

Concerns about economy go back to mid-2008

President makes public for first time his decision to allow use of reserves

President S R Nathan: The background against which we are meeting is that we're all grappling with the consequences of the financial collapse and economic depression that's afflicting the world, and the impact it is having on Singapore.

It's now overwhelmingly the priority of Government, of business, labour and you and I, and all of us.

The current situation is dire and even most perplexing. Solutions differ from country to country but what we are doing has been well elaborated during the recent Budget debate.

The Resilience Package, the two schemes - the Jobs Credit scheme, Special Risk Sharing Initiative - these have been elaborated upon during the debate.

I want to dwell on how the Council of Presidential Advisers (CPA) and I dealt with the request to use the past reserves and the process that was followed.

Firstly on Constitutional provisions.

The Constitution does not prescribe the process for dealing with a request for using past reserves beyond the need for me to consult with the Council of Presidential Advisers and to publish my view that there is a draw on past reserves when I so approve a draw.

The just completed Budget session has brought out a lot of interest in the process of dealing with past reserves and the question of when past reserves can be used, and calls have been made for the explanation of the process and how to use it and how approval is granted.

What was the process followed in giving the in-principle approval for the release of the \$4.9 billion from past reserves, which is part of the Resilience Package of \$20.5 billion?

Well, since mid-2008, the CPA and I have been seized with concern about economic trends and at our request, we were given periodic briefings on prevailing world economic trends and what impact they were having on Singapore.

These briefings have been useful and also revealed to us the nature of economic trade and investment trends as well.

During the phase of these briefings, you all will recall also that the forecast for our growth was revised from time to time.

In August 2008, the forecast for the year was 4.4 per cent to 5 per cent. In October, it was 3 per cent. In November, it was brought down to 2.5 per cent. In January, the forecast for 2009 was -2 to 1 per cent and later, I think at the time of the Budget, it's -5 to -2 per cent.

These figures really gave us an indication of the meltdown in the financial markets; that it was spreading to the US, Europe and Asia; the serious impact it's having on our economy and our growth.

The negative growth in the percentages that were revealed towards the end of the year and January, the implications for our exports - we are primarily an export-oriented country - the impact it was having on jobs and likely to have on jobs, confidence of companies in remaining here to continue with their business.

The Ministry of Finance was seriously concerned about this extraordinary situation we were facing and this is unlike anything that we have faced in the past.

The concerns over its impact and its social consequences were evident to everybody, whether we were in Government or whether we were not. So financing the remedial measures was seriously thought of at that time and, I suppose, to resort to past reserves was also taken into account.

That is the context in which the Prime Minister made an approach to me.

He touched on the dire economic circumstances, he shared his concerns. He revealed the nature of economic news from the US and the West which was unrelentingly bad. He also pointed out the confidence in the US banking system was worsening and global financial systems were in jeopardy, and the need to go for extraordinary measures to give confidence locally, and to address the impact it would have on our people, particularly the low-income.

PM also feared at that stage that the situation could prolong or worsen if it's not addressed immediately and measures will be too late to have an effect to stem the adverse consequences if we didn't act now.

He stressed the need to seek my permission and approval to use past reserves, specifically for the two schemes: the Jobs Credit scheme and the Special Risk Sharing Initiative.

The CPA and myself were already aware of the circumstances that were prevailing and how they were impacting on us. So I agreed at that stage to give every consideration to the proposal when it was submitted to me.

After that, the Minister for Finance came to see me and he formally made a request the next day for the specifics of the scheme and sought a meeting to discuss this in greater detail.

So a meeting was convened with the CPA and myself and it was addressed by the Minister for Trade and Industry, Minister for Finance and it was attended by people from the Attorney-General's Chambers (and the) Accountant-General.

The Minister for Finance and the relevant officials went through the Resilience Package of \$20.5 billion with (its) focus on saving jobs, keeping companies afloat and the long-term infrastructure and capability development that have to be embarked upon.

When the CPA was convened on my direction, two briefings were provided - first by the Minister for Trade and Industry and his officials and the Monetary Authority of Singapore, and the second by the Ministry of Finance.

Since the annual Budget had been moved ahead to Jan 22, a month ahead of the normal schedule, the urgency to address the request was evident to us at that stage.

The Minister for Trade and Industry led the briefing by MTI and MAS on the economic and financial situation globally and its impact on Singapore, and its potential impact in the future.

The meeting was given a broad overview of the prevailing economic circumstances and what it was expected to lead to, given the worsening conditions in the US, in the West and in Japan.

The uncertainty of how long it will take to restore the US economy and that of Europe and Japan, and fears that the sluggishness of the world economy will continue was also emphasised.

