

IPS Public Deliberation on Singapore's Fiscal Policies and National Reserves

INFORMATION KIT
29 APRIL & 06 MAY 2023

ORGANISED BY:



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About the workshop

Our National Reserves

Why does it matter to us?
How do we benefit?



How do Singaporeans benefit from the reserves?

Think about our multi-generational family – Sam and his wife, Sam’s parents, and Sam’s grandmother.

As Singaporeans, they all have a share in our national reserves. Throughout their lives, we can see how they have benefitted from this shared resource in different ways.



Sam and wife
Both working,
late-20s

Both have been working for about 5 years and they are expecting their first child



Sam’s parents
Both working,
early 50s

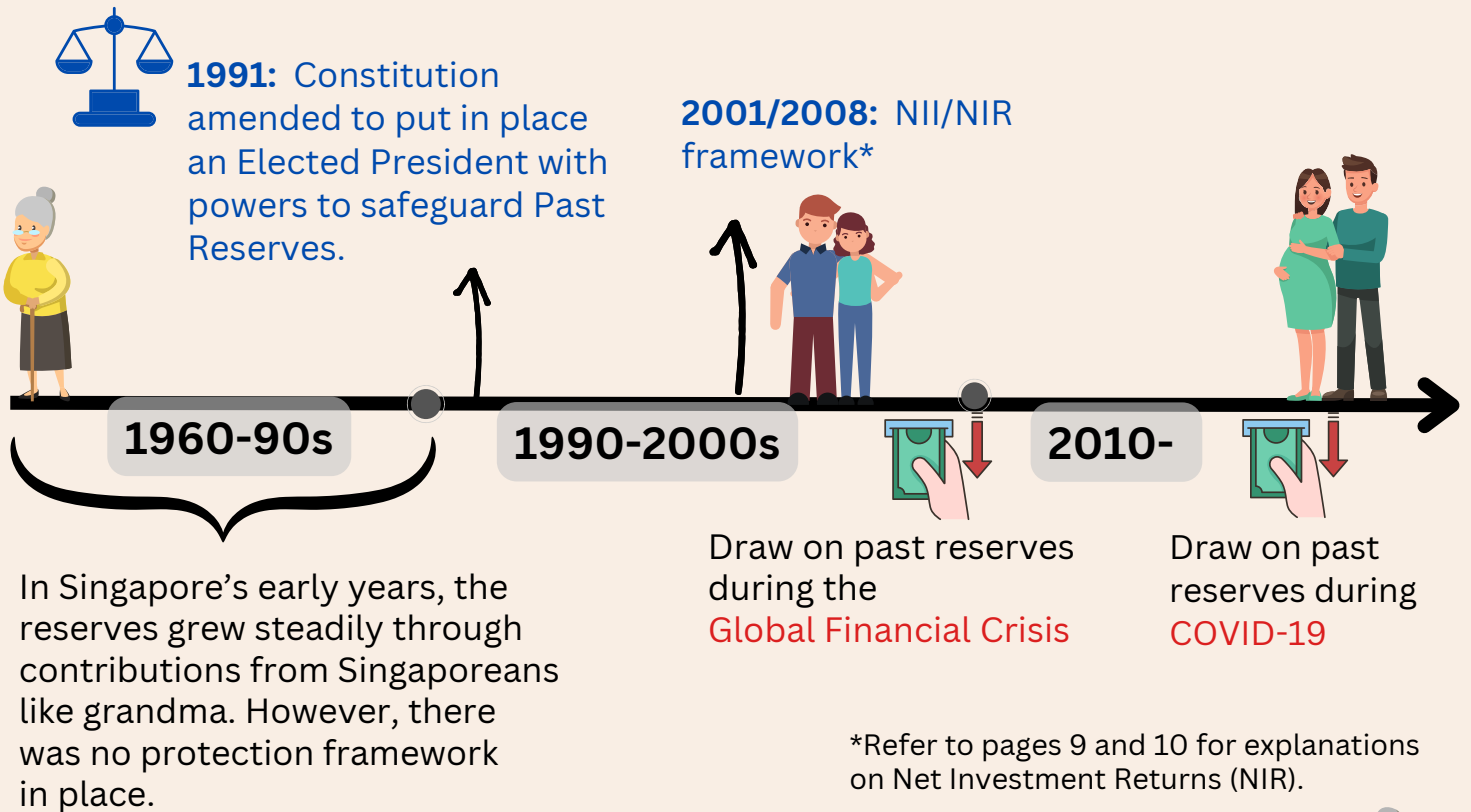
Both working full-time jobs



Sam’s grandma
Retired,
70s

Retired at 65 and receives benefits and subsidies as a Pioneer Generation

How do Singaporeans benefit from the reserves?



