Executive Summary

State of the Economy

Singapore's economy has recovered rapidly since mid-2003, having weathered a series of adverse shocks since the Asian crisis. This turnaround owes much to a favorable external environment, supportive macroeconomic policies, and continued structural reforms. Although growth moderated in 2005, the strength of economic activity has surprised on the upside. Much of the stronger activity reflects higher-than-expected external demand for pharmaceuticals and oil exploration equipment. Growth is estimated to have reached 6.4 percent in 2005 and is projected to slow to around 5½ percent in 2006 as external demand growth moderates. Inflation remains low, but upward pressures are rising. Unemployment has fallen, although it remains high among the low-skilled workers.

Policy Discussions

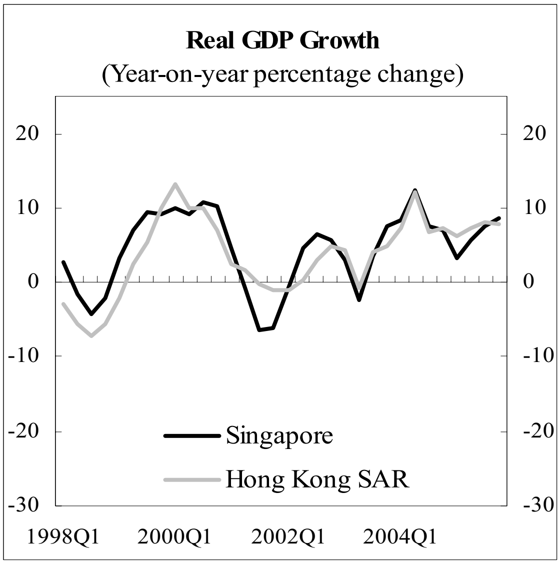
Monetary policy: The current tightening stance of monetary policy is appropriate as there is little slack in the economy. The labor market has tightened and real wages are set to rise. This, along with high energy prices, could push up inflationary pressures. Indeed, monetary policy may need to be further tightened if inflationary pressures strengthen further. While the monetary policy framework, based on a managed-floating exchange rate system, remains appropriate, the authorities should stand ready to adapt it flexibly in the event of increased regional exchange rate flexibility.

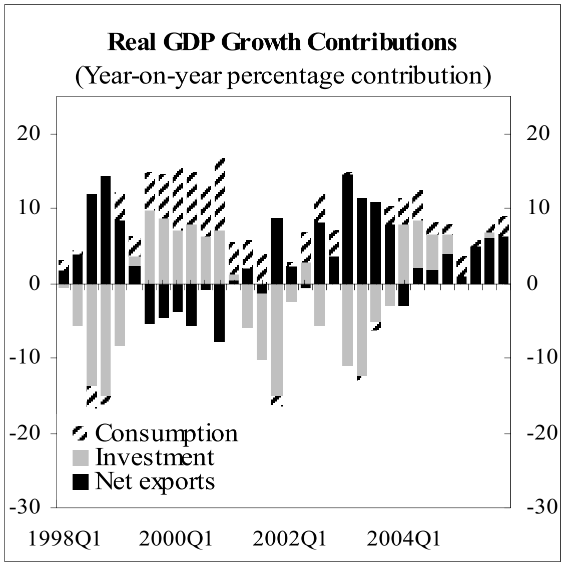
Fiscal policy: The recently proposed FY 2006/07 budget entails an expansionary stance. If growth falters, Singapore's large fiscal reserves still provide ample room for supportive discretionary measures, given that automatic stabilizers are limited. Over the medium-term, it is important to balance appropriately the government's objective to build up further the fiscal reserves with the need to provide support to low-skilled workers and low-wage earners through continued retraining and targeted social programs. Further improving fiscal transparency would buttress confidence in the economy.

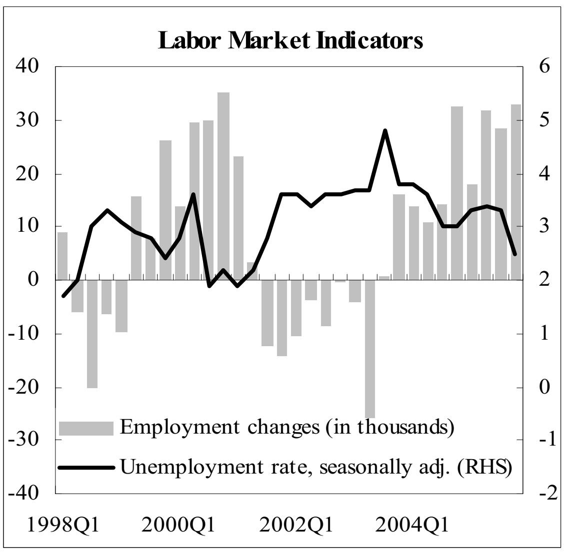
Structural policy: Over the medium term, sustaining strong growth will depend on effectively meeting the rising challenges from low-cost regional economies and on how well Singapore positions itself as a hub for financial services, logistics, and education for regional economies. In this regard further impetus to private sector entrepreneurship, including through accelerated divestment of nonstrategic government-linked companies (GLCs) will be important. While the financial system remains robust, the outward expansion of banks and further sophistication of capital markets underscore the importance of continued close surveillance. Steps are also needed to increase income replacement rates for retirees relying on their Central Provident Fund (CPF) savings.

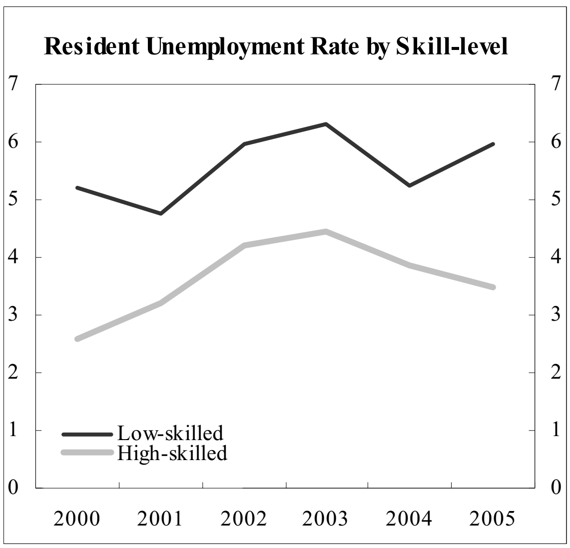
I. Recent Developments—From Recovery to Sustained Expansion

1. **The economic expansion in Singapore, which began in mid-2003, has now continued for 10 consecutive quarters.** Favorable external conditions, helped by supportive macroeconomic policies and a range of structural reforms, have been the main drivers of this expansion, while domestic demand also contributed. After a blistering 8¾ percent annual rate in 2004, growth moderated last year to 6.4 percent, but the strength of the economy has continued to surprise on the upside. Much stronger-than-expected external demand for pharmaceuticals and oil-engineering equipment, and, toward the end of the year for electronics, was the surprise factor. In contrast, domestic demand moderated, partly reflecting the effects of tighter monetary conditions. The unemployment rate has declined to 2½ percent by end-2005 from 4¾ percent in Q3 2003, as job creation surged (particularly in the services sector), but remains high among low-skilled workers. Employment has even increased in the construction sector recently.

