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The Singapore way of calculating budget balances

The Central Business District and Marina Bay Financial Centre seen from the Marina Bay Waterfront Promenade. Singapore's approach to budgeting may be considered too conservative, but given the twin challenges of maintaining fiscal sustainability and staying tax competitive in the midst of an ageing population, it is probably prudent to continue to be fiscally conservative, says the writer. ST FILE PHOTO

Instead of one operating balance sheet, Singapore's prudent approach breaks the Budget into three chunks: the primary balance, the basic balance and the overall balance.

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For The Straits Times

Budget 2018 is consistent with the "Singapore way", namely being sustainable, pro-active and forward looking.

The "Singapore way" to ensure fiscal sustainability is to monitor our finances over both the near term and long term. This departs from conventional budgetary accounting laid out in the International Monetary Fund's (IMF) Government Finance Statistics, a point picked up by some on social media.

In the IMF's accounting standards, emphasis is placed on a single headline fiscal indicator – "gross operating surplus". This surplus is obtained by taking total revenue minus total expenditure and reflects the total change in government net worth in a year.

The total revenue includes all government receipts, tax and non-tax revenue and capital receipts. In Singapore's context, the latter would have included sales of land and the returns and earnings of investments from Singapore's reserves.

Under Singapore's Constitution, the Singapore Budget Statement shows only revenues that the Government is allowed to spend. Land sales revenue is thus excluded in the Budget Statement. Land sales revenues that are invested together with other returns and earnings from reserves are reflected in the Budget Statement as Net Investment Returns Contribution.

Instead of the IMF standard of calculating surplus, Singapore uses three different measures of fiscal balances: the primary budget balance, basic budget balance and overall budget balance. This is a uniquely Singapore way to track fiscal positions to meet its near-term and long-term needs.

PRIMARY BUDGET BALANCE

First, primary budget refers to operating revenue minus total expenditure. Almost 95 per cent of the operating revenue comes from taxes and fees and charges. About 31 per cent of the operating revenue comes from income taxes on individuals, companies and statutory boards. Another 30 per cent comes from consumption-related taxes (goods and services tax or GST, custom and excise, motor vehicle taxes and certificate of entitlement or COE premiums). The remaining operating revenue comes from property taxes, stamp duties, betting taxes and other taxes.

Operating revenue collected is to fund total expenditure for the fiscal year. Reflecting the Government's ability to meet total expenditure through operating revenue, it shows the near-term fiscal strength.

Since operating revenue excludes revenue generated from reserves and land sales, it does not reflect full fiscal capacity. The amount of operating revenue generated tends to be pro-cyclical, depending on business cycles and market conditions.

The primary budget balance was negative for FY2015 and FY2016. Budget 2017 estimated a negative primary balance as well. The estimated deficit was $5.62 billion.

In actual fact, the primary budget resulted in a surplus of $1.24 billion after revision in this year's Budget. The resultant "poor" fiscal marksmanship came about because of the exceptional $4.6 billion contribution from the Monetary Authority of Singapore (MAS) compared with $300 million predicted last year. For MAS, fluctuations in the currency and investment market have worked in its favour. Additionally, a buoyant property market resulted in higher than expected stamp duty collected.

Finance Minister Heng Swee Keat, however, urged Singaporeans "not to expect this structural surplus to occur every year". Structural surplus happens when the revenue generated during the cyclical peak exceeds the long-term average. However, during a cyclical trough, when revenue falls short of the long-term average, a "structural deficit" can happen.

It is all good for Budget 2018. The actual revised operating revenue can fully meet total government spending in 2017, with a positive primary balance. The surplus is shared with all adult Singaporeans in SG Bonus as a special transfer of $100 to $300, and a substantial amount of $5 billion is put into a rail infrastructure fund.

To sum up: For the primary balance, for Budget 2017, the estimated deficit was $5.62 billion, but the actual Budget ended with a surplus of $1.24 billion.

For Budget 2018, there is an estimated deficit of $7.34 billion.

