Institute of Policy Studies

The 34th Singapore Economic Roundtable

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The 34th Singapore Economic Roundtable (SER) was held virtually on 19 May 2021 with over 40 participants. Conducted biannually by the Institute of Policy Studies' (IPS') Governance and Economy research cluster, the SER brings together public and private sector economists, academics, business leaders and policymakers to assess macro-economic conditions and their impact on Singapore's policies.

The roundtable was conducted under [Chatham House Rule] and chaired by Manu Bhaskaran, Adjunct Senior Research Fellow at IPS. The complete proceedings from the 34th SER will be documented in an IPS publication and released later. A summary of the issues discussed is presented here.

Macroeconomic Overview: Global Recovery with Uncertain Outlook

Global recovery has unfortunately been set back in the near term due to a renewed rise in COVID-19 cases. Globally, the seven-day moving average of new COVID-19 infections has soared to over 800,000 cases. GDP growth has also been hampered by the stringency of COVID-19 measures implemented by governments in recent months. There is great uncertainty over the trajectory of the pandemic given the possible risks posed by new variants and the slow pace of vaccination, particularly in poor countries.

Another dimension of the global economic outlook is the uneven nature of the recovery, with the US possibly enjoying a spectacular recovery while emerging economies may struggle. The recovery has been driven by different factors in different regions. Business investment has supported recovery in G3 countries while exports have driven recovery in Asian countries ex-Japan. Commodity prices (oil, food, industrial inputs) have also risen but the considerable economic slack in economies will help contain inflationary pressures.

The Singapore economy continues to rebound, though the renewed surge in infections since late last year may lead to a slower recovery pace. Critically, recovery is asynchronous across industries. Finance, IT, trade-related and other domestic-oriented industries are less affected by COVID-19's economic effects. Real estate, professional services and administrative-related industries are harder hit. Construction, consumer-facing industries like food & beverage and travel-related industries are hardest hit and are not expected to recover in the near term.

The International Monetary Fund estimates the COVID scar on the world economy to be approximately 13 per cent. This is calculated as the difference between projected GDP based on trends from 2010 till 2019 and the GDP level now projected for 2026. The outlook remains uncertain, and growth outcomes are expected to be disparate across sectors. Government initiatives have successfully ameliorated some of the adverse effects of the pandemic.

Domestic Labour Market Recovering

The domestic labour market is recovering but varies across industries. H2 2020 saw major declines in employment in construction, domestic-related and travel-related industries, with construction posting over 100,000 job losses in H2 2020. However, employment is regaining ground, with Q4 2020 seeing fewer job losses and more employment opportunities in domestic-oriented and modern services. Resident unemployment rate should decline steadily, although some labour market slack could persist.

Importantly, discussions raised the importance of vaccination programmes. While vaccines do not grant immunity to COVID-19, they do alleviate some of its worst effects. Improving vaccination rates could also prove beneficial to domestic labour markets with 54.7 per cent of Singapore's population receiving at least one dose and 25.3 per cent receiving both doses as of May 2021.

However, mobility trends show that the pandemic continues to depress economic activity. Between January and May 2021, community mobility reports indicated that labour mobility in Singapore had declined by 20 per cent.

Normalising Inflation

Core and headline inflation returned to positive territory in Q1 2021. Average CPI-All Items Inflation reached 0.7 per cent year-on-year in Q1 2021, reversing the decline in prices seen in H2 2020. Inflation is projected to pick up further with forecasts predicting a 1.5 per cent inflation rate year-on-year by mid-2021 before declining. However, underlying price pressures are unlikely to accelerate. Efforts are being made to head off potential supply-side pressures on inflation.

There is uncertainty over the path of global inflation going forward. Some of the pickup in price growth recently has been transitory but it remains to be seen how transitory this will be, and if inflation could rebound well beyond base effects.

Key Issues Raised in Discussion

First, how should policymaking be conducted given the extreme uncertainty? Should economies adopt the American approach of going big or the Indian one of going small? Singapore's strong policy response has worked well. What is key is to constantly assess the incoming data and conduct regular scenario analyses. The short-term priority must be to arrest any fall in activity before it creates extensive dislocations. In assessing the policy mix, fiscal policy would be central while monetary policy would play a supplemental role.

Second, what to make of inflation risks? It will be important to manage inflationary expectations. It was also pointed out that changing circumstances called into question conventional approaches to monetary policy based on the Taylor Rule and Philip's Curve. For the discussants, MAS's more pragmatic and unconventional mix of policy tools appeared to be better positioned to tackle inflation risks in the new normal.

Third, how should countries such as Singapore respond to a post-COVID world that will be marked by uncertainty and a degree of fragility? Small countries tend to be more nimble and less ideological in how they confront challenges, and such an approach may benefit Singapore.

Special Session: Public Debt & Intergenerational Equity in Singapore

The Special Session examined public debt & intergenerational equity in Singapore and how the Singapore government could issue and manage debt while maintaining intergenerational equity. The main presentation during this session was based on the paper, IPS Working Paper 38: Public Debt and Intergenerational Equity in Singapore.

