

## Singapore Watch

## Uniquely Singapore fiscal framework

**Budget 2024 (16<sup>th</sup> Feb) Preview: Pre-Elections Budget?**

For FY23, given, strong revenues to date, we think that the latest estimates may be revise up to reflect a fiscal *surplus* of S\$2bn (0.3% of GDP), from the previous estimate for a *deficit* of S\$0.4bn (0.1% of GDP) For FY24, we think that the government may announce an overall deficit of S\$3bn (0.4% of GDP). Given the government's track record of fiscal prudence, we don't expect space from the fiscal surplus in FY21-23 (we estimate S\$13.7bn after Draw on Past Reserves is excluded) to be fully utilized. This also provides the government with some headroom to spend in FY25, if elections are not called by March 2025 (see also theme #3 of [Year Ahead](#)).

Amongst the policy measures that will be unveiled, we keep an eye on the following: (1) Household-friendly measures (perhaps more so than past years) that are aimed at alleviating cost of living pressures for lower- & middle-income groups; (2) Interim financial support for involuntarily unemployed workers, (3) Schemes aimed at strengthening Singapore's appeal as an investment destination, ahead of the raising of effective tax rate for multinational firms to 15% to meet BEPS 2.0 requirement (possibly from 1<sup>st</sup> Jan 2025); and (4) Possible new revenue measures, including taxes aimed at wealthy group.

**Uniquely Singapore fiscal framework**

Singapore's fiscal framework is often a source of confusion for investors. We elaborate upon the following in this note:

#1: Constitution requirement is to maintain an overall fiscal balance of  $\geq$ S\$0 over each parliamentary term, under the Balanced Budget Rule (BBR).

#2: Under exceptional circumstances, the government can seek the President's approval to tap on Past Reserves to supplement the Budget.

#3: Roles of GIC, MAS and Temasek as custodians of Past Reserves.

#4: Budget presentation includes Net Investment Returns Contribution (NRC) and excludes proceeds from sale of land. Spending items include special transfers to households & businesses and top-ups of endowment & trust funds.

#5: While the gross debt levels appear large ( $>170\%$  of GDP), the government has significant net assets and no net debt. Also, only a very small part of borrowing thus far (slightly above 1% of GDP) is for spending purpose (and specifically for longer-term infrastructure; see also our [Strategists' note](#) from 2021). The rest of the issuance is for (a) meeting investment needs of CPF, (b) market development purpose), and (c) providing long-term savings option for retail investors.

*See pages 2 to 7 for more details*

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Glossary:

MAS: Monetary Authority of Singapore

CPF: Central Provident Fund

BEPS: Base Erosion and Profit Shifting

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## Preview: Pre-elections Budget?

We outline our expectations and areas of focus for Budget 2024 (16<sup>th</sup> Feb) below:

For **FY23 (Apr '23 to Mar '24)**, Budget 2023 (Feb '23) projected a small fiscal deficit of S\$0.4bn (0.1% of GDP). Given strong revenues to date, we think that the **latest estimates may be revise up to reflect a fiscal surplus of S\$2bn (0.3% of GDP)**.

