INTERNATIONAL MONETARY FUND

IMF Country Report No. 14/312

SINGAPORE

October 2014

2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SINGAPORE

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 2014 Article IV consultation with Singapore, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 22, 2014, following discussions that ended on May 12, 2014, 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 September 8, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its September 22, 2014 consideration of the staff report that concluded the Article IV consultation with Singapore.
- A **Statement by the Executive Director** for Singapore.

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

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International Monetary Fund
Washington, D.C.

SINGAPORE

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

September 8, 2014

KEY ISSUES

Outlook and risks. Following an upturn in 2013, growth is expected to moderate somewhat during 2014–2015, narrowing the positive output gap. The impact of recovering demand in advanced economies is likely to be offset by the ongoing real appreciation of the currency and the gradual tightening in global monetary conditions. Transitional costs related to the economic restructuring (see next paragraph) are also expected to dampen growth in the near term. As a very open economy, Singapore is particularly exposed to external risks related to a protracted period of slower growth in advanced and emerging economies, a continued buildup and eventual unwinding of excess capacity in China, an abrupt surge in financial market volatility as investors reassess underlying risks, and geopolitical risks.

Medium- and long-term challenges. The authorities focus squarely on the implementation of their medium-term economic restructuring plan. With the aim to boost the productivity of labor and land, the plan could set the stage for a new era of sustainable growth. However, productivity improvements may take some time to materialize. For example, the slowing inflow of foreign workers, a key part of the reform agenda, could moderate potential growth and lower competitiveness in light of the tight labor market. The social safety net is being strengthened in the context of a rapidly aging population.

Policy assessment. Singapore continues to implement a strong set of macroeconomic and financial sector policies. The moderately tight monetary policy remains appropriate but the fiscal stance is looser than would be warranted by cyclical considerations. The 2014 budget focuses on noncyclical considerations, including support for companies' efforts to raise productivity and additional social spending on healthcare for the elderly. The authorities' plan to raise social and infrastructure spending by 1–2 percent of GDP over the medium term should help reduce the large current account surplus. Financial regulation and supervision is among the best globally and Singapore is a frontrunner in implementing global regulatory reforms. Macroprudential policies have contributed to cool the housing and car permit markets and good progress has been made in implementing key short-term FSAP recommendations.

Approved By
Jerry Schiff and Vivek Arora

Discussions were held in Singapore during April 30-May 12, 2014. The staff team comprised Mr. Sumi (Head), Mr. Almekinders, Ms. Arbatli (all APD), Ms. Baba (MCM), and Mr. Heenan (Resident Representative). Messrs. Santoso and Koh (both OED) joined the mission. The team was assisted by Mr. Chew, Ms. Munmun, and Ms. Lim in the local office. Ms. Jotikasthira, Mr. Flinner, and Ms. Lee (all APD) assisted in the preparation of this report.

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RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Introduction

1. **Singapore's macroeconomic performance has been impressive**. GDP tripled from less than US$100 billion in 2000 to almost US$300 billion in 2013. Strong growth and low unemployment and inflation have been achieved along with some strong social indicators (e.g. high life expectancy and home ownership). At the same time, however, compared to high-income peers, the labor share of income is low and inequality and the cost of living are high, adversely affecting some population groups. Key supporting factors for Singapore's strong growth performance have been a stable macroeconomic environment, continuous reforms to upgrade transportation infrastructure and the broader business climate, and a liberal regime for the inflow of foreign workers. The economy remains well-diversified. Known as a financial center and trading hub, Singapore retains a competitive manufacturing sector which contributes more than one sixth of GDP.

2. **The government is implementing a medium-term reform agenda, announced in 2010, to restructure the economy**. The strong expansion of Singapore's economy since the turn of the century has been associated with a 34 percent rise in its population, mostly driven by inflows of foreign workers. Emphasis is now being put on measures to boost the productivity of labor and land while reducing reliance on foreign workers. The social safety net is being strengthened and fiscal measures are being put in place to mitigate wage disparities. The restructuring plans are being executed against the backdrop of a tight labor market and a rapidly aging population.

3. **Macroeconomic and financial policies have been broadly in line with past Fund advice**. During the last Article IV consultation, staff recommended a somewhat restrictive overall macroeconomic stance and vigilance against risks in the financial and housing sectors. While welcoming the ongoing efforts to restructure the domestic economy, staff also called for further efforts to promote external rebalancing and address demographic challenges. The authorities have maintained their moderately tight monetary policy. The 2014 budget focused on supporting the business community's efforts to increase productivity and providing additional social spending on healthcare for the elderly and needy. Moreover, amid ongoing active use of macroprudential policies, which contributed to a welcome slowdown of mortgage loan growth, good progress has been made in implementing key short-term FSAP recommendations.

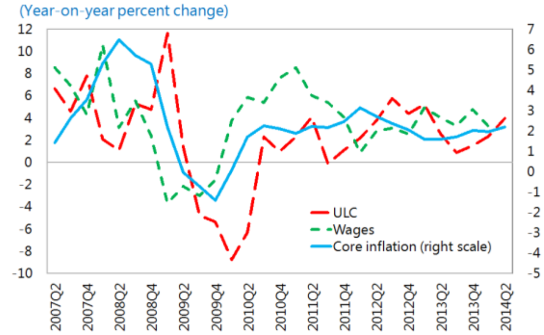
B. Recent Developments

4. **Singapore's economy continues to perform well**. Growth recovered to 3.9 percent in 2013, from 2.5 percent in 2012 (Figure 1). Net exports accounted for almost half of the growth, while private and public consumption contributed the other half. Following two years of strong growth, private investment retreated somewhat. The acceleration of growth, alongside the policy-induced slowing inflow of foreign workers, pushed the unemployment rate to a multiyear low. Growth decelerated in the first two quarters of 2014 (with seasonally-adjusted annualized

growth rates of 1.8 and 0.1 percent, respectively), underscoring Singapore's strong correlation with advanced economies' mixed performance, and possibly reflecting transitional effects on consumption and investment related to the restructuring of the economy. A rising trade surplus pushed up the surplus on the current account to 18.3 percent of GDP in 2013, from 17.5 percent of GDP in 2012 (Appendix II).

5. Inflation has decelerated and core inflation remains contained. A series of targeted, escalating macroprudential policies (MaPs) contributed to cool the housing and car permit markets (see Box 3 of the Staff Report for the 2013 Article IV Consultation). This helped lower headline inflation to 2.4 percent in 2013, from 4.6 percent in 2012. However, core inflation, while still contained at 2.2 percent in July (y/y), has edged up from last year reflecting accumulating wage pressures, despite some offset from relatively benign import prices.

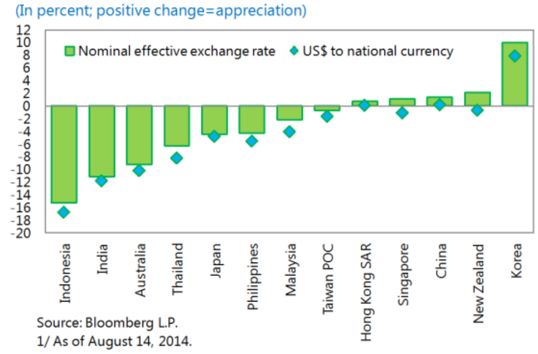
Core Inflation, ULC, and Wages
(Year-on-year percent change)



Source: CEIC Data Company Ltd.; and IMF staff calculations.

6. The impact of the United States' ongoing exit from unconventional monetary policy (UMP) has been limited. Singapore's financial markets have so far absorbed bouts of volatility associated with expectations of U.S. tapering and the spike in global risk aversion early this year with limited impact. This partly reflects Singapore's relatively small external portfolio liabilities. Since the initial "tapering announcement" in May 2013, the nominal U.S. dollar/Singapore dollar exchange rate has moved in a narrow range, displaying less volatility than the other ASEAN-5 currencies. While the Straits Times stock market index went down by 14 percent, the losses are now down to 3 percent. At 2.3 percent, the ten-year government bond yield is now about 70 basis points higher (Figure 2).

Asia: Change in Exchange Rates Since End-April, 2013 1/
(In percent; positive change=appreciation)



Source: Bloomberg L.P.
1/ As of August 14, 2014.

7. The credit cycle continues to mature. Private credit growth to residents is decelerating following four years of strong growth (Table 3, Figure 3). Housing loan growth moderated aided by the June 2013 launch of the new total debt servicing ratio framework (TDSR) and the expectation of higher interest rates in the medium term. Property prices have leveled off and housing transactions moderated. The nonperforming loan ratio of domestic banks remained stable at about 1 percent (Table 7).

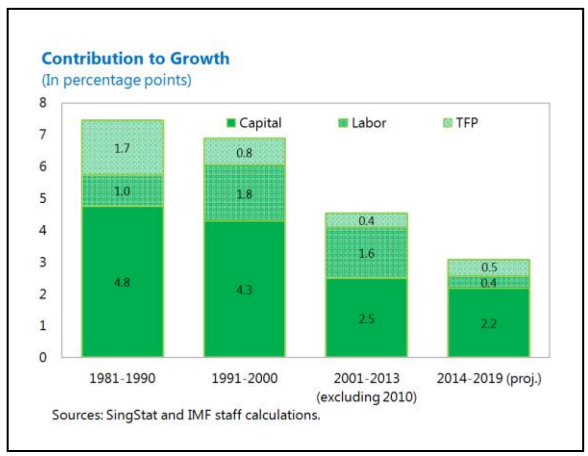
C. Outlook and Risks

8. The near-term outlook for growth is favorable but inflation will likely drift up.

- **Growth is expected to moderate to around 3 percent during 2014–2015, narrowing the positive output gap**. Growth impetus from recovering demand in advanced economies is likely to be offset by the ongoing real appreciation and the gradual tightening in global monetary conditions. Meanwhile, the planned further slowing inflow of foreign workers, as part of the ongoing economic restructuring, will moderate potential growth and lower competitiveness.

- **The positive output gap and labor market tightness are putting upward pressure on wages and prices**, resulting in the projected temporary pickup in core inflation to around 2.4 percent during 2014−15. The higher wages and possible shortage of labor, driven by slower additional inflow of foreign workers as part of the ongoing economic restructuring, would help incentivize firms to invest in labor-saving technologies and therefore raise labor productivity; and facilitate a reallocation of economic activity toward less labor intensive and higher value-added sectors.

9. The medium-term outlook will be shaped by the success of the ongoing economic restructuring program and policy responses to the rapid pace of population aging. Potential GDP growth is projected to slow in the next few years on slower labor force expansion, and then recover gradually as faster labor productivity growth takes hold through capital deepening and total factor productivity growth, reaching about 3¼ percent in the medium term—well below the pace during 2000−08. Tighter labor supply due to slowing inflow of foreign workers in the near term and population aging in the medium term will boost wages. With productivity gains unlikely to fully compensate, core inflation will increase temporarily and—together with continued nominal appreciation—push up the REER, dampening export growth. Supported by a 1−2 percentage points of GDP increase in social and infrastructure spending, the more appreciated REER is expected to rebalance growth toward domestic demand. Accordingly, the current account surplus is projected to narrow gradually by about 3¾ percent of GDP to around 14½ percent of GDP over the medium term.



10. The baseline projections are subject to a variety of risks. As a very open city-state, Singapore's economy is particularly exposed to external risks (Figure 6). In addition to risks related to external demand shocks, including owing to the continued buildup and eventual unwinding of excess capacity in China, it could also be affected by an abrupt surge in global financial market volatility as investors reassess underlying risks, and geopolitical risks. Singapore's strong macroeconomic fundamentals—a very strong external position, adequate level of foreign reserves, significant fiscal buffers and strong bank balance sheets—could help absorb shocks and facilitate a countercyclical policy response. On the domestic front, the wide-ranging structural reforms the government is implementing could set the stage for a new era of sustainable growth over the medium term (upside risk). However, achieving productivity improvements is unpredictable in terms of timing and magnitude. The resulting downside risk could be mitigated by carefully calibrating the pace of implementation of labor-market tightening measures while affirming the medium-term targets and objectives. Delays in implementing Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) standards may adversely affect reputation and the wealth management sector. Key risks, their transmission mechanisms, and recommended policy actions are summarized in the Risk Assessment Matrix (RAM, Appendix I).

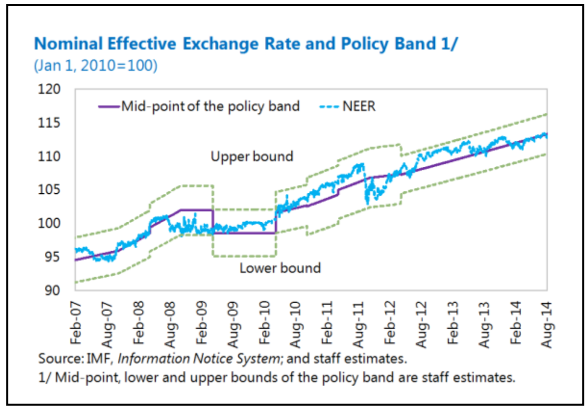
Authorities' Views

11. The authorities focus was squarely on the implementation of their medium-term economic restructuring plan. Labor productivity growth had generally been weak since 2010 though it had improved in recent quarters. While noting that the restructuring could entail transition costs that could hold back growth temporarily, the authorities remained firmly committed to the medium-term restructuring objectives and noted the fiscal incentives that are being provided to enterprises to adopt labor-saving technologies and to help them weather the transition. The authorities observed that a further pickup in G-3 demand could push core inflation beyond their comfort zone. In that case, they would consider recalibrating macroeconomic policies as part of the normal decision making processes. However, the authorities would be more guarded in reconsidering the implementation pace of the restructuring plans.

12. The authorities were confident that the economy would be able to withstand the impact of the key external risks highlighted above. As a very open economy, Singapore has been confronted with frequent external shocks. The authorities noted the potential indirect income multiplier effects from shocks to Singapore's trading partners. They noted that financial buffers are robust owing to the continuous efforts to strengthen the supervisory and regulatory frameworks. Balance sheets of the corporate and household sectors are strong. While a significant rise in interest rates could cause vulnerabilities among pockets of overextended households and therefore have social costs, this would have little systemic implications.

POLICY DISCUSSIONS

A. Monetary and Exchange Rate Policy



13. The Monetary Authority of Singapore (MAS) has kept its moderately tight monetary policy stance of gradual nominal effective exchange rate (NEER) appreciation unchanged since April 2012. While the specific parameters of the basket-band-crawl framework are not made public, staff estimates that the NEER band is appreciating at an annual rate of 2½ percent and has a width of about ±2 percent. The NEER is now estimated to be around the midpoint of the band. Staff observes that in the case of Singapore estimating the output gap and its impact on inflation has been made harder by the varying rates of inflow of foreign workers which have acted to buffer the output gap, both in upturns and in downturns, and limit its impact on wages and inflation. In light of this, and given that Singapore's very open economy is commonly subjected to a multitude of external shocks, the authorities' medium-term orientation to their price stabilization objective is appropriate: the exchange rate is allowed to move within the band without frequent adjustments to the parameters of the exchange rate based monetary policy.

14. MAS's current moderately contractionary monetary policy stance remains appropriate to contain demand pressures in the context of a positive output gap and improving external demand while facilitating relative price adjustment as the economy reduces its labor intensity. The gradual appreciation path will also help anchor inflation expectations. The authorities' track record with operating the exchange rate based monetary policy, both in good and in bad times, indicates that the policy framework is robust and flexible enough to deal effectively with crises as well as tapering-related volatility. However, a challenge may arise owing to the need to maintain a tight monetary policy stance and potential continued downward pressure on the exchange rate associated with the ongoing gradual normalization of monetary policy in the United States. Through uncovered interest parity, depreciation pressures could also compound the effect of higher U.S. interest rates on domestic interest rates, raising debt servicing costs of the household and corporate sectors and putting downward pressure on the housing market.

15. Singapore's external position is assessed to be substantially stronger than what is consistent with medium-term fundamentals and desirable policies but the current account surplus is projected to moderate over the medium term. In addition to the current account and the REER gaps, the external sector assessment is based on Singapore's foreign asset and liability position, capital and financial account flows and their trajectories as well as reserve adequacy considerations (Appendix II). Despite a significant narrowing of the current account balance and a

REER appreciation of 13 percent since 2010; at 18.3 percent of GDP in 2013, the current account appears to be 2–8 percent of GDP stronger, and the real effective exchange 4−16 percent weaker than what is consistent with medium-term fundamentals and desirable policies. The quantitative assessment takes into account the results from different standard models and their potential limitations and caveats[1]. Reflecting high levels of past current account balances, Singapore has a very large positive NIIP position and the composition of its external balance sheet does not pose a major source of risk. Singapore's NIIP position is expected to increase over time, based on declining but still sizable current account balances that are projected in the medium-term. The financial account deficit is mainly driven by official sector flows, reflecting the reinvestment abroad of income from large foreign assets and public sector savings, which offset sizable net positive FDI inflows. The financial account is expected to remain in deficit as long as income from net foreign assets is reinvested abroad. Finally, international reserves, at 93 percent of GDP, are assessed to be adequate for precautionary purposes. Going forward, staff projects the current account to moderate further, facilitated by increased public spending, including on social safety nets, a more even distribution of income across generations through transfers to the elderly, and the planned slower absorption of foreign workers. In the absence of such policy measures, higher-than-norm current account balances would persist in the medium to long term, reinforcing these past trends, and lead to further accumulation of net foreign assets.

Authorities' Views

16. The authorities were confident that the economy and financial markets would be resilient to an orderly UMP exit. The UMP exit follows a period of unprecedented monetary stimulus and could therefore give rise to bouts of volatility. The authorities noted that there have been earlier episodes of rising U.S. interest rates where Singapore was able to maintain a degree of monetary policy independence, aided by the strong underlying balance of payments position.

17. They raised concerns over the reclassification of their external position to be "substantially stronger" than what is consistent with medium-term fundamentals and desirable policies. While appreciating the need for consistency across countries the authorities were troubled by the inconsistent assessment for Singapore over time. They noted that the estimates of the current account gaps have changed from year to year. Furthermore, the change in Singapore's external position from "stronger", last year, to "substantially stronger" this year belies the fact that over a longer period of time, external balances are correcting toward the equilibrium. For example, the current account surplus has trended down from 24 percent of GDP in 2010 while the REER has appreciated significantly since 2010. The increase in the current account surplus in 2013 reflected the timing of lumpy transportation equipment imports. This was a one-off that would correct itself. Demographic developments, increased healthcare spending, and

[1] Singapore is a very open economy and an international financial center that has a large positive net international investment position (NIIP), very high per capita income and is aging at a very high speed. These nonstandard factors make Singapore an outlier; and the quantitative assessments of its current account and REER difficult and subject to a wide range of uncertainty.

investments in labor-saving technologies would narrow the current account surplus over the medium term.

B. Financial Sector and Macroprudential Policies

18. The 2013 FSAP update noted that Singapore's financial regulation and supervision is among the best globally and overall compliance with supervisory standards is high. Singaporean banks already meet key Basel III targets for 2015, and they should have no difficulty meeting the 10.5 percent target for 2019 required by MAS for domestic systemic banks' Tier 1 capital ratio plus conservation buffer—which is tighter than the Basel III target. MAS's recently outlined new liquidity framework is in line with Basel recommendations and banks are already very close to meeting the 2019 target for the liquidity coverage ratio (LCR, 100 percent). Staff notes good progress in implementing the key FSAP recommendations targeted for the short term, while steps to implement the medium-term recommendations are being considered by the authorities (Appendix III). In particular, in view of rising household and corporate indebtedness, MAS introduced a multiyear onsite credit inspection program for major banks, and will continue to perform credit and thematic reviews for all banks as appropriate.

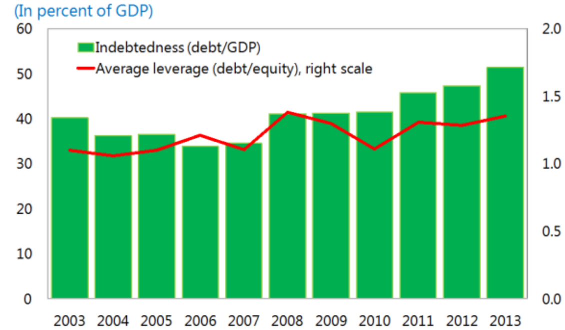
19. Singapore is seeing a welcome deceleration of credit growth to residents, amid a tightening of system-wide liquidity and helped by the active use of MaPs.[2] Meanwhile, loans to larger businesses and nonresidents have continued to expand rapidly driven in part by rising loans to China. A further gradual and orderly tightening of credit conditions with the UMP exit should also limit the further buildup of household and corporate indebtedness. The authorities should remain vigilant on banks' credit quality, building on their strong track record of hands-on banking supervision.

20. The current macroprudential policies should be maintained to promote household deleveraging. Staff estimates that these macroprudential policies have helped to curb the excessive increase of house prices (Box 1). Household's balance sheets are strong in the aggregate; but there are pockets of risks. The recent broadening of the exemptions under the total debt servicing ratio framework (TDSR) and loan tenure rules for refinancing housing loans contracted earlier is appropriate to allow overleveraged households to negotiate a restructuring of their debt burden. Although house price declines can have important wealth

[2] During 2011−13, credit growth remained above standard thresholds used to identify build up of risks. For instance, the increase in the credit-to-GDP ratio (in the range of 8–15 percentage points since 2011), and the estimated deviation of the credit-to-GDP ratio from its trend (around 13.5 percentage points in 2013) both exceeded commonly-used thresholds (3 and 10 percentage points, respectively) for excessive credit growth and related risks.

