Institute of Policy Studies

IPS HYBRID FORUM ON ECONOMIC RECOVERY FROM COVID-19

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Executive Summary

The IPS hybrid forum on “Economic Recovery from COVID-19” discussed the policy measures undertaken by governments to mitigate the adverse economic impact of the pandemic on households, workers and businesses. The panellists were from the Asian Development Bank (ADB), ASEAN +3 Macroeconomic Research Office (AMRO), Overseas-Chinese Banking Corporation Limited (OCBC), and the Association of Small and Medium Enterprises (ASME).

The speaker from ADB outlined how despite record levels of fiscal intervention and loose monetary policy to alleviate the impact of the crisis, the global economy will witness uneven recovery. The next speaker from AMRO examined how regional economies had impacted on the ASEAN region and their major dialogue partners in East Asia, (China, Japan and South Korea). From OCBC was a perspective on Singapore that covered human capital growth trends, non-performing loans, business sentiments and industry sectoral performance. The last speaker, from ASME and Inginim Pte Ltd, provided the impact and lessons learnt from the pandemic on SMEs.

Introduction

It has been more than a year since the COVID-19 pandemic wreaked havoc on the global economy. Global trade is not expected to regain its pre COVID–19 levels until 2023. With border closures and synchronised lockdowns, businesses across most industries are adversely impacted. In Singapore, several sectors that felt the full effects of the pandemic — such as aviation, hospitality, retail, transport and tourism — have been slower to recover. In response, governments the world over, including Singapore, have introduced various schemes to minimise job losses and to ensure the survival of businesses, especially small and medium enterprises. One of the key concerns is to ensure that there is adequate cash liquidity in the markets for the efficient functioning of enterprises, especially SMEs.

In this context, the Institute of Policy Studies (IPS) conducted a hybrid forum on 17 March 2021, titled “Economic Recovery from COVID-19”. The forum was convened by Dr Faizal Yahya, Senior Research Fellow, IPS and moderated by Mr Manu Bhaskaran, Adjunct Senior Research Fellow at IPS. Panellists included Dr Matteo Lanzafame, Senior Economist, Asian Development Bank (ADB); Dr Chaipat Poonpatpibul, Lead Economist and Group Head Surveillance, ASEAN +3 Macroeconomic Research Office (AMRO); and Ms Selena Ling, Chief Economist, Treasury Research & Strategy, Overseas-Chinese Banking Corporation Limited (OCBC). Mr Ang Yuit, founder and Managing Director of Inginim Pte Ltd and Vice President of Strategies, Development and Digitalisation at the Association of Small and Medium Enterprises (ASME).

The aim of the forum was to examine the impact of policy measures for ameliorating the adverse impacts of COVID-19 and provide updates on the trends of economic recovery. In addition, it examined some of the policy measures that were taken to keep businesses running and preserve their core capabilities for swift recovery post-COVID-19. These capabilities included the skill sets, industry knowledge and experience of their staff. As the government tapers its stimulus policy measures, how will the recovery process of the economy be affected? What are the measures that need to be enhanced or tapered down, and in which sectors? What will be the impact on businesses and workers if the stimulus measures are reduced too quickly? Are there additional financial and or fiscal measures that need to be implemented to sustain recovery?

Uneven Global Recovery

Dr Matteo Lanzafame from the ADB, highlighted an uneven recovery that was underway in the region. Record fiscal intervention and loose monetary policy were used to sustain the economy. While economic growth is likely to improve in 2021, Gross Domestic Product (GDP) will remain below pre-COVID-19 levels. As of December 2020, the ADB estimated a 0.4 per cent contraction of regional GDP for 2020. Governments in Asia, such as Singapore, had rolled out record fiscal measures to alleviate the impact of the crisis, which unfortunately will linger into second half of 2021. The risks due to recurrent waves of infections or slow vaccine rollout will undermine stability in some economies. Higher inflation rates could lead to turbulence in financial markets and stifle economic activity. In addition, premature fiscal consolidation and deteriorating geopolitical tensions such as the US-China disputes over trade and technology further complicate economic recovery.