The issue of intergenerational equity requires that the sum of generational accounts of all current and future generations plus existing government net wealth be sufficient to finance the present value of current and future government consumption. While there are technical factors that drive the decision-making regarding issuing of public debt, there are also non-technical factors.

Traditional discussions on intergenerational equity focus on the risks of burdening future generations with excessive debt, therefore putting the economic future at risk. Singapore has a different problem. Its level of institutional and economic development is a key comparative advantage. The policy approach should combine ongoing good policy and sound choices in projects, and credible commitment to that, to reinforce trustworthiness.

Four Principles of Intergenerational Equity Relevant to Singapore

Intergenerational equity requires fairness in the distribution and allocation of economic resources across generations. To achieve this, four principles should be followed.

1. Sufficientarian Principle — where each generation's obligation is to provide a minimum threshold of resources sufficient for the basic needs or liberties of the next generation.
2. Intergenerational Equality — where each generation's obligations are to ensure every generation achieves equality within its respective generation.
3. Reciprocity Principle — where the current generation has an obligation to return to the next generation what it received from the previous generation and.
4. Benefit Principle — where each generation should pay for what it benefits from, and not pay for what it does not benefit from.

It was suggested that the current model used by the Singapore government with regard to public debt was a simple application of the benefit principle. However, relying on the benefit principle alone is problematic. After all, all forms of expenditure have intergenerational effects such as the long-term benefits from current investments in education and healthcare. Thus, a more holistic approach is worth considering.

Debt Issuance Framework

A debt issuance framework outlines how debt should be issued, spent, and paid back. The authors proposed a framework where:

- Bonds of 30 years or longer maturities are issued. This would provide for the younger generations who would benefit from spending to contribute to funding such spending.
- Debt should be issued exclusively for development expenditures. These expenditures have long useful lives and can have direct and indirect benefits to future generations. Examples include National Cancer Centre (NCCS) ($610m), SIT ($430m), and the Climate Change Mitigation Infrastructure (final amount to be announced).
- Debt should be repaid according to a priority framework. Where feasible, user fees will mean that those who directly benefit will be partly paying for such projects. Taxes could also be considered for current and younger generations. Additionally, amortisation of the debt over the maturity of bond would smoothen the tax burden of servicing debt. Repayment of debt ensures no accumulation or rolling over of debt, which would leave future generations with potentially insurmountable levels of debt.

Debt Simulation

A model simulation of SGS (Infrastructure) Debt Framework (15-year) vs IPS Debt Framework (Flexible) in Singapore (2021–2050) was put forth during discussions.

The SGS (Infrastructure) bonds are issued to finance qualifying significant infrastructure projects ($4b minimum project value, useful life 50 years). Development expenditures under this bond scheme are financed with debt that will be depreciated/amortised over 30 years. It is recorded as amortisation expense in the national budget. The SGS model is also constrained as debt issued cannot exceed $90b over 15 years with interest expense p.a. not exceeding $5b. The IPS Debt Framework (Flexible) model meanwhile allows for debt to be issued after a $90b constraint. In both models, debt issued cannot exceed total development expenditure.

Based on simulations, with the SGS model, the $90b constraint is reached in 2035 with no further debt issued after that. Based on assumptions made during the model formulation, this results in shortfall of $470b by 2050 that would have to be raised by taxes if no further debt issued. With the Flexible model, however, debt can be used to finance deficits up to the constraint of not exceeding development expenditures until 2046.

Simulation Conclusions

The simulation of the two models shows the merits of the Flexible model. It avoids unfairness of current generation funding development expenditures entirely even though the projects might have long useful lives. Current generations still pay for development expenditures through debt servicing (amortisation and interest). It is also fair for future generations to pay for development expenditures because they yield future benefits and improve GDP and welfare with positive social rates of return.

Key Issues Raised in Discussion

It was noted that the proposed framework would mark a significant departure from Singapore's existing stance. Currently, approximately 75 per cent of Singapore's public debt comprises borrowing from the Central Provident Fund (CPF) to facilitate the management of the CPF members' retirement savings. The rest are traditional Singapore government securities to help facilitate the money markets and financial development. Singapore's approach is atypical — debt is not used to finance development projects.

Values are also a key factor in the issuance of public debt. There was concern about public acceptance of growing public debt to promote economic growth in Singapore. A question was posed about the acceptance from current and future generations to issue debt for developmental expenditure compared to past generations. It was recognised that there is a generational mindset shifting regarding public debt and the issuance of public debt should be done in a considered manner. However, based on simulations, the issuance of public debt helps the Singapore government avoid $470b in additional tax increases or drawdowns on reserves.

The foundations for success lie in areas such as institutional maturity, good governance, and ease of doing business. Ultimately, there must be trust in institutions for the debt framework to work. Singapore tends to perform well on these points.

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If you have comments or feedback, please email ips.update@nus.edu.sg

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