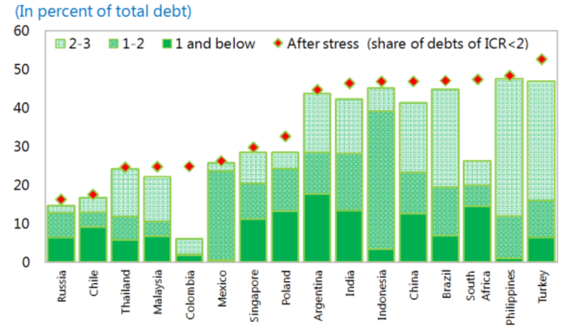
effects, risks from interest rate increases and unemployment shocks are more pertinent for Singapore. Staff advises to maintain the current MaPs to promote household deleveraging. In addition, as recommended by the FSAP, the authorities should continue their efforts to collect granular data on household balance sheets, strengthen credit bureau practices, and continue education of over-indebted households about managing their debt prudently. With a large supply of new housing set to come on the market in the near term, a further price easing resulting in an undershooting of historical trends seems likely in the near term. In case of signs of excessive house price declines, staff recommends considering a relaxation of stamp duties as this can support demand for real estate without loosening banks' lending standards, while maintaining prudentially appropriate levels for more structural measures.

Nonfinancial Corporate Sector Indebtedness and Leverage 1/
(In percent of GDP)



Sources: Thomson Reuters Worldscope; and IMF staff calculations.
1/ Indebtedness and leverage data captures publicly-listed non-financial corporations. Average leverage is weighted by share of outstanding debt for companies with positive equity.

Distribution of Debt-at-Risk by Interest Coverage Ratio 1/
(In percent of total debt)



Sources: Thomson Reuters Worldscope; IMF staff calculations for Singapore; and April 2014 GFSR for other countries.
1/ Stress scenario involves a 25 percent decline in earnings and 25 percent increase in interest costs.

21. In the aggregate, the leverage of publicly–listed corporations has remained relatively low despite rising corporate sector indebtedness. This may reflect robust earnings performance and higher retained earnings.[3] Financially stronger firms may have taken advantage of favorable market conditions to borrow and held on to the proceeds. Lending to SMEs, accounting for 21.6 percent of loans to domestic corporates, is subject to strong underwriting standards, highly collateralized, and has a lower NPL ratio than that for the overall corporate sector. Nevertheless, the risks from the gradual normalization of interest rates on the corporate sector and SMEs in particular call for continued vigilance, including in bank supervision.

[3] Based on a sample of publicly-listed Singaporean nonfinancial corporates, about 17 percent of total debt resides with companies with a leverage ratio above 2 as of end-2013 and about 21 percent of total debt resides with companies with an interest coverage ratio of less than 2, but given the high level of overall corporate debt, these warrant close monitoring. A cross-country study based on end-2012 data in the April 2014 *Asia and Pacific Regional Economic Outlook* found that the shares of debt owed by firms with a high leverage ratio and a low interest coverage ratio in Singapore are among the lowest in advanced and emerging Asia.

22. Singapore's status as an important financial center and host to large G-SIFIs creates potential for spillovers from global or regional financial shocks. Singapore's financial sector is very large relative to its own economy, increasing the size of potential spillovers into Singapore (Box 2). As a regional financial center, Singapore also plays an important role in the transmission of external shocks to the region. Growing cross-border exposures of domestic banks in the region, including in China, have also increased these spillover risks.[4] A resilient domestic banking sector and strong regulatory and supervisory frameworks are critical not only for domestic financial stability but also to limit spillovers to the rest of the region. For instance, when deleveraging European banks reduced trade financing activity in the aftermath of the global financial crisis, Singapore's domestic banks provided stability and increased their market share, along with banks from Japan and Australia. In addition, MAS recently proposed a stronger regulatory framework for domestic systemically important banks (D-SIBs)[5], which should help reduce risks of further propagation of external financial shocks.

23. Spillover risks underscore the importance of strong liquidity management. Singaporean banks' reliance on the foreign currency swap market poses risks because this market can seize up during periods of severe financial stress. Foreign currency liquidity remains low, with the non-Singapore dollar loan-to-deposit ratio at a multi-year high of 128 percent as of September 2013 and a further rise through the first quarter of 2014. In light of this, the continued monitoring of banks' foreign currency liquidity management is a priority, and staff welcomes MAS's encouragement to banks to step up efforts to increase U.S. dollar deposit taking and issuing U.S. dollar debt to finance their U.S. dollar lending. In addition, considering difficulties in raising stable U.S. dollar funding, the authorities are encouraged to make banks develop contingency plans for low foreign currency swap market liquidity.[6]

24. Efforts to strengthen the AML/CFT framework should continue. The reputational risks from opaque ownership structures in the offshore wealth management sector that can allow it to be used to harbor or as a conduit for illicit assets should not be underestimated. In particular, any change in perceptions about Singapore's good reputation could have adverse effects on the industry. In light of this, effective implementation of and compliance with the evolving international AML standards, particularly relating to transparency of companies and trusts, and enhancing cooperation with other jurisdictions is important. Staff notes that Singapore made the evasion of certain foreign taxes a predicate crime for money laundering in July 2013. Singapore's next AML/CFT assessment by the Financial Action Task Force (FATF) is scheduled for 2015.

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[4] Cross-border loans to China are mainly trade bills (65 percent) and interbank loans (25 percent) and make up about 12 percent and 8 percent of total loans for domestic and foreign banks, respectively.

[5] The proposed D-SIB framework includes higher loss absorbency, LCR, recovery and resolution planning, risk disclosure and effective risk data aggregation and risk reporting requirements. In addition, foreign bank branches with a significant retail presence would be required to locally incorporate their retail operations.

[6] The authorities decided not to introduce a separate USD LCR due to the inefficiencies this would entail for international banking groups.

Authorities' Views

25. Singapore's financial sector is in a strong position thanks to continuous improvements in the regulatory and supervisory framework. The industry-wide stress test conducted by MAS shows that banks are resilient to a broad array of adverse macroeconomic shocks,[7] reflecting their strong starting positions. In the experience of the authorities, the foreign currency swap market is relatively deep and it did not seize up during the global financial crisis. The country's strong official reserve position would only be used in case of an extreme stress event and not to provide support to individual banks.

26. AML/CFT policies and issues are taken very seriously. Financial Institutions (FIs) are subject to a comprehensive AML/CFT regulatory regime, which includes customer due diligence, ongoing account monitoring and suspicious transaction reporting requirements. FIs have also undertaken a critical tax-risk review of their existing accounts to assess the tax legitimacy of assets booked. Legislative changes made in 2013, and the findings of the Global Forum on Transparency and Exchange of Information for Tax Purposes mean that Singapore's exchange of information regime is in line with the internationally-agreed standard, that ownership and identity information is available for all types of companies, partnerships and trusts, and that overall compliance with filing and reporting obligations is very high.

C. Fiscal Policy and the Economic Restructuring

27. Singapore has maintained a very prudent fiscal policy framework, building up significant financial buffers. The Constitution mandates a balanced budget over the political cycle while allowing the use of up to half of the projected average long-term investment income generated from the government's financial assets (equivalent to 2.1 percent of GDP in the FY 2014/15 budget). Historically, Singapore's fiscal policy has been more prudent than implied by these fiscal rules. Moreover, in a presentation based on GFSM 2001, which takes into account all investment income and receipts from sales of land, Singapore's fiscal balances are stronger still. Accordingly, the fiscal surplus in FY 2013/14 is estimated at 5.7 percent of GDP (Table 5).

28. Initiatives in the FY 2014/15 budget continue to focus on medium-term objectives of boosting productivity, raising inclusiveness, and coping with the projected sharp increase in the old-age dependency ratio. Among other initiatives, the FY 2014/15 budget (April 2014-March 2015) extended and enhanced transfers and subsidies to businesses to help them adopt more efficient production technologies (e.g., through the Productivity and Innovation Credit Scheme). This would help improve the prospects for potential output. The budget also established a new extra-budgetary fund to cover health care costs for the elderly (Pioneer Generation Fund). The seed money transferred to the new fund (2 percent of GDP) will initially be saved and disbursed over the medium term, along with the investment income generated by the fund. While cyclical

[7] The scenario envisages weak global growth, a disruptive UMP exit, a worsening domestic real economy and a large property market correction.

conditions would warrant a somewhat restrictive fiscal stance in the near term, the budget implies a fiscal impulse of about ¾ percent of GDP in FY 2014/15. This is smaller than the estimated fiscal impulse of about 1¼ percent of GDP in FY 2013/14. The fiscal impulse is expected to turn out smaller still, on spending falling somewhat short of the FY 2014/15 budget as has been the case in the last few years.

29. The cyclical concerns of a slightly expansionary fiscal stance in spite of a positive output gap are outweighed by the medium-term merits of expanding the social safety net and enhancing prospects for potential growth. The overall macroeconomic impact could be managed by a tighter monetary policy stance. In view of the complex fiscal accounting system and the increasing importance of financial flows to and from extra-budgetary funds, staff suggests that more work be done, and publicly disseminated, on the calculation of the fiscal impulse. This could include timely disclosure of fiscal data on a consolidated general government basis as well as publishing, as a reference, general government-based budget estimates at the time of budget announcements.

30. Over the medium term, fiscal policy needs to accommodate the future expansion of the social safety net to reduce inequality and to cope with the rapid aging of Singapore's population in a fiscally sustainable way. Singapore is among the fastest aging advanced countries with an old-age dependency ratio projected to more than double by 2030 (Figure 5). The defined contribution pension system limits aging-related contingent liabilities for the government. And the relatively efficient health care system is an advantage in financing the costs of old age. Nevertheless, aging and the potential inadequacy of retirement savings can be expected to provide upward pressure on government spending. The authorities expect government spending to increase by 1–2 percent of GDP over the medium term, mainly due to social and infrastructure spending. This increase could be financed by a combination of higher revenue from progressive taxes and using a larger share of the investment income on accumulated past surpluses. There is also scope to enhance the transparency of the management of the government's financial assets, while paying due consideration to the market impact aspects.

31. There is scope to enhance the predictability and sense of social security derived from the multitude of initiatives and programs that have been launched in recent years. Recent budgets have initiated several specific measures to address population aging and to enhance inclusiveness. However, the overall coverage of these measures may be difficult for the public to grasp. These measures could be streamlined and made more efficient by merging the various schemes into one or two meaningful and predictable benefits. This would also allow the public to have a better sense of social security and adjust precautionary savings accordingly.

32. The effectiveness of the Central Provident Fund (CPF) to provide retirement savings could be enhanced. Home ownership plays a very important role in Singapore.[8] The CPF has a bias toward house purchases.[9] There is room to enhance mechanisms to facilitate monetizing real estate assets to supplement retirement savings, including by developing well-functioning reverse mortgage schemes. The older generation of Singaporeans is receiving low but risk free returns on their retirement savings. Despite the subdued outlook for investment returns on pension savings, there is scope to let contributors to the CPF share more in the upside to investment returns, thereby letting them have a bigger share of the dividends from their country's success.

33. Policies to increase productivity through investment in education and infrastructure and structural labor market policies will also be critical in facing the challenges of an aging population. The greater educational attainment of younger cohorts will likely moderate the impact of demographic shifts. Continued investment in education and infrastructure can contribute to the success of the ongoing restructuring to enhance productivity. Labor participation rates are already high but there could be some scope to raise women's participation rates further and policies should continue to focus on raising fertility rates. Policy measures could target improving the availability of childcare facilities, part-time or flexible work arrangements and job-matching and placement programs.

Authorities' Views

34. The authorities noted that the additional spending that underlies the positive fiscal impulse is aimed at boosting productivity and would thereby help close the output gap over the medium term. The restructuring program is imposing some transitional costs on the corporate sector and the broader economy. Additional government spending on infrastructure and subsidies to SMEs should provide relief and facilitate the adoption of labor-saving technologies. The government typically takes a medium-term view of the budget and the risks of revenue over- and under-performance are broadly balanced. The revenue over-performance in recent years was due to unexpectedly buoyant demand for real estate and vehicles. These markets might now be at an inflection point, making it hard to forecast revenue.

35. The government continues to look for ways to further strengthen the CPF and the support for low-income households. Housing grants and the appreciation of home equity have been major parts of Singapore's social security system, especially for the earlier generations.

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[8] Home ownership is among the highest in the world and home equity represents a very important share of households' total assets. For several decades, the Housing and Development Board has been overseeing the development of public housing and encouraging home ownership by providing subsidies and concessional housing loans, particularly to lower-income groups. As a result, the bulk of the total housing stock consists of public housing which is available almost exclusively for citizens (permanent residents with family nuclei can purchase public housing in the secondary market while foreigners can purchase in the much smaller private housing segment).

[9] Withdrawals from CPF ordinary accounts are allowed at any time to purchase a property or to service a mortgage.

Singapore has also established and enhanced several programs and schemes to better support the needs of the low-income households. For many of these schemes, eligible recipients are automatically enrolled, thus providing them with convenience and a greater sense of security. Risk-free investment returns of up to 3.5 percent on CPF ordinary savings accounts and up to 5 percent on medical and special accounts are relatively high among countries with defined contribution scheme. Also, CPF members can choose many options with higher risk-return profiles. Up to 50 percent of government's net investment returns are channeled to the budget, ensuring a more progressive and targeted sharing of these earnings compared to raising the CPF interest rates, which would benefit members with larger balances. Nevertheless, as announced in the President's speech to the reopened Parliament recently, the government plans to further improve CPF savings and annuities schemes to better prepare Singaporeans financially for retirement.

36. **The authorities pointed at the transparency of the Government Investment Corporation (GIC) and Temasek**. Both publish annual reports. Temasek's annual report provides a summary of its group financial results based on audited financial statements, as well as data of Temasek's portfolio, shareholder returns and its governance and investment frameworks. GIC discloses its 5, 10 and 20-year returns, and its portfolio management and governance structure. The Ministry of Finance also provides detailed information about its reserves management and the role of the President as the custodian of the reserves on its website. The government does not disclose GIC's assets under management in light of national security and strategic considerations.

STAFF APPRAISAL

37. **Following a recovery in 2013, growth is expected to moderate somewhat during 2014–2015**. Headline inflation has decelerated owing to moderating real estate and car permit prices, but the positive output gap, although narrowing, has been exerting upward pressure on core inflation. Recovering demand in advanced economies is likely to be offset by the ongoing real appreciation and the gradual tightening in global monetary conditions. Key external risks to the outlook remain a protracted period of slower growth in advanced and emerging economies, a continued buildup and eventual unwinding of excess capacity in China, an abrupt surge in financial market volatility as investors reassess underlying risks, and geopolitical risks.

38. **Singapore continues to implement a strong set of macroeconomic policies**. The moderately tight monetary policy stance of gradual appreciation of the nominal effective exchange rate of the Singapore dollar that has been maintained over the past two years remains appropriate. While cyclical conditions would warrant a somewhat restrictive fiscal stance in the near term, the 2014 budget implies a modest fiscal impulse. The additional spending accounting for this is aimed at boosting productivity and would thereby help close the output gap over the medium term.

39. **Singapore's financial regulation and supervision is among the best globally, but continued efforts to effectively implement evolving international regulatory and AML/CFT standards are critical**. The nonperforming loan ratio of domestic banks remained stable at about

1 percent. Good progress has been made in implementing key short-term FSAP recommendations and the authorities are encouraged to implement the remaining recommendations. In light of banks' continued reliance on foreign currency swap markets to address currency mismatches, strengthening foreign-currency liquidity management practices remains a priority. The authorities should continue their efforts to effectively implement and comply with evolving international AML/CFT standards, in particular the strengthened measures preventing the laundering of funds that have evaded foreign taxes and the proposed measures to prevent misuse of ownership structures.

40. Efforts to promote household deleveraging should continue. While corporate loan growth has remained firm, housing loan growth has moderated aided by the June 2013 launch of the new total debt servicing ratio framework (TDSR) and the expectation of higher interest rates in the medium term. The current MaPs to promote household deleveraging should be maintained.

41. The authorities' medium-term economic restructuring plan is ambitious. The plan's measures to boost the productivity of labor and land could set the stage for a new era of sustainable growth. However, productivity improvements may take some time to materialize. Therefore, against the backdrop of a tight labor market, the ongoing slowing inflow of foreign workers, which is a key part of the reform agenda, could moderate potential growth and lower competitiveness.

42. Efforts to strengthen the social safety net should continue. In addition to supporting companies' efforts to raise productivity, the 2014 budget focuses on providing additional social spending on healthcare for the elderly. The authorities' intention to strengthen the modalities of the main pension scheme and plans to raise social and infrastructure spending by 1–2 percent of GDP over the medium term could help consolidate support for low-income households.

43. Singapore's external position is substantially stronger than what is consistent with medium-term fundamentals and desirable policies but the current account surplus is projected to moderate over the medium term. Singapore is a very open economy that has a large positive net international investment position (NIIP), very high per capita income and is aging at a very high speed; which make a quantitative assessment of its current account and REER difficult. This is reflected in staff's wide range of current account and REER gap estimations. Despite the wide range of uncertainty, the gaps are assessed to be relatively large. Since 2010, Singapore's current account has narrowed considerably and the REER appreciated substantially, which are consistent with the ongoing economic rebalancing. Increased public spending, including on social safety nets, a more even distribution of consumption across generations, and the planned slower absorption of foreign workers would contribute to further moderate the current account.

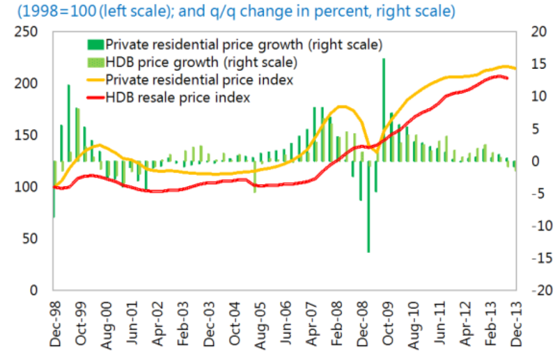
44. It is proposed that the next Article IV consultation with Singapore be held on the standard 12-month cycle.

Box 1. Singapore: Housing and Household Sector Developments and Macroprudential Policies

Singapore's housing market is cooling. Both private and public house price growth turned negative in late-2013, and declined by 1.3 percent and 1.6 percent (q/q), respectively, in the first quarter of 2014. Indicators on the quantity side also indicate a softening of the market: the number of housing transactions has been decreasing; house supply conditions, which had tightened in the mid-2000s due to rising population, have been easing; and vacancy rates are rising. Going forward, further downward pressure on house price is expected with a large supply of new housing set to come on the market in the coming years.

Singapore: House Price Index

(1998=100 (left scale); and q/q change in percent, right scale)



Sources: CEIC Data Co., Ltd.; and IMF staff calculations.

The housing market moderation was aided by macroprudential policies (MaPs). Since 2009, MAS has implemented a wide range of MaPs, including stamp duties, lower loan-to-value (LTV) ceilings, higher minimum cash payment requirements, caps on loan tenors, and the total debt servicing ratio (TDSR) framework. Tighter limits are applied to riskier segments of the housing market, such as nonowner-occupied housing, owners of multiple properties, companies, and foreigners. The authorities' targeted approach is informed by efficiency and effectiveness considerations. The introduction of new MaP measures has often been followed by incremental tightening steps and refinements. Most recently, the TDSR was refined to facilitate deleveraging of overextended households. In February 2014, MAS broadened exemptions for refinancing of owner-occupied housing loans that preexisted before the implementation of the TDSR rules. Similar adjustments were made to the mortgage servicing ratio of public housing loans and loan tenure limits.

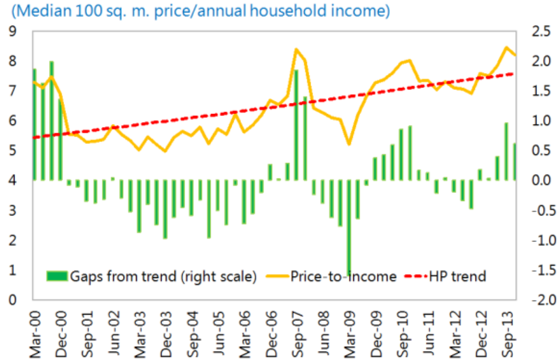
The banking sector has high exposure to the private housing market, but its credit risk profile has improved. Household housing loans accounted for 28 percent of domestic banks' assets in 2014:Q1. The majority of these loans are provided to finance private properties whose prices are higher and historically more volatile than those of public housing. Since the implementation of the MaPs, the share of borrowers with multiple housing loans and the share of housing loans with high LTV ratios have both been decreasing. The TDSR framework, introduced in June 2013, limited the banks' exposure to overextended households with a built-in buffer to interest rate normalization in the medium term by using a higher rate (3.5 percent rather than the current market rate of 1.8 percent) in its calculation.

Households' balance sheets are strong in the aggregate; but there are pockets of vulnerability. Benefitting from the price appreciation of houses—which represent 48 percent of household assets—net household wealth rose until recently, and its level is among the highest in the world. However, since 2008, household debt as a share of disposable income is on a gradual rise. In addition, the debt-servicing burden is not equally spread across the population. MAS estimates that about 30–35 percent of household have a TDSR above 40 percent, and 5–10 percent of households have a TDSR above 60 percent. A high share of mortgages linked to variable rates (about 70 percent of the outstanding stock by value and about a half by numbers) poses risks to households and to banks through their credit exposure.

Box 1. Singapore: Housing and Household Sector Developments and Macroprudential Policies (Continued)

Singapore's housing market is cooling. The house price-to-income ratio has reverted to its historical trend.

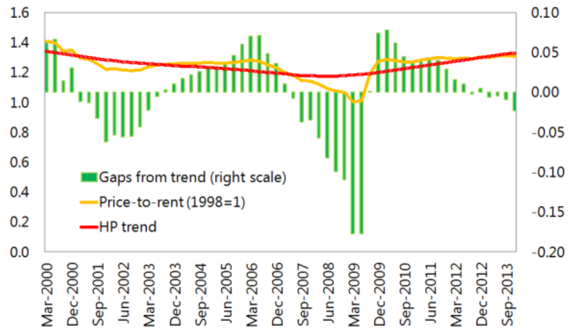
Singapore: Non-landed Private House Price to Income Ratio
(Median 100 sq. m. price/annual household income)



Sources: CEIC Data Co., Ltd.; Singapore, Department of Statistics; and IMF staff calculations.

The house price-to-rent ratio has also reverted to its long-term trend.