Singapore's national reserves continue to grow due to contributions of Singapore residents and good management of it.

Everyone has benefitted, especially during times of crisis. In 2008 and 2020, Sam's parents were worried about their jobs. However, the government was able to bring the country to quick recovery by tapping on past reserves.

Today, Sam and his wife continue to receive support in starting their family. They also look forward to welcoming their first child to a Singapore that has a strong reserves to weather through future challenges confidently.

Why do the reserves matter to us?

Singapore's national reserves is a foundational part of the country's **social compact** – it involves sacrifice, benefits and different responsibilities from every Singaporean generation.



This social compact is a shared understanding of how we as Singaporeans relate to one another.

Our national reserves are also an integral part of our **shared resources** that we can use to protect, build and strengthen our society.



What responsibilities do we have in safeguarding the reserves?

How can we build up our reserves?

How do we use the reserves to make Singapore stronger and fairer?

What are the needs of our current and future generations?

How should we use the reserves that have been built up by previous generations?



What does our social compact tell us about how we should manage our national reserves, and meet our various needs with finite public resources?



Funding Our Needs

Taxes, Reserves, Loans

How do things work now?

1

The Government's Budget



Our yearly Budget sets out the **public needs** of the country, **how much** funding will be allocated to them, and **where** the funds would come from.

Read: DPM Lawrence Wong's 2022 and 2023 Budget Debate Round-Up Speeches.

Key areas of public spending



Social



Infrastructure



Economic



Security



Government Administration

How do we pay for the budget?



Taxes & Fees

+

NIRC



Revenues from taxes such as corporate income tax, personal income tax, goods and services tax, and stamp duty.

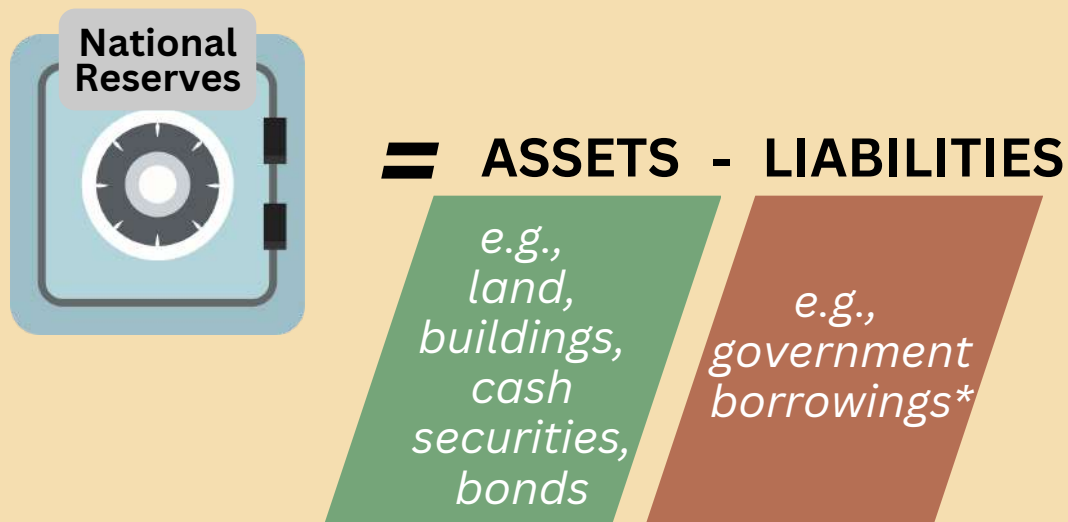
They make up about 80% of the budget's spending needs.

Singapore's reserves are invested to generate returns. Part of the investment returns are used to fund the budget. This is the Net Investment Returns Contribution (NIRC), which forms about 20% of the FY2023 revenue. The NIRC is one of the single largest sources of revenue.

What is NIRC?

Net Investment Returns Contribution (NIRC) refers to a portion of **investment returns** from our **reserves** that can be used to finance the budget.

