Headline: High savings rate, but S'poreans are not misers
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ASK: NUS ECONOMISTS

High savings rate, but S'poreans are not misers

By Toh Mun Heng

Singapore has one of the world highest saving rates. Are Singaporeans misers?

Many analysts believe Singaporeans oversave. Indeed, Singapore's savings to Gross Domestic Product (GDP) ratio is exceptionally high.

GDP is the sum of the incomes – including wages, profits, dividends and rentals – generated within a country during a given time period. Saving is simply the part of income that is not expended on goods and services.

Singapore's savings to GDP ratio is in the vicinity of 50 per cent, while that of developed economies like Britain and the United States is well below 20 per cent.

High savings rates also indicate low consumption to GDP ratios. Keynesians will infer from this that fiscal pump priming measures, such as increasing government expenditure or reducing tax rates, will be limited in effectiveness in Singapore during times of recession, since people are likely to save, not spend, the additional income.

Others will point out that Singapore's high savings rate is simply a function of its social security system, the Central Provident Fund (CPF), which compels workers to save. Currently, up to 36 per cent of the wage of a worker goes to CPF.

But all these explanations miss an important point: Much of the GDP generated in Singapore's economy is not indigenous.

Singapore plays host to more than 7,000 foreign multinational corporations (MNCs) and practically all of them produce for exports. They also employ a large number of foreign workers, who currently constitute more than 30 per cent of Singapore's workforce.

Thus a substantial portion of the income generated here will accrue to foreign labor and capital. This means there is a non-indigenous portion of the total GDP that is not available for consumption in Singapore.

Indigenous GDP is GDP that accrues to Singapore residents. Information on Indigenous GDP is available in the Yearbook of Statistics published by the Department of Statistics. The share of Indigenous GDP in total GDP has declined from 68 per cent in 1990 to 62 per cent in 1999 and further down to 57 per cent in 2008 and 2009. From 1999 to 2009, non-Indigenous GDP grew at an average rate of 8.3 per cent, while Indigenous GDP grew by 5.2 per cent.

A more appropriate measure of the savings rate is the proportion of Indigenous GDP that is not consumed. In 2008, the Indigenous GDP was $157.9 billion. An estimate of the indigenous private consumption can be obtained by multiplying the total private consumption by the share of Singapore residents in the total population.

Adding this figure to total public consumption yields a total indigenous consumption of $109.8 billion. The balance of $48.1 billion was saved – or 30.5 per cent of total Indigenous GDP. The figure for 2009 has been computed to be 26.8 per cent. These are obviously much lower than the unadjusted savings rates and are similar to those observed in Hong Kong, Thailand and South Korea.

Would the conclusion be different if we considered Gross National Product (GNP) or Gross National Income (GNI), instead of GDP?

GNP or GNI is the sum of incomes of the country's nationals, dwelling both in Singapore and abroad, during a given period of time. Adding to Indigenous GDP the net factor incomes of Singaporeans from the rest of the world will give Indigenous GNI. In 2008 and 2009, the Indigenous GNI was $196.5 billion and $182.5 billion respectively.

Assuming the propensity to consume income originating from abroad is the same as that originating domestically, the Indigenous gross national saving in 2008 and 2009 are estimated to be $66.6 billion and $54.9 billion – or 34.1 per cent and 30.1 per cent respectively of Indigenous GNI. Once again, these are much lower than the unadjusted savings rate of more than 50 per cent.

Singapore is hardly a nation of misers. The low effectiveness of fiscal policies here is due not to the high saving rate but to the high proportion of income that is non-indigenous, as well as Singapore's high import propensity.

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