Why a forward-looking Budget is needed

Spore’s pre-emptive strategies have served its well in mitigating crises in the past. Will it have the resources for the looming challenges ahead?

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At an international conference in Budapest organised by the Central Bank of Hungary last week, there was an intense debate among participants on the effective role of central banks.

Singapore was repeatedly identified as an exemplar model where the central bank and the government have consistently worked together as well as crisis management. The discussion of the Singapore model among central bankers was dominated by how Singapore effectively managed crises, leading to a swift rebound from every economic recession or slowdown.

However, I thought the debate largely missed the point— the severity of the crisis in the first place was mitigated, due largely to strong and stable economic fundamentals and efficient resource allocation for firms and individuals within the micro-economic environment.

PREVENTION RATHER THAN CURE

Singapore’s fundamental strategy in effective crisis management is rooted in preventive and pre-emptive moves, rather than cure. The recent precedent is the drastic measures taken by property purchases, sales and related borrowing, coupled with pre-emptive market calming measures, are just a case in point. As small and open economy, Singapore’s macroeconomic condition is constantly and strongly influenced by external factors.

These include business cycles, trends, and numerous political changes coming from a large number of external economic factors. The crisis stems from these factors.

Comprehensive Economic Partnership were given a further push for the last cycle of completion. Singapore’s consistent support for the Comprehensive Economic Partnership was clearly stated, in fact, it is anticipated to be signed together with three other member countries.

It would not be surprising to see an early exploration and preparation for a bilateral FTA between Singapore and the United Kingdom, a country the regional integration is already being contemplated by senior civil servants before Brexit comes into effect. Singapore’s vanishing leadership in FTA for greater economic connectivity and regional integration is widely recognised.

In 2017, Singapore for the first time in 12 years, Singapore’s economy is not the largest in the world, after London and New York, overtaking Hong Kong from fourth position, according to a London-based think tank. Thus, establishing Singapore as an infrastructure, arbitration, investment and financing hub in Asia and promoting internationalisation of the market, which is still partly open for new opportunities, is a task that must be set up.

Urbanisation is in the next phase of development for China and India, and Singapore is in the middle class of pioneering domestic consumption. Singapore’s businesses and government-linked companies must gear up to explore new markets and bring their urbanisation drive by setting new standards. As a city-state, we have

179%

what Singapore’s productivity growth would have to be at per annum, for the economy to grow at 2.8% per annum, according to an econometric model simulation by the Asia Competitiveness Institute at the Lee Kuan Yew School of Public Policy. This is highlighted by several international studies that have rated Singapore very highly in terms of ease of commerce, digitalisation and digital livelihood.

FIRM FOUNDATIONS: THREE COMPONENTS

To some opportunities arising from new development trends globally, there must first be a conducive business environment and a competitive corporate tax structure at home; these are vital for small and medium-sized enterprises to build strong foundations and prepare to venture abroad.

Good financial discipline with forward-looking budgetary planning and ensuring genuine policy and exchange rate stability at home are important in a ‘safety buffers’, enabling companies to better cope with the next economic downturn or financial crisis. As a country that has been exposed to numerous shocks, Singapore’s microeconomic stability and resilience is crucial.

GROWTH AND INCOME OUTLOOK

From 2019 to last year, Singapore’s general GDP grew at an annualised 3.5% per annum. Over the same period, the average annual productivity growth was 1.26% per annum. Looking ahead, the economic model simulation by the Asia Competitiveness Index at the Lee Kuan Yew School of Public Policy, relying on several assumptions, including labour productivity growth and per cent employment growth, predicts that for the economy to grow at 2.8% per annum, Singapore’s productivity growth would have to be at 1.79% per annum.

The productivity growth last year was 2.0% per annum and is expected to improve gradually. When preparing a national budget, the finance minister would usually examine the forecast GDP growth, but as the estimated government revenues minus government expenditures and in the case of Singapore over the last two decades, significant factor in the amount of Net Investment Income (NII) that can be drawn upon to help in the event of budget surpluses.

Contributions of NII to the Budget have been over the years, from an average of $28.2 billion in the years 2000-2009 period to a high of $35 billion per year between 2009 and 201, and almost doubling to $14.54 billion per year from 2016 to 2018. The NII contributions have risen over time, especially since 2009. In large part to videol lagging in and mitigate the effects of rising income disparity. Special tax breaks were made available for funding for essential public expenditure, including healthcare, transportation, housing, and education.

As our population ages rapidly, more financial resources will be required to meet the growing needs and benefit-linked packages such as the Pioneer Generation and those in the forthcoming Merdeka Generation.

Given the challenges faced by the elderly, a comprehensive, value-added, skill-driven education to increase the quality of life, life-long learning and targeted skill development programmes, as part of overall efforts to reduce income disparity and ensure a more inclusive society in the long term.

Money also needs to be set aside for contingencies and emergency demands. For instance, airport and sea port expansion plans, as well as to fund the additional Budget on the expected economic impact on employment opportunities. As these developments and trends are unlikely to go away any time soon, the Singapore government cannot afford to be complacent.

Singapore has done well thus far with its pre-emptive strategy in economic management. Faced with these challenges, Singapore has continued to strengthen its foundations for achieving macroeconomic stability, as well as its ample financial resources that will, with well-planned budgetary measures, continue to provide micro-economic efficiency and soft- and hard-capacity building.

However, the public in large and the business community would need clear assurances from the Government and the finance minister, in particular, on whether Singapore is prepared to face this. In the short term, to come up through financial resources and to respond timely to the potential challenges and opportunities.

Office workers in the financial district. Singapore's fundamental strategy in effective crisis management is rooted in preventive and pre-emptive moves, rather than cure. And it has remained competitive in global trade by seizing opportunities and making itself relevant in the face of changes. PHOTO: REUTERS.