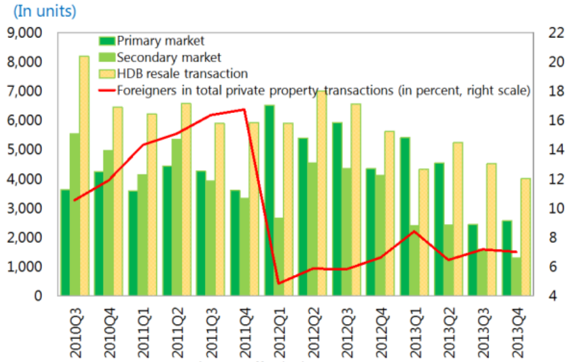
Singapore: House Price to Rent Index
(1998=1)



Sources: CEIC Data Co., Ltd.; and IMF staff calculations.

The number of housing transactions has declined in all market segments, amid declining activity by foreigners.

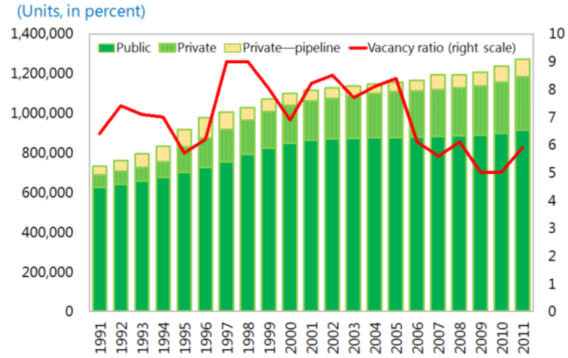
Private and Public Residential Transaction
(In units)



Sources: Singapore,URA; and IMF staff calculations.

The vacancy ratio picked up in 2011 (latest observation), against the backdrop of increased supply.

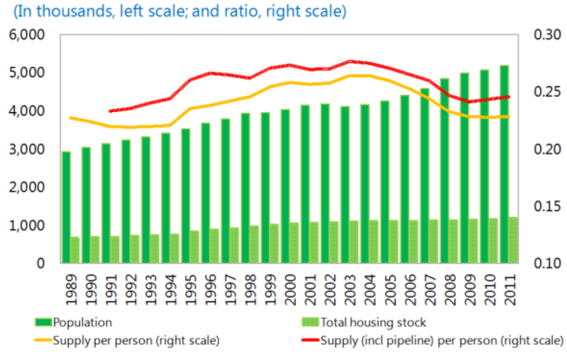
Singapore: Housing Stock
(Units, in percent)



Source: CEIC Data Co., Ltd.

Supply bottlenecks that had been building up owing to rapid population growth with limited new housing supply…

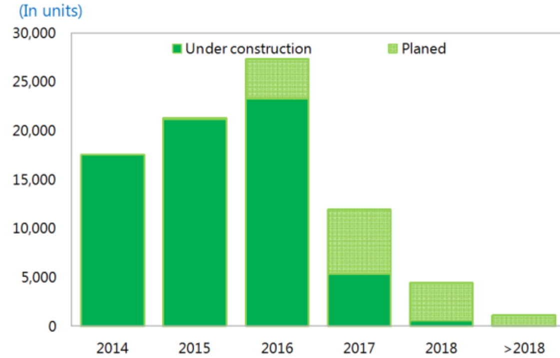
Housing Supply and Population
(In thousands, left scale; and ratio, right scale)



Sources: CEIC Data Co., Ltd.; and IMF staff calculations.

…look set to ease as a pipeline of housing supply is expected to come on the market in the coming years.

Upcoming Private Residential Supply Pipeline as of 2013:Q4
(In units)

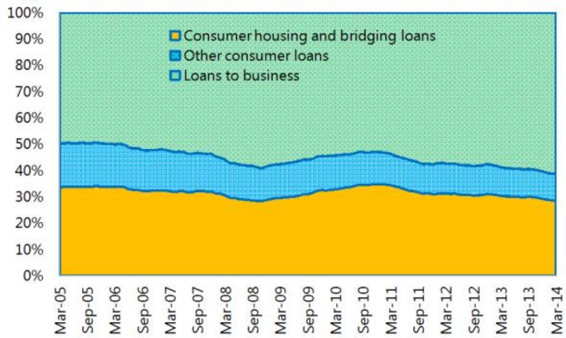


Source: Singapore, Urban Redevelopment Authority (URA).

Box 1. Singapore: Housing and Household Sector Developments and Macroprudential Policies (Concluded)

Banks have high exposure to private housing loans.

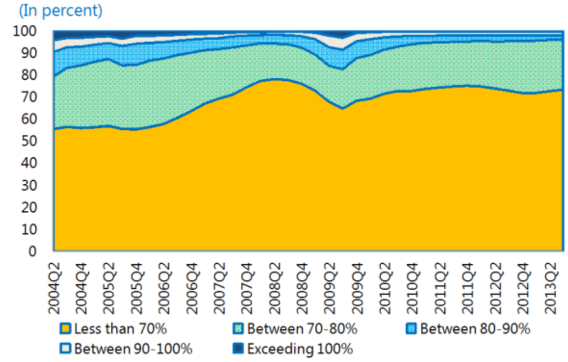
Share of Housing Loans in Total Loans
(In percent of total DBU loans)



Sources: Monetary Authority of Singapore; and IMF staff calculations.

But MaPs helped improve their credit risk profile and limited banks' exposure to overextended households.

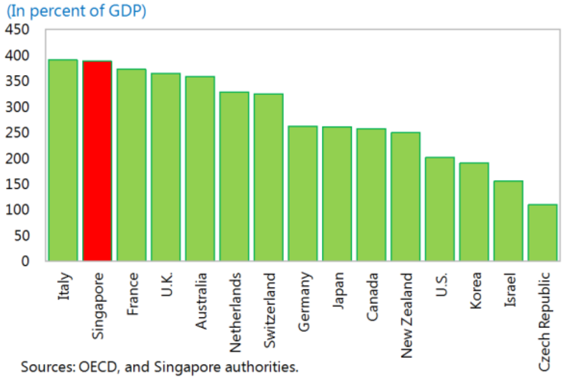
Outstanding Housing Loans by LTV Ratios
(In percent)



Source: Monetary Authority of Singapore.

Households have strong balance sheets in aggregate…

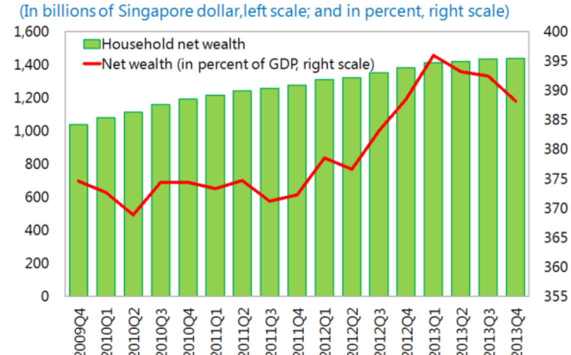
Household Net Wealth, 2012 or Latest
(In percent of GDP)



Sources: OECD, and Singapore authorities.

…as house price appreciation in the recent past pushed up households' wealth.

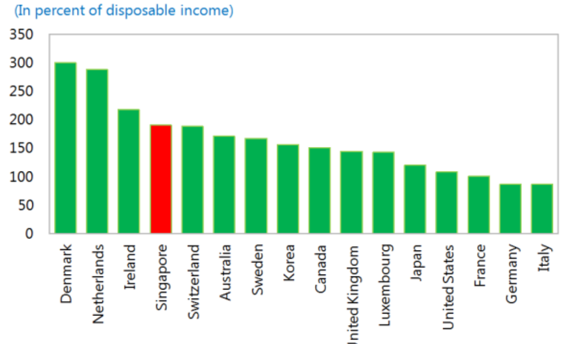
Household Net Wealth
(In billions of Singapore dollar,left scale; and in percent, right scale)



Sources: Singapore,Department of Statistics; and IMF staff calculations.

However, households are highly indebted.

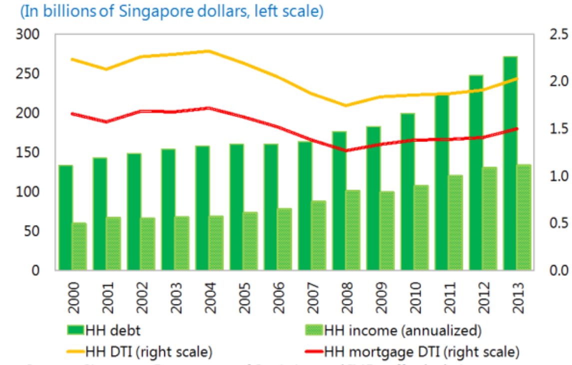
Household Debt, 2012
(In percent of disposable income)



Sources: OECD; Singapore Department of Statistics; and IMF staff calculations.

A rise in the overall indebtedness and debt-servicing burden could pose risks for groups of households.

Household Debt and Income
(In billions of Singapore dollars, left scale)



Sources: Singapore Department of Statistics; and IMF staff calculations.

Box 2. Singapore: Financial Sector

Singapore's financial sector is large relative to its economy, is bank-based and mainly intermediates financial flows with East Asia and Europe.[1/] Singapore's financial sector had about S$2.7 trillion (737 percent of GDP) in assets in 2013. Commercial banks make up 78 percent of the financial system and although the local banks have increased their share over time, foreign banks still make up about 67 percent of the banking system assets. East Asia and Europe are the most important regions for Singapore's offshore banking system. Cross-border funding and exposures in East Asia involve both banks and nonbank customers, while exposures in Europe involve mainly banks, reflecting intra-group funding activity of foreign branches. Singapore has developed to become an important global financial center for FX trading and bond issuance as well. FX trading activity in Singapore is the third largest after New York and London and has a large global share of trading activity in major regional currencies. Singapore's wealth management industry has also grown rapidly in recent years, with assets under management (AUM) amounting to about US$1.4 trillion as of end-2013.[2/]

Singapore's financial sector has been an important driver of its economy. The contribution of Singapore's financial sector to its GDP has grown from 9 percent in 2000 to 11 percent in 2013. During this period, the overall economy grew at an average annual rate of 5.5 percent, and the financial sector contributed about 0.76 percent per annum on average to the headline GDP growth. Financial sector exports accounted for 14 percent of services exports and 5½ percent of GDP, while net financial services exports was about 3 percent of GDP on average during 2000−2013. Singapore's financial sector has achieved high productivity growth over the past decade, surpassing productivity growth in other financial centers and has the highest level of labor productivity across different sectors in Singapore.[3/]

Financial services sector growth has been more volatile than other services sectors in Singapore and has been negatively correlated with global risk sentiment. The financial services sector growth tends to be more volatile compared to other services sectors and relative to total value-added growth, adding to total output volatility in the economy. Compared to other advanced economies and financial centers, the relative volatility of Singapore's finance sector (relative to total value-added) is lower, which reflects Singapore's higher overall volatility of growth. Financial services activity is also negatively correlated with global risk sentiment as measured by the VIX index, increasing during periods of low risk sentiment.

Beyond its direct contribution to growth, the financial sector has important two-way linkages with the rest of the economy. Singapore's position as an important regional port suggests positive feedback effects in terms of the development of the commodities and FX trading markets, as well as trade finance and insurance services. Singapore is also host to many multinational companies (MNCs). MNCs location decision may have been influenced by the existence of an international financial center. Similarly, the existence of MNCs may have had positive spillovers on the financial sector by providing demand for global treasury operations and other international financial services. The financial services sector may also have had positive spillovers to other service industries such as business services, through cluster effects given the interconnections.

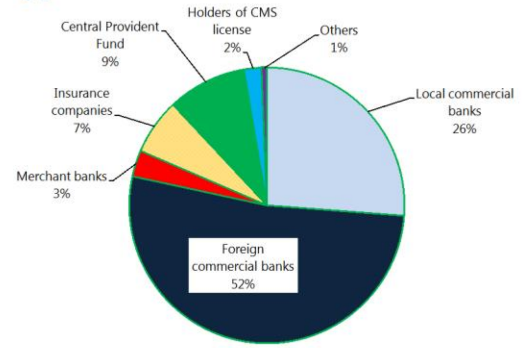
Several factors will shape the further development of Singapore's financial center. First, growth prospects and wealth accumulation in ASEAN and South East Asia will be important as these regions constitute core markets for Singapore's financial center. In light of this, expansion of ASEAN's inter- and intra-regional linkages would also benefit Singapore's financial sector. Second, the maintenance of a world-class regulatory and supervisory system, through continuous upgrading, will be key given Singapore's role as host to major GSIFIs. Third, to remain a leader, it will be important to continue to develop new financial sector niches, such as the rapidly developing market for renminbi.

1/ East Asia comprises China, Hong Kong SAR, Japan, South Korea, Taiwan Province of China and ASEAN (excluding Singapore).
2/ Based on data from Monetary Authority of Singapore, *2013 Singapore Asset Management Industry Survey*.
3/ Singapore's higher labor productivity growth may reflect a relatively lower initial level of productivity and catch-up growth. However, the level of labor productivity may not be measured consistently across different financial centers, due to differences in the measurement of value-added and employment. Productivity growth may therefore be a more reliable indicator across different jurisdictions.

Box 2. Singapore: Financial Sector (Continued)

Singapore's financial sector is large relative to its economy, is bank-based and features a large share of foreign banks.

Singapore's Financial Sector Structure, 2013

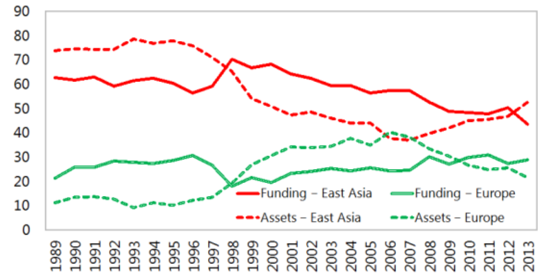


Sources: MAS and IMF staff calculations.

Cross-border banking activity in Singapore is dominated by East-Asian and European regions.

Share of East Asia and Europe in Asian Dollar Market, 1989–2013

(In percent of total cross-border funding and assets 1/)

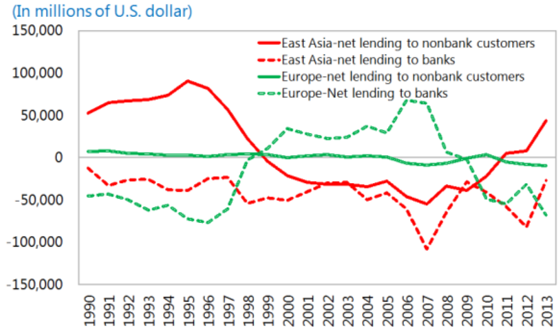


Sources: CEIC Data Co., Ltd.; and IMF staff calculations.
1/ Cross-border funding/assets include nonbank deposits/loans to nonbank customers and amounts due to/from banks.

Since the crisis, net lending to nonbank customers in East Asia and bank funding from Europe turned positive.

Asian Dollar Market: Composition of Lending/Funding Positions For East Asia and Europe

(In millions of U.S. dollar)

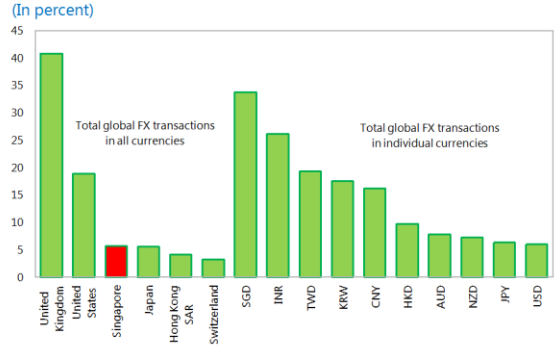


Sources: CEIC Data Co., Ltd.; and IMF staff calculations.

Singapore is one of the largest FX trading centers globally and has an important global share of FX turnover in Asian currencies.

Share of Singapore in Global FX Transactions

(In percent)

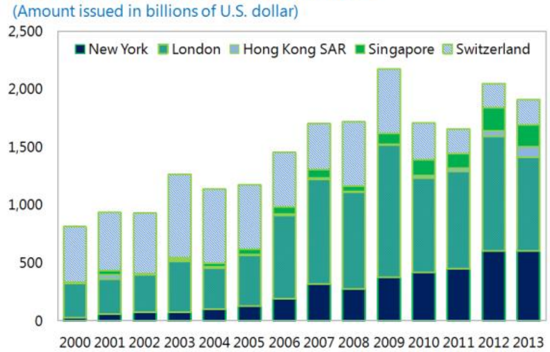


Source: BIS, *Triennial Central Bank Survey.*

Singapore's share in global bond issuance is still relatively low but is larger than Hong Kong SAR and has shown robust growth since the 2008/2009 Global Financial Crisis.

Bond Issuance in Selected Financial Centers

(Amount issued in billions of U.S. dollar)

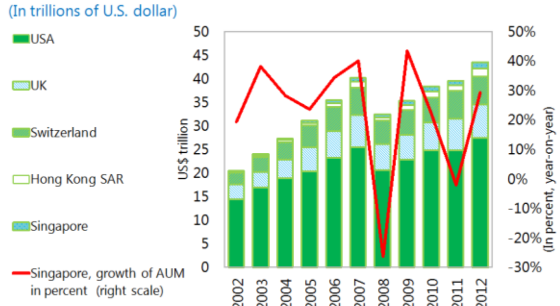


Sources: Bloomberg L.P.; and staff calculations.

Singapore's wealth management industry is growing rapidly, making it an important regional hub in the Asia Pacific region.

Wealth Management Industry: Assets Under Management (AUM) 1/

(In trillions of U.S. dollar)

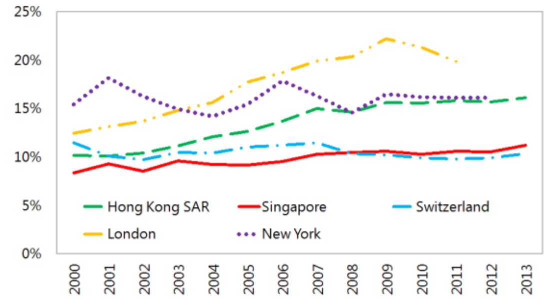


Sources: Monetary Authority of Singapore (MAS); Hong Kong Securities and Futures Commission (SFC); Swiss Bankers Association; U.K. Investment Management Association; Boston Consulting Group (BCG); and staff calculations.
1/ Assets under management may be defined differently across different jurisdictions.

Box 2. Singapore: Financial Sector (Continued)

Singapore's financial services sector has grown to about 11 percent of total GDP.

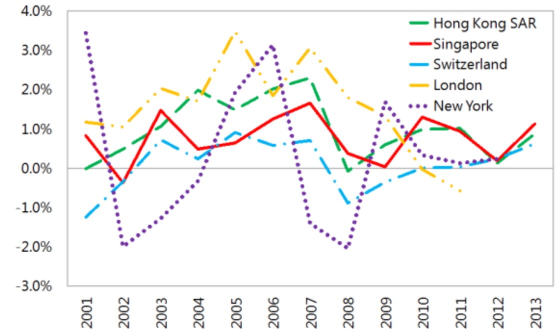
Share of Financial Services and Insurance Sector in Total Value-Added
(In percent)



Sources: CEIC Data Co., Ltd.; and IMF staff calculations.

The financial services sector has on average contributed about ¾ percentage points to total growth during 2001–13.

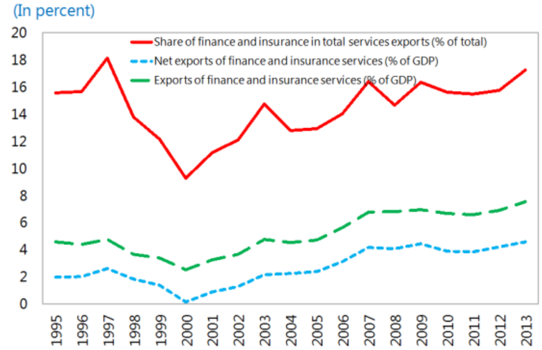
Contribution of Financial Services Sector to Growth
(In percentage points)



Sources: CEIC Data Co., Ltd.; and IMF staff calculations.

Financial services exports have reached about 7½ percent of GDP in 2013.

Singapore: Finance and Insurance Services Exports
(In percent)



Sources: CEIC Data Co., Ltd.; and IMF staff calculations.

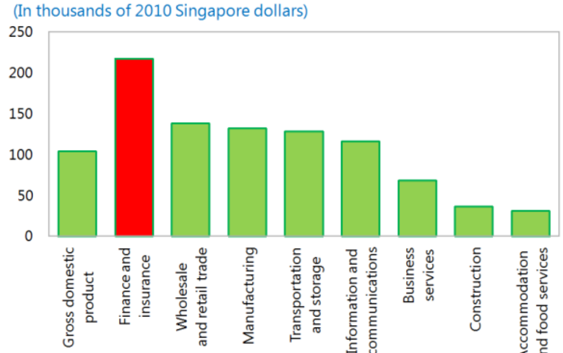
Employment in financial services in Singapore is about 5 percent of total employment.

Employment in Finance and Insurance Sector
(As of September 2013)

Sources: CEIC Data Co., Ltd.; U.S. Bureau of Labor Statistics; U.K. Office for National Statistics; and IMF staff calculations.

The finance and insurance sector has the highest output per worker in Singapore.

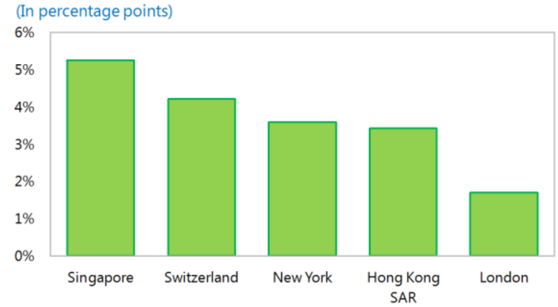
Singapore: Output Per Worker for Different Sectors in 2013
(In thousands of 2010 Singapore dollars)



Sources: CEIC Data Co., Ltd.; and IMF staff calculations.

Labor productivity growth of the finance and insurance sectors in SGP has outpaced other financial centers.

