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Singapore's External Debt: Definition and 1998 Assessment

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SINGAPORE'S EXTERNAL DEBT :
DEFINITION AND 1998 ASSESSMENT

Introduction

1 In December 1998, the Singapore Department of Statistics (DOS) released the first set of estimates on Singapore's external debt in the occasional paper titled 'Singapore's External Debt'. The paper also explains the concepts, definitions and data sources for compiling Singapore's external debt statistics. This paper provides an update on Singapore's external debt position and discusses some compilation issues in the light of recent developments.

Definition of Singapore's External Debt

2 Singapore's total external debt is defined as all overseas loans drawn by our corporate, government and household sectors, but excludes our banks' overseas inter-bank loans. FDI non-equity liabilities, debt securities and non-FDI trade credits are defined as secondary forms of external debt. Secondary forms of external debt are not included in the assessment of our external debt position (Table 1).

TABLE 1 DEFINITION OF EXTERNAL DEBT

Definition	Coverage	
	Instrument	Sector
Total External Debt	All Loans	Corporate Government Household
Secondary Forms of External Debt	FDI non-equity liabilities Debt Securities Trade Credits	All Sectors
Excluded	Inter-bank Loans Deposits of Non-Residents	Banks

3 Singapore's definition differs from the broader definition advocated by international agencies. The International Working Group on External Debt Statistics, which comprises of The World Bank, IMF, Bank for International Settlement (BIS), and OECD, agreed in 1998 on the following 'core definition' of external debt[1]:

[1] The World Bank, IMF, BIS and OECD, *External Debt : Definition, Statistical Coverage and Methodology*, 1988

‘Gross external debt is the amount, at any given time, of disbursed and outstanding contractual liabilities of residents of a country to non-residents to repay principal, with or without interest, or to pay interest, with or without principal’.

4 The ‘core definition’ therefore includes any financial instrument that involves contractual liabilities, e.g. deposits, loans, trade credits, debt securities etc. It covers all economic sectors of an economy. This definition is consistent with the IMF Balance of Payments Manual definition of non-equity liabilities in the balance of payments/international investment position.

5 Singapore’s definition differs from this ‘core definition’ by its exclusion of loans and deposits of the banking sector, FDI-related liabilities, debt securities and trade credits. Singapore has a very open economy, and is an international financial and trading centre. If the ‘core definition’ is adopted to assess Singapore’s external debt, it will exaggerate Singapore’s vulnerability and financial risks.

6 Singapore is host to a large number of global funds. Their Singapore branches operate as intermediaries for their head offices to channel loan funds to the region in the form of inter-bank loans. With a sound banking system, Singapore is attractive to foreign depositors. The inclusion of inter-bank loans and non-residents’ bank deposits will exaggerate the extent of Singapore’s financial liabilities to non-residents and distort the underlying economic realities. Defining our external debt to exclude them will reflect more accurately our debt exposure to non-residents.

7 Singapore has a large amount of inward FDI. Besides equity capital (i.e. share capital and retained profits), loans and trade credits with parent companies are important forms of FDI capital which should not be included in the computation of our external debt.

8 Similar to equity securities, debt securities are viewed as a form of investment. Investors can trade these securities in the market and have to bear the gain or loss from trading these securities. The investors do not have the right to redeem part or all the investment before maturity, unless there are specific provisions to do so.

9 Finally, as a major international trading centre, Singapore will have a large amount of trade credit liabilities at any one time. Their inclusion in external debt will exaggerate the extent of our debt obligations.

Data Sources

10 Data on public sector external debt are available from government records. Singapore has no public sector external debt since 1995.

11 Data on private sector external debt are available from the following two sources:

i) The quarterly BIS banking data.

ii) DOS's annual *Survey of Debt Transactions* (SDT) and *Survey of Singapore's Investment Abroad, Other Foreign Assets and Liabilities* (SOI).

12 The BIS data cover loans from banks in BIS reporting economies, while our surveys cover loans from banks in non-BIS reporting economies and loans from other non-resident entities. Our surveys also collect data on secondary forms of external debt.

13 The BIS data covers both the corporate and household sectors, while our surveys cover only the corporate sector. Household borrowings from non-resident entities are not significant.

14 The BIS data has a three-month lag. Data up to end-98 are available from the SDT, while the SOI has data up to end-97.

