Singapore

Global headwinds buffeted this export-oriented economy in 2009. The slump in trade and dwindling capital flows knocked down private consumption and investment. Fiscal and monetary stimulus policies went some way to temper the contraction in GDP. Growth is forecast to rebound strongly this year, as the impact of the pickup in global trade and finance spreads through the economy. Inflation is expected to edge higher. The government, turning its attention to a decline in industrial productivity, will invest in upgrading the economy and its workforce.

Economic performance

The world financial crisis and slump in global trade had a deep impact on this exceptionally open economy (exports of goods and services represent over 200% of GDP). From the first quarter of 2008 to the first quarter of 2009, GDP fell by 9.5%. By the fourth quarter of 2009, though, the economy was growing again on a year-on-year basis (Figure 3.29.1), the recovery fueled by a rebound in exports. That late lift contained the 2009 full-year GDP contraction to 2.0%, not as severe as had been expected earlier in 2009.

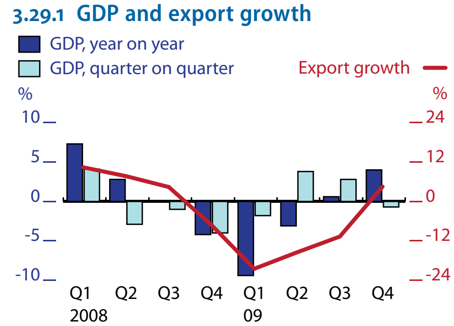
Singapore's total trade in goods and services in volume terms fell by nearly 12% last year, the sharpest fall in at least 3 decades. The slump in trade, which started in 2008, sent shockwaves through the economy, battering most manufacturing and services industries, weakening the labor market, and severely denting consumer and business confidence. Private consumption and investment fell from 2008's levels.

Private consumption declined by 0.5%, undermined by the fall in consumer confidence, job layoffs, and lower incomes. (Per capita gross national income in nominal terms fell by 6.5%.) To counteract the weakness in private consumption, the government ramped up its expenditure, lifting public consumption by 8.3%.

The biggest drag on GDP on the demand side came from investment which, measured as gross fixed capital formation, fell by 3.1% in 2009 (Figure 3.29.2), carried down by a 5.3% drop in private investment. That latter decline more than offset the impact of a 14.4% rise in public sector investment, as the government accelerated infrastructure works, such as mass transit rail lines. While investment in equipment fell by 14.6%, that in construction rose by 13.1%, largely stemming from the public infrastructure spending and the continued building of the large casino-entertainment projects, Resorts World Sentosa and Marina Bay Sands.

The economic rebound in the fourth quarter, when GDP rose by 4.0% year on year, was spurred by a 4.5% rise in real exports (imports fell by 1.8%). Higher exports and a generally better international environment

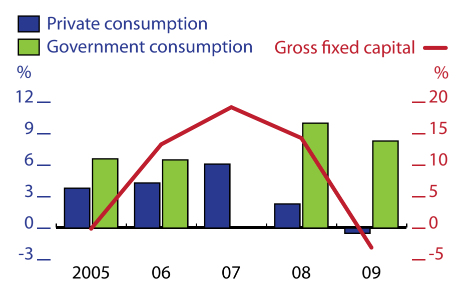
3.29.1 GDP and export growth



Source: CEIC Data Company (accessed 11 March 2010).

Click here for figure data

3.29.2 Growth in consumption and investment



Source: CEIC Data Company (accessed 11 March 2010).

Click here for figure data

This chapter was written by Arief Ramayandi of the Economics and Research Department, ADB, Manila.

raised consumer and investor sentiment—fixed investment increased by 8.3% and consumption by 6.2% in the October–December period.

On the production side, weakness in domestic demand and a fall in tourist arrivals caused wholesale and retail trading to contract by 9.1%, and transport and storage to fall by 7.0% (Figure 3.29.3). The freezing up of international financial markets and investment flows was reflected in a 1.4% decline in financial services. Manufacturing production, which is heavily export oriented, fell by 4.1%. However, construction expanded by 16.0%, a third consecutive year of double-digit growth. Business services and information and communications grew slightly.

Employment fell by about 14,000 in the first half of 2009, predominantly in manufacturing, raising the seasonally adjusted unemployment rate to 3.3% for the period. When economic activity rebounded in the fourth quarter, employment also started to recover, particularly in services industries such as retailing and hotels. The unemployment rate fell to 2.1% in the fourth quarter.

