March 2008
IMF Country Report No. 08/100

Singapore: 2007 Article IV Consultation—Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2007 Article IV consultation with Singapore, the following documents have been released and are included in this package:

- The staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 3, 2007, with the officials of Singapore on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 15, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement of August 24, 2007 with information on recent developments and the 2007 Decision on Bilateral Surveillance.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its September 5, 2007 discussion of the staff report that concluded the Article IV consultation.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $18.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

SINGAPORE

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives for the 2007 Consultation with Singapore

Approved by Masahiko Takeda and Anthony Boote

June 15, 2007

Discussions: Held in Singapore during April 19–May 3 with Senior Minister Goh, Minister for Education and Second Minister for Finance Shanmugaratnam, the MAS Managing Director Heng, other senior officials, and representatives of the private sector including the federation of labor unions.

Team: Messrs. Ishii (head), Eskesen, Guimarães-Filho, and Salgado (Resident Representative), and Ms. Baker (all APD). Mr. Eng (OED) also attended the meetings.

Mission Focus: With the generally favorable economic conditions, this year's consultation was streamlined, focusing on near-term macroeconomic policies and medium-term challenges associated with globalization, including sustaining robust growth, addressing rising income inequality, and safeguarding financial sector growth and stability.

Past Fund Advice: The Fund has supported the authorities' pragmatic macroeconomic management and structural reforms aimed at enhancing financial sector stability and competitiveness. It has recommended reducing the government's role in the economy and improving fiscal transparency. The authorities have recently taken steps to strengthen the social safety net, in line with staff advice, and have continued to implement FSSA recommendations.

Exchange Arrangement: Article VIII, Sections 2, 3, and 4. The exchange system is free of restrictions on payments and transfers for current international transactions. The exchange rate regime is a managed float.

Data: Broadly adequate for effective surveillance. Areas for further improvement would include more regular and timely dissemination of data on government, household and corporate savings; a review of the inventory data; more details on capital flows; and expanded coverage of International Investment Position statistics.

Contents Page

EXECUTIVE SUMMARY

Background: Economic performance remains strong, while inflation remains subdued. Robust external demand has further widened the current account surplus. Performance was supported by pragmatic macroeconomic management and ongoing structural reform.

Policy issues: While benefiting Singapore, globalization has led to increasing competitive pressures from low-cost countries, rising structural unemployment among the low-skilled, and widening income inequality. In response to a surge in capital inflows, the Monetary Authority of Singapore (MAS) stepped up foreign exchange intervention to keep the nominal effective exchange rate (NEER) within the policy band. The resulting monetary expansion was offset by money market operations, causing a significant increase in the MAS' forward position.

Staff's views: Large net fiscal reserves resulting from past prudence provide scope over the medium term to meet social needs associated with rising income inequality and aging without compromising fiscal sustainability. A further deepening of structural reforms will be key to sustaining robust growth. While the financial system is sound, risks from increasing integration with international financial markets should be closely monitored and managed to maintain the stability and growth of the financial sector. With inflation expectations well anchored, there is no compelling reason to change the current monetary policy stance of targeting a modest and gradual appreciation of the nominal effective exchange rate at this moment. Nevertheless, if large capital inflows persist, the MAS should refrain from sterilization. This would discourage such inflows, easing the need for foreign exchange intervention. The large current account surplus at present can be mainly explained by structural and cyclical factors, but its ratio to GDP is expected to decline gradually over time as private investment continues to recover and the rapid aging of the population lowers national savings. The real effective exchange rate is likely to appreciate gradually as part of this process.

Authorities' views: The authorities broadly agreed with the staff's assessment and policy recommendations. Notwithstanding their concerns about stagnant wages of low-skilled workers, they reiterated their view that work is the best form of welfare but did not rule out the possibility of further strengthening the social safety net. Proactive structural reform aimed at sustaining growth would continue, including promoting high value added sectors, encouraging research and development, and strengthening human capital. Safeguarding financial sector growth and stability is crucial to Singapore's heightened role as a global financial sector. The authorities saw no need to adjust liquidity management (sterilization). They emphasized that money market operations are aimed at maintaining adequate liquidity in the banking system and that interest rates are not their monetary policy instrument. Within the exchange rate centered framework, interest rates could adjust on market expectations of the future path of the Singapore dollar without any shift in the MAS' liquidity management.

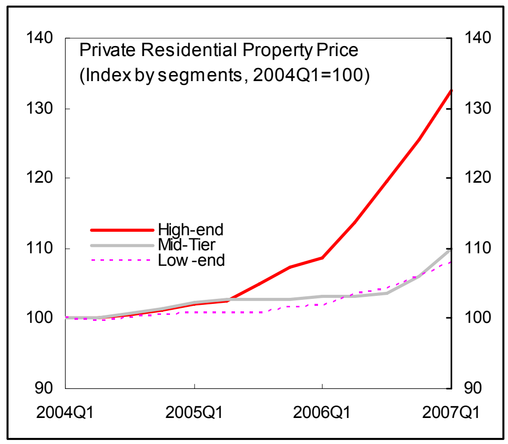
I. Recent Developments and Outlook

1. **Singapore's economy has become increasingly resilient to changing global conditions, supported by pragmatic macroeconomic management and ongoing structural reform**. Since the last Article IV consultation, economic performance has been impressive.

- Real GDP growth reached 7.9 percent in 2006, underpinned by solid external demand and a pick up in domestic demand. (Figure 1 and Table 1). On the supply side, growth was driven by high value-added sectors (pharmaceuticals, transport engineering and the financial sector) and a recovery in construction supported by credit growth (Table 2). In the first quarter of 2007, growth moderated reflecting softening external demand but remained robust at about 6 percent (y/y) mainly driven by private investment.

- Inflation has been subdued, reflecting benign domestic cost pressures. Wage growth has been modest despite the strong employment gains, although certain sectors, such as financial services, have experienced more rapid wage growth.

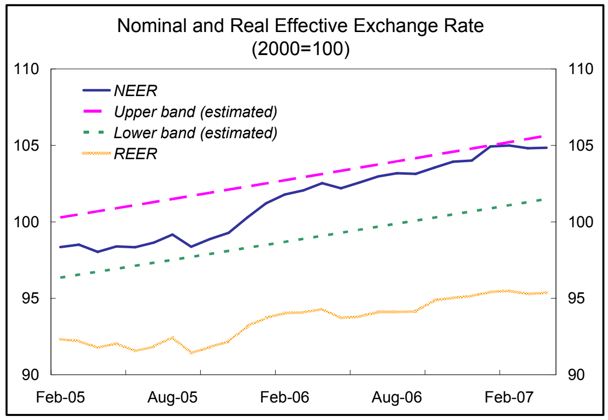
- Financial and property markets have been in general orderly, and risks appear contained despite the global turbulence experienced in March 2007 (Figure 2 and Table 3). While high-end private residential property prices have recently risen sharply, price increases in the other segments of the property market have been modest.



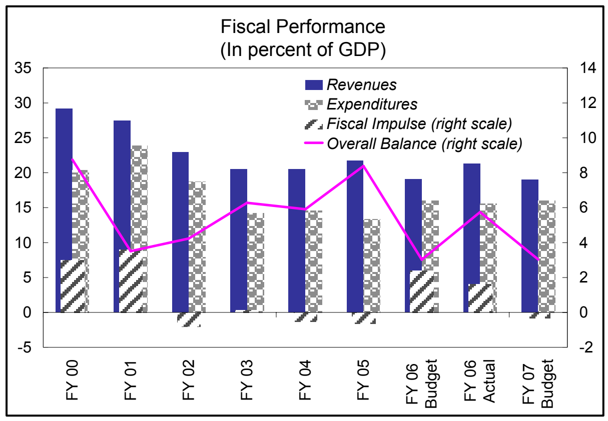
- The current account surplus widened further in 2006, reflecting strong export growth (Figures 3 and Table 4). Concurrently, net capital inflows surged to an estimated $18 billion in 2006 (minus $9 billion in 2005).[1] Inflows largely reflect: (i) favorable growth prospects for Singapore and the ongoing appreciation of the Singapore dollar, which have increased the attractiveness of Singapore assets; (ii) increasing use of the Singapore dollar as a proxy for the strengthening major regional currencies; and (iii) greater foreign investor participation in the high-end property market.

[1] This excludes capital outflows associated with the MAS' foreign exchange swaps. The MAS has been using such swaps to sterilize the net liquidity impact of its foreign exchange intervention (see Box 1). The swaps result in an increase in banks' foreign assets, which are recorded as other capital outflows in the balance of payments.

- The monetary policy stance has been kept on a tightening bias since April 2004, targeting a modest and gradual appreciation of the NEER. The Singapore dollar has appreciated by about 5 percent in nominal effective terms (2 percent in real effective terms) since the beginning of 2006, and has hovered near the upper bound of the policy band.



- Fiscal performance in FY 2006 (ending March 2007) was better than envisaged in the budget (Table 5). This was largely due to higher receipts from government property sales and tax revenue gains associated with strong growth, as well as slower-than-planned development spending and net lending. The fiscal impulse was positive, mostly reflecting large one-off income transfers.



2. **The near-term economic outlook is generally favorable**. Growth is projected to be about 6 percent for 2007–08. Domestic demand would remain strong, driven by buoyant investment, including large construction-related projects. On the supply side, the slowdown in the electronics sector in line with softening global demand would be partly offset by resilience in the services sector, particularly financial services. Risks to this outlook are broadly balanced, as downside risks related to a severe downturn in the U.S. housing market, a disorderly unwinding of global imbalances, and an avian flu pandemic may possibly be offset by stronger growth in the financial services and construction sectors as well as among Singapore's regional trade partners.

3. **Medium-term growth prospects depend on a further deepening of structural reform**. In response to increasing competition from low-cost economies, Singapore has pursued structural changes by promoting higher value-added activities, lowering business costs, and increasing labor market flexibility. Predicated on a continuation of these reforms, staff expects that GDP would grow in line with potential at around 5½ percent over the medium term (Table 6).

II. Report on Discussions—Common Ground and Exchanges of Views

4. **Given the generally favorable economic conditions, this year's consultation was streamlined**. Policy discussions focused primarily on the medium-term challenges related to globalization but also covered several near-term macroeconomic policy issues

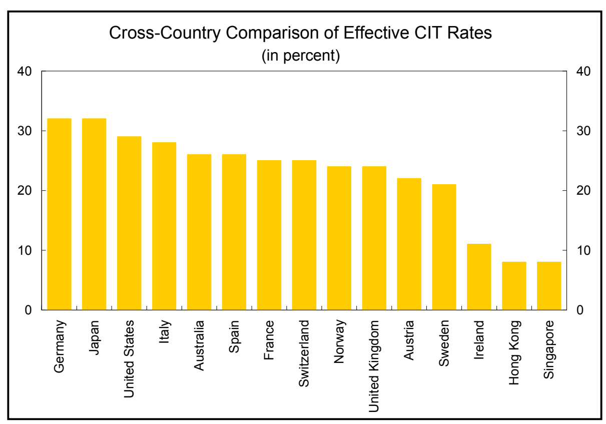
A. Medium-Term Policies—Meeting the Challenges of Globalization

5. **Globalization has benefited Singapore but also posed challenges**. The country has enjoyed export market expansion and growth as an international financial center. Nonetheless, globalization has led to increased competitive pressures from low-cost countries and stagnant wages among low-skilled workers. Structural policies should continue to focus on sustaining robust economic growth, addressing rising income inequality, and ensuring continued growth and stability of the financial sector.

Sustaining Robust Economic Growth

6. **The authorities recognize the challenges to sustaining robust growth**. They plan to build on the past notable reform progress by continuing their efforts to: (i) promote high value added sectors; (ii) encourage research and development; (iii) strengthen human capital; (iv) enhance labor market flexibility; and (v) lower business costs.