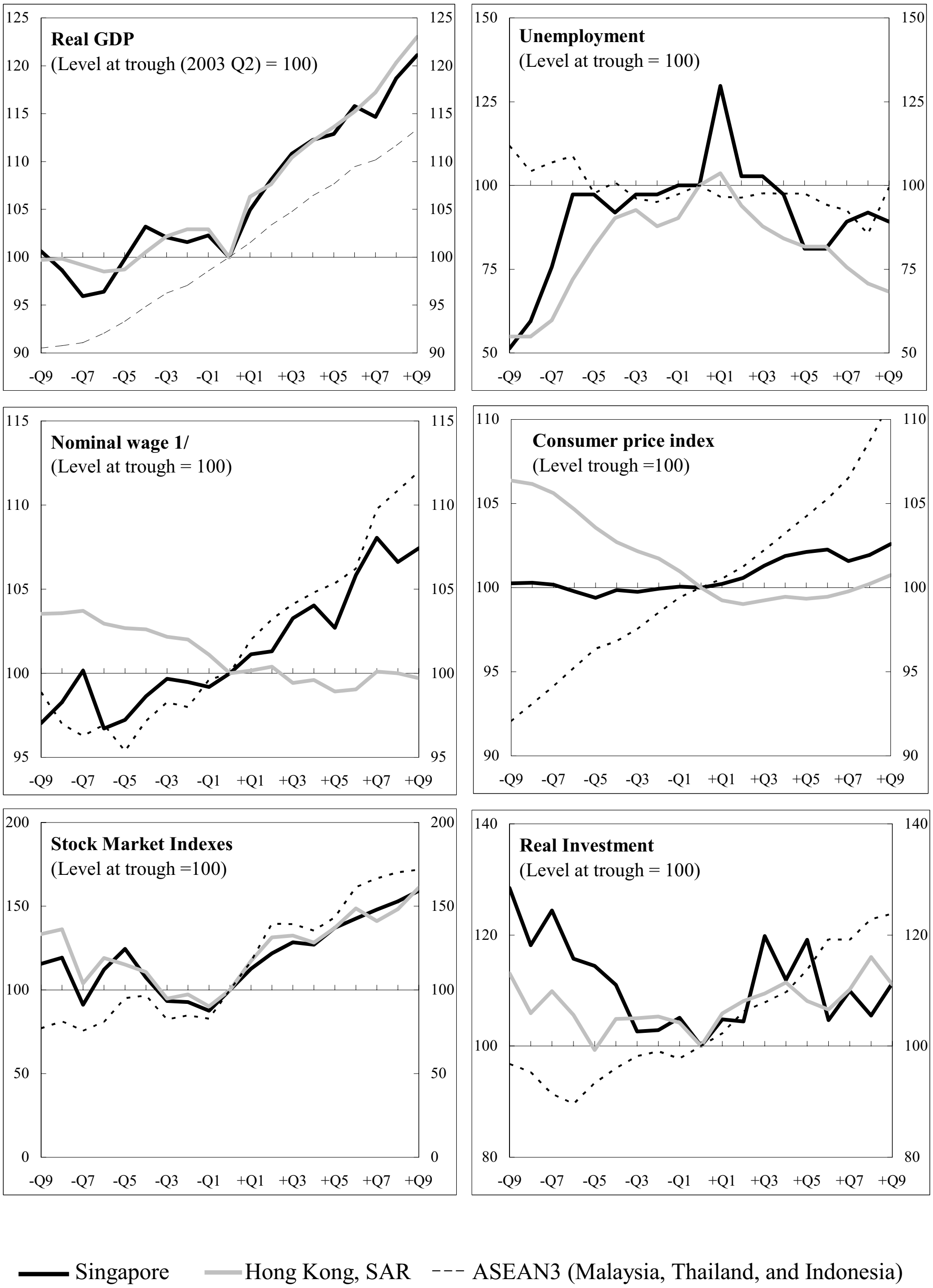








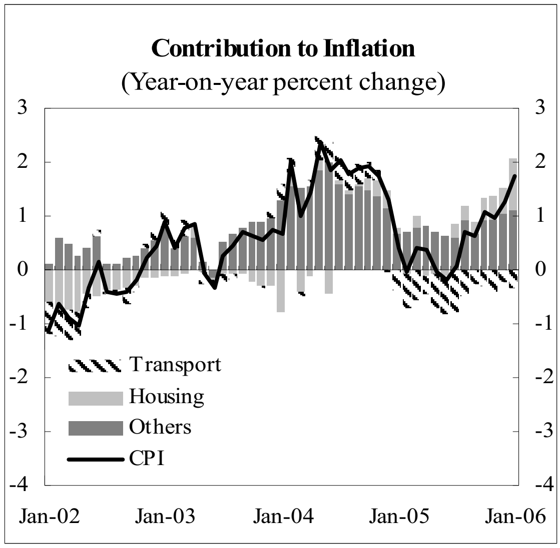
In adjusting to the 2003 downturn, Singapore's greater exchange rate flexibility shielded wages and goods prices from deflating, unlike in Hong Kong SAR under the currency board arrangement. Otherwise, the economic recovery was strikingly similar.



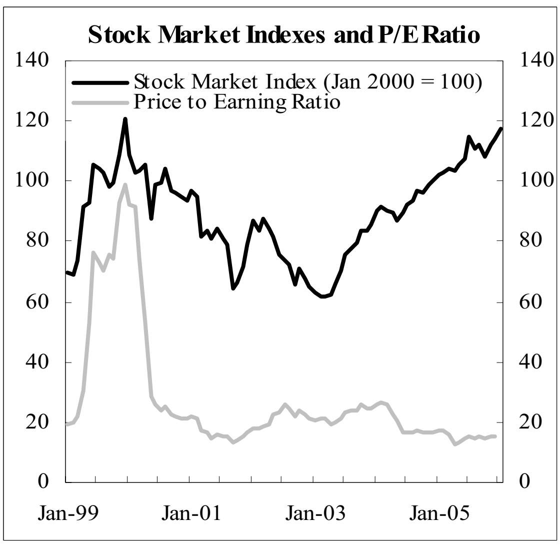
Sources: CEIC, Singaporean Authorities, and Fund Staff Estimates.

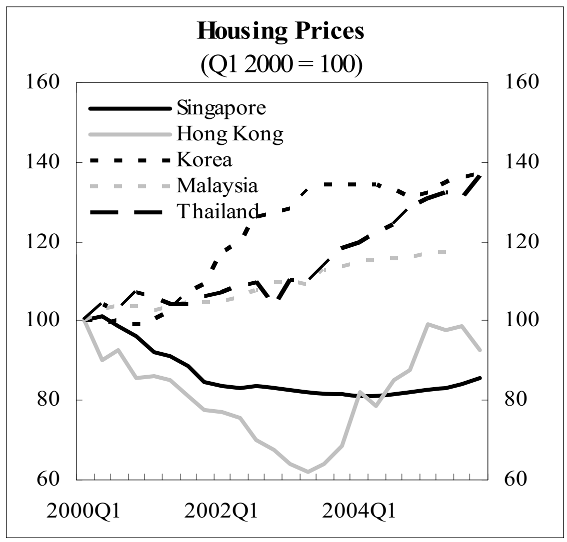
1/ Excludes Indonesia.

2. **Inflationary pressures have picked up, but they remain contained.** The CPI index rose by ½ percent in 2005, held down by increased competition at the retail level for gasoline and lower car prices (due to an increase in the number of car-ownership certificates auctioned by the Singaporean authorities). Over the course of the year, the rate of inflation picked up, as the higher world oil prices were increasingly passed on to consumers.

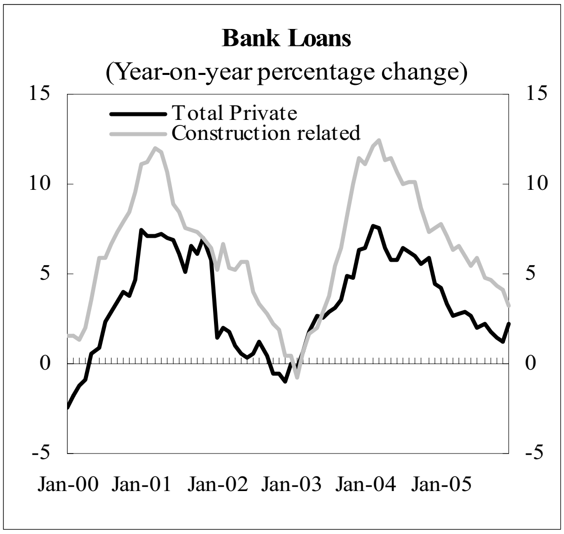


3. **Asset prices have appreciated.** Stock prices rose 14 percent in 2005 reflecting strong corporate earnings. After languishing in recent years, the property market appears to be turning around, although price increases have been considerably slower than elsewhere in the region.





4. **Banks remain healthy, although credit growth has continued to fall.** Bank capitalization remains well above minimum requirement. Credit growth, which has been declining since 2004, slowed further in 2005 reflecting continued strong corporate profits and higher lending rates. However, bank profits remained strong due to lower loan-loss provisioning (on account of the fall in nonperforming loans (NPLs)) and the rise in non-interest earnings.



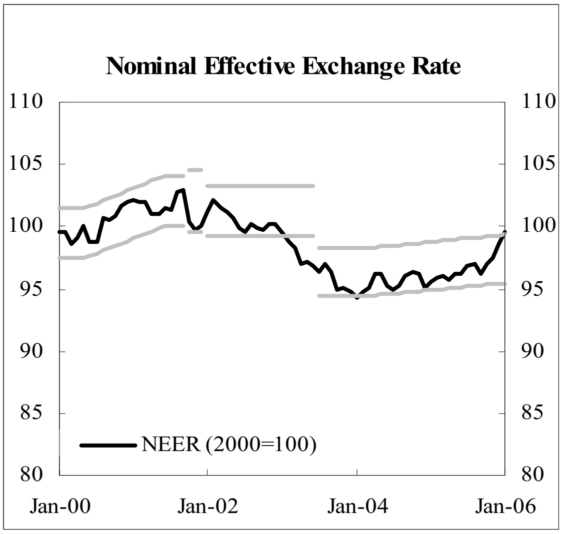
Selected Soundness Indicators for Local Banks	2003				2004				2005		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Capital adequacy (in percent)											
Regulatory capital to risk-weigted assets	16.7	15.4	15.9	16.0	16.7	15.5	16.3	16.1	15.9	14.8	15.3
Regulatory tier-I capital to risk-weighted assets	11.4	11.3	11.7	12.0	11.9	12.3	11.8	11.4	11.5	10.4	10.9
Asset quality (in percent)											
Nonperforming loans to nonbank loans	7.5	7.2	7.0	6.7	6.2	5.5	5.4	5.0	4.6	4.2	4.0
Nonperforming loans to regulatory capital	37.2	38.9	37.1	34.8	29.9	28.1	26.7	23.9	22.1	21.8	19.4
Profitability (in percent)											
ROA	0.82	0.79	1.11	1.12	1.19	1.21	1.16	1.04	1.13	1.12	1.24
ROE	7.50	7.10	10.10	10.10	11.20	11.50	10.50	9.60	10.60	11.00	12.11

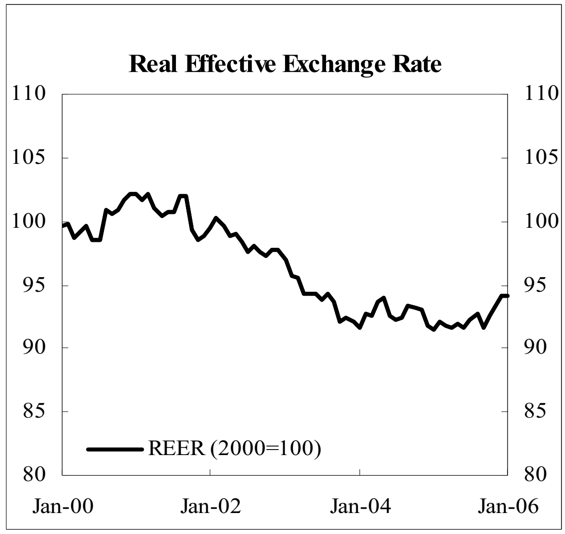
5. **The current account strengthened further.** The surplus climbed to around 28½ percent of GDP last year from 24½ percent of GDP in 2004, as exports and net factor income rose (due in part to the rise in foreign interest rates). Official reserves increased modestly by around US$3¾ billion over the year to US$116.6 billion at end-2005. The private sector, the government investment company (GIC), and the government's holding firm (Temasek) continued to make substantial foreign investments.

