

# Ministry takes issue with don's study on affordability

## It disagrees with use of imputed rentals as measure of housing expenditure

By GOH CHIN LIAN

A STUDY by an economist, which found that Singapore's bottom 30 per cent of households spend more than they earn, has been disputed by the Ministry of Finance (MOF) and a veteran statistician.

The study by National University of Singapore (NUS) economist Tilak Abeysinghe compared households' expenditure against their incomes from work. Professor Tilak said that according to his research, the bottom 30 per cent of households spent 105 per cent to 151 per cent of their income last year and the main cause of rising expenditure was housing.

But MOF took issue with Prof Tilak's methodology as he used imputed rentals as a measure of expenditure on housing.

Prof Tilak said he did so as most households were unlikely to have fully paid up their mortgages, so imputed rent captured some of these outstanding payments.

He also cited an earlier study he did which compared housing price to lifetime income. He said that too showed a long-term deterioration of housing affordability.

Imputed rentals measure how much a household would have to spend on rent if they did not own the house they live in.

MOF said it disagreed with the use of imputed rentals as a proxy for mortgage payments on three grounds.

First, mortgage payments have been lower than imputed rentals for lower-income households because of government grants.

Second, mortgage payments and imputed rentals have diverged significantly in recent years, with imputed rentals rising much faster in line with the property market, while mortgage interest rates have fallen.

Statisticians internationally also remove the principal component of mort-

gage payments as it reflects an investment. They only count as expenditure the interest payment portion, which is much lower.

MOF released figures to show how imputed rentals over-estimate how much lower-income households spend on housing.

The figures showed that for a family on a monthly household income of \$2,000 who buy a three-room flat, their actual expenditure on housing is \$134 a month, far lower than the average imputed rental of \$700.

In his study, Prof Tilak also found that while the higher-income groups spent more on education, the bottom 20 per cent spent steadily less on education. He warned that "the inability of low-income groups to spend on education beyond the public school system will sustain their disadvantage".

MOF, however, said that the lower spending on education by the lower-income group reflected a drop in its share of families with children.

Among households in the bottom 10 per cent, the share of those with at least one person aged 21 and below, and not working, fell to 12.7 per cent last year, down from 18.9 per cent in 2003. Education subsidies had also increased for lower-income households, the ministry added.

On subsidies lowering expenditure, Prof Tilak agreed that it was something to be studied. He also said that he did not have data on government transfers and subsidies.

In his study, Prof Tilak compared resident households' average monthly expenditure and income, excluding government transfers. He did so for the years 1998 to last year.

Based on the data, he derived a ratio known as the expenditure-income, as a measure of living affordability.

Veteran statistician Paul Cheung questioned if the expenditure-income

ratio was a fair measurement for affordability, which he said should be measured against some degree of utility and well-being that has to be determined.

"He needs to look at how the typical household budget is allocated and spent," Prof Cheung said, suggesting that for some poor families, the flow of income might be more of a concern.

He also noted that academic papers usually go through a peer review before they are published, but it was not the case with this study, which he described as "half-baked" and "not ready yet" for publication.

Prof Tilak said his ratio takes into account the relative standard of living, a measure of well-being, where people increase their spending because others have increased theirs. He added that his study also looks at expenditure in different categories, such as food and transport, and reflects how a household's budget is allocated.

As for the lack of peer review, he said a group of faculty had discussed the findings. "Now that this is out, there will be comments coming forward," he added.

Still, MOF said it welcomed studies aimed at identifying the needs of different segments of society, "which the present study seeks to do".

Its comments on the study's methodology "in no way detract from the importance of the issue of affordability of lower-income households", it added.

It said the Government was actively focused on needs of this group, and has significantly expanded schemes to help them in education, work, housing, health care and retirement.

"For most of those in the bottom third, government transfers in the form of cash and savings top-ups (not including other subsidies) provide significant supplement to their in-

comes," the ministry said.

Deputy Prime Minister Tharman Shanmugaratnam said in his Budget speech last month that the Government's initiatives of the last five years, plus the measures in this year's Budget, mean that the support for lower- and middle-income Singaporeans is now about 2.5 times what it was 10 years ago.

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## Imputed rentals overstate interest payments

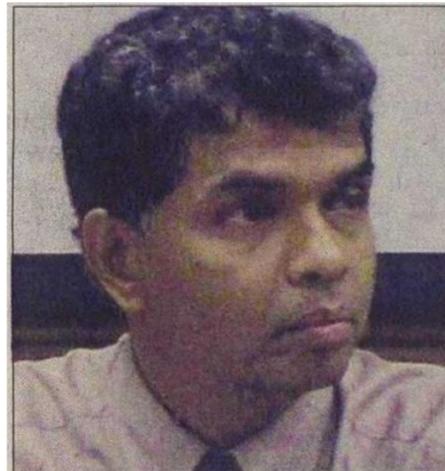
THE Finance Ministry gave this example to show how imputed rentals overstate mortgage interest payments: A household with \$2,000 monthly income buys a three-room Build-To-Order flat in a non-mature estate.

It gets Additional Housing Grant (\$35,000), Special Housing Grant (\$20,000) and NS

Recognition Award (\$4,000).

Monthly mortgage (25-year loan): \$506. This includes both the principal repayment, which statisticians internationally remove as it reflects an investment; and the interest payment.

The interest payment is about \$134, lower than the average imputed rental of about \$700.



**NUS professor Tilak Abeysinghe's study found that the bottom 30 per cent of households spend more than they earn.**