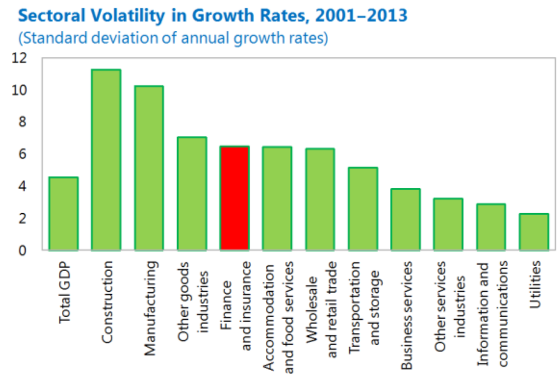
Average Productivity Growth in Finance and Insurance Sectors-Different Financial Centers, U.S. Dollar Terms, 2005–2013
(In percentage points)



Sources: CEIC Data Co., Ltd.; U.S. Bureau of Labor Statistics; U.K. Office for National Statistics; and IMF staff calculations.

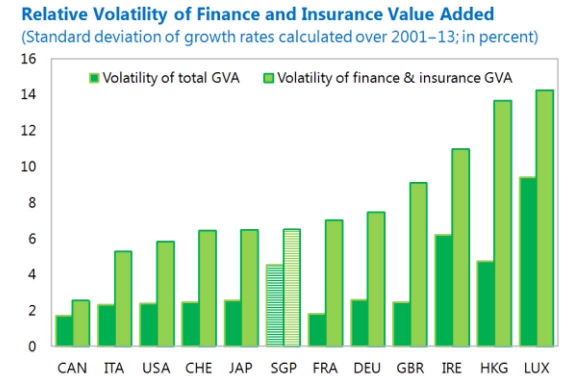
Box 2. Singapore: Financial Sector (Concluded)

The financial services sector is relatively more volatile than other service sectors.



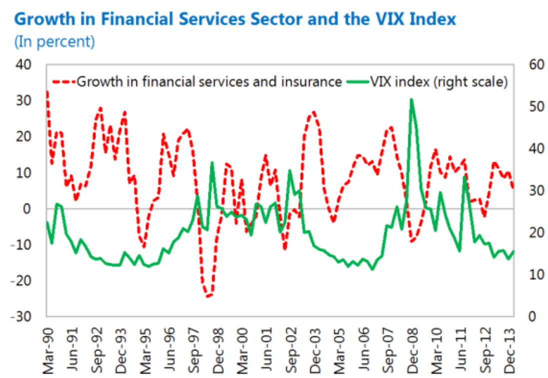
Source: CEIC Data Co., Ltd.; and IMF staff calculations.

Relative volatility of Singapore's finance and insurance sector is lower compared to other financial centers.



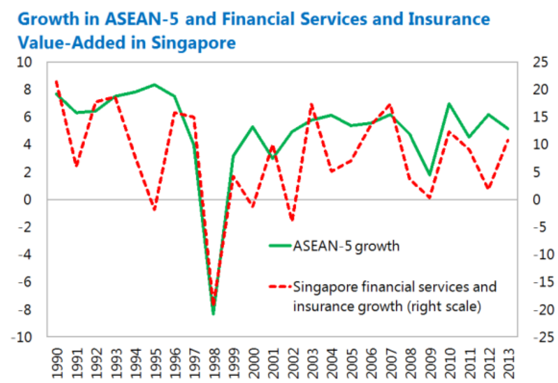
Sources: Haver Analytics; individual country authorities; and IMF staff estimates.

Financial services activity in Singapore slows down during periods of heightened global risk sentiment.



Sources: Bloomberg L.P.; CEIC Data Co., Ltd.; and IMF staff calculations.

Financial services activity in Singapore has been highly correlated with economic activity in ASEAN-5 countries.

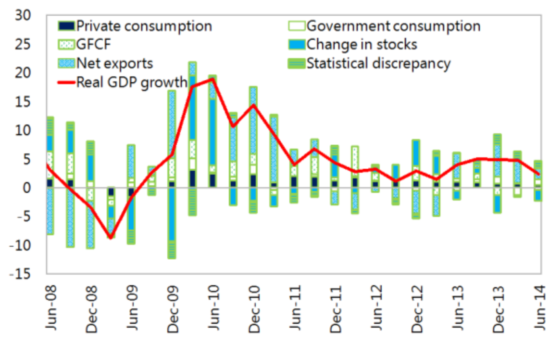


Sources: CEIC Data Co., Ltd.; and IMF staff calculations.

Figure 1. Singapore: Real Sector Developments

Growth picked up in 2013, driven by net exports and consumption.

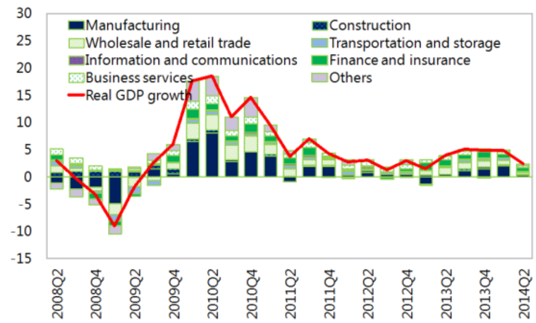
Contribution to Real GDP Growth
(In percent, year-on-year)



Sources: CEIC Data Company Ltd.; and IMF staff calculations.

Manufacturing, wholesale and retail trade, and the finance and insurance sectors led growth momentum.

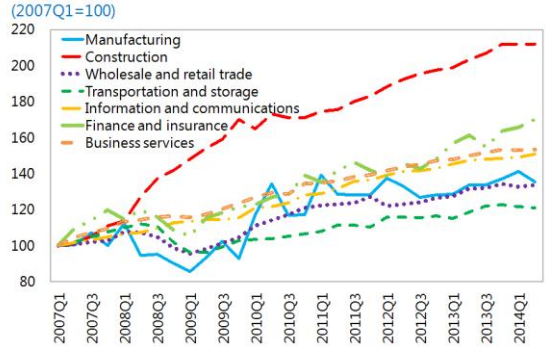
Contribution to Real GDP Growth by Industry
(In percent, year-on-year)



Sources: CEIC Data Company Ltd.; and IMF staff calculations.

Since 2007, the construction sector has experienced the highest cumulative growth.

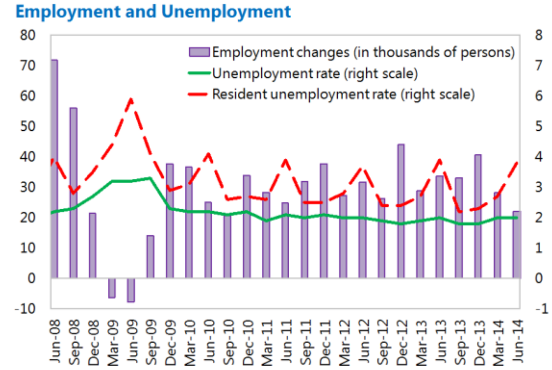
Real GDP by Industry, Seasonally Adjusted
(2007Q1=100)



Sources: CEIC Data Company Ltd.; and IMF staff calculations.

The unemployment rate hit a multiyear low in 2013 (1.9 percent); an uptick was observed in 2014:Q1.

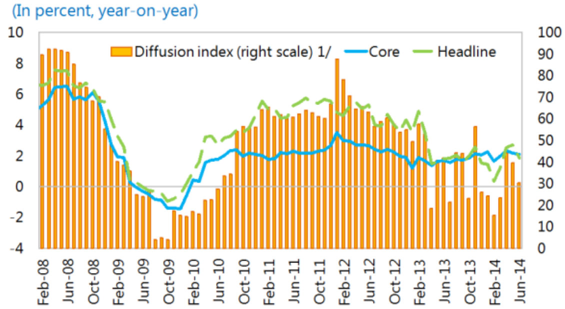
Employment and Unemployment



Sources: CEIC Data Co. Ltd.; and IMF staff estimates.

Amid a gradual pick up in core inflation, overall inflation decelerated significantly reflecting…

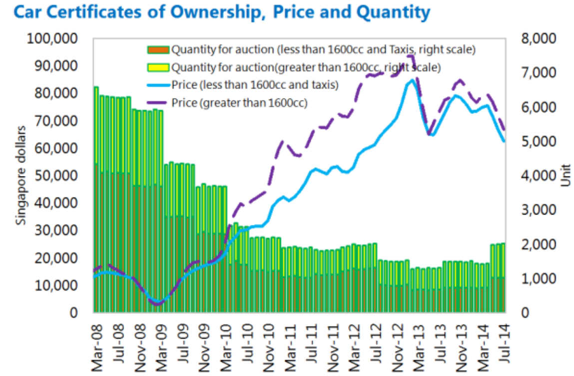
Inflation
(In percent, year-on-year)



Sources: CEIC Data Company Ltd.; and IMF staff calculations.
1/ Share in the overall CPI basket of components for which y/y inflation exceeds 3 percent.

…moderating house prices and COE premiums owing to the implementation of macroprudential measures.

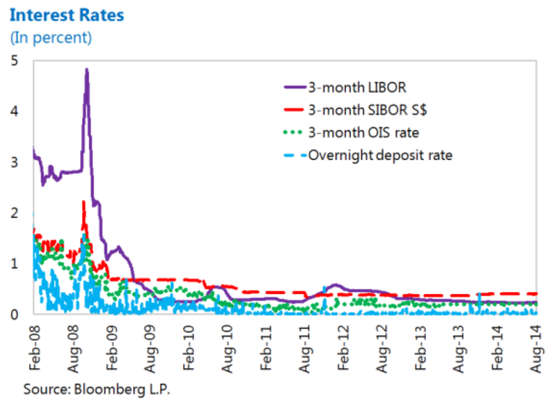
Car Certificates of Ownership, Price and Quantity



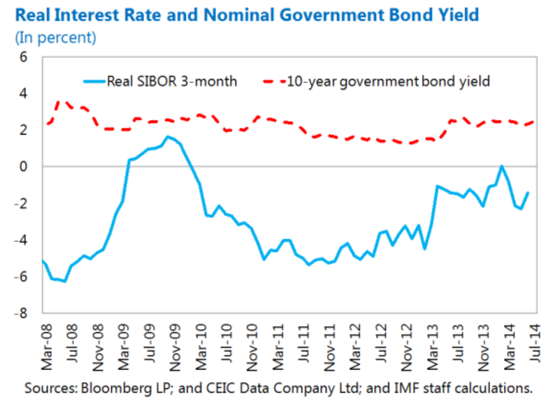
Source: CEIC Data Company Ltd.

Figure 2. Singapore: Monetary and Financial Sector Developments

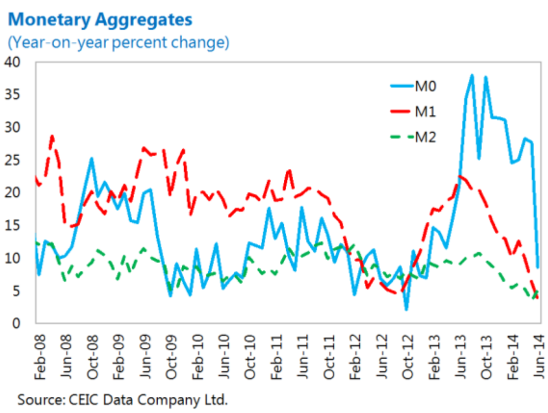
Short-term interest rates remain very low…



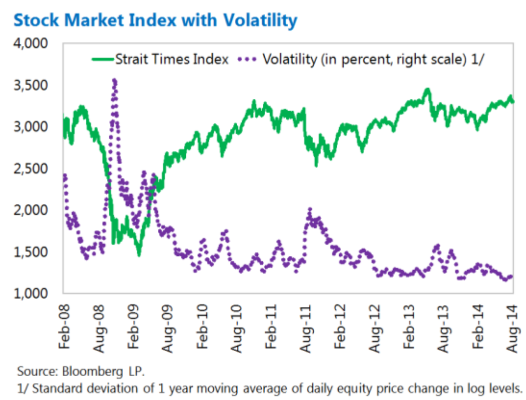
…and real short-term interest rates have been negative.



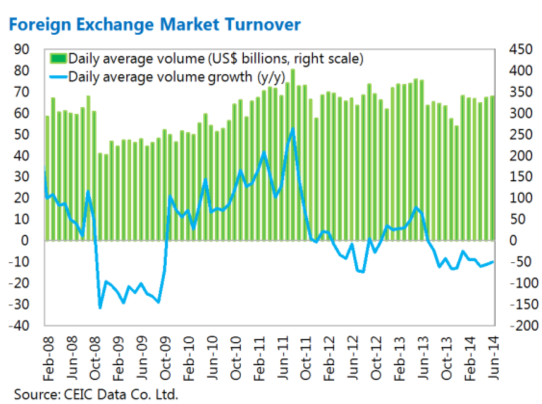
Broad money growth has decelerated.



The stock market has largely recovered from the mid-2013 financial turbulence amid declining volatility



The FX market was also affected by the mid-2013 turbulence but volumes have increased since then.



The slope of the yield curve has increased with long-term rates approaching their pre-crisis levels.

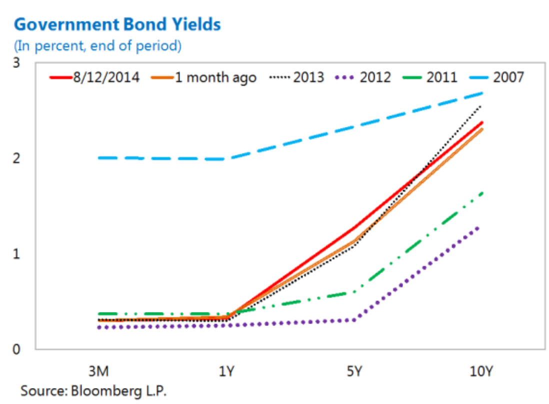
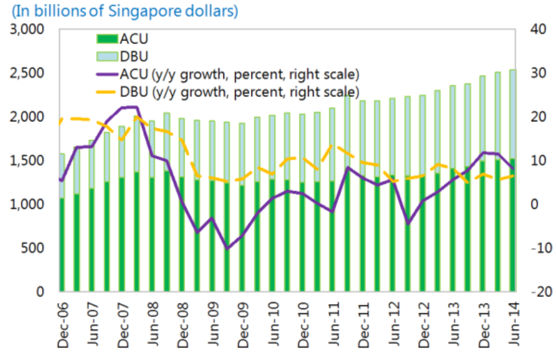


Figure 3. Singapore: Banking Sector Developments 1/

Asset growth of ACUs is on the rise, while for DBUs it has been gradually trending down.

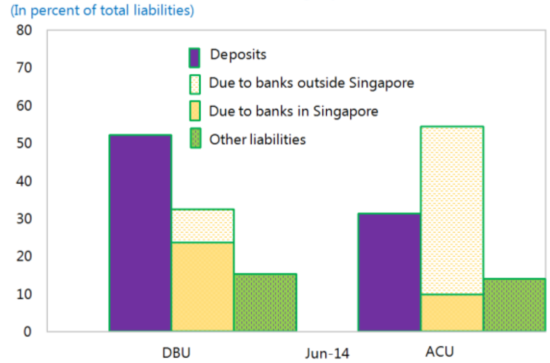
Banking Sector: Combined Assets
(In billions of Singapore dollars)



Source: CEIC Data Company Ltd.

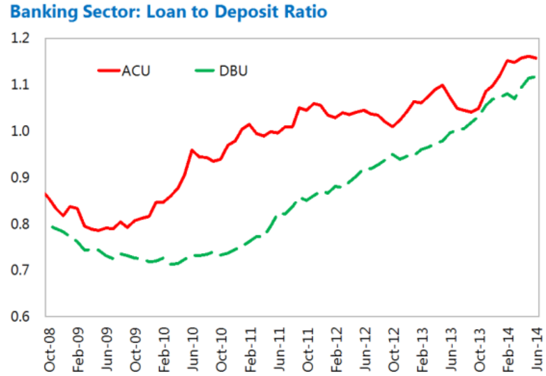
DBUs rely primarily on deposit funding; ACUs rely on cross-border bank funding, reflecting the global operations of foreign bank branches.

Funding Structure of the Banking System
(In percent of total liabilities)



Loan to deposit ratios for both ACUs and DBUs have been rising rapidly, exceeding 1 for DBUs since mid-2013.

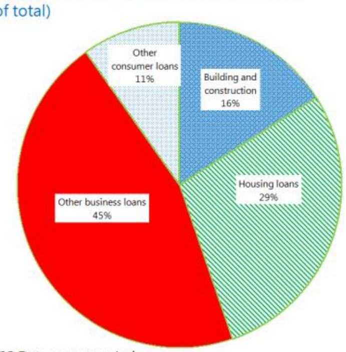
Banking Sector: Loan to Deposit Ratio



Source: CEIC Data Company Ltd.

45 percent of total DBU loans consist of housing loans and loans to the building and construction sectors.

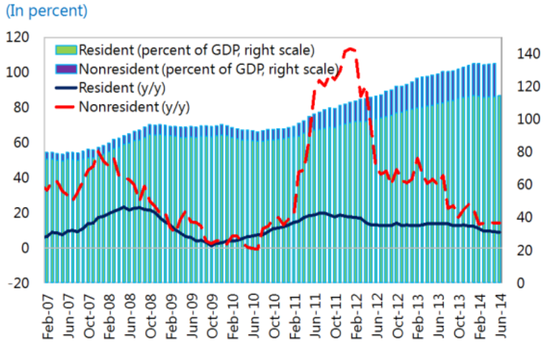
DBU Loans and Advances by Sector, June 2014
(In percent of total)



Source: CEIC Data company Ltd.

Growth in DBU loans to nonresidents has slowed down.

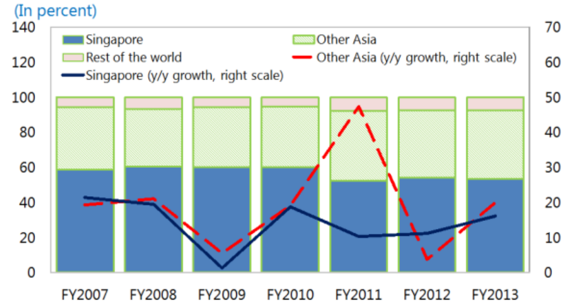
DBU Loans and Advances by Borrowers' Residence
(In percent)



Sources: CEIC Data Co. Ltd; and IMF staff estimates.

The big 3 domestic banks now have about 40 percent of their loan portfolio in other Asia (excluding Singapore).

Big 3 Singapore Incorporated Banks: Geographic Distribution of Customer Loans 1/
(In percent)



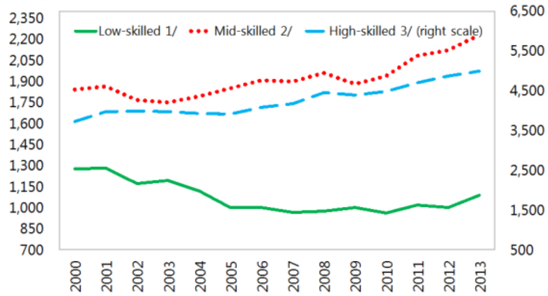
Sources: Banks' financial reports and annual reports; and IMF staff estimates.
1/ Classification varies by bank. OCBC, location of credit risk; DBS, location of borrower incorporation; and UOB, booking location.

1/ Asian currency unit (ACU) banking books are for non-Singapore dollar transactions, while domestic banking unit (DBU) books may include transactions in Singapore dollars and other currencies. Historically, ACU and DBU were analogous to foreign and domestic banks, respectively. More recently, banks with full banking licenses may maintain both DBU and ACU books, and DBU books are not restricted to Singapore dollar activities. Thus, while the ACU-DBU distinction has become blurred, data under an alternative classification that would be more economically relevant is not available.

Figure 4. Singapore: Social and Equality Indicators

Wages of low-skilled workers trended up in 2013

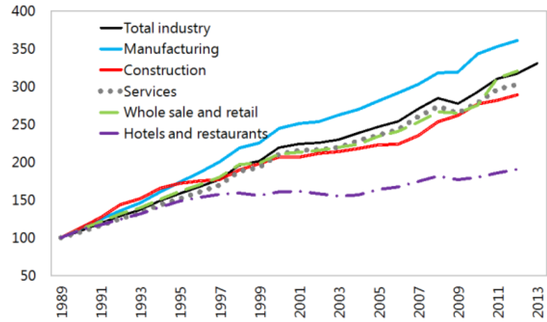
Weighted Gross Monthly Median Wages



Sources: Singapore Department of Statistics; and Ministry of ManPower.
1/ Low-skilled comprises cleaners, labourers and related workers.
2/ Mid-skilled comprises clerical & service workers, shop sales workers, production & craftsmen, plant/machine operators & assemblers.
3/ High-skilled comprises managers, professionals, technicians.

Average wages increased by 4.3 percent in 2013

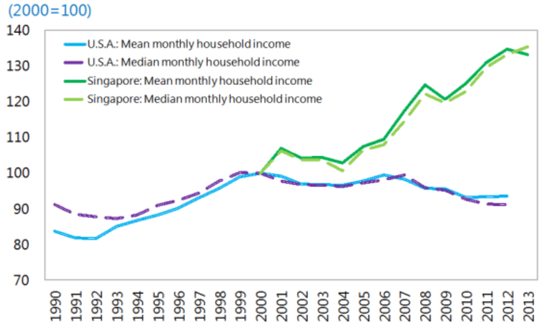
Average Nominal Monthly Earnings
(1989 = 100)



Source: Haver Analytics.

Median household income increased by 1.6 percent in 2013.

United States and Singapore: Mean and Median Household Income
(2000=100)



Sources: *Key Household Income Trend 2013*; U.S. Census Bureau; and Fund staff calculations.

While largely stagnant during 2000–06, real incomes of lower income groups have recently increased considerably.

