Opening Remarks

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for

Media Conference on Financing Schemes

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Outlook for the Singapore Economy

Members of the media, thank you for coming to this press conference.

Let me begin by recapping the outlook for the Singapore economy. The year began with the world in a deep recession. All the major global economies faced a severe slowdown. Manufacturing, trade and financial services were affected worldwide. Singapore was not spared and our 2009 GDP forecast is likely to be between -2.5% to -2%.

Banks were then cautious and risk averse. There was concern that the lack of financing for viable companies would exacerbate the downturn. The Government therefore moved quickly to enhance our existing business and trade financing schemes. The first round of enhancements was announced in November 2008. These included new schemes like the Bridging Loan Programme (BLP) to help firms meet their working capital needs, schemes to help start-ups, SMEs and also larger companies, as well as schemes to help companies who wanted to venture overseas.

Some further revisions were made in December 2008 to the business financing schemes, LEFS, BLP and MLP, to lower the interest rate to help businesses with their cash flow and cost of credit. For the Loan Insurance Scheme (LIS), Government's share of the insurance premium was increased from 50 to 90 per cent.

Two months later in Budget 2009, the Government further enhanced some schemes, and tapped on past reserves for the Jobs Credit Scheme (JCS) and the SRI. These were introduced for a one year period and they will expire come 31 January 2010.

These schemes have made a difference. Since their introduction in December 2008, more than 14,000 loans worth about $8 billion have been catalysed[1] under the SRI and the enhanced business financing schemes. Some 13,000 companies, of which more than 90% were SMEs, have benefitted from the schemes. The total amount of loans given was about 5.5 times more than the loan amount given out under government-assisted schemes over the one year period prior to the changes.

The worst of the economic recession is likely to be over. Asia is leading the global recovery with trade picking up and exports rebounding sharply. Industrial production in key Asian manufacturering countries has already recovered to near pre-crisis levels. Singapore came out of the recession in the 3rd quarter of 2009 and growth for 2010 is projected to be between 3

[1] 13,231 loans worth $7.6b been taken up or supported from Dec 08 to Oct 09.

to 5%. Today, business lending has also improved, with credit conditions easing.

As the economy makes the transition from recession to growth, the Government will ensure that there continues to be financing support for small businesses.

Principles for extension of schemes

The Government has thus decided to extend for another year, until January 2011, the financing schemes under the SRI, and to continue the enhancements to existing financing schemes that were introduced at the onset of the global economic downturn.

The extensions will be on revised terms, to take into account improvements in the global economic situation and the Singapore economy. The extensions are guided by two key principles, first, facilitate the recovery of commercial lending by minimising the impact on the free market, and second, recognise the need to maintain accessibility of funds to firms that require business financing.

The first principle - **facilitate commercial lending**. Government loans are not intended to replace commercial lending, but to complement it by incentivising financial institutions to lend to viable but higher risk companies at the margins. During the downturn, the loan schemes, with their unprecedented enhancements, such as Government risk sharing of up to 90%, have worked to encourage financial institutions to continue lending. However, as credit conditions ease and return to normal, the Government will revise the terms in tandem, so as to ensure that commercial lending is preferred over Government loans for low risk companies. This essentially means lowering loan quantums, tenures, risk share, premium subsidies, and not allowing the re-financing of loans. For example, with large firms now finding it easier to get commercial credit, there is no need for them to rely on Government loans.

The second principle - **maintain accessibility**. Smaller companies, especially those in badly affected sectors, may still have difficulty accessing commercial credit. We should ensure that SMEs continue to have access to credit. Given the continued challenges in the credit insurance markets, as well as in cross-border financing, we are extending the trade and internationalisation financing schemes, namely LIS+, ECS and IFS.

Conclusion

The extension to the SRI and other schemes underlines the serious commitment of Government to continue helping our businesses, even as the economic conditions for 2010 improves.

My colleagues from SPRING and IE Singapore will now give a technical briefing on the details of schemes and we will be happy to take your questions after that. Thank you.