The DNA of Temasek

1959 saw Singapore's first year of self-government.

Members of the newly-elected government were aghast to inherit a budget deficit of S$14 million from their colonial predecessors. They went to work, and delivered a S$1 million surplus that year, through determination and collective sacrifice.

This early financial discipline set the tone for Singapore ever since. There was a determination to grow the economy to create jobs and not burden future generations with debt.

The ethos of Temasek was already well shaped at our birth in 1974 – to live within our means and be financially disciplined; to do the right things with tomorrow clearly in our minds; to drive for survival and prosperity while ensuring a clean, green and healthy environment for our people.

From the start, the Singapore Government took a hands-off approach to Temasek. Indeed, Temasek was formed to take over the responsibility of owning shares in companies and managing assets, freeing the Ministry of Finance to focus on its larger role of looking after the economy as a whole.

The budding portfolio companies were subject to market discipline. The CEO of the then young startup, Singapore Airlines, knew that the company had to be profitable or face winding up. A handful of ailing companies were shuttered.

The message was clear: the portfolio companies had to stand on their own.

This ethos of market and financial discipline remains well and alive today.

Temasek and the Singapore Government Finances

Temasek contributes to the Singapore Government finances in two ways.

First, we pay taxes[1] on the profits we earn, be it in Singapore or in other countries.

Second, we pay dividends to our shareholder.

For many years, the Singapore Government ran primary budget surpluses, so our dividends would add to Government reserves – the country's savings for a rainy day.

From 2001 till last year, the Government was permitted to spend up to 50% of Temasek's dividends[2]. The rest were locked up as the Government's past reserves. This spending framework, alongside other revenue sources, helped to fund Singapore's needs, including the Pioneer Generation Package[3] of 2014 and other long term social and economic programmes.

However, dividends may dry up in an economic downturn, when governments most need budget flexibility to lean against the wind.

Hence, from this Budget Year onwards, Temasek has been included in the Net Investment Returns (NIR) framework[4], similar to GIC and the Monetary Authority of Singapore (MAS)[5].

The NIR Framework

The Government may spend up to 50% of Temasek's expected long term real returns.

The NIR framework does not require Temasek to change its dividend policy, or sell assets to raise funds for Government spending. Our constitutional responsibility to protect our own past reserves remains.

The T-GEM of Temasek

The expected long term real rate of return is a projection, simulated under various assumptions and scenarios, using our T-GEM[6] tool.

We remain acutely aware that this projection is just one possible outcome in a range of possible outcomes. Our actual returns will likely be below or above our projected expected returns.

How Temasek Contributes to the Singapore Government Finances

1 Pays **taxes** on profits

2 Pays **dividends** to our shareholder

Then (2001 – 2015)	Now (since 2016)
Net Investment Income (NII)	Net Investment Returns (NIR)
Based on dividends	Based on expected long term real returns
More volatile	More stable

Singapore Government permitted to spend:

Up to 50% of Temasek's dividends	Up to 50% of Temasek's expected long term real rate of return

The NIR framework does not require Temasek to change its dividend policy or sell assets to raise funds for the Singapore Government. Temasek's constitutional responsibility to protect our own past reserves remains unchanged.

[1] Temasek pays taxes, unlike other sovereign owned companies which may claim sovereign exemption from taxes.

[2] This was under the Net Investment Income (NII) framework – see page 22 for more information.

[3] The Pioneer Generation Package subsidises an additional 50% off the net subsidised medical bills of Singaporeans who were 16 years and older in 1965, and funds were set aside to support such subsidies for life. This is another example of not burdening future generations with debts or obligations committed by the present generation.

[4] NIR framework allows spending to be based on an expected long term real rates of return from investments – see page 22 for more information.

[5] GIC invests the reserves of the Singapore Government, and MAS manages the official foreign reserves of Singapore. GIC and MAS were on the 50% NII framework from 2001 till 2008 and were moved to the NIR framework from 2009 onwards.

[6] Temasek Geometric Expected Return Model – see pages 34-37 for more information.