6. **The Monetary Authority of Singapore (MAS) has kept monetary policy on a tightening stance since April 2004.**[1] In the October 2005 semi-annual monetary policy review, the MAS reaffirmed its policy stance of keeping the trade-weighted exchange rate on

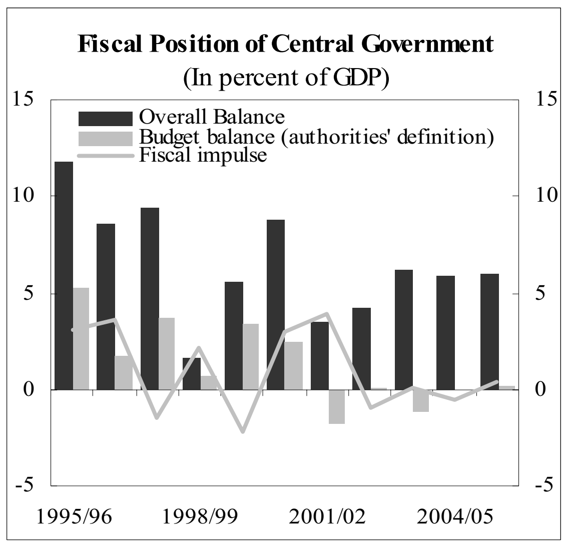
[1] Singapore's monetary policy is based on the management of a trade-weighted exchange rate (TWI) within an undisclosed band, with the primary objective of maintaining price stability. The authorities do not publish any details on the composition of the TWI. In this framework, the MAS can choose to (i) realign the central parity rate to allow for a one-off adjustment without necessarily signaling any change in the monetary policy cycle, (ii) change the band's gradient for currency appreciation or depreciation to signal possible turning points in the cycle, and (iii) widen the band to accommodate periods with increased economic uncertainty. The April 2004 policy announcement falls into the second category. The exchange rate bands in the text charts are based on staff estimates.

a "modest and gradual appreciation path." The nominal effective exchange rate (NEER) has appreciated by around 4½ percent (as of January 2006) since April 2004, while low domestic inflation has kept the real effective exchange rate (REER) broadly stable, although it has appreciated by around 2½ percent since September 2005.[2]





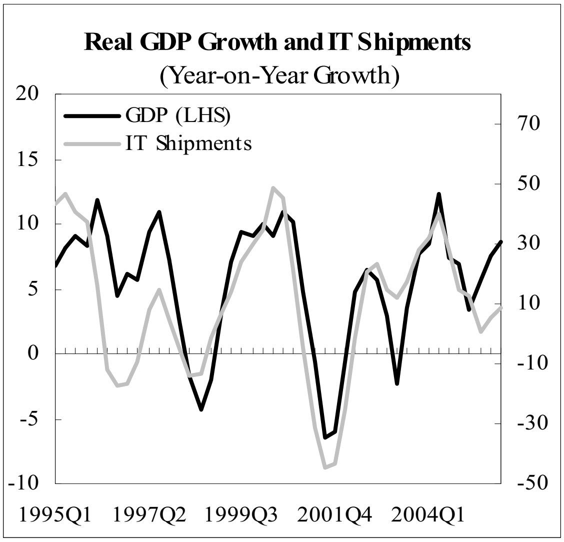
7. **With stronger-than-expected economic activity the fiscal outturn for FY 2005/06 is likely to be better than budgeted.** Reflecting reduced investment income and somewhat higher spending (including on social needs), the budget targeted a surplus of around 4¼ percent of GDP, somewhat lower than the previous year's outturn of 5.9 percent of GDP. Among the main initiatives in the budget were a reduction in the highest personal income tax rate from 22 to 20 percent, which staff had supported for some time, and some measures to assist low-income families.



[2] The changes are based on the NEER and REER as calculated by IMF staff.

II. Outlook: Solid Growth and Contained Inflation

8. **Growth could moderate to 5½ percent this year.** However, much depends on the performance of the volatile pharmaceutical sector, which, although still small, is one of the fastest growing sectors and has been partly responsible for the recent weakening in the traditional tight link between growth in GDP and the global IT cycle.[3] An easing of external demand for pharmaceuticals from its very rapid pace last year is expected, which, along with a slowdown in the export growth of oil-engineering equipment due to capacity constraints, are expected to moderate overall growth. With little slack in the economy going forward, inflation is expected to firm up, but it should be contained by the appreciating currency. Improved labor market conditions and a further gradual recovery in asset prices should shore up consumption. Investment should pick up as the global IT cycle improves further and construction activity renews, especially with the start-up of some large-scale projects.



9. **The risks to this outlook are broadly balanced.** On the upside, a sharper rise in investment, building on the rise in corporate savings in recent years and a decline in macroeconomic uncertainty, could boost activity further. A more pronounced rebound in the global IT cycle would provide additional impetus to economic growth. On the downside, higher oil prices could adversely affect growth if global demand for Singapore's non-oil exports slows. Higher oil prices could also affect activity negatively through their impact on wages and utility prices. Moreover, a disorderly unwinding of global external imbalances could seriously dampen activity given the openness of the economy.[4] An escalation of terrorist threats in the region could deter investment and tourist arrival, while a bird flu pandemic is a serious risk.

[3] Part of the volatility in the pharmaceutical industry is related to the dominance of multinationals (MNCs) whose decisions about Singapore production and exports can alter quickly due to changes in their global operations.

[4] Being a very open economy, changes in external conditions have large effects on Singapore. Staff estimates that a US$10 increase in oil prices could reduce output by ½ percent and raise CPI by slightly over ½ percent within a year. A 10 percent rise in semi-conductor sales could increase growth by 1 percentage point. In addition, exposure to the U.S. is large and direct trade links to China have grown significantly in recent years. The combined exposure to Indonesia, Malaysia, and Hong Kong SAR is also large, and, given the trade links between these economies and China, it raises Singapore's economic dependence on China. The importance of South Asian markets, particularly India, has also grown in recent years.

10. **Medium-term growth prospects depend on a deepening of structural reforms.** In response to the increase in competitive pressures from low-cost regional economies, the authorities have undertaken a range of structural reforms. Efforts are under way to develop new industries, encourage R&D, and promote the economy as a regional financial, health care, and education hub. Success in many of these areas can already be seen, and if these efforts are supported by a further strengthening of private entrepreneurship, annual GDP growth could average around 4½–5 percent over the medium term.

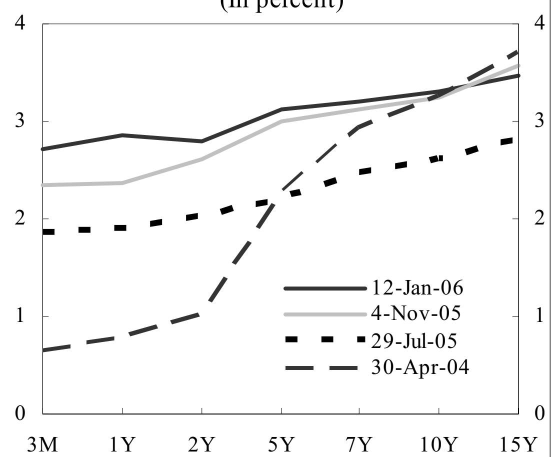
III. Report on Discussions

11. **Discussions focused on the near-term policy stance, the factors behind the rise in the current account surplus, and the changing structure of the economy.** Staff and the authorities broadly agreed on the economic outlook, the balance of risks, and on the near-term policy stance. Discussions on the rising current account surplus centered on the relative contributions of various factors, such as the structural transformation of the economy, the collapse in property investment, and the role of the exchange rate. On the changing structure of the economy, discussions focused on how the government could best support the transformation by improving competitiveness and the skill level of the work force.

A. Monetary Policy: Continuing on a Tightening Path

12. **With the closing of the output gap and the recent rise in inflationary pressures, the Monetary Authority of Singapore considered the current tightening stance of monetary policy appropriate.**[5] Staff concurred with this view as inflationary pressures are likely to rise. While monetary conditions have strengthened (the short end of the yield-curve has continually shifted up since April 2004), staff noted that a further tightening might be needed as inflationary pressures could be stronger than anticipated. With little slack in the labor market (particularly for skilled

Government Bond Yield Curves
(In percent)



[5] Past behavior suggests that monetary policy is well approximated by a Taylor rule, where the target change in the TWI is based on a weighted average of the deviation of the 9–12 month ahead expected inflation from a "target" inflation rate of 2 percent and the expected output gap. Staff estimates suggest that the weight on inflation is 80 percent and that on the output gap is 20 percent. The actual TWI (approximated by the INS's NEER) is then adjusted smoothly to the target level to prevent disruptions in the market, with a trading band of +/- 2 percent around the central TWI path. For details, see "Singapore's Unique Monetary Policy: How Does it Work," IMF Working Paper WP/04/10.

labor) wages could rise more than expected, while the second-round effects of higher oil price pass-through could raise inflationary pressures. The authorities responded that they would adjust monetary policy as needed either in conjunction with or between scheduled reviews. If, however, growth faltered, staff suggested using an accommodative mix of monetary and fiscal policy, rather than relying exclusively on the former in light of the strong fiscal position.

13. **The authorities observed that the July 2005 changes to China's and Malaysia's currency regimes had not unduly pressured domestic financial and capital markets.** In the aftermath of the July changes, capital inflows increased as the Singapore dollar's use to proxy trade the renminbi and ringgit reportedly rose. However, a MAS statement that Singapore's monetary policy would remain unaltered as factors influencing growth and inflation had not changed, quickly quelled such speculative inflows. Beyond its impact on financial markets, increased renminbi or ringgit flexibility could also affect the economy, although its net impact is difficult to gauge. Under current conditions, increased flexibility would likely lead to an appreciation of these currencies vis-à-vis the Singapore dollar. As a large share of Singapore's export is shipped to these two countries, at first blush it would appear that the appreciation could improve Singapore's competitive position. However, many of the products and services that Singapore export to China and Malaysia are intermediate goods and much would depend on the impact of the appreciation on the demand for the final goods produced by the importers using such inputs. In addition, if profits from operations of Singapore firms in these countries (which are significant) fall due to the appreciation, this could reduce domestic consumption and growth.

14. **The MAS considered the existing monetary framework to be adequate to accommodate further flexibility in regional exchange rates.** Staff suggested that greater exchange rate flexibility in the region could require a more flexible application of the existing exchange rate regime, perhaps through a temporary widening of the trading band if market uncertainty increased. The MAS pointed out that the existing band width appeared sufficient, especially since they focused on the path of the trade-weighted index and not of any particular bilateral exchange rate. In addition, they noted that a prolonged widening of the band could impair the effectiveness of the framework. Overall, the staff agreed that the monetary framework remained appropriate and welcomed MAS's efforts to increase the system's transparency through regular market communications and dissemination of operational information.

15. **Notwithstanding the rise in the current account surplus, MAS considered the current level of the real effective exchange rate to be in line with fundamentals.** They noted that given Singapore's open and liberalized economy, the real exchange rate was market-determined and a nominal exchange rate misalignment, if any, would have been corrected through changes in domestic prices. However, despite recent increases, they had remained orderly. Furthermore, they noted that foreign exchange interventions had been

modest (e.g., gross official foreign reserves grew by around 3 percent in 2005 compared to the end-2004 stock) and, importantly, these had been two-sided.[6]

16. **The authorities contended that much of the large and growing current account surplus was due to factors unrelated to the exchange rate.** The increase in the current account surplus (around 13 percentage points of GDP from its low point in 2000 to 2004 and by another 4–4½ percentage points in 2005) was largely due to the decline in investment.[7] As the property market languished following the Asian crisis, construction investment fell by about 6 percentage points of GDP between 2000 and 2004. Added to this was the sharp decline in inventories of 7 percentage points of GDP following the bursting of the IT bubble in 2000. In the face of heightened economic uncertainty and competition from low-cost regional economies, the private sector and the government preferred to invest abroad instead of investing in other domestic industries. Thus, much of the decline in investment and the consequent rise in the current account surplus were not related to the exchange rate.

