

# Singapore

Moving closely in line with the global business cycle, growth decelerated during 2008 on a year-on-year basis and contracted in the fourth quarter. The economy is forecast to shrink this year, before bouncing back next year. A significant fiscal stimulus package will help cushion the severity of the recession, although in the highly open economy much of the stimulus will leak abroad. Cushioning externally induced macroeconomic volatility is a particularly difficult challenge in a city-state.

## Economic performance

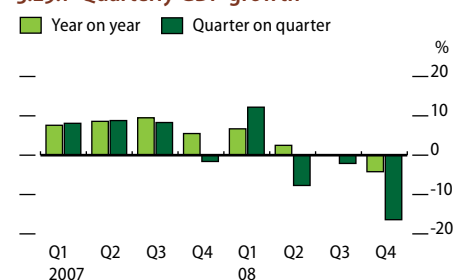
The global downturn hit this exceptionally open economy with full force during 2008. GDP growth was just 1.1%, far short of the 5-year average of 7.3% in 2003–2007 and the slowest since 2001, when GDP contracted during the global information technology slump. Reflecting the high correlation between the global business cycle and Singapore's economic performance, GDP growth slowed from 6.7% in the first quarter, year on year, until the economy contracted by 4.2% in the fourth (Figure 3.29.1). On a quarter-on-quarter basis, output declined from the second to fourth quarters of 2008.

The net export slump caused by the global slowdown acted as a serious drag on GDP growth, which was driven entirely by domestic demand. In particular, construction investment in the public sector played a key role in boosting domestic demand.

The impact of the global downturn was most evident in international trade, which fell by 11.6% in nominal US dollar terms (5.6% in volume terms) in the fourth quarter. Given Singapore's role as a trade hub that supports trade-related services from transportation to trade finance, the slowdown of trade had ramifications far beyond the export-oriented manufacturing sector. This helps explain why Singapore has been among the hardest hit economies. Another factor that has magnified the impact of the global slump is the economy's shift into higher value-added industries, such as biomedical manufacturing. The upgrading helps diversify the industrial base, but also increases dependence on demand from those industrial countries at the center of the global crisis. Total exports fell by 13.9% in the fourth quarter (Figure 3.29.2), although growth in the first 3 quarters, buoyed by high oil prices that raised prices of petroleum exports, allowed for growth of about 13% for the whole year.

Non-oil domestic exports fell by 19.6% in the fourth quarter, and by 1.9% for the year. External demand weakened in 2008 relative to 2007 for integrated circuits, consumer electronics, telecommunications equipment, and personal computers, as well as for pharmaceuticals, petrochemicals, and primary chemicals. Demand for non-oil exports weakened most notably from the United States (US) and Europe. Petroleum exports fell late in the year but rose for the full year by more than 50%. In volume terms, oil exports expanded by 15.5%.

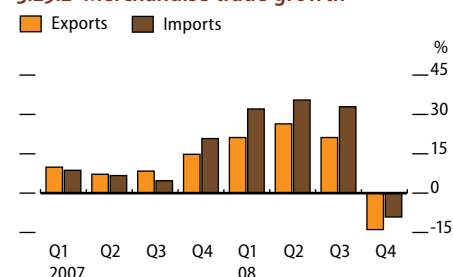
3.29.1 Quarterly GDP growth



Source: Singapore Ministry of Trade and Industry, *Economic Survey of Singapore 2008*.

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3.29.2 Merchandise trade growth



Source: CEIC Data Company Ltd., downloaded 14 March 2009.

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In the context of domestic demand, robust investment more than offset faltering consumption. Private consumption growth slowed to 2.4% in 2008, less than half the rate of 2007 (Figure 3.29.3). Consumption contracted in the fourth quarter. Deteriorating labor market conditions have led to concerns over job security and an erosion of consumer confidence. Further denting consumer confidence has been the year-long rout of the stock market. Higher government consumption bolstered overall consumption growth to 3.6%.