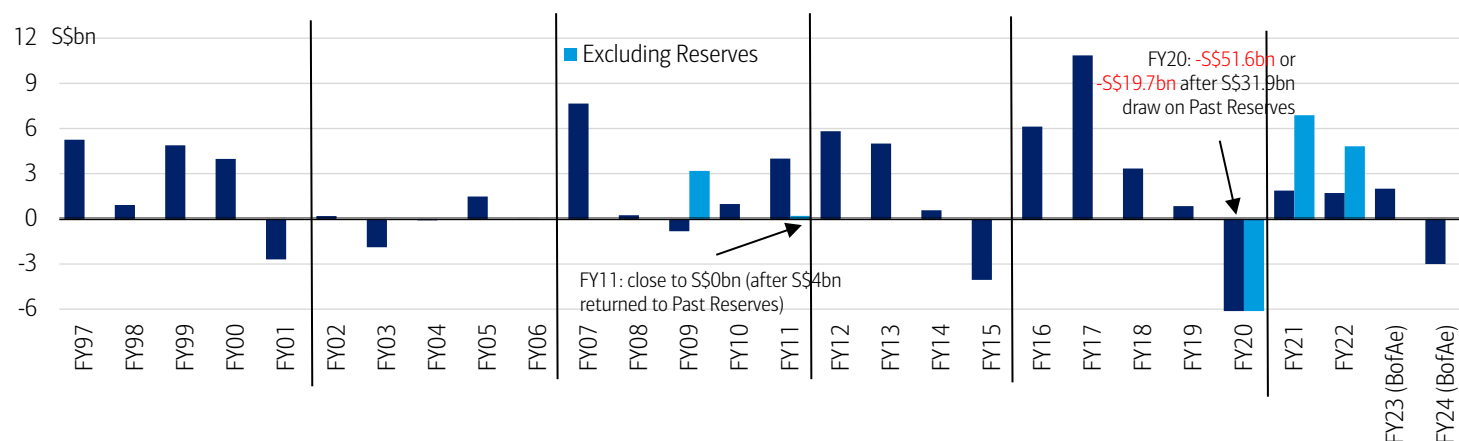
This may imply a cumulative surplus of S\$13.7bn under the current parliamentary term, after the S\$8.1bn draw on Past Reserves in FY21 and FY22 is excluded.

For **FY24**, we think that the government may announce an overall **deficit of S\$3bn (0.4% of GDP)**. This may reflect (a) higher special transfers to households & businesses amid sharpened focus on cost-of living pressure in the lead-up to leadership handover (see theme #3 of [Year Ahead](#)), and (b) lower corporate & personal income taxes, given weaker performance in year of assessment 2023 vs. 2022. These would more than offset higher revenue from the 2nd 1ppt GST increase, and other new taxes.

Given the government's track record of fiscal prudence, we don't expect space from the fiscal surplus in FY21-23 (we estimate S\$13.7bn) to be fully utilized. This also provides the government with some headroom in FY25, if elections are not called by March 2025.

### Exhibit 1: Overall fiscal position (S\$bn, % of GDP)

Cumulative fiscal surplus in FY21-FY23 could amount to S\$5.6bn (or S\$13.7bn after draw on Past Reserves is excluded)



Source: BofA Global Research, MOF, Haver Note: Links refer to likely start/end of each fiscal year; Elections took place in Nov '01, May '06, May '11, Sep '15 and Jul '20

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### Exhibit 2: Fiscal position over FY19-FY24

We think that FY23 fiscal position could be revised up to +0.3% of GDP; For FY24, we think that a fiscal deficit of -0.4% of GDP could be announced

Components	FY19	FY20	FY21	FY22	FY23 (Budget Feb '23)	FY23 Revised (BofAe)	FY24 (BofAe)
(1) Operating Revenue	74.3	67.4	82.5	91.0	96.7		
(2) Total Expenditure	75.3	86.4	94.8	104.9	104.2		
(3) Primary Balance (1) - (2)	-1.1	-19.0	-12.3	-13.8	-7.5		
(4) Special transfers to households & businesses	1.6	33.5	6.8	2.7	2.8		
(5) Basic Balance (3) - (4)	-2.6	-52.5	-19.1	-16.5	-10.3		
(6) Top-ups to funds	13.6	17.3	0.0	6.3	16.8		
(7) Net investment returns contribution	17.0	18.2	20.4	22.4	23.5		
(8) Overall Balance (5) - (6) + (7)	0.8	-51.6	1.2	-0.4	-3.6		
(9) Capitalization of infra	0	0	0.7	2.2	3.5		
(10) Depreciation of infra + Interest costs & loan expenses	0	0	0	0.1	0.3		
Overall Fiscal position (8) + (9) - (10)	0.8	-51.6	1.9	1.7	-0.4	2.0	-3.0
% of GDP	0.2	-10.5	0.3	0.3	-0.1	0.3	-0.4

Note: Utilization of past reserves

Source: BofA Global Research, MOF, Haver

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Amongst the many policy measures that will be unveiled, we keep an eye on the following:

- **(1) Household-friendly measures** (perhaps more so than past years) that are aimed at alleviating cost of living pressures for lower- & middle-income groups.
- **(2) Interim financial support for involuntarily unemployed workers.** This will mark a policy shift, and was already flagged in the “Forward Singapore” blueprint<sup>1</sup> published last Oct.
- **(3) Schemes aimed at strengthening Singapore’s appeal as an investment destination,** ahead of the raising of effective tax rate for multinational firms to 15% to meet BEPS 2.0 requirement (possibly from 1<sup>st</sup> Jan 2025); and
- **(4) Possible new revenue measures,** including taxes aimed at wealthy group.

On the macro front, the following will be of importance to track:

- **(1) MOF’s projection of fiscal impulse.** MOF’s measure factors in the current year’s estimated spending of longer-term endowment & trust funds – which is not published (MOF only publishes actual/estimated spending of previous years). This would provide a more precise picture of the short-term macroeconomic impact vs. a simple comparison of basic balances between two periods.
- **(2) Output gap estimates,** which would serve as a precursor before it is next published in MAS semiannual Macroeconomic Review in late April; and
- **(3) Potential inflationary (or disinflationary) impact from Budget measures.**

## Singapore’s fiscal framework

Singapore’s fiscal framework is often a source of confusion for investors. In this note, we explain the unique features.

### Fiscal approach

**(1) The government is constitutionally required to maintain an overall fiscal balance of ≥S\$0 over each parliamentary terms, under the Balanced Budget Rule (BBR).** Any surpluses at the end of each term will be transferred to Past Reserves (Exhibit 3).

**(2) Under exceptional circumstances, the government may request for a draw on “Past Reserves” if it’s unable to meet the BBR.** This is ultimately subject to the approval of the President. There is no constitutional obligation for the Government to return to Past Reserves for any amount drawn. **Since FY08, the government has drawn around S\$44bn from Past Reserves, including S\$4bn which was returned in FY11.** In the details:

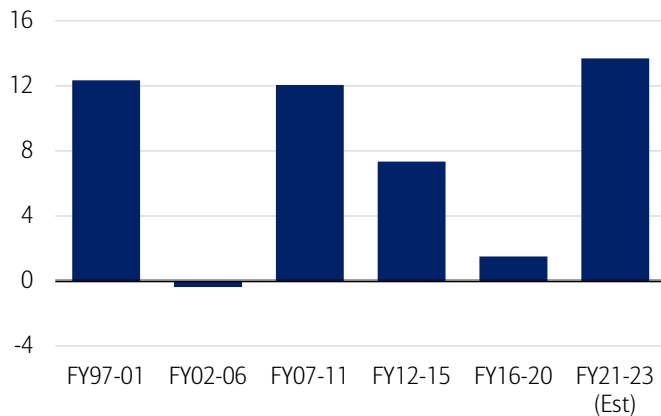
- FY08 (GFC) – The government drew S\$4bn in Jan-09 and returned the entire sum in Feb-11. The President also gave approval for a S\$150bn guarantee on all bank deposits in Singapore to be backed by Past Reserves (this lapsed on 31<sup>st</sup> December 2010 without being triggered).

<sup>1</sup> The blueprint is a public engagement exercise initiated in June 2022 with the aim of refreshing Singapore’s social compact.

- FY20-FY22 (COVID) – The expected draw is S\$40bn over three fiscal years (FY20: S\$31.9bn; FY21: S\$5bn, FY22: S\$3.1bn). Unlike FY08, the government is unlikely to return the sum in its entirety, as mentioned by the Finance Minister in Feb '23<sup>2</sup>.