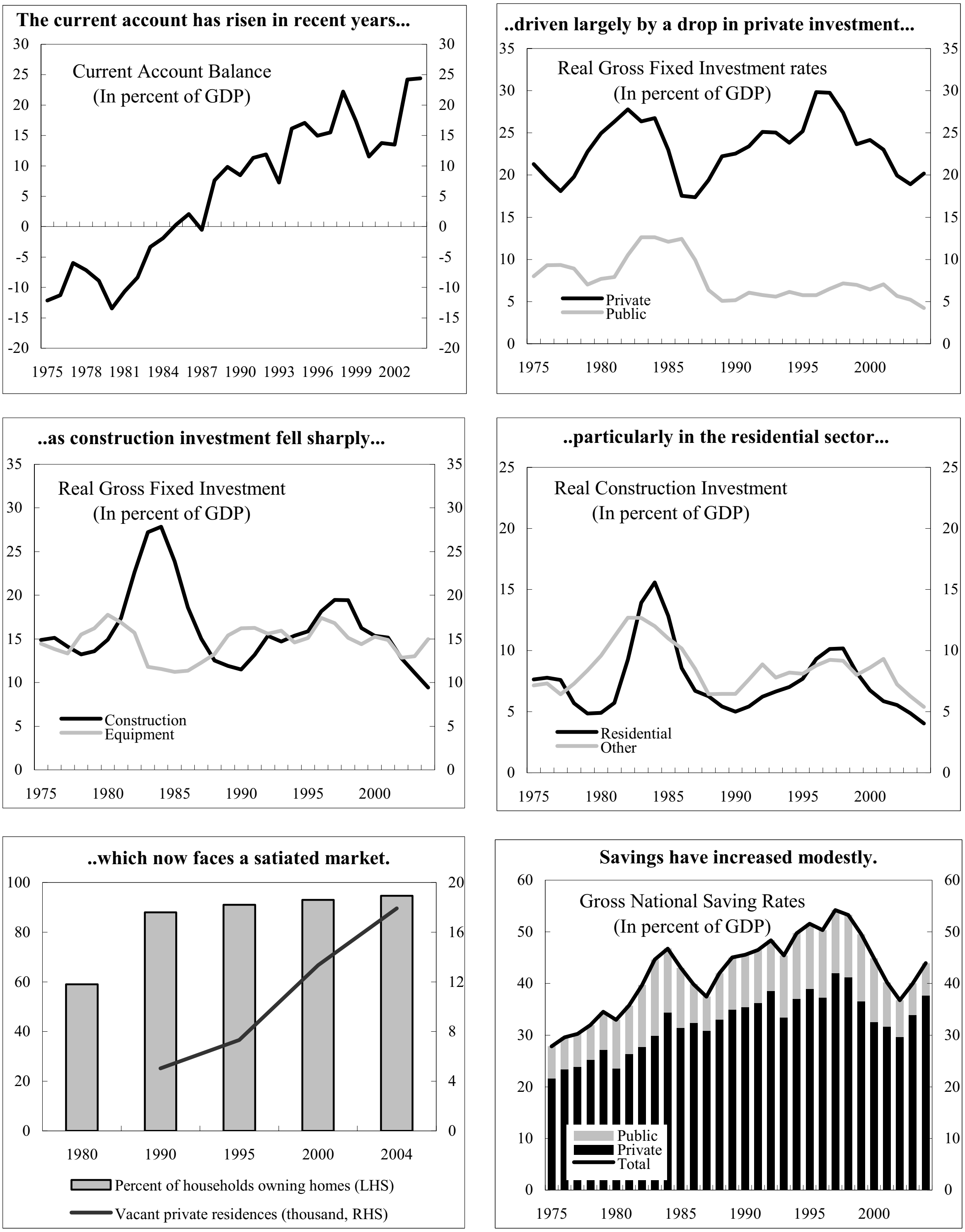
17. **The staff agreed with the relevance of all the above factors, but noted that the government's policy of investing a substantial portion of public savings abroad may have also shielded the exchange rate and domestic prices from stronger upward pressures.** Although government savings have halved since 2000 to around 6 percent of GDP in 2005, they remain high, and are invested abroad through the GIC. Profits of the government-linked companies (GLCs) are also invested externally, partly through Temasek. If these funds were intermediated through the domestic financial markets, upward pressures on the exchange rate and other prices might have been significant. The staff acknowledged that the authorities had kept the exchange rate primarily focused on containing inflation, relying instead on structural reforms and fiscal policy to improve competitiveness. However, some of these reforms and policy measures may have led to a rise in savings.[8] For example, cuts in employers' contribution to the CPF, along with rising productivity have helped to

[6] Staff update of an econometric study by Ronald MacDonald, "The Long-Run Real Effective Exchange Rate of Singapore: A Behavioral Approach," MAS Staff Paper No. 36, December 2004, indicates that the REER is broadly in line with fundamentals. The 6 percent or so depreciation of the REER since 2000 is largely explained by the decline in asset prices and a worsening terms-of-trade, partially offset by a rise in net foreign assets.

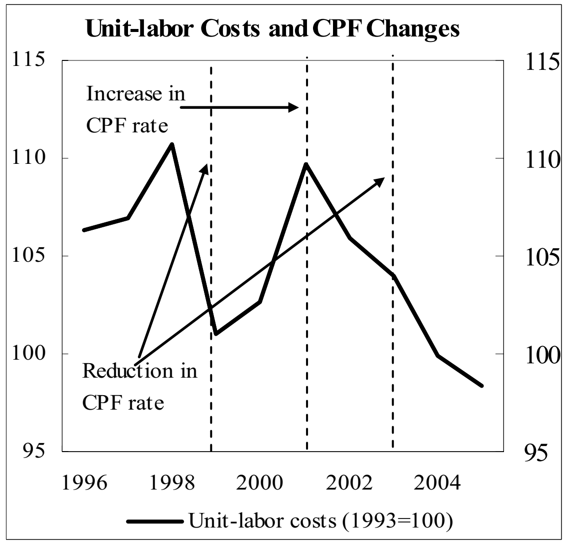
[7] Some of the determinants of savings and investment in Singapore are discussed in Chapter I of the accompanying Selected Issues paper.

[8] Much of Singapore's private savings is accounted for by corporations, with corporate savings estimated at around 25–30 percent of GDP and reflects the large share of profit in national income (around 50 percent). The high level of corporate savings is partly due to the dominance of MNCs in the economy, with some estimates of their share of GDP as high as 50–60 percent. MNCs by their nature transfer a large portion of the profit abroad. Household savings are comparable to international levels at around 8–10 percent of GDP, of which net saving through the CPF is around 2½ percent of GDP.

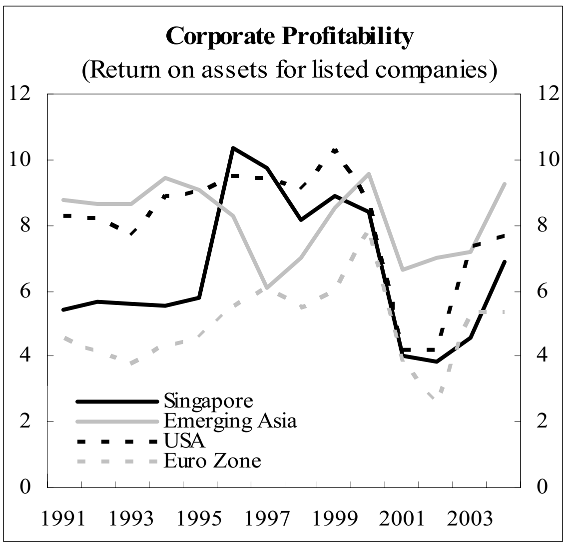
Singapore's Current Account Balance

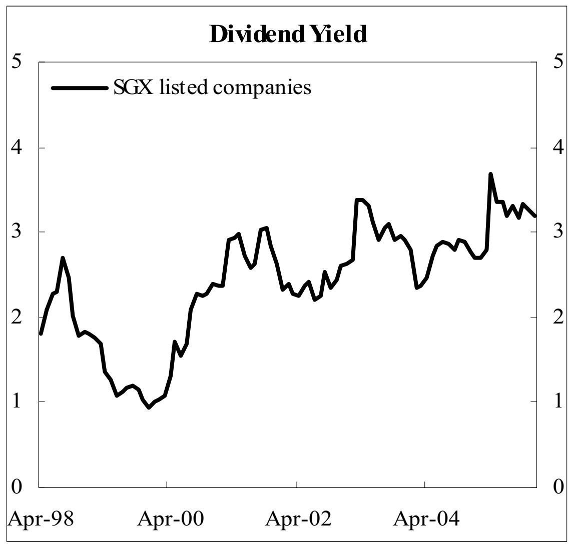


Sources: SingStat, CEIC, and Fund Staff estimates. Break-down between public and private savings is derived by IMF staff.



lower unit labor cost, which in turn has boosted corporate profitability.[9] While some of the increase in profitability has been distributed as dividends (at least by Singapore-listed companies), overall savings by firms have increased. Household savings may also have increased recently reflecting the likely higher income uncertainty associated with the increased use of variable wage contracts, which the authorities encouraged firms and unions to adopt to make the labor market more flexible.[10]





18. **Looking ahead, the authorities and staff agreed that the current account surplus would decline, but remain sizeable over the medium term.** The surplus is expected to narrow as consumption rises with the decline in unemployment and investment increases with the strengthening of economic conditions (and the upturn in the IT cycle) and a firming up of the property market. Equipment investment—perhaps benefiting from declining world prices of capital goods—has already begun to rise in the last few years. That said, a number of factors would prevent the surplus from falling sharply. Households would likely maintain

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[9] The correlation between corporate profitability and the real exchange rate has been positive since the early 1990s, indicating perhaps that the direction of causality runs from the former to the latter. The forthcoming World Economic Outlook (Chapter IV) discusses the rise in corporate savings in G-7 countries.

[10] Chapter II of the accompanying Selected Issues paper discusses the impact of the higher unemployment on household consumption and savings.

a high level of savings given the aging of the population.[11] Construction activity is unlikely to return to its pre-Asian crisis high as the vast majority of Singaporeans already own homes, the property market is still oversupplied, and new household formation is likely to drop off with aging. Outward investments by the private sector and the government are also likely to remain strong as both continue to diversify abroad.