7. **While noting Singapore's past success in fostering competitiveness, staff expressed concern about the extensive use of tax incentives**. The FY 2007 budget includes a lowering of the CIT rate from 20 percent to 18 percent in January 2008 and further expansion of tax exemptions. Given their potential to distort economic decisions and the low level of effective taxation by international standards, staff recommended that tax incentives be streamlined to improve tax efficiency. The authorities noted that they had to respond to the highly competitive international tax environment but assured that a careful cost-benefit analysis is undertaken before granting tax incentives.

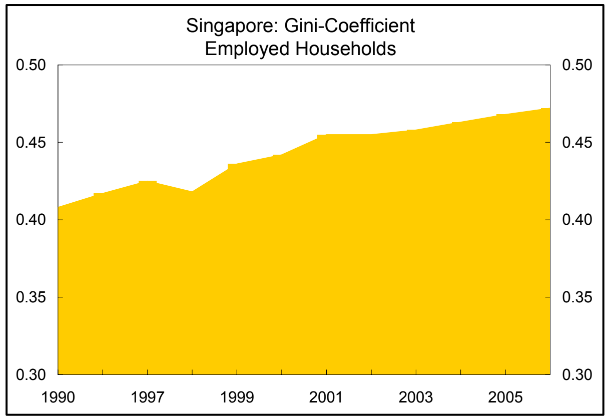


8. **A level playing field is key to further promoting private sector growth**. Public sector ownership in government-linked companies (GLCs) across a broad range of economic activities may stifle competition and private entrepreneurship. Therefore, staff recommended that the divestment of nonstrategic GLCs be accelerated in line with the recommendations of the government-sponsored Economic Review Committee. The authorities stressed that GLCs

are run on a commercial basis and their strategic importance is constantly being evaluated.[2] Moreover, the Competition Commission, which enforces and administers the Competition Act of 2004, is now fully operational.

Addressing Rising Income Inequality

9. **The authorities shared staff's concern about weak wage growth for low-skilled workers**, which has contributed to growing income inequality as evidenced by the rising Gini coefficient. To address this concern, the authorities have introduced the Workfare Income Supplement (WIS) scheme in the FY 2007 budget.[3] While recognizing the WIS as an important step to strengthen the social safety net, staff suggested that the authorities consider introducing an unemployment insurance scheme, which would not only provide individual income protection but also work as an automatic stabilizer for the broader economy. To minimize work disincentives, benefits could be subject to participation in active-labor-market programs, have limited duration, and cover mostly basic needs. The authorities reiterated their long-standing view that work is the best form of welfare. However, they did not rule out the possibility of broadening the social safety net in the future, noting that the WIS will be reviewed in 3 years.



10. **Given Singapore's aging population, staff welcomed the Central Provident Fund (CPF) reform measures taken in recent years to enhance financial security in retirement**. For low-income households, the CPF is the main source of retirement income. However, income replacement rates are relatively low,[4] partly reflecting modest returns on CPF savings. In this regard, staff welcomed the recent steps to reduce charges on new investments under the CPF Investment Scheme (CPFIS) and continuing efforts to promote investor education to increase the use of the CPFIS. Staff recommended that the authorities explore options allowing more (but simple) risk-return options for CPF savings.

---

[2] Forty firms have been divested since end-2005.

[3] This scheme provides income supplement for employed low wage workers over age 35.

[4] Estimated replacement rates based on the CPF Minimum Sum range from 20–40 percent.

Safeguarding Financial Sector Growth and Stability

11. **The financial system is sound, and no short-term risks are evident** (Figure 4 and Table 7). The health of the system has been supported by the improving financial position of banks, corporates, and households. Banks are well-capitalized, and profitability and asset quality have continued to improve. Bank exposures to the property and equity markets have risen but risks are manageable. Corporate profitability has also increased, and households' liability-to-asset ratio has dropped further.

12. **Most of the 2004 FSSA recommendations have now been implemented and adoption of Basel II is on track for early 2008** (Table 8). Recent measures include further lowering the minimum Tier-1 capital requirement for banks; amendments to the MAS Act, which clarified the MAS' functions and objectives; and amendments to the Banking Act, including regulations related to large exposure limits. Staff stressed that reporting lags on corporate and household balance sheets and income statements should be reduced.

13. **The authorities appropriately view safeguarding financial sector growth and stability as crucial to Singapore's heightened role as a global financial center**. The MAS is continuing its efforts to improve risk-management capabilities of local banks and to enhance cross-border supervision of local banks' overseas operations through supervisory cooperation with other countries. While local banks' direct exposures to the rapidly growing asset management industry appear limited, indirect exposures through international banks and counterparties have likely increased, underscoring the need to strengthen cross-border risk management in financial institutions and monitoring by the authorities.

B. Macroeconomic Policies

Fiscal Policy

14. **Sustained prudent fiscal policy has been an important pillar for Singapore's economy**. With large fiscal reserves, Singapore has been able to weather a series of adverse shocks and is well-prepared to accommodate the fiscal costs associated with an aging population and to meet the challenges associated with globalization.

15. **The FY 2007 budget includes a number of important measures such as a shift toward indirect taxation and new permanent transfers to low-income households**. Notwithstanding a cut in corporate income taxes, new income transfers and measures offsetting a hike in the goods and services tax (GST),[5] the budget is slightly contractionary by staff estimates, partly reflecting the large one-off expenditures in the previous budget. Staff encouraged further front-loading of the GST-offset measures if the impact of the GST hike

[5] The announced GST hike by 2 percentage points to 7 percent will take effect in July 2007.

on consumption is larger than envisioned. The authorities stressed that the offset package in the budget should more than compensate for the impact on consumption, especially for low-income families.

16. **Over the medium term, the large net fiscal reserves provide scope for a greater fiscal expansion to address issues related to aging and rising income inequality**.[6] While welcoming plans to expand spending on health care, education, and infrastructure, to be financed partly by capital gains on fiscal reserves, staff noted that the social safety net could be further expanded without undermining long-term fiscal sustainability.

17. **Further improvement in the transparency of public finances is desirable**. Staff welcomed the authorities' agreement to undertake a fiscal ROSC in 2008 and the continued publication of annual reviews of Temasek's operations. Steps should be taken to compile and publish consolidated public sector accounts, including more information on the financial position of the Government of Singapore Investment Corporation (GIC).

Exchange Rate and Monetary Policy

18. **Singapore's monetary policy framework centered on the management of the exchange rate has served the economy well**, keeping inflation low in support of impressive growth (Box 1). Nevertheless, the surge in capital inflows meant that the MAS had to step up foreign exchange intervention to keep the NEER within the policy band. At the same time, the MAS sterilized the net liquidity impact of its foreign exchange intervention mainly through foreign exchange swaps. As a result, gross official reserves rose to $140 billion by end-April 2007 ($117 billion at end-2005), and the MAS' forward position stood at $66 billion ($21 billion). The authorities noted that the MAS' large forward position does not pose risks to the financial system given the MAS' strong balance sheet and risk management as well as the depth of the swap market.

19. **With inflation expectations well anchored, the authorities and staff saw no compelling reason to adjust the monetary policy stance at this moment**. However, staff suggested that if large capital inflows persist, the MAS should refrain from sterilization. This would help reduce capital inflows, easing the need for foreign exchange intervention. The authorities did not see the need for adjusting their liquidity management (sterilization), stressing that the MAS' money market operations are aimed at ensuring adequate liquidity in the banking system to meet banks' demand for reserve and settlement balances and that interest rates are not their monetary policy instrument. They noted that within the exchange rate centered framework, interest rates could adjust on market expectations of the future path of the Singapore dollar without any shift in the MAS' liquidity management. On the recent

---

[6] The net fiscal reserves are estimated by staff to exceed 150 percent of GDP.

Box 1. Singapore's Monetary Policy Operations

Since 1981, monetary policy has centered on the management of the exchange rate, which is used as a nominal anchor.[1] The primary objective of monetary policy is to maintain price stability in support of sustainable economic growth. To achieve this objective, the MAS intervenes in the foreign exchange market to maintain the Singapore dollar against an undisclosed trade-weighted basket of currencies of Singapore's major trading partners and competitors broadly within an undisclosed (width and rate of crawl) policy band. The MAS reviews this policy band semiannually and adjusts it if necessary to ensure its consistency with economic fundamentals and market conditions.

Money market operations are aimed at ensuring adequate liquidity in the banking system, which has helped contain interest rate volatility. All banks in Singapore are required to keep zero-interest minimum cash balances (MCB) with the MAS at 3 percent of their liabilities base to meet daily reserve requirements and settlement balance requirements. Intraday fluctuations in the MCB may range from 2 to 4 percent, but the average MCB ratio cannot be less than 3 percent over the maintenance period of two weeks. Banks may choose to set aside additional cash balances with the MAS, usually depending on the level and volatility of interest rates. In the event of a liquidity shortage, banks can borrow from the MAS' lending facilities. The MAS conducts money market operations exclusively with Singapore Government Securities (SGS) primary dealers through the use of three instruments: foreign exchange swaps (most used); direct borrowing/lending with banks; and SGS repos.

[1] See Monetary Policy Operations in Singapore (MAS, April 2007) www.mas.gov.sg/publications/monographs/Monetary_Policy_Operations_in_Singapore.html.

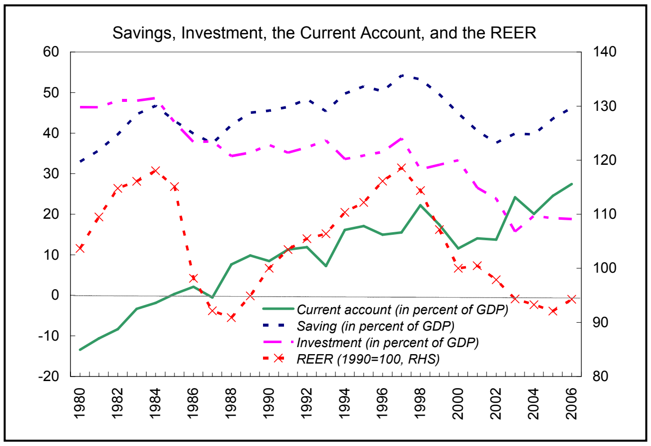
property price increase, the authorities noted that it has been largely confined to the high-end segment and they are monitoring the situation closely. They added that rather than using monetary policy, there are targeted prudential and administrative measures, which could be used to effectively curb excessive property price increases if deemed necessary.

20. **It was agreed that the large current account surplus can be explained mainly by structural and cyclical factors** (Box 2). Assuming an unchanged real effective exchange rate, the current account surplus as a percent of GDP is projected to narrow somewhat over the medium term as the recovery in private investment continues and corporate savings decline partly due to more modest profit growth, but would still remain large. With regard to the exchange rate, the authorities expressed the view that based on their empirical analysis, its level appeared broadly in line with fundamentals. They added that this finding was consistent with the absence of high inflation, excessive wage pressures, and disorderly asset market conditions—usual signs of exchange rate undervaluation.

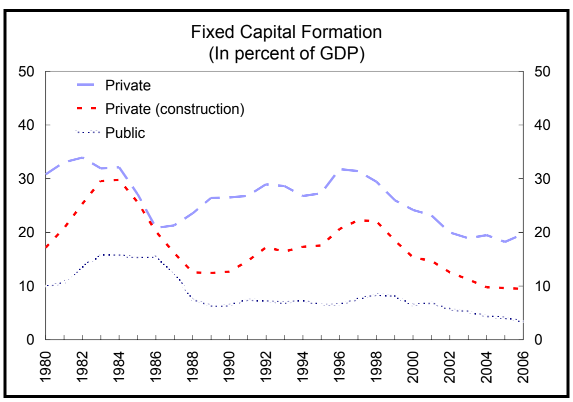
Box 2. What is Driving the Current Account in Singapore?