The pathways used by governments for economic recovery will vary across regions. As mobility is a crucial factor for recovery, this could only be accelerated through the vaccination programme. Some Asian economies are exporting their way out of the crisis with the rebound owed to non-energy commodities such as the increasing demand for medical supplies, protective equipment and electronic products. In most countries, service sectors such as tourism have been severely impacted but at least in the Maldives, it is recovering much faster. This is largely due to the model of tourism in the Maldives that focuses on exclusive beach resorts on isolated atolls. For other tourism-dependent island economies their recovery will be much longer. In terms of remittances, some economies such as those within the former Soviet Republics saw a collapse in the flow of their remittances.

Regional Impact of COVID-19

Dr Chaipat Poonpatpibul from AMRO, examined the regional impact of COVID-19 on the ASEAN region and its plus three partners, namely, China, Japan and South Korea. Among the ASEAN + 3 economies, Singapore scores well for debt relief, income support and support for informal workers and is poised for recovery by the end of 2021. The manufacturing sector has recorded strong growth and the services sector is likely to improve and support economic recovery.

COVID-19 has amplified socio-economic fault lines. Some of the manifestations of these included the wealth increase of global billionaires by US$3.9 trillion with the corresponding decrease of workers' income by US$3.7 billion. The accelerated global digital adoption by some seven years has also exposed workers to risks. This rising multifaceted inequality would require comprehensive intervention and the Singapore government's ability to identify vulnerable households and target assistance to these households is commendable. The rapid pace of transformation due to advancement in technology has placed additional emphasis for workers to acquire relevant skill sets. In addition, the number of self-employed workers that are more educated has increased, which could lead to scenarios of underemployment.

On the risks to trade, there are several and includes: potential recurring waves of COVID-19 spikes in infection due to overseas returnees and the slow rate of vaccination; the slow rate of reopening borders; trade wars and trade protectionism; and increasing socio economic fault lines made worse by rising inequality. Singapore appears to be on track for economic recovery and the pandemic has brought forward longer-term challenges that have to be addressed such as digitalisation. However, the opportunities being presented to build a more resilient, inclusive and sustainable economy should be seized.

Singapore Economy

The third panellist, Ms Selena Ling from OCBC examined the damaging economic impact of COVID-19 after more than a year. In terms of an emerging Asia-minus China, this region projected the most economic losses relative to pre-COVID-19 scenarios and in comparison to other regions. The hiring sentiment among businesses is still "soft" and cautionary, that is reflected in the employment vacancies that are still below pre-pandemic levels. The dislocation in labour markets because of COVID-19 has spread across the world. However, except for the US, Spain and Hong Kong, the change in unemployment rate for most countries has not increased higher than 2 percentage points from Q4 2019 levels, which shows the effectiveness of governmental support measures in this regard.

Non-performing loans (NPLs) have stayed relatively low during COVID-19 when compared to the 2008–2009 Global Financial Crisis (GFC). For example, NPL figures for the US hovered around 1 per cent compared with the GFC high of 5 per cent. Singapore's own NPL figures were in the range of 1.5 to 1.6 per cent throughout the pandemic and consistent when compared with previous years. This is largely due to multiple support policies aimed towards companies and individuals including multiple loan moratoriums that had kept beleaguered companies and industries afloat. These loan moratoriums, credit guarantees and funding for lending programmes had kept bankruptcies at bay. The OECD estimated that firm closures fell by an average of 30 per cent in 2020 despite the fall in GDP, and that without government support, bankrupt rates would have probably doubled for SMEs when compared to year 2019. However, while fiscal aid may have helped companies gain access to credit markets, continued and untargeted support may be directing capital flow to unproductive companies. This risks creating more "zombie" companies (i.e., companies whose earnings are below their interest payables).

In a post COVID-19 recovery phase, it might be useful to monitor financial markets' reactions for any signs of taper "tantrums". Analysts highlighted market concerns over inflation and or premature withdrawal of monetary policy accommodation that would risk a disorderly market transition. However, the markets have been heartened by the increasing resources that have been poured into the pharmaceutical sector to expedite the development and production of COVID-19 vaccines. Nonetheless, the imbalance over the distribution of vaccine supplies and administration to more developed countries will contribute to uneven global recovery. Approximately, 130 countries have not received a single dose of vaccine despite initiatives like COVAX. Greater effort and cooperation would have to be directed against vaccine nationalism and more equitable distribution. In Singapore's case, the re-opening of the economy under phase three is ongoing and vaccination has been rolled out. According to the Singapore Business Federation's National Business Survey, at least 63 per cent of all companies have been adversely impacted by COVID-19 and more than two-thirds (70 per cent) among them would take until the first half of 2022 to recover. Sentiments for recovery outlook are still low, with only 31 per cent of companies expecting the economy to improve in the next 12 months (until the first half 2022).

