F.4. The key problem that households faced last year, was rising cost of living, especially due to fuel and food prices. Inflation is now on a downward trend, although the absolute prices of many items remain high. However, many households this year may face reduced incomes, because of lower bonuses or wages and some pick-up in unemployment that is inevitable in the recession.

F.5. I will therefore double the GST Credits that households will receive in 2009. Each household will get an additional payout of GST Credits, on top of the one that they will receive in July. To help households with their immediate needs, the additional GST Credits will be paid out on 1 March 2009. This additional payout will cost the Government \$580 million.

F.6. As before, more GST Credits will be given more to the low-income and the old. For example, a Singaporean retiree (aged 60 or above) living in a four-room HDB flat, will get an additional \$400, or a total of \$800 in GST Credits and Senior Citizens' Bonuses in 2009.

### ***S&CC and rental rebates***

F.7. I will also provide an additional one month of S&CC rebates for those in one to three-room HDB flats, who will therefore receive a total of 3 to 4.5 months for this year. Those in larger flats will receive a total of one to two months of rebates.

F.8. Further, I will provide an additional one month of rental rebate for eligible households in public rental flats. In total, they will get three to four months of rental rebates this year.

***Tax assistance to households***

F.9. To help households which pay income tax, I will give a personal income tax rebate of 20% for tax residents for Year of Assessment 2009. This will provide immediate reduction in their tax payable for last year's income. The rebate will be capped at \$2,000. This will cost the Government \$457 million.

F.10. We also want to help taxpayers who may have lost their jobs. Individual tax residents who have lost their jobs in 2008 or lose their jobs in 2009 will be able to pay their personal income taxes this year in instalments of up to 24 months, up from 12 months. This will help ease their cash burden.

F.11. I will also provide a 40% property tax rebate for owner-occupied residential properties for 2009. These property tax rebates will cost the Government \$75 million.

F.12. Currently, those who own higher value homes or secondary residences have to pay income tax on the Net Annual Value of their residential property. I have decided to remove this tax on Net Annual Value with effect from Year of Assessment 2010. (Details in Annex D.)

***All households will benefit***

F.13. The benefits that households will receive as a result of these measures will be on top of what was previously committed for 2009 such as U-Save rebates. Taking all the measures together, Singaporean households will receive substantial benefits from the Government this year.

F.14. Low-income households and those with elderly family members will get the most benefits. A retired couple in their 60s who live in a three-room HDB flat together with their working daughter with relatively low-income, can expect to receive about \$4,500 in benefits in 2009.

F.15. However, the Resilience Package will provide significant benefits for the middle class too. For example, take a family of four living in a five-room HDB flat with working parents earning \$4,500 and \$3,000 a month and two teenage children. They fall within the upper-middle income group in Singapore. They will receive \$2,200 in total in 2009. This will include about \$800 in GST Credits and \$270 in personal income tax rebates, \$800 in PSEA<sup>6</sup> Top-Ups and \$330 in U-Save, S&CC and property tax rebates.

F.16. Most households will in fact be receiving benefits this year that exceed what they would have gained if the Government had instead cut the GST by 2%. Keeping the GST unchanged has afforded substantial benefits for households, but more importantly, the distribution of benefits favours low and middle-income households. This is the right strategy for the times.

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***Increase in Additional CPF Housing Grant***

F.17. On top of these measures that all households will receive, the Resilience Package will provide enhanced benefits to specific groups.

F.18. We will ensure that public housing remains affordable to first-time home buyers. The Government has decided to increase and broaden the Additional CPF Housing Grant (AHG) for first-time home-buyers. We will increase the maximum AHG quantum from \$30,000 to \$40,000. At the same time, we will raise the household income ceiling from \$4,000 to \$5,000. Another 2,700 first-time home-buyers will benefit from the enhanced AHG every year, bringing the number of beneficiaries of the AHG scheme to 8,000 yearly. The enhancements will more than double the estimated cost of the AHG scheme to approximately \$150 million per year.