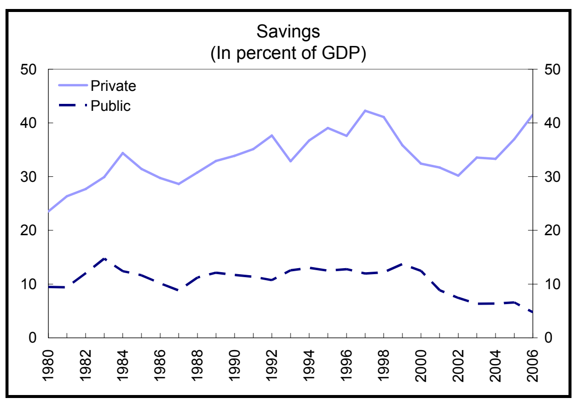
Since 1980, Singapore's current account balance shifted considerably, from large deficits to sizable surpluses, as the country developed rapidly.

During 1980–98, the shift to current account surpluses occurred in tandem with significant changes in the structural determinants of savings and investment. Throughout this period, savings remained high, supported by rising income levels, sizeable government savings (averaging 10 percent of GDP in 1990–98), and a gradual increase in the working-age dependency ratio, which helped sustain household savings. Meanwhile, investment fell as Singapore moved from manufacturing such as oil refining, which typically requires large capital outlays, to electronics. Moreover, the end of the infrastructure-led investment boom in the late 1980s also led to a gradual decline in construction-related investment to an average of 17 percent of GDP during 1990–98 (25 percent of GDP during 1980–85), further contributing to the increase in the current account surplus. During this period, the real effective exchange rate fluctuated, showing no clear correlation with the current account.



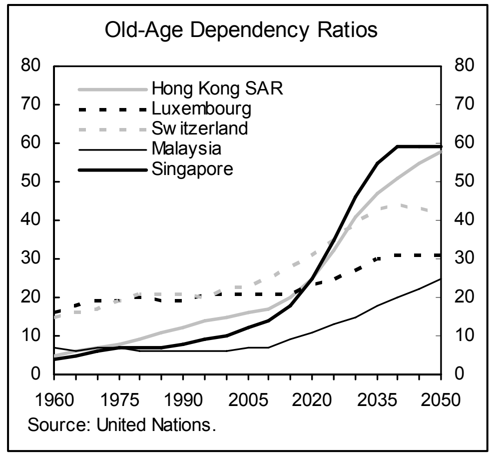
During 1999–2002, the current account surplus declined substantially, as the fall in savings outpaced the decline in investment. The decline in savings reflected (i) lower corporate profitability and the restructuring of the corporate sector; (ii) lower government savings as a result of countercyclical fiscal policy; and (iii) an estimated decline in household savings as growth slowed. The fall in investment was mainly due to a continued drop in construction-related investment.





Since 2003, the current account surplus has rebounded significantly. Corporate savings recovered as corporate profitability improved sharply on the back of strong productivity growth. Despite the recent investment recovery, the investment to GDP ratio remained sluggish, partly reflecting the decline in investment costs and the continued shift to knowledge-based industries and the services sector. These sectors tend to require less physical investment and significant human capital investment, which is not recorded in the national income statistics as investment. Concurrently, Singapore's investment in the region continued to expand (where labor costs are relatively low), including through Temasek and the GIC.

21. **That said, over the long term, the current account surplus is likely to narrow further in relation to GDP as the economy's high national savings rate declines with population aging**. Aging is projected to accelerate beyond 2015, with the ratio of those age 65 and older to the number of individuals between 15 and 65 years of age (the old-age dependency ratio) rising sharply, especially compared with other countries with large financial centers. The need for maintaining large fiscal reserves to guard against adversity would also decline over time as structural reforms further strengthen Singapore's resilience to shocks. As part of the adjustment process, Singapore's real effective exchange rate would be expected to appreciate gradually. Nevertheless, the extent of undervaluation from a long-term perspective is difficult to pinpoint, with the estimates of the long-term equilibrium exchange rate for Singapore varying widely depending upon model specifications and assumptions.[7] More information, particularly on corporate and household savings, could help deepen the analysis of the appropriate value of the Singapore dollar.



III. Staff Appraisal

22. **Singapore's recent economic performance has been impressive, underpinned by prudent macroeconomic management**. The near-term outlook is generally favorable, and risks are broadly balanced.

23. **In order for Singapore to continue to reap the benefits of globalization over the medium term, the authorities should further advance structural reform**. Proactive steps and policies already in train aimed at sustaining robust growth are welcome. However, due consideration should be given to streamlining tax incentives. Moreover, a faster pace of divestment of nonstrategic GLCs would assure investors of a level playing field and promote private sector growth.

24. **While welcoming recent efforts to support low-income workers, further expansion of the social safety net would be desirable**. Unemployment insurance could be introduced while preserving work incentives. Staff also welcomes efforts to enhance financial security in retirement and suggests that the authorities explore options allowing more (but simple) risk-return options for CPF savings.

---

[7] As a related matter, estimates based on the CGER methodology yield an undervaluation from a medium-term perspective in the range of 15–20 percent. Other estimates prepared by the mission team did not yield conclusive evidence that the Singapore dollar is significantly undervalued.

25. **Heightened focus on preserving financial sector stability is appropriate as the financial sector further integrates into the global system**. While local banks' direct exposures to the rapidly growing asset management industry appear limited, indirect exposures through international banks and counterparties have likely increased, underscoring the need to strengthen cross-border risk management in financial institutions and monitoring by the authorities.

26. **The large net fiscal reserves provide scope for fiscal expansion**. In the near term, the authorities could further front-load some of the GST-offset measures in the event that the GST hike has a larger-than-envisioned negative impact on consumption. Over the medium term, emerging issues related to low-income families and aging should be addressed.

27. **Further steps to improve the transparency of public finances are desirable**. While the authorities' agreement to undertake a fiscal ROSC in 2008 is welcome, consolidated public sector accounts should be compiled and published, including more information on the GIC's financial position.

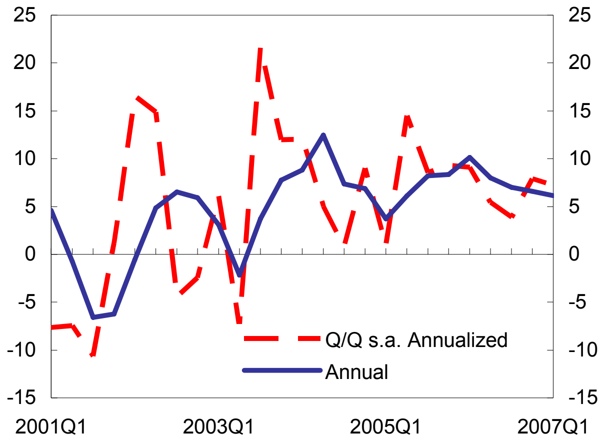
28. **The monetary policy framework centered on the management of the exchange rate has served the economy well**. As inflation expectations are well anchored, there is no need to change the present monetary policy stance of a modest tightening bias. Nevertheless, if large capital inflows persist, the MAS should refrain from sterilization. This would discourage such inflows, easing the need for foreign exchange intervention.

29. **The large current account surplus can be explained mainly by structural and cyclical factors**. However, over the long term, the current account surplus is expected to narrow, as a rapidly rising old-age dependency ratio leads to a decline in national savings. As part of the adjustment process, the real effective exchange rate would be expected to appreciate gradually.

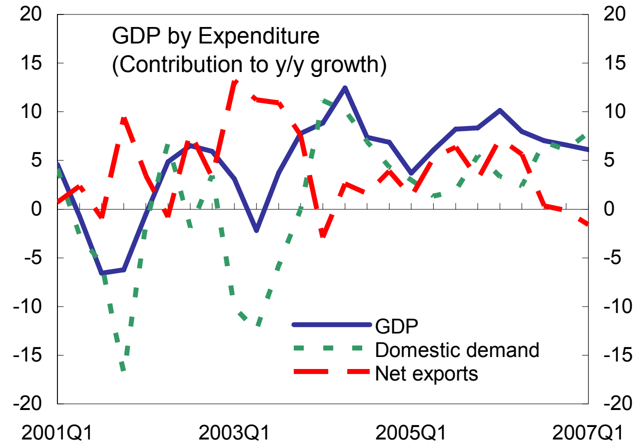
30. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Singapore: Real Sector Developments

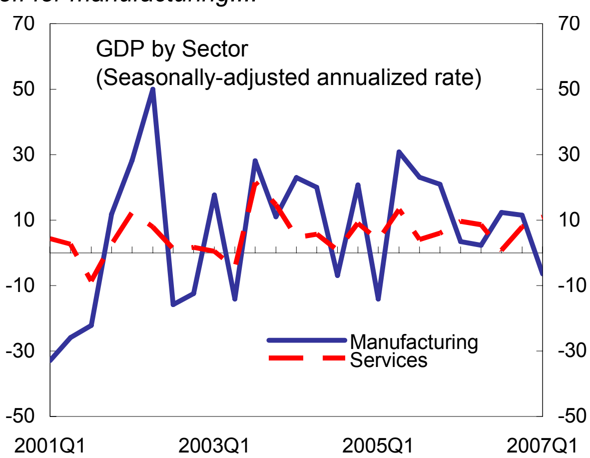
GDP growth remained brisk at 7.9 percent in 2006 and 6.1 percent in Q1 2007....



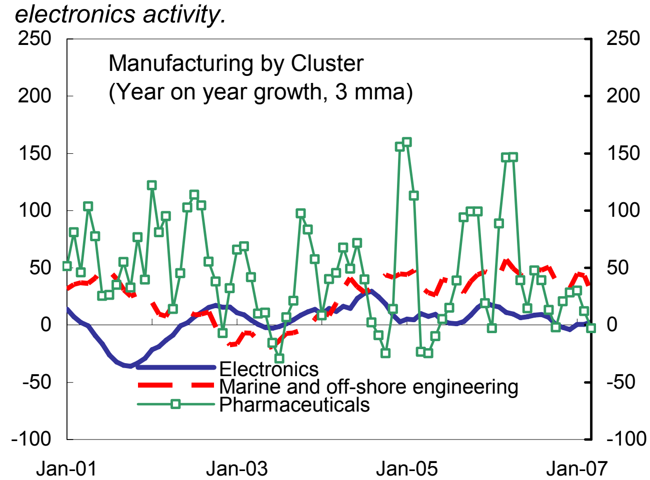
....driven by solid (but slowing) net exports and a pick up in domestic demand led by investment.



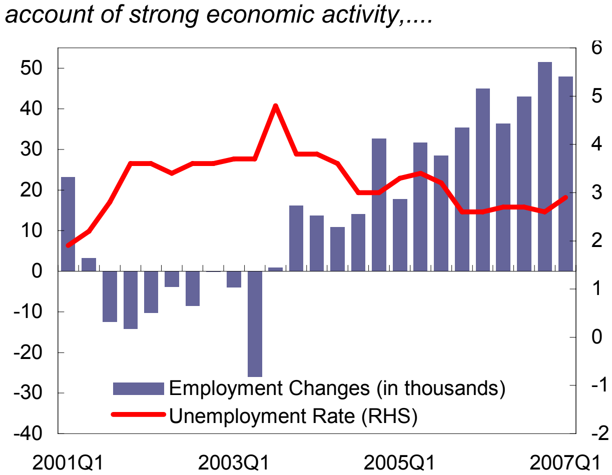
While momentum picked up for services, it tapered off for manufacturing....



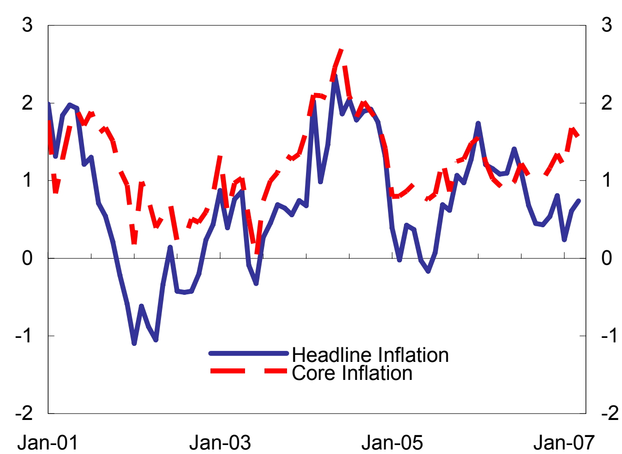
....as new growth engines were offset by weaking electronics activity.