Understanding *investment returns*



**Singapore Government Securities (SGS) and Special Singapore Government Securities (SSGS).*

These assets are mainly managed and invested by GIC Pte Ltd, Temasek and MAS.



manages and invests

ASSETS

income + long-term capital appreciation

INVESTMENT RETURNS

With our investment returns, an amount of investment expenses and interest expenses will be paid out to give us our **net investment returns**.

**Investment Returns - Investment Expenses
- Interest Expenses**



**Net Investment Returns
(NIR)**

Only up to 50% of NIR can be used to finance spending in the budget



50%



50%

**Net Investment Returns Contribution
(NIRC)***

**Net Investment Returns Re-invested
(NIRR)****

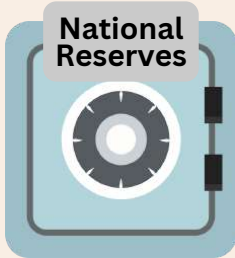


This 50% of NIR is cannot be used. Instead, it is re-invested to grow the reserves. This portion is also protected by the Constitution as past reserves.

**This is not an official term, but coined for the purposes of this paper.

*Strictly speaking, the NIRC = NIR + Net Investment Income (NII). NII refers to the investment income from assets not invested by GIC, MAS and Temasek, after deducting expenses.

2 Uses of Reserves



1. A rainy-day fund



- Resilience Package during the Global Financial Crisis in 2009

2. Stability fund



- Enables MAS to conduct monetary policy and to secure macroeconomic stability
- Enables the government to meet liabilities and commitments

3. Endowment fund



- Refers to the NIRC, of which up to 50% of the investment returns are contributed to the revenues of the budget, to be used for current spendings

3 Borrowings under SINGA

In 2021, the government introduced the Significant Infrastructure Government Loan Act (SINGA) to finance spending on **major, long-term infrastructure**. SINGA allows such spending to be capitalised and therefore spread over the generations that will benefit from the infrastructure. However, borrowing is not revenue. Borrowing will eventually need to be repaid over time (with interest) and this will need to be funded from our annual budgets.

Such borrowings must be raised within the safeguards that include a gross borrowing limit and an annual effective interest cost limit, and the proceeds can only be spent on qualifying nationally significant infrastructure projects. From the 1990s to 2021, the costs of major infrastructural projects were expensed from the yearly budgets.



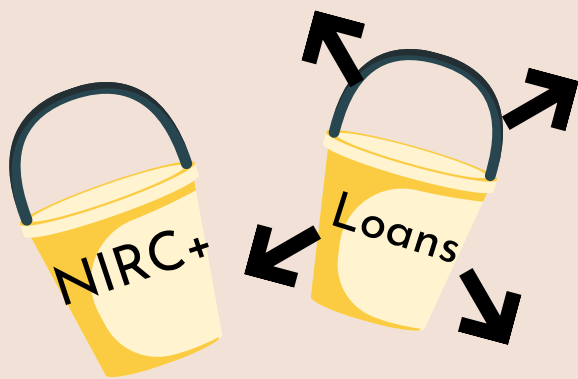
SUMMARY

There are about four approaches to finance all our needs:



With rising needs and costs, different options have been considered to expand our pool of resources.

Increasing the 50% NIRC spending limit or borrowing for other expenditures have been debated.



Taxes like GST and property taxes have increased in recent years. Are we willing or able to tax even more from these sources?

What are the reasons for the different approaches that we use to finance our needs?

Rules & Principles

Rules and principles that guide
Singapore's fiscal policies



1 Balanced Budget Rule

Singapore is required under the Constitution to **keep a balanced budget** over each term of government. In other words, each government has to ensure that budget deficits in any year must be balanced by surpluses from previous years within its term in office.