Both private and public investment grew at a healthy pace—14% and 13%, respectively. However, private investment contracted by 13% in the fourth quarter as business confidence plummeted in reaction to the fast-deteriorating global outlook. The growth in investment was largely driven by an upturn in construction, which overshadowed generally feeble equipment investment.

From the output perspective, business services, construction, and financial services were the biggest contributors to GDP growth in 2008 (Figure 3.29.4). Construction roared ahead by 20%, while business services and financial services expanded by 7.4% and 5.5%. For the year as a whole, all sectors except manufacturing made positive contributions to GDP growth. However, the financial services industry contracted by 8.1% in the fourth quarter, due to the global financial crisis and the economic slowdown. Trading activities fell substantially in foreign exchange, stock brokerage, and fund management. The fourth quarter also witnessed the contraction of wholesale and retail trade as well as transport and storage, largely as a result of declining world trade volumes.

Manufacturing suffered the biggest contraction, for both the fourth quarter (down 10.7%) and the entire year (down 4.1%). The manufacturing slump was driven by weakening global demand, and was most evident in the electronics and biomedical industries.

Inflation surged to 6.5% in 2008, from 2.1% in the previous year and 1.1% on average in 2003–2007. The surge was sparked by higher global oil and food prices during the first 3 quarters, and inflation eased by late 2008.

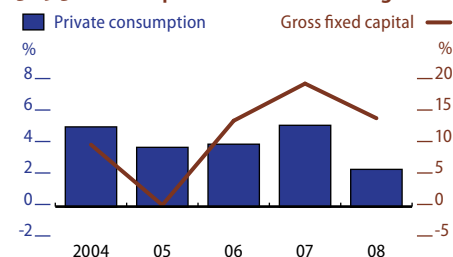
Of greater concern was the deterioration of the labor market in line with the worsening economic outlook. Employment rose by about 27,000 in the fourth quarter, less than half the 56,000 growth in the third, and although for the whole year employment increased by a healthy 227,000, most of the gain came in the first half. The number of layoffs, which climbed to 13,400 in 2008 from 7,700 in 2007, also rose sharply in the final quarter.

In the external accounts, lower surpluses were recorded in both goods and services trade. The current account remained in substantial surplus, equivalent to 14.8% of GDP. Gross international reserves rose to \$174.2 billion.

## Economic prospects

Structural and strategic dependence on external demand has served Singapore well over the past four decades, transforming it into one of the richest economies. The downside of an exceptionally high degree of globalization is that the economy is hit disproportionately hard when the world trade and growth turn down. Singapore has higher trade

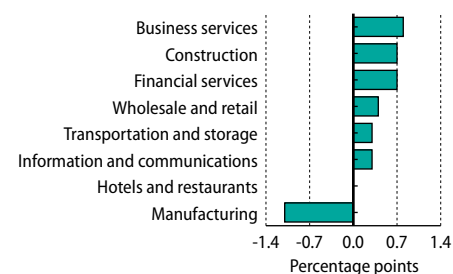
3.29.3 Consumption and investment growth



Sources: Singapore Department of Statistics, available: <http://www.singstat.gov.sg/>; CEIC Data Company Ltd., both downloaded 10 March 2009.

[Click here for figure data](#)

3.29.4 Contributions to growth (supply), 2008



Source: Singapore Ministry of Trade and Industry, *Economic Survey of Singapore 2008*.

[Click here for figure data](#)

dependence than other Asian economies and this gap has increased in recent years (Figure 3.29.5). A wide range of its services, too, depend on trade. Further, as a financial center, it will suffer more than most economies from the global financial crisis and cuts in staffing at banks and brokerages. Moreover, it is a subregional headquarters for multinational companies, many of which are trimming operations. Irrespective of the uncertainty surrounding the global outlook for this year, this economy is seen contracting substantially in 2009.

The downward momentum of late 2008 has continued into 2009. Exports fell by 40% in January and imports by 36%, year on year. The slide in exports was across the board in terms both of product groups and export markets. Manufacturing output declined by 29.1% on a year-on-year basis in January.