Labor market conditions have strengthened further on account of strong economic activity,....



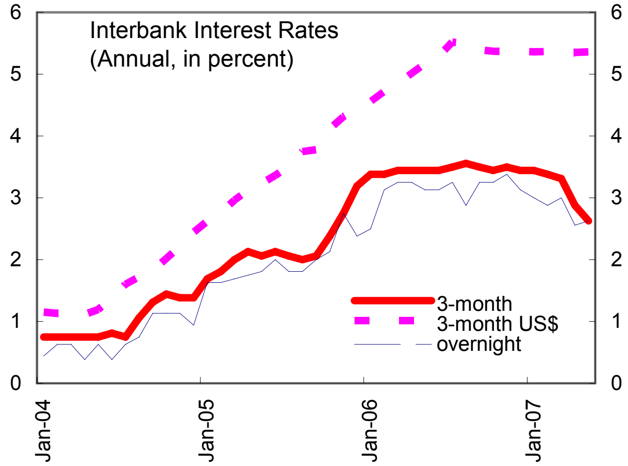
.... but inflation remains subdued.



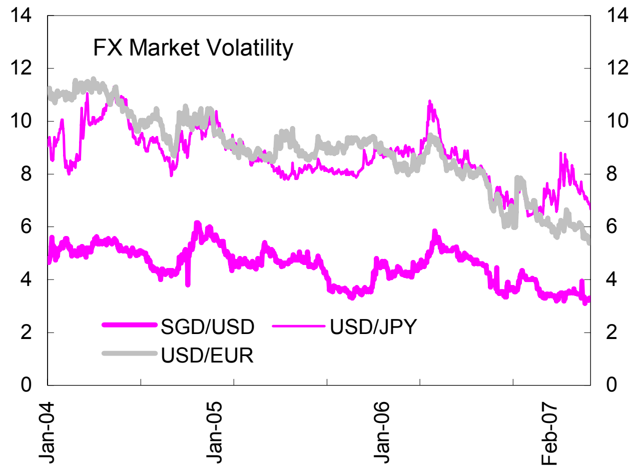
Source: CEIC Data Co. Ltd.

Figure 2. Singapore: Financial and Asset Market Developments

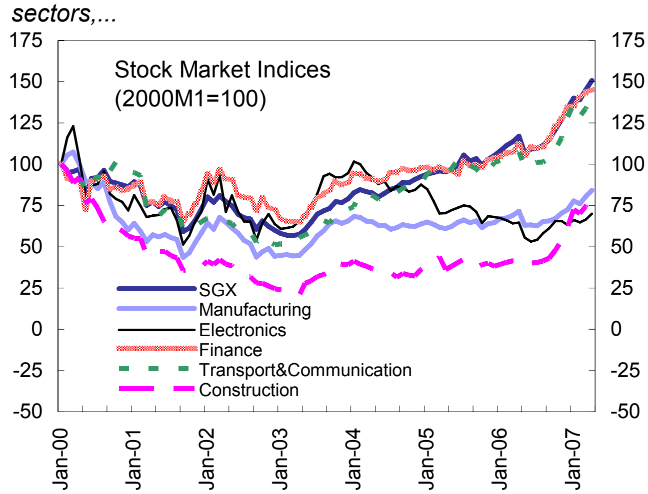
Interbank interest rates have recently dropped markedly...



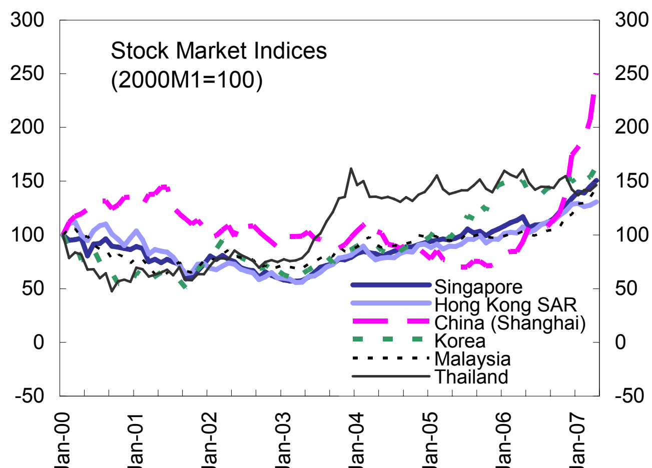
...and FX volatility has trended downwards since the turbulance in May-June 2006.



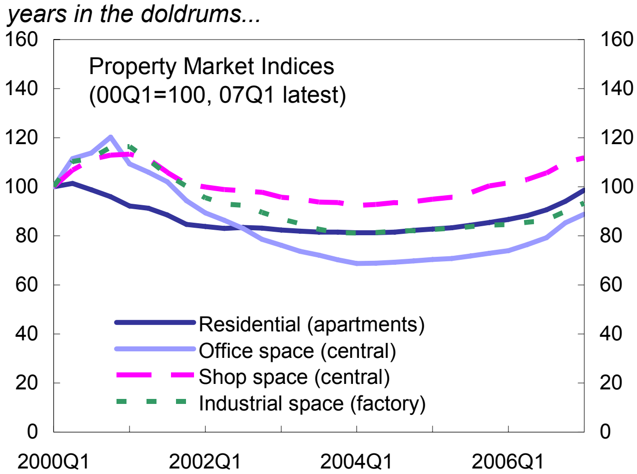
The equity market has performed strongly across most sectors,...



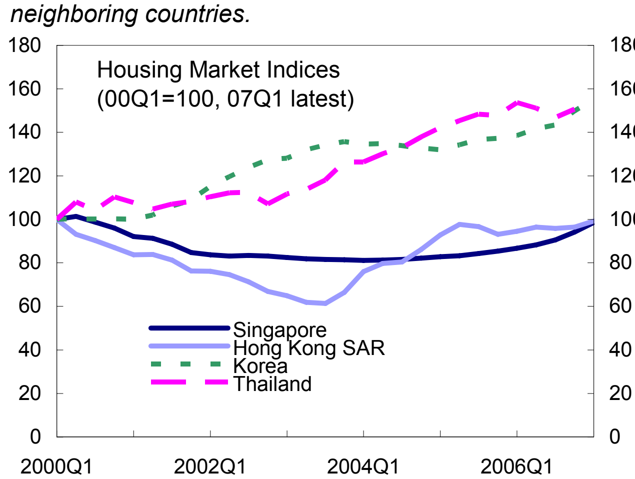
...in line with developments in neighboring countries.



Property markets have finally turned the corner after years in the doldrums...



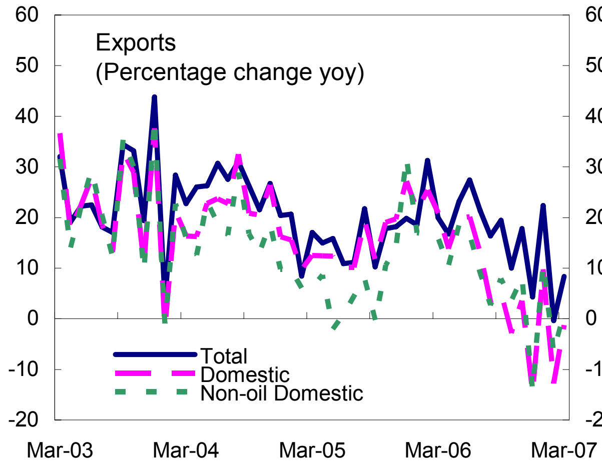
...but appreciations have been slower than in neighboring countries.



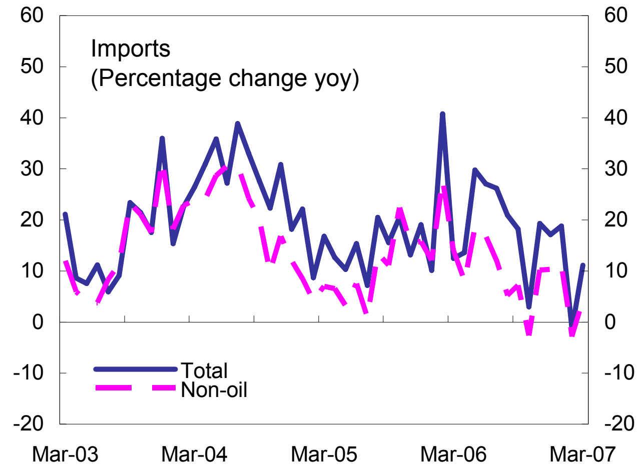
Sources: CEIC Data Co. Ltd.; and Bloomberg.

Figure 3. Singapore: External Developments

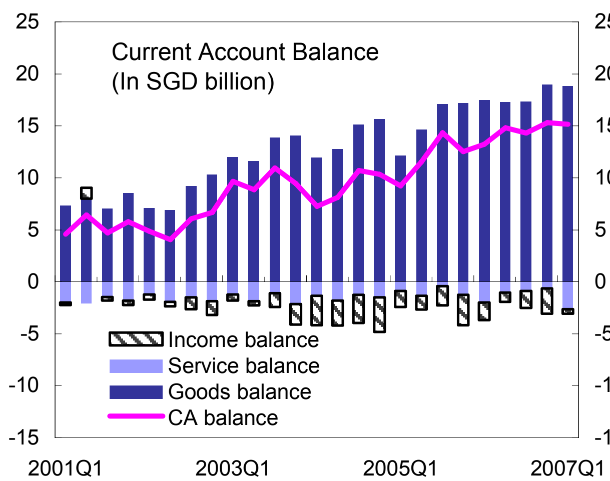
Exports grew strongly, but decelerated during 2006 driven by slower electronics exports.



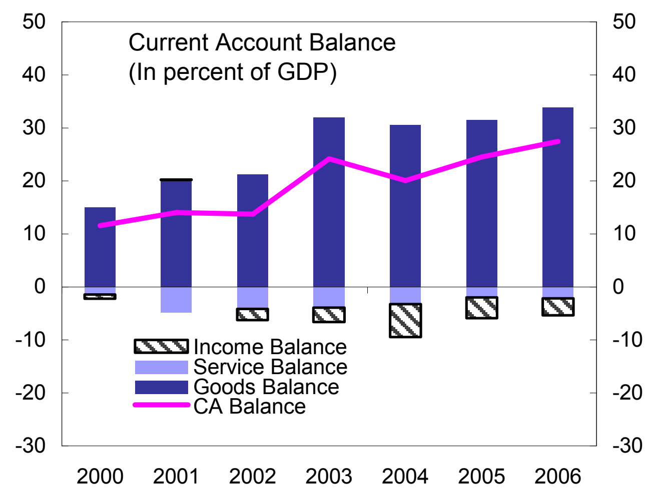
Import growth declined partly due to lower oil prices.



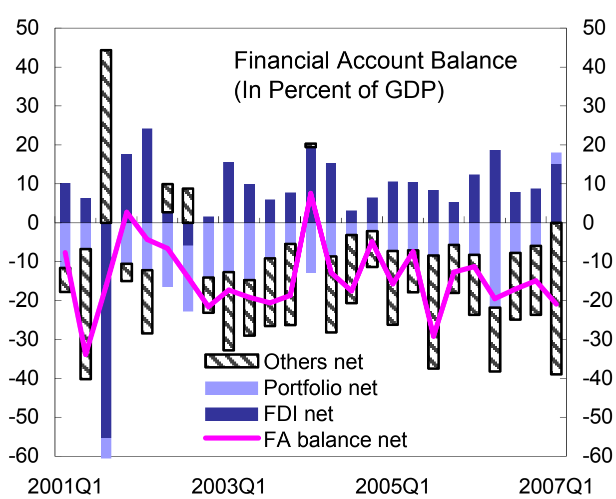
The current account surplus widened further...



