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Singapore has substantial kitty to tide it through virus crisis

By Christopher Gee

AROUND the world, countries have been announcing unprecedented economic measures on both the monetary and fiscal policy fronts to mitigate the effects of the Covid-19 outbreak.

Singapore is doing the same. However, how it is funding its crisis package is different from many other countries.

The supplementary Resilience Budget announced by Deputy Prime Minister Heng Swee Keat last Thursday, when added to the initial Unity Budget 2020 announced only five weeks earlier, totals S$54.8 billion. This amounts to 11 per cent of Singapore's projected 2020 gross domestic product (GDP). It is comparable to the United States' crisis package which, at US$2 trillion, is equivalent to 9.3 per cent of the US' GDP last year.

However, while other countries – including the US, Germany and Malaysia – are financing their Covid-19 stimulus measures with increased government borrowing, Singapore is not. Many of these countries are already at very high levels of sovereign debt. All of this debt will have to be issued when the financial markets are very jittery.

Singapore does not have to fund its fiscal stimulus by borrowing in these skittish financial markets. It has built up not just a substantial pool of savings in its reserves, but is also able to utilise income from investing those reserves.

There are only a few nations around the world with such a robust fiscal position to be able to do this, but almost all of them are natural resource-rich countries.

In Singapore, the announced fiscal stimulus will result in a S$39.2 billion overall Budget deficit for 2020. This is a record deficit for Singapore, far greater than the S$20.5 billion deficit projected in Budget 2009, in the throes of the Global Financial Crisis.

The deficit exceeds the accumulated surpluses from the government's current term in office, and a S$17 billion draw on the country's reserves is therefore required, to which the President has given her in-principle approval.

PRESIDENTIAL ASSENT

Under Singapore's Reserves Protection Framework, the government is required to maintain a balanced budget over its term in office. This means revenues have to at least cover expenditure. Any drawdown on past reserves requires presidential assent.

However, the government is allowed to spend in each year's Budget up to half of its Net Investment Returns (NIR). These are the long-term expected returns from reserves invested by Singapore's sovereign wealth funds, the Government of Singapore Investment Corporation (GIC) and Temasek Holdings, as well as the Monetary Authority of Singapore (MAS).

This portion, called the Net Investment Returns Contribution (NIRC), amounted to S$18.6 billion in Budget 2020, the single largest component of the government's revenues.

Think of the NIR as interest received on a family's savings deposit accounts. The NIRC would be the portion – up to half the interest income – which the family can use to help pay for its monthly living expenses.

The other half is kept intact, to build up savings, preserving the family's purchasing power against inflation as well as enlarging its savings over time.

But if a financial emergency strikes, the family can draw on this half of its interest income before tapping into the principal of its savings. Only when the annual income earned from interest is exhausted would the principal sum of the family's accumulated savings be touched.

This is what Singapore has done with this Resilience Budget. The proposed S$17 billion draw-down on past reserves is still less than the S$18.6 billion of NIR that was retained to build up the reserves for the future in this year's Budget.

The accumulated principal sum of the country's reserves up to March 2020 has thus not yet been touched. This means there is still a substantial war chest that can be drawn upon for future emergencies.

PRECISE VALUE UNKNOWN

The precise value of Singapore's reserves is not available publicly, but as of March 2019, the Official Foreign Reserves managed by the Monetary Authority of Singapore (MAS) stood at S$401 billion; the net portfolio value of Temasek Holdings at that point was S$313 billion and assets under the GIC's management are well over US$100 billion (S$143 billion).

So could the government have done more in this Resilience Budget to try to protect the country from the worst economic effects of the Covid-19 outbreak? The simple answer to this question is yes, of course, given the substantial reserves at hand.

But a more considered response would be based on the understanding that this pandemic is in its early stages in most countries, and the situation is evolving rapidly. Much remains unknown, not only about the trajectory of the disease on health but about the duration and lasting effects of all the containment measures implemented worldwide to combat it.

A measured approach is very much in this government's playbook, especially when the uncertainties are high. But it has already shown a willingness to scale up its fiscal stimulus considerably in the space of just over five weeks, in the light of fresh developments, and has indicated that more measures can be deployed if necessary.

DPM Heng has likened the Covid-19 outbreak to a thunderstorm, requiring extraordinary measures to protect the nation.

Singaporeans, though, have the comfort and security of a very substantial rainy-day fund that can be used to support, sustain and even thrive amid this crisis.

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