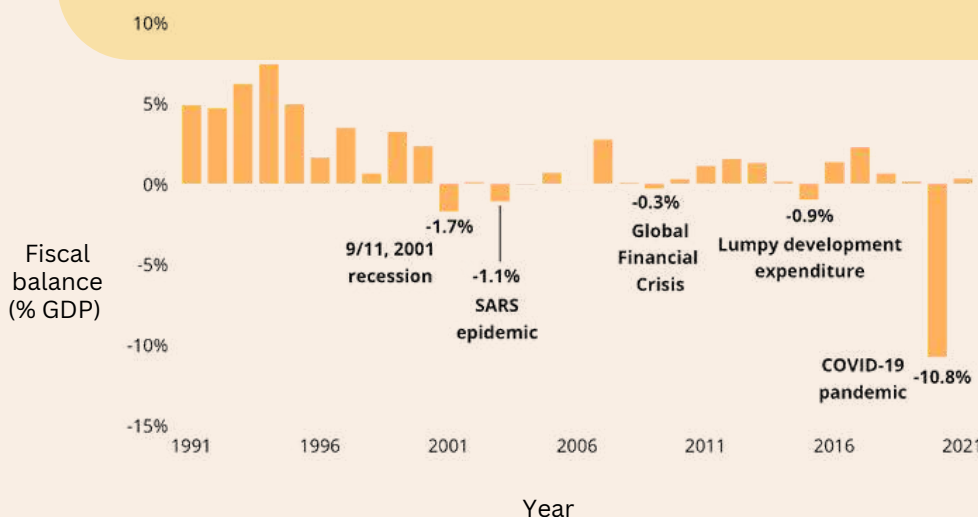


President's role in safeguarding the reserves

The president has **power to veto** the budgets of the government if he/she finds that the budget will likely draw upon past reserves.

In extraordinary circumstances, the government can draw on past reserves with the **approval** of the president.

The government expects to draw up to S\$40 billion from past reserves for COVID-19 response measures across FY2020 to FY2022. In FY2020 and FY2021, S\$31.9 billion and S\$5 billion were utilised from Past Reserves, respectively. The government expects to draw up to S\$3.1 billion from past reserves in FY2022.



Source: Ministry of Finance, Occasional Paper on Medium-Term Fiscal Projections 2023.



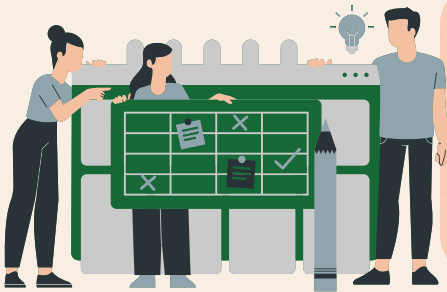
These rules are underpinned by the discipline that “what we spend is always equal to or less than what we earn or receive”. This **careful management of fiscal resources** is often referred to as fiscal prudence.

2 Fiscal Prudence

“Prudence” = acting with or showing care and thought for the future (Oxford Dictionary)

Example of the government’s approach of fiscal prudence:

The safeguard in the **SINGA framework** shows the care of the government to ensure that future generations will not be unfairly burdened with high debt servicing costs. For example, there is an **annual effective interest cost threshold** of S\$5 billion. If the effective interest paid exceeds this threshold, the government will not be able to borrow more in the next financial year.



“These values of **discipline, prudence, and the willingness to sacrifice** for the next generation are the very essence of what undergirds our framework for the reserves.”

DPM Lawrence Wong, 2023 Budget Round-Up Speech

Other principles that are important to our social compact include

3 Fairness and Equity

Is it fair to use loans to pay for construction of the MRT?

I think so. Loans allow us to spread the cost to future generations since they also benefit from the train services!



Principles of Inter-Generational Equity

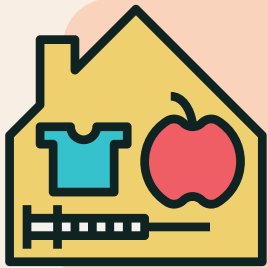


Amongst different theories, we would like to highlight four possible principles that could inform our understanding of fairness in fiscal policies.



BENEFITTER-PAYS

Each generation pays for whatever they benefit from.



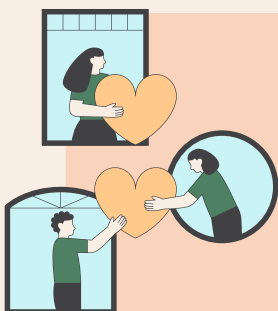
MINIMUM THRESHOLD

Each generation deserves a minimum threshold of resources and liberties.



MINIMISING INEQUALITY

Fairness is about minimising inequality within and between generations.



RECIPROCITY

Responsibility to give back or pass on the benefits that one has received.

How do the principles apply to our use of resources?