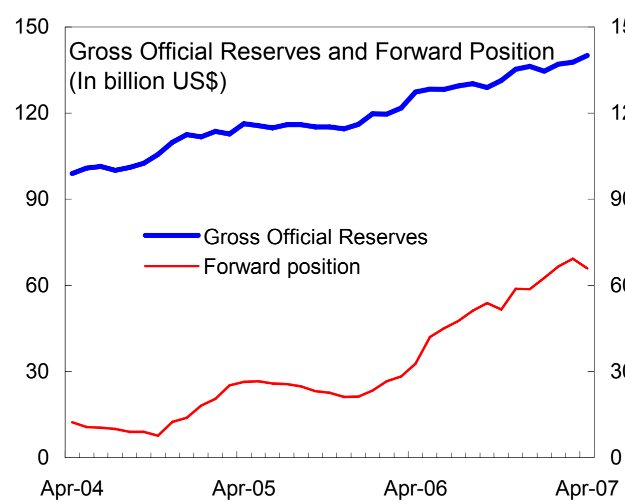
...driven by a large trade surplus.



Notwithstanding large financial outflows,...



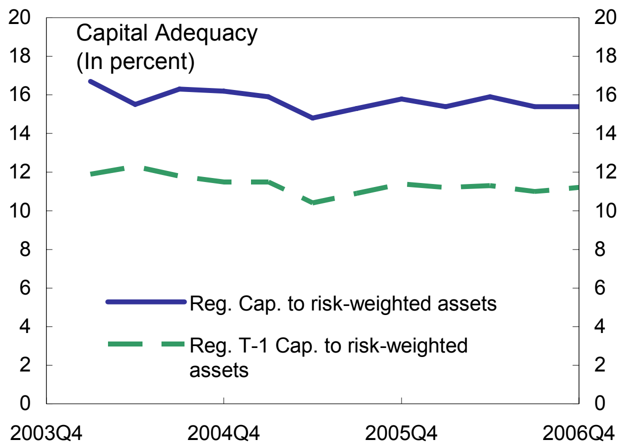
...gross reserves continued to accumulate.



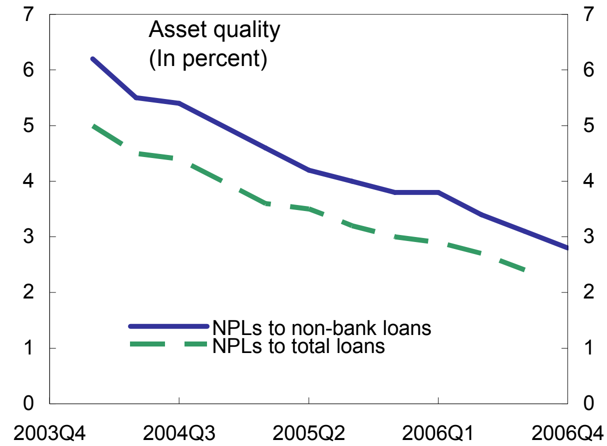
Source: Singapore, Department of Statistics.

Figure 4. Singapore: Financial Sector Developments

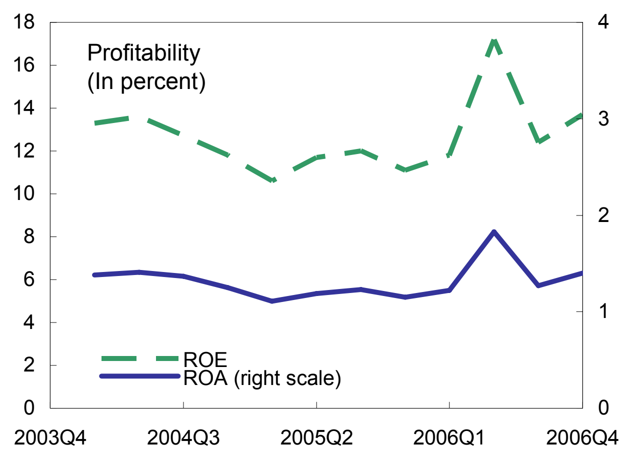
Capital adequacy has remained at high levels,...



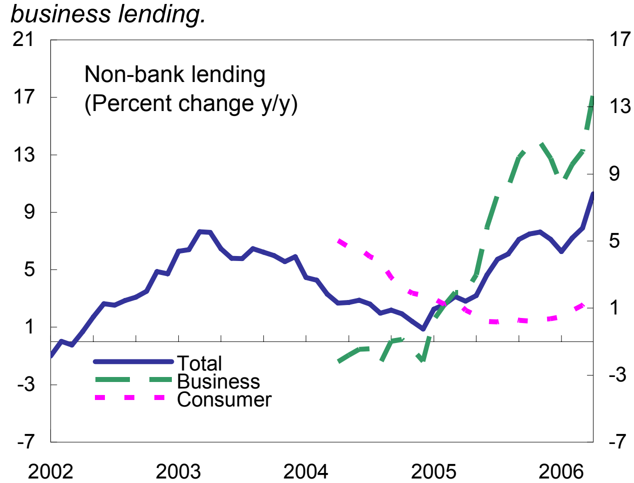
....and asset quality has continued to improve.



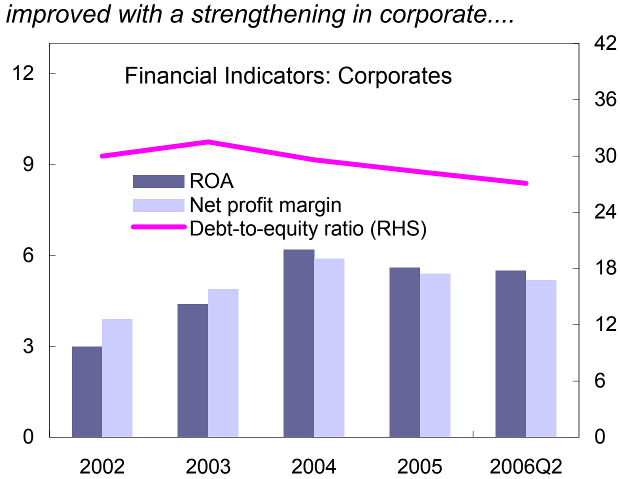
Banks' profitability has also picked up somewhat....



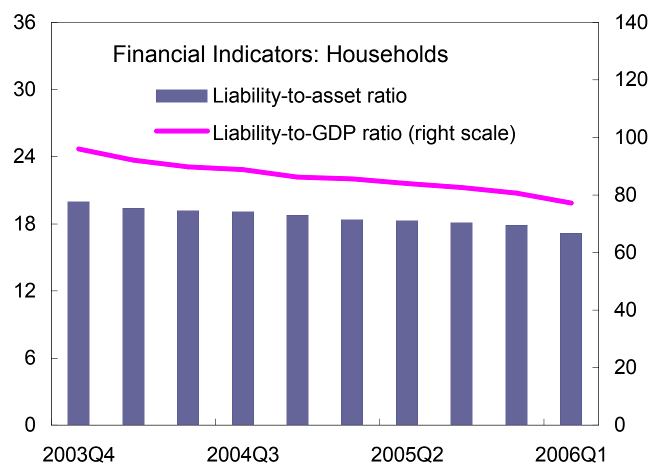
....and lending activity has strengthened driven by business lending.



The banks' working environment has also improved with a strengthening in corporate....



...and household balance sheets.



Sources: CEIC Data Co. Ltd.; and the Monetary Authority of Singapore.

Table 1. Singapore: Selected Economic and Financial Indicators, 2000–08

Nominal GDP (2006): US$132.2 billion
Main exports (percent of total domestic exports): Electronic products (35 percent) and chemical products (17 percent)
GDP per capita (2006): US$29,474
Population (2006): 4.48 million
Unemployment rate (2006): 2.7 percent
Net FDI (2006): US$ 15.6 billion
Public debt (2006): 98 percent of GDP
Foreign government debt (2006): none
Quota: SDR 862.5 million

	2000	2001	2002	2003	2004	2005	2006	2007	2008
								Proj.	
Growth (percentage change)									
Real GDP	10.1	-2.4	4.2	3.1	8.8	6.6	7.9	6.0	5.8
Total domestic demand	18.7	-6.3	2.0	-8.7	11.2	4.0	6.6	6.2	5.3
Consumption	15.6	3.6	5.3	1.3	4.5	3.8	4.2	4.0	4.2
Private consumption	14.9	4.0	5.1	1.2	5.6	3.1	2.5	3.1	3.8
Gross capital formation	24.1	-22.2	-5.0	-32.4	34.9	4.6	13.1	11.8	7.8
Net exports	-23.4	21.5	20.1	54.7	4.6	14.2	10.4	5.2	6.7
Contribution to GDP growth	-4.6	2.9	3.4	10.7	1.3	4.0	3.1	1.6	2.1
Saving and investment (percent of GDP)									
Gross national savings	44.9	40.6	37.6	39.9	39.7	43.5	46.3	46.8	46.9
Gross capital formation	33.3	26.5	23.9	15.7	19.6	19.0	18.8	20.0	20.7
Inflation and unemployment (period average, percent)									
CPI inflation	1.3	1.0	-0.4	0.5	1.7	0.5	1.0	1.5	1.5
Unemployment rate	2.7	2.7	3.6	4.0	3.4	3.1	2.7	2.6	2.6
Central government budget (percent of GDP) 1/									
Revenue	29.2	27.4	23.0	20.5	20.6	21.7	21.3	21.1	21.2
Expenditure	20.4	23.9	18.7	14.2	14.6	13.4	15.6	16.0	16.0
Overall balance	8.7	3.5	4.2	6.3	6.0	8.4	5.7	5.2	5.2
Primary operating balance	1.1	-3.5	-2.7	-3.0	-2.0	-1.2	-2.8	-2.3	-2.4
Money and credit (end of period, percentage change)									
Broad money (M3)	-1.8	4.0	-0.8	5.9	6.1	6.4	19.1	...	...
Lending to non-banking sector	4.7	5.8	-1.0	6.3	4.5	2.2	6.3	...	...
Interest rate (three-month interbank, in percent)	2.8	1.3	0.8	0.8	1.4	3.3	3.4	…	…
Balance of payments (US$ billion)									
Current account balance	10.7	12.0	12.1	22.3	21.5	28.6	36.3	39.4	41.5
(percent of GDP)	(11.6)	(14.0)	(13.7)	(24.2)	(20.1)	(24.5)	(27.5)	(26.9)	(26.2)
Trade balance	14.0	17.3	18.8	29.6	32.9	36.7	44.7	49.8	51.9
Overall balance	6.9	-0.9	1.3	6.8	12.1	12.3	17.0	16.4	16.5
Exports of goods & services in US$ (percentage change)	19.4	-9.6	3.8	16.4	25.1	15.1	17.1	15.2	10.6
Imports of goods and services in US$ (percentage change)	22.1	-10.7	2.8	11.0	26.9	14.8	16.5	16.2	11.4
Terms of trade (percentage change)	-2.1	-2.0	-2.7	-2.3	-1.0	-2.1	-0.9	-0.6	-0.4
International reserves, external debt, and IIP									
Gross official reserves (US$ billion)	80.2	75.7	82.2	96.2	112.6	116.2	136.3	152.6	169.2
(months of imports) 2/	(6.4)	(5.9)	(5.7)	(5.3)	(5.4)	(4.8)	(4.8)	(4.8)	(4.9)
Gross external debt (US$ billion)	...	...	...	187.2	210.7	217.4	273.8	...	...
(percent of GDP)	...	...	...	(202.7)	(196.2)	(186.3)	(207.2)	...	...
Government	...	...	...	0.0	0.0	0.0	0.0	...	...
Banks	...	...	...	62.5	70.0	73.5	104.8	...	...
Other	...	...	...	124.6	140.7	143.9	169.0	...	...
Net International Investment Position (US$ billion)	...	60.9	81.6	93.9	102.6	104.5	...	...	...
Exchange rate (end of period)									
S$/US$ 4/	1.732	1.851	1.737	1.701	1.634	1.664	1.534	1.520	...
Nominal effective exchange rate 3/ 4/	102.4	100.1	101.0	97.0	97.9	100.3	104.1	104.8	...
Real effective exchange rate 3/ 4/	102.2	98.1	97.5	92.7	92.4	93.2	95.3	95.0	…

Sources: Data provided by the Singapore authorities; and Fund staff estimates and projections.

