

## **Transcript of Minister Tharman's interview with Bloomberg TV**

**Minister, tough position to be in. The 4<sup>th</sup> recession in 10 years. It does seem like Singapore may need to tweak, restructure even, the way it does its business.**

Well, it is the 4<sup>th</sup> recession in 10 years. But what's the average for the 10 years, including the Asian crisis – it is still above 5%. That's not a bad average, well above advanced countries' rates of growth.

So we are a country that's plugged into global markets – we go up, we go down. But the question is what is the trend? Are we on a secular path that is still superior? I think we are not doing too badly. The fundamentals of our growth model are, I believe, sound. But we have to keep improving, keep learning, never stay still.

**Should Singapore then be aiming to be less susceptible to the volatility in the global market.**

Well we should not be less susceptible to global markets. That's our future, that's where our fortunes are tied to. But it comes with volatility, particular the high value-add types of industries – both manufacturing as well as services. They are volatile, and high value production also means we are plugged into markets that are largely in the rich countries. So when we go through a global crisis like this one, we come down very quickly. You don't have Asian domestic demand buffeting you as much as, let's say, the Chinese have.

So we accept the volatility, we learn to deal with it and we learn to come out of it the right way. The way we came out from the Asian crisis - we didn't come out the same place we started off. We didn't come out of SARS the same way we started off. We always try to come out leaner, smarter.

**Let's take a look at the jobs issue, it's a problem that has hit everyone in the world. Looking at the numbers, staggering numbers coming out of Credit-Suisse – which says 300,000 jobs may be lost by 2010. 200,000 foreigners may leave the country (Singapore). Is that a possibility that you have considered?**

We have to expect retrenchments to go up. It is happening in every country. Demand is contracting, shareholders are losing a substantial part of their assets, in fact all the asset markets are declining, and unfortunately, there has to be some loss on employment as well.

So the question is what we can do about it. We can't stem the tide, but we can minimise it to the extent possible in a recession. That is why this year's Budget is focused first and foremost on preserving jobs to the maximum extent possible in the recession. That's our principle objective. You can't stop the drift because it is global, it is demand-driven, but you can try to minimise the costs.

**A population drain would have implications on the economy in the longer term surely.**

It will curtail demand somewhat. But the longer term is a function of your fundamentals – whether you are a competitive economy and whether you have got the capabilities. Singapore will come out of this. We will bounce back, the way we bounced back 3 times already in 10 years. But you want to come back in a way that tells your people as well as the world that you are prepared for a different game. You're smarter, you're better prepared, you've got greater capabilities, more R&D.

### **But what's your ammunition?**

Our ammunition in the short term is to provide significant grants to companies at large to tide them through this crisis, and more grants to companies in specific areas where they are building up capabilities.

You can't help companies that are inefficient, that has lost their appeal in the market, but you can help viable companies see this through. And if you do that well, you preserve jobs and you help Singaporeans. So that's basically our strategy – work through the supply side, help companies that are viable stay afloat and help them prepare for the future.

If you look at this year's Budget, a fair amount of what we are doing is not in the short term. It is really aimed at incentivising companies to do more for their recovery in the next 5 years. Our investment allowance has been significantly juiced up; our corporate tax rate has been cut; and a number of other measures as well. All aimed at not just seeing throughout the crisis, but preparing for recovery, preparing for the long term. So we are distinguishing between companies that here for the long term - that are viable, growing and have good products - and companies at large. Give more to those who are preparing for the future.

**Like the rest of the world, every single is implementing measures to pull itself out of the recession. What's your take on where the global economy is at this point in time?**

I think Governments are moving in the right direction. Fiscal stimulus is the name of the game because there is only so much monetary policy can still do - interest rates are already very low.

It is left to be seen how effective this is going to be. We are facing a crunch in private spending globally, both in consumption and investment, and the fiscal stimulus is at best a partial offset to what's happening there. But it is useful and it is in the right direction. The Americans in particular are providing a major boost to the economy. There are some questions as to how quickly this can be rolled out – what the impact will be this year.

In our case, we are a smaller economy, and can move somewhat faster. We're injecting 6% of GDP through the Budget – all to be rolled out this year, whether in tax or spending measures. So it is a significant boost to the economy and helping firms so that they can keep their workers.

**Are you optimistic about the US economy and the stimulus package that it is likely to implement.**

At this point, the words optimistic and pessimistic have lost their relevance. You are really talking about uncertainty. Visibility has weakened short-term. Everyone has to admit that. If we're lucky, I think we will get out of this by the end of the year. But we are unlikely to see a strong recovery in 2010. The basic reasons why the economies are down all over the world are not going to resolve themselves in one year.

You are talking about the US consumption bubble, the credit bubble, the commodities boom, which once unraveled, is an adjustment of a very large scale. We are not going to get US consumers going back to the old ways of spending very quickly. There is an overhang of household debt that is substantial relative to their incomes. Can someone else step in to take up the slack left by the American consumer? Unlikely. Certainly not with the right magnitude.

