

17 MAY 2004

PRESS RELEASE

NATIONAL WAGES COUNCIL (NWC) WAGE GUIDELINES FOR JULY 2004 TO JUNE 2005

The National Wages Council (NWC) has completed its deliberations on wage and wage-related guidelines for 2004/2005. In deciding this year's guidelines for a wage increase, NWC took into account the following factors:

- Economic performance in 2003
- Labour market conditions
- Wages, productivity gain and inflation
- Cost competitiveness
- Economic outlook for 2004

2 The NWC also noted the recommendations of the Tripartite Taskforce on Wage Restructuring and deliberated on how this year's wage guidelines could help companies to expedite wage restructuring to make their wage system more flexible and competitive. A key recommendation of the Taskforce is that wage increases should be channeled towards building up the Monthly Variable Component (MVC), or the Annual Variable Component (AVC) linked closely with Key Performance Indicators (KPIs).

Economic Performance in 2003

3 The Singapore economy rebounded in the second half of 2003 in tandem with improvements in the external environment, after having being weighed down in the first half of the year by the Iraq war and the SARS outbreak. Overall, the Singapore economy grew by 1.1%, half the pace in 2002.

Labour Market

4 The labour market began to turn around in the second half of the year after a weak first half. However, the gains were insufficient to offset the losses in the first half of the year. Total employment fell by 12,900 in 2003, about half of that in 2002. Retrenchments for the whole of 2003 also moderated, with 16,400 employees retrenched, down 14% from the year before. The annual overall unemployment rate, however, averaged 4.7% in 2003, up from 4.4% a year ago.

Wages, Productivity Gain and Inflation

5 With the upturn in the economy in the second half of 2003, total wages (basic wages plus bonuses) of private sector employees rose slightly by 1.5%. Basic wages rose by 1.2% in 2003.

6 Overall labour productivity increased by 2.3% in 2003, down from 3.6% in 2002. The Consumer Price Index (CPI) increased marginally by 0.5% in 2003. For the second consecutive year, productivity growth has outpaced real wage increases (real total wage change: 1.0%; real basic wage change: 0.7%) in 2003. The modest

wage increase vis-à-vis productivity growth, together with the 3 percentage-point cut in employer's CPF contribution rate from October 2003, have helped companies to enhance their cost competitiveness.

Cost Competitiveness

7 Singapore's relative competitiveness has improved for the second consecutive year in 2003, largely as a result of the decline in the Unit Labour Cost (ULC). Measured against our key competitors in the manufacturing sector, Singapore's Relative Unit Labour Cost (RULC) for the manufacturing sector fell by an estimated 5.0% in 2003.

Economic Outlook for 2004

8 The global economic outlook remains healthy, with synchronized recoveries across all major economies. The improvement in the external environment will enhance Singapore's economic prospects in 2004.

9 The Singapore economy grew by a strong 7.5% in the first quarter of 2004, although some segments of the economy continued to report weak business performance. Barring unforeseen circumstances, the Ministry of Trade and Industry projects that economic growth for 2004 would be 5.5-7.5%.

10 The generally favourable economic climate is expected to translate to an improvement in the labour market. Although estimates from the Ministry of Manpower (MOM) showed that the seasonally adjusted overall unemployment rate remained at 4.5% in March 2004, unchanged from December 2003, unemployment is likely to ease to the lower end of the 4% to 4.5% range later this year. However, it is still higher than the unemployment rate of around 2% in the years before the 1997 Asian financial crisis and 3.1% in 2000.

11 Global competition for investments is expected to continue to intensify. Competition from China and India pose formidable challenges to our economy and employees in both cost and skills. Any external shocks would also have serious repercussions for trade-dependent Singapore. Terrorist attacks and the occurrence of another major virus outbreak would severely impact our economy and the labour market.

Wage Restructuring Efforts Must Continue

12 The current recovery offers a timely opportunity for companies to make their wage system more flexible and competitive. Experience from the recent economic downturn has highlighted the importance and urgency for companies to adopt a flexible and performance-based wage system. With such a system in place, it would enable companies to adjust their wage costs quickly to ride out volatile business cycles and rapidly changing business conditions. Companies would have greater scope to adjust wage cost and save jobs during severe downturns without resorting to retrenchments, while giving employees the opportunity to enjoy better rewards in good times.

13 The Tripartite Taskforce on Wage Restructuring, which was formed in response to the NWC's recommendations last year, released its recommendations on 30 January 2004. The NWC is pleased to note the interest and momentum built up amongst companies and unions in wage restructuring as a result of the strong support by the tripartite partners.

14 **The NWC strongly urges companies that have embarked or are embarking on wage restructuring to keep up the momentum. Companies that have yet to start their wage restructuring are urged to do so without further delay, using the Taskforce's recommendations as a guide.** Management should work in close consultation with union representatives and employees in implementing wage restructuring. Those with implementation difficulties may seek assistance from the SBF/SNEF, NTUC and MOM.