Private domestic demand is unlikely to provide much relief from the slump in external trade. Uncertainty surrounding the economy is likely to intensify during the first half of 2009, and this will induce households to save rather than spend. Job market conditions are expected to worsen before they get better. As a result, private consumption is set to contract in the first half. The weakening in trade and manufacturing bodes ill for equipment investment, which is likely to contract during the first half. The one area of private domestic demand that remained robust in 2008—construction investment—is likely to weaken in 2009 in response to a stagnant housing market (Figure 3.29.6). Any significant boost to domestic demand will have to come from the Government.

In response to this bleak outlook for 2009, the Government announced an unprecedented expansionary budget in January, with total spending set at S\$43.6 billion (US\$29.3 billion). The primary operating fiscal balance is set to be in deficit equivalent to 10.2% of GDP for FY2009 starting 1 April 2009, (compared with a surplus estimated at 1.6% of GDP in FY2008).

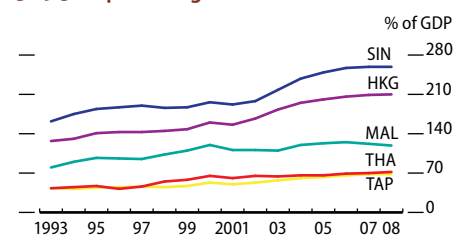
The centerpiece is a stimulus package costing S\$20.5 billion. Two notable components are the S\$4.5 billion Jobs Credit Scheme (Box 3.29.1) and a Special Risk-Sharing Initiative, which gives individual firms access to working capital of up to S\$5 million, with the Government bearing 80% of the default risk associated with those loans. The Government has also cut the corporate income tax rate from 18% to 17%, and provided personal income tax rebates of 20%, capped at S\$2,000. The Government plans to use S\$4.9 billion from its hefty fiscal reserves, obviating the need to borrow.

Although the large size of the stimulus will inevitably have some positive growth effects, it will at most limit the severity of the recession. The fiscal stimulus will also strengthen social safety nets and protect the most vulnerable groups. For example, workers on the Workfare program, which gives cash grants to low-income working households, will get 50% more in transfer payments to help them cope with the economic downturn.

The Monetary Authority of Singapore in October 2008 in effect loosened monetary policy when it changed its 3-year-old policy of allowing a “modest and gradual” appreciation of the Singapore dollar against a trade-weighted basket of foreign currencies to a target of zero appreciation.

Given the likely trajectory of the global business cycle, the economy is expected to shrink by about 8% in the first half of 2009, year on year, and by about 2% in the second. For the year as a whole, GDP growth is projected to contract by 5.0%, marking the weakest performance since

3.29.5 Exports of goods and services

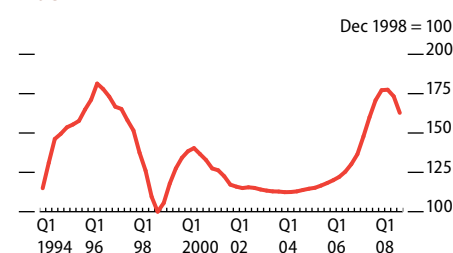


HKG = Hong Kong, China; MAL = Malaysia; SIN = Singapore; TAP = Taipei, China; THA = Thailand.

Source: CEIC Data Company Ltd., downloaded 12 March 2009.

[Click here for figure data](#)

3.29.6 Private residential property price index



Source: CEIC Data Company Ltd., downloaded 12 March 2009.

[Click here for figure data](#)

3.29.1 Selected economic indicators (%)

	2009	2010
GDP growth	-5.0	3.5
Inflation	0.5	2.0
Current account balance (share of GDP)	10.0	14.0

Source: Staff estimates.

### 3.29.1 Jobs Credit Scheme

The Jobs Credit Scheme aims to prevent mass layoffs by offering cash grants to employers to cover part of their wage bill. The cash grant is equivalent to 12% of the first S\$2,500 (i.e. up to S\$300) of the wages of each employee who contributes to the Central Provident Fund (CPF), the national savings plan. CPF criteria limit Jobs Credit benefits to Singaporean citizens and permanent residents. In effect, it is a temporary wage subsidy to employers that gives them an incentive to retain workers, with the subsidy amounting to a 9% cut in the employer's contribution rate to the CPF.