### Exhibit 3: Fiscal position over parliamentary terms (S\$bn)

Tendency to end each term with surplus (which then goes into Reserves)

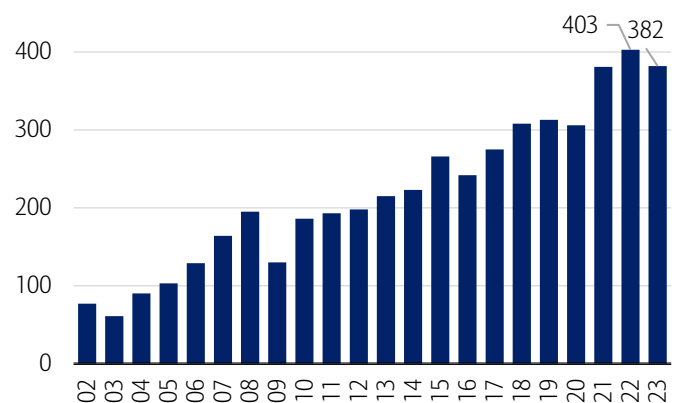


Source: BofA Global Research, MOF, Haver Note: Measures funded by draw on Past Reserves do not count towards the Balanced Budget Rule

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### Exhibit 4: Temasek net portfolio value (S\$bn)

Temasek's portfolio value has quadrupled over the past two decades



Source: BofA Global Research, Temasek Note: Figures refer to financial year ending March  
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**(3) The overall size of Past Reserves is not publicly disclosed.** The government views this as necessary to protect the S\$ from any speculative action. Past Reserves comprise of assets managed by MAS, Temasek and GIC. We discuss each of these entities briefly below:

- GIC:** The size of funds is not published but is well over S\$100bn. GIC manages funds from the government and is not an owner of assets.
- Temasek:** The global portfolio size of Temasek is S\$382bn (as of Mar '23), from just under S\$100bn in the early 2000s (Exhibit 4). This also includes S\$70bn in capital injections by the government via investment in new Temasek shares (of which S\$50bn was from Temasek's dividends to the shareholder<sup>3</sup>).
- MAS:** The foreign reserves managed by MAS totaled S\$463bn (or \$351bn) in Dec '23, down from the peak of S\$579bn after the transfer of "excess reserves" to GIC (Exhibit 5). Foreign reserves have grown steadily over the years, partly reflecting appreciation pressure on the S\$NEER. Between 2H19 and 1H23, MAS has purchased US\$240.3bn of FX from intervention operations (Exhibit 6).

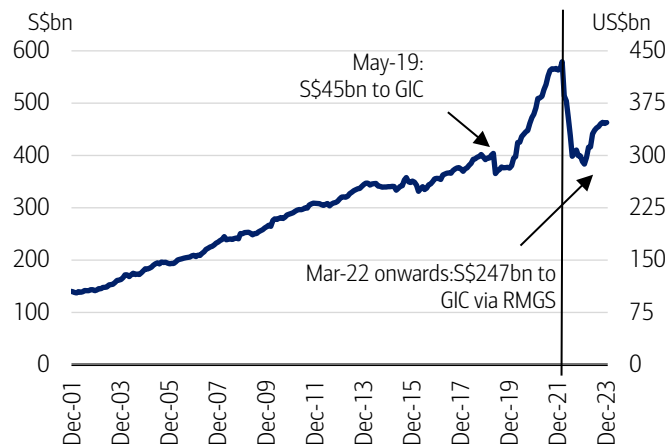
MAS deems the optimal foreign reserves to be 65-75% of GDP, and transfers of "excess" to GIC allows such assets to be invested for longer-term returns. In the past, transfers (often not publicly disclosed) were accompanied by a drawdown of Government deposits with MAS. With the decline in government surpluses and deposits with MAS (Exhibit 7), a new mechanism was introduced in early 2022, with the government issuing a non-marketable security (Reserves Management Government Securities, or RMGS) used to facilitate the transfer. Between Mar '22 and Dec '23, MAS transferred S\$247bn to GIC via RMGS (Exhibit 8).

<sup>2</sup> The Finance Minister said during the Budget speech in Feb '23 that "we continue to be in a tight fiscal position...It is therefore highly unlikely that we will be able to put back what we have drawn from past reserves".