Financing construction of the **Cross Island Line** through **SINGA**



Borrowings under SINGA

- Total expected cost: S\$40.7 billion
- Expected completion: 2032

The government can use SINGA to borrow up to S\$90 billion for major long-term infrastructural projects.



BENEFITTER-PAYS

Those living post-2030 will benefit more. Borrowing through SINGA means future generations bear more of the cost.



MINIMUM THRESHOLD

Present and future generations all contribute something to ensure Singapore has a strong basic system of transportation.



INTER-GENERATIONAL EQUITY

Good transport system ensures accessibility for all. There is also equity across generations as all contribute to the cost of building the line.

Funding **Pioneer Generation Package** through **Budget**



- Singaporean pioneers receive healthcare subsidies and MediSave top-ups.
- Cost: S\$8 billion in 2014, to be disbursed over the years.



BENEFITTER-PAYS

The budget comprises the NIRC, which are investment returns from our reserves built by our pioneers.



MINIMUM THRESHOLD

The Pioneer Generation Package is aimed at making healthcare affordable for our Pioneer Generation for life.



RECIPROCITY

The government introduced this to honour and thank our pioneers for their hard work and dedication in making Singapore what it is today.



Expenditure Needs

Some major areas that will require
public spending

Important national infrastructures



CONSTRUCTION OF HEALTHCARE FACILITIES

Our ageing population and increasing longevity add to rising demands for healthcare facilities such as hospitals and polyclinics.

Read: [Overview of upcoming and completed healthcare facilities](#)

COASTAL AND FLOOD PROTECTION

The PUB estimated that sea level around Singapore could rise by up to 1 metre by 2100. About 30% of Singapore's land is less than 5 metres above sea level. To prevent destruction of land and essential services due to flooding, early planning and interventions are needed.

Read: [PUB Coastal Protection](#)



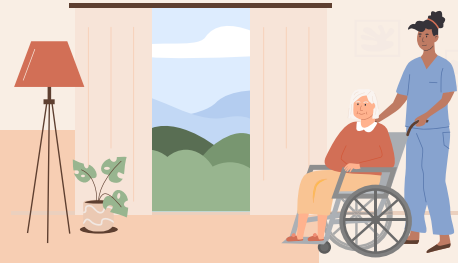
HDB BUILD-TO-ORDER (BTO) FLATS



The government is ramping up the supply of BTO flats to meet the strong housing demand from Singaporeans. HDB announced that up to 100,000 flats could be launched from 2021 to 2025.

As part of the government's commitment to provide affordable housing, housing grants are given to Singaporeans. This results in annual deficits in HDB's account, and they are funded from the government's budget.

HDB COMMUNITY CARE APARTMENTS



Community Care Apartments are new public housing options that are integrated with senior-friendly facilities. These apartments are priced according to chosen lease tenures, which range from 15 to 35 years, and they must be returned to HDB at the end of the lease.

Read: [More on Community Care Apartments](#)



CHANGI AIRPORT'S TERMINAL 5

The construction of Changi Airport's Terminal 5 is expected to start in 2025, with the terminal beginning operation in the mid-2030s.

The Changi Airport Development fund is topped up by the government from time to time to finance the project.



MRT LINES

Plans to expand Singapore's MRT system have been in place to improve accessibility throughout the country and make travelling more efficient. The Land Transport Authority aims to have at least 80% of households situated within 10 minutes of a train station by 2030.

Read: [More on rail expansion projects](#)

Social spending



KIDSTART

KidSTART was launched in 2016 to provide support to parents and children aged 0 to 6 from low-income families. KidSTART families could receive free resources on childhood development, fresh food packs, and learning packs consisting of books and toys. The programme will be gradually expanded nationwide from 2023.



WORKFARE INCOME SUPPLEMENT (WIS)

The WIS scheme is a measure that tops up the salaries of lower-income workers. The bottom 20% of workers – those earning about S\$2,500 or less – will receive CPF top-ups and cash.

A worker in his 60s earning less than S\$2,500 a month, for example, could receive an annual payout of up to S\$4,300. All persons with disabilities will also qualify for the highest payout tier, regardless of age.

COMCARE



ComCare fund was set up in 2005 to provide financial and employment assistance to low-income individuals and families. Beneficiaries receive monthly cash, assistance with household bills, medical assurance, and employment assistance such as job search and training. The fund stands at S\$1.7 billion today.