15 As surveys on external liabilities are initiated only recently, the survey population frame is still being developed. The first survey on external debt (SDT only) covers 3,064 inward FDI companies with assets greater than $5 million. In the second survey, the survey coverage has been expanded considerably. The two surveys, SDT and SOI, covered a total of 8,000 companies, including the top 1,000 local-owned companies in terms of asset size, inward FDI companies with assets greater than $5 million, and all other companies that has foreign assets.

Total External Debt

16 Singapore's total external debt peaked at $16.5 billion at end-97, but declined by 11 per cent to $14.7 billion at end-98 (Table 2). The decline was mainly due to the repayment of loans to BIS banks.

TABLE 2 SINGAPORE'S EXTERNAL DEBT, END-95 TO END-98

$ million

	End-95	End-96	End-97	End-98P
Private Sector	9,801	12,341	16,490	14,734
Loans – BIS Banks	6,921	7,390	11,161	9,274
Loans – Non-BIS Banks	434	1,053	811	808
Loans – Other Non-Residents	2,446	3,898	4,518	4,652
Public Sector	0	0	0	0
Total	9,801	12,341	16,490	14,734
Previous Estimates	9,801	10,927	15,631	-

17 Our external debt remains very modest on the basis of the two measures of external debt sustainability. Our debt/GNP ratio was between 8.1 to 11 per cent between 1995 to 1998, while our debt/exports ratio was between 10 to 15 per cent during the same period (Table 3).

TABLE 3 DEBT SUSTAINABILITY RATIOS, END-95 TO END-98

per cent

	End-95	End-96	End-97	End-98P
Debt/GNP	8.1	9.3	11.2	10.0
Debt/(Domestic) Exports	10.0	11.9	15.3	13.9

18 The revised estimates for end-96 and end-97 are respectively 13 per cent and 5.5 per cent higher than the previous estimates (Table 2). The main reason for the upward revision is the extension of the coverage to local-owned companies. However, it should be noted that the extent of the revision is relatively modest. This reflects local-owned companies' low level of external debt.

19 At end-97, local-owned companies accounted for 26 per cent of our external debt (Table 4). There were 153 local-owned companies with overseas loans, and 238 foreign-owned companies with overseas loans. The average size of loan by local-owned companies was $18 million, while that for foreign-owned companies was $33 million.

TABLE 4 OVERSEAS LOANS OF LOCAL AND FOREIGN-OWNED COMPANIES, END-97

	Identified Bank Loans[1]		Non-Bank Loans		Total	
	Value ($ million)	Share (per cent)	Value ($ million)	Share (per cent)	Value ($ million)	Share (per cent)
Local-Owned	1,258	21	1,445	32	2,703	26
Foreign-Owned	4,754	79	3,073	68	7,827	74
Total	6,012	-	4,518	-	10,530	

1 Bank loans that are identified in DOS's surveys

Major Creditor Countries

20 Our largest creditor country is UK, accounting for nearly one-third of our external debt (Table 5). The next two major creditors are Japan and Hong Kong. Nearly all our major creditors are developed economies.

TABLE 5 MAJOR CREDITOR COUNTRIES, END-97

$ million

	Identified Bank Loans	Non-Bank Loans	Total	
			Value	Per Cent Share
UK	2,045	1,315	3,360	32
Japan	1,320	463	1,783	17
Hong Kong	915	812	1,727	16
Australia	483	17	500	5
Belgium	11	443	454	4
US	295	94	389	4
British Virgin Island	0	261	261	2
Sweden	148	106	254	2
Germany	180	60	240	2
Norway	186	0	186	2
Others	429	947	1,376	13
Total	6,012	4,518	10,530	-

21 Our major creditors can be broadly divided into two groups. In the first group comprising Hong Kong, British Virgin Island and Australia, a significant share of our overseas loans were by local-owned companies. In the second group comprising the other seven major creditors, our overseas loans were predominantly by foreign-owned companies.

22 For Hong Kong and British Virgin Island, there was a fair share of loans by both foreign and local-owed companies. The local companies are mainly real estate companies or investment holding companies. Most of the loans were from related parties. For loans from Australia, a significant share was accounted by one local listed company.

23 Both UK and Belgium are major international credit centres, and are therefore popular with MNCs that need to raise capital from international financial markets. Two foreign oil companies and one foreign shipping company together accounted for 70 per cent of our loans from UK, while loans from Belgium were mainly by US MNCs.

