



## Singapore

**D**espite continued appreciation of the Singapore dollar (S\$) against major currencies, the economy again performed better than expected in 1995. Strong global demand for electronic products and high economic growth in neighboring economies were the key factors behind the good economic performance.

The country's near-term economic prospects remain bright given the buoyancy in global demand for electronic goods, low inflation, high productivity growth in most sectors, and further liberalization of the labor market. However, its longer-term economic prospects depend on how successfully the country addresses the erosion of external competitiveness resulting from its rising labor and business costs and exchange rate appreciation. Recent economic measures included raising productivity by applying new technology, cutting labor and business costs by restricting the increase of wage and fringe benefits in the public sector and reducing the overall tax burden, and strengthening economic linkages with economies in the region through trade and investment.

### **Recent Trends and Prospects**

*Growth, Investment, and Employment.* Growth of GDP slowed to 8.9 percent in 1995 from double-digit growth rates in previous years. The slowdown, however, was considered a healthy development since double-digit growth was judged unsustainable and would eventually lead to the buildup of inflationary pressure.

Slower economic growth was due primarily to the decline in manufacturing sector growth in the first half of 1995 to 8.1 percent. However, the sector staged a strong rebound in the second

half of the year, registering average growth of 12.3 percent. The upswing was spurred by the electronic industry, which accounts for 41 percent of total manufacturing output, particularly personal computers and computer-related electronic products. Construction sector growth, however, declined to 4.8 percent from 15.6 percent in 1994 because of a slowdown in housing construction and public investment.

The services sector, which contributes close to two thirds of GDP, grew by 8.6 percent in 1995, slightly higher than in the previous year. Activity in the commerce and transport and communications sectors remained strong, expanding by 9.1 percent and 11.5 percent, respectively, in 1995, compared with 9.1 percent and 10.8 percent in 1994. The two sectors continued to benefit from strong regional growth and Singapore's status as a regional investment hub and entrepôt trade center. Growth in financial and business services slowed to 4.8 percent in 1995, about half of the rate in 1994. The slower growth reflects lackluster trading in Singapore's equity market.

Economic growth was mainly driven by external demand which accounted for more than 80 percent of growth in total demand. Exports of goods and services in real terms increased by 12 percent in 1995 because of strong growth in merchandise exports to the US and Japan. However, growth in total consumption expenditure remained subdued, mainly owing to slowed private consumption. Growth in gross fixed capital formation in real terms likewise receded to 4.8 percent from 7.6 percent the previous year because of slower growth in private investment and a moderate decline in public investment.

Gross domestic saving in 1995 reached a record

level at 55.6 percent of GDP. The high savings rate was primarily the result of high mandatory saving through the Central Provident Fund (CPF), slow growth in private consumption, and a government budgetary surplus. Strong profit results in the electronic, financial, and real estate industries also boosted corporate saving. However, the increase in gross capital formation continued to lag behind that of gross domestic saving, which further widened the gap between domestic saving and investment (Figure 2.3). The slow growth of capital formation was due, to a large extent, to the slowdown of public investment. Despite high domestic saving, the country continued to attract a large amount of FDI. Net FDI commitments were \$4.6 billion in 1995 compared with \$5.78 billion in 1994.

The widening gap between domestic saving and investment implies that Singapore has invested heavily abroad, particularly in neighboring high-growth economies. Spurred by rising domestic costs, growing economic opportunities in the region, and the Government's regionalization strategy, Singapore's outward FDI has accelerated since 1990, reaching \$10.5 billion in 1994 compared with \$840 million in 1990. Of the total outward FDI, 54 percent was invested in Asia, mainly in Malaysia and Hong Kong.

Employment creation increased to 90,300 jobs in 1995 from 72,100 in 1994. Although all sectors registered a net increase, transport and communications in particular showed robust employment growth. The unemployment rate was only 1.4 percent in 1995 compared with 2.6 percent in the previous year. This indicates that the country's labor market is still tight; the unemployment rate is projected to remain at 2 percent in the near term. Therefore, Singapore may have to liberalize the labor market further to ease the upward pressure on labor costs. Labor productivity grew by 3.5 percent in 1995, marginally lower than the 3.8 percent achieved in 1994.