1/ Fiscal year beginning April 1.
2/ In months of following year's imports of goods and services.
3/ IMF Information Notice System monthly index (2000 full-year average = 100).
4/ Latest observations as of April 2007.

Table 2. Singapore: Monetary Survey, 2000–07

	2000	2001	2002	2003	2004	2005	2006				2007
							Mar.	Jun.	Sep.	Dec.	Mar.
	(In billions of Singapore dollars, end of period)										
Net foreign assets	126.3	132.9	133.2	150.0	172.8	193.7	204.1	210.5	219.7	224.8	237.9
Monetary authorities	137.8	138.6	141.5	161.9	182.3	191.8	195.6	201.3	204.0	207.9	207.4
Deposit money banks	-11.5	-5.7	-8.3	-11.9	-9.6	1.9	8.5	9.2	15.7	16.9	30.5
Domestic credit (net)	126.6	144.6	121.3	134.0	137.9	129.7	126.0	134.0	135.0	144.6	155.2
Claims on private sector	159.1	185.1	169.1	178.3	186.1	189.8	189.1	193.4	197.4	199.1	205.1
Nonbank lending	154.0	162.9	161.3	171.4	179.1	183.1	182.6	189.6	194.0	194.6	201.4
Claims on central government (net) 1/	-32.5	-40.4	-47.7	-44.3	-48.2	-60.1	-63.1	-59.4	-62.4	-54.5	-49.9
Other items (net)	-82.1	-96.6	-74.2	-89.2	-103.7	-103.6	-102.6	-107.0	-109.6	-107.0	-113.2
M3	182.9	190.3	188.8	200.0	212.2	225.7	233.6	243.7	251.4	268.8	286.8
	(Annual percentage change)										
Domestic credit	4.0	14.2	-16.1	10.5	2.9	-5.9	-6.7	-1.7	2.4	11.5	23.2
Claims on private sector	5.9	16.3	-8.6	5.4	4.4	2.0	1.9	3.4	5.0	4.9	8.4
Non-bank lending	4.7	5.8	-1.0	6.3	4.5	2.2	2.8	5.7	7.5	6.3	10.3
M3	-1.8	4.0	-0.8	5.9	6.1	6.4	8.3	11.2	12.7	19.1	22.8
	(Contribution to M3 growth, in percent)										
Net foreign assets	-2.5	3.6	0.2	8.9	11.4	9.9	10.2	11.6	12.0	13.8	14.5
Domestic credit (net)	2.6	9.8	-12.3	6.7	1.9	-3.9	-4.0	-1.0	1.4	6.6	12.5
Claims on private sector	4.8	14.2	-8.4	4.9	3.9	1.7	1.6	2.9	4.2	4.1	6.8
Claims on central government (net) 1/	-2.2	-4.4	-3.8	1.8	-2.0	-5.6	-5.6	-3.9	-2.8	2.5	5.7
Other items (net) 2/	-1.9	-9.4	11.3	-9.7	-7.3	0.4	2.1	0.6	-0.7	-1.3	-4.2
Memorandum item:											
Monetary base (annual percentage change)	-13.7	8.5	-0.3	3.4	5.7	7.2	5.6	7.4	7.6	10.1	9.7

Source: IMF, *International Financial Statistics.*

1/ Claims on public sector minus deposits.
2/ Including other non-bank financial institutions.

Table 3. Singapore: Indicators of Vulnerability, 2000–06

	2000	2001	2002	2003	2004	2005	2006
Financial sector indicators							
Broad money (M3, percent change, y/y)	-1.8	4.0	-0.8	5.9	6.1	6.4	19.1
Private sector credit (percent change, y/y)	5.9	16.3	-8.6	5.4	4.4	2.0	4.9
Credit to the property sector (percent change, y/y)	9.6	6.4	0.3	11.2	8.2	3.1	5.5
Share of property-sector credit in total non-bank credit (percent)	41.7	41.9	42.5	44.4	46.0	46.4	46.1
Credit rating of local banks (S&P) 1/	A/A+	A/A+	A/A+	A/A+	A+	A+/AA-	A+/AA-
Three-month Interbank rate (percent, end-year)	2.8	1.3	0.8	0.8	1.4	3.3	3.4
NPL ratio (local banks, percent) 2/	9.1	8.0	7.7	6.7	5.0	3.8	2.8
Capital adequacy ratio of local banks (percent)	19.6	18.2	16.9	17.9	16.2	15.8	15.4
Asset market indicators							
Stock prices (percent change, y/y)	-22.3	-15.7	-17.4	31.6	17.1	13.6	27.2
P/E ratio	20.9	16.8	21.2	24.9	16.6	15.4	19.4
Stock prices of the finance sector (percent change, y/y)	-23.2	-1.9	-13.5	23.8	9.8	5.9	29.3
Real estate prices (percent change, y/y) 3/							
Residential	13.0	-10.0	-6.5	-1.8	-0.4	2.9	7.1
Office space	25.0	-7.6	-18.1	-13.4	-5.4	3.4	10.2
External Indicators							
Current account balance (US$ billion)	10.7	12.0	12.1	22.3	21.5	28.6	36.3
(In percent of GDP)	11.6	14.0	13.7	24.2	20.1	24.5	27.5
Gross official reserves (US$ billion)	80.2	75.7	82.2	96.2	112.6	116.2	136.3
(In month of next year's imports of goods and services)	6.4	5.9	5.7	5.3	5.4	4.8	4.8
Real effective exchange rate (end of period, 2000=100)	102.2	98.1	97.5	92.7	92.4	93.2	95.3

Sources: Data provided by the Singapore authorities; and IMF, *Information Notice System.*

1/ Ratings of the three major local banks.
2/ In percent of global non-bank loans.
3/ The underlying price indices are computed based on the Laspeyres method and are 4-quarter moving averages.

Table 4. Singapore: Balance of Payments, 2000–08 1/

(In billions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
								Proj.	
Current account balance	10.7	12.0	12.1	22.3	21.5	28.6	36.3	39.4	41.5
Trade balance	14.0	17.3	18.8	29.6	32.9	36.7	44.7	49.8	51.9
Exports, f.o.b.	153.2	136.5	140.6	161.7	201.0	232.3	274.8	319.8	355.9
Imports, f.o.b.	-139.3	-119.3	-121.9	-132.1	-168.1	-195.6	-230.1	-270.0	-304.0
Services balance	-1.3	-4.1	-3.6	-3.6	-3.5	-2.3	-2.9	-4.4	-4.1
Exports	28.2	27.4	29.5	36.3	46.7	52.8	59.0	64.9	69.7
Imports	-29.5	-31.5	-33.1	-39.9	-50.2	-55.1	-61.9	-69.4	-73.9
Income balance	-0.7	0.0	-1.9	-2.5	-6.6	-4.6	-4.2	-4.4	-4.6
Receipts	15.6	13.9	13.6	16.6	20.8	25.7	30.3	33.9	36.8
Payments	-16.4	-13.9	-15.4	-19.1	-27.4	-30.3	-34.5	-38.3	-41.4
Transfer payments (net)	-1.2	-1.2	-1.1	-1.1	-1.2	-1.2	-1.4	-1.5	-1.7
Capital and financial account balance	-5.9	-11.9	-10.5	-17.6	-7.6	-19.2	-20.9	-23.1	-25.0
Capital account (net)	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3
Financial account (net)	-5.7	-11.8	-10.3	-17.5	-7.4	-19.0	-20.7	-22.8	-24.7
Direct investment	10.6	-4.3	4.9	9.0	11.8	10.0	15.6	16.9	17.7
Assets	-5.9	-20.0	-2.3	-2.7	-8.1	-5.0	-8.6	-9.8	-10.9
Liabilities	16.5	15.6	7.2	11.7	19.8	15.0	24.2	26.7	28.6
Portfolio investment	-14.6	-7.3	-13.1	-9.6	-7.0	-8.3	-14.2	-16.2	-17.6
Assets	-13.4	-11.1	-13.4	-14.8	-8.6	-13.8	-21.4	-24.4	-26.6
Liabilities	-1.2	3.8	0.2	5.2	1.6	5.5	7.2	8.2	9.0
Other investment	-1.7	-0.1	-2.0	-16.9	-12.1	-20.7	-22.1	-23.5	-24.8
Assets	-15.7	-1.6	-8.5	-21.2	-28.3	-28.4	-49.4	-52.6	-55.5
Liabilities	14.0	1.4	6.5	4.3	16.2	7.7	27.3	29.1	30.7
Net errors and omissions	2.0	-1.0	-0.4	2.1	-1.8	2.8	1.6	0.0	0.0
Overall balance	6.9	-0.9	1.3	6.8	12.1	12.3	17.0	16.4	16.5
Memorandum items:									
Current account as percent of GDP	11.6	14.0	13.7	24.2	20.1	24.5	27.5	26.9	26.2
Trade balance as percent of GDP	15.1	20.2	21.3	32.0	30.6	31.5	33.8	33.9	32.8
Net international investment postion									
(In billions of U.S. dollars)	...	60.9	81.6	93.9	102.6	104.5	...	...	...
(In percent of GDP)	...	71.2	92.7	101.7	95.5	89.6	...	...	...
MAS forward position (in billions of US$)	3.0	-0.3	-0.5	5.4	13.9	21.3	58.8	...	...
Net capital and financial flows 2/	...	-16.3	-11.0	-9.7	-0.9	-9.0	18.2	...	...

Sources: Monetary Authority of Singapore, Economic Survey of Singapore; and Fund staff estimates and projections.

1/ Data for the current account balance, the capital and financial account balance, and net errors and omissions are converted to U.S. dollars from the official presentation in Singapore dollars using the period-average exchange rate.

2/ Including net errors and omissions and excluding capital flows associated with changes in the MAS' forward position.

Table 5. Singapore: Summary of Government Operations, 2002/03–2007/08 1/
(In percent of GDP)

	2002/03	2003/04	2004/05	2005/06	2006/07		2007/08	
					Budget	Prel.	Budget	Proj.
Total revenue	23.0	20.5	20.6	21.7	19.1	21.3	19.0	21.1
Current revenue	21.2	19.0	19.0	18.4	17.1	18.0	17.6	18.4
Tax revenue	13.6	13.0	13.0	12.9	12.4	13.0	13.2	13.4
Investment income 2/	5.2	3.7	4.0	4.2	3.6	4.0	3.4	4.0
Other nontax revenue	2.5	2.3	2.0	1.2	1.2	1.0	1.0	1.0
Capital revenue 3/	1.7	1.5	1.6	3.3	1.9	3.3	1.4	2.8
Total expenditure	18.7	14.2	14.6	13.4	16.0	15.6	16.0	16.0
Current expenditure	13.6	12.9	12.2	11.6	13.7	13.7	12.9	12.9
Operating expenditure	12.2	12.1	11.1	10.8	11.5	11.4	11.3	11.3
Debt servicing	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.0
Agency fees on land sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment expenses	0.3	0.3	0.4	0.5	0.6	0.7	0.7	0.7
Transfer payments	0.8	0.4	0.5	0.3	1.5	1.5	0.8	0.8
Development expenditure and net lending	4.7	1.3	2.1	1.6	2.2	1.7	3.0	3.0
Development expenditure 4/	5.5	5.5	4.9	3.8	3.5	3.2	3.8	3.8
Net lending	-0.7	-4.2	-2.9	-2.2	-1.3	-1.5	-0.8	-0.8
Fund transfers 5/	0.4	0.0	0.4	0.1	0.2	0.2	0.1	0.1
Overall balance	4.2	6.3	6.0	8.4	3.0	5.7	3.0	5.2
Primary balance 6/	-2.7	-3.0	-2.0	-1.2	-3.5	-2.8	-2.4	-2.3
Memorandum items:								
Budget balance (the government's definition)	0.1	-1.1	-0.1	0.7	-1.3	-0.6	-0.3	-0.1
Government saving	7.3	6.0	6.5	6.6	3.3	4.1	4.6	5.4
Structural primary balance 7/	-2.4	-2.5	-2.0	-1.4	-3.8	-3.0	-2.7	-2.5
Fiscal impulse 8/	-0.8	0.2	-0.5	-0.6	2.4	1.6	-0.3	-0.5
Gross government domestic debt 9/	99.4	105.2	102.8	103.0	98.3	98.3	…	…

Sources: Data provided by the Singapore authorities; and Fund staff estimates and projections.

