Not all Debts are Dilemmas

Singapore's debt portfolio is a lesson in prudent decision-making, where a long-term view of its economy governs the process.

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By December 2023, Singapore had one of the highest government gross debt in the world, amounting to 170.8 percent of its Nominal GDP. The figure surpasses the world's largest economy, the United States, which recorded a gross debt to GDP ratio of 124 percent in December 2023. Alarming? Of course, especially when debt is a buzzword in today's global economic landscape, when the world is living in a present reality of enormous debt-laden economies from the global north to the south, with some of the weaker economies crumbling under utterly abysmal economic mismanagement amid outrageous borrowings to fund unfeasible projects.

Crushing debt strangles economic growth and opportunities for citizens while stymying investment. As for Singapore, the city-state has long been the poster child of economic gallantry in Asia and a role model for the entire world. Hence, it's essential to understand the dynamics of Singapore's gargantuan domestic debt and its impact on economic growth. From weathering the 2008 global financial crisis to facing the COVID-19 slowdown, Singapore has responded dignifiedly to all those fallouts. Hence, its national debt status cannot be a callous move by its leaders. As a regional and global economic powerhouse, Singapore epitomizes success, and a change in its fortunes would be inconceivable. From the outside, Singapore has the right mix of many things to propel its future: an advanced economy run by a pro-business government, a robust monetary and fiscal policy that has consolidated a solid currency buttressed by good governance, and an economy driven by exports in electronics manufacturing and machinery, financial services, tourism, and the world's busiest cargo seaport.

Does this mean that Singapore doesn't incur a budget deficit? In February 2024, Singapore's Finance Ministry announced that it had revised the budget deficit 2023 to Singapore dollar 3.6 billion from 0.4 billion. This move was despite substantial earnings from multiple income sources. Singapore earns most of its revenue from taxes, such as income, property, excise, customs duties, and GST. Other revenue sources for the government include license and permit fees, government property rental, fines, forfeitures, and capital receipts from the sale of capital goods. And that's where Singapore differs. The US, for instance, uses its massive revenue generated primarily from taxes to fund defense, healthcare, infrastructure, and other projects while continuing to incur a budget deficit. That deficit would be covered by tapping into the debt market and debt instruments such as treasury bills and bonds. Singapore went on the traditional path of borrowing from multilateral agencies when it launched its development plan in

1961 to start industrialization and economic development. It borrowed more in the 1980s to build terminals in the Changi Airport and its first MRT lines. As the economy grew in the 1990s, the government could repay the loans while prudent financial management helped the government incur budget surpluses and shore up reserves.

As its fortunes changed for the better, Singapore abandoned its novice borrowing approach, focusing on long-term development objectives based on a well-thought-out and planned strategy, investing in projects that yield benefits for several generations. It swapped the practice of seeking multilateral agency or foreign government funding with Singapore Government Securities (SGS), Special Singapore Government Securities (SSGS), treasury bills, and savings bonds as principal debt instruments to raise capital to fund its domestic projects and further its economic objectives.

These debt instruments have two primary objectives. One is to facilitate debt market development. Second, it aims to finance nationally significant infrastructure development. Guided by the economic realities of the times, cognizant of the challenges to growth, and no longer expecting to savor the same high growth and fiscal surpluses, Singapore saw the need to take on a prudent and disciplined approach to development. Hence, it introduced a new bill to facilitate borrowings for long-term infrastructure projects in 2021. The Significant Infrastructure Government Loan Act (SINGA) allows the government to fund major national infrastructure projects within legislative protections and a borrowable limit. Note the emphasis on nationally significant infrastructure projects.

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The law defines the type of projects and criteria to qualify under SINGA, demonstrating a consensus on the country's national policy and development direction. It kills any penchant for political skull drudgery to invest in vain pet projects. Importantly, every project must be owned and controlled by the Singapore government. This planning line sets the city-state apart as a forward-thinking nation in fiscal management. Such meticulous thinking that governs its borrowings demonstrates its commitment to sustainable growth by prioritizing long-term investment and infrastructural development. Moreover, Singapore's borrowing strategy focuses on managing the country's liquidity by absorbing excess money in the system, thereby helping to control inflation and ensure economic stability.

Furthermore, its SSGSs have a specific purpose. These non-tradable bonds are explicitly issued to meet the Central Provident Fund (CPF) investment needs, a compulsory social security savings scheme for working Singaporeans and permanent residents, contributing to their retirement, healthcare, and housing needs. Under government assurance, CPF invests in SSGSs, and the interest thus generated gets pegged to the CPF interest rate that the government pays to CPF members on their balances. This arrangement ensures that CPF can meet its liabilities to its members. Therefore, the issuance of SGSs and SSGSs targets financial market development and pension fund management rather than financing government expenditure or covering fiscal deficits.

Then, where does the government seek recourse to fill any fiscal shortfall? The fundamental lies in Singapore's greatest asset – its formidable foreign reserves, which Prime Minister Lee Hsien Loong has described as the Singapore Premium, the cashbox that it dips into to forestall an economic blow as it did in 2008 and recently during the COVID-19 pandemic. The country's foreign reserves are not a mere fund that the government preserves like a treasure trove; it is an investable lump sum that can generate sizeable returns. Thus, the country's early leaders established Temasek and the GIC as sovereign reserve funds to manage Singapore's national reserves. They are unique models in Asia, two blueprints on growing national reserves by investing in a range of domestic and global portfolios. Set up in 1974, Temasek holds shares on behalf of the Singapore government, buying stakes in companies in Singapore and outside, reinvesting capital gains and dividend income in foreign assets. The GIC set up in 1981, makes long-term and flexible investments in public equities, fixed income, real estate, and private equity. The investments of these two funds have continuously reaped billions of dollars for Singapore. The government has used the funds' substantial returns to close budget shortfalls while principally reinvesting in the economy. When Singapore pronounces that its financial assets are more than its debt, it refers to the net investment returns generated on its reserves, which, through Temasek and GIC, are invested globally for high returns for government spending.

Therefore, Singapore’s government debt reflects well-thought-out planning and management within a longer-term fiscal strategy and substantial borrowings through several instruments that help it accumulate necessary funding not to fill fiscal deficits but to invest in long-term infrastructure projects deemed nationally important. It focuses on investing in the country’s future and its long-term growth. Significantly, through SINGA, the government can borrow up to Sinagpore dollar 90 billion to pay for projects important to Singapore’s national interests and benefit the general public, projects that last for multiple generations, thereby allowing the benefit as well as the expenditure to spread out over many years and generations, with every generation bearing part of its cost. Singapore’s strategy of investing to earn has paid off. The ROI generated from their investments of reserves is so enormously lucrative that Singapore does not have a net debt but only a substantial gross debt, meaning that its financial assets are more than its net debt, and its assets hover above its liabilities, leading to a strong balance sheet and high credit ratings from international credit rating agencies. High credit ratings allow Singapore to borrow at favorable interest rates, leaving its reserves to earn attractive returns and keeping them ready to fulfill the all-important balancing act.

Information for this article was extracted from a production by YouTube channel Behind Asia titled ‘Singapore’s $800 Billion Massive Debt, Explained’

GIC

Comparison of Inflation Rates (Singapore and World)

Sources: Department of Statistics (Singapore) and International Monetary Fund World Economic Outlook (World). Notes: Figures in chart refer to headline inflation in Singapore and the World, based on latest available data.