***Targeted measures for vulnerable***

F.19. We will enhance funding for the most vulnerable groups. The Government will increase the Public Assistance (PA) rate for single-person households by \$30 from \$330 to \$360, taking into account the increase in cost of living over the last year and the possible difficulties that those in the extended family and the community may have in supporting PA recipients at this time.

F.20. For government pensioners, the Government has also decided to increase the Singapore Allowance by \$20 per month to \$240.

F.21. At the same time, we will top up the Public Transport Fund, to bring it to \$10 million and ensure that it is sufficient to fund public transport vouchers for all low-income households who need help.

F.22. Further, we will provide more resources towards ensuring that healthcare remains affordable for low-income Singaporeans. The ElderCare Fund and Medifund have been well-utilised in helping needy patients. I will add a \$100 million each to the ElderCare Fund and Medifund this year.

***Financial assistance for students***

F.23. We will also do more to ensure students from families in need continue to have every encouragement. MOE will enhance the financial assistance schemes for students in our schools, and introduce a Short-Term Study Assistance Scheme (SSAS) for students in our ITEs, polytechnics and autonomous universities. This will help students whose families face financial difficulties during the economic downturn. These enhancements will cost an additional \$20 million a year. Details will be announced at MOE's COS.

**Support for charitable giving and the community**

F.24. We will introduce several measures to support enhanced community initiatives at this time. First, to encourage greater charitable giving this year, I will increase the tax deduction for donations made in 2009 to Institutions of Public Character (IPCs) and other approved institutions from 200% to 250%. This amounts to a significant government contribution each time an individual or corporation makes a contribution. (Details are in Annex D.)

F.25. Second, we will provide an additional \$15 million to support government-funded voluntary welfare organisations (VWOs), bringing the total to about \$220 million for the year. We will be extending the Jobs Credit that I announced earlier to VWOs as well, as they too employ workers. Further, as a longer-term measure, we will put more resources in training social workers, so as to strengthen the capacity of the VWO sector and achieve a better reach to families at risk.

F.26. Third, funding to Self-Help Groups (SHG) will be increased to a total of \$9 million a year for the next two years. We will likewise increase funding to the CCC-Comcare Fund to \$7 million a year, for the next two years. The SHGs and grassroots organisations are best placed to provide assistance on a flexible basis to families who require urgent and temporary assistance.

F.27. Fourth, I will provide greater tax incentive for social enterprises – Companies Limited by Guarantee (CLG), set up by individuals to serve a core social objective. Social entrepreneurs are now making a mark, and we should encourage them to grow and add a new dimension to our social sector. One example is Barista Express Café which provides supportive employment to help former psychiatric patients re-integrate into society. I will extend the tax exemptions for start-ups to Companies Limited by Guarantee from YA2010. (Details are in [Annex D](#).)

F.28. In total, we will be providing direct support to households and community groups amounting to \$2.6 billion in 2009. This is on top of the help that Singaporean households will get from our jobs initiatives – the Jobs Credit, the WIS Special Payment and SPUR. These measures should help our families see through the crisis this year. They also seek to bolster the community support networks that remain at the core of Singapore’s collective approach to helping the less fortunate in our society.

## **G. BUILDING A HOME FOR THE FUTURE**

G.1. The Resilience Package provides a further boost to investments in making Singapore an extremely liveable global city and the best home for Singaporeans.

G.2. We are pushing ahead in four areas:

- First, we will expand and accelerate public sector infrastructure spending.
- Second, we will develop suburban nodes and rejuvenate our neighbourhoods.
- Third, we will push ahead on sustainable development.
- Fourth, we will spend more on our education and health infrastructure.

### Expanding and accelerating infrastructure spending

G.3. We will increase public sector construction spending significantly in 2009. We will proceed with contracts worth \$18 billion to \$20 billion this year, significantly higher than the \$15 billion contracted in 2008 and \$6 billion in 2007.

G.4. The significant ramp-up in spending this year reflects plans that the Government had already formulated such as for MRT and road networks, which we are proceeding with despite the crisis.