1/ Fiscal year runs from April 1 through March 31.
2/ Includes investment income from government assets (interest rates and dividends), including interest earnings on development loans.
3/ Sale of government property.
4/ Includes land reclamation expenditure.
5/ Includes transfers to the Endowment Funds: Edusave, Medical, Lifelong Learning, and ElderCare.
6/ Overall balance excluding investment income, capital revenue, debt service, net lending, and fund transfers.
7/ Primary balance adjusted for cyclical impact on revenues associated with deviation between actual and potential economic output.
8/ Change in the structural primary balance.
9/ Data for end of calendar year. The table reports gross debt and does not reflect large net asset position of the government. Gross debt is issued to the Central Provident Fund (CPF) and as part of the Singapore Government Securities (SGS) program.

Table 6. Singapore: Medium-Term Scenario, 2004–12

	2004	2005	2006	2007	2008	2009	2010	2011	2012
						Proj.			
Real growth (percent change)									
GDP	8.8	6.6	7.9	6.0	5.8	5.5	5.5	5.5	5.5
Total domestic demand	11.2	4.0	6.6	6.2	5.3	5.4	5.4	5.5	5.6
Consumption	4.5	3.8	4.2	4.0	4.2	4.5	4.8	5.0	5.4
Private	5.6	3.1	2.5	3.1	3.8	4.1	4.5	4.8	5.3
Public	0.0	6.8	11.2	7.4	5.6	5.8	5.8	5.8	5.8
Gross capital formation	34.9	4.6	13.1	11.8	7.8	7.5	6.7	6.5	5.8
Private	57.0	6.5	19.3	11.1	7.6	7.9	6.8	6.5	5.6
Public	-11.1	-2.4	-11.8	15.8	9.1	5.7	6.5	6.6	6.7
Net exports /1	1.3	4.0	3.1	1.6	2.1	1.6	1.7	1.6	1.6
Saving and investment (percent of GDP)									
Gross national savings	39.7	43.5	46.3	46.8	46.9	46.5	46.0	45.5	44.8
Gross capital formation	19.6	19.0	18.8	20.0	20.7	21.4	22.0	22.5	22.8
Inflation and unemployment (period average, percent)									
CPI inflation	1.7	0.5	1.0	1.5	1.5	1.3	1.3	1.3	1.3
Unemployment rate	3.4	3.1	2.7	2.6	2.6	2.6	2.6	2.6	2.6
Central government (percent of GDP) 2/									
Revenue	20.6	21.5	21.4	21.2	21.2	21.3	21.5	21.7	21.9
Expenditure	14.5	13.7	15.0	15.9	16.0	16.1	16.3	16.6	16.9
Overall balance	6.1	7.8	6.4	5.3	5.2	5.3	5.2	5.1	5.1
Primary balance	-2.2	-1.4	-2.4	-2.4	-2.4	-2.5	-2.8	-3.1	-3.4
Merchandise trade in US$ (percent change)									
Exports	24.3	15.6	18.3	16.4	11.3	9.7	9.3	8.6	7.7
Imports	27.3	16.3	17.6	17.3	12.6	11.0	10.4	9.6	8.6
Terms of trade	-1.0	-2.1	-0.9	-0.6	-0.4	-0.4	-0.4	-0.4	-0.4
Balance of payments (percent of GDP)									
Current account balance	20.1	24.5	27.5	26.9	26.2	25.1	24.0	23.0	21.9
Balance on goods and services	27.3	29.5	31.7	30.9	30.2	29.0	27.9	26.9	25.8
Balance on income and transfers	-7.3	-5.0	-4.2	-4.1	-4.0	-3.9	-3.9	-3.9	-3.9
Gross official reserves (US$ billions)	112.6	116.2	136.3	152.6	169.2	179.1	189.1	195.8	202.6
(In months of imports) 3/	(5.4)	(4.8)	(4.8)	(4.8)	(4.9)	(4.7)	(4.6)	(4.4)	(4.4)

Sources: Data provided by the Singapore authorities; and Fund staff estimates and projections.

1/ Contribution to GDP growth.
2/ On a calendar year basis.
3/ In months of next year's imports of goods and services.

Table 7. Singapore: Financial Soundness Indicators: Local Banking Sector, 2000–06

	2000	2001	2002	2003	2004	2005	2006 Mar.	2006 Jun.	2006 Sep.	2006 Dec.
	(in percent)									
Capital adequacy ratio										
Regulatory capital to risk-weighted assets	19.6	18.2	16.9	17.9	16.2	15.8	15.4	15.9	15.4	15.4
Regulatory tier I capital to risk-weighted assets	16.4	11.6	11.3	12.0	11.5	11.4	11.2	11.3	11.0	11.2
Shareholders' equity to assets	10.0	10.0	11.0	10.7	9.6	9.6	9.6	9.5	9.4	9.6
Asset quality										
NPLs to non-bank loans	...	8.0	7.7	6.7	5.0	3.8	3.8	3.4	3.1	2.8
Total provisions to NPLs	...	60.1	61.2	64.9	76.0	80.9	81.3	83.8	86.9	89.5
Specific provisions to NPLs	29.5	32.6	33.8	36.2	41.6	41.1	40.5	40.1	40.1	41.3
Loan concentrations (in percent of total loans)										
Bank loans	35.4	30.0	29.3	24.0	24.2	24.1	25.6	23.5	25.2	34.6
Non-bank loans	64.6	70.0	70.7	76.0	75.8	75.9	74.4	76.5	74.8	65.4
Of which :										
Manufacturing loans	9.1	8.2	8.4	6.5	7.3	7.6	7.8	8.3	8.4	7.1
Building and construction loans	16.3	15.5	14.1	9.4	8.4	8.8	9.0	9.2	9.2	8.1
Housing loans	22.3	26.0	27.5	22.2	22.5	21.7	21.4	21.1	20.4	17.9
Loans to professionals and private individuals	13.8	13.5	14.1	10.4	10.1	9.4	9.1	8.9	8.5	7.4
Loans to nonbank financial institutions	14.7	13.1	13.4	10.2	9.8	10.0	9.6	10.4	10.3	8.6
Profitability										
After-tax return on assets	1.3	1.0	0.8	1.1	1.3	1.2	1.2	1.5	1.3	1.4
After-tax return on equity	12.6	9.7	7.6	10.1	11.8	11.1	11.8	14.5	13.6	13.7
Net interest margin	2.2	2.0	2.1	2.0	1.9	2.0	2.1	2.1	2.1	2.1
Non-interest income to total income	29.3	36.4	32.4	37.5	37.6	39.0	37.1	46.5	43.0	42.6
Liquidity										
Liquid DBU assets to total DBU assets	11.6	11.7	12.6	13.1	11.3	10.5	10.2	11.6	11.2	11.1
Liquid DBU assets to total DBU liabilities	20.5	19.9	19.3	20.3	18.4	16.4	16.4	18.2	17.6	17.4

Source: Monetary Authority of Singapore.

Table 8. Singapore: FSSA Recommendations

Key Policy Recommendations	Status
Macro-prudential monitoring: Further strengthen MAS' monitoring of: (i) risks arising from new financial products, (ii) cross-border financial flows (including flows in the Asian Dollar Market and particularly transactions between branches and head offices) to detect potential strains in the offshore banking market, (iii) household and corporate sector balance sheets to assess the resilience of the private sector, and (iv) market and counter-party risks of derivatives activities by financial institutions.	**Ongoing process**: MAS publishes the Financial Stability Review, which assesses the overall stability of the Singapore financial system.
Regulatory systems and supervisory practices: Further enhance MAS' legal and regulatory framework through the completion of the review of the regulatory minimum capital requirements for local banks and the implementation of its new risk-based capital framework for the insurance industry, planned for introduction in late 2004, and complete the ongoing review of the MAS Act.	**Completed**: Review of capital requirements completed. The capital computation rules, including the minimum capital adequacy ratio requirements for reporting banks, are now set out in MAS Notice 637. The new risk-based capital framework for the insurance industry was completed and implemented on August 23, 2004. Insurers to comply with the framework from January 1, 2005.
The MAS' accountability, independence, and oversight capabilities: Reduce the potential for conflicts of interest arising from the multiple official responsibilities of the chairman of MAS.	**In progress**: With the appointment of Senior Minister Goh Chok Tong as Chairman of MAS on August 20, 2004, the Chairman of MAS is no longer Minister of Finance. The Chairman of MAS still holds multiple responsibilities as senior minister and within MAS. However, MAS has formalized the terms of reference for board level committees so as to delineate and document chairman's multiple roles and responsibilities, and prevent any ambiguity or potential conflicts of interest. MAS in 2007 enacted the MAS Act amendments on (i) specification of MAS objectives and functions and (ii) MAS accountability framework. The amended act specifies objectives as: maintaining price stability conducive to sustainable economic growth; fostering a sound and reputable financial centre; ensuring the prudent and efficient management of Singapore's official foreign reserves; and growing Singapore as an internationally competitive financial centre.
Monetary and financial policy transparency: Provide more information on how supervisory actions are taken in line with the risk-based supervisory framework and disclose more information to improve the public's ability to assess supervisory performance.	**Ongoing process**: MAS has enhanced disclosure on its supervision of financial institutions in its annual report and through the publication of monographs such as that on "Objectives and Principles of Financial Supervision in Singapore," and "MAS' Roles and Responsibilities in Relation to the Securities Clearing and Settlement Systems in Singapore."
Anti-money laundering and combating the financing of terrorism: Improve the effectiveness of cross-border mutual legal assistance.	**In progress**: MAS has reviewed its notices on prevention of money laundering across various sectors in order to ensure compliance with the revised 40 FATF recommendations. The roll-out of the notices took place during 2006.
Capital market development: Review and address factors that may constrain the further development of the corporate bond market, including the limited use of credit ratings, guaranteed interest rates of the Central Provident Fund (CPF), and the CPF investment policy.	**Under review**: A working group under the purview of the Asian Bond Market Initiative (ABMI) is studying the usage and comparability of credit ratings. Singapore is a member of this working group.

INTERNATIONAL MONETARY FUND

SINGAPORE

Staff Report for the 2007 Article IV Consultation

Supplementary Information

Prepared by the Asian and Pacific Department
(In consultation with PDR)

Approved by David Burton and Anthony Boote

August 24, 2007

I. INTRODUCTION

1. In line with the 2007 Decision on Bilateral Surveillance, this supplement to the staff report (6/15/07) elaborates on the staff's assessment of Singapore's exchange rate level and presents the authorities' views. This assessment does not change the overall analysis and policy recommendations contained in the staff report. Paragraphs 5–8 below should be considered part of the staff appraisal.

