Covid-19: S'pore's second stimulus package could require sizeable draw down on past reserves, say economists

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***TODAY,** 24 March 2020*

SINGAPORE — Set to be unveiled on Thursday (March 26), the Government's second stimulus package in response to the Covid-19 pandemic is expected to dwarf the special packages announced in Budget 2020, and may even pip the record S$20.5 billion stimulus package which helped Singapore tide through the global financial meltdown in 2009.

If so, such an amount would likely entail tapping Singapore's past reserves, economists told TODAY ahead of Deputy Prime Minister Heng Swee Keat's ministerial statement on a supplementary Budget.

If the President approves, it will be the second time in Singapore's history that the Government has drawn down on its national reserves — the first time was in 2009.

Asked for their forecasts, economists TODAY spoke to estimate that the size of the second stimulus package could fall between S$14 billion and S$33 billion.

A supplementary budget in this range would require a larger draw down on the reserves than in 2009, when around S$4 billion was taken out from past reserves. The current term of government has an accumulated surplus of S$7.7 billion, after taking into account the projected deficit of S$10.95 billion incurred by the Government's total spending in Budget 2020.

During the Budget statement last month, Mr Heng, who is also the Finance Minister, announced two special packages to cushion the impact of Covid-19: The Stabilisation and Support Package for workers and businesses, and the Care and Support Package for households, totalling S$5.6 billion.

But since then, the Covid-19 crisis has worsened around the world and several key industries that depend on the free movement of people — tourism, aviation and domestic commerce — risk being decimated.

Earlier this month, Mr Heng said that like the Budget 2020 measures, helping workers keep their jobs would be a key aspect of the second support package. He added that he would not rule out the option of tapping past reserves.

Singapore, as well as the world at large, appears to be heading into a recession, said the economists.

"The magnitude of the system shock we are experiencing now, with lockdowns of unknown duration being implemented around the world, are well beyond what was contemplated just two months ago," said Mr Christopher Gee, who heads the governance and economy department at the Institute of Policy Studies.

DBS senior economist Irvin Seah said last week in a research note on a second stimulus package: “Plainly, the focus has shifted from mitigating the impact of the Covid-19 outbreak to cushioning the economy from an imminent recession.”

Singapore may still need to leave some in the tank as there could be a possible third stimulus, to be used as a contingency fund if the situation worsens, he said.

Mr Ong Sin Beng, JP Morgan’s executive director of emerging markets Asia, economic and policy research, also said that further packages could happen, noting how open Singapore’s economy is to trade and travel-related services.

“Given that containment measures have been gradually increased, it also suggests a dynamic fiscal response calibrated to the severity of the containment measures. Thus, the supplementary budget on March 26 may not be the last,” said Mr Ong in a research note.

Earlier this month, Prime Minister Lee Hsien Loong had warned that the economic impact of Covid-19 was likely to be worse than the global financial crisis.

UOB economist Barnabas Gan said: “The question about whether to touch the reserves is not about prudence, but about necessity… The priorities of this second stimulus are likely to be similar to 2009 — to keep companies afloat and save jobs.”

Mr Song Seng Wun, CIMB Private Banking economist, added that Singapore must also accept that even though the stimulus measures may help — whether in the form of tax cuts or wage subsidies — they are ultimately temporary and will eventually need to be removed.

He gave the example of some Asian countries whose governments were not able to walk back from the support measures imposed during the 1997 Asian Financial Crisis, and remained in deficit until today.

“If you take away taxes, for example, you have got to put it back after the crisis blows over. When things normalise, it is essential to resume with the way things were,” said Mr Song.

Once the economy rebounds, the Government will likely return the money back into the reserves, added Ms Sian Fenner, the lead Asia economist at Oxford Economics. The S$4 billion drawdown in 2009 was returned to Singapore’s reserves in 2011.

What the second stimulus package could entail: economists

Taking a cue from the Budgets of 2009 and 2020, economists said the Government will likely adopt similar measures to protect and create jobs by supporting companies through rough weather, with an aim to keep unemployment low.

- More jobs and employment support to slow retrenchments

To help firms hold on to their workers, several economists suggested defraying wage costs by enhancing the Jobs Support Scheme announced in Budget 2020, which offsets 8 per cent of the wages of each local employee for a period of three months.

This could be raised to 12 per cent — similar to the measure taken in the 2009 Resilience Package — and enhanced to cover a full year of wages, said UOB's Mr Gan.

Singapore Business Federation (SBF) chief Ho Meng Kit said that wages are a key component of the operational cost of businesses, many of which are under significant cash flow pressures.

More can be done to help firms with these areas, he said, adding that the Government needs to send a "strong signal of assurance" to businesses and workers.

- Maintain hiring

OCBC Bank's head of treasury research and strategy Selena Ling said the Government may create employment by hiring more workers, such as for public healthcare services, as well as to fund temporary hiring for new graduates.

Mr Gan said this is similar to the Resilience Package which targeted the creation of 18,000 additional jobs.

DBS's Mr Seah suggested tax deductions for profitable companies to encourage them to hire retrenched workers.

Ms Fenner, who is also an economic advisor at the Institute of Chartered Accountants in England and Wales, said the Government could also push forward with public infrastructure and large scale projects to cushion the blow to the private sector.

- Aid businesses with cash flow

Ms Fenner said the Government would likely look at providing immediate help to firms with cash flow problems. Mr Seah mooted a one-off cash grant to be disbursed to micro and small enterprises immediately.

Other moves could include further enhancing the Enterprise Financing Scheme, as well as expanding temporary bridging loans and working capital loans, so as to give businesses more access to capital, said the economists. The Government may need to shoulder more risk in some of these loans, they added.

Mr Gan said rental waivers and property tax rebates for certain businesses could be extended as well, since the current month-long waivers at hawker centres, for example, are insufficient for a prolonged pandemic.

"Further tax relief will also help to put some cash back in the hands of businesses, giving them more breathing room to mitigate the far-ranging impact of the outbreak," suggested SBF's Mr Ho.

- Support for households, the unemployed

The S$1.6 billion Care and Support Scheme announced in Budget 2020, which was meant to aid Singaporeans with household expenses, could be expanded further. This would tide Singaporeans over the crisis for a longer time, said Mr Gee.

Ms Ling from OCBC said giving more cash assistance, especially to lower-income households beyond the S$100 to S$300 disbursed earlier, is also possible.

She noted that several jurisdictions, such as Hong Kong, the United States and Japan, are already pondering this move in a bid to address the significant “demand shock” caused by Covid-19.

For retrenched workers, Mr Song said a “tax holiday” whereby affected workers need not pay personal income tax for a duration is also possible. DBS’s Mr Seah also suggested the same for all retrenched workers, as well as a one-off benefit for this group.

However, others said the Government is unlikely to dole out broader unemployment benefits. Ms Fenner said it goes against the Government’s preference for reemployment benefits over handing out financial support.

“It is likely the Government will expand the social assistance schemes for the low-income households through various community assistance programmes and short-term financial assistance. These will not necessarily be geared towards the unemployed,” she said.

- National capability development

The Government could also roll out measures to encourage firms to restructure and train their workers during the downtime to prepare for the inevitable rebound, said experts.

Said Mr Gee: “This can follow the lines of the transformation and growth theme in Budget 2020, providing people and enterprises with the capacity to take advantage of this crisis to restructure and upgrade.”

To this end, Ms Ling said the new measures could include further subsidies for worker training.

Mr Ho added: “Businesses which are ‘first out of the gate’ would likely be the ones which had heeded the call to take this opportunity to continue with their transformation plans and reposition themselves for recovery.”