Size of Resilience Package exceeds expectations but still not likely to ward off deep recession: Experts

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SINGAPORE — The record-breaking S$48 billion Resilience Budget exceeded all expectations of how deep the Government was willing to reach into its pockets to buttress the Singapore economy during the Covid-19 crisis, economists and business leaders said.

But despite the unprecedented firepower of the supplementary budget unveiled by Deputy Prime Minister Heng Swee Keat on Thursday (March 26), those interviewed said that the measures are unlikely to ward off an impending recession that, some believe, will likely turn out to be the gravest in Singapore's history.

The measures require a draw of S$17 billion from past reserves, exceeding the S$4.9 billion earmarked from the reserves during the 2008 global financial crisis. The scale of the wide swathe of emergency measures also reflected the deep impact of the pandemic on Singapore, the analysts said.

The Resilience Budget, which is pending a debate in Parliament next month and the final nod from President Halimah Yacob who has given in-principle approval for the drawdown, will fund a range of Covid-19 measures to stimulate hiring, protect livelihoods, and prop up vulnerable sectors of the economy.

Senior economist Irvin Seah of DBS bank had made an earlier forecast for a S$14 billion to S$16 billion stimulus package.

"Essentially, no one was expecting this sort of numbers for the supplementary budget. Two weeks since I made my prediction, much has already changed," he said.

"The situation of the outbreak — locally and globally — has deteriorated so sharply, and the measures introduced by many countries have been very drastic, and that is not discounting the possibility that it could deteriorate further."

Ms Selena Ling, head of treasury research and strategy at OCBC bank, noted that around S$55 billion — or 11 per cent of Singapore's gross domestic product (GDP) last year — will go to fighting Covid-19 and mitigating its long-term impact on the economy. This includes the measures from Budget 2020 delivered last month.

While it is nothing to be sniffed at, the stimulus package is not going to be able to completely head off the recession, Ms Ling said.

"The Singapore economy is like a patient that is suffering a cardiac arrest, and the Resilience Package is the resuscitation. It is still important to continue to monitor the economic vitals from here as the Covid-19 pandemic is still evolving rapidly," she said.

Dr Chua Hak Bin and Ms Lee Ju Ye, economists with Maybank Kim Eng, called the supplementary budget a “bazooka” package.

“We think that the Resilience Package will help cushion the pain and extend a lifeline to the worst-hit sectors, but will not prevent a recession. The fiscal support will reduce job losses and the extent of unemployment, but will not be able to lift GDP growth or the corporate revenue line,” they said.

On Thursday, the Ministry of Trade and Industry had downgraded Singapore’s 2020 economic growth outlook to between -4 per cent and -1 per cent. Last month, the ministry had already downgraded the forecast to -0.5 per cent to 1.5 per cent due to the Covid-19 outbreak.

Mr Seah, whose bank predicts the economy to contract by 2.8 per cent this year, said that this could be the worst recession on record for Singapore.

“This would be the contagion effect of the Asian financial crisis, and the shock and awe of the global financial crisis, all rolled into one,” he said.

Unemployment rates could soar as well, he said, although it remains to be seen how the enhanced range of measures — largely directed towards wage offsets so as to safeguard jobs — could slow down the impact of Covid-19.

Retrenchments will likely remain high, too, at around 24,000 the whole year, but it would be higher were it not for this package, he added.

Other business leaders and financial experts lauded the massive Resilience Budget and the range of measures to introduce property tax rebates of up to 100 per cent, offset workers’ wages, and put more money into the hands of cash-starved businesses.

Singapore Business Federation's chief Ho Meng Kit said: “Many of the schemes such as the enhanced Job Support Scheme will provide much-needed cash boost for our companies in a seamless way. It is now time for the companies to actively manage their costs and cash flow, save jobs and send employees for training and reskilling.”

Could more be done?

But several experts noted that the measures did not extend to a full year, despite political leaders stating that the crisis is expected to last a year and beyond.

The core parts of the Resilience Budget — the S$15.1 billion Job Support Scheme and S$1.2 billion Self-Employed Person Income Relief Scheme — would cover nine months’ of income.

Some suggested that the measures could be extended in duration.

Mr Daniel Ho, tax partner and tax leader for the government and public services sector at Deloitte Singapore, said that the three-month deferral of income tax payments for businesses and the self-employed may not seem enough compared with what countries such as Australia is doing. Among other things, Australia has announced a one-off six-month waiver on payroll tax for affected industries.

Other measures that some had hoped for in Singapore's response to Covid-19 did not materialise.

Ms Tricia Song, head of research for Singapore at property consultancy Colliers International, said: "We note that the Resilience Package did not offer measures that private housing developers had been hoping for — such as an extension of project completion timeline under the Additional Buyer's Stamp Duty rules."

Considering the significant size of Singapore's reserves, which some had estimated to be more than S$1 trillion, the analysts suggested that the Government could be keeping its powder dry, leaving more for a further stimulus package should the Covid-19 pandemic worsen significantly.

Mr Christopher Gee, who heads the governance and economy department at the Institute of Policy Studies, noted that the S$39.2 billion deficit for fiscal year 2020 made up around 7.7 per cent of 2019's economy.

As a percentage of GDP, this is a little less than the US$2 trillion (S$2.86 trillion) stimulus package, or 9.3 per cent of the United States' GDP, that the US Senate has approved to tackle Covid-19, Mr Gee said. Germany's measures were more drastic, at closer to 22 per cent of GDP, he added.

In his ministerial statement, Mr Heng had said that the Government is prepared to propose to President Halimah Yaacob further draws on past reserves to deal with the situation when it is needed.

Mr Heng said: "We are still able to support this unprecedented deficit, and still remain fiscally sustainable, because we have been disciplined in the use of past reserves, tapping it only in exceptional circumstances like these."

Mr Seah of DBS said that the size of the Resilience Budget suggested that the Government did not hold back this time and is "frontloading" its firepower before the situation gets worse.

"Yet, (the Government) also went on to say that it can do more if required. To me, this reflects the commitment and the depths that Singapore is willing to go to in order to overcome this crisis. Singaporeans should be proud," he said.