The weakness in domestic demand, coupled with lower prices for oil and commodities, pulled inflation down to just 0.6% in 2009, from 6.6% in 2008. The consumer price index fell for 7 months, year on year (Figure 3.29.4).

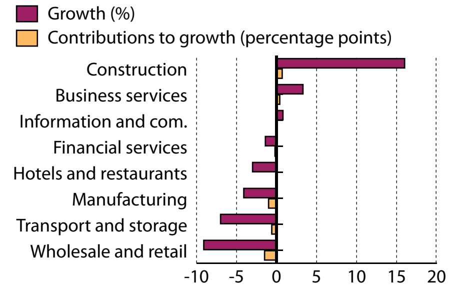
In the context of low inflation and contracting GDP, the Monetary Authority of Singapore maintained the effective loosening of monetary policy that it adopted in October 2008 by allowing a depreciation of the nominal effective exchange rate. The Monetary Authority sets policy by managing the Singapore dollar in a trade-weighted band against a basket of currencies, rather than by setting interest rates. In October 2008 it changed a 3-year-old policy of allowing a "modest and gradual" appreciation of the Singapore dollar against the currency basket to a target of zero appreciation, and in April 2009, lowered the center of the trade-weighted band. Liquidity in the economy remained high and broad money (M2) grew by a relatively strong 11.3% in 2009.

An expansionary budget for FY2009 (ended 31 March 2010) included a S$20.5 billion stimulus package. Notable measures were a Jobs Credit Scheme to curb layoffs by offering employers a temporary wage subsidy, and a Special Risk-Sharing Initiative to assist firms facing a squeeze on credit with access to funds. Other elements of the package were cuts in corporate income taxes and rebates on personal income taxes, and additional assistance for low-income earners. The programs performed fairly well in stimulating the economy.

As it turned out, spending on several stimulus measures fell short of the budgeted amounts, in large part because the economic performance turned up earlier than expected. Similarly, revenue held up better than previously anticipated. The overall fiscal deficit was equivalent to 1.1% of GDP, compared with a small surplus in 2008.

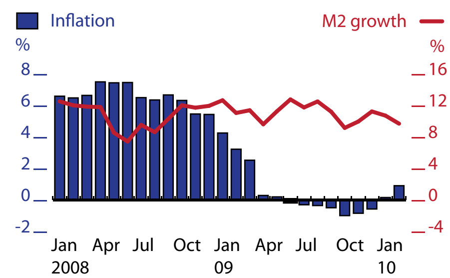
In United States dollar terms, merchandise imports dived by 23.3% last year, outpacing a 20.3% drop in merchandise exports (weak domestic demand cut imports, as did the slump in manufacturing industries, which use mainly imported materials). The decline in trade bottomed in the first quarter of 2009 (Figure 3.29.5). External balances for goods, services, and income remained in surplus, so that the current account surplus was barely changed from 2008, at 19.1% of GDP. International reserves rose by about 8% to US$187.8 billion, or 7 months of import cover.

3.29.3 Contributions to growth (supply), selected sectors, 2009



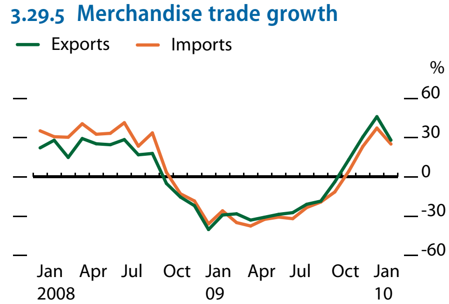
Source: Singapore Ministry of Trade and Industry. 2009. *Economic Survey of Singapore*. http://www.singstat.gov.sg
Click here for figure data

3.29.4 Inflation and money supply (M2)



Source: CEIC Data Company (accessed 24 March 2010).
Click here for figure data

3.29.5 Merchandise trade growth



Source: CEIC Data Company (accessed 30 March 2010).
Click here for figure data

Economic prospects

The recovery in world trade projected in ADO 2010 and pickup in financial flows bode well for Singapore's outlook. In particular, the economy will benefit from the V-shaped recovery in Asia, a region that accounted for about 60% of Singapore's total exports in 2008 (Figure 3.29.6). The share of exports shipped to industrial economies, including Japan, was about 30%.