In 2020, the Singapore economy contracted 5.4 per cent year-on-year (yoy) and the most affected sectors were construction (-35.9 per cent yoy), accommodation & storage (-26.6 per cent yoy), and transportation services (-25.4 per cent yoy). The best performing sector in 2020 was manufacturing (7.4 per cent yoy) and this was due to increasing demands for biomedical and electronic goods due to the pandemic. The other sectors which fared relatively better include logistics and transportation; banking and insurance; information technology; and professional services. The business expectations among manufacturing and services companies were brighter for the first half of 2021 but hiring intentions remained subdued. The total economy's Producer Manufacturing Index (PMI) hit a year 2.5 high amidst stronger private sector demand. Cumulatively, growth prospects are looking better with the non-oil domestic exports (NODX) and industrial production coming in stronger than expected, at 12.8 per cent yoy and 8.6 per cent yoy, respectively.

In terms of employment, the imposition of the circuit breaker measures (semi lockdown) saw total employment decreasing by 103,800 in the second quarter of 2020. The services sector contributed the most to employment decline. The median household income from employment fell 2.4 per cent in 2020 and the hardest hit categories were the bottom deciles but after higher targeted government transfers, the Gini coefficient improved from 0.38 in 2019 to 0.35 in 2020 (after taxes). The Jobs Support Scheme (JSS) arrested the worst of the decline and provided some stabilisation in the employment rate was seen between November 2020 and January 2021. Companies added to their work force for the first time in 18 months but mostly with temporary and part-time positions that increased concerns over a lost COVID-19 generation. Analysts expected the overall and resident unemployment rates to improve slowly to below 3 and 4 per cent, respectively, by end 2021. The Budget of 2021 will narrow the deficit to S$11 billion (2.2 per cent of GDP), a decrease from $64.9 billion (13.9 per cent of GDP) in 2020. Fiscal policy is expected to remain expansionary with the S$11 billion allocated to the COVID-19 Resilience package funded by a further draw on past reserves (S$9.3 billion from the unused draw in FY2020 and an additional S$1.7 billion in FY2021).

Looking ahead, a first consideration will be on how to taper policy support measures without endangering economic recovery, and how to replenish finances to balance the budget. While it may be premature to hike the Goods and Services Tax (GST), this should come sooner than later; and other revenue sources could be considered, such as wealth and indirect taxes. A second concern is the need to balance support and reposition the most affected sectors like aviation and tourism. Next will be structural challenges such as the need to prepare workers and companies for the future economy — a future economy where e-commerce, virtual remote working, AI, IoT, 5G, sustainability and green financing will become increasingly important. A key question here is: Why do some small and medium enterprises (SMEs) still find it challenging to digitalise and transform their businesses?

SME Sector

The business sector, especially SMEs, found it difficult to sustain themselves but their cash flow positions were vastly improved with government assistance on rental waivers. However, a number of companies highlighted that landlords were slow to disburse the grant. The assistance provided by the Rental Waiver/Relief measures improved the cash flow of SMEs, many would have ceased operations without the rental assistance. Prior to COVID-19, the concern over the power of institutional landlord vis-à-vis tenants had been raised but not much action was taken. If this imbalance of power persists it might create a rent-seeking economy.

The ASME panellists highlighted that during the circuit breaker phase, besides tangible issues, their SME members also had to deal with the psychology of change. Mutual support groups were formed among member SMEs to help each other deal with business transformation. Ironically, since 2011 the process of digitalisation has been given a lot of publicity but was slow to materialise, whereas over the past year (2020) digital adoption has accelerated and transformed companies. For example, direct selling and Facebook Live has become the norm as companies grapple with e-commerce.

Concerns over human capital development among SMEs were accentuated when manpower requirements indicated a T-shaped model. It has emerged that companies required a wide array of skills from workers that are useful for multitasking but with the ability to leverage a deep set of skills in a particular area if required. Manpower training is crucial and the need to learn from past challenges was highlighted. For example, from 2000 to 2010, this period was framed as a “lost decade” for engineers, where most engineers left for the banking and financial sector. This will impact on the ability of companies to innovate and grow in the future. Singapore’s growth strategy should be multifaceted. While MNCs are welcome in Singapore, the local economy also needs to develop its own companies so that these help sustain economic growth. For SMEs, their role would be to develop internally and not to be overly dependent on MNCs for innovation. The approval for grants related to innovation have been slow. How can the government deliver targeted help and support for SMEs? Perhaps closer links between the government and trade association and chambers could help to expedite and streamline the process.