<sup>3</sup> MOF Parliamentary Reply: "Capital Injections to Temasek Holdings" (9 Jan 2023)

**Exhibit 5: MAS official foreign reserves (S\$bn & US\$bn)**

Reserves down from the peak after transfers of “excess” to GIC

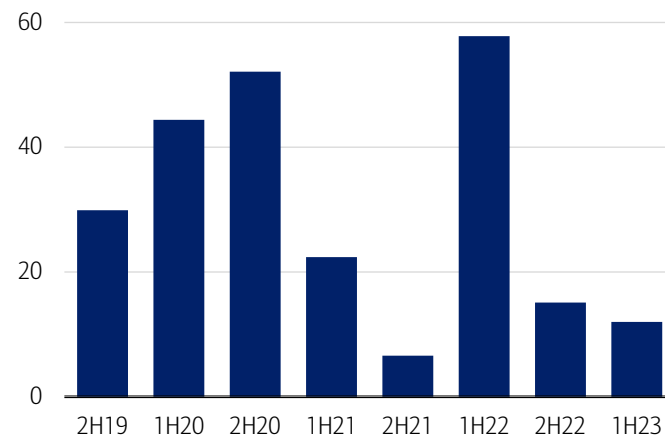


Source: BofA Global Research, MAS, Haver

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**Exhibit 6: Net purchase of FX from intervention operations (US\$bn)**

MAS has made \$240bn of net FX purchases since 2H19

Source: BofA Global Research, MAS, Haver Note: First disclosure was made for the period 2H19  
BofA GLOBAL RESEARCH**Exhibit 7: Government deposits with MAS (S\$bn)**

Government deposits lower compared to previous decades

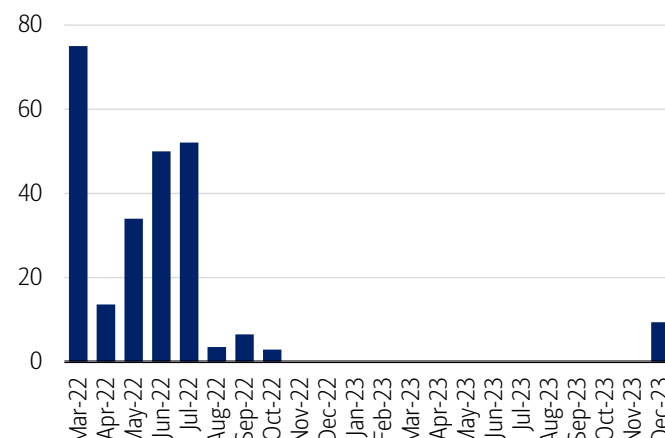


Source: BofA Global Research, MAS, Haver

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**Exhibit 8: Monthly MAS-GIC transfers via. RMGS (S\$bn)**

MAS has transferred out S247bn of “excess” reserves since Mar ‘22



Source: BofA Global Research, MAS, Haver

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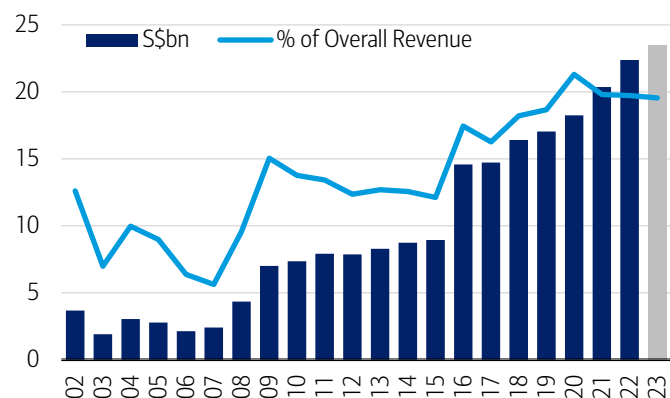
**Budget presentation****(4) Singapore adopts a different Budget presentation from the one prescribed by IMF.** We highlight a few key differences below:

- **(a) Operating revenue is complemented by investment returns from reserves via. the Net Investment Returns Contribution (NIRC) framework.**  
Since FY20, the NIRC accounted close to (or above) 20% of overall revenue, making it the largest source of income (Exhibit 9). The NIRC comprises of:
  - **Net Investment Returns (NIR)** – The government can spend up to 50% of the long-term expected real returns (including capital gains) on net assets invested by GIC, MAS and Temasek.
  - **(ii) Net Investment Income (NII)** – The government can spend up to 50% of NII (e.g. dividends and interest) derived from past reserves from the remaining assets.