B. Fiscal Policy: Staying the Course

19. **The proposed FY 2006/2007 budget entails a somewhat expansionary stance, reflecting increased outlays on social spending.** The targeted budget surplus is lower than last year's budget, continuing the downward trend in government savings since the late 1990s. The increase in social spending expands the government's strategy to help low-income families and low-skilled workers through targeted assistance. This includes broad means-tested transfers to households; support to low-wage workers through in-job bonuses; and assistance to meet rising health care costs and utility bills. In addition, the budget proposed a number of measures aimed at upgrading and further restructuring the economy, including additional spending on R&D. The budget, which was presented after the mission, is in line with the strategy outlined by the authorities during discussions.

20. **On the structure of the budget, several steps have been taken in recent years to reduce the reliance on discretionary measures as a countercyclical tool and improve the allocation of budgetary resources.** The staff welcomed the introduction of loss carry-back in the last budget, which should help small enterprises strengthen their liquidity management and help to strengthen automatic stabilizers.[12] However, a proposal to shift to a pay-as-you-earn (PAYE) income tax system was temporarily shelved due to lack of public support.[13] The government has also been experimenting with public-private partnerships (PPPs), albeit at a small scale. The staff noted that while PPPs could facilitate a more efficient use of budgetary resources, a wider use should await a careful evaluation of the existing schemes; if not designed properly they often obfuscate the true project cost and fiscal transparency.

21. **The authorities underscored that medium-term fiscal policy would remain guided by the need to build reserves further, while continuing to provide support to the economy and low-income families.** Although Singapore's fiscal net assets are estimated to be well over 100 percent of GDP, the authorities consider that there is a need to build them up further to buffer against external shocks, the fiscal impact of aging, and threats to its

[11] A significant portion of household savings is determined by demographics as discussed in Chapter V, Singapore: Selected Issues, IMF Staff Country Report No. 00/83.

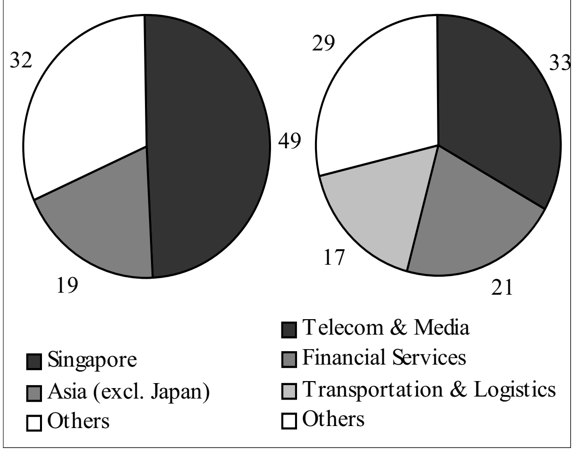
[12] Loss carry-back allows a company to apply retroactively the current year's net operating losses to the preceding year's income in order to reduce tax liabilities in that year.

[13] Under the PAYE system, tax liabilities are assessed based on the current year's income.

economic security.[14] On the other hand, assistance to the long-term unemployed and low-wage earners would continue to be needed, while further cuts in taxes might also be required to improve the economy's competitiveness. Fiscal policy over the medium term would thus be based on balancing these competing objectives. The staff agreed that the fiscal reserves have served Singapore well by securing long-term sustainability, providing room for countercyclical policies, and underpinning economic confidence. However, keeping the budget on a sustained path of large surpluses begged the question as to whether the level of taxes was too high or that of expenditure too low. In this regard, the staff noted that there was ample room to expand further spending in the coming years on social programs to increase their reach and improve their effectiveness.

22. **Fiscal transparency has improved, but further steps are needed.** The staff welcomed the continued publication of annual reports on Temasek's operations. The holding company increased its net assets to US$63 billion (57 percent of GDP) at end-FY 2004 from US$54 billion at end-FY 2003, while earning a 16 percent return. It also diversified its portfolio across sectors and geographically, including through US$4–5 billion investments in Chinese banks. Last year, Temasek for the first time raised external funds of around US$1.8 billion, as part of an eventual US$5 billion fund-raising program. While noting the efforts to diversify the company's portfolio, staff raised the issue as to whether Temasek, being publicly owned, took into account the impact of its investment on the economy's overall exposure to sectors and countries. Temasek officials noted that investment decisions were solely guided by the company's commercial objectives and stressed that expansion into new markets was being done cautiously and selectively, overseen by an independent board. Separately, the authorities reiterated that disclosing further information on GIC's operations and financial position was difficult for strategic reasons, but underscored that such investments were largely in liquid assets and undertaken with

Temasek Portfolio Distributions 2004
(In percent of total porfolio)



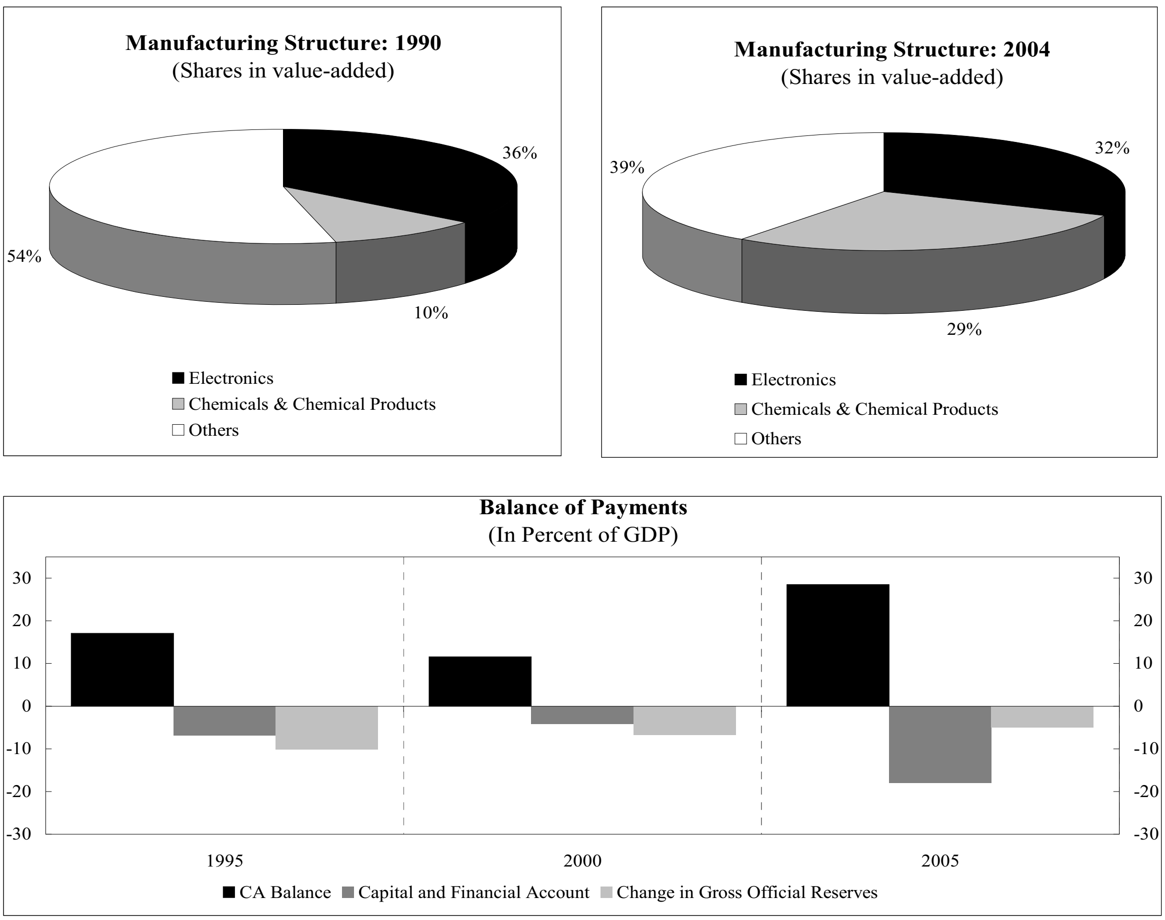
[14] Singapore's fiscal guidelines state that over an election cycle, the government needs to maintain a balanced budget. Moreover, each year the government can use only up to half of the earnings from the fiscal reserves. A surplus over the cycle is transferred to the reserves, while deficits can be financed by drawing down the reserves only with the consent of the President. In reality, the budget has mostly been in surplus over election cycles.

sufficient internal oversight.[15] The staff, as before, argued that more information on the government's assets and the publication of consolidated public accounts would help strengthen further public confidence. In this regard, the staff welcomed the authorities' decision to conduct a fiscal ROSC slated for 2006/07.

C. Structural Policy: Remaking Singapore

23. **Increased regional competition in recent years has forced the corporate sector to restructure and has moved structural reforms to the foreground.** The authorities noted that they had implemented a great majority of the recommendations made by the

The structure of the manufacturing sector has changed, while companies have sought out new markets and invested abroad.



Sources: Data provided by Singapore authorities and staff estimates.

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[15] Temasek began publishing annual reports in 2004, but GIC, which is entrusted with investing the reserves of the government, does not disclose the market value of its portfolio. GIC's assets and liabilities are audited, but reported only to the President and the Ministry of Finance.

government-sponsored Economic Review Committee, which were presented in 2003 and focused on improving competitiveness, encouraging private sector entrepreneurship, strengthening the service economy, and enhancing labor market flexibility. They also explained that further measures were planned to strengthen the manufacturing sector by promoting integrated supply chain systems, improve education and skills training, and increase R&D investment. Singapore has also sought out new markets, including by investing abroad and entering into bilateral free-trade agreements (FTAs) with a number of countries.[16] The staff commended the authorities for keeping structural reform high on the agenda and welcomed new measures, including the early implementation of the newly legislated competition law, which should help to ensure that domestic markets remained competitive (Box 1). At the same time, staff encouraged the authorities to explore the scope for accelerated divestment of non-strategic GLCs to encourage private sector entrepreneurship.

24. **Singapore's role as a regional financial center has continued to grow.** Domestic banks have expanded in the region, broadened their product lines, and sought out new markets, such as Islamic banking. Banks remain profitable and well-capitalized, and the financial system is generally healthy as concluded in the 2004 FSSA and confirmed in the MAS's latest (December 2005) Financial Stability Review. With banks expanding abroad, the MAS has focused on increased cooperation with regional regulators, including through greater information sharing. A deposit insurance scheme was introduced last year, which should strengthen further the banking system.[17] Progress has been made in meeting many of the FSSA recommendations, although the authorities have no immediate plans to separate the multiple official responsibilities of the MAS Chairman as had been recommended (Table 7). Foreign listings on the Singapore stock exchange and bond markets have also grown and new derivative products, including those linked to other countries' equity markets, are being introduced. The authorities agreed that as Singapore's markets grew in size and sophistication, surveillance would become increasingly important to keep markets orderly.

