

Prime Minister Lee Hsien Loong's National Day Rally speech on Aug 17, 2008 - Part 1

Tonight I will start by talking about the economy. I haven't done so in detail over the last few years because the economy was doing well. So we were focusing on social issues - income gap, ageing population, CPF. But it's timely to pay some attention to the economy now because conditions this year are more difficult.

Over the last few years when conditions were good, we surged ahead. We did the right thing. We planned, we pushed, we built up our momentum, restructured and upgraded our economy & brought in a pipeline of good projects - F1 Grand Prix, the IRs (Integrated Resorts), our financial services, banking doing well, major investments brought in by EDB (Economic Development Board) through very hard work. And now these projects will sustain our momentum & keep our economy going.

But dark clouds have gathered around us in the external environment. The US faces very serious problems. Their house prices have ballooned, bubbled, crashed and are still falling. Unemployment is going up. Consumers are losing confidence, spending less. And it's affecting the rest of the world as has to be expected. And Europe, the major economies, have gone into negative growth, and we must expect impact on Asia also.

These global economic problems will continue at least into next year. And some experts think it may last even longer.

We are starting to feel the impact in Singapore. In the second quarter our growth has slowed down, our manufacturing sector has been affected, our exports are weak this year, tourist arrivals are down. Even Asian tourists are travelling less, partly because airline fares have gone up - the fuel cost. Retail stores say that customers are more careful, and restaurants have also fewer guests now in Singapore. Singaporeans are more careful with their money.

This year I think we can get four to five per cent growth. It's not bad. Next year we expect slow growth and more uncertainties. I'm not predicting a crisis. We're competitive. Investors still want to come to Singapore. And we have a strong pipeline as I explained, but we have to be vigilant and we have to be psychologically ready in case of trouble. But we also must be on our marks, so when the global economy recovers we can bounce right back up.

Right now the hottest issue for Singaporeans is the rising cost of living. Inflation is not just a problem for Singapore. It's a worldwide problem because oil prices have gone up, food prices have gone up. I show you a graph of oil prices over the last few years and you can see how in 2000 we were paying about \$20 a barrel and gradually it went up \$60, and in the last one year it spiked all the way up nearly 140. Now back to about \$115 a barrel.

Food is an even more dramatic story. I show you rice because that's what affects Singaporeans. And you can see the price has very stable for a very long time, gone up a bit two years ago, and in the last one year tremendous spike, now come down some to US\$800 per ton. And maybe it will stabilise there or maybe it will come down a little bit. And similarly with oil, there are some signs that maybe it will come down a little bit. But even if it does, it's still high and it's quite understandable why people are agitated all over the world and demonstrating, rioting, protesting, blaming their governments.

I show you some slides from around the world.

This is Europe. These are truckers in France protesting about diesel prices. So they are blocking the roads.

This is Spain. Farmers put all their tomatoes on the road because their fuel prices have gone up.

Indonesia - the government raised prices of kerosene, demonstrations and riots.

Pakistan - we're not having a dance. We are showing their displeasure at their government, because food prices went up.

Philippines. Philippines sells their people subsidised rice, ran short of supply, there was a scramble, mad scramble. The government had to scramble internationally to buy rice. Domestically long queues. Big problem.

Fortunately in Singapore we have plenty of rice. So you don't see riots. All you see is Mr S. Iswaran, Senior Minister of State for the Ministry of Trade and Industry, inspecting our rice stockpile. But I know that people are unhappy still about the price increases. I've read a lot of the interesting things on the Internet. Some are quite good. I don't have time to show you all of them, but I'll just show you one tonight. This one says: "Wapiang eh! The ERP has reached Pedra Branca." I sent this to Raymond Lim. He said that's his favourite one too.

I completely understand how Singaporeans feel and why Singaporeans feel like this. But we have to react rationally to understand what's happening to us and what we can and cannot do about it. We can't prevent prices from rising in Singapore.

We import all our food except for a few eggs, and Mah Bow Tan reminded me a few fish. We import all our fuel and all our electricity is produced from imported either fuel oil or natural gas. So when the world prices go up, how can we keep our rice prices, our petrol prices, our diesel prices, our electricity prices down?

It can't be done. In terms of dollars, your wages have not gone down because most workers are earning more dollars this year than last year. Last year was a good year - people got good increases, got good bonuses. So you have more dollars. So when you spend those dollars, you find that they have shrunk. And with inflation, what that means is that some of your wage increase went to you, some of that wage increase went to the people who sell us oil.