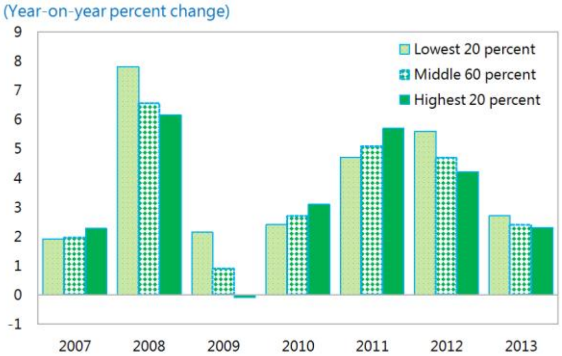
Average Monthly Real Household Income by Decile 1/

Decile	2000	2013	Cumulative Change (in percent) 2000–2013	2000–2006	2006–2013
Total	1,735	2,424	39.7	17.6	18.8
1st-10th	315	329	4.6	-6.6	11.9
11th-20th	537	637	18.7	1.1	17.4
21st-30th	720	962	33.6	9.2	22.4
31st-40th	911	1,239	36.0	10.6	23.0
41st-50th	1,119	1,543	37.9	12.0	23.1
51st-60th	1,366	1,884	37.9	13.4	21.7
61st-70th	1,669	2,306	38.2	14.8	20.4
71st-80th	2,093	2,912	39.1	17.2	18.7
81st-90th	2,821	4,155	47.3	25.0	17.8
91st-100th	5,801	8,961	54.5	31.1	17.8
Memo:					
Top dec/bottom dec	18.4	27.2			

1/ Income from work per household member in employed households. Household income from work includes employer CPF contributions. Deflated by CPI for the respective income group (lowest 20 percent, middle 60 percent, top 20 percent).

The relatively high headline inflation in during 2011–12 also affected lower-income groups.

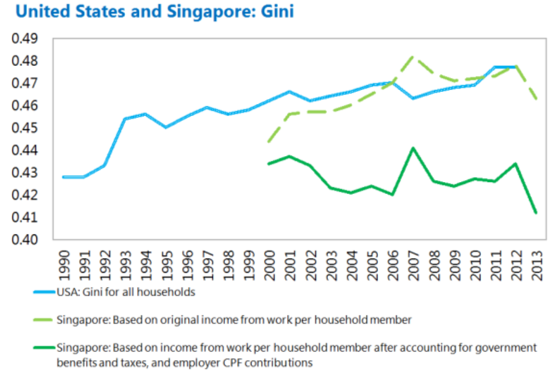
Inflation by Income Group
(Year-on-year percent change)



Source: *Yearbook of Statistics of Singapore*.

Government policies (taxes and benefit payments) are also contributing to a reduction in inequality

United States and Singapore: Gini

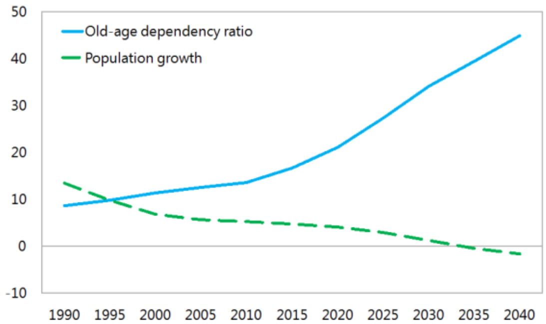


Sources: *Key Household Income Trends 2013*; and U.S. Census Bureau.

Figure 5. Singapore: Demographic Transition

Old-age dependency is projected to increase significantly in the medium to long term.

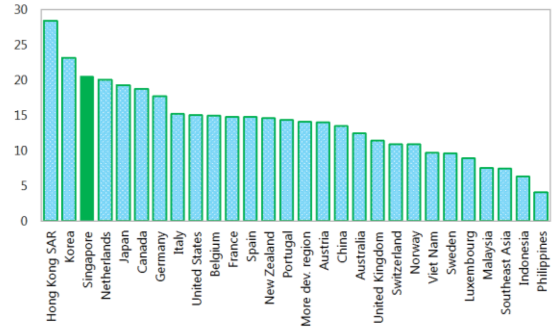
Old-Age Dependency Ratio and Population Growth
(In percent)



Source: United Nations.

Singapore's aging speeds is among the highest in the region and in advanced economies.

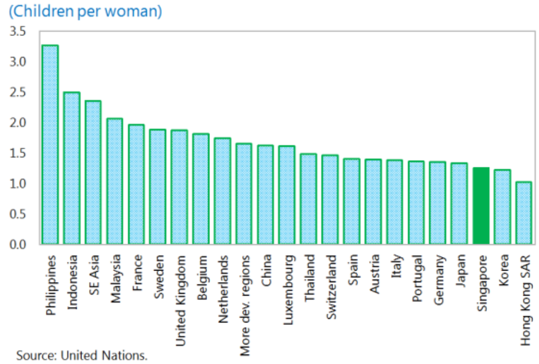
Aging Speed Comparison: Change Between 2010 and 2030
(In percent)



Source: United Nations.

The average number of children per woman is among the lowest in the world.

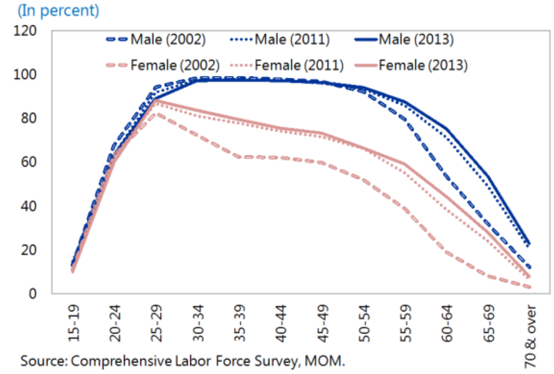
Total Fertility, 2005–2010
(Children per woman)



Source: United Nations.

Labor force participation rates have been rising for both male and female workers, but there is scope to further raise participation rates for women.

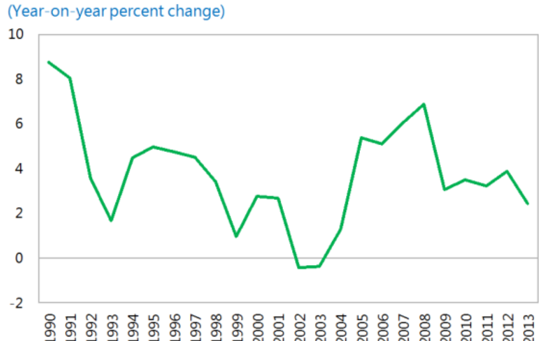
Resident Labor Force Participation Rate by Gender and Age
(In percent)



Source: Comprehensive Labor Force Survey, MOM.

Labor force growth has declined in recent years, after a period of very strong growth during 2005–2009…

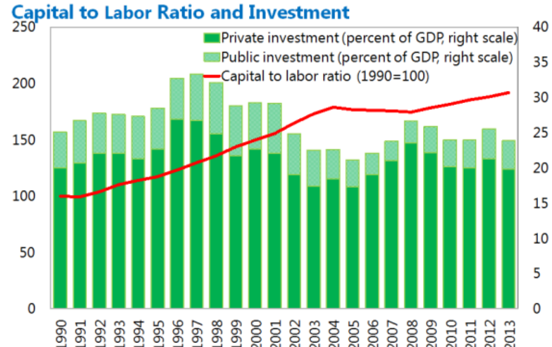
Labor Force Growth Rate
(Year-on-year percent change)



Source: Haver Analytics.

…leading to a gradual increase in the capital to labor ratio.

Capital to Labor Ratio and Investment

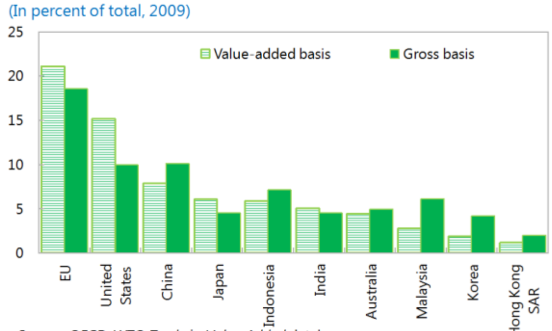


Sources: Singstat; and Haver Analytics.

Figure 6. Singapore: Spillovers

Singapore depends mainly on foreign final demand from the E.U. and U.S., while China, Japan, Indonesia and India are important partners in the region.

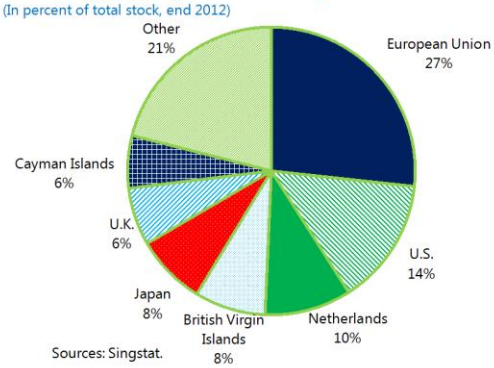
Singapore: Value Added in Foreign Final Demand versus Gross Exports
(In percent of total, 2009)



Source: *OECD-WTO Trade in Value Added* database.

FDI inflows are also dominated by the E.U. and the U.S. and are mainly concentrated in the finance and insurance sector.

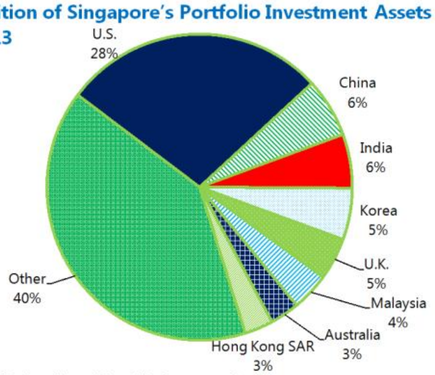
FDI to Singapore by Source Country
(In percent of total stock, end 2012)



Sources: Singstat.

Singapore has large portfolio assets, which would make its external balance sheet vulnerable to shocks in the U.S and several regional economies such as China and India.

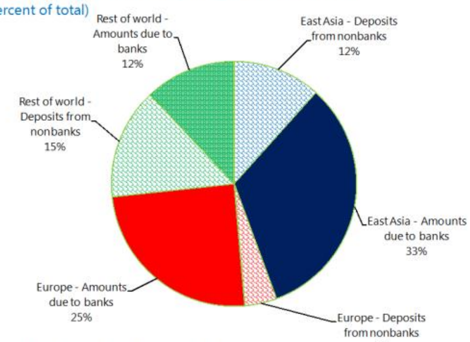
Composition of Singapore's Portfolio Investment Assets June 2013



Sources: IMF, *Coordinated Portfolio Investment Survey*.

Major sources of funding for Singapore's financial center include East Asian and European banks, followed by deposits from East Asian nonbanks.

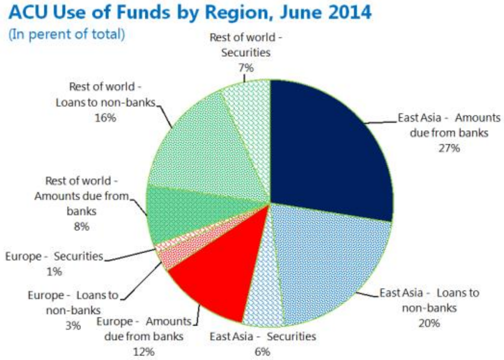
ACU Funding Sources by Region, June 2014
(In percent of total)



Source: MAS, *Monthly Statistical Bulletin*.

East Asia is the largest user of funds and likely to receive outward spillovers from Singapore, in the event of a banking sector stress in Singapore.

ACU Use of Funds by Region, June 2014
(In perent of total)



Source: MAS, *Monthly Statistical Bulletin*.

Cross-border exposures of domestic banks in Greater China and other Asian economies increased, leading to higher spillovers from the region.

Cross-Border Exposures of Domestic Banks 1/
(In percent)

Sources: Banks' financial reports and annual reports; and IMF staff estimates.
1/ Classification varies by bank. OCBC, location of credit risk; DBS, location of borrower incorporation; and UOB, booking location.

Table 1. Singapore: Selected Economic and Financial Indicators, 2009–15

Nominal GDP (2013): US$298 billion
Main exports (percent of total domestic exports): Electronic products (19%); chemical products (17%)
GDP per capita (2013): US$55,182
Population (June 2013): 5.4 million
Unemployment rate (2013): 1.9 percent

						Proj.	
	2009	2010	2011	2012	2013	2014	2015
Growth (percentage change)							
Real GDP	-0.6	13.1	6.1	2.5	3.9	3.0	3.0
Total domestic demand	-4.3	13.1	3.5	7.6	1.5	2.3	3.4
Consumption	0.0	7.0	3.1	3.1	4.1	1.9	3.1
Private consumption	-1.1	5.9	4.3	3.9	2.6	1.7	3.2
Gross capital formation	-11.2	24.1	4.3	14.9	-2.2	2.8	3.9
Saving and investment (percent of GDP)							
Gross national saving	44.5	51.5	50.1	47.9	47.4	46.8	46.4
Gross domestic investment	27.7	27.9	27.3	30.4	29.1	29.2	29.7
Inflation and unemployment (period average, percent)							
CPI inflation	0.6	2.8	5.2	4.6	2.4	1.4	2.5
Core CPI inflation	0.0	1.5	2.2	2.5	1.7	2.3	2.4
Unemployment rate	3.0	2.2	2.0	2.0	1.9	2.0	2.1
Central government budget (percent of GDP) 1/							
Revenue	19.0	20.2	22.8	22.7	22.3	22.0	22.0
Expenditure	17.8	15.4	14.8	14.7	16.1	17.4	17.8
Overall balance	1.2	4.8	8.0	8.1	6.2	4.7	4.2
Primary balance 2/	-3.8	-1.1	0.4	1.4	0.1	-1.1	-1.4
Money and credit (end of period, percentage change)							
Broad money (M2)	8.7	7.6	11.8	6.8	7.9	...	...
Credit to private sector	3.1	13.2	18.9	11.3	16.1	...	...
Three-month interbank rate(percent)	0.7	0.4	0.4	0.4	0.4	...	...
Balance of payments (US$ billions)							
Current account balance	32.4	55.9	62.6	50.2	54.6	55.4	56.0
(In percent of GDP)	(16.8)	(23.7)	(22.8)	(17.5)	(18.3)	(17.6)	(16.6)
Trade balance	47.6	62.8	69.5	63.4	67.8	70.8	73.3
Exports, f.o.b.	287.4	370.3	431.8	434.2	437.5	464.9	483.0
Imports, f.o.b.	-239.8	-307.4	-362.2	-370.8	-369.7	-394.1	-409.7
Financial account balance	-21.2	-18.3	-46.2	-23.1	-37.4	-39.0	-43.4
Overall balance	11.3	42.2	17.1	26.1	18.2	16.4	12.5
Gross official reserves (US$ billions)	187.8	225.8	237.7	259.3	273.1	289.4	301.9
(Months of imports) 3/	(5.5)	(5.7)	(5.8)	(6.2)	(6.2)	(6.3)	(6.2)
Singapore dollar/U.S. dollar exchange rate (period average)	1.45	1.36	1.26	1.25	1.25	...	...
Nominal effective exchange rate (percentage change) 4/	-0.1	3.1	3.7	2.4	2.6	...	...
Real effective exchange rate (percentage change) 4/	-0.1	3.4	5.5	4.7	2.7	...	...

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

1/ On a calendar year basis.
2/ Overall balance excluding investment income, capital revenue, and interest payments.
3/ In months of following year's imports of goods and services.
4/ Increase is an appreciation.

Table 2. Singapore: Balance of Payments, 2009–15 1/

(In billions of U.S. dollars)

						Proj.	
	2009	2010	2011	2012	2013	2014	2015
Current account balance	32.4	55.9	62.6	50.2	54.6	55.4	56.0
Trade balance	47.6	62.8	69.5	63.4	67.8	70.8	73.3
Exports, f.o.b.	287.4	370.3	431.8	434.2	437.5	464.9	483.0
Imports, f.o.b.	-239.8	-307.4	-362.2	-370.8	-369.7	-394.1	-409.7
Services balance	-2.3	-0.4	2.8	0.9	0.8	-0.6	-1.3
Exports	81.8	100.8	116.8	125.5	130.1	136.6	142.9
Imports	-84.1	-101.2	-114.0	-124.5	-129.3	-137.2	-144.2
Primary income balance	-8.9	-1.3	-3.9	-6.8	-7.2	-7.4	-8.4
Receipts	50.2	62.6	66.0	64.6	65.5	75.5	80.7
Payments	-59.1	-64.0	-69.9	-71.4	-72.6	-82.9	-89.1
Secondary income balance	-4.0	-5.2	-5.8	-7.4	-6.8	-7.4	-7.6
Capital and financial account balance	-21.2	-18.3	-46.2	-23.1	-37.4	-39.0	-43.4
Capital account (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (net)	-21.2	-18.3	-46.2	-23.1	-37.4	-39.0	-43.4
Direct investment	-2.4	21.7	26.9	47.7	36.8	39.3	42.0
Assets	-26.2	-33.4	-23.5	-13.5	-27.0	-30.2	-33.8
Liabilities	23.8	55.1	50.4	61.2	63.8	69.6	75.7
Portfolio investment	-27.2	-29.4	-6.9	-65.0	-47.0	-49.1	-54.7
Assets	-28.3	-37.4	-0.6	-70.1	-51.9	-54.2	-60.5
Liabilities	1.2	8.0	-6.3	5.1	4.9	5.1	5.7
Other investment and financial derivatives	8.4	-10.5	-66.2	-5.8	-27.2	-29.3	-30.7
Net errors and omissions	0.1	4.5	0.7	-0.9	1.0	0.0	0.0
Overall balance	11.3	42.2	17.1	26.1	18.2	16.4	12.5
Memorandum items:							
Current account as percent of GDP	16.8	23.7	22.8	17.5	18.3	17.6	16.6
Trade balance as percent of GDP	24.7	26.6	25.4	22.1	22.8	22.5	21.8
Re-exports as percent of GDP	68.3	71.4	67.7	62.8	64.2	...	...
Net international investment position							
In billions of U.S. dollars	368.5	438.9	502.6	549.4	562.6	...	...
In percent of GDP	184.8	175.3	189.7	187.3	190.9	...	...

Sources: Monetary Authority of Singapore, *Economic Survey of Singapore*; and IMF 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 period-average exchange rates.

Table 3. Singapore: Monetary Survey, 2010–14 1/

	2010	2011	2012	2013				2014	
				Mar.	June	Sep.	Dec.	Mar.	June
	(In billions of Singapore dollars, end of period)								
Net foreign assets	368	380	405	402	415	438	433	435	439
Monetary authorities	287	305	314	317	326	331	339	338	341
Banks	81	74	92	84	89	107	93	97	98
Domestic credit	511	596	660	697	710	721	745	753	773
Claims on private sector	419	498	554	583	601	615	643	653	669
Claims on central government	92	98	105	114	109	105	102	100	103
Other items (net)	-358	-393	-443	-449	-472	-484	-507	-499	-525
M2	521	582	622	649	653	675	671	689	686
M1	166	192	213	225	237	239	241	253	246
Quasi-money	355	391	410	424	416	436	430	435	440
	(Annual percentage change)								
Domestic credit	11.5	16.7	10.6	12.6	13.0	11.8	13.0	8.0	8.8
Claims on private sector	13.2	18.9	11.3	12.5	14.1	14.4	16.1	12.1	11.3
M2	7.6	11.8	6.8	8.6	8.9	10.8	7.9	6.1	5.1
	(Contribution to M2 growth, in percent)								
Net foreign assets	-1.1	2.3	4.4	3.2	4.4	7.5	4.4	5.1	3.7
Domestic credit (net)	10.8	16.3	10.9	13.1	13.6	12.5	13.8	8.6	9.6
Claims on private sector	10.1	15.2	9.7	10.8	12.4	12.8	14.3	10.8	10.4
Claims on central government (net)	0.8	1.1	1.2	2.3	1.2	-0.3	-0.6	-2.2	-0.9
Other items (net)	-2.2	-6.8	-8.5	-7.7	-9.1	-9.1	-10.3	-7.7	-8.1
Memorandum items:									
Total loans to nonbanks (in billions of Sing. dollars) 2/	668	827	907	964	995	1,022	1,081	1,124	1,152
Total loans to nonbanks (annual percentage change)	13.3	23.9	9.7	15.3	15.1	16.2	19.2	16.6	15.9
Claims on resident private sector (3mma/3mma, saar)	…	…	…	18.8	14.1	11.5	18.2	9.5	7.3

Sources: IMF, *International Financial Statistics* ; and CEIC Data Co., Ltd.

1/ Based on DBUs and ACUs.
2/ Total loans of DBUs and ACUs to both residents and nonresidents.
3/ For ACUs, data are converted to Singapore dollar using end-of-period exchange rate.

Table 4. Singapore: Indicators of Vulnerability, 2009–14

	2009	2010	2011	2012	2013	2014
Financial sector indicators						
Broad money (M2, percent change, y/y) 6/	8.7	7.6	11.8	6.8	7.9	5.1
Private sector credit (percent change, y/y) 6/	3.1	13.2	18.9	11.3	16.1	11.3
Credit to the property sector (percent change, y/y) 1/ 6/	8.3	18.2	19.5	16.3	11.8	8.7
Share of property sector credit in total nonbank credit (percent) 1/ 6/	49.9	51.4	47.2	47.0	44.9	44.7
Credit rating of local banks (S&P) 2/ 6/	A+/AA-	A+/AA-	A+/AA-	AA-	AA-	AA-
Three-month S$ SIBOR (percent, end-year) 6/	0.7	0.4	0.4	0.4	0.4	0.4
NPL ratio (local banks, percent) 3/ 4/	2.4	1.6	1.2	1.2	1.1	...
Capital adequacy ratio of local banks (percent) 4/	17.3	18.6	16.0	18.1	16.1	...
Asset market indicators						
Stock prices (percent change, y/y) 6/	64.5	10.1	-17.0	19.7	0.0	3.3
P/E ratio 6/	19.3	19.0	10.3	13.4	13.1	12.4
Stock prices of the finance sector (percent change, y/y) 6/	75.1	2.4	-23.4	36.8	-1.1	2.7
Real estate prices (percent change, y/y) 5/ 6/						
Private residential	-14.1	25.4	9.5	2.3	3.1	0.3
Office space	-20.0	8.6	18.8	3.8	4.9	3.9
Industrial space	-16.7	11.2	30.2	28.3	10.5	3.9
External indicators						
Current account balance (US$ billion)	32.4	55.9	62.6	50.2	54.6	...
(In percent of GDP)	16.8	23.7	22.8	17.5	18.3	...
Gross official reserves (US$ billion) 6/	187.8	225.8	237.7	259.3	273.1	278.0
(In months of next year's imports of goods and services)	5.5	5.7	5.8	6.2	6.2	6.0
Real effective exchange rate (end of period, 2010=100) 6/	96.5	102.7	105.0	113.7	114.2	113.7

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

1/ For domestic banking units (DBU).
2/ Ratings of the three major local banks.
3/ In percent of global nonbank loans.
4/ The number for 2013 is as of September.
5/ The underlying price indices are computed based on the Laspeyres method and are 4-quarter moving averages.
6/ The number for 2014 is as of June.

