

ASK: NUS ECONOMISTS

What S'pore's public debt reveals



■ *NEWS reports often mention the high debt of the United States and Japanese governments. At the same time, we are told Singapore has low debt. Yet the 2008 Statistics of Singapore notes that Singapore's public debt stood at \$255.464 billion that year, while the Gross National Income was \$250.387 billion. It would appear Singapore too has pretty high public debt. Can you explain this anomaly? How do economists compute a country's debt? What is included in the list of debt and what is not?*

The reader has raised intriguing and relevant issues concerning Singapore's public finances.

First, Singapore has a well-deserved reputation for the conservative management of its public finances. Yet its gross debt to Gross National Income (GNI) ratio exceeded 100 per cent in 2008. Some international sources project that ratio to increase to 112 per cent by the end of the year, which is equivalent to US\$38,000 (S\$53,000) per person (as-

suming a population of 4.9 million). This contrasts with a projected 2010 debt-to-GNI ratio of 60 per cent for the United States.

Unlike the US, however, Singapore has exhibited persistent and large structural budget surpluses. Thus, Singapore's officially reported budget surplus averaged 7.4 per cent of GNI annually between 2003 and 2008.

The apparent anomaly of, on the one hand, having high structural budget surpluses, and on the other, a large public debt has puzzled analysts. Usually public debt is issued to finance government deficits. But past budget surpluses suggest Singapore's fiscal balance sheet has substantial accumulated balances, and there is no need to issue public debt.

The main limitation of the gross public debt indicator in assessing fiscal health is that it leaves out the Government's assets from past surpluses, and whatever funds that may have been set aside, as Singapore has done, to repay debt.

Net public debt would be a better indicator. Thus, if the net instead of the gross public debt were used, Singapore will not exhibit any public debt. Instead, it will likely show a surplus.

In this regard, there is strong merit in routinely publishing the Government's balance sheet, indicating the extent of past budget surpluses and their

deployment. That way, we would avoid such puzzlement as the questioner has noted.

Second, why does the Singapore Government issue debts and who holds them?

There is official data available on gross public debt according to instruments. In 2008, for example, 82 per cent of debt was in Registered Stocks and Bonds, and 14 per cent was in Treasury Bills, with the remaining 4 per cent in Advanced Deposits with the Monetary Authority of Singapore (MAS) to be converted later into the other two categories. There is data available also on gross debt according to maturity. In 2008, for example, most of the debt was over a one-year period. There is, however, no data according to the holders of the debt.

The Central Provident Fund (CPF) Annual Report for 2008 stated that of its total investments of \$153.4 billion, \$150.8 billion was held in Hold-To-Maturity financial assets. Nearly all of the CPF's assets were held between Special (non-marketable) government securities, and Advanced Deposits with the MAS. Thus, the CPF as an institution is the single largest holder of government debt. The CPF itself is passive in investing its members' assets, content to receive administered rates of interest on its Hold-to-Maturity assets.

Other holders of Singapore government debt include financial institutions that are required to purchase such debt as part of their prudential norms. The rest is distributed among other investors.

A major objective of issuing public debt is to facilitate intra-fund transfers within the broadly defined public sector. More recently, establishing a risk-free interest rate benchmark through issuance of longer period government securities has also been an objective.

To conclude, conventional aggregate ratios to assess fiscal health have important limitations. Specifically, they do not take into account the type of public finance management that Singapore practises. Suitable changes in the way the Government presents its fiscal accounts could enable analysts to better assess Singapore's fiscal health.

The writer is a professor at the Lee Kuan Yew School of Public Policy, NUS.

Write in to stask@sph.com.sg with whatever questions you might have on economics, international or domestic. Each week, one or two questions will be selected to be answered by a panel of National University of Singapore economists.