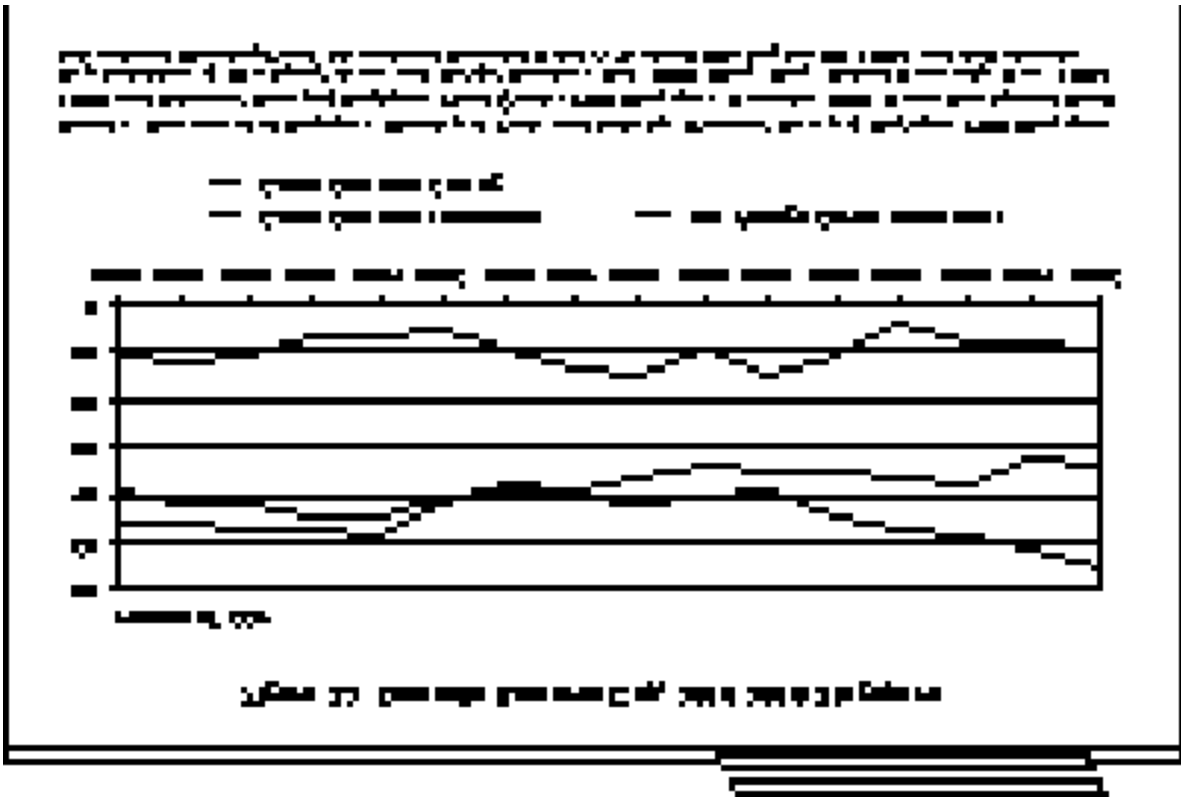
The outlook for Singapore in the next two years is for a deceleration of growth toward its sustainable long-run potential of 7-8 percent. GDP is expected to increase by 8 percent in 1996 and 7.5 percent in 1997, with moderate growth in the manufacturing sector. Although the global electronic demand is expected to remain strong because of increasing diversity of electronic products, manufacturing growth is likely to be tempered by rising costs and stiff regional competition.

The services sector is likely to expand at 8.2 percent on average in 1996 and 1997. Financial and business services are expected to pick up momentum as Singapore positions itself to become a truly international financial hub and global

**Table 2.3 Major Economic Indicators: Singapore**

		1993	1994	1995	1996	1997
Gross Domestic Product	% change	10.1	10.1	8.9	8.0	7.5
Agriculture	% change	-2.4	5.6	-6.7	-1.5	-1.0
Industry	% change	9.5	13.2	9.4	7.2	7.0
Services	% change	10.6	8.4	8.6	8.6	7.9
Gross Domestic Investment	% of GDP	38.4	32.2	33.9	34.5	35.4
Gross Domestic Saving	% of GDP	48.5	51.3	55.6	55.9	56.4
Inflation Rate	% change in CPI	2.4	3.8	3.2	2.4	2.8
Money Supply Growth	% change	8.5	14.4	12.0	9.0	9.0
Merchandise Exports	\$ billion	77.8	98.7	114.0	128.8	144.3
	% change	15.9	26.8	15.5	13.0	12.0
Merchandise Imports	\$ billion	80.6	96.6	114.3	129.4	145.3
	% change	17.8	19.8	18.3	13.3	12.2
Current Account Balance	\$ billion	5.2	11.9	14.2	15.6	16.8
	% of GDP	9.0	17.3	16.3	16.5	16.4

Sources: Data collected from the Department of Statistics of Singapore by EDRC for the Asian Development Bank *Annual Report 1995*; Government of Singapore, Ministry of Trade and Industry, *Economic Survey of Singapore, Third Quarter 1995* (Singapore, November 1995); International Monetary Fund, *International Financial Statistics* (Washington, DC, February 1996); and staff estimates.



capital market. Growth in the services sector will also be favored by bullish retail trade and increased tourist arrivals.

Among the components of aggregate demand, consumption will show an increase of 8.3 percent in 1996 and 7.9 percent in 1997. Consumer confidence will strengthen as a result of familiarization with the goods and services tax (GST) introduced in early 1994. Fixed investment is expected to grow rapidly due to increasing demand for housing and record investment commitments. Gross domestic investment is projected to rise by 11 percent in 1996 and 12 percent in 1997.