So to put this in a very simple over-simplified way, the oil producers of the world have got rich. The Russians, the Arabs, they've got rich. The oil consumers of the world like Singapore, therefore we have got a little bit poorer. That's what it is. They are richer, we are poorer. How has it happened? Not by taking dollars away from you but by shrinking each of your dollar a little bit smaller when you spend it.

Singaporeans wish that the government would do something to stop these prices from going up, just order them to stand still, control them, don't let them go up. Some governments try to do that. But the subsidies cost huge sums of money and all the governments who try to do this have very serious problem on their hands.

And even those who produce oil and gas find this very hard to sustain, because you look at Malaysia. They subsidise oil, but what happens? Singaporeans go to Johor Bahru to top up. And Thais go across from Thailand into Kedah to top up - not your petrol tank but the huge special tank in a truck so as to get maximum benefit. And they are oil producers.

So they've had to cut their oil subsidies and push up prices recently. Malaysia, Indonesia did that, also an oil producer, China - produces some oil, India also - no oil but they were subsidising. It's untenable. We can't do that but we can help Singaporeans. And the way we help Singaporeans is to let the electricity price go up but to top up your SingPower accounts with U-Save and give more U-Save to the poorer households - three-room flats, two-room flats.

And what that means is we're helping you directly because U-Save really is cash. We're putting it into your account, up to you to spend. And if you use it for electricity, well then it helps you to cover your bill. If you

use less electricity, it will last longer. But it's a lot of money because for the lower income households - three rooms and below - it's worth three to six months' worth of your electricity bills, of your utility bills. So that's a lot of money.

So we can help but we have to help in the right way. And this year we've done more to help Singaporeans. We foresaw this spike in inflation last year. Towards the end of the year as prices started rising, we knew that Singaporeans would be worried. We started planning what we could do to help them, what we could do to reassure people.

And when it came to the Budget, fortunately we had a surplus last year, we were able to make a significant distribution in the Budget to help all Singaporeans, but especially for the middle income groups and even more for the lower income groups, needy. So we have Growth Dividends, Medisave top-ups, U-Save, so many measures, such long lists but all to give help where the help is needed.

Besides the Budget we have many other measures to help the needy. For the lower income workers, we've got Workfare to top up their income and savings. And this year in the National Wages Council deliberations, we made a special one-off payment to the low wage workers. We recommended it and many employers have done it because we knew that they would be pressed this year.

For the destitute, we have Higher Public Assistance rates, which we've revised up this year. I think it's now \$330 per person. We've got ComCare, we've got Medifund. And for retirees, we've pushed up the CPF (Central Provident Fund) rate, which was one of the things we discussed here last year at the rally. One extra per cent interest on the first \$60,000 of your balances. And it's come into effect this year and it will help to preserve the value of your CPF savings for your old age. So it's helpful to retirees, it's helpful to the young people and not so young but not yet old. Overall it's \$3 billion from the government this year, and I think that's not a small sum of money.

I know that many Singaporeans who are not so poor but also not so well off feel that they are pressured - middle income Singaporeans. And they feel that they're the sandwiched class, stuck in the middle. But when you ask who's the sandwiched class, all the way from quite low down to quite high up, it's a very fat sandwich. But they feel sandwiched, and we haven't forgotten them.

We've got Growth Dividends extended to them. We've helped them with their education costs. For example, the polytechnic and university bursaries have been extended, so large proportion of students are now eligible for bursaries. We've topped up the post-secondary education accounts for all school-going age children. And that includes all of the middle income groups. And that's a big sum of money. I know that the middle income put a lot of emphasis on education, and this is one way to build up, so when your kids go to poly or university, well that little kitty, that nest egg is there.

But overall I think our most important strategy to help the middle income group is to keep our taxes low and therefore minimise your burden. And if you look at our personal income taxes, actually they're already lower than most other countries. And for middle income Singaporeans, in fact our income tax is lower even than Hong Kong by quite a lot. And on top of that, this year we gave a generous 20 per cent personal income tax rebate in the Budget, costing us nearly \$400 million aimed at these middle income Singaporeans. So I think if you look at it in perspective, we have done a great deal to try and help the middle income Singaporeans.

I know there's one item which middle-income Singaporeans worry a lot about. And that's cars. And car-related taxes are something which the government studies very carefully.