25. **The authorities are considering reforms to the CPF to improve returns on retirement savings.** A large number of Singaporeans rely on the CPF as the mainstay of their retirement income. However, in an effort to reduce business costs, employers' contributions to the CPF have been cut quite significantly in recent years. This, together with modest investment returns, has resulted in low wage replacement rates. To help increase awarded returns on individual CPF savings, the authorities are studying various options, including a default pension plan that allows more flexibility and better risk-return options

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[16] The authorities have explained that their bilateral FTAs are WTO-compliant and not in conflict with multilateral and ASEAN-based agreements. Following the FTA with Japan and EU, an agreement with the United States came into force in 2004. FTAs have also been concluded with Australia, New Zealand, India, and Korea. Negotiations are ongoing with several countries, including Canada, China, and Mexico.

[17] The scheme covers up to S$20,000 per depositor per institution and banks pay a risk-based premium.

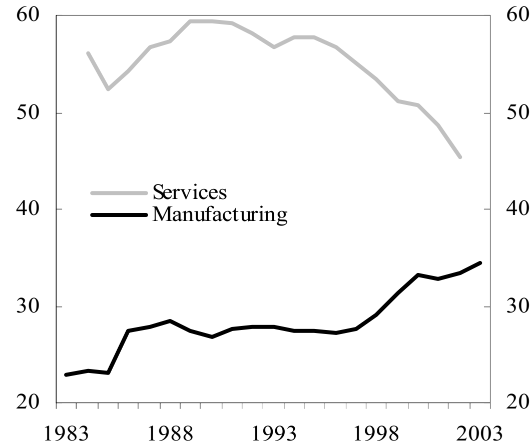
BOX 1. SINGAPORE: TRENDS IN DOMESTIC COMPETITION

Quantitative measures of the markup or margin above average or marginal cost are typically used in the economic literature to assess the intensity of domestic competition. Generally, a higher markup is indicative of less competition. For Singapore, based on data covering manufacturing and services industries over the period 1983–2003, estimates of these measures suggest:

- On average, Singapore's domestic industries are about as competitive as those in the United States or OECD countries. However, sectoral differences exist, for example, the transport equipment sector and the transportation, storage, and communications services sector have relatively high estimated markups in Singapore. In addition, markups are generally somewhat higher than in Hong Kong SAR.

- Markups have increased over time in the manufacturing sector, but have decreased in the services sector, particularly since the late 1990s. In the manufacturing sector, the pattern is most evident in some of the higher growth sectors such as chemical and chemical products, which includes pharmaceutical and biomedical products, and electronic products and components.

Estimated Price-Average Cost Margins
(In percent above average cost)



- Markups in Singapore are mostly countercyclical, although this is generally not statistically significant at the aggregate or industry level. Countercyclical markups could suggest a relatively weak response of prices to changes in the business cycle. Markups appear to be negatively related to firm turnover and positively related to market share, consistent with a model of imperfect competition where firm entry is facilitated during business cycle upswings, indicative of low entry and exit costs.

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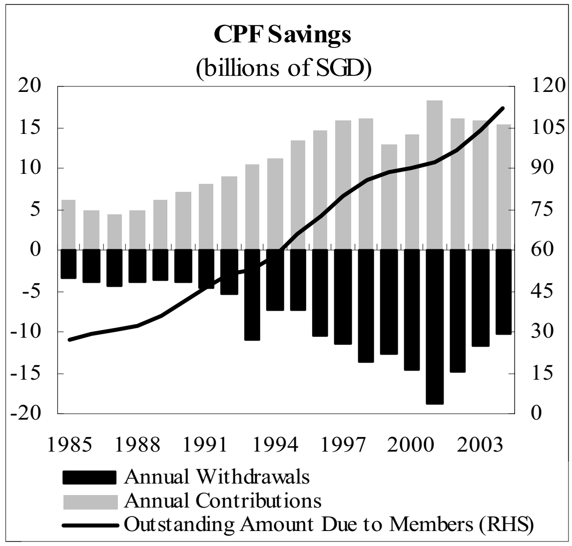
[1] For details, see Chapter III of the accompanying Selected Issues paper.

and annuities to provide guaranteed minimum income in light of increased life expectancies. The current practice has been to link the awarded return on CPF savings to short-term interest rates, although they have been low for some time and members have instead been awarded the guaranteed minimum rate. The staff welcomed this review and noted that such changes, along with a reformed CPF Investment Scheme that allowed greater pooling of resources, with limited and simpler options, could help to encourage greater use of the program and raise replacement rates. In this context, staff welcomes the introduction in December 2005 of steps to lower fund management fees.



26. **The emergence of long-term unemployment among the low-skilled continues to be a concern for the authorities.** The staff supported the government's strategy to assist low-skilled workers through programs that upgraded skills, retrained, and assisted in job placement, along with financial support to low-wage earners to meet expenses, such as children's education fees and CPF and medical insurance contributions. The authorities and staff agreed on the importance of continuing with training programs and education reform to match future skill needs as the economy continued to restructure.

D. Other

27. **Singapore is in observance of the SDDS and publishes economic and financial data on a generally timely basis.** Singapore's statistical system has continued to improve, including through the recent rebasing and rebalancing of the national accounts statistics, rebasing of the CPI, and better collection of IIP data. However, the coverage of IIP surveys could be expanded to improve further the accuracy of Singapore's IIP position, which appears low, compared to the size of the current account surpluses in recent years. The authorities, while acknowledging the need for greater coverage of the IIP surveys, noted that the apparent discrepancy between current account surpluses and changes in IIP positions could reflect differences in the valuation of inward and outward investment.

IV. Staff Appraisal

28. **Singapore's current economic expansion has now been sustained for 10 consecutive quarters.** While strong external demand has boosted activity in recent quarters, supportive policies and structural reforms have made significant contributions to this expansion. Importantly, employment growth has been strong, although unemployment is still high among the low-skilled workers. The staff expects growth to ease modestly in the near term with risks to this outlook being broadly balanced.

29. **Looking ahead, sustaining strong growth over the medium-term will depend on how well Singapore meets the rising challenges from low-cost regional economies.** So far, continued structural reforms have helped to improve the competitiveness of traditional industries, such as electronics, while promoting the growth of new industries, such as pharmaceuticals. Strengthening these efforts, including by encouraging greater private entrepreneurship through accelerated divestment of nonstrategic GLCs, will be important.

30. **Given the current economic outlook, the tightening stance in monetary policy is appropriate.** However, although inflation is low at present, inflationary pressures may turn out to be stronger than expected, particularly as the labor market tightens further. In that case, a further tightening of the monetary stance would be needed.

31. **The staff continues to support Singapore's monetary framework, which has so far accommodated well the somewhat increased flexibility in regional currencies.** Going ahead, further exchange rate flexibility in the region could require a more flexible application of the exchange rate system. Thus, if increased regional exchange rate flexibility leads to heightened market uncertainty, the MAS might wish to widen the trading band.

32. **There are no discernible signs of exchange rate misalignment and the high current account surplus reflects continued large savings and, in particular, lower investment.** The authorities have kept the exchange rate primarily focused on maintaining low inflation and have relied on structural reforms and fiscal policy to improve competitiveness. However, the continued channeling abroad of public savings may have shielded the exchange rate from stronger upward pressures. Looking ahead, while construction investment is unlikely to increase substantially in the medium term, equipment and inventory investments should rise with the strengthening of economic conditions and help to reduce the current account surplus, and aid (albeit in a limited way) to an orderly resolution of global imbalances.

33. **The staff supports the somewhat expansionary stance of the FY 2006/2007 budget.** Considering the very large fiscal reserves, there is amble room for the lowering of the surplus without threatening long-term fiscal sustainability. The targeted social assistance will help strengthen job opportunities and incomes of low-skilled workers without creating disincentives. Looking ahead, if growth falters, the large fiscal reserves provide ample room for expansionary discretionary measures to compensate for the limited automatic stabilizers. Over the medium term, fiscal policy will need to continue to support the low-skilled workers through targeted social programs and retraining, a strategy that the staff fully supports as it minimizes hindrances to labor market flexibility.

34. **Fiscal transparency has improved, but additional steps would further boost confidence in the economy.** The authorities should take steps to compile and publish the consolidated public sector accounts in line with international accounting standards. In this context, staff welcomes the progress made toward participating in the IMF's fiscal ROSC exercise. Temasek's continued public reviews of its financial position are positive steps

toward fiscal transparency and the authorities should consider publishing more information on GIC's financial position.

35. **In the financial sector, as banks diversify internationally, the need for greater cooperation with regional regulators increases and the staff welcomes the efforts undertaken by the authorities to achieve this.** As the growth in the size and sophistication of the capital markets is likely to continue, close surveillance will be critical to ensure that they remain orderly.

36. **Given Singapore's aging population, increasing the returns on CPF savings remains a key challenge.** Looking ahead, the staff welcomes the government's intention to study broad reforms of the CPF, including by designing a scheme that allows greater flexibility and risk-return options.

37. **The staff recommends that the next Article IV consultation with Singapore be held on the standard 12-month cycle.**

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

Nominal GDP (2004): US$116.8 billion | GDP per capita (2005): US$27,031
Population (2004): 4.32 million | Quota: SDR 862.5 million

	2000	2001	2002	2003	2004	2005	2006 Proj.
Growth (percentage change)							
Real GDP	10.0	-2.3	4.0	2.9	8.7	6.4	5.5
Total domestic demand	18.7	-5.6	1.9	-9.3	11.1	2.6	5.7
Final domestic demand	13.4	1.7	-0.6	-0.6	6.2	1.6	6.0
Consumption	15.6	4.9	5.0	0.5	4.5	3.3	5.1
Gross capital formation	24.1	-22.4	-4.9	-32.6	34.6	0.9	7.3
Net exports (contribution to GDP growth)	-4.6	2.4	3.4	11.2	1.2	4.6	1.4
Inflation and unemployment (period average, percent)							
CPI inflation	1.3	1.0	-0.4	0.5	1.7	0.5	2.0
Unemployment rate	2.7	2.7	3.6	4.0	3.4	3.2	2.9
Central government budget (percent of GDP) 1/							
Revenue	29.2	27.3	22.9	20.4	20.5	20.2	19.0
Expenditure	20.4	23.9	18.6	14.2	14.6	14.2	16.0
Overall balance	8.7	3.5	4.2	6.2	5.9	6.0	3.0
Budget balance 2/	2.4	-1.8	0.1	-1.1	-0.1	0.2	-1.3
Money and credit (end of period, percentage change)							
Broad money (M3) 3/	-1.8	4.0	-0.8	5.9	6.1	6.4	... 7/
Credit to private sector	5.9	16.3	-8.6	5.4	4.4	2.0	... 7/
Interest rate (three-month interbank, in percent)	2.8	1.3	0.8	0.8	1.4	3.3	... 7/
Balance of payments (US$ billion)							
Current account balance	10.7	11.8	11.9	22.3	26.3	33.3	34.2
(Percent of GDP)	(11.6)	(13.8)	(13.4)	(24.1)	(24.5)	(28.5)	(26.7)
Balance on goods	14.0	17.3	18.8	29.6	32.9	38.0	39.7
Overall balance	6.9	-0.9	1.3	6.8	12.1	12.3	6.2
International reserves and external debt							
Gross official reserves (US$ billion)	80.4	75.8	82.3	96.3	112.8	116.6	... 7/
(Months of imports) 4/	(6.4)	(5.9)	(5.7)	(5.3)	(5.4)	(5.0)	...
Gross external debt (US$ billion) 5/	...	...	...	193.7	233.6	242.4	... 8/
(Percent of GDP)				(208.8)	(217.3)	(207.6)	... 8/
Exchange rate							
S$/US$ (end of period)	1.732	1.851	1.737	1.701	1.634	1.664	... 7/
Nominal effective exchange rate 6/	100.0	101.4	100.5	96.8	95.5	96.6	...
Real effective exchange rate 6/	100.0	100.8	98.5	94.1	92.8	92.3	...