The briefing also covered an assessment of the impact that the worsening global and regional situation was expected to have on the Singapore economy and the social consequences it portended for our people.

The prognosis for the year ahead and beyond was particularly distressing at that stage. This meeting was followed by questions by the CPA members and myself about how long the economic downturn would last and what prospects there were for an early return to economic growth, depending of course on the recovery in the US and the West.

The Minister for Finance led the second briefing... This covered the Budget strategy and a detailed explanation of two measures that the Government was

seeking to fund from past reserves. (He) summarised the deliberations and presented the proposal to draw on past reserves to myself and the CPA.

The CPA had an in-depth discussion with the Minister during the briefing and had their questions clarified.

The meeting adjourned with the Finance Minister (and) myself leaving the meeting for the CPA to deliberate on its own the formal proposals that the Minister for Finance had tabled, with particular reference to the proposed draw on past reserves.

As I told you earlier, we had earlier briefings in the middle of August of the trends in the economy and the CPA was then already quite familiar with the changing and rapidly deteriorating economic situation. The job losses in the US, the rising unemployment there, the ailing US banking (sector) and how they were already affecting our export-dependent economy.

Further, from their business and professional capacities, members of the CPA too have had direct knowledge of the dire situation from their business experience.

The fast changing circumstances and distressing news dictated the urgency to address the Government's request.

With the Budget session moved earlier, an early decision had to be taken before the matter was brought to Parliament.

At that stage I, too, was convinced of the need to agree with the proposal and I agreed to give such a request every consideration when it was presented to me.

I recognised the importance of giving confidence to go ahead with the measures proposed in the Budget for the particular reference to past reserves, bearing in mind (that) if the situation prolongs or worsens, negative consequences would have kicked in, making any measures too late to be of any effect.

As you may know, the CPA also has its own Secretariat and the Secretariat reviewed the details of the proposal with the CPA and provided them with relevant figures on the reserves and what the budgetary proposal of the Government would involve.

Legal advice was also sought on whether any Constitutional impediments existed in considering the request, and there were none.

So a formal proposal was tabled from the Minister for Finance on Jan 19.

There was further deliberation by the CPA on the request and they recommended to me that I give in-principle approval for the use of past reserves to the extent of \$4.9 billion.

Likewise, I gave in-principle approval, because at that stage it's not yet a draw. It's only after Parliament passes the Budget and the Supply Bill is presented to me to give my assent that I will give my formal approval for the draw.

So the urgency was dictated by the circumstances, and (with) the Budget session having moved one month earlier, we had to extend consideration.

From the process I have detailed, I hope you can appreciate the flow of events and the rate at which the decision had to be taken to respond to the changing circumstances.

In this instance, the process of seeking and securing my in-principle approval took approximately 11 days from the time the matter was first broached, even at the official level between the Finance Ministry officials, MTI officials (and) my own staff.

Q: Mr President, Senior Minister Goh mentioned three 'Nos' to using the reserves. One is for social programmes, social assistance, Number 2 permanent programmes, and Number 3 only in dire circumstances. Your views on SM's pointers?

President Nathan: As you know, it's not easy to say 'Yes' insofar as withdrawal of the reserves. So there must be compelling reasons why we have to resort to withdrawing from past reserves.

SM remarked about 'No' to (social assistance, permanent programmes).

Well, that comes during the normal Budget and one shouldn't resort to this - to make use of the reserves for that purpose. I think everybody would accept that.

As you know, our reserves are our only strategic asset. We import everything we need. We have to pay for the fuel, we have to pay for so many other things in a slump situation and our only fallback is that we have the resources to meet them.

We can't use it for each and every reason without considering its longer-term implications because if we exhaust it where do we go to?

Q: When you made the decision, did you have the information on like how big our reserves, how much of a draw this would be on the reserves...

President Nathan: Of course I have. Of course I have.

Q: What was your assessment of how big of a draw this would be on the reserves?

President Nathan: I don't want to belittle it, but I'm fairly confident that we can bear with it.

Q: Mr President, what's your advice to Singaporeans who may think that this is going to be a norm?

President Nathan: SM has already made a statement...We have to go through the normal process of using our budgetary process to provide for our services. The call to spend on the reserves has always been there, but we have always restrained it and I think they must recognise this is really savings for a rainy day.

Q: Among the Council of Presidential Advisers, was anyone against the in-principle approval of the draw down?

President Nathan: No, no. They're all people who are professionals in their own way who are conversant with the market and who know that the circumstances being described to us was not a fiction. So they know the reality of the problem.

Q: Do you feel it's possible that we would have to resort to another draw on the reserves in future?