II. RECENT DEVELOPMENTS

2. Economic activity remains strong despite a softening in external demand. Real GDP grew by 8.6 percent (y/y) in the second quarter, bringing growth during the first half of 2007 to 7.6 percent (y/y). On the supply side, the strong expansion was led by the services, construction, and selected industrial sectors (pharmaceuticals and transport engineering). On the demand side, domestic demand strengthened driven by private consumption and investment, while net exports were broadly unchanged during the first half of 2007. In light of strong momentum, real GDP growth in 2007 is now projected to reach around 7½ percent. Inflation remains subdued, with consumer price inflation of 1 percent (y/y).

3. The current account surplus continued to rise in U.S. dollar terms, despite a slowdown in export growth, partly due to the shifting of the income balance into positive territory.

4. Asset markets have generally remained fairly orderly, notwithstanding recent disturbances in world markets. Similar to other markets in the region, equity prices have risen further over the past few months, with the Singapore's Straits Times Index up by around 34 percent (y/y) despite a drop of around 10 percent in recent weeks. Currently available

information indicates limited exposure of Singapore banks to the U.S. subprime market. The property market continues to strengthen; private residential prices rose by 21 percent (y/y) in the second quarter of 2007, but remain well below pre-Asian crisis levels. In response to rising demand, the authorities have recently increased land sales and raised the rate charged on land development.

III. The 2007 Decision on Bilateral Surveillance

5. As explained in the staff report, the authorities intervened heavily in the foreign exchange market in response to large capital inflows in 2006. However, in previous years and subsequently in 2007, they have not engaged in protracted large-scale intervention in one direction. More recently, as Singapore dollar interest rates declined, capital inflows appear to have eased and the nominal effective exchange rate has depreciated and moved toward the center of the staff-estimated policy band. These developments, together with a significant decline (US$ 7.5 billion) in the sum of gross official reserves and the MAS' forward position since March 2007, suggest that the authorities have refrained from sterilized intervention.

6. As noted in the staff report, Singapore is a small open economy with few natural resources and thus is highly vulnerable to external shocks. The large build-up in official and quasi-official foreign assets reflects Singapore's prudent policy to safeguard against adverse shocks, rapid population aging, and geopolitical uncertainties.

7. Although Singapore has run large current account surpluses in recent years, they can be explained mainly by structural (including fiscal surpluses, income relative to that of trading partners, and the working-age dependency ratio) and cyclical factors as indicated in Box 2 of the staff report. Furthermore, the recent increase in the current account surplus reflects changes in private saving and investment. Over the medium term, even in the absence of a real effective exchange rate appreciation, the ratio of the current account surplus to GDP is projected to narrow by about 5 percentage points to 22 percent in 2012 as the recovery in private investment (especially in the construction sector) continues and corporate savings decline due to more modest profit growth. Over the longer term, the current account surplus is expected to narrow further as structural reforms continue to strengthen Singapore's resilience to shocks, reducing the need for maintaining large fiscal reserves, and as the savings rate declines with population aging.

8. As stated in the staff report, the monetary policy framework, which targets the nominal effective exchange rate, has served the Singapore economy well as evidenced by sustained low inflation and high growth. Net foreign assets relative to GDP will continue to grow strongly, although the rate of increase is expected to diminish as the current account surplus begins to narrow over time. Nonetheless, Singapore's external position and its prospects suggest a misalignment at present in the real effective value of the currency relative to its long-term value and that the Singapore dollar is likely to appreciate as part of the

adjustment process. Estimates prepared by the mission team based on models estimated specifically for Singapore suggest that the deviation in Singapore's real exchange rate from its medium-term equilibrium level ranges from an overvaluation of 7 percent to an undervaluation of 16 percent. However, estimates of the equilibrium exchange rate vary widely. For example, those based on the CGER methodology (which also relies on models estimated from panel data) suggest an undervaluation of 15–20 percent from a medium-term perspective.

9. In responding to the above, and consistent with what is reported in the staff report, the authorities agreed with the staff assessment regarding structural factors contributing to the large current account surplus, which is expected to narrow over time. However, the authorities disagreed with the staff's assessment that Singapore's exchange rate is "misaligned", stressing the lack of evidence of exchange rate misalignment. They cited the sustained low inflation against the high degree of wage and price flexibility, and the considerable statistical uncertainty associated with estimation of the equilibrium exchange rate.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 08/34
FOR IMMEDIATE RELEASE
March 17, 2008

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2007 Article IV Consultation with Singapore

On September 5, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Singapore.[1]

Background

Singapore's economy has become increasingly resilient to changing global conditions, supported by pragmatic macroeconomic management and ongoing structural reform. Since the last Article IV consultation, economic performance has been impressive, with growth remaining strong and inflation subdued. Real GDP growth reached 7.9 percent in 2006, driven by solid external demand and a pick-up in domestic spending, especially investment. Growth registered 7.6 percent (year-on-year) during the first half of 2007, driven by a further strengthening in domestic demand, while external demand slowed. Growth is projected at around 7½ percent for 2007 as a whole.

Asset markets have been generally orderly, and risks appear contained despite the recent turbulence in global financial markets. Similar to elsewhere in the region, the equity market has performed strongly in 2007, although prices dropped recently in response to the rise in global credit risk concerns. Property market prices have continued to strengthen with private residential prices rising by 21 percent (year-on-year) in the second quarter of 2007, but remain well below pre-Asian crisis levels.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The current account surplus widened further in 2006, reflecting strong export growth. At the same time, capital inflows surged, reflecting: (i) favorable growth prospects for Singapore and the ongoing appreciation of the Singapore dollar, which have increased the attractiveness of Singapore assets; (ii) increasing use of the Singapore dollar as a proxy for the strengthening major regional currencies; and (iii) greater foreign investor participation in the high-end property market. The current account surplus continued to rise in the first half of 2007, largely driven by the shifting of the income balance into positive territory.

The monetary policy stance has been kept on a tightening bias since April 2004, targeting a modest and gradual appreciation of the nominal effective exchange rate (NEER). The Singapore dollar (as calculated by the IMF) has appreciated by about 2½ percent in nominal effective terms since the beginning of 2006.

Fiscal performance in FY 2006 (ending March 2007) was better than budgeted, owing to higher receipts from government property sales and tax revenue gains associated with strong growth, as well as slower-than-planned development spending and net lending. The fiscal impulse was positive, mostly reflecting large one-off income transfers.

Executive Board Assessment

Executive Directors commended the authorities' continued prudent macroeconomic management and proactive approach to structural reform, which have underpinned impressive growth and enhanced the economy's resilience to shocks. Inflation remains low, overall wage growth is contained, and asset markets are generally orderly. Directors considered the near-term outlook to be positive, and noted that a further deepening of structural reform will support sustained robust growth over the medium term.

Directors observed that large net fiscal reserves, which are the result of past prudence, provide scope for fiscal expansion aimed at addressing challenges related to globalization and aging. They commended Singapore's proactive steps and policies to further move the economy up the value-added chain and, looking forward, suggested that consideration be given to streamlining tax incentives and accelerating divestment of nonstrategic government-linked companies. Directors welcomed recent efforts to support low-income workers and plans to reform the Central Provident Fund (CPF), and also welcomed the implementation of the Work Income Supplement scheme as a positive step. They encouraged the authorities, nonetheless, to consider a further expansion of the social safety net, including the possible introduction of an unemployment insurance scheme while preserving work incentives. Directors also recommended additional efforts to enhance financial security in retirement, and suggested that options allowing more but simple investment alternatives for CPF savings could be explored.

Directors commended the Monetary Authority of Singapore's (MAS) vigilance as the financial sector further integrates into the global system and praised their implementation of the Financial Sector Assessment Program (FSAP) recommendations. While noting that local banks' direct exposures to the rapidly growing asset management industry appear limited, they stressed the importance of strengthening cross-border risk management in financial institutions and monitoring.

Directors noted that the exchange-rate-based monetary policy framework has served Singapore's small, open economy well. As inflation expectations are well anchored, they agreed that the present monetary policy stance of targeting a gradual nominal effective exchange rate appreciation remains appropriate. Many Directors viewed MAS sterilization operations as a legitimate domestic policy instrument for containing inflation, while some noted that the authorities should avoid sustained sterilized foreign exchange intervention. Some Directors emphasized that greater transparency in exchange rate management would support the maintenance of price stability.

Most Directors considered that the large current account surplus can be explained mainly by structural and cyclical factors. They agreed that the surplus will narrow as cyclical factors dissipate and structural factors gradually shift in the direction of reducing surpluses. Rapid acceleration of aging will reduce national savings and the economy's increased resilience to shocks will reduce the need for maintaining large fiscal reserves. Directors noted the staff's assessment that, as part of this adjustment process, the Singapore dollar is expected to appreciate in real effective terms, and that it appears currently undervalued relative to its long-term equilibrium level. Most observed, however, that the range of estimates of the deviation of the real exchange rate from its equilibrium level is wide and provides for an inconclusive assessment. While the view was held that large current account surpluses and large-scale sterilized intervention could suggest that the exchange rate may be undervalued, a number of other Directors noted that the absence of sustained price and wage pressures over longer time periods is an indication that the exchange rate is in line with fundamentals.

Directors welcomed the authorities' agreement to undertake a fiscal Report on the Observance of Standards and Codes (ROSC) in 2008, and urged the authorities to publish consolidated public sector accounts, including more information on the financial position of the Government of Singapore Investment Corporation.

Singapore: Selected Economic and Financial Indicators, 2000–06 1/

	2000	2001	2002	2003	2004	2005	2006
Growth (percentage change)							
Real GDP	10.1	-2.4	4.2	3.1	8.8	6.6	7.9
Consumption	15.6	3.6	5.3	1.3	4.5	3.8	4.2
Gross capital formation	24.1	-22.2	-5.0	-32.4	34.9	4.6	13.1
Net exports	-23.4	21.5	20.1	54.7	4.6	14.2	10.4
Inflation and unemployment (period average, percent)							
CPI inflation	1.3	1.0	-0.4	0.5	1.7	0.5	1.0
Unemployment rate	2.7	2.7	3.6	4.0	3.4	3.1	2.7
Central government budget (percent of GDP) 2/							
Revenue	29.2	27.4	23.0	20.5	20.6	21.7	21.3
Expenditure	20.4	23.9	18.7	14.2	14.6	13.4	15.6
Overall balance	8.7	3.5	4.2	6.3	6.0	8.4	5.7
Primary operating balance	1.1	-3.5	-2.7	-3.0	-2.0	-1.2	-2.8
Money and credit (end of period, percentage change)							
Broad money (M3)	-1.8	4.0	-0.8	5.9	6.1	6.4	19.1
Lending to nonbanking sector	4.7	5.8	-1.0	6.3	4.5	2.2	6.3
Interest rate (three-month interbank, in percent)	2.8	1.3	0.8	0.8	1.4	3.3	3.4
Balance of payments (US$ billion)							
Current account balance	10.7	12.0	12.1	22.3	21.5	28.6	36.3
(percent of GDP)	(11.6)	(14.0)	(13.7)	(24.2)	(20.1)	(24.5)	(27.5)
Trade balance	14.0	17.3	18.8	29.6	32.9	36.7	44.7
Overall balance	6.9	-0.9	1.3	6.8	12.1	12.3	17.0
International reserves and international investment position							
Gross official reserves (US$ billion)	80.2	75.7	82.2	96.2	112.6	116.2	136.3
MAS forward position (US$ billion)	3.0	-0.3	-0.5	5.4	13.9	21.3	58.8
Net international investment position (US$ billion)	...	60.9	81.6	93.9	102.6	104.5	...
Exchange rate (end of period)							
S$/US$	1.732	1.851	1.737	1.701	1.634	1.664	1.534
Nominal effective exchange rate 3/	102.4	100.1	101.0	97.0	97.9	100.3	104.1
Real effective exchange rate 3/	102.2	98.1	97.5	92.7	92.4	93.2	95.3

Sources: Data provided by the Singapore authorities; and IMF staff estimates and projections.
1/ Data available as per August 2007
2/ Fiscal year beginning April 1.
3/ IMF Information Notice System monthly index (2000 full-year average = 100).