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

1/ Fiscal year beginning April 1. Numbers for FY 2006/07 reflect numbers presented in the proposed budget.
2/ The government's definition.
3/ Adjusted for the acquisition of POSBank by the Development Bank of Singapore in November 1998.
4/ In months of following year's imports of goods and services.
5/ Singapore holds significant foreign assets and the net international investment position was estimated at around US$88 billion as of end-2004.
6/ IMF Information Notice System monthly index (2000 = 100); period average.
7/ As of end-December.
8/ As of end-September.

Table 2. Singapore: Balance of Payments, 2000–06 1/

(In billions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006 Proj.
Current account balance	10.7	11.8	11.9	22.3	26.3	33.3	34.2
Trade balance	14.0	17.3	18.8	29.6	32.9	38.0	39.7
Exports, f.o.b.	153.2	136.5	140.6	161.7	200.9	232.5	256.6
Imports, f.o.b.	-139.3	-119.3	-121.9	-132.1	-168.0	-194.5	-216.9
Services balance	-1.3	-4.3	-3.8	-3.5	-3.2	-3.0	-3.9
Income balance	-0.7	0.0	-1.9	-2.6	-2.2	-0.6	-0.3
Transfer payments (net)	-1.2	-1.2	-1.1	-1.1	-1.2	-1.2	-1.3
Net capital flows 2/	-3.9	-12.7	-10.6	-15.6	-14.2	-21.0	-27.9
Capital and financial account balance	-5.9	-11.9	-10.3	-16.8	-14.6	-20.3	-27.9
Capital account (net)	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Financial account (net)	-5.7	-11.7	-10.2	-16.7	-14.4	-20.1	-27.7
Direct investment (net)	10.6	-4.5	5.1	7.2	6.3	14.6	15.5
Portfolio investment (net)	-14.6	-7.1	-13.2	-10.9	-11.3	-13.7	-22.9
Other investment (net)	-1.7	-0.1	-2.0	-13.0	-9.4	-20.9	-20.3
Net errors and omissions	2.0	-0.8	-0.3	1.3	0.4	-0.8	0.0
Overall balance	6.9	-0.9	1.3	6.8	12.1	12.3	6.2
Memorandum item:							
Current account as percent of GDP	11.6	13.8	13.4	24.1	24.5	28.5	26.7
Trade balance as percent of GDP	15.1	20.2	21.2	31.9	30.6	32.5	31.0
Net international investment postion							
(In billions of U.S. dollars)	...	...	...	88.6	88.3	...	...
GDP in US$				92.7	107.5	...	...
(In percent of GDP)	...	...	...	95.6	82.2	...	...

Sources: Monetary Authority of Singapore, Economic Survey of Singapore; and 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 rate.

2/ Including net errors and omissions.

Table 3. Singapore: Monetary Survey, 2000–05

	2000	2001	2002	2003	2004	2005			
						Mar.	Jun.	Sep.	Dec.
	(In billions of Singapore dollars, end of period)								
Net foreign assets	126.3	132.9	133.2	150.0	172.8	181.9	185.0	192.7	193.5
Monetary authorities	137.8	138.6	141.5	161.9	182.3	185.2	193.8	194.2	191.8
Deposit money banks 1/	-11.5	-5.7	-8.3	-11.9	-9.6	-3.3	-8.8	-1.5	1.7
Domestic credit (net)	126.6	144.6	121.3	134.0	137.9	135.1	136.3	131.9	129.7
Claims on private sector	159.1	185.1	169.1	178.3	186.1	185.6	187.0	187.9	189.8
Claims on government (net) 2/	-32.5	-40.4	-47.7	-44.3	-48.2	-50.5	-50.7	-56.1	-60.1
Other items (net)	-82.1	-96.6	-74.2	-89.2	-103.7	-106.6	-107.6	-107.4	-103.4
M2	170.9	180.9	180.3	194.8	207.0	210.4	213.7	217.2	219.8
M1	33.3	36.1	35.8	38.7	44.2	45.0	45.8	45.5	46.1
Quasi-money	137.6	144.8	144.5	156.1	162.8	165.4	167.9	171.7	173.7
	(Annual percentage change)								
Domestic credit	4.0	14.2	-16.1	10.5	2.9	-7.1	-4.6	-3.9	-5.9
Claims on private sector	5.9	16.3	-8.6	5.4	4.4	2.5	1.7	1.8	2.0
M2	-2.0	5.9	-0.3	8.1	6.2	4.3	4.6	8.2	6.2
M3	-1.8	4.0	-0.8	5.9	6.1	4.3	4.6	8.3	6.4

Source: IMF, *International Financial Statistics.*

1/ Commercial banks.
2/ Claims on public sector minus deposits.

Table 4. Singapore: Summary of Government Operations, 2000/01–2006/07

(In percent of GDP)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06		2006/07
						Budget 1/	Proj.	Proposed Budget 1/
Total revenue	29.2	27.3	22.9	20.4	20.5	19.6	20.2	19.0
Current revenue	25.1	24.2	21.2	18.9	19.0	17.9	17.6	17.1
Tax revenue	15.8	15.9	13.5	12.9	13.0	12.8	12.6	12.4
Investment income 2/	5.7	5.5	5.2	3.7	4.0	3.4	3.7	3.6
Other nontax revenue	3.6	2.8	2.5	2.3	2.0	1.8	1.2	1.2
Capital revenue 3/	4.1	3.1	1.7	1.5	1.5	1.7	2.6	1.9
Total expenditure	20.4	23.9	18.6	14.2	14.6	15.3	14.2	16.0
Current expenditure	12.7	15.6	13.6	12.9	12.2	11.8	12.0	13.7
Operating expenditure	11.3	12.2	12.2	12.0	11.1	10.9	10.9	11.5
Debt servicing	0.3	0.3	0.3	0.2	0.2	0.1	0.1	0.1
Agency fees on land sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment expenses	0.4	0.4	0.3	0.3	0.4	0.5	0.7	0.6
Transfer payments	0.6	2.7	0.8	0.4	0.5	0.3	0.3	1.5
Development expenditure and net lending	7.2	7.5	4.7	1.3	2.1	3.3	2.1	2.2
Development expenditure 4/	5.8	6.9	5.5	5.5	4.9	4.7	4.1	3.5
Net lending	1.4	0.6	-0.7	-4.2	-2.9	-1.4	-2.1	-1.3
Fund transfers 5/	0.5	0.7	0.4	0.0	0.4	0.1	0.1	0.2
Overall balance	8.7	3.5	4.2	6.2	5.9	4.3	6.0	3.0
Primary operating balance 6/	1.1	-3.5	-2.7	-3.0	-2.0	-1.9	-2.1	-3.5
Memorandum items:								
Budget balance (the government's definition)	2.4	-1.8	0.1	-1.1	-0.1	0.1	0.2	-1.3
Government saving	11.9	7.8	7.2	6.0	6.5	6.0	5.5	3.3
Structural primary operating balance	0.5	-3.4	-2.4	-2.5	-2.0	-1.8	-2.4	-3.8
Fiscal impulse based on operating balance 7	2.9	3.9	-1.0	0.1	-0.5	-0.2	0.4	1.5
Gross government domestic debt 8/	84.1	97.1	99.0	104.8	102.7			

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

1/ Original budget, excluding supplementary budgets. Fiscal year runs from April 1 through March 31. Numbers for FY 2006/07 correspond to the proposed budget.

2/ Includes all investment income from government assets and interest earnings on development loans from 2000/01.

3/ Sale of government property.

4/ Includes land-related expenditures.

5/ Includes transfers to these Endowment Funds: Edusave, Medical, Lifelong Learning, ComCare, and ElderCare.

6/ Overall balance excluding investment income, capital revenue, debt service, net lending, and fund transfers.

7/ Calculated as an increase in the structural primary operating deficit.

8/ Data for end of calendar year. The table reports gross debt and does not reflect large net asset position of the government. Gross debt is issued to the Central Provident Fund (CPF) and as part of the Singapore Government Securities (SGS) program. The government invests the proceeds raised through this issuance in foreign assets through the GIC. The SGS is a program started in 1998 to encourage the development of a corporate debt market by providing a liquid government bond market that could be used to benchmark the prices of other assets.