Before FY09, there was only the NII, and the government was only able to spend from actual investment income. In FY09, the NIR component was introduced with only GIC and MAS included and allowing a shift towards spending on expected long-term returns. In FY16, the NIR was expanded to include Temasek<sup>4</sup>.

#### Exhibit 9: Net Investment Returns Contribution (NIRC)

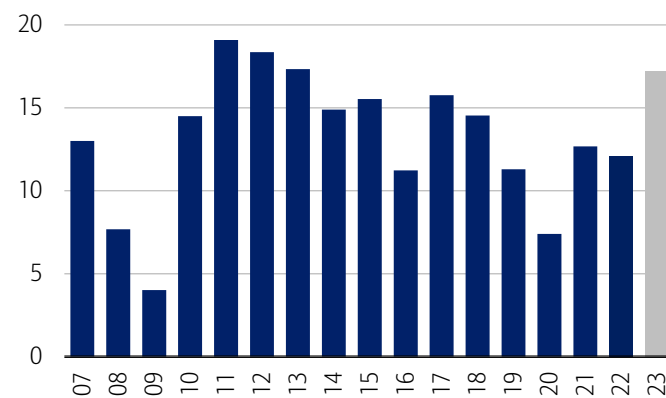
NIRC accounted for almost 20% of overall revenue in recent years



Source: BofA Global Research, MOF, Haver Note: FY23 refers to estimates from Budget '23  
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#### Exhibit 10: Capital receipts – sales of land (\$\$bn)

Proceeds from land are not considered part of overall revenue



Source: BofA Global Research, MOF, Haver Note: FY23 refers to estimates from Budget '23  
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- **(b) Proceeds from sale of land (Exhibit 10) is not included in the Budget.** The government considers land as part of Past Reserves, and the Budget instead captures investment returns from land sales via the NIRC framework. As an example, when the government sells a parcel of State Land for S\$1mn with a lease of 99 years, the cash proceeds are then invested (e.g. through GIC). After 99 years, the land automatically returns to the State and is protected as Past Reserves.
- **(c) Special transfers** are one-offs given to households and businesses.
- **(d) Endowment & trust funds** are set aside for funding specific multi-year programmes.

### Government borrowing

#### Exhibit 11: Types and outstanding amount of Singapore Government Bond

Only a very small part of the government's borrowing is for spending purpose

Type of Debt	Marketable	Purpose	Limit (\$\$bn)	Outstanding Amount (\$\$bn)(3Q23)
(1) Issued for non-spending purposes				
(a) Singapore Government Securities (SGS) (Market Development)	Yes	Develop debt market		156.3
(b) T-Bills	Yes	Develop debt market		83.7
(c) Singapore Savings Bond (SSB)	No	Long-term savings option for retail investors		10.9
(d) Special SGS (SGSS)	No	Meet CPF investment needs	1065 (a) to (d)	622.7
Sub-total				873.6
Reserve Management Government Securities (RMGS)	No	Facilitate transfer of reserves from MAS	580	237.7
<b>Sub total (include. RMGS)</b>				<b>1111.3</b>
(2) Issued for long-term infrastructure spending purpose				
(e) SGS (infrastructure)	Yes			4.5
(f) Green SGS (infrastructure)	Yes		90 (e) to (f)	5.2
<b>Sub total</b>				<b>9.7</b>

Source: BofA Global Research, MOF, Haver

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**(5) The government only borrows for the purpose of funding long-term infrastructure projects (1.4% of GDP).** As of 3Q23, the amount stands at S\$9.7bn (or around 1.4% of GDP). In the past, such lumpy expenditures are funded out of the Budget.