President Nathan: We will have to resort to (a draw on) the reserves in the future. I do not know when but, you know, things could happen in this year or the next year and I am not too sure whether we need to resort to...Again, it will have to be very seriously thought of and if there's no other alternative it will come to that: whether there's a compelling reason to spend money on some scheme which has to be done. That will be for the Government to decide, I can't comment on it.

Q: I wanted to ask you for the context of calling this press conference. Did you have the intention to give your reasons after the Parliamentary debate?

President Nathan: When I give my decision I have to convey in writing to Parliament. So regardless of the temper of the debate I would have had to do it.

Q: Could you have held this press conference before the start of the Budget debate?

President Nathan: It would be presumptuous on my part to go forward and start to give explanations when explanations were not called for.

Q: The Government has given its reasons why (it sought to draw on) the past reserves even though it had enough (in its current reserves)...What's the CPA's and your own consideration?

President Nathan: Both the CPA and I recognised that this withdrawal is for two specific schemes, that between now and the end of the term of this Government anything could happen, more demands could come on it.

The Government itself may not want to resort to the past reserves each and every time they need money. So they need to have the current reserves to apply to such a situation. At the end of their term, if they don't spend it, it all becomes past reserves.

Q: Were there any areas where you have difference of opinions?

President Nathan: Well, personally no. As I told you, the circumstances in which we were moving to address problems was fairly well known. We couldn't dispute on the circumstances.

As to whether the proposals were right or wrong, we don't micro-manage government. And it's for the government in power to determine what is to be done.

Actually I'm not an Executive President. The Executive is really the Government. It's for them to find solutions to our nation's problem and come out with proposals. I personally could not find any objection to the two proposals they had made within the larger package, the Resilience Package.

Q: You mentioned that it took 11 days, this whole process. Does that include PM approaching you?

President Nathan: Yes, yes, of course.

Q: Was that enough time, 11 days...(given this is) the first time that they're going to draw on the reserves?

President Nathan: No. As I told you, the urgency was quite evident, and I think 11 days was reasonable. If it had to be, it could have been even shorter. But I don't think that's going to be a norm.

Q: When you decided, and when the CPA made its recommendations, what were the expectations of how long the downturn would last?

President Nathan: How long it will last was anybody's guess. I think even the best of analysts cannot predict given the circumstances. But the two specific schemes, especially the one on risk sharing and so on, there's a timeframe.

Q: PM also said that after a year if there's a downturn, there may be a need to extend the Jobs Credit scheme. Did you also expect or know that if you granted this, it could draw down the reserves even further if these were to be extended?

President Nathan: It all depends on what happens. So that was not a consideration in our minds.

Q: You didn't expect it coming. When PM approached you, you were not surprised?

President Nathan: There are two things to it. One, the approach of letting me (know) what the circumstances were and what impact it was having and what it feared would happen to our people. That part of it I more or less expected because everybody was concerned about it. As to what was the solution that he was planning specifically for jobs, to give confidence to companies to stay, to allow investments to come in and so on, that is the specifics. So I only came to know of it when he presented it.

Q: At what point did you come to a decision that you will give in-principle approval to draw on the reserves?

President Nathan: I knew it was coming. I can't say specifically when I decided. I had to wait for the advice from the CPA before I could firmly say I would say aye or nay.

Q: Having gone through this process, are there any areas in process or procedures leading to unlocking the reserves that you needed to fine-tune?

President Nathan: I think the process, whether you take it for 11 days or one month, will be the same. Only it takes a longer time to deliberate, and whether it's necessary. If we had the luxury of time of course we'd have taken a longer time. But the circumstances were such, people's confidence had to be restored. We could have waited longer. It would have been much (more) difficult to fix anything at that stage.

Q: Was there any pressure from anyone within the CPA for you to act quicker?

President Nathan: No, nothing. Well, the target was the Budget. That was set. So whatever decision that had to be made had to be made in time.

Q: What did you discuss with the Minister for Finance?

President Nathan: That's between me and him. Because we would have asked all the relevant questions that we wanted to satisfy ourselves.

Q: Would you have hoped that this request had not come?

President Nathan: Given the circumstances, given what was happening, I think everybody was wondering how are we going to meet this. We were not sure how revenue would fall, what schemes (to) have to fix what thing. So it was vague at that time. Of course all the time I wished you don't have to draw on that (the past reserves).

Q: You said you're obliged to explain. But are you obliged to give a press conference?

President Nathan: No. I can give a one-line statement in Parliament.

Q: Under what circumstances would you have said no to unlocking the reserves?

President Nathan: If they came with scatterbrained proposals I would have said no.

Q: Would you prefer the guidelines to tapping the reserves be fixed or flexible?

President Nathan: I think it should be flexible because, you know, you cannot envisage every situation that will come for which you will have to decide. So each situation will merit its own attention.