SILVER SUPPORT SCHEME

Silver Support Scheme provides additional support for seniors who had low incomes during their working years and hence have less in their retirement. Eligible seniors receive between S\$180 to S\$900 on a quarterly basis.

PIONEER AND MERDEKA GENERATION FUND

Seniors belonging to the Pioneer and Merdeka generations receive annual MediSave top-ups of S\$200 to S\$800, as well as special subsidies for outpatient care. These seniors are generally Singaporeans who were born on or before 1949.

These entitlements were introduced to honour and thank the early generation of Singaporeans for their hard work and labour in contributing to Singapore's growth.



**GST
VOUCHER**

GST VOUCHER

The permanent GST Voucher scheme was introduced to help lower- and middle-income Singaporean households with their expenses. The GST Voucher covers cash for immediate needs; U-Save to offset utilities bills; and S&CC rebate to offset S&CC bills.

Enhancing this permanent scheme, special payments were given in 2022 and 2023 to cushion the impact of the GST rate increase for all Singaporeans.

Additional Information

More on
Reserves, Budget, Principles

Our National Reserves

What is it?

Singapore’s reserves are the savings that have been accumulated over the years. The Constitution defined “past reserves” as “those that were not accumulated by the government during its current term of office” (singaporeinfopedia, n.d.). In technical terms, reserves should also be understood as the total assets minus liabilities of the government. Assets include physical ones such as land and buildings, as well as financial assets like cash, securities and bonds. Government liabilities are largely made up of the Singapore Government Securities (SGS) and Special Singapore Government Securities (SSGS).

Our financial assets are managed and invested by three agencies – GIC Pte Ltd, Temasek Holdings (Temasek), and the Monetary Authority of Singapore (MAS). As of 31 March 2022, the Official Foreign Reserves managed by MAS was S\$514 billion and the size of Temasek’s net portfolio value was S\$403 billion. According to the MOF, the full size of Singapore’s reserves is not published, to prevent markets from mounting speculative attacks on the Singapore dollar during periods of vulnerability (MAS, 2019).

Key material in relation to reserves protection framework

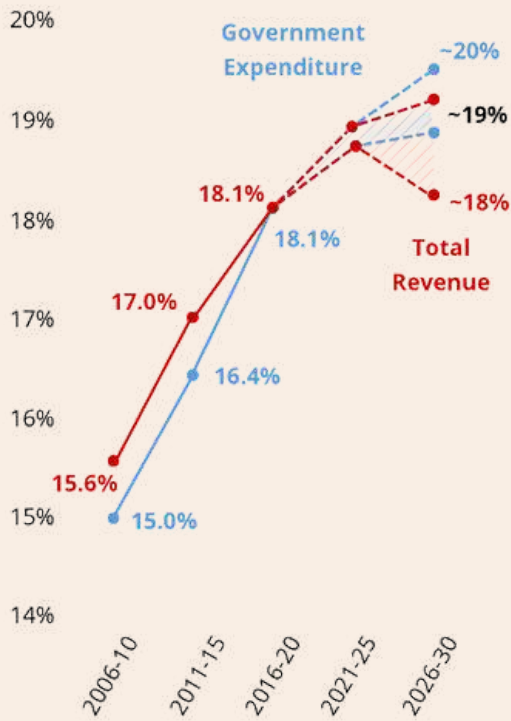
- Purpose of Singapore’s reserves:
 - [Speech by PM Lee Hsien Loong at GIC’s 40th Anniversary in 2021](#). This provides a summary of the purpose for Singapore’s reserves.

Date	Summary (Click on underlined text to access files)
19 Aug 1984	<u>National Day Rally</u> Then-PM Lee Kuan Yew mooted the idea of an Elected President who would have the moral authority to safeguard the use of reserves by the government. Otherwise, a freak election result where a coalition forms the government may be able to access all of the government’s reserves.
29 July 1988	White Paper presented in Parliament with Ministerial Debate <ul style="list-style-type: none"> • “Constitutional Amendments to Safeguard Financial Assets and Integrity of the Public services” • “Ministerial Statement to alert House that White Paper deals with the principles of Elected President proposal”
27 Aug 1990	<u>White Paper</u> presented in Parliament. White Paper explains main provision of Constitutional Amendments to introduce Elected President .