24 Loans from Japan, US and Germany were predominantly by their own companies. US companies accounted for 88 per cent of loans from US. For Japan and Germany, the shares were 80 per cent and 46 per cent respectively. Loans from these three countries were predominantly bank loans, reflecting the preference for foreign companies to obtain loans from banks in their home countries.

25 Loans from Sweden and Norway were nearly all by shipping companies. These are companies set up in Singapore by foreign investors to own and operate vessels in order to take advantage of the Singapore's tax incentives. The loans were used to finance the purchase of vessels.

26 Non-bank loans from other countries were large, accounting for 21 per cent of all non-bank loans. These comprise mainly loans from Malaysia ($93 million), Indonesia ($99 million), New Zealand ($171 million), and the tax havens of Bermuda and Cayman Island ($110 million). Loans from New Zealand was dominated by one New Zealand company, while loans from the tax havens were mainly by shipping, real estate and investment holding companies.

Secondary Forms of External Debt

27 Singapore's external liability in debt securities nearly doubled from $2.0 billion at end-95 to $3.7 billion at end-98 (Table 6). It was dominated by 4 foreign (3 Japanese and 1 US) companies. The debt securities are mostly short and medium term notes issued to provide additional funds for the company's operation.

28 For FDI non-equity liabilities, our surveys now distinguish loans and trade credits. The distinction reveals that loans from parent company constitute a significant portion of liabilities to parent company. At end-98, Singapore's net FDI non-equity liabilities (less assets) amounted to $7.8 billion, which is 12 per cent of our inward FDI share capital.

TABLE 6 SECONDARY FORMS OF EXTERNAL DEBT, END-95 TO END-98

$ million

	End-95[1]	End-96	End-97	End-98P
Debt Securities	1,952	2,419	3,585	3,662
FDI Non-Equity Capital – Net Liability	5,194	5,687	7,808	7,792
Loans	-	4,074	5,437	5,752
Trade Credits – Liabilities	9,852	6,830	7,431	6,825
Trade Credits – Assets	4,658	5,217	5,060	4,785
Non-FDI Trade Credits – Net Asset	3,267	6,238	8,092	7,072
Assets	16,662	17,632	21,148	19,639
Liabilities	13,395	11,394	13,056	12,567

1 Data for 1995 has been revised

29 In recent years Singapore has remained a net creditor in non-FDI trade credits.

Maturity Profile of External Debt

30 Our surveys identify short-term (< 1 yr) and long-term (> 1 yr) debt securities and loans based on original maturity. No maturity profile is available for loans from banks (since they are estimated mainly from BIS data) and trade credits. Most of our external loans were long-term while most of our debt securities were short-term (Table 7).

TABLE 7 MATURITY PROFILE OF LOANS AND DEBT SECURITIES, END-96 TO END-97

$ million

	End-96	End-97
Debt Securities	2,419	3,585
Long-Term	204	1,207
Short-Term	2,215	2,378
Loans – Other Non-Residents	3,898	4,518
Long-Term	2,634	2,954
Short-Term	1,264	1,564
Loans – Parent Company	4,074	5,437
Long-Term	3,335	4,113
Short-Term	738	1,324

Net External Position

31 Singapore is a net creditor in debt securities, as well as FDI and non-bank loans. At end-97, Singapore had $11 billion worth of investment in foreign debt securities, but only issued $3.6 billion of debt securities to non-residents (Table 8). Singapore companies granted $9.4 billion of loans to their subsidiaries, and received $5.4 billion of loans from their parent companies.

Loans to other non-resident entities by Singapore companies amounted to $11 billion, and they took up $4.5 billion of foreign loans (exclude bank loans).