BASIC BALANCE

Next, basic balance, which is obtained by deducting government special transfers from the primary balance. In other words, basic balance is the primary balance

Different types of budget balances

	Estimated FY2017 $billion	Revised FY2017 $billion	Estimated FY2018 $billion
Operating revenue (A)	69.45	75.15	72.68
Tax revenue	65.64	66.62	68.41
Statutory board's contribution	0.25	4.87	0.46
Fees and charges	3.26	3.31	3.45
Others	0.30	0.35	0.36
Total expenditure (B)	75.07	73.92	80.02
Operating expenditure	56.30	56.10	57.67
Development expenditure	18.77	17.82	22.35
Primary balance (C = A - B)	**-5.62**	**1.24***	**-7.34**
Special transfers excluding top-ups to endowment and trust funds **(D)**	2.57	2.22	1.81
Basic balance (E = C - D)	**-8.19**	**-0.99**	**-9.16**
Top-ups to endowment and trust funds (F)	4.01	4.01	7.30
Net Investment Returns Contribution (NIRC)	14.11	14.61	15.85
Overall budget balance (H = E - F + NIRC)	**1.91**	**9.61**	**-0.60***

NOTE: *Discrepancy due to rounding up

Source: Extracted by Chia Ngee Choon from MOF data STRAITS TIMES GRAPHICS

minus special transfers.

In the primary budget, the Government's expenditure on special transfers, also commonly known as income transfers, is not taken into account. Such special transfer items are usually funds given by the Government for social protection, income redistribution or other targeted economic objectives.

For example, there were two main government transfers in the FY2017 Budget – the Productivity and Innovation Credit to spur productivity at $480 million, and the Wage Credit Scheme to share the cost of wage increases with employers at $830 million.

The SG Bonus as announced in Budget 2018 will be included in the basic balance under special transfers.

For Budget 2017, the primary balance was estimated to be a deficit of $8.19 billion but ended at a smaller deficit of $990 million. For Budget 2018, the primary balance deficit is estimated at $9.16 billion.

OVERALL BALANCE

Singapore's approach to fiscal planning means that revenue from reserves is not included in the primary or basic balance. Instead, it is added only to the overall balance.

This overall balance also takes into account expenditure for long-term social and economic investments, often via long-term endowment funds where money is set aside upfront and returns from the funds are used to fund social or infrastructure programmes.

Expenditure items in this account highlight the Singaporean way to pre-fund large anticipated spending in the future through specific endowment and trust funds. For endowment funds, only income generated from the funds' principal amount is used. For trust funds, the income generated and a portion of the principal can be drawn down. This is an innovative way to meet anticipated future or long-term needs while ensuring sustainability over the long term.

The overall balance is derived after adding revenue generated from reserves, and deducting expenditures earmarked for long-term social and economic investments set aside in these endowment or trust funds. For example, top-ups to endowment and trust funds amount to $4.01 billion in 2017. The estimated top-ups for 2018 are $7.3 billion.

During each budget cycle, the Finance Minister will commit resources to top up existing funds and inject capital into new funds to meet specific needs. Pioneers and Singaporeans will remember Budget 2014, when a whopping $8 billion Pioneer Generation Fund (PGF) was set up by then Finance Minister Tharman Shanmugaratnam to meet the healthcare needs of the pioneer generation.

In FY2018, there is a top-up of $2 billion to the GST Voucher Fund. The return from the fund will be redistributed as GST vouchers to redress the regressivity of the impending GST increase. Budget 2018 also sees a new $5 billion Rail Infrastructure Fund set up to pre-fund infrastructure spending. This will be the second largest one-time capital injection for economic development, trailing only the PGF.

The one-line revenue component in the overall balance is Net Investment Returns Contribution (NIRC). The amount of spendable returns from reserves has been a subject of much debate. Now, up to 50 per cent of expected long-term returns from the reserves, or NIRC, is included in the annual budget. The Government maintains that this strikes a balance between the twin needs of growing the reserves and maintaining inter-generational equity, since the reserves were built up by past taxpayers.

One thing is sure, the presence of the NIRC has enabled the Finance Minister to commit to longer, larger and lumpy social and economic investment, in a way many other finance ministers would envy.

For FY2017, adding $14.61 billion from NIRC to the basic balance and subtracting the top-ups to funds at $4.01 billion results in a $9.6 billion overall budget balance, which is about 2.1 per cent of gross domestic product. For Budget 2018, the estimated overall deficit is $610 million. Using the IMF standard of calculating gross operating balance, it will be a surplus.

Singapore's approach to budgeting may be considered too conservative, but given the twin challenges of maintaining fiscal sustainability and staying tax competitive in the midst of an ageing population, it is probably prudent to continue to be fiscally conservative.

While Budget 2018 continues to adhere to a philosophy of fiscal prudence and sustainability, it also raises Singaporeans' awareness of upcoming higher future spending on health, housing and infrastructure and warning Singaporeans of an upcoming GST hike – at least three years ahead, yet another "Singapore way".

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