**Not even China? You said before that if we were to bring in China, China can help itself, but not the world. What made you think that?**

Well, if you look at China, consumers are facing the same uncertainties. Declining prices of homes and asset prices generally. The coastal regions where the bulk of the middle and upper income groups are located are seeing a very severe contraction in economic activity – including retrenchments. That's not conducive to consumer spending.

So I think China will continue to lead the world in growth overall. But if you look at the numbers, China accounts for about 3% of global consumption where America accounts for 20% of global consumption. So a change in China is still a very small change for the world as far as consumption is concerned.

**The man who called the recession correctly last year was Nouriel Roubini. And he has said that China is possibly in recession. How does that complicate the whole situation?**

Well, no one can say for sure. From outside China, we are looking at only a few pieces of data, whether it is electricity consumption or industrial production. But the Chinese Government is clearly determined to do as much as it can to offset this contraction in private demand.

**If you were to take a look at the banking crisis, what's your take on what needs to be done?**

**The IMF has come out to say that perhaps government will need to pump in money into ailing banks. Is that a solution?**

It varies from country to country. If you take Singapore for instance, our starting point is quite different from the UK or US. Our banks have very little toxic assets on their books – non performing loans are below 2% at the outset. We have not had to contemplate recapitalization because our banks are very well capitalized and they don't have an overhang of existing bad debts.

What we've done instead is to offer a very generous scheme of government risk sharing on all new bank lending. The banks make the lending decisions, and we will take 80% of the risk on all new loans including refinancing of existing loans. That's a very significant move by the government, but we think it is the right measure in our context.

**It does matter though how foreign banks deal with their problems because Singapore invests in the global banks. And what's your take on how they have managed the issue?**

Every large, global bank is looking at building up its capital, much more than it is looking at extending new loans. So we are still at that phase in the crisis, where capitalization is the priority, and estimates of the extent of the bad assets of their books are still on the upswing. So we haven't seen the worse yet. That's why I think it is right that governments re-capitalized banks in the West, and they are trying their best to incentivise new lending. But it is too early to say how successful this will be.

This is a systemic problem on the global scale. We've got to get everyone acting in the same direction, but not always with the same mechanisms. Government has to take more risks, and that means that tax-payers have to be willing to foot part of the bill in order to save the system and preserve jobs.

**Is nationalization the answer?**

I can't say, I can't speak on behalf of other countries.

**How does it look like?**

Well, I think that in Asia that is not required, because the banks, by and large, do not have over-stretched balance sheets. They are not in great need of new capital, although some Asian banks will need more of a buffer. But it is not so much of a problem in Asia.

**How concerned are you about Singapore's investments in global banks? I mean, like Temasek's investment at Merill...**

We always look at our investments, from the perspective of the government, as a portfolio. We look at the whole portfolio, and we look at the long-term. And so far, Temasek and GIC have performed credibly by international standards, over a long period of time. The government never gets into the game of looking at specific investments, or trying to shape Temasek and GIC's specific investments. They've got to make their risk decisions, and we look at the overall return. So far so good, and we've got to ensure that we maintain that record of prudent investment of portfolios as a whole, diversifying risks, and being prepared for crises from time to time.

**But the risk is escalating. I mean global banks are now becoming consumer banks, as opposed to investment banks, and so people's losses would actually translate to actual losses in the longer term.**

We would be worried if global banks comprise a large proportion of the portfolios of GIC and Temasek, or for that matter, any other highly vulnerable industry globally. But these are diversified portfolios, with not a large degree of concentration risk. But everyone has been down this year. Every major investor has seen a reduction in the value of their assets.

**But sometimes it is like catching a falling knife, getting the right price? When I last spoke to you, was about Temasek's investment in Merrill. One of the reasons given was that, they believed and were confident in John Thain.....**

I have always, and the government has always had a policy, that we will not comment on individual investments. What is of concern to us is the portfolio. To run a successful portfolio, you've got to take risks, you've got to calculate and weigh the options carefully. But if you do it well, if you diversify well, over the long term you come out okay. And that is what we have achieved so far.

**So you are comfortable with the position right now?**

We are comfortable with the actions that both Temasek and GIC have taken early in this crisis, to reduce risks, to move into a more liquid asset allocation, and to prepare for opportunities in this downturn.

**Any reasons to think that perhaps they should increase exposure to the financial industry right now?**

I would rather not comment on that. It is not the job of the government. They (GIC and Temasek) make those decisions, and we look at the overall returns.

**You can't say I didn't try. Now taking a look at Asia, Asia has escaped from this financial crisis pretty unscathed. Is there perhaps a risk that, for 2009, that it would be in a more severe position?**

Well, first, we are not decoupled, especially with the global decline that we have seen. Asia might have started tumbling a bit later than the western economies, but if you look at things from the third quarter of last year, especially in the last 4-5 months, you can see a very significant downward momentum in every Asian economy, and across most of the major industries. So if there ever was a soft decoupling of Asia from the West, we are now firmly re-coupled in the decline.

**Alright, Minister, thanks so much for your time.**