4,5 Oct 1990	Second Reading for Constitutional Amendments and Debate <u>Part 1; Part 2</u>
18 Dec 1990	<u>Select Committee Report on details of Elected President</u>
30 Nov 1991– 31 Aug 1993	Wee Kim Wee became first president vested with the powers of an Elected President when legislation came in effect
1 Sep 1993	Elected President Ong Teng Cheong took Office. <u>Swearing-in speech.</u>
12 Jan 2001	<u>Net Investment Income (NII) Policy</u> <ul style="list-style-type: none"> • Constitutional amendment to protect at least 50% of Net Investment Income earned from the past reserves of government annually.
20, 21 Oct 2008	<u>Net Investment Returns (NIR) Framework Policy (I)</u> - <u>First reading; Second reading</u> <ul style="list-style-type: none"> • Constitutional amendment to revise the rules for spending from investment returns to allow government to tap on more of these returns for the budget but on a basis that is sustainable over the long term. • The new framework retains the 50% cap on spending from investment returns. But, the spending rules will be based on a new and broader definition of investment returns, with the following key features: (1) total returns, including capital gains; (2) long-term expected returns, instead of year-to-year actual returns; and (3) real returns, rather than nominal returns, so that we preserve the purchasing power of our reserves.
05 Feb 2009	Draw on past reserves policy <ul style="list-style-type: none"> • <u>Annual Budget Statement debate:</u> <ul style="list-style-type: none"> ◦ Set out the threshold and conditions that should be set for any future draw on past reserves. ◦ Process by which we obtained the president's approval for the draw on past reserves.
09 June 2011	<u>Statement by Minister of Law on Elected President</u>

09 July 2013	<p><u>PQ on use of reserves:</u></p> <ul style="list-style-type: none"> • NIRC • Land Related Projects, SERS • Exceptional circumstances for draw on past reserves
13 July 2015	<p>(NIR) Framework Policy (II)</p> <ul style="list-style-type: none"> • <u>Constitutional amendment</u> to include Temasek Holdings in Net Investment Returns (NIR) framework from FY2016
15 Sep 2016	<p>White Paper on Review of Specific Aspects of the Elected Presidency.</p> <ul style="list-style-type: none"> • <u>Final full report</u> and White Paper
7, 8, 9 Nov 2016	<p>Constitutional Commission 2016</p> <ul style="list-style-type: none"> • Constitutional amendment to enhance the president's important roles: as a symbol and unifier of a diverse and multi-racial Singapore; and, as a custodian of our nation's past reserves and the integrity of our public services. • Debates on constitutional amendment
06 Feb 2017	<p>Reserved Presidential Elections</p> <ul style="list-style-type: none"> • <u>Amendment to Presidential Elections Act</u> to give effect to the amendments made by the Constitution of the Republic of Singapore (Amendment) Act 2016.

The Budget



Source: Ministry of Finance, Occasional Paper on Medium-Term Fiscal Projections 2023.

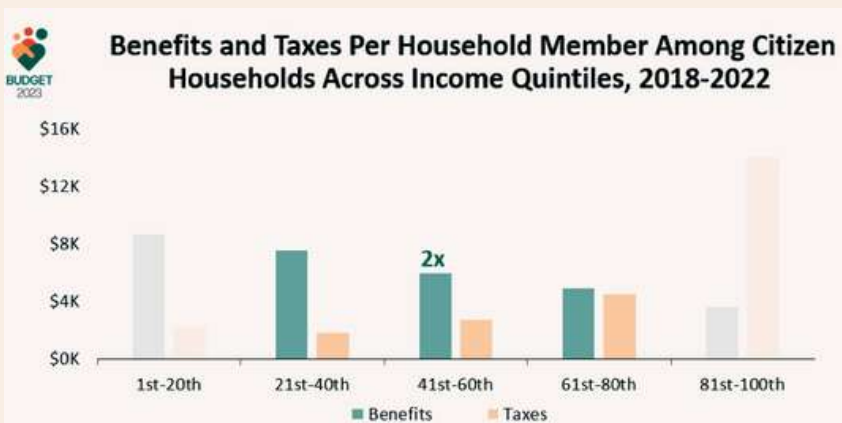
Upcoming budget challenges

In an Occasional Paper released by the MOF on February 2023, it was revealed that the government’s expenditure is expected to increase from the current 18% to about **19 to 20% of GDP** in the FY2026–2030 period.