*Budget, Money, and Prices.* Government fiscal operations remained prudent in 1995 with a fiscal surplus being achieved. Spending on security, social and community services, and economic services was kept below targeted ceilings. Operating revenue exceeded the sum of operating and development expenditure by S\$12.3 billion in 1995 compared with S\$9.2 billion in 1994. The budget surplus, equivalent to 5.1 percent of GDP, prompted the Government to increase its contribution to the CPF in 1995. The budgetary surplus and high private saving through the CPF helped to sterilize the monetary expansion arising from the large inflow of foreign invest-

ment. Money growth was also moderated by efforts to slow consumer credit. As a result, broad money supply (M2) grew by 12 percent in 1995 and narrow money (M1) by 11 percent.

To ease inflationary pressure resulting from rapid economic growth, the Monetary Authority of Singapore continued to allow the Singapore dollar to appreciate against major currencies in 1995; it appreciated by 7 percent against the US dollar in 1995. Inflation eased to 3.2 percent in 1995 from 3.8 percent in 1994. The price shock introduced by the GST in early 1994 disappeared completely. Inflation was kept in check also because of keen competition in the retail sector, weaker sentiment in the property and stock markets, and a continued downward trend in both unit business costs and unit labor costs.

Government fiscal policy will continue to offset the long-term objective of a balanced budget with the need to upgrade infrastructure and to provide for a lower tax environment. Government revenue is expected to increase by around 10 percent in both 1996 and 1997 after a record rise of 19.5 percent in 1995. Total expenditure growth will be lower than that of revenue, at 9.7 percent in 1996 and 8.2 percent in 1997. An overall surplus equivalent to 10.1 percent of GDP in 1996 and 10.4 percent of GDP in 1997 is likely. Money supply (M2) is expected to rise by around 9 per-

cent owing to the effects of government surpluses, slower buildup of net foreign assets, and efforts to dampen the growth of consumer credit. Inflation is expected to remain below 3 percent in 1996 and 1997 given the prospect of a strong Singapore dollar.

*External Trade and Payments* Merchandise exports and imports rose by 15.5 percent and 18.3 percent, respectively, in 1995, compared with growth rates of 26.8 percent and 19.8 percent in 1994. As a result, the trade balance shifted to a deficit of \$268 million from a surplus of \$2.1 billion. An important factor in the continued stemming of export growth has been the shift to Singapore as a source of electronic components primarily because of appreciation of the Japanese yen. Exports to Malaysia slowed due to the shift of lower-end manufacturing activities from Singapore to Malaysia, as well as from the improved industrial capabilities generally in Malaysia. Although merchandise trade was in deficit, the current account maintained a surplus of \$14.2 billion in 1995, equivalent to 16.3 percent of GDP compared with \$12 billion or 17.3 percent of GDP in 1994. This surplus came largely from an increased services account surplus. The overall balance was also higher at \$10.1 billion in 1995 from \$4.7 billion in 1994, because of the increased current account surplus and strong net capital inflows.

Although demand in the global electronic market will remain strong in the near future, the prolonged appreciation of the Singapore dollar is expected to hurt the country's external competitiveness. Therefore, growth of merchandise exports is expected to slow down to 13 percent in 1996 and 12 percent in 1997. Merchandise imports are also expected to register lower growth at 13.3 percent in 1996 and 12.2 percent in 1997 owing to a slower pace of reexport activities. However, the current account is expected to continue to show a large surplus of around 16.5 percent of GDP in 1996 and 1997 as an increased services account surplus will more than offset the increased trade deficit. Although promotion of outward investments will spark a larger volume of capital outflows, these will not be enough to offset the current account surplus, and international reserves are likely to continue to increase over the next two years.

### **Policy and Development Issues**

In June 1995, the Government announced a new "supply-side potential" economic growth rate

objective of 7 percent per annum to the year 2000, a rate which is substantially higher than the previous 4–6 percent target band. To maintain this rate, Singapore must keep abreast with competition by increasing productivity through new technology and improved skills. A policy change in 1995 exempting employers from CPF contributions is intended not only to strengthen cost competitiveness, but also to have a positive impact on overall labor productivity and immigration management. The establishment in 1995 of the Singapore Productivity and Standards Board is aimed at ensuring that total factor productivity grows by at least 2 percent per annum for the next decade, thus lending support to the 4 percent labor productivity growth target and the 7 percent economic growth rate.

Improvement in productivity will also ease the policy concern of balancing high, sustainable economic growth with macroeconomic stability. Over the past few years, the Government has liberalized the labor market and allowed persistent appreciation of the Singapore dollar to deal with rising labor costs and inflationary pressure. However, exchange rate appreciation has made it more difficult for the manufacturing sector to stay competitive in the global electronic market.

While the share of the services sector in GDP has increased over the past decade, the manufacturing sector still accounts for 28.7 percent. This implies that the country's economic prospects will continue to be dominated by the twin engines of growth: manufacturing and financial and business services. The Government has identified fund management, a capital market, and investment banking as key areas for development in view of the rapidly growing portfolio investment opportunities as well as the rising demand for financial services from companies in the region.