G.5. We are also bringing forward \$1.3 billion of government projects to 2009. We had previously deferred some of these projects to avoid exacerbating the over-heating construction sector and adding pressure to construction costs for the economy. Others are projects which had been due over the next 2-3 years that we have decided to bring forward. The projects will comprise smaller infrastructural contracts worth up to \$50 million each, which can be taken up by our small and medium-sized contractors. This segment of the industry is already seeing significant softening in demand.

G.6. The projects we brought forward are wide-ranging – from HDB lift upgrading to building of park connectors and upgrading of military facilities. The Government will continue to monitor construction capacity closely in order to adjust the pace of public sector construction projects.

#### Developing suburban nodes

G.7. We will continue to develop both a distinctive business hub in the centre of the city and new suburban hubs that will de-centralise economic activity and create jobs closer to home.

G.8. In addition to Marina Bay, we will invest in new regional commercial nodes such as Jurong Lake District, the new Kallang Riverside and Paya Lebar Central. We will also rejuvenate our public housing neighbourhoods including enlivening the public spaces within our estates and pushing ahead with the ABC Waters programme. We are also linking together all parts of the island through a comprehensive road and rail network. And we will spend more to maintain and upgrade the plumbing of the city – the basic amenities such as our drainage and sewerage network.

## Sustainable development

G.9. The Government has over the last year been developing our sustainable development blueprint for Singapore. MEWR and MND will be discussing our thinking and plans in further detail during the COS.

G.10. Sustainable development is not new to Singapore. We have always had to work within the constraints of being a city state with no natural resources and a high population density. Over the years we have developed expertise in areas such as urban planning, water and waste management and green technologies. Organisations like the World Bank and the Asian Development Bank are now working with us to share our expertise with other countries.

G.11. However we will have to invest more in sustainable development in the coming years to provide Singaporeans with a high quality living environment while our economy continues to grow. To achieve both these objectives, we need to optimise the use of key resources such as land, energy and water.

G.12. There is also an economic imperative for sustainable development. We need to ensure that our use of scarce resources such as water and energy is efficient so that we can reduce costs and our susceptibility to global energy shocks. Investing in energy-efficient technology will reap cost savings for companies and households in the long run.

G.13. However, the upfront investments sometimes deter the private sector from making investments that are cost-saving over the long term. The Government will therefore provide incentives where necessary to encourage companies and individuals to invest in economically viable technologies. The Government itself will spearhead investments in improved energy efficiency for its own buildings.

G.14. In total, we plan to spend \$1 billion over the next five years on sustainable development initiatives. The funds will support programmes such as energy efficiency for industry and households, green transport, clean energy and the greening of our living spaces.

G.15. In so doing, we hope to catalyse the growth of a vibrant cluster of firms with expertise and capabilities in these areas, complementing our R&D efforts. Already we have a base of global alternative energy companies like Neste Oil, who are locating their operations in Singapore. New players are also sprouting up. Like JOil, which has developed elite and high yielding Jatropha seedlings using locally developed plant genetics technology. It has secured a multi-million dollar partnership with Tata Chemicals to market the seedlings in India and East Africa as an economical and sustainable starting source for the production of bio-diesel.

#### Best place for families

G.16. The best home for Singaporeans must be the best place to start families, to help them nurture their young and to look after their old.

G.17. We will be spending \$1.6 billion this year, and about the same amount in each of the next three years to support marriage and parenthood – with initiatives such as government-paid maternity leave, and infant-care and childcare subsidies. We are also going to be investing significantly more in education and health.

***Enhancing school education***

G.18. We are upgrading both the hardware and software of the education system. We are providing better facilities for an all-round education in every school and accelerating some projects like the roll-out of indoor sports halls. More importantly, MOE is enhancing both the size and quality of the teaching force and bringing in many others into our schools to collaborate with teachers in providing better attention for every child. Looking at recurrent spending alone, we intend to spend an average of \$9,200 per student in our schools each year over the next five years – or an increase of about 60% compared to the previous five years.