In the Q&A segment, the panellists fielded several questions from the forum participants.

Vaccinations

On vaccinations, a participant queried on the access and provisions for lower-income countries that do not have agreements with supplier, and how this will delay recovery with the spread of new variants of COVID-19. ADB’s Dr Lanzafame replied that it will be difficult to recover without an effective rollout of a vaccination programme. The COVAX is one of the three pillars of the Access to COVID-19 Tools (ACT) Accelerator (launched by the WHO, European Commission and France) programme that is aimed towards providing innovative and equitable access to COVID-19 diagnostics, treatments and vaccines. The other scheme, the Asia Pacific Vaccine Access Facility (APVAX) is funded by the ADB and includes initiatives to facilitate vaccine supplies and rollouts for low-income economies.

Inequality

On inequality, a participant queried the AMRO's Dr Poonpatpibul on the opportunity presented to the Singapore government to make permanent its social polices particularly in light of the drop in the Gini coefficient. It was also highlighted that Singapore's "lowest" Gini at ~037 is still much higher than the OECD average at ~0.30. What areas in particular should policy measures cover, such as employment support, healthcare, and or social welfare? Dr Poonpatpibul said that an extension of a Progressive Wage Scheme will be useful because the employment prospects for the lower income is less favourable.

On loan arrangements, a participant queried on the default rates for loans globally that have remained stagnant. A quick check of Monetary Authority of Singapore's data would also show that rates in Singapore have not changed significantly either. However, banks in Singapore have started to hike their borrowing interest rates for unsecured loans (including for OCBC). OCBC panellist Ms Ling highlighted that financial markets are quite forward-looking, and the reflation or inflation impact puts the same pressure on the Singapore government at the back end. These are potential hazards, and growth will recover unevenly. Financial institutions will still do their credit selection. In the Singapore loans market, there is credit supply but the credit demand is weak. Another participant asked about the possibility of borrow at lower rates to invest (and speculate in the stock markets). Are banks using this to drive profit margins? Will this further drive inequality in recovery?

Rental in Central Premises

A participant asked about rental in central areas. COVID-19 has shown that rents in the CBD are likely too high and firms can either live with smaller offices or move some of their staff to work from home on some days of the week instead coming into the office every day of the week. Ms Ling of OCBC explained that the example of the CBD that was highlighted was to show the contrast caused by COVID-19 during the circuit breaker period and the current Phase 3. She elaborated that banks have 50 per cent work-from-home models and COVID-19 shows that numerous workers can work from home once assets are in place and technical issues are sorted out.

A participant queried the necessity for business travel during COVID-19. Because of travel restrictions, especially regionally, certain segments of industry are unable to join trade shows as well as engage in business entertainment, which in turn drives a lot of SME businesses. Mr Ang of the ASME said trade shows and MICE industry will be fundamentally altered. On business travel, certain sectors and niches of industry do need to rely on air travel to conclude negotiations and or contracts but probably 20 to 30 per cent of smaller businesses could rely more on virtual technology and depend less on business travel.

Conclusion

The previous and continuing support measures rolled out by the government especially for businesses in the areas of rentals, wage support and household income were timely. In view of the increasing socio-economic fault lines during COVID-19, these measures are required for a while longer because of the long drawn adverse impact of the pandemic. In addition, the rising digitalisation of the economy and business models will also increase risk exposure for workers. As hiring sentiments remains "soft" among employers, the effects of multifaceted inequality would require comprehensive intervention by government to identify more vulnerable households for targeted assistance measures.

While it is understandable that the government wishes to balance the budget and reduce the deficit as soon as possible, the tapering of policy support measures should not endanger economic recovery. With accelerated structural changes occurring due to COVID-19, the need to prepare workers and companies for the future economy has become more urgent. The challenge of a T-shaped demand for skills from industry that covers both breadth and depth will pose unique challenges for all sectors. Training provisions, schemes and policy measures for human capital development would need to be relooked and reconfigured to meet this challenge.

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