Merchandise exports surged by 35% and imports by 31% on a customs basis in the first 2 months of 2010, from a relatively low base in the prior-year period. Stronger external demand for goods and services will have spillover effects throughout the economy. Indeed, manufacturing production rose by just over 29% in the first 2 months of this year.

Fiscal policy has shifted focus from dealing with the recession and the immediate recovery to the medium- and long-term goals of upgrading the economy and reducing dependence on foreign labor. The fiscal stimulus is being gradually removed. The Jobs Credit Scheme will be phased out by the third quarter of 2010 and the program to help firms obtain credit will finish by year-end. The FY2010 budget allocates more for education and research and development programs aimed at raising productivity. The fiscal deficit is expected to be similar to last year's outcome, at 1.1% of GDP. Monetary policy is expected to remain generally accommodative this year.

Investment is forecast to rebound in 2010, stimulated by the better global trade and financial climate and an accommodative monetary environment. Business confidence already recovered in the second half of 2009 (Figure 3.29.7). In particular, investment is expected to strengthen in financial and business services, tourism, and manufacturing. Construction investment will be supported by strong demand for residential property and the infrastructure projects (the casino-entertainment projects were largely completed in early 2010).

Private consumption will recover from last year's weakness, benefiting from growth in employment and incomes and from the income effect of higher equity and property prices. Net exports are expected to contribute to GDP growth in the forecast period.

Taking these factors into account, GDP is forecast to rebound to 6.3% growth in 2010 (Figure 3.29.8), and to expand by about 5.0% in 2011 (the pace easing because of 2010's higher base). The outcome in both years depends heavily on the global economic recovery.

The expected level of GDP for the next 2 years is below the output trend since 2001 (Figure 3.29.9). Upward pressure on domestic prices from the demand side will therefore remain subdued. Inflation is forecast to speed up a little to 2.3%, on rising international prices for oil and commodities and the low base set in 2009. (In the first 2 months of 2010, the consumer price index rose by an average of 0.6%.) Inflation is forecast to slow to about 2.0% in 2011 as the low-base effect dissipates.

The rebounds in domestic demand and in exports will likely mean slightly stronger growth in merchandise imports (21.0%) than exports (19.5%) this year. This variation will contribute to a narrowing in the current account surplus as a share of GDP, to a still-substantial 18.0%. In 2011, this surplus is likely to rise, to about 21.0% of GDP.

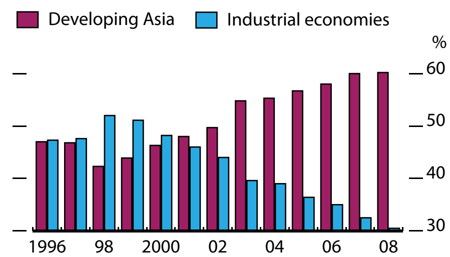
Strong demand for residential property in the second half of 2009,

3.29.1 Selected economic indicators (%)

	2010	2011
GDP growth	6.3	5.0
Inflation	2.3	2.0
Current account balance (share of GDP)	18.0	21.0

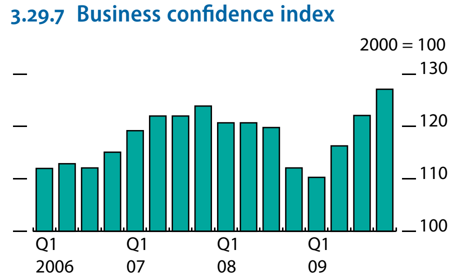
Source: ADB estimates.

3.29.6 Share of exports by trading partner



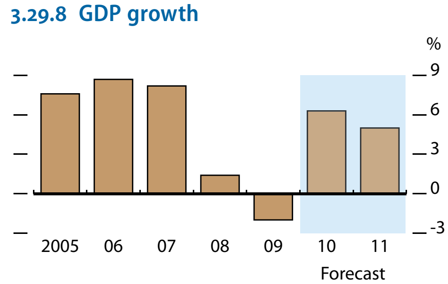
Source: CEIC Data Company (accessed 11 March 2010).
Click here for figure data

3.29.7 Business confidence index



Source: CEIC Data Company (accessed 11 March 2010).
Click here for figure data

3.29.8 GDP growth



Sources: Singapore Department of Statistics. http://www.singstat.gov.sg (accessed 11 March 2010); ADB estimates.
Click here for figure data

accompanied by rising prices (Figure 3.29.10), was driven both by an upturn in market confidence as the domestic outlook brightened, and by inflows of foreign capital. The government moved to contain speculation in housing by imposing new stamp tax on homes sold within 1 year of purchase and by capping housing loans at 80% of a property's value. A significant number of housing projects are in the construction stage, which indicates that supply will pick up next year. This should ease pressure on prices, provided that speculation is contained.