Table 5. Singapore: Summary of Government Operations and Stock Positions, 2010/11–2014/15 1/

	2010/11	2011/12	2012/13	2013/14		2014/15	
				Budget	Prel.	Budget 11/	Proj.
I. Statement of government operations							
			(In billions of Singapore dollars)				
Revenue	69.8	81.3	81.4	78.3	84.1	84.2	85.4
Taxes	41.8	46.1	50.1	49.6	51.1	53.2	52.6
Social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue 2/	27.9	35.2	31.2	28.8	32.9	31.1	32.8
Of which : interest income	2.0	1.7	1.7	2.4	2.3	2.5	2.5
Expenditure	48.1	51.6	52.8	62.8	62.7	72.0	68.5
Expense 3/	34.4	38.7	38.9	46.0	49.5	56.0	54.5
Compensation of employees	5.9	5.7	6.2	6.7	6.9	7.1	7.0
Use of goods and services	15.4	15.3	15.7	17.4	16.9	17.7	17.5
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expense not elsewhere classified	13.1	17.7	17.0	22.0	25.7	31.2	30.1
Grants, subventions & capital injections to organisations	6.0	6.7	6.7	7.1	7.1	7.9	7.4
Transfers 3/	11.0	13.9	13.4	16.1	17.9	19.5	18.9
Other expense	-3.8	-2.9	-3.0	-1.2	0.7	3.8	3.8
Net acquisition of nonfinancial assets	13.7	12.9	13.9	16.8	13.2	16.0	14.0
Development expenditure	12.1	11.4	12.6	12.8	11.9	13.8	12.6
Land-related expenditure	1.6	1.5	1.3	4.1	1.3	2.2	1.4
Gross operating balance	35.4	42.6	42.5	32.3	34.6	28.2	30.9
Net lending/borrowing	21.7	29.7	28.6	15.5	21.3	12.2	16.9
Net acquisition of financial assets	...	...	...	...	...	...	...
Net incurrence of liabilities	...	...	...	...	...	...	...
			(In percent of GDP)				
Revenue	21.2	23.4	22.5	20.8	22.3	21.7	21.9
Taxes	12.7	13.2	13.9	13.1	13.6	13.7	13.5
Other revenue 2/	8.5	10.1	8.7	7.6	8.7	8.0	8.4
Expenditure	14.6	14.8	14.6	16.7	16.6	18.5	17.6
Expense 3/	10.4	11.1	10.8	12.2	13.1	14.4	14.0
Net acquisition of nonfinancial assets	4.2	3.7	3.8	4.5	3.5	4.1	3.6
Gross operating balance	10.7	12.3	11.8	8.6	9.2	7.3	7.9
Net lending/borrowing	6.6	8.5	7.9	4.1	5.7	3.1	4.3
Memorandum items:			(In percent of GDP)				
Primary balance 4/	0.0	0.6	1.7	-1.0	-0.4	-2.1	-1.3
Cyclically adjusted primary balance	-1.0	-0.6	0.6	-2.3	-1.7	-3.4	-2.6
Expenditures on social development 5/	6.2	6.4	6.2	...	6.8	7.4	...
Land sales revenue	4.4	5.5	5.1	4.1	4.9	4.3	4.7
Spending from Endowment and Trust Funds (9)	0.6	0.7	0.8	...	1.1	1.2	1.2
Fiscal impulse -(((5)-(9))-(5(-1)-(9(-1))) 6/	-1.6	-0.6	-0.9	...	1.3	0.7	...
Authorities' budgetary accounts 7/							
Operating revenue (1)	14.0	14.7	15.5	14.6	15.1	15.3	...
Total expenditure (2)	13.7	13.4	13.6	14.1	13.9	14.6	...
Primary fiscal balance (3)=(1)-(2)	0.2	1.3	1.9	0.4	1.3	0.7	...
Special transfers (excl. transfers to endowment funds) (4)	0.5	0.8	0.4	0.3	0.9	0.9	...
Basic balance (5)=(3)-(4)	-0.2	0.5	1.5	0.1	0.4	-0.2	...
Transfers to Endowment and Trust Funds (6)	1.7	1.6	2.1	1.5	1.5	2.2	...
Net investment returns contribution (7)	2.2	2.3	2.2	2.0	2.1	2.1	...
Overall balance (8)=(5)-(6)+(7)	0.3	1.2	1.6	0.6	1.0	-0.3	...
II. Stock positions	2010	2011	2012	2013	2014		
			(In billions of Singapore dollars, unless otherwise indicated)				
Gross financial assets 8/	...	...	...	816.7	...		
Gross debt 9/	321.2	354.0	385.0	390.4	...		
Gross debt (in percent of GDP) 9/	99.6	102.7	107.4	104.7	...		
Memorandum items:							
Government deposits at the Monetary Authority of Singapore 8/	119.6	124.5	146.9	162.8	114.2		
Temasek asset holdings 8/ 10/	186.0	193.0	198.0	215.0	223.0		

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

1/ The fiscal year runs from April 1 through March 31. The presentation of the table is based on GFSM 2001.
2/ Includes revenue from land sales and investment income.
3/ Central government spending is adjusted by adding spending by endowment and trust funds set up by the government (line (9)).
4/ Overall balance excluding investment income, capital revenue, and interest payments.
5/ Includes development and operating expenditure on education, health, national development, environment and water resources, culture, community and youth, social and family development, communications and information, and manpower (financing security program). Includes spending on social development purposes from endowment and trust funds set up by the government.
6/ The fiscal impulse is approximated by the change in the adjusted basic balance (basic balance derived from the authorities' budgetary accounts minus spending from endowment and trust funds).
7/ The authorities' budgetary accounts are based on Singapore's Constitutional rules governing the protection of Past Reserves. It includes the net investment returns contribution, which reflects the amount of investment returns that is taken into the Budget. It excludes receipts such as proceeds from land sales and the remaining part of investment income that accrues to Past Reserves and cannot be used to fund government expenditures without the approval of the President. While such receipts are not reflected in the Overall Balance, the information is presented annually to Parliament and included in Budget documents.
8/ Gross asset stock figures are as at the end of March for each year.
9/ Gross debt stock figures are as at the end of the calendar year. Government debt is issued to develop domestic capital markets and to provide an investment vehicle for the mandatory saving scheme.
10/ Temasek owns the assets on its own balance sheet. The government of Singapore is the sole equity shareholder of Temasek.
11/ The IMF staff projection for GDP is used to calculate the numbers for the 2014/15 budget in the authorities' budgetary accounts in percent of GDP.

Table 6. Singapore: Medium-Term Scenario, 2009–19

						Proj.					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real growth (percent change)											
GDP	-0.6	15.2	6.1	2.5	3.9	3.0	3.0	3.0	3.0	3.1	3.1
Total domestic demand	-4.3	13.1	3.5	7.6	1.5	2.3	3.4	3.4	3.3	3.4	3.5
(Contribution to GDP growth, in percent)	-3.3	9.7	2.6	5.5	1.2	1.7	2.5	2.5	2.4	2.5	2.6
Final domestic demand	1.3	7.3	3.5	5.2	1.8	3.0	3.5	3.5	3.4	3.5	3.6
Consumption	0.0	7.0	3.1	3.1	4.1	1.9	3.1	3.4	3.7	3.8	4.0
Private	-1.1	5.9	4.3	3.9	2.6	1.7	3.2	3.6	3.7	3.9	4.1
Public	4.2	10.7	-1.1	-0.1	9.9	2.4	2.6	2.8	3.6	3.6	3.6
Gross capital formation	-11.2	24.1	4.3	14.9	-2.2	2.8	3.9	3.4	2.7	2.8	2.8
Private	-13.5	23.3	3.2	15.0	-2.7	3.3	3.3	2.9	1.9	2.0	1.9
Public	2.7	30.2	10.0	14.6	0.0	0.7	6.5	5.5	6.1	6.2	6.4
Gross fixed investment	3.7	7.8	4.3	8.9	-1.9	5.0	4.1	3.7	2.9	3.0	3.0
Change in inventories 1/	-4.3	4.1	0.1	1.8	-0.1	-0.5	0.0	0.0	0.0	0.0	0.0
Net exports /1	4.0	6.3	3.6	-2.4	1.8	0.6	0.5	0.5	0.5	0.5	0.5
Saving and investment (percent of GDP)											
Gross national savings	44.5	51.5	50.1	47.9	47.4	46.8	46.4	46.1	45.6	45.2	44.5
Government 2/	5.8	9.1	11.9	11.9	9.8	8.2	7.9	7.9	7.9	7.9	7.8
Private and other	38.7	42.4	38.2	36.0	37.6	38.6	38.4	38.2	37.8	37.3	36.8
Gross capital formation	27.7	27.9	27.3	30.4	29.1	29.2	29.7	30.0	30.0	30.0	30.0
Government 3/	4.2	3.9	3.8	3.8	3.6	3.6	3.7	3.8	4.0	4.1	4.3
Private and other	23.4	24.0	23.5	26.6	25.5	25.7	26.0	26.1	26.0	25.9	25.8
Inflation and unemployment											
(period average, percent)											
CPI inflation	0.6	2.8	5.2	4.6	2.4	1.4	2.5	2.7	2.3	2.4	2.3
Core CPI inflation	0.0	1.5	2.2	2.5	1.7	2.3	2.4	2.3	2.3	2.2	2.1
Unemployment rate	3.0	2.2	2.0	2.0	1.9	2.0	2.1	2.2	2.2	2.1	2.1
Output gap	-6.3	2.6	3.7	1.7	1.4	0.9	0.7	0.5	0.3	0.3	0.2
Central government (percent of GDP) 4/											
Revenue	19.0	20.2	22.8	22.7	22.3	22.0	22.0	22.1	22.3	22.4	22.6
Expenditure	17.8	15.4	14.8	14.7	16.1	17.4	17.8	18.0	18.3	18.7	19.1
Overall balance	1.2	4.8	8.0	8.1	6.2	4.7	4.2	4.1	3.9	3.7	3.5
Primary balance 5/	-3.8	-1.1	0.4	1.4	0.1	-1.1	-1.4	-1.4	-1.4	-1.5	-1.7
Merchandise trade (percent change)											
Export volume	-9.7	18.6	4.7	0.0	3.0	6.0	5.0	6.4	6.5	6.4	6.5
Import volume	-14.2	18.1	4.3	1.5	2.1	6.3	5.4	7.0	7.1	7.0	7.2
Terms of trade	1.0	-0.9	-2.8	-0.5	0.0	0.0	0.3	0.4	0.3	0.2	0.1
Balance of payments 6/ (percent of GDP)											
Current account balance	16.8	23.7	22.8	17.5	18.3	17.6	16.6	16.2	15.7	15.2	14.5
Balance on goods and services	23.5	26.4	26.4	22.4	23.0	22.3	21.4	20.8	20.3	19.8	19.2
Balance on primary and secondary income	-6.7	-2.8	-3.6	-5.0	-4.7	-4.7	-4.8	-4.6	-4.6	-4.6	-4.6
Gross official reserves (US$ billions)	187.8	225.8	237.7	259.3	273.1	289.4	301.9	314.6	328.4	343.2	359.2
(In months of imports) 7/	(5.5)	(5.7)	(5.8)	(6.2)	(6.2)	(6.3)	(6.2)	(6.1)	(6.0)	(5.8)	(5.7)

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

1/ Contribution to GDP growth.
2/ Based on fiscal accounts data.
3/ Based on national accounts data.
4/ On a calendar year basis.
5/ Overall balance excluding investment income, capital revenue, and interest payments.
6/ The authorities recently migrated to the *Balance of Payments Manual 6* (BPM6), which resulted in some balance of payments data revisions.
7/ In months of next year's imports of goods and services.

Table 7. Singapore: Financial Soundness Indicators—Local Banking Sector, 2009–13 1/

	2009	2010	2011	2012	2013		
					Mar.	Jun.	Sep.
	(In percent)						
Capital adequacy ratio							
Regulatory capital to risk-weighted assets	17.3	18.6	16.0	18.1	16.9	16.3	16.1
Regulatory tier I capital to risk-weighted assets	14.1	15.5	13.5	14.9	14.2	13.6	13.5
Shareholders' equity to assets	9.9	9.5	8.7	9.2	8.9	8.6	8.3
Asset quality							
NPLs to nonbank loans	2.4	1.6	1.2	1.2	1.1	1.1	1.1
Total provisions to NPLs	90.8	110.9	125.5	128.3	133.7	134.3	131.2
Specific provisions to NPLs	40.0	40.5	39.3	41.8	39.9	38.7	35.7
Loan concentrations (in percent of total loans)							
Bank loans	14.1	12.2	13.3	12.7	13.6	13.3	14.4
Nonbank loans	85.9	87.8	86.7	87.3	86.4	86.7	85.6
Of which:							
Manufacturing loans	8.3	8.1	8.1	7.9	8.9	8.8	8.1
Building and construction loans	12.4	12.0	12.1	12.6	12.9	13.0	13.0
Housing loans	22.2	23.2	20.7	22.0	21.3	20.8	20.4
Loans to professionals and private individuals	8.7	8.6	8.3	8.8	8.6	8.7	8.6
Loans to nonbank financial institutions	11.2	11.7	10.7	10.7	8.9	8.9	8.8
Profitability							
After tax return on assets	1.1	1.2	1.0	1.1	1.1	1.0	1.0
After tax return on equity	10.8	12.2	11.1	12.0	11.8	11.3	11.6
Net interest margin	2.2	2.0	1.9	1.8	1.7	1.7	1.6
Non-interest income to total income	34.9	40.6	37.3	43.6	42.6	40.9	40.1
Liquidity 2/							
Liquid DBU assets to total DBU assets	10.3	9.3	9.9	9.7	9.9	9.9	9.5
Liquid DBU assets to total DBU liabilities	11.2	10.1	10.7	10.5	10.7	10.7	10.2

Source: Monetary Authority of Singapore.

1/ The data is for local banks' consolidated operations. Local banks include five Singaporean banks.
2/ Liquidity data reflect all commercial banks operating in Singapore, including branches and subsidiaries.

Appendix I. Singapore—Risk Assessment Matrix 1/

(Potential deviations from baseline)

Sources of Risk	Time Horizon	Likelihood	Transmission Channels	Expected Impact	Recommended Policy Response
Protracted period of slower growth in advanced and emerging economies ↓	Short-Medium Term	High	*Direct and intraregional trade linkages*. Singapore's high degree of openness and position as a financial center and a trading hub would imply large spillovers from advanced economies' slower growth. High household indebtedness and potential asset price corrections could exacerbate a slowdown in economic activity, with potential spillovers to banks. *Financial linkages*. Exposure to Europe and the U.S. is limited for domestic banks; but significant for offshore banks. Potential inward spillovers from banks in advanced markets with significant presence in Singapore's domestic market.	**Medium to High**	Should domestic demand weaken substantially, use temporary and targeted fiscal stimulus, loosen monetary policy and recalibrate MaPs as necessary while maintaining financial stability. In the longer run, diversify the economy further to be able to tap demand from faster-growing regions, including Asia.
Continued buildup and eventual unwinding of excess capacity in China resulting in a sharp growth slowdown and large financial and fiscal losses ↓	Medium Term	Medium	*Direct and intraregional trade linkages.* A significant slowdown in China would have both direct and indirect effects on Singapore's exports, on the back of increasing direct trade links between China and the region. China is also the second largest source of tourists for Singapore. Domestic demand would also be hit through worsening investment sentiment. *Financial linkages*. Although most of the domestic banks' lending to China is in the form of trade finance, total exposures have grown to around 50 percent of GDP. Widespread corporate defaults could lead to rising NPLs. More broadly, given Singapore's role as a financial center, financial stress in China could lead to a decline in investor sentiment, pullback of funding and market volatility.	**Medium to High**	Provide temporary and targeted fiscal support and loosen monetary policy to offset headwinds from a potential slowdown. Continue to monitor banks' exposures to China and the rest of the region. Use prudential policies and bank supervision to ensure risks are managed well.
An abrupt surge in global financial market volatility as investors reassess underlying risk ↓	Short Term	High	*Decline in financial sector* activity could slow growth. Financial sector activity is an important driver of the economy and is very sensitive to global risk sentiment. *Asset price* corrections due to sustained capital flow reversals and *higher-than-expected increases in interest rates* could affect growth prospects through wealth effects and deteriorate banks' capital, especially in light of the elevated levels of household and corporate debt and prevalence of variable interest rates. *Liquidity risks owing to* sudden retrenchment of interbank—including intra-group—funding of offshore banks and funding pressures due to foreign currency liabilities of domestic banks.	**Medium**	Ensure financial institutions maintain prudent risk management practices and have adequate liquidity and capital buffers. Maintain close links with home country supervisors. Recalibrate macroprudential policies to mitigate financial sector stress. In an extreme event, the strong official reserve position could provide an additional cushion. Swap lines with other central banks complement this.
Disorderly or excessive correction in property prices ↓	Short/ Medium Term	Medium	*Decline in collateral values and wealth effects* could trigger a fall in economic activity and bank lending with further adverse feedback effects on household indebtedness and property prices.	**Medium**	Adjust macroprudential policies while safeguarding financial stability. Use targeted fiscal transfers to households whose debt servicing capacity is adversely affected.
Singapore's policy-induced tight labor market fails to generate significant productivity gains/generates higher than anticipated productivity gains increasing potential growth relative to the baseline ↓ ↑	Medium-Long Term	Medium	*Sharp increase in unit labor costs and loss of competitiveness.* Achieving productivity improvements is unpredictable in terms of timing and magnitude. Rising wages without compensating productivity gains would increase unit labor costs, squeeze profit margins and reduce competitiveness. This could lead to business closures and worker layoffs, in particular among SMEs. NPLs would rise and mortgage quality would decline on elevated unemployment. *Higher potential growth*. Although Singapore is at the technological frontier in many sectors, there is scope for productivity increases through economic restructuring towards higher-value added sectors and raising productivity in sectors where Singapore faces productivity gaps.	**Medium**	The pace of implementation of tightening the labor market should be carefully calibrated to minimize transitional costs. Temporary and targeted fiscal transfers to help SMEs during the transition could also be effective. Continue to increase public spending on health, education and infrastructure to provide a supporting environment to increase productivity.
Risks to financial stability from inconsistent and partial implementation of financial regulatory reforms/Delays in the implementation of AML standards and associated reputational risks ↓	Short-Medium Term	Medium/ Low	*Decline in cross-border banking activity*. Uncertainty about regulatory reform and uneven progress across major jurisdictions could lead to regulatory arbitrage, financial fragmentation and a decline in cross-border banking activity. *Reputational risks*. If risks related to opaque ownership structures in the wealth management sector are not adequately addressed, any change in perceptions about Singapore's good reputation could have adverse effects on the viability of the industry.	**Medium**	Ensure regulatory standards and risk management practices keep up with international regulatory norms. Continue to maintain collaboration with financial sector supervisors in other major jurisdictions. Fully implement international AML standards. Ensure service providers report suspicious transactions, and close accounts where supporting evidence of beneficial ownership is incomplete.
Inflationary pressures due to higher than expected upswing in external demand ↑	Short/ Medium Term	Low	*Binding supply constraints amid economic restructuring* and a positive output gap could lead to strong inflationary pressures and rising inflation expectations, putting significant strain on monetary policy.	**Medium**	Tighten monetary policy to stabilize inflationary pressures. Accelerate structural reforms to accommodate the faster restructuring of the economy and increase productivity.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Appendix II. Singapore—External Sector Developments and Assessment

Current account and real effective exchange rate (REER). After narrowing by about 6 percentage points during 2010–2012, Singapore's current account surplus increased slightly in 2013 to reach 18.3 percent of GDP. The REER continued on its appreciation path, mainly reflecting the nominal effective appreciation of the Singapore dollar as relative inflation differentials declined. Despite the recent narrowing, Singapore's current account surplus is one of the highest in the world and high relative to other financial centers. Historically, a very high savings rate (both public and private) has underpinned Singapore's current account. High public sector savings are driven by Singapore's prudent fiscal policy framework, which involves a balanced budget rule over the political cycle and a cap on the transfer to the budget of investment returns earned on government assets. In fact, fiscal policy has been more prudent than implied by these fiscal rules. The relatively limited social safety nets, a rapid pace of projected aging, the mandatory defined-contribution pension scheme, and greater income inequality than in other countries may have contributed to the high level of private savings. High corporate savings represent another important driver of private savings in Singapore while its status as a financial center may have also contributed to precautionary saving motives[1]. The narrowing of the current account since 2010 is expected to be structural and continue in the medium term. In addition to the adjustment in the rest of the world, the narrowing of Singapore's current account will be driven by Singapore's economic restructuring, rapidly aging population, lower public sector savings and enhanced social safety nets. Consistent with these structural trends, the REER is expected to continue to appreciate in the medium term.

Foreign asset and liability position. Singapore has a large positive net international investment position, reflecting large net portfolio assets and official reserves. Although the size of official foreign assets held by Government Investment Corporation, Singapore's sovereign wealth fund, is unknown, it likely accounts for a considerable share of the portfolio holdings. Gross assets and liabilities are significant relative to GDP, which implies that valuation changes are an important driver of changes in the foreign asset and liability position. The high net foreign asset position of Singapore does not seem to make a significant contribution to the current account through the income balance given the higher income paid on IIP liabilities (mainly FDI) than on assets (portfolio and official reserves). Singapore's NIIP position is expected to increase over time, based on declining but still sizable current account balances that are projected in the medium term.

