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SG Bonus a boost for economy

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Finance Minister Heng Swee Keat announced in his Budget speech that Singaporeans aged 21 and above this year will get a one-off SG Bonus or "hongbao" of up to $300 each, in line with the Government's long-standing commitment to share the fruits of the nation's development.

This is the first time since 2011 that cash bonuses are being given out. At the time, an election year, adult Singaporeans received a one-time payout ranging from $600 to $800 depending on their income and annual home value in what was called the Growth Dividend programme.

This represented a significant income bonus of about 18 per cent of monthly median income at the time. A total of $1.5 billion was given out, more than double the $700 million going to the SG Bonus.

There must have been some lessons gleaned from the Growth Dividend programme to warrant a repeat of such bonuses. After all, in many countries, when the economy is doing well and there are surpluses, citizens are rewarded in other ways. The United States, for instance, gives tax rebates. So why a one-off cash bonus?

Both the Growth Dividend programme in 2011 and the SG Bonus were unanticipated.

As in 2011, there was no discussion in the media leading up to the announcement. For the next few weeks, this topic, together with the other Budget announcements, will surely be the subject of coffee shop talk as well as media buzz.

As much as this is a reward to Singaporeans for being a part of the nation's economic growth, we believe it is also an instrument that can be used to stimulate further growth.

When the Growth Dividend programme was announced, we at the National University of Singapore Business School realised that it provided an opportunity for a natural field study to examine the effects of a surprise policy announcement.

We studied almost 200,000 individuals whose credit and debit card expenses were documented for analyses – six months prior to the February announcement and six months after the disbursement.

To assess the impact of this cash bonus given only to Singaporeans, we identified locals from foreigners in our database and formed two matched samples in terms of age, gender, property type and occupation for valid comparisons.

We found that for every $1 in cash bonus received, Singaporeans spent on average eight cents more per month for the 10-month period after the announcement, which worked out to a handsome 80 cents per $1 received.

But for the foreigners' sample, there was no significant change in expenditure for the corresponding period. While, as to be expected, the spending effect gets smaller with time, the overall findings suggest that such bonuses motivate consumption, which helps spur the economy.

But what piqued our interest was how Singaporeans responded almost immediately upon hearing the announcement, even though they had not yet received the payout. Singaporeans immediately spent 7.4 cents more per month for every $1 expected in the two-month announcement period, similar to the monthly expenditure of 8.1 cents more during the disbursement period.

As spending was made prior to payout, it is not surprising that the increase was primarily concentrated on credit card usage (6.1 cents per month for $1 expected). There was no change in debit card spending during the announcement period. In contrast, when the bonus was disbursed, debit card usage rose, while credit card spending continued to be high.

Our findings showed that giving cash disbursements to people seems to work in getting them to spend, even when this is a surprise and one-off payment. In fact, Singaporeans have been shown to be very responsive – they started spending even before receiving the cash.

Will this reward-stimulation scheme work just as well now? When the 2011 bonus was announced, it was a time of economic growth. While recent years have seen corporate downsizing and job cuts, with Singaporeans more mindful of how they spend, the economic outlook now has improved.

Recent economic news has been favourable, with suggestions of a turnaround. The Ministry of Trade and Industry announced that the economy grew by 5.4 per cent in the third quarter of last year, the fastest in nearly four years, raising full-year 2017 growth to 3.5 per cent. With Europe, the US and Japan showing signs of recovery and a stock market boom, the economic circumstances in Singapore appear more similar than different to those in 2011.

Nonetheless, we note that the bonus is less than half of what Singaporeans received in 2011. It remains to be seen whether this smaller quantum is sufficiently enticing to stimulate spending.

In psychology, there is the matter of perceptual threshold. If Singaporeans do not see $100 as any different from not receiving a bonus, especially to those earning more than $100,000 or owning more than one property – the group which will get $100 – then it is unlikely to motivate them to spend more. Perhaps the Government feels that this group would spend more anyway as the economy improves. They do not need to be incentivised.

For the liquidity-constrained group which will get a $300 bonus, the question is whether, having fared the economic storm in recent years, $300 would be more valued as savings than as a bonus to be spent.

As they are likely to be hit with a liquidity crunch, $300 is welcome relief for them to spend. Moreover, the anticipation of the goods and services tax hike, albeit in at least three years' time, may spur people to spend now rather than later.

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