***Expanding healthcare capacity***

G.19. We are committed to a substantial expansion of the healthcare sector. Over the next five years, we will invest \$4 billion in healthcare infrastructure, which will include the redevelopment of older hospitals, medical centres and a new hospital in the west, as well as seeing through existing projects like the Khoo Teck Puat Hospital in the north.

G.20. MOH is also developing an electronic health records system accessible to authorised medical practitioners at our hospitals and polyclinics, and eventually extending to the community care sector. It will allow for more effective treatment of patients who may receive a spectrum of healthcare services from different providers. We will be spending about \$200 million to get this project launched over the next two years and will be among the first in the world to implement such a system nation-wide.

G.21. We are doing more to help those who fall ill in old age. We are building new community hospitals and boosting capabilities in treating chronic diseases such as stroke, heart and kidney failure, and other age-related conditions such as dementia. We are also enhancing the capabilities for long-term care, including rehabilitation, home care and palliative services after patients have been discharged from hospitals. This will help support family members and caregivers. We will spend \$500 million over the next five years on these measures to improve long-term care for elderly Singaporeans.

## **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, Portugal and Russia have just seen recent downgrades in their credit ratings, while Taiwan has 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 till we 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.

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

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 of 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.

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<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)

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.)

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<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)

## I. CONCLUSION

I.1. Singapore is tied to the fortunes of global markets. We are hit when the global economy goes down, and we move back up when it recovers.

I.2. But being a global city works well for Singapore. Even including 2008, when our economy fell, we grew by about 7% per annum in the last five years. This is faster than the other Asian Newly Industrialising Economies (NIEs) (Hong Kong, South Korea, Taiwan), and well above growth in other countries with similar income levels. And it is also a strategy that has kept unemployment at amongst the lowest rates in the world.

I.3. There is no reason why we cannot sustain this superior performance once the global economy recovers from this recession. Singapore has fundamentals that are going for it. Investors trust us. They see advantage in our tripartite system, our open and cosmopolitan society, and a Government that they know will work with businesses and Singaporeans to keep our economy competitive and our society cohesive. Our schools and tertiary institutions prepare Singaporeans well for opportunities at all levels requiring different skills. Our public housing policies give Singaporeans an asset that can appreciate over the long term. And the CPF gives them assurance that their retirement monies are safe and earn a guaranteed return, unlike many elsewhere who have seen the value of their pension plans fall in the crisis.

I.4. These are fundamentals which will continue to set us apart. But our real strength is in our flexibility, our ability to shift policy gears when required, and the way our people and companies respond to changes in the world by learning something new.

I.5. Qioptiq Singapore has a factory in Jurong with 900 employees. It competes globally in the market for the highest specification optical products. When they first began production in 1975, things were a little simpler. Their key competitive advantage over competitors in the West was that Singaporeans could use wooden chopsticks to handle delicate lenses without damaging them. Thirty-four years later, its production lines require the most advanced optics technology as well as the most experienced craftsmen and engineers. Qioptiq succeeds because it keeps developing its people: locals who have grown their expertise with the firm and foreigners bringing in more. Many of the Singaporeans have been with the firm since its early days. Tom Chan is one of them. He started off as an apprentice in the company, armed with a Trade Certificate in Fitting from Pasir Panjang Vocational Institute. He is now a Plano Production Manager, overseeing 60 workers in one of the most exacting tasks - producing plano prisms, where the standards of precision are measured in nanometres<sup>10</sup>.

I.6. Qioptiq's good labour relations have helped it ride through the ups and downs of the business. Every worker on the production line is trained in at least two different jobs. This way, when the demand for products changes, they can be quickly re-deployed to different production lines. Even in the current economic climate, Qioptiq did well enough to pay good year-end bonuses to its staff, in fact just yesterday.

I.7. Qioptiq is, like many of our companies, a description of how Singapore works - flexible, always learning, always improving as a team, so that we move up together.

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<sup>10</sup> A nanometre is one-millionth of a millimetre.

I.8. 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.

I.9. Mr Speaker, I beg to move.