Capital and financial accounts. Singapore has a fully open capital account. The financial account deficit is mainly driven by official sector flows, reflecting the reinvestment abroad of income from large foreign assets. These flows tend to co-move with the global financial cycle. Net FDI inflows are also significant and have historically been driven by foreign investment in the financial services

[1] See *Singapore—Staff Report for the 2013 Article IV Consultation*, Appendix 2 for a more detailed discussion of corporate savings and other structural factors that contribute to Singapore's strong external position.

sector. Net bank-related flows are relatively small but gross banking sector-related flows are significant and highly volatile. Financial account is expected to remain in deficit as long as income from net foreign assets is reinvested abroad.

Reserve adequacy. There is no standard quantitative metric to assess reserve adequacy for advanced economies. Staff's assessment of reserve adequacy takes into account Singapore's position as an international financial center that does not issue a reserve currency which implies potential precautionary need for reserves in periods of market distress and low foreign exchange liquidity[1]. Singapore has a large stock of short-term external debt (344 percent of GDP in 2013), which mainly reflects the cross-border activities of its large international banking system and would therefore call for generous reserve buffers. However, about 80 percent of banks' short-term liabilities are covered by their short-term external financial assets, and FSAP's U.S. dollar liquidity stress tests last year showed that the banking sector's FX funding gap over a one-year horizon would be about 50 billion U.S. dollars, which is easily covered by Singapore's official reserves (at 270 billion U.S. dollars). In addition, Singapore's strong framework for effective supervision of banks and ability to access swap lines with major central banks in case of a generalized funding stress would reduce the need to have significant reserve buffers. Reserve buffers also serve an important role in the implementation of monetary policy under Singapore's managed exchange rate system. With the nominal effective exchange rate used as the intermediate target, intervention is undertaken as required to achieve monetary policy's inflation and output goals. Based on considerations for both precautionary needs and the effective implementation of the monetary policy framework, Singapore's current levels of reserves appear adequate and there is no clear case for further reserve accumulation.

Quantitative assessment of the current account and the REER. Singapore is a very open economy that serves as a regional financial center and trading hub. Its export and import shares relative to GDP are one of the highest in the world (190½ percent and 167½ percent of GDP in 2013), and changes in its current account are relatively large, making quantitative assessments difficult (Figure II.1). Singapore is also an outlier with respect to its income per capita, pace of aging, and NIIP position, limiting the applicability of quantitative assessments based on cross-country econometric models.

[1] We use MAS's official reserves in the assessment of reserve adequacy as opposed to the total foreign assets of the public sector, given the more liquid nature of MAS's foreign reserves.

Singapore: Quantitative Exchange Rate Assessment

In Percent	Norm	Projection 2019 1/	Gap
Exchange rate misalignment			
Equilibrium real exchange rate approach 2/	...	...	17.3
		(In percent of GDP)	
Current acccount			
CGER (WEO April 2013)			
Macroeconomic balance approach 3/	6.2	14.5	8.3
Macroeconomic balance approach with financial	8.4	14.5	6.1
External sustainability approach 5/	8.2	14.5	6.3
External balance assessment (EBA) 6/	17.4	...	2.9

1/ Staff's projection for 2019.
2/ Misalignment based on CGER-like methods using April 2014 WEO data and April 2014 REER.
3/ Norm based on CGER-like methods using April 2014 WEO data.
4/ Norm based on CGER-like methods with a dummy for financial centers. The financial centers are defined as in *Exchange Rate Assessments in Special Cases* (IMF, January 2014).
5/ Using actual 2013 NFA/GDP as benchmark.
6/ Singapore is not part of the EBA sample. The etimates are obtained by applying EBA regression coefficients to Singapore data. The gap is computed relative to the cyclically-adjusted CA in 2013.

Standard CGER-like models and the EBA model were used to assess the external balance. The CGER equilibrium real exchange rate method implies that the REER is 17 percent stronger than warranted by medium-term fundamentals.[2] Macroeconomic balance (MB) approach allowing for a financial center dummy (staff's preferred MB approach specification) and the external sustainability approach imply a CA surplus of 8–8½ percent of GDP as the norm consistent with medium-term fundamentals, and a CA gap of 6−6½ percent of GDP relative to staff's medium-term CA projection of 14.5 percent of GDP.[3] EBA-like estimates imply a CA balance norm of 17½ percent of GDP for 2013 in cyclically-adjusted terms, suggesting a CA gap of about 3 percent of GDP relative to the cyclically-adjusted CA balance in 2013.[4] In the MB and EBA models, the current level of NFA is used

[2] This result is in contrast with CGER and EBA-like models for the assessment of the current account and likely reflects the inclusion of a fixed effect together with the U-Shaped pattern of the actual REER since the mid-1990s, leading to a fitted series that—for methodological reasons rather than fundamental economic considerations—is flatter than the actual REER series.

[3] The financial center dummy may capture precautionary saving motives, a high level of net foreign assets and other characteristics that are associated with financial centers affecting saving and investment decisions.

[4] Singapore is not in the sample used to estimate the EBA models because it is an outlier along several dimensions (e.g. the NFA position, per capita income, fiscal balance and the aging speed) and nonlinearities in their impacts on the CA would not be captured in the EBA framework. That said, the EBA CA framework, appropriately adjusted for the

(continued)

as an explanatory variable and if the high NFA level is interpreted as a byproduct of past excessive surpluses, the CA balance norm may be overstated. For the ES approach, the current level of NFA is implicitly assumed to be optimal, and could also overstate the norm in cases like Singapore with a large NFA position. Based on these model estimates and reflecting the wide range of uncertainty in the case of Singapore, the current account gap is assessed to have a range of 2–8 percent of GDP. With respect to the REER, staff assesses that the real exchange rate is around 4–16 percent weaker than warranted by medium-term fundamentals and desirable policies. This estimate is drawn from the CA assessment and relies on a semi-elasticity of the CA with respect to the REER of about 0.5, consistent with Singapore's high level of openness. It therefore reflects the uncertainty in the underlying CA assessment and the semi-elasticity of the CA with respect to the REER. Despite the wide range of quantitative assessments for the current account and REER gaps, they are still large relative to other countries covered in the External Sector Report (ESR).

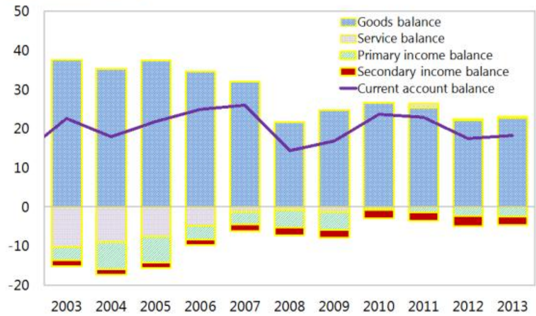
Overall assessment. Based on the range of quantitative assessments and the associated policy gaps, a large positive NIIP position which is expected to increase in the medium term, continuation of a deficit in the financial account and adequate levels of foreign reserves, the external position is assessed to be substantially stronger than what is consistent with medium-term fundamentals and desirable policies. However, this assessment and the size of the imbalance are subject to a wide range of uncertainty reflecting Singapore's very open economy and position as a global trading and financial center. From a multilateral perspective, and consistent with the authorities' current policies, increased public spending, a stronger social safety net, a more-even distribution of income across generations, helped by an expected slower absorption of foreign workers are expected to contribute to further moderate the current account.

special characteristics of Singapore, can still be informative. Applying the EBA coefficients to Singapore suggests that the CA surplus is mainly explained by the high level of productivity, the large fiscal surplus and high rate of aging, plus a dummy regressor for status as a financial center, and its large NFA position. Of the EBA-estimated CA gap of 3 percent of GDP, two percentage points is identified as policy gaps (driven by the fiscal balance (both in Singapore and in the rest of the world) and public spending on health care) and the remaining 1 percentage point of GDP is the residual.

Figure II.1. Singapore: External Sector

The current account surplus increased slightly in 2013, after narrowing by 6 percentage points of GDP during 2010–2012.

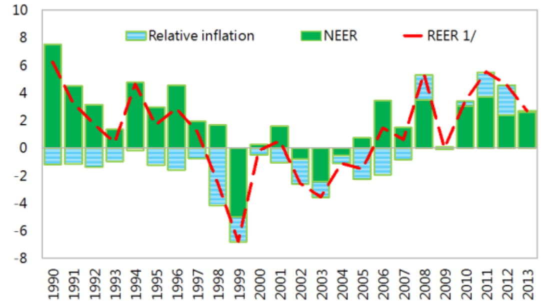
Current Account Balance
(In percent of GDP)



Source: Haver Analytics.

The REER has continued to appreciate in 2013, driven by the NEER as opposed to relative inflation.

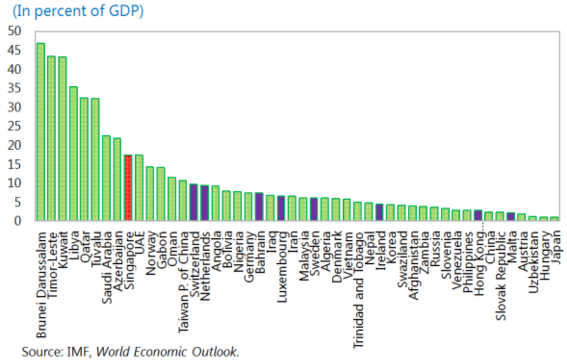
Singapore: Contribution to REER Growth
(Year-on-year percent change)



Sources: IMF, *Information Notice System*; and staff calculations.
1/ Sum of contributions of relative inflation and NEER.

Singapore's large CA surplus reflects its extraordinary trade openness, among other factors.

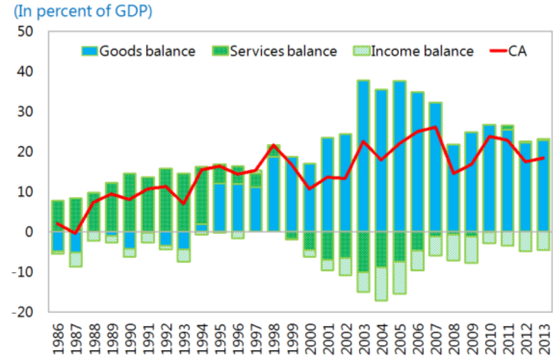
Current Account Balance: Singapore and Other Surplus Countries 1/
(In percent of GDP)



Source: IMF, *World Economic Outlook.*
1/ Financial centers shown in purple color.

The trade balance has accounted for the strong current account position, increasing significantly since the mid-1990s.

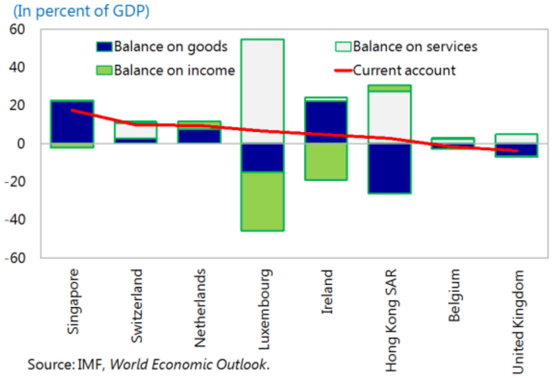
Current Account Balance
(In percent of GDP)



Source: CEIC Data Co., Ltd.

Singapore's goods trade surplus is high and services trade balance is low relative to most financial centers.

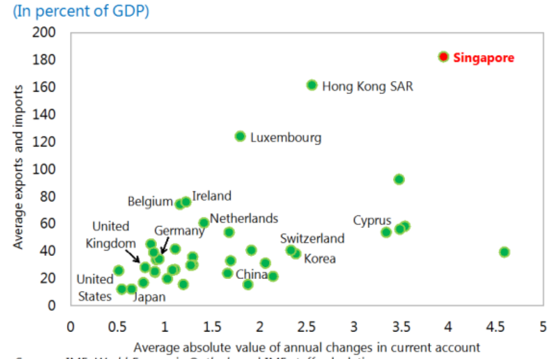
Composition of Current Account in Financial Centers, 2012
(In percent of GDP)



Source: IMF, *World Economic Outlook.*

Singapore's current account volatility is relatively high, reflecting its very open economy.

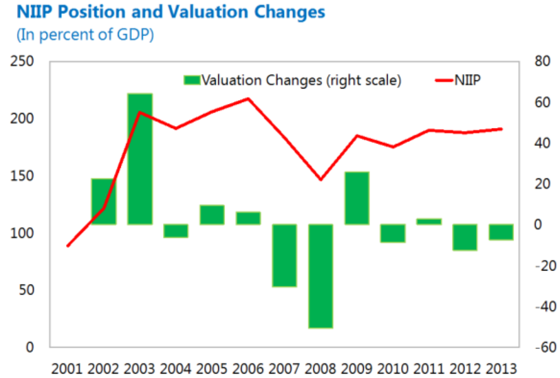
Current Account Volatility, 1990–2012
(In percent of GDP)



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

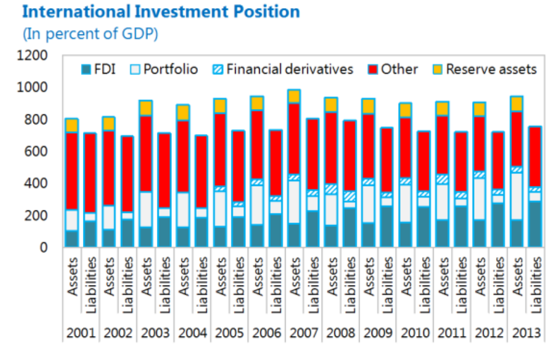
Figure II.1. Singapore: External Sector (Concluded)

Singapore's NIIP position reached 191 percent of GDP in 2013, up by 44 percentage points since 2008.



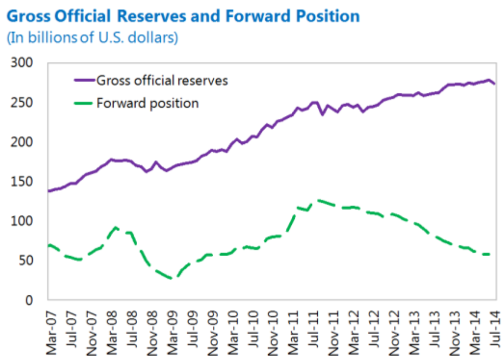
Sources: Singapore, Department of Statistics; CEIC Data Co., Ltd.; and IMF staff calculations.

Singapore has a net asset position in portfolio assets and a net liability position in FDI holdings.



Sources: Singapore, Department of Statistics; CEIC Data Company Ltd.; and Fund staff calculations.

Gross official foreign reserves continued to increase in 2013 reaching 93 percent of GDP.

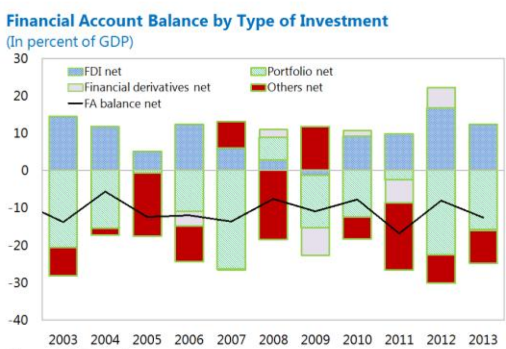


Sources: CEIC Data Co. Ltd; and IMF, *International Financial Statistics* database.

Hong Kong SAR, Singapore and Switzerland have relatively higher reserves to GDP compared to other financial centers, reflecting their managed exchange rate framework.

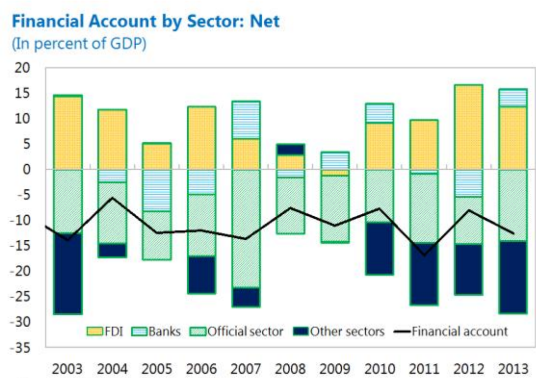
Source: IMF, *International Financial Statistics*; IMF, World Economic Outlook; and IMF staff calculations.

The financial account is characterized by net FDI inflows and net portfolio outflows.



Source: CEIC Data Company Ltd.

Official flows and FDI are the largest contributors to net financial flows, while bank-related flows are smaller but more volatile.



Source: CEIC Data Company Ltd.

Appendix III. Singapore—Key FSAP Recommendations and Actions Taken

No.	Recommendations	Actions Taken
Short-Term Implementation (within 12 months)		
1.	Increased attention to onsite inspections of banks' credit risk.	MAS has enhanced the CRAFT guidance to require greater attention to sectors where banks have material credit exposure. In addition, MAS has instituted a multiyear credit onsite inspection schedule for major banks in 2013: i. Where credit risk is key to the risk profile of the bank, there will be periodic onsite reviews of the bank's credit exposure which will include review of credit files to assess banks' underwriting and loan grading standards, adequacy of provisions and quality of credit exposures. ii. Where sector concentration concerns have been noted in the bank's risk assessment, the review will also focus on credit files belonging to borrowers from the particular sector. Where necessary, thematic inspections of credit risk will be conducted.
2.	Monitor LCR ratios for significant foreign currencies.	MAS collects LCR data for Singapore dollar, U.S. dollar and consolidated currency from all banks on an annual basis, as well as on a semi-annual basis for major banks. Once Basel III LCR requirements are implemented in January 2015, such LCR data will be submitted and monitored on a monthly basis.
3.	Mitigate legal risks to CCPs from conflicts of law across jurisdictions.	MAS continues to actively engage other foreign regulators to mitigate any cross-border regulatory risks to CCPs.
4.	The CCPs to explore with members the possibility of widening their collateral pool and examine the feasibility of receiving Singapore government securities as collateral to improve access to central bank liquidity in times of stress.	SGS already qualifies as eligible collateral. Nonetheless, SGX will conduct a review, targeted for completion by December 2014, to explore the feasibility of increasing the amount of SGS held as collateral.
5.	Consider subjecting loans for owner-occupied housing to a limit to be set by MAS.	MAS is in the process of considering the need to subject owner-occupied housing loans to a limit.
6.	Encourage overextended households to reduce their leverage.	MAS enhanced rules on the prudent use of credit card and other unsecured credit facilities in December 2013. The rules include preventing financial institutions from extending further credit to overextended borrowers. MAS also implemented the Total Debt Servicing Ratio Framework (TDSR) in June 2013 to encourage overextended households to reduce their leverage. The authorities continue to warn households of the risks of overleveraging through outreach and education. The December 2013 *Financial Stability Review* (FSR) contained a special feature box item warning of the risks of overleveraging. Credit Counselling Singapore helps overleveraged households to restructure and bring down their debt over time. The national financial education programme educates consumers about managing debt prudently, mainly through workplace talks and workshops as well as through newspaper info-ads, TV and radio campaigns.

No.	Recommendation	Action Taken
7.	Stand ready to adjust macroprudential measures in the housing market in line with changes in market conditions.	MAS monitors various indicators and changes in market conditions, including prices, transactions, and housing affordability indicators, as well as global and domestic macroeconomic conditions. The series of property-related measures taken over the past few years has dampened momentum in the property market, with prices starting to decline and transaction volume moderating. MAS will continue to monitor market conditions and will adjust the measures, if necessary.
	Medium-Term Implementation (1–3 years)	
8.	Further strengthen banks' capital framework, with implementation of the countercyclical capital buffer in line with the Basel III timelines.	MAS will implement the countercyclical capital buffer by January 2016 in line with the Basel III timelines
9.	Further develop SGX recovery plans, identifying additional scenarios.	MAS will work with SGX to review CDP's and SGX-DC's recovery and resolution plans to incorporate additional scenarios.
10.	Upgrade the collateral that covers credit exposures related to the link with the Chicago Mercantile Exchange (CME).	SGX will review whether its current letter of credit (LC) regime can be enhanced and if the clearing fund can be used to cover losses from the Mutual Offset System (MOS) link. The review is targeted for completion by June 2015.
11.	Formalize bilateral cooperative crisis management agreements for FMIs.	While the existing MOU allows MAS to engage CFTC in emergency situations, the authorities will consider including details on crisis coordination with the CFTC at a later stage, when international standards on crisis management are finalized.
12.	Collect more granular data on household balance sheets, drawing on surveys and strengthened credit bureau practices.	Data collection for the consumer credit bureau will be enhanced, providing information on a borrower's overall credit limits and aggregate outstanding balances across lenders. This is targeted for completion by 2014 H2. MAS has also conducted new quarterly loan surveys of banks to collect more disaggregated information on the credit profile of borrowers for new housing loans.
13.	Authorize the Singapore Deposit Insurance Corporation (SDIC) to provide support, on a least-cost basis, for the transfer of deposit liabilities to a bridge bank or healthy institution.	MAS is studying possible arrangements that are best suited to Singapore's context, including widening the use of the Deposit Insurance fund, where appropriate. The authorities will draw from international best practices/ standards that are in the process of being formulated and finalized.
14.	Ensure that the banking industry adequately contributes to the costs of bank failures.	Similar to recommendation 13.
15.	Further facilitate cross-border cooperation in bank resolution.	MAS is committed to consider the impact of its resolution actions on financial stability in other jurisdictions and to work with foreign resolution authorities wherever possible towards a coordinated resolution.
16.	Consider changes to the structure of the MAS Board to strengthen operational independence in financial supervision.	No action will be taken. In the authorities' view, MAS has legal and institutional safeguards that protect against potential conflicts of interest and maintains full operational independence in the supervision of financial institutions. MAS will review the safeguards from time to time.
17.	Ensure that MAS' mandate for prudential supervision is not compromised by its developmental mandate.	MAS is in the process of reviewing the MAS Act to clarify that, where there are safety and soundness concerns, the prudential supervision mandate will prevail over the developmental mandate.
18.	Review and strengthen the resolution framework to enhance MAS' operational independence in bank resolution.	The recommendation is under review.