Anecdotal evidence indicates that the savings and additional cash flow from the Jobs Credit Scheme are quite significant, especially for labor-intensive firms, and is helping to save some jobs (*Singapore Market Weekly* 2009). A more formal empirical analysis using a macroeconomic model found that the program could save up to 30,000 jobs in 2009, and 50,000 each in 2010 and 2011 (Abeysinghe and

Gu 2009). Absent the scheme, the GDP contraction and the downward inertia of wages would lead to larger job losses over a longer period. However, it is possible that the scheme may merely transfer resources to those companies that would have kept workers anyway, without having much impact on the employment decisions of struggling enterprises.

The burden of adjustment during recessions in the past has largely fallen on workers, in the form of a cut in the employer's contribution rate to the CPF. Under the Jobs Credit Scheme, that burden is transferred to the Government.

#### References

Abeysinghe, T. and J. Gu. 2009. "Jobs Credit Scheme—Measuring its effectiveness." *Straits Times*, 16 February 2009.

*Singapore Market Weekly*. 2009. "Call It A (Deeper) Recession." 2 March 2009.

independence in 1965. Growth is expected to resume at about 3.5% in 2010 (Figure 3.29.7), on the back of global and regional recovery.

Both upside and downside risks are those associated with the depth and length of the global downturn. The downside risks overshadow those on the upside at the moment, which suggests that a contraction more severe than 5.0% this year is more probable than one less severe. Inflation will fall sharply to average 0.5% this year, due to the recession and weak commodity prices. The current account surplus is projected to decline to about 10.0% of GDP as a result of export compression, before it rises again in 2010.

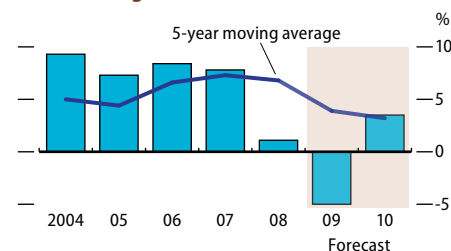
## Development challenges

The high import content of goods in this highly open economy and the consequent leakages of fiscal stimulus to other economies constrain the countercyclical impact of fiscal policy. However, strengthening social safety nets and protecting the most vulnerable groups are worthy objectives in themselves. The Government has recently accorded a higher priority to those objectives and it has taken some concrete steps, including the increased transfer payments in the Workfare program.

The deep contraction in this city-state of 4.8 million people brings into sharper focus the lack of a domestic demand base that could cushion the effect of an external shock such as the current one. In this regard, there has been a remarkable reduction in the ratio of private consumption to GDP in recent years. Strong growth of exports can partly account for this drop. However, the share of consumption has been more or less stable, at a far higher level, in Hong Kong, China, a comparable economy (Figure 3.29.8).

A more structural explanation is that high levels of home ownership in Singapore and correspondingly high levels of financial liabilities have suppressed disposable incomes and hence consumption. One possible policy option is to open up more avenues for households, especially older households, to convert their housing wealth into purchasing power.

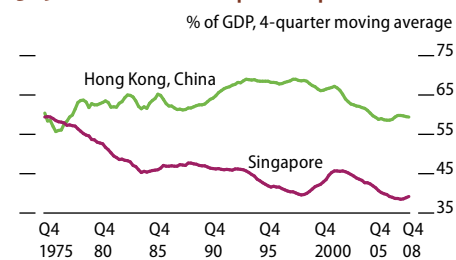
3.29.7 GDP growth



Sources: Singapore Department of Statistics, available: <http://www.singstat.gov.sg>; CEIC Data Company Ltd., both downloaded 10 March 2009.

[Click here for figure data](#)

3.29.8 Private consumption expenditure



Source: CEIC Data Company Ltd., downloaded 12 March 2009.

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