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Keeping Singapore's public finances on an even keel

Medium-term fiscal projections provide a good foundation for discussions on charting the Republic's future. **By Terence Ho**

PLANNING for a country's future requires a sound assessment of the fiscal resources available to meet public expenditure needs in the years ahead.

This is why the *Occasional Paper on Medium-Term Fiscal Projections*, released by the Ministry of Finance (MOF) on Feb 8, is so significant. It provides the necessary context for Budget 2023, facilitating informed discourse on the government's spending priorities and plans.

Having a medium-term view minimises the risk of fiscal surprises or funding shortfalls that could shake confidence in the government's ability to deliver on its commitments. A common understanding of the key drivers of fiscal spending is also needed for a realistic picture of the challenges ahead and how the country can marshal the resources to address them.

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The government's financial statements reveal just how fast public expenditure has increased in recent years. Social spending almost doubled from FY2010 to FY2019, while infrastructure spending has also picked up.

Going forward, healthcare expenditure is expected to be the main driver of rising government expenditure. The MOF paper explains that this is due to the ageing population, along with rising age-standardised utilisation rates, medical advances, and medical inflation.

Even with conservative spending assumptions, government expenditure is expected to rise from around 18 per cent of gross domestic product (GDP) today to 19-20 per cent of GDP in the FY2026-2030 period, and possibly exceed 20 per cent of GDP by FY2030.

These projections are subject to considerable uncertainty, which the *Occasional Paper* recognises. They assume current policy settings, without accounting for future policy changes. So while the report factors in higher support for lower-wage workers through Workfare and the Progressive Wage Credit Scheme, as well as higher planned spending on early childhood education, other expenditure components apart from healthcare and infrastructure are assumed to grow at the same pace as GDP.

The risks are tilted towards higher expenditure and lower revenue streams, pointing to a shrinking fiscal space. Under such conditions, what can be done to keep public finances on an even keel? I suggest six guiding principles.

First, **policy prioritisation** is a must, as the government will not have the resources and bandwidth to do everything all at once. Among the key priorities are population ageing, sustainability, and the renewing of the social compact.

These priorities need to be front and centre of the policy agenda. They often require close interagency coordination and the commitment of considerable resources over many years. However, the government will have to be selective in the programmes and policies it pursues in view of tighter fiscal constraints.

Second, **fiscal buffer** is needed to address "black swans" – a metaphor coined by author Nassim Nicholas Taleb to describe events with a large impact but which are inherently difficult to predict.

Fortunately, the Singapore government possesses considerable financial reserves that serve as a rainy day fund to address the fallout of major disruptions such as the global financial crisis and the Covid-19 pandemic. Even so, it would be imprudent not to build in some buffer in the annual budget for spending needs arising from "unknown unknowns".

This means that revenue growth cannot afford to fall behind expenditure growth such that there is no room to deal with contingencies. The *Occasional Paper* shows that without the Budget 2022 revenue measures, including the goods and services tax hike, operating revenue would likely decline as a percentage of GDP. Going forward, new expenditure needs may well require additional revenue to be found.

Third, **limited fiscal space** means that public programmes cannot be left on autopilot. Regular pruning and sunsetting of programmes are important to free up funds for new priorities. For instance, wage offsets for employers of workers aged 50 to 54 years were discontinued when data showed that the employment rate of this group of workers had grown. Programme evaluation is important to assess value for money and, where necessary, refine programmes or retire them.

Fourth, **upstream intervention** remains key to ensuring that Singapore can achieve good economic and social outcomes while spending considerably less compared to other countries. This is why the government is investing heavily in early childhood education to give each child a good start in life, with additional help given to those from less affluent households.

In this and other instances, downstream costs may be saved by timely intervention upstream. As the population ages, Singapore's healthcare system is being revamped to focus on preventive care under the new Healthier SG strategy, so that the impact of chronic illness can be better managed.

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Fifth, the government must **seek partnerships** to address the multifaceted challenges Singapore faces. The complex nature of these challenges means that more often than not, the public sector will not have the resources or expertise to go it alone. By working hand-in-glove with the private and people sectors, the public sector can act as a force multiplier, mobilising collective resources for better outcomes.

Finally, as the custodian of public funds, the government must strive for a fair and **equitable distribution** of spending across present and future generations. While investing heavily in the young, the government also set aside significant resources for the Pioneer and Merdeka generation packages to provide healthcare assurance for the older generations of Singaporeans who helped to build up the nation.

Recently, the Significant Infrastructure Government Loan Act was passed to allow the government to borrow to fund long-term infrastructure for a more equitable sharing of the cost burden among taxpayers over time. Intergenerational equity is also at the heart of discussions over how best to steward the past reserves to meet current and future needs.

Singapore must continue to renew its economy, infrastructure, national security and social compact if it is to remain successful and improve the lives of citizens. To this end, the medium-term fiscal projections provide a good foundation for discussion among policymakers and citizens engaged in the collective task of charting the nation's future.

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