Table 5. Singapore: Indicators of Vulnerability, 2000–05

	2000	2001	2002	2003	2004	2005	Month for 2005 Data
Financial sector indicators							
Broad money (M3, percent change, y/y)	-1.8	4.0	-0.8	5.9	6.1	6.4	Dec.
Private sector credit (percent change, y/y)	5.9	16.3	-8.6	5.4	4.4	2.0	Dec.
Credit to the property sector (percent change, y/y)	9.6	6.4	0.3	11.2	8.2	3.0	Dec.
Share of property-sector credit in total non-bank credit (percent)	41.7	41.9	42.5	44.6	45.9	46.4	Dec.
Credit rating of local banks (S&P) 1/	A/A+	A/A+	A/A+	A/A+	A+	A+/AA-	Dec.
Three-month Interbank rate (percent, end-year)	2.8	1.3	0.8	0.8	1.4	3.3	Dec.
NPL ratio (local banks, percent) 2/	9.1	8.0	7.7	6.7	5.0	4.0	Sep.
Capital adequacy ratio of local banks (percent)	19.6	18.2	16.9	16.0	16.1	15.3	Sep.
Asset market indicators							
Stock prices (percent change, y/y)	-22.3	-15.7	-17.4	31.6	17.1	13.6	Dec.
P/E ratio	20.9	16.8	21.2	24.9	16.6	15.4	Dec.
Stock prices of the finance sector (percent change, y/y)	-23.2	-1.9	-13.5	23.8	9.8	5.9	Dec.
Real estate prices (1998: Q4=100, 4-quarter moving average) 3/							
Residential	137.1	123.4	115.4	113.3	112.9	116.2	Dec.
Office space	116.6	107.8	88.3	76.5	72.4	74.8	Dec.
External Indicators							
Current account balance (US$ billion)	10.7	11.8	11.9	22.3	26.3	33.3	Dec.
(In percent of GDP)	11.6	13.8	13.4	24.1	24.5	28.5	Dec.
Gross official reserves (US$ billion)	80.4	75.8	82.3	96.3	112.8	116.6	Dec.
(In month of next year's imports of goods and services)	6.4	5.9	5.7	5.3	5.4	5.4	Dec.
Real exchange rate (end of period, 2000=100)	102.1	98.8	97.7	92.1	91.7	94.1	Dec.
External debt (US$ billion) 4/	...	...	...	193.7	233.6	242.4	Sep.
(In percent of GDP)	...	...	...	208.8	217.3	207.6	Sep.
(In percent of exports of goods and services)	...	...	...	97.8	94.3	85.4	
Of which: Public sector external debt	0.0	0.0	0.0	0.0	0.0	0.0	

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

1/ Ratings of the three major local banks.
2/ In percent of global non-bank loans.
3/ The price indices are computed based on the Laspeyres method before 1998: Q4 and based on the moving average method from 1998: Q4.
4/ Singapore holds significant foreign assets and the net international investment position was estimated at around US$88 billion as of end-2004.

Table 6. Singapore: Medium-Term Scenario, 2000–11

							Proj.					
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Real growth (percent change)												
GDP	10.0	-2.3	4.0	2.9	8.7	6.4	5.5	4.5	4.0	4.0	4.2	4.5
Total domestic demand	18.7	-5.6	1.9	-9.3	11.1	2.6	5.7	5.3	4.5	4.5	5.0	5.4
Consumption	15.6	4.9	5.0	0.5	4.5	3.3	5.1	4.2	4.0	4.0	4.2	4.5
Gross capital formation	24.1	-22.4	-4.9	-32.6	34.6	0.9	7.3	8.1	5.8	5.7	7.1	7.6
Net exports /1	-4.6	2.4	3.4	11.2	1.2	4.6	1.4	0.7	0.8	0.7	0.6	0.5
Saving and investment (percent of GDP)												
Gross national savings	44.9	40.2	37.2	39.7	43.9	47.1	46.0	46.3	46.8	47.0	47.1	46.8
Gross capital formation	33.3	26.5	23.7	15.6	19.4	18.6	19.4	20.0	20.1	20.4	20.9	21.6
Inflation and unemployment												
(period average, percent)												
CPI inflation	1.3	1.0	-0.4	0.5	1.7	0.5	2.0	1.9	1.8	1.8	1.7	1.7
Unemployment rate	2.7	2.7	3.6	4.0	3.4	3.2	2.9	2.9	2.9	2.9	2.9	2.9
Output gap	4.3	-0.2	-1.0	-3.1	-0.1	1.2	1.7	1.2	0.7	0.1	0.1	0.0
Central government (percent of GDP) 2/												
Revenue	29.2	27.8	24.0	21.0	20.5	20.3	19.5	19.2	19.2	19.2	19.2	19.2
Expenditure	21.3	23.0	19.9	15.3	14.5	14.3	15.2	14.7	14.4	14.4	14.4	14.4
Overall balance	7.9	4.8	4.0	5.7	6.0	6.0	4.3	4.4	4.7	4.7	4.7	4.7
Primary operating balance	1.7	-2.3	-2.9	-2.9	-2.2	-2.1	-2.9	-2.3	-2.0	-2.0	-2.0	-2.0
Balance of payments												
(percent of GDP)												
Current account balance	11.6	13.8	13.4	24.1	24.5	28.5	26.7	26.3	26.6	26.6	26.2	25.1
Balance on goods and services	13.6	15.1	16.9	28.1	27.6	30.0	27.9	27.6	27.8	27.7	27.2	26.2
Balance on income and transfers	-2.1	-1.4	-3.4	-4.1	-3.1	-1.5	-1.3	-1.3	-1.2	-1.1	-1.1	-1.1
Gross official reserves (US$ billions)	80.4	75.8	82.3	96.3	112.8	116.6	122.9	129.2	135.6	142.1	148.7	155.4
(In months of imports) 3/	(6.4)	(5.9)	(5.7)	(5.3)	(5.4)	(5.0)	(4.8)	(4.5)	(4.3)	(4.0)	(3.8)	

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

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

Table 7. Singapore: FSSA Recommendations

Key Policy Recommendations	Status
Macro-prudential monitoring: Further strengthen MAS' monitoring of: (i) risks arising from new financial products, (ii) cross-border financial flows (including flows in the Asian Dollar Market and particularly transactions between branches and head offices) to detect potential strains in the offshore banking market, (iii) household and corporate sector balance sheets to assess the resilience of the private sector, and (iv) market and counter-party risks of derivatives activities by financial institutions.	**Ongoing process:** MAS publishes on a semiannual basis the Financial Stability Review, which assesses the overall stability of the Singapore financial system.
Regulatory systems and supervisory practices: Further enhance MAS' legal and regulatory framework through the completion of the review of the regulatory minimum capital requirements for local banks and the implementation of its new risk-based capital framework for the insurance industry, planned for introduction in late 2004, and complete the ongoing review of the MAS Act.	**Completed:** Review of capital requirements completed. The capital computation rules, including the minimum capital adequacy ratio requirements for reporting banks, are now set out in MAS Notice 637. The new risk-based capital framework for the insurance industry was completed and implemented on August 23, 2004. Insurers to comply with the framework from January 1, 2005.
The MAS' accountability, independence, and oversight capabilities: Reduce the potential for conflicts of interest arising from the multiple official responsibilities of the chairman of MAS.	**In progress:** With the appointment of Senior Minister Goh Chok Tong as Chairman of MAS on August 20, 2004, the Chairman of MAS is no longer Minister of Finance. The Chairman of MAS still holds multiple responsibilities as senior minister and within MAS. However, MAS has formalized the terms of reference for board level committees so as to delineate and document chairman's multiple roles and responsibilities, and prevent any ambiguity or potential conflicts of interest. MAS is working toward enacting the MAS Act amendments on (i) specification of MAS objectives and functions and (ii) MAS accountability framework by Q3 06.
Monetary and financial policy transparency: Provide more information on how supervisory actions are taken in line with the risk-based supervisory framework and disclose more information to improve the public's ability to assess supervisory performance.	**Ongoing process:** MAS has enhanced disclosure on its supervision of financial institutions in its annual report and through the publication of monographs such as that on "Objectives and Principles of Financial Supervision in Singapore," and "MAS' Roles and Responsibilities in Relation to the Securities Clearing and Settlement Systems in Singapore."

Anti-money laundering and combating the financing of terrorism: Improve the effectiveness of cross-border mutual legal assistance.	**In progress:** MAS is reviewing its notices on prevention of money laundering across various sectors in order to ensure compliance with the revised 40 FATF recommendations. The roll-out of the notices is planned for 2006.
Capital market development: Review and address factors that may constrain the further development of the corporate bond market, including the limited use of credit ratings, guaranteed interest rates of the Central Provident Fund (CPF), and the CPF investment policy.	**Under review:** A working group under the purview of the Asian Bond Market Initiative (ABMI) is studying the usage and comparability of credit ratings. Singapore is a member of this working group.

SINGAPORE—FUND RELATIONS

(As of December 31, 2005)

I. Membership Status: Joined August 3, 1966; Article VIII

II. General Resources Account:

	SDR million	Quota (In percent)
Quota	862.50	100.00
Fund holdings of currency	740.71	85.88
Reserve position in Fund	121.84	14.13

III. SDR Department:

	SDR million	Allocation (In percent)
Net cumulative allocation	16.48	100.00
Holdings	199.57	1,211.34

IV. Outstanding Purchases and Loans: None

V. Financial Arrangements: None

VI. Projected Payments to Fund: None

VII. Exchange Arrangement:

Singapore's exchange rate regime is a managed floating system. 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. As of December 31, 2005, US$1=S$1.6642.

Singapore has accepted the obligations of Article VIII, Sections 2, 3, and 4 and maintains an exchange rate system that is free of restrictions on the making of payments and transfers for current international transactions.

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 have to 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.

VIII. Last Article IV Consultation:

The 2004 Article IV consultation discussions were held in Singapore during October 26 to November 8, 2004, and the consultation was concluded by the Executive Board on February 7, 2005.

IX. FSAP Participation:

The FSAP was undertaken in conjunction with the 2003 Article IV consultation. FSAP missions took place in November 2002, July–August 2003, and September 2003.

X. Technical Assistance: None

XI. Resident Representative: None

SINGAPORE: STATISTICAL ISSUES

Singapore provides data to the Fund generally on a timely basis and meets the SDDS specifications for the coverage, periodicity, and timeliness of the data, and for the dissemination of advance release calendars. The data are generally thought to be sufficient for surveillance purposes. While the authorities have continued to improve the quality of data, including publishing more disaggregated data, there are a number of deficiencies in statistical practices, particularly in the external and fiscal areas.

- In early 2006, the Singapore Department of Statistics (DOS) completed rebasing the reference year for the Singapore System of National Accounts from 1995 to 2000. The DOS also made improvements in data sources and methodology. The reconciliation of various national accounts estimates was conducted, resulting in lower statistical discrepancies. Work on further improvements, particularly with respect to changes in inventories, is ongoing.

- The authorities have since January 2006 released the full set of statistics on merchandise trade including trade with Indonesia. Prior to this, merchandise trade statistics do not fully include trade with Indonesia, although trade transactions with Indonesia are captured elsewhere in the current account of the balance of payments (BOP).

- Information on government assets held abroad is not published nor provided to the Fund. Interest on these assets and debt service payments on domestic debt made from the extra budgetary Government Securities Fund are published on an annual basis, but are not fully reflected in the fiscal position. More generally, data on the financial position of the consolidated public sector are not published. Singapore has nevertheless complied with the expanded SDDS requirements to include data on the international investment position.

Annual and quarterly BOP data are reported to STA each year.