TABLE 8 NET EXTERNAL POSITION
– LOANS AND DEBT SECURITIES, END-96 TO END-97

$ million

	End-96	End-97
Debt Securities	6,303	7,454
Assets	8,722	11,039
Liabilities	2,419	3,585
Loans – Other Non-Residents	4,804	6,846
Assets	8,702	11,364
Liabilities	3,898	4,518
Loans – FDI	3,518	3,944
Assets (Outward FDI)	7,592	9,381
Liabilities (Inward FDI)	4,074	5,437

Recent International Developments

32 As a result of the Asian currency crisis, the IMF and other international organizations gave considerably more attention to the compilation and publication of more timely data on external debt. This led to two major initiatives in the past year:

i) IMF's proposal to introduce a separate SDDS data category for external debt statistics (Dec 1998).

ii) The Joint BIS-IMF-OECD-World Bank statistics on external debt (March 1999)

IMF and SDDS

33 The executive board of the IMF decided in December 1998 to introduce a separate SDDS data category for external debt. The main features of the IMF proposal are:

i) A broad definition of external debt based on the 'core definition' which covers all economic sectors (government, central bank, banks and others) and all non-equity liabilities (FDI non-equity liabilities, debt securities, loans, trade credits, deposits);

ii) quarterly dissemination with one quarter lag; and

iii) maturity profile – by original maturity.

34 Under consideration, is the dissemination of information on prospective debt service payments, i.e. amortization and interest payments, by quarter for the first-year ahead and annually for the second year ahead;

35 Though efforts are also being made to improve creditor-source databases on external debt (e.g. BIS, World Bank), IMF considers them to be insufficient and not intended as a substitute for external debt statistics compiled from national sources. In particular, creditor-source database does not adequately cover secondary forms of external debts.

36 The IMF proposal is still under discussion. If adopted, it will imply a significant expansion of our current system of monitoring external debt, including the carrying out of quarterly surveys. For the compilation of prospective debt service payments, data will have to be collected on a security-by-security/loan-by-loan basis rather than on an aggregated basis, as at present.

Joint BIS-IMF-OECD-World Bank statistics on external debt

37 The Joint BIS-IMF-OECD-World Bank statistics is largely a collation of existing external debt data separately compiled by the four international agencies. It adopts a broad definition of external debt similar to that of IMF. The relevance of each individual set of data in assessing Singapore's external debt was discussed in the previous occasional paper.

38 As noted above, our definition of external debt is narrower than the broad definition adopted by the IMF and the other international agencies. The Joint BIS-IMF-OECD-World Bank statistics shows that Singapore's external debt was US$265 billion at end-98. The difference between this estimate and our estimate is due to their inclusion of inter-bank loans.

39 Based on the Joint BIS-IMF-OECD-World Bank statistics, Singapore's external debt was US$265 billion (or S$440 billion) at end-98 (Table 9). Given Singapore's GNP of S$148 billion and domestic export of S$106 billion, our debt/GNP and debt/exports ratios are respectively 297 per cent and 415 per cent. This suggests that the size of our external debt is much larger than our economy. It may give the erroneous impression that we would have difficulties sustaining our external debt in a currency crisis. This is very misleading[2].

40 Informed data users would generally agree that our definition of external debt is appropriate for Singapore. The Joint BIS-IMF-OECD-World Bank statistics exaggerate the size of Singapore's external debt through their

[2] The same applies to Hong Kong. The Joint BIS-IMF-OECD-World Bank statistics shows that Hong Kong's external debt was US$350 billion at end-98.

inclusion of inter-bank loans. Recognizing the need to provide some indication of a net debt concept, a memorandum line on debtor country's claims on nonresident banks was included in the Joint BIS-IMF-OECD-World Bank statistics from Sept 1999 onwards. These statistics revealed that Singapore has become a net creditor in Jun 1999 (Table 9), largely as a result of the withdrawal of capital by foreign banks from their Singapore branches following the Asian currency crisis.

TABLE 9 JOINT BIS-IMF-OECD-WORLD BANK STATISTICS ON EXTERNAL DEBT - SINGAPORE

US$ million

	Dec-97	Dec-98	Jun-99
Total External Debt	295,622	265,372	219,997
Bank Loans	290,568	258,958	212,029
Others	5,054	6,414	7,968
Memorandum Items			
Net Liabilities of Banks	80,820	24,143	-14,636
Total Liabilities to Banks	295,735	266,222	218,467
Total Claims on Banks	214,907	242,079	233,103

Conclusion

41 The survey coverage for compiling our external debt statistics has been expanded considerably. The improvement in the quality of data does not affect the key observations in the earlier occasional paper – our level of external debt is modest, we are a net creditor in non-FDI trade credits and a net debtor in other inward FDI capital.

42 The bulk of Singapore's external debt is incurred by foreign-owned companies. This reflects their preference to raise capital either from their home countries, or from international capital markets. For local-owned companies, a significant portion of their loans was from related parties.

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