15 Companies should focus their wage restructuring in the following key areas recommended by the Tripartite Taskforce:

- i. **Expedite the building up of the Monthly Variable Component (MVC).** While more companies in the unionised sector have adopted the MVC (from 39% in 2002 to 44% in 2003), the implementation is still not widespread, especially among non-unionised firms where the take-up rate is only at 4.4%.
- ii. **Adopt the flexible and performance-based wage system** to reward employees based on the value of their jobs rather than seniority in service. Companies should quickly move away from seniority-based wage system and bring the average salary maximum-minimum ratio to 1.5 times or less as soon as possible.
- iii. **Draw up clear and robust Key Performance Indicators (KPIs) to link reward to company and individual performance.** In this regard, the NWC notes that 95% of unionized companies shared information with their employees in 2003. However, the percentage was substantially lower among non-unionised companies (56%). The NWC urges companies to share relevant information on company performance and business prospects with employees and their representatives so as to motivate employees to perform and excel.

Wage Guidelines For 2004-2005

16 The NWC notes that the economy is just recovering and the recovery is uneven. Some companies and segments have not fully turned around and are still facing severe cost pressure. The unemployment rate is forecasted to remain high at between 4 to 4.5% in 2004, although this is expected to improve in line with the economic recovery. We also need to bear in mind the need to maintain our cost competitiveness so that the recovery will not be derailed. Nonetheless, economic indicators in the last two quarters have pointed to a positive outlook for the economy this year.

17 The NWC further notes that, over the past few years, employees have made sacrifices in accepting various cost cutting measures to help companies stay viable and enable our economy to tide over the downturn. As the economy is recovering, **companies should reward employees with a moderate wage increase if it is sustainable and would not erode their cost-competitiveness. The wage increase should continue to lag behind productivity growth.** The implementation of any wage increase should, as far as possible, be in accordance with the recommendations of the Tripartite Taskforce on Wage Restructuring, so as to accelerate the implementation of the flexible and performance-based wage system.

18 Specifically, the NWC recommends the following:

- a. **Companies that are recovering and are profitable should reward employees with moderate wage increases.** The increase should be in the form of MVC. To expedite the building up of the MVC in companies where the MVC target has not yet been reached, the same percentage could be set aside from employees' basic wages. Putting in place the MVC would enable companies to better ride out volatile business cycles and weather unexpected economic changes.
- b. **Companies that have yet to recover from the business downturn could consider granting a one-off payment** to reward and motivate employees, if they have difficulty granting any built-in wage increase.
- c. **Companies that have done very well ought to, in addition to the granting of moderate wage increases, reward their employees with an additional bonus** in line with company performance.

19 Where wage increase is granted to employees, companies should include a dollar quantum in the payment of their wage increase to benefit lower-income employees.

Non-Wage Costs

20 To reduce the cost of doing business and cost of living in Singapore, the NWC recommends that the Government moderates non-wage costs such as rentals, telecommunication and utility charges, transport costs and government fees.

Skills Development and Upgrading

21 In an increasingly competitive global environment, it is essential that our employees continuously upgrade their skills to stay relevant to meet the changing requirements of the job, and as our industries move up the value chain. **The NWC reiterates the importance of skills development and upgrading of our employees and urges companies to work closely with unions, employees and the Singapore Workforce Development Agency (WDA).** This will enhance the skills capabilities of our employees so that they are well-equipped with the necessary skills to remain employable and take on high-value added and well paid jobs.

Portable Medical Benefits Scheme (PMBS)

22 The NWC reiterates its call for companies to introduce portability into medical benefits either in the form of the **Portable Medical Benefits Scheme (PMBS)** or the **Transferable Medical Insurance (TMIS)** recommended by the Economic Review Committee (ERC). This is to help address the re-employment difficulties confronting older employees without weighing down on companies' medical costs, and also to better meet the medical needs of employees who are experiencing more frequent job changes and shorter employment tenure. In addition, PMBS helps to meet the medical needs of employees after their retirement.

Application of NWC's Recommendations

23 The NWC recommendations are applicable to all employees – management, executives and rank-and-file employees, unionized and non-unionised companies and in both the public and private sectors.

24 These recommendations shall apply for the period 1 July 2004 to 30 June 2005.

Conclusion

25 The economic downturns during the last few years have been difficult times for companies, employees and the unions. Nonetheless, Singapore has successfully weathered the economic adversity and is now on the road to economic recovery. This is mainly attributed to the strong support and co-operation amongst the tripartite partners in taking the painful but necessary steps to help companies turn around and save jobs. Companies and unions have accepted various cost cutting measures and the need to restructure wage system as a way to move forward to survive the global competition.

26 The NWC is confident that with the strong tripartite spirit, the recommendations for this year's wage increase and wage restructuring will be smoothly implemented. This will help pave the way towards a full and sustainable economic recovery, for the benefit of all.

27 The NWC looks forward to the Government's acceptance of its recommendations.

For media queries, please contact:

National Trades Union Congress

Ms Aileen Lim
Head, Corporate Communications
Tel: 6837 8420
Email: aileenl@ntuc.org.sg

Singapore National Employers Federation

Mr Koh Juan Kiat
Executive Director
Tel: 6872 6901
Email: jkkoh@snef.org.sg

Ministry of Manpower

Ms Sharon Yap
Manager, Corporate Communications
Tel: 63171958
Email: Sharon_yap@mom.gov.sg