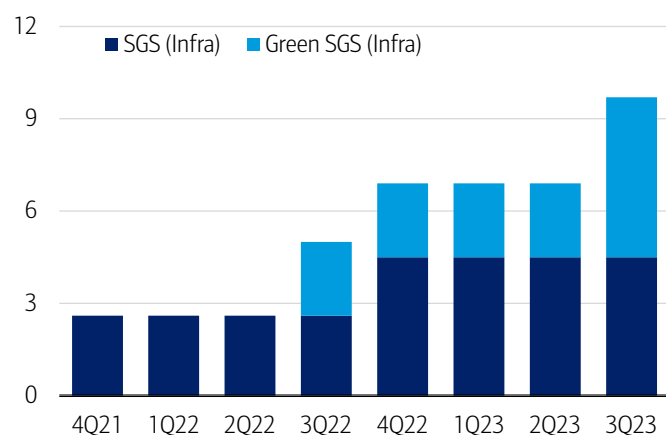
<sup>4</sup> Temasek's earlier inclusion was delayed as there was no established methodology for projecting long-term returns.

The Significant Infrastructure Government Loan Act (SINGA) bill was passed in 2021, allowing the government to borrow for such purpose. **This adds greater flexibility to the Budget**, as such infrastructure spending are now capitalized over a much longer-term, rather than being pre-funded.

MAS serves as the fiscal agent of the government and undertakes issue & management on behalf of the government. MAS issues the **Singapore Government Securities (SGS) (Infrastructure)** and **Green SGS (Infrastructure)** for this purpose. Provisions under SINGA includes (a) capping gross borrowing at S\$90bn (or 14% of GDP in 2022), (b) project cost should be ≥S\$4bn, and the infrastructure should be available for use for at least 50 years, and (c) annual interest threshold of S\$5bn. Our Strategist earlier discussed the market implications in this note: [Asia FI & FX Strategy Watch: Singapore Bonds – SINGA Debut 24 September 2021](#)

#### Exhibit 12: Domestic debt - SGS (Infra) & Green SGS (Infra) (\$bn)

Outstanding balance of S\$9.7bn (1.4% of GDP) as of 3Q23

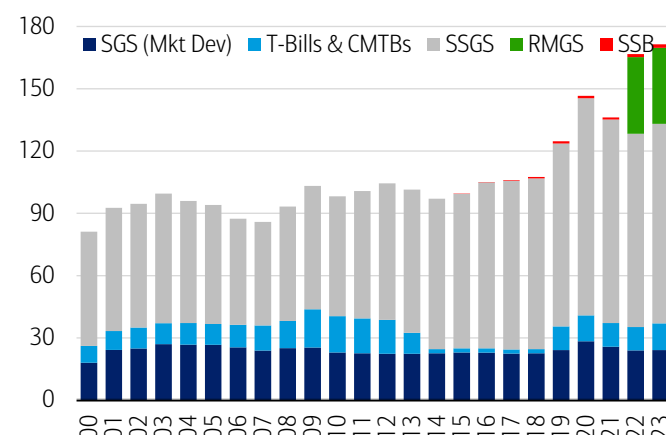


Source: BofA Global Research, MOF, Haver

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#### Exhibit 13: Domestic debt – non-spending purposes (% of GDP)

At face value, gross domestic debt appears large at >170% of GDP



Source: BofA Global Research, MOF, Haver

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#### (6) The rest of government borrowing are for almost entirely for non-spending purposes (171% of GDP). This includes:

- **Special Singapore Government Securities (SSGS)** – Non-marketable bonds primarily issued to meet the investment needs of the Central Provident Fund (CPF), which is Singapore's mandatory pension fund scheme (amount due to members = S\$568bn as of Nov '23). The proceeds from SSGS are pooled with the rest of the Government's funds and invested by GIC.
- **SGS (Market Development) and Treasury Bills (T-bills)** to develop the domestic debt market. This includes the **Cash Management Treasury Bills (CMTBs)**, which is issued on an ad-hoc basis to meet temporary cashflow mismatches.
- **Singapore Savings Bonds (SSBs)** – Non-marketable bonds issued monthly only to retail investors.

(7) While the gross debt levels appear large at first value, the government maintains that it **has significant net assets and no net debt**, with (a) net asset position reflected in net investment returns generated by reserves, which is made available to the government via NIRC, and (b) the strong balance sheet validated by the triple-A ratings from Fitch, Moody's and S&P.



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