Development challenges

Labor productivity has declined over recent years in construction, manufacturing, and some services, especially business services, hotels and restaurants, and wholesale and retail trading (Figure 3.29.11).

A government-appointed Economic Strategies Committee noted in a report this year that Singapore's productivity in manufacturing and services, in absolute terms, is 55%–65% that in the United States and Japan. Hong Kong, China's productivity levels rank higher than Singapore's in construction and services.

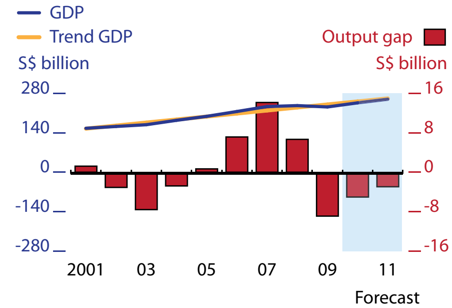
The report observed that a large part of Singapore's average 5% economic growth over the past decade had been achieved through expansion of the labor force, including foreign workers, who now make up almost one-third of the workforce. GDP growth averaged 8% from 2004 to 2007, a period when the increase in foreign workers accelerated. However, average labor productivity tends to decline if industries employ an increasing number of workers, while keeping other factors of production, and levels of innovation, relatively steady. Easy access to low-cost labor from abroad provides little incentive for Singapore's employers to invest in productivity improvements, the report noted. Moreover, there are "physical and social limits" to the number of foreign workers the country can accommodate.

Responding to the report, the government in February this year laid out a strategy to drive growth through a greater focus on productivity, rather than on an increasing labor force. It sets a goal of achieving productivity increases of 2%–3% a year over the next decade, more than double the rate of the past decade. This higher rate, even with slower labor force expansion, would enable the economy to grow by 3%–5% a year and to raise real incomes by one-third in 10 years. The FY2010 budget committed to spend S$5.5 billion over the next 5 years on training, on tax incentives for companies to upgrade and automate operations, on stimulating research and development, and on encouraging mergers and acquisitions.

At the same time, the government will increase levies on companies that employ low-skilled foreign workers, to encourage them to put more emphasis on productivity improvements by making labor more costly. The levies will be increased gradually over several years, starting in July 2010.

Although the higher levies are to be phased in, there is a risk that this more restrictive approach could increase domestic production costs, given that the labor market is tight. That could put a strain on companies still striving to recover from recession.

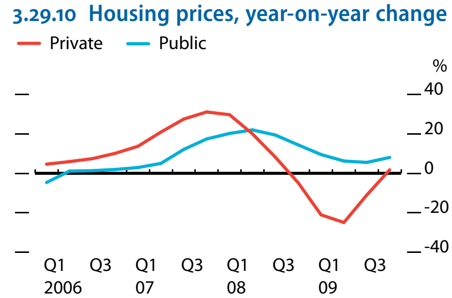
3.29.9 Actual versus trend GDP



Sources: Singapore Department of Statistics. http://www.singstat.gov.sg (accessed 11 March 2010); ADB estimates.

Click here for figure data

3.29.10 Housing prices, year-on-year change

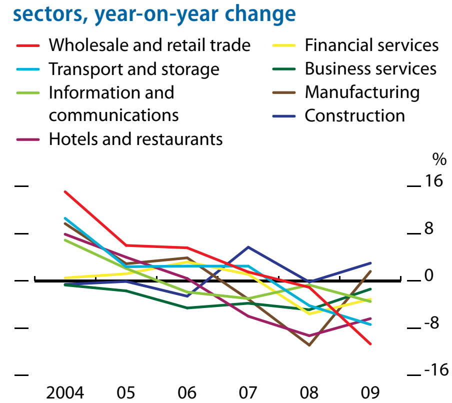


Note: Public refers to resale price index of housing administered by the Housing Development Board.

Source: CEIC Data Company (accessed 11 March 2010).

Click here for figure data

3.29.11 Labor productivity in selected sectors, year-on-year change



Sources: Singapore Department of Statistics. 2009. *Yearbook of Statistics of Singapore*; 2010. *Monthly Digest of Statistics*. February. http://www.singstat.gov.sg

Click here for figure data