Why a forward-looking Budget is needed

By Tan Kee Gip and Tan Yan Yi

At an international conference in Budapest organised by the Central Bank of Hungary last week, central bankers were deliberating on the dynamic role of central banks. Singapore, repeatedly identified as an exemplary model where the central bank and the government have consistently done well in crisis management.

The discussion of the Singapore model was dominated by how Singapore effectively managed crises, leading to a swift rebound from every economic recession or slowdown. However, I thought the debate largely missed the point - the severity of Singapore's crisis because the first place was mitigated due largely to strong and stable macroeconomic fundamentals and efficient responses to major shocks and vulnerabilities within the micro-economic environment.

Singapore's fundamental strategy in crisis management is twofold: It is rooted and rendered easier on the premise of preventive and pre-emptive moves rather than crises. The recent prudent regulations on property purchases, sales and bank-related borrowings, coupled with pre-emptive market cooling measures, are just a case in point.

For a small and open economy, Singapore's macroeconomic condition is constantly and strongly influenced by external factors. These include business cycles, financial turmoil and tumultuous political changes coming from neighbouring Asia or economic volatility transmitted from Western economies in an interconnected and inter-dependent world. Singapore's small size, however, out of miscalculation, to have a large impact on the economy's stability. This is especially highlighted by several international studies that have pointed out the importance of e-commerce, digitalisation and city livability.

Firstly, seizing opportunities arising from new development trends is crucial for a competitive environment and a competitive corporate tax structure which are vital for small and medium enterprises (SMEs) to transform and build strong foundations to venture abroad. Good fiscal discipline with forward looking budget planning, and ensuring general government and public consumption are kept in line, are the key aims to promote productivity growth. Government revenues tend to fall short of government expenditure ensuing in deficit of primary Budgetary Position (PPB) in 2002, 2003, 2004, 2009, 2015, 2016 and 2018, especially in years of low growth. NIL, together with the PPB, and Special Transfers (STs) sum up the Overall Budgetary Position (OBP), which can still be in deficit as in 2001, 2003, 2006, 2007, 2008, 2009, 2015 and 2018, especially when STs were beefed up to fund relevant public policies.

Secondly, efficient allocation of government resources for provision of public goods and services, transformation of regulations and enforcement of law and the micro-economic level are the sine qua non of incentivising businesses and individuals to realise or maximise expected economic contributions. These are strong foundations that are necessary for the economy if our longer-term average growth in gross domestic product (GDP) is to stay at the higher band of 3 to 3.5 per cent per annum which means we need more job choices for citizens.

Thirdly, whether it is soft capacity building by investing in people or building hard physical infrastructure, both are critical in maintaining Singapore's international competitiveness. Markets often fall when it comes to capacity building and skill upgrading. Government must thus act as a market enabler. In the era of rapid technological and digital advancement, transformation of companies can be difficult in terms of organisational management, creating opportunities for management.

Multi-stakeholder-driven Industry Transformation Maps involving major industry players, technologists, business professionals, academics and the government would be more appropriate rather than leaving it to the more painful creative destruction by market forces for adjustments.

When preparing a national budget, the finance minister would usually examine the forecast GDP growth at the rate of government revenues versus government expenditure, and in the case of Singapore over the last two decades, factor in the amount of Net Investment Income (NII) that can substantially be drawn upon to help in the budgetary shortfall.

From 2011 to 2018, Singapore’s annual NII grew at an average rate of 3.7 per cent. In the econometric model simulation by Asia Competitiveness Institute at Lee Kuan Yew School of Public Policy (ACI-LKYSPP), with several assumptions including labour-capital quality growth and one per cent employment growth, going forward if the Singapore economic growth to grow at 2.79 per cent per year, productivity growth would have to be at 1.79 per cent per annum.


When preparing a national budget, the finance minister would usually examine the forecast GDP growth at the rate of government revenues versus government expenditure, and in the case of Singapore over the last two decades, factor in the amount of Net Investment Income (NII) that can substantially be drawn upon to help in the budgetary shortfall.

From 2011 to 2018, Singapore’s annual NII grew at an average rate of 3.7 per cent. In the econometric model simulation by Asia Competitiveness Institute at Lee Kuan Yew School of Public Policy (ACI-LKYSPP), with several assumptions including labour-capital quality growth and one per cent employment growth, going forward if the Singapore economic growth to grow at 2.79 per cent per year, productivity growth would have to be at 1.79 per cent per annum.


When preparing a national budget, the finance minister would usually examine the forecast GDP growth at the rate of government revenues versus government expenditure, and in the case of Singapore over the last two decades, factor in the amount of Net Investment Income (NII) that can substantially be drawn upon to help in the budgetary shortfall.

From 2011 to 2018, Singapore’s annual NII grew at an average rate of 3.7 per cent. In the econometric model simulation by Asia Competitiveness Institute at Lee Kuan Yew School of Public Policy (ACI-LKYSPP), with several assumptions including labour-capital quality growth and one per cent employment growth, going forward if the Singapore economic growth to grow at 2.79 per cent per year, productivity growth would have to be at 1.79 per cent per annum.


When preparing a national budget, the finance minister would usually examine the forecast GDP growth at the rate of government revenues versus government expenditure, and in the case of Singapore over the last two decades, factor in the amount of Net Investment Income (NII) that can substantially be drawn upon to help in the budgetary shortfall.

From 2011 to 2018, Singapore’s annual NII grew at an average rate of 3.7 per cent. In the econometric model simulation by Asia Competitiveness Institute at Lee Kuan Yew School of Public Policy (ACI-LKYSPP), with several assumptions including labour-capital quality growth and one per cent employment growth, going forward if the Singapore economic growth to grow at 2.79 per cent per year, productivity growth would have to be at 1.79 per cent per annum.


When preparing a national budget, the finance minister would usually examine the forecast GDP growth at the rate of government revenues versus government expenditure, and in the case of Singapore over the last two decades, factor in the amount of Net Investment Income (NII) that can substantially be drawn upon to help in the budgetary shortfall.

From 2011 to 2018, Singapore’s annual NII grew at an average rate of 3.7 per cent. In the econometric model simulation by Asia Competitiveness Institute at Lee Kuan Yew School of Public Policy (ACI-LKYSPP), with several assumptions including labour-capital quality growth and one per cent employment growth, going forward if the Singapore economic growth to grow at 2.79 per cent per year, productivity growth would have to be at 1.79 per cent per annum.

Trade protectionism

We are observing the daily worsening of global trade protectionism and rising nationalism worldwide, including most lately in the three major neighbouring Malaysia and Indonesia. Moreover, homeland security continues to be threatened by terrorism, while technology-driven Industrial Revolution 4.0 has caused disruptive changes and sown job and economic uncertainty. These challenging developments and trends are unlikely to go away in the medium term.

A forward looking budget ought to strengthen the foundations for delivering macroeconomic stability, set aside ample financial resources with policy restructuring measures to promote micro-economic efficiency and invest in soft and hard capacity building. However, the public at large and the business community need clear assurances from the government, and the finance minister in particular, that Singapore will have, in time to come, sufficient financial resources to respond to these potential disruptions and challenges nimbly and efficiently.