Overall, our fiscal space is much tighter now compared with previous decades. In the near term, because of the recent revenue measures, revenues should be sufficient to cover the higher spending. Without the revenue moves made in Budget 2022, total revenue would have fallen below the projected level of government spending within this decade.

These projections do not take into account any further policy moves that the government may make between now and 2030, to enhance Singapore’s economic competitiveness and strengthen our social compact. To fund these policy moves, we will either require more resources, or have to cut back in some existing areas and re-allocate funds to these new priority areas. The challenge is to continue to balance the budget in a fair and equitable manner even as we implement these future moves.

Progressivity of our tax system



Source: Ministry of Finance, Budget 2023 Round Up Speech.

The distribution of tax revenues is such that the top 20% bear the heaviest burden in taxes, whereas the bottom 20% will receive the most benefits.

Everyone contributes, but those who are better off contribute more. Everyone benefits from government spending, but those with greater needs benefit more.

Possible Principles of Inter-Generational Equity

1. Benefitter-pays

The benefitter-pays principle states that each generation should pay for what it benefits from, and not pay for what it does not benefit from.

In its simple form, it maintains that future generations should not have to pay, through taxation, for social spending that benefits present generations. In the context of fiscal management, this would mean that current spending should be financed out of current taxes. Spending on capital such as infrastructures should be financed over the useful lifetime of those infrastructures (Elmendorf & Mankiw, 1998).

2. Maintaining minimum threshold

This principle states that each generation should maintain a minimum threshold of resources for future generations – a sufficient threshold after which present generations do not have further obligations to future generations

There are two ways of interpreting this. The first is that inter-generation equity demands for there to be an establishment of just institutions that allow basic liberties to be realised. The second view focuses on accessibility, which is that each generation has the obligation to ensure every generation has access to sufficient resources to pursue their aims and aspirations.

3. Reciprocity

This principle points to the obligation that present generations have towards future generations, based on what the former had received from the previous generations. The principle of reciprocity states that fairness requires that each generation returns what they had received from previous generations to the future generation. Accordingly, there is also a form of indirect reciprocity that states that each generation owes something to future generations, and not to whom they had received it from. No generation should therefore deplete resources entirely; rather, they should pass on what they have received.

4. Inter-generational equity

The final principle suggests that fairness is about minimising inequality within members of each present and future generation.

A strict interpretation of this principle could find any action by the current generation that results in unequal access to resources in future generations as unjust. A less strict interpretation could suggest that present generations have an obligation to prioritise actions that will benefit the worse-off across generations (Campos, 2018). Since inequality is usually replicated across generations, reducing inequality in the present generation goes some way to reducing inequality in future generations (Shih, 2018). In summary, this principle is concerned with achieving equality in the distribution of resources within and across generations.

Additional reading materials on intergenerational equity:

- Fiscal management of reserves in Singapore: An intergenerational equity perspective. [IPS Working Paper No. 32.](#)
- Public debt and intergenerational equity in Singapore. [IPS Working Paper No. 38.](#)
- Taxation and distributive justice in Singapore. [IPS Working Paper No. 42.](#)

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About the workshop

The **IPS Public Deliberation on Singapore's Fiscal Policies and National Reserves** will be held at **Devan Nair Institute for Employment and Employability**. It will be held over two Saturdays, **29 April 2023 and 06 May 2023**.



DAY 1: 29 April 2023

- Introduction to Singapore's fiscal policies and National Reserves framework.
- Panel discussion on myths, truths, and the future of Singapore's National Reserves.



DAY 2: 06 May 2023

- Deliberation of fiscal policies and principles through budgeting games.



Who is participating?

- Participants:
Up to 100 Singaporeans of all ages, ethnicity, and backgrounds will come together to share their views these issues.
- Expert speakers and resource persons:
Experts will provide context and insights on Singapore's fiscal policies and National Reserves.



Organiser:

The Institute of Policy Studies (IPS) was established in 1988 to promote a greater awareness of policy issues and good governance. Today, IPS is a think tank within the Lee Kuan Yew School of Public Policy (LKYSPP) at the National University of Singapore. It seeks to cultivate clarity of thought, forward thinking and a big-picture perspective on issues of critical national interest through strategic deliberation and research.

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