INTERNATIONAL MONETARY FUND

SINGAPORE

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

September 8, 2014

Prepared By Asia and Pacific Department

CONTENTS

FUND RELATIONS

(As of July 31, 2014)

Membership Status: Joined August 3, 1966; Article VIII

General Resources Account

	SDR Millions	Percent of Quota
Quota	1,408.00	100.00
Fund holdings of currency (exchange rate)	923.41	65.58
Reserve tranche position	484.81	34.43
Lending to the Fund:		
New Arrangements to Borrow	175.50	

SDR Department

	SDR Millions	Percent of Allocation
Net cumulative allocation	744.21	100.00
Holdings	873.71	117.40

Outstanding Purchases and Loans: None

Financial Arrangements: None

Projected Payments to the Fund: None.

Exchange Arrangement

Singapore's de facto exchange rate arrangement is classified as "stabilized." The de jure exchange rate arrangement is "other managed." The Monetary Authority of Singapore (MAS) monitors its value against an undisclosed basket of currencies and intervenes in the market to maintain this value within an undisclosed target band. The U.S. dollar is the intervention currency. Singapore has accepted the obligations of Article VIII, Sections 2, 3, and 4 and maintains an exchange rate system free of restrictions on the making of payments and transfers for current international transactions, except for restrictions maintained solely for the preservation of national or international security, which have been notified to the Fund in accordance with the procedures set forth in Executive Board decision 144-(52/51). Singapore maintains restrictions on Singapore dollar credit facilities to, and bond and equity issuance by, nonresident financial institutions. Singapore-dollar proceeds obtained by nonresident financial entities (such as banks, merchant banks, finance companies, and hedge funds) from loans exceeding S$5 million, or any amount for equity listings or bond issuance to finance activities outside Singapore must be swapped or converted into foreign currency upon draw-down. Financial institutions are prohibited from extending Singapore-dollar credit facilities in excess of S$5 million to nonresident financial entities if there is reason to believe that the

Singapore-dollar proceeds may be used for Singapore-dollar currency speculation. In a bid to contain a real estate price bubble, Singapore imposed additional stamp duties on purchases by foreigners and corporate entities of residential properties in Singapore.

Article IV Consultation

Singapore is on the 12-month consultation cycle. The 2013 Article IV consultation discussions were held during June 26-July 8, 2013; the Executive Board concluded the consultation on November 8, 2013 (IMF Country Report No. 13/328).

FSAP Participation

The FSAP Update involved two missions: May 15−22, 2013 and July 25-August 7, 2013. The findings were presented in the Financial System Sustainability Assessment (IMF Country Report No. 13/325).

Technical Assistance: None

Resident Representative: Mr. Geoffrey Heenan has been posted in Singapore since January 2014.

STATISTICAL ISSUES

Assessment of Data Adequacy for Surveillance

General: Data provision is broadly adequate for surveillance. While the authorities have continued to expand the range of publicly available data, dissemination of more disaggregated data would enhance the basis for macroeconomic policy analysis, particularly in the external and fiscal areas.

National accounts: The Singapore Department of Statistics (DOS) has made improvements in data sources and methodology. The reconciliation of various national accounts estimates was conducted in 2014, resulting in lower statistical discrepancies. (DOS) has completed the rebasing of Singapore's national accounts to reference year 2010.

Price statistics: DOS has completed the rebasing of the Consumer Price Index (CPI) to base year 2009. The CPI is rebased once every five years to reflect the latest consumption pattern and composition of goods and services consumed by resident households.

Government finance statistics: Information on government assets held abroad is neither published nor provided to the Fund. The government publishes annually partial information on the interest and dividends on these assets. Debt service payments on domestic debt made from the extra budgetary Government Securities Fund are published on an annual basis. Data on the financial position of the consolidated public sector are not published.

Monetary statistics: The Monetary Authority of Singapore has not submitted the standardized report forms (SRFs) for monetary statistics introduced in October 2004. The SRFs provide for accounting data to be broken down by instrument, sector, and currency.

Balance of payments: In February 2012, the DOS concluded the migration of the balance of payments accounts to the 6th edition of the *Balance of Payments and International Investment Position Manual (BPM6*). The main changes relative to the 5th edition include: reclassification of repairs on goods and goods for processing to services (from goods); reclassification of merchanting to goods (from services); and treating banks' Asian Currency Units (ACUs) as residents (previously they were regarded as nonresidents, and hence their transactions were excluded from the balance of payments). Data on Singapore's international investment position (IIP) is not provided on a disaggregated sectoral basis as suggested by the BPM6. The authorities have completed revising the IIP data to include all foreign assets held by Singapore's Government Investment Corporation. The associated flows were already included in the balance of payments data.

Data Standards and Quality

Singapore provides data on a timely basis and meets all the SDDS specifications. These include the coverage, periodicity, and timeliness of the data; and the dissemination of advance release calendars; quarterly certification of the metadata posted on the Fund's Dissemination Standards Bulletin Board; and provision of information to allow users to assess data quality.	No data ROSC is available.

Singapore—Table of Common Indicators Required for Surveillance

(As of August 20, 2014)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange rates	8/20/14	8/20/14	D	D	D
International reserve assets and reserve liabilities of the Monetary Authorities[1]	7/2014	8/2014	M	M	M
Reserve/base money	7/2014	8/2014	M	M	M
Broad money	6/2014	7/2014	M	M	M
Central bank balance sheet	7/2014	8/2014	M	M	M
Consolidated balance sheet of the banking system	6/2014	7/2014	M	M	M
Interest rates[2]	8/20/14	8/20/14	D	D	D
Consumer price index	6/2014	7/2014	M	M	M
Revenue, expenditure, balance and composition of financing[3]—general government[4]	3/2013	9/2013	A	A	A
Revenue, expenditure, balance and composition of financing[3]—central government	6/2014	7/2014	M	M	M
Stocks of central government and central government-guaranteed debt[5]	2014:Q2	8/2014	Q	Q	Q
External current account balance	2014:Q2	8/2014	Q	Q	Q
Exports and imports of goods and services	7/2014	8/2014	M	M	M
GDP/GNP	2014:Q2	8/2014	Q	Q	Q
Gross external debt[7]	2014:Q1	6/2014	Q	Q	Q
Net international investment position	2014:Q1	6/2014	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
[7] Official external debt is zero.

Press Release No. 14/476
FOR IMMEDIATE RELEASE
October 17, 2014

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

IMF Executive Board Concludes 2014 Article IV Consultation with Singapore

On September 22, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Singapore.

Singapore's economy has continued to perform well. Growth recovered to 3.9 percent in 2013, from 2.5 percent in 2012. Net exports accounted for almost half of the growth, while private and public consumption contributed the other half. A rising trade surplus pushed up the current account of the balance of payments to 18.3 percent of GDP in 2013, from 17.5 percent of GDP in 2012. A series of targeted, escalating macroprudential policies contributed to cool the housing and car permit markets. This helped push down headline inflation to 2.4 percent on average in 2013, from 4.6 percent in 2012. Singapore's financial markets have so far absorbed bouts of volatility associated with expectations of U.S. tapering and the spike in global risk aversion early this year with limited impact. While corporate loan growth remains firm, housing loan growth has moderated, aided by the June 2013 launch of the new total debt servicing ratio framework (TDSR) and the expectation of higher interest rates in the medium term. Property prices have leveled off and housing transactions moderated. The nonperforming loan ratio of domestic banks remained stable at about 1 percent.

Growth decelerated in the first two quarters of 2014 and is expected to moderate to around 3 percent during 2014−2015, narrowing the positive output gap. Recovering demand in advanced economies is likely to be offset by the ongoing real appreciation of the dollar and the gradual tightening in global monetary conditions. Meanwhile, the planned further slowing inflow of foreign workers, as part of the ongoing economic restructuring, could moderate potential growth and lower competitiveness. Core inflation is projected to average about 2.4 percent during 2014−15, reflecting relative price adjustments to facilitate the ongoing economic restructuring.

[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.

The medium-term outlook will be shaped by the success of the authorities' ongoing economic restructuring program and policy responses to the rapid pace of population aging. Potential GDP growth is projected to slow in the next few years on slower labor force expansion, and then recover gradually as faster labor productivity growth takes hold, reaching about 3¼ percent in the medium term—well below the pace during 2000−08. A tighter labor supply due to a slowing inflow of foreign workers in the near term and population aging in the medium term will boost wages. With productivity gains unlikely to fully compensate, core inflation will increase temporarily and—together with continued nominal appreciation of the dollar—push up the real effective exchange rate, dampening export growth, and contributing to a gradual narrowing of the current account surplus over the medium term.

The baseline projections are subject to a variety of risks. As a very open economy, Singapore is particularly exposed to external risks related to a protracted period of slower growth in advanced and emerging economies, a continued buildup and eventual unwinding of excess capacity in China, an abrupt surge in financial market volatility as investors reassess underlying risks, and geopolitical risks. The restructuring program could set the stage for a new era of sustainable growth. However, productivity improvements might take some time to materialize and may not fully offset the effects of declining labor force growth.

Executive Board Assessment[2]

Executive Directors congratulated the Singaporean authorities on the success of their macroeconomic management in supporting strong economic activity while keeping inflation under control. They also welcomed the ambitious medium-term economic restructuring plan, which could set the stage for a renewed period of sustainable growth. Nevertheless, Directors noted considerable challenges facing Singapore, particularly those related to trading partners' growth slowdown and global financial market volatility. They stressed the need for continued vigilance to risks and spillovers in the financial and housing sectors, and further efforts to promote external rebalancing, address demographic challenges, and reduce inequality.

Directors broadly concurred that, given cyclical conditions, the current monetary stance, with the targeted rate of currency appreciation, is appropriate to anchor inflation expectations. They supported the complementary use of macroprudential policies as needed to contain asset prices and promote prudent lending and household deleveraging.

Directors recognized the medium-term needs to strengthen the social safety net and alleviate transition costs of the economic restructuring plan. Therefore, they saw merit in a modest fiscal stimulus in this year's budget geared toward social and infrastructure spending in support of

[2] 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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

reforms to boost productivity, enhance health care and retirement benefits for the elderly and low-income households, and promote inclusiveness more generally. These reforms would also help address the challenges from population aging and prospective workforce decline.

Directors agreed that Singapore's financial regulation and supervision frameworks are among the best globally. They welcomed progress in implementing key short-term recommendations in the Financial Sector Assessment Program Update, and encouraged the authorities to implement the remaining recommendations. They emphasized that strengthening foreign-currency liquidity management at banks remains a priority. Directors supported ongoing efforts to comply with evolving international regulatory standards and strengthen the regime against money laundering and the financing of terrorism.

Directors took note of the staff's assessment that Singapore's external position—though subject to high uncertainty—appears to be substantially stronger than warranted by fundamentals, suggesting the importance of continued efforts to boost domestic demand and narrow the current account surplus over time. Directors agreed that the planned increase in public spending, ongoing steps to reduce reliance on foreign workers, and continued appreciation path of the nominal effective exchange rate would facilitate external rebalancing.

Singapore: Selected Economic and Financial Indicators, 2009–15

	2009	2010	2011	2012	2013	Proj. 2014	Proj. 2015
Growth (percentage change)							
Real GDP	-0.6	13.1	6.1	2.5	3.9	3.0	3.0
Total domestic demand	-4.3	13.1	3.5	7.6	1.5	2.3	3.4
Consumption	0.0	7.0	3.1	3.1	4.1	1.9	3.1
Private consumption	-1.1	5.9	4.3	3.9	2.6	1.7	3.2
Gross capital formation	-11.2	24.1	4.3	14.9	-2.2	2.8	3.9
Saving and investment (percent of GDP)							
Gross national saving	44.5	51.5	50.1	47.9	47.4	46.8	46.4
Gross domestic investment	27.7	27.9	27.3	30.4	29.1	29.2	29.7
Inflation and unemployment (period average, percent)							
CPI inflation	0.6	2.8	5.2	4.6	2.4	1.4	2.5
Core CPI inflation	0.0	1.5	2.2	2.5	1.7	2.3	2.4
Unemployment rate	3.0	2.2	2.0	2.0	1.9	2.0	2.1
Central government budget (percent of GDP) 1/							
Revenue	19.0	20.2	22.8	22.7	22.3	22.0	22.0
Expenditure	17.8	15.4	14.8	14.7	16.1	17.4	17.8
Overall balance	1.2	4.8	8.0	8.1	6.2	4.7	4.2
Primary balance 2/	-3.8	-1.1	0.4	1.4	0.1	-1.1	-1.4
Money and credit (end of period, percentage change)							
Broad money (M2)	8.7	7.6	11.8	6.8	7.9	...	...
Credit to private sector	3.1	13.2	18.9	11.3	16.1	...	...
Three-month interbank rate(percent)	0.7	0.4	0.4	0.4	0.4	...	...
Balance of payments (US$ billions)							
Current account balance	32.4	55.9	62.6	50.2	54.6	55.4	56.0
(In percent of GDP)	(16.8)	(23.7)	(22.8)	(17.5)	(18.3)	(17.6)	(16.6)
Trade balance	47.6	62.8	69.5	63.4	67.8	70.8	73.3
Exports, f.o.b.	287.4	370.3	431.8	434.2	437.5	464.9	483.0
Imports, f.o.b.	-239.8	-307.4	-362.2	-370.8	-369.7	-394.1	-409.7
Financial account balance	-21.2	-18.3	-46.2	-23.1	-37.4	-39.0	-43.4
Overall balance	11.3	42.2	17.1	26.1	18.2	16.4	12.5
Gross official reserves (US$ billions)	187.8	225.8	237.7	259.3	273.1	289.4	301.9
(Months of imports) 3/	(5.5)	(5.7)	(5.8)	(6.2)	(6.2)	(6.3)	(6.2)
Singapore dollar/U.S. dollar exchange rate (period average)	1.45	1.36	1.26	1.25	1.25	...	...
Nominal effective exchange rate (percentage change) 4/	-0.1	3.1	3.7	2.4	2.6	...	...
Real effective exchange rate (percentage change) 4/	-0.1	3.4	5.5	4.7	2.7	...	...

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

1/ On a calendar year basis.
2/ Overall balance excluding investment income, capital revenue, and interest payments.
3/ In months of following year's imports of goods and services.
4/ Increase is an appreciation.

Statement by Wimboh Santoso, Executive Director for Singapore and Kenneth Koh, Senior Advisor to Executive Director September 22, 2014

1 Introduction

1.1 The Singapore authorities would like to thank the IMF team for a constructive 2014 Article IV Consultation. The useful discussions focused on the ongoing domestic economic restructuring amid continuing uncertainties in the external environment.

2 Recent Economic Developments and Outlook

2.1 The Singapore economy moderated in the first half of 2014, following the strong outturn in 2013. On average, the domestic economy expanded by 0.9% q-o-q SAAR in Q1 and Q2 2014, down from the 3.8% expansion in the last two quarters of 2013. The slowdown partly reflected a pullback in the trade-related industries, alongside the downshift in growth in the US and China early this year. Sectors dependent on domestic demand also eased, due to weaker activity in private sector construction and real estate services.

2.2 Notwithstanding the relatively muted performance in the H1 2014, conditions are broadly supportive of a modest growth trajectory for the Singapore economy for the rest of the year. GDP growth in Singapore is forecast to come in at 2.5–3.5% in 2014. Gradual improvements in the global economy, alongside a pickup in the IT industry, should provide support to Singapore's external-oriented industries. Meanwhile, the domestic-oriented sector is expected to be resilient, buttressed by public sector-driven infrastructure expansions in transportation networks, healthcare facilities and public housing construction.

2.3 CPI-All Items inflation eased to 1.6% in the first seven months of the year, from 1.9% in the second half of 2013, largely reflecting the impact of government measures to cool the property market and the higher supply of motor vehicle permits. However, MAS Core Inflation, which excludes the cost of accommodation and private road transport, rose to 2.1% in Jan-Jul 2014 from 1.8% in H2 2013. This stemmed mainly from the pass-through of higher cost, particularly wages, to consumer prices.

2.4 Going forward, domestic cost pressures will remain significant. Notably, the labour market will continue to be tight as productivity enhancements take time to materialise. Thus, wage cost is likely to rise further and be passed on to some consumption goods and services. In comparison, external price developments should be relatively benign as supply buffers in the major commodity markets continue to be ample and inflation in most of Singapore's key import source countries is expected to stay modest.

2.5 Against this backdrop, MAS Core Inflation is projected to pick up slightly and average 2-3% in 2014. Meanwhile, overall inflation is expected to ease for the rest of 2014 due to lower contributions from housing rentals and car prices. For the whole year, CPI-All Items inflation is forecast to be in the range of 1.5-2.0%.

3 Monetary Policy

3.1 Singapore's overall macroeconomic policy has been formulated to balance considerations with regard to the medium-term path for growth and inflation, while facilitating the ongoing restructuring of the economy.

3.2 In April 2014, MAS kept the S$NEER policy band on a modest and gradual appreciation path, with no change to its slope, width or the level at which it was centred. This policy stance, which has been in place since April 2012, aims to cap domestic and imported sources of inflation and anchor inflation expectations amid economic restructuring.

3.3 Some transitional inflationary pressures are an inevitable and necessary part of restructuring and economic transformation. Monetary policy is thus focused on restraining, but not totally offsetting, the inflationary pressures while allowing relative prices to adjust to reflect the true cost of scarce resources such as land and labour in Singapore.

4 Addressing Medium-term Challenges

4.1 The FY2014 Budget reinforced the key directions in economic and social strategies that were set out in previous budgets. The Budget provided firms with sharper incentives to invest in fixed and human capital and engage in business transformation and innovation, via the extension of the Productivity and Innovation Credit (PIC) scheme, the introduction of PIC+ for small and medium-sized enterprises and the strengthening of current schemes for R&D tax deductions and allowances.

4.2 The Authorities welcome the Report's acknowledgement of the Budget's focus on increasing inclusiveness. Indeed, there have been significant enhancements to the support for lower-income Singaporeans, particularly in healthcare and retirement adequacy. In healthcare, the implementation of MediShield Life in 2015 will broaden the coverage of the existing medical insurance scheme to all Singapore citizens and permanent residents for life, with targeted subsidies for lower- and middle-income Singaporeans. The Pioneer Generation Package (PGP), which was the centrepiece of a slew of government measures announced this year, is specifically aimed at making healthcare affordable for elderly Singaporeans.[1]

[1] Around 450,000 elderly Singaporeans, aged 65 and above in 2014, qualify for the lifelong healthcare benefits provided by the PGP, including outpatient care subsidies, annual Medisave top-ups of $200 to $800 for life and additional support for MediShield Life premiums.

4.3 On retirement adequacy, the Central Provident Fund (CPF), which is a fully-funded defined contribution pension scheme and guaranteed by the government, helps Singaporeans grow their savings to meet retirement needs. More than half of CPF members enjoy a guaranteed floor rate of 3.5% p.a. on their Ordinary Account (OA) savings and around two-thirds earn 5% on their Special, Medical, and Retirement Accounts (SMRA) savings.[2] Various schemes to help retirees monetise the equity in their flats have also been introduced and expanded.[3] In addition, a Silver Support Scheme will be introduced to provide an annual cash bonus to supplement the earnings of elderly low-income Singaporeans.

4.4 The authorities note that overall wages in the Singapore economy have continued to increase, with the labour market remaining tight since the recovery from the Global Financial Crisis. In addition, the shift towards capital-intensive sectors has raised the average wage level of workers. As a result, over the last decade, real incomes have grown across all groups of workers, with the median worker and worker at the 20th percentile seeing increases of 24% and 12% respectively. More recently, government transfers and taxes reduced the Gini coefficient in 2013 from 0.463 to 0.412.

5 Financial Sector Developments

5.1 The authorities welcome the Staff's endorsement of Singapore's strong financial sector regulation and supervision policies. Macro-pruduential measures have been used in a complementary manner to moderate credit growth and the build-up of household leverage in a sustained period of low global interest rates. The growth of household debt has slowed from nearly 13% year-on-year in Q3 2011 to 5.5% in Q1 2014. At the same time, the risk profile of new housing loan borrowers has improved, as almost all new housing loans granted since the introduction of the Total Debt Servicing Ratio were within the 60% threshold. The authorities will continue to be vigilant in monitoring developments in credit and asset markets and retain the flexibility to adjust macro-prudential tools as necessary, while maintaining the appropriate structural safeguards against excessive leverage in the economy.

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[2] CPF members have three accounts, namely Ordinary Account, Special Account and Medisave Account. Members can withdraw their OA savings at any time to purchase a property or to service a mortgage. A fourth account, the Retirement Account, is automatically created with savings from the Ordinary and Special Accounts when members reach 55 years of age.

[3] For example, the Lease Buyback Scheme (LBS) will be extended in April 2015 to four-room Housing and Development Board (HDB) flats, covering 75% of elderly HDB households. Households also have the flexibility to choose the length of lease to retain, based on their age and preference, subject to a maximum of 35 years.

5.2 As a regional financial centre, Singapore is host to a number of financial institutions with significant cross-border activities whose financial flows could pose potential liquidity risks. To mitigate such risks, the authorities closely monitor banks' liquidity risk profiles, using a range of indicators such as the Basel III Liquidity Coverage Ratio. The authorities complement their ongoing monitoring with a rigorous and robust supervision of banks, to develop a deeper understanding of banks' risk management procedures and liquidity risk profiles. Beyond these prudential measures, the authorities' industry-wide stress tests indicate that the banking system will remain resilient under various liquidity stress scenarios, including a disorderly unwinding of quantitative easing in the US and a consequent squeeze in USD funding.

6 Final Remarks

6.1 The external economic environment is generally supportive of sustained if modest growth of the Singapore economy for the rest of the year, but the authorities remain vigilant to risks. At the same time, they are firmly committed to the economic restructuring program, which is proceeding at a deliberately measured pace to give both workers and businesses time to adjust towards a sustainable productivity-led growth model.

6.2 The Singapore authorities are pleased to inform the Board that they are agreeable to the publication of the 2014 Article IV Staff Report and the Buff Statement.