The Singapore way of calculating budget balances

Instead of one operating balance sheet, Singapore’s prudent approach breaks the Budget into three chunks: the primary balance, the basic balance and the overall balance.

Chia Nggee Choon
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Budget 2018 is consistent with the “Singapore way”, namely being sustainable, pro-active and forward-looking.

The “Singapore way” to measure fiscal sustainability is to monitor our finances over both the near term and long term. This differs from conventional budgetary accounting laid out in the International Monetary Fund’s (IMF) Government Finance Statistics, a point picked up by some on social media.

In the IMF’s accounting standards, emphasis is placed on a single headline fiscal indicator – ”gross operating surplus”. This surplus is obtained by taking total revenue minus total expenditure and reflects the total change in government net worth in a year.

The total revenue includes all government receipts, tax and non-tax revenue and capital receipts. In Singapore’s context, the latter would have included sales of land and the returns and earnings of investments from Singapore’s reserves.

Under Singapore’s Constitution, the Singapore Budget Statement only reviews matters that the Government is allowed to spend. Land sales revenue is thus excluded in the Budget Statement. Land sales revenues that are in excess of other returns and earnings from reserves are reflected in the Budget Statement as Net Investment Returns Contribution.

Instead of the IMF standard of calculating surplus, Singapore uses three different measures of fiscal balances: the primary budget balance, basic budget balance and overall budget balance. This is a unique Singapore way to track fiscal positions to meet our near-term and long-term needs.

**PRIMAR Y BUDGET BALANCE**

First, primary budget refers to operating revenue minus total expenditure. Almost 96 percent of this operating revenue comes from taxes and fees and charges. About 31 percent of this operating revenue comes from income taxes on individuals, companies and statutory boards. Another 20 percent comes from consumption-related taxes such as goods and services tax or GST, customs and excise, motor vehicle taxes and certificate of entitlement or COE premiums.

The remaining operating revenue comes from property taxes, stamp duties, heritage buildings and fines.

Operating revenue collected is then to fund total expenditure for the fiscal year. Reflecting the Government’s ability to meet total expenditure through operating revenue, it shows the near-term fiscal strength.

Since operating revenue excludes revenue generated from reserves and land sales, it does not reflect full fiscal capacity. The amount of operating revenue generated tends to be pro-cyclical with business cycles and market conditions.

The primary budget balance was reported for FY2015 and FY2016. Budget 2017 estimated a negative primary balance of $5.6 billion. In actual fact, the primary budget resulted in a surplus of $2.24 billion after revision in this year’s Budget. The result shows a $4.6 billion contribution from the Monetary Authority of Singapore (MAS) compared with $100 million in the previous year. For MAS, fluctuations in the currency and investment market have worked in its favour. Additionally, a buoyant property market resulted in higher than expected stamp duty collected.

Finance Minister Heng Swee Keat, however, urged Singaporeans “not to expect this structural surplus to recur every year.” Structural surplus happens when the revenue generated during the cyclical peak exceeds the long-term average. However, during a cyclical trough, when revenue falls short of the long-term average, a “structural deficit” can happen.

It is the primary budget for Budget 2018. The actual revised operating revenue can fall below total government spending in 2017, with a positive primary balance. The surplus spread with all adults Singaporeans in the form of a bonus transfer. The amount of $100 to $900, and a substantial amount of $800 million has gone into a roll out infrastructure fund.

To sum up, for the primary budget, for Budget 2017, the estimated deficit was $5.62 billion, but the actual budget ended up with a surplus of $2.14 billion. For Budget 2018, there is an estimated deficit of $7.35 billion.

**BAS IC BALANCE**

Next, basic balance, which is obtained by deducting government special transfers from the primary balance. In other words, basic balance in the primary balance minus special transfers. In the primary budget, the Government’s expenditure on special transfers, also commonly known as income transfers, is set to take into account. Such special transfers include subsidies for the elderly, pupils, infants and patients, as well as the Youth Endowment Fund.

For the basic budget, for Budget 2017, the estimated deficit is $8.02 billion. The basic budget is a way for the Government to ensure that Singaporeans are not hit by a reduction in services and expenditure, even when the budget ends with a surplus.

**TOTAL BUDGET (E = A + B)**

This total budget includes special transfers including top-ups to endowment and trust funds.

For Budget 2018, the estimated deficit is $9.6 billion, compared with $7.9 billion in Budget 2017. The deficit for Budget 2017 was made up by tax revenue, other revenue and transfers from reserves. For Budget 2018, the deficit is funded by the roll out infrastructure fund, the GST rebates and the budget surplus.

**OVERALL BALANCE**

Singapore’s approach to fiscal planning means that revenue from reserves is not included in the primary or basic budget. Instead, it is added to the overall balance. This overall balance also takes into account expenditure for long-term social and economic investments, or via long-term endowment funds where money is set aside upfront and returns from these funds are used to fund social infrastructure or programmes.

Expenditure items in this overall balance will be included in the basic balance under special transfers.

For Budget 2017, the primary balance was estimated to be a deficit of $8.73 billion but ended at a smaller deficit of $6.90 billion. For Budget 2018, the primary balance is estimated at $9.50 billion.

These three different types of budget balances are needed to provide a more comprehensive picture of the Government’s fiscal position and to ensure that the Government’s fiscal strategy is sustainable.